OFFICIAL STATEMENT DATED MARCH 24, 2010

NEW ISSUE – BOOK-ENTRY ONLY **RATINGS: see "RATINGS" herein**

In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, for federal income tax purposes under existing laws, regulations, rulings, judicial decisions and other authorities, all as in effect on the date of the delivery of the Series 2010 Bonds (defined below) and assuming compliance with the tax covenants and the material accuracy of the tax representations that are described herein under the heading "TAX MATTERS – Opinion of Bond Counsel," (i) interest on the Series 2010A Bonds is excludable from the gross income of the owners thereof pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except for any period during which any Series 2010A Bond is held by a person who is a substantial user of the financed facilities or by a related person (as defined in Code Section 147(a)), and such interest is not treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers and is not included in the adjusted current earnings of certain corporations for purposes of computing their alternative minimum tax;; and (ii) interest on the Series 2010B Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Series 2010B Bond is held by a person who is a substantial user of the financed facilities or by a related person, and such interest is treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers under the Code. In the further opinion of Bond Counsel, under the existing statutes, interest on the Series 2010 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2010 Bonds or income therefrom.

$644,980,000
STATE OF HAWAII
Airports System Revenue Bonds
consisting of

$478,980,000	$166,000,000
Series 2010A	**Refunding Series 2010B**
(Non-AMT)	**(AMT)**

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

The above referenced series of Airports System Revenue Bonds (herein referred to as the "Series 2010A Bonds" and the "Series 2010B Bonds," respectively, and collectively as the "Series 2010 Bonds") are being issued for the purpose of funding the costs of capital improvement projects at certain facilities of the Airports System of the State of Hawaii (the "State") and refunding certain outstanding Airports System Revenue Bonds of the State. The Series 2010 Bonds are special limited obligations of the State, payable solely from and secured solely by the Revenues (as defined herein) derived by the State from the ownership or operation of the Airports System and the receipts from aviation fuel taxes imposed by the State.

See the inside cover hereof for maturities, principal amounts, interest rates, and yields of the Series 2010 Bonds. The Series 2010 Bonds shall be dated as of their date of delivery and shall bear interest from the date of delivery thereof payable each July 1 and January 1, commencing July 1, 2010. The Series 2010A Bonds are subject to optional and mandatory redemption prior to maturity thereof upon the terms and conditions and at the price as described herein. The Series 2010B Bonds are not subject to redemption.

The Series 2010 Bonds are issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchases of the Series 2010 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants. Purchases of the Series 2010 Bonds will initially be made in denominations of $5,000 or integral multiples thereof. Beneficial owners of the Series 2010 Bonds will not receive physical delivery of Series 2010 Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2010 Bonds. So long as DTC or its nominee is the registered owner of the Series 2010 Bonds, payment of the principal of, and premium, if any, and interest on, the Series 2010 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants (See "DESCRIPTION OF THE SERIES 2010 BONDS – Book-Entry Only System" herein).

The Series 2010 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Series 2010 Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Series 2010 Bonds.

The Series 2010 Bonds are offered when, as and if issued, subject to the approval of legality by Katten Muchin Rosenman LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their Counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Series 2010 Bonds in definitive form will be available for delivery on or about April 7, 2010.

Citi

BofA Merrill Lynch **Piper Jaffray & Co.**

$478,980,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2010A
(Non-AMT)

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP†	Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP†
2011	$ 290,000	2.000%	0.860%	419794WG3	2023	16,500,000	5.250%	4.310%	419794WY4
2012	295,000	2.000	1.240	419794WH1	2024	$175,000	4.200	4.410	419794WZ1
2013	305,000	3.000	1.530	419794WJ7	2024	17,335,000	5.250	4.410	419794XA5
2014	310,000	3.000	1.870	419794WK4	2025	1,840,000	4.300	4.560	419794XB3
2015	320,000	3.000	2.260	419794WL2	2025	16,600,000	5.250	4.560	419794XC1
2016	335,000	3.000	2.780	419794WM0	2026	320,000	4,400	4.640	419794XD9
2017	340,000	4.000	3.140	419794WN8	2026	19,075,000	5.250	4.640	419794XE7
2018	355,000	4.000	3.470	419794WP3	2027	1,920,000	4.500	4.720	419794XF4
2019	255,000	4.000	3.690	419794WQ1	2027	18,480,000	5.250	4.720	419794XG2
2020	3,550,000	4.000	4.000	419794WR9	2028	650,000	4.600	4.810	419794XH0
2020	4,170,000	5.250	4.000	419794WS7	2028	20,810,000	5.250	4.810	419794XJ6
2021	110,000	4.000	4.140	419794WT5	2029	860,000	4.700	4.880	419794XK3
2021	14,400,000	5.250	4.140	419794WU2	2029	21,710,000	5.250	4.880	419794XL1
2022	5,775,000	4.000	4.220	419794WV0	2030	165,000	4.800	4.960	419794XM9
2022	12,230,000	5.000	4.220	419794WW8	2030	23,590,000	5.250	4.960	419794XN7
2023	150,000	4.10	4.310	419794WX6					

$107,785,000 5.00 % Term Bonds due July 1, 2034, Price 99.021 CUSIP 419794XP2
$19,355,000 5.10% Term Bonds due July 1, 2039, Price 99.69 CUSIP 419794XQ0
$148,620,000 5.00 % Term Bonds due July 1, 2039, Price 98.183 CUSIP 419794XR8

† CUSIP data herein is provided by Standards & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers may change as a result of events in the secondary market.

$166,000,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
REFUNDING SERIES 2010B
(AMT)

Maturity July 1	Amount	Interest Rate	Yield	CUSIP†	Maturity July 1	Amount	Interest Rate	Yield	CUSIP†
2012	$2,050,000	3.000%	2.110%	419794XS6	2016	$19,030,000	5.000%	3.750%	419794XZ0
2012	13,200,000	5.000	2.110	419794XT4	2017	19,975,000	5.000	4.060	419794YA4
2013	15,000,000	5.000	2.410	419794XU1	2018	850,000	4.200	4.340	419794YB2
2014	13,800,000	5.000	2.870	419794XV9	2018	20,130,000	5.000	4.340	419794YC0
2015	1,005,000	3.100	3.260	419794XW7	2019	22,165,000	5.000	4.540	419794YD8
2015	1,250,000	4.000	3.260	419794XX5	2020	1,910,000	4.500	4.700	419794YE6
2015	15,895,000	5.000	3.260	419794XY3	2020	19,740,000	5.000	4.700	419794YF3

† CUSIP data herein is provided by Standards & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers may change as a result of events in the secondary market.

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2010 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2010 Bonds, and, if given or made, such information or representation must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date. The Underwriter has provided the following paragraphs for inclusion in this Official Statement.

THE SERIES 2010 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2010 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS A PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2010 BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2010 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

STATE OF HAWAII

Linda Lingle, Governor

James R. Aiona, Jr., Lieutenant Governor

COMMISSION ON TRANSPORTATION

Ku'uhaku Park, Chair	Ralph J.W.K. Hiatt
William Lindemann, Vice Chair	Richard Houck
Laurence Balter	Pete Pascua
Lester H. Fukuda	John Romanowski

DEPARTMENT OF TRANSPORTATION

Director	Brennon T. Morioka
Deputy Director, Airports	Brian H. Sekiguchi
Deputy Director, Harbors	Michael D. Formby
Deputy Director, Highways	Jiro A. Sumada
Deputy Director, Administration	Francis Paul Keeno
Administrator, Airports Division	Vacant
Administrator, Harbors Division	Davis K. Yogi
Administrator, Highways Division	Glenn M. Yasui

SPECIAL SERVICES

Paying Agent and Registrar
Director of Finance
Honolulu, Hawaii

Consulting Engineer
Jacobs Consultancy, Inc.
Burlingame, California

Bond Counsel
Katten Muchin Rosenman LLP
New York, New York

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OFFICIAL STATEMENT

$644,980,000
STATE OF HAWAII
Airports System Revenue Bonds

Consisting of

$478,980,000 Series 2010A (Non-AMT)	$166,000,000 Refunding Series 2010B (AMT)

INTRODUCTION

This Official Statement, which includes the cover page and appendices (the "Official Statement"), provides information on the sale and issuance of $478,980,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2010A (the "Series 2010A Bonds") and $166,000,000 aggregate principal amount of State of Hawaii Airport System Revenue Bonds, Refunding Series 2010B (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, the "Series 2010 Bonds"). See "DESCRIPTION OF THE SERIES 2010 BONDS" for a description of the principal terms of the Series 2010 Bonds. Capitalized terms used but not otherwise defined in this Official Statement shall have the respective meanings given to such terms in the Certificate (as defined below) and Appendix D – "Certain Definitions" and Appendix E – "Summary of Certain Provisions of the Certificate."

The State of Hawaii (the "State"), acting by and through its Department of Transportation (the "Department"), will issue the Series 2010 Bonds pursuant to the State Constitution, the laws of the State and the Certificate of the Director of Transportation of the State dated as of May 1, 1969, as amended and supplemented (the "Certificate"), including as supplemented by the Twenty-ninth Supplemental Certificate, dated as of March 24, 2010 (the "Twenty-ninth Supplemental Certificate"). Pursuant to the Certificate, the State has previously issued 30 Series of State of Hawaii Airports System Revenue Bonds (the "Prior Bonds"). As of March 1, 2010, $567,430,000 of the Prior Bonds were outstanding. The outstanding Prior Bonds, the Series 2010 Bonds and any additional parity bonds issued by the State under the Certificate are collectively referred to herein as the "Bonds."

The Series 2010 Bonds are being issued, (i) to pay the cost of capital improvement projects at certain facilities of the State's airports system (the "Airports System"), (ii) to provide for the refunding of $26,115,000 aggregate principal amount of State of Hawaii Airport System Revenue Bonds, Refunding Series 2000A and $169,900,000 aggregate principal amount of State of Hawaii Airport System Revenue Bonds, Refunding Series 2000B, (iii) to fund the Debt Service Reserve Account in the Airport Revenue Fund, (iv) to pay capitalized interest on the Series 2010 Bonds, and (v) to pay certain costs of issuance relating to the Series 2010 Bonds. See "CAPITAL IMPROVEMENTS PROGRAM" and "DESCRIPTION OF THE SERIES 2010 BONDS – Plan of Refunding" herein.

The Bonds, including the Series 2010 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Revenues of the Airports System and receipts of the State's aviation fuel taxes ("Aviation Fuel Taxes"). **The Bonds, including the Series 2010 Bonds, do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision of the State is pledged to the payment of or as security for the Series 2010 Bonds. All Bonds, including the Series 2010 Bonds, are and will be secured equally and ratably by the Revenues and Aviation Fuel Taxes**. See "SECURITY FOR THE BONDS" and "SOURCES OF REVENUES AND AVIATION FUEL TAXES" herein for a description of the security for the Bonds and sources of Revenues of the Airports System.

The Airports System is comprised of five primary airports and ten secondary airports. The primary airports consist of Honolulu International Airport ("HNL"), Kahului Airport ("Kahului"), Hilo International Airport ("Hilo International"), Kona International Airport at Keahole ("Kona"), and Lihue Airport ("Lihue Airport"). HNL is the State's principal airport. See "THE AIRPORTS SYSTEM". The Airports System is operated as a single integrated system for management and financial purposes on behalf of the State by the Department. See "DEPARTMENT TRANSPORTATION." The Department is authorized to impose and collect rates and charges for the Airports System services and properties to generate Revenues which, together with Aviation Fuel Taxes, will be sufficient to pay the costs of operation, to pay debt service on the Bonds, to pay for maintenance and repair of the Airports System and to comply with the terms of the Certificate. Every odd-numbered fiscal year, the Department prepares a capital improvements program (the "CIP") that describes ongoing and proposed capital improvement projects that the Department wishes to undertake during that period. See "CAPITAL IMPROVEMENTS PROGRAM" herein and Appendix A – "Report of the Consulting Engineer," for a description of current capital improvement projects.

The cover page of this Official Statement and this Introduction contain certain information for general reference only. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision. This Official Statement contains descriptions of the Department, the Airports System and the current CIP and certain other capital improvement projects developed in coordination with the Signatory Airlines (the "2007 Capital Program"); summaries of the Series 2010 Bonds, the security for the Bonds, the sources of Revenues and Aviation Fuel Taxes, and certain provisions of the Certificate; and descriptions of the agreements between the Department and the Signatory Airlines and certain concession agreements. All references to agreements and documents are qualified in their entirety by the definitive forms of such agreements and documents. All references to the Certificate and to the Series 2010 Bonds are qualified by the definitive forms of such Certificate and the Series 2010 Bonds. Copies of the Certificate are available for examination at the offices of the Department's Airports Division (the "Airports Division"). Any statement or information involving matters of opinion or estimates are represented as opinions or estimates made in good faith, but no assurance can be given that facts will materialize as so opined or estimated. The following appendices are included as part of this Official Statement: Appendix A – Report of the Consulting Engineer on the proposed issuance of State of Hawaii, Airports System Revenue Bonds, Series 2010, dated March 17, 2010 (the "Report of the Consulting Engineer"), prepared by Jacobs Consultancy, Inc. (the "Consulting Engineer"); Appendix B – Financial Statements and Supplemental Studies (with Independent Auditors' Report thereon) of the Airports Division, Department of Transportation, State of Hawaii for the fiscal year ended June 30, 2009; Appendix C – General Economic Information about the State of Hawaii; Appendix D – Certain Definitions; Appendix E – Summary of Certain Provisions of the Certificate; Appendix F – Form of Bond Counsel Opinion; Appendix G – Form of Continuing Disclosure Certificate; and Appendix H – Book-Entry Only System.

Prospective Financial Information

Prospective financial information in this Official Statement was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Prospective financial information included in this Official Statement, including summaries of prospective financial information from the Report of the Consulting Engineer, has been prepared by, and is the responsibility of, the Airports Division management. KMPG LLP, independent auditors, which audited the Airports Division financial statements, has neither examined nor compiled this prospective financial information and, accordingly, KPMG LLP does not express an opinion or offer any other form of assurance with respect thereto. The KPMG LLP report included in Appendix B of this Official Statement relates to the Airports Division's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

DESCRIPTION OF THE SERIES 2010 BONDS

General Provisions Regarding the Series 2010 Bonds

The Series 2010 Bonds will be issued as fully registered bonds in the aggregate principal amount as set forth on the inside cover hereof, will be dated the date of initial delivery and will bear interest from that date to their respective maturities as set forth on the inside cover hereof, subject to redemption prior to maturity as described below. Ownership interests in the Series 2010 Bonds will be available in denominations of $5,000 and integral multiples thereof. Interest on the Series 2010 Bonds will be payable on July 1, 2010 and on each January 1 and July 1 thereafter.

So long as Cede & Co. is the registered owner of the Series 2010 Bonds, all payments of principal, premium, if any, and interest on the Series 2010 Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants for subsequent disposition to Beneficial Owners. See “Book-Entry Only System” below and Appendix H – “Book-Entry Only System.”

Redemption

Optional Redemption of Series 2010 Bonds. The Series 2010A Bonds maturing on or prior to July 1, 2020 will not be subject to optional redemption prior to their respective maturity dates. The Series 2010A Bonds maturing on or after July 1, 2021 will be subject to redemption at the option of the Department, in the order of maturity as directed by the Department, on or after July 1, 2020 in whole or in part on any date, by lot within any single maturity, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to the purchase or redemption date.

The Series 2010B Bonds are not subject to optional redemption.

Sinking Fund Account Redemption Series 2010A Bonds. The Series 2010A Bonds maturing on July 1, 2034, July 1, 2039 (CUSIP 419794XQ0) and July 1, 2039 (CUSIP 419794XR8) are subject to redemption in part by operation of the Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof on July 1, of the years and in the respective principal amounts set forth below:

$107,785,000
Series 2010A Bonds
Maturing July 1, 2034

Year	Principal Amount
2031	$25,010,000
2032	26,255,000
2033	27,575,000
2034*	28,945,000

*Stated maturity.

$19,355,000
2010A Bonds
Maturing July 1, 2039

Year	Principal Amount
2036	$3,610,000
2037	3,790,000
2038	3,980,000
2039*	7,975,000

*Stated maturity.

$148,620,000
Series 2010A Bonds
Maturing July 1, 2039

Year	Principal Amount
2035	$30,395,000
2036	28,300,000
2037	29,730,000
2038	31,215,000
2039*	28,980,000

*Stated maturity.

Purchase in lieu of Sinking Fund Account Redemption. In lieu of redemption from Sinking Fund Account Redemptions, the Department may surrender for cancellation Series 2010 Bonds purchased by it, and such Series 2010 Bonds shall be cancelled. If any Series 2010 Bonds are so cancelled, the Department will effect a pro rata reduction in the Sinking Fund Installments, or portions thereof, that are to be allocated to such cancellation.

Notice of Redemption. In the event of redemption of the Series 2010 Bonds, the Department shall cause notice of redemption to be mailed at least thirty (30) days prior to the redemption date to each registered owner of a Series 2010 Bond in whose name the Series 2010 Bond is registered in the books of registry. No exchanges or transfers of the Series 2010 Bonds shall be required to be made during the forty-five (45) days next preceding a date fixed for an optional redemption. At the time notice of any optional or sinking fund redemption is given to Holders of Series 2010 Bonds, the Department shall cause such notice to be provided to Moody's Investors Service, Standard and Poor's, A Division of The McGraw-Hill Companies, and Fitch Inc. and to major securities depositories and bond information services. See "DESCRIPTION OF THE SERIES 2010 BONDS – Book-Entry Only System."

Selection of Series 2010 Bonds for Redemption. If less than all of a maturity of the Series 2010A Bonds is to be redeemed, the Bonds of such maturity to be redeemed will be selected by lot. See "DESCRIPTION OF THE SERIES 2010 BONDS – Book-Entry Only System" for a description of DTC's practice relating to selection by lot.

Effect of Redemption. If a Series 2010 Bond is subject by its terms to redemption and has been duly called for redemption in accordance with the Certificate, and if sufficient monies available for the payment of the redemption price and interest to accrue to the redemption date on such Series 2010 Bond are held for such purpose by the Director of Finance or the Paying Agent, such Series 2010 Bond so called for redemption shall become due and payable, and interest on such Series 2010 Bond shall cease to accrue on the redemption date designated in such notice.

Upon surrender of any Series 2010 Bond to be redeemed in part only, the Department will execute and the Paying Agent shall authenticate and deliver to the Holder a new Series 2010 Bond or Bonds representing the unredeemed principal amount of the Series 2010 Bond surrendered.

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of the proceeds of the Series 2010 Bonds and a transfer from the Interest Account:

SOURCES:	Series 2010 Bonds
Par Amount	$644,980,000.00
Net Original Issue Premium	14,729,646.40
Transfer from Interest Account	3,069,095.95
Total Sources	$662,778,742.35
USES:	
Deposit for Project Costs	$ 395,944,785.59
Deposit to Refunding Escrow Account	204,061,068.70
Deposit to Debt Service Reserve Fund	21,641,495.00
Deposit to Capitalized Interest Fund	37,555,455.84
Issuance Expenses (including underwriters' discount fees and other costs of issuance)	3,575,937.22
Total Uses	$662,778,742.35

Plan of Refunding

Pursuant to the Certificate, $26,744,624.68 from the proceeds of the sale of the Series 2010A Bonds and $174,247,348.07 from the proceeds of the sale of the Series 2010B Bonds (the "Refunding Bonds"), together with a transfer of $3,069,095.95 from the Interest Account (representing three months interest on the Refunded Bonds), will be deposited with Wells Fargo Bank, National Association, as refunding trustee (the "Escrow Agent"), in a trust fund (the "Refunding Escrow Account") held by the Escrow Agent pursuant to a refunding trust agreement (the "Escrow Deposit Agreement") dated as of April 7, 2010 by and among the Department, the Department of Budget and Finance of the State and the Escrow Agent. Upon deposit with the Escrow Agent, such moneys shall immediately be invested in non-callable direct obligations of the United States of America (the "Federal Securities"). The principal of and interest on the Federal Securities, together with any cash balances in the Refunding Escrow Account, shall be applied in accordance with the Escrow Deposit Agreement and will be sufficient to pay the principal of, premium, if any, and interest on certain outstanding Prior Bonds (the "Refunded

Bonds") upon the redemption of such Refunded Bonds. The following table sets forth the series, maturity dates, principal amount of bonds outstanding, principal amount of bonds to be refunded, interest rate, redemption date and redemption price of the Refunded Bonds.

Schedule of Refunded Bonds

Series	Maturity Date	Amount Outstanding	Amount to be Refunded	Interest Rate	Redemption Date	Redemption Price
2000A	07/01/2011	$160,000	$160,000	5.500%	07/01/2010	101%
2000A	07/01/2012	170,000	170,000	5.625	07/01/2010	101
2000A	07/01/2013	180,000	180,000	5.625	07/01/2010	101
2000A	07/01/2014	190,000	190,000	5.750	07/01/2010	101
2000A	07/01/2015	200,000	200,000	5.750	07/01/2010	101
2000A	07/01/2016	215,000	215,000	5.750	07/01/2010	101
2000A	07/01/2017	225,000	225,000	5.750	07/01/2010	101
2000A	07/01/2018	240,000	240,000	6.000	07/01/2010	101
2000A	07/01/2019	125,000	125,000	6.000	07/01/2010	101
2000A	07/01/2021	24,410,000	24,410,000	5.750	07/01/2010	101
2000B	07/01/2012	14,640,000	14,640,000	6.375	07/01/2010	101
2000B	07/01/2013	15,580,000	15,580,000	6.500	07/01/2010	101
2000B	07/01/2014	16,595,000	16,595,000	6.500	07/01/2010	101
2000B	07/01/2015	17,665,000	17,665,000	6.500	07/01/2010	101
2000B	07/01/2016	18,815,000	18,815,000	6.100	07/01/2010	101
2000B	07/01/2017	19,960,000	19,960,000	6.625	07/01/2010	101
2000B	07/01/2018	21,285,000	21,285,000	6.625	07/01/2010	101
2000B	07/01/2019	22,845,000	22,845,000	6.000	07/01/2010	101
2000B	07/01/2020	22,515,000	22,515,000	6.000	07/01/2010	101

Book-Entry Only System

The Series 2010 Bonds will be issued as fully registered bonds without coupons and are initially to be registered in the name of Cede & Co., as nominee for DTC, as securities depository for the Series 2010 Bonds. Purchases by beneficial owners are to be made in book-entry form. If at any time the book-entry only system is discontinued for the Series 2010 Bonds, the Series 2010 Bonds will be exchangeable for other fully registered certificated Series 2010 Bonds of the same series in any authorized denomination, maturity and interest rate. See Appendix H – "Book-Entry Only System." Interest will be payable by check or draft mailed to the Holder as of the Record Date. The Paying Agent and Registrar may impose a charge sufficient to reimburse the Department or the Paying Agent and Registrar for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Bond. The cost, if any, of preparing each new Bond issued upon such exchange or transfer, and any other expenses of the Department or the Paying Agent and Registrar incurred in connection therewith, will be paid by the person requesting such exchange or transfer. At the request of any Holder of at least $1,000,000 principal amount of the Series 2010 Bonds, payment of interest will be made by wire transfer as directed by such Holder. Payment of principal of the Series 2010 Bonds will be made upon presentation and surrender of such Series 2010 Bonds at the principal corporate trust office of the Paying Agent and Registrar.

NEITHER THE DEPARTMENT NOR THE PAYING AGENT AND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF ANY BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO ANY BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (vi) ANY OTHER MATTER RELATING TO DTC OR THE BOOK-ENTRY ONLY SYSTEM.

Transfer of Series 2010 Bonds

So long as Cede & Co., as nominee for DTC (or other nominee of DTC), is the Bondholder of record of the Series 2010 Bonds, beneficial ownership interests in the Series 2010 Bonds may be transferred only through a Direct Participant or Indirect Participant and recorded on the book-entry system operated by DTC. In the event the book-entry-only system is discontinued, Series 2010 Bond certificates will be delivered to the Beneficial Owners as described in the Certificate. Thereafter, the Series 2010 Bonds, upon surrender thereof at the principal office of the Paying Agent with a written instrument of transfer satisfactory to the Paying Agent, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series 2010 Bonds of the same maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring Series 2010 Bonds is exercised, the Department shall execute and authenticate and deliver the Series 2010 Bonds in accordance with the provisions of the Certificate. For every such exchange or transfer of Series 2010 Bonds, the Department may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer but may impose no other charge therefor. The Department shall not be required to make any such exchange or transfer of Series 2010 Bonds during the 45 days next preceding an Interest Payment Date or, in the case of any proposed redemption, during the 45 days next preceding the first publication or mailing of notice of redemption.

Authority for Issuance

Article VII, Section 12 of the State Constitution and Part III, Chapter 39 of the Hawaii Revised Statutes ("HRS"), as amended (collectively the "General Revenue Bond Law"), permit the issuance of revenue bonds of the State payable from and secured by the Revenues and Aviation Fuel Taxes upon the approval of a majority of the members of each house of the State Legislature and pursuant to the Certificate and the Twenty-ninth Supplemental Certificate of the Director of the Department (the "Director"), the latter of which becomes effective upon filing with the Director of Finance. The General Revenue Bond Law limits the maximum maturity of revenue bonds and also sets forth provisions for the sale, method of execution and other details of all revenue bonds. The State Legislature from time to time enacts laws (including the general appropriations act) authorizing the issuance of revenue bonds (without fixing any particular details), defining the purposes for which the bonds are to be issued and specifying the amount of the proceeds of such bonds which may be applied to such purposes. However, the Department, with the approval of the Governor, may issue the Series 2010 Bonds without further authorization of the State Legislature. Pursuant to the General Revenue Bond Law, the Director has issued the Certificate, which, under State law, constitutes the security document pursuant to which all Bonds are issued and secured. The Twenty-ninth Supplemental Certificate provides the terms of the Series 2010 Bonds including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department. The Series 2010 Bonds are being issued pursuant to the Certificate, the Twenty-ninth Supplemental Certificate and the General Revenue Bond Law.

Administrative Directive No. 00-01, issued by the Governor on July 18, 2000 (the "Directive"), requires all departments of the State, including the Department, to organize and coordinate all bond issues with the Department of Budget and Finance. The Directive requires the Director of Finance to approve the amount, timing, pricing and details of every issuance of State bonds. The Director of Finance also approves the method of sale, financial advisors or consultants, underwriters in a negotiated sale and other participants deemed necessary for each State financing.

SECURITY FOR THE BONDS

General

The Bonds, including the Series 2010 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Revenues and Aviation Fuel Taxes. The Bonds, including the Series 2010 Bonds, are equally and ratably secured by a lien and charge on the Revenues and Aviation Fuel Taxes prior and paramount to the lien thereon of any other bonds. See Appendix E – "Summary of Certain Provisions of the Certificate" for definitions of Revenues and Aviation Fuel Taxes.

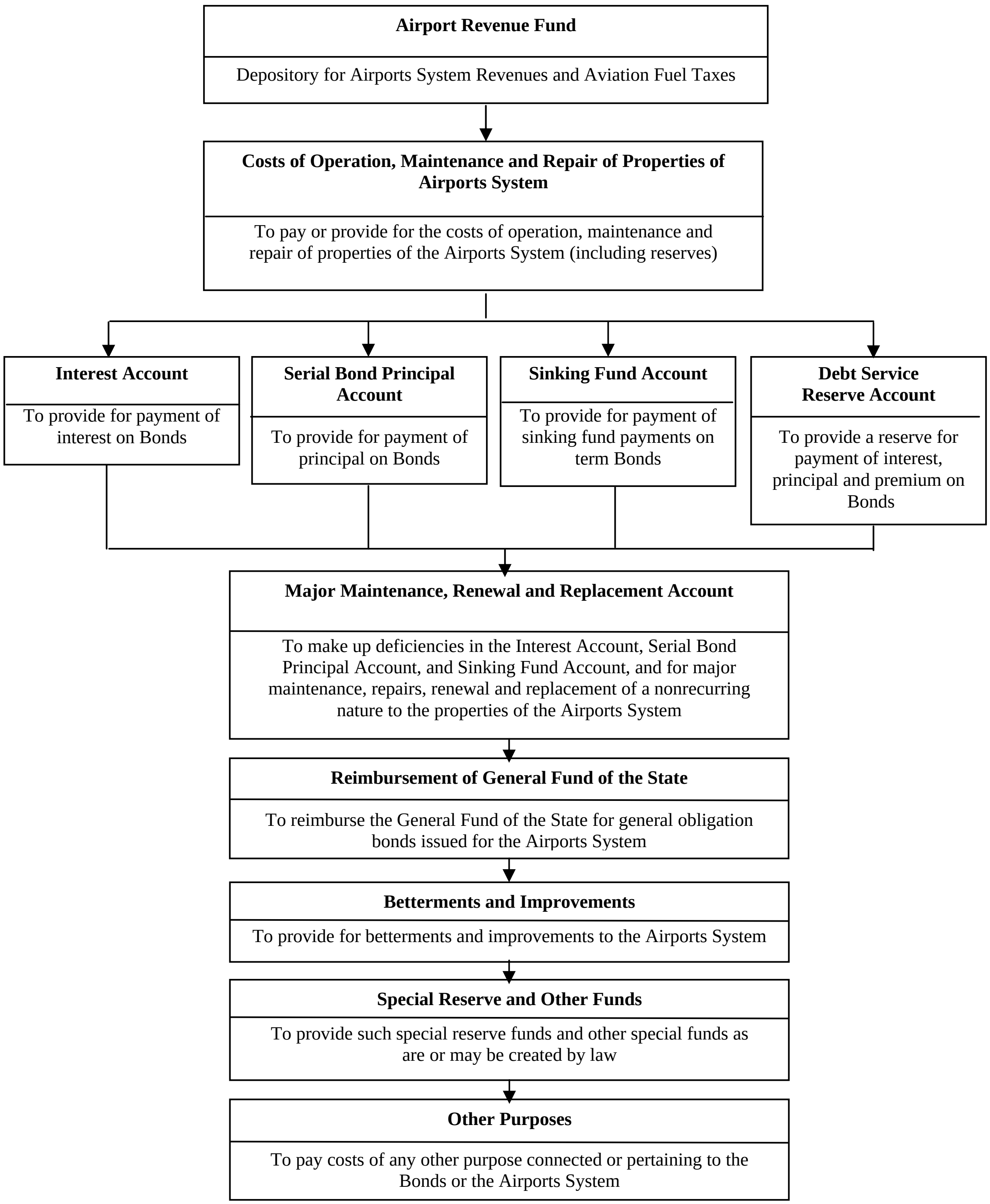
The Bonds, including the Series 2010 Bonds, do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Bonds, including the Series 2010 Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Bonds, including the Series 2010 Bonds.

State law creates a special fund in the Treasury of the State designated as the Airport Revenue Fund. The Certificate provides that the Airport Revenue Fund shall be continued as long as any Bonds remain outstanding and provides that all Revenues and Aviation Fuel Taxes shall be deposited in the Airport Revenue Fund. The Certificate further provides that amounts deposited in the Airport Revenue Fund shall be used solely in the following order of priority (and as shown below under the heading "Flow of Funds") established by the Certificate: (1) payment of the costs of operation, maintenance, and repair of Airports System properties, including reserves and certain administrative expenses of the Department related to the Airports System; (2) transfer to the Interest Account, Serial Bond Principal Account, Sinking Fund Account and Debt Service Reserve Account for the payment of debt service on Bonds; (3) transfers to the Airports System Major Maintenance, Renewal, and Replacement Account to maintain the balance established pursuant to the recommendation of the Consulting Engineer and to make up any deficiencies in certain of the accounts listed under (2) above; (4) transfers to the State General Fund to reimburse the State General Fund for debt service on reimbursable general obligation bonds issued for Airports System purposes; (5) betterments and improvements to the Airports System; (6) transfers to Special Reserve and Other Funds created by law; and (7) any other lawful purpose in connection with the Bonds or the Airports System. See Appendix E – "Summary of Certain Provisions of the Certificate – Application of Revenues and Aviation Fuel Taxes."

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition of suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against the State or officials of the State to enforce such payment. The State has never defaulted in the payment of either principal of or interest on any indebtedness.

Flow of Funds

The following table illustrates the flow of funds in the Airport Revenue Fund pursuant to the Certificate:



Source: Certificate of the Department of Transportation Providing for the issuance of State of Hawaii Airports System Revenue Bonds, dated May 1, 1969, as amended.

Rate Covenant; Pledge of Revenues and Aviation Fuel Taxes

Under the General Revenue Bond Law, the Department is required to impose, prescribe and collect rates, rentals, fees or charges for the use and services of, and the facilities and commodities furnished by, the Airports System, and to revise such rates, rentals, fees or charges from time to time whenever necessary, so that, together with Aviation Fuel Taxes, the Airports System shall be and always remain self-sustaining. The Department has covenanted in the Certificate to meet this statutory requirement. The Certificate requires that such rates, rentals, fees or charges: (a) be such as will produce Revenues which, together with Aviation Fuel Taxes, will be at least sufficient (i) to pay the costs of operation, maintenance and repair of the Airports System (including reserves therefor) and the expenses of the Department in connection therewith; (ii) to pay all indebtedness payable from or secured by Revenues and Aviation Fuel Taxes and to fund all reserves therefor; (iii) to reimburse the General Fund of the State for all bond requirements for general obligation bonds issued for the Airports System, or issued to refund any of such bonds; and (iv) to satisfy the other provisions of the Certificate; and (b) be at all times imposed, prescribed, adjusted, fixed, enforced and collected which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a fiscal year (which the Department shall certify as Revenues to the Director of Finance for the next succeeding fiscal year solely for the purposes of this test), yield Net Revenues and Taxes with respect to the immediately ensuing twelve months in an amount at least equal to one and twenty-five hundredths (1.25) times the aggregate of (A) the interest payments for such twelve months on all Bonds then outstanding; (B) the principal amount of all Bonds then outstanding maturing by their terms during such twelve months; and (C) the minimum payments into the Sinking Fund Account required to be made during such twelve months in accordance with the sequence of priority established in the Certificate (the Department's covenant described in this paragraph, the "Rate Covenant"). See Appendix E – "Summary of Certain Provisions of the Certificate – Rate Covenant" for a description of the Rate Covenant. The foregoing prong (b) of the Rate Covenant will be amended, effective with the delivery of the Series 2010 Bonds, as described under "AMENDMENTS TO THE CERTIFICATE" herein. SEE "AMENDMENTS TO THE CERTIFICATE – Amendments Requiring Consent of Holders of 50% of Principal Amount of Outstanding Bonds."

Debt Service Reserve Account

In order to provide a reserve for the payment of the principal of, premium, if any, and interest on the Bonds, the Certificate creates a Debt Service Reserve Account in the Airport Revenue Fund. Subject to provisions granting the Department the option to fund the Debt Service Reserve Account (i) from Revenues upon the issuance of Additional Bonds, and (ii) with a Qualified Letter of Credit or Qualified Insurance, the Certificate requires that moneys credited to the Debt Service Reserve Account be maintained in an amount at least equal to the maximum Debt Service Requirement for the Bonds at the time outstanding for any future year. As of the date of the issuance and delivery of the Series 2010 Bonds, there will be on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein created by the Certificate, an amount equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds then outstanding (including the Series 2010 Bonds). For purposes of the Series 2010 Bonds, moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein shall, except for the transfer therefrom to the Airport Revenue Fund of excess amounts therein as heretofore permitted in the Certificate, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the Series 2010 Bonds when due, whether at their maturity or upon the redemption or purchase thereof in amounts credited to the Sinking Fund Account in the Airport Revenue Fund pursuant to the provisions of the Certificate, and shall be so used and applied whenever there are insufficient moneys in the Airport Revenue Fund on credit to the Interest Account, Sinking Fund Account and Serial Bond Principal Account therein for such purposes. A proposed amendment to the Certificate, which requires the consent of 100% of the principal amount of the Bonds outstanding, would amend the amount of money required to be on deposit in the Debt Service Reserve Account. See "AMENDMENTS TO THE CERTIFICATE – Amendments Requiring Consent of Holders of 100% of Principal Amount of Outstanding Bonds" for a description of the proposed amendment.

Additional Indebtedness

Currently, the Certificate permits the issuance of additional bonds (the "Additional Bonds") payable from and secured by Revenues and Aviation Fuel Taxes on parity with the Bonds (including the Series 2010 Bonds) for the purpose of paying or reimbursing the cost of acquiring, purchasing or constructing properties to constitute part of the

Airports System or reconstructing, improving, bettering or extending the Airports System so long as (i) no default in the payment of any Bond has occurred and is continuing and no deficiency exists in the Airport Revenue Fund, and either (ii) (a) Net Revenues and Taxes as certified by the Accountant for the Fiscal Year prior to the issuance of such Additional Bonds shall have been not less than 125% of the aggregate Debt Service Requirement for such Fiscal Year on the Bonds outstanding during such Fiscal Year, and (b) the average annual Net Revenues and Taxes and unencumbered funds on deposit in the Airport Revenue Fund to be designated as Revenues to the Director of Finance solely for this test estimated by the Consulting Engineer to be derived during the three Fiscal Years following the close of the Period of Construction (as estimated by the Consulting Engineer) of the project or projects to be financed by such series of Additional Bonds shall equal not less than 125% of the Debt Service Requirement on all Bonds then outstanding and the Additional Bonds proposed to be issued for each of the future three Fiscal Years following the closing date of the Period of Construction, or (iii) the Department certifies that, taking into account all outstanding Bonds and the proposed Additional Bonds (excluding any Bonds to be refunded by the Additional Bonds) as if such Bonds had been issued at the beginning of the most recent Fiscal Year for which annual audited financial statements are available, the Net Revenues and Taxes for such Fiscal Year and any unencumbered funds on deposit in the Airport Revenue Fund on the last day of the Fiscal Year preceding the Fiscal Year for which the calculation is made, which the Department shall certify as Revenues to the Director of Finance solely for that purpose (such unencumbered funds not to exceed 25% of the maximum aggregate Debt Service Requirement with respect to such outstanding Bonds and proposed series of Additional Bonds for any future Fiscal Year), were not less than 125% of the maximum aggregate Debt Service Requirement with respect to such outstanding Bonds and proposed Additional Bonds. The foregoing Additional Bonds tests will be amended, effective with the delivery of the Series 2010 Bonds, as described under "AMENDMENTS TO THE CERTIFICATE" herein.

If, at any time prior to the delivery of Additional Bonds, the Department has imposed increases in its schedule of rentals, rates, fees and charges, or the State Legislature has imposed an increase in Aviation Fuel Taxes, which increases are or shall be in effect upon the delivery of such Additional Bonds (or by the date to which capitalized interest upon such Additional Bonds has been provided for), the Consulting Engineer may adjust its estimates to reflect such increases for the purposes of the determination in clause (ii)(b) above.

Without compliance with the foregoing, the Certificate also permits the issuance of Additional Bonds payable from and secured by Revenues and Aviation Fuel Taxes on parity with the Bonds (including the Series 2010 Bonds) (i) to refund Bonds then outstanding at or within one year prior to maturity if sufficient funds are not available to pay the Bonds to be refunded and none of the refunding Bonds shall mature in a year earlier than the latest stated maturity of any Bond then outstanding which shall remain outstanding after the completion of such refunding, and (ii) to refund Bonds at any time if the aggregate Debt Service Requirement of all Bonds outstanding after such refunding in any year in which the Bonds not refunded shall be outstanding is not greater than the aggregate Debt Service Requirement of the Bonds for such year had such refunding not occurred.

The Certificate permits the issuance of other bonds or obligations payable from the Revenues and Aviation Fuel Taxes junior and inferior to the payment of the Bonds from the Revenues and Aviation Fuel Taxes.

The Department anticipates that funds to finance the current and future capital improvements will come from federal grants, the proceeds from the sale of 2010 Bonds, proceeds from the sale of Additional Bonds and/or subordinate bonds, passenger facility charges and Revenues of the Airports System. See "CAPITAL IMPROVEMENTS PROGRAM" herein and Appendix A – "Report of the Consulting Engineer – Section 2.0 Hawaii Airports System Facilities and Capital Improvement Program."

AMENDMENTS TO THE CERTIFICATE

As a condition to the purchase of any Series 2010 Bonds hereunder, each purchaser of a Series 2010 Bond, by his or her acceptance thereof, will consent to all of the proposed amendments contained in the Twenty-ninth Supplemental Certificate and waive any revocation rights relating to such consent. After delivery of the Series 2010 Bonds, holders representing approximately 63.5% of the total amount of Bonds outstanding will have consented to the proposed amendments described below. Therefore, the proposed amendments requiring 50% Bondholder consent will be effective on the date of delivery of the Series 2010 Bonds.

Amendments Requiring No Bondholder Consent

Certain amendments to the Certificate contained in the Twenty-ninth Supplemental Certificate do not require Bondholder consent and will take effect contemporaneously with the Twenty-ninth Supplemental Certificate and delivery of the Series 2010 Bonds. One such amendment will provide that investment earnings on interest capitalized from the proceeds of Additional Bonds on deposit in the Interest Account will not be considered Revenues but will remain in the Interest Account and be pledged for the payment of interest and principal on the Bonds. This amendment reads:

> "Section 6.02 Investment of Moneys in Funds and Accounts. Moneys in the Airport Revenue Fund on credit to the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account therein shall be invested by the Director of Finance in Investment Securities so as to mature in such amounts and at such times so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at the maturity thereof, or upon the redemption or the purchase thereof from moneys credited to the Sinking Fund Account in said fund. Moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account and the Major Maintenance, Renewal and Replacement Account shall be invested by the Director of Finance in Investment Securities so as to mature as directed by the Department within twelve (12) years from the date of investment, but in any event by no later than the last or final maturity date of the Bonds then outstanding. The Department hereby grants its approval for all investments made by the Director of Finance pursuant to this paragraph, and no further approvals of the Department shall be necessary therefor. Income derived from investments made pursuant to this paragraph, except income derived from investments of the amount of interest capitalized from the proceeds of Additional Bonds and paid into the Airport Revenue Fund for credit to the Interest Account therein pursuant to Section 3.06(2) hereof, shall be treated as Revenues of the Undertaking. Expenses of purchase, safekeeping, sale and redemption and all other expenses attributable to such investments shall be proper expenses of the Undertaking. Securities so purchased shall be considered as being deposited in the custody or control of the Director of Finance by the Department of Transportation."

Amendments Requiring Consent of Holders of 50% of Principal Amount of Outstanding Bonds

Certain amendments to the Certificate contained in the Twenty-ninth Supplemental Certificate will take effect only upon receipt of the consent of the holders of 50% of the principal amount of Bonds outstanding. No such amendment will take effect unless and until all such amendments have received the requisite consent. After delivery of the Series 2010 Bonds, holders representing approximately 63.5% of the total amount of Bonds outstanding will have consented to the proposed amendments described below. Therefore, the proposed amendments requiring 50% Bondholder consent will be effective on the date of delivery of the Series 2010 Bonds. The amendments would affect the Department's debt service calculations, the Additional Bonds tests and the Rate Covenant under the Certificate (see "Additional Indebtedness" and "Rate Covenant; Pledge of Revenues and Aviation Fuel Taxes" under "SECURITY FOR THE BONDS" above) and certain other provisions regarding calculations of debt service requirements.

Amendments Affecting Debt Service Calculations. The debt service calculation amendments would allow the Department to reduce the Debt Service Requirement on the Bonds by deducting the amount of passenger facility charge proceeds and the federal interest subsidy on Build America Bonds deposited (or irreovcably committed to be deposited) into the Interest Account, Serial Bond Principal Account and Sinking Fund Account for payment of debt service on the Bonds. For purposes of these amendments, the Twenty-ninth Supplemental Certificate introduces the new term "Annual Adjusted Debt Service Requirement" providing for the foregoing adjustments of debt service requirements, and two additional terms (i.e., "Available PFC Revenues" and "Federal Direct Payments") relating to the calculation of such adjustments. These new terms are defined as follows:

> "*Annual Adjusted Debt Service Requirement*" means, with respect to any period of 12 consecutive months, the Debt Service Requirement for such period net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited, as the case may be, by the Director during such period into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account for the purposes of deposits into such accounts provided under priority item "SECOND" of Section 6.01 of the Certificate; and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be

deposited, as the case may be, by the Director during such period into the Interest Account for the purpose of paying interest on any Bonds as provided in a Supplemental Certificate."

"*Available PFC Revenues*" means, with respect to all or a series of the Bonds, or any particular amount of any Bonds, as the case may be, as of any particular date of computation and for any particular year, the amount of PFC proceeds transferred or irrevocably committed to be transferred, as the case may be, by the Director from the PFC Special Fund for deposit in the Interest Account, the Serial Bond Principal Account, and the Sinking Fund Account for the purposes of deposits into such accounts provided under priority item "SECOND" of Section 6.01 of the Certificate, pursuant to a Supplemental Certificate providing for the use of such PFC proceeds. Upon the effectiveness of the amendments to the Certificate under Section 2.02 of this Twenty-ninth Supplemental Certificate, Available PFC Revenues so deposited in the Interest Account, the Serial Bond Principal Amount and the Sinking Fund Account pursuant to this paragraph shall thereafter be excluded from Revenues and shall be used solely to determine the Annual Adjusted Debt Service Requirement."

"*Federal Direct Payments*" means amounts payable by the federal government to the Department, pursuant to Sections 54AA and 6431 of the Internal Revenue Code of 1986, as amended, with respect to any Bonds issued by the Department and designated as "Build America Bonds," in lieu of any credit otherwise available to the Holders of such Bonds."

Amendment of Additional Bonds Test. Under paragraphs (1) and (2) of Section 3.04 of the Certificate, the issuance of Additional Bonds is subject to satisfaction by the Department of certain prospective or historical debt service coverage tests. Under the proposed amendment of these tests, the Department will be permitted to calculate prospective and historical debt service coverage on the basis of its Annual Adjusted Debt Service Requirement utilizing the Net Revenues and Taxes for the most recent Fiscal Year for which audited financial statements of the Department are available. As amended, the debt service coverage tests will read as follows:

"1. <u>Prospective Coverage Test</u>.

(a) The Net Revenues and Taxes as certified by the Accountant for the most recent Fiscal Year (for which audited financial statements of the Department are available) preceding the issuance of such series of Additional Bonds shall have equaled not less than one hundred twenty-five per cent of the Annual Adjusted Debt Service Requirement for such Fiscal Year of the Bonds outstanding during such year. In calculating Net Revenues and Taxes, any unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year preceding the Fiscal Year for which the calculation is made, which the Department shall certify as Revenues solely for this purpose to the Director of Finance for the next succeeding Fiscal Year, may be taken into account as provided in Section 7.02; provided, however, that the rates, rentals, fees or charges imposed, prescribed and collected by the Department for such Fiscal Year for which the calculation is being made produce Revenues which, together with the Aviation Fuel Taxes but without the inclusion of unencumbered funds on deposit in the Airport Revenue Fund satisfy the requirement set forth in the second sentence of Section 7.02. For purposes of this paragraph, in calculating Annual Adjusted Debt Service Requirement for such most recent Fiscal Year, (i) Available PFC Revenues includes only PFC remittances actually deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account in such Fiscal Year, and (ii) Federal Direct Payments includes only Federal Direct Payments actually deposited into the Interest Account in such Fiscal Year; and

(b) The annual Net Revenues and Taxes and unencumbered funds on deposit in the Airport Revenue Fund to be designated as Revenues to the Director of Finance solely for this test estimated by the Consulting Engineer to be derived during each of the three Fiscal Years following the close of the Period of Construction (as estimated by the Consulting Engineer) of the project or projects to be financed by such series of Additional Bonds shall equal not less than one hundred twenty-five per cent of the Annual Adjusted Debt Service Requirement for each of the three Fiscal Years following the close of the Period of Construction of all Bonds then outstanding and the Additional Bonds proposed to be issued; or

2. Historical Coverage Test. The Department delivers to the Director of Finance a certificate of the Director (accompanied by an Accountant's report) certifying that, taking all outstanding Bonds (other than Bonds proposed to be refunded by the series of Additional Bonds proposed to be issued) and the Additional Bonds proposed to be issued into account as if such Bonds had been issued at the beginning of the most recent Fiscal Year for which audited financial statements of the Department are available, the Net Revenues and Taxes for such Fiscal Year plus any unencumbered funds on deposit in the Airport Revenue Fund on the last day of the Fiscal Year preceding the Fiscal Year for which the calculation is made, which the Department shall certify as Revenues to the Director of Finance solely for this purpose (such unencumbered funds not to exceed 25% of the maximum Annual Adjusted Debt Service Requirement with respect to such outstanding Bonds and proposed series of Additional Bonds for any future Fiscal Year), were not less than one hundred twenty-five per cent of the maximum Annual Adjusted Debt Service Requirement with respect to such outstanding Bonds and proposed series of Additional Bonds for any future Fiscal Year."

Amendment of Rate Covenant. Under Section 7.02 of the Certificate, the Department agrees, among other things, to impose and collect such rates and charges as are needed to maintain specified debt service coverage ratios annually. Under the proposed amendment of this covenant, the Department will be permitted to calculate its coverage ratios on the basis of its Annual Adjusted Debt Service Requirement. The third full sentence of Section 7.02 will be amended to read as follows:

"Without limiting the provisions of the next preceding sentence of this section, at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, fixed, enforced and collected which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year which the Department shall certify as Revenues to the Director of Finance for the next succeeding Fiscal Year solely for the purposes of this test, yield Net Revenues and Taxes with respect to the then immediately ensuing twelve months in an amount at least equal to one and twenty five hundredths (1.25) times the Annual Adjusted Debt Service Requirement for such twelve months on all 1969 Bonds and Additional Bonds then outstanding."

Amendment of Annual Debt Service Reporting Requirement. Under Section 7.03 of the Certificate, the Department agrees to provide annual reports prepared by its Accountants regarding, among other things, the debt service requirements on Bonds. Under the proposed amendment of these reporting requirements, the Accountant's annual report of debt service requirements will be permitted to be based on the Department's Annual Adjusted Debt Service Requirement. The amended provision (set forth in clause (b) of Section 7.03) will read as follows:

"(b) the Annual Adjusted Debt Service Requirement of the Bonds for such Fiscal Year; provided, that for purposes of this paragraph, in calculating Annual Adjusted Debt Service Requirement for such Fiscal Year, (i) Available PFC Revenues includes only PFC Revenues actually deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account in such Fiscal Year, and (ii) Federal Direct Payments includes only Federal Direct Payments actually deposited into the Interest Account in such Fiscal Year."

Amendment of Default Provisions Relating to Debt Service Coverage. Section 10.01 of the Certificate specifies certain events that will constitute Events of Default under the Certificate, including in Subsection 10.01(f) the failure of the Department to impose and collect rates and charges sufficient to satisfy specified debt service coverage ratios. With respect to such coverage ratios, the proposed amendment of Subsection 10.01(f) will permit the required coverage ratios to be calculated on the basis of the Department's Annual Adjusted Debt Service Requirement. The amended Subsection will read as follows:

"(2) the amount equal, after deducting from the Revenues and Aviation Fuel Taxes the payments and credits required for the purpose of priority item SECOND of Section 6.01 hereof during the then immediately ensuing twelve months, to one and twenty-five hundredths (1.25) times the Annual Adjusted Debt Service Requirement for such twelve months for all Bonds then outstanding; provided, that for purposes of this paragraph, in calculating Annual Adjusted Debt Service Requirement for such Fiscal

Year, (i) Available PFC Revenues includes only PFC Revenues actually deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account in such Fiscal Year, and (ii) Federal Direct Payments includes only Federal Direct Payments actually deposited into the Interest Account in such Fiscal Year."

Amendments Requiring Consent of Holders of 100% of Principal Amount of Outstanding Bonds

One amendment to the Certificate contained in the Twenty-ninth Supplemental Certificate will take effect only upon receipt of the consent of the holders of all of the principal amount of Bonds outstanding. As a condition to the purchase of any Series 2010 Bonds hereunder, each purchaser of a Series 2010 Bond, by his acceptance thereof, will consent to all of the proposed amendments contained in the Twenty-ninth Supplemental Certificate and waive any revocation rights relating to such consent. After delivery of the Series 2010 Bonds, holders representing approximately 63.5% of the outstanding Bonds will have consented to the amendments described below.

The following amendment would amend the Debt Service Reserve Account deposit requirement in connection with the issuance of any future Additional Bonds. Currently, the Debt Service Reserve Account deposit requirement is an amount at least equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds outstanding, notwithstanding any maximum limits under applicable tax laws. Once effective, the proposed amendment will provide that in connection with the issuance of Additional Bonds, the Department must add to any required balance in the Debt Service Reserve Account the lesser of (i) the amount required to make the deposits in such account equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds outstanding or (ii) the maximum amount permitted by the Internal Revenue Code. For purposes of this amendment, the term Debt Service Reserve Requirement has been added. The definition of Debt Service Reserve Requirement is as follows:

"*Debt Service Reserve Requirement*" means, in connection with the issuance of any Additional Bonds, an amount equal to the sum of (i) the amount on deposit, immediately prior to the issuance of such Additional Bonds, in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein, and (ii) the least of (a) the amount which, if added to the amount then on deposit in the Airport Revenue Fund (assuming the amount on deposit is then equal to the Debt Service Reserve Requirement for all outstanding Bonds, if, however, the amount on deposit is less than the Debt Service Reserve Requirement for all outstanding Bonds and on credit to the Debt Service Reserve Account therein, would cause the total amount then on deposit in said fund and on credit to said account to equal the maximum aggregate Annual Adjusted Debt Service Requirement for all Bonds outstanding in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (b) 10% of the initial offering price to the public of such Additional Bonds as determined under the Code, or (c) 125% of the sum of the Annual Adjusted Debt Service Requirement for all Bonds outstanding for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of any Additional Bonds) and terminating with the last Fiscal Year in which any Debt Service Requirement for the Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the Department; provided, however, that in determining Annual Adjusted Debt Service Requirement with respect to any Bonds that constitute Variable Interest Rate Bonds, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been outstanding (or if such Bonds that constitute Variable Interest Rate Bonds have not yet been issued, then the interest rate on such Bonds shall be assumed to be equal to (i) for the first twelve (12) months, at the rate of interest for such Bonds as determined under the variable rate formula on the date of issue, and (ii) for each subsequent twelve (12) month period, at the rate of interest which is the weighted average rate of interest for such Bonds during the preceding twelve (12) month period). Provided, however, for purposes of (i) above, if the amount on deposit is less than the required amount pursuant to Section 6.01, without giving effect to clause (2) therein, then the amount then on deposit in clause (i) above shall be replaced with the amount as required to be on deposit pursuant to Section 6.01, without giving effect to clauses (2) therein."

In addition, the paragraph entitled *Debt Service Reserve Account* in Section 6.01 of the Certificate priority number SECOND will be amended, following the consent of 100% holders of the Bonds outstanding, to read as follows:

"*Debt Service Reserve Account*. There is hereby created a separate account in the Airport Revenue Fund to be known as the "Airports System Debt Service Reserve Account" (herein referred to as the "Debt Service Reserve Account"). In order to provide a reserve for the payment of the principal and interest and premium, if any, on the Bonds, there shall be deposited from the proceeds of the 1969 Bonds into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein an amount equal to the maximum Debt Service Requirement for the 1969 Bonds for any year. Subject to the remaining provisions of this paragraph with respect to the credits to be made to the Debt Service Reserve Account upon the issuance of Additional Bonds, the moneys on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein shall always be maintained at an amount equal to the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding, and, if at any time the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are less than said maximum required to be maintained therein, there shall be credited to this account from the first moneys available therefor after all payments and credits required by the preceding provisions of this paragraph "SECOND" have been met, such amounts as shall be necessary until there is again on credit to the Debt Service Reserve Account an amount at least equal to the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding. If on the first day of any Fiscal Year the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are in excess of the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding, the amount of such excess shall be paid into the Airport Revenue Fund, to be used and applied as are all other moneys deposited in or on deposit in that fund; provided that, in anticipation of the issuance of Additional Bonds hereunder, the Department may direct that all or part of such excess amount may be retained in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein. In the event of the issuance of any Additional Bonds, unless upon the delivery of such Additional Bonds there shall then already be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), there shall (1) be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein such amount, if any, of the proceeds of the sale of such Additional Bonds as the Department may determine, so that there shall then be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), or (2) if and to the extent there shall not be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein proceeds of such Additional Bonds in an amount so that there shall then be on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds, there shall be credited to the Debt Service Reserve Account, at such time or from time to time as the Department may determine, such amount or amounts, as the Department may determine, of the moneys available therefor after all payments and credits required by the preceding provisions of this part "SECOND" have been met, so that by no later than five (5) years from the date of such Additional Bonds there shall then be on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds then outstanding, exclusive of other Additional Bonds which may have been issued during such five (5) year period and with respect to which credits are then being made to the Debt Service Reserve Account in accordance with this sentence. The moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein shall, except for the transfer therefrom to the Airport Revenue Fund of excess amounts therein as heretofore permitted in this paragraph, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the 1969 Bonds and Additional Bands when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Sinking Fund Account in the Airport Revenue Fund, and shall be so used and applied whenever there are insufficient moneys in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and Sinking Fund Account therein for such purposes. Before, however, applying any moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein to such payment, there shall first be applied to such payment all other moneys in the Airport Revenue Fund lawfully available therefor, which other moneys shall also constitute a reserve hereunder for the payment of the principal, premium, if any, and interest on the Bonds."

DEPARTMENT OF TRANSPORTATION

Department Organization

The Department is one of 17 principal executive departments of the State. Chapter 26, HRS, empowers the Department to establish, maintain and operate the transportation facilities of the State, including highways, airports, harbors and other transportation facilities. The Department's activities are carried out through three primary operating divisions: Airports, Harbors and Highways.

Through the Airports Division, the Department has general supervision of aeronautics within the State, exercising jurisdiction and control over all State airways and all State owned or managed airports and air navigation facilities. The Airports Division operates all State airports as a single integrated system for management and financial purposes. The Airports Division does not operate airports and air navigation facilities that are either privately owned and operated or under federal jurisdiction and control. The operation of the Airports Division is organized among six offices and branches: the Staff Services Office, the Airports Operations Office, the Airports Management Information Systems Office, the Airports Planning Office, the Visitor Information Branch and the Engineering Branch.

Department Management

The Department is headed by the Director, who is appointed by the Governor and confirmed by the State Senate. The Governor also appoints, without State Senate confirmation, four Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms conterminous with the Governor's term.

Chapter 26, HRS, establishes the Commission on Transportation which sits in an advisory capacity to the Director on matters within the jurisdiction of the Department, including the Airports System. The Commission on Transportation consists of up to 11 members, with at least one member from each of the four counties of the State.

The Airports Division is managed by the Deputy Director and the Airports Administrator. Currently, the position of Airports Administrator is vacant. Airports within a district area are managed by an airport manager. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management, method, standards and evaluation, and property management functions of the Airports Division. The Airports Operations Office, headed by the Airports Operations Officer, is responsible for general aviation, certification, security and safety, Disadvantaged Business Enterprises, which administers the Americans with Disabilities Act, and fire fighting functions of the Airports Division. The Airports Management Information Systems Office, headed by the Data Processing Systems Analyst, is responsible for data processing services. The Airports Planning Office, headed by the Planning Engineer, is responsible for directing the planning, development and marketing functions of the Airports Division. Currently, the position of Planning Engineer is vacant. The Visitor Information Branch, headed by a Visitor Information Administrator, is responsible for visitor information services at the primary airports and at harbors serving cruise ships. Currently the position of Visitor Information Administrator is vacant. The Engineering Branch, headed by the Engineering Program Manager, is responsible for design and construction, special maintenance and drafting functions of the Airports Division. The Airports Administrator, Administrative Services Officer, Airports Operations Officer, Data Processing Systems Analyst, Engineering Program Manager and all other senior management of the Airports Division are civil service employees.

Management Personnel

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

Dr. Brennon T. Morioka, Director, was appointed on March 10, 2009 after serving three years as the Deputy Director for the Highways Division. He was formerly a Senior Geotechnical Engineer and Project Manager for URS Corporation in its Honolulu Office where he specialized in landfills and waste disposal technologies, earthquake engineering, and trenchless technologies such as microtunneling and directional drilling. Dr. Morioka is a licensed engineer in Hawaii and California and is a member of the Hawaii Section of American Society of Civil Engineers. He received his Bachelor and Master of Science degrees in Civil Engineering from the University of California at Berkeley and completed his doctoral studies at the University of Hawaii.

Brian H. Sekiguchi, Deputy Director – Airports, was appointed in November 2003. Prior to his appointment, Mr. Sekiguchi served more than 26 years with the Department of Defense and in the private sector. He received a Bachelor of Civil Engineering degree from the University of California, Berkeley, a Master of Business of Administration degree from Chaminade University, and a Master of Engineering Management from the United States Air Force Institute of Technology.

Jeffrey Chang, Engineering Program Manager, was promoted to head the Engineering Branch of the Airports Division in March 2009. Previously, Mr. Chang served as Construction Engineer for the Airports Division for 14 years. Prior to 1994, Mr. Chang held managerial positions with private general contractors in Hawaii and San Francisco for 12 years. Mr. Chang graduated from the University of Colorado in 1978 with a B.S. degree in Architectural Engineering and from Stanford University in 1979 with a M.S. degree in Civil Engineering.

Labor Relations

The Airports Division had approximately 1,050 employees as of January 31, 2010. State law grants public employees, other than appointed officials and division administrators, the right to organize for the purpose of collective bargaining. Each recognized bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. Under State law, Airports System workers may not strike in the event that an impasse is declared in any labor negotiations.

The Airports Division has employees in six separate bargaining units. Contracts with five of the bargaining units expired on June 30, 2009. The State recently completed negotiations with four of these bargaining units on collective bargaining agreements for the period July 1, 2009 through June 30, 2011. The State recently entered into binding arbitration with respect to its negotiations with the fifth bargaining unit with an expired contract, the United Public Workers (the "UPW") Local 646. The current contract with the sixth bargaining unit is scheduled to expire on June 30, 2011.

The largest bargaining unit, unit l, consisting of 551 blue collar employees, is represented by the UPW Local 646. Blue collar supervisors (unit 2, with 45 employees), white collar workers (unit 3, with 164 employees), white collar supervisors (unit 4, with 25 employees), and professionals (unit 13, with 78 employees) are represented by the Hawaii Government Employees' Association (American Federation of State, County and Municipal Employees Local 152). The Hawaii Fire Fighters Association (International Association of Fire Fighters Local 1463) represents unit 11, the Airports Division's 135 rescue and fire fighter employees. There are also 13 excluded managers and 31 other excluded employees.

THE AIRPORTS SYSTEM

General

The Department operates and maintains 15 airports at various locations within the State. The Airports Division has jurisdiction over and control of the Airports System. Virtually all non-military passenger traffic throughout Hawaii passes through the Airports System, which includes five primary airports and ten secondary airports. The primary airports are HNL, Kahului (on the Island of Maui), Hilo International and Kona (both on the Island of Hawaii), and Lihue Airport (on the Island of Kauai). All of the primary airports provide facilities for interisland flights (in-State flights among the airports in the Airports System) and direct overseas flights to the continental United States. In addition, HNL provides international flights to the Pacific Rim, Kona provides flights to Japan and all primary airports (except, currently, Hilo

International) provide international service to Canada**.** The five primary airports accounted for approximately 98.6% of total enplaned passengers in the Airports System in fiscal year 2009.

The other airports in the Airports System are Port Allen Airport on the Island of Kauai, Dillingham Air Field (currently leased from the United States military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana Airports on the Island of Maui, Waimea-Kohala and Upolu Airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa Airports on the Island of Molokai. Upolu Airport, Port Allen Airport, Dillingham Air Field and Kalaeloa Airport serve only general aviation, while the others provide interisland airline service.

Primary Airports

Honolulu International Airport (HNL). HNL, the primary airport in the Airports System, is located approximately three miles west of downtown Honolulu. HNL is the largest and busiest of the State's airports, accounting for 60% of all passengers enplaned in the Airports System in fiscal year 2009. In 2008, according to the Federal Aviation Administration (the "FAA"), HNL was the twelfth largest U.S. gateway airport based on the number of international enplaned passengers and twenty-fifth busiest in the United States in total passengers (enplaned and deplaned). The 2008 Airports Council International Worldwide Traffic Report listed HNL the seventy-first busiest air terminal in the world. These rankings reflect HNL's (1) large origin-destination passenger base (related to the visitor industry), (2) geographic location in the central Pacific, and (3) role as a hub for Hawaiian Airlines and Mesa Airlines (operating as go!), which provide connecting service from HNL to the other Airports System primary airports. HNL serves interisland flights, domestic overseas flights and international flights to destinations on the Pacific Rim, Oceania and Canada.

HNL has two sets of parallel runways (which are among the longest in the nation), 29 overseas aircraft gate positions with loading bridges, 13 interisland aircraft parking positions, 11 commuter aircraft parking positions and public parking spaces for 6,200 vehicles. HNL also provides runways for Hickam Air Force Base and the Hawaiian Air National Guard.

Kahului Airport. Kahului is located approximately three miles east of the town of Kahului, which, together with Wailuku, is the principal business and commercial center of the Island of Maui. Kahului is the second busiest airport in the State. Kahului has one 7,000 foot runway and one 5,000 foot runway. The terminal complex includes ticket counters, six holdrooms, 20 aircraft gate positions with loading bridges, a baggage claim area and ancillary service facilities. Kahului has public parking facilities for approximately 1,200 vehicles. In addition to interisland service, Kahului provides facilities for domestic overseas flights and international flights to and from Canada.

Lihue Airport. Lihue Airport is located approximately one and one-half miles east of Lihue, the governmental and business center of the Island of Kauai. Lihue Airport has two 6,500-foot runways. The terminal complex includes ticket counters, eight aircraft gate positions with loading bridges, two baggage claim areas and ancillary service facilities. Lihue Airport has public parking facilities for approximately 670 vehicles, a 30,400 square foot cargo building, a 5,600 square foot air commuter terminal, 14 T-hangars, a training facility for aircraft rescue and fire fighting, and helicopter facilities. In addition to interisland service, Lihue Airport provides facilities for domestic overseas flights and international flights to and from Canada.

Kona International Airport at Keahole. Kona (formerly Keahole-Kona International Airport) is located in North Kona on the western shore of the island of Hawaii, approximately seven miles northwest of Kailua-Kona, the business center of the western part of the Island of Hawaii. Kona, which was opened in 1970, has one runway of 11,000 feet. The terminal complex includes ticket counters, ten boarding gates (serving fourteen aircraft parking spots) and ancillary service facilities. Kona has public parking facilities for approximately 500 vehicles and a federal inspection system facility which can accommodate approximately 400 passengers per hour. In addition to interisland service, Kona provides facilities for domestic overseas flights and international flights to and from Canada and Japan.

Hilo International Airport. Hilo International (formerly General Lyman Field) is located immediately east of Hilo, the business center of the eastern shore of the Island of Hawaii and the governmental center of the Island of Hawaii. Hilo International has a 9,800 foot runway and a 5,600 foot runway. The terminal complex includes ticket counters, ten aircraft gates and ancillary service facilities. Hilo International has public parking facilities for approximately 550 vehicles and eight T-hangars. Hilo International provides facilities for interisland and overseas flights. Currently, Hilo International has scheduled interisland service but no scheduled overseas service.

See Appendix A – Report of the Consulting Engineer – Section 2.1 "Current Hawaii Airports System Facilities" for more details on the current facilities at all of the airports in the Airports System. The following tables summarize passenger counts and aircraft operations at HNL and the neighbor island airports in the Airports System and landed weights for fiscal years 2005 through 2009:

TABLE 1
PASSENGERS AND AIRCRAFT OPERATIONS

	Fiscal Year Ending June 30,					2009 vs 2008 % Increase (Decrease)
	2005	**2006**	**2007**	**2008**	**2009**	
Enplaned Passenger Activity						
Honolulu International Airport	9,912,540	9,999,507	10,412,439	10,379,891	8,899,251	(14.3%)
Kahului Airport	2,846,857	2,887,465	2,971,589	3,100,731	2,542,322	(18.0%)
Kona International Airport at Keahole	1,396,361	1,476,414	1,573,799	1,564,292	1,332,223	(14.8%)
Lihue Airport	1,264,300	1,281,401	1,308,606	1,443,847	1,230,381	(14.8%)
Hilo International Airport	641,645	654,154	797,853	771,454	636,005	(17.6%)
All Others	203,559	230,194	235,874	241,021	201,968	(16.2%)
Total Passengers	16,265,262	16,529,135	17,300,160	17,501,236	14,842,150	(15.2%)
Honolulu International Airport as a Percentage of Total Enplaned Passengers	60.9%	60.5%	60.2%	59.3%	60.0%	
Interisland Passengers	7,806,993	7,859,262	8,951,154	8,792,597	7,206,820	(18.0%)
Overseas Passengers	8,458,269	8,669,873	8,349,006	8,708,639	7,635,330	(12.3%)
Total Statewide Enplaned Passengers	16,265,262	16,529,135	17,300,160	17,501,236	14,842,150	(15.2%)
Interisland Passengers as a Percentage of Total Enplaned Passengers	48.0%	47.5%	51.7%	50.2%	48.6%	
Aircraft Operations (Combined Landing and Take-Off Reported by Air Traffic Control Tower):						
Honolulu International Airport	334,797	316,243	320,112	304,839	276,272	(9.4%)
Kahului Airport	168,184	164,717	158,807	142,126	119,311	(16.1%)
Kona International Airport at Keahole	151,599	145,215	148,673	140,052	111,848	(20.1%)
Lihue Airport	105,408	104,802	125,164	121,979	99,154	(18.7%)
Hilo International Airport	117,550	95,620	99,437	90,167	66,294	(26.5%)
All Others	249,106	286,184	208,279	241,965	212,400	(12.2%)
Total Aircraft Operations	1,126,644	1,112,781	1,060,472	1,041,128	885,279	(15.0%)
Honolulu International Airport as a Percentage of Total Aircraft Operations	30%	28%	30%	29%	31%	

Source: Department of Transportation – Airports Division

TABLE 2
LANDED WEIGHTS
(1,000 pound units)

	Fiscal Year Ending June 30,									
	2005	% of Total Landed Weights	2006	% of Total Landed Weights	2007	% of Total Landed Weights	2008	% of Total Landed Weights	2009	% of Total Landed Weights
Honolulu International Airport	17,515,918	64%	16,884,806	62%	17,593,131	61%	16,671,452	61%	14,888,872	62%
All Other Airports	9,795,058	36%	10,281,172	38%	11,372,437	39%	10,537,084	39%	9,153,934	38%
Total Landed Weights	27,310,976	100%	27,165,978	100%	28,965,568	100%	27,208,536	100%	24,042,806	100%

	Fiscal Year Ending June 30,									
	2005	% of Total Landed Weights	2006	% of Total Landed Weights	2007	% of Total Landed Weights	2008	% of Total Landed Weights	2009	% of Total Landed Weights
Overseas	15,570,089	57%	15,104,002	56%	15,241,799	53%	14,374,582	53%	12,772,382	53%
Interisland	11,740,887	43%	12,061,976	44%	13,723,769	47%	12,833,954	47%	11,270,424	47%
Total Landed Weights	27,310,976	100%	27,165,978	100%	28,965,568	100%	27,208,536	100%	24,042,806	100%

Sources: Audited financial statements for fiscal years 2005 to 2009.

Airline Service and Passenger Activity Operations

HNL is served by a total of 24 airlines, including nine major and national U.S. airlines, four regional and commuter airlines that provide interisland service, and 11 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 14 airlines, including eight major and national airlines, four regional and commuter airlines, and two foreign-flag airlines.

Air transportation in Hawaii is characterized by three types of service: (1) domestic service among the islands in Hawaii, referred to as "interisland" service, (2) domestic overseas service to the continental United States, and (3) international overseas service, primarily to destinations in the Pacific Rim and Oceania. Overseas service, including flights to both the continental United States and international destinations, accounted for 51.6% of enplaned passengers in the Airports System for fiscal year 2009. Interisland service accounted for 48.4% of enplaned passengers in fiscal year 2009. In November 2009, an average of 299 daily flights departed from the five primary Hawaii airports to other airports in Hawaii, with 139 of those flights departing from HNL and 66 from Kahului Airport. The large number of departing flights reflects the small size of the aircraft, in terms of available seats, used in interisland service.

Interisland Service. In November 2009, propeller aircraft (eight or nine seats per aircraft) accounted for 13% of interisland departing flights but only 1% of the departing seats. Similarly, turboprop aircraft accounted for 9% of interisland departing flights but only 4% of the departing seats. Regional jets accounted for 21% of interisland departing flights (12% of departing seats), and air carrier (narrowbody and widebody) aircraft accounted for 57% of interisland departing flights (83% of departing seats).

Overseas Domestic. Domestic services to the continental United States is accomplished by long-haul flights served by narrowbody and widebody jets to cities in the western portion of the United States and to the hubs of major airlines throughout the United States. In November 2009, an average of 71 daily flights departed from the five primary Hawaii airports to the continental U.S., with 44 of the flights departing from HNL and 15 from Kahului. Of the 71 average daily departures from Hawaii to the continental U.S., about half (35 flights) were to either the Los Angeles area (22 flights) or the San Francisco Bay area (13 flights).

Overseas International. International services consists of medium- and long-haul flights almost entirely from HNL to Canada, Oceania, and the Pacific Rim by U.S. and foreign-flag airlines using narrowbody and widebody jets. Kahului, Lihue Airport and Kona also provide international service to Canada. In November 2009, an average of 21 daily flights departed from the Airports System to international destinations, with 67% of the flights departing to Pacific Rim countries, 20% to Canada, and 13% to countries in Oceania.

The number of passengers enplaned in the Airports System in fiscal year 2009 decreased 15.2% over fiscal year 2008. The 15.2% decrease reflects an 18.0% decrease in interisland activity as a result of (i) the cessation of service by Aloha Airlines (which primarily provided interisland service and, ceased service on March 31, 2008), and (ii) the development of the Hawaii Superferry, which provided interisland passenger and vehicle ferry service beginning in fiscal year 2008 and discontinued operations in March 2009. The 15.2% decline in enplaned passengers in fiscal year 2009 also includes a 12.3% decrease in overseas enplaned passengers. This reflected reductions in U.S. airline seating capacity in response to high fuel prices and the effects of the national and global economic recessions. During the first 6 months of FY 2010 (July through December 2009) enplaned passengers in the Hawaii Airports System increased 3.7% compared with the same period in FY 2009.

In fiscal year 2009, Hawaiian Airlines had the largest market share of enplaned passengers at HNL, with a 43.3% share. Recently, go!, an airline service provided by Mesa Airlines, formed a joint venture with Mokulele Airlines to provide interisland service in the State. Under the terms of the agreement, each airline operates under their respective brand names, with Mesa Airlines controlling the routes previously operated by Mokulele Airlines' code sharing partner Shuttle America. For more information, see Appendix A – Report of the Consulting Engineer – Section 1.3 "Passenger Demand." On January 5, 2010, Mesa Air Group, Inc., the parent of Mesa Airlines, filed for Chapter 11 bankruptcy protection. The go!-Mokulele joint venture is not included in the Chapter 11 proceedings and intends to continue to operate its full flight schedule.

Air Cargo Operations

Cargo volumes do not directly affect Airports System Revenues because cargo service providers pay applicable landing fees and Airports System support charges ("Airports System Support Charges") based on landed weight. Further, ground rentals for cargo facilities, which are based on rented square footage, not cargo volume. Total air cargo (enplaned and deplaned) accommodated in the Airports System has decreased 20.3% since fiscal year 2000, largely due to decreases in enplaned cargo. Deplaned cargo tonnage decreased 4.3% between fiscal years 2000 and 2009, while enplaned cargo tonnage decreased 36.5% in the same period, reflecting the Hawaii economy's reliance on imports to support the visitor industry and other businesses.

Airline Operations

In fiscal year 2009, the following airlines served the State with overseas passenger flights: Air Canada, Air New Zealand, Air Pacific Limited, Alaska Airlines, All Nippon Airways, American Airlines, China Airlines, Continental Airlines, Continental Micronesia, Delta Air Lines, Hawaiian Airlines, JALways, Jetstar Airways, Korean Airlines, Northwest Airlines, Philippine Airlines, Qantas Airways, United Airlines, U.S. Airways and WestJet. Interisland service was provided by: Hawaiian Airlines, Island Air, Mesa Airlines, Mokulele Airlines and Pacific Wings, as well as charter airlines.

In fiscal year 2009, interisland flights accounted for 37.5% of enplaned passengers at HNL and 48.6% of all enplaned passengers in the Airports System. Overseas (both domestic and international) flights accounted for 62.5% of enplaned passengers at HNL and 51.4% of enplaned passengers in the Airports System. Point to point overseas service has increased, share of overseas passengers enplaned at the primary airports, excluding HNL, increased from 18.1% in fiscal year 2000 to 36.2% in fiscal year 2009. In contrast, the share of interisland passengers at the primary airports, excluding HNL, decreased from 81.9% in fiscal year 2000 to 63.8% in fiscal year 2009. Hawaiian Airlines had 43.3% market share of all enplaned passengers at HNL, followed by United Airlines (10.2%), Northwest Airlines (8.6%), JALways (8.1%), American Airlines (5.0%), Mesa Airlines (4.6%), Continental Airlines (4.3%) and Delta Air Lines (4.0%). Other airlines had 11.9% market share of enplaned passengers at HNL.

Japan Airlines filed for rehabilitation in January 2010, a court-led restructuring similar to a Chapter 11 filing in the United States. Service by Japan Airlines is expected to continue uninterrupted, although it is unclear what effect, if any, this ultimately will have on service to Hawaii.

The following table presents the landed weights for each of the Signatory Airlines and the nonsignatory airlines in fiscal years 2005 through 2009.

TABLE 3
LANDED WEIGHTS AT AIRPORTS SYSTEM
(1,000 pound units)

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Signatory Airlines					
Hawaiian Airlines, Inc.	5,877,170	6,053,980	6,722,660	7,294,775	8,541,495
United Airlines, Inc.	2,889,429	2,976,967	2,894,371	2,633,913	2,606,831
Northwest Airlines, Inc.	1,353,048	1,394,986	1,497,512	1,333,780	1,287,428
Jalways Company, Ltd.	614,355	1,267,476	1,353,816	1,313,610	1,276,500
Mesa Airlines, Inc. (1)	-	34,639	1,039,593	1,067,840	1,048,664
American Airlines, Inc.	1,627,336	1,399,396	1,286,382	1,157,354	986,390
Delta Airlines, Inc.	987,000	1,200,500	1,020,250	807,095	766,182
Federal Express Corporation	504,934	504,585	646,237	741,088	725,534
United Parcel Service Co.	588,520	628,330	762,348	706,561	718,782
Mokulele Flight Service, Inc.	-	-	-	-	553,826
Continental Airlines, Inc.	612,020	579,430	523,262	498,316	429,872
US Airways, Inc. (2)	-	-	-	267,498	345,708
Alaska Air, Inc. (3)	-	-	-	96,336	237,312
Qantas Airways, Ltd.	205,022	257,356	237,210	192,116	191,876
Korean Airlines Company, Ltd.	134,866	100,132	138,266	166,292	179,874
Air Canada	408,709	413,152	372,983	288,866	175,532
China Airlines, Ltd.	207,519	210,956	202,408	190,481	168,116
Continental Micronesia	222,704	286,732	285,886	254,260	155,604
Kalitta Air, LLC	205,020	217,980	217,665	165,195	147,666
Westjet (4)	-	4,389	70,224	84,622	110,732
Pacific Wings LLC	72,573	77,690	87,329	114,079	97,266
Air New Zealand, Ltd.	54,522	107,854	110,378	105,232	85,650
Evergreen International	316,590	140,850	110,240	113,140	81,730
Philippine Airlines, Inc.	394,061	200,317	82,551	71,827	65,683
Air Pacific, Ltd.	29,344	34,352	34,352	36,464	22,736
North American Airlines	67,939	47,110	1,369	5,708	5,828
All Nippon Airways Co. Ltd. (5)	9,244	3,728	-	-	-
Aloha Airlines, Inc. (6)	5,508,832	5,346,924	5,721,306	4,423,276	-
America West Airlines, Inc. (7)	-	131,274	364,320	73,062	-
ATA Airlines, Inc. (8)	534,720	533,655	626,081	566,652	-
Hawaii Island Air, Inc.	1,003,745	1,136,810	1,040,140	814,074	-
Japan Airlines Co., Ltd.	1,232,196	347,598	39,751	36,132	-
Polar Air Cargo (9)	90,201	13,482	-	-	-
Total Then-Current Signatory Airlines	**25,751,619**	**25,652,630**	**27,488,890**	**25,619,644**	**21,012,817**
Total Then-Current Nonsignatory Airlines	**1,559,357**	**1,513,348**	**1,476,678**	**1,588,892**	**3,029,989**
Total All Airlines	**27,310,976**	**27,165,978**	**28,965,568**	**27,208,536**	**24,042,806**

(1) Signatory Airline status effective April 1, 2006.
(2) Signatory Airline status effective February 1, 2006.
(3) New carrier and signatory status effective October 1, 2007.
(4) Name changed effective September 26, 2007 to US Airways, Inc.
(5) Suspended service in June 2007.
(6) Filed for bankruptcy protection on March 21, 2008 and ceased operations on March 31, 2008.
(7) Name changed effective September 26, 2007 to US Airways, Inc.
(8) Filed for bankruptcy protection on April 2, 2008 and ceased operations April 3, 2008
(9) Suspended service in June 2007

Source: Audited financial statements for fiscal years 2005-2009

Financial Information

The following table represents a summary of Revenues, Net Revenues and Taxes and Debt Service Requirement on Airports System Revenue Bonds for the fiscal years 2005 through 2009. See “SOURCES OF REVENUE AND AVIATION FUEL TAXES” herein for a discussion of the Airports Division’s major sources of income.

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TABLE 4
CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT
(in thousands)

	Fiscal Year Ending June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Revenues and taxes:					
Concession fees:					
Duty-free	$42,977	$39,168	$37,369	$38,000	$38,000
Other concessions	73,902	81,240	83,321	83,917	76,063
Airport landing fees	35,463	36,085	38,049	36,953	60,574
Aeronautical rentals	54,127	54,392	55,393	63,075	70,181
Non-aeronautical rentals	12,457	11,130	12,358	12,664	12,306
Aviation fuel tax	3,434	2,590	2,169	4,452	3,549
Airports System Support Charges	656	631	618	617	874
Interest income (1)	20,138	31,178	33,422	31,678	16,150
Federal operating grants	1,523	7,750	19,983	24,958	6,758
Miscellaneous	3,141	3,762	4,156	4,699	4,128
Total revenues and taxes	$247,818	$267,926	$286,838	$301,013	$288,584
Operating and maintenance expenses:					
Salaries & wages	$53,231	$56,808	$61,204	$71,990	$75,396
Other personnel services	35,499	38,410	46,145	51,590	56,493
Utilities	20,879	25,786	26,257	34,875	34,200
Repairs & maintenance	9,371	8,868	12,803	14,181	17,300
Special Maintenance	8,580	13,447	33,558	32,986	21,508
DOT administrative expenses	5,432	4,999	5,724	4,852	4,839
State of Hawaii surcharge of gross receipts	5,068	9,593	9,765	10,886	10,744
Materials and supplies	3,919	4,600	4,520	5,648	5,618
Insurance	2,611	2,568	4,018	4,248	4,121
Others	5,086	2,843	2,732	7,954	2,722
Total operating & maintenance expenses (2)	$149,676	$167,922	$206,726	$239,210	$233,617
General obligation bonds principal and interest	12	12	11	12	29
Major maintenance, renewal and replacement account reserve reimbursement	2,998	4,056	4,383	5	250
Total deductions	$152,686	$171,990	$211,120	$239,227	$233,896
Net revenues and taxes	95,132	95,936	75,718	61,786	54,687
Funded coverage account (3)	-	-	-	14,304	14,304
Adjusted net revenues and taxes (A)	$95,132	$95,936	$75,718	$76,090	$68,991
Debt service requirement:					
Airports systems revenue bonds (4)	136,066	70,122	70,118	57,216	57,216
Less credits to the interest account (5)	(20,000)	(28,000)	(27,000)	(10,000)	(17,453)
Less funds deposited into the Airport Revenue Fund for early redemption of bonds (4)	(69,300)	-	-	-	-
Less PFC debt service payment	-	-	-	-	-
Total debt service requirement (B)	$46,766	$42,122	$43,118	$47,216	$39,763
Debt Service Coverage (A)/(B)	2.03x	2.28x	1.76x	1.61x	1.74x
Debt service coverage requirement	1.25x	1.25x	1.25x	1.25x	1.25x

Source: Audited financial statements for fiscal years 2005-2009.

