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 Refunding 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,” interest on the Refunding Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Refunding 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 Refunding 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 Refunding Bonds or income therefrom.

$300,885,000
STATE OF HAWAII
Airports System Revenue Bonds
Refunding Series 2011
(AMT)

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

The above referenced Refunding Bonds are being issued for the purpose of providing funds to refund certain outstanding Airports System Revenue Bonds of the State of Hawaii (the “State”). The Refunding Bonds are special limited obligations of the State, payable solely from and secured solely by the Revenues (as defined below) 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 Refunding Bonds. The Refunding 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 January 1, 2012. The Refunding Bonds are subject to redemption prior to maturity thereof upon the terms and conditions and at the price as described herein. This cover page contains certain information regarding the Refunding Bonds for reference only. It is not a summary of the Refunding Bonds. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Refunding 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 Refunding Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants. Purchases of the Refunding Bonds will initially be made in denominations of $5,000 or integral multiples thereof. Beneficial owners of the Refunding Bonds will not receive physical delivery of Refunding Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Refunding Bonds. So long as DTC or its nominee is the registered owner of the Refunding Bonds, payment of the principal of, and premium, if any, and interest on, the Refunding 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 REFUNDING BONDS – Book-Entry Only System” herein).

The Refunding 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 Refunding Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Refunding Bonds.

The Refunding 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 Co-Counsels, Alston Hunt Floyd & Ing and Ching, Yuen & Morikawa. It is expected that the Refunding Bonds in definitive form will be available for delivery on or about October 4, 2011.

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

RBC Capital Markets **Siebert Brandford Shank & Co., L.L.C.**

Dated: September 14, 2011

$300,885,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS
REFUNDING SERIES 2011
(AMT)

Maturity (July 1)	Amount ($)	Interest Rate (%)	Yield (%)	CUSIP†
2012	12,000,000	2.000	0.550	419794YL0
2013	14,710,000	4.000	1.000	419794YZ9
2013	10,290,000	2.000	1.000	419794YM8
2014	13,335,000	5.000	1.330	419794ZA3
2014	6,765,000	2.250	1.330	419794YN6
2015	16,255,000	4.000	1.690	419794ZB1
2015	1,000,000	2.500	1.690	419794YP1
2016	14,625,000	4.000	2.200	419794ZC9
2016	3,300,000	3.000	2.200	419794YQ9
2017	9,900,000	4.000	2.630	419794ZK1
2017	1,220,000	3.000	2.630	419794YR7
2017	7,500,000	5.000	2.630	419794ZD7
2018	19,185,000	4.000	2.990	419794ZE5
2018	235,000	3.000	2.990	419794YS5
2019	18,845,000	5.000	3.300	419794ZF2
2019	1,320,000	3.250	3.300	419794YT3
2020	14,585,000	4.500	3.540	419794ZG0
2020	735,000	3.500	3.540	419794YU0
2021	32,170,000	5.000	3.690	419794ZH8
2021	125,000	3.750	3.690	419794YV8
2022	31,170,000	5.000	3.850	419794YW6
2023	34,930,000	5.000	4.020	419794YX4
2024	26,955,000	5.000	4.170	419794ZJ4
2024	9,730,000	4.125	4.170	419794YY2

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

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

IN CONNECTION WITH THE OFFERING OF THE REFUNDING BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE REFUNDING 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

Neil Abercrombie, Governor

Brian Schatz, Lieutenant Governor

COMMISSION ON TRANSPORTATION

Ku'uhaku Park, Chair
William Lindemann, Vice Chair
John A. Ervin
Lester H. Fukuda
Ralph J.W.K. Hiatt
Richard Houck
Eric Matsuda
Owen Miyamoto
Pete Pascua
John B. Ray
Shawn M. Smith

DEPARTMENT OF TRANSPORTATION

Director	Glenn M.Okimoto, Ph.D
Deputy Director, Airports	Ford N. Fuchigami
Deputy Director, Harbors	Randy Grune
Deputy Director, Projects	Jadine Urasaki
Deputy Director, Administration	Jade T. Butay
Administrator, Airports Division	Vacant
Administrator, Harbors Division	Davis K. Yogi
Administrator, Highways Division	Edwin H. Sniffen

SPECIAL SERVICES

Paying Agent and Registrar
Director of Finance
Honolulu, Hawaii

Consulting Engineer
LeighFisher Inc.
Burlingame, California

Bond Counsel
Katten Muchin Rosenman LLP
New York, New York

Pricing Advisor
The PFM Group

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OFFICIAL STATEMENT

$300,885,000
STATE OF HAWAII
Airports System Revenue Bonds
Refunding Series 2011
(AMT)

INTRODUCTION

This Official Statement, which includes the cover page and appendices (the "Official Statement"), provides information on the sale and issuance of $300,885,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2011 (AMT) (the "Refunding Bonds"). See "DESCRIPTION OF THE REFUNDING BONDS" for a description of the principal terms of the Refunding 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 C – "Certain Definitions" and Appendix D – "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 Refunding 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 Thirtieth Supplemental Certificate, dated as of September 14, 2011 (the "Thirtieth Supplemental Certificate"). Pursuant to the Certificate, the State has previously issued 32 Series of State of Hawaii Airports System Revenue Bonds (the "Prior Bonds"). As of June 30, 2011, $992,780,000 of the Prior Bonds were outstanding. The outstanding Prior Bonds, the Refunding Bonds and any additional parity bonds issued by the State under the Certificate are collectively referred to herein as the "Bonds."

The Refunding Bonds are being issued to provide for the current refunding of $322,720,000 aggregate principal amount of certain State of Hawaii Airport System Revenue Bonds, Refunding Series of 2001 as described in "PLAN OF FINANCE – Refunding."

The Bonds, including the Refunding 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 Refunding 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 Refunding Bonds. All Bonds, including the Refunding 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 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 Refunding 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 Refunding Bonds are qualified by the definitive forms of such Certificate and the Refunding 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 – Audited Financial Statements for fiscal year 2010 (with Independent Auditors' Report thereon) of the Airports Division, Department of Transportation, State of Hawaii for the fiscal year ended June 30, 2010; Appendix B – General Economic Information about the State of Hawaii; Appendix C – Certain Definitions; Appendix D – Summary of Certain Provisions of the Certificate; Appendix E – Form of Bond Counsel Opinion; Appendix F – Form of Continuing Disclosure Certificate; and Appendix G – 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, has been prepared by, and is the responsibility of, the Airports Division management. KPMG 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 A 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 REFUNDING BONDS

General Provisions Regarding the Refunding Bonds

The Refunding 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 Refunding Bonds will be available in denominations of $5,000 and integral multiples thereof. Interest on the Refunding Bonds will be payable on January 1, 2012 and on each July 1 and January 1 thereafter.

So long as Cede & Co. is the registered owner of the Refunding Bonds, all payments of principal, premium, if any, and interest on the Refunding 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 G – "Book-Entry Only System."

Redemption

Optional Redemption of Refunding Bonds. The Refunding Bonds maturing on July 1, 2022 and July 1, 2023, and the Refunding Bonds maturing on July 1, 2024 bearing interest at 5.000%, 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, 2021 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.

Notice of Redemption. In the event of redemption of the Refunding 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 Refunding

Bond in whose name the Refunding Bond is registered in the books of registry. No exchanges or transfers of the Refunding 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 Refunding 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 REFUNDING BONDS – Book-Entry Only System."

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

Effect of Redemption. If a Refunding 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 Refunding Bond are held for such purpose by the Director of Finance or the Paying Agent, such Refunding Bond so called for redemption shall become due and payable, and interest on such Refunding Bond shall cease to accrue on the redemption date designated in such notice.

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

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of the proceeds of the Refunding Bonds and a transfer from the Serial Bond Principal Account and the Interest Account:

SOURCES:	Refunding Bonds
Par Amount	$300,885,000.00
Net Original Issue Premium	22,066,829.60
Transfer from Airport Revenue Fund (1)	7,534,244.00
Total Sources	$330,486,073.60
USES:	
Deposit to Escrow Fund	$328,820,670.15
Issuance Expenses (including underwriters' discount fees and other costs of issuance)	1,664,353.73
Other Uses (Additional Proceeds)	1,049.72
Total Uses	$330,486,073.60

(1) Cash disbursement from the Airport Revenue Fund.

Plan of Refunding

Pursuant to the Certificate, a portion of the proceeds of the sale of the Refunding Bonds, together with other available moneys, will be deposited with The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"), in a separate account in an escrow fund (the "Escrow Fund") held by the Escrow Agent pursuant to an escrow deposit agreement (the "Escrow Deposit Agreement"), to be dated as of the date of issuance of the Refunding Bonds, by and between the Department 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 separate account in the Escrow Fund, shall be applied in accordance with the Escrow Deposit Agreement and will be sufficient to pay the principal of, redemption premium, if any, and interest on the Refunded Bonds on November 3, 2011. The following table sets forth the 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

Maturity Date	Amount Outstanding ($)	Amount to be Refunded ($)	Interest Rate	Redemption Date	Redemption Price
7/1/2012	90,000	90,000	4.850%	11/3/2011	100%
7/1/2012	12,045,000	12,045,000	5.750%	11/3/2011	100%
7/1/2013	30,000	30,000	4.900%	11/3/2011	100%
7/1/2013	30,810,000	30,810,000	5.750%	11/3/2011	100%
7/1/2014	105,000	105,000	5.050%	11/3/2011	100%
7/1/2014	32,510,000	32,510,000	5.750%	11/3/2011	100%
7/1/2015	40,000	40,000	5.125%	11/3/2011	100%
7/1/2015	34,450,000	34,450,000	5.750%	11/3/2011	100%
7/1/2016	225,000	225,000	5.200%	11/3/2011	100%
7/1/2016	36,245,000	36,245,000	5.750%	11/3/2011	100%
7/1/2017	3,555,000	3,555,000	5.300%	11/3/2011	100%
7/1/2017	35,010,000	35,010,000	5.750%	11/3/2011	100%
7/1/2018	40,770,000	40,770,000	5.625%	11/3/2011	100%
7/1/2021	96,835,000	96,835,000	5.250%	11/3/2011	100%

Book-Entry Only System

The Refunding 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 Refunding 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 Refunding Bonds, the Refunding Bonds will be exchangeable for other fully registered certificated Refunding Bonds of the same series in any authorized denomination, maturity and interest rate. See Appendix G – "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 Refunding Bonds, payment of interest will be made by wire transfer as directed by such Holder. Payment of principal of the Refunding Bonds will be made upon presentation and surrender of such Refunding 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 Refunding Bonds

So long as Cede & Co., as nominee for DTC (or other nominee of DTC), is the Bondholder of record of the Refunding Bonds, beneficial ownership interests in the Refunding 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, Refunding Bond certificates will be delivered to the Beneficial Owners as described in the Certificate. Thereafter, the Refunding 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 Refunding Bonds of the same maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring Refunding Bonds is exercised, the Department shall execute and authenticate and deliver the Refunding Bonds in accordance with the provisions of the Certificate. For every such exchange or transfer of Refunding 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 Refunding 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 Thirtieth 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 Refunding 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 Thirtieth Supplemental Certificate provides the terms of the Refunding Bonds including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department. The Refunding Bonds are being issued pursuant to the Certificate, the Thirtieth 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 Refunding 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 Refunding 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 C – "Certain Definitions" for definitions of Revenues and Aviation Fuel Taxes.

The Bonds, including the Refunding 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 Refunding 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 Refunding Bonds.

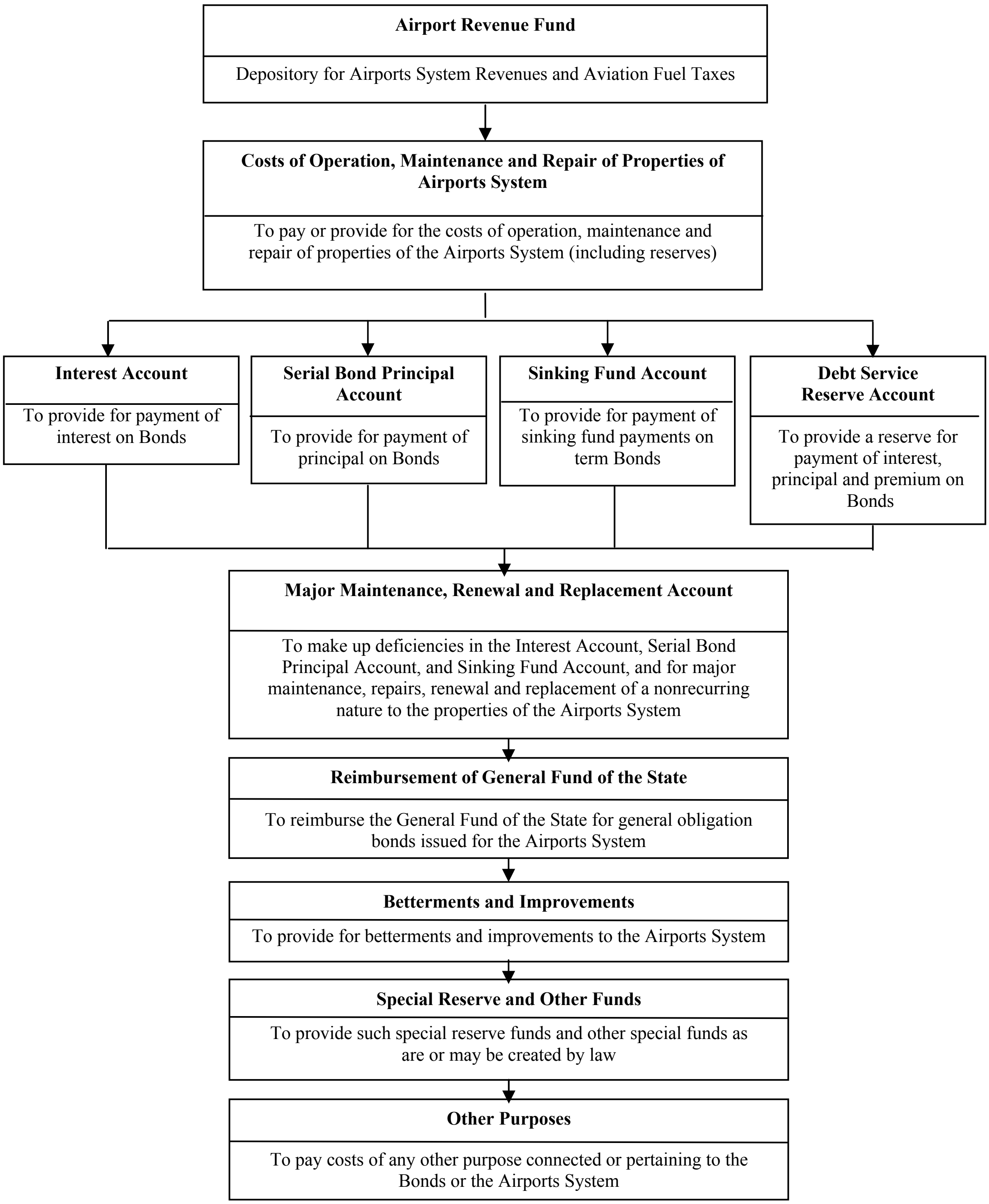
State law creates a special fund in the Treasury of the State designated as the Airport Revenue Fund. The Certificate provides that the Airport Revenue Fund shall be continued as long as any Bonds remain outstanding and provides that all Revenues and Aviation Fuel Taxes shall be deposited in the Airport 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 D – "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 Annual Adjusted Debt Service Requirement on all Bonds outstanding (the Department's covenant described in this paragraph, the "Rate Covenant"). See Appendix D – "Summary of Certain Provisions of the Certificate – Rate Covenant" for a description of the Rate Covenant.

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 Refunding 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 Refunding Bonds). For purposes of the Refunding 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 Refunding 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.

The amount of money required to be on deposit in the Debt Service Reserve Account will be amended, effective with the delivery of the Refunding Bonds, such that in connection with the issuance of Additional Bonds, the Department will be required to add to any required balance in the Debt Service Reserve Account an amount equal to the lesser of (i) the amount required to make the deposits in such account equal to the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds outstanding or (ii) the maximum amount permitted by the Internal Revenue Code. See "AMENDMENT TO THE CERTIFICATE" herein.

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 Refunding 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 (ii) either (a) (1) 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 Annual Adjusted Debt Service Requirement for such Fiscal Year on the Bonds outstanding during such Fiscal Year, and (2) 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 125% of the Annual Adjusted 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 (b) 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 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 125% of the maximum Annual Adjusted Debt Service Requirement with respect to such outstanding Bonds and proposed Additional Bonds.

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 Refunding 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 sale of Additional Bonds and/or subordinate bonds, passenger facility charges and Revenues of the Airports System.

AMENDMENT TO THE CERTIFICATE

Certain amendments to the Certificate contained in the Twenty-ninth Supplemental Certificate took effect contemporaneously with the effectiveness of the Twenty-ninth Supplemental Certificate and delivery of $478,980,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2010A (Non-AMT), and $166,000,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2010B (AMT) (collectively, the "Series 2010 Bonds"). One other amendment contained in the Twenty-ninth Supplemental Certificate will take effect upon the consent of the holders of 100% of the total principal amount of the outstanding Bonds. As a condition to purchase of any Refunded Bonds hereunder, each purchaser of a Refunded Bond, by his or her acceptance thereof, will consent to the pending amendment contained in the Twenty-ninth Supplemental Certificate requiring 100% Bondholder consent, as described below, and waive any revocation rights relating to such consent. After delivery of the Refunding Bonds, holders representing 100% of the total amount of

Bonds outstanding will have consented to the proposed amendment described below and, therefore, such amendment will be effective on the date of delivery of the Refunding Bonds.

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 an amount equal to the lesser of (i) the amount required to make the deposits in such account equal to the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds outstanding or (ii) the maximum amount permitted by the Internal Revenue Code.

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 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."

DEPARTMENT OF TRANSPORTATION

Department Organization

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

Through the 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 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 planning, design and construction, special maintenance, environmental compliance 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:

Glenn M. Okimoto, PhD, has served as Director of the Hawaii Department of Transportation since January 2011. He formerly served as the State Comptroller, Administrator for the Airports Division, Administrator for the Harbors Division, and Deputy Director for Administration division of the State of Hawaii Department of Transportation. He also served three years as the Budget Director for the University of Hawaii system just prior to his appointment as Director. He received his Bachelor, Master of Science and Doctor of Philosophy degrees in Agricultural and Resource Economics from the University of Hawaii at Manoa.

Ford N. Fuchigami, Deputy Director – Airports, was appointed in November, 2010. Prior to his appointment, Mr. Fuchigami spent more than 36 years in the private sector managing the Sheraton Hotel & Resorts and United Laundry Service. He spent the last 10 years as a hospitality and textile industry consultant. He received his Bachelor's degree from the University of Hawaii at Manoa, majoring in Journalism.

Jeffrey Chang, Engineering Program Manager**,** was promoted to head the Engineering Branch of the Airports Division in March 2008. 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 1,041 employees as of August 31, 2011. 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's employees are represented by four unions (and six recognized bargaining units, not including the excluded employees) as follows:

- United Public Workers (the "UPW") (Unit 1, blue collar employees) – 526 employees;
- Hawaii Government Employees Association (the "HGEA") (Unit 2, blue collar supervisors; Unit 3, white collar employees; Unit 4, white collar supervisors; and Unit 13, professionals) – 305 employees ;
- Hawaii Fire Fighters Association (the "HFFA") (Unit 11, firefighters) – 139 employees; and
- American Federation of State, County and Municipal Employees Local 152 (the "AFSME") (managers and other excluded employees) – 71 employees.

Contracts with all bargaining units expired on June 30, 2011. The HGEA and AFSME agreed to a 5% pay reduction and 10% increase to employee medical insurance premium contributions for the period July 1, 2011 through June 30, 2013. The State is currently in negotiations with the UPW Local 646 and HFFA IAFF Local 1463.

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 Honolulu International (on the Island of Oahu), Kahului (on the Island of Maui), Hilo International and Kona International (both on the Island of Hawaii), and Lihue (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, Honolulu International provides international flights to the Pacific Rim and Kona International provides flights to and from all primary airports and international service to and from Canada. The five primary airports accounted for approximately 98.9% of total enplaned passengers in the Airports System in fiscal year 2011.[*]

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. Honolulu International, the primary airport in the Airports System, is located approximately three miles west of downtown Honolulu. Honolulu International is the largest and busiest of the State's airports, accounting for 59.6% of all passengers enplaned in the Airports System in fiscal year 2011. In 2009, according to the Federal Aviation Administration (the "FAA"), Honolulu International was the twenty-fifth busiest in the United States in total passengers (enplaned and deplaned). The 2009 Airports Council International Worldwide Traffic Report listed Honolulu International the seventieth busiest air terminal in the world. These rankings reflect Honolulu International'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 Honolulu International to the other Airports System primary airports. Honolulu International serves interisland flights, domestic overseas flights and international flights to destinations on the Pacific Rim, Oceania and Canada.

Honolulu International has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). It also includes 29 overseas aircraft gate positions with loading bridges, 13 interisland aircraft parking positions, 11 commuter aircraft parking positions and public parking spaces for 5,740 vehicles. Honolulu International also provides runways for Hickam Air Force Base and the Hawaii 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 is located approximately one and one-half miles east of Lihue, the governmental and business center of the Island of Kauai. Lihue 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

[*] The fiscal year for the State of Hawaii begins on July 1 of each year and ends on June 30 of the following calendar year. For purposes of this report, "fiscal year" refers to the calendar year in which such fiscal year ended. For example, "fiscal year 2011" means the fiscal year that began July 1, 2010 and ended June 30, 2011.

facilities. Lihue 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 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 International, which was opened in 1970, has one runway of 11,000 feet. The terminal complex includes ticket counters, ten boarding gates (serving 14 aircraft parking spots) and ancillary service facilities. Kona International has public parking facilities for approximately 1,380 vehicles and a federal inspection system facility which can accommodate approximately 400 passengers per hour. In addition to interisland service, Kona International provides facilities for domestic overseas flights and international flights to and from Canada.

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.

The following tables summarize passenger counts and aircraft operations at Honolulu International and the neighbor island airports in the Airports System and landed weights for fiscal years 2007 through 2011:

TABLE 1
PASSENGERS AND AIRCRAFT OPERATIONS

	Fiscal Year Ending June 30,					2011 vs 2010 % Increase (Decrease)
	2007	2008	2009	2010	2011	
Enplaned Passenger Activity						
Honolulu International Airport	10,412,439	10,379,891	8,899,251	9,118,113	9,118,475	0.0%
Kahului Airport	2,971,589	3,100,731	2,542,322	2,587,097	2,733,586	5.7%
Kona International Airport at Keahole	1,573,799	1,564,292	1,332,223	1,320,991	1,344,296	1.8%
Lihue Airport	1,308,606	1,443,847	1,230,381	1,220,046	1,214,150	-0.5%
Hilo International Airport	797,853	771,454	636,005	659,517	624,083	-5.4%
All Others	235,874	241,021	201,968	173,128	174,319	0.7%
Total Passengers	17,300,160	17,501,236	14,842,150	15,078,892	15,208,909	0.9%
Honolulu International Airport as a Percentage of Total Enplaned Passengers	60.2%	59.3%	60.0%	60.5%	60.0%	
Interisland Passengers	8,951,154	8,792,597	7,206,820	7,162,646	6,792,544	-5.2%
Overseas Passengers	8,349,006	8,708,639	7,635,330	7,916,246	8,416,365	6.3%
Total Statewide Enplaned Passengers	17,300,160	17,501,236	14,842,150	15,078,892	15,208,909	0.9%
Interisland Passengers as a Percentage of Total Enplaned Passengers	51.7%	50.2%	48.6%	47.5%	44.7%	
Aircraft Operations (Combined Landing and Take-Off Reported by Air Traffic Control Tower)						
Honolulu International Airport	320,112	304,839	276,272	263,425	267,967	1.7%
Kahului Airport	158,807	142,126	119,311	116,414	121,882	4.7%
Kona International Airport at Keahole	148,673	140,052	111,848	127,964	113,094	-11.6%
Lihue Airport	125,164	121,979	99,154	108,313	104,950	-3.1%
Hilo International Airport	99,437	90,167	66,294	71,212	81,502	14.4%
All Others	208,279	241,965	212,400	194,061	197,903	2.0%
Total Aircraft Operations	1,060,472	1,041,128	885,279	881,389	887,298	0.7%
Honolulu International Airport as a Percentage of Total Aircraft Operations	30%	29%	31%	30%	30%	

Source: Department of Transportation – Airports Division Planning Section.

TABLE 2
LANDED WEIGHTS
(1,000 pound units)

	Fiscal Year Ending June 30,									
	2007	% of Total Landed Weights	2008	% of Total Landed Weights	2009	% of Total Landed Weights	2010	% of Total Landed Weights	2011	% of Total Landed Weights
Honolulu International Airport	17,593,131	61%	16,671,452	61%	14,888,872	62%	14,674,574	63%	14,645,515	63%
All Other Airports	11,372,437	39%	10,537,084	39%	9,153,934	38%	8,601,731	37%	8,526,267	37%
Total Landed Weights	28,965,568	100%	27,208,536	100%	24,042,806	100%	23,276,305	100%	23,171,782	100%

	Fiscal Year Ending June 30,									
	2007	% of Total Landed Weights	2008	% of Total Landed Weights	2009	% of Total Landed Weights	2010	% of Total Landed Weights	2011	% of Total Landed Weights
Overseas	15,241,799	53%	14,374,582	53%	12,772,382	53%	13,013,149	56%	13,565,046	59%
Interisland	13,723,769	47%	12,833,954	47%	11,270,424	47%	10,263,156	44%	9,606,736	41%
Total Landed Weights	28,965,568	100%	27,208,536	100%	24,042,806	100%	23,276,305	100%	23,171,782	100%

Source: Department of Transportation – Airports Division Planning Section.

Airline Service and Passenger Activity Operations

Honolulu International Airport is served by 26 signatory airlines, including 12 major and national U.S. airlines, 4 regional and commuter airlines that provide interisland service, and 10 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 16 airlines, including 10 major and national airlines, 4 regional and commuter airlines, and 2 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. Interisland service accounted for 44.7% of enplaned passengers in fiscal year 2011. Overseas service, including flights to both the continental United States and international destinations, accounted for 52.5% and 55.3% of enplaned passengers in the Airports System for fiscal years 2010 and 2011, respectively.

The number of passengers enplaned in the Airports System in fiscal year 2011 increased 0.86% over fiscal year 2010. The 0.86% increase is mainly due to increased traffic from overseas and interisland passengers to Kahului.

