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

The delivery of the Series 2020 Bonds is subject to the opinion of Katten Muchin Rosenman LLP, Bond Counsel, to the effect that under existing law, interest on the Tax-Exempt 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 Tax-Exempt 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 2020A Bonds is an item of tax preference for purposes of computing alternative minimum tax; (ii) interest on the Series 2020C Bonds and the Series 2020D Bonds is not an item of tax preference for purposes of computing alternative minimum tax; and (iii) interest on the Series 2020A Bonds and the Series 2020D Bonds is not excludable from the gross income of owners who are "substantial users" of the facilities financed or refinanced thereby. Interest on the Series 2020B Bonds and the Series 2020E Bonds is not excludable from the gross income of owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under the existing statutes, interest on the Series 2020 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 2020 Bonds or income therefrom. See "TAX MATTERS" herein.

$582,490,000
STATE OF HAWAII
Airports System Revenue Bonds
consisting of

$113,140,000	**$165,885,000**	**$20,295,000**	**$184,855,000**	**$98,315,000**
Series 2020A	**Series 2020B**	**Series 2020C**	**Refunding Series 2020D**	**Refunding Series 2020E**
(AMT)	**(Taxable)**	**(Non-AMT)**	**(Non-AMT)**	**(Taxable)**

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

The $113,140,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020A (AMT) (the "*Series 2020A Bonds*"), $165,885,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020B (Taxable) (the "*Series 2020B Bonds*"), $20,295,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020C (Non-AMT) (the "*Series 2020C Bonds*"), $184,855,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2020D (Non-AMT) (the "*Series 2020D Bonds*" and, collectively with the Series 2020A Bonds and the Series 2020C Bonds, the "*Tax-Exempt Bonds*") and $98,315,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2020E (Taxable) (the "*Series 2020E Bonds*" and, together with the Series 2020B Bonds, the "*Taxable Bonds*" and, the Taxable Bonds, together with the Tax-Exempt Bonds, the "*Series 2020 Bonds*") are being issued for the purpose of funding the costs of capital improvement projects at certain facilities of the Airports System (defined herein) and refunding certain outstanding Airports System Revenue Bonds of the State of Hawaii (the "*State*"). The Series 2020 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 pages for maturities, principal amounts, interest rates, and yields of the Series 2020 Bonds. The Series 2020 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 January 1, 2021. The Series 2020 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 2020 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 2020 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 2020 Bonds will initially be made in denominations of $5,000 or integral multiples thereof. Beneficial owners of the Series 2020 Bonds will not receive physical delivery of Series 2020 Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2020 Bonds. So long as DTC or its nominee is the registered owner of the Series 2020 Bonds, payment of the principal of, and premium, if any, and interest on, the Series 2020 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 2020 BONDS – Book-Entry Only System**" herein).

The Series 2020 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 2020 Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Series 2020 Bonds.

All purchasers of the Series 2020 Bonds, by their purchase of the Series 2020 Bonds and acceptance of the delivery thereof, will be deemed to have consented to the certain amendments to the Certificate as described more fully herein. See "**DESCRIPTION OF THE SERIES 2020 BONDS – Amendment to the Certificate**" herein.

The Series 2020 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, Dentons US LLP, Honolulu, Hawaii. It is expected that the Series 2020 Bonds in definitive form will be available for delivery on or about October 21, 2020.

Morgan Stanley **BofA Securities**

Dated: October 7, 2020

$113,140,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2020A
(AMT)

Year (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (419794)†
2030	$2,920,000	5.000%	1.820%	128.142%	C26
2031	17,110,000	5.000	1.960	126.718C	C34
2032	17,965,000	5.000	2.090	125.413C	C42
2033	18,865,000	5.000	2.200	124.321C	C59
2034	19,805,000	5.000	2.300	123.339C	C67
2035	20,795,000	4.000	2.550	112.381C	C75
2036	1,330,000	4.000	2.620	111.743C	C83
2037	1,385,000	4.000	2.660	111.381C	C91
2038	1,440,000	4.000	2.700	111.020C	D25
2039	1,500,000	4.000	2.740	110.660C	D33
2040	1,555,000	4.000	2.780	110.301C	D41

$8,470,000 4.000% Term Bonds due July 1, 2045, Priced: 108.881C to yield 2.940%, CUSIP† 419794D58

$165,885,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2020B
(TAXABLE)

$165,885,000 3.484% Term Bonds due July 1, 2050, Priced: 100.000 to yield 3.484%, CUSIP† 419794F49

$20,295,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2020C
(NON-AMT)

$20,295,000 5.000% Serial Bonds due July 1, 2050, Priced: 121.017C to yield 2.540%, CUSIP† 419794D66

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C Calculated to July 1, 2030 optional redemption date.

$184,855,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
REFUNDING SERIES 2020D
(NON-AMT)

Year (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (419794)†
2027	$1,725,000	5.000%	1.050%	125.469%	D74
2028	1,715,000	5.000	1.230	127.595	D82
2029	1,980,000	5.000	1.420	129.182	D90
2030	1,340,000	5.000	1.570	130.731	E24
2031	1,235,000	5.000	1.710	129.273[C]	E32
2032	1,300,000	5.000	1.840	127.937[C]	E40
2033	1,365,000	5.000	1.970	126.617[C]	E57
2034	1,430,000	5.000	2.100	125.314[C]	E65
2035	31,900,000	4.000	2.350	114.227[C]	E73
2036	33,170,000	4.000	2.400	113.762[C]	E81
2037	34,505,000	4.000	2.440	113.392[C]	E99
2038	35,880,000	4.000	2.480	113.023[C]	F23
2039	37,310,000	4.000	2.520	112.656[C]	F31

$98,315,000
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
REFUNDING SERIES 2020E
(TAXABLE)

Year (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (419794) †
2025	$18,300,000	1.392%	1.392%	100.000%	F56
2026	16,950,000	1.706	1.706	100.000	F64
2027	17,120,000	1.806	1.806	100.000	F72
2028	15,940,000	2.130	2.130	100.000	F80
2029	16,280,000	2.230	2.230	100.000	F98
2030	13,725,000	2.330	2.330	100.000	G22

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C Calculated to July 1, 2030 optional redemption date.

INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

REFERENCES IN THIS SECTION TO THE "ISSUER" MEAN THE STATE OF HAWAII AND REFERENCES TO "SERIES 2020 BONDS" OR "SECURITIES" MEAN THE STATE OF HAWAII AIRPORTS SYSTEM REVENUE BONDS, SERIES 2020A (AMT), SERIES 2020B (TAXABLE), SERIES 2020C (NON-AMT), REFUNDING SERIES 2020D (NON-AMT) AND REFUNDING SERIES 2020E (TAXABLE).

THE INFORMATION UNDER THIS CAPTION HAS BEEN FURNISHED BY THE UNDERWRITERS, AND THE ISSUER MAKES NO REPRESENTATION AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF THE INFORMATION UNDER THIS CAPTION.

COMPLIANCE WITH ANY RULES OR RESTRICTIONS OF ANY JURISDICTION RELATING TO THE OFFERING, SOLICITATION AND/OR SALE OF THE SERIES 2020 BONDS IS THE RESPONSIBILITY OF THE UNDERWRITERS, AND THE ISSUER SHALL NOT HAVE ANY RESPONSIBILITY OR LIABILITY IN CONNECTION THEREWITH. NO ACTION HAS BEEN TAKEN BY THE ISSUER THAT WOULD PERMIT THE OFFERING OR SALE OF THE SERIES 2020 BONDS, OR POSSESSION OR DISTRIBUTION OF THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO THE SERIES 2020 BONDS, OR ANY INFORMATION RELATING TO THE PRICING OF THE SERIES 2020 BONDS, IN ANY NON-U.S. JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED.

MINIMUM UNIT SALES

THE SERIES 2020 BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE TAXABLE BOND OF $5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 30 UNITS (BEING 30 SERIES 2020 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF $150,000).

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE SECURITIES TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA ("EEA") WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 1(4) REGULATION (EU) 2017/1129 (THE "PROSPECTUS REGULATION") FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE SECURITIES. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER TO ANY PERSON LOCATED WITHIN A MEMBER STATE OF THE EEA OF THE SECURITIES SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PRODUCE A PROSPECTUS OR SUPPLEMENT FOR SUCH AN OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF SECURITIES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE SECURITIES CONTEMPLATED IN THIS OFFICIAL STATEMENT.

THE OFFER OF ANY SECURITIES WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN ANY MEMBER STATE OF THE EEA, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A "QUALIFIED INVESTOR" AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN "QUALIFIED INVESTORS" AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION); OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 1(4) OF THE PROSPECTUS REGULATION, SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER FOR ANY SUCH OFFER; PROVIDED THAT NO SUCH OFFER OF THE SECURITIES SHALL REQUIRE THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS REGULATION OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 23 OF THE PROSPECTUS REGULATION.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN "OFFER OF SECURITIES TO THE PUBLIC" IN RELATION TO THE SECURITIES IN ANY MEMBER STATE OF THE EEA MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE SECURITIES.

EACH SUBSCRIBER FOR OR PURCHASER OF THE SERIES 2020 BONDS IN THE OFFERING LOCATED WITHIN A MEMBER STATE WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A "QUALIFIED INVESTOR" AS DEFINED IN THE PROSPECTUS REGULATION. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – THE SERIES 2020 BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR IN THE UNITED KINGDOM. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, "MIFID II"); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE "INSURANCE DISTRIBUTION DIRECTIVE"), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (THE "PRIIPS REGULATION") FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA OR IN THE UNITED KINGDOM HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR IN THE UNITED KINGDOM MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "FINANCIAL PROMOTION ORDER"), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SERIES 2020 BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

THE SERIES 2020 BONDS MAY NOT BE PUBLICLY OFFERED, DIRECTLY OR INDIRECTLY, IN SWITZERLAND WITHIN THE MEANING OF THE SWISS FINANCIAL SERVICES ACT (THE "FINSA"), AND NO APPLICATION HAS BEEN OR WILL BE MADE TO ADMIT THE SERIES 2020 BONDS TO TRADING ON ANY TRADING VENUE (EXCHANGE OR MULTILATERAL TRADING FACILITY) IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE SERIES 2020 BONDS (1) CONSTITUTES A PROSPECTUS PURSUANT TO THE FINSA OR (2) HAS BEEN OR WILL BE FILED WITH OR APPROVED BY A SWISS

REVIEW BODY PURSUANT TO ARTICLE 52 OF THE FINSA, AND NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE SERIES 2020 BONDS MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

WARNING. THE CONTENTS OF THIS OFFICIAL STATEMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE SERIES 2020 BONDS. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THIS DOCUMENT HAS NOT BEEN, AND WILL NOT BE, REGISTERED AS A PROSPECTUS IN HONG KONG NOR HAS IT BEEN APPROVED BY THE SECURITIES AND FUTURES COMMISSION OF HONG KONG PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) ("SFO"). THE SERIES 2020 BONDS MAY NOT BE OFFERED OR SOLD IN HONG KONG BY MEANS OF THIS DOCUMENT OR ANY OTHER DOCUMENT, AND THIS DOCUMENT MUST NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN HONG KONG, OTHER THAN TO `PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE THEREUNDER. IN ADDITION, NO PERSON MAY ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE SERIES 2020 BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO SERIES 2020 BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY (A) TO PERSONS OUTSIDE HONG KONG, OR (B) TO `PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE THEREUNDER.

NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

THE SERIES 2020 BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ARTICLE 4, PARAGRAPH 1 OF THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO. 25 OF 1948, AS AMENDED THE "FIEA"). IN RELIANCE UPON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS SINCE THE OFFERING CONSTITUTES THE PRIVATE PLACEMENT TO QUALIFIED INSTITUTIONAL INVESTORS ONLY AS PROVIDED FOR IN "I" OF ARTICLE 2, PARAGRAPH 3, ITEM 2 OF THE FIEA. A TRANSFEROR OF THE SERIES 2020 BONDS SHALL NOT TRANSFER OR RESELL THEM EXCEPT WHERE A TRANSFEREE IS A QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED UNDER ARTICLE 10 OF THE CABINET OFFICE ORDINANCE CONCERNING DEFINITIONS PROVIDED IN ARTICLE 2 OF THE FIEA (THE MINISTRY OF FINANCE ORDINANCE NO. 14 OF 1993, AS AMENDED).

NOTICE TO PROSPECTIVE INVESTORS IN SOUTH KOREA

THIS OFFICIAL STATEMENT IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSIDERED AS, A PUBLIC OFFERING OF SECURITIES IN SOUTH KOREA FOR THE PURPOSES OF THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. THE SERIES 2020 BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA AND THE DECREES AND REGULATIONS THEREUNDER (THE "FSCMA"), AND THE SERIES 2020 BONDS HAVE BEEN AND WILL BE OFFERED IN KOREA AS A PRIVATE PLACEMENT UNDER THE FSCMA. NONE OF THE SERIES 2020 BONDS MAY BE OFFERED, SOLD OR DELIVERED DIRECTLY OR INDIRECTLY, OR OFFERED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF KOREA, INCLUDING THE FSCMA AND THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE DECREES AND REGULATIONS THEREUNDER (THE "FETL"). FURTHERMORE, THE

PURCHASER OF THE SERIES 2020 BONDS SHALL COMPLY WITH ALL APPLICABLE REGULATORY REQUIREMENTS (INCLUDING BUT NOT LIMITED TO REQUIREMENTS UNDER THE FETL) IN CONNECTION WITH THE PURCHASE OF THE SERIES 2020 BONDS.

NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE SERIES 2020 BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN, THE REPUBLIC OF CHINA (“TAIWAN”) AND/OR OTHER REGULATORY AUTHORITY OR AGENCY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS OF TAIWAN AND MAY NOT BE ISSUED, OFFERED, OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN OR RELEVANT LAWS AND REGULATIONS THAT REQUIRES A REGISTRATION, FILING OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION AND/OR OTHER REGULATORY AUTHORITY OR AGENCY OF TAIWAN. THE SERIES 2020 BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE OUTSIDE TAIWAN BY INVESTORS RESIDING IN TAIWAN DIRECTLY, BUT MAY NOT BE OFFERED OR SOLD IN TAIWAN EXCEPT TO QUALIFIED INVESTORS VIA A TAIWAN LICENSED INTERMEDIARY TO THE EXTENT PERMITTED BY APPLICABLE LAWS OR REGULATIONS.

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REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters to give any information or to make any representation with respect to the Series 2020 Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement is neither an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of the Series 2020 Bonds offered hereby, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein have been furnished by the State and include information obtained by the State from DTC, the Airport Consultant and other sources that are deemed to be reliable. Such information and expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change since the date hereof. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Series 2020 Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as 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, fairness or completeness of such information.

This Official Statement should be considered in its entirety. All references herein to laws, agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Series 2020 Bonds are further qualified by reference to the information with respect thereto contained in the Certificate (including the Thirty-Third Supplemental Certificate). Copies of the Certificate are available for inspection at the offices of the State and the Paying Agent. The information contained herein is provided as of the date hereof and is subject to change.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2020 BONDS, THE UNDERWRITERS MAY OVER–ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2020 BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2020 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

The Series 2020 Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, nor has the Certificate been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts.

In making an investment decision, investors must rely on their own examination of the Airports System and terms of the offering, including the merits and risks involved. Neither the Securities and Exchange Commission, any state securities commission nor any other federal or state regulatory authority has approved or disapproved of the Series 2020 Bonds or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offense.

References to web site addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into and are not a part of this Official Statement.

CUSIP numbers are included in this Official Statement for the convenience of the holders and potential holders of the Series 2020 Bonds. No assurance can be given that the CUSIP numbers will remain the same after the date of issuance and delivery of the Series 2020 Bonds.

Cautionary Note Regarding Forward-Looking Statements

This Official Statement contains disclosures which contain *"forward–looking statements"* within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended. Forward–looking statements include all statements that do not relate solely to historical or current facts, and can be identified by use of words like *"believe," "intend," "expect," "project," "forecast," "estimate," "anticipate," "plan," "continue,"* or similar expressions or by the use of future or conditional verbs such as "*may*," "*will*," "*should*," "*would,*" or "*could*." These forward–looking statements are based on the current plans and expectations of the State and the Airport Consultant and are subject to a number of known and unknown uncertainties and risks, many of which are beyond their control and/or difficult or impossible to predict, that could significantly affect current plans and expectations and the Airports System's future financial position, including but not limited to changes in general economic conditions, demographic trends and State and federal funding of programs which benefit the Airports System. As a consequence, current plans, anticipated actions and projected or future financial positions and liquidity may differ materially from those expressed in (or implied by) any forward–looking statements made by the State or the Airport Consultant herein based on a number of factors, including, among others, the amount of Revenues and Aviation Fuel Taxes, cost reduction, capital markets condition, future long-term and short-term borrowings, the financial condition of the State and/or the Airports System, potential legislative or other actions, pandemics, including but not limited to COVID-19, epidemics and natural disasters and other risks and uncertainties discussed under the captions "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM**" and "**CERTAIN INVESTMENT CONSIDERATIONS**." Such forward-looking statements include, but are not limited to, certain statements contained in Appendix A – Report of the Airport Consultant attached hereto. The Report of the Airport Consultant should be read in its entirety, including the notes and assumptions set forth therein.

Investors are cautioned not to place undue reliance on such forward–looking statements when evaluating the information presented in this Official Statement. Forward-looking statements speak only as of the date they are made and, except as set forth in this Official Statement under the caption "**CONTINUING DISCLOSURE**" and Appendix G – Form of Continuing Disclosure Certificate the State does not have any obligation, and does not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date hereof, whether as a result of new information, future events or otherwise.

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STATE OF HAWAII

David Y. Ige, Governor

Josh Green, Lieutenant Governor

DEPARTMENT OF TRANSPORTATION

Director	Jade Butay
Deputy Director, Airports	Ross M. Higashi
Deputy Director, Harbors	Derek J. Chow
Deputy Director, Highways	Edwin H. Sniffen
Deputy Director, Administration	Lynn A.S. Araki-Regan

SPECIAL SERVICES

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

Airport Consultant
ICF SH&E, Inc.
San Francisco, California

Bond Counsel
Katten Muchin Rosenman LLP
New York, New York

Financial Advisor
PFM Financial Advisors LLC
San Francisco, California

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OFFICIAL STATEMENT

$582,490,000
STATE OF HAWAII
Airports System Revenue Bonds

consisting of

$113,140,000 Series 2020A (AMT)	**$165,885,000 Series 2020B (Taxable)**	**$20,295,000 Series 2020C (Non-AMT)**	**$184,855,000 Refunding Series 2020D (Non-AMT)**	**$98,315,000 Refunding Series 2020E (Taxable)**

INTRODUCTION

This Official Statement, which includes the cover page, the inside cover pages and appendices (the "*Official Statement*"), provides information regarding the sale and issuance of the $113,140,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020A (AMT) (the "*Series 2020A Bonds*"), $165,885,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020B (Taxable) (the "*Series 2020B Bonds*"), $20,295,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020C (Non-AMT) (the "*Series 2020C Bonds*"), $184,855,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2020D (Non-AMT) (the "*Series 2020D Bonds*" and, collectively with the Series 2020A Bonds and the Series 2020C Bonds, the "*Tax-Exempt Bonds*") and $98,315,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2020E (Taxable) (the "*Series 2020E Bonds*" and, together with the Series 2020B Bonds, the "*Taxable Bonds*" and, the Taxable Bonds, together with the Tax-Exempt Bonds, the "*Series 2020 Bonds*"). See "**DESCRIPTION OF THE SERIES 2020 BONDS**" below for a description of the principal terms of the Series 2020 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 in Appendix D – Certain Definitions in the Certificate and in 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 2020 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-Third Supplemental Certificate, dated as of October 1, 2020 (the "*Thirty-Third Supplemental Certificate*"). Pursuant to the Certificate, the State has previously issued 37 Series of State of Hawaii Airports System Revenue Bonds (the "*Prior Bonds*"). As of September 1, 2020, approximately $1,252.4 million of the Prior Bonds were outstanding. The outstanding Prior Bonds, the Series 2020 Bonds and any additional parity bonds issued by the State under the Certificate (the "*Additional Bonds*") are collectively referred to herein as the "*Bonds*."

The Series 2020 Bonds are being issued: (i) to pay the cost of capital improvement projects at certain facilities within the State's airports system (the "*Airports System*"), (ii) to pay capitalized interest on the Series 2020A Bonds, the Series 2020B Bonds and the Series 2020C Bonds, (iii) to fund a deposit into the Debt Service Reserve Account, (iv) to provide for the current refunding of the outstanding State of Hawaii Airports System Revenue Bonds, Series 2010A (Non-AMT) (the "*Refunded Series 2010 Bonds*"), (v) to provide for the advanced refunding of the State of Hawaii Airports System Revenue Bonds, Refunding Series 2011 (AMT) maturing on July 1, 2022 and $15,000,000 of the outstanding $26,955,000 aggregate principal amount maturing July 1, 2024, bearing interest at the rate of 5.000% per annum (the "*Refunded Series 2011 Bonds*"); (vi) to provide for the payment of principal and interest on the State of Hawaii Airports System Revenue Bonds, Refunding Series 2011 (AMT) maturing on July 1, 2021 (the "*Series 2011 Bonds maturing July 1, 2021*" and, collectively with the Refunded Series 2010 Bonds and the Refunded Series 2011 Bonds, the "*Refunded Bonds*") and (vii) to pay certain costs of issuance relating to the Series 2020 Bonds. See "**DESCRIPTION OF THE SERIES 2020 BONDS – Sources and Uses of Funds**" below.

The Bonds, including the Series 2020 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 2020 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 2020 Bonds. All Bonds, including the Series 2020 Bonds, are and will be secured equally and ratably by the Revenues and Aviation Fuel Taxes**. See "**SECURITY FOR THE BONDS**" and "**FINANCIAL INFORMATION**" below 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 Daniel K. Inouye International Airport ("*Daniel K. Inouye International*" or "*HNL*") in Honolulu, Kahului Airport ("*Kahului*") on Maui, Hilo International Airport ("*Hilo International*") and Ellison Onizuka Kona International Airport at Keahole ("*Kona*") on the Island of Hawaii, and Lihue Airport ("*Lihue Airport*") on Kauai. HNL is the State's principal airport. See "**THE AIRPORTS SYSTEM**" below. 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**" below. 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**," and "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM - Summary of Actions Taken in Response to COVID-19**" below and Appendix A – Report of the Airport Consultant, 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; summaries of the Series 2020 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 (defined below) 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 2020 Bonds are qualified by the definitive forms of such Certificate and the Series 2020 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 Airport Consultant on the Proposed Issuance of State of Hawaii, Airports System Revenue Bonds, Series 2020, dated September 29, 2020 (the "*Report of the Airport Consultant*"), prepared by ICF SH&E, Inc. (the "*Airport Consultant*"); Appendix B – Audited Financial Statements; 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 – Provision for Book-Entry Only System and Global Clearance Procedures.

COVID-19

The worldwide outbreak of a highly contagious, upper respiratory tract illness caused by a novel strain of coronavirus ("*COVID-19*") has caused significant disruptions to domestic and international air travel, including both passenger and cargo operations, and has had significant negative and adverse effects on the economies of the State, the nation, and the world. Most of the information in this Official Statement that describes historical Airports System revenues, financial affairs, operations and general State economic conditions predates the COVID-19 pandemic or was prepared before the outbreak of COVID-19, and only limited subsequent data is available. All of this information should be considered in light of the negative and adverse impacts from COVID-19 subsequent to the dates of such data. The effects of COVID-19 and actions taken at State and national levels to halt its spread have had, and are expected to continue to have, a significant adverse effect on the revenues, financial condition and operations of the Airports System and on the economy of the State. COVID-19 developments, and associated governmental and regulatory responses, are rapidly changing and cannot be predicted with any assurance. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM**" below for a more detailed discussion on the impact of COVID-19 on the Airports System's revenues, financial condition and operations.

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 Airport Consultant, 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 – Audited Financial Statements of this Official Statement relates to the Airports Division's historical financial information, and procedures have not been performed on the financial information subsequent to the date of their report. It does not extend to the prospective financial information and should not be read to do so.

DESCRIPTION OF THE SERIES 2020 BONDS

General Provisions Regarding the Series 2020 Bonds

The Series 2020 Bonds will be issued as fully registered bonds in the aggregate principal amount as set forth on the 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 pages, subject to redemption prior to maturity as described below. Ownership interests in the Series 2020 Bonds will be available in denominations of $5,000 and integral multiples thereof. Interest on the Series 2020 Bonds will be payable on January 1, 2021, and on each July 1 and January 1 thereafter.

The Depository Trust Company ("*DTC*") will act as securities depository for the Series 2020 Bonds. The Series 2020 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's nominee name) or such other name as may be requested by an authorized representative of DTC. So long as Cede & Co. is the registered owner of the Series 2020 Bonds, all payments of principal, premium, if any, and interest on the Series 2020 Bonds are payable by wire transfer by the Paying Agent 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 "**DESCRIPTION OF THE SERIES 2020 BONDS – Book-Entry Only System**" below and Appendix H – Provision for Book-Entry Only System and Global Clearance Procedures.

Beneficial interests in the Series 2020 Bonds may be held through DTC, Clearstream Banking, S.A. or Euroclear Bank SA/NV as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system. See Appendix H – Provision for Book-Entry Only System and Global Clearance Procedures for a description of DTC, Clearstream Banking, S.A., Euroclear Bank SA/NV as operator of the Euroclear System, and certain of their responsibilities, and the provisions for registration and registration of transfer of the Series 2020 Bonds if the book-entry-only system of registration is discontinued.

Redemption

Optional Redemption. The Series 2020A Bonds, the Series 2020B Bonds, the Series 2020C Bonds and the Series 2020D Bonds maturing on and after July 1, 2031 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, 2030 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.

Make-Whole Optional Redemption. The Taxable Bonds will be subject to redemption at the option of the State, in the order of maturity as directed by the State, at any time prior to and excluding July 1, 2030, in whole or in part, by lot within any single maturity, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the Taxable Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Taxable Bonds are to be redeemed, discounted to the date on which such Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Comparable Treasury Yield (defined below) plus (i) 30 basis points in the case of the Series 2020B Bonds and (ii) 25 basis points in the case of the Series 2020E Bonds;

plus, in each case, accrued interest on such Taxable Bonds to be redeemed to the redemption date.

For purposes of the foregoing, the following terms have the following meanings:

"Calculation Agent" means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities in the United States and designated by the State (which may be one of the institutions that served as an underwriter for the Series 2020 Bonds).

"Comparable Treasury Issue" means the United States Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Taxable Bonds being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Taxable Bonds being redeemed.

"Comparable Treasury Price" means, with respect to any date on which a Taxable Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time on a date selected by the Calculation Agent which is not less than three business days and not more than 20 business days preceding the date fixed for redemption.

"Comparable Treasury Yield" means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Taxable Bonds being redeemed. The Comparable Treasury Yield will be determined no sooner than the third business day nor earlier than the twentieth calendar day 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 Taxable Bonds being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable 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 Taxable Bonds being redeemed; and (ii) closest to and less than the remaining term to maturity of the Taxable Bonds 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. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

"Reference Treasury Dealer" means a primary dealer of United States Government securities in the United States (which may be one of the institutions that served as an underwriter for the Series 2020 Bonds) appointed by the State and reasonably acceptable to the Calculation Agent.

Sinking Fund Account Redemption. The Series 2020A Bonds maturing July 1, 2045 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 set forth below:

$8,470,000
Series 2020A Bonds
Maturing July 1, 2045

Year	Principal Amount
2041	$1,610,000
2042	1,675,000
2043	1,745,000
2044	1,815,000
2045*	1,625,000

*Stated maturity.

The Series 2020B Bonds maturing July 1, 2050 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:

$165,885,000
Series 2020B Bonds
Maturing July 1, 2050

Year	Principal Amount
2045	$265,000
2046	18,960,000
2047	19,620,000
2048	20,305,000
2049	62,425,000
2050*	44,310,000

*Stated maturity.

Notice of Redemption. In the event of redemption of the Series 2020 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 2020 Bond in whose name the Series 2020 Bond is registered in the books of registry. No exchanges or transfers of the Series 2020 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 2020 Bonds, the Department shall cause such notice to be provided to Moody's Investors Service, S&P Global Ratings and Fitch Inc. and to major securities depositories and bond information services. See "**DESCRIPTION OF THE SERIES 2020 BONDS – Book-Entry Only System**" below.

Selection of Series 2020 Bonds for Redemption. If less than all of a maturity of the Series 2020 Bonds is to be redeemed, the Series 2020 Bonds of such maturity to be redeemed will be selected by lot. See "**DESCRIPTION OF THE SERIES 2020 BONDS – Book-Entry Only System**" below for a description of DTC's practices.

Effect of Redemption. If a Series 2020 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 2020 Bond are held for such purpose by U.S. Bank National Association, Seattle, Washington, as the Paying Agent and Registrar, such Series 2020 Bond so called for redemption shall become due and payable, and interest on such Series 2020 Bond shall cease to accrue on the redemption date designated in such notice.

Upon surrender of any Series 2020 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 2020 Bond or Series 2020 Bonds representing the unredeemed principal amount of the Series 2020 Bond surrendered.

Sources and Uses of Funds

The following table sets forth the sources and uses of the proceeds of the Series 2020 Bonds:

SOURCES	Series 2020A Bonds	Series 2020B Bonds	Series 2020C Bonds	Series 2020D Bonds	Series 2020E Bonds	Total
Par Amount	$113,140,000.00	$165,885,000.00	$20,295,000.00	$184,855,000.00	$98,315,000.00	$582,490,000.00
Premium	23,288,514.20	-	4,265,400.15	26,470,992.30	-	54,024,906.65
Other Available Money	-	-	-	3,466,065.00	-	3,466,065.00
Total Sources	$136,428,514.20	$165,885,000.00	$24,560,400.15	$214,792,057.30	$98,315,000.00	$639,980,971.65
USES:						
Deposit to Project Fund	$127,560,007.41	$155,906,675.74	$23,158,881.18	-	-	$306,625,564.33
Deposit to Escrow Fund	-	-	-	$212,170,485.38	$97,099,131.66	309,269,617.04
Deposit to Interest Account[(1)]	7,190,695.29	7,852,641.99	1,098,001.22	-	-	16,141,338.50
Deposit to Debt Service Reserve Fund	1,069,341.99	1,300,225.23	192,507.17	1,656,396.83	770,604.00	4,989,075.22
Issuance Expenses[(2)]	608,469.51	825,457.04	111,010.58	965,175.09	445,264.34	2,955,376.56
Total Uses	$136,428,514.20	$165,885,000.00	$24,560,400.15	$214,792,057.30	$98,315,000.00	$639,980,971.65

[(1)] To pay interest on the Series 2020A Bonds, the Series 2020B Bonds and the Series 2020C Bonds through July 1, 2023.
[(2)] Includes underwriters' discount, fees and other costs of issuance.

Plan of Refunding

Pursuant to the Certificate, a portion of the proceeds of the sale of the Series 2020D Bonds and the Series 2020E Bonds, together with other available money, will be deposited with U.S. Bank National Association, as escrow agent (the "*Escrow Agent*"), in an escrow fund (the "*Escrow Fund*") held by the Escrow Agent pursuant to an escrow deposit agreement (the "*Escrow Deposit Agreement*"), to be dated as of the date of issuance of the Series 2020 Bonds, by and between the Department and the Escrow Agent, to be applied to the redemption of the Refunded Series 2010 Bonds and the Refunded Series 2011 Bonds and to the payment of the principal of, and interest on, the Series 2011 Bonds maturing July 1, 2021. The following table sets forth the schedule of Refunded Bonds.

Schedule of Refunded Bonds

Series	Maturity Date	Amount Outstanding ($)	Amount to be Refunded ($)	Interest Rate (%)	Redemption Date	Redemption Price
Series 2010 Bonds	July 1, 2021	110,000	110,000	4.000	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2021	14,400,000	14,400,000	5.250	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2022	5,775,000	5,775,000	4.000	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2022	12,230,000	12,230,000	5.000	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2023	150,000	150,000	4.100	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2023	16,500,000	16,500,000	5.250	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2024	175,000	175,000	4.200	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2025	1,840,000	1,840,000	4.300	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2026	320,000	320,000	4.400	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2027	1,920,000	1,920,000	4.500	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2028	650,000	650,000	4.600	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2029	860,000	860,000	4.700	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2030	165,000	165,000	4.800	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2039	148,620,000	148,620,000	5.000	November 6, 2020	100.000
Series 2010 Bonds	July 1, 2039	19,355,000	19,355,000	5.100	November 6, 2020	100.000
Series 2011 Bonds	July 1, 2021	125,000	125,000	3.750	N/A	N/A
Series 2011 Bonds	July 1, 2021	32,170,000	32,170,000	5.000	N/A	N/A
Series 2011 Bonds	July 1, 2022	31,170,000	31,170,000	5.000	July 1, 2021	100.000
Series 2011 Bonds	July 1, 2024	26,955,000	15,000,000	5.000	July 1, 2021	100.000

Book-Entry Only System

The Series 2020 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 2020 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 2020 Bonds, the Series 2020 Bonds will be exchangeable for other fully registered certificated Series 2020 Bonds of the same series in any authorized denomination, maturity and interest rate. See Appendix H – Provision for Book-Entry Only System and Global Clearance Procedures. 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 Series 2020 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 2020 Bonds, payment of interest will be made by wire transfer as directed by such Holder. Payment of principal of the Series 2020 Bonds will be made upon presentation and surrender of such Series 2020 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 SERIES 2020 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 SERIES 2020 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 SERIES 2020 BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2020 BONDS; OR (vi) ANY OTHER MATTER RELATING TO DTC OR THE BOOK-ENTRY ONLY SYSTEM.

Transfer of Series 2020 Bonds

So long as Cede & Co., as nominee for DTC (or other nominee of DTC), is the Bondholder of record of the Series 2020 Bonds, beneficial ownership interests in the Series 2020 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 2020 Bond certificates will be delivered to the Beneficial Owners as described in the Certificate. Thereafter, the Series 2020 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 2020 Bonds of the same maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring Series 2020 Bonds is exercised, the Department shall execute and authenticate and deliver the Series 2020 Bonds in accordance with the provisions of the Certificate. For every such exchange or transfer of Series 2020 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-Third 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-Third Supplemental Certificate provides the terms of the Series 2020 Bonds including the principal amounts, the interest rates, the maturities, the redemption provisions and the covenants of the Department. The Series 2020 Bonds are being issued pursuant to the Certificate, the Thirty-Third 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.

Amendment to the Certificate

As a condition to the purchase of any Series 2020 Bond, each purchaser of a Series 2020 Bond, by his or her acceptance thereof, will consent to the proposed amendment contained in the Thirty-Third Supplemental Certificate and waive any revocation rights relating to such consent. After delivery of the Series 2020 Bonds, holders representing approximately 38% of the total amount of Bonds outstanding at such time will have consented to the proposed amendment. The proposed amendment authorizes Supplemental Certificates to set an alternate methodology for the selection of Additional Bonds to be redeemed within a single maturity. The proposed amendment does not and will not impact the methodology for selection of redemption of the Series 2020 Bonds from that set forth under the subcaption "**Redemption – Selection of Series 2020 Bonds for Redemption**" above or for any of the previously issued and outstanding Prior Bonds.

SECURITY FOR THE BONDS

General

The Bonds, including the Series 2020 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 2020 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 by the State from the ownership by the State or operation and management by the Department of the Airports System, or the furnishing and supplying of services, facilities and commodities, and derived from rates, rentals, fees and charges fixed, imposed and collected 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 D – Certain Definitions in the Certificate and Appendix E – Summary of Certain Provisions of the Certificate, for complete definitions of Revenues and Aviation Fuel Taxes.

The Bonds, including the Series 2020 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 2020 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 2020 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 "**SECURITY FOR THE BONDS - Flow of Funds**"): (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.

See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM**" below for more information on the impact of COVID-19 on the Airports System's Revenues.

Flow of Funds

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

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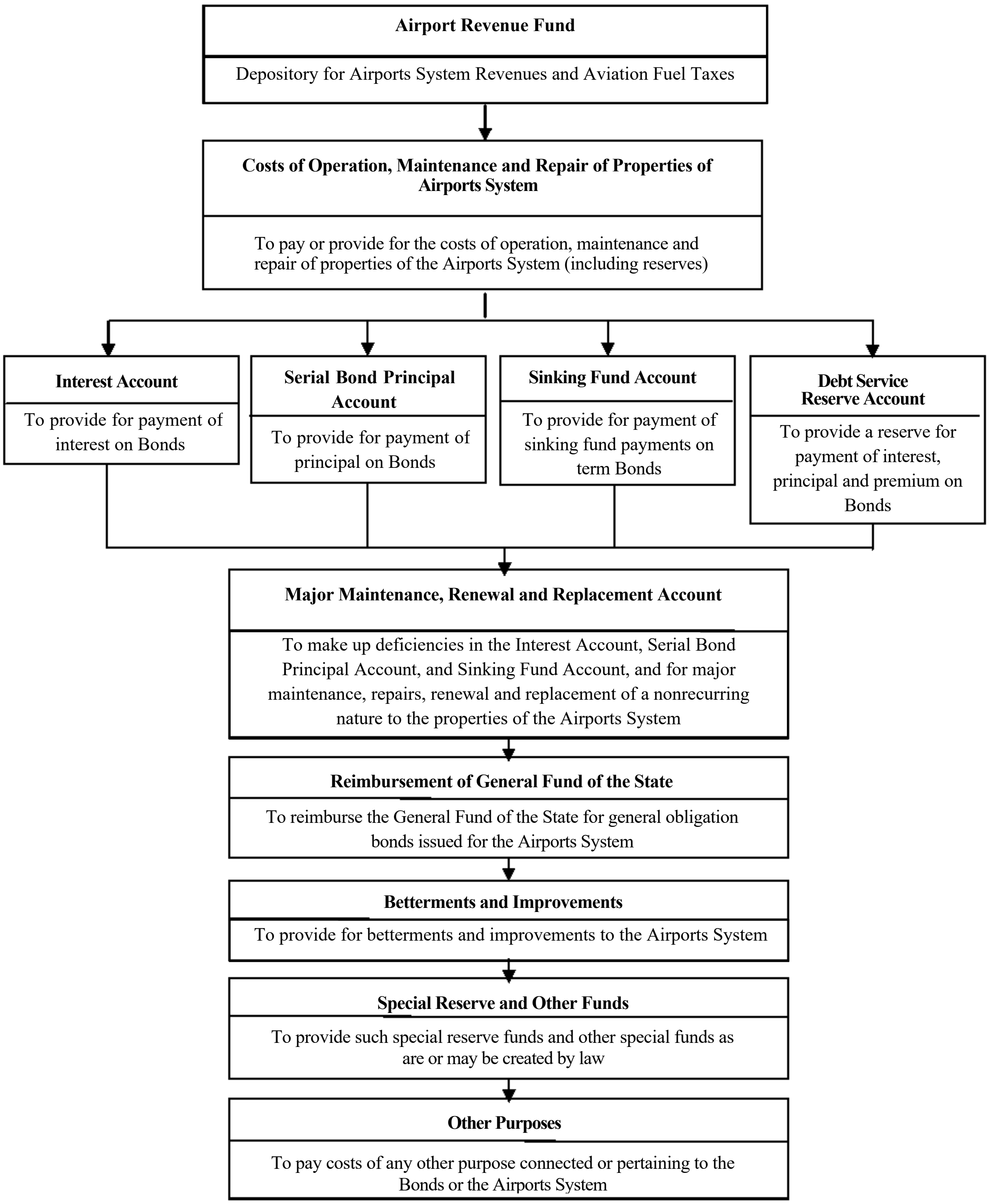

Source: Certificate of the Department of Transportation Providing for the issuance of State of Hawaii Airports System Revenue Bonds, dated May 1, 1969, as amended.

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, 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, maintenance and repair; (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 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 (the "*Annual Adjusted Debt Service Requirement*"). See Appendix E – Summary of Certain Provisions of the Certificate, for a definition of Net Revenues and Taxes.

For purposes of calculating the Annual Adjusted Debt Service Requirement, Available PFC Revenues includes only PFC proceeds actually deposited or irrevocably committed to be 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 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 equal to the Debt Service Reserve Requirement for the Bonds. As of the date of the issuance and delivery of the Series 2020 Bonds, there will be $107.5 million on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account created by the Certificate, an amount equal to the Debt Service Reserve Requirement for all Bonds then outstanding (including the Series 2020 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 in accordance with the Certificate, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the Bonds then outstanding (including the Series 2020 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. In connection with the issuance of Additional Bonds, including the Series 2020 Bonds, unless upon the delivery of such Additional Bonds there shall then already be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), there shall (1) be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein such amount, if any, of the proceeds of the sale of such Additional Bonds as the Department may determine, so that there shall then be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), or (2) if and to the extent there shall not be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein proceeds of such Additional Bonds in an amount so that there shall then be on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds, there shall be credited to the Debt Service Reserve Account, at such time or from time to time as the Department may determine, such amount or amounts, as the Department may determine, of the moneys available therefor so that by no later than five (5) years from the date of such Additional Bonds there shall then be on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds then outstanding, exclusive of other Additional Bonds which may have been issued during such five (5) year period and with respect to which credits are then being made to the Debt Service Reserve Account in accordance with this sentence.

See Appendix E – Summary of Certain Provisions of the Certificate – Application of Revenues and Aviation Fuel Taxes.

Additional Indebtedness

Section 3.04 of the Certificate permits the issuance of Additional Bonds payable from and secured by Revenues and Aviation Fuel Taxes on parity with the Bonds (including the Series 2020 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 debt service coverage tests read as follows:

1. Prospective Coverage Test.

(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.

The Series 2020 Bonds are being issued as Additional Bonds through the use of the historical coverage test described above. The Department will certify that Net Revenues and Taxes for Fiscal Year 2019 plus unencumbered funds designated as Revenues for purposes of such test is not less than 125% of the maximum Annual Adjusted Debt Service Requirement with respect to the outstanding Prior Bonds and the Series 2020 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 issued the Series 2013 Lease Revenue Certificates of Participation in December 2013, the Series 2016 Lease Revenue Certificates of Participation in April 2016 and the Series 2017 Lease Revenue Certificates of Participation in March 2017 (collectively, the "*COPs*"). 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 order to finance the construction of consolidated rental car facilities ("*ConRACs*") at Daniel K. Inouye International and Kahului, the Department issued its $249,805,000 original aggregate principal amount of Airports System Customer Facility Charge Revenue Bonds, Series 2017A (Taxable) (the "*2017 CFC Bonds*") and $194,710,000 original aggregate principal amount of Airports System Customer Facility Charge Revenue Bonds, Series 2019A (the "*2019 CFC Bonds*" and, together with the 2017 CFC Bonds, the "*CFC Bonds*"). The CFC Bonds are secured by a pledge of the rental car customer facilities charges ("*CFCs*"), and are not secured by the Revenues and Aviation Fuel Taxes. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" below.

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 nine offices and branches: the Staff Services Office, the Visitor Information Program Office, the Information Technology Office, the Airports Operations Office, the Engineering Branch and the Oahu, Maui, Hawaii and Kauai District Offices.

Department Management

The Department is led by the Director, who is appointed by the Governor and confirmed by the State Senate. The Governor also appoints four Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms coterminous 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, managed 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, managed 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 firefighting functions of the Airports Division. The Airports Management Information Systems Office, managed by the Data Processing Systems Analyst, is responsible for data processing services. The Airports Planning Office, managed by the Planning Engineer, is responsible for directing the planning, development and marketing functions of the Airports Division. The Visitor Information Branch, managed 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, managed by the Engineering Program Manager, is responsible for design and construction, special maintenance and drafting functions of the Airports Division, including design and construction of the ConRACs. The Airports Administrator, Administrative Services Officer, Airports Operations Officer, Data Processing Systems Analyst, Planning Engineer, Visitor Information Administrator, 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:

Jade Butay, Director*,* has served as Director of the Department of Transportation since 2017. Previously, Mr. Butay served as Deputy Director of Administration at the Department of Transportation from 2011 to 2013 and again from 2015 to 2017. Between his time serving as Deputy Director of Administration, Mr. Butay served as Deputy Director at the Department of Labor and Industrial Relations. Prior to commencing his service for State government, Mr. Butay served in various leadership positions in the private sector. He received his bachelor's degree in Business Administration from the University of Hawaii and his Master of Business Administration degree from Business Administration from Babson College.

Ross M. Higashi, Deputy Director – Airports*,* was appointed in January 2015 to lead the Airports Division, where he has worked for almost 30 years. During that time, Mr. Higashi served in various capacities, including Fiscal Management Officer; Administrator of the Accounting Branch; and the Audit Branch Supervisor. Mr. Higashi served as Interim Director of Transportation briefly in 2014. He also spent five years in public accounting. Mr. Higashi graduated from the University of Hawaii at Manoa with a B.S. degree in Accounting.

Ford Fuchigami, Administrative Services Officer, transferred back to the Airports Division in June of 2019 after serving as Administrative Director to Governor David Y. Ige. Prior to his time as Administrative Director, Mr. Fuchigami served as the Director of the Department of Transportation from 2014 to 2017 and as Deputy Director – Airports from December 2010 until 2014. Prior to his appointment to the Airports Division, Mr. Fuchigami spent 36 years in the private sector in the hospitality, healthcare and laundry industries including as a manager with the Sheraton Hotel & Resorts and United Laundry Service and as a hospitality and textile industry consultant. He graduated from the University of Hawaii at Manoa with a Bachelor's degree in Journalism.

Kurt T. Yamasaki, Acting Fiscal Management Officer, has been employed at the Airports Division for 25 years. Mr. Yamasaki has served in the Fiscal Management Officer position since May 2014. Previously, he worked as Audit Branch Supervisor for 11 years. He spent four years in private sector accounting and four years in public accounting prior to joining the Airports Division. He graduated from the University of Hawaii at Manoa with a B.S. degree in Accounting.

Guy Ichinotsubo, Engineering Program Manager, has been employed at the Airports Division for 26 years. Prior to becoming the Engineering Program Manager in January 2019, Mr. Ichinotsubo was the Design Engineer for the Airports Division since 2001. He spent seven years in the private sector prior to joining the Airports Division. Mr. Ichinotsubo graduated from the University of Washington with a B.S. degree in Civil Engineering. He is a registered Professional Engineer and LEED Accredited Professional.

Labor Relations

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 seven bargaining units, as follows:

- United Public Workers (the "*UPW*") (Unit 1, blue collar 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). Unit 14, State law enforcement officers, also work at the airports and are paid with airports funds, but the officers are employees of the Department of Public Safety.

- Hawaii Fire Fighters Association IAFF Local 1463 (the "*HFFA*") (Unit 11, rescue and firefighters).

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

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

Unit 2 (blue collar supervisors): The current contract expires June 30, 2021. The agreement was ratified by HGEA on October 24, 2019, providing for a $2,000 lump sum payment for all employees on July 1, 2019; across-the-board increases and/or step adjustments of 5.29% on July 1, 2020; and an across-the-board increase of 1.20% on January 1, 2021. The agreement also provides for adjustments to uniform allowances, and meal allowances. Funding for the agreement was approved by the county councils, State legislature, and the Governor signed the funding bill for the State into law. Initial proposals for a successor agreement were exchanged June 30, 2020. No negotiation meetings have been scheduled at this time.

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

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

Unit 11 (firefighters): An arbitration award for HFFA was issued on April 8, 2019 for the period July 1, 2019 – June 30, 2021. The award provides for: across the board increases of 2% on July 1, 2019 and 2% on July 1, 2020; lump sum payments ranging from $1,800 - $2,000 on July 1, 2019 and $1,800 to $2,500 on July 1, 2020; and continuation of step movements for eligible employees (adds an additional step L6 at the end of the contract). Initial proposals for a successor agreement will be exchanged at a later date to be determined. No negotiation meetings have been scheduled at this time.

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

Unit 14 (State law enforcement officers and State and county ocean safety and water safety officers): The current contract expires June 30, 2021. An arbitration award was issued April 15, 2020, providing for across the-board-board increases of 4.5% on July 1, 2019 and July 1, 2020. The award also provides for step movements for eligible employees. Funding for the agreement was approved by the county councils, State legislature, and the Governor signed the funding bill for the State into law. Initial proposals for a successor agreement are scheduled to be exchanged September 30, 2020. No negotiation meetings have been scheduled at this time.

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

Proposed Legislation

In several recent legislative sessions legislation was introduced which proposed establishing an independent airports corporation to assume operations of the Airports System from the Airports Division. This legislation was not approved and has not been enacted. The Department cannot predict at this time whether any such legislation may be enacted in the future. Although the Constitution of the United States contains prohibitions against the impairment of contracts, the Department cannot predict what impact, if any, such legislation would have on the operations of the Airports System or the availability of Revenues or Aviation Fuel Taxes.

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 the State passes through the Airports System, which includes five primary airports and ten secondary airports. The primary airports are Daniel K. Inouye International (on the Island of Oahu), Kahului (on the Island of Maui), Hilo International and Kona (both on the Island of Hawaii), and Lihue Airport (on the Island of Kauai). All of the primary airports provide facilities for interisland flights (in-State flights among the airports in the Airports System) and direct overseas flights to the continental United States. In addition, Daniel K. Inouye International and Kona provide international flights to the Pacific Rim, Oceania and Canada. Lihue Airport and Kahului also provide pre-cleared international service to and from Canada. The five primary airports accounted for approximately 98.7% of total enplaned passengers in the Airports System in Fiscal Year 2019.[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, and Dillingham Air Field serve only general aviation, while the others provide interisland airline service. The Airports Division plans to return the Dillingham Air Field to the Army on or before June 30, 2021. In Fiscal Year 2019, Dillingham Air field incurred an operating expense of $1.5 million and generated an operating revenue of $0.5 million.

Primary Airports

Daniel K. Inouye International Airport. Daniel K. Inouye International, the primary airport in the Airports System, is located approximately six miles west of downtown Honolulu. Daniel K. Inouye International is the largest and busiest of the State's airports, accounting for 56.0% of all passengers enplaned in the Airports System in Fiscal Year 2019. In 2018, according to the Federal Aviation Administration (the "*FAA*"), Daniel K. Inouye International was the twenty-ninth busiest airport in the United States in enplaned passengers. In Fiscal Year 2019, 10.5 million passengers were enplaned at Daniel K. Inouye International – 7.4 million overseas passengers and 3.1 million interisland passengers. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Passenger Traffic**" below. The ranking reflects Daniel K. Inouye 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 Daniel K. Inouye International to the other Airports System primary airports. Daniel K. Inouye International serves interisland flights, domestic overseas flights and international flights to destinations on the Pacific Rim, Oceania and Canada.

Daniel K. Inouye International has four runways, two of which (12,000-foot and 12,300-foot long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000-foot long by 200-foot wide). Daniel K. Inouye International has 13 aircraft parking positions in Terminal 1, 33 aircraft parking positions in Terminal 2 (including 4 ground loading positions), and additional commuter operations in Terminal 3, and public parking spaces for approximately 4,260 vehicles. Daniel K. Inouye International also provides runways for Joint Base Pearl Harbor Hickam and the Hawaii Air National Guard.

Kahului Airport. Kahului is located approximately three miles east of the town of Kahului, which, together with Wailuku, is the principal business and commercial center of the Island of Maui. Kahului is the second busiest airport in the State. Kahului has one 7,000-foot runway and one 5,000-foot runway. The terminal complex includes ticket counters, six hold rooms, 16 aircraft gate positions with loading bridges, a baggage claim area and ancillary service facilities. Kahului has public parking facilities for approximately 1,345 vehicles. In May 2019, a new

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[1] The fiscal year for the State 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 2019" means the fiscal year that began July 1, 2018 and ended June 30, 2019.

ConRAC facility was opened. It is a three-story structure located to the southwest of the Passenger Terminal Building. 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 Airport has two 6,500-foot runways. The terminal complex includes ticket counters, eight aircraft gate positions with loading bridges, two baggage claim areas and ancillary service facilities. Lihue Airport has public parking facilities for approximately 575 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 firefighting, and helicopter facilities. In addition to interisland service, Lihue Airport provides facilities for domestic overseas flights and pre-cleared international flights to and from Canada.

Ellison Onizuka Kona International Airport at Keahole. Kona is located in North Kona on the western shore of the island of Hawaii, approximately seven miles northwest of Kailua-Kona, the business center of the western part of the Island of Hawaii. Kona, which was opened in 1970, has an 11,000-foot runway. The terminal complex includes ticket counters, 10 boarding gates (serving 14 aircraft parking spots) and ancillary service facilities. Kona has public parking facilities for approximately 712 vehicles. In addition to interisland service, Kona provides facilities for domestic overseas flights and pre-cleared international flights to and from Pacific Rim, Oceania, and Canada. A terminal modernization project is currently underway at Kona, with $84.3 million of $89.9 million spent on the project as of June 30, 2020. This project includes the construction of a centralized security checkpoint, baggage handling system, the connectivity of the north and south holdroom areas, and other miscellaneous terminal improvements. For further reference see "**CAPITAL IMPROVEMENTS PROGRAM - Description of Major Capital Improvement Projects in the Ongoing CIP**."

Hilo International Airport. Hilo International (formerly General Lyman Field) is located immediately east of Hilo, the business center of the eastern shore of the Island of Hawaii and the governmental center of the Island of Hawaii. Hilo International has a 9,800-foot runway and a 5,600-foot runway. The terminal complex includes ticket counters, 10 aircraft gates and ancillary service facilities. Hilo International has public parking facilities for approximately 481 vehicles and eight T-hangars. Hilo International provides facilities for interisland and domestic overseas flights.

IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM

The following information regarding recent developments in finances and operations of the Department and the Airports System supplements information set forth below describing Airports System revenues and information contained under the headings "**CAPITAL IMPROVEMENTS PROGRAM**," "**PASSENGER TRAFFIC AND AIRLINES**" and "**FINANCIAL INFORMATION**", certain of which historical information predates the COVID-19 pandemic or was prepared before the outbreak of COVID-19 and should be considered in light of possible negative and adverse impacts from COVID-19.

General

COVID-19, a highly contagious upper respiratory tract illness caused by a novel strain of coronavirus, is having significant adverse health and financial impacts throughout the world and the State and has caused significant disruptions to domestic and international air travel, including both passenger and cargo operations. The World Health Organization declared the outbreak of COVID-19 to be a pandemic, and the Secretary of Health, Education and Welfare of the United States and Governor David Y. Ige have each declared states of emergency. Many state and local governments in the United States have issued "stay at home" or "shelter in place" orders, which severely restrict movement and limit businesses and activities to essential functions. A number of nations have effectively closed their borders by restricting entry and exit to only essential travel and/or requiring travelers to self-isolate for up to 14 days, further depressing demand for passenger air travel. As of October 7, 2020, there have been over 13,000 confirmed cases of COVID-19 in the State.

Airports in the United States, including the Airports System, have been acutely impacted by the reductions in passenger volumes and flights, as well as by the broader economic shutdown resulting from the COVID-19 outbreak. The outbreak has adversely affected domestic and international travel and travel-related industries.

Airlines, including those operating out of the Airports System, have reported unprecedented reductions in passenger volumes and expect these reductions to continue. In response, airlines have reduced flights in an attempt to match capacity to the modified demand for air travel.

State Impact and Relief Efforts

The State has taken numerous actions intended to slow the spread of COVID-19 and to mitigate its effects on the operations of the Airports Systems. On March 4, 2020, Governor David Y. Ige proclaimed the spread of COVID-19 in the State to be a disaster, declared a state of emergency in the State and announced numerous State responses, including the use of disaster relief funds, to address the spread of COVID-19. Governor David Y. Ige subsequently issued thirteen (13) supplemental proclamations and a series of executive orders closing non-essential business and government activities for the duration of the public health emergency, which has been extended until October 31, 2020. On March 17, 2020, Governor David Y. Ige asked visitors to postpone their trips to the State. On March 21, 2020, Governor David Y. Ige announced that all overseas and interisland arriving passengers, except those performing emergency response or critical infrastructure functions, are subject to a mandatory fourteen (14) day self-quarantine requirement effective March 26, 2020, as a majority of the early-detected infected persons in the State were visitors and returning residents. All arriving passengers are subject to health screenings, temperature scans and reporting requirements. The self-quarantine requirement for interisland travelers expired on June 16, 2020, but was reinstated to the Islands of Kaua‘i, Hawaii, and the Islands comprising the Counties of Maui and Kalawao effective August 11, 2020. The self-quarantine requirement for persons entering the State has been extended through October 31, 2020, however, beginning October 15, 2020, a pre-travel testing option will provide travelers to the State an alternative to the mandatory fourteen (14) day self-quarantine requirement if such traveler can show proof that they have had a negative molecular-based COVID-19 test result from a Clinical Laboratory Improvements Amendments-certified laboratory within 72 hours of travel. There can be no assurance that the emergency declaration, quarantine requirements and/or pre-testing quarantine exception program as currently in effect and/or as proposed will not be modified, terminated or extended, in whole or in part. The State has approximately 300 contact tracers, each with a capacity to trace 20 people per day, and is currently training several hundred additional contact tracers. The State is currently conducting 1,300-1,600 tests daily and has conducted over 265,000 tests in total. The State has implemented federally-funded “surge testing” on Oahu, which provided 47,000 tests from August 27, 2020 to September 16, 2020.

The spread of COVID-19 to the State and responsive measures have had a negative impact on the State’s economy. Economic activity in the State has slowed significantly, due to the closure of non-essential businesses and substantial reduction in tourism, the State’s major economic driver. Airlines have reduced flights to and from the State and the U.S. Mainland and Asia, resulting in a reduction of three-quarters in September 2020 scheduled air seat capacity. Visitor arrivals to the State dropped from an average of approximately 30,000 people a day in March 2019 to 200 people a day in March 2020, and have risen to an average of 721 visitors a day in August 2020. In August 2020, 22,334 visitors arrived in the State, as compared to 926,417 visitors in August 2019. In the first eight months of 2020 total visitor arrivals dropped 69.0 percent to 2,201,141 visitors.

In the 3rd quarter Outlook for the Economy, DBEDT forecasts 2.9 million visitors will travel to the State in 2020, a decrease of 71.9% from 2019. DBEDT forecasts visitor arrivals will increase to 7.2 million in 2021, 8.3 million in 2022 and 9.4 million in 2023.

Federal Relief Efforts

The United States government, the Federal Reserve Board and foreign governments are taking legislative and regulatory actions and implementing other measures to mitigate the broad disruptive effects of the COVID-19 outbreak on the United States and global economies. The Coronavirus Aid, Relief, and Economic Security Act (“*CARES Act*”), approved by the United States Congress and signed by the President on March 27, 2020, is one of the actions to address the crisis created by the COVID-19 pandemic and includes among its relief measures direct aid for airports as well as direct aid, loans, and loan guarantees for passenger and cargo airlines. Additionally, on April 9, 2020, the Federal Reserve Board announced a $500 billion program to provide state and certain local governments with access to short-term debt funding with the Federal Reserve acting as the lender.

Provisions of the CARES Act, which provides $10 billion of grant assistance to airports, generally include the following: (1) $3.7 billion to be allocated among all U.S. commercial service airports based on number of enplanements in calendar year 2018; (2) $3.7 billion to be allocated among all U.S. commercial service airports based on formulas that consider fiscal year 2018 debt service relative to other airports, and cash-to-debt service ratios; (3) $2 billion to be apportioned in accordance with AIP (defined below) entitlement formulas, subject to CARES Act formula revisions; (4) $500 million to increase the federal share to 100% for grants awarded in federal fiscal year 2020 under certain grant programs including the AIP; and (5) $100 million reserved for general aviation airports.

The FAA announced in April 2020 that it had allocated approximately 133.3 million of grant assistance under the CARES Act to the Airports System. The Airports Division may draw on such funds, on a reimbursement basis, to pay for any purpose for which airport revenues can lawfully be used, including, but not limited to, the payment of maintenance and operation expenses on or after January 20, 2020, and the payment of debt service on or after March 27, 2020. CARES Act grants must be used within four years from the date on which the agreement between the Airports Division and the FAA is executed, and the Airports Division must comply with certain other obligations, including, but not limited to, employing at least 90% of their staff as of March 27, 2020 through December 31, 2020. See "**– Summary of Actions Taken in Response to COVID-19**" below for a description of the use of such funds. There is no assurance that the CARES Act funding already designated to the Airports System or otherwise available under the CARES Act will be sufficient to compensate the Airports Division for lost revenue resulting from the COVID-19 pandemic.

The Airports Division continues to evaluate and seek other available sources of State and Federal aid as they become available, At this time, it is unclear whether legislative, regulatory and other governmental actions, including the CARES Act, will have the intended positive effects.

The following sections describe some of the impacts that the COVID-19 pandemic has had on the Airports System, including passenger traffic, finances and operations, and describes some of the actions that the Airports Division is taking in response to the COVID-19 pandemic. The COVID-19 pandemic has also resulted in substantial financial challenges for airlines serving the Airports System, including substantial financial losses and announcements warning of layoffs or reductions in workforce. Information about airlines can be obtained as described under "**CERTAIN INVESTMENT CONSIDERATIONS – Airline Information**" below.

Summary of Actions Taken in Response to COVID-19

COVID-19 is having a material and comprehensive impact on the Airports System, including passenger traffic, revenues, terminal operations, and tenant management, among other impacts. Excluding the planned reimbursement of $50 million under the CARES Act, the Airports System revenues in Fiscal Year 2020 are estimated to be $72 million less than the Fiscal Year 2020 budget and $72 million less than Fiscal Year 2019. In addition, many of the Airports System's tenants have requested and continue to request financial relief. Accordingly, the Airports Division has taken the following actions in response to these conditions:

- Identified and implemented expense reduction measures and planned further expense reduction actions to be taken in Fiscal Year 2021. Such reduction measures include a projected $47 million reduction in debt service through the issuance of the Series 2020 Bonds, among other measures.

- Closed the following facilities at the Airports System temporarily to reduce operating expenses effective April 2020, but may open some gates when air traffic recovers:

    - HNL: 12 gates out of a total of 46 (gates B1-B5, and C2-C8), and a portion of baggage claim area
    - Hilo International: 3 gates out of a total of 7 (gates 7, 8, and 9)
    - Kona: 5 gates out of a total of 10 (gates 1-5)
    - Lihue Airport: 4 gates out of a total of 8 (gates 3-4, and 9-10)
    - Kahului: 11 gates out of a total of 16 (Gates 1,5,7, 9,11,13,15, 29, 33, 35 and 39)

- Submitted grant reimbursement under the CARES Act. The Airports Division has been awarded a total of $133.3 million under the CARES Act for expense reimbursement, in addition to the federal grant matching share for the projects approved in the federal Fiscal Year 2020. The Airports Division expects to use $50 million to reimburse operating expenses occurred in Fiscal Year 2020, and the remaining $83.3 million to reimburse operating expenses in Fiscal Year 2021. The Airports Division submitted the first reimbursement request in June 2020 and received a total of $50.0 million as of August 31, 2020.

- Established Fiscal Year 2021 airline rates and charges assuming that Fiscal Year 2021 enplaned passenger count would reach 9.9 million, or 52.8% of the Fiscal Year 2019 level. Due to the evolving COVID-19 impact and the resulting actions adopted by the Department, the State, the United States, and the world, it is not reasonably possible to provide an accurate forecast of air traffic activities for the 12 months ending June 30, 2021. For the calculation of airline rates and charges, the Airports Division has assumed that enplaned passenger count would recover gradually from an assumed 280,000 in July 2020 (16% of July 2018) to 1.3 million in June 2021 (75% of June 2019), for an average of 52.8% of Fiscal Year 2019 level in Fiscal Year 2021. The Airports Division has further agreed to maintain the terminal rental rate and user fees at HNL unchanged through October 2020, when the Airports Division will re-evaluate the traffic assumption and adjust airline rates accordingly.

- The Airports Division has prioritized capital projects under the CIP and separated the CIP into the Ongoing CIP, totaling $1.6 billion, and the 2022-2026 CIP, totaling $1.1 billion. The Airports Division plans to fund only a portion of the design costs for the 2022-2026 CIP and continues to discuss projects to be deferred or cancelled with the Signatory Airlines. Any deferred or canceled projects may be resumed in the future. The Airports Division continues to look for opportunities to reduce the near-term costs of its CIP, defer or accelerate projects where necessary or appropriate, and scale ongoing and future projects appropriately in response to the rate of recovery of the air travel industry.

- Implemented a policy of temporary deferral of certain fees and charges and other rent relief actions in March 2020. The Airports Division has granted:

    - For eligible aircraft operators and exclusive use tenants, a deferral of fees and charges for April 2020 through October 2020 to be paid in six equal monthly payments commencing with the first payment in January 2021. As of September 15, 2020, the amount of deferred aircraft operators and exclusive use tenants fees and charges was approximately $37.0 million.

    - For eligible concessionaires, a deferral of fees and charges for April 2020 through October 2020 to be paid in six equal monthly payments commencing with the first payment in January 2021. For concessionaires that can demonstrate a significant loss of income for any month or months between April 2020 and October of 2020, the Airports Division has also granted MAG (defined below) relief. As of September 15, 2020, the amount of deferred concessionaires fees and charges was approximately $8.6 million.

- Supplemented the existing health screening program with $70 million of funding from the State's Coronavirus Relief Fund. The program will fund:

    - Thermal screening cameras to be installed at all gates at the five primary airports to screen arriving passengers for fever over 100.4 degrees;
    - A facial image tracking system and monitoring control room;
    - Room to verify arriving passenger information;
    - A web-based application;
    - COVID-19 testing facility; and
    - Related maintenance, labor and health professional costs.

- Taken measures to promote social distancing in public areas for health and safety purposes. These measures include reconfiguring seating areas to keep passengers appropriately separated, installing signage to remind individuals to follow social distancing guidelines, and additional sanitation of high-touch areas.

The Airports Division requires employees, tenants, vendors, permit holders, contractors, personnel of public agencies operating at the Airports System, and passengers and other members of the public to wear a mask or other face covering to cover their nose and mouth while on-site at the Airports System.

The Airports Division cannot predict whether these measures will be sufficient to mitigate the negative effects of the COVID-19 pandemic on the operations and financial condition of the Airports System. The Airports Division will continue to access and implement opportunities to reduce operating costs and adjust operations to keep the Airports System safe and efficient in response to the ongoing changes.

Impact of COVID-19 on Certain Financial and Operational Data

The Airports System is experiencing and expects to continue to experience a significant decrease in aeronautical and non-aeronautical revenues as a result of the COVID-19 pandemic. The Airports System's revenues depend on the level of aviation activity and passenger traffic at the Airports System, and the ability of the Airports System to derive revenues from operations depends upon the financial health of the airlines serving the Airports System and the airline industry as a whole. Information about airlines can be obtained as described under "**CERTAIN INVESTMENT CONSIDERATIONS – Airline Information**" below.

The following information is provided to show percentage variances for certain operating and financial data for the first nine months of Fiscal Year 2020 (July 2019 to March 2020) and for the months of April 2020, May 2020 and June 2020 compared with the same periods in Fiscal Year 2019. See further information below.

Selected Information

% Changes in Fiscal Year 2020 vs. Same Period in Fiscal Year 2019

	July 2019 to March 2020 (Average)	Apr-20	May-20	Jun-20
Enplaned Passengers	1.9%	-95.9%	-94.9%	-89.5%
Landed Weight	2.8%	-69.2%	-71.4%	-75.0%
Key Concession Revenues				
Rental Car	6.8%	-95.2%	-95.8%	-95.4%
Duty Free	18.8%	-100.0%	-100.0%	-100.0%
Parking	3.6%	-69.9%	-73.8%	-57.4%
Retail	-0.9%	-100.0%	-100.0%	-100.0%

Airlines revenues include terminal rentals that are paid on a monthly basis and therefore are not directly affected by changes in enplaned passengers, and landing fees and terminal user fees that declined due to lower activity level. The majority of the terminal concession operations have been closed since April 2020, except for limited food and beverage and newsstands operations. Rental car revenues declined by more than 95 percent, but the decline in parking revenues is less severe.

Other user fees not included in Revenues and Aviation Fuel Taxes, such as CFC and PFC revenues, also declined with the lower passenger level.

Impact of COVID-19 on Passenger Traffic

Passenger traffic at the Airports System has declined substantially beginning in March 2020 compared to corresponding months in the prior Fiscal Year. The following table provides passenger traffic data by month for Fiscal Year 2020, based on preliminary data submitted by the airlines. Percentage changes represent comparisons to the corresponding month in the prior Fiscal Year. In July 2020 and August 2020, the number of enplaned passengers declined by 84.7% and 90.8% respectively, comparing to July 2019 and August 2019.

			Enplaned Passengers			
Month	Overseas	12-month % Change	Interisland	12-month % Change	Total	12-month % Change
Jul-19	1,142,592	6.4%	722,178	5.9%	1,864,770	6.2%
Aug-19	1,118,250	7.9%	685,558	16.5%	1,803,808	11.0%
Sep-19	884,412	4.2%	575,193	10.9%	1,459,605	6.7%
Oct-19	932,445	3.6%	616,571	8.1%	1,549,016	5.4%
Nov-19	906,551	2.5%	581,936	3.2%	1,488,487	2.8%
Dec-19	1,019,310	8.9%	660,919	13.6%	1,680,229	10.7%
Jan-20	1,065,679	6.1%	638,478	12.6%	1,704,157	8.5%
Feb-20	925,806	6.7%	591,165	12.4%	1,516,971	8.9%
Mar-20	628,769	-40.4%	365,942	-39.2%	994,711	-40.0%
Apr-20	39,163	-96.0%	23,537	-95.8%	62,700	-95.9%
May-20	33,032	-96.7%	50,438	-92.2%	83,470	-94.9%
Jun-20	49,719	-95.4%	133,891	-79.9%	183,610	-89.5%
FY 2020 TOTAL:	**8,745,728**	**-25.0%**	**5,645,806**	**-20.1%**	**14,391,534**	**-23.2%**
Jul-20	58,493	-94.9%	226,169	-68.7%	284,662	-84.7%
Aug-20	62,097	-94.4%	104,748	-84.7%	166,845	-90.8%

Source: Department of Transportation – Airports Division; preliminary data subject to change.

As of September 2020, Japan citizens returning from the United States are subject to testing and are required to wait 14 days at a location designated by the quarantine station chief and to refrain from using public transportation. The Japan government announced on September 25, 2020 that it will reopen borders starting October 2020 for foreign visitors with permits to stay in the country, but excluding tourists. Enplaned passengers to Japan accounted for 9.3% of total enplaned passengers in Fiscal Year 2019 and 8.9% in Fiscal Year 2020.

Impact of COVID-19 on Departures and Destinations at the Airports System

Excluding commuter airline flights with 9-seat aircrafts, the Airports System had 862 overseas flights and 3,520 interisland flights scheduled for the month of August 2020, and 736 overseas flights and 2,150 interisland flights scheduled for the month of September 2020. As a comparison, there were 4,513 overseas flights and 9,676 interisland flights scheduled for the month of September 2019. Scheduled flights are subject to change and cancellation at the airlines' discretion. In addition, scheduled flights may not be a reliable indicator of actual passenger levels and, if flown, may have a much lower ratio of occupied to empty seats than had been typical of scheduled flights prior to the onset of the COVID-19 pandemic.

In August 2019, the Airports System had 46 overseas destinations and 11 interisland destinations. In August 2020, service was suspended to 31 overseas destinations. The Department expects services to the majority of the destinations to be resumed by the end of 2020, but the near-term airline schedule remains highly uncertain.

It is important to note that in many cases the planned announcements will restore service to the destination but at reduced levels compared to pre-COVID-19 schedules. Additionally, it is possible that some of the announced restarts could be delayed if anticipated passenger demand does not materialize or international border closures are prolonged or broadened.

Preliminary Financial Estimates for Fiscal Year 2020

Based on 12-month preliminary actual data and estimated year-end reconciliation, the Department expects Fiscal Year 2020 Revenues and Aviation Fuel Taxes to be $446.9 million, including $50.0 million planned reimbursement under the CARES Act. Excluding the $50.0 million reimbursement, Revenues and Aviation Fuel Taxes would be $396.9 million, or 15.3% below the $468.5 million in Fiscal Year 2019.

Aviation revenues and fuel taxes are estimated to be $197.6 million, compared to $225.9 million in Fiscal Year 2019, due to lower cost requirements after the credit of the CARES Act grant reimbursements. Nonairline revenues are estimated to be $179.8 million, compared to $214.9 million in Fiscal Year 2019. The decline is primarily due to the estimated decline in rental car revenues ($13.2 million), duty free revenues ($5.0 million), parking revenues ($4.9 million), retail revenues ($4.8 million), and other nonairline revenues ($7.2 million). Interest incomes are expected to decline by $8.7 million.

Costs of Operation, Maintenance and Repair are estimated to be $314.0 million after excluding $9.5 million of non-cash expenses, compared to $314.8 million in Fiscal Year 2019. After adding back the non-cash expenses, Fiscal Year 2020 expenses were $323.5 million, or 2.7% higher than Fiscal Year 2019 expenses, primarily due to estimated higher salaries and wages and other personnel services. Annual Adjusted Debt Service Requirement declined from $81.3 million in Fiscal Year 2019 to $78.3 million in Fiscal Year 2020, with higher Available PFC Revenues more than offset the increase in gross debt service.

Debt service coverage is estimated to be 2.02x, compared to 2.22x in Fiscal Year 2019. Cost per enplaned passenger is estimated to be $11.09, compared to $9.75 in Fiscal Year 2019.

Cash and Liquidity

Due to lower traffic activities and rental deferral policies, the Airports Division's unrestricted cash and cash equivalent declined from a total of $525 million in March 2020 to $495 million in June 2020, according to preliminary unaudited internal reports. The balance in June 2020 reflects the receipt of $12.9 million reimbursement under the CARES Act.