(1) Includes interest on investment of Bond proceeds and Airport Revenue Fund receipts.
(2) Does not include depreciation.
(3) Includes rolling coverage.
(4) On January 5, 2005, the Airports Division disbursed $69,300,000 from the Airport Revenue Fund to the paying agent to redeem the outstanding balance of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety. The Refunding Series of 2003 Bonds were originally issued with a 10 year maturity and were subject to redemption in each subsequent year. The debt service on the Refunding Series of 2003 Bonds were treated as being due in fiscal year 2005.
(5) Airports System deposit of available funds from prior year unrestricted cash into the Airport Revenue Fund for credit to the Interest Account. The available funds reduced the amount of interest to be paid or credited during such year to the Interest Account as required by the Certificate.

The following table presents a summary of cash and cash equivalents and investments for fiscal years 2005 to 2009.

TABLE 5
SUMMARY OF CASH AND CASH EQUIVALENTS AND INVESTMENTS

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Petty Cash	$ 17,805	$ 17,805	$ 17,805	$ 17,805	$ 17,805
Cash in State Treasury	715,825,244	747,299,342	727,956,876	637,726,158	518,462,026
Repurchase agreements	56,952,787	56,952,787	56,952,787	56,952,787	41,120,337
Certificates of deposit	18,298,726	18,298,726	18,298,726	18,298,726	34,131,176
	$791,094,562	$822,568,660	$803,226,194	$712,995,476	593,731,344
Reflected in the balance sheet as follows:					
Cash and cash equivalents:					
Unrestricted	$537,794,926	$547,469,895	$528,557,445	$451,011,189	$336,793,740
Restricted	178,048,123	199,847,252	199,417,236	186,732,774	181,686,091
Total cash and cash equivalents	715,843,049	747,317,147	727,974,681	637,743,963	518,479,831
Investments – restricted	75,251,513	75,251,513	75,251,513	75,251,513	75,251,513
Total cash, cash equivalents and investments	$791,094,562	$822,568,660	$803,226,194	$712,995,476	$593,731,344

Note: Effective August 1, 1999, the State instituted a policy whereby all unrestricted cash is invested by the Department of Budget & Finance in an investment pool. Beginning September 1, 2001, all bond proceeds (restricted cash) are invested in the Bond Investment Pool.

Source: Audited financial statements for fiscal years 2005-2009.

SOURCES OF REVENUES AND AVIATION FUEL TAXES

General

State law and the Certificate require the State to operate the Airports System on a self-sustaining basis. The Certificate requires the Department to impose, prescribe and collect rates, rentals, fees and charges for the use and services of, and the facilities and commodities furnished by, the Airports System to generate Revenues which, together with the receipts of Aviation Fuel Taxes, will be sufficient to pay the principal of and interest on all Bonds issued for the Airports System, to pay the costs of operation, maintenance and repair of the Airports System, to reimburse the General Fund of the State for all bond requirements for all general obligation bonds issued for the Airports System and to satisfy the other provisions of the Certificate. Airports System revenues are derived from aeronautical revenues, concession fees, non-aeronautical revenues other than concession fees (including building space and land rentals), non-operating revenues, Aviation Fuel Taxes and other sources.

As shown in the Table 4 “Calculations of Net Revenues and Taxes and Debt Service Requirement” under the heading “THE AIRPORTS SYSTEM”, the relative importance of each source of Revenues has varied, and is expected to vary, over time. Variations are caused by many factors, including, without limitation, waivers of landing fees, the number and origin of persons who visit the State, the number, origin and destination of flights scheduled by airlines, the types of aircraft used and fuel consumed, credits given against Aviation Fuel Taxes paid, the space available for concessions and rentals, levels of bids received for concession agreements, the number of persons using the Airports System, the amount of money available for investment and the policies of the Department and the Airports Division in imposing rates, rentals, fees and charges.

The following describes the major sources of Revenues and Aviation Fuel Taxes of the Airports System in greater detail. It is only a summary of certain important sources of revenues. For more information on all operating and non-operating revenues, see Appendix A – Report of the Consulting Engineer – Section 3.7 “Revenues and Aviation Fuel Taxes” and Appendix B – Audited Financial Statements.

Aeronautical Revenues

Aeronautical revenues consist of landing fees, aeronautical rentals (space rents associated with aviation activities) and Airports System Support Charges generated pursuant to the airline lease agreements and the Hawaii Administrative Rules, Title 19, Subtitle 2 (the "Administrative Rules"). The following table sets forth the landing fees, aeronautical rentals and support system rents and its percentage of total Revenues of the Airports System for fiscal years 2005 through 2009.

Fiscal Year Ending June 30,

Aeronautical Revenues	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
Airport landing fees and Airport System Support Charges	$36,119	14.6%	$36,716	13.7%	$38,667	13.5%	$37,570	12.5%	$61,448	21.3%
Aeronautical rentals	54,127	21.8	54,392	20.3	55,393	19.3	63,075	21.0	70,181	24.3
Total Aeronautical Revenues	$90,246	36.4%	$91,108	34.0%	$94,060	32.8%	$100,645	33.4%	$131,629	45.6%

Source: Audited financial statements for fiscal years 2005-2009.

Airline Lease Agreements. The Department operates pursuant to separate airport-airline lease agreements with certain airlines serving the Airports System (as signatories to the lease agreements, from time to time, the "Signatory Airlines"). Currently, there are 29 Signatory Airlines. The original lease agreements (collectively, the "Lease Agreement") were set to expire on July 31, 1992. Each of the Signatory Airlines and the Department continued operations under monthly extensions through June 30, 1993 and under a letter agreement through June 1994. Under each Lease Agreement, each Signatory Airline has the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports System and to occupy certain premises and facilities thereon. In June 1994 the Lease Agreement was extended through June 30, 1997 (the Lease Agreement as extended, the "Lease Extension Agreement") for each of the Signatory Airlines, with an adjustment for certain terms and provisions relating to rates and charges. The Lease Extension Agreement contained a provision under which the expiration date was automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least sixty (60) days' prior written notice. From July 1, 1997 through December 31, 2007, the Department and each of the Signatory Airlines agreed to continue to operate under the terms of the Lease Extension Agreement.

In October 2007, the Department and each of the Signatory Airlines executed a First Amended Lease Extension Agreement effective January 1, 2008 (the "2007 Agreement" and together with the Lease Agreement as extended by the Lease Extension Agreement and as amended and further extended by the 2007 Agreement, the "Amended Lease Extension Agreement").

The 2007 Agreement established a new methodology to determine the rates and charges required to be paid by each of the Signatory Airlines. The rates and charges include, among others, landing fee charges, airline terminal rentals and Airports System Support Charges. Airport System Support Charges are an airports wide residual cost center to ensure Airports System revenues are sufficient to recover Airport Systems cost. For a description of the methodology, see Appendix A – Report of the Consulting Engineer – Section 3.1.2 "Airport-Airline Lease Agreement." Under the 2007 Agreement, the Signatory Airlines agreed that the Department may undertake the 2007 Capital Program, totaling approximately $2.4 billion. In July 2009, in consideration of economic conditions, the Airports Division decided to fund only a certain portion of the 2007 Capital Program (the "Designated Projects"), at an estimated cost of $1.31 billion through fiscal year 2016. In September 2009, the Airports Division received a letter from the Signatory Airlines confirming the Signatory Airlines' support for the continued development of the Designated Projects. For information on the Designated Projects, see "CAPITAL IMPROVEMENTS PROGRAM – Designated Projects" herein. In addition, the Amended Lease Extension Agreement includes a formal process that the Airports Division and the Signatory Airlines will use to review any additional capital improvement projects and associated financing plans but does not require the Signatory Airlines' affirmative approval of a proposed capital improvements project. Additional capital improvement projects are deemed accepted by the Signatory Airlines unless rejected in writing twice by a majority-in-interest of the Signatory Airlines. A majority-in-interest constitutes at least 50% of the Signatory Airlines representing at least 50% of the total landing fee and Airports System support charge payments actually paid in the previous fiscal year. If the Signatory Airlines appropriately reject a proposed project, such project is deferred one fiscal year but the Airports Division can undertake the improvements in the following fiscal year. See Appendix A – Report of the Consulting Engineer – Section 3.2 “Signatory Airline Approval of Capital Projects.”

The Amended Lease Extension Agreement differentiates charges for interisland operations (in-State flights among the airports in the Airports System) and charges for overseas operations (both domestic and international). The interisland charge is equal to the product of the overseas charge and a discount factor called the interisland rate. The interisland rate is a discount factor of 38% in fiscal year 2010, and is scheduled to increase 1% annually until it reaches 100%.

Nonsignatory airlines are subject to the Administrative Rules, which require the payment of specified amounts for landing fees, Airports System Support Charges, and certain other rates, fees, and charges. Under the 2007 Agreement, the Department agreed to amend the methodology for calculating fees and charges under the Administrative Rules so that nonsignatory airline fees and charges will be 125% of Signatory Airline fees and charges. The Airports Division is currently in the process of amending the Administrative Rules, which amendments are expected to become effective in mid-2010. In fiscal year 2010, the landing fees under the current Administrative Rules (without the proposed amendments) for overseas and interisland flights are lower than the same categories of fees for the Signatory Airlines, by approximately 12% and 26%, respectively.

The Department and each Signatory Airline may terminate the applicable Amended Lease Extension Agreement upon sixty (60) days’ written notice to the other party. See Appendix A – Report of the Consulting Engineer – Section 3.1.2 “Airport-Airline Lease Agreement” and Section 3.1.3 “Hawaii Administrative Rules.”

Relief to the Airlines

Although the Amended Lease Extension provides a methodology to establish airline rates and charges, the Airport Division, in consideration of the unfavorable operating environment of the Signatory Airlines, took or intends to take actions to lower payments from the Signatory Airlines in Fiscal Year 2009, 2010 and 2011. The resulting Signatory Airline payment levels are $123 million for Fiscal Year 2010 and $142 million for Fiscal Year 2011. Rates that may be adjusted to achieve those payments include landing fees, terminal rentals, joint use charges, International Arrival Building (IAB) charges, ground rentals, hangar rentals, other non-terminal building rentals, and equipment rentals, among others, but do not include ASSC required to meet the Rate Covenant.

The Airports Division received a letter from the Signatory Airlines dated September 28, 2009 confirming support to proceed with development of the Designated Projects. In their letter, the Signatory Airlines expressed support for a target for their annual payments not to exceed $200 million through Fiscal Year 2016. The Signatory Airline payments forecast for Fiscal Year 2013 through Fiscal Year 2016 in the Report of the Consulting Engineer exceed the proposed target.

The Department is not required to achieve the payment levels, although the Airports Division may take discretionary actions to limit airline payment requirements such as reducing operating expenses, increasing non-aeronautical revenues, and, as is occurring during Fiscal Year 2010, applying rate mitigation. The Airports Division does not currently intend to use rate mitigation after Fiscal Year 2010. Meeting the Rate Covenant, however, takes precedence to any discretionary actions to limit airline payment requirements.

Concession Fees

Concession fees are the rents and fees paid to the Department by private parties operating concessions in the Airports System. Concession fees have been a large source of revenue for the Airports System in recent years. Under the various concession agreements, the Airports Division is paid the greater of a minimum annual guarantee (the “MAG”) specified in each contract and a specified percentage of gross sales. The following table sets forth the concession fees and their percentage of total Revenues for fiscal years 2005 through 2009.

	Fiscal Year Ending June 30,									
	2005		2006		2007		2008		2009	
Concessions	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
Duty-Free	$42,977	17.5%	$39,168	14.6%	$37,369	13.0%	$38,000	12.6%	$38,000	13.2%
Rental Car	33,617	13.6%	36,658	13.7%	37,871	13.2%	37,882	12.6%	35,036	12.1%
Parking	14,142	5.7%	15,915	5.9%	17,558	6.1%	17,779	5.9%	16,810	5.8%
Retail (non-duty-free)	11,350	4.6%	14,189	5.3%	13,625	4.8%	13,319	4.4%	10,285	3.6%
Food & Beverage	5,941	2.4%	6,149	2.3%	6,406	2.2%	7,076	2.4%	6,893	2.4%
Ground Transportation	2,124	0.9%	2,180	0.8%	2,073	0.7%	2,237	0.7%	1,856	0.6%
Other	6,727	2.7%	6,149	2.3%	5,788	2.0%	5,624	1.9%	5,183	1.8%
Total Concession Revenues	$116,879	47.2%	$120,408	48.6%	$120,690	48.7%	$121,917	49.2%	$114,063	39.5%

Source: Audited financial statements for fiscal years 2005-2009.

Duty-free Concession. The exclusive concession contract for the sale of in-bond (duty-free) merchandise has, in recent years, been the largest single source of concession revenues for the Airports System. DFS Group, L.P. ("DFS") operates the in-bond concessions at HNL (and two off-airport locations) pursuant to a 10-year lease agreement that began in 2007. Under the lease agreement, DFS pays the Airports Division the greater amount between the MAG and a percentage rent based on annual gross receipts exceeding certain levels. The MAG is set at $38 million through fiscal year 2012 (and thereafter will adjust to an amount equal to 85% of the amounts paid and payable to the Airports Division in the sixth year of the contract). The percentage rent, which remains the same throughout the term of the duty-free concessions lease agreement, is as follows: (1) for total concession receipts greater than $155 million and up to $195 million, 22.5% for HNL sales and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million and up to $235 million, 30.0% for HNL sales and 22.5% for off-airport sales; (3) for total concession receipts greater than $235 million and up to $275 million, 30.0% for HNL sales and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for both HNL and off-airport sales.

Rental Car. In fiscal years 2008 and 2009, car rental concession revenues were $37.9 million and $35 million, respectively, accounting for over 90% of all ground transportation revenues in each fiscal year. Companies operating on- or off-airport rental car operations at the primary airports pay 10% of gross receipts, subject to specified MAGs for each airport. Currently, car rental concession agreements at HNL are on a month-to-month basis, except for Enterprise, which entered a five-year agreement beginning July 1, 2007. New five-year car rental concession agreements went into effect on June 1, 2009 at Hilo International, Kona, Kahului and Lihue Airport, with eight operators (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty) at each of these airports. A new five-year car rental concession agreement went into effect on June 1, 2009 at Molokai Airport with Alamo as the sole on-airport car rental operator. The approximate total first-year MAG for car rental concessions is $1.3 million for Hilo International, $5.0 million for Kona, $9.7 million for Kahului, $8.3 million for Lihue Airport and $0.1 million for Molokai Airport. The MAG for each subsequent year of the agreements will be 85% of the amount paid and payable in the previous agreement year. Rental car revenues are forecast to increase in upcoming years. Customer Facility Charges ("CFCs") which are collected on all rental car transactions, are not considered Revenues of the Airports System.

Parking. Parking facilities at HNL, Lihue Airport and Kona are managed by Ampco System Parking ("Ampco"). On August 17, 2009, the Airports Division implemented its first increase in public parking rates in more than 15 years. For HNL, the 24-hour rate was increased to from $10.00 to $13.00. The 24-hour rate at Kona International, Hilo, Kahului and Lihue Airport was increased from $7.00 to $9.00. The Airports Division receives 80% of gross receipts from parking operations at HNL, 65% from Kona and Lihue Airport and 55% from Hilo International. Standard Parking manages parking operations at Kahului and Kapalua, from which the Airports Division receives 70% and 50%, respectively, of gross receipts.

Retail (non duty-free). Non-duty-free retail concessions include revenues from retail shops and gift shops in the Airports System. Under a five-year (non-duty-free) retail concessions contract for HNL with DFS, effective April 1, 2009, DFS will pay to the Airports Division the greater of the MAG (set at $7.75 million for the first year and, thereafter, set at 85% of the amount paid in the prior year) and 20% of gross receipts. DFS also operates retail concessions at Kahului, while Travel Traders, Inc. holds the retail concession agreements at Hilo International, Kona and Lihue Airport. At Lihue Airport, the Airports Division extended the retail concession agreement, which was scheduled to expire on June 30, 2009, to a month-to-month tenancy not to exceed one year. A new five-year retail concession agreement at Lihue Airport is scheduled to commence on July 1, 2010. Retail concession revenues in fiscal year 2009 were an estimated $10.3 million, down from $13.3 million in fiscal year 2008.

Food and Beverage. The Airports Division has had an agreement with Host International, Inc. ("Host") since 1993 to provide exclusive food and beverage services at HNL. The current agreement is in effect through April 30, 2014, with a MAG of approximately $4.8 million. Host also has a food and beverage concession agreement at Kahului (expires September 30, 2013). Volume Services d/b/a Centerplate operates food and beverages concessions at Hilo International and Kona under a 10-year agreement that began in December 2007, with first-year MAGs set at $972,008 and $228,002 for Kona and for Hilo International, respectively, and thereafter at 85% of prior year payments. As of the date hereof, the food and beverage concession at Lihue Airport currently operates on a month-to-month agreement. Food and beverage revenues decreased slightly between fiscal years 2008 and 2009, from $7.1 million to $6.9 million, but is expected to increase slightly in upcoming years.

Ground Transportation. Ground transportation includes revenues from contracts and permits in connection with shuttle services, taxicab operations and other courtesy vehicle operations.

Other. Other concessions include revenues from agreements to provide advertising and other services in the Airport System, in flight catering fees, and certain other revenues. Other concession revenues are forecast to increase due to inflation and increases in the number of enplaned passengers.

See Appendix A – Report of the Consulting Engineer – Section 3.7.2 "Terminal Concessions," Section 3.7.3 "Parking, Ground Transportation, and Rental Car Revenues" and Section 3.7.4 "Nonaeronautical Rental Revenues" for more information on each of these concession revenue categories.

Non-Aeronautical Revenues Other Than Concession Fees

Non-aeronautical revenues, other than concession fees, include certain utility reimbursements and revenues from rental of land, terminal building space, other buildings and structures to tenants for non-aeronautical purposes. The following table set forth the Non-Aeronautical Revenues other than concession fees and its percentage of total Revenues for fiscal years 2005 through 2009.

	Fiscal Year Ending June 30,									
	2005		2006		2007		2008		2009	
	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
Non-Aeronautical Revenues Other than Concession Fees	$12,457	5.0%	$11,130	4.2%	$12,358	4.3%	$12,664	4.2%	$12,306	4.3%

Source: Audited financial statements for fiscal years 2005-2009.

Non-Operating Revenues

Interest Income. The following table sets forth the interest income and its percentage of total Revenues for fiscal years 2005 through 2009.

	Fiscal Year Ending June 30,									
	2005		2006		2007		2008		2009	
	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
CIP Interest	$12,288	5.0%	$16,603	6.2%	$20,049	7.0%	$16,444	4.8%	$6,507	2.3%
O & M Interest	7,850	3.2%	14,575	5.4%	13,373	4.7%	15,234	5.8%	9,642	3.3%
Total Interest Income	$20,138	8.2%	$31,178	11.6%	$33,422	11.7%	$31,678	10.5%	$16,149	5.6%

Source: Audited financial statements for fiscal years 2005-2009.

Interest income is derived from the investment of proceeds of Bonds, other moneys on deposit in the Airport Revenue Fund and moneys credited from time to time to the Interest Account, the Serial Bond Principal Account, the Sinking Fund Account, the Debt Service Reserve Account and the Major Maintenance, Renewal and Replacement Account, all within the Airport Revenue Fund. All interest income is deposited in the Airport Revenue Fund. The amount of such income will vary with changes in the amount of moneys invested and in the rate of interest paid on investments. Capital improvement program interest ("CIP Interest") earned is reported based on projects that have been appropriated by the legislature and allotted by the Governor. Operating and maintenance interest ("O&M Interest") earned is reported based on all other deposits. The amount of interest income that may be retained by the State from the investment of the proceeds of the Bonds and from Revenues credited to the Airport Revenue Fund may be reduced by certain provisions contained in Sections 103 and 141-150 of the Internal Revenue Code of 1986, as amended.

Other. Other non-operating revenues include federal grants as reimbursement to capital costs. See "MANAGEMENT DISCUSSION AND ANALYSIS – Revenues" herein and "CAPITAL IMPROVEMENTS PROGRAM – Funding of Designated Projects – Passenger Facility Charge Revenues" herein.

Aviation Fuel Taxes

Aviation Fuel Taxes are imposed by the State under Section 243-4(a)(2), HRS, on all types of aviation fuel sold in the State. Since July 1, 2007, the tax has been two cents per gallon. The Aviation Fuel Tax does not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The following table sets forth the Aviation Fuel Taxes and its percentage of total Revenues of the Airport System for fiscal years 2005 through 2009.

	Fiscal Year Ending June 30,									
	2005		2006		2007		2008		2009	
	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
Total Aviation Fuel Taxes	$3,434	1.4%	$2,590	1.0%	$2,169	0.8%	$4,452	1.5%	$3,549	1.2%

Source: Audited financial statements for fiscal years 2005-2009.

Both Signatory Airlines and nonsignatory airlines receive rebates and credits in connection with their payment of Aviation Fuel Taxes. State law provides that so long as the Airports System generates sufficient Revenues to meet the Rate Covenant, the Director may, in the Director's discretion, grant to airlines operating in the Airports System a rebate, not to exceed one-half cent per gallon, for Aviation Fuel Taxes paid by the entity that has also paid airport use charges or landing fees during the fiscal year. Signatory Airlines receive credits pursuant to the Amended Lease Extension Agreement, which provides that the payments of Aviation Fuel Taxes by a Signatory Airline shall be credited against such Signatory Airline's landing fees upon submission of a claim in writing within six (6) months of payment of such tax accompanied by a certificate with respect to payment of such taxes from the supplier. The Department provides such credits to nonsignatory airlines as well. Consequently, the amount of landing fees actually received by the State (in contrast with the amount of airline charges actually owing) has been reduced in the past, and may be reduced in the future, by the amounts of such credits. See "THE AIRPORTS SYSTEM – Airline Service" herein.

INDEBTEDNESS

Outstanding Airports System Revenue Bonds

As of March 1, 2010, $567,430,000 million of Prior Bonds were outstanding, all of which were issued as fixed rate debt. After issuance of the Series 2010 Bonds, $1,016,395,000 of Bonds will be outstanding (taking into account the redemption of the Refunded Bonds). The Department anticipates issuing Additional Bonds to finance a portion of future CIPs. See "CAPITAL IMPROVEMENTS PROGRAM" herein.

The following table sets forth the principal and interest requirements for the Bonds following issuance of the Series 2010 Bonds taking into account the redemption of the Refunded Bonds.

TABLE 6
TOTAL BONDS DEBT SERVICE[1]

FYE	Prior Bonds	Series 2010A Bonds		Series 2010B Bonds		Total Bonds
30-Jun	Debt Service[2]	Principal	Interest	Principal	Interest	Debt Service
2010	$54,151,603	$	$5,651,466	$	$1,915,913	61,718,982
2011	44,769,802	290,000	24,220,570		8,211,055	77,491,427
2012	30,136,977	295,000	24,214,770	15,250,000	8,211,055	78,107,802
2013	48,145,025	305,000	24,208,870	15,000,000	7,489,555	95,148,450
2014	48,146,980	310,000	24,199,720	13,800,000	6,739,555	93,196,255
2015	48,147,352	320,000	24,190,420	18,150,000	6,049,555	96,857,327
2016	48,144,427	335,000	24,180,820	19,030,000	5,173,650	96,863,897
2017	48,143,640	340,000	24,170,770	19,975,000	4,222,150	96,851,560
2018	48,147,150	355,000	24,157,170	20,980,000	3,223,400	96,862,720
2019	48,148,838	255,000	24,142,970	22,165,000	2,181,200	96,893,008
2020	41,572,925	7,720,000	24,132,770	21,650,000	1,072,950	96,148,645
2021	15,808,550	14,510,000	23,771,845			54,090,395
2022		18,005,000	23,011,445			41,016,445
2023		16,650,000	22,168,945			38,818,945
2024		17,510,000	21,296,545			38,806,545
2025		18,440,000	20,379,108			38,819,108
2026		19,395,000	19,428,488			38,823,488
2027		20,400,000	18,412,970			38,812,970
2028		21,460,000	17,356,370			38,816,370
2029		22,570,000	16,233,945			38,803,945
2030		23,755,000	15,053,750			38,808,750
2031		25,010,000	13,807,355			38,817,355
2032		26,255,000	12,556,855			38,811,855
2033		27,575,000	11,244,105			38,819,105
2034		28,945,000	9,865,355			38,810,355
2035		30,395,000	8,418,105			38,813,105
2036		31,910,000	6,898,355			38,808,355
2037		33,520,000	5,299,245			38,819,245
2038		35,195,000	3,619,455			38,814,455
2039		36,955,000	1,855,725			38,810,725

(1) Numbers for each Fiscal Year reflect payments of principal of and interest on the Bonds made on July 1 of the following Fiscal Year.

(2) Excludes debt service on Refunded Bonds.

Source: Department of Transportation - Airports Division

Special Facility Leases and Special Obligation Bonds

The Airports Division has three special facility lease agreements supporting certain revenue bonds previously issued by the Airports Division. The bonds issued for the purpose of constructing such special facilities are referred to as Special Obligation Bonds. The Special Obligation Bonds are payable solely from and collateralized solely by monies derived from the applicable special facilities lease agreements. Special Obligation Bonds are not payable from or secured by Revenues and Aviation Fuel Taxes. Although the Airports Division may issue additional Special Obligation Bonds, it does not currently expect to issue any additional Special Obligation Bonds to fund any of the cost of the Designated Projects. Based on their respective bond amortization schedules as of June 30, 2009, there were outstanding $35,855,000 Special Obligation Bonds. ***All Special Obligation Bonds are payable solely from the revenues derived from the leasing of Special Facilities financed with the proceeds of Special Obligation Bonds.***

CAPITAL IMPROVEMENTS PROGRAM

General

Each odd-numbered fiscal year, the Airports Division prepares a CIP for the ensuing six fiscal years which includes all projects which the Division proposes to undertake during that period and which is subject to approval by the Governor and the adoption of all or parts of the CIP budget for the first two years thereof by the Legislature. This authorization of a project (or component of a project) includes identification of the means of financing that will be made available for the project. The Hawaii Airports System utilizes five sources of financing: Bonds, federal funds (from FAA and TSA), PFC revenues, Customer Facility Charges ("CFCs") revenues and internally generated funds. The Legislature's appropriation of bond funds for a project serves as authorization for the State to issue those bonds when required in the future. For a description of the capital improvements programs approval process, see Appendix A – Report of the Consulting Engineer – Section 2.2 "State Capital Budget."

The Legislature appropriated $306.9 million of bond funds for fiscal year 2009 (not including $10 million of CFC funds approved in a separate legislative act). For fiscal years 2010 and 2011, the Airports Division has received legislative appropriations for $792.9 million and $262.1 million, respectively. The Airports Division currently expects to seek legislative appropriation for an additional $100.6 million for fiscal year 2011.

The Designated Projects

The Designated Projects are identified below by airport. Currently, the Designated Projects, as well as certain maintenance-related projects and car rental capital projects (which are not included in the Designated Projects), are the only significant capital projects that will be undertaken through fiscal year 2016 by the Airports Division. The Designated Projects are expected to have a total projected cost of $1.31 billion, including $407 million spent through January 2010. The Designated Projects are a portion of a larger capital improvement program (the "2007 Capital Program") estimated to cost $2.4 billion that was developed in 2007 in coordination with the Signatory Airlines and in conjunction with the 2007 Agreement. In July 2009, in light of the economic recession that began in late 2008 and the ensuing air traffic decline, the Airports Division reviewed the projects included in the 2007 Capital Program and determined, with consultation from the Signatory Airlines, to fund only the Designated Projects. The remainder of the 2007 Capital Program was deferred. The Designated Projects are subject to yearly reviews by the Airports Division and any additional projects will be subject to legislative approval and Signatory Airlines' review. The Airports Division may proceed with other projects from the 2007 Capital Program that are not included in the Designated Projects if sufficient demand warrants. The Designated Projects do not include certain maintenance-related projects (estimated to cost $20 million annually through fiscal year 2016) that will be funded from internally-generated funds and certain rental car projects that will be funded with CFCs. Rental car projects to be funded with CFC's are in various conceptual development stages, with two major projects in design. According to the Airports Division, an estimated cost of $235 million for those two projects is expected to be funded with $125 million of CFC collections on a pay-as-you-go basis and approximately $110 million of non-recourse, CFC supported bonds to be issued no earlier than Fiscal Year 2012.

As of November 1, 2009, the Designated Projects were at various stages of development. $269.7 million of Designated Projects have been completed or are in the closeout stages, $321.2 million of Designated Projects are under construction and $108.8 million of Designated Projects are in the bid or award stages. The remaining Designated Projects, with an estimated cost of $613.8 million, are in various stages of planning or authorization. For a more complete description of the Designated Projects, see Appendix A – Report of the Consulting Engineer – Section 2.3 "Designated Projects." The following table shows the total cost of the Designated Projects by airport, the amount of the Designated Projects to be funded by the Series 2010 Bonds and the estimated completion date of such Designated Projects:

DESIGNATED PROJECTS BY AIRPORT
Through Fiscal Year 2016
State of Hawaii, Department of Transportation, Airports Division

Airport	Budget (millions)	Project Cost (millions)	Expected Completion Fiscal Year
Honolulu International Airport	$898.344		
Mauka Concourse		$443.901	2013
Safety and Security Program		140.937	2012
Airfield Improvements		55.800	2014
Ewa Concourse Sterile Corridor		41.221	2012
Other		216.485	Various
Kahului Airport	$237.703		
Airfield Improvements		$114.951	Various
Security		24.563	2011
Other		98.549	Various
Kona International Airport at Keahole	$14.520		
Terminal Improvements		$7.579	Various
Other		6.941	Various
Lihue Airport	$50.914		
Land Acquisition		$17.045	2010
Projects		33.859	2010
Hilo International Airport	$25.363		
Cargo Facilities		$17.726	Various
Other		7.637	Various
Other(1)	$86.722		
Programmatic Activities		$38.410	Various
Statewide/Other Projects		18.641	Various
Other Airports		29.670	Various
Total	$1,313.566	$1,313.566	

(1) Other projects include statewide studies and support services throughout the Airports System as well as capital projects at smaller Airports System airports.

Source: Department of Transportation – Airports Division

Funding of Designated Projects

The Airports Division plans to finance the Designated Projects as shown below:

Means of Financing (millions)	Expended as of November 1, 2009	To Be Spent	Total
Revenue bonds	$89(1)	$565	$654
Prior Bond proceeds and Special funds generated from Airports System operations	135	56	191
FAA Grants	95	177	272
TSA Grants	8	25	32
PFC Pay-as-you-go	42	122	164
Total	$369	$944	$1,313

(1) Amount through November 1, 2009 to be reimbursed from proceeds of the Series 2010 Bonds.

Airports System Revenue Bonds. The Designated Projects will be funded in part with $397.1 million from the proceeds of the Series 2010 Bonds. The Series 2010 Bonds will be issued under the Certificate on a parity basis with the outstanding Bonds and secured by the Revenues and Aviation Fuel Taxes of the Airports System. A portion of the proceeds of the Series 2010 Bonds will be used to reimburse the Airports Division for funds previously advanced from internally generated cash. Additional revenue bond funding for the Designated Projects will come from the planned Series 2011 Bonds, which will principally finance the construction of the Mauka Concourse Program at HNL.

Special Funds. Over the years, the Airports Division has accumulated substantial cash balances from Airports System operations. As of June 30, 2009, the Airports Division had cash and investments of $593.7 million in restricted and unrestricted accounts, of which the Airports Division estimates approximately one-third will be available to fund various capital projects (including $56 million of Designated Projects). Through February 19, 2010, the Airports Division had advanced $116.6 million from its cash reserves for certain Designated Projects, which amount will be reimbursed from the proceeds of the Series 2010 Bonds.

Federal Aviation Administration Grants. The FAA's Airport Improvement Program ("AIP") consists of entitlement and discretionary allocations for AIP-eligible projects. Entitlement funds are distributed through grants by a formula currently based on (1) levels of funding authorized and appropriated by Congress for the AIP, (2) the number of passengers and the amount of cargo accommodated by the Airports System, and (3) airport hub status, with reductions based on the amount of PFC collected. HNL and Kahului receive 75% less in AIP entitlement funding than they would otherwise receive because they are large- and medium-hub airports, respectively, where $4.50 PFC is collected. The Airports Division receives approximately $20 million per year in AIP entitlement grants. Discretionary funds are distributed based on an FAA-established national priority system and designations by Congress. The Airports Division received $8.2 million in AIP discretionary grants in fiscal year 2007, $4.5 million in fiscal year 2008 and $5.3 million in fiscal year 2009. FAA funding of AIP is authorized through March 31, 2010 unless reauthorized or extended by Congress. The Airports Division expects that a total of $272 million in AIP grants will be used (including AIP grants already used) to pay for the Designated Projects.

Transportation Security Administration Funding. After the terrorist attacks of September 11, 2001, Congress passed the Aviation and Transportation Security Act ("ATSA"), creating the Transportation Security Administration (the "TSA") and mandating implementation of explosive detection systems ("EDS") at U.S. airports. CIP projects, such as EDS and security closed-circuit televisions, are eligible for prorated TSA funding. The Airports Division anticipates receiving $24.6 million more in TSA funding for the infrastructure to accommodate EDS at HNL and Kahului.

Passenger Facility Charge Revenues. PFCs are fees imposed on enplaned passengers by airport sponsors to generate revenues for airport projects that preserve or enhance airport capacity, safety or security, relieve aircraft noise or enhance airline competition. PFCs were established by Title 49 U.S.C. § 40117, in 1990, and authorized the Secretary of Transportation, acting through the FAA, to give airport operators the authority to impose a $1.00 to $3.00 PFC per eligible enplaned passenger. In 2000, Congress amended the PFC law increasing the maximum PFC to $4.50 per enplaned passenger. The amendment included specific language requested by the State to prohibit collection of a PFC from passengers on interisland flights, including flight segments between two or more points in Hawaii. Upon passage of the exclusion, the State of Hawaii agreed to participate in the PFC program.

Although the PFC legislation allows the use of PFC revenue for debt service, the Airports Division's four previously-approved applications to the FAA to collect and use PFC revenues have all been to use PFC revenues to fund the cost of approved projects on a "pay-as-you-go" basis. Under the Airports Division's first application, effective June 17, 2004, the FAA granted authority to collect and use a $3.00 PFC at HNL, Kahului, Kona, and Lihue Airport from October 1, 2004 through February 1, 2007. During this period, the Airports Division collected the maximum approved PFC revenue, amounting to $42,632,466, including interest earned. The PFC collections were utilized to fund flight information display and public address system improvements, air conditioning system improvements, South Ramp environmental compliance measures, runway safety area improvements, and perimeter road and fencing improvements.

Effective November 27, 2006, the FAA approved the Airports Division's second PFC application to impose a $3.00 PFC at the five primary airports. As subsequently amended, the FAA's approval of the second PFC application authorized collection of PFCs of $49,560,000 through November 30, 2008. The second PFC application was "blended" with the Airports Division's third PFC application to impose an increased PFC of $4.50 at the five primary airports. As "blended," the Airports Division is approved to collect maximum PFC revenues of $76,138,332, including interest earned, during the collection period of December 1, 2008 through January 1, 2010. The collections will be utilized for the aircraft rescue and fire fighting facilities improvements, escalator improvements, loading bridge replacements, air conditioning system improvements, widening of Taxiways G and L at HNL and PFC administration costs. An application for "use" authority for $26,578,332 in PFC funds for the project to widen Taxiways G and L must be submitted to the FAA no later than September 30, 2011.

In October 2009, the FAA approved the Airports Division's fourth PFC application, increasing the Airports Division's cumulative collection authority to $263 million, with a "use" authority of $237 million. The projects approved for funding in the fourth application are capital improvements at HNL and Kahului and statewide PFC administrative costs. Since the inception of the PFC program in the Airports System, through fiscal year 2009, the Airports Division had collected total PFC revenues, including interest earned, of $105.6 million. Through October 2009, the Airports Division had expended $42 million in PFC revenues on a pay-as-you-go basis to fund the Designated Projects. The Airports Division expects to use an additional $122 million in PFC Revenues on a pay-as-you-go basis to fund the Designated Projects.

Effective July 1, 2009, Hawaii Revised Statutes Section 261-5.5, which provides for the use of PFC revenues to fund eligible capital projects, was amended by 2009 Act 147. As amended, Section 261-5.5 expressly provides the Airports Division the flexibility of using PFC revenues either to fund Airports System capital projects on a "pay-as-you-go" basis or to pay debt service on Bonds. The Airports Division is preparing its fifth application to use a portion of PFC collections, including interest earned, for debt service related to the Designated Projects.

The Airports Division intends to amend the Certificate to provide that certain PFC revenues may be used to reduce the Debt Service Requirement for certain purposes. The amendments will provide that, solely for purposes of the Additional Bonds tests and the 1.25x Rate Covenant (to yield Net Revenues and Taxes that are not less than 1.25 times the aggregate of the Debt Service Requirement), Debt Service Requirement shall be reduced by the amount of Available PFC Revenues irrevocably committed for deposit (or actually deposited, as applicable) by the Director into the applicable debt service-related accounts in the Airport Revenue Fund. The amendments will become effective upon consent of the Holders of 50% of the Bonds, which will occur with the delivery of the 2010 Bonds. See "AMENDMENTS TO THE CERTIFICATE" herein.

Management of the Capital Improvements Program

The Capital Improvements Program is managed by the Airports Division's Engineering Branch. The Department has contracted with independent consultants, architects, engineers and planners for planning, design and construction of certain phases of each major component of the projects included in the Capital Improvements Program.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

The Airports System's main sources of Revenues consist of the following: aeronautical revenues including landing fees, non-aeronautical revenues includes duty-free terminal rentals, other miscellaneous fees and charges, Aviation Fuel Tax and (in certain years) certain federal grants used to reimburse the cost of certain special maintenance projects. As noted in Table 4, Airports System revenues grew each year since fiscal year 2005, but decreased in fiscal year 2009. The decrease in fiscal year 2009 was mainly attributed to decreases in concession revenue as a result of the economic downturn and reduced passenger traffic, lower interest income as a result of lower interest rates and less cash invested, and less federal operating grants available for operations as a result of utilizing federal grants for capital projects instead.

Concession fees play a large role in overall Airports System revenues. The downturn in traffic from the Asian rim after the events of September 11, 2001 led to a decline in duty free (in-bond) concession fees. Since fiscal year 2008, duty-free concession revenue has remained at $38 million pursuant to the duty-free lease agreement. Other concession revenues, which include parking, rental car revenue and terminal concessions, continued to grow during the same period thru fiscal year 2008. However, in fiscal year 2009, other concession revenues decreased as a result of the economic downturn and reduced passenger traffic. See "SOURCES OF REVENUES AND AVIATION FUEL TAXES – Concession Fees – Duty-free Concession" herein.

The Governor is authorized by legislative action to adjust or waive landing fees and Airports System charges. As a result of the Governor's exercise of this authority, landing fees in fiscal years 2005 through 2008 remained nearly flat. Terminal rentals remained fairly level during fiscal years 2005 through 2007, before year-over-year increases of 13.8% and 11.2% in fiscal years 2008 and 2009, respectively. Certain federal grants used to reimburse certain capital costs (and which the Airports Division treats as costs of operations and maintenance) in fiscal years 2007 and 2008 totaled about $20.0 and $25.0 million, respectively, but decreased to an estimated $10.6 million in fiscal year 2009. Such amounts are expected to decrease further, to $4.3 million in fiscal year 2010 and to $2 million in subsequent fiscal years. See "SOURCES OF REVENUES AND AVIATION FUEL TAXES" herein.

Expenses

Airports System expenses are composed primarily of salaries and wages, other personal services, utilities, repairs and maintenance and other expenses. In fiscal year 2009, cost of operation, maintenance and repair was about $233.6 million. Salaries and wages have increased by an average annual rate of 7% since fiscal year 2005. Expenses increased to $239.2 million in fiscal year 2008 as a result of accruing other post retirement benefits required by the Government Accounting Standards Board (GASB 45), increases in salaries and wages due to union and security contracts, and increased utility costs due to rising fuel prices. However, in fiscal year 2009, expenses decreased by about 2% because management implemented cost-reducing measures and fuel prices remained stable.

Debt Service Coverage

As reflected in Table 4, debt service coverage exceeded the Certificate requirement of 1.25 times Net Revenues and Taxes for fiscal years 2005 through 2009. In each of these fiscal years, the Airports Division transferred lawfully available Revenues to the Interest Account in the Airport Revenue Fund for the purpose of paying a portion of the interest on the Bonds. This had the effect of reducing the Debt Service Requirement for each such fiscal year. The Airports Division utilized lawfully available Revenues of $20.0 million, $28.0 million, $27 million, $10 million and almost $17.5 million as rate mitigation for fiscal years 2005 through 2009, respectively.

The Airports Division has deposited $16.8 million for rate mitigation in fiscal year 2010 but there are no plans to provide further rate mitigation.

Cash and Cash Equivalents

In fiscal year 2006, the increase in cash was due to increases in interest income and federal operating grants. In fiscal years 2007 and 2008, the decrease in cash was mainly due to increases in construction project expenditures. In fiscal year 2008, cash decreased primarily due to expenditures related to modernization construction projects and a recognized loss of $19.9 million from investments in auction rate securities held in the State Treasury. The decrease in fiscal year 2009 was primarily due to expenditures related to modernization construction projects and a recognized loss of $26.8 million from investments in certain auction rate securities held in the State Treasury.

AIP Grants, Passenger Facility Charge and Customer Facility Charge

The Airports System utilizes a variety of programs to fund capital improvements including AIP discretionary grants PFCs and CFCs. In fiscal year 2007, the Airports System received $51.3 million in federal capital grants and $23.4 million in PFCs. In fiscal year 2008, the Airport System received $25.5 million in federal capital grants and $22.4 million in PFCs (including interest). In fiscal year 2009, the Airports System received $41.3 million in federal capital grants, $25.0 million in PFCs (including interest) and $8.6 million from CFCs (including interest). For more information on AIP and PFC Revenues, see "CAPITAL IMPROVEMENT PROJECTS – Sources of Funding" herein.

In July 2008, the State Legislature passed a bill (Act 226, Session Laws of Hawaii 2008) authorizing the Airports Division to establish and collect a $1 CFC per transaction day. The CFC rate may be adjusted to generate sufficient funds to undertake consolidated rental car facilities projects at statewide airports. The Airports Division implemented the CFC beginning September 1, 2008, on all rental car transactions. Moneys collected through CFCs are deposited into a restricted fund that can only be used to fund the construction of new consolidated rental car facilities, other improvements needed for on-airport rental car operators and operating costs. As of June 30, 2009, $13.6 million was collected from CFCs (including interest). Currently, planning is in progress for consolidated rental car facilities for HNL, Kahului, and Kona, but implementation of these projects is subject to, among other things, approval by the State legislature of higher CFC rates.

Insurance

The Airports Division has a commercial general liability insurance policy with a $500,000,000 limit for each occurrence. The policy includes extended coverage for $50,000,000 for war, hijacking and other perils. The annual premium is currently $1,515,142. The liability policy has a zero deductible limit, which means that the insurer handles and pays for all claims against the State. The selection of insurance companies is arranged by the Airports Division's designated Insurance Broker, MOC Insurance Services of San Francisco. The State has a separate insurance policy for its structures for which the Airports Division pays the State Department of Accounting & General Services ("DAGS") $2,187,577 annually. The Airports Division has no control over DAGS's insurance premium.

Security

The costs of Airports System security contracts have increased significantly since the events of September 11, 2001. The Airports System's security services are supported by two security companies, certain personal services contracts and the State's Department of Public Safety. Security costs have nearly doubled from the pre-9/11 era. Security expenditures at HNL alone were $23.9 million and $25.7 million in fiscal year 2008 and 2009, respectively. Further, Airports System security-related expenses are exacerbated due to the System's multiple locations. Under the present conditions, the total security costs for the entire Airports System totals nearly $41.9 million per year. The Airports System is subject to additional expense increases based upon future mandated security directives from the TSA.

Employee Benefits

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

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

All prior actuarially determined employer contribution requirements were met as of June 30, 2007. The pension contribution for fiscal year 2009 was $7,924,498, which represented 15% of covered payroll for fiscal year 2009 and was equal to the required contribution for the year.

The total assets of the State retirement system on a market value basis amounted to approximately $10.8 billion as of June 30, 2008, and $8.8 billion as of June 30, 2009. Actuarial certification of assets as of June 30, 2008 was $11.4 billion. The June 30, 2009 actuarial certification of assets was $11.4 billion, and its unfunded actuarial accrued liability was $6.236 billion. The actuarial value of assets is based on a four–year smoothed valuation that recognizes the excess or shortfall of investment income over or under the 8% actuarial investment assumption. Measurement of assets and actuarial valuations are made for the retirement system as a whole and are not separately computed for individual participating employers such as the Airports Division.

In addition to pension benefits, beginning with the Fiscal Year ending June 30, 2008, state and local governments are required to account for and report other post-employment benefits ("OPEBs") under Statement No. 45 ("GASB 45") issued by the Governmental Accounting Standards Board. The State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund") provides OPEBs in the form of certain health and life insurance benefits to retired State and county employees, including retired Airports Division employees. Employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on employees' hiring dates and years of service.

In September 2008, the State's independent actuarial advisor provided estimates of 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 $7,192.5 million, and the corresponding annual required contribution for the Fiscal Year ending June 30, 2008 would be $517.6 million. The estimated pay-as-you-go funding amount for such Fiscal Year is $200.1 million. The actuarial report will be updated every two years; however, the report as of July 1, 2009 is expected to be available on or about April or May of 2010. The State expects to continue to fund its OPEB costs on a pay as you go basis for the near term.

Ceded Lands

Portions of lands underlying HNL, Hilo International Airport and Kona International Airport at Keahole are lands ceded by the Republic of Hawaii to the United States in 1898 and subsequently conveyed to the State by the United States at or following the State's admission to the Union in 1959 (the "Ceded Lands"). State policy requires revenue generating State departments to pay an allocable share of the gross proprietary revenues derived from the use of such lands to the Office of Hawaiian Affairs, which administers such funds for the benefit of native Hawaiians. However, under federal law, the Department is exempt from such payments from the Airports System Revenues.

Current Economic Conditions

As described herein and in the Report of the Consulting Engineer, economic conditions beginning in 2008 have adversely impacted the Airports System, resulting in reductions in the number of enplaned passengers and the number of daily flights offered by airlines serving the Airports System and a decrease in operating revenues. As a result of these circumstances and as described herein under "CAPITAL IMPROVEMENTS PROGRAM," the Department revised its Capital Program in July 2009. The Department identified the Designated Projects, at a cost of $1.31 billion, for funding and deferred the remainder of the original $2.4 billion Capital Program. In addition, steps have been implemented both by the State and specifically by the Department to mitigate the effects of the current economic conditions on the Airports System. For more information on current economic conditions in the State, see Appendix A – Report of the Consulting Engineer – Section 1.2.9 "Economic Outlook."

REPORT OF THE CONSULTING ENGINEER

General

The Airports Division retained Jacobs Consultancy, Inc. to serve as the Consulting Engineer in connection with the issuance of the Series 2010 Bonds. The Report of the Consulting Engineer is attached in Appendix A. The Report of the Consulting Engineer has been included herein in reliance upon the knowledge and experience of Jacobs Consultancy, Inc. as the Consulting Engineer. As stated in the Report of the Consulting Engineer, any forecast is subject to uncertainties. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material. The Report of the Consulting Engineer should be read in its entirety for an understanding of the forecasts and underlying assumptions. Any description or summary of the Report of the Consulting Engineer in this Official Statement is qualified in its entirety by reference to such report.

The Report of the Consulting Engineer has not been updated to reflect the final terms of the Bonds or other changes occurring after the date of the Report of the Consulting Engineer. The Report of the Consulting Engineer is based on a number of assumptions and contains forecasts and statements relating to operating and financial results that may not be realized. The assumptions used reflect the best information available to the Department and reliance on the knowledge and experience of the Consulting Engineer. The Department's future operating and financial performance, however, may vary from the projections and such variances may be material. Among other things, the Report of the Consulting Engineer incorporates the proposed amendments in the Twenty-ninth Supplemental Certificate other than the proposed amendment requiring 100% bondholder consent, as if the proposed amendments had been effective prior to the date of the Report of the Consulting Engineer. The Report of the Consulting Engineer assumed the issuance of future debt by the Department at particular interest rates and the completion of certain planned construction at assumed costs. The Report of the Consulting Engineer also assumed only the cost of constructing the Designated Projects then-planned by the Department and the issuance of the debt necessary to finance such projects.

Forecast of Debt Service Coverage

The following table sets forth the Consulting Engineer's projections of Net Revenues and Taxes and debt service coverage for fiscal years 2010 through 2016 that are based on: (i) assumed debt service on the Series 2010 Bonds; (ii) the actual debt service on approximately $371 million of other outstanding Bonds (excluding the debt service on the Refunded Bonds); and (iii) assumed debt service on approximately $324 million of additional Bonds anticipated to be issued in 2011 to complete the financing of the Designated Projects.

As noted in the following table, debt service coverage is projected to decrease from 1.63x in fiscal year 2010, to 1.34x in fiscal year 2016. For an explanation of the projected decrease in debt service coverage and of the assumptions behind the calculations of debt service coverage, see Appendix A – Report of the Consulting Engineer – Section 3.9 "Debt Service Coverage."

PROJECTED DEBT SERVICE COVERAGE[1]

(for the 12 months ending June 30, net of capitalized interest; in thousands)

	Forecast 2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Debt Service Coverage							
Revenues and Aviation Fuel Taxes	$286,329	$305,412	$329,485	$364,819	$390,337	$404,589	$416,645
Costs of Operation, Maintenance and Repair	(231,101)	(233,086)	(248,882)	(260,052)	(273,949)	(286,465)	(299,768)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Reimbursement of General Fund of the State	-	-	-	-	-	-	-
Net Revenues and Taxes	$ 52,228	$ 69,325	$ 77,603	$101,768	$113,387	$115,124	$113,877
Funded Coverage Account Balance (2)	14,445	15,377	16,414	23,847	28,908	30,470	30,576
Adjusted Net Revenues and Taxes	$ 66,673	$ 84,703	$ 94,017	$125,615	$142,295	$145,594	$144,453
Annual Adjusted Debt Service Requirement							
Gross Debt Service (3)	$ 57,782	$ 61,509	$ 65,656	$ 95,390	$115,632	$121,880	$122,305
Rate Mitigation	(16,803)	-	-	-	-	-	-
Available PFC Revenues	-	-	(3,474)	(7,036)	(13,684)	(14,066)	(14,193)
Annual Adjusted Debt Service Requirement	$ 40,979	$ 61,509	$ 62,182	$ 88,354	$101,949	$107,815	$108,112
Debt Service Coverage (Must Be No Less Than 1.25)	1.63	1.38	1.51	1.42	1.40	1.35	1.34

(1) Preliminary as of the date of the Report of the Consulting Engineer; totals may not add due to rounding.
(2) Indicates the amount of unencumbered funds certified by the Airports Division for the purposes of the Rate Covenant.
(3) Excludes capitalized interest and certain other adjustments specified in the Certificate; includes debt service on outstanding Bonds (excluding debt service on the Refunded Bonds), debt service on the Series 2010 Bonds, and debt service on approximately $324 million of additional Bonds to be issued in 2011.

CERTAIN INVESTMENT CONSIDERATIONS

The Bonds may not be suitable for all investors. Prospective purchasers of the Bonds should give careful consideration to the information set forth in this Official Statement, including, in particular, the matters referred to in the following summary. However, the following summary does not purport to be a comprehensive or exhaustive discussion of risks or other considerations which may be relevant to investing in the Series 2010 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other considerations not discussed herein will not become material in the future.

Rate Covenant Not a Guarantee; Failure to Meet Projections

The ability of the Department to pay the principal of and interest on the Series 2010 Bonds depends on the ability of the Department to generate Revenues and Aviation Fuel Taxes in the levels required by the Certificate. Although the Department expects that sufficient revenues will be generated through the imposition and collection of the fees, rents, charges and other Revenues, there is no assurance that such imposition will result in the generation of Revenues and Aviation Fuel Taxes in the amounts required by the Certificate. As a result, the Rate Covenant set forth in the Certificate does not constitute a guarantee that sufficient Revenues and Aviation Fuel Taxes will be available to make debt service payments on the Series 2010 Bonds.

The Department can provide no assurances that operation of the Rate Covenant will not be limited by the federal law requirement that all aeronautical rates and charges be reasonable. The Department may not be able to increase airline rates and/or other charges to suffice the Rate Covenant if such rates and/or other charges would not be reasonable. Under such circumstances, there could be delays or reductions in payments on the Series 2010 Bonds.

In addition, the financial forecasts contained in the Report of the Consulting Engineer are based on a number of assumptions. Changes in circumstances could have a material adverse impact on the ability of the Department to pay the principal of and interest on the Series 2010 Bonds.

Airline Information

Revenues may be affected by the ability of the airlines serving the Airports System, individually or collectively, to meet their obligations to pay rates, rentals, fees and charges imposed on them. Many of the principal domestic airlines serving the State, or their respective parent corporations, and foreign airlines serving the State with American Depository Receipts ("ADRs") registered on a national exchange are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, file reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at http://www.sec.gov containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial and operating statistics with DOT. Such reports can be inspected at DOT's Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from DOT at prescribed rates.

Foreign airlines serving the State, or foreign corporations operating airlines serving the State (unless such foreign airlines have ADRs registered on a national exchange), are not required to file information with the SEC. Such foreign airlines, or foreign corporations operating airlines, serving the State file limited information only with DOT.

Neither the State nor the Underwriter undertakes any responsibility for or make any representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or DOT, or (ii) any material contained on the SEC's website as described in the preceding paragraph, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC's website.

Certain Considerations Concerning the Airline Industry

General. The financial results of the air transportation industry have been subject to substantial volatility since deregulation. The financial strength and stability of airlines serving the State are a key determinant of future airline traffic. Some factors that may affect future airline traffic at the Airports System or other markets impacting the Airports System include (but are not limited to) (i) growth in tourism and the State population, (ii) State, national and international economic health, (iii) national and international political conditions, (iv) changes in demand for air travel, (v) airline service and cost competition, (vi) airline economics and fares, mergers, the availability and price of aviation fuel and other necessary supplies, (vii) airline service and route networks, (viii) federal regulation, (ix) changes in bankruptcy, industry and other applicable laws, (x) the capacity of the air traffic control system, and (xi) other risks related to the airline industry.

The near-term economic outlook for the national and State economies includes reduced growth and possible recession. Since 2001, the global airline industry has undergone substantial structural changes and sustained significant financial losses. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the strength of the U.S. economy, other regional and world economies, corporate profitability, airline safety, security and public health concerns, air traffic control limits and other factors. Permanent structural changes to the industry are the result of a number of factors including the impact of low cost carriers, airline consolidation, internet travel web sites, changes in technology and carriers reorganizing under the U.S. Bankruptcy Code. Since 2001, several U.S. air carriers have ceased operations and/or sought to reorganize under Chapter 11. In December

2002 United Airlines filed for bankruptcy protection and emerged from bankruptcy protection in February 2006. US Airways emerged from bankruptcy protection in September 2005 after filing twice for bankruptcy protection in 2002 and 2004. In March 2003 Hawaiian Airlines, Inc. filed for bankruptcy protection and emerged from bankruptcy protection in June 2005. In September 2005, both Delta Air Lines and Northwest Airlines filed for bankruptcy protection, with Delta Air Lines emerging in April 2007 and Northwest Airlines emerging in May 2007. Aloha Airlines filed for bankruptcy protection in December 2004, emerged in February 2006, and, as a result of financial pressures arising from increasing fuel prices and increasing competition, again filed for bankruptcy protection on March 20, 2008. Aloha Airlines ceased passenger operations on March 31, 2008, and completed the Chapter 7 bankruptcy liquidation of its cargo division in May 2008. On January 5, 2010, Mesa Air Group filed for Chapter 11 bankruptcy protection to eliminate excess aircraft, restructure its business model to reflect changes in the regional airline industry, and settle litigation with Delta Air Lines. According to Mesa Air Group, Mesa's go!-Mokulele joint venture is not included in the filing and will continue to operate its full flight schedule. According to recent statements by Japanese government officials, Japan Airlines is likely to undergo a court-led restructuring similar to a Chapter 11 filing in the United States. Service by Japan Airlines is expected to continue uninterrupted, although it is unclear what effect, if any, this restructuring will have on service to Hawaii. Record aviation fuel prices and other financial pressures resulted in other airline bankruptcies in early 2008. It is possible that these or other airlines may seek to reorganize in or out of Chapter 11. Potential investors are urged to review the airlines' financial information on file with the SEC and DOT. For additional information, see Appendix A – Report of the Consulting Engineer – Section 1.5 "Key Factors Affecting Future Airline Traffic."

Faced with the growth of lower-cost airlines, and evolving business technology, legacy airlines have been forced to change their business practices. Many businesses have switched to lower-cost carriers, reduced business and premium class flying and/or implemented significant reductions in business travel. As a result, carriers that once structured their services around the business traveler during the economic expansion in the 1990s have been forced to reduce or eliminate service on unprofitable routes, reduce work force, implement pay cuts, and reduce fares in order to compete with lower-cost carriers. See Appendix A – Report of the Consulting Engineer – Section 1.5 "Key Factors Affecting Future Airline Traffic" for additional information on certain factors affecting future airline traffic.

Federal Law Affecting Airport Rates and Charges. Section 113 of the Federal Aviation Administration Authorization Act of 1994 (the "1994 Act"), entitled "Resolution of airport-air carrier disputes concerning airport fees," and codified at 49 U.S.C. §47129, continues the basic federal requirement that airport fees be "reasonable" and provides a mechanism by which the Secretary of Transportation can review rates and charges complaints brought by air carriers. Pursuant to Section 113, in February 1995, the USDOT issued its "Final Rule" outlining the procedures to be followed in determining the reasonableness of airport rates and charges; the USDOT also issued its "Final Policy" in June 1996 relating to the "fees charged by federally-assisted airports to air carriers and other aeronautical users."

Section 113 of the 1994 Act specifically states that it does not apply to (1) a fee imposed pursuant to a written agreement with air carriers using airport facilities, (2) a fee imposed pursuant to a financing agreement or covenant entered into prior to the date of the enactment of the section, or (3) any other existing fee not in dispute as of such date of enactment (August 23, 1994). The section further provides that nothing in the section shall adversely affect (1) the rights of any party under any existing written agreement between an air carrier and the owner of an airport, or (2) the ability of an airport to meet its obligations under a financing agreement or covenant that is in force as of the date of the enactment of the section. Both the aforesaid Final Rule and the Final Policy acknowledge that Section 113 excludes from its rates and charges review process those rates and charges established pursuant to written agreements, pursuant to a pre-enactment bond covenant or in existence and undisputed as of August 23, 1994. The Final Policy states specifically that a dispute over such rates and charges will not be processed under the procedures mandated by Section 113. The Department and the Signatory Airlines currently operate under the terms of the Lease Extension Agreement which provides for an automatic extension on a quarterly basis unless either party provides sixty (60) days' written notice to the other party of termination.

The USDOT policy is the subject of an action commenced in the U.S. Court of Appeals for the D.C. Circuit brought by the Air Transport Association. On October 15, 1997, the Court ordered the Secretary of USDOT to reconsider certain enumerated sections of the Final Policy relating to valuation of the airfield, permissible components of the airfield rate base, use of any "reasonable methodology" for valuation of non-airfield assets, and recovery of imputed interest on the airfield rate base. USDOT has not yet proposed revised provisions for these sections of the Final Policy. The Circuit Court decision did not, however, modify the exclusions contained in Section 113 of the 1994 Act.

At this time, the terms of future airline agreements among airlines and the Department cannot be determined. The State believes the Amended Lease Extension Agreements, as well as their rate and fee programs, fall within the provisions mentioned above that preclude signatory air carriers from contesting such rates under Section 113. So long as the Signatory Airlines operate under the Amended Lease Extension Agreements, as they may be extended or amended, or other written agreements, the State believes the Signatory Airlines will not be able to invoke the rates and fees dispute provisions of Section 113. See "SOURCES OF REVENUES AND AVIATION FUEL TAXES - Aeronautical Revenues" herein. It is conceivable, however, that the Secretary of Transportation would entertain a complaint by a nonsignatory airline (including a Signatory Airline that has terminated its Amended Lease Extension Agreement pursuant to the terms therein), and that such a review might result in a reduction of fees paid by nonsignatory carriers.

Effects of Bankruptcy or Restructuring of Air Carriers. The profitability of the airline industry has declined since 2000, with many airlines reporting substantial financial losses and several airlines filing for bankruptcy protection, due not only to the events of September 11, 2001, but also to a general economic slowdown, increased aviation fuel costs, inclement weather throughout the nation, labor disruptions and other factors.

In the event a bankruptcy case is filed with respect to any of the Signatory Airlines, a bankruptcy court could determine that the Amended Lease Extension Agreement of such Signatory Airline is an executory contract or unexpired lease pursuant to Section 365 of the Federal Bankruptcy Code. In that event, a trustee in bankruptcy or a debtor-in-possession might reject such Amended Lease Extension Agreement and delays or reductions in payments from the affected airline to the Department could cause delays or reductions in payments on the Series 2010 Bonds. If an Amended Lease Extension Agreement is rejected, the amounts unpaid as a result of the rejection can be passed on to the remaining Signatory Airlines. If the bankruptcy of one or more Signatory Airlines were to occur, however, there can be no assurance that the remaining Signatory Airlines would be able, individually or collectively, to meet their obligations under the applicable Amended Lease Extension Agreements.

As described in "*General*", above, under this heading, several airlines have undergone bankruptcies in the past decade. Various industry analysts have suggested that further reductions in industrywide domestic capacity may be required to achieve equilibrium between seat supply and passenger demand at airfares adequate to achieve airline profitability. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. Several airlines have announced additional capacity reductions for the second half of 2009 and the first quarter of 2010. The combination of reduced capacity, increased airfares and weak economic conditions is expected to caused reduced passenger numbers at most airports in the near-term. It is not possible to predict the impact on the Airports System of any future bankruptcies, liquidations or major restructurings of other airlines, especially of one or more large network airlines.

Cost of Aviation Fuel. The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainties. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the rapidly growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than they were in mid-2004 and represented the largest item of expense for most airlines. Although oil prices fell sharply in the second half of 2008 as demand decreased worldwide, airline industry analysts widely agree that fuel prices are likely to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies. While aviation fuel prices have not affected the ability of airlines to provide service, fluctuating prices will affect airline service, airfares, and passenger numbers. Airline operating economics are also likely be affected as regulatory costs are imposed on the airline industry to account for aircraft emissions contributing to global climate change. Significant and prolonged increases in the cost of aviation fuel or any decreases in the availability of aviation fuel are likely to have an adverse impact on the air transportation industry's profitability and hamper the recovery plans and cost-cutting efforts of the airlines.

Factors Affecting Capital Improvement Program

As described herein, the Airports System is undertaking a significant capital improvement program to meet the demands of a growing population served by the Airports System. The capital improvements are designed to modernize and make more efficient the various facilities of the Airports System. The ability of the Department to complete the CIP may be adversely affected by various factors, including (but not limited to): (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the projects, including changes to federal security regulations, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions and other force majeure events, (8) contractor defaults, (9) labor disputes, (10) unanticipated levels of inflation, and (11) environmental issues. No assurance can be made that the existing projects in the CIP, including the Designated Projects, will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue additional indebtedness and may result in increased costs per enplaned passenger to the airlines, thereby making the Airports System less economically competitive. There can be no assurances that significant increases in costs over the amounts projected by the Department will not materially adversely affect the financial condition or operations of the Airports System.

Economic Conditions

Historically, the financial performance of the air transportation industry has correlated closely with the state of the national economy and levels of real disposable income. Similar to prior economic down periods, weak economic growth or recession in 2008 and 2009, combined with reduced discretionary income and increased airfares, is likely again to contribute to reduced airline travel demand in the near term. Globalization of business and the increased importance of international trade has resulted in U.S. economic growth being closely U.S. economic growth has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, public health concerns, and hostilities are now important influences on passenger traffic at major U.S. airports. Sustained future increases in passenger traffic in the Airports System will depend on stable and peaceful international conditions as well as global economic growth.

Future increases in passenger traffic will depend largely on the ability of the U.S. and other nations to sustain growths in economic output and income. Since 2006, the rate of economic growth globally has slowed considerably, primarily due to losses in real estate values in the United States and tightening of credit in financial markets worldwide. During late 2008, there were significant and dramatic volatility and changes in the global financial markets, leading many governments worldwide to intervene by making funds available to certain institutions, taking over the ownership of others and assuming large amounts of troubled financial instruments in order to restore consumers' confidence in the financial markets. Although signs of recovery have emerged in both domestic and global economies, the long-term economic effects of these developments are not known at this time. There can be no assurances that such developments will not have an adverse effect on the air transportation industry.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of international hostilities (such as those that have occurred in the Middle East) and terrorist attacks, may have an immediate and significant impact on the demand for aviation services, including, but not limited to, services at the Airports System and depress airline industry revenues and the Revenues. Security concerns can influence passenger travel behavior and air travel demand. These concerns intensified in the aftermath of the events of September 11, 2001, after which enplanements at the Airports Systems and the receipt of Revenues were negatively affect by security restrictions on the airports and the ensuing financial condition of the air transportation industry. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Intensified security precautions were instituted by government agencies, airlines and airport operators after the events of September 11, 2001. These precautions include the strengthening of aircraft cockpit doors, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed sky marshals, federalization of airport security functions under the TSA and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

The Aviation Security Act requires all United States airports to use EDS to screen all checked baggage unless an alternative system and/or timetable has been approved by the TSA. Currently, all checked baggage at HLN is screened by EDS. The Aviation Security Act also requires that eventually all passenger bags, mail and cargo be screened to prevent the carriage of weapons (including chemical and biological weapons), explosives or incendiary devices; however, to date no regulations regarding these enhanced security measures have been proposed. Because of the congressional mandate to screen all bags, as well as the impact on airport operations of procedures mandated under "Code Orange" (high) and "Code Red" (severe) national threat levels declared by the Department of Homeland Security under the Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports, although to date only relatively minor delays have been experienced as a result of these enhanced security procedures. The Department, like many airport operators, experienced increased operating costs due to compliance with federally mandated and other security and operating changes.

The Department cannot predict the effects and/or likelihood of future terrorist attacks (either domestically or abroad), the effect of any future government-required security measures on passenger activity at the Airports System, future air transportation disruptions, or the impact on the Airports System or the airlines from such incidents or disruptions. Nor can the Department predict how the government will staff the security screening functions or the effect on passenger activity of government decisions regarding its staffing levels.

Public Safety Concerns

Public health concerns have also affected travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome, or SARS, led public health agencies to issue advisories against non-essential travel to certain regions of the world. Beginning in April 2009, concerns about the spread of "swine flu" caused by the H1N1 virus reduced certain international airline travel. Since April 2009, the Director-General of the World Health Organization has increased the level of influenza pandemic alert several times and cases of the H1N1 virus have occurred throughout the world. Current conditions and future outbreaks of the swine flu or other communicable diseases could result in a reluctance to travel among fliers.

Impact of Uncertainties of the Airline Industry on the Airports System

As discussed in the Report of the Consulting Engineer attached as Appendix A, the factors affecting aviation activity at the Airports System include: the growth of population and of the economy in Hawaii, airline service and route networks, the financial health and viability of the airline industry, national and international economic and political conditions, the availability and price of aviation fuel, levels of air fares, the capacity of the national air traffic control system and airport capacity at the Airports System and elsewhere. See Appendix A – Report of the Consulting Engineer – Section 1.5 "Key Factors Affecting Future Airline Traffic." The Report of the Consulting Engineer should be read in its entirety for an understanding of all of the assumptions used to prepare the forecasts made therein. No assurances can be given that these or any of the other assumptions contained in the Report of the Consulting Engineer will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See Appendix A – Report of the Consulting Engineer – Section 3.0 "Financial Analysis."

Considerations Regarding Certain Other Sources of Funds

Passenger Facility Charges. No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the Department. The amount of actual PFC revenues will vary depending on actual levels of qualified passenger enplanements in the Airports System. In addition, the FAA may terminate the Department's ability to impose PFCs, subject to informal and formal procedural safeguards, if the Department's PFC revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Act or the regulations promulgated thereunder or the Department otherwise violates the PFC Act or regulations. The Department's ability to impose a PFC may also be terminated if the Department violates certain provisions of the Airport Noise and Capacity Act of 1990 and its implementing regulations. Furthermore, no assurance can be given that the Airports Division's authority to impose a PFC may not be terminated by Congress or the FAA, or that the PFC program may not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the Department.

FAA AIP Program. No assurance can be given that the Department will actually be receive federal grants-in-aid in the amount or at the time contemplated by the Department. In 2009, short-term acts reauthorizing the FAA were passed, the latest one of which extended FAA authority for programs and taxes and AIP project grants through March 31, 2010. If an agreement on FAA reauthorization cannot be made by March 31, 2010, Congress will have to pass another extension to keep programs and taxes going. No assurance can be given that further reauthorizations will occur, or at what levels the programs may be funded in the future.

Before federal approval of any AIP grant applications can be given, eligible airports must provide written assurances that they will comply with a variety of statutorily specified conditions. One such assurance is the so-called "airport generated revenues" assurance, which provides that all airport generated revenues will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the applicant that are directly and substantially related to air transportation of passengers or property. The Department is not aware of any dispute involving the Department concerning the use of Airport Revenues. The Department believes that the Department's use of Revenues is consistent with the applicable laws and regulations. However, no assurance can be given that future disputes, if any, concerning the Department's use of Revenues will not have an adverse effect on the Department's ability to satisfy AIP grant conditions.

Transportation Security Administration. Created in 2001 by ATSA, and part of the Department of Homeland Security, the TSA is responsible for transportation security nationally. In particular, the TSA is required to screen all commercial airline passengers and all baggage loaded onto commercial airplanes, and has promulgated regulations regarding both aviation and maritime security applicable to the Airports System.

Regulations and Restrictions Affecting the Airports System

The operations of the Airport System and its ability to generate revenues are affected by a variety of legislative, legal, contractual and practical restrictions, including restrictions in the Federal Act, provisions of Amended Lease Extension Agreement, and extensive federal regulations applicable to all airports.

Airlines Servicing the Airports

The Airports Division derives a substantial portion of its operating revenues from landing, facility rental and concession fees. The financial strength and stability of the airlines using the Airports System, together with numerous other factors, influence the level of aviation activity at the Airports System. In addition, individual airline decisions regarding level of service, particularly hubbing activity at the Airports System and aircraft size such as use of regional jets, can affect total enplanements. No assurances can be given that any of these airlines will continue operations or maintain their current level of operations at the Airports. If one or more of these airlines discontinues operations at the Airports, its current level of activity may not be replaced by other carriers.

Limitation on Bondholders' Remedies

The occurrence of an Event of Default under the Indenture does not grant a right to either the Trustee or the Bondholders to accelerate payment of the Bonds. As a result, the Airports Division may be able to continue indefinitely collecting Revenues and applying them to the operation of the Airports System even if an Event of Default has occurred and no payments are being made on the Bonds.

Climate Change Issues

Climate change concerns are leading to new laws and regulations at the federal and state levels that could have a material adverse effect on airlines operating at the Airports System and could also affect ground operations at airports. The U.S. Environmental Protection Agency (the "EPA") very recently has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On April 24, 2009, EPA published a proposed "endangerment and cause or contribute finding" under the Clean Air Act. In the proposed finding, the EPA declared that the weight of scientific evidence "requires" a finding that it is very likely that the six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The proposed rule also finds that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. If the proposed rules become final, the EPA would be required to regulate emissions of certain GHGs from motor vehicles. The Clean Air Act regulates aircraft emissions under provisions that are parallel to the requirements for motor vehicle emissions. Accordingly, the EPA may elect or be forced by the courts to regulate aircraft emissions as a result of this endangerment finding.

Regulation by the EPA can be initiated by private parties or by governmental entities other than EPA. In 2007, several states petitioned EPA to regulate GHGs from aircraft. On July 30, 2008, EPA issued an Advanced Notice of Proposed Rulemaking ("ANPR") relating to GHG emissions and climate change. Part of the ANPR requested comments on whether and how to regulate GHG emissions from aircraft. While EPA has not yet taken any action to regulate GHG emissions from aircraft, the request for comments and proposed rule on motor vehicles may eventually result in such regulation.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, as well as proposed on the federal level. A recently proposed federal bill, the American Clean Energy and Security Act of 2009, would, if passed, amend the Clean Air Act to require regulation of aircraft GHG emissions, require a reduction in emissions from transportation fuels including jet fuel, and generally would cap GHG emissions.

The Department is unable to predict what Federal and/or state laws and regulations with respect to GHG emissions will be adopted, or what effects such laws and regulations will have on airlines serving the Airports System or in Airports System operations. The effects, however, could be material.

Forward Looking Statements

This Official Statement, and particularly the information contained under the caption Appendix A – Report of the Consulting Engineer, contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Among the factors that may cause projected revenues and expenditures to be materially different from those anticipated are an inability to incur debt at assumed rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general, federal legislation and/or regulations, and regulatory and other restrictions, including but not limited to those that may affect the ability to undertake the timing or the costs of certain projects. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

LITIGATION

The State is subject to litigation in connection with the day-to-day operation of the Airports System by the Department. There are no claims or judicial proceedings other than the proceedings described in this Official Statement and proceedings incidental to the operation of the Airports System affecting the Airports System or the Revenues, except for claims which are substantially covered by insurance or reserves. Except as otherwise described in this Official Statement, there is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the Series 2010 Bonds or the power and authority of the Department to impose, prescribe or collect rates, rentals, fees or charges for the use and services of, and the facilities or commodities furnished by, the Airports System, or in any manner questioning the power and authority of the Department to impose, prescribe or collect such rates, rentals, fees or charges or to issue and deliver the Series 2010 Bonds or affecting the validity of the Series 2010 Bonds.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, for federal income tax purposes under existing laws, regulations, rulings, judicial decisions and other authorities, all as in effect on the date of the delivery of the Series 2010 Bonds (defined below) and assuming compliance with the tax covenants and the material accuracy of the tax representations that are described herein, (i) interest on the Series 2010A Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Series 2010A Bond is held by a person who is a substantial user of the financed facilities or by a related person (as defined in Code Section 147(a)), and such interest is not treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers and is not included in the adjusted current earnings of certain corporations for purposes of computing their alternative minimum tax; and (ii) interest on the Series 2010B Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Series 2010B Bond is held by a person who is a substantial user of the financed facilities or by a related person, and such interest is treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers under the Code.

In the further opinion of Bond Counsel, under the existing statutes, interest on the Series 2010 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2010 Bonds or income therefrom.

Series 2010A and 2010B Bonds

Certain Matters Affecting the Opinion of Bond Counsel. The Code establishes certain requirements which must be met subsequent to the issuance and delivery of the Series 2010A and 2010B Bonds (the "Series 2010 Bonds") in order that interest on the Series 2010 Bonds be and remain excludable from gross income for federal income tax purposes under Code Section 103(a). These requirements relate, among other things, to the use, investment and expenditure of the Series 2010 Bond proceeds, the character, nature and use of the financed facilities, and to the obligation that certain investment earnings be rebated to the federal government. Noncompliance with such requirements may result in the inclusion of interest in the gross income of the Holders retroactive to the date of issuance, without regard to when noncompliance occurs or is ascertained. The Department has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of the interest on the Series 2010 Bonds from the gross income of the owners thereof. The Department has also made representations covenants in a tax certificate to be delivered on the date of issue of the Series 2010 Bonds necessary to support the exclusion of the interest on the Series 2010 Bonds from gross income (the "Certificate"). Bond Counsel will render the opinions described herein in reliance on covenants and representations set forth in the Certificate.

Other Matters. Bond Counsel will render tax opinions regarding the federal income tax consequences of the ownership of the Series 2010 Bonds only to the effect that interest on the Series 2010 Bonds is excludable from the gross income of the Holders for federal income tax purposes and is treated as a preference item for purposes of the federal alternative minimum tax as described hereinabove and as to the exemption pursuant to the State statutes of interest on the Series 2010 Bonds from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2010 Bonds or income therefrom. Bond Counsel expresses no opinion as to any other federal, state, local or foreign tax consequences of owning the Series 2010 Bonds.

Nevertheless, a Holder's federal tax liability may otherwise be affected by the ownership or disposition of the Series 2010 Bonds. The nature and extent of these other tax consequences will depend on the Holder's status and its other items of income or deduction. Without limiting the generality of the foregoing, prospective Holders of the Series 2010 Bonds should be aware that (i) Code Section 265 denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2010 Bonds, or in the case of a financial institution, that portion of a Holder's interest expense allocated to interest on the Series 2010 Bonds; (ii) with respect to life insurance companies, life insurance company taxable income subject to the tax imposed by Code Section 801 is determined by permitting deductions for certain dividends received but not to the extent such a dividend is from a non-insurance corporation and is out of tax-exempt interest, such as interest on the Series 2010 Bonds; (iii) with respect to insurance companies subject to the tax imposed by Code Section 831, Code Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including tax-exempt interest, such as interest on the Series 2010 Bonds; (iv) interest on the Series 2010 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Code Section 884 of the Code; (v) passive investment income, including interest on the Series 2010 Bonds, may be subject to federal income taxation under Code Section 1375 for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if more than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income; (vi) Code Section 86 requires recipients of certain Social Security or Railroad Retirement benefits to take into account receipts of accruals of interest on the Series 2010 Bonds owned by them in determining the taxability of such benefits; and (vii) under Code Section 32(i), the receipt of investment income, including interest on the Series 2010 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such consequences.

The foregoing discussion of selected federal income tax matters with respect to the Series 2010 Bonds does not purport to deal with all aspects of federal taxation that could be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2010 Bonds.

Risk of Audit by Internal Revenue Service. The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Series 2010 Bonds. If an audit is commenced, under current procedures the Service is likely to treat the State as the taxpayer and the owners of the Series 2010 Bonds may have no right to participate in such procedure.

Subsequent Events and Tax Law Changes

Bond Counsel has not undertaken to advise in the future whether any actions or events after the issuance of the Series 2010 Bonds may affect the federal or state income tax status of interest on the Series 2010 Bonds or the tax consequences of ownership thereof. Without limiting the generality of the foregoing, Bond Counsel expresses no opinion as to any tax consequences with respect to the Series 2010 Bonds or the interest thereon, if any subsequent action is taken or omitted to be taken with respect to the Series 2010 Bonds or the proceeds thereof.

In addition, no assurance can be given that future legislation, including amendments to the Code, or changes in the interpretation thereof if enacted into law, or otherwise promulgated or announced, will not contain provisions which could disallow or directly or indirectly reduce the benefit of the excludability of the interest on the Series 2010 Bonds from the gross income. From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Series 2010 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced which, if implemented, could adversely affect the market value of the Series 2010 Bonds. It cannot be predicted whether any such regulatory action will be implemented or whether the Series 2010 Bonds or the market value thereof would be impacted thereby. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2010 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Circular 230

To ensure compliance with Treasury Circular 230, holders of the Series 2010 Bonds should be aware and are hereby put on notice that: (a) the discussion in this Official Statement with respect to U.S. federal income tax consequences of owning the Series 2010 Bonds is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (b) such discussion was written in connection with the promotion or marketing (within the meaning of Treasury Circular 230) of the transactions or matters addressed by such discussion; and (c) each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

ESCROW VERIFICATION

Causey, Demgen & Moore Inc., a firm of independent public accountants, will deliver to the State and Bond Counsel its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the State and its representatives related to the refunding effect from the proceeds of the Refunding Bonds. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash, the maturing principal amounts and the interest on the Federal Securities deposited with the Escrow Agent to pay the interest, principal and redemption price coming due on the Refunded Bonds on and prior to their respective maturity or redemption dates as described in "THE REFUNDING PLAN" and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Refunding Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

UNDERWRITING

Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Piper Jaffray & Co. (collectively, the "Underwriters") have agreed to purchase the Series 2010 Bonds for $656,158,327.91 (representing the principal amount of the Series 2010 Bonds, less underwriters' discount of $3,551,318.49 and plus net premium of $14,729,646.40). The Underwriters will be obligated to purchase all the Series 2010 Bonds if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The initial public offering price of the Series 2010 Bonds may be changed from time to time by the Underwriters prior to the Delivery Date. The Underwriters may offer and sell the Series 2010 Bonds to certain dealers (including dealers depositing Series 2010 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) at a price lower than the public offering price stated on the cover of this Official Statement.

Citigroup Inc., parent company of Citigroup Global Markets Inc., one of the Underwriters, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc., will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc., will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2010 Bonds.

Piper Jaffray & Co. ("Piper") has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Bonds, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper. Piper also has entered into an agreement with UBS Financial Services Inc., under the terms of which UBS retail customers will have access to the offering at the original issue price. Piper will share a portion of its underwriting compensation for the Bonds with UBS Financial Services Inc.

LEGALITY FOR INVESTMENT

The Series 2010 Bonds are legal investments for the funds of all public officers and bodies and all political subdivisions of the State, and for the funds of all insurance companies and associations, banks, savings banks, savings institutions, including building or savings and loan associations, trust companies, personal representatives, guardians, trustees and all other persons and fiduciaries in the State who are regulated by law as to the character of their investment.

The Series 2010 Bonds may be deposited by banks with the Director of Finance as security for State moneys deposited in such banks.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Series 2010 Bonds are subject to the approval of Katten Muchin Rosenman LLP, New York, New York. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2010 Bonds and will be delivered with the Series 2010 Bonds. Proposed forms of the opinions of Bond Counsel are annexed as Appendix F hereto. Certain legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by counsel to the Underwriters, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

The Twenty-ninth Supplemental Certificate of the Director dated as of March 24, 2010, providing for the issuance of the Series 2010 Bonds has been approved as to form and legality by the Attorney General of the State.

RATINGS

Moody's Investors Service, Standard and Poor's, A Division of The McGraw-Hill Companies, and Fitch Inc. have assigned ratings of "A2", "A-," and "A" respectively, to the Series 2010 Bonds.

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the State makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one, or all three rating companies, if in the judgment of one, or all three companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or one of them, may have an adverse effect on the market price of the Series 2010 Bonds.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

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 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, as described under "CONTINUING DISCLOSURE."

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the State, acting by and through its Director of Transportation will undertake in a Continuing Disclosure Certificate constituting a written agreement for the benefit of the holders of the Series 2010 Bonds (the "Continuing Disclosure Certificate"), to provide to each Nationally Recognized Municipal Securities Information Repository (as referred to in Rule 15c2-12), if and when one is established, the State of Hawaii Information Depository and others, on an annual basis, certain financial and operating data concerning the Department, financial statements, notice of certain events if material, and certain other notices, all as described in the Continuing Disclosure Certificate. The undertaking is an obligation of the State that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Series 2010 Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriter to purchase the Series 2010 Bonds. The proposed form of the Continuing Disclosure Certificate is attached as Appendix H hereto.

MISCELLANEOUS

The references herein to Acts of the State Legislature, the Certificate (including the supplements thereto) and any leases for the use or rental of Airports System properties, do not purport to be complete and are subject to the detailed provisions thereof to which reference is hereby made. The Department has provided the information in this Official Statement relating to the Airports Division, and other matters, as indicated.

The financial statements of the Airports Division as of and for the year ended June 30, 2008 set forth in Appendix B hereto have been audited by KPMG LLP, independent auditors, as stated in their report appearing in Appendix B to this Official Statement. KPMG LLP has also performed certain procedures relating to the unaudited financial information for the six-month periods ended December 31, 2007 and 2008 provided in this Official Statement.