Since March 2008, Hawaiian Airlines, Inc. has provided the majority of all interisland service within the State. In fiscal year 2011, Hawaiian Airlines had the largest market share of enplaned passengers at Honolulu International Airport, with a 44.9% 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. 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 service providers pay applicable landing fees and Airports System support charges ("Airports System Support Charges") based on landed weight, not cargo volume. Further, ground rentals for cargo facilities are based on rented square footage, not cargo volume. Total air cargo (enplaned and deplaned) accommodated in the Airports System decreased 7.7% between fiscal years 2010 and 2011, due to decreases in deplaned and enplaned cargo. Deplaned cargo tonnage decreased 6.3% between fiscal years 2010 and 2011; enplaned cargo tonnage decreased 9.6% in the same period. Deplaned cargo amounts to 57.4% of the total cargo tonnage, reflecting the Hawaii economy's reliance on imports to support the visitor industry and other businesses.

Airline Operations

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2011: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., All Nippon Airways Co., Ltd., American Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Company, Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, 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, L.L.C.

In fiscal year 2011, interisland flights accounted for 34.8% of enplaned passengers at Honolulu International and 44.7% of all enplaned passengers in the Airports System. Overseas (both domestic and international) flights accounted for 65.2% of enplaned passengers at Honolulu International and 55.3% of enplaned passengers in the Airports System. The share of overseas passengers enplaned at the primary airports, excluding Honolulu International, is 27.2% for fiscal year 2010 and 29.4% fiscal year 2011. In contrast, the share of interisland passengers at the primary airports, excluding Honolulu International, decreased slightly from 52.1% in fiscal year 2010 to 50.7% in fiscal year 2011. Hawaiian Airlines had 44.9% market share of all enplaned passengers at Honolulu International, followed by Delta Air Lines (11.9%), United Airlines (10.4%), Japan Airlines (6.8%), American Airlines (5.4%), Continental Airlines (3.7%) and Mesa Airlines (3.2%). Other airlines had 13.7% market share of enplaned passengers at Honolulu International.

Japan Airlines (Japan Airlines International Co., Ltd./Jalways Co., Ltd) 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, after rehabilitation. However, Japan Airlines informed the Department of Transportation – Airports Division on February 24, 2011, that Jalways Co., Ltd. was integrated into Japan Airlines effective December 1, 2010. Upon the integration, Japan Airlines assumed operations of all flights and Jalways Co., Ltd. no longer had a separate existence. Continental Airlines merged with United Airlines effective October 1, 2010. Delta Airlines and Northwest Airlines merged in 2008 and, in mid-fiscal year 2010, began operating under a single FAA certificate under the Delta name.

The following table presents the landed weights for each of the Signatory Airlines and the Nonsignatory Airlines in fiscal years 2007 through 2011.

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

	Fiscal Year Ended June 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Signatory Airlines					
Hawaiian Airlines, Inc.	6,722,660	7,294,775	8,541,495	8,385,730	8,454,926
United Airlines, Inc. (1)	2,894,371	2,633,913	2,606,831	2,540,346	2,458,698
Delta Airlines, Inc. (2)	1,020,250	807,095	766,182	858,887	1,735,415
American Airlines, Inc.	1,286,382	1,157,354	986,390	1,010,944	1,050,952
Mesa Airlines, Inc. (3)	1,039,593	1,067,840	1,048,664	876,924	762,622
Federal Express Corporation	646,237	741,088	725,534	727,412	749,309
United Parcel Service Co.	762,348	706,561	718,782	682,931	728,123
Alaska Air, Inc. (4)	-	96,336	237,312	431,568	710,352
Continental Airlines, Inc. (1)	523,262	498,316	429,872	494,429	587,617
Jalways Company, Ltd. (5)	1,353,816	1,313,610	1,276,500	1,272,676	476,534
US Airways, Inc. (6)	-	267,498	345,708	401,616	399,470
Korean Airlines Company, Ltd.	138,266	166,292	179,874	212,109	282,281

	Fiscal Year Ended June 30,				
	2007	2008	2009	2010	2011
Philippine Airlines, Inc.	82,551	71,827	65,683	84.214	233,152
All Nippon Airways Co. Ltd. (7)	-	-	-	62,476	221,584
Qantas Airways, Ltd.	237,210	192,116	191,876	207,300	193,368
Air Canada	372,983	288,866	175,532	182,448	192,640
Kalitta Air, LLC	217,665	165,195	147,666	185,895	184,206
China Airlines, Ltd.	202,408	190,481	168,116	185,020	161,609
Westjet (8)	70,224	84,622	110,732	141,651	160,665
Evergreen International	110,240	113,140	81,730	143,010	139,230
Mokulele Flight Service, Inc. (9)	-	-	553,826	423,165	127,075
Continental Micronesia	285,886	254,260	155,604	159,627	79,334
Air New Zealand, Ltd.	110,378	105,232	85,650	39,475	37,760
Pacific Wings LLC	87,329	114,079	97,266	18,207	31,790
Air Pacific, Ltd.	34,352	36,464	22,736	15,152	21,984
North American Airlines	1,369	5,708	5,828	5,110	3,720
Northwest Airlines, Inc. (2)	1,497,512	1,333,780	1,287,428	921,189	-
Aloha Airlines, Inc. (10)	5,721,306	4,423,276	-	-	-
America West Airlines, Inc. (11)	364,320	73,062	-	-	-
ATA Airlines, Inc. (12)	626,081	566,652	-	-	-
Hawaii Island Air, Inc. (13)	1,040,140	814,074	-	-	-
Japan Airlines International Co., Ltd. (5)	39,751	36,132	-	-	439,967
Total Then-Current Signatory Airlines	**27,488,890**	**25,619,644**	**21,012,817**	**20,669,511**	**20,624,383**
Total Then-Current Nonsignatory Airlines	**1,476,678**	**1,588,892**	**3,029,989**	**2,606,793**	**2,547,399**
Total All Airlines	**28,965,568**	**27,208,536**	**24,042,806**	**23,276,304**	**23,171,782**

Source: Department of Transportation – Airports Division Planning Section.

(1) Continental Airlines merged with United Airlines effective October 1, 2010.
(2) Delta Airlines and Northwest Airlines merged in 2008 and, in mid-fiscal year 2010, began operating under a single FAA certificate under the Delta name. Figures for fiscal year 2011 reflect operations under the single name, while figures for prior fiscal years are kept separated between the two airlines.
(3) Signatory Airline status effective April 1, 2006.
(4) New carrier and Signatory Airline status effective October 1, 2007.
(5) Japan Airlines Co., Ltd./Jalways Co., Ltd. filed for Chapter 15 bankruptcy on January 19, 2010. Jalways Co., Ltd. integrated into Japan Airlines International Co., Ltd. effective December 1, 2010.
(6) Name changed from America West Airlines, Inc. to US Airways, Inc. effective September 26, 2007.
(7) Suspended service in June 2007. Restarted service in January 2010.
(8) Signatory Airline status effective June 1, 2006.
(9) Signatory Airline status effective October 1, 2008.
(10) Filed for bankruptcy protection on March 21, 2008 and ceased operations on March 31, 2008.
(11) Signatory Airline status effective February 1, 2006 and name change to US Airways, Inc. effective September 26, 2007.
(12) Filed for bankruptcy protection on April 2, 2008 and ceased operations April 3, 2008.
(13) Non-Signatory Airline status effective July 1, 2008.

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 2007 through 2011. 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,				
	2007	2008	2009	2010	2011
Revenues and taxes:					
Concession fees:					
Duty-free	$37,369	$38,000	$38,000	$38,000	$37,525
Other concessions	83,321	83,917	76,063	89,542	95,789
Airport landing fees	38,049	36,953	60,574	55,948	57,482
Aeronautical rentals	55,393	63,075	70,181	78,120	94,907
Non-aeronautical rentals	12,358	12,664	12,306	13,724	12,246
Aviation fuel tax	2,169	4,452	3,549	3,633	4,045
Airports System Support Charges	618	617	874	763	711
Interest income (1)	33,422	31,678	16,150	6,239	4,347
Federal operating grants	19,983	24,958	6,758	4,117	7,756
Miscellaneous	4,156	4,699	4,128	5,001	4,133
Total revenues and taxes	$286,838	$301,013	$288,583	$295,087	318,941
Operating and maintenance expenses:					
Salaries & wages	$61,204	$71,990	$75,396	$70,603	71,589
Other personnel services	46,145	51,590	56,493	53,253	50,692
Utilities	26,257	34,875	34,200	34,872	39,640
Repairs & maintenance	12,803	14,181	17,300	15,474	15,530
Special Maintenance	33,558	32,986	21,508	7,108	12,187
DOT administrative expenses	5,724	4,852	4,839	5,195,	5,044
State of Hawaii surcharge of gross receipts	9,765	10,886	10,744	12,095	12,230
Materials and supplies	4,520	5,648	5,618	4,694	4,059
Insurance	4,018	4,248	4,121	3,253,	3,208
Others	2,732	7,956	3,398	6,371	3,234
Total operating & maintenance expenses (2)	$206,726	$239,212	$233,617	$212,918	217,413
General obligation bonds principal and interest (3)	11	12	29	-	-
Major maintenance, renewal and replacement account reserve reimbursement	4,383	5	250	1,290	4,918
Total deductions	$211,120	$239,229	$233,896	$214,208	222,331
Net revenues and taxes	75,718	61,784	54,687	80,879	96,610
Funded coverage account (4)	-	14,304	14,304	15,430	24,223
Adjusted net revenues and taxes (A)	$75,718	$76,088	$68,991	$96,309	120,833
Debt service requirement:					
Airports systems revenue bonds	70,118	57,216	57,216	61,719	60,689
Less credits to the interest account (5)	(27,000)	(10,000)	(17,453)	(16,804)	0
Less funds deposited into the Airport Revenue Fund for early redemption of bonds (5)	-	-	-	-	-
Less PFC debt service payment	-	-	-	-	-
Total debt service requirement (B)	$43,118	$47,216	$39,763	44,915	60,689
Debt Service Coverage (A)/(B)	1.76x	1.61x	1.74x	2.14x	1.99x
Debt service coverage requirement	1.25x	1.25x	1.25x	1.25x	1.25x

Source: Department of Transportation – Airports Division Fiscal Section.

(1) Includes interest on investment of Bond proceeds and Airport Revenue Fund receipts.
(2) Does not include depreciation.
(3) The Department is required to reimburse the State General Fund from Revenues for debt service on general obligation bonds of the State appropriated for the Airports System. The last such general obligation bonds appropriated for the Airports System was repaid in fiscal year 2009.
(4) Includes rolling coverage.
(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 2007 to 2011.

TABLE 5
SUMMARY OF CASH AND CASH EQUIVALENTS AND INVESTMENTS

	Fiscal Year Ended June 30,				
	2007	**2008**	**2009**	**2010**	**Unaudited 2011**
Petty Cash	$ 17,805	$ 17,805	$ 17,805	$ 17,805	$ 17,805
Cash in State Treasury	727,956,876	637,726,158	518,462,026	964,195,513	988,212,149
Repurchase agreements	56,952,787	56,952,787	52,789,337	96,893,008	15,832,450
Certificates of deposit	18,298,726	18,298,726	22,462,176	-	81,060,558
	$803,226,194	$712,995,476	$593,731,344	$1,061,106,326	$1,085,122,962
Reflected in the balance sheet as follows:					
Cash and cash equivalents:					
Unrestricted	$528,557,445	$451,011,189	$336,793,740	$445,758,508	$481,719,527
Restricted	199,417,236	186,732,774	181,686,091	518,454,810	506,510,427
Total cash and cash equivalents	$727,974,681	$637,743,963	$518,479,831	$964,213,318	$988,229,954
Investments – restricted	75,251,513	75,251,513	75,251,513	96,893,008	96,893,008
Total cash, cash equivalents and investments	$803,226,194	$712,995,476	$593,731,344	$1,061,106,326	$1,085,122,962

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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: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2007 to 2010 and unaudited financial statements for Fiscal Year 2011.

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. Revenues of the Airports System 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, refer to the State of Hawaii, Department of Transportation – Airports Division's audited financial statements for fiscal years 2002 through 2010 at http://hawaii.gov/dot/airports/library/financial-audit-reports.

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 2007 through 2011.

Aeronautical Revenues	Fiscal Year Ending June 30,									
	2007		2008		2009		2010		Unaudited 2011	
	$ (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 Airports System Support Charges	38,667	13.5%	37,570	12.5%	61,448	21.3%	56,711	19.2%	58,193	18.2%
Aeronautical rentals	55,393	19.3%	63,075	21.0%	70,181	24.3%	78,120	26.5%	94,907	29.7%
Total Aeronautical Revenues	94,060	32.8%	100,645	33.4%	131,629	45.6%	134,831	45.7%	153,100	47.9%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2007 to 2010 and unaudited financial statements for Fiscal Year 2011.

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 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 discount factor was 39% in fiscal year 2011, and is scheduled to increase 1% annually until it reaches 100%. The 2007 Agreement also 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.

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. The Airports Division refers to the Signatory Airlines' affirmative support for or non-rejection of capital projects submitted for their review as a "concurrence."

Under the 2007 Agreement, the Signatory Airlines agreed that the Department may undertake the 2007 Capital Program, totaling approximately $2.4 billion. In light of the global and State-wide economic developments since the effectiveness of the 2007 Agreement, the Airports Division has periodically reviewed the 2007 Capital Program and, with consultation from the Signatory Airlines, determined to fund only certain of the capital projects with a current total cost of approximately $1.33 billion (the "Designated Projects"). In fiscal year 2011, the Airports Division received the Signatory Airlines' concurrence for an additional set of projects, totaling approximately $33 million (the "2011 Approved Projects"). In fiscal year 2012, the Airports Division expects to seek the Signatory Airlines' concurrence for another set of capital projects (the "2012 Additional Projects"), with a current estimated total cost of approximately $350 million. See "CAPITAL IMPROVEMENTS PROGRAM" herein for additional information on these groups of capital projects.

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 so that nonsignatory airline fees and charges would be 125% of Signatory Airline fees and charges. The Airports Division is currently in the process of setting revised rates for nonsignatory airlines pursuant to Hawaii Revised Statutes, Chapter 261-7(e). In fiscal year 2011, the landing fees under the current Administrative Rules (without such revisions) for overseas and interisland flights are lower than the same categories of fees for the Signatory Airlines, by 23.4% and 37.2%, 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.

Relief to Airlines. From fiscal year 2001 through fiscal year 2010, the Airports Division, in its discretion, elected to provide financial assistance to the Signatory Airlines by depositing internally generated funds into the Interest Account to prepay interest coming due in the then-current fiscal year. This practice is referred to as "rate mitigation" because paying down the interest on the Bonds effectively reduces the Signatory Airlines' rates by reducing the Debt Service Requirement that they are obligated to cover under the Amended Lease Extension Agreement. The Department has received an opinion from its bond counsel that such rate mitigation was consistent with the State's obligations under the Certificate. In fiscal year 2010, the Airports Division deposited $16.8 million of Revenues from the Airport Revenue Fund into the Interest Account to prepay interest on the Bonds and provide rate mitigation. The Airports Division elected not to provide rate mitigation in fiscal year 2011 and does not currently have plans to provide rate mitigation in future fiscal years.

Based on continued unfavorable global economic conditions, and consistent with the targeted payment approach agreed to between the Airports Division and the Signatory Airlines in 2009, the Airports Division collected fixed payments of $129 million and $142 million in fiscal years 2010 and 2011, respectively, from the Signatory Airlines. These targeted payments for such fiscal years were not established pursuant to the rate setting terms of the Amended Lease Extension Agreement. However, for fiscal year 2012, the Airports Division has set rates to collect the full amount due pursuant to the terms of the Amended Lease Extension Agreement, which amount is currently projected to be $163 million.

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 2007 through 2011.

Concessions	**Fiscal Year Ending June 30,**									
	2007		**2008**		**2009**		**2010**		**2011**	
	$ (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	37,369	13.0%	38,000	12.6%	38,000	13.2%	38,000	12.9%	37,525	11.8%
Rental Car	37,871	13.2%	37,882	12.6%	35,036	12.1%	47,110	16.0%	51,239	16.1%
Parking	17,558	6.1%	17,779	5.9%	16,810	5.8%	19,033	6.4%	19,707	6.2%
Retail (non-duty-free)	13,625	4.8%	13,319	4.4%	10,285	3.6%	9,793	3.3%	11,355	3.6%
Food & Beverage	6,406	2.2%	7,076	2.4%	6,893	2.4%	6,788	2.3%	6,708	2.1%
Ground Transportation	2,073	0.7%	2,237	0.7%	1,856	0.6%	1,840	0.6%	2,060	0.6%
Other	5,788	2.0%	5,624	1.9%	5,183	1.8%	4,978	1.7%	4,720	1.5%
Total Concession Revenues	120,690	42.1%	121,917	40.5%	114,063	39.5%	127,542	43.2%	133,314	41.8%

Source: Department of Transportation – Airports Division Fiscal Section.

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 Honolulu International Airport (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 MAG and additional percentage rent based on annual gross receipts exceeding certain levels. Pursuant to the terms of the lease agreement, the MAG for the contract year (June 1 through May 31) ended May 31, 2011 was $37.5 million. Pursuant to the lease agreement, the MAG for subsequent contract years adjusted to an amount equal to 85% of the amount paid and payable to the Airports Division in the contract year ended May 31, 2011. As a result, effective June 1, 2011, the MAG decreased to $32.3 million per contract year through May 31, 2017. 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 Honolulu International 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 Honolulu International 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 Honolulu International sales and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for both Honolulu International and off-airport sales.

Rental Car. In fiscal years 2009, 2010 and 2011, car rental concession revenues were $35 million, $47.1, million and $51.2 million, respectively, accounting for about 95% of all ground transportation revenues in each fiscal year. Companies operating on-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 Honolulu International 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. Mainly as a result of an increase in the percentage of gross receipts payable by the rental car operators (from 8.5% of gross receipts to 10% of gross receipts) pursuant to the concession agreements at neighbor island airports, rental car revenues increased for fiscal years 2010 and 2011. 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 forecasted to increase in upcoming years due to projected increased travel to the islands.

Off-airport rental car operations pay fees in accordance with Chapter 19-20.1 of the Hawaii Administrative Rules. The rules provide that an off-airport operator pay an annual fee of $20 for each rent-a-car vehicle in its fleet as of October 1 of each year, an annual administrative fee of $100, and an annual registration fee of $250 for each courtesy vehicle used to transport customers to and from the airport. The off-airport rent-a-car operators are not a significant source of airport revenue.

The Airports Division also collects Customer Facility Charges ("CFCs") on all rental car transactions. CFCs are not considered, and are not included in determining, Revenues of the Airports System.

Parking. Parking facilities at Honolulu, Lihue, Hilo 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 Honolulu International, the 24-hour rate was increased to from $10.00 to $13.00. The 24-hour rate at Kona International, Hilo International, Kahului and Lihue Airport was increased from $7.00 to $9.00. Effective May 1, 2011, daily parking rates were again increased at the Honolulu International Airport by $2, from $13 to $15 per day, and at neighbor-island airports by $1, from $9 to $10 per day. The Airports Division receives 80% of gross receipts from parking operations at Honolulu International, 65% from Kona International 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. Parking revenues increased between fiscal years 2009 and 2011, from $16.8 million to $19.7 million due to rate increases.

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 Honolulu International Airport, 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. Travel Traders, Inc. holds the retail concession at Lihue Airport after submitting the high bid of a first year MAG of $512,600 for the concession agreement year beginning July 1, 2010. Tiare Enterprises, Inc. became the retail concessionaire at Hilo International and Kona International effective September 1, 2010 after submitting a first-year MAG bid of $580,531. Retail concession revenues in fiscal year 2011 were $11.4 million, up from $9.8 million in fiscal year 2010. The Airports Division's retail concession revenues stabilized at $11.3 million in fiscal year 2011, but are forecasted to increase with air traffic growth.

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 Honolulu International. The current agreement is in effect through April 30, 2020, with a MAG of about $4.8 million. Host also has a food and beverage concession agreement at Kahului (expires September 30, 2019). 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. Bids were opened on June 23, 2011 for a new 10-year food and beverage concession at Lihue Airport, for which Host submitted the highest bid. Effective October 1, 2011, Host will begin operating the concessions at Lihue Airport with a first-year MAG of $1,008,000. Food and beverage revenues decreased slightly between fiscal years 2009 through 2011, from $6.9 million for fiscal year 2009, to $6.8 million for fiscal year 2010 and $6.7 million for fiscal year 2011, but are 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 news, floral services, ATMs, currency exchanges, advertising in the Airports System and in-flight catering revenues. Other concession revenues are forecasted to increase due to inflation and increases in the number of enplaned passengers.

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 2007 through 2011.

Non-Aeronautical Revenues Other Than Concessions	Fiscal Year Ending June 30,									
	2007		2008		2009		2010		Unaudited 2011	
	$ (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 Revenues	12,358	4.3%	12,664	4.2%	12,306	4.3%	13,724	4.7%	12,246	3.8%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2007 to 2010 and unaudited financial statements for Fiscal Year 2011.

Non-Operating Revenues

Interest Income. The following table sets forth the interest income and its percentage of total Revenues for fiscal years 2007 through 2011. The decreases each year is mainly due to the decrease in interest rates.

Interest Income	Fiscal Year Ending June 30,									
	2007		2008		2009		2010		2011	
	$ (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	20,049	7.0%	14,339	4.8%	6,362	2.2%	2,824	1.0%	139	0.0%
O & M Interest	13,373	4.7%	17,339	5.7%	9,788	3.4%	3,415	1.2%	4,208	1.3%
Total Interest Income	33,422	11.7%	31,678	10.5%	16,150	5.6%	6,239	2.2%	4,347	1.3%

Source: Department of Transportation – Airports Division Fiscal Section.

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 interest income, federal operating and capital grants as reimbursements to such costs, Passenger Facility Charges and Rental Car Customer Facility Charges.

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 2007 through 2011.

Aviation Fuel Taxes Fiscal Year Ending June 30,

	2007		2008		2009		2010		Unaudited 2011	
	$ (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	$2,169	0.8%	$4,452	1.5%	$3,549	1.2%	3,633	1.2%	4,045	1.3%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2007 to 2010 and unaudited financial statements for Fiscal Year 2011.

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.

INDEBTEDNESS

Outstanding Airports System Revenue Bonds

As of June 30, 2011 $992,780,000 million of Prior Bonds were outstanding, all of which were issued as fixed rate debt. After issuance of the Refunding Bonds, $945,575,000 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 debt service requirements for the Bonds following issuance of the Refunding Bonds, taking into account the redemption of the Refunded Bonds.

TABLE 6
TOTAL BONDS DEBT SERVICE (1)

July 1,	Prior Bonds Debt Service ($) (2)	Refunding Bonds Principal ($)	Refunding Bonds Interest ($)	Total Debt Service ($)
2012	$47,970,825	$ 12,000,000	$ 9,737,277	$69,708,102
2013	47,003,425	25,000,000	12,888,913	84,892,338
2014	45,049,275	20,100,000	12,094,713	77,243,988
2015	48,709,975	17,255,000	11,275,750	77,240,725
2016	48,719,470	17,925,000	10,600,550	77,245,020
2017	48,707,920	18,620,000	9,916,550	77,244,470
2018	48,715,570	19,420,000	9,108,950	77,244,520
2019	48,744,170	20,165,000	8,334,500	77,243,670
2020	54,575,720	15,320,000	7,349,350	77,245,070
2021	38,281,845	32,295,000	6,667,300	77,244,145
2022	41,016,445	31,170,000	5,054,113	77,240,558
2023	38,818,945	34,930,000	3,495,613	77,244,558
2024	38,806,545	36,685,000	1,749,113	77,240,658
2025	38,819,108			38,819,108
2026	38,823,488			38,823,488

July 1,	Prior Bonds Debt Service ($) (2)	Refunding Bonds Principal ($)	Interest ($)	Total Debt Service ($)
2027	38,812,970			38,812,970
2028	38,816,370			38,816,370
2029	38,803,945			38,803,945
2030	38,808,750			38,808,750
2031	38,817,355			38,817,355
2032	38,811,855			38,811,855
2033	38,819,105			38,819,105
2034	38,810,355			38,810,355
2035	38,813,105			38,813,105
2036	38,808,355			38,808,355
2037	38,819,245			38,819,245
2038	38,814,455			38,814,455
2039	38,810,725			38,810,725

Source: Department of Transportation - Airports Division

(1) Amounts have been rounded. Due to rounding, total debt service shown for any year may not reflect the sum of the debt service shown for the Prior Bonds and Refunding Bonds in such year.
(2) Excludes debt service on the Refunded Bonds.

Special Facility Leases and Special Obligation Bonds

The Airports Division currently has three special facility lease agreements. These special facility lease agreements were originally entered into to support 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. One series of Special Obligation Bonds matured on December 1, 2010, and the Airports Division currently has two series of Special Obligation Bonds outstanding. The outstanding 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, 2011, there were outstanding $31,840,000 in 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.***

General Obligation Bonds

From time to time, the State may appropriate reimbursable general obligation bonds for the Airports System. Reimbursable general obligation bonds are general obligation bonds of the State, the proceeds of which are used to finance improvements to the Airports System. As a result, the Department is required to reimburse the State general fund from Revenues for the debt service on such bonds. The last reimbursable general obligation bonds issued for the Airports System were repaid in fiscal year 2009 and, currently, there are no such bonds issued for the Airports System.

CAPITAL IMPROVEMENTS PROGRAM

General

Each odd-numbered fiscal year, the Airports Division prepares a CIP budget 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, CFC 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.

The Legislature appropriated $792.9 million total funds for the Airports Division for fiscal year 2010, including $564.2 million of bond funds. For fiscal year 2011, the Airports Division received legislative appropriations for $428.8 million total funds, including $230.8 million of bond funds. For fiscal year 2012, the Airports Division received legislative appropriations for $186.0 million total funds, including $59.0 million of bond funds. For fiscal year 2013, the Airports Division received legislative appropriations for $162.0 million total funds, including $43.5 million of bond funds.

As of June 2011, the capital projects for which the Airports Division has received the Signatory Airlines' concurrence to undertake through fiscal year 2016 include the Designated Projects and the 2011 Approved Projects. During fiscal year 2012, the Airports Division expects to seek the Signatory Airlines' concurrence for the 2012 Additional Projects. In addition to the aforementioned projects, the Airports Division intends to undertake certain rental car projects to be funded solely by CFC collections, which funding will not be secured by Revenues (the "CFC Projects"). Each of these groups of projects is discussed below.

The Designated Projects and the 2011 Approved Projects

The Designated Projects and the 2011 Approved Projects are identified below by airport.

