NEW ISSUE--BOOK ENTRY ONLY **RATINGS:** See "Ratings" herein

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

$201,390,000
STATE OF HAWAII
Harbor System Revenue Bonds

$164,275,000 Series A of 2010 (Non-AMT)	$37,115,000 Series B of 2010 (AMT)

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

The above referenced series of Harbor System Revenue Bonds (referred to herein as the "Series 2010A Bonds" and the "Series 2010B Bonds," respectively, and collectively as the "Series 2010 Bonds") are being issued (i) in the case of the Series 2010A Bonds, to provide funds for certain capital improvements to the Harbor System, (ii) in the case of the Series 2010B Bonds, to refund certain outstanding Harbor System Revenue Bonds, and (iii) to pay the costs of issuance of the Series 2010 Bonds. The Series 2010 Bonds are special limited obligations of the State, payable solely from and secured by the Net Revenues derived by the State from the ownership or operation of the statewide system of commercial harbors on a parity with certain outstanding Harbor System Revenue Bonds after payment of the costs of operation and maintenance.

The Series 2010 Bonds are issuable in fully registered form and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchases of the Series 2010 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants. Purchases of the Series 2010 Bonds may be made in the denomination of $5,000 or any integral multiple thereof. Beneficial owners of the Series 2010 Bonds will not receive physical delivery of the Series 2010 Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2010 Bonds. So long as DTC or its nominee is the registered owner of the Series 2010 Bonds, payment of the principal of and interest on the Series 2010 Bonds will be made directly by the Director of Finance of the State of Hawaii 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 "THE SERIES 2010 BONDS—Book-Entry System" herein).

The Series 2010 Bonds will bear interest at the rates per annum shown on the inside cover hereof, payable on January 1 and July 1 of each year, commencing on January 1, 2011. The Series 2010 Bonds are subject to redemption prior to maturity as and to the extent described herein. See "THE SERIES 2010 BONDS—Redemption."

The scheduled payment of principal of and interest on the Series 2010B Bonds maturing on July 1 of the years 2011 through 2017, inclusive (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

ASSURED GUARANTY MUNICIPAL

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

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the appendices hereto, to obtain information essential to the making of an informed investment decision.

The Series 2010 Bonds are offered when, as and if issued, subject to the approval of legality by Katten Muchin Rosenman LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Series 2010 Bonds in definitive form will be available for delivery to DTC on or about November 30, 2010.

BofA Merrill Lynch

BAIRD **Piper Jaffray & Co.**

Dated: November 17, 2010

MATURITY SCHEDULE

$164,275,000
STATE OF HAWAII
Harbor System Revenue Bonds
Series A of 2010
(Non-AMT)

Maturity (July 1)	Amount	Rate	Yield	Price	Maturity (July 1)	Amount	Rate	Yield	Price
2014	$2,835,000	4.000%	2.220%	106.101%	2021	$3,005,000	4.250%	4.380%	98.904%
2015	2,970,000	5.000	2.530	110.629	2021	2,000,000	5.000	4.380	104.807*
2016	3,105,000	4.000	2.890	105.686	2022	3,010,000	4.500	4.580	99.283
2017	1,845,000	5.000	3.280	110.111	2022	2,000,000	5.000	4.580	103.225*
2017	1,390,000	3.500	3.280	101.291	2023	4,365,000	5.000	4.760	101.825*
2018	3,395,000	5.000	3.650	108.872	2023	75,000	4.750	4.760	99.902
2019	3,535,000	5.000	3.930	107.730	2024	2,165,000	5.000	4.900	100.753*
2020	2,805,000	4.000	4.170	98.664	2024	2,500,000	4.750	4.900	98.520
2020	2,000,000	5.000	4.170	106.499	2025	4,900,000	5.000	5.020	99.790

$28,730,000 5.250% Term Bonds Due July 1, 2030, Yield 5.570%, Price 96.208%
$21,210,000 5.500% Term Bonds Due July 1, 2035, Yield 5.770%, Price 96.470%
$16,500,000 5.750% Term Bonds Due July 1, 2035, Yield 5.770%, Price 99.733%
$49,935,000 5.625% Term Bonds Due July 1, 2040, Yield 5.800%, Price 97.532%

$37,115,000
STATE OF HAWAII
Harbor System Revenue Bonds
Series B of 2010
(AMT)

Maturity (July 1)	Amount	Rate	Yield	Price	Maturity (July 1)	Amount	Rate	Yield	Price
2011**	$1,885,000	3.000%	1.350%	100.959%	2017**	$3,930,000	5.000%	4.060%	105.381%
2012**	3,210,000	4.000	2.080	102.978	2018	2,100,000	5.000	4.430	103.634
2013**	3,360,000	5.000	2.560	106.066	2019	2,220,000	5.250	4.710	103.773
2014**	3,480,000	5.000	3.000	106.749	2020	4,535,000	5.250	4.950	102.263
2015**	3,710,000	5.000	3.310	107.133	2021	4,785,000	5.500	5.140	102.693[1]
2016**	3,900,000	5.000	3.670	106.659					

[1] Priced to call at par on July 1, 2020.

** Insured Bonds.

STATE OF HAWAII

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

DEPARTMENT OF TRANSPORTATION

Michael D. Formby, Interim Director

First Deputy Director	Francis Paul Keeno
Deputy Director, Airports Division	Vacant
Deputy Director, Harbors Division	Vacant
Deputy Director, Highways Division	Jiro A. Sumada
Administrator, Airports Division	Vacant
Administrator, Harbors Division	Davis K. Yogi
Administrator, Highways Division	Edwin H. Sniffen

COMMISSION ON TRANSPORTATION

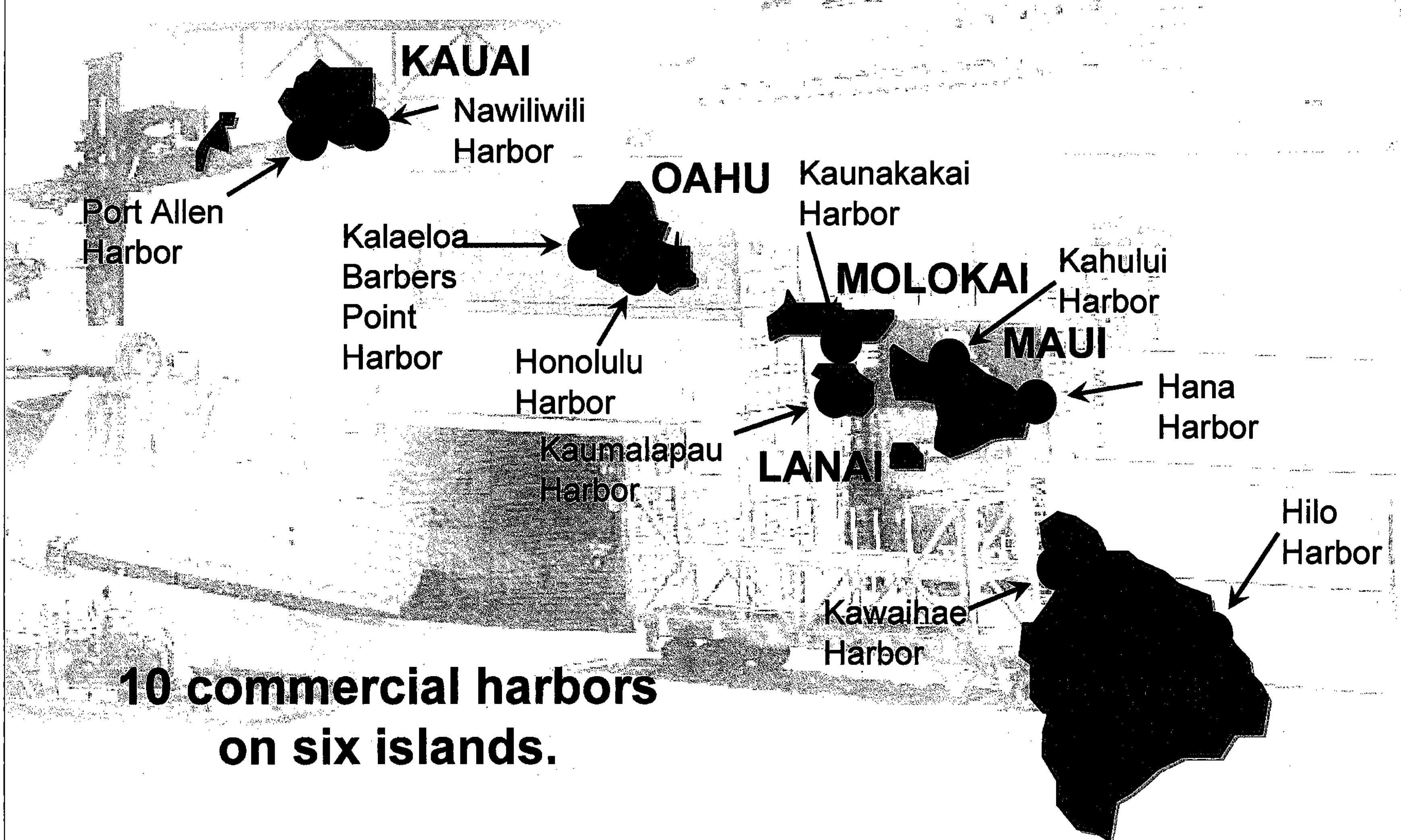
Ku'uhaku Park, Chair	Owen Miyamoto
William Lindemann, Vice Chair	Pete G. Pascua, Jr.
Lester H. Fukuda	John B. Ray
Ralph J.W.K. Hiatt	John Romanowski
Richard R. Houck	Michael Tresler

SPECIAL SERVICES

Registrar and Paying Agent
Director of Finance, State of Hawaii

Bond Counsel
Katten Muchin Rosenman LLP

STATEWIDE HARBORS SYSTEM



10 commercial harbors on six islands.

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," "project," "budget" or other 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, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Harbors Division in any way, regardless of the level of optimism communicated in the information. The Harbors Division is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

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

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, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE HARBORS DIVISION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

* * * * *

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The 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, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2010 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2010 Bonds, and, if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix F – Specimen Municipal Bond Insurance Policy".

THE SERIES 2010 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2010 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$201,390,000
STATE OF HAWAII
Harbor System Revenue Bonds

\$164,275,000	**\$37,115,000**
Series A of 2010	**Series B of 2010**
(Non-AMT)	**(AMT)**

INTRODUCTION

This Official Statement, which includes the cover and appendices (the "Official Statement"), provides information with respect to the issuance and sale of \$201,390,000 principal amount of State of Hawaii Harbor System Revenue Bonds, Series A of 2010 (Non-AMT) (the "Series 2010A Bonds"), and Series B of 2010 (AMT) (the "Series 2010B Bonds," and together with the Series 2010A Bonds, the "Series 2010 Bonds"). Capitalized terms not otherwise defined in this Official Statement shall have the respective meanings given to such terms in Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – Definitions of Certain Terms."

The State of Hawaii (the "State") will issue the Series 2010 Bonds pursuant to the Constitution, the laws of the State and the Certificate of the Director of Transportation of the State, dated as of March 1, 1997, as heretofore supplemented and as further supplemented by the seventh supplemental certificate providing for the issuance of the Series 2010 Bonds. The foregoing Certificate, as so supplemented and as hereafter supplemented and amended, is referred to herein as the "Certificate" or the "1997 Certificate." See "THE SERIES 2010 BONDS" for a description of the Series 2010 Bonds. The Series 2010 Bonds, together with the \$188,545,000 aggregate principal amount of outstanding Harbor System Revenue Bonds previously issued under the Certificate (excluding the Refunded Bonds, as hereinafter defined) and any additional parity bonds which may be issued in the future under the Certificate, are collectively referred to herein as the "Bonds."

The Series 2010 Bonds are being issued (i) in the case of the Series 2010A Bonds, to provide funds for certain capital improvements to the Harbor System operated by the Department of Transportation of the State (the "Department"), as described below under "PLAN OF FINANCING–Capital Improvement Projects," (ii) in the case of the Series 2010B Bonds, to refund certain outstanding Harbor System Revenue Bonds, as described below under "PLAN OF FINANCING–Refunding Plan," and (iii) to provide for the costs of issuance of the Series 2010 Bonds.

The Bonds, including the Series 2010 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Net Revenues of the Harbor System. As defined in the Certificate, such Net Revenues consist of the Revenues of the Harbor System remaining after payment of the costs of operating and maintaining the Harbor System. The Series 2010 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision of the State is pledged to the payment of or as security for the Series 2010 Bonds. All Bonds, including the Series 2010 Bonds, are and will be secured equally and ratably by the Net Revenues. See "SECURITY FOR THE BONDS" and "SOURCES OF REVENUES" for a description of the security for the Bonds and sources of Revenues.

Payment of the principal of and interest on the Series 2010B Bonds maturing on July 1 of the years 2011 through 2017, inclusive (the "Insured Bonds"), will be guaranteed by a Municipal Bond Insurance Policy (the "Policy") to be issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM" or the "Bond Insurer") concurrently with the delivery of the Insured Bonds. Additionally, the Bond Insurer will issue one or more Municipal Bond Debt Service Reserve Insurance Policies (collectively, the "Reserve Policy") simultaneously with the delivery of the Series 2010 Bonds to replace the surety bonds currently credited to the 1997 Certificate Harbor Debt Service Reserve Account and to meet the portion of the Reserve Requirement allocable to the Series 2010B Bonds. See "INSURANCE FOR THE BONDS" and Appendix F – "FORM OF MUNICIPAL BOND INSURANCE POLICY AND MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY" for additional information about the Bond Insurer, the Policy and the Reserve Policy.

The State is an archipelago located over 2,000 miles from the nearest continent. The State imports much of the food and nearly all of the building materials, manufactured goods, clothing and energy products used in the State by its 1.2 million residents and eight million annual visitors. Nearly all goods imported into, exported from and sent between the islands of the State are shipped through the ports comprising the Harbor System, other than crude oil that is shipped through privately-owned offshore mooring and fuel shipment facilities near the Kalaeloa Barbers Point Harbor. See "THE HARBOR SYSTEM—Summary of Harbor System Operations." There are no economically viable alternatives to transport bulk goods to, from and among the islands. Therefore, the Harbor System is essential to the maintenance and growth of the State's economy.

The Harbor System is the statewide system of commercial harbors comprised of ten harbors. See "THE HARBOR SYSTEM." The Harbor System is owned by the State and is operated as a single statewide system for management and financial purposes on behalf of the State by the Department through its Harbors Division (the "Harbors Division"). See "DEPARTMENT OF TRANSPORTATION." The Department is obligated to impose and collect rates and charges for the Harbor System services and properties to generate Revenues sufficient to pay debt service on the Bonds and certain other outstanding obligations of the Department, to pay the costs of operation, maintenance and repair of the Harbor System and to comply with the terms of the Certificate. See "SECURITY FOR THE BONDS–Rates and Charges."

The term "Harbor System" is used synonymously in this Official Statement with the term "Undertaking" under the Certificate. As defined in the Certificate and set forth under "Definitions of Certain Terms" in Appendix C hereto, the "Undertaking" includes all harbors, harbor and waterfront improvements, ports, docks, wharves, quays, bulkheads, landings and other related facilities and properties belonging to or controlled by the State and under the administration, jurisdiction, control and management of the Department, except facilities principally used for recreation or fishing. The Harbor System excludes any State ferry system, any properties disposed of or transferred pursuant to the Certificate, any properties subject to a Net Rent Lease executed in accordance with the Certificate, and properties in Kewalo Basin and Fort Armstrong transferred from the Department to the Hawaii Community Development Authority. See "SOURCES OF REVENUES–Other Matters Potentially Affecting Net Revenues; Makai Kakaako Development."

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, which includes the cover and appendices, to obtain information essential to the making of an informed investment decision. This Official Statement contains descriptions of the Department and the Harbor System, summaries of the Series 2010 Bonds, the security for the Bonds, the sources of Revenues, and certain provisions of the Certificate. All references to agreements and documents are qualified in their entirety by the definitive forms of such agreements and documents. All references to the Certificate and to the Series 2010 Bonds are qualified by the definitive forms of such Certificate and the Series 2010 Bonds. Copies of the Certificate are available for examination at the offices of the Harbors 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.

PLAN OF FINANCING

Authority for Issuance

Article VII, Section 12 of the State Constitution and Part III, Chapter 39, 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 upon the approval of a majority of the members of each house of the Legislature and pursuant to a certificate of the Director of the Department (the "Director"), 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 Legislature from time to time enacts laws (including the general appropriations acts) 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; provided that the Department, with the approval of the Governor, may issue refunding bonds without further authorization of the Legislature. Pursuant to the General Revenue Bond Law, the Director has issued the Certificate, which, under State law, constitutes the security document pursuant to which all Bonds are issued and secured. The Certificate provides the terms of the Bonds including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department. The Series 2010 Bonds are being issued pursuant to the Certificate and the General Revenue Bond Law.

Capital Improvement Projects

Proceeds of the Series 2010A Bonds will be used for the purpose of financing or refinancing the cost of design, implementation, land acquisition, construction, improvements, betterment and replacements to harbor dock, wharf and storage facilities, including equipment and other property functionally related thereto, located at Honolulu Harbor, Oahu; Kalaeloa Barbers Point Harbor, Oahu; Kahului Harbor, Maui; Hana Harbor, Maui; Hilo Harbor, Hawaii; and Kawaihae Harbor, Hawaii. Proceeds of the Series 2010A Bonds may also be used for other projects now or hereafter authorized by the Legislature of the State with respect to the foregoing harbor facilities and facilities at Nawiliwili Harbor, Kauai; Port Allen Harbor, Kauai; Kaunakakai Harbor, Molokai; and Kaumalapau Harbor, Lanai.

Refunding Plan

Proceeds of the Series 2010B Bonds will be used to refund, on a current basis, $38,930,000 in aggregate principal amount of the Department's Outstanding Harbor System Revenue Bonds, Series A of 2000 (the "Refunded Bonds"). The Refunded Bonds are subject to redemption at any time, upon not less than 30 days' notice to the bondholders, at a redemption price equal to 101% of the principal amount thereof, plus accrued interest to the redemption date. It is anticipated that the Refunded Bonds will be redeemed on or about December 30, 2010.

In connection with the refunding of the Refunded Bonds, the Department will enter into an escrow agreement (the "Escrow Agreement") with US Bank National Association, as escrow agent (the "Escrow Agent"), pursuant to which a portion of the proceeds of the Series 2010B Bonds will be deposited into an escrow fund (the "Escrow Fund") held by the Escrow Agent for payment of the redemption price of and accrued interest on the Refunded Bonds. On the redemption date for the Refunded Bonds, the Escrow Agent will apply funds on deposit in the Escrow Fund to the redemption of the Refunded Bonds. See "VERIFICATION" herein regarding certain mathematical computations relating to the sufficiency of the Escrow Fund.

Sources and Application of Funds

The following table shows the estimated sources and application of moneys realized by the State upon the sale of the Series 2010 Bonds:

Sources:	Series 2010A	Series 2010B	Total
Principal Amount of Bonds	$164,275,000.00	$37,115,000.00	$201,390,000.00
Net Original Issue Premium (Discount)	(1,423,228.80)	1,679,724.05	256,495.25
Other Sources	0.00	2,179,654.17	2,179,654.17
Total	$162,851,771.20	$40,974,378.22	$203,826,149.42
Application:			
Deposit to Capital Improvements Fund	$150,000,000.00	$0.00	$150,000,000.00
Deposit to Escrow Fund	0.00	40,449,558.87	40,449,558.87
Deposit to Harbor Debt Service Reserve Account (1)	11,455,032.81	--	11,455,032.81
Costs of Issuance (2)	1,396,738.39	524,819.35	1,921,557.74
Total	$162,851,771.20	$40,974,378.22	$203,826,149.42

(1) *To be funded in cash in an amount equal to the average annual debt service requirement for the Series 2010A Bonds. The Bond Insurer is expected to issue the Reserve Policy to meet the portion of the Reserve Requirement allocable to the Series 2010B Bond. See "SECURITY FOR THE BONDS – Harbor Debt Service Reserve Account" herein.*

(2) *Includes Underwriter's discount and the premiums for the Policy and the Reserve Policy.*

THE SERIES 2010 BONDS

General

The Series 2010 Bonds will be issued in fully registered form without coupons, will be in the denomination of $5,000 or any integral multiple of $5,000, will bear interest from their respective dates at the rates per annum set forth on the cover of this Official Statement, and will mature on the dates and in the principal amounts set forth on the cover of this Official Statement. The Series 2010 Bonds will be dated as of the date of delivery thereof, and will bear interest payable on January 1 and July 1 of each year, commencing January 1, 2011. Interest on the Series 2010 Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

The Series 2010 Bonds, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Series 2010 Bonds will be made in book-entry form only (the "Book-Entry System"), in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds. Principal of and interest on the Series 2010 Bonds will be paid by the Registrar and Paying Agent for the Series 2010 Bonds (initially, the Director of Finance of the State) to DTC, which will in turn remit such principal and interest to its participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the Series 2010 Bonds, as described herein. The Series 2010 Bonds may be transferred or exchanged in the manner described in such Bonds and as referenced in related proceedings of the State. See "THE SERIES 2010 BONDS - Book-Entry System," below.

Redemption

Optional Redemption. The Series 2010 Bonds maturing on and after July 1, 2021 shall be subject to redemption at the option of the State prior to their stated maturity on and after July 1, 2020 as a whole or in part at any time, from such maturities as may be designated by the State, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest, if any, to the date fixed for redemption.

Mandatory Redemption. The Series 2010A Bonds maturing on July 1, 2030 are also subject to redemption, in part, on each of the dates and in the respective principal amounts set forth below, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem the principal amount of Series 2010 Bonds specified for July 1 of each of the years shown below:

Series 2010A Bonds
Maturing July 1, 2030

Year (July 1)	Principal Amount
2026	$5,160,000
2027	5,435,000
2028	5,730,000
2029	6,040,000
2030†	6,365,000

† *Final maturity.*

The Series 2010A Bonds maturing on July 1, 2035 with a 5.500% coupon are also subject to redemption, in part, on each of the dates and in the respective principal amounts set forth below, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem the principal amount of Series 2010 Bonds specified for July 1 of each of the years shown below:

Series 2010A Bonds
Maturing July 1, 2035 with 5.500% Coupon

Year (July 1)	Principal Amount
2031	$3,780,000
2032	4,005,000
2033	4,230,000
2034	4,470,000
2035†	4,725,000

† *Final maturity.*

The Series 2010A Bonds maturing on July 1, 2035 with a 5.750% coupon are also subject to redemption, in part, on each of the dates and in the respective principal amounts set forth below, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem the principal amount of Series 2010 Bonds specified for July 1 of each of the years shown below:

Series 2010A Bonds
Maturing July 1, 2035 with 5.750% Coupon

Year (July 1)	Principal Amount
2031	$2,940,000
2032	3,105,000
2033	3,290,000
2034	3,480,000
2035†	3,685,000

† *Final maturity.*

The Series 2010A Bonds maturing on July 1, 2040 are also subject to redemption, in part, on each of the dates and in the respective principal amounts set forth below, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem the principal amount of Series 2010 Bonds specified for July 1 of each of the years shown below:

Series 2010A Bonds
Maturing July 1, 2040

Year (July 1)	Principal Amount
2036	$8,895,000
2037	9,410,000
2038	9,955,000
2039	10,535,000
2040†	11,140,000

† *Final maturity.*

Notice of Redemption. The State will mail notice of redemption not less than 30 days prior to the redemption date by registered, certified or regular first-class mail, to the registered owners of any of the Series 2010 Bonds or portions of the Series 2010 Bonds which are to be redeemed, at their last addresses appearing upon the Bond Registry. The State may also but is not required to cause such notice to be published at least once in such newspapers as provided in the Certificate not less than thirty (30) days prior to the date fixed for redemption date.

Failure of the State to publish any such notice shall not affect the validity of the proceedings for the redemption of such Series 2010 Bonds. See "—Book-Entry System" below.

As discussed under "SECURITY FOR THE BONDS – Proposed Amendments to Certificate," the Certificate is being amended to permit notices of redemption to be conditioned upon the Paying Agent's receipt of sufficient funds to pay the redemption price of the Bonds called for redemption. Purchasers of Series 2010 Bonds shall, by virtue of such purchases, be deemed to have consented to such amendment, and the amendment will be effective upon the issuance of the Series 2010 Bonds and will apply to the Series 2010 Bonds. Accordingly, any notice of optional redemption of Series 2010 Bonds may state that such redemption shall be conditioned upon the receipt by the Paying Agent on or prior to the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Series 2010 Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2010 Bonds proposed to be redeemed shall not be received on or prior to the date fixed for redemption, such notice of redemption shall be of no force and effect, the Series 2010 Bonds called for redemption shall not be redeemed and notice shall be given, in the same manner as notice of redemption was given, that moneys sufficient to pay in full the redemption price of the Series 2010 Bonds proposed to be redeemed were not received and such redemption did not occur.

Effect of Redemption. If, on the redemption date, moneys for the redemption of all the Series 2010 Bonds or portions thereof of any maturity to be redeemed, together with interest to the redemption date, shall be held by the State or Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as provided in the Certificate, then, from and after the redemption date, interest on the Series 2010 Bonds or portions thereof of such maturity so called for redemption shall cease to accrue and become payable. If such moneys shall not be so available on the redemption date, such Series 2010 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Selection for Redemption. If less than all of the Series 2010 Bonds of any maturity are to be redeemed, the Bonds to be redeemed shall be selected by lot within such maturity. See "—Book-Entry System" below for a discussion of the notice of redemption to be given to Beneficial Owners (as therein defined for the purposes of such discussion) and the manner of selection of the Series 2010 Bonds to be redeemed when the Book-Entry System for such Bonds is in effect.

Book-Entry System

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.

DTC will act as securities depository for the Series 2010 Bonds. The Series 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2010 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities

Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 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 2010 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 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010 Bonds, such as redemptions defaults, and proposed amendments to the Series 2010 Bond documents. For example, Beneficial Owners of the Series 2010 Bonds may wish to ascertain that the nominee holding the Series 2010 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 request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Series 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2010 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 Paying Agent, 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 or its nominee, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2010 Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2010 Bond certificates will be printed and delivered to DTC.

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

The State, the Department and the Underwriter will have no responsibility for or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners, nor can or do they give any assurances with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, or (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest on the Bonds, or (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the Department to DTC), or (iv) the selection by DTC of any Participant to receive payment in the event of a partial redemption of the Series 2010 Bonds, or (v) any consent given or other action taken by DTC as Owner of the Bond, or (vi) any other event or purpose. The State, the Department and the Underwriter are not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or to give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

SECURITY FOR THE BONDS

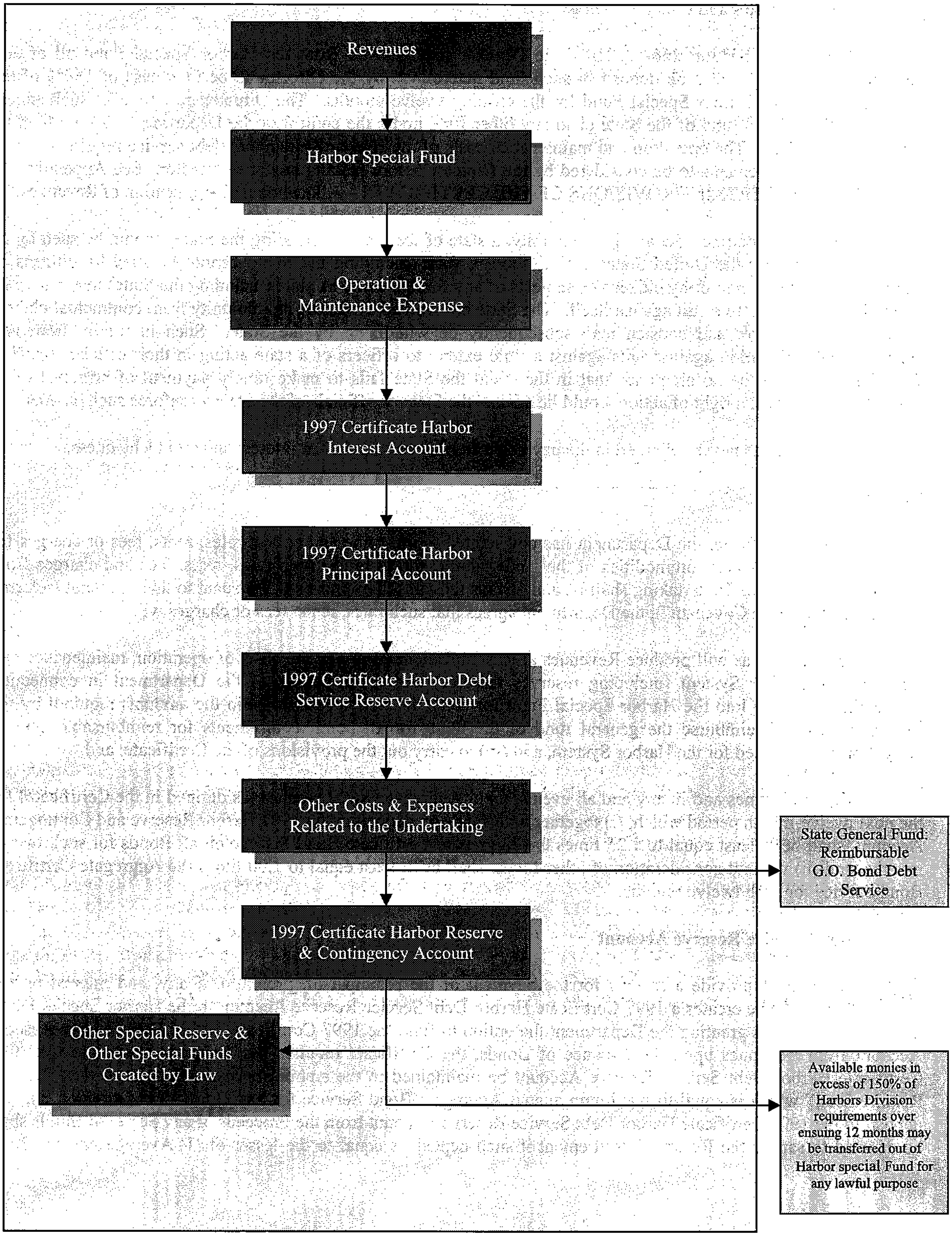
General

The Bonds, including the Series 2010 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Harbor Special Fund, into which the State is obligated to deposit Revenues, as more fully set forth below and in the Certificate. Such deposits from Revenues shall be made after and subordinate to the payment of the expenses of operation and maintenance of the properties constituting the Harbor System. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE."

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

State law creates a special fund in the Treasury of the State, designated as the Harbor Special Fund. Pursuant to the Certificate, all Revenues are required to be deposited in the Harbor Special Fund. The Certificate provides that Revenues on deposit in the Harbor Special Fund shall be applied for the purposes and in the order of priority therein established. Table 1 provides a graphical representation of the flow of Revenues from one fund to another and the application of the Revenues. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Allocation and Application of Revenues" for a further description of this flow of Revenues.

TABLE 1
FLOW AND APPLICATION OF REVENUES



The Department is obligated to impose rates and charges sufficient to pay the costs of operation and maintenance, including reserves therefor, of the Harbor System, to pay when due the debt service, and to maintain the debt service reserves for and to satisfy the requirements of the Certificate, including the requirement that the deposit into the Harbor Special Fund be sufficient to pay the debt service on the Bonds and for certain other purposes. See "—Rates and Charges" below.

Pursuant to Section 266-19, HRS, the Director may transfer from the Harbor Special Fund all or any portion of available moneys on deposit in such fund determined by the Director to be in excess of 150% of the requirements for the Harbor Special Fund for the ensuing twelve months. The Director may transfer such excess moneys to the general fund of the State or to any other fund under the control of the Department, as permitted by Section 37-53, HRS. The operation and maintenance costs of the Harbor System and debt service requirements on the Bonds are requirements to be considered by the Director before making any such transfer. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – Allocation and Application of Revenues."

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. The State has waived by statute its immunity from contractual claims. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against the State or officials of the State to enforce such payment.

The State has never defaulted in the payment of either principal of or interest on any indebtedness.

Rates and Charges

In the Certificate, the Department has covenanted to prescribe and collect rates, rents, fees or charges for the services, facilities and commodities of the Undertaking, and to revise such rates, rents, fees and charges from time to time so that the Undertaking shall be and always remain self-supporting. Pursuant to this covenant (referred to herein as the "Rate Covenant"), the Department agrees that such rates, rents, fees or charges will:

(a) be such as will produce Revenues at least sufficient (i) to pay the costs of operation, maintenance and repair of the Harbor System (including reserves therefor) and the expenses of the Department in connection therewith; (ii) to pay into the Harbor Special Fund for credit to each account therein the amounts required by the Certificate; (iii) to reimburse the general fund of the State for all bond requirements for reimbursable general obligation bonds issued for the Harbor System; and (iv) to carry out the provisions of the Certificate; and

(b) at all times and in any and all events, yield Aggregate Net Revenues (as defined in the Certificate) for the next twelve-month period which, (i) together with funds on deposit in the 1997 Harbor Reserve and Contingency Account, shall be at least equal to 1.25 times the Aggregate Certificate Bond Service on all Bonds for such twelve months, and (ii) without consideration of other funds, shall be at least equal to 1.00 times the Aggregate Certificate Bond Service for such twelve months.

Harbor 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 1997 Certificate Harbor Debt Service Reserve Account in the Harbor Special Fund. Subject to provisions granting the Department the option to fund the 1997 Certificate Harbor Debt Service Reserve Account from Revenues upon the issuance of Bonds, the Certificate requires that moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account be maintained in the amount necessary to satisfy the "Reserve Requirement," which is equal to maximum annual Aggregate Bond Service for any Bond Year, provided that the deposit to the 1997 Certificate Harbor Debt Service Reserve Account from the Proceeds of any Series of Bonds shall be deemed to satisfy the Reserve Requirement if such deposit is equal to the lesser of (1) Average Annual Bond

Service on such Series and (2) the amount permitted by the Code in order that the interest on such Series is excluded from gross income for federal income tax purposes.

In lieu of crediting moneys to the 1997 Certificate Harbor Debt Service Reserve Account, the Certificate permits the Department to obtain a surety bond or an insurance policy payable to the Department for the benefit of bondholders of a Series of Bonds or a letter of credit, in each case in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the 1997 Certificate Harbor Debt Service Reserve Account. If a surety bond, insurance policy or letter of credit is used to satisfy the portion of the Reserve Requirement allocable to a particular Series of Bonds, the holders of such Series of Bonds will not be entitled to payment from funds credited to the 1997 Certificate Harbor Debt Service Reserve Account to satisfy the portion of the Reserve Requirement allocable to any other Series of Bonds, and the holders of other Series of Bonds will not be entitled to payment from the surety bond, insurance policy or letter of credit. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – 1997 Certificate Harbor Interest Account," "1997 Certificate Harbor Principal Account," "1997 Certificate Harbor Debt Service Reserve Account" and "1997 Certificate Harbor Reserve and Contingency Account."

Pursuant to the foregoing provisions of the Certificate, the Department obtained the following surety bonds to satisfy the Reserve Requirement with respect to all Series of Bonds previously issued and currently outstanding under the Certificate:

Series of Bonds	Outstanding Principal Amount	Surety Bond Issuer[1]
Series A of 2000	$53,600,000[2]	Assured [3]
Series B of 2002	10,585,000	Ambac [4]
Series B of 2004	27,135,000	Assured
Series A of 2006	88,005,000	Assured
Series A of 2007	48,150,000	Assured

(1) *As discussed below, the existing surety bonds are expected to be replaced by the Reserve Policy to be issued simultaneously with the issuance of the Series 2010 Bonds.*
(2) *Includes Refunded Bonds.*
(3) *Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc.*
(4) *Ambac Assurance Corporation*

Moody's Investors Service and Standard & Poor's Ratings Group have assigned ratings of Aa3 (negative outlook) and AA+ (stable outlook), respectively, to the insurer financial strength of Assured Guaranty Municipal Corp. These rating agencies have assigned ratings of "Caa2" and "R," respectively, to the financial strength of Ambac Assurance Corporation. Ambac Financial Group, parent of Ambac Assurance Corporation, recently announced that it may be required to file for bankruptcy protection before the end of the year. The above ratings reflect only the respective views of the rating agencies, and an explanation of the significance of such ratings may be obtained from the rating agencies furnishing the same.

The Department has obtained a commitment from the Bond Insurer for the issuance of the new Reserve Policy to replace all of the above surety bonds and to meet the portion of the Reserve Requirement allocable to the Series 2010B Bonds. The Reserve Policy will be issued simultaneously with the issuance of the Series 2010 Bonds. The portion of the Reserve Requirement allocable to the Series 2010A Bonds will be cash funded from proceeds of the Series 2010A Bonds.

Reference is made to "Proposed Amendments to Certificate" below for a discussion of a proposed amendment to the provisions of the Certificate relating to the amount of the Reserve Requirement and the manner in which it is calculated. The proposed amendment requires the consent of the holders of all Outstanding Bonds. Purchasers of the Bonds, by virtue of such purchases, will be deemed to have consented to the proposed amendment.

Additional Indebtedness

The Certificate permits the issuance of Additional Bonds payable from and secured by the Harbor Special Fund on a parity with the Series 2010 Bonds for the purpose of paying or reimbursing the cost of acquiring or constructing properties that constitute part of the Undertaking or adding to, reconstructing, improving, replacing or expanding the Harbor System so long as:

(a) no default in the payment of any Bond exists, no deficiency exists in the Harbor Special Fund, and the Rate Covenant is satisfied; and

(b) (i) the Aggregate Net Revenues as derived from the most recent audited financial statements or for any consecutive twelve calendar month period during the preceding eighteen calendar month period, as certified by the Independent Public Accountant, are at least equal to 1.25 times the Aggregate Certificate Bond Service on all Bonds for any future fiscal year, or

(ii) (1) the Aggregate Net Revenues as derived from the most recent audited financial statements or for any consecutive twelve calendar month period during the preceding eighteen calendar month period, as certified by the Independent Public Accountant, are at least equal to 1.00 times the Aggregate Certificate Bond Service on all Bonds for any future fiscal year, and (2) the sum of such Aggregate Net Revenues and the Anticipated Net Revenue Increase, if any, is not less than 1.25 times such Aggregate Certificate Bond Service for any future fiscal year. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Additional Bonds and Refunding Bonds."

If, prior to the delivery of Additional Bonds, the Department has imposed increases in its schedule of rentals, rates, fees and charges, which increases are or shall be in effect upon the delivery of such Additional Bonds, the Harbor Consultant may adjust its estimates to reflect such increases for the purposes of making the determination required in clause (b) above.

The Department expects to issue Additional Bonds to finance a portion of future Capital Improvements Programs. See "THE HARBOR SYSTEM—Capital Improvements Program."

The Certificate also permits the issuance of Refunding Bonds payable from and secured by the Harbor Special Fund on a parity with the Series 2010 Bonds to refund Bonds if (a) no default exists in the payment of any Bond, no deficiencies exist in the Harbor Special Fund, the Rate Covenant is satisfied, and there does not exist an "Event of Default" (as described in Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – Events of Default") or a condition which upon the passage of time would constitute such an "Event of Default," and (b) the aggregate Bond Service for the Refunding Bonds after such refunding shall be less than the aggregate Bond Service for the refunded bonds had such refunding not occurred. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – Additional Bonds and Refunding Bonds."

Nothing in the Certificate prohibits the Department from incurring additional indebtedness with a lien on Net Revenues which is subordinate to that of the Bonds.

Reference is made to "Proposed Amendments to Certificate" below for a discussion of a proposed amendment to the requirements set forth in clause (b) above. The proposed amendment requires the consent of the holders of a majority in principal amount of the Outstanding Bonds. Purchasers of the Series 2010 Bonds, by virtue of such purchases, will be deemed to have consented to the proposed amendment and such amendment will be effective upon the issuance of the Series 2010 Bonds.

Proposed Amendments to Certificate

The Certificate provides that certain amendments to the provisions thereof may be made without the consent of the Holders of the Bonds, but other amendments require the consent of the Holders of a majority in principal amount of Outstanding Bonds or, in certain cases, the consent of the Holders of all Outstanding Bonds. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – Execution of

Supplemental Certificates With Consent of Bondholders" for a discussion of amendments requiring the consent of Holders of Bonds. As discussed below, the Department has proposed certain amendments to the Certificate which require the consent of the Holders of a majority in principal amount of Outstanding Bonds and an amendment which requires the consent of the Holders or all Outstanding Bonds.

As a condition to the purchase of any Series 2010 Bonds hereunder, each purchaser of a Series 2010 Bond, by acceptance thereof, will be required to consent to all of the proposed amendments and waive any revocation rights relating to such consent. Accordingly, all purchasers of the Series 2010 Bonds, by virtue of such purchases, will be deemed to have consented to such amendments without right of revocation.

Upon the issuance of the Series 2010 Bonds, there will be $389,935,000 of Bonds Outstanding, of which $201,390,000 (representing more than 50% of the total) will be Series 2010 Bonds. As a result, the proposed amendments requiring majority consent will take effect immediately upon the issuance of the Series 2010 Bonds. The proposed amendment requiring unanimous consent will not take effect until the consent of the Holders of all other Outstanding Bonds has been obtained.

Proposed Amendments Requiring Majority Consent. The following proposed amendments, which require the consent of the Holders of a majority in principal amount of Outstanding Bonds, will take effect immediately upon the issuance of the Series 2010 Bonds:

Definition of Bond Service. Under the current provisions of the Certificate (as discussed in Appendix C – SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – Definitions of Certain Terms"), calculations of Bond Service are not adjusted for the amount of Federal Direct Payments (as defined below) received with respect to the Bonds. Effective upon the issuance of the Series 2010 Bonds, the first paragraph of the definition of Bond Service will be amended to provide for such adjustments in the calculation of Bond Service. The amended paragraph of such definition reads as follows:

"Bond Service

"Bond Service" means, as of any date of calculation and with respect to any period for any Series of Bonds, Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds, an amount equal to (i) the sum of (1) the interest accruing during such period on the Bonds, Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds of such Series, except to the extent that such interest is to be paid from amounts credited to the 1997 Certificate Harbor Interest Account and (2) that portion of the next succeeding Principal Installment for the Bonds, Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds of such Series that would have accrued during such period if each such Principal Installment were deemed to accrue daily (based on a year of 12 months each of 30 days duration) in equal amounts from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding Principal Installment due date for such Series, then from a date one year preceding the due date of such Principal Installment or from the date of delivery of the Bonds of such Series, whichever is later), and (ii) net of 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 (1) the account or accounts established in the Harbor Special Fund for the payment of interest on any Capital Improvement Bonds as the same becomes due, (2) the account or accounts established in the Harbor Revenue Special Fund for the payment of interest on any 1990 Certificate Harbor Revenue Bonds as the same becomes due, or (3) the 1997 Certificate Harbor Interest Account for the purpose of paying interest on any Bonds as the same becomes due. Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof."

As used in the foregoing amended definition of Bond Service, the term Federal Direct Payments means:

"Federal Direct Payments" means the amounts payable by the federal government to the Department, in lieu of any credit otherwise available to the Holders of such Bonds, (a) with respect to any Bonds issued by the Department and designated as "Build America Bonds", pursuant to Sections 54AA and 6431 of the Code; (ii) with respect to any Bonds issued by the Department and designated as "Recovery

Zone Economic Development Bonds", pursuant to Sections 1400U-2 and 6431 of the Code; and (iii) with respect to any other Bonds issued by the Department under any other similar direct-pay subsidy programs in which the federal government shall pay to the Department a portion of the interest amounts payable under such Bonds, pursuant to such section or sections of the Code providing for such payments by the federal government."

<u>Conditional Redemption Notices</u>. Under the current provisions of the Certificate, notices of redemption of Bonds are given on an unconditional basis; i.e., such notices are not conditioned upon the Paying Agent's receipt of the necessary funds for the redemption on or before the redemption date. Effective upon the issuance of the Series 2010 Bonds, Section 3.03 of the Certificate, pertaining to notices of redemption, will be amended to permit conditional notices of redemption by adding a new paragraph, which will apply to the Series 2010 Bonds, that reads as follows:

> "Unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed (other than by mandatory sinking fund redemption) shall have been received by the Director of Finance prior to the giving of a notice of redemption pursuant to this Section 3.03, such notice of redemption shall state that said redemption shall be conditional upon the receipt of such moneys by the Director of Finance on or prior to the date fixed for such redemption. If such moneys shall not have been so received, such notice shall be of no force and effect, such Bonds called for redemption shall not be redeemed and notice shall be given, in the manner in which the notice of redemption was given, that such moneys were not so received."

Amendment Requiring Unanimous Consent. Under the current provisions of the Certificate, the Reserve Requirement is defined as an amount equal to the maximum Aggregate Bond Service determined on a Bond Year basis, subject to specified exceptions required for compliance with the Internal Revenue Code. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE – Definitions of Certain Terms." The Department proposes to amend this definition to provide that the Reserve Requirement will be equal to 50% of the maximum Aggregate Bond Service and that such amount shall be determined on a Fiscal Year basis, subject to specified exceptions required for compliance with the Internal Revenue Code. Such proposed amendment to the definition of Reserve Requirement, which requires the consent of the Holders of all Outstanding Bonds, reads as follows:

> "<u>Reserve Requirement</u>
>
> "Reserve Requirement" means an amount, as of any date of determination, equal to fifty percent (50%) of the maximum Aggregate Bond Service for any Fiscal Year, beginning with the Fiscal Year in which the date of determination occurs and ending with the Fiscal Year after which no Bonds are Outstanding; provided, however, in connection with the issuance of any Series of Additional Bonds, the Reserve Requirement shall be deemed to be satisfied if the deposit to the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account from the Proceeds of any such Series of Additional Bonds is equal to the least of (1) the amount which, if added to the amount on deposit to the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account immediately prior to the issuance of such Series of Additional Bonds, would cause the total amount then on deposit in said fund for credit to said account to equal fifty percent (50%) of the maximum Aggregate Bond Service for any Fiscal Year, beginning with the Fiscal Year in which the date of determination occurs and ending with the Fiscal Year after which no Bonds are Outstanding; (2) the Average Annual Bond Service on such Series of Additional Bonds, and (3) the amount permitted by the Code in order that the interest on such Series of Additional Bonds is excluded from gross income for federal income tax purposes."

BOND INSURANCE

The following information concerning the Policy has been provided by Assured Guaranty Municipal Corp. No representation is made by the State or the Underwriter as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date hereof.

Bond Insurance Policy

Concurrently with the issuance of the Series 2010B Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM" or the "Bond Insurer") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2010B Bonds maturing on July 1 of the years 2011 through 2017, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AA+" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On October 25, 2010, S&P published a Research Update in which it downgraded AGM's counterparty credit and financial strength rating from "AAA" (negative outlook) to "AA+" (stable outlook). Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010, which was filed by AGL with the SEC on November 9, 2010.

Capitalization of AGM

At September 30, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately $2,512,828,657 and its total net unearned premium reserve was approximately $2,305,542,616, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010);

(ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010);

(iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010); and

(iv) The Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 (which was filed by AGL with the SEC on November 9, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Series 2010 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Series 2010 Bonds or the advisability of investing in the Series 2010 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

SOURCES OF REVENUES

General

State law and the Certificate require the State to operate the Harbor System on a self-supporting basis. The Certificate requires the Department to prescribe and collect rates, rentals, fees and charges for the use of and services provided by the Harbor System to generate Revenues which will be sufficient to pay the principal of and interest on all Bonds and to pay the costs of operation, maintenance and repair of the Harbor System, to reimburse the general fund of the State for all reimbursable general obligation bonds issued by the State for the Harbor System and to satisfy other provisions of the Certificate. The Harbor System derives its Revenues from three major sources: services revenues, rental income and other operating revenues. See "SECURITY FOR THE BONDS – Rates and Charges." The services revenues, rental income and other operating revenues described below are obtained from the annual audited financial statements of the Harbor System. The most recent fiscal year for which such audited financial information is available is the year ending June 30, 2009. Also see "Other Matters Potentially Affecting Net Revenues" below.

Harbor Tariffs

The Department establishes tariff schedules for wharfage charges, dockage fees, demurrage, port entry fees, mooring charges and other tariffs that comprise services revenues pursuant to an administrative rule-making process in accordance with Chapter 91, Hawaii Revised Statutes. The Department must also comply with the provisions of Chapter 201M, Hawaii Administrative Rules, which requires the review of the State's Small Business Regulatory Review Board on any proposed rules to determine their impact on small businesses. Prior to the recent amendments described below, tariff rates were last amended in April 1997 and had generally been held unchanged except for certain wharfage charges at Kalaeloa Barbers Point Harbor and changes to include livestock in the definition of island agricultural products.