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

By: /s/ Brennon T. Morioka
Brennon T. Morioka
Director of Transportation

[*Signature page to the Official Statement*]

APPENDIX A

REPORT OF THE CONSULTING ENGINEER

Appendix A

REPORT OF THE CONSULTING ENGINEER

on the proposed issuance of

STATE OF HAWAII,
AIRPORTS SYSTEM REVENUE BONDS, SERIES 2010

Prepared for

State of Hawaii
Department of Transportation
Airports Division

Prepared by

Jacobs Consultancy
Burlingame, California

March 17, 2010

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JACOBS
CONSULTANCY

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1.650.579.7722 Fax: 1.650.343.5220

March 17, 2010

Mr. Brennon T. Morioka, Ph.D., P.E.
Director
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

Re: Report of the Consulting Engineer on behalf of the State of Hawaii concerning the issuance of Airports System Revenue Bonds Series 2010 for the Hawaii Airports System

Dear Mr. Morioka:

We are pleased to submit this Report of the Consulting Engineer on certain aspects of the proposed issuance of the State of Hawaii, Airports System Revenue Bonds, Series 2010, referred to in this report as the Series 2010 Bonds, by the State of Hawaii (the State), acting through its Department of Transportation (the Department), for improvements to the Hawaii Airports System, in an aggregate principal amount of $668,725,000.* This letter and the accompanying attachment and exhibits constitute our report (the Report).

The State owns and, through the Department's Airports Division, operates a system of 15 airports (collectively, the Hawaii Airports System), which includes all commercial service airports in the State. The Airports Division operates the Hawaii Airports System as an enterprise fund of the State.

The Series 2010 Bonds are to be issued as additional parity bonds under the Certificate of the Director of Transportation of the State dated as of May 1, 1969, as amended and supplemented by multiple Supplemental Certificates (collectively, the Certificate**). The 29th Supplemental Certificate authorizes issuance of the Series 2010 Bonds and includes certain proposed amendments to the Certificate requiring

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*Including $474,675,000 as new money Bonds and $194,050,000 for current refunding, as discussed below. Numbers are preliminary and subject to change.

**References in this letter and the Report to the Certificate, rules of the State, and various leases and agreements entered into by the Department do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference thereto.

bondholder consent. The Department expects to receive over 50% bondholder consent of the proposed amendments upon the delivery of the Series 2010 Bonds. The proposed amendments, unless requiring 100% bondholder consent, are treated in this Report as if previously approved.

Pursuant to the Certificate, the State has previously issued various series of State of Hawaii Airports System Revenue Bonds (together with the Series 2010 Bonds, the Bonds). Bonds are special, limited obligations of the State payable from Revenues and Aviation Fuel Taxes.* The general fund of the State is not pledged to the payment of the Bonds.

The Certificate sets forth covenants of the State with respect to, among other things: (a) issuing Additional Bonds (Additional Bonds Test), (b) imposing and collecting rates, rentals, fees, and charges for the use and services of the Hawaii Airports System (Rate Covenant), and (c) paying the costs of operation, maintenance, repair, and administration, Annual Adjusted Debt Service Requirement, and other expenses.

This Report was undertaken to evaluate the ability of the Department to generate Revenues and Aviation Fuel Taxes sufficient to satisfy the requirements of the Rate Covenant through FY 2016 (the forecast period) taking into account the outstanding Bonds, the proposed Series 2010 Bonds, and future Bonds planned to be issued during the forecast period.** As of the date of this Report, the Department plans to issue Additional Bonds during 2011 (the Series 2011 Bonds). The Department does not plan to issue other new money Bonds during the forecast period.

SERIES 2010 BONDS

Proceeds of the Series 2010 Bonds will be used to (1) fund a portion of the costs of the Designated Projects (defined below) on a long-term basis, (2) provide for the current refunding for a portion of the Series 2000 Bonds for debt service savings, (3) fund the Series 2010 Bonds Debt Service Reserve Account, (4) fund capitalized interest on the Series 2010 Bonds, and (5) pay the costs of issuance of the Series 2010 Bonds.

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*Capitalized terms in this Report and not otherwise defined have the meanings given to such terms in the Certificate, the preliminary official statement, or the airport-airline agreements.

**The State's Fiscal Year (FY) ends June 30. The forecast period for the Additional Bonds Test in the Certificate is the three Fiscal Years following the close of the Period of Construction (as estimated by the Consulting Engineer). The Period of Construction is estimated to end during FY 2013; therefore the forecast period extends through FY 2016.

The Series 2010 Bonds are considered Additional Bonds under the Certificate and, as such, the Department is required to retain a Consulting Engineer to demonstrate compliance with the Additional Bonds Test prior to their issuance. The Department has retained Jacobs Consultancy as the Consulting Engineer, and tests for compliance with the Additional Bonds Test for the Series 2010 Bonds are to be undertaken and results are to be provided to the Department in connection with their issuance in a separate document.

CAPITAL PROGRAM

A $2.4 billion capital program was developed in 2007 to fund a variety of improvement and modernization projects for the Hawaii Airports System including the Honolulu International Airport (HNL) Terminal Modernization Program (TMP). In light of the economic recession in late 2008 and the ensuing air traffic decline, the Airports Division, in cooperation with the Signatory Airlines (as defined below), reviewed the capital program in July 2009 and decided to fund only certain projects (the Designated Projects) and to defer all other projects pending improvements in the operating environment. The Designated Projects are estimated to cost $1.31 billion and are presented in Exhibit A, which is attached at the end of this Report.

Certain capital projects of a maintenance nature to be funded from internally generated funds (estimated to cost $20 million annually through the forecast period) and certain rental car projects to be funded from Customer Facility Charges (CFCs) on rental car transactions are not included in the Designated Projects. Rental car projects are in various conceptual development stages, with two major projects in design. According to the Airports Division, an estimated cost of $235 million for those two projects is expected to be funded with $125 million of CFC collections on a pay-as-you-go basis and approximately $110 million of nonrecourse, CFC-supported bonds to be issued no earlier than FY 2012.

To the best knowledge of the Airports Division as of the date of this Report, the Designated Projects, the rental car projects to be funded solely from CFCs, and the maintenance projects to be funded from internally generated funds constitute all of the significant capital projects that will be undertaken through FY 2016. However, the Airports Division will review the capital projects annually and may implement changes subject to legislative approval and, if necessary, review as set forth in the airline agreements.

RATE COVENANT

The Rate Covenant requires the Department to impose, prescribe, and collect rates, rentals, fees, and charges for the use and services of the Hawaii Airports System each year to produce Revenues that, together with the proceeds of the Aviation Fuel Taxes, are sufficient to:

1. Pay all indebtedness payable from or secured by Revenues and Aviation Fuel Tax proceeds and to fund all reserves therefore.

2. Pay the costs of operation, maintenance and repair of the Airports System, including reserves therefore, and the expenses of the Department in connection with such operation, maintenance and repair.

3. Reimburse the State General Fund for any and all debt service requirements for general obligation bonds issued for the Airports System or issued to refund any such bonds.

4. Carry out the provisions of the Certificate, including making all required payments and credits under Section 6.01 of the Certificate.

The Rate Covenant also requires that, at all times, rates, rentals, fees, and charges for the immediate ensuing twelve months, together with the amount of unencumbered funds that the Department certifies as Revenues for the purpose of this test, must be sufficient to yield Net Revenues and Taxes at least equal to 1.25 times the Annual Adjusted Debt Service Requirement for such twelve months. The Airports Division established a funded coverage account in the Airport Revenue Fund to hold the certified amount to be included as Revenues and has been maintaining the account balance at 25% of gross debt service as shown on Exhibit D.

Revenues

Under the Certificate, the term "Revenues" is defined as all income, revenues, and moneys derived by the State from the ownership or operation and management of the Airports System by the Department or the furnishing and supplying of the services, facilities, and commodities thereof, including all income, revenues, and moneys derived from rates, rentals, fees, and charges fixed, imposed, and collected by the Department. Revenues can also include certain unencumbered funds described above for the Rate Covenant calculation. Passenger facility charge (PFC) revenues are explicitly excluded from the definition of Revenues, unless the inclusion of PFC revenues is expressly provided for in a Supplemental Certificate. CFC revenues are not Revenues.

Aviation Fuel Taxes

The State imposes an Aviation Fuel Tax on all types of aviation fuel for the betterment of the Airports System. As of February 1, 2010, the tax rate is $0.02 per gallon. The State may, in its discretion, rebate up to one-half cent per gallon of the Aviation Fuel Tax to the airlines in the ensuing fiscal year. Alternatively, Signatory Airlines, pursuant to the airline agreement, and nonsignatory airlines, pursuant to Hawaii Administrative Rules 19-16.1-5, are eligible for a landing fee credit for the Aviation Fuel Tax paid, provided that sufficient Revenues exist to meet the Rate Covenant, and provided that the airlines submit a claim within 6 months after the date of Aviation Fuel Tax payment.

Annual Adjusted Debt Service Requirement

Debt Service Requirement means the total of (i) the amount required in Section 6.01 to be paid or credited during such year to the Interest Account; (ii) the amount required in Section 6.01 to be paid or credited to the Serial Bond Principal Account; and (iii) the amount required in Section 6.01 to be paid or credited during such year to the Sinking Fund Account.

Pursuant to the provisions of Section 6.01, the required deposits to the Interest Account exclude accrued interest, capitalized interest, and "any other credits otherwise made to said account." The Airports Division has deposited to the Interest Account internally generated funds in order to reduce the Debt Service Requirement and thereby reduce airline rates. In FY 2009, the Airports Division deposited $17.5 million to the Interest Account for such purpose. Such deposits are referred to as "rate mitigation" in this Report. The Airports Division is making rate mitigation deposits in FY 2010 estimated to total $16.8 million. The Airports Division currently does not intend to make rate mitigation deposits after FY 2010.

Annual Adjusted Debt Service Requirement means the Debt Service Requirement net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account; and (ii) the amount of Federal Direct Payments* deposited or irrevocably committed to be deposited for the purpose of paying interest on Bonds. The Department intends to irrevocably commit Available PFC Revenues (estimated at less than $15 million annually) toward the Debt Service Requirement of the Series 2010 Bonds in a future supplemental certificate, after obtaining approval from the Federal Aviation Administration (FAA) for use of PFC revenues to pay debt service.

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*Federal Direct Payments could be received if the Department issues Build America Bonds (BABs) in the future.

Net Revenues and Taxes

Net Revenues and Taxes are defined as Revenues plus Aviation Fuel Taxes less annual (1) operating expenses and reserve, (2) deposit to the Debt Service Reserve Account, (3) deposit to the Airports System Major Maintenance, Renewal, and Replacement Account (MMRRA Account), and (4) reimbursement to the State related to general obligation bonds (none of which are outstanding).

AIRPORT-AIRLINE LEASE AGREEMENTS

Certain airlines (the Signatory Airlines) operate at the Airports System under an agreement with the Department. Nonsignatory airlines operate in accordance with Hawaii Administrative Rules. The Airports System has entered into the following airport-airline lease agreements.

Airport-Airline Lease Agreement (1962). In 1962, the Department entered into an airport-airline lease agreement with the Signatory Airlines to provide those airlines the nonexclusive right to use the Airports System facilities, equipment, improvements, and services in addition to occupying certain premises and facilities (the 1962 Agreement). This agreement was originally set to expire on July 31, 1992; however, the Signatory Airlines continued to operate at the Airports System under monthly negotiated agreements with the Department from August 1, 1992, through June 30, 1993 and under a letter agreement through June 1994.

Lease Extension Agreement (1994). In June 1994, the Department and the Signatory Airlines executed an agreement to extend the airport-airline lease agreement to June 30, 1997 (the 1994 Agreement). Under the 1994 Agreement, the Signatory Airlines continued to operate under the terms of the 1962 Agreement with an adjustment for terms and provisions relating to rates and charges.

From July 1, 1997, through December 31, 2007, the Department and the Signatory Airlines mutually agreed to continue operations under the terms of the 1994 Agreement, which provides for an automatic extension on a quarterly basis unless either party provides 60 days written notice of termination to the other party.

First Amended Lease Extension Agreement (2007). In fall 2007, the Department and Signatory Airlines executed the First Amended Lease Extension Agreement (the 2007 Agreement), effective January 1, 2008. The 2007 Agreement principally established a new methodology for calculating Signatory Airlines rates and charges for the use of airport facilities and continues other terms of the 1994 Agreement.

The airport-airline lease agreements, in composite, are referred to as the Amended Lease Extension. Key provisions of the Amended Lease Extension, discussed in greater detail below, include:

- Rate methodology to recover costs in the Airfield Cost Center and a portion of the costs in primary airport terminal cost centers.
- Airports System Support Charge (ASSC) as a safety net to ensure compliance to the Rate Covenant.
- Provision for midyear rate adjustments if necessary.

Relief to the Airlines. Although the Amended Lease Extension provides a methodology to establish airline rates and charges, the Airports Division, in consideration of the unfavorable operating environment of the Signatory Airlines, took or intends to take actions to lower payments from the Signatory Airlines in FY 2009, 2010 and 2011. The resulting Signatory Airline payment levels are $123 million for FY 2010 and $142 million for FY 2011. Rates that may be adjusted to achieve those payments include landing fees, terminal rentals, joint use charges, International Arrival Building (IAB) charges, ground rentals, hangar rentals, other non-terminal building rentals, and equipment rentals, among others, but do not include ASSC required to meet the Rate Covenant.

The Airports Division also received a letter from the Signatory Airlines dated September 28, 2009 confirming support to proceed with development of the Designated Projects. In their letter, the Signatory Airlines expressed support for a target for their annual payments not to exceed $200 million through FY 2016. The Signatory Airline payments forecast for FY 2013 through FY 2016 in this Report exceed the proposed target.

The Department is not required to achieve the payment levels, although the Airports Division may take discretionary actions to limit airline payment requirements such as reducing operating expenses, increasing non-aeronautical revenues, and, as is occurring during FY 2010, applying rate mitigation. The Airports Division currently does not intend to use rate mitigation after FY 2010. Meeting the Rate Covenant, however, takes precedence to any discretionary actions to limit airline payment requirements.

SCOPE OF THE REPORT

The Report was prepared to address the ability of the Department to meet the requirements of the Rate Covenant during the forecast period taking into account the outstanding Bonds, the proposed Series 2010 Bonds, and the planned Series 2011 Bonds. In conducting our study, we analyzed:

- Future airline traffic demand at the Hawaii Airports System, giving consideration to the demographic and economic characteristics of the airport service region, historical trends in airline traffic, recent airline service developments and airfares, and other key factors that may affect future airline traffic.
- The status and estimated costs of the Designated Projects.
- Estimated sources and uses of funds and the Annual Adjusted Debt Service Requirement for the Series 2010 Bonds and the Series 2011 Bonds.
- Historical and estimated future PFC revenues.
- The State's intended use of PFC revenues during the forecast period.
- Historical relationships among revenues, expenses, and airline traffic for the Hawaii Airports System.
- The facilities expected to be provided, as included in the Designated Projects, the estimated completion date of the future facilities, and other operational considerations affecting Hawaii Airports System revenues and expenses.
- Audited financial results for the Hawaii Airports System for FY 2009 and budget for FY 2010.
- The airport-airline lease agreements including the 2007 Agreement and the associated calculation and adjustment of airline rentals, fees, and charges.
- Other contractual agreements relating to the use and lease of the Hawaii Airports System such as the operation of public automobile parking and other concession and service privileges, and the leasing of buildings and grounds.

We have relied upon the Airports Division and its consultants for estimates of project costs and construction schedules for the Designated Projects; upon the Airports

JACOBS CONSULTANCY

Mr. Brennon T. Morioka
March 17, 2010

Division and bond counsel for interpretation of the Certificate; and upon Citigroup Global Markets Inc. for the plan of debt finance, estimated Debt Service Requirements for the proposed Series 2010 Bonds and the planned Series 2011 Bonds.

We also assisted Airports Division management in identifying key factors upon which the future financial results of the Hawaii Airports System may depend and in formulating assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts presented in the accompanying exhibits provided at the end of this Report.

Forecast Debt Service Coverage

As shown in Exhibits G at the end of this Report, Revenues and Aviation Fuel Taxes are forecast to be sufficient, in each Fiscal Year of the forecast period, to pay costs of operation, maintenance and repair, the Annual Adjusted Debt Service Requirement taking into consideration the outstanding Bonds (excluding Bonds planned to be refunded), the proposed Series 2010 Bonds, and the planned Series 2011 Bonds, and to meet the other funding requirements of the Certificate. Exhibit H and the following table summarizes forecasts of Revenues and Aviation Fuel Taxes, Annual Adjusted Debt Service Requirement, and debt service coverage.

FORECAST DEBT SERVICE COVERAGE
Hawaii Airports System
(for the 12 months ending June 30; dollars in thousands)

	Historical 2009	Forecast 2010	2011	2012	2013	2014	2015	2016
Debt Service Coverage								
Revenues and Aviation Fuel Taxes	$ 288,584	$286,329	$305,412	$329,485	$364,819	$390,337	$404,589	$416,645
Costs of Operation, Maintenance and Repair	(233,617)	(231,101)	(233,086)	(248,882)	(260,052)	(273,949)	(286,465)	(299,768)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	(250)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Reimbursement of General Fund of the State	(29)	-	-	-	-	-	-	-
Net Revenues and Taxes	$ 54,688	$ 52,228	$ 69,325	$ 77,603	$101,768	$113,387	$115,124	$113,877
Funded Coverage Account Balance /1	14,304	14,445	15,377	16,414	23,847	28,908	30,470	30,576
Adjusted Net Revenues and Taxes	$ 68,992	$ 66,673	$ 84,703	$ 94,017	$125,615	$142,295	$145,594	$144,453
Annual Adjusted Debt Service Requirement								
Gross Debt Service /2	$ 57,216	$ 57,782	$ 61,509	$ 65,656	$ 95,390	$115,632	$121,880	$122,305
Rate Mitigation	(17,453)	(16,803)	-	-	-	-	-	-
Available PFC Revenues	-	-	-	(3,474)	(7,036)	(13,684)	(14,066)	(14,193)
Annual Adjusted Debt Service Requirement	$ 39,763	$ 40,979	$ 61,509	$ 62,182	$ 88,354	$101,949	$107,815	$108,112
Debt Service Coverage (Must Be No Less Than 1.25)	1.74	1.63	1.38	1.51	1.42	1.40	1.35	1.34

Sources: FY 2009 - State of Hawaii, Department of Transportation, Airports Division Records; forecast – Jacobs Consultancy.

Notes: 1. Indicates the amount of unencumbered funds certified by the Airports Division for the purpose of the Rate Covenant.
2. Excludes capitalized interest and certain other adjustments specified in the Certificate.

The calculation of the Annual Adjusted Debt Service Requirement excludes interest to be paid from capitalized interest, the amount to be pre-deposited into the Interest Account as rate mitigation deposits, and Available PFC Revenues that the Airports Division intends to commit in the future.

Assumptions Underlying the Financial Forecasts

The forecasts are based on information and assumptions that were provided by or reviewed with and agreed to by Airports Division management. The forecasts reflect Airports Division management's expected course of action during the forecast period and, in Airports Division management's judgment, present fairly the expected financial results of the Hawaii Airports System. Those key factors and assumptions that are significant to the forecasts are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts." The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences may be material. Neither Jacobs Consultancy nor any person acting on our behalf makes any warranty, expressed or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in the report. We have no responsibility to update this report to reflect events and circumstances occurring after the date of the report.

* * * * *

We appreciate the opportunity to serve as the Consulting Engineer in connection with this proposed financing.

Respectfully submitted,

Jacobs Consultancy

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Attachment

REPORT OF THE CONSULTING ENGINEER

on the proposed issuance of

STATE OF HAWAII,
AIRPORTS SYSTEM REVENUE BONDS, SERIES 2010

BACKGROUND, ASSUMPTIONS, AND RATIONALE FOR THE FINANCIAL FORECASTS

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CONTENTS

CONTENTS *(continued)*

CONTENTS *(continued)*

TABLES

TABLES *(continued)*

FIGURES

EXHIBITS

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1.0 AIRLINE TRAFFIC ANALYSIS

This section presents a review of (1) the 15 airports in the Hawaii Airports System (2) the economic basis for passenger demand, including socioeconomic, visitor industry, and other factors that contribute to passenger demand, (3) the components of passenger demand at Honolulu International Airport and the Primary Neighbor Island Airports, (4) cargo activity in the Hawaii Airports System, (5) the key factors that will affect future airline traffic, and (6) forecasts of airline traffic at Honolulu International Airport and the Primary Neighbor Island Airports through FY 2016, including enplaned passengers and aircraft landed weight.

1.1 HAWAII AIRPORTS SYSTEM

The State of Hawaii operates and maintains a system of 15 airports listed in Table 1 and shown geographically on Figure 1. The Airports Division, one of three divisions within the State's Department of Transportation, has jurisdiction over and control of all State of Hawaii airports and air navigation facilities, as well as general supervision of aeronautics within the State. (Note: The term "Airports Division" is used in this report to mean the Department or the Airports Division.)

The largest of the five primary airports in the Hawaii Airports System is HNL on the island of Oahu, which is the most densely populated of the Hawaiian Islands, as shown on Figure 1. HNL provides facilities for overseas flights on domestic routes to the mainland United States and on international routes to destinations in the Pacific Rim, as well as for interisland flights to the Neighbor Island Airports. The Federal Aviation Administration (FAA) classifies HNL as a large hub. In FY 2009, 8.9 million passengers were enplaned at HNL—5.6 million overseas passengers and 3.3 million interisland passengers.

The four other primary airports in the Hawaii Airports System are referred to as the Primary Neighbor Island Airports, namely Kahului Airport on the island of Maui, Lihue Airport on the island of Kauai, Kona International Airport at Keahole, and Hilo International Airport on the island of Hawaii. Kahului is classified as a medium hub and Kona, Lihue, and Hilo are classified as small hubs. Direct overseas service to the continental United States is provided from all of the Primary Neighbor Island Airports. In FY 2009, 5.7 million passengers were enplaned at the Primary Neighbor Island Airports—2.1 million overseas passengers and 3.6 million interisland passengers.

Since FY 1995, growth in passenger traffic at the Hawaii Airports System has been facilitated by the role of HNL as a connecting hub airport for the islands. HNL provides connecting passenger service to the other primary and secondary airports in the State in the same way that hub-and-spoke airline networks operate in the continental United States. The continued availability and development of connecting passenger service from HNL to the Primary Neighbor Island Airports have resulted in growth in passenger demand sufficient to support nonstop service from Primary Neighbor Island Airports to the continental United States. From FY 1995 to FY 2009, the Primary Neighbor Island Airports' number of overseas passengers from Hawaii to the continental United States more than doubled, as shown on Figure 2. In FY 2009, the Primary Neighbor Island Airports accounted for 27% of overseas passengers from Hawaii to the continental United States, up from 18% in FY 1995.

Table 1

HAWAII AIRPORTS SYSTEM

Island	Large hub (primary) *(a)*	Medium hub (primary) *(b)*	Small hub (primary) *(c)*	Nonhub and general aviation (secondary)
Oahu	• Honolulu International Airport			• Dillingham Airfield • Kalaeloa Airport
Maui		• Kahului Airport		• Hana Airport • Kapalua Airport/ West Maui Airport
Hawaii			• Kona International Airport at Keahole • Hilo International Airport	• Upolu Airport • Waimea-Kohala Airport
Kauai			• Lihue Airport	• Port Allen Airport
Lanai				• Lanai Airport
Molokai				• Molokai Airport • Kalaupapa Airport

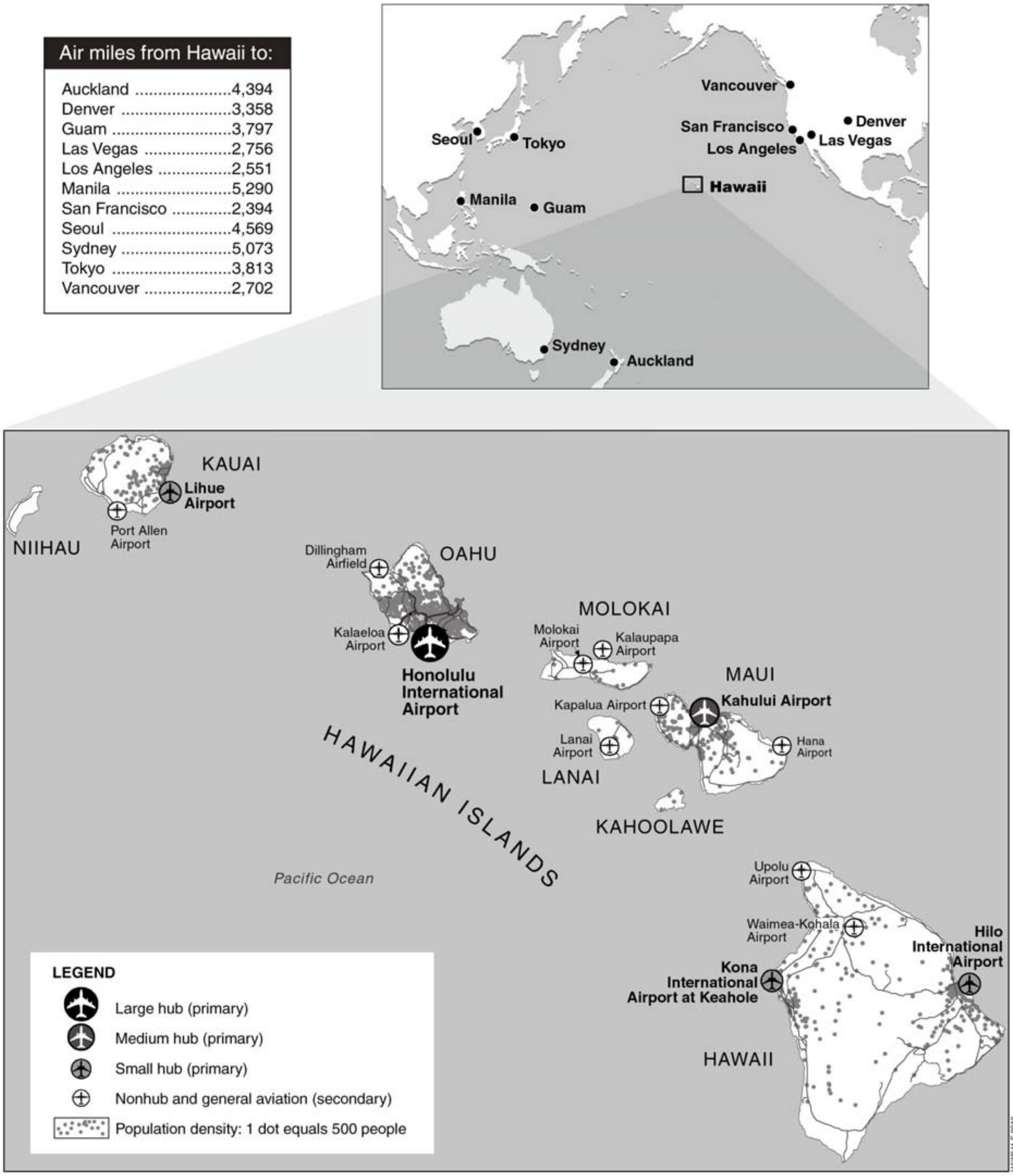
Note: The State of Hawaii refers to large-, medium- and small-hub airports, defined below, as primary airports. All other airports are referred to as secondary airports.

(a) A large hub is a community that enplanes 1.0% or more of total passengers enplaned on U.S. certificated route carriers in scheduled service in the 50 states, the District of Columbia, and designated territorial possessions of the United States.

(b) A medium hub is a community that enplanes between 0.25% and 0.99% of total passengers described in footnote *(a)*.

(c) A small hub is a community that enplanes between 0.05% and 0.24% of total passengers described in footnote *(a)*.

Source: State of Hawaii, Department of Transportation, Airports Division records.



Source: U.S. 2000 Census data.

Figure 1
HAWAII AIRPORTS SYSTEM
November 2009

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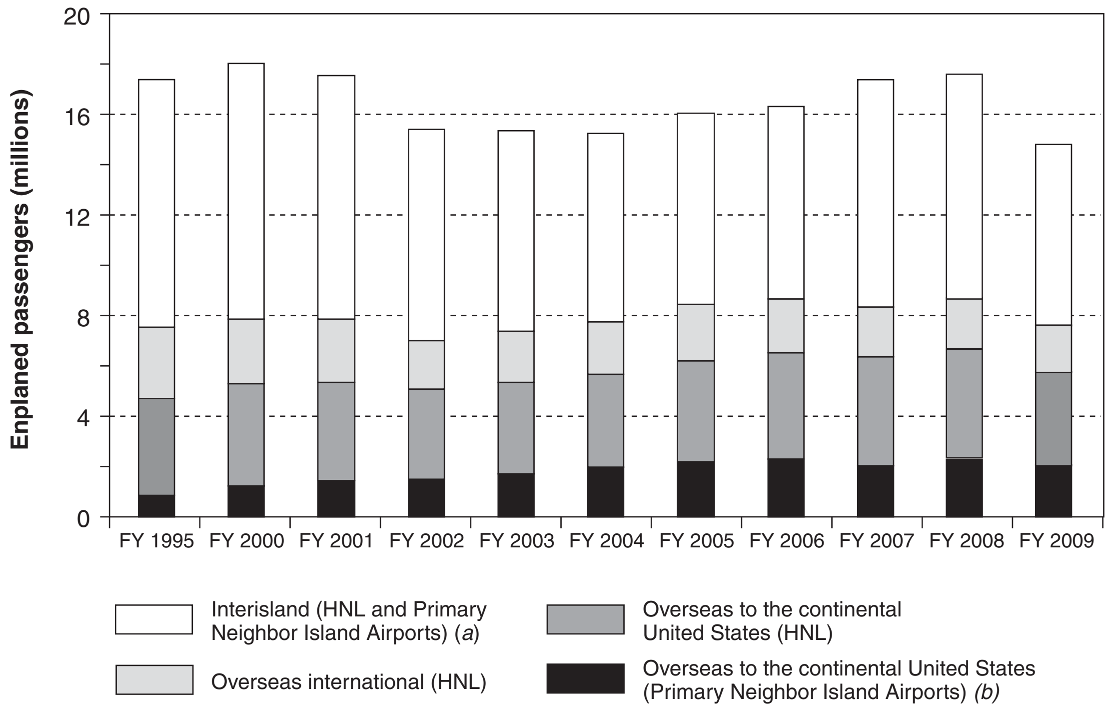
Figure 2

HAWAII AIRPORTS SYSTEM ENPLANED PASSENGERS



(a) Includes interisland passengers at secondary airports.
(b) Includes overseas international activity.

Source: State of Hawaii, Department of Transportation, Airports Division.

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In FY 2009, the number of passengers enplaned in the Hawaii Airports System decreased 15.2%, with interisland activity decreasing 18.0% and overseas activity decreasing 12.3%. The 18.0% decrease in interisland activity is related to reductions in seating capacity and the cessation of service by Aloha Airlines (which provided primarily interisland service and, after filing for Chapter 11 bankruptcy, ceased service on March 31, 2008). The 12.3% decrease in the number of overseas enplaned passengers in FY 2009 is related to reductions in U.S. airline seating capacity in response to high fuel prices that affected passenger traffic in the State and at many airports throughout the nation as well as the effects of the national and global economic recessions.* In FY 2010, the number of enplaned passengers in the Hawaii Airports System is forecast to increase 1.6%. During the first 6 months of FY 2010 (July through December 2009), the actual numbers of enplaned passengers in the Hawaii Airports System increased 3.7% compared with the same period in FY 2009. Faster growth in actual activity during the first 6 months of FY 2010 compared with the annual FY 2010 forecast reflects a recovery in passenger traffic related to airline seating capacity reductions and the financial credit crisis during that period in FY

*ATA Airlines, which provided service between Hawaii and the continental United States, declared bankruptcy and ceased operations in April 2008.

2009. Overseas passenger traffic is expected to increase 4.2% in FY 2010 reflecting actual activity during the first 6 months of FY 2010 (July through December 2009), increased seating capacity during the last 6 months of FY 2010 (January through June 2010) based on published airline schedules, and a gradual recovery in the economy and passenger demand. Interisland passenger traffic is expected to decrease 1.2% reflecting actual activity during the first 6 months of FY 2010 (July through December 2009), decreased seating capacity during the last 6 months of FY 2010 (January through June 2010) based on published airline schedules, and the consolidation of interisland service between Mesa Airline's go! and Mokulele Airlines*, as discussed in later subsections under Section 1.6, "Airline Traffic Forecasts."

1.1.1 Honolulu International Airport

HNL has an important role in the State, national, and international air transportation systems. It is the largest commercial service airport in the State of Hawaii, the 12th busiest U.S. gateway airport based on numbers of international enplaned passengers, the 25th busiest airport in the United States in terms of total passengers (enplaned plus deplaned), and the hub for Hawaiian Airlines, Mesa Airlines (operating as go!), and Mokulele Airlines.

The ranking of HNL as the twelfth largest airport among U.S. gateway airports reflects Honolulu's (1) geographic location in the Central Pacific, (2) large origin-destination passenger base related to the visitor industry, and (3) role as a hub for Hawaiian Airlines and Mesa Airlines, which provides connecting passenger service from HNL to the other primary airports.

Central Pacific Geographic Location. Located in the central Pacific Ocean, Hawaii is a popular tourist destination for travelers from Pacific Rim countries, such as Japan, Korea, and the Philippines, as well as from the western portion of the United States. Hawaii is a western boundary of the United States (2,394 miles west of San Francisco and 3,797 miles east of Guam, the westernmost U.S. boundary) and has long been a major air transportation hub in the route system of Hawaiian Airlines. Figure 1 shows the Central Pacific geographic location of Hawaii in relation to countries in the Pacific Rim; Oceania, such as Australia and New Zealand; and North America.

Largest Commercial Service Airport in Hawaii. Of the 15 airports in the State, HNL is the largest commercial service airport, accounting for 60.0% of the passengers enplaned in the State in FY 2009, as shown in Table 2. Kahului Airport accounted for the next largest share, with 17.1% of total enplaned passengers in FY 2009. In FY 2009, overseas passengers enplaned at HNL accounted for 62.5% of

*On January 5, 2010, Mesa Air Group filed for Chapter 11 bankruptcy protection. Mesa's go!-Mokulele joint venture is not included in the Chapter 11 filing of Mesa Air Group and will continue to operate its full flight schedule.

total enplaned passengers at the airport and 72.8% of all overseas passengers enplaned in the State.

Table 2

PASSENGERS ENPLANED AT HAWAII AIRPORTS IN FY 2009

	Overseas		Interisland		Total	
Airport	Number	Share of overseas	Number	Share of interisland	Number	Share of State total
Honolulu International	5,559,960	72.8%	3,339,291	46.3%	8,899,251	60.0%
Primary Neighbor Island Airports						
Kahului	1,254,604	16.4	1,287,718	17.9	2,542,322	17.1
Lihue	363,934	4.8	866,447	12.0	1,230,381	8.3
Kona	456,832	6.0	875,391	12.2	1,332,223	9.0
Hilo	0	0.0	636,005	8.8	636,005	4.2
Subtotal	2,075,370	27.2%	3,665,561	50.9%	5,740,931	38.6%
Other airports	--	--%	201,968	2.8%	201,968	1.4%
State total	7,635,330	100.0%	7,206,820	100.0%	14,842,150	100.0%

Source: State of Hawaii, Department of Transportation, Airports Division records.

Twelfth Busiest U.S. Gateway Airport. HNL was the 12th busiest international gateway airport in the United States in 2008, in terms of international enplaned passengers. As of August 2009, the U.S. and foreign-flag airlines serving HNL operate to 38 destinations, including 18 within the continental United States, 1 in Alaska, 7 in Hawaii, and 12 international destinations.

Large Origin-Destination Passenger Base. HNL's large origin-destination passenger base is related to the popularity of Hawaii as a tourist destination, the strength of Hawaii's visitor industry, and the strength and size of the Hawaii's overall economy. This large base of passengers destined for Honolulu allows Hawaiian Airlines to (1) improve load factors and profitability and (2) maintain high frequencies for scheduling passenger connections, particularly to the other Hawaiian islands. According to U.S. Department of Transportation (DOT) data, 7.3 million passengers originated at HNL in 2008 (i.e., these originating passengers did not connect from another flight and did not fly on a foreign-flag airline).

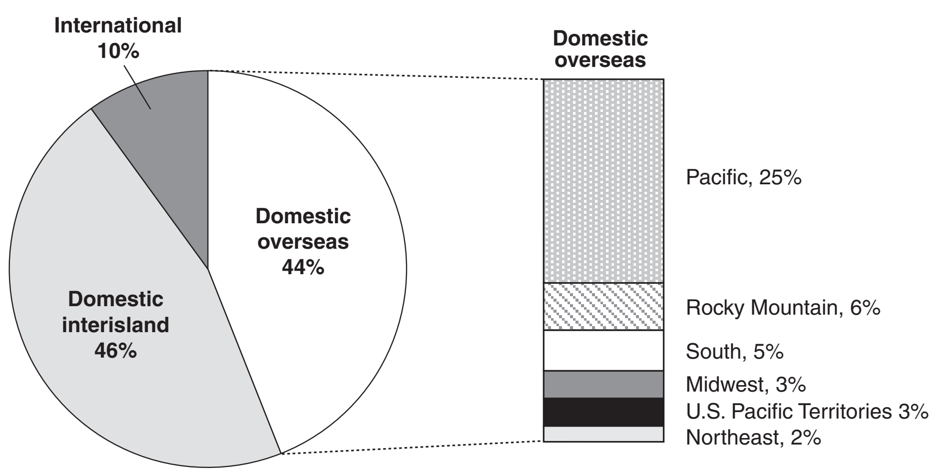
Diversity of Airlines Serving HNL. HNL is served by a total of 24 passenger airlines, including 9 major and national U.S. airlines, 4 regional and commuter airlines that provide interisland service, and 11 foreign-flag airlines. HNL is served by six of the seven largest U.S. airlines (Southwest Airlines does not serve HNL), as shown later in Table 9. The foreign-flag airlines serving HNL accounted for 11.9% of total scheduled departing seats in August 2009, representing more than two-thirds of total international seating capacity.

Hub for Hawaiian Airlines. As stated earlier, HNL serves as an important hub in the route systems of Hawaiian Airlines and, through March 31, 2008, it served as an important hub in the route system of Aloha Airlines (Aloha ceased operations on March 31, 2008). As shown on Figure 3, the shares of passengers connecting through HNL in FY 2009 reflect HNL's role as a connecting point for Hawaii interisland passengers, which account for the largest share of connecting passengers (46%) at HNL, followed by domestic overseas destinations (44%) and international destinations (10%). In FY 2009, the western United States (Pacific and Rocky Mountain states) accounted for 31% of passengers connecting at HNL from domestic overseas destinations, and the eastern United States (Northeastern, Midwestern, and Southern states) accounted for 10% of connecting passengers.

Figure 3

PASSENGERS CONNECTING THROUGH HONOLULU BY REGION

FY 2009



Notes: Data are for the destinations of passenger journeys.

Pacific: Alaska, California, Hawaii, Oregon, Washington
Rocky Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
South: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia
Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
U.S. Pacific Territories: American Samoa, Guam, Mariana Islands, and Palau Island.

Source: U.S. Department of Transportation, *Origin–Destination Survey of Airline Passenger Traffic, Domestic,* online database, accessed November 2009. Does not include data for foreign-flag carriers.

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HNL's Role in Hawaiian Airlines' System. Hawaiian Airlines was incorporated in January 1929 (formerly Inter-Island Airways) and is the largest airline headquartered in Honolulu. The airline provides scheduled air transportation services for passengers and cargo among the Hawaiian Islands, and between the Hawaiian Islands and cities in the western United States, the South Pacific, and Australia. HNL is the only hub in Hawaiian Airlines' system and accounted for 54.3% of the airline's enplaned passengers in FY 2009. From FY 2000 to FY 2009, the number of passengers enplaned by Hawaiian at HNL increased an average of 3.3% per year, reflecting the development of its domestic overseas and international service during this period. As a result of its concentration of operations in Hawaii and dependence on tourist travel, Hawaiian Airlines is sensitive to changes in the Hawaii market, including service and fare competition on its transpacific routes from network and new entrant airlines.

The continued development of Hawaiian Airlines' domestic and international service is facilitated by the growth of its aircraft fleet. As of June 2009, Hawaiian operated a fleet of 15 B-717-200 aircraft for its interisland routes and a fleet of 18 B-767-300 aircraft for its transpacific, South Pacific, and charter routes. In February 2008, Hawaiian announced plans to acquire 15 new long-range widebody aircraft, including nine A330-200 and six A350-800 aircraft planned for delivery between 2010 and 2017. Hawaiian also has purchase rights to acquire six additional aircraft of each type. In October 2008, Hawaiian signed lease agreements to acquire an additional three A330-200 aircraft.

HNL's Historical Role in Aloha's System. Aloha Airlines, which ceased passenger operations on March 31, 2008, was established in 1946 (formerly Trans-Pacific Airlines) and was also headquartered in Honolulu. Aloha provided scheduled air transportation services for passengers and cargo primarily among the Hawaiian Islands. HNL was also the only hub in Aloha Airlines' system and, in FY 2007, the last full fiscal year of operations, Aloha Airlines accounted for 15.5% of the passengers enplaned at HNL, down from its FY 2000 share (21.1%), reflecting the competitive and cost challenges the airline faced during this period. The cessation of service by Aloha on March 31, 2008 was the principal reason for the 18.0% decline in total interisland enplaned passengers between FY 2008 and FY 2009.

1.1.2 Primary Neighbor Island Airports and Other System Airports

Collectively, 5.7 million passengers were enplaned at the four Primary Neighbor Island Airports in FY 2009, representing 38.6% of all passengers enplaned at Hawaii airports, as shown in Table 2. Kahului Airport accounted for nearly half of all passengers enplaned at the Primary Neighbor Island Airports and 17.1% of all passengers enplaned in the State. In FY 2009, overseas passengers at the Primary Neighbor Island Airports accounted for 27.2% of all overseas passengers enplaned in the State and 36.2% of all passengers enplaned at the Primary Neighbor Island Airports, with Kahului Airport enplaning 1.3 million overseas passengers. The Primary Neighbor Island Airports are served by a total of 14 airlines, including

8 major and national airlines, 4 regional and commuter airlines, and 2 foreign-flag airlines.

Airline service is also provided at six other airports in the Hawaii Airports System: Molokai and Kalaupapa airports (on the island of Molokai); Lanai Airport (on the island of Lanai); Hana and Kapalua airports (on the island of Maui); and Waimea-Kohala Airport (on the island of Hawaii). Upolu Airport (on the island of Hawaii) and Port Allen Airport (on the island of Kauai) serve only general aviation. The State also operates general aviation airports at Dillingham Airfield and Kalaela Airport, both on the island of Oahu.

1.2 ECONOMIC BASIS FOR PASSENGER DEMAND

The economy of Hawaii is influenced by its Central Pacific geographical location as a business and transportation center for countries in the Pacific Rim and Oceania, a popular U.S. and Asia-Pacific tourism destination, and a strategic U.S. military base in the Pacific. In addition, Hawaii is known for its agricultural products, including pineapples, sugar, macadamia nuts, and tropical flowers. As shown on Figure 4, Hawaii Gross Domestic Product (GDP) increased an average of 2.7% per year, in constant 2000 dollars, between 2000 and 2008 compared with an average increase of 2.2% per year in U.S. GDP during the same period. A large share of Hawaii's GDP in 2008 was related to the visitor industry, including all or portions of the services (19%), trade (19%), real estate (18%), and leisure and hospitality (10%) sectors. The government sector, which includes federal military expenditures, accounted for the largest share of Hawaii GDP in 2008 (21%), but experienced slower than average growth among industry sectors (an average increase of 2.0% per year between 2000 and 2008). Hawaii construction sector GDP, in constant 2000 dollars, increased an average of 1.4% per year between 2000 and 2008, with an average increase of 4.3% per year between 2000 and 2005 and decreases of 2.0%, 5.4%, and 2.3% in 2006, 2007, and 2008, respectively.

According to the Bank of Hawaii, "Hawaii's low mortgage delinquency rates set apart its economic performance from the national average."* The mortgage delinquency rate for all loans (90 days or more past due) in the county of Honolulu was 2.65% in the second quarter of 2009, less than that for the other counties in Hawaii—Hawaii (5.92%), Kauai (5.32%), and Maui (5.87%), according to data from the Federal Reserve Bank of New York.** Other selected tourist destinations in the United States reported considerably higher mortgage delinquency rates than Hawaii in the second quarter of 2009, including Las Vegas (Clark County, 13.82%), Los Angeles (8.25%), Miami (Dade County, 18.41%), and Orlando (Orange County, 12.25%). In addition, the State of Hawaii ranked 38th among states in the percentage

*Bank of Hawaii, *Hawaii Economic Trends* June 30, 2009, www.boh.com/econ.

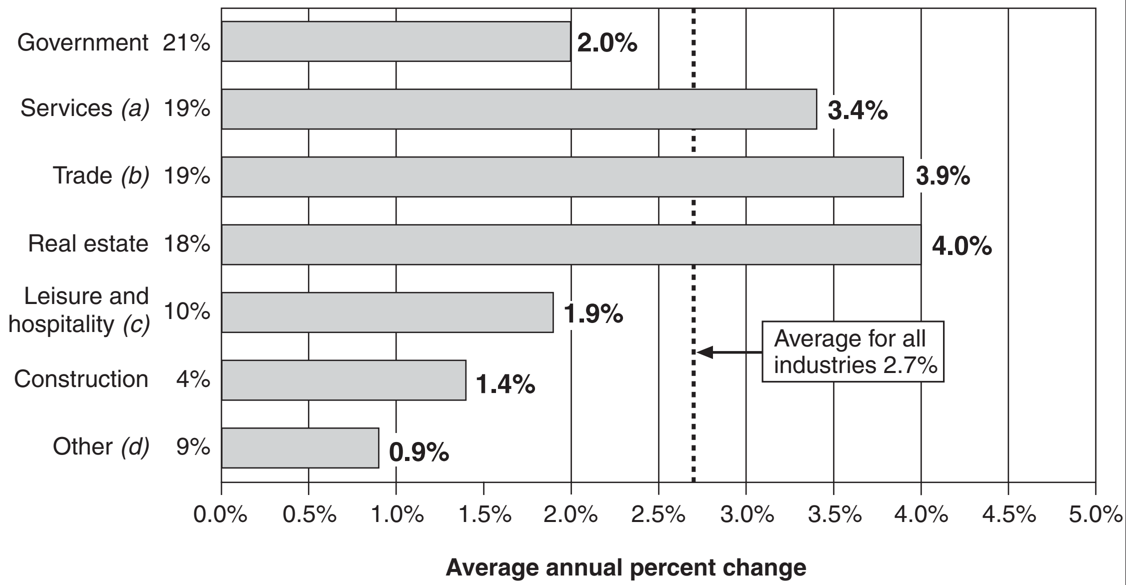
**Federal Reserve Bank of New York, U.S. Credit Conditions, http://data.newyorkfed.org/creditconditions.

of sub-prime mortgage loans delinquent by 90 days or more in June 2009, with a rate of 12.1%, compared to the national average of 15.1%.

Figure 4

GROWTH IN HAWAII GROSS DOMESTIC PRODUCT BY INDUSTRY SECTOR: 2000-2008

(Ranked by 2008 share, in 2000 dollars)



(a) Includes professional and technical, management, administrative and waste, health, and educational services.
(b) Includes wholesale and retail trade, transportation, warehousing, and utilities.
(c) Includes arts, entertainment, and recreation and accomodation and food services.
(d) Includes agriculture, mining, information, finance and insurance.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed August 2009. Data are based on the North American Industrial Classification System (NAICS) and are only available from 1997 through 2008.

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According to the Hawaii State Department of Business, Economic Development and Tourism (DBEDT), Oahu median single-family home prices decreased 10.5% during the second quarter of 2009 compared with the second quarter of 2008, while condominium prices decreased 6.8% during the same period. Maui median single-family home prices decreased 10.8% during the first quarter of 2009 (the most recent period available) compared with the first quarter of 2008, while condominium prices decreased 22.3% during the same period.

Table 3 presents a summary of economic growth, in terms of four economic indicators—population, nonagricultural employment, per capita personal income (in constant 2000 dollars), and GDP (in constant 2000 dollars)—for the State of Hawaii and the nation.

Table 3

HISTORICAL SOCIOECONOMIC DATA

State of Hawaii and United States

1980-2008

	Population (thousands)		Employment (thousands)		Per capita income (2000 dollars)		Gross domestic product (millions of 2000 dollars)	
	State of Hawaii *(a)*	United States *(b)*	State of Hawaii *(a)*	United States *(c)*	State of Hawaii *(a)*	United States *(d)*	State of Hawaii *(a)*	United States *(e)*
Historical								
1980	968	226,546	404	90,528	23,811	21,088	*(f)*	*(f)*
1990	1,113	248,710	528	109,487	28,746	25,499	*(f)*	*(f)*
2000	1,211	282,172	551	131,785	29,073	30,318	40,202	9,817,000
2001	1,218	285,040	555	131,826	28,690	30,287	40,626	9,890,700
2002	1,227	287,727	557	130,341	29,226	30,123	41,093	10,048,800
2003	1,238	290,211	568	129,999	29,499	30,214	42,580	10,301,000
2004	1,252	292,892	583	131,435	30,800	30,902	44,636	10,675,800
2005	1,264	295,561	602	133,703	31,611	31,254	46,930	10,989,500
2006	1,275	298,363	617	136,086	32,903	32,226	48,713	11,294,800
2007	1,277	301,290	625	137,598	33,974	32,747	49,424	11,523,900
2008	1,288	304,060	619	137,066	33,636	32,158	49,782	11,652,000
	Percent increase (decrease)							
2000-2001	0.5%	1.0%	0.7%	0.0%	(1.3%)	(0.1%)	1.1%	0.8%
2001-2002	0.8	0.9	0.3	(1.1)	1.9	(0.5)	1.1	1.6
2002-2003	0.9	0.9	1.9	(0.3)	0.9	0.3	3.6	2.5
2003-2004	1.1	0.9	2.8	1.1	4.4	2.3	4.8	3.6
2004-2005	1.0	0.9	3.1	1.7	2.6	1.1	5.1	2.9
2005-2006	0.9	0.9	2.6	1.8	4.1	3.1	3.8	2.8
2006-2007	0.2	1.0	1.3	1.1	3.3	1.6	1.5	2.0
2007-2008	0.8	0.9	(0.9)	(0.4)	(1.0)	(1.8)	0.7	1.1
	Average annual percent increase (decrease)							
Historical								
1980-1990	1.4%	0.9%	2.7%	1.9%	1.9%	1.9%	--%	--%
1990-2000	0.8	1.3	0.4	1.9	0.1	1.7	(0.2)	4.1 *(g)*
2000-2008	0.8	0.9	1.5	0.5	1.8	0.7	2.7	2.2
1980-2008	1.0	1.1	1.5	1.5	1.2	1.5	1.9	2.7 *(h)*

n.a. = Not available.

(a) Historical data from Hawaii State Department of Business, Economic Development & Tourism, Tourism Research Branch, www.hawaii.gov/dbedt, accessed August 2009.
(b) Historical data from U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed August 2009.
(c) Historical data from U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed August 2009.
(d) U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed August 2009. Adjusted to constant 2000 dollars using the U.S. Department of Labor, Consumer Price Index for Urban Consumers (1982-84 = 100),
(e) Historical data from U.S. Department of Commerce, Bureau of Economic Analysis, Regional Accounts Data, www.bea.gov, accessed August 2009. Expressed in 2000 dollars.
(f) Data are based on North American Industrial Classification System (NAICS) and are only available in a consistent time series from 1997 through 2006.
(g) Represents the percent change from 1997-2000.
(h) Represents the percent change from 1997 through 2008.

1.2.1 Population

As shown in Table 3, the population of the State of Hawaii increased at average annual growth rates slower than the national average (except from 1980 to 1990). Population growth in Hawaii has slowed since 1990, increasing an average of 0.8% per year between 1990 and 2008. In 2008, the population of the State of Hawaii totaled 1,288,000.

1.2.2 Employment

Following the trends in population, growth in nonagricultural employment in the State of Hawaii has slowed since 1990, increasing an average of 0.4% per year between 1990 and 2000 and 1.5% per year between 2000 and 2008. Strong growth in nonagricultural employment between 2002 and 2006—an average increase of 2.6% per year—approximates the growth experienced in the 1980s and reflects the expansion of the Hawaii economy during that period. The long-term average annual growth in Hawaii nonagricultural employment from 1980 to 2008, an average increase of 1.5% per year, was the same as that for the nation during this period.

1.2.3 Per Capita Personal Income

Per capita income (in 2000 constant dollars) in the State of Hawaii has historically approximated that for nation, with year-to-year variation, as shown in Table 3. Between 2000 and 2008 (the most recent year for which data are available), per capita personal income in the State of Hawaii increased an average of 1.8% per year, faster that the average of 0.7% per year for the nation during the same period.

1.2.4 Gross Domestic Product

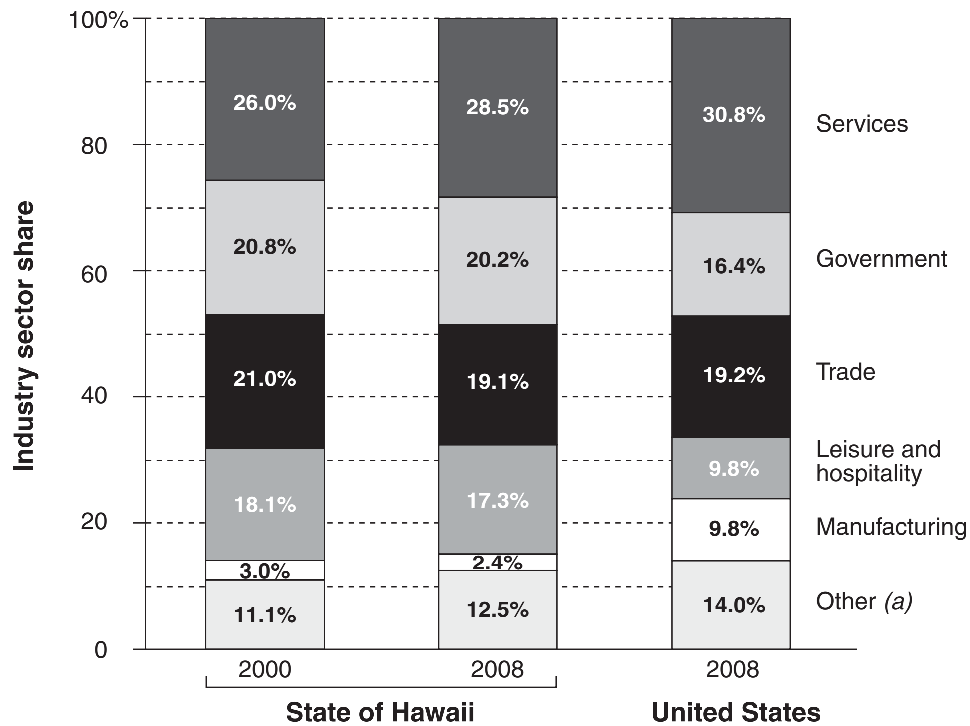
The valuation of a state's GDP is based on national prices for the goods and services produced within that state. From 1997 to 2008, Hawaii GDP, in constant 2000 dollars, increased an average of 1.9% per year, faster than real per capita personal income growth in Hawaii during this period, but slower than GDP growth in the nation (an average of 2.7% per year), as shown in Table 3. Following the trends in nonagricultural employment, Hawaii GDP experienced strong growth between 2002 and 2006—an average increase of 4.3% per year—reflecting the expansion of the Hawaii economy during that period. Hawaii GDP has increased an average of 2.7% per year between 2000 and 2008, faster than GDP growth in the nation during the same period (2.2% per year).

1.2.5 Nonagricultural Employment by Sector

Figure 5 presents a comparison of historical nonagricultural employment by industry sector for the State of Hawaii and the United States. The shares of employment by industry sector generally parallel the shares of State GDP, although the leisure and hospitality and services sectors in Hawaii accounted for larger shares of employment than GDP. The State of Hawaii services sector accounted for 28.5% of total nonagricultural employment in 2008 (compared with 19.4% of State GDP) and the leisure and hospitality sector accounted for 17.3% of employment (compared with 9.4% of State GDP). The government sector accounted for 20.2% of total nonagricultural employment in Hawaii in 2008, reflecting State government employment on the island of Oahu and U.S. Department of Defense employment (military and civilian) related to the operations of the Pacific Command and Pacific Air Force.

Figure 5

COMPARATIVE DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT



(a) Includes employment in mining, construction, information, finance, insurance, and real estate.

Sources: Hawaii—State of Hawaii, Department of Business, Economic Development, and Tourism, www.hawaii.gov/dbedt., accessed August 2009. United States—U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed August 2009.

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1.2.6 Unemployment Rates

In addition to the employment trends cited above, the unemployment rate is also indicative of the general economic climate. Table 4 shows comparative annual unemployment rates in the State of Hawaii and the nation as a whole for 2000 through September 2009. The unemployment rate in the State has followed but remained consistently lower than the trends in the nation during this period.

Table 4

COMPARATIVE UNEMPLOYMENT RATES

	Average annual rates	
	State of Hawaii	United States
2000	4.0%	4.0%
2001	4.2	4.7
2002	4.0	5.8
2003	3.9	6.0
2004	3.2	5.5
2005	2.7	5.1
2006	2.5	4.6
2007	2.6	4.6
2008	3.9	5.8
	Monthly rates	
2008		
January	2.9%	5.4%
February	2.8	5.2
March	2.9	5.2
April	3.1	4.8
May	3.4	5.2
June	4.4	5.7
July	4.3	6.0
August	4.3	6.1
September	4.6	6.0
October	4.4	6.1
November	5.0	6.5
December	5.1	7.1
2009		
January	6.1%	8.5%
February	6.4	8.9
March	7.0	9.0
April	6.9	8.6
May	7.2	9.1
June	8.0	9.7
July	7.2	9.7
August	7.1	9.6
September	7.5	9.5

Note: Data are not seasonally adjusted.
n.a. = not available

Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed November 2009.

Since the beginning of the recession in December 2007, monthly unemployment rates in the State of Hawaii and the United States have increased, as shown in Table 4. In September 2009, the Hawaii unemployment rate was 7.5%, lower than that for the nation (9.5%).

1.2.7 Large Employers

Table 5 lists 20 selected large employers in the State of Hawaii. The list includes a diverse mix of companies, including air transportation, energy, and financial services businesses; hotels; and health care facilities.

Table 5

SELECTED LARGE EMPLOYERS
State of Hawaii

2009 Rank (by employees)	Company	Description	Employment
1	University of Hawaii *(a)*	Education and research	8,612
2	Hawaii Pacific Health	Health care	5,300
3	The Queen's Health Systems	Health care	5,059
4	Kyo-Ka Co. Ltd.	Hotels	3,851
5	Hawaii Health Systems Corps	Health Care	3,839
6	Hawaiian Airlines Inc.	Passenger airline	3,700
7	Hawaiian Electric Industries Inc.	Energy and financial services	3,560
8	Kaiser Permanente Medical Care Program	Health care	3,396
9	Outrigger Enterprises Group	Hotels	3,123
10	Hilton Hawaii	Hotels	2,766
11	Securitas Security Services USA, Inc.	Security guard services	2,700
12	Bank of Hawaii Corp.	Financial services	2,581
13	Starwood Hotels and Resorts	Hotels	2,425
14	Alexander & Baldwin Inc.	Ocean transportation, real estate, and food products	2,386
15	First Hawaiian Bank	Financial services	2,345
16	Pacific Island Restaurants Inc.	Restaurant	2,272
17	L&L Drive-Inn and L&L Hawaiian Barbecue	Restaurants	2,185
18	Kamehameha Schools	Education	1,917
19	Oahu Transit Services Inc.	Local transit	1,850
20	Hawaii Medical Service Association	Health insurance	1,747

Note: These data may include employees outside the State of Hawaii.

(a) Classified as a nonprofit entity in the compilation of this list.

Source: *Hawaii Business*, "Top 250 Companies in Hawaii," 2009, www.hawaiibusiness.com.

1.2.8 Visitors to Hawaii

According to DBEDT, approximately 6.7 million people visited Hawaii in 2008, as shown in Table 6. The number of westbound visitors to Hawaii (mostly from the continental United States) has historically exceeded the number of eastbound visitors from eastern Pacific Rim countries. Westbound visitors accounted for 73.7% of total visitors in 2008, including 66.3% from origins within the United States. Since 1990, the share of westbound visitors to Hawaii has increased—from 67.8% in 1990 to 73.7% in 2008. Eastbound visitors (mostly from Japan) accounted for 21.5% of visitors to Hawaii in 2008, down from 29.9% in 1990.

Westbound Visitors. Growth in westbound visitor activity to Hawaii since 1990 is related to U.S. economic growth (as measured in U.S. per capita GDP, in 2000 dollars) and the trends in average airline fares from Hawaii to U.S. mainland destinations in the continental United States (in constant 2000 dollars), as shown on Figure 6, which summarizes these relationships as follows:

- Overall, there is a positive, gradually increasing trend in both U.S. per capita GDP and the number of westbound air visitors to Hawaii, except for 2008. The number of westbound visitors to Hawaii increased an average of 1.0% per year between 2000 and 2008, slower than the growth in U.S. per capita GDP (in 2000 dollars)—an average increase of 2.2% during the same period. From 2007 to 2008, the number of westbound visitors decreased 11.8% in response to a number of factors, including increases in airline fares related to high oil prices, the reductions in U.S. airline capacity in the last half of 2008, the national economic recession, and the financial crisis in the last quarter of 2008.

- Airline fares to the continental United States (in 2000 dollars) were roughly flat over the same period, with no decrease in airline fares occurring that could potentially have stimulated the visitor market and increased visitor growth rates. In certain years, fluctuations in continental U.S. airline fares explain some of the annual variation in the numbers of westbound visitors. For example, increases in fares in 1997 and 1998 contributed to slower growth in the numbers of westbound visitors in those years. From 2007 to 2008, the average airfare from Hawaii to the continental United States increased 6.6% in response to increases in oil prices.

Table 6

HISTORICAL VISITORS TO HAWAII
State of Hawaii
1990 – 2008

Visitors by origin market (thousands)

	Westbound						Eastbound					
	US West	US East	Canada	Europe	Latin America	Total westbound	Japan	Oceania	Other Asia	Total eastbound	Other	Total
1990	2,220	1,935	230	172	--	4,557	1,493	339	178	2,010	157	6,724
2000	2,432	1,713	252	167	18	4,582	1,818	96	153	2,066	300	6,949
2001	2,372	1,588	217	126	15	4,318	1,529	81	102	1,712	274	6,304
2002	2,487	1,583	190	111	13	4,384	1,483	109	111	1,703	302	6,389
2003	2,610	1,653	205	111	14	4,593	1,340	96	98	1,534	253	6,380
2004	2,768	1,805	217	115	14	4,919	1,482	132	98	1,713	280	6,912
2005	3,032	1,929	249	112	15	5,337	1,517	142	107	1,767	312	7,417
2006	3,220	1,953	281	106	19	5,579	1,363	136	117	1,616	333	7,528
2007	3,245	1,902	333	108	20	5,608	1,296	164	121	1,581	308	7,497
2008	2,769	1,683	360	115	19	4,946	1,175	155	113	1,443	324	6,713

Average annual percent increase (decrease)

	US West	US East	Canada	Europe	Latin America	Total westbound	Japan	Oceania	Other Asia	Total eastbound	Other	Total
1990-2000	0.9%	(1.2%)	0.9%	(0.3%)	--	0.1%	2.0%	(11.8%)	(1.6%)	0.3%	6.7%	0.3%
2000-2008	1.6	(0.2)	4.6	(4.5)	0.5	1.0	(5.3)	6.2	(3.7)	(4.4)	(1.0)	(0.4)
2007-2008	(14.7)	(11.5)	7.9	6.6	(5.2)	(11.8)	(9.4)	(5.3)	(7.1)	(8.8)	5.4	(10.4)

Visitors by County (thousands), includes visits to more than one island

	Westbound					Eastbound						
	Honolulu	Hawaii	Kauai	Maui *(a)*	Total westbound	Honolulu	Hawaii	Kauai	Maui *(a)*	Total eastbound	Other *(b)*	Total
1990	3,056	946	1,063	1,996	7,062	1,944	161	147	350	2,602	217	9,881
2000	2,555	938	901	1,990	6,383	1,946	283	138	325	2,692	385	9,461
2001	2,426	879	842	1,848	5,995	1,629	258	133	281	2,301	356	8,652
2002	2,433	929	851	1,876	6,090	1,626	264	114	255	2,258	406	8,754
2003	2,449	938	877	2,041	6,304	1,452	225	67	193	1,937	343	8,584
2004	2,625	992	917	2,046	6,580	1,633	245	71	176	2,125	363	9,068
2005	2,816	1,186	997	2,197	7,196	1,691	275	58	155	2,179	410	9,785
2006	2,902	1,297	1,101	2,335	7,635	1,536	253	54	160	2,003	496	10,134
2007	2,965	1,310	1,188	2,383	7,846	1,506	251	63	158	1,978	439	10,263
2008	2,576	1,038	943	1,987	6,544	1,377	218	47	135	1,776	451	8,771

Average annual percent increase (decrease)

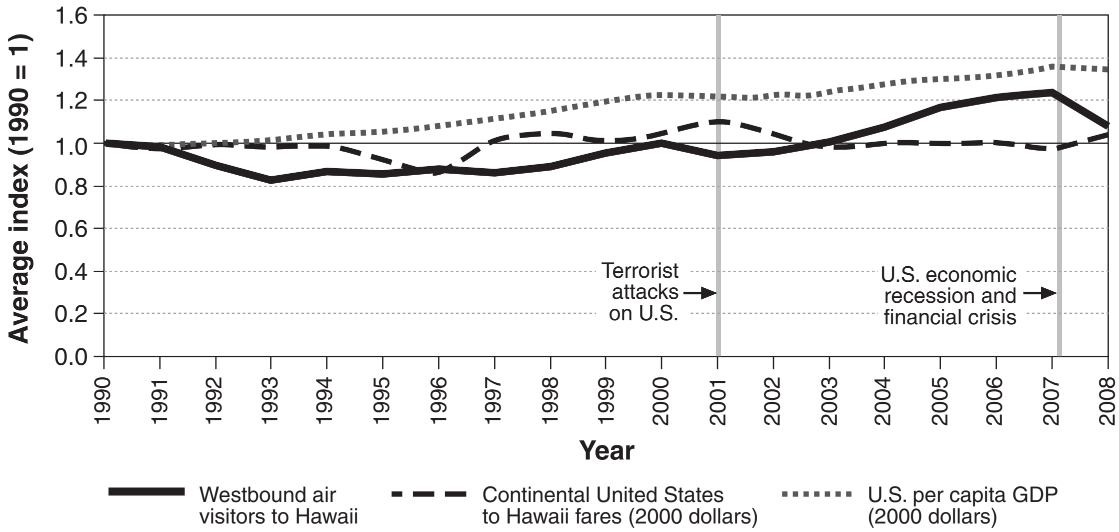
	Honolulu	Hawaii	Kauai	Maui *(a)*	Total westbound	Honolulu	Hawaii	Kauai	Maui *(a)*	Total eastbound	Other *(b)*	Total
1990-2000	(1.8%)	(0.1%)	(1.6%)	0.0%	(1.0%)	0.0%	5.8%	(0.7%)	(0.7%)	0.3%	5.9%	(0.4%)
2000-2008	0.1	1.3	0.6	0.0	0.3	(4.2)	(3.2)	(12.6)	(10.4)	(5.1)	2.0	(0.9)
2007-2008	(13.1)	(20.8)	(20.7)	(16.6)	(16.6)	(8.6)	(13.1)	(25.5)	(14.7)	(10.2)	2.8	(14.5)

(a) County of Maui includes the islands of Maui, Molokai, and Lanai.
(b) Includes visitors to other major market areas from all of the counties.

Source: State of Hawaii, Department of Business, Economic Development, and Tourism, www.hawaii.gov/dbedt, accessed August 2009.

Figure 6

ANNUAL CHANGE IN WESTBOUND AIR VISITORS TO HAWAII



Sources: Westbound air visitors to Hawaii—State of Hawaii, Department of Business, Economic Development, and Tourism,www.dbedt.org, accessed August 2009.
Continental U.S. mainland fares—U.S. Department of Transportation, Origin-Destination Survey of Airline Passenger Traffic, Domestic, online database, accessed August 2009. Fare data are for the Fiscal Years ended June 30.
Per capita Gross Domestic Product—International Monetary Fund, World Economic Outlook Database, accessed August 2009.

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Eastbound Visitors. The decline in the numbers of eastbound visitors to Hawaii (primarily from Japan) since 1990 is related to a number of factors, including economic growth in Japan, the value of the Japanese yen, events that have affected travel since 1990, and changes in technology and the consumer preferences of Japanese travelers, as shown on Figure 7, which summarizes these relationships as follows:

- From 1990 to 2007, Japan's economic growth, in terms of per capita GDP (in 2000 dollars) increased an average of 1.2% per year, slower than U.S. economic growth, which averaged 1.9% per year (in 2000 dollars) during this period. From 2007 to 2008, Japan's GDP decreased 0.6% in response to the global economic recession.

- The value of the Japanese yen (in U.S. dollars) decreased an average of 1.2% per year between 1990 and 2007, increasing the cost of overseas travel for Japanese visitors. From 2007 to 2008, the value of the Japanese yen decreased 12.2%, contributing to the decrease in eastbound visitors to Hawaii.

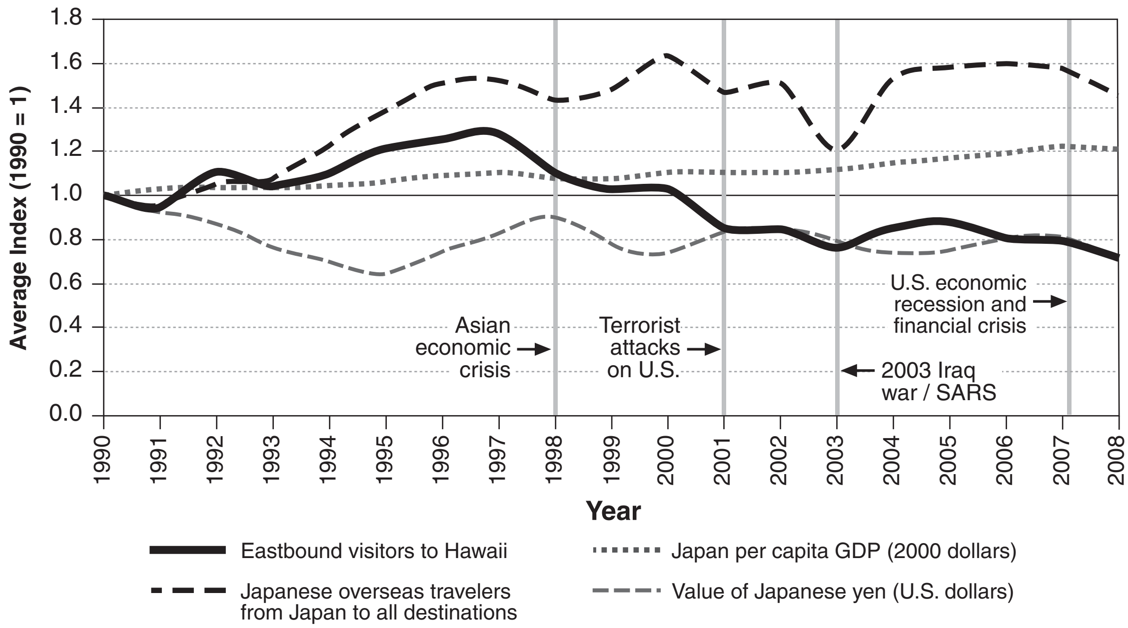
- Total Japanese overseas travelers from Japan to all destinations increased an average of 2.7% per year between 1990 and 2007, compared with an average decrease of 1.4% in the numbers of Japanese eastbound visitors to

Hawaii during this period. From 2007 to 2008, total Japanese overseas travelers from Japan and Japanese eastbound visitors to Hawaii decreased 7.6% and 9.4%, respectively.

- In addition, a number of events occurred between 1990 and 2008 that reduced the demand for Japanese overseas travel, including the Asian economic crisis in 1997 and 1998, the terrorist attacks in the United States in 2001, the beginning of the Iraq war and the severe acute respiratory syndrome (SARS) epidemic in 2003, and, most recently, concerns about the spread of "swine flu" caused by the H1N1 virus that began in April 2009. In recent years, increases in fuel prices and fuel surcharges have also reduced the growth in Japanese overseas travel.

Figure 7

ANNUAL CHANGE IN EASTBOUND AIR VISITORS TO HAWAII



Sources: Eastbound air visitors to Hawaii—State of Hawaii, Department of Business, Economic Development and Tourism, www.dbedt.org, accessed August 2009.
Japanese overseas travelers—Japanese National Tourism Organization, as reported by JTB Corporation, www.jtbcorp.jp, accessed August 2009.
Per capita Gross Domestic Product—International Monetary Fund, World Economic Outlook Database, accessed August 2009.
Value of Japanese yen—Federal Reserve System, Economic Research, http://research.stlouisfed.org/fred2/., accessed August 2009.

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The increased use of the Internet for travel planning and a reduced reliance on tour packages have also influenced the preferences of Japanese overseas travelers and provided more options for overseas travel. Although the number of eastbound visitors to Hawaii has decreased since 1990, the total number of Japanese overseas travelers from Japan to all destinations has increased.

Visitors by County. Table 6 also presents the numbers of visitors to the State of Hawaii's four counties—Honolulu, Hawaii, Kauai, and Maui—from 1990 to 2008. The county data include visits to more than one county (multiple island visits) and, therefore, are greater than the visitor data by origin market presented earlier. In 2008, visitors to the county of Honolulu (Oahu) accounted for approximately 45% all visitors to the State (including visitors to other markets), down from Honolulu's share in the 1970s (52%). The remaining three counties—Hawaii, Kauai, and Maui—have accounted for increasing shares of all visitors to Hawaii since 1990, reflecting new resort development, an increase in the number of nonstop flights to these islands, and their increased popularity, particularly for westbound visitors.

1.2.9 Economic Outlook

Economic activity in the State of Hawaii is directly linked to the production of goods and services in the rest of the United States. Airline travel and the movement of cargo through the Hawaii Airports System depend on the economic linkages between the State and national economies.

U.S. Economy. The U.S. economy, after expanding from November 2001 to December 2007, entered into a recession, which was triggered by a contraction in the real estate markets combined with a surge in energy and other commodity prices in 2006. As the economy weakened, a number of factors contributed to the intensity and duration of the recession, including:

- A financial system crisis in the United States triggered by a decrease in real estate prices and the value of real estate backed investment securities and other financial assets during the summer of 2007. This was followed by sub-prime mortgage-related problems with some large investment and commercial banks during the first half of 2008 and the collapse of Lehman Brothers and the near collapse of AIG in the second half of 2008.

- National unemployment rates (seasonally adjusted) increased from 5.8% in July 2008 to 10.0% in December 2009, reflecting the loss of 7 million jobs during this period.

- Consumer spending, which historically accounts for about 70% of U.S. GDP, became constrained by the loss of home equity, tight credit, modest income growth, and high unemployment in a weak labor market. Consumer borrowing began declining in the fourth quarter of 2008 and accelerated to an 8.5% annual rate of decline by November 2009.

- A significant decline in U.S. economic performance, measured by decreases in U.S. Gross Domestic Product (GDP) during four consecutive quarters beginning with the third quarter of 2008 through the second quarter of 2009.

- A global economic recession, the fourth since World War II, declared by the International Monetary Fund (IMF) in April 2009, related to the spillover effects from the U.S. recession and financial crisis.

During the fourth quarter of 2008, Congress passed the Emergency Economic Stabilization Act of 2008, which provided for a government bailout of troubled banks, and approved $17.4 billion in loan guarantees for the U.S. auto industry.

There were signs of economic growth in the third quarter of 2009, although this growth was uneven among states and metropolitan areas. In January 2010, the Bureau of Economic Analysis reported a 5.7% increase in GDP during the fourth quarter of 2009 (an advance estimate which is subject to revision) indicating that economic growth strengthened in the last half of 2009. At its December 2009 meeting, the Federal Open Market Committee (FOMC) expected the economic recovery to continue but at a slower rate of growth in output and employment than past recoveries from deep recessions.

- Positive factors contributing to growth include moderate increases in consumer spending, continuing improvement in the housing sector, a slowing in the pace of business inventory reductions, and improvement in global economic conditions and financial markets.

- Negative factors constraining growth include the reluctance of businesses to increase payrolls and capital spending in the face of increasing demand, deteriorating conditions in the commercial real estate sector, contractions in bank credit, a continued reliance on government support, and the expiration of homebuyer tax credits and other housing sector programs.

Table 7 presents a comparison of U.S. economic projections prepared by the Congressional Budget Office (CBO), the *Blue Chip* Consensus, and the FOMC. Consistent with the CBO projections, both the *Blue Chip* Consensus and the FOMC projections reflect the effects of fiscal stimulus and Federal Reserve measures to provide support to credit markets. The long-term growth rates for each of three projections (through 2020) do not include assumptions regarding further economic and other shocks, and all three projections show GDP growth of ranging from 2.0% to 3.0%. This rate of growth is significantly less than world-wide growth projections, especially in emerging economies like India and China.

Table 7

U.S. ECONOMIC PROJECTIONS
2010-2020

	Average annual percent increase (decrease) *(a)*			
	Historical	Projected		
	1980-2009	2009-2010	2010-2011	2009-2020
Real GDP				
CBO	2.8%	2.1%	2.4%	2.9%
Blue Chip Consensus		2.9	3.1	*(b)*
FOMC		2.0 – 4.0	2.5 – 4.6	2.4 – 3.0
CPI-U				
CBO	3.4%	1.6%	1.1%	1.7%
Blue Chip Consensus		1.7	2.0	*(b)*
	Calendar year average rates			
Unemployment rate (percent)				
CBO	6.2% *(c)*	10.1%	9.5%	5.0% *(d)*
Blue Chip Consensus		10.0	9.3	*(b)*
FOMC		8.6 – 10.2	7.2 – 8.7	4.8 – 6.3
3-Month Treasury Bill rate				
CBO	5.5% *(c)*	0.2%	0.7%	4.8% *(d)*
Blue Chip Consensus		0.5	1.8	*(b)*
10-Year Treasury Note rate				
CBO	7.2% *(c)*	3.6%	3.9%	5.6% *(d)*
Blue Chip Consensus		4.0	4.6	*(b)*

CBO= Congressional Budget Office
CPI-U = Consumer price index for all urban consumers
FOMC = Federal Reserve Board, Federal Open Market Committee
GDP = Gross Domestic Product

Note: The *Blue Chip* Consensus is the average of about 50 forecasts by private-sector economists.

(a) Represents the percent change between the fourth quarters of the years indicated, except for 1980 through 2009.
(b) The January 2010 *Blue Chip* Consensus extends only through 2011.
(c) Represents the average from 1980 through 2009 (estimated).
(d) Level in 2020.

Sources: Congressional Budget Office, *The Budget and Economic Outlook, Fiscal Years 2010 to 2020,* January 2010 (including data for the Blue Chip Consensus). Federal Reserve Board, Federal Open Market Committee, *Summary of Economic Projections*, November 3-4, 2009, published November 24, 2009.

Hawaii Economy. Although the Hawaii economy continued to experience the effects of the national economic recession during the fourth quarter of 2009, certain indicators suggested that the economy had reached the bottom in the recession. During the fourth quarter of 2009, the number of visitors and building permits increased 0.6% and 0.1%, respectively, compared with the fourth quarter of 2008. In its first quarter 2010 economic outlook, DBEDT notes that "Hawaii's economy is expected to continue seeing more positive signs of stability into 2010, the beginning of recovery in some sectors, and modest growth by 2011." As discussed earlier, the economy of Hawaii is influenced by its geographic location and popularity as a major U.S. and Asia-Pacific tourist destination. State economists expect decreases in economic activity in 2010 and gains in 2011 with the potential for slow growth and recovery, as shown in Table 8.

- **Population**—DBEDT projects that the Hawaii population will increase an average of 0.9% per year between 2009 and 2016, similar to the rate projected for the nation (an average of 1.0% per as projected by the U.S. Bureau of the Census).

- **Nonagricultural employment**—Near-term projections of nonagricultural employment for the State of Hawaii are for decreases ranging from 0.9% to 1.3% in 2010, reflecting projections prepared by DBEDT, the Bank of Hawaii (BOH), and the University of Hawaii Economic Research Organization (UHERO), as shown in Table 8. In 2011, Hawaii nonagricultural employment is expected to begin recovery, with increases of 0.8% to 1.3% projected. DBEDT's long-term projections of nonagricultural employment in Hawaii are for an average increase of 0.8% per year between 2009 and 2016.

- **Total personal income**—Near-term projections of total personal income (in 2000 dollars) for the State of Hawaii range from no growth to decreases of 0.3% to 1.1% in 2010. In 2011, increases in Hawaii total personal income are projected ranging from 0.8% to 1.1%. DBEDT's long-term projections of total personal income in Hawaii are for an average increase of 1.6% per year between 2009 and 2016.

- **Gross Domestic Product**—DBEDT projects that the State of Hawaii GDP (in 2000 dollars) will increase 0.9% in 2010 and 1.4% in 2011.

Table 8

COMPARISON OF SOCIOECONOMIC PROJECTIONS FOR THE STATE OF HAWAII

	Average annual percent increase (decrease)			
	Historical	Projected		
	1980-2009*(a)*	2009-2010	2010-2011	2009-2016
Population	1.0%			
DBEDT *(b)*		0.7%	0.7%	0.9%
Nonagricultural employment	1.4			
DBEDT *(b)*		(0.9)	0.8	0.8
BOH		(1.3)	--	--
UHERO		(1.0)	1.3	--
Total personal income (2000 dollars)	2.1			
DBEDT *(b)*		0.0	0.8	1.6
BOH		(1.1)	--	--
UHERO		(0.3)	1.1	--
Gross Domestic Product (2000 dollars)	1.7 *(c)*			
DBEDT		0.9	1.4	--
Visitors arriving by air	(0.2) *(d)*			
DBEDT *(b, e)*		2.0	4.0	0.8
BOH		3.7	--	--
UHERO		3.7	3.7	--

BOH = Bank of Hawaii
DBEDT = Hawaii State Department of Business, Economic Development and Tourism
UHERO = University of Hawaii Economic Research Organization
n.a. = not available

(a) Data for 2009 are estimated by DBEDT in its 1st Quarter 2010 Outlook noted below.
(b) DBEDT prepares short-term quarterly economic projections and long-term projections through 2035.
(c) Represents the average from 1997 through 2009.
(d) Represents the average from 1990 through 2009.
(e) Includes visitors arriving by air and cruise ship.

Source*:* Short-term projections*:* Hawaii State Department of Business, Economic Development & Tourism, Tourism Research Branch, "*Outlook for the Economy: 1st Quarter 2010*," February 23, 2010, www.hawaii.gov/dbedt, accessed February 2010. Bank of Hawaii, *Hawaii Economic Trends*, October 15, 2009, www.boh.com/econ, accessed November 2009. University of Hawaii Economic Research Organization, Quarterly Hawaii Forecast Update, December 18, 2009, www.uhero.hawaii.edu, accessed February 2010.
Long-term projections. Hawaii State Department of Business, Economic Development & Tourism, Tourism Research Branch, www.hawaii.gov/dbedt, accessed August 2009.

- **Visitors arriving by air**—Near-term projections of Hawaii visitors arriving by air are for increases ranging from 2.0% to 3.7% in 2010. In 2011, visitor activity is projected to increase from 3.7% to 4.0%. DBEDT long-term projections of visitor arrivals to Hawaii are for an average increase 0.8% between 2009 and 2016.