The Designated Projects consist of certain projects of the 2007 Capital Program, at a total projected cost of $1.33 billion, including $550 million spent through March 2011. The 2007 Capital Program is a $2.4 billion capital improvements program developed in 2007 by the Airports Division 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 and concurrence from the Signatory Airlines, to fund only the Designated Projects. See "CAPITAL IMPROVEMENTS PROGRAM – Funding of Designated Projects and 2011 Approved Projects" below for sources of funding for the Designated Projects.

As of June 1, 2011, the Designated Projects were at various stages of development. $404 million of Designated Projects have been completed or are in the closeout stages, $283 million of Designated Projects are under construction and $429 million of Designated Projects are in the design, bid or award stages. The remaining Designated Projects, with an estimated cost of $212 million, are in various stages of planning or authorization.

In fiscal year 2011, the Airports Division received the Signatory Airlines' concurrence for certain additional projects comprising the 2011 Approved Projects. The 2011 Approved Projects consist of certain improvement and maintenance projects, with a total estimated cost of $33 million. The 2011 Approved Projects are expected to be funded primarily by FAA AIP grants and special funds.

The capital projects of the Airports System are subject to yearly review by the Airports Division. If sufficient demand warrants, the Airports Division may proceed with other projects, including projects from the 2007 Capital Program that are not included in the Designated Projects. Any additional projects are also subject to legislative approval and Signatory Airlines' review. See "SOURCES OF REVENUES AND AVIATION FUEL TAXES – Aeronautical Revenues – Airline Lease Agreements" herein for a description of the Signatory Airlines' review process.

The table below shows the total cost of the Designated Projects and the 2011 Approved Projects by airport and the estimated completion date of such projects.

DESIGNATED PROJECTS AND 2011 APPROVED PROJECTS BY AIRPORT (1)

Airport	Budget (millions)	Project Cost (millions)	Expected Completion Fiscal Year
Designated Projects			
Honolulu International Airport	$922.796		
Mauka Concourse		$454.607	2014
Safety and Security Program		119.398	2012
Airfield Improvements		58.000	2014
Ewa Concourse Sterile Corridor		45.721	2012
Other		248.069	Various
Kahului Airport	$229.885		
Airfield Improvements		$100.486	Various
Security		26.836	Completed
Other		102.562	Various
Kona International Airport at Keahole	$14.550		
Terminal Improvements		$7.579	Various
Other		6.972	Various
Lihue Airport	$52.432		
Land Acquisition		$16.612	Various
Projects		35.820	Various
Hilo International Airport	$39.304		
Cargo Facilities		$31.726	Various
Other		7.578	Various
Other (2)	$69.181		
Programmatic Activities		$19.344	Various
Statewide/Other Projects		18.699	Various
Other Airports		31.139	Various
Subtotal for Designated Projects	$1,328.148	$1,328.148	
2011 Approved Projects			
Honolulu International Airport	$13.010		
Airfield Improvements		$10.391	Various
Fire Station Improvements		2.619	Various
Kahului Airport	$0.555		
Other		$0.555	Various
Kona International Airport at Keahole	$6.669		
Terminal Improvements		$2.867	Various
Parking Improvements		3.802	Various
Lihue Airport	$0.102		
Other		0.102	Various
Hilo International Airport	$6.726		
Airfield Improvements		$6.726	Various
Other (2)	$5.726		
Statewide/Other Projects		5.726	Various
Subtotal for 2011 Approved Projects	$32.788	$32.788	
Total	$1,360.936	$1,360.936	

Source: Department of Transportation – Airports Division

(1) Does not include approximately $349.7 million of additional projects for which the Airports Division expects to seek the Signatory Airlines' concurrence in fiscal year 2012. See "CAPITAL IMPROVEMENTS PROGRAM – The 2012 Additional Projects" below.

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

The 2012 Additional Projects

The Airports Division is in the process of preparing a list of capital projects to comprise the 2012 Additional Projects, for which the Airports Division intends to submit to the Signatory Airlines for review and concurrence in fiscal year 2012. The 2012 Additional Projects currently have a total estimated cost of $350 million, and include projects that are necessary to preserve, maintain and develop the aviation facilities. Airfield improvement projects comprise approximately 40% of the current 2012 Additional Projects, while landside and terminal projects comprise 25% and 20%, respectively, of the currently 2012 Additional Projects. The balance of the current 2012 Additional Projects includes fire facilities projects, environmental projects, and general program management. The Airports Division currently anticipates issuing Additional Bonds (on a parity basis with the then outstanding Bonds) to fund a portion of the 2012 Additional Projects. The list and cost of projects included in the 2012 Additional Projects are under review by the Airports Division and, as a result, are subject to change.

Funding of Designated Projects and 2011 Approved Projects

The Airports Division plans to finance the Designated Projects and 2011 Approved Projects as shown below:

Means of Financing (millions) (1)

	Designated Projects			2011 Approved Projects	Grand Total
	Expended as of March 31, 2011	To Be Spent	Total	Total	
Revenue bonds (2)	$148.8	$535.3	$683.1	$ 0.4	$683.5
Federal Grants	174.2	54.5	228.7	17.6	246.3
Special Funds (3)	159.3	39.5	188.9	12.2	201.1
PFC Pay-as-you-go	68.7	158.7	227.4	2.6	230.0
Total	$550.1	$778.1	$1,328.1	$32.8	$1,360.9

Source: Department of Transportation – Airports Division

(1) Does not include sources of funding for the 2012 Additional Projects because the list of capital projects to be included in the 2012 Additional Projects is under review and subject to change.
(2) Includes (i) $395.9 million from the proceeds of the Series 2010 Bonds of revenue bonds and (ii) approximately $287.6 million from the proceeds of Additional Bonds to be issued in the future, which will be issued on a parity basis with the then outstanding Bonds.
(3) Including proceeds of Bonds issued prior to the Series 2010 Bonds.

Airports System Revenue Bonds. The Designated Projects are being funded in part with $395.9 million from the proceeds of the Series 2010 Bonds and with proceeds from Additional Bonds to be issued in the future on a parity basis with the then outstanding Bonds. Additional revenue bond funding in an estimated amount of $287.6 million for the Designated Projects and the 2011 Approved Projects will come from Additional Bonds, which will principally finance the construction of the Mauka Concourse Program at HNL. The Airports Division also expects to issue Additional Bonds on a parity basis with the then outstanding Bonds to fund a portion of the 2012 Additional Projects. The Airports Division currently anticipates issuing approximately $140 million in principal amount of Additional Bonds to fund the current list of 2012 Additional Projects. However, the list of projects included in the 2012 Additional Projects is under review and is subject to change, which could affect the principal amount of Additional Bonds that the Airports Division intends to issue in connection with the 2012 Additional Projects.

Special Funds.. Over the years, the Airports Division has accumulated substantial cash balances from Airports System operations. As of June 30, 2011, the Airports Division had cash and investments of $1.085 billion in restricted and unrestricted accounts, of which the Airports Division estimates approximately one-third will be available to fund various capital projects.

Federal Aviation Administration Grants and Transportation Security 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, $4.5 million, $5.3 million and $500,000 in AIP discretionary grants in fiscal years 2007 thru 2010, respectively. FAA funding of AIP is authorized through September 16, 2011 unless reauthorized or extended by Congress. The Airports Division expects that a total of $229 million in AIP grants will be used (including AIP grants already used and Transportation Security Administration grants) to fund the Designated Projects and the 2011 Approved Projects.

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.

The Airports Division has submitted four applications to the FAA to collect and use PFC revenues, but because the second and third applications were "blended" (as described below), there are currently three PFC applications approved by the FAA. Although the PFC legislation allows the use of PFC revenue for debt service, the Airports Division's three previously-approved applications to the FAA have all been to use PFC revenues to fund the cost of approved projects on a "pay-as-you-go" basis. One approved application was also an "impose only" application to pay debt service on one project.

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 "pay-as-you-go" collections will be utilized for the aircraft rescue and fire fighting facilities improvements, escalator improvements, loading bridge replacements, air conditioning system improvements and PFC administration costs. The "impose only" collection is designated for the 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 2011, the Airports Division has collected total PFC revenues, including interest earned, of $170.1 million and expended $99.3 million in PFC revenues on a pay-as-you-go basis to fund the Designated Projects. The Airports Division expects to use an additional $161.6 million in PFC Revenues on a pay-as-you-go basis to fund the Designated Projects and the 2011 Approved 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 Act 147, Session Laws of Hawaii 2009. 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.

Certain PFC revenues may be used to reduce the Debt Service Requirement for certain purposes. The Certificate provides 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 CFC Projects

The CFC Projects consist of rental car projects to be funded solely by CFC collections and which funding will not be secured by Revenues. Such rental car projects are in various conceptual development stages, with two major projects in design. However, he CFC Projects implementation schedule is under review as a consequence of a temporary cessation of authority to collect CFCs imposed by the State Legislature. See "MANAGEMENT DISCUSSION AND ANALYSIS – AIP Grants, Passenger Facility Charge and Customer Facility Charge".

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 2007, but decreased in fiscal year 2009 and increased in fiscal years 2010 and 2011. 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. The growth in fiscal years 2010 and 2011 were attributed to an increase in signatory airline rates and charges and rental car and parking revenues.

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. Pursuant to the duty-free lease agreement, concession revenue remained at $38 million per year for contract years (June 1 through May 31) ended May 31, 2008 through 2010, and decreased to $37.5 million for the contract year ended May 31, 2011. Pursuant to the terms of the lease agreement, the duty-free concession revenue is subject to a minimum annual guarantee, which amount will decrease to $32.3 million for contract years ended May 31, 2012 and beyond. Other concession revenues, which include parking, rental car revenue and terminal concessions, continued to grow during the same period thru fiscal year 2011. See "SOURCES OF REVENUES AND AVIATION FUEL TAXES – Concession Fees" 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%, 11.2%, 12.0% and 12.5% in fiscal years 2008, 2009, 2010 and 2011, 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 $6.7 million, $4 million, and $9.2 million in fiscal years 2009, 2010 and 2011, respectively. Such amounts are expected to decrease further 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 years 2010 and 2011, cost of operation, maintenance and repair were $212.9 and $217.4 million, respectively. Salaries and wages have increased by an average annual rate of 7% since fiscal year 2005, but decreased in fiscal years 2010 and 2011 as a result of furloughs. In addition, special maintenance costs decreased by $14 million in fiscal year 2010 as compared to fiscal year 2009 mainly due to capitalizing certain projects. However, it increased by $5.1 million in fiscal year 2011 due to an increase in special maintenance (airfield paving) projects. Utility costs increased due to the rise in rates assessed by electrical and water providers. Other personnel service cost decreased as a result of decreases to security labor rates and hours required by contract. Major maintenance and repair costs increased due to unforeseen concourse roofing repairs needed at HNL.

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 2007 through 2011. In fiscal years 2007 through 2010, the Airports Division provided rate mitigation by transferring 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 $27 million, $10 million, $17.5 million and $16.8 million as rate mitigation for fiscal years 2007 through 2010, respectively. The Airports Division elected not to provide rate mitigation in fiscal year 2011 and does not currently have plans to provide rate mitigation in future fiscal years. The funded coverage account increased by $8.8 million in fiscal year 2010 as a result of the issuance of the Series 2010 Bonds in April 2010.

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 $26.6 million from investments in certain auction rate securities held in the State Treasury. The increase in fiscal year 2010 is a result of the bond issuance in April 2010 and increased revenues from signatory airlines and rental car contracts. The increase in fiscal year 2011 was a result of increased airline and rental revenues along with controlling operational expenditures.

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 2009, the Airports System received $48.8 million in federal capital grants, $24.8 million in PFCs (including interest) and $8.6 million from CFCs (including interest). In fiscal year 2010, the Airports System received $42.2 million in federal capital grants, $29.3 million in PFCs (including interest) and $10.9 million from CFCs (including interest). In fiscal year 2011, the Airports System received $30.8 million in federal capital grants, $32.2 million in PFCs (including interest) and $40.4 million from CFCs (including interest). For more information on AIP and PFC Revenues, see "CAPITAL IMPROVEMENT PROGRAM – Funding of Designated Projects and 2011 Approved Projects" 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. Effective September 1, 2010, the CFC rate was raised to $4.50 per transaction day. The CFC rate may be further adjusted periodically 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, 2011, the Airports Division had collected $40.4 million from CFCs (including interest) and expended $10.7 million. 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. However, on July 1, 2011 the collection of this fee was suspended by the State Legislature for one year.

Insurance

The Airports Division has a commercial general liability insurance policy with a $750,000,000 limit for each occurrence. The policy includes extended coverage for $150,000,000 for war, hijacking and other perils. The annual premium is currently $1,050,791. 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, $25.7 million, $25.2 million and $21.2 million in fiscal years 2008 through 2011, respectively. The decrease in security expenditures is due to the renewal of statewide security contracts, which resulted in decreased labor rates and hours required by such contracts. 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 $39.4 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, while under the non-contributory retirement plan, employees receive a benefit multiplier of 1.25% and do not contribute any funds to the plan.

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

The employers made 95.7%, 100.0% and 100.0% of the actuarially determined employer contribution requirements for the fiscal years 2008, 2009 and 2010, respectively. The actuarial valuation report for fiscal year 2011 is not currently available. The employer pension contribution for the Airports Division for fiscal year 2010 was $7,472,089, which represented 16% of covered payroll for such fiscal year and was equal to the required contribution for such fiscal year.

The 2011 legislation also gradually increases the employer contribution rates for all employee groups to help improve the funding position of the pension trust. The employer contribution rate for most Airports Division employees will increase to 15.5% effective July 1, 2012, and increase by 0.5% each fiscal year until July 1, 2015, when the rate will be 17.0% of payroll.

The total assets of the State retirement system on a market value basis amounted to approximately $8.8 billion as of June 30, 2009, $9.8 billion as of June 30, 2010, and $11.5 billion as of June 30, 2011. Actuarial certification of assets as of June 30, 2010 was $11.3 billion and its unfunded actuarial accrued liability was $7.1 billion. The June 30, 2009 actuarial certification of assets was $11.4 billion, and its unfunded actuarial accrued liability was $6.2 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.

The State's independent actuarial advisor computed 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 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, 2009 are $ $11.5 billion, and the corresponding annual contribution required for fiscal year 2011 would be $842.3 million. The estimated pay-as-you-go funding amount for such fiscal year is $400.8 million. The actuarial report is updated every two years. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term. The Airports Division's portion of OPEB costs were $6.9 million, $7.7 million and $8.1 million for fiscal years 2008, 2009, and 2010, respectively. The Airports Division's portion of OPEB costs for fiscal year 2011 is estimated to be $8.5 million.

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, 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 2007 Capital Program in July 2009. The Department identified the Designated Projects, which currently have a total estimated cost of $1.33 billion, for funding, and deferred the remainder of the original $2.4 billion 2007 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. See "CAPITAL IMPROVEMENTS PROGRAM" herein.

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 Refunding 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 Refunding 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 Refunding 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 Refunding Bonds.

In addition, all financial forecasts of the Department 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 Refunding 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.

Certain airlines serving the Airports System have consolidated in recent years. In 2008, Delta Airlines and Northwest Airlines merged and currently operate under a single FAA certificate and fly under the Delta name. Continental Airlines merged with United Airlines effective October 1, 2010. And in May 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. Further airline consolidation remains possible. While prior mergers have had, and the Department expects that recent mergers will have, little impact on the respective combined airlines' market shares in the Airports System, future mergers or alliances among airlines servicing the Airports System may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Revenues, reduced PFC collections and increased costs for the other airlines serving the Airports System.

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.

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 Refunding 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 HNL 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

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. The Department has used certain assumptions to prepare the forecasts made herein. No assurances can be given that these assumptions 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.

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. Beginning in 2007, the FAA has been reauthorized in a series of short-term acts, the latest one of which extended FAA authority for programs and taxes and AIP project grants through September 16, 2011. If an agreement on long-term FAA reauthorization cannot be made by September 16, 2011, Congress will have to pass another extension to keep programs and taxes going. In July – August 2011, the FAA, including the AIP, was partially shut down for about two weeks because Congress failed to pass a timely extension bill before the expiration of the prior reauthorization. No assurance can be given that further reauthorizations or extensions 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 Certificate does not grant a right the Bondholders to accelerate payment of the Bonds. As a result, the Department 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. In addition, any remedies available to the Owners of the Bonds upon the occurrence of an Event of Default under the are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain.

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") recently has taken steps to regulate greenhouse gas ("GHG") emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. Effective January 14, 2010, the EPA issued a final rule entitled "Endangerment and Cause or Contribute Findings for Greenhouse Gases under Section 202(a) of the Clean Air Act". In the final rule, the EPA defined "air pollution" under the Clean Air Act to be the mix of six "well mixed" GHGs identified in the rule – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – and found that GHGs "endanger both the public health and the public welfare of current and future generations". The final rule also found that GHG emissions "from new motor vehicles and new motor vehicle engines contribute to the greenhouse gas air pollution that endangers public health and welfare". The Clean Air Act governs aircraft emissions under provisions that are parallel to requirements applicable to 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 (which was ultimately defeated in Congress), if passed, would have amended 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.

Although this bill failed to pass Congress, the Department is unable to predict what federal and/or state laws and regulations with respect to GHG emissions will be adopted in the future, or what effects such laws and regulations will have on airlines serving the Airports System or in Airports System operations. The effects of such laws and regulations, however, could be material.

Forward Looking Statements

This Official Statement 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 Refunding 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 Refunding Bonds or affecting the validity of the Refunding 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 Refunding Bonds (defined below) and assuming compliance with the tax covenants and the material accuracy of the tax representations that are described herein, interest on the Refunding Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Refunding 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 Refunding 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 Refunding Bonds or income therefrom.

Refunding 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 Refunding Bonds in order that interest on the Refunding 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 Refunding 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 Refunding 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 Refunding Bonds necessary to support the exclusion of the interest on the Refunding 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 Refunding Bonds only to the effect that interest on the Refunding 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 Refunding 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 Refunding Bonds or income therefrom. Bond Counsel expresses no opinion as to any other federal, state, local or foreign tax consequences of owning the Refunding Bonds.

Nevertheless, a Holder's federal tax liability may otherwise be affected by the ownership or disposition of the Refunding 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 Refunding Bonds should be aware that (i) Code Section 265 denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Refunding Bonds, or in the case of a financial institution, that portion of a Holder's interest expense allocated to interest on the Refunding 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 Refunding 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 Refunding Bonds; (iv) interest on the Refunding 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 Refunding 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 Refunding 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 Refunding 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 Refunding 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 Refunding 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 Refunding 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 Refunding Bonds may have no right to participate in such procedure.

Subsequent Events and Tax Law Changes

On September 12, 2011, President Obama submitted to Congress the "American Jobs Act of 2011" (the "American Jobs Act"), which, if enacted as proposed, could result in additional federal income tax being imposed on certain owners of tax-exempt obligations, including the Refunding Bonds, for tax years beginning on or after January 1, 2013 and would apply to bonds issued before the effective date as well as to bonds issued on and after the effective date. As proposed, the American Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest, to 28 percent irrespective of the actual marginal tax rate imposed on such taxpayers. The American Jobs Act or other proposed legislation, if enacted, could directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Refunding Bonds from gross income for federal income tax purposes, or could directly or indirectly reduce or eliminate the exemption of interest on the Refunding Bonds from personal income taxation by the State.

Bond Counsel has not undertaken to advise in the future whether any actions or events after the issuance of the Refunding Bonds may affect the federal or state income tax status of interest on the Refunding Bonds or the tax consequences of ownership thereof. The opinions of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date of issuance and delivery of the Refunding 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. There can be no assurance that such laws or the interpretations thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Refunding Bonds are outstanding in a manner that would adversely affect the value, liquidity or the tax treatment of ownership of the Refunding Bonds. Such potential new provisions of law may include the provisions of the American Jobs Act that, if enacted into law in the form proposed by President Obama on September 12, 2011, would limit the value of all itemized deductions and certain other tax expenditures, including the exclusion from gross income of interest on the Refunding Bonds, for high-income taxpayers, beginning in 2013. Prospective purchasers should consult their own tax and investment advisors concerning the tax and investment consequences of a purchase of the Refunding Bonds.

Circular 230

To ensure compliance with Treasury Circular 230, holders of the Refunding 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 Refunding 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 Refunding Trustee 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 "DESCRIPTION OF THE SERIES 2011 BONDS – Plan of Refunding" 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

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Piper Jaffray & Co., RBC Capital Markets LLC and Siebert Brandford Shank & Co., L.L.C. (collectively, the "Underwriters") have agreed to purchase the Refunding Bonds for $321,287,475.87 (representing the principal amount of the Refunding Bonds, less underwriters' discount of $1,664,353.73 and plus net premium of $22,066,829.60). The Underwriters will be obligated to purchase all the Refunding 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 Refunding Bonds may be changed from time to time by the Underwriters prior to the Delivery Date. The Underwriters may offer and sell the Refunding Bonds to certain dealers (including dealers depositing Refunding 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.

Piper Jaffray & Co. ("Piper") and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Distribution Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper, including the Bonds. Under the Distribution Agreement, Piper will share with Pershing LLC a portion of the fee or commission paid to Piper. Piper also has entered into an agreement with UBS Financial Services Inc., under the terms of which UBS 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 Refunding 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 Refunding 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 Refunding 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 Refunding Bonds and will be delivered with the Refunding Bonds. Proposed form of the opinion of Bond Counsel is annexed as Appendix E hereto. Certain legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by co-counsel to the Underwriters, Alston Hunt Floyd & Ing and Ching, Yuen & Morikawa.

The Thirtieth Supplemental Certificate of the Director providing for the issuance of the Refunding Bonds will be 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 Refunding 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 are not a recommendation to buy, sell or hold the Refunding Bonds. 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 Refunding Bonds. The State undertakes no responsibility to maintain any rating or to oppose any revision or withdrawal of a rating. A downward revision or withdrawal of a rating may have an adverse effect on the marketability or market price of the Refunding 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 Refunding Bonds (the "Continuing Disclosure Certificate"), to provide to the Municipal Securities Rulemaking Board (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 Refunding 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 Refunding Bonds. The proposed form of the Continuing Disclosure Certificate is attached as Appendix F 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, 2010 set forth in Appendix A hereto have been audited by KPMG LLP, independent auditors, as stated in their report appearing in Appendix A to this Official Statement.

DEPARTMENT OF TRANSPORTATION,
STATE OF HAWAII

By: /s/ Glenn M. Okimoto
Glenn M. Okimoto
Director of Transportation

APPENDIX A

AUDITED FINANCIAL STATEMENTS

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KPMG

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplemental Schedules

June 30, 2010 and 2009

(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

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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2011 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 19 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

July 28, 2011

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, 2010 and 2009. 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. It has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide) and is used as an alternate landing site for the Space Shuttle. 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 60.4% and 59.9% of total passenger traffic in the airports system during fiscal years 2010 and 2009, respectively. The other four principal airports accommodated 38.4% and 38.7% of the total passenger traffic for fiscal years 2010 and 2009, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. 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 1.2% and 1.4% of the total passenger traffic for fiscal years 2010 and 2009, respectively.

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 2010 with increases in total passengers, revenue passenger landings, and deplaning international passengers by 1.6%, 1.9%, and 9.8%, respectively, as compared to fiscal year 2009. Aircraft operations and revenue landed weights decreased by 0.4%, and 3.2%, respectively, as compared with fiscal year 2009. Increased airline carrier passenger load factor is the reason for such changes. Although oversea carriers account for a higher percentage, 55% 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.

For fiscal year 2010, Hawaiian Airlines, Inc. and United Airlines accounted for 36% and 11% of the total landed weights, respectively. United Airlines, Inc. and Hawaiian Airlines, Inc. accounted for 19% and 15% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 63% and 9% of the inter-island landed weights, respectively. Hawaiian Airlines accounted for 48% of the revenue passenger landings and JALways Co., Ltd. accounted for 41% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2010: Air Canada, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., All Nippon Airways, Co., 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.

(Continued)

Activity for the airports system for the fiscal years ended June 30, 2010 and 2009 is as follows:

	2010	2009	Percentage increase (decrease) from 2009
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	18,238,865	17,806,225	2.4%
Kahului Airport	5,186,585	5,089,997	1.9
Kona International Airport at Keahole	2,639,967	2,667,591	(1.0)
Lihue Airport	2,443,178	2,464,024	(0.8)
Hilo International Airport	1,328,000	1,284,420	3.4
All others	348,386	407,622	(14.5)
Total passengers	30,184,981	29,719,879	1.6%
Aircraft operations (landing and take-off combined reported by Air Traffic Control Tower):			
Honolulu International Airport	263,425	276,272	(4.7)%
Kahului Airport	116,414	119,311	(2.4)
Kona International Airport at Keahole	127,964	111,848	14.4
Lihue Airport	108,313	99,154	9.2
Hilo International Airport	71,212	66,294	7.4
All others	194,061	212,400	(8.6)
Total aircraft operations	881,389	885,279	(0.4)%
Revenue landed weights (1,000-pound units):			
Honolulu International Airport	13,305,936	13,383,583	(0.6)%
Kahului Airport	3,285,188	3,323,998	(1.2)
Kona International Airport at Keahole	1,789,777	1,896,222	(5.6)
Lihue Airport	1,397,744	1,491,519	(6.3)
Hilo International Airport	847,170	839,456	0.9
All others	43,699	78,039	(44.0)
Total signatory airlines	20,669,514	21,012,817	(1.6)
Nonsignatory airlines	2,606,792	3,029,989	(14.0)
Total revenue landed weights	23,276,306	24,042,806	(3.2)%

(Continued)

	2010	2009	Percentage increase (decrease) from 2009
Revenue passenger landings:			
Honolulu International Airport	75,707	70,613	7.2%
Kahului Airport	21,856	21,739	0.5
Kona International Airport at Keahole	13,155	14,227	(7.5)
Lihue Airport	12,342	13,474	(8.4)
Hilo International Airport	8,115	8,472	(4.2)
Total signatory airlines	131,175	128,525	2.1
Nonsignatory airlines	775	923	(16.0)
Total revenue passenger landings	131,950	129,448	1.9%
Deplaning international passengers:			
Honolulu International Airport	1,686,623	1,528,587	10.3%
Kona International Airport at Keahole	91,387	67,511	35.4
Total signatory airlines	1,778,010	1,596,098	11.4
Nonsignatory airlines	104,761	118,762	(11.8)
Total deplaning international passengers	1,882,771	1,714,860	9.8%

Financial Operations Highlights

The financial results for fiscal year 2010 reflected income before capital contributions of $32.0 million as compared to a loss before capital contributions of $58.0 million for fiscal year 2009. Operating revenues increased by $19.1 million, or 7.1%, while operating expenses decreased by $18.4 million, or 5.7%. Total nonoperating revenues increased by $25.2 million mainly due to increases in rental car CFCs of $2.3 million, PFCs of $5.1 million, offset by decreases in federal operating grants and interest income amounting $2.6 million and $9.9 million, respectively. Further, the Airports Division increased its amounts held in State Treasury for a change in fair value by $31.0 million in fiscal year 2010 as compared to a write-down of $26.6 million in fiscal year 2009.

