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

The delivery of the Series 2015 Bonds is subject to the opinion of Katten Muchin Rosenman LLP, Bond Counsel, to the effect that under existing law, interest on the Series 2015 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes and that, assuming continuing compliance with the applicable requirements of the Internal Revenue Code of 1986, interest on the Series 2015 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, (i) interest on the Series 2015A Bonds is an item of tax preference for purposes of computing individual and corporate alternative minimum taxable income; (ii) interest on the Series 2015B Bonds is not an item of tax preference for purposes of computing individual and corporate alternative minimum taxable income for purposes of the individual and corporate alternative minimum tax; and (iii) interest on the Series 2015A Bonds is not excludable from the gross income of owners who are "substantial users" of the facilities financed or refinanced thereby. In the further opinion of Bond Counsel, under the existing statutes, interest on the Series 2015 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2015 Bonds or income therefrom. See "TAX MATTERS" herein.

$244,260,000
STATE OF HAWAII
Airports System Revenue Bonds

$235,135,000	$9,125,000
Series 2015A	Series 2015B
(AMT)	(Non-AMT)

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

The above referenced two series of Airports System Revenue Bonds (the "Series 2015A Bonds" and the "Series 2015B Bonds," respectively, and collectively the "Series 2015 Bonds") are being issued for the purpose of funding the costs of capital improvement projects at certain facilities of the Airports System (defined herein) of the State of Hawaii (the "State"). The Series 2015 Bonds are special limited obligations of the State, payable solely from and secured solely by the Revenues (as defined herein) derived by the State from the ownership and operation of the Airports System and the receipts from aviation fuel taxes imposed by the State.

See the inside cover for maturities, principal amounts, interest rates, and yields of the Series 2015 Bonds. The Series 2015 Bonds shall be dated as of their date of delivery and shall bear interest from the date of delivery payable each July 1 and January 1, commencing July 1, 2016. The Series 2015 Bonds are subject to optional and mandatory redemption prior to maturity thereof upon the terms and conditions and at the price as described herein.

The Series 2015 Bonds are issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchases of the Series 2015 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants. Purchases of the Series 2015 Bonds will initially be made in denominations of $5,000 or integral multiples thereof. Beneficial owners of the Series 2015 Bonds will not receive physical delivery of Series 2015 Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2015 Bonds. So long as DTC or its nominee is the registered owner of the Series 2015 Bonds, payment of the principal of, and premium, if any, and interest on, the Series 2015 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants (See "DESCRIPTION OF THE SERIES 2015 BONDS – Book-Entry Only System" herein).

The Series 2015 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Series 2015 Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Series 2015 Bonds.

The Series 2015 Bonds are offered when, as and if issued, subject to the approval of legality by Katten Muchin Rosenman LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their Counsel, Alston Hunt Floyd & Ing, Honolulu, Hawaii. It is expected that the Series 2015 Bonds in definitive form will be available for delivery on or about November 18, 2015.

Morgan Stanley **BofA Merrill Lynch** **Barclays**

Dated: November 5, 2015

$235,135,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2015A
(AMT)

$ 70,865,000	5.000% Term Bonds due July 1, 2041	Yield 3.850%	Price 109.167[c]	CUSIP 419794ZN5†
$ 1,685,000	4.125% Serial Bonds due July 1, 2045	Yield 4.200%	Price 98.731	CUSIP 419794ZM7†
$162,585,000	5.000% Term Bonds due July 1, 2045	Yield 3.920%	Price 108.581[c]	CUSIP 419794ZL9†

$9,125,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2015B
(Non-AMT)

$ 9,125,000	4.000% Term Bonds due July 1, 2045	Yield 4.020%	Price 99.651	CUSIP 419794ZP0†

[c] Priced to July 1, 2025 call date.
† CUSIP data is provided by Standards & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers may change as a result of events in the secondary market.

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2015 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2015 Bonds, and, if given or made, such information or representation must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date. The Underwriters have provided the following paragraphs for inclusion in this Official Statement.

THE SERIES 2015 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2015 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, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2015 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2015 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

David Y. Ige, Governor

Shan S. Tsutsui, Lieutenant Governor

DEPARTMENT OF TRANSPORTATION

Director	Ford N. Fuchigami
Deputy Director, Airports	Ross M. Higashi
Deputy Director, Harbors	Darrell T. Young
Deputy Director, Highways	Edwin H. Sniffen
Deputy Director, Administration	Jade T. Butay

SPECIAL SERVICES

Paying Agent and Registrar
U.S. Bank National Association
Seattle, Washington

Consulting Engineer
LeighFisher
Burlingame, California

Bond Counsel
Katten Muchin Rosenman LLP
New York, New York

Pricing Advisor
Public Financial Management, Inc.
San Francisco, CA

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OFFICIAL STATEMENT

$244,260,000
STATE OF HAWAII
Airports System Revenue Bonds

$235,135,000	**$9,125,000**
Series 2015A	**Series 2015B**
(AMT)	**(Non-AMT)**

INTRODUCTION

This Official Statement, which includes the cover page and appendices (the "Official Statement"), provides information on the sale and issuance of $235,135,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2015A (the "Series 2015A Bonds") and $9,125,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2015B (the "Series 2015B Bonds" and together with the Series 2015A Bonds, the "Series 2015 Bonds"). See "DESCRIPTION OF THE SERIES 2015 BONDS" for a description of the principal terms of the Series 2015 Bonds. Capitalized terms used but not otherwise defined in this Official Statement shall have the respective meanings given to such terms in the Certificate (as defined below) and Appendix D – Certain Definitions in the Certificate and Appendix E – Summary of Certain Provisions of the Certificate.

The State of Hawaii (the "State"), acting by and through its Department of Transportation (the "Department"), will issue the Series 2015 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 Thirty-First Supplemental Certificate, dated as of November 1, 2015 (the "Thirty-First Supplemental Certificate"). Pursuant to the Certificate, the State has previously issued 33 Series of State of Hawaii Airports System Revenue Bonds (the "Prior Bonds"). As of October 29, 2015, $807,790,000 of the Prior Bonds were outstanding. The outstanding Prior Bonds, the Series 2015 Bonds and any additional parity bonds issued by the State under the Certificate are collectively referred to as the "Bonds."

The Series 2015 Bonds are being issued: (i) to pay the cost of capital improvement projects at certain facilities of the State's airports system defined below (the "Airports System"), (ii) to pay capitalized interest on the Series 2015 Bonds, and (iii) to pay certain costs of issuance relating to the Series 2015 Bonds. See "CAPITAL IMPROVEMENTS PROGRAM" and "DESCRIPTION OF THE SERIES 2015 BONDS" below.

The Bonds, including the Series 2015 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Revenues of the Airports System and receipts of the State's aviation fuel taxes ("Aviation Fuel Taxes"). **The Bonds, including the Series 2015 Bonds, do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision of the State is pledged to the payment of or as security for the Series 2015 Bonds. All Bonds, including the Series 2015 Bonds, are and will be secured equally and ratably by the Revenues and Aviation Fuel Taxes**. See "SECURITY FOR THE BONDS" and "FINANCIAL INFORMATION" 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 ("Honolulu International" or "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 OF 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 proposes to undertake during that period. See "CAPITAL IMPROVEMENTS PROGRAM" below and Appendix A – Report of the Consulting Engineer, for a description of current capital improvement projects comprising the CIP.

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 "Capital Program"); summaries of the Series 2015 Bonds, the security for the Bonds, certain financial information, and certain provisions of the Certificate; and descriptions of the agreements between the Department and the Signatory Airlines and certain concession agreements. All references to agreements and documents are qualified in their entirety by the definitive forms of such agreements and documents. All references to the Certificate and to the Series 2015 Bonds are qualified by the definitive forms of such Certificate and the Series 2015 Bonds. Copies of the Certificate are available for examination at the offices of the Department's Airports Division (the "Airports Division"). Any statement or information involving matters of opinion or estimates are represented as opinions or estimates made in good faith, but no assurance can be given that facts will materialize as so opined or estimated. The following appendices are included as part of this Official Statement: Appendix A – Report of the Consulting Engineer on the Proposed Issuance of State of Hawaii, Airports System Revenue Bonds, Series 2015, dated October 29, 2015 (the "Report of the Consulting Engineer"), prepared by LeighFisher (the "Consulting Engineer"); Appendix B – Financial Statements and Supplemental Schedules June 30, 2014 and 2013 (with Independent Auditors' Report thereon) of the Airports Division, Department of Transportation, State of Hawaii; Appendix C – General Economic Information about the State of Hawaii; Appendix D – Certain Definitions in the Certificate; Appendix E – Summary of Certain Provisions of the Certificate; Appendix F – Form of Bond Counsel Opinion; Appendix G – Form of Continuing Disclosure Certificate; and Appendix H – Book-Entry Only System.

Prospective Financial Information

Prospective financial information in this Official Statement was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Prospective financial information included in this Official Statement, including summaries of prospective financial information from the Report of the Consulting Engineer, has been prepared by, and is the responsibility of, the Airports Division management. 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 B of this Official Statement relates to the Airports Division's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

DESCRIPTION OF THE SERIES 2015 BONDS

General Provisions Regarding the Series 2015 Bonds

The Series 2015 Bonds will be issued as fully registered bonds in the aggregate principal amount as set forth on the inside cover, 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, subject to redemption prior to maturity as described below. Ownership interests in the Series 2015 Bonds will be available in denominations of $5,000 and integral multiples thereof. Interest on the Series 2015 Bonds will be payable on July 1, 2016, and on each January 1 and July 1 thereafter.

So long as Cede & Co. is the registered owner of the Series 2015 Bonds, all payments of principal, premium, if any, and interest on the Series 2015 Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants for subsequent disposition to Beneficial Owners. See "Book-Entry Only System" below and Appendix H – Book-Entry Only System.

Redemption

Optional Redemption of Series 2015 Bonds. The Series 2015 Bonds will be subject to redemption at the option of the State, in the order of maturity as directed by the State, on or after July 1, 2025 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.

Sinking Fund Account Redemption Series 2015 Bonds. The Series 2015A Bonds maturing on July 1, 2041 (CUSIP 419794ZN5), Series 2015A Bonds maturing on July 1, 2045 (CUSIP 419794ZL9), and the Series 2015B Bonds maturing on July 1, 2045 (CUSIP 419794ZP0) are subject to Sinking Fund redemption by operation of the Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof on July 1, of the years and in the respective principal amounts set forth below:

$70,865,000
Series 2015A Bonds
Maturing July 1, 2041*

Year	Principal Amount
2040	$34,570,000
2041	36,295,000
*Stated maturity.	$70,865,000

$162,585,000
Series 2015A Bonds
Maturing July 1, 2045*

Year	Principal Amount
2042	$ 38,110,000
2043	40,020,000
2044	42,020,000
2045	44,435,000
*Stated maturity.	$162,585,000

$9,125,000
Series 2015B Bonds
Maturing July 1, 2045*

Year	Principal Amount
2040	$1,375,000
2041	1,430,000
2042	1,490,000
2043	1,545,000
2044	1,610,000
2045	1,675,000
*Stated maturity.	$9,125,000

Notice of Redemption. In the event of redemption of the Series 2015 Bonds, the Department shall cause notice of redemption to be mailed at least thirty (30) days prior to the redemption date to each registered owner of a Series 2015 Bond in whose name the Series 2015 Bond is registered in the books of registry. No exchanges or transfers of the Series 2015 Bonds shall be required to be made during the forty-five (45) days next preceding a date fixed for an optional redemption. At the time notice of any optional or sinking fund redemption is given to Holders of Series 2015 Bonds, the Department shall cause such notice to be provided to Moody's Investors Service, Standard and Poor's, A Division of The McGraw-Hill Companies, and Fitch Inc. and to major securities depositories and bond information services. See "DESCRIPTION OF THE SERIES 2015 BONDS – Book-Entry Only System."

Selection of Series 2015 Bonds for Redemption. If less than all of a maturity of the Series 2015 Bonds is to be redeemed, the Bonds of such maturity to be redeemed will be selected by lot. See "DESCRIPTION OF THE SERIES 2015 BONDS – Book-Entry Only System" for a description of DTC's practice relating to selection by lot.

Effect of Redemption. If a Series 2015 Bond is subject by its terms to redemption and has been duly called for redemption in accordance with the Certificate, and if sufficient monies available for the payment of the redemption price and interest to accrue to the redemption date on such Series 2015 Bond are held for such purpose by U.S. Bank National Association, Seattle, Washington, as the Paying Agent and Registrar, such Series 2015 Bond so called for redemption shall become due and payable, and interest on such Series 2015 Bond shall cease to accrue on the redemption date designated in such notice.

Upon surrender of any Series 2015 Bond to be redeemed in part only, the Department will execute and the Paying Agent shall authenticate and deliver to the Holder a new Series 2015 Bond or Bonds representing the unredeemed principal amount of the Series 2015 Bond surrendered.

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of the proceeds of the Series 2015 Bonds:

SOURCES	Series 2015A Bonds	Series 2015B Bonds	Series 2015 Bonds Total
Par Amount	$235,135,000.00	$9,125,000.00	$244,260,000.00
Net Premium/OID	20,426,230.75	(31,846.25)	20,394,384.50
	$255,561,230.75	$9,093,153.75	$264,654,384.50
Total Sources			
USES:			
Deposit to Project Fund	$241,409,794.52	$8,596,570.62	$250,006,365.14
Deposit to Capitalized Interest Fund	12,456,562.79	435,334.69	12,891,897.48
Issuance Expenses[1]	1,694,873.44	61,248.44	1,756,121.88
Total Uses	$255,561,230.75	$9,093,153.75	$264,654,384.50

[1] Including underwriters' discount, fees and other costs of issuance.

Book-Entry Only System

The Series 2015 Bonds will be issued as fully registered bonds without coupons and are initially to be registered in the name of Cede & Co., as nominee for DTC, as securities depository for the Series 2015 Bonds. Purchases by beneficial owners are to be made in book-entry form. If at any time the book-entry only system is discontinued for the Series 2015 Bonds, the Series 2015 Bonds will be exchangeable for other fully registered certificated Series 2015 Bonds of the same series in any authorized denomination, maturity and interest rate. See Appendix H – Book-Entry Only System. Interest will be payable by check or draft mailed to the Holder as of the Record Date. The Paying Agent and Registrar may impose a charge sufficient to reimburse the Department or the Paying Agent and Registrar for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Bond. The cost, if any, of preparing each new Bond issued upon such exchange or transfer, and any other expenses of the Department or the Director of Finance as the Paying Agent and Registrar incurred in connection therewith, will be paid by the person requesting such exchange or transfer. At the request of any Holder of at least $1,000,000 principal amount of the Series 2015 Bonds, payment of interest will be made by wire transfer as directed by such Holder. Payment of principal of the Series 2015 Bonds will be made upon presentation and surrender of such Series 2015 Bonds at the office of the Paying Agent and Registrar.

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

Transfer of Series 2015 Bonds

So long as Cede & Co., as nominee for DTC (or other nominee of DTC), is the Bondholder of record of the Series 2015 Bonds, beneficial ownership interests in the Series 2015 Bonds may be transferred only through a Direct Participant or Indirect Participant and recorded on the book-entry system operated by DTC. In the event the book-entry-only system is discontinued, Series 2015 Bond certificates will be delivered to the Beneficial Owners as described in the Certificate. Thereafter, the Series 2015 Bonds, upon surrender thereof at the principal office of the Paying Agent with a written instrument of transfer satisfactory to the Paying Agent, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series 2015 Bonds of the same maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring Series 2015 Bonds is exercised, the Department shall execute and authenticate and deliver the Series 2015 Bonds in accordance with the provisions of the Certificate. For every such exchange or transfer of Series 2015 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.

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 Thirty-First 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. 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 Thirty-First Supplemental Certificate provides the terms of the Series 2015 Bonds including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department. The Series 2015 Bonds are being issued pursuant to the Certificate, the Thirty-First 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, pricing advisors or consultants, underwriters in a negotiated sale and other participants deemed necessary for each State financing.

SECURITY FOR THE BONDS

General

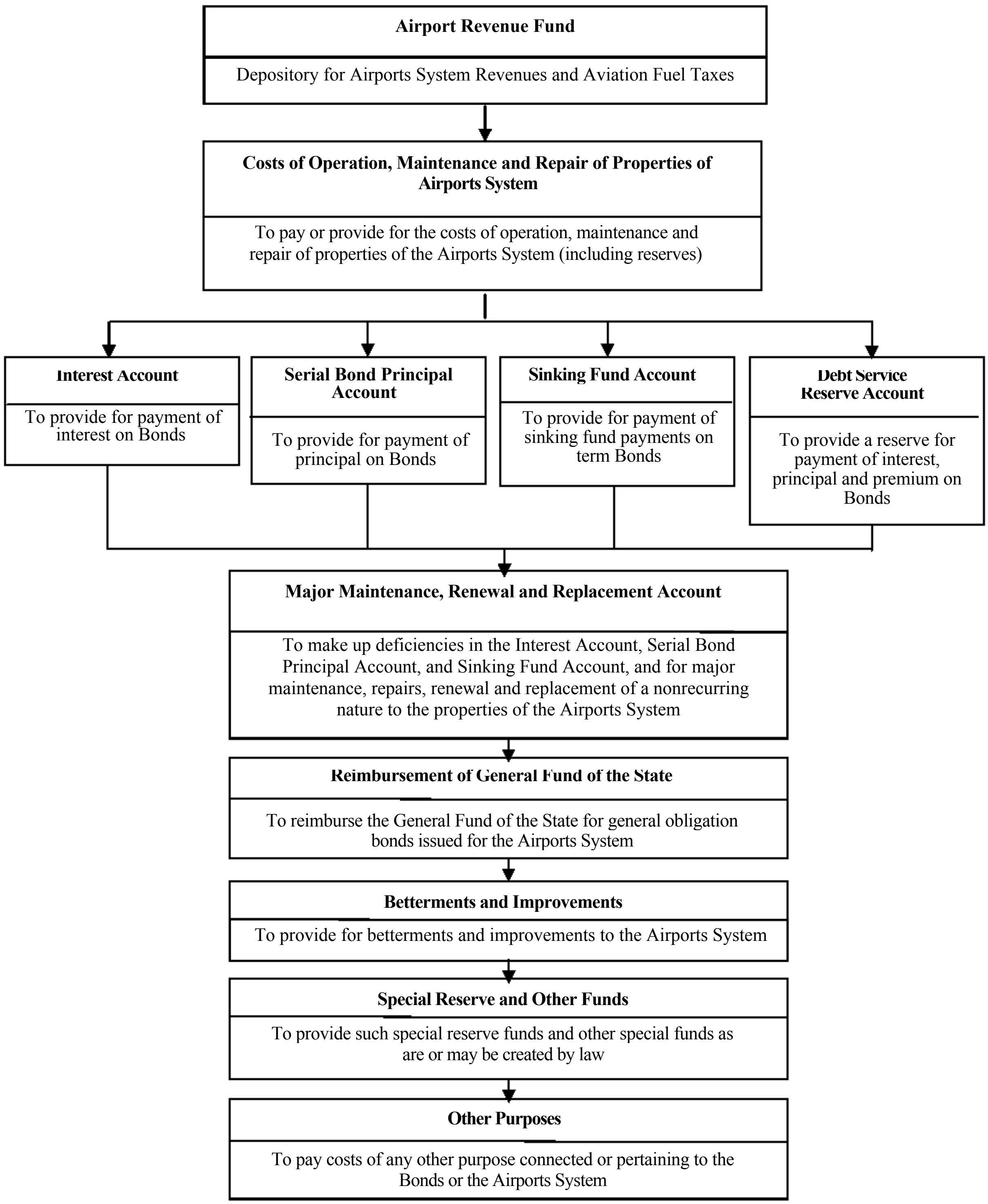
The Bonds, including the Series 2015 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Revenues and Aviation Fuel Taxes. The Bonds, including the Series 2015 Bonds, are equally and ratably secured by a lien and charge on the Revenues and Aviation Fuel Taxes prior and paramount to the lien thereon of any other bonds. The term "Revenues" means and includes all income, revenues and moneys derived from the ownership by the State and operation and management by the Department of the Airports System, or the furnishing of services and facilities, and derived from rates, rentals, fees and charges imposed by the Department. Revenues do not include proceeds from the sale of bonds or passenger facility charges unless inclusion is specifically provided in a supplemental certificate. See Appendix E – Summary of Certain Provisions of the Certificate, for complete definitions of Revenues and Aviation Fuel Taxes.

The Bonds, including the Series 2015 Bonds, do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Bonds, including the Series 2015 Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Bonds, including the Series 2015 Bonds.

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

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 and section 7.02 of the Certificate, 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 by establishing and collecting such rates, rentals, fees or charges as will produce Revenues which, together with Aviation Fuel Taxes (collectively "Net Revenues and Taxes"), will be at least sufficient: (i) to pay the costs of operation, maintenance and repair of the Airports System (including reserves) and the expenses of the Department in connection with such operation; (ii) to pay all indebtedness payable from or secured by Revenues and Aviation Fuel Taxes and to fund all reserves; (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.

The Department will at all times impose, prescribe, adjust, fix, enforce and collect rates which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a fiscal year (which the Department shall certify as Revenues to the Director of Finance for the next succeeding fiscal year solely for the purposes of this test), yield Net Revenues and Taxes with respect to the immediately ensuing twelve months in an amount at least equal to one and twenty-five hundredths (1.25) times the aggregate of: (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 in accordance with the sequence of priority established in the Certificate (the Department's covenant described in this section, the "Rate Covenant").

The Rate Covenant was amended in 2010 to permit the Department to calculate its coverage ratios on the basis of its Annual Adjusted Debt Service Requirement. The third full sentence of Section 7.02 of the Certificate was amended to read as follows:

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

The Annual Adjusted Debt Service Requirement is defined as:

> "***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.

For purposes of calculating the Annual Adjusted Debt Service Requirement, Available PFC Revenues includes only PFC proceeds actually deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account during such Fiscal Year, and Federal Direct Payments includes only Federal Direct Payments actually deposited into the Interest Account during such Fiscal Year.

See Appendix E – 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 Series 2015 Bonds, there will be on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account created by the Certificate, an amount equal to the maximum aggregate Debt Service Requirement for any future year for all Bonds then outstanding (including the Series 2015 Bonds). Moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account shall, except for the transfer therefrom to the Airport Revenue Fund of excess amounts as previously permitted in the Certificate, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the Series 2015 Bonds when due, whether at their maturity or upon the redemption or purchase thereof, 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 Certificate was amended in 2011 with the consent of the holders of 100% of the principal amount of the Bonds outstanding, to require the Department, in connection with the issuance of Additional Bonds, which includes the Series 2015 Bonds, 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) no later than five years from the date of issuance of such Additional Bonds an amount equal to the maximum aggregate Annual Adjusted Debt Service Requirement for all Bonds then outstanding, exclusive of other Additional Bonds which may have been issued during such five year period, or (iii) the maximum amount permitted by the Internal Revenue Code.

Additional Indebtedness

Section 3.04 of the Certificate permits the issuance of additional bonds (the “Additional Bonds”) payable from and secured by Revenues and Aviation Fuel Taxes on parity with the Bonds (including the Series 2015 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**,** upon satisfaction by the Department of certain prospective or historical debt service coverage tests. The Certificate was amended in 2010 to permit the Department to calculate prospective and historical debt service coverage on the basis of its Annual Adjusted Debt Service Requirement utilizing the Net Revenues and Taxes for the most recent Fiscal Year for which audited financial statements of the Department are available. As amended, the debt service coverage tests read as follows:

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

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

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

2. Historical Coverage Test.

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

Subordinate Indebtedness and Other Indebtedness

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 has issued the Series 2013 Lease Revenue Certificates of Participation ("COPs") in December 2013. The COPs represent participations in equipment lease rent payments to be made by the Department. Lease rent payments to holders of the COPs are payable from Revenues and Aviation Fuel Taxes, subordinate in right of payment to the payments of debt service on the Bonds.

In September 2014, the Department entered into a special facility financing with Hawaii Regional Center, LP I and LP IA to borrow up to $76 million (the "EB5 Loan") for construction of the consolidated rental car facilities ("ConRACs"), at Honolulu International and Kahului. The EB5 Loan is secured by a pledge of the rental car customer facilities charge ("CFC"), not the Revenues and Aviation Fuel Taxes.

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.

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

Management Personnel

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

Ford N. Fuchigami, Director, served as Interim Director and now Director of the Department of Transportation since 2014. Previously, Mr. Fuchigami served as Deputy Director -- Airports since December, 2010. Prior to his appointment to the Department, Mr. Fuchigami spent more than 36 years in the private sector as a manager with 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.

Ross M. Higashi, Deputy Director – Airports, was appointed in January 2015 to lead the Airports Division, where he has worked for 25 years. During that time, Mr. Higashi served in various capacities, including Fiscal Management Officer; head of the Accounting Branch; and the Audit Branch Supervisor. He also spent five years in public accounting. Mr. Higashi graduated from the University of Hawaii with a B.S. degree in Accounting.

Kurt T. Yamasaki, Acting Fiscal Management Officer, has been employed at the Airports Division for 22 years. He was assigned to the Fiscal Management Officer position since May 2014. Previously, he worked as Audit Branch Supervisor for 11 years. He spent four years in the private sector accounting and four years in public accounting prior to the Airports Division. He graduated from the University of Hawaii with a B.S. degree in Accounting.

Jeffrey Chang, Engineering Program Manager, was promoted to head the Engineering Branch of the Airports Division in March 2009. Previously, Mr. Chang served as a 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 1,127 employees as of September 25, 2015. State law grants public employees, other than appointed officials, 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 three unions in six bargaining units, as follows:

- United Public Workers (the "UPW") (Unit 1, blue collar employees) – 583 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, professional and scientific employees) – 306 employees; and
- Hawaii Fire Fighters Association IAFF Local 1463 (the "HFFA") (Unit 11, rescue and firefighters) – 157 employees.

The status of negotiations and awards for wages and health benefits for the period from July 1, 2015 to June 30, 2017 is as follows:

Unit 1 (blue collar employees) ratified a new agreement on April 26, 2013 for the period July 2013 through June 2017. The agreement provides for 2% across-the-board increases in October and April in each of the four years of the contract.

Unit 2 (blue collar supervisors) ratified a new agreement in April 2015 for the period July 2015 through June 2017, providing 2% across-the-board increases in October and April of each year as well as other adjustments to the salary schedule.

Unit 3 (white collar employees), and Unit 4 (white collar supervisors), ratified a new agreement in April 2015 for the period July 2015 through June 2017, providing catch up step movements on July 1, 2015 ($1,500 lump sum for those not eligible for a step movement), a 1.6% across-the-board increase on July 1, 2016, a lump sum payment of $1,200 in the second year of the agreement, and continuation of the step movement plan throughout the contract.

Unit 11 (firefighters) had an arbitration award issued on November 15, 2013 for the period July 1, 2011 through June 30, 2017. The award provides for the addition of a new step L5 for twenty-five years of service and a catch-up on the step movement plan on January 1, 2014 with continuation of the step movement plan throughout the remainder of the contract. The award also provides for 2% across-the-board increases in July and January of years three through four of the contract and a final 5% across-the-board increase in July 2016. Other significant terms in the contract included a new provision for rank-for-rank recall pay.

Unit 13 (professional and scientific employees) ratified a new agreement with the State on October 4, 2013 for the period July 2013 through June 2017. The agreement provides for a 4% across-the-board increase in July 2013 and catch-up step movements beginning in July of 2014. The last two years of the agreement provide for 3.5% across-the-board increases in January of each year and continuation of the step movement plan.

See "FINANCIAL INFORMATION – Employee Benefits" for a description of employee benefits payable to employees of the Department.

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 Oceania. Kona International, Lihue and Kahului Airports also provide pre-cleared international service to and from Canada. The five primary airports accounted for approximately 98.8% of total enplaned passengers in the Airports System in fiscal year 2015.[1]

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 Airport ("Honolulu International" or "HNL"), the primary airport in the Airports System, is located approximately six miles west of downtown Honolulu. Honolulu International is the largest and busiest of the State's airports, accounting for 58.1% of all passengers enplaned in the Airports System in fiscal year 2015. In 2014, according to the Federal Aviation Administration (the "FAA"), Honolulu International was the twenty-seventh busiest in the United States in total passengers (enplaned and deplaned). In fiscal year 2015, 9.7 million passengers were enplaned at Honolulu International – 6.6 million overseas passengers and 3.1 million interisland passengers. The 2014 Airports Council International Worldwide Traffic Report listed Honolulu International as the 91st busiest airport in terms of total passengers. 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, which provide connecting service from Honolulu International to the other Airports System primary airports. Honolulu International serves interisland flights, and 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). Honolulu International has 55 total gate positions, including 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 Joint Base Pearl Harbor Hickam and the Hawaii Air National Guard.

Kahului Airport. Kahului Airport 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 hold rooms, 16 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 pre-cleared international flights to and from Canada.

Lihue Airport. Lihue Airport is located approximately one and one-half miles east of Lihue, the governmental and business center of the Island of Kauai. Lihue has two 6,500-foot runways. The terminal complex includes ticket counters, eight aircraft gate positions with loading bridges, two baggage claim areas and ancillary service facilities. Lihue 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 pre-cleared international flights to and from Canada.

Kona International Airport at Keahole. Kona International Airport (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, 10 boarding gates (serving 14 aircraft parking spots) and ancillary service facilities. Kona International has public parking facilities for approximately 1,380 vehicles. In addition to interisland service,

[1] 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 2015" means the fiscal year that began July 1, 2014 and ended June 30, 2015.

Kona International provides facilities for domestic overseas flights and pre-cleared international flights to and from Canada.

Hilo International Airport. Hilo International Airport (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, 10 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.

CAPITAL IMPROVEMENTS PROGRAM

In 2007, in coordination with the Signatory Airlines and in conjunction with negotiations leading to the 2007 Amended Lease Extension Agreements, the Airports Division developed a Capital Improvements Program (the "CIP") estimated to cost $2.4 billion. The Airports Division internally reviews the CIP on a quarterly basis. In July 2009, in light of the economic recession that began late in 2008 and the ensuing decline in air traffic, the Airports Division, in consultation with the Signatory Airlines, identified certain designated projects to pursue while deferring other projects. In subsequent years as air traffic has grown to exceed pre-recession levels, the Airports Division has restored many of the deferred projects to the CIP.

As of June 15, 2015, the Airports Division's current Capital Improvements Program for the fiscal year 2016 through fiscal year 2021 timeframe includes projects approved by the Legislature in the 2015 Session, projects approved in prior sessions, and other projects subject to future approval. As of June 30, 2015, the cost estimate for the current CIP was $2.61 billion, including:

- $1.73 billion for projects that are subject to airline concurrence, and
- $0.88 billion for projects related to statewide consolidated rental car facilities, which are not subject to Signatory Airline concurrence

The projects comprising the CIP are at various stages of development. Some airline projects have been completed or are in the closeout stages, others are under construction. The majority of projects are in the design, bid or award stages. Other projects, are in various stages of planning or authorization.

Capital Budget Process

The CIP 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 CIP. Schedule and cost information provided in this section are estimates from different sources depending on the status of each project and will be revised as the Airports Division proceeds with its implementation of the CIP.

To undertake a capital project for the Airports System, the Department is required to obtain an appropriation from the Legislature, approval of allotment requests from the Office of the Governor, and concurrence from the Signatory Airlines when applicable. In each Fiscal Year, the Airports Division prepares a CIP budget for the ensuing six Fiscal Years, including projects that the Airports Division plans to undertake during that period. The CIP includes many projects that have received approvals from prior years, and is reviewed from time to time to add new projects and to remove completed and no longer required projects.

In each odd-number Fiscal Year (such as FY 2015), the Airports Division identifies the projects in the first two years of the CIP (such as FY 2016 and FY 2017) that have not received legislative approval, and prepares project budget requests for inclusion in the Governor's Executive Budget. The Executive Budget is submitted to the Legislature for review and approval. The Legislature approves all or a portion of the submitted capital projects for both Fiscal Years. The Department may submit supplemental appropriation requests for the second year of the biennium budget (such as in FY 2016 for FY 2017 projects) as part of the Governor's Supplemental Budget, and receive an appropriation for the second year from the Legislature. The legislative approval of a project (or component of a project) includes identification of the means of financing for the project. The Airports Division utilizes primarily five sources of financing: federal grants (from the Federal Aviation Administration ("FAA") and Transportation Security Administration ("TSA")), Passenger Facility Charge ("PFC") revenues, internally generated funds (referred to by the State and the Airports Division as "Special Funds"), Bonds, and Customer Facility Charge ("CFC") revenues. 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 Department submits allotment requests to the Office of the Governor when needed to initiate projects. The approval of an allotment request serves as the Governor's approval for a capital expenditure.

In October 2015, the Department submitted a request to the Airlines Committee of Hawaii representing the Signatory Airlines requesting concurrence to capital projects totaling $295 million. The Signatory Airlines gave total concurrence to 15 of these projects totaling $210 million and conditional concurrence to the remaining 14 projects totaling $86 million. The Signatory Airlines placed project specific conditions including availability of FAA grant assistance, and limitations on project scope and schedule. The Signatory Airlines have fully approved all capital projects to be financed with the proceeds of the Series 2015 Bonds.

Summary of the Capital Improvement Program

The following table presents the estimated funding sources for the major components of the CIP. The table is followed by a description of the major capital improvement projects at each Airport.

AIRLINE PROJECTS BY AIRPORT
Through Fiscal Year 2021
State of Hawaii, Department of Transportation, Airports Division
(as of June 30, 2015; in millions)

		Projected Costs by Funding Sources					
	Total	**Federal Grants**	**PFC Pay-as-you-go**	**Internal Cash**	**Revenue Bonds**	**CFC**	**Subordinated Debt**
HNL							
HNL - Mauka Concourse	$ 667	$ 1	$ 25	$ 16	$ 626	-	-
HNL - Airfield	163	61	62	9	31	-	-
HNL - Terminal	226	26	21	7	171	-	-
HNL – Others	22	3	-	1	18	-	-
HNL Subtotal	1,078	91	108	33	846	-	-
OGG	126	6	34	22	64	-	-
KOA	112	22	6	6	78	-	-
ITO	92	46	6	13	27	-	-
LIH	54	19	-	17	18	-	-
Other Airports	63	53	-	5	5	-	-
Energy Saving Project	157	-	-	-	-	-	157
Other Statewide Projects	43	14	-	28	1	-	-
Subtotal	$ 1,725	$ 251	$ 154	$ 124	$ 1,039	-	157
Rental Car Projects	880	1	-	-	-	879	-
Total CIP	$ 2,605	$ 252	$ 154	$ 124	$ 1,039	$ 879	$ 157
% of Total							

Source: Department of Transportation – Airports Division.

Description of Major Capital Improvement Projects

The major capital improvement projects at each airport are described below.

Honolulu International Airport. The major capital improvement projects at HNL are:

- **Mauka Concourse Program ($667 million)**. The Mauka Concourse Program provides for construction of a new terminal concourse at HNL, and other related enabling projects. The program includes the Mauka Concourse Extension ($256 million) (approximately 257,000 square feet for airline gates capable of accommodating six wide-body aircraft, six new hold rooms, operations areas, new security screening lanes, concessions, a restroom and service core, common areas and public area furnishings, space for an airline club, elevators, escalators, moving walkways, passenger loading bridges, fixtures and equipment, and other associated work integral to building construction); Taxiways G and L widening ($97 million); relocation of maintenance and cargo buildings ($183 million) (includes demolition of existing maintenance and cargo buildings and construction of new facilities and related aprons and hardstands on the west side of Taxiways G and L); and other supporting projects ($131 million) (includes program management expenses for the Mauka Concourse Program, terminal signage improvements, and other miscellaneous projects). This program is scheduled to be substantially completed in 2019.

- **Airfield Improvements ($163 million)**. These projects would improve the airfield system at HNL, including Taxiway Z Structural Improvements ($55 million); Runway 8L widening and miscellaneous improvements ($39 million); aircraft apron reconstruction ($26 million); runway 26L pavement improvements ($22 million); runway 4R pavement reconstruction ($17 million); and other miscellaneous projects ($4 million).

- **Terminal Improvements ($226 million).** Terminal and other miscellaneous projects at HNL include baggage handling system improvements ($45 million); electrical distributed generation system ($31 million); Overseas Terminal asbestos abatement ($23 million); concession improvement, Diamond Head Concourse ($15 million) and Overseas Terminal metal roof replacement ($15 million). Other miscellaneous projects ($97 million) include improvements to the concourse facility, concession offering, in-terminal roadway systems, reroofing, loading bridges and access control. Other Improvements ($22 million) include replacements of pedestrian bridges between the Overseas Terminal and the overseas parking garage.

Kahului Airport. The major projects at Kahului Airport are: the Apron Pavement Structural Improvements ($23 million) (involves the reconstruction of Taxiway A, including the taxiway safety area adjacent to the main aircraft parking apron); and land acquisition ($29 million) (for the runway safety area of Runway 2-20, and land for future aviation uses). Miscellaneous projects ($75 million) including replacement of loading bridges, terminal reroofing, improvements to elevator, escalator and moving walkways, replacement of fire sprinkler system, terminal improvements, and airfield improvements.

Kona International Airport at Keahole. The major projects at Kona International Airport are Terminal Modernization ($70 million), an improved facility that will include a baggage handling system, a centralized security checkpoint, common use passenger processing systems, flight information displays, and other necessary improvements and a new aircraft rescue and firefighting ("ARFF") regional training facility ($22 million). Miscellaneous projects ($20 million) include terminal reroofing, access control and design cost for an International Arrivals Building (the "KOA IAB"). The Airports Division is seeking state grant funding for construction of the new KOA IAB, but this request has not yet been approved.

Hilo International Airport. The major projects at Hilo International Airport are renovation of the hold cargo building light industrial facilities ($34 million); airfield ARFF facility improvements ($22 million); and miscellaneous projects ($36 million), including Runway 3-21 pavement improvements, access control, and airfield improvements.

Lihue Airport. The major projects at Lihue Airports are LIH airfield improvements ($20 million); and Lihue Airport land acquisition ($17 million) of land northwest of Lihue Airport to support safety, operational and legal requirements. Other miscellaneous projects ($17 million) include ticket lobby and holdroom improvements, air conditioning system improvements, former landfill site restoration, and miscellaneous improvements.

Energy Saving Projects. The Energy Saving Projects include a collection of projects (the "ESCO Project") to implement energy conservation measures throughout the Airports System. The Department entered into an Energy Performance Contract with Johnson Controls, Inc. ("JCI") with an initial cost estimate of $150 million, under Section 36-41, HRS. The Department has financed the ESCO Project by issuing $167.74 million Lease Revenue Certificates of Participation ("COPs") in December 2013. The Department pays lease rent on the COPs from Revenues and Aviation Fuel Taxes, subordinate to the payments of debt service on the Bonds. The Energy Performance Contract requires JCI to guaranty that the energy savings resulting from the implementation of these projects will be greater than the debt service and related expenses. The Energy Saving Projects are scheduled to be completed in December 2015.

The Airports Division has identified another energy saving project to replace the underground piping system at HNL, and is in the process of negotiating an amendment with JCI. The amendment is expected to cost $7 million.

Rental Car Projects. The Airports Division is implementing a Statewide Car Rental Facilities Development Program (the "Rental Car Projects"), which includes consolidated rental car facilities ("ConRACs") at HNL, Kahului Airport, and Lihue Airport, as well as related planning, design, program management, and enabling projects. The ConRACs are in various stages of completion. The Airports Division opened bids for the OGG ConRAC in June 2014, and following resolution of a bid protest, awarded the construction contract and issued a notice to proceed for the OGG ConRAC in September 2015. Construction is anticipated to commence in fall 2015. Construction of the Interim ConRAC at HNL has commenced and is expected to be completed in December 2015. The Airports Division intends to publish the invitation to bid for the permanent HNL ConRAC in winter 2015-2016 and proceed with the HNL ConRAC in 2016. The Lihue ConRAC has been postponed to fiscal year 2019 due to current constraints on funding availability. As of June 30, 2015, the total estimated cost of the Rental Car Projects was $880 million.

Rental Car Projects are classified as Special Facilities as defined in Article XI of the Certificate. Debt service on future bonds and loans to be issued for the Rental Car Projects is payable solely from the Customer Facility Charges ("CFCs") and other ConRAC related funds and accounts, and will not be secured by Revenues and Aviation Fuel Taxes. CFCs are not Revenues as defined in the Certificate.

Funding of the Capital Improvements Program

The Airports System utilizes a variety of programs to fund capital improvements including bonds, federal AIP discretionary grants, PFCs and CFCs. In fiscal year 2013, the Airports System received $24 million in federal capital grants, and collected $35 million in PFCs (including interest) and $55.7 million from CFCs (including interest). In fiscal year 2014, the Airports System received $60 million in federal AIP grants, and collected $37.7 million in PFCs (including interest) and $54.2 million from CFCs (including interest). In fiscal year 2015, the Airports System received $30.6 million (unaudited) in federal AIP grants, and collected $37.7 million (unaudited) in PFCs (including interest) and $65.5 million (unaudited) from CFCs (including interest).

The following table summarizes the sources of funds and expenditures to finance projects in the CIP through June 30, 2015. Totals may vary from the preceding table due to rounding.

Means of Financing (millions)(unaudited)

	Expended as of June 30, 2015	To be Spent	Total
Revenue Bonds	$ 235	$ 804	$1,039
Subordinated Debt	132	25	157
Federal Grants	105	147	252
Special Funds	82	43	125
PFC Pay-as-you-go	70	83	153
CFC	85	794	879
Total	$ 709	$1,896	$2,605

Source: Department of Transportation – Airports Division

The funding sources expected to be available to finance projects in the CIP are as follows:

Federal and State Grants and Transportation Security Administration Funding. The Federal Aviation Administration's Airport Improvement Program ("AIP") consists of entitlement and discretionary allocations for AIP-eligible projects funded through the federal Airport and Airway Trust Fund with revenues from federal aviation user fees and taxes. 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 per eligible enplaned passenger. These FAA grants are to be used for airport infrastructure projects to enhance safety, security, capacity, and access, and are made available to airport operators in the form of FAA entitlement and discretionary allocations for AIP-eligible projects.

After the terrorist attacks of September 11, 2001, Congress passed the Aviation and Transportation Security Act ("ATSA"), creating the Transportation Security Administration (the "TSA") under the Department of Homeland Security, and mandating implementation of explosive detection systems ("EDS") at U.S. airports. In addition to the FAA grants, the Airports Division also receives grants from the TSA for explosive detection system-related grants and security closed-circuit televisions. The Airports Division has requested grants from the TSA for eligible baggage system related project costs.

The Airports Division expects to use a total of $252 million in federal grants for projects in the CIP, of which $147 million has been already granted and $105 million remains to be expended. AIP grants encompass both entitlement grants and discretionary grants; entitlement grants are determined on a formula based on passenger numbers, while discretionary grants are determined by the FAA based on the nature of the specific project in comparison with projects at other airports in the FAA region. The Airports Division received $44.3 million of the AIP grants in federal fiscal year 2014, and $19.6 million in federal fiscal year 2015 through August 25, 2015. For large-hub airports, such as HNL, and for medium-hub airports, such as Kahului, the FAA grants cover 75% of eligible project costs. For all other airports, the grant covers 90% of eligible project costs. Honolulu International and Kahului receive less in AIP entitlement funding than they would otherwise receive, because they are large- and medium-hub airports, respectively, where the $4.50 PFC is collected.

No assurance can be given that the Department will actually receive federal grants-in-aid in the amount or at the time contemplated by the Department. See "Certain Investment Considerations - Considerations Regarding Certain Other Sources of Funds – FAA AIP Program."

Passenger Facility Charges. Passenger Facility Charges ("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. In 1990, PFCs were established by Title 49 U.S.C. §40117, that 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 started PFC collections at five major airports of Hawaii Airports System at the $3.00 level in October 2004 and increased the collection level to $4.50 effective November 2008. In November 2013, the Airports Division received approval from the FAA for its PFC Application No. 5 for $414 million, under which the Airports Division may use PFC revenues for pay-as-you-go project costs at the five primary airports, statewide PFC administrative costs, as well as debt service on certain PFC-eligible projects. The total PFC collection authority is $723.8 million, of which the Airports Division has collected $304.2 million on a cumulative cash basis as of June 30, 2015 (including interest earnings) (unaudited). The PFC cash fund balance was $138.6 million as of June 30, 2015. The Airports Division plans to submit further PFC applications in the future for other PFC-eligible projects in the CIP.

Section 261-5.5, HRS was amended effective July 1, 2009, to provide the Airports Division the flexibility of using PFC revenues either to fund Airports System capital improvement projects on a "pay-as-you-go" basis or to pay debt service on Bonds and reduce the Debt Service Requirement. The Certificate provides that, solely for purposes of the Additional Bonds tests and the Rate Covenant (to yield Net Revenues and Taxes that are not less than 1.25 times the aggregate of the Debt Service Requirement), the 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.

Customer Facility Charges and Related Indebtedness. In 2008, the Legislature enacted Act 226, SLH 2008, authorizing the Airports Division to establish and collect a $1 CFC on each on-airport rental car transaction day to pay project costs of the ConRAC Program. The Airports Division implemented the CFC beginning September 1, 2008, on all rental car transactions. Effective September 1, 2010, the CFC rate was raised to $4.50 per transaction day. The State Legislature suspended collection of the CFC for fiscal year 2012, and for fiscal year 2012 increased the daily rental motor vehicle surcharge tax ("Rental Car Tax") from $3.00 to $7.50. This suspension expired in fiscal year 2013, and the Airports Division resumed collection of the $4.50 per day CFC per transaction on July 1, 2012.

The CFC rate may be further adjusted periodically to generate sufficient funds to undertake consolidated rental car facilities projects at statewide airports. 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. Currently, planning and construction are in progress for consolidated rental car facilities for HNL and Kahului.

In August 2014, the Department completed a special facility financing by entering into an Indenture of Trust Securing the Statewide System of Airports of the State of Hawaii Customer Facility Charge Revenue bonds with MUFG Union Bank, N.A. as Trustee and a loan agreement with Hawaii Regional Center, LP I and LP IA to borrow up to $76 million under the EB-5 Immigration Investor Program (the "EB5 Loan") for the ConRACs. The EB-5 Loan is the first issue of bonds secured by CFC collections. The Department intends to repay the EB-5 Loan with the proceeds of future special facility bonds and CFCs. The EB-5 loan is not secured by the Revenues and Aviation Fuel Taxes.

Effective May 1, 2015, the Department and certain rental car companies operating in the Airports System executed Statewide Airports Car Rental Facilities Concession Agreement and Facility Leases (collectively the "ConRAC Leases") covering ConRACs at Honolulu International and Kahului, which, among other provisions, expanded the collection of the CFC to include all rental car companies signatory to the ConRAC Leases regardless whether the car rental company is operating on- or off-Airport Premises.

In fiscal year 2015, the Airports Division collected $65.5 million of CFCs and interest (unaudited). As of June 30, 2015, the Airports Division had a CFC cash balance of $182.2 million (unaudited), and an additional borrowing capacity of $41.1 million (unaudited) under the EB5 Loan subject to certain limitations.

The CFC revenues are not part of Revenues and Aviation Fuel Taxes. The State separately collects a $3.00 daily Rental Car Tax on all rental car transactions in the State, which is not part of the CFC revenues nor Revenues and Aviation Fuel Taxes. The payment on future CFC bonds and loans to be issued will not be secured by Revenues. See "FINANCIAL INFORMATION – AIP Grants, Passenger Facility Charge and Customer Facility Charge" for more information on the Airports Division's use of CFCs.

Special Funds. Over the years, the Airports Division has accumulated cash balances from Airports System operations. As of June 30, 2015, the Airports Division had cash and investments of $547.4 million in unrestricted accounts, of which more than one-third is estimated to be available in accounts that could be used to fund capital projects. The Airports Division expects to use $125 million of internal cash in total for the CIP. Prior to the issuance of the Series 2015 Bonds, cash has been used for certain "bond funded" projects and those advances may be reimbursed from proceeds of the Series 2015 Bonds.

Revenue Bonds. The Department issued approximately $479 million of revenue bonds in 2010 to fund construction of CIP projects, and to reimburse the Department for funds previously advanced from internally generated cash. In addition to the Prior Bonds, the Department currently plans to issue Additional Bonds (which will be on a parity basis with all outstanding Bonds) after the issuance of the Series 2015A and Series 2015B Bonds to fund the remaining costs of CIP project costs.

COPs. As described above, the Department issued $167.7 million of COPs to finance the ESCO Project. The Department's obligation to pay lease rent for the COPs is subordinate in right of payment to the Bonds.

PASSENGER TRAFFIC AND AIRLINES

The following Table 1 and Table 2 summarize passenger counts and aircraft operations at Honolulu International and the neighbor island airports in the Airports System and landed weights for fiscal years 2011 through 2015:

TABLE 1
PASSENGERS AND AIRCRAFT OPERATIONS

	Fiscal Year Ending June 30, 2011	2012	2013	2014	Unaudited 2015	2015 vs 2014 % Increase (Decrease)
Enplaned Passenger Activity						
Honolulu International Airport	9,161,998	9,258,218	9,853,086	9,700,237	9,707,527	0.1
Kahului Airport	2,747,204	2,837,763	3,030,789	3,009,069	3,246,892	7.9
Kona International Airport at Keahole	1,351,323	1,362,357	1,444,380	1,415,189	1,490,934	5.4
Lihue Airport	1,220,905	1,281,867	1,358,556	1,353,125	1,386,017	2.4
Hilo International Airport	624,238	651,458	679,594	644,656	648,491	0.6
All Others	176,624	174,633	176,354	172,721	202,934	17.5
Total Passengers	15,282,292	15,566,296	16,542,759	16,294,997	16,682,795	2.4%
Honolulu International Airport as a Percentage of Total Enplaned Passengers	60.0%	59.5%	59.6%	59.5%	58.19%	
Interisland Passengers	6,800,509	6,784,974	7,118,800	7,022,309	6,998,066	-0.3%
Overseas Passengers	8,481,783	8,781,322	9,423,959	9,272,688	9,684,729	4.4%
Total Statewide Enplaned Passengers	15,282,292	15,566,296	16,542,759	16,294,997	16,682,795	2.4%
Interisland Passengers as a Percentage of Total Enplaned Passengers	44.5%	43.6%	43.0%	43.1%	41.95%	

Fiscal Year Ending June 30,

Enplaned Passengers	2011 (1000s)	% of Total Enplaned Passengers	2012 (1000s)	% of Enplaned Passengers	2013 (1000s)	% of Total Enplaned Passengers	2014 (1000s)	% of Total Enplaned Passengers	2015 (1000s)	% of Total Enplaned Passengers
Domestic Overseas	6,326	41.4%	6,291	40.4%	6,659	40.3%	6,481	46.7%	6,834	41%
International	2,155	14.1%	2,490	16.0%	2,765	16.7%	2,791	10.2%	2,851	17%
Inter-island	6,801	44.5%	6,785	43.6%	7,119	43.0%	7,022	43.1%	6,998	42%
Total	15,282	100%	15,566	100%	16,543	100%	16,295	100%	16,683	100%

	Fiscal Year Ending June 30, 2011	2012	2013	2014	2015
Aircraft Operations (Combined Landing and Take-Off Reported by Control Tower)					
Honolulu International Airport	267,967	266,326	284,532	300,976	315,474
Kahului Airport	123,041	124,519	130,620	127,143	132,496
Kona International Airport at Keahole	106,033	110,324	119,098	117,075	144,098
Lihue Airport	113,516	109,739	122,240	125,569	182,758
Hilo International Airport	82,499	75,367	88,100	90,733	85,770
All Others	198,806	201,827	210,106	215,830	214,211
Total Aircraft Operations	891,862	888,102	954,696	977,326	1,024,807
Honolulu International Airport as a Percentage of Total Aircraft Operations	30.0%	30.0%	29.8%	30.8%	30.8%

Source: Department of Transportation – Airports Division Planning Section.

TABLE 2
LANDED WEIGHTS (1,000 pound units)

	Fiscal Year Ending June 30,									
	2011	% of Total Landed Weights	2012	% of Total Landed Weights	2013	% of Total Landed Weights	2014	% of Total Landed Weights	Unaudited 2015	% of Total Landed Weights
Honolulu International Airport	14,645,515	63%	15,020,765	63%	16,136,632	64%	16,239,285	64%	16,528,924	62%
All Other Airports	8,526,267	37%	8,853,192	37%	9,075,102	36%	9,020,105	36%	9,920,013	38%
Total Landed Weights	23,171,782	100%	23,873,957	100%	25,211,734	100%	25,259,390	100%	26,448,937	100%

	Fiscal Year Ending June 30,									
	2011	% of Total Landed Weights	2012	% of Total Landed Weight	2013	% of Total Landed Weights	2014	% of Total Landed Weights	2015	% of Total Landed Weights
Overseas	13,565,045	59%	14,038,159	59%	15,180,746	60%	15,300,279	61%	16,190,994	61%
Interisland	9,606,737	41%	9,835,798	41%	10,030,988	40%	9,959,111	39%	10,257,943	39%
Total Landed Weights	23,171,782	100%	23,873,957	100%	25,211,734	100%	25,259,390	100%	26,448,937	100%

Source: Department of Transportation – Airports Division Planning Section

Airline Service and Passenger Activity Operations

Air transportation in Hawaii is characterized by three types of service: (1) domestic in-State service among the islands in Hawaii and airports in the Airports System, 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, Oceania, and Canada. Interisland service accounted for 43.1% of enplaned passengers in fiscal year 2014. Overseas service, including flights to both the continental United States and international destinations, accounted for 56.9% and 58.05% of enplaned passengers in the Airports System for fiscal years 2014 and 2015, respectively. The number of passengers enplaned in the Airports System in fiscal year 2015 increased 2.5% over fiscal year 2014. This increase is primarily due to increased traffic from overseas passengers.

Honolulu International Airport is served by 31 Signatory Airlines (as parties to separate airport-airline lease agreements described below. Of the Signatory Airlines 26 are passenger airlines, including 10 major domestic and national U.S. airlines (including airlines with multiple leases following mergers), two airlines that only provide interisland service, and 14 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 15 airlines, including eight major and national airlines, four regional and commuter airlines, and two foreign-flag airlines.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2015: Air Canada, Air New Zealand, Ltd., Air China Limited, Air Japan, Inc., Air Pacific, Ltd., Alaska Airlines, Inc., Allegiant Air, L.L.C., All Nippon Airways Co., Ltd., American Airlines, Inc., Asiana Airlines, Inc., China Airlines, Ltd., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Japan Airlines International Company, Ltd., Jet Star Airways, Korean Airlines Company, Ltd., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, United Airlines, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Hawaii Island Air, Inc., and Mokulele Flight Service, Inc.

In fiscal year 2015, interisland flights accounted for 32% of enplaned passengers at Honolulu International and 42% of all enplaned passengers in the Airports System. Overseas (both domestic and international) flights accounted for 68% of enplaned passengers at Honolulu International and 58% of enplaned passengers in the Airports System. The share of overseas passengers enplaned at the primary airports, excluding Honolulu International, are relatively the same for fiscal year 2014 and 2015. The share of interisland passengers at the primary airports, excluding Honolulu International, decreased slightly from 56.9% in fiscal year 2014 to 54.5% in fiscal year 2015. Hawaiian Airlines had 51% market share of all enplaned passengers followed by United Airlines 11%, Delta Air Lines 8%, American Airlines 7%, Alaska Airlines 7%, Japan Airlines 3%, Hawaii

Island Air 3% and Mokulele Flight Services 2%. Other airlines had 8% market share of enplaned passengers in the Airports System.

Since March 2008, Hawaiian Airlines, Inc. has provided the majority of all interisland service within the State. In fiscal year 2015, Hawaiian Airlines had the largest market share of enplaned passengers in the Airports System, with a 51% share.

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.

The following tables present the landed weights and enplaned passengers for each of the Signatory Airlines and the Nonsignatory Airlines in fiscal years 2011 through 2015.

TABLE 3
LANDED WEIGHTS AT AIRPORTS SYSTEM
(1,000 pound units)
Fiscal Year Ended June 30,

	2011	2012	2013	2014	Unaudited 2015
Signatory Airlines					
Hawaiian Airlines, Inc.	8,454,926	9,005,831	9,772,907	9,929,976	10,703,015
United Airlines, Inc. (1)	2,458,698	2,333,376	1,999,497	2,029,799	2,608,999
Delta Airlines, Inc. (2)	1,735,415	1,762,399	1,898,870	1,718,355	1,885,065
Alaska Air, Inc.	710,352	965,664	1,215,373	1,113,837	1,156,009
American Airlines, Inc.	1,050,952	976,450	980,788	1,004,618	1,027,364
Aeko Kula, Inc. (3)	0	127,426	802,579	962,754	1,043,583
Japan Airlines International Co., Ltd. (4)	439,967	770,265	719,597	908,241	946,723
United Parcel Service Co.	728,123	766,787	768,419	763,276	805,546
Federal Express Corporation	749,309	733,107	747,947	754,655	646,953
Continental Airlines, Inc. (1)	587,617	706,114	880,206	740,948	286,361
Hawaii Island Air, Inc. (5)	0	288,317	480,327	560,258	621,815
Korean Airlines Company, Ltd.	282,281	376,986	441,009	487,013	436,743
Mesa Airlines, Inc. (6)	762,622	676,800	676,283	400,487	0
US Airways, Inc.	399,470	386,892	395,208	393,624	416,196
Mokulele Flight Service, Inc.	127,075	130,620	192,712	291,873	309,808
China Airlines, Ltd.	161,609	209,698	219,858	248,972	208,562
Westjet	160,665	199,158	217,976	239,448	245,021
JetStar Airways	0	0	0	0	237,306
Qantas Airways, Ltd.	193,368	203,104	224,320	198,264	206,248
Kalitta Air, LLC	184,206	154,394	177,252	186,026	207,102
Air Canada	192,640	200,640	181,120	174,080	198,400
All Nippon Airways Co. Ltd.	221,584	244,140	219,580	121,660	124,160
Asiana Airlines, Inc. (7)	0	3,298	138,933	120,381	107,189
Allegiant Air LLC (8)	0	396	112,266	103,356	93,852
Philippine Airlines, Inc.	233,152	100,491	68,128	87,552	110,272
Air Japan Co., Ltd (9)	0	0	0	77,440	116,800
Air New Zealand, Ltd.	37,760	40,930	52,125	58,659	64,765
Evergreen International	139,230	35,280	7,326	29,304	0
Air China Limited (10)	0	0	0	27,628	66,066
Air Pacific, Ltd.	21,984	21,776	21,648	21,664	21,872
Polar Air Inc. (11)	0	0	10,281	666	25,974
Pacific Wings LLC	31,790	51,264	43,894	289	0
Continental Micronesia	79,334	0	0	0	0
Jalways Company, Ltd. (4)	476,534	0	0	0	0
North American Airlines	3,720	630	1,600	0	0
Total Then-Current Signatory Airlines	20,624,383	21,472,233	23,668,029	23,755,103	24,927,768
Total Then-Current Nonsignatory Airlines	2,547,399	2,401,724	1,543,705	1,504,289	1,521,169
Total All Airlines	23,171,782	23,873,957	25,211,734	25,259,392	26,448,937(12)

Footnotes on the following page

Source: Department of Transportation – Airports Division Planning Section.

(1) Continental Airlines merged with United Airlines effective October 1, 2010. Data still separated for reporting.
(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. Data for fiscal years beginning 2011 reflect operations under the single name.
(3) Signatory Airline status effective May 1, 2012.
(4) 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.
(5) Signatory Airline status effective January 1, 2012.
(6) Signatory Airline status effective April 1, 2006, ceased operations in Hawaii on March 31, 2014.
(7) Signatory Airline status effective June 1, 2012.
(8) Signatory Airline status effective June 22, 2012.
(9) Signatory Airlines status effective November 1, 2013.
(10) Signatory Airlines status effective January 20, 2014.
(11) Signatory Airline status effective March 1, 2013.
(12) Totals may not add up due to rounding.

TABLE 4
ENPLANED PASSENGERS AT AIRPORTS SYSTEM
Fiscal Year Ended June 30,

	2011	2012	2013	2014	Unaudited 2015
Signatory Airlines					
Hawaiian Airlines, Inc.	7,279,399	7,484,876	8,118,433	8,238,027	8,563,446
United Airlines, Inc. (1)	1,792,669	1,724,909	1,461,489	1,365,500	1,884,224
Delta Airlines, Inc. (2)	1,318,464	1,234,774	1,233,540	1,191,308	1,301,125
Alaska Air, Inc.	725,059	985,009	1,192,957	1,130,377	1,184,524
American Airlines, Inc.	819,242	739,232	759,065	772,626	759,699
Japan Airlines International Co., Ltd. (3)	298,184	512,852	492,660	536,935	539,209
Continental Airlines, Inc. (1)	401,102	486,462	656,522	506,040	0
Hawaii Island Air, Inc. (4)	404,299	396,273	331,045	353,790	431,518
Korean Airlines Company, Ltd.	142,836	182,894	219,727	222,972	224,362
Mesa Airlines, Inc. (5)	564,804	508,184	518,975	310,882	0
US Airways, Inc.	312,189	320,363	333,044	337,721	341,720
Mokulele Flight Service, Inc.	103,513	104,594	169,392	239,684	250,626
China Airlines, Ltd.	93,988	113,997	116,561	128,537	125,650
Westjet	147,378	185,163	199,665	221,106	221,581
JetStar Airways	43,703	56,339	76,378	94,944	114,396
Qantas Airways, Ltd.	35,375	36,609	36,260	35,071	42,561
Air Canada	119,331	129,202	118,652	96,850	133,449
All Nippon Airways Co. Ltd.	128,338	149,209	149,848	143,200	151,587
Asiana Airlines, Inc. (6)	0	18,545	64,698	59,584	59,246
Allegiant Air LLC (7)	0	331	102,554	94,439	89,322
Philippine Airlines, Inc.	29,937	29,463	28,317	31,239	38,120
Air Japan Co., Ltd (8)					
Air New Zealand, Ltd.	24,864	27,029	31,642	35,801	39,387
Air China Limited (9)	0	0	0	9,950	24,886
Air Pacific, Ltd.	11,178	14,191	14,473	14,783	15,762
Pacific Wings LLC	20,308	36,052	34,783	40	0
Continental Micronesia	53,537	0	0	0	0
Jalways Company, Ltd. (4)	341,522				
Total Then-Current Signatory Airlines	15,211,219	15,476,552	16,460,680	16,171,406	16,536,400
Non-Signatory Airlines					
Makani Kai Helicopters	0	0	611	27,918	44,165
Omni Air International	56,188	53,889	47,097	50,294	49,164
China Eastern	0	19,401	28,427	38,194	44,451
Big Island Air	5,752	5,351	3,523	3,511	4,262
Air Transport International	2,540	2,218	1,935	2,373	2,686
Trans Air	6,593	2,010	486	1,301	1,667
Strategic	0	6,870	0	0	0
AirMed Hawaii	0	5	0	0	0
Total Then-Current Nonsignatory Airlines	71,073	89,744	82,079	123,591	146,395
Total All Airlines	15,282,292	15,566,296	16,542,759	16,294,997	16,682,795

Footnotes on the following page

(1) Continental Airlines merged with United Airlines effective October 1, 2010. Data still separated for reporting.
(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. Data for fiscal years beginning 2011 reflect operations under the single name.
(3) 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.
(4) Signatory Airline status effective January 1, 2012.
(5) Signatory Airline status effective April 1, 2006, ceased operations in Hawaii on March 31, 2014.
(6) Signatory Airline status effective June 1, 2012.
(7) Signatory Airline status effective June 22, 2012.
(8) Signatory Airlines status effective November 1, 2013.
(9) Signatory Airlines status effective January 20, 2014.

FINANCIAL INFORMATION

General

State law and the Director's Certificate require the State to operate the Airports System on a self-sustaining basis. The Director's 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 Director's 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.

Net Revenues and Taxes and Debt Service Requirements

As shown in the Table 5, "CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT," the relative importance of each source of Revenue has varied, and is expected to vary, over time. Variations are caused by many factors, including, without limitation, 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 Table 5 represents a summary of Revenues, Net Revenues and Taxes and Debt Service Requirement on Airports System Revenue Bonds for the fiscal years 2011 through 2015. Airports Division's major sources of revenue follows:

TABLE 5
CALCULATIONS OF NET REVENUES AND TAXES AND
DEBT SERVICE REQUIREMENT
(in thousands)

	Fiscal Year Ending June 30,				
	2011	**2012**	**2013**	**2014**	**Unaudited 2015**
Revenues and Taxes:					
Concession fees:					
Duty-free	$ 37,525	$ 41,088	$ 41,338	$ 34,512	$ 32,300
Other concessions	94,641	102,485	110,053	109,058	116,535
Airport landing fees	60,097	59,640	59,874	52,930	57,924
Aeronautical rentals	92,464	88,715	103,360	93,896	105,297
Non-aeronautical rentals	13,350	13,417	14,241	14,467	15,003
Aviation fuel tax	4,141	4,338	4,674	4,847	4,455
Airports system support charges	711	421	1	0	31
Interest income (1)	5,976	1,989	1,991	2,064	3,140
Federal operating grants	5,034	3,315	5,039	2,656	3,078
Miscellaneous	8,700	4,134	5,047	7,414	6,289
Business interruption insurance recovery	0	0	19,000	0	0
Total Revenues and Taxes	322,639	319,542	364,618	321,844	344,052
Operating and maintenance expenses:					
Salaries & wages	72,325	75,670	83,989	82,780	90,262
Other personnel services	50,533	48,683	52,602	50,588	54,467
Utilities	39,981	47,263	50,360	48,882	41,739
Repairs & maintenance	14,722	16,696	20,181	29,270	30,373
Special Maintenance	10,307	9,109	6,550	4,459	8,682
DOT administrative expenses	4,836	5,182	5,445	6,555	5,078
State of Hawaii surcharge of gross receipts	12,018	13,709	12,474	12,261	12,568
Materials and supplies	4,143	5,040	5,557	6,304	6,114
Insurance	3,210	3,169	3,189	2,412	2,412
Others	3,302	3,158	3,961	3,370	3,431
Total operating & maintenance expenses (2)	215,377	227,679	244,308	246,881	255,126
Major maintenance, renewal and replacement account reserve reimbursement	2,913	2,545	20	101	27
Total Deductions	218,290	230,224	244,328	246,982	255,153
Net Revenues and Taxes	104,349	89,318	120,290	74,862	88,899
Funded coverage account (3)	19,373	19,311	21,223	19,311	19,311
Adjusted Net Revenues and Taxes (A)	123,722	108,629	141,513	94,173	108,210
Debt service requirement:					
Airports systems revenue bonds	60,689	65,018	81,010	76,624	77,086
Less credits to the interest account (4)	0	0	0	0	0
Less airlines interest expense (5)	0	0	0	(19,000)	(18,500)
Total Debt Service Requirement (B)	$60,689	$65,018	$81,010	$57,624	$58,586
Debt Service Coverage (A)/(B)	2.04x	1.67x	1.75x	1.63x	1.85x
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) Includes rolling coverage.
(4) 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.
(5) In FY 2014 and FY 2015, the airlines operating at the Airports System contributed $19 million and $18.5 million, respectively, from the Prepaid Use Charge Fund to reduce their payments.

Revenues

The following describes the major sources of Revenues 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 2011 through 2014 at http://hidot.hawaii.gov/airports/library/financial-audit-reports/

Airports System Revenues consist of Operating Revenues and Nonoperating Revenues. Operating Revenues include the following revenue sources: concession fees (Duty-free, retail, food and beverage, parking, rental car, ground transportation, and other), landing fees, Aeronautical rentals (nonexclusive join-use premise charges and Exclusive-use premise charges pursuant to Airport-Airline lease agreements), Nonaeronautical rentals, Aviation Fuel Taxes, Airports System support charges, and miscellaneous fees. Nonoperating revenues include interest income (on investments, passenger facility charges, rental car customer facility charges, and other loans and investments), federal operating grants, passenger facility charges, rental customer facility charges, debt service support charges, and other revenues.