Risks to the Economic Outlook. While the projections presented in this section represent a range of the most likely economic scenarios, there are some risks to the economic outlook. In the near term, the principal risk is that the federal government's policy response to the current financial crisis and recession in the United States may not be effective in providing the foundation for a recovery in the latter half of 2009. Inflation risks still persist due to the sizable amount of liquidity that the Federal Reserve Bank has injected into the banking system, which could eventually trigger upward pressures on prices. A prolonged global slowdown extending beyond 2009 could result in a lower average annual growth rate of the United States and the State of Hawaii economies between 2008 and 2016. In the longer term, the principal risks to U.S. economic performance are the sizable external and fiscal deficits. The continuing deficits in the U.S. balance of payments could result in greater volatility in the currency markets, which would then translate into higher interest rates and, therefore, slower economic growth. These risks could be compounded if the fiscal deficit does not shrink within the next 5 years, thereby leading to much larger financing requirements and subsequent increases in interest rates. Increased interest rates could lead to slower investment and, consequently, slower productivity growth.

1.3 PASSENGER DEMAND

The primary drivers of historical and future passenger demand include (1) the airline service and passenger market shares at the airports in the Hawaii Airports System, (2) trends in the enplaned passenger base, including the trends in overseas and interisland activity, (3) originating passenger demand, (4) connecting passenger activity and trends, and (5) average airfares.

1.3.1 Airline Service and Passenger Market Shares

Passenger airline service and enplaned passenger market shares are discussed below.

Airline Service. Table 9 lists the passenger airlines providing service at the five primary airports in the Hawaii Airports System in November 2009. HNL is served by a total of 24 airlines, including 9 major and national U.S. airlines, 4 regional and commuter airlines that provide interisland service, and 11 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 14 airlines, including 8 major and national airlines, 4 regional and commuter airlines, and 2 foreign-flag airlines.

Table 9

SCHEDULED PASSENGER AIRLINES SERVING HAWAII
November 2009

Honolulu International Airport

Major/national	*Foreign-flag*
Alaska Airlines	Air Canada
American Airlines	Air Japan (All Nippon Airways)
Continental Airlines	Air Pacific
Continental Micronesia	Air New Zealand
Delta Air Lines *(a)*	China Airlines
Hawaiian Airlines	JALways
Northwest Airlines *(a)*	Jetstar Airways
United Airlines	Korean Air
US Airways	Philippine Airlines
	Qantas Airways
	WestJet Airlines

Regional/commuter
go! (Mesa Airlines) *(b)*
Island Air
Mokulele Airlines (Republic Air Holdings)
Pacific Wings *(c)*

Primary Neighbor Island Airports

Major/national	*Regional/commuter*
Alaska Airlines	go! (Mesa Airlines) *(b)*
American Airlines	Island Air *(c)*
Delta Air Lines	Mokulele Airlines (Republic Air Holdings) *(d)*
Hawaiian Airlines	Pacific Wings *(c)*
JALways	
Northwest Airlines	***Foreign-flag***
United Airlines	Air Canada
US Airways	WestJet Airlines

(a) Delta completed its merger with Northwest on October 29, 2008 and was awarded a single operating certificate by the FAA on December 31, 2009.
(b) On January 5, 2010, Mesa Air Group filed for Chapter 11 bankruptcy protection. Mesa's go!-Mokulele joint venture is not included in the filing and will continue to operate its full flight schedule.
(c) Provides interisland service with turboprop aircraft.
(d) On October 13, 2009, Mesa Airlines go! and Mokulele Airlines formed a joint venture to provide interisland service.

Source: Official Airline Guides, Inc. online database, accessed November 2009.

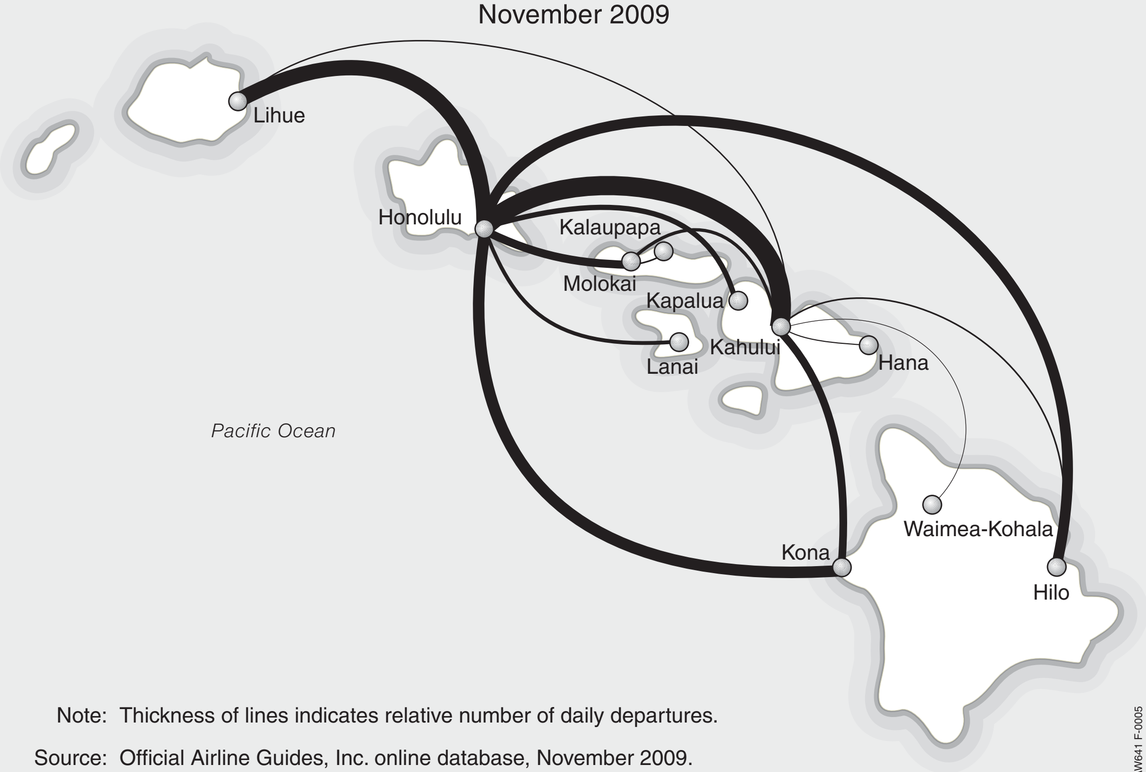
Air transportation in Hawaii is characterized by three types of service: (1) domestic service among the islands in Hawaii, referred to as "interisland," (2) domestic service to the continental United States, and (3) international service, primarily to eastbound destinations in the Pacific Rim and Oceania. Overseas service includes flights to the continental United States and international destinations. Interisland service, as shown on Figure 8, consists of short-haul flights with 100- to 200-mile stage lengths served by major and national, regional and commuter, and charter airlines using narrowbody jets, regional jets, and turboprop aircraft. In November 2009, an average of 299 daily flights departed from the five primary Hawaii airports to other airports in Hawaii, with 139 of those flights departing from HNL and 66 from Kahului Airport. The large number of departing flights reflects the small size of the aircraft, in terms of available seats, used in interisland service. In November 2009, propeller aircraft (eight or nine seats per aircraft) accounted for 13% of interisland departing flights but only 1% of the departing seats. Similarly, turboprop aircraft accounted for 9% of interisland departing flights but only 4% of the departing seats; regional jets accounted for 21% of interisland departing flights (12% of departing seats); and air carrier (narrow body and widebody) aircraft accounted for 57% of interisland departing flights (83% of departing seats).

Figure 8

INTERISLAND SCHEDULED DEPARTURES

Hawaii Airports System

November 2009



Note: Thickness of lines indicates relative number of daily departures.

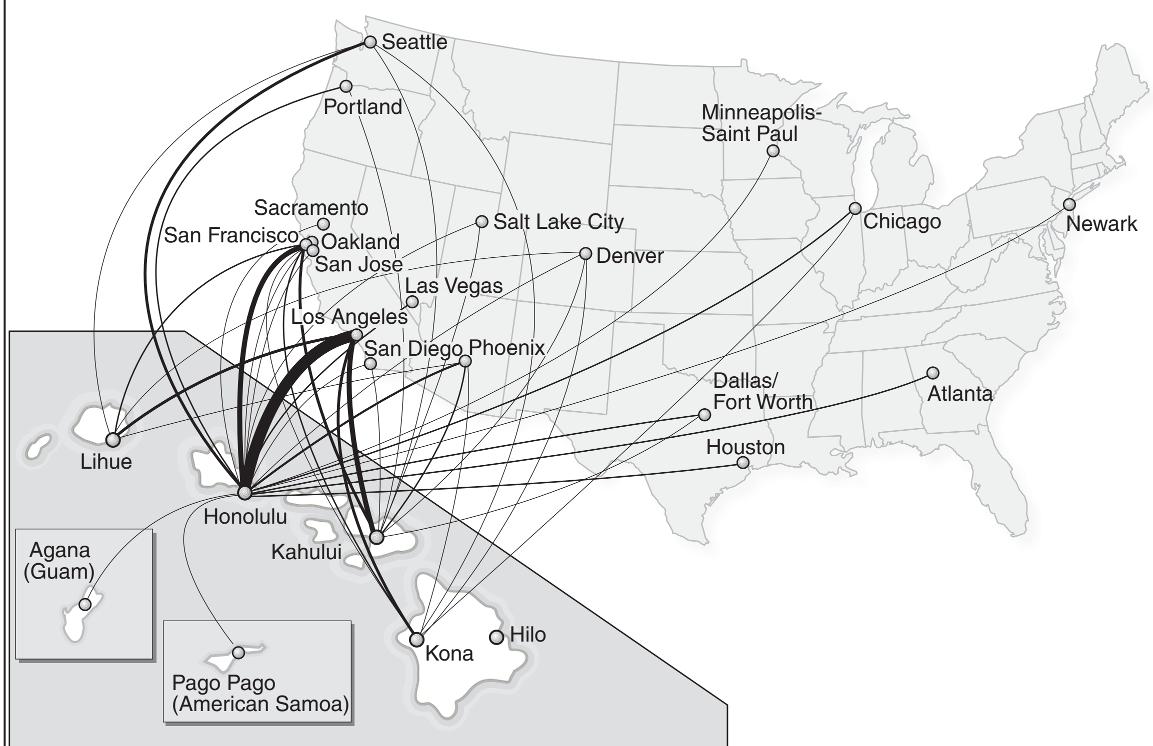
Source: Official Airline Guides, Inc. online database, November 2009.

Domestic services to the continental United States are long-haul flights served by narrowbody and widebody jets to cities in the western portion of the United States and to the hubs of major airlines throughout the United States, as shown on Figure 9. In November 2009, an average of 71 daily flights departed from the five primary Hawaii airports to the continental U.S., with 44 of the flights departing from HNL and 15 from Kahului Airport. Of the 71 average daily departures from Hawaii to the continental U.S., approximately half were to the Los Angeles Area (22 flights) and the San Francisco Bay Area (13 flights).

Figure 9

CONTINENTAL U.S. AND PACIFIC TERRITORY SCHEDULED DEPARTURES

November 2009



Note: Thickness of lines indicates relative number of daily departures.

Source: Official Airline Guides, Inc. online database, November 2009.

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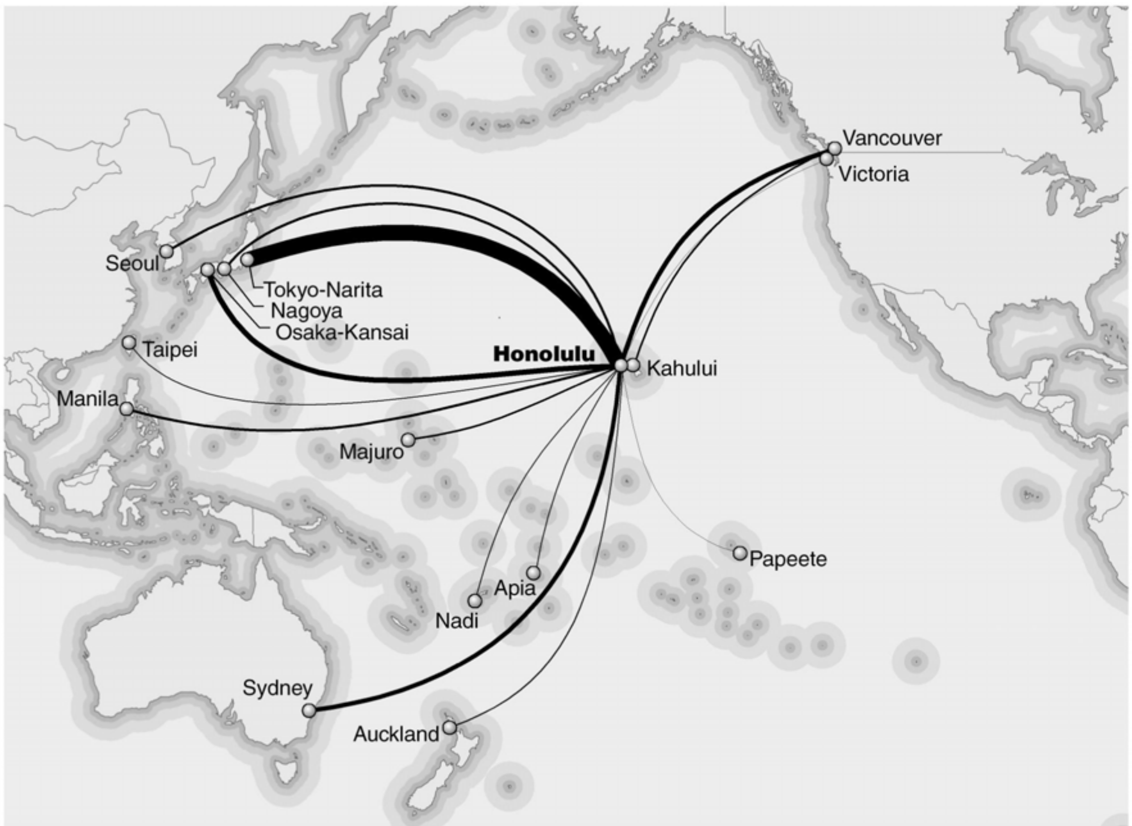
International services consists of medium- and long-haul flights almost entirely from HNL to Canada, Oceania, and the Pacific Rim by U.S. and foreign-flag airlines using narrowbody and widebody jets, as shown on Figure 10. International service to Canada is also provided from Kahului Airport. In November 2009, an average of 21 daily flights departed from Hawaii to international destinations, with 67% of the flights departing to Pacific Rim countries, 13% to countries in Oceania, and the remaining 20% to Canada.

Figure 10

INTERNATIONAL SCHEDULED DEPARTURES

Hawaii Airports System

November 2009



Note: Excludes seasonal service to destinations without scheduled departures in August 2009. The thickness of the line indicates the relative number of daily departures.

Source: Official Airline Guides, Inc. online database, for November 2009.

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Enplaned Passenger Market Shares. The market shares for the passenger airlines serving HNL are shown on Figure 11 and in Table 10. The share of overseas passengers enplaned at HNL increased from 59.1% in FY 2000 to 62.5% in FY 2009. In contrast, the share of HNL interisland passengers decreased from 40.9% in FY 2000 to 37.5% in FY 2009. In FY 2009, Hawaiian Airlines had the largest market share of enplaned passengers (43.3%) at HNL, followed by United Airlines (10.2%). Northwest (8.6%) and JALways* (8.1%) accounted for the next largest shares in FY 2009, followed by American (5.0%).

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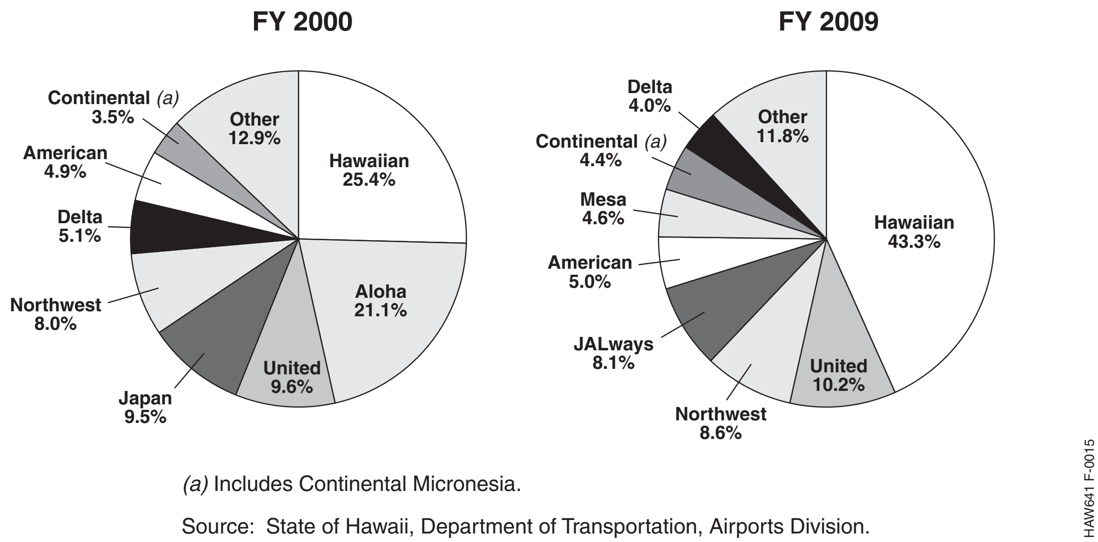
*A subsidiary of Japan Air Lines, providing service primarily to resort destinations.

Figure 11

ENPLANED PASSENGER MARKET SHARES

Honolulu International Airport



(a) Includes Continental Micronesia.

Source: State of Hawaii, Department of Transportation, Airports Division.

The market shares for the passenger airlines serving the Primary Neighbor Island Airports are shown on Figure 12 and in Table 10. The share of overseas passengers enplaned at the Primary Neighbor Island Airports increased from 18.1% in FY 2000 to 36.2% in FY 2009. In contrast, the share of Primary Neighbor Island Airport interisland passengers decreased from 81.9% in FY 2000 to 63.8% in FY 2009. In FY 2009, Hawaiian Airlines had the largest market share of enplaned passengers (53.8%) at the Primary Neighbor Island Airports, followed by United Airlines (15.5%). Mesa (6.8%) and American (5.2%) accounted for the next largest shares in FY 2009.

Table 10

ENPLANED PASSENGERS BY AIRLINE

Hawaii Airports System
FY 2000 and FY 2009

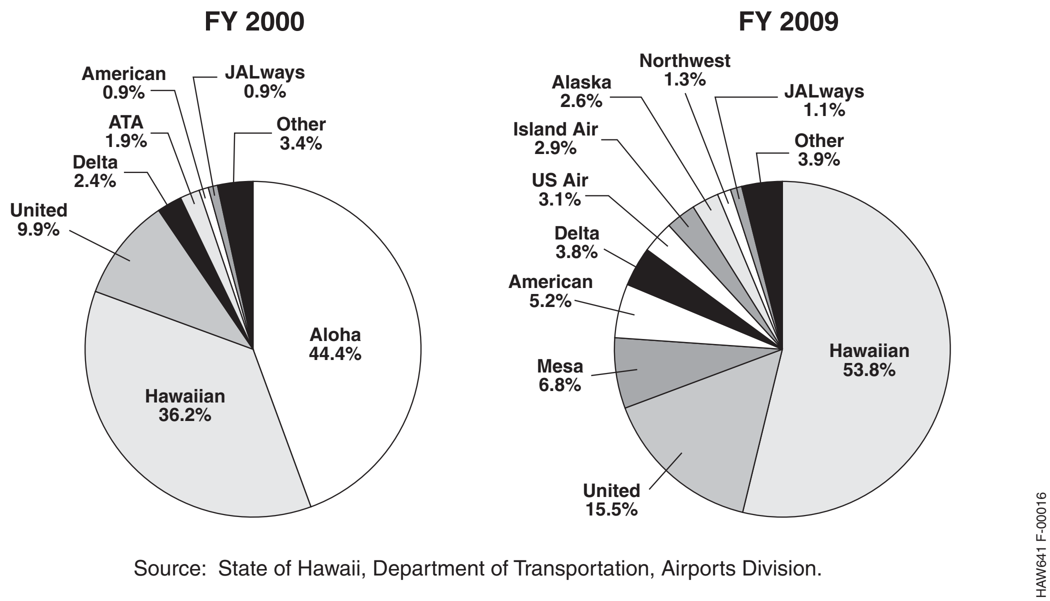
Airline	Enplaned passengers						Percent of total					
	FY 2000			FY 2009			FY 2000			FY 2009		
	Honolulu International	Primary Neighbor Island Airports	Hawaii Airports System	Honolulu International	Primary Neighbor Island Airports	Hawaii Airports System	Honolulu International	Primary Neighbor Island Airports	Hawaii Airports System	Honolulu International	Primary Neighbor Island Airports	Hawaii Airports System
Interisland												
Aloha Airlines	2,358,251	2,966,784	5,329,012	--	--	--	20.9%	44.3%	29.1%	--%	--%	--%
Delta Air Lines	23,082	69,003	92,085	--	--	--	0.2	1.0	0.5	--	--	--
Hawaiian Airlines	2,047,029	2,352,050	4,454,793	2,657,875	2,916,524	5,735,500	18.1	35.1	24.4	29.9	50.8	38.6
Island Air	182,263	29,755	421,652	179,757	165,655	345,412	1.6	0.4	2.3	2.0	2.9	2.3
JALways (a)	--	59,602	59,602	--	63,581	63,581	--	0.9	0.3	--	1.1	0.4
Mesa Airlines	--	--	--	405,149	390,927	811,740	--	--	--	4.6	6.8	5.5
Mokulele Airlines	--	--	--	89,464	94,506					1.0	1.7	1.2
Pacific Wings	4,974	4,369	17,588	7,046	27,193	45,676	--	0.1	0.1	0.1	0.5	0.3
Charter airlines	7,721	6,624	23,640	--	7,175	20,941	0.1	0.1	0.1	--	0.1	0.1
	4,623,320	5,488,187	10,398,372	3,339,291	3,665,561	7,206,820	40.9%	81.9%	56.9%	37.6%	63.8%	48.4%
Overseas												
U.S. airlines												
Alaska Airlines	--	--	--	90,387	149,536	239,923	--%	--%	--%	1.0%	2.6%	1.6%
Aloha Airlines	20,879	9,514	30,393	--	--	--	0.2	0.1	0.2	--	--	--
American Airlines	552,900	62,064	614,964	444,808	299,534	744,342	4.9	0.9	3.4	5.0	5.2	5.0
ATA Airlines	198,170	124,427	322,597	--	--	--	1.8	1.9	1.8	--	--	--
Continental Airlines	259,169	--	259,169	295,894	--	295,894	2.3	--	1.4	3.2	--	2.0
Continental Micronesia	141,599	--	141,599	98,998	--	98,998	1.3	--	0.8	1.1	--	0.7
Delta Air Lines	554,713	94,722	649,435	357,229	216,293	573,522	4.9	1.4	3.6	4.0	3.8	3.9
Hawaiian Airlines	826,663	75,046	901,709	1,195,423	169,248	1,364,671	7.3	1.1	4.9	13.4	3.0	9.2
Northwest Airlines	907,861	--	907,861	769,378	77,129	846,507	8.0	--	5.0	8.6	1.3	5.7
United Airlines	1,084,122	663,459	1,747,581	904,877	889,550	1,794,427	9.6	9.9	9.6	10.2	15.5	12.1
US Airways	--	--	--	98,317	180,666	278,983	--	--	--	1.1	3.2	1.9
Charter airlines	216,018	113,827	329,947	59,863	--	59,863	1.9	1.7	1.8	0.7	--	0.4
	4,762,094	1,143,059	5,905,255	4,315,174	1,981,956	6,297,130	42.2%	17.1%	32.3%	48.4%	34.6%	42.5%
Foreign-flag airlines												
Air Canada	16,978	16,089	33,067	66,341	38,859	105,200	0.2%	0.2%	0.2%	0.7%	0.7%	0.7%
Air New Zealand Airlines	60,870	--	60,870	23,778	--	23,778	0.5	--	0.3	0.3	--	0.1
Air Pacific Limited	13,985	--	13,985	9,595	--	9,595	0.1	--	0.1	0.1	--	0.1
Air Transat	12,164	6,756	18,920	--	--	--	0.1	0.1	0.1	--	--	--
All Nippon Airways	176,895	--	176,895	68,900	--	68,900	1.6	--	1.0	0.8	--	0.5
China Airlines	110,673	--	110,673	98,884	--	98,884	1.0	--	0.6	1.1	--	0.7
Eva Airways Corporation	23,965	--	23,965	--	--	--	0.2	--	0.1	--	--	--
JALways	1,142,200	--	1142,200	720,572	2,581	723,153	10.1	--	6.2	8.1	0.0	4.9
Jetstar Airways	--	--	--	51,923	--	51,923	--	--	--	0.6	--	0.4
Korean Airlines	94,313	--	94,313	84,802	--	84,802	0.8	--	0.5	1.0	--	0.6
Philippine Airlines	11,387	--	11,387	29,007	--	29,007	0.1	--	0.1	0.3	--	0.2
Qantas Airways	99,265	--	99,265	38,037	--	38,037	0.9	--	0.5	0.4	--	0.2
WestJet	--	--	--	52,947	51,974	104,921	--	--	--	0.6	0.9	0.7
Charter airlines	149,173	44,768	193,941	--	--	--	1.3	0.7	1.1	--	--	--
	1,911,868	67,613	1,979,481	1,244,786	93,414	1,338,200	16.9%	1.0%	10.8%	14.0%	1.6%	9.1%
	6,673,962	1,210,672	7,884,736	5,559,960	2,075,370	7,635,330	59.1%	18.1%	43.1%	62.5%	36.2	51.6%
Total	11,297,282	6,698,859	18,283,108	8,899,251	5,740,931	14,842,150	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes: For Fiscal Years ended June 30. Interisland enplaned passenger data for Hawaii Airports System includes airports not shown in this table.
(a) Service from Kona International at Keahole to Honolulu International Airport.
Source: Hawaii Department of Transportation, Airports Division records.

Figure 12

ENPLANED PASSENGER MARKET SHARES

Primary Neighbor Island Airports



Source: State of Hawaii, Department of Transportation, Airports Division.

Table 11 presents a summary of scheduled passenger airline scheduled service in terms of departing seats at the five primary airports in the Hawaii Airports System in November 2009. Consistent with its market share of enplaned passengers, Hawaiian Airlines provides the largest number of scheduled departing seats at HNL and serves the most (18) destinations from HNL, as of November 2009. Hawaiian Airlines is scheduled to provide 47.3% of the scheduled departing seats from HNL in November 2009. The remaining shares of scheduled departing seats at HNL were somewhat evenly distributed among the other airlines serving HNL, with United Airlines providing the second largest share (7.2%).

1.3.2 Enplaned Passenger Trends

Table 12 presents historical enplaned passenger data (overseas, interisland, and total) for the Hawaii Airports System, HNL, and the four Primary Neighbor Island Airports for FY 1995 and FY 2000 through FY 2009. Overseas passengers travel from a Hawaiian airport to an airport outside the State, including destinations in the continental United States and in other countries. Interisland passengers travel between airports in Hawaii.

Table 11

PASSENGER AIRLINE SCHEDULED SERVICE AT PRIMARY AIRPORTS

Hawaii Airports System

November 2009

Airline	Departing scheduled seats by primary airport: Honolulu International	Hilo International	Kona International at Keahole	Lihue	Kahului	Total	Percent of total: Honolulu International	Hilo International	Kona International at Keahole	Lihue	Kahului	Total
Domestic Service												
Continental U.S.												
Alaska	13,345	--	6,123	4,710	13,659	37,837	1.6%	--	4.7%	3.8%	5.8%	2.7%
American	40,860	--	5,130	5,700	17,580	69,270	4.8	--	4.0	4.6	7.5	4.9
Continental	31,836	--	--	--	--	31,836	3.7	--	--	--	--	2.3
Delta	24,004	--	3,294	4,026	6,805	38,129	2.8	--	2.5	3.3	2.9	2.7
Hawaiian	95,508	--	--	--	15,120	110,628	11.2	--	--	--	6.4	7.9
Northwest	26,332	--	--	--	--	26,332	3.1	--	--	--	--	1.9
United	53,069	--	26,006	12,396	25,722	111,193	6.3	--	15.4	10.0	10.9	7.9
US Airways	6,562	--	3,088	3,088	6,369	19,107	0.8	--	2.4	2.5	2.7	1.3
	350,118	--	37,641	29,920	85,255	444,332	34.3%	--	29.0%	24.2%	36.2%	31.6%
Interisland												
Go! Mesa	47,000	11,400	10,150	12,000	13,450	94,000	5.5%	16.3%	7.8%	9.7%	5.7%	6.7%
Hawaiian	297,783	58,671	71,340	78,720	114,882	621,396	35.1	83.7	55.0	63.6	48.7	44.1
Island Air	19,351	--	1,110	3,182	6,993	30,636	2.3	--	0.9	2.5	3.0	2.2
JALways	--	--	7,110	--	--	7,110	--	--	5.5	--	--	0.5
Mokulele Airlines	1,792	--	2,400	--	3,080	7,272	0.2	--	1.8	--	1.3	0.5
Pacific Wings	540	--	--	--	1,809	2,349	0.1	--	--	--	0.8	0.2
United	--	--	--	--	2,322	2,322	--	--	--	--	1.0	0.1
	366,466	70,071	92,110	93,902	183,152	765,085	43.2	100.0	71.0	75.8	60.5	54.3
Domestic total	657,982	70,071	129,751	123,822	142,536	1,209,417	77.5%	100.0%	100.0%	100.0%	96.7%	85.9%
International Service												
U.S. Flag airlines												
Continental Micronesia	2,171	--	--	--	--	2,171	0.3%	--	--	--	--	0.2%
Hawaiian	8,568	--	--	--	--	8,568	1.0	--	--	--	--	0.6
Northwest	29,076	--	--	--	--	29,076	3.4	--	--	--	--	2.1
United	7,740	--	--	--	--	7,740	0.9	--	--	--	--	0.5
	47,555	--	--	--	--	47,555	5.6%	--	--	--	--	3.4%
Foreign-flag airlines												
Air Canada	6,330	--	--	--	844	7,174	0.8%	--	--	--	0.3%	0.5%
Air New Zealand	2,106	--	--	--	--	2,106	0.2	--	--	--	--	0.1
Air Pacific	1,530	--	--	--	--	1,530	0.2	--	--	--	--	0.1
All Nippon	7,020					7,020	0.8					0.5
China Airlines	11,006	--	--	--	--	11,006	1.3	--	--	--	--	0.8
JALways	86,644	--	--	--	--	86,644	10.2	--	--	--	--	6.2
Jetstar Airways	5,151	--	--	--	--	5,151	0.6	--	--	--	--	0.4
Korean Air	10,050	--	--	--	--	10,050	1.2	--	--	--	--	0.7
Philippine Airlines	2,112	--	--	--	--	2,112	0.2	--	--	--	--	0.1
Quantas Airways	2,977	--	--	--	--	2,977	0.4	--	--	--	--	0.2
WestJet	8,512	--	--	--	6,972	15,484	1.0	--	--	--	3.0	1.1
	143,438	--	--	--	7,816	151,254	16.9	--	--	--	3.3	10.7
International total	190,993	--	--	--	7,816	198,809	22.5 %	--	--	--	3.3%	14.1%
Total	848,975	70,071	129,751	123,822	235,607	1,408,226	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Airports Share	60.3%	5.0%	9.2%	8.8%	16.7%	100.0%						

Source: Official Airline Guides, Inc. online database, accessed November 2009.

Table 12

HISTORICAL ENPLANED PASSENGERS

Hawaii Airports System

FY 1995 and FY 2000 – FY 2009

	FY 1995	FY 2000 *(a)*	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
HAWAII AIRPORTS SYSTEM											
Overseas											
Domestic *(b)*	4,641,592	5,224,614	5,288,012	5,012,052	5,274,823	5,613,589	6,178,718	6,452,951	6,312,647	6,609,947	5,739,019
International	2,921,092	2,659,437	2,581,045	1,987,659	2,085,302	2,138,654	2,279,551	2,216,922	2,036,359	2,098,692	1,896,311
	7,562,684	7,884,051	7,869,057	6,999,711	7,360,125	7,752,243	8,458,269	8,669,873	8,349,006	8,708,639	7,635,330
Interisland	10,119,071	10,399,057	9,942,725	8,632,706	8,202,252	7,693,639	7,806,993	7,859,262	8,951,154	8,792,597	7,206,820
Total	17,681,755	18,283,108	17,811,782	15,632,417	15,562,377	15,445,882	16,265,262	16,529,135	17,300,160	17,501,236	14,842,150
	Percent increase (decrease)										
Overseas	--	0.8%	(0.2%)	(11.0%)	5.1%	5.3%	9.1%	2.5%	(3.7%)	4.3%	(12.3%)
Interisland	--	0.5	(4.4)	(13.2)	(5.0)	(6.2)	1.5	0.7	13.9	(1.8)	(18.0)
Total	--	0.7%	(2.6%)	(12.2%)	(0.4%)	(0.7%)	5.3%	1.6%	4.7%	1.2	(15.2%)
HONOLULU INTERNATIONAL											
Overseas											
Domestic *(b)*	3,804,239	4,089,112	3,908,139	3,579,276	3,617,808	3,676,712	4,055,838	4,234,997	4,317,670	4,328,831	3,757,063
International	2,879,527	2,584,850	2,512,004	1,943,016	2,030,209	2,105,695	2,235,449	2,159,483	1,976,944	2,020,589	1,802,897
	6,683,766	6,673,962	6,420,143	5,522,292	5,648,017	5,782,407	6,291,287	6,394,480	6,294,614	6,349,420	5,559,960
Interisland	4,580,689	4,623,320	4,452,112	3,940,156	3,803,194	3,575,497	3,621,253	3,605,027	4,117,825	4,030,471	3,339,291
Total	11,264,455	11,297,282	10,872,255	9,462,448	9,451,211	9,357,904	9,912,540	9,999,507	10,412,439	10,379,891	8,899,251
	Percent increase (decrease)										
Overseas	--	0.0%	(3.8%)	(14.0%)	2.3%	2.4%	8.8%	1.6%	(1.6%)	0.9%	(12.4%)
Interisland	--	0.2	(3.7)	(11.5)	(3.5)	(6.0)	1.3	(0.4)	14.2	(2.1)	(17.1)
Total	--	0.1%	(3.8%)	(13.0%)	(0.1%)	(1.0%)	5.9%	0.9%	4.1%	(0.3)	(14.3%)
PRIMARY NEIGHBOR ISLAND AIRPORTS											
Overseas	878,918	1,210,672	1,448,914	1,477,419	1,712,108	1,969,836	2,166,982	2,275,393	2,054,392	2,359,219	2,075,370
Interisland	5,234,659	5,488,187	5,232,029	4,464,363	4,185,014	3,904,150	3,982,181	4,024,041	4,597,455	4,521,105	3,665,561
Total	6,113,577	6,698,859	6,680,943	5,941,782	5,897,122	5,873,986	6,149,163	6,299,434	6,651,847	6,880,324	5,740,931
	Percent increase (decrease)										
Overseas	--	6.6%	19.7%	2.0%	15.9%	15.1%	10.0%	5.0%	(9.7%)	14.8%	(12.0%)
Interisland	--	1.0	(4.7)	(14.7)	(6.3)	(6.7)	2.0	1.1	14.2	(1.7)	(18.9)
Total	--	1.8%	(0.3%)	(11.1%)	(0.8%)	(0.4%)	4.7%	2.4%	5.6%	3.4	(16.6%)
Kahului											
Overseas	741,165	898,704	1,053,765	1,059,806	1,195,546	1,346,469	1,471,908	1,494,669	1,356,628	1,517,353	1,254,604
Interisland	2,239,500	2,153,350	2,028,450	1,632,130	1,494,827	1,373,812	1,374,949	1,392,796	1,614,961	1,583,378	1,287,718
Total	2,980,665	3,052,054	3,082,215	2,691,936	2,690,373	2,720,281	2,846,857	2,887,465	2,971,589	3,100,731	2,542,322
	Percent increase (decrease)										
Overseas	--	3.9%	17.3%	0.6%	12.8%	12.6%	9.3%	1.5%	(9.2%)	11.8%	(17.3%)
Interisland	--	(0.8)	(5.8)	(19.5)	(8.4)	(8.1)	0.1	1.3	16.0	(2.0)	(18.7)
Total	--	0.5%	1.0%	(12.7%)	(0.1%)	1.1%	4.7%	1.4%	2.9%	4.3	(18.0%)

Table 12 *(page 2 of 2)*

HISTORICAL ENPLANED PASSENGERS

Hawaii Airports System

FY 1995 and FY 2000 – FY 2009

	FY 1995	FY 2000 *(a)*	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
PRIMARY NEIGHBOR ISLAND AIRPORTS ***(continued)***											
Lihue											
Overseas	--	92,217	114,961	142,026	210,041	264,698	266,090	285,114	194,983	342,795	363,934
Interisland	1,187,673	1,344,917	1,295,452	1,141,071	1,052,967	998,891	998,210	996,287	1,113,623	1,101,052	866,447
Total	1,187,673	1,437,134	1,410,413	1,283,097	1,263,008	1,263,589	1,264,300	1,281,401	1,308,606	1,443,847	1,230,381
	Percent increase (decrease)										
Overseas	--	--%	24.7%	23.5%	47.9%	26.0%	0.5%	7.1%	(31.6%)	75.8%	6.2%
Interisland	--	2.5	(3.7)	(11.9)	(7.7)	(5.1)	(0.1)	(0.2)	11.8	(1.1)	(21.3)
Total	--	3.9%	(1.9%)	(9.0%)	(1.6%)	0.0%	0.1%	1.4%	2.1%	10.3	(14.8%)
Kona International at Keahole											
Overseas	137,753	219,751	280,188	275,587	306,521	358,669	428,984	488,699	466,854	474,163	456,832
Interisland	1,005,941	1,197,273	1,132,106	997,887	979,666	934,534	967,377	987,715	1,106,945	1,090,129	875,391
Total	1,143,694	1,417,024	1,412,294	1,273,474	1,286,187	1,293,203	1,396,361	1,476,414	1,573,799	1,564,292	1,332,223
	Percent increase (decrease)										
Overseas	--	9.8%	27.5%	(1.6%)	11.2%	17.0%	19.6%	13.9%	(4.5%)	1.6%	(3.7%)
Interisland	--	3.5	(5.4)	(11.9)	(1.8)	(4.6)	3.5	2.1	12.1	(1.5)	(19.7)
Total	--	4.4%	(0.3%)	(9.8%)	1.0%	0.5%	8.0%	5.7%	6.6%	(0.6)	(14.8%)
Hilo International											
Overseas	--	--	--	--	--	--	--	6,911	35,927	24,908	--
Interisland	801,545	792,647	776,021	693,275	657,554	596,913	641,645	647,243	761,926	746,546	636,005
Total	801,545	792,647	776,021	693,275	657,554	596,913	641,645	654,154	797,853	771,454	636,005
	Percent increase (decrease)										
Overseas	--	--%	--%	--%	--%	--%	--%	--%	419.9%	(30.7%)	(100.0%)
Interisland	--	(0.2)	(2.1)	(10.7)	(5.2)	(9.2)	7.5	0.9	17.7	(2.0)	(14.8)
Total	--	(0.2%)	(2.1%)	(10.7%)	(5.2%)	(9.2%)	7.5%	1.9%	22.0%	(3.3)	(17.6%)

Notes: For Fiscal Years ended June 30.
Interisland enplaned passenger data for Hawaii Airports System includes neighbor island airports not shown in this table.

(a) Percent change from 1995 to 2000 represents the average annual rate of change.

(b) Includes passengers enplaned on flights to the continental United States.

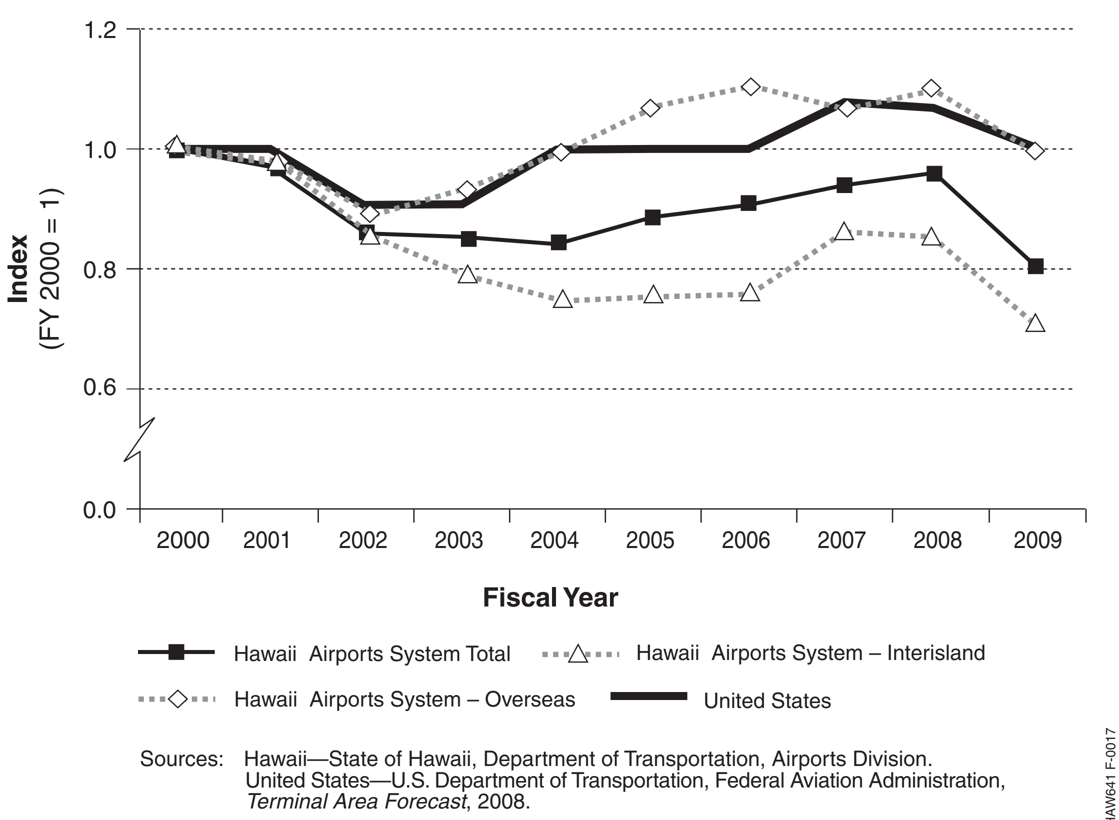
Source: State of Hawaii, Department of Transportation, Airports Division records.

Between FY 1995 and FY 2000, total enplaned passengers for the Hawaii Airports System increased an average of 0.7% per year, with the four Primary Neighbor Island Airports accounting for a large share of the growth, as shown in Table 12. Between FY 2000 and FY 2004, the number of passengers enplaned in the Hawaii Airports System decreased, reflecting the impact of the 2001 terrorist attacks in the United States and the 2003 beginning of the Iraq war and the SARS epidemic on passenger traffic in Hawaii and in the nation, as shown on Figure 13. From FY 2004 to FY 2008, the number of total enplaned passengers at Hawaii's airports increased an average of 3.2% per year, faster than growth in the nation as a whole. In FY 2009, the number of passengers enplaned in the Hawaii Airports System decreased 15.2%, with inter-island activity decreasing 18.0% and overseas activity decreasing 12.3%. The 18.0% decrease in interisland activity is related to reductions in seating capacity and the cessation of service by Aloha Airlines (which provided primarily interisland service and, after filing for Chapter 11 bankruptcy, ceased service on March 31, 2008). The 12.3% decrease in the number of overseas enplaned passengers in FY 2009 is related to reductions in U.S. airline seating capacity in response to high fuel prices that affected passenger traffic in the State and at many airports throughout the nation as well as the effects of the national and global economic recessions.

Figure 13

ANNUAL CHANGE IN TOTAL ENPLANED PASSENGERS

Hawaii Airports System



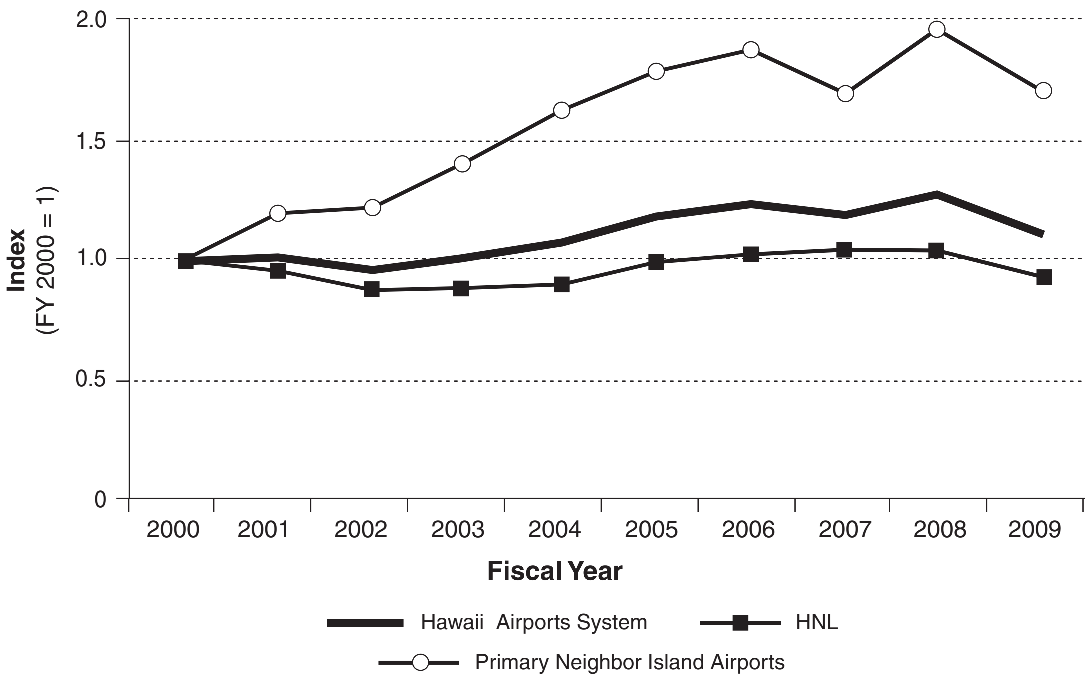
Sources: Hawaii—State of Hawaii, Department of Transportation, Airports Division.
United States—U.S. Department of Transportation, Federal Aviation Administration, *Terminal Area Forecast*, 2008.

Overseas Passengers. Overseas passengers include two categories of travelers: (1) passengers enplaned on domestic flights at Hawaii airports traveling to destinations in the continental United States and (2) passengers enplaned at Hawaii airports on the international flights of U.S. and foreign-flag airlines traveling to Pacific Rim, Oceania, and Canadian destinations. Between FY 1995 and FY 2009, the number of domestic overseas passengers in the Hawaii Airports System increased an average of 1.5% per year, with the Primary Neighbor Island Airports accounting for a large share of the growth, as shown on Figure 14 and in Table 12. The growth in overseas passengers at the Primary Neighbor Island Airports reflects the development of service from the continental United States to these airports, which more than doubled between calendar year 2000 and FY 2009—from an average of 15 to 32 daily aircraft departures. Domestic overseas passengers accounted for 38.7% of total enplaned passengers in the Hawaii Airports System in FY 2009, up from 26.3% in FY 1995.

Figure 14

ANNUAL CHANGE IN DOMESTIC OVERSEAS PASSENGERS

Hawaii Airports System



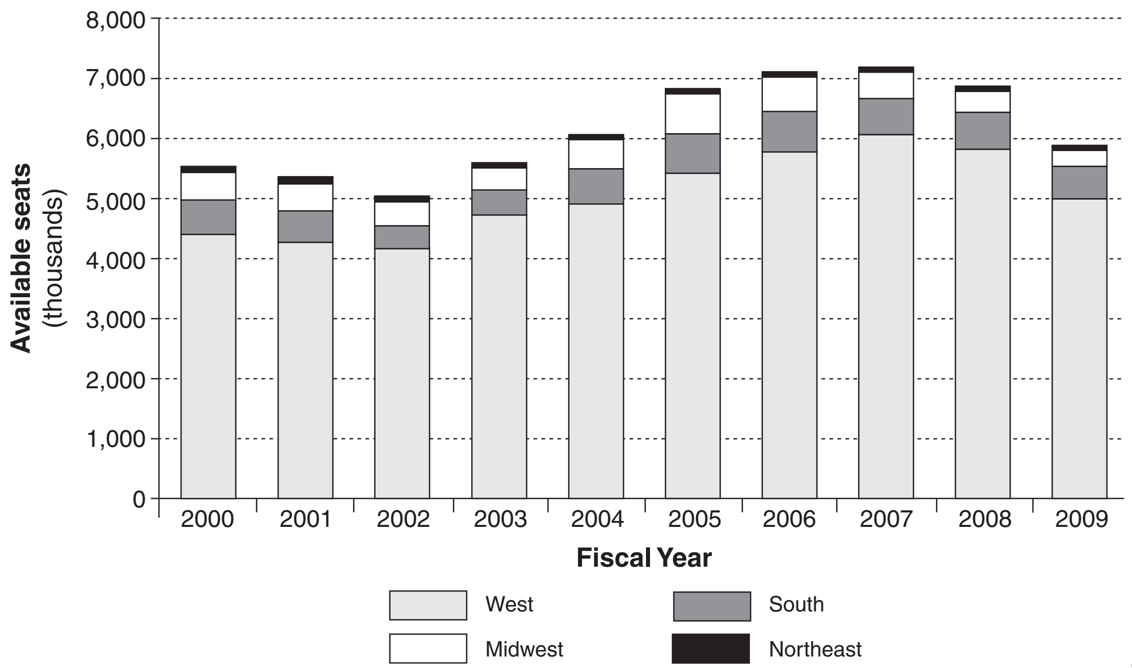
Source: State of Hawaii, Department of Transportation, Airports Division.

Figure 15 shows domestic market trends for the Hawaii Airports System, in terms of available seats by region, from 2000 through FY 2009. (Data for calendar year 2000 are used to represent FY 2000 data, which are not available.) The total number of available seats from Hawaii to the continental United States increased an average of 0.7% per year between 2000 and FY 2009, with the West region accounting for most of the increase (an average increase of 1.4% per year during the same period).

Figure 15

CONTINENTAL UNITED STATES MARKET TRENDS

Hawaii Airports System



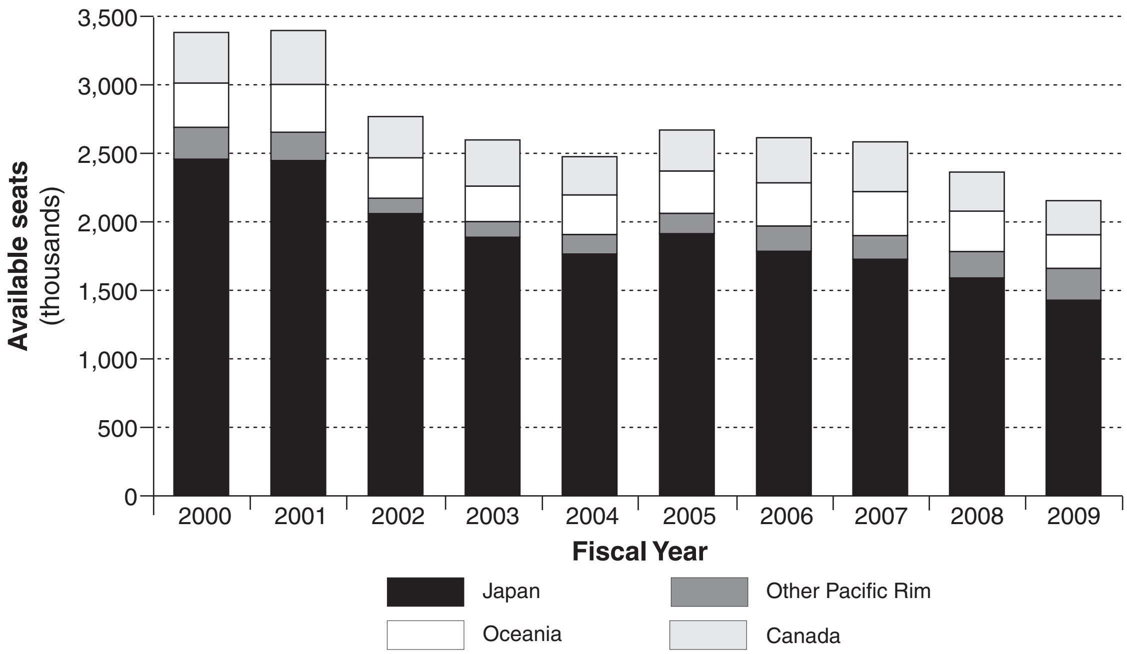
Source: Official Airline Guides, Inc., online database, accessed August 2009. Data for 2000 are for the calendar year.

Figure 16 shows international market trends for the Hawaii Airports System, in terms of available seats by international region, from 2000 through FY 2009. (Data for calendar year 2000 are used to represent FY 2000 data, which are not available.) The total number of available seats from Hawaii to international markets decreased an average of 4.9% per year between 2000 and FY 2009, with Japan accounting for most of the decrease (an average decrease of 5.9% per year during the same period).

Figure 16

INTERNATIONAL MARKET TRENDS

Hawaii Airports System



Other Pacific Rim countries = Philippines, Korea, Taiwan
Oceania = Australia, Fiji, French Polynesia, Kribati, Marshall Islands, New Caledonia, New Zealand, Tonga Island, Samoa

Source: Official Airline Guides, Inc., online database, accessed August 2009. Data for 2000 are for the calendar year.

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Interisland Passengers. The number of interisland passengers traveling between Hawaiian airports decreased an average of 2.4% per year between FY 1995 and FY 2009. The decline in interisland passenger activity in the Hawaii Airports System from FY 1995 through FY 2008 is related to the development of nonstop service from the continental U.S. to the four Primary Neighbor Island Airports, which, as discussed previously, more than doubled during that period. In FY 2009, the number of interisland enplaned passengers decreased 18.0% as a result of (1) the decrease in interisland airline service principally as a result of the cessation of operations by Aloha Airlines on March 31, 2008, and (2) development of the Hawaii Superferry providing interisland passenger and vehicle ferry service. This ferry service began operations in FY 2008 and discontinued operations in March 2009.

1.3.3 Originating Passenger Demand

The increase in the number of Hawaii Airports System originating passengers* since 2000 has largely resulted from overall economic growth in Hawaii and the visitor industry, as discussed earlier in Section 1.2, "Economic Basis for Passenger Demand."

Originating Passengers by Airport. Figure 17 presents the average annual increase or decrease in domestic originating passengers for the Hawaii Airports System and by primary airport from FY 2000 through FY 2009 (the most recent Fiscal Year data available). The decrease in total domestic originating passengers between FY 2000 and FY 2009 reflects decreases in interisland activity related to reductions in seating capacity and the cessation of service by Aloha Airlines (which provided primarily interisland service), as discussed earlier.

Continental U.S. and Interisland Originating Passengers. As shown in Figure 17, the number of originating passengers traveling to the continental United States from the airports in the Hawaii Airports System increased an average of 2.2% per year between FY 2000 and FY 2009. In contrast, the number of interisland originating passengers decreased an average of 4.9% per year between FY 2000 and FY 2009. These trends are similar to the overall trend in enplaned passengers discussed earlier.

Originating Passengers by Market. Table 13 presents the top 20 domestic origin-destination passenger markets for HNL in FY 2009 (the most recent 12-month period available). Four of the top five domestic markets are in Hawaii—Kahului, Lihue, Kona, and Hilo—which together accounted for 43.6% of total domestic originating passengers in FY 2009. The largest domestic origin-destination markets in the continental United States were Los Angeles (10.4%) and San Francisco (6.7%).

Airline Service to Originating Passenger Markets. Table 13 also presents average daily scheduled nonstop departing seats to HNL's top 20 origin-destination markets and to all other markets in November 2009. Given the range in the size of aircraft operating at HNL, the number of scheduled departing seats is more representative of airline service than the number of scheduled airline aircraft departures. Approximately 94% of the scheduled daily nonstop departing seats from HNL were to the top 20 markets listed.

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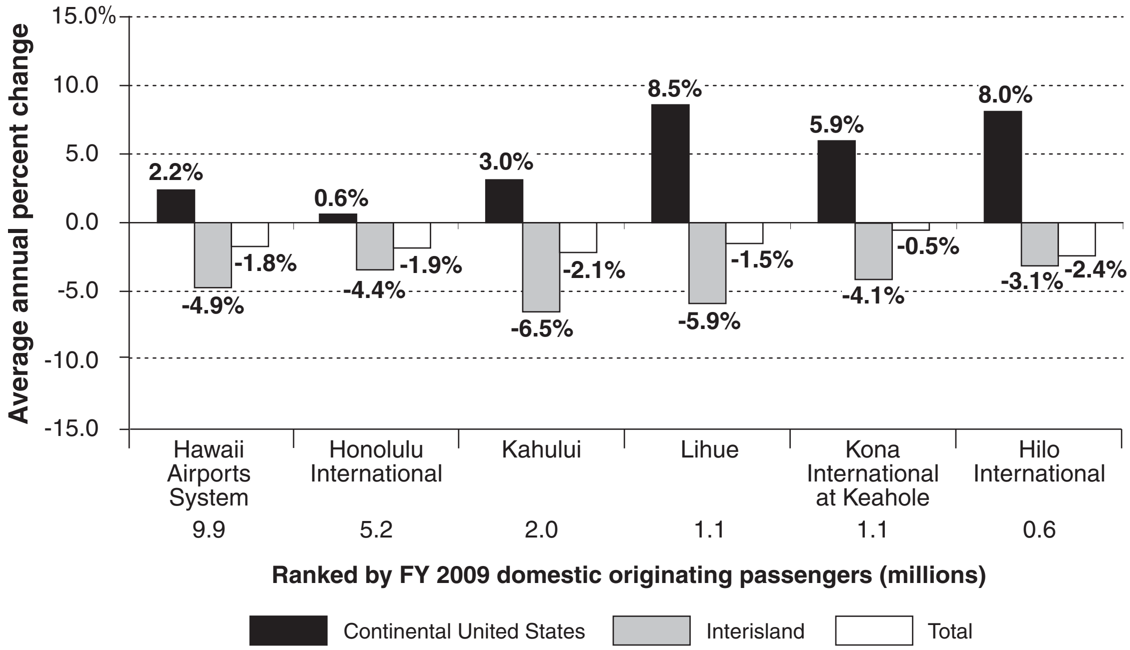
*Originating passengers, which include residents and visitors, are those enplaned passengers whose flights originate at the airports in the Hawaii Airports System, and who are not connecting from another flight.

Figure 17

DOMESTIC ORIGINATING PASSENGERS BY AIRPORT

Hawaii Airports System

FY 2000 - FY 2009



Note: For Fiscal Years ended June 30.

Source: U.S. Department of Transportation, Federal Aviation Administration, *Origin-Destination Survey of Airline Passenger Traffic*, *Domestic*, online database, accessed November 2009.

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Primary Neighbor Island Originating Passengers. Table 14 presents the top 20 domestic origin-destination passenger markets for the Primary Neighbor Island Airports in FY 2009. Honolulu was the single largest market, accounting for 46.1% of total domestic originating airline passengers in FY 2009, consistent with the data presented in Table 12. The largest origin-destination markets in the continental U.S. were Los Angeles (9.1%) and San Francisco (7.2%).

1.3.4 Connecting Passenger Activity

In FY 2009, approximately 2 million passengers boarded connecting flights at HNL. Since FY 2000, HNL connecting passengers have accounted for 20% to 25% of enplaned passengers at HNL. (See earlier discussion under Section 1.1.1 "Honolulu International Airport" for a description of the role of HNL as a hub for Hawaiian Airlines and a historical hub for Aloha Airlines.)

Table 13

TOP 20 DOMESTIC ORIGIN-DESTINATION PASSENGER MARKETS AND AIRLINE SERVICE

Honolulu International Airport

FY 2009, except as noted

Rank	Origin-destination market	Air miles from Honolulu	Percent of originating airline passengers	Average scheduled daily nonstop departing seats November 2009
1	Kahului	101	13.9%	3,839
2	Los Angeles *(a)*	2,551	10.4	2,486
3	Lihue	101	9.7	3,024
4	Hilo	217	9.6	2,213
5	Kona	164	9.5	2,470
6	San Francisco *(b)*	2,394	6.7	1,744
7	Seattle	2,675	4.0	899
8	Las Vegas	2,756	3.4	613
9	New York *(c)*	4,951	2.3	204
10	Portland	2,600	1.9	361
11	Washington, D.C. *(d)*	4,844	1.9	--
12	San Diego	2,609	1.6	252
13	Phoenix	2,910	1.5	471
14	Chicago *(e)*	4,234	1.4	258
15	Denver	3,358	1.1	183
16	Salt Lake City	2,989	1.1	178
17	Dallas/Fort Worth *(f)*	3,791	1.1	450
18	Houston *(g)*	3,895	1.0	470
19	Atlanta	4,491	1.0	298
20	Sacramento	2,457	0.9	252
	U.S. cities listed		84.0%	20,665
	Other cities		16.0	1,268
	All U.S. cities		100.0%	21,933

(a) Los Angeles International, Bob Hope, Ontario International, John Wayne (Orange County), and Long Beach airports.
(b) San Francisco, Oakland, and Mineta San Jose international airports.
(c) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.
(d) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.
(e) Chicago O'Hare and Midway international airports.
(f) Dallas/Fort Worth International Airport and Love Field.
(g) Bush Intercontinental Airport/Houston and William P. Hobby Airport.

Sources: Originating percentage: U.S. Department of Transportation, *Origin-Destination Survey of Airline Passenger Traffic, Domestic*, for 12 months ended June 2009.
Seats: Official Airline Guides, Inc. online database, accessed November 2009, for domestic destinations. An additional 6,366 daily scheduled seats are provided to international destinations.

Table 14

TOP 20 DOMESTIC ORIGIN-DESTINATION PASSENGER MARKETS AND AIRLINE SERVICE

Primary Neighbor Island Airports

FY 2009, except as noted

Rank	Origin-destination market	Air miles from Kahului	Percent of originating airline passengers	Average scheduled daily nonstop departing seats November 2009
1	Honolulu	101	46.1%	11,767
2	Los Angeles *(a)*	2,481	9.1	1,947
3	San Francisco *(b)*	2,334	7.2	1,106
4	Seattle	2,638	4.7	728
5	Portland	2,559	2.6	409
6	Kahului	--	2.4	715
7	Lihue	202	2.1	106
8	Phoenix	2,838	1.7	418
9	San Diego	2,536	1.6	--
10	Kona	84	1.4	440
11	Denver	3,296	1.4	73
12	Chicago *(c)*	4,175	1.3	77
13	Sacramento	2,399	1.2	--
14	Las Vegas	2,690	1.2	--
15	New York *(d)*	4,892	1.1	--
16	Salt Lake City	2,931	0.9	43
17	Dallas/Fort Worth *(e)*	3,717	0.8	225
18	Washington D.C. *(f)*	4,782	0.7	--
19	Minneapolis/St. Paul	3,910	0.7	--
20	Boston	5,028	0.5	--
	Cities listed		88.7%	18,054
	Other cities		11.3	327
	All cities		100.0%	18,381

(a) Los Angeles International, Bob Hope, Ontario International, John Wayne (Orange County), and Long Beach airports.
(b) San Francisco, Oakland, and Mineta San Jose international airports.
(c) Chicago O'Hare and Midway international airports.
(d) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.
(e) Dallas Fort Worth International and Love Field.
(f) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.

Sources: Originating percentage: U.S. Department of Transportation, *Origin-Destination Survey of Airline Passenger Traffic, Domestic*, FY 2009.
Seats: Official Airline Guides, Inc. online database, accessed November 2009, for domestic destinations. An additional 261 daily scheduled seats are provided to international destinations.

1.3.5 Historical Domestic Airline Fares

Historical domestic airline fares are discussed below in terms of interisland originating passengers and originating passengers to the continental United States.

Interisland Originating Passengers and Airfares. Figure 18 provides a comparison of changes in the numbers of interisland originating passengers and average interisland airfares in the Hawaii Airports System for FY 1990 through FY 2009. From FY 1990 to FY 2000, the number of interisland originating passengers increased an average of 0.5% per year, while interisland airfares increased an average of 2.8% per year—the same rate of increase as the U.S. CPI-U during this period. From FY 1990 to FY 2006, the number of interisland originating passengers increased an average of 7.1% per year, while interisland airfares increased an average of 9.7% per year—faster than the rate of increase in the U.S. CPI-U (2.7%) during this period. In FY 2007, the number of interisland originating passengers increased 19.7%, while interisland airfares decreased an average of 29.8%, reflecting, the initiation of service by Mesa Airlines (operated by go!) at the end of FY 2006. In FY 2008, the number of interisland originating passengers increased 1.2%, and interisland airfares increased an average of 13.5% with the cessation of service by Aloha Airlines, in March 2008, which provided primarily interisland service. In FY 2009, the number of interisland originating passengers decreased 18.3%, and interisland airfares increased an average of 19.8%, reflecting the reduced interisland service and the effects of the national economic recession.

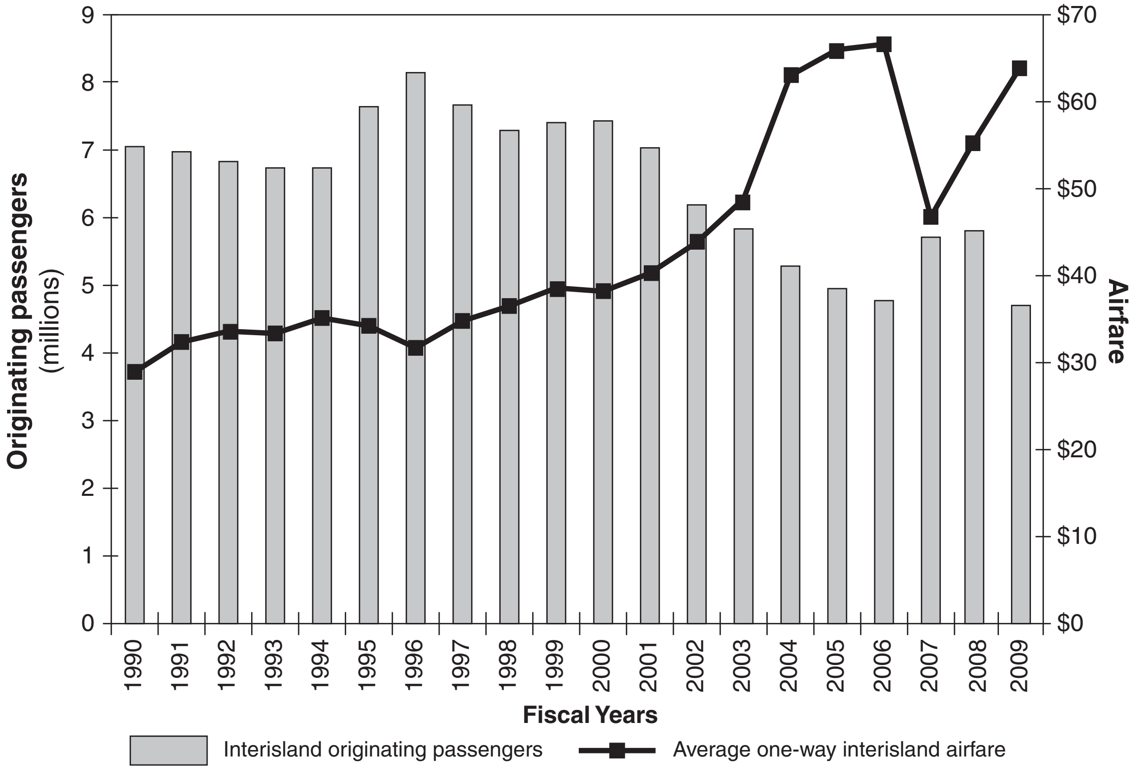
Table 15 presents average one-way airline fares and yields for Hawaii interisland markets from the first quarter of 2007 (January through March) through the second quarter of 2009 for HNL and each of the Primary Neighbor Island Airports. The average one-way airfares were comparable for the five airports—ranging between $50 and $60 during the second quarter of 2009. In contrast, there was greater variance among the airline yields for the five airports—ranging from $0.28 to $0.52 during the second quarter of 2009—as a result of differences in trip lengths. For example, Hilo International Airport had the longest interisland trip length (221 miles) and the lowest yield ($0.28 per passenger mile) compared with Kahului Airport, which had the shortest trip length (107 miles) and the highest yield ($0.52 per passenger mile).

Originating Passengers to the Continental United States and Airfares. Table 16 presents average one-way airline fares and yields from Hawaii to continental U.S. markets for the first quarter of 2007 through the second quarter of 2009 for HNL and each of the Primary Neighbor Island Airports. The average airfares for the five airports ranged from $286 to $329 during the second quarter of 2009, higher than the average U.S. domestic airfare ($164) as a result of comparatively longer trip lengths from Hawaii to the continental United States. In contrast, average airline yields for the five airports were similar—ranging between $0.09 and $0.10 per revenue passenger mile during the second quarter of 2009—lower than the average U.S. domestic yield ($0.14 per revenue passenger mile because of comparatively longer trip lengths from Hawaii to the continental United States.

Figure 18

INTERISLAND ORIGINATING PASSENGERS AND AIRFARES

Hawaii Airports System



Note: For Fiscal Years ended June 30.

Source: U.S. Department of Transportation, Federal Aviation Administration, *Origin-Destination Survey of Airline Passenger Traffic*, Domestic, online OD1B database, accessed August 2009. Data include 7.5% federal excise tax.

"Average airfare" statistics reported to the U.S. DOT survey of airline tickets are becoming less representative of the true "cost of travel." Total airline fare revenue includes ancillary fees (bag check fees, onboard food and beverage costs, priority boarding fees, and so on), which have proliferated since the mid-2008 fuel price spike. These ancillary fees can represent material additional payments that are not included in the reported "average airfare" figures.

Table 15

AVERAGE ONE-WAY AIRLINE FARES AND YIELDS FOR HAWAII INTERISLAND MARKETS

Airport location	2007 First quarter	2007 Second quarter	2007 Third quarter	2007 Fourth quarter	2008 First quarter	2008 Second quarter	2008 Third quarter	2008 Fourth quarter	2009 First quarter	2009 Second quarter
	Average one-way airline fares									
Honolulu	$46.15	$45.56	$48.57	$49.93	$56.50	$69.97	$79.72	$74.68	$59.98	$53.88
Kahului	47.78	47.17	50.05	50.95	57.16	69.33	75.43	73.48	62.66	54.16
Kona	52.24	49.42	52.61	53.67	61.98	76.99	89.44	80.72	62.92	57.57
Lihue	50.25	50.88	55.34	54.30	59.47	73.65	82.88	76.87	61.51	59.19
Hilo	49.03	49.51	52.35	53.23	60.25	75.68	86.47	79.94	70.36	60.32
	Average one-way yields (cents per revenue passenger mile)									
Honolulu	32.81	32.56	34.81	35.66	40.22	49.97	56.75	52.41	42.86	38.26
Kahului	44.64	43.71	45.94	47.53	53.45	64.11	70.05	68.98	59.32	51.59
Kona	31.62	29.90	31.63	32.44	37.30	46.40	53.87	49.06	38.46	35.00
Lihue	38.86	39.97	42.34	42.66	45.93	57.61	63.43	59.91	49.44	47.43
Hilo	22.17	22.43	23.66	24.25	27.27	34.46	39.26	36.58	32.31	27.57

Note: Data are for calendar years.
Average fare data do not include ancillary revenues made from additional fees and charges imposed by airlines.

Source: U.S. Department of Transportation, *Origin-Destination Survey of Passenger Traffic, Domestic*, online OD1B database, accessed November 2009. Includes 7.5% federal excise tax.

Table 16

AVERAGE ONE-WAY AIRFARES AND YIELDS FROM HAWAII TO THE CONTINENTAL UNITED STATES

	2007				2008				2009	
Airport location	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
	Average one-way airline fares									
Honolulu	$277.24	$294.49	$303.07	$292.91	$300.41	$339.27	$356.08	$324.12	$304.08	$298.31
Kahului	281.03	286.56	280.30	282.81	299.55	332.06	339.91	336.48	317.54	285.79
Kona	300.81	312.88	319.87	320.24	333.58	352.41	372.92	354.89	328.90	298.92
Lihue	299.54	309.72	314.66	312.53	311.93	336.64	354.07	344.35	321.45	294.96
Hilo	247.66	285.01	296.72	288.00	296.91	388.43	402.74	357.15	339.75	329.48
U.S. average	170.72	175.03	176.07	174.40	180.41	186.34	192.85	183.99	169.41	164.10
	Average one-way yields (cents per revenue passenger mile)									
Honolulu	8.06	8.63	8.98	8.67	8.78	9.85	10.40	9.50	8.79	8.73
Kahului	8.67	9.12	9.17	9.18	9.25	10.42	10.95	10.65	9.61	8.97
Kona	9.18	9.79	10.22	10.18	10.25	11.04	11.77	11.24	10.04	9.26
Lihue	9.00	9.64	10.03	9.88	9.48	10.38	11.16	10.70	9.47	9.14
Hilo	8.31	9.61	10.00	9.68	9.84	12.38	12.72	11.43	10.75	10.45
U.S. average	14.81	14.94	14.84	15.07	15.58	15.93	16.18	15.87	14.46	13.85

Note: Data are for calendar years.
Average fare data do not include ancillary revenues made from additional fees and charges imposed by airlines.

Source: U.S. Department of Transportation, *Origin-Destination Survey of Passenger Traffic, Domestic*, online OD1B database, accessed November 2009. Includes 7.5% federal excise tax.

1.4 AIR CARGO ACTIVITY

Cargo volumes do not directly affect Airports System Revenues because cargo service providers pay applicable landing fees and any Airports System Support Charges. These support charges are based on landed weight and ground rentals for cargo facilities, which are based on rented square footage. Both sources of revenue from air cargo service providers are only indirectly related to cargo volumes. Air cargo activity for the Hawaii Airports System in FY 2000 and FY 2009 is shown in Table 17.

Since FY 2000, total air cargo (enplaned and deplaned) accommodated in the Hawaii Airports System has decreased, mostly because of decreases in enplaned cargo. Deplaned cargo tonnage decreased 4.3% between fiscal years 2000 and 2009, compared with a 36.5% decrease in enplaned cargo, reflecting the Hawaii economy's reliance on imports to support the visitor industry and other businesses. Total air cargo (enplaned and deplaned) accommodated in the Airports System has decreased 20.3% since fiscal year 2000, largely due to decreases in enplaned cargo. In FY 2009, HNL accounted for 79.6% of Hawaii's total air cargo.

Table 17

TOTAL AIR CARGO
Hawaii Airports System
FY 2000 and FY 2009
(in tons)

	FY 2000			FY 2009		
Airport	Enplaned	Deplaned	Total	Enplaned	Deplaned	Total
Honolulu International	246,625	286,084	532,709	174,238	240,903	415,141
Kahului	30,084	13,994	45,078	8,124	29,465	37,588
Lihue	12,783	6,463	19,246	3,832	10,027	13,859
Kona International at Keahole	20,559	8,465	29,024	7,857	17,430	25,287
Hilo International	11,653	12,412	24,065	11,859	13,168	25,027
Other airports	3,097	892	3,989	1,113	3,311	4,425
Hawaii Airports System	325,802	328,309	654,111	207,023	314,304	521,327
Average annual percent increase (decrease)						
	Share of total					
Honolulu International	75.7%	87.1%	81.4%	84.2%	76.6%	79.6%
Kahului	9.5	4.2	6.9	3.9	9.4	7.2
Lihue	3.9	2.0	2.9	1.9	3.2	2.7
Kona International at Keahole	6.3	2.6	4.4	3.8	5.5	4.9
Hilo International	3.6	3.8	3.7	5.7	4.2	4.8
Other airports	1.0	0.3	0.7	0.5	1.1	0.8
Hawaii Airports System	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: For Fiscal Years ending June 30.

Source: State of Hawaii, Department of Transportation, Airports Division records.

1.5 KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

In addition to the demographics and economy of the State of Hawaii, as discussed earlier, key factors that will affect future airline traffic in the Hawaii Airports System include:

- Economic and political conditions
- Aviation safety, security, and public health concerns
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Capacity of the national air traffic control system
- Capacity of the Hawaii Airports System

1.5.1 Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. Recession in the U.S. economy in 2001 and stagnant economic conditions in 2002 contributed to reduced passenger traffic during those years. Economic recession in 2008 and 2009, combined with reduced discretionary income and increased airfares, is again likely to contribute to reduced airline travel demand in the near term.

With the globalization of business and the increased importance of international trade and tourism, growth in the U.S. economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities are now important influences on passenger traffic at major U.S. airports. Sustained future increases in domestic and international passenger traffic will depend on stable and peaceful international conditions as well as global economic growth.

1.5.2 Aviation Safety, Security, and Public Health Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to the avoidance of airline travel and the switching from air to surface modes of transportation for short trips.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were largely responsible for the steep decline in airline travel nationwide in 2002. Since September 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), and more intensive screening of passengers and baggage. In summer 2006, the discovery of a plot to attack transatlantic flights with liquid explosives led to further changes in screening procedures.

Public health concerns have also affected travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome (SARS) led public health agencies to issue advisories against non-essential travel to certain regions of the world. Beginning in April 2009, concerns about the spread of "swine flu" caused by the H1N1 virus reduced certain international airline travel.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks, hijackings, aircraft crashes, public health concerns, and international hostilities. Provided that precautions of government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Hawaii Airports System will depend primarily on economic, not safety or security, factors.

1.5.3 Financial Health of the Airline Industry

The number of passengers at Hawaii's airports will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly Hawaiian Airlines, to make investments necessary to continue providing service.

The 1990-1991 economic recession, coupled with increased operating costs and security concerns during the first Gulf War, generated then-record financial losses in the airline industry. These losses put particular pressures on financially weak or highly indebted airlines, forcing many to seek bankruptcy protection, sell productive assets, lay off workers, reduce service, or discontinue operations in the early 1990s.

Between 1995 and 2000, the airline industry as a whole was profitable, but as a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 terrorist attacks, increased fuel and other operating costs, and price competition, the industry has since experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately $40 billion.

To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. US Airways twice filed for bankruptcy protection, in 2002 and 2004. In 2002, United Airlines filed for bankruptcy protection (emerged in 2006). In 2003, American Airlines avoided filing for bankruptcy protection only after obtaining labor cost concessions from its employees and drastically reducing service at its St. Louis hub. In 2005, Delta Air Lines eliminated its Dallas/Fort Worth hub, reduced service at its Cincinnati hub, and restructured its other airport operations. In September 2005, Delta filed for bankruptcy protection (emerged in May 2007). Also in September 2005, Northwest Airlines filed for bankruptcy protection (emerged in May 2007.) Of the smaller airlines, ATA Airlines filed for bankruptcy protection in October 2004 (emerged March 2006) and Independence Air in November 2005 (ceased operations January 2006). As discussed earlier, Hawaiian Airlines filed for reorganization under Chapter 11 in March 2003 (emerged June 2005) and Aloha Airlines filled for bankruptcy protection in December 2004 (emerged February 2006).

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, but in mid-2008, as oil and aviation fuel prices increased to unprecedented levels, the industry again experienced a profitability crisis. The industry has responded by grounding older, less fuel-efficient aircraft, adopting fuel-saving operating practices, hedging their fuel requirements, reducing scheduled seat capacity, eliminating unprofitable routes, laying off employees, reducing employee compensation, reducing other non-fuel expenses, increasing airfares, and imposing other fees and charges. In the fourth quarter of 2008, the U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 10% compared with the fourth quarter of 2007.

Various industry analysts have suggested that further industrywide domestic capacity reductions may be required to achieve equilibrium between seat supply and passenger demand at airfares adequate to achieve airline profitability. Several airlines have announced additional capacity reductions for the first quarter of 2010. The combination of reduced seat capacity, increased airfares, and weak economic conditions is expected to lead to reduced passenger numbers at most airports in the near-term.

Continuing losses could cause airlines to seek bankruptcy protection or liquidate. During 2008, Aloha, ATA and Skybus airlines, along with other small airlines, declared bankruptcy and ceased operations. As a result of financial pressures resulting from increasing fuel prices and competition, Aloha Airlines filed for bankruptcy protection on March 20, 2008, ceased passenger operations on March 31, 2008, and completed the Chapter 7 bankruptcy liquidation of its cargo division in May 2008. Frontier Airlines filed for Chapter 11 protection in April 2008. Republic Airways Holdings purchased the parent company of Frontier Airlines and Lynx Aviation on August 13, 2009 under procedures established in Frontier's Chapter 11 bankruptcy proceedings. On September 10, 2009, the bankruptcy court issued an order confirming Frontier's Plan of Reorganization. On October 1, 2009, Republic Airways Holdings completed its acquisition of Frontier which allowed Frontier to emerge from Chapter 11 bankruptcy protection. On January 5, 2010, Mesa Air Group filed for Chapter 11 bankruptcy protection to eliminate excess aircraft, restructure its business model to changes in the regional airline industry, and settle litigation with Delta Air Lines. According to Mesa Air Group, Mesa's go!-Mokulele joint venture is not included in the filing and will continue to operate its full flight schedule. Japan Airlines filed for rehabilitation in January 2010, a court-led restructuring similar to a Chapter 11 filing in the United States. Service by Japan Airlines is expected to continue uninterrupted, although it is unclear what effect, if any, this restructuring will have on service to Hawaii. The liquidation of one or more of the large network airlines could drastically affect airline service at many connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns throughout the U.S. aviation system.

1.5.4 Airline Service and Routes

The Hawaii Airports System serves as a gateway to the State of Hawaii and locations in the Pacific Rim. The number of origin and destination passengers depends on the intrinsic attractiveness of Hawaii as a business and leisure destination to visitors and the propensity of its residents to travel. The number of connecting passengers, on the other hand, depends on the airline service provided in the Hawaii Airports System and at other airports.

Most mainline or network airlines have developed nationwide systems of hubs that allow the airlines to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports.

HNL is the largest of the five primary air carrier airports in the State of Hawaii; it is also an international gateway, and a connecting hub. As discussed in the earlier Section 1.1.1, "Honolulu International Airport," HNL is an important hub for Hawaiian Airlines. HNL is the only hub in the air service route systems of both Hawaiian and go! airlines, and was the only hub for Aloha Airlines while it was operating. In FY 2009, Hawaiian Airlines accounted for more than half of total connecting passengers at HNL.

1.5.5 Airline Competition and Airfares

Air fares have an important effect on passenger demand, particularly for relatively short trips where surface modes are potential alternatives and for price-sensitive "discretionary" travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by capacity and yield management; market presence, other competitive factors; labor, fuel, and other airline operating costs; airline debt burden; taxes, fees, and other charges assessed by governmental and airport agencies. Future passenger numbers, both nationwide and in the Hawaii Airports System, will depend on the level of airfares.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares nationwide between 2000 and 2005. During that period, the average domestic yield for U.S. airlines was reduced from 14.9 cents to 12.7 cents per passenger-mile, according to the U.S. DOT. In 2006 and 2007, as airlines reduced capacity and were able to sustain fare increases, industrywide yields increased, to an average of 13.8 cents per revenue passenger mile in 2007 (excluding federal taxes). In 2008, yields increased further, to 14.7 cents per passenger-mile. The ability of airlines to continue to increase and rationalize fares while controlling seat capacity is seen as key to the industry regaining and sustaining profitability.

In many airline travel markets nationwide, new entrant and other airlines with lower cost structures have provided price and service competition. In Hawaii, go!, a Mesa Airlines subsidiary, has provided such competition in interisland markets. As Hawaiian and legacy network airlines have restructured their operations and reduced costs, these airlines have enhanced their ability to compete.

1.5.6 Airline Consolidation and Alliances

In response to competitive and financial pressures, the U.S. airline industry has consolidated. In April 2001, American Airlines acquired failing Trans World Airlines. In August 2001, merger plans for United Airlines and US Airways were proposed, but rejected by the U.S. DOT as a result of concerns about reduced airline competition. As previously mentioned, in September 2005, US Airways and America West merged. In November 2006, the new US Airways proposed a merger with Delta Air Lines while the latter was in bankruptcy, but Delta's management and creditors rejected the merger proposal. In April 2008, Delta and Northwest Airlines announced their intention to merge; the merger was approved by the U.S. Department of Justice and became effective in October 2008. Various other merger combinations of American, Continental, United, and US Airways were rumored in early 2008, but in an environment of uncertain fuel prices and weak demand, none are expected to be pursued in the near term. In the longer term, further airline consolidation is possible and could change airline service patterns, particularly at the connecting hub airports of the merging airlines.