In 2005, the Hawaii Harbor Users Group ("HHUG"), a non-profit maritime transportation industry group comprised of key harbor users (including Matson Navigation Company; Horizon Lines, LLC; Young Brothers/Hawaiian Tug & Barge; Norwegian Cruise Line; Sause Bros., Inc. and others), was formed to help the State identify and prioritize harbor improvement needs. HHUG worked in partnership with the State to develop the Harbors Modernization Plan (the "HMP"), a comprehensive, system-wide strategy to modernize and expand the Harbor System to meet projected needs (as more fully discussed under "THE HARBOR SYSTEM-Capital Improvements Program" herein). A State policy team comprised of key State officials, including the Directors and Deputy Directors of the Departments of Transportation, Budget and Finance, and Business, Economic Development and Tourism, and the Executive Director of the Aloha Tower Development Authority, the State Economist, Tourism Liaison and Consumer Advocate, was convened to undertake a comprehensive review of the Harbors Division's tariff rates with HHUG for possible adjustments in order to provide the necessary revenues to support the HMP as well as sustain ongoing harbor operations. Martin Associates was engaged to assist the State's policy team and provide advisory services on tariff adjustments.

Amendments to the tariff rates under Chapter 19-44, Hawaii Administrative Rules (Pertaining to Services and Procedures, Charges, Tolls and Fees) were proposed and the Department undertook the rule-making process. Public comments were solicited and hearings were held State-wide. The amendments became effective on February 1, 2010, and new tariff rates were implemented on March 1, 2010. The principal changes to the Department's tariffs resulting from such amendments include the following:

- Container sizes were combined into two categories: containers 24 feet and under, and containers over 24 feet. New rates were assigned to the two categories
- Domestic and foreign cargo are assessed at the same rate, irrespective of the direction of travel
- Rates for interisland cargo will continue to reflect a discount and be charged a lower rate

- Containers to/from a foreign port will incur an additional charge to account for costs specific to foreign cargo such as security and customs
- All movements of transshipped cargo will be charged with discounts for certain movements
- Same rates for U.S. and foreign cruise passengers starting July 1, 2011
- Initial discrete rate increases to take effect dependent upon the type of cargo movement
- No fees on empty containers
- Cargo wharfage rates will increase incrementally, as follows:
  - 20% in FY 2011
  - 15% in FY 2012
  - 10% in FY 2013
  - 7% in FY 2014
  - 5% in FY 2015
  - 3% or annual percentage increase in the CPI, whichever is greater, in FY 2016 and annually thereafter
- Cruise ship passenger fees will increase as follows:
  - $5.00 in FY 2012
  - $5.50 in FY 2013
  - $6.00 in FY 2014
  - $6.50 in FY 2015
  - $7.00 in FY 2016
  - $7.50 in FY 2017
- A one-time 10% increase will be applied to all other fees within General Provisions, Dockage, Small Craft and Other Vessel Fees, Rental, Demurrage and Port Entry Fees

Services Revenues

General. Services revenues represent the largest source of operating revenues for the Harbor System. Services revenues were $58.1 million, $57.8 million and $48.3 million in the fiscal years ending June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively, and accounted for 68%, 68% and 65% of operating revenues in such fiscal years. Services revenues are derived from tariffs assessed on the activities of ships and the handling of cargo and include wharfage charges, dockage fees, port entry fees, demurrage, mooring charges and fees for other services.

Wharfage Charges. Wharfage charges represent the largest component of services revenues. Wharfage charges accounted for $47.3 million, $47.5 million and $40.2 million of operating revenues in the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively, and comprised approximately 82%, 82% and 83% of total services revenues in such fiscal years.

Wharfage charges are assessed against all shipments of cargo conveyed over, on or under any pier, wharf or terminal facility or to or from any vessel at such a facility of the Harbor System. Also included in wharfage charges are passenger fees assessed against all cruise ship passengers embarking and disembarking at a port in the Harbor System. Passenger fees were $5.5 million, $4.5 million and $2.7 million in the fiscal years ending June 30, 2007, June 30, 2008 and June 30, 2009, respectively. Wharfage rates are established by type of cargo. Prior to the tariff amendments effectuated on February 1, 2010, there were differing rate categories for incoming foreign overseas shipments (from a foreign port), incoming domestic overseas shipments (from the mainland United States), outgoing overseas shipments and inter-island shipments. Nearly all non-bulk cargo is shipped through the Harbor System in containers, with respect to which wharfage is determined by the length of the container. The following Table presents a comparison of prior and current wharfage rates for selected types of cargo.

TABLE 2
WHARFAGE CHARGES FOR SELECTED CATEGORIES OF CARGO

Category	Prior to March 1, 2010	Rates Effective March 1, 2010 to June 30, 2010	July 1, 2010 to June 30, 2011
CONTAINERS			
Incoming Foreign Overseas (per linear foot)	$ 2.50		
Incoming Foreign Overseas 24 feet or less		$49.50	$59.40
Incoming Foreign Overseas Greater than 24 feet		99.00	118.80
Incoming Domestic Overseas (per linear foot)	1.93		
Incoming Domestic Overseas 24 feet or less		49.50	59.40
Incoming Domestic Overseas Greater than 24 feet		99.00	118.80
Outgoing Overseas (per linear foot)	1.31		
Outgoing Overseas 24 feet or less		49.50	59.40
Outgoing Overseas Greater than 24 feet		99.00	118.80
Inter-island (per linear foot)	1.31		
Inter-island 24 feet or less		27.50	33.00
Inter-island Greater than 24 feet		55.00	66.00
AUTOMOBILES (per vehicle)			
Incoming Foreign Overseas	23.37	19.25	23.10
Incoming Domestic Overseas	17.50	19.25	23.10
Outgoing Overseas	17.50	19.25	23.10
Inter-island	10.50	11.55	13.86
LUMBER (per thousand board feet)			
Incoming Domestic Overseas	3.31	3.64	4.37
GENERAL MERCHANDISE (per ton)			
Incoming Foreign Overseas	2.87	2.33	2.80
Incoming Domestic Overseas	2.12	2.33	2.80
Outgoing Overseas	2.12	2.33	2.80
Inter-island	1.37	1.51	1.81
FUEL OIL (per barrel)			
Incoming, State-owned pipeline	0.15	0.17	0.20
Incoming, privately-owned pipeline (1)	0.075	0.08	0.10
PASSENGER FEES (per passenger)			
Embarking/Disembarking	2.50	2.50	2.50
In transit (2)	1.85	1.85	1.85
WATER (per thousand gallons), State-owned pipeline	2.1875	2.19	2.63

(1) *Located at facilities of the Harbor System.*

(2) *Consists of passengers in transit on a vessel making a continuous trip whose point of origin and termination is a state port.*

The Department collects wharfage on a self-reporting basis. Each of the shipping lines that uses the ports comprising the Harbor System is responsible for reporting to the Department the wharfage owed for each voyage and submitting payment of such wharfage within 45 days after the completion of handling cargo over state wharves. The Department conducts random audits to verify the wharfage paid by the shipping lines that use the Harbor System.

Dockage Fees. Dockage fees represent the second largest component of services revenues. Dockage fees accounted for $6.5 million, $6.1 million and $4.9 million of operating revenues in the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively, and comprised approximately 11.2%, 10.6% and 10.1% of services revenues in such fiscal years.

Dockage fees are assessed against all vessels using a dock or other State-owned structure in a port in the Harbor System at rates per 12 hours based on the length of the vessel. The dockage fee assessed in connection with an interisland voyage is approximately 60% of the dockage fee assessed in connection with an overseas voyage. Dockage fees assessed through February 28, 2010 in connection with an interisland voyage range from $16.25 to $1,725, depending on vessel length, with such rates increasing on March 1, 2010 by approximately 10% ranging from $17.88 to $1,897.50. The dockage fees assessed through February 28, 2010 in connection with an overseas voyage range from $31.25 to $2,875, depending on vessel length, with such rates increasing on March 1, 2010 by approximately 10% ranging from $34.38 to $3,162.50.

Dockage fees are billed by the Department. Dockage fees are assessed based upon vessel logs maintained by each district of the Harbor System and are payable 30 days from the date of invoice.

Demurrage. Demurrage is a charge assessed against cargo remaining on a pier or terminal area beyond the free time provided for loading or unloading. Demurrage accounted for approximately $1.1 million, $1.1 million and $0.8 million of operating revenues in each of the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively, and comprised approximately 1.9%, 2.0% and 1.7% of services revenues in such fiscal years. Demurrage rates assessed through February 28, 2010 are typically $0.56 per linear foot per day for the first five days and $1.12 per linear foot per day thereafter for containerized cargo and shipping devices which are applied at the end of a two-staged five day storage periods. Demurrage rates increased by approximately 10% effective March 1, 2010, to $0.62 per linear foot per day for the first five days and to $1.23 per linear foot per day thereafter for containerized cargo and shipping devices.

Demurrage fees are self-reported and each shipping line that uses the ports comprising the Harbor System is responsible for reporting to the Department the demurrage owed for each voyage. No audits are performed for demurrage reports.

Rental Income

Rental income is the second major source of operating revenues for the Harbor System. Rental income accounted for $25.5 million, $25.3 million and $24.3 million of operating revenues in the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively, and comprised approximately 29.8%, 29.6% and 32.5% of total operating revenues in such fiscal years. Rental income includes charges for wharf space and land, storage, pipeline usage and automobile parking space. Rental income for all fiscal years represents net rental revenues after deducting the provision for doubtful accounts.

The Department derives rental income principally from leasing of land and improvements under revocable permits and leases. Such permits and leases accounted for $18.4 million, $18.5 million and $18.2 million of net rental income in the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively, and comprised approximately 72%, 73% and 75% of rental income in such fiscal years. The rental rates under revocable permits may be adjusted annually to reflect contemporaneous real estate values in the State. The rental rates under leases may be fixed for periods of five years or more. Currently, revenues derived from leases constitute approximately 48% and revenues from revocable permits constitute approximately 51% of the total revenues from leases and permits.

Rentals under leases are based upon the independently appraised value of the property leased and are issued by direct negotiation or by public auction. When rentals are determined by public auction, however, the price at which bidding is started may be less than the appraised value. In leases exceeding ten years, the rent generally is fixed for five-year periods, with increases of 15% at the end of each five-year period up to the 15th year of the lease term. Subsequently, the rentals are reopened by appraisal in the 15th and 25th years of the lease.

The Department has leased land or building space under approximately 398 revocable permits and lease agreements. The rental income generated from leases by the top ten lessees of the Department represented approximately 31%, 35% and 36% of total annual lease and revocable permit rents in the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively.

Other Operating Revenues

Other operating revenues, including reimbursement for the cost of utilities furnished to ships, sales of materials and supplies and other miscellaneous items, accounted for approximately $2.0 million, $2.4 million and $2.0 million in the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively, and comprised approximately 2.4%, 2.8% and 2.7% of total operating revenues in such fiscal years.

Interest Income

Substantially all of the Department's cash is held in the State Treasury and invested on a pooled basis with funds of other State departments. The interest income received by the Department from the State in any fiscal year depends on the amount available for investment, prevailing interest rates and restrictions on the investment practices of the State that affect the types of investments made. Interest income from investments other than direct finance leases is included in Net Revenues and totaled $11.7 million, $10.8 million and $6.3 million in the fiscal years ended June 30, 2007, June 30, 2008 (restated), and June 30, 2009, respectively.

As of June 30, 2010, 44% of the State's investment portfolio and cash in banks consisted of repurchase agreements with banks, 23% consisted of student loan resource securities (which are auction rate securities), 16% consisted of U.S. Treasury securities, 10% consisted of time certificates with banks, and 7% consisted of demand deposit accounts. The State has made portfolio adjustments sufficient in its view to address liquidity concerns relating to its student loan resource securities. In view of its conservative investment policies, the State anticipates that it will not need to sell its student loan resource securities at a discount, and that it will receive par for such securities upon their respective redemptions or stated maturities.

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 Harbors Division, the Department exercises control and management of the harbors, harbor and waterfront improvements, docks, ports, wharves, quays, bulkheads and landings belonging to or controlled by the State and all vessels and shipping lines using the same. The Harbors Division operates the Harbor System as a single integrated system for management and financial purposes.

Department Management

The Department is headed by the Director of Transportation, a single executive appointed by the Governor and confirmed by the State Senate. The Governor is authorized to appoint, without State Senate confirmation, three Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms conterminous with the Governor's term.

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

The Harbors Division is managed by a Harbors Administrator. Harbors within a district area are managed by a district manager. The Staff Services Office, headed by an Administrative Services Officer, is responsible for: personnel; budget; property management; financial management; methods, standards and evaluation, data processing; and office services. The Engineering Branch, headed by an Engineering Program Manager, performs all planning, design, construction and maintenance engineering functions for the Harbors Division. The Security and Emergency Disaster Office is responsible for all statewide maritime security for harbor facilities and infrastructure and emergency disaster preparedness, response and recovery. The Office is headed by a Program Specialist. This position is currently vacant.

Management Personnel

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

Michael D. Formby, Interim Director, assumed his position in September 2010. Prior to his appointment, Mr. Formby served as the Deputy Director, Harbors Division, from August 2007. Prior to joining the Department in 2007, Mr. Formby served as President and senior counsel of the Honolulu maritime law firm of Frame Formby & O'Kane since 2001. From 1998 to 2001, he was managing director and legal counsel with Alcantara, Frame & Formby, a maritime law firm, and from 1993 to 1998, he was an associate attorney with Alcantara & Frame, Hawaii's first boutique maritime law firm. Prior to 1993, Mr. Formby served in the U.S. Air Force where he was assigned to procurement organizations purchasing aircraft for NATO and classified operational software for U.S. air forces in Japan and Korea. Mr. Formby has served as Vice Chairman of the State of Hawaii Land Use Commission since 2004 and as an adjunct professor of admiralty law at the University of Hawaii, William S. Richardson School of Law, since 2000. He is also the current Chair of the Board of Trustees for the State's Hawaii Employer-Union Health Benefits Trust Fund. Mr. Formby received a Bachelor of Science degree, with honors, from Texas A&M University in 1980 and a Juris Doctor degree from South Texas College of Law in 1983. He is licensed to practice before all courts in the State of Hawaii, the Ninth Circuit Court of Appeals and the U.S. Supreme Court.

Francis Paul Keeno, First Deputy Director, was appointed to this position on June 6, 2006. Previously, he was the Special Assistant to the Director of the Department of Human Resources Development from 2003 through 2006. The Department of Human Resources Development is the centralized personnel department for the State of Hawaii. Prior to that, Mr. Keeno was a deputy attorney general for the Department of the Attorney General, where he specialized in employment and labor law. Mr. Keeno was a deputy attorney general for almost 25 years. As the First Deputy Director for the Department of Transportation, Mr. Keeno is responsible for the Support Services Division, which consists of the Personnel Office, the Business Management Office, the Contracts Office, the PPB Management and Analytical Office, and the Computer Systems and Services Office. In addition, Mr. Keeno is responsible for the Office of Special Compliance Programs, the Office of Civil Rights, and the Statewide Transportation Planning Office. Mr. Keeno graduated in 1975 from the University of Hawaii at Manoa with a Bachelor's degree in Business Administration; and in 1978, he graduated from the University of Santa Clara Law School with a Juris Doctorate degree. Mr. Keeno is currently licensed to practice law in the State of Hawaii.

Jiro A. Sumada, Deputy Director, Highways Division, was appointed to this position on August 27, 2008. In his current position, Mr. Sumada is responsible for assisting the Director of the Department in overseeing the Highways Division of the Department. Mr. Sumada served two different time periods as the Deputy Director of Public Works for the County of Hawaii, totaling nine years of service to the County. The County's Public Works Office is responsible for the operation and maintenance of County roads and highways, as well as public and private building construction permitting and inspections. Over a combined period of 11 years, Mr. Sumada also worked in the private sector as a project manager of Project Managers of Hawaii, where he was responsible for design coordination for capital improvement projects for the Kahului Airport on the Island of Maui; as a construction engineer for Willocks Construction Corporation; and as a land manager for W.H. Shipman, Limited, where he oversaw the leasing of agricultural land to local farmers and assisted in both securing change of zone approvals and in the sales negotiations of various commercial developments. Upon completion of his undergraduate degree, Mr. Sumada served nine years in the U.S. Air Force as a staff engineer for a base-wide facility and infrastructure maintenance unit at Yokota Air Base in Japan, and also as a program engineer for the Pacific Air Forces Headquarters in Honolulu, Hawaii. Mr. Sumada graduated from Hilo High School on the Big Island of Hawaii. He earned a Civil Engineering degree from the U.S. Air Force Academy and a Masters in Business Administration from the University of Hawaii.

Davis K. Yogi, Administrator, Harbors Division, assumed his present position in October 2007. Prior to assuming this position, Mr. Yogi was the Administrator of the Airports Division from 2002 to 2007. He also served previously as Chief Negotiator and Director of the Department of Human Resources Development, and has more than 11 years of private sector experience as Vice President of Environmental Operations and Government Affairs with profit and loss responsibilities for a C. Brewer and Company subsidiary. Mr. Yogi received a Bachelors in Business Administration degree from the University of Hawaii.

Jean L. Oshita, Administrative Services Officer, Harbors Division, assumed her position in December 2004. She oversees the Harbors Division's financial management, personnel and property management programs and provides budget, information systems and management analysis support services. Prior to assuming this position, Ms. Oshita was the Administrative Services Officer for the Airports Division from 1991 to 2004. She graduated from the University of Hawaii in 1974 with a B.Ed degree in Elementary Education.

Carter W.S. Luke, Engineering Program Manager, Harbors Division, has held this position since March 2010. Prior to that date, Mr. Luke worked in various engineering positions with the Department for 19 years. Mr. Luke received a Bachelor of Science degree in engineering from the University of Hawaii in 1986 and obtained his Hawaii professional engineer's license in July 1992.

Employees

The Harbors Division has a workforce of approximately 241 permanent employees. State law grants public employees, except those excluded from any appropriate bargaining unit, 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, if an impasse in any negotiation is declared, only the United Public Workers (UPW) blue collar workers have the right to strike.

The Harbors Division has employees in five different bargaining units. There are also managers and employees excluded from collective bargaining. Blue collar non-supervisory employees (Unit 1) are represented by the UPW, Local 646. Blue collar supervisors (Unit 2), white collar supervisors (Unit 4), white collar workers (Unit 3) and professional employees (Unit 13) are represented by the Hawaii Government Employees' Association, Local 152. These units were operating under contracts effective July 1, 2007 through June 30, 2009. Tentative agreements were reached and formalized in a Memorandum of Agreement covering employees in bargaining units 2, 3, 4 and 13 effective July 1, 2009 through June 30, 2011. A tentative agreement was reached with Unit 1 employees to extend the contract through June 30, 2011.

Health Care Benefits.

All regular employees of the Harbors Division are eligible for coverage under health plans provided through the State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund"), which was established in 2003 to design, provide and administer health and other benefit plans for State and county employees, retirees and their dependents. The Trust Fund is administered by a ten-member Board of Trustees appointed by the Governor (the "Board") comprised of five union representatives and five management representatives. The Board is responsible for determining the nature and scope of health plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, ruling on eligibility and establishing management policies for the Trust Fund and overseeing Trust Fund activities. The Trust Fund currently provides medical, prescription drug, dental, vision, chiropractic and group life benefits. Benefits, with respect to regular employees, are funded by a combination of employer contributions set by collective bargaining agreement or by executive order (with respect to non-union employees) and employee contributions through payroll deductions. Benefits for retirees are funded by a statutory formula.

In recent years, public and private health plan providers nationwide and in Hawaii, including the Trust Fund, have experienced substantial increases in health care costs. In the case of the Trust Fund, the current fiscal situation faced by the State and county employers has made it extremely difficult for the employers to offer more employer contributions for medical benefits to maintain the historical employer-employee contribution ratio. As a result, plan rates were increased for Fiscal Year 2010 with employees bearing the full cost of the increase. The

Board took action to mitigate the extent of the Fiscal Year 2010 rate increases by modifying plan benefits. For Fiscal Year 2011, the Trust Fund is again faced with the prospect of further rate increases. At this time, the Board has taken no action to either increase plan rates or to make further modifications to available benefits, although there has been considerable discussion of various alternative courses of action. Current plan rates have been temporarily extended until December 31, 2010. Consequently, the Harbors Division cannot predict how such actions taken by the Board in the future may affect its employee relations or its financial obligations with respect to employee health benefits.

State Employees' Retirement System.

All regular employees of the Division are covered under the Employees' Retirement System of the State of Hawaii (the "State Retirement System"), which began operation on January 1, 1926. The State Retirement System is a cost sharing, multiple employer defined benefit pension plan. The State Retirement System covers all regular employees of the State and each of its counties, including judges and elected officials. On June 30, 2009, the State Retirement System's membership was comprised of approximately 67,912 active employees, 6,016 inactive vested members and 36,999 pensioners and beneficiaries.

The total assets of the State Retirement System on a market value basis amounted to approximately $10.8 billion as of June 30, 2008, and $8.8 billion as of June 30, 2009. Actuarial certification of assets as of June 30, 2008 was $11.4 billion. The June 30, 2009 actuarial certification of assets was $11.4 billion, and its unfunded actuarial accrued liability was $6.236 billion. The actuarial value of assets is based on a four–year smoothed valuation that recognizes the excess or shortfall of investment income over or under the 8% actuarial investment assumption. In 1998, Act 151, Session Laws of Hawaii 1998, was passed modifying the administration of the State Retirement System, including its actuarial valuation methods and actuarial assumptions. Since the State Retirement System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties.

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

The State Retirement System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the State Retirement System. Act 327, Session Laws of Hawaii 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the State Retirement System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, Session Laws of Hawaii 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations and provided with respect to these valuations for investments earning in excess of a 10% actuarial return to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122 of HRS Chapter 88, as amended by Act 147, Session Laws of Hawaii 2001), the total actuarially determined employer contribution to the pension accumulation fund is comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement is determined in the aggregate for all employers in the State Retirement System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation is paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the State Retirement System during the 2000-2001 fiscal year. The actuarial cost method used to calculate employer contributions was changed by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the State Retirement System.

Act 181, Session Laws of Hawaii 2004, established fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers' contribution rates were initially set at 15.75% for their police officers and firefighters and 13.75% for other employees, increasing effective July 1, 2008 to 19.70% for police officers and firefighters and 15.00% for all others pursuant to Act 256, Session Laws of Hawaii 2007. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the State Retirement System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan.

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

As of March 31, 2009, the contributory plan covered 7,487 active employees or 11.0% of all active members of the State Retirement System, the noncontributory plan covered approximately 22,709 active employees or 33.4%, and the hybrid plan covered 37,716 active members or 55.5%. The hybrid plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

The Harbors Division's share of the State Retirement System costs for the five fiscal years ended June 30, 2005 through June 30, 2009 were: $765,000 for the fiscal year ended June 30, 2005; $1.298 million for the fiscal year ended June 30, 2006; $1.335 million for the fiscal year ended June 30, 2007; $1.386 million for the fiscal year ended June 30, 2008; and $1.590 million for the fiscal year ended June 30, 2009.

The following statistical information addresses the entire State Retirement System, including both State and county employees. The State Retirement System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

The schedule which follows shows the total actuarially determined employer contribution rate for all employees based on the last six annual actuarial valuations.

TABLE 3
EMPLOYER CONTRIBUTION RATES

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll) [1]	Funding Period (Years)
2004	13.95	22.6
2005	13.95	25.7
2006	13.95	35.2
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2

[1] *Reflects Act 181, SLH 2004, which amended HRS Sections 88-105,88-122,88-123, 88-124, 88-125 & 88-126.*

In 2005, the funding period increased due to recognition of large actuarial losses. In 2006, the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions.

The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008 pursuant to Act 256, Session Laws of Hawaii 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increase in 2009 was due to the net asset loss from the significant decline in the financial markets during FY2009.

A summary of the actuarial certification of the State Retirement System as of June 30, 2008 and 2009 is set forth below:

TABLE 4
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2008 and 2009
(Includes all counties)

ASSETS	2008	2009
Total current assets	$11,380,961,003	$11,400,116,874
Present value of future employee contributions	1,321,322,095	1,454,290,782
Present value of future employer normal cost contributions	1,567,124,012	1,658,595,716
Unfunded actuarial accrued liability	5,168,108,050	6,236,315,442
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$19,437,515,160	$20,749,318,814
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$ 8,230,338,790	$ 8,584,029,950
Present value of future benefits to active employees and inactive members	11,207,176,371	12,165,288,864
TOTAL LIABILITIES	$19,437,515,161	$20,749,318,814

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2009, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the State Retirement System amounted to approximately $6.236 billion. The State Retirement System's funded ratio (actuarial assets divided by actuarial accrued liability) decreased during 68.8% as of June 30, 2008 to 64.6% as of June 30, 2009.

Updated information regarding the State Retirement System is expected to be available by the end of calendar year 2010.

Other Post Employment Benefits.

The Government Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans ("OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 was implemented by the employers (except for the County of Kauai) for fiscal year ending June 30, 2008. The Trust Fund will separately track employer contributions and has prepared Trust Fund financial statements as an Agent Multiple Employer Plan under GASB 43.

The State has received the draft State of Hawaii Employer Union Trust Fund July 1, 2007 Actuarial Valuation Study (the "Trust Fund Report") of the Trust Fund's Other Postemployment Benefits and the draft State of Hawaii Voluntary Employee's Beneficiary Association ("HSTA VEBA") Trust for the Hawaii State Teachers Association July 1, 2007 Actuarial Valuation Study (the "VEBA Report," and, together with the Trust Fund Report, the "Reports") of the HSTA VEBA's OPEBs. The Reports were prepared by the State's professional actuarial advisors, Aon Consulting Inc. The Reports quantify the Actuarial Accrued Liabilities ("AAL") of the respective employers under GASB 45 and develop Annual Required Contributions ("ARC") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year ending June 30, 2008.

The Reports provide, based on stated actuarial assumptions, costs with no prefunding of the ARC. The Trust Fund Report states that the State's AAL as of July 1, 2007 is $7,192.5 million, and the corresponding ARC for the fiscal year ending June 30, 2008 would be $517.6 million. The estimated Trust Fund pay-as-you-go funding amount for such fiscal year is $200.1 million. The VEBA Report states that the HSTA VEBA AAL as of July 1, 2007 is $1,596.6 million and the corresponding ARC for the fiscal year ending June 30, 2008 would be $139.0 million. The HSTA VEBA pay-as-you-go funding amount for such fiscal year is $14.0 million. The State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term.

The Reports will be updated every two years; however, the Reports as of July 1, 2009 are expected to be available in the Fall of 2010.

THE HARBOR SYSTEM

General

The Harbor System is comprised of ten harbors which are operated and maintained by the Department as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor and Kalaeloa Barbers Point Harbor on the Island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the Island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the Island of Kauai, comprising the Kauai District; (4) Kahului Harbor and Hana Harbor on the Island of Maui, Kaunakakai Harbor on the Island of Molokai, and Kaumalapau Harbor on the Island of Lanai, comprising the Maui District. The locations of the harbors comprising the Harbor System are shown on the map of Principal Commercial Harbors of Hawaii on the page before the table of contents of this Official Statement.

Table 5 shows the percentage breakdown of operating revenues by district for the fiscal year ended June 30, 2009.

TABLE 5
BREAKDOWN OF OPERATING REVENUES BY DISTRICT
Fiscal Year Ended June 30, 2009

District	Percentage
Oahu (Honolulu, Kalaeloa Barbers Point and Kewalo Basin)*	80%
Hawaii (Hilo and Kawaihae)	7
Maui (Kahului, Kaunakakai, Kaumalapau and Hana)	8
Kauai (Nawiliwili and Port Allen)	5
Total:	100%

* *Kewalo Basin was transferred to the Hawaii Community Development Authority on March 1, 2009.*

Source: State of Hawaii Harbors Division.

There are a number of State-owned, shallow-draft, small boat harbors and boat launching ramps throughout the State which are utilized primarily for recreational purposes. These harbors, which are under the administrative jurisdiction of the State Department of Land and Natural Resources, are not part of the Harbor System. Except for Hana Harbor, these harbors do not involve the commercial harbor operations and were not financed with Bonds.

Summary of Harbor System Operations

General. The Department operates the Harbor System as a landlord port. The Department leases land and building space through revocable permits or leases to shipping companies, terminal operators and other maritime or related entities. The Department maintains all piers, wharves, cargo sheds, container yards and other back-up facilities as common areas, which are used by the shipping companies and terminal operators on a nonexclusive basis for their operations. The shipping companies and terminal operators are responsible for the maintenance of the leased premises and cargo handling equipment.

The Department estimates that approximately 19% of the land (excluding submerged land and easements) and improvements comprising the Harbor System on Oahu is leased or held for lease under revocable permits or leases. Revocable permits generally are granted where the use of the leased property is subject to change. Revocable permits are issued on a month-to-month basis and can be terminated upon one month's notice. Leases generally are of a long-term period where the tenant intends to make improvements to the premises. Leases have terms of five years or more. All leases and non-maritime related revocable permits must be approved by the State Board of Land and Natural Resources.

The Department derives Revenues from the rentals under revocable permits and leases. With respect to the land and improvements comprising the Harbor System that is not under a lease or revocable permit, the Department derives Revenues only from tariffs assessed on shipping and charges for other services. See "SOURCES OF REVENUES."

The terminal operators that use the ports comprising the Harbor System hire longshoremen and other employees to provide stevedoring, cargo handling and other services in connection with the operation of the leased property and the use of the common areas. Labor contracts between the terminal operators and the International Longshoremen's and Warehousemen's Union will expire on June 30, 2014.

To ensure that commercial waterways are kept open, the Harbors Division and the U.S. Army Corps of Engineers (the "Corps") have a partnership to monitor the depths of the harbors comprising the ports of the Harbor System on a periodic basis to ensure timely maintenance dredging. The Corps maintains the design depths for the Federally-authorized entrance channels, primary access channels and turning basin areas, and performs maintenance dredges on an as-needed basis. The Harbors Division maintains the design depths of the berths and also maintenance dredges on an as-needed basis. Kahului Harbor, Nawiliwili Harbor, Port Allen Harbor, Kalaeloa Barbers Point Harbor and parts of Honolulu Harbor were dredged by the Corps in 1999.

Each harbor has facilities for the loading, unloading, handling and storage of bulk and other cargo, and some harbors provide passenger facilities. The major types of bulk cargo shipped through the Harbor System include cement, oil and petroleum products, sugar, molasses, grain, coal and other solid products. Nearly all non-bulk cargo is shipped through the Harbor System in containers.

There are approximately twenty five principal shipping agents providing service to Hawaii. Table 4 lists the ten largest contributors of wharfage revenues to the Department. Matson Navigation Company, Inc. ("Matson"), Horizon Lines, LLC ("Horizon"), and Young Brothers, Ltd. ("Young Brothers") are the major cargo operators serving the Harbor System, accounting for almost 75% of the wharfage revenues of the system.

Matson operates nine large container ships between Honolulu Harbor and the west coast of the United States, with ships arriving at Honolulu Harbor three times per week. One ship each week proceeds to Guam, Xiamen, Shanghai, and Ningbo after calling on Honolulu. Matson Terminals, Inc. ("Matson Terminals"), a wholly-owned subsidiary of Matson, provides container stevedoring, container equipment maintenance and other terminal services for Matson and other ocean carriers. Matson Terminals maintains seven gantry cranes on Sand Island at Piers 51-53 of Honolulu Harbor and facilities for transshipment services to Kahului, Nawiliwili, Hilo and Kawaihae harbors. Matson operates three barges that make a total of nine calls per week to these outer island ports.

Horizon operates nine container ships between Honolulu Harbor and the west coast of the United States (one of which continues on to the Far East), with ships arriving at Honolulu Harbor three times per week. Horizon has three gantry cranes and a back-up area on Sand Island and maintains offices at several other harbors.

Young Brothers is a common carrier by water transporting cargo by barge between the islands of Oahu, Hawaii, Kauai, Maui, Molokai and Lanai, and has been providing services in Hawaii since 1900. Young Brothers operates eight barges and five tugs, providing 12 scheduled weekly departures from Honolulu to the ports of Hilo and Kawaihae on the Big Island, Kahului on Maui, Kaunakakai on Molokai, Nawiliwili on Kauai and Kaumalapau on Lanai.

Young Brothers operates under a Certificate of Public Convenience and Necessity and is authorized by the State of Hawaii Public Utilities Commission to perform statewide carriage of property by water. The Public Utilities Commission regulates its tariffs and operations.

Table 6 shows the top 10 shipping agencies for the fiscal year ended June 30, 2009.

TABLE 6
TOP TEN SHIPPING AGENCIES
Fiscal Year Ending June 30, 2009

	Shipping Agent	Wharfage Revenues (x000's)	As a Percentage of Total Wharfage Revenues
1.	Matson Navigation Company, Inc.	$16,003	38.13%
2.	Young Brothers, Ltd.	8,173	19.47
3.	Horizon Lines, LLC	7,075	16.86
4.	Transmarine Navigation Corporation	1,954	4.66
5.	Inchcape Shipping Services	1,575	3.75
6.	Waldron Norton Lilly International, LLC	1,491	3.55
7.	NCL America	1,214	2.89
8.	Pasha Hawaii Transport Lines, LLC	1,029	2.45
9.	Sause Bros., Inc.	637	1.52
10.	Aloha Cargo Agency Services, Inc.	577	1.38
	Total:	$39,728	94.66%

Above figures reflect Wharfage Revenues on accrual basis.
Wharfage Revenues include Wharfage, Passenger Fees, Pipeline and Bunkering.

Table 7 presents historical data for cargo traffic in the Harbor System (by type of cargo) for the fiscal years ended June 30, 2006 through June 30, 2010. Because different wharfage rates are imposed for different types of cargo, trends in certain types of cargo traffic may have more significant impacts on total revenues than trends in other types of cargo.

TABLE 7
ANNUAL TRENDS IN CARGO TRAFFIC FOR HAWAII HARBORS

Fiscal Year Ended June 30	CARGO VOLUME – UNITS (x000's)					CARGO VOLUME-TONS (x000's)					REVENUES – DOLLARS (x000's)				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
WHARFAGE:															
Containers [1]	1,487	1,502	1,498	1,372	1,211	9,573	9,758	9,744	8,709	8,274	$32,099	$32,281	$32,490	$28,774	$28,396
Autos and Trucks	231	205	214	176	187	346	307	321	264	281	3,306	3,008	3,086	2,537	2,819
General Merchandise and Bulk Items [2]	5,531	5,840	5,438	4,660	4,444	5,531	5,840	5,438	4,660	4,444	6,236	6,582	6,287	5,428	5,453
Pipelines [3]	30,717	33,156	33,318	28,191	28,816	4,911	5,361	5,376	4,589	4,684	1,745	1,931	1,968	1,613	1,734
Other [4]	206	181	153	80	86	303	260	214	117	80	318	310	248	145	154
Passengers	1,969	2,475	2,010	1,150	1,137						4,500	5,514	4,511	2,651	2,605

(1) *Containers are expressed in twenty-foot equivalent units (TEUs) and include empty containers, loaded containers and autos and trucks in containers.*

(2) *Items are expressed in tons and include cement, molasses, sugar, explosives, lumber, scrap metal, vehicles, trucks and trailers.*

(3) *Petroleum and chemical products are expressed in barrels. Cement and molasses are measured in tons, and therefore are reported as "General merchandise and Bulk Items." Pipeline water is excluded from above data.*

(4) *Individual units are used for livestock and crates. Lumber is measured by foot.*

Notes: The above information is presented for illustrative purposes only. Surcharge is not included.

Fiscal Year 2010 is preliminary.

Source: State of Hawaii Harbors Division.

Table 8 presents historical data for cargo traffic (in tonnage) for the different Hawaii harbors for the fiscal years ended June 30, 2006 through June 30, 2010. Because charges imposed by the Harbors Division are based primarily on units as opposed to tonnage, historical trends in tonnage do not necessarily correlate with trends in total revenues.

TABLE 8
ANNUAL TRENDS IN CARGO VOLUME FOR HAWAII HARBORS
SHORT TONS (x000's)
Fiscal Year 2006 – Fiscal Year 2010

Fiscal Year Ended June 30	Oahu		Maui	Hawaii		Kauai		Molokai	Lanai	
	Honolulu	Kalaeloa Barbers Point	Kahului	Hilo	Kawaihae	Nawiliwili	Port Allen	Kaunakakai	Kaumalapau	Total
2006	9,768	3,962	3,129	1,631	1,052	828	197	97		20,664
2007	10,213	4,292	3,143	1,735	1,028	906	102	107		21,526
2008	10,114	4,214	2,918	1,593	922	919	296	118		21,094
2009	8,957	3,914	2,430	1,331	756	701	150	100		18,339
2010	8,818	3,645	2,209	1,306	705	687	277	106	10	17,763

Notes: *Kaumalapau Harbor tariff start date: March 1, 2010.*
Fiscal Year 2010 data is preliminary. Cargo volume has been adjusted to pre-March 2010 tariff structure.
Source: *State of Hawaii Harbors Division.*

Table 9 presents historical data for cargo traffic in the Harbor System (by destination) for the fiscal years ended June 30, 2006 through June 30, 2010.

TABLE 9
CARGO STATISTICS BY DESTINATION
INBOUND/OUTBOUND CARGO TRENDS
SHORT TONS (x000's)
Fiscal Year 2006 – Fiscal Year 2010

	2006		2007		2008		2009		2010	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
INBOUND										
Domestic	5,663	41.1	5,770	39.4	5,612	38.7	4,880	40.5	4,737	40.0
Foreign	2,300	16.7	2,788	19.0	2,761	19.0	2,373	19.7	2,400	20.2
Inter-island	5,815	42.2	6,087	41.6	6,125	42.2	4,788	39.8	4,716	39.8
Total Inbound	**13,778**	**100.0**	**14,645**	**100.0**	**14,498**	**100.0**	**12,041**	**100.0**	**11,853**	**100.0**
OUTBOUND										
Domestic	1,206	17.5	1,377	20.0	1,284	19.5	1,118	17.8	1,017	17.2
Foreign	571	8.3	469	6.8	565	8.5	681	10.8	631	10.7
Inter-island	5,111	74.2	5,034	73.2	4,747	72.0	4,499	71.4	4,261	72.1
Total Outbound	**6,888**	**100.0**	**6,880**	**100.0**	**6,596**	**100.0**	**6,298**	**100.0**	**5,909**	**100.0**
TOTAL	**20,666**		**21,525**		**21,094**		**18,339**		**17,762**	

Note: Fiscal Year 2010 data is preliminary.
Source: State of Hawaii Harbors Division.

Table 10 shows the number of overseas and inter-island ship calls recorded in the Harbor System for fiscal years ended June 30, 2006 through June 30, 2010. These figures include arrivals by container, bulk and other cargo ships, passenger ships and tugs and barges, but exclude calls to privately operated facilities.

TABLE 10
ANNUAL TRENDS IN SHIP CALLS

FISCAL YEAR ENDED JUNE 30	COUNT
2006	10,465
2007	10,541
2008	11,005
2009	10,033
2010	7,832

Source: State of Hawaii Harbors Division.

The facilities and operations of each commercial harbor comprising the Harbor System are described in greater detail below.

Honolulu Harbor. Honolulu Harbor, the principal harbor in the Harbor System, has over 30 berths, over 5 linear miles of cargo handling pier and over 230 acres of cargo handling area, a significant portion of which is yard area. Honolulu Harbor is located on the southern (leeward) coast of Oahu in Hawaii's capital city. The harbor is entered and exited through the Fort Armstrong Channel, which has a depth of 45 feet. The main harbor basin is dredged to a depth of 40 feet. Piers 1 through 42 have direct access to Nimitz Highway/Ala Moana Boulevard, the principal roadway bordering the harbor. Piers 51 through 53 on Sand Island comprise the State's principal container ship handling area. The area is connected to Nimitz Highway by a four-lane roadway, including two bridges over the Kalihi Channel. Piers 1 and 2 at Fort Armstrong and the inter-island terminal at Piers 39 and 40 comprise the other major container handling facilities in Honolulu Harbor.

The State owns most of the land and waterfront facilities comprising Honolulu Harbor. Some facilities are owned by the U.S. government, however, including the U.S. Coast Guard Stations at Pier 4 and Sand Island. A few facilities are privately-owned, including Chevron Corporation's petroleum shipping, transfer and storage facilities and support equipment at Pier 30. A detailed map of Honolulu Harbor is provided on the following page. Table 9 indicates the principal characteristics of the cargo, shipping and other facilities of piers in Honolulu Harbor, as of November 2010.

MAP OF HONOLULU HARBOR

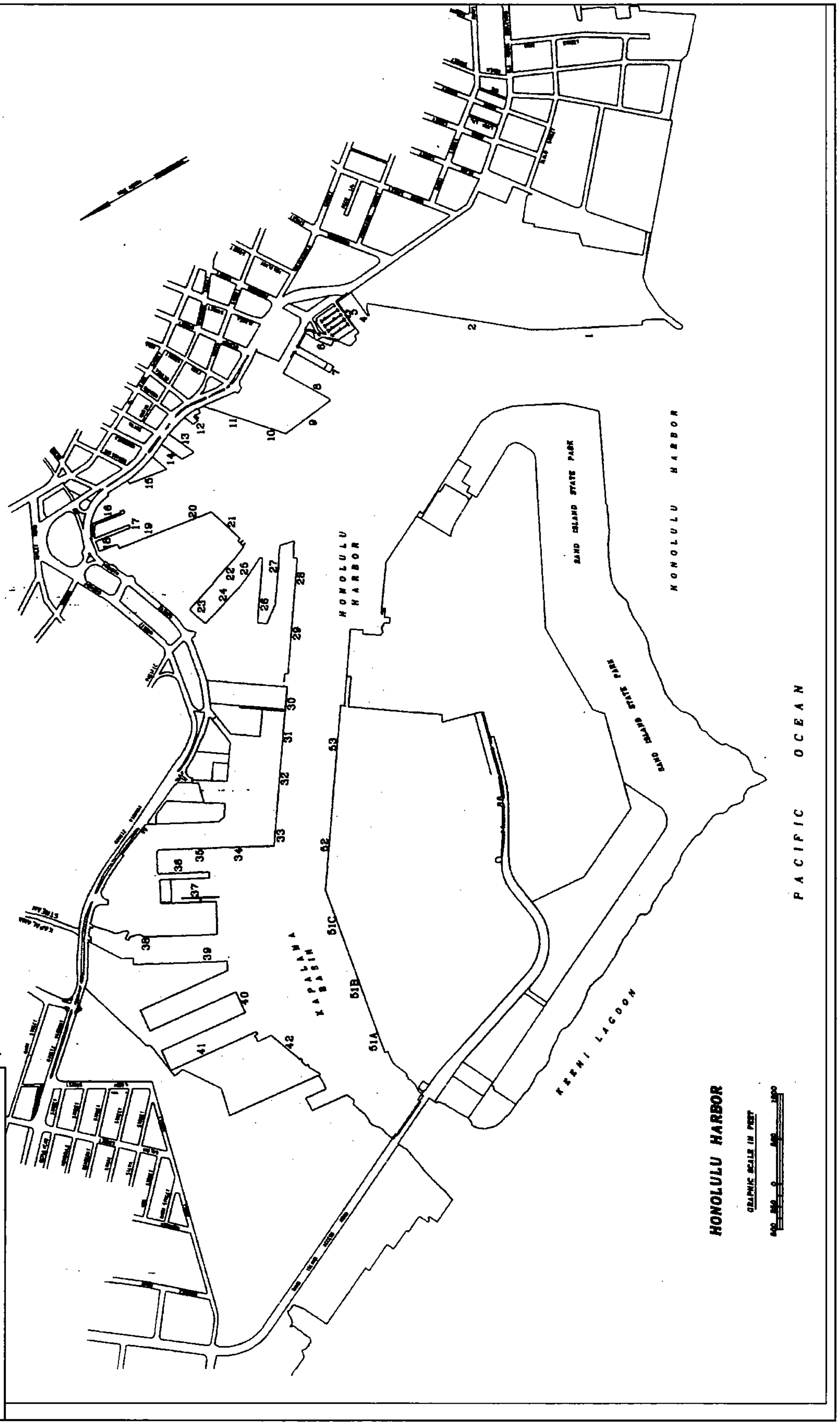


TABLE 11
PRINCIPAL CHARACTERISTICS OF AVAILABLE PIERS
HONOLULU HARBOR

PIER	BERTH LENGTH (feet)	YARD AREA (acres)	SHED AREA (sq. ft)	PRINCIPAL CARGO OR PIER USE [1]
1	1,175	22.7	---	Foreign Containers
2	1,850	4.9	169,355	Cruise Ship Terminal, Foreign Trade Zone No. 9 and Neo-Bulk Cargo
4	---	---	---	Owned and Used by U.S. Coast Guard
5	200	---	---	Small Passenger Vessels
6	163	---	---	Small Passenger Vessels and Vehicle Parking
7	710	---	---	Falls of Clyde and Hawaii Maritime Center
8	602	---	---	Small Passenger Vessels and Retail Space
9	629	---	---	Lay Berths and Retail Space
10	502	---	---	Cruise Ship Terminal and Vehicle Parking
11	472	---	---	Cruise Ship Terminal and Harbors Division Administrative Office
12	---	---	---	Vehicle Parking
13	345	---	13,824	Tugboats, Office Space and Vehicle Parking
14 and 14 End	430	---	13,825	Tugboats, Office Space and Vehicle Parking
15	250	0.4	5,498	Harbor Fireboat
16	930	---	---	Commercial Fishing Boats
17	971	---	---	Commercial Fishing Boats
18	214	---	---	Pilot Boats, Loading Dock, Ferry Terminal
19	530	0.3	87,845	Tugboats, Barges, Cruise Ships, Ferry Terminal, General Cargo and Storage Shed
20	480	3.0	---	Ferry Vehicle Staging Area
21	494	0.4	---	Tugboats, Barges and General Cargo
22	446	0.8	---	Tugboats, Barges and Office Space
23	500	2.9	---	Grain Ship, Tugboats, Barges and Grain Storage and Processing Facility
24	558	3.4	---	RO/RO [2] Cargo, Tugboats and Barges
25	365	0.5	---	RO/RO Cargo, Tugboats and Barges
26	685	3.9	---	RO/RO Cargo, Tugboats and Barges
27 and 27 End	875	2.4	---	Maintenance, Tugboats and Barges
28	722	0.9	---	Maintenance, Tugboats and Barges
29	801	7.8	---	RO/RO Cargo, Tugboats and Barges
30	270	---	---	Privately Owned Petroleum Facility
31	775	0.2	74,130	Tugboats, Barges and Storage
32	400	3.3	99,400	RO/RO and General Cargos, Bunker Fuel [3] and Pipelines
33	325	4.1	67,228	RO/RO and General Cargos, Bunker Fuel and Pipelines
34	545	2.0	---	RO/RO and General Cargos
35	705	1.9	---	Oil Spill Response Vessel and General Cargo
36	946	---	32,400	Commercial Fishing Boats
37	408	---	---	Commercial Fishing Boats
38 End	587	---	---	Commercial Fishing Boats and Fish Auction
38	---	---	---	Liquid-Bulk Cargo
39 and 39 End	2,722	18.4	---	Barges and Tugboats, Break-Bulk and Container Cargos and RO/RO
40 and 40 End	2,430	12.3	---	Barges and Tugboats, Break-Bulk and Container Cargos and RO/RO
41	900	---	---	Dry-Docks and Ship Repair Facility
42	510	---	---	Container Freight Station
44 and 45	670	---	---	Used by the Oceanographic Research Facility and Research Vessels
51A	680	26.3	---	Domestic Containers, Autos and Petroleum
51B	556	31.1	---	Domestic Containers
51C	677	11.9	---	Domestic Containers
52	800	31.5	50,300	Domestic Containers
53	1,160	37.4	51,481	Domestic Containers

(1) *All cargo handling equipment for loading and moving cargo to, from and around the piers and ships is owned by the shipping and stevedoring companies.*

(2) *RO/RO = roll on/roll off.*

(3) *"Bunker" is related to the fueling operation for ships.*

Source: State of Hawaii Harbors Division.

Kalaeloa Barbers Point Harbor. Kalaeloa Barbers Point Harbor is located at Kalaeloa, which is approximately 20 miles west of downtown Honolulu, adjacent to the privately-owned Campbell Industrial Park. The harbor was constructed to provide port facilities for Kapolei, the industrial and commercial development on the Ewa Plain west of Honolulu, which is presently being developed as Oahu's "New City."

The harbor's entrance channel is 42 feet deep, and the basin is 38 feet deep. The harbor facilities include a 2,700 foot concrete pier with a 37.8-acre paved back-up area, a 255-foot barge pier with a 4.4-acre back-up yard, a 36,000 square-foot transit shed, and a 150-foot service vessel pier. The harbor's primary operations include the transshipment of petroleum products, bulk cargo handling, a contractor's baseyard operations and ship repair. A bulk unloader, coal conveyor and cement storage facility, each of which is privately owned, are in operation.

Ninety percent of the cargo that is shipped through the Kalaeloa area flows through the privately operated off-shore mooring and fuel shipment facilities near the Kalaeloa Barbers Point Harbor. This cargo consists primarily of crude oil products shipped into refineries and refined fuel being shipped to neighbor island ports and out of the State. The Department does not receive any tariffs in connection with cargo that is shipped through the privately-operated off-shore mooring and fuel shipment facilities.

