

**NEW ISSUE
FULL BOOK-ENTRY**

**RATINGS (Insured/Underlying):
Fitch: AAA/AA
Moody's: Aaa/Aa2
Standard & Poor's: AAA/AA
(See "Bond Ratings" herein)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and all of the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

**\$152,840,000
CITY AND COUNTY OF HONOLULU
General Obligation Bonds
Series 2007B**

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The City and County of Honolulu General Obligation Bonds, Series 2007B (the "Bonds"), are being issued by the City and County of Honolulu (the "City and County") 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. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of certificates; payment of the principal of, and premium, if any, and interest on, the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may initially be made in the denomination of \$5,000 or any integral multiple thereof.

The Bonds will be dated as of the date of delivery thereof and will bear interest at the rates shown on the inside cover, payable on January 1 and July 1 of each year, commencing July 1, 2009. The Bonds are not subject to redemption prior to maturity.

The Bonds are being issued for the purpose of refunding certain outstanding general obligations of the City and County. The Bonds are the absolute and unconditional general obligations of the City and County. The principal and interest payments on the Bonds are a first charge on the general fund of the City and County, and the full faith and credit of the City and County are pledged to the punctual payment of such principal and interest. For the payment of the principal of and interest on the Bonds, the City and County has the power and is obligated to levy ad valorem taxes, without limitation as to rate or amount, on all real property subject to taxation by the City and County.

THE BONDS WILL NOT BE DELIVERED UNTIL ON OR ABOUT APRIL 6, 2009 (THE "SETTLEMENT DATE"). ALL INFORMATION CONTAINED HEREIN IS BASED UPON INFORMATION AVAILABLE AS OF THE DATE HEREOF, UNLESS OTHERWISE INDICATED. THE CITY AND COUNTY EXPRESSLY RESERVES THE RIGHT TO ISSUE ADDITIONAL GENERAL OBLIGATION BONDS ON A PARITY WITH THE BONDS FROM THE DATE OF THIS OFFICIAL STATEMENT UNTIL THE SETTLEMENT DATE.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



See "BOND INSURANCE" herein and Appendix E hereto for further information.

The Bonds are offered when, as and if issued and received by the Underwriter, and are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriter by its counsel, McCarriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the Bonds in definitive form will be available for delivery to DTC, in New York, New York, on or about April 6, 2009 subject to the satisfaction of certain conditions. Potential investors should carefully review the information under the caption "CERTAIN FORWARD DELIVERY CONSIDERATIONS." In order to purchase the Bonds, investors must execute and deliver a Delayed Delivery Contract to UBS Securities LLC, the form of which is attached hereto as Appendix F.

UBS Investment Bank

November 14, 2007

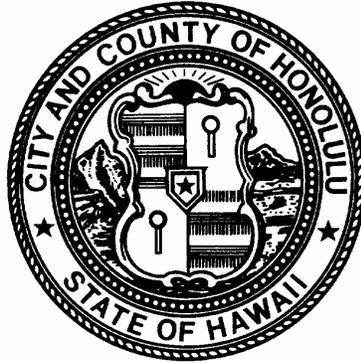
City and County of Honolulu

\$152,840,000 General Obligation Bonds, Series 2007B

<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2013	\$18,600,000	5.50%	3.95%	2017	\$22,875,000	5.25%	4.33%
2014	\$19,545,000	5.25%	4.08%	2018	\$24,110,000	5.25%	4.42%
2015	\$20,595,000	5.25%	4.16%	2019	\$25,410,000	5.25%	4.51%
2016	\$21,705,000	5.25%	4.25%				

City and County of Honolulu

State of Hawaii
(Incorporated 1907)



MAYOR

Mufi Hannemann

CITY COUNCIL

Barbara Marshall
Chair and Presiding Officer

Todd K. Apo
Vice-Chair

Nestor R. Garcia
Floor Leader

Romy M. Cachola

Donovan M. Dela Cruz

Charles K. Djou

Ann H. Kobayashi

Gary H. Okino

Rod Tam

DIRECTOR OF BUDGET AND FISCAL SERVICES

Mary Patricia Waterhouse

CORPORATION COUNSEL

Carrie K. S. Okinaga

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

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

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “Bond Insurance” and Appendix E, “Specimen Bond Insurance Policy,” herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

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OFFICIAL STATEMENT

\$152,840,000 City and County of Honolulu General Obligation Bonds Series 2007B

INTRODUCTION

This Official Statement, which includes the cover page hereof and the appendices hereto, is provided for the purpose of presenting certain information relating to the City and County of Honolulu (the "City and County," the "City," "Honolulu" or "Oahu"), and its \$152,840,000 aggregate principal amount of General Obligation Bonds, Series 2007B (the "Bonds"). The delivery of the Bonds is subject to satisfaction of certain conditions, and purchase of the Bonds involves certain investment risks, which are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement, including the information under the caption "CERTAIN FORWARD DELIVERY CONSIDERATIONS" in order to make an informed investment decision.