Alliances provide airlines with many of the advantages of mergers and all of the large U.S. network airlines are members of such alliances with foreign-flag airlines. Alliances typically involve marketing, code sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. In May 2004, US Airways joined the United-led Star Alliance. In May 2008, United announced that it would code-share with Hawaiian Airlines interisland flights beginning in late summer 2008, replacing its previous code-share agreement with Aloha Airlines. Continental left the Delta-led SkyTeam alliance and joined the United-led Star Alliance in October 2009.

1.5.7 Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor that affects airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainties. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in oil-producing countries; the rapidly growing economies of China, India, Nigeria, and other developing countries; and other factors influencing the demand for and supply of oil. By mid- 2008, average fuel prices were three times what they were in mid-2004 and represented the largest item of expense for most airlines. In the second half of 2008, oil prices fell as worldwide demand was reduced.

Airline industry analysts hold differing views on the extent to which recent fluctuations in oil and aviation fuel prices have been caused by actual or expected imbalances of supply and demand as opposed to commodity speculation. However, there is widespread agreement that fuel prices are likely to remain high relative to historical levels and to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

While aviation fuel prices have not affected the ability of airlines to provide service, fluctuating prices will affect future airline service, airfares, and passenger numbers. Airline operating economics could also be affected as regulatory costs are imposed on the airline industry to account for aircraft emissions contributing to global climate change.

1.5.8 Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. After 2001, air traffic delays decreased as a result of reduced numbers of aircraft operations but, as nationwide demand exceeds the 2000 level, flight delays and restrictions are again being experienced.

1.5.9 Capacity of the Hawaii Airports System

In addition to any future constraints that may be imposed by the capacity of the national air traffic control and airport systems, future growth in airline traffic in the Hawaii Airports System will depend on the provision of increased capacity at the airports in the system.

1.6 AIRLINE TRAFFIC FORECASTS

Forecasts of enplaned passengers and landed weight in the Hawaii Airports System for FY 2010 through FY 2016 are presented in Table 18 and Table 19. Historical (since FY 2000) and forecast enplaned passengers are shown graphically on Figure 19. The forecasts are presented for the State as a whole, HNL, and each of the Primary Neighbor Island Airports. Two key components of airline traffic are forecast overseas activity, including passengers enplaned in Hawaii for international destinations and to the continental United States, and interisland activity.

Summarized below are (1) assumptions underlying the airline traffic forecasts, (2) estimated enplaned passengers in FY 2010, (3) forecast enplaned passengers in FY 2011 through FY 2016, and (4) assumptions underlying aircraft landed weight forecasts.

1.6.1 Assumptions Underlying the Airline Traffic Forecasts

Forecasts of airline traffic were developed taking into account analyses of the economic basis for airline traffic, analyses of historical airline traffic, and an assessment of the key factors that may affect future airline traffic, as discussed in earlier sections. In general, it was assumed that, in the long term, changes in airline traffic in the Hawaii Airports System will occur largely as a function of the growth in the population and economy of the State, and changes in airline service. It was also assumed that continued development of airline service in the State will not be constrained by the availability of aviation fuel, long-term limitations in airline fleet capacity, limitations in the capacity of the air traffic control system or the Hawaii Airports System, or government policies or actions that restrict growth. Also considered were recent and potential developments in the national economy and in the air transportation industry as they have affected or may affect airline traffic in the State.

In the near term, it was assumed that:

- Slow recovery from the economic recession, weak growth in the U.S. and Hawaii economies, and reduced disposable income will depress the demand for airline travel through FY 2010.

- Aviation fuel prices will stabilize at levels that are historically high but lower than the record prices reached in mid-2008.

- Hawaiian and other airlines will continue to gradually replace seating capacity related to the cessation of service by Aloha and ATA airlines in FY 2009.

Table 18

HISTORICAL AND FORECAST ENPLANED PASSENGERS
Hawaii Airports System
FY 2007 – FY 2016

The forecasts presented in this table were prepared using the information and assumptions given in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Historical			Estimated	Forecast					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
HAWAII AIRPORTS SYSTEM										
Overseas	8,349,006	8,708,639	7,635,330	7,957,000	8,055,000	8,154,000	8,252,000	8,352,000	8,453,000	8,555,000
Interisland	8,951,154	8,792,597	7,206,820	7,118,000	7,189,000	7,261,000	7,333,000	7,407,000	7,481,000	7,555,000
Total	17,300,160	17,501,236	14,842,150	15,075,000	15,244,000	15,415,000	15,585,000	15,759,000	15,934,000	16,110,000
	Percent increase (decrease)									
Overseas	--	4.3%	(12.3%)	4.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Interisland	--	(1.8)	(18.0)	(1.2)	1.0	1.0	1.0	1.0	1.0	1.0
Total	--	1.2%	(15.2%)	1.6%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
HONOLULU INTERNATIONAL AIRPORT										
Overseas	6,294,614	6,349,420	5,559,960	5,813,000	5,877,000	5,942,000	6,007,000	6,073,000	6,140,000	6,207,000
Interisland	4,117,825	4,030,471	3,339,291	3,311,000	3,344,000	3,378,000	3,411,000	3,446,000	3,480,000	3,515,000
Total	10,412,439	10,379,891	8,899,251	9,124,000	9,221,000	9,320,000	9,418,000	9,519,000	9,620,000	9,722,000
	Percent increase (decrease)									
Overseas	--	0.9%	(12.4%)	4.6%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Interisland	--	(2.1)	(17.1)	(0.8)	1.0	1.0	1.0	1.0	1.0	1.0
Total	--	(0.3%)	(14.3%)	2.5%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
PRIMARY NEIGHBOR ISLAND AIRPORTS										
Overseas	2,054,392	2,359,219	2,075,370	2,144,000	2,178,000	2,213,000	2,246,000	2,280,000	2,313,000	2,347,000
Interisland	4,597,455	4,521,105	3,665,561	3,608,000	3,643,000	3,680,000	3,717,000	3,753,000	3,792,000	3,829,000
Total	6,651,847	6,880,324	5,740,931	5,752,000	5,821,000	5,893,000	5,963,000	6,033,000	6,105,000	6,176,000
	Percent increase (decrease)									
Overseas	--	14.8%	(12.0%)	3.3%	1.6%	1.6%	1.5%	1.5%	1.4%	1.5%
Interisland	--	(1.7)	(18.9)	(1.6)	1.0	1.0	1.0	1.0	1.0	1.0
Total	--	3.4%	(16.6%)	0.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Kahului Airport										
Overseas	1,356,628	1,517,353	1,254,604	1,302,000	1,321,000	1,341,000	1,361,000	1,382,000	1,402,000	1,423,000
Interisland	1,614,961	1,583,378	1,287,718	1,274,000	1,286,000	1,299,000	1,312,000	1,325,000	1,339,000	1,352,000
Total	2,971,589	3,100,731	2,542,322	2,576,000	2,607,000	2,640,000	2,673,000	2,707,000	2,741,000	2,775,000
	Percent increase (decrease)									
Overseas	--	11.8%	(17.3%)	3.8%	1.5%	1.5%	1.5%	1.5%	1.4%	1.5%
Interisland	--	(2.0)	(18.7)	(1.1)	1.0	1.0	1.0	1.0	1.0	1.0
Total	--	4.3%	(18.0%)	1.3%	1.2%	1.2%	1.3%	1.3%	1.3%	1.2%

Table 18 *(page 2 of 2)*
HISTORICAL AND FORECAST ENPLANED PASSENGERS
Hawaii Airports System
FY 2007 – FY 2016

PRIMARY NEIGHBOR ISLAND AIRPORTS *(continued)*

	Historical			Estimated	Forecast					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Lihue Airport										
Overseas	194,983	342,795	363,934	388,000	396,000	404,000	410,000	416,000	422,000	428,000
Interisland	1,113,623	1,101,052	866,447	815,000	823,000	831,000	840,000	848,000	857,000	865,000
Total	1,308,606	1,443,847	1,230,381	1,203,000	1,219,000	1,235,000	1,250,000	1,264,000	1,279,000	1,293,000
	Percent increase (decrease)									
Overseas	--	75.8%	6.2%	6.6%	2.1%	2.0%	1.5%	1.5%	1.4%	1.4%
Interisland	--	(1.1)	(21.3%)	(5.9)	1.0	1.0	1.1	1.0	1.1	0.9
Total	--	10.3%	(14.8%)	(2.2%)	1.3%	1.3%	1.2%	1.1%	1.2%	1.1%
Kona International Airport at Keahole										
Overseas	466,854	474,163	456,832	454,000	461,000	468,000	475,000	482,000	489,000	496,000
Interisland	1,106,945	1,090,129	875,391	867,000	876,000	885,000	893,000	902,000	911,000	920,000
Total	1,573,799	1,564,292	1,332,223	1,321,000	1,337,000	1,353,000	1,368,000	1,384,000	1,400,000	1,416,000
	Percent increase (decrease)									
Overseas	--	1.6%	(3.7%)	(0.6%)	1.5%	1.5%	1.5%	1.5%	1.5%	1.4%
Interisland	--	(1.5)	(19.7)	(1.0)	1.0	1.0	0.9	1.0	1.0	1.0
Total	--	(0.6%)	(14.8%)	(0.8%)	1.2%	1.2%	1.1%	1.2%	1.2%	1.1%
Hilo International Airport										
Overseas	35,927	24,908	--	--	--	--	--	--	--	--
Interisland	761,926	746,546	636,005	652,000	658,000	665,000	672,000	678,000	685,000	692,000
Total	797,853	771,454	636,005	652,000	658,000	665,000	672,000	678,000	685,000	692,000
	Percent increase (decrease)									
Overseas	--	(30.7%)	(100.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interisland	--	(2.0)	(14.8)	2.5	0.9	1.1	1.1	0.9	1.0	1.0
Total	--	(3.3%)	(17.6%)	2.5%	0.9%	1.1%	1.1%	0.9%	1.0%	1.0%

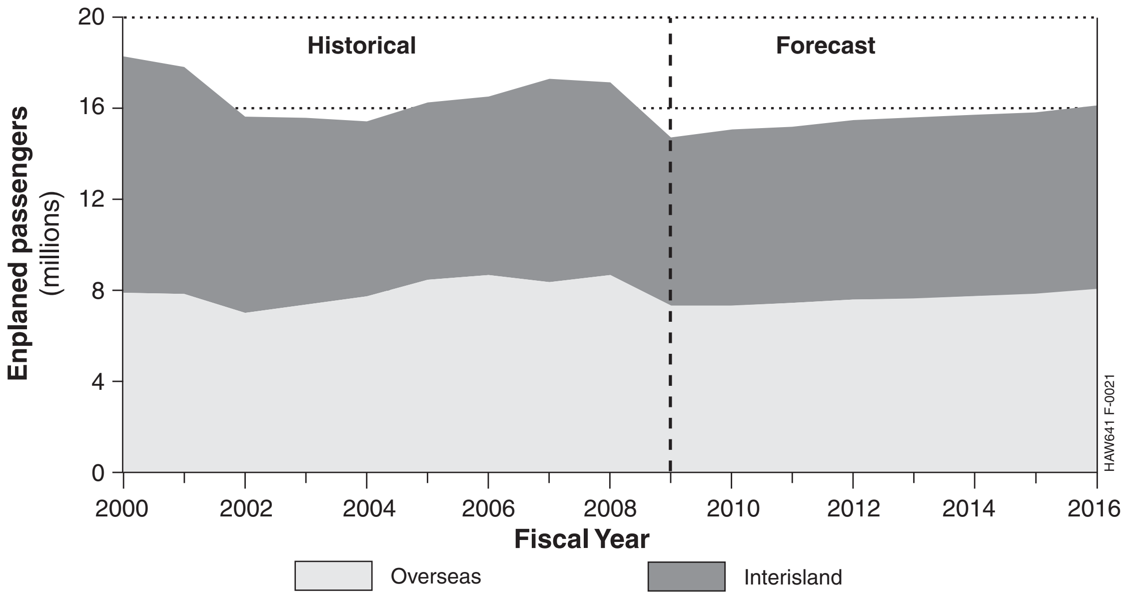
Notes: For Fiscal Years ending June 30.
Interisland enplaned passenger data for Hawaii Airports System includes airports not shown in this table.
FY 2010 estimate is based on 4 months (July through October 2009) of actual activity.

Sources: Historical: State of Hawaii, Department of Transportation, Airports Division records.
Estimated and Forecast: Jacobs Consultancy, December 2009.

Figure 19

HISTORICAL AND FORECAST OVERSEAS AND INTERISLAND ENPLANED PASSENGERS

Hawaii Airports System



Note: For Fiscal Years ended June 30. The forecasts presented in this figure were prepared using the information and assumptions given in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

Sources: Historical: State of Hawaii, Department of Transportation, Airports Division.
Estimated and forecast: Jacobs Consultancy, December 2009.

Beginning in FY 2011, and through the remainder of the forecast period to FY 2016, passenger numbers are forecast to increase gradually on the basis of the assumptions that:

1. The U.S. economy will recover from the recession and experience sustained growth in gross domestic product averaging between 2.0% and 2.5% per year.

2. The economy of the State of Hawaii will increase at a rate comparable to that of the United States as a whole.

3. The State of Hawaii will continue to attract tourism industry development, consistent with the visitor industry projections in Table 8.

4. A generally stable international political environment and safety and security precautions will ensure airline traveler confidence in aviation without imposing unreasonable inconveniences.

5. There will be no major disruption of airline service or airline travel behavior as a result of international hostilities or terrorist acts or threats.

6. HNL will continue to be the principal connecting hub and international gateway for Hawaiian Airlines.

7. The airlines serving the Hawaii Airports System will be financially viable and able to add the seating capacity required to accommodate additional demand.

8. Competition among airlines serving the Hawaii Airports System will ensure the continued availability of competitive airfares.

1.6.2 Estimated Enplaned Passengers—FY 2010

As shown in Table 18 and on Figure 19, the number of enplaned passengers in the Hawaii Airports System is forecast to increase 1.6% in FY 2010. Overseas passenger traffic is expected to increase 4.2% in FY 2010 reflecting actual activity during the first 6 months of FY 2010 (July through December 2009), increased seating capacity during the last 6 months of FY 2010 (January through June 2010) based on published airline schedules, and a gradual recovery in the economy and passenger demand. Interisland passenger traffic is expected to decrease 1.2% reflecting actual activity during the first 6 months of FY 2010 (July through December 2009), decreased seating capacity during the last 6 months of FY 2010 (January through June 2010) based on published airline schedules, and the consolidation of interisland service between Mesa Airline's go! and Mokulele Airlines.*

1.6.3 Forecast Enplaned Passengers—FY 2011 through FY 2016

As mentioned earlier, the long-term growth in airline traffic in the State is forecast to be consistent with the growth in the overall economy and the visitor industry. The key components of airline traffic—overseas (international and continental United States) and interisland—are forecast to increase at comparable rates based on the factors discussed below.

- **Overseas Enplaned Passengers—International.** Overseas international enplaned passengers are forecast to increase an average of 1.2% per year between FY 2010 and FY 2016. Growth in the number of overseas international passengers has been affected by the decrease in the main eastbound visitor group, Japanese overseas travelers, as well as the global economic recession and the volatility in fuel prices. While no significant long-term air service development initiatives have been indicated, overseas international enplaned passenger numbers are expected to grow based on underlying economic activity and continued tourism market development.

*According to Mesa Air Group, Mesa's go!-Mokulele joint venture is not included in the Chapter 11 filing of Mesa Air Group and will continue to operate its full flight schedule.

According to DBEDT, the easing of travel restrictions for Korean and Chinese visitors is expected to result in a doubling of arrivals and spending from these countries and other Asia markets within the next few years.

- **Overseas Enplaned Passengers—to the Continental United States.** Overseas enplaned passengers traveling to the continental United States are forecast to increase an average of 1.2% per year between FY 2010 and FY 2016. Growth in the numbers of overseas passengers enplaned to the continental United States has been driven by growth in the U.S. economy and the increasing popularity of Hawaii as a tourist destination. While no significant long-term air service development initiatives have been indicated, the numbers of overseas passengers enplaned to the continental United States are expected to grow based on underlying economic activity.

- **Interisland Enplaned Passengers.** Interisland enplaned passengers are forecast to increase an average of 1.0% per year between FY 2010 and FY 2016. At the writing of this Report, there was no information available regarding long-term airline plans to add new interisland service. As such, interisland enplaned passenger numbers are expected to grow based on underlying economic activity.

1.6.4 Aircraft Landed Weight

Historical and forecast landed weight is shown in Table 19. Total landed weight at the Hawaii Airports System decreased 11.6% in FY 2009 as a result of the cessation of service by ATA and Aloha airlines, as discussed earlier, and is estimated to increase 0.8% in FY 2010, and then forecast to be approximately flat from FY 2010 through FY 2016. The forecast is based on the assumption that the airline fleet serving the Hawaii Airports System will not change significantly, but that the average size of aircraft will increase slightly over time.

Table 19

HISTORICAL AND FORECAST LANDED WEIGHT

Hawaii Airports System

FY 2007 – FY 2016

The forecasts presented in this table were prepared using the information and assumptions given in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material

	Historical			Estimated	Forecast					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
HAWAII AIRPORTS SYSTEM										
Overseas	15,241,799	14,374,582	12,772,382	13,450,000	13,520,000	13,590,000	13,661,000	13,713,000	13,739,000	13,765,000
Interisland	13,723,769	12,833,954	11,270,424	10,784,000	11,440,000	11,451,000	11,463,000	11,474,000	11,486,000	11,497,000
Total	28,965,568	27,208,536	24,042,806	24,234,000	24,314,000	24,395,000	24,477,000	24,540,000	24,577,000	24,613,000
	Percent increase (decrease)									
Overseas	1.4%	(5.7%)	(11.1%)	5.3%	0.5%	0.5%	0.5%	0.4%	0.2%	0.2%
Interisland	13.8	(6.5)	(12.2)	(4.3)	0.1	0.1	0.1	0.1	0.1	0.1
Total	6.9%	(6.1%)	(11.6%)	0.8%	0.3%	0.3%	0.3%	0.3%	0.2%	0.1%
HONOLULU INTERNATIONAL										
Overseas	10,592,495	11,003,976	9,805,917	10,421,000	10,476,000	10,531,000	10,587,000	10,623,000	10,634,000	10,645,000
Interisland	6,000,639	5,667,477	5,082,955	4,716,000	4,720,000	4,725,000	4,130,000	4,135,000	4,139,000	4,144,000
Total	17,593,134	16,671,453	14,888,872	15,137,000	15,196,000	15,256,000	15,317,000	15,358,000	15,373,000	15,389,000
	Percent increase (decrease)									
Overseas	(0.6%)	(5.1%)	(10.9%)	6.3%	0.5%	0.5%	0.5%	0.3%	0.1%	0.1%
Interisland	11.8	(5.6)	(10.3)	(7.2)	0.1	0.1	0.1	0.0	0.1	0.1
Total	4.1%	(5.2%)	(10.7%)	1.7%	0.4%	0.4%	0.4%	0.3%	0.1%	0.1%
PRIMARY NEIGHBOR ISLAND AIRPORTS										
Overseas	3,647,388	3,368,251	2,964,535	3,027,000	3,042,000	3,057,000	3,073,000	3,088,000	3,103,000	3,119,000
Interisland	7,238,383	6,727,104	5,695,657	5,575,000	5,880,000	5,586,000	5,591,000	5,598,000	5,603,000	5,609,000
Total	10,885,771	10,095,355	8,660,192	8,602,000	8,622,000	8,643,000	8,664,000	8,686,000	8,706,000	8,728,000
	Percent increase (decrease)									
Overseas	4.1%	(7.7%)	(12.0%)	2.1%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Interisland	15.4	(7.1)	(15.3)	(2.1)	0.1	0.1	0.1	0.1	0.1	0.1
Total	11.3%	(7.3%)	(14.2%)	(0.7%)	0.2%	0.2%	0.2%	0.3%	0.2%	0.3%

Table 19 *(page 2 of 2)*

HISTORICAL AND FORECAST LANDED WEIGHT

Hawaii Airports System

FY 2007 – FY 2016

	Historical			Estimated	Forecast					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Kahului										
Overseas	2,279,885	2,113,274	1,747,322	1,811,000	1,820,000	1,829,000	1,838,000	1,848,000	1,857,000	1,866,000
Interisland	2,516,497	2,308,298	2,013,985	1,985,000	1,987,000	1,989,000	1,991,000	1,993,000	1,995,000	1,997,000
Total	4,796,382	4,221,572	3,761,307	3,796,000	3,807,000	3,818,000	3,829,000	3,841,000	3,852,000	3,863,000
					Percent increase (decrease)					
Overseas	3.1%	(7.3%)	(17.3%)	3.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.2%
Interisland	14.9	(8.3)	(12.8)	(1.4)	0.1	0.1	0.1	0.1	0.1	0.1
Total	8.9%	(7.8%)	(14.9%)	0.9%	0.3%	0.3%	0.3%	0.3%	0.3%	0.1%
Lihue										
Overseas	453,035	428,789	458,540	490,000	493,000	495,000	498,000	500,000	502,000	505,000
Interisland	1,712,995	1,572,136	1,291,247	1,214,000	1,215,000	1,216,000	1,217,000	1,219,000	1,220,000	1,221,000
Total	2,166,030	2,000,925	1,749,787	1,704,000	1,708,000	1,711,000	1,715,000	1,719,000	1,722,000	1,726,000
					Percent increase (decrease)					
Overseas	19.3%	(5.4%)	6.9%	6.9%	0.6%	0.4%	0.6%	0.4%	0.4%	0.3%
Interisland	13.9	(8.2)	(17.9)	(6.0)	0.1	0.1	0.1	0.1	0.1	0.0
Total	15.0%	(7.6%)	(12.6%)	(2.6%)	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
Kona International at Keahole										
Overseas	768,505	699,980	711,078	726,000	729,000	733,000	737,000	740,000	744,000	748,000
Interisland	1,832,042	1,666,492	1,394,264	1,417,000	1,418,000	1,420,000	1,421,000	1,423,000	1,424,000	1,426,000
Total	2,600,547	2,366,472	2,105,342	2,143,000	2,147,000	2,153,000	2,158,000	2,163,000	2,168,000	2,174,000
					Percent increase (decrease)					
Overseas	(6.7%)	(8.9%)	1.6%	2.1%	0.4%	0.5%	0.5%	0.4%	0.5%	0.3%
Interisland	14.3	(9.0)	(16.3)	1.6	0.1	0.1	0.1	0.1	0.1	0.1
Total	7.2%	(9.0%)	(11.0%)	1.8%	0.2%	0.3%	0.2%	0.2%	0.2%	0.1%
Hilo International										
Overseas	145,963	126,208	47,595	--	--	--	--	--	--	--
Interisland	1,176,849	1,180,178	996,161	959,000	960,000	961,000	962,000	963,000	964,000	965,000
Total	1,322,812	1,306,386	1,043,756	959,000	960,000	961,000	962,000	963,000	964,000	965,000
					Percent increase (decrease)					
Overseas	62.4%	(13.5%)	(62.3%)	--	--	--	--	--	--	--
Interisland	20.6	0.3	(15.6)	(3.7)	0.1	0.1	0.1	0.1	0.1	0.1
Total	24.1%	(1.2%)	(20.1%)	(8.1%)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Notes: For Fiscal Years ending June 30.
Interisland landed weight data for Hawaii Airports System includes airports not shown in this table.

Sources: Historical: State of Hawaii, Department of Transportation, Airports Division records.
Estimated and Forecast: Jacobs Consultancy, December 2009.

2.0 HAWAII AIRPORTS SYSTEM FACILITIES AND CAPITAL IMPROVEMENT PROGRAM

This section summarizes the facilities currently provided at each airport in the Hawaii Airports System, describes the State's capital budgeting and project approval process, and presents the Airports Division's proposed Capital Improvement Program.

2.1 CURRENT HAWAII AIRPORTS SYSTEM FACILITIES

This section summarizes the facilities at each of the 15 airports in the Hawaii Airports System. Table 20 shows the number of gates at the five primary airports in the Airports System, and indicates the number of narrowbody and widebody aircraft gates at each primary airport.

Table 20

AIRPORTS SYSTEM GATES AT PRIMARY AIRPORTS

	Widebody	Narrowbody	Total
Honolulu International Airport			
Overseas (Main) Terminal			
Diamond Head Concourse	6	--	6
Central Concourse	14	--	14
Ewa Concourse	9	--	9
Main Overseas Terminal Total	29	--	29
Interisland Terminal	--	13	13
Commuter Terminal	--	10	10
Total – Honolulu International	29	23	52
Kahului Airport			
Main Terminal	16	4	20
Commuter Terminal	--	1	1
Total Kahului International Airport	16	5	21
Kona International Airport at Keahole			
North Terminal	4	1	5
South Terminal	4	1	5
Total Kona International Airport at Keahole	8	2	10
Lihue Airport			
Main Terminal	8	--	8
Commuter Terminal	--	2	2
Total Lihue International Airport	8	2	10
Hilo International Airport			
Main Terminal	10	--	10
Commuter Terminal	--	1	1
Total Hilo International Airport	7	1	11
Total – Primary Airports	73	32	105

Source: State of Hawaii, Department of Transportation, Airports Division records.

2.1.1 Honolulu International Airport

HNL is a large-hub airport on the south shore of Oahu that occupies 2,216 acres of land and includes an additional 2,210 acres of water. The airport is located approximately 3 miles west of downtown Honolulu, and 7 miles from Waikiki. Roadway access to the airport is provided via the Queen Liliuokalani Freeway section of Interstate H-1 and the Nimitz Highway.

The airfield at HNL consists of two sets of parallel east-west runways, associated taxiways, and navigational aids. The principal runway, designated 8R-26L, is also known as the Reef Runway. Completed in 1977, the 12,000-foot Reef Runway is a designated alternate landing site for the National Aeronautics and Space Administration's (NASA's) space shuttle program in association with Hickam Air Force Base, which shares airfield operations with HNL. The 12,300-foot Runway 8L-26R is parallel to the Reef Runway. The other set of parallel runways consists of Runway 4R-22L, which is 9,000 feet long, and Runway 4L-22R, which is 6,952 feet long. In addition to the four paved runways, HNL has two designated offshore runways, designated 8W-26W and 4W-22W, for use by seaplanes.

HNL has three terminal buildings:

- The **Overseas Terminal**, also referred to as the Main Terminal, serves passenger aircraft operations to and from mainland and international destinations. The second level of the Overseas Terminal provides ticketing, U.S. Department of Agriculture (USDA) inspection, TSA passenger and baggage screening, restaurants and retail shops, holdrooms, and gates, all of which are equipped with loading bridges. The baggage claim areas and ground transportation services are located on the first (ground) level. All 29 gates in the Overseas Terminal are common use, although gates have been consistently assigned to the same carriers over time. Gates 6 through 25 on the Diamond Head Concourse, the Central Concourse, and along the face of the Overseas Terminal primarily serve domestic flights. Most international flights arrive and depart from the Ewa Concourse (Gates 26 through 34), which is closest to the international arrivals area.

- The **Interisland Terminal** serves flights to and from certain airports on the neighbor islands (Kahului, Lihue, Hilo International, Lanai, and Molokai as well as Kona International at Keahole). The second level of the Interisland Terminal provides ticketing, TSA passenger and baggage screening, restaurants and retail shops, holdrooms, and gates, all of which are equipped with loading bridges. All 13 gates at this terminal are used on a common use or preferential basis. The baggage claim areas and ground transportation services are located on the ground level. The terminal also includes a seven-level parking garage. The Airports Division's administrative offices are located on the seventh level of the Interisland

Terminal, along with a business center with conference rooms for private use.

- The **Commuter Terminal** is a single-level facility that serves propeller aircraft traveling to smaller commercial service airports on the neighbor islands (Lanai, Hana, Kapalua, Waimea-Kohala, Molokai, and Kalaupapa). This terminal has no loading bridges; passengers board aircraft from the ramp via hardstands or use internal access air stairs onboard aircraft.

"Wiki Wiki" buses (from the Hawaiian word for "fast”) provide post-security transportation among the terminals and concourses of the Interisland and Overseas terminals. HNL has a total of 6,202 public and employee parking spaces, including 5,157 spaces in Garages A, D, and M between the Overseas Terminal and the Interisland Terminal; 185 spaces in long-term economy parking lot J; 434 spaces in surface parking lot B adjacent to the Commuter Terminal; 250 spaces in the valet parking lot; and 126 spaces in lots F and W for public and employee parking. Parking Garage A opened in February 2009 with 1,800 spaces. Rental car ready/return and customer service facilities are located across the roadway from the Overseas Terminal.

Other facilities at the airport include a complex of general aviation, air cargo, and airport support facilities at the south ramp near Ke'ehi Lagoon, and a complex of maintenance and air cargo facilities, principally for the interisland airlines, located west of the terminal complex.

2.1.2 Kahului Airport

Kahului Airport is a medium-hub airport located on the northern edge of the neck of land between Haleakala and the West Maui Mountain Range on the island of Maui. The airport occupies 1,391 acres of land and is located 3 miles east of the town of Kahului. The airport has two intersecting runways, Runway 2-20 and Runway 5-23. Kahului Airport serves commuter/air taxi and general aviation operations, including helicopter operations, in separate locations. Vehicular access to the passenger terminal, commuter/air taxi, cargo, scenic tour operators, general aviation facilities, and airport support facilities is via the east ramp that connects to Haleakala Highway, which intersects Hana Highway.

- The **Airport Terminal Building** has ticketing, USDA agricultural inspection, TSA baggage screening, and baggage claim areas on the ground level. Two TSA passenger security checkpoints are provided on the ground level, with escalators and stairways that lead to a second-level central atrium with public space, restaurants, and retail shops. Passengers depart from the 20 gates located on the two concourses that extend from the central atrium. The terminal has a total of six holdroom areas, two of which have four gates each with loading bridges, and four of which have three gates each with loading bridges. The airport's terminal and gates were designed to accommodate interisland flights by narrowbody aircraft.

The airport has no Customs or Immigration facilities; passengers on flights from Canada use United States border pre-clearance facilities in Vancouver or Calgary.

- The **Commuter Terminal** is located along Kahului Airport Road and serves several interisland commuter carriers.

The airport has surface parking adjacent to the terminal, and remote rental car facilities served by shuttle buses from the terminal area.

2.1.3 Kona International Airport at Keahole

Kona International Airport at Keahole is a small-hub airport that occupies 3,450 acres of land located approximately 7 miles northwest of Kailua-Kona on the west shore of the island of Hawaii. This airport accommodates domestic overseas, international, interisland, commuter/air taxi, and general aviation activities. The airport has an 11,000-foot runway constructed on lava flow that occurred in 1801.

- The **Passenger Terminal** complex consists of two open-air structures located at the eastern edge of the airfield, with a total of 10 boarding gates serving 14 parking spots. The terminal has no loading bridges; passengers board aircraft from the ramp via hardstands or use internal access air stairs onboard aircraft.

- The **Commuter Terminal** is located at the south end of the airport and consists of two trailers joined with a covered deck, serving several interisland commuter carriers and air tour/taxi operators. An interim supplemental terminal has been designed to be built adjacent to the existing facilities and is ready for construction bidding.

The terminal area is served by a one-way roadway loop enclosing public parking and rental car check-in facilities off an access roadway extending from the Queen Kaahumanu Highway. General aviation, cargo, and related facilities are located south of the passenger terminal complex and the access roadway. Shuttle buses from the terminal area serve the airport's remote rental car facilities.

2.1.4 Lihue Airport

Lihue Airport is a small-hub airport that occupies 872 acres of land about 1.5 miles east of the town of Lihue, on the southeast coast of the island of Kauai. The airport serves domestic overseas and interisland flights, commuter/air taxi, air cargo, and general aviation operations. Airfield facilities include two runways that are each 6,500 feet long, taxiways, aprons, navigational aids, an airport traffic control tower, and helipads. Vehicular access to the airport is provided via Ahukini Road, which extends from Kapule Highway.

- The **Passenger Terminal** has eight jetway gates and four hardstand parking spots. The passenger terminal is served by a one-way loop roadway branching off Ahukini Road and encircling a public parking lot. The remaining facilities are served directly via Ahukini Road. The airport has remote rental car facilities with shuttle service from the terminal area.

- The **Commuter Terminal** is located on Ahukini Road, a quarter mile north of the Passenger Terminal and services private jets, military flights, and a local flight school.

2.1.5 Hilo International Airport

Hilo International Airport is a small-hub airport that occupies 1,391 acres about 2 miles east of the town of Hilo, on the eastern shore of the island of Hawaii. The airport has two runways, Runway 8-26 and Runway 3-21. Runway 8-26 is 9,800 feet long and is used for air carrier operations. Runway 3-21 is 5,600 feet long and is used for general aviation and commuter aircraft operations. The airport has scheduled interisland air service but currently has no scheduled overseas air service.

- The **Main Passenger Terminal** is located at the southern edge of the airport and is served by an access roadway from Kekuanaoa Avenue, between the passenger terminal complex and Runway 3-21 to the west. The terminal complex consists of a main passenger terminal with ten gates.

- The **Commuter Terminal** is located at the west end of the main passenger terminal ramp and primarily serves helicopter air tours. The terminal has no scheduled fixed-wing service.

General aviation facilities, located along the eastern edge of Runway 3-21, are also served by the terminal access roadway. A parking apron for transient military aircraft is provided at the western edge of the runway. Air cargo facilities are located along Operations Street on the west side of Runway 3-21. Rental car facilities are located across the street from the main passenger terminal.

2.1.6 Secondary Airports

The remaining 10 airports in the State are described below.

Island of Oahu

- **Dillingham Airfield** (currently leased from the United States military) is located on the north shore of Oahu near the unincorporated town of Waialua. The airfield is a joint-use general aviation military and civilian facility with one runway, a Universal Communication (UNICOM) tower, hangars for powered aircraft and gliders, and a tiedown area for recreational aircraft. Dillingham Airfield is primarily used as a base for glider soaring, hang-gliding, parachuting, and sky jumping. General aviation and sport parachuting operations are limited to the daytime hours unless approved in advance by the U.S. Army. Military operations consist largely of nighttime operations for night vision training.

- **Kalaeloa Airport**, also referred to as John Rodgers Field (the original name of Honolulu International Airport), is located 6 nautical miles west of Pearl Harbor. This airport is the former Barbers Point Naval Air Station and was acquired in 1999 at no cost through the Base Realignment and Closure (BRAC) process. Kalaeloa Airport has three major runways and supports general aviation, the U.S. Coast Guard, the Hawaii National Guard, the State Civil Defense, and the armed services, as necessary. Kalaeloa Airport has development potential for general aviation, air cargo, and unscheduled charter air operations.

Island of Maui

- **Hana Airport** is a nonhub airport that supports commuter, unscheduled air taxi, and general aviation operations on a 119-acre site on the east shore of Maui about 3 miles northwest of the town of Hana. A single runway serves the passenger terminal and general aviation and airport support facilities south of the runway. Vehicular access to the airport from Hana Highway is provided via Alalele Place.

- **Kapalua Airport** is a nonhub airport that occupies 50 acres of land on the northwest shore of Maui, and is served only by commuter/air taxi air service. The airport, which consists of a single runway, terminal facilities, and support facilities, was a private facility until its acquisition by the State in April 1993. There are no air cargo facilities at this airport. Access to the airport is provided via a two-lane road off the Honoapiilani Highway. Operations are limited to daytime hours.

Island of Hawaii (Big Island)

- **Waimea-Kohala Airport** is a nonhub airport that occupies 90 acres of land in the north-central part of the island of Hawaii, 1 mile south of the town of Kamuela. The airport has a single runway (without taxiways) and an aircraft parking apron at the west end of the runway that serves the passenger terminal and general aviation facilities. No airport traffic control tower is provided. Vehicular access to the terminal and other facilities is provided via a short connecting roadway extending from the Mamalahoa Highway.

- **Upolu Airport** is a general aviation airport that occupies 88 acres of land at the northern tip of the island of Hawaii, 3 miles from the town of Hawi. This airport has a single runway (without taxiways) and two aircraft parking areas south of the runway. The east parking area supports passenger terminal operations and the west parking area provides tiedown facilities for general aviation aircraft. The airport does not have a control tower, ARFF facilities, or discrete air cargo facilities. Access to the airport is provided via a one-lane roadway off the Akoni Pule Highway.

Island of Kauai

- **Port Allen Airport** is a general aviation airport that occupies 180 acres of land on the southern shore of Kauai, and has a single runway and separate aircraft parking areas for fixed-wing aircraft and helicopters. The airport has a public parking area, but no other public facilities. Access to the airport is provided via Kaalani Road, which connects the airport with Lolokai Road and Highway 50.

Island of Lanai

- **Lanai Airport** is a nonhub airport that occupies 505 acres of land about 3 miles southwest of Lanai City in the center of the island of Lanai. The airport has a single runway, and primarily serves scheduled interisland and commuter/air taxi traffic, with some unscheduled charter and general aviation activity. A new passenger terminal complex, which was recently constructed, includes roadway access, parking, and rental car facilities, as well as new cargo and airport support facilities. The airport access roadway from Kaumalaupau Highway serves as the primary access route from Lanai City.

Island of Molokai

- **Molokai Airport** is a nonhub airport that occupies 288 acres of land on the central plateau of the island of Molokai. The airport has two runways that accommodate commuter/air taxi and general aviation activities, as well as some military flights. The passenger terminal complex and general aviation facilities are north of the runway intersection; the passenger terminal complex is near the principal runway; and the general aviation facilities are near the crosswind runway. Vehicular access to those two areas is provided by separate access roadways, each connecting with Keonelele Avenue.

- **Kalaupapa Airport** is a nonhub airport that occupies 55 acres of land on the northern peninsula of Molokai, 2 miles north of the Kalaupapa community. The airport serves commuter/air taxi operations and some air cargo operations. Facilities include a single runway, a small passenger terminal, and airport support areas. The airport does not have a control tower.

2.2 STATE CAPITAL BUDGET

Every odd-numbered fiscal year, the Airports Division prepares a CIP for the ensuing six fiscal years, setting out the capital projects that it proposes to undertake during those years. The CIP is reviewed with the State's Department of Transportation and Department of Budget and Finance before being presented by the Department of Transportation to the Governor. Following the Governor's review, the first 2-year component of the 6-year program (known as the Biennium

Budget) is submitted to the State Legislature (the Legislature). The Legislature reviews the Biennium Budget in detail, and authorizes all or a portion of the budget by project. This authorization of a project (or component of a project) includes identification of the "means of financing," that is, the sources of funds that will be made available for the project. For the Airports System, five sources of financing are used: Bonds, federal funds from the FAA and the TSA, passenger facility charge revenues, rental car customer facility charge revenues, and internally generated funds. The Legislature's appropriation of bond funds for a project serves as authorization for the State to issue those bonds when required in the future.

In even-numbered fiscal years, the Airports Division may revise the second year component of the Biennium Budget presented the prior year and submit it to the Governor and Legislature for supplemental authorization and appropriation (the Supplemental Budget). The Supplemental Budget reflects changes since the previous year in project priorities within the 6-year CIP, as well as changes in the scope and funding requirements of projects approved in a prior year.

Each 6-year CIP includes many capital projects still in the preliminary planning stage, especially those projects scheduled for the latter years of the CIP. As the CIP is updated from year to year, it undergoes changes, particularly with respect to the timing of proposed projects. The Airports Division has received legislative appropriations of $792.9 million for FY 2010 and $262.1 million for FY 2011.

Appropriations for a fiscal biennium period that are not encumbered through contracts lapse 3 years from the first year of that biennium period. However, appropriations that involve federal matching funds and PFCs are not subject to lapse.

2.3 DESIGNATED PROJECTS

The Airports Division and the Signatory Airlines agreed in conjunction with approval of the 2007 Agreement to implement capital projects costing $2.4 billion. The projects were partially represented in the 6-year CIP presented to the Governor. However, some projects were not envisioned to begin during the period covered by the CIP.

In light of the economic recession in late 2008 and the ensuing air traffic decline, the Airports Division, in cooperation with the Signatory Airlines, reviewed the $2.4 billion of capital projects in July 2009 and decided to fund only the Designated Projects, and to defer all other projects pending improvements in the operating environment. The Designated Projects are estimated to cost $1.31 billion, inclusive of $369 million spent through October 2009. Certain capital projects of a maintenance nature estimated to cost $20 million annually through FY 2016 to be funded from internally generated funds and certain rental car projects to be funded with CFCs are not included in the Designated Projects. Rental car projects are in various conceptual development stages, with two major projects in design. According to the Airports Division, an estimated cost of $235 million for those two projects is expected to be funded with $125 million of CFC collections on a pay-as-you-go basis and approximately $110 million of nonrecourse, CFC-supported bonds to be issued no earlier than FY 2012.

To the best knowledge of the Airports Division as of the date of this Report, the Designated Projects, the rental car projects to be funded solely from CFCs, and the maintenance projects to be funded from internally generated funds constitute all of the significant capital projects that will be undertaken through FY 2016. However, as discussed in Section 2.2, the Airports Division will review the capital projects annually and may implement changes subject to legislative approval and, if necessary, review as set forth in the airport-airline lease agreements.

The Designated Projects are presented in the Table 21 and further details are provided in Exhibit A, which is presented at the end of this Report.

Table 21

DESIGNATED PROJECTS BY AIRPORT

Hawaii Airports System

Airport	Budget (millions)
Honolulu International Airport	$ 898
Kahului Airport	238
Kona International Airport at Keahole	15
Lihue Airport	51
Hilo International Airport	25
Other Projects *(a)*	87
Total	$1,314

Totals may not add due to rounding.

(a) Other projects include statewide studies/support services, and capital projects at other airports of the Hawaii Airport System.

Source: State of Hawaii, Department of Transportation, Airports Division records.

The Designated Projects are at various stages of development. Projects costing $269.7 million are completed or in the closeout stage. Projects costing $321.2 million are under construction. Projects costing $108.8 million are in the bid/award stage. The remaining projects are in various stages of planning or permitting and have an estimated cost of $613.8 million.

2.3.1 Honolulu International Airport

Approximately $898 million of Designated Projects is anticipated to be expended for projects at HNL. The major elements of the Designated Projects at the airport are:

- **Mauka Concourse Program.** Design, site preparation, and construction of a new Mauka Concourse and apron. The Mauka Concourse Program is the largest component of the Designated Projects with an estimated cost of $444 million. The Mauka Concourse Program includes site preparation and construction of a 220,000-square-foot facility parallel to the Interisland Terminal, Taxiways G and L widening to provide aircraft access to the Mauka Concourse up to Airplane Design Group V aircraft, and relocation and reconstruction of the cargo and maintenance facilities as well as the commuter terminal. *Planned completion*: FY 2013

- **Airfield Improvements.** The estimated cost for the airfield improvements is $56 million for Taxiway Z structural improvement projects. *Planned completion*: July 2013

- **Safety and Security Program.** Construction in the Interisland and Overseas terminals to accommodate new security infrastructure and facilities will enable the screening of checked baggage using explosives detection system (EDS) equipment installed "in-line" with the airport's baggage handling system. The new screening facilities will allow the removal of EDS equipment from the terminal check-in lobbies. The estimated cost of the safety and security program is $141 million. *Planned completion*: FY 2012

- **Ewa Concourse Sterile Corridor.** This project involves construction of a new sterile corridor leading from the Ewa concourse to the Federal Inspection Service area for international arriving passengers, with an estimated cost of $41 million. *Planned completion*: FY 2012

- **Other HNL Projects.** Other projects at HNL included the newly completed Garage A with 1,800 spaces with a total cost of $48 million and a group of improvements including chiller plant improvements, flight information display systems, electrical vault improvements, and loading bridge replacements, among others. The estimated cost of other HNL projects is $216 million. *Planned completion*: various

2.3.2 Kahului Airport

The major elements of the Designated Projects at Kahului Airport are:

- **Airfield Improvements.** The primary components include the Runway 2-20 and Taxiway Strengthening project with an estimated cost of $45 million, and taxiway A pavement improvement with an estimated cost of $40 million. An estimated $18 million will be used for an apron pavement structural improvement project, with runway safety area construction accounting for another $11 million of project cost. *Planned completion*: various

- **Safety and Security Program.** This project provides for the installation of EDS devices. The new equipment will enable screening of checked baggage using EDS equipment installed "in-line" with the airport's baggage handling system. The new screening facilities will allow the removal of EDS equipment from the terminal check-in lobbies. The estimated cost of the safety and security program is $25 million. *Planned completion*: July 2010

- **Other Projects.** Other projects, with estimated total cost of $99 million, are mostly completed, including general purpose apron construction, phase 1 of the terminal improvements, and an electrical vault for EDS equipment, among others. The remaining projects include access control systems, a flight information display system, passenger terminal re-roofing, and a master plan update. *Planned completion*: various

2.3.3 Kona International Airport at Keahole

The major elements of the Designated Projects at Kona International Airport at Keahole include terminal and holdroom improvements, master plan update, and the installation of access control and closed-circuit television (CCTV) systems. *Planned completion*: various

2.3.4 Lihue Airport

The major elements of the Designated Projects at Lihue Airport include land acquisition, heliport, baggage claim, perimeter road and security fence improvements, and other miscellaneous projects. *Planned completion:* FY 2010

2.3.5 Hilo International Airport

The major elements of the Designated Projects at Hilo International Airport are the construction of a new cargo facility, expansion of the parking lot, and noise attenuation of homes in the Keaukaha subdivision. *Planned completion*: various

2.3.6 Other Projects

Other projects include the design and the program management activities to support the Designated Projects, and statewide improvements and miscellaneous projects at other airports of the Airports System. The estimate cost of other projects is $87 million. *Planned completion*: various

2.4 OTHER CAPITAL PROJECTS

The Airports Division will monitor demand for facilities as one of its key considerations in proceeding with major capital projects approved in the 2007

Agreement that are not among the Designated Projects. Those projects include the Diamond Head Concourse Program to add 11 additional gates, Ewa Concourse Program to add 13 additional gates and central concourse renovation. For the purpose of this Report, it was assumed that such projects will be not constructed during the forecast period.

As described above, certain capital projects of a maintenance nature and funded from internally generated funds will be undertaken. Also, certain rental car projects funded with CFC revenues will be undertaken. Planning is in progress for consolidated rental car facilities for HNL, Kahului Airport, and Kona International Airport, however, implementation of these projects is subject to, among other things, approval by the Legislature of higher CFC rates.

None of the projects described in this Section 2.4 are Designated Projects.

3.0 FINANCIAL ANALYSIS

The purpose of this financial analysis is to evaluate the ability of the Hawaii Airports System to generate Net Revenues and Taxes sufficient to satisfy the requirements of the Rate Covenant, taking into account Outstanding Bonds, as well as the proposed Series 2010 Bonds and the planned Series 2011 Bonds that the Airports Division expects to issue to finance the costs of the Designated Projects. The analysis covers the period through FY 2016. Audited historical financial results are available through FY 2009. Financial data for FY 2010 through FY 2016 were forecast using FY 2009 data as the basis. The financial structure of the Airports Division is largely governed by the Certificate and agreements with the airlines. The financial structure is discussed below, followed by a discussion of historical and forecast financial results.

Capitalized terms not otherwise defined in this Report shall have the same meanings given in the Certificate and the Amended Lease Extension.

3.1 FRAMEWORK FOR CURRENT AIRPORTS SYSTEM FINANCIAL OPERATIONS

Under the provisions of the Hawaii State Government Reorganization Act of 1959, the Airports Division was established on July 1, 1961, to succeed the Hawaii Aeronautics Commission. The Airports Division, one of three divisions within the State's Department of Transportation, has jurisdiction over and control of all State of Hawaii airports and air navigation facilities, as well as general supervision of aeronautics within the State. The Hawaii Airports System is operated as an enterprise fund of the State.

3.1.1 The Certificate

The State issues Airports System Revenue Bonds to finance capital improvements to the Airports System under the provisions of (1) laws providing for the issuance of revenue bonds by the State, and (2) the Certificate. The 29th Supplemental Certificate authorizes issuance of the Series 2010 Bonds and includes certain proposed amendments to the Certificate requiring bondholder consent. The Department expects to receive over 50% bondholder consent of the proposed amendments upon the delivery of the Series 2010 Bonds. The proposed amendments, unless requiring 100% bondholder consent, are treated in this Report as if previously approved.

Key provisions of the Certificate are discussed below.

Revenues. Under the Certificate, the term "Revenues" is defined as all income, revenues, and moneys derived by the State from the ownership or operation and management of the Airports System by the State's Department of Transportation or the furnishing and supplying of the services, facilities, and commodities thereof, including all income, revenues, and moneys derived from rates, rentals, fees, and charges fixed, imposed, and collected by the Department. Revenues can also include the unencumbered funds under the Rate Covenant calculation. PFC revenues are explicitly excluded from the definition of Revenues, unless the inclusion of PFC revenues is expressly provided for in a Supplemental Certificate. CFC revenues are not Revenues.

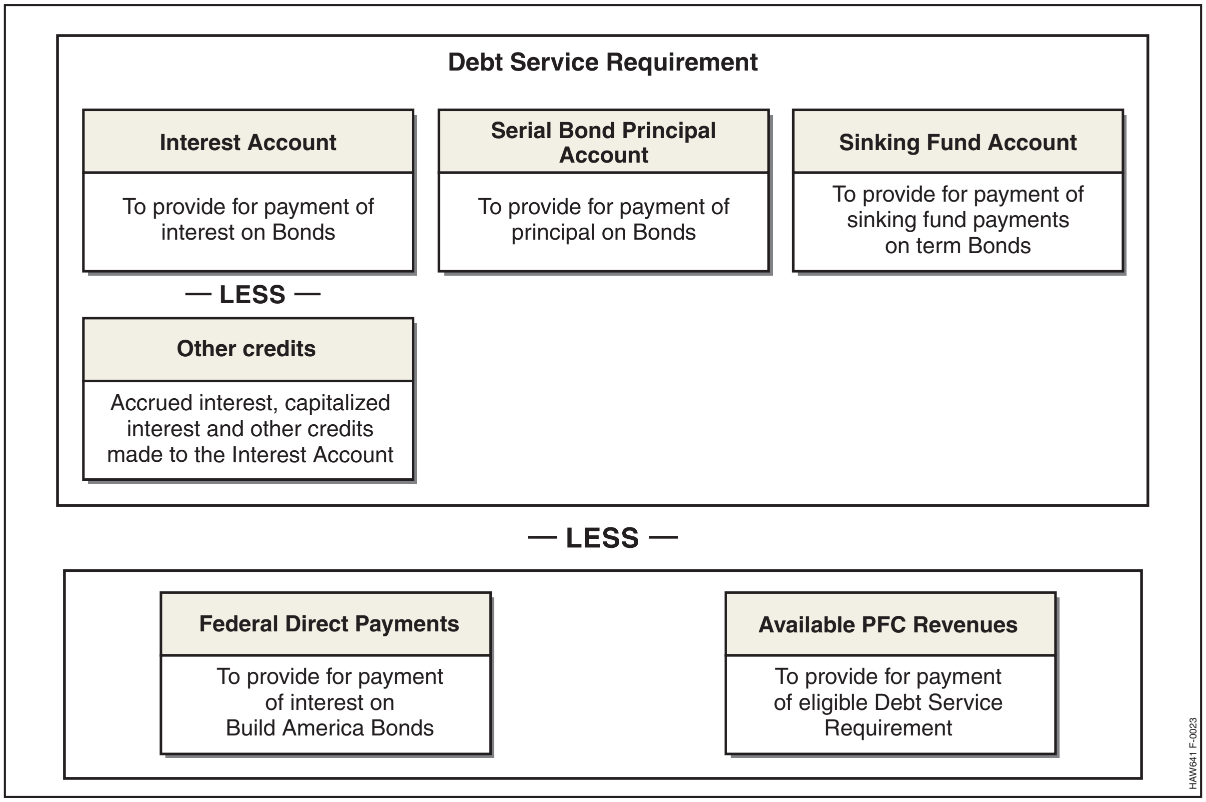
Aviation Fuel Taxes. The State imposes an Aviation Fuel Tax on all types of aviation fuel for the betterment of the Airports System. As of February 1, 2010, the tax rate is $0.02 per gallon. The State may, in its discretion, rebate up to one-half cent per gallon of the Aviation Fuel Tax to the airlines in the ensuing fiscal year. Alternatively, Signatory Airlines, pursuant to the airline agreement, and nonsignatory airlines, pursuant to Hawaii Administrative Rules 19-16.1-5, are eligible for a landing fee credit for the Aviation Fuel tax paid, provided that sufficient Revenues exist to meet the Rate Covenant, and provided that the airlines submit a claim within 6 months after the date of Aviation Fuel Tax payment.

Annual Adjusted Debt Service Requirement. Debt Service Requirement means the total of (i) the amount required in Section 6.01 to be paid or credited during such year to the Interest Account; (ii) the amount required in Section 6.01 to be paid or credited to the Serial Bond Principal Account; and (iii) the amount required in Section 6.01 to be paid or credited during such year to the Sinking Fund Account. Pursuant to the provisions of Section 6.01, required deposits to the Interest Account exclude accrued interest, capitalized interest, and "any other credits otherwise made to said account."

Annual Adjusted Debt Service Requirement means the Debt Service Requirement net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account; and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited for the purpose of paying interest on Bonds. The Department intends to irrevocably commit Available PFC Revenues (estimated at less than $15 million annually) toward the Debt Service Requirement of the Series 2010 Bonds in a future supplemental certificate, after obtaining approval from the FAA for use of PFC revenues to pay debt service. The calculation of Annual Adjusted Debt Service Requirement is illustrated on Figure 20.

Figure 20

ANNUAL ADJUSTED DEBT SERVICE REQUIREMENT



Source: The 29th Supplemental Certificate.

Application of Revenues and Aviation Fuel Taxes. Section 6.01 of the Certificate provides for the deposit and application of Revenues and collections of Aviation Fuel Tax proceeds in the Airport Revenue Fund in the following order of priority, as shown on Figure 21:

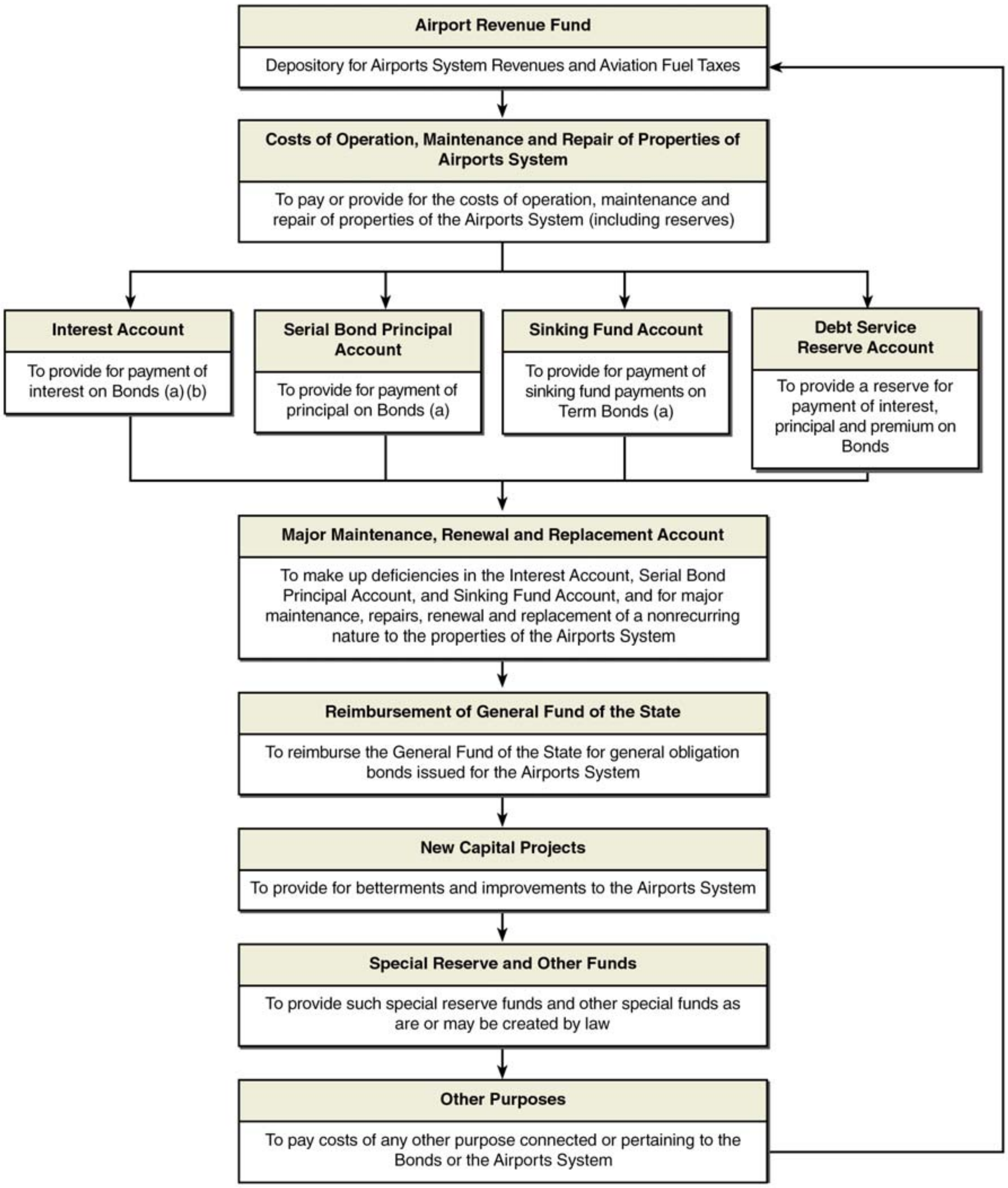
1. Payment of the costs of operation, maintenance, and repair of Airports System properties, including reserves and certain administrative expenses of the Department related to the Airports System.

2. Transfers to the Interest Account, Serial Bond Principal Account, Sinking Fund Account, and Debt Service Reserve Account for the payment of debt service on Bonds.

3. Transfers to the Airports System Major Maintenance, Renewal, and Replacement Account to make up any deficiencies in the accounts listed above under item 2, and to maintain the balance established pursuant to the recommendation of the Consulting Engineer.

Figure 21

FLOW OF FUNDS PURSUANT TO THE CERTIFICATE



(a) Requirements from Revenues and Aviation Fuel Taxes may be reduced by Available PFC Revenues.

(b) Requirements from Revenues and Aviation Fuel Taxes may be reduced by Federal Direct Payments or other credits made to the Interest Account.

Source: *Certificate of the Department of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds*, dated May 1, 1969, as amended.

4. Transfers to the State General Fund to reimburse the State General Fund for debt service on reimbursable general obligation bonds issued for Airports System purposes.

5. Betterments and improvements to the Airports System.

6. Any special reserve funds and other special funds created by law.

7. Any other lawful purpose in connection with the Bonds or the Airports System.

The Certificate requires that moneys be transferred to the Interest, Serial Bond Principal, and Sinking Fund accounts on a monthly basis. Principal payments on outstanding Bonds are made on an annual basis; interest payments on outstanding Bonds are made semi-annually.

Net Revenues and Taxes. Net Revenues and Taxes are defined as Revenues plus Aviation Fuel Taxes less annual (1) operating expenses and reserve, (2) deposit to the Debt Service Reserve Account, (3) deposit to the MMRRA Account, and (4) reimbursement to the State related to the general obligation bonds.

Rate Covenant. Section 7.02 of the Certificate requires the Airports Division to impose, prescribe, and collect rates, rentals, fees, and charges for the use and services of Airports System facilities each year to produce Revenues that, together with the proceeds of the Aviation Fuel Taxes, are sufficient to:

1. Pay all indebtedness payable from or secured by Revenues and Aviation Fuel Tax proceeds and to fund all reserves therefore.

2. Pay the costs of operation, maintenance and repair of the Airports System, including reserves therefore, and the expenses of the Department in connection with such operation, maintenance and repair.

3. Reimburse the State General Fund for any and all debt service requirements for general obligation bonds issued for the Airports System or issued to refund any such bonds.

4. Carry out the provisions of the Certificate, including making all required payments and credits under Section 6.01 of the Certificate.

The Certificate also requires that, at all times, rates, rentals, fees, and charges for the immediate ensuing twelve months, together with the amount of unencumbered funds that the Department shall certify as Revenues for the purpose of this test, must be sufficient to yield Net Revenues and Taxes at least equal to 1.25 times the Annual Adjusted Debt Service Requirement for such twelve months. The Airports Division has set up a funded coverage account in the Airport Revenue Fund as the certified amount to be included as Revenues and has been maintaining the account balance at 25% of gross debt service as shown on Exhibit D.

To ensure compliance with the Rate Covenant, the Airports Division further covenants that it will:

1. File with the State Director of Finance a signed copy of the annual report of the Accountant for the preceding Fiscal Year (the Audit) within 180 days after the close of each Fiscal Year. In the event that the Audit shows that the Rate Covenant was not met in the preceding Fiscal Year, the Department will cause the Consulting Engineer to file with the Department, the Director of Finance, and the Governor of the State a certificate stating, if deemed necessary by the Consulting Engineer, specific changes in operating procedures or the schedule of rates, rentals, fees, and charges or Aviation Fuel Tax rates required to meet the Rate Covenant.

2. Retain an independent Consulting Engineer to (a) prepare a report and make recommendations to the Department, for each budget submitted to the Legislature, as to the sufficiency of estimated Revenues and Aviation Fuel Tax proceeds to meet the Rate Covenant, and (b) if needed, recommend revisions to the Airports Division's operating procedures, capital outlays, or schedule of rates, rentals, fees, and charges, or submit a bill to the Legislature for changes to the Aviation Fuel Tax rate that, in its opinion, are necessary to produce the required Revenues and Aviation Fuel Tax proceeds.

Additional Bonds Test. The Certificate authorizes the Airports Division to issue Additional Bonds if either of the following tests is met:

1. **Historical Coverage Test**—For the most recent Fiscal Year for which audited financial statements of the Airports Division are available: The Director of the Airports Division delivers a certificate to the Director of Finance (accompanied by an Accountant's report) certifying that, taking into account all outstanding Bonds and the proposed Additional Bonds, Net Revenues and Taxes—plus any unencumbered funds on deposit in the Airport Revenue Fund that are to be included as Revenues in that Fiscal Year (provided that unencumbered funds do not exceed 25% of the maximum Annual Adjusted Debt Service Requirement)—were not less than 125% of the maximum aggregate Annual Adjusted Debt Service Requirement for any future Fiscal Year for Bonds outstanding during that Fiscal Year, and the proposed series of Additional Bonds.

2. **Prospective Coverage Test**—Both of the following conditions must be met:

   a. For the most recent Fiscal Year for which audited financial statements of the Airports Division are available: Net Revenues and Taxes as certified by the Accountant—plus any unencumbered funds on deposit in the Airport Revenue Fund that are to be included as Revenues in that Fiscal Year—were not less than 125% of the Annual Adjusted Debt Service Requirement for Bonds outstanding during that Fiscal Year, provided the Rate Covenant was also met; and

   b. For each of the three Fiscal Years following the Period of Construction of the project(s) to be financed with the Additional Bonds: annual Net Revenues and Taxes and any unencumbered funds on deposit in the Airport Revenue Fund that are to be included as Revenues in those Fiscal Years are estimated by the Consulting Engineer to be not less than 125% of the Annual Adjusted Debt Service Requirement for each of those three Fiscal Years, provided the Rate Covenant is also estimated to be met in each of those three Fiscal Years.

3.1.2 Airport-Airline Lease Agreement

Certain airlines operate at the Airports System under an agreement with the Airports Division. Nonsignatory airlines operate in accordance with Hawaii Administrative Rules. The Airports System has entered into the following airport-airline lease agreements.

Airport-Airline Lease Agreement (1962). In 1962, the Airports Division entered into an airport-airline lease agreement with the Signatory Airlines to provide those airlines the nonexclusive right to use the Airports System facilities, equipment, improvements, and services in addition to occupying certain premises and facilities. This agreement was originally set to expire on July 31, 1992. However, the Signatory Airlines continued to operate at the Airports System under monthly negotiated agreements with the Airports Division from August 1, 1992, through June 30, 1993 and under a letter agreement through June 1994.

Lease Extension Agreement (1994). In June 1994, the Airports Division and the Signatory Airlines executed an agreement to extend the airport-airline lease agreement to June 30, 1997. Under the 1994 Agreement, the Signatory Airlines continued to operate under the terms of the 1962 Agreement with an adjustment for terms and provisions relating to rates and charges.

From July 1, 1997, through December 31, 2007, the Airports Division and the Signatory Airlines mutually agreed to continue operations under the terms of the 1994 Agreement, which provides for an automatic extension on a quarterly basis unless either party provides 60 days written notice of termination to the other party.

First Amended Lease Extension Agreement (2007). In fall 2007, the Airports Division and Signatory Airlines executed the First Amended Lease Extension Agreement, effective January 1, 2008. The 2007 Agreement principally established a new methodology for calculating Signatory Airlines rates and charges for the use of airport facilities and continues other terms of the 1994 Agreement. Key provisions of the Amended Lease Extension, discussed in greater detail below, include:

- Rate methodology to recover costs in the Airfield Cost Center and a portion of the costs in primary airport terminal cost centers.
- Airports System Support Charge as a safety net to ensure compliance to the Rate Covenant
- Provision for midyear rate adjustments if necessary.

The 2007 Agreement established the following cost centers:

- Airfield Cost Center, which is comprised of the airfields of every airport in the Airports System.
- Terminal Cost Center, which includes:
  - Honolulu International Airport Terminal Cost Center.
  - Kahului Airport Terminal Cost Center.
  - Kona International Airport at Keahole Terminal Cost Center.
  - Lihue Airport Terminal Cost Center.
  - Hilo International Airport Terminal Cost Center.
- ASSC Cost Center, which serves as airport-wide residual cost center to ensure Airports System revenues are sufficient to recover Airports System Cost.

The 2007 Agreement continues to differentiate between the charges for overseas operations and the charges for interisland operations. An interisland charge is equal to the product of an overseas charge and 38% in FY 2010 (increasing 1 percentage point annually until reaching 100%).

The Airports System rates and charges established through the 2007 Agreement include the landing fees, terminal rentals, joint use holdroom charges, common use baggage system charges, common use ticketing position charges, International Arrivals Building charges, commuter terminal joint use charges, and ASSCs:

- **Landing Fees**. Landing fees are set to recover the costs associated with the Airfield Cost Center. The Airfield Requirement includes the follow items allocable to the Airfield Cost Center:

  1. Annual direct and indirect operating expenses.

  2. Annual direct and indirect debt service expenses.

  3. Annual amount to be deposited in the MMRRA Account.

  4. Annual deposit to the Operating Expense Reserve Account (O&M Reserve Account).

  Net Airfield Requirement is calculated by subtracting from the Airfield Requirement the PFC revenues allocated to the Airfield Cost Center, if any, and nonsignatory landing fee revenues. Signatory airline landing fee rate is calculated by dividing the Net Airfield Requirement by the sum of:

  1. Signatory airlines overseas landed weight.

  2. Signatory airlines interisland landed weight taking into consideration the Interisland Rate.

Airline rates and charges in FY 2010 are presented in Table 22.

Table 22

AIRLINE RATES AND CHARGES in FY 2010
Hawaii Airports System

	FY 2010
Airports System Landing Fee Rates	
(per 1,000-pound units of landed weight)	
Signatory Airlines	
Overseas flights	$ 4.07
Interisland flights	1.55
Terminal Rental Rates (per square foot per year)	
Honolulu International Airport	$ 41.44
Kahului Airport	63.10
Kona International Airport at Keahole	13.51
Lihue Airport	42.57
Hilo International Airport	31.24

Source: State of Hawaii, Department of Transportation, Airports Division records.

- **Terminal Rentals.** The requirement for each Terminal Cost Center is calculated by dividing the costs allocated to the respective cost center, minus the sum of (1) any deposit from the future debt service account allocated to the respective Terminal Cost Center, (2) any PFC revenues allocated to pay direct and indirect debt service expenses allocated to the respective Terminal Cost Center, and (3) annual terminal concessions revenues allocated to the Terminal Cost Center, by the Leased Space (all exclusive, preferential, and joint use space included in the Terminal Cost Center).

  The terminal rental rates for the Primary Neighbor Island Airports are calculated using the same approach and adjusted by multiplying a ratio, which equals 70% in FY 2010 and increases at 5% annually to 100% in FY 2016 and beyond. For Hilo International Airport, the terminal rental rate is reduced to 50% except that the reduction is not applied during a fiscal year following a calendar year in which annual enplanements exceed 2 million.

- **Joint Use Holdroom Charges.** The Joint Use Holdroom Charge is established to recover the space costs associated with the joint use holdrooms from the Signatory Airlines using the space. The cost allocated to the joint use holdroom is based on the terminal rental rate and the square footage of holdrooms. The rate is derived by dividing the joint use holdroom requirement by the annual number of enplaned passengers using the joint use holdrooms, taking into consideration the Interisland Rate.

- **Common Use Baggage System Charges.** The Common Use Baggage System Charge is established to recover the space costs associated with each common use baggage system. The cost allocated to the common use baggage system is based on the terminal rental rate and the square footage of baggage systems. The rate is derived by dividing the baggage system requirement by the annual number of enplaned passengers using the common use baggage system, taking into consideration the Interisland Rate.

- **Common Use Ticketing Position Charges.** The Common Use Ticketing Position Rate is established to recover the space costs, associated with the common use ticketing areas, from the Signatory Airlines. The amount to be recovered from the common use ticketing areas is the product of the terminal rental rate and the square footage of the common use ticketing area, divided by the number of enplaned passengers using the common use ticketing positions. Currently, there are no common use ticketing positions in the Airports System.

- **International Arrivals Building Charges.** IAB Charges are established to recover the space costs allocated to the international arrivals areas of the Airports System collectively (i.e., such charges are not calculated individually for each applicable airport). The IAB Charges are calculated by multiplying the applicable terminal rental rate by the applicable square footage in the international arrivals facilities in the Airports System, and dividing the result by the number of deplaning international passengers using the facilities. Currently, HNL and Kona International Airport at Keahole have international arrivals areas.

- **Commuter Terminal Joint Use Charges.** The charges for commuter terminal joint use areas are to be determined by appraisal. Users of commuter terminals are to pay for all airline passenger and baggage handling areas and operational areas, including ticketing facilities, office, holdrooms, and baggage claim.

- **Airports System Support Charges.** The ASSC is imposed, if necessary, to ensure that the Rate Covenant is met, and is calculated by dividing any net costs (the difference between total Airports System expenses and revenues) by total Airports System landed weight, taking into consideration the Interisland Rate.

Relief to the Airlines. Although the Amended Lease Extension provides a methodology to establish airline rates and charges as described above, the Airports Division, in consideration of the unfavorable operating environment of the Signatory Airlines, took or intends to take actions to lower payments from the Signatory

Airlines in FY 2009, 2010 and 2011. The resulting Signatory Airline payment levels are $123 million for FY 2010, and $142 million for FY 2011. Rates that may be adjusted to achieve those payments include landing fees, terminal rentals, joint use charges, IAB charges, ground rentals, hangar rentals, other non-terminal building rentals, equipment rentals, among others, but do not include the ASSC required to meet the Rate Covenant.

The Airports Division also received a letter from the Signatory Airlines dated September 28, 2009 confirming support to proceed with development of the Designated Projects. In their letter, the Signatory Airlines expressed support for a target for their annual payments not to exceed $200 million through FY 2016. The Signatory Airline payments forecast for FY 2013 through FY 2016 in this Report exceed the proposed target.

The Department is not required to achieve the payment levels, although the Airports Division may take discretionary actions to limit airline payment requirements such as reducing operating expenses, increasing non-aeronautical revenues, and, as is occurring during FY 2010, applying rate mitigation. The Airports Division does not currently intend to use rate mitigation after FY 2010. Meeting the Rate Covenant, however, takes precedence to any discretionary actions to limit airline payment requirements.

3.1.3 Hawaii Administrative Rules

Certain Airports System users located both on- and off- airport, operate in accordance with, and pay Airports Systems rates and charges established under Hawaii Administrative Rules (H.A.R.), Title 19, "Department of Transportation," Subtitle 2, "Airports Division." The H.A.R. include such airport-related topics as airport zoning, commercial services at public airports, aircraft registration, fees and charges applicable to nonsignatory carriers, PFCs, and on-demand taxicab service.

The Airports Division has initiated amendments to the H.A.R., as follows:

- **Nonsignatory Airline Rates**. The Airports Division is amending the methodology established in H.A.R. Chapter 16.1 such that all nonsignatory airline rates and charges will be 125% of Signatory Airline rates and charges. The amendment will ensure that rates and charges applicable to the nonsignatory airlines remain competitive with rates and charges paid by the Signatory Airlines. Industry practice is to charge nonsignatory airlines up to 150% of signatory airline rates and charges, and is explicitly permitted by FAA regulations.

- **Off-Airport Rental Car Privilege Fees**. The Airports Division is amending the H.A.R. to incorporate a privilege fee for off-airport rental car companies, defined as those companies that do not have facilities on airport property, but that use courtesy vehicles to transport airport customers between the airport and their off-airport facilities. Such rental car companies would be subject to a privilege fee of 8% of gross revenues assessed only on transactions involving passengers arriving at or departing from a given airport. The privilege fee for an off-airport rental car company would be equal to or less than the 10% fee currently charged to on-airport rental car companies.

3.2 SIGNATORY AIRLINE APPROVAL OF CAPITAL PROJECTS

The Amended Lease Extension, at Exhibit 1, Article B of the 1994 Agreement, sets forth the Signatory Airlines' review process for capital improvements. The airlines, following presentation of proposed projects, may disapprove projects and, with a deferral to the following Fiscal Year, the Airports Division can proceed with the projects notwithstanding such disapproval. The process consists of the steps set forth below:

- Additional Capital Improvements are deemed accepted unless a majority of Signatory Airlines* withhold their concurrence in writing within 60 days (2 months) of the Airports Division presenting them with a written report on the proposed improvements and then meeting with them.

- If a majority of the Signatory Airlines initially withhold concurrence, but a majority do not again withhold their concurrence in writing within 30 days (1 month) of a second meeting with the Airports Division, then the Additional Capital Improvements are deemed accepted.

- If a majority of Signatory Airlines withhold concurrence in writing the initial and second times, then improvements can be undertaken in the following Fiscal Year.

The Airports Division received a letter from the Signatory Airlines dated September 28, 2009 confirming support to proceed with development of the Designated Projects.

3.3 SOURCES OF CAPITAL FUNDS

The planned sources of capital funds for the Designated Projects are shown in Table 23 and Exhibit A. These planned sources of capital funds include FAA funding, TSA funding, PFC revenues, special funds generated from Airports System operations, and Bonds. Through October 2009, $369 million of the $1.3 billion program was expended with $944 million of spending remaining. Proceeds from the Series 2010 Bonds will provide reimbursement for "bond funded" projects previously expended from cash.

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*Defined as at least 50% of the Signatory Airlines representing at least 50% of the total landing fees and ASSCs actually paid in the previous fiscal year.

Table 23

DESIGNATED PROJECTS
Hawaii Airports System
(as of November 1, 2009, in millions)

	Expended	To Be Spent	Total
PFC Pay-as-you-go	$ 42	$122	$ 164
Airport System Revenue Bonds *(a)*	89	565	654
FAA Grants	95	177	272
Special Funds (cash) *(b)*	135	56	191
TSA Grants	8	25	32
Total	$369	$944	$1,314

(a) Expended amount indicates amount to be reimbursed from the Series 2010 Bonds proceeds.
(b) Includes $31 million of prior bond proceeds expended.

Source: State of Hawaii, Department of Transportation, Airports Division records.

3.3.1 Federal Aviation Administration Funds

FAA grants from the Airport Improvement Program (AIP) are funded through the Airport and Airway Trust Fund with revenues from federal aviation user fees and taxes. These FAA grants are to be used for airport infrastructure projects to enhance safety, security, capacity, and access and are made available to airport operators in the form of FAA entitlement and discretionary allocations for AIP-eligible projects. For large-hub airports, such as HNL, and for medium-hub airports, such as Kahului Airport, the grants cover 75% of eligible project costs. For all other airports, the grant covers 95% of eligible project costs.

Under the AIP, the State received a $25.6 million passenger *entitlement* grant in FY 2009, based on (1) levels of funding authorized and appropriated by Congress for the AIP, (2) the number of passengers and amount of cargo accommodated at the Airports System, and (3) a 50% reduction in funding for HNL and Kahului Airport as required for large- and medium-hub airports where a $3.00 PFC is collected. The 50% reduction will increase to 75% in FY 2010 after the PFC collection level was increased in $4.50 in FY 2009. Additionally, the State received a $2.5 million cargo *entitlement* grant in FY 2009.

AIP *discretionary* grants are selectively distributed based on the competitiveness of proposed projects within the national priority system established by the FAA and designations by Congress. In FY 2009, the Airport Division received $5.3 million in discretionary grants, compared with the receipt of $4.5 million in FY 2008 and $8.2 million in FY 2007. FAA authorization and funding of the Airport and Airway Trust Fund (the primary source of AIP funding) are scheduled to expire on

March 31, 2010. After this date, AIP funding will terminate unless reauthorized or extended by Congress. For the purpose of this Report, it was assumed that Congress will pass a reauthorization bill or extend the current authorization so that no lapse in AIP funding authority will occur during the forecast period.

Forecast AIP grant funding for the Designated Projects is shown in Exhibit A. All forecast AIP grants were assumed to be used for airfield, safety, and environmental projects. The Airports Division anticipates receiving $272 million of FAA grants in total for the Designated Projects.

3.3.2 Transportation Security Administration Funds

After the terrorist attacks of September 11, 2001, Congress passed the Aviation and Transportation Security Act, creating the TSA and mandating implementation of EDS equipment at U.S. airports. CIP projects, such as EDS equipment and security CCTV systems, will likely be eligible for TSA funding.

As reflected in Exhibit A, the Airports Division anticipates receiving $24.6 million in TSA funding for the infrastructure to accommodate EDS equipment at HNL. In addition, the Airports Division expects to receive a grant to reimburse $7.5 million for a similar project at Kahului Airport.

3.3.3 Passenger Facility Charge Revenues

A PFC is a charge imposed on enplaned passengers by airport sponsors to generate revenues for eligible airport projects that increase capacity, enhance competition among and between air carriers, enhance safety or security, or mitigate noise impacts. PFCs were established by Title 49 U.S.C. §40117. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) increased the maximum PFC airport sponsors could collect to $4.50 per eligible enplaning passenger. In return for the right to assess a PFC up to $3.00, the sponsors of large- and medium-hub airports forego up to 50% of their AIP entitlement funds. The sponsors of large- and medium-hub airports (such as HNL and Kahului Airport) that collect a PFC of $4.00 or $4.50 forego 75% of their AIP entitlement funds.

The Airports Division started PFC collection at the $3.00 level in October 2004 and increased the collection level to $4.50 effective November 2008. In October 2009, the Airports Division received approval from the FAA for PFC application #4. The cumulative collection authority increased to $263 million with a use authority of $237 million. Through FY 2009, the Airports Division has collected $105.6 million PFC revenues (including interest) and, through October 2009, has expended $42 million on a pay-as-you-go basis for the Designated Projects.

The Airports Division expects to apply a total of $164 million PFC revenues on a pay-as-you-go basis to the Designated Projects.

Furthermore, the Airports Division plans to submit PFC application #5 in FY 2011 to use PFC revenues for debt service related to eligible projects in the Designated Projects. Upon approval from the FAA, the Airports Division intends to commit Available PFC Revenues toward debt service payments of the Series 2010 Bonds starting FY 2012.

Exhibit B presents the forecast of PFC collections and the application of PFC revenues.

3.3.4 Special Funds Generated from Airports System Operations

Over the years, the Airports Division has accumulated substantial cash balances from Airports System operations. As of June 30, 2009, the Airports Division had cash and investments of $594 million in restricted and unrestricted accounts, of which approximately one-third is estimated to be available in accounts that could be used to fund capital projects. The Airports Division expects to use $191 million internal cash in total for the Designated Projects. Prior to the issuance of the Series 2010 Bonds, cash has been used for certain "bond funded" projects and those advances will be reimbursed from proceeds of the Series 2010 Bonds. Through February 19, 2010, $116.6 million has been advanced.

3.3.5 General Obligation Bonds

The State issued general obligation bonds in the past to fund Hawaii Airports System capital improvements. The Airports Division was responsible for reimbursing the State for the debt service on such general obligation bonds. The final payment of general obligation bond principal was made on September 2, 2008. As of the date of this Report, the State has no plans to issue additional general obligation bonds on behalf of the Airports Division.

3.3.6 Airports System Revenue Bonds

As of February 1, 2010, three series of Bonds and Refunding Bonds (Series 2000A, 2000B, and 2001 Bonds), totaling $567.4 million, were outstanding.

Proposed Series 2010 Bonds. The proposed Series 2010 Bonds are to be issued under the Certificate on a parity basis with Outstanding Bonds and secured by the Net Revenues of the Airports System. The Airports Division intends to use the proceeds of the proposed Series 2010 Bonds to fund a portion of the costs of the Designated Projects, to reimburse the Airports Division for funds fronted from internally generated cash and to provide for current refunding for all or a portion of the Series 2000 Bonds, among other uses. The sources and uses of funds associated with the proposed Series 2010 Bonds for the Designated Projects are shown in Exhibit C.

After the proposed Series 2010 Bonds are issued, the principal balance of the Outstanding Bonds will be $1.0 billion, which equates to approximately $70 per enplaned passenger based on the estimate of 14.8 million enplaned passengers for FY 2009.

Planned Series 2011 Bonds. Exhibit C also presents the sources and uses of the planned Series 2011 Bonds. The Airports Division expects to issue the Series 2011 Bonds principally to fund the construction cost of the Mauka Concourse Program. As of the date of this Report, the Airports Division is not anticipating any additional future new money bond issues during the forecast period.

3.3.7 Special Facility Revenue Bonds

The Airports Division has three special facility lease agreements: two with Continental Airlines, Inc., effective November 1997 and July 2000, and one with Caterair International Corporation, effective December 1990, the latter of which was assigned to Sky Chefs, Inc., effective January 2002. On July 15, 2000, the Airports Division issued $16.6 million in term special facility bonds, Refunding Series 2000, to refund $18.2 million of outstanding Series 1990 Continental Airlines Special Facility Bonds.

These bonds are payable solely from and collateralized solely by rentals and other moneys derived from the applicable special facilities. Special facility revenue bonds are not payable from or secured by Revenues and Aviation Fuel Taxes. Although the Airports Division may issue additional special facility revenue bonds, it does not expect to use special facility revenue bonds to fund any of the costs of the Designated Projects.

3.4 ANNUAL ADJUSTED DEBT SERVICE REQUIREMENT

Exhibit D presents the Annual Adjusted Debt Service Requirement for the Outstanding Bonds, the proposed Series 2010 Bonds, and the planned Series 2011 Bonds. The calculation of the Annual Adjusted Debt Service Requirement excludes capitalized interest and certain other adjustments specified in the Certificate.

The Airports Division is taking rate mitigation actions in FY 2010 to reduce the Annual Adjusted Debt Service Requirement. The Airports Division currently does not intend to make rate mitigation deposits after FY 2010. As discussed in the above section, the Department intends to irrevocably commit Available PFC Revenues toward the Debt Service Requirement of the Series 2010 Bonds in a future supplemental certificate, after obtaining approval from the FAA for use of PFC revenues to pay debt service.

3.5 RECONCILIATION OF HISTORICAL OPERATING RESULTS

Table 24 presents a summary and reconciliation of the historical operating results of the Airports System between generally accepted accounting principles (GAAP) and the Certificate, as obtained from the audited financials for FY 2008 and FY 2009, which were prepared on the basis GAAP.

