

*The delivery of the Certificates (as defined below) is subject to the opinion of Katten Muchin Rosenman LLP, Bond Counsel, to the effect that under existing law, the interest portion of the payments of Base Rent (as defined in this Official Statement) under the Lease (as defined below) received by the owners of the Certificates (called the “interest on the Certificates”) is not includible in the gross income of the owners thereof for federal income tax purposes and that, assuming continuing compliance with the applicable requirements of the Internal Revenue Code of 1986, interest on the Certificates will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the Certificates: (i) is an item of tax preference for purposes of computing individual and corporate alternative minimum taxable income for purposes of the individual and corporate alternative minimum tax and (ii) is not excludable from the gross income of owners who are “substantial users” of the facilities financed or refinanced thereby. In the further opinion of Bond Counsel, under the existing statutes, interest on the Certificates is exempt from all taxation by the State of Hawaii 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 of Hawaii on banks and other financial institutions may be measured with respect to the Certificates or income therefrom. See “TAX MATTERS.”*

**\$167,740,000**

**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION – AIRPORTS DIVISION  
SERIES 2013 LEASE REVENUE CERTIFICATES OF PARTICIPATION  
(Subject to AMT)**

**Dated: Date of Delivery**

**Due: As shown below**

The Certificates are being executed and delivered pursuant to a Trust Indenture dated December 1, 2013, made by the State of Hawaii Department of Transportation – Airports Division (the “Department”) and U.S. Bank National Association, as Trustee (the “Trustee”), to finance certain costs of implementing an Energy Performance Contract between the Department and Johnson Controls, Inc. (“JCI”), including the lease and installation of certain equipment of the Airports System of the State of Hawaii. JCI will lease the equipment to the Department under a Lease Agreement (the “Lease”) between JCI, as lessor, and the Department, as lessee. JCI will assign the Lease, including the right to lease revenues, to the Trustee.

See the inside cover hereof for maturities, principal amounts, interest rates, and yields of the Certificates. The Certificates shall be dated their date of delivery and shall bear interest from the date of delivery thereof payable each February 1 and August 1, commencing August 1, 2014. The Certificates are subject to redemption prior to maturity upon the terms and conditions and at the price as described in this Official Statement. This cover page contains certain information regarding the Certificates for reference only. It is not a summary of the Certificates. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

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

THE CERTIFICATES WILL BE LIMITED OBLIGATIONS OF THE DEPARTMENT, AND EVIDENCE ASSIGNMENT OF AN UNDIVIDED PROPORTIONATE INTEREST IN THE LEASE AND IN THE RIGHT TO RECEIVE CERTAIN RENT PAYMENTS UNDER THE LEASE. THE CERTIFICATES ARE PAYABLE FROM REVENUES DERIVED BY THE DEPARTMENT FROM THE OWNERSHIP AND OPERATION OF THE AIRPORTS SYSTEM AND THE RECEIPTS FROM AVIATION FUEL TAXES IMPOSED BY THE STATE OF HAWAII (THE “STATE”). EXECUTION AND DELIVERY OF THE CERTIFICATES WILL NOT OBLIGATE THE DEPARTMENT TO MAKE PAYMENTS BEYOND APPROPRIATIONS FOR THE THEN CURRENT FISCAL YEAR. THIS OBLIGATION IS CONTINGENT ON THE APPROPRIATION OF SUFFICIENT FUNDS BY THE LEGISLATURE OF THE STATE. THE STATE IS NOT REQUIRED TO APPROPRIATE FUNDS FOR LEASE RENT PAYMENTS. IF THE LEGISLATURE OF THE STATE FAILS TO APPROPRIATE SUFFICIENT MONEY FOR LEASE RENT PAYMENTS THE DEPARTMENT MAY TERMINATE THE LEASE EFFECTIVE THE END OF THE FISCAL YEAR FOR WHICH MONEYS FOR LEASE RENT PAYMENTS HAVE BEEN APPROPRIATED, AND SUCH FAILURE TO APPROPRIATE AND SUCH TERMINATION DO NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE LEASE. THE CERTIFICATES ARE NOT A GENERAL LIABILITY OR MORAL OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION. THE FULL FAITH AND CREDIT OF THE STATE OF HAWAII WILL NOT BE PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE CERTIFICATES. (SEE “SOURCE OF PAYMENT FOR THE CERTIFICATES”).

**The scheduled payment of the principal and interest components on certain Certificates maturing on August 1, 2021 (5.00% CUSIP 419808AF7), and August 1, 2023 (4.250% CUSIP 419808AG5) (the “Insured Certificates”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Certificates by ASSURED GUARANTY MUNICIPAL CORP.**



**MATURITY SCHEDULE – See Inside Cover Page**

The Certificates are offered, when, as and if executed and delivered, subject to withdrawal or modification of the offer without notice and to the opinion of Katten Muchin Rosenman LLP, New York, New York, Bond Counsel, as to the validity of, and tax treatment of, the Certificates. Certain legal matters will be passed upon for the Trustee by its Counsel, Dorsey & Whitney, Costa Mesa, California, and for the Underwriters by their Counsel, Alston Hunt Floyd & Ing, Honolulu, Hawaii. It is expected that the Certificates in definitive form will be available for delivery on or about December 19, 2013.

**Morgan Stanley**

**BofA Merrill Lynch**

**J.P. Morgan**

December 11, 2013

**\$ 167,740,000**  
**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – AIRPORTS DIVISION**  
**SERIES 2013 LEASE REVENUE CERTIFICATES OF PARTICIPATION**  
**(Subject to AMT)**

<u>Maturity (August 1)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP<sup>1</sup></u>
2016	4,745,000	3.00%	1.40%	104.095	419808AA8
2017	5,675,000	5.00%	1.81%	111.117	419808AB6
2018	6,490,000	4.00%	2.30%	107.403	419808AC4
2019	7,690,000	5.00%	2.83%	111.192	419808AD2
2020	9,230,000	5.00%	3.34%	109.778	419808AE0
2021 <sup>2</sup>	5,000,000	5.00%	3.65%	108.902	419808AF7
2021	5,575,000	5.00%	3.77%	108.073	419808AQ3
2022	11,715,000	5.00%	4.11%	106.398	419808AP5
2023 <sup>2</sup>	2,000,000	4.25%	4.29%	99.683	419808AG5
2023	11,405,000	5.00%	4.41%	104.578	419808AN0
2024 <sup>3</sup>	15,590,000	5.25%	4.67%	104.446	419808AH3
2025 <sup>3</sup>	17,485,000	5.25%	4.78%	103.584	419808AJ9
2026 <sup>3</sup>	19,270,000	5.25%	4.90%	102.652	419808AK6
2027	21,585,000	5.00%	5.00%	100.000	419808AL4
2028	24,285,000	5.00%	5.06%	99.379	419808AM2

<sup>1</sup>CUSIP data is provided by Standards & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. The CUSIP numbers may change as a result of events in the secondary market.

<sup>2</sup>Certificates insured by Assured Guaranty Municipal Corp.

<sup>3</sup>Certificates maturing on August 1, 2024, August 1, 2025 and August 1, 2026 are priced to be redeemed on the optional redemption date of August 1 2023

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Certificates or the advisability of investing in the Certificates. 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 "CERTIFICATE INSURANCE" and Appendix K –"SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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

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

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

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



**STATE OF HAWAII**

Neil Abercrombie, Governor

Shan Tsutsui, Lieutenant Governor

**DEPARTMENT OF TRANSPORTATION**

Director	Glenn M. Okimoto, Ph.D
Deputy Director, Airports	Ford N. Fuchigami
Deputy Director, Harbors	Randy Grune
Deputy Director, Projects	Jadine Urasaki
Deputy Director, Administration	Audrey Hidano

**SPECIAL SERVICES**

**Trustee**

U.S. Bank National Association  
Seattle, Washington

**Bond Counsel**

Katten Muchin Rosenman LLP  
New York, New York

**Financial Advisor**

First Southwest Company  
New York, New York

## TABLE OF CONTENTS

INTRODUCTION.....	1	The Airline Projects.....	32
Prospective Financial Information.....	2	Funding of the Airline Projects.....	34
THE INDENTURE AND THE CERTIFICATES.....	3	ESCO Project.....	35
General Provisions Regarding the Certificates.....	3	ConRAC Program.....	35
Redemption.....	3	Management of the Capital Improvements Program.....	35
Book-Entry Only System.....	4	MANAGEMENT DISCUSSION AND ANALYSIS.....	36
Transfer of the Certificates.....	4	Revenues.....	36
AUTHORITY FOR ISSUANCE.....	5	Expenses.....	36
SOURCE OF PAYMENT FOR THE CERTIFICATES.....	5	Debt Service Coverage.....	36
General.....	5	Cash and Cash Equivalents.....	37
Revenues Available for Lease Payments.....	6	AIP Grants, Passenger Facility Charge and Customer Facility Charge.....	37
Schedule of Lease Rent Payments.....	7	Insurance.....	37
Rate Covenant of Bonds; Pledge of Revenues and Aviation Fuel Taxes to Bonds.....	7	Security.....	37
Debt Service Reserve Fund for the Certificates.....	8	Employee Benefits.....	38
Additional Indebtedness.....	8	Ceded Lands.....	39
CERTIFICATES INSURANCE.....	9	Current Operating Trends.....	40
Bond Insurance Policy.....	9	CERTAIN INVESTMENT CONSIDERATIONS.....	40
Assured Guaranty Municipal Corp.....	9	Appropriations Risk.....	40
DESCRIPTION OF THE ESCO PROJECT.....	10	Failure to Meet Projections.....	41
Energy Performance Contract.....	11	Airline Information.....	41
Energy Conservation Measures.....	11	Certain Considerations Concerning the Airline Industry.....	41
Energy Savings, Measurement and Verification.....	12	Factors Affecting Capital Improvement Program.....	44
Energy Savings Guarantee.....	13	Economic Conditions.....	44
Estimated Sources and Uses of Funds.....	13	Aviation Security Concerns.....	45
DEPARTMENT OF TRANSPORTATION.....	13	Public Safety Concerns.....	45
Department Organization.....	13	Impact of Uncertainties of the Airline Industry on the Airports System.....	46
Department Management.....	14	Considerations Regarding Certain Other Sources of Funds.....	46
Management Personnel.....	14	Regulations and Restrictions Affecting the Airports System.....	47
Budget Process.....	14	Airlines Serving the Airports.....	47
Labor Relations.....	15	Limitation on Certificate Holders' Remedies.....	47
THE AIRPORTS SYSTEM.....	15	Climate Change Issues.....	47
General.....	15	Forward Looking Statements.....	48
Primary Airports.....	16	LITIGATION.....	48
Airline Service and Passenger Activity Operations.....	18	TAX MATTERS.....	48
Air Cargo Operations.....	18	Opinion of Bond Counsel.....	48
Airline Operations.....	19	Exclusion from Gross Income: Requirements.....	48
The following table presents the destinations and capacity in annual number of seats of direct air service to Hawaii added in 2013.....	21	Covenants to Comply, Risk of Non Compliance.....	49
Financial Information.....	22	Federal Income Tax Consequences.....	49
Projected Financial Performance.....	23	Certificates Purchased at a Premium or at a Discount.....	50
SOURCES OF REVENUES AND AVIATION FUEL		Change of Law.....	50
TAXES.....	24	Circular 230.....	50
General.....	24	UNDERWRITING.....	50
Aeronautical Revenues.....	25	LEGALITY FOR INVESTMENT.....	51
Concession Fees.....	26	APPROVAL OF LEGAL PROCEEDINGS.....	51
Non-Aeronautical Revenues Other Than Concession Fees.....	28	RATINGS.....	51
Non-Operating Revenues.....	29	FINANCIAL ADVISOR.....	52
Aviation Fuel Taxes.....	29	CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT.....	52
INDEBTEDNESS.....	30	CONTINUING DISCLOSURE.....	52
Outstanding Airports System Revenue Bonds.....	30	MISCELLANEOUS.....	52
Special Facility Leases and Special Obligation Bonds.....	31		
General Obligation Bonds.....	31		
CAPITAL IMPROVEMENTS PROGRAM.....	31		
General.....	31		

APPENDIX A	AUDITED FINANCIAL STATEMENTS
APPENDIX B	GENERAL ECONOMIC INFORMATION
APPENDIX C	SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY PERFORMANCE CONTRACT
APPENDIX D	SUMMARY OF CERTAIN PROVISIONS OF THE LEASE
APPENDIX E	SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CERTIFICATES
APPENDIX F	CERTAIN DEFINITIONS IN THE DIRECTOR'S CERTIFICATE
APPENDIX G	SUMMARY OF CERTAIN PROVISIONS OF THE DIRECTOR'S CERTIFICATE
APPENDIX H	FORM OF BOND COUNSEL OPINION
APPENDIX I	FORM OF CONTINUING DISCLOSURE CERTIFICATE
APPENDIX J	BOOK-ENTRY SYSTEM
APPENDIX K	SPECIMEN MUNICIPAL BOND INSURANCE POLICY

## OFFICIAL STATEMENT

**\$167,740,000**

**STATE OF HAWAII**

**DEPARTMENT OF TRANSPORTATION – AIRPORTS DIVISION**

**SERIES 2013 LEASE REVENUE CERTIFICATES OF PARTICIPATION**

**(Subject to AMT)**

### INTRODUCTION

This Official Statement, which includes the cover page and appendices (the “Official Statement”), provides information on the sale, execution and delivery of \$167,740,000 aggregate principal component of Certificates of Participation, Series 2013 (the “Certificates”) evidencing proportionate undivided interests of registered owners (the “Owners”) in a Lease Agreement (the “Lease”) dated December 19, 2013, between JOHNSON CONTROLS, INC., a Wisconsin corporation (“JCI”), as Lessor, and the STATE OF HAWAII DEPARTMENT OF TRANSPORTATION – AIRPORTS DIVISION (the “Department”), as Lessee, and in the right to receive certain rent payments to be made pursuant to the Lease.

JCI has assigned its rights to receive rental payments under the Lease to U.S. BANK NATIONAL ASSOCIATION, as trustee (the “Trustee”) under an Indenture of Trust (the “Indenture”) dated as of December 1, 2013, between the State of Hawaii (the “State”), acting by and through the Department, and the Trustee. The Trustee has accepted JCI’s rights under the Lease pursuant to a Sale, Assignment and Assumption Agreement (the “Sale Agreement”), dated December 19, 2013, between JCI and the Trustee. The Trustee will execute and deliver the Certificates, with the approval and authorization of the Department pursuant to the State Constitution and the laws of the State.

See “DESCRIPTION OF THE INDENTURE AND THE CERTIFICATES” for a description of the principal terms of the Certificates. Capitalized terms used but not otherwise defined in this Official Statement shall have the respective meanings given to such terms in the Indenture, the Certificates, the Lease, the Energy Performance Contract described below, Appendix C – SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY PERFORMANCE CONTRACT; Appendix D – SUMMARY OF CERTAIN PROVISIONS OF THE LEASE; Appendix E – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CERTIFICATES; Appendix F – CERTAIN DEFINITIONS IN THE DIRECTOR’S CERTIFICATE; Appendix G – SUMMARY OF CERTAIN PROVISIONS OF THE DIRECTOR’S CERTIFICATE.

The Certificates are being executed and delivered to finance approximately \$150,229,561 of the costs of the design, purchase and installation (the “ESCO Project”) of certain electrical, lighting, ventilation and other energy-related equipment (the “Equipment”) to replace existing equipment in various locations in the Airports System of the State operated by the Department (the “Airports System”). Proceeds of the Certificates will be used to: (1) pay the cost of evaluating, designing, purchasing and installing the Equipment described under the Lease; (2) pay capitalized interest during the acquisition and installation period; (3) fund a Debt Service Reserve Fund, as required under the Indenture; and (4) pay costs of issuance of the Certificates, all as described in “THE INDENTURE AND THE CERTIFICATES.” Installation of the Equipment is projected to result in savings in energy expenditures sufficient to pay rent under the Lease as well as the cost of the operation and maintenance of the Equipment over a 20-year term. The Department has contracted with JCI through an Energy Performance Contract (the “EP Contract”) to design, install, operate and maintain the Equipment.

The Certificates are special limited obligations of the State, and evidence an assignment of a proportionate interest in the Lease and in the right to receive rent payments under the Lease. The Certificates are payable solely from the Revenues of the Airports System and receipts of the State’s aviation fuel taxes (“Aviation Fuel Taxes”). Execution and delivery of the Certificates will not obligate the State to make payments beyond appropriations for the then current fiscal year. This obligation is contingent on the appropriation of sufficient funds to pay rent under the Lease by the Legislature of the State. A failure of the Legislature to appropriate sufficient funds will not be an event of default under the Lease. **The Certificates 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 Certificates. The Certificates are and will be payable from the Revenues and Aviation Fuel Taxes, but**

**junior in priority to the pledge of the Revenues securing Airports System Revenue Bonds (the “Bonds”) issued under the Certificate of the Director dated as of May 1, 1969, as amended and supplemented (the “Director’s Certificate”).** See “SOURCE OF PAYMENT FOR THE CERTIFICATES” and “SOURCES OF REVENUES AND AVIATION FUEL TAXES” for a description of the sources of payment for the Certificates and sources of Revenues of the Airports System. Pursuant to the Director’s Certificate, the State has previously issued 33 Series of Bonds. As of November 1, 2013, \$877,725,000 of the Bonds were outstanding. The outstanding Bonds and any additional parity bonds issued by the State under the Director’s Certificate are collectively referred to as the “Bonds.” The Certificates are issued under a separate indenture and do not constitute Bonds.

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

The cover page of this Official Statement and this Introduction contain certain information for general reference only. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision. This Official Statement contains descriptions of the ESCO Project, the Department, the Airports System and its operations, summaries of the EP Contract, the Lease, the Indenture and the Certificates, the security for the Bonds and the Certificates, the sources of Revenues and Aviation Fuel Taxes, and certain provisions of the Certificates and the Director’s Certificate; and descriptions of the agreements between the Department and the Signatory Airlines and certain concession agreements. All references to the Certificates, to the EP Contract, to the Lease, to the Indenture and to the Director’s Certificate are qualified by the definitive forms of the Certificates, the EP Contract, the Lease, the Indenture and the Director’s Certificate. Copies of the Certificates, the EP Contract, the Lease, the Indenture and the Director’s Certificate are available for examination at the offices of the Department’s Airports Division (the “Airports Division”). Any statement or information involving matters of opinion or estimates are represented as opinions or estimates made in good faith, but no assurance can be given that facts will materialize as so opined or estimated. The following appendices are included as part of this Official Statement: Appendix A – AUDITED FINANCIAL STATEMENTS (with Independent Auditors’ Report thereon) of the Airports Division, Department of Transportation, State of Hawaii for the fiscal year ended June 30, 2013; Appendix B – GENERAL ECONOMIC INFORMATION ABOUT THE STATE OF HAWAII; Appendix C – SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY PERFORMANCE CONTRACT; Appendix D – SUMMARY OF CERTAIN PROVISIONS OF THE LEASE; Appendix E – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CERTIFICATES; Appendix F – SUMMARY OF CERTAIN DEFINITIONS IN THE DIRECTOR’S CERTIFICATE; Appendix G – SUMMARY OF CERTAIN PROVISIONS OF THE DIRECTOR’S CERTIFICATE; Appendix H – FORM OF BOND COUNSEL OPINION; Appendix I – FORM OF CONTINUING DISCLOSURE CERTIFICATE; Appendix J – BOOK-ENTRY SYSTEM; and Appendix K – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.

### **Prospective Financial Information**

Prospective financial information in this Official Statement was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Prospective financial information included in this Official Statement, has been prepared by, and is the responsibility of, the Airports Division management. KMPG LLP, independent auditors, which audited the Airports Division financial statements, has neither examined nor compiled this prospective financial information and, accordingly, KPMG LLP does not express an opinion or offer any other form of assurance with respect thereto. The KPMG LLP report included in Appendix A of this Official Statement



relates to the Airports Division's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

KPMG LLP, an independent auditor, has not been engaged to perform and has not performed, since the date of its report included in Appendix A, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

## THE INDENTURE AND THE CERTIFICATES

### General Provisions Regarding the Certificates

The Certificates will be executed and delivered as fully registered certificates in the aggregate principal amount as set forth on the inside cover hereof, will be dated the date of initial delivery and will bear interest from that date to their respective maturities as set forth on the inside cover hereof, subject to redemption prior to maturity as described below. Ownership interests in the Certificates will be available in denominations of \$5,000 and integral multiples thereof. Interest on the Certificates will be payable on August 1, 2014, and each February 1 and August 1 thereafter.

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

### Redemption

See Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CERTIFICATES" for the definitions of certain terms used in this section.

**Excess Proceeds Redemption.** The Certificates shall be subject to redemption, without premium, prior to their respective maturities in part, in inverse order of maturity and by lot within a maturity, in such manner as the Department shall determine on the February 1 or August 1 following receipt by the Trustee of the Certificate of Final Completion and Acceptance required by the Indenture, from excess moneys held in the Project Fund on or after the Completion Date of the provision of the Equipment.

**Extraordinary Redemption.** The Certificates will be subject to redemption, in whole or in part by the State at the direction of the Department at par in the event of damage, destruction, casualty or condemnation of the Equipment, but only to the extent Extraordinary Revenues are available for such redemption.

**Optional Redemption.** The Certificates maturing August 1, 2024, and thereafter, are subject to optional redemption by the State, at the option of the Department, on or after August 1, 2023, in whole or in part on any date as selected by the Trustee by lot at the direction of the Department (in Authorized Denominations) from time to time, at par.

**Notice of Redemption.** Notice of the call for any redemption, identifying the Certificates or portions thereof to be redeemed and specifying the terms of such redemption, shall be given by the Trustee, upon being satisfactorily indemnified as to expenses, by mailing a copy of the redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the registered owner of each Certificate to be redeemed at the address shown on the registration books; provided however, that failure to give such notice by mailing, or any defect in such notice, shall not affect the validity of any proceedings for the redemption of Certificates as to which no such failure has occurred. An optional redemption notice may be conditional. Any notice mailed as provided in the Indenture shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice. An additional notice of redemption shall be given by first class mail, postage prepaid, mailed not less than 60 nor more than 90 days after the redemption date to any owner of a Certificate or Certificates to be redeemed who has not surrendered the Certificate or Certificates called for redemption, at his address as it appears on the records of the Trustee.

Whenever the Certificates are redeemed in part, the schedule of Base Rent set forth in the Lease Agreement shall be recalculated by the Department and provided in a written notice to the Trustee to reflect the reduction in the

outstanding principal component of the Certificates by reason of such redemption. The Base Rent, as recalculated, shall be payable in immediately available funds on January 15 and July 15 of each year.

Upon surrender and cancellation of any Certificate for redemption of only a portion of such Certificate, a new Certificate or Certificates of the same maturity and of authorized denominations in an aggregate principal component equal to the unredeemed portion thereof shall be executed on behalf of and delivered by the Trustee. Reasonable expenses incurred as a result of such execution, delivery, and exchange shall be paid by the Lessee as Additional Rent.

**Redemption Payments.** Prior to the date fixed for redemption, funds shall be deposited with the Trustee to pay, and the Trustee is hereby authorized and directed to apply such funds to the payment of, the Certificates called, together with accrued interest thereon to the redemption date, and any required premium. Upon the giving of notice and the deposit of such funds as may be available for redemption pursuant to the Indenture (which, in the case of an Extraordinary Redemption, may be less than the full principal component of the outstanding Certificates and accrued interest thereon to the redemption date), interest on the Certificates or portions thereof thus called shall no longer accrue after the date fixed for redemption.

**Cancellation.** All Certificates which have been redeemed shall not be reissued but shall be canceled and destroyed by the Trustee in accordance with the Indenture.

### **Book-Entry Only System**

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

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

### **Transfer of the Certificates**

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

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

## **AUTHORITY FOR ISSUANCE**

Chapter 37D, Hawaii Revised Statutes (“HRS”), as amended, permits the Department to enter into financing agreements, including lease purchase agreements, to finance the acquisition and use of property that will be used by the Department. Payments under financing agreements must be made from available moneys appropriated to the Department for the purpose of paying Lease rent. Because the Department is authorized to impose and collect rates and charges for Airports System services to fund operations, payment of Lease rent will be made from the Revenues and Aviation Fuel Taxes pledged to the Bonds under the Director’s Certificate. A financing agreement is not a bond as defined in Article VII, Section 12 of the State Constitution and Part III, Chapter 39, HRS (the “General Revenue Bond Law”). The Department’s obligation to pay Lease rent is not secured by a pledge of the Revenues and Aviation Fuel Taxes.

Section 36-41, HRS, authorizes the Department to enter into multi-year energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in State facilities. A department performing energy efficiency retrofitting or entering into energy saving measures may continue to receive budget appropriations for energy expenditures at pre-retrofitting budget levels. Energy performance contracts must provide that total payments shall not exceed total savings. The private entity performing the energy retrofitting or energy saving measures must guaranty that payment obligations will be less than the annual energy cost savings attributable to the energy equipment and savings. In the event that actual annual verified energy cost savings are less than the annual amount guaranteed by the energy service company, the energy service company shall pay the agency the difference between the guaranteed amount and the actual verified amount.

Section 37D-2, HRS and Administrative Directive No. 00-01, issued by the Governor on July 18, 2000 (the “Directive”), require all departments of the State, including the Department, to organize and coordinate all issues of bonds and financing agreements with the Department of Budget and Finance. The Directive requires the Director of Finance to approve the amount, timing, pricing and details of every issuance of State bonds and financing agreements. The Director of Finance also approves the method of sale, financial advisors or consultants, underwriters in a negotiated sale and other participants deemed necessary for each State financing.

## **SOURCE OF PAYMENT FOR THE CERTIFICATES**

### **General**

Each Certificate evidences an assignment of an undivided proportionate interest in the Lease and in the right to receive rent payments to be made pursuant to the Lease. The Certificates are payable solely from the Revenues and Aviation Fuel Taxes.

The Certificates and the Lease are special limited obligations of the State, payable solely from the Revenues and Aviation Fuel Taxes. The Certificates are not secured by a lien or charge on the Revenues and Aviation Fuel, and are junior in priority of payment to the Bonds. See Appendix F – “CERTAIN DEFINITIONS IN THE DIRECTOR’S CERTIFICATE” for definitions of Revenues and Aviation Fuel Taxes.

**Neither the Bonds nor the Certificates constitute a general or moral obligation of the State, nor an indebtedness 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 or the Certificates. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Certificates. The Department will pledge a UCC security interest in the Equipment financed under the Lease to secure payment of the Certificates.**

**Section 37D-2, HRS, limits the Department's source of rental payments under the Lease to available moneys, which are moneys appropriated from time to time by the Legislature of the State to pay amounts due under the Lease, together with reserves held for such purpose, by the Trustee. The Legislature is not obligated to appropriate funds or otherwise make moneys available to make the Lease payments. All obligations of the Department under the Lease are limited to funds appropriated or otherwise made available, from time to time, by the Legislature to make payments due under the Lease for the fiscal year in which such payments are due. The Lease payments are payable from lawfully available funds of the Department, from which a number of other debts and other obligations of the Department now existing and/or to be incurred in the future will also be payable.**

**The obligations of the Department as Lessee under the Lease relating to the Certificates or as contracting party under the EP Contract shall not constitute a mandatory charge or requirement of the Department in any fiscal year beyond the then current fiscal biennium, and are not a general obligation of the State within the meaning of any Constitutional or statutory debt limitation. All obligations of the Department are contingent upon the appropriation of sufficient funds by the Legislature to pay the amounts due under the Lease and the EP Contract. If moneys are not so appropriated, the Lease and/or the EP Contract will be terminated without penalty at the end of the fiscal year for which moneys have been appropriated. The Department will not be required to make rental payments under the Lease or payments under the EP Contract coming due after the effective date of such termination. In such event the Department would no longer be entitled to use Equipment financed under the Lease, and must surrender the Equipment to the Trustee. The Trustee would have recourse to liquidate such Equipment for the benefit of the holders of the Certificates. The EP Contract provides that in the event of non-appropriation the Department agrees not to purchase the same services provided by JCI for one year following termination.**

#### **Revenues Available for Lease Payments**

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

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition of suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that in the event the State fails to make timely payment of principal of or interest on the Bonds or rent under the Lease, a right of action would lie against the State, the Department or officials of the State or the Department to enforce such payments. Neither the State nor the Department has ever defaulted in the payment of either principal of or interest on any indebtedness.

## Schedule of Lease Rent Payments

The Lease will require the Department to make Base Rent payments under the Lease 15 days prior to principal and interest payment dates under the Certificates. The following table sets forth the principal and interest components of the Lease rent payable under the Lease.

<b>Lease Rent</b>			
Payment Date	Principal Component	Interest Component	Total Payment
July 15, 2014	--	\$ 5,144,888.54	\$ 5,144,888.54
January 15, 2015	--	4,171,531.25	4,171,531.25
July 15, 2015	--	4,171,531.25	4,171,531.25
January 15, 2016	--	4,171,531.25	4,171,531.25
July 15, 2016	\$ 4,745,000.00	4,171,531.25	8,916,531.25
January 15, 2017	--	4,100,356.25	4,100,356.25
July 15, 2017	5,675,000.00	4,100,356.25	9,775,356.25
January 15, 2018	--	3,958,481.25	3,958,481.25
July 15, 2018	6,490,000.00	3,958,481.25	10,448,481.25
January 15, 2019	--	3,828,681.25	3,828,681.25
July 15, 2019	7,690,000.00	3,828,681.25	11,518,681.25
January 15, 2020	--	3,636,431.25	3,636,431.25
July 15, 2020	9,230,000.00	3,636,431.25	12,866,431.25
January 15, 2021	--	3,405,681.25	3,405,681.25
July 15, 2021	10,575,000.00	3,405,681.25	13,980,618.25
January 15, 2022	--	3,141,306.25	3,141,306.25
July 15, 2022	11,715,000.00	3,141,306.25	14,856,306.25
January 15, 2023	--	2,848,431.25	2,848,431.25
July 15, 2023	13,405,000.00	2,848,431.25	16,253,431.25
January 15, 2024	--	2,520,806.25	2,520,806.25
July 15, 2024	15,590,000.00	2,520,806.25	18,110,806.25
January 15, 2025	--	2,111,568.75	2,111,568.75
July 15, 2025	17,485,000.00	2,111,568.75	19,596,568.75
January 15, 2026	--	1,652,587.50	1,652,587.50
July 15, 2026	19,270,000.00	1,652,587.50	20,922,587.50
January 15, 2027	--	1,146,750.00	1,146,750.00
July 15, 2027	21,585,000.00	1,146,750.00	22,731,750.00
January 15, 2028	--	607,125.00	607,125.00
July 15, 2028	24,285,000.00	607,125.00	24,892,125.00

## Rate Covenant of Bonds; Pledge of Revenues and Aviation Fuel Taxes to Bonds

Under the General Revenue Bond Law, the Department is required to impose, prescribe and collect rates, rentals, fees or charges for the use and services and the facilities of, the Airports System, and to revise such rates, rentals, fees or charges from time to time whenever necessary, so that, together with Aviation Fuel Taxes, the Airports System shall be and always remain self-sustaining. The Department has covenanted in the Director's Certificate to meet this statutory requirement. The Director's Certificate requires that such rates, rentals, fees or charges: (a) be sufficient to produce Revenues which, together with Aviation Fuel Taxes, will be at least sufficient: (i) to pay the costs of operation, maintenance and repair of the Airports System (including reserves therefor) and the expenses of the Department in such operations; (ii) to pay all bond indebtedness payable from or secured by Revenues and Aviation Fuel Taxes and to fund all reserves; (iii) to reimburse the General Fund of the State for all bond requirements for general obligation bonds issued for the Airports System, or issued to refund any such bonds; and (iv) to satisfy the other provisions of the Director's Certificate; and (b) be imposed, prescribed, adjusted, enforced and collected an amount which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a fiscal year (which the Department shall certify as Revenues to the Director of Finance for the next succeeding fiscal year for the purposes of this test), yield Net

Revenues and Taxes with respect to the immediately ensuing twelve months in an amount at least equal to one and twenty-five hundredths (1.25) times the Annual Adjusted Debt Service Requirement on all Bonds outstanding (the Department's covenant described in this paragraph, the "Rate Covenant").

While debt service on the Certificates is not included in the Annual Adjusted Debt Service Requirement, the Signatory Airlines (defined below) have consented to the ESCO Project. Thus, the Department will include scheduled payments under the Lease in the expenses of the Department for purposes of determining compliance with the Rate Covenant. See Appendix G – "SUMMARY OF CERTAIN PROVISIONS OF THE DIRECTOR'S CERTIFICATE – Rate Covenant" for a description of the Rate Covenant.

#### **Debt Service Reserve Fund for the Certificates**

The Department will create and establish a Debt Service Reserve Fund under the Indenture with the Trustee in the amount of 10% of the principal amount of the Certificates, which amount is less than 100% of maximum annual debt service or 125% of average annual debt service on the Certificates. Moneys in the Debt Service Reserve Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Certificates in the event moneys in the Certificate Fund established under the Indenture are insufficient to make such payments when due, whether on an interest payment date, redemption date, maturity date or otherwise. The Trustee shall, on the fifth day prior to any such payment date for principal of or interest on the Certificates, determine if sufficient funds are available in the Certificate Fund to make such payments when due and, if sufficient funds are not available in such fund, shall make the required transfers, if any, to the Certificate Fund to cure such deficiency. Upon the occurrence of an Event of Default under the Indenture and the exercise by the Trustee of the remedy specified in the Indenture, any moneys in the Debt Service Reserve Fund shall be transferred by the Trustee to the Certificate Fund and applied in accordance with the Indenture. On the final maturity date of the Certificates, any moneys in the Debt Service Reserve Fund may be used to pay the principal of and interest on the Certificates on such final maturity date. In the event of the redemption of the Certificates in whole, any moneys in the Debt Service Reserve Fund shall be transferred to the Certificate Fund and applied to the payment of the principal of and premium, if any, on the Certificates. See "Appendix E - SUMMARIES OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CERTIFICATES."

#### **Additional Indebtedness**

Currently, the Director's Certificate permits the issuance of additional bonds (the "Additional Bonds") payable from and secured by Revenues and Aviation Fuel Taxes on parity with the Bonds and senior in priority of payment to the Certificates, for the purpose of purchasing or constructing properties to constitute part of the Airports System or constructing improvements and extensions to the Airports System, or refunding outstanding Bonds. The Department must demonstrate that either: (1) Net Revenues and Aviation Fuel Taxes as certified by the Accountant for the Fiscal Year prior to the issuance of such Additional Bonds shall have been not less than 125% of the Annual Adjusted Debt Service Requirement for such Fiscal Year on the Bonds outstanding during such Fiscal Year, and (2) the annual Net Revenues and Aviation Fuel Taxes and unencumbered funds on deposit in the Airport Revenue Fund estimated by the Consulting Engineer to be derived during each of the three Fiscal Years following construction completion of the projects to be financed shall be not less than 125% of the Annual Adjusted Debt Service Requirement on all Bonds then outstanding plus the Additional Bonds proposed to be issued in such three Fiscal Years. In the alternative the Department may certify that, taking into account all outstanding Bonds and the proposed Additional Bonds (excluding any Bonds to be refunded) as if such Bonds had been issued at the beginning of the most recent Fiscal Year for which annual audited financial statements are available, the Net Revenues and Taxes for such Fiscal Year and any unencumbered funds on deposit in the Airport Revenue Fund were not less than 125% of the maximum Annual Adjusted Debt Service Requirement with respect to such outstanding Bonds and proposed Additional Bonds.

The Director's Certificate also permits the issuance of other bonds or obligations payable from the Revenues and Aviation Fuel Taxes junior and inferior to the payment of the Bonds from the Revenues and Aviation Fuel Taxes. The Lease is such a junior obligation. The Department is not required to satisfy the Additional Bonds test in order to enter into the Lease, and payments under the Lease are not included in determining the Annual Adjusted Debt Service Requirement.

## CERTIFICATES INSURANCE

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for certain Certificates maturing on August 1, 2021 (5.00% CUSIP 419808AF7), and August 1, 2023 (4.250% CUSIP 419808AG5). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an exhibit 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.**

AGM is a New York domiciled financial guaranty insurance company and 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. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

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 “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). 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. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity 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 June 12, 2013, S&P published a report in which it affirmed AGM’s “AA-” (stable outlook) financial strength rating. AGM can give no assurance as to any further ratings action that S&P may take.

On January 17, 2013, Moody’s issued a press release stating that it had downgraded AGM’s insurance financial strength rating to “A2” (stable outlook) from “Aa3”. AGM can give no assurance as to any further ratings action that Moody’s may take.

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, 2012.

***Capitalization of AGM.*** At September 30, 2013, AGM’s consolidated policyholders’ surplus and contingency reserves were \$3,458,464,281 and its total net unearned premium reserve was \$1,902,038,053, 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 Securities and Exchange Commission (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, 2012 (filed by AGL with the SEC on March 1, 2013);

- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (filed by AGL with the SEC on May 10, 2013);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 (filed by AGL with the SEC on August 9, 2013); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 (filed by AGL with the SEC on November 12, 2013).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Certificates 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.: 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included under the caption “CERTIFICATES INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference (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.

**Miscellaneous Matters.** AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured Certificates offered under this Official Statement and such purchases may constitute a significant proportion of the Certificates offered. AGM or such affiliate may hold such Certificates or uninsured Certificates for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Certificates or the advisability of investing in the Certificates. 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 “CERTIFICATES INSURANCE”.

## **DESCRIPTION OF THE ESCO PROJECT**

The Department has determined to implement an energy conservation project (the “ESCO Project”) in the statewide Airports System with the goal of reducing energy usage and demand. The ESCO Project would implement a variety of Energy Conservation Measures (“ECMs”) throughout the Airports System’s facilities, in accord with the Governor’s *A New Day in Hawaii* plan and the State’s *Hawaii Clean Energy Initiative* (“HCEI”). The ESCO Project’s estimated capital cost of approximately \$150,229,561 would be financed by the proceeds of the Certificates. The ESCO Project is intended to: (1) increase energy efficiency and building performance with the goal of reducing energy usage and demand; (2) improve management and efficiency of utility usage through monitoring and sub-metering; (3) reduce facilities life cycle costs including maintenance, equipment replacement, energy and water utilities, waste disposal and emergency power outages; (4) improve indoor environmental quality for occupants; and (5) address deferred repair and maintenance projects.

In May 2011, the Department released an Invitation for Proposal (“IFP”) to procure the ESCO Project under Section 36-41, HRS. Following a selection process specified in the IFP, the Department selected Johnson Controls, Inc., a Wisconsin corporation (“JCI”), as the ESCO in January 2012.



The Department entered into an agreement with JCI to conduct an Investment Grade Audit (“IGA”). The IGA is an in-depth and comprehensive analysis of the Department’s energy consumption in the Airports System. As part of the IGA process, JCI performed a complete engineering and energy survey of the Department’s energy consumption infrastructure while also reviewing the inventory of building design documents/drawings. JCI delivered a final IGA report in June 2013.

### **Energy Performance Contract**

Section 36-41, HRS authorizes agencies of the State to enter into multi-year energy performance contracts for the purpose of undertaking energy conservation or alternate energy measures. An energy performance contract may include design, installation, operation and maintenance of energy efficiency measures and equipment. An agency undertaking energy efficiency measures may continue to receive budget appropriations for energy expenditures at the amount of pre-energy efficiency measures, which shall rise in proportion to increases in the agency’s overall budget for the duration of the energy performance contract.

An energy performance contract must comply with the following requirements:

1. The term of the energy performance contract may not exceed 20 years.
2. The energy performance contract is contingent upon annual appropriation of funds. If sufficient funds are not appropriated the energy contract terminates on the last day of the fiscal year for which appropriations were made.
3. The energy performance contract may include a lease-purchase agreement pursuant to which the agency will receive title to the energy system being financed.
4. The payment obligation under the energy performance contract, including the year of installation, shall not exceed total energy cost savings attributed to the energy savings equipment being installed. The private sector provider shall pay the difference, if any, between annual verified savings and the amount of energy savings guaranteed. This guarantee shall be secured by a performance bond or the equivalent.

In December 2013, the Department executed the EP Contract with JCI. The EP Contract will require JCI to design, install, operate service and maintain the Equipment. The term of the EP Contract is 20 years and includes a two-year (24-month) construction period and an 18-year performance period. The EP Contract will include installation and commissioning, measurement and verification (M&V) of energy savings, HVAC premium service, service for lighting systems, service for controls, and, finally, service for installed photovoltaic systems. See “Energy Conservation Measures” below. The EP Contract provides for fixed costs of operating and maintenance during the construction period. Operating and Maintenance Costs under the EP Contract will escalate at the rate of three per cent per year during the term of the EP Contract.

The EP Contract will provide for a savings guarantee that covers both the construction period and performance period. The Lease is a separate document. Energy savings are projected to exceed the sum of: (1) Operations and Maintenance Costs under the EP Contract, and (2) Lease rent payments.

### **Energy Conservation Measures**

The ESCO Project consists of both: (i) the design, installation, operation and maintenance of the Equipment under the EP Contract, and (ii) the lease of the Equipment under the Lease. Energy and operational savings over the specified 20 year term of the EP Contract are anticipated to exceed the cost to design, purchase and install the Equipment as well as to operate and maintain the Equipment.

The EP Contract and the Lease provide for an estimated construction cost of \$150,229,561. ECMs will be implemented at 12 of the Airport System’s 15 airports. Approximately 74 percent of energy savings will be attributed to energy conservation measures (“ECMs”) to be installed at HNL, 18 percent of energy savings will be attributed to ECMs to be installed at Kahului, 3 percent of energy savings will be attributed to ECMs to be installed at Lihue, 2 percent of energy savings will be attributed to ECMs to be installed at Hilo, and the remaining 3 percent to ECMs to be installed at the other eight airports.

The EP Contract will implement the following ECMs. The percentage of savings that each ECM is anticipated to contribute to the total ESCO Project is listed following the description of each ECM:

1. Lighting – Interior and Exterior. Almost 75,000 interior and exterior fixtures will be affected by this ECM. For most of the airports in the Airports System, existing fixtures in public areas, private areas, maintenance areas and parking areas will be replaced with new high efficiency Light Emitting Diode (LED) fixtures and fluorescent equipment: 35.7 percent of total savings.
2. HVAC – Air System Upgrades – Chilled Water. This ECM includes the modification or replacement of various air handling systems throughout the Airports System served by chilled water: 33.4 percent of total savings.
3. HVAC – Chilled Water Upgrades. This ECM is closely related to the previous ECM. Work associated with this ECM provides for modifications to chilled water systems at the air handlers or central plants; specifically, associated controls system upgrades or replacement of some chillers: 14.1 percent of total savings.
4. HVAC – A/C Air-cooled Equipment. This ECM replaces existing air-cooled air-conditioning equipment with new higher-efficiency equipment. This ECM also includes continuous monitoring. Smart thermostats and smart power monitors will be employed throughout the Airports System to facilitate control strategies that will result in additional energy savings: 0.5 percent of total savings.
5. Transformer Replacement. This ECM replaces existing electrical transformers with new high-efficiency transformers. A total of 372 transformers of various sizes will be replaced throughout the Airports System, ranging from 3 kVA (kilovolt-amp) up to 500 kVA: 3.3 percent of total savings.
6. Solar Photovoltaic Systems. Solar photovoltaic (PV) systems will be a blend of roof-mounted arrays and covered parking lots throughout the Airports System. In aggregate, the PV systems will have a rated capacity of approximately 8.0 Megawatts – Direct Current (MW-DC): 6.5 percent of total savings
7. Equipment Replacement – Deferred Maintenance. This component specifically addresses equipment throughout the Airports System that has been identified during the IGA that is at the end of its useful life and must be replaced immediately. There is no claimed energy savings associated with this ECM; however, there is an equivalent capital replacement expense that is avoided along with reduced maintenance costs: No savings.
8. Other projects at HNL:
  - a. EWA Chiller Plant Upgrade. The Ewa central plant at Honolulu International Airport will be fully renovated. This work includes replacing all three chillers, associated pumps, and cooling towers, as well as changing the 4,160 volt electrical service with 480 volt service: 6.5 percent of total savings.
  - b. EWA CHW Piping Upgrade. This ECM will remove the existing secondary chilled water pumps in the Ewa Concourse and the Interisland Terminal. These secondary pumps were part of the original Ewa chiller plant primary/secondary configuration: No savings.

The ESCO Project involves replacement and upgrade of equipment that is essential to the operation of the Airports System. All new Equipment will utilize proven technology to achieve energy savings. Notwithstanding both the EP Contract and the Lease are subject to annual appropriation of funding by the State Legislature, the Department would not be able to operate the Airports System without utilizing the Equipment.

### **Energy Savings, Measurement and Verification**

JCI estimates that implementation of various measures contained in the Lease and the EP Contract will result in energy savings of 54,404,551 kilowatt hours (kWh) (electricity consumption) and 22,191 kilowatts (kW) (electricity demand), as well as savings of 46,295 thousand gallons (kGal) in water consumption. This savings equates to approximately \$17,233,657 in the first year following completion of the Project, or a 49 percent reduction in energy costs from the Airports Division's 2011 utility baseline for the buildings affected by the scope of the

project. Approximately seven percent of these savings will be derived from solar photovoltaic systems (PV) and the balance will come from traditional ECMs

JCI Energy Solutions Performance Engineers will conduct quarterly assessments of facility performance, and will calculate energy savings on an annual basis using International Performance Measurement and Verification Protocols. The EP Contract will require JCI to produce an annual savings reconciliation report comparing actual savings to contractually guaranteed savings. The Department will retain independent consultants to verify the annual savings reports.

**Energy Savings Guarantee**

JCI has agreed in the EP contract to guarantee utility savings of 49,872,696 kWh, 20,821 kW and 41,665 kGal, or approximately 91.7 percent of the estimated annual utility energy savings, and 100 percent of operations cost savings. This savings translates to \$15,807,168 of utility cost savings and \$2,545,000 of operations cost savings in the first full year following completion of the Project. The utility cost savings guarantee will escalate at a fixed rate of 5 percent per year and the operations cost savings guarantee will escalate at a fixed rate of 3 percent through the term of the EP Contract. The combined Energy and Cost Savings Guarantee equals \$518,045,765 over the 20 year term of the EP Contract. The EP Contract provides that JCI must pay the Department the amount by which verified savings during a year or shorter reporting period is less than the Energy and Cost Savings Guarantee for such year or reporting period. Payment must be made within 30 days of the Department’s acceptance of the Annual Savings Report.

**Estimated Sources and Uses of Funds**

The following table sets forth the estimated sources and uses of the proceeds of the Certificates:

<u>SOURCES:</u>	<u>Certificate</u>
Par Amount	\$167,740,000.00
Net Original Issue Premium	\$ 6,909,327.10
Total Sources	<u>\$174,649,327.10</u>
<u>USES:</u>	
Deposit to the Project Fund	\$150,229,600.98
Deposit to the Debt Service Reserve Fund	\$ 16,774,000.00
Deposit to the Certificate Fund for Capitalized interest	\$ 5,973,720.46
Issuance Expenses (including underwriters’ discount, insurance premium and other costs of issuance)	\$ 1,672,005.66
Total Uses	<u>\$174,649,327.10</u>

**DEPARTMENT OF TRANSPORTATION**

**Department Organization**

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

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

## **Department Management**

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

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

## **Management Personnel**

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

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

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

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

**Ross M. Higashi, Fiscal Management Officer**, has been with the Airports Division for 23 years. He was promoted to the head of the Accounting Branch of the Airports Division in February 2007. Previously, Mr. Higashi was the Audit Branch Supervisor for 15 years. He also spent five years in public accounting. Mr. Higashi graduated from the University of Hawaii with a B.S. degree in Accounting.

## **Budget Process**

At least 30 days before the State Legislature convenes in regular session in January of odd-numbered years, the Governor submits to the Legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The Department's proposed operating and capital budgets are part of the executive branch budget. In each regular session in even-numbered years the Governor may submit a supplemental appropriations bill to amend operating and capital appropriations for the second year of the fiscal biennium.

The regular session is limited to a period of 60 days. In each legislative session no appropriations bill may be passed before the general appropriations bill or the supplemental appropriations bill has been approved by both houses of the Legislature and transmitted to the Governor. The Governor has ten days to consider bills passed ten or more days prior to the end of the legislative session, and 45 days to approve bills passed less than ten days prior to adjournment. The Governor may line item veto, or veto any specific item in a bill that appropriates money for specific purposes.

The Legislature has never failed to approve a general appropriations or supplemental appropriations bill. The Legislature has never failed to appropriate funds for any lease.

### **Labor Relations**

The Airports Division had 1,085 employees as of October 31, 2013. State law grants public employees, other than appointed officials and division administrators, the right to organize for the purpose of collective bargaining. Each recognized bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. Under State law, Airports System workers may not strike in the event that an impasse is declared in any labor negotiations.

The Airports Division's employees are represented by four unions (and six recognized bargaining units, not including the excluded employees) as follows:

- United Public Workers (the "UPW") (Unit 1, blue collar employees) – 567 employees;
- Hawaii Government Employees Association (the "HGEA") (Unit 2, blue collar supervisors; Unit 3, white collar employees; Unit 4, white collar supervisors; and Unit 13, professional and scientific employees) – 304 employees;
- Hawaii Fire Fighters Association IAFF Local 1463 (the "HFFA") (Unit 11, rescue and firefighters) – 172 employees; and
- American Federation of State, County and Municipal Employees Local 152 (the "AFSME") (managers and other excluded employees) – 42 employees.

HGEA and AFSME agreed to pay increases effective for the period July 1, 2013 to June 30, 2015 amounting to approximately 4% each year along with increasing medical insurance premium contributions from 50% to 60%. UPW agreed to similar pay increases effective for the period July 1, 2013 to June 30, 2017.

The State is currently in binding arbitration with the HFFA. An arbitration hearing was conducted in March 2013 and November 2013. The arbitrators have prepared a draft award that has not been disclosed to the public.

## **THE AIRPORTS SYSTEM**

### **General**

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

primary airports accounted for approximately 98.9% of total enplaned passengers in the Airports System in fiscal year 2013.\*

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

## **Primary Airports**

***Honolulu International Airport.*** Honolulu International, the primary airport in the Airports System, is located approximately three miles west of downtown Honolulu. Honolulu International is the largest and busiest of the State's airports, accounting for 59.6% of all passengers enplaned in the Airports System in fiscal year 2013. In 2009, according to the Federal Aviation Administration (the "FAA"), Honolulu International was the twenty-fifth busiest in the United States in total passengers (enplaned and deplaned). The 2012 Airports Council International Worldwide Traffic Report listed Honolulu International as the 81st busiest airport in the term of total passengers. These rankings reflect Honolulu International's (1) large origin-destination passenger base (related to the visitor industry), (2) geographic location in the central Pacific, and (3) role as a hub for Hawaiian Airlines and Mesa Airlines (operating as go!), which provide connecting service from Honolulu International to the other Airports System primary airports. Honolulu International serves interisland flights, domestic overseas flights and international flights to destinations on the Pacific Rim, Oceania and Canada.

Honolulu International has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Honolulu International has 55 total gate positions, including 29 overseas aircraft gate positions with loading bridges, 13 interisland aircraft parking positions, 11 commuter aircraft parking positions and public parking spaces for 5,740 vehicles. Honolulu International also provides runways for Hickam Air Force Base and the Hawaii Air National Guard.

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

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

***Kona International Airport at Keahole.*** Kona (formerly Keahole-Kona International Airport) is located in North Kona on the western shore of the island of Hawaii, approximately seven miles northwest of Kailua-Kona, the business center of the western part of the Island of Hawaii. Kona International, which was opened in 1970, has one runway of 11,000 feet. The terminal complex includes ticket counters, ten boarding gates (serving 14 aircraft parking spots) and ancillary service facilities. Kona International has public parking facilities for approximately 1,380 vehicles and a federal inspection system facility which can accommodate approximately 400 passengers per hour. In addition to interisland service, Kona International provides facilities for domestic overseas flights and international flights to and from Canada.

---

\* The fiscal year for the State of Hawaii begins on July 1 of each year and ends on June 30 of the following calendar year. For purposes of this report, "fiscal year" refers to the calendar year in which such fiscal year ended. For example, "fiscal year 2013" means the fiscal year that began July 1, 2012 and ended June 30, 2013.

**Hilo International Airport.** Hilo International (formerly General Lyman Field) is located immediately east of Hilo, the business center of the eastern shore of the Island of Hawaii and the governmental center of the Island of Hawaii. Hilo International has a 9,800 foot runway and a 5,600 foot runway. The terminal complex includes ticket counters, ten aircraft gates and ancillary service facilities. Hilo International has public parking facilities for approximately 550 vehicles and eight T-hangars. Hilo International provides facilities for interisland and overseas flights.