Hilo Harbor. Hilo Harbor is located on the northeast coast of the Island of Hawaii, the largest island in the State, at the commercial center of the Island. Hilo Harbor's basin measures approximately 2,300 feet by 1,400 feet and is 35 feet deep. Hilo Harbor has three piers, which primarily handle container and general cargo, petroleum products, lumber, cement, livestock and liquefied petroleum gas. Pier 1 has 1,265 feet of berthing space, 81,635 square feet of shed space, and a back-up area for container storage. Matson loads and unloads containers from its inter-island barges at Pier 1. Pier 1 also accommodates cruise ships. Young Brothers uses Pier 2 for inter-island barge operations. Pier 3 is used for transshipment of petroleum products, general cargo and occasionally for small passenger ships. Construction is about to begin to expand the inter-island barge terminal by dredging a new entrance basis for the future Pier 4 and constructing a new cargo area to accommodate inter-island cargo operations. Design is under way for construction of a new reinforced concrete Pier 4.

Kawaihae Harbor. Kawaihae Harbor is located on the northwest coast of the island of Hawaii. Kawaihae Harbor's basin measures approximately 1,450 feet by 1,500 feet. The depth of the harbor is 35 feet, with the exception of the barge berth which has a depth of 20 to 24 feet. The Harbor's facilities include a 412-foot barge pier with 8,300 square feet of cargo sheds and a 1,150-foot pier with 13,326 square feet of cargo shed space. The types of cargo that are primarily handled at Kawaihae Harbor are container and general cargo, bulk cement, lumber, steel, produce, petroleum products, bulk fertilizer, livestock, grain and lava cinders. Privately-owned petroleum products pipelines are available. Both Matson and Young Brothers provide regularly scheduled tug and barge service.

The Pier 2 shed was recently demolished and the pavement was strengthened to accommodate container traffic using federally funded design/build contracts.

On October 15, 2006, an earthquake struck the Hawaiian Islands. The quake was centered off the north Kona Coast of the Island of Hawaii and was felt throughout the State. While Honolulu Harbor sustained very minor damage, Kawaihae Harbor suffered major damage. Piers 1 and 2A at Kawaihae Harbor were most seriously affected and operated temporarily under restricted usage. All permanent repairs have since been completed and full operations have been restored. Damage repairs were funded by the State's insurance carrier.

Nawiliwili Harbor. Nawiliwili Harbor is located near Lihue on the southeast coast of the Island of Kauai. The harbor has three piers. Matson uses Pier 1 and the adjacent nine-acre container yard for inter-island barge cargo traffic. Pier 2 is used for berthing cruise ships and for handling petroleum products, sugar and molasses. Pier 2 has a total of 39,950 square feet of cargo shed space available. Nawiliwili Harbor's support facilities include ten pipelines for molasses, liquid fertilizer, petroleum products and cement and a bulk sugar loading tower with conveyor belts. Young Brothers uses the facility at Pier 3, which includes a 625-foot pier, a 150-foot roll-on roll-off ("Ro-Ro") pier and a 16.6-acre container yard with covered cargo shed. Pier 3 is also used to berth smaller cruise ships. The facilities were designed both to accommodate existing demand and growth in such demand.

Port Allen Harbor. Port Allen Harbor is located on the south coast of Kauai. Port Allen Harbor's basin measures 1,200 feet by 1,500 feet and is 35 feet deep. This harbor has two piers, 1,200 feet of berthing space and a cargo shed of 34,792 square feet. Petroleum products constitute the principal cargo handled at Port Allen Harbor, for which pipelines are available. The United States Navy is a principal tenant, using the facilities in connection with its Pacific Missile Testing Range Facility operations. The piers are also used by excursion vessels.

Kahului Harbor. Kahului Harbor is the only commercial harbor on the Island of Maui and is located along the northern shore of the island near its commercial center. Kahului Harbor's basin measures approximately 2,050 feet by 2,400 feet and is 35 feet deep. Kahului Harbor has three piers and a total berthing space of 3,052 linear feet. Pier 1 has 43,925 square feet of cargo shed space and is served by a bulk sugar loading gantry with conveyor belts. Pier 1 is used for containerized cargo, petroleum products, bulk shipment of raw sugar and molasses, and by cruise ships. Pier 2A, along with portions of the back-up area totaling 17.2 acres of open storage area, is used by Young Brothers for inter-island barge cargo traffic. Pier 3 is a Ro-Ro facility for inter-island cargo and also provides one berth for sand barges and fuel barges. Kahului Harbor has privately-owned cement and petroleum product pipelines.

To accommodate anticipated growth in container cargo operations, the Harbors Division is planning to acquire approximately 10 acres of land adjacent to Kahului Harbor. In November 2007, the Department acquired approximately four acres of land adjacent to the harbor for a purchase price of $9.8 million.

Kaunakakai Harbor. Kaunakakai Harbor is located on the south central coast of the Island of Molokai, near the population center of the island. Kaunakakai Harbor's basin has a depth of 23 feet. Kaunakakai Harbor has one 689-foot barge pier, 7,900 square feet of cargo shed space and 2.9 acres for open cargo storage. Kaunakakai Harbor has a privately-operated fuel transfer pipeline and a privately-owned inter-island ferry service that operates between Maui (Lahaina Small Boat Harbor) and Molokai.

Kaumalapau Harbor. Kaumalapau Harbor is the only commercial harbor on the island of Lanai. The Department acquired the harbor from Lanai Company Inc., a subsidiary of Castle & Cooke, Inc. By acquiring this area, the State is able to cost-share federal improvements by the Corps of Engineers for the reconstruction of an existing breakwater which was damaged by Hurricanes Iwa and Iniki. Reconstruction of the breakwater was completed in January 2009. The harbor is used primarily for inter-island cargo and fuel transfer operations.

Hana Harbor. Hana Harbor is located along the eastern shore of the Island of Maui. Presently, the pier is condemned. A planning study is being completed to determine the commercial feasibility of reconstructing the pier.

Capital Improvements Program

The current Capital Improvements Program for the Harbors Division covers the six-year period from fiscal year 2010 through fiscal year 2015. The State Legislature authorizes capital improvement projects and provides appropriation funding as part of a biennium capital budget submitted for their review in every odd numbered year. In every even numbered year, the State Legislature considers additional requests for the second year of the biennium period as part of the supplemental budget appropriation process.

The Legislature can appropriate funds for Harbor System capital improvement projects from three sources: bonds, federal funds and the Harbor Revenue Fund. The appropriation of bond funds for a capital improvement project serves as the legislative authorization to issue bonds when required in the future. If bond funds are appropriated for a particular capital improvements project, the Department may, with the approval of the Governor, use funds in the Harbor Revenue Fund rather than bond funds to finance that project. Appropriations made for a fiscal biennium that is not encumbered lapses three years from the first year of that biennium period. However, appropriations that involve federal matching funds are not subject to lapsing.

Harbors Modernization Plan. Working in partnership with HHUG, State officials from the Departments of Transportation, Budget and Finance, and Business, Economic Development & Tourism, along with the State Tourism Liaison, State Economist and other State officials, reached consensus on an $842.0 million HMP. The HMP was originally comprised of projects to upgrade and improve the commercial harbors system within a proposed six-plus year timeframe.

Legislation was submitted to the Legislature in 2008 and resulted in the enactment of Act 200, SLH 2008. The Act designated ATDC as the entity responsible for the management and implementation of the HMP under the direction of the Department. ATDC was so designated because prior to the passage of the HMP, the Governor had established a Hawaii Harbor Task Force to focus on the collaboration between the Harbors Division and ATDC to redevelop the Kapalama Military Reservation ("KMR") to significantly expand the container terminal capacity of Honolulu Harbor. To effect this redevelopment other areas within Honolulu Harbors also needed to be expanded. A Hawaii Harbors Project Office was established within the Harbors Division to plan and execute the development of the proposed cargo container yard and vessel berthing piers at KMR with the executive officer of the ATDC serving as the chief executive of the Office.

Act 200 established a Harbors Modernization Group to oversee ATDC's work in the statewide implementation of the HMP. In its capacity as the development arm for the HMP, ATDC's authority was intended to extend for eight years to 2016 to achieve the goals set forth in the bill. Act 200 authorized the Department to issue harbor revenue bonds to finance the HMP. The original $842.0 million cost of the HMP was subsequently revised to $618.0 million. The legislation also placed Hana Harbor on Maui under the jurisdiction of the Harbor System and included appropriations for its upgrade.

ATDC implemented various preliminary work including development plans for Piers 23-28, Honolulu Harbor, Kahului Harbor, and Kawaihae Harbor and the demolition of Piers 1 and 39 Sheds at Honolulu Harbor. The Legislature subsequently questioned ATDC's role and effectiveness in its 2009 legislative session and provided operational funding for only FY 2010 of the FY 2010-2011 biennium. The Legislature in its 2010 legislative session did not restore operating funds to ATDC for FY 2011, effectively terminating its operations on June 30, 2010. Contracts executed by ATDC for HMP projects were assigned to the Harbors Division.

Key ATDC personnel were retained in new positions established under the Harbors Division to continue management and oversight for the HMP contracts and to implement the existing and future HMP projects.

The HMP includes priority projects which are key elements of the Oahu Commercial Harbors 2020 Master Plan, the Kahului Harbor 2025 Master Plan and the Hawaii Commercial Harbors 2020 Master Plan discussed below.

Oahu Commercial Harbors 2020 Master Plan. Since the completion of the Honolulu Waterfront Master Plan in 1990, financial support for non-maritime development of the lands surrounding Honolulu Harbor has declined. The spatial, facility and support requirements of Hawaii's life-line ocean cargo carriers, on the other hand, have increased. This shift in trends necessitated a return to a focus on the needs and projected growth of the maritime community. The Oahu Commercial Harbors 2020 Master Plan, approved by the Governor on May 6, 1997, used then current economic indicators to plan the infrastructure required by Hawaii's essential commodity carriers. The Oahu Commercial Harbors 2020 Master Plan incorporates and updates the commercial harbor components of the Honolulu Waterfront Master Plan, as well as the 2010 Master Plans for Honolulu and Kalaeloa Barbers Point Harbors.

The Oahu Commercial Harbors 2020 Master Plan provides a general, long-range guide for commercial harbor development, based on the knowledge and experience of the users of the facilities and their anticipation of future trends. Implementation of the recommendations of this plan will enhance operational efficiency and encourage further development of Oahu harbors. Many aspects of this master plan have been completed, including the Honolulu Harbor Inter-Island Cargo Terminal at Piers 39-40, acquisition of land for cargo operations near Pier 40, the ferry terminal at Pier 19, the Pier 2 cruise passenger terminal, demolition of the Pier 1 shed, full build-out including private construction within the Domestic Commercial Fishing Complex, the reconstruction of the Pier 51A and Pier 51C to Pier 53 terminal yard, the dredging of the Kalaeloa Barbers Point Harbor expansion, and construction of the Kalaeloa Barbers Point Harbor Pier P-5 and Pier P-7 extensions, the establishment of the Sause Bros. neobulk terminal at Kalaeloa Barbers Point Harbor Pier 5, and the establishment of the Grace Pacific dry bulk terminal at Kalaeloa Barbers Point Harbor Pier 7. The Division broke ground on the reconstruction of Pier 29 at Honolulu Harbor.

Hawaii Commercial Harbors 2020 Master Plan, Kahului Harbor 2025 Master Plan, Kauai Commercial Harbors 2025 Master Plan. Following completion of the Oahu Commercial Harbors 2020 Master Plan, the Harbors Division began to update the remaining 2010 Master Plans for commercial harbors statewide. To date the aforementioned plans were completed and approved by the Governor on August 7, 1998, September 14, 2000, and September 21, 2001, respectively. These master plans provide a general, long-range guide for commercial harbor development, based on the knowledge and experience of the users of the facilities and their anticipation of future trends. Currently, the Kahului Harbor 2025 Master Plan is being updated to the planning horizon of 2030. The

Harbors Division is also updating the Hawaii Commercial Harbors 2020 Master Plan to the planning horizon of 2035.

Federal Funds Assistance. The Harbors Division has been working to increase the level of federal assistance as an additional source of funding for its Capital Improvement Program. As discussed below, the Harbors Division has successfully obtained federal funding assistance for the Hawaii Port Infrastructure Expansion Program, ARRA grant funding and port security funding.

Hawaii Port Infrastructure Expansion Program. The Hawaii Port Infrastructure Expansion Program provides a mechanism for the U.S. Maritime Administration ("MARAD") to consolidate federal, state and private funds to be expended on improvements to Hawaii's port facilities pursuant to the federal Merchant Marine Act of 1936, as amended. As the lead federal agency for this program, MARAD has entered into a Memorandum of Agreement with the Department to assist in the modernization of the Harbor System and will provide federal oversight and coordination of projects and act as a central procurement organization to leverage federal and non-federal funding resources.

The first project under this program was the $3 million Pier 2A Demolition and Yard Improvements at Kawaihae Harbor completed in October 2009. Facilities at the inter-island barge terminal were improved through the use of Federal Transit Administration funds.

In July 2009, MARAD awarded a seven-year program management and technical services contract with a maximum value of $400 million to TEC, Inc. to provide planning, engineering and environmental services. Projects under this contract include traffic circulation and interior improvements to the Pier 2 passenger terminal at Honolulu Harbor, vehicular and pedestrian traffic circulation improvements at Hilo Harbor and a fuel pier development plan at Kalaeloa Barbers Point Harbor.

ARRA Grants. In 2009, the U.S. Department of Transportation announced the availability of $1.5 billion in grant funds under the Transportation Investment Generating Economic Recovery (TIGER) grant program. This program, authorized by the American Recovery and Reinvestment Act of 2009 (ARRA), provides grants on a competitive basis for capital projects, including port infrastructure projects. The Department was awarded a grant of up to $24.5 million for the reconstruction of Pier 29 at Honolulu Harbor, which had suffered structural failures in 2008 that displaced cargo activity. Construction commenced in August 2010 and is scheduled for completion in February 2012.

Port Security Grants. The federal Maritime Transportation Security Act of 2002, and its implementing regulations, has imposed substantial security requirements on the Harbor System. In order to address these requirements, the Department pursued federal funds through the Port Security Grant Program under the U.S. Department of Homeland Security to assist in the financing of various security-related infrastructure improvements at the Harbors Division's ports. Federal grant funds were utilized to upgrade security barriers at various access points into Honolulu Harbor, improve passenger screening, increase terminal surveillance capabilities, provide for electronic access systems to harbor offices and enhance communications devices.

During federal fiscal years 2005 through 2007, the Department competed for grant funds as a Group 3 Port and received grant awards to expand surveillance of water-side threats and passive passenger screening for potential threats at Honolulu and Kahului Harbors. The Department's security status was subsequently elevated in 2008 to Group 2, which enhances the Department's eligibility for grant funds to plan for and mitigate security risks.

Federal grant awards to address potential security risks over this period are as follows:

Fiscal Year	Amount
2006	$1.43 million
2007	2.15 million
2008	4.73 million
2009	5.05 million

Summary of Financial Information

General. The Harbors Division maintains its accounting records on a modified cash basis of accounting whereby revenues are recognized when billed and expenses are recognized when paid. In order to prepare its annual financial statements on an accrual basis of accounting, adjustments are made to convert the accounting records from a modified cash basis to an accrual basis. The annual financial statements of the Harbors Division, including those presented in Appendix A, are audited by independent auditors retained by the office of the auditor. The most recent fiscal year for which audited financial statements are available is the fiscal year ended June 30, 2009.

Historical Operations. Table 12 sets forth the sources of operating revenues and operating expenses of the Harbor System for fiscal years 2006 through 2010.

TABLE 12
STATEMENT OF HISTORICAL OPERATIONS
Fiscal Years Ended June 30, 2006 through 2010
(x000's)

	Fiscal Year Ended June 30				
			Restated		
OPERATING REVENUES	2006	2007	2008	2009	2010
Services					(unaudited)
Wharfage	$ 41,455	$ 41,833	$ 43,037	$ 37,495	$ 37,788
Passenger debark/embark	4,500	5,514	4,510	2,663	2,595
Dockage	5,534	6,454	6,121	4,903	4,716
Port Entry	1,757	1,300	1,219	1,018	1,026
Demurrage	1,208	1,120	1,149	770	895
Mooring charges	1,346	1,387	1,329	1,055	623
Cleaning wharves	214	289	300	186	181
Others	270	179	117	205	107
Total services	56,284	58,076	57,782	48,295	47,931
Rentals					
Wharf space and land	$ 17,907	$ 18,367	$ 18,511	$ 18,244	$ 17,312
Storage	3,521	3,224	2,996	2,983	3,284
Pipelines	2,280	2,602	2,497	2,013	2,098
Auto parking	1,208	1,336	1,259	1,094	1,149
Total rentals	24,916	25,529	25,263	24,334	23,843
Other Revenues					
Sale of utilities	$ 1,069	$ 1,211	$ 1,500	$ 1,136	$ 897
Permits to vendors	0	0	0	0	0
Miscellaneous	948	846	902	847	627
Total other revenues	2,017	2,057	2,402	1,983	1,524
Total Operating Revenues	83,217	85,662	85,447	74,612	73,298
OPERATING EXPENSES BEFORE DEPRECIATION					
Personnel services	$ 11,862	$ 13,003	$ 15,188	$ 16,072	$ 15,065
Harbor operations, maintenance and general administration	20,115	26,761	30,473	27,351	26,195
State of Hawaii surcharge for central service expenses	3,083	3,024	3,322	2,410	2,193
Fireboat operations	1,815	1,710	1,941	2,838	2,174
Department of Transportation, administrative expense	1,348	1,493	1,627	1,553	1,946
Total Operating Expenses Before Depreciation	38,223	45,991	52,551	50,224	47,573
INCOME FROM OPERATIONS BEFORE DEPRECIATION	$ 44,994	$ 39,671	$ 32,896	$ 24,388	$ 25,725

Historical and Projected Debt Service Coverage. Table 13 presents a summary of historical Revenues and debt service coverage on outstanding Bonds for the fiscal years ended June 30, 2006 through 2010 (unaudited), and the projected Revenues and debt service coverage on the Bonds, including the Series 2010 Bonds, for the fiscal years ending June 30, 2011 through 2015. The figures for historical operating revenues and operating expenses before depreciation are taken from the audited financial statements for Fiscal Years 2006 to 2009. The adjustments and calculations performed to determine historical debt service coverage are in accordance with the provisions of the certificate providing for the issuance of such bonds. Projected debt service coverage is calculated based on debt service to be paid in that year.

TABLE 13
HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE
Fiscal Years Ended June 30, 2006 through 2015
(x000's)

	Fiscal Year Ended June 30									
	Historical					Projected				
Operating Revenues	2006	2007	Restated 2008	2009	Unaudited 2010	2011	2012	2013	2014	2015
Services	$ 56,284	$ 58,076	$ 57,782	$ 48,295	$ 47,931	$ 56,982	$ 67,424	$ 75,528	$ 82,747	$ 89,615
Rentals	24,916	25,529	25,263	24,334	23,843	23,352	23,637	23,719	23,895	22,823
Other revenues	2,017	2,057	2,402	1,983	1,524	1,524	1,539	1,570	1,601	1,633
Total Operating Revenues	$ 83,217	$ 85,662	$ 85,447	$ 74,612	$ 73,298	$ 81,858	$ 92,600	$100,817	$108,243	$114,071
Operating Expenses Before Depreciation	$ 38,223	$ 45,991	$ 52,551	$ 50,224	$ 47,573	$ 49,922	$ 53,793	$ 56,732	$ 59,709	$ 62,666
Income From Operations Before Depreciation	$ 44,994	$ 39,671	$ 32,896	$ 24,388	$ 25,725	$ 31,936	$ 38,807	$ 44,085	$ 48,534	$ 51,405
Add: (1)										
Interest income (2)	$ 6,184	$ 11,751	$ 10,809	$ 6,284	$ 638	$ 2,143	$ 2,209	$ 2,226	$ 2,369	$ 2,542
State of Hawaii surcharge for central services (3)	3,083	3,024	3,322	2,410	2,193	2,259	2,327	2,397	2,469	2,543
Cash available in 1997 Certificate Harbor Reserve and Contingency Account (4)	10,898	10,898	10,898	10,898	10,898	10,898	10,898	10,898	10,898	10,898
Revenues Available For Debt Service	$ 65,159	$ 65,344	$ 57,925	$ 43,980	$ 39,454	$ 47,236	$ 54,241	$ 59,606	$ 64,270	$ 67,388
Aggregate Debt Service Coverage Of 1997 Certificate Harbor Revenue Bonds										
Aggregate Debt Service (5)	$ 19,265	$ 25,364	$ 24,290	$ 23,167	$ 23,226	$ 22,990	$ 27,770	$ 31,531	$ 31,529	$ 31,528
Aggregate Debt Service Coverage (6)	3.38	2.58	2.38	1.90	1.70	2.05	1.95	1.89	2.04	2.14
Reimbursable General Obligation Bond Debt Service (7)			$ 2,213	$ 1,831	$ 2,825	$ 2,960	$ 3,381	$ 3,381	$ 3,381	$ 3,381

(1) *In accordance with the definition of Revenues set forth in the Certificate.*

(2) *Excludes direct financing leases.*

(3) *The State assesses a surcharge of 5% for central services expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the fiscal year.*

(4) *Special reserve account created pursuant to the Certificate. As discussed under "SECURITY FOR THE BONDS—Rates and Charges" herein, amounts on deposit in this Account are taken into account for purposes of calculating debt service coverage under the Rate Covenant. See also "Application and Allocation of Revenues - 1997 Certificate Harbor Reserve and Contingency Account" in Appendix C hereto for a discussion of the uses of funds in this Account.*

(5) *Reflects partial refunding of 2000A Bonds by Series 2010B Bonds and $164.275 million new money issue of Series 2010A Bonds.*

(6) *Coverage calculated pursuant to the Certificate for Fiscal Years 2006 – 2010. Projected coverage is calculated based on debt service projected to be paid in each respective year, Fiscal Years 2011 – 2015.*

(7) *The Department is required to reimburse the State General Fund for debt service on these bonds from Revenues. Figures reflect interest and principal payments. Approximately $40,000,000 of general obligation bonds was appropriated from State of Hawaii General Obligation Bond Series DI, Series DJ and Series DK for harbor improvements to support the operations of the Hawaii Superferry, Inc., of which the Department expended approximately $39,731,000. The amounts reported represent payments for interest owed on these general obligation bonds in that fiscal year.*

Management Discussion and Analysis

Revenues. Revenues include operating revenues and interest income. Revenues for Fiscal Years 2009 and 2008 (restated) were $80.9 million and $99.3 million, respectively. Operating revenues for Fiscal Year 2009 decreased by 12.7% or $10.8 million to $74.6 million from the operating revenues of $85.4 for Fiscal Year 2008. This decrease in operating revenues for Fiscal Year 2009 is attributed primarily to a $9.5 million or 16.4% decrease in Fiscal Year 2009 service revenues compared to Fiscal Year 2008 and a $1.0 million or 4.0% decline in gross rental revenues compared to Fiscal Year 2008. The decrease in Fiscal Year 2009 service revenues is due primarily to the impact of the global recession which caused decreased vessel activity and lower cargo volumes handled by the Harbor System. These circumstances resulted in decreased dockage and port entry fees of $1.5 million and decreased wharfage revenues of $5.0 million. The decrease in cruise ship passenger fees of $1.8 million is due primarily to NCL America's reduction of its cruise operations in Hawaii as discussed under "Cruise Ships" below. Wharfage revenue earned for the activities of the Hawaii Superferry for Fiscal Year 2009 approximated $0.7 million, a decrease of approximately $534,000 in comparison to the $1.2 million earned in Fiscal Year 2008. As described below under "Interisland Ferry System," Hawaii Superferry operated for approximately nine months in Fiscal Year 2008 and ceased operations on March 19, 2009. The decline in gross rental revenues for Fiscal Year 2009 as compared to the prior Fiscal Year was primarily due to a decrease of approximately $361,000 in rental fees for the use of State pipeline facilities to deliver petroleum products such as diesel, gasoline and jet fuel, a decrease of land rents of approximately $143,000 due to the transfer of leases and permits to the Hawaii Community Development Authority for parcels located at Kewalo Basin as of March 1, 2009 (see "Kakaako Makai Development" below), a decrease of approximately$400,000 in rental income from parcels located at the former Kapalama Military Reservation (see "Kapalama Military Reservation" below), a decrease of approximately $166,000 in parking fees and a decrease of approximately $90,000 for the use of State pipeline facilities to transport water. These decreases in gross rental revenues were partially offset by an increase in rental revenues of approximately $280,000 earned at Kalaeloa Barbers Point Harbor. Provision for doubtful accounts for Fiscal Year 2009 reduced service revenues by approximately $1.588 million. Nonoperating revenues (interest income) declined by 54.5% from $13.8 million in Fiscal Year 2008 (restated) to $6.3 million in Fiscal Year 2009, largely due to market conditions.

Expenses. Operating expenses excluding depreciation decreased by 4.4% from $52.5 million in Fiscal Year 2008 (restated) to $50.2 million in Fiscal Year 2009. This decrease in operating expenses was caused primarily by decreases in harbor operations expenses of approximately $1.3 million, which were due to an approximate $858,000 decrease in ceded land assessments which resulted from decreased wharfage revenues earned from decreased cargo volume, an approximate decrease of $390,000 in project costs write-offs and a decrease of $100,000 in electricity expense, decreases in harbor maintenance costs of $605,000, which resulted from lower contract costs for special maintenance projects undertaken in Fiscal Year 2009, decreased central services costs of $912,000 which were due primarily to lower cash collections from customers and lower cash received from interest-bearing investments against which the 5% State central services assessment is applied, and decreased general administration expenses of $1.2 million, which was due primarily to two non-recurring expenditures of approximately $600,000 made in Fiscal Year 2008 to fund a joint study with the Hawaii Tourism Authority concerning the impact of the cruise ship industry in Hawaii and approximately $500,000 provided to the Department of Agriculture that funded improvements to its Invicta system. These decreases in expenses were partially offset by an increase in personnel services costs of approximately $884,000 that were caused primarily by pay increases for several white-collar bargaining units that took effect July 1, 2008 and October 1, 2008, and for blue-collar bargaining units that took effect March 1, 2009 and an increase in fireboat operations expense of approximately $897,000 stemming from expenditures to pay for vessel dry-dock services completed during the third quarter of Fiscal Year 2009.

A summary of operations and changes in net assets for Fiscal Years 2009 and 2008 follows:

TABLE 14
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(x000's)

	2009	Restated 2008	Dollar Change	Percent Change
Operating revenues	$ 74,612	$ 85,447	$ (10,835)	(12.7)%
Nonoperating revenues	6,284	13,812	(7,528)	(54.5)%
Total Revenues	80,896	99,259	(18,363)	(18.5)%
Depreciation	17,929	17,227	702	4.1 %
Other operating expenses	50,224	52,552	(2,328)	(4.4)%
Nonoperating expenses	12,581	13,564	(983)	(7.2)%
Total Expenses	80,734	83,343	(2,609)	(3.1)%
Net decrease in fair value of pooled cash balances invested by the State of Hawaii	(7,714)	(5,823)	(1,891)	32.5 %
(Loss) income before capital contributions, extraordinary loss and transfers	(7,552)	10,093	(17,645)	(174.8)%
Capital contributions	22,714	3,616	19,098	528.2 %
Extraordinary loss	(41,354)	0	(41,354)	(100)%
Transfer of capital assets	(2,524)	0	(2,524)	(100)%
(Decrease) increase in net assets	$ (28,716)	$ 13,709	$ (42,425)	(309.5)%

Forecast for Fiscal Year 2010. Revenues (including operating revenues and interest income) for Fiscal Year 2010 are forecast to be $73.9 million, as compared to revenues of $80.9 million for Fiscal Year 2009. Revenues are forecast to decrease by $7.0 million or 9% in Fiscal Year 2010 as compared to Fiscal Year 2009 due to projected decreases in operating revenues of approximately $1.3 million and a decrease in interest income of approximately $5.7 million due to lower yields on pooled investments in the State Treasury.

Operating expenses for Fiscal Year 2010 are forecast on an accrual basis to be $47.6 million, as compared to $50.2 million for Fiscal Year 2009. Expenses are forecast to decrease by approximately $2.7 million or 5% in Fiscal Year 2010 as compared to Fiscal Year 2009 due to projected decreases in personnel costs of $1.0 million which resulted from labor furloughs imposed during Fiscal Year 2010, decreases in fireboat expenditures of $0.7 million and decreases in other operational expenditures of approximately $1.0 million.

Cruise Ships. Hawaii experienced growth in cruise ship passenger volume prior to FY 2008. Norwegian Cruise Lines America ("NCLA") homeported three ships in the Hawaiian market, *Pride of Aloha, Pride of America and the Pride of Hawaii.* In February 2008, *Pride of Hawaii* was removed from Hawaii service to operate in Europe as the *Norwegian Jade*. In May 2008, NCLA deployed the Pride of Aloha to Asia, leaving the Pride of America to serve the Hawaii market. NCLA and other foreign cruise ships utilize the new cruise passenger terminal constructed at Pier 2, Honolulu Harbor.

Revenues from debarked and embarked cruise ship passengers totaled $2.7 million and $4.5 million in the fiscal years ended June 30, 2009 and June 30, 2008, respectively. These revenues, which are included in services revenues, represented 3.6% and 5.3% of total operating revenues for fiscal years 2009 and 2008, respectively. Passenger counts decreased 42.8% in fiscal year 2009 as compared to the previous fiscal year. Revenues for the same period decreased by 40.0%. Embarked and debarked passenger counts for the fiscal years ended June 30, 2002 through June 30, 2009 were as follows:

Fiscal Year	Passengers
2002	1,088,133
2003	1,565,669
2004	1,322,370
2005	1,531,553
2006	1,968,857
2007	2,474,798
2008	2,010,091
2009	1,149,774

Passengers on NCL's U.S.-flagged ship taking a continuous voyage whose point of origin and termination is a State port are charged a total in-transit fee of $1.85 under the tariff for disembarking and embarking at an in-transit port. Other passengers are assessed a fee of $2.50 for embarking and $2.50 for disembarking under the tariff at an in-transit port.

Interisland Ferry System. Hawaii Superferry, Inc. ("HSF"), a private ferry operator, secured financing to construct two new interisland ferry vessels to operate a roll on/roll off, high speed daily service for the transport of passengers and vehicles, including cars, trucks and commercial vehicles. Service between Honolulu and Kahului Harbors commenced on August 26, 2007 following the construction of the first vessel.

After service commenced, the Hawaii Supreme Court ruled that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. A related circuit decision ruled that HSF could not operate at Kahului Harbor until an environmental assessment was completed. These court actions halted HSF operations until the Hawaii State Legislature convened a special session and enacted Act 2, Second Special Session 2007, to allow large capacity ferry vessel companies, such as HSF, to operate under certain conditions while the required environmental reviews were conducted. Daily service between Honolulu and Kahului Harbors recommenced in December 2007. On March 9, 2009, the Hawaii Supreme Court ruled that Act 2 was unconstitutional. Following this decision, HSF halted all operations as of March 19, 2009 and removed its ferry vessel from Hawaii shortly thereafter. On May 30, 2009, HSF and its parent, HSF Holding, Inc., filed petitions for bankruptcy under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court for the District of Delaware. On July 1, 2009, the Bankruptcy Court approved the debtors' motions to abandon and release their interest in the two ferry vessels to the U.S. DOT Maritime Administration, the first mortgagor of the vessels.

Act 178, Session Laws of Hawaii 2005 ("Act 178"), appropriated reimbursable general obligation bonds in the principal amount of $20 million in each of fiscal years 2006 and 2007 for harbor improvements, including improvements needed to support the operations of HSF. The Department is responsible for debt service payments on the bonds. The Harbors Division executed a $37.5 million contract for the construction of barges and ramps with the balance of the appropriations expended to finance other harbor upgrades needed to support the operations of HSF. See "INDEBTEDNESS – Reimbursable General Obligation Bonds" herein.

The Hawaii Supreme Court decision and subsequent bankruptcy of HSF had a significant effect on and curtailed the service utility of the capital assets that were constructed or purchased by the Harbors Division to accommodate the operations of HSF. In accordance with GASB Statement No. 42, an impairment loss of approximately $41.3 million for Fiscal Year 2009 was recognized for these capital assets, rendering their carrying value to $0. The impairment loss was reported as an extraordinary loss due to the unusual, unexpected and infrequent occurrence of events causing these assets to no longer have a service life.

Pasha Hawaii. Pasha Hawaii Transport Lines LLC ("Pasha") initiated service to Hawaii in March, 2005 and calls at Honolulu Harbor as well as the neighbor island ports, Kahului Harbor and Hilo Harbor. Its vessel, the *Jean Anne*, is the first pure car/truck carrier constructed to meet the requirements of the Jones Act. The ship is designed to carry approximately 4,300 vehicles on 10 decks and provides Hawaii with additional services to transport vehicles, rolling stock and other commodities from the west coast of the United States.

The State Public Utilities Commission recently granted Pasha authority to carry cargo between island ports, provisionally through the end of 2013. The Commission will determine whether this order will become permanent and reserved the authority to terminate Pasha's interim authority to operate, at any time, if it determines that Pasha's intrastate service results in significant adverse impacts on existing services or the public interest.

Aloha Tower Complex. The Aloha Tower Development Corporation ("ATDC") was created in 1981 pursuant to Chapter 206-J, Hawaii Revised Statutes. ATDC is authorized to plan, develop or redevelop lands located seaward of Nimitz Highway between Pier 4 at Honolulu Harbor and the Honolulu International Airport. ATDC focused on the redevelopment of the Aloha Tower area of Honolulu Harbor (the "Aloha Tower Complex"), which encompasses Piers 5 to 23 of Honolulu Harbor. Pursuant to Chapter 206-J, ATDC entered into a lease with the Harbors Division in 1993 for a portion of the Aloha Tower Complex. The lease required ATDC to reimburse the Harbors Division annually for any losses in revenues caused by ATDC or the developer of the complex and to provide replacement facilities for maritime activities at no cost to the Harbors Division.

In September 1993, ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer. The sublease required the developer to construct various facilities on the land including a retail marketplace. The developer entered into a capital improvements, maintenance, operations and securities agreement with the Harbors Division (the "Operations Agreement"), providing for the Harbors Division to operate the related harbor facilities. The developer was forced into bankruptcy shortly thereafter. In March 1998, a second entity assumed the developer's obligations under the sublease and the Operations Agreement. This entity filed for bankruptcy protection in 2002 and a third entity has since assumed the initial developer's obligations under the sublease and the Operations Agreement. Although construction of the marketplace had been completed, several items on the Harbors Division's construction punchlist were outstanding. Under the Operations Agreement, the developer/marketplace operator had outstanding obligations for certain punchlist items. The new operator assumed the obligations to complete the punchlist items. However, many of the items were actually completed by the Harbors Division and the actual cost required to complete the punchlist items was in dispute. The new operator has agreed to settle the dispute. The settlement, which will satisfy the new operator's punchlist obligations, has a total value of $3.5 million, depending on when actual payments are made by the operator within a six-year timeframe.

On January 18, 2006, an Agreement Amending the Aloha Tower Project Memorandum of Understanding and Aloha Tower Ground Lease was executed, effective as of June 30, 2005, and retroactive to July 1, 2004 (the "Amendment"). The Amendment requires ATDC to pay $225,000 as a minimum annual base payment for losses in revenues owing in the fiscal year beginning July 1, 2004. From July 1, 2005, subject to the approval of the Deputy Director for the Harbors Division, the base payment of $225,000 will be reduced by expenses incurred by ATDC for the Hawaii Harbors Project Office. The Amendment also requires an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the "equity payment"), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenditures of ATDC. These payments are to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. The balance owed to the Harbors Division by ATDC as of June 30, 2009 was $7,770,626.

Kakaako Makai Development. Act 86, Session Laws of Hawaii 1990 ("Act 86"), provided for the transfer of responsibility from the Harbor System to the Hawaii Community Development Authority ("HCDA") for approximately 73 acres of land located at Kewalo Basin and Fort Armstrong. HCDA is a State agency responsible for overseeing the development of Kakaako Makai, an area bordered by Ala Moana Boulevard, Ala Moana Beach Park, the container yard at Piers 1 and 2, and the Pacific Ocean. The Director of Transportation is one of 11 voting members of the HCDA board of directors.

All acts necessary to complete the transfer of the subject property to HCDA have been completed, including execution of the deed and cancellation of the Governor's executive orders which had previously set aside the subject property to the Harbors Division. Effective March 1, 2009, HCDA assumed management and control of Kewalo Basin.

HCDA's development plan for Kakaako Makai includes the redevelopment of the western portion of the Kewalo Basin area. The Harbors Division and HCDA have long been negotiating to resolve certain issues relating to the Harbors Division's continued operation and management of Kewalo Basin until HCDA was ready to proceed with its redevelopment plans. By an informal understanding, the Harbors Division retained all revenues generated from its management of Kewalo Basin and continued to manage maritime operations and provide for maintenance and capital improvements during this interim period. While fee title to Kewalo Basin was transferred to HCDA under Act 86, the law was silent as to the transfer of related improvements. Legal advice was rendered that all improvements as well as the fee simple title transferred as a result of Act 86.

The Harbors Division's June 30, 2006 financial statements were restated to reflect the transfer of Kewalo Basin capital assets acquired prior to 1991 with a net book value of approximately $1,400,000 and the transfer of Piers 1 and 2 with a net book value of approximately $4,500,000. Kewalo Basin capital assets acquired or constructed by the Harbors Division subsequent to 1991 were reflected as assets of the Harbors Division until March 1, 2009 when HCDA assumed management of Kewalo Basin. These assets, with a net book value of approximately $2,524,000 were then transferred to HCDA and are reflected as a transfer of capital assets in the FY 2009 financial statements.

Due to the importance to preserve Piers 1 and 2 at Honolulu Harbor to support maritime needs, Act 165, SLH 2006, was enacted to remove this area from the jurisdiction of HCDA and convey authority to the Department and the Foreign Trade Zone Division of the Department of Business, Economic Development & Tourism, effective July 1, 2006. Accordingly, Piers 1 and 2 were transferred back to the Harbors Division during FY 2007 at a net book value of approximately $4,400,000.

Kapalama Military Reservation. Between 1990 and 1993, the State acquired three parcels of land totaling approximately 61.8 acres within the Kapalama Military Reservation ("KMR"), comprised primarily of areas adjacent to or near Piers 39 through 41 at Honolulu Harbor (the "KMR site"). Governor's Executive Order No. 3497 set aside two parcels comprising 40.6 acres to the Department for harbor purposes on September 24, 2002. The set-aside of the remaining 21.2-acre parcel is pending the outcome of discussions between the Harbors and Airports Divisions. This parcel was purchased for approximately $34.9 million and involved the use of approximately $8.2 million of the Airports Division's funds. There have been ongoing efforts between the Harbors Division and the Airports Division to designate the portions of the parcel to be used for their respective purposes. A currently proposed settlement involves Harbors Division compensating the Airports Division for the use of its funds. The Harbors Division is also seeking the transfer of approximately 11.344 acres of ceded lands that were previously promised to the Airports Division near the KMR site to consolidate the lands needed for the future development. Resolution of these matters is dependent upon compliance by the Airports Division and cooperating State agencies with the recommendations and requirements of the FAA.

Environmental Issues. The Harbors Division has been identified, among others, as a potentially responsible party by the State Department of Health with respect to subsurface petroleum contamination in the Honolulu Harbor/Iwilei area between Piers 18 and 38. The Harbors Division entered into a voluntary response agreement with the Department of Health and other third parties to share in the responsibilities for the investigation and potential remediation of subsurface petroleum contamination in the Iwilei District. This group of potentially responsible parties, known as the Iwilei District Participating Parties ("IDPP"), has conducted various investigations to determine potential subsurface contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations. Potential remediation alternatives are being studied but the project has not yet advanced to the stage where total costs to the IDPP can be reasonably estimated. In accordance with Governmental Accounting Standards Board Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations (GASB 49), the Harbors Division accrued $476,000, the estimated allocated cost of the study and investigation to the division. The Department of Health has stated that it will take a risk-based approach to any remediation efforts, that is, remediation consistent with the use of the property. Since the sites involved are expected to remain in industrial use, such remediation efforts may be limited to capping and long term management of the site.

Following a December, 2008 audit conducted by the United States Environmental Protection Agency ("EPA") to determine Harbors Division's compliance with Storm Water Environmental Permits, an Administrative Order was issued in June, 2009 directing the Harbors Division to revise its Storm Water Management Plan, upgrade environmental inspections and procedures, improve documentation of environmental inspections and follow up actions, establish Best Management Practices ("BMPs") standards, and include the use of permanent BMPs in any construction projects that are undertaken on Harbor System premises. The EPA established several intermediate deadlines and an overall compliance deadline of December 31, 2010. The Department has met all intermediate deadlines and expects to meet the overall compliance deadline.

Office of Hawaiian Affairs and Ceded Lands. The property comprising the Harbor System includes certain lands ("Ceded Lands") transferred by the former Republic of Hawaii to the United States in 1898. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to the Ceded Lands to the State to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians. See "Office of Hawaiian Affairs and Ceded Lands" in Appendix B hereto for a discussion of pending litigation regarding the Ceded Lands.

In 2006, Act 178, Session Laws of Hawaii 2006, was enacted. It fixed the amount of proceeds and income from the Ceded Lands that OHA is to receive annually, beginning with the fiscal year ended June 30, 2006. The Act provides that all State departments or agencies collecting receipts from the use of Ceded Lands (specifically including the Departments of Agriculture, Accounting and General Services, Business, Economic Development and Tourism, Education, Land and Natural Resources, and Transportation–Harbors Division) shall collectively pay the following amounts to OHA from such receipts: (a) within 30 days after the end of the 2005-2006 fiscal year, the sum of $15.1 million; and (b) within 30 days after each fiscal quarter thereafter, such amounts as are necessary to ensure that a total of $3.775 million of such receipts is transferred to OHA. The Act does not specify each affected department's or agency's share of such payments, but expressly authorizes the Governor to do so by executive order. The Governor's Executive Order No. 06-06 was issued on September 20, 2006 to provide instructions to affected departments regarding the implementation of Act 178. As a result of the executive order, the Harbors Division has been instructed to process payments to OHA as a reduction in revenues rather than as an expense. No assurance can be given as to how the actual quarterly payments to OHA will be allocated among the affected departments and agencies, including the Harbors Division.

INDEBTEDNESS

Bonds Issued Under the Certificate

As of June 30, 2010, $232,285,000 in aggregate principal amount of Bonds was outstanding under the Certificate. Such outstanding Bonds (except for the Refunded Bonds), together with the Series 2010 Bonds to be issued, will be equally and ratably payable from Net Revenues as provided in the Certificate. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE." The Department expects to fund all its future capital improvement needs with proceeds of Bonds issued under the Certificate or with funds derived from sources other than indebtedness.

Reimbursable General Obligation Bonds

As of June 30, 2010, $37,362,029 in aggregate principal amount of reimbursable general obligation bonds issued for the Harbor System was outstanding. These bonds are general obligation bonds of the State, but since the proceeds of the bonds were used to finance improvements to the Harbor System, the Department is required to reimburse the State general fund for the payment of the principal of and interest on the bonds from Revenues. Reimbursement is made from Revenues after payment of the costs of operation, maintenance and repair of the Harbor System, credits to the accounts in the Harbor Revenue Special Fund and payments for any other purpose within the jurisdiction, powers, duties and functions of the Department related to the Harbor System. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE." The State does not presently intend to issue additional reimbursable general obligation bonds for the Harbor System.

Special Facility Revenue Bonds

The Legislature authorized $100,000,000 of special facility revenue bonds in Part II of Chapter 266, HRS. Pursuant to this authorization, three series of special facility revenue bond anticipation notes and special facility revenue bonds were issued between 1981 and 1993 to finance or refinance the construction of certain container terminal facilities on Sand Island. All three issues have been retired in full. The State does not presently intend to issue any other special facility revenue bonds for facilities in the Harbor System.

Summary of Debt Service

Table 15 sets forth the principal and interest requirements to maturity for the outstanding Bonds issued under the Certificate, including the Series 2010 Bonds but excluding the Refunded Bonds, and the outstanding reimbursable general obligation bonds.

TABLE 15
DEBT SERVICE TABLE

Period Ending June 30	Outstanding Bonds [1]	Series A of 2010	Series B of 2010	Total Debt Service Under 1997 Certificate	Total Reimbursable GO Debt Service	Grand Total
2011	$ 22,085,833	$ 747,026	$ 157,305	$ 22,990,163	$ 2,959,988	$ 25,950,152
2012	15,410,991	8,675,144	3,683,488	27,769,623	3,380,916	31,150,539
2013	17,939,829	8,675,144	4,916,013	31,530,985	3,380,832	34,911,817
2014	17,936,191	8,675,144	4,917,813	31,529,148	3,380,678	34,909,826
2015	15,208,129	11,453,444	4,866,813	31,528,385	3,381,053	34,909,438
2016	15,162,635	11,457,494	4,917,063	31,537,191	3,380,654	34,917,845
2017	15,151,641	11,456,144	4,916,813	31,524,598	3,380,820	34,905,418
2018	15,337,735	11,453,594	4,751,063	31,542,391	3,380,618	34,923,009
2019	17,319,641	11,458,269	2,770,313	31,548,223	3,380,808	34,929,031
2020	17,339,844	11,425,019	2,779,538	31,544,400	3,380,782	34,925,182
2021	14,128,075	12,500,544	4,917,219	31,545,838	3,380,764	34,926,601
2022	14,146,381	12,480,588	4,916,588	31,543,556	3,380,638	34,924,195
2023	19,290,131	12,254,006	0	31,544,138	3,380,679	34,924,816
2024	14,939,550	11,455,375	0	26,394,925	3,380,953	29,775,878
2025	12,397,506	11,455,969	0	23,853,475	3,380,956	27,234,431
2026	12,398,825	11,454,969	0	23,853,794	3,380,823	27,234,616
2027	12,398,138	11,457,019	0	23,855,156	1,235,718	25,090,875
2028	12,403,975	11,453,900	0	23,857,875	937,352	24,795,227
2029	8,616,331	11,455,819	0	20,072,150	0	20,072,150
2030	8,621,175	11,456,856	0	20,078,031	0	20,078,031
2031	7,003,500	11,456,225	0	18,459,725	0	18,459,725
2032	0	11,455,669	0	11,455,669	0	11,455,669
2033	0	11,457,788	0	11,457,788	0	11,457,788
2034	0	11,457,469	0	11,457,469	0	11,457,469
2035	0	11,453,581	0	11,453,581	0	11,453,581
2036	0	11,454,725	0	11,454,725	0	11,454,725
2037	0	11,453,672	0	11,453,672	0	11,453,672
2038	0	11,453,844	0	11,453,844	0	11,453,844
2039	0	11,454,203	0	11,454,203	0	11,454,203
2040	0	11,457,922	0	11,457,922	0	11,457,922
2041	0	11,453,313	0	11,453,313	0	11,453,313
TOTAL	$305,236,056	$338,909,873	$48,510,023	$692,655,953	$55,845,033	$748,500,986

(1) *Does not include 2000A Refunded Bonds to be refunded by the Series 2010B Bonds. Includes principal and interest payments made on July 1, 2010.*

LITIGATION

Certain litigation is described in Appendix B hereto under "Office of Hawaiian Affairs and Ceded Lands."

In addition, the State is subject to litigation in connection with the day-to-day operations of the Harbor System by the Department. There is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the Series 2010 Bonds or the power and authority of the Department to impose, prescribe or collect rates, rentals, fees or charges for the use and services of, and the facilities or commodities furnished by, the Harbor System, or in any manner questioning the power and authority of the Department to impose, prescribe or collect such rates, rentals, fees or charges or to issue and deliver the Series 2010 Bonds or affecting the validity of the Series 2010 Bonds.

TAX MATTERS

Opinion of Bond Counsel

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

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

Series 2010 Bonds

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

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

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

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

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

Subsequent Events and Tax Law Changes

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

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

Circular 230

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

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Series 2010 Bonds are subject to the approval of Katten Muchin Rosenman LLP, Bond Counsel for the State. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2010 Bonds. The form of opinion Bond Counsel proposes to render is set forth in Appendix E hereto. Certain legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

RATINGS

Fitch, Inc., Moody's Investors Service and Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc., have assigned ratings of "A+ (stable outlook)," "A2 (stable outlook)" and "A+ (negative outlook)," respectively, to the Series 2010 Bonds. In addition, Moody's Investors Service and Standard & Poor's Ratings Group are expected to assign ratings of "Aa3 (negative outlook)" and "AA+ (stable outlook)," respectively, to the Insured Bonds based on the understanding that the Policy will be issued by the Bond Insurer simultaneously with the issuance and delivery of the Insured Bonds. Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Fitch, Inc., One State Street Plaza, New York, New York 10004, Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007 and Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an effect on the market price of the Series 2010 Bonds.

UNDERWRITING

The Series 2010 Bonds are being purchased for reoffering by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Piper Jaffray & Co. and Robert W. Baird & Co., Incorporated, as Underwriters. The Underwriters have agreed to purchase the Series 2010 Bonds at an aggregate purchase price of $200,084,464.13, being an amount equal to the principal amount of the Series 2010 Bonds, plus a net original issue premium of $256,495.25, and less an underwriting discount of $1,562,031.12. The contract of purchase with respect to the Series 2010 Bonds provides that the Underwriters will purchase all the Series 2010 Bonds if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The Underwriters may offer and sell the Series 2010 Bonds to certain dealers (including depositing the Series 2010 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters.