Table 24

RECONCILIATION OF HISTORICAL RESULTS
State of Hawaii, Department of Transportation, Airports Division
(for the 12 months ending June 30; in thousands)

	2008	2009
GAAP Operating Revenues	$244,377	$265,676
Federal Grant Reimbursements *(a)*	24,958	6,758
Interest Income		
Operating Funds and Reserves	17,338	9,787
Construction Fund	14,340	6,362
Revenues and Aviation Fuel Taxes	$301,013	$288,584
GAAP Operating Expenses	$322,255	$324,129
LESS:		
Depreciation	(80,571)	(88,600)
MMRRA Disbursement	(2,473)	(1,913)
Costs of Operation, Maintenance and Repair	$239,212	$233,617

(a) Under the caption "Federal Operating Grants" in the financial statements.

Source: State of Hawaii, Department of Transportation, Airports Division records.

3.6 COSTS OF OPERATION, MAINTENANCE AND REPAIR

The Airports Division provides most of the maintenance, operating functions, and utilities of the Airports System using a combination of Airports Division staff and contract personnel. The "costs of operation, maintenance and repair" includes salaries and wages, other personal services, utilities, special and major maintenance expenses,* materials and supplies, state surcharge, and Airports Division and State administrative charges. The state surcharge is implemented by the State at 5% of all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered for the payment of Bonds in each Fiscal Year.

Historical costs of operation, maintenance and repair is shown in Exhibit E. Costs of operation, maintenance and repair increased from $206.7 million in FY 2007 to $233.6 million in FY 2009, primarily due to increased salaries and wages as well as personnel service, increased special maintenance expenses, and increased utility expenses.

*Special maintenance expenses are primarily for capital expenditures funded through the operating budget, part of which is reimbursed by the federal grants included as Revenues.

Exhibit E also presents the forecast costs of operation, maintenance and repair for FY 2010 through FY 2016 by expense category and by cost center. The costs of operation, maintenance and repair are forecast to increase by 5.0% per year in general as a result of inflation and forecast air traffic activity levels. The State implemented a statewide program of 42 furlough days over the next two years effective October 2009. As a result of the furlough program and other expense controls implemented by the State and the Airports Division, salaries and wages as well as other personnel expenses are forecast to be virtually flat in FY 2010 and FY 2011. Special maintenance funding ranges from $15 million to $18 million annually during the forecast period. An additional $5 million annual operating expenses are anticipated to maintain the new facilities included in the Designated Projects.

3.7 REVENUES AND AVIATION FUEL TAXES

Exhibit F presents historical audited Airports System Revenues and Aviation Fuel Taxes for FY 2007, FY 2008, and FY 2009, Revenues and Aviation Fuel Taxes totaled $288.6 million (including $6.8 million in federal grants used to reimburse capital expenditures funded from the operating expenses). Revenues and Aviation Fuel Taxes in FY 2009 consist of airline landing fees and aeronautical rentals (46.8%), concession fees and nonaeronautical rentals (45.2% of the total), and other nonoperating revenues (7.9%).

In general, forecasts of airline revenue were based on the following factors and assumptions:

- Airline terminal rental rates and landing fees beyond FY 2012 are to be calculated based on the rate-setting methodology defined in the 2007 Agreement, and provisions established under H.A.R.. As such, airline revenues are a function of forecast operating expenses, debt service, and certain nonairline revenues anticipated for the Terminal and Airfield cost centers.

- Revenues from sources related to numbers of passengers, such as terminal concessions, rental car percentage fees, and parking revenues, were forecast to change as a function of forecast activity. Unless noted otherwise, terminal concession revenue per enplaned passenger is forecast to increase 2.5% annually.

- Federal grant reimbursements are forecast to decrease from $6.8 million in FY 2009 to $2.0 million for FY 2011 and beyond as grant funds are preserved for the Designated Projects.

3.7.1 Aviation Revenues and Fuel Taxes

Aviation revenues and fuel taxes consist of landing fee revenues, terminal rental revenues, ASSC revenues, nonsignatory airline rates and charges revenues, Aviation

Fuel Taxes, and aeronautical rentals. In FY 2009, Signatory Airlines payments accounted for 41.3% of Revenues with payments from nonsignatory airlines accounting for an additional 2.5%.

As described earlier under "Relief to the Airlines," the Airports Division took or intends to take rate reduction actions to lower payments from the Signatory Airlines in FY 2009, 2010 and 2011. FY 2009 payments exceeded the target and consequently FY 2010 collection is being adjusted downward to compensate. As of the date of this Report, a final plan for FY 2010 rate reductions had not been established; for forecasting purposes the FY 2010 terminal rental revenues presented in Exhibit F were reduced to reflect the adjustment for FY 2009.

With increasing costs of operation, maintenance, and repair as well as the Annual Adjusted Debt Service Requirement related to the Designated Projects, signatory airline payments, as a percentage of Revenues and Aviation Fuel Taxes, are expected to increase from 41.3% in FY 2009 to 58.5% in FY 2016.

Landing Fee Revenues. Under the terms of the Amended Lease Extension, the Signatory Airlines pay landing fees per 1,000 pounds of certificated gross aircraft landed weight to allow the Airports Division to recover certain operating, maintenance, and capital costs of runways, taxiways, and other airfield facilities, after crediting nonsignatory landing fee payments, and any federal grant reimbursements. Nonsignatory airlines pay landing fees as described in the H.A.R. (see Section 3.1.3), which is being amended to be 125% of Signatory Airlines rates and charges.

Exhibit F-1 presents the forecast of Signatory Airline landing fee rate for FY 2010 through FY 2016. The increase in landing fee rate is primarily driven by the costs of operation, maintenance, and repair allocable to the Airfield Cost Center. Landing fee revenue shown on Exhibit F is net of credits for Aviation Fuel Taxes.

Terminal Rental Revenues. Under the terms of the Amended Lease Extension, the Signatory Airlines pay the net requirement for each respective Terminal Cost Center, after being credited for terminal concession revenues, and any federal grant reimbursements. Exhibit F-2 shows the forecast of terminal rental rates and rents for each Primary Neighbor Island Airport. As discussed in Section 3.1.2, terminal rental rates at Kahului and Lihue airports as well as Kona International Airport at Keahole are adjusted by multiplying the rates by 70% in FY 2010 and increasing 5% per year until FY 2016, when the adjustment would be eliminated. Terminal rates at Hilo International Airport are discounted to be 50% of the total requirement through the forecast period.

In addition, separate rental rates apply for joint use areas, including (1) holdrooms, (2) baggage systems and (3) common use ticketing positions. IAB charges are also assessed for use of customs and immigration facilities at HNL and Kona International Airport at Keahole.

Airports System Support Charge Revenue. Exhibit F-3 shows the calculation of the ASSC, which is set to recover all remaining residual costs of the Airports System and to meet the Rate Covenant when landing fees and terminal rentals, together with nonairline revenues, are insufficient to cover Airport System Costs. The overseas ASSC is set by dividing the Net ASSC Requirement by adjusted Airports System landed weight, taking into consideration of the Interisland Rate for interisland operations.

Nonsignatory Airline Rates and Charges Revenues. Nonsignatory airline fixed rates, which are established by H.A.R. Chapter 19-16.1, were set in January 1994. In accordance with the 2007 Agreement, the Airports Division is in the process of amending the rates as described above. For the purpose of this Report, it was assumed that the amended nonsignatory rates will be effective in FY 2012.

Other Aeronautical Rentals. Other aeronautical rentals include revenues generated from leases of paved and unpaved land, hangars, and buildings other than the passenger terminal buildings.

Airline Payments. Exhibit F-4 presents historical and forecast of passenger airline payments per enplaned passenger. Passenger airline payments per enplaned passenger are forecast to reach $14.48 in FY 2016 as a result of increasing operating expenses and Annual Adjusted Debt Service Requirements.

3.7.2 Terminal Concessions

Terminal concession revenues derived from duty free, retail, food and beverage, and other concession operations located in the passenger terminals in the primary airports. Under the terms of the concession agreements, concession fees payable to the Airports Division are the greater of a percentage of gross sales or an annual minimum annual guarantee (MAG) that has been specified in each concessions agreement.

Exhibit F presents historical and forecast revenues received by the Airports Division from terminal concessionaires. Due to the economic recession and the ensuing air traffic decline, the percentage rent is lower than the MAG for major terminal concessionaires including the duty free operator. With the existing concession agreements expiring from time to time, or the resetting of the MAG to a lower amount, the terminal concession revenues are expected to be negatively impacted. Other factors driving terminal concession revenues include: (1) forecasts of enplaned passengers, (2) recent historical trends in the concession revenues paid to the State, (3) allowances for inflation of 2.5% per year, (4) the terms and conditions of agreements with the State, and (5) assumptions regarding ongoing development. A brief description of these revenue sources is provided below.

Duty Free Revenues. Historically, duty free revenues have been the largest single source of nonairline revenue for the Airports Division. In January 2007, the Airports Division entered into an agreement with DFS Group L.P. (DFS) for a period of 10 years. The agreement specifies three locations, one at HNL and two off-airport locations: one in Waikiki on the island of Oahu and one located in the King Shops of Waikoloa on the big island of Hawaii.

Under the terms of the agreement, DFS is to pay the Airports Division the greater of an established MAG or a percentage rent calculated on annual gross receipts exceeding certain levels. The MAG is set at $38 million through the period of FY 2012, adjusting to an amount equal to 85% of the revenues paid in year 6 of the contract and the percentage rent is calculated based on the "tiered" structure shown in Table 25.

Table 25

DUTY FREE PERCENTAGE RENT

State of Hawaii, Department of Transportation, Airports Division

Total Concession Sales	Percentage Rent as Percentage of On-Airport Sales	Percentage Rent as Percentage of Off-Airport Sales
$155 million to $195 million	22.5%	18.5%
$195 million to $235 million	30.0%	22.5%
$235 million to $275 million	30.0%	26.5%
Over $275 million	30.0%	30.0%

Source: State of Hawaii, Department of Transportation, Airports Division records.

Duty free gross revenues have been heavily dependent on passenger traffic from Japan and other Pacific Rim countries. As shown in Table 26, duty free revenues accounted for 33.3% of total concession revenues at the Airports System in FY 2009.

Table 26

FY 2009 CONCESSION REVENUES

State of Hawaii, Department of Transportation, Airports Division

	Amount (000s)	Percent	Per enplaned passenger
Concession Revenues			
Duty Free	$ 38,000	33.3%	2.56
Food and Beverage	6,893	6.0	0.46
Retail	10,285	9.0	0.69
Other Terminal Concessions	5,183	4.5	0.35
Parking	16,810	14.7	1.13
Rental Car	35,036	30.7	2.36
Ground Transportation	1,856	1.6	0.13
Total Concession Revenues	$ 114,062	100.0%	7.69

Source: State of Hawaii, Department of Transportation, Airports Division records.

The percentage fee, calculated based on annual gross receipts, is forecast to be below the MAGs during the forecast period. Therefore, the forecast of duty free revenues to the Airports Division is based on the MAGs through FY 2012, and 85% of the existing $38 million MAG for the remainder of the forecast period.

Food and Beverage. Food and beverage concessionaires lease terminal space throughout the Airports System pursuant to specific concession agreements, which provide for payment to the State of the greater of a percentage of gross sales or a MAG. Under the terms of each contract, the Airports Division receives a specified percentage of gross receipts from the sale of (1) food and non-alcoholic beverages, (2) alcoholic beverages, and (3) other items specified in the contract.

The Airports Division entered into a 15-year agreement with Host International, Inc. (Host) for the period May 1, 1993 through April 30, 2008 to provide exclusive restaurant, lounge, and employee cafeteria concessions at HNL. The food and beverage agreement was subsequently extended to April 30, 2014. In return, Host agreed to spend more than $10 million to improve, reconstruct, and re-concept the food and beverage spaces. Through the term of the agreement, the MAG is set at $4,807,000.

Other food and beverage concession agreements have been executed with (1) Host at Kahului, which expires September, 30, 2013, and (2) Volume Services, dba Centerplat for Hilo International Airport and Kona International Airport at Keahole on the island of Hawaii, operating under a concessions agreement effective through November 30, 2017. The food and beverage concession at Lihue Airport currently operates on a month-to-month agreement.

Food and beverage revenues decreased slightly from $7.1 million in FY 2008 to $6.9 million in FY 2009 and are expected to increase slightly thereafter. It is forecast that Host will continue to pay the MAG for HNL operations throughout the forecast period.

Retail. Multiple retail merchandise concession outlets are operated at airports throughout the Airports System. The retail concessions include (1) gifts, apparel, and luggage; (2) packaged foods; (3) sundries and toys; and (4) jewelry and shells. The retail concession agreements exclude duty free concessions, food and beverage, automated teller machines (ATMs), money exchange, newsstands, florist, and advertising. The Airports Division entered into a new five-year Honolulu retail contract with DFS (DFS operates duty free concessions and duty paid concessions under separate contracts) effective April 1, 2009. The MAG is reduced from $9.5 million in the prior contract to $7.8 million for the first year of the new contract, and will be reset annually to 85% of prior year revenues. DFS will pay to the Airports Division the higher of the MAG or 20% of gross receipts.

DFS also operates retail concessions at the Kahului Airport. Travel Traders, Inc. provides retail concessions at (1) Lihue Airport, (2) Kona International Airport at Keahole, and (3) Hilo International Airport.

As a result of MAG adjustment, retail revenues to the Airports Division decreased from $13.3 million in FY 2008 to $10.3 million in FY 2009, and are expected to decline further to $8.8 million in FY 2011. Retail revenues beyond FY 2011 are expected to increase with air traffic growth and inflation adjustment of 2.5% annually.

Other Concession Operations. In addition to the primary concession agreements described above, the Airports Division has contractual agreements with various other concessionaires to provide news, florist services, ATMs, money exchange, and advertising. These revenues are forecast to increase in relation to inflation and the number of enplaned passengers.

Rent Relief. During FY 2002, the Governor approved a rent relief program for all Airports System concessionaires in response to the decline in airline traffic and concession revenues resulting from the terrorist attacks on September 11, 2001. The approval allowed for the waiver of minimum annual guarantees on a month-to-month basis for September 11, 2001, through April 30, 2002. To qualify for the program, applicants were required to demonstrate a 15% decline in gross receipts after September 11, 2001, compared with the average of gross receipts in the 6 months prior to September 11, 2001, or to the beginning of the contract, whichever was shorter. The total relief granted under this program was approximately $26,100,000, the largest portion of which was in duty free revenues.

In FY 2003, the Airports Division began to include language in the concession agreements allowing for rent relief in the event of an "economic emergency." An "economic emergency" is an event that satisfies at least the following conditions: (1) the concessionaire suffers a 15% reduction in gross receipts in a certain test period and (2) either [a] the occurrence of an event that is sudden, extraordinary, and generates relatively immediate severe adverse economic impacts for the State, as determined by the Department in its sole discretion, or [b] the Department finds that there has been a significant decrease in airline passenger departures at airports with overseas flight, for 20% or more in a certain test period.*

In FY 2009, several concessionaires submitted applications for rent relief to the Department citing the economic recession and the ensuing reduction of air traffic at the Airports System. As of August 2009, the Airports Division has determined that two applications met the requirements in the concession agreements and has granted rent relief for a total of $580,000. Future rent relief applications will be determined on a case-by-case basis. For the purpose of this Report, it was assumed

*As a reference, enplaned passengers at the Airports System declined 15.2% from FY 2008 to FY 2009.

that no other concessionaires would qualify for rent relief and that the Department would not grant additional rent relief.

3.7.3 Parking, Ground Transportation, and Rental Car Revenues

As shown in Table 26, concession revenues received by the Airports Division in connection with parking, ground transportation, and rental cars amounted to $53.7 million in FY 2009, or 47.1% of total concession revenues.

Parking Revenues. Table 27 lists the parking facilities at HNL, the number of spaces in each facility, and the related parking rates. Ampco System Parking (Ampco) operates the public parking facilities under a month-to-month concession agreement with the Airports Division. Under this agreement, the Airports Division retains all rights to implement parking rate increases, among other things, and receives 80% of gross receipts from the parking operation. A new agreement with Ampco has been developed which, once approved, will require Ampco to pay the State the greater of a MAG ($8,525,000 in the first year, and, for each subsequent year, 85% of the prior year's payments) or a percentage of gross revenues. Under the new agreement, parking revenues up to $17 million are subject to a percentage payment of 80% with the Department receiving graduated percentages applicable to revenues exceeding $17 million and reaching 85% on revenues above $19 million.

Table 27

NUMBER OF SPACES AND RATES FOR ON-AIRPORT PARKING FACILITIES
Honolulu International Airport
(as of September 1, 2009)

Existing public parking		Parking spaces	First hour	Daily rate
Lot A	New Garage	1,800	$2.00	$13.00
Lot M	Interisland Terminal Garage	1,787	2.00	13.00
Lot D	Overseas Terminal Garage	1,570	2.00	13.00
Lot B	Commuter Terminal	434	2.00	13.00
Lot U	Valet Lot	250	2.00	13.00
Lot J	Long Term Parking Lot *(a)*	185	10.00	10.00
Lot F	Public and Employee Parking	116	2.00	13.00
Lot W	General Employee Parking	60	2.00	13.00
	Total existing	6,202		

(a) Parking at the long-term parking lot is charged at 2-day minimum.

Source: State of Hawaii, Department of Transportation, Airports Division records.

In addition, Ampco maintains parking management contracts at neighbor island airports, including Lihue Airport and Kona International Airport at Keahole remitting 65% of gross receipts, and Hilo International Airport remitting 55% of gross receipts. On Maui, Standard Parking manages parking operations for the Airports Division, remits 70% of gross receipts at Kahului Airport, and remits 50% of gross receipts for the heliport and Kapalua Airport.

Effective August 2009, the Airports Division increased the daily maximum parking rate at Honolulu from $10.00 to $13.00 and the rates at neighbor island airports from $7.00 to $9.00, which is the first rate increase since 1993. A new economy surface lot J will be opened between the overseas garage and the interisland garage at $10.00 daily for 2-day minimum.

Public automobile parking revenues are forecast on the basis of (1) historical annual trends in parking revenues per enplaned passenger, (2) anticipated increase of daily parking rate of $1.00 every 3 years thereafter, and (3) forecast numbers of passengers, as presented earlier in this Report.

Rental Car Revenues. The Airports Division collects rental car concession revenues from on- and off-airport rental car operations. CFCs anticipated to be collected from rental car customers are not included as Airports System Revenues, as described above. Revenues identified in this category do not include leased space for rental car operations, which are included in nonaeronautical rental revenues (see Section 3.7.5).

On-Airport Rental Car Operations. The on-airport rental car companies operate under the terms of competitively bid concession agreements. Under the nonexclusive agreements, the rental car companies pay 10% of gross receipts at HNL. Under the new rental car agreement for Primary Neighboring Island Airports, the percentage fee for on-airport operations was increased from 7.5% to 10%. The annual percentage fee is subject to a set a MAG specified for each airport. Table 28 reflects rental car companies that operate at the airports.

Table 28

ON- AND OFF-AIRPORT RENTAL CAR OPERATIONS BY AIRPORT
State of Hawaii, Department of Transportation, Airports Division
(as of September 1, 2009)

Rental car company	Airport					
	Honolulu	Kahului	Kona	Lihue	Hilo	Molokai
Advantage	Off	On	Off	Off	Off	--
Alamo	Off	On	On	On	On	--
Avis	On	On	On	On	On	Off
Budget	On	On	On	On	On	On
Dollar	On	On	On	On	On	On
Enterprise	On	On	--	--	Off	--
Harper	--	--	On	--	Off	--
Hertz	On	On	On	On	On	Off
National	On	On	On	On	On	--
Thrifty	Off	On	On	On	On	Off

Source: State of Hawaii, Department of Transportation, Airports Division records.

The current HNL rental car agreements are on a month-to-month basis while the Airports Division completes the process to advertise for new bids. A new five-year agreement, which began July 1, 2007 (FY 2008), was awarded to Enterprise Rent A Car, making it the sixth rental car company operating on-airport at HNL. In addition, the Airports Division is considering a bid package for a seventh operator at HNL.

Rental car revenues are forecast to increase in proportion to (1) forecast increases in overseas originating passengers, (2) 1.0% annual adjustment for inflation, and (3) percentage fees described herein.

Off-Airport Rental Car Operations. A minimal fee is currently assessed to rental car operators that maintain facilities off-airport and operate shuttle buses to transport passengers to and from the remote facilities. The Airports Division is in the process of amending off-airport rental car charges under the H.A.R. to reflect a fee similar to that paid by on-airport rental car operators. The proposed privilege fee will equal 8% of gross receipts. Due to the absence of transaction detail, no forecast revenues are provided for off-airport operations in this Report.

Customer Facility Charges. In July 2008, the State Legislature passed a bill (SB 2365-HD1) authorizing the Airports Division to establish and collect a $1 CFC per transaction day.* The CFC is expected to be adjusted, as necessary, to

*In January 2010, a billed was introduced to the State Legislature to raise the CFC level to $4.50 per transaction day.

generate sufficient funds to construct various facilities, including rental car facilities currently under design for HNL and Kahului Airport. The Airports Division implemented the CFC beginning September 1, 2008, for all rental car transactions. Moneys collected through the CFC are deposited into a restricted fund that can only be used to fund the construction of new consolidated rental car facilities, other improvements needed for on-airport rental car operators, and operating costs. No Revenues are expected from this revenue source, and no Airports System funds are anticipated to be used for rental car capital projects.

Ground Transportation Revenues. Ground transportation revenues include revenues generated from airport shuttle services, taxicab operations, and other courtesy vehicle operations. In FY 2009, ground transportation revenues represented 1.6% of total concession revenues.

3.7.4 Nonaeronautical Rental Revenues

Nonaeronautical rental revenues include revenues from rental car leases, certain utility reimbursements, and other leased facilities, such as hangars and cargo buildings by nonairline tenants. Certain revenues are forecast according to the terms of the various agreements currently in effect and the additional revenues expected from agreements for new and expanded facilities. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Under the terms of the agreements, rental increases are adjusted in proportion with the CPI. The Designated Projects include a substantial investment in tenant support facilities at various airports in the Airports System. The Airports Division intends to recover the costs of these tenant support facilities through future building and ground rentals. These potential revenues are not taken into consideration in the financial forecast for the purpose of this Report.

3.7.5 Miscellaneous Operating Revenues

In addition to the revenues described above, the Airports Division has agreements with various other companies to provide the sale of utilities and other services, in addition to other miscellaneous income recognized through daily operations of the Airports System. Miscellaneous revenues are forecast to increase at 1.0% annually.

3.7.6 Nonoperating Revenues

Nonoperating revenues include federal grants as a reimbursement to capital costs included in the operating budget, and interest earnings from various funds and accounts under the Certificate. Federal grant reimbursements are forecast to decrease from $6.8 million in FY 2009 to $2.0 million for FY 2011 and beyond. Interest earnings are forecast to decline due to lower fund balance and lower interest earning rate.

3.8 APPLICATION OF REVENUES AND AVIATION FUEL TAXES

As described in Section 3.1.1, the Certificate establishes the priority of claims on Revenues and Aviation Fuel Taxes. As shown in Exhibit G, the payment for the costs of operation, maintenance and repair, including deposits to the O&M Reserve Account, has the highest claim on Revenues and Aviation Fuel Taxes, followed by Annual Adjusted Debt Service Requirement on Bonds. Transfers to the MMRRA Account are applied after the first two priorities have been met. Reimbursement to the State General Fund for general obligation bond debt service has next priority and other miscellaneous expenditures have lowest priority.

The Certificate provides that the balance in the Airport Revenue Fund on credit to the MMRRA Account be no less than $2.4 million or any higher amount determined by the Department in its sole discretion. As of the date of this Report, the Airports Division maintains the amount on credit to the MMRRA Account at $60 million. The money on credit to the MMRRA Account can be used to make up deficiencies in the Interest Account, Serial Bond Principal Account, and Sinking Fund Account or for major maintenance, repairs, renewals, and replacements as shall not be annually recurring in nature. Whenever moneys are withdrawn from this account, an annual amount of $600,000, or any higher amount as determined by the Department, will be credited to the MMRRA Account. For the purpose of this Report, a $3 million annual credit was assumed.

3.9 DEBT SERVICE COVERAGE

For the purpose of this Report, debt service coverage is calculated pursuant to Section 3.04 of the Certificate as amended by supplemental certificates providing for the authorization of further Additional Bonds, except that debt service is included for the planned Series 2011 Bonds during the forecast period that would be in addition to the proposed Series 2010 Bonds. Pursuant to Section 3.04 of the Certificate as amended, required debt service coverage in any Fiscal Year is calculated as Net Revenues and Aviation Fuel Taxes, together with unencumbered funds certified as Revenues by the Department for the Fiscal Year, as a percentage of the Annual Adjusted Debt Service Requirement of the Bonds outstanding during such Fiscal Year.

As shown in Exhibit H, debt service coverage is forecast to meet or exceed the required 1.25 coverage ratio in each Fiscal Year of the forecast period.

Exhibit A

Project Costs and Sources of Funding
Designated Projects
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

			Remaining Costs					
	Total	Expended thru Oct09	AIP	TSA	PFC	Cash	Bond /1	Total
Honolulu								
HNL - Mauka Concourse Program	$ 443,901	$ 6,866	$ -	$ -	$ 24,600	$ -	$ 412,435	$ 443,901
HNL - Airfield Improvements	55,800	-	55,800	-	-	-	-	55,800
HNL - Security and Safety	140,937	27,140	2,760	24,573	27,515	3,418	55,530	140,937
HNL - Ewa Concourse Sterile Corridor	41,221	19,249	4,868	-	-	13,558	3,547	41,221
HNL - Other	216,485	158,834	10,033	-	27,559	4,024	16,034	216,485
Subtotal HNL	$ 898,344	$ 212,090	$ 73,461	$ 24,573	$ 79,674	$ 21,001	$ 487,546	$ 898,344
Kona								
KOA - Terminal Improvements	$ 7,579	$ 4,953	$ -	$ -	$ -	$ 1,591	$ 1,034	$ 7,579
KOA - Other	6,942	3,437	2,346	-	-	540	618	6,942
Subtotal KOA	$ 14,520	$ 8,391	$ 2,346	$ -	$ -	$ 2,132	$ 1,652	$ 14,520
Kahului								
OGG - Airfield Improvements	$ 114,591	$ 11,301	$ 46,892	$ -	$ 41,905	$ 2,573	$ 11,920	$ 114,591
OGG - Security	24,563	19,470	-	-	-	562	4,531	24,563
OGG - Other	98,549	59,234	4,415	-	-	1,089	33,811	98,549
Subtotal OGG	$ 237,703	$ 90,005	$ 51,307	$ -	$ 41,905	$ 4,225	$ 50,262	$ 237,703
Lihue								
LIH - Land Acquisition	$ 17,045	$ -	$ 16,000	$ -	$ -	$ 1,045	$ -	$ 17,045
LIH - Projects	33,869	21,187	6,452	-	160	1,912	4,157	33,869
Subtotal LIH	$ 50,914	$ 21,187	$ 22,452	$ -	$ 160	$ 2,957	$ 4,157	$ 50,914
Hilo								
ITO - Cargo Facilities	$ 17,726	$ 1,248	$ 8,038	$ -	$ -	$ 8,440	$ -	$ 17,726
ITO - Other	7,637	3,354	3,196	-	-	506	581	7,637
Subtotal ITO	$ 25,363	$ 4,602	$ 11,234	$ -	$ -	$ 8,946	$ 581	$ 25,363
Other								
Programmatic Activities	$ 38,410	$ 4,961	$ -	$ -	$ 606	$ 13,607	$ 19,236	$ 38,410
Statewide / Other Projects	18,641	15,677	1,017	-	-	1,946	-	18,641
Other Airports	29,670	12,156	14,982	-	71	800	1,661	29,670
Subtotal Other	$ 86,722	$ 32,794	$ 16,000	$ -	$ 677	$ 16,354	$ 20,897	$ 86,722
DESIGNATED PROJECTS	$ 1,313,566	$ 369,069	$ 176,799	$ 24,573	$ 122,416	$ 55,614	$ 565,095	$ 1,313,566

Source: State of Hawaii, Department Transportation, Airports Division records.

Note: 1. In addition, $88.8 million cost expended prior to November 1, 2009 will be reimbursed from bond proceeds.

Exhibit B

Historical and Forecast of PFC Revenues
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

			Historical	Forecast						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
PFC Collections										
Enplaned Overseas Passengers /1	8,349	8,709	7,635	7,957	8,055	8,154	8,252	8,352	8,453	8,555
Percent of PFC Eligible Passengers	89.8%	80.8%	81.3%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
PFC Eligible Enplaned Passengers	7,498	7,038	6,204	6,366	6,444	6,523	6,602	6,682	6,762	6,844
PFC Level /2	$ 3.00	$ 3.00	$ 3.88	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
less: PFC Airline Collection Fee	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
Net PFC Level	$ 2.89	$ 2.89	$ 3.77	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
PFC Collections (not including interest income)	$ 21,669	$ 20,339	$ 23,359	$ 27,945	$ 28,289	$ 28,637	$ 28,981	$ 29,332	$ 29,687	$ 30,045
Cumulative PFC Collections	$ 61,259	$ 83,702	$ 109,003	$ 137,810	$ 167,010	$ 196,643	$ 226,706	$ 257,273	$ 288,531	$ 320,494
PFC Cashflow										
PFC Fund - Beginning Balance	$ 37,848	$ 47,150	$ 50,199	$ 69,094	$ 46,670	$ 45,335	$ 55,246	$ 54,000	$ 70,754	$ 87,947
Deposits:										
PFC Collections	$ 21,669	$ 20,339	$ 23,359	$ 27,945	$ 28,289	$ 28,637	$ 28,981	$ 29,332	$ 29,687	$ 30,045
Prepaid Revenues	-	-	515	-	-	-	-	-	-	-
Interest Earnings	1,741	2,104	1,427	862	911	996	1,082	1,235	1,571	1,917
Total Annual PFC Revenues	$ 23,410	$ 22,443	$ 25,302	$ 28,807	$ 29,200	$ 29,633	$ 30,063	$ 30,567	$ 31,258	$ 31,963
Annual Use of PFC Revenues										
Pay-as-you-go under Existing Approval	$ (14,109)	$ (19,394)	$ (6,407)	$ (51,231)	$ (30,535)	$ (16,248)	$ (24,273)	$ (130)	$ -	$ -
Future Applications										
Available PFC Revenues	-	-	-	-	-	(3,474)	(7,036)	(13,684)	(14,066)	(14,193)
Total Annual Use of PFC Revenues	$ (14,109)	$ (19,394)	$ (6,407)	$ (51,231)	$ (30,535)	$ (19,722)	$ (31,309)	$ (13,814)	$ (14,066)	$ (14,193)
PFC Fund - Ending Balance	$ 47,150	$ 50,199	$ 69,094	$ 46,670	$ 45,335	$ 55,246	$ 54,000	$ 70,754	$ 87,947	$ 105,716

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - Jacobs Consultancy.

Notes: 1. Interisland enplaned passengers are not subject to the PFC collection.

2. PFC level was increased to $4.50 per enplaned passengers in November 2008.

Exhibit C

Sources and Uses of Bond Funds
Designated Projects
State of Hawaii, Department of Transportation, Airports Division
(numbers in thousands)

	Series 2010		Series 2011		Total	
Sources of Funds						
Bond Proceeds	$	474,675	$	323,865	$	798,540
Original Issue Discount		(10,758)		-		(10,758)
Interest Earning on Project Fund		1,127		1,224		2,350
Total Sources	$	465,043	$	325,089	$	790,132
Use of Funds						
Project Costs	$	397,071	$	256,824	$	653,895
Costs of Issuance		3,324		2,270		5,594
Deposit to Debt Service Reserve Account		24,415		22,671		47,086
Deposit for Capitalized Interest		40,233		43,324		83,556
Total Uses of Funds	$	465,043	$	325,089	$	790,132

Source: Citigroup Global Markets Inc.

Exhibit D

Annual Adjusted Debt Service Requirement
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

			Historical	Forecast						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Annual Adjusted Debt Service Requirement										
Existing										
Series 2000A /1	$ 1,518	$ 1,518	$ 1,663	$ 1,290	$ -	$ -	$ -	$ -	$ -	$ -
Series 2000B /1	25,565	25,560	25,417	22,719	14,634	-	-	-	-	-
Series 2001	43,035	30,138	30,136	30,143	30,136	30,137	48,145	48,147	48,147	48,144
Subtotal	$ 70,118	$ 57,216	$ 57,216	$ 54,152	$ 44,770	$ 30,137	$ 48,145	$ 48,147	$ 48,147	$ 48,144
Proposed Series 2010										
2010 Refunding	-	-	-	2,320	10,082	23,939	23,792	21,872	26,848	26,851
2010 New Money	-	-	-	1,310	6,657	11,541	20,465	23,968	24,471	24,639
Planned Series 2011	-	-	-	-	-	39	2,988	21,645	22,414	22,671
Gross Debt Service /2	$ 70,118	$ 57,216	$ 57,216	$ 57,782	$ 61,509	$ 65,656	$ 95,390	$ 115,632	$ 121,880	$ 122,305
Rate Mitigation	(27,000)	(10,000)	(17,453)	(16,803)	-	-	-	-	-	-
Debt Service Requirement	$ 43,118	$ 47,216	$ 39,763	$ 40,979	$ 61,509	$ 65,656	$ 95,390	$ 115,632	$ 121,880	$ 122,305
Available PFC Revenues	-	-	-	-	-	(3,474)	(7,036)	(13,684)	(14,066)	(14,193)
Annual Adjusted Debt Service Requirement	$ 43,118	$ 47,216	$ 39,763	$ 40,979	$ 61,509	$ 62,182	$ 88,354	$ 101,949	$ 107,815	$ 108,112
By Cost Center										
Airfield					$ 4,552	$ 4,020	$ 5,452	$ 5,599	$ 5,971	$ 5,977
Terminal										
Honolulu International					36,124	35,862	50,090	55,502	58,863	58,989
Hilo International					6	11	23	44	46	46
Kona International					13	23	46	89	92	93
Kahului					8,250	8,484	11,950	13,510	14,307	14,342
Lihue					770	778	1,063	1,118	1,190	1,191
Other Cost Centers					11,794	13,003	19,729	26,087	27,346	27,474
Annual Adjusted Debt Service Requirement					$ 61,509	$ 62,182	$ 88,354	$ 101,949	$ 107,815	$ 108,112

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - Citigroup Global Markets Inc. and Jacobs Consultancy.

Notes: 1. To be partially refunded by the proposed Series 2010 Bonds.
2. Excludes capitalized interest and certain other adjustments specified in the Certificate.

Exhibit E

Costs of Operation, Maintenance and Repair
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

			Historical	Forecast						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Costs of Operation, Maintenance and Repair										
Salary and Wages	$ 61,204	$ 71,990	$ 75,396	$ 74,660	$ 74,660	$ 78,393	$ 82,313	$ 86,428	$ 90,750	$ 95,287
Other Personnel Services	46,145	51,590	56,493	55,190	55,190	57,949	60,847	63,889	67,084	70,438
Utilities	26,257	34,875	34,200	35,910	37,706	39,591	41,571	43,649	45,832	48,123
Special Maintenance	33,558	32,986	21,508	18,000	15,000	18,000	18,000	18,000	18,000	18,000
Repair and Maintenance	12,803	14,181	17,300	17,304	18,169	19,077	20,031	21,033	22,084	23,189
Materials and Supplies	4,520	5,648	5,618	5,898	6,193	6,503	6,828	7,170	7,528	7,905
DOT Admin. Expenses	5,724	4,852	4,839	5,081	5,335	5,602	5,882	6,176	6,485	6,809
Other Expenses	6,750	8,236	7,472	7,846	8,238	8,650	9,082	9,536	10,013	10,514
Bad Debt	-	3,968	47	-	-	-	-	-	-	-
Base Expenses net of Surcharge	$ 196,961	$ 228,325	$ 222,873	$ 219,889	$ 220,491	$ 233,766	$ 244,554	$ 255,882	$ 267,776	$ 280,264
Incremental Expenses	-	-	-	-	500	2,025	2,126	4,433	4,654	4,887
State Surcharge	9,765	10,886	10,744	11,212	12,095	13,091	13,371	13,635	14,035	14,617
Costs of Operation, Maintenance and Repair	$ 206,726	$ 239,212	$ 233,617	$ 231,101	$ 233,086	$ 248,882	$ 260,052	$ 273,949	$ 286,465	$ 299,768
By Cost Center										
Airfield					$ 57,044	$ 60,816	$ 63,530	$ 66,722	$ 69,755	$ 72,978
Terminal										
Honolulu International					83,587	89,571	93,640	99,334	103,924	108,803
Hilo International					5,799	6,227	6,474	6,720	6,995	7,287
Kona International					6,183	6,580	6,865	7,149	7,464	7,799
Kahului					7,233	7,652	8,001	8,349	8,735	9,145
Lihue					6,716	7,095	7,422	7,750	8,112	8,497
Other Cost Centers					66,525	70,941	74,120	77,926	81,481	85,260
Costs of Operation, Maintenance and Repair					$ 233,086	$ 248,882	$ 260,052	$ 273,949	$ 286,465	$ 299,768

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - Jacobs Consultancy.

Exhibit F

Revenues and Aviation Fuel Taxes
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

			Historical	Forecast						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Aviation Revenues and Fuel Taxes										
Signatory Airline Payments										
Landing Fee /1 /2	$ 35,203	$ 34,184	$ 56,607	$ 54,584	$ 54,097	$ 57,336	$ 61,609	$ 64,842	$ 67,904	$ 70,924
Passenger Terminal Rental /2	39,518	44,338	50,070	55,639	75,014	96,197	125,452	140,297	150,925	158,241
Aviation Fuel Taxes /3	2,169	4,452	3,549	3,584	3,620	3,656	3,693	3,730	3,767	3,805
Commuter Terminal	800	891	615	621	628	634	640	647	653	660
Non-Terminal Rentals	7,567	9,310	8,472	8,556	8,642	8,728	8,816	8,904	8,993	9,083
Signatory Airline Payments Other than ASSC	$ 85,257	$ 93,175	$ 119,313	$ 122,984	$ 142,000	$ 166,552	$ 200,210	$ 218,418	$ 232,242	$ 242,711
Signatory Airport System Support Charges	-	-	-	-	-	-	1,603	6,250	4,327	1,107
Total Signatory Airline Payments	$ 85,257	$ 93,175	$ 119,313	$ 122,984	$ 142,000	$ 166,552	$ 201,813	$ 224,668	$ 236,569	$ 243,818
Non-signatory Landing Fee /1	2,847	2,769	3,966	4,006	4,046	4,227	4,528	4,759	4,981	5,200
Nonsignatory ASSC and Other Payments	2,362	2,546	3,091	3,122	3,153	2,000	2,131	2,474	2,361	2,158
Other Aeronautical Rentals	5,764	6,607	8,806	8,982	9,161	9,253	9,345	9,439	9,533	9,629
Total Aviation Revenues and Fuel Taxes	$ 96,229	$ 105,097	$ 135,177	$ 139,094	$ 158,361	$ 182,032	$ 217,818	$ 241,340	$ 253,444	$ 260,805
Nonairline Revenues										
Duty Free	$ 37,369	$ 38,000	$ 38,000	$ 38,000	$ 38,000	$ 37,525	$ 32,300	$ 32,300	$ 32,300	$ 32,300
Food and Beverage	6,406	7,076	6,893	6,939	7,017	7,100	7,184	7,272	7,534	7,805
Retail	13,625	13,319	10,285	9,816	8,791	9,108	9,434	9,774	10,126	10,489
Other Terminal Concessions	5,788	5,624	5,183	5,388	5,270	5,460	5,655	5,858	6,068	6,285
Parking	17,558	17,779	16,810	19,692	19,909	20,131	22,843	23,094	23,347	26,167
Rental Car	37,871	37,882	35,036	35,951	35,304	34,851	35,601	36,369	37,154	37,949
Ground Transportation	2,073	2,237	1,856	2,149	2,172	2,196	2,220	2,245	2,269	2,294
Nonaeronautical Rentals	12,358	12,664	12,306	12,614	12,929	13,252	13,584	13,923	14,271	14,628
Miscellaneous Operating Revenues	4,156	4,699	4,131	4,172	4,214	4,256	4,299	4,342	4,385	4,429
Total Nonairline Revenues	$ 137,204	$ 139,280	$ 130,500	$ 134,720	$ 133,606	$ 133,879	$ 133,120	$ 135,176	$ 137,455	$ 142,347
Operating Revenues	$ 233,433	$ 244,378	$ 265,676	$ 273,814	$ 291,967	$ 315,911	$ 350,938	$ 376,517	$ 390,899	$ 403,152
Federal Grant Reimbursements /4	19,983	24,958	6,758	4,303	2,000	2,000	2,000	2,000	2,000	2,000
Interest Income										
Operating Funds and Reserves	13,373	15,234	9,787	6,052	7,782	8,300	8,693	8,916	9,072	9,161
Construction Fund	20,049	16,444	6,362	2,160	3,663	3,275	3,188	2,904	2,618	2,333
REVENUES AND AVIATION FUEL TAXES	$ 286,838	$ 301,014	$ 288,584	$ 286,329	$ 305,412	$ 329,485	$ 364,819	$ 390,337	$ 404,589	$ 416,645
Signatory Airline Revenues as % of Total	29.7%	31.0%	41.3%	43.0%	46.5%	50.5%	55.3%	57.6%	58.5%	58.5%

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - Jacobs Consultancy.

Notes:
1. Net of credit for aviation fuel taxes.
2. See Report for FY 2010 adjustment considerations.
3. Including aviation fuel taxes paid by all airlines.
4. Under the caption “Federal Operating Grants” in the financial statements.

Exhibit F-1

Signatory Airlines Landing Fee Revenues
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Set 6/1/09 2010 /1	Forecast 2011	2012	2013	2014	2015	2016
Airfield Requirement							
Costs of Operation, Maintenance and Repair	$ 66,111	$ 57,044	$ 60,816	$ 63,530	$ 66,722	$ 69,755	$ 72,978
Annual Adjusted Debt Service Requirement	3,030	4,552	4,020	5,452	5,599	5,971	5,977
Deposit to MMRRA	827	734	733	733	731	731	730
Credit to O&M Reserve Account	-	-	217	682	846	762	810
Subtotal	$ 69,968	$ 62,330	$ 65,786	$ 70,397	$ 73,898	$ 77,218	$ 80,495
LESS:							
Annual Non-signatory Landing Fee	(8,804)	(4,046)	(4,227)	(4,528)	(4,759)	(4,981)	(5,200)
Federal Grant Reimbursements	(1,368)	(567)	(567)	(567)	(567)	(567)	(567)
Signatory Landing Fee Revenues	$ 59,797	$ 57,717	$ 60,993	$ 65,302	$ 68,572	$ 71,671	$ 74,728
Interisland Signatory Landed Weight /2	8,821	8,389	10,105	10,114	10,123	10,133	10,142
Interisland Rate	38.0%	39.0%	40.0%	41.0%	42.0%	43.0%	44.0%
Adjusted Interisland Signatory Landed Weight	3,352	3,272	4,042	4,147	4,252	4,357	4,462
Overseas Signatory Landed Weight	11,339	12,861	12,929	12,998	13,048	13,073	13,098
Adjusted Signatory Landed Weight	14,690	16,133	16,971	17,144	17,300	17,430	17,561
Signatory Landing Fee Rate per 1,000 lbs							
Overseas	$ 4.07	$ 3.58	$ 3.59	$ 3.81	$ 3.96	$ 4.11	$ 4.26
Interisland	1.55	1.40	1.44	1.56	1.66	1.77	1.87

Source: Jacobs Consultancy.

Notes: 1.Landing fee rates in FY 2010 shown on this exhibit were set on June 1, 2009.

2. Interisland signatory landed weight is forecast to increase in FY 2012 due to assumed nonsignatory airlines conversion to signatory status.

Exhibit F-2

Signatory Airlines Terminal Rentals
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Set 6/1/09 2010 /1	Forecast 2011	2012	2013	2014	2015	2016
Honolulu Terminal Requirements							
Costs of Operation, Maintenance and Repair	$ 66,657	$ 83,587	$ 89,571	$ 93,640	$ 99,334	$ 103,924	$ 108,803
Annual Adjusted Debt Service Requirement	33,942	36,124	35,862	50,090	55,502	58,863	58,989
Deposit to MMRRA	833	1,076	1,080	1,080	1,088	1,088	1,089
Credit to O&M Reserve Account	-	-	319	1,005	1,260	1,135	1,207
Subtotal	$ 101,433	$ 120,786	$ 126,832	$ 145,816	$ 157,183	$ 165,011	$ 170,088
LESS:							
Annual Terminal Nonairline Revenues	(54,202)	(54,217)	(54,150)	(49,344)	(49,782)	(50,404)	(51,049)
Federal Grant Reimbursements	(677)	(315)	(315)	(315)	(315)	(315)	(315)
Subtotal	$ 46,554	$ 66,255	$ 72,368	$ 96,157	$ 107,087	$ 114,292	$ 118,724
Multiplying Adjustment Ratio for Honolulu Terminal	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Subtotal	$ 46,554	$ 66,255	$ 72,368	$ 96,157	$ 107,087	$ 114,292	$ 118,724
Management Reduction	-	(9,484)	-	-	-	-	-
Net Terminal Requirements	$ 46,554	$ 56,771	$ 72,368	$ 96,157	$ 107,087	$ 114,292	$ 118,724
Leased Space	1,123	1,123	1,123	1,123	1,123	1,123	1,123
Average Terminal Rental Rate	$ 41.44	$ 50.54	$ 64.42	$ 85.60	$ 95.33	$ 101.74	$ 105.69
Signatory Airlines Terminal Rentals							
Honolulu International	$ 46,554	$ 56,771	$ 72,368	$ 96,157	$ 107,087	$ 114,292	$ 118,724
Hilo International	2,486	2,371	2,988	3,135	3,270	3,397	3,538
Kona International	1,258	3,196	4,286	4,818	5,366	5,909	6,509
Kahului	8,580	8,217	10,694	14,566	17,060	19,016	20,353
Lihue	2,776	4,459	5,862	6,776	7,513	8,311	9,116
Total	$ 61,655	$ 75,014	$ 96,197	$ 125,452	$ 140,297	$ 150,925	$ 158,241

Source: Jacobs Consultancy.

Note: 1.Terminal rental rates in FY 2010 shown on this exhibit were set on June 1, 2009.

Exhibit F-3

Airport System Support Charges
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Forecast 2010	2011	2012	2013	2014	2015	2016
Airport System Support Charges (ASSC) Requirement							
Costs of Operation, Maintenance and Repair	$ 231,101	$ 233,086	$ 248,882	$ 260,052	$ 273,949	$ 286,465	$ 299,768
Annual Adjusted Debt Service Requirement							
Gross Debt Service	57,782	61,509	65,656	95,390	115,632	121,880	122,305
Rate Mitigation	(16,803)	-	-	-	-	-	-
Available PFC Revenues	-	-	(3,474)	(7,036)	(13,684)	(14,066)	(14,193)
Deposit to Maintenance, Renewal and Replacement Account	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Credit to O&M Reserve Account	934	-	887	2,792	3,474	3,129	3,326
Credit to Funded Coverage Account	-	1,073	1,037	7,433	5,061	1,562	106
Subtotal	$ 276,014	$ 298,668	$ 315,988	$ 361,631	$ 387,433	$ 401,971	$ 414,312
LESS:							
Offsetting Revenues /1	(161,185)	(159,749)	(159,658)	(159,818)	(162,765)	(165,402)	(170,494)
Subtotal	$ 114,829	$ 138,920	$ 156,329	$ 201,813	$ 224,668	$ 236,569	$ 243,818
LESS:							
Signatory Airline Payments Other than ASSC	(122,984)	(142,000)	(166,552)	(200,210)	(218,418)	(232,242)	(242,711)
Management Reduction	-	-	-	-	-	-	-
Adjusted ASSC Requirements for Signatory Airline	$ (8,155)	$ (3,080)	$ (10,222)	$ 1,603	$ 6,250	$ 4,327	$ 1,107
Adjusted Signatory Landed Weight	15,980	16,133	16,971	17,144	17,300	17,430	17,561
ASSC Rate per 1,000 lbs							
Overseas	$ -	$ -	$ -	$ 0.09	$ 0.36	$ 0.25	$ 0.06
Interisland	-	-	-	0.04	0.15	0.11	0.03

Source: Jacobs Consultancy.

Notes: 1. Including Revenues other than (a) payments from Signatory Airline and (b) interest income from construction related funds and accounts.

Exhibit F-4

Passenger Airlines Payment Per Enplaned Passenger
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

			Historical	Forecast						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Airline Payments										
Aviation Revenues	$ 96,229	$ 105,097	$ 135,177	$ 139,094	$ 158,361	$ 182,032	$ 217,818	$ 241,340	$ 253,444	$ 260,805
Less: Non-Terminal Aeronautical Rentals	(13,331)	(17,780)	(17,277)	(17,538)	(17,803)	(17,981)	(18,161)	(18,343)	(18,526)	(18,711)
Subtotal	$ 82,898	$ 87,318	$ 117,900	$ 121,556	$ 140,558	$ 164,050	$ 199,657	$ 222,998	$ 234,918	$ 242,093
Less: All-Cargo Landing Fee Revenues /1	(3,414)	(4,499)	(7,038)	(6,824)	(6,779)	(7,158)	(7,664)	(8,048)	(8,413)	(8,772)
Passenger Airline Payments	$ 79,484	$ 82,819	$ 110,862	$ 114,732	$ 133,779	$ 156,892	$ 191,993	$ 214,949	$ 226,505	$ 233,321
Enplaned Passengers	17,300	17,501	14,842	15,075	15,244	15,415	15,585	15,759	15,934	16,110
Passenger Airline Payments per e.p.	$ 4.59	$ 4.73	$ 7.47	$ 7.61	$ 8.78	$ 10.18	$ 12.32	$ 13.64	$ 14.22	$ 14.48

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - Jacobs Consultancy.

Note: 1. Assuming all-cargo landing fee revenues at 11.0% of total landing fee revenues for FY 2010 and beyond.

Exhibit G

Application of Revenues and Aviation Fuel Taxes
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Historical 2009	Forecast 2010	2011	2012	2013	2014	2015	2016
Revenues and Aviation Fuel Taxes								
Aviation Revenues	$135,177	$139,094	$158,361	$182,032	$217,818	$241,340	$253,444	$260,805
Nonairline Revenues	130,500	134,720	133,606	133,879	133,120	135,176	137,455	142,347
Operating Revenues	$265,676	$273,814	$291,967	$315,911	$350,938	$376,517	$390,899	$403,152
Nonoperating Revenues	22,908	12,515	13,445	13,575	13,881	13,820	13,691	13,493
Revenues and Aviation Fuel Taxes	$288,584	$286,329	$305,412	$329,485	$364,819	$390,337	$404,589	$416,645
Application of Revenues and Aviation Fuel Taxes								
Costs of Operation, Maintenance and Repair	$233,617	$231,101	$233,086	$248,882	$260,052	$273,949	$286,465	$299,768
Annual Adjusted Debt Service Requirement								
Gross Debt Service	57,216	57,782	61,509	65,656	95,390	115,632	121,880	122,305
Rate Mitigation	(17,453)	(16,803)	-	-	-	-	-	-
Available PFC Revenues	-	-	-	(3,474)	(7,036)	(13,684)	(14,066)	(14,193)
Deposit to Maintenance, Renewal and Replacement Account	250	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Reimbursement of General Fund of the State	29	-	-	-	-	-	-	-
Other Purposes								
Funds Remaining	14,925	11,249	7,816	15,421	13,414	11,439	7,309	5,765
Application of Revenues and Aviation Fuel Taxes	$288,584	$286,329	$305,412	$329,485	$364,819	$390,337	$404,589	$416,645

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - Jacobs Consultancy.

Exhibit H

Debt Service Coverage and Rate Covenant
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Historical 2009	Forecast 2010	2011	2012	2013	2014	2015	2016
Debt Service Coverage								
Revenues and Aviation Fuel Taxes	$288,584	$286,329	$305,412	$329,485	$364,819	$390,337	$404,589	$416,645
Costs of Operation, Maintenance and Repair	(233,617)	(231,101)	(233,086)	(248,882)	(260,052)	(273,949)	(286,465)	(299,768)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	(250)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Reimbursement of General Fund of the State	(29)	-	-	-	-	-	-	-
Net Revenues and Taxes	$ 54,688	$ 52,228	$ 69,325	$ 77,603	$101,768	$113,387	$115,124	$113,877
Funded Coverage Account Balance /1	14,304	14,445	15,377	16,414	23,847	28,908	30,470	30,576
Adjusted Net Revenues and Taxes	$ 68,992	$ 66,673	$ 84,703	$ 94,017	$125,615	$142,295	$145,594	$144,453
Annual Adjusted Debt Service Requirement								
Gross Debt Service /2	$ 57,216	$ 57,782	$ 61,509	$ 65,656	$ 95,390	$115,632	$121,880	$122,305
Rate Mitigation	(17,453)	(16,803)	-	-	-	-	-	-
Available PFC Revenues	-	-	-	(3,474)	(7,036)	(13,684)	(14,066)	(14,193)
Annual Adjusted Debt Service Requirement	$ 39,763	$ 40,979	$ 61,509	$ 62,182	$ 88,354	$101,949	$107,815	$108,112
Debt Service Coverage (Must Be No Less Than 1.25)	1.74	1.63	1.38	1.51	1.42	1.40	1.35	1.34

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - Jacobs Consultancy.

Notes: 1. Indicates the amount of unencumbered funds certified by the Airports Division for the purpose of the Rate Covenant.
2. Excludes capitalized interest and certain other adjustments specified in the Certificate.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

KPMG

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII

(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplemental Schedules

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

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KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statements of net assets of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Airports Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airports Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of the Airports Division are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Airports Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airports Division as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Airports Division adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2010 on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

The management's discussion and analysis on pages 3 through 21 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures that 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed as "supplementary information schedules" in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. These supplemental information schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 2, 2010

The following Management's Discussion and Analysis of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal years ended June 30, 2009 and 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 59.9% and 59.3% of total passenger traffic in the airports system during fiscal years 2009 and 2008, respectively. The other four principal airports accommodated 38.7% and 39.3% of the total passenger traffic for fiscal years 2009 and 2008, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the United States military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly, Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.4% of the total passenger traffic for fiscal years 2009 and 2008.

The Airports Division is self-sustaining. The Department of Transportation (DOT) is authorized to impose and collect rates and charges for the airports system services and properties to generate revenues to fund operating expenses. The Capital Improvements Program is funded by airports system revenue bonds issued by the Airports Division, federal grants, passenger facility charges (PFCs), customer facility charges (CFCs), and the Airports Division's revenues.

Using the Financial Statements

The Airports Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type, which is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

The Airports Division's financial report includes three financial statements: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

Airports Division Activities and Highlights

The Airports Division ended fiscal year 2009 with a decrease to total passenger activity of 15.3% when compared with fiscal year 2008. Aircraft operations, revenue landed weights, revenue passenger landings, and deplaning international passengers decreased by 15.0%, 11.6%, 5.9%, and 10.3%, respectively, as compared with fiscal year 2008. Increased airline carrier load factors and the decrease in visitors from Japan are the reasons for the decrease in aircraft operations and international passengers, respectively. Although inter-island carriers account for a higher percentage (47%) of revenue landed weights, the overall carrier mix remains diverse.

The Honolulu International Airport continues to be the dominant airport although a portion of the market share shifted to the Kahului Airport, Kona International Airport at Keahole, and Lihue Airport as a result of increased direct flights to such destinations. The majority of the operating revenues at the Airports Division is activity-based and directly relates to the number of passengers and aircraft operations.

Until March 31, 2008, interisland air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian 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 interisland air cargo, ceased all air cargo operations as well as maintenance cleaning services. Such operations have since been replaced 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 14%, comparing the periods April 1 to June 30, 2008 and 2007. Hawaiian Airlines, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and United Airlines, Inc. absorbed the majority of the market share from Aloha Airlines, increasing passenger activity by 10.9%, 1.1%, 1.3%, and 1.5%, respectively, in fiscal year 2009.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2009: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., American Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Airlines, Inc., Hawaiian Airlines, Inc., JALways Co., Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Northwest Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways, Ltd., United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and Pacific Wings, LLC.

Activity for the airports system for the fiscal years ended June 30, 2009 and 2008 is as follows:

	2009	**2008**	**Percentage increase (decrease) from 2008**
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	17,806,225	20,808,838	(14.4)%
Kahului Airport	5,089,997	6,219,640	(18.2)
Kona International Airport at Keahole	2,667,591	3,131,118	(14.8)
Lihue Airport	2,464,024	2,884,600	(14.6)
Hilo International Airport	1,284,420	1,562,813	(17.8)
All others	407,622	488,147	(16.5)
Total passengers	29,719,879	35,095,156	(15.3)
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	276,272	304,839	(9.4)
Kahului Airport	119,311	142,126	(16.1)
Kona International Airport at Keahole	111,848	140,052	(20.1)
Lihue Airport	99,154	121,979	(18.7)
Hilo International Airport	66,294	90,167	(26.5)
All others	212,400	241,965	(12.2)
Total aircraft operations	885,279	1,041,128	(15.0)
Revenue landed weights (1,000 pound units):			
Honolulu International Airport	13,383,583	15,833,745	(15.5)
Kahului Airport	3,323,998	4,225,002	(21.3)
Kona International Airport at Keahole	1,896,222	2,241,326	(15.4)
Lihue Airport	1,491,519	1,823,644	(18.2)
Hilo International Airport	839,456	1,155,111	(27.3)
All others	78,039	340,816	(77.1)
Total signatory airlines	21,012,817	25,619,644	(18.0)
Nonsignatory airlines	3,029,989	1,588,892	90.7
Total revenue landed weights	24,042,806	27,208,536	(11.6)

(Continued)

	2009	2008	Percentage increase (decrease) from 2008
Revenue passenger landings:			
Honolulu International Airport	70,613	63,266	11.6%
Kahului Airport	21,739	29,482	(26.3)
Kona International Airport at Keahole	14,227	16,154	(11.9)
Lihue Airport	13,474	16,999	(20.7)
Hilo International Airport	8,472	10,784	(21.4)
Total signatory airlines	128,525	136,685	(6.0)
Nonsignatory airlines	923	947	(2.5)
Total revenue passenger landings	129,448	137,632	(5.9)
Deplaning international passengers:			
Honolulu International Airport	1,528,587	1,726,243	(11.5)
Kona International Airport at Keahole	67,511	70,271	(3.9)
Total signatory airlines	1,596,098	1,796,514	(11.2)
Nonsignatory airlines	118,762	115,306	3.0
Total deplaning international passengers	1,714,860	1,911,820	(10.3)

Financial Operations Highlights

The financial results for fiscal year 2009 reflected a loss before capital contributions of $58.0 million as compared to a loss before capital contributions of $48.7 million for fiscal year 2008. Operating revenues increased by $21.3 million, or 8.7%, while operating expenses increased by $1.9 million, or 0.6%. Total nonoperating revenues decreased by $22.9 million mainly due to decreases in federal operating grants and interest income amounting $18.2 million and $15.5 million, respectively, offset by increases in rental car customer facility charges of $8.5 million and PFCs of $3.0 million.

The financial results for fiscal year 2008 reflected a loss before capital contributions of $48.7 million as compared with a loss before capital contributions of $17.3 million for fiscal year 2007. Operating revenues increased by $10.9 million, or 4.7%, while operating expenses increased by $29.4 million, or 10.0%. Total nonoperating revenues increased by $2.2 million mainly due to increases in federal operating grants amounting $5.0 million offset by decreases in interest income of $1.5 million and PFCs of $1.3 million.

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Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect a $3.00 PFC at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport through February 1, 2007. During this period, the Airports Division was able to collect the maximum approved PFC revenue, including interest earned amounting to $42,632,466. The PFC collections are currently utilized to fund flight information display and public address system improvements, air conditioning system improvements, South Ramp environmental compliance measures, runway safety area improvements, perimeter road improvements and fencing, and general aviation lighting projects.

Effective February 1, 2007, the FAA approved the Airports Division's PFC Application No. 2 to impose a $3.00 PFC at the airports mentioned above with the addition of Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 1, 2007 and July 1, 2011 (amended from July 1, 2011 to November 30, 2008) from the five principal airports was amended from $104,458,000 to $62,500,000 as of June 30, 2009. The maximum amount of $62,500,000 was further amended to $49,560,000 as of November 30, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and fire fighting facilities improvements, elevator improvements, loading bridge replacements, air conditioning system improvements, and PFC administration costs.

Effective December 1, 2008, the FAA approved the Airports Division's PFC Application No. 3 to impose an increased PFC from $3.00 to $4.50 at Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport. This application was "blended" with PFC Application No. 2 ($49,560,000) amounting to a maximum approved PFC revenue of $76,138,332 (combining PFC Application Nos. 2 and 3) including interest earned during the collection period of December 1, 2008 through January 1, 2010. The collections will be utilized for the same improvements in PFC Application No. 2 in addition to widening taxiways G and L at the Honolulu International Airport.

The Airports Division has prepared the notice of intent for PFC Application No. 4 for the eligible "pay-go" projects totaling approximately $160 million. It is anticipated the application will be approved before the January 1, 2010 charge expiration date for PFC Application No. 3.

On June 24, 2009, House Bill No. 1166 amended Hawaii Revised Statute Section 261-5.5 allowing the Airports Division the flexibility of financing capital projects with the proceeds of bonds that would be completely or partially backed by PFCs. This statute would be implemented dependent on FAA approval through another application request, which is currently being prepared by the Airports Division.

Since the inception of this program through June 30, 2009, the total PFC revenues, including interest earned, and expenditures were $108.6 million and $39.9 million, respectively.

On July 8, 2008, State Legislative Senate Bill 2365 became law as Act 226 Session Law of Hawaii 2008, authorizing the Airports Division to impose a CFC of $1 a day on all u-drive rentals at a state airport, effective September 1, 2008. Moneys collected through the CFC are deposited into a restricted fund to be used for enhancement, renovation, operation, and maintenance of existing rental motor vehicle customer facilities and the development of new rental motor vehicle customer facilities and related services at state airports to better serve Hawaii's visitors and residents.

Since September 1, 2008 through June 30, 2009, the total CFC revenues, including interest earned, were $8.6 million. No expenditures were incurred.

Operating expenses before depreciation for fiscal year 2009 decreased by 2.5%, or $6.2 million, as compared to fiscal year 2008 mainly due to decreases in special maintenance and bad debt expense offset by increases in salaries and wages, other personnel services, and repair and maintenance costs.

Operating expenses before depreciation for fiscal year 2008 increased by 15.0%, or $31.5 million, as compared to fiscal year 2007 mainly due to increases in salaries and wages, other personnel services (security), utilities, bad debt expense, and repair and maintenance costs.

Total nonoperating expenses for fiscal years 2009 and 2008 increased by 11.3%, or $5.9 million, and 40.8%, or $15.1 million, respectively, as compared with the previous years mainly due to losses on the amounts held in State Treasury. The Airports Division wrote down its amounts held in State Treasury by $26.6 million and $19.9 million in fiscal years 2009 and 2008, respectively.

During fiscal year 2006, the Airports Division recorded the acquisition of seven buildings upon the expiration of land lease agreements and Hickam land that was donated by the United States government amounting to $46.4 million. During fiscal year 2008, the Airports Division recorded the acquisition of a heliport and office space upon the expiration of land lease agreements amounting to $3.1 million.

As a result, net assets decreased by $8.5 million and $16.7 million for fiscal years 2009 and 2008, respectively.

In summary, Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. Despite the steady income stream from the Airports Division's diverse mix of operational revenue sources, reduced passenger traffic due to the current economic downturn required the Airports Division to implement increases in signatory airline fees in order to sustain decreases in concession revenues, interest income, and federal operating grants this past fiscal year. In addition, the Airports Division management team was instrumental in implementing operational cost savings measures relating mainly to personnel, security, and utility cost.

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A summary of operations and changes in net assets for the years ended June 30, 2009, 2008, and 2007 is as follows:

	2009	2008	2007
Operating revenues	$ 265,675,867	244,377,274	233,433,057
Operating expenses, excluding depreciation	(235,529,577)	(241,684,888)	(210,215,030)
Operating income before depreciation	30,146,290	2,692,386	23,218,027
Depreciation	(88,599,854)	(80,570,580)	(82,631,333)
Operating loss	(58,453,564)	(77,878,194)	(59,413,306)
Nonoperating revenues – net	411,170	29,165,607	42,137,688
Loss before capital contributions	(58,042,394)	(48,712,587)	(17,275,618)
Capital contributions:			
Federal capital grants	48,801,935	28,881,614	51,380,310
Other capital contribution	747,067	3,091,250	—
Total capital contributions	49,549,002	31,972,864	51,380,310
Increase (decrease) in net assets	$ (8,493,392)	(16,739,723)	34,104,692

- Operating revenues increased by 8.7% from $244.4 million in fiscal year 2008 to $265.7 million in fiscal year 2009. The primary reason for the increase was mainly due to signatory airline landing and terminal rate increases.

  Operating expenses excluding depreciation decreased by 2.5% from $241.7 million in fiscal year 2008 to $235.5 million in fiscal year 2009. The most recognized increase last year related to utility costs due to the rise in price of fuel. However, in fiscal year 2009, utility cost decreased by $0.7 million due to the decrease in fuel cost midway through the fiscal year along with installing energy-efficient air conditioning units, lighting equipment, and shut down of certain terminals when not in use supported the stabilization of utility cost.

  Salaries and wages increased by $3.4 million as a result of negotiated union contract pay raises and security contracts mirroring State employee union contracts, respectively. However, personnel costs were stabilized by freezing vacated positions. Other personnel costs increased by $5.4 million but were stabilized as a result of decreasing guard services through re-evaluation of security requirements due to decreased passenger traffic. These reductions were made in accordance with the Transportation Security Administration requirements and did not compromise airport security. Special maintenance expenses decreased by $10.0 million due to reduced special maintenance activity. Bad debt expense decreased by $3.9 million since there were no indications of further tenant and customer default.

The net results of the above resulted in operating income before depreciation of $30.1 million in fiscal year 2009. Operating income before depreciation for fiscal year 2009 increased by 1,019.7%, or $27.5 million, from fiscal year 2008. Depreciation expense increased by 9.9% from $80.6 million in fiscal year 2008 to $88.6 million in fiscal year 2009 due to an increase in capital assets. The operating loss before nonoperating revenues, net and capital contributions of $58.5 million in fiscal year 2009 represent a 24.9% decrease from the operating loss before nonoperating revenues, net and capital contributions of $77.9 million in fiscal year 2008.

Operating revenues increased by 4.7% from $233.4 million in fiscal year 2007 to $244.4 million in fiscal year 2008. The primary reasons for the increases were mainly due to rate increases related to increases in aeronautical rental rates. Aviation fuel taxes increased to $4.5 million in fiscal year 2008 as a result of increasing the tax from one to two cents per gallon. The tax on aviation fuel was one cent per gallon since May 1, 1962. On June 26, 2007, House Bill 1757 (Act 209) was signed into law increasing the tax to two cents per gallon effective July 1, 2007.

Operating expenses excluding depreciation increased by 15.0% from $210.2 million in fiscal year 2007 to $241.7 million in fiscal year 2008. The primary reasons for the increases were due to increases in salaries and wages of $10.8 million as a result of negotiated union contract pay raises and new accounting pronouncements related to postemployment benefit liabilities, other personnel services of $5.4 million mainly due to security costs mirroring State employee union contracts, utilities expenses of $8.6 million affected by rising fuel costs, bad debt expense of $4.0 million mainly due to the bankruptcies of Aloha Airlines, Inc. and ATA Airlines, Inc., and repairs and maintenance costs of $1.4 million to maintain the functionability of our facilities.

The net results of the above resulted in operating income before depreciation of $2.7 million in fiscal year 2008. However, operating income before depreciation for fiscal year 2008 decreased by 88.4%, or $20.5 million, from fiscal year 2007. Depreciation expense decreased by 2.5% from $82.6 million in fiscal year 2007 to $80.6 million in fiscal year 2008 due to the disposal of assets in the current year and a greater percentage of capital assets being construction-in-progress (CIP). The operating loss before nonoperating revenues, net and capital contributions of $77.9 million in fiscal year 2008 represent a 31.1% increase from the operating loss before nonoperating revenues, net and capital contributions of $59.4 million in fiscal year 2007.

- Nonoperating revenues, net decreased by 98.6%, or $28.8 million, in fiscal year 2009 primarily due to an increase in the loss on amounts held in State Treasury and decreases in interest income and federal operating grants offset by increases in passenger facility charges and rental car customer facility charges and decreases in interest expense. The loss on amounts held in State Treasury increased by $6.6 million. Interest income decreased by $15.5 million due to lower investment rates of return and the use of cash for the CIP projects. Federal operating grants decreased by 72.9% or $18.2 million as grants were utilized for capital improvement projects instead. Passenger facility charges increased by 14.9%, or $3.0 million, as a result of raising the PFC collection rate to $4.50 from $3.00. However, the increase was subdued as a result of decreased passenger traffic. Rental car customer facility charges amounted to $8.5 million and reflected a 100% increase since this charge was implemented effective September 1, 2008. Airports system revenue bond interest expense decreased by $5.5 million as a result of principal payments.

- Nonoperating revenues, net decreased by 30.8%, or $13.0 million, in fiscal year 2008, primarily due to losses in the amounts held in State Treasury in 2008, increases in federal operating grants, and decreases in interest expense. Federal operating grants increased by 24.9%, or $5.0 million, in fiscal year 2008 due to reimbursements received in fiscal year 2008 from applications submitted as a result of the Airports Division regaining its eligibility in fiscal year 2004 to apply for federal discretionary grants. Airports system revenue bond interest expense decreased by $4.7 million in fiscal year 2008 as a result of principal payments. In addition, the Airports Division wrote down its amounts held in State Treasury by $20.0 million in fiscal year 2008.
- Loss before capital contributions for fiscal year 2009 of $58.0 million as compared with loss before capital contributions of $48.7 million for fiscal year 2008 was a result of a decrease in nonoperating revenues – net.
- Loss before capital contributions for fiscal year 2008 of $48.7 million as compared with loss before capital contributions of $17.3 million for fiscal year 2007 was a result of an increase in operating expenses.
- Capital contributions increased by 55.0%, or $17.6 million, and decreased 37.8%, or $19.4 million, in fiscal years 2009 and 2008, respectively, mainly due to the increase of federal capital grants in fiscal year 2009 and decrease in federal capital grants in fiscal year 2008.

Financial Position Summary

A condensed summary of the Airports Division's net assets at June 30, 2009, 2008, and 2007 is shown below:

	2009	2008	2007
Assets:			
Current assets:			
Unrestricted assets	$ 376,703,470	479,292,741	551,383,428
Restricted assets	260,712,901	263,507,383	277,969,200
Noncurrent assets:			
Capital assets	1,617,928,949	1,535,613,752	1,485,773,891
Restricted assets	34,987,408	36,094,866	37,141,975
Other noncurrent assets	2,627,294	3,047,815	3,480,415
Total assets	2,292,960,022	2,317,556,557	2,355,748,909
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	51,378,877	46,452,432	43,968,110
Payable from restricted assets	52,311,833	55,565,308	60,110,609
Long-term liabilities, net of current portion	617,993,896	633,104,136	652,495,786
Total liabilities	721,684,606	735,121,876	756,574,505
Net assets:			
Invested in capital assets – net of related debt	1,030,743,140	955,900,642	881,703,354
Restricted	255,804,547	230,216,845	237,469,809
Unrestricted	284,727,729	396,317,194	480,001,241
Total net assets	$ 1,571,275,416	1,582,434,681	1,599,174,404

The largest portion of the Airports Division's net assets (65.6%, 60.4%, and 55.1% at June 30, 2009, 2008, and 2007, respectively) represents its investments in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net assets (16.3%, 14.5%, and 14.8% at June 30, 2009, 2008, and 2007, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate), as well as PFCs that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $336.7 million, $451.0 million, and $528.5 million at June 30, 2009, 2008, and 2007, respectively. The $336.7 million cash balance at June 30, 2009 provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net assets may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by $1,571.3 million and $1,582.4 million at June 30, 2009 and 2008, respectively, representing a decrease of $11.2 million and $16.7 million from June 30, 2008 and 2007, respectively.

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

The DOT entered into an airport-airline lease agreement with the signatory airlines to provide those airlines with the nonexclusive right to use the airports system facilities, equipment improvements, and services, in addition to occupying certain exclusive-use premises and facilities. These leases were set to expire in 1992 but were extended under various short-term agreements.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The lease extension agreement's residual rate-setting methodology provided for a final year-end reconciliation containing actual airports system cost data to determine whether airports system charges assessed to the signatory airlines were sufficient to recover airports system costs, including debt service requirements. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement and various agreements between the DOT and airlines since June 30, 1997.

In October 2007, the Airports Division and a majority of the signatory airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the airport-airline lease agreement were amended to reflect a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. An airports system support charge cost center is set up to serve as the residual cost center to ensure airports system operating revenues are sufficient to cover airports system operating costs.

The Airports Division is in the process of implementing a modernization program that 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 $1.3 billion through 2016 and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the First Amended Lease Extension Agreement, which provides for an automatic extension on a quarterly basis unless either party provides 60 days written notice of termination to the other party.

Revenues

A summary of revenues for the years ended June 30, 2009 and 2008 and the amount and percentage of change in relation to prior year amounts is as follows:

	2009		Increase (decrease) from 2008	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating revenues:				
Concession fees:				
Duty free	$ 38,000,000	11.7%	$ —	—%
Other concessions	76,062,511	23.5	(7,854,921)	(9.4)
Airport landing fees	60,573,900	18.7	23,621,181	63.9
Aeronautical rentals:			—	
Exclusive-use premise charge	35,117,763	10.8	1,204,065	3.6
Nonexclusive joint-use premise charge	35,062,741	10.8	5,901,040	20.2
Nonaeronautical rentals	12,305,546	3.8	(357,965)	(2.8)
Other	8,553,406	2.6	(1,214,807)	(12.4)
Total operating revenues	265,675,867	81.9	21,298,593	8.7
Nonoperating revenues:				
Interest income, investments	16,149,558	5.0	(15,528,316)	(49.0)
Interest income, passenger facility charges	1,427,237	0.5	(677,121)	(32.2)
Interest income, rental car customer facility charges	66,716	—	66,716	100.0
Interest income, direct financing leases	2,249,798	0.7	(85,650)	(3.7)
Federal operating grants	6,757,871	2.1	(18,200,459)	(72.9)
Passenger facility charges	23,359,258	7.2	3,020,562	14.9
Rental car customer facility charges	8,541,445	2.6	8,541,445	100.0
Total nonoperating revenues	58,551,883	18.1	(22,862,823)	(28.1)
Total revenues	$ 324,227,750	100.0	$ (1,564,230)	(0.5)

	2008		Increase (decrease) from 2007	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating revenues:				
Concession fees:				
Duty Free	$ 38,000,000	11.7%	$ 631,472	1.7%
Other concessions	83,917,432	25.8	596,410	0.7
Airport landing fees	36,952,719	11.3	(1,096,616)	(2.9)
Aeronautical rentals:				
Exclusive-use premise charge	33,913,698	10.4	4,315,727	14.6
Nonexclusive joint-use premise charge	29,161,701	9.0	3,366,652	13.1
Nonaeronautical rentals	12,663,511	3.9	305,600	2.5
Other	9,768,213	3.0	2,824,972	40.7
Total operating revenues	244,377,274	75.0	10,944,217	4.7
Nonoperating revenues:				
Interest income, investments	31,677,874	9.7	(1,744,047)	(5.2)
Interest income, passenger facility charges	2,104,358	0.6	363,507	20.9
Interest income, direct financing leases	2,335,448	0.7	(82,733)	(3.4)
Federal operating grants	24,958,330	7.7	4,975,152	24.9
Passenger facility charges	20,338,696	6.3	(1,330,791)	(6.1)
Total nonoperating revenues	81,414,706	25.0	2,181,088	2.8
Total revenues	$ 325,791,980	100.0	$ 13,125,305	4.2

(Continued)

Expenses

A summary of expenses for the years ended June 30, 2009 and 2008 and the amount and percentage of change in relation to prior year amounts is as follows:

	2009		Increase (decrease) from 2008	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 75,395,510	19.7%	$ 3,405,916	4.7%
Other personnel services	56,493,315	14.8	4,903,784	9.5
Utilities	34,200,183	8.9	(674,956)	(1.9)
Special maintenance	21,508,240	5.6	(11,477,805)	(34.8)
Repairs and maintenance	17,299,871	4.5	3,119,053	22.0
State of Hawaii surcharge on gross receipts	10,743,534	2.8	(142,761)	(1.3)
Materials and supplies	5,617,616	1.5	(30,036)	(0.5)
Department of Transportation general administration expenses	4,839,148	1.3	(12,964)	(0.3)
Insurance	4,121,188	1.1	(127,149)	(3.0)
Disbursements out of major maintenance, renewal, and replacement account	1,912,761	0.5	(560,570)	(22.7)
Bad debt expense	47,443	—	(3,920,476)	(98.8)
Other	3,350,768	0.9	(637,347)	(16.0)
Total operating expenses before depreciation	235,529,577	61.6	(6,155,311)	(2.5)
Depreciation	88,599,854	23.2	8,029,274	10.0
Total operating expenses	324,129,431	84.8	1,873,963	0.6
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	24,067,476	6.3	(5,459,952)	(18.5)
Special facility	2,249,798	0.6	(85,650)	(3.7)
General obligation bonds	905	—	(280)	(23.6)
Loss on amounts held in State Treasury	26,576,132	6.9	6,624,104	33.2
Loss on disposal of capital assets	4,840,412	1.3	4,830,003	46,402.2
Other	405,990	0.1	(16,611)	(3.9)
Total nonoperating expenses	58,140,713	15.2	5,891,614	11.3
Total expenses	$ 382,270,144	100.0	$ 7,765,577	2.1

(Continued)

	2008		Increase (decrease) from 2007	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 71,989,594	19.2%	$ 10,785,742	17.6%
Other personnel services	51,589,531	13.8	5,444,266	11.8
Utilities	34,875,139	9.3	8,617,795	32.8
Special maintenance	32,986,045	8.8	(571,754)	(1.7)
Repairs and maintenance	14,180,818	3.8	1,377,616	10.8
State of Hawaii surcharge on gross receipts	10,886,295	2.9	1,121,507	11.5
Materials and supplies	5,647,652	1.5	1,127,362	24.9
Department of Transportation general administration expenses	4,852,112	1.3	(871,728)	(15.2)
Insurance	4,248,337	1.1	230,431	5.7
Bad debt expense	3,967,919	1.1	3,967,919	100.0
Disbursements out of major maintenance, renewal, and replacement account	2,473,331	0.7	(1,015,540)	(29.1)
Other	3,988,115	1.1	1,256,242	46.0
Total operating expenses before depreciation	241,684,888	64.6	31,469,858	15.0
Depreciation	80,570,580	21.5	(2,060,753)	(2.5)
Total operating expenses	322,255,468	86.1	29,409,105	10.0
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	29,527,428	7.9	(4,666,430)	(13.6)
Special facility	2,335,448	0.6	(82,733)	(3.4)
General obligation bonds	1,185	—	(524)	(30.7)
Loss on amounts held in State Treasury	19,952,028	5.3	19,952,028	100.0
Loss on disposal of capital assets	10,409	—	(33,423)	(76.3)
Other	422,601	0.1	(15,749)	(3.6)
Total nonoperating expenses	52,249,099	13.9	15,153,169	40.8
Total expenses	$ 374,504,567	100.0	$ 44,562,274	13.5

(Continued)

Capital Acquisitions and Construction Activities

In fiscal years 2009 and 2008, there were 11 and 24 construction bid openings, respectively, totaling an estimated \$72 million and \$184 million, respectively, in potential construction contracts. Significant projects in fiscal year 2009 include the Apron Pavement Structural Improvements at Kahului Airport; Parking Lot Improvements, Phase III and South Terminal New Baggage Carousel at Kona International Airport at Keahole; Replacement of Passenger Loading Bridges, Phase III and Air Conditioning Modifications, Phase II, and Overseas Terminal Chiller Plant at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2009, which were under construction during the fiscal year. Major projects include the Air Conditioning System Replacement at Hilo International Airport, Holdroom Shelters and Additional Security Lane at Kona International Airport at Keahole, Baggage Claim Improvements, Phase II at Lihue Airport, and the Third Level Sterile Corridor, EDS Integration Improvements, Phase II, and Interisland Maintenance Facility Site Preparation at Honolulu International Airport.

Finally, there were nine construction projects that were substantially completed in fiscal year 2009. These projects totaled over \$89 million and include the Airfield Lights and Sign Replacement at Lihue Airport; Electrical Vault for EDS Integration Improvements at Kahului Airport; and the EDS Integration Improvements Phase I, Replacement of Passenger Loading Bridges – Phase II, Environment Compliance Measures, International Parking Structure, OST Water Quality Management, and Noise Monitoring System Phase I and II at Honolulu International Airport.

Additional information on the Airports Division's capital assets can be found in note 4 of this report.

Indebtedness

Airports System Revenue Bonds and Reimbursable General Obligation Bonds

As of June 30, 2009, \$589,740,000 of airports system revenue bonds were outstanding as compared to \$610,880,000 as of June 30, 2008. The last series of "new money" bonds used to fund capital improvement projects were issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. At June 30, 2009, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was \$590,065,802.

As of June 30, 2009, \$0 of reimbursable general obligation bonds issued for the airports system were outstanding compared to \$28,275 as of June 30, 2008.

These bonds are general obligations of the State, but since the proceeds were used to finance improvements to the airports system, the Airports Division is required to reimburse the State's general fund for the payment of the principal and interest on such bonds. The State does not presently intend to issue additional reimbursable general obligation bonds for the airports system.

On September 1, 2008, the Airports Division fully paid its reimbursable general obligation bonds.

Special Obligation Bonds

The State Legislature has authorized $200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2009 and 2008, there were outstanding bond obligations of $34,755,000 and $35,855,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

Additional information regarding the Airports Division's indebtedness can be found in notes 5, 6, 7, and 8 of this report.

Credit Rating and Bond Insurance

As of June 30, 2009, there were three series of airports system revenue bonds outstanding in the principal amount of $589,740,000. Payment of principal and interest on all three series of bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The credit ratings of FGIC have been revised downward since the issuance of the bonds. As of June 30, 2009, the ratings for the airports system were as follows:

Standard & Poor's Corporation:	A-
Moody's Investors Service:	A-2
Fitch IBCA, Inc.:	A

Economic Factors and Current Known Facts

The Airports Division has launched plans to modernize airport facilities over the next seven years. The most noticeable project is the parking structure adjacent to the interisland terminal at the Honolulu International Airport, which was completed in late March 2009. Other projects include new and renovated concourses, support facilities, and parking terminals at other principal airports. Such projects will improve traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

The Airports Division and current signatory airline carriers have agreed to an amended lease extension agreement effective January 1, 2008. The agreement is intended for the airline carriers to support the increase in operational expenses and financing of modernization projects. In order to finance the modernization projects, the Airports Division is planning for a bond sale in the first quarter of calendar year 2010.

As a result, the Airports Division has increased signatory airline fees, as well as continuing ongoing initiatives to maximize various concession revenues. In addition, under the amended lease agreement, landing fees and terminal rental rates will be calculated per an agreed formula, and airports system support charges will be reimposed and assessed to signatory airlines as needed.