AUTHORITY FOR AND PURPOSE OF ISSUANCE

Authority for Issuance

The Bonds are being issued pursuant to and in full compliance with Ordinance Nos. 98-29, 00-24, 01-27, 02-27, 03-08, 04-15, 05-15, 06-34, 07-26 and 99-11 of the City and County, Resolution No. 07-290 of the City and County, the Constitution and laws of the State of Hawaii, including Chapter 47, Hawaii Revised Statutes, and the Revised Charter of the City and County. The Bonds are being issued pursuant to a Certificate of the Director of Budget and Fiscal Services of the City and County.

Pursuant to the above Ordinances, Resolution and Certificate, the City and County has also authorized the issuance of an additional series of general obligation bonds (designated the Series 2007A Bonds) in the aggregate principal amount of \$268,630,000 for the purpose of refunding certain outstanding general obligation bonds and commercial paper notes previously issued by the City and County and funding certain capital projects of the City and County. This additional series of bonds is not part of the offering of the Bonds hereunder.

Purpose of Issuance

The Bonds are being issued for the purpose of refunding \$155,705,000 principal amount of the City and County's outstanding General Obligation Bonds, Series 1999C (the "Refunded Bonds"). Such refunding will be effected on the Settlement Date for the Bonds, which is anticipated to be April 6, 2009. See "CERTAIN FORWARD DELIVERY CONSIDERATIONS" for information regarding the future delivery of the Bonds on the Settlement Date.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the date of delivery thereof, will mature serially on July 1 of the years and in the principal amounts shown on the inside cover page hereof, and will bear interest at the rates per annum shown on the inside cover hereof (computed on the basis of a 360-day year) payable January 1 and July 1 of each year, commencing July 1, 2009. The Bonds are not subject to redemption prior to maturity.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as Securities Depository for the Bonds. So long as the Securities Depository or its nominee is the registered owner of the Bonds, individual purchases of the Bonds will be

made in book-entry form only (the “Book-Entry System”), in Authorized Denominations, as defined below. Purchasers will not receive certificates representing their interest in the Bonds. Principal of and interest on the Bonds will be paid to the Securities Depository, which will in turn remit such principal and interest to its Participants (as defined in Appendix D), for subsequent distribution to the Beneficial Owners (as defined in Appendix D) of the Bonds. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in accompanying proceedings of the City and County. See Appendix D, “Book-Entry System.”

Payment of Bonds

The principal of and interest on the Bonds will be payable in lawful money of the United States of America. The principal of all Bonds shall be payable only at the principal office of the Paying Agent, and the payment of the interest on each Bond shall be made by the Paying Agent on each interest payment date to the person appearing on the Bond Register of the City and County as the registered owner thereof on the applicable record date, by check or draft mailed or otherwise delivered to such registered owner at its address as it appears on such Bond Register. The record date is the fifteenth day before an interest payment date. Payment of the principal of all Bonds shall be made upon the presentation and surrender of such Bonds as the same shall become due and payable. The person in whose name any Bond is registered at the close of business on any record date with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any registration of transfer or exchange thereof subsequent to the record date and prior to such interest payment date. So long as any Bonds are in book-entry form, principal of and interest on such Bonds will be paid to the Securities Depository as the registered owner of the Bonds. See Appendix D, “Book-Entry System.”

Debt Service on the Bonds

Set forth below is a schedule of debt service payments required for the Bonds for each Fiscal Year of the City and County, beginning with the Fiscal Year ending June 30, 2010:

**CITY AND COUNTY OF HONOLULU
GENERAL OBLIGATION BONDS, SERIES 2007B
DEBT SERVICE REQUIREMENTS**

FY Ending June 30	Principal	Interest	Total
2010	--	\$ 5,940,858	\$ 5,940,858
2011	--	8,070,600	8,070,600
2012	--	8,070,600	8,070,600
2013	--	8,070,600	8,070,600
2014	\$ 18,600,000	7,559,100	26,159,100
2015	19,545,000	6,534,544	26,079,544
2016	20,595,000	5,480,869	26,075,869
2017	21,705,000	4,370,494	26,075,494
2018	22,875,000	3,200,269	26,075,269
2019	24,110,000	1,966,913	26,076,913
2020	<u>25,410,000</u>	<u>667,013</u>	<u>26,077,013</u>
	\$152,840,000	\$59,931,858	\$212,771,858