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 CFCs of $8.5 million and PFCs of $3.0 million.

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.

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.

Effective January 1, 2010, the FAA approved the Airports Division's PFC Application No. 4 to impose a $4.50 PFC at Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport. The application was approved for a collection of $105,909,130 including interest earned during the collection period from January 1, 2010 through February 1, 2014. The PFC collections will be utilized to fund taxiway and apron pavement improvements, electrical improvements, new hardstands, and PFC administration costs.

Since the inception of this program through June 30, 2010, the total PFC revenues, including interest earned, and expenditures were $137.8 million and $54.4 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 surcharge of $1 per 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. The consolidated rental car facilities will provide a single location for travelers to rent a car of their choice and eliminate the need for multiple pick-up and delivery vans from individual rental car companies.

On July 7, 2010, State Legislature Senate Bill 2461 became law as Act 206, Session Laws of Hawaii 2010, authorizing the Airports Division to increase the CFC surcharge to $4.50 per day effective September 1, 2010.

Since September 1, 2008 through June 30, 2010, the total CFC revenues, including interest earned, and expenditures were $19.5 million and $2.1 million, respectively.

Operating expenses before depreciation for fiscal year 2010 decreased by 9.7%, or $22.9 million, as compared to fiscal year 2009 mainly due to decreases in salaries and wages, other personnel services, repairs and maintenance, and special maintenance costs offset by increases in the State surcharges on gross receipts.

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.

Total nonoperating expenses for fiscal years 2010 and 2009 decreased by 47.1%, or $27.4 million, and 11.3%, or $5.9 million, respectively, as compared with the previous year's 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 in fiscal year 2009.

As a result, net assets increased by $76.0 million and decreased by $8.5 million for fiscal years 2010 and 2009, respectively.

In summary, Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenues from a diverse mix of sources. We have monitored and adjusted signatory airline rates and charges accordingly, due to reduced passenger traffic as a result of economic downturn. In addition, the implementation of cost saving measures by management relating to personnel, security, and utility costs has improved our financial position. However, such cost saving measures are being monitored to prevent compromising our main objective, which is to adequately serve the traveling public and airport tenants.

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A summary of operations and changes in net assets for the years ended June 30, 2010, 2009, and 2008 is as follows:

		2010	2009	2008
Operating revenues	$	284,730,618	265,675,867	244,377,274
Operating expenses, excluding depreciation		(212,917,814)	(235,529,577)	(241,684,888)
Operating income before depreciation		71,812,804	30,146,290	2,692,386
Depreciation		(92,860,543)	(88,599,854)	(80,570,580)
Operating loss		(21,047,739)	(58,453,564)	(77,878,194)
Nonoperating revenues – net		53,059,569	411,170	29,165,607
Income (loss) before capital contributions		32,011,830	(58,042,394)	(48,712,587)
Capital contributions:				
Federal capital grants		27,494,010	45,770,795	28,881,614
Federal stimulus funds		14,735,504	3,031,140	—
Other capital contribution		1,516,145	747,067	3,091,250
Total capital contributions		43,745,659	49,549,002	31,972,864
Increase (decrease) in net assets	$	75,757,489	(8,493,392)	(16,739,723)

- Operating revenues increased by 7.1% from \$265.7 million in fiscal year 2009 to \$284.7 million in fiscal year 2010. The primary reason for the increase was mainly due to rent-a-car lease, concession fee, parking rate, and signatory airline terminal rate increases.

  Operating expenses excluding depreciation decreased by 9.6% from \$235.5 million in fiscal year 2009 to \$212.9 million in fiscal year 2010. The most recognized decrease related to special maintenance amounting to \$14.4 million. The Airports Modernization Program has decreased the need for special maintenance work. Salaries and wages decreased by \$4.8 million as a result of the State's furlough program and freezing of vacated positions. Security cost decreased by \$2.5 million due to decreased guard services through further reevaluation of security requirements. These reductions were made in accordance with the Transportation Security Administration requirements and did not compromise airport security. Although the cost of fuel increased this past year, installation of energy-efficient air conditioning units, lighting equipment, and shut-down of certain terminals when not in use supported the stabilization utility costs. Bad debt expense increased by \$2.0 million mainly due to a dispute in reporting joint use baggage revenue by Hawaiian Airlines, Inc.

(Continued)

The net results of the above resulted in operating income before depreciation of $71.8 million in fiscal year 2010. Operating income before depreciation for fiscal year 2010 increased by 138.2%, or $41.7 million, from fiscal year 2009. Depreciation expense increased by 4.8% from $88.6 million in fiscal year 2009 to $92.9 million in fiscal year 2010 due to an increase in capital assets. The operating loss before nonoperating revenues, net and capital contributions of $21.0 million in fiscal year 2010 represent a 64.0% decrease from the operating loss before nonoperating revenues, net and capital contributions of $58.5 million in fiscal year 2009.

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 in fiscal year 2009 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 reevaluation 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.

- Nonoperating revenues, net increased by 12,804.5%, or $52.6 million, in fiscal year 2010 primarily due to a gain on amounts held in State Treasury and increases in PFCs in all insurances across this section and rental car CFCs offset by decreases in interest income and federal operating grants and increases in interest expense. A gain on amounts held in State Treasury of $31.0 million in 2010 was experienced rather than a loss of $26.6 million in 2009. Interest income decreased by $9.9 million due to lower investment rates of return and the use of cash for the CIP projects. Federal operating grants decreased by 39.1% or $2.6 million as grants were utilized for capital improvement projects instead. PFCs increased by 18.3%, or $4.5 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 CFCs amounted to $10.8 million and reflected a 26.5% increase since this charge was implemented effective September 1, 2008. Airports system revenue bond interest expense increased by $3.7 million as a result of the issuance of Airport System Revenue Bonds in fiscal year 2010.
- 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 PFCs and rental car CFCs 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. PFCs 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 CFCs 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.
- Income before capital contributions for fiscal year 2010 of $32.0 million as compared with loss before capital contributions of $58.0 million for fiscal year 2009 was a result of an increase in nonoperating revenues – net.
- 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.
- Capital contributions decreased by 11.7%, or $5.8 million and 55.0%, or $17.6 million in fiscal years 2010 and 2009, respectively, mainly due to the increase of federal capital grants in fiscal years 2010 and 2009.

(Continued)

Financial Position Summary

A condensed summary of the Airports Division's net assets at June 30, 2010, 2009, and 2008 is shown below:

	2010	2009	2008
Assets:			
Current assets:			
Unrestricted assets	$ 481,448,998	376,703,470	479,292,741
Restricted assets	620,252,170	260,712,901	263,507,383
Noncurrent assets:			
Capital assets	1,693,932,983	1,617,928,949	1,535,613,752
Restricted assets	33,748,931	34,987,408	36,094,866
Other noncurrent assets	5,006,055	2,627,294	3,047,815
Total assets	2,834,389,137	2,292,960,022	2,317,556,557
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	55,097,084	51,378,877	46,452,432
Payable from restricted assets	63,687,384	52,311,833	55,565,308
Long-term liabilities, net of current portion	1,068,571,764	617,993,896	633,104,136
Total liabilities	1,187,356,232	721,684,606	735,121,876
Net assets:			
Invested in capital assets – net of related debt	952,768,400	1,030,743,140	955,900,642
Restricted	333,247,989	255,804,547	230,216,845
Unrestricted	361,016,516	284,727,729	396,317,194
Total net assets	$ 1,647,032,905	1,571,275,416	1,582,434,681

The largest portion of the Airports Division's net assets (57.8%, 65.6%, and 60.4% at June 30, 2010, 2009, and 2008, 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 (20.2%, 16.3%, and 14.5% at June 30, 2010, 2009, and 2008, 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.

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The largest portion of the Airports Division's unrestricted net assets represents unrestricted cash and cash equivalents in the amount of $445.8 million, $336.7 million, and $451.0 million at June 30, 2010, 2009, and 2008, respectively. The $445.8 million cash balance at June 30, 2010 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 $1,647.0 million and $1,571.3 million at June 30, 2010 and 2009, respectively, representing an increase of $75.8 million and a decrease of $8.5 million from June 30, 2010 and 2009, respectively.

On April 7, 2010, the Airports Division issued $645.0 million in Airport System Revenue Bonds of which $397.0 million is for Airport Modernization Projects. $191.0 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements, and issuance costs.

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, 2010 and 2009 and the amount and percentage of change in relation to prior year amounts is as follows:

	2010		Increase (decrease) from 2009	
	Amount	Percentage of total	Amount	Percentage
Operating revenues:				
Concession fees:				
Duty free	$ 38,000,000	10.3%	$ —	—%
Other concessions	89,542,278	24.3	13,479,767	17.7
Airport landing fees	55,947,843	15.2	(4,626,057)	(7.6)
Aeronautical rentals:				
Exclusive-use premise charge	39,576,057	10.7	4,458,294	12.7
Nonexclusive joint-use premise charge	38,544,169	10.5	3,481,428	9.9
Nonaeronautical rentals	13,723,544	3.7	1,417,998	11.5
Other	9,396,727	2.5	843,321	9.9
Total operating revenues	284,730,618	77.3	19,054,751	7.2
Nonoperating revenues:				
Interest income, investments	6,239,201	1.7	(9,910,357)	(61.4)
Interest income, passenger facility charges	835,925	0.2	(591,312)	(41.4)
Interest income, rental car customer facility charges	107,009	—	40,293	—
Interest income, direct financing leases	2,159,279	0.6	(90,519)	(4.0)
Federal operating grants	4,116,867	1.1	(2,641,004)	(39.1)
Passenger facility charges	28,485,813	7.7	5,126,555	21.9
Rental car customer facility charges	10,804,982	2.9	2,263,537	26.5

(Continued)

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2010 and 2009

	2010		Increase (decrease) from 2009	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Gain on amounts held in State Treasury	$ 31,046,930	8.4%	$ 31,046,930	100.0%
Total nonoperating revenues	83,796,006	22.7	25,244,123	43.1
Total revenues	$ 368,526,624	100.0%	$ 44,298,874	13.7%

	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	0.4	(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)%

(Continued)

Expenses

A summary of expenses for the years ended June 30, 2010 and 2009 and the amount and percentage of change in relation to prior year amounts is as follows:

	2010		Increase (decrease) from 2009	
	Amount	Percentage of total	Amount	Percentage
Operating expenses:				
Salaries and wages	$ 70,603,092	21.0%	$ (4,792,418)	(6.4)%
Other personnel services	53,253,463	15.8	(3,239,852)	(5.7)
Utilities	34,872,299	10.4	672,116	2.0
Special maintenance	7,107,701	2.1	(14,400,539)	(67.0)
Repairs and maintenance	15,474,139	4.6	(1,828,732)	(10.6)
State of Hawaii surcharge on gross receipts	12,094,751	3.6	1,351,217	12.6
Materials and supplies	4,693,534	1.4	(924,082)	(16.4)
Department of Transportation general administration expenses	5,194,883	1.5	355,735	7.4
Insurance	3,253,248	1.0	(867,940)	(21.1)
Disbursements out of major maintenance, renewal, and replacement account	1,256,988	0.4	(655,773)	(34.3)
Bad debt expense	2,066,244	0.6	2,018,801	4,255.2
Other	3,047,472	0.9	(303,296)	(9.1)
Total operating expenses before depreciation	212,917,814	63.3	(22,614,763)	(9.6)
Depreciation	92,860,543	27.6	4,260,689	4.8
Total operating expenses	305,778,357	90.9	(18,354,074)	(5.7)
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	27,800,066	8.3	3,732,590	15.5
Special facility	2,159,279	0.7	(90,519)	(4.0)
General obligation bonds	—	—	(905)	(100.0)
Loss on amounts held in State Treasury	—	—	(26,576,132)	(100.0)
Loss on disposal of capital assets	388,685	0.1	(4,451,727)	(92.0)
Other	388,407	0.1	(17,583)	(4.3)
Total nonoperating expenses	30,736,437	9.2	(27,404,276)	(47.1)
Total expenses	$ 336,514,794	100.0%	$ (45,758,350)	(12.0)%

	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	7.0	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	15.3	5,891,614	11.3
Total expenses	$ 382,270,144	100.0%	$ 7,765,577	2.1%

Capital Acquisitions and Construction Activities

In fiscal years 2010 and 2009, there were 9 and 11 construction bid openings, respectively, totaling an estimated $108 million and $72 million, respectively, in potential construction contracts. Significant projects in fiscal year 2010 include the Emergency Power Facility, Relocate Interisland Maintenance Facility, Support Facility Site Preparation at Elliott Street, Relocate Interisland Cargo Facilities, and Mauka Extension Site Preparation at Honolulu International Airport, and Re-Roof Terminal Building at Kahului Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2010, which were under construction during the fiscal year. Major projects include the Holdroom Shelters and Additional Security Lane at Kona International Airport at Keahole, Apron Pavement Structural Improvements, Runway Safety Area Improvements Phase 2, and EDS Integration Improvements at Kahului Airport, Third Level Sterile Corridor, Electrical Distributed Generation System, Loading Bridge Replacement, Overseas Terminal Chiller Plant Replacement, Escalator Improvements, and Interisland Maintenance Facility Site Preparation at Honolulu International Airport, and T-Hangars at Kalaeloa Airport.

Finally, there were 29 construction projects that were substantially completed in fiscal year 2010. These projects totaled over $94 million and include the Holdroom Shelters and Additional Security Lane at Kona International Airport at Keahole, Air Conditioning System Replacement at Hilo International Airport; Interim Heliport Improvements, and Baggage Claim Improvements at Lihue Airport; General Aviation Apron at Lanai Airport; and Chilled Water Loop, and Interisland Maintenance Site Preparation 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

As of June 30, 2010, $992,780,000 of airports system revenue bonds were outstanding as compared to $589,740,000 as of June 30, 2009. On April 7, 2010, the Airports Division issued $645 million in Airport System Revenue Bonds of which $397 million is for Airport Modernization Projects. $191 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements and issuance costs. Prior to this issuance, 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, 2010, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $590,065,802.

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, 2010 and 2009, there were outstanding bond obligations of $33,525,000 and $34,755,000, 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, 2010, there were five series of airports system revenue bonds outstanding in the principal amount of $1,016,395,000. Payment of principal and interest on three of the five 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. On April 7, 2010, the State issued two series of Airport System Revenue bonds that were rated as follows:

Standard & Poor's Corporation:	A-
Moody's Investors Service:	A2
Fitch IBCA, Inc.:	A

Economic Factors and Current Known Facts

The Airports Division has launched plans to modernize airport facilities over the next six years. The most noticeable project is the parking structure adjacent to the interisland terminal at the Honolulu International Airport, and the International Third Level Sterile Corridor, which was completed in late March 2009 and October 2010, respectively. 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 through landing and terminal rate increases. In order to finance the modernization projects, the Airports Division issued bonds in April 2010 and is planning for another bond issue in fiscal year 2012. In addition, the Airports Division is planning for a refunding of its Series 2001 Revenue Bonds, which will save approximately $3 million per year.

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 Ford Fuchigami, Deputy Director, State of Hawaii, Department of Transportation, Airports Division, 400 Rodgers Boulevard, Suite 700, Honolulu, Hawaii 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, 2010 and 2009

Assets	**2010**	**2009**
Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted (note 3)	$ 445,758,508	336,793,740
Receivables:		
Accounts, net of allowance of $6,506,751 and $4,775,202 for uncollectible accounts for 2010 and 2009, respectively	14,391,767	20,569,567
Promissory note receivable, net of allowance of $2,489,889 and $2,489,889 for uncollectible notes for 2010 and 2009, respectively (note 8)	13,000	—
Interest	5,503,722	6,030,469
Claims – federal grants	14,362,612	11,766,631
Aviation fuel tax	308,966	268,052
Due from State of Hawaii	883,053	1,039,192
Total receivables	35,463,120	39,673,911
Inventory of materials and supplies, at cost	227,370	235,819
Total unrestricted current assets	481,448,998	376,703,470
Restricted assets:		
Cash and cash equivalents (note 3):		
Revenue bond debt service (note 6)	101,908,151	103,389,685
Debt extinguishment (note 6)	33,682,994	—
Passenger facility charges (note 9)	79,724,804	65,705,687
Rental car customer facility charges (note 10)	16,134,680	7,682,365
Security deposits and customer advances	5,051,317	4,908,354
Revenue bond construction (note 6)	281,952,864	—
Total cash and cash equivalents – restricted	518,454,810	181,686,091
Passenger facility charges receivable (note 9)	3,670,465	2,873,150
Rental car customer facility charges receivable (note 10)	1,233,887	902,147
Investments – revenue bond debt service reserve (notes 3 and 6)	96,893,008	75,251,513
Total restricted current assets	620,252,170	260,712,901
Total current assets	1,101,701,168	637,416,371
Noncurrent assets:		
Promissory note receivable (note 8)	99,000	108,469
Bond issue costs, net of accumulated amortization of $4,378,773 and $3,990,366 for 2010 and 2009, respectively (note 6)	4,907,055	2,518,825
Restricted assets – net investments in direct financing leases (note 8)	33,748,931	34,987,408
Capital assets, net of accumulated depreciation of $1,577,249,424 and $1,485,806,464 for 2010 and 2009, respectively (notes 4, 6, and 7)	1,693,932,983	1,617,928,949
Total noncurrent assets	1,732,687,969	1,655,543,651
Total assets	2,834,389,137	2,292,960,022

(Continued)

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Statements of Net Assets

June 30, 2010 and 2009

Liabilities	**2010**	**2009**
Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	$ 8,904,640	10,485,318
Contracts payable, including retainage of $5,110,690 and $4,357,697 for 2010 and 2009, respectively	24,268,983	19,855,276
Current portion of workers' compensation (notes 5 and 15)	1,010,242	1,055,969
Current portion of compensated absences (note 5)	2,554,730	2,639,007
Current portion of postemployment liability (notes 5 and 12)	3,222,000	4,878,000
Deferred income (note 8)	6,327,612	4,854,314
Accrued wages	4,628,115	4,947,241
Due to State of Hawaii	—	550,000
Pollution remediation liability (note 16)	1,590,881	1,613,874
Prepaid airport use charge fund (notes 8 and 16)	2,553,179	463,926
Other	36,702	35,952
Total payable from unrestricted assets	55,097,084	51,378,877
Payable from restricted assets:		
Contracts payable, including retainage of $2,605,219 and $2,562,477 for 2010 and 2009, respectively	15,832,364	7,130,616
Current portion of airports system revenue bonds (notes 5 and 6)	23,615,000	22,310,000
Current portion of special facility revenue bonds (notes 5 and 8)	1,685,000	1,230,000
Accrued interest	18,455,965	17,685,464
Security deposits	4,099,055	3,955,753
Total payable from restricted assets	63,687,384	52,311,833
Total current liabilities	118,784,468	103,690,710
Long-term liabilities – net of current portion:		
Airports system revenue bonds (notes 5 and 6)	999,502,447	564,875,809
Special facility revenue bonds (notes 5 and 8)	31,840,000	33,525,000
Prepaid airport use charge fund (notes 8 and 16)	7,803,174	—
Compensated absences (note 5)	5,977,978	5,599,503
Workers' compensation (notes 5 and 15)	2,989,758	3,244,031
Postemployment liability (notes 5 and 12)	19,505,806	9,796,952
Customer advance (note 14)	952,601	952,601
Total liabilities	1,187,356,232	721,684,606
Net Assets		
Net assets:		
Invested in capital assets – net of related debt	952,768,400	1,030,743,140
Restricted:		
Debt service payment	41,847,037	39,763,058
Debt service reserve account	96,893,008	75,251,513
Debt extinguishment	33,682,994	—
Major maintenance, renewal, and replacement account	60,061,114	63,626,627
Passenger facility charges	83,395,269	68,578,837
Rental car customer facility charges	17,368,567	8,584,512
Total restricted	333,247,989	255,804,547
Unrestricted	361,016,516	284,727,729
Commitments and contingencies (notes 6, 8, 11, 12, 13, 14, 15, and 16)		
Total net assets	$ 1,647,032,905	1,571,275,416

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, 2010 and 2009

	2010	2009
Operating revenues (notes 6, 8, and 13):		
Concession fees	$ 127,542,278	114,062,511
Airport landing fees, net	55,947,843	60,573,900
Aeronautical rentals:		
Exclusive-use premise charges	39,576,057	35,117,763
Nonexclusive joint-use premise charges	38,544,169	35,062,741
Nonaeronautical rentals	13,723,544	12,305,546
Aviation fuel tax	3,633,095	3,548,705
Airports system support charges	762,543	873,520
Miscellaneous	5,001,089	4,131,181
Net operating revenues	284,730,618	265,675,867
Operating expenses (notes 4, 11, 12, 13, 15, and 16):		
Depreciation	92,860,543	88,599,854
Salaries and wages	70,603,092	75,395,510
Other personnel services	53,253,463	56,493,315
Utilities	34,872,299	34,200,183
Repairs and maintenance	15,474,139	17,299,871
State of Hawaii surcharge on gross receipts	12,094,751	10,743,534
Special maintenance	7,107,701	21,508,240
Department of Transportation general administration expenses	5,194,883	4,839,148
Materials and supplies	4,693,534	5,617,616
Insurance	3,253,248	4,121,188
Bad debt expense	2,066,244	47,443
Disbursements out of major maintenance, renewal, and replacement account	1,256,988	1,912,761
Rent	1,184,627	1,202,964
Claims and benefits	741,677	1,051,356
Communication	357,222	307,025
Travel	326,014	304,128
Dues and subscriptions	138,690	136,973
Printing and advertising	17,479	22,610
Freight and delivery	10,655	16,337
Miscellaneous	271,108	309,375
Total operating expenses	305,778,357	324,129,431
Operating loss, carried forward	(21,047,739)	(58,453,564)

(Continued)

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, 2010 and 2009

	2010	2009
Operating loss, brought forward	$ (21,047,739)	(58,453,564)
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities (note 3)	6,239,201	16,149,558
Investments in direct financing leases (note 8)	2,159,279	2,249,798
Interest expense:		
Revenue bonds:		
Airports system (note 6)	(27,800,066)	(24,067,476)
Special facility (note 8)	(2,159,279)	(2,249,798)
General obligation bonds (note 7)	—	(905)
Federal operating grants	4,116,867	6,757,871
Loss on disposal of capital assets (note 4)	(388,685)	(4,840,412)
Passenger facility charges (note 9)	29,321,738	24,786,495
Rental car customer facility charges (note 10)	10,911,991	8,608,161
Amortization of deferred bond issue costs	(388,407)	(405,990)
Gain (loss) on amounts held in State Treasury	31,046,930	(26,576,132)
Total nonoperating revenues, net	53,059,569	411,170
Income (loss) before capital contributions	32,011,830	(58,042,394)
Capital contributions:		
Federal capital grants	27,494,010	48,801,935
Federal stimulus grants	14,735,504	—
Other capital contributions (note 4)	1,516,145	747,067
Total capital contributions	43,745,659	49,549,002
Increase (decrease) in net assets	75,757,489	(8,493,392)
Total net assets – beginning of year	1,571,275,416	1,579,768,808
Total net assets – end of year	$ 1,647,032,905	1,571,275,416

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, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from providing services	$ 302,373,750	259,682,228
Cash paid to suppliers	(144,647,766)	(159,771,926)
Cash paid to employees	(62,875,165)	(67,226,322)
Net cash provided by operating activities	94,850,819	32,683,980
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	3,371,872	8,567,879
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(126,224,468)	(159,844,085)
Proceeds from federal and other capital grants and contributions	40,378,528	45,484,145
Interest paid on airports system revenue and general obligation bonds	(37,325,004)	(35,492,142)
Principal paid on general obligation bonds	—	(28,275)
Principal paid on airports system revenue bonds	(22,310,000)	(21,140,000)
Bond issue costs paid	(3,573,163)	—
Payments to refund airports system revenue bonds	(201,788,123)	—
Proceeds from issuance of refunding airport system revenue bonds	659,709,646	—
Payments from passenger facility charges program	(14,505,306)	(6,406,779)
Proceeds from passenger facility charges program	28,524,423	23,436,441
Payments from rental car customer facility charges program	(2,127,936)	—
Proceeds from rental car customer facility charges	10,580,251	7,706,014
Net cash provided by (used in) capital and related financing activities	331,338,848	(146,284,681)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	91,083,963	89,443,013
Interest received on investments	6,766,513	12,344,822
Purchases of investments	(112,725,458)	(89,443,013)
Gain (loss) on amounts held in State Treasury	31,046,930	(26,576,132)
Net cash provided by (used in) investing activities	16,171,948	(14,231,310)
Net increase (decrease) in cash and cash equivalents	445,733,487	(119,264,132)
Cash and cash equivalents – beginning of year	518,479,831	637,743,963
Cash and cash equivalents – end of year	$ 964,213,318	518,479,831

(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, 2010 and 2009

		2010	2009
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(21,047,739)	(58,453,564)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		92,860,543	88,599,854
Bad debt expense		2,066,244	47,443
Overpayment of airport use charge to be transferred to the PAUCF		10,303,174	—
Changes in operating assets and liabilities:			
Accounts receivable		4,108,026	(6,988,093)
Aviation fuel tax receivable		(40,914)	157,465
Due from State of Hawaii		156,139	450,048
Inventory of materials and supplies		8,449	32,008
Vouchers payable		(1,580,678)	1,742,624
Contracts payable		(343,961)	(1,360,540)
Deferred income		1,473,298	856,986
Accrued wages		(324,928)	433,809
Postemployment liability		8,052,854	7,735,379
Due to State of Hawaii		(550,000)	550,000
Pollution remediation liability		(22,993)	(1,051,999)
Prepaid airport use charge fund		(410,747)	—
Security deposits		143,302	(74,880)
Other		750	7,440
Net cash provided by operating activities	$	94,850,819	32,683,980
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	$	1,230,000	1,100,000
Interest payments on special facility revenue bonds		2,167,756	2,257,256
Amortization of revenue bond issue costs		388,407	405,990
Amortization of revenue bond discount		60,114	60,471
Amortization of revenue bond premium		(1,217,894)	(1,273,660)
Amortization of deferred loss on refunding revenue bonds		1,477,895	1,546,859

At June 30, 2010 and 2009, contracts payable included $31,560,540 and $18,101,124, respectively, for the acquisition of capital assets.