Piper Jaffray & Co. ("Piper") has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Series 2010 Bonds, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper. Piper also has entered into an agreement with

UBS Financial Services Inc., under the terms of which UBS retail customers will have access to the offering at the original issue price. Piper will share a portion of its underwriting compensation for the Bonds with UBS Financial Services Inc.

LEGALITY FOR INVESTMENT

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

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

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Department will undertake in a Continuing Disclosure Certificate, the form of which is set forth in Appendix D (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 if material, and certain other notices, all as described in the Continuing Disclosure Certificate. The undertaking is an obligation of the Department that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriter to purchase the Series 2010 Bonds.

The Department has advised that it has not failed to comply with the requirements of Rule 15c2-12 in any material respect in the previous five years.

VERIFICATION

Causey Demgen & Moore, Inc. (the "Verification Agent") will verify from the information provided by the Underwriters the mathematical accuracy as of the date of issuance of the Series 2010 Bonds of the computations contained in the schedules provided by the Underwriters to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in the Escrow Fund will be sufficient to pay when due the principal, interest and any call premium payment requirements of the Refunded Bonds. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Series 2010A Bonds will be paid as described in the schedules provided to them.

FINANCIAL STATEMENTS

The financial statements of the Harbors Division as of and for the years ended June 30, 2009 and 2008 are included as Appendix A hereto. Such financial statements were audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein. Ernst & Young is not associated with and has no responsibility for the contents of this Official Statement other than their report. The Harbors Division has neither requested nor obtained the consent of Ernst & Young LLP to include their report, and such firm has performed no procedures subsequent to rendering their report. There can be no assurance that the information in Appendix A is indicative of the current financial position or future financial performance of the Harbors Division.

MISCELLANEOUS

The references herein to Acts of the Legislature or the Certificate (including the supplements thereto) 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 Harbors Division, and other matters, as indicated.

As far as any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of any of the Series 2010 Bonds.

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

By /s/ Michael D. Formby
Michael D. Formby, Interim Director

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APPENDIX A

AUDITED FINANCIAL STATEMENTS

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Financial Statements

State of Hawaii
Department of Transportation
Harbors Division
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Submitted by
The Auditor
State of Hawaii

ERNST & YOUNG

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Report of Independent Auditors

The Auditor
State of Hawaii

We have audited the accompanying financial statements of the business-type activities of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division) as of and for the years ended June 30, 2009 and 2008, as shown on pages 17 through 20, which collectively comprise the Harbor Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Harbors Division. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the State's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Harbors Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Harbors Division are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of Hawaii that is attributable to the transactions of the Harbors Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009 and 2008, and the changes in financial position or its cash flows for the fiscal years then ended in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG

As described in Note 3, the previously-issued financial statements have been restated for the correction of an error in the State of Hawaii's allocation of the fair value of auction rate securities invested by the State of Hawaii to the Harbors Division. The previously-issued auditor's report, dated May 5, 2009, is not to be relied on because the previously-issued financial statements were materially misstated and the previously-issued auditor's report is replaced by our report on the restated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Harbors Division as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2010, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 16 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Harbor Division's basic financial statements. The supplementary information included in Schedules 1 through 6 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

March 31, 2010

State of Hawaii
Department of Transportation
Harbors Division

Financial Statements

Years Ended June 30, 2009 and 2008

Contents

State of Hawaii
Department of Transportation
Harbors Division

Management's Discussion and Analysis

Years Ended June 30, 2009, 2008 and 2007

This section of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division), relating to the Public Undertaking financial report, presents the reader with an introduction and overview of the Harbors Division's financial performance for the fiscal year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The statewide system of commercial harbors consists of ten harbors on six islands. The system plays a vital role in Hawaii's economy as the ports serve as the primary means for goods to enter and exit the state. Hawaii imports approximately 80% of what it consumes, the majority of which enters the state through the commercial harbors system.

The Harbors Division is self-sustaining. The Department of Transportation of the State of Hawaii (DOT) is authorized to impose and collect rates and charges for the use of the harbors system and its properties to generate revenues to fund operating expenses. The Capital Improvements Program (CIP) is also funded by the Harbors Division's revenues and proceeds from the issuance of harbors system revenue bonds.

Financial Highlights

- The Harbors Division's net assets for 2009, 2008 (restated) and 2007 were $608.3 million, $637.0 million and $623.3 million, respectively. Net assets for 2009 decreased $28.7 million from 2008, a decrease of 4.5% and net assets for 2008 increased $13.7 million over 2007, an increase of 2.2%.
- Wharfage revenues for 2009, 2008 and 2007 were $37.5 million, $43.0 million and $41.8 million, respectively. These revenues for 2009 decreased $5.5 million from 2008, a 12.8% decrease. These revenues for 2008 increased $1.2 million over 2007, an increase of 2.9%.
- Total expenses for 2009, 2008 and 2007 were $80.7 million, $83.3 million and $76.6 million, respectively. Expenses for 2009 decreased $2.6 million from 2008, a 3.1% decrease. Expenses for 2008 increased $6.7 million from 2007, an increase of 8.7%.

Financial Highlights (continued)

Total operating revenues for fiscal year 2009 were $74.6 million compared to $85.4 million for fiscal year 2008 and $85.7 million for fiscal year 2007. The major portion of operating revenues is directly related to cargo and ship operations. Service revenues include wharfage, passenger fees and other ship related fees. Service revenues in fiscal years 2009, 2008 and 2007 were $48.3 million, $57.8 million and $58.1 million, respectively. Service revenues for fiscal year 2009 decreased $9.5 million or 16.4% compared to fiscal year 2008 primarily because of decreases in wharfage revenues of $5.5 million, decreases in passenger fees of $1.8 million and decreases in dockage and port entry fees of $1.5 million. Service revenues for fiscal year 2008 compared to fiscal year 2007 were flat, as an increase in wharfage revenues of $1.2 million for 2008 was offset by decreases of $1.0 million in passenger fees and decreases in dockage fees of $333,000 for 2008.

During fiscal 2009, approximately 1.1 million passengers (inbound and outbound) passed through the harbors compared to 2.0 million passengers in fiscal year 2008 and 2.4 million passengers in fiscal year 2007.

Passenger fee revenue for fiscal years 2009, 2008 and 2007 were $2.7 million, $4.5 million and $5.5 million, respectively. The $1.8 million or 40% revenue decrease from 2008 to 2009 and the $1.0 million or 18.2% revenue decrease from 2007 to 2008 are due primarily to the decision by NCL America to reduce its cruise ship operations in Hawaii that commenced effective the second half of fiscal year 2008. During February and May 2008, NCL America removed two cruise ships, the Pride of Hawaii and the Pride of Aloha, respectively, from its Hawaii-based U.S. flagged service. NCL America's decision resulted in approximately 900,000 fewer NCL America cruise ship passengers in 2009 and approximately 400,000 fewer passengers in 2008.

During fiscal years 2009, 2008 and 2007 passengers on U.S. flagged vessels taking a continuous trip whose point of origin and termination is a State of Hawaii (State) port were charged a fee of $2.50 at the point of origin and termination and an in-transit fee of $1.85 at each of the other ports under the tariff for disembarking and embarking. Other passengers are assessed a $2.50 passenger fee for embarking and a $2.50 passenger fee for disembarking. Passenger counts decreased in 2009 by 45% and revenues decreased by 40%, as approximately 30% of the 2009 passengers were in-transit. Passenger counts decreased in 2008 by 16.7% and revenues decreased by 18.2%, as approximately 65.0% of the 2008 passengers were in-transit.

Financial Highlights (continued)

Wharfage revenue in fiscal years 2009, 2008 and 2007 were $37.5 million, $43.0 million and $41.8 million, respectively. The decrease in wharfage revenues of $5.5 million or 12.8% for 2009 was due primarily to the decrease of $5.0 million related to lower cargo volumes handled over Harbors Division's harbor and port facilities during 2009 and due to decreased revenues of approximately $534,000 earned from the activities of the Hawaii Superferry, Inc. for 2009 from that earned in 2008. The Hawaii Superferry, Inc. commenced operations during the second quarter of fiscal year 2008, and ceased operations on March 19, 2009. The net increase in 2008 wharfage revenues of $1.2 million from 2007 or 2.9% was due primarily to $1.3 million earned from the commencement of the operations of Hawaii Superferry, Inc., reduced by lower wharfage revenue earned during 2008 from cargo handling at Harbors Division's ports of approximately $100,000.

Gross rental revenues in fiscal years 2009, 2008 and 2007, were $24.3 million, $25.3 million and $26.0 million, respectively. The decrease in rental revenue of $1.0 million or 4.0% from fiscal year 2008 to 2009 was due primarily to a decrease of approximately $361,000 in rental fees for the use of State pipeline facilities to deliver petroleum products such as diesel, gasoline and jet fuel, a decrease of land rents of approximately $143,000 due to the transfer of leases and permits to the Hawaii Community Development Authority for parcels located at Kewalo Basin as of March 1, 2009, a decrease of approximately $400,000 in rental revenues from parcels located at the former Kapalama Military Reservation, a decrease of approximately $166,000 in parking fees and a decrease of approximately $90,000 for the use of State pipeline facilities to transport water, which were partially offset by an increase in rental revenues of approximately $280,000 earned at Kalaeloa Barbers Point Harbor. The decrease of $700,000 or 2.7% from fiscal year 2007 to 2008 was due primarily to rental renegotiations resulting in higher rental rates offset by lower Honolulu Harbor storage revenues. Net rental revenues after deducting the provision for doubtful accounts were $24.3 million for 2009, $25.1 million for 2008 and $25.5 million for 2007. The provision for doubtful accounts for the fiscal years ended June 30, 2009, 2008 and 2007, affecting rental revenues, was approximately $83,000, $145,000 and $500,000, respectively. The remainder of the provision for doubtful accounts for the fiscal year ending June 30, 2009 affected service revenues by approximately $1,588,000.

Operating expenses excluding depreciation for fiscal years 2009, 2008 and 2007 were $50.2 million, $52.6 million and $46.0 million, respectively. The decrease in expenses from 2009 to 2008 of $2.4 million or 4.6% was due primarily to decreases in harbor operations expenses of approximately $1.3 million, decreases in harbor maintenance costs of $605,000, decreased central services costs of $912,000, and decreased general administration expenses of $1.2 million partially offset by an increase in personnel services costs of approximately $884,000 and an increase in fireboat operations of approximately $897,000. The increase in expenses from 2008

Financial Highlights (continued)

to 2007 of $6.6 million or 14.3% was due primarily to increases in personnel services costs of approximately $2.2 million, harbor maintenance costs of approximately $3.0 million and general administration expenses of approximately $1.5 million.

The decrease in harbor operations expenses of $1.3 million from 2009 to 2008 is due to an approximate $858,000 decrease in ceded land assessments which resulted from decreased revenues earned from decreased cargo volume, a decrease in electricity expense for 2009 of approximately $100,000 and write-offs of project costs which could not be capitalized in 2009 that were lower than those written-off in 2008 by approximately $393,000. The 2009 write-offs of project costs were approximately $270,000. The decrease in harbor operations expenses of approximately $794,000 from 2008 to 2007 was due primarily to write-offs of project costs which could not be capitalized in 2008 that were lower than those written-off in 2007 by approximately $1.7 million. This decrease was partially offset by increased electricity, sewer fee and other utility costs for 2008 compared to 2007.

Fireboat operations expense for fiscal 2009 increased over that of fiscal 2008 by approximately $897,000 because of maintenance expenditures required for vessel dry-dock. Fireboat expenses for fiscal 2008 were $231,000 higher than that of fiscal 2007, as dry-dock expenditures for the vessel were initiated in the last quarter of 2008.

Personnel services costs increased in fiscal year 2009 by approximately $884,000 due primarily to collective bargaining pay increases for white-collar bargaining units that took effect on July 1, 2008 and on October 1, 2008 and for a blue-collar bargaining unit that took effect on March 1, 2009. Personnel services costs increased in fiscal year 2008 by approximately $2.2 million, primarily due to collective bargaining pay increases and to the impact of the adoption of GASB Statement No. 45, *Post Employment Benefits Other Than Pensions Expense* (see Note 12) in 2008.

Harbor maintenance expenses decreased by approximately $605,000 and increased $3.0 million in 2009 and 2008, respectively. The cost of special maintenance projects undertaken in fiscal 2009 decreased in comparison to fiscal 2008 as there were several special maintenance projects undertaken for Honolulu Harbor which were completed during 2008, the expenditures of which approximated $1.2 million. Harbor maintenance expenses for 2008 were higher than 2007 by approximately $3.0 million due to a higher number of 2008 special maintenance projects, for which the costs were higher than projects undertaken during 2007.

Financial Highlights (continued)

Central services costs for 2009 were less than that of 2008 by approximately $912,000 due primarily to lower cash collections from customers and lower cash received from interest-bearing investments against which the 5% State assessment was applied. Central services cost for 2008 were more than that of 2007 by approximately $298,000 due primarily to higher cash received from interest-bearing investments and lower debt service requirements against which the 5% State assessment was applied (see Note 15).

General administration expenses decreased in 2009 by approximately $1.2 million, due primarily to two non-recurring expenditures made only in fiscal year 2008 of approximately $600,000 contributed to fund a joint study with the Hawaii Tourism Authority regarding the impact of the cruise ship industry in Hawaii and approximately $500,000 provided to the Department of Agriculture to fund improvements to its Invicta system. Conversely, these two aforementioned non-recurring expenditures made in fiscal year 2008 resulted in the increase in 2008 general administration expenses over 2007 expenses.

Financial Highlights (continued)

A summary of operations and changes in net assets for the fiscal years ended June 30, 2009, 2008 and 2007 follows:

Table 1
Condensed Statements of Revenues,
Expenses and Changes in Net Assets
(In Thousands)

	Year Ended June 30			2009 – 2008		2008 – 2007	
	2009	**2008 as restated**	**2007**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Operating revenues	**$ 74,612**	$ 85,447	$ 85,663	**$ (10,835)**	**(12.7)%**	$ (216)	0.3%
Nonoperating revenues	**6,284**	13,812	11,751	**(7,528)**	**(54.5)**	2,061	17.5
Total revenues	**80,896**	99,259	97,414	**(18,363)**	**(18.5)**	1,845	1.9
Depreciation	**17,929**	17,227	14,817	**702**	**4.1**	2,410	16.3
Other operating expenses	**50,224**	52,552	45,991	**(2,328)**	**(4.4)**	6,561	14.3
Nonoperating expenses	**12,581**	13,564	15,833	**(983)**	**(7.2)**	(2,269)	(14.3)
Total expenses	**80,734**	83,343	76,641	**(2,609)**	**(3.1)**	6,702	8.7
Net decrease in fair value of pooled cash balances invested by the State of Hawaii	**(7,714)**	(5,823)	–	**(1,891)**	**32.5**	(5,823)	(100.0)
(Loss) income before capital contributions, extraordinary loss and transfers	**(7,552)**	10,093	20,773	**(17,645)**	**(174.8)**	(10,680)	(51.4)
Capital contributions	**22,714**	3,616	4,371	**19,098**	**528.2**	(755)	(17.3)
Extraordinary loss	**(41,354)**	–	–	**(41,354)**	**(100.0)**	–	–
Transfer of capital assets	**(2,524)**	–	–	**(2,524)**	**(100.0)**	–	–
(Decrease) increase in net assets	**$ (28,716)**	$ 13,709	$ 25,144	**$ (42,425)**	**(309.5)%**	$ (11,435)	(45.5)%

Financial Highlights (continued)

A summary of the Harbors Division's net assets at June 30, 2009, 2008 and 2007 are shown below:

Table 2
Condensed Statements of Net Assets
(In Thousands)

	As of June 30			2009 – 2008		2008 – 2007	
	2009	**2008 as restated**	**2007**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Current and other assets	**$ 240,743**	$ 257,274	$ 291,812	**$ (16,531)**	**(6.4)%**	$ (34,538)	(11.8)%
Capital assets	**674,352**	694,905	659,042	**(20,553)**	**(3.0)**	35,863	5.4
Total assets	**915,095**	952,179	950,854	**(37,084)**	**(3.9)**	1,325	(0.1)
Long-term liabilities	**271,708**	281,347	288,463	**(9,639)**	**(3.4)**	(7,116)	(2.5)
Other liabilities	**35,132**	33,861	39,129	**1,271**	**3.8**	(5,268)	(13.5)
Total liabilities	**306,840**	315,208	327,592	**(8,368)**	**(2.7)**	(12,384)	(3.8)
Net assets:							
Invested in capital assets, net of related debt	**493,877**	499,915	484,199	**(6,038)**	**(1.2)**	15,716	3.2
Restricted	**69,905**	66,359	98,633	**3,546**	**(5.3)**	(32,274)	(32.7)
Unrestricted	**44,473**	70,697	40,430	**(26,224)**	**37.1**	30,267	74.9
	$ 608,255	$ 636,971	$ 623,262	**$ (28,716)**	**(4.5)%**	$ 13,709	2.2%

The largest portion of the Harbors Division's net assets (81%, 78% and 78% at June 30, 2009, 2008 and 2007, respectively) represents its investment in capital assets (e.g., land, wharves, buildings, improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Harbors Division uses these capital assets to provide services to its users of the harbors system; consequently, these assets are not available for future spending. Although the Harbors 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 for such liabilities.

Financial Highlights (continued)

The change in net assets is an indicator of whether the overall fiscal condition of the Harbors Division improved or worsened during the fiscal year. The change in net assets may serve over time as a useful indicator of the Harbor Division's financial position. Net assets or the amount of total assets that exceeds liabilities at June 30, 2009, 2008 and 2007 are approximately $608.3 million, $637.0 million and $623.3 million, respectively.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, 2008 and 2007 the Harbors Division had $674.4 million, $694.9 million $659.0 million, respectively invested in capital assets as shown in Table 3. There was a net decrease (additions, deductions and depreciation) of $20.5 million in 2009 from the prior year and a net increase in 2008 of $35.9 million from 2007.

Table 3
Capital Assets
(In Thousands)

	As of June 30			2009 – 2008		2008– 2007	
	2009	**2008**	**2007**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Land and land improvements	$ **419,081**	$ 388,729	$ 377,337	$ **30,352**	**7.8%**	$ 11,392	3.0%
Wharves	**226,323**	231,161	224,712	**(4,838)**	**(2.1)**	6,449	2.9
Other improvements	**68,122**	68,054	68,053	**68**	**0.1**	1	0.0
Buildings and improvements	**84,324**	83,361	83,053	**963**	**1.2**	308	.37
Equipment	**14,865**	47,509	47,061	**(32,644)**	**(68.7)**	448	1.0
Subtotal	**812,715**	818,814	800,216	**(6,099)**	**(0.7)**	18,598	2.3
Less accumulated depreciation	**(210,917)**	(194,580)	(177,474)	**16,337**	**8.4**	17,106	9.6
Subtotal	**601,798**	624,234	622,742	**(22,436)**	**(3.6)**	1,492	0.2
Construction in progress	**72,554**	70,671	36,300	**1,883**	**2.7**	34,371	94.7
Total	$ **674,352**	$ 694,905	$ 659,042	$ **(20,553)**	**(3.0)%**	$ 35,863	5.4%

Capital Asset and Debt Administration (continued)

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2009, included the following:

- $26.9 million Breakwater Improvements at Kaumalapau Harbor, Lanai
- $3.0 million Pier 1 Yard Expansion and Lighting and Utility Improvements, Honolulu Harbor, Oahu
- $874,000 Modifications Kalaeloa Barbers Point Harbor, Oahu
- $667,000 Security Surveillance System for Neighbor Island Passenger Terminals

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2008, included the following:

- $9.8 million Land Acquisition, Kahului Harbor, Maui
- $4.8 million Substructure Repairs at Pier 2, Honolulu Harbor, Oahu
- $1.2 million Bulkhead Repairs at Pier 29, Honolulu Harbor, Oahu
- $538,000 Crash Barrier Gates for Container Terminals, Honolulu Harbor, Oahu
- $310,000 Demolition of Pier 2 Shed and Misc. Site Work at Inter-Island Barge Terminal, Kahului Harbor, Maui

In addition to those capital asset additions, the Harbors Division is currently in the process of constructing the following projects statewide:

- $27.3 million Reconstruction of Piers 52 & 53 Sand Island Container Yard, Honolulu Harbor, Oahu
- $23.7 million Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu
- $6.9 million Segmented Pier 3 Improvements, Nawiliwili Harbor, Kauai

Capital Asset and Debt Administration (continued)

- $4.8 million Construction of Miscellaneous Improvements, Including Construction Management and Inspections of Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $982,000 Various Statewide Harbor Security Improvements
- $803,000 Statewide Planning and Development of State Commercial Harbors System
- $770,000 Statewide Maritime Identification Credentialing System

Finally, the Harbors Division is currently designing improvements, some of which include the following projects statewide:

- $20.0 million Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii
- $30.3 million Construction of Pier 29 Container Yard, Honolulu Harbor
- $6.2 million Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai
- $4.2 million Commuter Ferry System at Kaunakakai Harbor, Molokai
- $3.2 million Pier 2A Shed Demolition and Container Yard Improvements at Kawaihae Harbor, Hawaii
- $1.7 million Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu
- $1.8 million Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor
- $1.1 million Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbors, Oahu
- $272,000 Disposal of Dredged Spoils Stockpiled at Pier 7, Kalaeloa Barbers Point Harbors, Oahu

Capital Asset and Debt Administration (continued)

- The Harbors Division is committed under contracts awarded for capital improvements projects totaling approximately $40.1 million and $29.0 million as of June 30, 2009 and 2008, respectively. Additional information regarding the Harbors Division's capital assets can be found in Note 5.

The U.S. Army Corps of Engineers (USACE) completed the Kaumalapau Harbor Breakwater Repair project in January 2009. A Project Cooperation Agreement (PCA) signed on September 23, 2003, by the USACE and Harbors established the cost sharing at 80% of this project cost to be borne by the USACE, with Harbors paying for the remaining 20%. In accordance with the PCA, the cost borne by the USACE of approximately $21,141,000 was contributed to Harbors during fiscal 2009 (see Note 5).

The Harbors Division recorded an approximate $41,354,000 extraordinary loss in fiscal 2009 to recognize the impairment in the value of certain capital assets and capital improvements constructed for use by the operations of the Hawaii Superferry. Refer to Note 5 to obtain additional information.

Indebtedness

Harbors System Revenue Bonds and Reimbursable General Obligation Bonds

As of June 30, 2009, $242,725,000 of harbors system revenue bonds was outstanding compared to $253,795,000 and $266,040,000 as of June 30, 2008 and 2007, respectively. The Harbors Division issued $96.5 million in Series A of 2006 Revenue Bonds in July 2006, and in August 2007, the Harbors Division issued $51,645,000 Series A of 2007 Revenue Bonds to refund all outstanding Series of 1997 Bonds. The Harbors Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Harbors Revenue Fund.

Additional information regarding the Harbors Division's indebtedness can be found in Notes 6, 7 and 8.

Act 178, Session Laws of Hawaii 2005, appropriated reimbursable General Obligation bonds of $20.0 million each in fiscal year 2007 and fiscal year 2008, for harbor improvements needed to support the operations of Hawaii Superferry, Inc. See Note 9.

Indebtedness (continued)

Credit Rating and Bond Insurance

All harbor system revenue bonds issued since 1997 have been issued with bond insurance. As of June 30, 2009, the underlying ratings for harbor system revenue bonds were as follows:

- Standard and Poor's A+
- Moody's Investors Service A2
- Fitch IBCA, Inc. A+

Ratings made by Standard and Poor's (S&P), Moody's Investors Service (Moody's) and Fitch IBCA, Inc. (Fitch) may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. Ratings provided by these rating companies are not "market ratings," as the ratings are not a recommendation to buy, hold, or sell any security.

Moody's downgraded the rating of the outstanding Harbors Division Revenue Bonds to A2 from A1 on January 12, 2010 (see Note 21).

Harbor System Revenue Bonds Series A and B of 2002 are insured by Ambac Assurance Corporation (Ambac). During calendar years 2009 and 2008, S&P, Moody's and Fitch, downgraded the financial strength rating of Ambac resulting in a downgrade of the insured rating of the bonds insured by Ambac. On June 24, 2008, for a specified event occurring on June 19, 2008, Moody's downgraded the insured ratings of the bonds insured by Ambac from Aaa to Aa3 due to a rating downgrade of the financial strength rating of Ambac. On July 8, 2008, Fitch withdrew the insured rating of bonds insured by Ambac due to Ambac's request to withdraw the ratings. On November 17, 2008, for a specified event occurring on November 5, 2008, Moody's downgraded the insured ratings of the bonds insured by Ambac from Aa3 to Baa1. On April 15, 2009, a Notice was filed for a specified event on April 13, 2009 when Moody's downgraded the insured ratings of the bonds insured by Ambac from "Baa1" to "Ba3" due to a rating downgrade of the insurer financial strength of Ambac by Moody's. On July 14, 2009 a Notice was filed for a specified event on June 24, 2009 when Standard and Poor's Rating Services (S&P) downgraded the insured ratings of the bonds insured by Ambac from "A" to "BBB" due to a rating downgrade of the insurer financial strength of Ambac by S&P. On August 4, 2009 a Notice was filed for a specified event on July 29, 2009 when S&P downgraded the insured ratings of the bonds insured by Ambac from "BBB" to "CC" due to a rating downgrade of the insurer financial strength of Ambac by S&P. On August 11, 2009, a Notice was filed for a specified event on July 29, 2009 when Moody's downgraded the insured ratings of the bonds insured by Ambac from

Indebtedness (continued)

"Ba3" to "Caa2" due to a rating downgrade of the insurer financial strength of Ambac by Moody's.

Additionally, Notices of a Material Event concerning rating changes were filed with the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) relating to the Harbor System Revenue Bonds, Series A of 2000, Series A and B of 2004, Series A of 2006 and Series A of 2007, insured by Financial Security Assurance, Inc. (FSA). On March 2, 2009, a Notice was filed for a specified event on November 21, 2008, when Moody's downgraded the insured ratings of the bonds insured by FSA from "Aaa" to "Aa3" due to a rating downgrade of the insurer financial strength of FSA by Moody's. On May 12, 2009, a Notice was filed for a specified event on May 11, 2009, when Fitch Ratings (Fitch) downgraded the insured ratings of the bonds insured by FSA from "AAA" to "AA+" due to a rating downgrade of the insurer financial strength of FSA by Fitch. On November 4, 2009, a Notice was filed for a specified event on October 12, 2009 when Fitch downgraded the insured ratings of the bonds insured by FSA from "AA+" to "AA" due to a rating downgrade of the insurer financial strength of FSA by Fitch.

These downgrades of the bond insurer, Ambac, have resulted in no negative impacts to the harbor system revenue bonds. There have been no increases in the stated interest rates, no requirements to accelerate or to prepay any principal amounts borrowed, nor have there been any requirements to pay additional premiums to Ambac. There have been no downgrades to the ratings of the harbor system revenue bonds.

Bond Covenants

Bond covenants allow the issuance of additional debt, on parity, as to a lien on the net revenues of the Harbors Division provided certain net revenue ratios are met. Net revenues of the Harbors Division must be at least 1.25 times the debt service requirements under the 1997 Harbor Revenue Bond Certificate.

The Harbors Division coverage ratio as of June 30, 2009 was 1.82 under the 1997 Harbor Revenue Bond Certificate as compared to the ratio of 2.29 as of June 30, 2008.

Request for Information

The financial report is designed to provide a general overview of the Harbors 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 the Harbors Administrator,

Request for Information (continued)

State of Hawaii, Department of Transportation, Harbors Division, 79 S. Nimitz Highway, Honolulu, Hawaii, 96813, or by e-mail to *davis.k.yogi@hawaii.gov*.

State of Hawaii
Department of Transportation
Harbors Division

Statements of Net Assets

Assets	June 30 2009	2008 Restated (See Note 3)
Current assets		
Cash and cash equivalents *(Note 4)*	$ 103,425,902	$ 121,180,729
Receivables, less allowance for doubtful accounts of $4,266,600 in 2009 and $2,745,000 in 2008	5,655,973	6,342,446
Notes receivable, less allowance for doubtful accounts of $7,808,000 in 2009 and in 2008 *(Note 16)*	15,285	43,471
Interest receivable	3,534,983	1,443,480
Due from the Federal Government	23,046	579,019
Due from other State agencies	922,364	537,723
Other receivables	51,809	30,248
Materials and supplies, at cost	241,233	241,236
Prepaid insurance and others	24,083	24,083
	113,894,678	130,422,435
Restricted assets		
Cash and cash equivalents *(Note 4)*	16,860,143	17,746,358
	16,860,143	17,746,358
Total current assets	130,754,821	148,168,793
Noncurrent		
Cash and cash equivalents–restricted *(Note 4)*	107,118,856	106,072,028
Capital assets *(Notes 5, 10 and 17)*		
Nondepreciable facilities:		
Land	173,940,070	173,940,070
Land improvements	76,086,739	76,086,739
Other improvements	66,908	66,908
	250,093,717	250,093,717
Depreciable facilities:		
Land improvements	168,987,231	138,635,292
Wharves	226,322,765	231,161,035
Other improvements	68,122,375	68,053,566
Buildings	84,323,969	83,361,270
Equipment	14,864,800	47,509,015
	562,621,140	568,720,178
Less accumulated depreciation	(210,916,535)	(194,579,633)
	351,704,605	374,140,545
Construction in progress	72,553,821	70,670,415
Total capital assets	674,352,143	694,904,677
Other assets		
Unamortized bond issue costs	2,869,267	3,033,423
Total noncurrent assets	784,340,266	804,010,128
Total assets	$ 915,095,087	$ 952,178,921

Liabilities and net assets	June 30 2009	2008 Restated (See Note 3)
Current liabilities (payable from current assets)		
Accounts payable	$ 7,828,649	$ 4,461,163
Accrued workers' compensation *(Notes 6 and 13)*	92,650	95,772
Contracts payable, including retainages	1,551,136	1,792,034
Accrued vacation *(Note 6)*	600,586	574,986
Due to Department of Budget and Finance *(Note 9)*	3,160,273	1,638,863
	13,233,294	8,562,818
Current liabilities (payable from restricted assets)		
Contracts payable, including retainages	1,547,433	4,887,847
Revenue bonds payable, current maturities *(Notes 6 and 7)*	10,333,564	10,917,626
General obligation bonds payable, current maturities *(Notes 6 and 9)*	966,555	–
Accrued interest payable	6,420,143	6,676,358
Security deposits	2,630,966	2,816,628
	21,898,661	25,298,459
Total current liabilities	35,131,955	33,861,277
Long-term liabilities		
Accrued workers' compensation *(Notes 6 and 13)*	314,301	369,510
Other postretirement benefits payable *(Notes 6 and 12)*	3,114,591	1,450,866
Long-term debt, less current maturities:		
General obligation bonds payable *(Notes 6 and 9)*	37,362,029	38,328,584
Revenue bonds payable, net *(Notes 6 and 7)*	229,147,713	239,534,021
Accrued vacation *(Note 6)*	1,769,735	1,663,491
Total long-term liabilities	271,708,369	281,346,472
Total liabilities	306,840,324	315,207,749
Net assets		
Invested in capital assets, net of related debt	493,877,330	499,914,529
Restricted–revenue bond requirements	10,897,658	10,897,658
Restricted–for capital projects	59,006,464	55,461,498
Unrestricted	44,473,311	70,697,487
Total net assets	608,254,763	636,971,172
Total liabilities and net assets	$ 915,095,087	$ 952,178,921

See accompanying notes.

State of Hawaii
Department of Transportation
Harbors Division

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2009	2008 Restated (See Note 3)
Operating revenues, net:		
Services	**$ 48,294,865**	$ 57,782,028
Rentals	**24,334,183**	25,263,428
Others	**1,982,629**	2,401,801
	74,611,677	85,447,257
Operating expenses:		
Personnel services	**16,072,301**	15,187,852
Harbor operations *(Notes 5 and 14)*	**14,306,147**	15,647,708
Maintenance	**10,865,686**	11,470,476
State of Hawaii, surcharge for central service expenses *(Note 15)*	**2,409,835**	3,322,223
Fireboat operations *(Note 15)*	**2,837,488**	1,940,911
General administration	**2,179,452**	3,354,778
Department of Transportation, general administration expenses *(Note 15)*	**1,552,911**	1,627,530
Depreciation	**17,928,900**	17,226,748
	68,152,720	69,778,226
Operating income	**6,458,957**	15,669,031
Nonoperating revenues (expenses):		
Proceeds from insurance on capital assets	**–**	3,003,170
Interest income:		
Deposits in investment pool	**6,284,379**	10,808,810
Net decrease in the fair value of pooled cash balances invested by the State of Hawaii *(Note 4)*	**(7,714,016)**	(5,823,388)
Interest expense:		
Bonds *(Note 10)*	**(12,317,662)**	(13,796,247)
Amortization of bond discount, issue costs and loss on refunding	**(263,785)**	277,567
Loss on disposal of capital assets	**–**	(45,668)
	(14,011,084)	(5,575,756)
(Loss) income before capital contributions, extraordinary items and transfers	**(7,552,127)**	10,093,275
Capital contributions *(Note 5)*	**22,713,587**	3,615,762
Extraordinary loss on impairment of capital assets (Note 5)	**(41,354,232)**	–
Transfer of capital assets to other State agency (Note 17)	**(2,523,637)**	–
(Decrease) increase in net assets	**(28,716,409)**	13,709,037
Net assets as of beginning of year	**636,971,172**	623,262,135
Net assets as of end of year	**$ 608,254,763**	$ 636,971,172

See accompanying notes.

State of Hawaii
Department of Transportation
Harbors Division

Statements of Cash Flows

	Year Ended June 30	
		2008 Restated
Operating activities	**2009**	(See Note 3)
Cash received from customers	**$ 74,734,472**	$ 86,521,182
Cash paid to suppliers	**(34,423,673)**	(39,781,303)
Cash paid to employees	**(14,276,732)**	(13,646,961)
Net cash provided by operating activities	**26,034,067**	33,092,918
Capital and related financing activities		
Proceeds received from issuance of refunding revenue bonds	**–**	52,960,423
Repayment for refunded revenue bonds	**–**	(52,902,611)
Government grants received in aid of construction	**1,299,909**	185,233
Acquisition and construction of capital assets	**(16,852,188)**	(50,539,172)
Proceeds from insurance on capital assets	**–**	3,003,170
Principal paid on bonds	**(10,806,214)**	(12,254,754)
Interest paid on bonds	**(15,150,510)**	(15,488,685)
Borrowings from general obligation bonds *(Note 9)*	**1,401,861**	2,699,773
Net cash used in capital and related financing activities	**(40,107,142)**	(72,336,623)
Investing activities		
Interest received	**4,192,876**	13,210,775
Change in fair value of investments of pooled cash balances	**(7,714,016)**	(5,823,388)
Net cash (used in) provided by investing activities	**(3,521,140)**	7,387,387
Net decrease in cash and cash equivalents	**(17,594,215)**	(31,856,318)
Cash and cash equivalents at beginning of fiscal year	**244,999,116**	276,855,433
Cash and cash equivalents at end of fiscal year	**$ 227,404,901**	$ 244,999,115
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 6,458,957**	$ 15,669,031
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**17,928,900**	17,226,748
Provision for doubtful accounts	**1,521,976**	736,347

(Continued on following page)

State of Hawaii
Department of Transportation
Harbors Division

Statements of Cash Flows *(continued)*

	Year Ended June 30	
	2009	2008 Restated (See Note 3)
Changes in assets and liabilities:		
Receivables	**$ (1,213,519)**	$ 257,223
Materials and supplies	**3**	(4,741)
Payables	**(213,826)**	(2,419,938)
Accrued workers' compensation	**(58,331)**	7,002
Accrued vacation	**131,844**	90,025
Security deposits	**(185,662)**	80,355
Other postretirement benefits payable	**1,663,725**	1,450,866
Net cash provided by operating activities	**$ 26,034,067**	$ 33,092,918
Supplemental disclosure of noncash capital and related financial activities		
Amortization of bond discount, issue costs and loss on refunding	**$ (263,785)**	$ (277,567)
Development of capital assets from other sources	**$ 22,713,587**	$ 3,615,762

See accompanying notes.

1. Financial Reporting Entity

In 1959, the Harbors Division was established within the Department of Transportation of the State of Hawaii (DOT) effective July 1, 1961. All functions and powers to administer, control and supervise all State of Hawaii (State) harbors and water navigational facilities were assigned to the Director of DOT on that date.

The Harbors Division is part of the DOT, which is part of the executive branch of the State. The Harbors Division's financial statements reflect only its portion of the proprietary fund type. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Harbors Division's financial activities.

The "Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds," dated March 1, 1997 (1997 Certificate), defines the "Undertaking" as all of the harbor and waterfront improvements and other properties under the jurisdiction, control and management of the Harbors Division, except those principally used for recreation and the landing of fish.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Harbors Division conform to U.S. generally accepted accounting principles, as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Harbors Division has elected not to apply the Financial Accounting Standards Board pronouncements on accounting and financial reporting that were issued after November 30, 1989.

An enterprise fund is used to account for the acquisition, operation and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The Harbors Division's operations are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents, for the purpose of the statements of cash flows, include all cash and investments with original maturities of three months or less and pooled cash balances invested by the State.

Restricted Assets

Restricted assets consists of monies and other resources, including amounts for the principal and interest accumulated to make debt service payments, unspent bond proceeds, amounts restricted for bond reserve requirements, security deposits and customer advances.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at their gross value when earned, reduced by an allowance for doubtful accounts.

Accounts are written-off upon the approval of the State Department of the Attorney General, when it believes, after considering economic conditions, business conditions, and collection efforts, that the accounts are uncollectible.

The allowance for doubtful accounts is increased by charges to operating income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the adverse situations that may affect the customer's ability to repay, historical experience and current economic conditions. Past due status is determined based on contractual terms.

Risk Management

The Harbors Division is exposed to various risks for losses related to, among other risks, torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

2. Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation

Capital assets are stated at cost. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets. Depreciation is not provided for in the year of acquisition, but is provided for the entire year in the year of disposal. Disposals of assets are recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in nonoperating revenue or expense.

Capital assets and their related estimated useful lives used to compute depreciation are as follows:

	Useful Lives	Capitalization Threshold
Land improvements	10 – 100 years	$ 100,000
Wharves	10 – 100 years	100,000
Buildings	5 – 50 years	100,000
Other improvements	5 – 50 years	100,000
Equipment	5 – 20 years	5,000

Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Interest cost is capitalized during the period of construction for capital improvement projects except those projects funded by grants from the State or the federal government.

The Harbors Division applies the requirements of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, (GASB 42) to determine if any event or circumstance occurred that potentially leads to impairment of its capital assets. See Note 5.

Bond Issue Costs

Costs relating to the issuance of bonds are amortized using the straight-line method over the term of the obligations.

2. Summary of Significant Accounting Policies (continued)

Unamortized Debt Premium (Discount)

Debt premium (discount) is amortized using the effective interest rate method over the term of the related debt, and the unamortized balance is reflected as an offset against the related long-term liabilities in the statements of net assets. See Note 7.

Refunding of Debt

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported as a deduction from or an addition to the new debt liability. See Note 7.

Accrued Vacation

The Harbors 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, in accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences* (GASB 16). Vacation is earned at the rate of 168 hours per calendar year, depending on an employee's date of hire. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment.

Operating Revenues

Operating revenues are those that result from providing goods and services and are reported net of bad debt. The provision for bad debts for the years ended June 30, 2009 and 2008 was approximately $1,522,000 and $736,000, respectively. Operating revenues also excludes revenues related to capital and related financing activities, noncapital financing activities, and investing activities.

2. Summary of Significant Accounting Policies (continued)

The Harbors Division has pledged its future operating revenues, net of certain operating expenses, to repay $242,725,000 in Harbor Revenue Bonds. Proceeds from the bonds provided financing for the construction of new facilities and the improvement of existing facilities related to the State's commercial harbors. The bonds are payable solely from the Harbors Division's operating revenues and are payable through January 2031.

The total principal and interest remaining to be paid on the bonds is approximately $381,647,000. Principal and interest paid and total operating revenues, net of certain operating expenses, were approximately $24,290,000 and $33,368,000, respectively for the year ended June 30, 2009 and approximately $27,743,000 and 43,141,000, respectively for the year ended June 30, 2008.

Operating Expenses

When an expense is incurred for which unrestricted and restricted resources are available to pay the expense, it is the Harbors Division's policy to apply the expense to unrestricted resources first, then to restricted resources.

Capital Contributions

The Harbors Division receives federal grants restricted for capital asset acquisition and facility development, which are reported in the statements of revenues, expenses and changes in net assets, after nonoperating revenues and expenses as capital contributions.

Reclassifications

Certain reclassifications have been made to the prior year balances to conform to the current year presentation.

3. Restatement of 2008 Financial Statements

In preparation of the June 30, 2009 allocation schedule which allocates the decline in fair value of the auction rate securities to the respective State agencies, the State determined that it had included bond fund investment income in its allocation for the 2008 fiscal year. Although the inclusion of the bond fund investment income had no effect on the State's balances, the effect on

3. Restatement of 2008 Financial Statements (continued)

the Harbors Division was a $2,305,848 understatement of the cash and cash equivalents in the statement of net assets as of June 30, 2008 and a corresponding overstatement of the net decrease in the fair value of pooled cash balances invested by the State of Hawaii in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2008. The effect of the restatement adjustment on the Harbors Division's financial statements at June 30, 2008 and for the year then ended is as follows:

	June 30, 2008 As Previously Reported	Adjustments	As Restated
Statement of Net Assets			
Cash and cash equivalents	$118,874,881	$ 2,305,848	$121,180,729
Unrestricted net assets	68,391,639	2,305,848	70,697,487
Statement of Revenues, Expenses and Changes in Net Assets	**Year Ended June 30, 2008**	**Adjustments**	**As Restated**
Net decrease in the fair value of pooled cash balances invested by the State of Hawaii	(8,129,236)	2,305,848	(5,823,388)
Increase in net assets	11,403,189	2,305,848	13,709,037
Statement of Cash Flows			
Change in fair value of investments of pooled cash balances	(8,129,236)	2,305,848	(5,823,388)

4. Cash

At June 30, 2009 and 2008, information relating to the insurance and collateral of cash deposits is not available since such information is determined on a statewide basis and not for individual departments or divisions of the State. This information, on a statewide basis, is included in the State Comprehensive Annual Financial Report (CAFR) which can be obtained at the Department of Accounting and General Services website: http://hawaii.gov/dags/rpts. Substantially all of Harbors Division's cash is under the custody of the State Director of Finance. Cash deposits of the State are either federally insured or collateralized with obligations of the State or the U.S. government. 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.

4. Cash (continued)

Statutes authorize the State Director of Finance to invest pooled cash deposits, with certain restrictions based on risk:

Interest rate risk – as a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit risk – the State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, banker's acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

In fiscal 2009 and 2008, a portion of the State's pooled cash deposits were invested in auction rate securities that were collateralized by student loans guaranteed by the federal government. These auction rate securities were determined to be impaired by the State and the Harbors Division's allocated equity share of the investments was reduced by approximately $7,714,000 and $5,823,000 at June 30, 2009 and June 30, 2008 as restated, respectively. The change in fair value of the auction rate securities is recorded against interest income in the statements of revenues, expenses and changes in net assets.

Custodial credit risk – for an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral.

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.

5. Capital Assets

The changes in capital assets were as follows:

	Balance July 1 2008	Additions	Deductions	Balance June 30 2009
Nondepreciable assets:				
Land and improvements	$ 250,093,717	–	–	$ 250,093,717
Depreciable assets:				
Land improvements	138,635,292	31,481,580	(1,129,641)	168,987,231
Wharves	231,161,035	104,134	(4,942,404)	226,322,765
Other improvements	68,053,566	375,277	(306,468)	68,122,375
Buildings	83,361,270	962,699	–	84,323,969
Equipment	47,509,015	2,022,149	(34,666,364)	14,864,800
Total at cost	818,813,895	34,945,839	(41,044,877)	812,714,857
Less accumulated depreciation for:				
Land improvements	40,790,365	4,320,651	(905)	45,110,111
Wharves	90,864,251	7,013,851	(1,265,382)	96,612,720
Other improvements	29,037,949	2,074,415	(91,916)	31,020,448
Buildings	24,595,778	2,112,575	–	26,708,353
Equipment	9,291,290	2,407,408	(233,795)	11,464,903
Total accumulated depreciation	194,579,633	17,928,900	(1,591,998)	210,916,535
Construction in progress	70,670,415	19,790,064	(17,906,658)	72,553,821
Total capital assets	$ 694,904,677	36,807,003	(57,359,537)	674,352,143

5. Capital Assets (continued)

	Balance July 1 2007	Additions	Deductions	Balance June 30 2008
Nondepreciable assets:				
Land and improvements	$ 240,270,513	$ 9,823,204	$ –	$ 250,093,717
Depreciable assets:				
Land improvements	137,066,198	1,569,094	–	138,635,292
Wharves	224,711,606	6,449,429	–	231,161,035
Other improvements	68,053,566	–	–	68,053,566
Buildings	83,053,555	307,715	–	83,361,270
Equipment	47,060,781	615,112	(166,878)	47,509,015
Total at cost	800,216,219	18,764,554	(166,878)	818,813,895
Less accumulated depreciation for:				
Land improvements	36,546,165	4,244,200	–	40,790,365
Wharves	84,249,299	6,614,952	–	90,864,251
Other improvements	26,960,266	2,077,683	–	29,037,949
Buildings	22,518,048	2,077,730	–	24,595,778
Equipment	7,200,315	2,212,183	(121,208)	9,291,290
Total accumulated depreciation	177,474,093	17,226,748	(121,208)	194,579,633
Construction in progress	36,299,570	44,880,314	(10,509,469)	70,670,415
Total capital assets	$ 659,041,696	$ 46,418,120	$ (10,555,139)	$ 694,904,677

The Harbors Division decreased construction in progress by approximately $260,000 during fiscal year 2009 and approximately $694,000 during fiscal year 2008 for costs associated with terminated projects and completed projects for which costs could not be capitalized. The decrease in construction in progress for both years is included in harbor operations expense in the accompanying statements of revenues, expenses and changes in net assets

Hawaii Superferry, Inc. (HSF) operated, for approximately two years, a large capacity roll on/roll off high speed daily ferry service for the transport of passengers and vehicles between Honolulu and Kahului Harbors. After HSF commenced service in 2007, the Hawaii Supreme Court ruled that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. Act 02, Second Special Session of

5. Capital Assets (continued)

2007, allowed large capacity ferry vessel companies such as HSF to operate under certain conditions while the required environmental reviews were conducted. On March 16, 2009, the Hawaii Supreme Court held Act 02 unconstitutional. Following this decision, HSF halted all operations as of March 19, 2009, and removed its ferry vessel from Hawaii shortly thereafter. On May 30, 2009, HSF, and its parent HSF Holding, Inc., (Debtors), filed Chapter 11 bankruptcy petitions in the U.S. Bankruptcy Court (Bankruptcy Court) for the District of Delaware. The Bankruptcy Court on July 1, 2009 approved the Debtors' motions to abandon and release their interest in the two ferry vessels to the U.S. DOT Maritime Administration, the first mortgagor of the vessels.

The March 16, 2009 Hawaii Supreme Court decision was a prominent legal event which had a significant effect on and curtailed the service utility of the capital assets that were constructed or purchased by the Harbors Division to accommodate the operations of HSF. In accordance with GASB 42, an impairment loss of approximately $41,354,000 for fiscal year 2009 has been recognized for these capital assets, rendering their carrying value to $0. These assets have been idle and no foreseeable use by any other operator for the purposes for which they were acquired is anticipated. This impairment loss is reported as an extraordinary loss in the accompanying statements of revenues, expenses and changes in net assets because of the unusual, unexpected and infrequent occurrence of events that caused these assets to no longer have a service life. The classification of this loss as an extraordinary loss is in accordance with paragraphs 19 through 24 of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. This impairment loss is comprised of the undepreciated asset cost totaling approximately $36,929,000 for capital assets that were placed in service and utilized by HSF until March 19, 2009 which were categorized as Land Improvements, Wharf Improvements and Equipment, such as Barges and Ramps, of approximately $1,128,000, $1,369,000 and $34,432,000, respectively and approximately $4,425,000 for costs included in construction in process that were related to HSF's operations.

The U.S. Army Corps of Engineers (USACE) completed the Kaumalapau Harbor Breakwater Repair project (Project) in January 2009. The Project Cooperation Agreement (PCA) signed on September 23, 2003 by USACE and Harbors established the cost sharing for the Project to be 80% funded by the USACE and 20% funded by the Harbors Division. In accordance with the PCA, 10% of the costs were contributed by the Harbors Division at the beginning of the project and the remaining 10% is to be contributed in annual installments, with variable interest,

5. Capital Assets (continued)

over a period of 30 years, the cost borne by the USACE will be contributed to Harbors at the completion of the project. The total cost of this project disclosed by the USACE is approximately $26,959,000, of which the USACE has paid 80% or approximately $21,141,000, which it contributed to Harbors in fiscal 2009. The amount contributed by USACE is reported as capital contributions in the statement of revenues, expenses and changes in net assets.

6. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1 2008	Additions	Deductions	Balance June 30 2009	Current	Noncurrent
Accrued workers' compensation	$ 465,282	$ 129,234	$ 187,565	$ 406,951	$ 92,650	$ 314,301
Accrued vacation	2,238,477	1,086,358	954,514	2,370,321	600,586	1,769,735
Other postretirement benefits payable	1,450,866	2,602,712	938,987	3,114,591	–	3,114,591
General Obligation bonds	38,328,584	–	–	38,328,584	966,555	37,362,029
Revenue bonds	253,795,000	–	11,070,000	242,725,000	10,440,000	232,285,000
Less:						
Unamortized discount	(92,194)	–	(8,131)	(84,063)	(7,381)	(76,682)
Unamortized premium	2,855,975	–	347,306	2,508,669	339,749	2,168,920
Unamortized deferred loss on refunding	(6,107,134)	–	(438,805)	(5,668,329)	(438,804)	(5,229,525)
Revenue bonds, net	250,451,647	-	10,970,370	239,481,277	10,333,564	229,147,713
	$292,934,856	$ 3,818,304	$ 13,051,436	$283,701,724	$ 11,993,355	$271,708,369

6. Long-Term Liabilities (continued)

	Balance July 1 2007	Additions	Deductions	Balance June 30 2008	Current	Noncurrent
Accrued workers' compensation	$ 458,280	$ 134,154	$ 127,152	$ 465,282	$ 95,772	$ 369,510
Accrued vacation	2,148,452	1,085,766	995,741	2,238,477	574,986	1,663,491
Other postretirement benefits payable	–	2,316,683	865,817	1,450,866	–	1,450,866
General Obligation bonds	35,630,811	2,697,773	–	38,328,584	–	38,328,584
Revenue bonds	266,040,000	51,645,000	63,890,000	253,795,000	11,070,000	242,725,000
Less:						
Unamortized discount	(2,001,511)	–	(1,909,317)	(92,194)	(8,131)	(84,063)
Unamortized premium	2,231,776	928,865	304,666	2,855,975	348,662	2,507,313
Unamortized deferred loss on refunding	(3,692,448)	(2,477,971)	(63,285)	(6,107,134)	(492,905)	(5,614,229)
Revenue bonds, net	262,577,817	50,095,894	62,222,064	250,451,647	10,917,626	239,534,021
	$300,815,360	$ 56,330,270	$ 64,210,774	$292,934,856	$ 11,588,384	$281,346,472

7. Revenue Bonds Payable

Pursuant to authorization from the State Legislature, the Director of DOT issued the 1997 Certificate, which provides for the issuance of bonds at any time and from time-to-time upon compliance with certain conditions of the 1997 Certificate.

The Harbor Revenue Bonds (Revenue Bonds) are collateralized by a charge and lien on the revenues of the Public Undertaking as defined in the 1997 Certificate.

The Revenue Bonds are subject to redemption at the option of the Director of DOT and the State during specific years at prices ranging from 102-1/2% to 100% of face value.

In August 2007, the Harbors Division issued $51,645,000 Series A of 2007 Revenue Bonds and received proceeds of approximately $53,360,000. These Revenue Bonds refunded all outstanding series of 1997 Bonds and will mature through the year 2027 with interest rates ranging from 4.25% to 5.50%. The net cash savings on the refunding was approximately $2,517,000 and the economic gain recognized on the refunding was approximately $1,600,000. The unamortized deferred loss on the refunding was approximately $2,478,000.

7. Revenue Bonds Payable (continued)

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2009:

				Current			
Year of Issue	**Final Redemption Date**	**Interest Rates**	**Original Amount of Issue**	**Principal Due July 1 2009**	**Principal Due January 1 2010**	**Total Current**	**Noncurrent**
2000	July 1, 2029	4.50–6.00%	$ 79,405,000	$ 2,635,000	$ –	$ 2,635,000	$ 56,385,000
2002	July 1, 2019	3.00–5.50%	24,420,000	525,000	–	525,000	11,140,000
2004	January 1, 2024	2.50–6.00%	52,030,000	–	3,580,000	3,580,000	27,135,000
2006	January 1, 2031	4.00–5.25%	96,570,000	–	2,300,000	2,300,000	88,005,000
2007	July 1, 2027	4.25–5.50%	51,645,000	1,400,000	–	1,400,000	49,620,000
			$304,070,000	$ 4,560,000	$ 5,880,000	$ 10,440,000	$232,285,000
Less:							
Unamortized discount						(7,381)	(76,682)
Unamortized premium						339,749	2,168,920
Unamortized deferred loss on refunding						(438,804)	(5,229,525)
						$ 10,333,564	$229,147,713

Debt service requirements to maturity for the Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2010	$ 10,440,000	$ 12,727,149	$ 23,167,149
2011	10,995,000	12,231,418	23,226,418
2012	8,880,000	11,673,661	20,553,661
2013	11,965,000	11,119,949	23,084,949
2014	12,625,000	10,457,361	23,082,361
2015-2019	58,330,000	43,220,180	101,550,180
2020-2024	67,195,000	25,947,493	93,142,493
2025-2029	47,700,000	10,514,775	58,214,775
2030-2031	14,595,000	1,029,675	15,624,675
	$242,725,000	$138,921,661	$381,646,661

7. Revenue Bonds Payable (continued)

The debt service requirements reflect the sum of the amounts to be paid in accordance with the repayment schedules of the bonds issued. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the debt service requirements include reserves of $10,440,000 as of June 30, 2009, for payments due on July 1, 2009 and January 1, 2010.

8. Harbor Revenue Bond Requirements

1997 Certificate – Minimum Net Revenue Requirement

Pursuant to Section 6.03 of the 1997 Certificate, the Harbors Division covenants and agrees that so long as any of the Revenue Bonds remain outstanding, it will enforce and collect fees, rates, rents and charges for the Public Undertaking that will yield net revenue, as defined by the 1997 Certificate, for the immediately ensuing 12 months, in an amount at least sufficient to:

(1) Together with funds legally available, therefore including any amounts on deposit in the harbor reserve and contingency account; an aggregate sum equal to at least 1.25 times the total amount of: (i) the interest payments for such 12 months on all the Bonds outstanding under the 1997 Certificate, (ii) the principal amount of the Bonds maturing by their terms during such 12 months and (iii) the minimum sinking fund payments for all Bonds required to be made during such 12 months; and

(2) Without consideration of other funds, shall be at least equal to 1.00 times the bond service for such 12 months.

The harbor revenue bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1997 Certificate totaled $23,167,149. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to $42,148,788 or 1.82 times the minimum net revenue requirement for the fiscal year ended June 30, 2009 and $55,712,000 or 2.29 times the minimum net revenue requirement for the fiscal year ended June 30, 2008.

8. Harbor Revenue Bond Requirements (continued)

Harbor Special Fund

All revenues are deposited into this fund and applied in the order of priority set forth under the 1997 Certificate. Section 5.01 of the 1997 Certificate requires that the following accounts be established:

(1) Harbor Interest Account

Equal monthly installments sufficient to pay for the interest next becoming due on the Revenue Bonds are required to be paid into this account. This requirement was met as of June 30, 2009 and 2008.

(2) Harbor Principal Account

Commencing with the first business day of each fiscal year, equal monthly payments are required to be made to this account sufficient to redeem the Revenue Bonds scheduled for redemption on the following July 1 and January 1. This requirement was met as of June 30, 2009 and 2008.

(3) Harbor Debt Service Reserve Account

In order to provide a reserve for the payment of the principal and interest on the Revenue Bonds, the Harbors Division is required to deposit in the harbor revenue special fund an amount equal to the lesser of: (a) the average annual bond service on such series and (b) the amount permitted by the Internal Revenue Code of 1986 in order that the interest on such series is excluded from gross income for federal income tax purposes.

Furthermore, the Harbors Division is required to satisfy the reserve requirement of maximum aggregate bond service by no later than the first date on which a principal installment is payable on July 1 or January 1 of each fiscal year.

8. Harbor Revenue Bond Requirements (continued)

In lieu of the credit of monies to the harbor debt service reserve account, the Harbors Division may cause to be so credited a surety bond or an insurance policy payable to the Harbors Division for the benefit of the holders of the Revenue Bonds of a series or a letter of credit in an amount equal to the difference between the reserve requirement and the amounts then on credit to the harbor debt service reserve account. In the event a surety bond, insurance policy, or letter of credit is secured to satisfy that portion of the reserve requirement allocable to a series of Revenue Bonds, so long as such surety bond, insurance policy, or letter of credit is in effect, the owners of such series of Revenue Bonds shall not be entitled to payment from or a lien on the funds on deposit in the harbor revenue special fund credited to the harbor debt service reserve account to satisfy that portion of the reserve requirement allocable to other series of Revenue Bonds, nor shall the owners of Revenue Bonds of such other series be entitled to any payment from such surety bond, insurance policy, or letter of credit. The surety bond, insurance policy, or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which monies will be required to be applied from the harbor debt service reserve account to the payment of the principal or interest on any Revenue Bonds of such series and such withdrawals may not be made from amounts credited to the harbor debt service reserve account for such series of Revenue Bonds.

Prior to the use of a surety bond, insurance policy, or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of issuance of the 1997 Series Revenue Bonds), DOT shall receive written confirmation from the rating agency that the rating on the Revenue Bonds outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, an insurance policy, or a letter of credit provided pursuant to this paragraph, the Harbors Division shall be obligated either: (a) to reinstate the maximum limits of such surety bond, insurance policy, or letter of credit or (b) to credit to the harbor debt service reserve account, funds in the amount of the disbursement made under such surety bond, insurance policy, or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the harbor debt service reserve account allocable to a series of Revenue Bonds equals that portion of the reserve requirement allocable to such series; provided, however, a failure to immediately restore such reserve requirement shall not constitute an event of

8. Harbor Revenue Bond Requirements (continued)

default if the reserve requirement is restored within the time period permitted by Section 11.01(c) (90 days following the required notice). Notwithstanding the provisions of Section 11.01(c), the Harbors Division shall not permit any surety bond, insurance policy, or letter of credit which has been established in lieu of a deposit into the harbor revenue special fund for credit to the harbor debt service reserve account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy, or letter of credit.

(4) Harbor Reserve and Contingency Account

Monies on credit to the harbor reserve and contingency account may be used to make up any deficiency with respect to any series of Revenue Bonds in the harbor interest account, the harbor principal account and the harbor debt service reserve account. To the extent not used to make up any such deficiencies, monies on credit to the harbor reserve and contingency account may be used for any other purpose within the jurisdiction, powers, duties and functions of the Harbors Division.

9. General Obligation Bonds

In fiscal 2006, the State issued $350,000,000 of General Obligation bonds, Series DI, dated March 23, 2006; in fiscal 2007, the State issued $350,000,000 of General Obligation bonds, Series DJ, dated March 28, 2007; and in fiscal 2008, the State issued $375,000,000 of General Obligation bonds, Series DK, dated May 1, 2008. Interest rates on the Series DI, Series DJ and Series DK General Obligation bonds range from 3.00% to 5.50%.

Approximately $40,000,000 was appropriated from the Series DI, Series DJ, and Series DK General Obligation bonds for harbor improvements to support the operations of the HSF. The Harbors Division executed a $38,500,000 contract for the construction of barges and ramps with the balance of the appropriation used to finance other harbor upgrades needed to support the operations of HSF. As of June 30, 2009 and 2008, approximately $39,731,000 and $38,329,000, respectively, have been expended under this appropriation and any unpaid interest is reflected in Due to Department of Budget and Finance in the accompanying statements of revenues, expenses and changes in net assets. The expenditures made from this appropriation during fiscal year 2009 of approximately $1,402,000 are reflected in the Due to Department of Budget and Finance in the accompanying statements of revenues, expenses and changes in net assets. Interest

9. General Obligation Bonds (continued)

incurred from inception, of approximately $4,850,000, was either capitalized or paid as of June 30, 2009. Specifically, approximately $1,131,000 of the total interest incurred was capitalized to the construction project before being placed into service. Interest payments have commenced, and principal payments are scheduled to commence in March 2010.

Debt service requirements to maturity for the General Obligation Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2010	$ 966,555	$ 1,858,207	$ 2,824,762
2011	1,140,760	1,819,229	2,959,989
2012	1,609,314	1,771,602	3,380,916
2013	1,678,482	1,702,350	3,380,832
2014	1,757,503	1,623,176	3,380,679
2015-2019	10,149,254	6,754,699	16,903,953
2020-2024	12,896,100	4,007,716	16,903,816
2025-2028	8,130,616	804,233	8,934,849
	$ 38,328,584	$ 20,341,212	$ 58,669,796

10. Interest Cost

Total combined interest cost incurred related to Revenue and General Obligation Bonds for the fiscal years ended June 30, 2009 and 2008 amounted to approximately $14,914,000 and $15,778,000, respectively. Of this amount, approximately $2,596,000 and $1,982,000 was capitalized during fiscal 2009 and 2008, respectively, as part of the construction cost of harbor facilities.

11. Leasing Operations

The Harbors Division's leasing operations consist principally of the leasing of land, wharf and building space under revocable permits and long-term leases. The revocable permits provide for tenancy on a month-to-month basis and are renewable annually at the option of the State. The long-term leases, which are classified as operating leases, expire in various years through September 2058. These leases generally call for rental increases every five to ten years based on a step-up or independent appraisals of the fair rental value of the leased property.

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2009.

Fiscal Year Ending June 30	Amount
2010	$ 8,305,261
2011	8,460,472
2012	8,279,740
2013	7,980,558
2014	7,824,385
2015–2019	25,474,460
2020–2024	21,201,103
2025–2029	18,175,784
2030–2034	13,934,056
2035–2039	7,502,402
2040–2044	4,925,381
2045–2049	2,715,056
2050–2054	2,696,862
2055–2059	1,988,326
	$ 139,463,846

The above schedule does not include estimated future rental revenue for certain leases beyond their first 15 years. An estimate could not be made due to rental reopenings after the fifteenth year in which rental rates will be based upon the prevailing fair value.

12. Retirement Benefits

Employees' Retirement System

All eligible employees of the State, which includes the Harbors Division, are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii, 96813.

Members of the ERS belong to either a contributory, noncontributory or hybrid option. Only employees of the Harbors Division hired on or before June 30, 1984 are eligible to participate in the contributory option. Members are required by State statute to contribute 7.8% of their salary to the contributory option and 6% to the hybrid option. The Harbors Division is required to contribute to all options at an actuarially determined rate. Total contributions by the Harbors Division for the fiscal years ended June 30, 2009, 2008 and 2007, were approximately $1,590,000, $1,386,000 and $1,335,000, respectively. The contribution rate for each of the fiscal years ended June 30, 2009, 2008 and 2007 was 15.00%, 13.75%, and 13.75%, respectively. The required contribution in each of those three years was 100% of the contribution rate.

Post Retirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain healthcare and life insurance benefits to retired State employees.

Plan Description

Pursuant to Act 88, SLH of 2001, the State established the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (Trust Fund). The Trust Fund is the state agency that provides eligible State and County (Honolulu, Hawaii, Maui and Kauai) employees and retirees and their eligible dependents with certain health and life insurance benefits at a cost affordable to both the public employers and participants beginning July 1, 2003. The Trust Fund administers postemployment healthcare benefits under an agent multiple-employer defined benefit plan.

12. Retirement Benefits (continued)

As of July 1, 2007, the State and, thus, the Harbors Division adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other than Pensions* (GASB 45). GASB 45 establishes standards of accounting and financial reporting by employers for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 45 was implemented prospectively with a zero net OPEB obligation as of July 1, 2007.

The Trust Fund is administratively attached to the Department of Budget and Finance in the executive branch of the State. The Trust Fund issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Trust Fund at 201 Merchant Street Suite 1520, Honolulu, Hawaii 96813 or the State's website at www.eutf.hawaii.gov.

The Trust Fund is administered by a Board of Trustees (the Board) composed of ten trustees appointed by the Governor of the State of Hawaii. The Board is responsible for determining the nature and scope of benefit plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the Trust Fund, and overseeing all Trust Fund activities.

Funding Policy

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service. Additionally, a retiree can elect a family plan to cover dependents with the State paying for the coverage.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium. For employees retiring with over 25 years of service, the State pays the entire healthcare premium. Retirees with over 25 years of service can elect a family plan to cover dependents with the State paying for the coverage.

12. Retirement Benefits (continued)

The contribution rates for employees hired after June 30, 2001, are consistent with the contribution rates for those hired after June 30, 1996, but only single plan coverage is provided. These retirees can elect family coverage, but must pay the additional cost for the family coverage.

For active employees, the employer's contributions are based upon negotiated collective bargaining agreements.

The State is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Annual OPEB Cost

The actuarial valuation of the Trust Fund does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's ARC, interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in the State's CAFR or in stand alone departmental financial statements. The following table shows the components of the annual OPEB cost that have been allocated to the Harbors Division by the State, which was based on an allocated ARC rate of annual covered payroll of 36.1% and 37.4% at June 30, 2009 and 2008, respectively:

	June 30, 2009	June 30, 2008
Annual required contribution	$ 2,603,000	$ 2,317,000
Contributions made	(939,000)	(866,000)
Increase in net OPEB obligation	1,664,000	1,451,000
Net OPEB obligation, beginning of the year	1,451,000	-
Net OPEB obligation, end of the year	$ 3,115,000	$ 1,451,000

Contributions are financed on a pay-as-you-go basis and the Harbors Division's contributions for the years ended June 30, 2009, 2008 and 2007 were approximately $939,000, $866,000 and $687,000, respectively.

12. Retirement Benefits (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.0% discount rate, annual payroll increases of 3.5% and annual healthcare trend rates increasing annually from 3% to 10%. The unfunded actuarial accrued liability is being amortized using a 30-year amortization period as a level percentage of projected payroll.

The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plans. The State's CAFR can be obtained at the Department of Accounting and General Services' website: http://hawaii.gov/dags/rpts.

13. Risk Management

The Harbors Division is exposed to various risks of loss related to, among other risks, torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation and acts of terrorism.

13. Risk Management (continued)

For the policy years ended December 31, 2008, 2009 and 2010 respectively, the State has retained the first $1,000,000 per occurrence of property losses, the first $4,000,000 per occurrence with respect to general liability claims and the first $500,000 per occurrence with respect to criminal acts.

The State obtained commercial coverage for losses in excess of these retention limits. The property loss, windstorm, flood, earthquake and boiler and machinery loss limit per occurrence is $175,000,000 for policy years 2008 and 2009 and $100,000,000 for policy year 2010. The terrorism loss limit per occurrence is $50,000,000 for policy years 2008, 2009 and 2010. The State also obtained general liability insurance and crime insurance for State employees with a $10,000,000 per occurrence or aggregate limit for policy years 2008, 2009 and 2010.

The State and, thus, the Harbors Division is generally self-insured for workers' compensation and automobile claims. The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year end, estimates (based on projections of historical developments) or claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Harbors Division believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

14. Ceded Lands

In previous years, the State was a defendant in a lawsuit filed by the Office of Hawaiian Affairs (OHA) related to the determination of ceded land payments due to OHA. During 2006, the State of Hawaii Supreme Court reaffirmed the dismissal of the lawsuit by OHA.

Included in the Harbors Division's operating expenses in the accompanying statements of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2009 and 2008 are approximately $6,254,000 and $7,112,000, respectively of OHA ceded land expenses.

15. Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the fiscal year. The assessments amounted to approximately $2,410,000 and $3,322,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to approximately $1,553,000 and $1,628,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

The Harbors Division incurred costs of approximately $2,837,000 and $1,941,000 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2009 and 2008, respectively.

The Hawaii Harbors Task Force was formed in April 2005 by the Governor's office to respond on a priority basis to the pressing demands for infrastructure improvements in Honolulu Harbor. The Aloha Tower Development Corporation (ATDC) was tasked to work in partnership with the Harbors Division with the executive officer of the ATDC serving as the chief executive of the Hawaii Harbors Project Office. The ATDC was assigned to plan and execute major long-term redevelopment projects such as the former Kapalama Military Reservation and various projects at Honolulu Harbor. Act 200, Session Laws of Hawaii, 2008, was enacted to authorize a statewide Harbors Modernization Plan to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the ATDC as the entity responsible for the management and implementation of the Harbors Modernization Plan under the direction of the DOT. The Act authorizes the DOT to issue harbor revenue bonds to finance the improvements. The cost of the Harbors Modernization Plan, originally estimated at $842 million, was revised to $618 million in 2008.

16. Aloha Tower Complex Development

The ATDC is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, the Harbors Division entered into a lease with ATDC for certain portions of the Aloha Tower complex. ATDC is required annually to reimburse the Harbors Division for any losses in revenues during the term of the lease caused by any action of ATDC or the developer and to provide replacement facilities for maritime activities at no cost to the Harbors Division.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer. The sublease required the developer to construct, at the developer's cost, various facilities including a Marketplace. The developer and the Harbors Division entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement). The Operations Agreement allows the Harbors Division to operate the harbor facilities.

The developer later went into bankruptcy. The subsequent operator of the Marketplace assumed the obligations of the sublease and the Operations Agreement in March 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the Marketplace construction was substantially completed, several items on a Harbors Division construction punch list have yet to be completed and are being pursued with the new operator.

On January 18, 2006, an Agreement amending the Aloha Tower Project Memorandum of Understanding and Aloha Tower Ground Lease was executed, effective as of June 30, 2005, and retroactive to July 1, 2004 (the Amendment). The Amendment requires ATDC to pay $225,000 as a minimum annual base payment for losses in revenues owing in the fiscal year beginning July 1, 2004. From July 1, 2005, subject to the approval of the Deputy Director for the Harbors Division, the base payment of $225,000 is to be reduced by expenses incurred by ATDC for the Hawaii Harbors Project Office. The Amendment also requires an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC.

16. Aloha Tower Complex Development (continued)

These payments are to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. The balance owed to the Harbors Division by ATDC as of June 30, 2009 and 2008 was approximately $7,771,000 and is included in notes receivable and the related allowance for doubtful accounts in the accompanying statements of net assets.

17. Transfer of Assets to Other State Agencies

In 1990, the State Legislature enacted Act 86, which transferred certain lands at Kewalo Basin and Fort Armstrong under the jurisdiction of the Harbors Division to the Hawaii Community Development Authority (HCDA), a State agency which oversees the development of the Kakaako Community Development District (District).

Approximately 73 acres of the Harbors Division's land was transferred to HCDA under Act 86. Act 86 provides for HCDA to ensure due and adequate satisfaction of provisions for any covenant between the State or any county or any department or board thereof and the holders of bonds issued by the State or such county, department or board, if any.

As part of HCDA's development of the District, the western portion of the Kewalo Basin area is scheduled for redevelopment. The Harbors Division has long been negotiating with HCDA to resolve issues relating to the Harbors Division's continued operation and management of Kewalo Basin until HCDA was ready to proceed with its redevelopment plans. By an informal understanding, the Harbors Division retained all revenues generated from its management of Kewalo Basin and continued to manage maritime operations and provide for maintenance and capital improvements during this interim period. The Harbors Division June 30, 2006 financial statements were restated to reflect the transfer of the Kewalo Basin capital assets acquired prior to 1991 with a net book value of approximately $1,400,000, and the transfer of Piers 1 and 2 with a net book value of approximately $4,500,000.

Due to the importance to preserve Piers 1 and 2 at Honolulu Harbor to support maritime needs, Act 165, SLH 2006, was enacted to remove this area from the jurisdiction of HCDA and convey authority back to the Harbors Division. Accordingly, Piers 1 and 2 were transferred back to the Harbors Division during fiscal 2007 at a net book value of approximately $4,400,000.

17. Transfer of Assets to Other State Agencies (continued)

Kewalo Basin capital assets acquired or constructed by the Harbors Division subsequent to 1991 were reflected as assets of the Harbors Division until March 1, 2009 when HCDA assumed management of Kewalo Basin. These assets, with a net book value of approximately $2,524,000, were then transferred to HCDA and are reflected as a transfer of capital assets in the accompanying statements of revenues, expenses and changes in net assets.

18. Kapalama Land Development

Between 1990 and 1993, the State acquired three parcels of land totaling approximately 61.8 acres within the Kapalama Military Reservation area, comprised primarily of areas adjacent or near to Piers 39 through 41 at Honolulu Harbor (the KMR site). Governor's Executive Order No. 3497 set aside two parcels comprising 40.6 acres to the Harbors Division for harbor purposes on September 24, 2002. The set-aside of the remaining 21.2-acre parcel is pending. This parcel was purchased for approximately $34.9 million and involved the use of approximately $8.2 million of the Department of Transportation, Airports Division's (Airports Division) funds. There have been ongoing efforts between the Harbors Division and Airports Division to designate the portion of the parcel to be used for their respective purposes. Discussions have also been explored regarding the possibility of the Airports Division selling its interest in the parcel to the Harbors Division. As a result, action on the issuance of a further Executive Order for the remaining parcel has been deferred until the matter could be resolved.

Plans for the future development of the KMR site will involve the creation of a new cargo container yard and vessel berthing piers. This project is a key priority under the Harbor's Modernization Plan. Legal advice has been rendered that in order to transfer the Airports Division's interest in the remaining parcel noted above to the Harbors Division, the $8.2 million paid by the Airports Division toward the purchase price of the KMR site must be settled.

The Harbors Division is also seeking the transfer of approximately 11.344 acres of ceded lands that were previously promised to the Airports Division near the KMR site to consolidate the lands needed for the future development. Resolution of these matters is dependent upon compliance by the Airports Division and cooperating State agencies with the recommendation and requirements of the Federal Aviation Administration.

19. Arbitrage

The Harbors Division is required to annually calculate rebates to the U.S. Treasury on the Revenue Bonds issued from 1986. In accordance with the requirements of Section 148 of Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2009 and 2008, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

20. Commitments and Contingencies

Construction and Other Contracts

The Harbors Division is committed under contracts awarded for construction and other services. These commitments amounted to approximately $50,572,000 and $39,288,000 at June 30, 2009 and 2008, respectively.

Accumulated Sick Leave Pay

Employees earn sick leave credits at the rate of 14 hours for each month of service depending on the employee's hire date. Unused sick leave may be accumulated without limitation and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, for public employees who retire or leave government service in good standing with sixty days or more of unused sick leave, the unused sick leave is converted to additional retirement service credit at the rate of one additional month of service for each 20 days of unused sick leave. The accumulated sick leave liabilities as of June 30, 2009 and 2008 were approximately $6,428,000 and $6,512,000, respectively.

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.

20. Commitments and Contingencies (continued)

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 State's or Harbors Division's financial statements.

Environmental Issues

Iwilei District Participating Parties

The Harbors Division is subject to laws and regulations relating to the protection of the environment. The Harbors Division has been identified by the State Department of Health as a potentially responsible party for petroleum contamination in the Honolulu Harbor/Iwilei area. Pursuant thereto, the Harbors Division entered into a voluntary agreement with the Department of Health and other third parties to share in the responsibility for the investigation and potential remediation of petroleum contamination in the Iwilei District. This group of potentially responsible parties, known as the Iwilei District Participating Parties (IDPP), has conducted various investigations to determine potential contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations. Potential remedial alternatives are still being studied, however, since the project has not yet advanced to the stage where total costs to the IDPP can reasonably be estimated, due to: (1) the extent of environmental impact, (2) the undetermined allocation among the potentially responsible parties, (3) the ongoing review of reasonable remediation alternatives, and (4) continued discussion with the regulatory authorities, it is not possible to reasonably estimate the total amount of the potential cost to the IDPP or the share allocated to the Harbors Division. Although, it is not possible to reasonably estimate the extent of the additional services or the costs associated to those services until the study and investigation of the remedial alternatives has been completed, the Harbors Division, in accordance with Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), accrued only for the estimated cost of the study and investigation allocated to the Harbors Division of approximately $476,000, which the Harbors Division recorded in maintenance expense and in accounts payable as of June 30, 2009. No liability was recorded in fiscal 2008 as the estimated cost of the study and investigation of the remedial alternatives was not known as of June 30, 2008.

20. Commitments and Contingencies (continued)

Environmental Protection Agency

During December 2008, the United States Environmental Protection Agency (EPA) conducted an audit to determine Harbors Division's compliance with its Storm Water Environmental Permits. As a follow up to this audit, on June 18, 2009, the EPA issued an Administrative Order directing the Harbors Division to revise its Storm Water Management Plan, upgrade environmental inspections and procedures, improve documentation of environmental inspections and follow up actions, establish "Best Management Practices" (BMPs) standards, and include the use of permanent BMPs in any construction projects that are undertaken on Harbor Division premises. The EPA is also requiring that the Harbors Division develop a resources plan which will demonstrate how the Harbors Division will maintain environmental compliance in the future. The EPA established several intermediate deadlines and an overall compliance deadline of December 31, 2010. The Harbors Division entered into an agreement with Weston Solutions, Inc., an international environmental consulting firm, to assist the Harbors Division in complying with the Administrative Order, the cost of which is approximately $156,000, which the Harbors Division recorded in maintenance expense and in contracts payable as of June 30, 2009, in accordance with GASB 49. Additional fee proposals for consulting services that will allow the Harbors Division to comply with the EPA requirements dictated in the Administrative Order are currently in process. As a result, it is not possible to reasonably estimate the extent of the additional services or the costs associated to those services until Weston Solutions has completed its analysis.

Litigation

The Harbors Division is subject to a number of lawsuits arising in the ordinary course of its 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 Harbors Division's financial position. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

21. Subsequent Events

On January 12, 2010, Moody's Investors Service (Moody's), downgraded the rating of the outstanding Harbors Division Revenue Bonds to A2 from A1. Moody's downgrade was based on declining debt service coverage levels that has accelerated in recent years due to declines in cargo and cruise passenger volume. Moody's rating outlook for Harbors Division is stable based on the current cash reserves and Moody's expectations that debt service coverage will remain between 1.25 times and 1.75 times.

Supplemental Information

State of Hawaii
Department of Transportation
Harbors Division

Cash and Cash Equivalents of the Public Undertaking

June 30, 2009

Unrestricted cash and cash equivalents	$ 103,425,902
Restricted cash and cash equivalents:	
For construction–special purpose funds	33,683,688
For construction–revenue bonds	59,006,464
For revenue bond debt service payments	16,860,143
For security deposits	2,630,966
For risk management	900,080
For revenue bond harbors reserve and contingency account	10,897,658
	123,978,999
	$ 227,404,901

With Director of Finance, State of Hawaii	$ 225,419,401
Funds Delegated to Other State Agency, ATDC	1,970,000
On hand	15,500
Total	$ 227,404,901

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking

Fiscal Year Ended June 30, 2009

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Statewide:						
Environmental Consultant for Commercial Harbors	$ 26,138	$ –	$ –	$ –	$ –	$ 26,138
Various Special Maintenance Projects Requiring Civil/Structural Engineering Services	36,901	–	–	–	–	36,901
Various Commercial Harbor Security Improvements	871,563	72,613	–	37,902	–	982,078
Screening Equipment for Neighbor Island Passenger Terminals: Kahului Harbor, Maui; Hilo Harbor, Hawaii; Nawiliwili Harbor, Kauai	–	1,347	–	–	1,347	–
Maritime Workers Identification Credentialing System	38,567	714,075	–	17,214	–	769,856
Security Surveillance System for Neighbor Island Passenger Terminals: Kahului Harbor, Maui; Hilo Harbor, Hawaii; Nawiliwili Harbor, Kauai	585,447	67,430	–	13,673	666,550	–
Installation of Septic System at Harbor Agent's Office, Kalaeloa B.P. Harbor and Installation of Lift Station and Force Main at Port Allen	–	1,461	–	–	1,461	–
Inter-Island Ferry System	2,492,922	129,548	424,705	109,633	3,156,808	–
Inter-Island Ferry System Site Improvements, Honolulu & Kahului Harbors	–	3,389	–	–	3,389	–
Subtotal carried forward	4,051,538	989,863	424,705	178,422	3,829,555	1,814,973

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	4,051,538	989,863	424,705	178,422	3,829,555	1,814,973
Statewide (continued):						
Inter-Island Ferry System Site Improvements, Nawiliwili Harbor	–	46	–	–	46	–
Statewide Petroleum Facilities Development Plan	202,757	5,447	–	6,068	214,272	–
Barges and Vehicle Ramp Systems for Inter-Island Ferry Service	–	2,856	716,997	–	719,853	–
Environmental Engineering Service for special maintenance program	1,125	–	–	–	–	1,125
Planning and Development of State Commercial Harbors	770,796	31,753	–	771	–	803,320
Consulting Engineer's Report of the Public Undertaking	36,394	8,037	–	–	–	44,431
Site Surveying Services for CIP projects Statewide	4,538	–	–	–	–	4,538
State Commercial Harbor Plan and Development projects	431	135,676	–	–	–	136,107
Statewide cruise ship industry study	2,662	3,428	–	16	–	6,106
Inter-Island Ferry Environmental Services and Planning Project	465,230	955,495	–	42,808	1,268,182	195,351
GIS for the State of Hawaii DOT Harbors Division	–	17,079	–	–	–	17,079
Subtotal carried forward	5,535,471	2,149,680	1,141,702	228,085	6,031,908	3,023,030

Schedule 2

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 5,535,471	$ 2,149,680	$ 1,141,702	$ 228,085	$ 6,031,908	$ 3,023,030
Honolulu Harbor:						
POL Study, Piers 19-35, Honolulu Harbor						
Reconstruction of Piers 52 and 53 Sand Island	–	203,875	–	–	203,875	–
Container Yard, Honolulu Harbor, Oahu	22,674,584	53,301	3,466,657	1,097,722	–	27,292,264
Domestic Commercial Fishing Village Site improvements, Pier 36-38, Honolulu Harbor, Oahu	–	27,565	–	–	27,565	–
Ferry Terminal at Pier 19, Honolulu Harbor, Oahu	–	3,608	–	–	3,608	–
Phase 1: Construction of Pier 2 Cruise Terminal; Honolulu Harbor, Oahu	–	2,664	–	–	2,664	–
Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu	18,105,568	144,622	4,500,675	926,533	–	23,677,398
Planning Services for the Development of the new Kapalama Container Terminal, Honolulu	532,068	116,631	–	26,014	–	674,713
Crash Barrier Gates for Container Terminal in Honolulu Harbor	–	52,075	–	–	52,075	–
Phase 1 Environmental Assessment of the Former Kapalama Military Reservation Area, Honolulu	99,684	–	–	–	–	99,684
Subtotal carried forward	46,947,375	2,754,021	9,109,034	2,278,354	6,321,695	54,767,089

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 46,947,375	$ 2,754,021	$ 9,109,034	$ 2,278,354	$ 6,321,695	$ 54,767,089
Honolulu Harbor (continued):						
Substructure Repairs at Pier 2, Honolulu Harbor	–	464	–	–	464	–
Installation of Radiation Portal Monitoring System at Fort Armstrong, Honolulu	–	60,309	–	–	60,309	–
Methane Mitigation, Piers 36-38, Lease Parcel 8, Honolulu Harbor, Oahu	–	(4,294)	–	–	–	(4,294)
Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu	2,956,269	620,602	–	147,062	–	3,723,933
Construction Management & Inspection for various Pier 2 Cruise Terminal Improvements, Honolulu Harbor, Oahu	1,104,208	–	–	–	–	1,104,208
Pier 29 Extension, Honolulu Harbor, Oahu	251,708	–	–	–	–	251,708
Pier 1 Yard Expansion and Lighting and Utility Improvements Project, Honolulu Harbor, Oahu	2,878,022	84,570	–	53,233	3,015,825	–
Replacement of Pier 11 Roadway Security Barriers, Honolulu Harbor, Oahu	23,587	5,554	–	1,110	–	30,251
Condominium Property Regime, Piers 30-38	139,571	–	–	–	–	139,571
Historic Documentation for the Development of the New Kapalama Container Terminal	134,255	–	–	–	–	134,255
Subtotal carried forward	54,434,995	3,521,226	9,109,034	2,479,759	9,398,293	60,146,721

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 54,434,995	$ 3,521,226	$ 9,109,034	$ 2,479,759	$ 9,398,293	$ 60,146,721
Honolulu Harbor (continued):						
General Engineering Services for the Development of the New Kapalama Container Terminal, Honolulu						
Methane Mitigation Piers 36-38, Lease	76,718	56,869	–	4,716	–	138,303
Parcels 3, 4, 5 and 6, Honolulu Harbor	123,775	67,647	–	6,044	–	197,466
Design and construction for various KMR property and building adjustments, Honolulu	–	23	–	–	23	–
Barge Terminal Improvements at Piers 39 and 40	339,290	24,112	–	2,554	–	365,956
Furnishing and Delivery of One Energy-efficient Five-passenger SUV and One Sedan, Harbors Division-Engineering Branch	–	2,625	–	–	2,625	–
Construction of Pier 29 container yard	51,778	567,483	–	14,283	–	633,544
Port of Honolulu Passenger/Cargo Ship Facilities Improvised Explosive Devices (IEDS) Threat Prevention Program	–	7,102	–	–	–	7,102
Coordination for Inter-Island Ferry Lay Berth	–	35,754	–	–	–	35,754
Methane Mitigation, Piers 36-38, Lease Parcels 4 and 5, Domestic Commercial Fishing Village	–	38,538	–	538	–	39,076
Subtotal carried forward	55,026,556	4,321,379	9,109,034	2,507,894	9,400,941	61,563,922

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 55,026,556	$ 4,321,379	$ 9,109,034	$ 2,507,894	$ 9,400,941	$ 61,563,922
Honolulu Harbor (continued):						
Installation of Additional Cruise Ship Bollards at Pier 2, Honolulu Harbor	–	969	–	–	–	969
Transfer Proj fr SM to CIP & Fixed Asset Air Conditioning repairs @ Honolulu Harbor Admin Building	746,392	26,228	–	–	–	772,620
Kalaeloa Barbers Point Harbor:						
Kalaeloa Barbers Point Modifications	871,629	2,180	–	–	873,809	–
Installation of Septic System at Harbor Agent's Office, Kalaeloa B.P. Harbor	–	8,281	–	–	8,281	–
Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbor, Oahu	24,582	18,032	–	1,107	–	43,721
Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu	9,893	171,000	–	4,218	–	185,111
Testing and Disposal of Dredged Spoils Stockpiled at Pier 7, Kalaeloa Barbers Point Harbor, Oahu	8,460	331,884	–	7,901	348,245	–
Kewalo Basin:						
Demolition and Cleaning of the Former GRG Enterprise Site	–	(1,995)	–	–	–	(1,995)
Subtotal carried forward	$ 56,687,512	$ 4,877,958	$ 9,109,034	$ 2,521,120	$ 10,631,276	$ 62,564,348

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 56,687,512	$ 4,877,958	$ 9,109,034	$ 2,521,120	$ 10,631,276	$ 62,564,348
Kahului Harbor:						
2025 Master Plan Environmental Assessment	161,005	–	–	–	161,005	–
Pier 1 Comfort Station, Waterline and Sewer line Improvements	–	178,827	–	–	178,827	–
Replacement of Piers 2 and 3 Bull Rails, Kahului Harbor, Maui	–	9,670	–	–	9,670	–
Demolition of Wharf Street Shed, Kahului Harbor, Maui	–	1,565	–	–	1,565	–
Demolition of the Pier 2 Shed and Miscellaneous Site Work at Inter-Island Barge Terminal	–	13,693	–	–	13,693	–
Pave Former Wharf Street Shed Site	961,948	40,483	–	3,729	1,006,160	–
Pier 1 Makai comfort station and waterline improvements	41,945	109,817	–	4,031	–	155,793
Blue Earth EIS, Maui	178	90	–	–	–	268
Provide Tug assist services, Kahului Harbor	–	933	–	–	933	–
Hana Harbor Reconnaissance Study	–	30	–	–	–	30
Kahului Reconnaissance Study	–	30	–	–	–	30
Subtotal carried forward	57,852,588	5,233,096	9,109,034	2,528,880	12,003,129	62,720,469

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 57,852,588	$ 5,233,096	$ 9,109,034	$ 2,528,880	$ 12,003,129	$ 62,720,469
Kaumalapau Harbor:						
Kaumalapau Harbor Survey	–	837	–	–	837	–
Breakwater Repair	3,370,212	2,448,230	–	–	5,818,442	–
Kaunakakai Harbor:						
Ferry System Improvements at Kaunakakai Harbor, Molokai Maui	121,716	10,965	–	–	–	132,681
Hilo Harbor:						
Pier 1 Shed Modifications, Hilo Harbor, Hawaii	–	(9,750)	–	–	(9,750)	–
Pier 3 Breasting Dolphins and Catwalks, Hilo Harbor, Hawaii	–	94,000	–	–	94,000	–
Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii	1,415,612	215,133	–	67,158	–	1,697,903
Design for Pier 1 Shed Roofing and Siding Improvements, Hilo Harbor, Hawaii	–	4,911	–	–	–	4,911
Subtotal carried forward	62,760,128	7,997,422	9,109,034	2,596,038	17,906,658	64,555,964

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 62,760,128	$ 7,997,422	$ 9,109,034	$ 2,596,038	$ 17,906,658	$ 64,555,964
Kawaihae Harbor:						
Kawaihae Harbor Modifications Feasibility Study	573,423	645	–	–	–	574,068
Bathymetric and Underwater Survey at Pier 1	28,949	–	–	–	–	28,949
Pier 2A shed demolition and container yard improvement	3,972	31,922	–	–	–	35,894
Nawiliwili Harbor:						
Segmented Pier 3 improvements	6,832,559	42,541	–	–	–	6,875,100
Nawiliwili Harbor Channel Modification Project	262,648	460	–	–	–	263,108
Kauai Commercial Harbors 2025 Master Plan Environmental Impact Statement	198,496	–	–	–	–	198,496
Reconstruction of Pier 2 Fendering System	10,240	11,486	–	516	–	22,242
	$ 70,670,415	$ 8,084,476	$ 9,109,034	$ 2,596,554	$ 17,906,658	$ 72,553,821

State of Hawaii
Department of Transportation
Harbors Division

Revenue Bonds of the Public Undertaking

Year Ended June 30, 2009

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2009		
				Current	Noncurrent	Total
Issue of 2000	July 1, 2029	4.50-6.00%	$ 79,405,000	$ 2,635,000	$ 56,385,000	$ 59,020,000
Issue of 2002	July 1, 2019	3.00-5.50%	24,420,000	525,000	11,140,000	11,665,000
Issue of 2004	January 1, 2024	2.50-6.00%	52,030,000	3,580,000	27,135,000	30,715,000
Issue of 2006	January 1, 2031	4.00-5.25%	96,570,000	2,300,000	88,005,000	90,305,000
Issue of 2007	July 1, 2027	4.25-5.50%	51,645,000	1,400,000	49,620,000	51,020,000
			$ 304,070,000	$ 10,440,000	$ 232,285,000	$ 242,725,000

State of Hawaii
Department of Transportation
Harbors Division

Income From Operations Before Depreciation

Year Ended June 30, 2009

		District										
		Oahu			Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Kewalo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating revenues, net:												
Services:												
Wharfage	$ –	$ 27,985,591	$ 1,777,709	$ –	$ 1,452,410	$ 1,755,815	$ 3,111,173	$ 156,217	$ –	$ 1,255,749	$ –	$ 37,494,664
Pax debark/embark	–	1,112,449	–	–	730,831	–	257,444	–	–	562,597	–	2,663,321
Dockage	–	3,225,344	582,553	–	263,673	35,320	412,913	37,286	–	339,654	6,459	4,903,202
Demurrage	–	585,571	–	–	30,471	84,547	40,927	–	–	28,466	–	769,982
Port Entry	–	656,250	97,006	62	83,000	30,862	81,906	10,113	–	56,350	2,600	1,018,149
Mooring charges	–	282,746	–	437,927	25,102	–	73	2,011	–	–	306,894	1,054,753
Cleaning charges	–	175,908	130	–	–	–	2,633	–	–	6,393	1,149	186,213
Other services	–	44,645	100,801	2,865	23,961	11,026	6,685	5,436	–	2,198	6,964	204,581
Surcharge	–	–	–	–	–	–	–	–	–	–	–	–
Total services	–	34,068,504	2,558,199	440,854	2,609,448	1,917,570	3,913,754	211,063	–	2,251,407	324,066	48,294,865
Rentals:												
Wharf space and land	–	15,823,325	861,027	287,986	102,929	213,957	360,154	14,308	300	373,615	206,267	18,243,868
Storage	–	1,925,605	82,962	5,400	126,926	104,226	380,787	2,113	–	337,907	17,118	2,983,044
Automobile parking	–	854,420	28	27,506	30,295	6,076	91,889	–	–	69,781	13,668	1,093,663
Pipeline water	–	73,683	6,054	–	38,137	–	41,129	–	–	39,367	–	198,370
Other pipeline	–	312,773	635,213	–	325,810	17,416	383,330	8,773	–	64,682	67,241	1,815,238
Total rentals	–	18,989,806	1,585,284	320,892	624,097	341,675	1,257,289	25,194	300	885,352	304,294	24,334,183
Others:												
Sale of utilities	–	786,330	123,326	28,068	54,256	12,700	89,468	–	–	37,532	3,650	1,135,330
Miscellaneous	–	660,772	3,039	12,668	2,766	17,836	133,051	11,506	–	4,119	1,542	847,299
Total others	–	1,447,102	126,365	40,736	57,022	30,536	222,519	11,506	–	41,651	5,192	1,982,629
Total operating revenues	–	54,505,412	4,269,848	802,482	3,290,567	2,289,781	5,393,562	247,763	300	3,178,410	633,552	74,611,677

(continued on following page)

State of Hawaii
Department of Transportation
Harbors Division

Income From Operations Before Depreciation (continued)

		District										
		Oahu			Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Kewalo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating expenses before depreciation:												
Personal services	$ 6,564,306	$ 6,600,408	$ 170,125	$ 46,042	$ 693,880	$ 112,944	$ 935,673	$ 41,665	$ –	$ 830,036	$ 77,222	$ 16,072,301
Harbor operations	6,549,356	4,810,486	583,116	429,564	361,882	478,996	492,707	11,333	–	559,369	29,338	14,306,147
Maintenance	957,033	4,109,759	372,730	215,211	584,261	2,090,023	1,341,735	471,941	161,481	443,265	118,247	10,865,686
State of Hawaii, surcharge for central service expenses	2,409,835	–	–	–	–	–	–	–	–	–	–	2,409,835
Fireboat operations	–	2,837,488	–	–	–	–	–	–	–	–	–	2,837,488
General administration	2,068,476	51,672	435	5,538	16,452	4,177	9,008	–	–	21,830	1,864	2,179,452
Department of Transportation, general administration expenses	1,552,911	–	–	–	–	–	–	–	–	–	–	1,552,911
Operating expenses	20,101,917	18,409,813	1,126,406	696,355	1,656,475	2,686,140	2,779,123	524,939	161,481	1,854,500	226,671	50,223,820
Allocation of statewide expenses (1)	(20,101,917)	14,684,877	1,150,385	216,205	886,546	616,914	1,453,136	66,752	81	856,329	170,692	–
Total operating expenses	–	33,094,690	2,276,791	912,560	2,543,021	3,303,054	4,232,259	591,691	161,562	2,710,829	397,363	50,223,820
Income (loss) from operations before depreciation	$ –	$ 21,410,722	$ 1,993,057	$ (110,078)	$ 747,546	$ (1,013,273)	$ 1,161,303	$ (343,928)	$ (161,262)	$ 467,581	$ 236,189	$ 24,387,857

NOTES:

(1) Statewide expenses are allocated to the harbors based upon their respective current-year operating revenues to total current-year operating revenues for all harbors.

State of Hawaii
Department of Transportation
Harbors Division

Harbor Revenue Bonds 1997 Certificate–Minimum Net Revenue Requirement of the Public Undertaking

Year Ended June 30, 2009

Net revenues, as defined by the 1997 Certificate:	
Operating income before depreciation	$ 24,387,857
Add:	
Interest income	6,284,379
State of Hawaii, surcharge for central service expenses	2,409,835
Cash available in the harbor reserve and contingency account	10,897,658
Deduct:	
General obligation bond requirements, payments	(1,830,941)
	$ 42,148,788
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	$ 23,167,149
Ratio of net revenues to harbor revenue bond debt service requirements	1.82

State of Hawaii
Department of Transportation
Harbors Division

Accounts Receivable Aging

June 30, 2009

	Total	Current	30 Days	60 Days	90 Days
Accounts receivable	$ 9,922,551	$ 5,646,245	$ 359,441	$ 288,705	$ 3,628,160

APPENDIX B

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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APPENDIX B

GENERAL ECONOMIC INFORMATION ABOUT THE STATE OF HAWAII

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

INTRODUCTION

General

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

State Government

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

The Counties and Their Relationship to the State

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

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Third Quarter 2010 Quarterly Statistical and Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at www.hawaii.gov/dbedt/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Also unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position.