In addition to unrestricted cash and cash equivalent, the Airports Division has the following restricted cash and cash equivalent as of June 30, 2020 totaling $883.6 million:

- $104.7 million in an operating reserve, required by the Amended Lease Extension Agreements, which could be available for costs of operation, maintenance and repair
- $27.6 million of funded coverage, which the Airports Divisions has been using to meet the Rate Covenant
- $57.7 million in Major Maintenance, Renewal and Replacement Account, which is available for emergency operations
- Airports System Revenue Bonds proceeds, reserves, and accounts with a total balance of $248.9 million, including $70.3 million of remaining bond proceeds
- CFC bond proceeds, reserves, and accounts with a total balance of $218.3 million
- COPs reserve account of $19.8 million
- PFC fund balance of $195.1 million, of which the Airports Division plans to use $16.1 million for Fiscal Year 2021 rates and charges
- Security deposit and other miscellaneous accounts of $11.7 million

The combined balance of unrestricted cash and cash equivalent, the operating reserve, and the funded coverage account equals $627 million, or to 729 days cash on hand calculated using estimated Fiscal Year 2020 Costs of Operation, Maintenance and Repair. The Department expects to request and receive the remaining $120.5 million of CARES Act reimbursement before June 30, 2021, which equals an additional 140 days cash on hand.

Legislation has been introduced in the United States Congress, or is under public discussion, that would provide new and/or additional financial relief to individuals, businesses and organizations affected financially by the COVID-19 pandemic and related restrictions on activity, including potential additional relief to airlines and airports. The Airports Division cannot predict whether additional federal financial support will be made available to airports (including the Airports System) or airlines in the future, under what conditions, or whether the Airports Division would accept any such available support.

Fiscal Year 2021 Airline Rates and Charges

Airline rates and charges are calculated prior to the beginning of a Fiscal Year pursuant to the Amended Lease Extension Agreements for billing purposes, and re-calculated after the year-end, with any over-collection credited to the Prepaid Airport Use Charge Fund ("*PAUCF*") and any under-collection to be billed to the Signatory Airlines. The Airports Division has been balancing several objectives of rate calculation throughout the years, including maintaining a competitive airline rates and charges level, protecting the Airports Division's cash positions, avoiding any significant over- or under-collection, among other objectives. The Airports Division can adjust airline rates and charges any time as the Airports Division may reasonably determine in light of either actual past experience or forecast events which would have an effect on adequacy of the then established rates and charges.

Based on a set of assumptions including that Fiscal Year 2021 enplaned passengers would recover to 52.8% of Fiscal Year 2019 level, the Airports Division has calculated and implemented the following rates:

- Overseas landing fee rate of $4.56 per 1,000-lb unit, which is 18.6% higher than the Fiscal Year 2020 overseas landing fee rate of $3.85

- Interisland landing fee rate of $2.23 per 1,000-lb unit, which is 21.0% higher than the Fiscal Year 2020 interisland landing fee rate of $1.85

- HNL terminal rental rate of $88.21 per square feet per year, which is 19.4% higher than the Fiscal Year 2020 rate of $73.87. For billing purposes, the Airports Division has agreed to maintain HNL terminal rental rate and other HNL terminal user fees unchanged through October 30, 2020

- Lower terminal rental rates at ITO, KOA, LIH and OGG due to a combination of expense reduction and credit from the CARES Act grants, and generally higher user fee rates due to lower traffic volume

The Airports Division plans to adjust airline rates and charges effective November 1, 2020.

Other Information

On May 22, 2020, the Hertz Corporation (includes Thrifty Car Rental and Doller Rent-A-Car, collectively "*Hertz*") filed for Chapter 11 bankruptcy. As part of the bankruptcy filing, on June 24, 2020, Hertz received final court approval to pay certain pre-petition claims to airport authorities, including Customer Facility Charges, Customer Transportation Charges, concession fees, and consolidated rental car facility charges. Certain of these payments are capped per the Bankruptcy Court's order. Trust fund charges are specifically not included in the cap. As of the date of this Official Statement, a copy of the Bankruptcy Court's final order (Dkt. No. 563) is available at: https://restructuring.primeclerk.com/hertz/Home-DocketInfo.

On May 26, 2020, Advantage/Enterprise filed for Chapter 11 bankruptcy protection. On June 30, 2020 Advantage/Enterprise received final court approval to pay certain pre-petition claims to airport authorities, including CFC arrangements, fees under concession agreements, and office and maintenance costs up to a total cap of

$979,000. As of the date of this Official Statement, a copy of the Bankruptcy Court's final order (Dkt. No. 319) is available at: https://dm.epiq11.com/case/advantage/dockets.

On July 1, 2020, the U.S. Bankruptcy Court for the District of Delaware authorized the sale of certain assets of the Advantage debtors (the "*Debtors*") in accordance with the terms of that certain Asset Purchase Agreement dated June 28, 2020 (the "*APA*"), among Advantage Opco, LLC and certain of its affiliates, as sellers, and Sixt Rent a Car, LLC ("*Sixt*"), as buyer. Pursuant to the APA, the Debtors also assumed and assigned certain unexpired leases and executory contracts to Sixt, including certain agreements with the State, related to their operations at the Daniel K. Inouye International Airport and Kahului Airport. The State and the Debtors are in the process of reconciling amounts due and owing by the Debtors under the assumed and assigned contracts, which must be paid to the State in accordance with the terms of the APA.

Together, Hertz and Advantage/Enterprise represented approximately 23% of the on-airport rental car gross revenue market share at the Airports System for Fiscal Year 2019 and Fiscal Year 2020.

The CARES Act also includes approximately $50 billion for passenger airlines in the United States. Certain of the Signatory Airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934 and in accordance therewith file reports and other information (collectively, the "*SEC Reports*") with the SEC. Prospective purchasers of the Series 2020 Bonds should review the SEC Reports of the Signatory Airlines. This reference to the Signatory Airlines' SEC Reports is for informational purposes only, and such reports shall not be deemed incorporated herein by reference. Neither the Airports Division nor the State are obligated to provide such information.

This statement contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The Airports Division cannot predict (i) the duration or extent of the COVID-19 outbreak or another outbreak or pandemic; (ii) the scope or duration of restrictions or warnings related to air travel, gatherings or any other activities, and the duration or extent to which airlines will reduce services at the Airports System, or whether airlines will cease operations at the Airports System or shut down in response to such restrictions or warnings; (iii) what effect any COVID-19 or other outbreak or pandemic-related restrictions or warnings may have on air travel, including to and from the Airports System, the retail and services provided by Airports System concessionaires, Airports System costs or Airports System revenues; (iv) whether and to what extent COVID-19 or another outbreak or pandemic may disrupt the local, State, national or global economy, manufacturing or supply chain, or whether any such disruption may adversely impact Airports System -related construction, the cost, sources of funds, schedule or implementation of the Airports System's CIP, or other Airport System operations; (v) the extent to which the COVID-19 outbreak or another outbreak or pandemic, or the resultant disruption to the local, State, national or global economy, may result in changes in demand for air travel, including long-term changes in consumer behavior, or may have an impact on the airlines or concessionaires serving the Airports System, or the airline and travel industry, generally; (vi) whether or to what extent the Airports Division may provide additional deferrals, forbearances, adjustments or other changes to the Airports Division's arrangements with its tenants and concessionaires; or (vii) whether any of the foregoing may have a material adverse effect on the finances and operations of the Airports System. *Prospective investors should assume that the restrictions and limitations related to COVID-19, and the current upheaval to the air travel industry and the national and global economies, may increase at least over the near term, recovery may be prolonged and, therefore, have an adverse impact on Airports System Revenues*. Future outbreaks, pandemics or events outside the Airports Division's control may further reduce demand for travel, which in turn could cause a decrease in passenger activity at the Airports System and declines in Airports System Revenues.

CAPITAL IMPROVEMENTS PROGRAM

As of August 31, 2020, the Airports Division's current CIP extends from Fiscal Year 2021 through Fiscal Year 2026 and includes projects approved by the Legislature and other projects subject to future approval. As of August 31, 2020, the cost estimate for the current CIP was $2.7 billion (excluding consolidated car rental facilities), of which approximately 24.5% has been expended through June 30, 2020. The Airports Division has further separated the CIP into the Ongoing CIP and the 2022-2026 CIP, as discussed below.

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 Fiscal Year 2021), the Airports Division identifies the projects in the first two years of the CIP (such as Fiscal Year 2022 and Fiscal Year 2023) that have not received legislative approval, and prepares a biennium budget request 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 Fiscal Year 2022 for Fiscal Year 2023 projects) as part of the Governor's Supplemental Budget, and receives additional 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 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.

COVID-19 Impact and CIP Prioritization

In May 2020 through August 2020, the Airports Division reviewed its capital plan and separated it into the following components:

- The Ongoing CIP. This component includes projects already in the construction stage and ongoing planning, design, and program support expenses. The Ongoing CIP has a total cost estimate of $1.6 billion, of which $658.9 million, or 40.7 percent, has been spent through June 30, 2020. The Department plans to fund $635.2 million of future costs from bond proceeds, including $273.9 million through the issuance of the Series 2020A Bonds, the Series 2020B Bonds and the Series 2020C Bonds.

- The 2022-2026 CIP. This component includes projects that are not in the construction stage and are prioritized by safety and security, regulatory compliance, major replacement, operational support, functional improvements, and expansion and capacity enhancements, The Airports Division plans to discuss the projects in the 2022-2026 CIP with the Signatory Airlines, and may further defer some projects pending traffic recovery. The 2022-2026 CIP has a total cost estimate of $1.1 billion, of which $13.8 million, or 1.2 percent, has been spent through June 30, 2020. The Airports Division plans to use $32.8 million of the proceeds from the Series 2020A Bonds, the Series 2020B Bonds and the Series 2020C Bonds to fund some design costs of the 2022-2026 CIP.

- Consolidated Car Rental Facilities and Other Excluded Projects. This component includes (a) consolidated rental car facilities that are funded by CFC revenues, (b) cancelled projects, (c) projects that are substantially completed and are in closeout stage, and (d) construction costs subject to funding uncertainties that will not be funded until Fiscal Year 2024 at the earliest, including HNL Taxiway A reconstruction, and the Diamond Head Concourse Extension Program.

The Ongoing CIP and the 2022-2026 CIP provide a snapshot of the Airports Division's intention for future capital projects as of August 2020. Situations may arise that necessitates the acceleration, addition or deferral of certain projects, some of which may be beyond the control of the Airports Division. The Airports Division has closely collaborated with the Signatory Airlines in formulating the capital program over the last several decades and has received necessary airline concurrence and other required approvals for the project costs that will be funded by the proceeds of the Series 2020A Bonds, the Series 2020B Bonds and the Series 2020C Bonds. The Airports Division will continue to manage the capital program in a financially prudent manner.

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Summary of the Capital Improvement Program

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

AIRLINE PROJECTS BY AIRPORT
Through Fiscal Year 2026
State of Hawaii, Department of Transportation, Airports Division
(as of June 30, 2020; in thousands)

Project Title	Total Bonds	Grants	PFC Paygo	Cash	Subtotal	Spent as of 6/30/2020	Current Working Estimates
ONGOING CIP							
HNL, NDWP IIT Mauka Program	$ 123,275	$ -	$ 70,000	$ -	$ 193,275	$ 353,627	$ 546,903
HNL, Ticket Lobby Renovation	165,279	-	-	-	165,279	8,506	173,785
HNL, Runway 8L Widening	33,588	91,144	595	1,491	126,818	24,693	151,511
HNL, Restroom Improvements	32,998	1	(0)	11,236	44,235	16,610	60,845
HNL, Improvements to Baggage Handling Systems	28,540	-	-	-	28,540	17,003	45,543
HNL, Replace Prkg Structure Pedestrian Bridge	28,374	-	(0)	-	28,374	11,976	40,350
HNL, NDWP Rdwy Terminal Signage Improvements	8,924	-	-	-	8,924	30,350	39,274
HNL, Other Terminal Projects	20,873	-	-	19	20,892	43,216	64,108
HNL, Other Projects	1,963	1,634	-	98	3,696	2,277	5,973
Subtotal	$ 443,813	$ 92,779	$ 70,595	$12,845	$ 620,032	$ 508,260	$ 1,128,292
ITO Projects	15,066	-	-	-	15,066	4,835	19,901
KOA, Terminal Modernization	$ 1,422	$ 1,009	$ 1,693	$ 1,466	$ 5,590	$ 84,301	$ 89,891
KOA, Federal Inspection Services Building	502	2,500	27,823	34,658	65,483	4,692	70,175
KOA, Other Projects	24,670	7,079	3,803	4,026	39,578	8,500	48,078
Subtotal	$ 26,594	$ 10,588	$ 33,319	$40,150	$ 110,651	$ 97,494	$ 208,145
LIH Projects	23,685	2,852	2,220	2,521	31,278	14,399	45,677
OGG, Holdroom and Gate Improvements	$ 46,578	$ -	$ -	$ -	$ 46,578	$ 2,336	$ 48,914
OGG, Other Projects	32,328	2,827	-	67	35,222	7,987	43,210
Subtotal	$ 78,906	$ 2,827	$ -	$ 67	$ 81,800	$ 10,323	$ 92,124
Other Airports' Projects	7,524	27,940	-	444	35,909	6,319	42,227
Statewide Projects	52,874	2,407	150	11,219	66,650	17,320	83,970
TOTAL ONGOING CIP	$ 648,464	$139,393	$ 106,283	$67,246	$ 961,386	$ 658,949	$ 1,620,336

Source: Department of Transportation – Airports Division.

The Airports Division is in the process of evaluating the 2022-2026 CIP. As of August 31, 2020, the Airports Division expects to use a combination of sources to fund the 2022-2026 CIP, including bond proceeds (71.6%), federal grants (21.7%), PFC pay-as-you-go (5.7%), and internal cash (5.9%).

Description of Major Capital Improvement Projects in the Ongoing CIP

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

Key projects at Daniel K. Inouye International Airport (HNL) include the following:

- Mauka Concourse Program: $546.9 million, with $353.6 million spent as of June 30, 2020. The Mauka Concourse Program includes the design and construction of a 280,000-square-foot concourse located at the northwest corner of Terminal 1 (formerly the Interisland Terminal), as well as the related enabling projects. The Mauka Concourse project is designed to provide six wide-body aircraft gates or 11 narrow-body gates, operation areas, new security screening lanes, concessions, a restroom and service core, common area and public area furnishing, fixtures and equipment, aircraft parking aprons, airfield pavement, jet blast fencing, an extension of the fuel hydrant system, and other associated work. Many enabling projects have been completed and removed from the capital program. Phases II and III of the Taxilanes G & L Widening are now classified as the 2022-2026 CIP. The Mauka Concourse project is under construction with a scheduled completion date in August 2021.

- HNL, Ticket Lobby Renovation: $173.8 million, with $8.5 million spent as of June 30, 2020. This project is a continuation of the ticket lobby renovations completed for Terminal 2 ticket lobbies 7 and 8, and will renovate ticket lobbies 4, 5 & 6, including work items to improve operations, maintenance, safety, and passenger experience, including improvements to the baggage handling systems in Terminals 1 and 2. This project is in the bid/award stage with a scheduled completion date in 2023.

- HNL, Runway 8L Widening, Phases 1 and 2: $151.5 million, with $24.7 million spent as of June 30, 2020. The scope of this project is to widen runway 8L to a minimum of 200 feet wide to accommodate FAA design group VI aircraft, repave existing shoulder areas to runway standards, along with updating the associated striping, signage and lighting when necessary. Phase 1 of this project is under construction with a scheduled completion date in January 2021. Phase 2 is in the bid/award stage with a scheduled completion date in 2022.

- HNL, Restroom Improvements, Phases 1 and 2: $60.8 million, with $16.6 million spent as of June 30, 2020. This project will include renovation of restrooms in Terminals 1 and 2, including in the International Arrivals Building. Phase 1 of this project is under construction with a scheduled completion date of June 2021. Phase 2 is in the bid/award stage with a scheduled completion date in 2022.

- HNL, Improvements to Baggage Handling System: $45.5 million, with $17.0 million spent as of June 30, 2020. This project will provide for the design and construction of baggage handling system and explosive detection system improvements in Terminal 2 baggage make-up areas 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. This project is under construction with a scheduled completion date in October 2021.

- HNL, Replace Parking Structure Pedestrian Bridge: $40.4 million, with $12.0 million spent as of June 30, 2020. The scope of work involves the improvements to the three pedestrian bridge crossings between the Terminal 2 and the Terminal 2 Parking Garage. This project is under construction with a scheduled completion date in December 2021.

- HNL, Roadway and Terminal Signage Improvements: $39.3 million, with $30.4 million spent as of June 30, 2020. The scope of work is to replace signage throughout the terminals and concourses, parking structures, and ground and second level roadways to reflect the name change to the gates and baggage claims. This project is under construction with a scheduled completion date in June 2021.

- HNL, other terminal projects: $64.1 million, with $43.2 million spent as of June 30, 2020. This group of projects includes concession improvements to the Diamond Head Concourse, overseas terminal asbestos abatement, and Ewa Concourse reroofing. These projects are in the construction or bid/award stage with scheduled completion dates in 2021.

- HNL, other projects: $6.0 million, with $2.3 million spent as of June 30, 2020. This group of projects includes several miscellaneous projects at HNL with scheduled completion dates in 2022.

Hilo International Airport (ITO): two ITO projects are included in the Ongoing CIP with a total cost of $19.9 million: terminal restroom improvements, and west ramp demolition and lease lots. As of June 30, 2020, $4.8 million has been spent. These two projects are scheduled to be completed in 2021.

Ellison Onizuka Kona International Airport (KOA): key projects at KOA include the following:

- KOA, Terminal Modernization: $89.9 million, with $84.3 million spent as of June 30, 2020. This project includes the construction of a centralized security checkpoint, baggage handling system, the connectivity of the north and south holdroom areas, and other miscellaneous terminal improvements. This project has been substantially completed.

- KOA, Federal Inspection Services Building: $70.2 million, with $4.7 million spent as of June 30, 2020. The scope of work includes the design and construction of a new International Arrivals Building to meet the latest U.S. Customs and Border Protection Airport Technical Design Standards / Passenger Processing Facilities. This project is in the construction stage with a scheduled completion date in October 2021.

- KOA, other projects: $48.1 million, with $8.5 million spent as of June 30, 2020. This group of projects include airfield lighting improvements, south ramp taxiway and ramp improvements, restroom improvements, access control system, new T-hangars and an agricultural inspection station. This group of projects is scheduled to be completed in 2022.

Lihue Airport (LIH): projects at LIH include runway and taxiway rehabilitation, ticket lobby and holdroom improvements and other miscellaneous projects with a total cost of $45.7 million. As of June 30, 2020, $14.4 million has been spent. This group of projects is scheduled to be completed in 2022.

Kahului Airport (OGG): key projects at OGG include the following:

- OGG, Holdroom and Gate Improvements: $48.9 million, with $2.3 million spent as of June 30, 2020. This project will be expanding seating capacity of the holdrooms by enclosing the exterior walkway and connecting several existing holdroom areas, increasing the number of gates by repositioning and adding loading bridges, and strengthening of the second floor support. This project is in the bid/award stage with a scheduled completion date in 2022.

- OGG, other projects: $43.2 million, with $8.0 million spent as of June 30, 2020. This group of projects includes restroom improvements, office and conference room improvements, baggage system improvements, and other miscellaneous projects. This group of projects is in the construction or bid/award stage with scheduled completion dates in 2021.

Other Airports: projects at other airports of the Airports System have a total cost estimate of $42.2 million, with $6.3 million spent as of June 30, 2020. The primary project in this group is the reconstruction and extension of Runway 3-21 at Lanai Airport, with a total cost estimate of $29.9 million. This group of projects is scheduled to be completed in 2022.

Statewide projects: this group of projects include statewide projects such as wastewater and water treatment system, supporting design, program management, construction management, and planning projects, with a total cost estimate of $84.0 million.

Description of Major Capital Improvement Projects in the 2022-2026 CIP

The Airports Division will continue to discuss the projects in the 2022-2026 CIP with the Signatory Airlines, and may further defer some projects pending traffic recovery. The Airports Division has prioritized the projects as follows:

- Safety and Security Projects: projects in this category include HNL emergency operations center, statewide fire alarm system replacement, HNL fire sprinkler system upgrade, ITO replace fire sprinkler, and KOA perimeter fence replacement. Total cost estimate for this category is $104.8 million.

- Regulatory and Compliance Projects: projects in this category are primarily airfield projects for runway and taxiway rehabilitation or reconstruction, which, if implemented, would improve airfield conditions for continuous compliance. The OGG Runway 2-20 Improvements project is included in this category, with an assumed funding plan of bond proceeds, federal grants, and PFC revenues. Total cost estimate for this category is $541.9 million.

- Major Replacement Projects: projects in this category include equipment replacement and other improvements at HNL Terminal 1, Terminal 2 roof replacement, HNL concourse 2nd level roadway improvements, and other replacement projects, with a total cost estimate of $103.2 million.

- Operational Support Projects: projects in this category are utility related improvements with a total cost estimate of $33.4 million.

- Functional Improvement Projects: projects in this category include HNL Taxiway G & L widening Phases II and III, which would allow simultaneous bi-directional taxiing for Group V aircrafts to the Mauka Concourse, OGG south TSA checkpoint, KOA Air Rescue and Fire Fighting regional training facility, HNL Elliott Street roadway improvements, ITO arcade air conditioning improvements, and other projects, for a total cost estimate of $296.4 million.

- Expansion or Capacity Enhancement Projects: projects in this category includes the initial planning studies for the future Diamond Head Concourse Program and other planning studies and land acquisitions, for a total cost estimate of $41.5 million

Consolidated Car Rental Facilities and Other Excluded Projects

Rental Car Projects. The Airports Division has implemented a Statewide Car Rental Facilities Development Program (the "*Rental Car Projects*"), which includes ConRACs at HNL, Kahului, and Lihue Airport, as well as related planning, design, program management, and enabling projects. The ConRACs are in various stages of completion.

HNL Taxiway A Reconstruction. Taxiway A is the main taxiway for departing aircraft. According to the pavement management system, the Airports Division may need to undertake a capital project to improve the condition of Taxiway A in the near future. One option is to replace the entire asphaltic concrete pavement with reinforced concrete, and is estimated to cost approximately $430 million, with an assumed funding plan of bond proceeds, federal grants, and PFC revenues. The Airports Division has included $10 million of design costs in the 2022-2026 CIP.

HNL Diamond Head Concourse Program. In addition to the project described above, in July 2017, the Airports Division submitted the eighth concurrence to the ACH regarding planning, design, and construction of a new Diamond Head Concourse at HNL. The program also includes a second International Arrivals Building, relocation of employee parking and support facilities, improvements to access roadways and landside facilities, and other enabling projects. In October 2017, the ACH conditionally concurred with the project, requiring the Airports Division and the ACH to work collaboratively to proceed with the pre-design phase. The Program has an estimated rough order-of-magnitude cost of $1.1 billion. The Program is in the early pre-design stage and does not have final scopes, schedules, or cost estimates for the various projects of the program. At this time, the 2022-2026 CIP includes only $35 million for the pre-design and planning work.

Funding of the Capital Improvements Program

The Airports System utilizes a variety of fund sources to fund its capital improvements including bonds, federal AIP entitlement and discretionary grants and PFCs. The Airports Division has received a total of $29.0 million, $28.6 million, and $88.9 million under the regular CIP in the federal fiscal year 2018, 2019 and 2020 respectively, and collected a total PFC revenues and interests of $44.9 million in Fiscal Year 2018 and $49.1 million in Fiscal Year 2019. The Fiscal Year 2020 PFC collection is estimated to be $34.3 million.

The following table summarizes the sources of funds and expenditures to finance projects in the Ongoing CIP through June 30, 2020. Totals may vary from the preceding table due to rounding.

Means of Financing (millions)(unaudited)

	Expended as of June 30, 2020	To be Spent	Total
Revenue Bonds	$ 544	$ 635	$ 1,179
Federal Grants	48	153	201
Special Funds	20	67	87
PFC Pay-as-you-go	47	106	153
Total	$ 659	$ 961	$ 1,620

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 determined on a formula based on passenger numbers and 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. 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. 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 grants for AIP-eligible projects.

The Airports Division expects to use a total of $201 million in federal grants for projects in the Ongoing CIP, the majority of which has already been awarded and the balance of which will be awarded during the Ongoing CIP period. The Airports Division received $28.6 million of the AIP grants in federal Fiscal Year 2019, and $101.3 million in federal Fiscal Year 2020 as of September 1, 2020, primarily due to multi-year funding of HNL Runway 8L Widening. For large-hub airports, such as HNL, and for medium-hub airports, such as Kahului, the FAA grants cover 75% of eligible project costs except for limited exceptions. For all other airports, the grant generally covers 90% of eligible project costs. HNL and OGG 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.

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 United States airports. In addition to the FAA grants, the Airports Division also receives Other Transaction Agreements ("*OTAs*") from the TSA for explosive detection system and security closed-circuit televisions ("*CCTV*") related projects. The Airports Division has received OTAs from the TSA for eligible EDS baggage system and CCTV related projects.

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 – Federal Funding and FAA AIP Program**" below.

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 the State. Upon passage of the exclusion, the State agreed to participate in the PFC program.

The Airports Division started PFC collections at five major airports of the 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. The total PFC collection authority is $874 million, of which the Airports Division has collected $517 million on a cumulative cash basis as of June 30, 2020 (unaudited). The PFC cash fund balance was $195 million as of June 30, 2020. The Airports Division plans to submit further PFC applications in the future for other PFC-eligible projects in the CIP. See **"IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above.

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 Department's Director of Transportation into the applicable debt service-related accounts in the Airport Revenue Fund.

Customer Facility Charges and Related Indebtedness. CFCs are charges imposed on certain car rentals for the purpose of paying certain qualified costs including the costs of constructing the Rental Car Projects. CFC revenues do not constitute Revenues or Aviation Fuel Taxes for purposes of the Certificate and do not secure the Bonds. The State separately collects a $4.50 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 of CFC bonds and loans is not secured by Revenues or Aviation Fuel Taxes. See "**FINANCIAL INFORMATION – AIP Grants, Passenger Facility Charge and Customer Facility Charge**" for more information on the Airports Division's use of CFCs and **"IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above for more information on the impact of COVID-19 on CFCs.

Special Funds. Over the years, the Airports Division has accumulated cash balances from Airports System operations. As of June 30, 2020, the Airports Division had cash and investments of $494.9 million in unrestricted accounts. Several accounts are classified as restricted assets for accounting purposes, but could be available for operating expenses, including:

- $104.7 million in an operating reserve; and
- $27.6 million in the Funded Coverage Account, which the Airports Division has been using to demonstrate as unencumbered fund for Rate Covenant purposes;

The Airports Division expects to use a total of $87 million of internal cash for the Ongoing CIP, of which $20 million has been spent as of June 30, 2020.

Revenue Bonds. The Department issued approximately $479 million of revenue bonds in 2010, $244 million of revenue bonds in 2015, and $15 million of revenue bonds in 2018, in each case 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 and the issuance of the Series 2020 Bonds, the Department plans to issue Additional Bonds (which will be on a parity basis with all outstanding Bonds) to fund the remaining costs of the Ongoing CIP, and to fund the costs of any 2022-2026 CIP projects that the Airports Division, in collaboration with the Signatory Airlines, decide to proceed.

PASSENGER TRAFFIC AND AIRLINES

The following Table 1 and Table 2 summarize passenger counts and aircraft operations at Daniel K. Inouye International and the neighbor island airports in the Airports System and landed weights for Fiscal Years 2015 through 2019. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" and "– **Impact of COVID-19 on Passenger Traffic**" above for information on the impact of COVID-19 on passenger traffic and landed weights at the Airports System.

TABLE 1
Enplaned Passengers and Aircraft Operations
Fiscal Year Ended June 30

	2015	2016	2017	2018	2019	2019 vs 2018%
Enplaned Passenger Activity						
By Airport						
Daniel K. Inouye International Airport	9,707,527	9,936,591	10,201,879	10,655,473	10,484,451	-1.6%
Kahului Airport	3,246,892	3,398,955	3,520,512	3,653,790	3,808,047	4.2%
Ellison Onizuka Kona Int'l Airport at Keahole	1,490,934	1,566,316	1,729,855	1,930,727	1,894,897	-1.9%
Lihue Airport	1,386,017	1,432,633	1,518,423	1,663,600	1,691,021	1.6%
Hilo International Airport	648,491	661,161	678,079	675,020	602,719	-10.7%
All Others	202,934	219,704	210,471	227,664	245,755	7.9%
Total Enplaned Passengers	16,682,795	17,215,360	17,859,218	18,806,274	18,726,890	-0.4%
Daniel K. Inouye International Airport as a Percentage of Total Enplaned Passengers	58.2%	57.7%	57.1%	56.7%	56.0%	
By Region and Market						
Domestic Overseas	6,834,201	7,099,220	7,240,443	8,020,657	8,415,420	4.9%
International	2,850,528	2,978,827	3,077,527	3,307,941	3,243,051	-2.0%
Total Overseas	9,684,729	10,078,047	10,317,969	11,328,598	11,658,471	2.9%
Interisland	6,998,066	7,137,313	7,541,249	7,477,676	7,068,419	-5.5%
Total Enplaned Passengers	16,682,795	17,215,360	17,859,218	18,806,274	18,726,890	-0.4%
% of Total						
Domestic Overseas	41.0%	41.2%	40.6%	42.6%	45.0%	
International	17.1%	17.3%	17.2%	17.6%	17.3%	
Interisland	41.9%	41.5%	42.2%	39.8%	37.7%	
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%	
Aircraft Operations (Combined Landing and Take-Off Reported by Control Tower)						
Daniel K. Inouye International Airport	315,474	306,826	308,791	308,179	304,594	-1.2%
Kahului Airport	132,496	135,743	142,511	146,074	155,554	6.5%
Ellison Onizuka Kona Int'l Airport at Keahole	144,098	120,798	111,142	127,920	116,489	-8.9%
Lihue Airport	132,758	118,132	128,947	128,874	129,025	0.1%
Hilo International Airport	85,770	78,237	79,999	89,183	70,382	-21.1%
All Others	214,211	211,407	228,638	221,143	257,419	16.4%
Total Aircraft Operations	1,024,807	971,143	1,000,028	1,021,373	1,033,463	1.2%
Daniel K. Inouye International Airport as a Percentage of Total Aircraft Operations	30.8%	31.6%	30.9%	30.2%	29.5%	

Source: Department of Transportation – Airports Division Planning Section.

TABLE 2
Summary of Landed Weights
Fiscal Year Ended June 30; 1,000 pound units

	2015	2016	2017	2018	2019
By Airport					
Daniel K. Inouye International Airport	16,528,925	16,680,345	17,210,458	17,674,658	17,884,152
All Other Airports	9,920,013	9,963,182	10,494,972	11,150,474	11,373,527
Total Landed Weights	26,448,938	26,643,527	27,705,430	28,825,132	29,257,679
% of Total					
Daniel K. Inouye International Airport	62.5%	62.6%	62.1%	61.3%	61.1%
All Other Airports	37.5%	37.4%	37.9%	38.7%	38.9%
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%
By Market					
Overseas	16,190,994	16,629,128	16,943,475	18,138,548	19,067,397
Interisland	10,257,944	10,014,399	10,761,955	10,686,584	10,190,282
Total Landed Weights	26,448,938	26,643,527	27,705,430	28,825,132	29,257,679
% of Total					
Overseas	61.2%	62.4%	61.2%	62.9%	65.2%
Interisland	38.8%	37.6%	38.8%	37.1%	34.8%
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Department of Transportation – Airports Division Planning Section.

Airline Service and Passenger Activity Operations

Air transportation in the State is characterized by three types of service: (1) domestic in-state interisland service among the islands in the State and airports in the Airports System, (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 37.7% of enplaned passengers in Fiscal Year 2019. Overseas service, including flights to both the continental United States and international destinations, accounted for 45.0% and 17.3% of enplaned passengers in the Airports System for fiscal year 2019. The number of passengers enplaned in the Airports System in Fiscal Year 2019 decreased 0.4 % over Fiscal Year 2018, mainly driven by decreasing interisland enplanements. Prior to the onset of COVID-19, interisland enplanements were expected to increase in Fiscal Year 2020 due to Southwest Airlines Co. commencing neighbor islands service in April 2019. See **"IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Passenger Traffic**" above.

Daniel K. Inouye International is served by 28 Signatory Airlines (as parties to separate airport-airline lease agreements executed effective January 1, 2008, as extended) during Fiscal Year 2019. Of the Signatory Airlines 23 are passenger airlines, including 6 major domestic and national United States airlines (including airlines with multiple leases following mergers), 1 airline that only provides interisland service, and 16 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 10 scheduled passenger airlines, including 6 major and national airlines, 1 regional and commuter airline, and 3 foreign-flag airlines.

The following signatory airlines served the State with scheduled or charter overseas passenger flights during Fiscal Year 2019: Air Canada, Air China Limited, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., AirAsia X Berhad, Alaska Airlines, Inc., All Nippon Airways Co., Ltd., American Airlines, Inc., Asiana Airlines, Inc., China Airlines, Ltd., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Co., Ltd., Jetstar Airways Pty Limited, Jin Air Co., Ltd., Korean Airlines Company, Ltd., Philippine Airlines, Inc., Qantas Airways Limited, Southwest Airlines Co., United Airlines, Inc., and WestJet. The signatory airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Southwest Airlines Co. and Mokulele Flight Service, Inc. Southwest Airlines Co. signed an agreement as a signatory airline effective January 2, 2018, but did not start flights until March 2019. Allegiant Air, L.L.C. ceased services to the State in Fiscal Year 2018. Virgin America merged with Alaska Airlines. Hawaii Island Air, Inc.

filed bankruptcy in Fiscal Year 2018 and stopped services in the State. See "**CERTAIN INVESTMENT CONSIDERATIONS**" below.

In fiscal year 2019, interisland flights accounted for 29.5% of enplaned passengers at Daniel K. Inouye International and 37.7% of all enplaned passengers in the Airports System. Overseas (both domestic and international) flights accounted for 70.5% of enplaned passengers at Daniel K. Inouye International and 62.3% of enplaned passengers in the Airports System. The share of overseas passengers enplaned at the airports, excluding Daniel K. Inouye International, increased from 48.4% in Fiscal Year 2018 to 51.8% in Fiscal Year 2019. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Passenger Traffic**" above. Hawaiian Airlines had 50.3% market share of all enplaned passengers followed by United Airlines 13.0%, Alaska Airlines 8.1%, Delta Air Lines 7.3%, American Airlines 6.8%, and Japan Airlines 2.9%. Other airlines together had 11.7% 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, with a market share of 93.2% in Fiscal Year 2019, increasing from 93.1% in fiscal year 2018. Hawaii Island Air ceased all operations in Fiscal Year 2018. Southwest started overseas services in March 2019 and interisland services in April 2019. In the month of February 2020, Southwest accounted for 16.6% of total monthly interisland enplaned passengers.

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 2015 through 2019. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above.

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TABLE 3

Landed Weights by Airlines
Fiscal Year Ended June 30; 1,000 pound units

	2015	2016	2017	2018	2019
Signatory Airlines (1)					
Hawaiian Airlines, Inc.	10,703,014	10,807,739	11,226,172	11,811,534	11,692,566
United Airlines, Inc. (2)	2,895,360	2,849,402	2,739,204	3,107,058	3,203,530
Delta Air Lines, Inc.	1,885,065	1,788,603	1,834,631	1,841,062	1,738,863
American Airlines, Inc.	1,443,560	1,392,112	1,416,271	1,588,600	1,627,497
Alaska Air, Inc.	1,156,009	1,209,898	1,154,901	1,331,651	1,565,670
United Parcel Service Co.	805,546	833,155	886,799	1,053,532	1,107,118
Japan Airlines International Co., Ltd.	946,723	924,764	986,700	1,081,554	1,073,150
Aeko Kula, Inc.	1,043,583	1,120,314	1,206,634	1,139,338	1,039,878
Federal Express Corporation	646,953	663,012	658,197	667,146	728,519
Korean Airlines Company, Ltd.	436,743	410,789	407,395	451,885	387,235
All Nippon Airways Co. Ltd.	124,160	247,872	299,128	419,995	343,840
Kalitta Air, LLC	207,102	236,208	252,278	253,657	338,447
Mokulele Flight Service, Inc.	309,808	311,126	278,613	309,707	330,931
Qantas Airways, Ltd.	206,248	229,313	230,871	239,054	302,349
Westjet	245,021	262,417	254,002	261,428	275,403
Air Canada	198,400	217,600	206,400	210,794	220,384
Southwest Airlines Co.	-	-	-	-	197,856
JetStar Airways	237,306	230,956	193,257	187,702	153,574
AirAsia X Berhad	-	-	-	21,208	131,328
Air Japan Co., Ltd	116,800	117,120	104,960	41,650	129,200
Asiana Airlines, Inc.	107,189	108,872	108,013	136,047	123,874
Air New Zealand, Ltd.	64,765	66,730	81,600	111,509	122,108
Philippine Airlines, Inc.	110,272	118,156	106,948	101,408	101,334
Air China Limited	66,066	76,076	72,472	68,068	63,263
China Airlines, Ltd.	208,562	208,964	200,581	102,695	57,373
Jin Air Co. Ltd	-	63,940	89,700	80,500	49,680
Polar Air Inc.	25,974	34,826	34,632	35,964	36,005
Air Pacific, Ltd.	21,872	21,488	21,888	21,809	22,195
Hawaii Island Air, Inc.	621,815	459,007	768,115	304,500	-
Virgin America	-	77,991	201,088	114,018	-
Allegiant Air LLC	93,852	81,774	37,422	6,930	-
Total Then-Current Signatory Airlines	24,927,768	25,170,224	26,058,872	27,102,003	27,163,170
Total Then-Current Nonsignatory Airlines	1,521,170	1,473,303	1,646,558	1,723,129	2,094,509
Total All Airlines	26,448,938	26,643,527	27,705,430	28,825,132	29,257,679

Source: Department of Transportation – Airports Division Planning Section.
(1) Indicating signatory status during fiscal year 2019. Statistics for prior years may be under non-signatory status.
(2) Including United Airlines and Continental Airlines.

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TABLE 4
Enplaned Passengers by Airlines
Fiscal Year Ended June 30

	2015	2016	2017	2018	2019
Signatory Airlines (1)					
Hawaiian Airlines, Inc.	8,563,446	8,911,143	9,162,470	9,650,371	9,425,795
United Airlines, Inc.	1,884,224	1,840,933	1,827,468	2,381,882	2,435,588
Alaska Air, Inc.	1,184,524	1,234,398	1,170,754	1,291,927	1,511,451
Delta Air Lines, Inc.	1,301,125	1,312,233	1,406,136	1,430,153	1,367,824
American Airlines, Inc.	1,101,419	1,102,920	1,123,274	1,264,719	1,265,240
Japan Airlines International Co., Ltd.	539,209	555,331	505,183	521,555	536,393
Westjet	221,581	233,039	217,727	252,439	264,202
All Nippon Airways Co. Ltd.	151,587	218,357	232,287	232,759	249,553
Mokulele Flight Service, Inc.	250,626	248,336	221,440	244,856	229,709
Southwest Airlines	-	-	-	-	201,411
Korean Airlines Company, Ltd.	224,362	218,702	211,832	222,667	191,185
Air Canada	133,449	150,777	155,501	166,992	172,412
JetStar Airways	114,396	136,290	124,078	143,282	114,147
AirAsia X Berhad	-	-	-	64,027	89,155
Qantas Airways, Ltd.	42,561	51,005	59,740	68,736	82,412
Asiana Airlines, Inc.	59,246	60,385	58,957	81,708	64,987
Air New Zealand, Ltd.	39,387	37,713	46,850	57,264	61,569
Philippine Airlines, Inc.	38,120	37,706	43,344	46,528	49,614
China Airlines, Ltd.	125,650	130,396	123,630	64,130	33,031
Jin Air Co. Ltd	-	41,116	65,732	53,045	30,365
Air China Limited	24,886	30,079	28,954	28,715	26,272
Air Pacific, Ltd.	15,762	14,868	15,065	14,893	13,234
Hawaii Island Air, Inc.	431,518	325,601	644,621	183,774	-
Virgin America	-	68,034	174,723	97,888	-
Allegiant Air LLC	89,322	79,874	37,300	6,987	-
Total Then-Current Signatory Airlines	16,536,400	17,039,236	17,657,066	18,571,297	18,415,549
Non-Signatory Airlines					
Makani Kai Helicopters	44,165	25,439	85,640	86,292	110,406
China Eastern	44,451	51,199	57,520	60,881	63,799
Omni Air International	49,164	49,698	50,995	50,814	52,966
Scoot	-	-	-	29,675	43,294
Sun Country Airlines	-	-	-	3,855	30,752
Trans Air	1,667	489	1,405	1,394	4,296
Air Transport International	2,686	2,735	2,649	1,659	2,626
Big Island Air	4,262	1,180	1,495	407	2,481
Uzbekistan Airways	-	-	-	-	721
Makani Air Charters	-	44,350	-	-	-
Kaiser Air	-	-	2,448	-	-
Trans Executive	-	1,034	-	-	-
Total Then-Current Nonsignatory Airlines	146,395	176,124	202,152	234,977	311,341
Total All Airlines	16,682,795	17,215,360	17,859,218	18,806,274	18,726,890

Source: Department of Transportation – Airports Division Planning Section.
(1) Indicating signatory status during Fiscal Year 2019. Statistics for prior years may be under non-signatory status.

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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 2015 through 2019. Airports Division's major sources of revenue follows. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Preliminary Financial Estimates for Fiscal Year 2020**" above for information on the impact of COVID-19 on Revenues and debt service coverage.

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TABLE 5
Calculations of Net Revenues and Taxes and Debt Service Requirement
Fiscal Year Ended June 30; Dollars in thousands

	2015	2016	2017	2018	2019
Revenues and Taxes:					
Concession fees:					
Duty-free	$ 32,300	$ 32,300	$ 32,942	$ 40,000	$ 40,601
Other concessions	116,535	113,230	128,285	141,726	142,674
Airport landing fees	59,659	66,088	77,858	86,059	82,988
Aeronautical rentals	97,667	115,422	126,145	133,096	140,350
Non-aeronautical rentals	15,003	15,791	22,996	20,063	22,169
Aviation fuel tax	4,455	2,568	2,156	2,613	2,608
Airports system support charges	31	-	-	-	-
Interest income (1)	3,140	4,874	8,856	10,545	26,117
Federal operating grants	1,558	2,273	2,925	2,875	1,616
Miscellaneous	6,289	7,672	7,226	7,537	9,411
Total Revenues and Taxes	$ 336,637	$ 360,218	$ 409,389	$ 444,514	$ 468,534
Operating and Maintenance Expenses:					
Salaries, wages and pension	$ 88,183	$ 92,251	$ 110,722	$ 110,196	$ 116,992
Other personal services	54,479	58,559	67,426	73,610	82,616
Utilities	41,739	34,415	33,901	34,558	37,995
Special Maintenance	8,914	8,662	9,911	10,145	5,763
Repairs & maintenance	30,637	34,032	32,445	34,318	34,700
Materials and supplies	6,114	5,477	6,180	6,497	6,527
DOT administrative expenses	5,078	5,595	5,919	8,444	8,370
State of Hawaii surcharge of gross receipts	12,568	12,786	13,576	14,492	14,731
Insurance	2,412	2,676	2,633	2,203	2,190
Others	3,431	4,770	5,930	5,336	7,021
Total operating & maintenance expenses (2)	$ 253,555	$ 259,223	$ 288,644	$ 299,799	$ 316,905
Operating expenses for Special Facility (3)					(2,056)
Major maintenance, renewal and replacement account reserve reimbursement	27	-	-	-	-
Total Deductions	$ 253,582	$ 259,223	$ 288,644	$ 299,799	$ 314,849
Net Revenues and Taxes	$ 83,055	100,995	$ 120,745	$ 144,715	$ 153,685
Funded coverage account (4)	19,311	21,186	22,338	21,802	26,780
Adjusted Net Revenues and Taxes (A)	**$ 102,366**	**$ 122,181**	**$ 143,083**	**$ 166,517**	**$ 180,465**
Debt Service Requirement:					
Airports system revenue bonds	$ 77,086	79,822	$ 84,117	$ 87,209	$ 90,008
Less credit to the interest account (5)	(18,500)	(4,321)	(651)	(886)	(8,717)
Total Debt Service Requirement (B)	**$ 58,586**	**$ 75,501**	**$ 83,466**	**$ 86,323**	**$ 81,291**
Debt Service Coverage (A)/(B)	**1.75**	**1.62**	**1.71**	**1.93**	**2.22**
Debt service coverage requirement	1.25	1.25	1.25	1.25	1.25

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) Operating expenses related to Special Facility, such as the consolidated rental car facility, are excluded from the debt service requirement calculation.
(4) Includes rolling coverage.
(5) In Fiscal Year 2014, Fiscal Year 2015 and Fiscal Year 2016, the airlines operating at the Airports System contributed $19 million, $18.5 million and $4 million respectively, from the PAUCF to reduce their payments. In addition, Passenger Facility Charge (PFC) Revenues were used for debt service in the amount of $320,597 in Fiscal Year 2016, $650,817 in Fiscal Year 2017, $885,953 in Fiscal Year 2018 and $8,717,280 in Fiscal Year 2019.

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 2015 through 2019 at http://hidot.hawaii.gov/airports/library/financial-audit-reports/. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM**" above for information on the impact of COVID-19 on the Revenues of the Airports System.

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 joint-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 car 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 include 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. MAGs for concession agreements are typically subject to relief under economic emergencies, as specified in respective concession agreements. The State has granted MAG relief to concessionaires that have experienced a significant loss of income for any month or months between April 2020 and October of 2020. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Summary of Actions Taken in Response to COVID-19**" The following table sets forth the concession fees and their percentage of total Concession Revenues for Fiscal Years 2015 through 2019. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM –Impact of COVID-19 on Certain Financial and Operational Data**" above for information on the impact of COVID-19 on concession fees paid to the Airports System.

Concessions
Fiscal Year Ended June 30; Dollars in thousands

	2015	2016	2017	2018	2019
Concession Fees					
Duty-free	$ 32,300	$ 32,300	$ 32,942	$ 40,000	$ 40,601
Rental Car	60,258	53,687	64,445	73,238	72,354
Parking	22,463	24,935	26,996	27,142	27,152
Retail (Non Duty-free)	15,469	14,668	16,038	17,231	17,176
Food & Beverage	8,221	8,881	10,141	11,132	11,430
Ground Transportation	3,005	3,243	3,006	3,886	3,187
Other	7,119	7,816	7,659	9,097	11,375
Total Concession Fees	$ 148,835	$ 145,530	$ 161,227	$ 181,726	$ 183,275
% of Total					
Duty-free	21.7%	22.2%	20.4%	22.0%	22.2%
Rental Car	40.5%	36.9%	40.0%	40.3%	39.5%
Parking	15.1%	17.1%	16.7%	14.9%	14.8%
Retail (Non Duty-free)	10.4%	10.1%	9.9%	9.5%	9.4%
Food & Beverage	5.5%	6.1%	6.3%	6.1%	6.2%
Ground Transportation	2.0%	2.2%	1.9%	2.2%	1.7%
Other	4.8%	5.4%	4.8%	5.0%	6.2%
Total Percentage of Concession Fees	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Department of Transportation – Airports Division: Audited Financial Statements and work paper support for Fiscal Years 2015-2019.

Duty-free Concession. The exclusive concession contract for the sale of in-bond (duty-free) merchandise has been a major source of concession revenues for the Airports System. DFS Group, L.P. ("*DFS*") operates the in-bond concessions at Daniel K. Inouye International, Kona and two off-airport locations pursuant to a 10-year lease agreement that began in 2007. Effective October 31, 2014, the in-bond concession contract was amended to provide for the following: (1) the term of the contract was extended in 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 from June 1, 2019 through May 31, 2020, $47.5 million, (c) for the period from 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 from June 1, 2021 through May 31, 2022, the same as the previous year, (e) for the period from June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable (either MAG or percentage) 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) the 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. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Summary of Actions Taken in Response to COVID-19**" above.

In addition, DFS agreed to pay $27.9 million for improvements to the Central Waiting Lobby Building at Daniel K. Inouye International, and another $39.2 million for concession improvements.

Duty free revenues paid to the Airports Division were $40.6 million in Fiscal Year 2019, or 22.2% of total concession fees. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above for information on the impact of COVID-19 on duty-free concession fees paid to the Airports System.

DFS laid off a quarter of its workforce, or 165 employees, in the State in September 2019 and announced their plan to lay off 193 employees effective September 2020. It remains uncertain whether an off-airport location will be permanently closed. See Appendix A – Report of the Airport Consultant for a further discussion on DFS and duty free revenues.

Rental Car Concessions. In fiscal years 2017, 2018 and 2019, car rental concession revenues were $64.4 million, $73.2 million and $72.4 million, respectively, accounting for approximately 40% of concession fees 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. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above for information on the impact of COVID-19 on rental car concession fees paid to the Airports System. See also "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM –Other Information**" above for information relating to the Hertz and Advantage/Enterprise Chapter 11 bankruptcies.

The Department and certain RACs operating in the Airports System (the Signatory RACs), executed the Statewide Airports Car Rental Facilities Concession Agreement and Facility Leases (collectively the "*ConRAC Leases*") on May 1, 2015, covering operations of Statewide Airports Car Rental Facilities System, which, as of June 30, 2020, includes a ConRAC under construction at Daniel K. Inouye International and another ConRAC completed at Kahului in May 2019. Upon completion of each ConRAC, the Signatory RACs operating at the airport with the completed ConRAC will operate from the ConRACs under terms of the ConRAC Leases.

Kahului ConRAC opened in May 2019. Rental car companies moved into the facility and started paying annual ground rent in addition to MAGs. ConRAC at Daniel K. Inouye International is expected to open in late 2021. Existing car rental concession agreements continued in effect through May 31, 2019 and were extended month-to-month at Hilo International, Kona, and Lihue Airport, with nine rental car brands (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, Payless and Thrifty) at each of these airports. Lihue Airport also has a tenth operator, Advantage. Existing car rental concession agreement in effect at Molokai Airport with Alamo as the sole on-airport car rental operator continued through May 31, 2019 and was extended month-to-month. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Other Information**" above for information relating to the Hertz and Advantage/Enterprise Chapter 11 bankruptcies.

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 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 Daniel K. Inouye International, Lihue, Hilo International, Kona and Kahului are managed by ABM Parking Services (formerly Ampco System Parking). The Airports Division receives 80% of gross receipts from parking operations at Daniel K. Inouye International and Kahului, 65% from Kona and Lihue Airport, and 55% from Hilo International. The Airports Division collected $27.2 million of parking revenues in fiscal year 2019, or 14.8% of total concession fees. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above for information on the impact of COVID-19 on parking facilities concession fees at the Airports System.

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 Daniel K. Inouye 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 (amended to September 30, 2023). Volume Services dba Centerplate continues to operate food and beverage concessions at Hilo International and Kona. Food and beverage revenues were $11.4 million in Fiscal Year 2019, or 6.2% of total concession fees. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above for information on the impact of COVID-19 on food and beverage concession fees at the Airports System.

Retail (non duty-free). Non-duty-free retail concessions include revenues from retail shops and gift shops in the Airports System. DFS operates the (non-duty-free) retail concession for Daniel K. Inouye International, through March 31, 2026. DFS pays to the Airports Division the greater of the MAG (set at $10.1 million for the period of April 1, 2018 through March 31, 2019) 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 through August 31, 2026. Travel Traders, Inc. will continue to hold the retail concession at Lihue Airport through June 30, 2021. Tiare Enterprises, Inc. concession agreement contract was extended for Hilo International and Kona (expires on August 31, 2025). Retail concession revenues in fiscal year 2019 were $17.1 million, or 9.4% of total concession fees, down by 0.3% from $17.2 million in Fiscal Year 2018. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above for information on the impact of COVID-19 on non-duty free retail concession fees at the Airports System.

Ground Transportation. Ground transportation fees includes revenues from contracts and permits in connection with shuttle services, taxicab operations and other courtesy vehicle operations. Transportation Network Companies are not a significant revenue source to the Airports Division. Ground transportation fees were $3.2 million in Fiscal Year 2019, or 1.7% of total concession fees.

Other. Other concession fees 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 fees were $11.4 million in Fiscal Year 2019, or 6.2% of total concession fees.

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. Aeronautical rentals include nonexclusive joint-use premise charges, exclusive-use premises charges, non-terminal aeronautical rentals, and Airports System Support Charges generated pursuant to the Amended Lease Extension Agreements (as defined below) and the Hawaii Administrative Rules, Title 19, Subtitle 2 (the "*Administrative Rules*"). Exclusive-use premise charges are computed as the product of terminal rental rate and square footage rented. Joint-use premise charges are set pursuant to the Amended Lease Extension Agreement. Airports System Support Charges for Signatory Airlines were established to recover all remaining residual costs of the Airports System, when needed. Airports System Support Charges for non-signatory air operators were established by Administrative Rules. 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 following table sets forth the landing fees, and aeronautical rentals and their percentage of total Revenues of the Airports System for Fiscal Years 2015 through 2019.

Aeronautical Revenues (Net of Aviation Fuel Tax Credit)
Fiscal Year Ended June 30; Dollars in thousands

	2015	2016	2017	2018	2019
Aeronautical Revenues (Net of Aviation Fuel Tax Credit)					
Airport landing fees and Airports System Support Charges	$ 59,690	$ 66,088	$ 77,858	$ 86,059	$ 82,988
Aeronautical rentals	97,667	115,422	126,145	133,096	140,350
Total Aeronautical Revenues	$ 157,357	$ 181,509	$ 204,003	$ 219,155	$ 223,338
% of Total Revenues and Taxes					
Airport landing fees and Airports System Support Charges	17.7%	18.3%	19.0%	19.4%	17.7%
Aeronautical rentals	29.0%	32.1%	30.8%	29.9%	30.0%
Total Percentage	46.7%	50.4%	49.8%	49.3%	47.7%

Source: Department of Transportation – Airports Division: Audited Financial Statements for Fiscal Years 2015-2019.

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*"). During Fiscal Year 2019, there were 28 Signatory Airlines, including 23 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 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 47% in Fiscal Year 2019, and is scheduled to increase 1 percentage point annually until it reaches 100%.

The Amended Lease Extension Agreement also established a 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, or a per bag 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 when needed.

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 Airports Division Procedures and 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 rate methodologies for nonsignatory commercial air carriers pursuant to Chapter 261-7(e), HRS, effective January 1, 2012.

Aeronautical Revenues (Net of Aviation Fuel Tax Credit)
Fiscal Year Ended June 30; Dollars in thousands

	2015	2016	2017	2018	2019
Aeronautical Revenues (Net of Aviation Fuel Tax Credit)					
Signatory	$ 141,691	$ 163,525	$ 183,946	$ 196,144	$ 198,199
Non-Signatory	15,666	17,984	20,057	23,011	25,139
Total Aeronautical Revenues	$ 157,357	$ 181,509	$ 204,003	$ 219,155	$ 223,338
% of Total					
Signatory	90.0%	90.1%	90.2%	89.5%	88.7%
Non-Signatory	10.0%	9.9%	9.8%	10.5%	11.3%
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Department of Transportation – Airports Division: Audited Financial Statements for Fiscal Years 2015-2019.

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 PAUCF Agreements, any over-collection shall be deposited in the PAUCF, which is the property of the Signatory Airlines.

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, respectively, of the PAUCF to reduce airline rates and charges. This amount is shown as prepaid interest, a reduction to the Annual Adjusted Debt Service Requirements, as defined in the Certificate. There has been no prepaid interest from the PAUCF since 2016. The PAUCF fund balance was $0.3 million as of June 2020.

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. Effective January 1, 2016, the tax was reduced from two cents to one cent 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 and Taxes of the Airports System for Fiscal Years 2015 through 2019. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Preliminary Financial Estimates for Fiscal Year 2020**" above for information on the impact of COVID-19 on Aviation Fuel Tax revenues.

Aviation Fuel Taxes
Fiscal Year Ended June 30; Dollars in thousands

	2015	2016	2017	2018	2019
Total Aviation Fuel Taxes	$ 4,455	$ 2,568	$ 2,156	$ 2,613	$ 2,608
% of Total Revenues and Taxes	1.3%	0.7%	0.5%	0.6%	0.6%

Source: Department of Transportation – Airports Division: Audited Financial Statements for Fiscal Years 2015-2019.

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. Such 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).

The following table sets forth the non-aeronautical rental revenues and its percentage of total Revenues and Taxes for Fiscal Years 2015 through 2019.

Non-Aeronautical Rental Revenues Other Than Concession Fees
Fiscal Year Ended June 30; Dollars in thousands

	2015	2016	2017	2018	2019
Non-Aeronautical Rental Revenues Other Than Concession Fees	$ 15,003	$ 15,791	$ 22,996	$ 20,063	$ 22,169
% of Total Revenues and Taxes	4.5%	4.4%	5.6%	4.5%	4.7%

Source: Department of Transportation – Airports Division: Audited Financial Statements for Fiscal Years 2015-2019.

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. Those revenues were $9.4 million in Fiscal Year 2019.

Other Non-Operating Revenues. Certain interest income and federal operating grants are included as Revenues under the Director's Certificate. In Fiscal Year 2019, interest income was $26.1 million, federal operating grants was $1.6 million.

Federal Capital Grants. Federal Aviation Administration grants under the 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.

CARES ACT Grants. The CARES Act provides $10 billion of assistance to United States commercial airports, which is apportioned among such airports based on various formulas. The FAA has announced that the Airports System is eligible to receive $133.3 million of CARES Act funds for expense reimbursement. The Airports Division can use their awarded CARES Act grants to pay for any purpose for which airport revenues can lawfully be used, including, but not limited to, the payment of maintenance and operation expenses on or after January 20, 2020, and the payment of debt service on or after March 27, 2020. CARES Act grants must be used within four years from the date on which the agreement between the Airports Division and the FAA is executed, and the Airports Division must comply with certain other obligations, including, but not limited to, employing at least 90% of their staff as of March 27, 2020 through December 31, 2020. The Airports Division expects to use $50 million to reimburse operating expenses occurred in Fiscal Year 2020, and the remaining $83.3 million to reimburse operating expenses in Fiscal Year 2021. The Airports Division submitted the first reimbursement request in June 2020 and received a total of $50.0 million as of August 31, 2020. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM**" above.

Passenger Facility Charges. As described above, a 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. The FAA has approved a total of 8 PFC applications from the Airports Division as of August 2020. In Fiscal Year 2018 and Fiscal Year 2019, respectively, $0.9M and $8.7M of PFC revenues were used for the payment of eligible debt service. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Impact of COVID-19 on Certain Financial and Operational Data**" above for information on the impact of COVID-19 on PFCs.

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. The State Surcharge increased from $12.6 million in Fiscal Year 2015 to $14.7 million in Fiscal Year 2019 (at an average annual growth rate of 4.1%).

Airports System operating expenses are composed primarily of salaries and wages, other personal services, utilities, repairs and maintenance and other expenses. In Fiscal Years 2018 and 2019, cost of operation, maintenance and repair were $299.8 and $314.8 million, respectively. Salaries and wages have increased from $88.2 million in Fiscal Year 2015 to $117.0 million in Fiscal Year 2019 for an annual average growth rate of 7.3%. Excluding $8.9 million of non-cash pension expenses, salaries and wages increased 5.2% annually from Fiscal Year 2015 to Fiscal Year 2019. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Preliminary Financial Estimates for Fiscal Year 2020**" above.

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 2015 through 2019. Annual Adjusted Debt Service Requirements exclude capitalized interest and certain amounts deposited into the Interest Account, as permitted under the Certificate. See

"**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Preliminary Financial Estimates for Fiscal Year 2020**" above

Cash and Cash Equivalents

The following table presents a summary of cash and cash equivalents and investments for Fiscal Years 2015 to 2019. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Cash and Liquidity**" above for information on the impact of COVID-19 on cash and liquidity of the Airports Systems.

TABLE 6
Summary of Cash and Cash Equivalents and Investments
Fiscal Year Ended June 30; Dollars in thousands

	2015	2016	2017	2018	2019
Cash, Cash Equivalents and Investments					
Petty Cash	$ 5	$ 5	$ 5	$ 5	$ 5
Cash in State Treasury	1,046,533	1,278,501	1,190,777	1,085,275	1,424,196
Amount Held by Trustee	4,432	262	-	-	-
Certificates of Deposit	78,594	49,333	78,691	96,893	77,273
U.S. Government Securities	-	47,560	34,995	16,835	25,197
Repurchase Agreements	18,299	-	-	-	-
Money Market Funds	34,821	24,069	46,881	185,466	20,637
Total Cash, Cash Equivalents and Investments	$ 1,182,684	$ 1,399,730	$ 1,351,349	$ 1,384,474	$1,547,308
Reflected in the Balance Sheet as Follows:					
Cash and Cash Equivalents:					
Unrestricted	$ 550,385	$ 558,290	$ 576,465	$ 584,797	$ 503,263
Restricted	500,585	720,478	614,842	500,483	752,584
Total Cash and Cash Equivalents	$ 1,050,970	$ 1,278,768	$ 1,191,307	$ 1,085,280	$ 1,255,847
Investments - Restricted	96,893	96,893	96,893	252,817	270,824
COP Funds - Trustee	34,821	24,069	63,149	46,377	20,637
Total Cash, Cash Equivalents and Investments	$ 1,182,684	$ 1,399,730	$ 1,351,349	$ 1,384,474	$ 1,547,308

Source: Department of Transportation – Airports Division: Audited Financial Statements for Fiscal Years 2015-2019.

Outstanding Airports System Revenue Bonds

As of September 1, 2020, approximately $1,252.4 million of Airports System Revenue Bonds were outstanding. All Bonds were issued as fixed rate debt. After the issuance of the Series 2020 Bonds, $ 1.53 billion will be outstanding (taking into account the redemption of the Refunded Bonds). The Department anticipates issuing Additional Bonds to finance a portion of future CIPs. See "**CAPITAL IMPROVEMENTS PROGRAM**."

The following table sets forth the principal and interest requirements for the Bonds following issuance of the Series 2020 Bonds.

TABLE 7
TOTAL BONDS DEBT SERVICE[1]

FYE June 30,	Prior Bonds Debt Service[2]	Series 2020A Bonds		Series 2020B Bonds		Series 2020C Bonds		Series 2020D Bonds		Series 2020E Bonds		Total Debt Service[2]
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2021	$46,429,759	-	$3,675,174	-	$4,013,495	-	$704,688	-	$5,218,819	-	$1,302,395	$61,344,330
2022	46,429,365	-	5,292,250	-	5,779,433	-	1,014,750	-	7,515,100	-	1,875,449	67,906,347
2023	81,363,434	-	5,292,250	-	5,779,433	-	1,014,750	-	7,515,100	-	1,875,449	102,840,416
2024	83,705,287	-	5,292,250	-	5,779,433	-	1,014,750	-	7,515,100	-	1,875,449	105,182,269
2025	67,678,397	-	5,292,250	-	5,779,433	-	1,014,750	-	7,515,100	$18,300,000	1,875,449	107,455,379
2026	69,284,428	-	5,292,250	-	5,779,433	-	1,014,750	-	7,515,100	16,950,000	1,620,713	107,456,674
2027	67,681,116	-	5,292,250	-	5,779,433	-	1,014,750	$1,725,000	7,515,100	17,120,000	1,331,546	107,459,195
2028	69,267,265	-	5,292,250	-	5,779,433	-	1,014,750	1,715,000	7,428,850	15,940,000	1,022,359	107,459,907
2029	69,087,506	-	5,292,250	-	5,779,433	-	1,014,750	1,980,000	7,343,100	16,280,000	682,837	107,459,876
2030	69,820,756	$2,920,000	5,292,250	-	5,779,433	-	1,014,750	1,340,000	7,244,100	13,725,000	319,793	107,456,082
2031	69,995,006	17,110,000	5,146,250	-	5,779,433	-	1,014,750	1,235,000	7,177,100	-	-	107,457,540
2032	69,992,506	17,965,000	4,290,750	-	5,779,433	-	1,014,750	1,300,000	7,115,350	-	-	107,457,790
2033	69,992,506	18,865,000	3,392,500	-	5,779,433	-	1,014,750	1,365,000	7,050,350	-	-	107,459,540
2034	69,995,506	19,805,000	2,449,250	-	5,779,433	-	1,014,750	1,430,000	6,982,100	-	-	107,456,040
2035	39,596,756	20,795,000	1,459,000	-	5,779,433	-	1,014,750	31,900,000	6,910,600	-	-	107,455,540
2036	39,601,506	1,330,000	627,200	-	5,779,433	-	1,014,750	33,170,000	5,634,600	-	-	87,157,490
2037	39,590,506	1,385,000	574,000	-	5,779,433	-	1,014,750	34,505,000	4,307,800	-	-	87,156,490
2038	39,598,006	1,440,000	518,600	-	5,779,433	-	1,014,750	35,880,000	2,927,600	-	-	87,158,390
2039	39,601,506	1,500,000	461,000	-	5,779,433	-	1,014,750	37,310,000	1,492,400	-	-	87,159,090
2040	78,409,506	1,555,000	401,000	-	5,779,433	-	1,014,750	-	-	-	-	87,159,690
2041	78,413,756	1,610,000	338,800	-	5,779,433	-	1,014,750	-	-	-	-	87,156,740
2042	78,413,056	1,675,000	274,400	-	5,779,433	-	1,014,750	-	-	-	-	87,156,640
2043	78,410,956	1,745,000	207,400	-	5,779,433	-	1,014,750	-	-	-	-	87,157,540
2044	78,410,406	1,815,000	137,600	-	5,779,433	-	1,014,750	-	-	-	-	87,157,190
2045	78,409,006	1,625,000	65,000	$265,000	5,779,433	-	1,014,750	-	-	-	-	87,158,190
2046	41,413,750	-	-	18,960,000	5,770,201	-	1,014,750	-	-	-	-	67,158,701
2047	41,410,000	-	-	19,620,000	5,109,634	-	1,014,750	-	-	-	-	67,154,384
2048	41,412,000	-	-	20,305,000	4,426,074	-	1,014,750	-	-	-	-	67,157,824
2049	-	-	-	62,425,000	3,718,647	-	1,014,750	-	-	-	-	67,158,397
2050	-	-	-	44,310,000	1,543,760	$20,295,000	1,014,750	-	-	-	-	67,163,510
TOTAL	$1,743,413,557	$113,140,000	$71,648,174	$165,885,000	$163,288,214	$20,295,000	$30,132,438	$184,855,000	$121,923,369	$98,315,000	$13,781,436	$2,726,677,187

[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] Excludes debt service on the Refunded Bonds.
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.

Other Obligations of the Department

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. To date the Department has issued its $167.7 million Series 2013 Lease Revenue Certificates of Participation, its $8.1 million Series 2016 Lease Revenue Certificates of Participation and its $51.5 million Series 2017 Lease Revenue Certificates of Participation. The COPs were issued to finance energy efficient and energy savings projects which themselves are backed by contracts from Johnson Controls, Inc. guaranteeing minimum annual energy cost savings in an amount sufficient to pay all annual debt service on COPs. As of August 1, 2020, $198.5 million of COPs were outstanding.

Special Facility Leases and Special Obligation Bonds. The State Legislature has authorized $200,000,000 of special obligation bonds ("*Special Obligation Bonds*") pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2020, there were $21,725,000 of Special Obligation Bonds outstanding. These Special Obligation Bonds are payable solely from and collateralized solely by monies derived from the applicable special facilities lease agreements and 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.

Customer Facility Charge Revenue Bonds. The Department has issued approximately $445 million of CFC Bonds to finance the construction of the ConRACs. The CFC Bonds are secured by CFC collections and are not secured by the Revenues or Aviation Fuel Taxes.

General Obligation Bonds. From time to time, the State may issue and 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.

The Department from time to time issues Special Obligation Bonds to finance special facility projects for qualified entities. *All such Special Obligation Bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of Special Obligation Bonds and not secured by Revenues and Aviation Fuel Taxes.*

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 for Fiscal Year 2020 was $777,300. 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 paid the State Department of Accounting & General Services ("*DAGS*") $1,540,500 for Fiscal Year 2020. 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 $24.1 million and $26.5 million, and for the Airports System as a whole $45.1 million and $48.9 million in Fiscal Years 2018 and 2019, respectively. The Airports System is subject to additional expense increases based upon future mandated security directives from the TSA.

Employee Benefits

Employees' Retirement System. This section contains certain information relating to the Employees' Retirement System of the State (the "*Retirement System*" or "*ERS*"). The information contained in this section is primarily derived from information produced by the Retirement System, its independent accountant and its actuary. None of the State, the Department or the Airports Division has independently verified the information provided by the Retirement System, its independent accountant or its actuary, and such entities make no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the Retirement System and most recent valuation report of the Retirement System may be obtained by contacting the Retirement System. The comprehensive annual financial reports of the Retirement System are also available on the State's website at http://portal.ehawaii.gov/, and other information about the Retirement System are available on the Retirement System's website at http://ers.ehawaii.gov/. Such documents and other information are not incorporated herein by reference. The Retirement System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the Retirement System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the Retirement System's Board of Trustees, the Retirement System's benefit structure or the actuarial method used by the Retirement System) will reflect the actual results experienced by the Retirement System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the Retirement System's actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the Retirement System), one or more or which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

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

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

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

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

The required pension contributions by the Airports Division to the ERS for the years ended June 30, 2019, 2018 and 2017 were $14,425,204, $13,117,603 and $11,615,759, respectively, which represented 21.45%, 21.08% and 19.91% of covered payroll for each of the years then ended. Act 17, SLH 2017, which became effective July 1, 2017, increased employer contribution requirements as follows:

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

The total assets of the Retirement System on a market value basis amounted to approximately $14.1 billion as of June 30, 2016, $15.7 billion as of June 30, 2017, $16.6 billion as of June 30, 2018, $17.2 billion as of June 30, 2019, and $ 17.2 billion as of June 30, 2020. The actuarial certification of assets was, $15.0 billion as of June 30, 2016, $15.7 billion as of June 30, 2017, $16.5 billion as of June 30, 2018 and $17.3 billion as of June 30, 2019. As of June 30, 2019, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the Retirement System amounted to approximately $14.074 billion. Measurement of assets and actuarial valuations are made for the Retirement System as a whole and are not separately computed for individual participating employers such as the Airports Division.

The State anticipates that as the percentage of employees hired on and after July 1, 2012 increases, and increases in the employer contribution rates required by Act 17, SLH 2017, impact the Retirement System, the State will be able to fully amortize the UAAL over a 30-year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in Fiscal Year 2023. The combination of the higher contribution policies and new benefit structure for future employees should enable the Retirement System to absorb the prior adverse experience and the revised actuarial assumptions over the 30-year term.

Other Post-Employment Benefits. In addition to pension benefits, state and local governments are required to account for and report other post-employment benefits ("*OPEBs*") under Governmental Accounting Standards Board Statement No. 75 ("*GASB 75*") which was effective for fiscal years beginning July 1, 2016 and 2017. The State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "*Trust Fund*") provides OPEBs in the form of certain health and life insurance benefits to retired State and county employees, including retired 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 has received the Trust Fund's July 1, 2019 Actuarial Valuation Study (the "*Trust Fund Report*") and the GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions report (the "*GASB 75 Report*") prepared for fiscal year ending June 30, 2019 of the Trust Fund's OPEB liabilities. The Trust Fund and the GASB 75 Reports were prepared by the State's professional actuarial advisors, Gabriel Roeder Smith & Company. The Trust Fund Report quantifies the Actuarial Accrued Liabilities ("*AAL*") of the respective employers under GASB 75 and develops the Annual Required Contributions ("*ARC*"). The GASB 75 Report complements the Trust Fund Report and the calculation of the OPEB Trust liability for this report is not applicable for funding purposes of the OPEB Trust.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with prefunding of the ARC and a discount rate of 7%. The Trust Fund Report states that the State's unfunded AAL as of July 1, 2019 is

$9,553.5 million. The corresponding ARC for the fiscal years ending June 30, 2021 and 2022 are $842.5 million and $877.2 million, respectively. The Trust Fund Report estimates the "pay-as-you-go" funding amounts for fiscal years ending June 30, 2021 and 2022 are $454.0 million and $495.5 million, respectively.

In the past, the State funded its OPEB costs on a "pay-as-you-go" basis; however, the State began the process of pre-funding its OPEB costs with contributions in the amount of $100 million for fiscal year ending June 30, 2014. The State has met its pre-funding OPEB contribution in accordance with Act 268, SLH 2013 for the fiscal years ending June 30, 2015, 2016, 2017, 2018, 2019 and 2020 with actual contributions of $117.4 million (versus the $83.0 million Act 268, SLH 2013 required contribution), $249.8 million (versus the $163.6 million Act 268, SLH 2013 required contribution), $333.0 million (versus the $230.2 million Act 268, SLH 2013 required contribution) and $337.1 million (versus the $297.063 million Act 268, SLH 2013 required contribution), $787.1 million (Act 268, SLH 2013 required contribution), and $787.110 million (Act 268, SLH 2013 required contribution), respectively. The market value of the State's OPEB assets amounted to $2.3 billion as of June 30, 2020. The actuarial value of assets and funded ratio at July 1, 2020 based on the July 1, 2019 actuarial valuation was $2.4 billion and 19.8%, respectively. Investment return net of fees on OPEB assets during fiscal year 2020 was 1.8% versus the assumed 7%. On July 17, 2020, Governor David Ige issued a Tenth Proclamation Related to the COVID-19 Emergency which suspended the provisions of certain statutes for the fiscal year ending June 30, 2021 that require employer contribution of the annual required contribution. As a result, the employers are required to only contribute their share of the monthly the "pay-as-you-go" health benefit premiums and claims expenses for the fiscal year ending June 30, 2021.