The Airports System's main sources of Revenues consist of: 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. The Governor is authorized by legislative action to adjust or waive landing fees and Airports System charges.

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 guaranty (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 2010 through 2015.

Concessions
Fiscal Year Ending June 30,

	2011		2012		2013		2014		Unaudited 2015	
	$ (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	37,525	11.6%	41,088	12.9%	41,338	11.3%	34,512	10.7%	32,300	9.4%
Rental Car	50,787	15.8	53,860	16.9	58,199	16.0	56,535	17.6	60,258	17.5
Parking	18,853	5.9	19,516	6.1	20,211	5.5	20,927	6.5	22,463	6.5
Retail (non-duty-free)	11,391	3.5	13,177	4.1	13,994	3.8	14,204	4.4	15,469	4.5
Food & Beverage	6,838	2.1	7,442	2.3	8,166	2.2	7,396	2.3	8,221	2.4
Ground Transportation	2,050	0.6	2,649	0.8	2,883	0.8	3,333	1.0	3,005	0.9
Other	4,722	1.5	5,841	1.8	6,600	1.8	6,663	2.1	7,119	2.1
Total Concession Revenues	132,166	41.0%	143,573	44.9%	151,391	41.4%	143,570	44.6%	148,835	43.3%

Source: Department of Transportation – Airports Division: Audited Financial Statements and work paper support for the Fiscal Years 2011 to 2014, unaudited financial statement for fiscal year 2015.

Duty-free Concession. The exclusive concession contract for the sale of in-bond (duty-free) merchandise has, in recent years, been the largest single concessionaire source of concession revenues for the Airports System. DFS Group, L.P. ("DFS") operates the in-bond concessions at Honolulu International (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. 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 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 was established at $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 presently 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. Duty-free concession revenues increased to $41 million per year for contract years ended May 31, 2012 and May 31, 2013. Average spending by Japanese visitors has declined recently due to the depreciation of the Japanese currency (Yen). As a result, duty-free concession revenues decreased by 16.5% from $41.3M in the contract year ended May 31, 2013 to $34.5M in the contract year ended May 31, 2014, and further declined to the MAG of $32.3 million (unaudited) for the contract year ended May 31, 2015.

Effective October 31, 2014, the in-bond concession contract was amended to provide for the following: (1) The term of the contract was extended through May 31, 2027, (2) the MAG shall be as follows: (a) for the period from June 1, 2017 through May 31, 2019, $40 million, (b) for the period of June 1, 2019 through May 31, 2020, $47.5 million, (c) for the period June 1, 2020 through May 31, 2021, 85% of the actual annual fee paid and payable (either MAG or percentage) for the previous year, (d) for the period of June 1, 2021 through May 31, 2022, the same as the previous year, (e) for the period of June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable for the previous year, (f) for the period from June 1, 2023 through May 31, 2027, the same as the MAG for the period of June 1, 2022 through May 31, 2023, (3) the percentage fees for the extension period will be set at 30% of gross receipts from on-airport sales and 18% of gross receipts from off-airport sales, and (4) percentage fee for merchandise converted from duty free status to duty paid status shall be 1.25%, and (5) the concession fee for items that are “High Price/Low Margin Merchandise” shall be 2.5% of the gross receipts from the sale. In addition, DFS agreed to pay $27.9 million for improvements to the Central Waiting Lobby Building at Honolulu International.

Rental Car Concessions. In fiscal years 2013, 2014 and 2015 (unaudited), car rental concession revenues were $58.2 million, $56.5 million and $60.3 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.

The Airports Division has entered into the new ConRAC Leases covering rental car facilities at Honolulu International and Kahului for the period effective June 1, 2015. Once completed, all on-airport rental car concessions at Honolulu International and Kahului will operate from the ConRAC.

Five-year car rental concession agreements were in effect on through May 31, 2015, 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 five-year car rental concession agreement was in effect at Molokai Airport with Alamo as the sole on-airport car rental operator. The Department is negotiating new car rental concession agreements for these airports with operators.

Off-airport rental car operations pay fees in accordance with Chapter 19-20.1 of the Hawai‘i Administrative Rules. The rules provide that an off-airport operator must 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 at airport locations. CFCs are not considered, and are not included in determining, Revenues of the Airports System.

Parking. Parking facilities at Honolulu International, Lihue, Hilo, Kona and Kahului are managed by ABM Parking Services (formerly Ampco System Parking). ABM took over the parking operation at Kahului Airport and Kapalua Airport from Standard Parking effective October 1, 2013. The Airports Division receives 80% of gross receipts from parking operations at Honolulu International and Kahului, 65% from Kona International and Lihue Airport, 55% from Hilo International and 50% from Kapalua.

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, 2029, with a MAG of approximately $4.8 million. Host also has food and beverage concession agreements at Kahului (expires September 30, 2022) and Lihue Airport (expires September 30, 2021). Volume Services dba Centerplate continues to operate food and beverages concessions at Hilo International and Kona under agreements that expire in December 2017. Food and beverage revenues decreased by 9.4% from $8.2 million in fiscal year 2013 to $7.4 million in fiscal year 2014 due to a decrease in passenger traffic, but recovered to $8.2 million in fiscal year 2015.

Retail (non duty-free). Non-duty-free retail concessions include revenues from retail shops and gift shops in the Airports System. DFS will operate the (non-duty-free) retail concession for Honolulu International, through March 31, 2025. DFS will pay to the Airports Division the greater of the MAG (set at $12.0 million for the period of April 1, 2015 through March 31, 2016) or 20% of gross receipts (percentage). In subsequent years, the MAG will be set at 85% of what was paid and payable in the prior concession year with the actual concession fee being the higher of the MAG or the percentage. DFS also operates retail concessions at Kahului. Travel Traders, Inc. will continue to hold the retail concession at Lihue Airport through June 30, 2016, as the Airports Division has exercised the holdover provision of the concession agreement. Tiare Enterprises, Inc. is seeking an extension of its concession agreement at Hilo International and Kona International. Retail concession revenues in fiscal year 2014 were $14.2 million, up from $14.0 million in fiscal year 2013 and increased further to $15.5 million in fiscal year 2015.

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, Wi-Fi service, and in-flight catering revenues. Other concession revenues are forecasted to increase due to inflation and increases in the number of enplaned passengers.

Aeronautical Revenues

Landing Fees. Under the terms of the Amended Lease Extension Agreements described below, the Signatory Airlines pay landing fees per 1,000 pounds of certificated gross aircraft landed weight to allow the Airports Division to recover certain operating, maintenance, and capital costs of runways, taxiways, and other airfield facilities, after crediting nonsignatory landing fee payments, and any federal grant reimbursements. Nonsignatory commercial airlines pay airport rates and charges equaling 125% of Signatory Airlines rates and charges, and small nonsignatory air operators pay lower rates and charges than the Signatory Airlines.

Aeronautical Revenues include nonexclusive joint-use premise charges, exclusive-use premises charges, and Airports System Support Charges generated pursuant to the Amended Lease Extension Agreements and the Hawaii Administrative Rules, Title 19, Subtitle 2 (the "Administrative Rules"). Exclusive-use premise charges are computed using a fixed rate per square footage per year. Airports System Support Charges 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 44% of Airports System Support Charges for overseas flights for fiscal year 2016. The following table sets forth the landing fees, aeronautical rentals and Support Changes and their percentage of total Revenues of the Airports System for fiscal years 2011 through 2015.

Aeronautical Revenues (Net of Aviation Fuel Tax Credit)

	Fiscal Year Ending June 30,									
	2011		2012		2013		2014		Unaudited 2015	
	$ (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	60,808	18.8%	60,060	18.8%	59,875	16.4%	52,930	16.4%	57,955	16.8%
Aeronautical rentals	92,464	28.7%	88,715	27.8%	103,360	28.3%	93,896	29.2%	105,297	30.6%
Total Aeronautical Revenues	153,272	47.5%	148,775	46.6%	163,235	44.7%	146,826	45.6%	163,252	47.5%

Source: Department of Transportation – Airports Division; Audited Financial Statements for fiscal years 2011 to 2014, unaudited financial statement for fiscal year 2015.

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, the "Signatory Airlines"). There are presently 31 Signatory Airlines, including 26 passenger airlines. Under each airport-airline 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 and to occupy certain premises and facilities in the Airports System.

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 and charges for overseas operations (both domestic and international). The Amended Lease Extension Agreement is extended automatically and the Department and each Signatory Airline may terminate the Amended Lease Extension Agreements upon 60 days prior written notice. 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 is 44% in fiscal year 2016, and is scheduled to increase 1% annually until it reaches 100%.

The Amended Lease Extension Agreement also established a new methodology to determine the rates and charges required to be paid by each of the Signatory Airlines, a cost center residual rate-setting methodology that apportions costs of specific Airports System facilities among the signatory airlines that directly use them. The rates and charges include: (1) landing fee charges recovered on a revenue landed weight basis, (2) exclusive use airline terminal rentals recovered on a per square foot basis, (3) joint-use premises charges based on a per enplaning or deplaning passenger basis, (4) international arrivals building charges recovered on a per deplaning international passenger basis, (5) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, and Airports System Support Charges recovered on a revenue landed weight basis.

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 reject a proposed project, such project is deferred, 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."

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 has revised the rates for nonsignatory commercial air carriers pursuant to Chapter 261-7(e), HRS, effective January 1, 2012.

In fiscal year 2014, 2015, and 2016, the Signatory Airlines, through the Airlines Committee of Hawaii, agreed to apply $19 million, $18.5 million, and $4.0 million (unaudited), respectively, of the PAUCF to reduce airline rates and charges. This amount is shown as a reduction to the Annual Adjusted Debt Service Requirements, as defined in the Certificate. Aeronautical revenues declined in fiscal year 2014, but increased in fiscal year 2015, as a result.

Aeronautical Revenues (Net of Aviation Fuel Tax Credit)

Fiscal Year Ending June 30,

	2011		2012		2013		2014		Unaudited 2015	
	$ (000s)	% of Total	$ (000s)	% of Total	$ (000s)	% of Total	$ (000s)	% of Total	$ (000s)	% of Total
Signatory	138,499	90.4%	131,432	88.3%	145,176	88.9%	129,837	88.4%	147,586	90.4
Non-Signatory	14,773	9.6%	17,343	11.7%	18,059	11.1%	16,989	11.6%	15,666	9.6
Total Aeronautical Revenues	153,272	100%	148,775	100%	163,235	100%	146,826	100%	163,252	100%

Prepaid Airlines Interest. The Amended Lease Extension Agreement requires that the Airports Division conduct a year-end settlement to determine over-or-under-collection of airline rates and charges. Pursuant to separate Prepaid Use Charge Fund (PAUCF) Agreements, any over-collection shall be deposited in the PAUCF, which is the property of the Signatory Airlines.

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 Airports System for fiscal years 2011 through 2015 unaudited).

Aviation Fuel Taxes

Fiscal Year Ending June 30,

	2011		2012		2013		2014		Unaudited 2015	
	$ (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	4,141	1.3%	4,338	1.4%	4,674	1.3%	4,847	1.5%	4,455	1.3%

Source: Department of Transportation – Airports Division; Audited Financial Statements for Fiscal Years 2011 to 2014 and 2015 (unaudited).

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.

Non-Aeronautical Revenues Other Than Concession Fees

Non-aeronautical rental revenues include revenues from rental car leases, certain utility reimbursements, and other leased facilities, such as hangars and cargo buildings occupied by nonairline tenants. Certain revenues are forecast according to the terms of the various agreements currently in effect and the additional revenues expected from agreements for new and expanded facilities. The terms of these leases range from 4 years to 15 years for concessionaires and up to 65 years for other airport tenants. Under the terms of the agreements, rental increases are adjusted in proportion with the consumer price index (i.e., inflation).

Miscellaneous Operating Revenues. The Airports Division has agreements with various other companies to provide the sale of utilities and other services, in addition to other miscellaneous income recognized through daily operations of the Airports System. Miscellaneous revenues are forecast to increase by 1.0% annually.

The following table set forth the Non-Aeronautical Revenues other than concession fees and its percentage of total Revenues for fiscal years 2011 through 2015.

Non-Aeronautical Revenues Other Than Concession Revenues

Fiscal Year Ending June 30,

	2011		2012		2013		2014		(Unaudited) 2015	
	$ (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	13,350	4.1%	13,417	4.2%	14,241	3.9%	14,467	4.5%	15,003	4.4%

Source: Department of Transportation – Airports Division; Audited Financial Statements for Fiscal Years 2011 to 2014 and 2015 (unaudited).

Other Non-Operating Revenues. Other non-operating revenues may include miscellaneous revenues, interest income and investment returns, federal operating and capital grants as reimbursements to such costs, Passenger Facility Charges and Rental Car Customer Facility Charges. Other non-operating revenues accounted for 3.1% of Revenue and Aviation Taxes in fiscal year 2014, and did not include any amount of Passenger Facility Charges and Rental Car Facility Charges.

Federal Operating Grants. Federal Aviation Administration grants under the Airport Improvement Program (AIP) are funded through the Federal Airport and Airway Trust Fund with revenues from federal aviation user fees and taxes. These FAA grants are to be used for airport infrastructure projects to enhance safety, security, capacity, and access, and are made available to airport operators in the form of FAA entitlement and discretionary allocations for AIP-eligible projects. In addition, the Airports Division receives grants from other federal and state agencies from time to time for eligible projects, including certain grants from the TSA for eligible baggage system related project costs.

Passenger Facility Charges. As described above, a Passenger Facility Charge ("PFC") is a charge imposed on enplaned passengers by the Airports Division to generate revenues for eligible airport projects that increase capacity, enhance competition among and between air carriers, enhance safety or security, or mitigate noise impacts. The FAA has approved the Airports Division's Application No. 5 to collect and use PFC's for Airports System Capital Projects.

Airports System Expenses

Airports System expenses consist of Operating expenses and Nonoperating expenses. Operating expenses include salaries and wages, other personnel services, utilities, repairs and maintenance, State surcharges on gross receipts, special maintenance, Departmental general administration expenses, materials and supplies, insurance and other expenses. Nonoperating expenses include interest expenses for Airports System Revenue and Special Facility Bonds, interest on Lease revenue certificates of participation, loss on disposal of capital assets, and Bond issue costs.

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

Airports System operating expenses are composed primarily of salaries and wages, other personal services, utilities, repairs and maintenance and other expenses. In fiscal years 2012 and 2013, cost of operation, maintenance and repair were $227.7 and $244.3 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 employee furloughs.

Operating expenses excluding depreciation increased by 3.3% from $246.9 million in fiscal year 2014 to $255.1 million in fiscal year 2015 (unaudited). The increase in operating expenses is due to an increase in salaries and wages, other personal services and special maintenance expenses, offset by a decrease in utilities. Salaries and wages increased by $7.5 million due to an increase in salary levels, benefits and the total number of employees. Other personnel services expenses increased by $3.9 million due to wage increases for the security and bus contracts, and other inflation adjustments, for a majority of the contracts. Utilities expenses decreased by $7.1 million due to savings from the Energy Savings Performance Contract project with Johnson Controls, Inc. that started in January 2014, as well as lower utility rates resulting from a decline in oil prices. Special maintenance expense increased by $4.2 million due to an increase in capitalized costs included in construction in progress for fiscal year 2015.

Debt Service Coverage

As reflected in Table 5, debt service coverage exceeded the Certificate requirement of 1.25 times Net Revenues and Taxes for the fiscal years 2011 through 2015. Annual Adjusted Debt Service Requirements exclude capitalized interest and certain amounts deposited into the Interest Account, as permitted under the Certificate.

Cash and Cash Equivalents

The following table presents a summary of cash and cash equivalents and investments for fiscal years 2011 to 2015.

TABLE 6
SUMMARY OF CASH AND CASH EQUIVALENTS AND INVESTMENTS

	Fiscal Year Ended June 30,				
	2011	**2012**	**2013**	**2014**	**Unaudited 2015**
Petty Cash	$ 17,805	$ 4,765	$ 4,765	$ 4,765	$ 4,765
Cash in State Treasury	1,001,331,865	1,029,964,060	1,094,427,316	1,093,626,391	1,046,533,050
Repurchase agreements	15,832,450	18,298,726	18,298,726	0	18,298,726
Certificates of deposit	81,060,558	78,594,282	78,594,282	96,893,008	78,594,282
Money market funds	0	0	0	150,067,396	39,253,306
	$1,098,242,678	$1,126,861,833	$1,191,325,089	$1,340,591,560	$1,182,684,129
Reflected in the balance sheet as follows:					
Cash and cash equivalents:					
Unrestricted	$494,704,677	$549,278,665	$571,171,775	$569,949,289	$550,385,075
Restricted	506,644,993	480,690,160	523,260,306	523,681,867	496,152,740
Total cash and cash equivalents	$1,001,349,670	$1,029,968,825	$1,094,432,081	$1,093,631,156	$1,046,537,815
Investments – restricted	96,893,008	96,893,008	96,893,008	96,893,008	96,893,008
COP funds – trustee	0	0	0	150,067,396	38,991,480
EB5 Loan – trustee	-	-	-	0	261,826
Total cash, cash equivalents and investments	$1,098,242,678	$1,126,861,833	$1,191,325,089	$1,340,591,560	$1,182,684,129

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 2010 to 2014 and 2015 (unaudited).

Outstanding Airports System Revenue Bonds

As of July 2, 2015, $807.8 million of Airports System Revenue Bonds were outstanding. All Bonds were issued as fixed rate debt. On April 7, 2010, the Airports Division issued $645 million in Airports System Revenue Bonds of which $397 million was for Airport Modernization Projects. $191 million was used to refinance the Airports System Revenue Bonds Refunding Series 2000A and 2000B. On October 4, 2011, the Airports Division issued $300,885,000 of Airports System Revenue Bonds Refunding Series of 2011 at interest rates ranging from 2% to 5%. At June 30, 2015 and 2014, the balance of legislatively approved and appropriated but unissued Airports System Revenue Bonds was $1,179,960,581 and $662,157,129, respectively. The Department anticipates issuing Additional Bonds to finance a portion of future CIPs. See “CAPITAL IMPROVEMENTS PROGRAM.”

The following table sets forth the principal and interest requirements for the Bonds following issuance of the Series 2015 Bonds.

TABLE 7
TOTAL BONDS DEBT SERVICE[1, 2]

FYE 30-Jun	Prior Bonds Debt Service	Series 2015A Bonds Principal	Series 2015A Bonds Interest	Series 2015B Bonds Principal	Series 2015B Bonds Interest	Total Bonds Debt Service
2016	$ 77,245,020	--	$ 7,273,520	--	$226,097	$84,744,637
2017	77,244,470	--	11,742,006	--	365,000	89,351,476
2018	77,244,520	--	11,742,006	--	365,000	89,351,526
2019	77,243,670	--	11,742,006	--	365,000	89,350,676
2020	77,245,070	--	11,742,006	--	365,000	89,352,076
2021	77,244,145	--	11,742,006	--	365,000	89,351,151
2022	77,240,558	--	11,742,006	--	365,000	89,347,564
2023	77,244,558	--	11,742,006	--	365,000	89,351,564
2024	77,240,658	--	11,742,006	--	365,000	89,347,664
2025	38,819,108	--	11,742,006	--	365,000	50,926,114
2026	38,823,488	--	11,742,006	--	365,000	50,930,494
2027	38,812,970	--	11,742,006	--	365,000	50,919,976
2028	38,816,370	--	11,742,006	--	365,000	50,923,376
2029	38,803,945	--	11,742,006	--	365,000	50,910,951
2030	38,808,750	--	11,742,006	--	365,000	50,915,756
2031	38,817,355	--	11,742,006	--	365,000	50,924,361
2032	38,811,855	--	11,742,006	--	365,000	50,918,861
2033	38,819,105	--	11,742,006	--	365,000	50,926,111
2034	38,810,355	--	11,742,006	--	365,000	50,917,361
2035	38,813,105	--	11,742,006	--	365,000	50,920,111
2036	38,808,355	--	11,742,006	--	365,000	50,915,361
2037	38,819,245	--	11,742,006	--	365,000	50,926,251
2038	38,814,455	--	11,742,006	--	365,000	50,921,461
2039	38,810,725	--	11,742,006	--	365,000	50,917,731
2040	--	$ 34,570,000	11,742,006	$1,375,000	365,000	48,052,006
2041	--	36,295,000	10,013,506	1,430,000	310,000	48,048,506
2042	--	38,110,000	8,198,756	1,490,000	252,800	48,051,556
2043	--	40,020,000	6,293,256	1,545,000	193,200	48,051,456
2044	--	42,020,000	4,292,256	1,610,000	131,400	48,053,656
2045	--	44,120,000	2,191,256	1,675,000	67,000	48,053,256
TOTAL	**$1,277,401,855**	**$235,135,000**	**$320,070,702**	**$9,125,000**	**$9,940,497**	**$1,851,673,054**

[1] Numbers for each Fiscal Year reflect payments of interest on the Bonds in January 1 of each Fiscal Year and payments of principal of and interest on the Bonds made on July 1 of the following Fiscal Year.
[2] Totals may not add due to rounding.
Source: Department of Transportation - Airports Division

No Obligations Subject to Mandatory Purchase or Acceleration. The Department currently has no outstanding variable rate obligations subject to purchase by the Department upon an event of default and no direct bank loans or other obligations subject to acceleration upon an event of default which are, in either case, secured or otherwise supported by the Revenues and Aviation Fuel Taxes.

Lease Revenue Certificates of Participation. Section 36-41 HRS, authorizes the Department to enter into multi-year energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in State facilities. The Department entered into a contract with energy saving projects (the ESCO Project) in May 2011, and selected Johnson Controls, Inc. (JCI) in January 2012 for the Department for the Airports System issued Series 2013 Lease Revenue Certificates of Participation (COPs) with a par value of $167.7 million in December 2013 to finance the ESCO project. The Department is using the net proceeds of COPs, totaling $150.2 million, to implement the ESCO Project, and expects to complete the ESCO

Project in December 2015. JCI has agreed in the contract to guaranty utility savings at approximately 91.7% of expected annual energy costs, which are expected to exceed annual debt service on COPs.

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 future CIPs comprising the Airline Projects. 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, 2014 and 2013, there were outstanding Special Bond Obligations of $29,130,000 and $30,100,000, respectively. The Department 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.*

Customer Facility Charge Revenue Bonds. In August 2014, the Department completed a special facility financing by entering into a loan agreement with Hawaii Regional Center, LP I and LP IA to borrow up to $76 million under the EB-5 Immigration Investor Program (the "EB5 Loan") for the ConRACs. The EB-5 Loan is secured by CFC collections and is not secured by the Revenues and Aviation Fuel Taxes.

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 or outstanding for the Airports System.

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 $1,019,308. 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 service 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 $21.2 million, $19.4 million and $19.5 million, and for the Airports System as a whole $39.4 million, $35.5 million and $35.3 million in fiscal years 2011, 2012 and 2013, 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

Employees' Retirement System. 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 (the "Retirement System" or "ERS") and are also entitled to health care and life insurance benefits afforded to all State employees. Department employees hired after June 30, 1984, participate in a non-contributory retirement plan. Employees hired before that date were given the option of remaining in a contributory retirement plan or joining the new non-contributory plan.

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

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

Act 163, SLH 2011, also reduced the investment yield rate assumption for fiscal year 2011 from 8 percent to 7.75 percent and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the Retirement System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the Retirement System, the Board of Trustees adopted the assumption recommendations set forth in the 2010 Experience Study, including continuing the investment yield rate assumption of 7.75 percent. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012, and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

The required pension contributions by the Airports Division to the ERS for the years ended June 30, 2014, 2013 and 2012 were $9,030,263, $8,647,308 and $7,683,738, respectively, which represented 17.53%, 18.60% and 16.05% of covered payroll for each of the years then ended.

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 increased to 15.5 percent effective July 1, 2012, and increased by 0.5 percent each fiscal year until July 2, 2015, when the rate is now 17.0 percent of payroll. The employer contribution rate for Airports Division fire and rescue employees increased to 22.0 percent effective July 1, 2012, and increased by 0.5 percent each fiscal year until July 2, 2015, when the rate is now 25.0 percent of payroll.

The total assets of the Retirement System on a market value basis amounted to approximately $12.4 billion as of June 30, 2013, $14.2 billion as of June 30, 2014, and $14.4 billion as of June 30, 2015 (unaudited). The actuarial certification of assets as of June 30, 2013, was $12.7 billion and its unfunded actuarial accrued liability was $8.49 billion. The actuarial certification of assets as of June 30, 2014, was $13.64 billion, and its unfunded actuarial accrued liability was $8.58 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 actuarial investment assumption. On September 23, 2014, the ERS Trustees approved a reduction of the investment yield rate from 7.75% for the June 30, 2014 valuation, to 7.65% for the June 30, 2015 valuation, to 7.55% for the June 30, 2016 valuation, and to 7.50% for the June 30, 2017 valuation. 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.

The State anticipates that as the percentage of employees hired after July 1, 2012, increases, and new funding policies of the higher contribution rates and prefunding unfunded liabilities are implemented, the State will be able to amortize the UAAL fully over a 26 year period rather than the previously anticipated 40 year period. Assuming a constant employment base the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2023. The combination of higher contribution policies and new benefit structure for future employees will enable the ERS to absorb its prior adverse experience over the 26 year term.

Other Post Employment Benefits. 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 provided costs based on stated actuarial assumptions with no prefunding of the annual required contribution. The report stated that the State's actuarial accrued liabilities as of July 1, 2011, were $13.57 billion, and the corresponding annual contribution required for fiscal year 2011 would be $994.9 million. The estimated pay-as-you-go funding amount for such fiscal year is $311.5 million. The actuarial report is updated every two years. In the past the State has funded its OPEB costs on a pay-as-you-go basis. However, the State has begun the process of pre-funding OPEB with appropriations authorized by Act 134, SLH 2013, of $100 million for fiscal year 2014 and $117.4 million for fiscal year 2015. In addition, the State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. Act 268, SLH 2013, established a task force to examine the unfunded liability of the EUTF, required the EUTF to establish a separate trust fund for public employer contributions with separate accounts for each public employer and required the annual public employer contribution to be equal to the amount determined by an actuary commencing with the FY 2018-2019. There is a schedule to phase in the annual required contribution as follows:

Fiscal Year	Annual Required Contribution
2014-2015	20%
2015-2016	40%
2016-2017	60%
2017-2018	80%
2018-2019	100%

If the State public employer contributions into the fund are less than the amount of the annual required contribution commencing with the FY 2018-2019, general excise tax revenues will be used to supplement State public employer contribution amounts. If the county public employer contributions into the fund are less than the amount of the annual required contribution commencing with the FY 2018-2019, transient accommodations tax revenues will be used to supplement county public employer contribution amounts. This statute also requires the Director of Finance to report to the Legislature on an implementation plan to have both the EUTF and the ERS jointly sharing investment information and services for the benefit of the Trust Fund.

Measurement of the actuarial valuation and the annual required contribution (ARC) for OPEB costs are made for the State as a whole and are not separately computed for the individual State departments. The State allocates the ARC to the various departments and agencies. The Airports Division's contribution for the fiscal years ended June 30, 2014 and June 30, 2013 was $5,263,650 and $5,136,952, respectively, which represented 34% and 27%, respectively, of the Airports Division's share of the Department's ARC for OPEB costs of $15,507,713 and $18,789,218, respectively.

The State's current practice is to assess all departments, including the Department, a fixed percentage of payroll to cover all fringe benefits, including the employer's share of social security tax, Medicare, retirement benefits for both employees and retirees, the employees' health fund and OPEB cost. The fringe benefit rate was

42.49% of covered payroll for fiscal year 2015 and the interim fringe benefit rate for fiscal year 2016 is 42.99% of covered payroll.

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.

REPORT OF THE CONSULTING ENGINEER

General

The Airports Division retained LeighFisher to serve as the Consulting Engineer in connection with the issuance of the Series 2015 Bonds. The Report of the Consulting Engineer is attached as Appendix A. The Report of the Consulting Engineer has been included in reliance upon the knowledge and experience of LeighFisher as the Consulting Engineer. As stated in the Report of the Consulting Engineer, any forecast is subject to uncertainties. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material. The Report of the Consulting Engineer should be read in its entirety for an understanding of the forecasts and underlying assumptions. Any description or summary of the Report of the Consulting Engineer in this Official Statement is qualified in its entirety by reference to such report.

The Report of the Consulting Engineer has not been updated to reflect the final terms of the Bonds or other changes occurring after the date of the Report of the Consulting Engineer. The Report of the Consulting Engineer is based on a number of assumptions and contains forecasts and statements relating to operating and financial results that may not be realized. The assumptions used reflect the best information available to the Department and reliance on the knowledge and experience of the Consulting Engineer. The Department's future operating and financial performance, however, may vary from the forecasts and such variances may be material.

Forecast of Debt Service Coverage

The following table sets forth the Consulting Engineer's projections of Net Revenues and Taxes and debt service coverage for fiscal years 2016 through 2022 that are based on: the assumptions discussed in the Report of the Consulting Engineer.

For an explanation of the projected debt service coverage and of the assumptions behind the calculations of debt service coverage, see Appendix A – Report of the Consulting Engineer.

TABLE 8
PROJECTED DEBT SERVICE COVERAGE[1]
(for the 12 months ending June 30, net of capitalized interest; in thousands)

Debt Service Coverage	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Revenues and Aviation Fuel Taxes	$368,258	$393,473	$419,160	$454,315	$466,712	$484,454	$495,312
Costs of Operation, Maintenance and Repair	(260,782)	(273,306)	(287,788)	(306,809)	(323,831)	(337,657)	(352,440)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	(500)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Reimbursement of General Fund of the State	-	-	-	-	-	-	-
Net Revenues and Taxes	$106,976	$117,167	$128,372	$144,506	$139,881	$143,797	$139,872
Funded Coverage Account Balance (2)	20,146	22,285	25,154	30,359	30,512	30,512	30,512
Adjusted Net Revenues and Taxes	$127,122	$139,452	$153,526	$174,865	$170,394	$174,309	$170,384
Annual Adjusted Debt Service Requirement							
Gross Debt Service	$ 80,583	$ 89,140	$100,618	$121,436	$122,049	$122,048	$122,044
Prepaid Interest	(4,000)	-	-	-	-	-	-
Available PFC Revenues	(321)	(1,776)	(3,959)	(9,035)	(15,615)	(15,615)	(20,239)
Annual Adjusted Debt Service Requirement	$ 76,262	$ 87,364	$ 96,659	$112,401	$106,434	$106,433	$101,805
Debt Service Coverage (Must Be No Less Than 1.25)	1.67	1.60	1.59	1.56	1.60	1.64	1.67

(1) As of the date of the Report of the Consulting Engineer; totals may not add due to rounding.
(2) Indicates the amount of unencumbered funds certified by the Airports Division for the purposes of the Rate Covenant.

CERTAIN INVESTMENT CONSIDERATIONS

The Bonds may not be suitable for all investors. Prospective purchasers of the Certificates 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 Certificates. 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 debt service on the 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 to pay all expenses of the Airports System, there is no assurance that such imposition will result in the generation of Revenues and Aviation Fuel Taxes in the amounts required. As a result, the Rate Covenant does not constitute a guarantee that sufficient Revenues and Aviation Fuel Taxes will be available to make debt service payments on the Bonds.

The operations of the Airports System and the Department's 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. The Department cannot provide any assurance 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 charges would not be reasonable. Under such circumstances, there could be delays or reductions in payments on the 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 Bonds.

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, (xi) availability of employees and labor relations within the airline industry, (xii) environmental risks, noise abatement and air pollution abatement and regulation, (xiii) acts of war or terrorism, (xiv) aviation accidents, and (xv) other risks related to the airline industry.

The near-term economic outlook for the national and State economies following the 2008-2009 recession includes recovery and continued growth. Since 2001, the global airline industry has undergone substantial structural changes and fluctuating profitability.

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.

Effects of Bankruptcy. 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. Mesa Air Group's, Mesa's go!-Mokulele joint venture ceased operations in Hawaii on April 1, 2014. As described above Japan Airlines filed for rehabilitation, a court-led restructuring similar to a Chapter 11 filing in the United States in January 2010, consolidated its operations with Jalways Company, emerged from bankruptcy protection in 2011 and was relisted on the Tokyo Stock Exchange in 2012. Service by Japan Airlines is expected to continue uninterrupted, and 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 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.

As described above American Airlines filed for Chapter 11 bankruptcy protection in November 2011. On February 14, 2013, American Airlines announced a proposed merger agreement with US Airways to be implemented as a part of American Airlines' plan of reorganization, which was confirmed by the bankruptcy court on September 12, 2013. The merger was completed on December 9, 2013. The Department does not consider the effect of an American Airlines – US Airways merger to be material to the operations of the Airports System.

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 the 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 Certificate. 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.

Although Hawaii has recently experienced record numbers of visitors by air, various industry analysts have suggested that further reductions in industry wide domestic capacity may be required to achieve equilibrium between seat supply and passenger demand at airfares adequate to sustain airline profitability. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. The combination of reduced capacity, increased airfares and unstable 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.

Restructuring of Air Carriers. Certain other airlines serving the Airports System have consolidated in recent years. In 2008, Delta Airlines and Northwest Airlines merged and have operated under a single FAA Certificate under the Delta name since 2005. Continental Airlines merged with United Airlines effective October 1, 2010, creating the world's then largest airline in terms of operating revenue and airline passenger miles. In May 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. In 2013, Larry Ellison, who recently purchased the island of Lanai, purchased Island Air. In April 2015, American Airlines and US Airways completed their merger, replacing United Airlines as the world's largest in terms of operating revenue and airline passenger miles. 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, as amended (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 DOT issued its "Final Rule" outlining the procedures to be followed in determining the reasonableness of airport rates and charges; the DOT 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 "FINANCIAL INFORMATION - Aeronautical Revenues." 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 non-signatory carriers.

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. Average fuel prices peaked in By mid-2008 at $3.82 per gallon, three times higher than they were in mid-2004. Fuel now represents the largest item of expense for most airlines. Oil prices fell sharply in the second half of 2008 as demand decreased worldwide, rose, then fell again in mid 2015. However, airline industry analysts believe 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 to 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.

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 website 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 Underwriters undertake 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.

Factors Affecting Capital Improvements Program

As described above, the Department 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 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, leading to different results than projected in the Report of the Consulting Engineer.

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. Recession in 2008 and 2009, combined with reduced discretionary income and increased airfares, reduced airline travel demand and airline profitability in 2008 and 2009. However globalization of business and the increased importance of international trade has resulted in U.S. economic growth becoming 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.

Aviation Security Concerns

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. Although both domestic and global economies have recovered since 2008-2009 and steady, moderate growth has occurred since 2012, the long-term economic effects of U.S. Government's sequestration and regulatory and economic changes 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.

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. Created by the ATSA in 2001, TSA is responsible for transportation security nationally. 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. 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.

Other intensified security 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 ATSA 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 Health 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. Following an outbreak of the Ebola virus in West Africa in 2014, concerns about the spread of this virus have adversely affected travel to and from certain regions in Africa. 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 and the Consulting Engineer have used certain assumptions to prepare the forecasts made in this Official Statement. 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 limit or 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, including the FAA Reauthorization and Reform Act of 2012 which reauthorized FAA authority for programs and taxes and AIP project grants for federal fiscal years 2012 through 2015. However federal funding could be adversely impacted by the sequestration provisions of the Budget Control Act enacted in August 2011. Sequestration has been continued by the Continuing Appropriations Act of 2014 enacted on October 16, 2013. Sequestration is a unique budgetary feature restricting federal spending resulting from the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on deficit reductions mandated by the Budget Control Act. Sequestration could result in the reduction of federal grant funds, and spending cuts could be spread over a number of years. No assurance can be given that further reauthorizations or extensions will occur, or at what levels the programs may be funded in the future.

On May 1, 2013 President Obama approved the Reducing Flight Delays Act of 2013, which ended air traffic controller furloughs that had caused air traffic delays across the nation. This act reduced the amount of available federal AIP funds by $253 million in FY 2013 to pay for air traffic controller costs.

On September 29, 2015, Congress approved a six months extension of the AIP through March 31, 2016. Congress has appropriated $1.675 billion for the program, half of the $3.35 billion appropriated for the program in fiscal year 2015.

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.

Limitation on Bondholders' Remedies

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. Neither the State nor the Department has ever defaulted in the payment of either principal of or interest on any indebtedness.

The occurrence of an Event of Default under the Director's Certificate or under the Lease does not grant a right the Certificate holders to accelerate payment of the Certificates. 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 Certificates. In addition, any remedies available to the Owners of the Certificates upon the occurrence of an Event of Default 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.

Other laws and regulations limiting GHG emissions have been adopted by a number of states, as well as proposed on the federal level. A 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.

On July 5, 2011, the United States District Court for the District of Columbia issued an order concluding that the EPA has a mandatory obligation under the Clean Air Act to consider whether the GHG and black carbon emissions of aircraft engines endanger public health and welfare. On June 10, 2015, EPA proposed to find that GHG emissions from certain aircraft cause and contribute to pollution that endangers public health and welfare. This proposed endangerment finding will be subject to public comment and then, if finalized as proposed, EPA has stated its intent to propose GHG emission standards for covered aircraft that will be at least as stringent as emission standards under development by the International Civil Aviation Organization, which are scheduled for final adoption in February 2016.

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 on Airports System operations. The effects of such laws and regulations, however, could be material.

LITIGATION

The State is subject to litigation in connection with the day-to-day operation of the Airports System by the Department. There are no claims or judicial proceedings other than the proceedings described in this Official Statement and proceedings incidental to the operation of the Airports System affecting the Airports System or the Revenues, except for claims which are substantially covered by insurance or reserves. Except as otherwise described in this Official Statement, there is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the Series 2015 Bonds or the power and authority of the Department to impose, prescribe or collect rates, rentals, fees or charges for the use and services of, and the facilities or commodities furnished by, the Airports System, or in any manner questioning the power and authority of the Department to impose, prescribe or collect such rates, rentals, fees or charges or to issue and deliver the Series 2015 Bonds or affecting the validity of the Series 2015 Bonds.

TAX MATTERS

Summary of Bond Counsel Opinion. Katten Muchin Rosenman LLP, Bond Counsel, is of the opinion that under existing law, interest on the Series 2015 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "*Code*"), Bond Counsel is of the opinion that interest on the Series 2015 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, (i) interest on the Series 2015A Bonds is an item of tax preference for purposes of computing individual and corporate alternative minimum taxable income for purposes of the individual and corporate alternative minimum tax and (ii) interest on the Series 2015B Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income but is includible in corporate earnings and profits when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest on any Series 2015A Bond for any period during which such Bond is held by a person who is a "substantial user" of the facilities financed or refinanced with the proceeds of such Bond or a "related person" (each as defined in Section 147(a) of the Code). In the further opinion of Bond Counsel, under the existing statutes, interest on the Series 2015 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2015 Bonds or income therefrom.

Exclusion from Gross Income: Requirements. The Code contains certain requirements that must be satisfied from and after the date of issuance of the Series 2015 Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2015 Bonds. These requirements relate to the use and investment of the proceeds of the Series 2015 Bonds, the payment of certain amounts to the United States, the security and source of payment of the Series 2015 Bonds and the use of the property financed with the proceeds of the Series 2015 Bonds. Among these specific requirements are the following:

(a) *Investment Restrictions*. Except during certain "temporary periods," proceeds of the Series 2015 Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a "minor portion") may generally not be invested in investments having a yield that is materially higher than the yield on the Series 2015 Bonds.

(b) *Rebate of Permissible Arbitrage Earnings*. Earnings from the investment of the "gross proceeds" of the Series 2015 Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Series 2015 Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term "gross proceeds" includes the original proceeds of the Series 2015 Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Series 2015 Bonds.

(c) *Restrictions on Ownership and Use*. The Code includes restrictions on the ownership and use of the facilities financed with the proceeds of the Series 2015 Bonds. Such provisions may restrict future changes in the use of any property financed with the proceeds of the Series 2015 Bonds.

Covenants to Comply. The State covenants in the Indenture to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Series 2015 Bonds.

Risk of Non Compliance. In the event that the State fails to comply with the requirements of the Code, interest on the Series 2015 Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of issue. In such event, the Indenture does not require acceleration of payment of principal of or interest on the Series 2015 Bonds or payment of any additional interest or penalties to the owners of the Series 2015 Bonds.

Federal Income Tax Consequences. Pursuant to Section 103 of the Code, interest on the Series 2015 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Series 2015 Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE SERIES 2015 BONDS.

(a) *Cost of Carry*. Owners of the Series 2015 Bonds will generally be denied a deduction for otherwise deductible interest on any debt that is treated for federal income tax purposes as incurred or continued to purchase or carry the Series 2015 Bonds. Financial institutions are denied a deduction for their otherwise allowable interest expense in an amount determined by reference to their adjusted basis in the Series 2015 Bonds.

(b) *Corporate Owners*. As set forth in "-Summary of Bond Counsel Opinion" above, interest on the Series 2015 Bonds is taken into account in computing earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Series 2015 Bonds is taken into account in computing corporate alternative minimum taxable income, the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

(c) *Individual Owners*. Receipt of interest on the Series 2015 Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

(d) *Certain Blue Cross or Blue Shield Organizations*. Receipt of interest on the Series 2015 Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

(e) *Property or Casualty Insurance Companies*. Receipt of interest on the Series 2015 Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

(f) *Foreign Personal Holding Company Income*. A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Series 2015 Bonds held by such a company is properly allocable to the shareholder.

Series 2015 Bonds Purchased at a Premium or at a Discount. The difference (if any) between the initial price at which a substantial amount of each maturity of each Series of the Series 2015 Bonds is sold to the public (the "*Offering Price*") and the principal amount payable at maturity of such Series 2015 Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Bond, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Bond, the difference between the two is known as "original issue discount."

Bond premium and original issue discount are amortized over the term of a Series 2015 Bond on the basis of the owner's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight-line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as an offset against interest paid on the Series 2015 Bonds and is subtracted from the owner's tax basis in the Series 2015 Bond. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Series 2015 Bond for federal income tax purposes, to the same extent and with the same limitations as current interest, and is added to the owner's tax basis in the Series 2015 Bond. A Series 2015 Bond's adjusted tax basis is used to determine whether, and to what extent, the owner realizes taxable gain or loss upon the disposition of the Series 2015 Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the Series 2015 Bond).

Owners who purchase Series 2015 Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Series 2015 Bonds. In addition, owners of Series 2015 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series 2015 Bonds. Under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

Change of Law. The opinions of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Series 2015 Bonds are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Series 2015 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of owners

UNDERWRITING

Morgan Stanley & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Barclays Capital Inc. (collectively, the "Underwriters") have agreed to purchase the Series 2015 Bonds for $262,898,262.62 (representing the principal amount of the Series 2015 Bonds, less underwriters' discount of $1,756,121.88 and plus net premium of $20,394,384.50). The Underwriters will be obligated to purchase all the Series 2015 Bonds if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The initial public offering price of the Series 2015 Bonds may be changed from time to time by the Underwriters prior to the Delivery Date. The Underwriters may offer and sell the Series 2015 Bonds to certain dealers (including dealers depositing Series 2015 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.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2015 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2015 Bonds.

LEGALITY FOR INVESTMENT

The Series 2015 Bonds are legal investments for the funds of all public officers and bodies and all political subdivisions of the State, and for the funds of all insurance companies and associations, banks, savings banks, savings institutions, including building or savings and loan associations, trust companies, personal representatives, guardians, trustees and all other persons and fiduciaries in the State who are regulated by law as to the character of their investment.

The Series 2015 Bonds may be deposited by banks with the Director of Finance as security for State moneys deposited in such banks.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Series 2015 Bonds are subject to the approval of Katten Muchin Rosenman LLP, New York, New York. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2015 Bonds and will be delivered with the Series 2015 Bonds. Proposed forms of the opinions of Bond Counsel are annexed as Appendix F. Certain legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by counsel to the Underwriters, Alston Hunt Floyd & Ing, Honolulu, Hawaii.

The Thirty-First Supplemental Certificate of the Director dated as of November 1, 2015, providing for the issuance of the Series 2015 Bonds has been approved as to form and legality by the Attorney General of the State.

RATINGS

Moody's Investors Service, Standard and Poor's, A Division of The McGraw-Hill Companies, and Fitch Inc. have assigned ratings of "A1", "A+," and "A" respectively, to the Series 2015 Bonds.

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the State makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one, or all three rating companies, if in the judgment of one, or all three companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or one of them, may have an adverse effect on the market price of the Series 2015 Bonds.

PRICING ADVISOR

The Department has retained Public Financial Management, Inc., as pricing advisor with respect to the issuance of the Series 2015 Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent financial advisory firm.

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 Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the State, acting through its Director of Transportation, will undertake in a Continuing Disclosure Certificate, the form of which is set forth in Appendix G (the "Continuing Disclosure Certificate"), to provide to the Municipal Securities Rulemaking Board on an annual basis certain financial and operating data concerning the Department, financial statements, notice of certain events and certain other notices, all as described in the Continuing Disclosure Certificate, provided that if the inclusion or format of such information is changed in any future official statement, annual reports provided by the State thereafter may instead contain or include by reference information of the type included in that official statement as so changed or if different the type of equivalent information included in the most recent official statement. The undertaking is an obligation of the Department that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Series 2015 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 Underwriters to purchase the Series 2015 Bonds.

During the last five years, the Department has failed to report a ratings upgrade in one instance, and in another instance filed its annual report late. The Department has policies and procedures in place to enhance compliance with its continuing disclosure undertakings, including its undertaking in the Continuing Disclosure Certificate.

A failure by the Department to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Series 2015 Bonds, although any Beneficial Owner of the Series 2015 Bonds may bring action to compel the Department to comply with its obligations under the Continuing Disclosure Certificate. Any such failure must be reported in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2015 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2015 Bonds and their market price.

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, 2014 set forth in Appendix B have been audited by KPMG LLP, independent auditors, as stated in their report.

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

By: /s/ Ford N. Fuchigami
Ford N. Fuchigami
Director of Transportation

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APPENDIX A

Report of the Consulting Engineer

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Appendix A

REPORT OF THE CONSULTING ENGINEER

on the proposed issuance of

STATE OF HAWAII,
AIRPORTS SYSTEM REVENUE BONDS, SERIES 2015

Prepared for

State of Hawaii
Department of Transportation
Airports Division

Prepared by

LeighFisher
Burlingame, California

October 29, 2015

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Leigh|Fisher

October 29, 2015

Mr. Ford N. Fuchigami
Director
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

Re: Report of the Consulting Engineer Regarding the
Issuance of Airports System Revenue Bonds, Series 2015
Hawaii Airports System

Dear Mr. Fuchigami:

We are pleased to submit this Report of the Consulting Engineer on certain aspects of the proposed issuance of State of Hawaii, Airports System Revenue Bonds, Series 2015 (the 2015 Bonds), by the State of Hawaii (the State), acting through its Department of Transportation (the Department), for improvements to the Hawaii Airports System, in the aggregate principal amount of approximately $246 million.* This letter and the accompanying attachment and exhibits constitute our report (the Report).

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

The 2015 Bonds are to be issued as additional parity bonds under the "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 by multiple Supplemental Certificates (collectively, the Certificate**). The 31st Supplemental Certificate authorizes issuance of the 2015 Bonds.

Pursuant to the Certificate, the State has previously issued various series of State of Hawaii Airports System Revenue Bonds. Such Bonds, including the proposed 2015 Bonds, are special, limited obligations of the State payable from Revenues and Aviation Fuel Taxes associated with the operation of the Airports System. The general fund of the State is not pledged to the payment of the Bonds.

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*Numbers are preliminary and subject to change.

**References herein to the Certificate, rules of the State, and various leases and agreements entered into by the Department do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference thereto. Capitalized terms not otherwise defined in the Report shall have the same meanings given in the Certificate or the airport-airline lease agreements, discussed later in the Report.

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

This Report was undertaken to evaluate the ability of the Department to generate Revenues and Aviation Fuel Taxes sufficient to satisfy the requirements of the Rate Covenant through FY 2022 (the forecast period) taking into account the outstanding Bonds, the proposed 2015 Bonds, and future Bonds planned to be issued during the forecast period (the Future Bonds). The Department's Fiscal Year ends June 30.

THE 2015 BONDS

Proceeds of the 2015 Bonds will be used to (1) fund a portion of the costs of the Airports Division's capital improvement program, (2) fund capitalized interest on the 2015 Bonds, and (3) pay the costs of issuance of the 2015 Bonds.

The 2015 Bonds are considered Additional Bonds under the Certificate and, as such, the Department is required to retain a Consulting Engineer to demonstrate compliance with the Additional Bonds Test prior to their issuance. Tests for compliance with the Additional Bonds Test for the 2015 Bonds are to be undertaken, and results are to be provided to the Department in a separate document in connection with the issuance of the proposed 2015 Bonds.

CAPITAL IMPROVEMENT PROGRAM

The Airports Division maintains and updates a multi-year capital improvement program to fund a variety of improvement and modernization projects for the Hawaii Airports System. From time to time, the Airports Division adds new projects to the capital improvement program and removes completed projects. The capital improvement program as of June 30, 2015 (the CIP) has an estimated total cost of $2.61 billion, of which:

- Approximately $624 million has already been spent as of June 30, 2015, and

- A further $880 million is expected to be spent on the development of consolidated rental car facilities (ConRACs)

Of the total CIP cost of $2.61 billion, $1.73 billion of project costs are subject to airline review.

The CIP includes the projects that have been previously approved by the State Legislature, as well as planned projects expected to be undertaken through FY 2021. Among other projects, the CIP includes the Mauka Concourse Program, which includes the construction of a new concourse of approximately 257,000 square feet and related site preparation; airfield modifications; cargo/maintenance facilities replacement; a ConRAC at Honolulu International Airport (HNL); and a ConRAC at Kahului Airport (OGG).

The airport-airline lease agreement (the Airline Agreement, described below) requires the Department to submit certain capital projects for airline review and concurrence. In 2010, the Department and the airlines signatory to the Airline Agreement (the Signatory Airlines) agreed on a set of capital projects for implementation throughout the Hawaii Airports System, referred to as the Designated Projects. The Department submitted three requests to the Signatory Airlines between 2010 and 2015 to add to or amend the Designated Projects, and has received concurrence for a portion of the projects in the current CIP.

In October 2015, the Department submitted its request for a fourth concurrence for 29 specific projects to the Airlines Committee of Hawaii (ACH), requesting concurrence totaling $295 million in project spending. The ACH provided its response in a letter, supporting the implementation of 15 of these projects with a total concurrence amount (cost) of $210 million, and conditionally supporting the other 14 projects with a total concurrence amount (cost) of $85 million. The conditions placed on the 14 projects by the Signatory Airlines are project specific, including such items as availability of the FAA grants, limitation on scope, limitation on schedule, and requirements for recordkeeping, among other conditions. The Department intends to meet these conditions when proceeding with the projects, and all projects to be partially or wholly funded with the proceeds of the proposed 2015 Bonds have received concurrence from the Signatory Airlines. The Department intends to submit additional projects for airline concurrence in the future when needed.

The CIP does not include special maintenance projects, which are projects related to the major maintenance and rehabilitation of existing facilities and is estimated to be $14.9 million in FY 2015. Expenditures on special maintenance projects may be expensed and included in the Airports Division's operating expenses, or capitalized as fixed assets. The Airports Division has been funding such special maintenance projects using internally generated cash and does not plan to use Bond proceeds for such projects.

According to the Airports Division, as of the date of this Report, the CIP and the special maintenance projects constitute all of the significant capital projects that may be undertaken during the forecast period. However, the Airports Division will review the CIP at least annually and may implement changes subject to legislative approval and, if necessary, airline review as set forth in the Airline Agreements.

RATE COVENANT

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

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

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

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

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

The Rate Covenant also requires that at all times, rates, rentals, fees, and charges for the immediately ensuing 12 months, together with the amount of unencumbered funds that the Department certifies as Revenues for the purpose of this test, must be sufficient to yield Net Revenues and Taxes of at least equal to 1.25 times the Annual Adjusted Debt Service Requirement for such 12-month period. The Airports Division established a funded coverage account in the Airport Revenue Fund to hold the certified amount to be included as Revenues and has been maintaining the account balance at 25% of gross debt service.

Revenues

Under the Certificate, the term “Revenues” is defined as all income, revenues, and moneys derived by the State from the ownership or operation and management of the Airports System by the Department, or the furnishing and supplying of the services, facilities, and commodities thereof, including all income, revenues, and moneys derived from rates, rentals, fees, and charges fixed, imposed, and collected by the Department. Revenues can also include certain unencumbered funds, described above, for purposes of the Rate Covenant calculation. Passenger Facility Charge (PFC) revenues are explicitly excluded from the definition of Revenues, unless the inclusion of PFC revenues is expressly provided for in a Supplemental Certificate. Customer Facility Charge (CFC) revenues are also excluded from the definition of Revenues.

Aviation Fuel Taxes

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

Annual Adjusted Debt Service Requirement

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

The Annual Adjusted Debt Service Requirement means the Debt Service Requirement net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited into the Interest Account, the Serial Bond Principal Account, and the Sinking Fund Account; and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited for the purpose of paying interest on Bonds.

The Department received approval from the Federal Aviation Administration (FAA) in 2013 for the use of PFC revenues to pay PFC-eligible debt service and plans to use a portion of its PFC revenues to pay PFC-eligible debt service on the Bonds in the future. The Department has not issued Build America Bonds and does not receive Federal Direct Payments.

Net Revenues and Taxes

Net Revenues and Taxes are defined as Revenues plus Aviation Fuel Taxes less annual (1) operating expenses and reserve, (2) deposits to the Debt Service Reserve Account, (3) deposits to the Airports System Major Maintenance, Renewal, and Replacement Account (MMRRA), and (4) reimbursement to the State related to general obligation bonds. There are no outstanding general obligation bonds for the Hawaii Airports System.

AIRPORT-AIRLINE LEASE AGREEMENT

The Signatory Airlines operate at the Airports System under the Airline Agreement they have entered into with the Department. Nonsignatory airlines operate in accordance with Hawaii Administrative Rules. The Airline Agreement was initially executed in 1962 and was subsequently amended at various times as more fully described later in the Report. The Airline Agreement provides for an automatic extension on a quarterly basis, unless either party provides 60 days written notice of termination to the other party.

First Amended Lease Extension Agreement

In 2007, the Department and the Signatory Airlines executed the First Amended Lease Extension Agreement (the 2007 Amendment), effective on January 1, 2008. The 2007 Amendment principally established a new methodology for calculating Signatory Airlines rates and charges for the use of airport facilities and kept in effect other terms of the prior agreements and amendments as applicable.

Key provisions of the 2007 Amendment, discussed in greater detail later in the Report, include:

- A rate methodology to recover all costs in the Airfield Cost Center and a portion of the costs of primary airport terminal cost centers.

- An Airports System Support Charge (ASSC) as a safety net to ensure compliance with the Rate Covenant, which allows the Airports Division to collect additional revenues if all other Revenues in combination are not adequate to meet the requirements of the Rate Covenant.

SCOPE OF THE REPORT

The Report was prepared to address the ability of the Department to meet the requirements of the Rate Covenant during the forecast period taking into account the outstanding Bonds, the proposed 2015 Bonds, and the planned Future Bonds. In conducting our study, we analyzed:

- Future airline traffic demand at the Hawaii Airports System, giving consideration to the demographic and economic characteristics of the State, historical trends in airline traffic, recent airline service developments and airfares, and other key factors that may affect future airline traffic.
- The status and estimated costs of the CIP, including the facilities expected to be provided, and the estimated completion dates of the projects in the CIP.
- Estimated sources and uses of funds and the Annual Adjusted Debt Service Requirement for the 2015 Bonds and the planned Future Bonds.
- Historical and estimated future PFC revenues.
- The State's intended use of PFC revenues during the forecast period.
- Historical relationships among revenues, expenses, and airline traffic for the Hawaii Airports System.
- Audited financial results for the Hawaii Airports System for FY 2014, estimated operating results for FY 2015, and the biennium budget for FY 2016 and FY 2017.
- The Airline Agreement and the associated calculation and adjustment of airline rentals, fees, and charges.
- Other contractual agreements relating to the use and lease of the Hawaii Airports System, such as the operation of public automobile parking and other concession and service privileges, and the leasing of buildings and grounds.
- Other operational considerations affecting Hawaii Airports System revenues and expenses.

We have relied upon the Airports Division and its other consultants for estimates of project costs and construction schedules for the CIP; upon the Airports Division and Bond counsel for interpretation of the Certificate; and upon Morgan Stanley & Co. LLC, the senior managing underwriter, for the plan of debt finance and estimated Debt Service Requirements for the proposed 2015 Bonds and the planned Future Bonds.

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

Forecast Debt Service Coverage

As shown in Exhibit G at the end of the Report, Revenues and Aviation Fuel Taxes are forecast to be sufficient, in each Fiscal Year of the forecast period, to pay the costs of operation, maintenance and repair of the Airports System; the Annual Adjusted Debt Service Requirement taking into consideration the outstanding Bonds, the proposed 2015 Bonds, the planned Future Bonds; and to meet the other funding requirements of the Certificate. The table below (and Exhibit H shown later in the Report) summarize forecasts of Revenues and Aviation Fuel Taxes, Annual Adjusted Debt Service Requirement, and debt service coverage.

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

	Forecast 2016	2017	2018	2019	2020	2021	2022
Adjusted Net Revenues and Taxes							
Revenues and Aviation Fuel Taxes	$368,258	$393,473	$419,160	$454,315	$466,712	$484,454	$495,312
Costs of Operation, Maintenance and Repair	(260,782)	(273,306)	(287,788)	(306,809)	(323,831)	(337,657)	(352,440)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	(500)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Reimbursement of General Fund of the State	-	-	-	-	-	-	-
Net Revenues and Taxes	$106,976	$117,167	$128,372	$144,506	$139,881	$143,797	$139,872
Funded Coverage Account Balance (a)	20,146	22,285	25,154	30,359	30,512	30,512	30,512
Adjusted Net Revenues and Taxes	$127,122	$139,452	$153,526	$174,865	$170,394	$174,309	$170,384
Annual Adjusted Debt Service Requirement							
Gross Debt Service	$ 80,583	$ 89,140	$100,618	$121,436	$122,049	$122,048	$122,044
Airline Prepaid Interests	(4,000)	-	-	-	-	-	-
Available PFC Revenues	(321)	(1,776)	(3,959)	(9,035)	(15,615)	(15,615)	(20,239)
Annual Adjusted Debt Service Requirement	$ 76,262	$ 87,364	$ 96,659	$112,401	$106,434	$106,433	$101,805
Debt Service Coverage (Must Be No Less Than 1.25)	1.67	1.60	1.59	1.56	1.60	1.64	1.67

Notes:

(a) Indicates the amount of unencumbered funds certified by the Airports Division for the purpose of the Rate Covenant.

Assumptions Underlying the Financial Forecasts

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

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

* * * * *

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

Respectfully submitted,

LeighFisher

LEIGHFISHER

Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

REPORT OF THE CONSULTING ENGINEER

on the proposed issuance of

STATE OF HAWAII,
AIRPORTS SYSTEM REVENUE BONDS, SERIES 2015

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CONTENTS *(continued)*

TABLES

FIGURES

EXHIBITS

1. INTRODUCTION

This section presents an overview of the 15 airports in the Hawaii Airports System as well as current Airports System facilities.

HAWAII AIRPORTS SYSTEM

The State of Hawaii (the State) operates and maintains a system of 15 airports listed in Table 1 and shown graphically on Figure 1. The Airports Division, one of three divisions within the State's Department of Transportation, has jurisdiction over and control of all State airports and air navigation facilities, as well as general supervision of aeronautics within the State. Virtually all nonmilitary passenger traffic throughout Hawaii passes through airports in the Hawaii Airports System.

The largest of the five primary airports in the Hawaii Airports System is Honolulu International Airport (HNL) on the island of Oahu, which is the most densely populated of the Hawaiian Islands. HNL provides facilities for overseas flights on domestic routes to the mainland United States and on international routes to destinations in the Pacific Rim, as well as for interisland flights to other airports in the Hawaii Airports System. The Federal Aviation Administration (FAA) classifies HNL as a large hub. In Fiscal Year* (FY) 2015, 9.7 million passengers were enplaned at HNL—6.6 million overseas passengers and 3.1 million interisland passengers.

The four other primary airports in the Hawaii Airports System are referred to as the Primary Neighbor Island (PNI) Airports, namely Kahului Airport (OGG) on the island of Maui, Lihue Airport (LIH) on the island of Kauai, Kona International Airport (KOA) at Keahole, and Hilo International Airport (ITO) on the island of Hawaii. OGG is classified as a medium hub and ITO, KOA, and LIH are classified as small hub airports. Direct overseas service to the continental United States is provided from all of the PNI Airports. In FY 2015, a combined 6.8 million passengers were enplaned at the PNI Airports—3.1 million overseas passengers and 3.7 million interisland passengers. The remaining 10 airports in the Hawaii Airports System are known as the secondary airports.

For several decades, growth in passenger traffic at the Hawaii Airports System has been facilitated by the role of HNL as a connecting hub airport for the islands. HNL provides connecting passenger service to the other primary and secondary airports in the State in the same way that hub-and-spoke airline networks operate in the continental United States.

*The Department's Fiscal Year ends June 30.

Table 1
HAWAII AIRPORTS SYSTEM

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

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

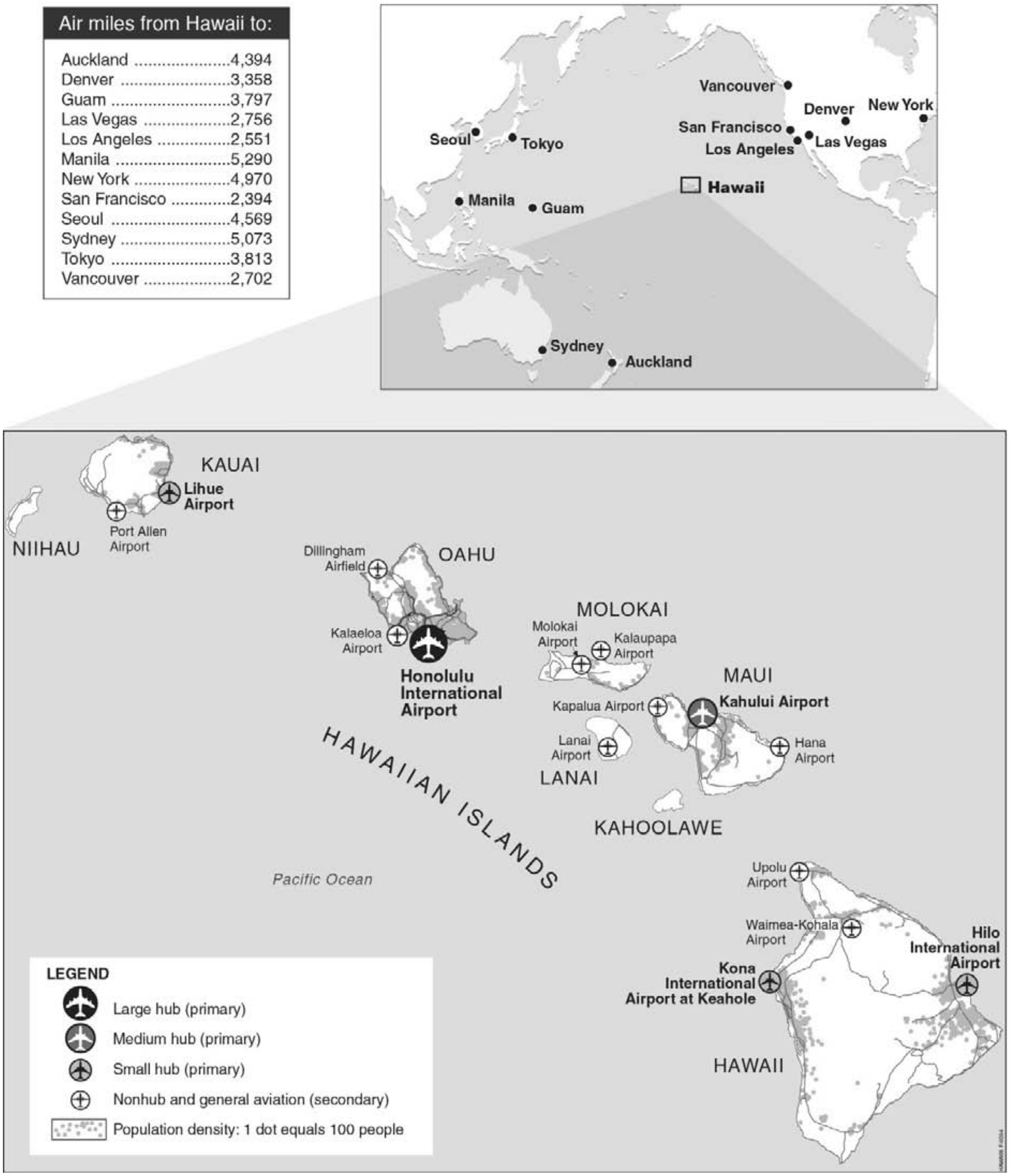
(a) A large hub is a community that enplanes 1.0% or more of total passengers enplaned on U.S. certificated route carriers in scheduled service in the 50 states, the District of Columbia, and designated territorial possessions of the United States.

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

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

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

Figure 1
HAWAII AIRPORTS SYSTEM



Source for population density data: U.S. Census 2010.

CURRENT HAWAII AIRPORTS SYSTEM FACILITIES

This section summarizes the current Hawaii Airports System facilities – those at Honolulu International Airport, the PNI Airports, and the secondary airports.

Honolulu International Airport (HNL)

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

The airfield at HNL consists of two sets of parallel east-west runways, associated taxiways, and navigational aids. The principal runway, designated 8R-26L, is 12,000 feet long and is also referred to as the Reef Runway. Runway 8L-26R is 12,300 feet long and is parallel to the Reef Runway. The other set of parallel runways are Runway 4R-22L, which is 9,000 feet long, and Runway 4L-22R, which is 6,952 feet long. In addition to the four paved runways, HNL has two “offshore runways,” designated 8W-26W and 4W-22W, for use by seaplanes. HNL shares the runways with Hickam Air Force Base, which is adjacent to HNL.

HNL has three terminal buildings:

- The **Overseas Terminal,** also referred to as the Main Terminal, serves passenger airline aircraft operations to and from the U.S. mainland and other overseas destinations. Of 29 gates in the Overseas Terminal, 27 gates are currently common use, and two gates are assigned on a preferential basis, one gate each to Alaska Airlines and Hawaiian Airlines.

- The **Interisland Terminal** serves flights to and from other airports in the Airport System, as well as certain overseas flights operated by Hawaiian Airlines. Hawaiian Airlines uses all 13 gates at the Interisland Terminal on a preferential-use basis. The Mauka Concourse Program, a major expansion of this terminal, is currently in progress and is expected to be substantially complete in 2019.

- The **Commuter Terminal** is a single-level facility that serves propeller aircraft traveling to smaller commercial service airports on the neighbor islands (Hana, Kalaupapa, Kapalua, Lanai, Molokai, and Waimea-Kohala airports), operated by Island Air and Mokulele Airlines. (A third airline which operated interisland service – Mesa Airlines – terminated its Go! branded operation effective April 1, 2014.) The Commuter Terminal has no loading bridges. The Airports Division plans to relocate the airlines operating in the Commuter Terminal, and to demolish the Commuter Terminal to enable the construction of the Mauka Concourse Extension.

"Wiki Wiki" buses (from the Hawaiian word for “fast”) provide pre- and post-security transportation to and from the terminals and concourses of the Interisland and Overseas terminals. Rental car ready/return and customer service facilities are located across the terminal frontage road from the Overseas Terminal.