CERTAIN FORWARD DELIVERY CONSIDERATIONS

General

The City and County has entered into a forward delivery bond purchase agreement (the “Forward Delivery Bond Purchase Agreement”) for the Bonds with UBS Securities LLC (the “Underwriter”). Subject to the terms of the Forward Delivery Bond Purchase Agreement, the City and County expects that the Bonds will be issued and

delivered on or about April 6, 2009 (the "Settlement Date"). The City and County expressly reserves the right to issue additional general obligation bonds on a parity with the Bonds from the date of this Official Statement until the Settlement Date.

The following is a description of certain provisions of the Forward Delivery Bond Purchase Agreement. The following description is not to be considered a full statement of the terms of the Forward Delivery Bond Purchase Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof.

Settlement

The issuance of the Bonds and the Underwriter's obligations under the Forward Delivery Bond Purchase Agreement to purchase, accept delivery of and pay for the Bonds on the Settlement Date are conditioned upon the City and County's performance of its obligations thereunder, including, without limitation, the delivery of an opinion, dated the Settlement Date, of Bond Counsel, substantially to the effect of the form set forth in Appendix B, "Proposed Form of Opinion of Bond Counsel," to this Official Statement, together with a reliance letter from Bond Counsel addressed to the Underwriter and the delivery of certain certificates and other legal opinions, and the satisfaction of other conditions as of the Settlement Date.

The issuance of the Bonds is further contingent upon the delivery on the Settlement Date of a municipal bond guaranty policy and evidence satisfactory to the Underwriter that, as of the Settlement Date, Fitch Ratings, Moody's Investors Service, and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., have issued insured ratings with respect to the Bonds of "AAA", "Aaa" and "AAA", respectively (the "Rating Criteria") and that such ratings are in full force and effect as of the Settlement Date.

The Underwriter has the right, at its option, to terminate the Forward Delivery Bond Purchase Agreement at any time prior to the Settlement Date if official action by one or more of the rating agencies reduces the claims paying ability of the bond insurer to a level below the Rating Criteria.

Events which may prevent those conditions from being satisfied include, among others:

(a) The City and County fails to comply with all of the settlement conditions set forth in the Forward Delivery Bond Purchase Agreement, except any such conditions waived by the Underwriter in accordance with the Forward Delivery Bond Purchase Agreement.

(b) There is a Change in Law (as hereinafter defined) prior to the Settlement Date.

(c) Legislative Action (as hereinafter defined) has occurred relating to the federal taxation of interest received on obligations of the general character of the Bonds, which, in the opinion of Bond Counsel has, or will have, the effect of such interest being subject to inclusion in gross income for federal or state income tax purposes (except to the extent such interest is intended to be includable in gross income).

(d) As a result of any reason other than Legislative Action, Bond Counsel cannot issue an opinion to the effect that (i) interest on the Bonds is excluded from gross income for federal income tax purposes, (ii) interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax, and (iii) interest on the Bonds is exempt from present State income tax.

(e) Legislation is enacted, or actively considered for enactment with an effective date prior to the Settlement Date, or a decision by a court of the United States of America is rendered, the effect of which, in the judgment of the Underwriter, is that the Bonds or the Authorizing Instruments (as defined in the Forward Delivery Bond Purchase Agreement) are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended and as then in effect (the "33 Act") or the Securities Exchange Act of 1934, as amended and as then in effect (the "34 Act") (except compliance with Rule 15c2-12 promulgated thereunder), or the Trust Indenture Act of 1939, as amended and then in effect (the "39 Act").

(f) A stop order, ruling, regulation or official statement by the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter is issued or made or any other event occurs, the effect of which, in the judgment of the Underwriter, is that the issuance, offering, or sale of the Bonds or the adoption of the Authorizing Instruments as contemplated hereby or by the Forward Delivery Bond Purchase Agreement, is or would be in violation of any provision of the federal securities laws, including the 33 Act, the 34 Act and the 39 Act;

(g) There occurs any outbreak or escalation of hostilities or any national or international calamity or crisis, the effect of which on the financial markets of the United States of America being such, as in the judgment of the Underwriter, would make it impracticable for the Underwriter to market the Bonds or to enforce contracts for the sale of the Bonds.