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

State Trust Fund Contributions
Fiscal Years 2014 — 2022

Fiscal Year	ARC	Benefit Payment**	Act 268 Prefunding Requirement %*	Act 268 Prefunding Requirement $	Total Prefunding Contribution**	Total Contributions
2014	$692,622,000	$279,881,150	N/A	N/A	$100,000,000	$379,881,150
2015	717,689,000	275,614,692	20%	$82,990,000	117,400,000	393,014,692
2016	742,808,000	300,654,770	40%	163,615,000	249,827,434	550,482,204
2017	744,248,000	331,174,888	60%	230,185,000	333,049,894	664,224,782
2018	770,297,000	345,083,003	80%	297,063,000	337,129,000	682,212,003
2019	787,110,000	356,827,495	100%	430,282,505	430,282,505	787,110,000
2020**	814,659,000	381,426,549	100%	433,232,451	433,232,451	814,659,000
2021**	842,456,000	454,027,000	100%	388,429,000	-0-	454,027,000

*Percentage/amount of the annual required contribution less estimated benefit payments required under Act 268.
**Fiscal years 2014, 2015, 2016, 2017, 2018, 2019 and 2020 are actual, and 2021, and 2022 are projected based on the 2019 Trust Fund Report and included in the State's General Fund Financial Plan. Effective fiscal year 2019, Act 268 requires 100% ARC payment. Employer annual contributions for fiscal year 2021 were suspended due to COVID-19 by emergency declaration of the Governor on July 17, 2020.

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

Measurement of the actuarial valuation and the ARC for OPEB costs are made for the State as a whole and are not separately computed for the individual State departments. The State allocates the ARC to the various departments and agencies. The Airports Division's contribution for the fiscal years ended June 30, 2019 and June 30, 2018 was $15,734,971 and $12,797,071, respectively, which represented 99% and 106%, respectively, of the Airports Division's share of the Department's ARC for OPEB costs of $15,872,711 and $12,105,649, 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 59.08% of covered payroll for fiscal year 2018 and the interim fringe benefit rates for fiscal year 2019, 2020 and 2021 were 60.08%, 63.08%, and 50.75% respectively. The decrease in fiscal year 2021 is primarily due to suspension of pre-funding of OPEB costs in fiscal year 2021.

The State will be temporarily suspending the Act 268 UAAL prefunding balance payments for all public employers starting in fiscal year 2021 in order to help address budget shortfalls resulting from the impacts of the COVID-19 pandemic. For fiscal year 2021, prefunding payments are being suspended pursuant to the Governor's emergency order. Future fiscal years' suspensions will be through legislation proposed during the 2021 session. The duration of the suspensions is currently planned for the period from fiscal years 2021 through fiscal year 2025 but this is subject to change. This planned suspension currently is not expected to affect the funding of the Retirement System.

Ceded Lands

Portions of lands underlying HNL, Hilo International and Kona 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 Retirement System Revenues.

REPORT OF THE AIRPORT CONSULTANT

The Airports Division retained ICF SH&E, Inc. to serve as an airport consultant in connection with the issuance of the Series 2020 Bonds. The Report of the Airport Consultant is attached as Appendix A hereto. The Report of the Airport Consultant has been included in reliance upon the knowledge and experience of the Airport Consultant. As stated in the Report of the Airport Consultant, any projection is subject to uncertainties. Therefore, there are likely to be differences between the projections and actual results, and those differences may be material. The Report of the Airport Consultant should be read in its entirety for an understanding of the projections and underlying assumptions. Any description or summary of the Report of the Airport Consultant in this Official Statement is qualified in its entirety by reference to such report.

CERTAIN INVESTMENT CONSIDERATIONS

*The Series 2020 Bonds may not be suitable for all investors. Prospective purchasers of the Series 2020 Bonds should give careful consideration to the information set forth in this Official Statement, including, in particular, the matters referred to in the following summary and above under the heading "**IMPACT OF COVID-19 ON THE AIRPORTS SYSTEM**". However, the following summary does not purport to be a comprehensive or exhaustive discussion of risks or other considerations which may be relevant to investing in the Series 2020 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other considerations not discussed herein will not become material in the future.* ***The risks to the Airports System related to COVID-19, although not purported to be a comprehensive or exhaustive discussion, can be found above under the heading "IMPACT OF COVID-19 ON THE AIRPORTS SYSTEM." The risks below present a summary of additional risks to the Airports System and Revenues, not related to COVID-19, that prospective purchasers of the Series 2020 Bonds should give careful consideration to prior to purchasing the Series 2020 Bonds.***

COVID-19

See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM**" above for risks associated with the Series 2020 Bonds and the Airports System resulting from the COVID-19 pandemic.

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 and projections 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. Key factors that affect airline traffic at the Airports System, other markets impacting the Airports System and the financial condition of the airlines, and, therefore, the amount of Revenues available for payment of the Bonds, include: growth or decline in tourism and the State population; local, regional, national and international economic and political conditions; environmental factors, including environmental risks, noise abatement and air pollution abatement; international hostilities; world health concerns, such as the COVID-19 pandemic; aviation security concerns; airline service and routes; aviation accidents; airline airfares and competition; changes in bankruptcy, industry and other applicable laws; airline industry economics, including labor relations and costs; availability and price of aviation fuel (including the ability of airlines to hedge fuel costs); regional, national and international environmental regulations; airline consolidation and mergers; capacity of the national air traffic control and airport systems; capacity of the Airports System and competition from other airports for connecting traffic; changes in demand for air travel and business travel substitutes, including teleconferencing, videoconferencing and web-casting.

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Other factors, such as fuel and regulatory costs, can also have a significant effect on the industry. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The ability of the Airports Division to derive revenues from its operations depends largely upon the financial health of the airlines serving the Airports System and the airline industry as a whole. The financial results of the airline industry are subject to substantial volatility and, at times, many carriers have had overlapping, extended periods of unprofitability. The profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as COVID-19, the terrorist attacks of September 11, 2001, and the economic recession of 2008 and 2009.

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 or elimination of service to unprofitable markets, particularly aircraft size such as use of regional jets, can affect total enplanements. No assurances can be given that any of the airlines will continue operations or maintain their current level of operations at the Airports System. If one or more of the airlines discontinues operations at the Airports System, its current level of activity may not be replaced by other carriers.

Information about the financial condition of airlines serving the Airports System is available as described under "**Airline Information**" below.

Economic Considerations. Historically, the financial performance of the air transportation industry has correlated closely with the state of the national and international economy and levels of real disposable income. It is not possible to predict the overall long-term impact of COVID-19 on the national or international economy or the related impact on the air transportation industry at this time.

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 United States economy, other regional and world economies, corporate profitability, airline safety, security and world 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 United States Bankruptcy Code.

Airlines operating at the Airports System and other Airports System tenants have filed for bankruptcy or have ceased operating generally or within the State in the past and may do so in the future. For example, Hertz and Advantage/Enterprise filed for bankruptcy relief within the last few months and in 2018 Hawaii Island Air ceased all operations. Potential investors are urged to review the airlines' financial information and SEC Reports on file with the SEC and DOT.

In the event a bankruptcy case is filed with respect to any of the Signatory Airlines or a tenant of the Airports System, a bankruptcy court could determine that the Amended Lease Extension Agreement of such Signatory Airline or any lease to which a tenant is party 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 or the tenant lease and delays or reductions in payments from the affected airline or tenant to the Department could cause delays or reductions in payments on the Series 2020 Bonds. If an Amended Lease Extension Agreement or tenant lease 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.

Additional bankruptcies, liquidations or major restructurings of other airlines could occur. 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. As described under "**PASSENGER TRAFFIC AND AIRLINES – Airline Service and Passenger Activity Operations**" above, Hawaiian Airlines served 47.5% of all enplaned passengers at the Airports System in Fiscal Year 2020. If Hawaiian Airlines were to reduce or cease connecting service within the State, such flights would not necessarily be replaced by other airlines. While historically when airlines have reduced or ceased operations at the Airports System other airlines have absorbed the traffic with no significant adverse impact on Revenues, it is possible that were Hawaiian Airlines or another airline to cease or significantly cut back operations at the Airports System, Revenues, PFC collections and costs for other airlines serving the Airport System could be adversely affected.

Alaska Air Group, Inc., the parent company of Alaska Airlines, and Virgin America, Inc. merged effective December 2016. The merged airline received a single operating certificate from the FAA in January 2018. The merged airline moved to a single reservations system on April 25, 2018, and has adopted Alaska's name and logo. Further airline consolidation remains possible. While prior mergers have had, and 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 United States 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. Airline profitability is significantly affected by the price of aviation fuel. According to Airlines for America, fuel is the largest single cost component for most airline operations, and therefore an important and uncertain determinant of an air carrier's operating economics. Any increase in fuel prices causes an increase in airline operating costs. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world (particularly in the oil-producing nations in the Middle East and North Africa), Organization of Petroleum Exporting Countries' policy, increased demand for fuel caused by rapid growth of economies such as China and India, the levels of fuel inventory maintained by certain industries, the amounts of reserves maintained by governments, currency fluctuations, disruptions to production and refining facilities and weather. The cost of aviation fuel has fluctuated in the past in response to changes in demand for and supply of oil worldwide. Significant fluctuations and prolonged increases in the cost of aviation fuel historically have had an adverse impact on air transportation industry profitability, causing airlines to reduce capacity, fleet and personnel as well as to increase airfares and institute fuel, checked baggage and other extra surcharges, all of which may decrease demand for air travel.

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 SEC Reports and other information with the SEC. Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in SEC Reports and statements filed with the SEC. Such SEC 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.

Assumptions in the Report of the Airport Consultant; Actual Results May Differ from Projections and Assumptions

The Report of the Airport Consultant included as Appendix A incorporates numerous assumptions and states that the projections in the Report of the Airport Consultant is subject to uncertainties. The range of projected key financial metrics relied on in the Report of the Airport Consultant was prepared based on a hypothetical six-year and eight-year recovery in the number of enplaned passengers compared to actual Fiscal Year 2019 passenger levels at the Airports System, as well as a number of other assumptions described therein. The key financial metrics were also based, in part, on the Airport Consultant's interpretation of the information provided by the Airports Division, the State, publicly available sources and other third-parties.

The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety for an understanding of all of the assumptions used to prepare the projections made therein. No assurances can be given that the projections discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which projections are based will be realized. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances will occur. Therefore, actual results achieved during the projection periods may vary from those set forth in Appendix A and the variation may be material and adverse. See Appendix A – Report of the Airport Consultant.

Factors Affecting Capital Improvements Program

The Department's capital projects may increase the Department's overall long-term debt.

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. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Summary of Actions Taken in Response to COVID-19**" and "**CAPITAL IMPROVEMENTS PROGRAM – COVID-19 Impact and CIP Prioritization**" above. The capital improvements are designed to modernize and make more efficient the various facilities of the Airports System. The Department expects that it will experience an aggregate increase in debt service costs when it issues Additional Bonds, which will increase landing fees and terminal rents at the Airports System, thereby increasing the costs of the airlines serving the Airports System. The timing and amounts of Additional Bonds may change depending on passenger and cargo demands, the availability of other funding sources, the timing of capital expenditures and market conditions. The Department also may undertake additional capital projects during the period covered by the CIP that are not presently included in the CIP and expects that it will undertake other major capital projects following the completion of the current CIP.

As a result of the COVID-19 pandemic and the resulting economic uncertainty, the Department is currently reprioritizing its capital projects to determine which projects will move forward and which projects will be suspended. The Department continues to monitor passenger traffic and operations to inform its decisions to restart suspended projects, if at all. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Summary of Actions Taken in Response to COVID-19**" and "**CAPITAL IMPROVEMENTS PROGRAM – COVID-19 Impact and CIP Prioritization**" above.

If the Department is unable to finance and complete major capital projects, the Department may be unable to provide critical improvements to aging infrastructure or meet regulatory requirements.

If, for any reason, the Department is unable to undertake critical capital projects, then the condition of the Airports System facilities may decline, which can impact customer experience, airline satisfaction, and operational efficiency and effectiveness. In addition, the Airports System may be required to undertake certain capital projects to comply with regulatory requirements or to preserve the overall viability of the Airports System.

The Department's capital projects may be delayed or over budget.

Although the Department uses a variety of strategies to mitigate risk associated with the implementation of its capital projects, project development could be delayed, and the cost of completing projects included in the CIP could be higher than expected due to various factors that are outside of the control of the Department, 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, bidding and contracting requirements, (5) material and/or labor shortages, (6) unforeseen site conditions or unexpected integration into existing facilities, (7) adverse weather conditions and other force majeure events, (8) contractor defaults, (9) labor disputes, (10) unanticipated levels of inflation, (11) world health concerns, (12) new or ongoing military hostilities, (13) the inability to obtain, or delays in obtaining, regulatory approvals or the inability to comply with the conditions or regulatory approvals, (14) changes in laws or regulations, (15) inability to obtain, or delays in obtaining, federal approvals or federal funding, (16) delays caused by the airline review process, (17) unanticipated engineering, environmental or geological problems, (18) litigation, (19) tariffs, (20) cost overruns, (21) casualty, (22) strikes, and (23) financial difficulties of contractors. In addition, it is possible that funding sources such as federal grants may not be available as expected. If costs are higher than projected or funds are not available to finance the projects or portions thereof, the Department may have to delay or cancel projects and/or incur additional indebtedness. Some of the capital projects of the Department are essential to the Department's ability to generate Airports System revenues. See "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM – Summary of Actions Taken in Response to COVID-19**" and "**CAPITAL IMPROVEMENTS PROGRAM – COVID-19 Impact and CIP Prioritization**" above for a discussion of some projects that have been delayed as a result of the COVID-19 pandemic. Furthermore, 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 Airport Consultant attached hereto as Appendix A – Report of the Airport Consultant.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of international hostilities (such as those that have occurred in the Middle East) and terrorist attacks, may have an immediate and significant impact on the demand for aviation services, including, but not limited to, services at the Airports System and depress airline industry revenues and the Revenues. Security concerns can influence passenger travel behavior and air travel demand. These concerns intensified in the aftermath of the events of September 11, 2001, after which enplanements at the Airports Systems and the receipt of Revenues were negatively affected 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 are 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. Additionally, the Airports System cannot forecast what new health screening or security requirements may be imposed in the future, or their impact on the Airports System's customers and operations.

Structural Changes in the Travel Market

Many factors have combined to alter consumer travel patterns. The threat of terrorism against the United States remains high. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. Additionally, consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares.

World Health Concerns

The current COVID-19 pandemic has had and likely will continue to have material adverse effects on passenger traffic and Airports System operations and financial performance. See. "**IMPACT OF COVID-19 PANDEMIC ON THE AIRPORTS SYSTEM**" above.

Furthermore, other worldwide health concerns and related travel restrictions and public health measures have led to significant declines in passenger traffic at the Airports System. For example, in spring 2003, there was an outbreak of a serious strain of bird influenza or "flu" in Asia and Canada called "Severe Acute Respiratory Syndrome" or "SARS." That, together with the outbreak of the war in Iraq and other factors at about the same time, resulted in a temporary but significant decline in passenger activity at the Airports System in the second quarter of Fiscal Year 2003. Additionally, other worldwide health concerns such "swine flu" caused by the H1N1 virus in 2009, Ebola virus in West Africa in 2014 and the Zika virus in 2016, have affected travel demand from time to time. Future outbreaks or pandemics may lead to a decrease in air traffic at the airports System, which in turn could cause a decrease in passenger activity at the Airports System and a corresponding decline in Airports System revenues.

Impact of Uncertainties of the Airline Industry on the Airports System

The Airports Division's ability to derive Revenues from its operation of the Airports System depends on many factors, many of which are not subject to the Airport Division's control. Some of the factors affecting aviation activity at the Airports System include: the growth of population and of the economy in the State, airline service and route networks, the financial health and viability of the airline industry, national and international economic and political conditions, world health concerns, 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. Additionally, Revenues may be affected by the ability of the Signatory Airlines, individually and collectively, to meet their respective obligations under the Amended Lease Extension Agreement. The Department and the Airport Consultant have used certain assumptions to prepare the projections made in this Official Statement. No assurances can be given that these assumptions will materialize. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the projection 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. If the number of enplaned passengers at the Airports System falls below certain estimates, the actual PFC revenues will fall short of certain projections (unless the dollar amount of PFCs increases). There can be no assurance as to what passenger traffic and revenues of the Airports System will be in the future.

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.

Furthermore, notwithstanding FAA regulations requiring airlines that collect PFCs to account for PFC collections separately and indicating that those PFC collections are to be regarded as funds held in trust by the collecting airline for the beneficial interest of the public agency imposing the PFC, in the event of a bankruptcy proceeding involving a collecting airline, though it has not been the case at the Airports System in connection with prior airline bankruptcies, there is the possibility that a bankruptcy court could hold that the PFCs in the airline's custody are not to be treated as trust funds and that the Airports System is not entitled to any priority over other creditors of the collecting airline as to such funds. Airports Division management believes that any uncollected PFCs held by current bankrupt airlines operating at the Airports System are not material to the continued operation of the Airports System.

Federal Funding and FAA AIP Program. The Department receives certain Federal funds, including from the AIP. The AIP provides federal capital grants to support airport infrastructure, including entitlement grants (determined by formulas based on passenger, cargo, and general aviation activity levels) and discretionary grants (allocated on the basis of specific set asides and the national priority ranking system). Additionally, certain operations at the Airports System are supported by Federal agencies including, flight traffic controllers, FFA, FBI and CBP, among others. Federal agencies also have regulatory and review authority over, among other things, certain Airports System operations, construction at the Airports System and the airlines operation at the Airports System.

H.R. 302 (P.L. 115-254), the FAA Reauthorization Act of 2018, was signed into law on October 5, 2018. It extended FAA's funding and authorities through fiscal year 2023. The bill includes important legislative changes related to increasing the safety and pace of unmanned aircraft system integration, expediting the financing and development of airport capital projects, directing the FAA to advance leadership in the field of international supersonic aircraft polices, addressing aircraft noise, and ensuring safe lithium battery transport. Furthermore, the bill directs FAA to promote United States aerospace-related standards globally and allows the FAA to work with foreign partners to streamline certification processes for United States aircraft. The legislation also streamlines the FAA certification process to ensure that United States aviation manufacturers can compete globally and get their products to market on time, and fosters collaboration with industry stakeholders to streamline certification and regulatory processes and establish clear FAA performance objectives and metrics.

This five-year authorization of the FAA represents the first significant multi-year reauthorization since the FAA Modernization and Reform Act of 2012 (P.L. 112-95), and the first five-year reauthorization since 1982. The signing of the long-term bill frees up the FAA from the uncertainty of more short-term extensions and instead authorizes the reliable, predictable funding the FAA needs to invest in these critical priorities.

Failure of Congress to reauthorize the FAA's operating authority beyond the current legislation, or adverse changes in the conditions placed on such authority, may have an adverse impact on the Airports System operations over the long-run because grants awarded under the FAA's AIP have been a significant source of financing for the Airports Division.

Federal funding received by the Airports Division and aviation operations could be adversely affected by the implementation of sequestration - a unique budgetary feature first introduced in the Budget Control Act of 2011, which, among other things, reduced spending for most federal programs. Sequestration could also adversely affect FAA and TSA budgets, operations and the availability of certain federal grant funds anticipated to be received by the Airports Division which may cause the FAA or TSA to implement furloughs of its employees and hiring freezes, including air traffic controllers, and result in flight delays and flight cancellations.

Additionally, 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. Any remedies available to the owners of the Bonds 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.

Future Legislation and Regulation

The Airports System is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The Airports System is highly regulated by federal agencies including the FAA, the TSA, Customs and Border Protection ("*CBP*") and the United States Department of Health and Human Services. In the past, actions, rules and policies by these agencies (in particular the FAA, TSA and CBP) have required the Department to undertake additional capital and equipment expenditures, have affected passenger traffic, or both. The COVID-19 pandemic may lead to additional rules and regulations. The Department is unable to predict the adoption or amendment of additional laws, rules or regulations, or their effect on the operations or financial condition of the Airports System.

Cybersecurity

The Airports System, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, criminal hackers, hacktivists, state-sponsored actors, employee malfeasance, viruses, malware and human or technological error on its computing and other digital networks and systems (collectively, the "*Airports System Technology*"). These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world. As a recipient and provider of personal, private, or sensitive information, the Airports System may be the target of cybersecurity incidents that could result in adverse consequences to the Airports System Technology, requiring a response action to mitigate the consequences.

Furthermore, in response to these threats there has been heightened legislative and regulatory focus on data privacy and cybersecurity. This regulatory environment is increasingly challenging and may present material obligations and risks to the Airports System's business, including significantly expanded compliance burdens, costs and enforcement risks. In addition, many of the Airports System's commercial partners, including credit card companies, have imposed data security standards that the Airport System must meet. While the Airports System continues its efforts to meet these standards, new and revised standards may be imposed that may be difficult for the Airports System's to meet and could increase the Airports System's costs.

A significant cybersecurity incident could result in a range of potentially material negative consequences for the Airports System, including unauthorized access to, disclosure, modification, misuse, loss or destruction of systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information; the loss of functionality of critical systems through ransomware, denial of service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. The constantly changing nature of the threats means that the Airports System may not be able to prevent all data security breaches or misuse of data. Similarly, the Airports System depends on the ability of its key commercial partners, including airlines and technology vendors, to conduct their businesses in a manner that complies with applicable security standards and assures their ability to perform on a timely basis.

In addition, the costs of operation consequences of defending against, preparing for, responding to and remediating an incident of cybersecurity breach may be substantial. As cybersecurity threats become more frequent, intense and sophisticated, costs of proactive defense measures may increase. Further, the Airports System could be exposed to litigation, regulatory enforcement and other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well as injunctive relief requiring costly compliance measures. A cybersecurity incident could also impact the Airports System's brand, harm its reputation and adversely impact the relationship with the Airports System's customers, airlines, government partners, and employees. Failure to appropriately address these issues could also give rise to potentially material legal risks and liabilities. The airlines serving the Airports System and other Airports System tenants, as well as the FAA and TSA, also face cybersecurity threats that could affect their operations and finances.

To mitigate the risk and/or damage from cybersecurity incidents or cyber-attacks, the Department invests in multiple forms of cybersecurity and operational safeguards. The Office of Enterprise Technology Services ("*ETS*") within the Hawaii State Department of Accounting and General Services provides governance for executive branch information technology projects and supports the management and operation of computer and telecommunication services to State agencies, including programs in fulfillment of statutorily mandated cybersecurity duties outlined under Hawaii Revised Statutes. ETS is led by the Chief Information Officer of the State, with the advice of an eleven-member steering committee appointed by the Governor, Chief Justice, Senate President and Speaker of the House of Representatives. The Chief Information Security Officer reports to the Chief Information Officer and is responsible for establishing cybersecurity standards for the State executive branch and ensuring that system operations stay current with best practices.

While the Airports System Technology cybersecurity and operational safeguards are periodically tested, no assurances can be given by that such measures will effectively prevent cybersecurity threats and attacks. In additions to the concerns stated above, cybersecurity breaches could damage the Airports System Technology and cause material disruption or damage to the Airports System, its operations or otherwise adversely affect the Airports System, the generation of Revenues, the collection PFC collections and/or the costs for airlines serving the Airports System.

Climate Change Issues

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem sea levels will rise, extreme temperatures will become more common and extreme weather events will become more frequent and more intense, as a result of increasing global temperatures attributable to atmospheric pollution. The Airports System operations and infrastructure are vulnerable to effects of sea level rise, extreme climate conditions, extreme weather events, and significant capital investments have been made and other investments will need to be made to address these vulnerabilities. Furthermore, the long-term effects of sea level rise and climate change, combined with increasing passenger awareness of the climate change impacts on aviation, could reduce demand for travel globally or locally (to or from the Airports System), or impact infrastructure, including the Airports System and access to the Airports System, with potential material adverse effects on the Airports System's operations and financial condition.

Beyond the direct adverse material effect of global climate change itself, present, pending and possible regulations aimed at curbing the effects of climate change may directly or indirectly materially adversely affect the operations and infrastructure or financial condition of the Airports System and the airlines operating at the Airports System. These include federal and state (including State) regulations and international accords pertaining to greenhouse gas ("*GHG*") emissions that could require significant upgrades to planes, increase the cost of jet fuel, or both, thus increasing the cost of, and potentially reducing passenger demand for, air travel. The Department is unable to predict what additional laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted or what effects such laws and regulations with have on the Airports System, airlines operating at the Airports System, other airports System tenants, or the local economy. The effects, however, could be material.

On June 7, 2017 Governor Ige signed Act 32 Session Laws of Hawai'i, 2017 (the "*Climate Change Act*") into law, which, among other things, renamed the Interagency Climate Adaptation Committee as the Hawaii Climate Change Mitigation and Adaptation Commission (the "*Climate Commission*"), clarified and expanded the duties of the Climate Commission and made the State the first state to enact legislation implementing parts of the Paris climate accord. The Climate Change Act anticipates that the Climate Commission will provide direction, facilitation, coordination and planning among state and county agencies, federal agencies, and other partners about climate change mitigation (reduction of greenhouse gases) and climate change resiliency strategies, including, but not limited to, sea level rise adaptation, water and agricultural security, and natural resource conservation. The Fifth Assessment Report by the Intergovernmental Panel on Climate Change (the "*IPCC Report*"), predicted that if GHG continue at the then-current (2014) rate of increase, there would be 3.2 feet of global sea level rise by the year 2100. Based upon the IPCC Report, other federal research, and additional scientific literature the Climate Commission prepared the State of Hawaii's 2017 Hawaii Sea Level Rise Vulnerability and Adaptation Report (the "*2017 Climate Report*") which is available at https://climateadaptation.hawaii.gov/wp-content/uploads/2017/12/SLR-Report_Dec2017.pdf. The 2017 Climate Report includes descriptions of the anticipated impact of 3.2 feet of sea level rise on the Airports System including, for certain airports within the Airports System, topographical renderings showing where the future coast line would be in comparison to such airports. The 2017 Climate Report is not incorporated herein and is not a part of this Official Statement. The Department cannot predict what, if any, sea level rise will occur in the future or what impact it will have on Airports System's operations, expenses or operating revenues.

The EPA has taken steps towards regulation of GHG emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On July 5, 2011, the United States District Court for the District of Columbia issued an order concluding that 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 August 15, 2016, EPA found that GHG emissions from certain aircraft cause and contribute to pollution that endangers public health and welfare. In that endangerment finding, EPA stated that it intends 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 ("*ICAO*"), a specialized agency within the United Nations. The ICAO's standards were approved on October 6, 2016 and adopted on March 6, 2017. The ICAO standards apply to new aircraft type designs from 2020 forward and new deliveries of current in-production aircraft models from 2023 with a cutoff date of 2028 for production of non-compliant aircraft. In January 2018 the EPA publicly indicated its intent to adopt the ICAO emission standards for the United States, but the agency has not initiated rulemaking or set a timeline for such actions. Consequently, the Department cannot predict when EPA's emission standards will be proposed, when the Federal Aviation Administration will adopt regulations to implement those standards, or what effect the standards may have on the Department or on air traffic at the Airports System.

In October 2016 the ICAO also adopted a market-based mechanism to curb emissions, the Carbon Offsetting and Reduction Scheme for International Aviation ("*CORSIA*"). CORSIA is comprised of 192 member countries and is designed to achieve carbon-neutral growth for international (but not domestic) civil aviation from 2020 onwards, via pilot, volunteer and mandatory phases. As of July 2, 2018, 73 nations representing 87.7% of international aviation activity, including the United States, indicated they will participate in the pilot and volunteer phases of CORSIA. However, on July 4, 2018, China withdrew from participation. As of November 2018, the remaining countries were negotiating the design of a global carbon market for airlines, with controversy regarding the extent of European Union control and the inclusion of credits created by the "Clean Development Mechanism" created under the Kyoto Protocol. It remains unclear whether CORSIA will have any impact, economically or on climate.

In 2019, the Climate Commission created the Climate Ready Hawaii Initiative to support state and county government agencies and communities in maintaining best available information and practices for sea level rise adaptation actions. The Initiative includes a community resilience building planning process to help State communities, counties and institutions of any scale to identify their top priorities based on climate change hazards cross-referenced with strengths and vulnerabilities relative to infrastructure, social and environmental characteristics. The Initiative would operationalize these climate change induced risk into standard operating procedures for departments and agencies statewide.

Projections of the effects of global climate change on the State, the Airports System and Airports System tenants, and on Airports System operations and infrastructure are complex and depend on may factors that are outside the Department's control. Climate change may affect the Airports System operations and infrastructure directly, as described above, or indirectly, such as by disrupting access to or demand for the Airports System or operations at other airports that have ripple effects in the air transportation industry. The various scientific studies that forecast climate change and its adverse effects, including seal level rise, are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the Department is unable to forecast when sea level rise, other adverse effects, or the confluence of these events or effects of climate change (e.g., the occurrence and frequency of extreme precipitation or king tides) will occur. In particular, the Department cannot predict the timing or precise magnitude of adverse economic effects, including, without limitation, material adverse effects on the business operations or financial condition of the Airports System and the local economy during the term of the Series 2020 Bonds, While the effects of climate change may be mitigated by the Department's past, current and future investments in mitigation and adaptation strategies and attempts to identify third party contribution and/or grant funding to finance mitigation and adaptation measures, the Airports System can give no assurance about the net effects of those strategies, the feasibility of government or third party funding sources, and whether the Department will be required to take additional adaptive mitigation or adaptation measures. If necessary, such additional measures could require significant capital reserves.

Natural Disasters

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

Technological Innovations

New technologies and innovative business strategies in established markets are likely to be developed in the future. For example, transportation network companies ("*TNCs*"), such as Uber Technologies Inc. and Lyft, Inc. have become increasingly popular in recent years, resulting in shifts in the relative share of non-airline revenues from various ground transportation activities and operational issues such as increased curbside congestion. In addition to TNCs, new technologies (such as autonomous vehicles, connected vehicles or urban aerial ridesharing with VTOL (vertical takeoff and landing) aircraft) may result in further changes in the Airports System's passengers' choice of ground transportation mode. The Airports Division cannot predict with certainty what impact these innovations in ground transportation will have over time on revenues from parking, other ground transportation services or rental cars. The Airports Division also cannot predict with certainty whether or to what extent it will collect non-airline revenues in connection with such new technologies or innovative business strategies. In addition, improved teleconferencing technologies and increased acceptance of these methods of communicating could reduce the demand for business travel, though the impact of such technologies on the demand for business travel is not known. While the Airports Division makes every effort to anticipate changes resulting from new technologies and innovative business strategies and to minimize negative impacts on revenues, if any, there may be times when the Airports Division's expectations differ from actual outcomes. In such event, revenues could be lower than expected and additional capital or operating expenses might be incurred.

Unmanned Aerial Vehicles

With the proliferation of inexpensive, commercially available, unmanned aerial vehicles ("*UAVs*"), or drones, the threat that unauthorized and unsafe UAV operations near airports could adversely affect the safety or security of United States airports and arriving or departing aircraft has increased significantly in recent years.

Recent incursions of airport airspace by UAVs have disrupted airport operations by causing flights to be halted or diverted. London's Gatwick Airport was closed for 27 hours, impacting some 140,000 passengers and causing roughly 1,000 flights to be delayed or canceled between December 19 and 21, 2018 due to drone incursions. An unauthorized UAV incursion at the Airports System could result in the temporary delay or cancellation of flights to or from the Airports System as well as harm the Airports System's brand, reputation and its relationships with the Airports System's customers, airlines and government partners. Although UAVs are regulated by the FAA and federal law prohibits the Airports System from disrupting UAV operations or undertaking counter UAV measures, the Airports System is working closely with the FAA to develop measures to prevent unauthorized UAV activity from adversely affecting the Airports System. There can be no assurance, however, that in the future, unauthorized UAV activity will not adversely affect Airports System's operations.

Travel Restrictions

On January 27, 2017 president Donald Trump issued Executive Order 13769 ("*Executive Order 13769*"), which, other than to the extent it was blocked by various court proceeds, was in until it was superseded by Executive Order 13780 issued by president Donald Trump on March 16, 2017 ("*Executive Order 13780*" and, together with Executive Order 13769, the "*Travel Orders*"), in each case suspending the ability for nationals of certain countries from entering the United States. In addition to directly reducing the eligibility of these individuals from entering the State and, in doing so, reducing the pool of potential customers for the Airports System, the Travel Orders each prompted large scale protests at a number of airport facilities across the United States. The Department cannot predict what impact, if any, any future travel restrictions of this nature would have on the operations of the Airport System or the collection of Revenues.

Potential Limitation of Tax Exemption of Interest on the Tax-Exempt Bonds

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

Risk of Tax Audit

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

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 2020 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 2020 Bonds or affecting the validity of the Series 2020 Bonds.

TAX MATTERS

Tax-Exempt Bonds

Summary of Bond Counsel Opinion. Katten Muchin Rosenman LLP, Bond Counsel, is of the opinion that under existing law, interest on the Tax-Exempt 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 Tax-Exempt Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the Series 2020A Bonds is an item of tax preference for purposes of the federal alternative minimum tax, but interest on the Series 2020C Bonds and the Series 2020D Bonds is not an item of tax preference for purposes of the alternative minimum tax. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest on any of the Series 2020A Bonds or the Series 2020D Bonds for any period during which such Series 2020A Bond or Series 2020D 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds. These requirements relate to the use and investment of the proceeds of the Tax-Exempt Bonds, the payment of certain amounts to the United States, the security and source of payment of the Tax-Exempt Bonds and the use of the property financed with the proceeds of the Tax-Exempt Bonds. Among these specific requirements are the following:

(a) *Investment Restrictions*. Except during certain "temporary periods," proceeds of the Tax-Exempt 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 Tax-Exempt Bonds.

(b) *Rebate of Permissible Arbitrage Earnings*. Earnings from the investment of the "gross proceeds" of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Tax-Exempt 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 Tax-Exempt Bonds. Such provisions may restrict future changes in the use of any property financed with the proceeds of the Tax-Exempt Bonds.

Covenants to Comply. The State covenants in the Certificate to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds.

Risk of Non Compliance. In the event that the State fails to comply with the requirements of the Code, interest on the Tax-Exempt 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 Certificate does not require acceleration of payment of principal of or interest on the Tax-Exempt Bonds or payment of any additional interest or penalties to the owners of the Tax-Exempt Bonds.

Federal Income Tax Consequences. Pursuant to Section 103 of the Code, interest on the Tax-Exempt 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 Tax-Exempt 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 TAX-EXEMPT BONDS.

(a) *Cost of Carry*. Owners of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds.

(b) *Corporate Owners*. Interest on the Tax-Exempt 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 Tax-Exempt Bonds is taken into account in computing 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds held by such a company is properly allocable to the shareholder.

(g) *Information Reporting and Back-up Withholding.* Payments of interest on the Tax-Exempt Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Tax-Exempt Bonds owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Tax-Exempt 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 Tax-Exempt Bonds is sold to the public (the "*Offering Price*") and the principal amount payable at maturity of such Tax-Exempt Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Series 2020 Bond, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Series 2020 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 Tax-Exempt 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 Tax-Exempt Bond and is subtracted from the owner's tax basis in the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bond. A Tax-Exempt 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 Tax-Exempt Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the Tax-Exempt Bond).

Owners who purchase Tax-Exempt 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 Tax-Exempt Bonds. In addition, owners of Tax-Exempt Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of owners

State and Local Income Tax Consequences. In the opinion of Bond Counsel, interest on the Tax-Exempt 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 Tax-Exempt Bonds or income therefrom. Other than the foregoing, Bond Counsel expresses no opinion as to the State and local tax consequences of the ownership of, accrual or receipt of interest on, and the disposition of, the Tax-Exempt Bonds.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS ON THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT BONDS.

Taxable Bonds

The following is a summary of the principal United States federal income tax consequences of ownership of the Taxable Bonds. This summary deals only with the Taxable Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold the Taxable Bonds as a hedge or as hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the United States dollar.

The Code contains a number of provisions relating to the taxation of the Taxable Bonds (including, but not limited to, the treatment of and accounting for interest, premium, and market discount thereon, gain from the disposition thereof and withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Prospective purchasers of the Taxable Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of the Taxable Bonds.

Notwithstanding the information below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Taxable Bonds at the time such income, gain or loss is recognized on such financial statements instead of under the rules described below.

United States Federal Income Tax Considerations for United States Holders of Taxable Bonds.

Payments of Interest to United States Holders. Interest on the Taxable Bonds will be taxable to a United States Holder (as defined below) as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes in accordance with generally applicable principles.

The term "*United States Holder*" refers to a beneficial owner of a Taxable Bond for United States federal income tax law purposes and that is:

- a citizen or resident of the United States;

- a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;

- an estate the income of which is subject to United States federal income taxation regardless of its source; or

- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the trust was in existence on August 10, 1996 and properly elected to continue to be treated as a United States person.

If a partnership holds the Taxable Bonds, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Taxable Bonds should consult its tax advisor regarding the consequences to the United States federal income tax treatment of an investment in the Taxable Bonds.

Sale and Retirement of the Taxable Bonds. Unless a non-recognition provision of the Code applies, United States Holders of the Taxable Bonds must recognize any gain or loss on the sale, redemption, retirement or other disposition of their Taxable Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of a Taxable Bonds (except to the extent attributable to accrued but unpaid interest on the Taxable Bonds which will be taxed in the manner described above under "Payments of Interest to United States Holders" above) and the United States Holder's adjusted tax basis in the Taxable Bond. Such gain or loss is capital gain or loss, except to the extent of accrued market discount not previously included in income, and is long term capital gain or loss if at the time of disposition such Taxable Bond has been held for more than one year.

Unearned Income Medicare Contribution Tax. A 3.8% Medicare contribution tax is imposed on the "net investment income" of certain United States individuals and on the undistributed "net investment income" of certain estates and trusts. Among other items, "net investment income" generally includes interest and certain net gain from the disposition of property (such as the Taxable Bonds), less certain deductions.

United States Federal Income Tax Considerations for Non-U.S. Holders of Taxable Bonds.

The term "*Non-U.S. Holder*" refers to any beneficial owner of a Taxable Bond who or which is not a United States Holder.

Withholding Tax on Payments of Principal and Interest on Bonds held by Non-U.S. Holders. Generally, subject to the discussion of FATCA below, payments of principal and interest on a Taxable Bond held by a Non-U.S. Holder will not be subject to United States federal withholding tax, provided that in the case of an interest payment:

- the Non-U.S. Holder owning the Taxable Bond is not a bank to which the Taxable Bonds constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and

- either (A) the Non-U.S. Holder owning the Taxable Bond certifies to the applicable payor or its agent, under penalties of perjury on an IRS Form W-8BEN, IRS Form W-8BEN-E or a suitable substitute form, that such owner is not a United States person and provides such owner's name and address or (B) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (a "*financial institution*") and holds the Taxable Bond, certifies under penalties of perjury that such an IRS Form W-8BEN, IRS Form W-8BEN-E or suitable substitute form has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof.

If the beneficial owner is entitled to the benefit of an income tax treaty to which the United States is a party, such owner can obtain an exemption from or reduction of income and withholding tax (depending on the terms of the treaty) by providing to the withholding agent a properly completed IRS Form W-8BEN, IRS Form W-8BEN-E, or any successor form, before interest is paid. However, neither exemption nor reduced withholding will be available if the withholding agent has actual knowledge or reason to know that the form is false.

Except to the extent otherwise provided under an applicable tax treaty, a Non-U.S. Holder owning a Taxable Bond generally will be taxed in the same manner as a United States Holder with respect to interest payments on a Taxable Bond if such interest is effectively connected with such owner's conduct of a trade or business in the United States. Effectively connected interest received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

Gain on Disposition of the Taxable Bonds by a Non-U.S. Holder. A Non-U.S. Holder owning a Taxable Bond generally will not be subject to United States federal income tax on gain realized on the sale, exchange or redemption of a Taxable Bond unless:

- such owner is an individual present in the United States for 183 days or more in the taxable year of such sale, exchange or redemption and either (A) such owner has a "tax home" in the United States and certain other requirements are met, or (B) the gain from the disposition is attributable to such owner's office or other fixed place of business in the United States; or

- the gain is effectively connected with such owner's conduct of a trade or business in the United States.

Taxation of Payments under FATCA to Foreign Financial Institutions and Certain Other Non-U.S. Holders that are Foreign Entities. A 30% withholding tax generally will apply to payments of interest on, and after December 31, 2018, on gross proceeds from the disposition of, the Taxable Bonds that are made to Non-U.S. Holders that are financial institutions and certain non-financial entities. Such withholding tax, imposed under sections 1471 through 1474 of the Code, or FATCA, generally will not apply where such payments are made to (i) a Non-U.S. Holder that is a financial institution that enters into an agreement with the IRS to, among other requirements, undertake to identify accounts held by certain United States persons or U.S.-owned foreign entities, report annually certain information about such accounts and withhold tax as may be required by such agreement (or otherwise complies with an applicable intergovernmental agreement with respect to FATCA), or (ii) a Non-U.S. Holder that is a non-financial entity that certifies it does not have any substantial United States owners or furnishes identifying information regarding each substantial United States owner. A Non-U.S. Holder generally will be required to provide information with respect to its status for FATCA purposes, generally on the appropriate IRS Form W-8 or any successor form, to avoid withholding taxes under FATCA. Prospective investors should consult their own tax advisors regarding the application and requirements of these information reporting and withholding provisions under FATCA.

U.S. Federal Estate Tax. A Taxable Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for United States federal estate tax purposes) is not subject to United States federal estate tax if at the time of the individual's death, payments with respect to such Taxable Bond are not effectively connected with the conduct by such individual of a trade or business in the United States.

Backup Withholding and Information Reporting.

United States Holders. Information reporting applies to payments of interest on the Taxable Bonds, or the proceeds of the sale or other disposition of the Taxable Bonds with respect to certain noncorporate United States holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's United States federal income tax liability provided the required information is furnished to the IRS.

Non-U.S. Holders. Backup withholding and information reporting on Form 1099 does not apply to payments of principal and interest on the Taxable Bonds to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under "United States Federal Income Tax Considerations for Non-U.S. Holders of Taxable Bonds -Withholding Tax on Payments of Principal and Interest on Bonds held by Non-U.S. Holders" or otherwise establishes an exemption (provided that neither the City nor its agent has actual knowledge that the holder is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non-U.S. Holder may, however, be reported to the IRS and to such Non-U.S. Holder on Form 1042 S.

Information reporting and backup withholding generally do not apply to a payment of the proceeds of a sale of Taxable Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of Taxable Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50% or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a United States trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-U.S. Holder (and such broker has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of Taxable Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's United States federal income tax liability provided the required information is furnished to the IRS.

Change of Law. The opinion 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 Taxable 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 Taxable Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Taxable Bonds.

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

UNDERWRITING

Morgan Stanley & Co. LLC and BofA Securities, Inc. (collectively, the "*Underwriters*") have agreed to purchase the Series 2020 Bonds for $634,628,165.10 (representing the principal amount of the Series 2020 Bonds, less underwriters' discount of $1,886,741.55 and plus premium of $54,024,906.65). The Underwriters will be obligated to purchase all the Series 2020 Bonds if any are purchased. The initial public offering prices are set forth on the inside cover pages of this Official Statement. The initial public offering price of the Series 2020 Bonds may be changed from time to time by the Underwriters prior to the Delivery Date. The Underwriters may offer and sell the Series 2020 Bonds to certain dealers (including dealers depositing Series 2020 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 2020 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 2020 Bonds.

BofA Securities, Inc., one of the Underwriters of the Series 2020 Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("*MLPF&S*"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Series 2020 Bonds.

LEGALITY FOR INVESTMENT

The Series 2020 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 2020 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 2020 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 2020 Bonds and will be delivered with the Series 2020 Bonds. A proposed form of the opinion of Bond Counsel is annexed as Appendix F – Form of Bond Counsel Opinion. Certain legal matters will be passed upon for the State by the Attorney General of the State and Katten Muchin Rosenman LLP, as disclosure counsel, and for the Underwriters by counsel to the Underwriters, Dentons US LLP, Honolulu, Hawaii.

The Thirty-Third Supplemental Certificate of the Director dated as of October 1, 2020, providing for the issuance of the Series 2020 Bonds has been approved as to form and legality by the Attorney General of the State.

RATINGS

Moody's Investors Service, S&P Global Ratings and Fitch Inc. have assigned ratings of "A1," with a stable outlook, "A+," with a negative outlook and "A+," with a negative outlook, respectively, to the Series 2020 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 2020 Bonds.

FINANCIAL ADVISOR

The Department has retained PFM Financial Advisors LLC, as financial advisor with respect to the issuance of the Series 2020 Bonds. PFM Financial Advisors LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM Financial Advisors LLC is an independent financial advisory firm.

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**" below.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the SEC ("*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 – Form of Continuing Disclosure Certificate (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 2020 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 2020 Bonds.

The Department failed to report certain rating upgrades in a timely manner in 2015. The Department has since put policies and procedures in place to enhance compliance with its continuing disclosure undertakings, including its undertakings 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 2020 Bonds, although any Beneficial Owner of the Series 2020 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 2020 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2020 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, 2019 set forth in Appendix B – Audited Financial Statements have been audited by KPMG LLP, independent auditors, as stated in their report.

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

By: */s/Jade Butay*
Jade Butay
Director of Transportation

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APPENDIX A

Report of the Airport Consultant

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Report of the Consultant

On the Proposed Issue of

State of Hawai‘i Department of Transportation

For and on behalf of its Airports Division

The State of Hawai‘i
Airports System Revenue Bonds
Series 2020

Prepared for:
State of Hawai‘i Department of Transportation

Prepared by:
ICF
Cambridge, MA

29 September 2020

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September 29th, 2020

Mr. Jade T. Butay
Director of Transportation
State of Hawai‘i
869 Punchbowl Street
Honolulu, Hawai‘i 96813

Re: Report of the Consultant
Proposed Issuance of Airports System Revenue Bonds, Series 2020
Hawai‘i Airports System

Dear Mr. Butay:

ICF SH&E, Inc. (ICF) is pleased to submit this Report of the Consultant (the Report) to support the proposed issuance of the State of Hawai‘i, Airports System Revenue Bonds, Series 2020A, 2020B and 2020C (together, the 2020 Bonds) in the aggregate principal amount of approximately $575.3 million (preliminary and subject to change). As requested by the State of Hawai‘i Department of Transportation (the Department) on behalf of its Airports Division (the Airports Division), ICF has developed this Report to evaluate the financial impacts of the proposed issuance of the 2020 Bonds and certain future Bonds under certain hypothetical traffic scenarios described fully later in the Report through the fiscal year (FY) ending June 30, 2026[1].

The 2020 Bonds has two components:

- Series 2020A Bonds will be issued as Additional Bonds (the 2020 New Money Bonds) under the Certificate. Proceeds of the new money component will be used to fund approximately $306.6 million of the costs for the Airports Division’s ongoing capital improvement program, to fund the related Debt Service Reserve Account, capitalized interest, and issuance costs.

1 Capitalized terms not otherwise defined in this Report shall have the meanings as included in:

- The *Certificate of the Director of Transportation Providing for the Issuance of State of Hawai‘i Airports System Revenue Bonds*, dated as of May 1, 1969, as amended and supplemented (collectively, the Certificate) or

- The *Airport-Airline Lease Agreement* of 1962 between the Department and certain airlines (the Signatory Airlines) operating at the Hawai‘i Airports System, as extended and amended (the Airline Agreement).

- Series 2020B Bonds and Series 2020C Bonds will be issued as Refunding Bonds (the 2020 Refunding Bonds) under the Certificate. Proceeds of the refunding component will be used, together with other available funds, to refund a portion of the Outstanding Bonds, and to pay the related issuance costs.

The 2020 Bonds are limited liabilities of the Department, and are payable only from Revenues and Aviation Fuel Taxes. The general fund of the State of Hawai‘i (the State) is not pledged to the payment of the Bonds.

SCOPE OF OUR WORK

The Department retained ICF to prepare this Report evaluating the financial impacts of the proposed issuance of the 2020 Bonds and the planned future Bonds. ICF developed two hypothetical traffic scenarios and analyzed the financial impact of both scenarios, taking into consideration the 2020 Bonds, and the future Bonds that the Department may issue through FY 2026 to fund certain capital projects described below. Because of the considerable uncertainty COVID-19 has caused to society, the economy and the aviation industry, ICF's traffic scenarios were prepared for illustrative purposes only.

ICF's scope of work was to assist the Department in developing the hypothetical traffic scenarios which have been included in the Report, document the capital projects that the Department intends to fund and related funding sources, review the Certificate and the Airline Agreement, among other documents, and project the related financial results including debt service coverage ratios and costs per enplanement (CPE) through FY 2026. ICF has relied on Morgan Stanley & Co. LLC. for the preliminary debt service related to the 2020 Bonds and the future Bonds, and relied on the Airports Division for other data included in this Report, unless noted otherwise.

READERS OF THIS REPORT SHOULD RELY ON THEIR OWN JUDGEMENT TO ASSESS WHETHER THESE HYPOTHETICAL TRAFFIC SCENARIOS ARE REASONABLE, AND THE RESULTING FINANCIAL PERFORMANCE OF THE HAWAI‘I AIRPORTS SYSTEM ARE REALISTIC. This Report is organized as follows:

Section 1: Introduction and COVID-19 Emergency
Section 2: Aviation Environment
Section 3: Financial Framework
Section 4: Capital Plan and Sources of Funding
Section 5: Financial Projections

BACKGROUND

This section provides an overview of the Hawai‘i Airports System, historical air traffic, the Certificate, and the Airline Agreement.

Hawai‘i Airports System and Historical Air Traffic

Hawai‘i Airports System is a group of 15 airports owned by the State and operated by the Airports Division of the Department as an enterprise fund of the State. The Department has four divisions: airports, harbors, highway, and administration. Traffic and financial information presented in this Report are specifically related to the Airports Division, although the Department is the entity executing contracts on behalf of the Airports Division.

Hawai‘i Airports System handles all non-military passenger traffic activity in Hawai‘i. In FY 2019, the State generated 18.7 million enplaned passengers at its airports.

Daniel K. Inouye International Airport (HNL) on the Island of Oahu is a large-hub airport as defined by the Federal Aviation Administration (the FAA) and ranked the 29th largest airport in the U.S.

based on the preliminary passenger boarding data for calendar year 2019. Kahului Airport (OGG) on the Island of Maui is the second largest airport in the State, a medium-hub ranked the 51st largest airport in the U.S. Small-hub State airports include Hilo International Airport (ITO), Ellison Onizuka Kona International Airport at Keahole (KOA), both on the Big Island, and Lihue Airport (LIH), on Kauai, which, together with HNL and OGG, are referred to in this report as the Primary Airports. The Primary Airports other than HNL are referred to as the primary neighbor island airports (the PNI Airports). The other 10 non-hub and general aviation airports in the Hawaiʻi Airports System are collectively referred to as the Non-primary Airports.

Enplaned passengers can be grouped as three segments:

- Enplaned passengers heading to other islands within the State ("interisland"), which totaled 7.1 million in FY 2019, or 37.7 percent of total enplaned passengers.
- Enplaned passengers heading to other states ("mainland") in the U.S., which totaled 8.4 million in FY 2019 or 44.9 percent.
- Enplaned passengers heading to other countries ("international"), which totaled 3.2 million in FY 2019 or 17.3 percent, with Japan being the primary destination, totaling 1.8 million in FY 2019, or 9.4 percent.

The latter two segments (mainland and international) are collectively referred to as the "overseas" enplaned passengers.

The enplaned passenger count has fluctuated over the last two decades, due to economic cycles and changes in airline services, among other influencing factors.

- Enplaned passenger count reached 17.5 million in FY 2008, then declined to 14.8 million in FY 2009 as the result of the Great Financial Crisis and Aloha Air ceasing operations. Enplaned passenger traffic gradually recovered over the subsequent decade and reached 18.7 million in FY 2019, exceeding the prior peak of 18.3 million, which occurred in FY 2000. In the first 8 months of FY 2020, preliminary enplaned passenger data indicated an increase of 7.6 percent compared to the same period in FY 2019. As discussed below, COVID-19 has had a severe impact on air travel. For the final 4 months of FY 2020, preliminary enplaned passenger data indicated a decrease of 79.9 percent compared to the same period in FY 2019.

Certificate

The Certificate sets out the annual revenue requirement (the Rate Covenant), the terms and conditions for the Department to issue additional bonds (the Additional Bond Test), the application of Revenues and Aviation Fuel Taxes (also known as the flow of funds), and other covenants of the Department.

The Rate Covenant is specified in Section 7.02 of the Certificate, and requires the Department to:

- Impose, prescribe and collect rates, rentals, fees or charges so that Revenues and Aviation Fuel Taxes will be at least sufficient:
  - To make the required payments of the principal of and interest on all Bonds, including reserves therefor, and the payment of all other indebtedness payable from Revenues and Aviation Fuel Taxes;
  - To pay the costs of operation, maintenance and repair of the Undertaking (the Costs of Operation, Maintenance and Repair), including reserves therefor;
  - To reimburse the general fund of the State for general obligation bonds which are or shall have been issued for the Undertaking (currently none outstanding), if applicable; and
  - To carry out the provisions and covenants of the Certificate.

- Yield Net Revenues and Taxes, 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, to be at least equal to one and twenty five hundredths (1.25) times the Annual Adjusted Debt Service Requirement.

Airline Agreement

The Airline Agreement was initially executed in 1962 with multiple subsequent amendments. The Airline Agreement is extended automatically on a quarterly basis unless either the Department or the Signatory Airlines provides sixty days written notice of termination to the other party. Signatory Airlines accounted for 94.8% of landing fees in FY 2020.

The review process of the proposed capital improvement projects is provided in the Lease Extension Agreement of 1994 (the 1994 Extension). Even if concurrence is withheld, the Department can proceed in the following fiscal year and include the related signatory airline costs in the airline rate base, if the Department considers that the project is necessary.

The airline rates and charges methodology is primarily provided in the First Amended Lease Extension Agreement (the 2007 Extension), which includes a system-wide residual protection through an Airports System Support Charge (ASSC), among other provisions, and is discussed in details in Section 3.

COVID-19 AND AIRPORTS DIVISION ACTIONS

COVID-19, a highly contagious, upper respiratory tract illness caused by a novel strain of coronavirus, is having significant adverse health and financial impacts throughout the world. This section describes certain impacts related to Hawai‘i Airports System.

State Actions

The State has taken numerous actions intended to slow the spread of COVID-19, including restrictions for air travel. As of September 22, 2020, in accordance to the Governor’s Thirteenth Proclamation related to the COVID-19 emergency states that:

- Overseas travel: effective March 21st, the overseas arriving passengers are subject to a mandatory health screening process when entering the State of Hawai‘i and a mandatory 14-day self-quarantine, except those performing emergency response or critical infrastructure functions. The Governor has previously announced the intention to waive the self-quarantine requirement for overseas visitors if such visitors provide a valid negative COVID-19 test result within 72 hours of boarding their flights to the State effective August 1, 2020, but has since postponed the date to October 15, 2020.
- Interisland travel: the quarantine requirement for interisland travelers to the Islands of Kaua‘i, Hawai‘i, and the Islands comprising the Counties of Maui and Kalawao will continue for the duration of the disaster emergency relief through October 31, 2020 due to increasing cases within the State.
- All arriving passengers are subject to health screenings, temperature scans and reporting requirements. The Legislature has approved $70 million from the State’s general fund to fund thermal screening cameras, facial image tracking system, web-based application, testing facility and other related facility costs, and operating and maintenance expenses.

It is unknown when and whether these restrictions will be eased, reinstated or enhanced. The duration of these directives, even those with specified end dates, is not known with any level of certainty at the time of this Report.

Passenger Traffic and Airport Operations

Due to COVID-19 and related travel restrictions, enplaned passenger count declined by 95.9 percent in April 2020, 94.9 percent in May 2020, and 89.5 percent in June 2020, compared to the same months in 2019. Enplaned passenger count for July 2020 is estimated to have declined by 84.7 percent, compared to July 2019.

Exhibit 0.0-1: Monthly Enplaned Passengers

	Enplaned Passengers					
Month	Overseas	12-month % Change	Interisland	12-month % Change	Total	12-month % Change
Jul-19	1,142,592	6.4%	722,178	5.9%	1,864,770	6.2%
Aug-19	1,118,250	7.9%	685,558	16.5%	1,803,808	11.0%
Sep-19	884,412	4.2%	575,193	10.9%	1,459,605	6.7%
Oct-19	932,445	3.6%	616,571	8.1%	1,549,016	5.4%
Nov-19	906,551	2.5%	581,936	3.2%	1,488,487	2.8%
Dec-19	1,019,310	8.9%	660,919	13.6%	1,680,229	10.7%
Jan-20	1,065,679	6.1%	638,478	12.6%	1,704,157	8.5%
Feb-20	925,806	6.7%	591,165	12.4%	1,516,971	8.9%
Mar-20	628,769	-40.4%	365,942	-39.2%	994,711	-40.0%
Apr-20	39,163	-96.0%	23,537	-95.8%	62,700	-95.9%
May-20	33,032	-96.7%	50,438	-92.2%	83,470	-94.9%
Jun-20	49,719	-95.4%	133,891	-79.9%	183,610	-89.5%
TOTAL:	***8,745,728***	***-25.0%***	***5,645,806***	***-20.1%***	***14,391,534***	***-23.2%***

Source: Airports Division; preliminary data subject to change.

In addition, as of August 31, 2020:

- Rental car companies continue to operate at Hawai‘i Airports System, although two, Hertz Global Holdings, Inc. (Hertz) and Advantage Holdco, Inc. (Advantage), filed Chapter 11 bankruptcy. Sixt Rent a Car has taken over Advantage’s operations at HNL and OGG.
- DFS Group, L.P. (DFS), the duty-free operator, closed Galleria, its duty-free store at downtown Waikiki, and all duty-free operations at Hawai‘i Airports System
- Parking operations and other landside operation remain open, although at a reduced activity level
- Majority of the terminal concession locations were closed, except for limited food and beverage concessions and newsstand vendors

The following table presents a comparison of selected nonairline revenues in calendar year 2020, compared to the same months in 2019. Airline revenue collections in April through June 2020 were 40 percent below prior year’s levels.

Exhibit 0.0-2: Percentage Change in Monthly Revenues

	12-month % Change			
	July 2019 to March 2020 (Average)	Apr-20	May-20	Jun-20
Key Concession Revenues				
Rental Car	6.8%	-95.2%	-95.8%	-95.4%
Duty Free	18.8%	-100.0%	-100.0%	-100.0%
Parking	3.6%	-69.9%	-73.8%	-57.4%
Retail	-0.9%	-100.0%	-100.0%	-100.0%

Source: Airports Division; preliminary data subject to change.

Airports Division Actions

In addition to operational changes to create a safe environment, the Airports Division has taken numerous financial management actions to mitigate the impact of COVID-19, such as:

- Implemented and planned expense reduction measures
- Closed certain facilities for operating expense savings
- Submitted grant reimbursement requests under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”)
- Planned bond refunding to reduce near-term debt service
- Prioritized capital projects, as further detailed below

In managing tenant relationships, the Airports Division has deferred rentals for April 2020 through October2020 for a majority of the tenants to six equal installments starting January 2021, waived minimum annual guarantees (MAGs) for the majority of the concessionaires between April 2020 through October 2020, and postponed rate changes for HNL terminal rental rate and user fees to start on November 1, 2020 instead of July 1, 2020, among other actions.

Airport Operations

The Airports Division continues to modify terminal operating procedures to provide a safe environment for the travelers, including arriving passenger screening, social distancing signs, terminal sanitization, and has recently implemented temperature screening at all the Primary Airports.

Capital Improvement Program

To undertake a capital project at the Hawaiʻi Airports System, the Airports Division must obtain an appropriation from the Legislature, approval of allotment requests from the Office of the Governor, and concurrence from the Signatory Airlines. As part of the biennium budget, the Airports Division submits a Six-Year capital plan, from which the projects in the first two years are reviewed and determined by the Legislature and by the Governor. The Airports Division adds those projects to the capital improvement program, which includes projects appropriated in previous years. From time to time, the Airports Division removes completed projects from the capital improvement program.

In May through August 2020, the Airports Division reviewed its capital plan and separated it into the following components:

- ***The Ongoing CIP*.** This component includes projects already in the construction stage and ongoing planning, design, and program support expenses. The Ongoing CIP has a total cost estimate of $1.6 billion, of which $658.9 million, or 40.7 percent, has been spent through June 30, 2020. The Department plans to fund $635.2 million of future costs from bond proceeds, including $273.9 million through the issuance of the 2020 New Money Bonds.

- ***The 2022-2026 CIP.*** This component includes projects that are in the planning or design stage and are prioritized by safety and security, regulatory compliance, major replacement, operational support, functional improvements, and expansion and capacity enhancements. Financial projections in this Report have reflected the bond funding for the 2022-2026 CIP. However, the Airports Division plans to discuss the projects in the 2022-2026 CIP with the Signatory Airlines, and may further defer some projects pending traffic recovery. The 2022-2026 CIP has a total cost estimate of $1.1 billion, of which $13.8 million, or 1.2 percent, has been spent through June 30, 2020. The Airports Division plans to use $32.8 million of the proceeds from the 2020 New Money Bonds to fund some design costs of the 2022-2026 CIP.

- ***Consolidated Car Rental Facilities and Other Excluded Projects.*** This component includes (a) consolidated rental car facilities that are funded by Customer Facility Charge (CFC) revenues, (b) cancelled projects, (c) projects that are substantially completed and are in closeout stage, and (d) construction costs subject to funding uncertainties that will not be funded until FY 2024 at the earliest, including HNL Taxiway A reconstruction, and the Diamond Head Concourse Extension Program.

The Ongoing CIP and the 2022-2026 CIP provide a snapshot of the Airports Division's intention for future capital projects as of August 2020. Situations may arise that necessitates the acceleration, addition, or deferral of certain projects, some of which may be beyond the control of the Airports Division. The Airports Division has closely collaborated with the Signatory Airlines in formulating the capital program over the last several decades and has received necessary airline concurrence and other required approvals for the project costs that will be funded by the proceeds of the 2020 New Money Bonds. The Airports Division will continue to manage the capital program in a financially prudent manner.

For the purpose of this Report, it was assumed that the Airports Division will continue the Ongoing CIP and will begin construction of any 2022-2026 CIP in January 2022 unless otherwise noted. The estimated sources of funding are presented in the following table:

Exhibit 0.0-3: Project Costs by Funding Source (in millions)

	Remaining Costs as of June 30, 2020										
	Bond Funding										
	Prior and 2020 Bonds	Future Planned Bonds	Total Planned Bonds	Bond Funding - Assumed	Subtotal	Grants	PFC Paygo	Cash	Subtotal Remaining	Spent	Total
	[A]	[B]	[C]=[A] +[B]	[D]	[E]=[C] +[E]	[F]	[G]	[H]	Sum of [E] THRU [H]		
Ongoing CIP	$ 339	$ 297	$ 635	$ -	$ 635	$ 153	$ 106	$ 67	$ 961	$ 659	$1,620
2022-2026 CIP	38	-	38	755	793	240	66	8	1,107	14	1,121
Total	$ 377	$ 297	$ 673	$ 755	$1,429	$ 393	$ 172	$ 75	$ 2,069	$ 673	$2,741
Less Prior Bonds Proceeds	(70)										
Costs to Be Funded by 2020 Bonds	$ 307										

Source: Airports Division.

Cash and Liquidity

Due to decreased traffic and rental deferral policies, the Airports Division's unrestricted cash and cash equivalent declined from a total of $525 million in March 2020 to $495 million in June 2020 according to preliminary unaudited management reports. The ending balance in June 2020 reflected the receipt of $12.9 million of reimbursements under the CARES Act. A portion of restricted cash and cash equivalent can be available for Costs of Operation, Maintenance and Repair. The combined fund balance of unrestricted cash and cash equivalent, the operating reserve and the Funded Coverage Account was $627 million as of June 30, 2020, equaling 729 days cash on hand, using estimated Costs of Operation, Maintenance and Repair in FY 2020.

Exhibit 0.0-4: Unaudited Cash Balance as of June 30, 2020 (in millions)

		Available for			
	Unaudited 6/30/2020 Balance	Operating expenses	Debt service on Bonds	Other purposes	For Days Cash on Hand Calculation
Unrestricted Cash and Cash Equivalent	$ 495	X	X	X	$ 495
Restricted Cash and Cash Equivalent					
Operating reserve	105	X			$ 105
Funded Coverage Account	28	X	X	X	28
Major Maintenance, Renewal and Replacement Account	58	X*		X	
Debt Service Reserve Account	102		X		
Bonds proceed and debt service	146		X	X	
Certificates of Participation-related funds	20			X	
CFC-related funds	218			X	
Passenger Facility Charge	195		X**	X	
Security deposits and other funds	12			X	
Subtotal Restricted	884				
Unrestricted and Restricted	$ 1,379				
Available funds					$ 627
FY 2020 estimated daily costs of operation, maintenance and repair					0.86
Days cash on hand					729

* A portion of account balance can be released if the Director reduces the balance requirement.

** A portion of account balance can be used for eligible debt service on Bonds.

Source: Airports Division; preliminary data subject to change.

Management's Near-Term Financial Plan

To ensure financial safety and to maintain a competitive airline rates and charges level, the Management has taken various actions, which are summarized in the table below.

Exhibit 0.0-5: Management Financial Actions in Response to COVID-19

FY 2020	FY 2021-to-Date	FY 2021 and Future Actions
• Sought $50.0 million of CARES Act reimbursement • Applied $7.4 million of additional PFC revenues for debt service • Reduced operating expenses by closing facilities and other procedures • Provided relief to airline and nonairline tenants	• Will seek $83.3 million of CARES Act, and other grants if available • Plans to issue the 2020 Refunding Bonds to reduce debt service by an estimated $47 million in FY 2021, among other FYs • Continues to implement expense reduction actions • Continues to prioritize the capital projects • Continues to provide relief to airline and nonairline tenants	• Plans to submit additional PFC applications for debt service • Plans to further restructure Outstanding Bonds if needed • Will implement additional expense reduction and defer capital and maintenance projects if traffic recovery is not as expected • Plans to revise rates and charges effective November 1, 2020

Based on the 12-month preliminary cash basis financial data through June 30, 2020, the Airports Division Management has estimated that debt service coverage in FY 2020 would be 202 percent, compared to 125 percent required by the Rate Covenant, and an average CPE of $11.09 in FY 2020, compared to $9.75 in FY 2019. Because the Rate Covenant compliance is provided in the Airline Agreement, the Airports Division expects to meet the Rate Covenant in FY 2021, although the debt service coverage ratio and the CPE are dependent on the actual traffic level to be realized in FY 2021.

SCENARIOS, ASSUMPTIONS, AND PROJECTIONS

This section discusses the development of two hypothetical traffic scenarios and related assumptions detailed in the attachment of this Report, and then considers the financial impacts of these scenarios.

Passenger Traffic Hypothetical Scenarios

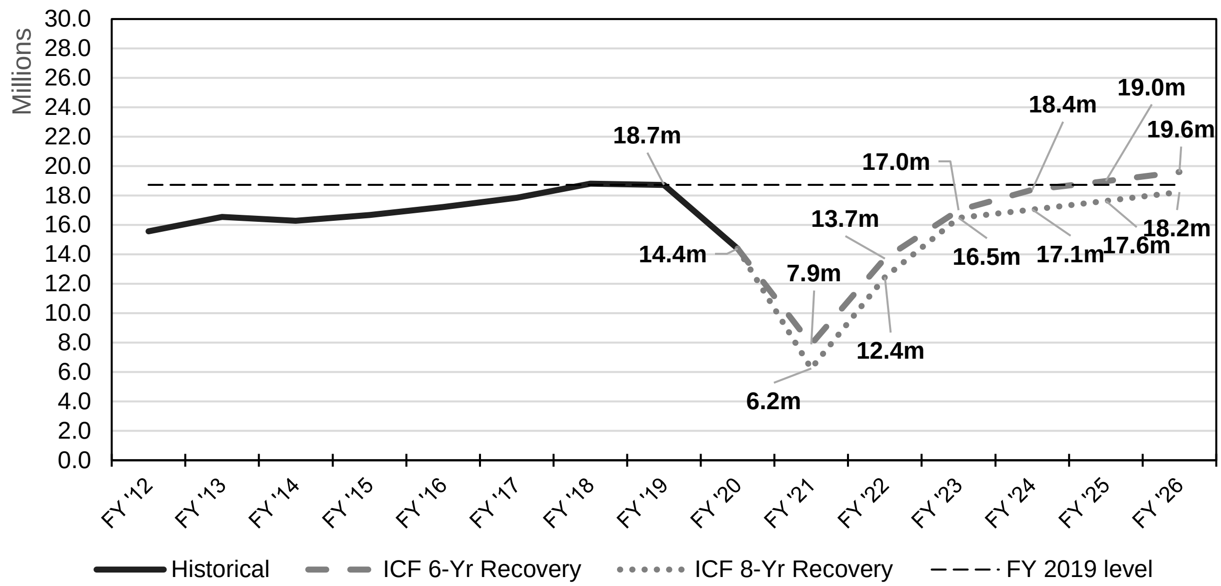
To evaluate the financial impacts of the proposed issuance of the 2020 Bonds, ICF has independently developed the following two hypothetical scenarios that have been reviewed by and agreed to by the Airports Division management:

- ***The Six-Year Recovery Scenario***. Based on ICF's review of traffic recovery projections assumed by industry trade associations, bond rating agencies, and other industry participants, ICF has developed a hypothetical traffic scenario, assuming that it would take six years through FY 2025 for the enplaned passenger count at the Hawaiʻi Airports System to recover to the level in FY 2019. Total enplaned passenger count is projected to be 42.1 percent of FY 2019 level in FY 2021, 73.2 percent in FY 2022, and 104.7 percent in FY 2026.

- ***The Eight-Year Recovery Scenario***. ICF also developed another scenario, where COVID-19 has an even deeper impact on the State economy resulting in lower traffic activities for the Hawai‘i Airport System. Under this scenario, enplaned passenger count is projected to be 33.3 percent of FY 2019 level in FY 2021, 66.5 percent in FY 2022, and 97.4 percent in FY 2026.

Exhibit 0.0-6: Hawai‘i Airports System Enplaned Passenger Historical and Hypothetical Projections

Fiscal Years ended June 30, 2012-2026



Source: Actual enplanement figures for FY 2007 to FY 2020 - Airports Division. Projections – Airports Division and ICF.

A range of factors may cause the traffic results to be materially higher or lower, especially in FY 2021. Those factors may include further virus spread and mutation, delay in vaccine development and adoption, negative effect on economy and travel patterns, governmental actions, foreign policies and travel restrictions, airline bankruptcy, and airline competition and network decision-making, among other factors.

Financial projections presented in this Report are based on additional assumptions documented throughout the Report, some of which are summarized in at the end of Section 5.

Resulting Financial Projections

Based on the information, expectations and assumptions presented in the Report, we project debt service coverage to be above 1.50x in all years under both scenarios. The resulting debt service coverage ratios are similar for the two scenarios because the Airports Division are expected to achieve breakeven results through implementation of the ASSC during the projection period. Projected debt service coverage ratios and CPEs for both scenarios are summarized in the table below.

Exhibit 0.0-7: Summary of Estimated and Projected Results
FY 2020-2026

	Estimated 2020	Projected 2021	2022	2023	2024	2025	2026
ENPLANED PASSENGERS (000s)							
Six-Year Recovery Scenario	14,392	7,882	13,711	17,004	18,389	18,990	19,603
% Change vs. Prior Year	-23.2%	-45.2%	74.0%	24.0%	8.1%	3.3%	3.2%
% Change vs. FY 2019	-23.2%	-57.9%	-26.8%	-9.2%	-1.8%	1.4%	4.7%
Eight-Year Recovery Scenario	14,392	6,243	12,445	16,485	17,054	17,638	18,234
% Change vs. Prior Year	-23.2%	-56.6%	99.4%	32.5%	3.5%	3.4%	3.4%
% Change vs. FY 2019	-23.2%	-66.7%	-33.5%	-12.0%	-8.9%	-5.8%	-2.6%
DEBT SERVICE COVERAGE CALCULATION							
Six-Year Recovery Scenario	2.02	2.33	2.03	1.68	1.60	1.55	1.54
Eight-Year Recovery Scenario	2.02	2.28	2.18	1.69	1.65	1.60	1.54
COST PER ENPLANED PASSENGER							
Six-Year Recovery Scenario	$ 11.09	$ 20.20	$ 17.26	$ 15.94	$ 17.21	$ 16.78	$ 16.84
Eight-Year Recovery Scenario	11.09	27.48	19.53	16.43	17.64	19.77	19.35

Sources: Estimated – Airports Division; Projection – ICF.

REPORT LIMITATIONS

The traffic scenarios and financial projections presented in this Report are based on our interpretation of the information provided by the Airports Division, the State, publicly available sources and other third-parties, which ICF was under no duty to and has not undertaken to independently verify and as such, makes no assurances as to the accuracy of any such information; expectations of future management actions, and assumptions regarding economy, air traffic, legislation, airport operation and financial operations, among other aspects, all of which have been discussed with and agreed to by the Airports Division.

The effects of COVID19 and actions taken at State and national levels to halt its spread have had, and are expected to continue to have, a significant negative effect on the Airports revenues and expenses, financial condition, operations and economy of the State. The Report, including this letter and attachments, documents our interpretation, expectations and assumptions as of the date of the Report, and should be read in its entirety. Readers of this Report should rely on their own judgement to assess whether these hypothetical traffic scenarios are reasonable, and the resulting financial performance of the Hawai'i Airports System are realistic. ICF believes that the projections fairly present the expected financial results given the hypothetical traffic scenarios. ICF has discussed such assumptions and projections with the Airports Division management, who also agree to their reasonableness given the hypothetical traffic scenarios.

However, any projection is subject to uncertainty, which may lead to actual results substantially different from the projected results presented in this Report. The Report is provided on an as-is basis with no warranty of any kind. ICF does not, nor does anyone acting on behalf of ICF warrant the achievability of the projections presented in the Report.

NO WARRANTY, WHETHER EXPRESSED OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE IS GIVEN OR MADE BY ICF IN CONNECTION WITH THIS REPORT. ICF IS NOT LIABLE FOR ANY DAMAGES OF ANY KIND ATTRIBUTABLE TO USE THIS REPORT.