The following tables summarize passenger counts and aircraft operations at Honolulu International and the neighbor island airports in the Airports System and landed weights for fiscal years 2009 through 2013:

**TABLE 1  
PASSENGERS AND AIRCRAFT OPERATIONS**

	Fiscal Year Ending June 30,					2013 vs 2012 % Increase (Decrease)
	2009	2010	2011	2012	2013	
<b>Enplaned Passenger Activity</b>						
Honolulu International Airport	8,899,251	9,118,113	9,161,998	9,258,218	9,853,086	6.4%
Kahului Airport	2,542,322	2,587,097	2,747,204	2,837,763	3,030,789	6.8%
Kona International Airport at Keahole	1,332,223	1,320,991	1,351,323	1,362,357	1,444,380	6.0%
Lihue Airport	1,230,381	1,220,046	1,220,905	1,281,867	1,358,556	6.0%
Hilo International Airport	636,005	659,517	624,238	651,458	679,594	4.3%
All Others	201,968	173,128	176,624	174,633	176,354	1.0%
<b>Total Passengers</b>	<b>14,842,150</b>	<b>15,078,892</b>	<b>15,282,292</b>	<b>15,566,296</b>	<b>16,542,759</b>	<b>6.1%</b>
Honolulu International Airport as a Percentage of Total Enplaned Passengers	60.0%	60.5%	60.0%	59.5%	59.6%	
Interisland Passengers	7,206,820	7,162,646	6,800,509	6,784,974	7,118,800	4.9%
Overseas Passengers	7,635,330	7,916,246	8,481,783	8,781,322	9,423,959	7.3%
<b>Total Statewide Enplaned Passengers</b>	<b>14,842,150</b>	<b>15,078,892</b>	<b>15,282,292</b>	<b>15,566,296</b>	<b>16,542,759</b>	<b>6.3%</b>
Interisland Passengers as a Percentage of Total Enplaned Passengers	48.6%	47.5%	44.5%	43.5%	43.0%	
Origination-Destination Passenger	12,928,043	13,095,563	13,266,369	13,485,779	14,246,917	86.1%
Connecting Passengers	1,914,107	1,983,329	2,015,923	2,080,517	2,295,842	13.9%
<b>Total Statewide Enplaned Passengers</b>	<b>14,842,150</b>	<b>15,078,892</b>	<b>15,282,292</b>	<b>15,566,296</b>	<b>16,542,759</b>	
<b>Aircraft Operations (Combined Landing and Take-Off Reported by Air Traffic Control Tower)</b>						
Honolulu International Airport	276,272	263,425	267,967	266,326	284,532	6.8%
Kahului Airport	119,311	116,414	123,041	124,519	130,620	4.9%
Kona International Airport at Keahole	111,848	127,964	113,516	110,324	119,098	8.0%
Lihue Airport	99,154	108,313	106,033	109,739	122,240	11.4%
Hilo International Airport	66,294	71,212	82,499	75,367	88,100	16.9%
All Others	212,400	194,061	198,806	201,827	210,106	4.1%
<b>Total Aircraft Operations</b>	<b>885,279</b>	<b>881,389</b>	<b>891,862</b>	<b>888,102</b>	<b>954,696</b>	<b>7.5%</b>
Honolulu International Airport as a Percentage of Total Aircraft Operations	31.2%	29.9%	30.0%	30.0%	29.8%	

Source: Department of Transportation – Airports Division Planning Section.

**TABLE 2  
LANDED WEIGHTS  
(1,000 pound units)**

Fiscal Year Ending June 30,										
	2009	% of Total Landed Weights	2010	% of Total Landed Weights	2011	% of Total Landed Weights	2012	% of Total Landed Weights	2013	% of Total Landed Weights
Honolulu International Airport	14,888,872	62%	14,674,574	63%	14,645,515	63%	15,020,765	63%	16,136,632	64%
All Other Airports	9,153,934	38%	8,601,731	37%	8,526,267	37%	8,853,192	37%	9,075,102	36%
Total Landed Weights	24,042,806	100%	23,276,305	100%	23,171,782	100%	23,873,957	100%	25,211,734	100%

  

Fiscal Year Ending June 30,										
	2009	% of Total Landed Weights	2010	% of Total Landed Weights	2011	% of Total Landed Weights	2012	% of Total Landed Weights	2013	% of Total Landed Weights
Overseas	12,772,382	53%	13,013,149	56%	13,565,045	59%	14,038,159	59%	15,180,746	60%
Interisland	11,270,424	47%	10,263,156	44%	9,606,737	41%	9,835,798	41%	10,030,988	40%
Total Landed Weights	24,042,806	100%	23,276,305	100%	23,171,782	100%	23,873,957	100%	25,211,734	100%

Source: Department of Transportation – Airports Division Planning Section.

### Airline Service and Passenger Activity Operations

Honolulu International Airport is served by 31 airlines, including 15 major domestic and national U.S. airlines, 5 airlines that provide interisland service, and 12 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 15 airlines, including 10 major and national airlines, 5 regional and commuter airlines, and 1 foreign-flag airline.

Air transportation in Hawaii is characterized by three types of service: (1) domestic service among the islands in Hawaii, referred to as “interisland” service, (2) domestic overseas service to the continental United States, and (3) international overseas service, primarily to destinations in the Pacific Rim and Oceania. Interisland service accounted for 43.0% of enplaned passengers in fiscal year 2013. Overseas service, including flights to both the continental United States and international destinations, accounted for 56.4% and 57.0% of enplaned passengers in the Airports System for fiscal years 2012 and 2013, respectively.

The number of passengers enplaned in the Airports System in fiscal year 2013 increased 6.3% over fiscal year 2012. The 6.3% increase is mainly due to increased traffic from both interisland and overseas passengers to the five primary airports.

Since March 2008, Hawaiian Airlines, Inc. has provided the majority of all interisland service within the State. In fiscal year 2013, Hawaiian Airlines had the largest market share of enplaned passengers at Honolulu International Airport, with a 46.8% share. Recently, go!, an airline service provided by Mesa Airlines, formed a joint venture with Mokulele Airlines to provide interisland service in the State. Under the terms of the agreement, each airline operates under their respective brand names, with Mesa Airlines controlling the routes previously operated by Mokulele Airlines’ code sharing partner Shuttle America. On January 5, 2010, Mesa Air Group, Inc., the parent of Mesa Airlines, filed for Chapter 11 bankruptcy protection. The go!-Mokulele joint venture is not included in the Chapter 11 proceedings and intends to continue to operate its full flight schedule.

### Air Cargo Operations

Cargo service providers pay applicable landing fees and Airports System support charges (“Airports System Support Charges”) based on landed weight, not cargo volume. Further, ground rentals for cargo facilities are based on rented square footage, not cargo volume. Total air cargo (enplaned and deplaned) accommodated in the Airports System increased 5.17% between fiscal years 2012 and 2013. Deplaned cargo tonnage increased 5.57% between fiscal years 2012 and 2013; enplaned cargo tonnage increased 4.60% in the same period. Deplaned cargo amounts to 5.57% of the total cargo tonnage, reflecting the Hawaii economy’s reliance on imports to support the visitor industry and other businesses. The increase is attributed to the increased usage of mail cargo.



## Airline Operations

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2013: Air Canada, Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., Allegiant Air, L.L.C., All Nippon Airways Co., Ltd., American Airlines, Inc., Asiana Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Company, Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and Pacific Wings, L.L.C.

In fiscal year 2013, interisland flights accounted for 33.1% of enplaned passengers at Honolulu International and 45.4% of all enplaned passengers in the Airports System. Overseas (both domestic and international) flights accounted for 66.9% of enplaned passengers at Honolulu International and 70.1% of enplaned passengers in the Airports System. The share of overseas passengers enplaned at the primary airports, excluding Honolulu International, decreased slightly from 30.6% in fiscal year 2012 to 29.9% in fiscal year 2013. The share of interisland passengers at the primary airports, excluding Honolulu International, increased slightly from 50.9% in fiscal year 2012 to 52.1% in fiscal year 2013. Hawaiian Airlines had 46.8% market share of all enplaned passengers at Honolulu International, followed by Delta Air Lines 9.4%, United Airlines 6.8%, Japan Airlines 5.1%, Continental Airlines 6.5%, American Airlines 4.1% and Mesa Airlines 2.7%. Other airlines had 18.6% market share of enplaned passengers at Honolulu International.

Enplaned Passenger (000s)	Fiscal Year Ending June 30,									
	2009	% of Total Enplaned Passengers	2010	% of Total Enplaned Passengers	2011	% of Total Enplaned Passengers	2012	% of Total Enplaned Passengers	2013	% of Total Enplaned Passengers
Domestic Overseas	5,739	38.7%	5,820	38.6%	6,326	41.4%	6,291	40.4%	6,659	40.3%
International	1,896	12.8%	2,096	13.9%	2,155	14.1%	2,490	16.0%	2,765	16.7%
Inter-island	7,207	48.5%	7,163	47.5%	6,801	44.5%	6,785	43.6%	7,119	43.0%
Total	14,842	100%	15,079	100%	15,282	100%	15,566	100%	16,543	100.0%

American Airlines, Inc., AMR corporation, American Eagle Holdings Corporation and American Eagle Airlines, Inc. (collectively "American Airlines") filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code in November 2011. On February 14, 2013, American Airlines announced a merger agreement with US Airways to create the largest airline in the world in terms of operating revenue and revenue passenger miles. The proposed merger would be implemented as a part of American Airlines' plan of reorganization, which was confirmed by the Bankruptcy court on September 12, 2013. On November 12, 2013, American Airlines and US Airways reached a settlement agreement with the U.S. Department of Justice and several states who had filed an action to enjoin the proposed merger. The settlement agreement will require American Airlines Group, Inc., the merged carrier, to sell rights to approximately 15% of its combined take-off and landing slots at Ronald Reagan National Airport and a lesser number of slots at several other major airports. The carrier also agreed to maintain hub airport service at seven regional airports for at least three years. The merger was completed on December 9, 2013. However full integration of operations of the two airlines is expected to take several years to complete.

Japan Airlines (Japan Airlines International Co., Ltd./Jalways Co., Ltd) filed for rehabilitation in January 2010, a court-led restructuring similar to a Chapter 11 filing in the United States. On February 24, 2011, Japan Airlines informed the Department of Transportation – Airports Division that Jalways Co., Ltd. was integrated into Japan Airlines effective December 1, 2010. Following the integration Jalways Co., Ltd. no longer had a separate existence, Japan Airlines assumed operations of all flights and service by Japan Airlines has continued. Continental Airlines merged with United Airlines effective October 1, 2010. On June 1, 2012, Asiana Airlines entered Hawaii's market adding 30 flights per month from Korea to Honolulu. On June 22, 2012, Allegiant Air added 20 flights per month from Las Vegas and Phoenix to Honolulu. Such additions have added to enplanement growth in fiscal year 2013.

The following table presents the landed weights for each of the Signatory Airlines and the Non-signatory Airlines in fiscal years 2009 through 2013.

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

	2009	2010	2011	2012	2013
<b>Signatory Airlines</b>					
Hawaiian Airlines, Inc.	8,541,495	8,385,730	8,454,926	9,005,831	9,772,907
United Airlines, Inc. (1)	2,606,831	2,540,346	2,458,698	2,333,376	1,999,497
Delta Airlines, Inc. (2)	766,182	858,887	1,735,415	1,762,399	1,898,870
American Airlines, Inc.	986,390	1,010,944	1,050,952	976,450	980,788
Alaska Air, Inc. (4)	237,312	431,568	710,352	965,664	1,215,373
Japan Airlines International Co., Ltd. (5)	-	-	439,967	770,265	719,597
United Parcel Service Co.	718,782	682,931	728,123	766,787	768,419
Federal Express Corporation	725,534	727,412	749,309	733,107	747,947
Continental Airlines, Inc. (1)	429,872	494,429	587,617	706,114	880,206
Mesa Airlines, Inc. (3)	1,048,664	876,924	762,622	676,800	676,283
US Airways, Inc. (6)	345,708	401,616	399,470	386,892	395,208
Korean Airlines Company, Ltd.	179,874	212,109	282,281	376,986	441,009
Hawaii Island Air, Inc. (11)	-	-	-	288,317	480,327
All Nippon Airways Co. Ltd. (7)	-	62,476	221,584	244,140	219,580
China Airlines, Ltd.	168,116	185,020	161,609	209,698	219,858
Qantas Airways, Ltd.	191,876	207,300	193,368	203,104	224,320
Air Canada	175,532	182,448	192,640	200,640	181,120
Westjet	110,732	141,651	160,665	199,158	217,976
Kalitta Air, LLC	147,666	185,895	184,206	154,394	177,252
Mokulele Flight Service, Inc. (8)	553,826	423,165	127,075	130,620	192,712
Aeko Kula, Inc. (12)	-	-	-	127,426	802,579
Philippine Airlines, Inc.	65,683	84,214	233,152	100,491	68,128
Pacific Wings LLC	97,266	18,207	31,790	51,264	43,894
Air New Zealand, Ltd.	85,650	39,475	37,760	40,930	52,125
Evergreen International	81,730	143,010	139,230	35,280	7,326
Air Pacific, Ltd.	22,736	15,152	21,984	21,776	21,648
Asiana Airlines, Inc. (14)	-	-	-	3,298	138,933
North American Airlines	5,828	5,110	3,720	630	1,600
Allegiant Air LLC (13)	-	-	-	396	112,266
Polar Air Inc. (15)	-	-	-	-	10,281
Aloha Airlines, Inc. (9)	0	0	0	0	0
America West Airlines, Inc. (6)	0	0	0	0	0
ATA Airlines, Inc. (10)	0	0	0	0	0
Continental Micronesia	155,604	159,627	79,334	0	0
Jalways Company, Ltd. (5)	1,276,500	1,272,676	476,534	0	0
Northwest Airlines, Inc. (2)	1,287,428	921,189	0	0	0
<b>Total Then-Current Signatory Airlines</b>	<b>21,012,817</b>	<b>20,669,511</b>	<b>20,624,383</b>	<b>21,472,233</b>	<b>23,668,029</b>
<b>Total Then-Current Nonsignatory Airlines</b>	<b>3,029,989</b>	<b>2,606,794</b>	<b>2,547,399</b>	<b>2,401,724</b>	<b>1,543,705</b>
<b>Total All Airlines</b>	<b>24,042,806</b>	<b>23,276,305</b>	<b>23,171,782</b>	<b>23,873,957</b>	<b>25,211,734</b>

Source: Department of Transportation – Airports Division Planning Section.

- (1) Continental Airlines merged with United Airlines effective October 1, 2010.
- (2) Delta Airlines and Northwest Airlines merged in 2008 and, in mid-fiscal year 2010, began operating under a single FAA Certificate under the Delta name. Figures for fiscal year 2011 reflect operations under the single name, while figures for prior fiscal years are kept separated between the two airlines.
- (3) Signatory Airline status effective April 1, 2006.
- (4) New carrier and Signatory Airline status effective October 1, 2007.
- (5) Japan Airlines Co., Ltd./Jalways Co., Ltd. filed for Chapter 15 bankruptcy on January 19, 2010. Jalways Co., Ltd. integrated into Japan Airlines International Co., Ltd. effective December 1, 2010.
- (6) Name changed from America West Airlines, Inc. to US Airways, Inc. effective September 26, 2007.
- (7) Suspended service in June 2007. Restarted service in January 2010.
- (8) Signatory Airline status effective October 1, 2008.
- (9) Filed for bankruptcy protection on March 21, 2008 and ceased operations on March 31, 2008.
- (10) Filed for bankruptcy protection on April 2, 2008 and ceased operations April 3, 2008.
- (11) Non-Signatory Airline status effective July 1, 2008.
- (12) Signatory Airline status effective May 1, 2012.
- (13) Signatory Airline status effective June 22, 2012.
- (14) Signatory Airline status effective June 1, 2012.
- (15) Signatory Airline status effective March 1, 2013.

Scheduled air seats are projected to reach 10.768 million for 2013, which would exceed the previous peak of 10.361 million air seats achieved in 2006. This increase includes new routes that began in 2013, including Hawaiian Airlines direct service to Taipei. In addition, China Eastern will expand its Shanghai service to 5 times weekly in December 2013, and Air China is scheduled to commence the first ever Beijing-Honolulu service in January 2014, followed by Hawaiian Airlines in April 2014.

The following table presents the destinations and capacity in annual number of seats of direct air service to Hawaii added in 2013.

#### Additional Airline Capacity – Select Routes in 2013<sup>1</sup>

Arrival City	Air Seats Added	% Increase
Auckland, NZLD	31,350	123.4%
Bellingham, WA	41,052	101.0%
Brisbane, AUS	32,780	857.7%
Fukuoka, JPN	50,754	63.4%
Los Angeles, CA	24,633	1.5%
Melbourne, AUS	22,236	581.8%
Nagoya, JPN	14,656	12.1%
New York, NY	44,100	127.1%
Phoenix-Mesa, AZ	16,279	NA
Portland, OR	23,352	12.7%
San Diego, CA	19,937	11.6%
San Francisco, CA	16,915	2.5%
Sapporo, JPN	30,368	NA
Seattle, WA	30,346	6.5%
Seoul, KOR	29,404	11.4%
Shanghai, CHIN	10,168	48.0%
Sydney, AUS	14,882	8.4%
Taipei, TWN	21,329	NA
Washington, D.C.	27,993	107.3%
Other <sup>2</sup>	13,733	0.4%
<b>Total</b>	<b>516,207</b>	<b>6.80%</b>

<sup>1</sup>As of September 2013; Direct flights

<sup>2</sup>Includes 35 cities such as Tokyo, Osaka, Canadian cities, and other U.S. cities

Source: Hawai'i Tourism Authority and State of Hawai'i, Department of Business, Economic Development & Tourism

The following table presents a breakdown by point of origin of visitors to Hawaii in 2008 and 2012-2013. This table illustrates both the growth and increased diversity in travel to Hawaii.

#### Visitor Diversification - Arrivals by Region (Air Only)

Region	2008	% of Total	Last 12 Months <sup>1</sup>	% of Total
US Mainland	4,452,343	66.3	5,005,129	61.6
Japan	1,175,199	17.5	1,501,688	18.5
Canada	359,580	5.4	509,631	6.3
Australia	137,812	2.1	293,186	3.6
Europe	115,172	1.7	139,651	1.7
Korea	38,110	0.6	176,775	2.2
China	54,235	0.8	131,363	1.6
Latin America	18,896	0.3	29,958	0.4
Taiwan <sup>2</sup>	11,482	0.2	20,228	0.2
Other	350,607	5.2	314,705	3.9
<b>Total</b>	<b>6,713,436</b>	<b>100.0</b>	<b>8,122,314</b>	<b>100.0</b>

<sup>1</sup>Last twelve months from October 2012 to September 2013

<sup>2</sup>Beginning November 1, 2012 Taiwan entered into the "Visa Waiver" program

## Financial Information

The following table represents a summary of Revenues, Net Revenues and Taxes and Debt Service Requirement on Airports System Revenue Bonds for the fiscal years 2009 through 2013. See "SOURCES OF REVENUE AND AVIATION FUEL TAXES" below for a discussion of the Airports Division's major sources of income.

**TABLE 4**  
**CALCULATIONS OF NET REVENUES AND TAXES AND**  
**DEBT SERVICE REQUIREMENT**  
**(in thousands - Fiscal Year Ending June 30)**

	2009	2010	2011	2012	2013
Revenues and taxes:					
Concession fees:					
Duty-free	\$38,000	\$38,000	\$37,525	\$41,088	\$41,338
Other concessions	76,063	89,542	94,641	102,485	110,053
Airport landing fees	60,574	55,948	60,097	59,640	62,444
Aeronautical rentals	70,181	78,120	92,464	88,715	101,256
Non-aeronautical rentals	12,306	13,724	13,350	13,417	14,241
Aviation fuel tax	3,549	3,633	4,141	4,338	4,674
Airports System Support Charges	874	763	711	421	1
Interest income (1)	16,150	6,239	5,976	1,989	1,991
Federal operating grants	6,758	4,117	5,034	3,315	5,039
Miscellaneous	4,128	5,001	8,700	4,134	5,047
Business Interruption Insurance Recovery					19,000
<b>Total revenues and taxes</b>	<b>\$288,583</b>	<b>\$295,087</b>	<b>\$322,639</b>	<b>\$319,542</b>	<b>\$365,084</b>
Operating and maintenance expenses:					
Salaries & wages	\$75,396	\$70,603	72,325	75,670	83,989
Other personnel services	56,493	53,253	50,533	48,683	52,602
Utilities	34,200	34,872	39,981	47,263	50,360
Repairs & maintenance	17,300	15,474	14,722	16,696	20,181
Special Maintenance	21,508	7,108	10,307	9,109	6,550
DOT administrative expenses	4,839	5,195	4,836	5,182	5,445
State of Hawaii surcharge of gross receipts	10,744	12,095	12,018	13,709	12,474
Materials and supplies	5,618	4,694	4,143	5,040	5,557
Insurance	4,121	3,253	3,210	3,169	3,189
Others	3,398	6,371	3,302	3,158	3,961
Total operating & maintenance expenses (2)	\$233,617	\$212,918	\$215,377	\$227,679	\$244,308
General obligation bonds principal and interest (3)	29	-	-	-	-
Major maintenance, renewal and replacement account reserve reimbursement	250	1,290	2,913	2,545	20
<b>Total deductions</b>	<b>\$233,896</b>	<b>\$214,208</b>	<b>\$218,290</b>	<b>\$230,224</b>	<b>\$244,328</b>
<b>Net revenues and taxes</b>	<b>54,687</b>	<b>80,879</b>	<b>104,349</b>	<b>89,318</b>	<b>120,756</b>
Funded coverage account (4)	14,304	15,430	19,373	19,311	21,223
<b>Adjusted net revenues and taxes (A)</b>	<b>\$68,991</b>	<b>\$96,309</b>	<b>\$123,722</b>	<b>\$108,629</b>	<b>\$141,979</b>
Debt service requirement:					
Airports systems revenue bonds	57,216	61,719	60,689	65,018	81,010
Less credits to the interest account (5)	(17,453)	(16,804)	0	0	0
<b>Total debt service requirement (B)</b>	<b>\$39,763</b>	<b>\$44,915</b>	<b>\$60,689</b>	<b>\$65,018</b>	<b>\$81,010</b>
<b>Debt Service Coverage (A)/(B)</b>	<b>1.74x</b>	<b>2.14x</b>	<b>2.04x</b>	<b>1.67x</b>	<b>1.75x</b>
Debt service coverage requirement	1.25x	1.25x	1.25x	1.25x	1.25x
Passenger Airline Payments Per Enplaned Passenger (CPE)	\$7.47	\$7.65	\$8.76	\$8.27	\$8.56

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2009 to 2013.

- (1) Includes interest on investment of Bond proceeds and Airport Revenue Fund receipts.
- (2) Does not include depreciation.
- (3) The Department is required to reimburse the State General Fund from Revenues for debt service on general obligation bonds of the State appropriated for the Airports System. The last such general obligation bonds appropriated for the Airports System was repaid in fiscal year 2009.
- (4) Includes rolling coverage on Airport Revenue Bonds.
- (5) Airports System deposit of available funds from prior year unrestricted cash into the Airport Revenue Fund for credit to the Interest Account. The available funds reduced the amount of interest to be paid or credited during such year to the Interest Account as required by the Certificate.

The following table presents a summary of cash and cash equivalents and investments for fiscal years 2009 to 2013.

**TABLE 5**  
**SUMMARY OF CASH AND CASH EQUIVALENTS AND INVESTMENTS**

**Fiscal Year Ended June 30,**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Petty Cash	\$ 17,805	\$ 17,805	\$ 17,805	\$4,765	\$4,765
Cash in State Treasury	518,462,026	964,195,513	1,001,331,865	1,029,964,060	1,094,427,616
Repurchase agreements	52,789,337	96,893,008	15,832,450	18,298,726	18,298,726
Certificates of deposit	22,462,176	-	81,060,558	78,594,282	78,594,282
	<u>\$593,731,344</u>	<u>\$1,061,106,326</u>	<u>\$1,098,242,678</u>	<u>\$1,126,861,833</u>	<u>\$1,191,325,389</u>
Reflected in the balance sheet as follows:					
Cash and cash equivalents:					
Unrestricted	\$336,793,740	\$445,758,508	\$494,704,677	\$549,278,665	\$571,171,775
Restricted	181,686,091	518,454,810	506,644,993	480,690,160	523,260,606
Total cash and cash equivalents	<u>\$518,479,831</u>	<u>\$964,213,318</u>	<u>\$1,001,349,670</u>	<u>\$1,029,968,825</u>	<u>\$1,094,432,381</u>
Investments – restricted	75,251,513	96,893,008	96,893,008	96,893,008	96,893,008
Total cash, cash equivalents and investments	<u>\$593,731,344</u>	<u>\$1,061,106,326</u>	<u>\$1,098,242,678</u>	<u>\$1,126,861,833</u>	<u>\$1,191,325,389</u>

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

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2009 to 2013.

### Projected Financial Performance

Table 6 presents a summary of the Department’s projected Net Revenues and debt service coverage of the Airports System for the fiscal years ending June 30, 2014 through 2019. Projected Net Revenues are based on fiscal year 2013 enplanements, assuming a 0.9 percent growth in enplaned passengers in fiscal year 2014 and 1.3 percent growth in enplaned passengers in future fiscal years, as well as a 1 percent annual growth in landed weights. Projected debt service coverage is calculated based on completion of projected capital improvements and debt service to be paid on Bonds issued for such capital improvements.

The estimates, forecasts or projections of the Department described in this Official Statement have been internally generated by the Department without benefit of outside consultants. The achievement of any estimates, forecasts or projections may be affected by fluctuating economic and other market conditions and other uncertainties that cannot be predicted, and depends upon the occurrence of other future events that cannot be assured. Furthermore, estimates, forecasts and projections in this Official Statement are subject to uncertainties, including the possibility that some of the assumptions used to develop such estimates, forecasts and projections will not be realized and that unanticipated events and circumstances will occur. Inevitably, some assumptions used to develop the estimates will not be realized and unanticipated events and circumstances will occur. Therefore, the actual results of forecasts, estimate and projections and financial performance achieved during the estimate periods will vary from the forecasts, estimates and projections, and such variations could be material.

**TABLE 6  
PROJECTED FINANCIAL PERFORMANCE**

Net Revenues and Debt Service Coverage – Airports Division Projection  
(\$000s)

	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
<b>Net Revenues</b>						
Revenues and Aviation Fuel Taxes	\$343,407	\$364,475	\$366,824	\$396,383	\$440,675	\$456,077
Costs of Op., Maint., and Repair before ESCO	(254,114)	(269,296)	(281,138)	(293,792)	(312,219)	(326,157)
Guaranteed Savings Net of M&V and Maint.	0	2,387	15,452	14,549	15,268	15,809
Deposit to Maint, Renewal, and Repl. Acct.	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Net Revenues and Taxes	\$86,293	\$94,566	\$98,138	\$114,139	\$140,725	\$142,729
Funded Coverage Account Balance <sup>1</sup>	20,253	20,253	22,029	22,029	32,386	33,777
<b>Adjusted Net Revenues and Taxes</b>	<b>\$106,546</b>	<b>\$114,819</b>	<b>\$120,167</b>	<b>\$136,168</b>	<b>\$173,111</b>	<b>\$176,506</b>
<b>Annual Adjusted Debt Service Requirement</b>						
Gross Debt Service <sup>2</sup>	\$76,624	\$79,804	\$88,118	\$88,117	\$129,544	\$135,107
Signatory Airline Prepaid Interest	(13,222)	(9,305)	(14,677)	0	0	0
Available PFC Revenues	0	(4,317)	(5,720)	(5,720)	(17,338)	(22,902)
Annual Adjusted Debt Service Requirement	\$63,402	\$66,181	\$67,720	\$82,397	\$112,206	\$112,205
<b>Debt Service Coverage</b>	<b>1.68x</b>	<b>1.73x</b>	<b>1.77x</b>	<b>1.65x</b>	<b>1.54x</b>	<b>1.57x</b>
<b>Funds Available to Pay COPs Debt Service</b>	\$43,144	\$48,638	\$52,447	\$53,771	\$60,905	\$64,301
Estimated COPs Debt Service <sup>3</sup>	0	0	8,675	13,345	14,066	14,606
<b>Passenger Airlines Payment Per Enplaned Passenger (CPE)</b>						
Total Payment	\$138,650	\$154,453	\$149,635	\$173,548	\$211,074	\$215,851
Enplaned Passengers	16,685	16,899	17,116	17,336	17,558	17,784
Passenger Airlines CPE	\$8.31	\$9.14	\$8.74	\$10.01	\$12.02	\$12.14

<sup>1</sup>Indicates the amount of unencumbered funds certified by the Airports Division for the purpose of the Rate Covenant.

<sup>2</sup>Debt Service reflects Additional Bonds to be issued as described in “Capital Improvement Program”.

<sup>3</sup>Preliminary, subject to change.

Source: Department of Transportation-Airports Division

**SOURCES OF REVENUES AND AVIATION FUEL TAXES**

**General**

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

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

The following describes the major sources of Revenues and Aviation Fuel Taxes of the Airports System in greater detail. It is only a summary of certain important sources of revenues. For more information on all operating and non-operating revenues, refer to the State of Hawaii, Department of Transportation – Airports Division’s audited financial statements for fiscal years 2009 through 2013 at <http://hawaii.gov/dot/airports/library/financial-audit-reports>.

### Aeronautical Revenues

Aeronautical revenues consist of landing fees, aeronautical rentals (space rents associated with aviation activities) and Airports System Support Charges generated pursuant to the airline lease agreements and the Hawaii Administrative Rules, Title 19, Subtitle 2 (the “Administrative Rules”). The following table sets forth the landing fees, aeronautical rentals and support system rents and its percentage of total Revenues of the Airports System for fiscal years 2009 through 2013.

Aeronautical Revenues	Fiscal Year Ending June 30,									
	2009		2010		2011		2012		2013	
	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes
Airport landing fees and Airports System Support Charges	61,448	21.3%	56,711	19.2%	60,808	18.8%	60,060	18.8%	62,445	17.1%
Aeronautical rentals	70,181	24.3%	78,120	26.5%	92,464	28.7%	88,715	27.8%	101,256	27.7%
Total Aeronautical Revenues	131,629	45.6%	134,831	45.7%	153,272	47.5%	148,775	46.6%	163,701	44.8%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2009 to 2013.

**Airline Lease Agreements.** The Department operates pursuant to separate airport-airline lease agreements with certain airlines serving the Airports System (as signatories to the lease agreements, from time to time, the “Signatory Airlines”). Currently, there are 31 Signatory Airlines. The original lease agreements (collectively, the “Lease Agreement”) were to expire on July 31, 1992. Under each Lease Agreement, each Signatory Airline has the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports System and to occupy certain premises and facilities in the Airports System. From August 1992 through June 1994 each of the Signatory Airlines and the Department continued operations under letter agreements. In June 1994 the Lease Agreement was extended through June 30, 1997 (the Lease Agreement as extended, the “Lease Extension Agreement”) for each of the Signatory Airlines, with an adjustment for certain terms and provisions relating to rates and charges. From July 1, 1997 through December 31, 2007, the Department and each of the Signatory Airlines have continued to operate under the terms of the Lease Extension Agreement.

In October 2007, the Department and each of the Signatory Airlines executed a First Amended Lease Extension Agreement effective January 1, 2008 (the “2007 Agreement” and together with the Lease Agreement as extended by the Lease Extension Agreement and as amended and further extended by the 2007 Agreement, the “Amended Lease Extension Agreement”). The Amended Lease Extension Agreement differentiates charges for interisland operations (in-State flights among the airports in the Airports System) and charges for overseas operations (both domestic and international). The interisland charge is equal to the product of the overseas charge and a discount factor called the interisland rate. The interisland rate discount factor was 39% in fiscal year 2011, and is scheduled to increase 1% annually until it reaches 100%. The 2007 Agreement also established a new methodology to determine the rates and charges required to be paid by each of the Signatory Airlines. The rates and charges include, among others, landing fee charges, airline terminal rentals and Airports System Support Charges.

In addition, the Amended Lease Extension Agreement includes a formal process that the Airports Division and the Signatory Airlines will use to review any additional capital improvement projects and associated financing plans but does not require the Signatory Airlines’ affirmative approval of a proposed capital improvements project. Additional capital improvement projects are deemed accepted by the Signatory Airlines unless rejected in writing twice by a majority-in-interest of the Signatory Airlines. A majority-in-interest constitutes at least 50% of the Signatory Airlines representing at least 50% of the total landing fee and Airports System support charge payments

actually paid in the previous fiscal year. If the Signatory Airlines appropriately reject a proposed project, such project is deferred one fiscal year but the Airports Division can undertake the improvements in the following fiscal year. The Airports Division refers to the Signatory Airlines' affirmative support for or non-rejection of capital projects submitted for their review as a "concurrence." The Signatory Airlines granted concurrence to the ESCO Project by letter dated November 4, 2013.

Nonsignatory airlines are subject to the Administrative Rules, which require the payment of specified amounts for landing fees, Airports System Support Charges, and certain other rates, fees, and charges. Under the 2007 Agreement, the Department agreed to amend the methodology for calculating fees and charges so that nonsignatory airline fees and charges would be 125% of Signatory Airline fees and charges. The Airports Division has revised the rates for nonsignatory airlines pursuant to Chapter 261-7(e), HRS, effective January 1, 2012. In fiscal year 2013, the landing fees under the current Administrative Rules (without such revisions) for overseas and interisland flights are compared to the same categories of fees for the Signatory Airlines, by 77.5% and 78.8%, respectively.

The Department and each Signatory Airline may terminate the applicable Amended Lease Extension Agreement upon sixty days' written notice to the other party.

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

Based on continued unfavorable global economic conditions, and consistent with the targeted payment approach agreed to between the Airports Division and the Signatory Airlines in 2009, the Airports Division collected fixed payments of \$142 million and \$135 million in fiscal years 2011 and 2012, respectively, from the Signatory Airlines. These targeted payments for such fiscal years were not established pursuant to the rate setting terms of the Amended Lease Extension Agreement. In fiscal year 2013, the Airports Division adhered to the terms of the Amended Lease Extension Agreement and recorded \$149 million in revenue from signatory airlines mainly as a result of reducing expenses and debt service, along with generating additional concession revenues.

	Aeronautical Revenues (Net of Aviation Fuel Tax Credit)									
	Fiscal Year Ending June 30,									
	2009		2010		2011		2012		2013	
	\$ (000s)	% of Total	\$ (000s)	% of Total	\$ (000s)	% of Total	\$ (000s)	% of Total	\$ (000s)	% of Total
Signatory	118,220	89.8%	119,943	88.9%	138,499	90.4%	131,432	88.3%	145,642	89.0%
Non-Signatory	13,409	10.2%	14,888	11.1%	14,773	9.6%	17,343	11.7%	18,059	11.0%
Total Aeronautical Revenues	131,629	100%	134,831	100%	153,272	100%	148,775	100%	163,701	100.0%

### Concession Fees

Concession fees are the rents and fees paid to the Department by private parties operating concessions in the Airports System. Concession fees have been a large source of revenue for the Airports System in recent years. Under the various concession agreements, the Airports Division is paid the greater of a minimum annual guarantee (the "MAG") specified in each contract and a specified percentage of gross sales. The following table sets forth the concession fees and their percentage of total Revenues for fiscal years 2009 through 2013.



Concessions	Fiscal Year Ending June 30,									
	2009		2010		2011		2012		2013	
	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes
Duty-Free	38,000	13.2%	38,000	12.9%	37,525	11.6%	41,088	12.9%	41,338	11.3%
Rental Car	35,036	12.1%	47,110	16.0%	50,787	15.8%	53,860	16.9%	58,199	15.9%
Parking	16,810	5.8%	19,033	6.4%	18,853	5.9%	19,516	6.1%	20,211	5.5%
Retail (non-duty-free)	10,285	3.6%	9,793	3.3%	11,391	3.5%	13,177	4.1%	13,994	3.8%
Food & Beverage	6,893	2.4%	6,788	2.3%	6,838	2.1%	7,442	2.3%	8,166	2.2%
Ground Transportation	1,856	0.6%	1,840	0.6%	2,050	0.6%	2,649	0.8%	2,883	0.8%
Other	5,183	1.8%	4,978	1.7%	4,722	1.5%	5,841	1.8%	6,600	1.8%
Total Concession Revenues	114,063	39.5%	127,542	43.2%	132,166	41.0%	143,573	44.9%	151,391	41.3%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2009 to 2013.

**Duty-free Concession.** The exclusive concession contract for the sale of in-bond (duty-free) merchandise has, in recent years, been the largest single source of concession revenues for the Airports System. DFS Group, L.P. (“DFS”) operates the in-bond concessions at Honolulu International Airport (and two off-airport locations) pursuant to a 10-year lease agreement that began in 2007. Under the lease agreement, DFS pays the Airports Division the MAG and additional percentage rent based on annual gross receipts exceeding certain levels. Pursuant to the lease agreement, the MAG for subsequent contract years adjusted to an amount equal to 85% of the amount paid and payable to the Airports Division in the contract year ended May 31, 2011. As a result, effective June 1, 2011, the MAG decreased to \$32.3 million per contract year through May 31, 2017. The percentage rent, which remains the same throughout the term of the duty-free concessions lease agreement, is as follows: (1) for total concession receipts greater than \$155 million and up to \$195 million, 22.5% for Honolulu International sales and 18.5% for off-airport sales; (2) for total concession receipts greater than \$195 million and up to \$235 million, 30.0% for Honolulu International sales and 22.5% for off-airport sales; (3) for total concession receipts greater than \$235 million and up to \$275 million, 30.0% for Honolulu International sales and 26.5% for off-airport sales; and (4) for total concession receipts greater than \$275 million, 30.0% for both Honolulu International and off-airport sales. As a result of Hawaii’s rebound from international traffic, the Airports Division recorded \$41.3 million in revenue from its duty free concession, as compared to the MAG of \$32.3 million for the fiscal year ended June 30, 2013.

**Rental Car Concessions.** In fiscal years 2011, 2012 and 2013, car rental concession revenues were \$50.8 million, \$53.9 million and \$58.2 million, respectively, accounting for about 95% of all ground transportation revenues in each fiscal year. Companies operating on-airport rental car operations at the primary airports pay 10% of gross receipts, subject to specified MAGs for each airport. Currently, car rental concession agreements at Honolulu International are on a month-to-month basis, effective July 1, 2012. New five-year car rental concession agreements went into effect on June 1, 2009 at Hilo International, Kona, Kahului and Lihue Airport, with eight operators (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty) at each of these airports. A new five-year car rental concession agreement went into effect on June 1, 2009 at Molokai Airport with Alamo as the sole on-airport car rental operator. Mainly as a result of an increase in the percentage of gross receipts payable by the rental car operators (from 8.5% of gross receipts to 10% of gross receipts) pursuant to the concession agreements at neighbor island airports, rental car revenues increased for fiscal years 2010 thru 2013. The approximate total first-year MAG for car rental concessions is \$1.3 million for Hilo International, \$5.0 million for Kona, \$9.7 million for Kahului, \$8.3 million for Lihue Airport and \$0.1 million for Molokai Airport. The MAG for each subsequent year of the agreements will be 85% of the amount paid and payable in the previous agreement year. Rental car revenues are forecasted to continue increasing in upcoming years due to projected increased travel to the islands.

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

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

**Parking.** Parking facilities at Honolulu, Lihue, Hilo and Kona are managed by Ampco System Parking (“Ampco”). On August 17, 2009, the Airports Division implemented its first increase in public parking rates in more than 15 years. For Honolulu International, the 24-hour rate was increased to from \$10.00 to \$13.00. The 24-hour rate at Kona International, Hilo International, Kahului and Lihue Airport was increased from \$7.00 to \$9.00. Effective May 1, 2011, daily parking rates were again increased at the Honolulu International Airport by \$2, from \$13 to \$15 per day, and at neighbor-island airports by \$1, from \$9 to \$10 per day. The Airports Division receives 80% of gross receipts from parking operations at Honolulu International, 65% from Kona International and Lihue Airport and 55% from Hilo International. Standard Parking manages parking operations at Kahului and Kapalua, from which the Airports Division receives 70% and 50%, respectively, of gross receipts. Parking revenues increased between fiscal years 2009 and 2013, from \$16.8 million to \$20.2 million due to rate increases.

**Retail (non duty-free).** Non-duty-free retail concessions include revenues from retail shops and gift shops in the Airports System. Under a five-year (non-duty-free) retail concessions contract for Honolulu International Airport, effective April 1, 2009, DFS will pay to the Airports Division the greater of the MAG (set at \$7.75 million for the first year and, thereafter, set at 85% of the amount paid in the prior year) and 20% of gross receipts. DFS also operates retail concessions at Kahului. Travel Traders, Inc. holds the retail concession at Lihue Airport after submitting the high bid of a first year MAG of \$512,600 for the concession agreement year beginning July 1, 2010. Tiare Enterprises, Inc. became the retail concessionaire at Hilo International and Kona International effective September 1, 2010 after submitting a first-year MAG bid of \$580,531. Retail concession revenues in fiscal year 2013 were \$14.0 million, up from \$13.2 million in fiscal year 2012 and forecasted to continue increasing with air traffic growth.

**Food and Beverage.** The Airports Division has had an agreement with Host International, Inc. (“Host”) since 1993 to provide exclusive food and beverage services at Honolulu International. The current agreement is in effect through April 30, 2020, with a MAG of about \$4.8 million. Host also has a food and beverage concession agreement at Kahului (expires September 30, 2019). Volume Services dba Centerplate operates food and beverages concessions at Hilo International and Kona under a 10-year agreement that began in December 2007, with first-year MAGs set at \$972,008 and \$228,002 for Kona and for Hilo International, respectively, and thereafter at 85% of prior year payments. Bids were opened on June 23, 2011 for a new 10-year food and beverage concession at Lihue Airport, for which Host submitted the highest bid. Effective October 1, 2011, Host will begin operating the concessions at Lihue Airport with a first-year MAG of \$1,008,000. Food and beverage revenues remained stable between fiscal year 2009 through 2013, but are expected to increase slightly in upcoming years.

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

**Other.** Other concessions include revenues from agreements to provide news, floral services, ATMs, currency exchanges, advertising in the Airports System and in-flight catering revenues. Other concession revenues are forecasted to increase due to inflation and increases in the number of enplaned passengers.

#### **Non-Aeronautical Revenues Other Than Concession Fees**

Non-aeronautical revenues, other than concession fees, include certain utility reimbursements and revenues from rental of land, terminal building space, other buildings and structures to tenants for non-aeronautical purposes. The following table set forth the Non-Aeronautical Revenues other than concession fees and its percentage of total Revenues for fiscal years 2009 through 2013.

**Non-Aeronautical Revenues Other Than Concessions**

	Fiscal Year Ending June 30,									
	2009		2010		2011		2012		2013	
	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes
Non-Aeronautical Revenues Other than Concession Revenues	12,306	4.3%	13,724	4.7%	13,350	4.1%	13,417	4.2%	14,241	3.9%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2009 to 2013.

**Non-Operating Revenues**

**Interest Income.** The following table sets forth the interest income and its percentage of total Revenues for fiscal years 2009 through 2013. The decreases each year is mainly due to the decrease in interest rates.

Interest Income	Fiscal Year Ending June 30,									
	2009		2010		2011		2012		2013	
	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes
CIP Interest	6,362	2.2%	2,824	1.0%	1,735	0.6%	-601	-0.2%	654	0.2%
O & M Interest	9,788	3.4%	3,415	1.2%	4,241	1.3%	2,590	0.8%	1,337	0.4%
Total Interest Income	16,150	5.6%	6,239	2.2%	5,976	1.9%	1,989	0.6%	1,991	0.6%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2009 to 2013.

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

**Other.** Other non-operating revenues include interest income, federal operating and capital grants as reimbursements to such costs, Passenger Facility Charges and Rental Car Customer Facility Charges.

**Aviation Fuel Taxes**

Aviation Fuel Taxes are imposed by the State under Section 243-4(a)(2), HRS, on all types of aviation fuel sold in the State. Since July 1, 2007, the tax has been two cents per gallon. The Aviation Fuel Tax does not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The following table sets forth the Aviation Fuel Taxes and its percentage of total Revenues of the Airport System for fiscal years 2009 through 2013.

Aviation Fuel Taxes	Fiscal Year Ending June 30,									
	2009		2010		2011		2012		2013	
	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes	\$ (000s)	% of Total Revenues and Taxes
Total Aviation Fuel Taxes	\$3,549	1.2%	3,633	1.2%	4,141	1.3%	4,338	1.4%	4,674	1.3%

Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2009 to 2013.

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

## INDEBTEDNESS

### Outstanding Airports System Revenue Bonds

As of November 1, 2013, \$877,725,000 of Bonds were outstanding, all of which were issued as fixed rate debt. The Department anticipates issuing Additional Bonds to finance a portion of future CIPs. See “CAPITAL IMPROVEMENTS PROGRAM.” The following table sets forth the debt service requirements for the Bonds.

**TABLE 7  
TOTAL BONDS DEBT SERVICE (1)**

<b>July 1,</b>	<b>Principal (\$)</b>	<b>Interest (\$)</b>	<b>Total Debt Service (\$)</b>
<b>2014</b>	34,210,000	43,033,988	77,243,988
<b>2015</b>	35,725,000	41,515,725	77,240,725
<b>2016</b>	37,290,000	39,955,020	77,245,020
<b>2017</b>	38,935,000	38,309,470	77,244,470
<b>2018</b>	40,755,000	36,489,520	77,244,520
<b>2019</b>	42,585,000	34,658,670	77,243,670
<b>2020</b>	44,690,000	32,555,070	77,245,070
<b>2021</b>	46,805,000	30,439,145	77,244,145
<b>2022</b>	49,175,000	28,065,558	77,240,558
<b>2023</b>	51,580,000	25,664,558	77,244,558
<b>2024</b>	54,195,000	23,045,658	77,240,658
<b>2025</b>	18,440,000	20,379,107	38,819,107
<b>2026</b>	19,395,000	19,428,487	38,823,488
<b>2027</b>	20,400,000	18,412,970	38,812,970
<b>2028</b>	21,460,000	17,356,370	38,816,370
<b>2029</b>	22,570,000	16,233,945	38,803,945
<b>2030</b>	23,755,000	15,053,750	38,808,750
<b>2031</b>	25,010,000	13,807,355	38,817,355
<b>2032</b>	26,255,000	12,556,855	38,811,855
<b>2033</b>	27,575,000	11,244,105	38,819,105

<b>2034</b>	28,945,000	9,865,355	38,810,355
<b>2035</b>	30,395,000	8,418,105	38,813,105
<b>2036</b>	31,910,000	6,898,355	38,808,355
<b>2037</b>	33,520,000	5,299,245	38,819,245
<b>2038</b>	35,195,000	3,619,455	38,814,455
<b>2039</b>	<u>36,955,000</u>	<u>1,855,725</u>	<u>38,810,725</u>
<b>Total</b>	877,725,000	554,161,566	1,431,886,566

Source: Department of Transportation - Airports Division

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

### Special Facility Leases and Special Obligation Bonds

The Airports Division currently has three special facility lease agreements. These special facility lease agreements were originally entered into to support certain revenue bonds previously issued by the Airports Division. The bonds issued for the purpose of constructing such special facilities are referred to as Special Obligation Bonds. One series of Special Obligation Bonds matured on December 1, 2010, and the Airports Division currently has two series of Special Obligation Bonds outstanding. The outstanding Special Obligation Bonds are payable solely from and collateralized solely by monies derived from the applicable special facilities lease agreements. Special Obligation Bonds are not payable from or secured by Revenues and Aviation Fuel Taxes. Although the Airports Division may issue additional Special Obligation Bonds, it does not currently expect to issue any additional Special Obligation Bonds to fund any of the cost of future CIPs comprising the Airline Projects. Based on their respective bond amortization schedules, as of July 1, 2013, there was outstanding \$31,840,000 in Special Obligation Bonds. *All Special Obligation Bonds are payable solely from the revenues derived from the leasing of Special Facilities financed with the proceeds of Special Obligation Bonds.*

### General Obligation Bonds

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

## CAPITAL IMPROVEMENTS PROGRAM

### General

The Capital Improvement Program (“CIP”) is managed by the Airports Division’s Engineering Branch. The Division has contracted with independent consultants, architects, engineers and planners for planning, design and construction of certain phases of each major component of the projects included in the CIP. Schedule and cost information provided in this section are estimates from different sources depending on the status of each project and will be revised as the Airports Division proceeds with the CIP.

To undertake a capital project for the Airports System, the Division is required to obtain appropriations from the Legislature, approval of allotment requests from Office of the Governor, and concurrence from the Signatory Airlines. In each fiscal year, the Airports Division prepares a CIP for the ensuing six fiscal years including projects that the Airports Division plans to undertake during that period. The CIP includes many projects that have received approvals from prior years, and is reviewed from time to time to include new projects and to remove completed projects.

In each odd-number fiscal year (such as FY 2013, or FY 2015), the Airports Division identifies the projects in the first two years of the next CIP biennium (such as FY 2014 and FY 2016) that have not received legislative approval, and submits those projects to the Legislature as part of the biennium budget request for the entire State. The Legislature

approves all or a portion of the submitted capital projects for both fiscal years, and the Department of Accounting and General Services (“DAGS”) issues appropriation warrants for the project costs in the first year. The Division may submit supplemental appropriation requests for the second year of the biennium budget (submit in FY 2014 for FY 2015 projects), and will receive appropriation warrants for the second year from DAGS. The legislative approval of a project (or portion of a project) includes identification of the means of financing that will be the source of funds for the project. The Airports Division utilizes primarily five sources of financing: Bonds, federal funds (from FAA and TSA), PFC revenues, CFC revenues and internally generated funds (referred to as “Special Fund”). The Legislature’s appropriation of bond funds for a project serves as authorization for the State to issue those bonds when required in the future. In general, the Division combines allotment requests with the requests to advertise for bids and award the contract for Governor approval.

The most recent CIP prepared in FY 2013 is for FY 2014 through 2019, including many projects approved by the Legislature in prior years. The appropriated amounts for FY 2013 and FY 2014 were \$1.49 billion and \$429.1 million respectively. The 2014-2019 CIP includes three major components:

1. Airline Projects, which are subject to Signatory Airline review.
2. The ESCO Project, which is to be funded by the proceeds of the Certificates and is subject to Signatory Airline review.
3. The Statewide Car Rental Facilities Development Program (the “ConRAC Program”), which is not subject to Signatory Airline review.

Each component of the 2014-2019 CIP is discussed below.

### **The Airline Projects**

In 2010, the Airports Division identified a group of projects with a total cost of \$1.3 billion, referred to as the Airline Projects, and received concurrence from the Signatory Airlines in accordance with the Amended Lease Extension Agreement. The Airports Division has since identified additional projects for the Airports System and obtained Signatory Airline concurrence on a portion of the additional projects. The Airports Division has also excluded certain completed projects from the CIP, which have a total cost of \$254 million. As of June 30, 2013, the 2014-2019 CIP has an estimated total cost of \$1.849 billion, of which \$560 million has been expended. Of the \$1.849 billion, the Airports Division has obtained legislative approval and allotment for majority of the projects, and has obtained Signatory Airline concurrence, or partial/conditional concurrence, on projects with an estimated cost of approximately \$1.67 billion. The Airports Division plans to continue requesting legislative approval, allotment and Signatory Airline concurrence for the remaining projects. The Airline Projects are subject to yearly reviews by the Airports Division and any additional projects will be subject to legislative approval and Signatory Airlines’ review. See “SOURCES OF REVENUES AND AVIATION FUEL TAXES – Aeronautical Revenues – Airline Lease Agreements” below for a description of the Signatory Airlines’ review process.

As of June 30, 2013, the current Airline Projects were at various stages of development. \$228 million of Airline Projects have been completed or are in the closeout stages, \$460 million of Airline Projects are under construction and \$820 million of Airline Projects are in the design, bid or award stages. Currently, the Airline Projects are the most significant capital projects that will be undertaken by the Airports Division through fiscal year 2019. The remaining Airline Projects, with an estimated cost of \$361 million, are in various stages of planning or authorization. Other capital projects (which are not included in the Airline Projects) to be undertaken through fiscal year 2019 include certain maintenance-related projects, which are currently estimated to cost \$20 million annually through fiscal year 2019, will be funded from internally-generated funds of the Airports System. The following table shows the total cost of the Airline Projects by airport and the estimated completion date of such Airline Projects:

**AIRLINE PROJECTS BY AIRPORT**

Through Fiscal Year 2019

State of Hawaii, Department of Transportation, Airports Division

(excludes ESCO Project and ConRAC Project)

(as of June 30, 2013; in millions)

	Total	Projected Costs by Funding Sources			
		Grants	PFC Pay-as-you-go	Internal Cash	Revenue Bonds
<b>Honolulu</b>					
HNL - Mauka Concourse Program	\$ 583	\$ -	\$ 25	\$ 16	\$ 543
HNL - Airfield Improvements	131	44	80	6	0
HNL - Security and Safety	131	40	20	13	58
HNL - Terminal Improvements	175	56	37	16	66
HNL - Other	<u>121</u>	<u>10</u>	<u>4</u>	<u>1</u>	<u>107</u>
Subtotal HNL	\$ 1,141	\$ 150	\$ 166	\$ 52	\$ 774
<b>Kona</b>					
KOA - Terminal Improvements	\$ 58	\$ 3	\$ -	\$ 5	\$ 51
KOA - Other	<u>57</u>	<u>36</u>	<u>6</u>	<u>2</u>	<u>13</u>
Subtotal KOA	\$ 115	\$ 39	\$ 6	\$ 7	\$ 64
<b>Kahului</b>					
OGG - Airfield Improvements	\$ 215	\$ 15	\$ 33	\$ 9	\$ 158
OGG - Security	28	7	-	1	20
OGG - Other	<u>84</u>	<u>3</u>	<u>22</u>	<u>3</u>	<u>56</u>
Subtotal OGG	\$ 327	\$ 25	\$ 55	\$ 13	\$ 234
<b>Lihue</b>					
LIH - Land Acquisition	\$ 17	\$ -	\$ -	\$ 17	\$ -
LIH - Other	<u>42</u>	<u>25</u>	<u>-</u>	<u>3</u>	<u>13</u>
Subtotal LIH	\$ 59	\$ 25	\$ -	\$ 20	\$ 13
<b>Hilo</b>					
ITO - Cargo Facilities	\$ 34	\$ 10	\$ -	\$ 10	\$ 14
ITO - Other	<u>52</u>	<u>41</u>	<u>2</u>	<u>6</u>	<u>3</u>
Subtotal ITO	\$ 86	\$ 51	\$ 2	\$ 16	\$ 17
<b>Other</b>					
Statewide / Other Projects	\$ 46	\$ 14	\$ -	\$ 31	\$ 1
Other Airports	<u>75</u>	<u>54</u>	<u>-</u>	<u>8</u>	<u>13</u>
Subtotal Other	\$ 121	\$ 68	\$ -	\$ 39	\$ 14
<b>Total</b>	<b>\$ 1,849</b>	<b>\$ 358</b>	<b>\$ 229</b>	<b>\$ 147</b>	<b>\$ 1,116</b>

Source: Department of Transportation – Airports Division.