DBEDT's latest forecast for the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") growth in 2010 is 1.9%. DBEDT estimates the State's GDP growth in 2010 to be 1.2% over 2009 in real terms (adjusting for inflation).

State of the Economy

Hawaii demonstrated signs that the economy has started to recover in the second quarter of 2010. Visitor expenditures, tax revenues, new construction permits, and personal income all increased in the quarter from the same quarter last year. Although job growth in the quarter was still negative, the 0.2% decline experienced in the second quarter of 2010 was much lower than declines experienced in recent periods. The positive signs of recovery, however, should be interpreted with caution. The growth of tax revenues in the second quarter of 2010, for example, was mainly due to the delayed payment of tax refunds. In addition, the large increase in visitor spending in the quarter was partially due to the large decrease in the same quarter last year.

The most encouraging signs that a recovery has started were in tourism. The total number of visitors arriving by air to Hawaii continued the upturn experienced since the third quarter of 2009 by posting a 7.1% increase in the second quarter of 2010 over the same quarter of 2009. Other visitor metrics, such as the average daily visitor census and visitor spending, were all positive compared with the prior year. The visitor census was up 5.3% in the second quarter of 2010 compared to a 3.8% decrease for all of 2009 and a 8.9% decrease in 2008. Visitor spending increased 10.4% in the second quarter of 2010. This was the largest growth in visitor spending since the third quarter of 2005.

In construction, building permit data also edged into positive territory. For the second quarter of 2010, permit values for private construction increased 14.2%, or $66.6 million, from the same period of 2009. Building permits indicate the activity of future construction. Current construction being put into place based on excise tax data was still showing substantial losses at the end of first quarter of 2010. In addition, construction jobs in the second quarter of 2010 were still lower than the same quarter of 2009.

State general fund tax revenues increased in the second quarter of 2010 compared to the same quarter of 2009. In the first half of 2010, State general fund tax revenues were up 17.6% over the same period last year, compared to a 12.8% decline in 2009. However, the increase in tax revenues was mainly due to a decrease in income tax refunds. These delayed income tax refunds may affect State tax revenues in the third quarter of 2010.

Labor market conditions also suggest that the economy is stabilizing. Although Hawaii's economy continued to lose jobs through the second quarter of 2010, the decrease in the second quarter of 2010 was much lower than job losses in the previous seven quarters. In the second quarter of 2010, the decline in jobs was only 0.2%, or 1,500 jobs, compared with the same quarter in the previous year.

Job decreases in the second quarter of 2010 were mainly due to job losses in the government sector. Job gains from the federal government were not enough to offset losses from the State government. Jobs in private industries remained about the same in the second quarter of 2010. Job gains in the private sector were mainly in the retail trade sector, food services and drinking places, health care and social assistance, educational services, and accommodations. Private job losses were mainly in the professional and business services sector and the construction sector.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total nominal personal income in the first quarter of 2010 increased 2.3% from the same quarter of 2009. This increase includes inflation so that the growth of real personal income was either negative or very small. The increase in nominal personal income was mainly due to a large increase in personal current transfer receipts and supplements to wage and salaries, which include retirement and unemployment insurance benefits. Wage and salary disbursements, however, remained about the same in the quarter. Dividends, interest, and rents declined in the first quarter of 2010.

Consumer prices in Honolulu increased 2.5% in the first half of 2010 over the same period of 2009, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 2.1% in the first half of 2010. In the first and second half of 2009, Honolulu CPI-U increased 0.3% and 0.7%, respectively, from the same period of 2008.

The higher Honolulu CPI-U in the first half of 2010 was primarily due to a relatively large increase in transportation prices, which increased 11.5%, followed by increases in the prices of other goods and services and education and communications. Consumer prices for housing increased only 0.9%, while prices of food and beverages and medical care decreased slightly in the first half of 2010 compared to the first half of 2009.

Although Hawaii's economy has started to recover from the current recession, the full recovery is likely to be a gradual process over the next several years.

Outlook for the Economy

Based on the most recent data and analysis, Hawaii's economy is expected to continue seeing more positive signs of recovery into 2010, the beginning of recovery in most sectors, and modest growth in 2011. Overall, DBEDT's forecast is more optimistic than last quarter.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. For the U.S. economy, slightly worse-than-expected economic data in recent months has resulted in somewhat more conservative expectations being reflected in the consensus forecast used to guide DBEDT's forecast. According to the August 2010 Blue Chip Economic Consensus Forecast, U.S. real GDP is expected to increase by 2.9% in 2010. U.S. real GDP growth is now expected to increase from an annual rate of 3.2% in the second quarter to 3.4% and 2.8% by the third and fourth quarters of 2010, respectively. For 2011, the consensus forecast now expects an overall 2.8% growth in U.S. real GDP. These growth rates are lower than those released in May 2010.

On the other hand, forecasts have improved slightly for Hawaii's most important foreign market, Japan. Real GDP growth for Japan is now expected to increase 3.1% in 2010, followed by a modest 1.6% growth rate in 2011.

Based on the updated U.S. and International outlook, as well as new data on the Hawaii economy, the revised forecast for Hawaii shows slightly more encouraging expectations, although the basic projection of a slow and gradual recovery has not changed.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.2% increase in 2010, up slightly from a 1.1% growth forecast last quarter. That growth is expected to increase modestly to 1.6% in 2011.

Visitor arrivals are now expected to increase 4.6% in 2010, up two percentage points from the previous forecast. Visitor days are now expected to increase 4.1% in 2010 compared with 2.6% in the previous forecast. Moreover, the forecast for visitor expenditure growth in 2010 has been revised upward to 8.2% from 4.9% growth projected in the previous forecast. For 2011, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 3.8%, 3.8%, and 6.6%, respectively.

The projection for wage and salary jobs in 2010 changed slightly from a 0.9% decline in the previous forecast to a 0.6% decline in the current forecast. Most of this decline has occurred in the first half of the year, with the expectation that no growth in jobs will occur in the second half of 2010. In 2011, jobs are projected to increase a modest 1.0%.

The Honolulu Consumer Price Index (CPI), which increased 0.5% in 2009, is expected to increase 2.2% in 2010, up 0.5 of a percentage point from the previous forecast. In 2011, the CPI is also projected to increase 2.2%.

Personal income growth in current dollars is now projected to show an increase of 2.5% in 2010, up 0.6 of a percentage point from the previous forecast. However, due to the higher inflation rate expected, the current forecast of real personal income growth in 2010 is 0.3%, only slightly higher than the 0.2% growth in the previous forecast. In 2011, current-dollar personal income is forecast to increase 3.0%, which will be 0.8% in real terms, the same as projected in the previous forecast.

Beyond 2011 the gradual recovery is expected to continue with modest job growth of around 1.1% for 2012. Visitor arrivals are expected to increase 4.3% in 2012. Hawaii's real GDP growth in 2012 is expected to reach 1.9%. The gradual recovery should continue into 2013, assuming national and international economic conditions continue to improve.

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

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	2nd QUARTER 2009	2nd QUARTER 2010	2nd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2009	YEAR-TO-DATE 2010	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	641,650	637,350	-0.7	640,700	636,650	-0.6
Civilian employed, NSA	596,700	595,900	-0.1	598,050	594,250	-0.6
Civilian unemployed, NSA	44,950	41,450	-7.8	42,650	42,450	-0.5
Unemployment rate, NSA (%) 1/ 2/	7.0	6.5	-0.5	6.6	6.7	0.1
Total wage and salary jobs, NSA	600,600	599,100	-0.2	602,850	595,450	-1.2
Total non-agric. wage & salary jobs	594,500	592,800	-0.3	596,800	589,150	-1.3
Nat. Resources, Mining, Constr.	31,700	30,050	-5.2	32,500	29,950	-7.8
Manufacturing	13,650	13,550	-0.7	13,800	13,550	-1.8
Wholesale Trade	17,800	17,350	-2.5	17,950	17,350	-3.3
Retail Trade	65,550	67,000	2.2	66,350	67,050	1.1
Transp., Warehousing, Util.	26,850	26,450	-1.5	27,000	26,400	-2.2
Information	9,200	8,700	-5.4	9,250	8,700	-5.9
Financial Activities	27,850	27,500	-1.3	27,900	27,600	-1.1
Professional & Business Services	71,200	68,250	-4.1	72,050	68,450	-5.0
Educational Services	14,800	15,800	6.8	14,800	15,550	5.1
Health Care & Social Assistance	59,950	61,200	2.1	59,850	60,800	1.6
Arts, Entertainment & Recreation	10,650	10,400	-2.3	10,650	10,250	-3.8
Accommodation	34,800	35,700	2.6	35,250	35,550	0.9
Food Services & Drinking Places	55,600	56,900	2.3	55,350	55,900	1.0
Other Services	25,850	26,250	1.5	26,050	25,900	-0.6
Government	129,100	127,700	-1.1	128,100	126,350	-1.4
Federal	33,250	35,450	6.6	32,950	34,750	5.5
State	77,200	73,700	-4.5	76,550	73,100	-4.5
Local	18,650	18,550	-0.5	18,600	18,450	-0.8
Agriculture wage and salary jobs	6,100	6,250	2.5	6,050	6,300	4.1
State general fund revenues ($1,000)	1,010,064	1,117,702	10.7	1,964,139	2,310,191	17.6
General excise and use tax revenues	579,506	572,766	-1.2	1,169,397	1,189,543	1.7
Income-individual	304,239	401,662	32.0	569,741	830,248	45.7
Declaration estimated taxes	105,954	127,797	20.6	166,655	188,475	13.1
Payment with returns	79,707	70,480	-11.6	95,804	88,524	-7.6
Withholding tax on wages	342,393	336,081	-1.8	689,353	696,823	1.1
Refunds ('-' indicates relative to State)	-223,816	-132,696	-40.7	-382,070	-143,574	-62.4
Transient accommodations tax	51,062	56,610	10.9	103,273	115,242	11.6
Honolulu County Surcharge 3/	45,676	40,683	-10.9	89,582	85,451	-4.6
Private Building Permits ($1,000)	470,698	537,311	14.2	1,012,850	992,643	-2.0
Residential	160,545	184,903	15.2	436,863	420,279	-3.8
Commercial & industrial	97,340	123,515	26.9	136,183	176,621	29.7
Additions & alterations	212,813	228,893	7.6	439,804	395,743	-10.0
Visitor Days - by air	14,724,483	15,502,088	5.3	30,019,660	31,528,979	5.0
Domestic visitor days - by air	11,883,572	12,235,667	3.0	23,618,279	24,075,057	1.9
International visitor days - by air	2,840,911	3,266,421	15.0	6,401,381	7,453,922	16.4
Visitor arrivals by air - by air	1,595,081	1,708,921	7.1	3,163,938	3,346,988	5.8
Domestic flight visitors - by air	1,232,085	1,273,790	3.4	2,338,615	2,392,638	2.3
International flight visitors - by air	362,996	435,131	19.9	825,323	954,350	15.6
Hotel occupancy rates (%) 2/	Awaiting June 2010 data					
Visitor expend. - arrivals by air ($Mil.)	2,327	2,570	10.4	4,895	5,278	7.8

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.

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2008 TO 2013

Economic Indicators	2008	2009	2010	2011	2012	2013
	Actual		Forecast			
Total population (thousands)	1,287	1,295	1,304	1,314	1,323	1,332
Visitor arrivals (thousands) 1/ 4/	6,823	6,517	6,814	7,074	7,377	7,680
Visitor days (thousands) 1/ 4/	63,857	60,837	63,326	65,702	68,523	71,336
Visitor expenditures (million dollars) 1/ 4/	11,399	9,993	10,810	11,525	12,561	13,571
Honolulu CPI-U (1982-84=100)	228.9	230.0	235.1	240.2	245.7	251.3
Personal income (million dollars)	54,175	54,304	55,661	57,342	59,349	61,604
Real personal income (millions of 2000$) 2/	41,733	41,616	41,741	42,092	42,586	43,210
Total wage & salary jobs (thousands)	625.4	597.7	594.1	600.1	606.7	613.9
Gross domestic product (million dollars) 3/	63,847	64,154	65,393	67,219	69,665	72,499
Real gross domestic product (millions of 2000$) 3/	49,782	49,465	50,041	50,822	51,803	52,968
Gross domestic product deflator (2000=100)	128.3	129.7	130.7	132.3	134.5	136.9
Annual Percentage Change						
Total population	0.8	0.6	0.7	0.7	0.7	0.7
Visitor arrivals 1/	-10.6	-4.5	4.6	3.8	4.3	4.1
Visitor days 1/ 4/	-8.9	-4.7	4.1	3.8	4.3	4.1
Visitor expenditures 1/ 4/	-11.0	-12.3	8.2	6.6	9.0	8.0
Honolulu CPI-U	4.3	0.5	2.2	2.2	2.3	2.3
Personal income	3.7	0.2	2.5	3.0	3.5	3.8
Real personal income 2/	-0.6	-0.3	0.3	0.8	1.2	1.5
Total wage & salary jobs	-1.0	-4.4	-0.6	1.0	1.1	1.2
Gross domestic product 3/	2.9	0.5	1.9	2.8	3.6	4.1
Real gross domestic product 3/	0.7	-0.6	1.2	1.6	1.9	2.2
Gross domestic product deflator	2.2	1.1	0.8	1.2	1.7	1.8

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

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

3/ The 2009 value is estimated by DBEDT.

4/ Visitor arrivals, days, and/or expenditures for 2009-2013 and annual percentage change for 2009 were revised on August 23, 2010.

Source: Hawaii State Department of Business, Economic Development & Tourism, August 17, 2010, and revised August 23, 2010.

Labor Force and Jobs

Hawaii's labor market conditions improved slightly in the second quarter of 2010. While the civilian labor force decreased in the quarter, civilian employment decreased only slightly and civilian unemployment also decreased in the quarter. As a result, Hawaii's unemployment rate decreased to 6.5% in the quarter. The decrease in civilian wage and salary jobs was much lower than that of the previous quarters since the third quarter of 2008.

In the second quarter of 2010, Hawaii's civilian wage and salary jobs averaged 599,100 jobs, a decrease of 1,500 jobs, or 0.2%, from the same quarter of 2009. Although this was the ninth consecutive quarterly decrease in jobs since the second quarter of 2008, the decrease in this quarter was much lower than that of the previous quarters. In the first half of 2010, average wage and salary jobs decreased 1.2%, or 7,400 jobs, from the same period last year.

The job decrease in the quarter was mainly due to job loss in the government sector. During the second quarter of 2010, the government lost 1,400 jobs, or 1.1%, compared to the same quarter of 2009. Although the federal government added 2,200 jobs, or 6.6%, the State government lost 3,500 jobs, or 4.5%, and local governments also lost 100 jobs in the second quarter of 2010 compared with the second quarter of 2009.

In the second quarter of 2010, jobs in the private industries remained about the same. Job gains in some industries were offset by job losses in other industries. The retail trade sector experienced the largest job gains, adding 1,450 jobs, or 2.2%, compared to the same quarter of 2009. In addition, food services and drinking places added 1,300 jobs, or 2.3%, health care and social assistance added 1,250 jobs, or 2.1%, educational services added 1,000 jobs, or 6.8%, and accommodations added 900 jobs, or 2.6%.

In the second quarter of 2010, the professional and business services sector lost 2,950 jobs, or 4.1%, compared to the same quarter of 2009, followed by the natural resources, mining and construction sector, which lost 1,650 jobs, or 5.2%, and the information sector, which lost 500 jobs, or 5.4%.

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(Number of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	616,300	1.2	592,450	1.4	3.9
2004	618,150	0.3	598,200	1.0	3.2
2005	627,100	1.4	609,850	1.9	2.8
2006	638,100	1.8	622,300	2.0	2.5
2007	640,150	0.3	623,150	0.1	2.7
2008	646,000	0.9	620,000	-0.5	4.0
2009	637,800	-1.3	594,500	-4.1	6.8
2010 1/	636,650	-0.2	594,250	0.0	6.7

1/ First two quarters of 2010.

Income and Prices

Hawaii's total personal income increased moderately during the first quarter of 2010 compared to the same quarter of 2009, mainly due to a large increase in personal current transfer receipts and supplements to wage and salaries, which include retirement and unemployment insurance benefits. Wage and salary disbursements, however, remained about the same in the quarter.

Annualized personal current transfer receipts grew by $944 million, or 12.1%, in the first quarter of 2010 from the same quarter of 2009. For 2009, personal current transfer receipts grew at a rate of 13.6%.

In the first quarter of 2010, total non-farm private sector annualized earnings decreased $40 million, or 0.2%, from the first quarter of 2009. In dollar terms, the largest decreases occurred in construction, followed by finance and insurance, management of companies and enterprises, utility, and wholesale trade. The largest increases occurred in accommodation and food services, followed by health care and social assistance, retail trade, and educational services.

During the first quarter of 2010, total government earnings increased $470 million, or 3.2%, from the same quarter of 2009. The increase in government earnings was due to the increase of federal government earnings, which increased $812 million, or 9.2%, in the quarter. State and local governments showed a 6.1%, or $342 million, decrease in the first quarter of 2010.

In the first half of 2010, Honolulu's Consumer Price Index- All Urban Consumers (CPI-U) increased 2.5% from the same period last year, higher than the U.S. average CPI-U increase of 2.1% for the same period.

The Honolulu CPI-U increase in the first half of 2010 was primarily due to a relatively large increase in transportation prices (11.5%), other goods and services (4.7%), and education and communication (4.1%). The price index for housing increased only 0.9%, while prices of food and beverages and medical care decreased slightly in the first half of 2010 compared to the first half of 2009.

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Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

[In millions of dollars at seasonally adjusted annual rates and percent. As of *QSER September 2003*, according to NAICS classification only]

								Percentage change from		
								To First Quarter 2010 From		*Ann Aver*
Series	*First Quarter 2009*	*Second Quarter 2009*	*Third Quarter 2009*	*Fourth Quarter 2009*	*First Quarter 2010*	*AnnAver 2008*	*AnnAver 2009*	*Fourth Quarter 2009*	*First Quarter 2009*	*2009 from 2008*
PERSONAL INCOME	54,034	54,494	54,160	54,526	55,262	54,175	54,304	1.3	2.3	0.2
Earnings By Place of Work	41,046	41,195	40,782	40,894	41,494	41,284	40,979	1.5	1.1	-0.7
Wage and salary disbursements	28,819	28,913	28,501	28,445	28,823	29,227	28,670	1.3	0.0	-1.9
Supplements to wages and salaries	8,698	8,773	8,743	8,830	8,998	8,382	8,761	1.9	3.4	4.5
Emp'er contrib. for emp'ee pension & ins. funds	6,694	6,755	6,754	6,838	6,935	6,353	6,760	1.4	3.6	6.4
Employer contributions for gov't social ins.	2,004	2,017	1,989	1,992	2,063	2,029	2,001	3.6	2.9	-1.4
Proprietors' income	3,529	3,509	3,538	3,619	3,673	3,676	3,549	1.5	4.1	-3.5
Farm proprietors' income	41	51	39	62	53	41	48	-14.5	29.3	17.0
Nonfarm proprietors' income	3,488	3,458	3,499	3,557	3,621	3,635	3,501	1.8	3.8	-3.7
Dividends, interest, and rent	9,473	9,212	9,253	9,429	9,392	9,924	9,342	-0.4	-0.9	-5.9
Personal current transfer receipts	7,793	8,388	8,371	8,450	8,737	7,260	8,251	3.4	12.1	13.6
State unemployment insurance benefits	516	617	665	665	750	234	616	12.8	45.3	163.7
Personal current transfer receipts exc State U.I.	7,278	7,771	7,707	7,785	7,987	7,027	7,635	2.6	9.7	8.7
Less: Contributions for gov't social insurance	4,278	4,300	4,246	4,247	4,361	4,293	4,268	2.7	1.9	-0.6
Personal contributions for gov't social insurance	2,274	2,283	2,257	2,255	2,298	2,265	2,267	1.9	1.1	0.1
Employer contributions for gov't social insurance	2,004	2,017	1,989	1,992	2,063	2,029	2,001	3.6	2.9	-1.4
Earnings By Industry	41,046	41,195	40,782	40,894	41,494	41,284	40,979	1.5	1.1	-0.7
Farm Earnings	223	234	224	248	241	220	232	-2.8	8.1	5.7
Nonfarm Earnings	40,824	40,960	40,558	40,646	41,253	41,065	40,747	1.5	1.1	-0.8
Private earnings	26,343	26,329	26,023	26,001	26,303	27,435	26,174	1.2	-0.2	-4.6
Forestry, fishing, related activities, and other 6/	35	36	37	35	40	47	36	14.3	14.3	-23.5
Mining	42	45	47	49	51	45	46	4.1	21.4	2.2
Utilities	365	355	374	330	325	331	356	-1.5	-11.0	7.7
Construction	2,860	2,757	2,635	2,588	2,659	3,271	2,710	2.7	-7.0	-17.1
Manufacturing	801	829	798	804	822	874	808	2.2	2.6	-7.5
Durable goods	310	298	292	291	305	322	298	4.8	-1.6	-7.5
Nondurable goods	491	531	506	513	516	552	510	0.6	5.1	-7.5
Wholesale trade	1,174	1,167	1,142	1,120	1,137	1,219	1,151	1.5	-3.2	-5.6
Retail trade	2,484	2,491	2,492	2,512	2,581	2,598	2,495	2.7	3.9	-4.0
Transportation and warehousing	1,346	1,349	1,331	1,336	1,328	1,495	1,341	-0.6	-1.3	-10.3
Information	670	668	655	674	668	711	667	-0.9	-0.3	-6.2
Finance and insurance	1,315	1,272	1,221	1,180	1,181	1,290	1,247	0.1	-10.2	-3.3
Real estate and rental and leasing	757	760	764	754	726	836	759	-3.7	-4.1	-9.2
Professional and technical services	2,556	2,538	2,503	2,499	2,537	2,525	2,524	1.5	-0.7	0.0
Management of companies and enterprises	613	620	591	537	538	634	590	0.2	-12.2	-6.8
Administrative and waste services	1,634	1,632	1,579	1,596	1,623	1,681	1,610	1.7	-0.7	-4.2
Educational services	642	638	639	639	669	616	640	4.7	4.2	3.9
Health care and social assistance	3,741	3,776	3,831	3,893	3,909	3,609	3,810	0.4	4.5	5.6
Arts, entertainment, and recreation	510	499	537	509	504	533	514	-1.0	-1.2	-3.7
Accommodation and food services	3,145	3,253	3,204	3,299	3,339	3,438	3,225	1.2	6.2	-6.2
Other services, except public administration	1,652	1,644	1,643	1,647	1,665	1,687	1,647	1.1	0.8	-2.4
Government and government enterprises	14,481	14,632	14,535	14,644	14,951	13,630	14,573	2.1	3.2	6.9
Federal	8,855	8,989	9,022	9,393	9,667	8,258	9,065	2.9	9.2	9.8
Federal, civilian	3,214	3,237	3,321	3,415	3,486	3,056	3,297	2.1	8.5	7.9
Military	5,641	5,752	5,701	5,978	6,181	5,202	5,768	3.4	9.6	10.9
State and local	5,626	5,642	5,513	5,251	5,284	5,372	5,508	0.6	-6.1	2.5

2009QI to 2009Q4, and Annual Average 2009 revised on June 18, 2010.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, June 18, 2010 <http://www.bea.doc.gov/bea/regional/sqpi/>.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,399	1.0
1997	31,372	3.2
1998	32,259	2.8
1999	33,244	3.1
2000	35,222	5.9
2001	35,936	2.0
2002	37,475	4.3
2003	39,032	4.2
2004	42,285	8.3
2005	45,332	7.2
2006	49,124	8.4
2007	52,253	6.4
2008	54,175	3.7
2008	54,304	0.2
2010 YTD 1/	55,262	1.8

1/ First quarter of 2010.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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Table 6

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

Period	U.S.	Honolulu								
		All Items	Food & Beverages	Housing	Apparel	Transportation	Medical Care	Recreation 1/	Educ. & Comm. 1/	Other Goods & Services
1990	130.7	138.1	137.8	141.5	107.0	131.1	154.2	(NA)	(NA)	160.4
1991	136.2	148.0	145.9	152.8	110.5	139.3	171.3	(NA)	(NA)	175.7
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	2/	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	2/	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	2/	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	2/	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	2/	101.1	114.0	332.1
2007	207.342	219.504	204.942	238.428	104.145	205.027	2/	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	318.0	105.290	117.118	365.441
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.6	105.239	122.843	395.186
H2	161.2	171.8	159.0	177.0	114.8	164.6	219.1	(NA)	(NA)	245.5
1998H1	162.3	172.0	160.0	176.3	116.4	163.2	222.5	101.4	98.9	254.3
H2	163.7	171.0	158.2	175.7	108.0	161.8	229.8	100.3	99.3	258.0
1999H1	165.4	172.7	162.4	175.5	106.0	162.3	231.0	101.3	102.6	273.9
H2	167.8	173.8	163.5	176.0	104.9	162.0	231.5	102.5	106.4	277.3
2000H1	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
H2	173.6	176.7	164.1	178.5	102.6	171.5	243.8	102.6	105.6	281.9
2001H1	176.6	178.1	168.3	178.8	99.7	176.0	246.1	102.1	103.5	287.5
H2	177.5	178.7	170.7	179.3	102.3	173.0	2/	101.1	105.8	291.1
2002H1	178.9	180.1	172.3	180.5	106.2	171.7	2/	99.9	106.9	299.1
H2	180.9	180.4	171.6	181.9	99.1	170.1	266.5	99.2	108.7	305.3
2003H1	183.3	183.2	173.7	184.7	99.2	175.2	2/	99.3	111.1	307.0
H2	184.6	185.7	176.0	187.7	97.8	177.7	2/	101.5	113.8	308.2
2004H1	187.6	189.2	179.5	192.2	102.6	180.2	274.8	102.6	113.5	309.6
H2	190.2	191.9	180.9	196.3	99.9	184.6	277.0	102.0	113.6	315.2
2005H1	193.2	195.0	184.7	199.9	104.9	188.2	2/	98.5	115.8	318.6
H2	197.4	200.6	187.1	210.5	100.0	195.1	2/	97.0	112.8	323.3
2006H1	200.6	206.4	191.6	216.9	104.1	201.6	2/	100.9	114.3	329.5
H2	202.6	212.3	196.8	228.0	104.7	202.6	2/	101.3	113.7	334.7
2007H1	205.709	216.620	202.952	233.606	102.648	204.402	2/	102.058	112.887	343.703
H2	208.976	222.388	206.932	243.250	105.642	205.652	309.195	103.087	115.047	351.295
2008H1	214.429	227.334	212.390	246.676	105.917	215.519	317.380	105.600	115.126	361.286
H2	216.177	230.387	220.859	250.725	104.637	212.477	318.531	104.979	119.110	369.596
2009H1	213.139	228.070	224.747	248.658	114.379	191.723	322.104	105.629	120.937	388.461
H2	215.935	232.026	223.887	250.811	111.244	208.870	321.094	104.848	124.749	401.910
2010H1	217.535	233.822	224.627	250.940	116.564	213.842	321.243	106.585	125.888	406.880

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed August 13, 2010.

Table 6

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

Period	U.S.	Honolulu: All Items	Food & Beverages	Housing	Apparel	Transportation	Medical Care	Recreation 1/	Educ. & Comm. 1/	Other Goods & Services
	Percentage Change from the Same Period in Previous Year									
1991	4.2	7.2	5.9	8.0	3.3	6.3	11.1	(NA)	(NA)	9.5
1992	3.0	4.8	1.8	5.8	3.3	5.8	6.6	(NA)	(NA)	7.6
1993	3.0	3.2	3.0	3.0	2.0	2.1	8.1	(NA)	(NA)	5.9
1994	2.6	2.7	0.3	3.1	1.9	3.9	4.4	(NA)	(NA)	4.7
1995	2.8	2.2	2.2	1.8	-1.0	3.8	1.8	(NA)	(NA)	3.4
1996	3.0	1.5	-0.1	1.2	0.9	2.8	2.5	(NA)	(NA)	4.5
1997	2.3	0.7	1.7	0.2	-1.0	-0.5	1.1	(NA)	(NA)	5.5
1998	1.6	-0.2	-0.1	-0.6	-4.3	-2.2	4.0	(NA)	(NA)	7.2
1999	2.2	1.0	2.4	-0.1	-6.1	-0.2	2.3	1.1	5.4	7.6
2000	3.4	1.7	1.2	1.2	-1.8	4.6	3.7	0.9	1.9	1.5
2001	2.8	1.2	2.9	0.7	-2.4	2.9	2/	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	2/	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	2/	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	2/	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	2/	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	2/	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	2/	1.5	0.0	4.6
2008	3.8	4.3	5.7	4.3	1.1	4.4	2/	2.6	2.8	5.2
2009	-0.4	0.5	3.6	0.4	7.2	-6.4	1.1	0.0	4.9	8.1
H2	1.6	-0.5	-0.5	-0.7	-5.9	-1.7	4.9	(NA)	(NA)	5.1
1999H1	1.9	0.4	1.5	-0.5	-8.9	-0.6	3.8	-0.1	3.7	7.7
H2	2.5	1.6	3.4	0.2	-2.9	0.1	0.7	2.2	7.2	7.5
2000H1	3.3	1.9	1.9	1.0	-1.4	3.3	2.1	1.8	4.6	1.3
H2	3.5	1.7	0.4	1.4	-2.2	5.9	5.3	0.1	-0.8	1.7
2001H1	3.4	1.3	1.7	0.8	-4.6	4.9	4.3	-1.0	-3.5	3.6
H2	2.2	1.1	4.0	0.4	-0.3	0.9	2/	-1.5	0.2	3.3
2002H1	1.3	1.1	2.4	1.0	6.5	-2.4	2/	-2.2	3.3	4.0
H2	1.9	1.0	0.5	1.5	-3.1	-1.7	2/	-1.9	2.7	4.9
2003H1	2.5	1.7	0.8	2.3	-6.6	2.0	2/	-0.6	3.9	2.6
H2	2.0	2.9	2.6	3.2	-1.3	4.5	2/	2.3	4.7	0.9
2004H1	2.3	3.3	3.3	4.1	3.4	2.9	2/	3.3	2.2	0.8
H2	3.0	3.3	2.8	4.6	2.1	3.9	2/	0.5	-0.2	2.3
2005H1	3.0	3.1	2.9	4.0	2.2	4.4	2/	-4.0	2.0	2.9
H2	3.8	4.5	3.4	7.2	0.1	5.7	2/	-4.9	-0.7	2.6
2006H1	3.8	5.8	3.7	8.5	-0.8	7.1	2/	2.4	-1.3	3.4
H2	2.6	5.8	5.2	8.3	4.7	3.8	2/	4.4	0.8	3.5
2007H1	2.5	5.0	5.9	7.7	-1.4	1.4	2/	1.1	-1.2	4.3
H2	3.1	4.8	5.1	6.7	0.9	1.5	2/	1.8	1.2	5.0
2008H1	4.2	4.9	4.7	5.6	3.2	5.4	2/	3.5	2.0	5.1
H2	3.4	3.6	6.7	3.1	-1.0	3.3	3.0	1.8	3.5	5.2
2009H1	-0.6	0.3	5.8	0.8	8.0	-11.0	1.5	0.0	5.0	7.5
H2	-0.1	0.7	1.4	0.0	6.3	-1.7	0.8	-0.1	4.7	8.7
2010H1	2.1	2.5	-0.1	0.9	1.9	11.5	-0.3	0.9	4.1	4.7

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed August 13, 2010.

Tourism

In the second quarter of 2010, Hawaii's tourism sector continued the recovery started in the third quarter of 2009. While both domestic and international arrivals increased in the quarter, the growth of international arrivals was much higher than the growth of domestic arrivals. The average daily visitor census increased slightly less than the increase of visitor arrivals due to shorter lengths of stay. Visitor expenditures also increased significantly in the second quarter of 2010.

The total number of visitors arriving by air to Hawaii increased 113,840, or 7.1%, in the second quarter of 2010 compared to the same quarter of 2009. The total average daily census was up 8,545, or 5.3%, in the quarter. In the first half of 2010, total visitor arrivals by air increased 183,050, or 5.8%, from that of 2009, while 2010 year-to-date (YTD) average daily census increased 8,339, or 5.0%, from 2009.

The second quarter saw only a modest increase in domestic arrivals. Total visitor arrivals on domestic flights increased 41,705, or 3.4% in the second quarter of 2010 from the second quarter in 2009. Combined with the modest increase in the first quarter, 2010 YTD domestic arrivals were up 54,023, or 2.3%, from that of 2009.

In contrast, arrivals on international flights increased sharply by 72,135, or 19.9%, in the second quarter of 2010 compared to the second quarter of 2009. 2010 YTD, international arrivals were up 129,027, or 15.6%, from that of 2009.

In terms of major market areas, from the second quarter of 2009 to the same period of 2010, arrivals from the U.S. West increased 38,391, or 5.2%, arrivals from the U.S. East increased 6,040, or 1.5%, and arrivals from Japan increased a substantial 18.1%, or 42,637. The large increase in Japanese arrivals in the second quarter of 2010 was also due to the substantial decrease of Japanese arrivals in the second quarter of 2009. For the first two quarters of 2010, arrivals from U.S. West were up 4.3%, arrivals from the U.S. East were up 0.2%, and Japanese arrivals were up 7.2% from the same period last year.

Nominal visitor expenditures by air totaled $2,569.8 million in the second quarter of 2010, up 10.4%, or $243.0 million, from the same quarter of 2009. In the first half of 2010, visitor expenditures increased $382.8 million, or 7.8%, from 2009.

Total airline capacity, as measured in terms of the number of available seats flown to Hawaii, increased 4.2%, or 93,360 seats, in the second quarter of 2010. Domestic seats increased 5.3%, or 86,065 seats, and international seats increased 1.2%, or 7,295 seats, compared to the same quarter of 2009. For the first half of 2010, the number of total available seats increased 4.6%, or 200,413 seats, from the same period of 2009.

In the first quarter of 2010, statewide hotel occupancy rate averaged 70.8%, down 4.1 percentage points from the same quarter of 2009. In the first quarter of 2010, county hotel occupancy rates averaged 76.2% in Honolulu, followed by Maui at 72.5%, Hawaii at 57.7% and Kauai at 57.4%.

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Table 7

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

	2007	2008	2009	2010 YTD 1/	2009 YTD 1/	% Change 2007-2008	% Change 2008-2009	% Change 2009-2010
Total Arrivals								
Total	7,496,820	6,713,436	6,420,448	3,346,988	3,163,938	-10.4	-4.4	5.8
Domestic	5,582,530	4,901,893	4,672,001	2,392,638	2,338,615	-12.2	-4.7	2.3
International	1,914,290	1,811,543	1,748,447	954,350	825,323	-5.4	-3.5	15.6
Average Length of Stay								
Total	9.2	9.4	9.4	9.4	9.5	2.0	-0.2	-0.7
Domestic	9.9	10.1	10.1	10.1	10.1	2.3	-0.1	-0.4
International	7.3	7.5	7.5	7.8	7.8	2.6	-0.2	0.7
Visitor Days								
Total	69,135,310	r 63,130,133	60,255,061	31,528,979	30,019,660	-8.7	-4.6	5.0
Domestic	55,100,441	r 49,497,350	47,121,337	24,075,057	23,618,279	-10.2	-4.8	1.9
International	14,034,869	r 13,632,783	13,133,724	7,453,922	6,401,381	-2.9	-3.7	16.4
Average Daily Census								
Total	189,412	172,487	165,082	174,193	165,854	-8.9	-4.3	5.0
Domestic	150,960	135,239	129,100	133,011	130,488	-10.4	-4.5	1.9
International	38,452	37,248	35,983	41,182	35,367	-3.1	-3.4	16.4

1/ First two quarters.

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Table 8

HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
			In Percent		
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009 1/	66.7	63.0	68.6	65.4	64.9
2010 1/	70.8	(NA)	(NA)	Year-to-Date	70.8

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

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

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

Construction

The indicators of Hawaii's construction industry were mostly positive in the second quarter of 2010. Both government contracts awarded and the value of private building authorizations increased. All components of private building authorizations increased in the quarter. State Government Capital Improvement Project (CIP) expenditures decreased only slightly. Construction jobs decreased but the decrease was less severe than the previous quarters. At the same time, both the number of single family units and condominiums sold in Honolulu increased significantly.

Construction was one of the major contributors to job growth in Hawaii over the past few years. From 2002 to 2007, construction job growth averaged 8.0% per year. In the fourth quarter of 2007, the average construction job reached a peak of 40,000 jobs. Since the second quarter of 2008, however, the quarter-over-quarter growth rate of construction jobs has been negative in all quarters. In the second quarter of 2010, the natural resources, mining and construction sector lost 1,650 jobs, a decrease of 5.2% compared with the same quarter last year. In 2009, construction jobs decreased 16.9%, or 6,400 jobs, from the previous year.

In the second quarter of 2010, the value of total private building authorizations increased $66.6 million, or 14.2%, compared with the second quarter of 2009. In the second quarter of 2010, the value of new residential permits was up $24.4 million, or 15.2%, that of new commercial and industrial permits was up $26.2 million, or 26.9%, and that of additions and alternations permits was up $16.1 million, or 7.6%, compared to the same quarter last year. In the first half of 2010, total private building authorizations decreased $20.2 million, or 2.0%, compared with the same period of 2009.

In the second quarter of 2010, the value of total private building permits increased in Honolulu and Hawaii counties but decreased in Kauai and Maui compared with the same quarter of 2009. Honolulu increased $54.7 million, or 17.3%, Hawaii County increased $26.6 million, or 36.3%, Maui decreased $4.6 million, or 7.9%, and Kauai decreased $10.2 million, or 44.7%.

Government contracts awarded increased $156.4 million, or 79.3%, in the second quarter of 2010 compared to the same quarter of 2009. In the first half of 2010, government contracts awarded increased $72.3 million, or 19.8%, compared with that of 2009. State Government CIP expenditures decreased $3.7 million, or 1.3%, in the second quarter of 2010 from the same quarter in 2009. In the first half of 2010, CIP expenditures increased $65.5 million, or 12.6%, from the same period of 2009.

The Honolulu Construction Cost Indexes for Single Family Residences and High-Rise Buildings decreased 0.1% in the second quarter of 2010 over that of 2009.

In the first quarter of 2010, the median price for single family resales in Honolulu was $590,000, a 4.4% increase from the same quarter in 2009, while condominium resales in Honolulu increased 0.8% to $301,500 compared to the same quarter in 2009. In the second quarter of 2010, the number of single family and condominium resales was up 29.0% and 43.1%, respectively, from the second quarter of 2009.

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Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(In millions of dollars)

Year	Contracting tax base 1/	Private Building Authorization 4/				Government Contracts Awarded
		Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	
			In Millions of Dollars			
1997	2,944.4	1,179.2	542.5	264.5	372.2	615.6
1998	3,016.0	1,054.3	485.5	205.6	363.2	685.1
1999	2,991.2	1,320.2	628.8	306.2	385.3	584.8
2000 3/	3,613.5	1,512.6	800.1	246.2	466.2	810.9
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002 4/	4,275.0	1,772.0	1,112.9	254.2	404.9	768.3
2003 4/	4,536.3	2,361.2	1,345.1	507.5	508.6	633.4
2004 4/	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005 4/	6,024.0	3,492.0	2,259.3	433.5	799.1	725.1
2006 4/	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007 4/	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008 4/	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009 4/	6,641.7	1,998.9	799.2	284.8	914.9	778.6
4/ 4 Qtr.	1,095.1	458.4	304.6	46.4	107.4	150.8
2004 4/ 1 Qtr.	1,143.3	780.8	542.5	107.4	130.8	256.7
4/ 2 Qtr.	1,126.0	718.9	440.5	50.8	227.6	804.1
4/ 3 Qtr.	1,345.9	597.6	366.0	73.0	158.6	187.2
4/ 4 Qtr.	1,306.3	629.3	418.7	72.1	138.5	136.6
2005 4/ 1 Qtr.	1,440.9	706.5	420.3	48.7	237.6	213.6
4/ 2 Qtr.	1,429.8	728.5	450.7	103.4	174.4	105.5
4/ 3 Qtr.	1,608.1	1,050.5	662.1	220.1	168.4	314.4
4/ 4 Qtr.	1,545.1	1,006.4	726.2	61.4	218.8	91.5
2006 4/ 1 Qtr.	1,714.7	766.2	481.1	61.1	224.0	297.2
4/ 2 Qtr.	1,677.1	908.1	451.6	160.7	295.9	174.4
4/ 3 Qtr.	1,920.2	1,051.5	460.5	206.5	384.5	220.6
4/ 4 Qtr.	1,911.3	1,044.2	418.6	303.8	321.8	161.6
2007 4/ 1 Qtr.	1,991.0	737.1	412.1	59.7	265.3	180.1
4/ 2 Qtr.	2,081.1	1,085.7	668.8	222.6	194.2	317.7
4/ 3 Qtr.	1,924.9	896.3	412.1	144.3	339.9	255.1
4/ 4 Qtr.	2,075.9	866.3	362.3	277.2	226.8	116.5
2008 4/ 1 Qtr.	1,885.1	741.1	353.2	94.0	293.9	196.2
4/ 2 Qtr.	1,977.5	1,048.5	517.4	154.7	376.5	132.8
4/ 3 Qtr.	2,095.9	690.0	346.5	132.3	211.3	351.8
4/ 4 Qtr.	2,028.6	426.8	164.5	46.2	216.2	272.0
2009 4/ 1 Qtr.	1,779.9	542.2	276.3	38.8	227.0	167.2
4/ 2 Qtr.	1,726.6	470.7	160.5	97.3	212.8	197.3
4/ 3 Qtr.	1,580.1	558.8	193.4	56.5	308.9	233.8
4/ 4 Qtr.	1,555.1	427.3	169.0	92.1	166.1	180.4
2010 4/ 1 Qtr.	1,427.0	455.3	235.4	53.1	166.9	83.1
4/ 2 Qtr.	(NA)	537.3	184.9	123.5	228.9	353.7

NA Not available.

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

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

2/ Includes hotels.

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

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

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

Table 9

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

Year	Contracting tax base 1/	Private Building Authorization 4/ Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	Government Contracts Awarded
	Percentage Change from the Same Period in Previous Year					
1997	-10.4	5.5	11.4	4.6	-1.5	-30.5
1998	2.4	-10.6	-10.5	-22.3	-2.4	11.3
1999	-0.8	25.2	29.5	48.9	6.1	-14.6
2000 3/	20.8	14.6	27.3	-19.6	21.0	38.7
2001	4.2	4.8	10.3	33.7	-19.7	-11.7
2002 4/	13.5	11.7	26.1	-22.8	8.2	7.3
2003 4/	6.1	33.3	20.9	99.7	25.6	-17.6
2004 4/	8.5	15.5	31.4	-40.2	28.9	118.6
2005 4/	22.4	28.1	27.8	43.0	21.9	-47.6
2006 4/	19.9	8.0	-19.8	68.8	53.4	17.8
2007 4/	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008 4/	-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009 4/	-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
4/ 4 Qtr.	-2.4	-8.5	2.3	-53.9	4.7	17.6
2004 4/ 1 Qtr.	1.9	19.2	66.4	-50.7	17.6	52.5
4/ 2 Qtr.	-1.2	0.3	10.6	-67.3	39.4	835.0
4/ 3 Qtr.	14.1	12.5	15.7	-17.0	25.3	-18.0
4/ 4 Qtr.	19.3	37.3	37.5	55.2	29.0	-9.4
2005 4/ 1 Qtr.	26.0	-9.5	-22.5	-54.7	81.6	-16.8
4/ 2 Qtr.	27.0	1.3	2.3	103.7	-23.4	-86.9
4/ 3 Qtr.	19.5	75.8	80.9	201.6	6.2	68.0
4/ 4 Qtr.	18.3	59.9	73.4	-14.8	57.9	-33.0
2006 4/ 1 Qtr.	19.0	8.5	14.5	25.6	-5.7	39.1
4/ 2 Qtr.	17.3	24.7	0.2	55.4	69.6	65.3
4/ 3 Qtr.	19.4	0.1	-30.4	-6.2	128.4	-29.8
4/ 4 Qtr.	23.7	3.8	-42.3	394.5	47.1	76.6
2007 4/ 1 Qtr.	16.1	-3.8	-14.3	-2.3	18.4	-39.4
4/ 2 Qtr.	24.1	19.6	48.1	38.6	-34.4	82.1
4/ 3 Qtr.	0.2	-14.8	-10.5	-30.1	-11.6	15.7
4/ 4 Qtr.	8.6	-17.0	-13.4	-8.7	-29.5	-27.9
2008 4/ 1 Qtr.	-5.3	0.5	-14.3	57.4	10.8	8.9
4/ 2 Qtr.	-5.0	-3.4	-22.6	-30.5	93.8	-58.2
4/ 3 Qtr.	8.9	-23.0	-15.9	-8.3	-37.8	37.9
4/ 4 Qtr.	-2.3	-50.7	-54.6	-83.3	-4.7	133.4
2009 4/ 1 Qtr.	-5.6	-26.8	-21.8	-58.7	-22.8	-14.8
4/ 2 Qtr.	-12.7	-55.1	-69.0	-37.1	-43.5	48.5
4/ 3 Qtr.	-24.6	-19.0	-44.2	-57.3	46.2	-33.5
4/ 4 Qtr.	-23.3	0.1	2.8	99.3	-23.1	-33.7
2010 4/ 1 Qtr.	-19.8	-16.0	-14.8	36.7	-26.5	-50.3
4/ 2 Qtr.	(NA)	14.2	15.2	26.9	7.6	79.3

NA Not available.

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

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

2/ Includes hotels.

3/ Kauai data for November consist of residential data only.

4/ Beginning in 2002 Kauai data available for residential only.