We are pleased to assist the Department in this proposed financing.

Sincerely,

ICF

ICF

Table of Contents

1. INTRODUCTION AND COVID-19 EMERGENCY

1.1. Introduction

The purpose of this Report is to evaluate the financial impacts on the Hawai‘i Airports System from the proposed issuance of the 2020 Bonds under two hypothetical traffic scenarios, taking into consideration future Bonds that the Department may issue through FY 2026, in connection with funding a portion of the costs of the Ongoing CIP and the 2022-2026 CIP.

The COVID-19 emergency has disrupted domestic U.S. and international air travel to an unprecedented extent. Health restrictions coupled with a loss of traveler confidence have buffeted airlines and dramatically impacted the level of passenger air travel to and from Hawai‘i as well as between islands. Because of the nature of this pandemic, State and federal government actions and resumption of airline service, there is a considerable uncertainty as to when air travel will recovery and to what levels. Because of this, for the purposes of this Report, ICF has not developed independent traffic forecasts as the basis of its analysis. Instead, ICF has developed two hypothetical traffic scenarios and reviewed with the Airports Division management, documented the capital projects that the Airports Division intends to fund and related funding sources, reviewed the Certificate and the Airline Agreement, among other documents, and projected the related financial results including debt service coverage ratios and CPEs through FY 2026.

READERS OF THIS REPORT SHOULD RELY ON THEIR OWN JUDGEMENT TO ASSESS WHETHER THESE HYPOTHETICAL TRAFFIC SCENARIOS ARE REASONABLE, AND THE RESULTING FINANCIAL PERFORMANCE OF THE HAWAI‘I AIRPORTS SYSTEM ARE REALISTIC.

1.2. Background

The Airports System includes 15 airports owned by the State and operated by the Department of Transportation through the Airports Division as an enterprise fund of the State. The airports in the Hawai‘i Airports System handle all commercial aviation activities of the State.

The State comprises numerous islands spreading over 1,500 miles. The eight main islands, listed from northwest to southeast, are Niihau, Kauai, Oahu, Molokai, Lanai, Kahoolawe, Maui, and Hawai‘i. The island of Hawai‘i, also known as the Big Island, is the largest island in the State. However, the island of Oahu has the highest population, accounting for two-thirds of the State’s total population of 1.4 million in 2019. As shown in Exhibit 1.2-1 on the next page, the 15 airports operated by the Airports Division are spread across six islands. The State is situated in the center of the Pacific Ocean and is recognized as one of the top global tourism destinations.

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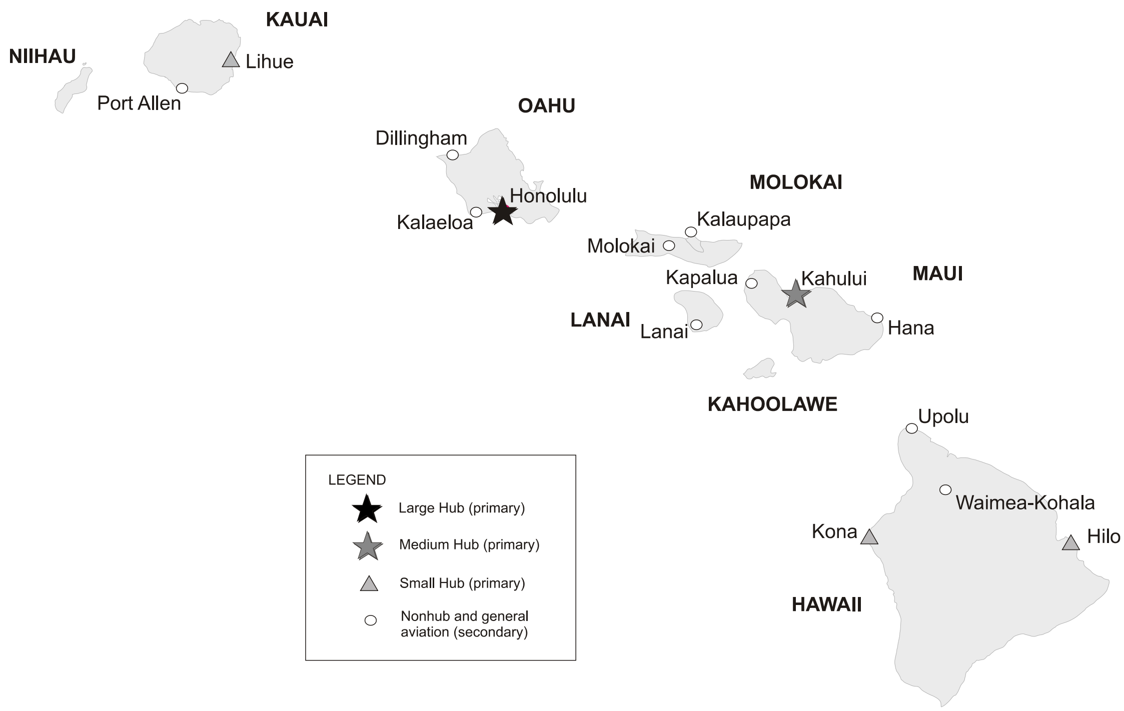
Exhibit 1.2-1: Hawai‘i Airports System



1.2.1. Organization of State Government

The State government includes three branches: the executive branch led by the Governor, the legislative branch (the State Legislature), and the judicial branch (the Hawai‘i State Judiciary). The Governor is elected statewide every four years with the current Governor elected in November 2018. The Governor appoints all other state public officials, including the Director and the Deputy Directors for the Department. There are four Deputy Directors in the Department, one for each division of Administration, Airports, Harbors, and Highways. The Deputy Director – Airports leads the Airports Division on behalf of the Department and the State, and serves the same term as the Governor.

The Airports Division relies on the central service of the Department for Administrative and Managerial Duties and relies on other departments of the State for other business functions, such as financial services from the Department of Budget and Finance, or human resources services from the Department of Human Resources Development.

The Hawai‘i State Legislature consists of the State House of Representatives with 51 members and the State Senate with 25 members. The legislative sessions are held annually in the State Capitol building in the city of Honolulu, with the regular sessions starting on the third Wednesday in January for no more than 60 working days. Among other activities, the Hawai‘i State Legislature reviews and approves Biennium Appropriation for the executive branch, including the operating and capital budget of the Airports Division. Furthermore, the Legislature presents and assesses bills that may influence the operations of the Airports Division, such as the rate, collection, and use of the CFCs.

1.2.2. The Hawai'i Airports System

The Hawai'i Airports System is managed by the Department through its Airports Division as an enterprise fund of the State. The Hawai'i Airports System includes 15 airports located on six islands. It is worth noting that the Airports Division plans to return the Dillingham Airfield to the Army on or before June 30, 2021. In FY 2019, Dillingham Airfield incurred an operating expense of $1.5 million and generated an operating revenue of $0.5 million.

Air travel is the primary means of transportation for State residents to travel between islands in the State. The only other commercial interisland transportation is the ferry services between Maui and Lanai.

Exhibit 1.2-2 : Profile of Hawai'i Airports System

Island	Primary Airports (5)	FY2020 Enplanements	% of Total
Oahu	▪ Daniel K. Inouye International Airport (HNL)	7,981,984	55%
Maui	▪ Kahului Airport (OGG)	2,952,905	21%
Hawai'i	▪ Ellison Onizuka Kona International Airport at Keahole (KOA)	1,550,092	11%
	▪ Hilo International Airport (ITO)	478,886	3%
Kauai	▪ Lihue Airport (LIH)	1,250,074	9%
Total Primary Airports		14,213,941	99%
Island	Non-Primary Airports (10)		
Oahu	▪ Dillingham Airfield (HDH)	n/a	
	▪ Kalaeloa Airport (JRF)	n/a	
Maui	▪ Hana Airport (HNM)	1,823	
	▪ Kapalua Airport/West Maui Airport (JHM)	28,438	
Hawai'i	▪ Upolu Airport (UPP)	n/a	
	▪ Waimea-Kohala Airport (MUE)	3,273	
Kauai	▪ Port Allen Airport (PAK)	n/a	
Lanai	▪ Lanai Airport (LNY)	39,099	
Molokai	▪ Molokai Airport (MKK)	100,150	
	▪ Kalaupapa Airport (LUP)	4,274	
Total Non-Primary Airports		177,057	1%
Total Airports System		**14,391,534**	**100%**

Note: "n/a" = Data unavailable for small non-primary airports (interisland passenger segment). Hence sum of all values may not total properly in the above figure.Source: Airports Division.

There are no commercial airports on the islands of Niihau and Kahoolawe. As shown in Exhibit 1.2-2, the Hawai'i Airports System includes one large-hub airport, one medium-hub airport, three small-hub airports and 10 non-hub and general aviation airports.

Daniel K. Inouye International Airport (HNL) is the largest airport in the Hawai'i Airports System, with 10.5 million enplaned passengers in FY 2019, accounting for 56.0 percent of the system-wide traffic of 18.7 million. HNL is the 29th largest U.S. airport ranked by the FAA based on the 2019 calendar year revenue enplaned passengers and is the primary port of entry for international arrival to the State. 70.5 percent of enplaned passengers at HNL head to overseas destinations, including domestic destinations on the U.S. mainland and international destinations in the Americas, Asia, and Oceania. The remaining 29.5 percent of enplaned passengers fly interisland to other airports in the Hawai'i Airports System;

Kahului Airport (OGG) is the second largest airport in the Hawaiʻi Airports System, with 3.8 million enplaned passengers in FY 2019, accounting for 20.3 percent of system-wide traffic. OGG is the 53rd largest airport in the U.S., with 62.1 percent of enplaned passengers flying overseas; Hilo (ITO), Kona (KOA), and Lihue (LIH) are the three small-hub airports. Both ITO and KOA are located on the island of Hawaiʻi, with ITO serving primarily interisland traffic. LIH is located on the island of Kauai, with 49.6 percent of enplaned passengers flying overseas; and non-primary airports accounted for 1.3 percent of system-wide traffic in FY 2019.

1.3. COVID-19 Emergency

Most of the information in this report describes historical Airports aviation, financial activity and general economic conditions that predates the COVID-19 pandemic or was prepared before the outbreak of COVID-19. Since March 2020, and the declaration of a COVID-19 Emergency, in the State of Hawaiʻi, the United States and in most other countries in the world, only limited aviation and financial data is available. All information presented in this report should be considered in light of possible or probable negative impacts from COVID-19 subsequent to the dates of such data. The effects of COVID19 and actions taken at State and national levels to halt its spread have had, and are expected to continue to have, a significant negative effect on the Airports revenues and expenses, financial condition, operations and economy of the State. COVID-19 developments, and associated governmental and regulatory responses, are rapidly changing and cannot be predicted with any assurance.

COVID-19, a highly contagious upper respiratory tract illness caused by a novel strain of coronavirus, is having significant adverse health and financial impacts throughout the world, including the State. The World Health Organization declared the spread of COVID-19 to be a pandemic, and the Secretary of Health, Education and Welfare of the United States and the Governor of the State of Hawaiʻi have each declared states of emergency in response to it. As of August 31, 2020, there have been over 8,300 confirmed cases of COVID-19 in the State, including over 7,500 on the island of O'ahu where the majority of new cases have been discovered during August.

The State has taken numerous actions intended to slow the spread of COVID-19, including restrictions for air travel. As of September 22, 2020, in accordance to the Governor's Thirteenth Proclamation related to the COVID-19 emergency states that:

- Overseas travel: effective March 21st, the overseas arriving passengers are subject to a mandatory health screening process when entering the State of Hawaiʻi and a mandatory 14-day self-quarantine, except those performing emergency response or critical infrastructure functions. The Governor has previously announced the intention to waive the self-quarantine requirement for overseas visitors if such visitors provide a valid negative COVID-19 test result within 72 hours of boarding their flights to the State effective August 1, 2020, but has since postponed the date to October 15, 2020.
- Interisland travel: the quarantine requirement for interisland travelers to the Islands of Kauaʻi, Hawaiʻi, and the Islands comprising the Counties of Maui and Kalawao will continue for the duration of the disaster emergency relief through October 31, 2020 due to increasing cases within the State.
- All arriving passengers are subject to health screenings, temperature scans and reporting requirements. The Legislature has approved $70 million from the State's general fund to fund thermal screening cameras, facial image tracking system, web-based application, testing facility and other related facility costs, and operating and maintenance expenses.

It is unknown when and whether restrictions will be eased, reinstated or enhanced. The duration of these directives, even those with specified end dates, is not known with any level of certainty at the time of this Report. It is likely that the full impact of the COVID-19 pandemic on the State of Hawaiʻi and the Airports System will continue to change as the situation further develops. The fiscal impact will depend in part on future events outside of the Airports Division's control, including actions of the State and federal government.

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2. AVIATION ENVIRONMENT

To evaluate the aviation environment in Hawaiʻi, ICF has identified a number of socio-economic and aviation factors that support the demand and supply of air travel for the State. Historically, ICF has used these factors to develop econometric forecasts of air passenger traffic to, from and within this market. Because of the unprecedented nature of the COVID-19 health pandemic, there are a range of health, political, economic and aviation uncertainties that prevent the development of near to mid-term enplaned passenger forecasts – as has been developed for previous bond financings. Therefore ICF developed two hypothetical passenger traffic scenarios, which have been discussed with and agreed to by the Airports Division, and used those scenarios to present the potential evolution of the Airports Division's financial position.

In this chapter, ICF reviews the unique economic characteristics of the Hawaiʻi aviation market, presents historical passenger trends of the Airport System and the impact of the current pandemic, considers the strategic viability of the airlines serving Hawaiʻi in terms of passenger shares and reviews the financial condition of the key airlines that service this market. Using the State's most recent projections of economic and visitor recovery as an input, ICF has developed two passenger traffic recovery scenarios and compared the possible length of recovery amid this pandemic to past recoveries from exogenous shocks.

2.1. Hawaiʻi Airports Activity

Overseas air travel demand to/from Hawaiʻi is mostly driven by visitors who desire to visit Hawaiʻi, and residents visiting the mainland U.S. The health of the U.S. and foreign economies (particularly Japan and South Korea) influences overseas traffic trends, while interisland demand is primarily driven by the population and status of the State's economy. Interisland passage is driven by residents and visitor's propensity to travel and desire for island hopping along with local connections via the primary Hawaiʻi airports to reach other destinations.

In FY 2019, the State saw more than 18.7 million enplaned passengers travel through its Airports System, a 0.4 percent decrease from the previous fiscal year, primarily because Island Air ceased service in March 2019 and the impact of volcano eruptions on the Big Island throughout the late spring and summer of 2018. Of the enplanements during FY 2019, 45 percent of passengers were to/from other states within the United States, 17 percent enplaned from other countries, and 38 percent of the enplaned passengers were traveling within the State.

Hawaiʻi Airports System enplaned passenger traffic has grown steadily over the past decade, with the mainland U.S. passenger segment reaching an all-time high of 8.4 million enplanements in FY 2019. The international passenger segment has been the fastest growing segment over the past decade, with expanded international nonstop services to Honolulu, Kahului, Kona and Lihue airports. Kona primarily has direct nonstop connection to Tokyo and Vancouver, while Lihue has nonstop service to Vancouver. The mainland U.S. passenger segment has also seen positive growth, particularly over the past five years. However, all segments have been negatively impacted by COVID-19 in FY2020.

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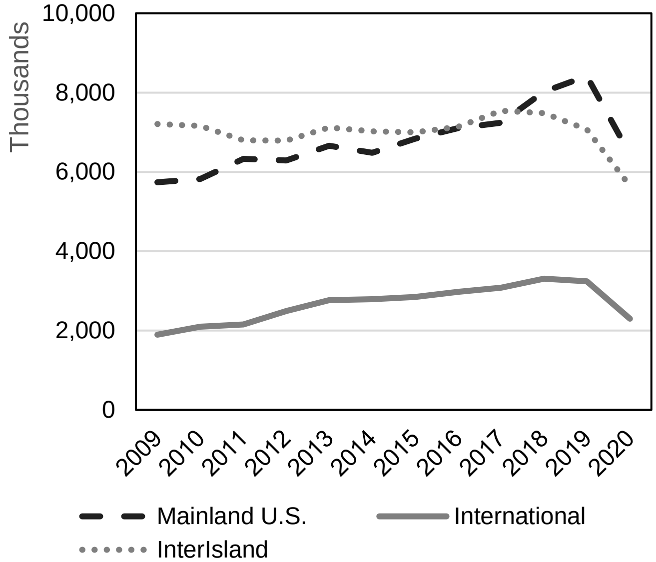
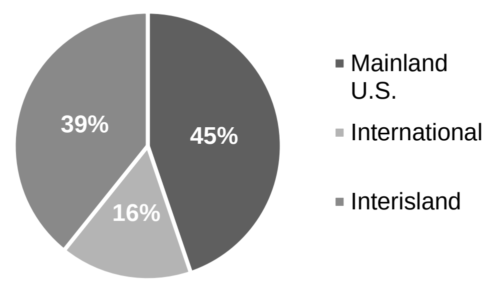
Exhibit 2.1-1: Historical Enplaned Passengers for Hawai'i Airports System by Segment FY 2009-2020



	CAGR			
	'09-'14	'14-'19	'09-'19	'19-'20
Mainland	2.5%	5.4%	3.9%	-23.4%
International	8.0%	3.0%	5.5%	-29.1%
InterIsland	-0.5%	0.1%	-0.2%	-20.1%
Total System	**1.9%**	**2.8%**	**2.4%**	**-23.2%**

FY 2020 Segment Shares



Source: Airports Division.

As shown in Exhibit 2.1-2, HNL is the largest commercial airport within the Hawai'i Airports System, accommodating more than 10.4 million enplaned passengers in FY 2019. Among overseas enplaned passengers, HNL accounted for 53.1 percent of those traveling from within the United States and 89.9 percent of those traveling from international markets. OGG, the second busiest airport after HNL, accommodated more than 3.8 million enplaned passengers, capturing 25.8 percent of passengers traveling overseas from within the United States and 20.4 percent from within the State. Overall, HNL accounted for 56.0 percent and the other Primary Airports accounted for 44.0 percent of overall enplaned passengers in the State in FY 2019. Among the Primary Neighboring Island Airports, their 5-year compound annual growth rates (CAGR) for the overseas passenger segment remained above 7.0 percent per year due to additional direct services provided by both U.S. and foreign carriers. Historical enplaned passengers for the Hawai'i Airports System are shown in Exhibit 2.1-2.

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Exhibit 2.1-2: Historical Enplaned Passengers for Hawai'i Airports System by Airport FY 2009-2020

	Enplaned Passengers (Fiscal Year ending June 30)												CAGR			
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	'09-'19	'14-'19	'18-'19	'19-'20
Hawaii Airport System																
Overseas	7,635,330	7,916,246	8,481,783	8,781,322	9,423,959	9,272,688	9,684,729	10,078,047	10,317,969	11,328,598	11,658,471	8,745,728	4.3%	4.7%	2.9%	-25.0%
Mainland U.S.	5,739,019	5,820,676	6,326,228	6,291,224	6,659,078	6,481,469	6,834,201	7,099,220	7,240,443	8,020,657	8,415,420	6,444,997	3.9%	5.4%	4.9%	-23.4%
International	1,896,311	2,095,570	2,155,555	2,490,098	2,764,881	2,791,219	2,850,528	2,978,827	3,077,527	3,307,941	3,243,051	2,300,731	5.5%	3.0%	-2.0%	-29.1%
InterIsland	7,206,820	7,162,646	6,800,509	6,784,974	7,118,800	7,022,309	6,998,066	7,137,313	7,541,249	7,477,672	7,068,419	5,645,806	-0.2%	0.1%	-5.5%	-20.1%
Total	**14,842,150**	**15,078,892**	**15,282,292**	**15,566,296**	**16,542,759**	**16,294,997**	**16,682,795**	**17,215,360**	**17,859,218**	**18,806,270**	**18,726,890**	**14,391,534**	**2.4%**	**2.8%**	**-0.4%**	**-23.2%**
Honolulu																
Overseas	5,559,960	5,766,969	5,985,883	6,104,142	6,620,624	6,503,798	6,605,637	6,798,296	6,865,488	7,383,039	7,386,655	5,473,776	2.9%	2.6%	0.0%	-25.9%
Mainland U.S.	3,757,063	3,787,185	3,965,863	3,792,079	4,037,079	3,905,540	3,961,181	4,043,179	4,015,430	4,392,199	4,472,322	3,414,687	1.8%	2.7%	1.8%	-23.6%
International	1,802,897	1,979,784	2,020,020	2,312,063	2,583,545	2,598,258	2,644,456	2,755,117	2,850,059	2,990,840	2,914,333	2,059,089	4.9%	2.3%	-2.6%	-29.3%
InterIsland	3,339,291	3,351,144	3,176,115	3,154,076	3,232,462	3,196,439	3,101,890	3,138,295	3,336,390	3,272,434	3,097,796	2,508,208	-0.7%	-0.6%	-5.3%	-19.0%
Total	**8,899,251**	**9,118,113**	**9,161,998**	**9,258,218**	**9,853,086**	**9,700,237**	**9,707,527**	**9,936,591**	**10,201,879**	**10,655,473**	**10,484,451**	**7,981,984**	**1.7%**	**1.6%**	**-1.6%**	**-23.9%**
Primary Neighbor Island Airports																
Overseas	2,075,370	2,149,277	2,495,900	2,677,180	2,803,335	2,768,890	3,079,092	3,279,752	3,452,481	3,945,559	4,271,816	3,271,952	7.5%	9.1%	8.3%	-23.4%
InterIsland	3,665,561	3,638,374	3,447,770	3,456,265	3,709,984	3,653,149	3,693,242	3,779,314	3,994,388	3,977,578	3,724,868	2,960,005	0.2%	0.4%	-6.4%	-20.5%
Total	**5,740,931**	**5,787,651**	**5,943,670**	**6,133,445**	**6,513,319**	**6,422,039**	**6,772,334**	**7,059,066**	**7,446,869**	**7,923,137**	**7,996,684**	**6,231,957**	**3.4%**	**4.5%**	**0.9%**	**-22.1%**
Kahului (OGG)																
Overseas	1,254,604	1,306,866	1,537,593	1,591,597	1,642,016	1,637,202	1,822,152	1,949,229	2,033,603	2,191,040	2,364,272	1,837,730	6.5%	7.6%	7.9%	-22.3%
InterIsland	1,287,718	1,280,231	1,209,611	1,246,166	1,388,773	1,371,867	1,424,740	1,449,726	1,486,909	1,462,750	1,443,775	1,115,175	1.2%	1.0%	-1.3%	-22.8%
Total	**2,542,322**	**2,587,097**	**2,747,204**	**2,837,763**	**3,030,789**	**3,009,069**	**3,246,892**	**3,398,955**	**3,520,512**	**3,653,790**	**3,808,047**	**2,952,905**	**4.1%**	**4.8%**	**4.2%**	**-22.5%**
Kona (KOA)																
Overseas	456,832	467,903	538,395	539,293	569,962	561,167	649,683	707,101	778,084	961,466	1,036,548	801,282	8.5%	13.1%	7.8%	-22.7%
InterIsland	875,391	853,088	812,928	823,064	874,418	854,022	841,251	859,215	951,771	969,261	858,349	748,810	-0.2%	0.1%	-11.4%	-12.8%
Total	**1,332,223**	**1,320,991**	**1,351,323**	**1,362,357**	**1,444,380**	**1,415,189**	**1,490,934**	**1,566,316**	**1,729,855**	**1,930,727**	**1,894,897**	**1,550,092**	**3.6%**	**6.0%**	**-1.9%**	**-18.2%**
Lihue (LIH)																
Overseas	363,934	374,508	416,522	494,375	542,820	544,551	569,900	588,443	604,824	757,310	838,872	607,698	8.7%	9.0%	10.8%	-27.6%
InterIsland	866,447	845,538	804,383	787,492	815,736	808,574	816,117	844,190	913,599	906,290	852,149	642,376	-0.2%	1.1%	-6.0%	-24.6%
Total	**1,230,381**	**1,220,046**	**1,220,905**	**1,281,867**	**1,358,556**	**1,353,125**	**1,386,017**	**1,432,633**	**1,518,423**	**1,663,600**	**1,691,021**	**1,250,074**	**3.2%**	**4.6%**	**1.6%**	**-26.1%**
Hilo (ITO)																
Overseas	0	0	3,390	51,915	48,537	25,970	37,357	34,978	35,970	35,743	32,124	25,242	n/a	4.3%	-10.1%	-21.4%
InterIsland	636,005	659,517	620,848	599,543	631,057	618,686	611,134	626,183	642,109	639,277	570,595	453,644	-1.1%	-1.6%	-10.7%	-20.5%
Total	**636,005**	**659,517**	**624,238**	**651,458**	**679,594**	**644,656**	**648,491**	**661,161**	**678,079**	**675,020**	**602,719**	**478,886**	**-0.5%**	**-1.3%**	**-10.7%**	**-20.5%**
Other	**201,968**	**173,128**	**176,624**	**174,633**	**176,354**	**172,721**	**202,934**	**219,704**	**210,471**	**227,660**	**245,755**	**177,593**	**2.0%**	**7.3%**	**7.9%**	**-27.7%**

Note: Primary neighbor airports include OGG, KOA, LIH, ITO
Source: Airports Division.

2.1.1. Visitors by Air to Hawaiʻi

Through FY 2019, the State saw continuous growth as a popular destination for millions of tourists each year. DBEDT records visitors traveling from the U.S. mainland or international markets as visitors to each airport and does not track Hawaiian residents who visited other islands in the State. In FY 2019, the State welcomed 9.97 million visitors by air, a 3.7 percent increase from the previous year as shown in Exhibit 2.1-3. Over the previous five years from FY 2019, total visitors by air grew at an average annual rate of 4.4 percent, with the westbound visitor markets from the mainland U.S., Canada and Europe growing faster at an average annual rate of 5.7 percent. Of total visitors arriving by air, the westbound visitor share grew five percentage points from 39 percent share to 44 percent, which is attributed by the growing air service connections from the U.S. west coast points, Vancouver, central U.S. (i.e., Chicago and Dallas/Ft. Worth) and the addition of nonstop service by Hawaiian Airlines from Boston along the U.S. east coast. Altogether, visitors travelling from the mainland U.S. (U.S. West and East combined) represented the majority share in FY 2020 at 67 percent.

Exhibit 2.1-3: Historical Visitors by Air to Hawaiʻi, by Origin Market (in thousands) FY 2014- 2019

	Westbound					Eastbound						
Fiscal Year	U.S. West	U.S. East	Canada	Europe	*Westbound Total*	Japan	Korea	China	Oceania	*Eastbound Total*	*Other*	Total
2014	3,158	1,706	528	142	*5,535*	1,521	185	137	364	*2,207*	*304*	**8,046**
2015	3,412	1,753	516	144	*5,826*	1,490	179	174	388	*2,231*	*342*	**8,400**
2016	3,577	1,843	474	143	*6,037*	1,490	222	174	399	*2,285*	*353*	**8,676**
2017	3,744	1,966	494	144	*6,347*	1,517	264	148	395	*2,324*	*346*	**9,017**
2018	4,051	2,124	547	144	*6,866*	1,509	276	136	414	*2,335*	*410*	**9,612**
2019	4,403	2,220	549	139	*7,310*	1,522	218	105	384	*2,229*	*431*	**9,970**
2020	3,265	1,614	380	103	*5,363*	1,136	160	49	258	*1,604*	*309*	**7,275**
Compond Annual Growth Rate												
2014-2019	6.9%	5.4%	0.8%	-0.5%	*5.7%*	0.0%	3.3%	-5.2%	1.1%	*0.2%*	*7.2%*	**4.4%**
2018-2019	8.7%	4.5%	0.4%	-3.8%	*6.5%*	0.9%	-21.1%	-22.9%	-7.2%	*-4.6%*	*4.9%*	**3.7%**
2019-2020	-25.8%	-27.3%	-30.8%	-25.4%	*-26.6%*	-25.3%	-26.5%	-53.4%	-32.7%	*-28.0%*	*-28.2%*	**-27.0%**
Share (%) of Total												
2014	39.3%	21.2%	6.6%	1.8%	*68.8%*	18.9%	2.3%	1.7%	4.5%	*27.4%*	*3.8%*	**100.0%**
2019	44.2%	22.3%	5.5%	1.4%	*73.3%*	15.3%	2.2%	1.1%	3.9%	*22.4%*	*4.3%*	**100.0%**
2020	44.9%	22.2%	5.2%	1.4%	*73.7%*	15.6%	2.2%	0.7%	3.6%	*22.0%*	*4.2%*	**100.0%**

Note: 'Other Asia' includes Singapore, Taiwan, and Hong Kong.
Source: Hawaiʻi Tourism Authority, 2020.

The international enplanement segment share stands at 16 percent in FY 2020, and the international visitor arrivals and spending in Hawaiʻi is dependent on the resiliency and growth of foreign economies. DBEDT reported a decline of 28.4 percent year-over-year from 3.3 million international visitors in FY 2019 to 2.4 million in FY 2020. COVID-19 impacted the recent fiscal year and visitor arrivals recorded by DBEDT have diminished year-over-year from all segments. Some visitor trends from specific countries like China saw contraction trends earlier than others due to timing of government travel bans and restrictions imposed. Japan continues to be the source of the majority of international visitors with over 1.1 million in FY 2020, followed by Canada, Oceania (Australia and New Zealand), and then South Korea. Over the last five years prior to COVID (FY 2014-2019), South Korea visitors to Hawaiʻi has been growing the fastest at a rate of

3.3 percent per year while Japan's remained nearly flat. The on-going performance of each foreign economies coming out of COVID-19 will likely impact the pace of Hawaiʻi's air visitor and passenger traffic recoveries.

2.2. Economic Characteristics of the Hawaiʻi Aviation Market

Located in the central Pacific Ocean, Hawaiʻi is a popular tourist destination for travelers from the United States as well as from Pacific Rim countries such as Japan, Korea, and Australia. The leisure and tourism industry in the State has grown by 23.9 percent in terms of visitors by air between FY 2014 to FY 2019, reaching a record high, as seen in the previous exhibit. Historically, GDP growth within the State has performed consistent with that of the U.S., however, in CY 2019, GDP growth for the State was 1.0 percent compared to overall U.S. GDP growth of 2.3 percent. As an island economy, air travel is essential to the operation and development of most business sectors, and is consequently far more important to Hawaiʻi than for most mainland U.S. markets.

However, COVID-19 has significantly changed the near-term economic prospects of the State. DBEDT has produced an economic outlook that projects it will take six years for visitor arrivals to recover to 2019 levels. Personal income for the State is forecast to grow by 1.3 percent annually over the short-term (2020-2023). These economic drivers suggest that in the short and medium term, the economy of Hawaiʻi will contract due to COVID-19. Although public health policies and economic factors will impact the confidence of visitors to travel to Hawaiʻi in the short-run, the demand for air travel to the region will return.

This section of the report addresses various historical economic indicators for the State and the DBEDT forecast for near-term economic growth.

2.2.1. Population

The population of the State grew consistently between 2009 to 2016 but declined from 1.42 million in 2017 to 1.41 million in 2019. From 2009 to 2019, the population grew 0.5 percent on average per year in the State, comparing to the overall U.S. population growth rate of 0.7 percent for the same time period, as shown in Exhibit 2.2-1. Altogether, the State's population continues to represent a 0.4 percent share of the total U.S. population, as it has historically.

The dispersion of residents between the islands has shifted as the population of Honolulu county has gradually reduced back to the 2014 level, while the population of the other three counties has increased since 2017. This increase in dispersion may support the latent demand for interisland air travel, as the residents live increasingly far from each other, and from key social and economic functions.

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Exhibit 2.2-1: Annual Growth in Hawai'i Population and U.S. Population 2004-2019

	Historical				Estimate	Compound Annual Growth		
	2004	2009	2014	2017	2019	'04-'19	'09-'19	'17-'19
Population (in 000s)								
State of Hawaii	1,273.6	1,346.7	1,414.5	1,424.4	1,415.9	0.7%	0.5%	-0.3%
By County								
Honolulu	908.0	943.2	987.4	986.4	974.6	0.5%	0.3%	-0.6%
Hawaii	162.9	183.6	193.7	200.0	201.5	1.4%	0.9%	0.4%
Maui	140.6	153.4	163.1	166.2	167.5	1.2%	0.9%	0.4%
Kauai	62.1	66.5	70.3	71.8	72.3	1.0%	0.8%	0.3%
State of Hawaii as % of U.S.	0.4%	0.4%	0.4%	0.4%	0.4%	0.8%	0.7%	0.5%

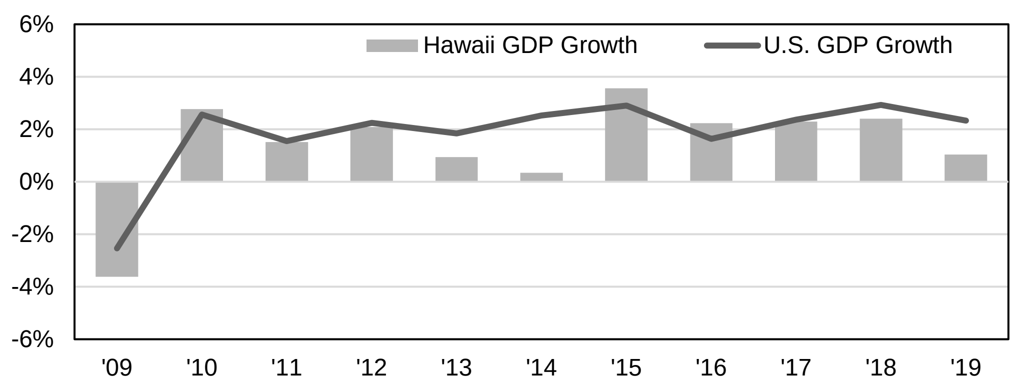
Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

In the 3rd Quarter 2020 Outlook for the Economy report, DBEDT projects a slower population growth rate of 0.2 percent on average annually through 2023. The population is expected to be unchanged in 2020 and to increase 0.1 percent in 2021, and 0.3 percent annually thereafter.

2.2.2. Gross Domestic Product (GDP)

Another economic indicator contributing to traffic growth is GDP. GDP growth within the State has historically outperformed the nation, up to the 2008 financial crisis. As shown in Exhibit 2.2-2, the State's GDP growth then dipped in 2009 and has subsequently lagged the U.S. except in 2015 and 2016. In 2019, the State's GDP growth was 1.0 percent, compared to the U.S. growth of 2.3 percent.

Exhibit 2.2-2: Annual Growth in Hawai'i GDP and U.S. GDP 2009-2019



Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

In 2019, the State generated approximately $83.7 billion (chained 2012 US$), about 0.24 percent of the total U.S. real GDP. The large share of real estate and rental and leasing in Hawai'i's GDP, which represented 20 percent in 2019, is partially due to the inclusion of imputed rent in this sector. In addition, the strong military and tourism presence has made government and leisure & hospitality two leading industries in the State as well, together accounting for over 28 percent of the State's GDP. As seen in Exhibit 2.2-3 below, three of the fastest growing industries that contributed to the State's GDP since 2014 are Information Technology, Transportation, and Health Care, increasing 40 percent, 26 percent, and 20 percent, respectively over the last five years, with the exception of Agriculture which represents less than one percent of Hawaiʻi's GDP but grew 46 percent. The top three industries in the below exhibit in Hawaiʻi each represent nearly double the indicated shares within the U.S. demonstrating those industry's relative importance to the State's economy and diverse economic activities.

Exhibit 2.2-3: Real GDP by Industry for in the State of Hawaiʻi (chained 2012 US$) 2014 vs 2019

	Hawaiʻi					U.S.
Indicator (Ranked by 2019)	**2014 (millions)**	**2019 (millions)**	**Pct. Change (14 vs 19)**	**Share of 2014**	**Share of 2019**	**Share of 2019**
Real Estate	14,057	16,665	19%	19%	19%	10%
Government	16,041	16,269	1%	22%	22%	10%
Leisure & Hospitality	7,143	7,891	10%	9%	10%	4%
Professional Services	5,825	6,389	10%	7%	8%	11%
Retail Trade	5,166	6,025	17%	7%	7%	5%
Construction, Manufacturing & Mining	5,411	6,023	11%	9%	7%	24%
Health Care	4,944	5,919	20%	7%	7%	7%
Transportation	3,500	4,412	26%	4%	5%	3%
Finance & Insurance	3,460	4,071	18%	4%	5%	7%
Wholesale Trade	2,450	2,641	8%	3%	3%	5%
Information Technology	1,660	2,332	40%	2%	2%	6%
Utilities	1,857	1,754	-6%	2%	2%	1%
Other Services (except gov't)	1,670	1,754	5%	2%	2%	2%
Education	866	844	-3%	1%	1%	1%
Agriculture	497	727	46%	1%	1%	2%
Total	**$74,547**	**$83,716**	**12%**	**100%**	**100%**	**100%**

Note: Leisure & Hospitality includes Accommodation & Food Services and Art, entertainment, & recreation
Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

DBEDT projected in May 2020 that the State's GDP growth would decline by 12.1 percent in calendar year 2020 and will experience slow growth of 0.7, 0.6, and 1.1 percent annual growth from 2021 to 2023, compared to the projected U.S. growth of -8.0 percent in 2020 and a recovery of 4.5 percent in 2021.[2] As for the U.S. GDP as a whole, which is a primary indicator towards the outcome of tourism recovery, the Conference Board published in mid-August 2020 base-case projections that the economy would first return to 2019-levels in early 2022. After the U.S. economy shrank by nearly 15 percent in absolute terms between January and April 2020, and a rebound in May and June narrowing the decline to seven percent, their projections indicate that by December 2020, monthly output is expected to remain six percent below January 2020 levels.

2.2.3. Employment

Since 2008, unemployment rates in Hawaiʻi have been below the national rate, as shown in Exhibit 2.2-4. The national unemployment rate increased from 4.6 percent in 2007 to over 9.0 percent between 2009 and 2011, peaking at 9.6 percent in 2010. Over the same period, Hawaiʻi's unemployment rate was consistently below the national average, with a peak of 7.3 percent in 2009. As the economy began to recover from the recession, national unemployment declined from its 2010 peak.

Given the extensive global economic and travel impacts of COVID-19, Hawaiʻi and the U.S. have recorded high unemployment rates. In the June 2020 preliminary results, the national unemployment rate stands at 11.1 percent, while the rate in Hawaiʻi is 13.9 percent. The unemployment rates reached a peak during the April to May timeframes, however due to the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) funds the unemployment rate has improved into late May and June, reducing the gap with the national rate to only 2.8 percentage points.

DBEDT projected in May 2020 that the unemployment rate in Hawaiʻi will rise by 6 percent over 2020 due to the COVID-19 pandemic impact on the local economy. However, it is expected that from 2021 the unemployment will start falling again in conjunction with the projected economic recovery. The Congressional Budget Office expects the nation-wide unemployment rate to rise again to around 14 percent in the third quarter of 2020 and to fall quickly as economic output increases in the second half of 2020 and throughout 2021. However, in the Economic Outlook update for 2020-2030 of July 2020, the unemployment rate is forecast to remain above its pre-pandemic level through the end of the projection period. In particular, it is expected that the unemployment rate will decrease from the 2020 peak of 14 percent to just under 6 percent by the end of 2024. The rate then is projected to gradually reduce, reaching just over 4 percent by end of 2030.

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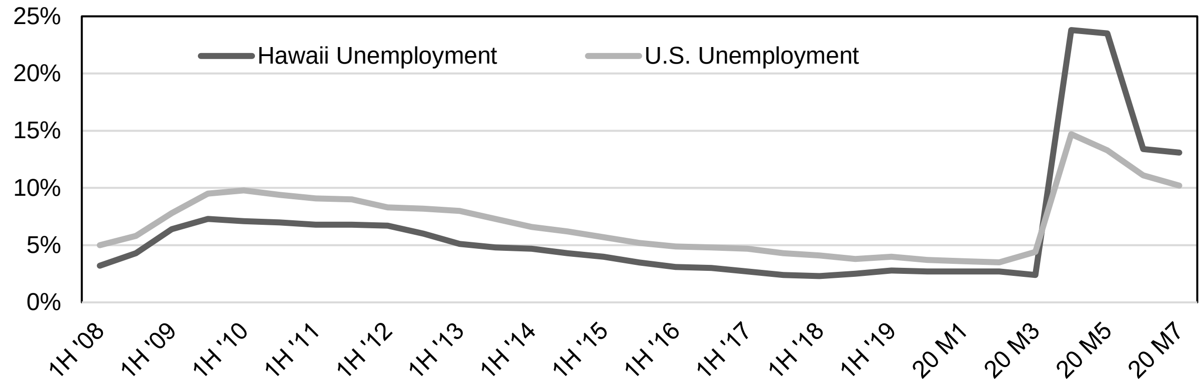
2 IMF World Economic Outlook, June 2020

**Exhibit 2.2-4: Unemployment Rates for Hawai‘i and the U.S.
January and July*, 2008-2020**



Note: Data prior to 2020 are illustrated semi-annually (January and July), 2020 unemployment rates are plotted on monthly-basis.
Source: U.S. Department of Commerce, Bureau of Labor Statistics (BLS).
* for 2020, latest available month was July 2020 (preliminary, seasonally adjusted) – which is shown in the chart above

2.2.4. Personal Income

From 2008 to 2019, real per capita personal income in the State increased at 1.2 percent annually, compared to the U.S. average of 1.3 percent. The State's growth rate of 1.8 percent in 2016 and 2.4 percent in 2017 exceeded the U.S. average of 0.7 percent in 2016 and 1.8 percent in 2017. However, Woods & Poole estimated that the national average real per capita personal income marginally outpaced the State by 0.4 and 0.1 percentage points in 2018 and 2019, respectively.[3]

According to UHERO forecast of May 28, 2020, in the current year, total personal income in the State is forecast to drop by over 5 percent. In the short-term forecast to 2022, UHERO predicts total personal income to recover to 2017 levels by the end of its projection period, through 1.5 percent annual growth. Over the same period, personal income growth for Honolulu is projected to grow faster than the State while Maui, Hawai‘i, and Kauai are projected to grow slower than the State (1.5 percent). The national U.S. disposable income is expected to fall over the third and fourth quarter of 2020 before recovering pre-pandemic levels by Q2 2021.

The DBEDT recently released their short-term second quarter 2020 outlook report indicating total real personal income (2012 US$) to decline from $63.1 billion in 2019 to a forecasted 2020 amount of $56.4 billion, or 11 percent decline. From 2020, DBEDT forecasts the 3-year average annual growth to be 1.3 percent per year.

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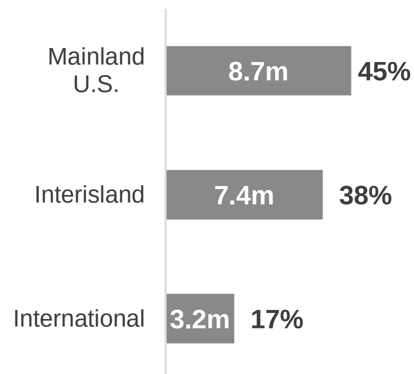
3 Woods & Poole estimated 2018 & 2019 real per capita income annual growth rate equals 1.2 and 1.6 percent, respectively

2.3. Airlines Serving this Market

Over the past six months, COVID-19 has greatly challenged the airlines serving Hawai‘i, in terms of health issues, government travel restrictions and the financial consequences of the pandemic. However, the Hawai‘i Airports System is served largely by major U.S. and international airlines with considerable financial strength.

This section analyzes the airline performance in Hawai‘i over the “pre-COVID” period. During CY 2019, over 30 airlines provided nonstop air service to and within Hawai‘i. Hawaiian Airlines dominates the Hawai‘i Airport System with 49 percent of the total commercial passenger traffic in CY 2019, as shown below in Exhibit 2.3-1. However, Southwest Airlines entered the Hawai‘i mainland U.S. and interisland markets in March and April 2019, respectively and has expressed its intentions to significantly grow its presence in this market.

Exhibit 2.3-1: Mainland, Interisland, and International Enplanements (Millions) by Airline Calendar Year Ending December 2019



Airline	Mainland U.S.	Percentage of Mainland U.S.	Interisland	Percentage of Interisland	International	Percentage of International	Total Enplanements	Share of Total
Hawaiian	2.2	25%	6.6	89%	0.7	22%	**9.4**	**49%**
United	2.3	26%	-	0%	0.2	6%	**2.5**	**13%**
Alaska	1.5	18%	-	0%	-	0%	**1.5**	**8%**
Delta	1.1	12%	-	0%	0.2	7%	**1.3**	**7%**
American	1.3	15%	-	0%	-	0%	**1.3**	**7%**
Southwest	0.3	3%	0.5	7%	-	0%	**0.8**	**4%**
JAL	-	0%	-	0%	0.5	16%	**0.5**	**3%**
ANA	-	0%	-	0%	0.3	10%	**0.3**	**2%**
Other	0.1	1%	0.3	4%	1.3	40%	**1.7**	**9%**
TOTAL	**8.7m**	**100%**	**7.4m**	**100%**	**3.2m**	**100%**	**19.4m**	**100%**

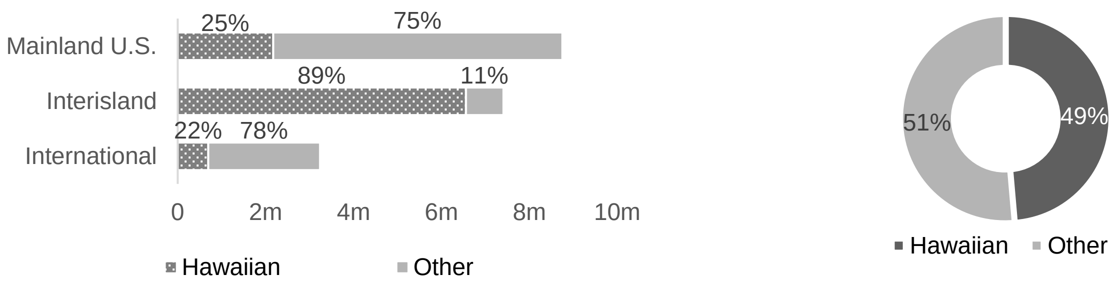
Source: Airports Division.

2.3.1. Hawaiian Airlines

Hawaiian Airlines (HAL) has served the Hawaiian aviation market for over 90 years, and presently has over an 85 percent market share in the interisland traffic segment. With the bankruptcy of Aloha Airlines more than a decade earlier HAL has become the dominant airline in the region. For CY 2019, HAL accounted for 49 percent of the total passenger enplanements in Hawai‘i, and 89 percent of enplanements on interisland flights as seen in Exhibit 2.3-2.

However, in 2019 Southwest made a long awaited move to enter this market and Southern Airways Express acquired the commuter operator Mokulele Air, in February 2019. HAL’s interisland market share fell by six percentage points, from 95 percent in 2018 to 89 percent in 2019, while its enplanements in the interisland market fell by 4 percent year-over-year, despite a growth in the overall interisland market of 3 percent in the period. In the international market, HAL managed to maintain its market share in 2019, competing primarily with foreign flag carriers, as the market grew overall by 7 percent year-on-year.

Exhibit 2.3-2: Hawaiian Airlines' Market Share by Hawai‘i Passenger Segment Calendar Year Ending December 2019



Source: Airports Division.

HAL is actively working with the State to support Hawai‘i's tourism recovery. The main focus of the airline is connections between Hawai‘i and the rest of the world, with a route network that spans both the U.S. west and east coast and major cities along the Pacific. As of January 2020 Innovata schedules, HAL provided nonstop service to the following major long-haul destinations:

- **Mainland U.S.** – Boston, Las Vegas, Los Angeles, Long Beach, New York (JFK), Oakland, Portland (OR), Phoenix, San Diego, San Francisco, San Jose, Sacramento, and Seattle
- **Asia** – Japan (Fukuoka, Osaka, Sapporo-Chitose, Tokyo (NRT & HND)) and South Korea (Seoul)
- **Oceania** – Auckland, Brisbane, Pago Pago, Sydney, and Tahiti

Given COVID-19, HAL's revenues in 2Q2020 dropped by over 90 percent year-over-year, to US$60m. The carrier's difficulties have been compounded by the State's 14-day self-quarantine requirement, introduced in March 2020 and currently extended to October 15, 2020. This order is primarily applicable to out-of-state visitors, but has also been partially re-instated for interisland travel. The negative test exception for travelers to the State will also become effective on October 15, 2020. Due to these events, HAL has reduced its services to only limited interisland flights, and select 1x daily mainland flights for cargo and essential passenger services.

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Exhibit 2.3-3: Hawaiian Airlines' Key Financials
Second Quarter 2020

Indicator	2Q2020	2Q2019	YoY%
Operating Revenue	$60.0m	$712.2m	-91.6%
Operating Income (Loss)	-$149.0m	$88.9m	-267.6%
Operating Margin	-248.3%	12.5%	
Net Income (Loss) (Pre-tax)	-$152.5m	$79.6m	
Net Margin	-254.2%	11.2%	
Cash and Cash Equivalents	$761m	$539m	
Daily Cash Burn	$3.3m		
Quick Ratio	0.89		
Debt/Equity	1.537	0.978	55.9 ppts

Source: Hawaiian Airlines, CAPA, Zacks.

Financially, with the decline in revenues, HAL has been taking measures to curb costs, including voluntary and involuntary staff actions. The airline plans to furlough over 2,000 employees starting October, once federal payroll support ends in September. Notwithstanding these actions, HAL's operating loss for 2Q2020 extended to nearly -US$150m, compared to an operating profit of about US$80m for the same period in 2019, and its net loss (pre-tax) for the 2Q2020 was (pre-tax) -US$153m (net loss margin of nearly -180 percent).

The airline is also taking actions to preserve and support its liquidity position. HAL's unrestricted cash, cash equivalents and short-term investments at the end of the period stood at US$761m, while it reported a daily cash burn of US$3.3m for the period. The airline has entered a sale-and-lease-back agreement for two A321neos with SKY Leasing in end-July, through which it raised US$114m. The carrier is also in negotiations with Boeing to defer the deliveries of its 787-9s, which was to begin in 2021, by a year or two. HAL has 10 787-9s on order. The airline is also issuing US$262m enhanced equipment trust certificates (EETC) against eight aircraft. The carrier also has access to US$364m in federal loans through the U.S. CARES Act.

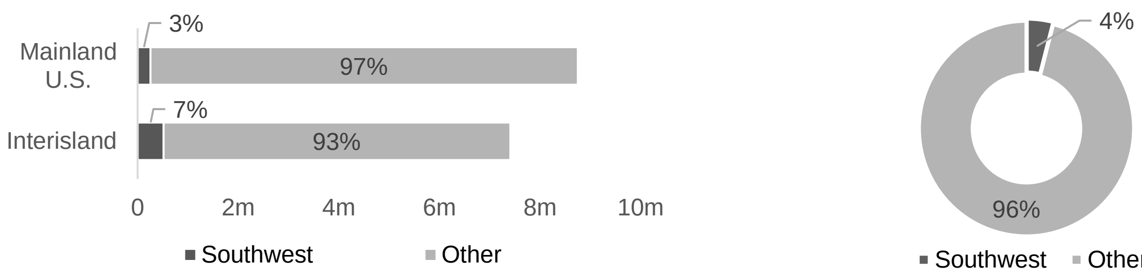
Given the current situation and the travel restrictions, HAL stated its plans to "right-size" and operate at about 80 to 85 percent reduced capacity year-on-year in 3Q2020, and expects 15 to 25 percent reduced capacity in Summer 2021 as compared with the same period in 2019.

2.3.2. Southwest Airlines

Southwest (SWA) began service to Hawaiʻi in March 2019 with flights between Oakland (OAK) and HNL. The airline then introduced interisland flights in April 2019. The airline spent almost a decade preparing for the launch, which required a new aircraft variant and certification, crew training and investment in airport infrastructure. As of April 2020, Southwest has expanded its footprint in both the mainland U.S. and interisland segments. The carrier operates direct mainland service to four out of the five primary airports (Hilo is not currently served), with Hilo served via interisland connection. Southwest offers flights to Hawaiʻi from mainland U.S. points, including Oakland (OAK), San Jose (SJC), and Sacramento (SMF). Southwest's substantial U.S. mainland network will support flow traffic from behind the West Coast, and offers direct service to Maui and the Big Island without connecting thru Honolulu (which has been the historical pattern). Although SWA has postponed the start of its San Diego to Honolulu service indefinitely due to COVID-19, the route will likely be launched once other mainland services resume.

Despite a start in the second quarter of CY 2019, and a slower ramp-up of services than originally planned, due to MAX-related capacity issues, SWA was able to capture 3 percent of the mainland enplaned passenger traffic and 7 percent of the interisland enplaned passenger traffic in CY 2019. Plans to reintroduce scheduled operations with the Boeing 737 MAX aircraft remain unlikely until after mid-December 2020. SWA will continue to utilize their Boeing 737-800 aircraft for these routes. In February 2020, prior to COVID-19, SWA was operating an average of 9 daily departures from Hawai‘i to California, and 34 daily departures between interisland markets, using low fares (as low as $29 one-way for interisland, $99 between California) to stimulate demand.

Exhibit 2.3-4: Southwest Airlines' Market Share by Hawai‘i Passenger Segment Calendar Year Ending December 2019



Note: Southwest commenced Hawai‘i services in March 2019.
Source: Airports Division.

Given the impact of COVID-19 and the state of Hawai‘i's 14-day quarantine requirements, as of August 2020, SWA has reduced its operations to two daily departures between HNL and OAK and 16 daily departures from HNL to neighboring islands; six from OGG, five from KOA, and three from both LIH and ITO. The airline noted that it plans to ramp-up mainland services once the quarantine requirements are relaxed, and intend to resume building the Hawai‘i-mainland U.S. and interisland markets. According to SWA's President, Thomas Nealon on the 2Q 2020 earnings call, Hawai‘i will remain a […] market of interest and excitement to the airline, as it awaits for the opportunity to build back Hawai‘i, the California market and the interisland market from their current "vital service level".

Exhibit 2.3-5: Southwest Airlines' Key Financials Second Quarter 2020

Indicator	2Q2020	2Q2019	YoY%
Operating Revenue	$1,008m	$5,909m	-82.9%
Operating Income (Loss)	-$1,127m	$968m	
Operating Margin	-112%		
Net Income (Loss) (Pre-tax)	-$1,239m	$968m	
Net Margin	-123%		
Cash and Cash Equivalents	$12,351m	$539m	
Daily Cash Burn	$23m		
Quick Ratio	1.65		
Debt/Equity	0.977	0.369	

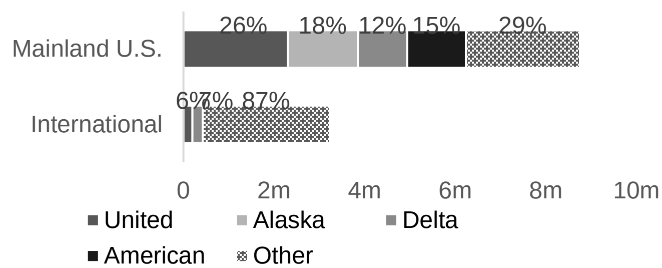
Source: Hawaiian Airlines, CAPA, Zacks.

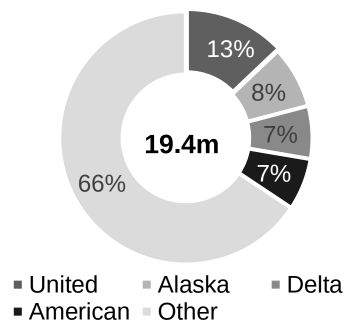
Southwest reported revenues of US$1.0bn in 2Q2020, down about 83 percent year-on-year, while its operating loss for the period amounted to -US$1.1bn, and net loss totaled -US$0.9bn (net loss margin of over 90 percent for the period). The airline had a sound liquidity position at the end of the quarter, with cash and short-term investments of US$14.5bn, and a relatively low cash burn averaging of US$23m per day in 2Q2020. In addition, the carrier reported US$12bn in unencumbered assets.

2.3.3. Other U.S. Flag Airlines

United Airlines’ services to Hawai‘i date back to over half a century ago, and the airline has retained a strong presence to date, with the largest market share (26 percent of enplanements) in the Hawai‘i-mainland U.S. market. In 2019, the airline offered services from all its hub airports to Hawai‘i, but the primary services were from San Francisco (SFO) and Los Angeles (LAX), followed by Denver (DEN). Apart from services to the mainland, United offered overseas services to Tokyo (NRT), Guam (GUM) and the Marshall Islands (MAJ) from Hawai‘i.

Exhibit 2.3-6: Other U.S. Carrier’s Market Share by Hawai‘i Passenger Segment
Calendar **Year Ending December 2019**





Source: Airports Division.

The other larger U.S. carrier players in the mainland U.S.-Hawai‘i market (Alaska, Delta, and American Airlines) all had services predominantly from the U.S. West Coast (largely LAX and Seattle). Delta also had services to four Japanese markets from Hawai‘i in 2019. American’s other notable services to Hawai‘i (apart from LAX in the West Coast) were from Dallas (DFW) and Phoenix (PHX).

In the face of the pandemic and Hawai‘i’s quarantine requirement, all these carriers had reduced their Hawai‘i services to minimal levels, with no international services (other than United’s daily HNL-Guam flights). The airlines averaged about 4-6x daily departures from the State in the case of United, Delta, and American, while Alaska reduced its services even more severely to two daily departures. In August, there are some indications of returning confidence, with United, Alaska, and Delta, each adding 1-2x daily departures from the mainland U.S. to Hawai‘i, both by increasing frequencies and restarting some previously suspended routes. Of the major players, American has been continuing to slash Hawai‘i capacity, removing flights from PHX and those to OGG.

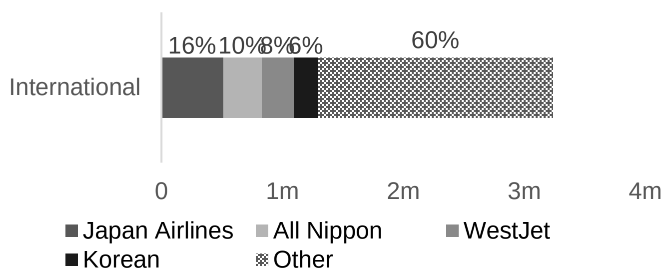
While Delta’s strategy in Hawai‘i going forward is unclear, United and Alaska have both expressed confidence in the holiday destination, and expectations of pent-up demand once the pandemic related lockdown is relaxed. Although the state of Hawai‘i’s 14-day quarantine requirement has been a largely inhibiting factor in in the carriers’ plans to resume/ramp-up services, United and Alaska plan to continue adding flights in the Fall of 2020, if restrictions are relaxed. American has also expressed plans to up-gauge Hawai‘i services from PHX from Fall 2020, but given its recent actions of reducing services, whether it will revise this plan has yet to be seen.

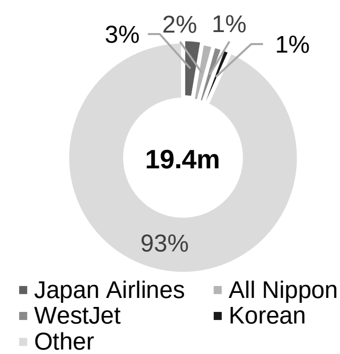
In 2Q2020, overall revenue for these carriers fell between 85 percent – 91 percent on a year-over-year basis, with Delta seeing the largest percentage drop in revenues and Alaska Airlines reporting the smallest. Alaska showed the lowest bottom line impact, with a net pre-tax margin of about -70 percent, while Delta recorded a significantly higher adjusted pre-tax loss of over -250 percent. Delta's daily cash burn for the quarter averaged US$27m, while United's averaged US$40m. Delta reported US$15.7bn in liquid assets, and United had US$7.5bn in cash and cash equivalents and short-term investments. Alaska held US$2.8bn in cash and marketable securities at the end of June and reported a cash burn of US$4m in the month, lower from US$13m at the start of the quarter.

2.3.4. International Airlines

Japan is the largest source market for international visitors to Hawaiʻi, with more than 1.5m visitors from the country visiting the state in 2019. Consequently, Japan Airlines (JAL) and All Nippon Airways (ANA) are the two most prominent international carriers serving the state of Hawaiʻi, with 16 percent and 10 percent respectively of international enplanements from Hawaiʻi in 2019. After Japan, Canada is the most important source of international visitors to Hawaiʻi, but it significantly lags Japan, with about 500m visitors from Canada in 2019. WestJet was the carrier with the third largest international service from Hawaiʻi (8 percent of international enplanements) in 2019. The Korea-Hawaiʻi market has been growing over the last few years as well, and Korean Air (KAL) had 6 percent of the international market share from Hawaiʻi in 2019.

Exhibit 2.3-7: Foreign Carrier's Market Share by Hawaiʻi Passenger Segment
Calendar **Year Ending December 2019**





Source: Airports Division.

To further their reach in each other's markets, JAL and Hawaiian entered into a codeshare agreement effective from 2018, which the two airlines had planned on growing into joint venture (JV). This has, however, been disrupted by the lack of regulatory approval for the JV. In March 2020, the U.S. Department of Transportation (DOT) approved their general commercial agreement, but denied them anti-trust immunity (ATI), on the grounds of lack of evidence of benefits to customers. The two airlines had stated earlier that the JV would be a requirement for their codeshare agreement to be successful.

Since the onset of the pandemic, all scheduled international flights to Hawaiʻi have been suspended, other than limited services to repatriate citizens of foreign countries and support other essential travel. ANA, which planned on 2x daily service between Tokyo (Narita) and Honolulu commencing June 2020 on their A380s, has shelved the plan indefinitely. JAL has no scheduled services planned between Japan and Hawaiʻi through September, according to Innovata schedules. With a 14-day self-quarantine requirement being imposed by both Korea and Hawaiʻi, KAL has stated that it would be difficult for it to resume services to Hawaiʻi in the near future. WestJet has provided no guidance on its Canada-Hawaiʻi plans.

2.3.5. Prospects for Airline Traffic Recovery in Hawaiʻi

Given the current health, economic and aviation uncertainties it is difficult to predict when or how air travel will recover in Hawaiʻi. The U.S and Asian economies' rebound will also foreshadow signs to how the Hawaiian tourism market will return to pre-COVID levels. As of August 10, the Blue Chip Economic Indicators report (a consensus of 50 economic forecasting organizations) projects U.S. economic growth rate to decrease 5.2 percent in 2020 with a rebound of 3.8 percent for 2021. However, ICF has identified a number of underlying factors to support the likely resiliency of aviation in this market.

- First and foremost, Hawaiʻi is a multi-island economy, and therefore aviation is a vital linkage in the day-to-day operation of the State. There is no viable replacement for air travel between the Hawaiian Islands;
- Second, air travel to and from the State is highly reliant on the leisure and hospitality industries. There is little indication that the demand for leisure travel plans, particularly in the U.S. will be permanently reduced as the result of COVID-19. What has been observed in this pandemic is that consumers are shifting to short-haul, drive vacation, instead of flying. However, there is no indication that the underlying demand drivers have changed. Once a vaccine is widely available, we believe that leisure travel, particularly domestic leisure travel, will be among the first traffic segment to recover;
- Third, Hawaiʻi is a highly established brand, particularly from the U.S. West Coast and Far East Asian origin markets, with large established hotel/resorts, tourism infrastructure and nature sites. It is not likely that another destination will replace what Hawaiʻi has to offer in the near to medium-terms;
- Fourth, with Hawaiian Airlines being the dominant carrier for mainland U.S. and international segments in the State, that airline will be singularly focused on passenger traffic growth that touches the Hawaiʻi airports.
- Fifth, Southwest's efforts to serve the Hawaiʻi market over the last decade became a reality in early 2019. The airline will remain invested in proving passage between Hawaiʻi and multiple West Coast markets at its focus cities like Oakland and San Diego, coupling this with interisland connectivity.

For these reasons among other factors, ICF believes that airline passenger traffic from, to and within the State will eventually recover. But at this juncture, with the clouds of uncertainty as to when the pandemic will subside and when the State will ease travel restrictions to mainland and international travelers without quarantine, it is difficult to predict with any degree of accuracy the shape of the aviation recovery curve.

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2.4. DBEDT Economic and Visitor Forecast

On August 31, 2020, the Hawai‘i Department of Business, Economic Development and Tourism (DBEDT) developed the State's view regarding the Hawai‘i's economic recovery including visitor arrivals over the next several years based on historical experience and a number of health related, demographic, economic and financial assumptions. ICF has not independently reviewed or verified the underlying basis of these forecasts and provide no opinion regarding the reasonableness of these projections. These projections are being used by a range of State agencies in their planning for the coming years. ICF has also reviewed traffic recovery projections assumed by industry trade associations, bond rating agencies, and other industry participants. Based on those review, ICF formulated the basis for modeling several hypothetical passenger traffic scenarios for the Hawai‘i Airports System to consider the possible impact to air travel to/from and within Hawai‘i and the implications to the financial position of the Hawai‘i Airports System.

According to DBEDT's Outlook for the Economy for 3rd quarter 2020, as referenced in Section 2.2 of this Report, their forecast expects population to be unchanged in 2020, and only grow by 0.1 percent in 2021 and 0.3 percent in the years thereafter. Subject to a range of assumptions developed by the State that Hawai‘i's economic growth rate, as measured by the real GDP, will drop by 12.3 percent in 2020, will increase marginally by 2.1 percent in 2021, and then increase by 1.2 percent in 2023. Exhibit 2.4-1 shows a summary of the relative short-term forecast outputs for the period CY 2021 to CY 2023.

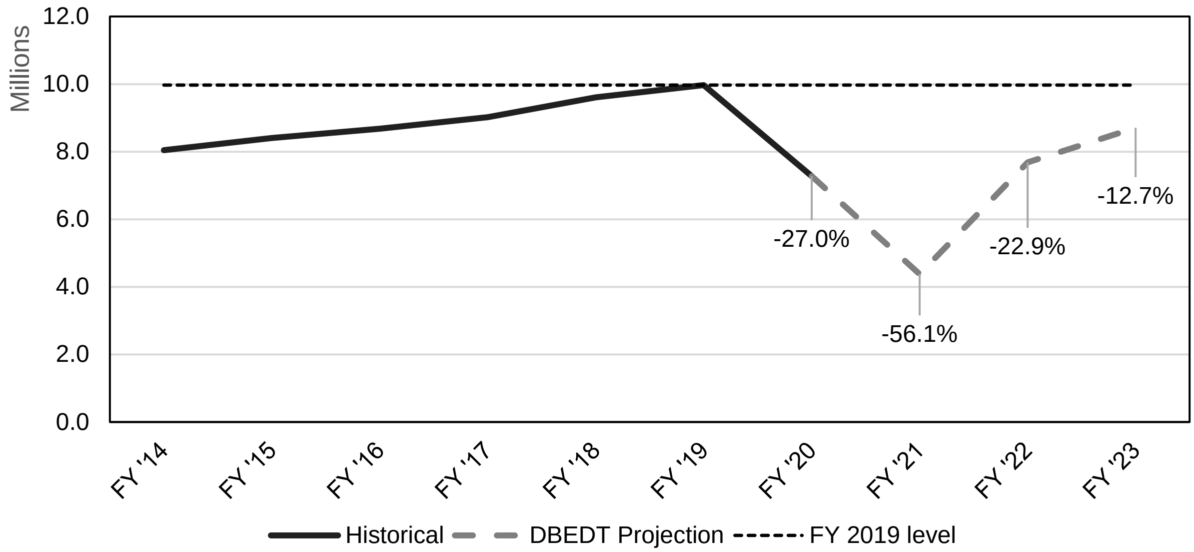
Exhibit 2.4-1: Hawai‘i Forecast of Key Economic Indicators
CY 2019-2023

Economic Indicators	2019A	2020E	2021F	2022F	2023F
Total Population (000s)	1,416	1,416	1,417	1,421	1,425
Real Personal Income (millions of 2012$)	62,935	54,678	56,915	58,325	59,229
Real Gross Domestic Product (millions of 2012$)	83,509	73,208	74,779	76,266	77,183
Gross domestic product deflator (2012 = 100)	116.5	118.1	120.3	122.4	124.5

Source: DBEDT, August 31, 2020

According to DBEDT, the State expects to welcome 4.38 million visitors in FY 2021, a decrease of 56.1 percent from its FY 2019 level. When comparing the second quarter of CY 2020, which totaled 30.7 thousand visitors, to the same quarter in 2019, the State saw a decline of 98.8 percent. Visitor arrivals will not reach its 2019 level until FY 2025 based on the assumptions underlined, which incorporates the pace seen from the 2009 great recession. Along with fewer visitor arrivals to the islands, the State anticipates visitor spending to decrease more during the next few years due to decreased daily spend. The following Exhibit 2.4-2 depicts the expected near-term phased recovery of visitor arrivals, projecting 4.38 million in FY 2021, 7.68 million in 2022, and 8.71 million in 2023 where its recovery to 2019 levels will reach 87 percent. ICF's hypothetical scenario based passenger activity (seen in Section 2.5) considered inputs that were derived, in part, from the DBEDT visitor forecast.

Exhibit 2.4-2: Hawai'i Visitor Arrivals by Air – DBEDT Quarterly Tourism Forecast Fiscal Years ended June 30, 2014-2023



Source: DBEDT projections, August 31, 2020

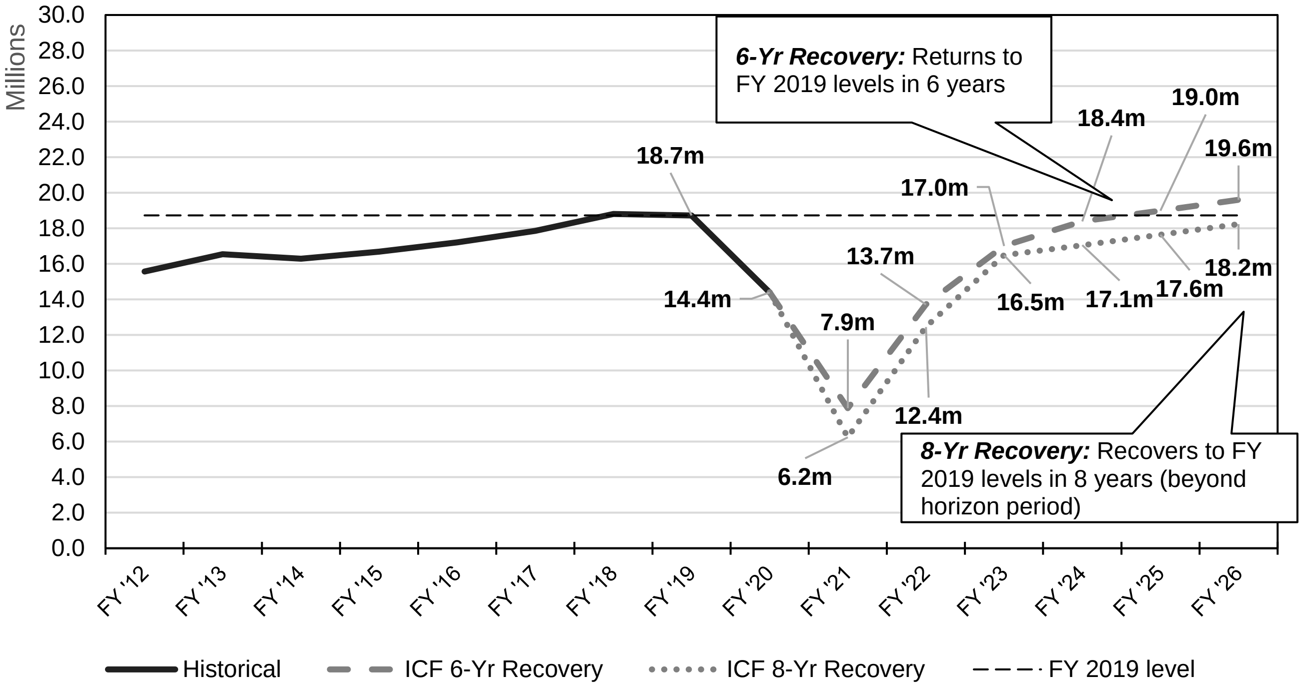
2.5. Hypothetical Future Passenger Scenarios

To evaluate the financial impacts of the proposed issuance of the 2020 Bonds, ICF has independently developed the following two hypothetical scenarios that have been reviewed by and agreed to by the Airports Division management. ICF viewed a conservative time frame for Hawai'i to begin lifting travel restrictions and easing less strict quarantine orders starting November 2020, where mainland U.S. and trans-Pacific begin its major recovery trend.

- ***The Six-Year Recovery Scenario***. Based on our review of traffic recovery projections assumed by industry trade associations, bond rating agencies, and other industry participants, ICF has developed a hypothetical traffic scenario, assuming that it would take six years through FY 2025 for the enplaned passenger count at the Hawai'i Airports System to recover to the level in FY 2019. Total enplaned passenger count is projected to be 42.1 percent of FY 2019 level in FY 2021, 73.2 percent in FY 2022, and 104.7 percent in FY 2026.
- ***The Eight-Year Recovery Scenario***. ICF also developed another scenario, where COVID-19 has an even deeper impact on the State economy resulting in lower traffic activities for the Hawai'i Airport System. Under this scenario, enplaned passenger count is projected to be 33.3 percent of FY 2019 level in FY 2021, 66.5 percent in FY 2022, and 97.4 percent in FY 2026.