## Funding of the Airline Projects

The following table summarizes the sources of funds and expenditures on the Airline Projects through June 30, 2013. Totals may vary from the preceding table due to rounding.

Means of Financing (millions)			
	Expended as of June 30, 2013	To Be Spent	Total
Revenue Bonds	\$177	\$939	\$1,116
Federal Grants	167	190	357
Special Funds	101	44	145
PFC Pay-as-you-go	84	145	230
<b>Total</b>	<b>\$529</b>	<b>\$1,319</b>	<b>\$1,848</b>

Source: Department of Transportation – Airports Division

**Airports System Revenue Bonds.** The Airline Projects are being funded in part with \$395 million from the proceeds of the Series 2010 Bonds and with proceeds from Additional Bonds to be issued in the future on a parity basis with the then-outstanding Bonds. The Series 2010 Bonds were issued under the Director’s Certificate on a parity basis with the then-outstanding Bonds and secured by the Revenues and Aviation Fuel Taxes of the Airports System. A portion of the proceeds of the Series 2010 Bonds was used to reimburse the Airports Division for funds previously advanced from internally generated cash. As of June 30, 2013, the Airports Division had \$213 million of unspent proceeds from the Series 2010 Bonds. The Airports Division plans to issue Additional Bonds (which will be on a parity basis with all outstanding Bonds) to fund approximately \$756 million of costs of the Airline Projects.

**Federal Grants and Transportation Security Administration Funding.** The FAA’s Airport Improvement Program (“AIP”) consists of entitlement and discretionary allocations for AIP-eligible projects. Entitlement funds are distributed through grants by a formula currently based on: (1) levels of funding authorized and appropriated by Congress for the AIP, (2) the number of passengers and the amount of cargo accommodated by the Airports System, and (3) airport hub status, with reductions based on the amount of PFC collected per eligible enplaned passenger. Honolulu and Kahului receive 75% less in AIP entitlement funding than they would otherwise receive because they are large- and medium-hub airports, respectively, where \$4.50 PFC is collected. The Airports Division received \$28.4 million and \$25.4 million of entitlement grants in FY 2012 and FY 2013, respectively. Discretionary funds are distributed based on an FAA-established national priority system and designations by Congress. The Airports Division received \$15.7 million and \$17.8 million in FY 2012 and FY 2013, respectively.

The Airports Division expects that a total of \$352 million in AIP grants will be used (including AIP grants already awarded and used) to pay for the Airline Projects. No assurance can be given that the Department will actually receive federal grants-in-aid in the amount or at the time contemplated by the Department. See “Certain Investment Considerations - Considerations Regarding Certain Other Sources of Funds – FAA AIP Program.”

After the terrorist attacks of September 11, 2001, Congress passed the Aviation and Transportation Security Act (“ATSA”), creating the Transportation Security Administration (the “TSA”) and mandating implementation of explosive detection systems (“EDS”) at U.S. airports. In addition to the FAA grants, the Airports Division also receives grants from the Transportation Security Administration for explosive detection system-related grants and security closed-circuit televisions.

**Special Funds.** Over the years, the Airports Division has accumulated substantial cash balances from Airports System operations. As of June 30, 2013, the Airports Division had cash and investments of \$1.19 billion in restricted and unrestricted accounts, of which the Airports Division estimates approximately \$350 million will be available to fund various capital projects.

**Passenger Facility Charge Revenues.** Passenger Facility Charges (“PFCs”) are fees imposed on enplaned passengers by airport sponsors to generate revenues for airport projects that preserve or enhance airport capacity, safety or security, relieve aircraft noise or enhance airline competition. PFCs were established by Title 49 U.S.C. §40117, in 1990, that authorized the Secretary of Transportation, acting through the FAA, to give airport operators the authority to impose a \$1.00 to \$3.00 PFC per eligible enplaned passenger. In 2000, Congress amended the PFC



law increasing the maximum PFC to \$4.50 per enplaned passenger. The amendment included specific language requested by the State to prohibit collection of a PFC from passengers on interisland flights, including flight segments between two or more points in Hawaii. Upon passage of the exclusion, the State of Hawaii agreed to participate in the PFC program.

The Airports Division has made four applications for, and received FAA approval to collect and use a total of \$264 million of PFC revenues for various eligible improvement projects to the Airports System on a pay-as-you-go basis, and has collected \$232.5 million of PFC revenues and interest earnings through June 30, 2013. PFC revenues have been used to pay for capital improvement projects at the five primary airports, and to pay statewide PFC administrative costs. The projects approved for funding in the fourth application in 2009 are capital improvements at HNL and Kahului. The Airports Division submitted its fifth PFC application in 2013, requesting a cumulative collection authority of \$449.4 million, including \$414.2 million for eligible debt service. The Airports Division expects to receive an FAA decision on or before November 30, 2013.

Section 261-5.5, HRS, was amended effective July 1, 2009, to provide the Airports Division the flexibility of using PFC revenues either to fund Airports System capital projects on a “pay-as-you-go” basis or to pay debt service on Bonds. Certain PFC revenues may be used to reduce the Debt Service Requirement. The Certificate provides that, solely for purposes of the Additional Bonds tests and the Rate Covenant (to yield Net Revenues and Taxes that are not less than 1.25 times the aggregate of the Debt Service Requirement), Debt Service Requirement shall be reduced by the amount of available PFC Revenues irrevocably committed for deposit (or actually deposited, as applicable) by the Director into the applicable debt service-related accounts in the Airport Revenue Fund.

### **ESCO Project**

The ESCO Project is described above under the heading “DESCRIPTION OF THE ESCO PROJECT.” The Department is undertaking the ESCO Project under Section 36-41, HRS, and is financing the ESCO Project with the proceeds of the Certificates rather than bond financing. The Department submitted a letter to the Signatory Airlines in August 2013 for airline review of the ESCO Project, and the Signatory Airlines concurred with the Department’s implementation of the ESCO Project by letter dated November 4, 2013.

### **ConRAC Program**

The Airports Division is implementing a Statewide Car Rental Facilities Development Program, which includes construction of new consolidated rental car facilities at Honolulu International Airport, Kahului Airport and Lihue Airport, as well as related planning, design, program management and enabling projects. ConRACs at HNL and OGG have been designed, and are in the bid and construction contract award stage, while the LIH ConRAC has been postponed beyond FY 2019 due to constraints on funding availability. As of June 30, 2012, the total estimated costs for the HNL and OGG ConRACs were \$329 million and \$361 million, respectively. Project costs of the ConRAC Program are to be paid from CFC revenues, or proceeds from bonds and loans backed solely by the collection of CFC revenues. The Airports Division started collecting a \$1.00 CFC per day on each on-airport rental car transaction in FY 2009 and increased the collection level to \$4.50 in FY 2011. The State separately collects a \$3.00 daily rental motor vehicle surcharge tax (Rental Car Tax) on all rental car transactions in the State. The Legislature suspended the CFC collection for FY 2012 and increased the Rental Car Tax from \$3.00 to \$7.50. This suspension expired at the start of FY 2013, and the Airports Division resumed collection of the \$4.50 per day per transaction CFC on July 1, 2012.

CFCs are not considered Revenues and the payment on future bonds and loans to be issued will not be secured by Revenues. In fiscal year 2013, the Airports Division collected \$55,710,884 of CFCs. See “MANAGEMENT DISCUSSION AND ANALYSIS – AIP Grants, Passenger Facility Charge and Customer Facility Charge” for more information on the Airports Division’s use of CFCs.

### **Management of the Capital Improvements Program**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenues

The Airports System's main sources of Revenues consist of the following: aeronautical revenues including landing fees, non-aeronautical revenues includes duty-free terminal rentals, other miscellaneous fees and charges, Aviation Fuel Tax and (in certain years) certain federal grants used to reimburse the cost of certain special maintenance projects. As noted in Table 4, Airports System revenues grew each year since fiscal year 2009, but decreased in fiscal year 2012 and increased in fiscal year 2013. The decrease in fiscal year 2012 was mainly attributed to decreases in aeronautical rents, and less federal operating grants available for operations as a result of utilizing federal grants for capital projects instead. The growth in fiscal year 2013 was attributed to an increase in signatory airline rates and charges and non-aeronautical rentals, including rental car and parking revenues.

Concession fees play a large role in overall Airports System revenues. The downturn in traffic from the Asian rim after the events of September 11, 2001, led to a decline in duty free (in-bond) concession fees. Pursuant to the duty-free lease agreement, concession revenue remained at \$38 million per year for contract years (June 1 through May 31) ended May 31, 2008 through 2010, and decreased to \$37.5 million for the contract year ended May 31, 2011. Pursuant to the terms of the lease agreement, the duty-free concession revenue is subject to a minimum annual guarantee, which amount will decrease to \$32.3 million for contract years ended May 31, 2012 and beyond. Nevertheless duty-free concession revenues increased to \$41 million per year for contract years ended 2012 and 2013. Other concession revenues, which include parking, rental car revenue and terminal concessions, continued to grow during the same period through fiscal year 2013. See "SOURCES OF REVENUES AND AVIATION FUEL TAXES – Concession Fees."

The Governor is authorized by legislative action to adjust or waive landing fees and Airports System charges. As a result of the Governor's exercise of this authority, landing fees in fiscal years 2005 through 2008 remained nearly flat. Terminal rentals remained fairly level during fiscal years 2005 through 2007, before year-over-year increases of 13.8%, 11.2%, 12.0% and 12.5% in fiscal years 2008, 2009, 2010 and 2011, respectively. Certain federal grants used to reimburse certain capital costs (and which the Airports Division treats as costs of operations and maintenance) in fiscal years 2007 and 2008 totaled about \$20.0 and \$25.0 million, respectively, but decreased to an estimated \$6.7 million, \$4 million, \$5 million, \$3.3 million and \$5.7 million in fiscal years 2009, 2010, 2011, 2012 and 2013, respectively. Such amounts are expected to decrease further to \$2 million in subsequent fiscal years. See "SOURCES OF REVENUES AND AVIATION FUEL TAXES."

### Expenses

Airports System expenses are composed primarily of salaries and wages, other personal services, utilities, repairs and maintenance and other expenses. In fiscal years 2012 and 2013, cost of operation, maintenance and repair were \$227.7 and \$232.7 million, respectively. Salaries and wages have increased by an average annual rate of 7% since fiscal year 2005, but decreased in fiscal years 2010 and 2011 as a result of employee furloughs.

In addition, special maintenance costs decreased by \$14 million in fiscal year 2010 as compared to fiscal year 2009 mainly due to capitalizing certain projects. However, it increased by \$5.1 million in fiscal year 2011 due to an increase in special maintenance (airfield paving) projects. Utility costs have increased steadily due to the rise in rates assessed by electrical and water providers. Other personnel service costs decreased from 2009 as a result of decreases to security labor rates and hours required by contract. Major maintenance and repair costs increased due to unforeseen concourse roofing repairs needed at HNL.

### Debt Service Coverage

As reflected in Table 4, debt service coverage exceeded the Certificate requirement of 1.25 times Net Revenues and Taxes for fiscal years 2009 through 2013. In fiscal years 2009 and 2010, the Airports Division provided rate mitigation to the Signatory Airlines by transferring lawfully available Revenues to the Interest Account in the Airport Revenue Fund for the purpose of paying a portion of the interest on the Bonds. This transfer had the effect of reducing the Debt Service Requirement for each such fiscal year. The Airports Division utilized

lawfully available Revenues of \$17.5 million and \$16.8 million as rate mitigation for fiscal years 2009 and 2010, respectively. The Airports Division has not provided rate mitigation in fiscal year 2011 and subsequent fiscal years.

### **Cash and Cash Equivalents**

The decrease in cash in fiscal year 2009 was primarily due to expenditures related to modernization construction projects and a recognized loss of \$26.6 million from investments in certain auction rate securities held in the State Treasury. The increase in fiscal year 2010 is a result of the bond issuance in April 2010 and increased revenues from signatory airlines and rental car contracts. The increase in fiscal year 2011 was a result of increased airline and rental revenues along with controlling operational expenditures. The increase in cash in fiscal year 2012 was primarily due to an overpayment by the Signatory Airlines. The increase in cash in fiscal year 2013 was primarily due to the return of the CFC revenue stream and settlement proceeds of a business interruption insurance claim received by the Department arising out of a decrease in passenger traffic following the 9/11 incident in 2001.

### **AIP Grants, Passenger Facility Charge and Customer Facility Charge**

The Airports System utilizes a variety of programs to fund capital improvements including AIP discretionary grants, PFCs and CFCs. In fiscal year 2011, the Airports System received \$30.8 million in federal capital grants, \$32.2 million in PFCs (including interest) and \$40.4 million from CFCs (including interest). In fiscal year 2012, the Airports System received \$36.9 million in federal capital grants, \$31.4 million in PFCs (including interest) and \$0.05 million from CFCs (including interest). In fiscal year 2013, the Airports System received \$24 million in federal capital grants, \$35.1 million in PFCs (including interest) and \$55.6 million from CFCs (including interest). For more information on AIP and PFC Revenues, see “CAPITAL IMPROVEMENT PROGRAM – Funding of Airline Projects.”

In 2008, the Legislature enacted Act 226, SLH 2008, authorizing the Airports Division to establish and collect a \$1 CFC per transaction day. Effective September 1, 2010, the CFC rate was raised to \$4.50 per transaction day. The CFC rate may be further adjusted periodically to generate sufficient funds to undertake consolidated rental car facilities projects at statewide airports. The Airports Division implemented the CFC beginning September 1, 2008, on all rental car transactions. Moneys collected through CFCs are deposited into a restricted fund that can only be used to fund the construction of new consolidated rental car facilities, other improvements needed for on-airport rental car operators and operating costs. Currently, planning is in progress for consolidated rental car facilities for HNL, Kahului, and Kona, but implementation of these projects is subject to, among other things, approval by the State legislature of higher CFC rates. However, on July 1, 2011, the collection of the CFC was suspended by the State legislature for fiscal year 2012. This suspension expired in fiscal year 2013, and the Airports Division resumed collection of the \$4.50 per day per transaction CFC on July 1, 2012. As of June 30, 2013, the Airports Division had collected \$120.2 million from CFCs (including interest) and had expended \$36.8 million on a cumulative basis. As of June 30, 2013, the Airports Division held \$83,402,787 in unexpended CFC funds.

### **Insurance**

The Airports Division has a commercial general liability insurance policy with a \$750,000,000 limit for each occurrence. The policy includes extended coverage for \$150,000,000 for war, hijacking and other perils. The annual premium is currently \$1,019,308. The liability policy has a zero deductible limit, which means that the insurer handles and pays for all claims against the State. The selection of insurance companies is arranged by the Airports Division’s designated Insurance Broker, MOC Insurance Services of San Francisco. The State has a separate insurance policy for its structures for which the Airports Division pays the State Department of Accounting & General Services (“DAGS”) \$2,187,577 annually. The Airports Division has no control over DAGS’s insurance premium.

### **Security**

The costs of Airports System security contracts have increased significantly since the events of September 11, 2001. The Airports System’s security services are supported by two security companies, certain personal service contracts and the State’s Department of Public Safety. Security costs have nearly doubled from the pre-9/11 era. Security expenditures at HNL alone were \$21.2 million, \$19.4 million and \$19.5 million, and for the Airports System as a whole \$39.4 million, \$35.5 million and \$35.3 million in fiscal years 2011 through 2013,

respectively. The decrease in security expenditures is due to the renewal of statewide security contracts, which resulted in decreased labor rates and hours required by such contracts. Further, Airports System security-related expenses are exacerbated due to the System's multiple locations. Under the present conditions, the total security costs for the entire Airports System totals nearly \$39.4 million per year. The Airports System is subject to additional expense increases based upon future mandated security directives from the TSA.

### **Employee Benefits**

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

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

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

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

The required pension contributions by the Airports Division for the years ended June 30, 2013, 2012, and 2011 were \$8,647,308, \$7,683,738, and \$7,552,624, respectively, which represented 16.2 percent of covered payroll for each of the years then ended and were equal to the required contributions for each year.

The 2011 legislation also gradually increases the employer contribution rates for all employee groups to help improve the funding position of the pension trust. The employer contribution rate for most Airports Division employees will increase to 15.5 percent effective July 1, 2012, and increase by 0.5 percent each fiscal year until July 2, 2015, when the rate will be 17.0 percent of payroll. The employer contribution rate for Airports Division fire and rescue employees will increase to 22.0 percent effective July 1, 2012, and increase by 0.5 percent each fiscal year until July 2, 2015, when the rate will be 25.0 percent of payroll.

The total assets of the State retirement system on a market value basis amounted to approximately \$9.8 billion as of June 30, 2010, \$11.6 billion as of June 30, 2011, and \$11.3 billion as of June 30, 2012. The actuarial certification of assets as of June 30, 2010, was \$11.35 billion and its unfunded actuarial accrued liability was \$7.14 billion. The actuarial certification of assets as of June 30, 2011, was \$11.94 billion, and its unfunded actuarial accrued liability was \$8.15 billion. The actuarial certification of assets as of June 30, 2012, was \$12.24 billion, and its unfunded actuarial accrued liability was \$8.44 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 percent actuarial

investment assumption. Measurement of assets and actuarial valuations are made for the retirement system as a whole and are not separately computed for individual participating employers such as the Airports Division.

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

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

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

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

The Airports Division’s portion of OPEB costs were \$7.7 million, \$10.3 million, and \$13.7 million for fiscal years 2011, 2012, and 2013, respectively.

The State’s current practice is to assess all departments, including the Department, a fixed percentage of payroll to cover all fringe benefits, including the employer’s share of social security tax, medicare, retirement benefits for both employees and retirees, the employees’ health fund and OPEB cost. The fringe benefit rate was 41.54 percent of covered payroll for fiscal year 2013 and the interim rate for fiscal year 2014 is 42.04 percent of covered payroll.

### **Ceded Lands**

Portions of lands underlying HNL, Hilo International Airport and Kona International Airport at Keahole are lands ceded by the Republic of Hawaii to the United States in 1898 and subsequently conveyed to the State by the United States at or following the State’s admission to the Union in 1959 (the “Ceded Lands”). State policy

requires revenue generating State departments to pay an allocable share of the gross proprietary revenues derived from the use of such lands to the Office of Hawaiian Affairs, which administers such funds for the benefit of native Hawaiians. However, under federal law, the Department is exempt from such payments from the Airports System Revenues.

### **Current Operating Trends**

In fiscal year 2013 the Airports Division generated a surplus of operating income over operating expenses, including depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its Revenues from a diverse mix of sources, including concession fees. The Airports Division monitors Signatory Airline requirements on a continuous basis and adjusts rates and charges accordingly to assure financial stability and achievement of the Rate Covenant on a semi-annual and annual basis. Continued implementation of cost savings measures relating to personnel, security and utility costs has sustained the Airports Division's financial position. The Airports Division views implementation of the ESCO Project as an important element of its plan to reduce energy consumption and costs, while simultaneously improving and modernizing operation of the Airports System.

### **CERTAIN INVESTMENT CONSIDERATIONS**

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

### **Appropriations Risk**

The Certificates are special limited obligations of the State, and evidence an assignment of a proportionate interest in the Lease and in the right to receive rent payments under the Lease. The Certificates are payable solely from the Revenues of the Airports System and receipts of the State's aviation fuel taxes. Execution and delivery of the Certificates will not obligate the State to make payments beyond appropriations for the then current fiscal year. This obligation of the Department under the Lease relating to the Certificates is not a mandatory charge or requirement of the Department, and is contingent on the appropriation of sufficient funds to pay rent under the Lease by the Legislature of the State. A failure of the Legislature to appropriate sufficient funds will not be an event of default under the Lease.

In the event that the State does not appropriate funds for the payment of Rent in any fiscal year, the State would have no liability for any additional Base Rent or Additional Rent. If the State does not appropriate funds for the payment of rent, there can be no assurance that there will be sufficient funds to pay the outstanding principal and interest components of the Certificates, and no assurance that any amounts so received that are allocable to the interest components of the Certificates will be excluded from gross income for federal income tax purposes.

**The Certificates 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 Certificates. The Certificates are and will be payable from the Revenues and Aviation Fuel Taxes, but junior in priority to the pledge of the Revenues securing the Bonds issued under the Director's Certificate.**

**If moneys are not so appropriated, the Lease and the EP Contract will be terminated without penalty at the end of the fiscal year for which moneys have been appropriated. The Department will not be required to make rental payments under the Lease or payments under the EP Contract coming due after the effective date of such termination. In such event the Department would no longer be entitled to use Equipment financed under the Lease, and must surrender the Equipment to the Trustee. The Trustee would have recourse to liquidate such Equipment for the benefit of the holders of the Certificates.**

## **Failure to Meet Projections**

The ability of the Department to pay the lease rent under the Lease depends on the ability of the Department to generate Revenues and Aviation Fuel Taxes in the levels required by the Director's Certificate. Although the Department expects that sufficient revenues will be generated through the imposition and collection of the fees, rents, charges and other Revenues to pay all expenses of the Airports System, including lease rents, there is no assurance that such imposition will result in the generation of Revenues and Aviation Fuel Taxes in the amounts required. As a result, there is no guarantee that sufficient Revenues and Aviation Fuel Taxes will be available to make lease rent payments on the Certificates.

In addition, all financial forecasts of the Department are based on a number of assumptions. Changes in circumstances could have a material adverse impact on the ability of the Department to pay the principal of and interest on the Certificates.

## **Airline Information**

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

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

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

## **Certain Considerations Concerning the Airline Industry**

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

The near-term economic outlook for the national and State economies following the 2008-2009 recession includes recovery and continued growth. Since 2001, the global airline industry has undergone substantial structural changes. After a period of sustained financial losses, recent years have seen airlines return to profitability. North American airlines' profits were \$4.1 billion in 2010, \$1.3 billion in 2011 and \$1.4 billion in 2012.

Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the strength of the U.S. economy, other regional and world economies, corporate profitability, airline safety, security and public health concerns, air traffic control limits and other factors. Permanent structural changes to the industry are the result of a number of factors including the impact of low cost carriers, airline consolidation, internet travel web sites, changes in technology and carriers reorganizing under the U.S. Bankruptcy Code. Since 2001, several U.S. air carriers have ceased operations and/or sought to reorganize under Chapter 11. In December 2002 United Airlines filed for bankruptcy protection and emerged from bankruptcy protection in February 2006. US Airways emerged from bankruptcy protection in September 2005 after filing twice for bankruptcy protection in 2002 and 2004. In March 2003 Hawaiian Airlines, Inc. filed for bankruptcy protection and emerged from bankruptcy protection in June 2005. In September 2005, both Delta Air Lines and Northwest Airlines filed for bankruptcy protection, with Delta Air Lines emerging in April 2007 and Northwest Airlines emerging in May 2007. Aloha Airlines filed for bankruptcy protection in December 2004, emerged in February 2006, and, as a result of financial pressures arising from increasing fuel prices and increasing competition, again filed for bankruptcy protection on March 20, 2008. Aloha Airlines ceased passenger operations on March 31, 2008, and completed the Chapter 7 bankruptcy liquidation of its cargo division in May 2008.

On January 5, 2010, Mesa Air Group filed for Chapter 11 bankruptcy protection to eliminate excess aircraft, restructure its business model to reflect changes in the regional airline industry, and settle litigation with Delta Air Lines. According to Mesa Air Group, Mesa's go!-Mokulele joint venture was not included in the filing and continues to operate its full flight schedule. As described above Japan Airlines filed for rehabilitation, a court-led restructuring similar to a Chapter 11 filing in the United States in January 2010, consolidated its operations with Jalways Company, emerged from bankruptcy protection in 2011 and was relisted on the Tokyo Stock Exchange in 2012. Service by Japan Airlines is expected to continue uninterrupted, and it is unclear what effect, if any, this restructuring will have on service to Hawaii. Record aviation fuel prices and other financial pressures resulted in other airline bankruptcies in 2008. It is possible that these or other airlines may seek to reorganize in or out of Chapter 11. Potential investors are urged to review the airlines' financial information on file with the SEC and DOT.

As described above American Airlines filed for Chapter 11 bankruptcy protection in November 2011. On February 14, 2013, American Airlines announced a proposed merger agreement with US Airways to be implemented as a part of American Airlines' plan of reorganization, which was confirmed by the Bankruptcy court on September 12, 2013. On November 12, 2013, American Airlines and US Airways reached a settlement agreement with the U.S. Department of Justice and several states who had filed an action to enjoin the proposed merger. The settlement agreement will require American Airlines Group, Inc., the merged carrier, to sell rights to approximately 15% of its combined take-off and landing slots at Ronald Reagan National Airport and a lesser number of slots at several other major airports. The carrier also agreed to maintain hub airport service at seven regional airports for at least three years. The merger was completed on December 9, 2013. The Department does not consider the effect of an American Airlines – US Airways merger to be material to the operations of the Airports System.

Certain other airlines serving the Airports System have consolidated in recent years. In 2008, Delta Airlines and Northwest Airlines merged and currently operate under a single FAA Certificate and fly under the Delta name. Continental Airlines merged with United Airlines effective October 1, 2010, creating the world's largest airline in terms of operating revenue and airline passenger miles. In May 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. In 2013 Larry Ellison, who recently purchased the Island of Lanai, purchased both Island Air and go!, and announced plans to integrate the two carriers' operations under the Island Air name. Further airline consolidation remains possible. While prior mergers have had, and the Department expects that recent mergers will have, little impact on the respective combined airlines' market shares in the Airports System, future mergers or alliances among airlines servicing the Airports System may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Revenues, reduced PFC collections and increased costs for the other airlines serving the Airports System.

Faced with the growth of lower-cost airlines, and evolving business technology, legacy airlines have been forced to change their business practices. Many businesses have switched to lower-cost carriers, reduced business and premium class flying and/or implemented significant reductions in business travel. As a result, carriers that once structured their services around the business traveler during the economic expansion in the 1990s have been forced to reduce or eliminate service on unprofitable routes, reduce work force, implement pay cuts, and reduce fares in order to compete with lower-cost carriers.



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

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

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

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

***Effects of Bankruptcy or Restructuring of Air Carriers.*** The profitability of the airline industry has fluctuated since 2000, with many airlines reporting substantial financial losses and several airlines filing for bankruptcy protection, due not only to the events of September 11, 2001, but also to a general economic slowdown, increased aviation fuel costs, inclement weather throughout the nation, labor disruptions and other factors. However the past few years have seen an increase in airlines’ profitability due to the consolidation of several major airlines, higher airfares and the improved economic climate.

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

As described in “*General*,” above, under this heading, several airlines have undergone bankruptcies, liquidations or major restructurings in the past decade. The effects of the recently completed American Airlines – US Airways merger have yet to be determined. Although Hawaii has experienced record numbers of visitors by air in the last two years various industry analysts have suggested that further reductions in industry wide domestic capacity may be required to achieve equilibrium between seat supply and passenger demand at airfares adequate to sustain airline profitability. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. The combination of reduced capacity, increased airfares and unstable economic conditions is expected to caused reduced passenger numbers at most airports in the near-term. It is not possible to predict the impact on the Airports System of any future bankruptcies, liquidations or major restructurings of other airlines, especially of one or more large network airlines.

***Cost of Aviation Fuel.*** The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainties. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the rapidly growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. Average fuel prices peaked in By mid-2008 at \$3.82 per gallon, three times higher than they were in mid-2004. Fuel now represents the largest item of expense for most airlines. Although oil prices fell sharply in the second half of 2008 as demand decreased worldwide, and are no longer at 2008 levels, airline industry analysts believe that fuel prices are likely to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies. While aviation fuel prices have not affected the ability of airlines to provide service, fluctuating prices will affect airline service, airfares, and passenger numbers. Airline operating economics are also likely to be affected as regulatory costs are imposed on the airline industry to account for aircraft emissions contributing to global climate change. Significant and prolonged increases in the cost of aviation fuel or any decreases in the availability of aviation fuel are likely to have an adverse impact on the air transportation industry’s profitability and hamper the recovery plans and cost-cutting efforts of the airlines.

### **Factors Affecting Capital Improvement Program**

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

### **Economic Conditions**

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

Future increases in passenger traffic will depend largely on the ability of the U.S. and other nations to sustain growths in economic output and income. During late 2008, there were significant and dramatic volatility and changes in

the global financial markets, leading many governments worldwide to intervene by making funds available to certain institutions, taking over the ownership of others and assuming large amounts of troubled financial instruments in order to restore consumers' confidence in the financial markets. Although both domestic and global economies have recovered since 2008-2009 and steady, moderate growth has occurred since 2012, the long-term economic effects of U.S. Government's sequestration and regulatory and economic changes are not known at this time. There can be no assurances that such developments will not have an adverse effect on the air transportation industry.

### **Aviation Security Concerns**

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

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

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

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

### **Public Safety Concerns**

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

## **Impact of Uncertainties of the Airline Industry on the Airports System**

The factors affecting aviation activity at the Airports System include: the growth of population and of the economy in Hawaii, airline service and route networks, the financial health and viability of the airline industry, national and international economic and political conditions, the availability and price of aviation fuel, levels of air fares, the capacity of the national air traffic control system and airport capacity at the Airports System and elsewhere. The Department has used certain assumptions to prepare the forecasts made herein. No assurances can be given that these assumptions will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material.

## **Considerations Regarding Certain Other Sources of Funds**

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

***FAA AIP Program.*** No assurance can be given that the Department will actually be receive federal grants-in-aid in the amount or at the time contemplated by the Department. Beginning in 2007, the FAA has been reauthorized in a series of short-term acts, including the FAA Reauthorization and Reform Act of 2012 which reauthorized FAA authority for programs and taxes and AIP project grants for federal fiscal years 2012 through 2015. However federal funding could be adversely impacted by the sequestration provisions of the Budget Control Act enacted in August 2011. Sequestration has been continued by the Continuing Appropriations Act of 2014 enacted on October 16, 2013. Sequestration is a unique budgetary feature restricting federal spending resulting from the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on deficit reductions mandated by the Budget Control Act. Sequestration could result in the reduction of federal grant funds, and spending cuts could be spread over a number of years. No assurance can be given that further reauthorizations or extensions will occur, or at what levels the programs may be funded in the future.

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

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

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

## **Regulations and Restrictions Affecting the Airports System**

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

### **Airlines Serving the Airports**

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

### **Limitation on Certificate Holders' Remedies**

The occurrence of an Event of Default under the Director's Certificate or under the Lease does not grant a right the Certificate holders to accelerate payment of the Certificates. As a result, the Department may be able to continue indefinitely collecting Revenues and applying them to the operation of the Airports System even if an Event of Default has occurred and no payments are being made on the Certificates. In addition, any remedies available to the Owners of the Certificates upon the occurrence of an Event of Default are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain.

### **Climate Change Issues**

Climate change concerns are leading to new laws and regulations at the federal and state levels that could have a material adverse effect on airlines operating at the Airports System and could also affect ground operations at airports. The U.S. Environmental Protection Agency (the "EPA") recently has taken steps to regulate greenhouse gas ("GHG") emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. Effective January 14, 2010, the EPA issued a final rule entitled "Endangerment and Cause or Contribute Findings for Greenhouse Gases under Section 202(a) of the Clean Air Act." In the final rule, the EPA defined "air pollution" under the Clean Air Act to be the mix of six "well mixed" GHGs identified in the rule – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – and found that GHGs "endanger both the public health and the public welfare of current and future generations." The final rule also found that GHG emissions "from new motor vehicles and new motor vehicle engines contribute to the greenhouse gas air pollution that endangers public health and welfare." The Clean Air Act governs aircraft emissions under provisions that are parallel to requirements applicable to motor vehicle emissions. Accordingly, the EPA may elect or be forced by the courts to regulate aircraft emissions as a result of this endangerment finding.

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

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

Although this bill failed to pass Congress, the Department is unable to predict what federal and/or state laws and regulations with respect to GHG emissions will be adopted in the future, or what effects such laws and

regulations will have on airlines serving the Airports System or in Airports System operations. The effects of such laws and regulations, however, could be material.

### **Forward Looking Statements**

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

### **LITIGATION**

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

### **TAX MATTERS**

#### **Opinion of Bond Counsel**

Katten Muchin Rosenman LLP, Bond Counsel, is of the opinion that under existing law, the interest portion of the payments of Base Rent under the Lease received by the owners of the Certificates (called the “interest on the Certificates”) is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), Bond Counsel is of the opinion that interest on the Certificates will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the Certificates is an item of tax preference for purposes of computing individual and corporate alternative minimum taxable income for purposes of the individual and corporate alternative minimum tax. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest on any Certificates for any period during which any Certificate is held by a person who is a “substantial user” of the facilities financed or refinanced with the proceeds of that Certificate or a “related person” (each as defined in Section 147(a) of the Code). Interest on the Certificates is exempt from all taxation by the State of Hawaii 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 of Hawaii on banks and other financial institutions may be measured with respect to the Certificates or income therefrom.

#### **Exclusion from Gross Income: Requirements.**

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

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

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

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

### **Covenants to Comply, Risk of Non Compliance**

The State has covenanted to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Certificates.

In the event that the State fails to comply with the requirements of the Code, interest on the Certificates may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of execution and delivery. In such event, the Indenture does not require acceleration of payment of principal of or interest on the Certificates or payment of any additional interest or penalties to the owners of the Certificates.

### **Federal Income Tax Consequences**

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

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

(b) *Corporate Owners.* Except as set forth above under “Opinion of Bond Counsel,” interest on the Certificates is generally taken into account in computing earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Certificates is taken into account in computing the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

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

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

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

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

### **Certificates Purchased at a Premium or at a Discount**

The difference (if any) between the initial price at which a substantial amount of each maturity of each Series of the Certificates is sold to the public (the “Offering Price”) and the principal amount payable at maturity of such Certificates is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Certificate, the difference between the two is known as “original issue premium;” if the Offering Price is lower than the maturity value of a Certificate, the difference between the two is known as “original issue discount.”

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

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

### **Change of Law**

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

### **Circular 230**

To ensure compliance with Treasury Circular 230, holders of the Certificate should be aware that: (a) the discussion in this Official Statement with respect to U.S. federal income tax consequences of owning the Certificates 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.

## **UNDERWRITING**

Morgan Stanley & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and J.P. Morgan Securities LLC (collectively, the “Underwriters”) have agreed to purchase the Certificates for \$173,021,068.57 (representing the



principal amount of the Certificates, less underwriters' discount of \$1,628,258.53 and plus net premium of \$6,909,327.10). The Underwriters will be obligated to purchase all the Certificates if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The initial public offering price of the Certificates may be changed from time to time by the Underwriters prior to the Delivery Date. The Underwriters may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) at prices lower than the public offering prices stated on the cover of this Official Statement.

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

J.P. Morgan Securities LLC, one of the Underwriters of the Certificates, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Certificates, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Certificates from J.P. Morgan Securities LLC at the original issue price less a negotiated portion of the selling concession applicable to any Certificates that such firm sells.

#### **LEGALITY FOR INVESTMENT**

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

#### **APPROVAL OF LEGAL PROCEEDINGS**

All legal matters incident to the authorization, issuance and sale of the Certificates are subject to the approval of Katten Muchin Rosenman LLP, New York, New York. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Certificate and will be delivered with the Certificates. Proposed form of the opinion of Bond Counsel is annexed as Appendix E to this Official Statement. Certain legal matters will be passed upon for the State by the Attorney General of the State, for the Trustee by its counsel Dorsey & Whitney, Costa Mesa, California, for the Underwriters by counsel to the Underwriters, Alston Hunt Floyd & Ing, Honolulu, Hawaii, and for JCI by Adams and Reese, LLP, Baton Rouge, Louisiana, or by its General Counsel.

#### **RATINGS**

Moody's Investors Service, Standard and Poor's, A Division of The McGraw-Hill Companies, and Fitch Inc. have assigned ratings of "A3," "A-" and "A-" respectively, to the Certificates.

Moody's Investors Service and Standard and Poor's have assigned ratings of "A2 (stable outlook)" and "AA-(stable outlook)" respectively to Certificates maturing on August 1, 2021 (5.00% CUSIP 419808AF7), and August 1, 2023 (4.250% CUSIP 419808AG5) (the "Insured Certificates"). Moody's Investors Service and Standard and Poor's have assigned such ratings to the Insured Certificates on the understanding that the standard municipal bond insurance policy of Assured Guaranty Municipal Corp. ("AGM") insuring the scheduled payment of the principal of and interest due with respect to the Insured Certificates will be issued by AGM upon the issuance of the Insured Certificates.

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and are not a recommendation to buy, sell or hold the Certificates. The State makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one, or all three rating companies, if in the judgment of one, or all three companies, circumstances so warrant. The State undertakes no responsibility to maintain any rating or to oppose any revision or withdrawal of a rating. A downward revision or withdrawal of a rating may have an adverse effect on the marketability or market price of the Certificates.

### **FINANCIAL ADVISOR**

The Department has retained First Southwest Company, New York, New York, as financial advisor with respect to the issuance of the Certificates. First Southwest Company is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. First Southwest Company is an independent financial advisory firm.

### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

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

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements if and when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur, unless such updates or revisions are made in the course of fulfilling its continuing disclosure obligation, as described under “CONTINUING DISCLOSURE.”

### **CONTINUING DISCLOSURE**

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

### **MISCELLANEOUS**

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

The financial statements of the Airports Division as of and for the year ended June 30, 2013 set forth in Appendix A to this Official Statement have been audited by KPMG LLP, independent auditors, as stated in their report appearing in Appendix A.

DEPARTMENT OF TRANSPORTATION,  
STATE OF HAWAII

By: /s/ Glenn M. Okimoto  
Glenn M. Okimoto, Ph.D.  
Director of Transportation

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]



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

Financial Statements and Supplemental Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR  
STATE OF HAWAII**

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

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-20
Financial Statements:	
Statements of Net Position as of June 30, 2013 and 2012	21-22
Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2013 and 2012	23-24
Statements of Cash Flows for the years ended June 30, 2013 and 2012	25-26
Notes to Financial Statements	27-56
<b>Supplementary Information Schedules</b>	
1 Operating Revenues and Operating Expenses Other than Depreciation for the year ended June 30, 2013	57
2 Calculations of Net Revenues and Taxes and Debt Service Requirement for the year ended June 30, 2013	58
3 Summary of Debt Service Requirements to Maturity as of June 30, 2013	59
4 Debt Service Requirements to Maturity – Airports System Revenue Bonds as of June 30, 2013	60
5 Airports System Charges – Fiscal Year 2008 Lease Extension for the year ended June 30, 2013	61
6 Summary of Billed Airport Landing Fees for the year ended June 30, 2013	62
7 Approved Maximum Revenue Landing Weights and Airport Landing Fees – Signatory Airlines for the year ended June 30, 2013	63
8 Approved Maximum Revenue Landing Weights and Airport Landing Fees – Non-signatory Airlines for the year ended June 30, 2013	64





KPMG LLP  
PO Box 4150  
Honolulu, HI 96812-4150

## Independent Auditors' Report

The Auditor  
State of Hawaii:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Department of Transportation, Airports Division, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Airports Division's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Airports Division, State of Hawaii as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discussed in note 1 to the financial statements, the financial statements of the Airports Division are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Airports Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Airports Division's basic financial statements. The supplementary information listed as "supplementary information schedules" are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The supplementary information schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013 on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airports Division's internal control over financial reporting and compliance.

KPMG LLP

December 10, 2013  
Honolulu, Hawaii

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

Management's Discussion and Analysis

June 30, 2013 and 2012

The following Management's Discussion and Analysis of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal years ended June 30, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Honolulu International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. It has four runways, two of which (12,000 and 12,300 feet long) are among the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Kahului Airport on the Island of Maui, Hilo International Airport and Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Honolulu International Airport accommodated 59.6% and 59.4% of total passenger traffic in the airports system during fiscal years 2013 and 2012, respectively. The other four principal airports accommodated 39.3% and 39.5% of the total passenger traffic for fiscal years 2013 and 2012, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly, Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Honolulu International Airport on July 1, 1999. The other airports in the airports system accommodated 1.1% of the total passenger traffic for both fiscal years 2013 and 2012, respectively.

The Airports Division is self-sustaining. The Department of Transportation (DOT) is authorized to impose and collect rates and charges for the airports system services and properties to generate revenues to fund operating expenses. The Capital Improvements Program is funded by airports system revenue bonds issued by the Airports Division, federal grants, passenger facility charges (PFCs), customer facility charges (CFCs), and the Airports Division's revenues.

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

Management's Discussion and Analysis

June 30, 2013 and 2012

**Using the Financial Statements**

The Airports Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type, which is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

The Airports Division's financial report includes three financial statements: the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

**Airports Division Activities and Highlights**

The Airports Division ended fiscal year 2013 with increases in total passengers, aircraft operations, revenue landed weights, revenue passenger landings, and deplaning international passengers by 6.2%, 7.5%, 5.6%, 2.3%, and 13.8%, respectively, as compared to fiscal year 2012. Increasing passenger traffic, in addition to airline carriers maximizing passenger load factors, are the reasons for such changes. Although oversea carriers account for a higher percentage, 60% of revenue landed weights, the overall carrier mix remains diverse.

The Honolulu International Airport continues to be the dominant airport although a portion of the market share shifted to the Kahului Airport, Kona International Airport at Keahole, and Lihue Airport as a result of increased direct flights to such destinations. The majority of the operating revenues at the Airports Division is activity based and directly relates to the number of passengers and aircraft operations.

For fiscal years 2013 and 2012, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 39% and 8% and 38% and 10% of the total landed weights, respectively. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 20%, 13%, and 13% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Mesa Airlines, Inc. accounted for 67% and 7% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 42% of the revenue passenger landings and Japan Airlines International Company, Ltd. accounted for 20% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2013 and 2012: Air Canada, Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., Allegiant Air, L.L.C., Asiana Airlines, Inc., All Nippon Airways Co., Ltd., American Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Company, Ltd., Korean Airlines Company, Ltd., North American Airlines, Inc., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, United Airlines, Inc., U.S. Airways, Inc., and WestJet. The principal airlines providing interisland passenger flight services are Hawaiian Airlines, Inc., Hawaii Island Air, Inc., Mesa Airlines, Inc., Mokulele Flight Service, Inc., and Pacific Wings, L.L.C.

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2013 and 2012

Activity for the airports system for the fiscal years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>	<b>Percentage increase (decrease) from 2012</b>
Passengers (enplaning and deplaning passengers activity):			
Honolulu International Airport	19,778,282	18,556,491	6.6%
Kahului Airport	6,077,000	5,707,645	6.5
Kona International Airport at Keahole	2,886,734	2,738,937	5.4
Lihue Airport	2,716,541	2,567,325	5.8
Hilo International Airport	1,362,597	1,310,128	4.0
All others	351,705	351,631	—
Total passengers	<u>33,172,859</u>	<u>31,232,157</u>	<u>6.2%</u>
Aircraft operations (landing and takeoff combined reported by Air Traffic Control Tower):			
Honolulu International Airport	284,532	266,326	6.8%
Kahului Airport	130,620	124,519	4.9
Kona International Airport at Keahole	119,098	110,324	8.0
Lihue Airport	122,240	109,739	11.4
Hilo International Airport	88,100	75,367	16.9
All others	210,106	201,827	4.1
Total aircraft operations	<u>954,696</u>	<u>888,102</u>	<u>7.5%</u>
Revenue landed weights (1,000-pound units):			
Honolulu International Airport	15,261,346	13,750,155	11.0%
Kahului Airport	3,791,705	3,504,259	8.2
Kona International Airport at Keahole	1,815,451	1,739,600	4.4
Lihue Airport	1,618,053	1,474,648	9.7
Hilo International Airport	926,125	841,888	10.0
All others	255,349	161,683	57.9
Total signatory airlines	<u>23,668,029</u>	<u>21,472,233</u>	<u>10.2</u>
Nonsignatory airlines	<u>1,543,705</u>	<u>2,401,724</u>	<u>(35.7)</u>
Total revenue landed weights	<u>25,211,734</u>	<u>23,873,957</u>	<u>5.6%</u>

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<b>Percentage increase (decrease) from 2012</b>
Revenue passenger landings:			
Honolulu International Airport	84,004	82,252	2.1%
Kahului Airport	23,507	23,922	(1.7)
Kona International Airport at Keahole	12,087	12,742	(5.1)
Lihue Airport	12,469	13,035	(4.3)
Hilo International Airport	6,654	7,058	(5.7)
Other airports	11,194	7,535	48.6
Total signatory airlines	149,915	146,544	2.3
Nonsignatory airlines	740	676	9.5
Total revenue passenger landings	<u>150,655</u>	<u>147,220</u>	<u>2.3%</u>
Deplaning international passengers:			
Honolulu International Airport	2,310,745	2,034,658	13.6%
Kona International Airport at Keahole	—	671	(100.0)
Total signatory airlines	2,310,745	2,035,329	13.5
Nonsignatory airlines	125,238	105,556	18.6
Total deplaning international passengers	<u>2,435,983</u>	<u>2,140,885</u>	<u>13.8%</u>

**Financial Operations Highlights**

The financial results for fiscal years 2013 and 2012 reflected income (loss) before capital contributions of \$96.5 million and \$(4.4) million, respectively. Operating revenues and expenses increased by \$24.3 million, or 7.7%, and \$16.0 million, or 5.0%, respectively, resulting from increased revenue from airlines and concessions. Total nonoperating revenues increased by \$67.1 million, or 170.9%, mainly due to the reinstatement of the Rental Car Customer Facility Charge fee on July 1, 2012, amounting to an increase of \$55.5 million and the increase in fair value relating to Airports Division investments in auction rate securities held by State Treasury amounting to \$3.8 million. Further, the Airports Division received a business interruption insurance settlement relating to the events of September 11<sup>th</sup> amounting to \$19.0 million.

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

Management's Discussion and Analysis

June 30, 2013 and 2012

Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect a \$3.00 PFC at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport through February 1, 2007. During this period, the Airports Division was able to collect the maximum approved PFC revenue, including interest earned amounting to \$42,632,466. The PFC collections are currently utilized to fund flight information display and public address system improvements, air conditioning system improvements, South Ramp environmental compliance measures, runway safety area improvements, perimeter road improvements and fencing, and general aviation lighting projects.

Effective February 1, 2007, the FAA approved the Airports Division's PFC Application No. 2 to impose a \$3.00 PFC at the airports mentioned above with the addition of Hilo International Airport. The maximum approved PFC revenue, including interest earned to be collected between February 1, 2007 and July 1, 2011 (amended from November 30, 2008 to July 1, 2011) from the five principal airports was amended from \$104,458,000 to \$62,500,000 as of June 30, 2009. The maximum amount of \$62,500,000 was further amended to \$49,560,000 as of November 30, 2008. The amendments were due to FAA deadline requirements. The collections will be utilized for aircraft rescue and fire fighting facilities improvements, elevator improvements, loading bridge replacements, air conditioning system improvements, and PFC administration costs.

Effective December 1, 2008, the FAA approved the Airports Division's PFC Application No. 3 to impose an increased PFC from \$3.00 to \$4.50 at Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport. This application was "blended" with PFC Application No. 2 (\$49,560,000) amounting to a maximum approved PFC revenue of \$76,138,332 (combining PFC Application Nos. 2 and 3) including interest earned during the collection period of December 1, 2008 through January 1, 2010. The collections will be utilized for the same improvements in PFC Application No. 2 in addition to widening taxiways G and L at the Honolulu International Airport.

On June 24, 2009, Act 147 amended Hawaii Revised Statute Section 261-5.5 allowing the Airports Division the flexibility of financing capital projects with the proceeds of bonds that would be completely or partially backed by PFCs. This statute would be implemented dependent on FAA approval through another application request, which is currently being prepared by the Airports Division.

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



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

Management's Discussion and Analysis

June 30, 2013 and 2012

On July 30, 2013, the Airports Division submitted PFC Application No. 5 to impose a \$4.50 PFC at Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo Airport. The application will be approved for a collection of approximately \$449.4 million including interest earned during the collection period tentatively from February 1, 2014 to July 1, 2026. The PFC collections will be utilized to fund airfield improvements, roadway, and terminal improvements including the wiki-wiki shuttle stations improvements, loading bridge replacement, the Mauka terminal extension, aircraft rescue and fire fighting facility improvements, access control and CCTV systems, land acquisition, and PFC administrative costs. As part of this PFC application, the Airports Division is applying for authority to use PFC revenues for eligible construction and financing costs related to PFC eligible projects. Such projects costs are to be funded by a portion of proceeds from the Series 2010 Bonds and the Future Revenue Bonds. The Airports Division anticipates the application will be approved by December 31, 2013 and implement the collection in February 2014.

Since the inception of this program through June 30, 2013, the total PFC revenues, including interest earned, and expenditures were \$236.1 million and \$130.3 million, respectively.

On July 8, 2008, State Legislative Senate Bill 2365 became law as Act 226 Session Law of Hawaii 2008, authorizing the Airports Division to impose a CFC surcharge of \$1 per day on all u-drive rentals at a state airport, effective September 1, 2008. Moneys collected through the CFC are deposited into a restricted fund to be used for enhancement, renovation, operation, and maintenance of existing rental motor vehicle customer facilities and the development of new rental motor vehicle customer facilities and related services at state airports to better serve Hawaii's visitors and residents. The consolidated rental car facilities will provide a single location for travelers to rent a car of their choice and eliminate the need for multiple pickup and delivery vans from individual rental car companies.

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

Since September 1, 2009 through June 30, 2013, the total CFC revenues, including interest earned, and expenditures were \$120.2 million and \$36.8 million, respectively. On July 1, 2011, the collection of this fee was suspended by the State Legislature for one year and on July 1, 2012, the collection of this fee was reinstated by the State Legislature.

Operating expenses before depreciation for fiscal year 2013 increased by 6.3%, or \$14.5 million, as compared to fiscal year 2012 mainly due to increases in salaries and wages, other personnel services, utilities and repairs, and maintenance offset by decreases in State of Hawaii surcharge on gross receipts and special maintenance.

Total nonoperating expenses for fiscal year 2013 decreased by 17.3%, or \$6.5 million, as compared to fiscal year 2012 mainly due to decreases in interest expense relating to airports system revenue bonds issued in fiscal years 2012 and 2013, loss on disposal of capital assets and loss on amounts held in the State Treasury.

As a result, net assets increased by \$122.1 million and \$41.6 million for fiscal years 2013 and 2012, respectively.

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

Management's Discussion and Analysis

June 30, 2013 and 2012

In summary, the Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenues from a diverse mix of sources. The Airports Division continues to monitor signatory airline requirements and adjust rates and charges accordingly to assure financial stability and bond certificate requirements are met on a semiannual and annual basis. In addition, the continued implementation of cost saving measures by management relating to personnel, security, and utility costs has sustained the Airports Division's financial position. However, such cost saving measures are being monitored to prevent compromising the Airports Division's main objective, which is to adequately serve the traveling public and airport tenants.

A summary of operations and changes in net position for the years ended June 30, 2013, 2012, and 2011 is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 338,587,587	314,237,855	311,952,386
Business interruption insurance recovery	19,000,000	—	—
Operating expenses, excluding depreciation	<u>(244,308,245)</u>	<u>(229,822,552)</u>	<u>(215,377,393)</u>
Operating income before depreciation	113,279,342	84,415,303	96,574,993
Depreciation	<u>(92,231,177)</u>	<u>(90,754,951)</u>	<u>(94,738,701)</u>
Operating income (loss)	21,048,165	(6,339,648)	1,836,292
Nonoperating revenues – net	<u>75,438,747</u>	<u>1,898,282</u>	<u>57,394,520</u>
Income (loss) before capital contributions	<u>96,486,912</u>	<u>(4,441,366)</u>	<u>59,230,812</u>
Capital contributions:			
Federal capital grants	23,996,113	36,869,413	16,873,585
Federal stimulus funds	<u>1,584,267</u>	<u>9,191,233</u>	<u>11,787,177</u>
Total capital contributions	<u>25,580,380</u>	<u>46,060,646</u>	<u>28,660,762</u>
Increase in net position	<u>\$ 122,067,292</u>	<u>41,619,280</u>	<u>87,891,574</u>

- Operating revenues increased by \$24.3 million due to a \$14.6 million increase in aeronautical revenues due to an increase in passenger traffic and a \$7.8 million in concession revenues from car rentals, restaurants, retail stores, parking, and in-flight catering.