The Airports Division is constructing an interim rental car facility in sections of the Overseas Garage which had been used for public parking. The interim facility is scheduled to be completed in December 2015. After the existing rental car companies relocate to the interim facility, the Airports Division will construct a new consolidated rental car facility (ConRAC) on existing rental car surface lots. The ConRAC at HNL is expected to be completed in 2020. The construction of the interim rental car facility reduces the space available for public parking. However, the Airports Division considers remaining parking facilities adequate to accommodate parking demand.

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

Kahului Airport (OGG)

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

OGG has two terminal buildings. The Airport Terminal Building accommodates ticketing, U.S. Department of Agriculture inspection, Transportation Security Administration (TSA) baggage screening, and baggage claim areas on the ground level. A central atrium with public space, restaurants, and retail shops is located on the second level. Passengers depart from the 16 gates located on the two concourses that extend from the central atrium. The Commuter Terminal is located along Kahului Airport Road and serves several interisland commuter airlines.

OGG has surface parking adjacent to the terminal and remote rental car facilities served by shuttle buses from the terminal area. The Department has awarded the construction contract for the development of the ConRAC at OGG, which is scheduled to start in late 2015.

Kona International Airport at Keahole (KOA)

KOA is a small-hub airport that occupies 3,450 acres located approximately seven miles northwest of Kailua-Kona on the west shore of the island of Hawaii. KOA accommodates domestic overseas, international, interisland, commuter/air taxi, and general aviation operations. KOA has an 11,000-foot-long runway constructed on lava flow that resulted from a volcano eruption in 1801.

KOA has two terminals – the Passenger Terminal, with 10 boarding gates serving 14 aircraft parking positions, and the Commuter Terminal, consisting of two trailers and a covered deck, which serves interisland commuter airlines and air tour/air taxi operators. The terminal area is served by a one-way roadway loop enclosing public parking and rental car check-in facilities. General aviation, cargo, and related facilities are located south of the passenger terminal complex.

Over the last two years, the Airports Division has been working with the State to seek a reopening of the Federal Inspection Services (FIS) facility at KOA. In December 2014, Customs and Border Protection (CBP) notified the Airports Division that a new facility must be constructed according to

CBP design standards. The Airports Division intends to proceed with a terminal modernization program, and to seek grant funding to construct a new CBP facility.

Lihue Airport (LIH)

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

LIH has two terminals. The Passenger Terminal has eight gates with loading bridges and four hardstand parking spots. The Commuter Terminal, which serves private jets, military flights, and a local flight school, is located a quarter of a mile north of the Passenger Terminal.

Hilo International Airport (ITO)

ITO is a small-hub airport that occupies 1,391 acres approximately two miles east of the town of Hilo, on the eastern shore of the island of Hawaii. ITO has two runways. Runway 8-26, which is 9,800 feet long, is used for air carrier aircraft operations, and Runway 3-21, which is 5,600 feet long, is used for general aviation and commuter aircraft operations.

ITO has two terminals. The Main Passenger Terminal has 10 gates, and the Commuter Terminal primarily serves helicopter air tours. ITO also provides general aviation facilities, air cargo facilities, rental car facilities, and a parking apron for transient military aircraft.

Secondary Airports

Ten additional airports are included in the Hawaii Airports System, referred to as the secondary airports. Six of the secondary airports (Hana Airport, Kalaupapa Airport, Kapalua Airport, Lanai Airport, Molokai Airport, and Waimea-Kohala Airport) are nonhub airports primarily offering commuter and air taxi service, both scheduled and nonscheduled, on the islands of Hawaii, Lanai, Maui, and Molokai. The four remaining secondary airports (Dillingham Airfield, Kalaeloa Airport, Port Allen Airport, and Upolu Airport) serve general aviation, the U.S. Coast Guard, military, and other uses. The secondary airports are located on the islands of Hawaii, Kauai, and Oahu.

2. ECONOMIC AND AIRLINE TRAFFIC ANALYSIS

Located in the central Pacific Ocean, Hawaii is a popular tourist destination for travelers from the United States as well as from Pacific Rim countries, such as Japan, Korea, Australia, and the Philippines. Hawaii is a western boundary of the United States (2,400 miles west of San Francisco and 3,800 miles east of Guam, the westernmost U.S. boundary) and has long been a major air transportation hub in the route system of Hawaiian Airlines. Figure 1 shows the Central Pacific geographic location of Hawaii in relation to countries in the Pacific Rim, Oceania (such as Australia and New Zealand), and North America.

ECONOMIC BASIS FOR PASSENGER DEMAND

The economy of Hawaii is influenced by its Central Pacific geographical location as a business and transportation center for countries in the Pacific Rim and Oceania, a popular U.S. and Asia-Pacific tourism destination, and a strategic U.S. military base in the Pacific. In addition, Hawaii cultivates tropical agricultural products, such as pineapples, sugar, coffee, macadamia nuts, and flowers.

Table 2 presents a summary of growth in terms of four socioeconomic indicators – population, nonagricultural employment, per capita personal income, and gross domestic product (GDP) – for the State of Hawaii and the nation.

Population

Between 2000 and 2014, the population of the State of Hawaii increased an average of 1.1% annually, slightly higher than the 0.9% rate of increase for the nation as a whole. In 2014, the population of the State of Hawaii totaled approximately 1,420,000.

Employment

Between 2000 and 2014, nonagricultural employment in the State of Hawaii increased an average of 0.9% annually, compared with a 0.4% average annual increase for the nation as a whole. By 2014, employment in the State of Hawaii had returned to its 2007 (pre-recession) level, while employment nationwide was 0.8% above its pre-recession level.

Per Capita Personal Income

Per capita income (in 2000 constant dollars) in the State of Hawaii has historically approximated that for the nation, with year-to-year variation. Since 2000, per capita personal income in the State of Hawaii has increased faster than the nation as a whole such that, in 2014, per capita personal income in the State was 0.6% above the national average.

Gross Domestic Product

The valuation of a state's GDP is based on national prices for the goods and services produced within that state. From 2000 to 2014, Hawaii's GDP, in constant 2000 dollars, increased an average of 2.2% per year, higher than the national rate of GDP growth of 1.5% per year.

Table 2

HISTORICAL SOCIOECONOMIC DATA

State of Hawaii and United States

	Population (thousands)		Employment (thousands)		Per capita income (2000 dollars)		Gross domestic product (millions of 2000 dollars)	
	State of Hawaii	United States	State of Hawaii	United States	State of Hawaii	United States	State of Hawaii	United States
2000	1,214	282,162	551	132,019	28,927	30,587	41,247	10,225,879
2005	1,293	295,517	602	134,005	31,460	31,643	51,248	11,482,167
2006	1,310	298,380	617	136,398	32,359	32,567	52,688	11,771,567
2007	1,316	301,231	625	137,936	33,259	33,057	53,956	11,959,068
2008	1,332	304,094	619	137,170	33,150	32,690	53,369	11,705,396
2009	1,347	306,772	592	131,233	33,198	31,608	52,394	11,501,752
2010	1,364	309,347	587	130,275	32,906	31,702	53,495	11,742,559
2011	1,378	311,722	593	131,842	32,910	32,407	53,632	11,802,247
2012	1,393	314,112	606	134,104	33,434	33,151	54,491	12,045,823
2013	1,409	316,498	619	136,393	33,414	33,090	55,510	12,318,797
2014	1,420	318,857	625	139,042	33,748	33,554	56,292	12,595,758
	Annual percent increase (decrease)							
2010-2011	1.0%	0.8%	1.1%	1.2%	0.0%	2.2%	0.3%	0.5%
2011-2012	1.1	0.8	2.2	1.7	1.6	2.3	1.6	2.1
2012-2013	1.2	0.8	2.0	1.7	(0.1)	(0.2)	1.9	2.3
2013-2014	0.8	0.7	1.1	1.9	1.0	1.4	1.4	2.2
	Average annual percent increase (decrease)							
2000-2005	1.3%	0.9%	1.8%	0.3%	1.7%	0.7%	4.4%	2.3%
2005-2010	1.1	0.9	(0.5)	(0.6)	0.9	0.0	0.9	0.4
2000-2014	1.1	0.9	0.9	0.4	1.1	0.7	2.2	1.5

Sources: Population: U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed May 2015.
Employment: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed May 2015.
Income and GDP: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed August 2015. Adjusted to constant 2000 dollars using the U.S. Department of Labor, Consumer Price Index for Urban Consumers.

Employment by Industry Sector

Table 3 shows shares of employment by industry sector in the State of Hawaii and the United States. Relative to the national average, employment in Hawaii is concentrated in the leisure and hospitality and government sectors. In 2014, employment in these two sectors combined accounted for 38.2% of employment in the State compared with 26.3% in the nation, reflecting Hawaii's status as a tourist destination as well as State government employment on the island of Oahu and the U.S. Naval and Air Force Pacific operations headquartered at Joint Base Pearl Harbor–Hickam.

Table 3

AVERAGE ANNUAL NON-AGRICULTURAL EMPLOYMENT GROWTH, 2007-2014 AND EMPLOYMENT SHARE BY INDUSTRY, 2014

	Compound annual growth rate 2007-2014		2014 Percent of total	
Industry	Hawaii	United States	Hawaii	United States
Government	0.4%	(0.2%)	20.1%	15.7%
Trade, transportation, and utilities	(0.5)	(0.1)	18.8	19.0
Leisure and hospitality	0.4	1.3	18.1	10.6
Professional and business services	1.1	0.9	13.2	13.7
Education and health services	1.1	2.1	12.6	15.4
Natural resources, mining, and construction	(3.0)	(2.4)	5.1	5.1
Financial activities	(1.3)	(0.6)	4.4	5.7
Other services	(0.1)	0.2	4.2	4.0
Manufacturing	(1.6)	(1.8)	2.2	8.8
Information	(3.1)	(1.4)	1.4	2.0
TOTAL	0.0%	0.1%	100.0%	100.0%

Note: Columns may not add to totals shown because of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed May 2015.

Hawaii has a sizeable military presence. As of June 2015, the Department of Defense reported 70,000 military and civilian personnel stationed in Hawaii. Joint Base Pearl Harbor–Hickam, located adjacent to HNL, constitutes one of the Navy's busiest harbors and the primary Pacific hub of the Air Force. The transport of these personnel and their dependents to and from military installations is a positive and stabilizing factor supporting demand for air travel.

Largest Employers

Table 4 lists the 20 largest private sector employers in the State of Hawaii. The list includes a diverse mix of companies, including those in health care, hospitality, air transportation, energy, and financial services.

Table 4
LARGEST NONGOVERNMENT EMPLOYERS
State of Hawaii
(as of July 2014)

Rank	Company	Description	Employment
1	Hawaii Pacific Health	Health care	6,310
2	Starwood Hotels & Resorts *(a)*	Hospitality	6,150
3	The Queen's Health Systems	Health care	5,590
4	Hilton Hotels & Resorts *(a)*	Hospitality	5,400
5	Hawaiian Airlines Inc.	Airline	5,250
6	Kaiser Foundation Health Plan & Hospitals	Health care	4,370
7	Hawaiian Electric Industries Inc. *(b)*	Energy & financial services	3,970
8	Securitas Securities Services USA Inc.	Security services	2,660
9	Kamehameha Schools	Education	2,310
10	Outrigger Enterprises Group	Hospitality	2,290
11	Bank of Hawaii Corp.	Financial services	2,130
12	First Hawaiian Bank	Financial services	2,090
13	Safeway Inc. *(a)*	Retail	1,910
14	Oahu Transit Services	Transit services	1,850
15	Hawaii Pacific University	Education	1,720
16	Hawaii Medical Service Association	Health care	1,690
17	Roberts Hawaii Inc.	Transportation & entertainment	1,650
18	Alexander & Baldwin Inc.	Real estate & agriculture	1,450
19	Hawaiian Telcom	Communications	1,400
20	Time Warner Cable *(a)*	Communications	1,200

(a) Ranked in 2014 Fortune 500 list of largest U.S. companies (based on 2012 revenues).
(b) Major subsidiaries, Hawaiian Electric Co. and American Savings Bank, supply energy and financial services.

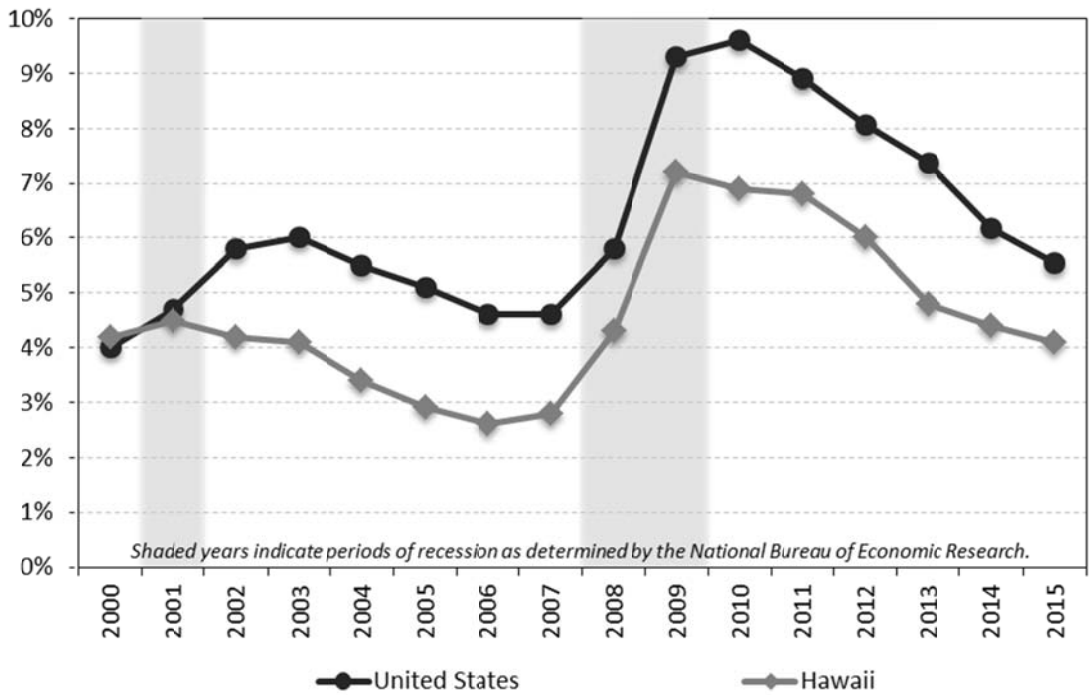
Source: Pacific Business News, *2014-2015 Book of Lists*, December 19, 2014.

Some of Hawaii's largest public sector employers are in the field of education. The Hawaii State Department of Education employs 25,000 teachers and support personnel serving approximately 175,000 students in 255 schools statewide. The University of Hawaii, established in 1907, is a public university system with ten campuses and 9,800 employees, serving a total enrollment of approximately 57,000 undergraduate and graduate students.

Unemployment Rates

In addition to the employment trends cited above, the unemployment rate is also indicative of the general economic climate. Figure 2 shows comparative annual unemployment rates in the State of Hawaii and the nation for 2000 through 2015. Since 2001, the rate of unemployment in the State has remained consistently lower than for the nation. In the first six months of 2015, unemployment in Hawaii was 4.1% compared with 5.6% for the nation.

Figure 2
CIVILIAN UNEMPLOYMENT RATE



Note: 2015 data represents the average for January-June 2015.

Source: U.S. Department of Labor, Bureau of Labor Statistics website, www.bls.gov, accessed August 2015.

Visitors to Hawaii

Table 5 shows that, according to the Hawaii State Department of Business, Economic Development and Tourism (DBEDT), nearly 8.2 million people visited Hawaii in 2014. The number of westbound visitors to Hawaii (mostly from the continental United States) has historically exceeded the number of eastbound visitors from eastern Pacific Rim countries. Westbound visitors accounted for 70% of total visitors in 2014, including 61% from origins within the United States. Since 2000, the share of westbound visitors to Hawaii has increased somewhat—from 66% in 2000 to 70% in 2014. Eastbound visitors (mostly from Japan) accounted for 28% of visitors to Hawaii in 2014, down from 30% in 2000.

Table 5

HISTORICAL AND FORECAST VISITORS TO HAWAII

Visitors by origin market (thousands)

	Westbound						Eastbound					
	US West	US East	Canada	Europe	Latin America *(a)*	**Total westbound**	Japan	Other Asia *(b)*	Oceania	**Total eastbound**	Other *(c)*	**Total**
2000	2,432	1,713	252	167	18	**4,582**	1,818	153	96	**2,066**	300	**6,949**
2005	3,032	1,929	249	112	15	**5,337**	1,517	107	142	**1,767**	312	**7,417**
2006	3,220	1,953	281	106	19	**5,579**	1,363	118	136	**1,616**	333	**7,528**
2007	3,245	1,902	333	108	20	**5,608**	1,296	121	164	**1,582**	308	**7,497**
2008	2,769	1,683	360	115	19	**4,946**	1,175	113	155	**1,443**	324	**6,713**
2009	2,719	1,561	347	104	18	**4,749**	1,168	110	137	**1,415**	256	**6,420**
2010	2,924	1,610	405	113	20	**5,072**	1,239	168	161	**1,568**	276	**6,917**
2011	2,995	1,642	478	120	22	**5,257**	1,242	211	210	**1,663**	255	**7,174**
2012	3,179	1,700	499	129	26	**5,532**	1,466	290	273	**2,029**	306	**7,867**
2013	3,211	1,702	517	137	30	**5,597**	1,519	335	356	**2,209**	197	**8,003**
2014	3,287	1,735	525	143	30	**5,719**	1,512	369	371	**2,251**	213	**8,184**
2015 F	3,516	1,782	527	143	32	**5,999**	1,511	381	407	**2,299**	242	**8,540**
2016 F	3,560	1,805	532	145	32	**6,074**	1,527	406	413	**2,346**	255	**8,675**
2017 F	3,605	1,829	540	147	32	**6,154**	1,549	432	419	**2,401**	268	**8,823**
2018 F	3,653	1,852	548	150	33	**6,236**	1,571	460	426	**2,457**	282	**8,976**
	Average annual percent increase (decrease)											
2000-2007	4.2%	1.5%	4.1%	(6.0)%	1.4%	**2.9%**	(4.7)%	(3.2)%	8.0%	**(3.7)%**	0.3%	**1.1%**
2007-2009	(8.5)	(9.4)	2.0	(1.7)	(6.3)	**(8.0)**	(5.1)	(4.5)	(8.7)	**(5.4)**	(8.7)	**(7.5)**
2009-2014	3.9	2.1	8.6	6.5	11.5	**3.8**	5.3	27.3	22.1	**9.7**	(3.6)	**5.0**
2000-2014	2.2	0.1	5.4	(1.1)	3.7	**1.6**	(1.3)	6.5	10.1	**0.6**	(2.4)	**1.2**
2014-2018 F	2.7	1.6	1.1	1.3	2.2	**2.2**	1.0	5.7	3.5	**2.2**	7.3	**2.3**

Table 5 *(page 2 of 2)*
HISTORICAL AND FORECAST VISITORS TO HAWAII

	Visitors by County (thousands) *(d)*											
	Westbound					Eastbound						
	Honolulu	Maui *(e)*	Hawaii (Big Island)	Kauai	**Total westbound**	Honolulu	Maui *(e)*	Hawaii (Big Island)	Kauai	**Total eastbound**	Other *(c)*	**Total**
2000	2,555	1,990	938	901	**6,383**	1,946	325	283	138	**2,692**	385	**9,461**
2005	2,816	2,197	1,186	997	**7,196**	1,691	155	275	58	**2,179**	410	**9,785**
2006	2,902	2,335	1,297	1,101	**7,634**	1,536	159	253	54	**2,003**	496	**10,134**
2007	2,965	2,383	1,310	1,188	**7,847**	1,506	158	251	63	**1,978**	439	**10,263**
2008	2,576	1,987	1,038	943	**6,544**	1,377	135	218	47	**1,776**	451	**8,771**
2009	2,475	1,815	960	858	**6,108**	1,361	113	205	38	**1,716**	346	**8,170**
2010	2,629	1,989	1,000	888	**6,505**	1,496	136	237	41	**1,910**	381	**8,796**
2011	2,621	2,057	1,041	929	**6,648**	1,591	170	230	50	**2,042**	340	**9,030**
2012	2,727	2,155	1,097	990	**6,969**	1,944	196	284	58	**2,482**	406	**9,857**
2013	2,786	2,183	1,097	1,014	**7,080**	2,122	243	301	72	**2,738**	265	**10,082**
2014	2,848	2,249	1,133	1,026	**7,257**	2,179	223	277	66	**2,746**	278	**10,281**
	Average annual percent increase (decrease)											
2000-2007	2.1%	2.6%	4.9%	4.0%	**3.0%**	(3.6)%	(9.8)%	(1.7)%	(10.6)%	**(4.3)%**	1.9%	**1.2%**
2007-2009	(8.6)	(12.7)	(14.4)	(15.0)	**(11.8)**	(5.0)	(15.5)	(9.6)	(22.4)	**(6.9)**	(11.2)	**(10.8)**
2009-2014	2.9	4.4	3.4	3.7	**3.5**	9.9	14.6	6.2	11.9	**9.9**	(4.3)	**4.7**
2000-2014	0.8	0.9	1.4	0.9	**0.9**	0.8	(2.6)	(0.1)	(5.1)	**0.1**	(2.3)	**0.6**

F=Forecast.

(a) A forecast of visitors from "Latin America" was not available for 2015-2018. Visitors from Latin America were assumed to grow at the same rate as total westbound visitors.

(b) A forecast of visitors from China and Korea was available for 2015-2018, but not for "Other Asia" countries. The growth rate for the combined China and Korea was applied to "Other Asia" in 2015-2018. (In 2014, China and Korea accounted for 92% of "Other Asia.")

(c) Includes visitors to Hawaii from other smaller origin markets.

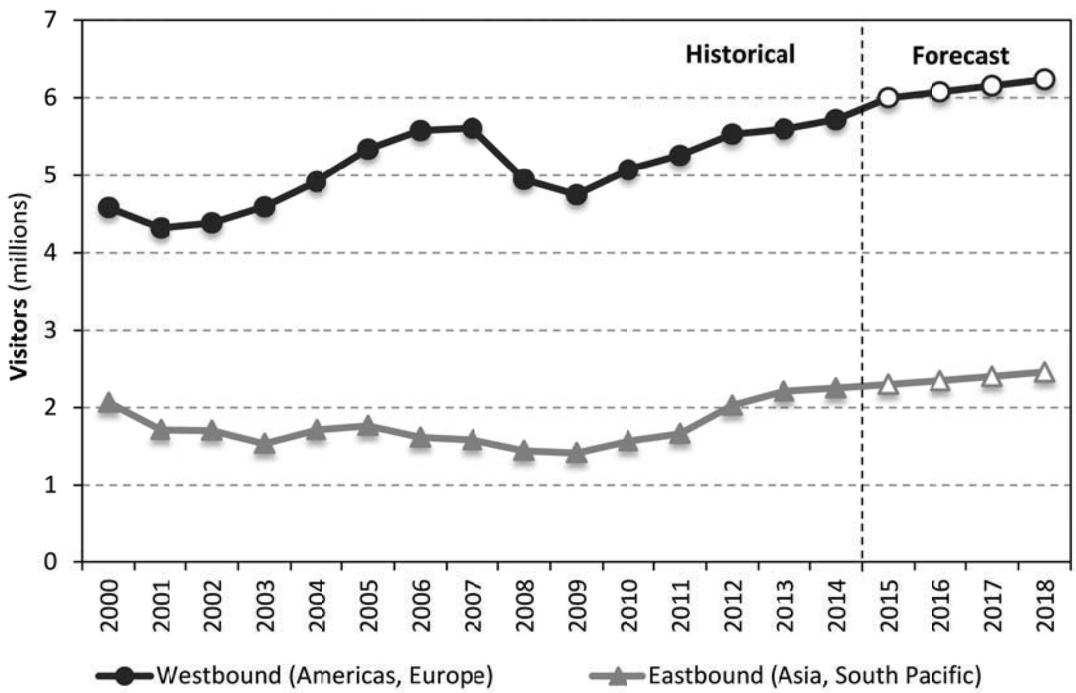
(d) Individual islands are counted multiple times and, hence, do not reconcile to visitors by origin market.

(e) County of Maui includes the Islands of Maui, Molokai, and Lanai.

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

Figure 3 graphically presents historical and projected trends in westbound and eastbound visitors to Hawaii, from 2000 to 2018. The number of westbound visitors has generally increased over the period, with temporary downturns typically associated with periods of economic recession in the U.S. The number of eastbound visitors declined between 2000 and 2009, affected by the severe acute respiratory syndrome (SARS) epidemic of 2003 and a decline in the value of the Japanese yen which increased the cost of overseas travel for Japanese visitors. Growth resumed in 2010, however, and by 2013 the number of eastbound visitors had rebounded to exceed the 2000 level.

Figure 3
HISTORICAL AND FORECAST VISITORS TO HAWAII BY ORIGIN REGION

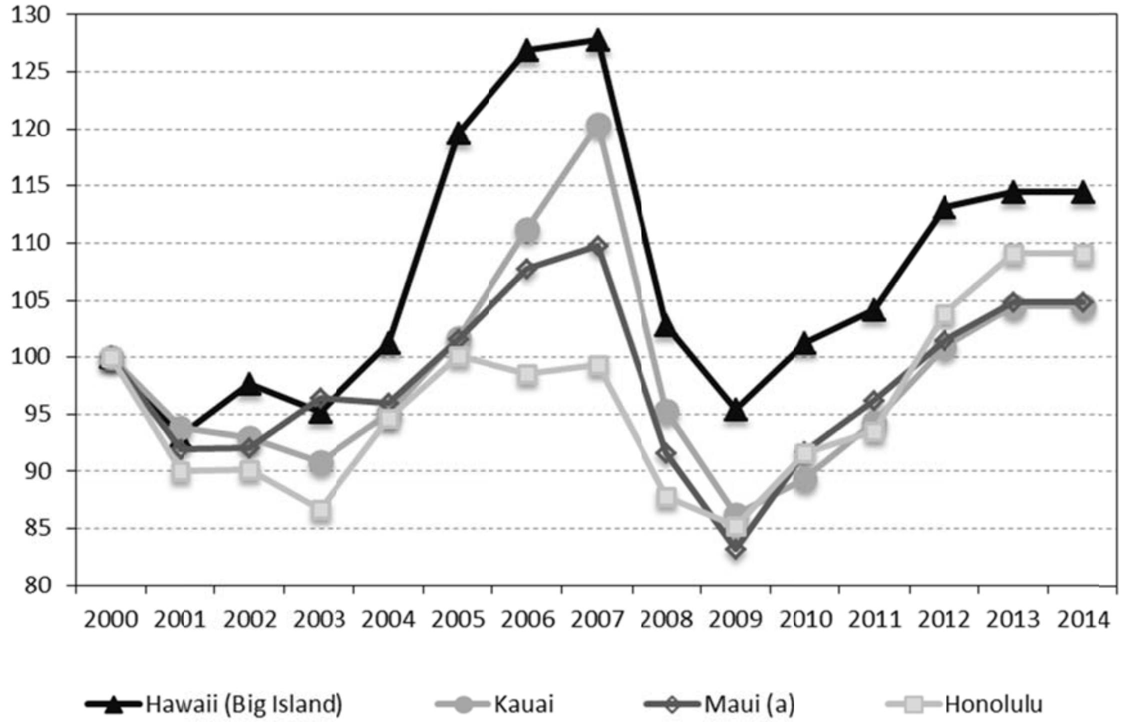


Source: State of Hawaii, Department of Business, Economic Development & Tourism.

Table 5 also presents the numbers of visits to the State of Hawaii's four counties—Honolulu, Maui, Hawaii, and Kauai—from 2000 to 2014. The county data count visits to more than one county (multiple island visits) and, therefore, are greater than the visitor data by origin market. In 2014, visits to the county of Honolulu (Oahu) accounted for approximately 49% all visits to the State, largely unchanged from Honolulu's share in 2000 (48%).

Figure 4 graphically depicts trends in visits by county, from 2000 to 2014.

Figure 4
VISITORS TO HAWAII
BY COUNTY
(index: Year 2000 = 100)



Note: Includes visits to more than one island.

(a) County of Maui includes the islands of Maui, Molokai, and Lanai.

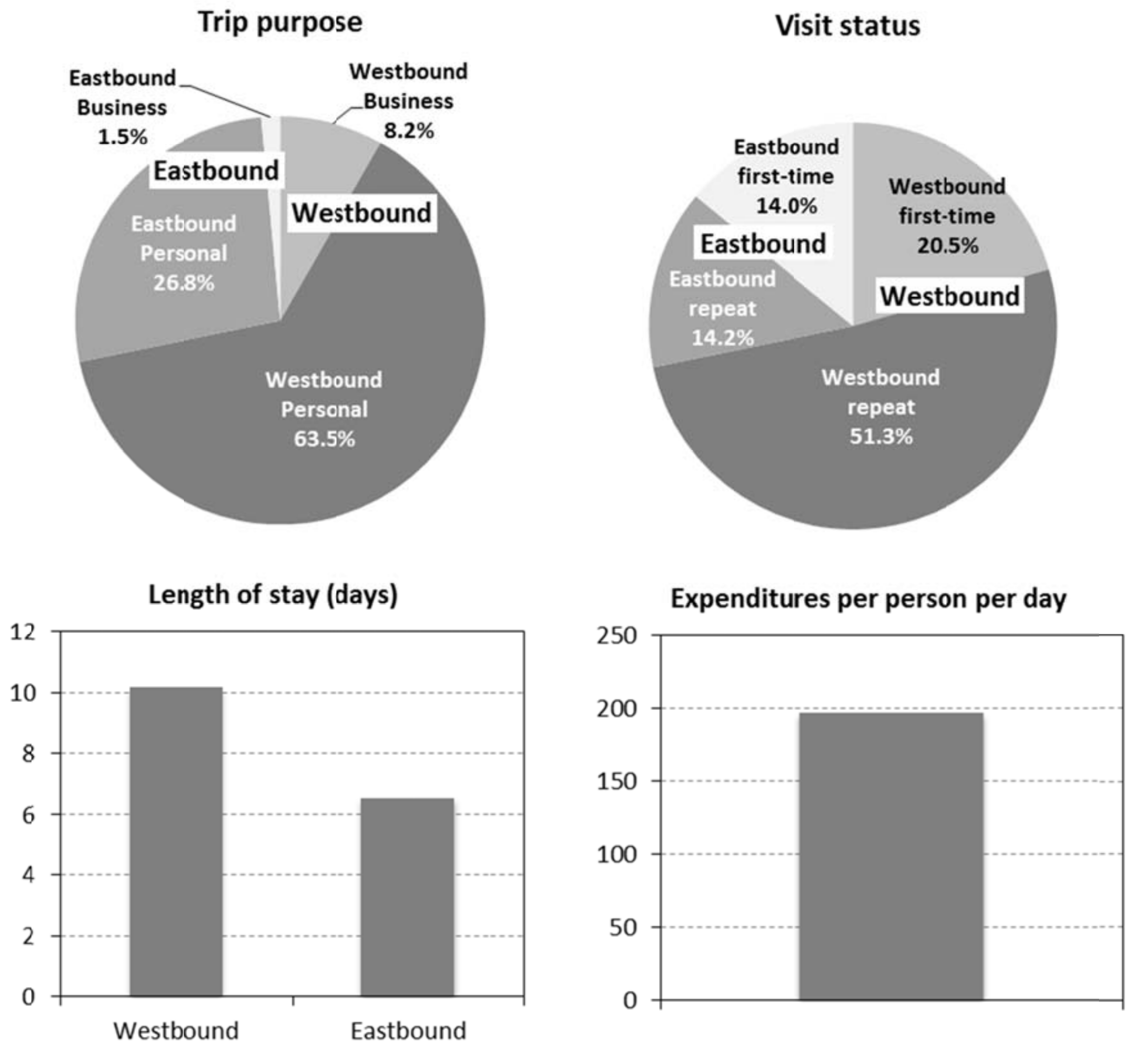
Source: State of Hawaii, Department of Business, Economic Development & Tourism.

Figure 5 shows that 90.3% of visitors to Hawaii are traveling for personal reasons (i.e., tourism, visiting friends and relatives, and other non-business purposes), according to DBEDT. Business travelers account for the remaining 9.7%. Almost two-thirds of visitors have traveled to Hawaii at least once before.

Westbound visitors tend to stay for a longer duration than do eastbound visitors—10.2 days vs. 6.5 days, on average. Visitors from all origins spend nearly $200 per person per day during their Hawaiian visits, on average, according to DBEDT.

There has been minimal change to these visitor characteristics over the past 6-8 years.

Figure 5
VISITOR CHARACTERISTICS
State of Hawaii
(2014)



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

ECONOMIC OUTLOOK

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

Outlook for the U.S. Economy

Following U.S. GDP growth of 1.5% in 2013 and 2.4% in 2014, the Congressional Budget Office (CBO) forecasts GDP growth of 2.8% in 2015, 3.0% in 2016, 2.7% in 2017, and 2.2% annually thereafter.

Continued U.S. economic growth will depend on, among other factors, recovery in the housing market, the effectiveness of monetary stimulus, the health of the financial and credit markets, the strength of the U.S. dollar versus other currencies, energy prices, the ability of the federal government to reduce historically high fiscal deficits, inflation remaining within the range targeted by the Federal Reserve, and the economic health of U.S. trading partners.

Outlook for the Economy of Hawaii

In its third quarter 2015 economic outlook, DBEDT notes that “Hawaii’s economy is expected to continue positive growth for the rest of 2015 and into 2016.” As discussed earlier, the economy of Hawaii is influenced by its geographic location and popularity as a major U.S. and Asia-Pacific tourist destination. Table 6 shows that state economists anticipate continued growth in economic activity in Hawaii.

- **Population.** DBEDT projects that the Hawaiian population will increase an average of 1.0% per year between 2014 and 2018, slightly higher than the rate projected for the nation (an average of 0.8% per year as projected by the U.S. Bureau of the Census).

- **Nonagricultural employment.** Near-term projections of nonagricultural employment for the State of Hawaii are for increases ranging from 1.1% to 1.6% in 2015, reflecting projections prepared by DBEDT, First Hawaiian Bank (FHB), and the University of Hawaii Economic Research Organization (UHERO). In 2016, employment in Hawaii is projected to increase between 1.2% and 1.4%. DBEDT longer-term projections of employment in Hawaii average 1.1% growth in 2017 and 2018.

- **Total personal income.** Near-term projections of total personal income (in constant dollars) for the State of Hawaii are for increases ranging from 2.5% to 3.5% in 2015. In 2016, personal income in Hawaii is projected to increase between 2.1% and 2.9%. DBEDT longer-term projections of personal income in Hawaii average 2.7% growth in 2017 and 2018.

- **Gross domestic product.** Near-term projections of GDP (in constant dollars) for the State of Hawaii are for increases ranging from 1.9% to 2.8% in 2015. In 2016, Hawaiian GDP is projected to increase between 2.2% and 2.3%. DBEDT longer-term projections of GDP in Hawaii average 2.4% growth in 2017 and 2018.

- **Visitor arrivals.** Near-term projections of Hawaii visitors arriving by air are for increases ranging from 2.0% to 4.3% in 2015. In 2016, visitor activity is projected to increase between 1.2% and 1.6%. DBEDT longer-term projections of visitor arrivals to Hawaii average growth of 1.7% in 2017 and 2018.

Table 6
COMPARISON OF SOCIOECONOMIC PROJECTIONS FOR THE STATE OF HAWAII

	Average annual percent increase				
	Historical	Projected			
	2000-2014	2014-2015	2015-2016	2016-2017	2017-2018
Population	1.1%				
DBEDT		1.0%	1.0%	1.0%	1.0%
Nonagricultural employment	0.9				
DBEDT		1.1	1.2	1.0	1.1
FHB		1.6	--	--	--
UHERO		1.5	1.4	1.2	0.9
Real total personal income	2.7				
DBEDT		3.5	2.9	2.7	2.6
FHB		2.5	--	--	--
UHERO		2.9	2.1	1.8	1.6
Real Gross Domestic Product	2.2				
DBEDT		1.9	2.3	2.4	2.4
FHB		n.a.	--	--	--
UHERO		2.8	2.2	1.9	2.0
Visitor arrivals	1.2				
DBEDT		4.3	1.6	1.7	1.7
FHB		2.0	--	--	--
UHERO		3.4	1.2	0.9	0.9

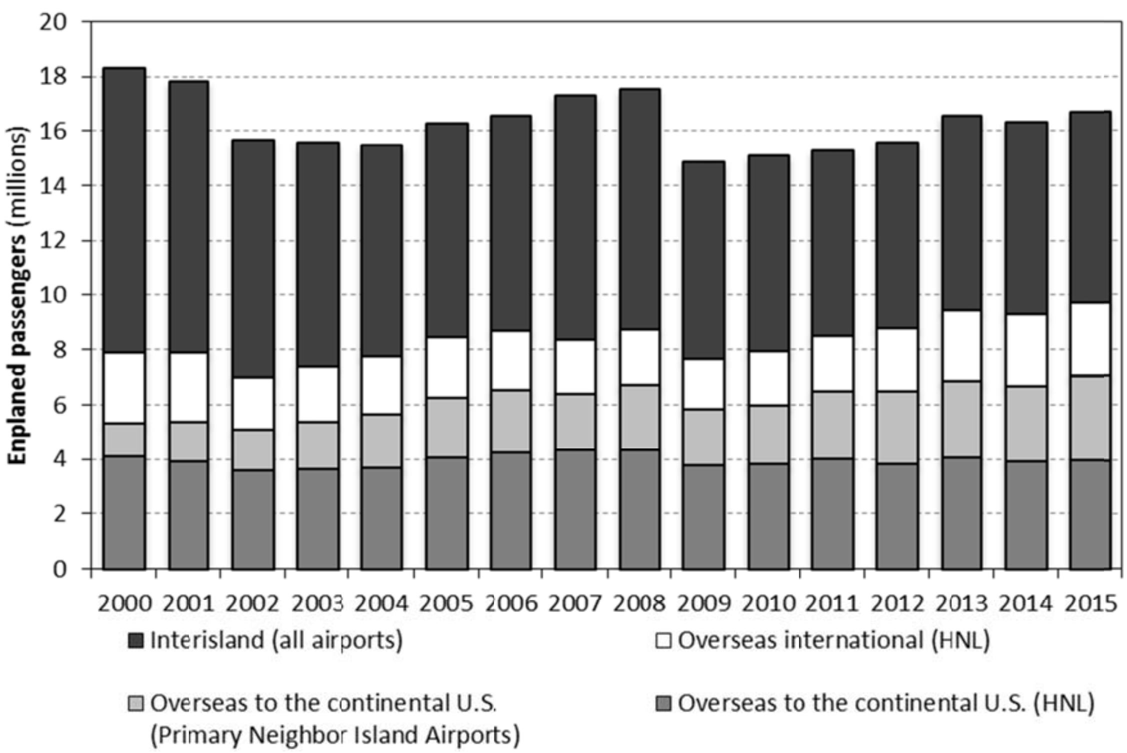
DBEDT = Hawaii State Department of Business, Economic Development and Tourism.
FHB = First Hawaii Bank
UHERO = University of Hawaii Economic Research Organization
n.a. = not available

Sources:
Historical: U.S. Department of Commerce, Bureau of Census, www.census.gov, accessed May 2015.
U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed May 2015.
U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed May 2015.
Projected: Hawaii State Department of Business, Economic Development and Tourism, Tourism Research Branch, *"Outlook for the Economy: 3rd Quarter of 2015"*, dbedt.hawaii.gov, accessed September 2015.
First Hawaiian Bank, *"Economic Forecast: Oahu Edition 2014-2015"*, www.fhb.com, accessed May 2015.
University of Hawaii Economic Research Organization, *"UHERO State Forecast Update, Public Summary"*, September 25, 2015, www.uhero.hawaii.edu, accessed September 2015.

AIRLINE TRAFFIC ANALYSIS

Growth in passenger traffic at the Hawaii Airports System historically has been driven by the intrinsic attractiveness of Hawaii as a business and leisure destination and the propensity of its residents to travel. Growth has been supplemented by the role of HNL as a connecting hub airport for the islands. HNL provides connecting passenger service to the other primary and secondary airports in the State in the same way that hub-and-spoke airline networks operate in the continental United States. The availability and development of connecting passenger service from HNL to the Primary Neighbor Island (PNI) Airports fostered growth in passenger demand that eventually became sufficient to support nonstop service from PNI Airports themselves to the continental United States. Figure 6 shows that, from FY 2000 to FY 2015, the PNI Airports' number of overseas passengers from Hawaii to the continental United States more than doubled. In FY 2015, the PNI Airports accounted for 44% of overseas passengers from Hawaii to the continental United States, up from 23% in FY 2000.

Figure 6
ENPLANED PASSENGERS
Hawaii Airports System
(Fiscal Years ended June 30)



Source: State of Hawaii, Department of Transportation.

In FY 2015, the number of passengers enplaned in the Hawaii Airports System increased 2.4% year-over-year, with interisland activity decreasing 0.3% and overseas activity increasing 4.4%.

Largest Commercial Service Airport in Hawaii

Of the 15 airports in the State, HNL is the largest commercial service airport, accounting for 58.2% of the passengers enplaned in the State in FY 2015, as shown in Table 7. Kahului Airport accounted for the next largest share, with 19.5% of total enplaned passengers in FY 2015. In FY 2015, overseas passengers accounted for 68.0% of all passengers enplaned at HNL. Additionally, HNL accommodated 68.2% of all overseas passengers enplaned statewide.

Table 7
PASSENGERS ENPLANED AT HAWAII AIRPORTS IN FY 2015

	Overseas		Interisland		Total	
	Passengers	Share of overseas	Passengers	Share of interisland	Passengers	Share of State total
Honolulu	6,605,637	68.2%	3,101,890	44.3%	9,707,527	58.2%
Primary Neighbor Island Airports						
Kahului	1,822,152	18.8	1,424,740	20.4	3,246,892	19.5
Kona	649,683	6.7	841,251	12.0	1,490,934	8.9
Lihue	569,900	5.9	816,117	11.7	1,386,017	8.3
Hilo	37,357	0.4	611,134	8.7	648,491	3.9
Subtotal	3,079,092	31.8%	3,693,242	52.8%	6,772,334	40.6%
Other airports	--	--%	202,934	2.9%	202,934	1.2%
State total	9,684,729	100.0%	6,998,066	100.0%	16,682,795	100.0%

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

Ranking Among Other Airports

Tables 8, 9, 10, and 11 show the 30 largest U.S. airports ranked by enplaned passengers, originating passengers, connecting passengers, and international passengers, respectively. In each case, HNL is highlighted among the other top-ranking airports. Additionally, the Hawaii Airports System, as a whole, is depicted among the top 30 airports to give a sense of its overall size. In general, passenger levels at both HNL and the Hawaii Airports System overall tended to be lower in 2014 than they had been in 2000, largely driven by a decrease in interisland activity over the period as the Primary Neighbor Island Airports have gained increased overseas service.

Table 8

ENPLANED PASSENGERS AT TOP-RANKING U.S. AIRPORTS

(calendar years)

2014 Rank	City (airport)	Enplaned passengers (millions) 2000	2007	2014	Percent increase (decrease) 2000-2014	Increase (decrease) 2000-2014 (millions)
1	Atlanta	39.2	43.1	46.6	18.8%	7.4
2	Los Angeles (International)	32.1	30.1	34.3	6.7	2.2
3	Chicago (O'Hare)	33.7	36.5	33.7	0.1	0.0
4	Dallas/Fort Worth	28.2	28.4	30.8	9.2	2.6
5	New York (Kennedy)	16.1	23.4	26.3	63.3	10.2
6	Denver	18.3	24.1	26.0	42.0	7.7
7	San Francisco	19.5	17.3	22.8	16.5	3.2
8	Charlotte	11.4	16.6	21.5	88.1	10.1
9	Las Vegas	16.4	22.4	20.4	24.5	4.0
10	Phoenix (Sky Harbor)	18.1	20.8	20.3	12.6	2.3
11	Houston (Bush)	16.3	20.8	19.8	21.1	3.4
12	Miami	16.5	16.2	19.5	18.2	3.0
13	Seattle	13.8	15.4	17.9	29.1	4.0
14	Newark	17.2	18.2	17.7	2.9	0.5
15	Orlando (International)	14.7	17.6	17.3	17.4	2.6
16	Minneapolis-St. Paul	16.8	17.0	17.0	1.1	0.2
	Hawaii Airports System	***17.1***	***17.4***	***16.0***	***(6.6)***	***(1.1)***
17	Detroit	17.2	17.5	15.8	(8.2)	(1.4)
18	Boston	13.6	13.8	15.4	13.2	1.8
19	Philadelphia	12.3	15.7	14.7	20.2	2.5
20	New York (LaGuardia)	12.7	12.5	13.4	5.8	0.7
21	Fort Lauderdale	7.8	11.1	12.0	53.9	4.2
22	Baltimore	9.6	10.4	11.0	13.7	1.3
23	Washington DC (Dulles)	9.1	11.8	10.4	14.7	1.3
24	Chicago (Midway)	7.1	9.1	10.3	45.4	3.2
25	Salt Lake City	9.5	10.6	10.1	6.4	0.6
26	Washington DC (Reagan)	7.4	9.0	10.1	35.8	2.7
27	**Honolulu**	**10.6**	**10.3**	**9.5**	**(10.5)**	**(1.1)**
28	San Diego	7.9	9.1	9.3	18.3	1.4
29	Tampa	8.0	9.3	8.5	7.2	0.6
30	Portland, Oregon	6.8	7.3	7.9	16.7	1.1
	Total—top 30 airports				17.6%	

Notes: Airports shown are the top 30 U.S. airports ranked by number of passengers for 2014. Percentages were calculated using unrounded numbers.

Sources: U.S. DOT, Schedules T100 and 298C T1.

Table 9

ORIGINATING PASSENGERS AT TOP-RANKING U.S. AIRPORTS

(calendar years)

2014 Rank	City (airport)	Originating passengers (millions) 2000	2007	2014	Percent increase (decrease) 2000-2014	Increase (decrease) 2000-2014 (millions)
1	Los Angeles (International)	24.0	23.3	26.1	9.1%	2.2
2	New York (Kennedy)	12.9	18.8	20.7	61.0	7.9
3	San Francisco	15.1	12.7	17.9	18.4	2.8
4	Chicago (O'Hare)	16.4	17.7	17.3	5.3	0.9
5	Las Vegas	14.1	18.5	17.2	21.7	3.1
6	Orlando (International)	13.8	16.6	16.5	19.3	2.7
7	Denver	9.8	13.0	15.3	55.9	5.5
8	Boston	12.6	13.1	14.5	15.6	2.0
9	Atlanta	15.3	15.1	14.5	(4.7)	(0.7)
	Hawaii Airports System	***14.9***	***15.1***	***13.8***	***(7.2)***	***(1.1)***
10	Seattle	10.4	11.6	12.8	22.3	2.3
11	Newark	13.3	13.9	12.6	(5.3)	(0.7)
12	Dallas/Fort Worth	11.5	12.3	12.4	7.6	0.9
13	New York (LaGuardia)	11.8	11.6	11.9	0.7	0.1
14	Phoenix (Sky Harbor)	11.2	12.8	11.7	4.1	0.5
15	Miami	10.0	9.4	11.3	13.0	1.3
16	Fort Lauderdale	7.6	10.4	10.8	42.9	3.2
17	Minneapolis-St. Paul	8.2	8.7	9.0	10.4	0.9
18	Houston (Bush)	6.8	9.0	8.9	31.7	2.1
19	San Diego	7.6	8.8	8.8	16.2	1.2
20	Philadelphia	7.8	9.8	8.6	10.2	0.8
21	Washington DC (Reagan)	6.5	7.4	8.4	27.9	1.8
22	Tampa	7.5	8.7	8.1	8.2	0.6
23	Detroit	8.4	9.0	8.0	(5.1)	(0.4)
24	Baltimore	8.2	8.5	7.8	(4.8)	(0.4)
25	**Honolulu**	**8.6**	**8.4**	**7.7**	**(9.9)**	**(0.9)**
26	Portland, Oregon	5.7	6.2	6.6	16.4	0.9
27	Washington DC (Dulles)	6.1	7.3	6.5	5.4	0.3
28	Chicago (Midway)	5.8	6.5	6.2	7.4	0.4
29	Charlotte	3.0	4.8	5.5	83.0	2.5
30	Salt Lake City	5.0	5.7	5.5	10.0	0.5
	Total—top 30 airports				14.5%	

Notes: Airports shown are the top 30 U.S. airports ranked by number of originating passengers for 2014. Percentages were calculated using unrounded numbers.
Includes a very small number of passengers on foreign-flag airlines making connections between international flights.

Sources: U.S. DOT, Schedules T100 and 298C T1; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Table 10

CONNECTING PASSENGERS AT TOP-RANKING U.S. AIRPORTS

(calendar years)

2014 Rank	City (airport)	Connecting passengers (millions) 2000	2007	2014	Percent increase (decrease) 2000-2014	Increase (decrease) 2000-2014 (millions)
1	Atlanta	24.0	28.1	32.1	33.8%	8.1
2	Dallas/Fort Worth	16.7	16.1	18.4	10.3	1.7
3	Chicago (O'Hare)	17.2	18.8	16.4	(4.9)	(0.8)
4	Charlotte	8.4	11.8	16.0	89.9	7.6
5	Houston (Bush)	9.6	11.7	10.9	13.5	1.3
6	Denver	8.5	11.1	10.7	26.0	2.2
7	Phoenix (Sky Harbor)	6.9	8.0	8.7	26.6	1.8
8	Los Angeles (International)	8.2	6.8	8.2	(0.1)	(0.0)
9	Miami	6.4	6.8	8.1	26.2	1.7
10	Minneapolis-St. Paul	8.6	8.3	8.0	(7.7)	(0.7)
11	Detroit	8.8	8.5	7.8	(11.2)	(1.0)
12	Philadelphia	4.5	5.9	6.2	37.4	1.7
13	New York (Kennedy)	3.2	4.6	5.5	72.8	2.3
14	Seattle	3.4	3.8	5.1	50.0	1.7
15	Newark	3.8	4.3	5.0	31.3	1.2
16	San Francisco	4.4	4.5	4.9	10.2	0.5
17	Salt Lake City	4.6	4.9	4.7	2.4	0.1
18	Chicago (Midway)	1.3	2.7	4.1	217.0	2.8
19	Washington DC (Dulles)	2.9	4.5	4.0	34.2	1.0
20	Las Vegas	2.3	3.9	3.2	41.3	0.9
21	Baltimore	1.4	1.9	3.1	120.2	1.7
	Hawaii Airports System	***2.2***	***2.4***	***2.2***	***(3.2)***	***(0.1)***
22	Houston (Hobby)	1.1	1.1	1.9	83.2	0.9
23	**Honolulu**	**2.0**	**1.9**	**1.7**	**(12.9)**	**(0.3)**
24	Washington DC (Reagan)	0.9	1.6	1.7	94.4	0.8
25	New York (LaGuardia)	0.8	1.0	1.5	75.7	0.6
26	Portland, Oregon	1.1	1.1	1.3	18.3	0.2
27	Dallas (Love)	0.7	1.0	1.2	77.4	0.5
28	Fort Lauderdale	0.2	0.7	1.2	418.4	1.0
29	St. Louis	9.5	1.4	1.1	(88.9)	(8.4)
30	Boston	1.0	0.7	0.9	(16.1)	(0.2)
	Total—top 30 airports				18.0%	

Notes: Airports shown are the top 30 U.S. airports ranked by number of connecting passengers for 2014.
Percentages were calculated using unrounded numbers.
Excludes a very small number of passengers on foreign-flag airlines making connections between international flights.

Sources: U.S. DOT, Schedules T100 and 298C T1; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Table 11
INTERNATIONAL PASSENGERS AT TOP-RANKING U.S. AIRPORTS
(calendar years)

2014 Rank	City (airport)	Enplaned international passengers (millions) 2000	2007	2014	Percent increase (decrease) 2000-2014	Increase (decrease) 2000-2014 (millions)
1	New York (Kennedy)	9.02	10.71	13.78	52.8%	4.8
2	Miami	7.99	7.76	10.05	25.9	2.1
3	Los Angeles (International)	8.16	8.33	9.16	12.3	1.0
4	Chicago (O'Hare)	4.96	5.67	5.58	12.5	0.6
5	Newark	4.40	5.28	5.75	30.7	1.3
6	San Francisco	3.95	4.25	5.00	26.6	1.1
7	Atlanta	3.11	4.46	5.25	68.7	2.1
8	Houston (Bush)	2.67	3.79	4.79	79.5	2.1
9	Dallas/Fort Worth	2.42	2.51	3.44	42.5	1.0
10	Washington DC (Dulles)	1.95	2.83	3.48	78.5	1.5
	Hawaii Airports System	***2.58***	***1.89***	***2.67***	***3.3***	***0.1***
11	**Honolulu**	**2.49**	**1.79**	**2.46**	**(1.2)**	**(0.0)**
12	Boston	2.13	1.92	2.24	4.9	0.1
13	Detroit	1.92	1.89	1.64	(14.3)	(0.3)
14	Philadelphia	1.28	1.79	1.94	51.2	0.7
15	Orlando (International)	1.22	1.10	2.14	75.2	0.9
16	Fort Lauderdale	0.70	1.44	2.22	216.4	1.5
17	Seattle	1.11	1.27	1.84	66.2	0.7
18	Minneapolis-St. Paul	1.44	1.26	1.18	(18.5)	(0.3)
19	Las Vegas	0.51	1.12	1.64	220.4	1.1
20	Charlotte	0.47	1.04	1.54	224.0	1.1
21	Denver	0.63	1.10	1.10	74.3	0.5
22	Phoenix (Sky Harbor)	0.49	0.87	1.10	125.3	0.6
23	New York (LaGuardia)	0.69	0.63	0.81	16.8	0.1
24	Orlando (Sanford)	0.41	0.57	0.08	(80.1)	(0.3)
25	Cincinnati	0.54	0.35	0.12	(78.7)	(0.4)
26	Baltimore	0.29	0.26	0.35	20.0	0.1
27	Portland, Oregon	0.24	0.31	0.25	6.2	0.0
28	Tampa	0.20	0.18	0.28	42.0	0.1
29	San Diego	0.15	0.15	0.34	128.8	0.2
30	Salt Lake City	0.06	0.27	0.20	236.2	0.1
	Total—top 30 airports				36.8%	

Notes: Airports shown are the top 30 U.S. airports (excluding airports in Puerto Rico, the islands of the U.S. Pacific Trust, and the U.S. Virgin Islands) ranked by number of international passengers for 2014. Percentages were calculated using unrounded numbers.

Sources: U.S. DOT, Schedules T100 and 298C T1.

Role as Hawaiian Airlines Hub

Hawaiian Airlines was incorporated in January 1929 (formerly Inter-Island Airways) and is the largest airline headquartered in Honolulu. The airline provides scheduled air transportation service for passengers and cargo among the Hawaiian Islands, and between the Hawaiian Islands and cities in the United States, East Asia, the South Pacific, and Australia. HNL is the only hub in Hawaiian Airlines' system and accounted for 44.3% of the airline's scheduled departing seats (from U.S. airports) in FY 2015. From FY 2000 to FY 2015, the number of passengers enplaned by Hawaiian at HNL increased an average of 3.3% per year, reflecting the development of its domestic overseas and international service. As a result of its concentration of operations in Hawaii and dependence on tourist travel, Hawaiian Airlines is sensitive to changes in the Hawaiian market, including service and fare competition on its transpacific routes from other airlines.

Role as an International Gateway

HNL is the primary connecting hub of Hawaiian Airlines. Approximately 1.8 million passengers connected between flights at HNL in FY 2014, representing 18.4% of all passengers enplaned at the Airport. Approximately 1.7 million of those passengers were making connections to, from, or between overseas flights, both domestic and international. Table 12 shows that, among all U.S. airports, HNL offers the most departing seats to Japan—31% of the U.S. total and more than twice as many as second-ranked Los Angeles. HNL is a key connecting point for travel between North America, Asia, and Oceania, as well as a gateway to and from the neighboring Hawaiian Islands. This prominence of HNL among U.S. gateway airports reflects Honolulu's: (1) geographic location in the Central Pacific, (2) large originating passenger base related to the visitor industry, and (3) role as a hub for Hawaiian Airlines, which offers connecting passenger service from HNL to the other primary airports.

Table 12

SCHEDULED DEPARTING SEATS, BY WORLD REGION DESTINATION

To the U.S. Pacific Trust and International Destinations

Top 20 U.S. Gateway Airports

(12 months ended June 30, 2015; seats in thousands)

Rank	City(-Airport)	Japan	Other Asia	Oceania	Canada	U.S. Pacific Trust	Europe, Africa & Mid-East	Latin America & Caribbean	**TOTAL**
1	New York-Kennedy	468	1,395	--	498	--	10,031	5,727	**18,120**
2	Miami	--	--	--	481	--	2,157	9,917	**12,555**
3	Los Angeles	789	2,559	1,747	1,273	--	2,656	2,847	**11,870**
4	Chicago-O'Hare	466	979	--	1,387	--	3,349	1,142	**7,322**
5	New York-Newark	97	725	--	1,001	--	3,864	1,533	**7,219**
6	Houston-Bush	137	188	--	620	--	1,646	3,877	**6,468**
7	Atlanta	114	139	--	430	--	2,293	3,442	**6,418**
8	San Francisco	497	2,044	228	875	0	1,932	692	**6,269**
9	Dallas/Ft. Worth	180	366	151	534	--	1,044	2,581	**4,855**
10	Washington DC-Dulles	189	257	--	301	--	3,141	668	**4,556**
11	Fort Lauderdale	--	--	--	643	--	130	2,388	**3,161**
12	**Honolulu**	**1,738**	**554**	**537**	**175**	**155**	**--**	**--**	**3,159**
13	Boston	68	67	--	535	--	2,057	404	**3,131**
14	Orlando	--	--	--	579	--	881	1,262	**2,722**
15	Philadelphia	--	--	--	426	--	1,695	595	**2,717**
16	Seattle	208	636	--	835	--	747	102	**2,528**
17	Detroit	209	338	--	287	--	920	304	**2,059**
18	Las Vegas	1	45	--	1,056	--	418	494	**2,014**
19	Charlotte	--	--	0	163	--	602	1,138	**1,903**
20	Minneapolis-St. Paul	112	--	--	575	--	506	319	**1,513**
	Total—top 20 gateways	**5,273**	**10,290**	**2,664**	**12,673**	**155**	**40,071**	**39,433**	**110,559**
	All other gateways	274	24	3	4,613	--	1,423	4,423	**10,760**
	Total—all U.S. gateways	**5,546**	**10,315**	**2,667**	**17,286**	**155**	**41,493**	**43,856**	**121,319**

Note: Columns and rows may not add to totals shown because of rounding.

(a) Includes Australia, New Zealand, and Pacific Ocean Islands.

Sources: U.S. DOT, Schedules T100.

Airline Service

Table 13 lists the passenger airlines providing service at the five primary airports and seven secondary airports with commercial passenger service in the Hawaii Airports System in June 2015. HNL is served by a total of 23 airlines, including 9 U.S. airlines and 14 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 10 airlines, including 8 U.S. airlines and 2 foreign-flag airlines.

Table 13
SCHEDULED PASSENGER AIRLINES SERVING HAWAII
(June 2015)

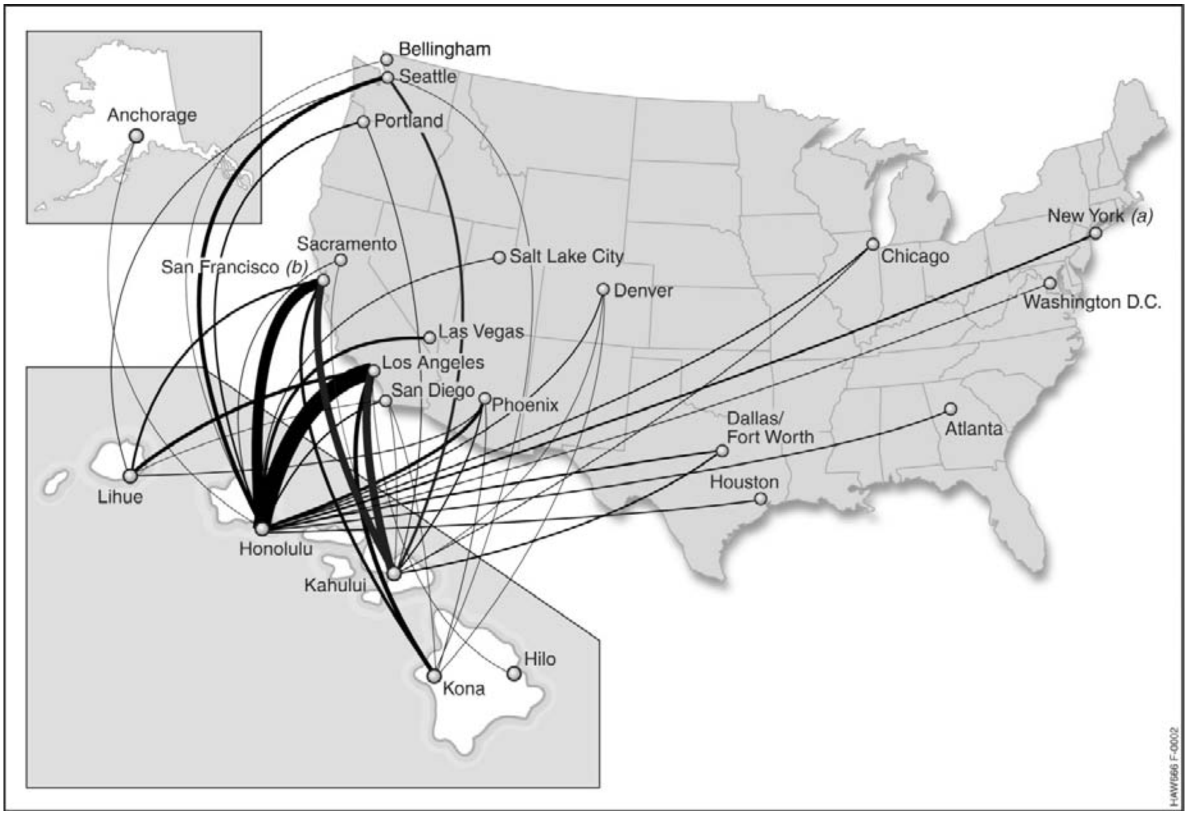
	Honolulu	Kahului	Kona	Lihue	Hilo	Lanai	Molokai	Kapalua	Waimea	Hana	Kalealoa	Kalaupapa
United States airlines												
Alaska	X	X	X	X								
Allegiant Air	X											
American *(a)*	X	X	X	X								
Delta	X	X	X	X								
Empire *(b)*	X	X	X		X	X	X					
Hawaiian	X	X	X	X	X	X	X					
Island Air	X	X				X						
Mokulele	X	X	X				X	X	X	X	X	X
United	X	X	X	X	X							
Foreign-flag airlines												
Air Canada Rouge	X	X										
Air China	X											
Air Japan	X											
Air New Zealand	X											
Asiana	X											
China	X											
China Eastern	X											
Fiji	X											
Japan	X											
Jetstar	X											
Korean Air	X											
Philippine	X											
Qantas	X											
Westjet	X	X	X	X								

(a) Includes US Airways.
(b) Doing business as Ohana by Hawaiian.

Sources: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2015.

Air transportation in Hawaii is characterized by three types of service: (1) domestic overseas service to the continental United States, (2) international overseas service, primarily to destinations in the Pacific Rim and Oceania, and (3) domestic service among the islands in Hawaii, referred to as "interisland." Domestic service to the continental United States consists of flights to cities in the western portion of the country and to the hubs of major airlines throughout the country, as shown on Figure 7. In June 2015, an average of 116 daily flights departed from the five primary Hawaii airports to the continental U.S., with 59 of the flights departing from HNL and 31 from Kahului Airport. Of the 116 average daily departures from Hawaii to the continental U.S., more than half were to the Los Angeles Area (40 flights) and the San Francisco Bay Area (27 flights).

Figure 7
SCHEDULED SEATS DEPARTING HAWAII FOR THE CONTINENTAL U.S.
Hawaii Airports System
(June 2015)



Note: Thickness of line indicates relative number of scheduled seats.

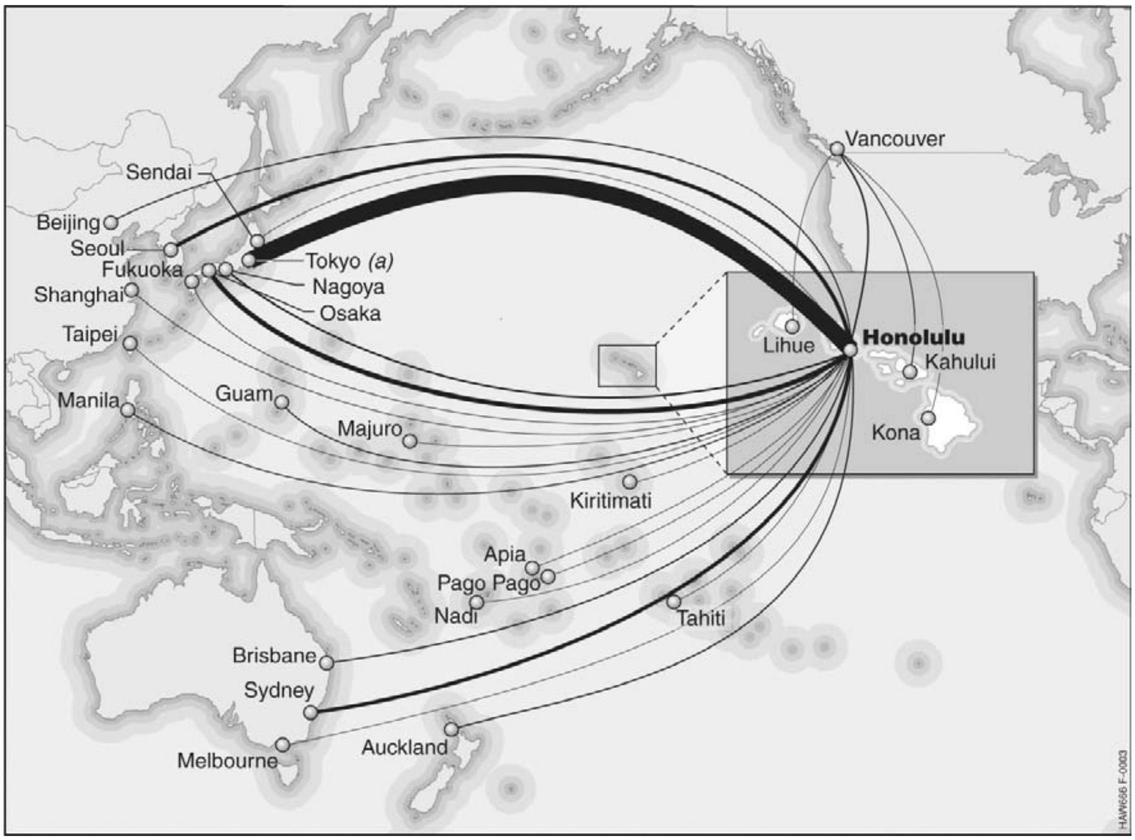
(a) John F. Kennedy and Newark Liberty international airports.
(b) San Francisco, Oakland, and Mineta San Jose international airports.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2015.

Future announced airline service not yet reflected in Figure 7 includes: daily seasonal service by Delta from Minneapolis-St. Paul to HNL scheduled to begin in October 2015, and daily service by Virgin America from SFO to both HNL and OGG scheduled to begin in November and December 2015, respectively.