(h) There occurs the declaration of a general banking moratorium by any authority of the United States of America or the States of New York or Hawaii.

(i) An event of default has occurred and is continuing, technical or otherwise, under the Authorizing Instruments.

(j) An official published ruling, regulation, guidance, release or official announcement, or temporary or proposed regulation, shall have been made or shall have been proposed by the Treasury Department of the United States or the Internal Revenue Service after the date of the Purchase Agreement with respect to the provisions of Internal Revenue Service Circular 230 (31 C.F.R. Part 10) (collectively, a “Ruling”), and

(i) any counsel delivering an opinion under the Forward Delivery Bond Purchase Agreement determines that compliance with such Ruling would require a modification to the form of opinion approved under the Forward Delivery Bond Purchase Agreement, including the form of Bond Counsel opinion attached as Appendix B to this Official Statement (without any amendments or supplements made subsequent to the date of the Forward Delivery Bond Purchase Agreement); or

(ii) a determination is made that one or more “significant federal tax issues” contained in a “separately provided written advice” prepared by Bond Counsel pursuant to and as a result of the application of the Ruling as then in effect or as then proposed should be discussed in an amendment or supplement to the this Official Statement, or any subsequent disclosure document;

such modification to the form of opinion or discussion of “significant federal tax issues” as described in (i) or (ii) above, would, in the judgment of the Underwriter: (A) adversely affect the market for the Bonds, the market value of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or (B) limit the ability of the Underwriter to market the Bonds to certain classes of investors.

(k) Additional restrictions not in force as of the date of the Forward Delivery Bond Purchase Agreement are imposed upon trading in securities generally by any governmental authority or by any securities exchange that would, in the judgment of the Underwriter, materially adversely affect the market for the Bonds.

For purposes of the foregoing, “Change in Law” means any Legislative Action which, in any such case, would, (i) as to the Underwriter, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriter from underwriting the Bonds as provided in the Forward Delivery Bond Purchase Agreement or selling the Bonds or beneficial ownership interests therein to the public as contemplated by this Official Statement, (ii) as to the City and County, would make the issuance, sale or Settlement of the Bonds illegal (or have the retroactive effect of making such issuance, sale or delivery illegal, if enacted, adopted, passed or finalized) or (iii) result in Bond Counsel being unable to give its opinion on the Settlement Date to the effect that interest on the Bonds is excluded from gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax and is exempt from present State income taxes.

For purposes of the foregoing, “Legislative Action” means (i) an amendment to the Constitution of the United States or of the State, or to any federal, state or local legislation, whether statutory or as interpreted by the

courts or by federal or state agencies, including any changes in rules, regulations or other pronouncements or interpretations by federal or state agencies, (ii) any legislation (A) enacted by the Congress of the United States or (B) introduced therein or recommended to Congress for passage, by press release, or other form of notice or otherwise, by the President of the United States, the United States Treasury Department, the Internal Revenue Service, or by the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives or (C) presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the United States Congress or (D) favorably reported for passage to either House of the Congress by any Committee of such House or by a Conference Committee of both Houses to which such legislation has been referred for consideration (if such enacted, introduced or recommended legislation has a proposed effective date which is on or before the Settlement Date), (iii) any law, rule or regulation proposed or enacted by any governmental body (including the State), department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date which is on or before the Settlement Date) or (iv) any decision of any court or administrative body of the United States or any ruling or regulation (final, temporary or proposed) on behalf of the Treasury Department of the United States, the Internal Revenue Service or any other authority of the United States.

During the period of time between the date of this Official Statement and the Settlement Date (the “Delayed Delivery Period”), certain information contained in the Official Statement could change in a material respect. The City and County has agreed to amend or supplement this Official Statement with an updated Official Statement not more than 25 days nor less than 10 days prior to the Settlement Date relating to the Bonds.

The Underwriter may not refuse to purchase the Bonds by reason of “general market or credit changes,” including, but not limited to, changes in the financial condition, operations, performance, properties or prospects of the City and County or the insurer of the Bonds prior to the Settlement Date that do not result in a withdrawal of the ratings assigned to the Bonds or a reduction in the ratings assigned to the Bonds below the Rating Criteria.

All purchasers of the Bonds are required to execute and deliver to the Underwriter a “Delayed Delivery Contract” substantially in the form of Appendix F.