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

Management's Discussion and Analysis

June 30, 2013 and 2012

- Operating expenses excluding depreciation increased by 6.3% from \$229.8 million in fiscal year 2012 to \$244.3 million in fiscal year 2013. The most recognized increases related to salaries and wages, other personnel services, utilities, and repairs and maintenance amounting to \$18.8 million. Salaries and wages increased by \$8.3 million as a result of filling previously frozen and vacated positions along with retroactive pay adjustments relating to labor union agreement settlements for special funded programs. Other personnel services cost increased by \$3.9 million primarily due to a \$3.4 million two year bird control services bill paid to the United States Department of Agriculture. Utility cost increased by \$3.1 million due to a \$3.0 million increase in electricity. Repairs and maintenance cost increased by \$3.5 million mainly due to maintenance repairs to taxiway, runway, machinery, and equipment.
- The net results of the above resulted in operating income before depreciation of \$113.3 million and \$84.4 million in fiscal years 2013 and 2012, respectively. Operating income before depreciation for fiscal year 2013 increased by 34.2%, or \$28.9 million. Depreciation expense increased by 1.6% from \$90.8 million in fiscal year 2012 to \$92.2 million in fiscal year 2013 due to an increase in capital assets. The operating income before nonoperating revenues, net and capital contributions is \$21.0 million in fiscal year 2013 as compared to an operating loss before nonoperating revenues, net and capital contributions of \$6.3 million in fiscal year 2012.
- Nonoperating revenues, net increased by 3,874.1%, or \$73.5 million, in fiscal year 2013, primarily due to the reinstatement of the Rental Car Customer Facility Charge fee on July 1, 2012, amounting to an increase of \$55.5 million, the change in fair value relating to Airports Division investments in auction rate securities held by State Treasury from a loss of \$1.4 million to a gain of \$3.8 million, increase in passenger facility charge fees amounting to \$3.8 million, increase in federal operating grants received amounting to \$1.7 million, decrease in interest expense relating to revenue bonds amounting to \$2.8 million and decrease in loss on disposal of capital assets amounting to \$1.9 million.
- Income before capital contributions for fiscal year 2013 of \$96.5 million as compared to loss of \$4.4 million for fiscal year 2012 was a result of an increase in nonoperating revenues, net.
- Capital contributions decreased by 44.5%, or \$20.5 million, in fiscal year 2013, mainly due to decreases of federal capital and federal stimulus grants received in fiscal year 2013.

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2013 and 2012

**Financial Position Summary**

A condensed summary of the Airports Division's net position at June 30, 2013, 2012, and 2011 is shown below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets:			
Unrestricted assets	\$ 598,449,594	575,899,575	535,972,293
Restricted assets	68,757,160	58,778,499	67,736,492
Noncurrent assets:			
Capital assets	1,788,606,407	1,753,785,470	1,712,801,627
Restricted assets	590,662,461	554,011,295	576,456,552
Other noncurrent assets	3,926,086	4,408,531	4,334,194
Total assets	<u>3,050,401,708</u>	<u>2,946,883,370</u>	<u>2,897,301,158</u>
Liabilities:			
Current liabilities:			
Payable from unrestricted assets	43,321,875	52,831,085	40,345,049
Payable from restricted assets	81,185,649	63,632,304	68,105,008
Long-term liabilities, net of current portion:			
Payable from unrestricted assets	102,010,648	83,493,117	48,658,736
Payable from restricted assets	925,272,485	970,383,105	1,005,267,886
Total liabilities	<u>1,151,790,657</u>	<u>1,170,339,611</u>	<u>1,162,376,679</u>
Net position:			
Invested in capital assets	1,077,045,343	1,039,368,865	968,350,047
Restricted	381,987,432	314,491,493	315,271,730
Unrestricted	439,578,276	422,683,401	451,302,702
Total net position	<u>\$ 1,898,611,051</u>	<u>1,776,543,759</u>	<u>1,734,924,479</u>

The largest portion of the Airports Division's net position (56.7% and 58.5% at June 30, 2013 and 2012, respectively) represents its investments in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net position (20.1% and 17.7% at June 30, 2013 and 2012, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate), as well as PFCs that can only be used for specific projects.

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

Management's Discussion and Analysis

June 30, 2013 and 2012

The largest portion of the Airports Division's unrestricted net position represents unrestricted cash and cash equivalents in the amount of \$571.2 million and \$549.3 million at June 30, 2013 and 2012, respectively. The \$571.2 million and \$549.3 million cash balance at June 30, 2013 and 2012, respectively, provides the Airports Division with substantial flexibility, as the unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects.

The change in net position is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net position may serve over time as a useful indicator of the Airports Division's financial position. Assets exceeded liabilities by \$1,898.6 million at June 30, 2013, representing an increase of \$122.1 million from June 30, 2012.

**Airline Signatory Rates and Charges**

***Lease Agreement with Signatory Airlines***

The DOT entered into an airport-airline lease agreement with the signatory airlines to provide those airlines with the nonexclusive right to use the airports system facilities, equipment improvements, and services, in addition to occupying certain exclusive-use premises and facilities. These leases were set to expire in 1992 but were extended under various short-term agreements.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The lease extension agreement's residual rate-setting methodology provided for a final year-end reconciliation containing actual airports system cost data to determine whether airports system charges assessed to the signatory airlines were sufficient to recover airports system costs, including debt service requirements. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement and various agreements between the DOT and airlines since June 30, 1997.

In October 2007, the Airports Division and a majority of the signatory airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the airport-airline lease agreement were amended to reflect a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. An airports system support charge cost center is set up to serve as the residual cost center to ensure airports system operating revenues are sufficient to cover airports system operating costs.

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona, and Lihue. The program is currently estimated to cost \$1.4 billion through 2016 and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the First Amended Lease Extension Agreement, which provides for an automatic extension on a quarterly basis unless either party provides 60 days' written notice of termination to the other party.

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2013 and 2012

**Revenues**

A summary of revenues for the years ended June 30, 2013 and 2012 and the amount and percentage of change in relation to prior year amounts is as follows:

	<b>2013</b>		<b>Increase (decrease) from 2012</b>	
	<b>Amount</b>	<b>Percentage of total</b>	<b>Amount</b>	<b>Percentage</b>
Operating revenues:				
Concession fees:				
Duty free	\$ 41,337,960	8.9%	\$ 250,324	0.6%
Other concessions	110,052,766	23.7	7,567,700	7.4
Airport landing fees	59,873,968	12.9	234,064	0.4
Aeronautical rentals:				
Nonexclusive joint-use premise charge	54,838,168	10.5	7,786,093	16.5
Exclusive-use premise charge	48,521,342	10.5	6,858,033	16.5
Nonaeronautical rentals	14,240,830	3.1	824,271	6.1
Other	9,722,553	2.1	829,247	9.3
Total operating revenues	<u>338,587,587</u>	<u>73.0</u>	<u>24,349,732</u>	<u>7.7</u>
Business interruption insurance recovery	<u>19,000,000</u>	<u>4.1</u>	<u>19,000,000</u>	<u>100.0</u>
Nonoperating revenues:				
Interest income, investments	1,991,423	0.4	2,831	0.1
Interest income, passenger facility charges	190,698	—	(149,217)	(43.9)
Interest income, rental car customer facility charges	132,324	—	(95,794)	(42.0)
Interest income, direct financing leases	1,866,352	0.4	(58,858)	(3.1)
Federal operating grants	5,038,564	1.1	1,723,163	52.0
Passenger facility charges	35,142,089	7.6	3,751,168	11.9
Rental car customer facility charges	55,578,560	12.0	55,529,163	112,414.0
Gain on amounts held in State Treasury	3,804,400	0.8	3,804,400	100.0
Other	2,559,316	0.6	2,559,316	100.0
Total nonoperating revenues	<u>106,303,726</u>	<u>22.9</u>	<u>67,066,172</u>	<u>170.9</u>
Total revenues	<u>\$ 463,891,313</u>	<u>100.0%</u>	<u>\$ 110,415,904</u>	<u>31.2%</u>

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

Management's Discussion and Analysis

June 30, 2013 and 2012

	<b>2012</b>		<b>Increase (decrease) from 2011</b>	
	<b>Amount</b>	<b>Percentage of total</b>	<b>Amount</b>	<b>Percentage</b>
Operating revenues:				
Concession fees:				
Duty free	\$ 41,087,636	11.6%	\$ 3,087,636	8.1%
Other concessions	102,485,066	29.0	8,318,909	8.8
Airport landing fees	59,639,904	16.9	(457,025)	(0.8)
Aeronautical rentals:				
Nonexclusive joint-use premise charge	47,052,075	13.3	(2,882,960)	29.6
Exclusive-use premise charge	41,663,309	11.8	(865,620)	7.5
Nonaeronautical rentals	13,416,559	3.8	66,904	0.5
Other	8,893,306	2.5	(4,982,375)	(35.9)
Total operating revenues	<u>314,237,855</u>	<u>88.9</u>	<u>2,285,469</u>	<u>0.7</u>
Nonoperating revenues:				
Interest income, investments	1,988,592	0.6	(3,986,976)	(66.7)
Interest income, passenger facility charges	339,915	0.1	(314,893)	(48.1)
Interest income, rental car customer facility charges	228,118	0.1	35,175	18.2
Interest income, direct financing leases	1,925,210	0.5	(93,211)	(4.6)
Federal operating grants	3,315,401	0.9	(1,718,308)	(34.1)
Passenger facility charges	31,390,921	8.9	671,237	2.2
Rental car customer facility charges	49,397	—	(44,482,378)	(99.9)
Gain on amounts held in State Treasury	—	—	(13,085,548)	(100.0)
Other	—	—	(124)	(100.0)
Total nonoperating revenues	<u>39,237,554</u>	<u>11.1</u>	<u>(62,975,026)</u>	<u>(61.6)</u>
Total revenues	<u>\$ 353,475,409</u>	<u>100.0%</u>	<u>\$ (60,689,557)</u>	<u>(14.7)%</u>

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

Management's Discussion and Analysis

June 30, 2013 and 2012

**Expenses**

A summary of expenses for the years ended June 30, 2013 and 2012 and the amount and percentage of change in relation to prior year amounts is as follows:

	2013		Increase (decrease) from 2012	
	Amount	Percentage of total	Amount	Percentage
Operating expenses:				
Salaries and wages	\$ 83,988,652	22.9%	\$ 8,318,215	11.0%
Other personnel services	52,601,916	14.3	3,918,918	8.0
Utilities	50,359,918	13.7	3,096,868	6.6
Repairs and maintenance	20,180,808	5.5	3,484,927	20.9
State of Hawaii surcharge on gross receipts	12,473,628	3.4	(1,234,953)	(9.0)
Special maintenance	6,549,580	1.8	(2,559,780)	(28.1)
Department of Transportation general administration expenses	5,445,497	1.5	263,954	5.1
Materials and supplies	5,557,405	1.5	517,169	10.3
Insurance	3,188,862	0.9	20,194	0.6
Bad debt expense	580,495	0.2	580,495	100.0
Disbursements out of major maintenance renewal and replacement account	276,782	0.1	(1,867,113)	(87.1)
Other	3,104,702	0.8	(53,201)	(1.7)
Total operating expenses before depreciation	244,308,245	66.5	14,485,693	6.3
Depreciation	92,231,177	25.1	1,476,226	1.6
Total operating expenses	336,539,422	91.6	15,961,919	5.0
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	28,516,182	7.8	(2,773,614)	(8.9)
Special facility	1,866,352	0.5	(58,858)	(3.1)
Loss on disposal of capital assets	—	—	(1,889,939)	(100.0)
Loss on amounts held in State Treasury	—	—	(1,408,718)	(100.0)
Other	482,445	0.1	(343,164)	(41.6)
Total nonoperating expenses	30,864,979	8.4	(6,474,293)	(17.3)
Total expenses	\$ 367,404,401	100.0%	\$ 9,487,626	2.7%



**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2013 and 2012

	<u>2012</u>		<u>Increase (decrease)</u> <u>from 2011</u>	
	<u>Amount</u>	<u>Percentage of total</u>	<u>Amount</u>	<u>Percentage</u>
Operating expenses:				
Salaries and wages	\$ 75,670,437	21.1%	\$ 3,345,318	4.6%
Other personnel services	48,682,998	13.6	(1,849,513)	(3.7)
Utilities	47,263,050	13.2	7,281,597	18.2
Repairs and maintenance	16,695,881	4.7	1,973,912	13.4
State of Hawaii surcharge on gross receipts	13,708,581	3.8	1,690,298	14.1
Special maintenance	9,109,360	2.5	(1,197,556)	(11.6)
Department of Transportation general administration expenses	5,181,543	1.4	345,553	7.1
Materials and supplies	5,040,236	1.4	897,012	21.7
Insurance	3,168,668	0.9	(41,102)	(1.3)
Disbursements out of major maintenance renewal and replacement account	2,143,895	0.6	886,907	70.6
Other	<u>3,157,903</u>	<u>0.9</u>	<u>(144,255)</u>	<u>(4.4)</u>
Total operating expenses before depreciation	229,822,552	64.2	13,188,171	6.1
Depreciation	<u>90,754,951</u>	<u>25.4</u>	<u>(3,983,750)</u>	<u>(4.2)</u>
Total operating expenses	<u>320,577,503</u>	<u>89.6</u>	<u>9,204,421</u>	<u>3.0</u>
Nonoperating expenses:				
Interest expense:				
Revenue bonds:				
Airports system	31,289,796	8.7	(10,425,905)	(25.0)
Special facility	1,925,210	0.6	(93,211)	(4.6)
Loss on disposal of capital assets	1,889,939	0.5	1,372,055	264.9
Loss on amounts held in State				
Treasury	1,408,718	0.4	1,408,718	100.0
Other	<u>825,609</u>	<u>0.2</u>	<u>259,555</u>	<u>45.9</u>
Total nonoperating expenses	<u>37,339,272</u>	<u>10.4</u>	<u>(7,478,788)</u>	<u>(16.7)</u>
Total expenses	<u>\$ 357,916,775</u>	<u>100.0%</u>	<u>\$ 1,725,633</u>	<u>0.5%</u>

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

Management's Discussion and Analysis

June 30, 2013 and 2012

**Capital Acquisitions and Construction Activities**

In fiscal year 2013, there were 10 construction bid openings totaling an estimated \$65 million in potential construction contracts. Significant projects that opened bids in fiscal year 2013 include Runway 26L Pavement Improvements at Honolulu International Airport, Runway 4R Pavement Repairs at Honolulu International Airport, Ewa Concourse Loading Bridge Replacement at Honolulu International Airport, and New Day Work Project Elliott Street New Employee Parking Lot at Honolulu International Airport.

There were also several ongoing construction projects that were initiated prior to fiscal year 2013, which were under construction during the fiscal year. Major projects include Emergency Power Facility at Honolulu International Airport, Explosive Detection System Integration Improvements Phase 2 at Honolulu International Airport, Roadway Improvements and Consolidated Rental Car Facility at Honolulu International Airport, Runway 3-21 Pavement Improvements at Hilo International Airport, and Aircraft Rescue and Fire Fighting Station Relocation at Kona International Airport at Keahole.

Finally, there were 13 projects that were substantially completed in fiscal year 2013 at a total cost of approximately \$88 million. These projects include planning, design, and construction projects at large, medium, and small hub airports statewide to preserve, maintain, and modernize facilities.

The Airports Division continues its mission to modernize airport facilities to provide safety and efficiency to airport tenants and enhance the passenger experience. At Honolulu International Airport, the Overseas Terminal Chiller Plant was completed, which replaces the chiller plant that was originally installed at the airport. Also at Honolulu International Airport, the New Day Works Projects are starting construction, which will lead the way for a new Mauka Concourse that will add wide body gates to the airport. At Kahului Airport, a new Passenger Information System project will start construction, which will install new Public Address System and Gate Management System. At Kona International Airport at Keahole, a new Aircraft Rescue and Fire Fighting (ARFF) building is under construction, which will enable faster response time to the airfield as well as accommodate the new larger ARFF vehicles that were purchased. At Hilo International Airport, several runway, taxiway, and apron pavement projects are ongoing to improve the condition of the airfield pavement. At Lihue Airport, a runway safety area project was just completed to bring the runway into full compliance with FAA regulations. These are examples of the projects that are being completed to improve safety as well as traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

Additional information on the Airports Division's capital assets can be found in note 4 of this report.

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

Management's Discussion and Analysis  
June 30, 2013 and 2012

**Indebtedness**

***Airports System Revenue Bonds***

As of June 30, 2013, \$935.5 million of airports system revenue bonds were outstanding as compared to \$966.9 million as of June 30, 2012. On April 7, 2010, the Airports Division issued \$645 million in airports system revenue bonds of which \$397 million is for Airport Modernization Projects. \$191 million was used to refinance the Refunding Series 2000A and B. The remainder related to capitalized interest, reserve requirements, and issuance costs. Prior to this issuance, the last Series of "new money" bonds used to fund capital improvement projects were issued in December 1991. The Airports Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Airport Revenue Fund. The Airports Division refinanced and restructured \$300,855,000 on October 4, 2011 at an average interest rate of 3.61%. The refinancing and restructuring created a \$19.5 million annual decrease in debt service, allowing the Airports Division the flexibility to proceed with its ongoing capital improvements program and providing a financial insurance plan to provide stability should economic conditions worsen. At June 30, 2013 and 2012, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was \$1,310,792,291 and \$110,835,922, respectively.

***Special Obligation Bonds***

The State Legislature has authorized \$200,000,000 of special obligation bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2013 and 2012, there were outstanding bond obligations of \$30,100,000 and \$31,005,000, respectively. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special obligation bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of special obligation bonds.

Additional information regarding the Airports Division's indebtedness can be found in notes 5, 6, 7, and 8 of this report.

***Credit Rating and Bond Insurance***

As of June 30, 2013, there were three Series of airports system revenue bonds outstanding in the principal amount of \$918,030,000. Payment of principal and interest on the bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The airports system revenue bonds are rated as follows:

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

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

Management's Discussion and Analysis

June 30, 2013 and 2012

**Economic Factors and Current Known Facts**

The Airports Division and current signatory airline carriers have agreed to an amended lease extension agreement effective January 1, 2008. The agreement is intended for the airline carriers to support the increase in operational expenses and financing of modernization projects through landing and terminal rate increases. In order to finance the modernization projects, the Airports Division issued bonds in April 2010. In addition, in November 2011, the Airports Division refunded and restructured its Series 2001 Revenue Bonds, which decreased annual debt service requirements by an average of \$19.5 million, allowing additional future debt capacity. The Airports Division is planning to issue bonds amounting to approximately \$175 million in December 2013 to finance its energy savings performance project estimated to decrease utility cost by \$20 million annually. Effective July 1, 2011, the Airports Division has calculated the signatory airline contribution requirement based on the Amended Signatory Airline Lease Agreement, replacing negotiated requirements implemented by the prior administration.

In February 2013, the Airports Division received a favorable approval from the Federal Aviation Authority relating to an environmental assessment study requirement, which allows the Airports Division to move forward with the Honolulu International Airport Inter-Island Mauka Concourse and Consolidated Rental Car Facility projects.

**Request for Information**

This financial report is designed to provide a general overview of the Airports Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Ford Fuchigami, Deputy Director, State of Hawaii, Department of Transportation, Airports Division, 400 Rodgers Boulevard, Suite 700, Honolulu, Hawaii 96819-1880, or by e-mail to [airadministrator@hawaii.gov](mailto:airadministrator@hawaii.gov).

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

Statements of Net Position

June 30, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Unrestricted assets:		
Cash and cash equivalents – unrestricted	\$ 571,171,775	549,278,665
Receivables:		
Accounts, net of allowance of \$1,198,336 and \$610,091 for uncollectible accounts	16,398,865	18,164,294
Promissory note receivable, net of allowance of \$123,008 and \$120,608 for uncollectible notes	5,208	5,224
Interest	172,128	1,072,144
Claims – federal grants	8,763,713	5,401,007
Aviation fuel tax	355,967	389,206
Due from State of Hawaii	1,416,180	1,376,189
Total receivables	<u>27,112,061</u>	<u>26,408,064</u>
Inventory of materials and supplies, at cost	165,758	212,846
Total unrestricted current assets	<u>598,449,594</u>	<u>575,899,575</u>
Restricted assets:		
Cash and cash equivalents:		
Revenue bond debt service	62,598,666	50,322,366
Debt extinguishment	620,050	3,881,947
Security deposits	5,538,444	4,574,186
Total restricted current assets	<u>68,757,160</u>	<u>58,778,499</u>
Total current assets	<u>667,206,754</u>	<u>634,678,074</u>
Noncurrent assets:		
Unrestricted assets:		
Bond issue costs, net of accumulated amortization of \$6,005,486 and \$5,523,041	3,926,086	4,408,531
Capital assets, net of accumulated depreciation of \$1,829,500,300 and \$1,738,636,543 for 2013 and 2012, respectively	1,788,606,407	1,753,785,470
Total unrestricted noncurrent assets	<u>1,792,532,493</u>	<u>1,758,194,001</u>
Restricted assets:		
Cash and cash equivalents:		
Major maintenance, renewal, and replacement account	59,980,198	58,060,552
Debt extinguishment	155,015	775,065
Passenger facility charges	102,109,478	83,232,793
Rental car customer facility charges	78,164,592	45,387,802
Customer advances	952,601	952,601
Revenue bond construction	213,141,262	233,502,848
Total cash and cash equivalents – restricted	<u>454,503,146</u>	<u>421,911,661</u>
Investments – revenue bond debt service reserve	96,893,008	96,893,008
Passenger facility charges receivable	3,726,504	3,972,831
Rental car customer facility charges receivable	5,238,195	21,908
Net investments in direct financing leases	30,301,608	31,211,887
Total restricted noncurrent assets	<u>590,662,461</u>	<u>554,011,295</u>
Total noncurrent assets	<u>2,383,194,954</u>	<u>2,312,205,296</u>
Total assets	<u>\$ 3,050,401,708</u>	<u>2,946,883,370</u>

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

Statements of Net Position

June 30, 2013 and 2012

<b>Liabilities</b>	<b>2013</b>	<b>2012</b>
Current liabilities:		
Payable from unrestricted assets:		
Vouchers payable	\$ 12,343,403	12,094,777
Contracts payable, including retainage of \$1,791,806 and \$2,250,833	11,203,376	9,497,988
Current portion of workers' compensation	869,295	922,927
Current portion of compensated absences	2,986,263	2,963,803
Deferred income	6,670,707	5,511,333
Accrued wages	5,406,053	5,683,842
Pollution remediation liability	950,145	1,239,324
Prepaid airport use charge fund	2,865,353	14,890,000
Other	27,280	27,091
Total payable from unrestricted assets	<u>43,321,875</u>	<u>52,831,085</u>
Payable from restricted assets:		
Contracts payable, including retainage of \$3,316,164 and \$2,630,287	11,876,931	7,623,865
Current portion of airports system revenue bonds	40,305,000	27,545,000
Current portion of special facility revenue bonds	970,000	905,000
Accrued interest	22,495,274	22,984,253
Security deposits	5,538,444	4,574,186
Total payable from restricted assets	<u>81,185,649</u>	<u>63,632,304</u>
Total current liabilities	<u>124,507,524</u>	<u>116,463,389</u>
Long-term liabilities – net of current portion:		
Payable from unrestricted assets:		
Prepaid airport use charge fund	37,932,188	33,226,688
Compensated absences	6,604,156	6,498,023
Workers' compensation	3,130,705	3,077,073
Postemployment liability	54,343,599	40,691,333
Total payable from unrestricted assets	<u>102,010,648</u>	<u>83,493,117</u>
Payable from restricted assets:		
Airports system revenue bonds	895,189,884	939,330,504
Special facility revenue bonds	29,130,000	30,100,000
Customer advance	952,601	952,601
Total payable from restricted assets	<u>925,272,485</u>	<u>970,383,105</u>
Total long-term liabilities – net of current portion	<u>1,027,283,133</u>	<u>1,053,876,222</u>
Total liabilities	<u>\$ 1,151,790,657</u>	<u>1,170,339,611</u>
<b>Net Position</b>		
Invested in capital assets	\$ 1,077,045,343	1,039,368,865
Restricted:		
Debt service payment	40,305,000	27,545,000
Debt service reserve account	96,893,008	96,893,008
Debt extinguishment	775,065	4,657,012
Major maintenance, renewal, and replacement account	59,980,198	58,060,552
Passenger facility charges	102,938,167	85,073,724
Rental car customer facility charges	81,095,994	42,262,197
Total restricted	<u>381,987,432</u>	<u>314,491,493</u>
Unrestricted	439,578,276	422,683,401
Commitments and contingencies		
Total net position	<u>\$ 1,898,611,051</u>	<u>1,776,543,759</u>

See accompanying notes to financial statements.

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Concession fees	\$ 151,390,726	143,572,702
Airport landing fees, net	59,873,968	59,639,904
Aeronautical rentals:		
Nonexclusive joint-use premise charges	54,838,168	47,052,075
Exclusive-use premise charges	48,521,342	41,663,309
Nonaeronautical rentals	14,240,830	13,416,559
Aviation fuel tax	4,673,766	4,337,860
Airports system support charges	1,468	420,531
Miscellaneous	5,047,319	4,134,915
	<u>338,587,587</u>	<u>314,237,855</u>
Operating expenses:		
Depreciation	92,231,177	90,754,951
Salaries and wages	83,988,652	75,670,437
Other personnel services	52,601,916	48,682,998
Utilities	50,359,918	47,263,050
Repairs and maintenance	20,180,808	16,695,881
State of Hawaii surcharge on gross receipts	12,473,628	13,708,581
Special maintenance	6,549,580	9,109,360
Materials and supplies	5,557,405	5,040,236
Department of Transportation general administration expenses	5,445,497	5,181,543
Insurance	3,188,862	3,168,668
Claims and benefits	1,064,193	848,551
Rent	691,786	1,233,391
Bad debt expense	580,495	—
Travel	405,740	390,223
Communication	381,274	368,885
Disbursements out of major maintenance, renewal, and replacement account	276,782	2,143,895
Dues and subscriptions	239,205	169,329
Printing and advertising	21,057	14,852
Freight and delivery	8,260	16,079
Miscellaneous	293,187	116,593
	<u>336,539,422</u>	<u>320,577,503</u>
Business interruption insurance recovery	<u>19,000,000</u>	<u>—</u>
Operating income (loss), carried forward	<u>21,048,165</u>	<u>(6,339,648)</u>

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating (loss) income, brought forward	\$ 21,048,165	(6,339,648)
Nonoperating revenues (expenses):		
Interest income:		
Certificates of deposit, repurchase agreements, and U.S. government securities	1,991,423	1,988,592
Investments in direct financing leases	1,866,352	1,925,210
Interest expense:		
Revenue bonds:		
Airports system	(28,516,182)	(31,289,796)
Special facility	(1,866,352)	(1,925,210)
Federal operating grants	5,038,564	3,315,401
Loss on disposal of capital assets	—	(1,889,939)
Passenger facility charges	35,332,787	31,730,836
Rental car customer facility charges	55,710,884	277,515
Amortization of deferred bond issue costs	(482,445)	(571,407)
Gain (loss) on amounts held in State Treasury	3,804,400	(1,408,718)
Other	2,559,316	(254,202)
Total nonoperating revenues, net	<u>75,438,747</u>	<u>1,898,282</u>
Income (loss) before capital contributions	<u>96,486,912</u>	<u>(4,441,366)</u>
Capital contributions:		
Federal capital grants	23,996,113	36,869,413
Federal stimulus grants	1,584,267	9,191,233
Total capital contributions	<u>25,580,380</u>	<u>46,060,646</u>
Increase in net position	122,067,292	41,619,280
Total net position – beginning of year	<u>1,776,543,759</u>	<u>1,734,924,479</u>
Total net position – end of year	<u>\$ 1,898,611,051</u>	<u>1,776,543,759</u>

See accompanying notes to financial statements.



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

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Cash received from providing services	\$ 354,190,942	356,838,430
Cash paid to suppliers	(160,056,937)	(147,824,928)
Cash paid to employees	(70,485,582)	(64,976,655)
Net cash provided by operating activities	123,648,423	144,036,847
Cash flows from noncapital financing activity:		
Proceeds from federal operating grants	4,638,598	4,877,678
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(72,174,681)	(111,553,019)
Proceeds from federal and other capital grants and contributions	22,617,640	50,324,557
Interest paid on airports system revenue bonds	(45,071,038)	(45,446,447)
Principal paid on airports system revenue bonds	(27,545,000)	(25,370,000)
Payments from passenger facility charges program	(16,702,429)	(14,405,098)
Proceeds from passenger facility charges program	35,579,114	31,036,942
Payments from rental car customer facility charges program	(17,717,807)	(6,256,177)
Proceeds from rental car customer facility charges	50,494,597	5,579,955
Payments to refund airports system revenue bonds	—	(7,534,244)
Proceeds from issuance of refunding airport system revenue bonds	—	1,050
Net cash used in capital and related financing activities	(70,519,604)	(123,622,481)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	193,786,016	193,786,016
Interest received on investments	2,891,439	4,735,829
Purchases of investments	(193,786,016)	(193,786,016)
Gain (loss) on amounts held in State Treasury	3,804,400	(1,408,718)
Net cash provided by investing activities	6,695,839	3,327,111
Net increase in cash and cash equivalents	64,463,256	28,619,155
Cash and cash equivalents – beginning of year	1,029,968,825	1,001,349,670
Cash and cash equivalents – end of year	\$ 1,094,432,081	1,029,968,825

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

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 21,048,165	(6,339,648)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	92,231,177	90,754,951
Bad debt expense (recovery)	580,495	(561,747)
Overpayment of airport use charge to be transferred to the PAUCF	125,854	39,526,162
Changes in operating assets and liabilities:		
Accounts receivable	1,184,950	6,680,972
Aviation fuel tax receivable	33,239	15,257
Due from State of Hawaii	(39,991)	(74,123)
Inventory of materials and supplies	47,088	12,922
Vouchers payable	248,626	1,512,563
Contracts payable	296,112	3,545,341
Deferred income	1,159,374	1,433,156
Accrued wages	(149,196)	439,858
Postemployment liability	13,652,266	10,253,924
Pollution remediation liability	(289,179)	(813,411)
Prepaid airport use charge fund	(7,445,001)	(2,758,803)
Security deposits	964,258	492,266
Other current liabilities	186	(82,793)
Net cash provided by operating activities	\$ 123,648,423	144,036,847

Supplemental information:

Noncash investing, capital, and financing activities:

The Airports Division's noncash capital and financing activities related to bonds payable included the following:

Principal payments on special facility revenue bonds by trustee	\$ 905,000	835,000
Interest payments on special facility revenue bonds by trustee	1,871,631	1,930,081
Amortization of revenue bond issue costs	482,445	571,407
Amortization of revenue bond premium	(5,186,101)	(5,605,518)
Amortization of deferred loss on refunding revenue bonds	1,350,481	1,558,743
Payments to refund airports system revenue bonds	—	(321,286,426)
Proceeds from issuance of refunding airport system revenue bonds	—	321,286,426

At June 30, 2013 and 2012, contracts payable included \$17,477,688 and \$11,815,346, respectively, for the acquisition of capital assets.

During fiscal year 2013 and 2012, interest of \$12,235,536 and \$11,327,025, respectively, was capitalized in property, plant, and equipment.

During fiscal year 2013 and 2012, property, plant, and equipment with a net book value of \$0 and 1,635,123, respectively, were written off.

During fiscal year 2013, buildings with a value of \$2,408,000 were recorded for buildings acquired upon the termination of land lease agreements.

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2013 and 2012

**(1) Reporting Entity**

The Department of Transportation, Airports Division, State of Hawaii (the Airports Division) was established on July 1, 1961 to succeed the Hawaii Aeronautics Commission under the provisions of Act 1, Hawaii State Government Reorganization Act of 1959, Second Special Session Laws of Hawaii. The Airports Division has jurisdiction over and control of all State of Hawaii (the State) airports and air navigation facilities and general supervision of aeronautics within the State. The Airports Division currently operates and maintains 15 airports located throughout the State.

The accompanying financial statements present only the activities of the Airports Division and are not intended to present fairly the financial position of the State and the results of its operations and the cash flows of its proprietary fund type in conformity with U.S. generally accepted accounting principles.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The Airports Division is accounted for as a proprietary fund, which uses the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type. An enterprise fund is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

**(b) Financial Statement Presentation**

The accompanying financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB).

**(c) Operating Revenues and Expenses**

Revenues from airlines, concessions, rental cars, and parking are reported as operating revenues. Transactions that are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the Airports Division are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses. Revenues from capital contributions are reported separately, after nonoperating revenues and expenses.

**(d) Passenger Facility Charges**

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of \$4.50 per passenger. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net position.

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

Notes to Financial Statements

June 30, 2013 and 2012

**(e) *Rental Car Customer Facility Charge***

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of \$1 a day on all u-drive rentals at a state airport, effective September 1, 2008. The net receipts from CFCs are restricted to be used for funding approved rental car facility capital projects. CFC revenue, along with the related interest income, is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net position. Effective September 1, 2010, the CFC was raised to \$4.50 a day on all u-drive rentals at a state airport. Effective July 1, 2011, the collection of this fee was suspended by the State Legislature for one year and was reinstated effective July 1, 2012.

**(f) *Capital Contributions***

The Airports Division receives federal grants from the FAA through the Airport Improvement Program. The grant is considered earned as the related allowable expenditures are incurred. Grants for the acquisition and construction of land, property, and certain types of equipment are reported in the statements of revenues, expenses, and changes in net position as capital contributions.

**(g) *Cash and Cash Equivalents***

All highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased are considered to be cash equivalents.

**(h) *Receivables***

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on collection history and current information regarding the creditworthiness of the tenants and others doing business with the Airports Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

An aging of the accounts receivable at June 30, 2013 was as follows: current – \$16,688,589; 30 days – \$650,711; 60 days – \$5,412; and over 90 days – \$252,489. An aging of the accounts receivable at June 30, 2012 was as follows: current – \$17,685,549; 30 days – \$585,495; 60 days – \$393,977; and over 90 days – \$109,364.

**(i) *Investments***

Investments consist primarily of certificates of deposit and repurchase agreements with a maturity of more than three months and less than one year when purchased. The carrying amounts approximate fair value because of the short maturity of the investments.

**(j) *Restricted Assets***

Restricted assets consist of moneys and other resources, the use of which is legally restricted. Certain proceeds of the airports system revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because they are

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

Notes to Financial Statements

June 30, 2013 and 2012

maintained separately and the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to make debt service payments, unspent bond proceeds, amounts restricted for bond reserve requirements, unspent PFCs, unspent CFCs, and security deposits and customer advances.

**(k) Capital Assets**

Capital assets acquired by purchase or construction are recorded at cost. Contributed property is recorded at fair value at the date received. Buildings, improvements, and equipment are depreciated by the straight-line method over their estimated useful lives as follows:

<u>Class of assets</u>	<u>Estimated useful lives</u>	<u>Capitalization threshold</u>
Land improvements	10 to 20 years	\$ 100,000
Buildings	45 years	100,000
Building improvements	20 years	100,000
Machinery and equipment	10 years	5,000

Disposals of assets are recorded by removing the costs and related accumulated depreciation from the accounts with a resulting gain or loss.

Repairs and maintenance, minor replacements, renewals, and betterments are charged against operations for the year. Major replacements, renewals, and betterments are capitalized in the year incurred. Interest cost is capitalized during the period of construction for all capital improvement projects except the portion of projects funded by grants from the federal government.

**(l) Bond Issue Costs and Original Issue Discount or Premium and Deferred Loss on Refundings**

Bond issue costs relating to the issuance of airports system revenue bonds are deferred and are amortized using the effective-interest method over the terms of the respective issues. Original issue discount or premium and deferred loss on refundings are amortized using the effective-interest method over the terms of the respective issues and are added to or offset against the long-term debt in the statements of net position.

**(m) Accrued Vacation and Compensatory Pay**

The Airports Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences (such as employer payroll taxes and fringe benefits), in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of 168 or 240 hours per calendar year, depending upon job classification. Accumulation of such vacation credits is limited to 720 or 1,056 hours at calendar year-end and is convertible to pay upon termination of employment.

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

Notes to Financial Statements

June 30, 2013 and 2012

**(n) *Employees' Retirement System***

The Airports Division's contributions to the Employees' Retirement System of the State of Hawaii (ERS) are based on the current contribution rate determined by the State Department of Budget and Finance. The Airports Division's policy is to fund its required contribution annually.

**(o) *Risk Management***

The Airports Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division is self-insured for workers' compensation claims as discussed in note 15. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

**(p) *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(q) *Reclassifications***

Certain 2012 amounts were reclassified to conform to the 2013 presentation. Such reclassifications had no effect on previously reported changes in net position.

**(r) *Recently Issued Accounting Standards***

Effective July 1, 2012, the Airports Division implemented the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The implementation of GASB Statement No. 60 does not have a significant impact on the financial statements for the fiscal year ended June 30, 2013.

Effective July 1, 2012, the Airports Division implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. However, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only applies to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. The adoption of GASB Statement No. 63 resulted in a change in the presentation of the statement of net assets to the statement of net position and the term net assets is changed to net

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

Notes to Financial Statements

June 30, 2013 and 2012

position throughout the financial statements. The implementation of GASB Statement No. 63 did not have a significant impact on the financial statements for the fiscal year ended June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will become effective for financial statements for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Airports Division is currently evaluating the impact that GASB Statement No. 65 will have on its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement No. 68 establishes new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in the Statements and addresses accounting and financial reporting issues of certain nonemployer entities that contribute to such plans. Statement No. 68 will be effective for periods beginning after June 30, 2014. The Airports Division has not yet determined the impact of this standard on its financial statements and disclosures.

**(3) Cash and Cash Equivalents and Investments**

Cash and cash equivalents and investments at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Petty cash	\$ 4,765	4,765
Amounts held in State Treasury	1,094,427,316	1,029,964,060
Certificates of deposit	78,594,282	78,594,282
Repurchase agreements	18,298,726	18,298,726
	<u>\$ 1,191,325,089</u>	<u>1,126,861,833</u>

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

Notes to Financial Statements

June 30, 2013 and 2012

Such amounts are reflected in the statements of net position at June 30, 2013 and 2012 as follows:

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents:		
Unrestricted	\$ 571,171,775	549,278,665
Restricted	523,260,306	480,690,160
Total cash and cash equivalents	1,094,432,081	1,029,968,825
Investments – restricted	96,893,008	96,893,008
Total cash and cash equivalents and investments	\$ 1,191,325,089	1,126,861,833

**(a) Amounts Held in State Treasury**

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State’s investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2013 and 2012, the amount reported as amounts held in State Treasury reflects the Airports Division’s relative position in the State’s investment pool and amounted to \$1,094,427,316 and \$1,029,964,060, respectively. The Airports Division adjusted its amounts held in State Treasury for a change in fair value by \$3,804,400 and \$(1,408,718) during the years ended June 30, 2013 and 2012, respectively.

The State Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury (investment pool). The State Director of Finance (the Director) may invest any moneys of the State, which, in the Director’s judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions.

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State’s investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State’s fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State’s name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State’s deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances



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

Notes to Financial Statements

June 30, 2013 and 2012

being undercollateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

The State's investment pool at June 30, 2012 is summarized in the table below (amounts in thousands):

	Fair value	Less than 1	Maturity (in years)	
			1-5	>5
Investments – primary government:				
Student loan auction rate securities	\$ 225,936	—	—	225,936
Certificates of deposit	263,592	263,592	—	—
U.S. government securities	348,319	168,642	133,821	45,856
Repurchase agreements	103,554	85,950	17,604	—
	<u>\$ 941,401</u>	<u>518,184</u>	<u>151,425</u>	<u>271,792</u>
Investments – fiduciary funds:				
Student loan auction rate securities	\$ 22,208	—	—	22,208
Certificates of deposit	25,909	25,909	—	—
U.S. government securities	34,237	16,576	13,153	4,508
Repurchase agreements	10,178	8,448	1,730	—
	<u>\$ 92,532</u>	<u>50,933</u>	<u>14,883</u>	<u>26,716</u>

Information relating to the State's investment pool at June 30, 2013 will be included in the comprehensive annual financial report of the State when issued.

**(b) Investments**

At June 30, 2013 and 2012, the Airports Division's investments consisted of repurchase agreements with a bank and certificates of deposit with original maturities ranging from six months to one year. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State. The fair values of the repurchase agreements and the certificates of deposit approximate cost.

**Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from interest rates, the Airports Division follows the State's policy of limiting maturities on investments to generally not more than five years from the date of investment.

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

Notes to Financial Statements

June 30, 2013 and 2012

**Credit Risk**

The Airports Division follows the State's policy of limiting its investments to investments in state and U.S. Treasury securities, certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds.

**Custodial Risk**

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Airports Division or the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Airports Division's and the State's investments are held at broker-dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess SIPC coverage is provided by the firms' insurance policies. The Airports Division and the State require the institutions to set aside, in safekeeping, certain types of securities to collateralize repurchase agreements. The Airports Division and the State monitor the market value of these securities and obtain additional collateral when appropriate.

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

Notes to Financial Statements

June 30, 2013 and 2012

**(4) Capital Assets**

Capital assets activity for the years ended June 30, 2013 and 2012 consist of the following:

	<u>Balance, June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance, June 30, 2013</u>
Capital assets not being depreciated:					
Land	\$ 300,248,125	—	—	—	300,248,125
Land improvements	26,681,609	—	—	—	26,681,609
Construction in progress	<u>365,910,428</u>	<u>123,284,939</u>	<u>(11,677)</u>	<u>(112,097,277)</u>	<u>377,086,413</u>
Total capital assets not being depreciated	<u>692,840,162</u>	<u>123,284,939</u>	<u>(11,677)</u>	<u>(112,097,277)</u>	<u>704,016,147</u>
Capital assets being depreciated:					
Land improvements	924,696,440	—	—	12,298,910	936,995,350
Buildings and improvements	1,654,756,020	2,408,000	—	40,056,851	1,697,220,871
Machinery and equipment	<u>220,129,391</u>	<u>1,370,852</u>	<u>(1,301,567)</u>	<u>59,675,663</u>	<u>279,874,339</u>
Total capital assets being depreciated	<u>2,799,581,851</u>	<u>3,778,852</u>	<u>(1,301,567)</u>	<u>112,031,424</u>	<u>2,914,090,560</u>
Less accumulated depreciation:					
Land improvements	(684,909,210)	(24,927,867)	—	—	(709,837,077)
Buildings and improvements	(895,566,706)	(44,892,230)	—	—	(940,458,936)
Machinery and equipment	<u>(158,160,627)</u>	<u>(22,411,080)</u>	<u>1,301,567</u>	<u>65,853</u>	<u>(179,204,287)</u>
Total depreciation	<u>(1,738,636,543)</u>	<u>(92,231,177)</u>	<u>1,301,567</u>	<u>65,853</u>	<u>(1,829,500,300)</u>
Capital assets being depreciated, net	<u>1,060,945,308</u>				<u>1,084,590,260</u>
Total capital assets	<u>\$ 1,753,785,470</u>				<u>1,788,606,407</u>

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

Notes to Financial Statements

June 30, 2013 and 2012

	<b>Balance, June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance, June 30, 2012</b>
Capital assets not being depreciated:					
Land	\$ 300,248,125	—	—	—	300,248,125
Land improvements	26,681,609	—	—	—	26,681,609
Construction in progress	301,020,830	132,998,496	(26,732)	(68,082,166)	365,910,428
Total capital assets not being depreciated	627,950,564	132,998,496	(26,732)	(68,082,166)	692,840,162
Capital assets being depreciated:					
Land improvements	895,468,260	—	(1,916,579)	31,144,759	924,696,440
Buildings and improvements	1,628,786,364	—	(8,896,587)	34,866,243	1,654,756,020
Machinery and equipment	226,331,861	666,391	(7,763,575)	894,714	220,129,391
Total capital assets being depreciated	2,750,586,485	666,391	(18,576,741)	66,905,716	2,799,581,851
Less accumulated depreciation:					
Land improvements	(658,583,697)	(28,242,092)	1,916,579	—	(684,909,210)
Buildings and improvements	(850,905,930)	(51,923,822)	7,263,046	—	(895,566,706)
Machinery and equipment	(156,245,795)	(10,589,037)	7,761,993	912,212	(158,160,627)
Total depreciation	(1,665,735,422)	(90,754,951)	16,941,618	912,212	(1,738,636,543)
Capital assets being depreciated, net	1,084,851,063				1,060,945,308
Total capital assets	\$ 1,712,801,627				1,753,785,470

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

Notes to Financial Statements

June 30, 2013 and 2012

**(5) Long-Term Liabilities**

A summary of the long-term liabilities changes during fiscal years 2013 and 2012 is as follows:

	<u>Balance, June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2013</u>	<u>Current</u>	<u>Noncurrent</u>
Workers' compensation (note 14)	\$ 4,000,000	1,008,372	(1,008,372)	4,000,000	869,295	3,130,705
Compensated absences	9,461,826	4,465,182	(4,336,589)	9,590,419	2,986,263	6,604,156
Prepaid airport use charge fund (notes 7 and 15)	48,116,688	125,854	(7,445,001)	40,797,541	2,865,353	37,932,188
Postemployment liability (note 10)	40,691,333	18,789,218	(5,136,952)	54,343,599	—	54,343,599
Airports system revenue bonds (note 6)	966,875,504	1,350,481	(32,731,101)	935,494,884	40,305,000	895,189,884
Special facility revenue bonds (note 7)	31,005,000	—	(905,000)	30,100,000	970,000	29,130,000
	<u>\$ 1,100,150,351</u>	<u>25,739,107</u>	<u>(51,563,015)</u>	<u>1,074,326,443</u>	<u>47,995,911</u>	<u>1,026,330,532</u>

	<u>Balance, June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2012</u>	<u>Current</u>	<u>Noncurrent</u>
Workers' compensation (note 14)	\$ 4,000,000	802,755	(802,755)	4,000,000	922,927	3,077,073
Compensated absences	9,324,060	4,453,385	(4,315,619)	9,461,826	2,963,803	6,498,023
Prepaid airport use charge fund (notes 7 and 15)	11,349,329	39,526,162	(2,758,803)	48,116,688	14,890,000	33,226,688
Postemployment liability (note 10)	30,437,409	14,039,274	(3,785,350)	40,691,333	—	40,691,333
Airports system revenue bonds (note 6)	998,680,285	327,884,541	(359,689,322)	966,875,504	27,545,000	939,330,504
Special facility revenue bonds (note 7)	31,840,000	—	(835,000)	31,005,000	905,000	30,100,000
	<u>\$ 1,085,631,083</u>	<u>386,706,117</u>	<u>(372,186,849)</u>	<u>1,100,150,351</u>	<u>47,226,730</u>	<u>1,052,923,621</u>

**(6) Airports System Revenue Bonds**

In 1969, the Director issued the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate) under which \$40,000,000 of revenue bonds were initially authorized for issuance. Subsequent issues of revenue bonds were covered by First through Twenty-Eighth supplemental certificates to the original 1969 Certificate.

Certain amendments to the Certificate contained in the Twenty-Sixth Supplemental Certificate took effect contemporaneously with the Twenty-Seventh Supplemental Certificate and delivery of the Airports System Revenue Bonds, Refunding Series of 2001. Other amendments, which required the consent of 100% of the bondholders, took effect as of June 30, 2004 with the issuance of the Airports System Revenue Bonds, Refunding Series of 2003.

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

Notes to Financial Statements

June 30, 2013 and 2012

These revenue bonds are payable solely from and are collateralized solely by the revenues generated by the Airports Division including all aviation fuel taxes levied. The amended Certificate established an order of priority for the appropriation, application, or expenditure of these revenues as follows:

- a. To pay or provide for the payment of the costs of operation, maintenance, and repair of airport properties
- b. To pay when due all bonds and interest. Payment shall be provided from the following accounts:
  - 1. Interest account
  - 2. Serial bond principal account
  - 3. Sinking fund account
  - 4. Debt service reserve account
- c. To fund the major maintenance, renewal, and replacement account
- d. To reimburse the State General Fund for general obligation bond requirements
- e. To provide for betterments and improvements to the airports
- f. To provide such special reserve funds and other special funds as created by law
- g. To provide for any other purpose connected with or pertaining to the bonds or the airports authorized by law

The amended Certificate requires that the Airports Division impose, prescribe, and collect revenues that, together with unencumbered funds, will yield net revenues and taxes at least equal to 1.25 times the total interest, principal, and sinking fund requirements for the ensuing 12 months. The Airports Division is also required to maintain adequate insurance on its properties.

For purposes of calculating the required amounts to be credited to the interest, serial bond principal, sinking fund, debt service reserve, and major maintenance, renewal, and replacement accounts (collectively, referred to as revenue bond debt service reserve accounts), the Certificate stipulates that investments be valued at the lower of their face amount or fair value. At June 30, 2013 and 2012, amounts credited to the revenue bond debt service reserve accounts were in accordance with applicable provisions of the Certificate.

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

Notes to Financial Statements

June 30, 2013 and 2012

At June 30, 2013 and 2012, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statements of net position) consisted of the following:

	<b>2013</b>	<b>2012</b>
Debt service reserve account	\$ 96,893,008	96,893,008
RHB Debt extinguishment	775,065	4,657,012
Major maintenance, renewal, and replacement account	59,980,198	58,060,552
	157,648,271	159,610,572
Principal and interest due July 1	62,598,666	50,322,366
	\$ 220,246,937	209,932,938

At June 30, 2013 and 2012, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was \$1,310,792,291 and \$110,835,922, respectively.

The revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2013 and 2012:

Series	Interest rate	Final maturity date (July 1)	Original amount of issue	Outstanding amount		
				2013	2012	
2010A, refunding	2.00%–5.25%	2039	\$ 478,980,000	478,395,000	478,690,000	
2010B, refunding	3.00%–5.00%	2020	166,000,000	150,750,000	166,000,000	
2011, refunding	2.00%–5.00%	2024	300,885,000	288,885,000	300,885,000	
				\$ 945,865,000	918,030,000	945,575,000
Add unamortized premium				23,672,301	28,858,402	
Less deferred loss on refunding				(6,207,417)	(7,557,898)	
Less current portion				(40,305,000)	(27,545,000)	
Noncurrent portion				\$ 895,189,884	939,330,504	

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

Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2014	\$ 34,210,000	43,033,988	77,243,988
2015	35,725,000	41,515,725	77,240,725
2016	37,290,000	39,955,020	77,245,020
2017	38,935,000	38,309,470	77,244,470
2018	40,755,000	36,489,520	77,244,520
2019–2023	234,835,000	151,383,001	386,218,001
2024–2028	133,890,000	98,622,591	232,512,591
2029–2033	125,165,000	68,896,010	194,061,010
2034–2038	159,965,000	34,100,515	194,065,515
2039	36,955,000	1,855,725	38,810,725
	<u>\$ 877,725,000</u>	<u>554,161,565</u>	<u>1,431,886,565</u>

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal and interest payments due on July 1, 2013 of \$40,305,000 and \$22,293,669, respectively.

The following is a summary of interest costs incurred for the years ended June 30, 2013 and 2012 and the allocation thereof:

	<u>2013</u>	<u>2012</u>
Expensed as incurred	\$ 28,516,182	31,289,796
Capitalized in capital assets	12,235,536	11,327,025
	<u>\$ 40,751,718</u>	<u>42,616,821</u>

On October 4, 2011, the Airports Division issued \$300,885,000 of airports system revenue bonds (Refunding Series of 2011 (AMT)) at interest rates ranging from 2% to 5% to refund its outstanding Refunding Series of 2001 bonds. The average interest rates of the refunded bonds were 5.5782%. Of the net proceeds of \$321,287,476 (after payment of \$1,664,354 in underwriting fees, insurance, and other costs), along with an additional \$7,534,244 from the debt service reserve account, \$328,821,720 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of Refunding Series of 2001 bonds on November 3, 2011. As a result, the refunded portion of the Refunding Series on 2001 bonds is considered to be defeased and the liability for those bonds has been removed from the financial statements.



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

Notes to Financial Statements

June 30, 2013 and 2012

The 2011 refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$2,834,351. This difference, reported in the accompanying financial statements as a deduction from airports system revenue bonds, is being charged to operations over the next 10 years.

**(7) Leases**

**(a) *Airport-Airline Lease Agreement***

**Airports Division**

The DOT and the airline companies serving the airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992 (lease agreement). Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a Series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter, the lease agreement and the five subsequent agreements are collectively referred to as the lease extension agreement). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days' prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the lease extension agreement, the airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of \$100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The airports system rates and charges consist of the following (1) exclusive-use terminal charges based on appraisal and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (5) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Effective January 1, 2008, under the first amended lease extension agreement, the airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. The airports system rates and charges consist of the following (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting

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

Notes to Financial Statements

June 30, 2013 and 2012

methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

**Prepaid Airport Use Charge Fund**

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the Prepaid Airport Use Charge Fund (the PAUCF). Net excess payments for fiscal years 1996 through 2012 have been transferred to the PAUCF (note 15).

**Aviation Fuel Tax**

The aviation fuel tax amounted to \$4,673,766 and \$4,337,860 for fiscal years 2013 and 2012, respectively. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

**Airports System Rates and Charges**

Signatory and nonsignatory airlines were assessed the following airports system rates and charges.

Airport landing fees amounted to \$63,800,325 and \$63,400,869 for fiscal years 2013 and 2012. Airport landing fees are shown net of aviation fuel tax credits of \$3,926,357 and \$3,760,965 for fiscal years 2013 and 2012, respectively, on the statements of revenues, expenses, and changes in net position, which resulted in net airport landing fees of \$59,873,968 and \$59,639,904 for fiscal years 2013 and 2012, respectively. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines are set at 41% and 40% of the airport landing fees for overseas flights for fiscal years 2013 and 2012, respectively, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Nonexclusive joint-use premise charges for terminal rentals amounted to \$54,838,168 and \$47,052,075 for fiscal years 2013 and 2012, respectively.

Effective July 1, 1996, a joint-use premise charge for the neighbor isle terminals at Kahului Airport, Kona International Airport at Keahole, Lihue Airport, and Hilo International Airport was established to recover from signatory airlines airports system costs allocable to the baggage claim, baggage tug drive, and joint-use baggage makeup areas based on terminal rental rates and is recovered based on a computed rate per revenue passenger landing in accordance with the lease extension agreement.

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

Notes to Financial Statements

June 30, 2013 and 2012

Effective March 1, 1997, a blended overseas joint-use premise charge was established to recover costs allocable to Hawaiian Airlines, Inc.'s interisland terminal operations at the Honolulu International Airport.