International service consists of flights almost entirely from HNL to Canada, Oceania, and the Pacific Rim by U.S. and foreign-flag airlines as shown on Figure 8. International service to Canada is also provided from Kahului, Kona, and Lihue airports. In June 2015, an average of 32 daily flights departed from Hawaii to international destinations, with 69% of the flights departing to Asian countries, 22% to countries in Oceania and Islands of the U.S. Pacific Trust, and the remaining 9% to Canada.

Figure 8
SCHEDULED SEATS DEPARTING HAWAII FOR INTERNATIONAL DESTINATIONS AND THE U.S. PACIFIC TERRITORIES
Hawaii Airports System
(June 2015)



Notes: Excludes seasonal service to destinations without scheduled departures in June 2015.
Thickness of line indicates relative number of scheduled seats.

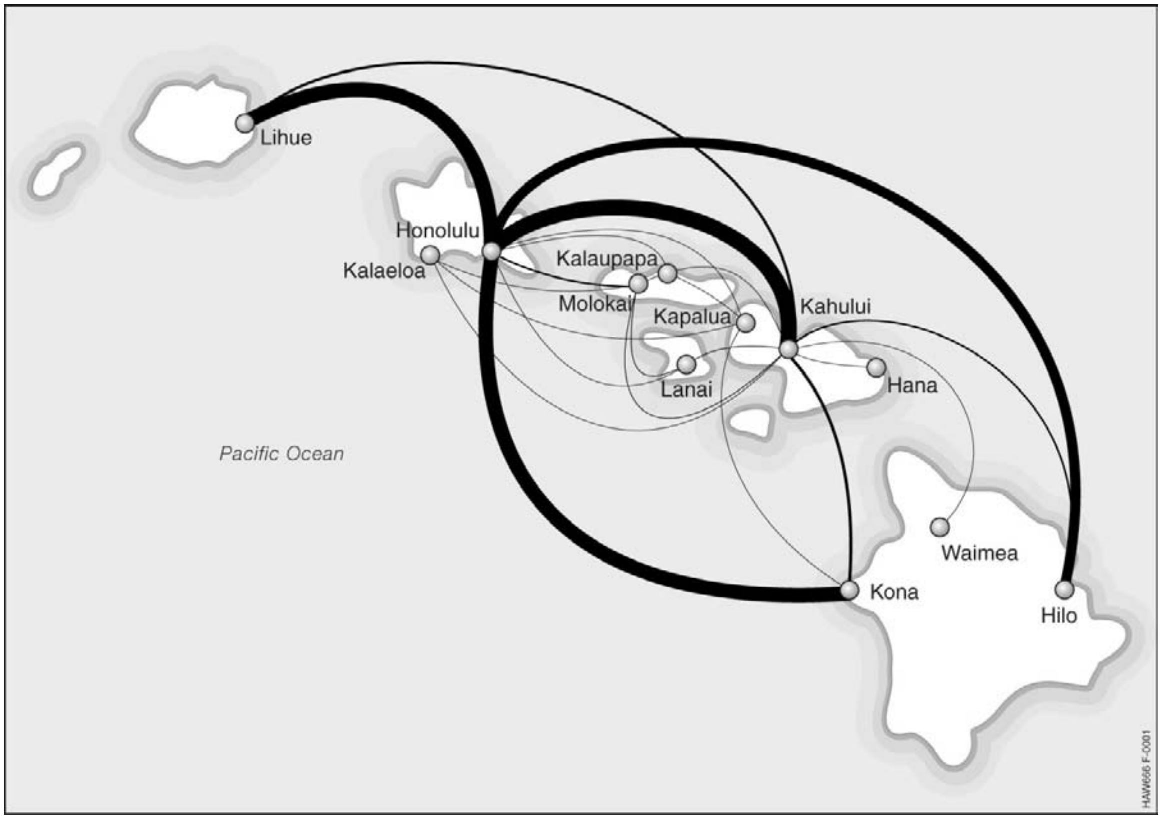
(a) Tokyo Haneda and Narita International airports.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2015.

Future announced airline service not yet reflected in Figure 8 includes: four times weekly service by AirAsia X from Kuala Lumpur to HNL scheduled to begin in November 2015, and five times weekly service by Jin Air from Seoul to HNL scheduled to begin in December 2015.

Interisland service, as shown on Figure 9, consists of short-haul flights with 100- to 200-mile stage lengths. In June 2015, an average of 283 daily flights departed from the five primary Hawaii airports to other airports in Hawaii, with 117 of those flights departing from HNL and 81 from Kahului Airport. The large number of departing flights reflects the relatively smaller configurations of aircraft used in interisland service. In June 2015, propeller aircraft (eight seats per aircraft) accounted for 34% of interisland departing flights but only 3% of the departing seats. Similarly, turboprop aircraft accounted for 13% of interisland departing flights and 10% of the departing seats. Mainline jet (narrowbody and widebody) aircraft accounted for the remaining 54% of interisland departing flights (87% of departing seats).

Figure 9
INTERISLAND SCHEDULED DEPARTING SEATS
Hawaii Airports System
(June 2015)



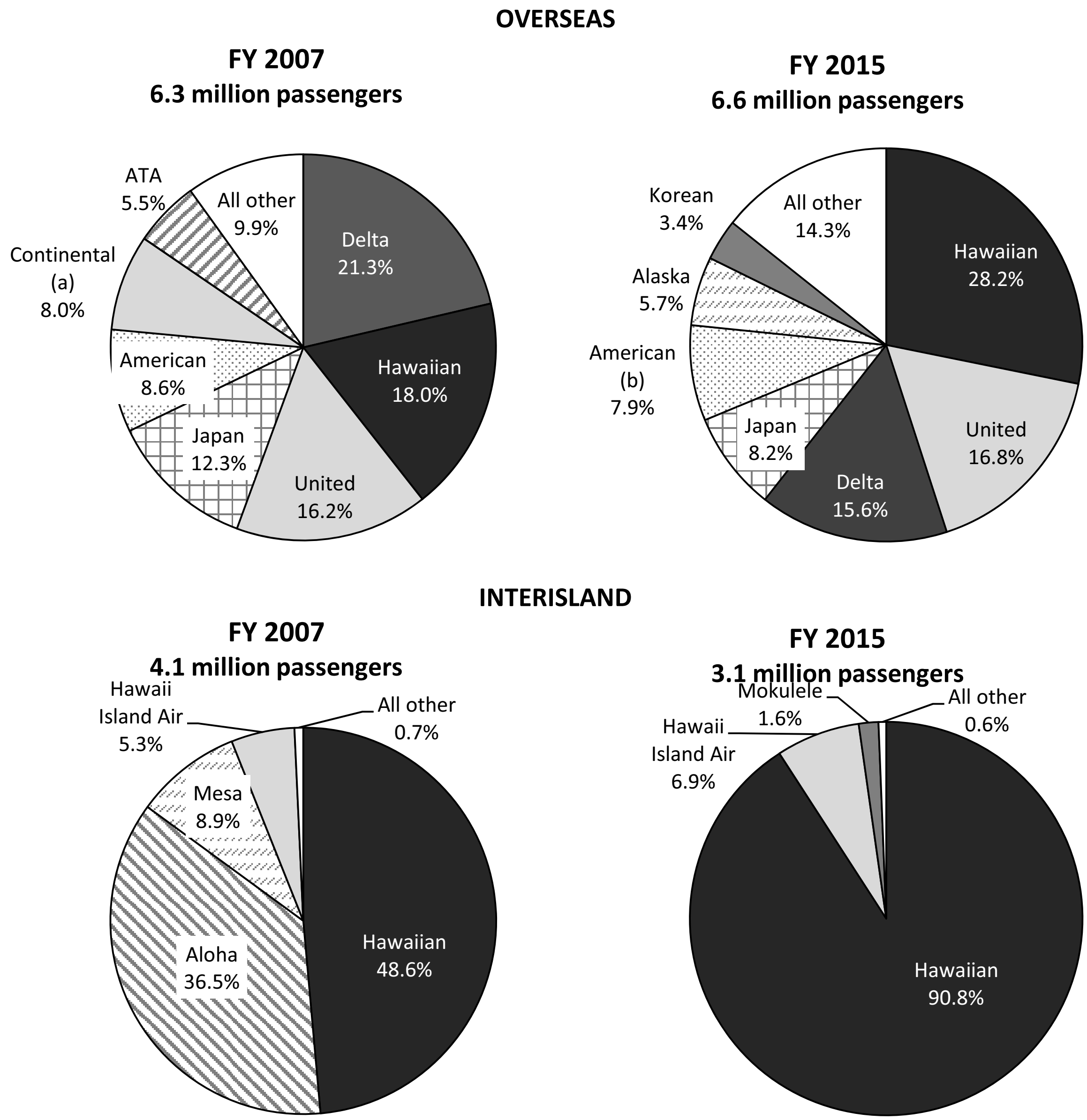
Notes: Thickness of line indicates relative number of scheduled seats.
Seats are counted in both directions on interisland routes.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2015.

Airline Shares of Passengers

The market shares for the passenger airlines serving HNL are shown on Figure 10 and in Table 14. The share of overseas passengers enplaned at HNL increased from 60.5% in FY 2007 to 68.0% in FY 2015. In contrast, the share of HNL interisland passengers decreased from 39.5% to 32.0% over the same period. In FY 2015, Hawaiian Airlines had the largest market share of interisland enplaned passengers (90.8%) at HNL, up from 48.6% in FY 2007. Aloha Airlines, which provided primarily interisland service, filed for bankruptcy protection and ceased operation in March 2008, while Mesa Airlines ceased its Go!-branded interisland service in April 2014. The market shares of overseas passengers at HNL are significantly more diversified—Hawaiian had the largest share (28.2%) in FY 2015, followed by United (16.8%), Delta (15.6%), and Japan Airlines (8.2%).

Figure 10
ENPLANED PASSENGER MARKET SHARES
Honolulu International Airport



(a) Includes Continental Micronesia.
(*b*) Includes US Airways.

Source: State of Hawaii, Department of Transportation.

The market shares for the passenger airlines serving the Primary Neighbor Island Airports are shown on Figure 11 and in Table 14. The share of overseas passengers enplaned at the Primary Neighbor Island Airports increased from 30.9% in FY 2007 to 45.5% in FY 2015. In contrast, the share of Primary Neighbor Island Airport interisland passengers decreased from 69.1% to 54.5% over the same period. Given that much interisland traffic is between HNL and the Primary Neighbor Island Airports, as illustrated in Figure 7, the markets shares of interisland passengers enplaned at the Primary Neighbor Island Airports closely resemble those at HNL. In terms of overseas passengers, the Primary Neighbor Island Airports, like HNL, exhibit substantial diversity in airline market shares. In FY 2015, Alaska Airlines had the largest market share of overseas enplaned passengers (26.3%) at the Primary Neighbor Island Airports, followed by United (25.1%), American (18.9%), and Hawaiian (14.2%).

Table 14
ENPLANED PASSENGERS BY AIRLINE
Hawaii Airports System

	Enplaned passengers								
	FY 2007			FY 2011			FY 2015		
Airline	Honolulu International	Principal Neighbor Island Airports	Hawaii Airports System	Honolulu International	Principal Neighbor Island Airports	Hawaii Airports System	Honolulu International	Principal Neighbor Island Airports	Hawaii Airports System
Overseas									
U.S. airlines									
Hawaiian	1,136,072	200,458	1,336,530	1,389,002	218,486	1,607,488	1,861,263	436,355	2,297,618
United *(a)*	1,526,113	719,665	2,245,778	1,367,728	879,580	2,247,308	1,111,401	772,823	1,884,224
Delta *(b)*	1,343,494	278,358	1,621,852	1,080,949	237,515	1,318,464	1,030,644	270,481	1,301,125
Alaska	-	-	-	220,960	504,099	725,059	373,699	810,825	1,184,524
American *(c)*	542,495	384,741	927,236	610,746	520,685	1,131,431	518,883	582,536	1,101,419
ATA	348,202	201,929	550,131	-	-	-	-	-	-
Aloha	83,189	209,826	293,015	-	-	-	-	-	-
All other	84,333	-	84,333	58,728	-	58,728	141,172	-	141,172
U.S. airline sub-total	5,063,898	1,994,977	7,058,875	4,728,113	2,360,365	7,088,478	5,037,062	2,873,020	7,910,082
Foreign-flag airlines									
Japan	772,030	-	772,030	616,377	-	616,377	539,209	-	539,209
Korean	61,034	-	61,034	142,836	-	142,836	224,362	-	224,362
WestJet	-	-	-	65,201	82,177	147,378	77,837	143,744	221,581
All Nippon	61,978	-	61,978	128,338	-	128,338	151,587	-	151,587
Air Canada	82,657	30,161	112,818	65,973	53,358	119,331	71,121	62,328	133,449
All other	253,017	29,254	282,271	239,045	-	239,045	504,459	-	504,459
Foreign-flag airline sub-total	1,230,716	59,415	1,290,131	1,257,770	135,535	1,393,305	1,568,575	206,072	1,774,647
Overseas sub-total	**6,294,614**	**2,054,392**	**8,349,006**	**5,985,883**	**2,495,900**	**8,481,783**	**6,605,637**	**3,079,092**	**9,684,729**
InterIsland									
Hawaiian	2,000,342	2,170,490	4,170,832	2,704,419	2,967,492	5,671,911	2,818,011	3,390,027	6,265,828
Hawaii Island Air	218,761	249,564	666,291	158,425	104,823	404,299	214,340	189,598	431,518
Mokulele	-	-	-	18,337	58,173	103,513	50,089	107,864	250,626
Aloha	1,501,214	1,744,237	3,245,670	-	-	-	-	-	-
Mesa	367,393	347,910	715,303	287,629	277,175	564,804	-	-	-
All other	30,115	85,254	153,058	7,305	40,107	55,982	19,450	5,753	50,094
InterIsland sub-total	**4,117,825**	**4,597,455**	**8,951,154**	**3,176,115**	**3,447,770**	**6,800,509**	**3,101,890**	**3,693,242**	**6,998,066**
Total	**10,412,439**	**6,651,847**	**17,300,160**	**9,161,998**	**5,943,670**	**15,282,292**	**9,707,527**	**6,772,334**	**16,682,795**

Table 14 *(page 2 of 2)*
ENPLANED PASSENGERS BY AIRLINE
Hawaii Airports System

	Percent of total								
	FY 2007			FY 2011			FY 2015		
Airline	Honolulu International	Principal Neighbor Island Airports	Hawaii Airports System	Honolulu International	Principal Neighbor Island Airports	Hawaii Airports System	Honolulu International	Principal Neighbor Island Airports	Hawaii Airports System
Overseas									
U.S. airlines									
Hawaiian	10.9%	3.0%	7.7%	15.2%	3.7%	10.5%	19.2%	6.4%	13.8%
United *(a)*	14.7	10.8	13.0	14.9	14.8	14.7	11.4	11.4	11.3
Delta *(b)*	12.9	4.2	9.4	11.8	4.0	8.6	10.6	4.0	7.8
Alaska	-	-	-	2.4	8.5	4.7	3.8	12.0	7.1
American *(c)*	5.2	5.8	5.4	6.7	8.8	7.4	5.3	8.6	6.6
ATA	3.3	3.0	3.2	-	-	-	-	-	-
Aloha	0.8	3.2	1.7	-	-	-	-	-	-
All other	0.8	-	0.5	0.6	-	0.4	1.5	-	0.8
U.S. airline sub-total	48.6%	30.0%	40.8%	51.6%	39.7%	46.4%	51.9%	42.4%	47.4%
Foreign-flag airlines									
Japan	7.4%	-%	4.5%	6.7%	-%	4.0%	5.6%	-%	3.2%
Korean	0.6	-	0.4	1.6	-	0.9	2.3	-	1.3
WestJet	-	-	-	0.7	1.4	1.0	0.8	2.1	1.3
All Nippon	0.6	-	0.4	1.4	-	0.8	1.6	-	0.9
Air Canada	0.8	0.5	0.7	0.7	0.9	0.8	0.7	0.9	0.8
All other	2.4	0.4	1.6	2.6	-	1.6	5.2	-	3.0
Foreign-flag airline sub-total	11.8%	0.9%	7.5%	13.7%	2.3%	9.1%	16.2%	3.0%	10.6%
Overseas sub-total	**60.5%**	**30.9%**	**48.3%**	**65.3%**	**42.0%**	**55.5%**	**68.0%**	**45.5%**	**58.1%**
InterIsland									
Hawaiian	19.2%	32.6%	24.1%	29.5%	49.9%	37.1%	29.0%	50.1%	37.6%
Hawaii Island Air	2.1	3.8	3.9	1.7	1.8	2.6	2.2	2.8	2.6
Mokulele	-	-	-	0.2	1.0	0.7	0.5	1.6	1.5
Aloha	14.4	26.2	18.8	-	-	-	-	-	-
Mesa	3.5	5.2	4.1	3.1	4.7	3.7	-	-	-
All other	0.3	1.3	0.9	0.1	0.7	0.4	0.2	0.1	0.3
InterIsland sub-total	**39.5%**	**69.1%**	**51.7%**	**34.7%**	**58.0%**	**44.5%**	**32.0%**	**54.5%**	**41.9%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(a) Includes Continental and Continental Micronesia for all years shown.
(b) Includes Northwest in 2007.
(c) Includes US Airways for all years shown.

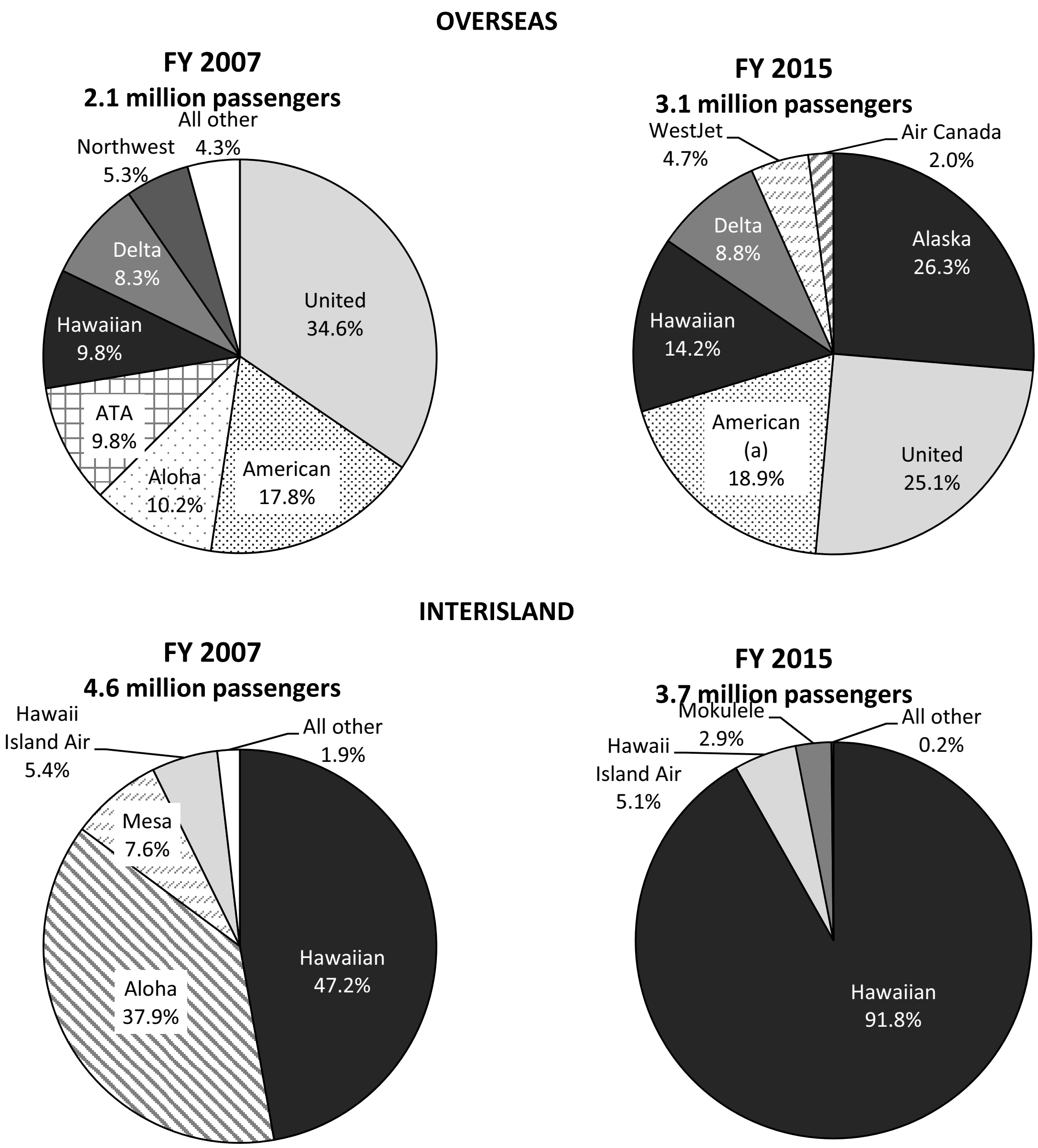
Source: State of Hawaii, Department of Transportation.

Enplaned Passenger Trends

Table 15 presents historical enplaned passenger data (overseas, interisland, and total) for the Hawaii Airports System, HNL, and the four Primary Neighbor Island Airports for FY 2000 and FY 2007 through FY 2015. Overseas passengers travel from a Hawaiian airport to an airport outside the State, including destinations in the continental United States and in other countries. Interisland passengers travel between airports in Hawaii.

Following a 1.5% decrease in systemwide enplanements in FY 2014, driven by a reduction in overseas traffic from HNL to the U.S. mainland as well as a more widespread reduction in interisland activity, systemwide enplanements rebounded 2.4% in FY 2015. The FY 2015 increase was driven largely by a gain in overseas activity at the Primary Neighbor Island Airports.

Figure 11
ENPLANED PASSENGER MARKET SHARES
Primary Neighbor Island Airports



(a) Includes US Airways.

Source: State of Hawaii, Department of Transportation.

Table 15

HISTORICAL ENPLANED PASSENGERS

Hawaii Airports System

	FY 2000	FY 2007 *(a)*	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Compound annual growth rate: 2010-'15
HAWAII AIRPORTS SYSTEM											
Overseas											
Domestic *(b)*	5,224,614	6,312,647	6,609,947	5,739,019	5,820,676	6,326,228	6,291,224	6,659,078	6,481,469	6,834,201	3.3%
International	2,659,437	2,036,359	2,098,692	1,896,311	2,095,570	2,155,555	2,490,098	2,764,881	2,791,219	2,850,528	6.3
	7,884,051	8,349,006	8,708,639	7,635,330	7,916,246	8,481,783	8,781,322	9,423,959	9,272,688	9,684,729	4.1
Interisland	10,399,057	8,951,154	8,792,597	7,206,820	7,162,646	6,800,509	6,784,974	7,118,800	7,022,309	6,998,066	(0.5)
Total	18,283,108	17,300,160	17,501,236	14,842,150	15,078,892	15,282,292	15,566,296	16,542,759	16,294,997	16,682,795	2.0%
					Percent increase (decrease)						
Overseas		0.8%	4.3%	(12.3)%	3.7%	7.1%	3.5%	7.3%	(1.6)%	4.4%	
Interisland		(2.1)	(1.8)	(18.0)	(0.6)	(5.1)	(0.2)	4.9	(1.4)	(0.3)	
Total		(0.8)	1.2	(15.2)	1.6	1.3	1.9	6.3	(1.5)	2.4	
HONOLULU INTERNATIONAL											
Overseas											
Domestic *(b)*	4,089,112	4,317,670	4,328,831	3,757,063	3,787,185	3,965,863	3,792,079	4,037,079	3,905,540	3,961,181	0.9%
International	2,584,850	1,976,944	2,020,589	1,802,897	1,979,784	2,020,020	2,312,063	2,583,545	2,598,258	2,644,456	6.0
	6,673,962	6,294,614	6,349,420	5,559,960	5,766,969	5,985,883	6,104,142	6,620,624	6,503,798	6,605,637	2.8
Interisland	4,623,320	4,117,825	4,030,471	3,339,291	3,351,144	3,176,115	3,154,076	3,232,462	3,196,439	3,101,890	(1.5)
Total	11,297,282	10,412,439	10,379,891	8,899,251	9,118,113	9,161,998	9,258,218	9,853,086	9,700,237	9,707,527	1.3%
					Percent increase (decrease)						
Overseas		(0.8)%	0.9%	(12.4)%	3.7%	3.8%	2.0%	8.5%	(1.8)%	1.6%	
Interisland		(1.6)	(2.1)	(17.1)	0.4	(5.2)	(0.7)	2.5	(1.1)	(3.0)	
Total		(1.2)	(0.3)	(14.3)	2.5	0.5	1.1	6.4	(1.6)	0.1	

Table 15 *(page 2 of 3)*

HISTORICAL ENPLANED PASSENGERS

Hawaii Airports System

	FY 2000	FY 2007 *(a)*	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Compound annual growth rate: 2010-'15
PRIMARY NEIGHBOR ISLAND AIRPORTS											
Overseas	1,210,672	2,054,392	2,359,219	2,075,370	2,149,277	2,495,900	2,677,180	2,803,335	2,768,890	3,079,092	7.5%
Interisland	5,488,187	4,597,455	4,521,105	3,665,561	3,638,374	3,447,770	3,456,265	3,709,984	3,653,149	3,693,242	0.3
Total	6,698,859	6,651,847	6,880,324	5,740,931	5,787,651	5,943,670	6,133,445	6,513,319	6,422,039	6,772,334	3.2%
					Percent increase (decrease)						
Overseas		7.8%	14.8%	(12.0)%	3.6%	16.1%	7.3%	4.7%	(1.2)%	11.2%	
Interisland		(2.5)	(1.7)	(18.9)	(0.7)	(5.2)	0.2	7.3	(1.5)	1.1	
Total		(0.1)	3.4	(16.6)	0.8	2.7	3.2	6.2	(1.4)	5.5	
Kahului											
Overseas	898,704	1,356,628	1,517,353	1,254,604	1,306,866	1,537,593	1,591,597	1,642,016	1,637,202	1,822,152	6.9%
Interisland	2,153,350	1,614,961	1,583,378	1,287,718	1,280,231	1,209,611	1,246,166	1,388,773	1,371,867	1,424,740	2.2
Total	3,052,054	2,971,589	3,100,731	2,542,322	2,587,097	2,747,204	2,837,763	3,030,789	3,009,069	3,246,892	4.6%
					Percent increase (decrease)						
Overseas		6.1%	11.8%	(17.3)%	4.2%	17.7%	3.5%	3.2%	(0.3)%	11.3%	
Interisland		(4.0)	(2.0)	(18.7)	(0.6)	(5.5)	3.0	11.4	(1.2)	3.9	
Total		(0.4)	4.3	(18.0)	1.8	6.2	3.3	6.8	(0.7)	7.9	
Kona International at Keahole											
Overseas	219,751	466,854	474,163	456,832	467,903	538,395	539,293	569,962	561,167	649,683	6.8%
Interisland	1,197,273	1,106,945	1,090,129	875,391	853,088	812,928	823,064	874,418	854,022	841,251	(0.3)
Total	1,417,024	1,573,799	1,564,292	1,332,223	1,320,991	1,351,323	1,362,357	1,444,380	1,415,189	1,490,934	2.4%
					Percent increase (decrease)						
Overseas		11.4%	1.6%	(3.7)%	2.4%	15.1%	0.2%	5.7%	(1.5)%	15.8%	
Interisland		(1.1)	(1.5)	(19.7)	(2.5)	(4.7)	1.2	6.2	(2.3)	(1.5)	
Total		1.5	(0.6)	(14.8)	(0.8)	2.3	0.8	6.0	(2.0)	5.4	

Table 15 *(page 3 of 3)*

HISTORICAL ENPLANED PASSENGERS

Hawaii Airports System

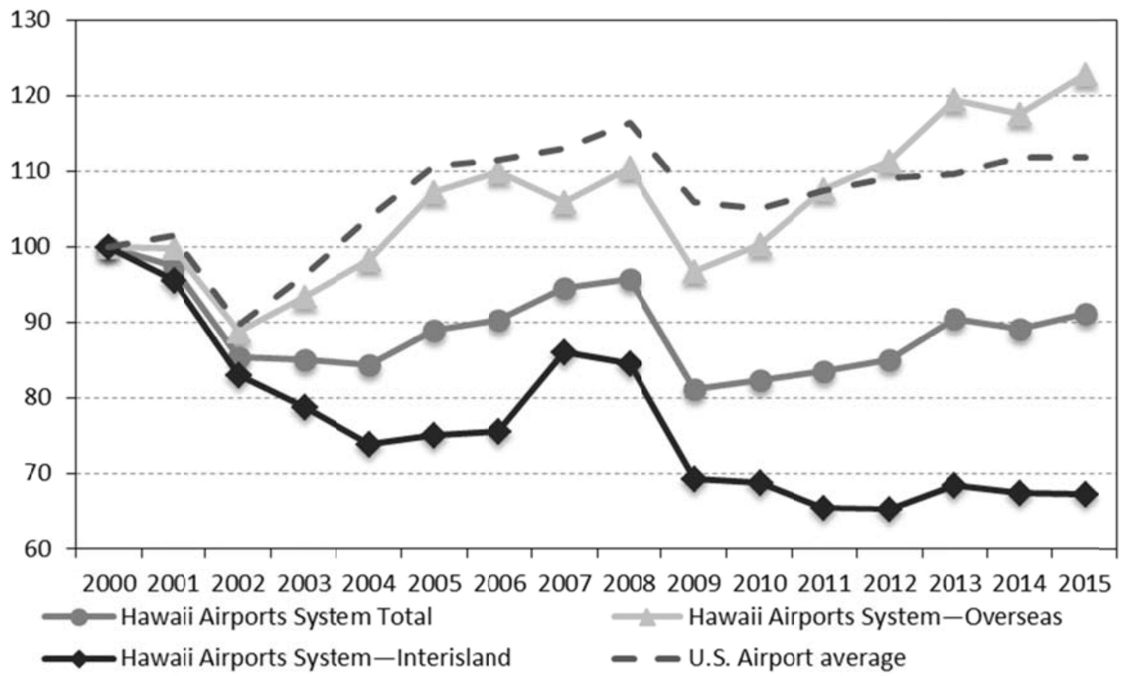
	FY 2000	FY 2007 *(a)*	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Compound annual growth rate: 2010-'15
Lihue											
Overseas	92,217	194,983	342,795	363,934	374,508	416,522	494,375	542,820	544,551	569,900	8.8%
Interisland	1,344,917	1,113,623	1,101,052	866,447	845,538	804,383	787,492	815,736	808,574	816,117	(0.7)
Total	1,437,134	1,308,606	1,443,847	1,230,381	1,220,046	1,220,905	1,281,867	1,358,556	1,353,125	1,386,017	2.6%
	Percent increase (decrease)										
Overseas		11.3%	75.8%	6.2%	2.9%	11.2%	18.7%	9.8%	0.3%	4.7%	
Interisland		(2.7)	(1.1)	(21.3)	(2.4)	(4.9)	(2.1)	3.6	(0.9)	0.9	
Total		(1.3)	10.3	(14.8)	(0.8)	0.1	5.0	6.0	(0.4)	2.4	
Hilo International											
Overseas	-	35,927	24,908	-	-	3,390	51,915	48,537	25,970	37,357	n.a.
Interisland	792,647	761,926	746,546	636,005	659,517	620,848	599,543	631,057	618,686	611,134	(1.5)%
Total	792,647	797,853	771,454	636,005	659,517	624,238	651,458	679,594	644,656	648,491	(0.3)%
	Percent increase (decrease)										
Overseas			(30.7)%	(100.0)%	-%	-%	1431.4%	(6.5)%	(46.5)%	43.8%	
Interisland		(0.6)%	(2.0)	(14.8)	3.7	(5.9)	(3.4)	5.3	(2.0)	(1.2)	
Total		0.1	(3.3)	(17.6)	3.7	(5.3)	4.4	4.3	(5.1)	0.6	
OTHER AIRPORTS	286,967	235,874	241,021	201,968	173,128	176,624	174,633	176,354	172,721	202,934	3.2%
	Percent increase (decrease)										
		(2.8)%	2.2%	(16.2)%	(14.3)%	2.0%	(1.1)%	1.0%	(2.1)%	17.5%	

(a) Percentage change from 2000 to 2007 represents the average annual rate of change.
(b) Includes passengers enplaned on flights to the continental United States.

Source: State of Hawaii, Department of Transportation.

Figure 12 compares trends in enplaned passengers for the Hawaii Airports System, its overseas and interisland subcomponents, and for the nation as a whole. Since FY 2000, overseas travelers in the Hawaii Airports System have generally mirrored the national trend, with declines reflecting the impacts of the 2001 terrorist attacks and the 2008-2009 economic recession and respective recoveries thereafter. Numbers of interisland passengers, by contrast, have exhibited a negative trajectory, with FY 2015 interisland passenger volumes 33% less than their FY 2000 level. The substantial decrease in interisland passengers in FY 2009 was related to reductions in seating capacity and the cessation of service by Aloha Airlines (which provided primarily interisland service and, after filing for Chapter 11 bankruptcy, ceased service in March 2008).

Figure 12
ANNUAL CHANGE IN TOTAL ENPLANED PASSENGERS
Hawaii Airports System
(Fiscal Years ended June 30)



Source: State of Hawaii, Department of Transportation.

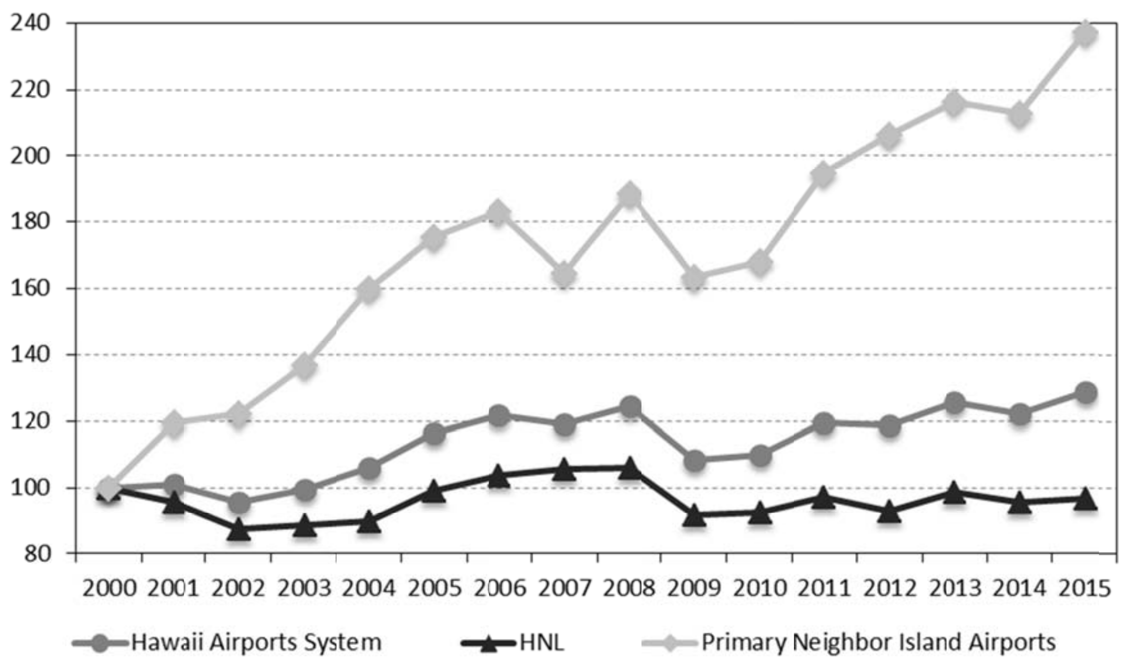
Overseas passengers include two categories of travelers: (1) passengers enplaned on domestic flights at Hawaii airports traveling to destinations in the continental United States, and (2) passengers enplaned at Hawaii airports on the international flights of U.S. and foreign-flag airlines traveling to Pacific Rim, Oceania, and Canadian destinations. Between FY 2000 and FY 2015, the number of domestic overseas passengers in the Hawaii Airports System increased an average of 1.8% per year, with the Primary Neighbor Island Airports accounting for all of the growth, as shown on Figure 13 and in Table 15. The growth in overseas passengers at the Primary Neighbor Island Airports reflects the development of air service between the continental United States and these airports. This development of air service has also reduced the need to connect through HNL to and from overseas destinations and, thus, has contributed to the decline in interisland passengers in the Hawaii Airports System. Domestic overseas passengers accounted for 41% of total enplaned passengers in the Hawaii Airports System in FY 2015, up from 29% in FY 2000.

Figure 13

ANNUAL CHANGE IN DOMESTIC OVERSEAS ENPLANED PASSENGERS

Hawaii Airports System

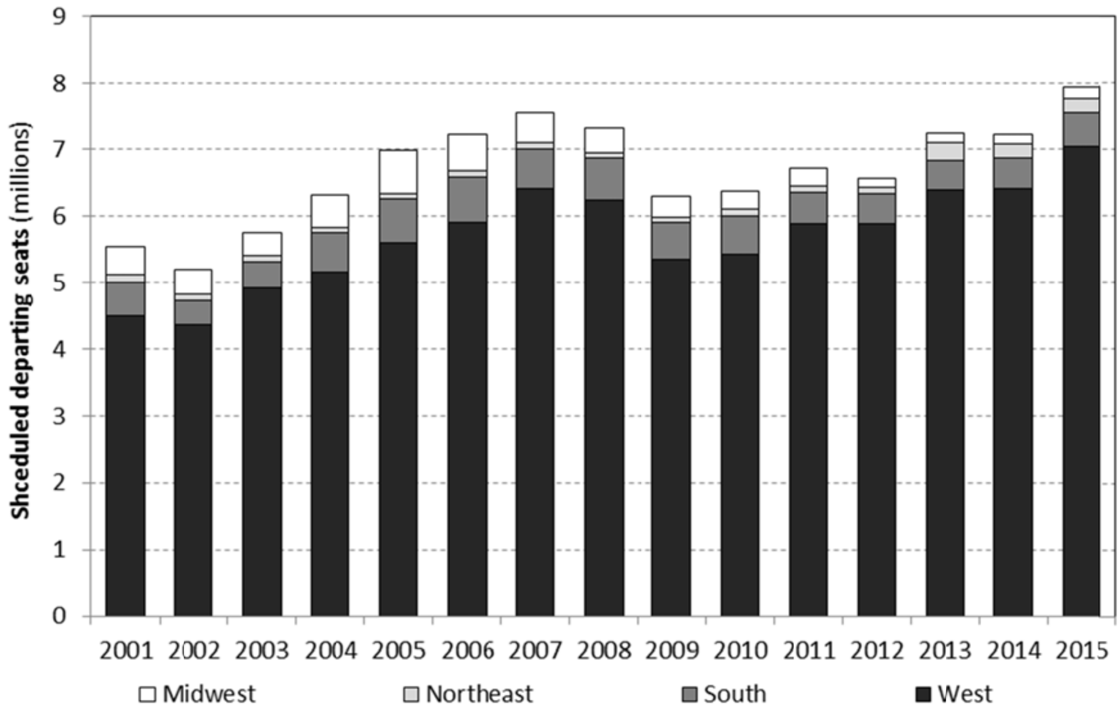
(Fiscal Years ended June 30)



Source: State of Hawaii, Department of Transportation.

Figure 14 shows a regional breakdown of scheduled departing seats from the Hawaii Airports System to the continental United States, from FY 2001 through FY 2015. The West accounted for 89% of all available capacity between Hawaii and the continental U.S. in FY 2015, up from 81% in FY 2001.

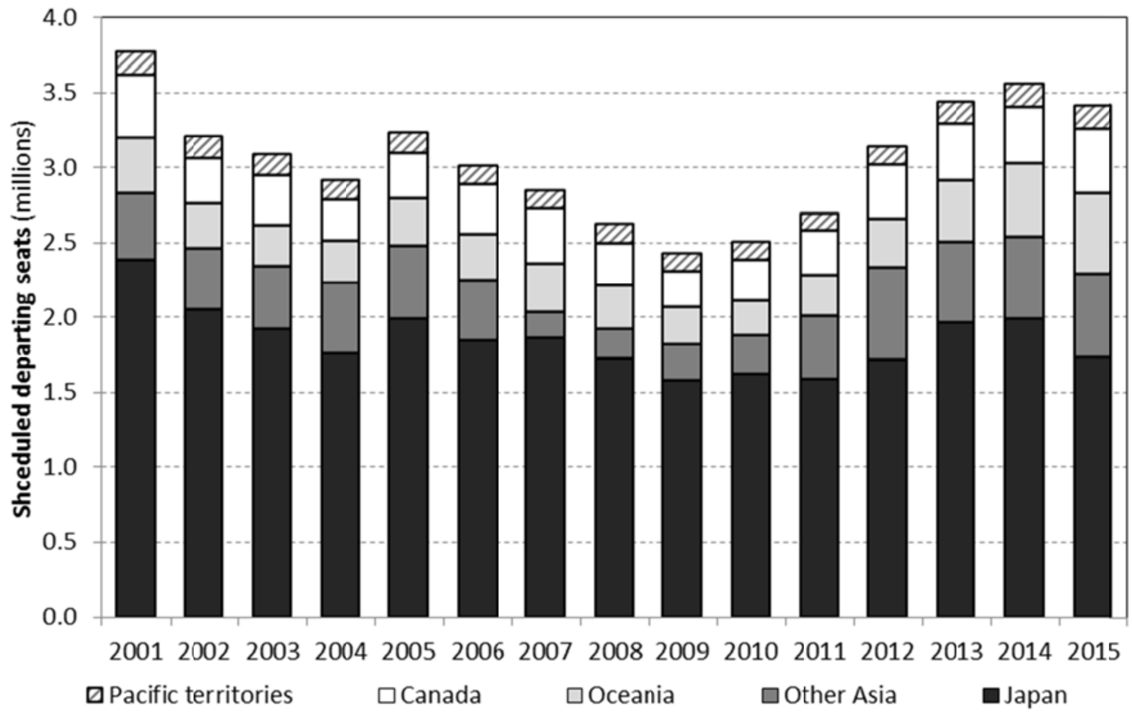
Figure 14
SCHEDULED DEPARTING SEATS TO CONTINENTAL UNITED STATES
Hawaii Airports System
(Fiscal Years ended June 30)



Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2015.

Figure 15 shows a regional breakdown of scheduled international departing seats from the Hawaii Airports System, from FY 2001 through FY 2015. Japan accounted for 51% of all available capacity between Hawaii and international destinations in FY 2015, down from 63% in FY 2001.

Figure 15
SCHEDULED DEPARTING SEATS TO INTERNATIONAL DESTINATIONS AND THE U.S. PACIFIC TERRITORIES
Hawaii Airports System
(Fiscal Years ended June 30)



Note: Pacific Territories include Guam, American Samoa, Johnston Atoll, and Midway Island.
Other Asia includes China, Korea, Philippines, and Taiwan.
Oceania includes Australia, Cook Islands, Fiji, Polynesia, Kiribati, Marshall Islands, New Zealand, Samoa, and Tonga

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2015.

Originating Passengers

The increase in the number of Hawaii Airports System originating passengers* largely results from the popularity of Hawaii as a tourist destination, the strength of Hawaii's visitor industry, and the strength and size of Hawaii's overall economy, as discussed in the earlier section "Basis for Airline Passenger Demand."

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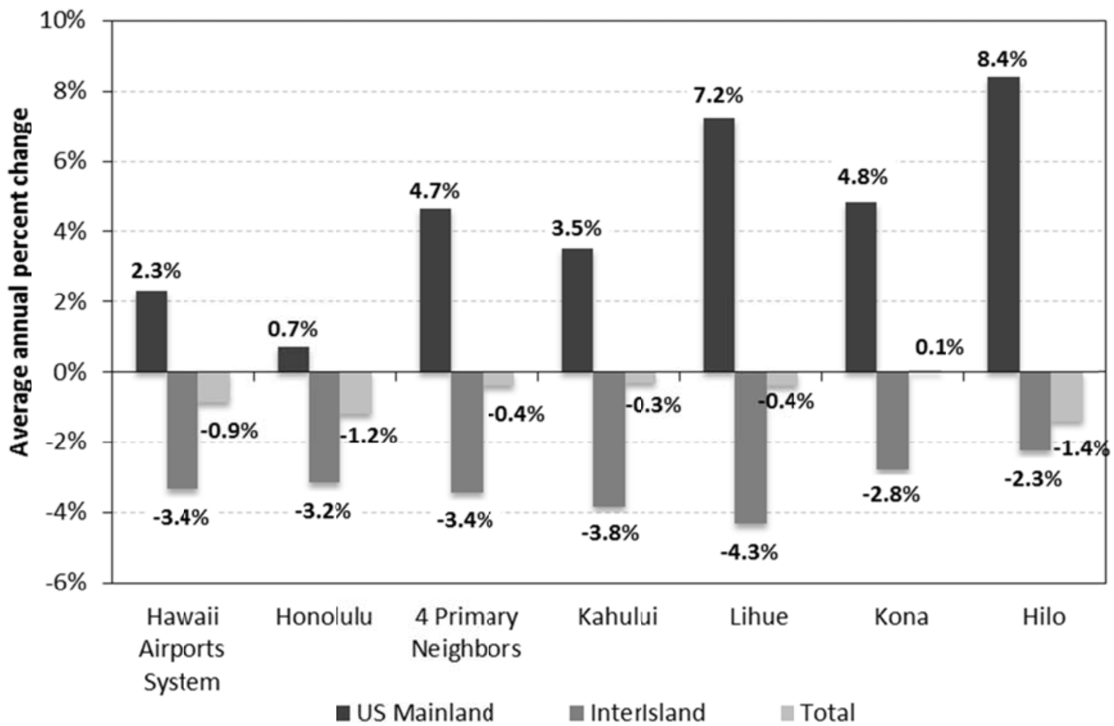
*Originating passengers, which include residents and visitors, are those enplaned passengers whose flights originate at the airports in the Hawaii Airports System, and who are not connecting from another flight.

Originating Passengers by Airport. Figure 16 presents the average annual increase or decrease in domestic originating passengers for the Hawaii Airports System and by primary airport from FY 2000 through FY 2014. The decrease in total domestic originating passengers between FY 2000 and FY 2014 reflects decreases in interisland activity related to reductions in seating capacity and the cessation of service by Aloha Airlines (which provided primarily interisland service), as discussed earlier.

Continental U.S. and Interisland Originating Passengers. As shown in Figure 16, the number of originating passengers traveling to the continental United States from the airports in the Hawaii Airports System increased an average of 2.3% per year between FY 2000 and FY 2014. In contrast, the number of interisland originating passengers decreased an average of 3.4% per year.

Figure 16
ANNUAL AVERAGE PERCENT CHANGE IN DOMESTIC ORIGINATING PASSENGERS, BY AIRPORT
Hawaii Airports System
(FY 2000 – FY 2014; Fiscal Years ended June 30)



Note: Excludes passengers to the U.S. Pacific Trust.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Originating Passengers by Market. Table 16 presents the top 20 domestic originating passenger markets for HNL in FY 2014. Four of the top five domestic markets are in Hawaii—Kahului, Hilo, Kona, and Lihue—which together accounted for 40.0% of total domestic originating passengers in FY 2014. The largest domestic originating markets in the continental United States were Los Angeles (10.3%) and San Francisco (7.2%).

Table 16

TOP 20 DOMESTIC O&D PASSENGER MARKETS AND SCHEDULED DEPARTING SEATS
HONOLULU INTERNATIONAL AIRPORT
(Fiscal Year ended June 30, 2014, except as noted)

Rank	O&D market	Air miles from Honolulu	Percent of O&D passenger total	Average daily seats June 2015
1	Kahului	101	13.9%	3,924
2	Los Angeles *(a)*	2,551	10.3	4,312
3	Hilo	216	8.9	1,907
4	Kona	163	8.7	2,726
5	Lihue	101	8.5	2,789
6	San Francisco *(b)*	2,404	7.2	2,704
7	Las Vegas	2,757	4.1	832
8	Seattle	2,675	3.4	1,073
9	New York *(c)*	4,963	2.9	536
10	San Diego	2,609	2.6	452
11	Portland	2,601	1.9	490
12	Washington, D.C. *(d)*	4,807	1.7	242
13	Phoenix	2,912	1.6	829
14	Chicago *(e)*	4,235	1.5	344
15	Denver	3,358	1.1	327
16	Sacramento	2,458	1.0	259
17	Dallas/Fort Worth *(f)*	3,776	1.0	465
18	Salt Lake City	2,989	1.0	261
19	Molokai	54	0.9	218
20	Houston *(g)*	3,895	0.8	344
	Total—top 20 markets		83.2%	25,033
	Other markets		16.8	759
	Total—all markets		100.0%	25,792

(a) Market includes Los Angeles, Burbank, Long Beach, Ontario, and Orange County airports.
(b) Market includes San Francisco, Oakland, and San Jose airports.
(c) Market includes Kennedy, LaGuardia, and Newark airports.
(d) Market includes Dulles, Reagan, and Baltimore airports.
(e) Market includes O'Hare and Midway airports.
(f) Market includes Dallas/Fort Worth Airport and Love Field.
(g) Market includes Bush and Hobby airports.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100; OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2015.

Airline Service to Originating Passenger Markets. Table 16 also presents average daily scheduled nonstop departing seats to HNL's top 20 originating markets and to all other markets in June 2015. Given the range in the size of aircraft operating at HNL, the number of scheduled departing seats is more representative of airline service than the number of scheduled aircraft departures. Approximately 97% of the scheduled nonstop departing seats from HNL were to the top 20 markets listed.

(Passengers traveling to and from smaller markets typically rely upon itineraries involving connections, rather than nonstop service.)

Primary Neighbor Island Originating Passengers. Table 17 presents the top 20 domestic originating passenger markets for the Primary Neighbor Island Airports in FY 2014. Honolulu was the single largest market, accounting for 38.8% of total domestic originating passengers in FY 2014. The largest originating markets in the continental U.S. were San Francisco (9.6%) and Los Angeles (8.3%).

Table 17

TOP 20 DOMESTIC O&D PASSENGER MARKETS AND SCHEDULED DEPARTING SEATS
PRIMARY ISLAND NEIGHBOR AIRPORTS

(Fiscal Year ended June 30, 2014, except as noted)

Rank	O&D market	Air miles from Kahului	Percent of O&D passenger total	Average daily seats June 2015
1	Honolulu	101	38.8%	11,346
2	San Francisco *(a)*	2,344	9.6	3,294
3	Los Angeles *(b)*	2,481	8.3	4,216
4	Seattle	2,638	5.0	1,207
5	Kahului	-	3.4	1,425
6	Portland	2,560	2.8	250
7	San Diego	2,536	2.7	440
8	Lihue	201	2.4	504
9	Kona	83	1.8	581
10	Phoenix	2,839	1.7	849
11	Sacramento	2,401	1.6	163
12	New York *(c)*	4,892	1.5	-
13	Denver	3,296	1.4	188
14	Las Vegas	2,690	1.3	-
15	Chicago *(d)*	4,176	1.3	229
16	Hilo	120	1.0	344
17	Dallas/Fort Worth *(e)*	3,703	0.9	436
18	Minneapolis-St. Paul	3,910	0.8	-
19	Salt Lake City	2,931	0.7	-
20	Washington, D.C. *(f)*	4,782	0.7	-
	Total—top 20 markets		87.8%	25,472
	Other markets		12.2	343
	Total—all markets		100.0%	25,816

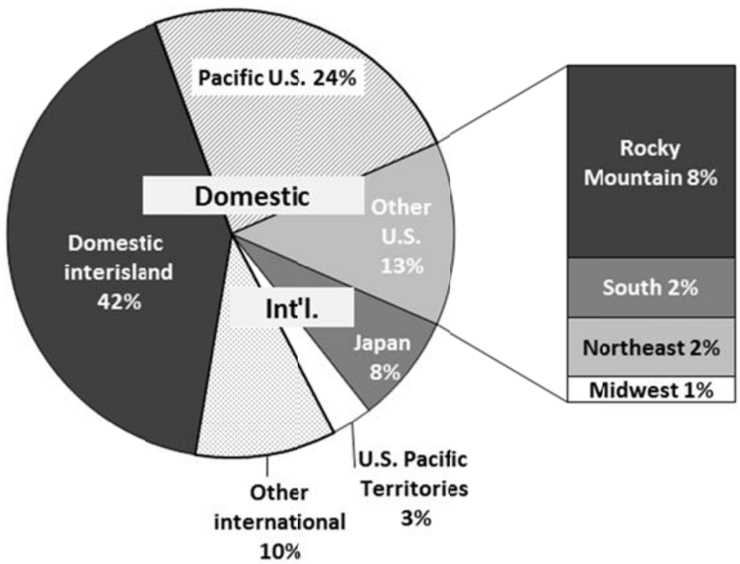
(a) Market includes San Francisco, Oakland, and San Jose airports.
(b) Market includes Los Angeles, Burbank, Long Beach, Ontario, and Orange County airports.
(c) Market includes Kennedy, LaGuardia, and Newark airports.
(d) Market includes O'Hare and Midway airports.
(e) Market includes Dallas/Fort Worth Airport and Love Field.
(f) Market includes Dulles, Reagan, and Baltimore airports.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100; OAG Aviation Worldwide Ltd, OAG Analyser database, accessed May 2015.

Connecting Passengers

As stated earlier, HNL serves as an important hub in the route system of Hawaiian Airlines. Figure 17 shows that the shares of passengers connecting through HNL in FY 2014 reflect the airport's role as a connecting point for Hawaii interisland passengers, which account for the largest share of connecting passengers (42%) at HNL, followed by domestic overseas destinations (37%) and international destinations (21%). In FY 2014, the Pacific United States accounted for 24% of passengers connecting at HNL from domestic overseas destinations, and the central and eastern United States accounted for 13% of connecting passengers.

Figure 17
PASSENGERS CONNECTING THROUGH HONOLULU BY DESTINATION REGION
Honolulu International Airport
(Fiscal Year ended June 30, 2014)



Note: Excludes passengers making a connection between international flights.
Pacific U.S.: Alaska, California, Oregon, and Washington.
Rocky Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming.
U.S. Pacific Territories: American Samoa, Guam, Mariana Islands, and Palau Island.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100.

Domestic Airfares

Table 18 presents average one-way airfares and yields from Hawaii to continental U.S. markets for FY 2007 through FY 2014 for HNL and each of the Primary Neighbor Island Airports. The average airfares for the five airports ranged from $329 to $360 in FY 2014, higher than the average U.S. domestic airfare ($187) as a result of comparatively longer trip distances from Hawaii to the continental United States. Average one-way airfares at the five airports increased 32%-48% over the period, compared with a nationwide increase of 26%. Average airline yields for the five airports were quite similar—ranging between $0.10 and $0.11 per revenue passenger mile in FY 2014—lower than the average U.S. domestic yield (approximately $0.18 per revenue passenger mile) because of comparatively longer trip distances from Hawaii to the continental United States.

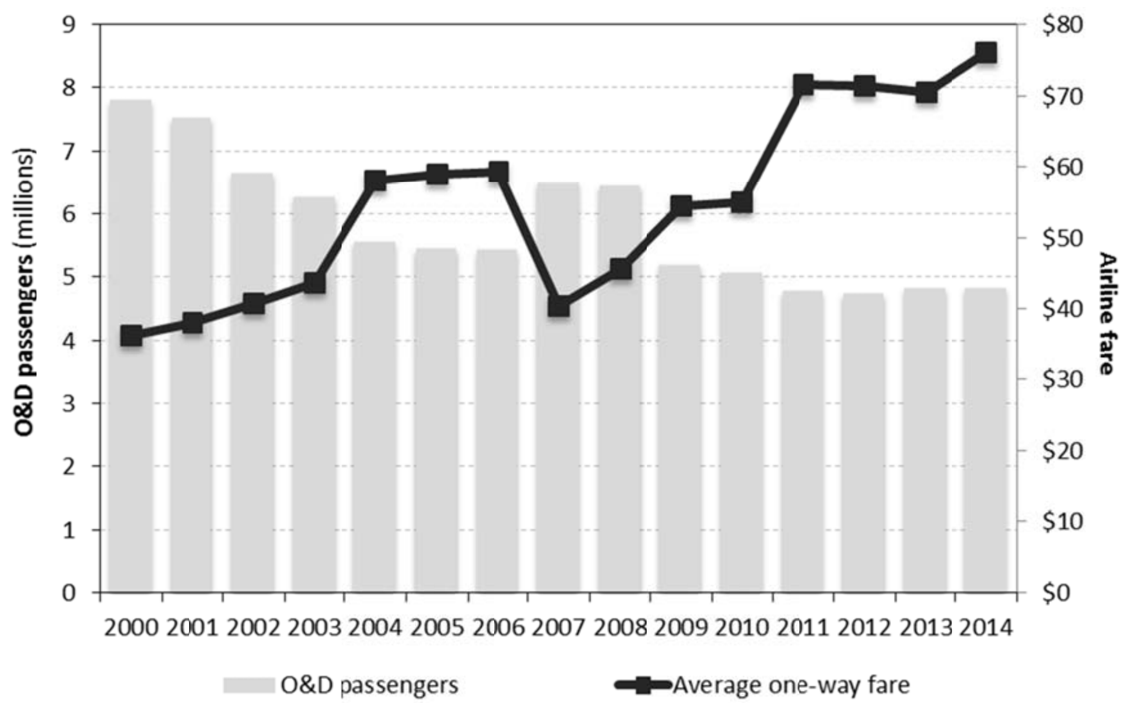
Table 18
AVERAGE ONE-WAY AIRLINE FARES AND YIELDS FROM HAWAII TO THE U.S. MAINLAND
(Fiscal Years ended June 30)

Origin airport	2007	2008	2009	2010	2011	2012	2013	2014
	Average one-way airline fare							
Honolulu	$247	$271	$282	$273	$287	$314	$301	$329
Kahului	245	265	284	259	266	294	296	332
Kona	265	294	300	277	286	314	314	360
Lihue	262	282	291	275	287	308	306	346
Hilo	243	274	313	298	312	322	314	359
	Average one-way yield (cents per mile)							
Honolulu	7.3	8.0	8.2	8.0	8.5	9.3	9.0	9.8
Kahului	7.8	8.5	8.9	8.2	8.5	9.5	9.6	10.7
Kona	8.3	9.3	9.3	8.7	9.0	9.9	9.9	11.2
Lihue	8.2	8.8	9.0	8.5	8.8	9.5	9.6	10.7
Hilo	8.3	9.1	9.9	9.2	9.7	10.0	9.6	10.7

Note: Average one-way fares are net of all taxes, fees, and PFCs, and exclude ancillary fees charged by the airlines.
Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100.

Figure 18 provides a comparison of changes in the numbers of interisland originating passengers and average interisland airfares in the Hawaii Airports System for FY 2000 through FY 2014. Over the period, average interisland airfares more than doubled, while the number of interisland passengers decreased 38%. The decrease in average fares and increase in passengers in FY 2007 reflected the launch of interisland service by Go! (operated by Mesa Airlines). The increase in average fares and decrease in passengers beginning in FY 2009 reflected the cessation of service by Aloha Airlines (which provided primarily interisland service) and corresponding reductions in interisland service and competition.

Figure 18
INTERISLAND O&D PASSENGER AND AIRFARES
Honolulu International Airport
(Fiscal Years ended June 30)



Note: Average one-way fares are net of all taxes, fees, and PFCs, and exclude ancillary fees charged by the airlines.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Table 19 presents average one-way airfares and yields for Hawaii interisland markets for FY 2007 through FY 2014 for HNL and each of the Primary Neighbor Island Airports. The average one-way airfares were relatively comparable for the five airports—ranging between $72 and $85 in FY 2014. There was greater variance among the airline yields for the five airports—ranging from $0.39 to $0.67 in FY 2014—as a result of differences in average trip distances. For example, Hilo International Airport had the longest interisland trip length (215 miles) and the lowest yield ($0.39 per passenger mile) compared with more centrally located Kahului Airport, which had the shortest trip length (108 miles) and the highest yield ($0.67 per passenger mile).

Table 19

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

(Fiscal Years ended June 30)

Origin airport	2007	2008	2009	2010	2011	2012	2013	2014
	Average one-way airline fare							
Honolulu	$38	$44	$53	$53	$70	$70	$70	$75
Kahului	40	45	53	54	68	69	67	72
Kona	43	48	58	59	79	76	75	84
Lihue	42	48	57	58	75	75	74	78
Hilo	43	48	60	59	79	78	79	85
	Average one-way yield (cents per mile)							
Honolulu	28.3	32.7	38.9	38.8	51.2	51.3	50.4	54.8
Kahului	37.6	42.3	49.9	50.2	64.0	64.4	62.1	67.0
Kona	26.7	30.1	36.1	36.7	49.6	48.2	47.6	52.7
Lihue	32.4	37.4	44.5	45.4	58.1	57.6	55.9	59.1
Hilo	19.9	22.3	27.6	27.1	36.3	35.7	36.6	39.4

Note: Average one-way fares are net of all taxes, fees, and PFCs, and exclude ancillary fees charged by the airlines.

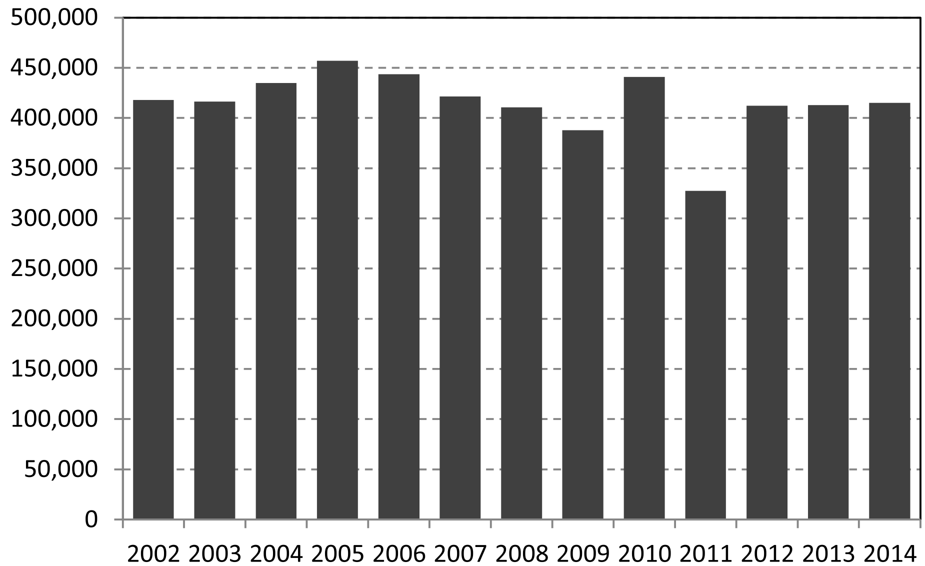
Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100.

The average airfares depicted in Table 18, Figure 18, and Table 19, as reported by the airlines to the U.S. DOT, exclude ancillary charges, such as those for checked baggage, preferred seating, in-flight meals, entertainment, and ticket changes that have become widespread in the airline industry since 2006. As a result, the average airfares shown understate the amount actually paid by airline passengers for their travel. Ancillary charges that were previously included in the ticket price vary by airline and are not all separately reported to the U.S. DOT, but they have been estimated by industry analysts to amount to an effective average surcharge on domestic airfares of approximately 5% of ticket fare revenues. The amount of ancillary charges varies by market and is affected by airline mix and traveler trip purpose (i.e., business vs. leisure).

AIR CARGO ACTIVITY

Figure 19 shows that HNL has experienced little net change in air cargo tonnage handled over the past 12 years. HNL tends to account for more than 80% of the total air cargo tonnage handled by the Hawaii Airports System.

Figure 19
AIR CARGO TONNAGE HANDLED
Honolulu International Airport
(calendar years; cargo in metric tons)



Note: Includes freight and mail.
Source: Airports Council International.

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

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

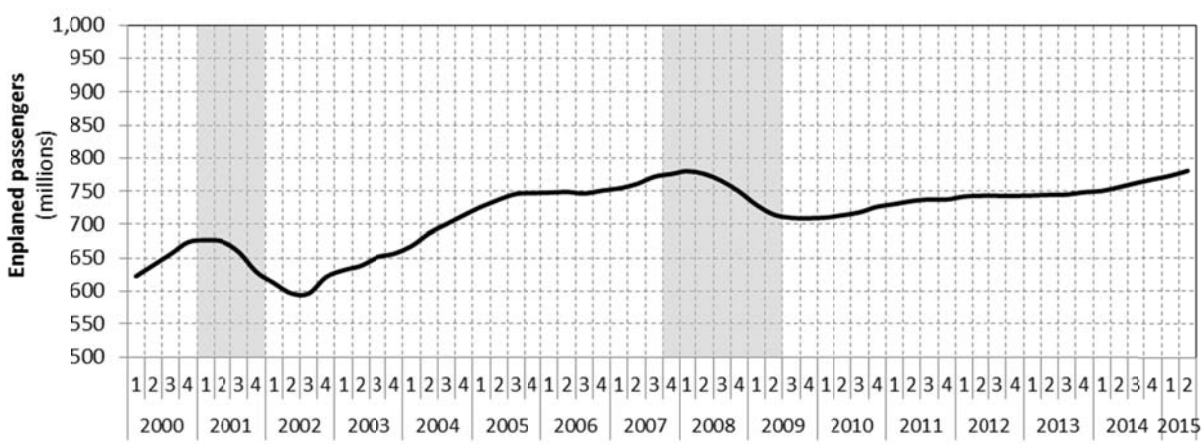
In addition to the demographics and economy of the State of Hawaii, as discussed earlier, key factors that will affect future airline traffic in the Hawaii Airports System include:

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

Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated in Figure 20, recessions in the U.S. economy in 2001 and 2008-2009 and associated high unemployment reduced discretionary income and coincided with reduced airline travel demand in those years.

Figure 20
HISTORICAL ENPLANED PASSENGERS ON U.S. AIRLINES



Notes: Data shown are 12-month moving averages of monthly enplaned passengers.
Shaded quarters indicate economic recession during all or part of quarter.
Includes scheduled and non-scheduled service to domestic and international destinations.

Source: Bureau of Transportation Statistics, T100 Market and Segment.

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

Financial Health of the Airline Industry

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

As a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 attacks, increased fuel and other operating costs, and price competition, the industry experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately $61 billion.* To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. Between 2002 and 2005, Delta Air Lines, Hawaiian Airlines, Northwest Airlines, United Airlines, and US Airways all filed for bankruptcy protection and restructured their operations.

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, recording net income of approximately $23 billion, but in 2008, as oil and aviation fuel prices increased to unprecedented levels, the industry experienced a profitability crisis. In 2008 and 2009, the U.S. passenger airline industry recorded net losses of approximately $27 billion. The industry responded by, among other actions, grounding less fuel-efficient aircraft, eliminating unprofitable routes and hubs, reducing seat capacity, and increasing airfares. Between 2007 and 2009, the U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 10%.

In 2010 through 2013, the U.S. passenger airline industry as a whole recorded net income of approximately $15 billion, in spite of sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. Over the four years 2009 to 2013, the airlines collectively increased domestic seat-mile capacity by an average of just 1.0% per year.** American filed for bankruptcy protection in 2011. In 2014, the U.S. passenger airline industry reported net income of approximately $7.4 billion, assisted by reduced fuel prices in the second half of the year (as discussed in the later section, "Availability and Price of Aviation Fuel").

Sustained industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity control to allow increased airfares, airline operating economics, and stable fuel prices. Consolidation of the U.S. airline industry has resulted from the acquisition of Trans World by American (2001), the merger of US Airways and America West (2005), the merger of Delta and Northwest (2009), the merger of United and Continental (2009), the acquisition of AirTran by Southwest (2011), and the merger of American and US Airways (2013).

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*U.S. Department of Transportation, Bureau of Transportation Statistics, Schedule P1.2, www.transtats.bts.gov, accessed August 2015.