Exhibit 2.5-1: Hawai'i Airports System Enplaned Passenger Historical and Hypothetical Projections

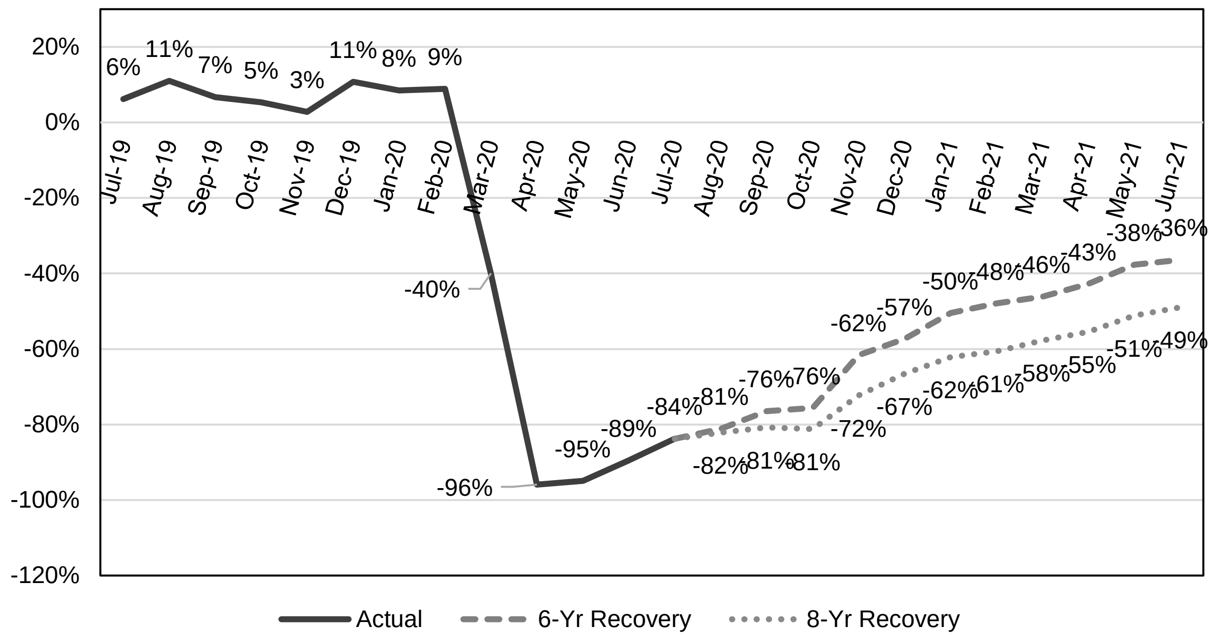
Fiscal Years Ended June 30, 2012-2026



	6-Yr Recovery			8-Yr Recovery		
Fiscal Year (Ended June 30)	**Epax (000s)**	**Annual % Change**	**% vs FY 19**	**Epax (000s)**	**Annual % Change**	**% vs FY 19**
FY 2016	17,215.4	3.2%	91.9%	17,215.4	3.2%	91.9%
FY 2017	17,859.2	3.7%	95.4%	17,859.2	3.7%	95.4%
FY 2018	18,806.3	5.3%	100.4%	18,806.3	5.3%	100.4%
FY 2019	18,726.9	-0.4%	100.0%	18,726.9	-0.4%	100.0%
FY 2020	14,391.5	-23.2%	76.8%	14,391.5	-23.2%	76.8%
FY 2021	7,881.5	-45.2%	42.1%	6,242.5	-56.6%	33.3%
FY 2022	13,711.4	74.0%	73.2%	12,444.8	99.4%	66.5%
FY 2023	17,004.1	24.0%	90.8%	16,485.2	32.5%	88.0%
FY 2024	18,389.0	8.1%	98.2%	17,054.4	3.5%	91.1%
FY 2025	18,989.9	3.3%	101.4%	17,638.0	3.4%	94.2%
FY 2026	19,603.4	3.2%	104.7%	18,234.4	3.4%	97.4%

Note: Epax = enplaned passengers
Source: Actual enplanement figures for FY 2012 to FY 2020 - Airports Division. Projections – Airports Division and ICF.

Exhibit 2.5-2: Projected Short-Term Changes to Monthly Enplaned Passengers Under Hypothetical Traffic Scenarios
FY 2020-FY 2021



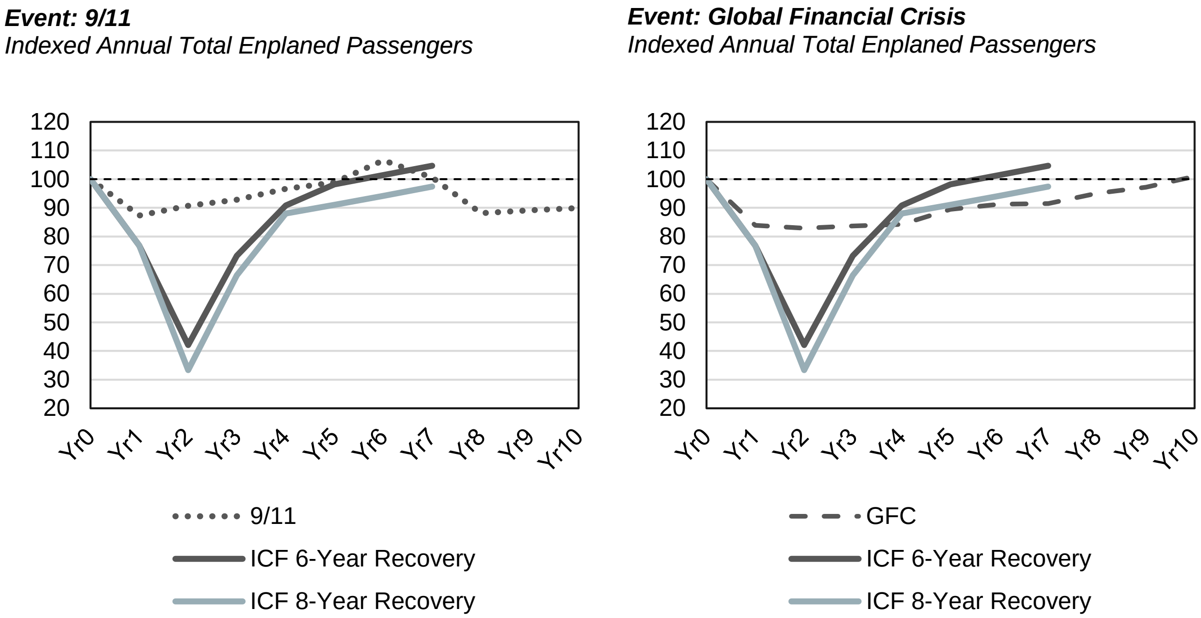
Note: Percentage data points show ratio to FY 2019 levels on a monthly basis (i.e., July 2019 vs July 2018).
Source: ICF projections.

A range of factors may cause the traffic results to be materially higher or lower, especially in FY 2021. Those factors may include further virus spread and mutation, delay in vaccine development and adoption, negative effect on economy and travel patterns, governmental actions, foreign policies and travel restrictions, airline bankruptcy, and airline competition and network decision-making, among other factors.

2.5.1. Exogenous Shocks to the Hawaiian Aviation Market

The airline industry is cyclical and highly sensitive to long-term economic conditions – not only to local conditions, but also to the national and global environment. Equally evident is the aviation industry's considerable sensitivity to political and other exogenous shocks. To better understand the long-term impact of the COVID-19 event, ICF examined prior exogenous shocks to the aviation system. While this pandemic is unprecedented and still unfolding, historic events may provide indications on the historic resilience and recovery of the market. We have focused on 9/11 and the 2008/2009 Global Financial Crisis (GFC) as the most comparable exogenous shocks to have impacted the Hawaiian aviation system over the past 20 years.

Exhibit 2.5-3: Length of Time for Hawai'i Passenger Traffic Recovery After Previous Exogenous Shocks – Indexed Annual Enplaned Passengers



	9/11	GFC	ICF 6-Year Recovery	ICF 8-Year Recovery
Magnitude of Shock (%)	13%	19%	58%	67%
Time to Recovery (Months)	63	115	~70	~90-95

Note: Indexed annual enplaned passenger figures calculated based on rolling 12-month sum. Yr0 for 9/11 is assumed to be 12-months ending August 2001, while Yr0 for GFC is assumed to be 12-months ending February 2008. Yr0 for ICF projections are assumed to be FY 2019 annual figures. ICF projections only demonstrate six years into the horizon period. Aloha Air ceased operations in March 2008, which impacted the initial shock seen in the GFC case.
Source: Airports Division, U.S. DOT T-100, ICF analysis.

After 9/11 and the GFC, the Hawaiian aviation market experienced a noticeable decline. However, the magnitude of the shock and driving factor behind the decline varied between the events. At its worst following 9/11, the Hawaiian air travel market[4] was 13 percent below pre-shock levels, while following the GFC, the maximum drawdown on air traffic was a higher 19 percent. Similarly, the time to recovery for the Hawaiian commercial aviation market following the GFC was longer, at about 9.5-years, compared with a recovery period of just over 5-years after 9/11. The difference in the impact of the shocks can be attributed in part to the varying impact each shock had on different segments of the Hawaiian commercial aviation market. Mainland traffic, which is the largest segment of the Hawaiian aviation market, was less affected following 9/11, than it was after the GFC, while international traffic, which is a smaller proportion of the overall market, was more impacted by 9/11 than the GFC.

4 Measured here as the rolling 12-month onboard passenger traffic.

3. FINANCIAL FRAMEWORK

The State owns the Hawai‘i Airports System, which it operates through the Airports Division as an enterprise fund. The financial operations of the Hawai‘i Airports System are governed by Federal, State, and local rules and regulations, as well as by contractual arrangements that the Department has executed with airport users and other parties. Key elements of the financial framework include:

- State Regulations;
- The Certificate;
- The Airline Agreement;
- Commercial Agreements;
- Other Agreements

The Airports Division is one of the operating branches of the Department and follows the same State rules and regulations governing all State agencies. The Airports Division has no contracting power and relies on the Department to issue bonds or execute contracts on behalf of the Airports Division. Legislative bills can be proposed during the annual legislation session and passed by the Governor to directly impact the operations of the Hawai‘i Airports System, so long as the bill does not violate existing contractual arrangements.

The Certificate provides for conditions and covenants that the Department must follow for existing bonds of the Airports Division and for future bonds to be issued. The Airline Agreement provides a hybrid residual airline ratemaking methodology, which ensures that the financial covenants of the Certificate be met. Although the Airline Agreement can be canceled by either the Department or the Signatory Airlines with a 60-day advance notice, it has been automatically extended quarterly since 1997 and is assumed to be extended throughout the projection period. Commercial agreements affect the Airports Division’s ability to generate non-airline revenues, and may affect the level of airline rates and charges. The subordinate bond document governs the use of Revenues and Aviation Fuel Taxes after the obligations under the Certificate is fulfilled, and the special facility bond documents governs the use of incomes other than the Revenues and Aviation Fuel Taxes.

3.1. State Rules and Regulations

Existing State laws, rules, and regulations are provided through the Hawai‘i Constitution, Hawai‘i Revised Statutes, Hawai‘i Administrative Rules, and session laws. The Legislature includes the Hawai‘i State House of Representatives, consisting of 51 members, and the Hawai‘i State Senate, consisting of 25 members. Each year, the Legislature convenes from the third Wednesday in January for a session of no longer than 60 working days. From time to time, special sessions may be organized to address specific issues. The Legislature has broad powers in affecting all aspects of the Airports Division’s operations so long as the action does not violate existing contractual obligations.

3.1.1. Appropriation of Operating Budget and Capital Budget

In each odd Fiscal Year (such as FY 2021), the Airports Division prepares a biennium budget covering the following two Fiscal Years (such as FY 2022 and FY 2023) and including (a) an operating budget for operating expense, debt service and other fund deposits, and (b) a capital budget for capital expenditure. The Airports Division submits the biennium budget to the Department; it becomes part of the executive budget of the Governor. The budget preparation is governed by HRS Title 5, Article 37, Part IV: the Executive Budget. No less than 30 days before the convening date of the Legislature, the Governor submits the executive budget to the Legislature. During the legislative session, the Legislature reviews and revises the executive budget, and prepares the appropriation for the executive budget, along with other bills in the regular sessions, for the Governor's approval. Under Article III, Section 16 of the Hawaiʻi Constitution, the Governor may approve or veto a bill, or take no action, which would turn the bill into a law after 10 days.

Upon the Governor's approval, the appropriation forms the spending ceiling of the Airports Division for the Fiscal Years. Certain adjustments can be made if airport internal cash, which the State refers to as "the special fund," is available.

The appropriation for operating costs includes operating expenses, debt service payments, and other amounts for operating costs, and the number of approved positions. The appropriation is organized by expense category, such as payroll, other expenses, equipment, motor vehicles, or lease financing, and by location, such as HNL or OGG. The Airports Division can reallocate appropriations across certain categories, subject to completion of a staff study. Any appropriation for operating costs will lapse at the end of the Fiscal Year, unless it is encumbered under a specific contract. In addition, the appropriation does not include any non-cash accrued liabilities or inter-government transfers, and therefore is not directly comparable to operating expenses following generally accepted accounting principles (GAAP).

The appropriation of capital investment costs specifies the total costs and funding sources for each capital project. A bond appropriation serves as the State's approval to issue bonds for a project. Among other considerations and actions, to use the capital appropriation, the Airports Division must submit an allotment request to the Office of the Governor; it can advertise the project after the Governor's approval. Appropriations for a project will expire at the end of the next biennium budget cycle unless encumbered under a contract; appropriations including federal funding sources have long durations before expiration. The Airports Division may supplement the capital appropriations using internal cash subject to the Governor's approval but cannot revise the bond appropriations without additional legislative approval.

In each even Fiscal Year (such as FY 2020), the Airports Division submits a supplemental budget for the second year of the biennium cycle (such as for FY 2021). Upon approval, it is added to the existing appropriations.

3.1.2. Central Service, State Surcharge, and Grandfathered Payments

As part of the State government, the Airports Division receives services from other State offices and agencies. Such services include, for example:

- Department of Accounting and General Services for payroll and other payment processing;
- Department of Agriculture for agriculture inspection (fruits and vegetables are prohibited on overseas flights);
- Department of Attorney General for legal services;
- Department of Budget and Finance for bond issuance, budget preparation, financial management, and fund investment;
- Department of Business, Economic Development & Tourism for bond issuance and economic forecast;
- Office of the Governor for administrative services;

- Department of Human Resources Development and Human Services for hiring and all other human resource management services;
- Department of Land & Natural Resources for lease review;
- Legislature;
- Department of Public Safety for sheriff services; and
- Department of Transportation, of which the Airports Division is an operating branch.

Other than certain direct reimbursement for services provided, the Airports Division makes payments to the State's general fund for central service expenses, known as the State Surcharge. The State Surcharge is provided under HRS Section 36-27 to defray government central service expenses in relation to all special funds. It is calculated as 5 percent of all receipts excluding debt service payments.

The State Surcharge is implemented prior to the *Policy and Procedures Concerning the Use of Airport Revenue* published in 1999 and is a grandfathered revenue diversion. However, Title 49 United State Codes Section 47115(f) provides that the Secretary of the United States Department of Transportation (the USDOT) shall consider the revenue diversion when distributing discretionary grants if the related amount exceeds the 1994 actual amount adjusted for inflation. The inflation-adjusted amount was $14.7 million in FY 2019.

Due to increasing revenues from the Hawaiʻi Airports System, the calculated State Surcharge using 5 percent of receipts net of debt service was higher than the inflation adjusted amount in FY 2019. Although there is no statutory requirement, the Airports Division decided to limit the amount of the State Surcharge in FY 2019 to $14.7 million, and plans to follow the limitation during the projection period.

3.1.3. Other State Regulations

The Legislature has broad powers in affecting all aspects of the Airports Division's operations, so long as the action does not violate existing contractual obligations. The Office of the Governor can also affect the Airports Division's operations through executive actions. Historically, such actions have included, for example:

- Waiver of landing fee during economic downturn;
- Rent relief provided to concession operators during economic downturn;
- Permission to extend concession contract terms in exchange for capital investment commitment;
- Revision of aviation fuel tax and fuel tax credits;
- Establishment of Customer Facility Charge (CFC) and increase of CFC level; and
- Temporary suspension of CFC collection prior to adoption of CFC indenture.

In the previous legislative sessions legislation was introduced which proposed establishing an independent airports corporation to assume operations of the Airports System from the Airports Division. This legislation was not approved and has not been enacted. The Department cannot predict at this time whether any such legislation may be enacted in the future. Although the Constitution of the United States contains prohibitions against the impairment of contracts, the Department cannot predict what impact, if any, such legislation would have on the operations of the Airports System or the availability of Revenues or Aviation Fuel Taxes.

3.2. The Certificate

The Certificate sets out the annual revenue requirement (the Rate Covenant), the terms and conditions for the Department to issue additional bonds (the Additional Bond Test), the application of Revenues and Aviation Revenues (also known as the flow of funds), and other covenants of the Department for the operation of the Undertaking (Hawaiʻi Airports System).

3.2.1. Rate Covenant

The Rate Covenant is specified in Section 7.02 of the Certificate. It requires the Department to, among other things:

1. Impose, prescribe, and collect rates, rentals, fees, or charges so that Revenues and Aviation Fuel Taxes will be sufficient to at least:
   - Make the required payments of the principal of and interest on all Bonds, including reserves therefor, and the payment of all other indebtedness payable from Revenues and Aviation Fuel Taxes;
   - Pay the Costs of Operation, Maintenance, and Repair of the Undertaking, including reserves therefor; and
   - Reimburse the State’s general fund for general obligation bonds which are or shall have been issued for the Undertaking (none outstanding as of FY 2019) and carry out the Certificate’s provisions and covenants.
2. Yield Net Revenues and Taxes, along 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, to be equal to at least one and twenty-five hundredths (1.25) times the Annual Adjusted Debt Service Requirement.

The former test is referred to as the “flow test” and the latter as the “coverage test.”

Revenues includes all income, revenues, and moneys the State derived from the ownership by the State or operation and management by the Department or the furnishing and supplying of the services, facilities, and commodities, including interest earnings on certain funds. Revenues does not include PFC revenues unless specifically provided through a supplemental certificate, nor does Revenues include CFC revenues. Aviation Fuel Taxes are levied pursuant to HRS at a half-cent per gallon and a majority of the Aviation Fuel Taxes are credited to the landing fee according to certain reimbursement procedures. In FY 2019, Aviation Fuel Taxes were $2.6 million, and $2.5 million was credited back to the airlines.

An amendment to the Certificate has been effective starting FY 2020 and provided a definition of the Costs of Operation, Maintenance and Repair. The Costs of Operation, Maintenance and Repair generally include all expenses of the Department incurred for the operation and maintenance of the Hawaiʻi Airports System, including, among other items, the State Surcharge and reimbursement to State agencies including the DOT, and excluding, among other items, any amount of pension and other post-retirement benefits expenses that exceed the amount that the Department deposits to the State funds for the proportional share related to the Hawaiʻi Airports System. The exclusion of such non-cash items from FY 2020 forward has been reflected in Exhibit E as a reduction to gross operating expenses.

The Airports Division no longer has general obligation bonds requirements and does not expect to incur such obligations in the future.

Net Revenues and Taxes includes the aggregate of the Revenues and Aviation Fuel Taxes, excluding (i) the Costs of Operation, Maintenance and Repair, (ii) the credit to the Debt Service

Reserve Account, (iii) the credit to the Major Maintenance, Renewal, and Replacement Account (MMRRA), and (iv) reimbursement for general obligation bonds.

For Rate Covenant purposes, the Airports Division has established an internal account – the Funded Coverage Account – to serve as the "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." This equals approximately 25 percent of gross debt service net of capitalized interest. There are no limitation on the amount in the Funded Coverage Account for purposes of the Rate Covenant.

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 and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited as provided in a Supplemental Certificate. The Airports Division plans to continue committing Available PFC Revenues but does not plan to include PFC revenues as Revenues or receiving Federal Direct Payments.

For purposes of this Report, Debt Service Coverage Ratio is defined as Net Revenues and Taxes, along with the projected balance in the Funded Coverage Account, divided by Annual Adjusted Debt Service Coverage. A Debt Service Coverage Ratio of 125 percent implies that the coverage test of the Rate Covenant has been met for the Fiscal Year.

3.2.2. Application of Revenues

So long as any Bonds remain Outstanding, Revenues and Aviation Fuel Taxes must be deposited to the Airport Revenue Fund and applied pursuant to Section 6.01 of the Certificate in the following order, shown in Exhibit 3.2-1:

1. Payment of the costs of Operation, Maintenance, and Repair, 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 MMRRA to make up any deficiencies in the accounts listed 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;
5. Betterments and improvements to the Airports System;
6. Any special reserve funds and other special funds created by law; and
7. Any other lawful purpose in connection with the Bonds or the Airports System.

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Exhibit 3.2-1: Flow of Funds

Priority	
	Revenue Fund
	Depository for Revenues and Aviation Fuel Taxes
1	**Costs of Operation, Maintenance and Repair**
	To pay the Costs of Operation, Maintenance and Repair
2	**Annual Adjusted Debt Service Requirement**
	To pay Bond obligations, net of adjustments (a)
	Interest Account
	Serial Bond Principal Account
	Sinking Fund Account
	Debt Service Reserve Account
3	**Major Maintenance, Renewal and Replacement Account**
	To maintain a balance determined by the Department
4	**General Fund Reimbursement**
	To reimburse the State for related general obligation bonds
5	**Betterments and Improvements**
	To provide for betterments and improvements
6	**Special Reserve and Other Funds**
	To provide such special reserve funds and other special funds
7	**Other Purposes**
	To be used for any other lawful purposes

(a) Net of Available PFC Revenues, among other exclusions.
Source: The Certificate.

The Certificate does not set a reserve for the Costs of Operation, Maintenance, and Repair. Instead, the Airline Agreement requires the Airports Division to reserve cash equaling 25 percent of annual operating and maintenance expenses at the beginning of a Fiscal Year. The Airports Division has established an internal account, referred to as the O&M Reserve Account, to withhold 25 percent of annual appropriation of operating costs, net of debt service. Because the O&M Reserve Account is established under the Airline Agreement rather than the Certificate and is initially funded from internal cash instead of Revenues and Aviation Fuel Taxes, the related deposit requirement is not included in the Application of Revenues as the highest priority. Similarly, the credit to the Funded Coverage Account is not shown separately in the Application of Revenues.

In recent years, the Airports Division has maintained an MMRRA balance of $60 million based on the Consulting Engineer's recommendations. For repair and maintenance, the Airports Division expects to rely primarily on the operating costs or the capital appropriations instead of paying out of the MMRRA.

3.2.3. Additional Bond Test

A portion of the 2020 Bonds are to be issued as Additional Bonds under the Certificate. The Certificate sets out the conditions to issue Additional Bonds if either a historical coverage test or a prospective coverage test is met:

A. The historical coverage test requires Net Revenues and Taxes, plus certain unencumbered funds, for the most recent Fiscal Year with audited financial statements, to be at least 125 percent of the maximum aggregate Annual Adjusted Debt Service Requirement, taking into consideration the Outstanding Bonds and the proposed bonds, such as the 2020 Bonds. The amount of unencumbered funds is limited to no more than 25 percent of the applicable Annual Adjusted Debt Service Requirement;

B. The perspective coverage test requires two additional tests:

   a. The Rate Covenant is met for the most recent Fiscal Year for which the audited financial Statements are available; 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: the Consulting Engineer estimates that annual Net Revenues and Taxes and certain unencumbered fund balances will be not less than 125 percent of the Annual Adjusted Debt Service Requirement for each of those three Fiscal Years, provided the Rate Covenant is also estimated to be met during each of those three Fiscal Years.

The Airports Division expects to meet the requirements of the Additional Bond Test through the historical coverage test. This Report is not issued to evaluate the Airports Division's ability to meet the Rate Covenant or the Additional Bond Test. Instead, the Report is prepared to evaluate the financial impacts of the proposed issuance of the 2020 Bonds and the future Bonds under certain hypothetical traffic scenarios.

3.3. The Airline Agreement

The Airline Agreement was initially executed in 1962 and has had multiple subsequent amendments. The Airline Agreement is extended automatically on a quarterly basis unless either the Department or the Signatory Airlines provides 60 days written notice of termination to the other party. For the purpose of this Report, it was assumed that the Airline Agreement exists in its current form throughout the forecast period. Exhibit 3.3-1 lists Signatory Airlines that has operated at the Hawai‘i Airports System in FY 2020, which collectively accounted for approximately 94.8 percent of the landing fee revenues in FY 2020.

Exhibit 3.3-1: Signatory Airlines
As of FY 2020

AEKO KULA INC	ASIANA AIRLINES INC	MOKULELE FLIGHT SERVICE INC
AIR CANADA	CHINA AIRLINES	PHILIPPINE AIRLINES INC
AIR CHINA LIMITED	DELTA AIR LINES INC	POLAR AIR INC
AIR Japan Co., LTD.	FEDERAL EXPRESS CORP	QANTAS AIRWAYS LTD
AIR NEW ZEALAND	HAWAIIAN AIRLINES INC	SOUTHWEST AIRLINES, CO.
AIR PACIFIC LIMITED	JAPAN AIRLINES	UNITED AIRLINES INC
AIRASIA X BERHAD	JETSTAR AIRWAYS PTY LIMITED	UNITED PARCEL SERVICE INC
ALASKA AIRLINES INC	JIN AIR CO LTD	WESTJET
ALL NIPPON AIRWAYS CO LTD	KALITTA AIR LLC	
AMERICAN AIRLINES	KOREAN AIRLINES CO LTD	

Source: Airports Division.

Due to the decline in enplaned passenger count under COVID-19, the Department plans to apply $50.0 million of CARES Act reimbursement to the Costs of Operation, Maintenance and Repair in FY 2020, and $83.3 million in FY 2021, which will reduce the airline revenue requirements. In addition, the Department has deferred the payments during April 2020 and October 2020 to six equal installments starting January 2021. The Department may further extend the rent deferral beyond October 2020. The Department has also agreed to keep the HNL terminal rental rate and user fee rates unchanged through October 31, 2020, and plans to revise the rates effective November 1, 2020.

3.3.1. Ratemaking Methodology

The 2007 Extension provides hybrid residual ratemaking methodologies for setting airline rates and charges. Costs of Operation, Maintenance and Repair, Annual Adjusted Debt Service Requirements, fund deposits, subordinate obligations, and revenue credits are allocated to each of the following cost centers:

1. Airfield Cost Center, which comprises the airfields of every airport in the Hawaiʻi Airports System
2. Terminal Cost Centers
    a. Honolulu International Airport Terminal Cost Center, which includes Terminal 2 and Interisland Terminal, but not the Commuter Terminal, which is scheduled to be demolished in summer 2018;
    b. Kahului Airport Terminal Cost Center;
    c. Kona International Airport at Keyhole Terminal Cost Center;

   d. Lihue Airport Terminal Cost Center; and
   e. Hilo International Airport Terminal Cost Center.

3. Remaining costs are related to all other cost centers of the Hawaiʻi Airports System, including parking, rental car, cargo, and maintenance, among other activates; this Report refers to them collectively as the Non-Airline Cost Center

Landing fee rates are calculated on a cost center residual basis and apply to airfields of all airports in the Hawaiʻi Airports System. The Airfield Requirement includes direct and indirect operating expenses, debt service, deposits to the MMRRA, and the O&M Reserve Account. After a credit from the non-signatory landing fee, the Net Airfield Requirement is divided by Total Landed Weight to calculate the landing fee rate, which takes into consideration the Interisland Rate. The Interisland Rate is a discount ratio applied to the landing fee rates and certain terminal user fees for Interisland operations, set at 36 percent for FY 2008 and increasing by one percentage point annually until it reaches 100 percent. In FY 2020, the Interisland Rate is 49 percent, resulting in an interisland landing fee rate of $2.23 per 1,000 pounds of landed weight, compared to an overseas landing fee rate of $4.56.

Terminal rental rates are calculated separately for each of the five Primary Airports on a cost center residual basis, except that only 50 percent of the net costs at ITO is recovered unless ITO's enplaned passenger count reaches 2.0 million annually. In FY 2019, ITO's enplaned passenger count was 603,000.

The Terminal Requirement for each terminal cost center includes direct and indirect operating expenses, debt service, deposits to the MMRRA, and the O&M Reserve Account. The Net Terminal Requirement reflects the credit from annual terminal concession revenues; it is divided by airline Leased Space at each terminal cost center to calculate terminal rental rates. Duty-free revenues are credited to the calculation of the HNL terminal rental rate.

The 2007 Extension provides for the calculation of Airports System Support Charges (ASSC), which serves as a residual safety net for the Hawaiʻi Airports System. To the extent that all other airline revenues and non-airline revenues are inadequate to cover all obligations, the ASSC would be implemented to ensure compliance with the Rate Covenant. A net ASSC Requirement less than zero implies that the Airports Division has generated an operating surplus from operation of the Non-Airline Cost Center, which the Airports Division can use for any lawful purpose, including funding the CIP. The Interisland Rate applies to the calculation of the ASSC Rate.

In addition, the 2007 Extension and subsequent revisions provide the following terminal user fees calculated separately for each of the five Primary Airports. The Interisland Rate applies to all terminal user fees at ITO, LIH, KOA, and OGG, but not at HNL.

Joint Use Holdroom Charges are calculated as the product of the Terminal Rental Rate and the square footage of Joint Use Holdrooms, divided by enplaned passengers using the Joint Use Holdroom; Joint Use Baggage Charges. Pursuant to a letter agreement between the Department and the Signatory Airlines, the baggage-related charge is further separated into two charges:

- The previous "Joint Use Baggage Charges" is renamed to "Joint Use Baggage Claim Charges" and is calculated as the product of the Terminal Rental Rate and the related square footage, divided by the annual number of bags processed through the Joint Use baggage claim area; and
- A Joint Use Baggage Makeup Charge is established to accommodate Joint Use baggage makeup operations at the HNL Overseas Terminal. It is applied to the number of bags processed through the Joint Use baggage makeup area;

- International Arrivals Building Charges are calculated as the product of the applicable Terminal Rental Rate and the square footage of the international arrivals area of the Airports System, divided by Deplaned International Passengers who use the international arrivals area. As of FY 2018, both HNL and KOA have an international arrivals area;
- Common Use Ticketing Position Charges, which has not been implemented; and
- Common Use Passenger Processing Systems Charges, which has not been implemented.

Rental rates for commuter terminals and other non-terminal buildings or terminal building at Non-Primary airports are established pursuant to the Airports Division Procedures 4.5, last updated in September 2017 through appraisal. The landing fee rate at Non-Primary Airports is the same as the rate at Primary Airports.

3.3.2. Capital Review Process

The 1994 Extension provides the capital review process that remains effective. To submit Additional Capital Improvements to the Signatory Airlines for review and concurrence:

1. The Department shall submit a report containing a description, justification, financing plan, and impact to Costs of Operation, Maintenance and Repair to the Signatory Airlines;
2. Within 30 to 60 days after distribution of a report, the Signatory Airlines shall meet with the Department to discuss the Additional Capital Improvement. The Additional Capital Improvement shall be deemed accepted unless, within 60 days after distribution of the report, concurrence is specifically withheld in writing by at least 50 percent of the Signatory Airlines representing at least 50 percent of the total landing fees and ASSCs actually paid in the previous state Fiscal Year;
3. If the Additional Capital Improvement is not accepted, the Department has the option to convene a second meeting within 120 days after distribution of a report. The Additional Capital Improvement shall be deemed accepted unless, within 30 days after such a meeting, concurrence is specifically withheld as described above; and
4. Even if concurrence is withheld, the Department may include the cost of such projects in the succeeding State Fiscal Year calculation for airline rates and charges if the Department determines the project is necessary or prudent to ensure compliance, permit continued operation and maintenance, satisfy judgements, or repair casualty damage to the Hawaiʻi Airports System.

The Department has received bond appropriations for the projects to be funded by the proceeds of the 2020 Bonds and needed airline concurrence.

3.3.3. Facility Control

The 2007 Extension provides that the holdrooms at the Hawaiʻi Airports System shall be for Joint Use or preferential use. Any Signatory Airline that qualifies for preferential holdrooms at no fewer than six daily turns per holdroom can submit a request annually to the Department. The Department will review the request for preferential holdrooms and approve the request at its discretion. If the usage drops below the utilization threshold, the Department may revoke the Signatory Airlines' preferential holdroom.

Exhibit 3.3-2 presents the preferential holdrooms in FY 2020 at the Primary Airports, excluding holdrooms at commuter terminals. The Department has not granted any preferential gates in FY 2021 as of August 2020.

Exhibit 3.3-2: Holdroom Usage
FY 2020

Airports	Total Number of Holdrooms	Number of Preferential Holdrooms
HNL	42	Hawaiian Airlines: 14 Southwest Airlines: 2 Alaska Airlines: 1
ITO	7	Hawaiian Airlines: 2
KOA	10	Hawaiian Airlines: 3 Southwest Airlines: 1
OGG	16	Hawaiian Airlines: 7 Southwest Airlines: 1 Alaska Airlines: 1
LIH	10	Hawaiian Airlines 3 Southwest Airlines: 1
Total	**85**	

Source: Airports Division.

3.3.4. Non-Signatory Airlines

The 2007 Extension requires the Department to set non-Signatory Airline rates and charges at 125 percent of Signatory Airline rates and charges. The Airports Division has established procedure 4.13 to set such rates for non-signatory commercial air carriers according to Hawai‘i Revised Statutes (HRS) Section 261-7. It continues to set the rate for general aviation users according to Hawai‘i Administrative Rules (HAR) Chapter 19-16.1. Non-signatory commercial air carriers are defined as non-Signatory Airlines that operate under Federal Aviation Regulars Part 121 or 129, or high-frequency Part 135 operators.

3.3.5. Prepaid Airport Use Charge Fund Agreement

After execution of the 2007 Extension, the Department and the Signatory Airlines entered into a Prepaid Airport Use Charge Fund (PAUCF) Agreement regarding the annual settlement calculation. After a Fiscal Year ends, the Department calculates the airline rates and charges using actual results, including the Costs of Operation, Maintenance and Repair, debt service, non-airline revenues, traffic statistics, and other data. The positive variance between the actual accrued revenues and the re-calculated airline requirement is deposited into the PAUCF. The negative variance can be withdrawn from the PAUCF based on the Signatory Airlines’ approval, or directly billed to the Signatory Airlines.

The Department and the Signatory Airlines agree that the PAUCF is the Signatory Airlines’ property, although the Airports Division keeps the PAUCF as a restricted internal fund. The Airlines Committee of Hawai‘i (ACH), which represents a majority of the Signatory Airlines operating at the Hawai‘i Airports System, may request, and the State may approve, from time to time, the application of funds on deposit in the PAUCF. Historically, and as recently as FY 2016, the funds in the PAUCF have been used to reduce the Annual Adjusted Debt Service Requirement and, therefore, airline rates and charges, referred to as Airline Prepaid Interests. Although not forecast in this Report, the ACH may request similar use of the PAUCF in the future. The ending balance as of June 30, 2020 was $0.3 million.

3.4. Concession Agreements

Other than the Airline Agreement, the Department has entered into agreements with concession operators and other non-airline tenants regarding operations at the Hawaiʻi Airports System. Act 46, Session Laws of Hawaiʻi 2012, as extended by Act 126, Session Laws of Hawaiʻi 2014, allowed the Department to extend the terms of existing concession agreements provided that the concessionaire agreed to make revenue-enhancing improvements to the airport concession. Therefore, the terms of many concession agreements are extended to 2025 and beyond. Exhibit 3.4-1 summarizes key agreements. Unless otherwise specified, the minimum annual guarantee (MAG) is reset annually at the lower of 85 percent of the prior year's MAG or 85 percent of prior year payments.

Exhibit 3.4-1: Summary of Key Concession Agreements
As of August 2020

Type/Airport	Concessionaire	Earliest Expiration Date
Duty Free – Statewide	DFS Group, L.P.	May 2027
Food and Beverage		
HNL	Host International, Inc.	April 2029
ITO	Volume Services	Holdover
KOA	Volume Services	Holdover
OGG	Host International, Inc.	September 2022
LIH	Host International, Inc.	September 2023
Parking		
KOA	SP Plus Corporation	Holdover
HNL/ITO/OGG/LIH	ABM Parking Services	June 2026
Rental Car	Varies	Described below
Retail		
HNL	DFS Group, L.P.	March 2026
ITO	Tiare Enterprises, Inc.	August 2025
KOA	Tiare Enterprises, Inc.	August 2025
OGG	DFS Group, L.P.	August 2026
LIH	Travel Traders, Inc.	Holdover
Advertising		
HNL	Inter-Space Services	May 2027
Other Airports	Pacific Radio Group	May 2027

Source: Airports Division.

Many concession agreements for operation at the Hawaiʻi Airports System include a clause of "relief due to economic emergency," which has been met due to COVID-19. Under the clause, the Department may modify the terms of the concession agreements at the State's sole discretion, including waiving all or a portion of the MAGs.

As of September 2020, the Department has waived the MAGs for all participating concessionaires through October 31, 2020 and may extend the waivers in the future. The Department also deferred the payments between April 2020 and October 2020 to six equal installments starting January 2021 and may extend the rent deferral in the future. Many terminal concession locations were closed, and therefore did not have MAG or percentage fee payments from April to September 2020.

- Rental car companies continue to operate at Hawaiʻi Airports System, Hertz and Advantage filed Chapter 11 bankruptcy. Sixt Rent a Car has taken over Advantage's operations at HNL and OGG.
- DFS closed Galleria, its main off-airport duty free store at downtown Waikiki, and duty-free and retail operations at Hawaiʻi Airports System.
- Parking operations and other landside operation remain open, although at a reduced activity level
- Majority of the terminal concession locations were closed, except for limited food and beverage concessions and newsstand vendors

3.4.1. Parking

ABM Parking Services (formerly Ampco System Parking) manages public parking services at four Primary Airports other than KOA under a concession agreement expiring June 2026. Under the concession agreements, the Airports Division receives 80 percent of gross receipts from parking operations at HNL and OGG, 65 percent from KOA and LIH, and 55 percent from ITO. SP Plus Corporation manages public parking services at KOA with an expiration date of August 31, 2021, paying the higher of MAG or 65% of gross receipts.

The maximum daily parking rate is $18 for HNL garages, $10 for the HNL economy lot, and $15 for parking at other Primary Airports.

3.4.2. Rental Car

The Department has completed the construction of a ConRAC at OGG, and is constructing a ConRAC at HNL. Four rental car companies (the Signatory RACs) have executed the Statewide Airports Car Rental Facilities Concession Agreement and Facility Lease (the Rental Car Agreement) covering HNL and OGG as of August 2020, including Avis Budget Group, Inc. (Avis Budget), Enterprise Holdings, Inc. (Enterprise), Hertz and Advantage, although Hertz and Advantage has filed chapter 11 bankruptcy. Sixt Rent a Car has taken over Advantage's operations at HNL and OGG. Rental car companies are operating at ITO, KOA and LIH on a month-to-month basis. The Signatory RACs pay the higher of the MAGs, if any, or 10 percent of gross receipts to the Airports Division as rental car concession revenues, so long as those Signatory RACs operate on-airport.

As of August 2020, Alamo brand of Enterprise and Dollar and Thrift brands of Hertz are operating off-airport at HNL. Those off-airport operations, along with other off-airport operators, pay a nominal per-vehicle fee to the Airports Division; they do not pay a concession percentage fee. When those off-airport operations of the Signatory RACs move on-airport, anticipated to happen in spring 2022 at HNL, the Signatory RACs will pay the higher of MAGs or 10 percent of gross receipts. In addition, the Signatory RACs pay the ground rent related to the ConRAC sites and other space the Signatory RACs lease from the Department; these are classified as non-aeronautical rentals. The Department does not expect any on-airport rental car operations to move off-airport during the projection period, or any existing off-airport rental car operations to gain a materially higher share of rental car market.

CFC revenues or Minimum Annual Requirement Deficiency pursuant to the Rental Car Agreement are not Revenues defined under the Certificate. They are pledged to the special facility bonds debt service payments.

3.4.3. Duty Free

DFS operates the in-bond duty-free concessions for international air travelers departing from Hawaiʻi. As of FY 2020, DFS operates duty free stores at HNL, KOA and OGG, as well as at off-airport locations at Waikiki. The DFS contract has the MAG structure as follows:

- $40 million annually for the two Contract Years from June 1, 2017 to May 31, 2019 (Contract Years 2018 and 2019);
- $47.5 million for the Contract Year 2020;
- 85 percent of the prior year's actual payment (either percentage fee or MAG) in the Contract Year 2021;
- Same MAG in the Contract Year 2022 as in 2021;
- 85 percent of the prior year's actual payment in the Contract Year 2023; and
- Same MAG in the Contract Years 2024 to 2027 as in 2023.

The percentage fees are calculated as 30 percent of gross receipts from on-airport locations and 18 percent of gross receipts from off-airport locations, with duty paid goods at 1.25 percent to 2.5 percent.

3.4.4. Food and Beverage

Host International Inc. (Host) operates food and beverage concessions at HNL, OGG, and LIH, with expiration dates between 2023 and 2029. Host pays to the Airports Division the higher of a MAG ($4.8 million in FY 2020 at HNL) or a percentage fee based on sales volume and categories. Volume Services dba Centerplate continues to operate food and beverage concessions at ITO and KOA on a month-to-month basis.

3.4.5. Retail

DFS also operates the non-duty-free retail operations at HNL and OGG, with the earliest expiration date being May 2026, and pays the higher of a MAG ($10.0 million in FY 2020 at HNL) or a percent of gross receipts. Traveler Traders, Inc. operates the retail concession at LIH, with the earliest expiration date being June 2021. Tiare Enterprise, Inc. operates the retail concession at ITO and KOA, with the earliest expiration date being August 2025.

3.4.6. Other Concession Contracts

In addition, the Department has entered into a wide range of commercial agreements and permits with other terminal concession operators and ground transportation companies, including advertising, Wi-Fi, banking, taxi, shuttle bus, and transportation network companies (TNCs) such as Uber and Lyft, among other commercial operators.

3.4.7. Other Rentals

The Department collects ground rent and building rent for non-terminal buildings from airlines as non-Terminal Rentals and from other non-airline tenants as non-aeronautical rentals. The rental rates are set pursuant to an appraisal process and published as Airports Division Procedure 4.13, unless provided otherwise under contractual obligations.

3.5. Other Agreements

Other agreements primarily include the subordinate bond document and the special facility bond document.

3.5.1. Subordinate Bond Document

The Airports Division initiated a Statewide Energy Saving Performance Contracting project (the Energy Saving Projects) in 2013, using proceeds of Lease Revenue Certificates of Participation (COPs) issued under the Indenture of Trust between the Department and U.S. Bank National Association as of December 1, 2013, as amended and supplemented (the Subordinate Bond Document). Debt service on the COPs are payable from Revenues and Aviation Fuel Taxes, but are subordinate to the payment of the obligations specified in the Certificate.

The Department financed the first phase of the Energy Saving Projects by issuing $167.74 million in COPs in December 2013 (the 2013 COPs). It amended the contract to add $7 million for HNL underground piping replacement, using $8.1 million of the proceeds of the 2016 COPs. In 2017, the Department issued another series of COPs (the 2017 COPs) of $51.5 million to finance the second phase of the Energy Saving Projects.

3.5.2. Special Facility Bond Document

In August 2014, the Department entered into a loan agreement to borrow up to $76.0 million for rental car related projects, pursuant to an Indenture of Trust between the Department and MUFG Union Bank, N.A. as Trustee dated as of August 1, 2014, as amended and supplemented (the CFC Indenture). Subsequently, the Department issued a series of CFC bonds in August 2017 to borrow $249.8 million for rental car projects, and issued another series of CFC Bonds in August 2019 to provide additional funds and to refund the 2014 loan. Those obligations issued under the CFC Indenture (the CFC Bonds) are not payable from Revenues and Aviation Fuel Taxes.

In addition, the Airports Division entered into special facility lease agreement with Continental Airlines, Inc. in 1997 and 2000 and issued a total of $31.9 million of special facility bonds, which are payable solely from rentals related to those special facilities. Those bonds have a final maturity date of 2027.

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4. CAPITAL PLAN AND SOURCES OF FUNDING

To undertake a capital project at the Hawai'i Airports System, the Airports Division must obtain an appropriation from the Legislature, approval of allotment requests from the Office of the Governor, and concurrence from the Signatory Airlines. As part of the biennium budget, the Airports Division submits a Six-Year capital plan, from which the projects in the first two years are reviewed and determined by the Legislature and by the Governor. The Airports Division adds those projects to the capital improvement program, which includes projects appropriated in previous years. From time to time, the Airports Division removes completed projects from the capital improvement program.

In May through August 2020, the Airports Division has reviewed its capital plan and separated into the following components:

- ***The Ongoing CIP.*** This component includes projects already in the construction stage and ongoing planning, design, and program support expenses. The Ongoing CIP has a total cost estimate of $1.6 billion, of which $658.9 million, or 40.7 percent, has been spent through June 30, 2020. The Department plans to fund $635.2 million from bond proceeds, including $273.9 million through the issuance of the 2020 New Money Bonds.

- ***The 2022-2026 CIP.*** This component includes projects that are in the planning or design stage and are prioritized by safety and security, regulatory compliance, major replacement, operational support, functional improvements, and expansion and capacity enhancements. Financial projections in this Report have reflected the bond funding for the 2022-2026 CIP. However, the Airports Division plans to discuss the projects in the 2022-2026 CIP with the Signatory Airlines, and may further defer some projects pending traffic recovery. The 2022-2026 CIP has a total cost estimate of $1.1 billion, of which $13.8 million, or 1.2 percent, has been spent through June 30, 2020. The Airports Division plans to use $32.8 million of the proceeds from the 2020 New Money Bonds to fund some design costs of the 2022-2026 CIP.

- ***Consolidated Car Rental Facilities and Other Excluded Projects.*** This component includes (a) consolidated rental car facilities that are funded by Customer Facility Charge (CFC) revenues, (b) cancelled projects, (c) projects that are substantially completed and are in closeout stage, and (d) construction costs subject to funding uncertainties that will not be funded until FY 2024 at the earliest, including HNL Taxiway A reconstruction, and the Diamond Head Concourse Extension Program

The Ongoing CIP and the 2022-2026 CIP provide a snapshot of the Airports Division's intention for future capital projects as of August 2020. Situations may arise that necessitate the acceleration, addition, or deferral of certain projects, some of which may be beyond the control of the Airports Division. The Airports Division has closely collaborated with the Signatory Airlines in formulating the capital program over the last several decades and has received necessary airline concurrence and other required approvals for the project costs that will be funded by the proceeds of the 2020 New Money Bonds. The Airports Division will continue to manage the capital program in a financially prudent manner.

For the purpose of this Report, it was assumed that the Airports Division will continue construction of the Ongoing CIP, and begin construction of any 2022-2026 CIP in January 2022 unless otherwise noted. Schedule and cost information in this section are estimates depending on the status of each project and will be revised as the Airports Division proceeds with the implementation. Reference to the completion dates in this Section is based on calendar years.

4.1. CIP Status

Exhibit 4.1-1 presents the project cost by location, with projects at HNL accounting for more than 50 percent of the total costs of the Ongoing CIP, and more than one-third of the 2022-2026 CIP.

Exhibit 4.1-1: Project Costs by Location *(in US$ millions)*

	Ongoing CIP				2022-2026 CIP			
	Estimated Costs	% of Total	Spent as of 6/30/2020	% Spent	Estimated Costs	% of Total	Spent as of 6/30/2020	% Spent
Project by Airport								
HNL	$1,128	69.6%	$508	45.0%	$432	38.5%	$9	2.1%
ITO	20	1.2%	5	24.3%	58	5.2%	-	0.0%
KOA	208	12.8%	97	46.8%	128	11.4%	2	1.8%
LIH	46	2.8%	14	31.5%	101	9.0%	2	1.7%
OGG	92	5.7%	10	11.2%	316	28.2%	0	0.0%
Other Airports	42	2.6%	6	15.0%	55	4.9%	0	0.8%
Statewide	84	5.2%	17	20.6%	31	2.8%	-	0.0%
Total CIP	$1,620	100.0%	$659	40.7%	$1,121	100.0%	$14	1.2%

Source: Airports Division.

Exhibit 4.1-2 presents the project costs by status. Projects accounting for more than two-thirds of the Ongoing CIP costs have moved to the construction stage. All projects in the 2022-2026 CIP are either in the planning phase or the design phase.

Exhibit 4.1-2: Project Costs by Status *(in US$ millions)*

	Ongoing CIP		2022-2026 CIP	
	Estimated Costs	% of Total	Estimated Costs	% of Total
Project Status				
Construction	$1,096	67.6%	$-	0.0%
Bid/Award	426	26.3%	-	0.0%
Design	51	3.1%	305	27.2%
Planning	48	3.0%	816	72.8%
Total CIP	$1,620	100.0%	$1,121	100.0%

Source: Airports Division.

4.2. Ongoing CIP

Exhibit A-1 at the end of this Report presents key project groups and related costs of the Ongoing CIP. Project details in each group are provided in this section.

4.2.1. HNL

Key projects at HNL include the following:

- Mauka Concourse Program: $546.9 million, with $353.6 million spent as of June 30, 2020. The Mauka Concourse Program includes the design and construction of a 280,000-square-foot concourse located at the northwest corner of Terminal 1 (formerly the Interisland Terminal), as well as the related enabling projects. The Mauka Concourse project is designed to provide six wide-body aircraft gates or 11 narrow-body gates, operation areas, new security screening lanes, concessions, a restroom and service core, common area and public area furnishing, fixtures and equipment, aircraft parking aprons, airfield pavement, jet blast fencing, an extension of the fuel hydrant system, and other associated work. Many enabling projects have been completed and removed from the capital program. Phases II and III of the Taxilanes G & L Widening are now classified as the 2022-2026 CIP. The Mauka Concourse project is under construction with a scheduled completion date in August 2021.

- HNL, Ticket Lobby Renovation: $173.8 million, with $8.5 million spent as of June 30, 2020. This project is a continuation of the ticket lobby renovations completed for Terminal 2 ticket lobbies 7 and 8, and will renovate ticket lobbies 4, 5 & 6, including work items to improve operations, maintenance, safety, and passenger experience, including improvements to the baggage handling systems in Terminals 1 and 2. This project is in the bid/award stage with a scheduled completion date in 2023.

- HNL, Runway 8L Widening, Phases 1 and 2: $151.5 million, with $24.7 million spent as of June 30, 2020. The scope of this project is to widen runway 8L to a minimum of 200 feet wide to accommodate FAA design group VI aircraft, repave existing shoulder areas to runway standards, along with updating the associated striping, signage and lighting when necessary. Phase 1 of this project is under construction with a scheduled completion date in January 2021. Phase 2 is in the bid/award stage with a scheduled completion date in 2022.

- HNL, Restroom Improvements, Phases 1 and 2: $60.8 million, with $16.6 million spent as of June 30, 2020. This project will include renovation of restrooms in Terminals 1 and 2, including in the International Arrivals Building. Phase 1 of this project is under construction with a scheduled completion date of June 2021. Phase 2 is in the bid/award stage with a scheduled completion date in 2022.

- HNL, Improvements to Baggage Handling System: $45.5 million, with $17.0 million spent as of June 30, 2020. This project will provide for the design and construction of baggage handling system and explosive detection system Improvements in Terminal 2 baggage make-up areas 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. This project is under construction with a scheduled completion date in October 2020.

- HNL, Replace Parking Structure Pedestrian Bridge: $40.4 million, with $12.0 million spent as of June 30, 2020. The scope of work involves the improvements to the three pedestrian bridge crossings between the Terminal 2 and the Terminal 2 Parking Garage. This project is under construction with a scheduled completion date in December 2021.

- HNL, Roadway and Terminal Signage Improvements: $39.3 million, with $30.4 million spent as of June 30, 2020. The scope of work is to replace signage throughout the terminals and concourses, parking structures, and ground and second level roadways to reflect the name change to the gates and baggage claims. This project is under construction with a scheduled completion date in June 2021.

- HNL, other terminal projects: $64.1 million, with $43.2 million spent as of June 30, 2020. This group of projects includes concession improvements to the Diamond Head Concourse, overseas terminal asbestos abatement, and Ewa Concourse reroofing. These projects are in the construction or bid/award stage with scheduled completion dates in 2021.

- HNL, other projects: $6.0 million, with $2.3 million spent as of June 30, 2020. This group of projects includes several miscellaneous projects at HNL with scheduled completion dates in 2022.

4.2.2. ITO

Two ITO projects are included in the Ongoing CIP with a total cost of $19.9 million: terminal restroom improvements, and west ramp demolition and lease lots. As of June 30, 2020, $4.8 million has been spent. These two projects are scheduled to be completed in 2021.

4.2.3. KOA

Key projects at KOA include the following:

- KOA, Terminal Modernization: $89.9 million, with $84.3 million spent as of June 30, 2020. This project includes the construction of a centralized security checkpoint, baggage handling system, the connectivity of the north and south holdroom areas, and other miscellaneous terminal improvements. This project has been substantially completed.

- KOA, Federal Inspection Services Building: $70.2 million, with $4.7 million spent as of June 30, 2020. The scope of work includes the design and construction of a new International Arrivals Building to meet the latest U.S. Customs and Border Protection Airport Technical Design Standards / Passenger Processing Facilities. This project is in the construction stage with a scheduled completion date in October 2021.

- KOA, other projects: $48.1 million, with $8.5 million spent as of June 30, 2020. This group of projects includes airfield lighting improvements, south ramp taxiway and ramp improvements, restroom improvements, access control system, new T-hangars and an agricultural inspection station. This group of projects is scheduled to be completed in 2022.

4.2.4. LIH

Projects at LIH include runway and taxiway rehabilitation, ticket lobby and holdroom improvement and other miscellaneous projects with a total cost of $45.7 million. As of June 30, 2020, $14.4 million has been spent. This group of projects is scheduled to be completed in 2022.

4.2.5. OGG

Key projects at OGG include the following:

- OGG, Holdroom and Gate Improvements: $48.9 million, with $2.3 million spent as of June 30, 2020. This project will be expanding seating capacity of the holdrooms by enclosing the exterior walkway and connecting several existing holdroom areas, increasing the number of gates by repositioning and adding loading bridges, and strengthening of the second floor support. This project is in the bid/award stage with a scheduled completion date in 2022.

- OGG, other projects: $43.2 million, with $8.0 million spent as of June 30, 2020. This group of projects include restroom improvements, office and conference room improvements, baggage system improvements, and other miscellaneous projects. This group of projects is in the construction or bid/award stage with scheduled completion dates in 2021.

4.2.6. Other Airports

Projects at other airports of the Hawaiʻi Airports System have a total cost estimate of $42.2 million, with $6.3 million spent as of June 30, 2020. The primary project in this group is the reconstruction and extension of Runway 3-21 at LNY, with a total cost estimate of $29.9 million. This group of projects is scheduled to be completed in 2022.

4.2.7. Statewide

This group of projects include statewide projects such as wastewater and water treatment system, supporting design, program management, construction management, and planning projects, with a total cost estimate of $84.0 million.

4.3. 2022-2026 CIP

Projects in the 2022-2026 CIP are not expected to go into the construction stage until January 2022. The Airports Division plans to continue discussions with the Signatory Airlines and eventually separate this component into the following groups:

- Projects that will be continued at the current schedule, such as the OGG 2-20 Runway Improvements ($280 million) with a target construction starting date of 2023
- Projects that may be updated with alternative funding sources, such as HNL Taxiway A Reconstruction, of which $10 million of design costs is included in the 2022-2026 CIP
- Projects that may be further deferred or cancelled, such as HNL Emergency Operations Center ($48.7 million) or KOA ARFF Regional Training Facility ($33.3 million).

The Airports Division will use a portion of the 2020 New Money Bonds to fund $32.8 million of the design costs of the 2022-2026 CIP. Exhibit A-2 at the end of this Report presents key project groups and related costs of the 2022-2026 CIP.

Exhibit 4.3-1: 2022-2026 CIP by Priority *(in US$ millions)*

	Estimated Costs	
Priorities		
1 - Safety/Security	$	105
2 - Regulatory/Compliance		542
3 - Major Replacement		103
4 - Operational Support Facilities		33
5 - Functional Improvement		296
6 - Expansion or Capacity Enhancement		41
Total 2022-2026 CIP	$	1,121

Source: Airports Division.

4.3.1. Safety and Security Projects

Projects in this category include HNL emergency operations center, statewide fire alarm system replacement, HNL fire sprinkler system upgrade, ITO replace fire sprinkler system, and KOA perimeter fence replacement, for a total of $104.8 million.

4.3.2. Regulatory and Compliance projects

Projects in this category are primarily airfield projects for runway and taxiway rehabilitation or reconstruction, which, if implemented, would improve airfield conditions for continuous compliance. The OGG Runway 2-20 Improvements project is included in this category, with an assumed funding plan of bond proceeds, federal grants, and PFC revenues. Total cost estimate for this category is $541.9 million.

4.3.3. Major Replacement Projects

Projects in this category include equipment replacement and other improvements at HNL Terminal 1, Terminal 2 roof replacement, HNL concourse 2nd level roadway improvements, and other replacement projects, with a total cost estimate of $103.2 million.

4.3.4. Operational Support Projects

Projects in this category are utility related improvements for a total cost estimate of $33.4 million.

4.3.5. Functional Improvement Projects

Projects in this category include HNL Taxiway G & L widening Phases II and III, which would allow simultaneous bi-directional taxiing for Group VI aircrafts to the Mauka Concourse, OGG south TSA checkpoint, KOA ARFF regional training facility, HNL Elliott Street roadway improvements, ITO arcade air conditioning improvements, and other projects, for a total cost estimate of $296.4 million.

4.3.6. Expansion or Capacity Enhancement Projects

Projects in this category includes the initial planning studies for the future Diamond Head Concourse Program and other planning studies and land acquisitions, for a total cost of $41.5 million.

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4.4. Funding Sources

As of June 30, 2020, 34.7 percent and 1.6 percent of the total costs have been expended for the Ongoing CIP and the 2022-2026 CIP respectively. Exhibit 4.4-1 presents the funding sources of the remaining costs, with each funding source discussed below.

Exhibit 4.4-1: Remaining CIP Costs, as of June 30, 2020

(in US$ millions)

	Ongoing CIP		2022-2026 CIP	
	Estimated Costs	% of Total	Estimated Costs	% of Total
Project Funding Sources				
Grants	$153	15.9%	$240	21.7%
PFC Pay-as-you-go	106	11.1%	66	5.9%
Cash	67	7.0%	8	0.7%
Bonds	635	66.1%	793	71.6%
Total CIP	**$961**	**100.0%**	**$1,107**	**100.0%**

Source: Airports Division.

4.4.1. AIP Grants and Other Grants

The Airports Division receives federal grants under the Airport Improvement Program (AIP) distributed by the FAA in the form of entitlement grants and discretionary grants. Entitlement grants are determined by a formula based on passenger numbers and total appropriation level, while discretionary grants are determined by the FAA based on the nature of the specific project in comparison to projects at other airports in the FAA region. The AIP grants are used for the federal share of eligibility projects: 75 percent at large and medium-hub airports such as HNL and OGG, and 90 percent at small-hub airports such as ITO, KOA, and LIH, with occasionally 100 percent funding such as provided under the CARES Act. Eligible projects include projects to enhance safety, security, capacity, and access. Also available are certain other AIP grants, such as cargo entitlement grants, noise grants, and other discretionary grants.

The Airports Division expects to fund $152.7 million of future project costs of the Ongoing CIP using the AIP grants, and $240.4 million for the 2022-2026 CIP that includes a placeholder of $187.5 million for the OGG Runway 2-20 Improvements project. If the grant for the OGG Runway 2-20 Improvements is not available, the Airports Division will seek other funding methods, which may include Bonds with eligible debt service to be paid from PFC revenues. The Airports Division is entitled to approximately $27.0 million of passenger, cargo, and non-primary entitlement grants in the federal fiscal year 2020 based on calendar year 2018 statistics, although the actual awarded grant amount varies from year to year.

The Airports Division may also receive other federal, State or local grants for certain capital projects. The State legislature appropriated up to $70 million for passenger thermal scanning related projects in 2020, which has not been included in the capital program presented in this Report.

4.4.2. PFC Pay-as-you-go

Passenger Facility Charge (PFC) is an airport user fee with restricted uses. Before collecting and using PFC revenues, a U.S. airport operator must submit a PFC application to the FAA and receive FAA authorization to collect PFC’s. Airlines collect PFC revenues from certain enplaned passengers on the airport's behalf, then remit the PFC revenues to the airport operator after deducting an administrative fee of $0.11 per collection. PFC revenues can be used only for the capital costs of the approved eligible projects, with very limited exceptions. Title 49 United States Codes Section 40117 is the PFC statute authorizing PFC collection. CFR Part 158 is the PFC regulation and provides a detailed description of PFC eligibility, application, collection, amendment, and closeout. To be eligible, a project must preserve or enhance safety, security, or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among air carriers.

PFC revenues are collected from a majority of revenue enplaned passengers departing for overseas destinations. Among other exclusions, passengers on interisland flights within Hawaiʻi are not subject to the PFC collection.

As of June 30, 2020, the Airports Division had a total PFC collection authority of $873.9 million, of which $516.8 million had been collected. The Airports Division has spent $321.8 million on a pay-as-you-go basis and for eligible bond debt service, with an ending fund balance of $195 million. The Airports Division plans to use a total of $172.2 million of PFC revenues on a pay-as-you-go basis, including $106.3 million for the Ongoing CIP and $65.9 million for the 2022-2026 CIP (including a placeholder of $62.5 million for the OGG Runway 2-20 Improvements project).

The remaining collection authority is $321.8 million, higher than projected PFC collection during the projection period. However, the Airports Division plans to submit additional PFC applications for capital projects, which has been reflected in the financial projections included in this Report.

4.4.3. Internal Cash

The Airports Division expects to use a total of $74.9 million of internal cash, including $67.3 million for the Ongoing CIP and $7.7 million for the 2022-2026 CIP. The Airports Division recognizes the importance of maintaining a healthy cash position; it continues to evaluate the use of funding sources other than cash.

Prior to the issuance of the 2020 Bonds, the Airports Division has temporarily advanced $50 million of internal cash to fund certain projects that the Bonds will eventually fund. The Airports Division will reimburse this advance using a portion of the proceeds of the 2020 Bonds.

4.4.4. Bond Proceeds

The Airports Division plans to fund approximately $635.2 million of project costs of the Ongoing CIP from Bonds proceeds, including $64.8 million from existing bond proceeds, $273.9 million from the proceeds of the 2020 Bonds, and $296.6 million from the proceeds of the future Bonds. The Airports Division has been using a cash flow financing approach for the capital program. Under this approach, the proceeds of the 2020 Bonds is expected to fund a portion of the project costs through December 2021, with the future Bonds to fund the remaining costs.

The Airports Division also plans to use $32.8 million to fund certain design costs related to the 2022-2026 CIP. The financial projections in this Report reflect the required funding of both the Ongoing CIP and the 2022-2026 CIP, for a total of $1.4 billion.

4.5. Other Potential Capital Projects

The Airports Division's annual appropriation of operating costs includes a line item of special maintenance, with a not-to-exceed amount of $30 million annually in FY 2020 and 2021 to fund major repair and maintenance projects. A portion of special maintenance costs is capitalized as a capital asset following the GAAP. The remaining amount is included in the GAAP operating expenses and, thus, the Costs of Operation, Maintenance and Repair is presented in this Report. The CIP does not include special maintenance projects.

The Ongoing CIP and the 2022-2026 CIP represent the capital plan that, as of August 2020, the Airports Division intends to implement through FY 2026, subject to further discussion with the Signatory Airlines and other State approvals. The Airports Division will continue evaluating capital needs, to include new projects when deemed necessary, or to defer or cancel projects that are no longer needed. In addition, the following projects are not included in the capital plan:

- ***HNL Taxiway A Reconstruction.*** Taxiway A is the main taxiway for departing aircraft. According to the pavement management system, the Airports Division may need to undertake a capital project to improve the condition of Taxiway A in the near future. One option is to replace the entire asphaltic concrete pavement with reinforced concrete, and is estimated to cost approximately $430 million, with an assumed funding plan of bond proceeds, federal grants, and PFC revenues. The Airports Division has included $10 million of design costs in the 2022-2026 CIP.

- ***HNL Diamond Head Concourse Program.*** In July 2017, the Airports Division submitted the eighth concurrence to the Signatory Airlines regarding planning, design, and construction of a new Diamond Head Concourse at HNL, including all enabling projects, with an estimated rough-order-of-magnitude (ROM) cost of $1.1 billion. In October 2017, the Signatory Airlines conditionally concurred with the project, requiring the Airports Division to work collaboratively with the Signatory Airlines. The project is in the early planning stage and does not have final scopes, schedules, or cost estimates for the various projections of the program. The project is not anticipated for completion during the projection period. Therefore, the Airports Division has only included $35 million for the planning and pre-design work in the 2022-2026 CIP.

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5. FINANCIAL PROJECTIONS

The purpose of this Report is to evaluate the financial impacts of the proposed issuance of the 2020 Bonds and future Bonds through FY 2026 for the hypothetical Six-Year Recovery scenario and the Eight-Year Recovery scenario. The financial projections related to the Six-Year Recovery scenario is discussed in the front of this section, with the projections for the Eight-Year Recovery scenario provided in Section 5.8.4.

The Department generates non-airline revenues through commercial agreements and permits and calculates airline revenues through recovery of a portion of the Department's cost requirements, net of certain credits including a portion of non-airline revenues. Therefore, this section presents the COVID-19 impact and FY 2021 projections, followed by the requirements, including the Annual Adjusted Debt Service Requirement, the subordinate debt service, and the Costs of Operation, Maintenance and Repair, and by a discussion of non-airline revenues and airline revenues, two tests in the Rate Covenant, and a calculation of average CPEs.

The financial projections are based on historical audited operating results in FY 2018 and FY 2019, estimated results of FY 2020 using the preliminary 12-month data, and assumptions for FY 2021 through FY 2026 that the Airports Division management reviewed and to which the Airports Division management agreed. The projections are subject to uncertainty, which may lead to actual results that are substantially different from the projected results that this Report presents.

5.1. COVID-19 Impact and FY 2021 Projections

Among the requirements in the Certificate, the Rate Covenant requires the Department to generate adequate Revenues and Aviation Fuel Taxes to meet certain payment obligations and to generate Net Revenues and Taxes, along with certain funds, to be at least 1.25 times the Annual Adjusted Debt Service Requirement. The Revenues and Aviation Fuel Taxes can be viewed to include the following components:

- Non-airline revenues (Concession Revenues) that are directly impacted by the enplaned passengers at Hawai‘i Airports System (assuming MAGs being suspended), such as rental car revenues
- Non-airline rentals, non-terminal aeronautical rentals, and miscellaneous revenues (Non-Terminal Rentals and Fees) that are not directly impacted by traffic volume
- Non-operating revenues including federal operating grant reimbursements, which will include up to $83.3 million of CARES Act grant in FY 2021, and interest incomes, which are expected to decline due to lower interest earning rates
- Airline rates and charges revenues, which further include space rentals with fixed monthly payment amounts and user fees that depend on traffic volume during the year

At the end of each Fiscal Year, airlines rates and charges for the Signatory Airlines are recalculated to reflect actual traffic stats, expenses, debt service, and other actual results. Therefore, increase or decline of collected airline rates and charges during a Fiscal Year due to traffic activities affects interim cash positions but does not affect Revenues and Aviation Fuel Taxes, so long as the Signatory Airlines are willing and able to pay the year-end reconciliation.

If the declining Concession Revenues during a traffic downturn, together with recalculated airline rates and charges and other revenues, are inadequate to meet the Rate Covenant, the Airline Agreement provides that an ASSC will be collected from the Signatory Airlines to ensure that the Rate Covenant is met.

Theoretically airline payments may rise to a level to negatively impact an airline's decision to operate at a given airport, therefore this Report also examines passenger airline payments per enplaned passenger (CPE), which is calculated as actual or projected airline payments for passenger-related activities divided by the number of enplaned passengers. CPE measures the average unit cost to operate passenger flights at a given airport, varies across airlines at the same airport, and is not directly comparable to CPEs at other airports. The reasonableness of a CPE level at a given airport is eventually determined by the airlines operating at the airport as one factor in operation decisions.

5.1.1. COVID-19 Impacts

Due to the negative impact of COVID-19, enplaned passenger count at Hawaiʻi Airports System declined by 85 to 96 percent in April through July 2020, compared to the numbers for the same months in the prior year. As of August 1, 2020:

- Rental car companies continue to operate at Hawaiʻi Airports System, although two operators, Hertz and Advantage, filed Chapter 11 bankruptcy. Sixt Rent a Car has taken over Advantage's operations at HNL and OGG.
- DFS, the duty-free operator, closed Galleria, its main off-airport duty free store at downtown Waikiki, and all duty-free operations at Hawaiʻi Airports System
- Parking operations and other landside operation remain open, although at a reduced activity level
- Majority of the terminal concession locations were closed, except for limited food and beverage concessions and newsstand vendors

The following table presents a comparison of selected nonairline revenues in calendar year 2020, compared to the same months in 2019. Airline revenue collections in April through June 2020 have been below 40% of prior year's levels, but will be settled at the year-end.

Exhibit 5.1-1: Percentage Change in Monthly Revenues

	12-month % Change			
	July 2019 to March 2020 (Average)	Apr-20	May-20	Jun-20
Key Concession Revenues				
Rental Car	6.8%	-95.2%	-95.8%	-95.4%
Duty Free	18.8%	-100.0%	-100.0%	-100.0%
Parking	3.6%	-69.9%	-73.8%	-57.4%
Retail	-0.9%	-100.0%	-100.0%	-100.0%

Source: Airports Division; preliminary data subject to change.

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5.1.2. Management's Near-Term Financial Plan

To ensure financial safety and to maintain a competitive airline rates and charges level, the Management has taken various actions, which are summarized in the table below.

Exhibit 5.1-2: Management Financial Actions

FY 2020	FY 2021-to-Date	FY 2021 and Future Actions
• Sought $50.0 million of CARES Act reimbursement • Applied $7.4 million of additional PFC revenues for debt service • Reduced operating expenses by closing facilities and other procedures • Provided relief to airline and nonairline tenants	• Will seek $83.3 million of CARES Act, and other grants if available • Plans to issue the 2020 Refunding Bonds to reduce debt service by an estimated $47 million in FY 2021, among other years • Continues to implement expense reduction actions • Continues to prioritize the capital projects • Continues to provide relief to airline and nonairline tenants	• Plans to submit additional PFC applications for debt service • Plans to further restructure Outstanding Bonds if needed • Will implement additional expense reduction and defer capital and maintenance projects if traffic recovery is not as expected • Plans to revise rates and charges effective November 1, 2020

Based on the 12-month preliminary cash basis financial data through June 30, 2020, the Airports Division Management has estimated that debt service coverage in FY 2020 would be 202 percent, compared to 125 percent required by the Rate Covenant, and an average CPE of $11.09 in FY 2020, compared to $9.75 in FY 2019.

For FY 2021, the Airports Division has adopted a scenario in May 2020 for the calculation of airline rates and charges that enplaned passenger level would recover to an average of 53 percent compared to FY 2019 level. As discussed previously, the Airports Division has agreed to maintain FY 2020 HNL terminal rental rate and user fees unchanged through October 31, 2020, and plans to adjust airline rates and charges effective November 1, 2020.

After the rates were implemented effective July 1, 2020, air traffic at the Hawai‘i Airports System is expected to be lower than assumed in May 2020, partly due to the continuation of travel quarantine requirements beyond the assumed expiration date of September 1, 2020. Facing further uncertainty regarding FY 2021 traffic level, the Airports Division has determined to refund and restructure a portion of Outstanding Bonds through the issuance of the proposed 2020 Bonds. This action is expected to result in annual debt service reduction of approximately $46.6 million in FY 2021, and $52.2 million in FY 2022, among other changes, which has been reflected in this Report.

The two hypothetical traffic scenarios in this Report assumed that FY 2021 enplaned passenger count would equal 42 percent and 33 percent of FY 2019 enplaned passenger count respectively. Instead of focusing on a specific scenario, the Airports Division plans to maintain financial flexibility by identifying a list of potential actions that could be taken given different scenarios, and which balances a healthy financial situation with competitive airline rates and charges. Those potential actions include pledging additional PFC revenues and other sources to reduce Annual Adjusted Debt Service Requirement, implementing additional expense control measures, deferring capital and maintenance projects, continuing to refund and restructure Bonds in calendar year 2021, and further adjusting airline rates and charges, among other potential actions.

Because the Rate Covenant compliance is provided in the Airline Agreement, the Airports Division expects to meet the Rate Covenant in FY 2021, although the debt service coverage ratio and the CPE are dependent on the actual traffic level to be realized in FY 2021.

5.1.3. FY 2021 Projections

The financial projections for FY 2021 under the Six-Year Recovery Scenario are based on the following assumptions, among other assumptions, and actions that the Department has taken or plans to take as of the date of this Report:

- The Airports Division has previously calculated airline rates and charges assuming that FY 2021 enplaned passenger count would equal 53 percent of FY 2019 level. This ratio has been assumed to be 42 percent for the Six-Year Recovery scenario
- The Department has waived the MAGs for majority of the concessionaires through October 31, 2020. Financial projections through FY 2026 in this Report are based on the assumptions that the concessionaires would continue paying percentage fees instead of MAGs. The Department has also deferred collection of certain fees and charges through October 31, 2020, which affects the Airports Division's interim cash positions, but does not directly affect Revenues and Aviation Fuel Taxes
- The Department will be able to issue the 2020 Refunding Bonds and realize the savings reflected in this Report, and to issue the 2020 New Money Bonds with a portion of interested being capitalized in FY 2021
- The Airports Division will continue to implement expense reduction measures, so that the increase in Costs of Operation, Maintenance and Repair will not materially exceed the projections presented in this Report

The following table presents a comparison of selected metrics in FY 2019 and FY 2021. Debt service coverage ratio is projected to be 2.33x, primarily due to refunding through the issuance of the 2020 Refunding Bonds.

Airline rates and charges revenues are expected to decline to $168.0 million as a result of lower debt service and operating expenses, and use of CARES Act grants, and are expected to result in an average CPE of $20 based on assumed 7.9 million of enplaned passengers. As a comparison, the Airports Division's rate calculation in June 2020, which has been reviewed by the Signatory Airlines, reflected expected airline rates and charges of $197.8 million, or an average CPE of $18.21 based on assumed 9.9 million of enplaned passengers.