Effective January 1, 2008, joint-use premise charges are recovered based on a computed rate per enplaning or deplaning passenger.

International arrivals building charges were established to recover airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger using the international arrivals area. Beginning fiscal year 2000, nonsignatory airline revenue was applied as a credit in calculating the joint-use premise charge and international arrivals building charges.

Exclusive-use premise charges amounted to \$48,521,342 and \$41,663,309 for fiscal years 2013 and 2012, respectively, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to \$29,323,427 and \$24,043,673 for fiscal years 2013 and 2012, respectively.

Airports system support charges amounted to \$1,468 and \$420,531 for fiscal years 2013 and 2012, respectively, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

**(b) *Special Facility Leases and Revenue Bonds***

The Airports Division entered into three special facility lease agreements with Continental Airlines, Inc. in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by the Airports Division in the amounts of \$25,255,000, \$16,600,000, and \$6,600,000, respectively. These bonds are payable solely from and collateralized solely by certain rentals and other moneys derived from the special facility. Other pertinent information on the aforementioned bonds is summarized hereunder.

**\$25,255,000 Issue**

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption on or after November 15, 2007 at the option of the Airports Division, upon the request of Continental Airlines, Inc., at prices ranging from 101% to 100% of principal depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest. The Airports Division redeemed \$130,000 in bonds during the year ended June 30, 2005.

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

Notes to Financial Statements

June 30, 2013 and 2012

The bonds bear interest at 5.625% per annum. Interest-only payments of \$611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments are required based on the amounts outstanding at June 30, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2014	\$ —	1,222,031	1,222,031
2015	—	1,222,031	1,222,031
2016	—	1,222,031	1,222,031
2017	—	1,222,031	1,222,031
2018	—	1,222,031	1,222,031
2019–2023	—	6,110,156	6,110,156
2024–2028	21,725,000	5,499,141	27,224,141
	<u>\$ 21,725,000</u>	<u>17,719,452</u>	<u>39,444,452</u>

**\$16,600,000 Issue**

On July 15, 2000, the Airports Division issued \$16,600,000 of term special facility bonds (Continental Airlines, Inc.), Refunding Series of 2000, to refund \$18,225,000 of its outstanding Series of 1990 (Continental Airlines, Inc.).

The bonds are subject to redemption on or after June 1, 2010, at the option of the Airports Division, upon the request of Continental Airlines, Inc. or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

The bonds bear interest at 7% per annum. Maturities of the revenue bonds, including amounts subject to mandatory redemption at par, will require the following principal and interest payments based on the amounts outstanding at June 30, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2014	\$ 970,000	586,250	1,556,250
2015	1,030,000	518,350	1,548,350
2016	1,110,000	446,250	1,556,250
2017	1,185,000	368,550	1,553,550
2018	1,280,000	285,600	1,565,600
2019–2020	2,800,000	296,800	3,096,800
	<u>\$ 8,375,000</u>	<u>2,501,800</u>	<u>10,876,800</u>

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

Notes to Financial Statements

June 30, 2013 and 2012

Special facility revenue bonds payable at June 30, 2013 and 2012 consisted of the following:

	<b>Continental</b>	<b>Total</b>
2013:		
Current portion	\$ 970,000	—
Noncurrent portion	7,405,000	21,725,000
	\$ 8,375,000	30,100,000
	<b>Continental</b>	<b>Total</b>
2012:		
Current portion	\$ 905,000	—
Noncurrent portion	8,375,000	21,725,000
	\$ 9,280,000	31,005,000

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as an asset and the special facility revenue bonds outstanding are recorded as a liability in the accompanying statements of net position.

Net investments in direct financing leases at June 30, 2013 and 2012 consisted of the following:

	<b>2013</b>	<b>2012</b>
Cash with bond fund trustee	\$ 3,203,609	3,203,600
Receivable from lessees, net of unearned interest of \$20,001,390 and \$21,885,997	26,896,391	27,801,400
Interest receivable	201,608	206,887
	\$ 30,301,608	31,211,887

**(c) Other Operating Leases**

The Airports Division also leases certain building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Information regarding the cost and related accumulated depreciation of these facilities is not provided because the accumulation of such data was not considered practical and because the information, when compared with the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

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

Notes to Financial Statements

June 30, 2013 and 2012

The future minimum rentals from these operating leases at June 30, 2013 are as follows:

Year(s) ending June 30:	
2014	\$ 116,024,540
2015	65,622,237
2016	53,048,427
2017	47,149,346
2018	14,518,868
2019–2023	38,514,345
2024–2028	12,282,023
2029–2033	3,414,206
2034–2038	1,661,243
Thereafter	697,345
	<u>\$ 352,932,580</u>

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal years 2013 and 2012 were \$47,311,605 and \$42,034,204, respectively.

In fiscal years 2006 and 2013, the Airports Division converted certain past-due amounts from two lessees and a lessee, respectively, into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 0 months to 9 years. The balance of \$206,002 at June 30, 2013 is due as follows: 2014 – \$128,216; 2015 – \$37,008; 2016 – \$32,137; and thereafter – \$8,641.

Concession fee revenues from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, the Honolulu International Airport retail concession, and the Kahului retail concession, accounted for approximately 27% and 29% of total concession fee revenues for fiscal years 2013 and 2012, respectively.

DFS was originally awarded a five-year lease agreement for the in-bond concession in February 2001. By 2003, DFS had been in significant arrears in rents due to the Airports Division as a result of financial difficulties arising from the downturn in Hawaii’s economy due to the decrease in international visitor travel. As a result, in August 2003, the Airports Division and DFS entered into a Withdrawal and Settlement Agreement, which provided DFS with certain relief for pastdue rents, and which allowed the Airports Division to withdraw and recapture all of the leased premises and to terminate early the in-bond lease.

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for a minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was \$37,311,121, and the

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

Notes to Financial Statements

June 30, 2013 and 2012

percentage rent was as follows: (1) for total concession receipts greater than \$165 million, but less than \$200 million, 22.5% for on-airport sales, and 18.5% for off-airport sales and (2) for total concession receipts greater than \$200 million, 30.0% for on-airport sales, and 22.5% for off-airport sales.

Effective June 1, 2006, the lease was extended for a period of one year pursuant to a holdover clause in the lease agreement. During the holdover period, DFS shall have a month-to-month tenancy, with rents and terms the same as those in effect immediately prior to the holdover.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent is \$38 million and the percentage rent is as follows: (1) for total concession receipts greater than \$155 million, but less than \$195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than \$195 million, but less than \$235 million, 30.0% for on-airport sales, and 22.5% off-airport sales; (3) for total concession receipts greater than \$235 million, but less than \$275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than \$275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009 and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent (85% of the actual annual fee paid for the preceeding year).

**(8) Passenger Facility Charges**

Passenger facility charge activity for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Restricted assets – passenger facility charges, beginning of year	\$ 87,205,624	69,879,886
Passenger facility charges during the year	35,142,089	31,390,921
Interest earned on passenger facility charges during the year	190,698	339,915
Capital expenditures during the year	<u>(16,702,429)</u>	<u>(14,405,098)</u>
Restricted assets – passenger facility charges, end of year	<u>\$ 105,835,982</u>	<u>87,205,624</u>

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

Notes to Financial Statements

June 30, 2013 and 2012

Restricted assets – passenger facility charges are presented on the statements of net position as of June 30, 2013 and 2012 as follows:

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 102,109,478	83,232,793
Receivable	3,726,504	3,972,831
Total restricted assets – passenger facility charges	\$ 105,835,982	87,205,624

**(9) Rental Car Customer Facility Charge**

Rental car customer facility charge activity for the years ended June 30, 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
Restricted assets – rental car customer facility charge, beginning of year	\$ 45,409,710	51,388,372
Rental car customer facility charges during the year	55,578,560	49,397
Interest earned on rental car customer facility charges during the year	132,324	228,118
Capital expenditures during the year	(17,717,807)	(6,256,177)
Restricted assets – rental car customer facility charges, end of year	\$ 83,402,787	45,409,710

Restricted assets – rental car customer facility charges are presented on the statements of net position as of June 30, 2013 and 2012 as follows:

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 78,164,592	45,387,802
Receivable	5,238,195	21,908
Total restricted assets – rental car customer facility charges	\$ 83,402,787	45,409,710

**(10) Business Interruption Insurance Recovery**

During the year ended June 30, 2013, the Airports Division received a business interruption insurance recovery relating to the events of September 11<sup>th</sup> amounting to \$19,000,000. This amount is reflected on a separate line item between total operating expenses and operating income in the accompanying statements of revenues, expenses, and changes in net position.



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

Notes to Financial Statements

June 30, 2013 and 2012

**(11) Pension Information**

All eligible employees of the Airports Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System (ERS) of the State, a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability benefits with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For new members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

**(a) Contributory Plan**

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

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

Notes to Financial Statements

June 30, 2013 and 2012

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

**(b) *Hybrid Plan***

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

New employees in the hybrid plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

**(c) *Noncontributory Plan***

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Airports Division is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial-cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increased, as of July 1, 2008, to 19.70% for police officers and firefighters, and 15.00% for all other employees. The rates further increased, as of July 1, 2012 to 22.00% for police officers and firefighters, and 15.50% for all other employees. Each year thereafter the rates will gradually increase to 25.00% for police officers and firefighters, and to 17.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

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

Notes to Financial Statements

June 30, 2013 and 2012

The required pension contributions by the Airports Division for the years ended June 30, 2013, 2012, and 2011 were \$8,647,308, \$7,683,738, and \$7,552,624, respectively, which represented 16.25% of covered payroll for each of the years then ended and were equal to the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

The ERS issues a comprehensive annual financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii  
201 Merchant Street, Suite 1400  
Honolulu, Hawaii 96813

**(12) Postretirement Healthcare and Life Insurance Benefits**

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined-benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer health benefits plans and a group life insurance benefits program for employees and retirees.

The State pays the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with ten or more years of credited service.

The State pays the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than ten years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution if the employee retired with twenty-five or more years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 2001: (a) one-half of the base monthly contribution for a self-only plan if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution for a self-only plan if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution for a self-only plan if the employee retired with twenty-five or more years of credited service.

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

Notes to Financial Statements

June 30, 2013 and 2012

The State pays the EUTF a base monthly contribution (currently \$4.16) for each retired employee enrolled in the EUTF group life insurance plan.

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Airports Division's contribution for the years ended June 30, 2013 and 2012 was \$5,136,952 and \$3,785,350, respectively, which represented 30% of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of \$18,789,218 and \$14,039,274.

The following is a summary of changes in postemployment liability during the fiscal years ended June 30, 2013 and 2012:

Balance at June 30, 2012	\$	40,691,333
Additions		18,789,218
Deletions		<u>(5,136,952)</u>
Balance at June 30, 2013	\$	<u><u>54,343,599</u></u>
Balance at June 30, 2011	\$	30,437,409
Additions		14,039,274
Deletions		<u>(3,785,350)</u>
Balance at June 30, 2012	\$	<u><u>40,691,333</u></u>

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund  
P.O. Box 2121  
Honolulu, Hawaii 96805-2121

**(13) Transactions with Other Government Agencies**

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to \$12,473,628 and \$13,708,581 in fiscal years 2013 and 2012, respectively.

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

Notes to Financial Statements

June 30, 2013 and 2012

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to \$5,445,497 and \$5,181,543 in fiscal years 2013 and 2012, respectively. During fiscal years 2013 and 2012, the Airports Division received assessment refunds from the DOT amounting to \$1,382,000 and \$1,237,294, respectively. Such refunds reduced operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

During fiscal years 2013 and 2012, revenues received from other state agencies totaled \$1,604,614 and \$1,472,637, and expenditures to other state agencies totaled \$8,221,702 and \$7,456,876, respectively.

**(14) Commitments**

**(a) Sick Pay**

Accumulated sick leave at June 30, 2013 and 2012 was \$19,720,758 and \$19,504,025, respectively. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee's job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

**(b) Deferred Compensation Plan**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investors. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying financial statements.

**(c) Pledged Future Revenues**

In accordance with the Certificate, the Airports Division has pledged future revenues net of operation, maintenance and repair expenses, and certain adjustments (net revenues and taxes available for debt service) to repay \$945,865,000 in revenue bonds issued in 2010 and 2011, and are payable through 2039. The total debt service remaining to be paid on the revenue bonds for the Airports Division is \$1,431,886,565. In fiscal year 2013, total debt service paid, exclusive of amounts refunded, and net revenues and taxes available for debt service for the Airports Division were \$72,132,338 and \$141,512,611, respectively. See also note 6 for further discussion on the revenue bonds.

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

Notes to Financial Statements

June 30, 2013 and 2012

**(d) Other**

Under an agreement with the Federal Bureau of Prisons (FBOP), the Airports Division is required to perform certain upgrades to its utilities infrastructure, which is also used by the Federal Detention Center adjacent to the Honolulu International Airport. In exchange, the FBOP has paid a connection fee to the Airports Division of \$952,601. The upgrades are expected to be performed in the next two – five years. Accordingly, the amount has been recorded as a noncurrent customer advance on the statements of net position at June 30, 2013 and 2012.

At June 30, 2013, the Airports Division had commitments totaling approximately \$303,678,591 for construction and service contracts.

**(15) Risk Management**

The Airports Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees.

**(a) Torts**

The Airports Division is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Airports Division's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State General Fund, except as described in note 15.

**(b) Property and Liability Insurance**

The Airports Division is covered by commercial general liability policies with a \$750 million limit per occurrence. These commercial general liability policies have no deductible and cover bodily injuries and property damage for occurrences arising out of the ownership, operation, and maintenance of state airports.

**(c) Workers' Compensation**

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2013 and 2012, the workers' compensation reserve was \$4,000,000, of which \$869,295 and \$922,927 is included in current liabilities (payable from unrestricted net assets) and \$3,130,705 and \$3,077,073, respectively, is included in long-term liabilities in the accompanying statements of net position at June 30, 2013 and 2012. In the opinion of management, the Airports Division has adequately reserved for such claims.

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

Notes to Financial Statements

June 30, 2013 and 2012

**(16) Contingent Liabilities and Other**

**(a) *Litigation***

The State is subject to a number of lawsuits arising in the ordinary course of its airport operations. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Airports Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the Airports Division. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

**(b) *Arbitrage***

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2013 and 2012, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

**(c) *Asserted Claims***

**Prepaid Airport Use Charge Fund**

In November 2002, the Airlines Committee of Hawaii (ACH), on behalf of many of the signatory airlines, submitted a written request to the State for the return of \$5,393,344. This amount purportedly represents the amount of landing fees and other charges allegedly overpaid by the signatory airlines in fiscal year 1995.

On October 27, 2003, the State reached a settlement with the ACH under which the Airports Division was to transfer the \$5,393,344 overpayment to the PAUCF escrow account in four equal annual installments beginning in fiscal year 2004. The transfer of funds was to be subject to ACH's obtaining the State's prior written approval for ACH's use of such funds. A liability for the refund was recorded in the Airports Division's financial statements as of June 30, 2004, with an offsetting charge to airports system support charges revenues. The balance in the PAUCF totaled \$4,208,161 at June 30, 2005.

In fiscal year 2007, the PAUCF was decreased for the fourth and final annual installment of \$1,348,000 for the 1995 overpayment and for the fiscal year 2007 underpayment of airports system support charges of \$845,536. The balance of the PAUCF was \$1,533,718 at June 30, 2007.

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

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

Notes to Financial Statements

June 30, 2013 and 2012

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

In fiscal year 2011, the PAUCF was decreased by a payment of \$2,500,000 for the 2010 overpayment as well as the use of \$1,554,510 from the PAUCF to settle a dispute with a signatory airline over baggage joint-use charges. The PAUCF was increased by \$5,047,486 due to an overpayment for fiscal year 2011. The payable balance of the PAUCF at June 30, 2011 was \$11,349,329.

In fiscal year 2012, the PAUCF was decreased by a payment of \$2,500,000 to ACH members for the 2010 overpayment as well as \$156,801 and \$102,002 paid to non-ACH members for 2010 and 2011 overpayments, respectively. The PAUCF was increased by \$39,526,162 due to an overpayment for fiscal year 2012. The PAUCF liability at June 30, 2012 was \$48,116,688.

In fiscal year 2013, the PAUCF was decreased by a payment of \$4,945,000 to ACH members for the 2011 overpayment as well as \$2,500,000 paid to ACH members for 2010 overpayments, respectively. The PAUCF was increased by \$125,853 due to an overpayment for fiscal year 2013. The PAUCF liability at June 30, 2013 was \$40,797,541.

**Environmental Protection Agency**

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the DOT was required to pay a \$1 million fine. The Airports Division's allocated share of the fine was \$400,000, which was paid in February 2006. In addition, the Department is expected to expend an additional \$950,145 to complete various projects in order to be in compliance with the consent decree and Clean Water Act.

**(17) Subsequent Events**

The Airports Division has evaluated subsequent events from the balance sheet date through December 10, 2013, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.



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

Operating Revenues and Operating Expenses Other than Depreciation

Year ended June 30, 2013

	Airports							
	Total	Statewide	Honolulu International	Hilo International	Kona International at Keahole	Kahului	Lihue	
Operating revenues:								
Concession fees	\$ 151,390,726	—	93,035,821	3,054,260	13,303,762	28,239,658	13,485,788	271,437
Airport landing fees	59,873,968	—	41,294,775	1,420,128	4,003,190	9,021,044	3,588,531	546,300
Aeronautical rentals:								
Nonexclusive joint-use premise charges	54,838,168	—	41,437,412	914,345	1,954,544	8,007,876	2,523,991	—
Exclusive-use premise charges	48,521,342	—	36,390,015	1,276,662	1,526,359	6,604,819	2,255,446	468,041
Nonaeronautical rentals	14,240,830	—	8,692,671	437,840	1,139,000	2,884,488	1,020,889	65,942
Aviation fuel tax	4,673,766	—	3,223,474	110,855	312,489	704,183	280,121	42,644
Airports system support charges	1,468	—	1,468	—	—	—	—	—
Miscellaneous	5,047,319	190,293	3,108,070	110,303	555,783	585,763	467,442	29,665
	<u>338,587,587</u>	<u>190,293</u>	<u>227,183,706</u>	<u>7,324,393</u>	<u>22,795,127</u>	<u>56,047,831</u>	<u>23,622,208</u>	<u>1,424,029</u>
Allocation of statewide miscellaneous revenues (note 1)	—	(190,293)	121,770	4,322	21,775	22,950	18,314	1,162
Net operating revenues	<u>\$ 338,587,587</u>	<u>—</u>	<u>227,305,476</u>	<u>7,328,715</u>	<u>22,816,902</u>	<u>56,070,781</u>	<u>23,640,522</u>	<u>1,425,191</u>
Operating expenses other than depreciation:								
Salaries and wages	\$ 83,988,652	20,850,160	31,073,288	5,125,488	5,333,748	8,522,248	6,269,806	6,813,914
Other personnel services	52,601,916	3,496,978	28,703,201	3,365,458	4,377,210	5,162,199	5,073,252	2,423,618
Utilities	50,359,918	4,920	37,989,557	1,379,492	2,394,464	5,305,466	2,503,910	782,109
Repairs and maintenance	20,180,808	4,536,712	11,766,430	573,599	974,495	1,348,567	633,825	347,180
State of Hawaii surcharge on gross receipts (note 2)	12,473,628	12,473,628	—	—	—	—	—	—
Special maintenance	6,549,580	2,167,207	618,922	(968)	2,304,925	222,969	562,786	673,739
Materials and supplies	5,557,405	192,218	3,010,289	450,797	368,114	733,288	397,464	405,235
Department of Transportation general administration expenses	5,445,497	5,445,497	—	—	—	—	—	—
Insurance	3,188,862	3,188,871	—	—	—	—	—	(9)
Claims and benefits	1,064,193	739	445,550	76,393	164,184	306,622	28,648	42,057
Rent	691,786	454,306	142,614	9,850	17,660	21,635	31,347	14,374
Bad debt expense (note 3)	580,495	580,495	—	—	—	—	—	—
Travel	405,740	112,285	72,625	38,044	38,130	52,520	42,541	49,595
Communication	381,274	81,269	69,777	44,076	25,452	51,628	50,262	58,810
Dues and subscriptions	239,205	230,765	7,599	—	—	256	464	121
Printing and advertising	21,057	20,532	525	—	—	—	—	—
Freight and delivery	8,260	456	770	923	880	4,598	420	213
Miscellaneous	293,187	117,677	94,666	25,265	15,717	2,120	24,472	13,270
	<u>244,031,463</u>	<u>53,954,715</u>	<u>113,995,813</u>	<u>11,088,417</u>	<u>16,014,979</u>	<u>21,734,116</u>	<u>15,619,197</u>	<u>11,624,226</u>
Allocation of statewide expenses (note 4)	—	(53,954,715)	32,358,569	3,147,530	4,545,972	6,169,393	4,433,627	3,299,624
Total operating expenses other than depreciation for net revenues and taxes	<u>276,782</u>	<u>—</u>	<u>254,922</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,860</u>	<u>—</u>
Disbursements out of major maintenance, renewal, and replacement account not included above								
Total operating expenses other than depreciation for statement of revenues, expenses, and changes in net position.	<u>\$ 244,308,245</u>	<u>—</u>	<u>146,609,304</u>	<u>14,235,947</u>	<u>20,560,951</u>	<u>27,903,509</u>	<u>20,074,684</u>	<u>14,923,850</u>

## Notes:

- (1) Statewide miscellaneous revenues are allocated to the airports based upon their respective current year miscellaneous revenues to total current year miscellaneous revenues for all airports.
- (2) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.
- (3) Bad debt expense is allocated primarily by individually identifiable bad debts with the remainder allocated to the airports based upon their respective current year revenues to total current year revenues for all airports.
- (4) Statewide expenses are allocated to the airports based upon their respective current year operating expenses to total current year operating expenses for all airports.

See accompanying independent auditors' report.

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

Calculations of Net Revenues and Taxes and Debt Service Requirement

Year ended June 30, 2013

Revenues and taxes:		
Concession fees	\$	151,390,726
Airport landing fees		59,873,968
Aeronautical rentals:		
Nonexclusive joint-use premise charges		54,838,168
Exclusive-use premise charges		48,521,342
Nonaeronautical rentals		14,240,830
Aviation fuel tax		4,673,766
Airports system support charges		1,468
Interest income, exclusive of interest on investments in direct financing leases and including interest income of \$167,706 on capital improvement projects		1,991,423
Federal operating grants		5,038,564
Miscellaneous		5,047,319
Business interruption insurance recovery		19,000,000
Total revenues and taxes		<u>364,617,574</u>
Deductions:		
Operating expenses other than depreciation for net revenues and taxes (schedule 1)		244,308,245
Annual reserve required on major maintenance, renewal, and replacement account		19,802
Total deductions		<u>244,328,047</u>
Net revenues and taxes		120,289,527
Add funded coverage per bond certificate		<u>21,223,084</u>
Adjusted net revenues and taxes		<u>141,512,611</u>
Debt service requirement:		
Airports system revenue bonds:		
Principal		40,305,000
Interest (note 1)		40,705,391
Total debt service requirement		<u>81,010,391</u>
Debt service coverage percentage		<u>125%</u>
Total debt service with coverage requirement		<u>101,262,989</u>
Excess of net revenues and taxes over debt service requirement	\$	<u><u>40,249,622</u></u>

Notes:

- (1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes, and amounts from the Series 2010 bond proceeds used to pay interest on the Series 2010 bonds until the projects funded by the Series 2010 bonds are in service.

See accompanying independent auditors' report.

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Summary of Debt Service Requirements to Maturity

June 30, 2013

	<b>Annual principal and interest requirements</b>		
	<b>Airports system revenue bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2014	\$ 34,210,000	43,033,988	77,243,988
2015	35,725,000	41,515,725	77,240,725
2016	37,290,000	39,955,020	77,245,020
2017	38,935,000	38,309,470	77,244,470
2018	40,755,000	36,489,520	77,244,520
2019	42,585,000	34,658,670	77,243,670
2020	44,690,000	32,555,070	77,245,070
2021	46,805,000	30,439,145	77,244,145
2022	49,175,000	28,065,558	77,240,558
2023	51,580,000	25,664,558	77,244,558
2024	54,195,000	23,045,657	77,240,657
2025	18,440,000	20,379,107	38,819,107
2026	19,395,000	19,428,487	38,823,487
2027	20,400,000	18,412,970	38,812,970
2028	21,460,000	17,356,370	38,816,370
2029	22,570,000	16,233,945	38,803,945
2030	23,755,000	15,053,750	38,808,750
2031	25,010,000	13,807,355	38,817,355
2032	26,255,000	12,556,855	38,811,855
2033	27,575,000	11,244,105	38,819,105
2034	28,945,000	9,865,355	38,810,355
2035	30,395,000	8,418,105	38,813,105
2036	31,910,000	6,898,355	38,808,355
2037	33,520,000	5,299,245	38,819,245
2038	35,195,000	3,619,455	38,814,455
2039	36,955,000	1,855,725	38,810,725
Total	\$ <u>877,725,000</u>	<u>554,161,565</u>	<u>1,431,886,565</u>

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2013.

See accompanying independent auditors' report.

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

Debt Service Requirements to Maturity – Airports System Revenue Bonds

June 30, 2013

	<b>Refunding series of 2010A, 2.00% to 5.25%</b>	<b>Refunding series of 2010B, 3.00% to 5.00%</b>	<b>Refunding series of 2011, 2.00% to 5.00%</b>	<b>Total</b>	<b>Interest</b>	<b>Total requirements</b>
Year ending June 30:						
2014	\$ 310,000	13,800,000	20,100,000	34,210,000	43,033,988	77,243,988
2015	320,000	18,150,000	17,255,000	35,725,000	41,515,725	77,240,725
2016	335,000	19,030,000	17,925,000	37,290,000	39,955,020	77,245,020
2017	340,000	19,975,000	18,620,000	38,935,000	38,309,470	77,244,470
2018	355,000	20,980,000	19,420,000	40,755,000	36,489,520	77,244,520
2019	255,000	22,165,000	20,165,000	42,585,000	34,658,670	77,243,670
2020	7,720,000	21,650,000	15,320,000	44,690,000	32,555,070	77,245,070
2021	14,510,000	—	32,295,000	46,805,000	30,439,145	77,244,145
2022	18,005,000	—	31,170,000	49,175,000	28,065,558	77,240,558
2023	16,650,000	—	34,930,000	51,580,000	25,664,558	77,244,558
2024	17,510,000	—	36,685,000	54,195,000	23,045,657	77,240,657
2025	18,440,000	—	—	18,440,000	20,379,107	38,819,107
2026	19,395,000	—	—	19,395,000	19,428,487	38,823,487
2027	20,400,000	—	—	20,400,000	18,412,970	38,812,970
2028	21,460,000	—	—	21,460,000	17,356,370	38,816,370
2029	22,570,000	—	—	22,570,000	16,233,945	38,803,945
2030	23,755,000	—	—	23,755,000	15,053,750	38,808,750
2031	25,010,000	—	—	25,010,000	13,807,355	38,817,355
2032	26,255,000	—	—	26,255,000	12,556,855	38,811,855
2033	27,575,000	—	—	27,575,000	11,244,105	38,819,105
2034	28,945,000	—	—	28,945,000	9,865,355	38,810,355
2035	30,395,000	—	—	30,395,000	8,418,105	38,813,105
2036	31,910,000	—	—	31,910,000	6,898,355	38,808,355
2037	33,520,000	—	—	33,520,000	5,299,245	38,819,245
2038	35,195,000	—	—	35,195,000	3,619,455	38,814,455
2039	36,955,000	—	—	36,955,000	1,855,725	38,810,725
Total	\$ <u>478,090,000</u>	<u>135,750,000</u>	<u>263,885,000</u>	<u>877,725,000</u>	<u>554,161,565</u>	<u>1,431,886,565</u>

Note: For purposes of this schedule, the above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, this schedule does not present the principal and interest payments due on July 1, 2013.

See accompanying independent auditors' report.

DEPARTMENT OF TRANSPORTATION  
 AIRPORTS DIVISION  
 STATE OF HAWAII  
 (An Enterprise Fund of the State of Hawaii)  
 Airports System Charges – Fiscal Year 2008 Lease Extension  
 Year ended June 30, 2013

	Airline activity			Airports system charges												
	Approved maximum revenue landing weights (1,000-pound units)	Revenue passenger landings	Deplaning international passengers	Airports landing fees	Airports system support charges	Joint-use charges – overseas baggage	Joint-use charges – overseas holdroom	Joint-use charges – overseas	Joint-use charges – interisland baggage	Joint-use charges – interisland holdroom	Joint-use charges – commuter baggage	Joint-use charges – commuter holdroom	International arrivals building charges	Preferential use	Exclusive-use premise charges – terminal space	Total
Signatory airlines:																
Aeko Kula, Inc.	802,579	—	—	\$ 1,055,534	—	—	—	—	—	—	—	—	—	—	118,284	1,173,818
Air Canada	181,120	544	—	567,322	—	236,103	226,828	—	—	—	—	—	—	—	576,430	1,606,683
Air New Zealand, Ltd.	52,125	137	30,046	169,605	—	—	39,799	—	—	—	—	—	190,231	—	—	399,635
Air Pacific, Ltd.	21,648	142	15,680	69,679	—	—	17,548	—	—	—	—	—	99,704	—	—	186,931
Alaska Air, Inc.	1,215,373	7,758	—	3,903,323	—	2,141,881	1,052,411	—	—	—	—	—	—	—	—	8,244,000
All Nippon Airways Co., Ltd.	219,580	594	134,866	718,125	—	—	164,943	—	—	—	—	—	871,141	—	4,216	1,758,425
Allegiant Air LLC	112,266	550	—	346,350	—	251,647	133,752	—	—	—	—	—	—	—	255,553	987,302
American Airlines, Inc.	980,788	3,983	—	3,169,901	—	1,574,252	1,288,409	—	—	—	—	—	—	—	1,889,797	7,922,359
Asiana Airlines, Inc.	138,933	312	68,376	446,944	—	—	77,442	—	—	—	—	—	429,728	—	166,052	1,120,166
China Airlines, Ltd.	219,858	345	117,887	707,013	—	—	141,233	—	—	—	—	—	749,018	—	40,575	1,637,839
Continental Airlines, Inc.	880,206	3,249	15,402	2,853,540	—	1,646,933	1,067,870	—	—	—	—	—	93,978	—	166,325	5,828,646
Continental Micronesia, Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	480,615
Delta Air Lines, Inc.	1,898,870	5,429	469,329	6,132,781	—	1,735,420	1,715,357	—	—	—	—	—	2,979,755	—	3,106,709	15,670,022
Evergreen International Airlines, Inc.	7,326	—	—	21,099	—	—	—	—	—	—	—	—	—	—	—	21,099
Federal Express Corporation	747,947	1	—	2,090,072	—	—	—	—	—	—	—	—	—	—	7,611	2,097,683
Hawaii Island Air, Inc.	480,327	12,083	—	640,025	—	—	—	68,575	52,157	125,360	168,337	—	—	—	41,761	1,096,215
Hawaiian Airlines, Inc.	9,772,907	63,427	483,782	18,708,717	—	42,260	1,817,865	—	10,037,483	—	—	—	3,021,853	3,467,374	9,239,072	46,334,624
Japan Airlines International Co., Ltd.	719,597	1,984	490,863	2,321,163	—	—	592,043	—	—	—	—	—	3,097,740	—	2,124,715	8,135,661
Kalitta Air, LLC	177,252	—	—	537,754	—	—	—	—	—	—	—	—	—	—	—	537,754
Korean Airlines Company, Ltd.	441,009	844	214,562	1,416,213	—	—	252,552	—	—	—	—	—	1,343,821	—	246,588	3,259,174
Mesa Airlines, Inc.	676,283	13,056	—	896,174	—	—	—	258,790	278,693	214,045	299,300	—	—	—	348,040	2,295,042
Mokulele Flight Service, Inc.	192,712	21,013	—	253,183	—	—	—	—	—	15,581	20,189	—	—	—	40,905	329,858
North American Airlines, Inc.	1,600	—	—	5,526	—	—	—	—	—	—	—	—	—	—	—	5,526
Pacific Wings LLC	43,894	4,658	—	58,131	—	—	—	—	—	—	4,059	—	—	—	8,379	70,569
Philippine Airlines, Inc.	68,128	143	33,437	219,616	—	—	39,125	—	—	—	—	—	205,702	—	124,835	589,278
Polar Air Cargo, LLC	10,281	—	—	29,609	—	—	—	—	—	—	—	—	—	—	—	29,609
Qantas Airways, Ltd.	224,320	167	35,549	724,462	—	—	44,659	—	—	—	—	—	225,579	—	451,754	1,446,454
United Airlines, Inc.	1,999,497	6,358	199,666	6,432,432	—	2,298,448	2,450,399	—	3,172	—	—	—	1,260,030	—	7,242,542	19,687,023
United Parcel Service Co.	768,419	—	—	2,156,825	—	—	—	—	—	—	—	—	—	—	45,643	2,202,468
US Airways, Inc.	395,208	1,777	—	1,269,338	—	629,577	563,237	—	—	—	—	—	—	—	538,397	3,000,549
WestJet	217,976	1,361	1,300	683,756	—	355,006	396,544	—	—	—	—	—	6,565	—	117,302	1,559,173
Non-signatory airlines	1,543,705	740	125,238	4,866,180	1,468	227,261	408,299	—	—	—	—	—	1,614,318	—	1,257,515	8,375,041
Total airports system charges billed	25,211,734	150,655	2,435,983	63,470,392	1,468	11,138,788	12,490,315	—	10,368,020	330,850	354,986	491,885	16,189,163	3,977,433	29,275,941	148,089,241
Signatory airlines requirements				58,934,145	—	10,976,834	11,686,838	—	10,409,539	336,095	354,986	491,885	14,347,939	3,984,174	28,065,912	139,588,347
Non-signatory airlines requirements				4,866,180	1,468	227,261	408,299	—	—	—	—	—	1,614,318	—	1,257,515	8,375,041
Fiscal year 2013 overpayment (underpayment)				\$ (329,933)	—	(65,307)	395,178	—	(41,519)	(5,245)	—	—	226,906	(6,741)	(47,486)	125,853

See accompanying independent auditors' report.

**DEPARTMENT OF TRANSPORTATION  
AIRPORTS DIVISION  
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Summary of Billed Airport Landing Fees

Year ended June 30, 2013

	<u>Signatory airlines</u>	<u>Nonsignatory airlines</u>	<u>Total</u>
Gross airport landing fees billed	\$ 58,604,212	4,866,180	63,470,392
Less aviation fuel tax credit	(3,683,395)	(242,962)	(3,926,357)
Net airport landing fees billed	<u>\$ 54,920,817</u>	<u>4,623,218</u>	<u>59,544,035</u>

See accompanying independent auditors' report.

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

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Signatory Airlines

Year ended June 30, 2013

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport Gross airport landing fees				All other airports			Total adjusted airport landing fees	
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Total	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit		Adjusted airport landing fees
	Aeko Kula, Inc	471,182	79,324	252,072	802,578	\$ 619,883	104,570	724,453	(95,412)	629,041	331,081		—
Air Canada	92,800	—	88,320	181,120	295,987	—	295,987	—	295,987	271,334	—	271,334	567,321
Air New Zealand Ltd.	52,125	—	—	52,125	169,605	—	169,605	—	169,605	—	—	—	169,605
Air Pacific, Ltd.	21,648	—	—	21,648	69,679	—	69,679	—	69,679	—	—	—	69,679
Alaska Airlines, Inc.	439,632	—	775,741	1,215,373	1,405,382	—	1,405,382	(682,055)	723,327	2,497,941	—	2,497,941	3,221,268
All Nippon Airways Co., Ltd.	219,580	—	—	219,580	718,125	—	718,125	—	718,125	—	—	—	718,125
Allegiant Air Llc	98,604	—	13,662	112,266	305,522	—	305,522	(57,026)	248,496	40,828	—	40,828	289,324
American Airlines, Inc.	525,136	—	455,652	980,788	1,698,102	—	1,698,102	(275,766)	1,422,336	1,471,799	—	1,471,799	2,894,135
Asiana Airlines, Inc	138,933	—	—	138,933	446,944	—	446,944	—	446,944	—	—	—	446,944
China Airlines, Ltd.	219,858	—	—	219,858	707,013	—	707,013	—	707,013	—	—	—	707,013
Continental Airlines, Inc.	833,244	46,962	—	880,206	2,701,774	151,766	2,853,540	(50,197)	2,803,343	—	—	—	2,803,343
Delta Air Lines, Inc.	1,607,345	—	291,525	1,898,870	5,193,322	—	5,193,322	(212,458)	4,980,864	939,460	—	939,460	5,920,324
Evergreen International Airlines, Inc.	7,326	—	—	7,326	21,099	—	21,099	—	21,099	—	—	—	21,099
Federal Express Corporation	651,670	96,277	—	747,947	1,962,179	127,893	2,090,072	(174,879)	1,915,193	—	—	—	1,915,193
Hawaii Island Air, Inc.	203,582	454	276,291	480,327	269,083	592	269,675	(25,439)	244,236	370,349	—	370,349	614,585
Hawaiian Airlines, Inc.	5,739,626	657,470	3,375,811	9,772,907	12,649,325	869,354	13,518,679	(1,510,114)	12,008,565	5,190,038	(45,468)	5,144,570	17,153,135
Japan Airlines International Co., Ltd.	719,597	—	—	719,597	2,321,163	—	2,321,163	—	2,321,163	—	—	—	2,321,163
Kalitta Air, L.L.C.	160,198	—	17,054	177,252	513,297	—	513,297	—	513,297	24,457	—	24,457	537,754
Korean Airlines Company, Ltd.	441,009	—	—	441,009	1,416,213	—	1,416,213	—	1,416,213	—	—	—	1,416,213
Mesa Airlines, Inc.	330,974	45,637	299,672	676,283	437,702	60,050	497,752	(70,032)	427,720	398,423	—	398,423	826,143
Mokulele Flight Service, Inc.	36,066	—	156,647	192,713	47,220	—	47,220	(2,799)	44,421	205,963	(5,096)	200,867	245,288
North American Airlines, Inc.	1,600	—	—	1,600	5,526	—	5,526	—	5,526	—	—	—	5,526
Pacific Wings, L.L.C.	4,514	—	39,381	43,895	6,157	—	6,157	(282)	5,875	51,974	(2,426)	49,548	55,423
Philippine Airlines, Inc.	68,128	—	—	68,128	219,616	—	219,616	—	219,616	—	—	—	219,616
Polar Air Inc	10,281	—	—	10,281	29,609	—	29,609	—	29,609	—	—	—	29,609
Qantas Airways Limited	224,320	—	—	224,320	724,462	—	724,462	—	724,462	—	—	—	724,462
United Airlines, Inc.	1,097,989	—	901,508	1,999,497	3,529,887	—	3,529,887	(275,786)	3,254,101	2,902,545	(29,618)	2,872,927	6,127,028
United Parcel Service Co.	599,330	—	169,089	768,419	1,784,180	—	1,784,180	(3,724)	1,780,456	372,645	—	372,645	2,153,101
Us Airways, Inc.	162,954	—	232,254	395,208	526,260	—	526,260	(160,691)	365,569	743,078	(4,127)	738,951	1,104,520
Westjet	82,096	—	135,879	217,975	258,807	—	258,807	—	258,807	424,949	—	424,949	683,756
<b>Total</b>	<b>15,261,347</b>	<b>926,124</b>	<b>7,480,558</b>	<b>23,668,029</b>	<b>\$ 41,053,123</b>	<b>1,314,225</b>	<b>42,367,348</b>	<b>(3,596,660)</b>	<b>38,770,688</b>	<b>16,236,864</b>	<b>(86,735)</b>	<b>16,150,129</b>	<b>54,920,817</b>
Summary of revenue landing weights:													
Overseas				14,374,695									
Interisland				9,293,334									
				<u>23,668,029</u>									

Aviation fuel tax of \$4,673,766 was paid by the users for the year ended June 30, 2013. Users can claim a credit for aviation fuel taxes paid up to six months after payment. Aviation fuel tax credits of \$3,926,357 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	\$ 3,683,395
Nonsignatory airlines	242,962
	<u>\$ 3,926,357</u>

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2013.

See accompanying independent auditors' report.

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

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Nonsignatory Airlines

Year ended June 30, 2013

	Approved maximum revenue landing weights (1,000-pound units)				Honolulu International Airport and Hilo International Airport Gross airport landing fees				All other airports			Total adjusted airport landing fees	
	Honolulu International Airport	Hilo International Airport	All other airports	Total	Honolulu International Airport	Hilo International Airport	Aviation fuel tax credit	Adjusted airport landing fees	Gross airport landing fees	Aviation fuel tax credit	Adjusted airport landing fees		
Above It All, Inc.	26	1,310	1,567	2,903	30	1,509	1,539	(251)	1,288	1,805	(253)	1,552	2,840
Aero Micronesia, Inc.	32,308	—	—	32,308	170,909	—	170,909	—	170,909	—	—	—	170,909
Air Japan Co Ltd	25,920	—	—	25,920	137,117	—	137,117	—	137,117	—	—	—	137,117
Air Transport International LLC	33,632	—	250	33,882	177,913	—	177,913	—	177,913	528	—	528	178,441
Air Ventures Hawaii, LLC	—	—	6,012	6,012	—	—	—	—	—	6,926	(342)	6,584	6,584
Alika Aviation, Inc.	—	—	8,360	8,360	—	—	—	—	—	9,631	—	9,631	9,631
Aris, Inc.	—	—	19,969	19,969	—	—	—	—	—	23,005	(3,004)	20,001	20,001
Atlas Air Inc.	32,102	—	—	32,102	169,820	—	169,820	—	169,820	—	—	—	169,820
Big Island Air, Inc.	16	—	3,744	3,760	18	—	18	—	18	4,313	—	4,313	4,331
Bradley Pacific Aviation, Inc.	36,751	1,641	65,233	103,625	112,701	3,675	116,376	—	116,376	204,718	—	204,718	321,094
Castle & Cooke Homes Hawaii, Inc.	22,423	—	266	22,689	77,245	—	77,245	—	77,245	572	—	572	77,817
Corporate Air	48,015	77	59,273	107,365	101,313	161	101,474	—	101,474	125,066	—	125,066	226,540
Delta Air Lines, Inc.	53,397	—	—	53,397	282,471	—	282,471	—	282,471	—	—	—	282,471
George's Aviation Services, Inc.	532	14	1,008	1,554	613	16	629	(441)	188	1,161	(435)	726	914
Hawaii Air Ambulance, Inc.	29,050	—	—	29,050	33,465	—	33,465	(403)	33,062	—	—	—	33,062
Hawaii Helicopters, Inc.	—	—	7,118	7,118	—	—	—	—	—	8,200	—	8,200	8,200
Helicopter Consultants Of Maui, Inc.	18,206	59,277	82,277	159,760	20,974	68,287	89,261	(25,964)	63,297	94,785	(2,941)	91,844	155,141
Honolulu Soaring Club, Inc.	—	—	2,174	2,174	—	—	—	—	—	2,504	—	2,504	2,504
Island Helicopters Kauai, Inc.	—	—	15,892	15,892	—	—	—	—	—	18,307	(2,306)	16,001	16,001
Jack Harter Helicopters, Inc.	—	—	13,060	13,060	—	—	—	—	—	15,045	(2,900)	12,145	12,145
Jetstar Airways Pty Limited	138,890	—	—	138,890	734,733	—	734,733	—	734,733	—	—	—	734,733
K & S Helicopters, Inc.	1,056	18,416	9,526	28,998	1,217	21,215	22,432	(6,197)	16,235	10,974	—	10,974	27,209
Kamaka Air, Inc.	8,737	—	14,378	23,115	10,065	—	10,065	—	10,065	16,563	—	16,563	26,628
Makani Kai Helicopters, Ltd.	11,536	28	21,512	33,076	13,289	32	13,321	(23)	13,298	24,781	(272)	24,509	37,807
Marjet Inc.	—	—	—	—	—	—	—	—	—	—	—	—	—
Maui Island Air, Inc.	28	—	2,072	2,100	32	—	32	—	32	2,387	—	2,387	2,419
Miami Air International	144	—	288	432	762	—	762	—	762	1,524	—	1,524	2,286
Miscellaneous	43,265	623	936	44,824	231,799	2,193	233,992	(324)	233,668	2,270	(96)	2,174	235,842
Niihau Helicopters, Inc.	—	—	825	825	—	—	—	—	—	951	—	951	951
Omni Air International, Inc.	72,409	—	(300)	72,109	383,048	—	383,048	(38,983)	344,065	(1,587)	—	(1,587)	342,478
Pacific Air Charters, Incorporated	293	15	1,662	1,970	338	17	355	(73)	282	1,915	(334)	1,581	1,863
Pacific Helicopter Tours, Inc.	1,579	58	1,362	2,999	1,819	67	1,886	(389)	1,497	1,569	(96)	1,473	2,970
Paragon Air Inc.	—	—	447	447	—	—	—	—	—	515	—	515	515
Polar Air Cargo, LLC	22,069	—	—	22,069	116,745	—	116,745	—	116,745	—	—	—	116,745
Pofolk Aviation Hawaii, Inc.	—	—	18,078	18,078	—	—	—	—	—	20,826	—	20,826	20,826
Resort Air, LLC	279	—	2,172	2,451	322	—	322	(139)	183	2,502	(1,436)	1,066	1,249
Safari Aviation, Inc.	729	8,672	14,222	23,623	840	9,990	10,830	—	10,830	16,384	—	16,384	27,214
Sky-med, Inc.	—	—	26,019	26,019	—	—	—	—	—	29,973	—	29,973	29,973
Skyview Soaring Lcc	—	—	338	338	—	—	—	—	—	390	—	390	390
Smoky Mountain Helicopters, Inc.	—	—	6,346	6,346	—	—	—	—	—	7,310	—	7,310	7,310
Southern Air	98,027	—	—	98,027	518,567	—	518,567	—	518,567	—	—	—	518,567
Will Squyres Hilicopters Service, Inc.	—	—	15,136	15,136	—	—	—	—	—	17,436	—	17,436	17,436
Strategic Air	9,504	—	9,504	9,504	44,788	—	44,788	—	44,788	—	—	—	44,788
Sunshine Helicopters, Inc.	—	534	15,787	16,321	—	615	615	—	615	18,186	(10,994)	7,192	7,807
Trans Executive Airlines Of Hawaii, Inc. dba Trans Air	36,169	20,759	56,038	112,966	41,666	23,914	65,580	(18,196)	47,384	64,557	(1,883)	62,674	110,058
Universal Enterprises, Inc.	60,229	1,339	59,588	121,156	198,148	4,000	202,148	(124,287)	77,861	187,430	—	187,430	265,291
World Airways	37,962	—	—	37,962	200,816	—	200,816	—	200,816	—	—	—	200,816
Wings Over Kauai LLC	—	—	3,024	3,024	—	—	—	—	—	3,484	—	3,484	3,484
<b>Total</b>	<b>875,283</b>	<b>112,763</b>	<b>555,659</b>	<b>1,543,705</b>	<b>3,783,583</b>	<b>135,691</b>	<b>3,919,274</b>	<b>(215,670)</b>	<b>3,703,604</b>	<b>946,906</b>	<b>(27,292)</b>	<b>919,614</b>	<b>4,623,218</b>
Summary of revenue landing weights:													
Overseas				806,051									
Interisland				737,654									
				<u>1,543,705</u>									

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2013.

See accompanying independent auditors' report.



## APPENDIX B

### 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”) Fourth Quarter 2013 Quarterly Statistical and Economic Report (“QSER”) or from other materials prepared by DBEDT, some of which may be found at <http://dbedt.hawaii.gov/>. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under “GENERAL ECONOMIC INFORMATION.” Following descriptions of the various components of the State’s economy and DBEDT’s outlook for the economy below under “State of the Economy,” there is a brief description in “Outlook for the Economy” below of the impact of these components on the State’s fiscal position. See Appendix B—“FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII.”

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 2013 is 2.4 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2014 State’s GDP growth to be 2.8 percent over that of 2013.

#### State of the Economy

Hawaii’s major economic indicators were mostly positive in the second quarter of 2013. Visitor arrivals and average daily visitor census both increased, and visitor expenditures increased even more. Government contracts awarded, private building permits, wage and salary jobs, personal income, and State General Fund tax revenues all increased in the quarter as compared to the same quarter last year.

Hawaii’s tourism sector performed well in the first 10 months of 2013 compared to the same period of 2012. The total number of visitors arriving by air to Hawaii increased 3.8 percent in the 10 month period. Both international and domestic visitor arrivals increased. Due to shorter lengths of stay, the daily visitor census increased 2.3 percent in the 10 month period. However, since visitors spent more on a daily basis during the 10 month period, total visitor spending increased 3.4 percent in the 10 month period.

In construction, the government contracts awarded and the value of private building permits both increased. In the third quarter of 2013, government contracts awarded increased \$158.1 million; the permit value for private construction increased \$1.8 million compared to the same quarter of 2012. In the second quarter of 2013, the construction sector added 3,200 jobs or 10.8 percent compared with the same quarter of 2012. According to the most recent data available, current construction put-in-place based on excise tax data increased \$286.2 million or 18.3 percent in the first quarter of 2013 compared with the same quarter of 2012.

In the third quarter of 2013, State General Fund tax revenues were down \$115.6 million or 2.7 percent over the same period of 2012. As an indicator of current economic activity, state general excise tax revenue decreased \$40.1 million or 5.4 percent in the third quarter of 2013 compared to the same quarter in 2012. For the first three quarters of 2013, State General Fund tax revenues increased \$177.2 million or 4.4 percent, and state general excise tax revenue increased \$59.7 million or 2.8 percent, compared with the same period last year.

The labor market conditions also show that the economy is improving. After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the third quarter of 2010, Hawaii’s jobs increased for the twelfth time. In the third quarter of 2013, Hawaii’s civilian non-agricultural wage and salary jobs averaged 616,200 jobs, an increase of 4,800 jobs or 0.8 percent from the same quarter of 2012. The number of non-agricultural wage jobs increased to an average of 608,550 jobs in September 2013.

The most recent data from the U.S. Bureau of Economic Analysis (“BEA”) shows that Hawaii’s total nominal annualized personal income in the second quarter of 2013 increased \$1,728 million or 2.8 percent from the

same quarter of 2012. This increase includes inflation so that the growth of real personal income was smaller. The increase in nominal personal income during the first quarter of 2013 was due to increases in all major components of personal income. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, supplements to wage and salaries, which include retirement and unemployment insurance benefits, personal current transfer receipts, and proprietors' income. In 2012, total annualized personal income was \$61,339 million, an increase of 3.9 percent from the previous year.

According to the most recent data available, consumer prices in Honolulu increased 1.8 percent in the first half of 2013 compared with the same period of 2012, as measured by the Honolulu Consumer Price Index for Urban Consumers ("CPI-U"). By contrast, the U.S. CPI-U increased 1.5 percent in the first half of 2013. In 2012, the Honolulu CPI-U increased 2.4 percent from the previous year.

The lower growth rate for Honolulu CPI-U in the first half of 2013 was primarily due to relatively slower growth in prices in most of the consumption categories that comprise the index. Other than housing and medical care, which experienced price acceleration, all other categories experienced slower price increases while apparel and transportation had price decreases.

### **Outlook for the Economy**

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism industry, the labor market conditions in the state, and growth of personal income and tax revenues, Hawaii's economy is expected to expand for the rest of 2013 and into 2014. Overall, the current DBEDT forecast remains optimistic.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the November 2013 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 1.7 percent in 2013 as a whole, 0.2 of a percentage point higher than the 1.5 percent growth rate projected in the August 2013 forecast. For 2014, the consensus forecast now expects an overall 2.5 percent growth in U.S. real GDP, slightly lower than the 2.6 percent growth rate projected in the April 2013 forecast.

Forecasts for Japan were more optimistic for 2013 in the November 2013 Blue Chip Economic Consensus Forecasts. Real GDP growth for Japan is now expected to increase 1.8 percent in 2013, higher than the 1.7 percent growth rate projected in the August 2013 forecast. For 2014, the consensus forecast now expects an overall 1.8 percent growth in Japanese real GDP, slightly higher than the 1.7 percent growth rate projected in the August 2013 forecast.

For the local economy, DBEDT expects most of the economic indicators will continue to grow positively in the years to come.

Overall, Hawaii's economy measured by real GDP is projected to show a 2.4 percent increase in 2013, 0.2 of a percentage point higher than the growth rate forecasted last quarter. Real GDP growth in 2014 is expected at 2.8 percent, 0.4 of a percentage point higher than the growth rate forecasted last quarter.

Hawaii's seasonally-adjusted unemployment rate declined to 4.4 percent in September 2013, the lowest since July 2008. Hawaii's seasonally-adjusted unemployment rate is projected to be 4.5 percent in 2014.

Visitor arrivals are expected to increase 2.9 percent in 2013, 1.4 percentage points below the previous forecast. The forecast for visitor days in 2013 decreased from 2.7 percent to 1.5 percent. The forecast for visitor expenditure in 2013 is revised downward to 3.0 percent, from 5.7 percent growth projected in the previous forecast. For 2014, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 2.7 percent, 2.8 percent, and 4.2 percent, respectively.

The projection for non-agricultural wage and salary job growth rate in 2013 is 1.3 percent, 0.5 of a percentage point below the previous forecast. In 2014, jobs are projected to increase 1.8 percent, same as the previous forecast.

The Honolulu Consumer Price Index (“CPI”), which increased 2.4 percent in 2012, is now expected to increase 1.7 percent in 2013, 0.2 of a percentage point below the previous forecast. In 2014, the CPI is projected to increase 2.1 percent, same as the previous forecast.