During fiscal years 2010 and 2009, interest of $10,624,031 and $11,695,577, respectively, was capitalized in property, plant, and equipment.

During fiscal years 2010 and 2009, property, plant, and equipment with a net book value of $403,316 and $6,890,545, respectively, were written off.

During fiscal year 2010, buildings with a value of $1,509,500 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 $4.50 per passenger. The net 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. Effective September 1, 2010, the CFC was raised to $4.50 a day on all u-drive rentals at a state airport.

(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, 2010 was as follows: current – $15,110,132; 30 days – $764,253; 60 days – $458,821; and over 90 days – $4,565,312. 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.

(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.

(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 15. 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.

(Continued)

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Petty cash	$ 17,805	17,805
Amounts held in State Treasury	964,195,513	518,462,026
Repurchase agreements	96,893,008	52,789,337
Certificates of deposit	—	22,462,176
	$ 1,061,106,326	593,731,344

Such amounts are reflected in the statements of net assets at June 30, 2010 and 2009 as follows:

	2010	2009
Cash and cash equivalents:		
Unrestricted	$ 445,758,508	336,793,740
Restricted	518,454,810	181,686,091
Total cash and cash equivalents	964,213,318	518,479,831
Investments – restricted	96,893,008	75,251,513
Total cash and cash equivalents and investments	$ 1,061,106,326	593,731,344

(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, 2010 and 2009, 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 $964,195,513 and $518,462,026, respectively. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by $31,046,930 and $(26,576,132) during the years ended June 30, 2010 and 2009, 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 57% at June 30, 2009 (amounts in thousands):

		Maturity (in years)		
	Fair value	Less than 1	1 – 5	>5
Investments – primary government:				
Student loan auction rate securities	$ 509,467	—	—	509,467
Certificates of deposit	32,869	31,883	986	—
U.S. government securities	262,951	—	205,102	57,849
Repurchase agreements	16,434	8,217	8,217	—
	$ 821,721	40,100	214,305	567,316
Investments – fiduciary funds:				
Student loan auction rate securities	$ 58,599	—	—	58,599
Certificates of deposit	3,781	3,667	114	—
U.S. government securities	30,244	—	23,590	6,654
Repurchase agreements	1,890	945	945	—
	$ 94,514	4,612	24,649	65,253

Information relating to the State's investment pool at June 30, 2010 will be included in the comprehensive annual financial report of the State when issued.

(b) Investments

At June 30, 2010 and 2009, 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.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2010 and 2009

(4) Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 consist of the following:

	Balance, June 30, 2009	Increases	Decreases	Transfers	Balance, June 30, 2010
Capital assets not being depreciated:					
Land	$ 308,438,655	—	—	—	308,438,655
Land improvements	26,481,609	—	—	—	26,481,609
Construction in progress	234,916,248	166,521,654	(2,215,472)	(169,675,463)	229,546,967
Total capital assets not being depreciated	569,836,512	166,521,654	(2,215,472)	(169,675,463)	564,467,231
Capital assets being depreciated:					
Land improvements	808,330,404	2,653,210	—	70,518,711	881,502,325
Buildings and improvements	1,519,498,899	1,509,500	—	87,370,185	1,608,378,584
Machinery and equipment	206,069,598	711,579	(1,733,477)	11,786,567	216,834,267
Total capital assets being depreciated	2,533,898,901	4,874,289	(1,733,477)	169,675,463	2,706,715,176
Less accumulated depreciation:					
Land improvements	(599,330,102)	(29,170,180)	—	—	(628,500,282)
Buildings and improvements	(742,559,925)	(53,783,192)	—	—	(796,343,117)
Machinery and equipment	(143,916,437)	(9,907,171)	1,335,031	82,552	(152,406,025)
Total depreciation	(1,485,806,464)	(92,860,543)	1,335,031	82,552	(1,577,249,424)
Capital assets being depreciated, net	1,048,092,437				1,129,465,752
Total capital assets	$ 1,617,928,949				1,693,932,983

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2010 and 2009

	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)

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2010 and 2009 follows:

	Balance, June 30, 2009	Increases	Decreases	Balance, June 30, 2010	Current	Noncurrent
Workers' compensation (note 14)	$ 4,300,000	649,704	(949,704)	4,000,000	1,010,242	2,989,758
Compensated absences	8,238,510	3,940,710	(3,646,512)	8,532,708	2,554,730	5,977,978
Prepaid airport use charge fund (notes 8 and 16)	463,926	10,303,174	(410,747)	10,356,353	2,553,179	7,803,174
Postemployment liability (note 11)	14,674,952	11,147,024	(3,094,170)	22,727,806	3,222,000	19,505,806
Airports system revenue bonds (note 6)	587,185,809	665,351,038	(229,419,400)	1,023,117,447	23,615,000	999,502,447
Special facility revenue bonds (note 8)	34,755,000	—	(1,230,000)	33,525,000	1,685,000	31,840,000
	$ 649,618,197	691,391,650	(238,750,533)	1,102,259,314	34,640,151	1,067,619,163

	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

(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, 2010 and 2009, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2010 and 2009, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net assets) consisted of the following:

	2010	2009
Debt service reserve account	$ 96,893,008	75,251,513
RHB Debt extinguishment	33,682,994	—
Major maintenance, renewal, and replacement account	60,061,114	63,626,627
	190,637,116	138,878,140
Principal and interest due July 1	41,847,037	39,763,058
	$ 232,484,153	178,641,198

At June 30, 2010 and 2009, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $505,407,906 and $590,065,802, 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, 2010 and 2009:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount 2010	Outstanding amount 2009
2000A, refunding	5.50% – 6.00%	2021	$ 26,415,000	155,000	26,415,000
2000B, refunding	5.00% – 6.00%	2020	261,465,000	26,100,000	207,830,000
2001, refunding	4.00% – 5.75%	2021	423,255,000	345,160,000	355,495,000
2010A, refunding	2.00% – 5.25%	2039	478,980,000	478,980,000	—
2010B, refunding	3.00% – 5.00%	2020	166,000,000	166,000,000	—
			$ 1,356,115,000	1,016,395,000	589,740,000
Add unamortized premium				19,294,995	7,717,601
Less unamortized discount				—	(618,796)
Less deferred loss on refunding				(12,572,548)	(9,652,996)
Less current portion				(23,615,000)	(22,310,000)
Noncurrent portion				$ 999,502,447	564,875,809

Annual debt service requirements to maturity for airports system revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30:			
2011	$ 25,370,000	52,121,428	77,491,428
2012	27,680,000	50,427,803	78,107,803
2013	46,145,000	49,003,450	95,148,450
2014	46,725,000	46,471,255	93,196,255
2015	52,960,000	43,897,328	96,857,328
2016 – 2020	310,425,000	173,194,831	483,619,831
2021 – 2025	100,135,000	111,416,438	211,551,438
2026 – 2030	107,580,000	86,485,523	194,065,523
2031 – 2035	138,180,000	55,891,775	194,071,775
2036 – 2039	137,580,000	17,672,780	155,252,780
	$ 992,780,000	686,582,611	1,679,362,611

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- 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, 2010 of $23,615,000 and $18,232,037, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2010 and 2009 and the allocation thereof:

	2010	2009
Expensed as incurred	$ 27,800,066	24,067,476
Capitalized in capital assets	10,624,031	11,695,577
	$ 38,424,097	35,763,053

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranges of 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. The average interest rates of the refunded bonds were 5.749928% and 6.429042%, respectively. Of the net proceeds of $656,136,858 (after the payment of $3,572,788 in underwriting fees, insurance, and other costs), along with an additional $3,069,096 from the debt service reserve account, $204,061,069 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds on July 1, 2010. As a result, the refunded portion of the Refunding Series 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The remainder of the net proceeds are held in the State Treasury to be used to pay all or part of the cost of the acquisition, purchase, construction, reconstruction, improvement, betterment, or extension of any project authorized by the State.

At June 30, 2010, the aggregate outstanding defeased bonds amounted to $228,615,000.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,147. This difference, reported in the accompanying financial statements as a deduction from airports system revenue bonds, is being charged to operations over the next 11 years.

(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.

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 year ended June 30, 2009 and the allocation thereof:

Expensed as incurred	$	905
Capitalized in capital assets		—
	$	905

(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 2010 have been transferred to the PAUCF (note 16).

Aviation Fuel Tax

The aviation fuel tax amounted to $3,633,095 and $3,548,705 for fiscal years 2010 and 2009, 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 $59,262,031 and $64,069,005 for fiscal years 2010 and 2009, respectively. Airport landing fees are shown net of aviation fuel tax credits of $3,314,188 and $3,495,105 for fiscal years 2010 and 2009, respectively, on the statements of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $55,947,843 and $60,573,900 for fiscal years 2010 and 2009, 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 38% and 37% of the airport landing fees for overseas flights for fiscal years 2010 and 2009, 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 $38,544,169 and $35,062,741 for fiscal years 2010 and 2009, 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 $39,576,057 and $35,117,763 for fiscal years 2010 and 2009, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $23,032,229 and $17,840,660 for fiscal years 2010 and 2009, respectively.

Airports system support charges amounted to $762,543 and $873,520 for fiscal years 2010 and 2009, 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.

(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, 2010:

	Principal	Interest	Total
Year ending June 30:			
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	—	1,222,031	1,222,031
2016 – 2020	—	6,110,156	6,110,156
2021 – 2025	—	6,110,156	6,110,156
2026 – 2028	21,725,000	3,055,078	24,780,078
	$ 21,725,000	21,385,545	43,110,545

$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, 2010:

		Principal	Interest	Total
Year ending June 30:				
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		1,030,000	518,350	1,548,350
2016 – 2020		6,375,000	1,397,200	7,772,200
	$	10,900,000	4,622,450	15,522,450

$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, 2010:

		Principal	Interest	Total
Year ending June 30:				
2011	$	900,000	45,562	945,562
	$	900,000	45,562	945,562

Special facility revenue bonds payable at June 30, 2010 and 2009 consisted of the following:

	Continental		Sky chefs	Total
2010:				
Current portion	$ 785,000	—	900,000	1,685,000
Noncurrent portion	10,115,000	21,725,000	—	31,840,000
	$ 10,900,000	21,725,000	900,000	33,525,000
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

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, 2010 and 2009 consisted of the following:

	2010	2009
Cash with bond fund trustee	$ 4,262,963	4,101,714
Receivable from lessees, net of unearned interest of $26,277,490 and $28,455,724, respectively	29,262,037	30,653,286
Interest receivable	223,931	232,408
	$ 33,748,931	34,987,408

(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, 2010 are as follows:

Year ending June 30:	
2011	$ 107,532,751
2012	101,344,753
2013	91,844,904
2014	87,189,681
2015	53,374,136
2016 – 2020	113,414,624
2021 – 2025	11,804,979
2026 – 2030	6,676,794
2031 – 2035	2,444,672
2036 – 2040	1,211,639
	$ 576,838,933

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 2010 and 2009 were $42,141,600 and $46,198,939, 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 $2,601,889 at June 30, 2010 is due as follows: 2011 – $2,502,889; 2012 – $12,000; 2013 – $12,000; and thereafter – $75,000.

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 30% and 40% of total concession fee revenues for fiscal years 2010 and 2009, 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 50 years of the lease term. Percentage rent during this period is calculated the same as during the first 5 years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009 and terminating on March 14, 2014. 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).

(9) Passenger Facility Charges

Passenger facility charges across all following insurances in notes activity for the years ended June 30, 2010 and 2009 are as follows:

		2010	2009
Restricted assets – passenger facility charges, beginning of year	$	68,578,837	50,199,121
Passenger facility charges during the year		28,485,813	23,359,258
Interest earned on passenger facility charges during the year		835,925	1,427,237
Capital expenditures during the year		(14,505,306)	(6,406,779)
Restricted assets – passenger facility charges, end of year	$	83,395,269	68,578,837

Restricted assets – passenger facility charges are presented on the statements of net assets as of June 30, 2010 and 2009 as follows:

		2010	2009
Cash and cash equivalents	$	79,724,804	65,705,687
Receivable		3,670,465	2,873,150
Total restricted assets passenger facility charges	$	83,395,269	68,578,837

(10) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the year ended June 30, 2010 is as follows:

		2010	2009
Restricted assets – rental car customer facility charge, beginning of year	$	8,584,512	—
Rental car customer facility charges during the year		10,804,982	8,541,445
Interest earned on rental car customer facility charges during the year		107,009	66,716
Bad debt expense on rental car customer facility charges during the year		—	(23,649)
Capital expenditures during the year		(2,127,936)	—
Restricted assets – rental car customer facility charges, end of year	$	17,368,567	8,584,512

Restricted assets – rental car customer facility charges are presented on the statement of net assets as of June 30, 2010 as follows:

		2010	2009
Cash and cash equivalents	$	16,134,680	7,682,365
Receivable		1,233,887	902,147
Total restricted assets – rental car customer facility charge	$	17,368,567	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, 5.0% 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, 2010, 2009, and 2008 were $7,472,099, $7,924,498, and $6,859,479, 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, Hawaii 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 years ended June 30, 2010 and 2009 was $3,094,170 and $4,365,756, respectively, which represented 28% and 36%, respectively, of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $11,147,024 and $12,101,135, respectively.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2010:

Balance at June 30, 2009	$	14,674,952
Additions		11,147,024
Deletions		(3,094,170)
Balance at June 30, 2010		22,727,806
Less current portion		(3,222,000)
	$	19,505,806

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, Hawaii 96805-2121

(Continued)

(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 $12,094,751 and $10,743,534 in fiscal years 2010 and 2009, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $6,117,284 and $6,156,800 in fiscal years 2010 and 2009, respectively. During fiscal years 2010 and 2009, the Airports Division received assessment refunds from the DOT amounting to $922,401 and $1,317,652, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

During fiscal years 2010 and 2009, revenues received from other state agencies totaled $2,024,042 and $1,639,826, respectively, and expenditures to other state agencies totaled $7,734,552 and $9,325,516, respectively.

(14) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2010 and 2009 was $17,297,059 and $17,207,468, 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) Pledged Future Revenues

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 $1,356,115,000 in revenue bonds issued in 2000, 2001, and 2010, and are payable through 2039. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $1,679,362,611. In fiscal year 2010, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were $60,413,982 and $96,530,898, respectively. See also note 6 for further discussion on the revenue bonds.

(d) 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, 2010 and 2009.

At June 30, 2010 and 2009, the Airports Division had commitments totaling approximately $282,140,899 and $275,943,000, respectively, for construction and service contracts.

(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, 2010 and 2009, the workers' compensation reserve was $4,000,000 and $4,300,000, respectively, of which $1,010,242 and $1,055,969 is included in current liabilities (payable from unrestricted net assets) and $2,989,758 and $3,244,031 is included in long-term liabilities in the accompanying statements of net assets at June 30, 2010 and 2009, 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.

(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, 2010 and 2009, 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.

(Continued)

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 a payment of $1,069,792 for the 2005 overpayment. The payable balance of the PAUCF was $463,926 at June 30, 2009 and 2008.

On November 15, 2010, the State reached a settlement with the ACH under which the Airports Division is to transfer an overpayment of $10,303,174 for fiscal year 2010 to the PAUCF escrow account in four annual installments beginning in fiscal year 2011. A liability for the refund was recorded in the Airports Division's financial statements as of June 30, 2010, with an offsetting charge to operating revenues. The payable balance of the PAUCF at June 30, 2010 was $10,356,353.

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 $1,590,881 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(17) Subsequent Events

The Airport Division has evaluated subsequent events from the balance sheet date through July 28, 2011, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

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, 2010

	Total	Statewide	Airports: Honolulu International	Hilo International	Kona International at Keahole	Kahului	Lihue	All others
Operating revenues:								
Concession fees	$ 127,542,278	—	79,628,979	2,491,360	11,074,988	21,907,312	12,206,339	233,300
Airport landing fees	55,947,843	—	38,188,394	1,297,955	4,192,822	8,767,596	3,162,363	338,713
Aeronautical rentals:								
Exclusive-use premise charges	39,576,057	—	31,850,574	949,367	993,188	3,930,854	1,510,578	341,496
Nonexclusive joint-use premise charges	38,544,169	—	28,887,999	1,073,255	1,235,596	5,417,235	1,930,084	—
Nonaeronautical rentals	13,723,544	—	8,535,812	376,105	1,038,244	2,829,627	866,529	77,227
Aviation fuel tax	3,633,095	—	2,486,453	83,873	271,105	565,772	204,038	21,854
Airports system support charges	762,543	—	478,320	35,513	56,530	78,010	48,819	65,351
Miscellaneous	5,001,089	357,148	3,009,556	77,367	663,489	446,016	423,894	23,619
	284,730,618	357,148	193,066,087	6,384,795	19,525,962	43,942,422	20,352,644	1,101,560
Allocation of statewide miscellaneous revenues (note 2)	—	(357,148)	231,454	5,950	51,027	34,301	32,600	1,816
Net operating revenues	$ 284,730,618	—	193,297,541	6,390,745	19,576,989	43,976,723	20,385,244	1,103,376
Operating expenses other than depreciation:								
Salaries and wages	$ 70,603,092	14,370,721	29,174,820	4,339,343	4,488,363	7,754,952	5,524,659	4,950,234
Other personnel services	53,253,463	2,963,553	31,204,691	3,385,440	4,011,870	5,645,958	3,803,493	2,238,458
Utilities	34,872,299	16,582	25,410,016	1,103,440	2,070,007	3,843,877	1,811,774	616,603
Special maintenance	7,107,701	2,921,434	374,584	722,964	1,759,621	255,251	196,884	876,963
Repairs and maintenance	15,474,139	3,692,508	8,746,630	188,413	738,013	1,263,323	149,200	696,052
State of Hawaii surcharge on gross receipts (note 3)	12,094,751	12,094,751	—	—	—	—	—	—
Materials and supplies	4,693,534	59,133	2,392,945	331,019	384,639	800,971	401,370	323,457
Department of Transportation general administration expenses	5,194,883	5,194,883	—	—	—	—	—	—
Insurance	3,253,248	3,253,136	(22)	198	(3)	(66)	—	5
Claims and benefits	741,677	(267,533)	388,568	59,575	206,945	150,386	144,346	59,390
Rent	1,184,627	965,938	137,359	5,532	16,712	30,869	11,592	16,625
Travel	326,014	57,643	82,391	31,707	34,326	46,010	29,738	44,199
Communication	357,222	77,437	58,386	33,009	20,097	53,401	58,225	56,667
Dues and subscriptions	138,690	133,638	3,787	(154)	293	316	794	16
Bad debt expense (note 1)	2,066,244	2,066,244	—	—	—	—	—	—
Printing and advertising	17,479	6,364	1,135	—	2,408	—	7,644	(72)
Freight and delivery	10,655	206	1,544	(583)	374	6,553	120	2,441
Miscellaneous	271,108	61,143	103,989	37,425	15,128	8,918	32,855	11,650
	211,660,826	47,667,781	98,080,823	10,237,328	13,748,793	19,860,719	12,172,694	9,892,688
Allocation of statewide expenses (note 4)	—	(47,667,781)	28,509,107	2,975,679	3,996,355	5,772,906	3,538,231	2,875,503
Total operating expenses other than depreciation for net revenues and taxes	211,660,826	—	126,589,930	13,213,007	17,745,148	25,633,625	15,710,925	12,768,191
Disbursements out of major maintenance, renewal, and replacement account not included above	1,256,988	—	574,425	684,817	—	—	—	(2,254)
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net assets	$ 212,917,814	—	127,164,355	13,897,824	17,745,148	25,633,625	15,710,925	12,765,937

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, 2010

Revenues and taxes:	
Concession fees	$ 127,542,278
Airport landing fees	55,947,843
Aeronautical rentals:	
Exclusive-use premise charges	39,576,057
Nonexclusive joint-use premise charges	38,544,169
Nonaeronautical rentals	13,723,544
Aviation fuel tax	3,633,095
Airports system support charges	762,543
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $2,824,174 on capital improvement projects	6,239,201
Federal operating grants	4,116,867
Miscellaneous	5,001,089
Total revenues and taxes	295,086,686
Deductions:	
Operating expenses other than depreciation for net revenues and taxes (schedule 1)	212,917,814
Annual reserve required on major maintenance, renewal, and replacement account	1,290,052
Total deductions	214,207,866
Net revenues and taxes	80,878,820
Add funded coverage per bond certificate	15,429,745
Adjusted net revenues and taxes	96,308,565
Debt service requirement:	
Airports system revenue bonds:	
Principal	23,615,000
Interest (note 1)	38,103,982
Total debt service	61,718,982
Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2)	(16,803,849)
Total debt service requirement	44,915,133
Debt service coverage percentage	125%
Total debt service with coverage requirement	56,143,916
Excess of net revenues and taxes over debt service requirement	$ 40,164,649

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 2010, the Airports Division deposited $16,803,849 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 2010 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, 2010

	Annual principal and interest requirements		
	Airports system revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2011	$ 25,370,000	52,121,428	77,491,428
2012	27,680,000	50,427,803	78,107,803
2013	46,145,000	49,003,450	95,148,450
2014	46,725,000	46,471,255	93,196,255
2015	52,960,000	43,897,328	96,857,328
2016	55,835,000	41,028,898	96,863,898
2017	58,880,000	37,971,560	96,851,560
2018	62,105,000	34,757,720	96,862,720
2019	65,485,000	31,408,008	96,893,008
2020	68,120,000	28,028,645	96,148,645
2021	29,530,000	24,560,395	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
Total	$ 992,780,000	686,582,611	1,679,362,611

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- 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, 2010.

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, 2010

	Principal: Refunding series of 2000B, 5.00% to 8.00%	Principal: Refunding series of 2001, 4.00% to 5.75%	Principal: Refunding series of 2010A, 2.00% to 5.25%	Principal: Refunding series of 2010B, 3.00% to 5.00%	Principal: Total	Interest	Total requirements
Year ending June 30:							
2011	$ 13,550,000	11,530,000	290,000	—	25,370,000	52,121,428	77,491,428
2012	—	12,135,000	295,000	15,250,000	27,680,000	50,427,803	78,107,803
2013	—	30,840,000	305,000	15,000,000	46,145,000	49,003,450	95,148,450
2014	—	32,615,000	310,000	13,800,000	46,725,000	46,471,255	93,196,255
2015	—	34,490,000	320,000	18,150,000	52,960,000	43,897,328	96,857,328
2016	—	36,470,000	335,000	19,030,000	55,835,000	41,028,898	96,863,898
2017	—	38,565,000	340,000	19,975,000	58,880,000	37,971,560	96,851,560
2018	—	40,770,000	355,000	20,980,000	62,105,000	34,757,720	96,862,720
2019	—	43,065,000	255,000	22,165,000	65,485,000	31,408,008	96,893,008
2020	—	38,750,000	7,720,000	21,650,000	68,120,000	28,028,645	96,148,645
2021	—	15,020,000	14,510,000	—	29,530,000	24,560,395	54,090,395
2022	—	—	18,005,000	—	18,005,000	23,011,445	41,016,445
2023	—	—	16,650,000	—	16,650,000	22,168,945	38,818,945
2024	—	—	17,510,000	—	17,510,000	21,296,545	38,806,545
2025	—	—	18,440,000	—	18,440,000	20,379,108	38,819,108
2026	—	—	19,395,000	—	19,395,000	19,428,488	38,823,488
2027	—	—	20,400,000	—	20,400,000	18,412,970	38,812,970
2028	—	—	21,460,000	—	21,460,000	17,356,370	38,816,370
2029	—	—	22,570,000	—	22,570,000	16,233,945	38,803,945
2030	—	—	23,755,000	—	23,755,000	15,053,750	38,808,750
2031	—	—	25,010,000	—	25,010,000	13,807,355	38,817,355
2032	—	—	26,255,000	—	26,255,000	12,556,855	38,811,855
2033	—	—	27,575,000	—	27,575,000	11,244,105	38,819,105
2034	—	—	28,945,000	—	28,945,000	9,865,355	38,810,355
2035	—	—	30,395,000	—	30,395,000	8,418,105	38,813,105
2036	—	—	31,910,000	—	31,910,000	6,898,355	38,808,355
2037	—	—	33,520,000	—	33,520,000	5,299,245	38,819,245
2038	—	—	35,195,000	—	35,195,000	3,619,455	38,814,455
2039	—	—	36,955,000	—	36,955,000	1,855,725	38,810,725
Total	$ 13,550,000	334,250,000	478,980,000	166,000,000	992,780,000	686,582,611	1,679,362,611

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- 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, 2010.