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Exhibit 5.1-3: Selected Metrics for FY 2019 and FY 2021 *(in US$ thousands)*

	FY 2019 Actual		FY 2021 Projection		% Change
	Amount	%	Amount	%	vs. FY 2019
Enplaned Passengers	18,727		7,882		-57.9%
Revenue Components					
Concession Revenues	$ 183,275	39.1%	$ 65,836	17.2%	-64.1%
Non-Terminal Rentals and Fees	63,566	13.6%	59,386	15.5%	-6.6%
Non-operating Revenues					
Federal Operating Grants	1,616	0.3%	85,335	22.2%	5180.5%
Interest Incomes	26,116	5.6%	5,000	1.3%	-80.9%
Airline Rates and Charges	193,961	41.4%	168,009	43.8%	-13.4%
Total	$ 468,534	100.0%	$ 383,566	100.0%	-18.1%
Debt Service Coverage	2.22		2.33		
CPE	$ 9.75		$ 20.20		

Source: FY 2019 actual – Airports Division; FY 2021 projection – ICF.

5.2. Annual Adjusted Debt Service Requirement

As of August 31, 2020, the Airports Division has nine series of Bonds outstanding, with a total par amount of $1.25 billion, or $67 per enplaned passenger based on the 2019 enplaned passenger count of 18.7 million. Morgan Stanley & Co. LLC, the underwriter for the 2020 Bonds, provided the estimated sources and uses, as well as the debt service schedule for the 2020 Bonds and future Bonds, as presented in Exhibits C and D.

5.2.1. Debt Service on the 2020 Refunding Bonds

The Department plans to issue the 2020 Refunding Bonds to achieve interest savings and to defer a portion of principal payments from FY 2021-2024 to future years. The following chart compares the gross debt service before and after the proposed refunding, assuming the 2020 Refunding Bonds would be issued at an interest rate 50 basis points (bps) above the prevailing market rate as of August 21, 2020. The Department expects to realize an overall net present value saving of $49.2 million.

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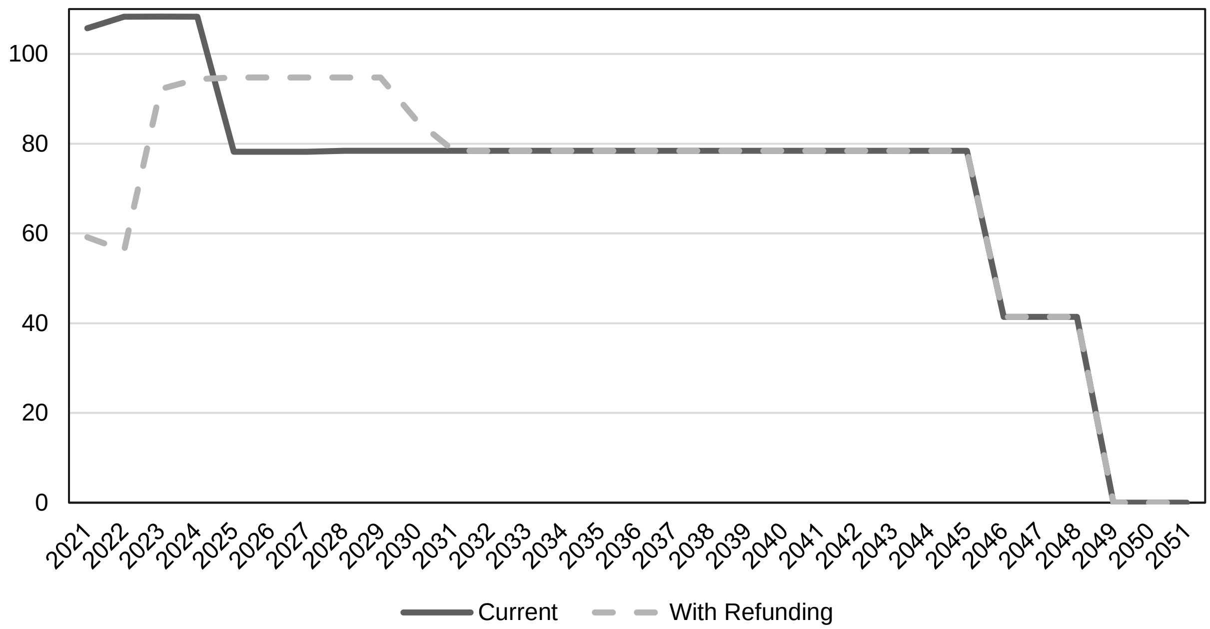
Exhibit 5.2-1: Gross Debt Service on Outstanding Bonds (in US$ million)



Source: Morgan Stanley, August 2020.

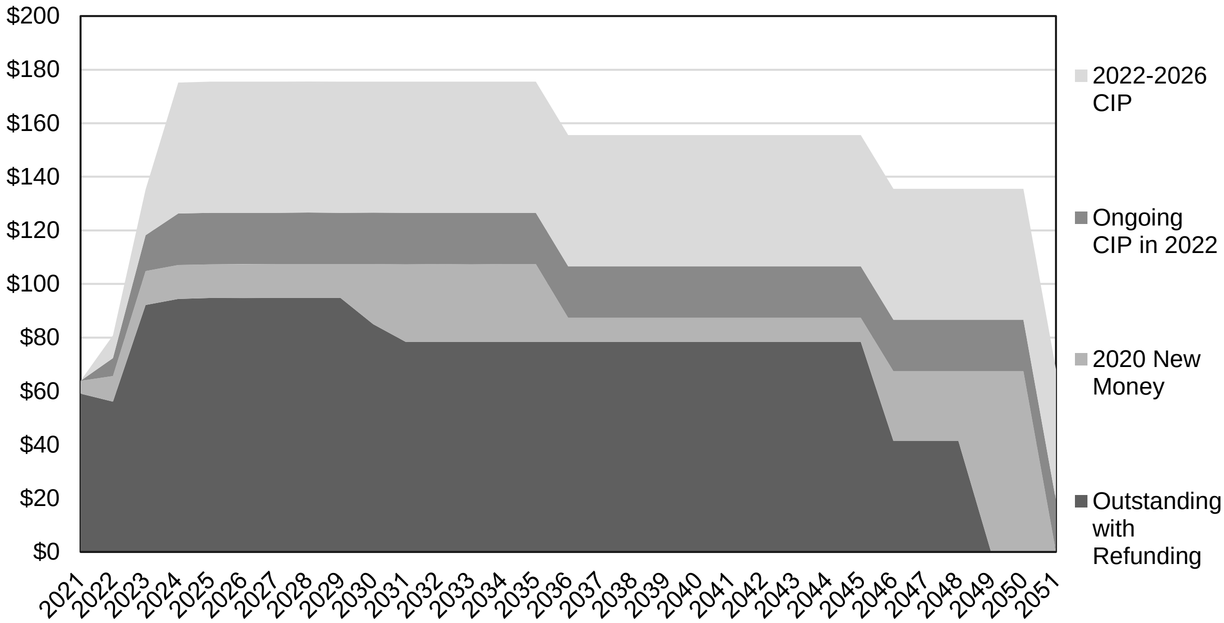
5.2.2. Debt Service on the 2020 New Money Bonds and Future Bonds

To fund a portion of the remaining capital project costs, the Airports Division expects to issue the following Bonds:

- The 2020 New Money Bonds will be issued to fund $306.6 million of project costs, at borrowing rates 50 basis points above the prevailing market rate of August 21, 2020
- The planned Ongoing CIP Bonds will be issued in January 2022 to fund $273.9 million in project costs to complete the bond funding for the Ongoing CIP, at borrowing rates 100 basis points above the prevailing market rate of August 21, 2020
- An assumed series of Bonds will be issued in January 2022 to provide all of the $755.1 million of bond funding for the 2022-2026 CIP, at borrowing rates 100 basis points above the prevailing market rate of August 21, 2020. As discussed previously, the Airports Division plans to revisit the projects in the 2022-2026 CIP with the Signatory Airlines, and to fund the confirmed projects over multiple bond issues to lower financing costs

Annual gross debt service net of capitalized interest is expected to increase from $96.4 million in FY 2020 to $174.8 million in FY 2035 before declining below $154.8 million through the final maturity of 2051. The following chart presents the annual gross debt service of Outstanding Bonds with refunding, and planned new money Bond issues. Debt service on the planned Ongoing CIP Bonds and the assumed 2022-2026 Bonds is estimated on a level debt service basis. The Department may decide to use an alternative bond structure, which may reduce the peak debt service shown in the following chart.

Exhibit 5.2-2: Gross Debt Service by Series (in US$ million)



Source: Morgan Stanley, August 2020.

5.2.3. Available PFC Revenues and Airline Prepaid Interest

As discussed in the previous section, the Airports Division has received FAA approval to use PFC revenues for the project and financing costs of PFC-eligible projects in the CIP. These PFC revenues will be used to pay a portion of eligible debt service on the Outstanding Bonds, the 2020 Bonds, and the Future Bonds. In addition, the Airports Division is in the process of submitting PFC application #9, as well as additional PFC applications in the projection period to cover other PFC-eligible costs in the CIP.

Those Available PFC Revenues applied to debt service are deducted from the calculation of Annual Adjusted Debt Service Requirements. The Airports Division has used $18.1 million of Available PFC Revenues in FY 2020 and plans to use $16.1 million in FY 2021. During the projection period, it expects to use up to $22.9 million annually for debt service, reflecting the anticipated submission and approval of future PFC applications.

In historical years and as recently as FY 2016, the Signatory Airlines used a portion of the balance in the PAUCF to reduce the Annual Adjusted Debt Service Requirement and, therefore, the allocated amount to the airline cost centers. The Department also has the option to deposit internal cash to reduce the Annual Adjusted Debt Service Requirement. The financial projections in this Report have not reflected such actions during the projection period.

5.2.4. Costs of Operation, Maintenance and Repair

An amendment to the Certificate has been effective starting FY 2020 and provided a definition of the Costs of Operation, Maintenance and Repair. The Costs of Operation, Maintenance and Repair generally include all expenses of the Department incurred for the operation and maintenance of the Hawai'i Airports System, including, among other items, the State Surcharge and reimbursement to State agencies including the DOT, and excluding, among other items, any amount of pension and other post-retirement benefits (OPEB) expenses that exceed the amount that the Department deposits to the State funds for the proportional share related to the Hawai'i

Airports System. The exclusion of such non-cash items from FY 2020 forward has been reflected in Exhibit E as a reduction to gross operating expenses.

- In FY 2020, the excluded non-cash pension expenses were estimated to be $9.5 million
- In FY 2019 and FY 2020, the State has required a deposit to the OPEB trust fund equaling 100% of annual required contribution, which included pay-as-you-go pension expenses and pre-funding of estimated liabilities. In FY 2021, the State plans to temporarily suspending the OPEB prefunding for FY 2021 through FY 2025. For the purpose of this Report, it was assumed that the OPEB prefunding would be extended through FY 2026 at approximately $10.5 million annually. If the prefunding is reinstated, the Costs of Operation, Maintenance and Repair would increase by approximately 3 percent, compared to the amount projected in this Report

Costs of Operation, Maintenance and Repair are projected to change due to management actions, the higher costs of maintaining existing facilities as well as by incremental expenses required to maintain the planned facilities in the CIP. The operation and maintenance expenses associated with the thermal screening program at the five Primary Airports will be paid by the State's share of the CARES Act grants through December 2020 and from the State's general fund afterwards. Therefore, such expenses do not affect Net Revenues and Taxes and are not reflect in this Report.

5.2.5. Historical Costs of Operation, Maintenance and Repair

Exhibit 5-5 presents historical Costs of Operation, Maintenance and Repair by category. Costs of Operation, Maintenance and Repair increased from $253.6 million in FY 2015 to $314.8 million in FY 2019 – an annual average growth rate of 5.6 percent.

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Exhibit 5.2-3: Historical Costs of Operation, Maintenance and Repair (In US$ thousands)

	2015	2016	2017	2018	2019	% in 2019	AAG 2015-19
O&M Expenses							
Salary and Wages	$ 88,183	$ 92,251	$ 110,722	$ 110,196	$ 116,993	37.2%	7.3%
Other Personnel Services	54,478	58,559	67,426	73,610	80,941	25.7%	10.4%
Utilities	41,739	34,415	33,901	34,558	37,614	11.9%	-2.6%
Special Maintenance	8,914	8,662	9,911	10,145	5,763	1.8%	-10.3%
Repair and Maintenance	30,637	34,031	32,445	34,318	34,700	11.0%	3.2%
Materials and Supplies	6,114	5,477	6,180	6,497	6,527	2.1%	1.6%
DOT Administrative Expenses	5,078	5,595	5,919	8,444	8,370	2.7%	13.3%
Other Expenses	5,744	7,113	8,108	4,340	5,196	1.7%	-2.5%
Bad Debt	99	333	455	3,201	4,015	1.3%	152.3%
Subtotal	$ 240,987	$ 246,436	$ 275,067	$ 285,308	$ 300,118	95.3%	5.6%
State Surcharge	12,568	12,786	13,576	14,492	14,731	4.7%	4.1%
O&M Expenses	$ 253,555	$ 259,223	$ 288,644	$ 299,800	$ 314,849	100.0%	5.6%
Year-over-year % Change							
O&M Expenses							
Salary and Wages		4.6%	20.0%	-0.5%	6.2%		
Other Personnel Services		7.5%	15.1%	9.2%	10.0%		
Utilities		-17.5%	-1.5%	1.9%	8.8%		
Special Maintenance		-2.8%	14.4%	2.4%	-43.2%		
Repair and Maintenance		11.1%	-4.7%	5.8%	1.1%		
Materials and Supplies		-10.4%	12.8%	5.1%	0.5%		
DOT Administrative Expenses		10.2%	5.8%	42.6%	-0.9%		
Other Expenses		23.8%	14.0%	-46.5%	19.7%		
Bad Debt		236.3%	36.3%	604.2%	25.4%		
Subtotal		2.3%	11.6%	3.7%	5.2%		
State Surcharge		1.7%	6.2%	6.7%	1.7%		
O&M Expenses		2.2%	11.3%	3.9%	5.0%		

Source: Airports Division.

5.2.5.1. Salaries and Wages Expenses

Salaries and wages expenses are personnel expenses for the Airports Division staff, including regular salaries, overtime payments, pension contributions to the Employees' Retirement System of the State of Hawaiʻi (ERS), health plan contributions, and other payments, as well as non-cash accrued liabilities related to pension expenses and OPEB expenses. Salaries and wages expenses increased from $88.2 million in FY 2015 to $117.0 million in FY 2019 (at an average annual growth rate of 7.3 percent) and accounted for 37.2 percent of FY 2019 expenses. Excluding $9.1 million of non-cash pension expenses in FY 2019, salaries and wages increased 5.2 percent annually from FY 2015 to FY 2019.

Changes in salaries and wages expenses are driven primarily by changes in:

1. The number of employees in the Airport Division. The budgeted positions have increased from 1,257 in FY 2015 to 1,388 in FY 2020. As of June 2020, 1,253 positions were established in the State system and 1,189 were filled;
2. Average salaries and wages, which are further driven by cost-of-living adjustments, merit-based increases, step-based increases due to union contracts, and other discretionary changes; and
3. Employee benefits. Other than the increase in health plan contributions due to higher costs, the State has established a trust fund for OPEB expenses to fund the annual

required contribution, and also increased pension contributions. As described above, the State has temporarily suspended prefunding of the OPEB trust fund.

5.2.5.2. Other Personnel Service Expenses

Other personnel service expenses are paid to the Airports Division's contactors for professional services. Other personnel service expenses increased from $54.5 million in FY 2015 to $80.9 million in FY 2019 (at an average annual growth rate of 10.4 percent) and accounted for 25.7 percent of FY 2019 expenses. Major contractors included:

1. Securitas Security Services USA, which provides security services throughout the Hawaiʻi Airports System, accounting for approximately two-thirds of FY 2019 other personnel service expenses;
2. Roberts Hawaiʻi, which provides pre- and post-security shuttle bus services, accounting for 11 percent of FY 2019 other personnel service expenses;
3. The county sheriff, which provides police functions, accounting for 9 percent of FY 2019 other personnel service expenses; and
4. Other miscellaneous contract services, accounting for the remaining 16 percent.

The increase in other personnel service expenses are primarily attributable to the cost increases related to the security services, which will follow the same COLA adjustments as the county sheriff.

5.2.5.3. Utility Expenses

Utility expenses decreased from $41.7 million in FY 2015 to $37.6 million in FY 2019. They accounted for 11.9 percent of FY 2019 expenses. The decline in utility expenses is attributable primarily to the implementation of Energy Saving Projects, which reduced energy consumption in the Hawaiʻi Airports System, and to changes in average utility rates. As a result of implementing the Energy Savings Projects, the Airports Division pays the debt service on COPs (which provided the funding for the Energy Saving Projects and amounted to $15.2 million in FY 2019) as well as additional expenses to maintain the equipment that the project provided.

5.2.5.4. Special Maintenance

The Airports Division's annual appropriation of operating costs includes a line item of special maintenance, which is initially paid out of the operating budget. At the end of each Fiscal Year, the auditor reviews the special maintenance spending and classifies a portion of the actual expenditure to capital assets. The remaining amount in the operating expenses decreased from $8.9 million in FY 2015 to $5.8 million in FY 2019, primarily due to lower expenses being expended instead of capitalized.

5.2.5.5. Repair and Maintenance

Repair and maintenance expenses are paid to contractors for maintaining the asset in the Hawaiʻi Airports System. Repair and maintenance expenses increased from $30.6 million in FY 2015 to $34.7 million in FY 2019 (at an average annual growth rate of 3.2 percent) and accounted for 11.0 percent of FY 2019 Expenses. The increased spending reflected the Airports Division's higher investment in renovating and rehabilitating the airport facilities.

5.2.5.6. DOT Administrative Expenses

To each operating branch, including the Airports Division, the DOT provides centralized services, such as management, financial control, and human resources, among other services, and allocates a portion of the DOT expenses based on benefits received. DOT administrative expenses increased from $5.1 million in FY 2015 to $8.4 million in FY 2019 (at an average annual growth rate of 2.7 percent) and accounted for 13.3 percent of FY 2019 Expenses. The increase is primarily due to implementation of financial and IT systems in recent years and the related recovery.

5.2.5.7. Other Airports Division Expenses

Other Airports Division expenses included material and supplies, bad debt, and other miscellaneous expenses. This category accounted for 5.0 percent of FY 2019 Expenses.

5.2.5.8. State Surcharge

As discussed in the previous section, the State implements a State Surcharge, calculated as 5 percent of all cash receipts net of debt service payment. The State Surcharge increased from $12.6 million in FY 2015 to $14.7 million in FY 2019 (at an average annual growth rate of 4.1 percent) and accounted for 4.7 percent of FY 2019 O&M Expenses. In FY 2019, the calculated State Surcharge using 5 percent of receipts net of debt service was higher than the inflation adjusted amount pursuant to U.S. Codes Section 47115(f). Although there is no statutory requirement, the Airports Division decided to limit the amount of the State Surcharge in FY 2019 to $14.7 million, and plans to follow the limitation during the projection period.

5.2.6. Projection of Costs of Operation, Maintenance and Repair

Exhibit E presents the projection of Costs of Operation, Maintenance and Repair through FY 2026, including Costs of Operation, Maintenance and Repair to maintain existing assets, as well as incremental changes due to implementation of capital projects.

The projected Costs of Operation, Maintenance and Repair required to maintain existing facilities are based on the following assumptions:

1. Salaries and wages expenses are estimated to increase by 8.2 percent in FY 2020 due to higher hiring activities, among other drivers. Those expenses are projected to increase by 3.0 percent in FY 2021 and 6.0 percent annually thereafter;
2. Other personnel service expenses are estimated to increase by 3.2 percent in FY 2020. They are projected to decrease by 4.6 percent in 2021 and to increase by 6.0 percent annually thereafter;
3. Other categories of expenses are generally forecast to increase by 5.0 percent annually except:
    a. Utility expenses are projected to increase by 15% in FY 2022 due to recovering traffic level
    b. Special maintenance expenses are projected to decline by 37% in FY 2021 and to recover to historical level in 2022 and thereafter
    c. DOTA administrative expenses are projected to increase by 9.4% in FY 2021 due to recovery of IT upgrade and other projects

The projected Costs of Operation, Maintenance and Repair for future facilities to be implemented are shown as “Incremental Expenses” on Exhibit E, including $5.0 million annual expenses for the Mauka Concourse and $2.0 million for other capital projects.

The gross operating expenses are projected to increase from $314.8 million in FY 2019 to $436.6 million in FY 2026, at an average annual growth rate of 4.6 percent. Costs of Operation, Maintenance and Repair are projected to be $409.7 million in FY 2026, after excluding $26.9 million of non-cash expenses. Approximately two-thirds of the Costs of Operation, Maintenance and Repair are expected to be allocated to the airline cost centers in FY 2026. Under the hybrid residual ratemaking methodology, all airline cost center expenses are recovered through airline rates and charges, except for a minor adjustment for the ITO terminal cost center.

5.3. Subordinate Obligations

In addition to the Bonds issued under the Certificate, the Airports Division issued Certificate of Participation notes to fund the Energy Saving Projects in 2013, 2016 (private placement), and 2017 (private placement). As of August 2020, $198.5 million of COPs principal amount is outstanding, or $11 per enplaned passenger based on the FY 2019 enplaned passenger count of 18.7 million. The Signatory Airlines have concurred with the Energy Saving Projects and the inclusion of the COPs debt service in the calculation of airline rates and charges.

Annual COPs debt service is $20.7 million in FY 2021 and designed to match the expected savings from the Energy Saving Projects. The annual debt service will peak at $29.8 million in FY 2029 and decline to less than $6 million annually before expiring in FY 2034.

Johnson Controls, the contractor for the Energy Saving Projects, provided a guaranteed amount of electricity consumption savings measured in kilowatt hours (KWHs). If actual performance, adjusting for traffic increase and other factors, does not provide the guaranteed savings in KWHs, Johnson Controls must make an additional payment to the Airports Division. For the purpose of this Report, it was assumed that no such payment would be necessary.

5.4. Concession Revenues

The Airports Division generates Concession Revenues from terminal concession operations, parking, rental car, and ground transportation operations, which are directly impacted by changes in enplaned passengers.

Exhibit 5.4-1 presents historical Concession Revenues from FY 2015 to FY 2019. Concession Revenues increased from $148.8 million in FY 2015 to $183.3 million in FY 2019 at an average annual growth rate of 5.3 percent. This growth rate is higher than the average annual growth rate of enplaned passengers of 2.9 percent, partly due to rates and pricing changes driven by inflation.

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Exhibit 5.4-1: Historical Concession Revenues
(in US$ thousands)

	2015	2016	2017	2018	2019	% in 2019	AAG 2015-19
Concession Revenues							
Duty Free	$ 32,300	$ 32,300	$ 32,942	$ 40,000	$ 40,601	22.2%	5.9%
Food and Beverage	8,221	8,881	10,141	11,132	11,430	6.2%	8.6%
Retail	15,469	14,668	16,037	17,231	17,176	9.4%	2.7%
Other Terminal Concessions	7,119	7,816	7,659	9,097	11,375	6.2%	12.4%
Parking	22,463	24,935	26,996	27,142	27,152	14.8%	4.9%
Rental Car	60,258	53,687	64,445	73,238	72,354	39.5%	4.7%
Ground Transportation	3,005	3,243	3,006	3,886	3,187	1.7%	1.5%
Total Concession Revenues	$ 148,835	$ 145,530	$ 161,227	$ 181,726	$ 183,275	100.0%	5.3%
Year-over-year % Change							
Duty Free		0.0%	2.0%	21.4%	1.5%		
Food and Beverage		8.0%	14.2%	9.8%	2.7%		
Retail		-5.2%	9.3%	7.4%	-0.3%		
Other Terminal Concessions		9.8%	-2.0%	18.8%	25.0%		
Parking		11.0%	8.3%	0.5%	0.0%		
Rental Car		-10.9%	20.0%	13.6%	-1.2%		
Ground Transportation		7.9%	-7.3%	29.3%	-18.0%		
Total Concession Revenues		-2.2%	10.8%	12.7%	0.9%		

Source: Airports Division.

Exhibit 5.4-2 presents distribution of FY 2019 Concession Revenues across airports, with HNL accounting for 58.4 percent of total Concession Revenues.

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Exhibit 5.4-2: FY 2019 Concession Revenues by Airport (in US$ thousands)

	HNL	ITO	KOA	OGG	LIH	Others	Total
Concession Revenues							
Duty Free	$ 40,601	$ -	$ -	$ -	$ -	$ -	$ 40,601
Food and Beverage	7,138	90	782	2,503	900	17	11,430
Retail	11,904	3	1,128	3,587	555	-	17,176
Other Terminal Concessions	8,814	81	660	1,337	473	10	11,375
Parking	17,788	1,076	2,397	4,061	1,829	-	27,152
Rental Car	18,276	2,094	13,087	25,830	12,794	273	72,354
Ground Transportation	2,524	13	278	262	89	21	3,187
Total Concession Revenues	$ 107,044	$ 3,356	$ 18,332	$ 37,581	$ 16,640	$ 321	$ 183,275
% of Statewide Total							
Duty Free	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Food and Beverage	62.4%	0.8%	6.8%	21.9%	7.9%	0.2%	100.0%
Retail	69.3%	0.0%	6.6%	20.9%	3.2%	0.0%	100.0%
Other Terminal Concessions	77.5%	0.7%	5.8%	11.8%	4.2%	0.1%	100.0%
Parking	65.5%	4.0%	8.8%	15.0%	6.7%	0.0%	100.0%
Rental Car	25.3%	2.9%	18.1%	35.7%	17.7%	0.4%	100.0%
Ground Transportation	79.2%	0.4%	8.7%	8.2%	2.8%	0.6%	100.0%
Total Concession Revenues	58.4%	1.8%	10.0%	20.5%	9.1%	0.2%	100.0%

Source: Airports Division. All duty free revenues are listed under HNL.

For the purpose of this Report, it was assumed that payments to the Department during the projection period would equal the percentage fee. The Department may reinstate the MAGs at its sole discretion. Exhibit F presents the projected Concession Revenues from $183.3 million in FY 2019 to $182.3 million in FY 2026. Although FY 2026 enplaned passenger count is assumed to be higher than that of FY 2019, duty free revenues are projected to be lower, resulting in overall lower Concession Revenues in FY 2026.

5.4.1. Duty-Free

DFS operates duty-free stores at HNL, KOA, and OGG, as well as T Galleria and other off-airport stores located at Waikiki. Approximately one-quarter of duty-free gross sales are generated at on-airport locations, while three-quarters are generated from the Waikiki store. Changes in duty-free sales are driven by passenger volume changes, passenger mix, product mix and pricing, currency exchange rate, and the pricing gap between the U.S. and the destination countries, among other factors. Duty-free annual gross sales declined to below $110 million starting from the contract year ending May 31, 2016. In 2017, as a condition of the lease term extension, DFS completed renovations of the Central Concourse concession facilities but the annual gross sales remained below $110 million through the contract year 2019. The loss of direct flights to China has also contributed to the decline in gross sales in the contract year 2020, which totaled $78 million.

DFS is contractually obliged to pay the higher of MAG or the percentage fee, which is calculated as 30 percent of on-airport gross sales and 18 percent of off-airport gross sales. Without the MAG requirements, the percentage fee payments would have been $22.0 million and $16.4 million for FY 2019 and FY 2020 respectively, compared to the actual MAG payments of $40.6 million and $35.6 million respectively.

DFS laid off a quarter of its workforce, or 165 employees, at Hawai‘i in September 2019 and announced plan to lay off 193 employees effective September 2020. It remains uncertain whether T Galleria at downtown Waikiki will be permanently closed.

Duty-free revenues to the Department are projected to be $5.7 million in FY 2021, to recover to $12.8 million in FY 2022, and to increase driven by assumed higher international passenger count and inflation adjustments.

5.4.2. Food and Beverage

Food and beverage gross sales are driven by passenger volume, product mix and pricing, and facility location. Food and beverage revenues to the Airports Division increased from $8.2 million in FY 2015 to $11.4 million in FY 2019 at an average annual growth rate of 8.6 percent. Approximately two-thirds of food and beverage revenues are generated from HNL, with one-fifth from OGG and the rest mainly from other Primary Airports.

Food and beverage revenues to the Department are projected to be $4.5 million in FY 2021, and to increase driven by assumed higher enplaned passenger count and inflation adjustments.

5.4.3. Retail

Retail gross sales are driven by passenger volume, product mix and pricing, and facility location. Retail revenues to the Airports Division increased from $15.5 million in FY 2015 to $17.2 million in FY 2019 at an average annual growth rate of 2.7 percent. Approximately three-quarters of food and beverage revenues are generated from HNL, with one-sixth from OGG and the rest mainly from other Primary Airports.

Retail revenues to the Department are projected to be $6.9 million in FY 2021, and to increase driven by assumed higher enplaned passenger count and inflation adjustments.

5.4.4. Other Terminal Concessions

Other terminal concessions include advertising, news vending, wireless internet, foreign exchange, florists, in-flight catering, smart-carte, merchandise delivery, and other miscellaneous revenues. In FY 2019, in-flight catering accounted for more than half this revenue category. Other terminal concession revenues to the Airports Division increased from $7.1 million in FY 2015 to $11.4 million in FY 2019 at an average annual growth rate of 12.4 percent, primarily due to higher advertising revenues.

Other terminal concession revenues are projected to be $4.7 million in FY 2021, and to increase driven by assumed higher enplaned passenger count and inflation adjustments.

5.4.5. Parking

Parking revenues are driven by the number of residents traveling, ground transportation method, length of trip, and parking rate, among other factors. Because Hawaiʻi is a global tourist attraction, resident travelers were estimated to account for less than one-fifth of total O&D enplaned passengers. Therefore, at the Hawaiʻi Airports System, parking revenues are lower than rental car revenues – a situation that is different from what most U.S. airports experience. The maximum daily parking rate is $18 at the HNL garage, $10 at the HNL surface parking lot, and $15 at other Primary Airports. Approximately two-thirds of parking revenues come from HNL, with one-sixth from OGG, and the rest mainly from other Primary Airports.

During holidays prior to COVID-19, the parking garage at HNL was near capacity. After the HNL ConRAC is completed in FY 2022, the Aviation Department will convert the east side of the Overseas Parking Garage from the interim rental car facility to public parking.

For purposes of this Report, it was assumed in FY 2026 the daily maximum parking rate would increase to $20 for HNL garages and $16 for other Primary Airports. As a result, parking revenues are expected to increase from a projected $11.1 million in FY 2021 to $29.3 million in FY 2026, compared to $27.2 million in FY 2019.

5.4.6. Rental Car

Rental car revenues are driven by the number of visitors traveling, choice of ground transportation method, length of rental car transaction, rental car mix and pricing, and rental car operation location, among other factors. Rental car revenues increased from $60.3 million in FY 2015 to $72.4 million in FY 2019 at an average annual growth rate of 4.7 percent. The distribution of rental car revenues across airports is different from the distribution of all other revenues. In FY 2019, rental car revenues were generated from OGG (36 percent), HNL (25 percent), KOA (18 percent), LIH (18 percent), ITO (3 percent), and other airports (0.4 percent). Rental car concession revenues are pledged to the payment of Bonds debt service, but not the CFC Bonds.

In FY 2015, the Airports Division executed the ConRAC Agreement with major rental car companies, including Avis Budget, Enterprise, Hertz, and Advantage. The Signatory RACs started operating from OGG ConRAC in May 2019, and will relocate all rental car operations at HNL to the HNL ConRAC upon completion in late 2021. Therefore, the relocation of Alamo's, Dollar's, and Thrifty's HNL operations to the on-airport ConRAC will bring additional rental car concession revenues to the Airports Division. The Airports Division collects the higher of MAGs or 10 percent of rental car gross receipts as a percentage fee for all on-airport rental car operations, but charges only a nominal fee per vehicle for off-airport operations.

For purposes of this Report, it was assumed that (a) HNL rental car revenues would increase by 15 percent in FY 2022 and by an additional 15 percent in FY 2023 due to the relocation of off-airport operations, and (b) rental car revenues would otherwise be driven by an increase in enplaned passengers and inflation. Rental car revenues to the Department are projected to be $31.7 million in FY 2021, and to increase driven by assumed higher enplaned passenger count, relocation of off-airport operations, and inflation adjustments.

5.4.7. Ground Transportation

Ground transportation revenues include revenues from airport shuttle bus services, taxi services, TNCs, and other miscellaneous ground transportation permittees. TNCs pay 7 percent of gross revenues to the Airports Division, similar to taxi operators. Ground transportation revenues are projected to be $1.2 million in FY 2021, and to increase driven by assumed higher enplaned passenger count and inflation adjustments.

5.5. Non-Terminal Rentals and Fees

The Airports Division generates Non-Terminal Rentals and fees from the Signatory Airlines and non-signatory airlines, such as cargo or maintenance hangar rentals, non-airline tenants such as rental car ground rentals, and miscellaneous revenues, which are not directly impacted by changes in enplaned passengers.

Those revenues increased from $42.6 million in FY 2015 to $63.6 million in FY 2019 at an average annual growth rate of 10.5 percent. The increase was driven by higher land and building rentals from new buildings, such as maintenance hangars and ConRAC, and higher rental rates due to appraisals. Those revenues are assumed to increase one percent annually, with an assumed $1.0 million incremental annual land rentals from HNL ConRAC.

5.6. Non-Operating Revenues

Non-operating revenues include federal operating grant and interest incomes. The Airports Division is planning to request $50.0 million of CARES grant reimbursement for FY 2020 and $83.3 million for FY 2021. Interest incomes are projected to decline, due to assumed lower interest earning rates.

5.7. Airline Rates and Charges Revenues

Airline rates and charges revenues are paid by the Signatory Airlines and non-signatory airlines for the use of airfield and terminal buildings, including landing fees, terminal rentals, and terminal user fees. Airline rates and charges are initially calculated prior to the start of a Fiscal Year based on projected inputs, with non-signatory commercial carriers paying 125 percent of the rates paid by the Signatory Airlines and smaller non-signatory air operators paying separate rates. As part of the year-end closing, the Airports Division will recalculate airline rates and charges based on actual results, settle with the Signatory Airlines, and collect additional amounts if needed to ensure compliance with the Rate Covenant. Non-signatory airlines are not subject to year-end reconciliation.

In the initial calculation, the Airports Division generally follows the procedure below:

- Determine the cost requirements, such as Costs of Operation, Maintenance and Repair, Annual Adjusted Debt Service Requirement, COPs debt service, and other fund deposits
- Allocate the cost requirements to the system-wide Airfield Cost Center, Terminal Cost Centers for five Primary Airports (together with Airfield Cost Center, the Airlines Cost Centers), and a cost center of other areas
    - Approximately two-thirds of the Costs of Operation, Maintenance and Repair are allocated to the Airline Cost Centers
    - Annual Adjusted Debt Service Requirement is allocated based on the projects funded. Because the Ongoing CIP and the 2022-2026 CIP do not include any major parking or rental car related projects, majority of related debt service is allocable to Airline Cost Centers
    - Fund deposits are allocated based on the purposes of the funds
- Credit certain revenues as provided in the Airline Agreement, including non-signatory landing fee and grant reimbursement to the calculation of landing fee rate, and grant reimbursements and terminal concession revenues to the calculation of respective terminal rental rates of the five Primary Airports
- The landing fee rate and the terminal rental rates are then calculated using a residual ratemaking methodology, except for a minor portion related to the ITO terminal. Terminal user fees are calculated based on terminal rental rates, space square footage, and user counts
- If needed, an ASSC would be collected based on landed weight to ensure compliance with the Rate Covenant

Total Signatory Airlines payments were $185.7 million in FY 2019, and are estimated to decrease to $163.7 million in FY 2020 and $163.3 million in FY 2021 partially due to application of CARES Act grants, and increases to $243.2 million in FY 2022 and $339.2 million in FY 2026 due to increase in cost requirements. Signatory Airline rates and charges as a percentage of Revenues and Aviation Fuel Taxes is expected to increase from 39.6 percent in FY 2019 to approximately 56 percent in FY 2022-2026, with ASSCs potentially collected in those years.

5.8. Projected Financial Results

This section provides a discussion of Rate Covenant compliance, CPEs, liquidity, and the results under the Eight-Year Recovery scenario.

5.8.1. Rate Covenant Compliance

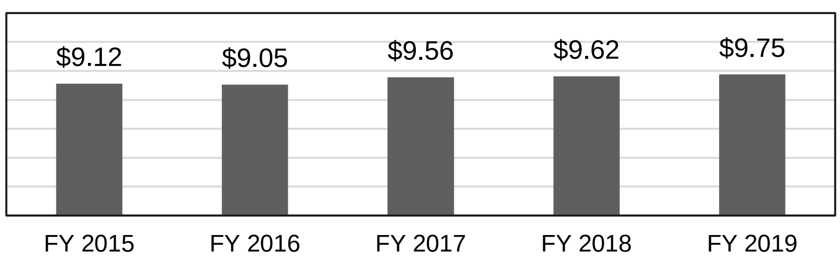
Exhibit G present the calculation of Rate Covenant compliance for the hypothetical Six-Year Recovery scenario, including the flow test and the coverage test.

- In the flow test, the Department is expected to generate adequate Revenues and Aviation Fuel Taxes to meet the obligations required by the Certificate. Starting from FY 2022, the funds remaining are expected to be fully used to meet other fund deposit requirements, although not required by the Certificate
- In the coverage test, the Department is expected to generate a debt service coverage ratio of 2.33x in FY 2021 based on an Annual Debt Service Requirement of $47.8 million, compared to 2.22x in FY 2019 based on $81.3 million. Debt service coverage ratios are expected to decline in future years but to stay above 1.50x, because the Airline Agreement provides the recovery of COPs debt service and other fund deposits, which serves as additional coverage about the mandated 1.25x. The Airports Division plans to fund the Funded Coverage Account at 25 percent of gross debt service, which equals 28.8 percent of Annual Adjusted Debt Service Requirement in FY 2026.

5.8.2. CPEs

Exhibit H provides key statistics under the Six-Year Recovery Scenario, including a projection of CPEs. As discussed in previous sections, the Airports Division has taken several measures to reduce the cost requirements, which leads to an expected reduction of airline rates and charges revenues of $26.0 million in FY 2021, compared to FY 2019. However, because enplaned passenger count is expected to decline by 57.9 percent, the average CPEs are expected to peak in FY 2021 at $20.20, compared to $9.75 in FY 2019. The average CPEs for FY 2022-2026 are expected to be below $17.50.

Exhibit 5.8-1: Historical CPEs for Hawai'i Airports System
FY 2015 – FY 2019

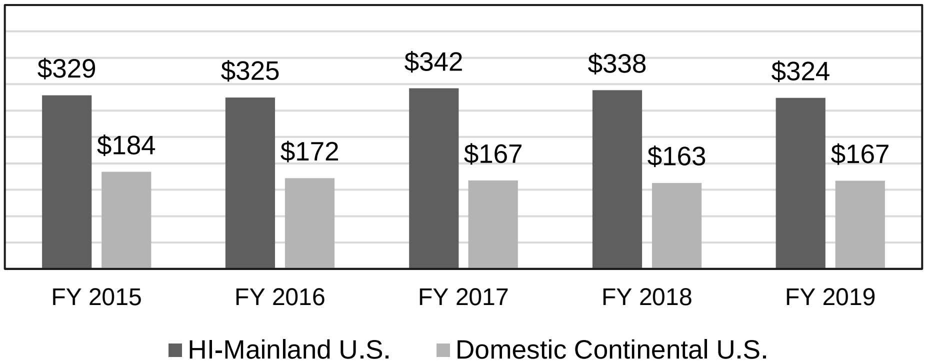


Source: Airports Division.

The CPEs are typically measured as a percentage of average one-way fare. Average one-way fare in Hawai'i for all segments was estimated to be $272 in FY 2018 and $304 in FY 2019 according to the U.S. Department of Transportation O&D Survey (USDOT), which ranges from $72 for interisland travel to $324 for Mainland U.S. travel and $664 for international travel in FY 2019. When comparing long-haul Hawai'i airfare to the mainland U.S. to the average domestic airfare traveling within continental U.S., Hawai'i airfare has historically been higher over the last several years by 1.8x-2.1x.

Exhibit 5.8-2: Average One-Way Fare Comparisons Hawai'i Mainland U.S. vs Continental U.S. Domestic

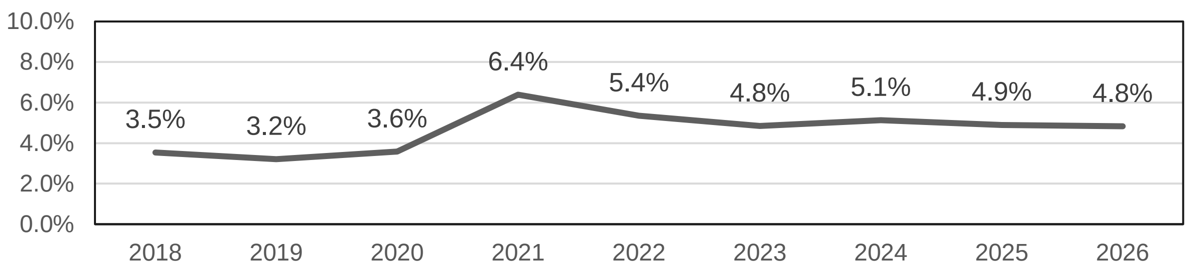
FY 2015 – 2019



Note: Southwest commenced Hawai'i mainland U.S. service in March 2019, reflecting lower fare impact starting in 4Q FY 2019.
Source: U.S. DOT O&D Survey via AirlineData, Inc.

The following chart shows projected CPEs as percentages of average one-way fare, which is assumed to increase 2 percent annually, although the changes in average fare after COVID-19 remain uncertain. As a comparison, the landing fee payments reported by U.S. carriers on USDOT Form 41 Schedule P6 were approximately 1.6 percent of total operating revenues in calendar year 2019, with rentals (including aircraft rentals) account for another 4.9 percent. Therefore, the system-wide average 2019 CPE of $9.75 was approximately 3.2 percent of average one-way fare.

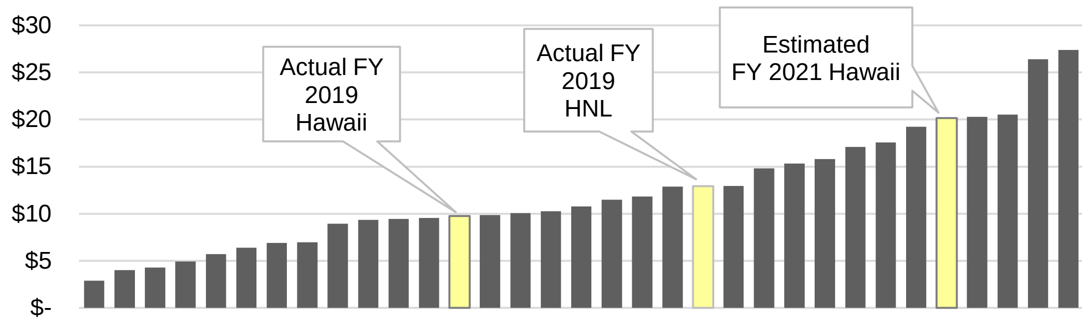
Exhibit 5.8-3: Six-Year Recovery CPEs as % of Average One-Way Fare



Sources: FY 2018 and 2019 CPEs – Airports Division; 2020-2026 – ICF. FY 2018 and 2019 average one-way fare - U.S. DOT O&D Survey via AirlineData, Inc.; 2020-2026 – escalated at 2 percent annually.

CPEs are not directly comparable to the CPEs at other airports and data since the COVID-19 impact are not readily available. The average FY 2019 CPE of the Hawai'i Airports System at $9.75 would be ranked the 20th highest out of a total of 31 large-hub airports. The projected average FY 2021 CPE of $20.20 would be ranked the 5th highest to the same data set. However, some U.S. large-hub airports have published forecasts prior to COVID-19 exceeding this level in future years, and are expected to exceed this level in FY 2021 due to COVID-19. The reasonableness of a CPE level at a given airport is eventually determined by the airlines operating at the airport as one factor in operation decisions.

Exhibit 5.8-4: CPEs of U.S. Large-Hub Airports (respective FY 2019)

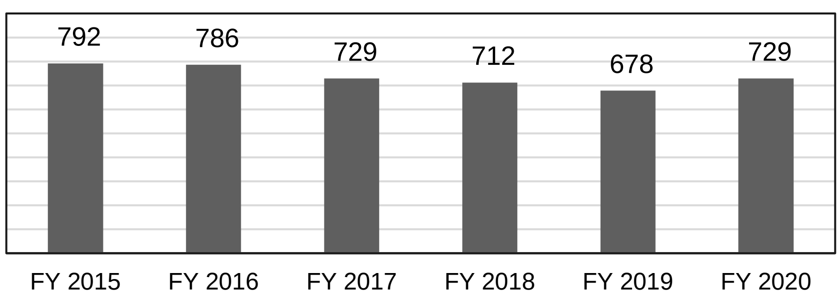


Source: Calculation included in the FAA Forms 5100-127, and may not match CPEs reported by each airport in other documents. Projection – ICF.

5.8.3. *Liquidity*

Liquidity for U.S. airports are typically measured by days cash on hand, calculated as the funds available for operating expenses divided by daily operating expenses. The balance of such unrestricted assets at Hawaiʻi Airports System was presented in the audited financial statements prior to FY 2019. In the FY 2019 audited financial statement, the Airports Division's auditor reclassified the balance in the O&M Reserve and the Funded Coverage Account from unrestricted assets to restricted assets, although the balance in those two accounts continues to be available for operating expenses. Therefore the balance reported in the Airports Division's internal management reports is used for the calculation of days cash on hand for FY 2019 and FY 2020, as shown in the chart below. As of June 30, 2020, the Airports Division had $494.9 million of unrestricted cash and cash equivalent, $104.7 million in the O&M reserve and $27.6 million in the Funded Coverage Account, for a total of $627.2 million, which equals to 729 days cash on hand.

Exhibit 5.8-5: Historical Days Cash on Hand



Source: FY 2015-2018 – audited financial statements; FY 2019 and FY 2020 – internal management report including the balance in the O&M Reserve and the Funded Coverage Account.

Key relevant factors for FY 2021-2026 include:

- The Airline Agreement ensures that the Airports Division would generate adequate Revenues and Aviation Fuel Taxes for Rate Covenant purposes, and therefore have at least breakeven cash position after funding reserves

- A portion of unrestricted cash and cash equivalent would be deposited into the O&M Reserve and the Funded Coverage Account, although that does not affect the calculation of days cash on hand
- The Airports Division may spend cash on certain capital projects outside the 2022-2026 CIP, such as capitalized special maintenance. The Airports Division expects those uses to be less than $10 million annually
- The Airports Division expects to collect, in FY 2021, April to June 2020 deferred FY 2020 payments and $37.1 million of CARES Act grant reimbursement for FY 2020, which are not reflected in the cash balance as of June 30, 2020

Cash balance is expected to fluctuate during a Fiscal Year due to traffic activities, especially when traffic activities are projected to be lower in the first half of FY 2021, but is expected to recover in the 2nd half of FY 2021 or after the year-end reconciliation.

Because days cash on hand is calculated as the available funds divided by daily operating expenses, the projected increase in Costs of Operation, Maintenance and Repair would lead to a decline in days cash on hand. Days cash on hand are expected to be above 500 through the projection period.

5.8.4. The Eight-Year Recovery Scenario

Exhibit I provides the key financial metrics under the hypothetical Eight-Year Recovery scenario based on the following assumptions:

- Enplaned passenger count would be 6.2 million in FY 2021 or 33.4 percent of FY 2019 level, compared to 42.1 percent under the Six-Year Recovery scenario, and recover to 18.2 million in FY 2026, compared to 19.5 million
- The 2022-2026 CIP Bonds assumed to be issued in January 2022 would be postponed to January 2023, with a 3 percent increase to reflect construction cost escalations

The average CPE is expected to peak in FY 2021 at $27.48 and to decline to below $20 for FY 2022-2026. The Debt Service Coverage Ratio is expected to be higher in FY 2022-2025 due to changes in debt service, and to be 1.54x in FY 2026, similar to the Six-Year Recovery Scenario.

5.8.5. Key Assumptions Under in Analysis

COVID-19 and related traffic reduction has brought uncertainties regarding further virus spread and mutation, vaccine development and adoption, negative effect on economy and travel patterns, governmental actions, foreign policies and travel restrictions, airline bankruptcy, and airline competition and network decision-making, among other issues. Therefore it is impossible to prepare traffic forecasts and financial forecasts for the near future. Instead, this Report provides discussions related to two hypothetical traffic scenarios among a large set of potential scenarios, and projected the financial impact taking consideration the 2020 Bonds and future Bonds. Actual results could be materially higher or lower, even for the first half of FY 2021.

In developing the financial projections under the Six-Year Recovery Scenario, ICF has used the following key assumptions that have been reviewed and agreed to by the Airports Division, among other assumptions:

- Airline rates and charges will continue to be calculated pursuant to the Airline Agreement, and the Signatory Airlines are willing and able to pay the resulting airline rates and charges
- The Airports Division will be able to issue the refunding component of the 2020 Bonds and realized the savings reflected in this Report

- The Airports Division will issue the 2020 New Money Bonds and future Bonds to fund the required amount to complete the Ongoing CIP, and the 2020-2026 CIP starting FY 2022 at the assumed borrowing rates
- The Airports Division will not issue future Bonds to fund Excluded Projects or other unexpected projections prior to FY 2027. If Excluded Projects are required to be funded prior to FY 2027, the Airports Division will work with the Signatory Airlines to review the options including seeking external funding sources, evaluating alternative options, deferring other projects, or optimizing expenses and other influencing factors to mitigate the impact on airline rates and charges
- The Airports Division will continue to submit PFC applications to the FAA for the eligible debt service costs
- The Airports Division will continue to implement expense reduction measures, so that the increase in Costs of Operation, Maintenance and Repair will not materially exceed the projections presented in this Report
- For the purpose of this Report, applicable concession revenues are calculated as a percentage of projected gross revenues. The related MAGs are disregarded in this Report. Rental revenues other than airline terminal rentals and user fees are assumed to continue increasing at 1 percent annually, without loss of tenant or lowered rental rates.

Under the Eight-Year Recovery Scenario, it was further assumed that the 2022-2026 CIP would be implemented starting FY 2023 instead of FY 2022 with inflation adjustments but no other cost increases.

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Exhibit A-1

The Ongoing CIP
Hawaii Airports System
(preliminary; in thousands)

Project Title	Remaining Costs as of June 30, 2020								Spent as of 6/30/2020	Current Working Estimates
	Prior Bonds	Proposed 2020 Bonds	Future Bonds	Total Bonds	Grants	PFC Paygo	Cash	Subtotal		
ONGOING CIP										
HNL, NDWP IIT Mauka Program	$ 22,810	$ 72,916	$ 27,549	$ 123,275	$ -	$ 70,000	$ -	$ 193,275	$ 353,627	$ 546,903
HNL, Ticket Lobby Renovation	6,629	11,459	147,191	165,279	-	-	-	165,279	8,506	173,785
HNL, Runway 8L Widening	233	11,419	8,660	20,311	104,421	595	1,491	126,818	24,693	151,511
HNL, Restroom Improvements	8,132	4,044	20,821	32,998	1	(0)	11,236	44,235	16,610	60,845
HNL, Improvements to Baggage Handling Systems	1,021	15,820	11,699	28,540	-	-	-	28,540	17,003	45,543
HNL, Replace Prkg Structure Pedestrian Bridge	2,359	17,812	8,203	28,374	-	(0)	-	28,374	11,976	40,350
HNL, NDWP Rdwy Terminal Signage Improvements	3,000	5,031	892	8,924	-	-	-	8,924	30,350	39,274
HNL, Other Terminal Projects	2,692	15,881	2,300	20,873	-	-	19	20,892	43,216	64,108
HNL, Other Projects	691	989	283	1,963	1,634	-	98	3,696	2,277	5,973
Subtotal	$ 47,568	$ 155,371	$ 227,597	$ 430,536	$106,056	$ 70,595	$12,845	$ 620,032	$ 508,260	$ 1,128,292
ITO Projects	439	13,121	1,507	15,066	-	-	-	15,066	4,835	19,901
KOA, Terminal Modernization	$ 30	$ 1,250	$ 142	$ 1,422	$ 1,009	$ 1,693	$ 1,466	$ 5,590	$ 84,301	$ 89,891
KOA, Federal Inspection Services Building	114	297	91	502	2,500	27,823	34,658	65,483	4,692	70,175
KOA, Other Projects	1,273	18,205	5,192	24,670	7,079	3,803	4,026	39,578	8,500	48,078
Subtotal	$ 1,418	$ 19,751	$ 5,426	$ 26,594	$ 10,588	$ 33,319	$40,150	$ 110,651	$ 97,494	$ 208,145
LIH Projects	2,547	11,727	9,412	23,685	2,852	2,220	2,521	31,278	14,399	45,677
OGG, Holdroom and Gate Improvements	$ 1,436	$ 14,087	$ 31,056	$ 46,578	$ -	$ -	$ -	$ 46,578	$ 2,336	$ 48,914
OGG, Other Projects	8,533	19,592	4,204	32,328	2,827	-	67	35,222	7,987	43,210
Subtotal	$ 9,969	$ 33,678	$ 35,260	$ 78,906	$ 2,827	$ -	$ 67	$ 81,800	$ 10,323	$ 92,124
Other Airports' Projects	890	5,467	1,167	7,524	27,940	-	444	35,909	6,319	42,227
Statewide Projects	1,926	34,751	16,197	52,874	2,407	150	11,219	66,650	17,320	83,970
TOTAL ONGOING CIP	$ 64,756	$ 273,867	$ 296,564	$ 635,187	$152,670	$ 106,283	$67,246	$ 961,386	$ 658,949	$ 1,620,336

Source: Airports Division.

Exhibit A-2

The 2022-2026 CIP
Hawaii Airports System
(preliminary; in thousands)

	Remaining Costs as of June 30, 2020									
Project Title	Prior Bonds	Proposed 2020 Bonds	Future Bonds	Total Bonds	Grants	PFC Paygo	Cash	Subtotal	Spent as of 6/30/2020	Current Working Estimates
THE 2022-2026 CIP										
Safety and Security Projects										
HNL, Emergency Operations Center	$ -	$ 1,996	$ 46,704	$ 48,700	$ -	$ -	$ -	$ 48,700	$ -	$ 48,700
SW, Fire Alarm System Replacement Upgrade	236	665	21,098	22,000	-	-	-	22,000	-	22,000
HNL, Fire Sprinkler System Upgrade	-	881	20,619	21,500	-	-	-	21,500	-	21,500
Other Projects	4	443	10,463	10,909	-	1,580	-	12,490	66	12,556
Subtotal	$ 240	$ 3,985	$ 98,884	$ 103,109	$ -	$ 1,580	$ -	$ 104,690	$ 66	$ 104,756
Regulatory and Compliance Projects										
OGG, Runway 2-20 Improvements	$ -	$ 9,378	$ 20,622	$ 30,000	$187,500	$ 62,500	$ -	$ 280,000	$ -	$ 280,000
HNL, RW and TW Shoulder Rehabilitation	-	2,827	71,679	74,506	-	-	-	74,506	494	75,000
KOA, Runway 17-35 Rehabilitation	-	-	53,842	53,842	19,800	-	-	73,642	-	73,642
LIH, Relocate Runway 3-21	4	1,006	41,676	42,686	-	1,802	(0)	44,488	1,679	46,167
HNL, Taxiway A Reconstruction	-	1,791	1,791	3,583	-	(0)	304	3,887	6,113	10,000
Other Projects	151	1,122	41,265	42,537	14,195	-	-	56,732	338	57,070
Subtotal	$ 155	$ 16,124	$ 230,876	$ 247,154	$221,495	$ 64,302	$ 304	$ 533,256	$ 8,624	$ 541,879
Major Replacement Projects										
HNL, Interisland Terminal Modernization	$ -	$ 1,154	$ 26,996	$ 28,150	$ -	$ -	$ -	$ 28,150	$ -	$ 28,150
HNL, Overseas Terminal Roof Replacement	-	910	25,563	26,473	-	-	1,102	27,575	398	27,973
HNL, Ewa & DH Concourse 2nd Level Roadway Imp	300	-	27,400	27,700	-	-	-	27,700	-	27,700
Other Projects	-	738	18,505	19,243	-	-	-	19,243	110	19,353
Subtotal	$ 300	$ 2,802	$ 98,465	$ 101,566	$ -	$ -	$ 1,102	$ 102,669	$ 507	$ 103,176
Operational Support Projects	706	441	21,989	23,135	9,900	-	-	33,035	353	33,388
Functional Improvement Projects										
HNL, NDWP Taxilane G & L Widening, Ph 2	$ -	$ -	$ 72,050	$ 72,050	$ -	$ -	$ -	$ 72,050	$ -	$ 72,050
OGG, South TSA Checkpoint	400	1,025	33,356	34,781	-	-	-	34,781	-	34,781
KOA, ARFF Regional Training Facility	259	-	20,451	20,710	9,028	-	1,296	31,033	2,300	33,333
HNL, Elliott Street Roadway Improvements	150	-	27,350	27,500	-	-	-	27,500	-	27,500
ITO, Arcade Air Conditioning Improvements	249	741	23,170	24,160	-	-	-	24,160	-	24,160
Other Projects	375	2,817	101,405	104,596	-	-	-	104,596	24	104,621
Subtotal	$ 1,433	$ 4,583	$ 277,781	$ 283,797	$ 9,028	$ -	$ 1,296	$ 294,121	$ 2,324	$ 296,445
Expansion or Capacity Enhancement Projects	2,703	4,825	27,096	34,624	-	-	4,985	39,609	1,876	41,485
TOTAL 2022-2026 CIP	5,536	32,760	755,090	793,386	240,423	65,882	7,687	1,107,378	13,751	1,121,129
ONGOING CIP AND 2022-2026 CIP	**$ 70,292**	**$ 306,626**	**$ 1,051,655**	**$ 1,428,573**	**$393,092**	**$ 172,166**	**$74,933**	**$ 2,068,764**	**$ 672,700**	**$ 2,741,464**

Source: Airports Division.

Exhibit B

Historical and Forecast of PFC Revenues- Six-year Recovery Scenario
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 projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projections, and the variations could be material.

		Historical	Estimated	Projected					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
PFC Collections									
Enplaned Overseas Passengers (a)	11,329	11,658	8,746	4,388	7,643	9,528	10,810	11,309	11,820
Percent of PFC Eligible Passengers	86.2%	87.1%	86.5%	86.5%	86.5%	86.5%	86.5%	86.5%	86.5%
PFC Eligible Enplaned Passengers	9,760	10,154	7,565	3,796	6,611	8,242	9,351	9,782	10,224
PFC Level	$ 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)
Net PFC Level	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
Annual PFC Collections	$ 42,848	$ 44,578	$ 33,211	$ 16,664	$ 29,022	$ 36,181	$ 41,051	$ 42,944	$ 44,885
Cumulative PFC Collections with Interest Earnings	$433,064	$482,191	$516,475	$533,913	$563,486	$600,229	$641,851	$685,316	$730,751
PFC Cashflow									
PFC Fund - Beginning Balance	$156,674	$192,561	$187,849	$195,057	$115,177	$105,718	$119,586	$109,690	$ 99,002
Deposits:									
Annual PFC Collections	$ 42,848	$ 44,578	$ 33,211	$ 16,664	$ 29,022	$ 36,181	$ 41,051	$ 42,944	$ 44,885
Interest Earnings	2,032	4,549	1,073	774	551	562	572	520	550
Annual PFC Revenues with Interest Earnings	$ 44,880	$ 49,127	$ 34,284	$ 17,438	$ 29,573	$ 36,743	$ 41,622	$ 43,464	$ 45,435
Annual Use of PFC Revenues									
Available PFC Revenues									
PFC Application #5	$ (886)	$ (885)	$ (3,043)	$ (4,045)	$ (1,915)	$ (1,851)	$ (1,850)	$ (1,851)	$ (1,851)
PFC Application #7	-	(7,832)	(15,071)	(8,641)	(7,085)	(6,917)	(6,916)	(6,916)	(6,917)
PFC Application #8				(3,397)	(2,839)	(2,839)	(2,839)	(2,839)	(2,839)
Future Applications	-	-	-	-	(2,145)	(7,886)	(8,664)	(11,297)	(11,297)
Subtotal	$ (886)	$ (8,717)	$ (18,114)	$ (16,083)	$ (13,984)	$ (19,492)	$ (20,268)	$ (22,902)	$ (22,903)
Pay-as-you-go	(8,107)	(45,122)	(8,962)	(81,235)	(25,048)	(3,382)	(31,250)	(31,250)	-
Total Annual Use of PFC Revenues	$ (8,993)	$ (53,839)	$ (27,076)	$ (97,318)	$ (39,032)	$ (22,874)	$ (51,518)	$ (54,152)	$ (22,903)
PFC Fund - Ending Balance	$192,561	$187,849	$195,057	$115,177	$105,718	$119,586	$109,690	$ 99,002	$121,534

Note: (a) Interisland enplaned passengers are not subject to the PFC collection.
Sources: Historical and Estimated - Airports Division; Projection - ICF.

Exhibit C

Sources and Uses of Bond Funds- Six-year Recovery Scenario
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 projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projections, and the variations could be material.

	2020 New Money Bonds	Future Ongoing CIP Bonds	Future 2022-2026 CIP Bonds	Other Sources	Grand Total
Sources of Funds					
Bond Proceeds	$ 300,335	$ 315,925	$ 804,370	$ -	$ 1,420,630
Premium/(Discount)	33,836	23,494	59,819	-	117,149
Other Sources (a)	-	-	-	1,383,184	1,383,184
Total Sources	$ 334,171	$ 339,419	$ 864,189	$ 1,383,184	$ 2,920,963
Use of Funds					
Project Costs	$ 306,626	$ 296,564	$ 755,090	$ 1,383,184	$ 2,741,464
Costs of Issuance	1,206	923	2,341	-	4,471
Deposit to Debt Service Reserve Account	4,919	19,228	48,951	-	73,098
Deposit for Capitalized Interest	21,419	22,704	57,806	-	101,930
Total Uses of Funds	$ 334,171	$ 339,419	$ 864,189	$ 1,383,184	$ 2,920,963

Note: (a) Other sources include grant, PFC paygo, cash, and the proceeds from prior Bonds.
Source: Morgan Stanley, August 2020.

Exhibit D

Annual Adjusted Debt Service Requirement and Subordinate Obligations- Six-year Recovery Scenario
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 projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projections, and the variations could be material.

		Historical	Estimated	Projected					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Annual Adjusted Debt Service Requirement									
Outstanding Bonds									
2010 Refunding	$ 25,704	$ 25,733	$ 31,564	$ 15,270	$ -	$ -	$ -	$ -	$ -
2010 New Money	23,011	23,011	20,909	10,398	28,403	26,206	8,858	10,516	8,917
2011 Refunding	28,529	28,500	22,669	38,962	36,224	38,426	38,434	-	-
2015A Bonds	9,693	11,150	11,742	11,742	11,742	11,742	11,742	11,742	11,742
2015B Bonds	271	365	365	365	365	365	365	365	365
2018A Bonds	-	1,212	6,141	17,050	19,428	19,428	19,428	19,428	19,428
2018B Bonds	-	38	613	1,056	1,276	1,276	1,276	9,581	9,579
2018C Refunding	-	-	778	3,766	3,765	3,769	21,103	19,455	21,063
2018D Refunding	-	-	1,658	7,108	7,108	7,108	7,108	7,108	7,108
Subtotal Outstanding	$ 87,209	$ 90,008	$ 96,441	$105,717	$108,311	$108,319	$108,314	$ 78,194	$ 78,201
Changes due to 2020 Refunding Bonds	-	-	-	(46,587)	(52,173)	(16,132)	(13,909)	16,552	16,548
Subtotal	$ 87,209	$ 90,008	$ 96,441	$ 59,130	$ 56,138	$ 92,188	$ 94,405	$ 94,746	$ 94,749
Proposed 2020 New Money Bonds	-	-	-	4,740	9,481	12,641	12,641	12,641	12,641
Planned Ongoing CIP Bond in 2022	-	-	-	-	6,700	13,399	19,224	19,226	19,223
Assumed 2022-2026 CIP Bonds in 2022	-	-	-	-	8,529	17,058	48,950	48,947	48,951
Debt Service Requirement	$ 87,209	$ 90,008	$ 96,441	$ 63,871	$ 80,847	$135,285	$175,220	$175,560	$175,564
Available PFC Revenues (a)	(886)	(8,717)	(18,114)	(16,083)	(13,984)	(19,492)	(20,268)	(22,902)	(22,903)
Annual Adjusted Debt Service Requirement	$ 86,323	$ 81,291	$ 78,327	$ 47,788	$ 66,864	$115,793	$154,952	$152,658	$152,661
Subordinate Obligations									
2013 Certificate of Participation (COPs)	$ 13,734	$ 14,277	$ 15,155	$ 16,272	$ 17,122	$ 17,705	$ 18,774	$ 20,222	$ 21,249
2016 COPs	921	966	1,013	1,062	1,113	1,168	1,224	1,284	78
2017 COPs	-	-	3,173	3,332	3,499	3,674	3,858	4,052	4,255
Total Subordinate	$ 14,655	$ 15,243	$ 19,341	$ 20,666	$ 21,735	$ 22,547	$ 23,857	$ 25,558	$ 25,581

Note: (a) Includes amount under approved PFC applications, and projected amounts for other eligible projects to be requested in future PFC applications.
Sources: Historical and Estimated - Airports Division; Projection - ICF.

Exhibit E

Costs of Operation, Maintenance and Repair- Six-year Recovery Scenario
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 projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projections, and the variations could be material.

		Historical	Estimated	Projected					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Costs of Operation, Maintenance and Repair									
Salary and Wages	$110,196	$116,993	$126,535	$130,331	$138,151	$146,440	$155,226	$164,540	$174,412
Other Personnel Services	73,610	80,941	83,549	79,699	84,481	89,550	94,923	100,619	106,656
Utilities	34,558	37,614	33,167	34,798	40,018	42,019	44,120	46,326	48,642
Special Maintenance	10,145	5,763	10,000	6,300	9,450	9,923	10,419	10,940	11,487
Repair and Maintenance	34,318	34,700	32,716	33,416	35,086	36,841	38,683	40,617	42,648
Materials and Supplies	6,497	6,527	6,311	6,285	6,600	6,930	7,276	7,640	8,022
DOT Administrative Expenses	8,444	8,370	7,769	8,497	8,921	9,368	9,836	10,328	10,844
Other Expenses	4,340	5,196	5,239	4,851	5,094	5,348	5,616	5,896	6,191
Bad Debt	3,201	4,015	4,000	4,063	2,031	2,133	2,240	2,352	2,469
Base Expenses net of Surcharge	$285,308	$300,118	$309,287	$308,240	$329,832	$348,550	$368,338	$389,256	$411,370
Incremental Expenses	-	-	-	-	7,000	7,350	7,718	8,103	8,509
State Surcharge	14,492	14,731	14,212	11,000	15,425	15,734	16,048	16,369	16,697
Gross Operating Expenses	$299,800	$314,849	$323,499	$319,240	$352,257	$371,634	$392,104	$413,729	$436,576
Excluding Non-Cash Expenses (a)	-	-	(9,546)	(20,087)	(21,292)	(22,570)	(23,924)	(25,360)	(26,881)
Costs of Operation, Maintenance and Repair	$299,800	$314,849	$313,953	$299,153	$330,965	$349,064	$368,179	$388,369	$409,694
% Change of Gross Operating Expenses	3.9%	5.0%	2.7%	-1.3%	10.3%	5.5%	5.5%	5.5%	5.5%
By Cost Center									
Airfield				$ 73,660	$ 81,393	$ 85,857	$ 90,573	$ 95,554	$100,816
Terminal									
Honolulu International				87,827	98,065	103,382	108,996	114,923	121,181
Hilo International				5,039	5,411	5,711	6,028	6,363	6,718
Kona International				5,979	6,983	7,365	7,768	8,194	8,644
Kahului				8,704	9,358	9,875	10,420	10,997	11,606
Lihue				5,925	6,291	6,643	7,016	7,410	7,827
Other Cost Centers				112,019	123,465	130,231	137,378	144,927	152,902
Costs of Operation, Maintenance and Repair				$299,153	$330,965	$349,064	$368,179	$388,369	$409,694

Note: (a) The amendment to the Certificate to exclude non-cash expenses has been effective since FY 2020.
Sources: Historical and Estimated - Airports Division; Projection - ICF.

Exhibit F

Revenues and Aviation Fuel Taxes- Six-year Recovery Scenario
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 projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projections, and the variations could be material.

		Historical	Estimated	Projected					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenues and Aviation Fuel Taxes									
Airline Rates and Charges									
Signatory Airlines	$184,445	$185,749	$163,694	$163,263	$243,176	$278,337	$325,134	$327,408	$339,209
Non-signatory Airlines	7,554	8,212	5,946	4,744	6,767	7,874	9,065	9,648	10,253
Subtotal	$191,998	$193,961	$169,640	$168,007	$249,943	$286,211	$334,199	$337,056	$349,462
Concession Revenues (a)									
Duty Free	$ 40,000	$ 40,601	$ 35,625	$ 5,737	$ 12,830	$ 16,401	$ 20,418	$ 21,175	$ 21,927
Food and Beverage	11,132	11,430	10,112	4,501	7,988	10,224	11,537	12,207	12,923
Retail	17,231	17,176	12,405	6,918	12,110	15,441	17,095	17,851	18,631
Other Terminal Concessions	9,097	11,375	8,697	4,707	8,203	10,423	11,576	12,081	12,603
Parking	27,142	27,152	22,279	11,056	19,019	23,618	25,729	26,576	29,269
Rental Car	73,238	72,354	59,156	31,735	57,332	72,312	77,186	80,427	83,784
Ground Transportation	3,886	3,187	2,204	1,181	2,066	2,644	2,938	3,066	3,198
Subtotal	$181,726	$183,275	$150,478	$ 65,836	$119,547	$151,063	$166,478	$173,383	$182,336
Non-Terminal Rentals and Fees									
Signatory Airline Non-Terminal Rentals	$ 14,168	$ 14,919	$ 14,343	$ 14,486	$ 14,631	$ 14,778	$ 14,925	$ 15,075	$ 15,225
Non-signatory Airline Non-Terminal Rentals (b)	15,602	17,067	13,623	17,900	18,079	18,260	18,442	18,627	18,813
Nonaeronautical Rentals	20,063	22,169	23,101	21,000	21,710	22,427	22,651	22,878	23,107
Miscellaneous Operating Revenues	7,538	9,411	6,219	6,000	6,060	6,121	6,182	6,244	6,306
Subtotal	$ 57,371	$ 63,566	$ 57,287	$ 59,386	$ 60,480	$ 61,585	$ 62,201	$ 62,823	$ 63,451
Operating Revenues	$431,095	$440,802	$377,404	$293,229	$429,971	$498,859	$562,878	$573,262	$595,249
Federal Grant Reimbursements	2,875	1,616	2,000	2,000	2,000	2,000	2,000	2,000	2,000
CARES Act Grant Reimbursement	-	-	50,000	83,335	-	-	-	-	-
Interest Incomes									
Operating Funds and Reserves	9,664	19,443	14,110	4,000	4,254	4,484	4,411	4,361	4,311
Construction Fund	881	6,674	3,337	1,000	3,264	4,893	3,893	1,696	-
REVENUES AND AVIATION FUEL TAXES	$444,514	$468,534	$446,851	$383,564	$439,488	$510,235	$573,182	$581,319	$601,560
Signatory Airline Rates and Charges as % of Total	41.5%	39.6%	36.6%	42.6%	55.3%	54.6%	56.7%	56.3%	56.4%

Notes: (a) Assuming that concessionaires would pay percentage fee instead of minimum annual guarantee during the projection period.
(b) Decline in FY 2020 is due to a one time $4.2 million rental adjustment.

Sources: Historical and Estimated - Airports Division; Projection - ICF.

Exhibit G

Rate Covenant- Six-year Recovery Scenario
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 projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projections, and the variations could be material.

	Historical		Estimated	Projected					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Application of Revenues and Aviation Fuel Taxes									
Costs of Operation, Maintenance and Repair	$299,800	$314,849	$313,953	$299,153	$330,965	$349,064	$368,179	$388,369	$409,694
Annual Adjusted Debt Service Requirement									
Gross Debt Service	87,209	90,008	96,441	63,871	80,847	135,285	175,220	175,560	175,564
Available PFC Revenues	(886)	(8,717)	(18,114)	(16,083)	(13,984)	(19,492)	(20,268)	(22,902)	(22,903)
Deposit to Major Maintenance, Renewal and Replacement Acco	-	-	2,334	500	500	500	500	500	500
Reimbursement of General Fund of the State	-	-	-	-	-	-	-	-	-
Other Purposes									
Subordinate Obligations	14,655	15,243	19,341	20,666	21,735	22,547	23,857	25,558	25,581
Funds Remaining (a)	43,737	57,151	32,896	15,457	19,425	22,331	25,694	14,234	13,124
Application of Revenues and Aviation Fuel Taxes	$444,514	$468,534	$446,851	$383,564	$439,488	$510,235	$573,182	$581,319	$601,560
Debt Service Coverage									
Revenues and Aviation Fuel Taxes	$444,514	$468,534	$446,851	$383,564	$439,488	$510,235	$573,182	$581,319	$601,560
Costs of Operation, Maintenance and Repair	(299,800)	(314,849)	(313,953)	(299,153)	(330,965)	(349,064)	(368,179)	(388,369)	(409,694)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	-	-	(2,334)	(500)	(500)	(500)	(500)	(500)	(500)
Reimbursement of General Fund of the State	-	-	-	-	-	-	-	-	-
Net Revenues and Taxes	$144,715	$153,685	$130,564	$ 83,911	$108,023	$160,671	$204,503	$192,450	$191,366
Funded Coverage Account Balance (b)	21,802	26,780	27,598	27,598	27,598	33,821	43,805	43,890	43,891
Adjusted Net Revenues and Taxes	$166,517	$180,465	$158,162	$111,509	$135,621	$194,492	$248,308	$236,340	$235,257
Gross Debt Service	$ 87,209	$ 90,008	$ 96,441	$ 63,871	$ 80,847	$135,285	$175,220	$175,560	$175,564
Airline Prepaid Interests	-	-	-	-	-	-	-	-	-
Available PFC Revenues	(886)	(8,717)	(18,114)	(16,083)	(13,984)	(19,492)	(20,268)	(22,902)	(22,903)
Annual Adjusted Debt Service Requirement	$ 86,323	$ 81,291	$ 78,327	$ 47,788	$ 66,864	$115,793	$154,952	$152,658	$152,661
Debt Service Coverage (Must Be No Less Than 1.25)	1.93	2.22	2.02	2.33	2.03	1.68	1.60	1.55	1.54

Notes: (a) Funds remaining are used for other legal purposes, such as deposit to the Funded Coverage Account and the O&M reserve account.
(b) Indicates the amount of unencumbered funds certified by the Airports Division for the purpose of the Rate Covenant.