The Underwriter has advised the City and County that the Bonds will be sold only to investors who execute the Delayed Delivery Contract in substantially the form of Appendix F attached hereto. The Delayed Delivery Contract restricts the ability of purchasers of the Bonds to transfer their interests in the Bonds prior to the Settlement Date, and no representation is made that any such transfer will be permitted. The proposed form of Delayed Delivery Contract is attached as Appendix F at the request and for the convenience of the Underwriter. The City and County will not be a party to the Delayed Delivery Contracts and the City and County is not in any way responsible for the performance thereof or for any representations or warranties contained therein. The rights and obligations under the Forward Delivery Bond Purchase Agreement are not conditioned or dependent upon the performance of any Delayed Delivery Contract.

Additional Risks Related to the Delayed Delivery Period

During the Delayed Delivery Period, certain information contained in this Official Statement could change in a material respect. Any changes in such information will not permit the Underwriter to terminate the Forward Delivery Bond Purchase Agreement unless the change reflects an event described under “—Settlement” above. In addition to the risks set forth above, purchasers of the Bonds are subject to certain additional risks, some of which are described below.

Secondary Market Risk

The Underwriter is not obligated to make a secondary market in the Bonds and no assurances can be given that a secondary market will exist for the Bonds during the Delayed Delivery Period. Purchasers of the Bonds should assume that the Bonds will be illiquid throughout the Delayed Delivery Period.

Market Value Risk

The market value of the Bonds as of the Settlement Date may be affected by a variety of factors including, without limitation, general market conditions, the financial condition and business operations of the City and County or the bond insurer and federal, state and local income tax and other laws. The market value of the Bonds as of the Settlement Date could therefore be higher or lower than the price to be paid by the initial purchasers of the Bonds and that difference could be substantial. Neither the City and County nor the Underwriter makes any representation as to the expected market price of the Bonds as of the Settlement Date. Further, no assurance can be given that the introduction or enactment of any future legislation will not affect the market price for the Bonds as of the Settlement Date or thereafter or not have a materially adverse impact on any secondary market for the Bonds.

Tax Law Risk

Subject to the additional conditions of settlement described under “—Settlement” above, the Forward Delivery Bond Purchase Agreement obligates the City and County to deliver and the Underwriter to acquire the Bonds if the City and County delivers an opinion of Bond Counsel substantially to the effect of the form set forth in Appendix B, “Proposed Form of Opinion of Bond Counsel,” to this Official Statement. During the Delayed Delivery Period, new legislation, new court decisions, new regulations, or new rulings may be enacted, promulgated or interpreted that might prevent Bond Counsel from rendering its opinion or otherwise affect the substance of such opinion. Notwithstanding that the enactment of new legislation, new court decisions or the promulgation of new regulations or rulings might diminish the value of, or otherwise affect, the exclusion of interest on the Bonds for purposes of federal income taxation payable on “state or local bonds,” the City and County might be able to satisfy the requirements for the delivery of the Bonds. In such event, the purchasers would be required to accept delivery of the Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any changes in tax law and the consequences of such changes to such purchasers. See “TAX MATTERS – Proposed Circular 230 Rules” herein for a discussion of certain matters relating to the proposed Circular 230 rules, as presently proposed.

Bond Insurance Policy

The City and County will, prior to execution of the Forward Delivery Bond Purchase Agreement, obtain a forward commitment from the bond insurer to issue a municipal bond guaranty policy for the Bonds pursuant to which the bond insurer will agree, upon the terms and conditions to be set forth therein, to issue on the Settlement Date, a municipal bond guaranty policy to insure the scheduled payment of principal and interest on the Bonds. No assurance is made that such conditions will be satisfied and that the municipal bond guaranty policy will be delivered by the bond insurer. If the municipal bond guaranty policy is not delivered by the bond insurer, the Bonds will not be issued.

Termination of Forward Delivery Bond Purchase Agreement

The Underwriter may terminate the Forward Delivery Bond Purchase Agreement by notification to the City and County at any time on or prior to the Settlement Date if any of the events described above under “—Settlement” occurs.

SECURITY FOR THE BONDS

Security Provisions

The Constitution and other laws of the State of Hawaii provide that the interest and principal payments on the Bonds shall be a first charge on the General Fund of the City and County. Under such laws, the full faith and credit of the City and County are pledged to the payment of such principal and interest, and for such payment the City Council has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount on all the real property subject to taxation by the City and County.