**U.S. Department of Transportation, Bureau of Transportation Statistics, T-100 Market and Segment, www.transtats.bts.gov, accessed August 2015.

Such consolidation has resulted in four airlines (American, Delta, Southwest, and United) accounting for approximately 72% of domestic seat capacity in 2014 and is expected by airline industry analysts to contribute to industry profitability. However, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines would drastically affect airline service at certain connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns nationwide.

Airline Service and Routes

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

The large airlines have developed hub-and-spoke systems that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports. Since 2003, as the U.S. airline industry has consolidated, airline service has been drastically reduced at many former connecting hub airports, including those serving St. Louis (American 2003-2005), Dallas-Fort Worth (Delta 2005), Pittsburgh (US Airways 2006-2008), Las Vegas (US Airways 2007-2010), Cincinnati (Delta 2009-2011), Memphis (Delta 2011-2013), and Cleveland (United 2014).

HNL is the largest of the five primary air carrier airports in the State of Hawaii. As discussed in the earlier section “Honolulu International Airport,” HNL serves as the primary connecting hub and international gateway for Hawaiian Airlines. As a result, much of the connecting passenger traffic at HNL results from the route network and flight schedule of Hawaiian Airlines rather than the economy of Hawaii. If Hawaiian were to reduce connecting service at HNL, such service would not necessarily be replaced by other airlines, although reductions in service by any airline would create business opportunities for others.

Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips for which automobile and other travel modes are potential alternatives (a situation which doesn’t apply to Hawaii), and for price-sensitive “discretionary” travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and in the Hawaii Airports System, will depend, in part, on the level of airfares.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. During that period, the average domestic yield for U.S. airlines decreased from 14.9 cents to

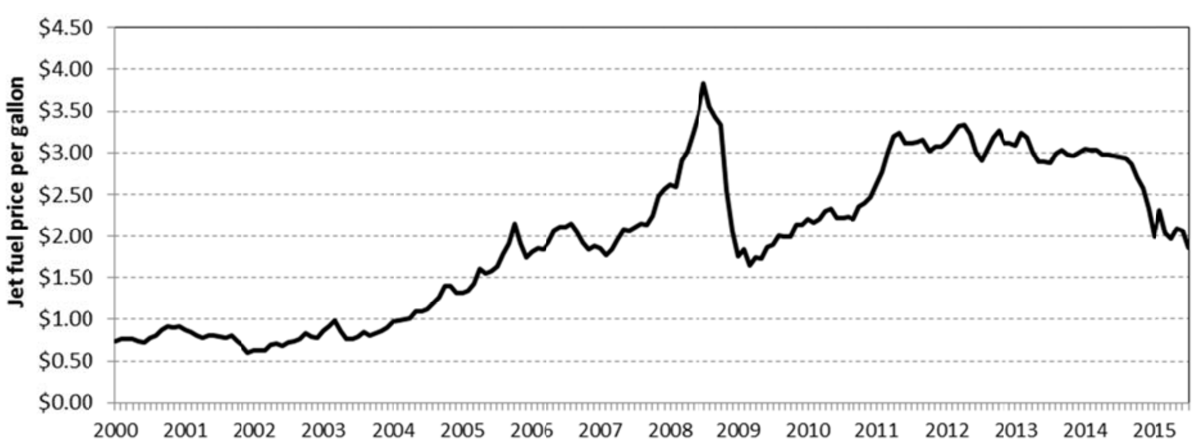
12.7 cents per passenger-mile.* In 2006 through 2008, as airlines reduced capacity and were able to sustain fare increases, the average domestic yield increased to 14.6 cents per passenger-mile. In 2009, yields again decreased, but, beginning in 2010, as airline travel demand increased and seat capacity was restricted, yields increased to 18.2 cents per passenger-mile by 2014. Beginning in 2006, ancillary charges have been introduced by most airlines for services such as checked baggage, preferred seating, in-flight meals, and entertainment, thereby increasing the effective price of airline travel more than these yield figures indicate.

Availability and Price 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 uncertainty. Figure 21 shows the historical fluctuation in fuel prices since 2000. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the 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 airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Fuel prices fell sharply in the second half of 2008 as demand for oil declined worldwide, but then increased as demand increased. Between early 2011 and mid-2014, fuel prices were relatively stable, partly as a result of increased oil supply from U.S. domestic production. As of mid-2014, average aviation fuel prices were approximately three times those prevailing at the end of 2003. During the second half of 2014, an imbalance between worldwide supply and demand resulted in a precipitous drop in the price of oil and aviation fuel. As shown in Figure 21, the average price of aviation fuel at the end of 2014 was approximately 33% lower than in mid-year. The reduction in fuel prices is having a positive effect on airline profitability as well as far-reaching implications for the global economy.

Figure 21

HISTORICAL MONTHLY JET FUEL PRICES FOR ALL U.S. CARRIERS



Source: Bureau of Transportation Statistics F41 Schedule as of 8/5/2015.

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*U.S. Department of Transportation, *Origin-Destination Survey of Airline Passenger Traffic, Domestic*, OAG DOT Analyser online database, accessed August 2015.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. However, there is widespread agreement 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.

Aviation fuel prices will continue to affect airfares, passenger numbers, airline profitability, and the ability of airlines to provide service. Airline operating economics will also be affected as regulatory costs are imposed on the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

Aviation Safety and Security Concerns

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

Safety concerns in the aftermath of the September 2001 attacks were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies. The TSA also has introduced “pre-check” service to expedite the screening of passengers who have submitted to background checks.

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

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations, but, as airline travel increases in the future, flight delays and restrictions may be expected.

Capacity of the Hawaii Airports System

In addition to any future constraints that may be imposed by the capacity of the national air traffic control and airport systems, future growth in airline traffic in the Hawaii Airports System will depend on the capacity of the airports in the system themselves. According to Airports Division management, existing facilities in combination with the projects included in the capital improvement program provide sufficient capacity to accommodate forecast aviation activity growth through the forecast period included in this Report.

AIRLINE TRAFFIC FORECASTS

In addition to the key factors affecting future airline traffic discussed above, the forecasts of enplaned passengers in the Hawaii Airports System were developed taking into account analyses of: (1) historical trends in passenger traffic at the airports; (2) historical and projected economic indicators for the State and the nation, and projections of visitors to Hawaii; and (3) flight schedules filed by the airlines and published by OAG Aviation Worldwide Ltd.

Airline Traffic Forecast Assumptions

Specifically, the airline traffic forecasts for the Hawaii Airports System through FY 2022 were based on the following assumptions:

1. The U.S. economy will experience growth in gross domestic product averaging approximately 2.5% per year during the forecast period. The economy of the State of Hawaii will grow at a similar rate.

2. The State of Hawaii will continue to attract tourism industry development, consistent with the visitor industry projections in Table 6.

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

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

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

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

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

Passenger Forecast Summary

Forecasts of enplaned passengers and landed weight in the Hawaii Airports System for FY 2016 through FY 2022 are presented in Table 20 and Table 21. Historical and forecast enplaned passengers are also depicted graphically on Figure 22. The forecasts are presented for the Hawaii Airports System as a whole, HNL, and each of the Primary Neighbor Island Airports. Two key components of airline traffic are forecast overseas activity, including passengers enplaned in Hawaii for international destinations and to the continental United States, and interisland activity.

Table 20

ENPLANED PASSENGER FORECAST

Hawaii Airports System

(Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.

	Actual				Forecast						
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
HAWAII AIRPORTS SYSTEM											
Overseas											
Domestic *(b)*	6,291,224	6,659,078	6,481,469	6,834,201	7,141,500	7,253,000	7,364,500	7,476,000	7,587,500	7,699,000	7,810,500
International	2,490,098	2,764,881	2,791,219	2,850,528	2,949,500	3,024,500	3,099,500	3,174,500	3,249,500	3,324,500	3,399,500
	8,781,322	9,423,959	9,272,688	9,684,729	10,091,000	10,277,500	10,464,000	10,650,500	10,837,000	11,023,500	11,210,000
Interisland	6,784,974	7,118,800	7,022,309	6,998,066	7,074,000	7,152,500	7,231,000	7,309,500	7,388,000	7,466,500	7,545,000
Total	15,566,296	16,542,759	16,294,997	16,682,795	17,165,000	17,430,000	17,695,000	17,960,000	18,225,000	18,490,000	18,755,000
	Percent increase (decrease)										
Overseas		7.3%	(1.6)%	4.4%	4.2%	1.8%	1.8%	1.8%	1.8%	1.7%	1.7%
Interisland		4.9	(1.4)	(0.3)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Total		6.3	(1.5)	2.4	2.9	1.5	1.5	1.5	1.5	1.5	1.4
HONOLULU INTERNATIONAL											
Overseas											
Domestic *(b)*	3,792,079	4,037,079	3,905,540	3,961,181	4,074,000	4,125,000	4,176,000	4,227,000	4,278,000	4,329,000	4,380,000
International	2,312,063	2,583,545	2,598,258	2,644,456	2,736,000	2,805,000	2,874,000	2,943,000	3,012,000	3,081,000	3,150,000
	6,104,142	6,620,624	6,503,798	6,605,637	6,810,000	6,930,000	7,050,000	7,170,000	7,290,000	7,410,000	7,530,000
Interisland	3,154,076	3,232,462	3,196,439	3,101,890	3,140,000	3,170,000	3,200,000	3,230,000	3,260,000	3,290,000	3,320,000
Total	9,258,218	9,853,086	9,700,237	9,707,527	9,950,000	10,100,000	10,250,000	10,400,000	10,550,000	10,700,000	10,850,000
	Percent increase (decrease)										
Overseas		8.5%	(1.8)%	1.6%	3.1%	1.8%	1.7%	1.7%	1.7%	1.6%	1.6%
Interisland		2.5	(1.1)	(3.0)	1.2	1.0	0.9	0.9	0.9	0.9	0.9
Total		6.4	(1.6)	0.1	2.5	1.5	1.5	1.5	1.4	1.4	1.4

Table 20 (*page 2 of 3*)

ENPLANED PASSENGER FORECAST

Hawaii Airports System

(Fiscal Years ended June 30)

	Actual				Forecast						
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
PRIMARY NEIGHBOR ISLAND AIRPORTS											
Overseas	2,677,180	2,803,335	2,768,890	3,079,092	3,281,000	3,347,500	3,414,000	3,480,500	3,547,000	3,613,500	3,680,000
Interisland	3,456,265	3,709,984	3,653,149	3,693,242	3,729,000	3,772,500	3,816,000	3,859,500	3,903,000	3,946,500	3,990,000
Total	6,133,445	6,513,319	6,422,039	6,772,334	7,010,000	7,120,000	7,230,000	7,340,000	7,450,000	7,560,000	7,670,000
	Percent increase (decrease)										
Overseas		4.7%	(1.2)%	11.2%	6.6%	2.0%	2.0%	1.9%	1.9%	1.9%	1.8%
Interisland		7.3	(1.5)	1.1	1.0	1.2	1.2	1.1	1.1	1.1	1.1
Total		6.2	(1.4)	5.5	3.5	1.6	1.5	1.5	1.5	1.5	1.5
Kahului											
Overseas	1,591,597	1,642,016	1,637,202	1,822,152	1,950,000	1,990,000	2,030,000	2,070,000	2,110,000	2,150,000	2,190,000
Interisland	1,246,166	1,388,773	1,371,867	1,424,740	1,470,000	1,485,000	1,500,000	1,515,000	1,530,000	1,545,000	1,560,000
Total	2,837,763	3,030,789	3,009,069	3,246,892	3,420,000	3,475,000	3,530,000	3,585,000	3,640,000	3,695,000	3,750,000
	Percent increase (decrease)										
Overseas		3.2%	(0.3)%	11.3%	7.0%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%
Interisland		11.4	(1.2)	3.9	3.2	1.0	1.0	1.0	1.0	1.0	1.0
Total		6.8	(0.7)	7.9	5.3	1.6	1.6	1.6	1.5	1.5	1.5
Kona International at Keahole											
Overseas	539,293	569,962	561,167	649,683	700,000	715,000	730,000	745,000	760,000	775,000	790,000
Interisland	823,064	874,418	854,022	841,251	860,000	870,000	880,000	890,000	900,000	910,000	920,000
Total	1,362,357	1,444,380	1,415,189	1,490,934	1,560,000	1,585,000	1,610,000	1,635,000	1,660,000	1,685,000	1,710,000
	Percent increase (decrease)										
Overseas		5.7%	(1.5)%	15.8%	7.7%	2.1%	2.1%	2.1%	2.0%	2.0%	1.9%
Interisland		6.2	(2.3)	(1.5)	2.2	1.2	1.1	1.1	1.1	1.1	1.1
Total		6.0	(2.0)	5.4	4.6	1.6	1.6	1.6	1.5	1.5	1.5

Table 20 *(page 3 of 3)*

ENPLANED PASSENGER FORECAST

Hawaii Airports System

(Fiscal Years ended June 30)

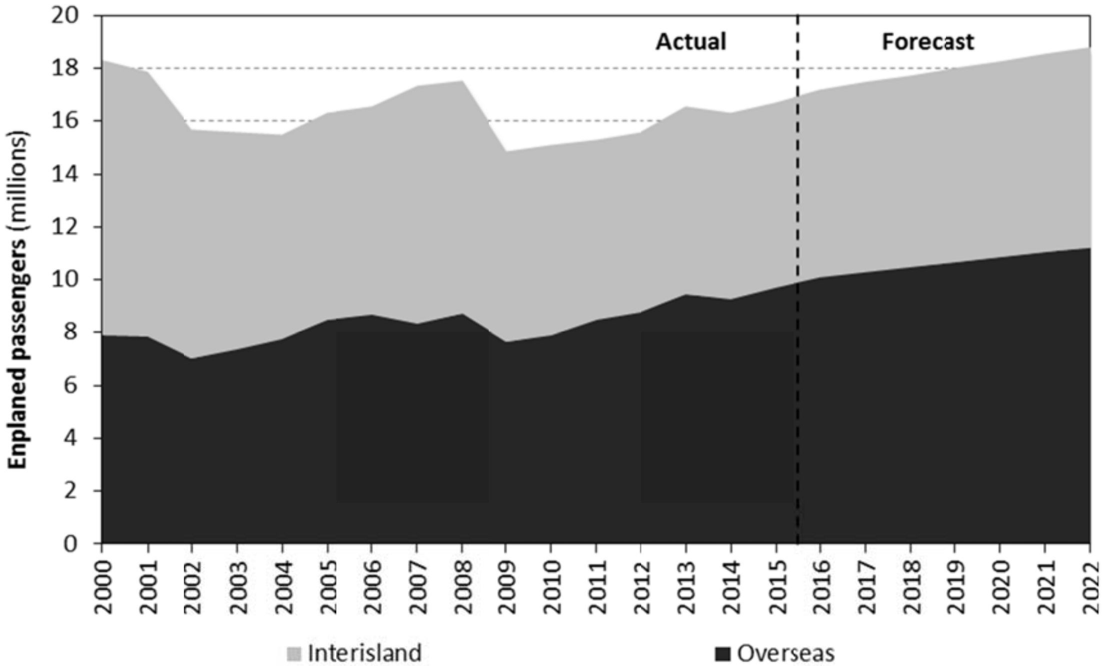
	Actual				Forecast						
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Lihue											
Overseas	494,375	542,820	544,551	569,900	593,000	603,500	614,000	624,500	635,000	645,500	656,000
Interisland	787,492	815,736	808,574	816,117	767,000	776,500	786,000	795,500	805,000	814,500	824,000
Total	1,281,867	1,358,556	1,353,125	1,386,017	1,360,000	1,380,000	1,400,000	1,420,000	1,440,000	1,460,000	1,480,000
	Percent increase (decrease)										
Overseas		9.8%	0.3%	4.7%	4.1%	1.8%	1.7%	1.7%	1.7%	1.7%	1.6%
Interisland		3.6	(0.9)	0.9	(6.0)	1.2	1.2	1.2	1.2	1.2	1.2
Total		6.0	(0.4)	2.4	(1.9)	1.5	1.4	1.4	1.4	1.4	1.4
Hilo International											
Overseas	51,915	48,537	25,970	37,357	38,000	39,000	40,000	41,000	42,000	43,000	44,000
Interisland	599,543	631,057	618,686	611,134	632,000	641,000	650,000	659,000	668,000	677,000	686,000
Total	651,458	679,594	644,656	648,491	670,000	680,000	690,000	700,000	710,000	720,000	730,000
	Percent increase (decrease)										
Overseas		(6.5)%	(46.5)%	43.8%	1.7%	2.6%	2.6%	2.5%	2.4%	2.4%	2.3%
Interisland		5.3	(2.0)	(1.2)	3.4	1.4	1.4	1.4	1.4	1.3	1.3
Total		4.3	(5.1)	0.6	3.3	1.5	1.5	1.4	1.4	1.4	1.4
OTHER AIRPORTS	174,633	176,354	172,721	202,934	205,000	210,000	215,000	220,000	225,000	230,000	235,000
	Percent increase (decrease)										
		1.0%	(2.1)%	17.5%	1.0%	2.4%	2.4%	2.3%	2.3%	2.2%	2.2%

(a) Percent change from 2000 to 2007 represents the average annual rate of change.
(b) Includes passengers enplaned on flights to the continental United States.

Sources: Actual—State of Hawaii, Department of Transportation. Forecast—LeighFisher, August 2015.

Figure 22
ENPLANED PASSENGER FORECAST
Hawaii Airports System
(Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.



Sources: Actual—State of Hawaii, Department of Transportation. Forecast—LeighFisher, August 2015.

Largely on the basis of advance airline schedules, the number of enplaned passengers in the Hawaii Airports System is projected to increase 2.9% in FY 2016. Overseas passenger traffic is expected to increase 4.2%, while interisland passenger traffic is expected to increase 1.1%.

In the long term it is expected that passenger traffic in the State will increase consistent with growth in the overall economy and in the tourism industry. As the breadth of air service offered at the Primary Neighbor Island Airports increases, it is anticipated that the need for travelers to connect through HNL as a gateway to and from the neighbor islands will lessen. Consequently, passenger traffic at the Primary Neighbor Island Airports is forecast to outpace growth at HNL, and overseas passenger traffic is forecast to outpace growth in interisland traffic, over the forecast period.

- **Overseas Enplaned Passengers—International.** Overseas international enplaned passengers are forecast to increase an average of 2.5% per year between FY 2015 and FY 2022, reaching 3.40 million in FY 2022.

- **Overseas Enplaned Passengers—to the Continental United States.** Overseas enplaned passengers traveling to the continental United States are forecast to increase an average of 1.9% per year between FY 2015 and FY 2022, reaching 7.81 million in FY 2022.

- **Interisland Enplaned Passengers.** Interisland enplaned passengers are forecast to increase an average of 1.1% per year between FY 2015 and FY 2022, reaching 7.55 million in FY 2022.

Aircraft Landed Weight

Historical and forecast landed weight is shown in Table 21. Total landed weight at the Hawaii Airports System is forecast to increase modestly between FY 2015 and FY 2022. The forecast is based on the assumption that the airline fleet serving the Hawaii Airports System will not change significantly, but that the average size of aircraft will increase somewhat over time.

Table 21

LANDED WEIGHT FORECAST

Hawaii Airports System

(Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.

Fiscal		Primary neighbor island airports					Other	
Year	Honolulu	Kahului	Kona	Lihue	Hilo	Total	airports	HAS Total
2012	15,021	3,796	1,902	1,714	1,009	8,421	432	23,874
2013	16,137	3,943	1,917	1,781	1,039	8,680	395	25,212
2014	16,239	3,996	1,828	1,782	1,018	8,624	396	25,259
2015A	16,529	4,409	1,971	1,912	971	9,263	657	26,449
2016F	17,000	4,700	2,100	1,860	1,025	9,685	660	27,345
2017	17,175	4,750	2,125	1,875	1,035	9,785	665	27,625
2018	17,325	4,800	2,150	1,890	1,045	9,885	670	27,880
2019	17,475	4,850	2,175	1,905	1,055	9,985	675	28,135
2020	17,625	4,900	2,200	1,920	1,065	10,085	680	28,390
2021	17,775	4,950	2,225	1,935	1,075	10,185	685	28,645
2022	17,925	5,000	2,250	1,950	1,085	10,285	690	28,900
	Percent increase (decrease)							
2012-2013	7.4%	3.9%	0.8%	4.0%	2.9%	3.1%	(8.6)%	5.6%
2013-2014	0.6	1.4	(4.7)	0.0	(2.0)	(0.6)	0.2	0.2
2014-2015	1.8	10.3	7.8	7.3	(4.7)	7.4	66.0	4.7
2015-2016	2.9	6.6	6.6	(2.7)	5.6	4.6	0.5	3.4
2016-2017	1.0	1.1	1.2	0.8	1.0	1.0	0.8	1.0
2017-2018	0.9	1.1	1.2	0.8	1.0	1.0	0.8	0.9
2018-2019	0.9	1.0	1.2	0.8	1.0	1.0	0.7	0.9
2019-2020	0.9	1.0	1.1	0.8	0.9	1.0	0.7	0.9
2020-2021	0.9	1.0	1.1	0.8	0.9	1.0	0.7	0.9
2021-2022	0.8	1.0	1.1	0.8	0.9	1.0	0.7	0.9

Sources: Actual—State of Hawaii, Department of Transportation. Forecast—LeighFisher, August 2015.

3. AIRPORTS SYSTEM CAPITAL IMPROVEMENT PROGRAM

This section includes summaries of the Airports Division's capital improvement program as of June 30, 2015 (the CIP) and the funding sources for the CIP.

CAPITAL BUDGET PROCESS

The CIP 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 CIP. The schedule and cost information provided in this section are estimates from different sources depending on the status of each project and will be revised as the Airports Division proceeds with its implementation of the CIP.

To undertake a capital project for the Hawaii Airports System, the Department is required to obtain appropriations from the Legislature, spending approval from the Office of the Governor (the allotment request), and concurrence from the Signatory Airlines when applicable. In each Fiscal Year, the Airports Division prepares a CIP for the ensuing six Fiscal Years, including projects that the Airports Division plans to undertake during that period. The CIP includes many projects that have received approvals from prior years, and is reviewed from time to time to add new projects and to remove completed projects.

The Airports Division utilizes primarily five sources of financing for projects in its CIP: federal funds (from the Federal Aviation Administration (FAA) and Transportation Security Administration (TSA)), Passenger Facility Charge (PFC) revenues, Customer Facility Charge (CFC) revenues, internally generated funds (referred to by the State and the Airports Division as "Special Funds"), and Bonds. 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 Department submits allotment requests to the Office of the Governor when needed, as noted above.

SUMMARY OF THE CAPITAL IMPROVEMENT PROGRAM

The CIP covers the period FY 2016 through FY 2021, including projects approved by the Legislature in the 2015 State Legislative Session, those approved in prior sessions, and other projects subject to future approval. The CIP includes projects already underway as of June 30, 2015, and also includes projects expected to be initiated during the forecast period. As of June 30, 2015, the cost estimate for the CIP was $2.61 billion (of which $1.90 billion is expected to be spent during the period FY 2016 to FY 2022) including:

- $1.73 billion for projects that are subject to airline concurrence; of this amount, $624 million, or 36.2%, was spent as of June 30, 2015

- $0.88 billion for projects related to Statewide consolidated rental car facilities, which are not subject to airline review; of this amount, $85 million, or 9.7%, was spent as of June 30, 2015

Table 22 presents the estimated funding sources for the major components of the CIP, and the major projects at each of the airports are noted below. Exhibit A presents the estimated annual cash flow and funding sources for the CIP.

Table 22
CAPITAL IMPROVEMENT PROGRAM
Hawaii Airports System
(in millions)

	Funding Sources							
	Grants	PFCs	Cash	Bonds	Sub.	CFCs	Total	Percent
HNL								
Mauka Concourse Program	$ 1	$ 25	$ 16	$ 626	$ --	$ --	$ 667	25.6%
Airfield	61	62	9	31	--	--	163	6.3
Terminal	26	21	7	171	--	--	226	8.7
Others	3	--	1	18	--	--	22	0.8
HNL Subtotal	$ 91	$108	$ 34	$ 846	$ --	$ --	$1,078	41.4%
OGG	6	34	22	64	--	--	126	4.9
KOA	22	6	6	78	--	--	112	4.3
ITO	46	6	13	27	--	--	92	3.5
LIH	19	--	17	18	--	--	54	2.1
Other Airports	53	--	5	5	--	--	63	2.4
Other Statewide Projects	14	--	28	1	--	--	43	1.6
Energy Saving Projects	--	--	--	--	157	--	157	6.0%
Projects Subject to Airline Review	$251	$153	$125	$1,039	$157	$ --	$1,725	66.2%
Rental Car Projects	1	--	--	--	--	879	880	33.8
Total CIP	$252	$153	$125	$1,039	$157	$879	$2,605	100.0%
% of Total	9.7%	5.9%	4.8%	39.9%	6.0%	33.7%	100.0%	

Note: PFCs = Passenger Facility Charges on a pay-as-you-go basis;
Sub. = Subordinated debt;
CFCs = Customer Facility Charges on a pay-as-you-go basis, and leveraged with special facility bonds.

Source: State of Hawaii, Department of Transportation, Airports Division records, estimated as of June 30, 2015.

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Table 23 presents the number of projects and the current cost estimates by project stage.

Table 23
CIP BY PROJECT STAGE
(in millions)

	Number of Projects	Estimated Costs Amount	Estimated Costs Percent
Project Stage			
Planning	52	$ 355	13.6%
Design	26	860	33.0
Bid and Award	7	420	16.1
Construction	35	782	30.0
Closeout/Closed	22	188	7.2
Total	142	$2,605	100.0%

Source: State of Hawaii, Department of Transportation, Airports Division records, estimated as of June 30, 2015.

The major capital improvements at each airport are described below.

Honolulu International Airport

The major projects at HNL are:

- **Mauka Concourse Program ($667 million).** The Mauka Concourse Program provides for construction of a new terminal concourse at HNL, and other related enabling projects. The program is scheduled to be substantially completed in 2019 and includes the following elements:

  - Mauka Concourse Extension ($256 million). The project provides approximately 257,000 square feet for the following items: airline gates capable of accommodating six wide-body aircraft, six new holdrooms, operations areas, new security screening lanes, concessions, a restroom and service core, common areas and public area furnishings, space for an airline club, elevators, escalators, moving walkways, passenger loading bridges, fixtures and equipment, and other associated work integral to the building construction.

  - Taxiways G&L Widening ($97 million). This project involves widening the existing Taxiways G and L located parallel to the existing Interisland Terminal and will be constructed in 3 phases. This project will result in 75-foot wide continuous dual taxilanes that provide a uniform centerline to centerline separation of 245 feet, thus permitting simultaneous operation by Group V aircraft.

  - Relocation of Maintenance and Cargo Buildings ($183 million). This project group includes demolition of existing maintenance and cargo buildings and construction of new facilities and related aprons and hardstands on the west side of Taxiways G&L.

- Other Supporting Projects ($131 million). Other projects include program management expenses for the Mauka Concourse Program, terminal signage improvements, and other miscellaneous projects.

- **Airfield Improvements ($163 million).** This group includes a collection of projects that would improve the airfield system at HNL, including:

  - Taxiway Z Structural Improvements ($55 million). This project involves reconstructing Taxiway Z, approximately 75-feet by 6,533-feet, and includes a 10-foot wide asphalt concrete pavement transition area, and a cement concrete pavement area.

  - Runway 8L Widening and Miscellaneous Improvements ($39 million). This project provides for construction to widen Runway 8L and upgrade the associated striping, lighting, pavement, and other miscellaneous improvements on both the runway and adjacent affected taxiways to meet the FAA requirements. Edge and threshold lights on Runway 8L will also be brought into compliance with FAA requirements.

  - Aircraft Apron Reconstruction ($26 million). This project provides for the removal of the existing concrete aircraft aprons and replacement with new aircraft aprons at frontal gates 12-13, frontal gates 24-25, and Ewa Concourse gates 26-34 at HNL. This project will also provide for the reconstruction of new stronger aircraft aprons at Ewa Concourse gates 26-34.

  - Runway 26L Pavement Improvements ($22 million). This project provides for the design of pavement reconstruction at Runway 26L and airfield markings, and signage and lighting upgrades at Runway 26L and related taxiways at HNL. Existing airfield markings, signage, lighting, and pavement in the specified areas will be brought into compliance with the FAA requirements.

  - Runway 4R Pavement Reconstruction ($17 million). This project provides for the design and construction of pavement reconstruction at Runway 4R and other related improvements.

  - Other miscellaneous projects ($4 million). This group includes Runway 4L edge lighting and a noise monitoring program.

- **Terminal Improvements ($226 million).** Other miscellaneous projects at HNL include:

  - Baggage Handling System Improvements ($45 million). This project provides for the design and construction of a baggage handling system and explosive detection system improvements in the Overseas Terminal lobbies 2, 3, 5, 7, and 8, baggage make-up areas including replacement of slope plate baggage make-up units, modification of conveyors, and replacement of controls including servers and tag readers. The goal of this project is to address the deficiencies of the existing outgoing baggage make-up units that have reached the end of their useful life and to increase the overall reliability of the sortation subsystems.

- Electrical Distributed Generation System ($31 million). This project provides emergency backup power for HNL. This project was broken into two phases, with Phase 1 to procure the power plant equipment and Phase 2 to install the equipment.

- Overseas Terminal Asbestos Abatement ($23 million). This project provides for the removal of asbestos containing materials above the ceiling at the concourse walkway from Checkpoint 2 to the Ewa breezeway and from Checkpoint 4 to the Diamond Head breezeway at HNL. New ceilings will be installed and the lighting will be replaced with light-emitting diode lighting.

- Concession Improvements, Diamond Head Concourse ($15 million). This project provides additional concession space at the Diamond Head Concourse, including the relocation of an exterior curtain wall towards the 2nd level Wiki-Wiki roadway, and the demolition and expansion of existing restrooms.

- Overseas Terminal Metal Roof Replacement ($15 million). The project provides for the replacement of the Overseas Terminal second level metal roof canopy adjacent to the vehicular drop-off area (departures roadway), including the replacement of the lighting and airline identification signs to programmable electronic signs, demolishing the existing planter boxes along the make sidewalk adjacent to the second level vehicular drop-off area, and improving the freeway variable message signs.

- Other miscellaneous projects ($97 million). This group includes improvements to the concourse facility, concession offering, in-terminal roadway systems, reroofing, loading bridges, access control, and other miscellaneous projects.

- **Other Improvements ($22 million).** This group includes replacements of pedestrian bridges between the Overseas Terminal and the overseas parking garage, and other miscellaneous projects.

Kahului Airport

The major projects at Kahului Airport are:

- Apron Pavement Structural Improvements ($23 million). This project involves reconstruction of Taxiway A including the taxiway safety area adjacent to the main aircraft parking apron. The area of work consists of two sections, north and south. The work scope includes excavation, cold milling, and asphalt concrete paving from 5 inches to 16 inches deep, as required, painting and striping, and other related improvements.

- Land Acquisition ($29 million). This group includes land acquisition projects for the runway safety area of Runway 2-20, and land for future aviation uses.

- Miscellaneous projects ($75 million). This group includes replacement of loading bridges, terminal reroofing, improvements to elevator, escalator and moving walkways, replacement of fire sprinkler system, terminal improvements, airfield improvements, and other miscellaneous projects.

Kona International Airport at Keahole

The major projects at Kona International Airport are:

- Terminal Modernization ($70 million). This project involves design and construction of the improvements to the KOA terminal building to meet current demand and increase security at KOA. The improved facility will include a baggage handling system, a centralized security checkpoint, common use passenger processing systems, flight information displays, and other necessary improvements.

- ARFF Regional Training Facility ($22 million). This project provides for the design and construction of an aircraft rescue and firefighting (ARFF) regional training facility at KOA. The new ARFF Regional Training Facility will include a new or refurbished burn pit, an ARFF vehicle maneuvering area and training course, a control command observation tower, an emergency command center, fixed mock-ups, and a multi-purpose building with dorms and classrooms that will cover topics such as water rescue training and boater education.

- Miscellaneous projects ($20 million). This group includes terminal reroofing, access control, design cost of an International Arrivals Building (the KOA IAB), and other miscellaneous projects. The Airports Division intends to seek grant funding for the construction costs of the KOA IAB, and has not included the construction costs in the CIP.

Hilo International Airport

The major projects at Hilo International Airport are:

- Hold Cargo Building Light Industrial Facilities ($34 million). The project involves renovating the existing cargo building at ITO.

- ARFF Facility Improvements ($22 million). This project involves construction of a new ARFF facility at ITO at a location close to the old ARFF station, with improved sightlines of the airfield and terminal buildings.

- Miscellaneous projects ($36 million). This group includes Runway 3-21 pavement improvements, access control, airfield improvements, and other miscellaneous projects.

Lihue Airport

The major projects at Lihue Airport are:

- Airfield improvements ($20 million). This project involves construction of airfield improvements and other related improvements, with the costs expected to be primarily funded with grants.

- Land acquisition ($17 million). This project provides for acquisition of land northwest of Lihue Airport to support safety, operational and legal requirements.

- Other miscellaneous projects ($17 million). These projects include ticket lobby and holdroom improvements, air conditioning system improvements, former landfill site restoration, and other miscellaneous improvements.

Projects at Other Airports and Statewide Projects

The Airports Division plans to spend a total of $109 million on various projects to improve facilities at other airports in the Airports System. The projects to be undertaken are primarily airfield improvements.

Energy Saving Projects

The Energy Saving Projects include a collection of projects to implement energy conservation measures throughout the Hawaii Airports System. The Department selected a contractor to implement the design-build project with an initial cost estimate of $150 million, and issued the Series 2013 Lease Revenue Certificates of Participation (COPs) in December 2013. The debt service on the COPs is payable from Revenues and Aviation Fuel Taxes, subordinate to the payments of debt service on the Bonds. The Airports Division anticipates the energy savings resulting from the implementation of these projects to be higher than the debt service and related expenses. The Energy Saving Projects are scheduled to be completed in December 2015.

The Airports Division has identified another energy saving project to replace the underground piping system at HNL, and is in the process of negotiating an amendment with the contractor. The amendment is expected to cost $7 million.

Rental Car Projects

The Airports Division is implementing a Statewide Car Rental Facilities Development Program (the Rental Car Projects), which includes consolidated rental car facilities (ConRACs) at HNL, OGG, and LIH, as well as related planning, design, program management, and enabling projects. The LIH ConRAC has been postponed due to current constraints on CFC funding availability. As of June 30, 2015, the combined estimated cost of the ConRACs at HNL and OGG was $880 million. The Airports Division awarded the construction contract for the OGG ConRAC in September 2015 and expects construction to start in late 2015. The Airports Division intends to publish an invitation for bid for the HNL ConRAC in winter 2015 and proceed with the project in 2016.

Rental Car Projects are classified as Special Facilities as defined in Article XI of the Certificate. The payments on future bonds and loans to be issued for the Rental Car Projects are expected to be payable solely from the Customer Facility Charges (CFCs) and other ConRAC related funds and accounts, and will not be secured by Revenues and Aviation Fuel Taxes. CFCs are not Revenues as defined in the Certificate.

SUMMARY OF CAPITAL FUNDING SOURCES

Several funding sources are expected to be available to finance projects in the CIP, as follows:

Federal and State Grants

FAA grants under the Airport Improvement Program (AIP) are funded through the federal Airport and Airway Trust Fund with revenues from federal aviation user fees and taxes. These FAA grants are to be used for airport infrastructure projects to enhance safety, security, capacity, and access, and are made available to airport operators in the form of FAA entitlement and discretionary allocations for AIP-eligible projects. For large-hub airports, such as HNL, and for medium-hub airports, such as OGG, the grants cover 75% of eligible project costs. For all other airports, the grant covers 90% of eligible project costs.

The Airports Division expects to use a total of $252 million in federal grants for projects in the CIP, of which $147 million has already been granted and $105 million has been spent. AIP grants encompass both entitlement grants and discretionary grants; entitlement grants are determined on a formula based on passenger numbers, while discretionary grants are determined by the FAA based on the nature of the specific project in comparison with projects at other airports in the FAA region. The Airports Division received $44.3 million of the AIP grants in federal fiscal year 2014, and $29.6 million in federal fiscal year 2015 through September 28, 2015.

In addition, the Airports Division receives grants from other federal and state agencies from time to time for eligible projects, including certain grants from the TSA for eligible baggage system related project costs. The Airports Division intends to seek grant funding for the construction costs of the KOA IAB, and has not included the construction costs in the CIP.

Passenger Facility Charges

A PFC is a charge imposed on enplaned passengers by airport sponsors to generate revenues for eligible airport projects that increase capacity, enhance competition among and between air carriers, enhance safety or security, or mitigate noise impacts. An airport sponsor must submit a PFC application and receive the FAA approval before collecting and using the PFC revenues. Among others, passengers on interisland flights within Hawaii are not subject to the PFC collection.

The Airports Division started PFC collections at the five major airports of Hawaii Airports System at the $3.00 level in October 2004 and increased the collection level to $4.50 effective November 2008. In November 2013, the Airports Division received approval from the FAA for its PFC Application #5, the most recent approval, under which the Airports Division may use PFC revenues for pay-as-you-go project costs as well as debt service on certain PFC-eligible projects. The total PFC collection authority is $723.8 million, of which the Airports Division collected $304.2 million on a cash basis as of June 30, 2015 (including interest earnings). The PFC fund balance on an accrual basis was estimated to be $143.3 million as of June 30, 2015.

The Airports Division plans to submit further PFC applications in the future for other PFC-eligible projects in the CIP. Exhibit B presents the forecast of PFC collections and the application of PFC revenues under existing approvals as well as anticipated PFC approvals, assuming that a portion of PFC revenues would be used to pay eligible and FAA approved debt service under anticipated PFC approvals.

The Airports Division may fund PFC-eligible projects under the existing approval or anticipated PFC approvals on a pay-as-you-go basis rather than on a debt funded basis. This approach has not been reflected herein, and under that scenario, the planned bond borrowing amount reflected in this Report would be reduced.

Customer Facility Charges and Related Indebtedness

The Airports Division started collecting a $1.00 rental car customer facility charge (CFC) on each on-airport rental car transaction day in FY 2009, and increased the collection level to $4.50 in FY 2011. The State separately collects a $3.00 daily rental motor vehicle surcharge tax (Rental Car Tax) on all rental car transactions in the State, which is not part of the Airports Division's CFC revenues or Revenues and Aviation Fuel Taxes. Hawaii State Legislature, Regular Session of 2011, revised the Hawaii Revised Statutes, suspending the CFC collection for FY 2012 and increasing Rental Car Tax from $3.00 to $7.50. This revision expired in FY 2013, and the Airports Division resumed collection of the CFC on July 1, 2012.

In September 2014, the Department entered into a special facility financing with Hawaii Regional Center, LP I and LP IA to borrow up to $76 million of funds (the EB-5 Loan) for the Rental Car Projects, which the Airports Division intends to refund with the proceeds of future special facility bonds backed by CFC revenues. The financing is the first in a series of obligations expected to be issued under the "Indenture of Trust Securing the Statewide System of Airports of the State of Hawaii Customer Facility Charge Revenue Bonds".

In FY 2015, the Department and certain rental car companies operating in the Airports System executed Statewide Airports Car Rental Facilities Concession Agreement and Facility Leases (the ConRAC Lease), which, among other provisions, expanded the collection of the CFC to include all rental car companies signatory to the ConRAC Lease, regardless whether a company is operating on- or off-airport.

As of June 30, 2015, the Airports Division has a CFC cash balance of $182 million, and an additional borrowing capacity of $42 million under the EB-5 loan subject to certain limitations. The CFC revenues are not part of Revenues and Aviation Fuel Taxes.

Special Funds

Over the years, the Airports Division has accumulated cash balances from Airports System operations. As of June 30, 2015, the Airports Division had cash and investments of $546.7 million in unrestricted accounts, of which more than one-third is estimated to be available in accounts that could be used to fund capital projects. The Airports Division expects to use $125 million of internal cash in total for the CIP. Prior to the issuance of the Series 2015 Bonds, Department cash has been used to advance fund certain Bond funded projects, and those advances will be reimbursed from proceeds of the Series 2015 Bonds.

Bonds

The Airports Division currently expects to use Bond proceeds to fund approximately $1.04 billion of CIP project costs, including:

- $275 million of unspent proceeds from the 2010 Bonds, of which $43 million remained as of June 30, 2015
- $250 million from the proceeds of the proposed 2015 Bonds, and

- $511 million from the proceeds of future bonds to be issued during the forecast period (the Future Bonds).

Exhibit C presents the projected sources and uses of bond funds.

Subordinated Debt

As noted above, the Department issued a series of COPs in 2013 to fund $150 million of the costs related to the Energy Saving Projects. The Department intends to incur additional subordinated indebtedness to fund a further $7 million of Energy Saving Project costs.

OTHER POTENTIAL CAPITAL PROJECTS

The Airports Division from time to time undertakes other major maintenance and rehabilitation projects for its facilities that may be capitalized. These projects are not included in the CIP, and the costs for them are not shown in Exhibit A. The Airports Division will continue funding these projects using internally generated cash to the extent possible.

The Airports Division expects to continue reviewing its capital and financing needs at least annually, and may include new projects in its future CIPs after obtaining applicable approvals. Such projects, if any, are not reflected in the financial forecasts discussed in this Report. Among other potential projects, the Airports Division has been evaluating options to improve or extend Runway 2-20 at Kahului Airport, and included an Environmental Impact Study associated with this project in the CIP. The construction is expected to start beyond the forecast period for this Report, and may cost more than $200 million. The Airports Division intends to seek AIP discretionary grants for 75% of the eligible costs, and a combination of PFC revenues, internal cash, and/or future bond proceeds for the local share of the project costs.

4. FINANCIAL ANALYSIS

The purpose of this financial analysis is to evaluate the ability of the Hawaii Airports System to generate Net Revenues and Taxes sufficient to satisfy the requirements of the Rate Covenant, taking into account Outstanding Bonds, the proposed 2015 Bonds, and the Future Bonds that the Airports Division expects to issue. The analysis covers the forecast period through FY 2022. Audited historical financial results of the Airports Division are available through FY 2014. Financial data for FY 2015 is based on the 12-month unaudited actual operating results, and financial data for FY 2016 through FY 2022 were forecast by taking into consideration historical operating results, the estimated results for FY 2015, the budget for FY 2016, and the aviation activity forecasts described in Section 2, among other factors. The financial structure of the Airports Division is largely governed by the Certificate, agreements with the airlines, and agreements with other tenants and service providers at the airports in the Hawaii Airports System. The financial structure is discussed below, followed by a discussion of historical and forecast financial results.

FRAMEWORK FOR AIRPORTS SYSTEM FINANCIAL OPERATIONS

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

The Certificate

The State issues Airports System Revenue Bonds to finance capital improvements to the Airports System under the provisions of (1) laws providing for the issuance of revenue bonds by the State, and (2) the Certificate. The 31st Supplemental Certificate authorizes issuance of the 2015 Bonds.

Key provisions of the Certificate are discussed below.

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

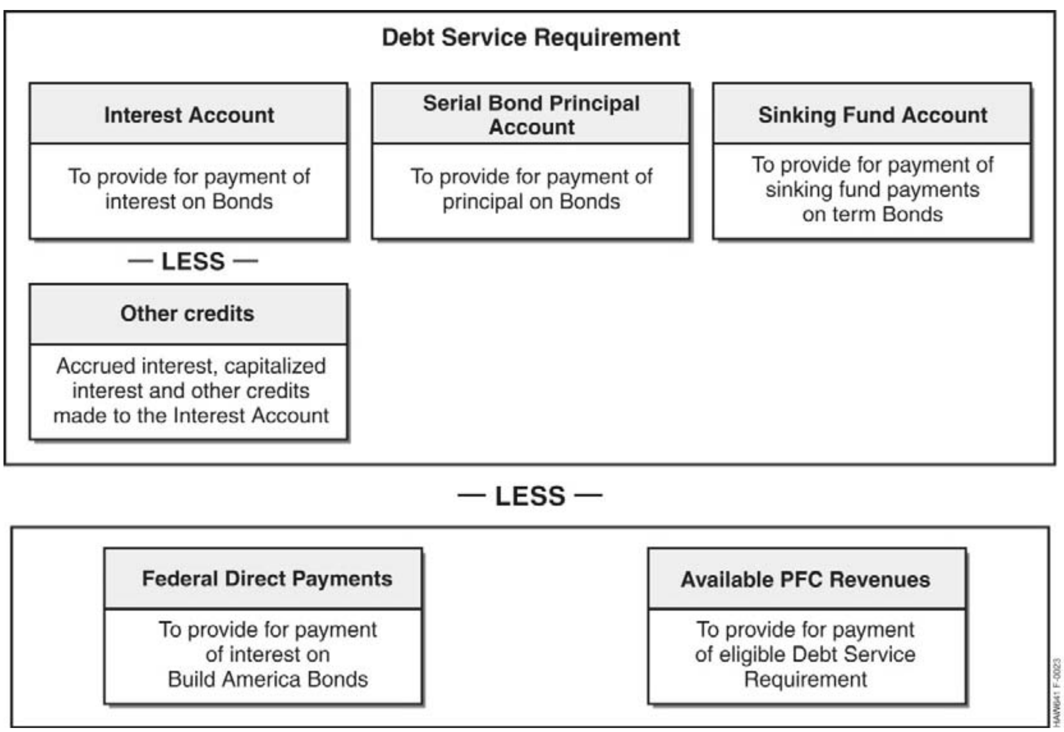
Aviation Fuel Taxes. The State imposes an Aviation Fuel Tax on all types of aviation fuel sales for the betterment of the Airports System. As of the date of this Report, the tax rate is $0.02 per gallon. The State may, at its discretion, rebate up to one-half cent per gallon of the Aviation Fuel Tax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

Aviation Fuel Tax payment. In FY 2015, $4.5 million was collected, and $4.1 million was credited to the airlines.

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

Annual Adjusted Debt Service Requirement means the Debt Service Requirement net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited into the Interest Account, the Serial Bond Principal Account, and the Sinking Fund Account; and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited for the purpose of paying interest on Bonds. The calculation of Annual Adjusted Debt Service Requirement is illustrated in Figure 23.

Figure 23
ANNUAL ADJUSTED DEBT SERVICE REQUIREMENT



Source: The Certificate.

The Airports Division plans to use a portion of its PFC revenues to pay PFC-eligible debt service starting in FY 2016. The Airports Division has not issued Build America Bonds and does not receive Federal Direct Payments.

Application of Revenues and Aviation Fuel Taxes. Section 6.01 of the Certificate provides for the deposit and application of Revenues and Aviation Fuel Tax proceeds in the Airport Revenue Fund. Such monies are spent in the following order of priority, as shown on Figure 24:

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

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

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

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

5. Betterments and improvements to the Airports System.

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

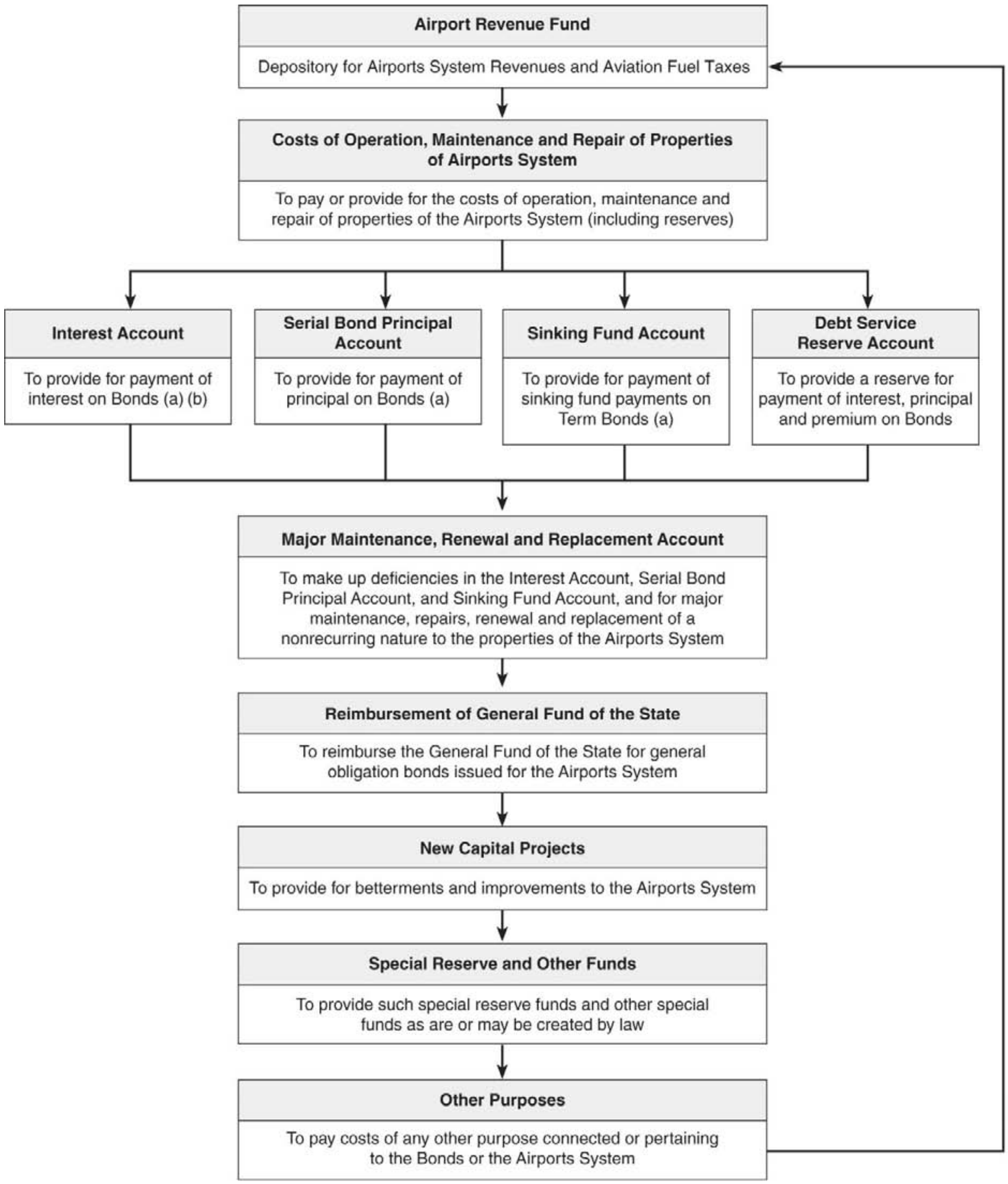
7. Any other lawful purpose in connection with the Bonds or the Airports System.

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

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

Figure 24

FLOW OF FUNDS PURSUANT TO THE CERTIFICATE



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

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

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

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

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

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

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

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

The Certificate also requires that, at all times, rates, rentals, fees, and charges for the immediately ensuing 12 months, together with the amount of unencumbered funds that the Department shall certify as Revenues for the purpose of this test, must be sufficient to yield Net Revenues and Taxes at least equal to 1.25 times the Annual Adjusted Debt Service Requirement for such 12 months. The Airports Division has set up a funded coverage account in the Airport Revenue Fund as the certified amount to be included as Revenues and has been maintaining the account balance at 25% of gross debt service as shown on Exhibit D.

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

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

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

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

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

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

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

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

AIRPORT-AIRLINE LEASE AGREEMENT

As of October 2015, 31 airlines operate at the Airports System under an agreement with the Airports Division (the Signatory Airlines). Nonsignatory airlines operate in accordance with Hawaii Administrative Rules. The Airports System has entered into the following airport-airline lease agreements with the Signatory Airlines.

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

Lease Extension Agreement (1994). In 1994, the Airports Division and the Signatory Airlines executed an agreement to extend the airport-airline lease agreement to June 30, 1997. Under the

1994 Agreement, the Signatory Airlines continued to operate under the terms of the 1962 Agreement with an adjustment for terms and provisions relating to rates and charges.

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

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

- A rate methodology designed to fully recover costs in the Airfield Cost Center and a portion of the costs in primary airport terminal cost centers.

- An Airports System Support Charge (ASSC) as a safety net to ensure compliance to the Rate Covenant on a systemwide basis.

- Provision for midyear rate adjustments if necessary.

The 2007 Agreement established the following cost centers:

- An Airfield Cost Center, which is comprised of the combined airfield costs of every airport in the Airports System.

- Five Terminal Cost Centers, one for the terminal area of each of the five primary airports in the Hawaii Airports System:

  - Honolulu International Airport Terminal Cost Center.
  - Kahului Airport Terminal Cost Center.
  - Kona International Airport at Keahole Terminal Cost Center.
  - Lihue Airport Terminal Cost Center.
  - Hilo International Airport Terminal Cost Center.

- An ASSC Cost Center, which serves as an airport system-wide residual cost center to ensure Airports System revenues are sufficient to recover Airports System Cost (i.e., to ensure that the Rate Covenant is met).

The 2007 Agreement continues to differentiate between the charges for overseas operations and the charges for interisland operations. An interisland charge (the Interisland Rate) is equal to the equivalent overseas charge multiplied by 43% in FY 2015 (and increasing by 1 percentage point annually until reaching parity with the rates charged for overseas operations).

The Airports System rates and charges established through the 2007 Agreement include the landing fees, terminal rentals, joint use holdroom charges, joint use baggage system charges, common use ticketing position charges, International Arrivals Building charges, commuter terminal joint use charges, and ASSCs. In 2010 and 2014, the Airport Division revised the calculation of joint use baggage system charges, as further discussed below. Airline rates and charges in FY 2016 are summarized in Table 24.

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

  a. Annual direct and indirect operating expenses.

  b. Annual direct and indirect debt service expenses.

  c. Annual amounts to be deposited in the MMRRA.

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

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

  a. Signatory airlines overseas landed weight.

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

Table 24
AIRLINE RATES AND CHARGES IN FY 2016
Hawaii Airports System

	FY 2016
Airports System Landing Fee Rates	
(per 1,000-pound units of landed weight)	
Signatory Airlines	
Overseas flights	$ 3.25
Interisland flights	1.43
Terminal Rental Rates (per square foot per year)	
Honolulu International Airport	$61.97
Kahului Airport	85.25
Kona International Airport at Keahole	44.88
Lihue Airport	78.00
Hilo International Airport	34.93

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

- **Terminal Rentals.** The requirement for each Terminal Cost Center includes the costs allocated to the respective cost center, minus the sum of (1) any deposit to the Interest Account to reduce Debt Service Requirement, allocated to the respective Terminal Cost Center, (2) any PFC revenues allocated to pay direct and indirect debt service expenses allocated to the respective Terminal Cost Center, and (3) annual terminal concessions revenues allocated to the Terminal Cost Center. The terminal rental rate is calculated as the net requirement divided by the Leased Space (all exclusive, preferential, and joint use space included in the Terminal Cost Center).

  The terminal rental rates for the Primary Neighbor Island Airports are calculated using the same approach starting in FY 2016. For Hilo International Airport, the terminal rental rate is reduced to 50% unless annual enplanements exceed 2 million during the prior calendar year.

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

- **Joint Use Baggage Claim Charges and Makeup Charges.** The Joint Use Baggage System Charge was established in the 2007 Agreement to recover the space costs associated with each joint use baggage system. The cost allocated to the joint use baggage system is based on the terminal rental rate and the square footage of baggage systems areas. The rate is derived by dividing the baggage system requirement by the annual number of enplaned passengers using the common use baggage system, taking into consideration the Interisland Rate.

  In 2010, the Airports Division and the Signatory Airlines executed a letter amendment revising the allocation basis of the Joint Use Baggage System Charges from enplaned passengers to the number of bags processed. In 2014, the Airports Division and the Signatory Airlines separated the Joint Use Baggage System Charge into the Joint Use Claim Charge and the Joint Use Makeup Charge. As of August 2015, the Joint Use Makeup Charges are only applicable to the Overseas Terminal at HNL.

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

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

- **Commuter Terminal Joint Use Charges.** The charges for commuter terminal joint use areas are determined by appraisal throughout the system. Users of commuter terminals pay for all airline passenger and baggage handling areas and operational areas, including ticketing facilities, office, holdrooms, and baggage claim. The Airports Division plans to relocate the airlines operating in the Commuter Terminal at HNL, and demolish the Commuter Terminal to enable the construction of the Mauka Concourse Extension.

- **Airports System Support Charges.** The ASSC is imposed, if necessary, to ensure that the Rate Covenant is met, and is calculated by dividing any net costs (the difference between total Airports System expenses and revenues on a systemwide basis) by total Airports System landed weight, taking into consideration the Interisland Rate. No ASSC is anticipated during the forecast period.

Signatory Airline Approval of Capital Projects

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

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

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

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

In October 2015, the Department submitted its request for a fourth concurrence for 29 specific projects to the Airlines Committee of Hawaii (ACH), requesting concurrence totaling $295 million in project spending. The ACH provided its response in a letter, supporting the implementation of 15 of these projects with a total concurrence amount (cost) of $210 million, and conditionally supporting the other 14 projects with a total concurrence amount (cost) of $85 million. The conditions placed

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

on the 14 projects by the Signatory Airlines are project-specific, including such items as availability of the FAA grants, limitation on scope, limitation on schedule, and requirements for record keeping, among other conditions. The Department intends to meet these conditions when proceeding with the projects, and all projects to be partially or wholly funded with the proceeds of the proposed 2015 Bonds have received concurrence from the Signatory Airlines. The Department intends to submit additional projects for airline concurrence in the future when needed.

RECONCILIATION OF HISTORICAL OPERATING RESULTS

Table 25 presents a summary and reconciliation of the historical operating results of the Airports System between generally accepted accounting principles (GAAP) and the Certificate, as obtained from the audited financials for FY 2013 and FY 2014, which were prepared on a GAAP basis.

Table 25

RECONCILIATION OF HISTORICAL RESULTS

State of Hawaii, Department of Transportation, Airports Division

(for the 12 months ending June 30; in thousands)

	2013	2014
GAAP Operating Revenues	$338,588	$317,123
Federal Grant Reimbursements *(a)*	5,039	2,656
911 Insurance Proceeds	19,000	--
Interest Income		
Operating Funds and Reserves	1,824	1,867
Construction Fund	168	197
Revenues and Aviation Fuel Taxes	$364,618	$321,844
GAAP Operating Expenses	$336,539	$334,114
LESS:		
Depreciation	(92,231)	(87,233)
MMRRA Disbursement	(277)	--
Costs of Operation, Maintenance and Repair	$244,031	$233,617

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

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

ANNUAL ADJUSTED DEBT SERVICE REQUIREMENT

As of the date of this Report, two series of Bonds (the 2010 Bonds and the 2011 Bonds) are outstanding. The outstanding principal amount is $808 million, or $48 per enplaned passenger based on 16.7 million enplaned passengers in FY 2015.

Exhibit C presents the estimated sources and uses of Bond funds for the proposed 2015 Bonds, and the Future Bonds assumed to be issued during the forecast period. Exhibit D presents the Annual Adjusted Debt Service Requirement for the Outstanding Bonds, the proposed 2015 Bonds, and the Future Bonds. Morgan Stanley & Co. LLC, the senior managing underwriter of the 2015 Bonds, provided the estimated sources and uses of funds and debt service schedule based on certain data and information provided by the Airports Division. For purposes of this Report, it was assumed that the proposed 2015 Bonds are to be issued as fixed-rate securities and a term to final maturity of 30 years, with repayment of the principal amounts starting in FY 2040. An estimated all-in true interest cost of 4.90% was assumed for the proposed 2015 Bonds.

The planned Future Bonds were assumed to have a term to final maturity of 30 years, with repayment of the principal amounts starting in FY 2025, and to be issued at a true interest cost in the range of 5.46% to 6.08%. The timing of issuance and the amounts of the Future Bond issuance may change due to changes in construction schedules, project costs, and funding availability from other funding sources, among other factors.

Exhibit D presents the estimated PFC revenues expected to be applied to pay debt service in the forecast period, including the PFC revenues under the existing PFC approval and the estimated PFC revenues to be approved under future applications. The amount of PFC revenues applied to debt service presented in Exhibit D represents the Airports Division's current plan for using PFC revenues and do not represent a pledge or irrevocable commitment of PFC revenues.

The calculation of the Annual Adjusted Debt Service Requirement excludes capitalized interest and certain other adjustments specified in the Certificate. Pursuant to the provisions of Section 6.01 of the Certificate, required deposits to the Interest Account exclude accrued interest, capitalized interest, and "any other credits otherwise made to said account." Such credits may include the following types, among other credits:

Airline Prepaid Interests

The ACH, which represents the majority of the Signatory Airlines, requested the Airports Division to use certain over-collected airline rates and charges in FY 2012, which belong to the Signatory Airlines, to reduce the Debt Service Requirement in FY 2014, FY 2015 and FY 2016 pursuant to Section 6.01 of the Certificate. Accordingly, $19.0 million, $18.5 million, and $4.0 million were used in FY 2014, FY 2015, and FY 2016, respectively, referred to as Airline Prepaid Interests. No such airline prepaid interest deposits were assumed during the remainder of the forecast period.

Available PFC Revenues

In November 2013, the Airports Division received approval from the FAA to use PFC revenues for certain eligible debt service related to the approved projects, including for a portion of the Mauka Concourse Program. The Airports Division has budgeted to use $321,000 of PFC revenues for such purposes in FY 2016, and intends to continue depositing PFC revenues to reduce debt service on an annual basis, as shown in Exhibit D.

Airline Rate Mitigation

Prior to FY 2010, the Airports Division had deposited to the Interest Account internally generated funds to reduce the Debt Service Requirement and thereby reduce airline rates, referred to as Rate Mitigation. The Airports Division currently does not provide rate mitigation, and does not intend to make rate mitigation deposits during the forecast period.

SUBORDINATE DEBT SERVICE

Exhibit D also presents the subordinate debt service payable from Revenues and Aviation Fuel Taxes, which, as of August 2015, includes only the lease payment for the Series 2013 Lease Revenue COPs that funded the Energy Saving Projects. Those payments are subordinate to the payment of Annual Adjusted Debt Service Requirements.

The Airports Division intends to issue additional subordinate indebtedness under the Tax-Exempt Equipment Lease Program (TELP), with an estimated principal amount of $7 million, to fund an additional energy saving project. The debt service on the TELP bonds and the related energy savings have not been reflected in this Report.

SPECIAL FACILITY BONDS

As of the date of this Report, the Airports Division has two outstanding series of special facility bonds with total outstanding principal of $28 million related to special facilities for Continental Airlines, Inc. (now United Airlines), and may borrow up to $76 million under the EB-5 Loan. The Airports Division plans to issue additional special facility bonds to fund the ConRAC program, and to pay the related debt service from the CFC and ConRAC related revenues. The debt service on the special facility bonds is not payable from Revenues and Aviation Fuel Taxes and is not presented on Exhibit D.

COSTS OF OPERATIONS, MAINTENANCE, AND REPAIR

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

Historical costs of operation, maintenance and repair are shown in Exhibit E. Costs of operation, maintenance and repair increased from $246.9 million in FY 2014 to an estimated $255.1 million in FY 2015, with an increase in salaries and wages and other personnel services partially offset by a decrease in utility expenses. FY 2015 operating expenses based on generally accepted accounting principles, once finalized, may include certain non-cash pension expenses above and beyond the annual required contribution amount, pursuant to Statement No. 68 of Governmental Accounting Standards Board. Such non-cash expenses are not included in the costs of operations, maintenance and repair.

Exhibit E also presents the forecast costs of operation, maintenance and repair for FY 2016 through FY 2022 by expense category and by cost center.

For the purpose of the Report, the following assumptions were used:

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*Special maintenance expenses are primarily for major maintenance and rehabilitation of current airport facilities – capital expenditures funded through the operating budget, part of which are reimbursed by the federal grants included as Revenues.

- The cost of salary and wages would increase 4.0% in FY 2016 and 5.0% per year thereafter, which reflects assumed inflation and a small real (net of inflation) increase.

- Other personnel services would increase on average 3.5% per year.

- Utility expenses would decline to $39 million in FY 2016 and FY 2017 (from $42 million in FY 2015), due to lower utility consumption resulting from the implementation of the Energy Saving Projects and lower utility rates as a result of declining crude oil price. Utility expenses were assumed to increase approximately 5.0% annually thereafter.

- Special maintenance expenses would increase to $12 million in FY 2017 and $15 million in FY 2018, and increase 5.0% annually thereafter.

- Other expenses, including repair and maintenance, material and supplies, administrative expenses, and other miscellaneous expenses would increase on average 3.5% per year.

- The Airports Division would incur additional annual operating expenses of $9.4 million for the maintenance of the Mauka Concourse at HNL (starting in January 2019) and the new terminal at KOA (starting in July 2018).

REVENUES AND AVIATION FUEL TAXES

Exhibit F presents historical audited and forecast Airports System Revenues and Aviation Fuel Taxes. For FY 2015, Revenues and Aviation Fuel Taxes are estimated to be $344.1 million, consisting of airline landing fees and aeronautical rentals (48.7% of the total), concession fees and nonaeronautical rentals (49.4%), and other nonoperating revenues (1.9%).

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

- Airline terminal rental rates and landing fees are to be calculated based on the rate-setting methodology defined in the 2007 Agreement. As such, airline revenues are a function of forecast operating expenses, debt service, and certain nonairline revenues generated from the Terminal and Airfield cost centers. The calculation of airline revenues reflects the State's intention to establish a trust fund for other postemployment benefits, and the inclusion of the deposit requirements in the airline rate base.

- Revenues from sources related to passenger throughput, such as terminal concessions, rental car percentage fees, and parking revenues, were forecast to change as a function of forecast activity and higher sales per enplaned passenger resulting from concession facility improvements and pricing increases. Unless noted otherwise, terminal concession revenue per enplaned passenger is forecast to increase 2.2% annually.

Aviation Revenues and Fuel Taxes

Aviation revenues and fuel taxes consist of landing fee revenues, terminal rental revenues, ASSC revenues, nonsignatory airline rates and charges revenues, Aviation Fuel Taxes, and aeronautical rentals. In FY 2015, Signatory Airlines payments accounted for 44.1% of Revenues with payments from nonsignatory airlines accounting for an additional 4.6%.

With increasing costs of operation, maintenance, and repair as well as forecast increases in the Annual Adjusted Debt Service Requirement related to the CIP, signatory airline payments, as a percentage of Revenues and Aviation Fuel Taxes, are expected to increase from 44.1% estimated in FY 2015 to 49.0% in FY 2022.

Landing Fee Revenues. Under the terms of the Amended Lease Extension, the Signatory Airlines pay landing fees per 1,000 pounds of certificated gross aircraft landed weight to allow the Airports Division to recover certain operating, maintenance, and capital costs of runways, taxiways, and other airfield facilities, after crediting nonsignatory landing fee payments, and any federal grant reimbursements. Nonsignatory commercial airlines pay airport rates and charges equaling 125% of Signatory Airlines rates and charges, and small nonsignatory air operators pay lower rates and charges than the Signatory Airlines.

Exhibit F-1 presents the forecast of the Signatory Airline landing fee rate for FY 2016 through FY 2022. The increase in the landing fee rate is primarily driven by the costs of operation, maintenance, and repair allocable to the Airfield Cost Center. Landing fee revenues shown on Exhibit F are stated before the application of credits for Aviation Fuel Taxes.

Terminal Rental Revenues. Under the terms of the Amended Lease Extension, the Signatory Airlines pay the net requirement for each respective Terminal Cost Center, after being credited for terminal concession revenues, and any federal grant reimbursements. Exhibit F-2 shows the forecast of terminal rental rates and rents for each Primary Neighbor Island Airport. Terminal rates at Hilo International Airport are discounted to be 50% of the total requirement through the forecast period, pursuant to the Airline Agreement.

In addition, separate rental rates apply for joint use areas, including (1) holdrooms, (2) baggage systems, and (3) common use ticketing positions. IAB charges are also assessed for use of customs and immigration facilities at HNL and Kona International Airport at Keahole.