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, 2010

	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	182,448	568	258	$ 742,563	—	180,539	186,309	—	—	—	—	—	1,765	—	598,518	1,709,694
Air New Zealand, Ltd.	39,475	122	21,233	160,663	—	—	27,851	—	—	—	—	—	145,234	—	—	333,748
Air Pacific, Ltd.	15,152	106	11,360	61,669	—	—	11,442	—	—	—	—	—	77,702	—	—	150,813
Alaska Air, Inc.	431,568	2,997	—	1,756,482	—	612,019	656,716	—	—	—	—	—	—	—	270,252	3,295,469
All Nippon Airways, Inc.	62,476	126	33,801	254,277	—	—	39,325	—	—	—	—	—	231,199	—	3,315	528,116
American Airlines, Inc.	1,010,944	4,552	—	4,114,542	—	1,206,071	1,105,734	—	—	—	—	—	—	—	1,487,506	7,913,853
China Airlines, Ltd.	185,020	336	100,539	753,030	—	—	120,809	—	—	—	—	—	687,687	—	31,909	1,593,435
Continental Airlines, Inc.	494,429	1,757	—	2,011,963	—	476,697	434,002	—	—	—	—	—	—	—	491,139	3,413,801
Continental Micronesia, Inc.	159,627	586	108,683	649,682	—	—	122,914	—	—	—	—	—	743,392	—	816,858	2,332,846
Delta Airlines, Inc.	858,887	3,131	81,519	3,495,668	—	937,739	881,648	—	—	—	—	—	557,590	—	2,140,576	8,013,221
Evergreen International Airlines, Inc.	143,010	—	—	582,051	—	—	—	—	—	—	—	—	—	—	—	582,051
Federal Express Corporation	727,412	—	—	2,522,151	—	—	—	—	—	—	—	—	—	—	7,611	2,529,762
Hawaiian Airlines, Inc.	8,385,730	65,062	113,023	17,749,214	—	1,623,092	1,101,753	—	5,345,244	—	—	—	773,077	2,470,420	6,212,948	35,275,748
JALways Co, Ltd.	1,272,676	2,597	773,778	4,906,978	—	—	908,911	—	—	6,680	—	—	5,292,642	—	—	11,115,211
Japan Airlines Company, Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,128,338	2,128,338
Kalitta Air, LLC	185,895	—	—	690,026	—	—	—	—	—	—	—	—	—	—	—	690,026
Korean Airlines Company, Ltd.	212,109	373	104,509	863,282	—	—	124,459	—	—	—	—	—	714,842	—	267,604	1,970,187
Mesa Airlines, Inc.	876,924	18,658	—	1,359,235	—	—	—	—	172,537	419,497	268,243	357,113	—	—	261,673	2,838,298
Mokulele Flight Service, Inc.	423,165	17,819	—	655,905	—	—	—	—	159,925	171,585	13,896	17,735	—	—	111,680	1,130,726
North American Airlines, Inc.	5,110	17	—	20,798	—	—	—	—	—	—	—	—	—	—	—	20,798
Northwest Airlines, Inc.	921,189	2,480	249,385	3,749,237	—	1,010,475	735,312	—	—	—	—	—	1,705,793	—	418,870	7,619,687
Pacific Wings LLC	18,207	2,142	—	28,221	—	—	—	—	—	—	—	2,447	—	—	8,732	39,400
Philippine Airlines, Inc.	84,214	166	34,060	342,751	—	—	37,648	—	—	—	—	—	232,970	—	232,105	845,474
Qantas Airways, Ltd.	207,300	210	34,890	843,711	—	—	42,265	—	—	—	—	—	238,648	—	461,079	1,585,703
United Airlines, Inc.	2,540,346	8,322	110,972	10,218,057	—	2,628,942	2,551,377	—	—	—	—	—	759,048	—	5,390,582	21,548,006
United Parcel Service Co.	682,931	—	—	2,329,470	—	—	—	—	—	—	—	—	—	—	30,825	2,360,295
US Airways, Inc.	401,616	1,952	—	1,634,577	—	450,810	439,689	—	—	—	—	—	—	—	373,606	2,898,682
Westjet	141,651	975	—	576,518	—	206,767	229,368	—	—	—	—	—	—	—	35,573	1,048,226
Nonsignatory airlines	2,606,793	775	104,761	3,675,459	762,543	—	—	353,070	—	—	—	—	350,530	—	1,250,930	6,392,532
Total airports system charges billed	23,276,304	135,829	1,882,771	$ 66,748,180	762,543	9,333,151	9,757,532	353,070	5,677,706	597,762	282,139	377,295	12,512,119	2,470,420	23,032,229	131,904,146
Signatory airlines requirements				55,586,572	—	8,886,686	9,575,513	—	5,513,807	544,872	321,481	432,912	10,094,878	2,470,420	21,781,299	115,208,440
Nonsignatory airlines requirements				3,675,459	762,543	—	—	353,070	—	—	—	—	350,530	—	1,250,930	6,392,532
Fiscal year 2010 overpayment (underpayment)				$ 7,486,149	—	446,465	182,019	—	163,899	52,890	(39,342)	(55,617)	2,066,711	—	—	10,303,174

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, 2010

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	63,072,721	3,675,459	66,748,180
Less aviation fuel tax credit		(3,057,616)	(256,572)	(3,314,188)
Net airport landing fees billed	$	60,015,105	3,418,887	63,433,992

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 – Signatory Airlines

Year ended June 30, 2010

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport					All other airports			
					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	Total adjusted airport landing fees
Air Canada	105,328	—	77,120	182,448	$ 428,685	—	428,685	—	428,685	313,878	—	313,878	742,563
Air New Zealand, Ltd.	39,475	—	—	39,475	160,663	—	160,663	—	160,663	—	—	—	160,663
Air Pacific, Ltd.	15,152	—	—	15,152	61,669	—	61,669	—	61,669	—	—	—	61,669
Alaska Airlines, Inc.	139,968	—	291,600	431,568	569,670	—	569,670	(271,137)	298,533	1,186,812	—	1,186,812	1,485,345
All Nippon Airways	62,476	—	—	62,476	254,277	—	254,277	—	254,277	—	—	—	254,277
American Airlines, Inc.	587,281	—	423,662	1,010,943	2,390,238	—	2,390,238	(254,346)	2,135,892	1,724,304	—	1,724,304	3,860,196
China Airlines, Ltd.	185,020	—	—	185,020	753,030	—	753,030	—	753,030	—	—	—	753,030
Continental Airlines, Inc.	469,656	—	24,773	494,429	1,911,137	—	1,911,137	—	1,911,137	100,826	—	100,826	2,011,963
Continental Micronesia, Inc.	159,627	—	—	159,627	649,681	—	649,681	—	649,681	—	—	—	649,681
Delta Airlines, Inc.	575,293	—	283,594	858,887	2,341,441	—	2,341,441	(141,570)	2,199,871	1,154,228	—	1,154,228	3,354,099
Evergreen International Airlines, Inc.	143,010	—	—	143,010	582,051	—	582,051	—	582,051	—	—	—	582,051
Federal Express Corporation	628,387	98,169	856	727,412	2,368,662	152,161	2,520,823	(169,012)	2,351,811	1,327	—	1,327	2,353,138
Hawaiian Airlines, Inc.	4,739,669	623,480	3,022,580	8,385,729	11,477,698	966,394	12,444,092	(1,293,992)	11,150,100	5,305,122	—	5,305,122	16,455,222
JALways Co., Ltd.	1,164,114	—	108,564	1,272,678	4,465,122	—	4,465,122	—	4,465,122	441,856	(774)	441,082	4,906,204
Kalitta Air, LLC	161,325	—	24,570	185,895	647,521	—	647,521	—	647,521	42,506	—	42,506	690,027
Korean Airlines Company, Ltd.	212,109	—	—	212,109	863,282	—	863,282	—	863,282	—	—	—	863,282
Mesa Airlines, Inc.	438,228	95,504	343,194	876,926	679,253	148,031	827,284	(73,747)	753,537	531,951	—	531,951	1,285,488
Mokulele Flight Service, Inc.	170,999	30,009	222,156	423,164	265,049	46,513	311,562	(15,539)	296,023	344,342	—	344,342	640,365
North American Airlines, Inc.	5,110	—	—	5,110	20,798	—	20,798	—	20,798	—	—	—	20,798
Northwest Airlines, Inc.	921,189	—	—	921,189	3,749,238	—	3,749,238	—	3,749,238	—	—	—	3,749,238
Pacific Wings LLC	3,893	9	14,306	18,208	6,034	13	6,047	(1,641)	4,406	22,174	—	22,174	26,580
Philippine Airlines, Inc.	84,214	—	—	84,214	342,751	—	342,751	—	342,751	—	—	—	342,751
Qantas Airways, Ltd.	207,300	—	—	207,300	843,711	—	843,711	—	843,711	—	—	—	843,711
United Airlines, Inc.	1,339,834	—	1,200,511	2,540,345	5,443,490	—	5,443,490	(521,397)	4,922,093	4,774,566	(85,367)	4,689,199	9,611,292
United Parcel Service Co.	517,157	—	165,774	682,931	2,071,413	—	2,071,413	(38,241)	2,033,172	258,057	—	258,057	2,291,229
US Airways, Inc.	163,818	—	237,798	401,616	666,739	—	666,739	(168,700)	498,039	967,838	—	967,838	1,465,877
Westjet	66,302	—	75,348	141,650	269,851	—	269,851	(5,381)	264,470	306,668	(16,772)	289,896	554,366
Total	13,305,934	847,171	6,516,406	20,669,511	$ 44,283,154	1,313,112	45,596,266	(2,954,703)	42,641,563	17,476,455	(102,913)	17,373,542	60,015,105

Summary of revenue landing weights:	
Overseas	12,426,456
Interisland	8,243,055
	20,669,511

Aviation fuel tax of $3,592,182 was paid by the users for the year ended June 30, 2010. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,633,095 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,057,616
Nonsignatory airlines	256,572
	$ 3,314,188

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2010.

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, 2010

	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	Total adjusted airport landing fees
Above It All, Inc.	—	963	918	1,881	$ —	918	918	(220)	698	875	(227)	648	1,346
Aeko Kula, Inc.	515,953	98,654	259,154	873,761	492,220	94,116	586,336	—	586,336	247,233	—	247,233	833,569
Aero Micronesia dba Asia Pacific	35,916	—	1,476	37,392	108,438	—	108,438	—	108,438	—	—	—	108,438
Air France	104	—	—	104	309	—	309	—	309	—	—	—	309
Air Japan Co. Ltd.	86,400	—	—	86,400	257,472	—	257,472	—	257,472	—	—	—	257,472
Air Transport International LLC	40,083	—	—	40,083	119,447	—	119,447	—	119,447	—	—	—	119,447
Air Ventures Hawaii, LLC	—	—	2,740	2,740	—	—	—	—	—	2,614	(442)	2,172	2,172
Airmed Hawaii, LLC	10,677	—	—	10,677	10,233	—	10,233	(3,356)	6,877	—	—	—	6,877
Alika Aviation Inc.	—	—	8,007	8,007	—	—	—	—	—	7,639	—	7,639	7,639
Alpine Aviation, Inc.	1,282	—	2,399	3,681	1,223	—	1,223	(505)	718	2,288	—	2,288	3,006
Aris Inc.	—	—	12,932	12,932	—	—	—	—	—	12,337	(2,529)	9,808	9,808
Atlas Air Inc.	24,480	—	—	24,480	72,950	—	72,950	—	72,950	—	—	—	72,950
Big Island Air Incorporation	23	—	6,965	6,988	22	—	22	—	22	6,645	—	6,645	6,667
Bradley Pacific Aviation Inc.	30,474	709	64,558	95,741	83,136	999	84,135	—	84,135	165,460	—	165,460	249,595
Castle & Cooke Homes Hawaii, Inc.	9,367	—	476	9,843	25,782	—	25,782	—	25,782	891	—	891	26,673
Corporate Air	46,401	221	77,166	123,788	44,267	211	44,478	—	44,478	73,617	—	73,617	118,095
Fly Kauai, Inc.	—	—	469	469	—	—	—	—	—	447	—	447	447
George's Aviation Service, Inc.	217	245	511	973	207	234	441	(340)	101	488	(263)	225	326
Gould, Steve	—	—	1,300	1,300	—	—	—	—	—	1,240	—	1,240	1,240
Hale O'Lele Corporation	—	—	175	175	—	—	—	—	—	167	—	167	167
Harter, Jack Helicopters, Inc.	—	—	11,338	11,338	—	—	—	—	—	10,816	(2,243)	8,573	8,573
Hawaii Air Ambulance, Inc.	18,739	—	—	18,739	17,877	—	17,877	(2,473)	15,404	—	—	—	15,404
Hawaii Helicopters, Inc.	—	—	8,387	8,387	—	—	—	—	—	8,002	—	8,002	8,002
Hawaii Island Air, Inc.	213,502	1,763	339,270	554,535	203,681	1,681	205,362	(30,078)	175,284	323,664	—	323,664	498,948
Hawaiian Airlines Inc.	820	—	—	820	2,444	—	2,444	—	2,444	—	—	—	2,444
Helicopter Consultations of Maui, Inc.	7,217	45,220	69,726	122,163	6,885	43,140	50,025	(13,856)	36,169	66,519	(2,670)	63,849	100,018
Honolulu Soaring Club Inc.	—	—	1,530	1,530	—	—	—	—	—	1,460	(360)	1,100	1,100
Island Helicopters Kauai, Inc.	—	—	13,000	13,000	—	—	—	512	512	12,402	(2,089)	10,313	10,825
Jetstar Airways PTY Limited	79,366	—	—	79,366	236,512	—	236,512	—	236,512	—	—	—	236,512
K&S Helicopters, Inc.	—	9,105	—	9,105	—	8,686	8,686	(3,931)	4,755	—	—	—	4,755
Kamaka Air, Inc.	6,626	9	13,369	20,004	6,321	9	6,330	—	6,330	12,754	—	12,754	19,084
Makani Kai Helicopters Ltd.	4,449	—	4,565	9,014	4,245	—	4,245	(1,716)	2,529	4,355	—	4,355	6,884
Marjet, Inc.	310	19	446	775	296	19	315	—	315	426	—	426	741
Maui Island Air Inc.	28	—	2,233	2,261	27	—	27	—	27	2,130	—	2,130	2,157
Miscellaneous	59,009	156	2,007	61,172	173,313	464	173,777	(88)	173,689	2,815	—	2,815	176,504
Niihau Helicopters Inc.	—	—	1,112	1,112	—	—	—	—	—	1,060	—	1,060	1,060
Omni Air International, Inc.	76,059	—	—	76,059	226,656	—	226,656	(45,680)	180,976	—	—	—	180,976
Pacific Air Charters, Incorporated	214	22	1,421	1,657	204	21	225	(121)	104	1,356	(169)	1,187	1,291
Pacific Helicopter Tours, Inc.	1,113	—	1,163	2,276	1,062	—	1,062	(622)	440	1,109	(238)	871	1,311
Pofolk Aviation Hawaii, Inc.	—	—	3,098	3,098	—	—	—	—	—	2,955	—	2,955	2,955
Rainbow Pacific Helicopters	3	—	—	3	2	—	2	—	2	—	—	—	2
Safari Aviation Inc.	—	5,785	12,030	17,815	—	5,518	5,518	—	5,518	11,477	—	11,477	16,995
Sky-Med Inc.	—	—	20,803	20,803	—	—	—	—	—	19,846	—	19,846	19,846
Skyview Soaring, LLC	—	—	472	472	—	—	—	—	—	450	—	450	450
Smoky Mountain Helicopters	—	—	2,634	2,634	—	—	—	—	—	2,513	—	2,513	2,513
Squyres, Will Helicopter, Inc.	—	—	11,816	11,816	—	—	—	—	—	11,272	—	11,272	11,272
Sunshine Helicopters Inc.	—	2,328	14,757	17,085	—	2,220	2,220	(104)	2,116	14,078	(7,611)	6,467	8,583
Trans Executive Airlines of Hawaii, Inc. dba Trans Air	27,269	11,395	33,655	72,319	26,014	10,871	36,885	(13,048)	23,837	32,107	—	32,107	55,944
Universal Enterprises, Inc.	72,207	1,015	50,646	123,868	185,652	2,003	187,655	(122,105)	65,550	129,892	—	129,892	195,442
Wings Over Kauai, LLC	—	—	2,152	2,152	—	—	—	—	—	2,053	—	2,053	2,053
Total	1,368,308	177,609	1,060,876	2,606,793	$ 2,306,897	171,110	2,478,007	(237,731)	2,240,276	1,197,452	(18,841)	1,178,611	3,418,887

Summary of revenue landing weights:	
Overseas	586,692
Interisland	2,020,101
	2,606,793

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2010.

See accompanying independent auditors' report.

APPENDIX B

GENERAL ECONOMIC INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix B 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, 1,211,537 in 2000, and 1,360,301 in 2010, making the State the 40th most populous state in the Union as of 2010. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2010 U.S. Census, about 70.1 percent of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. Based on the 2010 U.S. Census, approximately 38.6 percent of the State's population is of Asian descent and about 24.7 percent of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 10.0 percent of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

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") Third Quarter 2011 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 2011 is 2.9 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2011 State's GDP growth to be 1.3 percent over that of 2010.

B. State of the Economy

Hawaii's economic indicators were mixed in the second quarter of 2011. Visitor arrivals, average daily visitor census, visitor expenditures, civilian wage and salary jobs, and State general fund tax revenues all increased; however, private building permits, and government contracts awarded decreased in the quarter as compared to the same quarter last year.

Hawaii's tourism sector continued the positive growth in the second quarter of 2011; however, the growth rate was lower than those experienced in previous quarters. The total number of visitors arriving by air to Hawaii increased only 0.5 percent in the quarter. Due to longer lengths of stay, the daily visitor census increased 2.2 percent, higher than the growth rate of visitor arrivals. In addition, since visitors spent more on a daily basis during the second quarter, the 15.0 percent growth rate of total visitor spending was significantly higher than the growth rate of daily visitor census.

In construction, both the value of private building permits and government contracts awarded decreased. In the second quarter of 2011 the permit value for private construction decreased $98.9 million, while government contracts awarded decreased $290.7 million from the same quarter of 2010. Construction jobs only increased slightly in the second quarter of 2011 compared with the same quarter of 2010. According to the most recent data available, current construction put-in-place based on excise tax data was still showing a loss at the end of first quarter of 2011.

The State general fund tax revenues increased in the second quarter of 2011 compared to the same quarter of 2010. All components of the State general fund tax revenues increased in the quarter compared to the second quarter of 2010. In the first half of 2011, State general fund tax revenues were up $13.2 million or 0.6 percent over the same period of 2010. As an indicator of current economic activity, state general excise tax revenue increased 13.9 percent in the second quarter of 2011 compared to the same quarter in 2010.

The labor market conditions show that the economy is improving. After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the third time. In the second quarter of 2011 Hawaii's civilian wage and salary jobs averaged 600,500 jobs, an increase of 6,650 jobs or 1.1 percent from the same quarter of 2010.

Job increase in the second quarter of 2011 was completely due to job increases in the private sector. In this quarter, the private sector added about 7,900 jobs compared to the second quarter of 2010. Professional and Business Services experienced the largest job gains, added 3,300 jobs; followed by Educational Services (added 2,300 jobs), Food Services and Drinking Places (added 1,400 jobs), Health Care and Social Assistance (added 1,100 jobs), and Information (added 950 jobs). Private sector job losses were largest in the Wholesale Trade sector and the Transportation, Warehousing, and Utilities sector where both lost 750 jobs; followed by Financial Activities (lost 550 jobs), and Manufacturing lost 400 jobs). During the second quarter of 2011, the three levels of government together lost 1,250 jobs compared to the same quarter of 2010. The Federal government and the State government lost 1,050 and 150 jobs, respectively, in the quarter.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total nominal personal income in the first quarter of 2011 increased $2,417 million or 4.4 percent from the same quarter of 2010. This increase includes inflation so that the growth of real personal income was smaller. The increase in nominal personal income during the first quarter of 2011 was due to increases in all major components of personal income. In dollar terms, the largest increase occurred in wage and salary disbursements, followed by dividends, interest, and rent, personal current transfer receipts, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income.

According to the most recent data available, consumer prices in Honolulu increased 3.5 percent in the first half of 2011 compared with the same period of 2010, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 2.8 percent in the first half of 2011. In 2010, the Honolulu CPI-U increased 2.1 percent from the previous year.

The higher Honolulu CPI-U in the first half of 2011 was primarily due to relatively large increases in the price index of Other Goods and Services (7.0 percent); followed by the index for Transportation (6.8 percent), Recreation (3.7 percent), and Education and Communication (3.6 percent). The prices for Housing and Food & Beverages increased 2.9 percent and 2.6 percent, respectively, while the price for Medical Care increased only 0.2 percent compared to the first half of 2010.

C. Outlook for the Economy

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism industry and the labor market conditions in the state, Hawaii's economy is expected to continue positive but slower growth for the rest of 2011 and into 2012. Overall, the DBEDT forecast is less optimistic compared with the previous forecast.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the August 2011 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 1.8 percent in 2011 as a whole, lower than the 2.7 percent growth projected in the May 2011 forecast. For 2012 the consensus forecast expects an overall 2.5 percent growth in U.S. real GDP, lower than the 3.2 percent growth projected in the May 2011 forecast.

Due to the March 2011 Tohoku Earthquake and tsunami, forecasts for Japan were also revised downward for 2011 in the August 2011 Blue Chip Economic Consensus Forecasts. Real GDP growth for Japan is now expected to decrease 0.6 percent in 2011, lower than the 0.4 percent increase projected in the May 2011 forecast. However, for 2012, the consensus forecast now expects an overall 3.1 percent growth in Japanese real GDP, higher than the 2.7 percent growth projected in the May 2011 forecast.

For the local economy, DBEDT expects that most of the economic indicators will growth at slower rates than previously forecasted.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.3 percent increase in 2011, down 0.3 of a percentage point from the 1.6 percent growth forecast last quarter. That growth is currently expected to increase to 1.8 percent in 2012.

Visitor arrivals are expected to increase 3.0 percent in 2011, 0.8 of a percentage point lower than the previous forecast of 3.8 percent. The forecast for visitor days in 2011 is now expected to increase 4.4 percent, 0.7 of a percentage point lower than the previous forecast. The forecast for visitor expenditure in 2011; however, is revised upward to 12.0 percent, from 10.8 percent growth projected in the previous forecast. For 2012, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 2.9 percent, 2.7 percent, and 5.4 percent, respectively.

The projection for wage and salary jobs in 2011 changed from a 1.8 percent growth in the previous forecast to a 1.5 percent growth in the current forecast. In 2012, jobs are now projected to increase 1.8 percent compared to 2.0 percent growth in the previous forecast.

The Honolulu Consumer Price Index (CPI), which increased 3.5 percent in the first half of 2011, is expected to increase 3.0 percent in 2011, 0.5 of a percentage point higher than the previous forecast. In 2012, the CPI is projected to increase 2.5 percent.

Personal income in current dollars is expected to grow 3.8 percent in 2011, 0.2 of a percentage point higher than the growth in the previous forecast. However, due to higher projected inflation, the real personal income is currently projected to grow 0.8 percent in 2011, 0.2 of a percentage point below previous forecast. In 2012, current-dollar personal income and real personal income are expected to increase 3.9 percent and 1.4 percent, respectively.

Beyond 2012 the economy will be on the expansion path with job growth of 1.8 percent in 2013 and 1.5 percent in 2014. Visitor arrivals are expected to increase 2.2 percent in 2013 and 2.3 percent in 2014. Visitor expenditures are expected to increase 4.6 percent in 2013 and 4.3 percent in 2014. Real personal income is projected to increase 1.9 percent in 2013 and 2.2 percent in 2014. Hawaii's real GDP growth is expected to reach 2.0 percent in 2013 and 2.2 percent in 2014.

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

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	2nd QUARTER 2010	2nd QUARTER 2011	2nd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2010	YEAR-TO-DATE 2011	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	630,300	634,800	0.7	629,600	633,850	0.7
Civilian employed, NSA	588,200	596,250	1.4	587,100	594,750	1.3
Civilian unemployed, NSA	42,050	38,800	-7.7	42,500	39,200	-7.8
Unemployment rate, NSA (%) 1/ 2/	6.7	6.1	-0.6	6.8	6.2	-0.6
Total wage and salary jobs, NSA	593,850	600,500	1.1	592,100	599,700	1.3
Total non-agric. wage & salary jobs	587,650	594,050	1.1	585,900	593,250	1.3
Nat. Resources, Mining, Constr.	28,650	28,750	0.3	28,800	28,200	-2.1
Manufacturing	12,850	12,450	-3.1	13,000	12,500	-3.8
Wholesale Trade	17,600	16,850	-4.3	17,550	17,100	-2.6
Retail Trade	65,150	65,650	0.8	65,350	65,550	0.3
Transp., Warehousing, Util.	26,150	25,400	-2.9	26,150	25,850	-1.1
Information	10,100	11,050	9.4	9,800	11,050	12.8
Financial Activities	26,750	26,200	-2.1	26,900	26,300	-2.2
Professional & Business Services	70,850	74,150	4.7	70,700	73,950	4.6
Educational Services	14,650	16,950	15.7	14,650	16,650	13.7
Health Care & Social Assistance	60,950	62,050	1.8	60,700	61,600	1.5
Arts, Entertainment & Recreation	10,300	10,000	-2.9	10,300	10,050	-2.4
Accommodation	34,250	34,850	1.8	34,250	35,300	3.1
Food Services & Drinking Places	55,100	56,500	2.5	54,950	56,700	3.2
Other Services	26,450	26,550	0.4	26,350	26,400	0.2
Government	127,850	126,600	-1.0	126,450	126,050	-0.3
Federal	35,500	34,450	-3.0	34,800	34,450	-1.0
State	73,700	73,550	-0.2	73,150	73,150	0.0
Local	18,650	18,550	-0.5	18,550	18,450	-0.5
Agriculture wage and salary jobs	6,200	6,450	4.0	6,200	6,500	4.8
State general fund revenues ($1,000)	1,117,994	1,255,328	12.3	2,310,484	2,323,665	0.6
General excise and use tax revenues	572,766	652,551	13.9	1,189,543	1,305,408	9.7
Income-individual	401,662	412,160	2.6	830,248	702,053	-15.4
Declaration estimated taxes	127,797	145,541	13.9	188,475	226,479	20.2
Payment with returns	70,480	79,643	13.0	88,524	97,354	10.0
Withholding tax on wages	336,081	361,984	7.7	696,823	725,177	4.1
Refunds ('-' indicates relative to State)	-132,696	-174,823	31.7	-143,574	-346,772	141.5
Transient accommodations tax	56,610	76,550	35.2	115,242	156,142	35.5
Honolulu County Surcharge 3/	40,683	(NA)	(NA)	85,451	(NA)	(NA)
Private Building Permits ($1,000)	537,311	438,364	-18.4	992,643	819,238	-17.5
Residential	184,903	178,416	-3.5	420,279	325,166	-22.6
Commercial & industrial	123,515	47,200	-61.8	176,621	95,255	-46.1
Additions & alterations	228,893	212,748	-7.1	395,743	398,817	0.8
Visitor Days - by air	15,582,134	15,929,955	2.2	31,576,384	33,679,819	6.7
Domestic visitor days - by air	12,286,051	12,565,268	2.3	24,121,679	25,780,879	6.9
International visitor days - by air	3,296,083	3,364,688	2.1	7,454,704	7,898,940	6.0
Visitor arrivals by air - by air	1,714,753	1,723,497	0.5	3,353,160	3,503,955	4.5
Domestic flight visitors - by air	1,279,254	1,297,515	1.4	2,398,106	2,538,854	5.9
International flight visitors - by air	435,499	425,982	-2.2	955,054	965,101	1.1
Hotel occupancy rates (%) 2/	67.3	68.6	1.3	69.0	72.8	3.8
Visitor expend. - arrivals by air ($Mil.)	2,490	2,865	15.0	5,093	6,028	18.4

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.