Personal income in current dollars is now expected to increase 4.0 percent in 2013, 0.5 of a percentage point lower than the previous forecast. The real personal income is currently projected to grow 2.3 percent in 2013, 0.3 percentage point lower than the previous forecast. In 2014, current-dollar personal income and real personal income are expected to increase 5.3 percent and 3.3 percent, respectively.

Beyond 2014, the economy will remain at the expansion path with job growth expected to increase 1.7 percent in 2015 and 1.5 percent in 2016. Visitor arrivals are expected to increase 2.3 percent in 2015 and 2.1 percent in 2016. Visitor expenditures are expected to increase 5.0 percent in 2015 and 4.8 percent in 2016. Real personal income is projected to increase 2.7 percent in 2015 and 2.4 percent in 2016. Hawaii’s real GDP growth is expected to increase 2.5 percent in 2015 and 2.3 percent in 2016. Unemployment rate is expected to be 4.0 percent in 2015 and 3.8 percent in 2016.

*[Remainder of page intentionally left blank.]*

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

TABLE 1

Table 1. 2013 QUARTERLY ECONOMIC INDICATORS:  
STATE OF HAWAII

SERIES	3rd QUARTER			YEAR-TO-DATE		
	2012	2013	% CHANGE YEAR AGO	2012	2013	% CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	649,250	644,900	-0.7	652,050	647,050	-0.8
Civilian employed, NSA	611,400	616,200	0.8	612,550	616,300	0.6
Civilian unemployed, NSA	37,900	28,700	-24.3	39,500	30,750	-22.2
Unemployment rate, NSA (%) 1/ 2/	5.9	4.4	-1.5	6.1	4.8	-1.3
Total wage and salary jobs, NSA	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
Total non-agric. wage & salary jobs	601,850	608,550	1.1	601,650	609,800	1.4
Nat. Resources, Mining, Constr.	29,750	32,950	10.8	29,000	31,850	9.8
Manufacturing	13,300	13,350	0.4	13,250	13,150	-0.8
Wholesale Trade	17,650	17,900	1.4	17,600	18,000	2.3
Retail Trade	68,300	67,850	-0.7	68,050	67,650	-0.6
Transp., Warehousing, Util.	28,550	28,950	1.4	28,050	28,950	3.2
Information	8,250	8,150	-1.2	8,250	8,300	0.6
Financial Activities	27,100	27,250	0.6	26,900	27,100	0.7
Professional & Business Services	76,600	77,600	1.3	76,150	77,050	1.2
Educational Services	14,350	13,950	-2.8	14,750	14,400	-2.4
Health Care & Social Assistance	62,100	62,650	0.9	61,550	62,700	1.9
Arts, Entertainment & Recreation	11,400	11,950	4.8	11,150	11,600	4.0
Accommodation	37,850	38,350	1.3	37,500	38,100	1.6
Food Services & Drinking Places	58,900	61,250	4.0	58,100	59,550	2.5
Other Services	26,150	27,950	6.9	26,050	27,650	6.1
Government	121,650	118,350	-2.7	125,350	123,850	-1.2
Federal	34,900	33,550	-3.9	34,850	33,850	-2.9
State	67,800	65,800	-2.9	71,900	71,300	-0.8
Local	18,950	19,000	0.3	18,550	18,650	0.5
Agriculture wage and salary jobs	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
State general fund revenues (\$1,000)	1,346,738	1,311,027	-2.7	3,989,519	4,166,672	4.4
General excise and use tax revenues	738,753	698,689	-5.4	2,153,624	2,213,306	2.8
Income-individual	435,471	454,022	4.3	1,218,182	1,321,527	8.5
Declaration estimated taxes	69,243	94,414	36.4	350,871	447,601	27.6
Payment with returns	13,088	13,723	4.9	113,384	128,361	13.2
Withholding tax on wages	376,985	388,840	3.1	1,113,225	1,178,530	5.9
Refunds ('-' indicates relative to State)	-23,845	-42,956	80.1	-359,298	-432,965	20.5
Transient accommodations tax	90,859	98,264	8.1	266,391	298,572	12.1
Honolulu County Surcharge 3/	29,571	70,879	139.7	135,396	188,261	39.0
Private Building Permits (\$1,000)	686,626	688,435	0.3	1,890,604	2,031,542	7.5
Residential	200,162	317,361	58.6	592,044	799,800	35.1
Commercial & industrial	75,739	27,498	-63.7	187,825	220,053	17.2
Additions & alterations	410,725	343,576	-16.3	1,110,735	1,011,688	-8.9
Visitor Days - by air	18,540,095	18,861,644	1.7	55,099,669	56,541,834	2.6
Domestic visitor days - by air	13,646,510	13,865,070	1.6	40,790,187	41,664,428	2.1
International visitor days - by air	4,893,585	4,996,574	2.1	14,309,481	14,877,405	4.0
Visitor arrivals by air - by air	2,042,534	2,086,639	2.2	5,887,395	6,142,566	4.3
Domestic flight visitors - by air	1,389,278	1,399,557	0.7	4,059,583	4,173,599	2.8
International flight visitors - by air	653,256	687,082	5.2	1,827,812	1,968,967	7.7
Hotel occupancy rates (%) 2/	78.9	77.5	-1.4	77.7	77.6	0.1
Visitor expend. - arrivals by air (\$Mil.)	3,649	3,603	-1.3	10,534	10,967	4.1

NA Not available.

1/ Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.

2/ Change represents absolute change in rates rather than percentage change in rates.

3/ 0.5% added to the general excise tax to pay for O'ahu's mass transit system and took effect January 1, 2007.

Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.

Source: Hawaii State Department of Business, Economic Development, & Tourism <<http://dbedt.hawaii.gov/economic/>>.

Hawaii State Department of Labor & Industrial Relations <<http://labor.hawaii.gov/rs/>>.

Hawaii State Department of Taxation [http://www6.hawaii.gov/tax/a5\\_3txcolrpt.htm](http://www6.hawaii.gov/tax/a5_3txcolrpt.htm) and Hospitality Advisors, LLC.

## KEY ECONOMIC INDICATORS

### TABLE 2

#### ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2011 TO 2016

Economic Indicators	2011	2012	2013	2014	2015	2016
	(Actual)		(Forecast)			
Total population (thousands)	1,378	1,392	1,407	1,421	1,436	1,451
Visitor arrivals (thousands) 1/	7,299	8,029	8,370	8,618	8,798	8,971
Visitor days (thousands) 1/	68,467	74,519	76,566	78,948	80,620	82,207
Visitor expenditures (million dollars) 1/	12,158	14,365	15,130	15,885	16,652	17,424
Honolulu CPI-U (1982-84=100)	243.6	249.5	254.2	259.8	266.3	274.3
Personal income (million dollars)	59,014	61,339	64,100	67,433	71,007	74,912
Real personal income (millions of 2000\$) 2/	42,706	43,348	44,454	45,758	47,008	48,149
Non-agricultural wage & salary jobs (thousands)	594.0	605.3	616.2	627.3	638.0	647.5
Civilian unemployment rate	6.5	5.8	4.8	4.5	4.3	4.1
Gross domestic product (million dollars)	70,006	72,424	75,645	79,017	82,572	86,287
Real gross domestic product(millions of 2005\$)	60,899	61,877	63,486	65,009	66,570	68,101
Gross domestic product deflator (2005=100)	115.0	117.0	119.2	121.5	124.0	126.7
<b>Annual Percentage Change</b>						
Total population	1.0	1.0	1.0	1.0	1.0	1.0
Visitor arrivals	4.0	10.0	4.3	3.0	2.1	2.0
Visitor days	4.6	8.8	2.7	3.1	2.1	2.0
Visitor expenditures	9.9	18.1	5.3	5.0	4.8	4.6
Honolulu CPI-U	3.7	2.4	1.9	2.2	2.5	3.0
Personal income	5.7	3.9	4.5	5.2	5.3	5.5
Real personal income	1.9	1.5	2.6	2.9	2.7	2.4
Non-agricultural wage & salary jobs	1.2	1.9	1.8	1.8	1.7	1.5
Civilian unemployment rate <sup>3/</sup>	-0.3	-0.7	-1.0	-0.3	-0.2	-0.3
Gross domestic product	4.1	3.5	4.4	4.5	4.5	4.5
Real gross domestic product	2.1	1.6	2.6	2.4	2.4	2.3
Gross domestic product deflator (2005=100)	2.0	1.8	1.8	2.0	2.1	2.2

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/ Absolute change from previous year.

Source: Hawaii State Department of Business, Economic Development & Tourism, November 29, 2013.

### Labor Force and Jobs

Hawaii's labor market continued to improve in the third quarter of 2013. Since the civilian labor force decreased and the civilian employment increased in the quarter, the civilian unemployment rate decreased 1.3 percentage points in the quarter. For the twelfth consecutive quarter, civilian non-agricultural wage and salary jobs increased.

In the third quarter of 2013, the civilian labor force averaged 644,900 people, a decrease of 4,350 people or 0.7 percent from the same quarter of 2012. For the first three quarters of 2013, the civilian labor force decreased 5,000 people or 0.8 percent from the same period last year.

Civilian employment totaled 616,200 people in the third quarter of 2013, an increase of 4,800 people or 0.8 percent compared to the same quarter of 2012. This is the fourth quarterly increase following four consecutive quarterly decreases from the first quarter of 2012 to the third quarter of 2012. For the first three quarters of 2013, average civilian employment increased 3,750 people or 0.6 percent from the same period last year.

In the third quarter of 2013, the number of civilian unemployed averaged 28,700, a decrease of 9,200 people or 24.3 percent from the same quarter of 2012. For the first three quarters of 2013, the number of unemployed decreased 8,750 people or 22.2 percent from the same period last year.

The unemployment rate (not seasonally adjusted) decreased from 5.9 percent in the second quarter of 2012 to 4.4 percent in the third quarter of 2013. For the first three quarters of 2013, the unemployment rate decreased 1.3 percentage point from the same period last year.

In the third quarter of 2013, Hawaii's civilian non-agricultural wage and salary jobs averaged 608,550 jobs, an increase of 6,700 jobs or 1.1 percent from the same quarter of 2012. This is the twelfth consecutive quarterly increase in non-agricultural wage and salary jobs after ten consecutive quarterly decreases in jobs since the second quarter of 2008. For the first three quarters of 2013, average non-agricultural wage and salary jobs increased 1.4 percent or 8,150 jobs from the same period last year.

The job increase in the second quarter of 2013 was due to job increases in the private sector. In this quarter, the private sectors added about 10,000 non-agricultural jobs compared to the third quarter of 2012. Jobs increased the most in Natural Resources, Mining, and Construction, which added 3,200 jobs or 10.8 percent; followed by Other Services, added 1,800 jobs or 6.9 percent, Food Services and Drinking Places, added 2,350 jobs or 4 percent, Health Care & Social Assistance, added 500 jobs or 0.9 percent, Professional & Business Services, which added 1,000 jobs or 1.3 percent, and Arts, Entertainment & Recreation which added 550 jobs, or 4.8 percent. Job growth also occurred in visitor-related industries in the quarter. Accommodation added 400 jobs or 1.1 percent compared to the same quarter of 2012.

During the third quarter of 2013, the three levels of government lost 3,300 jobs or 2.7 percent compared to the same quarter of 2012. The Federal Government lost 1,350 jobs; the State Government added 2,000 jobs, while Local Government also added 50 jobs.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, increased 46.0 percent in the third quarter of 2013 compared to the same quarter of 2012. For the first three quarters of 2013, the initial liable claims for unemployment increased 18.0 percent from the same period last year.

*[Remainder of page intentionally left blank.]*

**TABLE 3**  
**CIVILIAN LABOR FORCE AND EMPLOYMENT**  
**(Number of Persons)**

<b>Year</b>	<b>Civilian Labor Force</b>	<b>%Change Civilian Labor Force</b>	<b>Civilian Employment</b>	<b>%Change Civilian Employment</b>	<b>Civilian Unemployment Rate</b>
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	616,300	1.2	592,450	1.4	3.9
2004	618,150	0.3	598,200	1.0	3.2
2005	627,100	1.4	609,850	1.9	2.8
2006	633,500	1.0	617,800	1.3	2.5
2007	637,250	0.6	620,100	0.4	2.7
2008	643,700	1.0	617,500	-0.4	4.1
2009	637,200	-1.0	593,500	-3.9	6.9
2010	647,800	1.7	603,900	1.8	6.8
2011	657,750	1.5	614,800	1.8	6.5
2012	651,600	-0.9	613,700	-0.2	5.8
2013*	647,050	-0.8	616,300	-0.2	4.8

\*First three quarters of 2013.

Source: Hawaii State Department of Labor and Industrial Relations

### Income and Prices

Hawaii's total personal income increased during the second quarter of 2013 over the same quarter of 2012, all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, supplements to wage and salaries, which include retirement and unemployment insurance benefits, personal current transfer receipts, and proprietors' income.

In the second quarter of 2013, total nominal annualized personal income (i.e., not adjusted for inflation) increased \$1,727.6 million or 2.8 percent from the second quarter of 2012. For the first half of 2013, total annualized personal income was \$63,561.6 million, an increase of 2.6 percent from the previous year.

In the first quarter of 2013, wage and salary disbursements increased \$949.8 million or 3.1 percent from the second quarter of 2012. This was the twelfth quarter-over-quarter increase since the third quarter of 2010. In 2012, wage and salary disbursements increased 3.5 percent from the previous year.

Supplements to wages and salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased \$132.3 million or 1.4 percent in the second quarter of 2013 from the same quarter of 2012. In the first half of 2013, supplements to wages and salaries increased 1.8 percent from the previous year.

Proprietors' income increased \$259.4 million or 6.3 percent in the second quarter of 2013 over that of 2012. In the first half of 2013, proprietors' income increased 6.0 percent from the previous year.

Dividends, interest, and rent increased \$650.8 million or 4.9 percent in the second quarter of 2013 from the same quarter of 2012. For the first half of 2013, proprietors' income in this category was up 9.7 percent from the previous year.

The annualized personal current transfer receipts grew by \$448.4 million or 4.7 percent in the second quarter of 2013 from the same quarter of 2012. For the first half of 2013, personal current transfer receipts increased 4.4 percent from the previous year.

Contributions to government social insurance, which is subtracted from total personal income, increased \$713 million or 15.4 percent in the second quarter of 2013 compared to the second quarter of 2012. For the first half of 2013, contributions to government social insurance increased 16.0 percent from the same period last year.

In the second quarter of 2013, total non-farm private sector annualized earnings increased \$1,386 million or 3.2 percent from the second quarter of 2012. In dollar terms, the largest increase occurred in constructions, followed by accommodation and food services, professional and technical services, real estate, transportation and warehousing, wholesale trade and health care and social assistance, administrative and waste services; the largest decrease occurred in mining..

During the second quarter of 2013, total government earnings decreased \$22.7 million or 0.2 percent from the same quarter of 2012. Earnings from the federal government decreased \$28.9 million or 0.3 percent in the second quarter of 2013. Earnings from the state and local governments increased \$0.3 million or 0.1 percent in the quarter.

In the first half of 2013, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.8 percent from the same period in 2012, higher than the U.S. average CPI-U increase of 1.5 percent for the same period. In 2012, the Honolulu CPI-U increased 2.4 percent from the previous year. In the first half of 2013, the Honolulu CPI-U increased the most in the price index of Food & Beverages (3.9 percent), followed by Medical Care (2.8 percent), Recreation (2.6 percent), Housing (2.0 percent), Education and Communication (1.8 percent), and Other Goods and Services (1.4 percent). The price of Transportation decreased 0.2 percent, and the price of Apparel decreased 2.3 percent, compared to the first half of 2012.

*[Remainder of page intentionally left blank.]*



TABLE 4

## PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

(In thousands of dollars at seasonally adjusted annual rates and percent. According to NAICS classification.)

Series	Second Quarter 2012	First Quarter 2013	Second Quarter 2013	AnnAver 2012	YTD 2012	YTD 2013	Percentage change			
							To Second Quarter 2013 From		Ann Aver 2012	YTD from 2012
							Second Quarter 2012	First Quarter 2013		
							Second Quarter 2012	First Quarter 2013	2012 from 2011	2013 from 2012
PERSONAL INCOME	62,191,084	63,204,528	63,918,661	62,329,613	61,806,414	63,561,595	2.8	1.1	3.7	2.8
Earnings By Place of Work	43,941,088	45,006,287	45,282,568	43,995,117	43,666,092	45,144,428	3.1	0.6	3.7	3.4
Wage and salary disbursements	30,568,804	31,320,723	31,518,625	30,609,909	30,356,278	31,419,674	3.1	0.6	3.7	3.5
Supplements to wages and salaries	9,236,484	9,339,926	9,366,779	9,204,693	9,186,792	9,354,353	1.4	0.3	2.2	1.8
Emp'r contrib. for emp'ee pension & Ins. funds	6,571,860	6,595,251	6,614,659	6,538,445	6,539,504	6,605,455	0.7	0.3	1.4	1.0
Employer contributions for gov't social Ins.	2,664,624	2,743,675	2,754,120	2,666,248	2,647,288	2,748,898	3.4	0.4	4.1	3.8
Proprietors' Income	4,135,800	4,345,638	4,395,164	4,180,515	4,123,022	4,370,401	6.3	1.1	7.3	6.0
Farm proprietors' Income	117,154	84,560	68,224	111,960	111,510	76,392	-41.8	-19.3	24.7	-31.5
Nonfarm proprietors' Income	4,018,636	4,261,078	4,326,940	4,068,555	4,011,512	4,294,009	7.7	1.5	6.9	7.0
Dividends, Interest, and rent	13,375,256	13,679,636	14,026,029	13,492,849	13,261,920	13,852,833	4.9	2.5	6.2	4.5
Personal current transfer receipts	9,496,464	9,830,055	9,944,838	9,464,641	9,468,722	9,887,452	4.7	1.2	0.3	4.4
State unemployment insurance benefits	410,768	309,688	272,068	390,522	426,534	290,878	-33.8	-12.1	-16.4	-31.8
Personal current transfer receipts exc State U.I.	9,085,696	9,520,377	9,672,770	9,074,119	9,042,188	9,596,574	6.5	1.6	1.2	6.1
Less: Contributions for gov't social insurance	4,621,724	5,311,460	5,334,774	4,622,994	4,590,320	5,323,117	15.4	0.4	3.6	16.0
Personal contributions for gov't social insurance	1,957,100	2,567,785	2,580,654	1,956,746	1,943,032	2,574,220	31.9	0.5	2.9	32.5
Employer contributions for gov't social insurance	2,664,624	2,743,675	2,754,120	2,666,248	2,647,288	2,748,898	3.4	0.4	4.1	3.8
Earnings By Industry	43,941,088	45,006,287	45,282,568	43,995,117	43,666,092	45,144,428	3.1	0.6	3.7	3.4
Farm Earnings	263,500	234,020	218,985	258,526	256,974	226,503	-16.9	-6.4	-16.1	-11.9
Nonfarm Earnings	43,677,588	44,772,267	45,063,583	43,736,591	43,409,118	44,917,925	3.2	0.7	3.9	3.5
Private earnings	29,294,804	30,388,621	30,703,470	29,395,424	29,115,022	30,546,046	4.8	1.0	4.8	4.9
Forestry, fishing, related activities, and other	54,172	61,980	63,550	56,569	56,404	62,765	17.3	2.5	9.4	11.3
Mining	40,176	37,857	38,865	40,013	39,658	38,361	-3.3	2.7	0.4	-3.3
Utilities	505,484	551,600	556,384	505,093	495,128	553,992	10.1	0.9	3.6	11.9
Construction	3,029,196	3,274,698	3,342,415	3,090,688	3,018,526	3,308,557	10.3	2.1	5.5	9.6
Manufacturing	784,252	810,779	814,574	789,915	784,472	812,677	3.9	0.5	1.1	3.6
Durable goods	254,484	257,617	262,101	255,788	255,386	259,859	3.0	1.7	-8.1	1.8
Nondurable goods	529,768	553,162	552,473	534,127	529,086	552,818	4.3	-0.1	6.2	4.5
Wholesale trade	1,181,500	1,238,271	1,252,706	1,194,858	1,183,292	1,245,489	6.0	1.2	3.8	5.3
Retail trade	2,676,020	2,722,111	2,725,136	2,684,005	2,686,632	2,723,624	1.8	0.1	2.7	1.4
Transportation and warehousing	1,589,300	1,662,626	1,666,159	1,604,980	1,588,770	1,664,393	4.8	0.2	7.7	4.8
Information	673,584	687,258	691,513	684,929	674,288	689,386	2.7	0.6	2.2	2.2
Finance and insurance	1,352,356	1,377,096	1,404,063	1,351,846	1,330,622	1,390,590	3.8	2.0	2.5	4.5
Real estate and rental and leasing	1,311,876	1,383,430	1,408,332	1,329,729	1,316,258	1,395,881	7.4	1.8	6.1	6.0
Professional and technical services	2,565,804	2,695,559	2,719,181	2,593,566	2,559,946	2,702,870	6.0	1.2	3.4	5.6
Management of companies and enterprises	747,796	792,943	798,906	764,043	735,826	795,925	6.8	0.8	12.2	8.2
Administrative and waste services	1,940,148	1,995,647	2,003,718	1,940,603	1,913,728	1,999,683	3.3	0.4	5.4	4.5
Educational services	735,612	747,917	738,729	734,342	727,584	743,323	0.4	-1.2	6.1	2.2
Health care and social assistance	4,286,500	4,280,447	4,285,422	4,188,187	4,202,772	4,282,935	0.0	0.1	3.1	1.9
Arts, entertainment, and recreation	431,424	458,050	467,781	432,625	428,476	462,916	8.4	2.1	7.0	8.0
Accommodation and food services	3,686,744	3,911,163	3,992,975	3,726,291	3,683,530	3,952,069	8.3	2.1	8.5	7.3
Other services, except public administration	1,702,860	1,708,189	1,733,041	1,683,142	1,689,110	1,720,615	1.8	1.5	2.8	1.9
Government and government enterprises	14,362,784	14,383,646	14,360,113	14,341,167	14,294,096	14,371,880	-0.2	-0.2	2.0	0.5
Federal	8,520,396	8,519,214	8,491,450	8,485,708	8,462,796	8,505,332	-0.3	-0.3	2.3	0.5
Federal, civilian	3,517,512	3,435,734	3,404,069	3,509,683	3,516,200	3,419,902	-3.2	-0.9	2.0	-2.7
Military	5,002,784	5,083,480	5,087,381	4,976,025	4,946,596	5,085,431	1.7	0.1	2.4	2.8
State and local	5,862,388	5,864,432	5,868,663	5,855,459	5,831,300	5,866,548	0.1	0.1	1.6	0.6

2001Q1 through 2013Q1 revised on September 30, 2013.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, September 30, 2013 <<http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acru=3>>.

**TABLE 5****PERSONAL INCOME****(In millions of dollars at seasonally adjusted annual rates)**

<b>YEAR</b>	<b>ANNUAL AVERAGE</b>	<b>% CHANGE</b>
1996	30,399	1.0
1997	31,372	3.2
1998	32,259	2.8
1999	33,244	3.1
2000	35,222	5.9
2001	35,936	2.0
2002	37,475	4.3
2003	39,032	4.2
2004	42,285	8.3
2005	45,332	7.2
2006	49,124	8.4
2007	52,556	7.0
2008	55,314	5.2
2009	54,194	-2.0
2010	55,832	3.0
2011	59,014	5.7
2012	61,339	3.9
2013*	62,211	3.6

\* First quarter of 2013.

Source: U.S. Department of Commerce, Bureau of  
Economic Analysis.*[Remainder of page intentionally left blank.]*

**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
2001	177.1	178.4	169.5	179.1	101.0	174.5	2/	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	2/	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	2/	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	2/	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	2/	101.1	114.0	332.1
2007	207.342	219.504	204.942	238.428	104.145	205.027	2/	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	317.955	105.290	117.118	365.441
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.599	105.239	122.843	395.186
2010	218.056	234.869	224.774	251.968	116.423	214.411	320.153	107.484	128.483	415.526
2011	224.939	243.622	232.656	260.606	118.394	229.223	324.180	110.473	132.248	433.536
2012	229.594	249.474	242.786	265.473	121.481	231.275	334.441	113.961	137.276	440.428
2011H1	223.598	241.902	230.565	258.121	119.380	228.484	321.891	110.544	130.444	435.239
H2	226.280	245.342	234.747	263.092	117.408	229.962	326.468	110.401	134.052	431.834
2012H1	228.850	248.646	241.047	263.954	122.187	233.236	333.781	113.396	135.804	440.182
H2	230.338	250.303	244.524	266.993	120.775	229.315	335.102	114.526	138.748	440.674
2013H1	232.366	253.202	250.337	269.213	119.349	232.743	343.253	116.347	138.251	446.226
Percentage Change from the Same Period in Previous Year										
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
2010	1.6	2.1	0.2	0.9	3.2	7.0	-0.4	2.1	4.6	5.1
2011	3.2	3.7	3.5	3.4	1.7	6.9	1.3	2.8	2.9	4.3
2012	2.1	2.4	4.4	1.9	2.6	0.9	3.2	3.2	3.8	1.6
2011H1	2.8	3.5	2.6	2.9	2.4	6.8	0.2	3.7	3.6	7.0
H2	3.5	4.0	4.4	4.0	1.0	7.0	2.3	1.9	2.3	1.8
2012H1	2.3	2.8	4.5	2.3	2.4	2.1	3.7	2.6	4.1	1.1
H2	1.8	2.0	4.2	1.5	2.9	-0.3	2.6	3.7	3.5	2.0
2013H1	1.5	1.8	3.9	2.0	-2.3	-0.2	2.8	2.6	1.8	1.4

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 15, 2013.

## **Tourism**

After very strong growth in 2012, Hawaii's tourism sector continued the positive growth overall compared to the same time in 2012. Although total visitor arrivals decreased by 1.6 percent in October 2013 compared to October 2012, overall, the first 10 months of 2013 have shown a rise in total arrivals of 3.9 percent to 6,893,038 visitors. And, while total visitor spending decreased 1.5 percent to \$195 per person per day in October 2013, overall total visitor expenditures rose 3.4 percent to \$1.2 billion in the first 10 months of 2013.

The total number of visitors arriving by air to Hawaii increased 4.3 percent to 6,754,063 in the first 10 months of 2013 compared to the same time in 2012. Total visitor arrivals for the first nine months of 2013 on domestic flights rose by 2.8 percent to 4,173,599 while total visitor arrivals on international flights rose by 7.7 percent to 1,968,967.

The number of days that visitors arriving by air stayed in Hawaii increased by 2.3 percent to 62,024,861 compared to the same time in 2012. However, the average length of stay decreased by 1.5 percent to 9.18 days. The shorter length of stay was offset by an increase in per person per day spending of 1.5 percent up to \$194 dollars.

In the third quarter of 2013 total expenditures increased from visitors from the U.S. West by 7.3 percent to \$3.6 billion, U.S. East by 6.7 percent to \$2.8 billion, and Canada by 1.7 percent or \$746.9 million compared to the same time in 2012. Total spending by Japanese visitors declined 8.4 percent to \$1.9 billion.

Due to shorter lengths of stay, the increase in daily visitor census was lower than the increase in visitor arrivals. However, since visitors spent more on a daily basis, total visitor spending increased more than the increase in daily visitor census. For the economy, visitor spending is more important than visitor arrivals.

The total number of visitors arriving by air in October 2013 was 611,497, a decrease of 1.2 percent from a year ago. Growth in international arrivals offset declines from the U.S. West.

Domestic visitors arriving by air have increased by 2.8 percent to 4,173,599 in the first nine months of 2013. More visitors arriving on domestic flights have resulted in a 2.1 percent increase in total domestic visitor days or 41,664,430 days compared to the same time in 2012. However, average length of stay declined 0.6 percent to 9.98 days.

Arrivals from the U.S. West fell to 234,274 visitors in October 2013 while visitor days decreased 6 percent. Total U.S. West expenditures dropped 7 percent to \$350.8 million. For the U.S. East market, arrivals decreased 3.8 percent from October 2012 to 112,807 visitors and total U.S. East visitor expenditures at \$236.7 million.

Visitors arriving on international flights in the first nine months of 2013 increased 7.7 percent to 1,968,967 compared to the same time in 2012. Total international visitor days also increased 4 percent to 14,877,405. However, average length of stay declined 3.5% to 7.56 compared to the same time in 2012.

Arrivals from Japan rose 9.4 percent to 139,025 in October 2013. However, total Japanese visitor expenditures during this time declined 2.3 percent to \$232.4 million as a result of lower daily spending down 10.5 percent to \$293 and a shorter length of stay. Visitors arriving from Canada spent 1.3 percent more with expenditures rising to \$59.4 million.

Visitors arriving by air from smaller developing markets grew 4.8 percent to 100,282 in September 2013, compared to September 2012, and comprised 17.2 percent of total visitors arriving to Hawaii by air. Overall, visitors arriving from developing markets increased 10.7 percent to 846,633 in the third quarter of 2013 compared to the same time in 2012.

Hotel revenue through the third quarter of 2013 rose to \$4.04 billion for the first time ever, putting Hawaii's hotel industry on track to set an annual revenue record, and top 2012's \$4.81 billion year-end benchmark.

While visitor arrivals declined 1.1 percent, hotel visitors paid 10.3 percent more for a room, which averaged \$206.49 across the state. As a result, room revenue rose 10.2 percent to \$261 million.

VISITOR ARRIVALS AND EXPENDITURES, REVENUES PER AVAILABLE ROOM

Year	Visitor Arrivals <sup>1</sup>	Visitor Expenditures (\$ in millions)	Revenue per Available Room
2007	7,628,000	\$12,811	\$150
2008	6,823,000	\$11,399	\$142
2009	6,517,000	\$9,993	\$115
2010	7,018,000	\$11,066	\$124
2011	7,299,000	\$12,158	\$139
2012	8,029,000	\$14,365	\$157
2013 <sup>2</sup>	8,370,000	\$15,130	\$175

1 2013 figures are projections

2 Figures include air and cruise ship arrivals

*[Remainder of page intentionally left blank.]*

**TABLE 7**

**VISITOR ARRIVALS BY AIR**

**Average Length of Stay, Visitor Days, Average Daily Census**

	2009	2010	2011	2012	% Change 2009- 2010	% Change 2010- 2011	% Change 2011- 2012
<b>Arrivals</b>							
Total	6,420,448	6,916,894	7,174,397	7,867,143	7.7	3.7	9.7
Domestic	4,672,001	4,957,352	5,127,291	5,403,025	6.1	3.4	5.4
International	1,748,447	1,959,542	2,047,106	2,464,118	12.1	4.5	20.4
<b>Average Length of Stay</b>							
Total	9.38	9.39	9.45	9.36	0.1	0.7	-1.2
Domestic	10.09	10.04	10.09	10.09	-0.4	0.7	-0.5
International	7.51	7.74	7.81	7.78	3.0	0.9	-0.6
<b>Visitor Days</b>							
Total	60,255,061	64,951,433	67,825,871	73,663,903	7.8	4.4	8.3
Domestic	47,121,337	49,788,583	51,839,799	54,492,680	5.7	4.1	4.8
International	13,133,724	15,162,850	15,986,073	19,171,224	15.4	5.4	19.6
<b>Average Daily Census</b>							
Total	165,082	177,949	185,824	201,267	7.8	4.4	8.3
Domestic	129,100	136,407	142,027	148,887	5.7	4.1	4.8
International	35,983	41,542	43,797	52,380	15.4	5.4	19.6

Source: Hawaii Tourism Authority.

*[Remainder of page intentionally left blank.]*

**TABLE 8**  
**HOTEL OCCUPANCY RATE (%)**

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
In Percent					
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012 1/	80.3	73.8	79.0	74.7	76.9
2013 1/	81.6	73.8	77.5	Year-to-Date	77.6

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

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

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

### Construction and Real Estate

The indicators of Hawaii's construction industry were all positive in the third quarter of 2013. Government contracts awarded, the value of private building authorizations, State Government CIP expenditures, and construction jobs all increased in the quarter.

Construction was one of the major contributors to job growth in Hawaii over the past few years. From 2002 to 2007, construction job growth averaged 8 percent 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 until the second quarter of 2011. In the third quarter of 2013, the construction sector added 3,200 jobs or 10.8 percent compared with the same quarter of 2012. For the first nine months of 2013, the construction sector added 2,850 jobs from the same period last year.

In the third quarter of 2013, the private building authorizations for the whole state increased \$1.8 million or 0.3 percent compared with the third quarter of 2012. For the first nine months of 2013, private building authorizations for the state increased \$140.9.1 million or 7.5 percent compared with the same period last year.

In the third quarter of 2013, the private building authorizations in Honolulu increased \$53.1 million or 12.1 percent compared with the third quarter of 2012. For the first nine months of 2013, private building authorizations in Honolulu increased \$198.9 million or 16.5 percent compared with the same period last year.

In the third quarter of 2013, the private building authorizations in Hawaii County decreased \$17.9 million or 13.6 percent compared with the third quarter of 2012. For the first nine months of 2013, private building authorizations in Hawaii County decreased \$0.9 million or 0.3 percent compared with the same period last year.

In the third quarter of 2013, the private building authorizations in Maui decreased \$28.1 million or 32.9 percent compared with the third quarter of 2012. For the first nine months of 2013, private building authorizations in Maui decreased \$25.4 million or 11.3 percent compared with the same period last year.

In the third quarter of 2013, the private building authorizations in Kauai increased \$5.3 million or 18.0 percent compared with the third quarter of 2012. For the first nine months of 2013, private building authorizations in Kauai decreased \$3.6 million or 5.1 percent compared with the same period last year.

Government contracts awarded increased \$158.1 million or 48.9 percent in the third quarter of 2013 compared to the same quarter of 2012. For the first nine months of 2013, government contracts awarded increased \$405.8 million or 60.1 percent compared with the previous year. State Government CIP expenditures increased \$21.7 million or 8.5 percent in the quarter. For the first nine months of 2013, CIP expenditures decreased \$139.7 million or 14.1 percent from the same period last year.

In August 2013, Honolulu's median price for single family resales was \$665,000, an increase of 9.2 percent from the same month of 2012; the median price for condominium units was \$350,000, an increase of 8.0 percent from the same month of 2012. In August 2013, the number of single-family unit resales was up 24.9 percent, and the number of condominium unit resales was up 12.5 percent compared with the same month of 2012. For the first eight months of 2013, the number of single-family unit resales was up 10.3 percent, and the number of condominium unit resales was up 17.2 percent compared with the same period last year; the median price of single-family resales was up 3.1 percent, and the median price of condominium resales was up 6.1 percent compared with the same period last year.

Also for the first eight months of 2013, single-family unit resales increased 11.3 percent, and condominium unit resales increased 5.7 percent in Maui County compared to the same period of 2012.

Hawaii's single family residential real estate market has been relatively stable compared with major cities in the United States. According to data compiled by Standard & Poor's and The Economist, median price for single family homes in 20 major U.S. cities dropped by 31.5 percent from the second quarter of 2006 to the second quarter of 2009, while the median price for Honolulu's single family homes dropped 10.9 percent during the same time period. Comparing with the second quarter of 2009, median single family sale price for the 20 major U.S. cities in the first quarter of 2013 increased by 6.1 percent while Honolulu's median price increased by 7.2 percent. While data for the second quarter 2013 are not available for the 20 major cities, Honolulu's median single family home price has fully recovered to the second quarter 2006 level.

*[Remainder of page intentionally left blank.]*



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 2/				Government Contracts Awarded
		Total Private Authorizations	Residential	Commercial & Industrial 3/	Additions & Alterations	
In Millions of Dollars						
2005	6,024.0	3,492.0	2,259.3	433.5	799.1	725.1
2006	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009	6,641.7	1,998.9	799.2	284.8	914.9	778.6
2010	5,589.8	1,980.3	779.0	377.5	823.8	1,057.6
2011	5,837.4	1,858.8	687.9	285.9	884.9	430.7
2012	7,006.1	2,643.8	837.2	271.1	1,535.5	772.9
2011 1 Qtr.	1,382.9	380.9	146.8	48.1	186.1	75.4
2 Qtr.	1,443.6	438.4	178.4	47.2	212.7	63.0
3 Qtr.	1,468.2	537.7	206.7	80.2	250.8	124.5
4 Qtr.	1,542.7	501.8	156.1	110.4	235.3	167.7
2012 1 Qtr.	1,561.4	556.7	145.3	61.5	349.9	71.4
2 Qtr.	1,680.8	647.3	246.6	50.6	350.1	280.6
3 Qtr.	1,858.5	686.6	200.2	75.7	410.7	323.3
4 Qtr.	1,905.5	753.2	245.1	83.3	424.8	97.5
2013 1 Qtr.	1,847.6	629.1	289.1	46.9	293.0	228.8
2 Qtr.	1,935.3	714.0	193.3	145.7	375.1	371.0
3 Qtr.	(NA)	688.4	317.4	27.5	343.6	481.4
Percentage Change from the Same Period in Previous Year						
2005	22.4	28.1	27.8	43.0	21.9	-47.6
2006	19.9	8.0	-19.8	68.8	53.4	17.8
2007	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008	-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009	-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
2010	-15.8	-0.9	-2.5	32.5	-10.0	35.8
2011	4.4	-6.1	-11.7	-24.3	7.4	-59.3
2012	20.0	42.2	21.7	-5.2	73.5	79.4
2011 1 Qtr.	-3.1	-16.4	-37.7	-9.5	11.5	-9.2
2 Qtr.	10.9	-18.4	-3.5	-61.8	-7.1	-82.2
3 Qtr.	-1.3	-2.7	5.3	-4.8	-7.7	-64.7
4 Qtr.	12.3	15.3	-3.9	-5.3	50.6	-37.4
2012 1 Qtr.	12.9	46.2	-1.0	27.9	88.1	-5.3
2 Qtr.	16.4	47.7	38.2	7.2	64.6	345.3
3 Qtr.	26.6	27.7	-3.1	-5.6	63.8	159.6
4 Qtr.	23.5	50.1	57.0	-24.6	80.5	-41.9
2013 1 Qtr.	18.3	13.0	99.0	-23.7	-16.3	220.2
2 Qtr.	15.1	10.3	-21.6	187.8	7.1	32.2
3 Qtr.	(NA)	0.3	58.6	-63.7	-16.3	48.9

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/ Kauai County available for residential data only.

3/ Includes hotels.

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 1/	Maui County
In Thousands of Dollars					
2005	3,491,964	1,364,030	1,008,386	288,132	831,416
2006	3,770,051	1,625,328	926,019	239,294	979,412
2007	3,585,447	1,676,232	912,529	268,915	727,772
2008	2,906,578	1,481,272	704,317	277,149	443,840
2009	1,998,908	1,247,196	309,165	218,111	224,437
2010	1,980,296	1,357,314	360,328	68,047	194,607
2011	1,858,763	1,272,923	282,638	59,520	243,683
2012	2,643,840	1,769,454	427,394	79,998	366,994
2011 1 Qtr.	380,874	262,764	66,539	17,222	34,348
2 Qtr.	438,364	313,380	69,836	16,353	38,795
3 Qtr.	537,695	351,662	97,829	11,838	76,366
4 Qtr.	501,830	345,117	48,433	14,107	94,174
2012 1 Qtr.	556,688	318,047	68,366	14,463	155,812
2 Qtr.	647,291	445,237	114,845	18,931	68,278
3 Qtr.	686,626	439,663	132,026	29,694	85,243
4 Qtr.	753,236	566,507	112,158	16,910	57,661
2013 1 Qtr.	629,074	477,417	85,234	15,178	51,245
2 Qtr.	714,032	431,670	114,980	19,923	147,459
3 Qtr.	688,435	492,797	114,104	24,350	57,184
Percentage Change From The Same Period in Previous Year					
2005	28.1	3.3	22.0	120.5	85.2
2006	8.0	19.2	-8.2	-16.9	17.8
2007	-4.9	3.1	-1.5	12.4	-25.7
2008	-18.9	-11.6	-22.8	3.1	-39.0
2009	-31.2	-15.8	-56.1	-21.3	-49.4
2010	-0.9	8.8	16.5	-68.8	-13.3
2011	-6.1	-6.2	-21.6	-12.5	25.2
2012	42.2	39.0	51.2	34.4	50.6
2011 1 Qtr.	-16.4	-13.3	-32.7	4.6	-7.5
2 Qtr.	-18.4	-15.5	-30.2	29.8	-27.7
3 Qtr.	-2.7	-12.3	27.2	-45.3	44.2
4 Qtr.	15.3	22.2	-42.7	-18.5	85.1
2012 1 Qtr.	46.2	21.0	2.7	-16.0	353.6
2 Qtr.	47.7	42.1	64.4	15.8	76.0
3 Qtr.	27.7	25.0	35.0	150.8	11.6
4 Qtr.	50.1	64.1	131.6	19.9	-38.8
2013 1 Qtr.	13.0	50.1	24.7	4.9	-67.1
2 Qtr.	10.3	-3.0	0.1	5.2	116.0
3 Qtr.	0.3	12.1	-13.6	-18.0	-32.9

1/ For residential only.

Source: County building departments.

## **Banks and Other Financial Institutions**

As of December 31, 2012, total assets of all State chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at \$35.48 billion, a 2.71 percent increase from December 31, 2011. The five State chartered banks accounted for \$35.01 billion of such assets.

## **Federal Government and Military**

The Federal government plays an important role in Hawaii's economy. In 2012, total federal government compensation of employees in Hawaii reached \$10.0 billion, an increase of 2.9 percent from 2011. Federal government compensation of employees in Hawaii accounted for about 25.2 percent of total compensation of employees in 2012. Between 2000 and 2012, the annual average growth rate for federal government compensation of employees in Hawaii was 6.9 percent. Federal military accounted for 62.9 percent of the total Federal compensation in 2012. According to the most recent data available, federal government accounted for about 15.3 percent of State GDP in Hawaii in 2011, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the first quarter of 2013 increased 3.0 percent compared to the same period of 2012. In 2012, total earnings of federal government personnel increased 2.7 percent from the previous year. In 2012, total military earnings and total federal civilian earnings accounted for about 22.9 percent of total earnings in Hawaii.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit, but, on the other hand, may increase to reflect the growing importance of the Asia-Pacific Region. The federal budget sequestration has not had a material adverse effect on the State.

## **Transportation**

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

*Sea Transportation.* The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2009, 2010, 2011 and 2012 amounted to 18.3 million short tons, 17.7 million short tons, 18.8 million short tons and 19.0 million short tons respectively.

The Harbors System is comprised of ten commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, and Kalaeloa Barbers Point Harbor on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; and (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaunalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System previously managed Kewalo Basin for its landowner, the Hawaii Community Development Authority ("HCDA"). Effective March 1, 2009, HCDA assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System ceased on June 30, 2009. Act 200, SLH 2008, authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System, effective July 1, 2008.

The State uses nine harbors, with the exception of Hana Harbor, to facilitate the movement of goods from and between the mainland, foreign and inter island ports. The number of commercial vessels entering all ports was 10,033 in fiscal year 2009, 7,832 in fiscal year 2010, 8,490 in fiscal year 2011 and 7,912 in fiscal year 2012. The U.S. military moves most of its cargo through the State's Harbors System.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 8.9 million short tons in fiscal year 2009, 8.9 million short tons in fiscal year 2010, 9.8 million short tons in 2011 and 10.0 million short tons in fiscal year 2012. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan (“HMP”) to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation (“ATDC”) as the entity responsible for the management and implementation of the HMP under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the HMP is estimated at \$618 million. ATDC’s failure to obtain legislative approval for operating funds for fiscal year 2011 effectively terminated its operations on June 30, 2010. The Harbors Division assumed management and implementation responsibilities of the HMP. Act 152, SLH 2011 placed the ATDC under the Department for administrative purposes and repealed references to the HMP. The Deputy Director-Harbors currently serves as the Chief Executive Officer for the ATDC.

*Air Transportation.* The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately 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. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls increasing from 4,579 to 6,379 vehicles as a result of a new parking structure opened in February 2009 at HNL. HNL is the most important in the State airports system. 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 2013, total passenger count increased from 31,232,157 to 32,954,553 due to increased tourism traffic derived from both domestic and overseas passengers. Aircraft operations slightly increased to 954,696 from 888,102, in fiscal year 2013 and 2012, respectively, due to the improving worldwide economy. The increases are indications of continued economic recovery as airport concession revenues have improved as well.

The Airports Division maintained its financial position thru increases in passenger traffic and concession revenues. In addition, the management of the Airports Division has continued to scrutinize and monitor its expenditures.

The Airports Division’s modernization program is formally under way as a result of receiving the Federal Aviation Administration’s approval on the final environmental assessment, finding of no significant impact and record of decision reports. It includes significant capital improvements such as expanding HNL’s Inter-Island terminal, constructing consolidated car rental facilities at its major airports, and installing energy saving equipment and devices statewide. The program is currently estimated to cost \$1.4 billion through 2017 and is expected to be paid for from a variety of sources including cash, grants, passenger facility charges, rental motor vehicle customer facility charges and revenue bonds. On August 22, 2013, the Airports Division held a ground breaking ceremony on the site of the new Hawaiian Airlines Cargo building, to replace the old facility, in order to widen the taxiway leading to the much needed expansion to the Inter-Island terminal concourse. The new concourse will add six wide-bodied and eleven narrow bodied gates to reduce peak-time traffic. The Airports Division expects to award contracts for the first phase of the HNL consolidated rental car facility in late 2013, and for the Kahului consolidated rental car facility in early 2014.

*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 4,298.103 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 948.19 linear miles of roadways. The most important component of the State Highway System is the 54.90 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The City and County of Honolulu is proceeding with plans for a new \$5.3 billion, 20-mile fixed guideway mass transit system to provide rail service along Oahu’s east-west corridor between Kapolei and downtown Honolulu (terminating at Ala Moana Shopping Center). Construction of the project is expected to be funded with the City and County of Honolulu surcharge of ½ of 1 percent imposed upon Oahu activities subject to the 4 percent General Excise and Use Taxes and federal moneys. Construction and operation of this system is the sole responsibility of the City and County of Honolulu.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2012.

**Motor Vehicle Registration**

<u>Calendar Year</u>	<u>Passenger Vehicles</u>	<u>Ambulances &amp; Hearses</u>	<u>Buses</u>	<u>Trucks</u>	<u>Motorcycles &amp; Scooters</u>	<u>Trailers</u>	<u>Total</u>
2003	830,672	47	2,588	175,517	22,019	26,780	1,057,623
2004	867,120	44	2,510	179,592	20,746	28,435	1,098,447
2005	906,799	47	2,472	185,646	24,874	29,565	1,149,403
2006	907,659	46	2,349	191,230	26,024	31,789	1,157,027
2007	911,607	47	2,260	193,650	26,978	32,698	1,167,240
2008	903,518	57	2,213	193,332	28,447	33,076	1,160,643
2009	895,770	63	2,143	190,935	28,879	32,138	1,149,928
2010	898,452	64	2,103	190,025	29,446	31,601	1,151,691
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370
2012	1,033,975	91	2,621	203,323	38,223	32,053	1,310,286

Source: The State of Hawaii Data Book 2012.

**Education**

Unlike many other states, the State operates a statewide public school system for elementary, intermediate, and high schools. In addition, the States operates a statewide public school system for colleges and universities. In the 2013–2014 school year, system enrollment increased from a total of 183,251 in the 2012–2013 school year to a total of 185,273 in 288 K–12 public schools (includes 33 charter schools). The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in both Department of Education schools and charter schools has increased.

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

- (i) a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law, and a medical school and new cancer research center in Kakaako in downtown Honolulu;

- (ii) a comprehensive, primarily baccalaureate institution at Hilo, offering professional programs based on a liberal arts foundation and selected graduate degrees; a College of Pharmacy with a four-year curriculum leading to a Doctor of Pharmacy degree, seated its inaugural class in the fall of 2007;
- (iii) a baccalaureate institution at West Oahu, for which a new permanent campus was opened in August 2012, offering degrees in the liberal arts and professional studies; and
- (iv) a system of seven open door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2013, 60,292 students attended the University of Hawaii System, 20,437 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.

*[Remainder of page intentionally left blank.]*

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY PERFORMANCE CONTRACT

This Appendix C contains a summary of certain provisions of the Energy Performance Contract (the “EP Contract”) between State of Hawaii Department of Transportation – Airports Division (“DOT-A”) and Johnson controls, Inc. (“JCI”). The summary does not purport to be complete or to follow the exact language of the EP Contract. The summary complements the summaries found under “DESCRIPTION OF THE ESCO PROJECT.” Reference is made to the full text of the EP Contract for the precise wording and the complete provisions of the EP Contract. Copies of the EP Contract are available upon request to DOT-A. Unless clearly indicated otherwise, all section references are to the EP Contract only.

#### Definitions

The following are definitions of certain terms used in the EP Contract. Reference is hereby made to the EP Contract for the complete text of the terms described below.

**“Annual Debt Service Payments”** shall mean the annual financing costs associated with the Equipment and other Project costs, as set forth in the Lease.

**“Annual Energy Costs Savings”** shall mean energy expenses eliminated or avoided during a Guarantee Year (including any energy cost rebates provided by a utility service provider) as a result of the Services and Equipment provided by JCI. The reduction in energy consumption for an energy source during each Guarantee Year shall be calculated as the total energy consumption of that energy source during the Baseline period, as escalated pursuant to the Escalation Rate, less actual energy consumption of that energy source during the subject Guarantee Year, as further set forth in Schedules D and E to the EP Contract.

**“Annual Maintenance Costs”** shall mean any maintenance or operating expenses occurring during a Guarantee Year that are associated with the Maintenance Services provided by JCI, which shall be payable pursuant to Schedule F.

**“Annual Measurement and Verification Costs”** or **“Annual M&V Costs”** shall mean any costs occurring during a Guarantee Year associated with the performance of the Measurement & Verification Services, which shall be payable pursuant to Schedule F.

**“Annual Operating and Maintenance Cost Savings”** shall mean operating and maintenance expenses reduced, avoided or eliminated and future equipment replacement expenditures avoided during a Guarantee Year as a result of the Services and Equipment provided by JCI under the EP Contract. The reduction in Operating and Maintenance Costs during each Guarantee Year shall be calculated pursuant to Schedule D.

**“Annual Savings Report”** shall be the report annually prepared and provided by JCI to DOT-A as part of the Measurement & Verification Services. The Annual Savings Report shall measure and verify the Annual Energy Cost Savings and Annual Operating and Maintenance Cost Savings in relation to the Guaranteed Savings and be calculated pursuant to Schedule D.

**“Annual Service Costs”** shall mean the Annual Maintenance Costs and the Annual Measurement and Verification Costs.

**“Baseline”** shall mean the data and/or usage amounts, of an energy source or operating and maintenance expense, as agreed upon by DOT-A and JCI, which reflect conditions at the Premises prior to the installation of the Energy Conservation Measures as set forth in Schedule C. JCI shall develop the Baseline in accordance with recommendations and methods in the version of the IPMVP existing at the time of development of the Baseline, or other industry standards mutually agreed upon by the parties.

**“Energy and Cost Savings Guarantee”** shall mean the guarantee of JCI of the Savings to be realized by DOT-A under the EP Contract, as calculated in accordance with Schedule D, and set forth in Schedules E and P. The Annual Energy Cost Savings Guarantee shall be determined by multiplying the reduction in energy

consumption by the Unit Cost, as adjusted per the Escalation Rate, as established under Schedule F. On an annual basis, the Savings attributable to the Services and Equipment must meet or exceed the Annual Maintenance Costs, Annual M&V Costs and Annual Debt Service Payments made by DOT-A for the applicable Guarantee Year. In the event the Annual Energy Cost Savings plus Annual Maintenance Cost Savings achieved during a Guarantee Year is less than the Energy and Cost Savings Guarantee for the Guarantee Year, JCI shall pay DOT-A an amount equal to the deficiency for that Guarantee Year.

**“Energy Conservation Measure” or “ECM”** shall mean Services and Equipment installed by JCI, or other activities performed by JCI that are designed to increase the energy efficiency and reduce energy consumption or operating and maintenance expenses in a building, structure, facility, or group of buildings, structures or facilities owned by DOT-A. ECMs shall include, but not be limited to: physical changes to facility equipment; modifications to a building, structure or facility, or modifications to a group of buildings, structures or facilities; revisions to operating and maintenance procedures at the Premises; or new means of training or managing users of the building, structure or facility, alone, or in any combination.

**“Energy Conservation Measure Units” or “ECM Units”** shall mean that Energy Savings shall be guaranteed on the basis of annual reductions of Btuh, kWh, kW, therms, gallons or similar units of energy, fuel, electrical demand, water or reductions in operational and maintenance expenses, as appropriate for each Energy Savings source, as further specified under the EP Contract.

**“Energy Efficiency Services” or “Services”** shall mean the planning, process design, engineering design and detailed engineering, procurement, fabricating, commissioning and start-up, personnel training, performance testing, Measurement & Verification Services, Maintenance Services and warranty and related services that shall be performed by JCI under the EP Contract.

**“Energy Savings”** shall mean the collective Annual Energy Cost Savings occurring during the Term of the EP Contract. Energy Savings shall be calculated collectively for the Premises, and shall be annually reported by JCI to DOT-A in the Annual Savings Report pursuant to the provisions of Schedules D and F.

**“Equipment”** shall mean the items of equipment installed by JCI at the Premises pursuant to the EP Contract and that certain Sale, Assignment and Assumption Agreement, as more fully set forth in Schedule A.