Airports System Support Charge Revenue. Exhibit F-3 shows the calculation of the ASSC, which is set to recover all remaining residual costs of the Airports System as needed to meet the Rate Covenant, when landing fees and terminal rentals, together with nonairline revenues, are insufficient to cover Airport System Costs. The overseas ASSC is set by dividing the Net ASSC Requirement by adjusted Airports System landed weight, taking into consideration the Interisland Rate for interisland operations. No ASSC is anticipated during the forecast period.

Nonsignatory Airline Payments and Other Aeronautical Rentals. Aviation revenues also include nonsignatory airline payments and other aeronautical rentals, such as revenues generated from leases of paved and unpaved land, hangars, and buildings other than the passenger terminal buildings.

Airline Payments. Exhibit F-4 presents historical and forecast of passenger airline payments per enplaned passenger. Passenger airline payments per enplaned passenger are forecast to reach $12.02 in FY 2022 as a result of increasing operating expenses and Annual Adjusted Debt Service Requirements.

Terminal Concessions

Terminal concession revenues are derived from duty free, retail, food and beverage, and other concession operations located in the passenger terminals in the primary airports. Under the terms of the various concession agreements, concession fees payable to the Airports Division are the greater of a percentage of gross sales or an annual minimum annual guarantee (MAG) that has been specified in each concession agreement. Many concession agreements are scheduled to expire during the forecast period, as further described below. For purposes of this Report, it was assumed that subsequent agreements would have similar terms to the existing ones.

Exhibit F presents historical and forecast revenues received by the Airports Division from terminal concessionaires. Factors driving terminal concession revenues include: (1) the forecast of enplaned passengers, (2) recent historical trends in the concession revenues, (3) allowances for inflation of 2.2% per year, (4) the terms and conditions of the concession agreements, and (5) assumptions regarding ongoing development of the concession facilities (e.g., tenant improvements by concessionaires, as discussed below). The Department has extended the term of many existing concession agreements in exchange for revenue enhancing improvements paid by the concessionaires, as permitted by Act 46, Session Laws of Hawaii 2012.

A brief description of these revenue sources is provided below.

Duty Free Revenues. Duty free revenues have been a major source of nonairline revenue for the Airports Division, and are heavily dependent on passenger traffic from Japan and other Pacific Rim countries.

In January 2007, the Airports Division entered into an agreement with DFS Group L.P. (DFS) for a period of 10 years, effective May 31, 2007. The agreement specifies three locations, one at HNL and two off-airport locations: one in Waikiki on the island of Oahu, and one located in the King Shops of Waikoloa on the Island of Hawaii. Under the terms of the agreement, DFS is to pay the Airports Division the greater of an established MAG or a percentage rent calculated on annual gross receipts. The percentage rent would be paid if annual gross duty free sales exceed $155 million. (Duty free payments to the Airports Division for sales at the two off-airport locations are Revenues of the Airports Division.)

The MAG is $32.3 million from FY 2015 through May 31, 2017. In FY 2015, DFS paid a total of $32.3 million to the Airports Division because the annual gross receipts were $137 million, lower than the percentage fee threshold of $155 million. The FY 2015 gross receipts were 18.5% lower than the FY 2014 gross receipts of $166 million, primarily because the Japanese currency depreciated against the U.S. Dollar during the same period, dropping from approximately 100 Yen per U.S. dollar in July 2013 to 124 Yen per U.S. dollar in June 2015. This currency movement contributed to reduced duty free purchases by Japanese tourists – a key driver of duty free activity.

In December 2014, the Airports Division and DFS extended the duty free contract for another 10 years, with the earliest expiration date of May 31, 2027. As a result, DFS agreed to (a) undertake certain terminal improvements at HNL at their own expense, (b) increase the MAG to $40 million for the contract year ending May 31, 2018, $47.5 million for the contract years ending May 31, 2019 and 2020, 85% of actual amounts paid in 2020 for the contract years ending May 31, 2021 and 2022, and another adjustment of 85% of prior year payments for the remaining years through May 31, 2027, and (c) revise the percentage of gross revenues fee ratio to 30.0% for on-airport sales and 18.0% for off-airport sales.

As shown in Table 26, duty free revenues accounted for 21.7% of total concession revenues at the Airports System in FY 2015.

Table 26
FY 2015 CONCESSION REVENUES
State of Hawaii, Department of Transportation, Airports Division

	Amount (000s)	Percent	Per enplaned passenger
Concession Revenues			
Duty Free	$ 32,300	21.7%	1.94
Food and Beverage	8,221	5.5	0.49
Retail	15,469	10.4	0.93
Other Terminal Concessions	7,119	4.8	0.43
Parking	22,463	15.1	1.35
Rental Car	60,258	40.5	3.61
Ground Transportation	3,005	2.0	0.18
Total Concession Revenues	$148,835	100.0%	8.92

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

For the purpose of this Report, duty free revenues were assumed to equal the MAG amount for the forecast period.

Food and Beverage. Food and beverage concessionaires lease terminal space throughout the Airports System pursuant to specific concession agreements, which provide for payment to the Airport Division of the greater of a percentage of gross sales or a MAG. Under the terms of each contract, the Airports Division receives a specified percentage of gross receipts from the sale of (1) food and non-alcoholic beverages, (2) alcoholic beverages, and (3) other items specified in the contract.

The Airports Division entered into an agreement with Host International, Inc. (Host) in 1993 to provide exclusive restaurant, lounge, and employee cafeteria concessions at HNL, which was subsequently extended to expire on April 30, 2029. Upon anticipated completion of certain concession improvements in late 2015, Host will pay a higher percentage on a portion of its gross sales and the annual MAG will be increased from $4.8 million to $5.1 million.

Other food and beverage concession agreements have been executed with (1) Host at Kahului Airport and Lihue Airport, which were extended through September, 30, 2022 and September 30, 2023 respectively, in exchange for certain concession improvements, and (2) Volume Services, dba Centerplate for Hilo International Airport and Kona International Airport at Keahole on the island of Hawaii, operating under a concession agreement effective through November 30, 2017.

Food and beverage revenues increased from $7.4 million in FY 2014 to an estimated $8.2 million in FY 2015, and are forecast to increase to $12.2 million in FY 2022. It was assumed that food and beverage revenues at HNL will increase by an additional 20% in FY 2017, and food and beverage revenues at OGG will increase by an additional 10% in FY 2017; in both cases due to concession facility improvements and higher percentage rent ratios.

Retail. Multiple duty paid retail merchandise concession outlets are operated at airports throughout the Airports System. The retail concession product categories include (1) gifts, apparel, and luggage; (2) packaged foods; (3) sundries and toys; and (4) jewelry and shells. The retail concession agreements exclude duty free concessions, food and beverage, automated teller machines (ATMs), money exchange, newsstands, florist, and advertising. The Airports Division entered into a retail contract with DFS at HNL (DFS operates duty free concessions and duty paid concessions under separate contracts) with the earliest expiration date of March 31, 2026. The MAG is $12.0 million for the contract year ending March 31, 2016, and resets annually to 85% of prior year payments to the Airports Division. DFS pays the Airports Division the higher of the MAG or 20% of gross receipts.

DFS also operates retail concessions at the Kahului Airport. Travel Traders, Inc. provides retail concessions at Lihue Airport and Tiare Enterprises, Inc. offers concessions at Hilo International Airport and Kona International Airport at Keahole.

Total retail revenues to the Airports Division increased from $14.2 million in FY 2014 to an estimated $15.5 million in FY 2015, and are forecast to increase to $22.2 million in FY 2022. It was assumed the retail revenues at HNL and OGG will increase by an additional 10% in FY 2017 due to concession facility improvements.

Other Concession Operations. In addition to the primary concession agreements described above, the Airports Division has contractual agreements with various other concessionaires to provide news, florist services, ATMs, currency exchange, and advertising. These revenues are forecast to increase with inflation and the number of enplaned passengers.

Parking, Ground Transportation, and Rental Car Revenues

As shown earlier in Table 26, concession revenues received by the Airports Division in connection with parking, ground transportation, and rental cars amounted to $85.7 million in FY 2015, or 57.6% of total concession revenues.

Parking Revenues. Table 27 lists the parking facilities at HNL, the number of spaces in each facility, and the related parking rates.

Table 27
ON-AIRPORT PUBLIC PARKING FACILITIES
Honolulu International Airport
(as of September 2015)

Existing public parking		Parking spaces	First hour	Daily rate
Lot A	International Parking Garage	1,800	$3.00	$15.00
Lot M	Interisland Terminal Garage	1,787	3.00	15.00
Lot D	Overseas Terminal Garage	1,146	3.00	15.00
Lot B	Economy Parking Lot	434	3.00	12.00
	Total existing	5,167		

ABM Parking Services (ABM, formerly AMPCO System Parking) operates the public parking facilities at HNL under a 5-year concession agreement effective August 2010, which has been extended for an additional year through August 2016. Under this agreement, the Airports Division retains all rights to increase parking rates, among other things, and receives the higher of an $8.525 million MAG or a percentage of gross receipts from the parking operation. Under this agreement, parking revenues up to $17 million are subject to a percentage payment of 80%, with the Airports Division receiving graduated percentages applicable to revenues exceeding $17 million, reaching 85% on revenues above $19 million.

In addition, ABM maintains parking management contracts at neighbor island airports and remits a portion of gross receipts to the Airports Division: 80% for the parking operations at Kahului Airport, 65% for Lihue Airport and Kona International Airport at Keahole, and 55% for Hilo International Airport. The current daily maximum parking rate at Honolulu is $15.00, with the daily maximum rate at neighbor island airports of $10.00.

Public automobile parking revenues are forecast on the basis of (1) historical annual trends in parking revenues per enplaned passenger, (2) an assumed increase in daily parking rates, and (3) forecast numbers of passengers, as presented in Section 2. It was assumed the maximum HNL garage daily parking rate would increase from $15.00 to $17.00 in FY 2020, and other daily parking rates would be increased by $1.00 in FY 2020. The Airports Division submitted a request to the Governor in September 2015 to increase maximum daily parking rates at HNL and the other airports, which may, if approved, be implemented in January 2016. The resulting anticipated increase in parking revenues has not been reflected in this Report.

As mentioned in Section 2, the Airports Division is converting a portion of the Overseas Garage into an interim rental car facility, but considers the remaining parking facilities adequate to accommodate parking demand.

Rental Car Revenues. The Airports Division collects rental car concession revenues from on-airport rental car operations. (CFCs anticipated to be collected from rental car customers are not included as Airports System Revenues, as described above.) Revenues identified in this category do not include leased space for rental car operations, which are included in nonaeronautical rental revenues.

On-Airport Rental Car Operations. The on-airport rental car companies operate under the terms of concession agreements or revocable permits and pay 10% of gross receipts at HNL and other Primary Neighboring Island Airports. In May 2015, the Department executed Statewide Airports System Rental Car Facilities Concession Agreements and Facility Leases with all major rental car companies operating at the Hawaii Airports System for the use of future ConRAC facilities at HNL and Kahului Airport, which are expected to be completed in 2020 and 2019 respectively.

Table 28 identifies the rental car companies that operate at each of the airports. All rental car companies shown for HNL and OGG plan to move onto the respective airports upon the completion of the applicable ConRAC facilities, and pay the higher of their respective MAGs or 10% of gross receipts.

Table 28
ON- AND OFF-AIRPORT RENTAL CAR OPERATIONS BY AIRPORT
State of Hawaii, Department of Transportation, Airports Division
(as of September 2015)

Rental car	Airport					
company	Honolulu	Kahului	Kona	Lihue	Hilo	Molokai
Advantage	On	Off	--	On	--	--
Alamo	Off	On	On	On	On	On
Avis	On	On	On	On	On	Off
Budget	On	On	On	On	On	--
Dollar	Off	On	On	On	On	--
Enterprise	On	On	On	On	On	--
Harper	--	--	Off	--	Off	--
Hertz	On	On	On	On	On	Off
National	On	On	On	On	On	--
Thrifty	Off	On	On	On	On	Off

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

Rental car revenues are forecast to increase in proportion to (1) forecast increases in overseas enplaned passengers, and (2) assumed pricing increases due to inflation of 2.2% annually. It was further assumed that rental car revenues at HNL would increase 30% in FY 2021 when Alamo, Dollar and Thrifty are expected to move their operations on-airport after the scheduled completion of the HNL ConRAC.

Off-Airport Rental Car Operations. A minimal fee is currently assessed to rental car operators that maintain facilities off-airport and operate shuttle buses to transport passengers to and from the remote facilities and the airports.

Customer Facility Charges**.** The Airports Division implemented a $1.00 per on-Airport rental car transaction day CFC as authorized by the Hawaii Revised Statutes beginning September 1, 2008. The CFC was increased to $4.50 beginning September 1, 2010. Moneys collected through the CFC are deposited into a restricted fund that can only be used to fund the development of new consolidated rental car facilities and related infrastructure improvements, and associated operating costs. CFC revenues are not Revenues of the Department, as defined by the Certificate. No Airports System funds are anticipated to be used for rental car capital projects.

Ground Transportation Revenues*.* Ground transportation revenues include revenues generated from airport shuttle services, taxicab operations, and other courtesy vehicle operations. In FY 2015, ground transportation revenues represented 2.0% of total concession revenues.

Nonaeronautical Rental Revenues

Nonaeronautical rental revenues include revenues from rental car leases, certain utility reimbursements, and other leased facilities, such as hangars and cargo buildings occupied by nonairline tenants. Certain revenues are forecast according to the terms of the various agreements currently in effect and the additional revenues expected from agreements for new and expanded facilities. It was further assumed that rental car companies would pay annual ground and facility rents of $1.3 million annually for the HNL interim rental car facility starting January 2016, an additional $1 million annually upon the completion of the HNL ConRAC, and $2.2 million annually upon the completion of the OGG ConRAC.

Miscellaneous Operating Revenues

In addition to the revenues described above, the Airports Division has agreements with various other companies to provide the sale of utilities and other services, in addition to other miscellaneous income recognized through daily operations of the Airports System. Miscellaneous revenues are forecast to increase by 1.0% annually.

Nonoperating Revenues

Nonoperating revenues include federal grants as a reimbursement to capital costs included in the operating budget, and interest earnings from various funds and accounts under the Certificate. In FY 2013, the Airports Division received a one-time $19 million insurance payment associated with business interruption in the aftermath of the 9/11 terrorist attacks. Federal grant reimbursements are forecast to be $2.0 million annually during the forecast period. Interest earnings are forecast to increase due to changes in fund balances and interest earning rates.

APPLICATION OF REVENUES AND AVIATION FUEL TAXES

As described earlier, the Certificate establishes the priority of claims on Revenues and Aviation Fuel Taxes. As shown in Exhibit G, the payment for the costs of operation, maintenance and repair, including deposits to the O&M Reserve Account, has the highest claim on Revenues and Aviation Fuel Taxes, followed by Annual Adjusted Debt Service Requirement on Bonds. Transfers to the Major Maintenance, Renewal, and Replacement (MMRRA) Account are applied after the first two priorities have been met. Reimbursement to the State General Fund for general obligation bond debt service has next priority and other miscellaneous expenditures have lowest priority, such as payment for the COPs and other fund deposits. (There are no outstanding general obligation bonds related to the Hawaii Airports System.)

The Certificate provides that the balance in the Airport Revenue Fund on credit to the MMRRA be no less than $2.4 million or any higher amount determined by the Department in its sole discretion. As of the date of this Report, the Airports Division maintains the amount on credit to the MMRRA at $60 million. The money on credit to the MMRRA can be used to make up deficiencies in the Interest Account, Serial Bond Principal Account, and Sinking Fund Account or for major maintenance, repairs, renewals, and replacements as shall not be annually recurring in nature. For the purpose of this Report, it was assumed $3 million would be spent annually on major maintenance projects for FY 2017 and beyond. The MMRRA will be replenished by Revenues and Aviation Fuel Taxes at the end of each Fiscal Year.

DEBT SERVICE COVERAGE

In each year of the forecast period, Net Revenues and Taxes, together with unencumbered funds certified as Revenues, are forecast to exceed the requirements of the Rate Covenant contained in the Certificate. The Airports Division established a funded coverage account in the Airport Revenue Fund to hold the certified amount to be included as Revenues and has been maintaining the account balance at 25% of gross debt service. Exhibit H presents the calculation of debt service coverage, which is expected to be above 1.25x during the forecast period.

Further, Net Revenues and Taxes in each Fiscal Year are forecast to be at least sufficient to make all required payments and deposits, as demonstrated in Exhibit G. Thus, the Rate Covenant provision of the Certificate is forecast to be met in each Fiscal Year of the forecast period.

SENSITIVITY SCENARIO

Exhibit I summarizes the forecast financial results of the Airports Division presented in Exhibits A through J (the Base Case). Exhibit J is an identical presentation of financial projections for a hypothetical sensitivity scenario. The hypothetical sensitivity scenario is based on the same assumptions described in the sections above, except:

- The number of enplaned passengers, and all other related airline traffic activities, would be 15% lower, starting in FY 2017, than the forecast of enplaned passengers under the Base Case

- Projections of those categories of nonairline and commercial revenues that are variable based on passenger activity were decreased proportionately. It was assumed that the related MAGs would be reduced proportionally as well.

Under this hypothetical scenario, the Airports Division would charge Airport System Support Charges and would generate sufficient Net Revenues to meet the requirements of the Rate Covenant, albeit with lower debt service coverage ratios. Passenger airline payments per enplaned passenger would increase to $14.67 in FY 2022, compared to $12.02 in FY 2022 under the Base Case.

In the event that enplaned passenger levels actually declined substantially, the Airports Division would have a range of options at its disposal to mitigate the impact of such a downturn. Among them would be the ability to reduce costs of operation, maintenance and repair, and to defer capital improvements (thereby reducing Future Bond issuance during the forecast period), which are not reflected in the calculations presented on Exhibit J.

Exhibit A

Project Costs and Sources of Funding
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in millions)

								Funding Sources							
	Prior	2016	2017	2018	2019	Beyond 2020	Total	Grants	PFCs	Cash	Bonds	Sub.	CFCs	Total	%
HNL															
Mauka Concourse Program	$ 225	$ 103	$ 55	$ 201	$ 82	$ 2	$ 667	$ 1	$ 25	$ 16	$ 626	$ -	$ -	$ 667	25.6%
Airfield	57	50	36	19	-	2	163	61	62	9	31	-	-	163	6.3%
Terminal	50	47	55	65	10	0	226	26	21	7	171	-	-	226	8.7%
Others	2	2	3	13	2	(0)	22	3	-	1	18	-	-	22	0.8%
HNL Subtotal	$ 333	$ 202	$ 148	$ 298	$ 94	$ 4	$ 1,078	$ 91	$ 108	$ 34	$ 846	$ -	$ -	$ 1,078	41.4%
OGG	41	54	13	14	1	3	126	6	34	22	64	-	-	126	4.9%
KOA	12	9	41	36	10	4	112	22	6	6	78	-	-	112	4.3%
ITO	46	21	15	4	-	5	92	46	6	13	27	-	-	92	3.5%
LIH	19	14	13	8	0	0	54	19	-	17	18	-	-	54	2.1%
Other Airports	22	9	11	7	7	7	63	53	-	5	5	-	-	63	2.4%
Other Statewide Projects	19	8	7	5	3	1	43	14	-	28	1	-	-	43	1.6%
Energy Saving Projects	132	25	-	-	-	-	157	-	-	-	-	157	-	157	6.0%
Projects Subject to Airline Review	$ 624	$ 342	$ 248	$ 372	$ 114	$ 25	$ 1,725	$ 251	$ 153	$ 125	$ 1,039	$ 157	$ -	$ 1,725	66.2%
Rental Car Projects	85	70	191	270	177	87	880	1	-	-	-	-	879	880	33.8%
Total CIP	$ 710	$ 412	$ 438	$ 642	$ 291	$ 112	$ 2,605	$ 252	$ 153	$ 125	$ 1,039	$ 157	$ 879	$ 2,605	100.0%
% of Total	27.2%	15.8%	16.8%	24.7%	11.2%	4.3%	100.0%	9.7%	5.9%	4.8%	39.9%	6.0%	33.7%	100.0%	

Note: PFC = Passenger Facility Charge on a pay-as-you-go basis; Sub. = Subordinated debt; CFC = Customer Facility Charge revenues and special facility bonds.
Source: State of Hawaii, Department Transportation, Airports Division records.

Exhibit B

Historical and Forecast of PFC Revenues
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	2013	Audited 2014	Estimated 2015	Forecast 2016	2017	2018	2019	2020	2021	2022
PFC Collections										
Enplaned Overseas Passengers (a)	9,424	9,273	9,685	10,091	10,278	10,464	10,651	10,837	11,024	11,210
Percent of PFC Eligible Passengers	84.9%	84.4%	86.5%	84.0%	84.0%	84.0%	84.0%	84.0%	84.0%	84.0%
PFC Eligible Enplaned Passengers	8,005	7,829	8,378	8,476	8,633	8,790	8,946	9,103	9,260	9,416
PFC Level	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
less: PFC Airline Collection Fee	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
Net PFC Level	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
PFC Collections (not including interest income)	$ 35,142	$ 34,371	$ 36,778	$ 37,212	$ 37,899	$ 38,587	$ 39,275	$ 39,963	$ 40,650	$ 41,338
Cumulative PFC Collections (including interests)	$ 236,248	$ 270,926	$ 307,861	$ 345,730	$ 384,264	$ 423,608	$ 463,807	$ 504,834	$ 546,678	$ 589,330
PFC Cashflow										
PFC Fund - Beginning Balance	$ 87,206	$ 105,836	$ 133,126	$ 143,257	$ 120,306	$ 134,200	$ 169,586	$ 200,749	$ 226,162	$ 252,391
Deposits:										
PFC Collections	$ 35,142	$ 34,371	$ 36,778	$ 37,212	$ 37,899	$ 38,587	$ 39,275	$ 39,963	$ 40,650	$ 41,338
Interest Earnings	191	306	158	657	635	758	924	1,065	1,193	1,315
Total Annual PFC Revenues	$ 35,333	$ 34,677	$ 36,935	$ 37,869	$ 38,534	$ 39,345	$ 40,198	$ 41,027	$ 41,844	$ 42,653
Annual Use of PFC Revenues										
Pay-as-you-go	$ (16,702)	$ (7,387)	$ (26,804)	$ (60,499)	$ (22,864)	$ -	$ -	$ -	$ -	
Future Available PFC Revenues										
PFC Application #5	-	-	-	(321)	(1,776)	(3,959)	(6,721)	(9,502)	(9,502)	(12,316)
Future Applications	-	-	-	-	-	-	(2,314)	(6,113)	(6,113)	(7,923)
Total Annual Use of PFC Revenues	$ (16,702)	$ (7,387)	$ (26,804)	$ (60,820)	$ (24,640)	$ (3,959)	$ (9,035)	$ (15,615)	$ (15,615)	$ (20,239)
PFC Fund - Ending Balance	$ 105,836	$ 133,126	$ 143,257	$ 120,306	$ 134,200	$ 169,586	$ 200,749	$ 226,162	$ 252,391	$ 274,805

Note: (a) Interisland enplaned passengers are not subject to the PFC collection.

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - LeighFisher.

Exhibit C

Sources and Uses of Bond Funds
State of Hawaii, Department of Transportation, Airports Division
(numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Future Bonds			
	2015 Bonds	**2017 Bonds**	**2018 Bonds**	**Total**
Sources of Funds				
Bond Proceeds	$ 245,895	$ 424,865	$ 107,955	$ 778,715
Premium	4,886	31,857	6,601	43,344
Interest Earnings/Release of Reserve Account	7,353	-	-	7,353
Total Sources	$ 258,134	$ 456,722	$ 114,556	$ 829,412
Use of Funds				
Project Costs	$ 250,000	$ 404,425	$ 106,396	$ 760,821
Costs of Issuance	1,164	1,788	682	3,634
Deposit to Debt Service Reserve Account	-	25,492	7,017	32,509
Deposit for Capitalized Interest	6,969	25,018	461	32,448
Total Uses of Funds	$ 258,134	$ 456,722	$ 114,556	$ 829,412

Source: Morgan Stanley & Co. LLC.

Exhibit D

Annual Adjusted Debt Service Requirement
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

		Audited	Estimated	Forecast						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Annual Adjusted Debt Service Requirement										
Existing										
2010 Refunding	$ 23,992	$ 22,038	$ 25,699	$ 25,708	$ 25,696	$ 25,704	$ 25,733	$ 31,564	$ 15,270	$ -
2010 New Money	19,129	22,391	22,856	23,011	23,011	23,011	23,011	23,011	23,011	41,016
2011 Refunding	37,889	32,195	28,531	28,526	28,537	28,529	28,500	22,669	38,962	36,224
Subtotal	$ 81,010	$ 76,624	$ 77,086	$ 77,245	$ 77,244	$ 77,245	$ 77,244	$ 77,245	$ 77,244	$ 77,241
Proposed 2015 Bonds	-	-	-	3,338	10,566	11,381	12,246	12,295	12,295	12,295
Future 2017 Bonds	-	-	-	-	1,329	11,993	25,390	25,492	25,492	25,492
Future 2018 Bonds	-	-	-	-	-	-	6,556	7,017	7,017	7,017
Gross Debt Service	$ 81,010	$ 76,624	$ 77,086	$ 80,583	$ 89,140	$ 100,618	$ 121,436	$ 122,049	$ 122,048	$ 122,044
Airline Prepaid Interests (a)	-	(19,000)	(18,500)	(4,000)	-	-	-	-	-	-
Debt Service Requirement	$ 81,010	$ 57,624	$ 58,586	$ 76,583	$ 89,140	$ 100,618	$ 121,436	$ 122,049	$ 122,048	$ 122,044
Available PFC Revenues (b)	-	-	-	(321)	(1,776)	(3,959)	(9,035)	(15,615)	(15,615)	(20,239)
Annual Adjusted Debt Service Requirement	$ 81,010	$ 57,624	$ 58,586	$ 76,262	$ 87,364	$ 96,659	$ 112,401	$ 106,434	$ 106,433	$ 101,805
By Cost Center										
Airfield				$ 4,780	$ 6,335	$ 7,437	$ 9,100	$ 7,214	$ 7,214	$ 5,443
Terminal										
Honolulu International				48,558	56,048	63,090	71,660	68,920	68,920	68,437
Hilo International				-	-	-	-	-	-	-
Kona International				285	411	71	2,956	1,983	1,983	1,801
Kahului				9,912	11,006	11,501	12,358	12,154	12,154	11,770
Lihue				867	946	1,007	1,079	864	864	565
Other Cost Centers				11,861	12,618	13,553	15,248	15,298	15,298	13,789
Annual Adjusted Debt Service Requirement				$ 76,262	$ 87,364	$ 96,659	$ 112,401	$ 106,434	$ 106,433	$ 101,805
Certificates of Participation (subordinate to the Bonds)		$ -	$ 3,235	$ 8,326	$ 13,017	$ 13,734	$ 14,277	$ 15,155	$ 16,272	$ 17,122

Notes: (a) Includes airline prepaid interests for FY 2014 through FY 2016.
(b) Includes amount approved in PFC application #5, and projected amount for other eligible projects to be requested in future PFC applications. The Airports Division intends to deposit PFC revenues annually instead of irrevocably committing PFC revenues in supplemental certificates.

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - LeighFisher.

Exhibit E

Costs of Operation, Maintenance and Repair
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	2013	Audited 2014	Estimated 2015	Forecast 2016	2017	2018	2019	2020	2021	2022
Costs of Operation, Maintenance and Repair										
Salary and Wages	$ 83,989	$ 82,780	$ 90,262	$ 93,873	$ 98,566	$103,495	$108,669	$114,103	$119,808	$125,798
Other Personnel Services	52,602	50,588	54,467	56,374	58,347	60,389	62,503	64,690	66,954	69,298
Utilities (a)	50,360	48,882	41,739	38,709	38,853	40,804	43,066	45,131	47,108	49,502
Special Maintenance	6,550	4,459	8,682	8,682	12,000	15,000	15,750	16,538	17,364	18,233
Repair and Maintenance	20,181	29,270	30,373	31,436	32,536	33,675	34,854	36,074	37,336	38,643
Materials and Supplies	5,557	6,304	6,114	6,328	6,549	6,778	7,016	7,261	7,515	7,778
DOT Administrative Expenses	5,445	6,555	5,078	5,256	5,440	5,630	5,827	6,031	6,242	6,461
Other Expenses	6,294	5,781	5,744	5,945	6,154	6,369	6,592	6,823	7,061	7,309
Bad Debt	580	-	99	-	-	-	-	-	-	-
Base Expenses net of Surcharge	$231,558	$234,620	$ 242,558	$246,602	$258,446	$272,140	$284,277	$296,650	$309,390	$323,022
Incremental Expenses	-	-	-	-	-	-	5,850	9,573	9,908	10,255
State Surcharge	12,474	12,261	12,568	14,180	14,861	15,648	16,682	17,608	18,360	19,163
Costs of Operation, Maintenance and Repair	$244,031	$246,881	$ 255,126	$260,782	$273,306	$287,788	$306,809	$323,831	$337,657	$352,440
% Change	7.2%	1.2%	3.3%	2.2%	4.8%	5.3%	6.6%	5.5%	4.3%	4.4%
By Cost Center										
Airfield				$ 61,254	$ 65,294	$ 69,750	$ 75,731	$ 79,622	$ 83,044	$ 86,692
Terminal										
Honolulu International				74,434	78,456	83,594	90,251	96,127	100,147	104,475
Hilo International				3,933	4,225	4,519	4,763	4,962	5,180	5,411
Kona International				4,712	5,051	5,395	6,485	6,747	7,037	7,341
Kahului				7,376	7,931	8,493	8,966	9,341	9,747	10,187
Lihue				5,101	5,465	5,833	6,146	6,401	6,682	6,978
Other Cost Centers				103,971	106,884	110,206	114,467	120,631	125,819	131,357
Costs of Operation, Maintenance and Repair				$260,782	$273,306	$287,788	$306,809	$323,831	$337,657	$352,440

Notes: (a) Utility expenses are assumed to decline in 2016 due to lower utility rates and implementation of energy saving projects.
Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - LeighFisher.

Exhibit F

Revenues and Aviation Fuel Taxes
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	2013	Audited 2014	Estimated 2015	Forecast 2016	2017	2018	2019	2020	2021	2022
Revenues and Aviation Fuel Taxes										
Signatory Airline Payments										
Landing Fee (a)	$ 55,008	$ 49,442	$ 55,367	$ 61,931	$ 66,914	$ 73,375	$ 81,485	$ 83,464	$ 86,799	$ 88,870
Passenger Terminal Rental	79,807	70,410	82,531	92,458	101,575	107,515	127,364	122,327	132,379	135,241
Aviation Fuel Taxes (b)	4,674	4,847	4,455	4,455	4,455	4,455	4,455	4,455	4,455	4,455
Commuter Terminal (c)	847	730	505	510	-	-	-	-	-	-
Non-Terminal Rentals	9,271	9,017	8,937	10,695	12,642	12,940	13,242	13,546	13,854	14,164
Signatory Airline Payments Other than ASSC	$ 149,607	$ 134,447	$ 151,795	$ 170,049	$ 185,586	$ 198,285	$ 226,546	$ 223,792	$ 237,487	$ 242,730
Signatory Airport System Support Charges	-	-	-	-	-	-	-	-	-	-
Total Signatory Airline Payments	$ 149,607	$ 134,447	$ 151,795	$ 170,049	$ 185,586	$ 198,285	$ 226,546	$ 223,792	$ 237,487	$ 242,730
Non-signatory Landing Fee (a)	4,866	3,488	2,558	2,870	3,008	3,177	3,386	3,462	3,568	3,648
Nonsignatory ASSC and Other Payments	3,509	3,169	1,506	1,521	1,537	1,552	1,567	1,583	1,599	1,615
Other Aeronautical Rentals	9,927	10,569	11,848	11,966	12,086	12,207	12,329	12,452	12,577	12,703
Total Revenues and Aviation Fuel Taxes	$ 167,909	$ 151,673	$ 167,707	$ 186,407	$ 202,217	$ 215,222	$ 243,829	$ 241,289	$ 255,231	$ 260,695
Nonairline Revenues										
Duty Free	$ 41,338	$ 34,512	$ 32,300	$ 32,300	$ 32,942	$ 40,000	$ 40,625	$ 46,906	$ 40,375	$ 40,375
Food and Beverage	8,166	7,396	8,221	8,546	10,177	10,555	10,943	11,344	11,757	12,183
Retail	13,994	14,204	15,469	16,368	18,509	19,194	19,901	20,629	21,380	22,153
Other Terminal Concessions	6,600	6,663	7,119	7,501	8,722	10,000	10,367	10,745	11,135	11,537
Parking	20,210	20,926	22,463	22,923	23,444	23,797	24,149	27,172	27,562	27,953
Rental Car	58,199	56,535	60,258	63,419	65,806	68,267	70,804	73,419	80,358	83,289
Ground Transportation	2,882	3,333	3,005	3,198	3,318	3,441	3,568	3,699	3,834	3,973
Nonaeronautical Rentals	14,241	14,467	15,003	15,906	16,602	16,768	18,036	19,316	20,509	20,714
Miscellaneous Operating Revenues	5,047	7,414	6,289	6,351	6,415	6,479	6,544	6,609	6,675	6,742
Total Nonairline Revenues	$ 170,679	$ 165,451	$ 170,127	$ 176,513	$ 185,935	$ 198,500	$ 204,937	$ 219,840	$ 223,586	$ 228,920
Operating Revenues	$ 338,588	$ 317,123	$ 337,834	$ 362,919	$ 388,151	$ 413,722	$ 448,765	$ 461,129	$ 478,817	$ 489,615
Federal Grant Reimbursements	5,039	2,656	3,078	2,000	2,000	2,000	2,000	2,000	2,000	2,000
911 Insurance Proceeds	19,000	-	-	-	-	-	-	-		
Interest Income										
Operating Funds and Reserves	1,824	1,867	2,773	3,080	3,145	3,335	3,424	3,447	3,478	3,507
Construction Fund	168	197	367	258	176	103	126	136	159	189
REVENUES AND AVIATION FUEL TAXES	$ 364,618	$ 321,844	$ 344,052	$ 368,258	$ 393,473	$ 419,160	$ 454,315	$ 466,712	$ 484,454	$ 495,312
Signatory Airline Revenues as % of Total	41.0%	41.8%	44.1%	46.2%	47.2%	47.3%	49.9%	48.0%	49.0%	49.0%

Notes: (a) Net of credits for aviation fuel taxes.
(b) Including aviation fuel taxes paid by all airlines.
(c) Assuming the airlines in the Commuter Terminal would be relocated in FY 2017.

Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - LeighFisher.

Exhibit F-1

Signatory Airlines Landing Fee Revenues
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Forecast 2016	2017	2018	2019	2020	2021	2022
Airfield Requirement							
Costs of Operation, Maintenance and Repair	$ 61,254	$ 65,294	$ 69,750	$ 75,731	$ 79,622	$ 83,044	$ 86,692
Equipment and Motor Vehicles	352	358	376	397	409	423	438
Annual Adjusted Debt Service Requirement	4,780	6,335	7,437	9,100	7,214	7,214	5,443
Certificate of Participation Payments	1,879	2,856	3,014	3,133	3,326	3,571	3,757
Deposit to Maintenance, Renewal and Replacement Account	-	-	-	-	-	-	-
Credit to O&M Reserve Account	1,458	-	897	1,432	1,276	1,037	1,109
Subtotal	$ 69,723	$ 74,844	$ 81,474	$ 89,793	$ 91,847	$ 95,289	$ 97,440
LESS:							
Annual Non-signatory Landing Fee	(2,870)	(3,008)	(3,177)	(3,386)	(3,462)	(3,568)	(3,648)
Federal Grant Reimbursements	(467)	(467)	(467)	(467)	(467)	(467)	(467)
Signatory Landing Fee Revenues	$ 66,386	$ 71,369	$ 77,830	$ 85,940	$ 87,919	$ 91,254	$ 93,325
Interisland Signatory Landed Weight	9,573	9,671	9,760	9,849	9,938	10,028	10,117
Interisland Rate	44.0%	45.0%	46.0%	47.0%	48.0%	49.0%	50.0%
Adjusted Interisland Signatory Landed Weight	4,212	4,352	4,490	4,629	4,770	4,914	5,058
Overseas Signatory Landed Weight	16,200	16,366	16,517	16,668	16,819	16,970	17,121
Adjusted Signatory Landed Weight (1,000 lbs)	20,412	20,717	21,006	21,297	21,589	21,883	22,179
Signatory Landing Fee Rate per 1,000 lbs							
Overseas	$ 3.25	$ 3.44	$ 3.71	$ 4.04	$ 4.07	$ 4.17	$ 4.21
Interisland	1.43	1.55	1.71	1.90	1.95	2.04	2.11

Note: Actual billed landing fee rate is $3.25/1.43 in FY 2016.
Source: LeighFisher.

Exhibit F-2

Signatory Airlines Terminal Rentals
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Forecast 2016	2017	2018	2019	2020	2021	2022
Honolulu Terminal Requirements							
Costs of Operation, Maintenance and Repair	$ 74,434	$ 78,456	$ 83,594	$ 90,251	$ 96,127	$100,147	$104,475
Equipment and Motor Vehicles	428	431	451	473	494	511	528
Annual Adjusted Debt Service Requirement	48,558	56,048	63,090	71,660	68,920	68,920	68,437
Certificates of Participation Payments	2,933	4,820	5,086	5,287	5,612	6,026	6,340
Deposit to Maintenance, Renewal and Replacement Account	500	3,000	3,000	3,000	3,000	3,000	3,000
Credit to O&M Reserve Account	1,772	-	1,075	1,706	1,541	1,251	1,336
Subtotal	$ 128,624	$142,755	$156,296	$172,377	$175,694	$179,854	$184,117
LESS:							
Annual Terminal Nonairline Revenues	(58,892)	(65,644)	(74,906)	(76,847)	(84,479)	(79,335)	(80,759)
Federal Grant Reimbursements	(821)	(821)	(821)	(821)	(821)	(821)	(821)
Subtotal	$ 68,911	$ 76,290	$ 80,569	$ 94,709	$ 90,393	$ 99,697	$102,537
Multiplying Adjustment Ratio for Honolulu Terminal	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Terminal Requirements	$ 68,911	$ 76,290	$ 80,569	$ 94,709	$ 90,393	$ 99,697	$102,537
Leased Space	1,076	1,076	1,076	1,076	1,126	1,126	1,126
Average Terminal Rental Rate	$ 64.05	$ 70.91	$ 74.89	$ 88.03	$ 80.29	$ 88.55	$ 91.07
Signatory Airlines Terminal Rentals							
Honolulu International	$ 68,911	$ 76,290	$ 80,569	$ 94,709	$ 90,393	$ 99,697	$102,537
Hilo International	1,905	2,010	2,185	2,320	2,413	2,514	2,630
Kona International	3,794	4,113	4,143	8,130	7,360	7,584	7,663
Kahului	12,881	13,887	14,876	16,075	16,043	16,241	16,107
Lihue	4,968	5,275	5,742	6,130	6,119	6,343	6,304
Total	$ 92,458	$101,575	$107,515	$127,364	$122,327	$132,379	$135,241

Note: Actual billed HNL terminal rental rate in FY 2016 is $61.97 per square foot per year.
Source: LeighFisher.

Exhibit F-3

Airport System Support Charges
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	Forecast 2016	2017	2018	2019	2020	2021	2022
Airport System Support Charges (ASSC) Requirement							
Costs of Operation, Maintenance and Repair	$ 260,782	$273,306	$287,788	$306,809	$323,831	$337,657	$352,440
Equipment and Motor Vehicles	1,500	1,500	1,553	1,607	1,663	1,721	1,782
Annual Adjusted Debt Service Requirement							
Gross Debt Service	80,583	89,140	100,618	121,436	122,049	122,048	122,044
Airline Prepaid Interests	(4,000)	-	-	-	-	-	-
Available PFC Revenues	(321)	(1,776)	(3,959)	(9,035)	(15,615)	(15,615)	(20,239)
Certificates of Participation Payments	8,326	13,017	13,734	14,277	15,155	16,272	17,122
Deposit to Maintenance, Renewal and Replacement Account	500	3,000	3,000	3,000	3,000	3,000	3,000
Credit to O&M Reserve Account	6,207	-	3,701	5,801	5,191	4,217	4,508
Credit to Funded Coverage Account	835	2,139	2,869	5,205	153	-	-
Subtotal	$ 354,412	$380,326	$409,303	$449,100	$455,427	$469,300	$480,657
Less: Offsetting Revenues (a)	(197,950)	(207,710)	(220,771)	(227,643)	(242,784)	(246,808)	(252,393)
Subtotal	$ 156,462	$172,616	$188,532	$221,457	$212,643	$222,492	$228,264
LESS:							
Signatory Airline Payments Other than ASSC	(170,049)	(185,586)	(198,285)	(226,546)	(223,792)	(237,487)	(242,730)
Management Reduction	-	-	-	-	-	-	-
Adjusted ASSC Requirements for Signatory Airline	$ (13,587)	$ (12,970)	$ (9,753)	$ (5,090)	$ (11,149)	$ (14,995)	$ (14,466)
Adjusted Signatory Landed Weight	20,412	20,717	21,006	21,297	21,589	21,883	22,179
ASSC Rate per 1,000 lbs							
Overseas	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interisland	-	-	-	-	-	-	-

Note: (a) Including Revenues other than (a) payments from Signatory Airlines and (b) interest income from construction related funds and accounts.
Source: LeighFisher.

Exhibit F-4

Passenger Airlines Payment Per Enplaned Passenger
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	2013	Audited 2014	Estimated 2015	Forecast 2016	2017	2018	2019	2020	2021	2022
Airline Payments										
Aviation Revenues	$ 167,909	$ 151,673	$ 167,707	$ 186,407	$ 202,217	$ 215,222	$ 243,829	$ 241,289	$ 255,231	$ 260,695
Less: Non-Terminal Aeronautical Rentals	(19,198)	(19,586)	(20,785)	(22,661)	(24,728)	(25,147)	(25,571)	(25,999)	(26,431)	(26,867)
Subtotal	$ 148,711	$ 132,086	$ 146,922	$ 163,745	$ 177,489	$ 190,074	$ 218,258	$ 215,290	$ 228,800	$ 233,828
Less: All-Cargo Landing Fee Revenues (a)	(6,065)	(5,040)	(5,442)	(6,042)	(6,488)	(7,067)	(7,792)	(7,972)	(8,272)	(8,459)
Add: Airline Prepaid Interests	-	19,000	18,500	4,000	-	-	-	-	-	-
Passenger Airline Payments	$ 142,646	$ 146,047	$ 159,980	$ 161,704	$ 171,000	$ 183,008	$ 210,465	$ 207,319	$ 220,528	$ 225,369
Enplaned Passengers	16,543	16,295	16,683	17,165	17,430	17,695	17,960	18,225	18,490	18,755
Passenger Airline Payments per e.p.	$ 8.62	$ 8.96	$ 9.59	$ 9.42	$ 9.81	$ 10.34	$ 11.72	$ 11.38	$ 11.93	$ 12.02

Note: (a) Assuming all-cargo landing fee revenues at 9% of total landing fee revenues for FY 2015 and beyond.
Sources: Historical - State of Hawaii, Department of Transportation, Airports Division records; Forecast - LeighFisher.

Exhibit G

Application of Revenues and Aviation Fuel Taxes
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

		Audited	Estimated	Forecast						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Revenues and Aviation Fuel Taxes										
Aviation Revenues	$167,909	$151,673	$ 167,707	$186,407	$202,217	$215,222	$243,829	$241,289	$255,231	$260,695
Nonairline Revenues	170,679	165,451	170,127	176,513	185,935	198,500	204,937	219,840	223,586	228,920
Operating Revenues	$338,588	$317,123	$ 337,834	$362,919	$388,151	$413,722	$448,765	$461,129	$478,817	$489,615
Nonoperating Revenues	26,030	4,720	6,218	5,338	5,321	5,438	5,550	5,583	5,637	5,697
Revenues and Aviation Fuel Taxes	$364,618	$321,844	$ 344,052	$368,258	$393,473	$419,160	$454,315	$466,712	$484,454	$495,312
Application of Revenues and Aviation Fuel Taxes										
Costs of Operation, Maintenance and Repair	$244,031	$246,881	$ 255,126	$260,782	$273,306	$287,788	$306,809	$323,831	$337,657	$352,440
Annual Adjusted Debt Service Requirement										
Gross Debt Service	81,010	76,624	77,086	80,583	89,140	100,618	121,436	122,049	122,048	122,044
Prepaid Interest	-	(19,000)	(18,500)	(4,000)	-	-	-	-	-	-
Available PFC Revenues	-	-	-	(321)	(1,776)	(3,959)	(9,035)	(15,615)	(15,615)	(20,239)
Deposit to Maintenance, Renewal and Replacement Account	297	101	27	500	3,000	3,000	3,000	3,000	3,000	3,000
Reimbursement of General Fund of the State	-	-	-	-	-	-	-	-	-	-
Other Purposes										
Certificates of Participation Payments	-	-	3,235	8,326	13,017	13,734	14,277	15,155	16,272	17,122
Funds Remaining	39,279	17,238	27,078	22,387	16,786	17,979	17,828	18,292	21,092	20,945
Application of Revenues and Aviation Fuel Taxes	$364,618	$321,844	$ 344,052	$368,258	$393,473	$419,160	$454,315	$466,712	$484,454	$495,312

Source: LeighFisher.

Exhibit H

Debt Service Coverage and Rate Covenant
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	2013	Audited 2014	Estimated 2015	Forecast 2016	2017	2018	2019	2020	2021	2022
Debt Service Coverage										
Revenues and Aviation Fuel Taxes	$364,618	$321,844	$ 344,052	$368,258	$393,473	$419,160	$454,315	$466,712	$484,454	$495,312
Costs of Operation, Maintenance and Repair	(244,031)	(246,881)	(255,126)	(260,782)	(273,306)	(287,788)	(306,809)	(323,831)	(337,657)	(352,440)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	(297)	(101)	(27)	(500)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Reimbursement of General Fund of the State	-	-	-	-	-	-	-	-	-	-
Net Revenues and Taxes	$120,290	$ 74,861	$ 88,899	$106,976	$117,167	$128,372	$144,506	$139,881	$143,797	$139,872
Funded Coverage Account Balance (a)	21,223	19,311	19,311	20,146	22,285	25,154	30,359	30,512	30,512	30,512
Adjusted Net Revenues and Taxes	$141,513	$ 94,172	$ 108,210	$127,122	$139,452	$153,526	$174,865	$170,394	$174,309	$170,384
Annual Adjusted Debt Service Requirement										
Gross Debt Service	$ 81,010	$ 76,624	$ 77,086	$ 80,583	$ 89,140	$100,618	$121,436	$122,049	$122,048	$122,044
Airline Prepaid Interests	-	(19,000)	(18,500)	(4,000)	-	-	-	-	-	-
Available PFC Revenues	-	-	-	(321)	(1,776)	(3,959)	(9,035)	(15,615)	(15,615)	(20,239)
Annual Adjusted Debt Service Requirement	$ 81,010	$ 57,624	$ 58,586	$ 76,262	$ 87,364	$ 96,659	$112,401	$106,434	$106,433	$101,805
Debt Service Coverage (Must Be No Less Than 1.25)	1.75	1.63	1.85	1.67	1.60	1.59	1.56	1.60	1.64	1.67

Notes: (a) Indicates the amount of unencumbered funds certified by the Airports Division for the purpose of the Rate Covenant.
Source: LeighFisher.

Exhibit I

Summary of Financial Forecasts
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	2013	Audited 2014	Estimated 2015	Forecast 2016	2017	2018	2019	2020	2021	2022
ENPLANED PASSENGERS	16,543	16,295	16,683	17,165	17,430	17,695	17,960	18,225	18,490	18,755
% Change		-1.5%	2.4%	2.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.4%
DEBT SERVICE COVERAGE CALCULATION										
Net Revenues and Taxes	$120,290	$ 74,861	$ 88,899	$106,976	$117,167	$128,372	$144,506	$139,881	$143,797	$139,872
Funded Coverage Account Balance	21,223	19,311	19,311	20,146	22,285	25,154	30,359	30,512	30,512	30,512
Adjusted Net Revenues and Taxes	$141,513	$ 94,172	$ 108,210	$127,122	$139,452	$153,526	$174,865	$170,394	$174,309	$170,384
Annual Adjusted Debt Service Requirement	81,010	57,624	58,586	76,262	87,364	96,659	112,401	106,434	106,433	101,805
Debt Service Coverage	1.75	1.63	1.85	1.67	1.60	1.59	1.56	1.60	1.64	1.67
AIRLINE FEES AND CHARGES										
Overseas Landing Fee Rate (per 1,000 lbs)	3.56/2.88	$ 2.92	$ 3.03	$ 3.25	$ 3.44	$ 3.71	$ 4.04	$ 4.07	$ 4.17	$ 4.21
Overseas Airport System Support Charge (per 1,000 lbs)	-	-	-	-	-	-	-	-	-	-
HNL Terminal Rental Rate (per square foot)	57.27/48.12	50.47	54.49	64.05	70.91	74.89	88.03	80.29	88.55	91.07
Airline Payments per Enplaned Passenger	8.62	8.96	9.59	9.42	9.81	10.34	11.72	11.38	11.93	12.02
CONCESSION REVENUES										
Concession Revenues	$151,391	$143,570	$ 148,835	$154,256	$162,918	$175,253	$180,357	$193,914	$196,401	$201,463
Concession Revenues per Enplaned Passenger	$ 9.15	$ 8.81	$ 8.92	$ 8.99	$ 9.35	$ 9.90	$ 10.04	$ 10.64	$ 10.62	$ 10.74
Percentage Change		-3.7%	1.3%	0.7%	4.0%	6.0%	1.4%	6.0%	-0.2%	1.1%

Source: LeighFisher.

Exhibit J

Summary of Financial Projections - Sensitivity Test
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airports Division management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecasts, and the variations could be material.

	2013	Audited 2014	Estimated 2015	Forecast 2016	2017	2018	2019	2020	2021	2022
ENPLANED PASSENGERS	16,543	16,295	16,683	17,165	14,816	15,041	15,266	15,491	15,717	15,942
% Change		-1.5%	2.4%	2.9%	-13.7%	1.5%	1.5%	1.5%	1.5%	1.4%
DEBT SERVICE COVERAGE CALCULATION										
Net Revenues and Taxes	$120,290	$ 74,861	$ 88,899	$106,976	$104,196	$118,592	$139,371	$128,677	$128,724	$125,298
Funded Coverage Account Balance	21,223	19,311	19,311	20,146	22,285	25,154	30,359	30,512	30,512	30,512
Adjusted Net Revenues and Taxes	$141,513	$ 94,172	$ 108,210	$127,122	$126,481	$143,747	$169,730	$159,189	$159,236	$155,810
Annual Adjusted Debt Service Requirement	81,010	57,624	58,586	76,262	87,364	96,659	112,401	106,434	106,433	101,805
Debt Service Coverage	1.75	1.63	1.85	1.67	1.45	1.49	1.51	1.50	1.50	1.53
AIRLINE FEES AND CHARGES										
Overseas Landing Fee Rate (per 1,000 lbs)	3.56/2.88	$ 2.92	$ 3.03	$ 3.25	$ 4.08	$ 4.39	$ 4.78	$ 4.82	$ 4.93	$ 4.98
Overseas Airport System Support Charge (per 1,000 lbs)	-	-	-	-	0.04	0.25	0.53	0.24	0.09	0.14
HNL Terminal Rental Rate (per square foot)	57.27/48.12	50.47	54.49	64.05	79.01	84.07	97.41	90.19	92.31	94.94
Airline Payments per Enplaned Passenger	8.62	8.96	9.59	9.42	12.25	13.19	15.15	14.47	14.49	14.67
CONCESSION REVENUES										
Concession Revenues	$151,391	$143,570	$ 148,835	$154,256	$139,394	$150,048	$154,417	$165,981	$174,211	$178,551
Concession Revenues per Enplaned Passenger	$ 9.15	$ 8.81	$ 8.92	$ 8.99	$ 9.41	$ 9.98	$ 10.12	$ 10.71	$ 11.08	$ 11.20
Percentage Change		-3.7%	1.3%	0.7%	4.7%	6.0%	1.4%	5.9%	3.5%	1.0%

Source: LeighFisher.

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APPENDIX B

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, 2014 and 2013

(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)

Table of Contents

KPMG LLP
Suite 2100
1003 Bishop Street
Honolulu, HI 96813-6400

Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Transportation, Airports Division, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Airports Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Airports Division, State of Hawaii as of June 30, 2014 and 2013, 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.

Emphasis of Matter

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, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 2 to the financial statements, the Airports Division adopted Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Application of this statement was effective as of July 1, 2013.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airports Division's basic financial statements. The supplementary information listed as "supplementary information schedules" are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 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* in considering the Airports Division's internal control over financial reporting and compliance.

KPMG LLP

Honolulu, Hawaii
December 15, 2014

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, 2014 and 2013. 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 among the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 59.3% and 59.6% of total passenger traffic in the airports system during fiscal years 2014 and 2013, respectively. The other four principal airports accommodated 39.6% and 39.3% of the total passenger traffic for fiscal years 2014 and 2013, 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% of the total passenger traffic for both fiscal years 2014 and 2013, 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 position, the statements of revenues, expenses, and changes in net position, 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 2014 with a decrease in total passengers, and increases in aircraft operations, revenue landed weights, revenue passenger landings, and deplaning international passengers by (1.8)%, 2.4%, 0.2%, 9.2%, and 2.7%, respectively, as compared to fiscal year 2013. Increasing passenger traffic, in addition to airline carriers maximizing passenger load factors, are the reasons for such changes. Although oversea carriers account for a higher percentage, 60% 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 years 2014 and 2013, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 39% and 8% of the total landed weights. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 21%, 13%, and 11% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 67% and 4% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 43% of the revenue passenger landings and Japan Airlines International Company, Ltd. accounted for 21% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2014 and 2013: Air Canada, Air China Ltd., Air Japan Co., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., Allegiant Air, L.L.C., Asiana 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., 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.

Activity for the airports system for the fiscal years ended June 30, 2014 and 2013 is as follows:

	2014	2013	Percentage increase (decrease) from 2013
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	19,384,312	19,778,282	(2.0)%
Kahului Airport	6,028,325	6,077,000	(0.8)
Kona International Airport at Keahole	2,824,237	2,886,734	(2.2)
Lihue Airport	2,701,825	2,716,541	(0.5)
Hilo International Airport	1,301,618	1,362,597	(4.5)
All others	350,161	351,705	(0.4)
Total passengers	32,590,478	33,172,859	(1.8)%
Aircraft operations (landing and takeoff combined reported by Air Traffic Control Tower):			
Honolulu International Airport	300,976	284,532	5.8%
Kahului Airport	127,143	130,620	(2.7)
Kona International Airport at Keahole	117,075	119,098	(1.7)
Lihue Airport	125,569	122,240	2.7
Hilo International Airport	90,733	88,100	3.0
All others	215,830	210,106	2.7
Total aircraft operations	977,326	954,696	2.4%
Revenue landed weights (1,000-pound units):			
Honolulu International Airport	15,431,098	15,261,346	1.1%
Kahului Airport	3,836,915	3,791,705	1.2
Kona International Airport at Keahole	1,707,668	1,815,451	(5.9)
Lihue Airport	1,627,074	1,618,053	0.6
Hilo International Airport	913,267	926,125	(1.4)
All others	239,080	255,349	(6.4)
Total signatory airlines	23,755,102	23,668,029	0.4
Nonsignatory airlines	1,504,289	1,543,705	(2.6)
Total revenue landed weights	25,259,391	25,211,734	0.2%

(Continued)

	2014	2013	Percentage increase (decrease) from 2013
Revenue passenger landings:			
Honolulu International Airport	75,226	84,004	(10.4)%
Kahului Airport	35,308	23,507	50.2
Kona International Airport at Keahole	18,471	12,087	52.8
Lihue Airport	13,463	12,469	8.0
Hilo International Airport	6,774	6,654	1.8
Other airports	14,204	11,194	26.9
Total signatory airlines	163,446	149,915	9.0
Nonsignatory airlines	1,110	740	50.0
Total revenue passenger landings	164,556	150,655	9.2%
Deplaning international passengers:			
Honolulu International Airport	2,324,056	2,310,745	0.6%
Total signatory airlines	2,324,056	2,310,745	0.6
Nonsignatory airlines	178,382	125,238	42.4
Total deplaning international passengers	2,502,438	2,435,983	2.7%

Financial Operations Highlights

The financial results for fiscal years 2014 and 2013 reflected income before capital contributions of $64.3 million and $97.0 million, respectively. Operating revenues and expenses decreased by $21.5 million, or 6.3%, and $2.4 million, or 0.7%, respectively, resulting from decreased revenue from airlines and concession and decreases in depreciation. Total nonoperating revenues increased by $8.2 million, or 7.7%, mainly due to the increase in debt service support charges of $19.0 million offset by decreases in federal operating grants, rental car customer facility charges and gain on amounts held in State Treasury. Further, the Airports division received a business interruption insurance settlement relating to the events of September 11th amounting to $19.0 million in fiscal year 2013.

Effective October 1, 2014, 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, Lihue Airport and Hilo International Airport. Effective June 30, 2013, all projects have been completed and PFC Application No. 1 has been closed. Effective February 1, 2007, the FAA approved the Airports Division's PFC Application No. 2 to impose a $3.00 PFC at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 1, 2007 and July 1, 2011 (amended from November 30, 2008 to July 1, 2011) from the five principal airports was amended from $104,458,000 to $62,500,000 as of May 14, 2008. The maximum amount of $62,500,000 was further amended to $49,560,000 as of September 4, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and firefighting 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. Due to the delays in environmental assessment approvals, the "Use" application for the Taxilanes G & L Widening project is removed from this application. Upon completion of all projects in this application, a final amendment will reconcile Impose & Use Authority then move any over collections to PFC Application No. 5.

On June 24, 2009, Act 147 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. An amendment was approved to extend the collection date and increased the authorized collections to $174,126,250. Collections were completed on June 1, 2014.

Effective June 1, 2014, the FAA approved the Airports Division's PFC Application No. 5 to impose a $4.50 PFC at Honolulu International Airport, Hilo International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport. The application was approved for a collection of $449,395,430 including interest earned during the collection period from June 1, 2014 through July 1, 2028. The PFC collections will be utilized to fund airfield improvements, roadway, and terminal improvements including the wiki-wiki shuttle stations improvements, loading bridge replacement, the Mauka terminal extension, aircraft rescue and firefighting facility improvements, access control and CCTV systems, land acquisition, and PFC administrative costs. As part of this PFC application, the Airports Division is applying for authority to use PFC revenues for eligible construction and financing costs related to PFC eligible projects. Such projects costs are to be funded by a portion of proceeds from the Series 2010 Bonds and the Future Revenue Bonds.

Since the inception of this program through June 30, 2014, the total PFC revenues, including interest earned, and expenditures were $270.8 million and $137.7 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 pickup 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, 2009 through June 30, 2014, the total CFC revenues, including interest earned, and expenditures were $174.4 million and $42.5 million, respectively. On July 1, 2011, the collection of this fee was suspended by the State Legislature for one year and on July 1, 2012, the collection of this fee was reinstated by the State Legislature.

Operating expenses before depreciation for fiscal year 2014 increased by 1.1%, or $2.6 million, as compared to fiscal year 2013 mainly due to increases in repairs & maintenance offset by decreases in salaries & wages, other personnel services, utilities and special maintenance.

Total nonoperating expenses for fiscal year 2014 increased by 9.5%, or $2.9 million, as compared to fiscal year 2013 mainly due to increases in interest expense relating to lease revenue certificates of participation issued in fiscal year 2014.

As a result, net assets increased by $125.9 million and $122.5 million for fiscal years 2014 and 2013, respectively.

In summary, the 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. The Airports Division continues to monitor signatory airline requirements and adjust rates and charges accordingly to assure financial stability and bond certificate requirements are met on a semiannual and annual basis. In addition, the continued implementation of cost saving measures by management relating to personnel, security, and utility costs has sustained the Airports Division's financial position. However, such cost saving measures are being monitored to prevent compromising the Airports Division's main objective, which is to adequately serve the traveling public and airport tenants.

(Continued)

A summary of operations and changes in net position for the years ended June 30, 2014, 2013, and 2012 is as follows:

	2014	2013 As restated	2012 As restated
Operating revenues	$ 317,123,319	338,587,587	314,237,855
Business interruption insurance recovery	—	19,000,000	—
Operating expenses, excluding depreciation	(246,881,076)	(244,308,245)	(229,822,552)
Operating income before depreciation	70,242,243	113,279,342	84,415,303
Depreciation	(87,233,189)	(92,231,177)	(90,754,951)
Operating (loss) income	(16,990,946)	21,048,165	(6,339,648)
Nonoperating revenues – net	81,258,226	75,921,192	(2,510,249)
Income (loss) before capital contributions	64,267,280	96,969,357	(8,849,897)
Capital contributions:			
Federal capital grants	61,316,805	23,996,113	36,869,413
Federal stimulus funds	330,460	1,584,267	9,191,233
Total capital contributions	61,647,265	25,580,380	46,060,646
Increase in net position	$ 125,914,545	122,549,737	37,210,749

- Operating revenues decreased by $21.5 million due to a $6.9 million decrease in landing fees, a net $9.5 million decrease in aeronautical revenues, and a $7.8 million decrease in concession revenues from car rentals, restaurants, retail stores, parking, and in-flight catering. The decreases in landing fees, aeronautical revenues and concession revenues are due to a decrease in passenger traffic.
- Operating expenses excluding depreciation increased by 1.1% from $244.3 million in fiscal year 2013 to $246.9 million in fiscal year 2014. The increase in operating expenses is due increase in repairs and maintenance expense of $9.1 million offset by decreases in salaries and wages, other personal services, utilities and special maintenance totaling $6.8 million. The increase in repairs and maintenance expense is due to more repair and maintenance activity at the Honolulu and Kahului airports. Salaries and wages decreased by $1.2 million due to a decrease in the fiscal year 2014 annual required contribution for postemployment healthcare and life insurance benefits offset by bargaining unit wage increases. Other personnel services expenses decreased by $2.0 million due to decreases in the Robert's Hawaii Wiki Wiki bus contract, legal fees related to the September 11th insurance recovery claim, and bird control services paid to the United States Department of Agriculture offset by increases in security costs. Utilities expenses decreased by $1.5 million due to savings from the Energy Savings Performance Contract project with

Johnson Controls that started in January 2014. Special maintenance expense decreased by $2.1 million due to an increase in capitalized costs included in construction in progress for fiscal year 2014.

- The net results of the above resulted in operating income before depreciation of $70.2 million and $113.2 million in fiscal years 2014 and 2013, respectively. Operating income before depreciation for fiscal year 2014 decreased by 38.0%, or $43.0 million. Depreciation expense decreased by 5.4% from $92.2 million in fiscal year 2013 to $87.2 million in fiscal year 2014 due to an increase in asset disposals. The operating loss before nonoperating revenues, net and capital contributions is $17.0 million in fiscal year 2014 as compared to an operating income before nonoperating revenues, net and capital contributions of $21.0 million in fiscal year 2013.
- Nonoperating revenues, net increased by 7.0%, or $5.3 million, in fiscal year 2014, primarily due to an increase in debt service support charges of $19.0 million offset by increases in loss on disposal of capital assets and bond issue costs of $1.5 million and $1.7 million, respectively, and decreases in federal operating grants and gain on amounts held in State Treasury of $2.4 million and $3.8 million, respectively. The $19.0 million of debt service support charges represents a transfer from the prepaid airport use charge fund to the Airports Division for debt service payments to offset the signatory airline requirement for fiscal year 2014. This transfer was approved by the Airlines Committee of Hawaii.
- Income before capital contributions for fiscal year 2014 of $64.3 million as compared to income of $97.0 million for fiscal year 2013 was a result of a decrease in operating income.
- Capital contributions increased by 141.0%, or $36.1 million, in fiscal year 2014, mainly due to increase of federal capital and federal stimulus grants received in fiscal year 2014.

Financial Position Summary

A condensed summary of the Airports Division's net position at June 30, 2014, 2013, and 2012 is shown below:

	2014	2013 As restated	2012 As restated
Assets:			
Current assets:			
Unrestricted assets	$ 599,124,616	598,449,594	575,899,575
Restricted assets	61,768,230	68,757,160	58,778,499
Noncurrent assets:			
Capital assets	1,922,444,323	1,788,606,407	1,753,785,470
Restricted assets	745,975,489	590,662,461	554,011,295
Total assets	$ 3,329,312,658	3,046,475,622	2,942,474,839
Deferred outflows of resources	$ 5,023,253	6,207,417	7,557,898
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	$ 50,198,293	43,321,875	52,831,085
Payable from restricted assets	97,063,995	81,185,649	63,632,304
Long-term liabilities, net of current portion:			
Payable from unrestricted assets	101,854,977	102,010,648	83,493,117
Payable from restricted assets	1,064,619,136	931,479,902	977,941,003
Total liabilities	$ 1,313,736,401	1,157,998,074	1,177,897,509
Net position:			
Net investment in capital assets	$ 1,139,337,028	1,077,045,343	1,039,368,865
Restricted	448,211,006	381,987,432	314,491,493
Unrestricted	433,051,476	435,652,190	418,274,870
Total net position	$ 2,020,599,510	1,894,684,965	1,772,135,228

The largest portion of the Airports Division's net position (56.4% and 56.8% at June 30, 2014 and 2013, 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 position (22.2% and 20.2% at June 30, 2014 and 2013, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate), as well as PFCs that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net position represents unrestricted cash and cash equivalents in the amount of $569.9 million and $571.2 million at June 30, 2014 and 2013, respectively. The $569.9 million and $571.2 million cash balance at June 30, 2014 and 2013, respectively, 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 position is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net position may serve over time as a useful indicator of the Airports Division's financial position. Assets and deferred outflows of resources exceeded liabilities by $2,021.0 million at June 30, 2014, representing an increase of $125.9 million from June 30, 2013.