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2009 TO 2014

Economic Indicators	2009	2010	2011	2012	2013	2014
	(Actual)		(Forecast)			
Total population (thousands)	NA	1,360	1,371	1,384	1,397	1,411
Visitor arrivals (thousands) 1/	6,517	7,084	7,298	7,507	7,671	7,848
Visitor days (thousands) 1/	60,837	66,112	68,990	70,835	72,441	74,130
Visitor expenditures (million dollars) 1/	9,993	11,166	12,505	13,167	13,775	14,381
Honolulu CPI-U (1982-84=100)	230.0	234.9	241.9	248.0	253.7	259.5
Personal income (million dollars)	54,595	55,759	57,877	60,135	62,660	65,480
Real personal income (millions of 2000$) 2/	41,839	41,854	42,179	42,755	43,549	44,486
Total wage & salary jobs (thousands)	597.7	593.2	602.1	612.9	624.0	633.3
Gross domestic product (million dollars)	65,428	66,760	68,726	71,048	73,606	76,494
Real gross domestic product (millions of 2005$)	58,602	59,329	60,100	61,182	62,406	63,779
Gross domestic product deflator (2005=100)	111.6	112.5	114.4	116.1	117.9	119.9
Annual Percentage Change						
Total population	NA	NA	0.8	0.9	1.0	1.0
Visitor arrivals 1/	-4.5	8.7	3.0	2.9	2.2	2.3
Visitor days 1/	-4.7	8.7	4.4	2.7	2.3	2.3
Visitor expenditures 1/	-12.3	11.7	12.0	5.4	4.6	4.3
Honolulu CPI-U	0.5	2.1	3.0	2.5	2.3	2.3
Personal income	-0.2	2.1	3.8	3.9	4.2	4.5
Real personal income 2/	-0.7	0.0	0.8	1.4	1.9	2.2
Total wage & salary jobs	-4.4	-0.8	1.5	1.8	1.8	1.5
Gross domestic product	-1.0	2.0	2.9	3.4	3.6	3.9
Real gross domestic product	-2.6	1.2	1.3	1.8	2.0	2.2
Gross domestic product deflator	1.6	0.8	1.6	1.6	1.6	1.7

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

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

Source: Hawaii State Department of Business, Economic Development & Tourism, August 22, 2011.

D. Labor Force and Jobs

Hawaii's labor market conditions continued to improve in the second quarter of 2011 compared to the second quarter in 2010. While the civilian labor force increased in the quarter, civilian employment increased more and civilian unemployment decreased in the quarter. As a result, Hawaii's unemployment rate decreased to 6.1 percent in the quarter. For the third consecutive the first quarter of 2008, civilian wage and salary jobs increased.

In the second quarter of 2011, the civilian labor force averaged 634,800 people, an increase of 4,500 people or 0.7 percent from the same quarter of 2010. In the first half of 2011, civilian labor force increased 0.7 percent from the same period last year.

Civilian employment totaled 596,250 people in the second quarter of 2011, an increase of 8,050 people or 1.4 percent compared to the same quarter of 2010. This is the third consecutive quarterly increase. In the first half of 2011, average civilian employment increased 1.3 percent from the same period last year.

In the second quarter of 2011, the number of civilian unemployed averaged 38,800 people, decreased 3,250 people or 7.7 percent from the same quarter of 2010. In the first half of 2011, the number of unemployed decreased 7.8 percent from the same period last year.

The unemployment rate (not seasonally adjusted) decreased from 6.7 percent in the second quarter of 2010 to 6.1 percent in the second quarter of 2011. In the first half of 2011, unemployment rate averaged 6.2 percent.

In the second quarter of 2011, Hawaii's civilian wage and salary jobs averaged 600,500 jobs, an increase of 6,650 jobs or 1.1 percent from the same quarter of 2010. This is the third quarterly increase in wage and salary jobs after ten consecutive quarterly decreases in jobs since the second quarter of 2008. In the first half of 2011, average wage and salary jobs increased 1.3 percent or 7,600 jobs from the same period last year.

The job increase in the second quarter of 2011 was completely due to job increases in the private sector. In this quarter, the private sectors added about 7,900 jobs compared to the second quarter of 2010; job losses in some private industries were more than offset by job gains in other industries. Both visitor-related industries and non-visitor related industries increased jobs in the quarter. Professional and Business Services experienced the largest job gains, added 3,300 jobs or 4.7 percent compared to the same quarter of 2010; followed by Educational Services, added 2,300 jobs or 15.7 percent. Other private sector industries that gained significant number of jobs in the quarter include Food Services and Drinking Places, added 1,400 jobs or 2.5 percent; Health Care and Social Assistance, added 1,100 jobs or 1.8 percent; and Information, added 950 jobs or 9.4 percent.

In the second quarter of 2011, the Wholesale Trade sector and the Transportation, Warehousing, and Utilities sector both lost 750 jobs compared to the same quarter of 2010; followed by Financial Activities, lost 550 jobs; and Manufacturing, lost 400 jobs.

During the second quarter of 2011, the three levels of government together lost 1,250 jobs or 1.0 percent compared to the same quarter of 2010. The Federal Government lost 1,050 jobs or 3.0 percent; the State Government lost 150 jobs or 0.2 percent, while Local Government lost 100 jobs or 0.5 percent.

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	627,100	1.4	609,850	1.9	2.8
2006	633,500	1.0	617,800	1.3	2.5
2007	634,800	0.2	617,900	0.0	2.7
2008	639,650	0.8	613,800	-0.7	4.0
2009	631,800	-1.2	588,650	-4.1	6.8
2010	629,050	-0.4	587,400	-0.2	6.6
2011*	633,850	0.7	594,750	1.3	6.2

* First half of 2011.

E. Income and Prices

Hawaii's total personal income increased during the first quarter of 2011 over the same quarter of 2010, all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, personal current transfer receipts, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income.

In the first quarter of 2011, total nominal annualized personal income (i.e., not adjusted for inflation) increased $2,417 million or 4.4 percent from the first quarter of 2010. This was the highest quarter-over-quarter increase since the second quarter of 2008. In 2010, total annualized personal income was $55,759 million, increased 2.1 percent from the previous year.

In the first quarter of 2011, wage and salary disbursements increased $888 million or 3.1 percent from the first quarter of 2010. This was the sixth quarter-over-quarter increase since the first quarter of 2008. In 2010, wage and salary disbursements increased 0.4 percent from the previous year.

Supplements to wages and salaries (consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits) increased $298 million or 3.4 percent in the first quarter of 2011 from the same quarter of 2010. For the year of 2010, supplements to wages and salaries increased 2.5 percent.

Proprietors' income increased $129 million or 3.7 percent in the first quarter of 2011 over that of 2010. For the whole year of 2010, proprietors' income was up 3.3 percent.

Dividends, interest, and rent increased $417 million or 4.1 percent in the first quarter of 2011 from the same quarter of 2010. For the whole year of 2010, income in this category was up 1.7 percent from the previous year.

The annualized personal current transfer receipts grew by $398 million or 4.6 percent in the first quarter of 2011 from the same quarter of 2010. For the whole year of 2010, personal current transfer receipts increased 7.7 percent from the previous year.

Contributions to government social insurance, which is subtracted from total personal income, decreased 6.7 percent in the first quarter of 2011 compared to the first quarter of 2010. For the whole year of 2010, contributions to government social insurance increased 2.0 percent.

In the first quarter of 2011, total non-farm private sector annualized earnings increased $966 million or 3.7 percent from the first quarter of 2010. In dollar terms, the largest increase occurred in accommodation and food services, followed by health care and social assistance, administrative and waste services, retail trade, and transportation and warehousing; the largest decrease occurred in construction.

During the first quarter of 2011, total government earnings increased $335 million or 2.3 percent from the same quarter of 2010. The increase in government earnings was due to the increase of Federal government earnings, which increased $390 million or 4.3 percent in the quarter. State and local governments showed a $54 million or 1.0 percent decrease in the first quarter of 2011.

In the first half of 2011, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 3.5 percent from the same period in 2010, higher than the U.S. average CPI-U increase of 2.8 percent for the same period. The Honolulu CPI-U increase in the first half of 2011 was primarily due to relatively large increase in Other Goods and Services (7.0 percent), Transportation (6.8 percent), Recreation (3.7 percent), and Education and Communication (3.6 percent). The prices for Housing and Food & Beverages increased 2.9 percent and 2.6 percent, respectively, while the price for Medical Care increased only 0.2 percent compared to the first half of 2010.

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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	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Fourth Quarter 2010	First Quarter 2011	AnnAver 2009	AnnAver 2010	Percentage change from: To First Quarter 2011 From: Fourth Quarter 2010	Percentage change from: To First Quarter 2011 From: First Quarter 2010	Percentage change from: Ann Aver: 2010 from 2009
PERSONAL INCOME	55,099	55,484	55,986	56,465	57,516	54,595	55,759	1.9	4.4	2.1
Earnings By Place of Work	40,596	40,801	41,324	41,595	41,910	40,627	41,079	0.8	3.2	1.1
Wage and salary disbursements	28,336	28,535	28,903	29,038	29,224	28,578	28,703	0.6	3.1	0.4
Supplements to wages and salaries	8,788	8,762	8,900	8,970	9,086	8,640	8,855	1.3	3.4	2.5
Emp'er contrib. for emp'ee pension & ins. funds	6,746	6,703	6,814	6,872	6,942	6,632	6,784	1.0	2.9	2.3
Employer contributions for gov't social ins.	2,042	2,059	2,086	2,097	2,144	2,009	2,071	2.2	5.0	3.1
Proprietors' income	3,471	3,504	3,521	3,588	3,600	3,409	3,521	0.3	3.7	3.3
Farm proprietors' income	38	23	47	77	46	41	46	-40.3	21.1	12.8
Nonfarm proprietors' income	3,433	3,481	3,475	3,511	3,553	3,368	3,475	1.2	3.5	3.2
Dividends, interest, and rent	10,140	10,201	10,108	10,271	10,557	10,011	10,180	2.8	4.1	1.7
Personal current transfer receipts	8,642	8,789	8,915	8,981	9,040	8,204	8,832	0.7	4.6	7.7
State unemployment insurance benefits	652	594	575	528	514	540	587	-2.7	-21.2	8.9
Personal current transfer receipts exc State U.I.	7,990	8,195	8,339	8,453	8,525	7,665	8,244	0.9	6.7	7.6
Less: Contributions for gov't social insurance	4,278	4,306	4,362	4,383	3,991	4,248	4,332	-8.9	-6.7	2.0
Personal contributions for gov't social insurance	2,236	2,248	2,276	2,286	1,847	2,239	2,262	-19.2	-17.4	1.0
Employer contributions for gov't social insurance	2,042	2,059	2,086	2,097	2,144	2,009	2,071	2.2	5.0	3.1
Earnings By Industry	40,596	40,801	41,324	41,595	41,910	40,627	41,079	0.8	3.2	1.1
Farm Earnings	240	226	251	283	254	239	250	-10.2	5.8	4.6
Nonfarm Earnings	40,356	40,575	41,073	41,312	41,656	40,388	40,829	0.8	3.2	1.1
Private earnings	25,992	26,284	26,624	26,763	26,958	26,133	26,416	0.7	3.7	1.1
Forestry, fishing, related activities, and other 6/	46	46	45	44	45	44	45	2.3	-2.2	2.3
Mining	50	51	51	51	53	52	51	3.9	6.0	-1.9
Utilities	360	337	371	376	385	358	361	2.4	6.9	1.0
Construction	2,592	2,580	2,561	2,544	2,502	2,776	2,569	-1.7	-3.5	-7.4
Manufacturing	776	770	762	771	772	789	770	0.1	-0.5	-2.4
Durable goods	272	267	258	262	267	280	265	1.9	-1.8	-5.4
Nondurable goods	505	504	504	509	505	509	506	-0.8	0.0	-0.7
Wholesale trade	1,134	1,141	1,159	1,164	1,171	1,138	1,150	0.6	3.3	1.1
Retail trade	2,459	2,476	2,549	2,563	2,589	2,437	2,512	1.0	5.3	3.1
Transportation and warehousing	1,348	1,348	1,370	1,389	1,420	1,338	1,364	2.2	5.3	1.9
Information	694	714	751	763	751	664	731	-1.6	8.2	10.0
Finance and insurance	1,194	1,198	1,225	1,224	1,211	1,255	1,210	-1.1	1.4	-3.6
Real estate and rental and leasing	774	782	773	809	793	797	785	-2.0	2.5	-1.6
Professional and technical services	2,588	2,600	2,626	2,606	2,655	2,611	2,605	1.9	2.6	-0.2
Management of companies and enterprises	634	571	593	555	577	585	588	4.0	-9.0	0.6
Administrative and waste services	1,610	1,652	1,702	1,746	1,776	1,622	1,678	1.7	10.3	3.4
Educational services	653	667	664	673	677	640	664	0.6	3.7	3.8
Health care and social assistance	3,907	4,026	4,043	4,078	4,095	3,893	4,014	0.4	4.8	3.1
Arts, entertainment, and recreation	483	489	481	488	490	500	485	0.4	1.4	-2.9
Accommodation and food services	3,124	3,269	3,296	3,303	3,377	3,095	3,248	2.2	8.1	5.0
Other services, except public administration	1,564	1,568	1,602	1,618	1,620	1,541	1,588	0.1	3.6	3.0
Government and government enterprises	14,364	14,291	14,450	14,549	14,699	14,255	14,414	1.0	2.3	1.1
Federal	9,115	9,117	9,271	9,344	9,505	8,778	9,212	1.7	4.3	4.9
Federal, civilian	3,333	3,357	3,369	3,434	3,425	3,250	3,373	-0.3	2.8	3.8
Military	5,782	5,760	5,902	5,910	6,080	5,528	5,839	2.9	5.2	5.6
State and local	5,248	5,173	5,178	5,205	5,194	5,478	5,201	-0.2	-1.0	-5.0

1/ 2010Q1 through 2010Q4 revised on June 22, 2011.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, June 22, 2011 <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	35,936	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	52,556	7.0
2008	54,701	4.1
2009	54,595	-0.2
2010	55,759	2.1

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 & Beverages	Housing	Apparel	Transpor- tation	Medical Care	Recre- ation 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	317.955	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
1997H1	159.9	172.1	159.4	177.3	119.8	167.8	215.6	(NA)	(NA)	232.5
H2	161.2	171.8	159.0	177.0	114.8	164.6	219.1	(NA)	(NA)	245.5
1998H1	162.3	172.0	160.0	176.3	116.4	163.2	222.5	101.4	98.9	254.3
H2	163.7	171.0	158.2	175.7	108.0	161.8	229.8	100.3	99.3	258.0
1999H1	165.4	172.7	162.4	175.5	106.0	162.3	231.0	101.3	102.6	273.9
H2	167.8	173.8	163.5	176.0	104.9	162.0	231.5	102.5	106.4	277.3
2000H1	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
H2	173.6	176.7	164.1	178.5	102.6	171.5	243.8	102.6	105.6	281.9
2001H1	176.6	178.1	168.3	178.8	99.7	176.0	246.1	102.1	103.5	287.5
H2	177.5	178.7	170.7	179.3	102.3	173.0	2/	101.1	105.8	291.1
2002H1	178.9	180.1	172.3	180.5	106.2	171.7	2/	99.9	106.9	299.1
H2	180.9	180.4	171.6	181.9	99.1	170.1	266.5	99.2	108.7	305.3
2003H1	183.3	183.2	173.7	184.7	99.2	175.2	2/	99.3	111.1	307.0
H2	184.6	185.7	176.0	187.7	97.8	177.7	2/	101.5	113.8	308.2
2004H1	187.6	189.2	179.5	192.2	102.6	180.2	274.8	102.6	113.5	309.6
H2	190.2	191.9	180.9	196.3	99.9	184.6	277.0	102.0	113.6	315.2
2005H1	193.2	195.0	184.7	199.9	104.9	188.2	2/	98.5	115.8	318.6
H2	197.4	200.6	187.1	210.5	100.0	195.1	2/	97.0	112.8	323.3
2006H1	200.6	206.4	191.6	216.9	104.1	201.6	2/	100.9	114.3	329.5
H2	202.6	212.3	196.8	228.0	104.7	202.6	2/	101.3	113.7	334.7
2007H1	205.709	216.620	202.952	233.606	102.648	204.402	2/	102.058	112.887	343.703
H2	208.976	222.388	206.932	243.250	105.642	205.652	309.195	103.087	115.047	351.295
2008H1	214.429	227.334	212.390	246.676	105.917	215.519	317.380	105.600	115.126	361.286
H2	216.177	230.387	220.859	250.725	104.637	212.477	318.531	104.979	119.110	369.596
2009H1	213.139	228.070	224.747	248.658	114.379	191.723	322.104	105.629	120.937	388.461
H2	215.935	232.026	223.887	250.811	111.244	208.870	321.094	104.848	124.749	401.910
2010H1	217.535	233.822	224.627	250.940	116.564	213.842	321.243	106.585	125.888	406.880
H2	218.576	235.916	224.922	252.995	116.281	214.980	319.064	108.382	131.078	424.172
2011H1	223.599	241.902	230.565	258.121	119.380	228.484	321.891	110.544	130.444	435.239

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 August 18, 2011.

Table 6

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

Period	U.S.	Honolulu								
		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
1998H1	1.5	-0.1	0.4	-0.6	-2.8	-2.7	3.2	(NA)	(NA)	9.4
H2	1.6	-0.5	-0.5	-0.7	-5.9	-1.7	4.9	(NA)	(NA)	5.1
1999H1	1.9	0.4	1.5	-0.5	-8.9	-0.6	3.8	-0.1	3.7	7.7
H2	2.5	1.6	3.4	0.2	-2.9	0.1	0.7	2.2	7.2	7.5
2000H1	3.3	1.9	1.9	1.0	-1.4	3.3	2.1	1.8	4.6	1.3
H2	3.5	1.7	0.4	1.4	-2.2	5.9	5.3	0.1	-0.8	1.7
2001H1	3.4	1.3	1.7	0.8	-4.6	4.9	4.3	-1.0	-3.5	3.6
H2	2.2	1.1	4.0	0.4	-0.3	0.9	(2/)	-1.5	0.2	3.3
2002H1	1.3	1.1	2.4	1.0	6.5	-2.4	(2/)	-2.2	3.3	4.0
H2	1.9	1.0	0.5	1.5	-3.1	-1.7	(2/)	-1.9	2.7	4.9
2003H1	2.5	1.7	0.8	2.3	-6.6	2.0	(2/)	-0.6	3.9	2.6
H2	2.0	2.9	2.6	3.2	-1.3	4.5	(2/)	2.3	4.7	0.9
2004H1	2.3	3.3	3.3	4.1	3.4	2.9	(2/)	3.3	2.2	0.8
H2	3.0	3.3	2.8	4.6	2.1	3.9	(2/)	0.5	-0.2	2.3
2005H1	3.0	3.1	2.9	4.0	2.2	4.4	(2/)	-4.0	2.0	2.9
H2	3.8	4.5	3.4	7.2	0.1	5.7	(2/)	-4.9	-0.7	2.6
2006H1	3.8	5.8	3.7	8.5	-0.8	7.1	(2/)	2.4	-1.3	3.4
H2	2.6	5.8	5.2	8.3	4.7	3.8	(2/)	4.4	0.8	3.5
2007H1	2.5	5.0	5.9	7.7	-1.4	1.4	(2/)	1.1	-1.2	4.3
H2	3.1	4.8	5.1	6.7	0.9	1.5	(2/)	1.8	1.2	5.0
2008H1	4.2	4.9	4.7	5.6	3.2	5.4	(2/)	3.5	2.0	5.1
H2	3.4	3.6	6.7	3.1	-1.0	3.3	3.0	1.8	3.5	5.2
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
2010H1	2.1	2.5	-0.1	0.9	1.9	11.5	-0.3	0.9	4.1	4.7
H2	1.2	1.7	0.5	0.9	4.5	2.9	-0.6	3.4	5.1	5.5
2011H1	2.8	3.5	2.6	2.9	2.4	6.8	0.2	3.7	3.6	7.0

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 August 18, 2011.

F. Tourism

In the second quarter of 2011, Hawaii's tourism sector continued the positive growth started in the third quarter of 2009; however, the growth rate was lower than those experienced in previous quarters. Domestic visitor arrivals increased at a lower rate; while international arrivals decreased due to the negative impacts of the Tohoku earthquake and tsunami. The decrease in international arrivals offset almost all the increase in domestic arrivals in the quarter. Due to longer lengths of stay, the growth rate of daily visitor census was higher than the growth rate of visitor arrivals. In addition, since visitors spent more on a daily basis during the second quarter, the growth rate of total visitor spending was significantly higher than the growth rate of daily visitor census.

The total number of visitors arriving by air to Hawaii in July 2011 decreased by 1.9 percent as compared to July 2010. Nevertheless the total number of visitors for the first seven months of 2011 increased by 137,574 or 3.4 percent over the first seven months of 2010.

The total number of visitors arriving by air to Hawaii increased 8,744 or 0.5 percent in the second quarter of 2011 compared to the same quarter of 2010. The total average daily census was up 3,822 or 2.2 percent in the quarter. In the first half of 2011, total visitor arrivals by air increased 150,795 or 4.5 percent, while average daily census increased 11,621 or 6.7 percent from the same period of 2010.

In the second quarter of 2011, total visitor arrivals on domestic flights increased 18,261 or 1.4 percent compared to the same quarter of 2010. In the first half of 2011, domestic arrivals were up 140,748 or 5.9 percent from the same period of 2010. In the first seven months of 2011, domestic arrivals were up 125,480 or 1.1 percent from the same period of 2010.

Arrivals on international flights decreased by 9,517 or 2.2 percent in the second quarter of 2011 compared to the second quarter of 2010. Negative growth of international arrivals was mainly due to the impacts of the Japanese earthquake. In the first half of 2011, international arrivals were up 10,047 or 1.1 percent from the same period of 2010. In the first seven months of 2011, international arrivals were up 12,094 or 1.1 percent from the same period of 2010.

In terms of major market areas, from the second quarter of 2010 to the same period of 2011, arrivals from the U.S. West increased 13,197 or 1.7 percent; arrivals from the U.S. East decreased 10,612 or 2.5 percent; and arrivals from Japan decreased 49,042 or 17.6 percent. In the first half of 2011, arrivals from U.S. West were up 66,408 or 4.8 percent; arrivals from the U.S. East were up 25,908 or 3.1 percent; and Japanese arrivals were down 53,250 or 9.2 percent from the same period of 2010.

Because of longer lengths of stay, the average total daily visitor census increased more than the increase in visitor arrivals. The total average daily visitor census was up 2.2 percent or 3,822 visitors per day in the second quarter of 2011 over the same quarter of 2010. Domestic average daily census increased 2.3 percent or 3,068 visitors per day, while international average daily census increased 2.1 percent or 754 visitors per day. In the first half of 2011, domestic average daily census increased 9,167 or 6.9 percent; international average daily census increased 2,454 or 6.0 percent from the same period of 2010.

Nominal visitor expenditures by air totaled $1,130 million in July 2011, up 5.2 percent or $56 million from July 2010. In the seven months of 2011, visitor expenditures increased $996 million or 16.1 percent from the same period of 2010.

Nominal visitor expenditures by air totaled $2,864.6 million in the second quarter of 2011, up 15.0 percent or $374.6 million from the same quarter of 2010. In the first half of 2011, visitor expenditures increased $935.7 million or 18.4 percent from the same period of 2010.

Total airline capacity, as measured by the number of available seats flown to Hawaii, remained about the same in the second quarter of 2011; domestic seats decreased 1.5 percent or 25,850 seats; international seats increased 4.2 percent or 25,393 seats, compared to the same quarter of 2010. In the first half of 2011, the number of total available seats increased 2.0 percent or 93,076 seats from the previous year.

In the second quarter of 2011, statewide hotel occupancy rate averaged 68.6 percent, up 1.3 percentage point from the same quarter of 2010. In the first half of 2011, statewide hotel occupancy rate averaged 72.8 percent, up 3.8 percentage points from the same period of 2010.

Table 7

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

	2007	2008	2009	2010	% Change 2007-2008	% Change 2008-2009	% Change 2009-2010
Total Arrivals							
Total	7,496,820	6,713,436	6,420,448	6,982,425	-10.4	-4.4	8.8
Domestic	5,582,530	4,901,893	4,672,001	5,022,883	-12.2	-4.7	7.5
International	1,914,290	1,811,543	1,748,447	1,959,542	-5.4	-3.5	12.1
Average Length of Stay							
Total	9.2	9.4	9.4	4.7	1.7	0.1	-49.9
Domestic	9.9	10.1	10.1	5.0	2.0	0.2	-50.2
International	7.3	7.5	7.5	3.9	2.4	0.1	-48.5
Visitor Days							
Total	69,135,310	62,957,646	60,255,061	32,799,039	-8.9	-4.3	-45.6
Domestic	55,100,441	49,362,111	47,121,337	25,217,614	-10.4	-4.5	-46.5
International	14,034,869	13,595,535	13,133,724	7,581,425	-3.1	-3.4	-42.3
Average Daily Census							
Total	189,412	172,487	165,082	179,721	-8.9	-4.3	8.9
Domestic	150,960	135,239	129,100	138,179	-10.4	-4.5	7.0
International	38,452	37,248	35,983	41,542	-3.1	-3.4	15.4

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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	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010 1/	70.6	67.3	75.3	69.5	70.7
2011 1/	77.0	68.6	(NA)	Year-to-Date	72.8

NA Not available.

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

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

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

G. Construction

The indicators of Hawaii's construction industry were mostly negative in the second quarter of 2011. Both government contracts awarded and the value of private building authorizations decreased. Construction jobs increased only slightly in the quarter.

Construction was one of the major contributors to job growth in Hawaii over the past few years. From 2002 to 2007, construction job growth averaged 8.0 percent per year. In the fourth quarter of 2007, the average construction job reached a peak of 40,000 jobs. From the second quarter of 2008 to the first quarter of 2011; however, the quarter-over-quarter growth rate of construction jobs has been negative in all quarters. In the second quarter of 2011, the construction sector gained 100 jobs or 0.3 percent compared with the same quarter of 2010. In the first half of 2011, construction job decreased 2.1 percent or 600 jobs from the same period of 2010.

In the second quarter of 2011, the total value of private building authorizations decreased $98.9 million or 18.4 percent compared with the second quarter of 2010; the value of new residential permits was down $6.5 million or 3.5 percent; that of new commercial and industrial permits was down $76.3 million or 61.8 percent; and that of additions and alternations permits was down $16.1 million or 7.1 percent, compared to the same quarter of 2010. In the first half of 2011, total private building authorizations decreased $173.4 million or 17.5 percent compared with the same period of 2010.

In the second quarter of 2011, the value of total private building permits decreased in all counties, except a small increase in Kauai County compared with the same quarter of 2010. Honolulu decreased $57.7 million or 15.5 percent; Hawaii County decreased $30.2 million or 30.2 percent; and Maui County decreased $14.8 million or 27.7 percent. Only Kauai increased $3.8 million or 29.8 percent in the quarter. In the first half of 2011, building permits in Honolulu decreased $97.8 million; Hawaii County decreased $62.5 million; Maui County decreased $19.4 million; only Kauai increased $4.5 million.