**“Escalation Rate”** shall be five percent (5%) annually.

**“Guaranteed Savings”** shall mean the Annual Energy Cost Savings and Annual Maintenance Cost Savings guaranteed by JCI that are attributable to the Services and Equipment provided under the EP Contract, as calculated in accordance with Schedule D, and set forth in Schedules E and P. The parties acknowledge and agree that the total Guaranteed Savings attributable to the Services or Equipment under the EP Contract have been mutually agreed upon by the parties.

**“Guarantee Term”** shall mean the time period that commences on the first day of the month following the issuance of the Notice to Proceed and shall continue through the duration of the Term, subject to earlier termination as provided in the EP Contract.

**“Guarantee Year”** shall mean each one (1) year period of the Guarantee Term. The first Guarantee Year shall commence on the first day of the month following the issuance of the Notice to Proceed and extend for one six months therefrom. Each subsequent Guarantee Year shall begin on July 1 of the applicable calendar year and run through June 30 of the following calendar year. The final Guarantee Year shall begin on July 1, 2032 and shall run through December 31, 2032.

**“Operating and Maintenance Costs”** shall mean the operating and maintenance costs and expenses that are avoided by DOT-A as a result of the Services and Equipment provided by JCI. Solely by way of example and not limitation, the Operating and Maintenance Costs that may be avoided under the EP Contract include: reducing regular ongoing expenses such as the cost of water treatment chemicals; the elimination or reduction of expenses or procedures related to waste management or other operational procedures occurring at the Premises; reductions in required routine maintenance (such as filter changes); elimination of third party service contracts; the cost of lamp and ballast replacement, purchased HVAC parts and service or similar expenses; service or labor costs related to



existing equipment; and the avoidance of future capital expenditures, which can be shown to recur regularly or would have been necessary future capital expenditures of DOT-A during the Guarantee Term. Based upon the Reference Documents provided by DOT-A to JCI, the parties have agreed upon the Operation and Maintenance Costs to be avoided as a result of the Services and Equipment provided by JCI, which are further set forth in Schedules C, D and M of the EP Contract.

**“Operating and Maintenance Savings”** shall mean the collective Annual Operating and Maintenance Cost Savings occurring during the Term of the EP Contract. Operating and Maintenance Savings shall be calculated collectively for the Premises, and shall be annually reported by JCI to DOT-A pursuant to the provisions of Schedules D and F. Any Operation and Maintenance Savings included in the EP Contract are based upon Reference Documents provided by DOT-A to JCI and have been mutually agreed upon by the parties.

**“Premises”** shall mean the buildings, structures, facilities and other property owned by DOT-A where it is anticipated there will be a reduction in energy consumption as a result of the Services and Equipment provided by JCI.

**“Reference Documents”** shall mean information, data and other documents that DOT-A possesses, whether physically or electronically, which have been provided to JCI through the IGA, or otherwise, and which relate to existing and historical energy and operational conditions at any facility, building, structure or other property of DOT-A, or any work or services that have historically been performed by a third party at the Premises.

**“Term”** shall mean the time period commencing from the issuance of the Notice to Proceed through the twentieth (20th) anniversary thereof, or as may be earlier terminated pursuant to the provisions of the EP Contract.

**“Unit Cost”** shall mean the pre-determined unit cost for each energy or water unit of measurement that is set forth in Schedule C.

#### **EP Contract Services**

The EP Contract covers the following four divisions of work and services:

1. Installation and commissioning of Equipment to be installed under the EP Contract. The Equipment is to be installed over a two year period.
2. The Energy Savings Guarantee.
3. The Measurement and Verification (“M&V Services”) of the Energy and Operational Savings and comparison to the Guaranteed Savings.
4. Maintenance Services for the Equipment, to be performed over the remaining 18 years of the EP Contract Term.

#### **Guaranteed Savings**

During each Guarantee Year, the Services and Equipment provided by JCI to the Department shall result in the elimination or avoidance of costs associated with the consumption of energy and operation and maintenance of the Premises. Over the course of the Guarantee Term, the total cost savings shall be guaranteed to exceed the total project cost. The Guaranteed Savings are calculated in accordance with Schedule D and are detailed in Schedules E and P. The Guaranteed Savings shall include the following:

**Energy Savings.** The Annual Energy Cost Savings shall include dollars saved and the reduction in units of energy, fuel, electrical demand, water, and ECM Units. The Annual Energy Savings shall be equal to the product of the units of energy, fuel, electrical demand and water saved; the Unit Cost; and the Escalation Rate. Measurement and Verification shall be performed using IPMVP protocols or agreed-upon alternative protocols. In the event loading or usage is uncertain, JCI may employ spot measurement and/or short-term monitoring by agreement.

Non-measured Energy Savings may be included by agreement. Verification of non-measured Energy Savings shall follow Federal Energy Management Program (“FEMP”) protocol 2.2 and shall be validated using sound engineering principles to establish parameters.

**Operating and Maintenance Savings.** The Annual Operating and Maintenance Savings shall be based on quantifiable existing Operating and Maintenance Expenses at the Premises, as set forth in Schedule C. Measurement and verification of Operation and Maintenance Savings shall follow FEMP protocol 2.2 or agreed-upon alternative protocols and verification standards and methodologies.

Non-measured Operation and Maintenance Savings may be included by agreement and shall be based on historical information or data as set forth in the Reference Documents. Non-measured Operation and Maintenance Savings shall be validated using sound operating and financial data to establish parameters.

**Energy and Cost Savings Guarantee.** The Annual Energy Cost Savings and Annual Operating and Maintenance Cost Savings shall be sufficient to cover any and all Annual Service Costs and Annual Debt Service Payments attributable to the Services and Equipment, as calculated in Schedule D.

The Annual Energy and Cost Savings Guarantee is subject to satisfactory performance of DOT-A's obligations under the EP Contract.

#### **Annual Review and Reconciliation or Reimbursement of Guaranteed Savings**

As part of the M&V Services, JCI shall prepare the Annual Savings Report pursuant to Schedule D. The Annual Savings Report shall measure and verify the Annual Energy Cost Savings and Annual Operating and Maintenance Cost Savings in relation to the Guaranteed Savings.

JCI shall provide the Annual Savings Report to DOT-A within sixty (60) days of the end of the Guarantee Year. DOT-A shall have ninety (90) days to approve or reject the Annual Savings Report. The Annual Savings Report shall be deemed accepted following the end of the ninety (90) day period.

In the event DOT-A disagrees with the Annual Savings Report, the parties shall resolve the dispute through good faith negotiations. If the parties are unable to resolve the matter, it will be resolved by litigation.

DOT-A shall retain all excess savings in the event the Annual Operating and Maintenance Cost Savings and Annual Energy Cost Savings exceed the Energy and Cost Savings Guarantee.

In the event the Annual Operating and Maintenance Cost Savings and Annual Energy Cost Savings are less than the amount of the Energy and Cost Savings Guarantee, JCI shall reimburse DOT-A for the deficiency. Payment shall be made within thirty (30) days of either DOT-A's acceptance of the Annual Savings report or resolution of any dispute regarding the Annual Savings Report.

## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE LEASE

This Appendix D contains a summary of certain provisions of the Lease Agreement (the "Lease") dated December 19, 2013 between Johnson Controls, Inc., as Lessor, and the State of Hawaii Department of Transportation – Airports Division, as Lessee. The summary does not purport to be complete or to follow the exact language of the Lease. The summary complements the summaries found under "SOURCE OF PAYMENT FOR THE CERTIFICATES." Reference is made to the full text of the Lease for the precise and the complete text of the Lease. Copies of the Lease are available upon request to the Department. Unless clearly indicated otherwise, all section references are to the Lease only.

#### Definitions

The following are definitions of certain terms used in the Lease. Reference is hereby made to the Lease for a complete recital of the terms therein, some of which are set forth below.

**"Additional Rent"** means all payments required to be paid hereunder as rent in excess of the Base Rent, including, without limitation, amounts required to be paid pursuant to the Lease.

**"Assignee"** means the Trustee, as assignee under the Sale, Assignment and Assumption Agreement, or any subsequent assignee as designated by the Trustee.

**"Available Funds"** means funds appropriated or otherwise made available, from time to time, by the Legislature to pay amounts due under the Lease for the fiscal year of Lessee in which such payments are due.

**"Base Rent"** means the basic rental payment payable by the Lessee pursuant to the Lease during the Lease Term in consideration of the right of the Lessee to use and possess the Equipment, in the amounts and at the times during the Lease Term as set forth in the Lease.

**"Certificates"** means the State of Hawaii Department of Transportation – Airports Division Series 2013 Lease Revenue Certificates of Participation (Subject to AMT) Evidencing Undivided Proportionate Interests of the Owners of the Certificates in Payments of Base Rent to be made by the State acting through its Department pursuant to the Lease.

**"Cost of the Equipment"** means the sum of items authorized to be paid pursuant to a Requisition to pay for the costs of construction and installation, or reconstruction or repair of the Equipment.

**"EPC"** means that certain Energy Performance Contract dated December 19, 2013 between Lessor and Lessee, pursuant to which: (i) Lessor has agreed to design, procure, and install certain Equipment at certain airport facilities of Lessee, and to provide certain maintenance services and savings guarantees in connection with the equipment.

**"Equipment"** means the equipment described in Schedule A to the EPC, and all replacements, substitutions, repairs, restorations, modifications, attachments, accessions, additions and improvements thereof or thereto.

**"Final Completion Date"** means the date of completion and acceptance of the Equipment as evidenced by the Certificate of Final Completion and Acceptance.

**"Indenture"** means the Indenture of Trust dated as of December 1, 2013 between Lessee and Trustee.

**"Lease Term"** means the Lease Term as defined in the Lease, but ending on the occurrence of the earliest event specified in the Lease.

**"Lessee"** means the State of Hawaii, acting through the Department of Transportation, its successors and its assigns.

**“Lessor”** means (i) initially, Johnson Controls, Inc., a corporation organized and existing under the laws of the State of Wisconsin and authorized to do business in the State of Hawaii, or any surviving, resulting or transferee corporation; and (ii) with regard to any rights and obligations of Lessor hereunder, any assignee(s) of Lessor, including, without limitation, the Trustee, as assignee under the Sale, Assignment and Assumption Agreement, or any subsequent assignee to the Trustee.

**“Purchase Price”** means the amount necessary to exercise the Purchase Option pursuant to the Lease.

### **Term of Lease**

The Lease is for a term of 20 years and provides for the lease and use of the Equipment by the Lessee in consideration of Lessee’s obligation to pay Base Rent and Additional Rent to the Lessor.

The Lease will terminate in the event of nonappropriation of funds by the Legislature. Lessee shall also have the option to terminate the Lease by paying the Purchase Price or all Base Rent and Additional Rent over the term of the Lease. The Lease term will also terminate upon discharge of the Indenture or default by Lessee, if Lessor exercises such termination option.

### **Rent**

Lessee will pay the Base Rent from Available Funds on January 15 and July 15 of each year. In no circumstance shall Lessee be obligated to pay amounts due under or in connection with the Lease from any source other than Available Funds, nor shall the Legislature be obligated in any manner to appropriate or otherwise provide Available Funds. The Lease is not an obligation for which the full faith and credit of the Lessee is pledged.

Additional Rent consists of any amounts necessary to maintain the Reserve Requirement pursuant to the Indenture and the Lease, all payments required to the United States as a rebate payment and the reasonable fees and expenses and all extraordinary expenses incurred by the Trustee for its services under the Indenture.

### **Delivery and Use of Equipment**

Lessor will order the Equipment, cause the Equipment to be delivered and installed at the location specified in the EPC and pay all delivery and installation costs. Lessee will not move the Equipment without Lessor’s consent, which consent will not be unreasonably withheld. Lessee will insure the Equipment and maintain and repair the Equipment at Lessee’s own expense. Lessee will keep the Equipment in good repair and free from liens.

Lessee also assumes all risk of loss of or damage to the Equipment from any cause. No loss of or damage to the Equipment, nor defect, nor unfitness or obsolescence will relieve Lessee of the obligation to make Base Rent payments or to perform any other obligation under the Lease. Lessee’s obligation to pay Base Rent is unconditional.

Title will remain in Lessor and Lessor shall have a first lien security interest on the Equipment, subject to the exercise by the Lessee of its Purchase Option.

### **Purchase Option**

Lessee will have the option to prepay the unpaid balance of the Equipment in whole or in part by causing the Certificates to be called for redemption pursuant to the Indenture.

### **Events of Default**

Events of Default include Lessee’s failure to pay Base Rent and Additional Rent, failure to observe or perform covenants in the Lease, breach of warranties, any statement, representation or warranty by Lessee pursuant to the Lease which is false, incorrect, or misleading and which materially adversely affects the rights of Lessor, and if any provision of the Lease is determined to be invalid or void and would materially adversely affect the rights of Lessor.

If an Event of Default shall occur and be continuing, Lessor may retake possession of the equipment or demand all installments of rent payable for the remainder of the fiscal year to be immediately due and payable from the Available Funds.

**Nonappropriation**

In the event the Legislature does not appropriate sufficient Available Funds for the payment of the Base Rent required to be paid in the next succeeding fiscal year, Lessee may terminate the Lease, without penalty, as to all of the Equipment at the end of the then-current fiscal year. Termination for nonappropriation is not an Event of Default. Lessee shall not be obligated to make payment of the Base Rent provided for in this Lease Agreement beyond the then current fiscal year. The full faith and credit of the State are not pledged to payment of Base Rent.

If moneys are not so appropriated, the Lease will be terminated without penalty at the end of the fiscal year for which moneys have been appropriated. Lessee will not be required to make rental payments under the Lease coming due after the effective date of such termination. In such event Lessee would no longer be entitled to use Equipment financed under the Lease, and must surrender the Equipment to Lessor. Lessor would have recourse to liquidate such Equipment for the benefit of the holders of the Certificates.

*[Remainder of page intentionally left blank.]*

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX E

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CERTIFICATES

This Appendix E contains a summary of certain provisions of the Indenture of Trust (the “Indenture”) dated as of December 1, 2013 between the State of Hawaii, Department of Transportation – Airports Division (the “State”) and U.S. Bank National Association, as Trustee (the “Trustee”) and the Certificates. The summary does not purport to be complete or to follow the exact language of the Indenture or the Certificates. The summary complements the summaries found under “THE INDENTURE AND THE CERTIFICATES” and “SOURCE OF PAYMENT FOR THE CERTIFICATES.” Reference is made to the full text of the Indenture and the Certificates for the precise wording and the complete provisions of the Indenture and the Certificates. Copies of the Indenture and the Certificates are available upon request to the Department. Unless clearly indicated otherwise, all section references are to the Indenture and the Certificates only.

#### Definitions

The following are definitions of certain terms used in the Indenture. Reference is hereby made to the Indenture for a complete recital of the terms therein, some of which are set forth below.

“*Authorized Denominations*” means denominations of \$5,000 and any integral multiple thereof.

“*Certificates*” means the State of Hawaii Department of Transportation – Airports Division Series 2013 Lease Revenue Certificates of Participation (Subject to AMT).

“*Cost of the Equipment*” means the sum of items authorized to be paid pursuant to a Requisition to pay for the costs of construction and installation, or reconstruction or repair of the Equipment.

“*Defeasance Obligations*” means the following:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation);
- (2) Obligations of, or obligations fully and unconditionally guaranteed as to timely payment of principal and interest by, the United States of America or any agency or instrumentality thereof, which such obligations are backed by the full faith and credit of the United States of America, including U.S. treasury obligations, All direct or fully guaranteed obligations, Farmers Home Administration, General Services Administration, Guaranteed Title XI financing, Government National Mortgage Association (GNMA), State and Local Government Series.
- (3) Obligations of Government-Sponsored Agencies that are not backed by the full faith and credit of the United States Government: Federal Home Loan Mortgage Corporation (FHLMC) Debt obligations, Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives), Federal Home Loan Banks (FHL Banks), Federal National Mortgage Association (FNMA) Debt obligations Financing Corp. (FICO) Debt obligations, Resolution Funding Corp. (REFCORP) Debt obligations, United States Agency for International Development (U.S. A.I.D.) Guaranteed notes.

“*Equipment*” shall have the meaning assigned in the Lease.

“*EPC*” means the Energy Performance Contract between the State and Johnson controls, Inc. (“JCI”) dated December 19, 2013, including all supplements, amendments and exhibits thereto.

“*Extraordinary Revenues*” means (i) the Purchase Price, if paid; (ii) all Net Proceeds, if any, of casualty insurance, title insurance, performance bonds and Net Proceeds received as a consequence of defaults and/or nonappropriation by the State under the EPC or the Lease, in connection with the Equipment, not applied to the repair, restoration, modification, improvement or replacement of the Equipment; and (iii) all Net Proceeds, if any, derived from the repossession and liquidation of the Equipment.

**“Event of Nonappropriation”** means nonappropriation of Available Funds by the Legislature for payment of Base Rent. An event of nonappropriation is not an Event of Default.

**“Lease”** means the Lease Agreement dated December 19, 2013 between the State and Johnson Controls, Inc. (“JCI”) pursuant to which Agreement the State will lease the Equipment from JCI.

**“Lease Term”** means the duration of the lease obligations created under the Lease, which is 20 years.

**“Net Proceeds,”** when used with respect to any performance or payment bond proceeds, or proceeds from policies of insurance required hereby, or any proceeds resulting from default by the State or JCI under the EPC or any other contract relating to the Equipment, or proceeds from any repossession and liquidation of the Equipment or proceeds from the sale or trade-in of the Equipment by the State, means the amount remaining after deducting from such proceeds (i) all expenses (including, without limitation, attorneys’ fees and costs) incurred in the collection of such proceeds or award; and (ii) all other fees, expenses, and indemnities and payments due to the Trustee or the State.

**“Opinion of Counsel”** means an opinion in writing of legal counsel, who may be counsel to the Trustee, JCI or the State.

**“Permitted Investments”** shall mean, to the extent not prohibited by Hawaii law:

- (1) Defeasance Obligations;
- (2) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America, including Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing and Urban Development (MIAs), Federal Housing Administration, Federal Financing Bank;
- (3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) Senior debt obligations issued by the Federal National Mortgage Association (FNMA or Federal Home Loan Mortgage Corporation (FHLMC), (ii) Obligations of the Resolution Funding Corporation (REFCORP), (iii) Senior debt obligations of the Federal Home Loan Bank System Senior debt obligations of other Government Sponsored Agencies;
- (4) U.S. dollar denominated deposit accounts, including time deposits, certificates of deposit (including those placed by a third party pursuant to an agreement between the State and the Trustee) trust funds, trust accounts, interest bearing deposits, overnight bank deposits, interest bearing money market accounts, federal funds and banker’s acceptances with domestic commercial banks (including the Trustee or any of its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing not more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank), provided that such accounts or certificates are collaterally secured in the manner provided by Section 38-2, Hawaii Revised Statutes or which are fully FDIC insured;
- (5) Commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s, and which matures not more than 270 days after the date of purchase;
- (6) Investments in a money market mutual fund rated “AAAm” or “AAAm-G” or better by S&P, or having a rating in the highest investment category granted thereby from Moody’s, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;



(7) Repurchase and reverse repurchase agreements collateralized with Defeasance Obligations, including those of the Trustee or any of its affiliates;

(8) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice;

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P and Moody’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (A)(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity or redemption date or dates specified in the irrevocable instructions referred to above, as appropriate; and

(9) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P.

**“Project Fund”** means the project fund created pursuant to the Indenture.

**“Purchase Price”** means the amount payable, as shown on Exhibit A to the Lease, at the option of the State, for the purpose of terminating the Lease Term and purchasing the Equipment which amount shall be necessary to discharge the Indenture and to pay all fees and expenses of the Trustee, or in the event of damage, destruction, casualty or condemnation, to provide for the redemption of the Certificates.

**“Rebate Fund”** means the rebate fund created pursuant to the Indenture.

**“Record Date”** means the fifteenth day of the calendar month next preceding an interest payment date, whether or not a business day.

**“Reserve Fund Investment”** means (i) U.S. Treasury securities, (ii) forward purchase agreements or Permitted Investments listed in (1) or (2) in the definition thereof or (iii) an irrevocable letter of credit or surety bond policy, and in the case of (ii) and (iii), issued by a domestic or foreign bank, insurance company or other financial institution whose unsecured long-term debt obligations are rated in one of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) by Moody’s and S&P.

**“Reserve Requirement”** means, with respect to the Certificates, \$16,774,000 on the Closing Date, and thereafter an amount equal to 10% of the aggregate proceeds of the Certificates, which such amount is less than (i) 100% of the maximum annual principal component and interest component due on the Certificates and (ii) 125% of the aggregate average annual debt service on the Certificates.

**“Revenues”** means (i) Extraordinary Revenues, if any; (ii) the Base Rent; (iii) any portion of the proceeds of the Certificates deposited with or by the Trustee in the Certificate Fund to pay accrued or capitalized interest on the Certificates; (iv) any earnings on money on deposit in the Certificate Fund; (v) all other revenues derived from the Lease Agreement, excluding Additional Rent (except Additional Rent payments made pursuant to the Lease Agreement to replenish the Debt Service Reserve Fund); and (vi) any other moneys to which the Trustee may be entitled.

**“Sale, Assignment and Assumption Agreement”** means the Sale, Assignment and Assumption Agreement dated December 19, 2013 by JCI to the Trustee.

**“Trust Estate”** means the property pledged and assigned to the Trustee pursuant to the granting clauses in the Indenture.

### **The Trust and Certificates**

In order to provide funds for the payment of the Cost of the Equipment the Trustee will issue Certificates constituting an undivided proportionate interest in the right to receive Revenues under the Lease Agreement. The Indenture creates a trust with U.S. Bank National Association, as Trustee for the benefit of the owners of the Certificates.

JCI will assign all of its rights, duties and obligations in the Lease Agreement to the Trustee, which includes a first priority lien on the Equipment.

The Trustee will collect all Revenues, including payments of Base Rent (as defined in the Lease) from the State, and hold them in trust for the equal benefit of the Certificate owners. The Trustee will pay interest to the Certificate owners on the interest payment date.

The Certificates are payable solely from the Trust Estate and do not constitute a general obligation of the State. If the Legislature does not appropriate sufficient funds then the State is under no obligation to pay rent.

### **Revenues and Funds**

**Creation of the Proceeds Fund.** A special fund is created by the Indenture and established with the Trustee to be designated the “Series 2013 Proceeds Fund” (the “**Proceeds Fund**”) which shall be expended in accordance with the Indenture. There shall be deposited into the Proceeds Fund the proceeds of the sale of the Certificates.

**Use of Moneys in the Proceeds Fund.** Moneys on deposit in the Proceeds Fund shall be used as follows: (i) to transfer to the Project Fund the sum specified in the State’s request and authorization delivered to the Trustee on the Closing Date (the “**Closing Order**”) for the payment of Cost of the Equipment; (ii) to transfer to the Certificate Fund the sums specified in the Closing Order representing the capitalized interest on the Certificates; (iii) to transfer to the Debt Service Reserve Fund an amount equal to the Reserve Requirements as specified in the Closing Order; (iv) to retain the sums specified in the Closing Order representing payment of the costs relating to the issuance of the Certificates pending receipt of written orders for payment thereof duly executed by the Director of Transportation; and (v) to transfer any balance remaining after payments of all costs in (iv) above to the Certificate Fund.

**Creation of the Certificate Fund.** A special fund is created by the Indenture and established with the Trustee, to be designated the “Certificates of Participation Fund” (the “**Certificate Fund**”), which shall be used to pay the principal of, premium, if any, and interest on the Certificates. Payments into the Certificate Fund shall be in accordance with the Indenture and shall be used as set forth in the Indenture.

**Payments into the Certificate Fund.** The Certificate Fund shall be used to make payments of principal of, premium, if any, and interest on the Certificates. There shall be deposited into the Certificate Fund (i) each payment of Base Rent made by the State under the Lease, as it may be amended; (ii) any moneys transferred to the Certificate Fund from the Project Fund pursuant to the Indenture; and (iii) all other moneys received by the Trustee under the Indenture or pursuant to the Investment Instructions accompanied by directions of the Department that such moneys are to be deposited into the Certificate Fund, including, without limitation, amounts representing capitalized interest on the Certificates.

**Use of Moneys in the Certificate Fund.** Moneys in the Certificate Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Certificates. In the event the Certificates are to be

redeemed in whole pursuant to the Indenture, any moneys remaining in the Certificate Fund shall be applied to such redemption along with other moneys held by the Trustee for such purpose.

***Custody of the Certificate Fund.*** The Certificate Fund shall be in the custody of the Trustee. The Trustee shall withdraw sufficient funds from the Certificate Fund to pay the principal of, premium, if any, and interest on the Certificates as the same become due and payable, which responsibility, to the extent of the moneys therein, the Trustee accepts under the Indenture.

***Creation of the Debt Service Reserve Fund.*** A special fund is created by the Indenture and established with the Trustee to be designated the “Series 2013 Debt Service Reserve Fund” (the “**Debt Service Reserve Fund**”), which shall be expended in accordance with the Indenture. Initially, there shall be deposited into the Debt Service Reserve Fund proceeds of the Certificates in an amount equal to the Reserve Requirement. The obligation to fund the Debt Service Reserve Fund may be satisfied by depositing with the Trustee, in lieu of cash, Reserve Fund Investments in a principal amount equal to the Reserve Requirement. All earnings on the Debt Service Reserve Fund shall remain therein until there is an amount in the Debt Service Reserve Fund equal to the Reserve Requirement. In addition, there shall also be deposited into the Debt Service Reserve Fund (i) all other moneys required to be deposited therein pursuant to the Lease or the Indenture and (ii) all other moneys received by the Trustee when accompanied by directions not inconsistent with the Lease or the Indenture that such moneys are to be paid into the Debt Service Reserve Fund. There also shall be retained in the Debt Service Reserve Fund interest and other income received on investments of Debt Service Reserve Fund moneys to the extent provided in the Indenture; provided, however, in no event shall moneys on deposit in the Debt Service Reserve Fund exceed the Reserve Requirement and in such event such excess moneys shall be transferred to the Certificate Fund. Anything in the Indenture to the contrary notwithstanding, moneys on deposit in the Debt Service Reserve Fund shall be invested so as to not be in violation of yield restrictions. Investments in the Debt Service Reserve Fund shall be valued in accordance with the Indenture; in no event shall such investments have maturities in excess of five years. If any such valuation reveals that the value of such investments is less than the Reserve Requirement with respect to the Certificates then Outstanding, the Trustee shall notify the State of the amount of the difference between the amount derived by such valuation and the Reserve Requirement, which difference shall be paid to the Trustee by the State as Additional Rent pursuant to the Lease and deposited by the Trustee in the Debt Service Reserve Fund not later than three (3) months after the valuation date. If deposits in the Debt Service Reserve Fund are less than the Reserve Requirement due to a withdrawal required by the Indenture, the State shall, as Additional Rent in accordance with the requirements of the Lease, pay to the Trustee amounts to cure such deficiency not later than twelve (12) months after the date of such withdrawal.

***Use of Moneys in the Debt Service Reserve Fund.*** Moneys in the Debt Service Reserve Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Certificates in the event moneys in the Certificate Fund are insufficient to make such payments when due, whether on an interest payment date, redemption date, maturity date or otherwise. The Trustee shall, on the fifth day prior to any such payment date for principal of or interest on the Certificates, determine if sufficient funds are available in the Certificate Fund to make such payments when due and, if sufficient funds are not available in such fund, shall make the required transfers, if any, to the Certificate Fund to cure such deficiency. Upon the occurrence of an Event of Default under the Indenture or an Event of Nonappropriation, any moneys in the Debt Service Reserve Fund shall be transferred by the Trustee to the Certificate Fund and applied in accordance with the Indenture. On the final maturity date of the Certificates, any moneys in the Debt Service Reserve Fund may be used to pay the principal of and interest on the Certificates on such final maturity date. In the event of the redemption of the Certificates in whole, any moneys in the Debt Service Reserve Fund shall be transferred to the Certificate Fund and applied to the payment of the principal of and premium, if any, on the Certificates.

At such times as moneys are to be transferred out of the Debt Service Reserve Fund for deposit into the Certificate Fund pursuant to the Indenture, the Trustee shall use cash or Permitted Investments in such order of priority as the Department shall direct. If no Department direction has been received, the Trustee use cash, if any, then Permitted Investments, out of the Debt Service Reserve Fund.

A Reserve Fund Investment shall (a) permit the Trustee to draw amounts thereunder for deposit in the Debt Service Reserve Fund which, together with any moneys on deposit in, the Debt Service Reserve Fund, are not less than the Reserve Requirement and which may be applied to any purpose for which moneys in the Debt Service

Reserve Fund may be applied, and (b) contain no restrictions on the ability of the D to receive payment thereunder other than a certification by the Department that the funds drawn thereunder are to be used for the purposes set forth in the Indenture. In the event that the credit rating of the bank, insurance company or other financial institution issuing a Reserve Fund Investment on deposit in the Debt Service Reserve Fund is no longer in compliance with the rating requirements set forth above, the State shall replace such Reserve Fund Investment within twelve months with (i) cash in the amount necessary to fund the Debt Service Reserve Fund in an amount equal to the Reserve Requirement, (ii) a Reserve Fund Investment meeting the requirements of clauses (a) and (b) above in a face amount equal to the Reserve Requirement or (iii) a combination of (i) and (ii). Such Reserve Fund Investment shall provide that the Trustee shall receive payment thereunder prior to any expiration or termination thereof and whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied.

Prior to the expiration date of a Reserve Fund Investment on deposit in the Debt Service Reserve Fund, the State shall (a) replace such Reserve Fund Investment with a Reserve Fund Investment having a term greater than one year (i) satisfying the requirements of the Indenture and (ii) in a face amount which, taking into account any moneys and Reserve Fund Investments then on deposit in the Debt Service Reserve Fund, equals the Reserve Requirement, (b) deposit in the Debt Service Reserve Fund cash in the amount necessary to fund the Debt Service Reserve Fund in an amount equal to the Reserve Requirement or (c) fund the Debt Service Reserve Fund in an amount equal to the Reserve Requirement through a combination of (a) and (b). Such Reserve Fund Investment shall provide that the Trustee shall receive payment thereunder prior to any expiration or termination thereof and whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied.

The Trustee shall make a drawing on such Reserve Fund Investment (a) whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied and (b) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys (including another letter of credit or surety bond policy) are available in the Debt Service Reserve Fund in the amount of the Reserve Requirement. If the Trustee makes a draw on such Reserve Fund Investment or if the value of such Reserve Fund Investment is less than the Reserve Requirement, the Trustee shall notify the State of the amount of the deficiency, and the State shall remedy such deficiency by increasing the value of such Reserve Fund Investment and/or by depositing moneys in the Debt Service Reserve Fund to the extent of such deficiency in the manner and at the times provided in the Indenture.

The Trustee shall notify the State in writing not less than six months prior and again three months prior to the expiration date of a Reserve Fund Investment on deposit in the Debt Service Reserve Fund of such expiration date.

***Creation of the Project Fund.*** A special fund is created by the Indenture and established with the Trustee to be designated the "Series 2013 Project Fund" (the "**Project Fund**"). The sums specified in the Closing Order shall be deposited into the Project Fund. Any moneys held as part of the Project Fund shall be invested and reinvested by the Trustee in accordance with the Indenture, and the income therefrom shall be retained in the Project Fund. Moneys held in the Project Fund shall be disbursed in accordance with the provisions of the Lease upon receipt by the Trustee of a duly executed requisition from JCI and the Department, such disbursement to be made by the Trustee within two (2) Business Days, or as soon as reasonably practicable thereafter, following its receipt of such requisition and approval.

***Application of Project Fund Subsequent to Completion of the Project*** Upon receipt by JCI and notice to the Trustee of the Certificate of Final Completion and Acceptance required by the Lease, the Trustee shall retain in the Project Fund a sum equal to the amount estimated by the Department, and notified in writing to the Trustee, to be necessary for payment of the Cost of the Equipment not then due and payable, and shall transfer any balance remaining in the Project Fund to (i) the Debt Service Reserve Fund to such extent as shall not cause the amount in the Debt Service Reserve Fund to exceed the Reserve Requirement, or (ii) the Certificate Fund to the extent of any remaining balance of such moneys to be applied against the next succeeding principal or interest payment or payments coming due on the Certificates, or (iii) to the extent monies remaining in the Project Fund exceed the sum of \$1,000,000, such monies shall be used on the next February 1 or August 1 by the Trustee to redeem a corresponding principal component of the Certificates pursuant to the Indenture.

***Creation of the Extraordinary Revenue Fund.*** There is created by the Indenture and established with the Trustee the “Series 2013 Extraordinary Revenue Fund” (the “**Extraordinary Revenue Fund**”) into which shall be deposited all Extraordinary Revenues. Moneys on deposit in the Extraordinary Revenue Fund shall be disbursed as provided in the Indenture. In the event of exercise by the State pursuant to the Lease of its purchase option under circumstances such that the Certificates are not immediately subject to redemption, as provided in the Indenture, the Extraordinary Revenue Fund may be maintained as a defeasance escrow for the payment of the Certificates to effect a discharge of the Indenture.

***Nonpresentation of Certificates.*** In the event any Certificate shall not be presented for payment when due, if funds sufficient to pay such Certificate shall have been made available to the Trustee for the benefit of the owner thereof, it shall be the duty of the Trustee to hold such funds without liability for interest thereon, for the benefit of the owner of such Certificate, who shall be restricted exclusively to such funds for any claim of whatever nature on his or her part under the Lease or the Indenture or on or with respect to such Certificate.

***Moneys to be Held in Trust.*** The ownership of the Certificate Fund, the Project Fund, the Debt Service Reserve Fund, and any other fund or account created under the Indenture shall be in the Trustee, for the benefit of the Certificate owners (with the exception of the Rebate Fund) as specified in the Indenture.

***Repayment to the State from the Trustee.*** After payment in full of the Certificates, the interest thereon, any premium thereon, the fees, charges and expenses of the Trustee and all other amounts required to be paid under the Indenture, any amounts remaining in the Certificate Fund, the Project Fund, the Debt Service Reserve Fund, the Extraordinary Revenue Fund, or otherwise held by the Trustee pursuant to the Indenture shall be paid to the State upon the expiration or sooner termination of the Lease Term as a return of an overpayment of Base Rent.

***Rebate Fund.*** There is created by the Indenture and established with the Trustee a separate trust fund to be designated the “Series 2013 Rebate Fund,” (the “**Rebate Fund**”). The State will pay as Additional Rent under the Lease all payments required by the Tax Compliance Certificate at the times required therein, if any, to the United States as a rebate payment if required under the Code. The Rebate Fund shall be held for the sole benefit of the United States of America and is not pledged pursuant to the Indenture. Deposits shall be made into and withdrawals shall be made from the Rebate Fund as provided in the Tax Compliance Certificate.

## **Investments**

***Investment of Moneys.*** All moneys held as part of the Certificate Fund, the Project Fund, the Debt Service Reserve Fund, the Rebate Fund, the Extraordinary Revenue Fund, or any other fund or account created under the Indenture shall be deposited or invested and reinvested by the Trustee, at the direction of the Department, in Permitted Investments in accordance with the Investment Instructions; provided, however, if the State does not provide the Trustee with investment directions, the Trustee shall hold such moneys uninvested. Any and all such deposits or investments shall be held by or under the control of the Trustee. The Trustee may make any and all such deposits or investments through its own bond department or the bond department of any bank or trust company under common control with the Trustee. Income from deposits or investments of moneys in the Debt Service Reserve Fund, if any, shall be retained in the Debt Service Reserve Fund or deposited into the Certificate Fund as provided in the Indenture; otherwise deposits or investments shall at all times be a part of the fund or account from which the moneys used to acquire such deposits or investments shall have come, and all income and profits on such deposits or investments shall be credited to, and losses thereon shall be charged against, such fund or account. The Trustee shall sell and reduce to cash a sufficient amount of such deposits or investments whenever the cash balance in the Project Fund is insufficient to pay a requisition when presented, whenever the cash balance in the Certificate Fund is insufficient to pay the principal of and interest on the Certificates when due, or whenever the cash balance in any fund or account created under the Indenture is insufficient to satisfy the purposes of such fund or account.

## **Defaults and Remedies**

***Events of Default.*** If any of the following events occur it is defined as and shall be deemed an “**Event of Default**” under the Indenture:

(i) Default in the payment of the principal of or premium, if any, on any Certificate when the same shall become due and payable, whether at the stated maturity thereof or upon proceedings for redemption.

(ii) Default in the payment of any installment of interest on any Certificate when the same shall become due and payable.

(iii) The occurrence of an “Event of Default” as provided in the Lease.

The occurrence of an “Event of Nonappropriation” as provided in the Lease (which is not an event of default thereunder) shall not be deemed an “Event of Default” under the Indenture, even though defaults of payments as described in subparagraphs (i) and (ii) above result therefrom.

**Remedies on Default.** Upon the occurrence and continuance of any Event of Default under the Indenture, the Trustee shall have all the rights and remedies with respect to the Trust Estate as the Trustee, as assignee of the Lease, has against or with respect to the Equipment and otherwise under the pertinent provisions of the Lease and the Sale, Assignment and Assumption Agreement and subject to the restrictions and limitations set forth therein.

Upon the occurrence of an Event of Default:

(i) the Trustee shall at the direction of the owners of a majority in principal amount of the Certificates outstanding, by notice in writing given to the State, declare the principal component of all Certificates then Outstanding (but only in an amount corresponding to the Base Rent and Additional Rent under the Lease which would otherwise have been payable by the State under the Lease during the remainder of the Fiscal Year for which an appropriation has been made by the State) and the interest accrued thereon to be immediately due and payable and said principal and interest shall thereupon become immediately due and payable.

(ii) the Trustee, to the extent allowed by law, shall be entitled by suit, action or proceeding in any court of competent jurisdiction to require the State and its officers, agents and employees to do all things necessary to carry out the requirements and provisions of the Lease and to perform their duties and obligations thereunder.

The Trustee may also pursue any other available remedy at law or in equity or by statute or to enforce the payment of the principal of and interest on the Certificates then Outstanding or to enforce any other provision of the Indenture or the Certificates.

With the consent of the owners of a majority or more of the owners of the principal component of Certificates Outstanding, the Trustee, if indemnified as provided in the Indenture, shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by Counsel, shall deem most expedient in the interests of the Certificate holders.

No right or remedy is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and in addition to any other remedy given under the Indenture, or now or hereafter existing at law or in equity or by statute. However, notwithstanding any other provision of the Lease or the Indenture, any and all remedies against the State under the Lease or the Indenture shall be limited as provided in the Lease.

**Majority of Certificate Owners May Control Proceedings.** Anything in the Indenture to the contrary notwithstanding, the owners of a majority of the principal component of the Certificates Outstanding shall have the right, at any time during the continuance of an Event of Default, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place and all other aspects of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for any other proceedings thereunder; provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

***Rights and Remedies of Certificate Owners.*** No Certificate owner shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless a default has occurred of which the Trustee has been notified as provided in the Indenture, or of which by the Indenture it is deemed to have notice, nor unless such default shall have become an event of default as defined in the Indenture, and the owners of not less than a majority in aggregate principal component of Certificates then outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceedings in its own name, nor unless they have also offered to the Trustee indemnity as provided in the Indenture nor unless the Trustee shall thereafter fail or refuse to exercise the powers granted in the Indenture, or to institute such action, suit, or proceeding in its own name; and such notification, request, and offer of indemnity are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more Certificate owners shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by his, her, its or their action or to enforce any right thereunder except in the manner therein provided and that all proceedings at law or in equity shall be instituted, had, and maintained in the manner therein provided and for the equal benefit of the owners of all Certificates then outstanding. Nothing contained in the Indenture shall, however, affect or impair the right of any Certificate owner to enforce the payment of the principal of, premium, if any, or interest on any Certificate at and after the maturity thereof.

***Waiver of Appraisal, Valuation, Stay Execution and Redemption Laws.*** The State agrees, to the extent permitted by law, that in case of the occurrence of an Event of Default under the Indenture, neither the State nor anyone claiming through or under it shall or will set up, claim, or seek to take advantage of any appraisal, valuation, stay, extension, or redemption laws now or hereafter in force in order to prevent or hinder the enforcement or foreclosure of the Indenture, or the absolute sale of the Trust Estate to the extent permitted thereunder, or the final and absolute putting into possession thereof, immediately after such sale, of the purchasers thereat; and the State, for itself and all who may at any time claim through or under it, waives, to the full extent that it may lawfully do so, the benefit of all such laws, and any and all right to have the estates comprised in the security intended to be created by the Indenture marshaled upon any foreclosure of the lien of the Indenture and agrees that the Trustee or any court having jurisdiction to foreclose such lien may sell the Equipment.

***Trustee May Enforce Rights Without Certificates.*** All rights of action and claims under the Indenture or any of the Certificates outstanding thereunder may be enforced by the Trustee without the possession of any of the Certificates or the production thereof in any trial or proceedings relative thereto; and any suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants any owners of the Certificates, and any recovery of judgment shall be for the ratable benefit of the owners of the Certificates, subject to the provisions of the Indenture.

***Trustee to File Proofs of Claim in Receivership, Etc.*** In the case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, composition, or other judicial proceedings affecting the Equipment, the Trustee shall, to the extent permitted by law, be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have claims of the Trustee and of the Certificate owners allowed in such proceedings for the entire amount due and payable on the Certificates under the Indenture, at the date of the institution of such proceedings and for any additional amounts which may become due and payable by it after such date, without prejudice, however, to the right of any Certificate owner to file a claim in his or her own behalf.

***Delay or Omission No Waiver.*** No delay or omission of the Trustee or of any Certificate owner to exercise any right or power accruing upon any default shall exhaust or impair any such right or power or shall be construed to be a waiver of any such default, or acquiescence therein; and every power and remedy given by the Indenture may be exercised from time to time and as often as may be deemed expedient.

***No Waiver of One Default to Affect Another.*** No waiver of any default under the Indenture, whether by the Trustee or the Certificate owners, shall extend to or affect any subsequent or any other then existing default or shall impair any rights or remedies consequent thereon.

***Discontinuance of Proceedings on Default: Position of Parties Restored.*** In case the Trustee shall have proceeded to enforce any right under the Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the State, the Trustee and the Certificate owners shall be restored to their former positions and rights under the Indenture with respect to the Trust Estate, and all rights, remedies, and powers of the Trustee shall continue as if no such proceedings had been taken.

***Waivers of Events of Default.*** The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences, and shall do so upon the written request of the owners of two-thirds in aggregate principal component of all the Certificates then outstanding; provided, however, that there shall not be waived without the consent of the owners of 100% of the principal component of the Certificates then outstanding as to which the Event of Default exists (a) any event of default in the payment of the principal of or premium on any outstanding Certificates at the date of maturity specified therein or (b) any default in the payment when due of the interest on any such Certificates, unless prior to such waiver or rescission, all arrears of interest and all arrears of payments of principal and premium, if any, then due, as the case may be, and all expenses of the Trustee in connection with such default, including the additional administrative expenses, if any, of the Trustee shall have been paid or provided for. In case of any such waiver, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the State, the Trustee and the Certificate owners shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

***Application of Moneys.*** All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture or moneys held during the continuation of and Event of Default of Event of Nonappropriation shall, after payment of the costs and expenses of the proceedings, including attorneys' fees and expenses received in connection therewith, resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and any other fees or expenses owed to the Trustee under the Indenture, be applied as follows:

FIRST—To the payment to the Persons entitled thereto of all installments of interest then due on the Certificates (including interest on past due principal and interest), in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege;

SECOND—To the payment to the Persons entitled thereto of the unpaid principal of any of the Certificates which shall have become due at stated maturity or pursuant to a call for redemption (other than Certificates called for redemption for the payment of which moneys are held pursuant to the other provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Certificates due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege; and

THIRD—To be held for the payment to the Persons entitled thereto as the same shall become due of the principal of and interest on the Certificates which thereafter become due and to make any other use of such moneys required by the Indenture and, if the amount available shall not be sufficient to pay in full principal and interest due on any particular date, payment shall be made according to subparagraphs FIRST and SECOND.

Whenever moneys are to be applied pursuant to the provisions of the Indenture described above, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts to be paid on such date shall cease to accrue. The Trustee shall give such notice (subject to the following two sentences) as it may deem appropriate of the deposit with it of any



such moneys and of the fixing of any such date, and shall not be required to make payment to the owner of any Certificate until such Certificate shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid. The Trustee shall pay the defaulted interest, plus any interest payable on the defaulted interest, to the persons who are the owner of Certificates at the close of its business on a special record date. The Trustee shall fix the special record date and at least 15 days before the special record date shall mail to the owners of Certificates a notice that states the special record date, payment date and amount of interest to be paid.

Whenever all principal of and interest on all Certificates have been paid under the provisions of the Indenture, and all expenses and charges of the Trustee, including attorneys' fees and expenses, have been paid, any balance remaining in the Funds shall be paid to the State.

### **Supplemental Indentures and Amendments of the Lease**

***Supplemental Indentures Not Requiring Consent of Certificate Owners.*** The Trustee and the State may, without the consent of or notice to the Certificate owners, enter into such indentures or agreements supplemental to the Indenture for any one or more or all of the following purposes:

- (i) To add to the covenants and agreements of the State contained in the Indenture other covenants and agreements to be thereafter observed by the State;
- (ii) To cure any ambiguity, or to cure, correct, or supplement any defect or omission or inconsistent provision contained in the Indenture, or to make any provisions with respect to matters arising under the Indenture or for any other purpose if such provisions are necessary or desirable and do not, as evidenced by the Opinion of Counsel delivered to the Trustee, materially adversely affect the interests of the Certificate owners;
- (iii) To subject to the Indenture additional revenues, properties, or collateral;
- (iv) To set forth the terms and conditions and other matters in connection with the issuance of Additional Certificates pursuant to the Indenture;
- (v) In connection with any change in the State's Fiscal Year (but excluding any change in the payment dates for the Certificates); or
- (vi) To make any change necessary to retain the current rating on the Certificates;

***Supplemental Indentures Requiring Consent of Certificate Owners.*** Exclusive of supplemental indentures covered as described above under "*Supplemental Indentures Not Requiring Consent of Certificate Owners*," the written consent of the State and the consent of the owners of not less than a majority in aggregate principal component of the Certificates then outstanding shall be required for the execution by the State and the Trustee of any indenture or indentures supplemental to the Indenture; provided, however, that without the consent of the owners of all the Certificates at the time Outstanding, nothing contained in the Indenture shall permit, or be construed as permitting:

- (i) A change in the terms of redemption or maturity of the principal component of or the interest on any Outstanding Certificate, or a reduction in the principal component of or premium payable upon any redemption of any Outstanding Certificate or the rate of interest thereon, without the consent of the owner of such Certificate;
- (ii) The deprivation of the owner of any Certificate then outstanding of the lien created by the Indenture (other than as originally permitted thereby);
- (iii) A privilege or priority of any Certificate or Certificates over any other Certificate or Certificates; or

(iv) A reduction in the aggregate principal component of the Certificates required for consent to such supplemental indenture.

If at any time the State shall request the Trustee to enter into such supplemental indenture for any of the purposes of the Indenture, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed to the registered owners of the Certificates at the addresses last shown on the registration records of the Trustee. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Certificate owners. If, within 60 days or such longer period as shall be prescribed by the State following the mailing of such notice, the owners of not less than a majority in aggregate principal component of the Certificates then Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Certificate owner shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the State from executing the same or from taking any action pursuant to the provisions thereof.

***Execution of Supplemental Indenture.*** The Trustee is authorized to join with the State in the execution of any such supplemental indenture and to make further agreements and stipulations which may be contained therein, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects its rights, duties, or immunities under the Indenture. Any supplemental indenture executed in accordance with the provisions of the Indenture shall thereafter form a part of the Indenture; and all the terms and conditions contained in any such supplemental indenture as to any provision authorized to be contained therein shall be deemed to be part of the Indenture for any and all purposes. In case of the execution and delivery of any supplemental indenture, express reference may be made thereto in the text of the Certificates issued thereafter, if any, if deemed necessary or desirable by the Trustee.

***Amendments, Etc., of the Lease Not Requiring Consent of Certificate Owners.*** The State may, with the written consent of the Trustee, but without the consent of or notice to the Certificate owners, consent to any amendment, change, or modification of the Lease as may be required (i) by the provisions of the Lease or the Indenture (including, without limitation, amendments to the Lease to reflect any partial redemption of Certificates), (ii) for the purpose of curing any ambiguity or formal defect or omission in the Lease, (iii) in order to identify more precisely the Project or to add additional or substituted improvements or properties acquired in accordance with the Lease and the Indenture, (iv) in connection with the issuance of Additional Certificates, (v) to accommodate the provisions of the Lease to any change in the State's Fiscal Year, or (vi) in connection with any other change which, as evidenced by an Opinion of Counsel delivered to the Trustee, is not to the material prejudice of the Certificate owners.

***Amendments, Etc., of the Lease Requiring Consent of Certificate Owners.*** Except for the amendments, changes or modifications permitted as described above under "*Amendments, Etc., of the Lease Not Requiring Consent of Certificate Owners,*" neither the State nor the Trustee shall consent to any other amendment, change, or modification of the Lease without the giving of notice and the written approval or consent of the owners of not less than a majority in aggregate principal component of the Certificates at the time outstanding given and procured as provided in the Indenture. If at any time the State shall request the consent of the Trustee to any such proposed amendment, change, or modification of the Lease, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change, or modification to be given in the manner as provided in the Indenture. Such notice shall briefly set forth the nature of such proposed amendment, change, or modification and shall state that copies of the instrument embodying the same are on file at the principal corporate trust office of the Trustee for inspection by all Certificate owners.

## APPENDIX F

### CERTAIN DEFINITIONS IN THE DIRECTOR'S CERTIFICATE

The following are definitions of certain terms used in this Official Statement, the Director's Certificate and the Thirtieth Supplemental Certificate. Reference is hereby made to the Director's Certificate and the Thirtieth Supplemental Certificate for a complete recital of the terms therein, some of which are set forth below.

**"Accountant"** means the independent Certified Public Accountant or a firm of independent Certified Public Accountants of recognized standing employed by the Department pursuant to the Certificate and selected with special reference to his general knowledge, skill and experience in auditing books and accounts.

**"Additional Bond"** means any additional Bond at any time outstanding issued under the Certificate on parity with the Bonds.

**"Airport Revenue Fund"** means the special fund of that name created in the treasury of the State by Section 248-8, Hawaii Revised Statutes, as amended.

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

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

**"Aviation Fuel Taxes"** means the aviation fuel taxes levied and paid pursuant to Sections 243-4(a)(2) and 248-8, Hawaii Revised Statutes, as amended.

**"Bond"** or **"Bonds"** mean any Bond, some of the Bonds or all of the Bonds issued under and at any time outstanding pursuant to the Certificate, including without limitation Additional Bonds at any time outstanding and Certificate at any time outstanding.

**"Business Day"** shall mean a day: (i) other than a day on which banks located in Honolulu, Hawaii or the City of New York are required or authorized by law or executive order to be closed, (ii) other than a day on which the principal office of the Tender and Paying Agent is required or authorized by law or executive order to be closed, and (iii) on which the New York Stock Exchange is not closed.

**"Certificate"** means the Certificate as originally issued and, unless the context shall clearly indicate otherwise, as it may from time to time be supplemented, modified or amended by any Supplemental Certificate.

**"Code"** means the Internal Revenue Code of 1986, as amended.

**"Consulting Engineer"** means the individual engineer or firm of engineers appointed pursuant to the Certificate, who shall be an independent engineer or engineers, engineering firm or corporation, independent airport

consultant or airport consulting firm and having a widely known reputation for skill and experience in the development, operation and management of airports of the approximate size and character as the airports constituting the Undertaking. The Consulting Engineer shall be available to advise the Department upon request, and make such investigations and determinations as may be necessary from time to time under the provisions of the Certificate.

**“Debt Service Requirement”** means with respect to all the Bonds or the 1969 Bonds or a series of Additional Bonds, or any particular amount of any of such Bonds, as the case may be, the total as of any particular date of computation and for any particular year of (i) the amount required to be paid or credited during such year to the Interest Account created in the Airport Revenue Fund to provide for the payment of interest on such Bonds; (ii) the amount required to be paid or credited during such year to the Serial Bond Principal Account created in the Airport Revenue Fund to provide for the retirement of any of such Bonds issued in serial form; and (iii) the amount required to be paid or credited during such year to the Sinking Fund Account created in the Airport Revenue Fund to provide for the retirement of any of such Bonds issued in term form.

**“Debt Service Reserve Requirement”** means, in connection with the issuance of any Additional Bonds, an amount equal to the sum of (i) the amount on deposit, immediately prior to the issuance of such Additional Bonds, in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein created by Section 6.01 of the Certificate, and (ii) the least of (a) the amount which, if added to the amount then on deposit in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein created by Section 6.01 of the Certificate, would cause the total amount then on deposit in said fund and on credit to said account to equal the maximum aggregate Annual Adjusted Debt Service Requirement for all Bonds outstanding in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (b) 10% of the initial offering price to the public of such Additional Bonds as determined under the Code, or (c) 125% of the sum of the Annual Adjusted Debt Service Requirement for all Bonds outstanding for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of any Additional Bonds) and terminating with the last Fiscal Year in which any Debt Service Requirement for the Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the Department; provided, however, that in determining Annual Adjusted Debt Service Requirement with respect to any Bonds that constitute Variable Interest Rate Bonds, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been outstanding (or if such Bonds that constitute Variable Interest Rate Bonds have not yet been issued, then the interest rate on such Bonds shall be assumed to be equal to (i) for the first twelve (12) months, at the rate of interest for such Bonds as determined under the variable rate formula on the date of issue, and (ii) for each subsequent twelve (12) month period, at the rate of interest which is the weighted average rate of interest for such Bonds during the preceding twelve (12) month period). If, however, for purposes of (1) above, the amount on deposit is less than the required amount pursuant to Section 6.01, without giving effect to clause (2) therein, then the amount then on deposit in clause (1) above shall be replaced with the amount as required to be on deposit pursuant to Section 6.01, without giving effect to clauses (2) therein.