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

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	State	City & County of Honolulu	Hawaii County	Kauai County	Maui County
	In Thousands of Dollars				
1995	1,531,317	980,703	267,108	78,918	204,588
1996	1,117,760	698,697	171,017	101,981	146,065
1997	1,179,182	772,825	155,776	97,808	152,773
1998	1,054,281	624,226	178,220	88,196	163,638
1999	1,320,218	706,358	243,852	140,846	229,162
1/ 2000	1,512,601	694,223	321,704	141,313	355,360
2001	1,585,739	682,660	380,249	210,094	312,737
2/ 2002	1,772,027	876,049	449,601	172,660	273,716
2/ 2003	2,361,233	1,109,568	629,147	153,242	469,277
2/ 2004	2,726,536	1,320,552	826,494	130,659	448,831
2/ 2005	3,491,964	1,364,030	1,008,386	288,132	831,416
2/ 2006	3,770,051	1,625,328	926,019	239,294	979,412
2/ 2007	3,585,447	1,676,232	912,529	268,915	727,772
2/ 2008	2,906,578	1,481,272	704,317	277,149	443,840
2/ 2009	1,998,908	1,247,196	309,165	218,111	224,437
2000 1 Qtr.	351,834	141,703	80,178	32,445	97,507
2 Qtr.	392,906	188,425	68,330	31,016	105,134
3 Qtr.	377,419	158,598	73,099	47,603	98,120
1/ 4 Qtr.	390,442	205,497	100,097	30,249	54,598
2001 1 Qtr.	362,528	170,365	62,365	44,834	84,964
2 Qtr.	423,640	193,982	81,572	66,422	81,664
3 Qtr.	420,978	175,866	136,244	36,635	72,233
4 Qtr.	378,595	142,447	100,068	62,203	73,876
2/ 2002 1 Qtr.	336,282	157,413	83,863	40,599	54,407
2/ 2 Qtr.	437,085	204,882	110,402	56,965	64,836
2/ 3 Qtr.	497,553	250,253	148,128	29,271	69,900
2/ 4 Qtr.	501,107	263,501	107,209	45,825	84,573
2/ 2003 1 Qtr.	655,130	307,096	170,277	32,415	145,343
2/ 2 Qtr.	716,692	359,180	158,470	36,133	162,910
2/ 3 Qtr.	530,971	242,783	165,096	44,687	78,405
2/ 4 Qtr.	458,439	200,509	135,304	40,006	82,620
2/ 2004 1 Qtr.	780,750	407,757	217,871	24,331	130,791
2/ 2 Qtr.	718,866	397,720	196,694	34,962	89,489
2/ 3 Qtr.	597,587	257,839	182,630	39,979	117,139
2/ 4 Qtr.	629,333	257,236	229,300	31,386	111,411
2/ 2005 1 Qtr.	706,535	304,995	167,017	126,327	108,196
2/ 2 Qtr.	728,526	342,851	191,238	86,170	108,267
2/ 3 Qtr.	1,050,547	308,329	373,320	42,191	326,707
2/ 4 Qtr.	1,006,356	407,855	276,812	33,443	288,246
2/ 2006 1 Qtr.	766,238	299,983	257,258	28,616	180,380
2/ 2 Qtr.	908,136	406,075	217,061	70,557	214,443
2/ 3 Qtr.	1,051,476	473,556	254,057	91,856	232,007
2/ 4 Qtr.	1,044,202	445,714	197,642	48,265	352,582
2/ 2007 1 Qtr.	737,121	353,732	209,681	58,575	115,132
2/ 2 Qtr.	1,085,692	540,310	306,363	41,091	197,928
2/ 3 Qtr.	896,293	469,854	188,762	102,612	135,064
2/ 4 Qtr.	866,342	312,336	207,722	66,637	279,648
2/ 2008 1 Qtr.	741,141	309,828	243,855	79,728	107,730
2/ 2 Qtr.	1,048,550	528,685	186,956	91,645	241,264
2/ 3 Qtr.	690,037	379,567	175,904	88,683	45,883
2/ 4 Qtr.	426,849	263,191	97,602	17,094	48,963
2/ 2009 1 Qtr.	542,152	247,996	80,818	140,896	72,440
2/ 2 Qtr.	470,698	316,321	73,362	22,792	58,223
2/ 3 Qtr.	558,792	391,101	86,925	36,298	44,469
2/ 4 Qtr.	427,266	291,778	68,060	18,124	49,304
2/ 2010 1 Qtr.	455,332	302,902	98,826	16,472	37,133
2/ 2 Qtr.	537,311	371,068	100,001	12,598	53,645

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

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

Source: County building departments.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	State	City & County of Honolulu	Hawaii County	Kauai County	Maui County
	Percentage Change From The Same Period in Previous Year				
1995	-5.1	-8.6	47.5	-52.1	5.5
1996	-27.0	-28.8	-36.0	29.2	-28.6
1997	5.5	10.6	-8.9	-4.1	4.6
1998	-10.6	-19.2	14.4	-9.8	7.1
1999	25.2	13.2	36.8	59.7	40.0
1/ 2000	14.6	-1.7	31.9	0.3	55.1
2001	4.8	-1.7	18.2	48.7	-12.0
2/ 2002	11.7	28.3	18.2	-17.8	-12.5
2/ 2003	33.3	26.7	39.9	-11.2	71.4
2/ 2004	15.5	19.0	31.4	-14.7	-4.4
2/ 2005	28.1	3.3	22.0	120.5	85.2
2/ 2006	8.0	19.2	-8.2	-16.9	17.8
2/ 2007	-4.9	3.1	-1.5	12.4	-25.7
2/ 2008	-18.9	-11.6	-22.8	3.1	-39.0
2/ 2009	-31.2	-15.8	-56.1	-21.3	-49.4
2000 1 Qtr.	2.6	-32.2	59.0	-13.2	111.8
2 Qtr.	25.0	13.4	36.2	10.3	50.5
3 Qtr.	20.2	6.6	44.4	-2.0	48.4
1/ 4 Qtr.	11.9	12.7	8.0	12.9	15.8
2001 1 Qtr.	3.0	20.2	-22.2	38.2	-12.9
2 Qtr.	7.8	2.9	19.4	114.2	-22.3
3 Qtr.	11.5	10.9	86.4	-23.0	-26.4
4 Qtr.	-3.0	-30.7	0.0	105.6	35.3
2/ 2002 1 Qtr.	-7.2	-7.6	34.5	-9.4	-36.0
2/ 2 Qtr.	3.2	5.6	35.3	-14.2	-20.6
2/ 3 Qtr.	18.2	42.3	8.7	-20.1	-3.2
2/ 4 Qtr.	32.4	85.0	7.1	-26.3	14.5
2/ 2003 1 Qtr.	94.8	95.1	103.0	-20.2	167.1
2/ 2 Qtr.	64.0	75.3	43.5	-36.6	151.3
2/ 3 Qtr.	6.7	-3.0	11.5	52.7	12.2
2/ 4 Qtr.	-8.5	-23.9	26.2	-12.7	-2.3
2/ 2004 1 Qtr.	19.2	32.8	28.0	-24.9	-10.0
2/ 2 Qtr.	0.3	10.7	24.1	-3.2	-45.1
2/ 3 Qtr.	12.5	6.2	10.6	-10.5	49.4
2/ 4 Qtr.	37.3	28.3	69.5	-21.5	34.8
2/ 2005 1 Qtr.	-9.5	-25.2	-23.3	419.2	-17.3
2/ 2 Qtr.	1.3	-13.8	-2.8	146.5	21.0
2/ 3 Qtr.	75.8	19.6	104.4	5.5	178.9
2/ 4 Qtr.	59.9	58.6	20.7	6.6	158.7
2/ 2006 1 Qtr.	8.5	-1.6	54.0	-77.3	66.7
2/ 2 Qtr.	24.7	18.4	13.5	-18.1	98.1
2/ 3 Qtr.	0.1	53.6	-31.9	117.7	-29.0
2/ 4 Qtr.	3.8	9.3	-28.6	44.3	22.3
2/ 2007 1 Qtr.	-3.8	17.9	-18.5	104.7	-36.2
2/ 2 Qtr.	19.6	33.1	41.1	-41.8	-7.7
2/ 3 Qtr.	-14.8	-0.8	-25.7	11.7	-41.8
2/ 4 Qtr.	-17.0	-29.9	5.1	38.1	-20.7
2/ 2008 1 Qtr.	0.5	-12.4	16.3	36.1	-6.4
2/ 2 Qtr.	-3.4	-2.2	-39.0	123.0	21.9
2/ 3 Qtr.	-23.0	-19.2	-6.8	-13.6	-66.0
2/ 4 Qtr.	-50.7	-15.7	-53.0	-74.3	-82.5
2/ 2009 1 Qtr.	-26.8	-20.0	-66.9	76.7	-32.8
2/ 2 Qtr.	-55.1	-40.2	-60.8	-75.1	-75.9
2/ 3 Qtr.	-19.0	3.0	-50.6	-59.1	-3.1
2/ 4 Qtr.	0.1	10.9	-30.3	6.0	0.7
2/ 2010 1 Qtr.	-16.0	22.1	22.3	-88.3	-48.7
2/ 2 Qtr.	14.2	17.3	36.3	-44.7	-7.9

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

Federal Government Expenditures in Hawaii

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

In 2009, total federal government compensation of employees in Hawaii reached $8,777.6 million, an increase of 5.9% from 2008. Between 1997 and 2009, the annual average growth rate for federal government compensation of employees in Hawaii was 6.3%. According to the most recent data available, the federal government accounted for about 13.5% of State GDP in Hawaii in 2007, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the second quarter of 2010 increased 4.4% compared to the same quarter of 2009. In the first half of 2010, total earnings of federal government personnel increased 4.5% from the same period of 2009.

Banks and Other Financial Institutions

As of June 30, 2009, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $32.15 billion, a 7.52% increase from June 30, 2008. The five State-chartered banks accounted for $31.45 billion of such assets.

Transportation

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

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Facilities to accommodate sea transportation are operated at the State's system of ten harbors. These harbors are operated and maintained by the Harbors Division of the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor and Kalaeloa Barbers Point Harbor on the Island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the Island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the Island of Kauai, comprising the Kauai District; (4) Kahului Harbor and Hana Harbor on the Island of Maui, Kaunakakai Harbor on the Island of Molokai, and Kaumalapau Harbor on the Island of Lanai, comprising the Maui District. Reference is made "DEPARTMENT OF TRANSPORTATION," "THE HARBOR SYSTEM" and "SOURCES OF REVENUES" in this Official Statement for further information regarding the State's harbor system and its operations.

Air Transportation. The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas and international flights (*i.e.*, other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. HNL also has the only reef runway in the nation, which is 12,000 feet by 200 feet and is also used as an alternate landing site for the Space Shuttle. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, a newly constructed International (Sterile) Corridor with direct access to the International Arrivals Building to process passengers arriving from international destinations in compliance with U.S. Customs and Border Protection regulations, 18 inter-island and commuter positions and public parking stalls increasing from 4,579 to 6,379 vehicles as a result of a new parking structure opened in February, 2009 at HNL. HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

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

In fiscal year 2009, HNL recorded 276,272 aircraft operations as compared to 304,839 for fiscal year 2008. In addition, HNL passenger counts for fiscal year 2009 decreased from 20,808,838 in fiscal year 2008 to 17,806,225. The decreases are a reflection of the worldwide economic downturn.

Until March 31, 2008, inter-island air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. In June 2006, Mesa Air Group began inter-island service as go! Airlines. On March 20, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On March 31, 2008, Aloha Airlines ceased all passenger operations. On April 29, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's inter-island air cargo, ceased all air cargo operations and well as maintenance cleaning services. Almost immediately thereafter, such operations were taken over by Aeko Kula, Inc. (cargo) and Aloha Contract Services LLC (maintenance services). Both the bankruptcy of Aloha Airlines and the rising cost of fuel have led to decreased statewide enplanement activities of 10%, comparing May 2007 and 2008. In October 2008, Mokulele Airlines in partnership with Republic Airlines expanded its inter-island service utilizing a portion of the former Aloha Airlines hold rooms and baggage areas. Effective October 15, 2009, go! Airlines and Mokulele Airlines consolidated their operations and are operating as go! Mokulele Airlines.

The Department's airport modernization program is under way and includes significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost nearly $1.3 billion through 2016 and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

The State will host the upcoming Asian Pacific Economic Cooperation (APEC) Economic Leaders' meeting on November 12-13, 2011, which has been designated as a National Special Security Event by the U.S. Department of Homeland Security. The APEC meeting is expected to bring approximately 20,000 visitors to Honolulu and will recognize the State as a business destination.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,253.043 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.640 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 946.340 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The following table shows the motor vehicle registrations in the State for the years 2001 and 2009, inclusive.

Table 11

MOTOR VEHICLE REGISTRATION

YEAR	VEHICLES
2001	967,146
2002	987,598
2003	1,030,845
2004	1,072,211
2005	1,119,838
2006	1,127,467
2007	1,134,542
2008	1,127,567
2009	1,117,790

Source: HPMS database DOT and State of Hawaii Data Book

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2009-2010 school year, system enrollment increased from a total of 177,871 in the 2008-2009 school year to a total of 178,649 in 288 K-12 public schools. The public education system of all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in Department of Education schools and charter schools has increased.

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

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

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

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

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

In the fall of 2009, 57,945 students attended the University of Hawaii system, 20,435 of them on the Manoa Campus. In the fall of 2010, 60,090 students attended the University of Hawaii system, 20,337 of them on the Manoa Campus.

State Housing Programs

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

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

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

Office of Hawaiian Affairs and Ceded Lands

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki*"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of moneys which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, et al., Civil No. 94-0205-01 (1st Cir.) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively, the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001), that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justiciability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the Legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in *OHA I* was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation ("DOT") issued a report (the "IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 (the "DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act ("Section 340") essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5 and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior \$28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at \$15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass any bill for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which will convene in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008; i.e., approximately $200,000,000. The court entered an order denying the petition on August 18, 2010.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC," since succeeded by the Hawaii Housing Finance and Development Corporation, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States...and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009, all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General filed a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join in the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the circuit court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filed in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice and the other dissolving the June 4, 2008 injunction.

OHA also filed suit against the Hawaii Housing Authority (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the suits against them described above were filed. As more fully described under "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix B, the corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

The following is a summary of certain of the provisions of the Certificate. The summary does not purport to be complete or to follow the exact language of the Certificate and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meanings set forth in the Certificate. For the complete provisions of the Certificate and the precise wording thereof, reference should be made to the Certificate, copies of which are available upon request at the office of Bond Counsel or the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

The Capital Improvement Bonds and the 1990 Certificate Harbor Revenue Bonds referred to in the summary of the Certificate presented by this Appendix C no longer are Outstanding, and no additional Capital Improvement Bonds or 1990 Certificate Harbor Revenue Bonds will be issued. Accordingly, the references in this Appendix C to the Capital Improvement Certificate, the Capital Improvement Bonds, the Capital Improvement Special Fund, the Capital Improvement Debt Service Reserve Account, the 1990 Certificate and the 1990 Certificate Harbor Revenue Bonds no longer apply. In addition, the Certificate provides for the consolidation of the 1997 Certificate Harbor Revenue Special Fund into the Harbor Special Fund once the Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds are no longer Outstanding. Accordingly, all references to the 1997 Certificate Harbor Revenue Special Fund shall be deemed to refer to the Harbor Special Fund.

Definitions of Certain Terms (Certificate – Section 1.01)

The following are definitions in summary form of certain terms contained in the Certificate and used in this Official Statement.

"*Additional Bonds*" means, collectively, any Additional Bonds issued under and pursuant to the provisions of the Certificate and, unless the context otherwise requires, any Refunding Bonds issued under and pursuant to the provisions of the Certificate.

"*Aggregate Net Revenues*" means (A) for any period prior to the date of calculation: (i) Revenues accrued during such period (after allowance for doubtful accounts deemed appropriate by the Department), minus (ii) Operation and Maintenance Expenses accrued during such period; and (B) for any period subsequent to the date of calculation, with respect to Section 6.03 of the Certificate: (i) estimated Revenues for such period, minus (ii) estimated Operation and Maintenance Expenses for such period.

"*Aggregate Certificate Bond Service*" means, as of any date of calculation and with respect to any period, the sum of the amounts of Bond Service for all Series of Bonds, Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds for such period.

"*Bond Service*" means, as of any date of calculation and with respect to any period for any Series of Bonds, an amount equal to the sum of (i) the interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from amounts credited to the 1997 Certificate Harbor Interest Account, and (ii) that portion of the next succeeding Principal Installment for the Bonds of such Series that would have accrued during such period if each such Principal Installment were deemed to accrue daily (based on a year of 12 months each of 30 days' duration) in equal amount from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding Principal Installment due date for such Series, then from a date one year preceding the due date of such Principal Installment or from the date of delivery of the Bonds of such Series, whichever is later). Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof.

(A) The assumed interest rate on Variable Rate Bonds for purposes of this definition shall be determined as follows: (a) with respect to a Series of Variable Rate Bonds against which an Interest Rate Swap

Agreement has been executed pursuant to which the Department agrees to pay a fixed rate, the assumed interest rate will equal the fixed rate to be paid by the Department under the Interest Rate Swap Agreement and (b) with respect to any other Series of Variable Rate Bonds then outstanding or proposed to be issued the interest rate shall be assumed to be a rate equal to the long-term revenue bond index rate as published by the Bond Buyer, or other similar publication within 10 days of calculation;

(B) In determining the principal amount due in each fiscal year for any Capital Appreciation Bonds, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any mandatory sinking account payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as part of Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(C) If the Bonds are Paired Obligations, the interest rate on such Bonds shall be the resulting linked rate or effective fixed interest rate to be paid by the Department with respect to such Paired Obligations;

(D) If any Interest Rate Swap Agreement is in effect pursuant to which the Department pays a variable rate, and such swap is payable on a parity with the Bonds to which it relates (provided, however, that any termination or other cancellation payment due under the Interest Rate Swap Agreement shall be subordinate to the Bonds) no amounts payable under such interest rate swap agreement shall be included in the calculation of Bond Service unless the sum of (i) interest payable on such Bonds, plus (ii) amounts payable by the Department under such interest rate swap agreement, less (iii) amounts receivable by the Department under such interest rate swap agreement are greater than the interest payable on the Bonds to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Bonds shall be included in each calculation. For such purposes the variable amount under any such interest rate swap agreement shall be assumed to be equal to a rate equal to the assumed Revenue Bond Index-based rate, as published by *The Bond Buyer*, or other similar publication, within 10 days of calculation;

(E) If any Bonds feature an option, on the part of the Bondowners or an obligation under the terms of such Bonds, to tender all or a portion of such Bonds to the Department, or other fiduciary or agent and require that such Bonds or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any fiscal year on such Bonds, the options or obligations of the Owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which Owners of such Bonds may or are required to tender such Bonds except that any such option or obligation to tender Bonds shall be ignored and not treated as a principal maturity, if (1) such Bonds are rated in one of the two highest long-term Rating Categories by Moody's and by Standard & Poor's or such Bonds are rated in the highest short-term note or commercial paper Rating Categories by Moody's and Standard & Poor's and (2) funds for the purchase price of such Bonds are to be provided by a Support Facility and the obligation of the Department with respect to the provider of such Support Facility, other than its obligations on such Bonds (including any increased interest rate thereon), shall be subordinated to the obligations of the Department on the Bonds;

(F) For purposes of calculating annual debt service on any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed Revenue Bond Index-based rate, as published in *The Bond Buyer* or other similar publication, will be amortized in equal annual installments over a term of 30 years.

When used with reference to Capital Improvement Bonds or 1990 Certificate Harbor Revenue Bonds, "Bond Service" shall have the meaning set forth in the Capital Improvement Certificate and the 1990 Certificate, respectively.

"*Capital Appreciation Bonds*" means Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Certificate providing for the issuance of such Series and on which interest is compounded and paid at maturity or on prior redemption.

"*Capital Improvement Bonds*" means all Harbor Capital Improvement Revenue Bonds issued and Outstanding under the Capital Improvement Certificate.

"*Capital Improvement Certificate*" means the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Capital Improvement Revenue Bonds dated September 1, 1967, as amended and supplemented.

"*Capital Improvement Special Fund*" means the second separate harbor special fund created in the treasury of the State by that paragraph which begins with the word "Fifth" of Section 266-19, Hawaii Revised Statutes, prior to amendment by Act 309, Session Laws of Hawaii, Regular Session 1989 and continued pursuant to paragraph (a) of Section 266-19, Hawaii Revised Statutes, as amended.

"*Code*" means the Internal Revenue Code of 1986, as from time to time amended, and any successor statute thereto, and any Treasury regulations or proposed regulations thereunder. Any reference herein to any Section of the Code shall be deemed to refer to any amended or successor provision enacted or promulgated after the date of this Certificate, but only with respect to each particular Series of Bonds to the extent effective as to such Series.

"*Event of Default*" means any occurrence or event specified under "*Events of Default; Remedies*" below.

"*Federal Securities*" means any of the following:

(i) any direct and general obligations of, or any obligations fully and unconditionally guaranteed as to the full and timely payment of principal and interest by, the United States of America;

(ii) any obligations issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America: United States Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership); Farmers Home Administration (certificates of beneficial ownership); Federal Financing Bank; Federal Housing Administration (debentures); General Services Administration (participation certificates); Government National Mortgage Association ("GNMA") (GNMA-guaranteed mortgage-backed bonds; GNMA-guaranteed pass-through obligations); United States Maritime Administration (guaranteed Title XI financing); New Communities Debentures (United States Government guaranteed debentures); United States Public Housing Notes and Bonds (United States Government guaranteed public housing notes and bonds); and United States Department of Housing and Urban Development (project notes; local authority bonds);

(iii) any obligations of any state or political subdivision of a state (collectively, "Municipal Bonds") which Municipal Bonds are either (A) rated "Aaa" by Moody's and "AAA" by S&P (whether such rating is based upon the credit of the issuer, an insurance policy, a letter of credit or otherwise) or (B) fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bonds, and which Municipal Bonds are rated "Aaa" by Moody's and "AAA" by S&P and provided, however, that such Municipal Bonds are accompanied by (a) an opinion of Bond Counsel to the effect that such Municipal Bonds are not subject to redemption prior to the date the proceeds of such Municipal Bonds will be required for the purposes of the investment being made therein and (b) a report of an Independent Public Accountant verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bonds; and

(iv) securities commonly referred to as CATs, TIGRs, STRIPs, other certificates of direct ownership of the principal of, or interest on, direct and general obligations of the United States of America or certificates of direct ownership of the interest on obligations of the Resolution Funding Corporation, which obligations are held by a commercial bank which is a member of the Federal Reserve System in trust on behalf of the holders of the derivative product:

provided, however, that the term "Federal Securities" shall exclude unit investment trusts or mutual funds which otherwise meet the criteria set forth above in clauses (i) through (iv) unless the trust or fund is in the highest rating category of the Rating Agency.

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

"*Harbor Consultant*" means an independent person or firm or corporation who shall have a widely known and favorable reputation for special skill, knowledge and experience in methods of the development, operation and management of harbors of the approximate size and character as the properties constituting the Undertaking. The Independent Public Accountant or Consulting Engineer may be appointed as a Harbor Consultant, but the Department is not limited in its selection to such persons or entities.

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

"*Net Revenues*" means (A) for any period prior to the date of calculation, and so long as there are 1990 Certificate Harbor Revenue Bonds Outstanding or Capital Improvement Bonds Outstanding:

(i) Revenues accrued during such period (after allowance for doubtful accounts deemed appropriate by the Department), minus

(ii) deposits made from Revenues during such period to (so long as there are Capital Improvement Bonds Outstanding) the Capital Improvement Special Fund to pay debt service on the Capital Improvement Bonds (including any such deposits made during such period to restore the Capital Improvement Debt Service Reserve Account to the amount required to be credited thereto), minus

(iii) Operation and Maintenance Expenses accrued during such period, minus

(iv) deposits made during such period to the Harbor Revenue Special Fund to pay debt service on the 1990 Certificate Harbor Revenue Bonds (including any such deposits made during such period to restore the Harbor Debt Service Reserve Account to the amount required to be credited thereto);

(B) for any period prior to the date of calculation, after there are no Capital Improvement Bonds Outstanding and no 1990 Certificate Harbor Revenue Bonds Outstanding, (A)(i) minus (A)(iii);

(C) for any period subsequent to the date of calculation, and so long as there are Capital Improvement Bonds Outstanding or 1990 Certificate Harbor Revenue Bonds Outstanding:

(i) estimated Revenues for such period, minus

(ii) deposits due from Revenues for such period to (so long as there are Capital Improvement Bonds Outstanding) the Capital Improvement Special Fund to pay debt service on the Capital Improvement Bonds (including any such deposits made during such period to restore the Capital Improvement Debt Service Reserve Account to the amount required to be credited thereto), minus

(iii) estimated Operation and Maintenance Expenses for such period, minus

(iv) deposits due for such period to the Harbor Revenue Special Fund to pay debt service on the 1990 Certificate Harbor Revenue Bonds (including any such deposits estimated to be made to restore the Harbor Debt Service Reserve Account to the amount required to be credited thereto);

(D) for any period subsequent to the date of calculation, after there are no Capital Improvement Bonds Outstanding and no 1990 Certificate Harbor Revenue Bonds Outstanding, (C)(i) minus (C)(iii).

"*1990 Certificate*" means the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Revenue Bonds dated as of November 15, 1990, as amended and supplemented.

"*1990 Certificate Harbor Revenue Bonds*" means all State of Hawaii Harbor Revenue Bonds issued and Outstanding under the 1990 Certificate.

"*1997 Certificate Harbor Debt Service Reserve Account*" means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the "1997 Certificate Harbor Debt Service Reserve Account."

"*1997 Certificate Harbor Interest Account*" means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the "1997 Certificate Harbor Interest Account."

"*1997 Certificate Harbor Principal Account*" means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the "1997 Certificate Harbor Principal Account."

"*1997 Certificate Harbor Reserve and Contingency Account*" means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the "1997 Certificate Harbor Reserve and Contingency Account."

"*1997 Certificate Harbor Revenue Special Fund*" means the special fund of that name created in the Certificate.

"*Operation and Maintenance Expenses*" means the expenses of operation and maintenance of the properties constituting the Undertaking and the expenses of operation of the Department, including general administrative overhead, in connection with those properties, but excluding any (i) arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148 of the Code, (ii) depreciation expense, (iii) surcharges imposed by the State for central services expenses and (iv) Qualified Litigation Costs (defined under "*Undertaking*" below).

"*Outstanding*," when used with respect to any Bond, shall have the construction given to such word under "*Discharge of Liens and Pledges; Bonds No Longer Deemed Outstanding Under the Certificate*" below, i.e., a Bond shall not be Outstanding hereunder if such Bond is at the time not deemed to be Outstanding by reason of the operation and effect of said Section.

For purposes of the Certificate, in the event any Bonds of a Series are issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount or the compounding of interest, the amount of such Bonds deemed to be Outstanding for the purpose of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or direction or the taking of any other action that the holders of the Bonds are entitled to take pursuant to Articles X and XI of the Certificate or otherwise, shall be the Accreted Value thereof. Prior to the issuance and delivery of any Series of Bonds of the character described in this paragraph, a certificate of the Department shall be executed setting forth the Accreted Value thereof as of each Interest Payment Date for such Series of Bonds to the stated maturity date thereof, which certificate shall be conclusive in the absence of manifest error. Unless otherwise provided in the Supplemental Certificate providing for the issuance of a Series of Bonds, this paragraph shall apply only to issues with an original issue discount in excess of 5% from the par amount thereof.

When used with reference to the 1990 Certificate Harbor Revenue Bonds and the Capital Improvement Bonds, "Outstanding" shall have the meaning set forth in the 1990 Certificate and the Capital Improvement Certificate, respectively.

"*Paired Obligations*" means any Series (or portion thereof) of Bonds designated as Paired Obligations in the Supplemental Certificate or other document authorizing the issuance or incurrence thereof, which are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be redeemed (or canceled after acquisition thereof) on the same dates and in the same amounts, and (ii) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the Certificate for the terms of such Bonds.

"*Rate Covenant*" means the covenant by the State in the Certificate relating to rates and charges, which is summarized in the Official Statement under the heading "SECURITY FOR THE BONDS – Rates and Charges."

"*Reserve Requirement*" means an amount, as of any date of determination, equal to the maximum Aggregate Bond Service for any Bond Year, beginning with the Bond Year in which the date of determination occurs and ending with the Bond Year after which no Bonds are Outstanding; provided, however, the deposit to the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account from the Proceeds of any Series of Bonds shall be deemed to satisfy the Reserve Requirement if such deposit is equal to the lesser of (1) Average Annual Bond Service on such Series and (2) the amount permitted by the Code in order that the interest on such Series is excluded from gross income for federal income tax purposes.

"*Revenues*" means and includes (A) all income, revenues and moneys derived by the State from the ownership or operation of the Undertaking or the supplying and furnishing of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from rates, rentals, fees, tolls and charges assessable and chargeable by the Department in respect to dockage, wharfage, demurrage and rates appertaining to the Undertaking 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 moneys held under the Capital Improvement Certificate, the 1990 Certificate or the Certificate and the proceeds of the sale of any such investments; earnings on the investment of the proceeds of Bonds; and to the extent provided in Article VI of the Certificate, income derived by the Department or otherwise derived by the State from a Net Rent Lease (defined under "*Certain Covenants by the State – Net Rent Leases*" below); (B) income, revenues and moneys paid to the State or the Department with respect to properties that constitute part of the Undertaking on the effective date of the Certificate but are sold, leased or otherwise disposed of or transferred pursuant to the provisions of the Certificate so as to no longer constitute part of the Undertaking; and (C) any other moneys or funds deposited by the State or the Department into the Harbor Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund; provided, however, that the term "Revenues" shall not include:

(i) moneys received as proceeds from the sale of Bonds or Special Obligation Bonds;

(ii) condemnation proceeds or insurance proceeds except insurance proceeds received from rental or business interruption insurance;

(iii) grants-in-aid or similar payments received from public agencies, provided that (1) the application of such moneys is restricted to a specific purpose or (2) such grants or payments constitute a reimbursement to the State for expenditures previously made from the Harbor Special Fund, the Capital Improvement Special Fund or the 1997 Certificate Harbor Revenue Special Fund;

(iv) moneys or securities received by the State or the Department as gifts or grants, the use of which is restricted by the donor or grantor;

(v) investment income derived from any moneys or securities which may be placed in escrow or trust to defease bonds of the State, including Capital Improvement Bonds, 1990 Certificate Harbor Revenue Bonds and the Bonds;

(vi) any arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148 of the Code; and

(vii) the proceeds of any Support Facility.

"*Series 1997 Bonds*" means the State of Hawaii Harbor System Revenue Bonds, Series of 1997, being the initial Series of Bonds issued pursuant to the Certificate.

"*Sinking Fund Installment*" means, with respect to each Series of Bonds, the amount designated as such in the Supplemental Certificate authorizing such Series of Bonds. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Certificate toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

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

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

"*Undertaking*" means and includes all harbors, harbor and waterfront improvements, ports, docks, wharves, quays, bulkheads and landings and other related facilities and properties (real, personal or mixed) now belonging to or controlled by the State and under the administration, jurisdiction, control and management of the Department, and all improvements, betterments or extensions thereto hereafter constructed or acquired, except in all cases such facilities and properties as are principally used for recreation or the landing of fish (except properties located at Kewalo Basin, Ewa of Ala Moana Park, Honolulu, and its annex), and without limiting the generality of the foregoing, the term "Undertaking" shall include each and every, all and singular, the properties and facilities constructed or acquired from the proceeds of the obligations issued under the Resolution of the Board of Harbor Commissioners adopted September 18, 1950 or constructed or acquired from the proceeds of Capital Improvement Bonds, 1990 Certificate Harbor Revenue Bonds or 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 and interest of which is reimbursable, from the Harbor Special Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the Harbor Special Fund or in any other fund maintained therefrom and any settlement (negotiated, court-ordered or otherwise), judgment or order and related costs, arising from any litigation or relating to any of the foregoing properties and facilities to which the State or the Department is a party related to such properties or facilities or to which any of such properties and facilities are bound (any such settlement, judgment or order and related costs are hereinafter referred to as "Qualified Litigation Costs"); provided, however, that the term "Undertaking" shall not include:

(1) any State ferry system established, financed and maintained pursuant to Chapter 268, Hawaii Revised Statutes, or established, financed and maintained pursuant to any other law;

(2) properties sold, leased or otherwise disposed of or transferred pursuant to the provisions of the Certificate;

(3) properties subject to a Net Rent Lease except to the extent provided in Article VII of the Certificate; and

(4) properties in Kewalo Basin and Fort Armstrong to be transferred from the jurisdiction of the Department to the Hawaii Community Development Authority pursuant to Act 86, Session Laws of Hawaii, 1990.

"*Value of Investment Securities*" and words of like import means the amortized value thereof; provided, however, that all United States Treasury Obligations—State and Local Government Series shall be valued at par and those obligations which are redeemable or otherwise subject to payment (including purchase) at the option of the owner thereof shall be valued at the price at which such obligations are then redeemable, or otherwise subject to payment. The computations made under this definition shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition, "amortized value," when used with respect to a security purchased at par, means the purchase price of such security and when used with respect to a security purchased at a premium above or discount below par means, as of any subsequent date of valuation, the value obtained by dividing the total premium or discount by the number of interest payment dates remaining to maturity on any such security after such purchase and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase and (i) in the case of a security purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of a security purchased at a discount, by adding the product thus obtained to the purchase price.

"*Variable Rate Bonds*" means any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof, based upon an index or otherwise calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For the purposes of this definition, Bonds shall not be considered to be Variable Rate Bonds upon the establishment of or conversion of the rate of interest thereon to a fixed interest rate.

Additional Bonds and Refunding Bonds (Certificate – Sections 4.02, 4.03 and 4.04)

Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds. The Department at any time and from time to time may authorize the issuance of one or more Series of additional Bonds ("Additional Bonds") or refunding Bonds ("Refunding Bonds") payable from the 1997 Certificate Harbor Revenue Special Fund on a parity with the Series 1997 Bonds and any Additional Bonds or Refunding Bonds then Outstanding and equally and ratably secured therewith, upon compliance with the following conditions:

1. The issuance of the Additional Bonds or Refunding Bonds shall have been authorized by law and are issued under and pursuant to a Supplemental Certificate.

2. In the case of the issuance of Additional Bonds, upon compliance with the additional conditions summarized below.

3. In the case of the issuance of Refunding Bonds, upon compliance with the additional conditions summarized below.

Nothing in the Certificate shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Department from issuing Variable Rate Bonds, Capital Appreciation Bonds, Paired Obligations or entering into an Interest Rate Swap Agreement. The Supplemental Certificate providing for the issuance of Variable Rate Bonds, Balloon Bonds (as defined in the Certificate), Capital Appreciation Bonds or Paired Obligations may provide for, without limitation, the following: Support Facilities or alternative Support Facilities and Support Agreements in connection therewith; Remarketing Agreements and the appointment of Remarketing Agents; the appointment of tender agents to accept mandatory or optional tenders of Variable Rate Bonds; the payment, redetermination and accrual over specified periods of interest or Accreted Value; the establishment, use, composition, adjustment and change-of-interest indices or modes or the establishment and use of alternative interest indices or modes or the establishment of a fixed interest rate or rates; the establishment of special funds and accounts in connection with the issuance of Variable Rate Bonds, Capital Appreciation Bonds or Paired Obligations; special redemption or purchase provisions for such Variable Rate Bonds and notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Bonds; and any other terms and provisions not in conflict with the Certificate.

Additional Conditions for the Issuance of Additional Bonds. Each of the following conditions, in addition to those set forth above, shall be met upon the issuance of Additional Bonds:

a. Such Bonds shall be issued only for the purpose of the payment or reimbursement of the cost of the acquisition or construction of properties to constitute part of the Undertaking or the making of additions to, expansions of, improvements of, renewals of, replacements of, or reconstructions of, the Undertaking or of properties which shall constitute part of the Undertaking (including, without limitation, any Qualified Litigation Costs, as defined in the Certificate);

b. The Supplemental Certificate providing for the issuance of such Bonds shall provide that any accrued interest received upon the sale of said Bonds or any interest capitalized from the proceeds of said Bonds shall be paid into the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Interest Account;

c. At the time of the issuance of such Additional Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bond, any 1990 Certificate Harbor Revenue Bond or any Capital Improvement Bond; no deficiencies exist in the Harbor Special Fund, the Capital Improvement Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund; the Rate Covenant is satisfied currently without regard to provisions concerning curative action; and there does not exist an Event of Default or a condition which upon the passage of time would constitute an Event of Default;

d. The Aggregate Net Revenues as derived from the most recent audited financial statements or for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the Department of the Supplemental Certificate authorizing the issuance of such Additional Bonds (the "Designated Period"), as certified by the Independent Public Accountant, are at least equal to (i) one and twenty-five hundredths (1.25) times the Aggregate Certificate Bond Service for any future Fiscal Year on all Bonds, 1990 Certificate Harbor Revenue Bonds and Capital Improvement Revenue Bonds to be Outstanding after the issuance of such Additional Bonds, or (ii) one (1.00) times the Aggregate Certificate Bond Service for any future Fiscal Year on all Bonds, 1990 Certificate Harbor Revenue Bonds and Capital Improvement Revenue Bonds to be Outstanding after the issuance of such Additional Bonds and the sum of (1) the Aggregate Net Revenues for the Designated Period, as certified by the Independent Public Accountant and as adjusted as thereinafter required, and (2) the Anticipated Net Revenue Increase (hereinafter defined), if any, is at least equal to one and twenty-five hundredths (1.25) times the Aggregate Certificate Bond Service for any future Fiscal Year on all Bonds, 1990 Certificate Harbor Revenue Bonds and Capital Improvement Revenue Bonds to be Outstanding after the issuance of such Additional Bonds; and

e. Upon the delivery of any Series of Additional Bonds there shall be on deposit in the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement, provided that the Supplemental Certificate providing for the issuance of such Series of Additional Bonds may provide that part of the proceeds thereof shall be paid into the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account.

For the purposes of making the determinations required by clause (ii) of paragraph d. above:

A. In the event that at any time during the Designated Period the State acquired existing properties which at the time of such acquisition were used for harbor purposes and if the State shall have title to and possession of such properties on the day of such delivery and such properties shall constitute part of the Undertaking on such day, or in the event that any existing properties are to be acquired by the State from the proceeds of the Additional Bonds proposed to be issued, which properties at the time of such acquisition are used for harbor purposes, then in either event (or in both events) the Aggregate Net Revenues as determined by the Independent Public Accountant for the Designated Period shall be increased or decreased by the Harbor Consultant to reflect the revenues (if any) which would have been derived by the Department from, and the costs of operation and maintenance which would have been incurred by the Department with respect to, such properties during the said period and otherwise adjusted if necessary, so as to reflect the result had such properties been operated by the Department as part of the Undertaking throughout the Designated Period;

B. In the event that at any time prior to the day of the delivery of the proposed Additional Bonds, or in the event that during the month in which such Additional Bonds are to be delivered (but prior to such delivery), the Department has imposed increases in its schedule of rentals, rates, fees, tolls and charges, which increases are or shall be in effect upon the delivery of such Additional Bonds, the Aggregate Net Revenues for the aforesaid period may be adjusted by the Harbor Consultant to reflect the results had such increased rates been in effect throughout such entire period; and

C. "Anticipated Net Revenue Increase" means such increase in Aggregate Net Revenues as estimated by the Harbor Consultant for such period the Harbor Consultant deems reasonable and taking into account such factors as such consultant deems pertinent, including, without limitation, (1) of construction of additional facilities to constitute part of the Undertaking (including in the word "construction" the making of additions and expansions to or renovations or reconstructions of existing facilities constituting part of the Undertaking, or the acquisition of properties not theretofore used for harbor purposes which are to constitute part of the Undertaking) and (2) the Rate Covenant.

Additional Conditions for the Issuance of Refunding Bonds. The following conditions, in addition to those set forth above, shall be met upon the issuance of Refunding Bonds: Refunding Bonds may be issued to refund prior to maturity all or part of the Capital Improvement Bonds, the 1990 Certificate Harbor Revenue Bonds or the Outstanding Bonds, including therein amounts to pay principal, redemption premium and interest to the redemption date on the Bonds, the 1990 Certificate Harbor Revenue Bonds or Capital Improvement Bonds to be refunded, which Bonds, 1990 Certificate Harbor Revenue Bonds or Capital Improvement Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds, provided (1) at the time of the issuance of such Refunding Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bonds, 1990 Certificate Harbor Revenue Bonds or Capital Improvement Bonds; no deficiencies exist in the Harbor Special Fund, the Capital Improvement Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund; the Rate Covenant is satisfied currently without regard to provisions concerning curative action, and there does not exist an Event of Default or a condition which upon the passage of time would constitute such an Event of Default; (2) the aggregate of the Bond Service on such Refunding Bonds shall be less than the aggregate of the Bond Service on the Capital Improvement Bonds, 1990 Certificate Harbor Revenue Bonds or Bonds to be refunded were such refunding not to occur; and (3) upon the delivery of such Refunding Bonds there shall be on credit to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement.

Nothing in the Certificate shall be deemed to apply to or construed to prevent a refunding at one time of all Bonds then Outstanding.

Nothing in the Certificate shall prevent the Department from issuing Additional Bonds without compliance with the provisions for issuance of Refunding Bonds, for the purpose of refunding all or any portion of Outstanding Bonds, 1990 Certificate Harbor Revenue Bonds or Capital Improvement Bonds.

Allocation and Application of Revenues (Certificate – Section 5.01.)

There is created the 1997 Certificate Harbor Revenue Special Fund, which shall be comprised of the following accounts: 1997 Certificate Harbor Interest Account, 1997 Certificate Harbor Principal Account, 1997 Certificate Harbor Debt Service Reserve Account and Harbor Reserve and Contingency Account.

The Revenues deposited or to be deposited into the 1997 Certificate Harbor Revenue Special Fund shall be applied, used and disposed of as follows, and in the following order of priority:

FIRST: for Operation and Maintenance Expenses;

SECOND: for credit to the following accounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

a. 1997 Certificate Harbor Interest Account;

b. 1997 Certificate Harbor Principal Account; and

c. 1997 Certificate Harbor Debt Service Reserve Account;

THIRD: for any other purpose within the jurisdiction, powers, duties and functions of the Department related to the Undertaking, including, without limitation, Operation and Maintenance Expenses, acquisitions (including real property and interests therein), constructions, additions, expansions, improvements, renewals, replacements, reconstruction, engineering, investigation, and planning for the Undertaking, and Qualified Litigation Costs, all or any of which in the judgment of the Department are necessary to the performance of its duties or functions;

FOURTH: to reimburse the general fund of the State for Reimbursable General Obligation Bonds;

FIFTH: for deposit into the 1997 Certificate Harbor Reserve and Contingency Account;

SIXTH: to provide funds for other special reserve funds and other special funds as may be created by law; and

SEVENTH: all or any portion of available moneys on deposit in the 1997 Certificate Harbor Revenue Special Fund, after satisfying the requirements of priority items FIRST through FIFTH above, determined by the Director of Transportation to be in excess of 150% of the requirements for the ensuing 12 months for the 1997 Certificate Harbor Revenue Special Fund may be transferred from the 1997 Certificate Harbor Revenue Special Fund as permitted by and in accordance with Sections 37-53 and 266-19, Hawaii Revised Statutes, as amended, or any successor statute thereto.

At such time as there are no longer any Capital Improvement Bonds Outstanding, the Capital Improvement Special Fund and the Harbor Revenue Special Fund shall be consolidated into the Harbor Special Fund, all references therein to the Harbor Revenue Special Fund shall be deemed to refer to the Harbor Special Fund, and the Revenues shall continue to be deposited into the Harbor Special Fund.

At such time as there are no longer any 1990 Certificate Harbor Revenue Bonds Outstanding, the 1997 Certificate Harbor Revenue Special Fund shall be consolidated into the Harbor Special Fund, all references therein to the 1997 Certificate Harbor Revenue Special Fund shall be deemed to refer to the Harbor Special Fund, and the Revenues shall continue to be deposited in the Harbor Special Fund.

1997 Certificate Harbor Interest Account. (Certificate – Section 5.02.) The moneys credited to the 1997 Certificate Harbor Interest Account shall be disbursed solely for the purpose of paying interest on the Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Bonds, if any, is provided for from the proceeds of a Series of Bonds, (a) with respect to each Series of Bonds (other than Variable Rate Bonds which have Interest Payment Dates occurring at intervals of one month or less), commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Bonds of such Series are Outstanding, the Department shall credit to the 1997 Certificate Harbor Interest Account from amounts on deposit in the 1997 Certificate Harbor Revenue Special Fund an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Bonds on such Interest Payment Date or the amount required to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment thereof; and (b) with respect to Variable Rate Bonds which have Interest Payment Dates occurring at intervals of one month or less, on the first Business Day of the month prior to each Interest Payment Date the Department shall credit to the 1997 Certificate Harbor Interest Account from amounts on deposit in the 1997 Certificate Harbor Revenue Special Fund the amount required, together with other funds available therefor credited to such account, to pay, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of, the interest payable on such Interest Payment Date or Dates on the Outstanding Variable Rate Bonds. In making the credits to the 1997 Certificate Harbor Interest Account required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Bonds, and for interest capitalized from the proceeds of a Series of Bonds (which accrued or capitalized interest shall in each case be deposited in the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Interest Account), and for any other credits otherwise made to said account, Variable Rate Bonds shall be assumed to bear interest at the assumed interest rate as determined pursuant to subparagraph (A) of the definition of "Bond Service," and monthly credits made with respect to Variable Rate Bonds shall be adjusted to the extent possible to reflect the actual interest rate on Variable Rate Bonds in the preceding month so that, as of any Interest Payment Date, the amount available is sufficient to pay the interest then due; provided, however, that any payments to a Support Provider pursuant to a Support Agreement as Holder of a Bond which are in excess of the stated rate of interest on such Bond, whether denominated additional interest, penalty rate or otherwise, shall not constitute interest for purposes of this paragraph.

1997 Certificate Harbor Principal Account. (Certificate – Section 5.03.) In the event of the issuance of any Series of Bonds under the Certificate maturing at times customarily known as maturing serially, in order to provide for the payment of principal of such Bonds of such Series, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Bonds maturing serially and in each month thereafter so long as any of such Bonds so maturing are Outstanding, there shall be credited to the 1997 Certificate Harbor Principal Account an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding each such next principal payment date be equal to the principal amount of said Bonds becoming due on such principal payment date.

In the event of the issuance of any Series of Bonds under the Certificate in the form customarily known as "term bonds," for the purpose of retiring such Bonds, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such term Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Bonds is due, and in each month thereafter so long as any of such Bonds are Outstanding, there shall be credited to the 1997 Certificate Harbor Principal Account from amounts on deposit in the 1997 Certificate Harbor Revenue Special Fund an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment falls due be sufficient to redeem the term Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the 1997 Certificate Harbor Principal Account for the purpose of providing for the retirement of Bonds issued in the form of term bonds shall be applied by the Director of Finance, without further authorization or direction, to the redemption of the Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Bonds with the second Sinking Fund Installment for each such Series, semiannually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment dates. The Director of Finance shall give notice of all such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the 1997 Certificate Harbor Principal Account for the retirement of term Bonds of a Series to the purchase of said Bonds; provided, however, that no Bonds shall be purchased during the interval between the date on which notice of redemption of said Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Bonds so purchased are Bonds called for redemption in such notice or are purchased from moneys other than those credited to the 1997 Certificate Harbor Principal Account for such Series, and provided, further, that no purchases of Bonds shall be made if such purchase would require the sale at a loss of securities credited to the 1997 Certificate Harbor Principal Account unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor is greater than the loss upon the sale of any such securities. Any purchase of Bonds pursuant to this paragraph may be made with or without tenders of

Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. All Bonds purchased or redeemed pursuant to this paragraph shall be canceled and not reissued.

If the principal amount of Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking Fund Installments, such excess or the principal amount of Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a Certificate of the Director of Transportation and delivered to the Registrar on or prior to the forty-fifth day preceding the next Sinking Fund Installment due date established for such Bonds.

1997 Certificate Harbor Debt Service Reserve Account. (Certificate – Section 5.05.) The 1997 Certificate Harbor Debt Service Reserve Account shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Bonds for the payment of which there shall be insufficient money in the 1997 Certificate Harbor Interest Account or 1997 Certificate Harbor Principal Account. The Reserve Requirement shall be determined at the time of issuance of a Series of Bonds, July 1 of each year, at the time any Variable Rate Bonds of a Series cease to be Variable Rate Bonds, and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Bonds.

Subject to the remaining provisions of this paragraph, (a) if at any time during a Fiscal Year the moneys on credit to the 1997 Certificate Harbor Debt Service Reserve Account are less than the Reserve Requirement (including any deficiency in a Support Facility used to fund all or a portion of the Reserve Requirement), the amount of the deficiency shall be restored from the first available Net Revenues; (b) if at the end of any Fiscal Year, the moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account are less than the Reserve Requirement, the Department shall (after making the deposits and credits required by the Certificate) credit an amount to the 1997 Certificate Harbor Debt Service Reserve Account from Net Revenues on deposit in the 1997 Certificate Harbor Revenue Special Fund so that there shall then be credited to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement; (c) if the deficiency in the 1997 Certificate Harbor Debt Service Reserve Account is due to the application of moneys credited thereto to pay principal of or interest on a Series of Bonds, then in each month, commencing with the month which follows the month in which such application is made from the 1997 Certificate Harbor Debt Service Reserve Account, the Department shall (after making the required deposits and credit) credit from the Net Revenues on deposit in the 1997 Certificate Harbor Revenue Special Fund to the 1997 Certificate Harbor Debt Service Reserve Account an amount which, if the same amount were so credited in each month thereafter until the day which is 60 months from the making of the first of such credits, there shall be credited to such account on such day an amount not less than the Reserve Requirement; and (d) if at any time and for so long as the moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account are at least equal to the Reserve Requirement, no further credits shall be made to the account, and any amounts in excess of the Reserve Requirement may be retained in the 1997 Certificate Harbor Revenue Special Fund for use and application as are all other moneys on deposit therein.

When a Series of Bonds is refunded in whole or in part or is otherwise paid so that all of the Bonds of such Series are no longer Outstanding, moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account may be withdrawn from the 1997 Certificate Harbor Revenue Special Fund to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Bonds issued to refund such refunded Bonds, provided that immediately after such withdrawal or transfer there shall be on credit to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement.

In lieu of the credit of moneys to the 1997 Certificate Harbor Debt Service Reserve Account, the Department may cause to be so credited a surety bond or an insurance policy payable to the Department for the benefit of the Holders of the Bonds of a Series or a letter of credit in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the 1997 Certificate Harbor Debt Service Reserve Account. In the event a surety bond, insurance policy or letter of credit is secured to satisfy a portion of the Reserve Requirement allocable to a Series of Bonds, so long as such surety bond, insurance policy or letter of credit is in effect, the Owners of such Series of Bonds shall not be entitled to payment from or a lien on the funds on deposit in the 1997 Certificate Harbor Revenue Special Fund credited to the 1997 Certificate Harbor Debt Service Reserve Account to satisfy that portion of the Reserve Requirement allocable to other Series of Bonds, nor shall the Owners of Bonds of such other Series be entitled to any payment from such surety bond, insurance policy or letter of credit. The surety bond, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be applied from the 1997 Certificate Harbor Debt Service Reserve Account to the payment of the principal of or interest on any Bonds of such Series and such withdrawals may not be made from amounts credited to the 1997 Certificate Harbor Debt Service Reserve Account for such other Series of Bonds. Prior to the use of a surety bond, insurance policy or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of issuance of the Series 1997 Bonds), the Department shall receive written confirmation from the Rating Agency that the rating on the Bonds Outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, insurance policy or letter of credit provided pursuant to this paragraph, the Department shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to credit to the 1997 Certificate Harbor Debt Service Reserve Account, funds in the amount of the disbursement made under such surety bond, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the 1997 Certificate Harbor Debt Service Reserve Account allocable to a Series of Bonds equals that portion of the Reserve Requirement allocable to such Series; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period permitted by clause c. under "*Events of Default; Remedies – Events of Default*" below. Notwithstanding the provisions of said clause c., the Department shall not permit any surety bond, insurance policy or letter of credit which has been established in lieu of a deposit into the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy or letter of credit.