Government contracts awarded decreased $290.7 million or 82.2 percent, and State Government CIP expenditures increased $35.5 million or 12.8 percent in the second quarter of 2011 compared to the same quarter of 2010. In the first half of 2011, government contracts awarded decreased $298.3 million or 68.3 percent, and State Government CIP expenditures decreased $66.9 million or 11.4 percent compared with the same period of 2010.

In the second quarter of 2011, the single-family housing unit authorizations decreased 68 units compared to the second quarter of 2010; the number of multi-family units authorized decreased 148 units compared to the same quarter of 2010. In the first half of 2011, the single-family unit authorizations decreased 68 units, while the number of multi-family units authorized decreased 1,014 units, compared to the same period of 2010.

The Honolulu Construction Cost Indexes increased 2.6 percent for Single Family Residence and increased 2.7 percent for High-Rise Building in the second quarter of 2011 over that of 2010.

In the second quarter of 2011, Honolulu's median price for single family resales was $580,000, same as in the second quarter of 2010; however, the median price for condominium units decreased 2.5 percent to $297,750 compared to the same quarter in 2010. In the second quarter of 2011, the number of single-family unit resales was down 15.2 percent, and the number of condominium unit resales was down 11.3 percent from the second quarter of 2010.

In the second quarter of 2011, both single-family unit and condominium unit resales in Maui County also decreased compared to the same quarter of 2010.

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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						
2000 3/	3,613.5	1,512.6	800.1	246.2	466.2	810.9
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002 4/	4,275.0	1,772.0	1,112.9	254.2	404.9	768.3
2003 4/	4,536.3	2,361.2	1,345.1	507.5	508.6	633.4
2004 4/	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005 4/	6,024.0	3,492.0	2,259.3	433.5	799.1	725.1
2006 4/	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007 4/	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008 4/	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009 4/	6,641.7	1,998.9	799.2	284.8	914.9	778.6
4/ 3 Qtr.	1,179.6	531.0	316.5	87.9	126.6	228.3
4/ 4 Qtr.	1,095.1	458.4	304.6	46.4	107.4	150.8
2004 4/ 1 Qtr.	1,143.3	780.8	542.5	107.4	130.8	256.7
4/ 2 Qtr.	1,126.0	718.9	440.5	50.8	227.6	804.1
4/ 3 Qtr.	1,345.9	597.6	366.0	73.0	158.6	187.2
4/ 4 Qtr.	1,306.3	629.3	418.7	72.1	138.5	136.6
2005 4/ 1 Qtr.	1,440.9	706.5	420.3	48.7	237.6	213.6
4/ 2 Qtr.	1,429.8	728.5	450.7	103.4	174.4	105.5
4/ 3 Qtr.	1,608.1	1,050.5	662.1	220.1	168.4	314.4
4/ 4 Qtr.	1,545.1	1,006.4	726.2	61.4	218.8	91.5
2006 4/ 1 Qtr.	1,714.7	766.2	481.1	61.1	224.0	297.2
4/ 2 Qtr.	1,677.1	908.1	451.6	160.7	295.9	174.4
4/ 3 Qtr.	1,920.2	1,051.5	460.5	206.5	384.5	220.6
4/ 4 Qtr.	1,911.3	1,044.2	418.6	303.8	321.8	161.6
2007 4/ 1 Qtr.	1,991.0	737.1	412.1	59.7	265.3	180.1
4/ 2 Qtr.	2,081.1	1,085.7	668.8	222.6	194.2	317.7
4/ 3 Qtr.	1,924.9	896.3	412.1	144.3	339.9	255.1
4/ 4 Qtr.	2,075.9	866.3	362.3	277.2	226.8	116.5
2008 4/ 1 Qtr.	1,885.1	741.1	353.2	94.0	293.9	196.2
4/ 2 Qtr.	1,977.5	1,048.5	517.4	154.7	376.5	132.8
4/ 3 Qtr.	2,095.9	690.0	346.5	132.3	211.3	351.8
4/ 4 Qtr.	2,028.6	426.8	164.5	46.2	216.2	272.0
2009 4/ 1 Qtr.	1,779.9	542.2	276.3	38.8	227.0	167.2
4/ 2 Qtr.	1,726.6	470.7	160.5	97.3	212.8	197.3
4/ 3 Qtr.	1,580.1	558.8	193.4	56.5	308.9	233.8
4/ 4 Qtr.	1,555.1	427.3	169.0	92.1	166.1	180.4
2010 4/ 1 Qtr.	1,427.0	455.3	235.4	53.1	166.9	83.1
4/ 2 Qtr.	1,301.9	537.3	184.9	123.5	228.9	353.7
4/ 3 Qtr.	1,487.7	552.4	196.3	84.3	271.8	352.6
4/ 4 Qtr.	1,373.2	435.3	162.5	116.6	156.2	268.2
2011 4/ 1 Qtr.	1,382.9	380.9	146.8	48.1	186.1	75.4
4/ 2 Qtr.	0.0	438.4	178.4	47.2	212.7	63.0

NA Not available.

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

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

2/ Includes hotels.

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

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

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

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED - CONTINUED
(Percentage Change from the Same Period in Previous Year)

Year	Contracting tax base 1/	Private Building Authorization 4/ Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	Government Contracts Awarded
Percentage Change from the Same Period in Previous Year						
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 4/	6.1	33.3	20.9	99.7	25.6	-17.6
2004 4/	8.5	15.5	31.4	-40.2	28.9	118.6
2005 4/	22.4	28.1	27.8	43.0	21.9	-47.6
2006 4/	19.9	8.0	-19.8	68.8	53.4	17.8
2007 4/	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008 4/	-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009 4/	-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
4/ 3 Qtr.	-2.8	6.7	-8.7	86.3	22.0	-10.7
4/ 4 Qtr.	-2.4	-8.5	2.3	-53.9	4.7	17.6
2004 4/ 1 Qtr.	1.9	19.2	66.4	-50.7	17.6	52.5
4/ 2 Qtr.	-1.2	0.3	10.6	-67.3	39.4	835.0
4/ 3 Qtr.	14.1	12.5	15.7	-17.0	25.3	-18.0
4/ 4 Qtr.	19.3	37.3	37.5	55.2	29.0	-9.4
2005 4/ 1 Qtr.	26.0	-9.5	-22.5	-54.7	81.6	-16.8
4/ 2 Qtr.	27.0	1.3	2.3	103.7	-23.4	-86.9
4/ 3 Qtr.	19.5	75.8	80.9	201.6	6.2	68.0
4/ 4 Qtr.	18.3	59.9	73.4	-14.8	57.9	-33.0
2006 4/ 1 Qtr.	19.0	8.5	14.5	25.6	-5.7	39.1
4/ 2 Qtr.	17.3	24.7	0.2	55.4	69.6	65.3
4/ 3 Qtr.	19.4	0.1	-30.4	-6.2	128.4	-29.8
4/ 4 Qtr.	23.7	3.8	-42.3	394.5	47.1	76.6
2007 4/ 1 Qtr.	16.1	-3.8	-14.3	-2.3	18.4	-39.4
4/ 2 Qtr.	24.1	19.6	48.1	38.6	-34.4	82.1
4/ 3 Qtr.	0.2	-14.8	-10.5	-30.1	-11.6	15.7
4/ 4 Qtr.	8.6	-17.0	-13.4	-8.7	-29.5	-27.9
2008 4/ 1 Qtr.	-5.3	0.5	-14.3	57.4	10.8	8.9
4/ 2 Qtr.	-5.0	-3.4	-22.6	-30.5	93.8	-58.2
4/ 3 Qtr.	8.9	-23.0	-15.9	-8.3	-37.8	37.9
4/ 4 Qtr.	-2.3	-50.7	-54.6	-83.3	-4.7	133.4
2009 4/ 1 Qtr.	-5.6	-26.8	-21.8	-58.7	-22.8	-14.8
4/ 2 Qtr.	-12.7	-55.1	-69.0	-37.1	-43.5	48.5
4/ 3 Qtr.	-24.6	-19.0	-44.2	-57.3	46.2	-33.5
4/ 4 Qtr.	-23.3	0.1	2.8	99.3	-23.1	-33.7
2010 4/ 1 Qtr.	-19.8	-16.0	-14.8	36.7	-26.5	-50.3
4/ 2 Qtr.	-24.6	14.2	15.2	26.9	7.6	79.3
4/ 3 Qtr.	-5.8	-1.2	1.5	49.1	-12.0	50.8
4/ 2 Qtr.	-11.7	1.9	-3.9	26.6	-6.0	48.7
2011 4/ 1 Qtr.	-3.1	-16.4	-37.7	-9.5	11.5	-9.2
4/ 2 Qtr.	-100.0	-18.4	-3.5	-61.8	-7.1	-82.2

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

Year	State	City & County of Honolulu	Hawaii County	Kauai County	Maui County
In Thousands of Dollars					
2/ 2002	1,772,027	876,049	449,601	172,660	273,716
2/ 2003	2,361,233	1,109,568	629,147	153,242	469,277
2/ 2004	2,726,536	1,320,552	826,494	130,659	448,831
2/ 2005	3,491,964	1,364,030	1,008,386	288,132	831,416
2/ 2006	3,770,051	1,625,328	926,019	239,294	979,412
2/ 2007	3,585,447	1,676,232	912,529	268,915	727,772
2/ 2008	2,906,578	1,481,272	704,317	277,149	443,840
2/ 2009	1,998,908	1,247,196	309,165	218,111	224,437
2/ 2002 1 Qtr.	336,282	157,413	83,863	40,599	54,407
2/ 2 Qtr.	437,085	204,882	110,402	56,965	64,836
2/ 3 Qtr.	497,553	250,253	148,128	29,271	69,900
2/ 4 Qtr.	501,107	263,501	107,209	45,825	84,573
2/ 2003 1 Qtr.	655,130	307,096	170,277	32,415	145,343
2/ 2 Qtr.	716,692	359,180	158,470	36,133	162,910
2/ 3 Qtr.	530,971	242,783	165,096	44,687	78,405
2/ 4 Qtr.	458,439	200,509	135,304	40,006	82,620
2/ 2004 1 Qtr.	780,750	407,757	217,871	24,331	130,791
2/ 2 Qtr.	718,866	397,720	196,694	34,962	89,489
2/ 3 Qtr.	597,587	257,839	182,630	39,979	117,139
2/ 4 Qtr.	629,333	257,236	229,300	31,386	111,411
2/ 2005 1 Qtr.	706,535	304,995	167,017	126,327	108,196
2/ 2 Qtr.	728,526	342,851	191,238	86,170	108,267
2/ 3 Qtr.	1,050,547	308,329	373,320	42,191	326,707
2/ 4 Qtr.	1,006,356	407,855	276,812	33,443	288,246
2/ 2006 1 Qtr.	766,238	299,983	257,258	28,616	180,380
2/ 2 Qtr.	908,136	406,075	217,061	70,557	214,443
2/ 3 Qtr.	1,051,476	473,556	254,057	91,856	232,007
2/ 4 Qtr.	1,044,202	445,714	197,642	48,265	352,582
2/ 2007 1 Qtr.	737,121	353,732	209,681	58,575	115,132
2/ 2 Qtr.	1,085,692	540,310	306,363	41,091	197,928
2/ 3 Qtr.	896,293	469,854	188,762	102,612	135,064
2/ 4 Qtr.	866,342	312,336	207,722	66,637	279,648
2/ 2008 1 Qtr.	741,141	309,828	243,855	79,728	107,730
2/ 2 Qtr.	1,048,550	528,685	186,956	91,645	241,264
2/ 3 Qtr.	690,037	379,567	175,904	88,683	45,883
2/ 4 Qtr.	426,849	263,191	97,602	17,094	48,963
2/ 2009 1 Qtr.	542,152	247,996	80,818	140,896	72,440
2/ 2 Qtr.	470,698	316,321	73,362	22,792	58,223
2/ 3 Qtr.	558,792	391,101	86,925	36,298	44,469
2/ 4 Qtr.	427,266	291,778	68,060	18,124	49,304
2/ 2010 1 Qtr.	455,332	302,902	98,826	16,472	37,133
2/ 2 Qtr.	537,311	371,068	100,001	12,598	53,645
2/ 3 Qtr.	552,365	400,829	76,920	21,661	52,955
2/ 4 Qtr.	435,288	282,516	84,582	17,317	50,874
2/ 2011 1 Qtr.	380,874	262,764	66,539	17,222	34,348
2/ 2 Qtr.	438,364	313,380	69,836	16,353	38,795

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

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

Source: County building departments.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	*State*	*City & County of Honolulu*	*Hawaii County*	*Kauai County*	*Maui County*
Percentage Change From The Same Period in Previous Year					
2/ 2002	11.7	28.3	18.2	28.6	-12.5
2/ 2003	33.3	26.7	39.9	-11.2	71.4
2/ 2004	15.5	19.0	31.4	-14.7	-4.4
2/ 2005	28.1	3.3	22.0	120.5	85.2
2/ 2006	8.0	19.2	-8.2	-16.9	17.8
2/ 2007	-4.9	3.1	-1.5	12.4	-25.7
2/ 2008	-18.9	-11.6	-22.8	3.1	-39.0
2/ 2009	-31.2	-15.8	-56.1	-21.3	-49.4
2/ 2010	-0.9	8.8	16.5	-68.8	-13.3
2/ 2002 1 Qtr.	-7.2	-7.6	34.5	26.8	-36.0
2/ 2 Qtr.	3.2	5.6	35.3	155.6	-20.6
2/ 3 Qtr.	18.2	42.3	8.7	10.0	-3.2
2/ 4 Qtr.	32.4	85.0	7.1	-14.1	14.5
2/ 2003 1 Qtr.	94.8	95.1	103.0	-20.2	167.1
2/ 2 Qtr.	64.0	75.3	43.5	-36.6	151.3
2/ 3 Qtr.	6.7	-3.0	11.5	52.7	12.2
2/ 4 Qtr.	-8.5	-23.9	26.2	-12.7	-2.3
2/ 2004 1 Qtr.	19.2	32.8	28.0	-24.9	-10.0
2/ 2 Qtr.	0.3	10.7	24.1	-3.2	-45.1
2/ 3 Qtr.	12.5	6.2	10.6	-10.5	49.4
2/ 4 Qtr.	37.3	28.3	69.5	-21.5	34.8
2/ 2005 1 Qtr.	-9.5	-25.2	-23.3	419.2	-17.3
2/ 2 Qtr.	1.3	-13.8	-2.8	146.5	21.0
2/ 3 Qtr.	75.8	19.6	104.4	5.5	178.9
2/ 4 Qtr.	59.9	58.6	20.7	6.6	158.7
2/ 2006 1 Qtr.	8.5	-1.6	54.0	-77.3	66.7
2/ 2 Qtr.	24.7	18.4	13.5	-18.1	98.1
2/ 3 Qtr.	0.1	53.6	-31.9	117.7	-29.0
2/ 4 Qtr.	3.8	9.3	-28.6	44.3	22.3
2/ 2007 1 Qtr.	-3.8	17.9	-18.5	104.7	-36.2
2/ 2 Qtr.	19.6	33.1	41.1	-41.8	-7.7
2/ 3 Qtr.	-14.8	-0.8	-25.7	11.7	-41.8
2/ 4 Qtr.	-17.0	-29.9	5.1	38.1	-20.7
2/ 2008 1 Qtr.	0.5	-12.4	16.3	36.1	-6.4
2/ 2 Qtr.	-3.4	-2.2	-39.0	123.0	21.9
2/ 3 Qtr.	-23.0	-19.2	-6.8	-13.6	-66.0
2/ 4 Qtr.	-50.7	-15.7	-53.0	-74.3	-82.5
2/ 2009 1 Qtr.	-26.8	-20.0	-66.9	76.7	-32.8
2/ 2 Qtr.	-55.1	-40.2	-60.8	-75.1	-75.9
2/ 3 Qtr.	-19.0	3.0	-50.6	-59.1	-3.1
2/ 4 Qtr.	0.1	10.9	-30.3	6.0	0.7
2/ 2010 1 Qtr.	-16.0	22.1	22.3	-88.3	-48.7
2/ 2 Qtr.	14.2	17.3	36.3	-44.7	-7.9
2/ 3 Qtr.	-1.2	2.5	-11.5	-40.3	19.1
2/ 4 Qtr.	1.9	-3.2	24.3	-4.5	3.2
2/ 2011 1 Qtr.	-16.4	-13.3	-32.7	4.6	-7.5
2/ 2 Qtr.	-18.4	-15.5	-30.2	29.8	-27.7

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 2001Q1 of 32,006; 2001Q2 of 22,290; 2001Q3 of 26,613; 2001Q4 of 53,344 and 2001 of 134,253

Source: County building departments.

H. Federal Government Expenditures in Hawaii

According to the most recent data available, total federal direct expenditures or obligations in Hawaii reached $24.6 billion in the federal fiscal year ending September 30, 2009, an increase of 64.0 percent over the previous year. Between federal fiscal years 1997 and 2009, the annual average growth rate for federal expenditures was about 9.6 percent.

In 2010, total federal government compensation of employees in Hawaii reached $9,252.1 million, an increase of 5.4 percent from 2009. Federal government compensation of employees in Hawaii accounted for about 24.6 percent of total compensation of employees in 2010. Between 1997 and 2010, the annual average growth rate for federal government compensation of employees in Hawaii was 6.2 percent. According to the most recent data available, federal government accounted for about 14.5 percent of State GDP in Hawaii in 2009, 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 first quarter of 2011 increased 4.3 percent compared to the same quarter of 2010. For the whole year of 2010, total earnings of federal government personnel increased 5.4 percent from the previous year. In 2010, total military earnings and total federal civilian earnings increased 5.6 percent and 5.1 percent, respectively, from the previous year.

I. 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 percent increase from June 30, 2008. The five State-chartered banks accounted for $31.45 billion of such assets.

J. 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 calendar years 2006, 2007, 2008 and 2009 amounted to 38.7 million short tons, 42.2 million short tons, 33.9 million short tons and 24.1 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 9,810 in calendar year 2006, 9,728 in calendar year 2007, 13,998 in calendar year 2008, and 7,596 in calendar year 2009.

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 10.0 million short tons in calendar year 2007, 9.9 million short tons in calendar year 2008, and 8.8 million short tons each in calendar years 2008 and 2009. 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 2007 when 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.

The number of visitors came to Hawaii by cruise ships was 96,606 in 2009, increased to 101,239 in 2010. There were 120,677 visitors flew to Hawaii to board the Pride of America in 2009, and that number increased to 122,454 in 2010. There were also 3,855 Hawaii residents toured the Hawaiian Islands by Pride of America in 2009 and 1,923 did so in 2010.

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 2010, 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
2009	1,117,790
2010	1,120,080

Source: HPMS database DOT and State of Hawaii Data Book

K. Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2010-2011 school year, system enrollment decreased from a total of 180,196 in the 2009-2010 school year to a total of 179,577 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 2009, 57,945 students attended the University of Hawaii system, 20,435 of them on the Manoa Campus. In the fall of 2010, 60,090 students attended the University of Hawaii system, 20,337 of them on the Manoa Campus.

L. 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.

APPENDIX C

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement, the Certificate and the Thirtieth Supplemental Certificate. Reference is hereby made to the Certificate and the Thirtieth 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 in the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account pursuant to this paragraph shall 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.

"***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 created by Section 6.01 of the Certificate, and (ii) the least of (a) the amount which, if added to the amount then on deposit in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein created by Section 6.01 of the Certificate, 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.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

This Appendix D contains a summary of certain provisions of the Certificate, giving effect to amendments which will be effective upon the issuance of the Refunding Bonds. The summary does not include summaries of, or give effect to, proposed amended provisions which will not be effective immediately upon the issuance of the Refunding Bonds. See "AMENDMENT 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 REFUNDING 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 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 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 "AMENDMENT TO THE CERTIFICATE."

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.

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 E

FORM OF BOND COUNSEL OPINION

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FORM OF BOND COUNSEL OPINION

October ___, 2011

Glenn Okimoto, Ph.D.
Director of Transportation
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

$300,885,000
State of Hawaii
Airports System Revenue Bonds
Refunding Series 2011
(AMT)

Dear Dr. Okimoto:

At the request of the State of Hawaii (the "**State**"), we have acted as Bond Counsel in connection with the issuance and sale by the State of its $300,885,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2011 (AMT) (the "**Bonds**"). The Bonds are dated October ___, 2011, are in the denomination of $5,000 or any integral multiple thereof, and mature serially on July 1 in each of the years and in the respective principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2012 at the rate per annum set opposite such year, as follows:

Maturity Date (July 1)	Principal ($)	Rate (%)
2012	12,000,000	2.000
2013	14,710,000	4.000
2013	10,290,000	2.000
2014	13,335,000	5.000
2014	6,765,000	2.250
2015	16,255,000	4.000
2015	1,000,000	2.500
2016	14,625,000	4.000

2016	3,300,000	3.000
2017	9,900,000	4.000
2017	1,220,000	3.000
2017	7,500,000	5.000
2018	19,185,000	4.000
2018	235,000	3.000
2019	18,845,000	5.000
2019	1,320,000	3.250
2020	14,585,000	4.500
2020	735,000	3.500
2021	32,170,000	5.000
2021	125,000	3.750
2022	31,170,000	5.000
2023	34,930,000	5.000
2024	26,955,000	5.000
2024	9,730,000	4.125

The Bonds are subject to optional redemption and mandatory sinking fund redemption by the State prior to the respective stated maturities thereof as set forth in the Certificate. The Bonds are transferable and exchangeable upon the terms and conditions set forth therein and recite that they have been authorized and issued pursuant to the laws of the State of Hawaii. The Bonds are being issued to provide for the refunding of certain maturities of the Airports System Revenue Bonds, Refunding Series of 2001. The Bonds recite that they are authorized to be issued and are issued under, pursuant to, and in full compliance with the Constitution and statutes of the State of Hawaii, including particularly, Part III of Chapter 39, Hawaii Revised Statutes, as amended, and under and pursuant to that certain Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds, dated as of May 1, 1969, as amended and supplemented (the "**Certificate**"), duly authorized and delivered under the aforesaid Part III, and pursuant to that certain Thirtieth Supplemental Certificate of the Director of the Department of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds, Refunding Series (AMT), dated as of September 14, 2011 (the "**Supplemental Certificate**"), duly authorized and delivered under the aforesaid Part III and the Certificate. All capitalized terms used herein that are not herein otherwise defined shall have the meanings ascribed thereto in the Certificate.

The Bonds and any bonds heretofore or hereafter issued on a parity therewith under the Certificate are payable from the Revenues of the Undertaking net of the payment of the operation and maintenance expenses of the Undertaking.

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 October ___, 2011 (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 opinion 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 laws of the State of Hawaii and constitute valid special obligations of the State of Hawaii payable solely from and secured solely by a lien upon and pledge of Net Revenues, on a parity with all bonds which heretofore have been or hereafter may be issued under the Certificate, as set forth in the Certificate;

(2) The provisions of the Certificate and the Seventh Supplemental Certificate are valid in accordance with their terms;

(3) Interest on the Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any 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

(4) 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 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 F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

Dated October ___, 2011

$300,885,000
State of Hawaii
Airports System Revenue Bonds
Refunding Series 2011
(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 $300,885,000 State of Hawaii Airports System Revenue Bonds, Refunding Series 2011 (AMT) (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 Providing for the Issuance of State of Hawaii Airports System Revenue Bonds dated as of May 1, 1969, as amended and supplemented (the "**Bond Certificate**"). Pursuant to this Disclosure 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 herein, 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 Section 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 (if other than the Director of Transportation) 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, 2012, 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. 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 Section 3(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 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's Annual Report shall contain or include by reference information of the type included in the final Official Statement (the "**Official Statement**") dated September 14, 2011, relating to the Bonds as set forth under the subheadings "—Aeronautical Revenues", "—Concession Fees", "—Non-Aeronautical Revenues other than Concession Fees", "—Non-Operating Revenues" and

"—Aviation Fuel Taxes" under "SOURCES OF REVENUES AND AVIATION FUEL TAXES", and "—Airline Service and Passenger Activity Operations", "—Airline Operations" and "—Financial Information." Under "THE AIRPORTS SYSTEM".

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 Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

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, in a timely manner not in excess of ten (10) Business Days after the occurrence of a Listed Event with respect to the Bonds, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB:

1. principal and interest payment delinquencies;

2. non-payment related defaults, if material;

3. unscheduled draws on the debt service reserves reflecting financial difficulties;

4. unscheduled draws on the credit enhancements reflecting financial difficulties;

5. substitution of the credit or liquidity providers or their failure to perform;

6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. modifications to rights of Bondholders, if material;

8. bond calls, if material, and tender offers;

9. defeasances;

10. release, substitution or sale of property securing repayment of the Bonds, if material;

11. rating changes;

12. bankruptcy, insolvency, receivership or similar event of the State; provided that for purposes of the foregoing event, such event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the provisions of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended or supplemented from time to time, or any successor statute, and any and all rules and regulations issued or promulgated in connection therewith, or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;

13. the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive material agreement relating to any such actions, other than pursuant to its terms, if material; or

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the State acting through the Department of Transportation obtains knowledge of the occurrence of a Listed Event that is qualified by materiality, the State acting through the Department of Transportation shall as soon as possible determine if such event would constitute material information for Holders of Bonds.

(c) Provided that such timely filing with the MSRB is made as set forth above, a notice of Listed Events described in Sections 5(a)(8) and (9) 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 if the State is no longer an "obligated person" within the meaning of the Rule, including upon the legal defeasance, prior redemption 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 Section 5.

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 Section 3(a), Section 4 or Section 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 Section 5, 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.

[Signature page follows.]

IN WITNESS WHEREOF, the undersigned has duly executed this Certificate on behalf of the Company as of the date first written above.

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
Name of Bond Issue:	State of Hawaii Airports System Revenue Bonds, Refunding Series 2011 (AMT)
Date of Issuance:	October ___, 2011

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 October ___, 2011. [The State anticipates that the Annual Report will be filed by .]

Date:

STATE OF HAWAII
Acting through the Department of Transportation

By ____
Title ______________________________________

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC 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.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of each Refunding Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Refunding Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Refunding Bonds, except in the event that use of the book-entry system for the Refunding Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Refunding Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Refunding Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Refunding Bond documents. For example, Beneficial Owners of the Refunding Bonds may wish to ascertain that the nominee holding the Refunding Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Refunding Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

STATE OF HAWAII • Airports System Revenue Bonds, Refunding Series 2011 (AMT)

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