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 $1.4 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, 2014 and 2013 and the amount and percentage of change in relation to prior year amounts is as follows:

	2014		Increase (decrease) from 2013	
	Amount	Percentage of total	Amount	Percentage
Operating revenues:				
Concession fees:				
Duty free	$ 34,511,678	8.0%	$ (6,826,282)	(16.5)%
Other concessions	109,057,855	25.3	(994,911)	(0.9)
Airport landing fees	52,929,865	12.3	(6,944,103)	(11.6)
Aeronautical rentals:				
Nonexclusive joint-use premise charge	53,857,054	12.5	(981,114)	(1.8)
Exclusive-use premise charge	40,038,747	9.3	(8,482,595)	(17.5)
Nonaeronautical rentals	14,467,101	3.3	226,271	1.6
Other	12,261,019	2.8	2,538,466	26.1
Total operating revenues	317,123,319	73.5	(21,464,268)	(6.3)
Business interruption insurance recovery	—	—	(19,000,000)	(100.0)
Nonoperating revenues:				
Interest income, investments	2,055,453	0.5	64,030	3.2
Interest income, passenger facility charges	306,153	0.1	115,455	60.5
Interest income, rental car customer facility charges	261,133	0.1	128,809	97.3
Interest income, direct financing leases	1,802,623	0.4	(63,729)	(3.4)
Interest income, other loans and investment	8,686	—	8,686	100.0
Federal operating grants	2,656,113	0.6	(2,382,451)	(47.3)
Passenger facility charges	34,371,317	7.9	(770,772)	(2.2)
Rental car customer facility charges	53,923,545	12.5	(1,655,015)	(3.0)
Debt service support charges	19,000,000	4.4	19,000,000	100.0
Gain on amounts held in State Treasury	—	—	(3,804,400)	(100.0)
Other	130,226	—	(2,429,090)	(94.9)
Total nonoperating revenues	114,515,249	26.5	8,211,523	7.7
Total revenues	$ 431,638,568	100.0%	$ (32,252,745)	(7.0)%

	2013 Amount	2013 Percentage of total	Increase (decrease) from 2012 Amount	Increase (decrease) from 2012 Percentage
Operating revenues:				
Concession fees:				
Duty free	$ 41,337,960	8.9%	$ 250,324	0.6%
Other concessions	110,052,766	23.7	7,567,700	7.4
Airport landing fees	59,873,968	12.9	234,064	0.4
Aeronautical rentals:				
Nonexclusive joint-use premise charge	54,838,168	11.8	7,786,093	16.5
Exclusive-use premise charge	48,521,342	10.5	6,858,033	16.5
Nonaeronautical rentals	14,240,830	3.1	824,271	6.1
Other	9,722,553	2.1	829,247	9.3
Total operating revenues	338,587,587	73.0	24,349,732	7.7
Business interruption insurance recovery	19,000,000	4.1	19,000,000	100.0
Nonoperating revenues:				
Interest income, investments	1,991,423	0.4	2,831	0.1
Interest income, passenger facility charges	190,698	—	(149,217)	(43.9)
Interest income, rental car customer facility charges	132,324	—	(95,794)	(42.0)
Interest income, direct financing leases	1,866,352	0.4	(58,858)	(3.1)
Federal operating grants	5,038,564	1.1	1,723,163	52.0
Passenger facility charges	35,142,089	7.6	3,751,168	11.9
Rental car customer facility charges	55,578,560	12.0	55,529,163	112,414.0
Gain on amounts held in State Treasury	3,804,400	0.8	3,804,400	100.0
Other	2,559,316	0.6	2,559,316	100.0
Total nonoperating revenues	106,303,726	22.9	67,066,172	170.9
Total revenues	$ 463,891,313	100.0%	$ 110,415,904	31.2%

Expenses

A summary of expenses for the years ended June 30, 2014 and 2013 and the amount and percentage of change in relation to prior year amounts is as follows:

	2014		Increase (decrease) from 2013	
	Amount	Percentage of total	Amount	Percentage
Operating expenses:				
Salaries and wages	$ 82,780,481	22.5%	$ (1,208,171)	(1.4)%
Other personnel services	50,588,123	13.8	(2,013,793)	(3.8)
Utilities	48,882,258	13.3	(1,477,660)	(2.9)
Repairs and maintenance	29,270,148	8.0	9,089,340	45.0
State of Hawaii surcharge on gross receipts	12,260,909	3.3	(212,719)	(1.7)
Special maintenance	4,458,960	1.2	(2,090,620)	(31.9)
Department of transportation general administration expenses	6,554,622	1.8	1,109,125	20.4
Materials and supplies	6,304,085	1.7	746,680	13.4
Insurance	2,411,856	0.7	(777,006)	(24.4)
Bad debt expense	—	—	(580,495)	(100.0)
Disbursements out of major maintenance renewal and replacement account	—	—	(276,782)	(100.0)
Other	3,369,634	0.9	264,932	8.5
Total operating expenses before depreciation	246,881,076	67.2	2,572,831	1.1
Depreciation	87,233,189	23.7	(4,997,988)	(5.4)
Total operating expenses	334,114,265	90.9	(2,425,157)	(0.7)
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	24,855,268	6.8	(3,660,914)	(12.8)
Special facility	1,802,623	0.5	(63,729)	(3.4)
Lease revenue certificates of participation	3,384,853	0.9	3,384,853	100.0
Loss on disposal of capital assets	1,542,274	0.4	1,542,274	100.0
Bond issue costs	1,672,005	0.5	1,672,005	100.0
Total nonoperating expenses	33,257,023	9.1	2,874,489	9.5
Total expenses	$ 367,371,288	100.0%	$ 449,332	0.1%

(Continued)

	2013 As restated		Increase (decrease) from 2012	
	Amount	**Percentage of total**	**Amount**	**Percentage**
Operating expenses:				
Salaries and wages	$ 83,988,652	22.9%	$ 8,318,215	11.0%
Other personnel services	52,601,916	14.3	3,918,918	8.0
Utilities	50,359,918	13.7	3,096,868	6.6
Repairs and maintenance	20,180,808	5.5	3,484,927	20.9
State of Hawaii surcharge on gross receipts	12,473,628	3.4	(1,234,953)	(9.0)
Special maintenance	6,549,580	1.8	(2,559,780)	(28.1)
Department of transportation general administration expenses	5,445,497	1.5	263,954	5.1
Materials and supplies	5,557,405	1.5	517,169	10.3
Insurance	3,188,862	0.9	20,194	0.6
Bad debt expense	580,495	0.2	580,495	100.0
Disbursements out of major maintenance renewal and replacement account	276,782	0.1	(1,867,113)	(87.1)
Other	3,104,702	0.8	(53,201)	(1.7)
Total operating expenses before depreciation	244,308,245	66.6	14,485,693	6.3
Depreciation	92,231,177	25.1	1,476,226	1.6
Total operating expenses	336,539,422	91.7	15,961,919	5.0
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	28,516,182	7.8	(2,773,614)	(8.9)
Special facility	1,866,352	0.5	(58,858)	(3.1)
Loss on disposal of capital assets	—	—	(1,889,939)	(100.0)
Loss on amounts held in State Treasury	—	—	(1,408,718)	(100.0)
Bond issue costs	—	—	(4,979,938)	(100.0)
Other	—	—	(254,202)	(100.0)
Total nonoperating expenses	30,382,534	8.3	(11,365,269)	(27.2)
Total expenses	$ 366,921,956	100.0%	$ 4,596,650	1.3%

Capital Acquisitions and Construction Activities

In fiscal year 2014, there were 27 construction bid openings totaling an estimated $663.9 million in potential construction contracts. Significant projects that opened bids in fiscal year 2014 include Taxiway Z Structural Improvements at Honolulu International Airport, Widening of Taxilanes G & L – Phase 1 at Honolulu International Airport, 2nd Level Roadway Improvements at Honolulu International Airport, Improvements to Wiki-Wiki Shuttle Stations Gates 6-62 at Honolulu International Airport, Ewa Concourse Concession Improvements at Honolulu International Airport, Overseas Terminal Metal Roof Replacement at Honolulu International Airport, Interim Car Rental Facility at Honolulu International Airport, Aloha Air Cargo Demolition Phase II and Hardstands at Honolulu International Airport, and NDWP DH Site Improvements at Honolulu International Airport. Projects at Kahului Airport include the Apron Pavement Structural Improvements, Phase II, Repave Runway 2-20, Roadway Improvements and Car Rental (CONRAC) Facility, Replacement of Loading Bridges, Replacement of Elevators & Escalators, Re-Roof Terminal Building, Phase II, Restroom Renovation Phase 2, Replacement of Fire Sprinkler System, Kahului ASAP Improvements, and Access Road to Hana Highway. Projects at Lanai Airport include Airfield Lighting Improvements and Runway Safety Area Improvements. Projects at Hilo International Airport include the Aircraft Rescue and Fire Fighting Facility (ARFF) Improvements, Installation of Perimeter Fence, Phase II, and Airfield Striping and Miscellaneous Improvements. Projects at Kona International Airport at Keahole include Re-Roof Terminal Buildings and Security Checkpoint & AOA Fence Improvements.

There were also several ongoing construction projects that were initiated prior to fiscal year 2014, which were under construction during the fiscal year. Major projects include Emergency Power Facility at Honolulu International Airport, and Roadway Improvements and Consolidated Rental Car Facility at Honolulu International Airport, Hold Cargo Building/Light Industrial Facility at Hilo International Airport, and Aircraft Rescue and Fire Fighting Station Relocation at Kona International Airport at Keahole.

Finally, there were 20 projects that were substantially completed in fiscal year 2014 at a total cost of approximately $71 million. These projects include planning, design, and construction projects at large, medium and small hub airports statewide to preserve, maintain, and modernize facilities. At Kahului Airport, the General Purpose Apron & Cargo Building, Phase II and the CCTV System for TSA Security were completed. At Kona International Airport at Keahole, a new Aircraft Rescue and Fire Fighting (ARFF) building was substantially completed and is now in use.

The Airports Division continues its mission to modernize airport facilities to provide safety and efficiency to airport tenants and enhance the passenger experience. At Honolulu International Airport, the New Day Work Projects are under construction, including the new Relocate IIT Maintenance Facility and Relocate IIT Cargo Facility which will lead the way for a new Mauka Concourse that will add wide body gates to the airport. At Kahului Airport, a new Passenger Information System project began construction to install a new Public Address System and Gate Management System. At Hilo International Airport, several runway, taxiway, and apron pavement projects have been completed improving the condition of the airfield pavement. These are examples of the projects that are being completed to improve safety as well as traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

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, 2014, $897.0 million of airports system revenue bonds were outstanding as compared to $941.7 million as of June 30, 2013. On April 7, 2010, the Airports Division issued $645 million in airports 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. The Airports Division refinanced and restructured $300,885,000 on October 4, 2011 at an average interest rate of 3.61%. The refinancing and restructuring created a $19.5 million annual decrease in debt service, allowing the Airports Division the flexibility to proceed with its ongoing capital improvements program and providing a financial insurance plan to provide stability should economic conditions worsen. At June 30, 2014 and 2013, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $662,157,129 and $1,310,792,291, respectively.

Lease Revenue Certificates of Participation

Section 36-41 of Hawaii Revised Statutes authorizes the Department of Transportation to enter into multi-year energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in State facilities. The Department released an invitation for proposal to procure the energy saving projects (the ESCO Project) in May 2011, and selected Johnson Controls, Inc. (JCI) in January 2012. The Department executed a contract with JCI, and issued Series 2013 Lease Revenue Certificates of Participation (COPs) with a par value of $167.7 million in December 2013. The Department is using the net proceeds of COPs, totaling $150.2 million, to implement the ESCO Project, and expects to complete the ESCO Project in December 2015. JCI has agreed in the contract to guarantee utility savings at approximately 91.7% of expected annual savings, which are expected to exceed annual debt service on COPs.

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, 2014 and 2013, there were outstanding bond obligations of $29,130,000 and $30,100,000, 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, 2014, there were three Series of airports system revenue bonds outstanding in the principal amount of $877,725,000. Payment of principal and interest on the bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The airports system revenue bonds are 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 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. In addition, in November 2011, the Airports Division refunded and restructured its Series 2001 Revenue Bonds, which decreased annual debt service requirements by an average of $19.5 million, allowing additional future debt capacity. The Airports Division issued certificates of participation amounting to approximately $168 million in December 2013 to finance its energy savings performance project estimated to decrease utility cost by $20 million annually. Effective July 1, 2011, the Airports Division has calculated the signatory airline contribution requirement based on the Amended Signatory Airline Lease Agreement, replacing negotiated requirements implemented by the prior administration.

In February 2013, the Airports Division received a favorable approval from the Federal Aviation Authority relating to an environmental assessment study requirement, which allows the Airports Division to move forward with the Honolulu International Airport Inter-Island Mauka Concourse and Consolidated Rental Car Facility projects.

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 Ross Higashi, 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 Position

June 30, 2014 and 2013

Assets	2014	2013 As restated
Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted	$ 569,949,289	571,171,775
Receivables:		
Accounts, net of allowance of $535,307 and $1,198,336 for uncollectible accounts, respectively	17,007,383	16,398,865
Promissory note receivable, net of allowance of $49,512 and $123,008 for uncollectible notes, respectively	11,005	5,208
Interest	218,222	172,128
Claims – federal grants	9,954,845	8,763,713
Aviation fuel tax	393,749	355,967
Due from State of Hawaii	1,396,410	1,416,180
Total receivables	28,981,614	27,112,061
Inventory of materials and supplies, at cost	193,713	165,758
Total unrestricted current assets	599,124,616	598,449,594
Restricted assets:		
Cash and cash equivalents:		
Revenue bond debt service	55,726,991	62,598,666
Debt extinguishment	155,013	620,050
Security deposits	5,886,226	5,538,444
Total restricted current assets	61,768,230	68,757,160
Total current assets	660,892,846	667,206,754
Noncurrent assets:		
Unrestricted assets:		
Capital assets, net of accumulated depreciation of $1,915,910,931 and $1,829,500,300 for 2014 and 2013, respectively	1,922,444,323	1,788,606,407
Total unrestricted noncurrent assets	1,922,444,323	1,788,606,407
Restricted assets:		
Cash and cash equivalents:		
Major maintenance, renewal, and replacement account	59,898,925	59,980,198
Debt extinguishment	—	155,015
Passenger facility charges	129,472,670	102,109,478
Rental car customer facility charges	127,793,511	78,164,592
Customer advances	—	952,601
Revenue bond construction	144,748,531	213,141,262
Total cash and cash equivalents – restricted	461,913,637	454,503,146
Investments – revenue bond debt service reserve	96,893,008	96,893,008
Investments – held by certificate of participation funds trustee	150,067,396	—
Passenger facility charges receivable	3,653,529	3,726,504
Rental car customer facility charges receivable	4,121,969	5,238,195
Net investments in direct financing leases	29,325,950	30,301,608
Total restricted noncurrent assets	745,975,489	590,662,461
Total noncurrent assets	2,668,419,812	2,379,268,868
Total assets	$ 3,329,312,658	3,046,475,622
Deferred outflows of resources:		
Deferred loss on refunding	$ 5,023,253	6,207,417
Total deferred outflows of resources	5,023,253	6,207,417

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
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Statements of Net Position

June 30, 2014 and 2013

Liabilities		**2014**	**2013 As restated**
Current liabilities:			
Payable from unrestricted assets:			
Vouchers payable	$	10,707,529	12,343,403
Contracts payable, including retainage of $2,469,250 and $1,791,806		17,364,446	11,203,376
Current portion of workers' compensation		960,961	869,295
Current portion of compensated absences		3,244,303	2,986,263
Unearned income		7,842,663	6,670,707
Accrued wages		5,917,592	5,406,053
Pollution remediation liability		1,096,480	950,145
Prepaid airport use charge fund		1,091,861	2,865,353
Other		1,972,458	27,280
Total payable from unrestricted assets		50,198,293	43,321,875
Payable from restricted assets:			
Contracts payable, including retainage of $7,206,292 and $3,316,164		29,427,567	11,876,931
Current portion of airports system revenue bonds		34,210,000	40,305,000
Current portion of special facility revenue bonds		1,030,000	970,000
Accrued interest		26,510,202	22,495,274
Security deposits		5,886,226	5,538,444
Total payable from restricted assets		97,063,995	81,185,649
Total current liabilities		147,262,288	124,507,524
Long-term liabilities – net of current portion:			
Payable from unrestricted assets:			
Prepaid airport use charge fund		27,091,874	37,932,188
Compensated absences		6,874,870	6,604,156
Workers' compensation		3,300,571	3,130,705
Postemployment liability		64,587,662	54,343,599
Total payable from unrestricted assets		101,854,977	102,010,648
Payable from restricted assets:			
Airports system revenue bonds		862,748,213	901,397,301
Special facility revenue bonds		28,100,000	29,130,000
Lease revenue certificates of participation		173,770,923	—
Customer advance		—	952,601
Total payable from restricted assets		1,064,619,136	931,479,902
Total long-term liabilities – net of current portion		1,166,474,113	1,033,490,550
Total liabilities	$	1,313,736,401	1,157,998,074
Net Position			
Net investment in capital assets	$	1,139,337,028	1,077,045,343
Restricted:			
Debt service payment		34,210,000	40,305,000
Debt service reserve account		96,893,008	96,893,008
Debt extinguishment		155,013	775,065
Major maintenance, renewal, and replacement account		59,898,925	59,980,198
Passenger facility charges		130,710,740	102,938,167
Rental car customer facility charges		126,343,320	81,095,994
Total restricted		448,211,006	381,987,432
Unrestricted		433,051,476	435,652,190
Commitments and contingencies			
Total net position	$	2,020,599,510	1,894,684,965

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 Position

Years ended June 30, 2014 and 2013

		2014	2013 As restated
Operating revenues:			
Concession fees	$	143,569,533	151,390,726
Airport landing fees, net		52,929,865	59,873,968
Aeronautical rentals:			
Nonexclusive joint-use premise charges		53,857,054	54,838,168
Exclusive-use premise charges		40,038,747	48,521,342
Nonaeronautical rentals		14,467,101	14,240,830
Aviation fuel tax		4,847,008	4,673,766
Airports system support charges		—	1,468
Miscellaneous		7,414,011	5,047,319
Net operating revenues		317,123,319	338,587,587
Operating expenses:			
Depreciation		87,233,189	92,231,177
Salaries and wages		82,780,481	83,988,652
Other personnel services		50,588,123	52,601,916
Utilities		48,882,258	50,359,918
Repairs and maintenance		29,270,148	20,180,808
State of Hawaii surcharge on gross receipts		12,260,909	12,473,628
Department of Transportation general administration expenses		6,554,622	5,445,497
Materials and supplies		6,304,085	5,557,405
Special maintenance		4,458,960	6,549,580
Insurance		2,411,856	3,188,862
Claims and benefits		1,543,735	1,064,193
Travel		430,565	405,740
Communication		378,745	381,274
Rent		337,687	691,786
Dues and subscriptions		299,347	239,205
Freight and delivery		19,899	8,260
Printing and advertising		5,954	21,057
Bad debt expense		—	580,495
Disbursements out of major maintenance, renewal, and replacement account		—	276,782
Miscellaneous		353,702	293,187
Total operating expenses		334,114,265	336,539,422
Business interruption insurance recovery		—	19,000,000
Operating income (loss), carried forward		(16,990,946)	21,048,165

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	2014	2013 As restated
Operating (loss) income, brought forward	$ (16,990,946)	21,048,165
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, U.S. government securities	2,064,139	1,991,423
Investments in direct financing leases	1,802,623	1,866,352
Interest expense:		
Revenue bonds:		
Airports system	(24,855,268)	(28,516,182)
Special facility	(1,802,623)	(1,866,352)
Lease revenue certificates of participation	(3,384,853)	—
Federal operating grants	2,656,113	5,038,564
Loss on disposal of capital assets	(1,542,274)	—
Passenger facility charges	34,677,470	35,332,787
Rental car customer facility charges	54,184,678	55,710,884
Bond issue costs	(1,672,005)	—
Debt service support charges	19,000,000	—
Gain on amounts held in State Treasury	—	3,804,400
Other	130,226	2,559,316
Total nonoperating revenues, net	81,258,226	75,921,192
Income before capital contributions	64,267,280	96,969,357
Capital contributions:		
Federal capital grants	61,316,805	23,996,113
Federal stimulus grants	330,460	1,584,267
Total capital contributions	61,647,265	25,580,380
Increase in net position	125,914,545	122,549,737
Total net position – beginning of year, as restated	1,894,684,965	1,772,135,228
Total net position – end of year	2,020,599,510	1,894,684,965

See accompanying notes to financial statements.

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
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Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from providing services	$ 325,369,731	354,190,942
Cash paid to suppliers	(164,633,313)	(160,056,937)
Cash paid to employees	(71,234,593)	(70,485,582)
Net cash provided by operating activities	89,501,825	123,648,423
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	3,033,492	4,638,598
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(171,219,415)	(72,174,681)
Proceeds from federal and other capital grants and contributions	60,078,754	22,617,640
Interest paid on airports system revenue bonds	(43,810,663)	(45,071,038)
Principal paid on airports system revenue bonds	(40,305,000)	(27,545,000)
Net proceeds from lease revenue certificates of participation	172,977,322	—
Payments from passenger facility charges program	(7,387,253)	(16,702,429)
Proceeds from passenger facility charges program	34,750,445	35,579,114
Payments from rental car customer facility charges program	(5,671,985)	(17,717,807)
Proceeds from rental car customer facility charges	55,300,904	50,494,597
Net cash provided by (used in) capital and related financing activities	54,713,109	(70,519,604)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	235,859,543	193,786,016
Interest received on investments	2,018,045	2,891,439
Purchases of investments	(385,926,939)	(193,786,016)
Gain on amounts held in State Treasury	—	3,804,400
Net cash provided by (used in) investing activities	(148,049,351)	6,695,839
Net increase (decrease) in cash and cash equivalents	(800,925)	64,463,256
Cash and cash equivalents – beginning of year	1,094,432,081	1,029,968,825
Cash and cash equivalents – end of year	$ 1,093,631,156	1,094,432,081

(Continued)

DEPARTMENT OF TRANSPORTATION
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Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$	(16,990,946)	21,048,165
Adjustments to reconcile operating income (loss) to net cash provided operating activities:			
Depreciation		87,233,189	92,231,177
Bad debt expense (recovery)		(722,428)	580,495
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund		6,386,194	125,854
Changes in operating assets and liabilities:			
Accounts receivable		108,113	1,184,950
Aviation fuel tax receivable		(37,782)	33,239
Due from State of Hawaii		19,770	(39,991)
Inventory of materials and supplies		(27,955)	47,088
Vouchers payable		(1,635,874)	248,626
Contracts payable		965,006	296,112
Unearned income		1,171,956	1,159,374
Accrued wages		1,301,825	(149,196)
Postemployment liability		10,244,063	13,652,266
Pollution remediation liability		146,335	(289,179)
Prepaid airport use charge fund		—	(7,445,001)
Security deposits		347,782	964,258
Customer advance		(952,601)	—
Other current liabilities		1,945,178	186
Net cash provided by operating activities	$	89,501,825	123,648,423
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 by trustee	$	970,000	905,000
Interest payments on special facility revenue bonds by trustee		1,808,281	1,871,631
Amortization of revenue bond premium		(4,439,088)	(5,186,101)
Amortization of certificates of participation premium		(878,404)	—
Amortization of deferred loss on refunding revenue bonds		1,184,164	1,350,481

At June 30, 2014 and 2013, contracts payable included $40,224,388 and $17,477,688, respectively, for the acquisition of capital assets.

During fiscal year 2014 and 2013, interest of $15,457,800 and $12,235,536, respectively, was capitalized in capital assets.

During fiscal year 2014 and 2013, capital assets with a net book value of $1,662,672 and $0, respectively, were written off.

During fiscal year 2013, buildings with a value of $2,408,000, were recorded for buildings acquired upon the termination of land agreements.

During fiscal year 2014, the prepaid airport use charge fund was decreased by $19,000,000 for a transfer to the Airports Division to offset the signatory airline requirement for fiscal year 2014.

See accompanying notes to financial statements.

(1) Reporting Entity

The Department of Transportation, Airports Division, 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).

(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 position.

(e) Rental Car Customer Facility Charge

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of $4.50 a day on all u-drive rentals at a state airport. 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 position.

(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 position as capital contributions.

(g) Cash and Cash Equivalents

All highly liquid investments (including restricted assets) with an original 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, 2014 was as follows: current – $17,245,696; 30 days – ($101,327); 60 days – $672,307; and over 90 days – ($273,986). An aging of the accounts receivable at June 30, 2013 was as follows: current – $16,688,589; 30 days – $650,711; 60 days – $5,412; and over 90 days – $252,489.

(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 position 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	10 to 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

Bond issue costs, with the exception of prepaid insurance costs, are recognized as an outflow of resources (expense) in the period when the debt is issued. Prepaid insurance costs are capitalized and amortized over the lives of the related debt issues using the effective-interest method.

(m) Bond Original Issue Discount or Premium

Original issue discount or premium 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 position.

(n) Deferred Loss on Refundings

Deferred loss on refundings are amortized using the effective-interest method over the terms of the respective issues and are reflected as a deferred outflow of resources on the statements of net position. Deferred outflows of resources represent consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

(o) 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.

(p) 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.

(q) 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 16. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

(r) 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.

(s) Recently Issued Accounting Standards

Effective July 1, 2013, the Airports Division implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of GASB Statement No. 65 caused the Airports Division to restate certain prior year net positions by the amount of the unamortized bond issue costs, as these costs should now be recognized as an expense in the period incurred.

The following table provides a reconciliation of net position at June 30, 2012, as previously reported, to net position at June 30, 2012, as restated.

Net position at June 30, 2012, as previously reported	$ 1,776,543,759
Reduction of unamortized bond issue costs	(4,408,531)
Net position at June 30, 2012, as restated	$ 1,772,135,228

Effective July 1, 2013, the Airports Division implemented the provisions of GASB Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statement No. 10 and No. 62*, which is effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. This Statement did not have a material impact on the Airport Division's financial statements for the fiscal year ended June 30, 2014.

In June 2013, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement No. 68 establishes new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in the Statements and addresses accounting and financial reporting issues of certain nonemployer entities that contribute to such plans. Statement No. 68 will be effective for periods beginning after June 15, 2014. The Airports Division has not yet determined the impact of this Statement on its financial statements and disclosures.

Effective July 1, 2013, the Airports Division implemented the provisions of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is effective for financial statements for periods beginning after June 15, 2013. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. The implementation of GASB Statement No. 70 does not have a material impact on the financial statements for the fiscal year ended June 30, 2014.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68. The Airports Division has not yet determined the impact of this Statement on its financial statements and disclosures.

(Continued)

(3) Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Petty cash	$ 4,765	4,765
Amounts held in State Treasury	1,093,626,391	1,094,427,316
Certificates of deposit	96,893,008	78,594,282
Repurchase agreements	—	18,298,726
Money market funds	150,067,396	—
	$ 1,340,591,560	1,191,325,089

Such amounts are reflected in the statements of net position at June 30, 2014 and 2013 as follows:

	2014	2013
Cash and cash equivalents:		
Unrestricted	$ 569,949,289	571,171,775
Restricted	523,681,867	523,260,306
Total cash and cash equivalents	1,093,631,156	1,094,432,081
Investments – restricted	96,893,008	96,893,008
Investments – held by certificate of participation funds – trustee	150,067,396	—
Total cash and cash equivalents and investments	$ 1,340,591,560	1,191,325,089

(a) Amounts Held in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is required to be 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, 2014 and 2013, 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 $1,093,626,391 and $1,094,427,316, respectively. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by $3,804,400 during the year ended June 30, 2013.

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 (the Director) 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 under collateralized 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 State's investment pool at June 30, 2013 is summarized in the table below (amounts in thousands):

			Maturity (in years)	
	Fair value	**Less than 1**	**1-5**	**>5**
Investments – primary government:				
Certificates of deposit	$ 976,243	878,619	97,624	—
U.S. government securities	1,092,462	567,854	320,667	203,941
Repurchase agreements	255,683	219,887	35,796	—
	$ 2,324,388	1,666,360	454,087	203,941
Investments – fiduciary funds:				
Certificates of deposit	$ 166,308	149,677	16,631	—
U.S. government securities	186,106	99,614	50,716	35,776
Repurchase agreements	43,557	37,459	6,098	—
	$ 395,971	286,750	73,445	35,776

Information relating to the State's investment pool at June 30, 2014 will be included in the comprehensive annual financial report of the State when issued.

(b) Investments

At June 30, 2014 and 2013, the Airports Division's investments consisted of money market funds, 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. 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.

(Continued)

(4) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 consist of the following:

	Balance, June 30, 2013	Increases	Decreases	Transfers	Balance, June 30, 2014
Capital assets not being depreciated:					
Land	$ 300,248,125	—	—	15,462,222	315,710,347
Land improvements	26,681,609	—	—	4,560,048	31,241,657
Construction in progress	377,086,413	221,160,731	(429,947)	(92,176,524)	505,640,673
Total capital assets not being depreciated	704,016,147	221,160,731	(429,947)	(72,154,254)	852,592,677
Capital assets being depreciated:					
Land improvements	936,995,350	—	(784)	42,302,569	979,297,135
Buildings and improvements	1,697,220,871	32	(1,188,000)	28,286,498	1,724,319,401
Machinery and equipment	279,874,339	1,489,337	(866,499)	1,648,864	282,146,041
Total capital assets being depreciated	2,914,090,560	1,489,369	(2,055,283)	72,237,931	2,985,762,577
Less accumulated depreciation:					
Land improvements	(709,837,077)	(23,180,860)	784	—	(733,017,153)
Buildings and improvements	(940,458,936)	(46,985,556)	59,400	—	(987,385,092)
Machinery and equipment	(179,204,287)	(17,066,773)	837,829	(75,455)	(195,508,686)
Total depreciation	(1,829,500,300)	(87,233,189)	898,013	(75,455)	(1,915,910,931)
Capital assets being depreciated, net	1,084,590,260				1,069,851,646
Total capital assets	$ 1,788,606,407				1,922,444,323

	Balance, June 30, 2012	Increases	Decreases	Transfers	Balance, June 30, 2013
Capital assets not being depreciated:					
Land	$ 300,248,125	—	—	—	300,248,125
Land improvements	26,681,609	—	—	—	26,681,609
Construction in progress	365,910,428	123,284,939	(11,677)	(112,097,277)	377,086,413
Total capital assets not being depreciated	692,840,162	123,284,939	(11,677)	(112,097,277)	704,016,147
Capital assets being depreciated:					
Land improvements	924,696,440	—	—	12,298,910	936,995,350
Buildings and improvements	1,654,756,020	2,408,000	—	40,056,851	1,697,220,871
Machinery and equipment	220,129,391	1,370,852	(1,301,567)	59,675,663	279,874,339
Total capital assets being depreciated	2,799,581,851	3,778,852	(1,301,567)	112,031,424	2,914,090,560
Less accumulated depreciation:					
Land improvements	(684,909,210)	(24,927,867)	—	—	(709,837,077)
Buildings and improvements	(895,566,706)	(44,892,230)	—	—	(940,458,936)
Machinery and equipment	(158,160,627)	(22,411,080)	1,301,567	65,853	(179,204,287)
Total depreciation	(1,738,636,543)	(92,231,177)	1,301,567	65,853	(1,829,500,300)
Capital assets being depreciated, net	1,060,945,308				1,084,590,260
Total capital assets	$ 1,753,785,470				1,788,606,407

(5) Long-Term Liabilities

A summary of the long-term liabilities changes during fiscal years 2014 and 2013 is as follows:

	Balance, June 30, 2013	Increases	Decreases	Balance, June 30, 2014	Current	Noncurrent
Workers' compensation (note 16)	$ 4,000,000	1,485,594	(1,224,062)	4,261,532	960,961	3,300,571
Compensated absences	9,590,419	5,304,068	(4,775,314)	10,119,173	3,244,303	6,874,870
Customer advances (note 15)	952,601	—	(952,601)	—	—	—
Prepaid airport use charge fund (notes 8 and 17)	40,797,541	6,386,194	(19,000,000)	28,183,735	1,091,861	27,091,874
Postemployment liability (note 13)	54,343,599	15,507,713	(5,263,650)	64,587,662	—	64,587,662
Airports system revenue bonds (note 6)	941,702,301	—	(44,744,088)	896,958,213	34,210,000	862,748,213
Lease revenue certificates of participation (note 7)	—	174,649,327	(878,404)	173,770,923	—	173,770,923
Special facility revenue bonds (note 8)	30,100,000	—	(970,000)	29,130,000	1,030,000	28,100,000
	$ 1,081,486,461	203,332,896	(77,808,119)	1,207,011,238	40,537,125	1,166,474,113

	Balance, June 30, 2012	Increases	Decreases	Balance, June 30, 2013	Current	Noncurrent
Workers' compensation (note 16)	$ 4,000,000	1,008,372	(1,008,372)	4,000,000	869,295	3,130,705
Compensated absences	9,461,826	4,465,182	(4,336,589)	9,590,419	2,986,263	6,604,156
Customer advances (note 15)	952,601	—	—	952,601	—	952,601
Prepaid airport use charge fund (notes 8 and 17)	48,116,688	125,854	(7,445,001)	40,797,541	2,865,353	37,932,188
Postemployment liability (note 13)	40,691,333	18,789,218	(5,136,952)	54,343,599	—	54,343,599
Airports system revenue bonds (note 6)	974,433,402	—	(32,731,101)	941,702,301	40,305,000	901,397,301
Special facility revenue bonds (note 8)	31,005,000	—	(905,000)	30,100,000	970,000	29,130,000
	$ 1,108,660,850	24,388,626	(51,563,015)	1,081,486,461	47,995,911	1,033,490,550

(6) Airports System Revenue Bonds

In 1969, the Director issued the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (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, 2014 and 2013, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

At June 30, 2014 and 2013, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net position) consisted of the following:

	2014	2013
Debt service reserve account	$ 96,893,008	96,893,008
RHB Debt extinguishment	155,013	775,065
Major maintenance, renewal, and replacement account	59,898,925	59,980,198
	156,946,946	157,648,271
Principal and interest due July 1	55,726,991	62,598,666
	$ 212,673,937	220,246,937

At June 30, 2014 and 2013, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $662,157,129 and $1,310,792,291, 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, 2014 and 2013:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount 2014	Outstanding amount 2013
2010A, refunding	2.00%–5.25%	2039	$ 478,980,000	478,090,000	478,395,000
2010B, refunding	3.00%–5.00%	2020	166,000,000	135,750,000	150,750,000
2011, refunding	2.00%–5.00%	2024	300,885,000	263,885,000	288,885,000
			$ 945,865,000	877,725,000	918,030,000
Add unamortized premium				19,233,213	23,672,301
Less:					
Current portion				(34,210,000)	(40,305,000)
Noncurrent portion				$ 862,748,213	901,397,301

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

	Principal	Interest	Total
Year(s) ending June 30:			
2015	$ 35,725,000	41,515,725	77,240,725
2016	37,290,000	39,955,020	77,245,020
2017	38,935,000	38,309,470	77,244,470
2018	40,755,000	36,489,520	77,244,520
2019	42,585,000	34,658,670	77,243,670
2020–2024	246,445,000	139,769,988	386,214,988
2025–2029	102,265,000	91,810,879	194,075,879
2030–2034	131,540,000	62,527,420	194,067,420
2035–2039	167,975,000	26,090,885	194,065,885
	$ 843,515,000	511,127,577	1,354,642,577

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, 2014 of $34,210,000 and $21,516,991, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2014 and 2013 and the allocation thereof:

		2014	2013
Expensed as incurred	$	24,855,268	28,516,182
Capitalized in capital assets		14,923,796	12,235,536
	$	39,779,064	40,751,718

On October 4, 2011, the Airports Division issued $300,885,000 of airports system revenue bonds (Refunding Series of 2011 (AMT)) at interest rates ranging from 2% to 5% to refund its outstanding Refunding Series of 2001 bonds. The average interest rates of the refunded bonds were 5.5782%. Of the net proceeds of $321,287,476 (after payment of $1,664,354 in underwriting fees, insurance, and other costs), along with an additional $7,534,244 from the debt service reserve account, $328,821,720 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of Refunding Series of 2001 bonds on November 3, 2011. As a result, the refunded portion of the Refunding Series on 2001 bonds is considered to be defeased and the liability for those bonds has been removed from the financial statements.

The 2011 refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $2,834,351. This difference, reported in the accompanying financial statements as a deduction from airports system revenue bonds, is being charged to operations over the next 10 years.

(7) Lease Revenue Certificates of Participation

The Airports Division entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of $167,740,000 at interest rates ranging from 3 to 5.25%. These lease revenue certificates of participation are payable from revenues derived by the Airports Division from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State of Hawaii. At June 30, 2014, the outstanding balance of the lease revenue certificates of participation and the unamortized premium are $167,740,000 and $6,030,923, respectively.

The Lease requires the Airports Division to make payments 15 days prior to the principal and interest dates under the lease revenue certificates of participation on July 15 and January 15. The schedule of lease rent payments for the lease revenue certificates of participation are as follows:

	Principal	Interest	Total
Year(s) ending June 30:			
2015	$ —	9,316,420	9,316,420
2016	—	8,343,063	8,343,063
2017	4,745,000	8,271,887	13,016,887
2018	5,675,000	8,058,838	13,733,838
2019	6,490,000	7,787,162	14,277,162
2020–2024	52,615,000	32,413,188	85,028,188
2025–2029	98,215,000	13,556,868	111,771,868
	$ 167,740,000	87,747,426	255,487,426

(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 1,000-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 2012 have been transferred to the PAUCF (note 17).

Aviation Fuel Tax

The aviation fuel tax amounted to $4,847,008 and $4,673,766 for fiscal years 2014 and 2013, 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 $56,904,147 and $63,800,325 for fiscal years 2014 and 2013. Airport landing fees are shown net of aviation fuel tax credits of $3,974,282 and $3,926,357 for fiscal years 2014 and 2013, respectively, on the statements of revenues, expenses, and changes in net position, which resulted in net airport landing fees of $52,929,865 and $59,873,968 for fiscal years 2014 and 2013, 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 42% and 41% of the airport landing fees for overseas flights for fiscal years 2014 and 2013, 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 enplaning or deplaning passenger. Nonexclusive joint-use premise charges for terminal rentals amounted to $53,857,054 and $54,838,168 for fiscal years 2014 and 2013, respectively.

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 $40,038,747 and $48,521,342 for fiscal years 2014 and 2013, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $20,452,433 and $29,323,427 for fiscal years 2014 and 2013, respectively.

Airports system support charges amounted to $1,468 for fiscal year 2013, 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 two special facility lease agreements with Continental Airlines, Inc. in November 1997 and July 2000. 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 and $16,600,000, 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, 2014:

	Principal	Interest	Total
Year(s) ending June 30:			
2015	$ —	1,222,031	1,222,031
2016	—	1,222,031	1,222,031
2017	—	1,222,031	1,222,031
2018	—	1,222,031	1,222,031
2019	—	1,222,031	1,222,031
2020–2024	—	6,110,156	6,110,156
2025–2028	21,725,000	4,277,110	26,002,110
	$ 21,725,000	16,497,421	38,222,421

$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, 2014:

	Principal	Interest	Total
Year(s) ending June 30:			
2015	$ 1,030,000	518,350	1,548,350
2016	1,110,000	446,250	1,556,250
2017	1,185,000	368,550	1,553,550
2018	1,280,000	285,600	1,565,600
2019	1,360,000	196,000	1,556,000
2020	1,440,000	100,800	1,540,800
	$ 7,405,000	1,915,550	9,320,550

Special facility revenue bonds payable at June 30, 2014 and 2013 consisted of the following:

	Continental		**Total**
2014:			
Current portion	$ 1,030,000	—	1,030,000
Noncurrent portion	6,375,000	21,725,000	28,100,000
	$ 7,405,000	21,725,000	29,130,000
2013:			
Current portion	$ 970,000	—	970,000
Noncurrent portion	7,405,000	21,725,000	29,130,000
	$ 8,375,000	21,725,000	30,100,000

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 position.

Net investments in direct financing leases at June 30, 2014 and 2013 consisted of the following:

	2014	**2013**
Cash with bond fund trustee	$ 3,203,623	3,203,609
Receivable from lessees, net of unearned interest of $18,217,022 and $20,001,390	25,926,377	26,896,391
Interest receivable	195,950	201,608
	$ 29,325,950	30,301,608

(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, 2014 are as follows:

Year(s) ending June 30:		
2015	$	118,761,028
2016		66,983,528
2017		57,935,355
2018		24,533,480
2019		21,778,664
2020–2024		42,652,253
2025–2029		24,871,323
2030–2034		11,652,056
2035–2039		10,531,959
Thereafter		9,831,059
	$	389,530,705

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 2014 and 2013 were $31,693,459 and $47,311,605, respectively.

In fiscal years 2006 and 2013, the Airports Division converted certain past-due amounts from two lessees and a lessee, respectively, 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 $151,559 at June 30, 2014 is due as follows: 2015 – $60,517; 2016 – $8,400; 2017 – $8,400; and thereafter – $74,242.

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 Kahului retail concession, accounted for approximately 24% and 27% of total concession fee revenues for fiscal years 2014 and 2013, 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 pastdue 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. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended 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, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $155 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, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four 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 scheduled to terminate 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 (85% of the actual annual fee paid for the preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period the minimum annual guarantee rent is $12 million. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the minimum annual guarantee rent for the period April 1, 2015 through March 31, 2016 be $12 million and for each subsequent year, the minimum annual guarantee rent will be 85% of the actual annual fee paid for the preceding year.

(9) Passenger Facility Charges

Passenger facility charge activity for the years ended June 30, 2014 and 2013 is as follows:

		2014	2013
Restricted assets – passenger facility charges, beginning of year	$	105,835,982	87,205,624
Passenger facility charges during the year		34,371,317	35,142,089
Interest earned on passenger facility charges during the year		306,153	190,698
Capital expenditures during the year		(7,387,253)	(16,702,429)
Restricted assets – passenger facility charges, end of year	$	133,126,199	105,835,982

Restricted assets – passenger facility charges are presented on the statements of net position as of June 30, 2014 and 2013 as follows:

		2014	2013
Cash and cash equivalents	$	129,472,670	102,109,478
Receivable		3,653,529	3,726,504
Total restricted assets – passenger facility charges	$	133,126,199	105,835,982

(10) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the years ended June 30, 2014 and 2013 is as follows:

		2014	2013
Restricted assets – rental car customer facility charge, beginning of year	$	83,402,787	45,409,710
Rental car customer facility charges during the year		53,923,545	55,578,560
Interest earned on rental car customer facility charges during the year		261,133	132,324
Capital expenditures during the year		(5,671,985)	(17,717,807)
Restricted assets – rental car customer facility charges, end of year	$	131,915,480	83,402,787

Restricted assets – rental car customer facility charges are presented on the statements of net position as of June 30, 2014 and 2013 as follows:

		2014	2013
Cash and cash equivalents	$	127,793,511	78,164,592
Receivable		4,121,969	5,238,195
Total restricted assets – rental car customer facility charges	$	131,915,480	83,402,787

(11) Business Interruption Insurance Recovery

During the year ended June 30, 2013, the Airports Division received a business interruption insurance recovery relating to the events of September 11th amounting to $19,000,000. This amount is reflected on a separate line item between total operating expenses and operating income in the accompanying statements of revenues, expenses, and changes in net position.

(12) Pension Information

All eligible employees of the Airports Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System (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 benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. 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 new members hired after June 30, 2012, the AFC is based on the five 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.). For new members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

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.

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% 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%.

New employees in the hybrid plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 and 20 years of service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

(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 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

(Continued)

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 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 increased, as of July 1, 2008, to 19.70% for police officers and firefighters, and 15.00% for all other employees. The rates further increased, as of July 1, 2012 to 22.00% for police officers and firefighters, and 15.50% for all other employees. Each year thereafter the rates will gradually increase to 25.00% for police officers and firefighters, and to 17.00% 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, 2014, 2013, and 2012 were $9,030,263, $8,647,308, and $7,683,738, respectively, which represented 17.53%, 18.60%, and 16.05% of covered payroll for each of 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

(13) 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 Hawaii Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer health benefits plans and a group life insurance benefits program for employees and retirees.

The State pays the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with ten or more years of credited service.

The State pays the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than ten years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution if the employee retired with twenty-five or more years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 2001: (a) one-half of the base monthly contribution for a self-only plan if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution for a self-only plan if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution for a self-only plan if the employee retired with twenty-five or more years of credited service.

The State pays the EUTF a base monthly contribution (currently $4.16) for each retired employee enrolled in the EUTF group life insurance plan.

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, 2014 and 2013 was $5,263,650 and $5,136,952, respectively, which represented 34% and27%, respectively, of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $15,507,713 and $18,789,218.

The following is a summary of changes in postemployment liability during the fiscal years ended June 30, 2014 and 2013:

Balance at June 30, 2013	$	54,343,599
Additions		15,507,713
Deletions		(5,263,650)
Balance at June 30, 2014	$	64,587,662
Balance at June 30, 2012	$	40,691,333
Additions		18,789,218
Deletions		(5,136,952)
Balance at June 30, 2013	$	54,343,599

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

(14) 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 $12,260,909 and $12,473,628 in fiscal years 2014 and 2013, respectively.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $6,554,622 and $5,445,497 in fiscal years 2014 and 2013, respectively. During fiscal years 2014 and 2013, the Airports Division received assessment refunds from the DOT amounting to $1,336,777 and $1,382,000, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

During fiscal years 2014 and 2013, revenues received from other state agencies totaled $1,600,328 and $1,604,614, and expenditures to other state agencies totaled $8,174,647 and $8,221,702, respectively.

(15) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2014 and 2013 was $21,160,766 and $19,720,758, 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, 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 $945,865,000 in revenue bonds issued in 2010 and 2011, and are payable through 2039. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $1,354,642,577. In fiscal year 2014, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were $83,338,988 and $94,172,417, 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 year. Accordingly, the amount had been recorded as a noncurrent customer advance on the statements of net position at June 30, 2013.

At June 30, 2014, the Airports Division has commitments totaling approximately $388,866,157 for construction and service contracts.

(16) 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 16.

(b) Property and Liability Insurance

The Airports Division is covered by commercial general liability policies with a $750 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, 2014 and 2013, the workers' compensation reserve was $4,261,532 and $4,000,000, of which $960,961 and $869,295 is included in current liabilities (payable from unrestricted net assets) and $3,300,571 and $3,130,705, respectively, is included in long-term liabilities in the accompanying statements of net position at June 30, 2014 and 2013. In the opinion of management, the Airports Division has adequately reserved for such claims.

(17) 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, 2014 and 2013, 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

On November 15, 2010, the State reached a settlement with the Airlines Committee of Hawaii (ACH), on behalf of many of the signatory airlines under which the Airports Division transferred an overpayment of airports system charges 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.

In fiscal year 2012, the PAUCF was decreased by a payment of $2,500,000 to ACH members for the 2010 overpayment as well as $156,801 and $102,002 paid to non-ACH members for 2010 and 2011 overpayments, respectively. The PAUCF was increased by $39,526,162 due to an overpayment for fiscal year 2012. The PAUCF liability at June 30, 2012 was $48,116,688.

In fiscal year 2013, the PAUCF was decreased by a payment of $4,945,000 to ACH members for the 2011 overpayment as well as $2,500,000 paid to ACH members for 2010 overpayments, respectively. The PAUCF was increased by $125,853 due to an overpayment for fiscal year 2013. The PAUCF liability at June 30, 2013 was $40,797,541.

In fiscal year 2014, the PAUCF was decreased by $19,000,000 for a transfer to the Airports Division to offset the signatory airline requirement for fiscal year 2014. The PAUCF was increased by $6,386,194 due to an overpayment for fiscal year 2014. The PAUCF liability at June 30, 2014 was $28,183,735.

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 DOT 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 $1,096,480 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

(18) Subsequent Events

In August 2014, the State, acting through the DOT, entered into a loan agreement with Hawaii Regional Center, LP I and Hawaii Regional Center, LP II (together, the Lenders), with CanAM HI GP I, LLC. acting as the agent of the Lenders. The Lenders were created to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) created according to legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is $76 million. The EB-5 loan is the first series of obligations issued under an Indenture of Trust between the State, acting through the DOT and MUFG Union Bank, N.A., as Trustee, and is payable solely from Trust Estate, with Customer Facility Charges being the primary component. The EB-5 loan is not payable from Revenues and Aviation Fuel Taxes, which the DOT has pledged for the repayment of Airports System Revenue Bonds issued under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.

The Airports Division has evaluated subsequent events from the balance sheet date through December 15, 2014, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

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, 2014

			Airports					
	Total	**Statewide**	**Honolulu International**	**Hilo International**	**Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenues:								
Concession fees	$ 143,569,533	—	84,270,496	3,156,342	13,379,573	29,362,638	13,094,262	306,222
Airport landing fees	52,929,865	—	36,761,355	1,255,039	3,279,922	7,999,355	3,175,474	458,720
Aeronautical rentals:								
Nonexclusive joint-use premise charges	53,857,054	—	40,931,179	948,390	2,029,216	7,627,177	2,321,092	—
Exclusive-use premise charges	40,038,747	—	29,344,819	968,987	1,456,808	5,681,062	2,135,467	451,604
Nonaeronautical rentals	14,467,101	—	8,875,324	396,636	1,130,156	2,970,747	1,032,108	62,130
Aviation fuel tax	4,847,008	—	3,366,391	114,929	300,356	732,534	290,791	42,007
Miscellaneous	7,414,011	906,501	4,417,873	98,611	634,727	582,558	665,787	107,954
	317,123,319	906,501	207,967,437	6,938,934	22,210,758	54,956,071	22,714,981	1,428,637
Allocation of statewide miscellaneous revenues (note 1)	—	(906,501)	615,413	13,736	88,418	81,151	92,745	15,038
Net operating revenues	$ 317,123,319	—	208,582,850	6,952,670	22,299,176	55,037,222	22,807,726	1,443,675
Operating expenses other than depreciation:								
Salaries and wages	$ 82,780,481	18,124,050	31,503,957	5,162,090	5,735,773	8,854,069	6,388,845	7,011,697
Other personnel services	50,588,123	2,111,537	29,160,753	3,492,554	4,030,030	4,645,177	4,719,639	2,428,433
Utilities	48,882,258	2,728,547	33,966,087	1,375,240	2,383,999	5,184,170	2,254,935	989,280
Repairs and maintenance	29,270,148	10,354,403	13,421,815	784,786	992,933	2,327,621	891,959	496,631
State of Hawaii surcharge on gross receipts (note 2)	12,260,909	12,260,909	—	—	—	—	—	—
Department of Transportation general administration expenses	6,554,622	6,554,622	—	—	—	—	—	—
Materials and supplies	6,304,085	271,653	3,383,580	520,243	492,112	683,476	612,332	340,689
Special maintenance	4,458,960	2,915,290	496,326	5,668	253,767	(231)	485,228	302,912
Insurance	2,411,856	2,411,856	—	—	—	—	—	—
Claims and benefits	1,543,735	277,028	694,455	23,416	152,341	262,771	78,494	55,230
Travel	430,565	129,421	80,866	40,423	41,099	46,395	41,095	51,266
Communication	378,745	74,087	73,821	48,880	26,652	48,933	45,346	61,026
Rent	337,687	87,237	152,138	12,597	23,493	22,511	22,597	17,114
Dues and subscriptions	299,347	296,528	1,275	—	576	675	293	—
Freight and delivery	19,899	13,574	743	3,103	466	1,108	104	801
Printing and advertising	5,954	5,319	—	635	—	—	—	—
Bad debt expense (note 3)	—	—	—	—	—	—	—	—
Miscellaneous	353,702	101,070	112,882	91,243	26,415	1,447	11,196	9,449
	246,881,076	58,717,131	113,048,698	11,560,878	14,159,656	22,078,122	15,552,063	11,764,528
Allocation of statewide expenses (note 4)	—	(58,717,131)	35,277,190	3,607,607	4,418,564	6,889,545	4,853,068	3,671,157
Total operating expenses other than depreciation for net revenues and taxes	246,881,076	—	148,325,888	15,168,485	18,578,220	28,967,667	20,405,131	15,435,685
Disbursements out of major maintenance, renewal, and replacement account not included above	—	—	—	—	—	—	—	—
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net position.	$ 246,881,076	—	148,325,888	15,168,485	18,578,220	28,967,667	20,405,131	15,435,685

Notes:

(1) 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.

(2) 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.

(3) 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.

(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, 2014

Revenues and taxes:	
Concession fees	$ 143,569,533
Airport landing fees	52,929,865
Aeronautical rentals:	
Nonexclusive joint-use premise charges	53,857,054
Exclusive-use premise charges	40,038,747
Nonaeronautical rentals	14,467,101
Aviation fuel tax	4,847,008
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $197,068 on capital improvement projects	2,064,139
Federal operating grants	2,656,113
Miscellaneous	7,414,011
Total revenues and taxes	321,843,571
Deductions:	
Operating expenses other than depreciation for net revenues and taxes (schedule 1)	246,881,076
Annual reserve required on major maintenance, renewal, and replacement account	101,075
Total deductions	246,982,151
Net revenues and taxes	74,861,420
Add funded coverage per bond certificate	19,310,997
Adjusted net revenues and taxes	94,172,417
Debt service requirement:	
Airports system revenue bonds:	
Principal	34,210,000
Interest (note 1)	42,413,938
Total debt service	76,623,938
Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2)	(19,000,000)
Total debt service requirement	57,623,938
Debt service coverage percentage	125%
Total debt service with coverage requirement	72,029,923
Excess of net revenues and taxes over debt service requirement	$ 22,142,494

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, and amounts from the Series 2010 bond proceeds used to pay interest on the Series 2010 bonds until the projects funded by the Series 2010 bonds are in service.

(2) In fiscal year 2014, the Airports Division transferred $19,000,000 of available funds from the Prepaid Airport Use Charge Fund into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required to be deposited to the interest account, pursuant to the provisions of Section 6.01 in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds." The Prepaid Airport Use Charge Fund (See notes 7 and 17) are amounts owed to the signatory airlines, and the transfer of $19,000,000 in lieu of payment, was agreed to by the Airlines Committee of Hawaii, Inc. a Hawaii corporation representing the majority of signatory airlines operating at the Hawaii Airports System.

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, 2014

	Annual principal and interest requirements		
	Airports system revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2015	$ 35,725,000	41,515,725	77,240,725
2016	37,290,000	39,955,020	77,245,020
2017	38,935,000	38,309,470	77,244,470
2018	40,755,000	36,489,520	77,244,520
2019	42,585,000	34,658,670	77,243,670
2020	44,690,000	32,555,070	77,245,070
2021	46,805,000	30,439,145	77,244,145
2022	49,175,000	28,065,558	77,240,558
2023	51,580,000	25,664,558	77,244,558
2024	54,195,000	23,045,657	77,240,657
2025	18,440,000	20,379,107	38,819,107
2026	19,395,000	19,428,487	38,823,487
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	$ 843,515,000	511,127,577	1,354,642,577

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, 2014.

See accompanying independent auditors’ report.

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, 2014

	Refunding series of 2010A, 2.00% to 5.25%	Refunding series of 2010B, 3.00% to 5.00%	Refunding series of 2011, 2.00% to 5.00%	Total	Interest	Total requirements
Year ending June 30:						
2015	$ 320,000	18,150,000	17,255,000	35,725,000	41,515,725	77,240,725
2016	335,000	19,030,000	17,925,000	37,290,000	39,955,020	77,245,020
2017	340,000	19,975,000	18,620,000	38,935,000	38,309,470	77,244,470
2018	355,000	20,980,000	19,420,000	40,755,000	36,489,520	77,244,520
2019	255,000	22,165,000	20,165,000	42,585,000	34,658,670	77,243,670
2020	7,720,000	21,650,000	15,320,000	44,690,000	32,555,070	77,245,070
2021	14,510,000	—	32,295,000	46,805,000	30,439,145	77,244,145
2022	18,005,000	—	31,170,000	49,175,000	28,065,558	77,240,558
2023	16,650,000	—	34,930,000	51,580,000	25,664,558	77,244,558
2024	17,510,000	—	36,685,000	54,195,000	23,045,657	77,240,657
2025	18,440,000	—	—	18,440,000	20,379,107	38,819,107
2026	19,395,000	—	—	19,395,000	19,428,487	38,823,487
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	$ 477,780,000	121,950,000	243,785,000	843,515,000	511,127,577	1,354,642,577

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, 2014.

See accompanying independent auditors' report.

Schedule 5

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, 2014

	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 baggage make up	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:																	
Aeko Kula, Inc.	962,754	—	—	$ 1,184,188	—	—	—	—	—	—	—	—	—	—	—	118,284	1,302,472
Air Canada	174,080	544	—	508,313	—	190,678	190,787	46,039	—	—	—	—	—	—	—	552,091	1,487,908
Air China Limited	27,628	69	10,198	80,673	—	—	11,140	10,279	—	—	—	—	—	54,049	—	—	156,141
Air Japan Co., Ltd.	77,440	242	45,751	226,125	—	—	50,745	46,821	—	—	—	—	—	242,480	—	—	566,171
Air New Zealand, Ltd.	58,659	165	33,203	171,284	—	—	38,677	35,686	—	—	—	—	—	175,976	—	—	421,623
Air Pacific, Ltd.	21,664	156	16,477	63,259	—	—	16,015	14,777	—	—	—	—	—	87,328	—	—	181,379
Alaska Airlines, Inc.	1,113,837	7,719	—	3,252,402	—	1,952,566	904,155	397,271	—	—	—	—	—	—	499,937	619,911	7,626,242
All Nippon Airways Co., Ltd.	121,660	371	76,529	355,247	—	—	79,235	73,108	—	—	—	—	—	405,604	—	4,038	917,232
Allegiant Air LLC	103,356	522	—	301,800	—	232,765	123,374	74,372	—	—	—	—	—	—	—	167,142	899,453
American Airlines, Inc.	1,004,618	4,431	—	2,933,485	—	1,513,678	1,228,327	401,393	—	—	—	—	—	—	—	1,372,309	7,449,192
Asiana Airlines, Inc.	120,381	292	62,129	351,513	—	—	64,353	59,376	—	—	—	—	—	329,284	—	160,696	965,222
China Airlines, Ltd.	248,972	472	127,952	726,998	—	—	138,820	128,085	—	—	—	—	—	678,146	—	38,862	1,710,911
Continental Airlines, Inc.	740,948	3,400	17,967	2,163,189	—	1,446,998	883,458	558,391	—	—	—	—	—	95,225	—	163,557	5,310,818
Continental Micronesia, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	394,625	394,625
Delta Air Lines, Inc.	1,718,355	5,833	407,201	5,017,596	—	1,700,550	1,502,625	951,502	—	—	—	—	—	2,158,165	—	2,029,675	13,360,113
Evergreen International Airlines, Inc.	29,304	—	—	85,568	—	—	—	—	—	—	—	—	—	—	—	—	85,568
Federal Express Corporation	754,655	—	—	1,966,727	—	—	—	—	—	—	—	—	—	—	—	7,611	1,974,338
Hawaii Island Air, Inc.	560,258	11,951	—	689,117	—	—	—	—	—	138,353	108,049	157,996	229,118	—	—	62,301	1,384,934
Hawaiian Airlines, Inc.	9,929,976	70,316	519,312	17,706,682	—	—	1,270,017	—	—	10,097,798	2,777	—	—	2,752,354	6,229,113	7,971,420	46,030,161
Japan Airlines International Co., Ltd.	908,241	2,224	537,617	2,651,050	—	—	580,380	535,261	—	—	—	—	—	2,849,370	—	1,071,368	7,687,429
Kalitta Air, LLC	186,026	—	—	527,225	—	—	—	—	—	—	—	—	—	—	—	—	527,225
Korean Airlines Company, Ltd.	487,013	965	230,406	1,422,078	—	—	235,839	217,600	—	—	—	—	—	1,221,152	—	236,176	3,332,845
Mesa Airlines, Inc.	400,487	8,521	—	492,599	—	—	—	—	—	146,610	159,072	131,032	181,012	—	—	303,986	1,414,311
Mokulele Flight Service, Inc.	291,873	34,338	—	359,004	—	—	—	—	—	—	—	13,546	17,642	—	—	43,424	433,616
Pacific Wings LLC	289	34	—	356	—	—	—	—	—	—	—	—	—	—	—	320	676
Philippine Airlines, Inc.	87,552	174	40,695	255,652	—	—	40,419	37,293	—	—	—	—	—	215,684	—	119,563	668,611
Polar Air Cargo, LLC	666	—	—	1,945	—	—	—	—	—	—	—	—	—	—	—	—	1,945
Qantas Airways, Ltd.	198,264	169	33,115	578,931	—	—	38,251	35,293	—	—	—	—	—	175,510	—	432,679	1,260,664
United Airlines, Inc.	2,029,799	6,985	165,504	5,926,008	—	2,373,623	2,239,229	740,223	—	(3,172)	—	—	—	877,171	—	4,669,902	16,822,984
United Parcel Service Co.	763,276	—	—	1,947,857	—	—	—	—	—	—	—	—	—	—	—	45,643	1,993,500
US Airways, Inc.	393,624	1,988	—	1,149,382	—	631,883	526,962	149,470	—	—	—	—	—	—	—	416,535	2,874,232
WestJet	239,448	1,565	—	699,187	—	390,621	417,667	80,350	—	—	—	—	—	—	—	112,416	1,700,241
Nonsignatory airlines	1,504,289	1,110	178,382	3,488,108	—	212,375	360,842	—	457	—	—	—	—	1,471,916	—	1,123,348	6,657,046
Total airports system charges billed	25,259,392	164,556	2,502,438	57,283,548	—	10,645,737	10,941,317	4,592,590	457	10,379,589	269,898	302,574	427,772	13,789,414	6,729,050	22,237,882	137,599,828
Signatory airlines requirements				53,416,041	—	10,257,355	9,996,259	4,233,794	—	8,553,396	283,232	302,574	427,772	11,597,041	6,160,041	19,329,085	124,556,590
Nonsignatory airlines requirements				3,488,106	—	212,375	360,842	—	457	—	—	—	—	1,471,916	—	1,123,348	6,657,044
Fiscal year 2014 overpayment (underpayment)				$ 379,401	—	176,007	584,216	358,796	—	1,826,193	(13,334)	—	—	720,457	569,009	1,785,449	6,386,194

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, 2014

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	53,795,439	3,488,109	57,283,548
Less aviation fuel tax credit		(3,737,328)	(236,954)	(3,974,282)
Net airport landing fees billed	$	50,058,111	3,251,155	53,309,266

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, 2014

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport: Gross airport landing fees					All other airports			
	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**
Aeko Kula, Inc	548,534	114,837	299,383	962,754	$ 674,697	141,250	815,947	(122,562)	693,385	368,241	—	368,241	1,061,626
Air Canada	83,520	—	90,560	174,080	243,878	—	243,878	—	243,878	264,435	—	264,435	508,313
Air China Limited	27,628	—	—	27,628	80,673	—	80,673	—	80,673	—	—	—	80,673
Air Japan Company	77,440	—	—	77,440	226,125	—	226,125	—	226,125	—	—	—	226,125
Air New Zealand Ltd.	58,659	—	—	58,659	171,284	—	171,284	—	171,284	—	—	—	171,284
Air Pacific, Ltd.	21,664	—	—	21,664	63,259	—	63,259	—	63,259	—	—	—	63,259
Alaska Airlines, Inc.	391,258	—	722,579	1,113,837	1,142,471	—	1,142,471	(587,249)	555,222	2,109,931	(76,873)	2,033,058	2,588,280
All Nippon Airways Co., Ltd.	121,660	—	—	121,660	355,247	—	355,247	—	355,247	—	—	—	355,247
Allegiant Air Llc	87,714	—	15,642	103,356	256,125	—	256,125	(75,896)	180,229	45,675	—	45,675	225,904
American Airlines, Inc.	515,290	—	489,328	1,004,618	1,504,647	—	1,504,647	(294,207)	1,210,440	1,428,838	—	1,428,838	2,639,278
Asiana Airlines, Inc	120,381	—	—	120,381	351,513	—	351,513	—	351,513	—	—	—	351,513
China Airlines, Ltd.	248,972	—	—	248,972	726,998	—	726,998	—	726,998	—	—	—	726,998
Continental Airlines, Inc.	696,911	44,036	—	740,947	2,034,603	128,586	2,163,189	(25,967)	2,137,222	—	—	—	2,137,222
Delta Air Lines. Inc.	1,433,998	—	284,357	1,718,355	4,187,274	—	4,187,274	(138,486)	4,048,788	830,322	—	830,322	4,879,110
Evergreen International Airlines, Inc.	29,304	—	—	29,304	85,568	—	85,568	—	85,568	—	—	—	85,568
Federal Express Corporation	673,231	81,424	—	754,655	1,864,084	102,643	1,966,727	(185,152)	1,781,575	—	—	—	1,781,575
Hawaii Island Air, Inc.	274,982	188	285,088	560,258	338,227	232	338,459	(15,390)	323,069	350,658	—	350,658	673,727
Hawaiian Airlines, Inc.	5,869,241	643,830	3,416,905	9,929,976	12,014,461	791,911	12,806,372	(1,325,327)	11,481,045	4,900,310	(195,305)	4,705,005	16,186,050
Japan Airlines International Co., Ltd.	907,641	—	600	908,241	2,650,312	—	2,650,312	—	2,650,312	738	—	738	2,651,050
Kalitta Air, L.L.C.	175,946	—	10,080	186,026	513,762	—	513,762	—	513,762	13,463	—	13,463	527,225
Korean Airlines Company, Ltd.	487,013	—	—	487,013	1,422,078	—	1,422,078	—	1,422,078	—	—	—	1,422,078
Mesa Airlines, Inc.	200,079	28,952	171,456	400,487	246,097	35,611	281,708	(41,962)	239,746	210,891	—	210,891	450,637
Mokulele Flight Service, Inc.	59,560	—	232,314	291,874	73,258	—	73,258	(1,877)	71,381	285,746	(2,863)	282,883	354,264
Pacific Wings, L.L.C.	—	—	289	289	—	—	—	—	—	356	(150)	206	206
Philippine Airlines, Inc.	87,552	—	—	87,552	255,652	—	255,652	—	255,652	—	—	—	255,652
Polar Air Inc	666	—	—	666	1,945	—	1,945	—	1,945	—	—	—	1,945
Qantas Airways Limited	198,264	—	—	198,264	578,931	—	578,931	—	578,931	—	—	—	578,931
United Airlines, Inc.	1,186,509	—	843,290	2,029,799	3,463,601	—	3,463,601	(408,992)	3,054,609	2,462,407	(70,617)	2,391,790	5,446,399
United Parcel Service Co.	600,821	—	162,455	763,276	1,615,109	—	1,615,109	(7,668)	1,607,441	332,748	—	332,748	1,940,189
Us Airways, Inc.	164,142	—	229,482	393,624	479,295	—	479,295	(160,785)	318,510	670,087	—	670,087	988,597
Westjet	82,519	—	156,929	239,448	240,955	—	240,955	—	240,955	458,232	—	458,232	699,187
Total	15,431,099	913,267	7,410,737	23,755,103	$ 37,862,129	1,200,233	39,062,362	(3,391,520)	35,670,842	14,733,078	(345,808)	14,387,270	50,058,112

Summary of revenue landing weights:	
Overseas	14,544,537
Interisland	9,210,566
	23,755,103

Aviation fuel tax of $4,847,008 was paid by the users for the year ended June 30, 2014. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax credits of $3,974,282 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 3,737,328
Nonsignatory airlines	236,954
	$ 3,974,282

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2014.