1997 Certificate Harbor Reserve and Contingency Account. (Certificate – Section 5.06.) Moneys on credit to the 1997 Certificate Harbor Reserve and Contingency Account may be used (i) to make up any deficiency with respect to any Series of Bonds, Capital Improvement Bonds or 1990 Certificate Harbor Revenue Bonds in the 1997 Certificate Harbor Interest Account, the 1997 Certificate Harbor Principal Account and the 1997 Certificate Harbor Debt Service Reserve Account, (ii) to the extent not used to make up any such deficiencies and to the extent all other legally available moneys have been applied, moneys on credit to the 1997 Certificate Harbor Reserve and Contingency Account may be used for any other purpose within the jurisdiction, powers, duties and functions of the Department related to the Undertaking and (iii) to the extent not required pursuant to clauses (i) and (ii) above, moneys on credit to the 1997 Certificate Harbor Reserve and Contingency Account in excess of 25% of the maximum Aggregate Certificate Bond Service due in any future fiscal year may be transferred out of the 1997 Certificate Harbor Reserve and Contingency Account and applied in any legally permissible manner.

Investment of Moneys in Funds and Accounts. (Certificate – Section 5.07.) Moneys in the 1997 Certificate Harbor Revenue Special Fund credited to the 1997 Certificate Harbor Interest Account and the 1997 Certificate Harbor Principal 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 maturity or upon the redemption thereof. Moneys in the 1997 Certificate Harbor Revenue Special Fund on credit to the 1997 Certificate Harbor Debt Service Reserve Account therein shall be invested by the Director of Finance in Federal Securities so as to mature within five 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 thereby 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 Section 5.07 of the Certificate shall be treated as Revenues; 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.

All moneys in the 1997 Certificate Harbor Revenue Special Fund, the investment of which is not provided for in Section 5.07 of the Certificate, 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 or 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 1997 Certificate Harbor Special Fund, or any fund or account therein, which may be required for the purposes of the Certificate, the Value of Investment Securities shall be determined at the time of any withdrawal therefrom and as of July 1 of each year.

The Department will maintain records to enable it to cause to be made the computations necessary to determine whether a Series of Bonds the interest on which is excludable from gross income for federal income tax purposes meets the requirements of Section 148 of the Code, including, but not limited to, records showing the dates and amounts of all investments of funds credited to the 1997 Certificate Harbor Interest Account, the 1997 Certificate Harbor Principal Account and the 1997 Certificate Harbor Debt Service Reserve Account and the dates and amounts of the receipts of the earnings, sales proceeds and maturities of such investments.

Certain Covenants by the State

The Rate Covenant is summarized in this Official Statement under the heading "SECURITY FOR THE BONDS – Rates and Charges." As to certain other subjects, summaries of the State's covenants follow:

Accounts – Independent Public Accountant. (Certificate – Section 6.06.) The Department shall maintain and keep, or cause to be maintained and kept, proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking. Such accounts shall show the amount of the Revenues and the application of such Revenues to the purposes specified in the Certificate and in the Capital Improvement Certificate and the 1990 Certificate and all financial transactions in connection therewith, including all deposits into and disbursements from the Harbor Special Fund, the Harbor Capital Improvement Special Fund, the Harbor Revenue Special Fund and the 1997 Certificate Harbor Revenue Special Fund.

The Department shall cause its accounts to be audited by an accountant (the "Independent Public Accountant") employed by it, such period of appointment or employment to be from year to year. Such Independent Public Accountant shall be selected with special reference to his general knowledge, skill and experience in auditing books and accounts and shall be a certified or licensed accountant or firm of certified or licensed accountants who, or each of whom, is in fact independent and not under the domination of the State (including the Department) and who, or each of whom, is not connected with the State (including the Department) as an officer or employee thereof, but who may be regularly retained to make annual or similar audits of any of the books of the State (including the Department). Such audit shall be made annually and shall be completed within 270 days after the close of each Fiscal Year, shall set forth the items required to determine compliance with the Rate Covenant and shall include a detailed statement of the Revenues and the expenditure and application thereof for such year and a detailed balance sheet of the Undertaking as of the close of such year, including therein a statement of the Harbor Special Fund, the Capital Improvement Special Fund and accounts therein, the Harbor Revenue Special Fund and accounts therein and the 1997 Certificate Harbor Revenue Special Fund and accounts therein, and be accompanied in writing by a certificate of the Independent Public Accountant. Each such audit shall certify as to the correctness of the schedules contained in the audit report. A copy of each such annual audit shall be filed with the Director of Finance and shall be open for public inspection and shall be mailed to any Holder of the Bonds filing with the Department a request for same. The cost of any such audit shall be an Operation and Maintenance Expense.

Consulting Engineer. (Certificate – Section 6.07.) The Department shall appoint and retain from time to time a Consulting Engineer who shall be an independent engineer or engineers, engineering firm or corporation having a national and favorable reputation for skill and experience in respect to development, operation and management of harbor facilities and who, or each of whom, shall be paid by the Department but shall in fact be independent and not under the domination of the State (including the Department) and who, or each of whom, shall not be connected with the State (including the Department) as an officer or employee thereof, but who may be regularly retained to make triennial or other periodic reports to the State (including the Department) as to other properties thereof. The Consulting Engineer shall be available to advise the Department upon request and to make such investigations and determinations as may be necessary from time to time under the provisions of the Certificate. The Consulting Engineer shall once in every third Fiscal Year make an examination of and report on the operations of the Undertaking, such report to include recommendations as to amounts to be accumulated in the 1997 Certificate Harbor Reserve and Contingency Account created in the 1997 Certificate Harbor Revenue Special Fund and as to any changes in the operation and maintenance of the properties constituting the Undertaking, including changes required in the schedule of rates, rents, fees or other charges for the use of the Undertaking in order to produce the amount of Revenues required to be produced by the Rate Covenant. A copy of each such report shall be filed in the office of the Director of Finance, and a copy shall be forwarded to any Holder of Bonds filing a request therefor with the Department. The cost to the Department of the Consulting Engineer shall be an Operation and Maintenance Expense.

For purposes of determining compliance with the Rate Covenant, satisfaction of the requirements for the issuance of Additional Bonds, and certain other matters, the Department is authorized to use a Harbor Consultant, which may be the Independent Public Accountant or Consulting Engineer.

Insurance. (Certificate – Section 6.09.) The Department will carry, or cause to be carried, insurance with generally recognized responsible insurers with policies payable to the Department against such risks, accidents or casualties and in such amounts as the Department determines to be prudent. Any insurance carried by the Department may be procured and maintained as part of or in conjunction with any other policy or policies carried by it or by the State. The Department and the State may be self-insured and establish special funds for self-insurance. The Department shall seek advice and counsel from time to time from the State Risk Management staff or their consultants to advise and assist the Department with respect to the insurance program of the Undertaking, and the Department shall take into consideration the advice of such persons in the placement of insurance and the establishment of any self-insurance fund or funds.

The proceeds of all insurance, to the extent the same shall be paid directly to the Department, shall be held by the Department under and subject to the Capital Improvement Certificate, the 1990 Certificate and the Certificate and applied as follows: (i) the proceeds of property insurance shall be deposited in the treasury of the State and held as a special trust fund, separate and apart from all other funds and moneys, to the end that such proceeds of insurance shall be applied to the reconstruction, restoration or replacement of the properties of the Undertaking damaged or destroyed; (ii) the proceeds of rental or business interruption insurance shall be deposited in the 1997 Certificate Harbor Revenue Special Fund for use and application as are all other moneys deposited in that fund; and (iii) the proceeds of personal injury insurance and any worker's compensation insurance shall be held separate and apart in the 1997 Certificate Harbor Revenue Special Fund and applied toward extinguishing or satisfying or remedying the liability or loss with respect to which such proceeds may be paid.

The Department will, with respect to each such loss, promptly and with all reasonable dispatch, repair, restore, reconstruct or replace the property damaged or destroyed or replace the same with other revenue-producing property or facilities to constitute part of the Undertaking, insofar as the same may be accomplished from proceeds of insurance carried pursuant to clause (i) above, to the extent necessary to the proper conduct of the operation of the business of the Undertaking and in any event so that the Undertaking shall possess at least the same revenue-producing capability as existed prior to the damage and shall apply the proceeds of any insurance policy or policies or self-insurance fund or funds covering such damage or loss for that purpose to the extent required therefor. Notwithstanding the foregoing provisions of this paragraph, no repair, restoration, reconstruction or replacement shall be required if the Department finds that repair, restoration, reconstruction or replacement of the damaged or destroyed property is not in the best interest of the Department and, based on a certificate of the Harbor Consultant, that the failure to repair, restore, reconstruct or replace the damaged or destroyed property will not cause the Revenues in any future Fiscal Year to be less than an amount sufficient to enable the Department to comply with all covenants and conditions of the Capital Improvement Certificate, the 1990 Certificate and the Certificate or impair the security or the payment of the Capital Improvement Bonds, the 1990 Certificate Harbor Revenue Bonds and the Bonds. Any proceeds of any insurance policy or policies or self-insurance fund or funds not required for the purpose of repair, reconstruction, restoration or replacement as aforesaid shall be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited in that fund.

The cost to the Department of all insurance so required by the Certificate shall constitute an Operation and Maintenance Expense.

Annual Budget. (Certificate – Section 6.10.) The Department shall prepare and file with the proper officers of the State, at the time and in the manner prescribed by law, an estimated budget of Revenues and Operation and Maintenance Expenses, Bond Service, capital improvements and any other proposed expenditures for the Undertaking for each Fiscal Year, which budgets shall be open to inspection by any Holder of Bonds or other interested party.

Not To Alienate Ownership, Operation, Management and Control of Undertaking; Disposition of Worn-Out or Useless Property; Right To Alienate Certain Properties for Noncompetitive Uses. (Certificate – Section 6.11.) The State, whether acting by and through the Department or otherwise, will not sell, lease or otherwise dispose of any properties constituting part of the Undertaking, nor take any action or cause any action to be taken, to alienate from the State the ownership, management and control of the Undertaking and any and all properties constituting a part thereof, including any land or rights in land comprising the site thereof or necessary to the use or operation thereof, unless simultaneously with any such sale, lease, disposition or alienation due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or there is paid into, or due and adequate provision is made for the paying into, the treasury of the State for deposit in a separate fund therein, of an amount of cash sufficient to retire, and to pay the interest to accrue prior to such retirement on, all Bonds then Outstanding, together with any premium upon the redemption thereof; provided, however, that (i) the provisions of this Section shall not be deemed to prohibit, or construed as prohibiting, the leasing in the normal and customary course of business according to the schedule of rates, rentals and charges of the Department, of properties constituting the Undertaking, which rates, rentals and charges shall be part of the Revenues and which properties shall remain part of the Undertaking, but any such leasing shall be subject to the rights of the Holders of the Bonds and all the provisions of the Certificate; (ii) the State, whether acting through the Department or otherwise, may from time to time sell, lease or otherwise dispose of any portion of the Undertaking (including any real and personal property comprising a part thereof) which the Department has determined has become unserviceable, inadequate, obsolete, worn-out or unfit to be used, or no longer required for use, in connection with the operation of the Undertaking or the maintenance of the Revenues therefrom; (iii) the State, whether acting through the Department or otherwise, may transfer to any other department, board, bureau, agency or other subdivision of the State or to any city, county or other municipal corporation in the State or any department, board, bureau, agency or other subdivision thereof, or to any nonprofit corporation or association, any property constituting part of the Undertaking and such property shall thereafter no longer constitute part of the Undertaking and any moneys derived therefrom shall no longer constitute part of the Revenues under clause (A) of the definition thereof, and such property may be sold, leased or otherwise disposed of as the transferee thereof may determine, if (a) the use thereafter to be made of such property after such transfer is noncompetitive with the Undertaking and (b) in the opinion of the Harbor Consultant such transfer will not reduce the Revenues below the amount required to be produced the Rate Covenant without any increase in the schedule of rates, rents, fees and charges then in effect for the Undertaking or if in the opinion of the Harbor Consultant such transfer would reduce the Revenues below the amount required to be produced in accordance with the Rate Covenant, due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or due and adequate provision is made for the payment into the 1997 Certificate Harbor Revenue Special Fund in each year in which any of the Bonds remain Outstanding of an amount equal to the difference between the Revenues produced in each such year and the amount of Revenues required to be produced in such year in accordance with the Rate Covenant; and (iv) the State, whether acting through the Department or otherwise, may from time to time sell, transfer or otherwise dispose of any property constituting part of the Undertaking and such property shall thereafter no longer constitute part of the Undertaking and any moneys derived therefrom shall no longer constitute part of the Revenues under clause (A) of the definition thereof, and such property may be sold, leased or otherwise disposed of as the transferee may determine, if (a) the proceeds of any such sale or transfer are deposited in the 1997 Certificate Harbor Revenue Special Fund as security for the payment of all Bonds then Outstanding, (b) in the opinion of the Harbor Consultant such sale, transfer or other disposition will not reduce Aggregate Net Revenues below the amount equal to one and twenty-five hundredths (1.25) times the amount required to be produced by the Rate Covenant without any increase in the schedule of rates, rents, fees and charges then in effect for the Undertaking and (c) the Department shall receive written confirmation from the Rating Agency that the rating on the Bonds Outstanding as then in effect shall not be reduced as a result of such sale, transfer or disposition. For the purposes of the provisos numbered (iii) and (iv) to the preceding sentence, the Harbor Consultant may assume that all parties to contractual or other agreements will comply with the terms and provisions of such contracts or agreements, including any commitment to pay amounts into the 1997 Certificate Harbor Revenue Special Fund, and any transfer of property to the University of Hawaii or other educational institution for use by it for oceanographic research and study (including therein any such research or study for which such institution may receive income or compensation) shall be considered to be noncompetitive.

Not To Dilute Security for the Bonds. (Certificate – Section 6.12.) Unless, and only while and so long as, due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or due and adequate provision is made for the payment into the 1997 Certificate Harbor Revenue Special Fund for use and application in accordance with the provisions of the Certificate the same as all other moneys deposited in that fund, in each year while any of the Bonds remain Outstanding, from moneys lawfully available therefor other than the Revenues, of amounts which when added to the Revenues paid into the 1997 Certificate Harbor Revenue Special Fund in such year, will at least equal the amount of Revenues required to be produced in such year in accordance with the provisions of the Rate Covenant, the State, whether acting by and through the Department or by and through any other department, bureau, board or other agency thereof, shall not own, engage in, erect, construct, maintain or operate any harbors, ports, docks, wharves, piers, warehouses or other waterfront or harbor facilities and improvements of a commercial nature (excluding properties principally used for recreation or the landing of fish, except properties located at Kewalo Basin, Ewa of Ala Moana Park, Honolulu, and its annex) which are competitive with the Undertaking unless the income derived therefrom constitutes part of the Revenues, to be deposited, used and applied as are all other Revenues, in which event such properties and facilities may constitute part of the Undertaking; provided, however, that nothing in this Section shall be construed as prohibiting the State from retaining or placing under the management and control of some department board, bureau or agency other than the Department, harbor properties and facilities constituting or to constitute a Foreign Trade Zone within the meaning of Chapter 212, Hawaii Revised Statutes, so long as in the opinion of the Harbor Consultant the operations of such Foreign Trade Zone are noncompetitive with the Undertaking, or if in the opinion of the Harbor Consultant the operations of the same are at any time competitive with the Undertaking, either (i) all income derived with respect to such properties through the loading or unloading of cargo from vessels or from wharfage or from harbor fees or demurrage or other fees and charges normally and customarily paid as part of the loading and unloading of cargo and which would normally accrue to or be under the administration and control of the Department constitutes by law part of the Revenues and is paid into the Harbor Special Fund, in which event the costs of operation and maintenance of those properties from which such income is derived may be paid as costs of operation and maintenance of the Undertaking to the same extent as would be the case if such properties were in fact part of the Undertaking, or (ii) due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or due and adequate provision is made for the payment, in each year while any of the Bonds remain Outstanding, from moneys lawfully available therefor other than the Revenues, into the 1997 Certificate Harbor Revenue Special Fund for use and application in accordance therewith the same as all other moneys paid into that fund, of amounts which, when added to the Revenues paid into that fund in each such year, will produce the total amount required to be produced in such year in accordance with the Rate Covenant, and provided, further, that the operations of any such Foreign Trade Zone which is in existence at the time of effectiveness of the Certificate shall be deemed to be noncompetitive with the Undertaking.

Net Rent Leases. (Certificate – Section 7.01.) 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 pier, dock, wharf, warehouse or other harbor or waterfront facility on land constituting part of the Undertaking or will agree to acquire or construct a pier, dock, wharf, warehouse or other harbor or waterfront 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 harbor purposes (all said piers, docks, wharfs, warehouses, buildings, structures and facilities herein referred to as the "Improvement"), and lease such Improvement under the following conditions:

1. No Improvement will be constructed or acquired and leased for use or occupation (a) if the Improvement would provide services, facilities or supplies which then may be adequately made available through the Undertaking as then existing and (b) if the result of the use or occupation of such Improvement under the contract, lease or agreement therefor would result in a reduction of Net Revenues below the minimum Net Revenues required to be produced and maintained in accordance with the Rate Covenant.

2. A Net Rent Lease (hereinafter defined) shall be entered into between the State (either in the name of the State or by and through the Department), as lessor and the user or occupier of such Improvement, as lessee, pursuant to which the lessee shall agree to pay the Department in each year during the term thereof, which term shall not extend beyond the useful life of the Improvement as estimated by the Harbor Consultant, (i) fixed rentals in periodic installments which will be sufficient to pay during such term

the principal of and interest on all Special Obligation Bonds to be issued to pay the cost of construction or acquisition of the Improvement as the same respectively mature, and (ii) such further rentals as shall be necessary or required to provide or maintain all reserves required for such obligations and to pay all trustee's, fiscal agents' and paying agents' fees and expenses in connection therewith.

3. The Net Rent Lease shall provide for payments in periodic installments and as additional rental thereunder to the Department, free and clear of all charges under said lease, (i) of a properly allocable share of the (a) payments to the State to reimburse the general fund of the State for Reimbursable General Obligation Bonds, (b) payments to the State to reimburse administrative costs incurred by the State treasury in maintaining funds and accounts relating to the Undertaking and (c) administrative costs of the Department, and (ii) if the land on which the Improvement is to be constructed constitutes a part of the Undertaking, of a ground rental for the ground upon which such Improvement is located, in amounts not less than shall be required pursuant to the schedule for rental of ground space in the Undertaking as fixed from time to time by the Department. All such additional rentals shall constitute Revenues and be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited therein.

4. The Net Rent Lease shall provide that all rentals payable thereunder pursuant to paragraph 2. above which are not required to pay Special Obligation Bonds issued for the Improvement leased thereby, including reserves for such obligations, or required to pay trustee's, fiscal agents' and paying agents' fees and expenses in connection therewith, shall be paid to the Department for its own use and purposes, and, to the extent permitted by law, such excess amounts shall constitute Revenues and be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited therein.

The term "Net Rent Lease" shall mean a lease of property encompassed within the introductory sentence of this Section, under and pursuant to which the lessee agrees to pay to the Department the rentals required by paragraphs 2. and 3. above, and to pay in addition all costs connected with the ownership, operation, maintenance, repair, renewal 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 the ground rental, if any, payable pursuant to said paragraph 3.) shall be certainly paid whether or not the leased property is capable of being occupied and used by the lessee.

Special Obligation Bonds. (Certificate – Section 7.02.) The State, acting by and through the Department or otherwise, may issue Special Obligation Bonds for the purpose of constructing Improvements 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 an Improvement (including the acquisition of necessary land), for lease pursuant to the provisions of the Certificate. (See "*Certain Covenants by the State - Net Rent Leases*" above.) Such Special Obligation Bonds (i) shall be payable solely from the rentals payable by the lessee under the Net Rent Lease entered into with respect to the Improvement to be financed from such Special Obligation Bonds; (ii) shall not be a charge or claim against or payable from the Revenues or any other moneys in the Harbor Special Fund, Capital Improvement Special Fund, Harbor Revenue Special Fund or 1997 Certificate Harbor Revenue Special Fund; (iii) shall mature within both the useful life of the Improvement (as estimated by the Harbor Consultant) to be financed from such Special Obligation Bonds and the term of the Net Rent Lease entered into with respect to such Improvement; and (iv) shall not be issued unless and until the following conditions have been met:

A. a certificate of the Harbor Consultant has been filed with the Department setting forth the opinion of such consultant as to the estimated useful life of the Improvement, the costs of acquisition or construction of which are to be financed from such Special Obligation Bonds, and certifying (i) that the construction or acquisition and leasing for use or occupation of such Improvement would not violate the conditions of paragraph 1 under "*Net Rent Leases*" above; (ii) that the lease referred to in paragraphs 2, 3 and 4 under "*Certain Covenants by the State – Net Rent Leases*" above has been entered into; (iii) that the payments to be made by the lessee pursuant to the provisions of such paragraph 2 will be sufficient to pay the principal of and interest and premium (if any) on the Special Obligation Bonds as the same mature and to pay all trustee's, fiscal agents' and paying agents' fees and expenses in connection therewith; and (iv) that the additional rentals to be paid by the lessee pursuant to such paragraph 3 are fair and reasonable and as to the ground rental required by that paragraph (if any such ground rent be required) is in compliance with the schedule established by the Department for the rental of lands of the Undertaking; and

B. there shall have been filed with the Department an Opinion of Counsel that the lease for the Improvement to be financed from such Special Obligation Bonds entered into pursuant to the Certificate is valid according to its terms and complies with the provisions of such paragraphs 2, 3 and 4.

Refunding of Special Obligation Bonds. (Certificate – Section 7.03.) Outstanding bonds of an issue of Special Obligation Bonds may be refunded by an issue of refunding Special Obligation Bonds, provided that: (1) the refunding Special Obligation Bonds shall be secured by and payable solely from the rentals from that Improvement, from the rentals of which the Special Obligation Bonds to be refunded were payable; (2) the aggregate amount of principal, interest and premium (if any) upon the redemption thereof from any sinking fund which shall be payable on the refunding Special Obligation Bonds shall not be greater than the aggregate amount of principal, interest and premium (if any) upon the redemption thereof from any sinking fund which would be payable on the Special Obligation Bonds to be refunded were such refunding not to occur; (3) the refunding will not decrease the rentals payable for the Improvement payable pursuant to paragraph 3 under "*Certain Covenants by the State – Net Rent Leases*" above; (4) the Net Rent Lease for the Improvement during the life of such refunding bonds shall comply with paragraphs 2, 3 and 4 under "*Certain Covenants by the State – Net Rent Leases*" above; (5) the refunding Special Obligation Bonds shall mature within the useful life of the Improvement (as estimated by the Harbor Consultant) and within the term of the new or amended lease entered into with respect to such refunding; (6) the termination date of the term of any new or amended lease entered into with respect to such Improvement shall not be later than the termination date of the term of the lease entered into upon the issuance of the Special Obligation Bonds to be refunded; and (7) the Certificate of the Harbor Consultant and the Opinion of Counsel required under "*Certain Covenants by the State – Special Obligation Bonds*" above shall be filed with respect to such refunding Special Obligation Bonds. Special Obligation Bonds may also be refunded by Additional Bonds if (i) all such Special Obligation Bonds pertaining to a particular Improvement are refunded at one time from such Additional Bonds; (ii) the conditions contained in the Certificate for the issuance of Additional Bonds are complied with upon such refunding, and, for the purposes of any such refunding, such refunding shall be considered as though the Department were acquiring such Improvement by the issuance of such Additional Bonds; and (iii) upon any such refunding all leases pertaining to the Improvement shall be amended to include a provision to the effect that such lease is subject to the rights of the Holders of the Bonds.

When Improvement Shall Constitute Part of the Undertaking; Priority of Payments and Credits for Bonds Issued Under the Certificate. (Certificate – Section 7.04.) So long as any Special Obligation Bonds issued for an Improvement are outstanding and unpaid, or until the payment thereof shall have been duly and adequately provided for, such Improvement shall not be considered to be part of the Undertaking. Upon the retirement of the indebtedness evidenced by such Special Obligation Bonds or evidenced by refunding Special Obligation Bonds, unless such Improvement is subject to an option to purchase by the lessee and such option shall have been exercised, all rentals and other income thereafter received by the State (including by the Department) from the Improvement for which such Special Obligation Bonds were issued shall, to the extent permitted by law, constitute Revenues and be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited therein, and if such rentals and other income shall constitute Revenues, such Improvement shall, unless contrary to law, constitute part of the Undertaking; provided, however, that if any such Special Obligation Bonds are retired through the refunding thereof from the proceeds of Additional Bonds, such Improvement may not be subject to any purchase option and in all events (subject to the provisions of the Certificate permitting alienation or disposition of Property) shall thereafter constitute part of the Undertaking and the rentals and other income therefrom shall constitute part of the Revenues; and provided, further, that, except with respect to properties which have become part of the Undertaking by reason of the issuance of Additional Bonds to refund the Special Obligation Bonds issued therefor (the costs of operation and maintenance of which properties shall be paid or provided for in the same manner as are such costs incurred with respect to all other properties constituting part of the Undertaking), any expenditure of moneys from the Revenues or the Harbor Special Fund for operation and maintenance of any property constituting or which constituted an Improvement shall be made only after the payments and credits required by priority items "FIRST" and "SECOND" described above under the caption "*Allocation and Application of Revenues*" have been duly made or provided for.

Right of State To Execute Supplemental Certificates Without Consent of Holders of Bonds. (Certificate – Section 10.01.) The State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time and without the consent or concurrence of the Holder of any Bond, may make and execute a Supplemental Certificate (i) for the purpose of providing for the issuance of Additional Bonds or the issuance of Refunding Bonds, (ii) to make any changes or modifications of the Certificate or amendments, additions or deletions to the Certificate which may be required to permit the Certificate to be qualified under the Trust Indenture Act of 1939 of the United States of America and (iii) if the provisions of such Supplemental Certificate shall not materially 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 supplement as to which it shall have been advised by its counsel that the same are minor clerical or typographical 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 in the Certificate or in any such supplement thereto, or to insert in the Certificate such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable;

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 supplement thereto;

4. To confirm as further assurance any lien, pledge or charge, or the subjection of any additional revenue, property or collateral to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any supplement thereto;

5. To grant to or confer upon the Holders of the Bonds or any Support Provider 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 Bonds and the incurring of indebtedness by the State payable from the Revenues;

7. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to obtain a favorable rating or ratings from any Rating Agency;

8. To add or modify any provision of the Certificate as a result of enactment of any State or federal law which changes the treatment of the Bonds or interest thereon for tax purposes;

9. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to permit such Series to be available through a book-entry system maintained by, or to be cleared through, The Depository Trust Company, New York, New York, or other securities depository, clearing corporation, or clearing agency;

10. To make any changes or corrections to the Certificate as are necessary to provide for the issuance of Bonds in a form not contemplated by the express provisions of the Certificate, including, without limitation, in the form of commercial paper, indebtedness which converts from a variable rate to a fixed rate, indebtedness which initially compounds or accrues interest and then converts to a current-interest-bearing instrument, and a Series of Bonds whereby the State pays a particular rate of interest and such interest payment is divided in a manner such that certain Bondholders receive a variable interest rate determined by the market and other Bondholders receive a residual interest rate approximating the difference between the interest payment paid by the State and such variable rate of interest; or

11. To modify, amend or supplement in any other respect any of the provisions of the Certificate, provided that such modifications shall have no adverse affect as to any Bond or Bonds which are then Outstanding.

Except for Supplemental Certificates providing for the issuance of Additional Bonds or Refunding Bonds, the State shall not make and execute any instrument or Supplemental Certificate, unless in the Opinion of Counsel the making and entering into of such instrument or such Supplemental Certificate is permitted by the provisions of the Certificate and the provisions of such instrument or of such Supplemental Certificate are not contrary to or inconsistent with the covenants or agreements of the State contained in the Certificate as originally issued or as amended with the consent of the Bondholders.

Execution of Supplemental Certificates With Consent of Bondholders. (Certificate – Section 10.02.) With the consent of the Holders of not less than a majority of the principal amount of the Bonds then Outstanding, the State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time, may make and execute an instrument or certificate amending or supplementing the provisions of the Certificate for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any supplement thereto, or modifying or amending the rights and obligations of the Department thereunder, or modifying in any manner the rights of the Holders of the Bonds; provided, however, that, without the specific consent of the Holder of each Bond which would be affected thereby, whether or not such Bond shall then be deemed to be Outstanding under the Certificate, 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 of the Certificate; (3) give to any Bond or Bonds, whether Series 1997 Bonds, Additional Bonds or Refunding Bonds, any preference over any other Bond or Bonds secured by the Certificate; (4) authorize the creation of any pledge of the Revenues or any lien or charge thereon prior or superior to or on a parity with the pledge of and lien and charge thereon created in the Certificate for the payment of the Bonds except to the extent provided in Article II of the Certificate; or (5) deprive any Holder of the Bonds of the pledge and lien created by the Certificate, and provided, further, that if moneys or Federal Securities shall have been deposited in accordance with the provisions of the Certificate relating to the defeasance for the payment of particular Bonds and such Bonds shall not in fact have been paid, no amendments or supplements to the provisions of Article XII of the Certificate shall be made without the specific consent of the Holder of each Bond which would be affected thereby. A modification or amendment of the provisions of Article V of the Certificate with respect to the 1997 Certificate Harbor Revenue Special Fund or the 1997 Certificate Harbor Interest Account, 1997 Certificate Harbor Principal Account, 1997 Certificate Harbor Debt Service Reserve Account or 1997 Certificate Harbor Reserve and Contingency Account shall not be deemed a change in the terms of payment of the Bonds; 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 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Interest Account, 1997 Certificate Harbor Principal Account or 1997 Certificate Harbor Debt Service Reserve Account therein. (Nothing contained in the Certificate, however, shall be construed as making necessary the approval by the Holders of the Bonds of the adoption of any amending or supplementing certificate authorized by the Certificate.)

The proof of the giving of any consent required and of the holding of Bonds for the purposes of giving consent shall be made in accordance with the provisions of Section 9.01 of the Certificate, and it shall not be necessary that the consents of the Holders of the Bonds approve the particular form of wording of the proposed amendment or supplement, but it shall be sufficient if such consent approve the substance thereof. After the Holders of the required percentage of Bonds shall have filed their consents to the amendment or supplement of the Certificate, the Department shall mail, or shall cause the Registrar to mail, a copy of such notice, postage prepaid, to each Holder of Bonds then Outstanding, at his address appearing upon the Bond Register, but failure to mail copies of said notice to any Holder shall not affect the validity of such instrument or Supplemental Certificate or the consents thereto. A record, consisting of the required papers, shall be proof of the matters therein stated until the contrary is proved, and no action or proceeding to set aside or invalidate such instrument or Supplemental

Certificate or any proceedings for its adoption shall be instituted or maintained unless such action or proceeding for such purpose is commenced within 60 days after the mailing of the required notice.

Bonds delivered after the effective date of any action taken as provided above may bear a notation, by endorsement or otherwise, in form approved by the Department, as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the office of the Director of Finance or other Paying Agent, transfer agent or Registrar for such Bond under the Certificate and at such additional offices as the Director of Finance may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Department shall so determine, new Bonds so modified as in the opinion of the Department to conform to the amendments or supplements so consented to by the Bondholders shall be prepared, executed and delivered, and upon demand of the Holder of any Bond then Outstanding, his Bond shall be exchanged without cost to such Bondholder, for a new Bond, upon surrender of such Outstanding Bonds.

Events of Default; Remedies. (Certificate – Sections 11.01 to 11.06.)

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

a. if payment of the interest on, or principal (including any Sinking Fund Installment) or 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

b. 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 revenues, fees and earnings derived from the Undertaking below the amount required by the 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 1997 Certificate Harbor Revenue Special Fund on credit to the 1997 Certificate Harbor Reserve and Contingency Account available therefor, promptly repair or reconstruct such destroyed or damaged building or facility, or promptly erect or substitute in place of the building or facility destroyed or damaged other buildings and facilities which produce revenues and fees comparable to those produced by the building or facility destroyed or damaged and subject to the lien of the Certificate and deposit in the 1997 Certificate Harbor Revenue Special Fund an amount of the revenues and fees to be derived therefrom comparable to those theretofore derived from the building or facility destroyed or damaged, which amounts so deposited shall constitute Revenues, to be used and applied as are all other Revenues, 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

c. if the Department shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate or in any Supplemental Certificate on the part of the Department to be performed, and such default shall continue for 90 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Department by the Holders of not less than 50% in principal amount of the Bonds then Outstanding, or any trustee or committee therefor; provided, however, that if such failure shall be such that it cannot be corrected within such 90-day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; or

d. if the Capital Improvement Bonds or the 1990 Certificate Harbor Revenue Bonds shall have been declared due and payable pursuant to an acceleration resulting from an event of default under the Capital Improvement Certificate or the 1990 Certificate, respectively, as in force on the date of effectiveness of the Certificate; or

e. 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 any other moneys pledged and charged in the

Certificate or in any Supplemental Certificate, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or State statute as of date of the Certificate or thereafter enacted; or

f. if an order or decree shall be entered (1) with the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof, (2) with or without the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings or facilities thereof if such receiver or receivers are appointed pursuant to the provisions of the Capital Improvement Certificate or the 1990 Certificate, or (3) without the consent or acquiescence of the State, 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 60 days after the entry thereof; or

g. if, under the provision of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Undertaking or any of the buildings and facilities thereof, and such custody or control shall not be terminated within 90 days from the date of assumption of such custody or control; or

h. if the Department or the State shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

Declaration of Principal and Interest as Due. Upon the occurrence and continuation of an Event of Default, then and in each and every case the Holders of not less than 50% in principal amount of the Bonds then Outstanding may, by written notice to the Department filed in the office of the Department and with the Director of Finance, proceed to declare the principal of all Bonds then Outstanding, together with all accrued and unpaid interest thereon and together with all other moneys secured by the Certificate, if not already due, to be due and payable immediately, and upon any such declaration the same shall become and be due and payable immediately, anything in the Certificate, any Supplemental Certificate or in any of the Bonds contained to the contrary notwithstanding, except to the extent otherwise provided in connection with a Support Facility. This provision is subject, however, to the condition that, if at any time after the principal of the Bonds, together with accrued and unpaid interest thereon shall have been so declared due and payable and before any further action has been taken (other than the making of the above declaration), the principal amount of all Bonds which have matured either according to the maturity date or dates specified therein or otherwise (except as a result of such declaration) and all arrears of interest upon all Bonds, except interest accrued but not yet due on said Bonds, shall be paid or caused to be paid, and all other Events of Default, if any, which shall have occurred shall have been remedied, cured or secured, then and in every such case the Holders of a majority in principal amount of the Bonds then Outstanding, by notice in writing delivered to the Department and the Director of Finance, may waive such default and its consequences and rescind such declaration. No such waiver or rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Possession of Undertaking by Bondholders' Committee; Appointment of a Receiver. Upon the occurrence of an Event of Default and the continuation thereof, if no Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds are at the time Outstanding or any of such Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds being then outstanding, if due and adequate provisions for the payment thereof has theretofore been made, then in each and every case a Bondholders' Committee representing the Holders of not less than a majority of the Bonds at the time Outstanding, as a matter of right against the State, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law, be entitled to take possession and control of the business and properties of the Undertaking. Upon taking such possession, the Bondholders' Committee shall operate and maintain the Undertaking, make any necessary repairs, renewals and replacements in respect thereof, impose and prescribe rates, fees and charges for use of the Undertaking and collect, receive and apply the Revenues.

Upon the occurrence of an Event of Default and the continuation thereof, if no Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds are at the time Outstanding or any of such Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds being then Outstanding, if due and adequate provision for the payment thereof has theretofore been made, then in each and every case the Holders of not less than 50% in the principal amount of the Bonds then Outstanding or any trustee therefor shall be entitled to the appointment of a receiver by any court of competent jurisdiction. Any such receiver may be appointed upon the application of Holders of Bonds of said aggregate principal amount, or any trustee therefor, to the Circuit Court of the First Judicial Circuit, which is vested with jurisdiction in such proceedings, or to any other court of competent jurisdiction in the State. Any receiver so appointed may enter and take possession and control of the Undertaking, operate and maintain the same, make any necessary repairs, renewals and replacements, impose and prescribe rates, fees and charges and collect, receive and apply all Revenues thereafter arising therefrom in the same manner as the Department itself might do. No bond shall be required of such receiver.

Bondholders' Committee. Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the Holders of not less than 50% in principal amount of the Bonds then Outstanding may call a meeting of the Holders of Bonds for the purpose of electing a Bondholders' Committee. Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to the Certificate. At such meeting the Holders of not less than a majority of the principal amount of the Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any notice, other than as required by the Certificate. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the Holders of a majority in principal amount of the Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting shall be elected or appointed, may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Certificate and may provide for the termination of the existence of the Bondholders' Committee.

Suits at Law or Equity and Mandamus. In case any one or more of the Events of Default shall happen and be continuing, then and in every such case, but subject to the provisions, limitations and conditions contained in the Certificate relating to the amendment thereof, the Holder of any Bond at the time Outstanding shall be entitled, 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 Holder 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 covenant or agreement contained in the Certificate, 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.

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

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

Discharge of Liens and Pledges; Bonds No Longer Deemed Outstanding Under the Certificate. (Certificate – Section 12.01.) The obligations of the State, including, without limiting the generality of the foregoing, of the Department, under the Certificate and the liens, pledges, charges, trusts, assignments, covenants and agreements of the State, including the Department, therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding under the Certificate:

(A) if such Bond shall have been purchased and canceled 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) as to any Bond not theretofore purchased and canceled, surrendered for cancellation or subject to cancellation, when payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest on such principal (calculated, in the case of Variable Rate Bonds, at the maximum numerical rate permitted by the terms thereof) 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:

(1) shall have been made or caused to be made when due and payable in accordance with the terms thereof; or

(2) shall have been provided by irrevocably depositing with the Director of Finance or other Paying Agent therefor, in trust solely for such payment, either (i) moneys sufficient to make such payment, (ii) Federal Securities maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, or (iii) a combination of both moneys and Federal Securities and all necessary and proper fees, compensation and expenses of any Paying Agent, transfer agent or Registrar appointed by the State pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such Paying Agent, transfer agent or Registrar. At such time as a Bond shall be deemed to be no longer Outstanding under the Certificate, as aforesaid, except for the purpose of any such payment from such moneys or Federal Securities, such Bond shall no longer be secured by or entitled to the benefits of the Certificate and shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration, or otherwise).

Notwithstanding the foregoing, with respect to Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof and which the State elects to so redeem or prepay, no deposit under clause (2) of subparagraph (B) above shall constitute such discharge and satisfaction as aforesaid until such Bonds shall have matured or shall have been irrevocably called or designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been given or irrevocable provision shall have been made for the giving of such notice, provided that nothing in Article XII of the Certificate shall require or be deemed to require the State to elect to redeem or prepay such Bonds or, in the event the State shall elect to redeem or prepay such Bonds, shall require or be deemed to require the redemption or prepayment as of any particular date or dates.

Any such moneys so deposited with the Director of Finance or other Paying Agents as described above may at the direction of the Department be invested and reinvested in Federal Securities, maturing in the amounts and times as set forth in the Certificate, and all income from all such Federal Securities in the hands of the Director of Finance and other Paying Agents which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys shall have been so deposited, shall, to the extent permitted by law, be deposited in the 1997 Certificate Harbor Revenue Special Fund as and when realized and collected for use and application as are other moneys deposited in such Fund.

Notwithstanding the foregoing, the payment of (i) the purchase price of and interest on Variable Rate Bonds tendered for purchase pursuant to the terms of the Certificate and of a Remarketing Agreement, or similar agreement, or (ii) principal of or interest on any Variable Rate Bonds with a draw, borrowing or payment under a Support Facility shall not be deemed payment of such Variable Rate Bonds pursuant to the defeasance provisions of the Certificate; provided, however, that with respect to (ii) above, a reimbursement or other payment by the State with respect to a draw, borrowing or payment under a Support Facility for the payment of principal, premium, if any, or interest on Variable Rate Bonds when due shall be deemed to the payment of such Variable Rate Bonds for the purpose of such defeasance provisions.

All moneys or Federal Securities set aside and held in trust pursuant to the provisions of Article XII of the Certificate for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Federal Securities have been so set aside in trust.

If moneys or Federal Securities have been deposited or set aside with the Director of Finance or other Paying Agent for the payment of Bonds and such Bonds shall be deemed to have been paid and be no longer Outstanding under the Certificate, but such Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions shall be made without the consent of the Holder of each Bond affected thereby and such Bonds shall be considered to be Outstanding for purposes of the provisions of the Certificate relating to amendments upon consent of Bondholders.

The State may at any time surrender to the Director of Finance for cancellation by him any Bonds previously executed and delivered, which the State may have acquired in any manner whatsoever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding under the Certificate.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated November __, 2010

STATE OF HAWAII
Harbor System Revenue Bonds

$164,275,000 **Series A of 2010** **(Non-AMT)**	**$37,115,000** **Series B of 2010** **(AMT)**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State"), acting by and through the Interim Director of the Department of Transportation (the "Department"), in connection with the issuance of $201,390,000 State of Hawaii Harbor System Revenue Bonds, Series A of 2010 (Non-AMT) (the "Series 2010A Bonds"), and Series B of 2010 (AMT) (the "Series 2010B Bonds," and together with the Series 2010A Bonds, the "Series 2010 Bonds"). The Series 2010 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 and that certain Certificate of the Director of Transportation Providing for the Issuance of the State of Hawaii, Harbor System Revenue Bonds dated as of March 1, 1997, as amended and supplemented (the "Bond Certificate").

Pursuant to the Bond Certificate, the State, acting by and through its Director of Transportation, agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered on behalf of the State 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 Department 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 Department's Harbors Division or any successor Dissemination Agent designated in writing by the Department and which has filed with the State a written acceptance of such designation.

"*Holder*" shall mean the person in whose name any Bond shall be registered.

"*Listed Events*" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org.

"*Participating Underwriters*" shall mean any original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. *Provision of Annual Reports*. (a) The Department shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the Department's Fiscal Year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2010, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). 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) In a timely manner prior to the date set forth in subsection (a) above, the Department shall provide the Annual Report to the Dissemination Agent. If the Department is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the Department shall send a notice to the MSRB in substantially the form attached as Exhibit B.

(c) The Dissemination Agent shall file a report with the Department 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's Annual Report shall contain or include by reference information of the type included in the final Official Statement (the "*Official Statement*") dated November 17, 2010, relating to the Bonds, as set forth under the following headings or in the following tables or appendices: "SOURCES OF REVENUES – Service Revenues, Rentals Income, Other Operating Revenues and Interest Income," "THE HARBOR SYSTEM – Annual Trends in Cargo Traffic for Hawaii Harbors, Annual Trends in Cargo Volume for Hawaii Harbors, Statement of Historical Operations and Debt Service Coverage", and APPENDIX A – AUDITED FINANCIAL STATEMENTS".

The audited financial statements of the Department 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's 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 Department, which have been available to the public on the MSRB's website. The Department shall clearly identify each such other document so included by reference.

Section 5. *Reporting of Significant Events*. (a) Pursuant to the provisions of this Section 5, the Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) nonpayment related defaults;

(iii) modifications to rights of bondholders;

(iv) optional, contingent or unscheduled bond calls;

(v) defeasances;

(vi) rating changes;

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

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

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

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

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

(b) Whenever a Listed Event occurs with respect to the Bonds, the Department shall as soon as possible, but in no event more than ten (10) days following such event, determine if such event would be material under applicable federal securities laws.

(c) If the Department determines that a Listed Event would be material under applicable federal securities laws, the Department shall promptly file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (a)(v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Certificate.

Section 6. Termination of Reporting Obligation. The Department's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Department shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 7. Dissemination Agent. The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not materially impair the interests of the Holders or Beneficial Owners of the Bonds, as determined in good faith by the Department.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under 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 Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall have no obligation under this 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 Department 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 Department to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the 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: ______________________________

Michael D. Formby
Interim Director of Transportation

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, Harbors Division
Names of Bond Issues:	Harbor System Revenue Bonds, Series A of 2010 (Non-AMT) and Series B of 2010 (AMT)
Date of Issuance:	November __, 2010

NOTICE IS HEREBY GIVEN that the State of Hawaii, Department of Transportation, Harbors Division has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated November __, 2010. [The Department anticipates that the Annual Report will be filed by ______________.]

Dates:

STATE OF HAWAII

By ______________________________

Title ______________________________

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

November [__], 2010

Honorable Michael D. Formby
Interim Director of Transportation
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

\$164,275,000 **State of Hawaii** **Harbor System Revenue Bonds** **Series A of 2010 (Non-AMT)**	**\$37,115,000** **State of Hawaii** **Harbor System Revenue Bonds** **Series B of 2010 (AMT)**

Dear Mr. Formby:

At the request of the State of Hawaii (the "State"), we have acted as Bond Counsel in connection with the issuance and sale by the State of its \$201,390,000 aggregate principal amount of State of Hawaii Harbor System Revenue Bonds, Series A of 2010 (Non-AMT) (the "Series 2010A Bonds") and Series B of 2010 (AMT) (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, the "Bonds"). The Bonds are dated November [__], 2010, are in the denomination of \$5,000 or any integral multiple thereof, and mature serially on July 1 in each of the years and in the respective principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2011 at the rate per annum set opposite such year, as follows:

Maturity Date (July 1)	**Principal**	**Rate**
Serial Bonds		
Term Bonds		

The Bonds are subject to optional redemption and mandatory sinking fund redemption by the State prior to the respective stated maturities thereof as set forth in the Certificate. The Bonds are transferable and exchangeable upon the terms and conditions set forth therein and recite that they have been authorized and issued pursuant to the laws of the State of Hawaii. The Series 2010A Bonds are being issued to finance or refinance the cost of design, implementation, land acquisition, construction, improvements, betterment and replacements to harbor dock, wharf and storage facilities, including equipment and other property functionally related thereto, located in the State's harbor system. The Series 2010B Bonds are being issued to provide for the refunding of the Harbor System Revenue Bonds Series A of 2000. The Bonds recite that they are authorized to be issued and are issued under, pursuant to, and in full compliance with the Constitution and statutes of the State of Hawaii, including particularly, Part III of Chapter 39, Hawaii Revised Statutes, as amended, and under and pursuant to that certain Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor System Revenue Bonds, dated as of March 1, 1997 (the "Certificate"), duly authorized and delivered under the aforesaid Part III, and pursuant to that certain Seventh Supplemental Certificate of the Director of the Department of Transportation Providing for the Issuance of State of Hawaii Harbor System Revenue Bonds, Series A of 2010 (Non-AMT) and Series B of 2010 (AMT), dated as of November [__], 2010 (the "Seventh Supplemental Certificate"), duly authorized and delivered under the aforesaid Part III and the Certificate. All capitalized terms used herein that are not herein otherwise defined shall have the meanings ascribed thereto in the Certificate.

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

The Internal Revenue Code (the "Code") contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. These requirements relate to, among other things, the use and investment of the proceeds of the Bonds, the periodic payment of certain amounts to the United States of America, and the use and tax ownership of any property financed or refinanced with proceeds of the Bonds. In the Tax Compliance Certificate dated as of November [__], 2010 (the "Tax Certificate"), the Department of Transportation has made certain certifications and representations and made certain covenants with respect to the Bonds in order to comply with these requirements. Without independent investigation on our part, our opinion expressly assume and rely upon as being true, correct and complete, the certifications and representations set forth in the Tax Certificate.

In rendering our opinions set forth herein, we have also assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes under the Code.

The rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

(1) The Bonds have been duly authorized and issued in accordance with the Constitution and laws of the State of Hawaii and constitute valid special obligations of the State of Hawaii payable solely from and secured solely by a lien upon and pledge of Net Revenues, on a parity with all bonds which heretofore have been or hereafter may be issued under the Certificate, as set forth in the Certificate;

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

(3) Interest on the Series 2010A Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Series 2010A Bond is held by a person who is a substantial user of the financed facilities or by a related person (as defined in Code Section 147(a)), and such interest is not treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers and is not included in the adjusted current earnings of certain corporations for purposes of computing their alternative minimum tax;

(4) Interest on the Series 2010B Bonds is excludable from the gross income of the owners thereof pursuant to Code Section 103(a), except for any period during which any Series 2010B Bond is held by a person who is a substantial user of the financed facilities or by a related person, and such interest is treated as a specific preference item in calculating the alternative minimum tax imposed on corporations, individuals and other taxpayers under the Code

(5) Interest on the Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Bonds or income therefrom.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We have not undertaken to determine, or to inform any person, as to any change in any existing law, regulation, ruling or judicial decision or the effect of any such change. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY
and
SPECIMEN MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

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ASSURED GUARANTY® MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By ______________________________
Authorized Officer

(212) 826-0100

Form 500NY (5/90)

ASSURED GUARANTY®
MUNICIPAL

MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER: Policy No.:

BONDS: Effective Date:

Premium: $

Termination Date:

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AGM will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy. Upon such payment, AGM shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Insurance Agreement.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to AGM by or on behalf of the Issuer. Within three Business Days of such reimbursement, AGM shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall AGM incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that AGM has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed $. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By ______________________________
Authorized Officer

(212) 826-0100

Form 501 NY (6/90)

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