Request for Information

This financial report is designed to provide a general overview of the Airports Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Brian Sekiguchi, Deputy Director, State of Hawaii, Department of Transportation, Airports Division, 400 Rodgers Boulevard, Suite 700, Honolulu, HI 96819-1880, or by e-mail to *airadministrator@hawaii.gov*.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statements of Net Assets

June 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Unrestricted assets:			
Cash and cash equivalents – unrestricted (note 3)	$	336,793,740	451,011,189
Receivables:			
Accounts, net of allowance of $4,775,202 and $4,853,567 for uncollectible accounts for 2009 and 2008, respectively		20,569,567	13,289,500
Promissory note receivable, net of allowance of $2,489,889 and $2,491,255 for uncollectible notes for 2009 and 2008, respectively (note 8)		—	324,886
Interest		6,030,469	2,225,733
Claims – federal grants		11,766,631	10,258,849
Aviation fuel tax		268,052	425,517
Due from State of Hawaii		1,039,192	1,489,240
Total receivables		39,673,911	28,013,725
Inventory of materials and supplies, at cost		235,819	267,827
Total unrestricted current assets		376,703,470	479,292,741
Restricted assets:			
Cash and cash equivalents (note 3):			
Revenue bond debt service (note 6)		103,389,685	104,766,211
Passenger facility charges (note 9)		65,705,687	48,676,025
Rental car customer facility charges (note 10)		7,682,365	—
Security deposits and customer advances		4,908,354	4,983,234
Revenue bond construction		—	28,307,304
Total cash and cash equivalents – restricted		181,686,091	186,732,774
Passenger facility charges receivable (note 9)		2,873,150	1,523,096
Rental car customer facility charges receivable (note 10)		902,147	—
Investments – revenue bond debt service reserve (notes 3 and 6)		75,251,513	75,251,513
Total restricted current assets		260,712,901	263,507,383
Total current assets		637,416,371	742,800,124
Noncurrent assets:			
Promissory note receivable (note 8)		108,469	123,000
Bond issue costs, net of accumulated amortization of $3,990,366 and $3,584,376 for 2009 and 2008, respectively (note 6)		2,518,825	2,924,815
Restricted assets – net investments in direct financing leases (note 8)		34,987,408	36,094,866
Capital assets, net of accumulated depreciation of $1,485,806,464 and $1,401,205,304 for 2009 and 2008, respectively (notes 4, 6, and 7)		1,617,928,949	1,535,613,752
Total noncurrent assets		1,655,543,651	1,574,756,433
Total assets		2,292,960,022	2,317,556,557

(Continued)

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statements of Net Assets

June 30, 2009 and 2008

Liabilities	**2009**	**2008**
Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	$ 10,485,318	8,742,694
Contracts payable, including retainage of $4,357,697 and $3,169,711 for 2009 and 2008, respectively	19,855,276	19,744,578
Current portion of workers' compensation (notes 5 and 15)	1,055,969	1,119,573
Current portion of compensated absences (note 5)	2,639,007	2,638,713
Current portion of postemployment liability (notes 5 and 12)	4,878,000	4,714,000
Deferred income (note 8)	4,854,314	3,997,328
Accrued wages	4,947,241	4,993,683
Due to State of Hawaii	550,000	—
Pollution remediation liability (note 16)	1,613,874	—
Prepaid airport use charge fund (notes 8 and 16)	463,926	463,926
Current portion of general obligation bonds (notes 5 and 7)	—	9,425
Other	35,952	28,512
Total payable from unrestricted assets	51,378,877	46,452,432
Payable from restricted assets:		
Contracts payable, including retainage of $2,562,477 and $1,583,469 for 2009 and 2008, respectively	7,130,616	11,016,632
Current portion of airports system revenue bonds (notes 5 and 6)	22,310,000	21,140,000
Current portion of special facility revenue bonds (notes 5 and 8)	1,230,000	1,100,000
Accrued interest	17,685,464	18,278,043
Security deposits	3,955,753	4,030,633
Total payable from restricted assets	52,311,833	55,565,308
Total current liabilities	103,690,710	102,017,740
Long-term liabilities – net of current portion:		
Airports system revenue bonds (notes 5 and 6)	564,875,809	586,852,139
Special facility revenue bonds (notes 5 and 8)	33,525,000	34,755,000
Compensated absences (note 5)	5,599,503	5,119,546
Workers' compensation (notes 5 and 15)	3,244,031	3,180,427
Postemployment liability (notes 5 and 12)	9,796,952	2,225,573
Customer advance (note 14)	952,601	952,601
General obligation bonds (notes 5 and 7)	—	18,850
Total liabilities	721,684,606	735,121,876
Net Assets		
Net assets:		
Invested in capital assets – net of related debt	1,030,743,140	955,900,642
Restricted:		
Debt service payment	39,763,058	39,177,951
Debt service reserve account	75,251,513	75,251,513
Major maintenance, renewal, and replacement account	63,626,627	65,588,260
Passenger facility charges	68,578,837	50,199,121
Rental car customer facility charges	8,584,512	—
Total restricted	255,804,547	230,216,845
Unrestricted	284,727,729	396,317,194
Commitments and contingencies (notes 6, 8, 11, 12, 13, 14, 15, 16, and 17)		
Total net assets	$ 1,571,275,416	1,582,434,681

See accompanying notes to financial statements.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Operating revenues (notes 6, 8, and 13):		
Concession fees	$ 114,062,511	121,917,432
Airport landing fees, net	60,573,900	36,952,719
Aeronautical rentals:		
Exclusive-use premise charges	35,117,763	33,913,698
Nonexclusive joint-use premise charges	35,062,741	29,161,701
Nonaeronautical rentals	12,305,546	12,663,511
Aviation fuel tax	3,548,705	4,452,232
Airports system support charges	873,520	617,257
Miscellaneous	4,131,181	4,698,724
Net operating revenues	265,675,867	244,377,274
Operating expenses (notes 4, 11, 12, 13, 15, and 16):		
Depreciation	88,599,854	80,570,580
Salaries and wages	75,395,510	71,989,594
Other personnel services	56,493,315	51,589,531
Utilities	34,200,183	34,875,139
Special maintenance	21,508,240	32,986,045
Repairs and maintenance	17,299,871	14,180,818
State of Hawaii surcharge on gross receipts	10,743,534	10,886,295
Materials and supplies	5,617,616	5,647,652
Department of Transportation general administration expenses	4,839,148	4,852,112
Insurance	4,121,188	4,248,337
Disbursements out of major maintenance, renewal, and replacement account	1,912,761	2,473,331
Claims and benefits	1,051,356	1,365,011
Rent	1,202,964	1,264,561
Travel	304,128	452,879
Communication	307,025	296,314
Dues and subscriptions	136,973	189,092
Bad debt expense	47,443	3,967,919
Printing and advertising	22,610	24,863
Freight and delivery	16,337	13,309
Miscellaneous	309,375	382,086
Total operating expenses	324,129,431	322,255,468
Operating loss, carried forward	(58,453,564)	(77,878,194)

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Operating loss, brought forward	$ (58,453,564)	(77,878,194)
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities (note 3)	16,149,558	31,677,874
Investments in direct financing leases (note 8)	2,249,798	2,335,448
Interest expense:		
Revenue bonds:		
Airports system (note 6)	(24,067,476)	(29,527,428)
Special facility (note 8)	(2,249,798)	(2,335,448)
General obligation bonds (note 7)	(905)	(1,185)
Federal operating grants	6,757,871	24,958,330
Loss on disposal of capital assets (note 4)	(4,840,412)	(10,409)
Passenger facility charges (note 9)	24,786,495	22,443,054
Rental car customer facility charges (note 10)	8,608,161	—
Amortization of deferred bond issue costs	(405,990)	(422,601)
Loss on amounts held in State Treasury	(26,576,132)	(19,952,028)
Total nonoperating revenues, net	411,170	29,165,607
Loss before capital contributions	(58,042,394)	(48,712,587)
Capital contributions:		
Federal capital grants	48,801,935	28,881,614
Other capital contributions (note 4)	747,067	3,091,250
Total capital contributions	49,549,002	31,972,864
Decrease in net assets	(8,493,392)	(16,739,723)
Total net assets – beginning of year, as restated (note 2)	1,579,768,808	1,599,174,404
Total net assets – end of year	$ 1,571,275,416	1,582,434,681

See accompanying notes to financial statements.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from providing services	$ 259,682,228	245,764,442
Cash paid to suppliers	(159,771,926)	(167,865,376)
Cash paid to employees	(67,226,322)	(64,385,601)
Net cash provided by operating activities	32,683,980	13,513,465
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	8,567,879	20,514,969
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(159,844,085)	(98,992,228)
Proceeds from sale of capital assets	—	17,305
Proceeds from federal and other capital grants and contributions	45,484,145	24,962,653
Interest paid on airports system revenue and general obligation bonds	(35,492,142)	(36,972,648)
Principal paid on general obligation bonds	(28,275)	(9,425)
Principal paid on airports system revenue bonds	(21,140,000)	(32,250,000)
Payments from passenger facility charges program	(6,406,779)	(19,393,753)
Proceeds from passenger facility charges program	23,436,441	24,220,409
Proceeds from rental car customer facility charges	7,706,014	—
Net cash used in capital and related financing activities	(146,284,681)	(138,417,687)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	89,443,013	107,741,739
Interest received on investments	12,344,822	34,110,563
Purchases of investments	(89,443,013)	(107,741,739)
Loss on amounts held in State Treasury	(26,576,132)	(19,952,028)
Net cash provided by (used in) investing activities	(14,231,310)	14,158,535
Net decrease in cash and cash equivalents	(119,264,132)	(90,230,718)
Cash and cash equivalents – beginning of year	637,743,963	727,974,681
Cash and cash equivalents – end of year	$ 518,479,831	637,743,963
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (58,453,564)	(77,878,194)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	88,599,854	80,570,580
Bad debt expense	47,443	3,967,919
Changes in operating assets and liabilities:		
Accounts receivable	(6,988,093)	(1,987,701)
Aviation fuel tax receivable	157,465	(236,205)
Due from State of Hawaii	450,048	(1,237,037)
Inventory of materials and supplies	32,008	(22,913)
Vouchers payable	1,742,624	1,810,919
Contracts payable	(1,360,540)	1,278,949
Deferred income	856,986	386,062
Accrued wages	433,809	664,420
Postemployment liability	7,735,379	6,939,573
Due to State of Hawaii	550,000	—
Pollution remediation liability	(1,051,999)	—
Prepaid airport use charge fund	—	(1,069,792)
Security deposits	(74,880)	327,210
Other	7,440	(325)
Net cash provided by operating activities	$ 32,683,980	13,513,465

(Continued)

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Supplemental information:			
Noncash investing, capital, and financing activities:			
The Airports Division's noncash capital and financing activities related to bonds payable included the following:			
Principal payments on special facility revenue bonds	$	1,100,000	1,040,000
Interest payments on special facility revenue bonds		2,257,256	2,342,556
Amortization of revenue bond issue costs		405,990	422,601
Amortization of revenue bond discount		60,471	60,806
Amortization of revenue bond premium		(1,273,660)	(1,306,846)
Amortization of deferred loss on refunding revenue bonds		1,546,859	1,611,975

At June 30, 2009 and 2008, contracts payable included $18,101,124 and $20,515,902, respectively, for the acquisition of capital assets.

During fiscal years 2009 and 2008, interest of $11,695,577 and $6,914,050, respectively, was capitalized in property, plant, and equipment.

During fiscal years 2009 and 2008, property, plant, and equipment with a net book value of $6,890,545 and $27,713, respectively, were written off.

During fiscal year 2008, buildings with a value of $3,091,250 were recorded for buildings acquired upon the expiration of land lease agreements.

See accompanying notes to financial statements.

(1) Reporting Entity

The Airports Division, Department of Transportation, State of Hawaii (the Airports Division), was established on July 1, 1961 to succeed the Hawaii Aeronautics Commission under the provisions of Act 1, Hawaii State Government Reorganization Act of 1959, Second Special Session Laws of Hawaii. The Airports Division has jurisdiction over and control of all State of Hawaii (the State) airports and air navigation facilities and general supervision of aeronautics within the State. The Airports Division currently operates and maintains 15 airports located throughout the State.

The accompanying financial statements present only the activities of the Airports Division and are not intended to present fairly the financial position of the State and the results of its operations and the cash flows of its proprietary fund type in conformity with U.S. generally accepted accounting principles.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Airports Division is accounted for as a proprietary fund, which uses the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type. An enterprise fund is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

(b) Financial Statement Presentation

The accompanying financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airports Division has elected not to apply the provisions of relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

(c) Operating Revenues and Expenses

Revenues from airlines, concessions, rental cars, and parking are reported as operating revenues. Transactions that are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the Airports Division are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses. Revenues from capital contributions are reported separately, after nonoperating revenues and expenses.

(d) Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $3.00 per passenger commencing on October 1, 2004. Effective December 31, 2008, the FAA authorized the Airports Division to increase the PFC to $4.50. The net

(Continued)

receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

(e) Rental Car Customer Facility Charge

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of $1 a day on all u-drive rentals at a state airport, effective September 1, 2008. The net receipts from CFCs are restricted to be used for funding approved rental car facility capital projects. CFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

(f) Capital Contributions

The Airports Division receives federal grants from the FAA through the Airport Improvement Program. The grant is considered earned as the related allowable expenditures are incurred. Grants for the acquisition and construction of land, property, and certain types of equipment are reported in the statements of revenues, expenses, and changes in net assets as capital contributions.

(g) Cash and Cash Equivalents

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

(h) Receivables

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

An aging of the accounts receivable at June 30, 2009 was as follows: current – $19,070,402; 30 days – $427,631; 60 days – $355,294; and over 90 days – $5,491,442. An aging of the accounts receivable at June 30, 2008 was as follows: current – $13,009,284; 30 days – $703,770; 60 days – $2,305,107; and over 90 days – $2,124,906.

(i) Investments

Investments consist primarily of certificates of deposit and repurchase agreements with a maturity of more than three months and less than one year when purchased. The carrying amounts approximate fair value because of the short maturity of the investments.

(j) Restricted Assets

Restricted assets consist of moneys and other resources, the use of which is legally restricted. Certain proceeds of the airports system revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net assets because they are maintained separately and the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to make debt service payments, unspent bond proceeds, amounts restricted for bond reserve requirements, unspent PFCs, unspent CFCs, and security deposits and customer advances.

(k) Capital Assets

Capital assets acquired by purchase or construction are recorded at cost. Contributed property is recorded at fair value at the date received. Buildings, improvements, and equipment are depreciated by the straight-line method over their estimated useful lives as follows:

Class of assets	Estimated useful lives	Capitalization threshold
Land improvements	20 years	$ 100,000
Buildings	45 years	100,000
Building improvements	20 years	100,000
Machinery and equipment	10 years	5,000

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

Repairs and maintenance, minor replacements, renewals, and betterments are charged against operations for the year. Major replacements, renewals, and betterments are capitalized in the year incurred. Interest cost is capitalized during the period of construction for all capital improvement projects except the portion of projects funded by grants from the federal government.

(l) Bond Issue Costs and Original Issue Discount or Premium and Deferred Loss on Refundings

Bond issue costs relating to the issuance of airports system revenue bonds are deferred and are amortized using the effective-interest method over the terms of the respective issues. Original issue discount or premium and deferred loss on refundings are amortized using the effective-interest method over the terms of the respective issues and are added to or offset against the long-term debt in the statements of net assets.

(Continued)

(m) Accrued Vacation and Compensatory Pay

The Airports Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences (such as employer payroll taxes and fringe benefits), in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of 168 or 240 hours per calendar year, depending upon job classification. Accumulation of such vacation credits is limited to 720 or 1,056 hours at calendar year-end and is convertible to pay upon termination of employment.

(n) Employees' Retirement System

The Airports Division's contributions to the Employees' Retirement System of the State of Hawaii (ERS) are based on the current contribution rate determined by the State Department of Budget and Finance. The Airports Division's policy is to fund its required contribution annually.

(o) Risk Management

The Airports Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division is self-insured for workers' compensation claims as discussed in note 14. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

(p) Use of Estimates

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

(q) Recently Adopted Governmental Accounting Pronouncements

Effective July 1, 2008, the Airports Division adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how state and local governments should account for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

The Airports Division restated beginning net assets with the adoption of GASB Statement No. 49 as follows:

Net assets at June 30, 2008, as previously reported	$	1,582,434,681
Effect of GASB Statement No. 49		(2,665,873)
Net assets at June 30, 2008, as restated	$	1,579,768,808

Effective July 1, 2007, the Airports Division adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses how state and local governments should account for and report their costs and obligations related to postemployment benefits, healthcare, and other nonpension benefits.

Effective July 1, 2007, the Airports Division adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets,* which requires additional disclosures related to pledged future revenues. The Airports Division has pledged future revenue including all aviation fuel taxes levied to repay the Airport System Revenue Bonds. These revenue bonds are payable solely from and collateralized solely by the revenues generated by the Airports Division including all aviation fuel taxes levied.

In accordance with the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds*, as amended (the Certificate), the Airports Division has pledged future revenues net of operation, maintenance and repair expenses, and certain adjustments (net revenues and taxes available for debt service) to repay $711,135,000 in revenue bonds issued in 2000 and 2001, and are payable through 2021. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $806,240,244. In fiscal year 2009, total debt service paid and net revenues and taxes available for debt service for the Airports Division were $56,046,116 and $68,991,330, respectively. See also note 6 for further discussion on the revenue bonds.

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2009 and 2008 consisted of the following:

		2009	2008
Petty cash	$	17,805	17,805
Amounts held in State Treasury		518,462,026	637,726,158
Repurchase agreements		52,789,337	56,952,787
Certificates of deposit		22,462,176	18,298,726
	$	593,731,344	712,995,476

Such amounts are reflected in the statements of net assets at June 30, 2009 and 2008 as follows:

		2009	2008
Cash and cash equivalents:			
Unrestricted	$	336,793,740	451,011,189
Restricted		181,686,091	186,732,774
Total cash and cash equivalents		518,479,831	637,743,963
Investments – restricted		75,251,513	75,251,513
Total cash and cash equivalents and investments	$	593,731,344	712,995,476

(a) Amounts Held in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2009 and 2008, the amount reported as amounts held in State Treasury reflects the Airports Division's relative position in the State's investment pool and amounted to $518,462,026 and $637,726,158, respectively. The Airports Division wrote down its amounts held in State Treasury by $26,576,132 and $19,952,028 during the year ended June 30, 2009 and 2008, respectively.

The State Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury (investment pool). The State Director of Finance may invest any moneys of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions.

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being undercollateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

The Airports Division's share of the State's investment pool, as summarized in the table below, is 45% at June 30, 2008 (amounts in thousands):

		Maturity (in years)		
	Fair value	**Less than 1**	**1 – 5**	**>5**
Investments – Primary Government:				
Student loan auction rate securities	$ 610,052	—	—	610,052
Certificates of deposit	94,897	94,897	—	—
U.S. government securities	637,164	152,920	484,244	—
Repurchase agreements	13,557	13,150	407	—
	$ 1,355,670	260,967	484,651	610,052
Investments – Fiduciary Funds:				
Student loan auction rate securities	$ 28,925	—	—	28,925
Certificates of deposit	4,499	4,499	—	—
U.S. government securities	40,110	9,626	30,484	—
Repurchase agreements	643	623	20	—
	$ 74,177	14,748	30,504	28,925

Information relating to the State's investment pool at June 30, 2009 will be included in the comprehensive annual financial report of the State when issued.

(b) Investments

At June 30, 2009 and 2008, the Airports Division's investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.

Interest Rate Risk

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

Credit Risk

The Airports Division follows the State's policy of limiting its investments to investments in state and U.S. Treasury securities, certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Airports Division or the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Airports Division's and the State's investments are held at broker/dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the Airports Division and the State require the institutions to set aside, in safekeeping, certain types of securities to collateralize repurchase agreements. The Airports Division and the State monitor the market value of these securities and obtain additional collateral when appropriate.

(4) Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 consist of the following:

	Balance, July 1, 2008	Increases	Decreases	Transfers	Balance, June 30, 2009
Capital assets not being depreciated:					
Land	$ 308,438,655	—	—	—	308,438,655
Land improvements	26,481,609	—	—	—	26,481,609
Construction in progress	219,130,985	169,945,733	(5,430,923)	(148,729,547)	234,916,248
Total capital assets not being depreciated	554,051,249	169,945,733	(5,430,923)	(148,729,547)	569,836,512
Capital assets being depreciated:					
Land improvements	783,587,151	—	—	24,743,253	808,330,404
Buildings and improvements	1,424,760,297	—	(4,312,954)	99,051,556	1,519,498,899
Machinery and equipment	174,420,359	7,956,179	(1,277,890)	24,970,950	206,069,598
Total capital assets being depreciated	2,382,767,807	7,956,179	(5,590,844)	148,765,759	2,533,898,901
Less accumulated depreciation:					
Land improvements	(570,338,989)	(28,991,113)	—	—	(599,330,102)
Buildings and improvements	(694,249,154)	(51,245,110)	2,934,339	—	(742,559,925)
Machinery and equipment	(136,617,161)	(8,363,631)	1,196,884	(132,529)	(143,916,437)
Total depreciation	(1,401,205,304)	(88,599,854)	4,131,223	(132,529)	(1,485,806,464)
Capital assets being depreciated, net	981,562,503				1,048,092,437
Total capital assets	$ 1,535,613,752				1,617,928,949

(Continued)

	Balance, July 1, 2007	Increases	Decreases	Transfers	Balance, June 30, 2008
Capital assets not being depreciated:					
Land	$ 308,438,655	—	—	—	308,438,655
Land improvements	26,481,609	—	—	—	26,481,609
Construction in progress	168,922,521	119,178,799	—	(68,970,335)	219,130,985
Total capital assets not being depreciated	503,842,785	119,178,799	—	(68,970,335)	554,051,249
Capital assets being depreciated:					
Land improvements	758,469,005	335,447	—	24,782,699	783,587,151
Buildings and improvements	1,378,017,618	3,091,250	—	43,651,429	1,424,760,297
Machinery and equipment	192,690,538	7,834,148	(26,643,197)	538,870	174,420,359
Total capital assets being depreciated	2,329,177,161	11,260,845	(26,643,197)	68,972,998	2,382,767,807
Less accumulated depreciation:					
Land improvements	(544,414,491)	(25,924,498)	—	—	(570,338,989)
Buildings and improvements	(646,393,903)	(47,855,251)	—	—	(694,249,154)
Machinery and equipment	(156,437,661)	(6,790,831)	26,615,484	(4,153)	(136,617,161)
Total depreciation	(1,347,246,055)	(80,570,580)	26,615,484	(4,153)	(1,401,205,304)
Capital assets being depreciated, net	981,931,106				981,562,503
Total capital assets	$ 1,485,773,891				1,535,613,752

During fiscal year 2008, the Airports Division acquired two properties for $3,091,250 upon expiration of land lease agreements at the Kahului Airport.

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2009 and 2008 follows:

	Balance, June 30, 2008	Increases	Decreases	Balance, June 30, 2009	Current	Noncurrent
Workers' compensation (note 14)	$ 4,300,000	1,037,470	(1,037,470)	4,300,000	1,055,969	3,244,031
Compensated absences	7,758,259	4,363,003	(3,882,752)	8,238,510	2,639,007	5,599,503
Postemployment liability (note 11)	6,939,573	12,101,135	(4,365,756)	14,674,952	4,878,000	9,796,952
General obligation bonds (note 7)	28,275	—	(28,275)	—	—	—
Airports system revenue bonds (note 6)	607,992,139	1,607,330	(22,413,660)	587,185,809	22,310,000	564,875,809
Special facility revenue bonds (note 8)	35,855,000	—	(1,100,000)	34,755,000	1,230,000	33,525,000
	$ 662,873,246	19,108,938	(32,827,913)	649,154,271	32,112,976	617,041,295

	Balance, June 30, 2007	Increases	Decreases	Balance, June 30, 2008	Current	Noncurrent
Workers' compensation (note 14)	$ 4,200,000	1,214,992	(1,114,992)	4,300,000	1,119,573	3,180,427
Compensated absences	7,595,074	4,161,943	(3,998,758)	7,758,259	2,638,713	5,119,546
Postemployment liability (note 11)	—	6,939,573	—	6,939,573	4,714,000	2,225,573
General obligation bonds (note 7)	37,700	—	(9,425)	28,275	9,425	18,850
Airports system revenue bonds (note 6)	639,876,204	1,672,781	(33,556,846)	607,992,139	21,140,000	586,852,139
Special facility revenue bonds (note 8)	36,895,000	—	(1,040,000)	35,855,000	1,100,000	34,755,000
	$ 688,603,978	13,989,289	(39,720,021)	662,873,246	30,721,711	632,151,535

(6) Airports System Revenue Bonds

In 1969, the Director issued the Certificate under which $40,000,000 of revenue bonds were initially authorized for issuance. Subsequent issues of revenue bonds were covered by First through Twenty-Eighth supplemental certificates to the original 1969 Certificate.

Certain amendments to the Certificate contained in the Twenty-Sixth Supplemental Certificate took effect contemporaneously with the Twenty-Seventh Supplemental Certificate and delivery of the Airports System Revenue Bonds, Refunding Series of 2001. Other amendments, which required the consent of 100% of the bondholders, took effect as of June 30, 2004 with the issuance of the Airports System Revenue Bonds, Refunding Series of 2003.

These revenue bonds are payable solely from and are collateralized solely by the revenues generated by the Airports Division including all aviation fuel taxes levied. The amended Certificate established an order of priority for the appropriation, application, or expenditure of these revenues as follows:

a. To pay or provide for the payment of the costs of operation, maintenance, and repair of airport properties

b. To pay when due all bonds and interest. Payment shall be provided from the following accounts:

   1. Interest account

   2. Serial bond principal account

   3. Sinking fund account

   4. Debt service reserve account

c. To fund the major maintenance, renewal, and replacement account

d. To reimburse the State General Fund for general obligation bond requirements

e. To provide for betterments and improvements to the airports

f. To provide such special reserve funds and other special funds as created by law

g. To provide for any other purpose connected with or pertaining to the bonds or the airports authorized by law

The amended Certificate requires that the Airports Division impose, prescribe, and collect revenues that, together with unencumbered funds, will yield net revenues and taxes at least equal to 1.25 times the total interest, principal, and sinking fund requirements for the ensuing 12 months. The Airports Division is also required to maintain adequate insurance on its properties.

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal, and replacement accounts (collectively referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2009 and 2008, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2009 and 2008, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net assets) consisted of the following:

	2009	2008
Debt service reserve account	$ 75,251,513	75,251,513
Major maintenance, renewal, and replacement account	63,626,627	65,588,260
	138,878,140	140,839,773
Principal and interest due July 1	39,763,058	39,177,951
	$ 178,641,198	180,017,724

At June 30, 2009 and 2008, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $590,065,802 and $321,122,655, respectively.

The revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2009 and 2008:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount 2009	Outstanding amount 2008
2000A, refunding	5.50% – 6.00%	2021	$ 26,415,000	26,415,000	26,415,000
2000B, refunding	5.00 – 6.00	2020	261,465,000	207,830,000	219,125,000
2001, refunding	4.00 – 5.75	2021	423,255,000	355,495,000	365,340,000
			$ 711,135,000	589,740,000	610,880,000
Add unamortized premium				7,717,601	8,991,261
Less unamortized discount				(618,796)	(679,267)
Less deferred loss on refunding				(9,652,996)	(11,199,855)
Less current portion				(22,310,000)	(21,140,000)
Noncurrent portion				$ 564,875,809	586,852,139

Annual debt service requirements to maturity for airports system revenue bonds are as follows:

	Principal	Interest	Total
Year(s) ending June 30:			
2010	$ 23,615,000	33,605,699	57,220,699
2011	25,240,000	31,966,186	57,206,186
2012	26,945,000	30,269,561	57,214,561
2013	46,600,000	28,629,746	75,229,746
2014	49,400,000	25,833,876	75,233,876
2015 – 2019	294,935,000	81,218,651	376,153,651
2020 – 2022	100,695,000	7,286,525	107,981,525
	$ 567,430,000	238,810,244	806,240,244

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2009 of $22,310,000 and $17,453,058, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2009 and 2008 and the allocation thereof:

	2009	2008
Expensed as incurred	$ 24,067,476	29,527,428
Capitalized in capital assets	11,695,577	6,913,730
	$ 35,763,053	36,441,158

At June 30, 2009, the aggregate outstanding defeased bonds amounted to $47,340,000.

(7) General Obligation Bonds

The Airports Division reimburses the State for the portion of debt service on several general obligation bonds issued by the State, the proceeds of which were used to finance various airport projects. These bonds are backed by the full faith and credit of the State.

The following is a summary of such general obligation bonds reimbursable by the Airports Division at June 30, 2009 and 2008:

Series	Interest rate		Original amount of issue		Outstanding amount 2009	Outstanding amount 2008
CI	4.00% – 5.00%	$	141,392		—	28,275
Less current portion					—	(9,425)
Noncurrent portion				$	—	18,850

During the year ended June 30, 2009, the general obligation bonds were paid in full by the Airports Division.

The following is a summary of interest costs incurred for the years ended June 30, 2009 and 2008 and the allocation thereof:

		2009	2008
Expensed as incurred	$	905	1,185
Capitalized in capital assets		—	320
	$	905	1,505

(8) Leases

(a) Airport-Airline Lease Agreement

Airports Division

The DOT and the airline companies serving the airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992 (lease agreement). Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the lease extension agreement). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the lease extension agreement, the airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of $100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on appraisal and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units), and (5) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Effective January 1, 2008, under the first amended lease extension agreement, the airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Prepaid Airport Use Charge Fund

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (the PAUCF). Net excess payments for fiscal years 1996 through 2008 have been transferred to the PAUCF (note 16).

Aviation Fuel Tax

The aviation fuel tax amounted to $3,548,705 and $4,452,232 for fiscal years 2009 and 2008, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

Signatory and nonsignatory airlines were assessed the following airports system rates and charges.

Airport landing fees amounted to $64,069,005 and $40,558,804 for fiscal years 2009 and 2008, respectively. Airport landing fees are shown net of aviation fuel tax credits of $3,495,105 and $3,606,085 for fiscal years 2009 and 2008, respectively, on the statements of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $60,573,900 and $36,952,719 for fiscal years 2009 and 2008, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines are set at 37% and 36% of the airport landing fees for overseas flights for fiscal years 2009 and 2008, respectively, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to $35,062,741 and $29,161,701 for fiscal years 2009 and 2008, respectively.

Effective July 1, 1996, a joint-use premise charge for the neighbor isle terminals at Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport was established to recover from signatory airlines airports system costs allocable to the baggage claim, baggage tug drive, and joint-use baggage makeup areas based on terminal rental rates and is recovered based on a computed rate per revenue passenger landing in accordance with the lease extension agreement. Effective March 1, 1997, a blended overseas joint-use premise charge was established to recover costs allocable to Hawaiian Airlines, Inc.'s and Aloha Airlines, Inc.'s consolidated terminal operations at the Honolulu International Airport.

Effective January 1, 2008, joint-use premise charges are recovered based on a computed rate per enplaning or deplaning passenger.

International arrivals building charges were established to recover airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger using the international arrivals area. Beginning fiscal year 2000, nonsignatory airline revenue was applied as a credit in calculating the joint-use premise charge and international arrivals building charges.

Exclusive-use premise charges amounted to $35,117,763 and $33,913,698 for fiscal years 2009 and 2008, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $17,840,660 and $16,979,919 for fiscal years 2009 and 2008, respectively.

(Continued)

Airports system support charges amounted to $873,520 and $617,257 for fiscal years 2009 and 2008, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

Under the rate-making methodology set forth in the lease extension agreement for the period July 1, 2007 to December 31, 2007, and the first amended lease extension agreement for the period January 1, 2008 to June 30, 2008, the affected signatory airlines underpaid their airports system rates and charges by $12,256,533. The Airports Division granted the signatory airlines a waiver for the entire underpayment amount for the fiscal year June 30, 2008.

(b) ***Special Facility Leases and Revenue Bonds***

The Airports Division entered into four special facility lease agreements with: Delta Airlines, Inc. in 1987, Continental Airlines, Inc. in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by the Airports Division in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. These bonds are payable solely from and collateralized solely by certain rentals and other moneys derived from the special facility. Other pertinent information on the aforementioned bonds is summarized hereunder.

$25,255,000 Issue

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption on or after November 15, 2007 at the option of the Airports Division, upon the request of Continental Airlines, Inc., at prices ranging from 101% to 100% of principal depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest. The Airports Division redeemed $130,000 in bonds during the year ended June 30, 2005.

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2009:

	Principal	Interest	Total
Year(s) ending June 30:			
2010	$ —	1,222,031	1,222,031
2011	—	1,222,031	1,222,031
2012	—	1,222,031	1,222,031
2013	—	1,222,031	1,222,031
2014	—	1,222,031	1,222,031
2015 – 2019	—	6,110,156	6,110,156
2020 – 2024	—	6,110,156	6,110,156
2025 – 2028	21,725,000	4,277,109	26,002,109
	$ 21,725,000	22,607,576	44,332,576

$16,600,000 Issue

On July 15, 2000, the Airports Division issued $16,600,000 of term special facility bonds (Continental Airlines, Inc.), Refunding Series of 2000, to refund $18,225,000 of its outstanding Series of 1990 (Continental Airlines, Inc.).

The bonds are subject to redemption on or after June 1, 2010, at the option of the Airports Division, upon the request of Continental Airlines, Inc. or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

The bonds bear interest at 7% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2009:

		Principal	Interest	Total
Year(s) ending June 30:				
2010	$	730,000	814,100	1,544,100
2011		785,000	763,000	1,548,000
2012		835,000	708,050	1,543,050
2013		905,000	649,600	1,554,600
2014		970,000	586,250	1,556,250
2015 – 2019		5,965,000	1,814,750	7,779,750
2020		1,440,000	100,800	1,540,800
	$	11,630,000	5,436,550	17,066,550

$6,600,000 Issue

Bonds with a stated maturity date of December 1, 2010 remain outstanding. The bonds are subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

The bonds bear interest at 10.125% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2009:

		Principal	Interest	Total
Year(s) ending June 30:				
2010	$	500,000	131,625	631,625
2011		900,000	45,562	945,562
	$	1,400,000	177,187	1,577,187

(Continued)

Special facility revenue bonds payable at June 30, 2009 and 2008 consisted of the following:

	Continental		Sky chefs	Total
2009:				
Current portion	$ 730,000	—	500,000	1,230,000
Noncurrent portion	10,900,000	21,725,000	900,000	33,525,000
	$ 11,630,000	21,725,000	1,400,000	34,755,000
2008:				
Current portion	$ 700,000	—	400,000	1,100,000
Noncurrent portion	11,630,000	21,725,000	1,400,000	34,755,000
	$ 12,330,000	21,725,000	1,800,000	35,855,000

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as an asset and the special facility revenue bonds outstanding are recorded as a liability in the accompanying statements of net assets.

Net investments in direct financing leases at June 30, 2009 and 2008 consisted of the following:

	2009	2008
Cash with bond fund trustee	$ 4,101,714	4,089,593
Receivable from lessees, net of unearned interest of $28,455,724 and $30,722,132	30,653,286	31,765,407
Interest receivable	232,408	239,866
	$ 34,987,408	36,094,866

(c) Other Operating Leases

The Airports Division also leases certain building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Information regarding the cost and related accumulated depreciation of these facilities is not provided because the accumulation of such data was not considered practical and because the information, when compared with the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

The future minimum rentals from these operating leases at June 30, 2009 are as follows:

Year(s) ending June 30:	
2010	$ 92,918,961
2011	86,031,344
2012	80,927,743
2013	68,797,185
2014	61,522,039
2015 – 2019	128,000,067
2020 – 2024	16,333,614
2025 – 2029	9,710,423
2030 – 2034	2,101,302
2035 – 2038	976,229
	$ 547,318,907

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal years 2009 and 2008 were $46,198,939 and $59,122,856, respectively.

In fiscal year 2006, the Airports Division converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 0 months to 9 years. The balance of $2,598,358 at June 30, 2009 is due as follows: 2010 – $2,487,358; 2011 – $12,000; 2012 – $12,000; and thereafter – $87,000.

Concession fee revenues from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 40% and 39% of total concession fee revenues for fiscal years 2009 and 2008, respectively.

DFS was originally awarded a five-year lease agreement for the in-bond concession in February 2001. By 2003, DFS had been in significant arrears in rents due to the Airports Division as a result of financial difficulties arising from the downturn in Hawaii's economy due to the decrease in international visitor travel. As a result, in August 2003, the Airports Division and DFS entered into a Withdrawal and Settlement Agreement, which provided DFS with certain relief for past-due rents, and which allowed the Airports Division to withdraw and recapture all of the leased premises and to terminate early the in-bond lease.

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for a minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was $37,311,121, and the percentage rent was as follows: (1) for total concession receipts greater than $165 million, but less than $200 million, 22.5% for on-airport sales, and 18.5% for off-airport sales and (2) for total concession receipts greater than $200 million, 30.0% for on-airport sales, and 22.5% for off-airport sales.

Effective June 1, 2006, the lease was extended for a period of one year pursuant to a holdover clause in the lease agreement. During the holdover period, DFS shall have a month-to-month tenancy, with rents and terms the same as those in effect immediately prior to the holdover.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. The lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2012, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first five years of the lease term.

In February 2001, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on March 15, 2001 and terminating on March 14, 2006. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term.) In December 2005, the lease agreement was amended, whereby the lease period was extended for an additional 36 months, commencing on March 15, 2006. The lease rent remained the same as that which was in effect during the lease year ended March 14, 2006.

(9) Passenger Facility Charges

Passenger facility charges activity for the years ended June 30, 2009 and 2008 are as follows:

		2009	2008
Restricted assets – passenger facility charges, beginning of year	$	50,199,121	47,149,820
Passenger facility charges during the year		23,359,258	20,338,696
Interest earned on passenger facility charges during the year		1,427,237	2,104,358
Capital expenditures during the year		(6,406,779)	(19,393,753)
Restricted assets – passenger facility charges, end of year	$	68,578,837	50,199,121

Restricted assets – passenger facility charges are presented on the statements of net assets as of June 30, 2009 and 2008 as follows:

		2009	2008
Cash and cash equivalents	$	65,705,687	48,676,025
Receivable		2,873,150	1,523,096
Total restricted assets passenger facility charges	$	68,578,837	50,199,121

(10) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the year ended June 30, 2009 is as follows:

Restricted assets – rental car customer facility charge, beginning of year	$	—
Rental car customer facility charges during the year		8,541,445
Interest earned on rental car customer facility charges during the year		66,716
Bad debt expense on rental car customer facility charges during the year		(23,649)
Capital expenditures during the year		—
Restricted assets – rental car customer facility charges, end of year	$	8,584,512

Restricted assets – rental car customer facility charges are presented on the statement of net assets as of June 30, 2009 as follows:

Cash and cash equivalents	$	7,682,365
Receivable		902,147
Total restricted assets – rental car customer facility charge	$	8,584,512

(11) Pension Information

All eligible employees of the Airports Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the ERS of the State, a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability benefits with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5% the second year, 7.5% the third year, etc.).

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

(a) Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

(b) Hybrid Plan

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

(c) Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Airports Division is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited service or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required 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. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increase, as of July 1, 2008, to 19.70% for police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The required pension contributions by the Airports Division for the years ended June 30, 2009, 2008, and 2007 were $7,924,498, $6,859,479, and $6,500,114, respectively, which represented 13.75% of covered payroll for the years then ended and were equal to the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

The ERS issues a comprehensive annual financial report 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, HI 96813

(12) Postretirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire 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. For those retiring with over 25 years of service, the State pays the entire healthcare premium.

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For employees hired after June 30, 2001, and who retire 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, for those retiring with over 25 years of service, the State pays the entire healthcare premium.

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Airports Division's contribution for the year ended June 30, 2009 and 2008 was $4,365,756 and $4,141,249, respectively, which represented 36% of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $12,101,135 and $11,520,728, respectively.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	$	6,939,573
Additions		12,101,135
Deletions		(4,365,756)
Balance at June 30, 2009		14,674,952
Less current portion		4,878,000
	$	9,796,952

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, HI 96805-2121

(13) Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $10,743,534 and $10,866,295 in fiscal years 2009 and 2008, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $6,156,800 and $6,312,409 in fiscal years 2009 and 2008, respectively. During fiscal years 2009 and 2008, the Airports Division received assessment refunds from the DOT amounting to $1,317,652 and $1,460,297, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

During fiscal years 2009 and 2008, revenues received from other state agencies totaled $1,639,826 and $1,985,076, respectively, and expenditures to other state agencies totaled $19,756,647 and $8,556,093, respectively.

(14) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2009 and 2008 was $17,207,468 and $16,282,237, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee’s job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

(b) Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investors. Accordingly, the assets and liabilities of the State’s deferred compensation plan are not reported in the accompanying financial statements.

(c) Other

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of $952,601. The upgrades are expected to be performed in the next 5 – 10 years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net assets at June 30, 2009 and 2008.

At June 30, 2009 and 2008, the Airports Division had commitments totaling approximately $275,943,000 and $278,194,000, respectively, for construction and service contracts.

(Continued)

(15) Risk Management

The Airports Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees.

(a) Torts

The Airports Division is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Airports Division's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State General Fund, except as described in note 15.

(b) Property and Liability Insurance

The Airports Division is covered by commercial general liability policies with a $300 million limit per occurrence. These commercial general liability policies have no deductible and cover bodily injuries and property damage for occurrences arising out of the ownership, operation, and maintenance of state airports.

(c) Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2009 and 2008, the workers' compensation reserve was $4,300,000 and $4,300,000, respectively, of which $1,055,969 and $1,119,573 is included in current liabilities (payable from unrestricted net assets) and $3,244,031 and $3,180,427 is included in long-term liabilities in the accompanying statements of net assets at June 30, 2009 and 2008, respectively. In the opinion of management, the Airports Division has adequately reserved for such claims.

(16) Contingent Liabilities and Other

(a) Litigation

The State is subject to a number of lawsuits arising in the ordinary course of its airport operations. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Airports Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the Airports Division. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

(Continued)

(b) Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2009 and 2008, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

(c) Asserted Claims

Prepaid Airport Use Charge Fund

In November 2002, the Airlines Committee of Hawaii (ACH), on behalf of many of the signatory airlines, submitted a written request to the State for the return of $5,393,344. This amount purportedly represents the amount of landing fees and other charges allegedly overpaid by the signatory airlines in fiscal year 1995.

On October 27, 2003, the State reached a settlement with the ACH under which the Airports Division is to transfer the $5,393,344 overpayment to the PAUCF escrow account in four equal annual installments beginning in fiscal year 2004. The transfer of funds is to be subject to ACH’s obtaining the State’s prior written approval for ACH’s use of such funds. A liability for the refund was recorded in the Airports Division’s financial statements as of June 30, 2004, with an offsetting charge to airports system support charges revenues. The balance in the PAUCF totaled $4,208,161 at June 30, 2005.

In fiscal year 2007, the PAUCF was decreased for the fourth and final annual installment of $1,348,000 for the 1995 overpayment and for the fiscal year 2007 underpayment of airports system support charges of $845,536. The balance of the PAUCF was $1,533,718 at June 30, 2007.

In fiscal year 2008, the PAUCF was decreased by $1,069,792 for the 2005 overpayment. The payable balance of the PAUCF was $463,926 at June 30, 2008 and 2009.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the Department was required to pay a $1 million fine. The Airports Division’s allocated share of the fine was $400,000, which was paid in February 2006. In addition, the Department is expected to expend an additional $1,613,874 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

Schedule 1

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Operating Revenues and Operating Expenses Other Than Depreciation

Year ended June 30, 2009

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 114,062,511	—	78,491,555	2,048,429	8,337,338	16,876,434	8,107,970	200,785
Airport landing fees	60,573,900	—	41,083,047	1,404,527	4,585,340	9,482,008	3,505,901	513,077
Aeronautical rentals:								
Exclusive-use premise charges	35,117,763	—	29,002,810	669,626	971,701	2,851,833	1,288,553	333,240
Nonexclusive joint-use premise charges	35,062,741	—	26,456,150	796,848	1,469,742	4,827,315	1,512,686	—
Nonaeronautical rentals	12,305,546	—	7,961,455	748,178	499,450	2,359,243	657,921	79,299
Aviation fuel tax	3,548,705	—	2,406,839	82,284	268,631	555,501	205,392	30,058
Airports system support charges	873,520	—	535,652	41,058	61,439	98,365	53,887	83,119
Miscellaneous	4,131,181	507,065	2,145,497	98,949	536,233	445,955	363,354	34,128
	265,675,867	507,065	188,083,005	5,889,899	16,729,874	37,496,654	15,695,664	1,273,706
Allocation of statewide miscellaneous revenues (note 2)	—	(507,065)	300,186	13,844	75,027	62,395	50,838	4,775
Net operating revenues	$ 265,675,867	—	188,383,191	5,903,743	16,804,901	37,559,049	15,746,502	1,278,481
Operating expenses other than depreciation:								
Salaries and wages	$ 75,395,510	14,663,538	31,707,618	4,544,605	4,753,532	8,634,223	5,890,381	5,201,613
Other personnel services	56,493,315	5,358,297	32,610,374	3,711,249	3,963,619	5,575,244	3,251,232	2,023,300
Utilities	34,200,183	1,398	24,091,818	1,203,016	2,212,351	4,147,319	1,889,070	655,211
Special maintenance	21,508,240	671,065	8,257,387	3,591,315	1,678,468	431,154	3,121,947	3,756,904
Repairs and maintenance	17,299,871	1,276,934	10,628,617	960,945	843,740	1,931,273	1,276,542	381,820
State of Hawaii surcharge on gross receipts (note 3)	10,743,534	10,743,534	—	—	—	—	—	—
Materials and supplies	5,617,616	284,945	2,825,896	303,359	439,792	801,696	400,725	561,203
Department of Transportation general administration expenses	4,839,148	4,839,148	—	—	—	—	—	—
Insurance	4,121,188	4,118,249	(113)	103	(692)	441	3,250	(50)
Claims and benefits	1,051,356	35,643	389,715	168,071	185,101	130,300	111,033	31,493
Rent	1,202,964	972,433	151,755	5,189	15,714	20,937	18,877	18,059
Travel	304,128	62,131	75,973	27,692	33,804	31,387	27,804	45,337
Communication	307,025	72,457	66,286	21,941	22,938	47,997	24,516	50,890
Dues and subscriptions	136,973	131,465	1,723	537	797	1,291	1,160	—
Bad debt expense (note 1)	47,443	91	33,587	1,052	2,987	6,696	2,803	227
Printing and advertising	22,610	12,818	8,285	—	1,435	—	—	72
Freight and delivery	16,337	1,549	2,979	1,180	688	5,304	267	4,370
Miscellaneous	309,375	81,709	98,605	28,393	28,355	19,909	16,109	36,295
	233,616,816	43,327,404	110,950,505	14,568,647	14,182,629	21,785,171	16,035,716	12,766,744
Allocation of statewide expenses (note 4)	—	(43,327,404)	25,262,558	3,317,167	3,229,273	4,960,312	3,651,207	2,906,887
Total operating expenses other than depreciation for net revenues and taxes	233,616,816	—	136,213,063	17,885,814	17,411,902	26,745,483	19,686,923	15,673,631
Disbursements out of major maintenance, renewal, and replacement account not included above	1,912,761	—	1,243,516	241,297	—	—	—	427,948
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets	$ 235,529,577	—	137,456,579	18,127,111	17,411,902	26,745,483	19,686,923	16,101,579

Notes:
(1) Bad debt expense is allocated primarily by individually identifiable bad debts with the remainder allocated to the airports based upon their respective current year revenues to total current year revenues for all airports.
(2) Statewide miscellaneous revenues are allocated to the airports based upon their respective current year miscellaneous revenues to total current year miscellaneous revenues for all airports.
(3) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.
(4) Statewide expenses are allocated to the airports based upon their respective current year operating expenses to total current year operating expenses for all airports.

See accompanying independent auditors' report.

Schedule 2

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2009

Revenues and taxes:	
Concession fees	$ 114,062,511
Airport landing fees	60,573,900
Aeronautical rentals:	
Exclusive-use premise charges	35,117,763
Nonexclusive joint-use premise charges	35,062,741
Nonaeronautical rentals	12,305,546
Aviation fuel tax	3,548,705
Airports system support charges	873,520
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $6,362,021 on capital improvement projects	16,149,558
Federal operating grants	6,757,871
Miscellaneous	4,131,181
Total revenues and taxes	288,583,296
Deductions:	
Operating expenses other than depreciation for net revenues and taxes (schedule 1)	233,616,816
Amounts required to be paid into the State General Fund for general obligation bond requirements:	
Principal	28,275
Interest	905
Annual reserve required on major maintenance, renewal, and replacement account	250,000
Total deductions	233,895,996
Net revenues and taxes	54,687,300
Add funded coverage per bond certificate	14,304,030
Adjusted net revenues and taxes	68,991,330
Debt service requirement:	
Airports system revenue bonds:	
Principal	22,310,000
Interest (note 1)	34,906,116
Total debt service	57,216,116
Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2)	(17,453,058)
Total debt service requirement	39,763,058
Debt service coverage percentage	125%
Total debt service with coverage requirement	49,703,823
Excess of net revenues and taxes over debt service requirement	$ 19,287,507

Notes:

(1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.

(2) In fiscal year 2009, the Airports Division deposited $17,453,058 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal year 2009 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

See accompanying independent auditors' report.

Schedule 3

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Summary of Debt Service Requirements to Maturity

June 30, 2009

	Annual principal and interest requirements		
	Airports system revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2010	$ 23,615,000	33,605,699	57,220,699
2011	25,240,000	31,966,186	57,206,186
2012	26,945,000	30,269,561	57,214,561
2013	46,600,000	28,629,746	75,229,746
2014	49,400,000	25,833,876	75,233,876
2015	52,355,000	22,869,649	75,224,649
2016	55,500,000	19,726,999	75,226,999
2017	58,750,000	16,471,134	75,221,134
2018	62,295,000	12,934,356	75,229,356
2019	66,035,000	9,216,513	75,251,513
2020	69,665,000	5,577,400	75,242,400
2021	31,030,000	1,709,125	32,739,125
Total	$ 567,430,000	238,810,244	806,240,244

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2009.

See accompanying independent auditors' report.

Schedule 4

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2009

		Principal					
		Refunding series of 2000A, 5.50% to 6.00%	**Refunding series of 2000B, 5.00% to 8.00%**	**Refunding series of 2001, 4.00% to 5.75%**	**Total**	**Interest**	**Total requirements**
Year ending June 30:							
2010	$	155,000	12,550,000	10,910,000	23,615,000	33,605,699	57,220,699
2011		160,000	13,550,000	11,530,000	25,240,000	31,966,186	57,206,186
2012		170,000	14,640,000	12,135,000	26,945,000	30,269,561	57,214,561
2013		180,000	15,580,000	30,840,000	46,600,000	28,629,746	75,229,746
2014		190,000	16,595,000	32,615,000	49,400,000	25,833,876	75,233,876
2015		200,000	17,665,000	34,490,000	52,355,000	22,869,649	75,224,649
2016		215,000	18,815,000	36,470,000	55,500,000	19,726,999	75,226,999
2017		225,000	19,960,000	38,565,000	58,750,000	16,471,134	75,221,134
2018		240,000	21,285,000	40,770,000	62,295,000	12,934,356	75,229,356
2019		125,000	22,845,000	43,065,000	66,035,000	9,216,513	75,251,513
2020		8,400,000	22,515,000	38,750,000	69,665,000	5,577,400	75,242,400
2021		16,010,000	—	15,020,000	31,030,000	1,709,125	32,739,125
Total	$	26,270,000	196,000,000	345,160,000	567,430,000	238,810,244	806,240,244

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2009.

See accompanying independent auditors’ report.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Airports System Charges – Fiscal Year 2008 Lease Extension

Year ended June 30, 2009

	Airline activity			Airports system charges												
						Nonexclusive joint-use premise charges										
	Approved maximum revenue landing weights (1,000-pound units)	Revenue passenger landings	Deplaning international passengers	Airports landing fees	Airports system support charges	Joint-use charges – overseas baggage	Joint-use charges – overseas holdroom	Joint-use charges – overseas	Joint-use charges – interisland baggage	Joint-use charges – interisland holdroom	Joint-use charges – commuter baggage	Joint-use charges – commuter holdroom	International arrivals building charges	Preferential use	Exclusive-use premise charges – terminal space	Total
Signatory airlines:																
Air Canada	175,532	552	—	$ 689,167	—	166,553	127,089	—	—	—	—	—	—	—	447,188	1,429,997
Air New Zealand, Ltd.	85,650	121	19,174	316,520	—	—	24,943	—	—	—	—	—	105,398	—	—	446,861
Air Pacific, Ltd.	22,736	162	11,395	83,820	—	1,474	11,890	—	—	—	—	—	62,889	—	—	160,073
Alaska Air, Inc.	237,312	1,648	—	939,888	—	364,528	250,618	—	—	—	—	—	—	—	99,459	1,654,493
All Nippon Airways, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,860	2,860
Aloha Airlines, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(43,288)	(43,288)
American Airlines, Inc.	986,390	4,308	—	3,820,413	—	1,101,613	804,621	—	—	—	—	—	—	—	1,082,404	6,809,051
China Airlines, Ltd.	168,116	365	99,139	660,479	—	—	107,841	—	—	—	—	—	568,320	—	86,151	1,422,791
Continental Airlines, Inc.	429,872	1,359	—	1,673,278	—	340,330	323,351	—	—	—	—	—	—	—	1,020,127	3,357,086
Continental Micronesia, Inc.	155,604	557	106,175	602,066	—	—	105,870	—	—	—	—	—	606,060	—	—	1,313,996
Delta Airlines, Inc.	766,182	2,801	—	2,977,714	—	856,009	631,885	—	—	—	—	—	—	—	1,447,622	5,913,230
Evergreen International Airlines, Inc.	81,730	—	—	313,927	—	—	—	—	—	—	—	—	—	—	—	313,927
Federal Express Corporation	725,534	—	—	2,406,896	—	—	—	—	—	—	—	—	—	—	7,611	2,414,507
Hawaiian Airlines, Inc.	8,541,495	65,325	101,115	16,931,185	—	1,482,188	1,073,463	—	5,643,005	—	—	—	576,276	1,671,404	3,094,481	30,472,002
JALways Co, Ltd.	1,276,500	2,583	715,761	4,653,305	—	—	764,744	—	—	7,553	—	—	4,051,637	—	—	9,477,239
Japan Airlines Company, Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,884,475	1,884,475
Kalitta Air, LLC	147,666	—	—	572,461	—	—	—	—	—	—	—	—	—	—	—	572,461
Korean Airlines Company, Ltd.	179,874	358	85,096	711,947	—	—	92,998	—	—	—	—	—	486,736	—	229,051	1,520,732
Mesa Airlines, Inc.	1,048,664	22,312	—	1,502,639	—	—	—	—	195,023	389,930	251,518	332,450	—	—	368,278	3,039,838
Mokulele Flight Service, Inc.	553,826	9,466	—	880,045	—	—	—	—	182,282	153,281	11,116	14,346	—	—	611,564	1,852,634
North American Airlines, Inc.	5,828	21	—	21,674	—	—	—	—	—	—	—	—	—	—	—	21,674
Northwest Airlines, Inc.	1,287,428	3,850	308,517	4,855,434	—	1,163,194	932,503	—	—	—	—	—	1,731,612	—	717,162	9,399,905
Pacific Wings LLC	97,266	1,365	—	138,463	—	—	—	—	—	—	—	5,790	—	—	31,376	175,629
Philippine Airlines, Inc.	65,683	157	32,559	254,769	—	—	34,565	—	—	—	—	—	189,263	—	193,283	671,880
Qantas Airways, Ltd.	191,876	186	35,728	746,540	—	—	40,920	—	—	—	—	—	200,606	—	338,301	1,326,367
United Airlines, Inc.	2,606,831	8,526	81,439	9,940,646	—	2,559,817	1,929,203	—	—	—	—	—	464,106	—	4,497,522	19,391,294
United Parcel Service Co.	718,782	—	—	2,352,360	—	—	—	—	—	—	—	—	—	—	12,846	2,365,206
US Airways, Inc.	345,708	1,746	—	1,373,823	—	446,983	307,207	—	—	—	—	—	—	—	313,371	2,441,384
Westjet	110,732	757	—	439,231	—	167,427	128,808	—	—	—	—	—	—	—	619	736,085
Nonsignatory airlines	3,029,989	923	118,762	4,210,315	873,520	—	—	422,127	—	—	—	—	397,378	—	1,398,197	7,301,537
Total airports system charges billed	24,042,806	129,448	1,714,860	$ 64,069,005	873,520	8,650,116	7,692,519	422,127	6,020,310	550,764	262,634	352,586	9,440,281	1,671,404	17,840,660	117,845,926

See accompanying independent auditors' report.

Schedule 6

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Summary of Billed Airport Landing Fees

Year ended June 30, 2009

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	59,858,690	4,210,315	64,069,005
Less aviation fuel tax credit		(3,251,249)	(243,856)	(3,495,105)
Net airport landing fees billed	$	56,607,441	3,966,459	60,573,900

See accompanying independent auditors' report.

Schedule 7

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Signatory Airlines

Year ended June 30, 2009

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport: Gross airport landing fees					All other airports			Total
	Honolulu International Airport	**Hilo International Airport**	**All other airports**	**Total**	**Honolulu International Airport**	**Hilo International Airport**	**Total**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Gross airport landing fees**	**Aviation fuel tax credit**	**Adjusted airport landing fees**	**Total adjusted airport landing fees**
Air Canada	110,660	—	64,872	175,532	$ 426,918	—	426,918	—	426,918	262,249	—	262,249	689,167
Air New Zealand, Ltd.	85,650	—	—	85,650	316,520	—	316,520	—	316,520	—	—	—	316,520
Air Pacific, Ltd.	22,736	—	—	22,736	83,820	—	83,820	—	83,820	—	—	—	83,820
Alaska Airlines, Inc.	87,408	—	149,904	237,312	341,676	—	341,676	(161,306)	180,370	598,212	—	598,212	778,582
American Airlines, Inc.	602,550	—	383,840	986,390	2,324,661	—	2,324,661	(237,258)	2,087,403	1,495,752	—	1,495,752	3,583,155
China Airlines, Ltd.	168,116	—	—	168,116	660,479	—	660,479	—	660,479	—	—	—	660,479
Continental Airlines, Inc.	429,872	—	—	429,872	1,673,278	—	1,673,278	—	1,673,278	—	—	—	1,673,278
Continental Micronesia, Inc.	155,604	—	—	155,604	602,066	—	602,066	—	602,066	—	—	—	602,066
Delta Airlines, Inc.	480,633	—	285,549	766,182	1,833,240	—	1,833,240	(161,750)	1,671,490	1,144,474	—	1,144,474	2,815,964
Evergreen International Airlines, Inc.	81,730	—	—	81,730	313,927	—	313,927	—	313,927	—	—	—	313,927
Federal Express Corporation	630,242	95,292	—	725,534	2,269,320	137,576	2,406,896	(228,664)	2,178,232	—	—	—	2,178,232
Hawaiian Airlines, Inc.	4,799,800	593,220	3,148,475	8,541,495	10,928,049	861,873	11,789,922	(1,547,598)	10,242,324	5,141,263	—	5,141,263	15,383,587
JALways Co., Ltd.	1,161,300	—	115,200	1,276,500	4,208,199	—	4,208,199	(634)	4,207,565	445,106	(4,601)	440,505	4,648,070
Kalitta Air, LLC	134,211	—	13,455	147,666	515,037	—	515,037	—	515,037	57,424	—	57,424	572,461
Korean Airlines Company, Ltd.	179,874	—	—	179,874	711,947	—	711,947	—	711,947	—	—	—	711,947
Mesa Airlines, Inc.	523,768	133,292	391,604	1,048,664	750,564	191,339	941,903	—	941,903	560,736	—	560,736	1,502,639
Mokulele Flight Service, Inc.	253,377	17,652	282,797	553,826	404,674	30,358	435,032	—	435,032	445,013	—	445,013	880,045
North American Airlines, Inc.	5,409	—	419	5,828	21,154	—	21,154	—	21,154	520	—	520	21,674
Northwest Airlines, Inc.	1,162,884	—	124,544	1,287,428	4,543,615	—	4,543,615	(44,151)	4,499,464	311,819	—	311,819	4,811,283
Pacific Wings LLC	11,603	—	85,663	97,266	16,093	—	16,093	(3,826)	12,267	122,370	—	122,370	134,637
Philippine Airlines, Inc.	65,683	—	—	65,683	254,769	—	254,769	—	254,769	—	—	—	254,769
Qantas Airways, Ltd.	191,876	—	—	191,876	746,540	—	746,540	—	746,540	—	—	—	746,540
United Airlines, Inc.	1,326,518	—	1,280,313	2,606,831	5,131,498	—	5,131,498	(560,708)	4,570,790	4,809,148	(84,659)	4,724,489	9,295,279
United Parcel Service Co.	544,847	—	173,935	718,782	2,106,632	—	2,106,632	(43,256)	2,063,376	245,728	—	245,728	2,309,104
US Airways, Inc.	112,662	—	233,046	345,708	445,629	—	445,629	(66,949)	378,680	928,194	(68,065)	860,129	1,238,809
Westjet	54,570	—	56,162	110,732	216,663	—	216,663	(15,334)	201,329	222,568	(22,490)	200,078	401,407
Total	13,383,583	839,456	6,789,778	21,012,817	$ 41,846,968	1,221,146	43,068,114	(3,071,434)	39,996,680	16,790,576	(179,815)	16,610,761	56,607,441

Summary of revenue landing weights:

Overseas	12,121,028
Interisland	8,891,789
	21,012,817

Aviation fuel tax of $3,548,705 was paid by the users for the year ended June 30, 2009. Users can claim a credit for aviation fuel taxes paid up to six months after payment. Aviation fuel tax credits of $3,495,105 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,251,249
Nonsignatory airlines	243,856
	$ 3,495,105

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2009.

See accompanying independent auditors' report.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Nonsignatory Airlines

Year ended June 30, 2009

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport					All other airports			Total
					Gross airport landing fees								
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees	adjusted airport landing fees
Above It All, Inc.	—	1,400	2,705	4,105	$ —	1,336	1,336	—	1,336	2,581	(743)	1,838	3,174
Aeko Kula, Inc.	544,737	89,880	264,076	898,693	504,060	50,427	554,487	—	554,487	302,865	—	302,865	857,352
Aero Micronesia dba Asia Pacific	33,948	—	492	34,440	101,165	—	101,165	—	101,165	469	—	469	101,634
Air France	104	—	—	104	309	—	309	—	309	—	—	—	309
Air Japan Co. Ltd.	117,760	—	—	117,760	350,925	—	350,925	—	350,925	—	—	—	350,925
Air Transport International LLC	46,766	—	—	46,766	139,363	—	139,363	—	139,363	—	—	—	139,363
Air Ventures Hawaii, LLC	—	—	2,860	2,860	—	—	—	—	—	2,728	(477)	2,251	2,251
Airmed Hawaii, LLC	12,675	—	—	12,675	12,140	—	12,140	(3,519)	8,621	—	—	—	8,621
Alika Aviation Inc.	—	—	7,648	7,648	—	—	—	—	—	7,296	—	7,296	7,296
Alpine Aviation, Inc.	26,253	15,896	206,848	248,997	24,744	15,165	39,909	(5,843)	34,066	197,333	—	197,333	231,399
Aris Inc.	—	—	11,700	11,700	—	—	—	—	—	11,162	(2,534)	8,628	8,628
Atlas Air Inc.	46,764	—	—	46,764	139,357	—	139,357	—	139,357	—	—	—	139,357
Big Island Air Incorporation	—	—	7,488	7,488	—	—	—	—	—	7,144	—	7,144	7,144
Bradley Pacific Aviation Inc.	26,714	503	54,953	82,170	71,359	1,035	72,394	—	72,394	138,725	—	138,725	211,119
Castle & Cooke Homes Hawaii, Inc.	8,492	—	1,028	9,520	22,947	—	22,947	—	22,947	1,445	—	1,445	24,392
Corporate Air	24,673	1,228	14,320	40,221	23,538	1,172	24,710	—	24,710	13,661	—	13,661	38,371
Dipiazza, Charles	—	—	3,593	3,593	—	—	—	—	—	3,427	(667)	2,760	2,760
Fly Kauai, Inc.	—	—	466	466	—	—	—	—	—	445	—	445	445
George's Aviation Service, Inc.	91	238	602	931	87	227	314	(317)	(3)	574	(250)	324	321
Gould, Steve	—	—	7,704	7,704	—	—	—	—	—	7,350	—	7,350	7,350
Hale O'Lele Corporation	—	—	151	151	—	—	—	—	—	144	—	144	144
Harter, Jack Helicopters, Inc.	—	—	10,893	10,893	—	—	—	—	—	10,392	(2,481)	7,911	7,911
Hawaii Air Ambulance, Inc.	15,523	—	—	15,523	14,809	—	14,809	(1,860)	12,949	—	—	—	12,949
Hawaii Helicopters, Inc.	—	—	6,046	6,046	—	—	—	—	—	5,768	—	5,768	5,768
Hawaii Island Air, Inc.	254,521	27,934	446,869	729,324	242,813	26,649	269,462	(41,259)	228,203	426,313	—	426,313	654,516
Hawaiian Airlines Inc.	—	198	—	198	—	590	590	—	590	—	—	—	590
Heli USA Airways	2,449	—	1,389	3,838	2,337	—	2,337	—	2,337	1,325	—	1,325	3,662
Helicopter Consultations of Maui, Inc.	4,242	37,312	54,451	96,005	4,047	35,596	39,643	(12,074)	27,569	51,946	(2,019)	49,927	77,496
Honolulu Soaring Club Inc.	—	—	1,919	1,919	—	—	—	—	—	1,831	(669)	1,162	1,162
Island Helicopters Kauai, Inc.	—	—	12,856	12,856	—	—	—	(512)	(512)	12,265	(1,202)	11,063	10,551
Jetstar Airways PTY Limited	92,859	—	—	92,859	276,719	—	276,719	—	276,719	—	—	—	276,719
K&S Helicopters, Inc.	—	8,646	—	8,646	—	8,248	8,248	(3,519)	4,729	—	—	—	4,729
Kamaka Air, Inc.	6,388	—	15,169	21,557	6,094	—	6,094	—	6,094	14,471	—	14,471	20,565
Makani Kai Helicopters Ltd.	4,862	—	—	4,862	4,638	—	4,638	(1,648)	2,990	—	—	—	2,990
Marjet, Inc.	39	—	87	126	37	—	37	—	37	83	—	83	120
Maui Island Air Inc.	70	7	2,156	2,233	67	7	74	—	74	2,057	—	2,057	2,131
Miscellaneous	67,828	457	1,000	69,285	201,562	1,329	202,891	2,767	205,658	995	(501)	494	206,152
Mokulele Flight Service, Inc.	10,158	—	27,702	37,860	9,690	—	9,690	—	9,690	26,427	—	26,427	36,117
Niihau Helicopters Inc.	—	—	802	802	—	—	—	—	—	765	—	765	765
Omni Air International, Inc.	73,135	—	—	73,135	217,942	—	217,942	(43,427)	174,515	—	—	—	174,515
Pacific Air Charters, Incorporated	561	14	1,621	2,196	536	14	550	(102)	448	1,546	(34)	1,512	1,960
Pacific Helicopter Tours, Inc.	1,062	17	1,088	2,167	1,013	16	1,029	(515)	514	1,038	(625)	413	927
Pofolk Aviation Hawaii, Inc.	—	—	191	191	—	—	—	—	—	182	—	182	182
Ryan International Airlines	2,178	—	396	2,574	6,089	—	6,089	—	6,089	779	—	779	6,868
Safari Aviation Inc.	—	6,479	12,313	18,792	—	6,181	6,181	—	6,181	11,747	—	11,747	17,928
Sky-Med Inc.	—	—	18,308	18,308	—	—	—	—	—	17,465	—	17,465	17,465
Skyview Soaring, LLC	—	—	448	448	—	—	—	—	—	428	—	428	428
Smoky Mountain Helicopters	—	—	4,434	4,434	—	—	—	—	—	4,230	—	4,230	4,230
Squyres, Will Helicopter, Inc.	—	—	11,408	11,408	—	—	—	—	—	10,884	(290)	10,594	10,594
Sunshine Helicopters Inc.	—	4,076	15,019	19,095	—	3,888	3,888	(566)	3,322	14,328	(6,477)	7,851	11,173
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	19,849	9,381	32,012	61,242	18,935	8,950	27,885	(12,631)	15,254	30,539	—	30,539	45,793
Universal Enterprises, Inc.	60,588	634	52,680	113,902	169,261	1,683	170,944	(99,862)	71,082	133,672	—	133,672	204,754
Wings Over Kauai, LLC	—	—	2,509	2,509	—	—	—	—	—	2,394	—	2,394	2,394
Total	1,505,289	204,300	1,320,400	3,029,989	$ 2,566,583	162,513	2,729,096	(224,887)	2,504,209	1,481,219	(18,969)	1,462,250	3,966,459

Summary of revenue landing weights:	
Overseas	651,355
Interisland	2,378,634
	3,029,989

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2009.

See accompanying independent auditors' report.

APPENDIX C

GENERAL ECONOMIC INFORMATION ABOUT THE STATE OF HAWAII

APPENDIX C

GENERAL ECONOMIC INFORMATION ABOUT THE STATE OF HAWAII

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

I. INTRODUCTION

A. 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.

B. 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.

C. 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 1

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.

II. GENERAL ECONOMIC INFORMATION

A. 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 2010 Quarterly Statistical and Economic Report ("QSER") or from other materials 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. Also unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." 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 forecast for 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") growth in 2010 is 1.8%. In real terms (adjusting for inflation), DBEDT estimates the 2009 State's GDP growth to be 0.9% over 2009.

B. State of the Economy

Hawaii's economy continued to experience the effects of recession in the fourth quarter of 2009, with jobs, tax revenues, and visitor expenditures still showing declines from the year before. However, there were signs that the losses were becoming smaller for the visitor sector, for new construction authorizations, and tax revenues. In fact some measures of visitor activity have actually turned positive in the last two quarters. Thus, despite continued decline in jobs, there were indications that Hawaii was at or near the bottom of the current recession.

The most encouraging signs that a bottom was being reached were in tourism. The total number of visitors arriving by air to Hawaii continued the modest, 2.7 percent upturn experienced in the 2009 third quarter by posting a 0.6 percent increase in the fourth quarter over the same quarter of 2008. Other visitor metrics such as the average daily visitor census and visitor spending were still negative compared with 2008, but not by much. The visitor census was down only 0.3 percent in the fourth quarter compared to being down almost 4 percent for all of 2009 and down nearly 9 percent in 2008. Visitor spending fell 2.2 percent for the fourth quarter. But this was considerably below the 10 to 17 percent quarterly declines experience earlier in 2009.

In construction, building permit data also edged into positive territory. For the full year of 2009 permit values for private construction declined 31.2 percent. But by the fourth quarter of 2009 the decline had flattened out to a slight 0.1 percent gain in permit values from the same period a year before. Building permits are an indication of future construction. Current construction being put into place based on excise tax data and construction jobs were still showing substantial losses at the end of 2009.

The decline in tax revenues also appeared to be moderating as 2009 ended. State general fund tax revenues recorded their fifth consecutive quarterly decline from a year before in the last quarter of 2009, down 6.9 percent.

However, this was less severe than the 9.4 percent decline in the third quarter of 2009 and much less negative than the 18.0 percent decline of the 2009 second quarter.

The area of the economy that has yet to clearly show it is stabilizing is the labor market, which is unfortunately likely to be the last element of the economy to respond. Hawaii's economy continued to lose jobs through the fourth quarter of 2009, ending the year with a 3.4 percent decline in wage and salary jobs from the previous year. This amounted to 19,500 fewer jobs for 2009. In the fourth quarter of 2009 the decline in jobs reached 4.1 percent from same quarter in the previous year.

All but a few major sectors of the economy lost jobs in 2009 and the losses were generally higher in the fourth quarter. The most significantly impacted sector continued to be construction with a 13.2 percent job loss for the year as a whole, rising to a 14.1 percent decline in the fourth quarter. Only the government, health care, and education sectors showed increases in jobs for 2009 as a whole. But by the fourth quarter of the year that list was down to only health care, with government and education also experiencing job losses from the previous year.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total personal income in the third quarter of 2009 increased 0.3 percent from the same quarter of 2008. This includes inflation so the change probably represents a slight decline in real terms. The small growth in personal income was due to a large increase in transfer payments to residents, including retirement and unemployment insurance benefits. The core of personal income -- wages, salaries and proprietors' income -- declined 0.4 percent before inflation is taken into account. Dividends, interest, and rents, also declined. BEA has often made significant revisions to personal income in later quarters. Therefore, these current data for personal income could well change over the coming year.

Consumer prices in Honolulu increased a slight 0.5 percent in 2009 over 2008, as measured by the Honolulu Consumer Price Index (CPI-U). By contrast the U.S. CPI-U declined 0.4 percent in 2009. The second half of 2009 saw a slight uptick in the Honolulu CPI-U, with prices increasing 0.7 percent from the second half of 2008. This compared with a 0.3 percent increase for the first half of 2009.

The modest Honolulu CPI increase in 2009 was primarily due to the limited, 0.4 percent increase in the housing component of the index and a 6.4 percent decline in transportation costs. Prices increased for most other goods and services, including the other goods and services category (8.1 percent), apparel (7.2 percent), education/communications (4.9 percent) and food & beverage (3.6 percent).

While the signs that Hawaii has probably reached a bottom in the current recession are increasing, that stability is also subject to the course of events on the national and international economic levels. Moreover, reaching a bottom is far from a full recovery, and that is likely to be a very gradual process over the next several years.

C. Outlook for the Economy

Based on the most recent data and analysis, Hawaii's economy is expected to continue seeing more positive signs of stability into 2010, the beginning of recovery in some sectors, and modest growth by 2011. Overall, the DBEDT forecast is changed only modestly from last quarter.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. For the U.S. economy, slightly better-than-expected economic data in recent months has resulted in somewhat more optimism being reflected in the consensus forecast used to guide the DBEDT forecast. According to the February 2010 *Blue Chip Economic Consensus Forecasts*, U.S. real GDP is expected to increase by 3.0 percent in 2010 as a whole. Real U.S. GDP growth is now expected to accelerate from an annual rate of 2.5 in the first quarter of 2010 to 3.5 percent by the third quarter of the year. For 2011 the consensus forecast now expects an overall 3.1 percent growth in U.S. real GDP.

Forecasts have also improved slightly for Hawaii's most important foreign market, Japan. Real GDP growth for that nation is now expected to increase 1.6 percent in 2010, followed by a modest 1.5 percent growth rate in 2011.

Based on the updated U.S. and international outlook, as well as new data on the Hawaii economy, the revised forecast for Hawaii shows slightly more encouraging expectations, although the basic projection of a slow and gradual recovery has not changed.

Overall, Hawaii's economy measured by real GDP is projected to show a 0.9 percent increase in 2010, up slightly from a 0.8 percent growth forecast last quarter. That growth is expected to increase modestly to 1.4 percent in 2011.

Visitor arrivals are expected to increase 2.0 percent in 2010 and 4.0 percent in 2011, about the same as the previous forecast. However, visitor days are now expected to increase 2.1 percent in 2010, compared with 0.7 percent in the previous forecast, due to a stronger increase in length of stay. However, the 2011 visitor days projection will remain about the same as projected in the previous forecast of 4.1 percent. Moreover, the forecast for visitor expenditure growth in 2010 has been revised upward to 2.3 percent, from no growth projected in the previous forecast. Visitor expenditures are forecast to increase 8.6 percent in 2011.

The projection for wage and salary jobs remains unchanged at a 0.9 percent decline in 2010. Most of this decline will likely occur in the first half of the year, with the expectation that some modest growth in jobs will occur in the second half. In 2011, jobs are projected to increase a modest, 0.8 percent.

The Honolulu Consumer Price Index (CPI), which increased 0.5 in 2009, is expected to increase 1.7 percent in 2010, up slightly from the previous forecast. In 2011, the CPI is projected to increase 2.2 percent.

Personal income growth in current dollars will likely show a modest increase of 1.7 percent in 2010. However, a slightly higher inflation rate in 2010 will likely result in no real growth in personal income for the year. In 2011, current-dollar personal income is forecast to increase 3.0 percent, which will be 0.8 percent in real terms, about the same as projected in the previous forecast.

Beyond 2011 the gradual recovery is expected to continue with modest job growth of around 1.0 percent for 2012. Visitor arrivals should show a healthier, 4.5 percent increase in 2012. Hawaii's real GDP growth in 2012 is expected to reach 2.0 percent. The gradual recovery should continue into 2013, assuming national and international economic conditions continue to improve.

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

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

	4th QUARTER			YEAR-TO-DATE		
SERIES	2008	2009	% CHANGE YEAR AGO	2008	2009	% CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	653,850	639,800	-2.1	654,250	645,500	-1.3
Civilian employed, NSA	622,100	596,300	-4.1	628,450	600,450	-4.5
Civilian unemployed, NSA	31,700	43,500	37.2	25,850	45,100	74.5
Unemployment rate, NSA (%) 1/2/	4.8	6.8	2.0	3.9	7.0	3.1
Total wage and salary jobs, NSA	623,300	597,700	-4.1	625,350	603,850	-3.4
Total non-agric. wage & salary jobs	617,450	592,050	-4.1	619,200	598,150	-3.4
Nat. Resources, Mining, Constr.	37,200	31,950	-14.1	38,000	33,000	-13.2
Manufacturing	14,650	13,700	-6.5	14,900	14,100	-5.4
Wholesale Trade	18,650	17,650	-5.4	18,750	18,100	-3.5
Retail Trade	70,150	66,800	-4.8	69,900	67,050	-4.1
Transp., Warehousing, Util.	28,200	26,900	-4.6	29,600	27,250	-7.9
Information	9,550	9,150	-4.2	10,000	9,400	-6.0
Financial Activities	29,050	27,700	-4.6	29,400	28,300	-3.7
Professional & Business Services	74,550	71,200	-4.5	75,300	72,650	-3.5
Educational Services	14,900	14,750	-1.0	14,650	14,750	0.7
Health Care & Social Assistance	59,600	60,950	2.3	59,300	60,250	1.6
Arts, Entertainment & Recreation	11,150	10,500	-5.8	11,550	10,800	-6.5
Accommodation	35,950	34,850	-3.1	37,750	35,200	-6.8
Food Services & Drinking Places	57,100	54,450	-4.6	57,850	55,300	-4.4
Other Services	27,150	25,550	-5.9	27,150	26,250	-3.3
Government	129,600	126,050	-2.7	125,000	125,750	0.6
Federal	32,650	33,850	3.7	32,200	33,250	3.3
State	78,400	73,650	-6.1	74,300	73,700	-0.8
Local	18,550	18,500	-0.3	18,550	18,800	1.3
Agriculture wage and salary jobs	5,850	5,650	-3.4	6,150	5,700	-7.3
State general fund revenues ($1,000)	1,076,634	1,002,283	-6.9	4,608,569	4,018,215	-12.8
General excise and use tax revenues	593,107	549,055	-7.4	2,567,821	2,296,288	-10.6
Income-individual	386,333	340,692	-11.8	1,564,708	1,267,602	-19.0
Declaration estimated taxes	32,882	22,807	-30.6	397,434	235,509	-40.7
Payment with returns	23,925	40,052	67.4	185,703	165,106	-11.1
Withholding tax on wages	366,702	327,396	-10.7	1,399,554	1,347,566	-3.7
Refunds ('-' indicates relative to State)	-37,176	-49,563	33.3	-417,982	-480,579	15.0
Transient accommodations tax	47,700	56,483	18.4	224,122	212,274	-5.3
Honolulu County Surcharge 3/	42,058	41,679	-0.9	182,341	179,193	-1.7
Visitor Days - by air	4,729,288	14,688,956	-0.3	63,130,133	60,553,721	-4.1
Domestic visitor days - by air	1,431,004	1,228,542	-1.8	49,497,350	47,109,324	-4.8
International visitor days - by air	3,298,284	3,460,414	4.9	13,632,783	13,444,397	-1.4
Visitor arrivals by air - by air	1,533,113	1,542,219	0.6	6,713,436	6,419,138	-4.4
Domestic flight visitors – by air	1,099,733	1,079,569	-1.8	4,901,893	4,671,326	-4.7
International flight visitors - by air	433,380	462,650	6.8	1,811,543	1,747,812	-3.5
Hotel occupancy rates (%) 2/	63.8	65.4	1.6	70.5	66.5	-4.0
Visitor expend. - arrivals by air ($Mil.)	2,575	2,519	-2.2	11,182	9,869	-11.7

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/a53txcolrpt.htm and Hospitality Advisors, LLC.

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII:

2007 TO 2012

Economic Indicators	2008	2009	2010	2011	2012	2013
	(Actual)		(Forecast)			
Total population (thousands)	1,287	1,295	1,304	1,314	1,323	1,332
Visitor arrivals (thousands) 1/	6,823	6,514	6,647	6,914	7,228	7,515
Visitor days (thousands) 1/	64,180	61,432	62,740	65,287	68,259	71,002
Visitor expenditures (million dollars) 1/, 5/	11,399	10,080	10,313	11,205	12,314	13,188
Honolulu CPI-U (1982-84=100)	228.9	230	234	239	244.2	249.5
Personal income (million dollars) 2/	54,175	54,392	55,316	56,987	58,982	61,223
Real personal income (millions of 2000$) 3/	41,733	41,684	41,684	42,035	42,586	43,269
Total wage & salary jobs (thousands)	625.4	603.9	598.3	603	609.2	615.7
Gross domestic product (million dollars) 4/	63,847	64,134	65,289	67,112	69,487	72,244
Real gross domestic product (millions of 2000$) 4/	49,782	49,441	49,874	50,554	51,544	52,694
Gross domestic product deflator (2000=100)	128.3	129.7	130.9	132.8	134.8	137.1
Annual Percentage Change						
Total population	0.8	0.6	0.7	0.7	0.7	0.7
Visitor arrivals 1/	-10.6	-4.5	2	4	4.5	4
Visitor days 1/	-8.4	-4.3	2.1	4.1	4.6	4
Visitor expenditures 1/, 5/	-11	-11.6	2.3	8.6	9.9	7.1
Honolulu CPI-U	4.3	0.5	1.7	2.2	2.2	2.2
Personal income 2/	3.7	0.4	1.7	3	3.5	3.8
Real personal income 3//	-0.6	-0.1	0	0.8	1.3	1.6
Total wage & salary jobs	-1	-3.4	-0.9	0.8	1	1.1
Gross domestic product 4/	2.9	0.4	1.8	2.8	3.5	4
Real gross domestic product 4/	0.7	-0.7	0.9	1.4	2	2.2
Gross domestic product deflator	2.2	1.1	0.9	1.4	1.5	1.7

1/ Visitors who came to Hawaii by air or by cruise ship. The 2009 expenditure is actual for visitors by air plus DBEDT estimate for visitors by cruise ship and supplemental expenditure.
2/ The 2009 values are estimated based on actual values in the first three quarters of 2009.
3/ DBEDT calculated using BEA estimate of nominal personal income deflated by U.S. Bureau of Labor Statistics Honolulu CPI-U.
4/ The 2009 value is estimated by DBEDT.
5/ Visitor expenditures for 2009-2013 and annual percentage change for 2009 were revised on February 24, 2010.
Source: Hawaii State Department of Business, Economic Development & Tourism, February 19, 2010.

D. Labor Force and Jobs

Hawaii's economy continued to lose jobs through the fourth quarter of 2009, ending the year with a 3.4 percent decline in wage and salary jobs from the previous year. This amounted to 19,500 fewer jobs for the year. The fourth quarter 2009 decline in jobs was 4.1 percent from same quarter in the previous year.

Hawaii's unemployment rate for 2009 averaged 7.0 percent with a 6.8 percent average for the fourth quarter.

Contributing to the rising unemployment rate was a substantial increase in the number of unemployed persons in the state, from 25,850 in 2008, to 45,100 in 2009. The calculated unemployment rate was also pushed up because the labor force itself shrunk by 8,750 workers for the year.

Fourth quarter data on the labor force generally mirrored the 2009 trend, although the decline in employed persons was slightly less in that quarter than for the year as a whole and the increase in unemployed persons was clearly slowing – from a 125 percent increase in the first quarter, to a 37 percent increase in the fourth quarter.

All but a few major sectors of the economy lost jobs for 2009 as a whole and the losses appeared to be generally higher in the fourth quarter. The most significantly impacted sector continued to be construction with a 13.2 percent job loss for the year as a whole, rising to 14.1 percent decline in the fourth quarter.

Only the government, health care, and education sectors showed increases in jobs for 2009 as a whole. By the fourth quarter of the year that list was down to only health care, with government and education finally experiencing job losses from the previous year.