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, 2014

	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.	16	635	461	1,112	$ 16	586	602	—	602	439	(102)	337	939
Aero Micronesia, Inc.	32,964	—	—	32,964	129,732	—	129,732	—	129,732	—	—	—	129,732
Air Japan Co Ltd	39,360	—	—	39,360	176,202	—	176,202	—	176,202	—	—	—	176,202
Air Transport International LLC	31,312	—	—	31,312	124,130	—	124,130	—	124,130	—	—	—	124,130
Air Ventures Hawaii, LLC	—	—	4,947	4,947	—	—	—	—	—	4,485	—	4,485	4,485
Alika Aviation, Inc.	—	—	1,016	1,016	—	—	—	—	—	1,171	—	1,171	1,171
Aris, Inc.	—	—	21,312	21,312	—	—	—	—	—	19,327	(3,950)	15,377	15,377
Atlas Air Inc.	32,150	—	—	32,150	120,057	—	120,057	—	120,057	—	—	—	120,057
Big Island Air, Inc.	23	421	3,182	3,626	20	358	378	—	378	2,896	—	2,896	3,274
Bradley Pacific Aviation, Inc.	29,259	693	69,290	99,242	71,049	1,055	72,104	—	72,104	161,138	—	161,138	233,242
Castle & Cooke Homes Hawaii, Inc.	24,885	—	79	24,964	62,102	—	62,102	—	62,102	195	—	195	62,297
Corporate Air	26,979	187	35,525	62,691	44,805	288	45,093	—	45,093	59,287	—	59,287	104,380
Delta Air Lines, Inc.	84,921	—	—	84,921	326,881	—	326,881	—	326,881	—	—	—	326,881
Fly Kauai	—	—	1,183	1,183	—	—	—	—	—	1,146	—	1,146	1,146
George’s Aviation Services, Inc.	980	35	721	1,736	858	32	890	(285)	605	649	(795)	(146)	459
Hawaii Air Ambulance, Inc.	21,792	—	—	21,792	19,564	—	19,564	(351)	19,213	—	—	—	19,213
Hawaii Helicopters, Inc.	—	—	6,602	6,602	—	—	—	—	—	6,013	—	6,013	6,013
Helicopter Consultants Of Maui, Inc.	20,618	60,114	83,618	164,350	18,705	55,003	73,708	(15,417)	58,291	75,698	(14,534)	61,164	119,455
Honolulu Soaring Club, Inc.	—	—	2,518	2,518	—	—	—	—	—	2,364	—	2,364	2,364
International Life Support, Inc.	9,442	—	193	9,635	8,485	—	8,485	—	8,485	181	—	181	8,666
Island Helicopters Kauai, Inc.	—	—	18,054	18,054	—	—	—	—	—	16,405	(2,326)	14,079	14,079
Jack Harter Helicopters, Inc.	—	—	17,351	17,351	—	—	—	—	—	15,595	(3,617)	11,978	11,978
Jetstar Airways Pty Limited	189,686	—	—	189,686	765,893	—	765,893	—	765,893	—	—	—	765,893
K & S Helicopters, Inc.	954	16,804	8,434	26,192	872	15,369	16,241	—	16,241	7,671	(5,424)	2,247	18,488
Kamaka Air, Inc.	9,424	17	13,369	22,810	8,455	17	8,472	—	8,472	12,014	—	12,014	20,486
Makani Kai Helicopters, Ltd.	21,241	28	24,341	45,610	18,798	26	18,824	(451)	18,373	21,784	(412)	21,372	39,745
Maui Island Air, Inc.	—	—	973	973	—	—	—	—	—	903	—	903	903
Miscellaneous	7,214	434	288	7,936	27,661	1,087	28,748	—	28,748	1,036	—	1,036	29,784
Niihau Helicopters, Inc.	—	—	1,593	1,593	—	—	—	—	—	1,460	—	1,460	1,460
Omni Air International, Inc.	79,880	—	—	79,880	315,080	—	315,080	(9,205)	305,875	—	—	—	305,875
Pacific Air Charters, Incorporated	446	73	1,832	2,351	401	62	463	(338)	125	1,679	(503)	1,176	1,301
Pacific Helicopter Tours, Inc.	1,124	3	1,282	2,409	1,005	3	1,008	—	1,008	1,171	—	1,171	2,179
Paragon Air Inc.	—	—	204	204	—	—	—	—	—	235	—	235	235
Pofolk Aviation Hawaii, Inc.	—	—	38,350	38,350	—	—	—	—	—	35,475	—	35,475	35,475
Resort Air, LLC	622	—	1,435	2,057	583	—	583	(356)	227	1,323	(489)	834	1,061
Ryan International Airlines	300	—	—	300	1,587	—	1,587	—	1,587	—	—	—	1,587
Safari Aviation, Inc.	1,007	8,374	13,166	22,547	1,160	7,415	8,575	—	8,575	11,956	—	11,956	20,531
Sky-med, Inc.	—	—	25,849	25,849	—	—	—	—	—	23,345	—	23,345	23,345
Skyview Soaring Lcc	—	—	184	184	—	—	—	—	—	169	—	169	169
Smoky Mountain Helicopters, Inc.	—	—	5,600	5,600	—	—	—	—	—	5,065	—	5,065	5,065
Southern Air	29,410	—	—	29,410	136,217	—	136,217	—	136,217	—	—	—	136,217
Will Squyres Helicopter Service, Inc.	—	—	6,459	6,459	—	—	—	—	—	6,307	—	6,307	6,307
Sunshine Helicopters, Inc.	—	124	24,196	24,320	—	107	107	—	107	21,600	(10,280)	11,320	11,427
Trans Executive Airlines Of Hawaii, Inc.	29,457	16,490	95,383	141,330	26,813	15,250	42,063	(11,881)	30,182	84,172	(12,951)	71,221	101,403
dba Trans Air	—	—	—	—	—	—	—	—	—	—	—	—	—
Universal Enterprises, Inc.	59,066	624	59,627	119,317	151,429	995	152,424	(83,622)	68,802	137,128	(59,665)	77,463	146,265
Wings Over Kauai LLC	—	—	2,428	2,428	—	—	—	—	—	2,274	—	2,274	2,274
World Airways	23,656	—	—	23,656	88,139	—	88,139	—	88,139	—	—	—	88,139
Total	808,188	105,056	591,045	1,504,289	$ 2,646,699	97,653	2,744,352	(121,906)	2,622,446	743,756	(115,048)	628,708	3,251,154

Summary of revenue landing weights:	
Overseas	755,744
Interisland	748,545
	1,504,289

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2014.

See accompanying independent auditors’ report.

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APPENDIX C

General Economic Information About the State of Hawaii

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 11" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Third Quarter 2015 Quarterly Statistical and Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at http://dbedt.hawaii.gov/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "General Economic Information About the State of Hawaii." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy below under "State of the Economy," there is a brief description in "Outlook for the Economy" below 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 2015 is 3.4%, and in 2016 is 2.4%. In real terms (adjusting for inflation), DBEDT estimates that the 2015 State's GDP growth to be 2.5% over that of 2014. DBEDT calculates that the State's GDP has diversified from 67% to 83% in non-tourism sectors from 1988 to 2015.

State of the Economy

Hawaii's major economic indicators were mostly positive in the second quarter of 2015. State general fund tax revenues, visitor arrivals, visitor expenditures, wage and salary jobs, personal income, government contracts awarded, State CIP expenditures, and private building permits all increased in the quarter as compared to the same quarter of 2014.

Hawaii's tourism sector performed well in the second quarter of 2015, compared to the second quarter of 2014. The total number of visitors arriving by air to Hawaii increased 122,172 or 6.1%. Due to shorter lengths of stay, the daily visitor census increased 4.9% in the quarter. Since visitors spent more on a daily basis during the second quarter of 2015, the total spending by visitors arriving by air decreased 6.8% in the quarter. Historical data shows that after seventeen quarters of positive growth from the third quarter of 2009 to the third quarter of 2013, Hawaii's tourism sector experienced one quarter of negative growth in the fourth quarter of 2013. Since the first quarter of 2014, however, Hawaii's tourism sector returned to positive growth compared with the same quarter in the previous year.

In construction, the government contracts awarded, State CIP expenditures and the value of private building permits both increased. In the second quarter of 2015, government contracts awarded increased \$389.5 million; the permit value for private construction increased \$27.0 million compared to the same quarter of 2014. In the second quarter of 2015, the construction sector added 1,000 jobs compared with the same quarter of 2014. According to the most recent data available, current construction put-in-place based on excise tax data increased \$69.1 million or 4% in the first quarter of 2015 compared with the same quarter of 2014.

In the second quarter of 2015, State General Fund tax revenues were up \$41.5 million or 2.8% over the same period of 2014. As an indicator of current economic activity, state general excise tax revenue increased \$32.9 million or 4.4% in the second quarter of 2015 compared to the same quarter in 2014. For the first half of 2015, State General Fund tax revenues increased \$198.7 million or 7.2%, and state general excise tax revenue increased \$68.4 million or 4.6%, compared with the same period last year.

The labor market conditions also 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 nineteenth consecutive quarter. In the second quarter of 2015, Hawaii's civilian non-agricultural wage and salary jobs averaged 633,000 jobs, an increase of 7,600 jobs or 1.2% from the same quarter of 2014. The number of private sector jobs increased in the second quarter of 2015 by about 8,700 non-agricultural jobs compared to the same quarter in 2014.

The job increase in the second quarter of 2015 was due to job increases in the private sector. In this quarter, the private sector added about 8,700 non-agricultural jobs compared to the second quarter of 2014. Jobs increased the most in Retail Trade, adding 1,900 jobs or 2.8%; followed by Health Care and Social Assistance, adding 1,500 jobs or 2.3%, Food Services and Drinking Places, adding 1,400 jobs or 2.3%, Professional and Business Services, adding 1,400 jobs or 1.7%, and Natural Resources, Mining & Construction, adding 1,000 jobs or 3.2% in the quarter. In this quarter, Accommodation lost 600 jobs, Manufacturing lost 300 jobs, Educational Services and Information each lost 200 jobs compared to the same quarter of 2014. During the second quarter of 2015, the three levels of government lost 1,100 jobs or 0.9% compared to the same quarter of 2014. The Federal Government lost 600 jobs or 1.8%; the State Government lost 800 jobs or 1.1%, while the Local Government added 200 jobs or 1.1% compared to the second quarter of 2014.

The most recent data from the U.S. Bureau of Economic Analysis ("BEA") shows that Hawaii's total nominal annualized personal income in the first quarter of 2015 increased $2,664.2 million or 4.1% from the same quarter of 2014. 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 2015 was due to increases in all major components of personal income. In dollar terms, the largest increases occurred in wage and salaries, followed by personal current transfer receipts, dividends, interest, and rent, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income. In 2014, total annualized personal income was $65,874.4 million, an increase of 3.8% from the previous year.

According to the most recent data available, consumer prices in Honolulu increased 0.7% in the first half of 2015 compared with the same period of 2014, as measured by the Honolulu Consumer Price Index for Urban Consumers ("CPI-U"). By contrast, the U.S. CPI-U decreased 1.0% in the second half of 2015. In 2014, the Honolulu CPI-U increased 1.4% from the previous year. This increase includes inflation so the growth of real personal income was smaller. The increase in nominal personal income during the first quarter of 2015 was due to increases in almost all major components of personal income. In dollar terms, the largest increases occurred in wages and salaries, followed by personal current transfer receipts, dividends, interest, and rent, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income. In 2014, total annualized personal income was $65,874.4 million, an increase of 3.8% from the previous year.

Consumer prices in Honolulu increased 0.7% in the first half of 2015 compared with the same period of 2014, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). In contrast, the U.S. CPI-U decreased 0.1% in the first half of 2015. In 2014, the Honolulu CPI-U increased 1.4% from the previous year. In the first half of 2015, the Honolulu CPI-U increased the most in the price index of Other Goods and Services (5.3%), followed by Medical Care (4.8%), Food and Beverages (4.2%), Education and Communication (3.1%), Housing (1.0%), and Recreation (0.9%). The price of Transportation and Apparel decreased 8.6% and 2.1%, respectively, compared to the first half of 2014.

Outlook for the Economy

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism industry, the labor market conditions in the state, and growth of personal income and tax revenues, Hawaii's economy is expected to expand for the rest of 2015 and into 2016. Overall, the current DBEDT forecast remains optimistic.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the August 2015 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 2.3% in 2015 as a whole, 0.2 of a percentage point lower than the 2.5% growth rate projected in the May 2015 forecast. For 2016, the consensus forecast now expects an overall 2.7% growth in U.S. real GDP.

Forecasts for Japan were also optimistic for 2015 in the August 2015 Blue Chip Economic Consensus Forecasts. Real GDP growth for Japan is now expected to increase 0.9% in 2015, 0.1% lower than the growth rate projected in the May 2015 forecast. For 2016, the consensus forecast now expects an overall 1.5% growth rate for Japanese real GDP.

For the local economy, DBEDT expects visitor related indicators will grow at higher rates than projected in the previous forecast. For GDP growth, however, the current forecast was lower than the previous forecast due to revised historical GDP data from BEA.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.9% increase in 2015, 0.6 of a percentage point higher than the growth rate forecasted last quarter. Real GDP growth in 2016 is expected at 2.3%, 0.1 of a percentage point below the growth rate forecasted last quarter.

Hawaii's unemployment rate is projected to be 4.0% in 2015 and then decline to 3.7% in 2016.

Visitor arrivals are expected to increase 4.3% in 2015, 1.8 percentage points higher than the previous forecast. The forecast for visitor days in 2015 increased 1.5 percentage points to 4.2%. The forecast for visitor expenditure in 2015 was revised upward to 3.8%, from 2.0% growth projected in the previous forecast. For 2016, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.6%, 1.5%, and 3.5%, respectively.

The projection for non-agricultural wage and salary job growth rate in 2015 is 1.1%, same as the previous forecast. In 2016, jobs are projected to increase 1.2%, same as the previous forecast.

The Honolulu Consumer Price Index ("CPI") is now expected to increase 1.0% in 2015, 0.5 of a percentage point below the previous forecast. In 2016, the CPI is projected to increase 2.3%, one percentage point above the previous forecast.

Personal income in current dollars is now expected to increase 4.3% in 2015, the same as the previous forecast. The real personal income is currently projected to grow 3.5% in 2015, 1.0 percentage point higher than the previous forecast. In 2016, current-dollar personal income and real personal income are expected to increase 4.6% and 2.9%, respectively.

Beyond 2016, the economy will be on an expansion path, with job growth expected to be 1.0% in 2017 and 1.1% in 2018. Visitor arrivals are expected to increase 1.7% in 2017 and 2018. Visitor expenditures are expected to increase 4.3% in 2017 and 2018. Real personal income is projected to increase 2.7% in 2017 and 2.6% in 2018. Hawaii's real GDP growth is expected to increase 2.4% in 2017 and 2018. The unemployment rate is expected to decrease to 3.4% in 2017 and 3.3% in 2018.

The State Council on Revenues, at its September 10, 2015 meeting, adjusted its economic forecast for the State's general fund tax revenues in fiscal year 2016 from 2.7% to 6.0%.

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

TABLE 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	2nd QUARTER 2014	2nd QUARTER 2015	2nd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2014	YEAR-TO-DATE 2015	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	668,750	676,150	1.1	666,400	675,350	1.3
Civilian employed, NSA	638,300	648,700	1.6	635,950	647,750	1.9
Civilian unemployed, NSA	30,450	27,450	-9.9	30,450	27,600	-9.4
Unemployment rate, NSA (%) 1/ 2/	4.6	4.1	-0.5	4.6	4.1	-0.5
Total wage and salary jobs, NSA	632,400	639,000	1.0	631,300	636,900	0.9
Total non-agric. wage & salary jobs	625,400	633,000	1.2	624,300	630,900	1.1
Nat. Resources, Mining, Constr.	31,400	32,400	3.2	31,100	32,000	2.9
Manufacturing	13,700	13,400	-2.2	13,600	13,500	-0.7
Wholesale Trade	17,600	18,200	3.4	17,600	18,000	2.3
Retail Trade	68,900	70,800	2.8	69,000	70,800	2.6
Transp., Warehousing, Util.	30,000	30,800	2.7	30,000	30,500	1.7
Information	8,400	8,200	-2.4	8,400	8,200	-2.4
Financial Activities	27,400	27,500	0.4	27,300	27,500	0.7
Professional & Business Services	81,900	83,300	1.7	81,800	83,300	1.8
Educational Services	14,600	14,400	-1.4	14,600	14,300	-2.1
Health Care & Social Assistance	64,500	66,000	2.3	64,300	65,800	2.3
Arts, Entertainment & Recreation	12,100	12,500	3.3	12,100	12,500	3.3
Accommodation	39,400	38,800	-1.5	39,400	38,900	-1.3
Food Services & Drinking Places	61,700	63,100	2.3	61,600	62,900	2.1
Other Services	26,500	27,200	2.6	26,500	26,600	0.4
Government	127,500	126,400	-0.9	127,400	126,100	-1.0
Federal	33,200	32,600	-1.8	33,200	32,700	-1.5
State	75,600	74,800	-1.1	75,500	74,600	-1.2
Local	18,800	19,000	1.1	18,700	18,900	1.1
Agriculture wage and salary jobs	7,000	6,000	-14.3	7,000	6,000	-14.3
State general fund revenues ($1,000)	1,487,285	1,528,447	2.8	2,774,273	2,973,010	7.2
General excise and use tax revenues	740,811	773,664	4.4	1,487,535	1,555,966	4.6
Income—individual	520,787	570,832	9.6	867,701	1,035,062	19.3
Declaration estimated taxes	214,397	217,604	1.5	316,352	334,134	5.6
Payment with returns	95,920	117,073	22.1	111,908	136,950	22.4
Withholding tax on wages	405,860	440,176	8.5	831,212	875,740	5.4
Refunds (‘-’) indicates relative to State)	-195,390	-240,023	4.4	-391,771	-311,764	-20.4
Transient accommodations tax	102,268	109,810	7.4	210,817	223,646	6.1
Honolulu County Surcharge 3/	54,953	(NA)	(NA)	123,454	(NA)	(NA)
Private Building Permits ($1,000)	806,458	840,376	4.2	1,564,850	2,137,980	36.6
Residential	305,551	412,746	35.1	456,197	895,251	96.2
Commercial & industrial	80,677	113,926	41.2	175,556	497,536	183.4
Additions & alterations	420,230	313,704	-25.3	933,097	745,194	-20.1
Visitor Days—by air	17,969,243	18,856,486	4.9	37,481,706	38,942,673	3.9
Domestic visitor days—by air	13,537,490	14,230,458	5.1	27,418,024	28,434,156	3.7
International visitor days—by air	4,431,754	4,626,028	4.4	10,063,682	10,508,517	4.4
Visitor arrivals by air—by air	2,009,213	2,131,386	6.1	4,035,296	4,216,392	4.5
Domestic flight visitors—by air	1,399,480	1,503,71	7.4	2,715,812	2,873,095	5.8
International flight visitors—by air	609,733	627,665	2.9	1,319,484	1,343,297	1.8
Hotel occupancy rates (%) 2/	74,0	(NA)	(NA)	77.3	(NA)	(NA)
Visitor expend.—arrivals by air ($1,000)	3,457,716	3,694,443	6.8	7,294,042	7,558,286	3.6

1/ Labor force and jobs are Hawaii Department of Labor and Industrial Relations monthly and annual data. Quarterly averages computed by the Hawaii Department of Business, Economic Development and Tourism.
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.
Sources: Hawaii State Department of Business, Economic Development, and Tourism <http://www.hawaii.gov/dbedt/inf>,
Hawaii State Department of Labor and Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>;
Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC..

KEY ECONOMIC INDICATORS

TABLE 2
ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2013 TO 2018

Economic Indicators	2013	2014	2015	2016	2017	2018
	(Actual)		(Forecast)			
Total population (thousands)	1,409	1,420	1,434	1,448	1,463	1,477
Visitor arrivals (thousands) 1/	8,174	8,308	8,661	8,796	8,944	9,097
Visitor days (thousands) 1/	74,942	75,646	78,788	80,004	81,356	82,754
Visitor expenditures (million dollars) 1/	14,521	14,943	15,518	16,603	16,748	17,476
Honolulu CPI-U (1982-84=100)	253.9	257.6	260.2	266.1	272.8	280.2
Personal income (million dollars)	63,468	65,874	68,707	71,867	75,461	79,234
Real personal income (millions of 2000$) 2/	50,920	52,346	54,178	55,749	57,282	58,752
Non-agricultural wage & salary jobs (thousands)	618.6	625.3	632.2	639.8	646.2	653.3
Civilian unemployment rate	4.8	4.4	4.0	3.7	3.4	3.3
Gross domestic product (million dollars)	75,095	77,389	80,045	83,256	86,533	90,294
Real gross domestic product(millions of 2005$)	69,968	70,532	71,874	73,544	75,310	77,117
Gross domestic product deflator (2005=100)	107.3	109.0	111.4	113.2	114.9	117.1
Annual Percentage Change						
Total population	1.2	0.8	1.0	1.0	1.0	1.0
Visitor arrivals	1.8	1.6	4.3	1.6	1.7	1.7
Visitor days	0.6	0.9	4.2	1.5	1.7	1.7
Visitor expenditures	1.1	2.9	3.8	3.5	4.3	4.3
Honolulu CPI-U	1.8	1.4	1.0	2.3	2.5	2.7
Personal income	2.4	3.8	4.3	4.6	5.0	5.0
Real personal income 2/	2.0	2.8	3.5	2.9	2.7	2.6
Non-agricultural wage & salary jobs	2.0	1.1	1.1	1.2	1.0	1.1
Civilian unemployment rate 3/	-1.2	-0.4	-0.4	-0.3	-0.3	-0.1
Gross domestic product	3.4	3.1	3.4	4.0	3.9	4.3
Real gross domestic product	1.4	0.8	1.9	2.3	2.4	2.4
Gross domestic product deflator (2009=100)	1.9	2.2	1.5	1.7	1.5	1.9

1/ Visitors who came to Hawaii by air or by cruise ship. Expenditures includes supplementary expenditures estimated by Hawaii Tourism Authority for 2014 and Department of Business, Economic Development and Tourism thereafter.
2/ Using personal income deflator developed by the U.S. Bureau of Economic Analysis and estimated by Department of Business, Economic Development and Tourism.
3/ Absolute change from previous year.

Source: Hawaii State Department of Business, Economic Development and Tourism, August 18, 2015.

Labor Force and Jobs

Hawaii's labor market continued to improve in the second quarter of 2015. Since the civilian labor force increased less than the civilian employment, the civilian unemployment rate decreased 0.5 of a percentage point in the quarter. For the nineteenth consecutive quarter, civilian non-agricultural wage and salary jobs increased.

In the second quarter of 2015, the civilian labor force averaged 676,150 people, an increase of 7,400 people or 1.1% from the same quarter of 2014. For the first half of 2015, the civilian labor force increased 8,950 people or 1.3% from the same period last year.

Civilian employment totaled 648,700 people in the second quarter of 2015, an increase of 10,400 people or 1.6% compared to the same quarter of 2014. This is the eleventh quarterly increase following four consecutive quarterly decreases from the fourth quarter of 2011 to the third quarter of 2012. In the first half of 2015, the average civilian employment increased 11,800 people or 1.9% from the previous year.

In the second quarter of 2015, the number of civilian unemployed averaged 27,450, a decrease of 3,000 people or 9.9% from the same quarter of 2014. In the first half of 2015, the number of unemployed decreased 2,850 people or 9.4% from the previous year.

The unemployment rate (not seasonally adjusted) decreased from 4.6% in the second quarter of 2014 to 4.1% in the second quarter of 2015. In the first half of 2015, the unemployment rate decreased 0.5 of a percentage point from the previous year.

In October 2015, the Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted unemployment rate fell to 3.4% in September 2015, the lowest unemployment rate for the State in nearly seven years. The national seasonally adjusted unemployment rate in August 2015 was 5.1%.

In the second quarter of 2015, Hawaii's civilian non-agricultural wage and salary jobs averaged 633,000 jobs, an increase of 7,600 jobs or 1.2% from the same quarter of 2014. This is the nineteenth consecutive quarterly increase in non-agricultural wage and salary jobs after ten consecutive quarterly decreases in jobs since the second quarter of 2008. For the first half of 2015, average non-agricultural wage and salary jobs increased 1.1% or 6,600 jobs from the same period last year.

The job increase in the second quarter of 2015 was due to a job increase in the private sector. In this quarter, the private sector added about 8,700 non-agricultural jobs compared to the second quarter of 2014. Jobs increased the most in Retail Trade, adding 1,900 jobs or 2.8%; followed by Health Care and Social Assistance, adding 1,500 jobs or 2.3%; Food Services and Drinking Places, adding 1,400 jobs or 2.3%; Professional and Business Services, adding 1,400 jobs or 1.7%; and Natural Resources, Mining and Construction, adding 1,000 jobs or 3.2% in the quarter.

For the private sector, in the second quarter of 2015, Accommodation lost 600 jobs, Manufacturing lost 300 jobs, Educational Services and Information each lost 200 jobs compared to the same quarter of 2014.

During the second quarter of 2015, the three levels of government lost 1,100 jobs or 0.9% compared to the same quarter of 2014. The Federal Government lost 600 jobs or 1.8%; the State Government lost 800 jobs or 1.1%, while the Local Government added 200 jobs or 1.1% compared to the second quarter of 2014.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, decreased 22.4% in the second quarter of 2015 compared to the same quarter of 2014. In the first half of 2015, the initial liable claims for unemployment decreased 11.5% from the same period of last year.

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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
2005	626,900	2.6	608,650	3.2	2.9
2006	638,250	1.8	621,550	2.1	2.6
2007	638,400	0.0	620,550	-0.2	2.8
2008	639,700	0.2	612,100	-1.4	4.3
2009	631,700	-1.3	586,500	-4.2	7.2
2010	647,250	2.5	602,300	2.7	6.9
2011	660,150	2.0	615,100	2.1	6.8
2012	648,000	-1.8	609,100	-1.0	6.0
2013	651,100	0.5	619,550	1.7	4.8
2014	668,200	2.6	639,000	3.1	4.4
2015*	675,350	1.3	647,750	1.9	4.1

*First half of 2015.
Source: Hawaii State Department of Labor and Industrial Relations

Income and Prices

Hawaii's total personal income increased during the first quarter of 2015 over the same quarter of 2014, all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wages and salaries, followed by personal current transfer receipts, dividends, interest, and rent, supplements to wages and salaries, and proprietors' income.

In the first quarter of 2015, total nominal annualized personal income (i.e., not adjusted for inflation) increased $2,664.2 million or 4.1% from the first quarter of 2014. In 2014, total annualized personal income was $65,874.4 million, an increase of 3.8% from the previous year.

In the first quarter of 2015, wages and salaries increased $1,338.9 million or 4.2% from the first quarter of 2014. This was the 19th quarterly year-over-year increase since the third quarter of 2010. In 2014, wages and salaries increased 3.6% 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 $282.9 million or 3.0% in the first quarter of 2015 from the same quarter of 2014. In 2014, supplements to wages and salaries increased 3.1% from the previous year.

Proprietors' income increased $227.5 million or 4.7% in the first quarter of 2015 over that of 2014. In 2014, proprietors' income was up 3.2% from the previous year.

Dividends, interest, and rent increased $450.6 million or 3.3% in the first quarter of 2015 from the same quarter of 2014. In 2014, income in this category was up 3.4% from the previous year.

The annualized personal current transfer receipts grew by $570.6 million or 5.6% in the first quarter of 2015 from the same quarter of 2014. In 2014, personal current transfer receipts increased 6.2% over the previous year.

Contributions to government social insurance, which is subtracted from total personal income, increased $206.3 million or 3.7% in the first quarter of 2015, compared to the first quarter of 2014. In 2014, contributions to government social insurance increased 4.5% from the previous year.

In the first quarter of 2015, total non-farm private sector annualized earnings increased $1,831.5 million or 4.0% from the first quarter of 2014. In dollar terms, the largest increase occurred in construction, followed by accommodation and food services, health care and social assistance, retail trade, administrative and waste services, transportation and warehousing, and management of companies and enterprises. During the first quarter of 2015, total government earnings increased $210.8 million or 1.5% from the same quarter of 2014. Earnings from the federal government increased $87.8 million or 1.1% in the first quarter of 2015. Earnings from the state and local governments increased $123.0 million or 2.0% in the quarter.

In the first half of 2015, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 0.7% from the same period in 2014. This is in contrast to the 0.1% decrease for the U.S. average CPI-U and is substantially lower than the 2014 Honolulu CPI-U increase of 1.4% from the previous year. In the first half of 2015, the Honolulu CPI-U increased the most in Other Goods and Services (5.3%), followed by Medical Care (4.8%), Food and Beverages (4.2%), Education and Communication (3.1%), Housing (1.0%), and Recreation (0.9%). The price of Transportation and Apparel decreased 8.6% and 2.1%, respectively, compared to the first half of 2014.

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TABLE 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

(In thousands of dollars at seasonally adjusted annual rates and percent; according to NAICS classification)

						Percentage change		
						First Quarter 2015		*YTD 2015*
Series	*First Quarter 2014*	*Fourth Quarter 2014*	*First Quarter 2015*	*YTD 2014*	*YTD 2015*	*First Quarter 2014*	*Fourth Quarter 2014*	*YTD 2014*
PERSONAL INCOME	64,809,996	66,747,317	67,474,188	64,809,996	67,474,188	4.1	1.1	4.1
Earnings By Place of Work	46,615,520	47,850,300	48,464,909	46,615,520	48,464,909	4.0	1.3	4.0
Wage and salary disbursements	32,187,815	33,070,231	33,526,714	32,187,815	33,526,714	4.2	1.4	4.2
Wages and salaries	9,549,963	9,714,912	9,832,905	9,549,963	9,832,905	3.0	1.2	3.0
Emp'er contrib. for emp'ee pension & ins. funds	6,650,137	6,751,722	6,828,291	6,650,137	6,828,291	2.7	1.1	2.7
Employer contrib. for gov't social ins.	2,899,826	2,963,190	3,004,614	2,899,826	3,004,614	3.6	1.4	3.6
Proprietors' income	4,877,742	5,065,157	5,105,290	4,877,742	5,105,290	4.7	0.8	4.7
Farm proprietors' income	75,816	63,536	87,684	75,816	87,684	15.7	38.0	15.7
Nonfarm proprietors' income	4,801,926	5,001,621	5,017,606	4,801,926	5,017,606	4.5	0.3	4.5
Dividends, interest, and rent	13,617,374	14,011,627	14,067,934	13,617,374	14,067,934	3.3	0.4	3.3
plus: Personal current transfer receipts	10,186,759	10,623,390	10,757,337	10,186,759	10,757,337	5.6	1.3	5.6
Social Security benefits	3,566,571	3,656,383	3,737,714	3,566,571	3,737,714	4.8	2.2	4.8
Medicare benefits	2,020,271	2,053,663	2,075,385	2,020,271	2,075,385	2.7	1.1	2.7
Medicaid 1/	1,843,118	2,094,622	2,110,389	1,843,118	2,110,389	14.5	0.8	14.5
State unempl. ins. comp.	209,553	170,849	159,796	209,553	159,796	-23.7	-6.5	-23.7
All other personal current transfer receipts	2,547,246	2,647,873	2,674,053	2,547,246	2,674,053	5.0	1.0	5.0
Less: Contributions for gov't social ins.	5,609,657	5,738,000	5,815,992	5,609,657	5,815,992	3.7	1.4	3.7
Personal contributions for gov't social ins.	2,709,831	2,774,810	2,811,378	2,709,831	2,811,378	3.7	1.3	3.7
Employer contributions for gov't social ins.	2,899,826	2,963,190	3,004,614	2,899,826	3,004,614	3.6	1.4	3.6
Earnings By Industry	46,615,520	47,850,300	48,464,909	46,615,520	48,464,909	4.0	1.3	4.0
Farm Earnings	315,292	307,496	333,189	315,292	333,189	5.7	8.4	5.7
Nonfarm Earnings	46,300,228	47,542,804	48,131,720	46,300,228	48,131,720	4.0	1.2	4.0
Private earnings	31,942,186	33,092,010	33,562,898	31,942,186	33,562,898	5.1	1.4	5.1
Forestry, fishing, & related activities	67,334	70,632	71,452	67,334	71,452	6.1	1.2	6.1
Mining	38,425	35,048	34,554	38,425	34,554	-10.1	-1.4	-10.1
Utilities	565,698	591,253	616,244	565,698	616,244	8.9	4.2	8.9
Construction	3,392,868	3,540,415	3,682,808	3,392,868	3,682,808	8.5	4.0	8.5
Manufacturing	819,317	881,436	884,411	819,317	884,411	7.9	0.3	7.9
Durable goods	257,240	272,564	278,988	257,240	278,988	8.5	2.4	8.5
Nondurable goods	562,077	608,872	605,423	562,077	605,423	7.7	-0.6	7.7
Wholesale trade	1,238,323	1,272,133	1,282,687	1,238,323	1,282,687	3.6	0.8	3.6
Retail trade	2,848,643	2,939,447	3,016,962	2,848,643	3,016,962	5.9	2.6	5.9
Transportation and warehousing	1,783,423	1,844,405	1,879,691	1,783,423	1,879,691	5.4	1.9	5.4
Information	707,630	697,911	709,789	707,630	709,789	0.3	1.7	0.3
Finance and insurance	1,360,516	1,411,376	1,417,870	1,360,516	1,417,870	4.2	0.5	4.2
Real estate and rental and leasing	1,885,474	1,962,674	1,963,512	1,885,474	1,963,512	4.1	0.0	4.1
Prof., scientific, & technical services	2,693,586	2,729,508	2,736,245	2,693,586	2,736,245	1.6	0.2	1.6
Management of companies and enterprises	800,946	860,884	883,846	800,946	883,846	10.4	2.7	10.4
Admin. & waste management services	2,143,730	2,243,914	2,242,567	2,143,730	2,242,567	4.6	-0.1	4.6
Educational services	742,305	745,861	750,914	742,305	750,914	1.2	0.7	1.2
Health care and social assistance	4,470,365	4,599,566	4,666,584	4,470,365	4,666,584	4.4	1.5	4.4
Arts, entertainment, and recreation	490,801	554,194	556,576	490,801	556,576	13.4	0.4	13.4
Accommodation and food services	4,073,115	4,250,562	4,289,786	4,073,115	4,289,786	5.3	0.9	5.3
Other services, except public admin.	1,819,687	1,860,791	1,876,400	1,819,687	1,876,400	3.1	0.8	3.1
Government and government enterprises	14,358,042	14,450,794	14,568,822	14,358,042	14,568,822	1.5	0.8	1.5
Federal	8,175,375	8,223,232	8,263,128	8,175,375	8,263,128	1.1	0.5	1.1
Federal, civilian	3,350,807	3,334,805	3,355,612	3,350,807	3,355,612	0.1	0.6	0.1
Military	4,824,568	4,888,427	4,907,516	4,824,568	4,907,516	1.7	0.4	1.7
State and local	6,182,667	6,227,562	6,305,694	6,182,667	6,305,694	2.0	1.3	2.0

1/ 2014Q1 to 2014Q4 revised from previous *QSER*.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, June 22, 2015 <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=3> accessed June 22, 2015.

TABLE 5

PERSONAL INCOME

(In thousands of dollars at seasonally adjusted annual rates)

YEAR	ANNUAL AVERAGE	% CHANGE
2005	46,125,514	7.1
2006	49,616,850	7.6
2007	52,867,918	6.2
2008	55,216,726	4.8
2009	55,700,409	0.9
2010	56,824,393	2.0
2011	59,191,956	4.2
2012	61,967,663	4.7
2013	63,468,314	2.4
2014	65,874,361	3.8
2015*	67,474,188	4.1

* First Quarter of 2014 to Fourth Quarter 2014.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, June 22, 2015 <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=3> accessed June 22, 2015.

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TABLE 6

HONOLULU AND U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)

[1982-84=100; Data not seasonally adjusted]

		Honolulu								
Period	**U.S.**	All Items	Food & Beverages	Housing	Apparel	Trans- portation	Medical Care	Recreation 1/	Educ. & Comm. 1/	Other Goods & Services
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
2010	218.056	234.869	224.774	251.968	116.423	214.411	320.153	107.484	128.483	415.526
2011	224.939	243.622	232.656	260.606	118.394	229.223	324.180	110.473	132.248	433.536
2012	229.594	249.474	242.786	265.473	121.481	231.275	334.441	113.961	137.276	440.428
2013	233.0	253.924	250.922	269.885	119.011	233.133	345.184	116.818	139.423	447.178
2014	236.7	257.589	256.023	273.499	111.141	236.373	351.763	119.586	143.488	457.958
2014H1	236.4	255.989	252.895	271.656	112.261	237.614	348.133	119.313	141.981	450.011
H2	237.1	259.190	259.151	275.343	110.021	235.132	355.393	119.860	144.995	465.906
2015H1	236.3	257.848	263.610	274.380	109.941	217.288	364.754	120.419	146.406	473.733
Percentage Change from the Same Period in Previous Year										
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
2010	1.6	2.1	0.2	0.9	3.2	7.0	-0.4	2.1	4.6	5.1
2011	3.2	3.7	3.5	3.4	1.7	6.9	1.3	2.8	2.9	4.3
2012	2.1	2.4	4.4	1.9	2.6	0.9	3.2	3.2	3.8	1.6
2013	1.5	1.8	3.4	1.7	-2.0	0.8	3.2	2.5	1.6	1.5
2014	1.6	1.4	2.0	1.3	-6.6	1.4	1.9	2.4	2.9	2.4
2014H1	1.7	1.1	1.0	0.9	-5.9	2.1	1.4	2.5	2.7	0.8
H2	1.5	1.8	3.0	1.8	-7.3	0.7	2.4	2.2	3.1	4.0
2015H1	-0.1	0.7	4.2	1.0	-2.1	-8.6	4.8	0.9	3.1	5.3

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> accessed August 13, 2015, and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed August 19, 2015.

Tourism

Visitor arrivals continue to be strong with both domestic and international visitor arrivals increasing in the second quarter of 2015. Due to shorter lengths of stay, the daily visitor census increased less than the increase of visitor arrivals in the quarter. Since visitors spent more on a daily basis during the second quarter of 2015, total visitor spending increased more than the growth of the average total daily visitor census in the quarter. With the exception of the fourth quarter of 2013, visitor arrivals have increased steadily since the third quarter of 2009.

The total number of visitor arrivals by air increased 122,172 or 6.1% in the second quarter of 2015, compared to the same quarter of 2014. The total average daily census was up 9,750 or 4.9% in the quarter. In the first half of 2015, total visitor arrivals by air increased 181,096 or 4.5%, while the average daily census increased 8,072 or 3.9% from the same period of 2014.

In the second quarter of 2015, total visitor arrivals on domestic flights increased 104,240 or 7.4% to a total of 1,503,721 domestic visitors compared to the same quarter of 2014. In the first half of 2015, domestic arrivals were up 157,283 or 5.8% to a total of 2,873,095 domestic visitors from the same period of 2014.

Arrivals on international flights increased 17,932 or 2.9% to a total of 627,665 international visitors in the second quarter of 2015 compared to the second quarter of 2014. In the first half of 2015, international arrivals were up 23,813 or 1.8% to a total of 1,343,297 international visitors from the same period of 2014.

The total number of visitors in September 2015 was 652,616, a 4.7% increase over September 2014. In terms of major market areas, from the second quarter of 2014 to the same period of 2015, arrivals from the U.S. West increased 76,294 or 8.9%, arrivals from the U.S. East increased 27,796 or 6.2%, and arrivals from Japan increased 2,998 or 0.9%. In the first half of 2015, arrivals from U.S. West were up 137,824 or 8.7%; arrivals from the U.S. East were up 16,091 or 1.8%; and Japanese arrivals were down 14,780 or 2.1% from the same period of 2014.

While visitor arrivals have increased, the length of stay per visitor has decreased. Due to the shorter length of stay, the average total daily visitor census increased less than the growth of visitor arrivals in the quarter. The total average daily visitor census was up 4.9% or 9,750 visitors per day in the second quarter of 2015 over the same quarter of 2014. The domestic average daily census increased 5.1% or 7,615 visitors per day, while the international average daily census increased 4.4% or 2,135 visitors per day. In the first half of 2015, the domestic average daily census increased 5,614 or 3.7%; and the international average daily census increased 2,458 or 4.4% from the same period of 2014.

Nominal visitor expenditures by air totaled $3,694.4 million in the second quarter of 2015, up 6.8% or $236.7 million from the same quarter of 2014 (Table D-11). In the first half of 2015, visitor expenditures increased $264.2 million or 3.6% compared with the same period of 2014.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 9.0% or 247,972 seats in the second quarter of 2015, domestic seats increased 13.2% or 246,288 seats; international seats increased 0.2% or 1,684 seats, compared to the same quarter of 2014. In the first half of 2015, the number of total available seats increased 7.4% or 406,858 seats from the same period of 2014. As of August 2015, the Airports Division projected airlines would add a total of 680,000 seats in 2015, an increase of 6.1% over the prior year. The Airports Division takes into account an expansion of flights to a variety of domestic and international cities, including Brisbane, Manila, Beijing , San Francisco and Seattle.

According to the most recent data available, in the first quarter of 2015, the statewide hotel occupancy rate averaged 80.1%, 0.7 of a percentage point lower than that of the same quarter of 2014. In 2014, the statewide hotel occupancy rate averaged 77.0%, 0.5 of a percentage point higher than that of the previous year.

TABLE 7
VISITOR ARRIVALS, EXPENDITURES, AND AVERAGE DAILY SPENDING

Year	Visitor Arrivals[1]	Visitor Expenditures ($ in millions)	Average Daily Spending
2010	6,916,894	$11,066	$168.90
2011	7,174,397	$12,158	$176.00
2012	7,867,143	$14,365	$191.20
2013	8,003,474	$14,520	$192.30
2014	8,183,671	$14,943	$195.90

[1] Figures include air arrivals only.

TABLE 8

VISITOR ARRIVALS BY AIR

Average Length of Stay, Visitor Days, Average Daily Census

	2011	2012	2013	2014	% Change 2011-2012	% Change 2012-2013	% Change 2013-2014
Arrivals							
Total	7.174,397	7,867,143	8,003,474	8,183,671	9.7	1.7	2.3
Domestic	5,127,291	5,403,025	5,405,300	5,473,388	5.4	0.0	1.3
International	1,748,447	1,959,542	2,047,106	2,464,118	20.4	5.4	4.3
Average Length of Stay							
Total	9.38	9.28	9.17	9.11	-1.1	-1.2	-0.7
Domestic	10.04	10.05	10.02	9.94			
International	10.24	10.25	10.00	9.99			
Visitor Days							
Total	67,825,871	73,663,903	74,049,772	74,982,915	8.6	0.5	1.3
Domestic	45,947,314	48,323,607	48,531,695	49,151,990			
International	21,878,557	25,340,296	25,518,077	25,830,925			
Average Daily Census							
Total	185,824	201,267	202,876	205,433	8.3	0.8	1.3
Domestic	142,027	148,887	149,213	150,288	4.8	0.2	0.7
International	43,797	52,380	53,663	55,145	19.6	2.4	2.8

Source: Hawaii State Department of Business, Economic Development and Tourism and <http://www.hawaii.gov/dbedt/info/visitor-stats/> and Hawaii Tourism Authority, Tourism Research.

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TABLE 9

HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**Annual Average**
In Percent					
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012	80.3	73.8	78.9	74.5	76.9
2013	82.0	74.2	77.8	72.3	76.5
2014 1/	80.8	74.0	78.7	75.0	77.0
2015 1/	80.1	(NA)	(NA)	Year-to-Date	80.1

NA Not Available

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

1/ Source revises each month of previous year when current year is released, i.e. 2015Q1.

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

Construction and Real Estate

The indicators of Hawaii's construction industry were all positive in the second quarter of 2015. The value of private building authorizations, construction jobs, government contracts awarded, and State CIP expenditures all increased in the quarter.

Construction has been one of the major contributors to job growth in Hawaii over the past few years. In the second quarter of 2015, the construction sector added 1,000 jobs or 3.2% compared with the same quarter of 2014. In the first half of 2015, the construction sector added 900 jobs or 2.9% from the same period of 2014. Before the recession, specifically the period from 2002 to 2007, construction job growth averaged 8.0% per year. In the fourth quarter of 2007, the average number of construction jobs reached a peak of 40,000 jobs. The strength of the current construction job market is a sharp contrast to the recession period. From the second quarter of 2008 until the third quarter of 2011 quarter-over-quarter construction job growth was negative in all quarters.

In the second quarter of 2015, the private building authorizations in the state increased $33.9 million or 4.2% to $840.4 million compared with the second quarter of 2014. In the first half of 2015, private building authorizations for the state increased $573.1 million or 36.6% compared with the same period of 2014.

In the second quarter of 2015, private building authorizations in Honolulu decreased $2.7 million or 0.6% to $465.41 million compared with the second quarter of 2014. In the first half of 2015, private building authorizations in Honolulu increased $234.1 million or 24.8% compared with the same period of 2014.

In the second quarter of 2015, private building authorizations in Hawaii County decreased $18.8 million or 8.0%, compared with the second quarter of 2014. In the first half of 2015, private building authorizations in Hawaii County increased $20.8 million or 6.3% to $214.77 million compared with the same period of 2014.

In the second quarter of 2015, private building authorizations in Maui increased $48.6 million or 62.9% to $125.81 million compared with the second quarter of 2014. In the first half of 2015, private building authorizations in Maui increased $308.2 million or 125.0% compared with the same period of 2014.

In the second quarter of 2015, private building authorizations (residential only) in Kauai increased $6.8 million or 24.6% to $34.38 million compared with the second quarter of 2014. In the first half of 2015, private building authorizations in Kauai increased $10.0 million or 23.3% compared with the same period of 2014.

Government contracts awarded increased $389.5 million or 133.7% to $680.8 million in the second quarter of 2015 compared to the same quarter of 2014. In the first half of 2015, government contracts awarded increased $458.8 million or 102.6% compared with the same period of 2014. State government CIP expenditures increased $27.0 million or 7.6% in the second quarter of 2015. In the first half of 2015, CIP expenditures decreased $52.5 million or 7.5% from the first half of the previous year.

According to the most recent data available, the Honolulu Construction Cost Index increased 7.5% for Single Family Residence and 7.4% for High-Rise Building in the first quarter of 2015 over that of 2014.

In the first half of 2015, Honolulu's median price for single family resales was $685,000, an increase of $15,500 or 2.3% from the first half of 2014. The median price for condominium units was $358,500, an increase of $8,500 or 2.4% from the first half last year. In the second quarter of 2015, the number of single-family unit resales was up 9.2%, and the number of condominium unit resales was up 6.9% compared with the second quarter of 2014. In the first half of 2015, the number of single-family unit resales was up 3.4%, and condominium unit resales was up 3.3% compared with the same period of 2014.

In the second quarter of 2015, single-family unit resales increased 4.6%, and condominium unit resales decreased 9.8% in Maui County compared to the same quarter of 2014.

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TABLE 10

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED

(In millions of dollars)

Year /3	Contracting tax base 1/	Private Building Authorization 3/				Government Contracts Awarded
		Total Private Authorizations	Residential 3/	Commercial & Industrial 2/	Additions & Alterations	
In Millions of Dollars						
2010	5,589.8	1,980.3	779.0	377.5	823.8	1,057.6
2011	5,837.4	1,858.8	687.9	285.9	884.9	430.7
2012	7,006.1	2,643.8	837.2	271.1	1,535.5	772.9
2013	7,330.0	2,720.5	1,025.0	296.5	1,399.0	1,194.2
2014	7,024.0	3,315.1	985.9	498.5	1,830.6	1096.6
2014 1 Qtr.	1,732.3	758.4	150.6	94.9	512.9	155.7
2 Qtr.	1,766.6	806.5	305.6	80.7	420.2	291.3
3 Qtr.	1,666.4	789.6	230.4	73.8	485.4	394.9
4 Qtr.	1,858.7	960.6	299.3	249.2	412.1	254.7
2015 1 Qtr.	1,801.4	1,297.6	482.5	383.6	431.5	225.0
2 Qtr.	(NA)	840.4	412.7	113.9	313.7	680.8
Percentage Change from the Same Period in Previous Year						
2010	-15.8	-0.9	-2.5	32.5	-10.0	35.8
2011	4.4	-6.1	-11.7	-24.3	7.4	-59.3
2012	20.0	42.2	21.7	-5.2	73.5	79.4
2013	4.6	2.9	22.4	9.4	-8.9	54.5
2014	-4.2	21.9	-3.8	68.1	30.8	-8.2
2014 1 Qtr.	-6.2	20.6	-47.9	102.3	75.0	-31.9
2 Qtr.	-8.7	12.9	58.1	-44.6	12.0	-21.5
3 Qtr.	-9.7	14.7	-27.4	168.5	41.3	-18.0
4 Qtr.	9.2	39.4	32.9	225.8	6.4	125.2
2015 1 Qtr.	4.0	71.1	220.3	304.3	-15.9	44.5
2 Qtr.	(NA)	4.2	35.1	41.2	-25.3	133.7

NA Not available.

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development and 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 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 11

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	State	City & County of Honolulu	Hawaii County	Kauai County 1/	Maui County
In Thousands of Dollars					
2010	1,980,296	1,357,314	360,328	68,047	194,607
2011	1,858,763	1,272,923	282,638	59,520	243,683
2012	2,643,840	1,769,454	427,394	79,998	366,994
2013	2,720,519	1866,352	443,739	85,413	325,014
2014	3,315,078	2,072,202	697,063	102,195	443,617
2014 1 Qtr.	758,392	474,522	99,031	15,514	169,325
2 Qtr.	806,458	468,094	233,543	27,598	77,222
3 Qtr.	789,623	543,927	138,863	26,516	80,318
4 Qtr.	960,605	585,659	225,626	32,567	116,753
2015 1 Qtr.	1,297,604	711,333	138,610	18,758	428,904
2 Qtr.	840,376	465,408	214,771	34,383	125,814
Percentage Change From The Same Period in Previous Year					
2010	-0.9	8.8	16.5	-68.8	-13.3
2011	-6.1	-6.2	-21.6	-12.5	25.2
2012	42.2	39.0	51.2	34.4	50.6
2013	2.9	5.5	3.8	6.8	-11.4
2014	21.9	11.0	57.1	19.6	36.5
2014 1 Qtr.	20.6	-0.6	16.2	2.2	230.4
2 Qtr.	12.9	8.4	103.1	38.5	-47.6
3 Qtr.	14.7	10.4	21.7	8.9	40.5
4 Qtr.	39.4	26.1	74.3	25.4	68.9
2015 1 Qtr.	71.1	49.9	40.0	20.9	153.3
2 Qtr.	4.2	-0.6	-8.0	24.6	62.9

1/ For residential only.
Source: County building departments.

Banks and Other Financial Institutions

Hawaii currently has six State chartered banks, one State chartered financial services company, two federally-chartered savings associations, one national bank and two interstate branch banks with combined assets totaling $46.4 billion as of December 2014, as reported by the Federal Deposit Insurance Corporation.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy. According to the BEA in 2015, total federal government compensation of employees in Hawaii for the first quarter was over $8.17 billion, an increase of 1.1% from the same quarter in 2014. In the second quarter of 2015, the federal government provided 32,700 jobs in Hawaii. Federal government compensation of employees in Hawaii accounted for about 19.4% of total compensation of employees in 2014. For example, between 2004 and 2014, the annual average growth rate for federal government compensation of employees in Hawaii was 3.6%. Federal military accounted for 59.3% of the total Federal compensation in 2012. According to recent data, federal government accounted for about 12.9% of State GDP in Hawaii in 2013, much of which is defense-related.

Data from the U.S. Department of Commerce indicates that the total earnings of federal government personnel in the first quarter of 2015 increased 1.1% compared to the same period of 2014. In 2014, total earnings of federal government personnel increased 0.3% from the previous year.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit, but, on the other hand, may increase to reflect the growing importance of the Asia-Pacific Region. The federal budget sequestration has not had a material adverse effect on the State to date.

Transportation

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

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2011 and 2012 amounted to 18.8 million short tons and 19.0 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; and (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. The State Legislature authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System in 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 10,033 in fiscal year 2009, 7,832 in fiscal year 2010, 8,490 in fiscal year 2011 and 7,912 in fiscal year 2012. The U.S. military moves most of its cargo through the State's Harbors System.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. Honolulu 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 during fiscal years 2011-2013 amounted to 9.8 million, 10 million, and 10.9 million short tons, respectively. The Department of Transportation, Harbor Division manages, maintains and operates the State's Harbors Systems to provide for the efficient movement of cargo and passengers. The U.S. military moves most of its cargo through the State's Harbors System.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan ("HMP") to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation ("ATDC") as the entity responsible for the management and implementation of the HMP under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the HMP is estimated at $618 million. ATDC's failure to obtain legislative approval for operating funds for fiscal year 2011 effectively terminated its operations on June 30, 2010. The Harbors Division assumed management and implementation responsibilities of the HMP. Act 152, SLH 2011 placed the ATDC under the Department for administrative purposes and repealed references to the HMP. The Deputy Director-Harbors currently serves as the Chief Executive Officer for the ATDC.

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

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

As an island state, air travel is critical particularly to Hawaii's tourism industry. Hawaii airports cater primarily to origination and destination traffic and not necessarily as a stop-over to other destinations. A report prepared recently by the DBEDT has indicated that Hawaii's tourism market is resilient. Visitors by air to Hawaii have increased steadily since the economic downturn in 2008. DBEDT forecasts continued growth in air traffic averaging 2% per year through 2017. Prior to the economic downturn, Hawaii averaged 7.5 million visitors per year. Hawaii's resilient tourism market has surpassed pre-recession visitor counts to 8.18 million visitors in 2014. Tourism is forecasted to increase even further to 8.6 million visitors in 2017. Domestic and international visitors arrivals remain stable, accounting for 67% and 33% of the market, respectively.

In fiscal year 2015, total passenger counts in the Airports increased from 16,294,997 in 2014 to 16,682,795 due to increased tourism traffic. Total airline and concession revenues have grown over the past five years.

The Airports Division continues to generate income from its operations, as a result of a diverse mix of revenue sources. Signatory airline requirements are continuously monitored by the Division to assure financial stability and bond certificate requirements are met on an annual basis. In addition, the continued implementation of cost saving measures by management such as the Energy Savings Contract implemented on January 2014 will stabilize utility costs and reduce consumption by up to 49% by January 2016. The contractor has guaranteed savings of $18 million per year thereafter.

Capital Improvement Projects to modernize the airport facilities continue to move forward. The projects are funded by cash, revenue bonds, federal grants, passenger facility fees, and rental car facility collections. The upward trend in domestic and international travel to Hawaii and limited staff resources continue to challenge the Airports Division to maintain and upgrade the facilities. The Airports Division is seeking improvements to the State's contractual and procurement process in order to deliver projects on a timely basis. Improving the overall contractual and procurement process will also enable the Airports Division to timely utilize Federal Aviation Administration (FAA) grants, to prevent jeopardizing the availability of future grant funding. It continues to adapt to airline industry standards and additional FAA and U. S. Customs and Border Protection requirements. Airline related Capital Improvement Projects are reviewed by the Airports Division and approved by Signatory Airline Carriers.

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 4,309.891 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 953.545 linear miles of roadways. The most important component of the State Highway System is the 54.90 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The City and County of Honolulu is building a new $5.3 billion, 20-mile fixed guideway mass transit system to provide rail service along Oahu's east-west corridor between Kapolei and downtown Honolulu (terminating at Ala Moana Shopping Center). Construction of the project is being funded with the City and County of Honolulu surcharge of ½ of 1% imposed upon Oahu activities subject to the 4% General Excise and Use Taxes and federal moneys. Construction and operation of this system is the sole responsibility of the City and County of Honolulu.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last 5 calendar years ending December 31, 2014.

TABLE 12

MOTOR VEHICLE REGISTRATION

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2010	898,452	64	2,103	190,025	29,446	31,601	1,151,691
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370
2012	1,033,975	91	2,621	203,323	38,223	32,053	1,310,286
2013	1,089,709	98	2,669	207,496	41,180	30,189	1,371,341
2014	1,042,818	105	2,565	200,934	37,771	28,252	1,312,445

Source: The State of Hawaii Data Book 2014.

Education

Unlike many other states, the State operates a statewide public school system for elementary, intermediate, and high schools. In addition, the States operates a statewide public school system for colleges and universities. In the 2014-2015 school year, system enrollment totaled 180,895 in 289 public schools (includes 34 charter schools), grades K-12. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in both 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 a medical school and cancer research center in downtown Honolulu;

(ii) a comprehensive, primarily baccalaureate institution at Hilo, offering professional programs based on a liberal arts foundation and selected graduate degrees; 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;

(iii) a baccalaureate institution at West Oahu, for which a new permanent campus was opened in August 2012, 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 fall 2014, 57,052 students attended the University of Hawaii System, 19,507 of them on the Manoa campus. In the fall of 2015, it is projected that 56,423 will attend the University of Hawaii System, 19,288 of them on the Manoa campus.

State Housing Programs

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

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

The State housing programs are carried out by the Hawaii Public Housing Authority (the "HPHA") and the Hawaii Housing Finance and Development Corporation (the "HHFDC"). The HHFDC performs the function of housing finance and development. The HHFDC is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HHFDC and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State. The HPHA performs the function of developing and maintaining public housing.

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APPENDIX D

Certain Definitions in the Certificate

The following are definitions of certain terms used in this Official Statement, the Certificate and the Thirty-First Supplemental Certificate. Reference is hereby made to the Certificate and the Thirty-First 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 Certificate 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 accrued in the normal course of business during such past period, and for any future period the aggregate of the Revenues and Aviation Fuel Taxes anticipated to be accrued in the normal course of business 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 accrued in the normal course of business 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, including for the Series 2015 Bonds U.S. Bank National Association.

"***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 E

Summary of Certain Provisions of the Certificate

This Appendix E contains a summary of certain provisions of the Certificate as currently in effect. The summary includes summaries of the amended provisions, which amendments were approved by the Bondholders. The summary does not purport to be complete or to follow the exact language of the Certificate. The summary complements the summaries found under "DESCRIPTION OF THE SERIES 2015 BONDS" and "SECURITY FOR THE BONDS." Reference is made to the full text of the Certificate and the supplements thereto for the precise wording and the complete provisions of the Certificate. Copies of the Certificate are available upon request to the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

Application of Revenues and Aviation Fuel Taxes

So long as any Bonds remain outstanding, the Airport Revenue Fund shall be continued and all Revenues and all Aviation Fuel Taxes shall be deposited in the Airport Revenue Fund, to be used and applied solely as provided in the Certificate. The Airport Revenue Fund and the Revenues and Aviation Fuel Taxes and any other, moneys deposited or to be deposited therein shall be appropriated, applied or expended in the amount necessary therefor for the following purposes and in the following order of priority:

FIRST: For payment of the costs of operation, maintenance and repair of the properties constituting the Undertaking, including reserves therefor, and the expenses of the operation of the Department of Transportation in connection with those properties.

SECOND: For the payment when due all Bonds and interest thereon, including reserves therefor, which payment shall be provided for as follows:

Interest Account. Monthly credits shall be made to the Interest Account for the purpose of paying the interest on the Bonds as and when the same become due.

Serial Bond Principal Account. Monthly credits shall be made to the Serial Bond Principal Account for the purpose of paying the principal of Bonds issued in serial form, commencing with the first business day of the month which is twelve months prior to the first principal payment date of such Bonds issued in serial form and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Sinking Fund Account. Monthly credits shall be made to the Sinking Fund Account for the purpose of providing for the retirement of the principal of Bonds of any series issued in term form, commencing with the first business day of the month which is twelve months prior to the first date upon with Bonds of any series issued in term form would be required to be redeemed and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Application of Moneys Credited to the Interest Account, Serial Bond Principal Account and Sinking Fund Account. The moneys on deposit in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and the Sinking Fund Account therein shall be used and applied solely to the payment of the interest on and the retirement of the principal of the Bonds and shall be so used and applied in accordance with the foregoing provisions. The moneys credited to said accounts shall be transferred by the Director of Finance, without further authorization or direction, to the respective paying agents for said Bonds and the coupons, if any, pertaining thereto, in such amounts and at such times as shall be necessary to pay the principal, premium, if any, and interest on said Bonds as the same become due and payable, whether upon their maturity or upon the redemption or the purchase thereof from the moneys credited to the Sinking Fund Account.

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

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.

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APPENDIX F

Form of Bond Counsel Opinion

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New York, NY 10022-2585
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212.940.8776 fax
www.kattenlaw.com

November 18, 2015

Ford N. Fuchigami
Director of Transportation
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

$244,260,000
State of Hawaii
Airports System Revenue Bonds

consisting of

$235,135,000 **Series 2015A** **(AMT)**	**$9,125,000** **Series 2015B** **(Non-AMT)**

Dear Mr. Fuchigami:

At the request of the State of Hawaii (the "State") acting through its Department of Transportation (the "Department"), we have acted as Bond Counsel in connection with the issuance of by the State of its (i) $235,135,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2015A (AMT) (the "Series 2015A Bonds") and (ii) $9,125,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2015B (Non-AMT) (the "Series 2015B Bonds" and together with the Series 2015A Bonds, the "Series 2015 Bonds").

The Series 2015A Bonds are dated November 18, 2015, are in the denomination of $5,000 or any integral multiple thereof, and mature on July 1 in each of the years and in the respective principal amounts set forth below, with the Series 2015A Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing July 1, 2016 at the rate per annum set opposite such year, as follows:

Maturity (July 1)	Amount	Interest Rate
2041	$ 70,865,000	5.000%
2045	162,585,000	5.000
2045	1,685,000	4.125

The Series 2015B Bonds are dated November 18, 2015, are in the denomination of $5,000 or any integral multiple thereof, and mature on July 1 in the year and in the principal amount set forth below, with the Series 2015B Bonds bearing interest payable semiannually each January 1 and July 1, commencing July 1, 2016 at the rate per annum, as follows:

Maturity (July 1)	**Amount**	**Interest Rate**
2045	$ 9,125,000	4.000%

The Series 2015 Bonds are subject to optional and sinking fund redemption by the State prior to the respective stated maturities thereof as set forth in the Certificate (as defined herein). The Series 2015 Bonds are transferable and exchangeable upon the terms and conditions set forth therein and have been authorized and issued pursuant to the laws of the State of Hawaii. The Series 2015 Bonds are being issued for the purpose of funding the costs of capital improvement projects at certain facilities of the Airports System of the State. The Series 2015 Bonds 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 Thirty-First Supplemental Certificate of the Director of the Department of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds, Series 2015A (AMT) and Series 2015B (Non-AMT), dated as of November 1, 2015 (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 Series 2015 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 of 1986 (the "Code") contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2015 Bonds. These requirements relate to, among other things, the use and investment of the proceeds of the Series 2015 Bonds, the periodic payment of certain amounts to the United States of America, and the use and tax ownership of any property financed or refinanced with proceeds of the Series 2015 Bonds. In the Tax Compliance Certificate dated the date hereof (the "Tax Certificate"), the Department has made certain certifications and representations and made certain covenants with respect to the Series 2015 Bonds in order to comply with these requirements. Our opinion expressly assumes and relies upon as being true, correct and complete, the certifications and representations set forth in the Tax Certificate.

In rendering our opinions set forth herein, we have also assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State or the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate, the Supplemental Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2015 Bonds to be included in gross income for federal income tax purposes under the Code.

The rights and obligations under the Series 2015 Bonds, the Certificate, the Supplemental Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

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

(1) The Series 2015 Bonds have been duly authorized and issued by the State and, constitute valid special obligations of the State payable solely from and secured solely by a lien upon and pledge of 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 Supplemental Certificate are valid in accordance with their terms.

(3) Under existing law, interest on the Series 2015 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the requirements of the Code, we are of the opinion that interest on the Series 2015 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes.

(4) We express no opinion as to the exclusion from gross income for federal income tax purposes of interest on any Series 2015A Bond for any period during which such Series 2015A Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of such Series 2015A Bond or a "related person" (as defined in Section 147(a) of the Code). In addition, we advise you that (i) interest on the Series 2015A Bonds is an item of tax preference for purposes of computing individual and corporate alternative minimum taxable income for purposes of the individual and corporate alternative minimum tax and (ii) interest on the Series 2015B Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income but is includible in corporate earnings and profits when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

(5) Interest on the Series 2015 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2015 Bonds or income therefrom.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Supplemental Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Series 2015 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Series 2015 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 Series 2015 Bonds concludes with their issuance, and we disclaim any obligation to update this letter after the date hereof.

Very truly yours,

CMS/CRD

APPENDIX G

Form of Continuing Disclosure Certificate

Dated November 18, 2015

$244,260,000
State of Hawaii
Airports System Revenue Bonds
$235,135,000 Series 2015A (AMT) and
$9,125,000 Series 2015B (Non-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 $235,135,000 State of Hawaii Airports System Revenue Bonds Series 2015A (AMT), and its $9,125,000 State of Hawaii Airports System Revenue Bonds, Series 2015B (Non-AMT) (collectively, the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Transportation of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to the Bond Certificate, the State covenants and agrees as follows:

Section 1. **Purpose of Disclosure Certificate**. This Disclosure Certificate is being executed and delivered by the State acting through the Director of Transportation for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. **Definitions**. In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the State acting through the Director of Transportation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean the Director of Transportation or any successor Dissemination Agent designated in writing by the State acting through the Director of Transportation and which has filed with the State a written acceptance of such designation.

"*Holder*" shall mean the person in whose name any Bond shall be registered.

"*Listed Events*" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http//:emma.msrb.org.

"*Participating Underwriters*" shall mean any original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule l5c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. **Provision of Annual Reports**. (a) The State acting through the Director of Transportation shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2016, provide to the MSRB an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the Department of Transportation, Airports Division may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 Business Days prior to said date, the State acting through the Director of Transportation shall provide the Annual Report to the Dissemination Agent (if other than the Director of Transportation). If the State acting through the Director of Transportation is unable to provide to the MSRB an Annual Report by the date required in 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 (if the Dissemination Agent is other than the Director of Transportation), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. **Contents of Annual Reports**. The Department of Transportation, Airports Division Annual Report shall contain or include by reference information of the type included in the final Official Statement (the "Official Statement") dated November __, 2015, relating to the Bonds as set forth under the subheadings "THE AIRPORTS SYSTEM" and "FINANCIAL INFORMATION – Net Revenues and Taxes and Debt Service Requirements, Revenues, Aeronautical Revenues, Non-Aeronautical Revenues Other Than Concession Fees, Airports System Expenses, Debt Service Coverage and Cash and Cash Equivalents."

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

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been available to the public on the MSRB's website. The State acting through the Department of Transportation shall clearly identify each such other document so included by reference.

Section 5. **Reporting of Significant Events**. (a) Pursuant to the provisions of this Section 5, the State acting through the Department of Transportation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults, 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 Certificates, or other material events affecting the tax status of the Certificates;

7. modifications to rights of Certificate holders, if material;

8. (A) bond calls, if material, and (B) tender offers;

9. defeasances;

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

11. rating changes;

12. 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) The Department shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event, (i) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (ii) in all events, file notice of such occurrence with the MSRB in electronic format.

Section 6. **Termination of Reporting Obligation**. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 7. **Dissemination Agent**. The State acting through the Department of Transportation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this

Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State acting through the Department of Transportation pursuant to this Disclosure Certificate.

Section 8. **Amendment; Waiver**. Notwithstanding any other provision of this Disclosure Certificate, the State acting through the Director of Transportation may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

The amendment or waiver either: (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or Waiver of a provision of this Disclosure Certificate, the State acting through the Director of Transportation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State acting through the Director of Transportation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. **Additional Information**. Nothing in this Disclosure Certificate shall be deemed to prevent the State acting through the Department of Transportation from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State acting through the Department of Transportation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State acting through the Department of Transportation shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. **Default**. In the event of a failure of the State acting through the Department of Transportation to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State acting through the Department of Transportation to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State acting through the Department of Transportation to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. **Governing Law**. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By ______________________________

Director of Transportation
State of Hawaii

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Hawaii, Department of Transportation
Names of Bond Issues:	State of Hawaii Airports System Revenue Bonds Series 2015A (AMT) and Series 2015B (Non-AMT)
Date of Issuance:	November 18, 2015

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 November 18, 2015. [The State anticipates that the Annual Report will be filed by ___________.]

Dates:

STATE OF HAWAII
Acting through the Department of Transportation

By ____
Name: ____________________________________
Title: _____________________________________

APPENDIX H

Book-Entry Only System

General. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2015 Bonds. The Series 2015 Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully registered Series 2015 Bond will be issued for each maturity of each issue of the Series 2015 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and ITS Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section17A 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 arrangement 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. The rules applicable to DTC and its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission.

Purchase of Ownership Interests. Purchases of Series 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Series 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate (for the purposes of the discussion under "Book-Entry System," a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Series 2015 Bonds representing their ownership interests in Series 2015 Bonds, except in the event that use of the Book-Entry System for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2015 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2015 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal of and interest payments on the Series 2015 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has no reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Series 2015 Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Director's Series 2015 Bonds are required to be printed and delivered.

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Series 2015 Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Series 2015 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices of the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

DTC and Book-Entry Information. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State.

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by the DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Series 2015 Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Series 2015 Bonds or (v) any other event or purpose.

STATE OF HAWAII • AIRPORTS SYSTEM REVENUE BONDS, SERIES 2015A (AMT) AND SERIES 2015B (NON-AMT)

DEPARTMENT OF TRANSPORTATION

STATE OF HAWAII

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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