**“Department”** or **“Department of Transportation”** means the Department of Transportation established by Section 3 of the Hawaii State Government Reorganization Act of 1959 (Section 3 of Act 1, Session Laws of Hawaii, Second Special Session of 1959; Section 26-4, Hawaii Revised Statutes).

**“Department of Budget and Finance”** means the principal department established under the name “Department of Budget and Review” by Section 3 of the Hawaii State Government Reorganization Act of 1959 (Section 3 of Act 1, Session Laws of Hawaii, Second Special Session of 1959; Section 26-4, Hawaii Revised Statutes), which name was changed to “Department of Budget and Finance” by Act 114, Session Laws of Hawaii 1963 and which Department under the Hawaii State Government Reorganization Act of 1959 has custody of State funds and is responsible for the safekeeping, management, investment and disbursement thereof and administers State debts.

**“Department Payment”** means any payment, other than a termination payment or payment occurring as a result of default or expense payment, required to be made by or on behalf of the Department under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.

**“Derivative Payment Date”** means any date specified in the Derivative Product on which a Department Payment is due and payable under the Derivative Product.

**“Derivative Product”** means a written contract or agreement between the Department and a Reciprocal Payor, which provides that the Department’s obligations thereunder will be conditioned on the absence of: (i) a failure of the Reciprocal Payor to make an payment required thereunder when due and payable, and (ii) a default thereunder with respect to the financial status of the Reciprocal Payor; and (a) under which the Department is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the Department Payments in exchange for the Reciprocal Payor’s obligation to pay or to cause to be paid to the Department, on the same scheduled and specified Derivative Payment Dates, the Reciprocal Payments, *i.e.*, the contract must provide for net payments; (b) for which the Department’s obligations to make all or any portion of Department Payments may be secured by a pledge of lien on Revenues on a lien subordinate to the lien thereon of Bonds; (c) under which Reciprocal Payments are to be made directly into a bond fund for Bonds; (d) for which the Department Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product; and (e) for which Reciprocal Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product.

**“Director”** or **“Director of Transportation”** means the single executive heading the Department pursuant to Section 26 of the Hawaii State Government Reorganization Act of 1959 (Section 26 of Act 1, Session Laws of Hawaii, Second Special Session of 1959; Section 26-19, Hawaii Revised Statutes).

**“Director of Finance”** means the single executive heading the Department of Budget and Finance pursuant to Section 14 of the Hawaii State Government Reorganization Act of 1959, as amended (Section 14 of Act 1, Session Laws of Hawaii, Second Special Session of 1959, as amended; Section 26-8, Hawaii Revised Statutes).

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

**“Fiscal Year”** means the fiscal year for the State as established from time to time by said State, currently the period from July 1 in any year to and including the following June 30.

**“Governmental Obligations”** shall mean any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures or notes issued by any of the following Federal agencies: Bank for Cooperatives, Federal Land Banks, or Federal National Mortgage Association (including Participation Certificates); (iii) Public Housing Bonds, Temporary Notes, or Preliminary Loan Notes, fully secured by contracts with the United States, or (iv) full faith and credit direct obligations of any State, or unlimited tax direct obligations of any political subdivision thereof to the payment of which the full faith and credit of such political subdivision is pledged; provided that at the time of purchase such obligations are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in both New York and the State.

**“Holder”** or **“Bondholder”** means any person who shall be the bearer of any Bond not then registered, or the registered owner or his duly authorized attorney-in-fact, representative or assigns, of any Bond which shall at the time be registered other than to bearer.

**“Investment Securities”** means any of the following which at the time are legal investments under the laws of the State for the moneys held under the Certificate then proposed to be invested therein: (i) direct general

obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following Federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (a) the United States Export-Import Bank (Eximbank) direct obligations or fully guaranteed Certificates of beneficial ownership, (b) Farmers Home Administration (FmHA) (now known as the United States Department of Agriculture, Rural Development) Certificates of beneficial ownership, (c) Federal Financing Bank, (d) Federal Housing Administration Debentures (FHA), (e) General Services Administration participation Certificates, (f) Government National Mortgage Association (GNMA or "Ginnie Mae"), (g) United States Maritime Administration Guaranteed Title XI financing, (h) United States Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures, United States Government guaranteed debentures, United States Public Housing Notes and Bonds, United States government guaranteed housing notes and bonds; (iii) Public Housing Bonds, Temporary Notes, or Preliminary Loan Notes, fully secured by contracts with the United States; (iv) full faith and credit direct obligations of any State, or unlimited tax direct obligations of any political subdivision thereof to the payment of which the full faith and credit of such political subdivision is pledged; provided that at the time of purchase such obligations are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in both New York and the State; (v) bank savings accounts, or time Certificates of deposits, or Certificates of deposit, open account; provided that such accounts or Certificates are collaterally secured in the manner provided by Section 38-2, Hawaii Revised Statutes, by securities which themselves are then eligible under the above clauses (i) through (iv) of this definition for the investment of moneys held under the Certificate and which have a market value at least equal to the amount held in such bank savings accounts or held under such Certificates of deposit; (vi) commercial paper which is rated at the time of purchase in the single highest classification: "A-1+" by Standard & Poor's Ratings Services, A Division of the McGraw Hill Companies, Inc. ("S&P") and "P-1" by Moody's Investors Service, Inc. ("Moody's"), and which have original maturities of not more than 270 days; (vii) (a) investments in money market funds having a rating of "AAAm", "AAAAG" or "AA-m" or better by S&P or "Aaa", "Aa1" or "Aa2" if rated by Moody's or (b) securities or interests in any mutual fund or any open-ended or closed-ended investment company or investment trust registered under the Federal Investment Company Act of 1940, including those mutual funds or investment companies or trusts for which the registration agent or an affiliate of the registration agent serves as an investment advisor, custodian, shareholder, servicing agent, transfer agent, administrator or distributor, if such mutual funds or investment companies or trusts are rated by S&P or Moody's in its highest rating category; (viii) (a) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (c) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively, "United States Obligations"); (ix) Federal Housing Administration Debentures; (x) the following obligations of government-sponsored agencies which are not backed by the full faith and credit of the U.S. government (stripped securities are only permitted if they have been stripped by the agency itself): (a) Federal Home Loan Banks (FHL Banks) Senior debt obligation, (b) Federal Home Loan (FMLMC), Participation Certificates; Senior debt obligations, (c) Federal National Mortgage Association (FNMA), Senior debt obligations, Mortgage-backed securities, (d) Student Loan Marketing Association (SLMA) Senior debt obligations, (e) Resolution Funding Corporation (REFCORP) debt obligations; (f) Farm Credit System, Consolidated system-wide bonds and notes; (xi) deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million; (xii) repurchase agreements with any domestic bank with a debt rated "AA" or better by S&P, or any foreign bank rated at least "AA" by S&P and "Aa" by Moody's, or with any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that such repurchase agreements meet the following requirements: (a) The market value of the collateral is maintain for United States Treasury Securities (and other United States Obligations acceptable to credit facility issuer) at levels acceptable to the credit facility issuer, (b) Failure to maintain the requisite collateral percentage will require the registration agent to liquidate the collateral, (c) The registration agent or a third party acting solely as agent for the registration agent has possession of the collateral or the collateral has been transferred to the registration agent in accordance with

applicable state and federal laws (other than by means of entries on the repurchase agreement entity's books) at or before the time of payment, (d) The repurchase agreement shall state and an opinion of counsel shall be rendered that the registration agent has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof and to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds (in case of bearer securities, this means the trustee is in possession), (e) The collateral is free and clear of any third-party liens or claims, (f) An opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code, (g) There is or will be a written agreement governing every repurchase agreement transaction, (h) The registration agent represents that it has no knowledge of any fraud involved in the repurchase agreement transaction; (1) The registration agent receives the opinion of counsel (which opinion shall be addressed to the Department and the registration agent) that such repurchase agreement as legal, valid and binding and enforceable upon the provider in accordance with its terms, and that the repurchase agreement is a lawful investment for the funds of the State; (xiii) collateralized guaranteed investment contracts meeting the criteria then required by the issuer of any credit facility then in effect with respect to the Bonds outstanding; and (xiv) any pooled investment fund that invests solely in one or more of the investments described in (i) through (xiii) above.

**"Net Revenues and Taxes"** means for any past period the aggregate of the Revenues and collections of Aviation Fuel Taxes actually paid into the Airport Revenue Fund during such past period, and for any future period the aggregate of the Revenues and collections of Aviation Fuel Taxes anticipated to be paid into the Airport Revenue Fund during such future period, minus for any such past period the aggregate of the following items actually paid or accrued during such past period, or minus for any such future period the aggregate of the following items anticipated to be paid or accrued during such future period, as the case may be: (i) the expenses of operation, maintenance and repair of the properties constituting the Undertaking (including reserves therefor) and the expenses of the operation of the Department in connection with those properties; (ii) the amounts required by the Certificate to be credited to the Debt Service Reserve Account created in the Airport Revenue Fund; (iii) the amounts required by the Certificate to be credited to the Airports System Major Maintenance, Renewal and Replacement Account created in the Airport Revenue Fund; and (iv) the amounts required to be paid into the general fund of the State pursuant to the Certificate for all bond requirements for general obligation bonds which have been or are issued for purposes of the airports system or issued to refund bonds issued for such purposes.

**"Paying Agents"** means for all Bonds the Director of Finance of the State and for the 1969 Bonds the additional paying agents therefor appointed in the Certificate and for Additional Bonds the additional paying agents for the respective series of Additional Bonds of which such Additional Bonds are a part appointed, pursuant to the Certificate, in the Supplemental Certificate providing for the issuance of such series of Additional Bonds.

**"PFC"** means a passenger facility charge (i) collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Act of 1990, the Aviation Investment Reform Act of 2000 and 14 C.F.R. Part 158, as amended from time to time, in respect of any component of the Undertaking and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge proceeds; and (ii) deposited into the PFC Special Fund pursuant to Section 261-5.5, Hawaii Revised Statutes, as amended by Act 147, Session Laws of Hawaii 2009.

**"PFC Special Fund"** means the passenger facility charge special fund established in the treasury of the State by Section 261-5.5, Hawaii Revised Statutes, as amended by Act 147, Session Laws of Hawaii 2009.

**"Qualified Insurance"** means any non-cancelable municipal bond insurance policy or surety bond issued by an insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, is rated in the highest rating category by any rating agency which has rated all or any series of Bonds at the request of the State.

**"Qualified Letter of Credit"** means any irrevocable letter of credit issued by a financial institution, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest long term rating categories by one or more of the rating agencies which as rated all or any series of Bonds at the request of the State.

**“Reciprocal Payment”** means any payment to be made to, or for the benefit of, the Department under a Derivative Product by a Reciprocal Payor.

**“Reciprocal Payor”** means any bank or corporation, partnership or other entity which is a party to a Derivative Product and which is obligated to make one or more Reciprocal Payments thereunder.

**“Revenues”** means and includes all income, revenues and moneys derived by the State from the ownership by the State or operation and management by the Department of the Undertaking or the furnishing and supplying of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from the rates, rentals, fees and charges fixed, imposed and collected by the Department pursuant to Section 261-5, Hawaii Revised Statutes, as amended by Act 10, Session Laws of Hawaii 1969, and Section 261-7, Hawaii Revised Statutes, as amended or otherwise derived from or arising through the ownership, operation and management of the Undertaking by the State, or derived from the rental of all or part of the Undertaking or from the sale or rental of any commodities or goods in connection with the Undertaking; earnings on the investment of the proceeds of Bonds; to the extent provided in Section 6.02 of the Certificate, earnings on the investment of moneys held under the Certificate and the proceeds of the sale of any such investments; and to the extent provided in Article XI of the Certificate, income derived by the Department or otherwise derived by the State from a Special Facility Lease; provided, however, that the term “Revenues” shall not include moneys received as proceeds from the sale of Bonds or as grants or gifts, the use of which is limited by the grantor or donor to the construction of capital improvements, except to the extent that any such moneys shall be received as payments for the use of the Undertaking; and provided, further, that nothing in this definition shall be construed or interpreted as requiring the use and application directly or indirectly of any taxes, other than Aviation Fuel Taxes, to the payment of the Bonds. Additionally, the term “Revenues” shall not be construed to include the proceeds of any passenger facility charges which may be permitted by law, unless the inclusion of such proceeds is expressly provided for in a Supplemental Certificate.

**“Special Facility”** means any hangar, maintenance building or other structure and facility referred to under the caption “Special Facility Leases and Special Obligation Bonds” below.

**“Special Facility Lease”** means a lease for a Special Facility between the Department, as lessor, and the user of the Special Facility, as lessee, as described under the caption “Special Facility Leases and Special Obligation Bonds” below.

**“Special Obligation Bonds”** mean bonds of the Department issued to finance the construction of a Special Facility.

**“Spread”** means, with respect to the Make-Whole Redemption Premium for any particular Build America Bond, the percentage provided as such in a Supplemental Certificate.

**“State”** means the State of Hawaii.

**“Supplemental Certificate”** means a Certificate duly issued by the Director for any of the purposes of Article IX of the Certificate or otherwise supplemental to or amendatory of the Certificate but only if and to the extent specifically authorized of the Certificate.

**“Treasury Yield”** means, with respect to the Make-Whole Redemption Premium for any Build America Bond, the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recent Federal Reserve Statistical Release H.15(519) under the heading “Treasury Constant Maturities,” for the maturity corresponding to the remaining term to maturity of such Build America Bond being redeemed. The Treasury Yield will be determined as of the third Business Day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Build America Bond being redeemed, then the Treasury Yield will be equal to such weekly average yield. In all other cases, the Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity



of the Build America Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Build America Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

“**Undertaking**” or “**Airports System**” means the statewide system of airports of the State and includes all airports, air navigation facilities and other related facilities and related properties (real, personal or mixed), and any rights or interests in airports, air navigation facilities and other related facilities and related properties, as of the date of the Certificate or thereafter belonging to or controlled by the State or under the administration, jurisdiction, control and management of the Department, and all equipment, improvements, extensions or betterments thereto thereafter constructed or acquired belonging to or controlled by the State, and without limiting the generality of the foregoing, the term “Undertaking” shall include (i) any and all of the following of or belonging or pertaining to such airports or air navigational facilities or such rights or interests: lands or water areas, rights-of-way, approaches, contract rights, airport terminal buildings, hangars and other buildings and facilities erected on such lands, runways, taxiways, paved areas access roads, parking lots, airport equipment and any other equipment and property (real, personal or mixed) incidental, to and included in such properties or parts thereof ; and (ii) each and every and all and singular, the properties and facilities constructed or acquired from the proceeds of the Territory of Hawaii Aviation Revenue Bonds, Series A, issued under Resolutions Nos. 59-03 and 59-04, adopted March 31, 1959 by the Hawaii Aeronautics Commission of the former Territory of Hawaii, or constructed or acquired from the proceeds of Bonds issued under the Certificate or constructed or acquired from the proceeds of any other bonds, notes or other evidences of indebtedness payable, or the principal or interest or both of which is reimbursable, from the Airport Revenue Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the Airport Revenue Fund or from moneys in any other fund maintained therefrom; provided, however, that the term “Undertaking” shall not include: (1) properties sold, leased or otherwise disposed of or transferred pursuant to the Certificate; and (2) properties subject to a Special Facility Lease, except to the extent provided in the Certificate.

*[Remainder of page intentionally left blank.]*

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX G

### SUMMARY OF CERTAIN PROVISIONS OF THE DIRECTOR'S CERTIFICATE

This Appendix G contains a summary of certain provisions of the Director's Certificate as currently in effect. The summary does not purport to be complete or to follow the exact language of the Director's Certificate. The summary complements the summaries found under "DESCRIPTION OF THE DIRECTOR'S CERTIFICATE" and "SECURITY FOR THE BONDS." Reference is made to the full text of the Director's Certificate and the supplements thereto for the precise wording and the complete provisions of the Director's Certificate. Copies of the Director's Certificate are available upon request to the Department. Unless clearly indicated otherwise, all section references are to the Director's Certificate only.

#### Application of Revenues and Aviation Fuel Taxes

So long as any Bonds remain outstanding, the Airport Revenue Fund shall be continued and all Revenues and all Aviation Fuel Taxes shall be deposited in the Airport Revenue Fund, to be used and applied solely as provided in the Certificate. The Airport Revenue Fund and the Revenues and Aviation Fuel Taxes and any other moneys deposited or to be deposited therein shall be appropriated, applied or expended in the amount necessary therefor for the following purposes and in the following order of priority:

**FIRST:** For payment of the costs of operation, maintenance and repair of the properties constituting the Undertaking, including reserves therefor, and the expenses of the operation of the Department of Transportation in connection with those properties.

**SECOND:** For the payment when due all Bonds and interest thereon, including reserves therefor, which payment shall be provided for as follows:

*Interest Account.* Monthly credits shall be made to the Interest Account for the purpose of paying the interest on the Bonds as and when the same become due.

*Serial Bond Principal Account.* Monthly credits shall be made to the Serial Bond Principal Account for the purpose of paying the principal of Bonds issued in serial form, commencing with the first business day of the month which is twelve months prior to the first principal payment date of such Bonds issued in serial form and on the first business day of each month thereafter so long as any such Bonds are outstanding.

*Sinking Fund Account.* Monthly credits shall be made to the Sinking Fund Account for the purpose of providing for the retirement of the principal of Bonds of any series issued in term form, commencing with the first business day of the month which is twelve months prior to the first date upon with Bonds of any series issued in term form would be required to be redeemed and on the first business day of each month thereafter so long as any such Bonds are outstanding.

*Application of Moneys Credited to the Interest Account, Serial Bond Principal Account and Sinking Fund Account.* The moneys on deposit in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and the Sinking Fund Account therein shall be used and applied solely to the payment of the interest on and the retirement of the principal of the Bonds and shall be so used and applied in accordance with the foregoing provisions. The moneys credited to said accounts shall be transferred by the Director of Finance, without further authorization or direction, to the respective paying agents for said Bonds and the coupons, if any, pertaining thereto, in such amounts and at such times as shall be necessary to pay the principal, premium, if any, and interest on said Bonds as the same become due and payable, whether upon their maturity or upon the redemption or the purchase thereof from the moneys credited to the Sinking Fund Account.

*Debt Service Reserve Account.* There is hereby created a separate account in the Airport Revenue Fund to be known as the "Airports System Debt Service Reserve Account" (herein referred to as the "Debt

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

THIRD: The Major Maintenance, Renewal and Replacement Account provides a further and additional reserve for the payment of the Bonds. During each Fiscal Year, there shall be credited to the Major Maintenance, Renewal and Replacement Account, at such time or times in each Fiscal Year as shall be determined by the

Department, an aggregate amount of \$600,000, or such larger amount as the Department may from time to time determine) in each such year, or so much of such sum as is available for that purpose, until there shall be in the Airport Revenue Fund on credit to this account the sum of \$2,400,000; provided, that, if the Consulting Engineer shall certify to the Department that in his opinion the aforesaid aggregate sum of \$2,400,000 is insufficient for the purposes for which this account is created and if the Department in its sole discretion shall determine to increase said aggregate sum by all or any part of the amount of the increase recommended by the Consulting Engineer, the aforesaid credits to this account shall be resumed, or may be increased if credits to this account are then being made, until such larger sum (if any) deemed advisable by the Department is then on credit thereto. If, however, on the first day of any Fiscal Year the moneys credited to the Major Maintenance, Renewal and Replacement Account are in excess of \$2,400,000 or such larger sum as is deemed advisable by the Department, as aforesaid, the amount of such excess may be transferred back into the Airport Revenue Fund, to be used and applied as are all other moneys deposited or on deposit in that fund. The money on credit to the Major Maintenance, Renewal and Replacement Account shall be applied only (i) to make up deficiencies in the Interest Account, Serial Bond Principal Account and Sinking Fund Account created in the Airport Revenue Fund, and (ii) for major maintenance, repairs, renewals and replacements as shall not be annually recurring in nature of the properties constituting the Undertaking, including runways, taxiways and access roads. Whenever moneys are withdrawn from this account, the aforesaid credits shall be resumed, or may be increased if credits to this account are then being made, until the amount on credit to this account shall equal the amount required to be on credit thereto from time to time. In addition, payment shall be provided for such purposes, within the jurisdiction, powers, duties and functions of the Department, including the creation and maintenance of reserves, as are otherwise covenanted in the Certificate or in any Supplemental Certificate. See "AMENDMENTS TO THE CERTIFICATE."

FOURTH: To reimburse the general fund of the State for all bond requirements for general obligation bonds which are or shall have been issued for the Undertaking or issued to refund any of such general obligation bonds or to refund any of the Territory of Hawaii Aviation Revenue Bonds, Series A, except insofar as such obligation of reimbursement has been or shall be cancelled by the Legislature, such bond requirements being, unless otherwise provided by law, the interest on term and serial bonds, sinking fund for term bonds and principal of serial bonds maturing the following year.

FIFTH: To provide for betterments and improvements to the Undertaking, including reserves therefor.

SIXTH: To provide such special reserve funds and other special funds as are or may be created by law.

SEVENTH: To any other purpose connected with or pertaining to the Bonds or the Undertaking, or both, authorized by law.

In the event that the Revenues and Aviation Fuel Taxes at any time or from time to time are insufficient to make in full the foregoing payments, deposits and credits as required by and in accordance with items "FIRST through SEVENTH" above, all the Revenues and Aviation Fuel Taxes shall thereafter be applied, used, paid, deposited and credited, in accordance with all the foregoing provisions, to the satisfaction in full of an item having a higher priority before being applied, used, paid, deposited and credited to an item having a lower priority, including by the making up of any deficiencies in the amounts required to satisfy an item having a higher priority before being applied to an item having a lower priority.

Unless and until adequate provision has been made for the foregoing purposes, the State shall not have the right to transfer to its general fund or apply to any other purposes any part of the Revenues or Aviation Fuel Taxes.

The Debt Service Reserve Account shall be maintained by deposits of cash, a Qualified Letter of Credit or Qualified Insurance, or a combination of the foregoing. To the extent that the Department obtains a Qualified Letter of Credit or Qualified Insurance in substitution for cash or securities in the Debt Service Reserve Account, an amount of the money on deposit in the Debt Service Reserve Account equal to the face amount of the Qualified Letter of Credit or Qualified Insurance shall be transferred to the Airport Revenue Fund to be used and applied as are all other moneys deposited in or on deposit in that fund. In computing the amount on deposit in the Debt Service Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the face amount thereof, and all other obligations purchased as an investment of moneys therein shall be valued at market at least annually. The market value of securities then credited to the Debt Service Reserve Account shall be determined and any

deficiency in the Debt Service Reserve Account shall be made up in equal installments within six months after the date of such valuation. As used in this paragraph, the term cash shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's check.

### **Investment of Moneys in Funds and Accounts**

Moneys in the Airport Revenue Fund on credit to the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account therein shall be invested by the Director of Finance in Investment Securities so as to mature in such amounts and at such times so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at the maturity thereof, or upon the redemption or the purchase thereof from moneys credited to the Sinking Fund Account in said fund. Moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account and the Major Maintenance, Renewal and Replacement Account shall be invested by the Director of Finance in Investment Securities so as to mature as directed by the Department within twelve (12) years from the date of investment, but in any event by no later than the last or final maturity date of the Bonds then outstanding. The Department hereby grants its approval for all investments made by the Director of Finance pursuant to this paragraph, and no further approvals of the Department shall be necessary therefor. Income derived from investments made pursuant to this paragraph shall be treated as Revenues of the Undertaking; expenses of purchase, safekeeping, sale and redemption and all other expenses attributable to such investments shall be proper expenses of the Undertaking. Securities so purchased shall be considered as being deposited in the custody or control of the Director of Finance by the Department of Transportation. All moneys in the Airport Revenue Fund, the investment of which is not heretofore provided in this paragraph, may be invested, and the income from such investments disbursed or applied, as may be provided by applicable law. All securities shall constitute a part of the respective fund and account from which the investment therein was made. For the purposes of making any calculations or computations at any time and from time to time of the amounts in the Airport Revenue Fund or any fund or account therein which may be required for the purposes of the Certificate, all investments shall be valued at the lower of their face amount or the then market value thereof.

The following shall be conditions precedent to the use of any Derivative Product: (1) the Department shall obtain an opinion of its bond counsel on the due authorization and execution of such Derivative Product opining that the action proposed to be taken by the Department is authorized or permitted by the Certificate or the applicable provisions of any Supplemental Certificate providing for the issuance of a series of Bonds, as such Certificates may be amended or supplemented from time to time and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any Bonds then outstanding; (2) each Derivative Product shall set forth the manner in which the payments are to be calculated and a schedule of Derivative Payment Dates; and (3) prior to entering into a Derivative Product, the Department shall issue a Supplemental Certificate, which shall (i) create and establish a Derivative Product Account or provide for some other way to account for the use of a Derivative Product; (ii) establish general provisions for the retention of Revenues in amounts sufficient to make, when due, payments by the Department; (iii) establish general provisions for the rights of providers of Derivative Products; and (iv) set forth such other matters as the Department deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Supplemental Certificate. Except as may be otherwise provided in the Supplemental Certificate establishing a Derivative Product Account, Additional Bonds may be delivered in connection with any Derivative Product. The Certificate may be amended in the future to reflect the lien position and priority of any payments made in connection with a Derivative Product; provided, however, that the lien on Net Revenues and Taxes of payments under Derivative Products must be subordinate to the lien thereon of outstanding Bonds.

### **Rate Covenant**

The Department shall impose, prescribe and collect rates, rentals, fees or charges for the use and services of and the facilities and commodities furnished by the Undertaking, and shall revise such rates, rentals, fees or charges from time to time whenever necessary, so that, together with the proceeds of the Aviation Fuel Taxes, the Undertaking shall be and always remain self-sustaining. The rates, rentals, fees or charges imposed, prescribed and collected shall be such as will produce Revenues which, together with the proceeds of the Aviation Fuel Taxes, will be at least sufficient: (1) to make the required payments of the principal of and interest on all Bonds, including reserves therefor, and the payment of all other bonds, notes, Certificates or other evidences of indebtedness and interest thereon, including reserves therefor for the payment of which the Revenues or the Aviation Fuel Taxes, or

both, are or shall have been pledged, charged or otherwise encumbered, or which are otherwise payable from the Revenues or the Aviation Fuel Taxes, or both, or from a special fund or account maintained or to be maintained therefrom; (2) to pay the costs of operation, maintenance and repair of the Undertaking, including reserves therefor, and the expenses of the Department in connection with such operation, maintenance and repair; (3) if and to the extent then required by law, to reimburse the general fund of the State for all bond requirements for general obligation bonds which are or shall have been issued for the Undertaking, or issued to refund any of such general obligation bonds or to refund the Territory of Hawaii Aviation Revenue Bonds, Series A; and (4) to carry out the provisions and covenants of the Certificate, including, without limiting the generality of all the foregoing, the making of all payments and credits required the application of revenues provisions thereof. Without limiting the provisions of the next preceding sentence, at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, fixed, enforced and collected which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year which the Department shall certify as Revenues to the Director of Finance for the next succeeding Fiscal Year solely for the purposes of this test, yield Net Revenues and Taxes with respect to the then immediately ensuing twelve months in an amount at least equal to one and twenty five hundredths (1.25) times the aggregate of (i) the interest payments for such twelve months on all Bonds then outstanding; (ii) the principal amount of all Bonds then outstanding maturing by their terms during such twelve months; and (iii) the minimum payments into the Sinking Fund Account required to be made during such twelve months.

The Legislature of the State has covenanted, pledged and obligated itself to impose, or continue to impose, Aviation Fuel Taxes in amounts at least sufficient, together with the Revenues, so that the Undertaking shall be and always remain self-sustaining.

#### **Other Covenants**

In addition to the Rate Covenant, the Department also covenants to, among other things: (1) complete acquisitions and constructions promptly; keep the Undertaking in good repair; make improvements and betterments thereto, manage the Undertaking efficiently, not sell, lease or Dispose of the Undertaking and dispose of worn-out or useless property; (2) file with the Director of Finance a signed copy of the annual report of the Accountant for the preceding Fiscal Year in reasonable detail, and showing among other things for such year the Net Revenues and Taxes (including any unencumbered funds on deposit in the Airport Revenue Fund on the last day of the Fiscal Year preceding the Fiscal Year for which the calculation is made, so designated as Revenues by the Department to the Director of Finance) and the aggregate Debt Service Requirement of the Bonds; (3) not create or give any mortgage, lien, pledge, charge or other encumbrance upon any real or personal property constituting the Undertaking or upon the Revenues, the Aviation Fuel Taxes and the money in the Airport Revenue Fund, other than the liens, pledges and charges specifically created under the Certificate or specifically permitted thereby; (4) keep or cause to be kept insured the properties constituting the Undertaking; (5) maintain and keep proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking and cause such accounts to be audited by the Accountant within one hundred eighty (180) days after the close of each Fiscal Year; (6) retain and appoint from time to time a Consulting Engineer; (7) perform punctually all duties and obligations with respect to the properties constituting the Undertaking; (8) prepare and file with the Legislature and the proper officers of the State, including the Director of Finance, at the time and in the manner prescribed by law, an estimated budget or budgets of Revenues and Aviation Fuel Taxes and other income, expenses of operation, maintenance and repair of the Undertaking, capital improvements, and any other proposed expenditures; (9) duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges or surcharges or payments in lieu thereof lawfully imposed upon the properties constituting the Undertaking or upon the Revenues or upon the Aviation Fuel Taxes or upon the Airport Revenue Fund, or any required payments in lieu thereof; (10) employ competent supervisory personnel for the operation and management of the properties constituting the Undertaking; (11) pass, make, do, execute, acknowledge and deliver all and every such further Certificates, resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming the rights, Revenues, Aviation Fuel Taxes and other funds hereby pledged to the payment of the Bonds; and (12) duly and punctually pay, but only from the proceeds of the Bonds and the Revenues and Aviation Fuel Taxes, the principal of and premium, if any, and interest on each and every Bond on the dates, at the place or places and in the manner provided in the Bonds.

## **Amending and Supplementing the Certificate**

The Department may issue Supplemental Certificates to amend the Certificate without the consent of Bondholders, if the provisions of such Supplemental Certificate shall not adversely affect the rights of the holders of the Bonds then outstanding, for any one or more of the following purposes: (1) to make any changes or corrections in the Certificate or any Supplemental Certificate as to which it shall have been advised by its counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained herein or in any such Certificate supplemental hereto, or to insert such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable; provided that such modifications are not contrary to or inconsistent with the Certificate as originally issued or as amended with the consent of Bondholders; (2) to add additional covenants and agreements of the State for the purpose of further securing the payment of the Bonds; provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements contained in the Certificate as originally issued or as amended with the consent of Bondholders; (3) to surrender any right, power or privilege reserved to or conferred upon the State by the terms of the Certificate or any Supplemental Certificate; (4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any Supplemental Certificate; (5) to grant to or confer upon the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; (6) to prescribe further limitations and restrictions upon the issuance of the Bonds and the incurring of indebtedness by the State payable from the Revenues and Aviation Fuel Taxes which are not contrary to or inconsistent with the Certificate as originally issued or as amended with the consent of Bondholders; and (7) to modify in any other respect any of the provisions of the Certificate, or any Supplemental Certificate, previously adopted; provided that such modifications shall have no effect as to any Bond or Bonds which are outstanding as of the issuance of such Supplemental Certificate.

With the consent of the holders of not less than fifty per centum (50%) of the Bonds then outstanding, the Department may make and execute an instrument or Certificate amending or supplementing the provisions of the Certificate for the purposes of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any Supplemental Certificate, or modifying in any manner the rights of the holders of the Bonds and coupons then outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no such instrument or Certificate amending or supplementing the provisions of the Certificate shall: (1) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any such instrument or Certificate amending or supplementing the provisions thereof; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured hereby. A modification or amendment of the provisions with respect to the Airport Revenue Fund or the Interest Account, Serial Bond Principal Account, Sinking Fund Account or Debt Service Reserve Account therein shall not be deemed a change in the terms of payment; provided, however, that no such modification or amendment shall, except upon the consent of the holders of all Bonds then outstanding affected thereby, reduce the amount or amounts required to be deposited in the Airport Revenue Fund for credit to the interest Account, Serial Bond Principal Account, Sinking Fund Account or Debt Service Reserve Account therein.

Upon the issuance of any Certificate amending or supplementing the provisions of the Certificate and the delivery thereof to the Director of Finance, together with an opinion of counsel to the Department, or upon such later date after delivery of such Certificate and opinion to the Director of Finance as may be specified in such Certificate, the Certificate and the Bonds shall be modified and amended in accordance with such Supplemental Certificate, and the respective rights, limitations of rights, obligations, duties and immunities under the Certificate of the State, including the Department of Transportation thereof, and of the holders of the Bonds and coupons shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all of the terms and conditions of any such amending or supplementing Certificate shall be a part of the terms and conditions of the Bonds and of the Certificate for any and all purposes.



No Certificate changing, amending or modifying any of the rights or obligations of the Director of Finance or other fiscal agent (including any paying agent, transfer agent or registrar) may be adopted without the written consent of the Director of Finance or other fiscal agent affected thereby, as the case may be.

### **Events of Default**

The following constitute "Events of Default":

- If payment of the principal and premium (if any) of any Bond, whether at maturity or by proceedings for redemption, by declaration, or otherwise, shall not be made after the same shall become due and payable; or
- If payment of any installment of interest on any Bond shall not be made within thirty days after the same shall become due and payable; or
- If the credits to the Sinking Fund Account in the Airport Revenue Fund shall not be made or satisfied in any year ending June 30 in the amount required for such year and such failure shall have continued for sixty (60) days after the expiration of such year; or
- Unless all the Bonds then outstanding shall have been called for retirement or for redemption, if the Undertaking or any building or facility constituting a part thereof shall be destroyed or damaged so as to reduce the aggregate of the Revenues and Aviation Fuel Taxes below the amount Rate Covenant to be produced and maintained and the Department does not, to the extent of the proceeds of insurance or self-insurance and the moneys on deposit in the Airport Revenue Fund to the credit of the Major Maintenance, Renewal and Replacement Account available therefor, promptly repair or reconstruct such destroyed or damaged building or facility, or does not promptly erect or substitute in place of the building or facility destroyed or damaged other buildings and facilities which produce revenues and with respect to which Aviation Fuel Taxes are derived, comparable to those produced by or derived with respect to the building or facility destroyed or damaged, and does not subject to the lien of the Certificate and deposit in the Revenue Fund an amount of the revenues to be derived therefrom or of the aviation fuel taxes derived with respect thereto, comparable to those theretofore derived from or with respect to the building or facility destroyed or damaged, which amounts so deposited shall constitute Revenues or Aviation Fuel Taxes as the case may be, to be used and applied as are all other Revenues and Aviation Fuel Taxes; provided that nothing in this clause shall be deemed to require the repairing, reconstruction or replacement of any building or facility which at the time of such destruction or damage was unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the security and payment of the Bonds; or
- If the Department shall fail in the due and punctual performance of the certain components of the Rate Covenant, or shall fail to impose, prescribe, and collect rates, rentals, fees and charges for the use and services of and the facilities and commodities furnished by the Undertaking, and to revise such rates, rentals, fees and charges from time to time whenever necessary, so as to produce Revenues and Aviation Fuel Taxes which are at least equal to the greater of (1) the aggregate of the amounts required for the Undertaking to be self-sufficient under the Certificate, and (2) the amount equal, after deducting from the Revenues and Aviation Fuel Taxes the payments and credits required to be transferred to the Interest Account, Serial Bond Principal Account, Sinking Fund Account and Debt Service Reserve Account for the payment of debt service on Bonds during the then immediately ensuing twelve months, to one and twenty-five hundredths (1.25) times the aggregate Debt Service Requirement for such twelve months for all Bonds then outstanding, or if the Legislature of the State shall fail in the due and punctual performance of its pledge, covenant and obligation to impose, or continue to impose, Aviation Fuel Taxes in amounts which, together with the Revenues, aggregate at least the greater of the amounts set forth in clauses (1) and (2) of this paragraph, and any such failure shall continue for ninety days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Department by the holders of not less than twenty per cent (20%) of the principal amount of the Bonds then outstanding or any trustee or committee therefor; or

- If the Department shall fail in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate (other than the covenants, conditions, agreements and provisions regarding the Rate Covenant) or in any Supplemental Certificate, on the part of the Department to be performed, and such failure shall continue for ninety (90) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Department by the holders of not less than twenty per cent (20%) in principal amount of the Bonds then outstanding or any trustee or committee therefor; or
- If any proceedings shall be instituted, with the consent or acquiescence of the State, for the purpose of effecting a composition between the State and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or Aviation Fuel Taxes or any other moneys pledged and charged in any Supplemental Certificate, or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute; or
- If an order or decree shall be entered (a) with the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof; or (b) without the consent or acquiescence of the State or the Department, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof and such order or decree having been entered, shall not be vacated or discharged or stayed on appeal within sixty (60) days after the entry thereof; or
- If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Undertaking or any of the buildings and facilities thereof, and such custody or control shall not be terminated within ninety (90) days from the date of assumption of such custody or control; or
- If the Department shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

## **Remedies**

In case any one or more of the Events of Default shall happen and be continuing, then and in every such case, but subject to certain provisions of the Certificate concerning certain remedies, the holder of any Bond at the time outstanding shall have the right, for the equal benefit and protection of all holders of the Bonds similarly situated, to proceed and protect and enforce the rights vested in such holders by the Certificate by such appropriate judicial proceeding as such holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any duty, obligation, covenant or agreement contained in the Certificate or required by law, or to enjoin any acts or things which may be unlawful or in violation of the provisions of the Certificate and of the rights of the holders of the Bonds under the Certificate or under such laws, or in aid of the exercise of any power granted in the Certificate, or to enforce any other legal or equitable right vested in the holders of Bonds by the Certificate or by law, or to bring suit upon the Bonds.

## **Special Facility Leases and Special Obligation Bonds**

The State, either in its own name or acting by and through the Department, may enter into contracts, leases or other agreements pursuant to which the Department will agree to construct a hangar, maintenance building or other aviation or airport or air navigation facility on land constituting part of the Undertaking or will agree to acquire or construct a hangar, maintenance building or other aviation or airport or air navigation facility on land not then constituting part of the Undertaking (which land if not then owned by the State may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure, or other facility (including the site thereof) for aviation or airport or air navigation purposes (all said hangars, maintenance buildings or other structures and facilities being referred to in under this heading as the "Special Facility"), and lease such Special Facility under certain conditions as provided in the Certificate.

The term "Special Facility Lease" shall mean a lease of property, under and pursuant to which the lessee agrees to pay to the Department the certain required rentals as provided in the Certificate, and to pay in addition all

costs connected with the ownership, operation, maintenance, repair, renewals and rehabilitation of the leased property (including, without limitation, insurance, utilities, taxes or payments in lieu of taxes) under such conditions so that the amounts payable to the Department pursuant to said lease (exclusive of certain additional rental and of the ground rental, if any, in each case payable pursuant to the Certificate) shall be certainly paid free and clear of all charges and whether the leased property is capable of being occupied and used by the lessee or not.

The State, acting by and through the Department or otherwise, may issue Special Obligation Bonds for the purpose of constructing a Special Facility on ground then constituting part of the Undertaking or on ground not then constituting part of the Undertaking (which ground may then be owned by the State or acquired for that purpose), or to acquire and renovate and rehabilitate a Special Facility (including the acquisition of necessary land), for lease pursuant to the Certificate. Such Special Obligation Bonds (i) shall be payable solely from the rentals payable pursuant to the Certificate by the lessee under the Special Facility Lease entered into with respect to the Special Facility to be financed from such Special Obligation Bonds; (ii) shall not be a charge or claim against or payable from the Revenues or the Aviation Fuel Taxes or any other moneys in the Airport Revenue Fund; (iii) shall mature within both the useful life of the Special Facility to be financed from such Special Obligation Bonds and the term of the Special Facility Lease entered into with respect to such Special Facility; and (iv) shall not be issued unless and until there shall have been filed with the Department an opinion of Counsel to the Department that the leases for the Special Facility to be financed from such Special Obligation Bonds are valid and binding according to their terms and comply with the provisions of the Certificate.

### **Discharge of Obligations**

The obligations of the State, including the Department, under the Certificate (including any Supplemental Certificate) and the pledges and trusts and the covenants and agreements of the State, including the Department, shall be fully discharged and satisfied as to any Bond, and the lien and charge of such Bond on the Revenues and Aviation Fuel Taxes shall be released, discharged and satisfied, and such Bond shall no longer be deemed to be outstanding hereunder when: (a) such Bond shall have been purchased and cancelled by the State or surrendered to the Director of Finance or other paying agent, transfer agent or registrar for cancellation or be subject to cancellation by him or it, or (b) payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in the Certificate, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with the Director of Finance or other paying agent for such Bond, in trust and irrevocably set aside exclusively for such payment, moneys sufficient to make such payment or Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and all necessary and proper fees, compensation and expenses of the paying agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of said paying agents. At such time as a Bond shall no longer be deemed to be outstanding hereunder, as aforesaid, such Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or by declaration as aforesaid, or otherwise) and, except for the purposes of any such payment from such moneys or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Certificate.

If any Bond shall not be presented for payment when the principal thereof shall become due, whether at maturity or upon redemption or prepayment or by declaration as provided in the Certificate or otherwise, or if any coupon shall not be presented for payment at the due date thereof, and if moneys or Governmental Obligations shall have been deposited in accordance with the terms of the Certificate with any paying agent therefor other than the Director of Finance, in trust for that purpose and sufficient and available to pay the principal and the premium, if any, of such Bond, together with all interest due thereon to the due date thereof or to the date fixed for the redemption or prepayment thereof, or to pay such coupon, as the case may be, then, subject to certain provisions the Certificate, all liability of the State for such payment shall forthwith cease, determine and be completely discharged and thereupon it shall be the duty of such paying agent to hold said moneys or Government Obligations, without liability to such Bondholder for interest thereon, in trust for the benefit of the holder of such Bond or coupon, who thereafter shall be restricted exclusively to said moneys or Governmental Obligations for any claim for such payment of whatsoever nature on his part.

All moneys or Governmental Obligations set aside and held in trust, pursuant to the provisions of the Certificate concerning the discharge of obligations of the State, for the payment of Bonds (including interest and premium thereon, if any) and coupons shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Governmental Obligations have been so set aside in trust. The State may at any time surrender to the Director of Finance for cancellation by him any Bonds previously executed and delivered, together with all unmatured coupons thereto belonging, which the State may have acquired in any manner whatsoever, and such Bonds and coupons upon such surrender for cancellation shall be deemed to be paid and no longer outstanding hereunder.

*[Remainder of page intentionally left blank.]*

**APPENDIX H**  
**FORM OF BOND COUNSEL OPINION**

December 19, 2013

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

**\$167,740,000**  
**State of Hawaii**  
**Department of Transportation –**  
**Airports Division**  
**Series 2013 Lease Revenue**  
**Certificates of Participation**  
**(Subject to AMT)**

Dear Dr. Okimoto:

At the request of the State of Hawaii (the “State”) acting through its Department of Transportation (the “Department”), we have acted as Bond Counsel in connection with the issuance of the above-captioned certificates of participation (the “Certificates”). The Certificates evidence undivided proportionate interests of the owners of the Certificates in payments of Base Rent (as defined in the hereinafter defined Indenture) to be made pursuant to a Lease Agreement dated December 19, 2013 (the “Lease Agreement”) between Johnson Controls, Inc. (“JCI”), as lessor thereunder, and the State acting through the Department’s Airports Division, as lessee thereunder. The Certificates will be executed and delivered pursuant to the Constitution of the State, the laws of the State and an Indenture of Trust (the “Indenture”) dated as of December 1, 2013, between the State acting through the Department and U.S. Bank National Association, as trustee (the “Trustee”). JCI has assigned its rights to receive rental payments under the Lease Agreement to the Trustee under a Sale, Assignment and Assumption Agreement (the “Sale Agreement”) dated December 19, 2013. All capitalized terms used herein that are not herein otherwise defined shall have the meanings ascribed thereto in the Indenture.

The Certificates are being issued to finance certain costs of implementing an Energy Performance Contract dated December 19, 2013 (the “EPC”) between the Department and JCI, including the lease and installation of certain equipment of the Department’s Airports System.

The Certificates are dated December 19, 2013, are in the denomination of \$5,000 or any integral multiple thereof, and mature serially on August 1 in each of the years and in the respective principal components set forth below, with the Certificates maturing in a particular

year bearing interest payable semiannually each February 1 and August 1, commencing August 1, 2014 at the rate per annum set opposite such year, as follows:

<u>Maturity (August 1)</u>	<u>Principal</u>	<u>Interest Rate</u>
2021*	\$ 5,000,000	5.000%
2023*	2,000,000	4.250
2016	4,745,000	3.000
2017	5,675,000	5.000
2018	6,490,000	4.000
2019	7,690,000	5.000
2020	9,230,000	5.000
2021	5,575,000	5.000
2022	11,715,000	5.000
2023	11,405,000	5.000
2024	15,590,000	5.250
2025	17,485,000	5.250
2026	19,270,000	5.250
2027	21,585,000	5.000
2028	24,285,000	5.000

\*Insured by Assured Guaranty Municipal Corp.

The Certificates are subject to redemption prior to the respective stated maturities thereof as set forth in the Certificate. The Certificates are transferable and exchangeable upon the terms and conditions set forth therein.

Chapter 37D, Hawaii Revised Statutes (“HRS”), as amended, authorizes the Department to enter into financing agreements, including lease purchase agreements, to finance the acquisition and use of property that will be used by the Department. Section 36-41, HRS, authorizes the Department to enter into multi-year energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in State facilities.

The Internal Revenue Code of 1986 (the “Code”) contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates. These requirements relate to, among other things, the use and investment of the proceeds of the Certificates, 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 Certificates. In the Tax Compliance Certificate dated the date hereof (the “Tax Certificate”), the Department has made certain certifications and representations and made certain covenants with respect to the Certificates in order to comply with these requirements. Our opinion expressly assumes and

relies upon as being true, correct and complete, the certifications and representations set forth in the Tax Certificate.

In rendering our opinions set forth herein, we have also assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State or the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Lease Agreement 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 the interest portion of the payments of Base Rent under the Lease Agreement received by the owners of the Certificates (herein referred to as the “Interest on the Certificates” or “Interest on a Certificate”) to be included in gross income for federal income tax purposes under the Code.

The rights and obligations under the Certificates, the Indenture, the Lease Agreement, and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Based on and subject to the foregoing and existing law and in reliance thereon, as of the date hereof, we are of the following opinions:

(1) The Indenture and the Lease have been duly authorized, executed and delivered by the State and, assuming the due authorization, execution and delivery thereof by the counterparties thereto, constitute the valid, binding and enforceable obligations of the State payable solely from the sources set forth therein, except only to the extent that enforceability may be limited by bankruptcy, insolvency or other laws affecting creditors’ rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases. The obligation of the State to pay Base Rent under the Lease Agreement does not constitute a general obligation of the State, and neither the faith and credit nor the taxing power of the State is pledged to the payment of Base Rent under the Indenture.

(2) Assuming the due authorization, execution and delivery of the Indenture and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Indenture.

(3) Under existing law, Interest on the Certificates is not includible in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the requirements of the Code, we are of the opinion that Interest on the Certificates will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. We express no opinion as to the exclusion from gross income for Federal income tax purposes of Interest on a Certificate

for any period during which such Certificate is held by a person who is a “substantial user” of the facilities financed with the proceeds of the Certificates or a “related person” (as defined in Section 147(a) of the Code). You are advised, however, that Interest on the Certificates constitutes an item of tax preference for purposes of computing individual and corporate alternative minimum taxable income for purposes of the individual and corporate alternative minimum tax.

(4) Interest on the Certificates 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 Certificates or income therefrom.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Lease Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Certificates) 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 Certificate or the interest portion thereof 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 Certificates concludes with their issuance, and we disclaim any obligation to update this letter after the date hereof.

Very truly yours



**APPENDIX I**  
**CONTINUING DISCLOSURE CERTIFICATE**

**Dated December 19, 2013**

**\$167,740,000**  
**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – AIRPORTS DIVISION**  
**SERIES 2013 LEASE REVENUE CERTIFICATES OF PARTICIPATION**  
**(Subject to AMT)**

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the State of Hawaii (the “State”) acting through the State Director of Transportation (the “Director of Transportation”) in connection with the delivery of the above-captioned Certificates (the “Certificates”). The Certificates are being issued pursuant to the authority of the Constitution, the laws of the State, and an Indenture of Trust (the “Indenture”) dated as of December 1, 2013, between the State, acting through the Department, and U.S. Bank National Association, as trustee (the “Trustee”). Pursuant to this Disclosure Certificate, the State covenants and agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the State acting through the Director of Transportation for the benefit of the Holders and Beneficial Owners of the Certificates 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 Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the State acting through the Director of Transportation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Certificates for federal income tax purposes.

“Dissemination Agent” shall mean the Director of Transportation or any successor Dissemination Agent designated in writing by the State acting through the Director of Transportation and which has filed with the State a written acceptance of such designation.

“Holder” shall mean the person in whose name any Certificate 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 Certificates required to comply with the Rule in connection with offering of the Certificates.

“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 State acting through the Director of Transportation shall, or shall cause the Dissemination Agent (if other than the Director of Transportation) to, not later than nine months after the end of the State’s fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2013, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the Department of Transportation, Airports Division may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Certificates by name and CUSIP number.

(b) Not later than 15 Business Days prior to said date, the State acting through the Director of Transportation shall provide the Annual Report to the Dissemination Agent (if other than the Director of Transportation). If the State acting through the Director of Transportation is unable to provide to the MSRB an Annual Report by the date required in Section 3(a) above, the State acting through the Director of Transportation shall send a notice to the MSRB in substantially the form attached as Exhibit B.

(c) The Dissemination Agent shall file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Contents of Annual Reports. The Department of Transportation, Airports Division’s Annual Report shall contain or include by reference information of the type included in the final Official Statement (the “Official Statement”) dated December 11, 2013, relating to the Certificates as set forth under the subheadings “—Aeronautical Revenues”, “—Concession Fees”, “—Non-Aeronautical Revenues other than Concession Fees”, “—Non-Operating Revenues” and “—Aviation Fuel Taxes” under “SOURCES OF REVENUES AND AVIATION FUEL TAXES”, and “—Airline Service and Passenger Activity Operations”, “—Airline Operations” and “—Financial Information” under “THE AIRPORTS SYSTEM.”

The audited financial statements of the Department of Transportation, Airports Division for the prior fiscal year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Department of Transportation, Airports Division audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been available to the public on the MSRB’s website. The State acting through the Department of Transportation shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. a. Pursuant to the provisions of this Section 5, the State acting through the Department of Transportation shall file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB:

1. principal and interest payment delinquencies;

2. non-payment related defaults, if material;
3. unscheduled draws on the debt service reserves reflecting financial difficulties;
4. unscheduled draws on the credit enhancements reflecting financial difficulties;
5. substitution of the credit or liquidity providers or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
7. modifications to rights of Certificate holders, if material;
8. (A) bond calls, if material, and (B) tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Certificates, if material;
11. rating changes;
12. the foregoing event, such event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the provisions of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended or supplemented from time to time, or any successor statute, and any and all rules and regulations issued or promulgated in connection therewith, or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;
13. the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive material agreement relating to any such actions, other than pursuant to its terms, if material; or
14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Department shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event, (i) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (ii) in all events, file notice of such occurrence with the MSRB in electronic format.

Section 6. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5.

Section 7. Dissemination Agent. The State acting through the Department of Transportation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State acting through the Department of Transportation pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State acting through the Director of Transportation may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of 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 Certificates, 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 Certificates, 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 Certificates in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State acting through the Director of Transportation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State acting through the Director of Transportation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State acting through the Department of Transportation from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State acting through the Department of Transportation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State acting through the Department of Transportation shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the State acting through the Department of Transportation to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State acting through the Department of Transportation to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Indenture with respect to the Certificates, and the sole remedy under this Disclosure Certificate in the event of any failure of the State acting through the Department of Transportation to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates 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.

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

**STATE OF HAWAII**

By \_\_\_\_\_  
Director of Transportation  
State of Hawaii

**EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: State of Hawaii

Name of Issue: State of Hawaii Department of Transportation – Airports Division Series 2013  
Lease Revenue Certificates of Participation (Subject to AMT)

Date of Issuance: December \_\_, 2013

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Certificates as required by its Continuing Disclosure Certificate dated December \_\_, 2013. [The State anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Date:

STATE OF HAWAII  
Acting through the Department of Transportation

By \_\_\_\_\_  
Title \_\_\_\_\_

## APPENDIX J

### BOOK-ENTRY SYSTEM

*General.* DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully registered Director's Certificate will be issued for each maturity of each issue of the Certificates in the aggregate principal amount of such maturity, and will be deposited with DTC.

*DTC and ITS Participants.* DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities Certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

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

*Principal and Interest Payments.* Principal of and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has no reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the

responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

*Discontinuance of Book-Entry System.* DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Director's Certificates are required to be printed and delivered.

*Use of Certain Terms in Other Sections of the Official Statement.* In reviewing this Official Statement it should be understood that while the Certificates are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices of the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

*DTC and Book-Entry Information.* Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State.

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by the DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Certificates, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Certificates or (v) any other event or purpose.



## APPENDIX K

[THIS PAGE INTENTIONALLY LEFT BLANK]



# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("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. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