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
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
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	618,150	0.3	598,200	1.0	3.2
2005	630,600	2.0	613,350	2.5	2.7
2006	642,900	2.0	627,050	2.2	2.5
2007	645,950	0.5	628,900	0.3	2.6
2008	654,250	1.3	628,450	-0.1	3.9
2009	645,500	-1.3	600,450	-4.5	7.0

E. Income and Prices

Consumer prices in Honolulu during 2009 increased a slight 0.5 percent over 2008, as measured by the Honolulu Consumer Price Index (CPI-U). By contrast the U.S. CPI-U declined 0.4 percent in 2009.

The second half of 2009 saw a slight uptick in the Honolulu CPI-U, with prices increasing 0.7 percent from the same 2008 half. This compared with a 0.3 percent increase in the first half of 2009.

The modest Honolulu CPI increase in 2009 was primarily due to the low, 0.4 percent increase in the housing component of the index and a 6.4 percent decline in transportation costs. Prices increased for most other goods and services, including the other goods and services category (8.1 percent), apparel (7.2 percent), education/communications (4.9 percent) and food & beverage (3.6 percent).

Total personal income in Hawaii (in current dollars) showed a slight, 0.3 percent increase for the third quarter of 2009 from the same quarter the year before, but that was thanks to a large increase in transfer payments to residents, including retirement and unemployment insurance benefits. The core of personal income, wages, salaries and proprietors' income, declined 0.4 percent. Dividends, interest, and rent, also declined.

The private sector (apart from farming) was the hardest hit by personal income declines in the third quarter, falling 3.5 percent below the third quarter of 2008. Farm income fell by 5.0 percent. Personal income in the public sector increased a substantial 5.9 percent in the third quarter from the year before, led by Federal agencies with an 8.0 percent increase.

State and local governments showed a moderate 2.6 percent increase in the third quarter. However, this will likely change when fourth quarter income becomes available and reflects the beginning of layoffs and furloughs in State government.

By private sector industry, forestry, fishery and related activity showed the steepest decline in the third quarter with a 21.7 decline in income from the 2008 third quarter. This was followed by a 16.5 percent decline in income for construction and a 6.3 percent decline among real estate, rental and leasing workers.

Gains in third quarter year-over-year personal income were experienced in utilities, up 10.4 percent, and health and social assistance, up 4.8 percent. In addition, education services and finance/insurance activity both showed increases of 3.7 percent in the third quarter.

The increase in transfer payments was 16.5 percent for the third quarter on a year-to-year basis. Transfers represent about 16 percent of total personal income, mostly social security payments. Unemployment payments in personal income increased nearly 200 percent in the third quarter. Unemployment payments are a relatively small portion of total transfer payments amounting to 9 percent of the total in the third quarter. However, that proportion is up from just 4 percent of transfers a year before and just 2 percent of the total in the full year of 2007.

Overall, personal income in Hawaii reached an annualized, $54.4 billion in the third quarter of 2009.

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Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

[In millions of dollars at seasonally adjusted annual rates and percent. As of *QSER September 2003*, according to NAICS classification only]

Series	Third Quarter 2008	*Third Quarter 2009*	*YTD 2008*	*YTD 2009*	*AnnAver 2007*	*AnnAver 2008*	Percentage change from: To Third Quarter 2009 From		To YTD 2009 from	Ann Aver
							Second Quarter 2009	*Third Quarter 2008*	YTD 2008	2008 from 2007
PERSONAL INCOME	54,310	54,498	54,160	54,375	52,253	54,175	-0.2	0.3	0.4	3.7
Earnings By Place of Work										
Wage and salary disbursements	41,270	41,100	41,328	41,140	40,319	41,284	-0.4	-0.4	-0.5	2.4
Supplements to wages and salaries	29,194	28,826	29,266	28,878	28,511	29,227	-0.5	-1.3	-1.3	2.5
Emp'er contrib. for emp'ee pension & ins. Funds	8,382	8,745	8,367	8,750	8,108	8,382	-0.6	4.3	4.6	3.4
Employer contributions for gov't social ins.	6,360	6,734	6,333	6,738	6,086	6,353	-0.7	5.9	6.4	4.4
Proprietors' income	2,022	2,012	2,033	2,013	2,022	2,029	-0.4	-0.5	-1.0	0.3
Farm proprietors' income	3,694	3,529	3,695	3,512	3,701	3,676	1.0	-4.5	-4.9	-0.7
Nonfarm proprietors' income	43	26	46	29	45	41	-25.7	-39.5	-37.2	-7.3
Dividends, interest, and rent	3,652	3,502	3,650	3,483	3,656	3,635	1.3	-4.1	-4.6	-0.6
Personal current transfer receipts	10,064	9,231	9,910	9,305	9,547	9,924	0.2	-8.3	-6.1	4.0
State unemployment insurance benefits	7,260	8,455	7,223	8,222	6,595	7,260	0.5	16.5	13.8	10.1
Personal current transfer receipts exc State U. I.	265	794	195	663	108	234	17.8	199.6	239.8	116.7
Less: Contributions for gov't social insurance	6,994	7,662	7,027	7,560	6,487	7,027	-1.0	9.6	7.6	8.3
Personal contributions for gov't social insurance	4,284	4,289	4,300	4,293	4,208	4,293	-0.5	0.1	-0.2	2.0
Employer contributions for gov't social insurance	2,262	2,277	2,267	2,280	2,186	2,265	-0.5	0.7	0.6	3.6
Earnings By Industry	2,022	2,012	2,033	2,013	2,022	2,029	-0.4	-0.5	-1.0	0.3
Farm Earnings										
Nonfarm Earnings	41,270	41,100	41,328	41,140	40,319	41,284	-0.4	-0.4	-0.5	2.4
Private earnings	222	211	224	212	228	220	-3.2	-5.0	-5.4	-3.5
Forestry, fishing, related activities, and other 1/	41,049	40,889	41,104	40,928	40,091	41,065	-0.4	-0.4	-0.4	2.4
Mining	27,316	26,347	27,538	26,339	27,287	27,435	0.0	-3.5	-4.4	0.5
Utilities	46	36	49	36	46	47	0.0	-21.7	-27.0	1.1
Construction	44	42	44	42	41	45	-2.3	-4.5	-4.5	10.5
Manufacturing	326	360	325	362	313	331	0.6	10.4	11.3	5.7
Durable goods	3,207	2,679	3,297	2,768	3,382	3,271	-2.9	-16.5	-16.0	-3.3
Nondurable goods	880	827	877	819	856	874	-0.4	-6.0	-6.6	2.1
Wholesale trade	327	295	320	298	312	322	0.3	-9.8	-6.7	3.3
Retail trade	553	531	558	520	544	552	-0.9	-4.0	-6.8	1.5
Transportation and warehousing	1,218	1,139	1,224	1,157	1,169	1,219	-1.7	-6.5	-5.5	4.3
Information	2,598	2,495	2,621	2,490	2,585	2,598	0.2	-4.0	-5.0	0.5
Finance and insurance	1,417	1,352	1,518	1,347	1,603	1,495	0.6	-4.6	-11.3	-6.7
Real estate and rental and leasing	698	662	710	663	740	711	0.0	-5.2	-6.7	-3.9
Professional and technical services	1,289	1,337	1,295	1,326	1,287	1,290	2.6	3.7	2.4	0.3
Management of companies and enterprises	829	777	849	766	911	836	2.2	-6.3	-9.9	-8.3
Administrative and waste services	2,553	2,559	2,522	2,550	2,420	2,525	0.9	0.2	1.1	4.3
Educational services	649	638	640	631	650	634	1.3	-1.7	-1.4	-2.5
Health care and social assistance	1,688	1,626	1,685	1,640	1,653	1,681	-1.0	-3.7	-2.7	1.7
Arts, entertainment, and recreation	625	648	611	644	571	616	1.4	3.7	5.4	7.8

Accommodation and food services	3,643	3,819	3,581	3,772	3,413	3,609	1.2	4.8	5.3	5.8
Other services, except public administration	531	500	527	504	513	533	-0.2	-5.8	-4.2	3.9
Government and government enterprises	3,389	3,226	3,479	3,185	3,507	3,438	0.0	-4.8	-8.5	-2.0
Federal	1,687	1,624	1,686	1,639	1,630	1,687	-1.0	-3.7	-2.8	3.5
Federal, civilian	13,732	14,542	13,566	14,590	12,805	13,630	-1.2	5.9	7.6	6.4
Military	8,327	8,997	8,219	8,960	7,773	8,258	-0.3	8.0	9.0	6.2
State and local	3,067	3,318	3,052	3,269	2,972	3,056	1.3	8.2	7.1	2.8

D Estimate is suppressed to avoid disclosure of confidential information.

1/ 2009 1st to 3rd Quarter revised on December 23, 2009.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, December 17, 2009 and revised on December 23, 2009 <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
1996	30,399	1.0
1997	31,372	3.2
1998	32,259	2.8
1999	33,244	3.1
2000	35,222	5.9
2001	35,937	2.0
2002	37,475	4.3
2003	39,032	4.2
2004	42,285	8.3
2005	45,332	7.2
2006	49,124	8.4
2007	52,253	6.4
2008	54,175	3.7
2009	54,375	0.4

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

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Table 6

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

Period	U.S.	Honolulu								
		All Items	Food & Beverag es	Housing	Apparel	Transport ation	Medical Care	Recreatio n 1/	Educ. & 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
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.599	105.239	122.843	395.186
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
2009H1	213.139	228.070	224.747	248.658	114.379	191.723	322.104	105.629	120.937	388.461
H2	215.9	232.026	223.887	250.811	111.244	208.870	321.094	104.848	124.749	401.910

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 19, 2010.

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	Transpor - tation	Medical Care	Recre- ation 1/	Educ. & Comm. 1/	Other Goods & Services
Percentage Change from the Same Period in Previous Year										
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
2009	-0.4	0.5	3.6	0.4	7.2	-6.4	1.1	0.0	4.9	8.1
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	2l	-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
2009H1	-0.6	0.3	5.8	0.8	8.0	-11.0	1.5	0.0	5.0	7.5
H2	-0.1	0.7	1.4	0.0	6.3	-1.7	0.8	-0.1	4.7	8.7

F. Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
G. NA Not available.
H. 1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
I. 2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
J. Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv>
K. and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 19, 2010.

Tourism

Hawaii's tourism sector, which has been in decline since the second quarter of 2008, appeared to be finding a bottom in the second half of 2009. Overall visitor arrivals by air increased 2.7 percent in the third quarter of 2009 from the previous year, and followed that with a smaller, but still positive 0.6 percent gain in the fourth quarter.

The average daily visitor census, which takes into account visitors' length of stay, increased 2.2 percent in the third quarter before slipping to a slight, 0.3 percent decline in the fourth quarter. Still this was a considerable improvement from the roughly 10 to 14 percent quarterly declines experienced though most of 2008 and into the first quarter of 2009.

Visitor expenditures are the lagging factor in tourism's turnaround. Total expenditures were down 2.2 percent in the fourth quarter from the year before. However, this is much better than the 9 to 19 percent declines experienced over the previous six calendar quarters.

The fourth quarter growth in total visitor arrivals was helped by a 6.8 percent increase in international arrivals compared with the year before. Arrivals on domestic flights declined 1.8 percent in the fourth quarter of 2009, down from a 2.8 percent increase in the third quarter.

For 2009 as a whole, visitor arrivals were down 4.4 percent, compared with a 10.4 percent decline in 2008. The daily visitor census showed a 3.8 percent decline in 2009 compared with an 8.9 percent fall in 2008. Finally, visitor expenditures for 2009 were down 11.7 percent, following an 11.1 percent decline in 2008.

The US West market area was the strongest in the fourth quarter with arrivals increasing 0.8 percent from the same 2008 quarter. Arrivals from the U.S. East declined 3.1 percent in the quarter.

Arrivals from Japan in the fourth quarter showed their first positive quarterly growth since the third quarter of 2007. In fact, it was only the second positive quarter for this market since the second quarter of 2005. Visitors from Japan in the fourth quarter increased 3.0 percent from the same period of 2008.

For 2009 as a whole, however, the U.S. West market was down 1.8 percent for arrivals, with the U.S. East market down 7.2 percent and Japan arrivals down 4.9 percent.

Total airline capacity, in terms of the number of available seats flown to Hawaii, declined 2.0 percent in the fourth quarter of 2009 from the previous year. A 1.9 percent increase in international seats was more than offset by a 3.5 percent decline in domestic seats. For 2009 as a whole, available seats declined 5.6 percent from 2008.

The statewide hotel occupancy rate in the fourth quarter of 2009 averaged 65.4 percent, up 1.6 percentage points from the same quarter of 2008. In 2009, the statewide hotel occupancy rate averaged 66.5 percent, down 4.0 percentage point from 2008.

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Table 7

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

	2006	2007	2008	2009 1/	% Change 2006-2007	% Change 2007-2008	% Change 2008-2009
Total Arrivals							
Total	7,528,106	7,496, 820	6,713,436	6,419,138	-0.4	-10.4	-4.4
Domestic	5,550,125	5,582,530	4,901,893	4,671,326	0.6	-12.2	-4.7
International	1,977,981	1,914,290	1,811,543	1,747,812	-3.2	-5.4	-3.5
Average Length of Stay							
Total	9.2	9.2	9.4	9.4	0.4	1.7	0.3
Domestic	9.8	9.9	10.1	10.1	0.4	2.0	-0.1
International	7.4	7.3	7.5	7.7	-0.4	2.4	2.2
Visitor Days							
Total	69,145,854	69,135,310	63,130,133	60,553,721	0.0	-8.7	-4.1
Domestic	54,584,048	55,100,441	49,497,350	47,109,324	0.9	-10.2	-4.8
International	14,561,806	14,034,869	13,632,783	13,444,397	-3.6	-2.9	-1.4
Average Daily Census							
Total	189,441	189,412	172,487	165,901	0.0	-8.9	-3.8
Domestic	149,545	150,960	135,239	129,067	0.9	-10.4	-4.6
International	39,895	38,452	37,248	36,834	-3.6	-3.1	-1.1

1/ 2009 data are preliminary.

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Table 8

HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**Annual Average**
In Percent					
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008[1/]	78.7	68.8	70.5	63.8	70.5
2009	69.0	63.0	68.6	65.4	66.5

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

1/ Source revises each month of 2008 when the 2009 is released.

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

L. Construction

Construction has been one of the major contributors to job growth in Hawaii in recent years. From 2002 to 2007, construction job growth averaged 8.0 percent per year. However, since 2007, construction jobs have declined, culminating in a 13.2 percent fall in jobs for 2009 as a whole. This was the highest rate of job loss among the major industries for 2009. From a high of 40,000 jobs in the fourth quarter of 2007, jobs have fallen to 31,950 in the fourth quarter of 2009, or more than 8,000 jobs.

Fourth quarter results show no improvement in the construction jobs situation, with the job count falling 14.1 percent from the same 2008 period.

The contracting tax base for construction is not yet available for the fourth quarter of 2009. However, data for the first 9 months was down 14.6 percent from 2008.

Building permit data are one indicator of construction expected to take place in the future. For the full year of 2009 permit values for private construction declined 31.2 percent. Quarterly, the steepest decline in year-to-year permits was the second quarter of 2008 which saw values fall by 55.1 percent. By the fourth quarter of 2009 the decline had flattened out to a slight but encouraging 0.1 percent gain in permit values from the same period a year before. Private building permit values increased in all counties for the fourth quarter of 2009 except in Hawaii County.

Gains in new commercial and industrial permits, as well as new residential permit values were the main factor in the stable fourth quarter authorizations total. The value of new residential permits rose 2.8 percent for the quarter, while commercial and the industrial permits were up an impressive 99.3 percent from the same period of 2008. The lagging segment in permit values was additions and alternations, which declined 23.1 percent for the quarter.

In dollar terms, Honolulu authorizations increased the most at $28.6 million or 10.9 percent, followed by Kauai at $1.0 million or 6.0 percent, and Maui at $0.3 million or 0.7 percent. Only the value of total private building permits in Hawaii County declined; by $29.5 million or 30.3 percent for the quarter.

Government construction activity was mixed. New government contracts awarded declined 33.7 percent in the fourth quarter of 2009 compared to the same quarter of 2008. For 2009 as a whole, government contracts awarded declined 18.3 percent.

However, actual State Government CIP expenditures increased 15.2 percent in the fourth quarter of 2009 from the same quarter in 2008 and posted a 12.1 percent increase for 2009 as a whole.

Honolulu’s median price for single family resales was $575,000 in 2009, a 7.9 percent decline from 2008. For condominium resales the decline was 7.1 percent to an averge $302,000.

Recently, resales of single family and condo units have accelerated. For the fourth quarter of 2009 the number of single-family units increased 31.0 percent while sales of condominium units were up 31.0 percent from the fourth quarter of 2008.

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Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(In millions of dollars)

Year	Contracting tax base 1/	Private Building Authorization 4/				Government Contracts Awarded
		Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	
In Millions of Dollars						
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	4,536.3	2,351.8	1,335.1	509.2	507.5	633.4
2004	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005	6,024.0	3,492.0	2,259.3	433.5	799.1	725.1
2006	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007	8,072,9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009	(NA)	1,998.9	799.2	284.8	914.9	778.6
2004 1 Qtr.	1,143.3	780.8	542.5	107.4	130.8	256.7
2 Qtr.	1,126.0	718.9	440.5	50.8	227.6	804.1
3 Qtr.	1,345.9	597.6	366.0	73.0	158.6	187.2
4 Qtr.	1,306.3	629.3	418.7	72.1	138.5	136.6
2005 1 Qtr.	1,440.9	706.5	420.3	48.7	237.6	213.6
2 Qtr.	1,429.8	728.5	450.7	103.4	174.4	105.5
3 Qtr.	1,608.1	1,050.5	662.1	220.1	168.4	314.4
4 Qtr.	1,545.1	1,006.4	726.2	61.4	218.8	91.5
2006 1 Qtr.	1,714.7	766.2	481.1	61.1	224.0	297.2
2 Qtr.	1,677.1	908.1	451.6	160.7	295.9	174.4
3 Qtr.	1,920.2	1,051.5	460.5	206.5	384.5	220.6
4 Qtr.	1,911.3	1,044.2	418.6	303.8	321.8	161.6
2007 1 Qtr.	1,991.0	737.1	412.1	59.7	265.3	180.1
2 Qtr.	2,081.1	1,085.7	668.8	222.6	194.2	317.7
3 Qtr.	1,924.9	896.3	412.1	144.3	339.9	255.1
4 Qtr.	2,075.9	866.3	362.3	277.2	226.8	116.5
2008 1 Qtr.	1,885.1	741.1	353.2	94.0	293.9	196.2
2 Qtr.	1,977.5	1,048.5	517.4	154.7	376.5	132.8
3 Qtr.	2,095.9	690.0	346.5	132.3	211.3	351.8
4 Qtr.	2,028.6	426.8	164.5	46.2	216.2	272.0
2009 1 Qtr.	1,779.9	542.2	276.3	38.8	227.0	167.2
2 Qtr.	1,726.6	470.7	160.5	97.3	212.8	197.3
3 Qtr.	1,580.1	558.8	193.4	56.5	308.9	233.8
4 Qtr.	(NA)	427.3	169.0	92.1	166.1	180.4

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 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED - CONTINUED
(Percentage Change from the Same Period in Previous Years)

Year	Contracting tax base 1/	Private Building Authorization 4/				Government Contracts Awarded
		Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	
Percentage Change from the Same Period in Previous Years						
1997	-10.4	5.5	11.4	4.6	-1.5	-30.5
1998	2.4	-10.6	-10.5	-22.3	-2.4	11.3
1999	-0.8	25.2	29.5	48.9	6.1	-14.6
2000 3/	20.8	14.6	27.3	-19.6	21.0	38.7
2001	4.2	4.8	10.3	33.7	-19.7	-11.7
2002 4/	13.5	11.7	26.1	-22.8	8.2	7.3
2003	6.1	32.7	20.0	100.3	25.3	-17.6
2004	8.5	15.9	32.4	-40.4	29.2	118.6
2005	22.4	28.1	27.8	43.0	21.9	-47.6
2006	19.9	8.0	-19.8	68.8	53.4	17.8
2007	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008	-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009	(NA)	-31.2	-42.2	-33.3	-16.7	-18.3
2004 1 Qtr.	1.9	19.2	66.4	-50.7	17.6	52.5
2 Qtr.	-1.2	1.5	13.2	-67.4	39.3	835.0
3 Qtr.	14.1	12.5	15.7	-17.0	25.3	-18.0
4 Qtr.	19.3	37.6	37.9	51.3	30.5	-9.4
2005 1 Qtr.	26.0	-9.5	-22.5	-54.7	81.6	-16.8
2 Qtr.	27.0	1.3	2.3	103.7	-23.4	-86.9
3 Qtr.	19.5	75.8	80.9	201.6	6.2	68.0
4 Qtr.	18.3	59.9	73.4	-14.8	57.9	-33.0
2006 1 Qtr.	19.0	8.4	14.5	25.6	-5.7	39.1
2 Qtr.	17.3	24.7	0.2	55.4	69.6	65.3
3 Qtr.	19.4	0.1	-30.5	-6.2	128.4	-29.8
4 Qtr.	23.7	3.8	-42.3	394.5	47.1	76.6
2007 1 Qtr.	16.1	-3.8	-14.3	-2.3	18.4	-39.4
2 Qtr.	24.1	19.6	48.1	38.6	-34.4	82.1
3 Qtr.	0.2	-14.8	-10.5	-30.1	-11.6	15.7
4 Qtr.	8.6	-17.0	-13.4	-8.7	-29.5	-27.9
2008 1 Qtr.	-5.3	0.5	-14.3	57.4	10.8	8.9
2 Qtr.	-5.0	-3.4	-22.6	-30.5	93.8	-58.2
3 Qtr.	8.9	-23.0	-15.9	-8.3	-37.8	37.9
4 Qtr.	-2.3	-50.7	-54.6	-83.3	-4.7	133.4
2009 1 Qtr.	-5.6	-26.8	-21.8	-58.7	-22.8	-14.8
2 Qtr.	-12.7	-55.1	-69.0	-37.1	-43.5	48.5
3 Qtr.	-24.6	-19.0	-44.2	-57.3	46.2	-33.5
4 Qtr.	(NA)	0.1	2.8	99.3	-23.1	-33.7

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 data for November consist of residential data only.

4/ Beginning in 2002 Kauai 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/	2009	1,998,908	-31.2	1,247,196	-15.8	309,165	-56.1	218,111	-21.3	224,437	-49.4
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
2/	2009	1 Qtr.	542,152	-26.8	247,996	-20.0	80,818	-66.9	140,896	76.7	72,440	-32.8
	2/	2 Qtr.	470,698	-55.1	316,321	-40.2	73,362	-60.8	22,792	-75.1	58,223	-75.9
	2/	3 Qtr.	558,792	-19.0	391,101	3.0	86,925	-50.6	36,298	-59.1	44,469	-3.1
	2/	4 Qtr.	427,266	0.1	291,778	10.9	68,060	-30.3	18,124	6.0	49,304	0.7

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 200lQ1 of 32,006; 2001Q2 of 22,290; 2001Q3 of 26,613; 2001Q4 of 53,344 and 2001 of 134,253

Source: County building departments.

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M. Federal Government Expenditures in Hawaii

According to the most recent data available, total federal direct expenditures or obligations in Hawaii reached $15.0 billion in the federal fiscal year ending September 30, 2008, an increase of 6.7% over the previous year. Between federal fiscal years 1997 and 2008, the annual average growth rate for federal expenditures was about 5.7%.

In 2008, total federal government compensation of employees in Hawaii reached $8,258.0 million, an increase of 6.2% from 2007. Between 1998 and 2008, the annual average growth rate for federal government compensation of employees in Hawaii was 6.8%. According to the most recent data available, federal government accounted for about 13.5% of State GDP in Hawaii in 2007, 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 2009 increased 8.0% compared to the same quarter of 2008. For the first three quarters of 2009, total earnings of federal government personnel increased 9.0% from the same period of 2008. YTD total military earnings and total federal civilian earnings increased 10.1% and 7.1%, respectively, from the same period of 2008.

N. Banks and Other Financial Institutions

As of June 30, 2009, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $32.15 billion, a 7.52% increase from June 30, 2008. The five State-chartered banks accounted for $31.45 billion of such assets.

O. 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, 2007 and 2008 amounted to 20.2 million short tons, 20.7 million short tons, 21.5 million short tons and 21.1 million short tons respectively.

The Harbors System is comprised of ten commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, and Kalaeloa Barbers Point Harbor 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 previously managed Kewalo Basin for its landowner, the Hawaii Community Development Authority (HCDA). Effective March 1, 2009, HCDA assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System ceased 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 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, 10,541 in fiscal year 2007 and 11,005 in fiscal year 2008.

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 2006, 10.2 million short tons in fiscal year 2007 and 10.1 million short tons in fiscal year 2008. The

State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Hawaii had been experiencing growth in cruise ship passenger volumes until recent years. The number of cruise ship visitor arrivals has increased from 415,967 in 2006 to 501,698 in 2007, a 20.6% 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.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan (HMP) 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 Plan under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the HMP is estimated at $618 million.

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 4,245.04 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 945.92 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 945.92 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 2001 and 2008, inclusive.

Table 11

MOTOR VEHICLE REGISTRATION

YEAR	**VEHICLES**
2001	967,146
2002	987,598
2003	1,030,845
2004	1,072,211
2005	1,119,838
2006	1,127,467
2007	1,134,542
2008	1,127,567

Source: HPMS database DOT and State of Hawaii Data Book

P. Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2009-2010 school year, system enrollment increased from a total of 177,871 in the 2008-2009 school year to a total of 178,649 in 285 K-12 public schools. The public education system of 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 and charter schools 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:

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

(ii) 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;

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

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

In the fall of 2008, 53,526 students attended the University of Hawaii system, 20,169 of them on the Manoa Campus. In the fall of 2009, 57,945 students attended the University of Hawaii system, 20,435 of them on the Manoa Campus.

Q. 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 D

CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement, the Certificate and the Twenty-ninth Supplemental Certificate. Reference is hereby made to the Certificate and the Twenty-ninth Supplemental Certificate for a complete recital of the terms therein, some of which are set forth below.

"***Accountant***" means the independent Certified Public Accountant or a firm of independent Certified Public Accountants of recognized standing employed by the Department pursuant to the Certificate and selected with special reference to his general knowledge, skill and experience in auditing books and accounts.

"***Additional Bond***" means any additional Bond at any time outstanding issued under the Certificate on parity with the Bonds.

"***Airport Revenue Fund***" means the special fund of that name created in the treasury of the State by Section 248-8, Hawaii Revised Statutes, as amended.

"***Annual Adjusted Debt Service Requirement***" means, with respect to any period of 12 consecutive months, the Debt Service Requirement for such period net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited, as the case may be, by the Director during such period into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account for the purposes of deposits into such accounts provided under the Certificate; and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited, as the case may be, by the Director during such period into the Interest Account for the purpose of paying interest on any Bonds as provided in a Supplemental Certificate.

"***Available PFC Revenues***" means, with respect to all or a series of the Bonds, or any particular amount of any Bonds, as the case may be, and as of any particular date of computation and for any particular year, the amount of PFC Revenues transferred or irrevocably committed to be transferred, as the case may be, by the Director from the PFC Special Fund for deposit in such year into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account for the purposes of deposits into such accounts provided under the Certificate, pursuant to a Supplemental Certificate providing for the use of such PFC Revenues. Any Available PFC Revenues so deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account pursuant to this paragraph shall be Revenues for all purposes of the Certificate until such time as the amendments to the Certificate under the Twenty-ninth Supplemental Certificate requiring 50% Bondholder consent become effective. Upon the effectiveness of such amendments to the Certificate under the Twenty-ninth Supplemental Certificate, Available PFC Revenues so deposited in the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account pursuant to this paragraph shall thereafter be excluded from Revenues and shall solely be used to determine the Annual Adjusted Debt Service Requirement.

"***Aviation Fuel Taxes***" means the aviation fuel taxes levied and paid pursuant to Sections 243-4(a)(2) and 248-8, Hawaii Revised Statutes, as amended.

"***Bond***" or "***Bonds***" mean any Bond, some of the Bonds or all of the Bonds issued under and at any time outstanding pursuant to the Certificate, including without limitation Additional Bonds at any time outstanding and refunding Bonds at any time outstanding.

"***Build America Bonds***" means Bonds issued and designated as "Build America Bonds" by the Director pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended.

"***Business Day***" shall mean a day: (i) other than a day on which banks located in Honolulu, Hawaii or the City of New York are required or authorized by law or executive order to be closed, (ii) other than a day on which the principal office of the Tender and Paying Agent is required or authorized by law or executive order to be closed, and (iii) on which the New York Stock Exchange is not closed.

"***Certificate***" means the Certificate as originally issued and, unless the context shall clearly indicate otherwise, as it may from time to time be supplemented, modified or amended by any Supplemental Certificate.

"***Code***" means the Internal Revenue Code of 1986, as amended.

"***Consulting Engineer***" means the individual engineer or firm of engineers appointed pursuant to the Certificate, who shall be an independent engineer or engineers, engineering firm or corporation, independent airport consultant or airport consulting firm and having a widely known reputation for skill and experience in the development, operation and management of airports of the approximate size and character as the airports constituting the Undertaking. The Consulting Engineer shall be available to advise the Department upon request, and make such investigations and determinations as may be necessary from time to time under the provisions of the Certificate.

"***Debt Service Requirement***" means with respect to all the Bonds or the 1969 Bonds or a series of Additional Bonds, or any particular amount of any of such Bonds, as the case may be, the total as of any particular date of computation and for any particular year of (i) the amount required to be paid or credited during such year to the Interest Account created in the Airport Revenue Fund to provide for the payment of interest on such Bonds; (ii) the amount required to be paid or credited during such year to the Serial Bond Principal Account created in the Airport Revenue Fund to provide for the retirement of any of such Bonds issued in serial form; and (iii) the amount required to be paid or credited during such year to the Sinking Fund Account created in the Airport Revenue Fund to provide for the retirement of any of such Bonds issued in term form.

"***Debt Service Reserve Requirement***" means, in connection with the issuance of any Additional Bonds, an amount equal to the sum of (i) the amount on deposit, immediately prior to the issuance of such Additional Bonds, in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein, and (ii) the least of (a) the amount which, if added to the amount then on deposit in the Airport Revenue Fund (assuming the amount on deposit is then equal to the Debt Service Reserve Requirement for all outstanding Bonds, if, however, the amount on deposit is less than the Debt Service Reserve Requirement for all outstanding Bonds and on credit to the Debt Service Reserve Account therein, would cause the total amount then on deposit in said fund and on credit to said account to equal the maximum aggregate Annual Adjusted Debt Service Requirement for all Bonds outstanding in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (b) 10% of the initial offering price to the public of such Additional Bonds as determined under the Code, or (c) 125% of the sum of the Annual Adjusted Debt Service Requirement for all Bonds outstanding for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of any Additional Bonds) and terminating with the last Fiscal Year in which any Debt Service Requirement for the Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the Department; provided, however, that in determining Annual Adjusted Debt Service Requirement with respect to any Bonds that constitute Variable Interest Rate Bonds, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been outstanding (or if such Bonds that constitute Variable Interest Rate Bonds have not yet been issued, then the interest rate on such Bonds shall be assumed to be equal to (i) for the first twelve (12) months, at the rate of interest for such Bonds as determined under the variable rate formula on the date of issue, and (ii) for each subsequent twelve (12) month period, at the rate of interest which is the weighted average rate of interest for such Bonds during the preceding twelve (12) month period). If, however, for purposes of (1) above, the amount on deposit is less than the required amount pursuant to Section 6.01, without giving effect to clause (2) therein, then the amount then on deposit in clause (1) above shall be replaced with the amount as required to be on deposit pursuant to Section 6.01, without giving effect to clauses (2) therein.

"***Department***" or "***Department of Transportation***" means the Department of Transportation established by Section 3 of the Hawaii State Government Reorganization Act of 1959 (Section 3 of Act 1, Session Laws of Hawaii, Second Special Session of 1959; Section 26¬4, Hawaii Revised Statutes).

"***Department of Budget and Finance***" means the principal department established under the name "Department of Budget and Review" by Section 3 of the Hawaii State Government Reorganization Act of 1959

(Section 3 of Act l, Session Laws of Hawaii, Second Special Session of 1959; Section 26-4, Hawaii Revised Statutes), which name was changed to "Department of Budget and Finance" by Act 114, Session Laws of Hawaii 1963 and which Department under the Hawaii State Government Reorganization Act of 1959 has custody of State funds and is responsible for the safekeeping, management, investment and disbursement thereof and administers State debts.

"***Department Payment***" means any payment, other than a termination payment or payment occurring as a result of default or expense payment, required to be made by or on behalf of the Department under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.

"***Derivative Payment Date***" means any date specified in the Derivative Product on which a Department Payment is due and payable under the Derivative Product.

"***Derivative Product***" means a written contract or agreement between the Department and a Reciprocal Payor, which provides that the Department's obligations thereunder will be conditioned on the absence of: (i) a failure of the Reciprocal Payor to make an payment required thereunder when due and payable, and (ii) a default thereunder with respect to the financial status of the Reciprocal Payor; and (a) under which the Department is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the Department Payments in exchange for the Reciprocal Payor's obligation to pay or to cause to be paid to the Department, on the same scheduled and specified Derivative Payment Dates, the Reciprocal Payments, *i.e.*, the contract must provide for net payments; (b) for which the Department's obligations to make all or any portion of Department Payments may be secured by a pledge of lien on Revenues on a lien subordinate to the lien thereon of Bonds; (c) under which Reciprocal Payments are to be made directly into a bond fund for Bonds; (d) for which the Department Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product; and (e) for which Reciprocal Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product.

"***Director***" or "***Director of Transportation***" means the single executive heading the Department pursuant to Section 26 of the Hawaii State Government Reorganization Act of 1959 (Section 26 of Act 1, Session Laws of Hawaii, Second Special Session of 1959; Section 26-19, Hawaii Revised Statutes).

"***Director of Finance***" means the single executive heading the Department of Budget and Finance pursuant to Section 14 of the Hawaii State Government Reorganization Act of 1959, as amended (Section 14 of Act 1, Session Laws of Hawaii, Second Special Session of 1959, as amended; Section 26-8, Hawaii Revised Statutes).

"***Federal Direct Payments***" means amounts payable by the federal government to the Department, pursuant to Sections 54AA and 6431 of the Internal Revenue Code of 1986, as amended, with respect to any Bonds issued by the Department and designated as "Build America Bonds," in lieu of any credit otherwise available to the Holders of such Bonds.

"***Fiscal Year***" means the fiscal year for the State as established from time to time by said State, currently the period from July 1 in any year to and including the following June 30.

"***Governmental Obligations***" shall mean any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures or notes issued by any of the following Federal agencies: Bank for Cooperatives, Federal Land Banks, or Federal National Mortgage Association (including Participation Certificates); (iii) Public Housing Bonds, Temporary Notes, or Preliminary Loan Notes, fully secured by contracts with the United States, or (iv) full faith and credit direct obligations of any State, or unlimited tax direct obligations of any political subdivision thereof to the payment of which the full faith and credit of such political subdivision is pledged; provided that at the time of purchase such obligations are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in both New York and the State.

"***Holder***" or "***Bondholder***" means any person who shall be the bearer of any Bond not then registered, or the registered owner or his duly authorized attorney-in-fact, representative or assigns, of any Bond which shall at the time be registered other than to bearer.

"***Investment Securities***" means any of the following which at the time are legal investments under the laws of the State for the moneys held under the Certificate then proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following Federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (a) the United States Export-Import Bank (Eximbank) direct obligations or fully guaranteed certificates of beneficial ownership, (b) Farmers Home Administration (FmHA) (now known as the United States Department of Agriculture, Rural Development) certificates of beneficial ownership, (c) Federal Financing Bank, (d) Federal Housing Administration Debentures (FHA), (e) General Services Administration participation certificates, (f) Government National Mortgage Association (GNMA or "Ginnie Mae"), (g) United States Maritime Administration Guaranteed Title XI financing, (h) United States Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures, United States Government guaranteed debentures, United States Public Housing Notes and Bonds, United States government guaranteed housing notes and bonds; (iii) Public Housing Bonds, Temporary Notes, or Preliminary Loan Notes, fully secured by contracts with the United States; (iv) full faith and credit direct obligations of any State, or unlimited tax direct obligations of any political subdivision thereof to the payment of which the full faith and credit of such political subdivision is pledged; provided that at the time of purchase such obligations are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in both New York and the State; (v) bank savings accounts, or time certificates of deposits, or certificates of deposit, open account; provided that such accounts or certificates are collaterally secured in the manner provided by Section 38-2, Hawaii Revised Statutes, by securities which themselves are then eligible under the above clauses (i) through (iv) of this definition for the investment of moneys held under the Certificate and which have a market value at least equal to the amount held in such bank savings accounts or held under such certificates of deposit; (vi) commercial paper which is rated at the time of purchase in the single highest classification: "A-1+" by Standard & Poor's Ratings Services, A Division of the McGraw Hill Companies, Inc. ("S&P") and "P-1" by Moody's Investors Service, Inc. ("Moody's"), and which have original maturities of not more than 270 days; (vii) (a) investments in money market funds having a rating of "AAAm", "AAAm G" or "AA-m" or better by S&P or "Aaa", "Aa1" or "Aa2" if rated by Moody's or (b) securities or interests in any mutual fund or any open-ended or closed-ended investment company or investment trust registered under the Federal Investment Company Act of 1940, including those mutual funds or investment companies or trusts for which the registration agent or an affiliate of the registration agent serves as an investment advisor, custodian, shareholder, servicing agent, transfer agent, administrator or distributor, if such mutual funds or investment companies or trusts are rated by S&P or Moody's in its highest rating category; (viii) (a) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (c) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively, "United States Obligations"); (ix) Federal Housing Administration Debentures; (x) the following obligations of government-sponsored agencies which are not backed by the full faith and credit of the U.S. government (stripped securities are only permitted if they have been stripped by the agency itself): (a) Federal Home Loan Banks (FHL Banks) Senior debt obligation, (b) Federal Home Loan (FMLMC), Participation Certificates; Senior debt obligations, (c) Federal National Mortgage Association (FNMA), Senior debt obligations, Mortgage-backed securities, (d) Student Loan Marketing Association (SLMA) Senior debt obligations, (e) Resolution Funding Corporation (REFCORP) debt obligations; (f) Farm Credit System, Consolidated system-wide bonds and notes; (xi) deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million; (xii) repurchase agreements with any domestic bank with a debt rated "AA" or better by S&P, or any foreign bank rated at least "AA" by S&P and "Aa" by Moody's, or with any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that such repurchase agreements meet the following requirements: (a) The market value of the collateral is maintain for United States Treasury Securities (and other United States Obligations acceptable to credit facility issuer) at levels acceptable to the credit facility issuer, (b) Failure to maintain the requisite collateral percentage will require the registration agent to liquidate the collateral, (c) The registration agent or a third party acting solely as agent for the registration agent has possession of the collateral or the collateral has been transferred to the registration agent in accordance with applicable state and federal laws (other than by means of entries on the repurchase agreement entity's books) at or before the time of payment, (d) The repurchase agreement shall state and an opinion of counsel shall be rendered that the registration agent has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof and to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds (in case of bearer securities, this means the trustee is in possession), (e) The collateral is free and clear of any third-party liens or claims, (f) An opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code, (g) There is or will be a written agreement governing every repurchase agreement transaction, (h) The registration agent represents that it has no knowledge of any fraud involved in the repurchase agreement transaction; (1) The registration agent receives the opinion of counsel (which opinion shall be addressed to the Department and the registration agent) that such repurchase agreement as legal, valid and binding and enforceable upon the provider in accordance with its terms, and that the repurchase agreement is a lawful investment for the funds of the State; (xiii) collateralized guaranteed investment contracts meeting the criteria then required by the issuer of any credit facility then in effect with respect to the Bonds outstanding; and (xiv) any pooled investment fund that invests solely in one or more of the investments described in (i) through (xiii) above.

"***Net Revenues and Taxes***" means for any past period the aggregate of the Revenues and collections of Aviation Fuel Taxes actually paid into the Airport Revenue Fund during such past period, and for any future period the aggregate of the Revenues and collections of Aviation Fuel Taxes anticipated to be paid into the Airport Revenue Fund during such future period, minus for any such past period the aggregate of the following items actually paid or accrued during such past period, or minus for any such future period the aggregate of the following items anticipated to be paid or accrued during such future period, as the case may be: (i) the expenses of operation, maintenance and repair of the properties constituting the Undertaking (including reserves therefor) and the expenses of the operation of the Department in connection with those properties; (ii) the amounts required by the Certificate to be credited to the Debt Service Reserve Account created in the Airport Revenue Fund; (iii) the amounts required by the Certificate to be credited to the Airports System Major Maintenance, Renewal and Replacement Account created in the Airport Revenue Fund; and (iv) the amounts required to be paid into the general fund of the State pursuant to the Certificate for all bond requirements for general obligation bonds which have been or are issued for purposes of the airports system or issued to refund bonds issued for such purposes.

"***Paying Agents***" means for all Bonds the Director of Finance of the State and for the 1969 Bonds the additional paying agents therefor appointed in the Certificate and for Additional Bonds the additional paying agents for the respective series of Additional Bonds of which such Additional Bonds are a part appointed, pursuant to the Certificate, in the Supplemental Certificate providing for the issuance of such series of Additional Bonds.

"***PFC***" means a passenger facility charge (i) collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Act of 1990, the Aviation Investment Reform Act of 2000 and 14 C.F.R. Part 158, as amended from time to time, in respect of any component of the Undertaking and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge proceeds; and (ii) deposited into the PFC Special Fund pursuant to Section 261-5.5, Hawaii Revised Statutes, as amended by Act 147, Session Laws of Hawaii 2009.

"***PFC Special Fund***" means the passenger facility charge special fund established in the treasury of the State by Section 261-5.5, Hawaii Revised Statutes, as amended by Act 147, Session Laws of Hawaii 2009.

"***Qualified Insurance***" means any non-cancelable municipal bond insurance policy or surety bond issued by an insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, is rated in the highest rating category by any rating agency which has rated all or any series of Bonds at the request of the State.

"***Qualified Letter of Credit***" means any irrevocable letter of credit issued by a financial institution, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest long term rating categories by one or more of the rating agencies which as rated all or any series of Bonds at the request of the State.

"***Reciprocal Payment***" means any payment to be made to, or for the benefit of, the Department under a Derivative Product by a Reciprocal Payor.

"***Reciprocal Payor***" means any bank or corporation, partnership or other entity which is a party to a Derivative Product and which is obligated to make one or more Reciprocal Payments thereunder.

"***Revenues***" means and includes all income, revenues and moneys derived by the State from the ownership by the State or operation and management by the Department of the Undertaking or the furnishing and supplying of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from the rates, rentals, fees and charges fixed, imposed and collected by the Department pursuant to Section 261-5, Hawaii Revised Statutes, as amended by Act 10, Session Laws of Hawaii 1969, and Section 261-7, Hawaii Revised Statutes, as amended or otherwise derived from or arising through the ownership, operation and management of the Undertaking by the State, or derived from the rental of all or part of the Undertaking or from the sale or rental of any commodities or goods in connection with the Undertaking; earnings on the investment of the proceeds of Bonds; to the extent provided in Section 6.02 of the Certificate, earnings on the investment of moneys held under the Certificate and the proceeds of the sale of any such investments; and to the extent provided in Article XI of the Certificate, income derived by the Department or otherwise derived by the State from a Special Facility Lease; provided, however, that the term "Revenues" shall not include moneys received as proceeds from the sale of Bonds or as grants or gifts, the use of which is limited by the grantor or donor to the construction of capital improvements, except to the extent that any such moneys shall be received as payments for the use of the Undertaking; and provided, further, that nothing in this definition shall be construed or interpreted as requiring the use and application directly or indirectly of any taxes, other than Aviation Fuel Taxes, to the payment of the Bonds. Additionally, the term "Revenues" shall not be construed to include the proceeds of any passenger facility charges which may be permitted by law, unless the inclusion of such proceeds is expressly provided for in a Supplemental Certificate.

"***Special Facility***" means any hangar, maintenance building or other structure and facility referred to under the caption "Special Facility Leases and Special Obligation Bonds" below.

"***Special Facility Lease***" means a lease for a Special Facility between the Department, as lessor, and the user of the Special Facility, as lessee, as described under the caption "Special Facility Leases and Special Obligation Bonds" below.

"***Special Obligation Bonds***" mean bonds of the Department issued to finance the construction of a Special Facility.

"***Spread***" means, with respect to the Make-Whole Redemption Premium for any particular Build America Bond, the percentage provided as such in a Supplemental Certificate.

"***State***" means the State of Hawaii.

"***Supplemental Certificate***" means a certificate duly issued by the Director for any of the purposes of Article IX of the Certificate or otherwise supplemental to or amendatory of the Certificate but only if and to the extent specifically authorized of the Certificate.

"***Treasury Yield***" means, with respect to the Make-Whole Redemption Premium for any Build America Bond, the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recent Federal Reserve Statistical Release H.15(519) under the heading "Treasury Constant Maturities," for the maturity corresponding to the remaining term to maturity of such Build America Bond being redeemed. The Treasury Yield will be determined as of the third Business Day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Build America Bond being redeemed, then the Treasury Yield will be equal to such weekly average yield. In all other cases, the Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Build America Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Build America Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

"***Undertaking***" or "***Airports System***" means the statewide system of airports of the State and includes all airports, air navigation facilities and other related facilities and related properties (real, personal or mixed), and any rights or interests in airports, air navigation facilities and other related facilities and related properties, as of the date of the Certificate or thereafter belonging to or controlled by the State or under the administration, jurisdiction, control and management of the Department, and all equipment, improvements, extensions or betterments thereto thereafter constructed or acquired belonging to or controlled by the State, and without limiting the generality of the foregoing, the term "Undertaking" shall include (i) any and all of the following of or belonging or pertaining to such airports or air navigational facilities or such rights or interests: lands or water areas, rights-of-way, approaches, contract rights, airport terminal buildings, hangars and other buildings and facilities erected on such lands, runways, taxiways, paved areas access roads, parking lots, airport equipment and any other equipment and property (real, personal or mixed) incidental, to and included in such properties or parts thereof ; and (ii) each and every and all and singular, the properties and facilities constructed or acquired from the proceeds of the Territory of Hawaii Aviation Revenue Bonds, Series A, issued under Resolutions Nos. 59-03 and 59-04, adopted March 31, 1959 by the Hawaii Aeronautics Commission of the former Territory of Hawaii, or constructed or acquired from the proceeds of Bonds issued under the Certificate or constructed or acquired from the proceeds of any other bonds, notes or other evidences of indebtedness payable, or the principal or interest or both of which is reimbursable, from the Airport Revenue Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the Airport Revenue Fund or from moneys in any other fund maintained therefrom; provided, however, that the term "Undertaking" shall not include: (1) properties sold, leased or otherwise disposed of or transferred pursuant to the Certificate; and (2) properties subject to a Special Facility Lease, except to the extent provided in the Certificate.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

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SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

This Appendix E contains a summary of certain provisions of the Certificate as currently in effect. The summary does not include summaries of the proposed amended provisions, certain of which amendments require consent of Bondholders. See "AMENDMENTS TO THE CERTIFICATE." The summary does not purport to be complete or to follow the exact language of the Certificate. The summary complements the summaries found under "DESCRIPTION OF THE SERIES 2010 BONDS" and "SECURITY FOR THE BONDS." Reference is made to the full text of the Certificate and the supplements thereto for the precise wording and the complete provisions of the Certificate. Copies of the Certificate are available upon request to the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

Application of Revenues and Aviation Fuel Taxes

So long as any Bonds remain outstanding, the Airport Revenue Fund shall be continued and all Revenues and all Aviation Fuel Taxes shall be deposited in the Airport Revenue Fund, to be used and applied solely as provided in the Certificate. The Airport Revenue Fund and the Revenues and Aviation Fuel Taxes and any other, moneys deposited or to be deposited therein shall be appropriated, applied or expended in the amount necessary therefor for the following purposes and in the following order of priority:

FIRST: For payment of the costs of operation, maintenance and repair of the properties constituting the Undertaking, including reserves therefor, and the expenses of the operation of the Department of Transportation in connection with those properties.

SECOND: For the payment when due all Bonds and interest thereon, including reserves therefor, which payment shall be provided for as follows:

Interest Account. Monthly credits shall be made to the Interest Account for the purpose of paying the interest on the Bonds as and when the same become due.

Serial Bond Principal Account. Monthly credits shall be made to the Serial Bond Principal Account for the purpose of paying the principal of Bonds issued in serial form, commencing with the first business day of the month which is twelve months prior to the first principal payment date of such Bonds issued in serial form and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Sinking Fund Account. Monthly credits shall be made to the Sinking Fund Account for the purpose of providing for the retirement of the principal of Bonds of any series issued in term form, commencing with the first business day of the month which is twelve months prior to the first date upon with Bonds of any series issued in term form would be required to be redeemed and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Application of Moneys Credited to the Interest Account, Serial Bond Principal Account and Sinking Fund Account. The moneys on deposit in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and the Sinking Fund Account therein shall be used and applied solely to the payment of the interest on and the retirement of the principal of the Bonds and shall be so used and applied in accordance with the foregoing provisions. The moneys credited to said accounts shall be transferred by the Director of Finance, without further authorization or direction, to the respective paying agents for said Bonds and the coupons, if any, pertaining thereto, in such amounts and at such times as shall be necessary to pay the principal, premium, if any, and interest on said Bonds as the same become due and payable, whether upon their maturity or upon the redemption or the purchase thereof from the moneys credited to the Sinking Fund Account.

Debt Service Reserve Account. The Debt Service Reserve Account is created in order to provide a reserve for the payment of the principal and interest and premium, if any, on the Bonds. Subject to the remaining provisions of this paragraph with respect to the credits to be made to the Debt Service Reserve Account upon the issuance of Additional Bonds, the moneys on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein shall always be maintained at an amount at least equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds at the time outstanding, and if at any time the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are less than said maximum amount required to be maintained therein, there shall be credited to this account from the first moneys available therefor after all payments and credits required by the preceding provisions of this priority item "SECOND" have been met, such amounts as shall be necessary until there is again on credit to the Debt Service Reserve Account an amount at least equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds at the time outstanding. If on the first day of any Fiscal Year the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are in excess of the maximum aggregate Debt Service Requirement for any future year for all Bonds at the time outstanding, the amount of such excess shall be paid into the Airport Revenue Fund, to be used and applied as are all other moneys deposited in or on deposit in that fund; provided that, in anticipation of the issuance of Additional Bonds hereunder, the Department may direct that all or part of such excess amount may be retained in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein. In the event of the issuance of any Additional Bonds, unless upon the delivery of such Additional Bonds there shall then already be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), there shall (1) be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein such amount, if any, of the proceeds of the sale of such Additional Bonds as the Department may determine, so that there shall then be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), or (2) if and to the extent there shall not be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein proceeds of such Additional Bonds in an amount so that there shall then be on credit to the Debt Service Reserve Account therein an amount equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds to be outstanding upon the issuance of such Additional Bonds, there shall be credited to the Debt Service Reserve Account, at such time or from time to time as the Department may determine, such amount or amounts, as the Department may determine, of the moneys available therefor after all payments and credits required by the preceding provisions of this priority item "SECOND" have been met, so that by no later than five (5) years from the date of such Additional Bonds there shall then be on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein an amount equal to the maximum aggregate Debt Service Requirement for any future year on all Bonds then outstanding, exclusive of other Additional Bonds which may have been issued during such five (5) year period and with respect to which credits are then being made to the Debt Service Reserve Account in accordance with this sentence. The moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein shall, except for the transfer therefrom to the Airport Revenue Fund of excess amounts therein as heretofore permitted in this paragraph, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the Bonds when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Sinking Fund Account in the Airport Revenue Fund, and shall be so used and applied whenever there are insufficient moneys in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and Sinking Fund Account therein for such purposes. Before, however, applying any moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein to such payment, there shall first be applied to such payment all other moneys in the Airport Revenue Fund lawfully available therefor, which other moneys shall also constitute a reserve hereunder for the payment of the principal, premium, if any, and interest on the Bonds. See "AMENDMENTS TO THE CERTIFICATE – Amendments Requiring Consent of Holders of 100% Principal Amount of Outstanding Bonds."

THIRD: The Major Maintenance, Renewal and Replacement Account provides a further and additional reserve for the payment of the Bonds. During each Fiscal Year, there shall be credited to the Major Maintenance, Renewal and Replacement Account, at such time or times in each Fiscal Year as shall be determined by the Department, an aggregate amount of $600,000, or such larger amount as the Department may from time to time determine) in each such year, or so much of such sum as is available for that purpose, until there shall be in the Airport Revenue Fund on credit to this account the sum of $2,400,000; provided, that, if the Consulting Engineer shall certify to the Department that in his opinion the aforesaid aggregate sum of $2,400,000 is insufficient for the purposes for which this account is created and if the Department in its sole discretion shall determine to increase said aggregate sum by all or any part of the amount of the increase recommended by the Consulting Engineer, the aforesaid credits to this account shall be resumed, or may be increased if credits to this account are then being made, until such larger sum (if any) deemed advisable by the Department is then on credit thereto. If, however, on the first day of any Fiscal Year the moneys credited to the Major Maintenance, Renewal and Replacement Account are in excess of $2,400,000 or such larger sum as is deemed advisable by the Department, as aforesaid, the amount of such excess may be transferred back into the Airport Revenue Fund, to be used and applied as are all other moneys deposited or on deposit in that fund. The money on credit to the Major Maintenance, Renewal and Replacement Account shall be applied only (i) to make up deficiencies in the Interest Account, Serial Bond Principal Account and Sinking Fund Account created in the Airport Revenue Fund, and (ii) for major maintenance, repairs, renewals and replacements as shall not be annually recurring in nature of the properties constituting the Undertaking, including runways, taxiways and access roads. Whenever moneys are withdrawn from this account, the aforesaid credits shall be resumed, or may be increased if credits to this account are then being made, until the amount on credit to this account shall equal the amount required to be on credit thereto from time to time. In addition, payment shall be provided for such purposes, within the jurisdiction, powers, duties and functions of the Department, including the creation and maintenance of reserves, as are otherwise covenanted in the Certificate or in any Supplemental Certificate.

FOURTH: To reimburse the general fund of the State for all bond requirements for general obligation bonds which are or shall have been issued for the Undertaking or issued to refund any of such general obligation bonds or to refund any of the Territory of Hawaii Aviation Revenue Bonds, Series A, except insofar as such obligation of reimbursement has been or shall be cancelled by the Legislature, such bond requirements being, unless otherwise provided by law, the interest on term and serial bonds, sinking fund for term bonds and principal of serial bonds maturing the following year.

FIFTH: To provide for betterments and improvements to the Undertaking, including reserves therefor.

SIXTH: To provide such special reserve funds and other special funds as are or may be created by law.

SEVENTH: To any other purpose connected with or pertaining to the Bonds or the Undertaking, or both, authorized by law.

In the event that the Revenues and Aviation Fuel Taxes at any time or from time to time are insufficient to make in full the foregoing payments, deposits and credits as required by and in accordance with items "FIRST through SEVENTH" above, all the Revenues and Aviation Fuel Taxes shall thereafter be applied, used, paid, deposited and credited, in accordance with all the foregoing provisions, to the satisfaction in full of an item having a higher priority before being applied, used, paid, deposited and credited to an item having a lower priority, including by the making up of any deficiencies in the amounts required to satisfy an item having a higher priority before being applied to an item having a lower priority.

Unless and until adequate provision has been made for the foregoing purposes, the State shall not have the right to transfer to its general fund or apply to any other purposes any part of the Revenues or Aviation Fuel Taxes.

The Debt Service Reserve Account shall be maintained by deposits of cash, a Qualified Letter of Credit or Qualified Insurance, or a combination of the foregoing. To the extent that the Department obtains a Qualified Letter of Credit or Qualified Insurance in substitution for cash or securities in the Debt Service Reserve Account, an amount of the money on deposit in the Debt Service Reserve Account equal to the face amount of the Qualified Letter of Credit or Qualified Insurance shall be transferred to the Airport Revenue Fund to be used and applied as are all other moneys deposited in or on deposit in that fund. In computing the amount on deposit in the Debt Service Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the face amount thereof, and all other obligations purchased as an investment of moneys therein shall be valued at market at least annually.

The market value of securities then credited to the Debt Service Reserve Account shall be determined and any deficiency in the Debt Service Reserve Account shall be made up in equal installments within six months after the date of such valuation. As used in this paragraph, the term cash shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's check.

Investment of Moneys in Funds and Accounts

Moneys in the Airport Revenue Fund on credit to the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account therein shall be invested by the Director of Finance in Investment Securities so as to mature in such amounts and at such times so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at the maturity thereof, or upon the redemption or the purchase thereof .from moneys credited to the Sinking Fund Account in said fund. Moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account and the Major Maintenance, Renewal and Replacement Account shall be invested by the Director of Finance in Investment Securities so as to mature as directed by the Department within twelve (12) years from the date of investment, but in any event by no later than the last or final maturity date of the Bonds then outstanding. The Department hereby grants its approval for all investments made by the Director of Finance pursuant to this paragraph, and no further. approvals of the Department shall be necessary therefor. Income derived from investments made pursuant to this paragraph shall be treated as Revenues of the Undertaking; expenses of purchase, safekeeping, sale and redemption and all other expenses attributable to such investments shall be proper expenses of the Undertaking. Securities so purchased shall be considered as being deposited in the custody or control of the Director of Finance by the Department of Transportation. All moneys in the Airport Revenue Fund, the investment of which is not heretofore provided in this paragraph, may be invested, and the income from such investments disbursed or applied, as may be provided by applicable law. All securities shall constitute a part of the respective fund and account from which the investment therein was made. For the purposes of making any calculations or computations at any time and from time to time of the amounts in the Airport Revenue Fund or any fund or account therein which may be required for the purposes of the Certificate, all investments shall be valued at the lower of their face amount or the then market value thereof.

The following shall be conditions precedent to the use of any Derivative Product: (1) the Department shall obtain an opinion of its bond counsel on the due authorization and execution of such Derivative Product opining that the action proposed to be taken by the Department is authorized or permitted by the Certificate or the applicable provisions of any Supplemental Certificate providing for the issuance of a series of Bonds, as such Certificates may be amended or supplemented from time to time and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any Bonds then outstanding; (2) each Derivative Product shall set forth the manner in which the payments are to be calculated and a schedule of Derivative Payment Dates; and (3) prior to entering into a Derivative Product, the Department shall issue a Supplemental Certificate, which shall (i) create and establish a Derivative Product Account or provide for some other way to account for the use of a Derivative Product; (ii) establish general provisions for the retention of Revenues in amounts sufficient to make, when due, payments by the Department; (iii) establish general provisions for the rights of providers of Derivative Products; and (iv) set forth such other matters as the Department deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Supplemental Certificate. Except as may be otherwise provided in the Supplemental Certificate establishing a Derivative Product Account, Additional Bonds may be delivered in connection with any Derivative Product. The Certificate may be amended in the future to reflect the lien position and priority of any payments made in connection with a Derivative Product; provided, however, that the lien on Net Revenues and Taxes of payments under Derivative Products must be subordinate to the lien thereon of outstanding Bonds.

Rate Covenant

The Department shall impose, prescribe and collect rates, rentals, fees or charges for the use and services of and the facilities and commodities furnished by the Undertaking, and shall revise such rates, rentals, fees or charges from time to time whenever necessary, so that, together with the proceeds of the Aviation Fuel Taxes, the Undertaking shall be and always remain self-sustaining. The rates, rentals, fees or charges imposed, prescribed and collected shall be such as will produce Revenues which, together with the proceeds of the Aviation Fuel Taxes, will be at least sufficient: (1) to make the required payments of the principal of and interest on all Bonds, including reserves therefor, and the payment of all other bonds, notes, certificates or other evidences of indebtedness and interest thereon, including reserves therefor for the payment of which the Revenues or the Aviation Fuel Taxes, or both, are or shall have been pledged, charged or otherwise encumbered, or which are otherwise payable from the Revenues or the Aviation Fuel Taxes, or both, or from a special fund or account maintained or to be maintained therefrom; (2) to pay the costs of operation, maintenance and repair of the Undertaking, including reserves therefor, and the expenses of the Department in connection with such operation, maintenance and repair; (3) if and to the extent then required by law, to reimburse the general fund of the State for all bond requirements for general obligation bonds which are or shall have been issued for the Undertaking, or issued to refund any of such general obligation bonds or to refund the Territory of Hawaii Aviation Revenue Bonds, Series A; and (4) to carry out the provisions and covenants of the Certificate, including, without limiting the generality of all the foregoing, the making of all payments and credits required the application of revenues provisions thereof. Without limiting the provisions of the next preceding sentence, at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, fixed, enforced and collected which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year which the Department shall certify as Revenues to the Director of Finance for the next succeeding Fiscal Year solely for the purposes of this test, yield Net Revenues and Taxes with respect to the then immediately ensuing twelve months in an amount at least equal to one and twenty five hundredths (1.25) times the aggregate of (i) the interest payments for such twelve months on all Bonds then outstanding; (ii) the principal amount of all Bonds then outstanding maturing by their terms during such twelve months; and (iii) the minimum payments into the Sinking Fund Account required to be made during such twelve months. See "AMENDMENTS TO THE CERTIFICATE – Amendments Requiring Consent of Holders of 50% of Principal Amount of Outstanding Bonds."

The Legislature of the State has covenanted, pledged and obligated itself to impose, or continue to impose, Aviation Fuel Taxes in amounts at least sufficient, together with the Revenues, so that the Undertaking shall be and always remain self-sustaining.

Other Covenants

In addition to the Rate Covenant, the Department also covenants to, among other things: (1) complete acquisitions and constructions promptly; keep the Undertaking in good repair; make improvements and betterments thereto, manage the Undertaking efficiently, not sell, lease or Dispose of the Undertaking and dispose of worn-out or useless property; (2) file with the Director of Finance a signed copy of the annual report of the Accountant for the preceding Fiscal Year in reasonable detail, and showing among other things for such year the Net Revenues and Taxes (including any unencumbered funds on deposit in the Airport Revenue Fund on the last day of the Fiscal Year preceding the Fiscal Year for which the calculation is made, so designated as Revenues by the Department to the Director of Finance) and the aggregate Debt Service Requirement of the Bonds; (3) not create or give any mortgage, lien, pledge, charge or other encumbrance upon any real or personal property constituting the Undertaking or upon the Revenues, the Aviation Fuel Taxes and the money in the Airport Revenue Fund, other than the liens, pledges and charges specifically created under the Certificate or specifically permitted thereby; (4) keep or cause to be kept insured the properties constituting the Undertaking; (5) maintain and keep proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking and cause such accounts to be audited by the Accountant within one hundred eighty (180) days after the close of each Fiscal Year; (6) retain and appoint from time to time a Consulting Engineer; (7) perform punctually all duties and obligations with respect to the properties constituting the Undertaking; (8) prepare and file with the Legislature and the proper officers of the State, including the Director of Finance, at the time and in the manner prescribed by law, an estimated budget or budgets of Revenues and Aviation Fuel Taxes and other income, expenses of operation, maintenance and repair of the Undertaking, capital improvements, and any other proposed expenditures; (9) duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges or surcharges or payments in lieu thereof lawfully imposed upon the properties constituting the Undertaking or upon the Revenues or upon the Aviation Fuel Taxes or upon the Airport Revenue Fund, or any required payments in lieu thereof; (10) employ competent supervisory personnel for the operation and management of the properties constituting the Undertaking; (11) pass, make, do, execute, acknowledge and deliver all and every such further certificates, resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming the rights, Revenues, Aviation Fuel Taxes and other funds hereby pledged to the payment of the Bonds; and (12) duly and punctually pay, but only from the proceeds of the Bonds and the Revenues and Aviation Fuel Taxes, the principal of and premium, if any, and interest on each and every Bond on the dates, at the place or places and in the manner provided in the Bonds.

Amending and Supplementing the Certificate

The Department may issue Supplemental Certificates to amend the Certificate without the consent of Bondholders, if the provisions of such Supplemental Certificate shall not adversely affect the rights of the holders of the Bonds then outstanding, for any one or more of the following purposes: (1) to make any changes or corrections in the Certificate or any Supplemental Certificate as to which it shall have been advised by its counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained herein or in any such Certificate supplemental hereto, or to insert such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable; provided that such modifications are not contrary to or inconsistent with the Certificate as originally issued or as amended with the consent of Bondholders; (2) to add additional covenants and agreements of the State for the purpose of further securing the payment of the Bonds; provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements contained in the Certificate as originally issued or as amended with the consent of Bondholders; (3) to surrender any right, power or privilege reserved to or conferred upon the State by the terms of the Certificate or any Supplemental Certificate; (4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any Supplemental Certificate; (5) to grant to or confer upon the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; (6) to prescribe further limitations and restrictions upon the issuance of the Bonds and the incurring of indebtedness by the State payable from the Revenues and Aviation Fuel Taxes which are not contrary to or inconsistent with the Certificate as originally issued or as amended with the consent of Bondholders; and (7) to modify in any other respect any of the provisions of the Certificate, or any Supplemental Certificate, previously adopted; provided that such modifications shall have no effect as to any Bond or Bonds which are outstanding as of the issuance of such Supplemental Certificate.

With the consent of the holders of not less than fifty per centum (50%) of the Bonds then outstanding, the Department may make and execute an instrument or certificate amending or supplementing the provisions of the Certificate for the purposes of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any Supplemental Certificate, or modifying in any manner the rights of the holders of the Bonds and coupons then outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no such instrument or certificate amending or supplementing the provisions of the Certificate shall: (1) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any such instrument or certificate amending or supplementing the provisions thereof; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured hereby. A modification or amendment of the provisions with respect to the Airport Revenue Fund or the Interest Account, Serial Bond Principal Account, Sinking Fund Account or Debt Service Reserve Account therein shall not be deemed a change in the terms of payment; provided, however, that no such modification or amendment shall, except upon the consent of the holders of all Bonds then outstanding affected thereby, reduce the amount or amounts required to be deposited in the Airport Revenue Fund for credit to the interest Account, Serial Bond Principal Account, Sinking Fund Account or Debt Service Reserve Account therein.

Upon the issuance of any Certificate amending or supplementing the provisions of the Certificate and the delivery thereof to the Director of Finance, together with an opinion of counsel to the Department, or upon such later date after delivery of such Certificate and opinion to the Director of Finance as may be specified in such Certificate, the Certificate and the Bonds shall be modified and amended in accordance with such Supplemental Certificate, and the respective rights, limitations of rights, obligations, duties and immunities under the Certificate of the State, including the Department of Transportation thereof, and of the holders of the Bonds and coupons shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all of the terms and conditions of any such amending or supplementing Certificate shall be a part of the terms and conditions of the Bonds and of the Certificate for any and all purposes.

No Certificate changing, amending or modifying any of the rights or obligations of the Director of Finance or other fiscal agent (including any paying agent, transfer agent or registrar) may be adopted without the written consent of the Director of Finance or other fiscal agent affected thereby, as the case may be.

Events of Default

The following constitute "Events of Default":

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

- If payment of any installment of interest on any Bond shall not be made within thirty days after the same shall become due and payable; or

- If the credits to the Sinking Fund Account in the Airport Revenue Fund shall not be made or satisfied in any year ending June 30 in the amount required for such year and such failure shall have continued for sixty (60) days after the expiration of such year; or

- Unless all the Bonds then outstanding shall have been called for retirement or for redemption, if the Undertaking or any building or facility constituting a part thereof shall be destroyed or damaged so as to reduce the aggregate of the Revenues and Aviation Fuel Taxes below the amount Rate Covenant to be produced and maintained and the Department does not, to the extent of the proceeds of insurance or self-insurance and the moneys on deposit in the Airport Revenue Fund to the credit of the Major Maintenance, Renewal and Replacement Account available therefor, promptly repair or reconstruct such destroyed or damaged building or facility, or does not promptly erect or substitute in place of the building or facility destroyed or damaged other buildings and facilities which produce revenues and with respect to which Aviation Fuel Taxes are derived, comparable to those produced by or derived with respect to the building or facility destroyed or damaged, and does not subject to the lien of the Certificate and deposit in the Revenue Fund an amount of the revenues to be derived therefrom or of the aviation fuel taxes derived with respect thereto, comparable to those theretofore derived from or with respect to the building or facility destroyed or damaged, which amounts so deposited shall constitute Revenues or Aviation Fuel Taxes as the case may be, to be used and applied as are all other Revenues and Aviation Fuel Taxes; provided that nothing in this clause shall be deemed to require the repairing, reconstruction or replacement of any building or facility which at the time of such destruction or damage was unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the security and payment of the Bonds; or

- If the Department shall fail in the due and punctual performance of the certain components of the Rate Covenant, or shall fail to impose, prescribe, and collect rates, rentals, fees and charges for the use and services of and the facilities and commodities furnished by the Undertaking, and to revise such rates, rentals, fees and charges from time to time whenever necessary, so as to produce Revenues and Aviation Fuel Taxes which are at least equal to the greater of (1) the aggregate of the amounts required for the Undertaking to be self-sufficient under the Certificate, and (2) the amount equal, after deducting from the Revenues and Aviation Fuel Taxes the payments and credits required to be transferred to the Interest Account, Serial Bond Principal Account, Sinking Fund Account and Debt Service Reserve Account for the payment of debt service on Bonds during the then immediately ensuing twelve months, to one and twenty-five hundredths (1.25) times the aggregate Debt Service Requirement for such twelve months for all Bonds then outstanding, or if the Legislature of the State shall fail in the due and punctual performance of its pledge, covenant and obligation to impose, or continue to impose, Aviation Fuel Taxes in amounts which, together with the Revenues, aggregate at least the greater of the amounts set forth in clauses (1) and (2) of this paragraph, and any such failure shall continue for ninety days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Department by the holders of not less than twenty per cent (20%) of the principal amount of the Bonds then outstanding or any trustee or committee therefor; or

- If the Department shall fail in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate (other than the covenants, conditions, agreements and provisions regarding the Rate Covenant) or in any Supplemental Certificate, on the part of the Department to be performed, and such failure shall continue for ninety (90) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Department by the holders of not less than twenty per cent (20%) in principal amount of the Bonds then outstanding or any trustee or committee therefor; or

- If any proceedings shall be instituted, with the consent or acquiescence of the State, for the purpose of effecting a composition between the State and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or Aviation Fuel Taxes or any other moneys pledged and charged in any Supplemental Certificate, or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute; or

- If an order or decree shall be entered (a) with the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof; or (b) without the consent or acquiescence of the State or the Department, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities 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

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

- If the Department shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

Remedies

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 certain provisions of the Certificate concerning certain remedies, the holder of any Bond at the time outstanding shall have the right, for the equal benefit and protection of all holders of the Bonds similarly situated, to proceed and protect and enforce the rights vested in such holders by the Certificate by such appropriate judicial proceeding as such holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any duty, obligation, covenant or agreement contained in the Certificate or required by law, or to enjoin any acts or things which may be unlawful or in violation of the provisions of the Certificate and of the rights of the holders of the Bonds under the Certificate or under such laws, or in aid of the exercise of any power granted in the Certificate, or to enforce any other legal or equitable right vested in the holders of Bonds by the Certificate or by law, or to bring suit upon the Bonds.

Special Facility Leases and Special Obligation Bonds

The State, either in its own name or acting by and through the Department, may enter into contracts, leases or other agreements pursuant to which the Department will agree to construct a hangar, maintenance building or other aviation or airport or air navigation facility on land constituting part of the Undertaking or will agree to acquire or construct a hangar, maintenance building or other aviation or airport or air navigation facility on land not then constituting part of the Undertaking (which land if not then owned by the State may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure, or other facility (including the site thereof) for aviation or airport or air navigation purposes (all said hangars, maintenance buildings or other structures and facilities being referred to in under this heading as the "Special Facility"), and lease such Special Facility under certain conditions as provided in the Certificate.

The term "Special Facility Lease" shall mean a lease of property, under and pursuant to which the lessee agrees to pay to the Department the certain required rentals as provided in the Certificate, and to pay in addition all costs connected with the ownership, operation, maintenance, repair, renewals and rehabilitation of the leased property (including, without limitation, insurance, utilities, taxes or payments in lieu of taxes) under such conditions so that the amounts payable to the Department pursuant to said lease (exclusive of certain additional rental and of the ground rental, if any, in each case payable pursuant to the Certificate) shall be certainly paid free and clear of all charges and whether the leased property is capable of being occupied and used by the lessee or not.

The State, acting by and through the Department or otherwise, may issue Special Obligation Bonds for the purpose of constructing a Special Facility on ground then constituting part of the Undertaking or on ground not then constituting part of the Undertaking (which ground may then be owned by the State or acquired for that purpose), or to acquire and renovate and rehabilitate a Special Facility (including the acquisition of necessary land), for lease pursuant to the Certificate. Such Special Obligation Bonds (i) shall be payable solely from the rentals payable pursuant to the Certificate by the lessee under the Special Facility Lease entered into with respect to the Special Facility to be financed from such Special Obligation Bonds; (ii) shall not be a charge or claim against or payable from the Revenues or the Aviation Fuel Taxes or any other moneys in the Airport Revenue Fund; (iii) shall mature within both the useful life of the Special Facility to be financed from such Special Obligation Bonds and the term of the Special Facility Lease entered into with respect to such Special Facility; and (iv) shall not be issued unless and until there shall have been filed with the Department an opinion of Counsel to the Department that the leases for the Special Facility to be financed from such Special Obligation Bonds are valid and binding according to their terms and comply with the provisions of the Certificate.

Discharge of Obligations

The obligations of the State, including the Department, under the Certificate (including any Supplemental Certificate) and the pledges and trusts and the covenants and agreements of the State, including the Department, shall be fully discharged and satisfied as to any Bond, and the lien and charge of such Bond on the Revenues and Aviation Fuel Taxes shall be released, discharged and satisfied, and such Bond shall no longer be deemed to be outstanding hereunder when: (a) such Bond shall have been purchased and cancelled by the State or surrendered to the Director of Finance or other paying agent, transfer agent or registrar for cancellation or be subject to cancellation by him or it, or (b) payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in the Certificate, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with the Director of Finance or other paying agent for such Bond, in trust and irrevocably set aside exclusively for such payment, moneys sufficient to make such payment or Governmental Obligations 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, and all necessary and proper fees, compensation and expenses of the paying agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of said paying agents. At such time as a Bond shall no longer be deemed to be outstanding hereunder, 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 by declaration as aforesaid, or otherwise) and, except for the purposes of any such payment from such moneys or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Certificate.

If any Bond shall not be presented for payment when the principal thereof shall become due, whether at maturity or upon redemption or prepayment or by declaration as provided in the Certificate or otherwise, or if any coupon shall not be presented for payment at the due date thereof, and if moneys or Governmental Obligations shall have been deposited in accordance with the terms of the Certificate with any paying agent therefor other than the Director of Finance, in trust for that purpose and sufficient and available to pay the principal and the premium, if any, of such Bond, together with all interest due thereon to the due date thereof or to the date fixed for the redemption or prepayment thereof, or to pay such coupon, as the case may be, then, subject to certain provisions the Certificate, all liability of the State for such payment shall forthwith cease, determine and be completely discharged and thereupon it shall be the duty of such paying agent to hold said moneys or Government Obligations, without liability to such Bondholder for interest thereon, in trust for the benefit of the holder of such Bond or coupon, who thereafter shall be restricted exclusively to said moneys or Governmental Obligations for any claim for such payment of whatsoever nature on his part.

All moneys or Governmental Obligations set aside and held in trust, pursuant to the provisions of the Certificate concerning the discharge of obligations of the State, for the payment of Bonds (including interest and premium thereon, if any) and coupons shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Governmental Obligations have been so set aside in trust. The State may at any time surrender to the Director of Finance for cancellation by him any Bonds previously executed and delivered, together with all unmatured coupons thereto belonging, which the State may have acquired in any manner whatsoever, and such Bonds and coupons upon such surrender for cancellation shall be deemed to be paid and no longer outstanding hereunder.

APPENDIX F

FORM OF BOND COUNSEL OPINION

APPENDIX F

FORM OF BOND COUNSEL OPINION

April 7, 2010

State of Hawaii
Honolulu, Hawaii

$478,980,000	**$166,000,000**
State of Hawaii	**State of Hawaii**
Airport System Revenue Bonds,	**Airport System Revenue Bonds,**
Series 2010A	**Refunding Series 2010B**
(NON-AMT)	**(AMT)**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of $478,980,000 aggregate principal amount of State of Hawaii Airport System Revenue Bonds, Series 2010A (NON-AMT) (the "Series 2010A Bonds") and $166,000,000 aggregate principal amount of State of Hawaii Airport System Revenue Bonds, Refunding Series 2010B (AMT) (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, the "Bonds"), pursuant to the provisions of Part III of Chapter 39, Hawaii Revised Statutes, and under and pursuant to the Certificate of the Director of Transportation of the State of Hawaii dated as of May 1, 1969, entitled "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds", as amended and supplemented (the "Certificate") and the Twenty-ninth Supplemental Certificate of said Director of Transportation Amending the Certificate of the Director of Transportation Dated as of May 1, 1969, As Heretofore Amended and Supplemented, and Providing for the Issuance of State of Hawaii Airports System Revenue Bonds Series 2010A (NON-AMT) and Refunding Series 2010B (AMT) (the "Twenty-Ninth Certificate").

The Internal Revenue Code (the "Code") contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. These requirements relate to, among other things, the use and investment of the proceeds of the Bonds, the periodic payment of certain amounts to the United States of America, and the use and tax ownership of any property financed or refinanced with proceeds of the Bonds. In the Tax Compliance Certificate dated as of April 7, 2010 (the "Tax Certificate"), the Department of Transportation has made certain certifications and representations and made certain covenants with respect to the Bonds in order to comply with these requirements. Without independent investigation on our part, our opinions expressly assume and rely upon as being true, correct and complete, the certifications and representations set forth in the Tax Certificate.

In rendering our opinions set forth herein, we have also assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. 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 Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes under the Code.

The rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. 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 existing law and in reliance thereon, as of the date hereof, we are of the following opinions:

(1) The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of Hawaii and constitute valid special obligations of the State of Hawaii payable, on parity with all bonds heretofore or hereafter issued under said Certificate, solely from, and secured equally and ratably with said bonds solely by a prior and paramount lien and charge on, the aviation fuel taxes levied and paid pursuant to Sections 243-4(a)(2) and 248-8, Hawaii Revised Statutes, and the Revenues of the Statewide system of airports of said State.

(2) The provisions of the aforesaid Certificate and Twenty-Ninth Certificate are valid in accordance with their terms, and that the Department of Transportation of said State has power and is obligated to impose, prescribe and collect rates, rentals, fees or charges for the use and services of and facilities and commodities furnished by the aforesaid Statewide system of airports, and to revise such rates, rentals, fees or charges from time to time whenever necessary, so that, together with the proceeds of said aviation fuel taxes, said airports system shall be and always remain self-sustaining, which rates, rentals, fees or charges so imposed, prescribed and collected shall be such as will produce Revenues which, together with the proceeds of said aviation fuel taxes, will be at least sufficient to pay when due the principal of and interest on the Refunding Bonds and any other bonds heretofore or hereafter issued under the aforesaid Certificate, including reserves therefor; to pay the costs of operation, maintenance and repair of said airports system, including reserves therefor, and the expenses of the Department of Transportation in connection therewith; to reimburse the general fund of the State for all debt service requirements for all general obligation bonds which are or shall have been issued for said airports system, to the extent required by law; and to carry out the provisions and covenants of the aforesaid Certificate and certificates amendatory and supplemental thereto, including the Twenty-Ninth Supplemental Certificate.

(3) Interest on the Series 2010A Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Series 2010A Bond is held by a person who is a substantial user of the financed facilities or by a related person (as defined in Code Section 147(a)), and such interest is not treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers and is not included in the adjusted current earnings of certain corporations for purposes of computing their alternative minimum tax.

(4) Interest on the Series 2010B Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Series 2010B Bond is held by a person who is a substantial user of the financed facilities or by a related person, and such interest is treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers under the Code.

(5) Interest on the Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the

franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2010 Bonds or income therefrom.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We have not undertaken to determine, or to inform any person, as to any change in any existing law, regulation, ruling or judicial decision or the effect of any such change. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated April 7, 2010

$644,980,000
State of Hawaii
Airports System Revenue Bonds
Consisting of
$478,980,000 Series 2010A (NON-AMT) and
$166,000,000 Refunding Series 2010B (AMT)

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") acting through the State Director of Transportation (the "Director of Transportation") in connection with the issuance of its $478,980,000 State of Hawaii Airports System Revenue Bonds Series 2010A (NON-AMT), and its $166,000,000 State of Hawaii Airports System Revenue Bonds, Refunding Series 2010B (AMT) (collectively, the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Transportation of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to the Bond Certificate, the State covenants and agrees as follows:

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

Section 2. Definitions. In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the State acting through the Director of Transportation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"*Dissemination Agent*" shall mean the Director of Transportation or any successor Dissemination Agent designated in writing by the State acting through the Director of Transportation and which has filed with the State a written acceptance of such designation.

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

“*Listed Events*” shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

“*MSRB*” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (“EMMA”) website of the MSRB, currently located at http//:emma.msrb.org.

“*Participating Underwriters*” shall mean any original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” shall mean Rule l5c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. *Provision of Annual Reports*. (a) The State acting through the Director of Transportation shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State’s fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2010, provide to the MSRB an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the Department of Transportation, Airports Division may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 Business Days prior to said date, the State acting through the Director of Transportation shall provide the Annual Report to the Dissemination Agent (if other than the Director of Transportation). If the State acting through the Director of Transportation is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the State acting through the Director of Transportation shall send a notice to the MSRB in substantially the form attached as Exhibit B.

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

Section 4. *Contents of Annual Reports*. The Department of Transportation, Airports Division Annual Report shall contain or include by reference information of the type included in the final Official Statement (the “Official Statement”) dated March 24, 2010, relating to the

Bonds as set forth under the subheadings "Sources of Revenues and Aviation Fuel Taxes – Aeronautical Revenues, Aviation Fuel Taxes, Concession Fees and Non-Aeronautical Revenues other than Concession Fees", "THE AIRPORTS SYSTEM – Airline Service and Passenger Activity Operations, Airline Operations and Financial Information.".

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

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been available to the public on the MSRB's website. The State acting through the Department of Transportation shall clearly identify each such other document so included by reference.

Section 5. *Reporting of Significant Events*. (a) Pursuant to the provisions of this Section 5, the State acting through the Department of Transportation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on the credit enhancements reflecting financial difficulties;

10. Substitution of the credit or liquidity providers or their failure to perform;

11. release, substitution or sale of property securing repayment of the Bonds, or

12. any proceeds of Bonds remaining unexpended at the end of the later of (i) the third anniversary of the date of the issuance of the Bonds, or (ii) longer period pursuant to any extension of the expenditure period as may be granted the Internal Revenue Service.

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

(c) If the State acting through the Department of Transportation determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the State acting through the Director of Transportation shall promptly file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in Subsections (a)(4) and (5) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Certificate.

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

Section 7. Dissemination Agent. The State acting through the Department of Transportation 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 State acting through the Department of Transportation pursuant to this Disclosure Certificate.

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

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

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

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or Waiver of a provision of this Disclosure Certificate, the State acting through the Director of Transportation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State acting through the Director of Transportation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

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

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

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

STATE OF HAWAII

By ________________________________

Director of Transportation
State of Hawaii

EXHIBIT A

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

Name of Issuer:	State of Hawaii
Names of Bond Issues:	State of Hawaii Airports System Revenue Bonds Series 2010A (NON-AMT) and Refunding Series 2010B (AMT)
Date of Issuance:	April ___, 2010

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated April ___, 2010. [The State anticipates that the Annual Report will be filed by .]

Dates:

STATE OF HAWAII
Acting through the Department of Transportation

By ______________________________________
Title _____________________________________

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APPENDIX H

BOOK-ENTRY SYSTEM

APPENDIX H

BOOK-ENTRY SYSTEM

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

DTC and ITS Participants. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section17A of the Securities Exchange Act of 1934. DTC holds securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (for the purposes of the discussion under "Book-Entry System," a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

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

Notices and Other Communications. 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. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal of and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has no reason to believe that it will not receive payment on the payment date. 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 State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices of the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by the DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Bonds or (v) any other event or purpose.