Sources: Historical and Estimated - Airports Division; Projection - ICF.

Exhibit H

Summary of Financial Projections- Six-year Recovery Scenario
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

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		Historical	Estimated	Projected					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
ENPLANED PASSENGERS	18,806	18,727	14,392	7,882	13,711	17,004	18,389	18,990	19,603
% Change vs. Prior Year	5.3%	-0.4%	-23.2%	-45.2%	74.0%	24.0%	8.1%	3.3%	3.2%
% Change vs. FY 2019			-23.2%	-57.9%	-26.8%	-9.2%	-1.8%	1.4%	4.7%
DEBT SERVICE COVERAGE CALCULATION									
Net Revenues and Taxes	$144,715	$153,685	$130,564	$ 83,911	$108,023	$160,671	$204,503	$192,450	$191,366
Funded Coverage Account Balance	21,802	26,780	27,598	27,598	27,598	33,821	43,805	43,890	43,891
Adjusted Net Revenues and Taxes	$166,517	$180,465	$158,162	$111,509	$135,621	$194,492	$248,308	$236,340	$235,257
Annual Adjusted Debt Service Requirement	86,323	81,291	78,327	47,788	66,864	115,793	154,952	152,658	152,661
Debt Service Coverage	1.93	2.22	2.02	2.33	2.03	1.68	1.60	1.55	1.54
PASSENGER AIRLINE PAYMENTS PER E.P. (CPE)	9.62	9.75	11.09	20.20	17.26	15.94	17.21	16.78	16.84
CONCESSION REVENUES									
Concession Revenues	$181,726	$183,275	$150,478	$ 65,836	$119,547	$151,063	$166,478	$173,383	$182,336
Concession Revenues per Enplaned Passenger	$ 9.66	$ 9.79	$ 10.46	$ 8.35	$ 8.72	$ 8.88	$ 9.05	$ 9.13	$ 9.30
Percentage Change	7.0%	1.3%	6.8%	-20.1%	4.4%	1.9%	1.9%	0.9%	1.9%

Sources: Historical and Estimated - Airports Division; Projection - ICF.

Exhibit I

Summary of Financial Projections - Eight-Year Recovery Scenario
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 projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projections, and the variations could be material.

		Historical	Estimated	Projected					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
ENPLANED PASSENGERS	18,806	18,727	14,392	6,243	12,445	16,485	17,054	17,638	18,234
% Change vs. Prior Year	5.3%	-0.4%	-23.2%	-56.6%	99.4%	32.5%	3.5%	3.4%	3.4%
% Change vs. FY 2019			-23.2%	-66.7%	-33.5%	-12.0%	-8.9%	-5.8%	-2.6%
DEBT SERVICE COVERAGE CALCULATION									
Net Revenues and Taxes	$144,715	$153,685	$130,564	$ 81,219	$ 99,494	$150,330	$167,345	$202,135	$192,830
Funded Coverage Account Balance	21,802	26,780	27,598	27,598	27,598	31,753	35,960	44,258	44,258
Adjusted Net Revenues and Taxes	$166,517	$180,465	$158,162	$108,816	$127,092	$182,083	$203,305	$246,393	$237,087
Annual Adjusted Debt Service Requirement	86,323	81,291	78,327	47,788	58,335	107,520	123,571	154,129	154,125
Debt Service Coverage	1.93	2.22	2.02	2.28	2.18	1.69	1.65	1.60	1.54
PASSENGER AIRLINE PAYMENTS PER E.P. (CPE)	9.62	9.75	11.09	27.48	19.53	16.43	17.64	19.77	19.35
CONCESSION REVENUES									
Concession Revenues	$181,726	$183,275	$150,478	$ 50,848	$105,009	$141,330	$146,503	$152,804	$161,035
Concession Revenues per Enplaned Passenger	$ 9.66	$ 9.79	$ 10.46	$ 8.15	$ 8.44	$ 8.57	$ 8.59	$ 8.66	$ 8.83
Percentage Change	7.0%	1.3%	6.8%	-22.1%	3.6%	1.6%	0.2%	0.8%	1.9%

Sources: Historical and Estimated - Airports Division; Projection - ICF.

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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

June 30, 2019

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

DEPARTMENT OF TRANSPORTATION, AIRPORTS DIVISION
STATE OF HAWAII

(An Enterprise Fund of the State of Hawaii)

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KPMG LLP
Suite 2100
1003 Bishop Street
Honolulu, HI 96813-6400

Independent Auditors' Report

The Auditor
State of Hawaii
Oahu, 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 year ended June 30, 2019, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the financial statements of the Airports Division present only the Airports Division enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits 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.

Supplementary 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 in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 19, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airports Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airports Division's internal control over financial reporting and compliance.

KPMG LLP

Honolulu, Hawaii
December 19, 2019

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 year ended June 30, 2019. 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. Daniel K. Inouye 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 nations 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 Ellison Onizuka 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 Ellison Onizuka 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. Ellison Onizuka Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Daniel K. Inouye International Airport accommodated 55.9% and 56.5% of total passenger traffic in the airports system during fiscal years 2019 and 2018, respectively. The other four principal airports accommodated 42.8% and 42.3% of the total passenger traffic for fiscal years 2019 and 2018, 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 Daniel K. Inouye International Airport on July 1, 1999. The other airports in the airports system accommodated 1.3% and 1.2% of the total passenger traffic for fiscal years 2019 and 2018, 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 revenue to fund operating expenses. The Capital Improvements Program is primarily funded by airports system revenue bonds and lease revenue certificates of participation issued by the Airports Division, federal grants, passenger facility charges (PFCs), customer facility charges (CFCs), and the Airports Division's revenues.

(Continued)

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 revenue is 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 Daniel K. Inouye, Kahului, Ellison Onizuka Kona, and Lihue. The program's remaining cost to be paid for planned projects is $1.885 billion 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.

Overview of the Financial Statements

The Airports Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenue is 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 revenue, 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 2019 with increases in revenue landed weights, revenue passenger landings and deplaning international passengers and a decrease in total passengers of 1.5%, 8.7%, 0.3%, and -0.3%, respectively, as compared to fiscal year 2018. Increasing passenger traffic, in addition to airline carriers maximizing passenger load factors, are the reasons for such changes. Although overseas carriers account for a higher percentage, 65.2%, of revenue landed weights, the overall carrier mix remains diverse.

The Daniel K. Inouye International Airport continues to be the dominant airport, although a portion of the market share shifted to the Kahului Airport, Ellison Onizuka Kona International Airport at Keahole, and Lihue Airport as a result of increased direct flights to such destinations. The majority of the operating revenue at the Airports Division is activity based and directly relates to the number of passengers and aircraft operations.

For fiscal year 2019, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 40.0% and 10.8% of the total landed weights, respectively. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 21.9%, 16.6%, and 9.1% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Aeko Kula, Inc. accounted for 73.8% and 9.3% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 23.3% and Japan Airlines International Company, Ltd. accounted for 18.5% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2019: Air Canada, Air China Ltd., Air Japan Co., Air New Zealand, Ltd., Air Pacific, Ltd., AirAsia X Berhad, Alaska Airlines, Inc., Allegiant Air, L.L.C., Asiana Airlines, Inc., All Nippon Airways Co., Ltd., American Airlines, Inc., China Airlines, Ltd., China Eastern, Inc., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Company, Ltd., Jetstar Airways PTY Ltd., Jin Air Co. Ltd., Korean Airlines Company, Ltd., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, Scoot Tigerair PTE, Ltd., Southwest Airlines Co., United Airlines, Inc., and WestJet. The principal airlines providing interisland passenger flight services are Hawaiian Airlines, Inc., and Mokulele Flight Service, Inc.

Activity for the airports system for the fiscal years ended June 30, 2019 and 2018 is as follows:

		2019	2018	Percentage increase (decrease) from 2018
Passengers (enplaning and deplaning passengers activity):				
Daniel K. Inouye International Airport	$	20,940,215	21,228,523	(1.36)%
Kahului Airport		7,620,203	7,323,708	4.05
Ellison Onizuka Kona International Airport at Keahole		3,799,383	3,849,771	(1.31)
Lihue Airport		3,381,564	3,334,620	1.41
Hilo International Airport		1,207,778	1,361,774	(11.31)
All others		491,856	459,010	7.16
Total passengers	$	37,440,999	37,557,406	(0.31)
Revenue landed weights (1,000-pound units):				
Daniel K. Inouye International Airport	$	16,783,072	16,840,546	(0.34)%
Kahului Airport		4,681,943	4,543,765	3.04
Ellison Onizuka Kona International Airport at Keahole		2,560,083	2,468,835	3.70
Lihue Airport		1,990,208	2,068,842	(3.80)
Hilo International Airport		856,693	909,422	(5.80)
All others		291,170	270,593	7.60
Total signatory airlines		27,163,169	27,102,003	0.23
Nonsignatory airlines		2,094,509	1,723,129	21.55
Total revenue landed weights	$	29,257,678	28,825,132	1.50

		2019	2018	Percentage increase (decrease) from 2018
Revenue passenger landings:				
Daniel K. Inouye International Airport	$	83,569	74,830	11.68 %
Kahului Airport		39,936	37,276	7.14
Ellison Onizuka Kona International Airport at Keahole		21,824	21,450	1.74
Lihue Airport		15,244	14,266	6.86
Hilo International Airport		7,756	6,632	16.95
All others		18,296	17,235	6.16
Total signatory airlines		186,625	171,689	8.70
Nonsignatory airlines		814	744	9.41
Total revenue passenger landings	$	187,439	172,433	8.70
Deplaning international passengers:				
Daniel K. Inouye International Airport	$	2,600,046	2,657,987	(2.18)%
Ellison Onizuka Kona International Airport at Keahole		87,223	83,857	4.01
Total signatory airlines		2,687,269	2,741,844	(1.99)
Nonsignatory airlines		157,492	93,667	68.14
Total deplaning international passengers	$	2,844,761	2,835,511	0.33

Financial Operations Highlights

Revenues

A summary of revenues for the years ended June 30, 2019 and 2018 and the amount and percentage of change in relation to prior year amounts is as follows:

	2019		2018		Increase (decrease) from 2018	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Operating revenues:						
Concession fees:						
Duty free	$ 40,601,148	6.3 %	40,000,000	6.4 %	601,148	1.5 %
Retail	12,228,442	1.9	12,443,765	2.0	(215,323)	(1.7)
Airport parking	27,151,837	4.2	27,141,722	4.3	10,115	—
Car rental	72,353,825	11.2	73,238,321	11.6	(884,496)	(1.2)
Food and beverage	11,429,500	1.8	11,132,007	1.8	297,493	2.7
Other concessions	19,510,085	3.0	17,769,969	2.8	1,740,116	9.8
Total concession fees	183,274,837		181,725,784		1,549,053	0.9
Airport landing fees, net	82,988,322	12.9	86,058,597	13.7	(3,070,275)	(3.6)
Aeronautical rentals:						
Nonexclusive joint-use premise charges	79,559,743	12.3	74,081,777	11.8	5,477,966	7.4
Exclusive-use premise charges	60,790,404	9.4	59,014,046	9.4	1,776,358	3.0
Nonaeronautical rentals	22,168,965	3.4	20,063,023	3.2	2,105,942	10.5
Other	12,019,328	1.9	10,151,638	1.6	1,867,690	18.4
Total operating revenues	440,801,599	68.3	431,094,865	68.5	9,706,734	2.3

	2019		2018		Increase (decrease) from 2018	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Nonoperating revenues:						
Interest income:						
Investments	25,608,210	4.0	9,920,878	1.6	15,687,332	158.1
Direct financing leases	1,222,031	0.2	1,222,031	0.2	—	—
Other loans and investment	508,362	0.1	623,841	0.1	(115,479)	(18.5)
Federal operating grants	1,616,030	0.3	2,874,684	0.5	(1,258,654)	(43.8)
Passenger facility charges	49,126,913	7.6	44,879,512	7.1	4,247,401	9.5
Rental car customer facility charges	76,523,216	11.9	76,486,961	12.2	36,255	—
Gain on disposal of capital assets	—	—	35,889,307	5.7	(35,889,307)	(100.0)
Total nonoperating revenues	154,604,762	23.9	171,897,214	27.3	(17,292,452)	(10.1)
Capital contributions:						
State capital contributions	—	—	3,962,965	0.6	(3,962,965)	(100.0)
Federal capital grants	50,126,892	7.8	22,301,592	3.5	27,825,300	124.8
Total capital contributions	50,126,892	7.8	26,264,557	4.2	23,862,335	90.9
Total revenues	$ 645,533,253	100.0 %	629,256,636	100.0 %	16,276,617	2.6

	2019 Concession fees						
	Duty Free	Retail	Airport parking	Car rental	Food and beverage	Other concessions	Total
Daniel K. Inouye International Airport	$ 40,601,148	11,903,534	17,788,362	18,275,942	7,137,706	11,300,542	107,007,234
Hilo International Airport	—	—	1,076,171	2,093,530	89,511	96,954	3,356,166
Ellison Onizuka Kona International Airport at Keahole	—	—	2,396,547	13,087,223	782,324	2,066,294	18,332,388
Kahului Airport	—	324,908	4,061,446	25,830,182	2,502,647	4,861,385	37,580,568
Lihue Airport	—	—	1,829,311	12,793,833	899,968	1,116,994	16,640,106
Statewide	—	—	—	—	—	36,918	36,918
All others	—	—	—	273,115	17,344	30,998	321,457
Total concession fees	$ 40,601,148	12,228,442	27,151,837	72,353,825	11,429,500	19,510,085	183,274,837

	2018						
	Concession fees						
	Duty Free	Retail	Airport parking	Car rental	Food and beverage	Other concessions	Total
Daniel K. Inouye International Airport	$ 40,000,000	12,118,857	18,150,825	17,139,714	7,094,447	10,394,828	104,898,671
Hilo International Airport	—	—	1,070,396	2,631,045	97,061	173,288	3,971,790
Ellison Onizuka Kona International Airport at Keahole	—	—	2,098,182	14,391,038	778,676	1,646,585	18,914,481
Kahului Airport	—	324,908	4,096,146	25,077,766	2,241,596	4,395,821	36,136,237
Lihue Airport	—	—	1,726,173	13,732,050	899,961	1,130,595	17,488,779
Statewide	—	—	—	—	—	—	—
All others	—	—	—	266,708	20,266	28,852	315,826
Total concession fees	$ 40,000,000	12,443,765	27,141,722	73,238,321	11,132,007	17,769,969	181,725,784

2019/2018

The financial results for fiscal years 2019 and 2018 reflected income before capital contributions of $122.1 million and $172.4 million, respectively. Operating revenues increased by $9.7 million, or 2.3%, resulting from increased revenue from nonaeronautical rentals, aeronautical rentals, and concessions revenue. Total nonoperating revenues decreased by $17.3 million, or 10.1%, mainly due to decreases in a gain on disposal of capital assets and federal operating grants offset by increases in investment income and passenger facility charges.

Expenses

A summary of expenses for the years ended June 30, 2019 and 2018 and the amount and percentage of change in relation to prior year amounts is as follows:

	2019		2018		Increase (decrease) from 2018	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Operating expenses:						
Salaries and wages	$ 116,992,509	24.7 %	$ 110,195,913	25.6 %	$ 6,796,596	6.2 %
Other personnel services	82,616,141	17.5	73,609,849	17.1	9,006,292	12.2
Utilities	37,995,358	8.0	34,557,844	8.0	3,437,514	9.9
Repairs and maintenance	34,699,525	7.3	34,317,502	8.0	382,023	1.1
State of Hawaii surcharge on gross receipts	14,731,128	3.1	14,491,771	— 3.4	239,357	1.7
Special maintenance	5,762,874	1.2	10,144,656	2.4	(4,381,782)	(43.2)
Department of transportation general administration expenses	8,370,126	1.8	8,443,946	— 2.0	(73,820)	(0.9)
Materials and supplies	6,526,776	1.4	6,497,325	1.5	29,451	0.5
Insurance	2,190,468	0.5	2,203,054	0.5	(12,586)	(0.6)
Bad debt expense	4,015,215	0.8	3,201,087	0.7	814,128	25.4
Other	3,005,299	0.6	2,136,396	0.5	868,903	40.7
Total operating expenses before depreciation	316,905,419	67.0	299,799,343	69.6	17,106,076	5.7
Depreciation	121,992,342	25.8	113,697,902	26.4	8,294,440	7.3
Total operating expenses	438,897,761	92.7	413,497,245	96.0	$ 25,400,516	6.1

	2019		2018		Increase (decrease) from 2018	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Nonoperating expenses:						
Interest expense:						
Revenue bonds:						
Airports system	21,149,068	4.5 %	4,840,581	1.1 %	16,308,487	336.9 %
Special facility	1,222,031	0.3	1,222,031	0.3	—	—
Lease revenue certificates of participation	6,911,833	1.5	9,228,507	2.1	(2,316,674)	(25.1)
Other	1,140,000	0.2	1,094,661	0.3	45,339	4.1
Loss on disposal of capital assets	1,665,588	0.4	—	—	1,665,588	100.0
Bond issue costs	2,313,360	0.5	2,075,614	0.5	237,746	11.5
Other	35,791	—	(1,328,108)	(0.3)	1,363,899	(102.7)
Total nonoperating expenses	34,437,671	7.3	17,133,286	4.0	17,304,385	101.0
Total expenses	$ 473,335,432	100.0	$ 430,630,531	100.0	$ 42,704,901	9.9

2019/2018

Operating expenses before depreciation for fiscal year 2019 increased by 5.7%, or $17.1 million, as compared to fiscal year 2018 mainly due to increases in salaries and wages, other personnel services, utilities, and other expenses offset by a decrease in special maintenance expenses.

Total nonoperating expenses for fiscal year 2019 increased by 101.0%, or $17.3 million, as compared to fiscal year 2018 mainly due to increases in interest expense on Airports System Revenue Bonds, loss on disposal of capital assets and other expense offset by a decrease in interest expense on Lease Revenue Certificates of Participation.

As a result, net assets increased by $172.2 million and $198.6 million for fiscal years 2019 and 2018, respectively.

A summary of revenues, expenses and changes in net position for the years ended June 30, 2019 and 2018 follows:

		2019	2018
Operating revenues	$	440,801,599	431,094,865
Operating expenses, excluding depreciation		(316,905,419)	(299,799,343)
Operating income before depreciation		123,896,180	131,295,522
Depreciation		(121,992,342)	(113,697,902)
Operating income		1,903,838	17,597,620
Nonoperating revenues – net		120,167,091	154,763,928
Income before capital contributions		122,070,929	172,361,548
Capital contributions		50,126,892	26,264,557
Increase in net position	$	172,197,821	198,626,105

2019/2018

As a result of the above fluctuations in revenues and expenses, net position for the Airports Division increased $172.2 million during 2019.

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 revenue 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.

- Operating revenues increased by 2.3%, or $9.7 million, due to a $1.5 million increase in concessions revenue, $7.3 million increase in aeronautical revenue, $2.1 million increase in nonaeronautical revenue, and $1.9 million increase in other revenue offset by $3.1 million decrease in airport landing fees. The increases in operating revenues are due to an overall increase in the various airport rental rates.
- Operating expenses excluding depreciation increased by 5.7% or $17.1 million from $299.8 million in fiscal year 2018 to $316.9 million in fiscal year 2019. The increase in operating expenses is primarily due to increases in salaries and wages of $6.8 million due to pay increases from fiscal year 2018, other personnel services of $9.0 million due to an increase in third party security services in fiscal year 2019, utilities of $3.4 million, and claims of $1.7 million, offset by a decrease in special maintenance of $4.4 million. Depreciation expense increased by 7.3% or $8.3 million, due to capital asset additions in fiscal year 2019.
- The net results of the above resulted in operating income before depreciation of $123.9 million and $131.3 million in fiscal years 2019 and 2018, respectively. Operating income before depreciation for fiscal year 2019 decreased by 5.6%, or $7.4 million.

- Nonoperating revenues, net, decreased by 22.4%, or $34.6 million, in fiscal year 2019, primarily due to a decrease in gain on disposal of capital assets of $35.9 million and an increase in interest expense for airports system revenue bonds of $16.3 million due to the issuance of bonds in fiscal year 2019 offset by increases in interest income of $15.6 million due to increases in average daily cash balances and interest rates in fiscal year 2019 and passenger facility charges of $4.2 million. Increase of passenger facility charges of $4.2 million were caused by an increase in interest earned on passenger facility charges in fiscal year 2019.
- Income before capital contributions for fiscal year 2019 of $122.1 million as compared to $172.4 million for fiscal year 2018 was a result of a decrease in nonoperating revenue, net, and an increase in operating expenses as noted above.
- Capital contributions increased by 90.9%, or $23.9 million, in fiscal year 2019, due to an increase in federal capital grant revenue of $27.8 million in fiscal year 2019.

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 and deferred inflows of resources by $2,589.3 million at June 30, 2019, representing an increase of $172.2 million from June 30, 2018.

Passenger Facility Charges

The Passenger Facility Charge (PFC) program consists of six Federal Aviation Administration (FAA) approved applications. All projects in PFC Application No. 1 have been completed and the application was closed on February 24, 2014. PFC Application No. 3 was "blended" with PFC Application No. 2. PFC Application No. 3 was closed on September 23, 2016. The PFC collection for PFC Application No. 4 was completed on February 1, 2014. However, three projects in PFC Application No. 4 are still ongoing and therefore, this application remains open. On November 22, 2013, the FAA issued the Final Agency Decision (FAD) for PFC Application No. 5 giving approval for PFC collection during the period from February 1, 2014 through July 1, 2026. On August 30, 2016, the FAA issued the FAD for PFC Application No. 6 giving approval to use PFC revenue in the amount of $14,725,000 for the Kahului Airport (OGG) Land Acquisition project approved in PFC Application No. 5 for collection only. The OGG Land Acquisition project was completed on August 31, 2012. On September 28, 2018, the FAA issued the FAD for PFC Application No. 7 giving approval for PFC collection during the period July 1, 2026 to July 1, 2032. On May 10, 2019, the FAA approved an amendment to PFC Application No. 5 to remove two projects and reduce the PFC collection and revise the PFC collection period from February 1, 2014 through January 1, 2020. As a result, the PFC collection period for PFC Application No. 7 was modified to a period from January 1, 2020 through July 1, 2025.

Since the inception of the PFC program through June 30, 2019, the FAA has approved PFC collections for impose and use totaling $688.3 million with collections currently scheduled through 2025. The total PFC collected amount through June 30, 2019, including interest earned, and expenditures were $482.2 million and $294.3 million, respectively.

The Airports Division submitted a new PFC application to the FAA in April 2019. The new PFC application proposes PFC collections for impose and use for three projects totaling an estimated amount of $186.4 million. The FAD for this new PFC application is anticipated in September 2019.

 (Continued)

Rental Car Customer Facility Charges

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 Customer Facility Charge (CFC) 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 204, Session Laws of Hawaii 2010, authorizing the Airports Division to increase the CFC surcharge to $4.50 per day, effective September 1, 2010.

A summary of rental car customer facility charges for the years ended June 30, 2019 and 2018 is as follows:

		2019	2018
Rental car customer facility charges:			
Daniel K. Inouye International	$	21,656,592	20,806,461
Hilo International		1,806,512	2,085,156
Ellison Onizuka Kona International at Keahole		12,049,965	12,745,692
Kahului		24,206,886	24,145,601
Lihue		12,486,069	12,597,309
All others		172,516	174,595
Rental car customer facility charges		72,378,540	72,554,814
Interest income		4,144,676	3,932,147
Total rental car customer facility charges income	$	76,523,216	76,486,961

Since September 1, 2009 through June 30, 2019, the total CFC-related revenue, including interest earned, and CFC-related expenditures were $534.9 million and $658.6 million, respectively.

Financial Position Summary

A condensed summary of the Airports Division's net position at June 30, 2019 and 2018 is shown below:

	2019	2018
Assets and Deferred Outflows of Resources		
Current assets:		
Unrestricted assets	$ 577,313,945	661,512,001
Restricted assets	258,320,410	155,592,688
Noncurrent assets:		
Capital assets	3,434,732,825	3,050,341,216
Restricted assets	825,571,313	680,162,381
Total assets	5,095,938,493	4,547,608,286
Deferred outflows of resources	53,817,709	55,797,260
Total assets and deferred outflows of resources	$ 5,149,756,202	4,603,405,546
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Payable from unrestricted assets	$ 72,032,586	55,674,775
Payable from restricted assets	277,350,376	237,952,536
Noncurrent liabilities:		
Payable from unrestricted assets	359,630,623	355,131,728
Payable from restricted assets	1,844,486,869	1,534,489,145
Total liabilities	2,553,500,454	2,183,248,184
Deferred inflows of resources	6,933,516	3,032,951
Total liabilities and deferred inflows of resources	$ 2,560,433,970	2,186,281,135
Net Position		
Net investment in capital assets	$ 1,791,655,568	1,601,470,760
Restricted	658,048,725	521,392,392
Unrestricted	139,617,939	294,261,259
Total net position	$ 2,589,322,232	2,417,124,411

The largest portion of the Airports Division's net position (69.2% and 66.3% at June 30, 2019 and 2018, respectively) represents its investment 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 (25.4% and 21.6% at June 30, 2019 and 2018, 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 and CFCs 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 $503.3 million and $584.8 million at June 30, 2019 and 2018, respectively. The unrestricted cash balance provides the Airports Division with substantial flexibility, as such unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects.

Capital Acquisitions and Construction Activities

As of June 30, 2019 and 2018 the Airports Division had capital assets of approximately $3,434.7 million and $3,050.3 million, respectively. These amounts are net of accumulated depreciation of approximately $2,432.6 million and $2,310.6 million, respectively.

In fiscal year 2019, there were 8 construction bid openings totaling an estimated $34 million in potential construction contracts. Major projects include Ewa Concourse Reroofing at Daniel K. Inouye International Airport, Taxiway A-C Intersection Reconstruction at Kahului Airport, South Ramp Taxiway and Ramp Improvements at Ellison Onizuka Kona International Airport at Keahole, Restroom Improvements at Hilo International Airport, and Reconstruct Runway 3-21 at Lanai Airport.

There were also many ongoing construction projects that were initiated prior to fiscal year 2019, which were under construction during the fiscal year. Major projects include Runway 8L Widening and Miscellaneous Improvements, Consolidated Car Rental Facility, and Mauka Extension at Daniel K. Inouye International Airport, Roadway Improvements and Consolidated Car Rental Facility at Kahului Airport, Terminal Modernization at Ellison Onizuka Kona International Airport at Keahole, and Runway 3-21 and Taxiway B Rehabilitation at Lihue Airport.

Finally, there were 13 projects that were substantially completed in fiscal year 2019 that involved planning, design, and construction projects at large, medium, and small hub airports statewide to preserve, maintain, and modernize facilities. These projects include Diamond Head Concourse Reroofing, Diamond Head Concourse Improvements, Terminal Improvements to Shuttle Stations at Gates 6-62, Overseas Terminal Metal Roof Replacement, and Interisland Terminal Roadway and Miscellaneous Improvements at Daniel K. Inouye International Airport, Roadway Improvements and Consolidated Car Rental Facility at Kahului Airport, Aircraft Rescue and Fire Fighting (ARFF) Regional Training Facility National Environmental Policy Act at Ellison Onizuka Kona International Airport at Keahole, Construct T-Hangars Phase III, and New T-Hangars and Infrastructure Improvements, Phase II at Kalaeloa Airport.

The Airports Division continues its mission to modernize airport facilities to provide safety and efficiency to airport tenants and enhance the passenger experience. In fiscal year 2020 several projects will be advertised for construction that improve safety as well as pedestrian traffic flow, and promote efficiency for airport tenants and operations. Major projects include Runway 8L Widening Phase II, Ticket Lobby Renovations, and Restroom Improvements at the Overseas Terminal at Daniel K. Inouye International Airport, ARFF Regional Training Facility, and USDA Inspection Building at Ellison Onizuka Kona International Airport at Keahole, and Inbound Baggage Handling System Improvements at Kahului Airport.

Additional information on the Airports Division's capital assets can be found in note 4 of this report.

Indebtedness

Airports System Revenue Bonds

As of June 30, 2019, $1,425.0 million of airports system revenue bonds were outstanding as compared to $1,002.2 million as of June 30, 2018.

At June 30, 2019, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,135.8 million.

Lease Revenue Certificates of Participation

Section 36-41 of Hawaii Revised Statutes authorizes the DOT to enter into multiyear energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in state facilities. The Airports Division 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 Airports Division 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 Airports Division is using the net proceeds of COPs, totaling $150.2 million, to implement the ESCO Project. 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.

On April 13, 2016, the Airports Division issued Series 2016 Lease Revenue Certificates of Participation financing which provided an additional $8.1 million for the ESCO Project.

On March 31, 2017, the Airports Division issued Series 2017 Lease Revenue Certificates of Participation to provide an additional $51.5 million for the ESCO Project.

As of June 30, 2019, $210.7 million of COPs were outstanding as compared to $218.7 million as of June 30, 2018.

Special Facility Revenue Bonds

The State Legislature has authorized $200,000,000 of special facility revenue bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2019, there were outstanding bond obligations of $21.7 million. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special facility revenue bonds are payable solely from the revenue derived from the leasing of special facilities financed with the proceeds of special facility revenue bonds.

Immigration Investor Program (EB-5)

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 $76,000,000. 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 CFCs being the primary component. The EB-5 loan is not payable from revenue 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. At June 30, 2019, the outstanding balance on the loan facility amounted to $76.0 million.

Additional information regarding the Airports Division's indebtedness can be found in notes 5, 6, 7, and 8 of this report.

Customer Facility Charge Revenue Bonds

In July 2017, the Department of Transportation issued Airports System Customer Facility Revenue Bonds, Series 2017A (the 2017 CFC Bonds) with a par amount of $249,805,000 to provide $250 million of construction funds for certain rental car related projects at Hawaii Airports System. The 2017 CFC Bonds are special facility bonds issued pursuant to the Indenture of Trust between the State and MUFG Union Bank, N.A., on parity with the EB-5 loan. The 2017 CFC Bonds are payable solely from and secured solely by the receipts from the collection of the Rental Motor Vehicle Customer Facility Charge fees pursuant to Section 261-5.6 Hawaii Revised Statutes and other payments specified in the Car Rental Facilities Concession Agreement and Facility Leases. The 2017 CFC Bonds and any other bonds to be issued under the Indenture of Trust are not payable from airport revenues and aviation fuel taxes. At June 30, 2019, $244.8 million of customer facility charge revenue bonds were outstanding as compared to $249.8 million as of June 30, 2018.

Credit Rating and Bond Insurance

As of June 30, 2019, there were seven series of airports system revenue bonds outstanding in the principal amount of $1,349.8 million. 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	AA-
Moody's Investors Service	A1
Fitch IBCA, Inc.	A+

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)

Statement of Net Position

June 30, 2019

Assets

Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted	$	503,262,584
Receivables:		
Accounts, net of allowance of $8,658,740 for uncollectible accounts		32,810,366
Interest		24,529,016
Claims – federal grants		12,968,389
Due from state of Hawaii agencies		3,296,059
Aviation fuel tax		238,673
Total receivables		73,842,503
Inventories of materials and supplies at cost		208,858
Total unrestricted current assets		577,313,945
Restricted assets:		
Cash and cash equivalents:		
Revenue bond debt service		76,319,825
Debt extinguishment		16,547,597
Security deposits		10,598,910
Prepaid airport use charge fund		194,209
Operations and maintenance		98,479,139
Funded coverage		27,079,783
Funds restricted for construction		1,462,965
Total cash and cash equivalents – restricted		230,682,428
Investments – customer facility charge debt service reserve		9,669,168
Passenger facility charges receivable		10,971,866
Rental car customer facility charges receivable		6,996,948
Total restricted current assets		258,320,410
Total current assets	$	835,634,355

(Continued)

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

Statement of Net Position

June 30, 2019

Noncurrent assets:	
Unrestricted assets:	
Capital assets, net of accumulated depreciation of $2,432,596,660	$ 3,434,732,825
Total unrestricted noncurrent assets	3,434,732,825
Restricted assets:	
Cash and cash equivalents:	
Major maintenance, renewal, and replacement account	60,000,000
Passenger facility charges	176,876,998
Rental car customer facility charges	915,830
Unspent loan proceeds	2,124,613
Bond construction proceeds	281,984,600
Total cash and cash equivalents – restricted	521,902,041
Investments – revenue bond debt service reserve	102,470,832
Investments – held by certificate of participation funds trustee	16,774,000
Investments – certificate of participation debt service reserve held by trustee	3,825,720
Investments – certificate of participation debt extinguishment held by trustee	36,962
Investments – customer facility charge debt service reserve	18,779,718
Investments – held by customer facility charge trustee	112,097,826
Investments – unspent customer facility charge bond proceeds	27,806,460
Net investments in direct financing leases	21,877,754
Total restricted noncurrent assets	825,571,313
Total noncurrent assets	4,260,304,138
Total assets	$ 5,095,938,493

Deferred Outflows of Resources

Deferred loss on refunding	$ 844,563
Differences between expected and actual experience – pension	3,044,887
Changes of assumptions – pension	17,270,218
Changes in proportion and differences between Airports Division contributions and proportionate share of contributions – pension	511,600
Airports Division contributions subsequent to the measurement date – pension	14,425,204
Changes of assumptions – OPEB	1,986,266
Airports Division contributions subsequent to the measurement date – OPEB	15,734,971
Total deferred outflows of resources	$ 53,817,709

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

Statement of Net Position

June 30, 2019

Liabilities

Current liabilities:	
Payable from unrestricted assets:	
Vouchers payable	$ 15,601,711
Contracts payable, including retainage of $5,047,731	29,713,957
Current portion of workers' compensation	1,656,099
Current portion of compensated absences	3,924,731
Accrued wages	9,713,367
Other	11,422,721
Total payable from unrestricted assets	72,032,586
Payable from restricted assets:	
Contracts payable, including retainage of $29,243,038	89,499,855
Current portion of airports system revenue bonds	42,585,000
Accrued interest	43,245,651
Current portion of lease revenue certificates of participation	10,300,960
Current portion of customer facility charge revenue bonds	5,120,000
Loan payable	76,000,000
Security deposits	10,598,910
Total payable from restricted assets	277,350,376
Total current liabilities	349,382,962
Long-term liabilities – net of current portion:	
Payable from unrestricted assets:	
Workers' compensation	2,605,433
Compensated absences	8,642,497
Net other postemployment benefit (OPEB) liability	180,773,598
Net pension liability	167,609,095
Total payable from unrestricted assets	359,630,623
Payable from restricted assets:	
Airports system revenue bonds	1,382,412,502
Special facility revenue bonds	21,725,000
Lease revenue certificates of participation	200,382,433
Customer facility charge revenue bonds	239,655,000
Prepaid airport use charge fund	311,934
Total payable from restricted assets	1,844,486,869
Total long-term liabilities – net of current portion	2,204,117,492
Total liabilities	$ 2,553,500,454

(Continued)

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

Statement of Net Position

June 30, 2019

Deferred Inflows of Resources

Differences between expected and actual experience – pension	$	931,142
Changes in proportion – pension		1,356,345
Net difference between projected and actual earnings on pension plan investments – pension		1,122,781
Differences between expected and actual experience – OPEB		3,281,834
Differences between projected and actual earnings on OPEB plan investments		241,414
Total deferred inflows of resources	$	6,933,516

Net Position

Net investment in capital assets	$	1,791,655,568
Restricted for:		
Revenue debt service payment		47,705,000
Revenue debt service reserve account		102,470,832
Revenue debt extinguishment		16,547,597
Certificate of participation debt service reserve account		16,360,814
Certificate of participation debt extinguishment		36,962
Funded coverage		27,079,783
Operations and maintenance		98,479,139
Major maintenance, renewal, and replacement		60,000,000
Construction to be funded by PFCs		187,197,706
Construction to be funded by CFCs		102,170,892
Total restricted		658,048,725
Unrestricted		139,617,939
Total net position	$	2,589,322,232

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2019

Operating revenues:	
Concession fees	$ 183,274,837
Airport landing fees, net	82,988,322
Aeronautical rentals:	
Nonexclusive joint-use premise charges	79,559,743
Exclusive-use premise charges	60,790,404
Nonaeronautical rentals	22,168,965
Aviation fuel tax	2,608,327
Miscellaneous	9,411,001
Operating revenues	440,801,599
Operating expenses:	
Salaries, wages and benefits	116,992,509
Depreciation	121,992,342
Other personnel services	82,616,141
Utilities	37,995,358
Repairs and maintenance	34,699,525
State of Hawaii surcharge on gross receipts	14,731,128
Special maintenance	5,762,874
Materials and supplies	6,526,776
Department of Transportation general administration expenses	8,370,126
Claims	1,744,507
Insurance	2,190,468
Bad debt expense	4,015,215
Miscellaneous	1,260,792
Total operating expenses	438,897,761
Operating income	1,903,838

(Continued)

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

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2019

Nonoperating revenues (expenses):	
Interest income	$ 26,116,572
Investments in direct financing leases	1,222,031
Interest expense:	
Revenue bonds:	
Airports system	(21,149,068)
Special facility	(1,222,031)
Lease revenue certificates of participation	(6,911,833)
Other	(1,140,000)
Federal operating grants	1,616,030
Passenger facility charges	49,126,913
Rental car customer facility charges	76,523,216
Bond issue costs	(2,313,360)
Loss on disposal of capital assets	(1,665,588)
Other	(35,791)
Total nonoperating revenues, net	120,167,091
Income before capital contributions	122,070,929
Capital contributions:	
Federal capital grants	50,126,892
Total capital contributions	50,126,892
Increase in net position	172,197,821
Total net position, beginning of year	2,417,124,411
Total net position, end of year	$ 2,589,322,232

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2019

Cash flows from operating activities:	
Cash received from providing services	$ 420,876,275
Cash paid to suppliers	(173,986,316)
Cash paid to employees	(106,258,664)
Net cash provided by operating activities	140,631,295
Cash flows from noncapital financing activity:	
Proceeds from federal operating grants	5,361,392
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(493,664,680)
Proceeds from federal and other capital grants and contributions	43,503,091
Proceeds from airports system revenue bonds	467,361,885
Principal paid on airports system revenue bonds	(40,755,000)
Bond issue costs paid	(2,313,360)
Principal paid on lease revenue certificates of participation	(7,330,905)
Interest paid on outstanding debt	(74,770,457)
Proceeds from passenger facility charges program	45,489,627
Proceeds from rental car customer facility charges	76,391,848
Principal paid on customer facility charge revenue bonds	(5,030,000)
Disbursements – other	(35,791)
Net cash provided by capital and related financing activities	8,846,258
Cash flows from investing activities:	
Proceeds from sale and maturities of investments	212,674,616
Interest received on investments	7,995,004
Purchases of investments	(204,941,434)
Net cash provided by investing activities	15,728,186
Net increase in cash and cash equivalents	170,567,131
Cash and cash equivalents, beginning of year	1,085,279,922
Cash and cash equivalents, end of year (note 3)	$ 1,255,847,053

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

Statement of Cash Flows

Year ended June 30, 2019

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,903,838
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		121,992,342
Bad debt expense		4,015,215
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund		117,725
Transfer out of prepaid airport use charge fund		(19,000,000)
Changes in operating assets and liabilities:		
Accounts receivable		(6,503,971)
Aviation fuel tax receivable		(3,418)
Due from State of Hawaii		26,161,945
Inventory		(5,759)
Deferred outflows of resources – pensions		6,294,578
Deferred outflows of resources – OPEB		(4,924,166)
Vouchers payable		3,516,945
Contracts payable		(3,746,537)
Accrued wages		1,247,735
Compensated absences		487,786
Net other postemployment benefit (OPEB) liability		1,778,371
Net pension liability		1,948,976
Security deposits		1,339,698
Other current liabilities		109,427
Deferred inflows of resources – pensions		617,030
Deferred inflows of resources – OPEB		3,283,535
Net cash provided by operating activities	$	140,631,295
Supplemental information:		
Noncash investing, capital and financing activities:		
The Airports Divisions noncash capital and financing activities related to bonds payable included the following:		
Interest payments on special facility revenue bonds by trustee	$	1,222,031
Amortization of revenue bond premium		(3,788,243)
Amortization of revenue bond discount		1,145
Amortization of certificates of participation premium		(688,828)
Amortization of deferred loss on refunding revenue bonds		609,139
Contract payable included for acquisition of capital assets		105,767,283
Interest capitalized in capital assets		50,970,861
Net book value of capital assets written off		1,665,588

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, the changes in its financial position or, where applicable, its cash flows in conformity with U.S. generally accepted accounting principles.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

An enterprise fund is established to account for an activity that is financed with debt secured solely by a pledge of net revenues from fees and charges of the activity or when laws and regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges rather than with taxes or similar revenues. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). As an enterprise fund, the Airport uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as incurred (flow of economic resources measurement focus).

(b) Use of Estimates

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

(c) 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.

(d) 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, 2019 was as follows: current – $33,613,314; 30 days – $(193,079); 60 days – $39,134; and over 90 days – $8,009,737.

(e) Restricted Assets

Restricted assets consist of moneys and other resources, the use of which is limited because of an externally enforceable constraint. 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, security deposits, customer advances, and the prepaid airport use charge fund.

When both restricted and unrestricted resources are available for use, it is the policy of the Airports Division to use restricted resources first and then unrestricted resources as they are needed.

(f) Capital Assets

Capital assets acquired by purchase or construction are recorded at cost. Contributed property is recorded at acquisition value as of the date of contribution. Buildings, improvements, and machinery 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. The following is a summary of interest costs incurred for the year ended June 30, 2019 and the allocation thereof:

Expensed as incurred, excluding special facility interest	$	29,200,901
Capitalized in capital assets		50,970,861
	$	80,171,762

(g) Investments

Investments held outside of the State Treasury pool consist of certificates of deposit, U.S. Treasury bills and repurchase agreements. The certificates of deposit and repurchase agreements are reported at amortized cost due to the nonparticipating nature of these securities. U.S. Treasury bills are measured at fair value within the fair value hierarchy established by generally accepted accounting principles and are based on quoted prices or other observable inputs, including pricing matrices.

(h) Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources is a consumption of net position by the Airports Division that is applicable to a future reporting period, while deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources consist of deferred losses on refunding and items related to pension items and OPEB items. Deferred inflows of resources consist of items related to the pension items and OPEB items.

(i) Deferred Loss on Refundings

Deferred loss on refundings are amortized using the effective-interest method over the shorter of the remaining term of the original or refunded debt. The deferred loss on refundings are reflected in the deferred outflows of resources on the statements of net position.

(j) Compensated Absences Payable

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 the vesting method provided under 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.

(k) Employees Retirement System

The Airports Division 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 policy is to fund its required contribution annually.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Pension investments are reported at their fair value.

(l) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at their fair value.

(m) Bond Original Issue Discount or Premium

Original issue discounts or premiums are amortized using the effective-interest method over the terms of the respective debt issues and are added to, or offset against, the long-term debt in the statements of net position.

(n) Bond Issue Costs

Bond issue costs, with the exception of bond insurance, are recognized as outflows of resources (expense) in the period when the debt is issued. Bond insurance is capitalized and amortized over the lives of the related debt issues using the effective-interest method.

(o) Operating Revenues and Expenses

Revenue from airlines, concessions, rental cars (excluding customer facility charges), and parking are reported as operating revenue. Transactions that are capital, financing, or investing related are reported as nonoperating revenue. All expenses related to operating the Airports Division are reported as operating expenses. Generally, interest expense and financing costs are reported as nonoperating expenses. Revenue from capital contributions are reported separately, after nonoperating revenues and expenses.

(p) Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $4.50 per passenger effective September 1, 2010. 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 revenue, expenses, and changes in net position.

(q) 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 revenue, expenses and changes in net position.

(r) Capital Contributions

The Airports Division receives federal grants from the FAA and other federal agencies. Grant revenue 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 revenue, expenses and changes in net position as capital contributions.

Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

(s) 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 later in these notes. 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.

(t) Recently Issued Accounting Standards

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Airports Division has not yet determined the effect this Statement will have on its financial statements.

During fiscal year 2019, the Airports Division implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The applicable disclosures related to this Statement are included in the respective notes for debt.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement replaces paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Airports Division has not yet determined the effect this Statement will have on its financial statements.

(3) Cash and Cash Equivalents and Investments

The State has an established policy whereby all unrestricted and certain restricted cash is required to be invested in the State's Treasury (the investment pool) in accordance with Section 36-21, of the Hawaii Revised Statutes.

The State Director of Finance (the State Director) is responsible for the safekeeping of all moneys paid into the investment pool. The State Director may invest any moneys of the State, which, in the State 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.

The State's investment pool as of June 30, 2018 is summarized in the tables below as the State's June 30, 2019 financial statements have not yet been issued (amounts in thousands):

	June 30, 2018			
			Maturity (in years)	
	Fair value	Less than 1	1-5	>5
Investments – primary government				
Certificates of deposits	$ 1,250,211	1,184,854	65,357	—
U.S. government securities	2,538,307	808,923	1,729,384	—
	3,788,518	$ 1,993,777	1,794,741	—
Mutual funds	55,808			
Total investments	$ 3,844,326			

	June 30, 2018			
			Maturity (in years)	
	Fair value	**Less than 1**	**1-5**	**>5**
Investments – fiduciary funds:				
Certificates of deposits	$ 86,278	81,768	4,510	—
U.S. government securities	349,861	55,827	294,034	—
Derivatives	(194)	—	(194)	—
	435,945	$ 137,595	298,350	—
Equity securities	480,095			
Mutual funds	134,957			
Commingled funds	1,270,128			
Alternative investments	279,812			
Total investments	$ 2,600,937			

Information relating to the State's investment pool at June 30, 2019 will be included in the comprehensive annual financial report of the State when issued.

At June 30, 2019, 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 $1,424,195,690.

Airports Division's cash and cash equivalents and investments as of June 30, 2019 consisted of the following:

Petty cash	$ 4,765
Amounts held in State Treasury	1,424,195,690
Certificates of deposit	77,273,380
U.S. government securities	25,197,222
Money market mutual funds	20,636,682
	$ 1,547,307,739

Such amounts are reflected in the statements of net position as of June 30, 2019 as follows:

Cash and cash equivalents		
Unrestricted	$	503,262,584
Restricted		752,584,469
Total cash and cash equivalents		1,255,847,053
Investments – restricted		270,824,004
Investments – held by certificate of participation funds – trustee		20,636,682
Total cash and cash equivalents and investments	$	1,547,307,739

(a) Deposits

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 time 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.

(b) Investments

At June 30, 2019, the investments held by the Airports Division consisted of money market mutual funds, nonnegotiable certificates of deposit, and U.S. Treasury bills. 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.

(Continued)

The Airports Division categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters. Such securities are classified as Level 2 of the valuation hierarchy. In certain cases where Level 1 and Level 2 inputs are not available, the fair values of securities are estimated using significant unobservable inputs and are therefore classified within Level 3 of the hierarchy. The fair value of U.S. government securities, which are comprised of U.S. Treasury bills held by the Airports Division are measured using Level 1 inputs.

Certain investments, such as the Airports Division's interest in the State investment pool, are measured using the net asset value per share (or its equivalent) practical expedient and are not required to be classified in the fair value hierarchy. The Airports Division has no unfunded commitments or restrictions on redemptions with regard to its investment in the State investment pool.

The nonnegotiable certificates of deposit and money market mutual funds are measured at amortized cost and therefore are not categorized within the fair value hierarchy.

(i) 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. The Airports Division's U.S. Treasury bills have maturities that range from six months to one year.

(ii) Credit Risk

The Airports Division follows the State's policy of limiting its investments as authorized in the Hawaii Revised Statutes.

At June 30, 2019, the Airports Divisions investments were rated by Moody's as follows:

		Fair value	Ratings Moody's
Money market mutual funds:			
U.S. Bank – Federated government obligations fund	$	3,862,682	Aaa-mf
U.S. Treasury bill		16,774,000	Aaa-mf
	$	20,636,682	

(iii) 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 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 firm's 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.

(iv) Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. At June 30, 2019, the Airports Division did not hold any investments with one issuer that represent more than 5% of total investments.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2019 consists of the following:

	Balance, June 30, 2018	Increases	Decreases	Transfers	Balance, June 30, 2019
Capital assets not being depreciated:					
Land	$ 315,977,962	—	—	8,959,914	324,937,876
Land improvements	48,363,254	—	—	4,942,541	53,305,795
Construction in progress	1,307,280,018	499,616,876	(1,779,008)	(501,351,981)	1,303,765,905
Total capital assets not being depreciated	1,671,621,234	499,616,876	(1,779,008)	(487,449,526)	1,682,009,576
Capital assets being depreciated:					
Land improvements	1,173,397,147	—	—	406,274,574	1,579,671,721
Buildings and improvements	2,204,041,391	—	—	79,262,820	2,283,304,211
Machinery and equipment	311,836,796	8,546,583	(90,976)	2,051,574	322,343,977
Total capital assets being depreciated	3,689,275,334	8,546,583	(90,976)	487,588,968	4,185,319,909
Less accumulated depreciation:					
Land improvements	(846,298,930)	(41,681,916)	—	—	(887,980,846)
Buildings and improvements	(1,209,995,486)	(66,755,815)	—	—	(1,276,751,301)
Machinery and equipment	(254,260,936)	(13,554,611)	90,476	(139,442)	(267,864,513)
Total depreciation	(2,310,555,352)	(121,992,342)	90,476	(139,442)	(2,432,596,660)
Capital assets being depreciated, net	1,378,719,982	(113,445,759)	(500)	487,449,526	1,752,723,249
Total capital assets	$ 3,050,341,216	386,171,117	(1,779,508)	—	3,434,732,825

(5) Long-term Liabilities

A summary of the long-term liabilities changes during fiscal year 2019 is as follows:

	Balance, June 30, 2018	Increases	Decreases	Balance, June 30, 2019	Current	Noncurrent
Workers' compensation (note 17)	$ 4,261,532	1,639,473	(1,639,473)	4,261,532	1,656,099	2,605,433
Compensated absences	12,079,442	6,194,816	(5,707,030)	12,567,228	3,924,731	8,642,497
Prepaid airport use charge fund (notes 10 and 19)	19,194,209	117,725	(19,000,000)	311,934	—	311,934
Net postemployment liability (note 14)	178,995,227	14,575,442	(12,797,071)	180,773,598	—	180,773,598
Net pension liability (note 13)	165,660,119	15,066,579	(13,117,603)	167,609,095	—	167,609,095
Airports system revenue bonds (note 6)	975,825,000	414,685,000	(40,755,000)	1,349,755,000	42,585,000	1,307,170,000
Airports system revenue bonds premiums (note 6)	26,403,287	52,676,886	(3,788,244)	75,291,929	—	75,291,929
Airports system revenue bonds discounts (note 6)	(50,572)	—	1,145	(49,427)	—	(49,427)
Airports system customer facility charge revenue bonds (note 8)	249,805,000	—	(5,030,000)	244,775,000	5,120,000	239,655,000
Lease revenue certificates of participation (note 7)	216,178,773	—	(7,330,905)	208,847,868	10,300,960	198,546,908
Lease revenue certificates of participation premiums (note 7)	2,524,353	—	(688,828)	1,835,525	—	1,835,525
Special facility revenue bonds (note 10)	21,725,000	—	—	21,725,000	—	21,725,000
	$ 1,872,601,370	504,955,921	(109,853,009)	2,267,704,282	63,586,790	2,204,117,492

(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 Thirty-first 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 revenue 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 revenue 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 revenue that, together with unencumbered funds, will yield net revenue 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.

The outstanding airports system revenue bonds contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues and taxes during the year are less than 125 percent of debt service coverage due in the following year and (2) a provision that if the Airports Division is unable to make payment, outstanding amounts are due immediately. The outstanding airports system revenue bonds contain a subjective acceleration clause that allows the bondholders to accelerate payment of the entire principal amount to become immediately due if the bondholders determines that a material adverse change occurs.

At June 30, 2019, the amount credited to the revenue bond debt service reserve accounts was in accordance with applicable provisions of the Certificate.

At June 30, 2019, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net position) consisted of the following:

Debt service reserve account	$	102,470,832
Major maintenance, renewal and replacement account		60,000,000
		162,470,832
Principal and interest due July 1		76,319,825
	$	238,790,657

At June 30, 2019, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,135,824,069.

The revenue bonds are subject to redemption at the option of the Department of Transportation (the 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, 2019:

Series	Interest rate	Final maturity date (July 1)		Original amount of issue	Outstanding amount
2010A, refunding	2.00%–5.25%	2039	$	478,980,000	476,430,000
2010B, refunding	3.00%–5.00%	2020		166,000,000	43,815,000
2011, refunding	2.00%–5.00%	2024		300,885,000	170,565,000
2015A, nonrefunding	4.125%–5.00%	2045		235,135,000	235,135,000
2015B, nonrefunding	4.00%	2045		9,125,000	9,125,000
2018A, nonrefunding	5.00%	2048		388,560,000	388,560,000
2018B, nonrefunding	3.00%–5.00%	2027		26,125,000	26,125,000
			$	1,604,810,000	1,349,755,000
Add unamortized premium					75,291,929
Less unamortized discount					(49,427)
Less current portion					(42,585,000)
Noncurrent portion					$ 1,382,412,502

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

		Principal	Interest	Total
Years ending June 30:				
2020	$	42,585,000	63,484,788	106,069,788
2021		44,690,000	64,308,089	108,998,089
2022		46,805,000	62,063,333	108,868,333
2023		49,175,000	59,676,039	108,851,039
2024		51,580,000	57,166,089	108,746,089
2025–2029		169,815,000	256,778,393	426,593,393
2030–2034		184,520,000	215,288,999	399,808,999
2035–2039		226,280,000	163,954,735	390,234,735
2040–2044		286,145,000	101,144,968	387,289,968
2045–2049		248,160,000	30,683,334	278,843,334
	$	1,349,755,000	1,074,548,767	2,424,303,767

In August 2018, the Airports Division executed two forward delivery bond purchase contracts relating to its $93,175,000 Airports System Revenue Bonds, Refunding Series 2018C and $142,150,000 Airports System Revenue Bonds, Refunding Series 2018D. Subject to the terms of such contracts, the Airports Division expects to issue and deliver the Series 2018C Bonds and the Series 2018D Bonds in April 2020 to refund $245,385,000 of outstanding Series 2010A Bonds on July 1, 2020.

The Airports Division entered into these agreements with the respective purchasers for the purpose of effecting a refunding of an outstanding issue that cannot be advance refunded.

On August 9, 2018, the purchaser agreed to purchase the Series 2018C Bonds in the principal amount of $93,175,000 for the amount of $93,175,000. The Series 2018C Bonds will bear an interest rate of 3.58% and maturity dates ranging from 2021 – 2028.

On August 9, 2018, the purchaser agreed to purchase the Series 2018D Bonds in the principal amount of $142,150,000 at a price of $154,466,536. The Series 2018D Bonds will bear an interest rate of 5.00% with maturity dates ranging from 2029 – 2034.

(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 3.00% to 5.25%, payable annually with a final maturity date of 2029.

(Continued)

On April 13, 2016, the Airports Division entered into another lease agreement with Johnson Controls, Inc., amending the Energy Performance Contract dated December 19, 2013, to finance improvements to Daniel K. Inouye International Airport's cooling infrastructure. The costs relating to the lease and installation of certain equipment to implement the third amendment to 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 $8,056,521 at an interest rate of 1.74%, payable annually with a final maturity date of 2026.

On March 31, 2017, the Airport Division entered into another lease agreement with Johnson Controls, Inc. amending the Energy Performance Contract dated December 19, 2013 to finance improvements to the lighting infrastructure at multiple airports. The costs relating to the purchase and installation of certain equipment to implement the fourth amendment to 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 $51,473,427 at an interest rate of 2.87%, payable annually with a final maturity date of 2034.

The lease revenue certificates of participation are payable from revenue 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. The certificates of participation represent participations in equipment lease rent payments to be made by the Department. Lease rent payments to holders of the certificates of participation are payable from Revenues and Aviation Fuel Taxes, subordinate in right of payment to the payments of debt service on bonds.

The outstanding lease revenue certificates of participation contains a provision that if the Airports Division is unable to make payment, outstanding amounts are due immediately. The lease revenue certificates of participation contains a subjective acceleration clause that allows the holders to accelerate payment of the entire principal amount to become immediately due if the holders determines that a material adverse change occurs.

At June 30, 2019, the outstanding balance of the lease revenue certificates of participation and the unamortized premium are $208,847,868 and $1,835,525, respectively.

The schedule of lease rent payments for the lease revenue certificates of participation are as follows:

		Principal	Interest	Total
Years ending June 30:				
2020	$	10,300,960	9,040,194	19,341,154
2021		12,115,573	8,550,685	20,666,258
2022		13,752,812	7,981,791	21,734,603
2023		15,203,667	7,343,039	22,546,706
2024		17,224,180	6,632,805	23,856,985
2025–2029		117,153,851	18,370,478	135,524,329
2030–2034		23,096,825	1,730,163	24,826,988
	$	208,847,868	59,649,155	268,497,023

(8) Customer Facility Charge Revenue Bonds

In July 2017, the Airports Division issued $249,805,000 of airports system customer facility charge revenue bonds (Customer Facility Charge Revenue Bonds, Series 2017A) at interest rates ranging from 1.70% to 4.14%. The Series 2017 Bonds are being issued for the costs of design, development and construction of consolidated rental motor vehicle facility projects at certain airports and to fund the Rolling Coverage Fund Requirement and the Debt Service Reserve Fund Requirements for the Series 2017 Bonds and to pay certain costs of issuance relating to the Series 2017 bonds. The Bonds are special limited obligations of the State, payable solely from and secured by the receipts from collection of the Rental Motor Vehicle Customer Facility Charge imposed the State on rental motor vehicle customers who use or benefit from rental car facilities at all airports in the Airports System. At June 30, 2019, the outstanding balance of the Series 2017A Bonds is $244,775,000 with a maturity of July 1, 2047.

At June 30, 2019, the amount credited to the revenue bond debt service reserve accounts was in accordance with the applicable provisions of the official statement.

Annual debt service requirements to maturity for the customer facility charge revenue bonds are as follows:

		Principal	Interest	Total
Years ending June 30:				
2020	$	5,120,000	9,048,390	14,168,390
2021		5,225,000	8,943,844	14,168,844
2022		5,345,000	8,827,000	14,172,000
2023		5,475,000	8,695,526	14,170,526
2024		5,620,000	8,549,272	14,169,272
2025–2029		30,775,000	40,068,420	70,843,420
2030–2034		36,520,000	34,331,253	70,851,253
2035–2039		44,240,000	26,606,912	70,846,912
2040–2044		54,220,000	16,626,349	70,846,349
2045–2049		52,235,000	4,441,229	56,676,229
	$	244,775,000	166,138,195	410,913,195

The official statement for the customer facility charge revenue bonds requires that the aggregate amount of customer facility charge and minimum annual requirement deficiency payments paid by the Rental Car Facilities (RACs) in each fiscal year plus the amount on deposit in the rolling coverage fund to provide no less than 1.40 times the aggregate debt service on the bonds.

The outstanding customer facility charge revenue bonds contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues and taxes during the year are less than 140 percent of debt service coverage due in the following year and (2) a provision that if the Airports Division is unable to make payment, outstanding amounts are due immediately. The outstanding customer facility charge revenue bonds contain a subjective acceleration clause that allows the bondholders to accelerate payment of the entire principal amount to become immediately due if the bondholders determines that a material adverse change occurs.

In August 2019, the Airports Division issued $194,710,000 of airports system customer facility charge revenue bonds (Customer Facility Charge Revenue Bonds, Series 2019A) at interest rates ranging from 1.819% to 2.733%. The Series 2019A bonds were issued for the purpose of funding the costs of design, development and construction of consolidated rental car facility projects at certain airports of the Airports System of the State of Hawaii, the costs associated with refunding of certain outstanding indebtedness of the State, the rolling coverage fund requirement and the debt service reserve fund requirement for the Series 2019 bonds, and certain costs of issuance relating to the Series 2019 bonds. The Series 2019 bonds are special limited obligations of the State, payable solely from and secured solely by the receipts from the collection of the rental motor vehicle customer facility charge imposed by the State on rental motor vehicle customers who use or benefit from rental car facilities at all airports in the Airports System.

(9) Loan Payable

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 established to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) provided through legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is $76,000,000. 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 the Trust Estate, with customer facility charges being the primary component. The EB-5 loan is not payable from revenue 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 loan bears interest at a rate of 1.50% with interest payments due semiannually on July 1 and January 1. For the year ended June 30, 2019, the Airports Division has incurred interest of $1,140,000. At June 30, 2019, the outstanding balance on the loan facility amounted to $76,000,000. The loan was paid in full on August 27, 2019.

(10) Leases

(a) Airport Airline Lease Agreement

(i) 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 revenue 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).

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.

(ii) Prepaid Airport Use Charge Fund

The Prepaid Airport Use Charge Fund (the PAUCF) was established in 1994 to provide a process to transfer monies paid to the Airports Division by the signatory airlines in excess of the amounts required under each lease.

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the PAUCF.

Net excess payments for fiscal years 1996 through 2019 have been transferred to the PAUCF (note 17). These funds are required to be set aside as restricted, and are the property of the signatory airlines, and can only be spent for purposes mutually designated by the State and the Airlines Committee of Hawaii, which substantially benefit the state airport system.

(iii) Aviation Fuel Tax

The aviation fuel tax amounted to $2,608,327 for fiscal year 2019. 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.

(iv) Airports System Rates and Charges

Signatory and nonsignatory airlines were assessed the following airports system rates and charges.

Airport landing fees amounted to $85,491,538 for fiscal year ended 2019. Airport landing fees are shown net of aviation fuel tax credits of $2,503,216 for fiscal year ended 2019, on the statement of revenue, expenses, and changes in net position, which resulted in net airport landing fees of $82,988,322 for fiscal year 2019. Airport landing fees are based on a computed rate per 1000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines is set at 46% of the airport landing fees for overseas flights for fiscal year 2019, 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 $79,559,743 for fiscal year 2019.

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 $60,790,404 for fiscal year 2019, and are computed using a fixed rate per square footage per year. Included in exclusive-use premise charges are terminal rentals amounted to $28,804,781 for fiscal year 2019.

(v) Special Facility Leases and Revenue Bonds

The Airports Division entered into 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. Special facility revenue bonds amounting to $16,600,000 were called in full on May 18, 2015.

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 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 on special facility revenue bonds are required based on the amounts outstanding at June 30, 2019:

	Principal	Interest	Total
Years ending June 30:			
2020	$ —	1,222,031	1,222,031
2021	—	1,222,031	1,222,031
2022	—	1,222,031	1,222,031
2023	—	1,222,031	1,222,031
2024	—	1,222,031	1,222,031
2025–2029	21,725,000	4,277,110	26,002,110
	$ 21,725,000	10,387,265	32,112,265

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, 2019 consisted of the following:

Cash with bond fund trustee	$	1,457,107
Receivable from lessees, net of unearned interest of $10,234,511		20,267,893
Interest receivable		152,754
	$	21,877,754

(b) 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.

The future minimum rentals from these operating leases at June 30, 2019 are as follows:

Year(s) ending June 30:		
2020	$	157,047,197
2021		116,715,669
2022		108,702,522
2023		105,635,859
2024		103,455,219
2025–2029		346,244,344
2030–2034		17,691,410
2035–2039		5,151,834
2040–2044		5,146,695
2045-2049		5,937,222
	$	971,727,971

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 year 2019 was $87,676,554.

Concession fee revenue from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, accounted for approximately 22% of total concession fee revenue for fiscal year 2019.

DFS was originally awarded a five-year lease agreement for the in-bond concession in February 2001. By 2003, DFS had been in significant arrears in rents due to the Airports Division as a result of financial difficulties arising from the downturn in Hawaii’s economy due to the decrease in international visitor travel. As a result, in August 2003, the Airports Division and DFS entered into a Withdrawal and Settlement Agreement, which provided DFS with certain relief for past-due rents and which allowed the

Airports Division to withdraw and recapture all of the leased premises and to early terminate 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 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, 2007 to May 31, 2011, the minimum annual guarantee rent was $38 million and the percentage rent was 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 was equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period was calculated the same as during the first four years of the lease term.

Effective October 31, 2014, the in-bond concession lease agreement was amended and the lease was extended through May 31, 2027. The amended lease contract provides (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 minimum annual guarantee rent or percentage rent) 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 minimum annual guarantee rent 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, (4) the 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 Daniel K. Inouye International Airport.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Daniel K. Inouye 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 was $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.

(11) Passenger Facility Charges

Passenger facility charge activity for the years ended June 30, 2019 is as follows:

Restricted assets – passenger facility charges, beginning of year	$	192,561,284
Passenger facility charges during the year		44,577,538
Interest earned on passenger facility charges during the year		4,549,375
Capital expenditures during the year		(53,839,333)
Restricted assets – passenger facility charges, end of year	$	187,848,864

Restricted assets – passenger facility charges are presented on the statements of net position as of June 30, 2019 as follows:

Cash and cash equivalents	$	176,876,998
Receivable		10,971,866
Total restricted assets – passenger facility charges	$	187,848,864

(12) Rental Car Customer Facility Charge

Rental car customer facility charge activity for the years ended June 30, 2019 is as follows:

Restricted assets – rental car customer facility charge, beginning of year	$	184,098,359
Rental car customer facility charges during the year		72,378,540
Interest earned on rental care customer facility charges during the year		3,154,621
Operating and maintenance expenditures during the year		(2,026,037)
Capital expenditures during the year		(93,834,877)
Interest paid on loan payable		(1,140,000)
Interest paid on debt service		(14,171,116)
Restricted assets – rental car customer facility charges, end of year	$	148,459,490

Restricted assets – rental car customer facility charges are presented on the statement of net position as of June 30, 2019 as follows:

Cash and cash equivalents	$	915,830
Investments		140,546,712
Receivable		6,996,948
Total restricted assets – rental car customer facility charges	$	148,459,490

(13) Pension Information

(a) Plan Description

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 defined-benefit pension plan. The ERS provides retirement, survivor and disability benefits with multiple benefit structures known as the contributory, hybrid and noncontributory. 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 becoming noncontributory members or remain contributory members. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to become a noncontributory member. Qualified contributory and noncontributory members were given the option of becoming hybrid members, effective July 1, 2006, or remain in their existing class. Starting July 1, 2006, all new employees covered by Social Security are required to be hybrid members.

(b) Benefits Provided

The three benefit structures 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 retirees 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 postretirement annuity increase was decreased to 1.5% per year.

(c) Contributions

The following summarizes the plan provisions relevant to the general employees of the respective classes:

(i) Contributory

Police officers, firefighters, and certain other members that are not covered by Social Security first hired prior to July 1, 2012 contribute 12.2% of their salary and receive a retirement benefit using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 55 with five years of credited service or at any age with 25 years of credited service, provided the last five years of credited service is any of the qualified occupations.

Police officers, firefighters, and certain other members that are not covered by Social Security first hired after June 30, 2012 contribute 14.20% of their salary and receive a retirement benefit using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 60 with 10 years of credited service or at any age with 25 years of credited service, provided the last five years of credited service is any of the qualified occupations.

All other employees in the contributory class 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 class, employees may retire with full benefits at age 55 and five 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.

(Continued)

New employees in the contributory class 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.

(ii) Hybrid

Employees in the hybrid class 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 class 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.

(iii) Noncontributory

Employees in the noncontributory class 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%.

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. Since 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. The contribution rates for fiscal year 2018 were 28.00% for police officers and firefighters, and 18.00% 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, 2019 were $14,425,204. 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.

(d) Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Airports Division reported a liability of $167,609,095, for its proportionate share of the net pension liability. The net pension liability at June 30, 2019 was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Airports Division's proportion of the net pension liability is determined by a systematic methodology, based on an estimation of covered payroll, utilized by the Department of Accounting and General Services to allocate the State's proportion of the collective net pension liability to the various departments and agencies across the State.

At June 30, 2018, the Airports Division's proportion was 2.470% which was an increase of 0.02% from its proportion measured as of June 30, 2017.

There were no changes in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2019, the Airports Division recognized pension expense of $23,285,788. At June 30, 2019, the Airports Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	3,044,887	931,142
Changes in assumptions		17,270,218	—
Net difference between projected and actual earnings on pension plan investments		—	1,122,781
Changes in proportion and differences between Airports: Division contributions and proportionate share of contributions		511,600	1,356,345
Airports Division contributions subsequent to the measurement date		14,425,204	—
	$	35,251,909	3,410,268

The $14,425,204 reported as deferred outflows of resources related to pensions resulting for the Airports Division contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:		
2020	$	8,221,941
2021		6,870,980
2022		2,524,550
2023		(218,505)
2024		17,471
	$	17,416,437

(e) Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 %
Payroll growth rate	3.5 %
Investment rate of return, including inflation at 2.5%	7.0% per year

Projected salary increases, including inflation at 2.50%

Police and fire employees	5.00% to 7.00%
General employees	3.50% to 6.50%
Teacher	3.75% to 5.75%

Cost-of-living adjustments (COLAs)*

Membership date prior to July 1, 2012	2.50%
Membership date after June 30, 2012	1.50%

*COLAs are not compounded; and are based on original pension amounts.

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA. Postretirement mortality rates are based on the 2016 public retirees of Hawaii mortality table, based on generational projections of the BB projection table from the year 2016 and for generational projections for future years. Preretirement mortality rates are based on the RP-2014 tables based on the occupation of the member.

(Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2015. ERS updates their experience studies every five years.

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS’s Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

The target allocation and best estimates of geometric real rates of return for the June 30, 2018 actuarial valuations for each major asset class are summarized in the following tables:

Strategic allocation (risk-based classes)	Target allocation	Long-term expected geometric rate of return
Broad growth	63.00 %	7.10 %
Principal protection	7.00	2.50
Real return	10.00	4.10
Crisis risk offset	20.00	4.60
	100.00 %	

(f) Discount Rate

The discount rate used to measure the net pension liability was 7.00%, which was the same discount rate from the valuation completed at June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

(g) Sensitivity of the Airports Division’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airports Division’s proportionate share of the net pension liability calculated using the discount rate of 7.00% proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.00%) or one-percentage point higher (8.00%) than the current rate:

		1% Decrease (6.00%)	Discount rate (7.00%)	1% Increase (8.00%)
Airports Division's proportionate share of the net pension liability	$	218,018,443	167,609,095	126,054,335

(h) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued ERS comprehensive annual financial report (CAFR). The ERS CAFR can be obtained from: http://ers.ehawaii.gov/resources/financials or from the address below:

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

The State issues a comprehensive annual financial report that includes the required note disclosures and the required supplementary information in accordance with the provisions of GASB Statement No. 68. This report can be obtained from http://ags.hawaii.gov/accounting/annual-financial-reports/.

(14) Postretirement Healthcare and Life Insurance Benefits under GASB Statement No. 75, as of and for the year ended June 30, 2019

(a) Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees and retirees. Pursuant to Act 88, SLF 2001, the State contributions to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues a publicly available annual financial report that can be obtained at http://eutf.hawaii.gov.

While the EUTF is an agent-multiple employer defined benefit OPEB plan, for purposes of the Airports Division's financial statements, the EUTF is reported as a cost-sharing multiple-employer plan in accordance with the requirements of GASB 75.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

At July 1, 2018, the State's plan members covered by benefit terms consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	$	36,340
Inactive plan members entitled to but not yet receiving benefits		7,588
Active plan members		50,519
Total plan members	$	94,447

(b) Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Employer contributions to the OPEB plan from the Airports Division were $15,734,971 for the fiscal year ended June 30, 2019. The employer is also required to make all contributions for members, which is charged to salaries, wages and benefits expense.

(c) OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the Airports Division reported a net OPEB liability of $180,773,598 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. Airports Division's proportion of the net OPEB liability was based on Airports Division's contributions to the EUTF for the fiscal year relative to the total contributions of participating employers to the EUTF.

As of July 1, 2018, Airports Division's proportion was 1.8747%, which was an increase of 0.4247% from its proportion measured as of July 1, 2017 of 1.45%.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2019, the Airports Division recognized OPEB expense of approximately $15,872,711. At June 30, 2019, the Airports Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	$ —	241,414
Differences between expected and actual experience	—	3,281,834
Change in assumptions	1,986,266	—
Airports Division contributions subsequent to the measurement date	15,734,971	—
	$ 17,721,237	3,523,248

The $15,734,971 reported as deferred outflows of resources related to OPEB resulting from the Airports Division contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2020	$ (332,495)
2021	(332,495)
2022	(332,495)
2023	(272,567)
2024	(257,159)
Thereafter	(9,771)
	$ (1,536,982)

(d) Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the EUTF on January 8, 2018, based on the experience study covering the five year period ended June 30, 2015:

Inflation	2.5%
Payroll growth rate	3.5%–7.0%
Discount rate	7.0%
Investment rate of return, including inflation at 2.5%	7.0% per year

Healthcare Cost Trend Rates

PPO*	Initial rate of 10%; declining to a rate of 4.86% after 13 years
HMO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
Part B and Base Monthly Contribution (BMC)	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rates of 5.00% for the first three years; followed by 4.00%
Vision	Initial rates of 0.00% for the first three years; followed by 2.50%
Life Insurance	0.00%
Participation rates	98% healthcare participation assumption for retirees that receive 100% o f the Base Monthly Contribution (BMC). Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B.

* Blended rates for medical and prescription drug

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Non-U.S. equity	17.00 %	6.50 %
U.S. equity	15.00	5.05
Private equity	10.00	8.65
Core real estate	10.00	4.10
Trend following	9.00	3.00
U.S. microcap	7.00	7.00
Global options	7.00	4.50
Private credit	6.00	5.25
Long treasuries	6.00	1.90
Alternative risk premia	5.00	2.45
TIPS	5.00	0.75
Core bonds	3.00	1.30
	100.00 %	

(e) Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

(f) OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at http://eutf.hawaii.gov.

(g) Sensitivity of Airports Division's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the Airports Division's proportionate share of the net OPEB liability calculated using the discount rate of 7.00%, as well as what the Airports Division's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (6.00%) or one-percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Discount rate (7.00%)	1% Increase (8.00%)
Airports Division's proportionate share of the net OPEB liability	$ 213,717,765	180,773,598	154,887,554

The following table presents the Airports Division's proportionate share of the net OPEB liability calculated using the assumed healthcare cost trend rates, as well as what the Airports Division's proportionate share of the net OPEB liability would be if it were calculated using the trend rates that are one-percentage point lower or one-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current trend rates	1% Increase
Airports Division's proportionate share of the net OPEB liability	$ 153,476,766	180,773,598	216,198,888

(15) 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 $14,731,128 in fiscal year 2019.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $8,370,126 in fiscal year 2019. During fiscal year 2019, the Airports Division received assessment refunds from the DOT amounting to $2,891,812, which is recorded as a receivable due from State of Hawaii at year-end. Such refunds reduced operating expenses in the accompanying statement of revenue, expenses and changes in net position.

(Continued)

During fiscal year 2019, revenue received from other state agencies totaled $286,158 and expenditures to other state agencies totaled $9,979,729. The revenue received relates to various rental agreements that the Airports Division has with the State of Hawaii. The expenses paid relate to various items including security, salary and insurance.

At June 30, 2019, the Airports Division had a receivable due from state agencies for $3,296,059. The receivable includes an assessment refund and rental revenue outstanding at year-end.

(16) Commitments

(a) Sick Pay

Accumulated sick leave at June 30, 2019 was $25,690,556. 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 investor.

Accordingly, the assets and liabilities of the State’s deferred compensation plan are not reported in the accompanying financial statements.

(c) Pledged Future Revenue

In accordance with the Certificate, the Airports Division has pledged future revenue net of operation, maintenance and repair expenses, and certain adjustments (net revenue and taxes available for debt service) to repay $1,604,810,000 in revenue bonds issued in 2010, 2011, 2015, and 2018, and payable through 2048. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $2,424,303,767. In fiscal year 2019, total debt service paid, exclusive of amounts refunded, and net revenue and taxes available for debt service for the Airports Division was $95,855,026 and $178,409,179, respectively. See also note 6 for further discussion on the revenue bonds.

(d) Other

At June 30, 2019, the Airports Division has commitments totaling $626,435,907, for construction and service contracts.

(17) 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. The Airports Division generally addresses these risks through commercial insurance policies. Settled claims have not exceeded this commercial coverage in any of the past three years.

(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.

(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.

The Airports Division is covered under the State of Hawaii Statewide Insurance Program for Property, Auto and Crime Insurance.

(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, 2019, the workers compensation reserve was $4,261,532, of which $1,656,099, is included in current liabilities (payable from unrestricted net assets), and $2,605,433 is included in long-term liabilities in the accompanying statement of net position at June 30, 2019. In the opinion of management, the Airports Division has adequately reserved for such claims.

(Continued)

The change in claims payable for June 30, 2019, including an estimate of incurred but not reported claims, is as follows:

Beginning balance – July 1	$	4,261,532
Current year claims and changes in estimates		1,639,473
Claims settled		(1,639,473)
Ending balance – June 30	$	4,261,532

(18) 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, 2019, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

(c) Asserted Claims

(i) Prepaid Airport Use Charge Fund

In fiscal year 2019, the PAUCF was decreased by a payment of $19,000,000 to the PAUCF escrow account for ACH members. The PAUCF increased by $117,125 due to an underpayment for fiscal year 2019. The PAUCF liability at June 30, 2019 was $311,934.

(19) Subsequent Events

The Airports Division has evaluated subsequent events from the balance sheet date through December 19, 2019, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

SUPPLEMENTARY INFORMATION

Schedule 1

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

Operating Revenues and Operating Expenses Other than Depreciation

Year ended June 30, 2019

			Airports					
	Totals	**Statewide**	**Daniel K. Inouye International**	**Hilo International**	**Ellison Onizuka Kona International at Keahole**	**Kahului**	**Lihue**	**All others**
Operating revenue:								
Concession fees:								
Duty free	$ 40,601,148	—	40,601,148	—	—	—	—	—
Retail	12,228,442	—	11,903,534	—	—	324,908	—	—
Airport parking	27,151,837	—	17,788,362	1,076,171	2,396,547	4,061,446	1,829,311	—
Car rental	72,353,825	—	18,275,942	2,093,530	13,087,223	25,830,182	12,793,833	273,115
Food and beverage	11,429,500	—	7,137,706	89,511	782,324	2,502,647	899,968	17,344
Other concessions	19,510,085	36,918	11,300,542	96,954	2,066,294	4,861,385	1,116,994	30,998
Total concession fees	183,274,837	36,918	107,007,234	3,356,166	18,332,388	37,580,568	16,640,106	321,457
Airport landing fees	82,988,322	—	54,297,901	1,625,199	7,062,190	13,880,785	5,443,831	678,416
Aeronautical rentals:								
Nonexclusive joint-use premise charges	79,559,743	—	62,036,463	1,366,230	3,823,496	9,245,321	3,088,233	—
Exclusive-use premise charges	60,790,404	—	43,372,793	1,937,632	2,609,774	7,811,398	4,142,976	915,831
Nonaeronautical rentals	22,168,965	—	15,050,855	379,013	1,415,853	3,849,814	1,331,254	142,176
Aviation fuel tax	2,608,327	—	986,043	90,065	391,372	842,731	298,116	—
Miscellaneous	9,411,001	1,572,836	5,764,537	50,375	722,783	641,612	514,479	144,379
	440,801,599	1,609,754	288,515,826	8,804,680	34,357,856	73,852,229	31,458,995	2,202,259
Allocation of statewide miscellaneous revenue (note 1)	—	(1,572,836)	1,156,734	10,108	145,037	128,748	103,237	28,972
Net operating revenue	$ 440,801,599	36,918	289,672,560	8,814,788	34,502,893	73,980,977	31,562,232	2,231,231
Operating expenses other than depreciation:								
Salaries and wages	$ 116,992,509	20,528,148	47,803,199	7,491,812	8,685,544	13,691,063	9,227,468	9,565,275
Other personnel services	82,616,141	8,780,579	48,032,825	4,721,237	5,471,565	6,493,183	5,985,326	3,131,426
Utilities	37,995,358	8,106	27,157,217	1,149,142	2,391,651	4,627,373	1,813,308	848,561
Repairs and maintenance	34,699,525	15,653,417	14,314,575	876,312	968,520	1,371,013	769,761	745,927
State of Hawaii surcharge on gross receipts (note 2)	14,731,128	14,731,128	—	—	—	—	—	—
Special maintenance	5,762,874	3,493,072	938,359	429,716	132,825	44,751	(115,212)	839,363
Materials and supplies	6,526,776	452,687	2,744,253	624,724	542,571	1,098,776	551,470	512,295
Department of Transportation general administration expenses	8,370,126	8,370,126	—	—	—	—	—	—
Insurance	2,190,468	2,190,468	—	—	—	—	—	—
Claims and benefits	1,744,507	204,824	959,823	164,788	106,045	200,277	11,250	97,500
Bad debt expense (note 3)	4,015,215	4,015,215	—	—	—	—	—	—
Miscellaneous	1,260,792	1,198,334	(587,204)	143,301	330,999	(85,921)	124,728	136,555
	316,905,419	79,626,104	141,363,047	15,601,032	18,629,720	27,440,515	18,368,099	15,876,902
Allocation of statewide expenses (note 4)	—	(79,626,104)	47,438,559	5,235,388	6,251,754	9,208,478	6,163,960	5,327,965
Total operating expenses other than depreciation for statement of revenue, expenses and changes in net position	$ 316,905,419	—	188,801,606	20,836,420	24,881,474	36,648,993	24,532,059	21,204,867

Notes:
(1) Statewide miscellaneous revenue is allocated to the airports based upon their respective current year miscellaneous revenue to total current year miscellaneous revenue 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 revenue to total current year revenue 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 Revenue and Taxes and Debt Service Requirement

Year ended June 30, 2019

Revenue and taxes:		
Concession fees	$	183,274,837
Airport landing fees		82,988,322
Aeronautical rentals:		
Nonexclusive joint-use premise charges		79,559,743
Exclusive-use premise charges		60,790,404
Nonaeronautical rentals		22,168,965
Aviation fuel tax		2,608,327
Airport system support charges		—
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $1,352,657 on capital improvement projects		26,116,572
Federal operating grants		1,616,030
Miscellaneous		9,411,001
Total revenue and taxes		468,534,201
Deductions:		
Operating expenses other than depreciation for net revenue and taxes (Schedule 1)		316,905,419
Less: operating expenses for Special Facility (note 3)		(2,056,320)
Annual reserve required on major maintenance, renewal and replacement account		—
Total deductions		314,849,099
Net revenue and taxes		153,685,102
Add funded coverage per bond certificate		26,780,397
Adjusted net revenue and taxes		180,465,499
Debt service requirement:		
Airports system revenue bonds:		
Principal		42,585,000
Interest (note 1)		47,423,147
Total debt service		90,008,147
Less funds deposited into the Airport Revenue Fund for credit to interest account (note 2)		(8,717,280)
Total debt service requirement		81,290,867
Debt service coverage percentage		125
Total debt service with coverage requirement		101,613,584
Excess of net revenue and taxes over debt service requirement	$	78,851,915

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 2015 bond proceeds used to pay interest on the Series 2015 bonds until the projects funded by the Series 2015 bonds are in service.

(2) Pursuant to the provisions in Section 6.01 of the Certificate and Hawaii Revised Statutes Section 261-5.5, the Airports Division transferred $8,717,280 of Passenger Facility Charge revenue into the Airport Revenue Fund for credit to the interest account for Passenger Facility Charge eligible debt service. The transfer is approved by the Federal Aviation Administration.

(3) Pursuant to the provisions in Article XI of the Certificate, operating expenses related to Special Facility, such as the consolidated rental car facility, are excluded from the debt service requirement calculation.

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 – Airports System Revenue Bonds

Year ended June 30, 2019

	Annual principal and interest requirements		
	Airports system revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2020	$ 42,585,000	63,484,788	106,069,788
2021	44,690,000	64,308,089	108,998,089
2022	46,805,000	62,063,333	108,868,333
2023	49,175,000	59,676,039	108,851,039
2024	51,580,000	57,166,089	108,746,089
2025	54,195,000	54,523,364	108,718,364
2026	26,745,000	52,714,779	79,459,779
2027	28,090,000	51,339,360	79,429,360
2028	29,525,000	49,870,726	79,395,726
2029	31,260,000	48,330,164	79,590,164
2030	33,320,000	46,688,854	80,008,854
2031	35,035,000	44,938,059	79,973,059
2032	36,850,000	43,125,612	79,975,612
2033	38,690,000	41,251,987	79,941,987
2034	40,625,000	39,284,487	79,909,487
2035	42,655,000	37,218,987	79,873,987
2036	42,600,000	35,049,987	77,649,987
2037	44,730,000	32,880,307	77,610,307
2038	46,970,000	30,599,857	77,569,857
2039	49,325,000	28,205,597	77,530,597
2040	51,795,000	25,689,369	77,484,369
2041	54,390,000	23,127,756	77,517,756
2042	57,100,000	20,377,781	77,477,781
2043	59,940,000	17,490,506	77,430,506
2044	62,920,000	14,459,556	77,379,556
2045	66,050,000	11,277,706	77,327,706
2046	69,335,000	7,944,878	77,279,878
2047	35,775,000	5,638,750	41,413,750
2048	37,560,000	3,850,000	41,410,000
2049	39,440,000	1,972,000	41,412,000
Total	$ 1,349,755,000	1,074,548,767	2,424,303,767

See accompanying independent auditors’ report.

Schedule 4

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

Year ended June 30, 2019

	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%	New Issue Series 2015A, 4.125% to 5.25%	New Issue Series 2015B, 4.00%	New Issue Series 2018A, 5.00%	New Issue Series 2018B, 3.00% to 5.00%	Total	Interest	Total requirements
Year ending June 30:										
2020	$ 255,000	22,165,000	20,165,000	—	—	—	—	42,585,000	63,484,788	106,069,788
2021	7,720,000	21,650,000	15,320,000	—	—	—	—	44,690,000	64,308,089	108,998,089
2022	14,510,000	—	32,295,000	—	—	—	—	46,805,000	62,063,333	108,868,333
2023	18,005,000	—	31,170,000	—	—	—	—	49,175,000	59,676,039	108,851,039
2024	16,650,000	—	34,930,000	—	—	—	—	51,580,000	57,166,089	108,746,089
2025	17,510,000	—	36,685,000	—	—	—	—	54,195,000	54,523,364	108,718,364
2026	18,440,000	—	—	—	—	—	8,305,000	26,745,000	52,714,779	79,459,779
2027	19,395,000	—	—	—	—	—	8,695,000	28,090,000	51,339,360	79,429,360
2028	20,400,000	—	—	—	—	—	9,125,000	29,525,000	49,870,726	79,395,726
2029	21,460,000	—	—	—	—	9,800,000	—	31,260,000	48,330,164	79,590,164
2030	22,570,000	—	—	—	—	10,750,000	—	33,320,000	46,688,854	80,008,854
2031	23,755,000	—	—	—	—	11,280,000	—	35,035,000	44,938,059	79,973,059
2032	25,010,000	—	—	—	—	11,840,000	—	36,850,000	43,125,612	79,975,612
2033	26,255,000	—	—	—	—	12,435,000	—	38,690,000	41,251,987	79,941,987
2034	27,575,000	—	—	—	—	13,050,000	—	40,625,000	39,284,487	79,909,487
2035	28,945,000	—	—	—	—	13,710,000	—	42,655,000	37,218,987	79,873,987
2036	30,395,000	—	—	—	—	12,205,000	—	42,600,000	35,049,987	77,649,987
2037	31,910,000	—	—	—	—	12,820,000	—	44,730,000	32,880,307	77,610,307
2038	33,520,000	—	—	—	—	13,450,000	—	46,970,000	30,599,857	77,569,857
2039	35,195,000	—	—	—	—	14,130,000	—	49,325,000	28,205,597	77,530,597
2040	36,955,000	—	—	—	—	14,840,000	—	51,795,000	25,689,369	77,484,369
2041	—	—	—	34,570,000	1,375,000	18,445,000	—	54,390,000	23,127,756	77,517,756
2042	—	—	—	36,295,000	1,430,000	19,375,000	—	57,100,000	20,377,781	77,477,781
2043	—	—	—	38,110,000	1,490,000	20,340,000	—	59,940,000	17,490,506	77,430,506
2044	—	—	—	40,020,000	1,545,000	21,355,000	—	62,920,000	14,459,556	77,379,556
2045	—	—	—	42,020,000	1,610,000	22,420,000	—	66,050,000	11,277,706	77,327,706
2046	—	—	—	44,120,000	1,675,000	23,540,000	—	69,335,000	7,944,878	77,279,878
2047	—	—	—	—	—	35,775,000	—	35,775,000	5,638,750	41,413,750
2048	—	—	—	—	—	37,560,000	—	37,560,000	3,850,000	41,410,000
2049	—	—	—	—	—	39,440,000	—	39,440,000	1,972,000	41,412,000
	$ 476,430,000	43,815,000	170,565,000	235,135,000	9,125,000	388,560,000	26,125,000	1,349,755,000	1,074,548,767	2,424,303,767

See accompanying independent auditors' report.

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

Airports System Charges – Fiscal year 2008 Lease Extension

Year ended June 30, 2019

	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.	1,039,878	8,428	—	$ 2,050,892	—	—	—	—	—	—	—	—	—	—	—	120,863	2,171,755
Air Canada	220,384	952	—	826,507	—	388,639	298,056	3,920	—	—	—	—	—	—	—	315,021	1,832,143
Air China Limited	63,263	158	26,259	239,255	—	—	37,037	37,951	—	—	—	—	—	174,417	—	52,513	541,173
Air Japan Co., Ltd.	129,200	304	67,715	495,745	—	—	93,727	92,009	—	—	—	—	—	454,566	—	—	1,136,047
Air New Zealand, Ltd.	122,108	267	62,441	467,785	—	—	86,715	90,400	—	—	—	—	—	417,443	—	—	1,062,343
Air Pacific, Ltd.	22,195	159	13,712	84,029	—	—	18,441	26,654	—	—	—	—	—	91,343	—	—	220,467
Airasia x Berhad	131,328	322	94,399	496,249	—	—	123,136	120,007	—	—	—	—	—	626,367	—	31,856	1,397,615
Alaska Airlines, Inc.	1,565,670	10,671	—	5,920,808	—	2,926,072	1,210,595	615,332	—	—	—	—	—	—	602,623	936,776	12,212,206
All Nippon Airways Co., Ltd.	343,840	792	181,646	1,293,950	—	—	253,097	228,931	—	—	—	—	—	1,205,863	—	303,481	3,285,322
Allegiant Air LLC	—	—	—	—	—	—	—	7,049	—	—	—	—	—	—	—	—	7,049
American Airlines, Inc.	1,627,496	6,894	—	6,054,632	—	2,744,169	1,961,825	701,162	—	—	—	—	—	—	—	1,801,385	13,263,173
Asiana Airlines, Inc.	123,874	297	66,249	470,977	—	—	89,515	84,981	—	—	—	—	—	441,873	—	(515,511)	571,835
China Airlines, Ltd.	57,373	128	30,918	215,669	—	—	45,415	47,017	—	—	—	—	—	204,975	—	235,834	748,910
Continental Airlines, Inc.	40,160	273	—	152,182	—	37,413	208,744	—	—	—	—	—	—	—	—	610,064	1,008,403
Continental Micronesia, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Delta Air Lines, Inc.	1,738,863	6,811	265,667	6,585,857	—	2,674,474	1,961,751	1,061,619	—	—	—	—	—	1,775,136	—	3,642,900	17,701,737
Federal Express Corporation	728,519	1,444	—	2,761,058	—	—	—	—	—	—	—	—	—	—	—	39,327	2,800,385
Hawaii Island Air, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Hawaiian Airlines, Inc.	11,692,567	86,733	661,608	29,190,498	—	—	2,263,154	252,718	—	13,494,968	17,937	—	—	4,408,919	7,689,122	10,337,172	67,654,488
Japan Airlines International Co., Ltd.	1,073,150	2,846	527,202	4,083,060	—	—	725,242	591,302	—	—	—	—	—	3,515,507	—	1,197,869	10,112,980
Jetstar Airways Pty Limited	153,574	387	109,201	586,153	—	—	163,264	141,867	—	—	—	—	—	731,282	—	—	1,622,566
Jin Air Co., Ltd.	49,680	108	31,618	192,676	—	—	42,993	37,310	—	—	—	—	—	213,563	—	40,322	526,864
Kalitta Air, LLC	338,447	519	—	1,259,650	—	—	—	—	—	—	—	—	—	—	—	—	1,259,650
Korean Airlines Company, Ltd.	387,235	732	197,140	1,464,418	—	—	267,796	233,157	—	—	—	—	—	1,312,410	—	395,731	3,673,512
Mokulele Flight Services, Inc.	330,931	38,933	—	588,926	—	—	—	—	—	—	—	—	—	—	—	48,583	637,509
Philippine Airlines, Inc.	101,334	246	61,656	382,429	—	—	82,199	71,607	—	—	—	—	—	409,550	—	169,970	1,115,755
Polar Air Cargo, LLC	36,005	54	—	136,152	—	—	—	—	—	—	—	—	—	—	—	—	136,152
Qantas Airways, Ltd.	302,349	477	78,592	1,141,439	—	—	114,754	99,911	—	—	—	—	—	522,510	—	603,886	2,482,500
Southwest Airlines Co.	197,856	1,374	—	454,867	—	361,319	123,594	127,870	—	—	138,056	—	—	—	—	692,298	1,898,004
United Airlines, Inc.	3,163,369	12,458	211,246	11,952,090	—	5,371,471	3,687,699	1,769,660	—	—	—	—	—	1,406,449	—	4,376,704	28,564,073
United Parcel Service Co.	1,107,118	2,159	—	3,715,725	—	—	—	—	—	—	—	—	—	—	—	48,653	3,764,378
US Airways, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	66,222	66,222
Virgin America, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,355	7,355
WestJet	275,403	1,699	—	1,036,432	—	516,253	442,875	112,833	—	—	—	—	—	—	—	170,497	2,278,890
Total Signatory Airlines	27,163,169	186,625	2,687,269	84,300,110	—	15,019,810	14,301,624	6,555,267	—	13,494,968	155,993	—	—	17,912,173	8,291,745	25,729,771	185,761,461
Nonsignatory airlines	2,094,509	1,177	157,492	4,734,314	—	412,648	414,646	432,411	—	1,918	462	—	—	1,169,643	—	1,046,284	8,212,326
Total airports system charges billed	29,257,678	187,802	2,844,761	89,034,424	—	15,432,458	14,716,270	6,987,678	—	13,496,886	156,455	—	—	19,081,816	8,291,745	26,776,055	193,973,787
Signatory airlines requirements				80,757,224	—	14,769,236	14,060,523	6,524,188	—	13,453,639	160,845	—	—	19,214,056	8,945,528	27,758,497	185,643,736
Nonsignatory airlines requirements				4,734,314	—	412,648	414,646	432,411	—	1,918	462	—	—	1,169,643	—	1,046,284	8,212,326
Fiscal year 2019 overpayment (underpayment)				$ 3,542,886	—	250,574	241,101	31,079	—	41,329	(4,852)	—	—	(1,301,883)	(653,783)	(2,028,726)	117,725

Note: Certain other aeronatical rentals revenue are not included in the airports system rates and charges under the Airport Airline Lease Agreement. Those aeronautical rentals revenue for the year ended June 30, 2019 were as follows:

Signatory airlines	$ 14,918,797
Nonsignatory airlines	17,066,826
	$ 31,985,623

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, 2019

		Signatory airlines	Nonsignatory airlines	Total
Gross airport landing fees billed	$	84,300,110	4,734,314	89,034,424
Less aviation fuel tax credit		(2,363,407)	(139,809)	(2,503,216)
Net airport landing fees billed	$	81,936,703	4,594,505	86,531,208

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, 2019

	Approved Maximum Revenue Landing Weights (1,000-pount units)				Daniel K. Inouye International and Hilo International Airport					All Other Airports			
					Gross Airport Landing Fees								
	Daniel K. Inouye International Airport	Hilo International Airport	All Other Airports	Total	Daniel K. Inouye 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.	581,021	153,581	305,276	1,039,878	$ 1,239,492	272,396	1,511,888	—	1,511,888	539,004	—	539,004	2,050,892
Air Canada	109,128	—	111,256	220,384	410,672	—	410,672	—	410,672	415,834	—	415,834	826,506
Air China Limited	63,263	—	—	63,263	239,255	—	239,255	—	239,255	—	—	—	239,255
Air Japan Co., Ltd.	129,200	—	—	129,200	495,745	—	495,745	—	495,745	—	—	—	495,745
Air New Zealand, Ltd.	122,108	—	—	122,108	467,785	—	467,785	—	467,785	—	—	—	467,785
Air Pacific, Ltd.	22,195	—	—	22,195	84,029	—	84,029	—	84,029	—	—	—	84,029
Airasia x Berhad	131,328	—	—	131,328	496,249	—	496,249	—	496,249	—	—	—	496,249
Alaska Airlines, Inc.	495,415	—	1,070,255	1,565,670	1,875,929	—	1,875,929	(318,258)	1,557,671	4,044,879	—	4,044,879	5,602,550
All Nippon Airways Co., Ltd.	343,840	—	—	343,840	1,293,950	—	1,293,950	—	1,293,950	—	—	—	1,293,950
Allegiant Air LLC	—	—	—	—	—	—	—	—	—	—	—	—	—
American Airlines, Inc.	720,224	—	907,273	1,627,497	2,722,616	—	2,722,616	(314,435)	2,408,181	3,332,016	—	3,332,016	5,740,197
Asiana Airlines, Inc.	123,874	—	—	123,874	470,977	—	470,977	—	470,977	—	—	—	470,977
China Airlines, Ltd.	57,373	—	—	57,373	215,669	—	215,669	—	215,669	—	—	—	215,669
Continental Airlines, Inc.	—	40,160	—	40,160	—	152,182	152,182	—	152,182	—	—	—	152,182
Delta Air Lines, Inc.	1,238,641	—	500,222	1,738,863	4,694,794	—	4,694,794	(132,290)	4,562,504	1,891,063	—	1,891,063	6,453,567
Federal Express Corporation	728,519	—	—	728,519	2,761,058	—	2,761,058	—	2,761,058	—	—	—	2,761,058
Hawaii Island Air, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—
Hawaiian Airlines, Inc.	6,490,778	662,952	4,538,836	11,692,566	17,867,595	1,178,909	19,046,504	(1,071,068)	17,975,436	10,143,994	—	10,143,994	28,119,430
Japan Airlines International Co., Ltd.	960,000	—	113,150	1,073,150	3,654,516	—	3,654,516	—	3,654,516	428,544	(50,110)	378,434	4,032,950
Jetstar Airways Pty Limited	153,574	—	—	153,574	586,153	—	586,153	—	586,153	—	—	—	586,153
Jin Air Co., Ltd.	49,680	—	—	49,680	192,675	—	192,675	—	192,675	—	—	—	192,675
Kalitta Air, LLC	326,711	—	11,736	338,447	1,238,734	—	1,238,734	—	1,238,734	20,916	—	20,916	1,259,650
Korean Airlines Company, Ltd.	387,235	—	—	387,235	1,464,418	—	1,464,418	—	1,464,418	—	—	—	1,464,418
Mokulele Flight Services, Inc.	73,789	—	257,142	330,931	131,297	—	131,297	(11,981)	119,316	457,629	—	457,629	576,945
Philippine Airlines, Inc.	101,334	—	—	101,334	382,429	—	382,429	—	382,429	—	—	—	382,429
Polar Air Cargo, LLC	36,005	—	—	36,005	136,152	—	136,152	—	136,152	—	—	—	136,152
Qantas Airways, Ltd.	302,349	—	—	302,349	1,141,439	—	1,141,439	—	1,141,439	—	—	—	1,141,439
Southwest Airlines, Co.	103,104	—	94,752	197,856	242,352	—	242,352	(23,886)	218,466	212,515	—	212,515	430,981
United Airlines, Inc.	1,947,670	—	1,215,700	3,163,370	7,371,576	—	7,371,576	(386,186)	6,985,390	4,580,514	—	4,580,514	11,565,904
United Parcel Service Co.	891,814	—	215,304	1,107,118	3,199,132	—	3,199,132	(505)	3,198,627	516,594	(920)	515,674	3,714,301
Virgin America, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—
WestJet	92,900	—	182,503	275,403	349,949	—	349,949	(53,768)	296,181	686,484	—	686,484	982,665
Total	16,783,072	856,693	9,523,405	27,163,170	$ 55,426,637	1,603,487	57,030,124	(2,312,377)	54,717,747	27,269,986	(51,030)	27,218,956	81,936,703

Summary of revenue landing weights:

Overseas	17,972,157
Interisland	9,191,013
	27,163,170

Aviation fuel tax credits of $2,608,327 was paid by the users for the year ended June 30, 2019. Users can claim a credit for aviation fuel taxes paid up to six months after payment.
Aviation fuel tax of $2,503,216 was credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 2,363,407
Nonsignatory airlines	139,809
	$ 2,503,216

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2019.

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, 2019

	Approved Maximum Revenue Landing Weights (1,000-pount units)				Daniel K. Inouye International and Hilo International Airport					All Other Airports			
					Gross Airport Landing Fees								
	Daniel K. Inouye International Airport	Hilo International Airport	All Other Airports	Total	Daniel K. Inouye 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
808 Airmen LLC	365	—	—	365	$ 262	—	262	—	262	—	—	—	262
Aero Micronesia, Inc.	44,684	—	—	44,684	212,993	—	212,993	—	212,993	—	—	—	212,993
Air Service Hawaii, Inc.	122,491	1,949	95,731	220,171	233,250	2,750	236,000	(75,608)	160,392	193,925	—	193,925	354,317
Air Transport International LLC	29,790	—	—	29,790	155,980	—	155,980	—	155,980	—	—	—	155,980
Air Ventures Hawaii, LLC	—	—	2,891	2,891	—	—	—	—	—	2,457	—	2,457	2,457
Airasia x Berhad	21,211	—	—	21,211	—	—	—	—	—	—	—	—	—
Alexair, Inc.	—	—	21,330	21,330	—	—	—	—	—	18,131	—	18,131	18,131
Aloha Helicopter Tours LLC	—	—	413	413	—	—	—	—	—	351	—	351	351
Alika Aviation, Inc.	177,644	—	(177,644)	—	839,368	—	839,368	—	839,368	(839,368)	—	(839,368)	—
Aris, Inc.	—	—	27,169	27,169	—	—	—	—	—	23,094	(2,291)	20,803	20,803
Atlas Air Inc.	—	—	177,644	177,644	—	—	—	—	—	839,368	—	839,368	839,368
Big Island Air, Inc.	8	8	2,659	2,675	7	7	14	—	14	2,261	—	2,261	2,275
Bradley Pacific Aviation, Inc.	79,051	1,978	171,279	252,308	109,442	2,995	112,437	—	112,437	195,537	—	195,537	307,974
Castle & Cooke Homes Hawaii, Inc.	40,021	—	79	40,100	83,094	—	83,094	—	83,094	—	—	—	83,094
Corporate Air	24,378	357	30,660	55,395	54,488	797	55,285	—	55,285	68,501	—	68,501	123,786
Delta Air Lines, Inc.	124,460	—		124,460	584,675	—	584,675	—	584,675	—	—	—	584,675
George’s Aviation Services, Inc.	2,905	—	742	3,647	2,469	—	2,469	(906)	1,563	631	—	631	2,194
Hawaii Air Ambulance, Inc.	2,179	—	—	2,179	1,852	—	1,852	(311)	1,541	—	—	—	1,541
Hawaii Helicopters, Inc.	—	169	8,585	8,754	—	143	143	—	143	7,298	—	7,298	7,441
Hawaii Pacific Aviation, Inc.	2,759	—	5,390	8,149	2,345	—	2,345	(832)	1,513	4,582	—	4,582	6,095
Helicopter Consultants Of Maui, Inc.	28,590	43,125	97,058	168,773	24,302	36,657	60,959	(18,498)	42,461	82,499	—	82,499	124,960
International Life Support, Inc.	233	—	39	272	198	—	198	—	198	33	—	33	231
Island Helicopters, Inc.	—	—	26,764	26,764	—	—	—	—	—	22,750	(1,917)	20,833	20,833
Jack Harter Helicopters, Inc.	—	—	19,087	19,087	—	—	—	—	—	17,644	(2,206)	15,438	15,438
K&S Helicopters, Inc.	3,871	14,776	9,885	28,532	3,290	12,560	15,850	(1,387)	14,463	8,402	(2,054)	6,348	20,811
Kamaka Air, Inc.	16,083	378	20,538	36,999	13,671	321	13,992	—	13,992	17,457	—	17,457	31,449
Lani Lea Sky Tours LLC	—	—	413	413	351	—	351	—	351	—	—	—	351
Makani Kai Helicopters, Ltd.	46,258	—	78,072	124,330	39,319	—	39,319	(122)	39,197	66,362	—	66,362	105,559
Manuiwa Airways, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—
Miami Air International	575	—	—	575	3,481	—	3,481	—	3,481	—	—	—	3,481
Miscellaneous	11,825	—	—	11,825	58,046	—	58,046	—	58,046	—	—	—	58,046
MN Airlines LLC	33,795	—	—	33,795	159,717	—	159,717	—	159,717	—	—	—	159,717
National Airlines - NPB	25,252	—	—	25,252	59,865	—	59,865	—	59,865	—	—	—	59,865
Niihau Helicopters, Inc.	—	—	2,315	2,315	—	—	—	—	—	1,900	—	1,900	1,900
Novictor Aviation, LLC	11,419	—	—	11,419	9,706	—	9,706	—	9,706	—	—	—	9,706
Omni Air International, Inc.	86,460	—	5,020	91,480	408,470	—	408,470	—	408,470	22,239	—	22,239	430,709
Pacific Air Charters, Incorporated	1,391	41	850	2,282	1,246	41	1,287	(144)	1,143	763	(13)	750	1,893
Pacific Helicopter Tours, Inc.	569	—	1,896	2,465	554	—	554	(123)	431	1,716	(115)	1,601	2,032
Pofolk Aviation Hawaii, Inc.	—	—	15,550	15,550	—	—	—	—	—	13,218	—	13,218	13,218
Resort Air, LLC	293	13	598	904	260	11	271	(58)	213	599	(20)	579	792
Safari Aviation, Inc.	—	8,454	14,362	22,816	—	7,186	7,186	—	7,186	12,208	—	12,208	19,394
Scoot-Tigerair PTE, Ltd.	106,020	—	—	106,020	515,500	—	515,500	—	515,500	—	—	—	515,500
Sky-med, Inc.	—	—	30,702	30,702	—	—	—	—	—	31,125	—	31,125	31,125
Smoky Mountain Helicopters, Inc.	—	—	54	54	—	—	—	—	—	45	—	45	45
Sunshine Helicopters, Inc.	9	179	41,994	42,182	8	152	160	—	160	35,694	(6,599)	29,095	29,255
Trans Executive Airlines Of Hawaii, Inc.	45,143	37,261	151,664	234,068	42,453	34,400	76,853	(18,330)	58,523	142,233	(8,275)	133,958	192,481
Western Global Airlines	11,348	—	—	11,348	21,168	—	21,168	—	21,168	—	—	—	21,168
Wings Over Kauai LLC	—	—	952	952	—	—	—	—	—	809	—	809	809
Total	1,101,080	108,688	884,741	2,094,509	$ 3,641,830	98,020	3,739,850	(116,319)	3,623,531	994,464	(23,490)	970,974	4,594,505

Summary of revenue landing weights:	
Overseas	1,095,240
Interisland	999,269
	2,094,509

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2019.

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 of Hawaii (the "*State*" or "*Hawaii*") has been excerpted from the State of Hawaii State Department of Business, Economic Development and Tourism ("*DBEDT*") Third Quarter 2020 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 "**CERTAIN ECONOMIC INFORMATION**." The following descriptions of certain components of the State's economy are primarily related to the visitor industry, and DBEDT's outlook for the economy are below under "**State of the Economy**" as well as brief descriptions in the "**Outlook for the Economy**" and "**Tourism**" sections below explaining the impact of these components on the State's fiscal position.

The coronavirus pandemic ("*COVID-19*") has had severe and unprecedented impact on the economy of the State, causing hotels, shopping malls, airlines, restaurants, retailers, service professionals, and a wide variety of Hawaii businesses to significantly reduce or shut down operations. Such public health measures were needed to curb the spread of COVID-19 throughout the state. As a result, in its third quarter 2020 Statistical and Economic Report, DBEDT projected Hawaii's economy will contract by 12.3 percent in 2020, a slight deterioration from the 12.1 percent contraction forecast in May. The revision is mainly due to the delayed pre-test program for trans-Pacific travel and the two-week Stay-at-Home, Work-from-Home order for Oahu. Due to the increase in confirmed COVID-19 cases in Hawaii and in many of the states where Hawaii visitors were arriving from and where Hawaii residents often visited such as California, Arizona and Nevada, Gov. David Ige announced that the start of the pre-test program for U.S. mainland visitors to Hawaii initially planned to start on September 1, 2020 has moved to October 15, 2020.

Because the global COVID-19 pandemic and accompanying tourism shutdown are unprecedented, the State's economic forecast cannot be generated using past trends; however, basic relationships between economic variables remain unchanged, such as the relationship between job count and unemployment, personal income and GDP. DBEDT's forecast is based on a number of factors as described in the "**Outlook for the Economy**" section below.

State of the Economy

Hawaii's major economic indicators were mainly negative in the second quarter of 2020. Visitor arrivals, wage and salary jobs, private building authorizations, and State general fund tax revenues all decreased in the quarter compared to the second quarter of 2019. Only government contracts awarded increased in the quarter.

In the second quarter of 2020, the total number of visitors arriving by air to Hawaii decreased 2,576,293 or 98.8 percent to 30,748. Due to the reduced number of visitors, the daily visitor census decreased 96.2 percent in the second quarter.

In the second quarter of 2020, jobs in the natural resources, mining and construction sector increased 0.8 percent or 300 jobs to 37,300 jobs compared with the same quarter of 2019. The government contracts awarded increased from $129.1 million in the second quarter of 2019 to $582.4 million in the second quarter of 2020. In the second quarter of 2020, the permit value for private construction decreased $115.8 million or 14.3 percent to $693.1 million compared with the same quarter of 2019. According to the most recent excise tax base data available, current construction put-in-place increased $118.4 million or 5.0 percent to $2.468 billion in the first quarter of 2020, compared with the same quarter of the previous year.

In the second quarter of 2020, State general fund tax revenues were down $722.6 million or 34.4 percent to $1.378 billion from the same period of 2019. The net individual income tax revenues decreased $359.7 million or 40.5 percent to $528 million, the state general excise tax revenue decreased $221.3 million or 24.6 percent to $677.1 million, and the transient accommodations tax (TAT) decreased $103.3 million or 68.6 percent to $47.2 million. In the first half of 2020, State general fund tax revenues decreased $619.7 million or 16.4 percent to $3.169 billion, and state general excise tax revenue decreased $166.4 million or 9.2 percent to $1.648 billion, compared to the same period of the previous year.

Labor market conditions were all negative. In the second quarter of 2020, Hawaii's non-agricultural wage and salary jobs averaged 535,200 jobs, a decrease of 118,400 jobs or 18.1 percent from the same quarter of 2019.

In this quarter, the private sector lost about 106,300 non-agricultural jobs to 535,200 jobs compared to the second quarter of 2019. The largest decrease was in Food Services and Drinking Places, which lost 35,400 jobs or 50.7 percent to 34,400 jobs. Accommodation lost 25,800 jobs or 60.8 percent to 16,600 jobs. Transportation, Warehousing & Utilities lost 8,500 jobs or 25.1 percent to 25,300 jobs. Retail Trade lost 7,300 jobs or 10.3 percent to 63,300 jobs. Professional & Business Services lost 7,100 jobs or 9.7 percent to 66,000 jobs. Arts, Entertainment & Recreation lost 6,600 jobs or 47.8 percent to 7,200 jobs in the quarter. The Government sector lost 12,100 jobs or 9.5 percent in the second quarter of 2020 to 115,900 jobs, compared to the same quarter of 2019. The Federal Government added 100 jobs or 0.3 percent to 34,000 jobs, the State Government lost 11,700 jobs or 15.6 percent to 63,300 jobs, and the Local Government lost 400 jobs or 2.1 percent to 18,600 jobs, compared to the second quarter of 2019.

In the first quarter of 2020, total annualized nominal GDP increased $995 million or 1.0 percent to $97.089 billion from the first quarter of 2019. In 2019, total annualized nominal GDP increased $3.484 billion or 3.7 percent to $97.292 billion from the previous year. In the first quarter of 2020, total annualized real GDP (in chained 2012 dollars) decreased $1.081 billion or 1.3 percent to $82.188 billion from the first quarter of 2019. In 2019, total annualized real GDP increased $858 million or 1.0 percent to $83.509 billion from the previous year.

In the first quarter of 2020, total non-farm private sector annualized earnings increased $186.6 million or 0.5 percent to $40.680 billion from the first quarter of 2019. In dollar terms, the largest increase occurred in health care and social assistance; followed by finance and insurance, administrative & waste management services, retail trade, and transportation and warehousing. During the first quarter of 2020, total government earnings increased $352.7 million or 2.2 percent to $16.421 billion from the same quarter of 2019. Earnings from the federal government increased $312.3 million or 3.5 percent to $9.338 billion. Earnings from the state and local governments increased $40.5 million or 0.8 percent to $7.288 billion in the quarter.

Outlook for the Economy

Hawaii's economy has been greatly impacted by the COVID-19 pandemic. During the April-July 2020 period, the average unemployment rate (not seasonally adjusted) was 18.5 percent. Hawaii lost 115,000 non-agriculture payroll jobs during the April-July period as compared with the same period a year ago. All industry sectors lost jobs except construction and federal civilian jobs. The leisure and hospitality sector accounted for 58.7 percent of the total job loss at 67,500.

Hawaii initial unemployment claims started to rise mid-March and peaked at 53,112 during the first week of April and then gradually declined. During the second week of August, initial unemployment claims were still above 5,000 per week. During 2012-2019 period, the weekly initial unemployment claims averaged 1,442 per week.

Visitor arrivals to the State during the second quarter of 2020 totaled 30,748, a decrease of 98.8 percent from the same quarter in 2019. However, these visitors stayed longer in Hawaii with average length of stay at 27.3 days. In 2019 the average length of stay was 8.8 days.

Value of private building permits showed a decrease of 14.3 percent to $693.1 million during the second quarter of 2020. The largest decrease occurred in the additions and alterations category which was down by 40.7 percent to $248.8 million. Value of residential building permits was down by 3.9 percent to $310.6 million and the value for commercial and industrial category was up by 101.2 percent to $133.8 million during the same period.

Though the value of private building permits was down, state government spending on capital investment projects (CIP) was up by 10.7 percent to $471.1 million during the same time period. State government spent an average of nearly $1.5 billion a year on CIP projects during the last three years (2017-2019).

As of August 25, 2020, federal funds allocated to Hawaii totaled $8.4 billion. Most of these federal funds has been or will be received as household income and will be spent by Hawaii households. These funds helped mitigate the economic impact from COVID-19.

At the national level, the U.S. economic growth rate was at 0.3 percent during the first quarter and declined by 9.1 percent in the second quarter, as compared to the same quarter in 2019. The Blue Chip Economic Indicators report from Aug. 10, 2020, which is the consensus of 50 economic forecasting organizations, projected that the U.S. economic growth rate for 2020 will decrease by 5.2 percent. The report projected a positive 3.8 percent U.S. economic growth for 2021. The Blue Chip forecasts for foreign countries were all negative except China and India which showed small growth.

Based on the above development, and the delayed pre-test program for transpacific travel coupled with the August 25th two-week Stay-at-Home, Work-from-Home Order for Oahu, DBEDT projects that Hawaii's economic growth rate, as measured by the real gross domestic product (GDP), will drop by 12.3 percent in 2020, then will increase at 2.1 percent in 2021, 2.0 percent in 2022, and 1.2 percent in 2023.

The current version of the economic forecast assumes that the state will start the pre-test program for trans-Pacific travelers in early November and no further lockdown of major businesses after the two-week Stay-at-Home, Work-from-Home Order for Oʻahu which started on August 27, 2020.

Hawaii will welcome 2.9 million visitors in 2020, a decrease of 71.9 percent from the 2019 level. Visitor arrivals will increase to 7.2 million in 2021, 8.3 million in 2022, and 9.4 million in 2023. Visitor spending will decrease 67.8 percent in 2020, then will increase 109.1 percent in 2021, 18.8 percent in 2022, and 14.7 percent in 2023.

Non-agriculture payroll jobs will shrink by 12.1 percent in 2020, then will increase by 8.5 percent in 2021, 2.0 percent in 2022, and 1.5 percent in 2023.

Overall for 2020, the average annual unemployment rate will be at 10.9 percent, then decrease to 7.2 percent in 2021, 6.6 percent in 2022, and 6.3 percent in 2023. These rates are much higher than the average Hawaii unemployment rate of 2.5 percent 2017 to 2019.

Nominal personal income is expected to decrease by 12.1 percent in 2020, then will increase by 5.3 percent in 2021 and 3.9 percent in 2022. Nominal personal income growth rate will be at 3.0 percent in 2023.

Hawaii's consumer inflation rate, as measured by the Honolulu Consumer Price Index for All Urban Consumers, will increase at rates between 1.4 to 1.8 for the next few years.

Hawaii's population is expected to be unchanged in 2020 and increase only by 0.1 percent in 2021, and 0.3 percent each year thereafter. Though international migration (usually net in-migration) may be halted in 2020, domestic migration (usually net out-migration) is likely to be on hold as well in 2020.

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Table 1
SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	2nd QUARTER 2019	2nd QUARTER 2020	2nd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2019	YEAR-TO-DATE 2020	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	663,150	624,600	-5.8	664,600	647,350	-2.6
Civilian employed, NSA	644,400	496,350	-23.0	646,050	574,500	-11.1
Civilian unemployed, NSA	18,800	128,250	582.2	18,550	72,850	292.7
Unemployment rate, NSA (%) 1/ 2/	2.8	20.5	17.7	2.8	11.5	8.7
Total wage and salary jobs, NSA	658,600	539,200	-18.1	660,550	600,750	-9.1
Total non-agric. wage & salary jobs	653,600	535,200	-18.1	655,500	596,300	-9.0
Nat. Resources, Mining, Constr.	37,000	37,300	0.8	36,900	37,400	1.4
Manufacturing	14,000	11,300	-19.3	14,100	12,600	-10.6
Wholesale Trade	18,200	15,800	-13.2	18,300	16,900	-7.7
Retail Trade	70,600	63,300	-10.3	71,100	66,700	-6.2
Transp., Warehousing, Util.	33,800	25,300	-25.1	33,900	29,900	-11.8
Information	8,200	7,500	-8.5	8,700	7,900	-9.2
Financial Activities	29,900	27,500	-8.0	29,800	28,500	-4.4
Professional & Business Services	73,100	66,000	-9.7	73,700	70,200	-4.7
Educational Services	14,100	11,600	-17.7	14,300	13,000	-9.1
Health Care & Social Assistance	72,300	70,900	-1.9	72,500	72,100	-0.6
Arts, Entertainment & Recreation	13,800	7,200	-47.8	13,800	10,400	-24.6
Accommodation	42,400	16,600	-60.8	42,500	29,700	-30.1
Food Services & Drinking Places	69,800	34,400	-50.7	69,900	52,500	-24.9
Other Services	28,400	24,600	-13.4	28,400	26,300	-7.4
Government	128,000	115,900	-9.5	127,700	122,100	-4.4
Federal	33,900	34,000	0.3	34,000	34,300	0.9
State	75,000	63,300	-15.6	74,800	69,100	-7.6
Local	19,000	18,600	-2.1	18,900	18,700	-1.1
Agriculture wage and salary jobs	5,000	4,000	-20.0	5,000	4,500	-10.0
State general fund revenues ($1,000)	2,100,839	1,378,238	-34.4	3,789,027	3,169,285	-16.4
General excise and use tax revenues	898,376	677,077	-24.6	1,814,731	1,648,350	-9.2
Income-individual	887,762	528,080	-40.5	1,412,013	1,088,136	-22.9
Declaration estimated taxes	397,455	146,291	-63.2	537,845	346,548	-35.6
Payment with returns	165,974	72,013	-56.6	204,805	113,920	-44.4
Withholding tax on wages	524,730	479,038	-8.7	1,071,995	1,050,570	-2.0
Refunds ('-' indicates relative to State)	-200,398	-169,182	-15.6	-402,632	-422,821	5.0
Transient accommodations tax	150,535	47,225	-68.6	317,690	244,370	-23.1
Honolulu County Surcharge 3/	77,835	47,918.6	-38.4	155,863	138,352	-11.2
Private Building Permits ($1,000)	808,957	693,130	-14.3	1,569,983	1,477,923	-5.9
Residential	323,215	310,584	-3.9	633,147	539,237	-14.8
Commercial & industrial	66,470	133,758	101.2	112,645	254,223	125.7
Additions & alterations	419,272	248,788	-40.7	824,191	684,464	-17.0
Visitor Days - by air	22,255,007	838,075	-96.2	44,891,780	20,260,480	-54.9
Domestic visitor days - by air	17,120,784	829,162	-95.2	33,146,658	15,196,136	-54.2
International visitor days - by air	5,134,223	8,913	-99.8	11,745,122	5,064,344	-56.9
Visitor arrivals by air - by air	2,607,041	30,748	-98.8	5,094,146	2,126,443	-58.3
Domestic flight visitors - by air	1,915,973	29,887	-98.4	3,597,993	1,513,303	-57.9
International flight visitors - by air	691,068	861	-99.9	1,496,153	613,140	-59.0
Visitor expend. - arrivals by air ($1,000)	4,347,732	(NA)	(NA)	8,828,796	(NA)	(NA)
Hotel occupancy rates (%) 2/	80.3	12.9	-67.4	80.5	49.7	-30.8

NA Not available.

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

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

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

Source: Hawaii State Department of Business, Economic Development, & Tourism <http://www.hawaii.gov/dbedt/inf>, Hawaii State Department of Labor & Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>; Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC. 8/28/2020

Table 2
ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII
2018 TO 2023

Economic Indicators	2018	2019	2020	2021	2022	2023
	(Actual)		(Forecast)			
Total population (thousands)	1,421	1,416	1,416	1,417	1,421	1,425
Visitor arrivals (thousands) 1/	9,889	10,425	3,392	6,241	8,340	9,397
Visitor days (thousands) 1/	88,285	90,892	29,536	54,257	72,401	81,453
Visitor expenditures (million dollars) 1/	17,643	17,754	5,534	10,360	14,248	16,348
Honolulu CPI-U (1982-84=100)	277.1	281.6	283.0	287.0	291.6	296.5
Personal income (million dollars)	78,721	81,342	73,039	74,910	76,718	78,898
Real personal income (millions of 2012$) 2/	61,931	63,169	56,473	57,264	57,894	58,762
Non-agricultural wage & salary jobs (thousands)	658.3	655.7	597.3	621.8	639.9	648.2
Civilian unemployment rate 3/	2.4	2.7	8.6	7.3	6.5	6.2
Gross domestic product (million dollars)	93,798	97,282	86,786	89,012	91,162	93,756
Real gross domestic product (millions of 2012$)	82,652	83,509	73,374	73,873	74,349	75,157
Gross domestic product deflator (2012=100)	113.5	116.5	118.3	120.5	122.6	124.7
Annual Percentage Change						
Total population	-0.3	-0.3	0.0	0.1	0.3	0.3
Visitor arrivals 1/	5.2	5.4	-67.5	84.0	33.6	12.7
Visitor days 1/	4.9	3.0	-67.5	83.7	33.4	12.5
Visitor expenditures 1/	5.1	0.6	-68.8	87.2	37.5	14.7
Honolulu CPI-U	1.9	1.6	0.5	1.4	1.6	1.7
Personal income	4.0	3.3	-10.2	2.6	2.4	2.8
Real personal income 2/	2.6	2.0	-10.6	1.4	1.1	1.5
Non-agricultural wage & salary jobs	0.5	-0.4	-8.9	4.1	2.9	1.3
Civilian unemployment rate 3/	0.0	0.3	5.9	-1.3	-0.8	-0.3
Gross domestic product	4.9	3.7	-10.8	2.6	2.4	2.8
Real gross domestic product	2.4	1.0	-12.1	0.7	0.6	1.1
Gross domestic product deflator (2012=100)	2.4	2.6	1.5	1.9	1.8	1.7

1/ Visitors who came to Hawaii by air or by cruise ship. Expenditures includes supplementary expenditures. 2019 supplementary expenditure was estimated by DBEDT.

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

3/ Absolute change from previous year.

Source: Hawaii State Department of Business, Economic Development & Tourism, May 21, 2020.

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Tourism

Due to the impact of COVID-19, domestic visitor arrivals and international visitor arrivals both decreased in the first eight months of 2020. Due to longer lengths of stay, the daily visitor census decreased less than the decrease of visitor arrivals in the quarter.

The total number of visitor arrivals by air decreased to 2,171,349 or 69.1 percent in the first eight months of 2020, compared to 7,015,773 in the first eight months of 2019. In August 2020 the total number of visitor arrivals by air decreased to 22,334 or 97.6 percent from 926,417 in August 2019. The total average daily census decreased to 88,102 or 65.3 percent in the first eight months of 2020 from 253,544 in the first eight months of 2019. In August 2020, average daily census decreased to 21,917or 91.3 percent from 252,916 for the same period of the previous year.

In the August 2020, total visitor arrivals on domestic flights decreased to 21,618, or 96.7 percent compared to 662,488 in the same month of 2019. In the first eight months of 2020, domestic arrivals decreased to 1,556,579, or 68.9 percent from 5,000,963 for the same period of the previous year.

Arrivals on international flights decreased to 726 or 99.7 percent in the August 2020 compared to 263,929 in August 2019. In the first eight months of 2020, international arrivals decreased to 613,140 from 2,014,810, for the same period of the previous year.

In terms of major market areas, in August 2020, arrivals from the U.S. West decreased to 12,788 or 97.0 percent from 420,750, arrivals from the U.S. East decreased to 7,407 or 96.3 percent from 199,659 and arrivals from Japan decreased to 220 or 99.9 percent from 160,728. In the first eight months of 2020, arrivals from the U.S. West decreased to 953,559 or 65.5 percent from 3,141,739; arrivals from the U.S. East decreased to 538,708 or 66.9 percent from 1,629,517; and Japanese arrivals decreased to 294,568 or 71.5 percent from 1,029,549 from the same period of the previous year.

In August 2020, the length of stay per visitor increased. Due to the longer length of stay, the average total daily visitor census decreased less than the decrease in visitor arrivals in the quarter. The total average daily visitor census decreased to 21,917 or 91.3 percent from 252,916 visitors per day in the August 2020, from the same month in 2019. The domestic average daily census decreased to 19,681 or 96.7 percent from 171,058 visitors per day while the Japanese average daily census decreased to 243 or 99.3 percent from 33,458 visitors per day. In the first eight months of 2020, the average daily census decreased to 88,863 or 65.3 percent from 254,988 from the same period of the previous year.

According to the most recent data available, nominal visitor expenditures by air totaled $3,879.4 million in the first quarter of 2020, down 14.2 percent or $640.5 million from the same quarter of 2019. In 2019, visitor expenditures increased $237.8 million or 1.4 percent from the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, decreased 89.2 percent or 3,018,580 seats to 367,137 seats in the second quarter of 2020, domestic seats decreased 85.8 percent or 2,176,093 seats to 361,445; international seats declined 99.3 percent or 842,417 seats to 5,692, compared to the same quarter of 2019. In the first half of 2020, the number of total available seats decreased 43.0 percent or 2,881,499 seats to 3,827,280 from the same period of the previous year.

In the second quarter of 2020, the statewide hotel occupancy rate averaged 12.9 percent, 67.4 percentage points lower than the same quarter of 2019. In the first half of 2020, the statewide hotel occupancy rate averaged 49.7 percent, 30.8 percentage points lower than the same period of the previous year.

The following historical statistical information regarding the visitor industry should be viewed in that context.

Table 3
VISITOR ARRIVALS BY AIR
Average Length of Stay, Visitor Days, Average Daily Census

	2016	2017	2018	2019	% Change 2016-2017	% Change 2017-2018	% Change 2018-2019
Total Arrivals							
Total	8,821,802	9,277,613	9,761,448	10,282,160	5.2	5.2	5.3
Domestic	5,968,779	6,239,748	6,736,736	7,251,489	4.5	8.0	7.6
International	2,853,023	3,037,865	3,024,712	3,030,671	6.5	-0.4	0.2
Average Length of Stay							
Total	9.0	9.0	9.0	8.8	0.1	-0.3	-2.4
Domestic	9.7	9.6	9.5	9.2	-0.5	-1.5	-3.0
International	7.6	7.8	7.9	7.8	1.9	1.9	-1.3
Visitor Days							
Total	79,451,460	83,608,118	87,724,599	90,229,030	5.2	4.9	2.9
Domestic	57,652,742	59,959,536	63,732,896	66,513,478	4.0	6.3	4.4
International	21,798,718	23,648,582	23,991,703	23,715,552	8.5	1.5	-1.2
Average Daily Census							
Total	217,675	229,063	240,341	247,203	5.2	4.9	2.9
Domestic	157,953	164,273	174,611	182,229	4.0	6.3	4.4
International	59,723	64,791	65,731	64,974	8.5	1.5	-1.2

Source: Hawaii Tourism Authority.

Table 4
HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
In Percent					
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012	80.3	73.8	78.9	74.5	76.9
2013	82.0	74.2	77.8	72.3	76.5
2014	80.8	74.0	78.7	74.7	77.0
2015	80.0	77.7	79.4	77.8	78.7
2016	80.7	77.5	80.5	77.5	79.0
2017	81.4	79.4	81.4	78.6	80.2
2018	83.5	81.1	80.1	76.4	80.3
2019 1/	80.5	80.3	82.6	79.4	81.2
2020 1/	70.6	12.9	(NA)	Year-to-Date	49.7

NA Not available.

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

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

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

APPENDIX D

Certain Definitions in the Certificate

The following are definitions of certain terms used in this Official Statement, the Certificate and the Thirty-Third Supplemental Certificate. Reference is hereby made to the Certificate and the Thirty-Third 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.

"***Costs of operation, maintenance and repair***" means, for any period, all expenses of the Department incurred for the operation and maintenance of the Undertaking, as determined in accordance with generally accepted accounting principles. Costs of operation, maintenance and repair shall not include: (a) the principal of, premium, if any, or interest on any Bonds, Subordinate Bonds or general obligation bonds; (b) any allowance for amortization, depreciation or obsolescence; (c) any amount of pension and other post-retirement benefits expenses that exceed the amount that the Department deposits to the State funds for the proportional share related to the Undertaking; (d) any expenses payable from moneys other than Revenue and Aviation Fuel Taxes; (d) any extraordinary items arising from the early extinguishment of debt; (e) any capital account items; (f) any expenses related to Special Facilities, or (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties. Costs of operation, maintenance and repair shall include, among other expenses, the Department's overhead expenses allocable to the management of the Undertaking, and the required payments to the State pursuant to the state regulations, such as deposit to the self-insurance fund, or state surcharge pursuant to Hawaii Revised Statutes 36-27 Transfers from special funds for central service expenses, or any similar or successor statute.

"***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) 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 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 United States 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 2020 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 2020 BONDS**" and "**SECURITY FOR THE BONDS**." Reference is made to the full text of the Certificate and the supplements thereto for the precise wording and the complete provisions of the Certificate. Copies of the Certificate are available upon request to the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

Application of Revenues and Aviation Fuel Taxes

So long as any Bonds remain outstanding, the Airport Revenue Fund shall be continued and all Revenues and all Aviation Fuel Taxes shall be deposited in the Airport Revenue Fund, to be used and applied solely as provided in the Certificate. The Airport Revenue Fund and the Revenues and Aviation Fuel Taxes and any other, moneys deposited or to be deposited therein shall be appropriated, applied or expended in the amount necessary therefor for the following purposes and in the following order of priority:

FIRST: For payment of the costs of operation, maintenance and repair of the properties constituting the Undertaking, including reserves therefor, and the expenses of the operation of the Department of Transportation in connection with those properties.

SECOND: For the payment when due all Bonds and interest thereon, including reserves therefor, which payment shall be provided for as follows:

Interest Account. Monthly credits shall be made to the Interest Account for the purpose of paying the interest on the Bonds as and when the same become due.

Serial Bond Principal Account. Monthly credits shall be made to the Serial Bond Principal Account for the purpose of paying the principal of Bonds issued in serial form, commencing with the first business day of the month which is twelve months prior to the first principal payment date of such Bonds issued in serial form and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Sinking Fund Account. Monthly credits shall be made to the Sinking Fund Account for the purpose of providing for the retirement of the principal of Bonds of any series issued in term form, commencing with the first business day of the month which is twelve months prior to the first date upon with Bonds of any series issued in term form would be required to be redeemed and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Application of Moneys Credited to the Interest Account, Serial Bond Principal Account and Sinking Fund Account. The moneys on deposit in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and the Sinking Fund Account therein shall be used and applied solely to the payment of the interest on and the retirement of the principal of the Bonds and shall be so used and applied in accordance with the foregoing provisions. The moneys credited to said accounts shall be transferred by the Director of Finance, without further authorization or direction, to the respective paying agents for said Bonds and the coupons, if any, pertaining thereto, in such amounts and at such times as shall be necessary to pay the principal, premium, if any, and interest on said Bonds as the same become due and payable, whether upon their maturity or upon the redemption or the purchase thereof from the moneys credited to the Sinking Fund Account.

Debt Service Reserve Account. The Debt Service Reserve Account is created in order to provide a reserve for the payment of the principal and interest and premium, if any, on the Bonds. Subject to the remaining provisions of this paragraph with respect to the credits to be made to the Debt Service Reserve Account upon the issuance of Additional Bonds, the moneys on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve

Account therein shall always be maintained at an amount equal to the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding, and, if at any time the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are less than said maximum required to be maintained therein, there shall be credited to this account from the first moneys available therefor after all payments and credits required by the preceding provisions of this 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 Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding. If on the first day of any Fiscal Year the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are in excess of the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding, the amount of such excess shall be paid into the Airport Revenue Fund, to be used and applied as are all other moneys deposited in or on deposit in that fund; provided that, in anticipation of the issuance of Additional Bonds hereunder, the Department may direct that all or part of such excess amount may be retained in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein. In the event of the issuance of any Additional Bonds, unless upon the delivery of such Additional Bonds there shall then already be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), there shall (1) be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein such amount, if any, of the proceeds of the sale of such Additional Bonds as the Department may determine, or, at the option of the Department, Revenues, a Qualified Letter of Credit or Qualified Insurance, so that there shall then be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), or (2) if and to the extent there shall not be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein proceeds of such Additional Bonds, or, at the option of the Department, Revenues, a Qualified Letter of Credit or Qualified Insurance, in an amount so that there shall then be on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds, there shall be credited to the Debt Service Reserve Account, at such time or from time to time as the Department may determine, such amount or amounts, as the Department may determine, of the moneys available therefor after all payments and credits required by the preceding provisions of this 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 Debt Service Reserve Requirement for all Bonds then outstanding, exclusive of other Additional Bonds which may have been issued during such five (5) year period and with respect to which credits are then being made to the Debt Service Reserve Account in accordance with this sentence. The moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein shall, except for the transfer therefrom to the Airport Revenue Fund of excess amounts therein as heretofore permitted in this paragraph, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the 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 United States 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.

APPENDIX F

Form of Bond Counsel Opinion

October 21, 2020

Jade Butay
Director of Transportation
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

$582,490,000
STATE OF HAWAII
Airports System Revenue Bonds

Consisting of

$113,140,000 Series 2020A (AMT)	$165,885,000 Series 2020B (Taxable)	$20,295,000 Series 2020C (Non-AMT)	$184,855,000 Refunding Series 2020D (Non-AMT)	$98,315,000 Refunding Series 2020E (Taxable)

Dear Mr. Butay:

At the request of the State of Hawaii (the "*State*") acting through its Department of Transportation (the "*Department*"), we have acted as Bond Counsel in connection with the issuance by the State of its (i) $113,140,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020A (AMT) (the "*Series 2020A Bonds*"), (ii) $165,885,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020B (Taxable) (the "*Series 2020B Bonds*"), (iii) $20,295,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2020C (Non-AMT) (the "*Series 2020C Bonds*"), (iv) $184,855,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2020D (Non-AMT) (the "*Series 2020D Bonds*" and, collectively with the Series 2020A Bonds and the Series 2020C Bonds, the "*Tax Exempt Bonds*"), and (v) $98,315,000 aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Refunding Series 2020E (Taxable) (the "*Series 2020E Bonds*" and, together with the Series 2020B Bonds, the "*Taxable Bonds*" and, the Taxable Bonds together with the Tax-Exempt Bonds, the "*Series 2020 Bonds*").

The Series 2020A Bonds are dated October 21, 2020, 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 2020A Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2021 at the rate per annum set opposite such year, as follows:

Maturity (July 1)	Amount ($)	Interest Rate (%)
2030	2,920,000	5.000
2031	17,110,000	5.000
2032	17,965,000	5.000
2033	18,865,000	5.000
2034	19,805,000	5.000
2035	20,795,000	4.000
2036	1,330,000	4.000
2037	1,385,000	4.000
2038	1,440,000	4.000
2039	1,500,000	4.000
2040	1,555,000	4.000
2045	8,470,000	4.000

The Series 2020B Bonds are dated October 21, 2020, 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 2020B Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2021 at the rate per annum set opposite such year, as follows:

Maturity (July 1)	Amount ($)	Interest Rate (%)
2050	165,885,000	3.484

The Series 2020C Bonds are dated October 21, 2020, 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 2020C Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2021 at the rate per annum set opposite such year, as follows:

Maturity (July 1)	Amount ($)	Interest Rate (%)
2050	20,295,000	5.000

The Series 2020D Bonds are dated October 21, 2020, 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 2020D Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2021 at the rate per annum set opposite such year, as follows:

Maturity (July 1)	Amount ($)	Interest Rate (%)
2027	1,725,000	5.000
2028	1,715,000	5.000
2029	1,980,000	5.000
2030	1,340,000	5.000
2031	1,235,000	5.000
2032	1,300,000	5.000
2033	1,365,000	5.000
2034	1,430,000	5.000
2035	31,900,000	4.000
2036	33,170,000	4.000
2037	34,505,000	4.000
2038	35,880,000	4.000
2039	37,310,000	4.000

The Series 2020E Bonds are dated October 21, 2020, 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 2020E Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2021 at the rate per annum set opposite such year, as follows:

Maturity (July 1)	Amount ($)	Interest Rate (%)
2025	18,300,000	1.392
2026	16,950,000	1.706
2027	17,120,000	1.806
2028	15,940,000	2.130
2029	16,280,000	2.230
2030	13,725,000	2.330

The Series 2020 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 2020 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. The Series 2020 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 and refunding certain outstanding Airports System Revenue Bonds of the State. The Series 2020 Bonds are authorized to be issued and are issued under, pursuant to, and in full compliance with the Constitution and statutes of the State, 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-Third Supplemental Certificate of the Director of the Department of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds, Series 2020A (AMT), Series 2020B (Taxable), Series 2020C (Non-AMT), Refunding Series 2020D (Non-AMT) and Refunding Series 2020E (Taxable) dated as of October1, 2020 (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 2020 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 Tax-Exempt Bonds. These requirements relate to, among other things, the use and investment of the proceeds of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds in order to comply with these requirements. Our opinion expressly assumes and relies upon as being true, correct and complete, the certifications and representations and upon compliance with the covenants set forth in the Tax Certificate.

In rendering our opinions set forth herein, we have also assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State or the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate, the Supplemental Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes under the Code.

The rights and obligations under the Series 2020 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 2020 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 Tax-Exempt 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 Tax-Exempt Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes.

(4) Interest on the Taxable Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Code. Purchasers of the Taxable Bonds should consult their own tax advisors as to the tax consequences of purchasing or owning the Taxable Bonds.

(5) We express no opinion as to the exclusion from gross income for federal income tax purposes of interest on any Series 2020A Bond or Series 2020D Bond for any period during which such Series 2020A Bond or Series 2020D Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of such Series 2020A Bond or Series 2020D 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 2020A Bonds is an item of tax preference for purposes of the federal alternative minimum tax and (ii) interest on the Series 2020C Bonds and Series 2020D Bonds is not an item of tax preference for purposes of the federal alternative minimum tax.

(6) Interest on the Series 2020 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 2020 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 2020 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 2020 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 2020 Bonds concludes with their issuance, and we disclaim any obligation to update this letter after the date hereof.

Very truly yours,

KATTEN MUCHIN ROSENMAN LLP

APPENDIX G

Form of Continuing Disclosure Certificate

Dated October 21, 2020

$113,140,000 **State of Hawaii** **Airports System Revenue Bonds,** **Series 2020A (AMT)**	**$165,885,000** **State of Hawaii** **Airports System Revenue Bonds,** **Series 2020B (Taxable)**
$20,295,000 **State of Hawaii** **Airports System Revenue Bonds,** **Series 2020C** **(Non-AMT)**	**$184,855,000** **State of Hawaii** **Airports System Revenue Bonds,** **Refunding Series 2020D** **(Non-AMT)**

$98,315,000
State of Hawaii
Airports System Revenue Bonds,
Refunding Series 2020E
(Taxable)

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 $113,140,000 State of Hawaii Airports System Revenue Bonds, Series 2020A (AMT), $165,885,000 State of Hawaii Airports System Revenue Bonds, Series 2020B (Taxable), $20,295,000 State of Hawaii Airports System Revenue Bonds, Series 2020C (Non-AMT), $184,855,000 State of Hawaii Airports System Revenue Bonds, Refunding Series 2020D (Non-AMT) and $98,315,000 State of Hawaii Airports System Revenue Bonds, Refunding Series 2020E (Taxable) (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.

"*Financial Obligation*" shall mean a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Exchange Act) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"*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), 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 October 7, 2020, 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;

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

15. the incurrence of a Financial Obligation of the State, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the State, any of which affect holders or beneficial holders, if material; and

16. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the State, any of which reflect financial difficulties.

For the purposes of the events identified in subparagraphs (15) and (16) and the definition of "Financial Obligation" in Section 2 hereof, reference to the Rule includes the guidance provided by the SEC in Release No. 34 83885 dated August 20, 2018 (the "2018 Release"), and any further amendments or written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

(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. If the Department determines that it failed to file its Annual Report in accordance with Section 4 or that it failed to give notice as required under this Section 5, it shall promptly file a notice of such determination in the same manner.

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 2020A (AMT), Series 2020B (Taxable), Series 2020C (Non-AMT), Refunding Series 2020D (Non-AMT) and Refunding Series 2020E (Taxable)
Date of Issuance:	October 21, 2020

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 October 21, 2020. [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

Provision for Book-Entry Only System and Global Clearance Procedures

The information set forth in this Appendix H is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (DTC, Euroclear and Clearstream together, the "Clearing Systems") currently in effect. The information in this Appendix H concerning the Clearing Systems has been obtained from sources believed to be reliable, but the State does not take any responsibility for the accuracy, completeness or adequacy of the information in this Appendix H. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The State will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of beneficial ownership interests in the Series 2020 Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC Book-Entry-Only System

The Depository Trust Company ("*DTC*"), New York, NY, will act as securities depository for the Series 2020 Bonds. The Series 2020 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2020 Bond will be issued for each maturity of each issue of the Series 2020 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of 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 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.

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Series 2020 Bonds representing their ownership interests in Series 2020 Bonds, except in the event that use of the Book-Entry System for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Certificate or other Series 2020 Bond documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative. Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar under the Certificate and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds of a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2020 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Series 2020 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent under the Certificate, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the State or the Paying Agent, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, or the Paying Agent under the Certificate, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2020 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, Series 2020 Bond certificates are required to be printed and delivered.

In reviewing this Official Statement it should be understood that while the Series 2020 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 2020 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.

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.

None of the State, the Paying Agent 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 2020 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 2020 Bonds or (v) any other event or purpose.

Global Clearance Procedures

Beneficial interests in the Series 2020 Bonds may be held through DTC, Clearstream Banking, S.A. ("Clearstream") or Euroclear Bank SA/NV ("Euroclear") as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system.

Euroclear and Clearstream. Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures. The Series 2020 Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Series 2020 Bonds, the record holder will be DTC's nominee. Clearstream and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Transfer Procedures. Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected by DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time.

The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants or Euroclear participants may not deliver instructions directly to the depositories.

The State will not impose any fees in respect of holding the Series 2020 Bonds; however, holders of book-entry interests in the Series 2020 Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and Clearstream.

Initial Settlement. Interests in the Series 2020 Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Series 2020 Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Series 2020 Bonds will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the date of delivery of the Series 2020 Bonds against payment (value as on the date of delivery of the Series 2020 Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Series 2020 Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Series 2020 Bonds following confirmation of receipt of payment to the State on the date of delivery of the Series 2020 Bonds.

Secondary Market Trading. Secondary market trades in the Series 2020 Bonds will be settled by transfer of title to book-entry interests in Euroclear, Clearstream or DTC, as the case may be. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Series 2020 Bonds may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Book-entry interests in the Series 2020 Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Series 2020 Bonds between Euroclear or Clearstream and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream and DTC.

Special Timing Considerations. Investors should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Series 2020 Bonds through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Series 2020 Bonds, or to receive or make a payment or delivery of the Series 2020 Bonds, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream is used, or Brussels if Euroclear is used.

Clearing Information. It is expected that the Series 2020 Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream. The CUSIP numbers for the Series 2020 Bonds are set forth on the inside cover pages of the Official Statement.

General. Neither Euroclear nor Clearstream is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

NONE OF THE STATE, THE PAYING AGENT OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY FOR THE PERFORMANCE BY EUROCLEAR OR CLEARSTREAM OR THEIR RESPECTIVE DIRECT OR INDIRECT PARTICIPANTS OR ACCOUNT HOLDERS OF THEIR RESPECTIVE OBLIGATIONS UNDER THE RULES AND PROCEDURES GOVERNING THEIR OPERATIONS OR THE ARRANGEMENTS REFERRED TO ABOVE.

STATE OF HAWAII • AIRPORTS SYSTEM REVENUE BONDS, SERIES 2020A (AMT), SERIES 2020B (TAXABLE), SERIES 2020C (NON-AMT), REFUNDING SERIES 2020D (NON-AMT) AND REFUNDING SERIES 2020E (TAXABLE)

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

Mixed Sources
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