Outstanding and Expected General Obligation Bonds

The capital improvement budgets for the Fiscal Years ended June 30, 1999 through 2007 and for the Fiscal Year ending June 30, 2008, authorized and appropriated a total of \$2,261,914,160 for public improvements to be financed from the proceeds of general obligation bonds or notes. As of August 14, 2007, \$1,122,860,702 of general obligation bonds and notes had been issued to finance appropriations for such Fiscal Years, and \$442,217,685 of such appropriations had lapsed pursuant to the terms of the Revised Charter of the City and County (See “BUDGET PROCESS AND FINANCIAL MANAGEMENT – Budgets and Expenditures” for more information relating to lapsing of capital budget appropriations). It is expected that \$696,835,773, the balance of such appropriations, will be funded from the proceeds of the Bonds or of other general obligation bond or note issues to be issued in the future.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. (“Financial Security”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy attached as Appendix E 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.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2007, Financial Security’s combined policyholders’ surplus and contingency reserves were approximately \$2,691,965,000 and its total net unearned premium reserve was approximately \$2,201,808,000 in accordance with statutory accounting principles. At September 30, 2007, Financial Security’s consolidated shareholder’s equity was approximately \$2,975,654,000 and its total net unearned premium reserve was approximately \$1,721,678,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City and County the information presented under this caption for inclusion in the Official Statement.

THE CITY AND COUNTY OF HONOLULU

Introduction

Honolulu, the capital and principal city of the State of Hawaii, is located on the Island of Oahu. The City and County of Honolulu includes the entire Island of Oahu and a number of outlying islands. Of the eight major islands that constitute the State of Hawaii, Oahu, with an area of 593 square miles, is smaller than the Islands of Hawaii and Maui but larger than the Islands of Kauai, Molokai, Lanai, Niihau and Kahoolawe.

With slightly less than a tenth of the land area in the entire State, Oahu contains nearly three-fourths of the State's resident population. According to the 2000 U.S. Census, the resident population of the State was 1,211,537, and that of Honolulu was 876,156, approximately 71% of the total State population. Honolulu is the seat of the State Government and is the State's trade, finance, communication, and transportation center. Most federal establishments and personnel (both civilian and military), manufacturing, major educational and scientific, and significant agricultural activities are located on Oahu.

Additional demographic and economic information with respect to the City and County is set forth in Appendix A hereto.

Government and Organization

Introduction. Government in the State of Hawaii is highly centralized, with the State assuming several major functions usually performed by local governments in other jurisdictions. Foremost among these, in terms of cost, are health, education, welfare and judicial functions. For example, the public schools and public medical facilities in the City and County are administered and funded by the State. The State is also responsible for the operation and maintenance of all airports and harbors. See Appendix A for a summary of certain information relating to the State. The City and County does provide a broad range of municipal services. These include public safety (police and fire protection and public prosecutor), highways and streets, sanitation, social services, culture and recreation, public improvements, planning and zoning, water supply and general administrative services.

Because there are no separate city or township governments or any special districts in the City and County with taxing powers, there are no overlapping taxes at the local government level. With the exception of real property taxes, public utility franchise tax on electric power and light companies and vehicle weight taxes, the State collects all taxes for both itself and the counties. The State does not impose any real property tax. The principal taxes imposed by the State are the general excise tax, the user tax (a portion of the transient accommodations tax is allocated to the counties as mentioned under "CITY AND COUNTY REVENUES – General Fund - *Allocation of State Transient Accommodation Tax*") and the personal and corporate income taxes. In addition, the State imposes taxes on liquor, tobacco, insurance premiums, banks and other financial corporations, inheritances, estates and real property transfers. The State also imposes a public service companies tax on the gross income of certain public utilities.

The City and County of Honolulu was incorporated in 1907. The City and County is governed by the provisions of its Charter and applicable State law.

Mayor and Executive Branch. Under the provisions of and except as otherwise provided in the Charter of the City and County, the executive power of the City and County is vested in and exercised by the Mayor, as chief executive officer. The Department of Corporation Counsel reports directly to the Mayor; and all other executive departments and agencies of the City and County (excepting the Mayor's office staff and the Board of Water Supply and other semi-autonomous agencies) are supervised by and report directly to the Managing Director as principal administrative aide to the Mayor. The Mayor serves a four-year term. The next regular mayoral election is scheduled to take place in November 2008. The current Mayor is serving his first term, which expires on January 2, 2009. No person may be elected to the office of the Mayor for more than two consecutive full terms. Pursuant to the Charter of the City and County, the Department of Budget and Fiscal Services manages the budget and the finances of the City and County, including debt management.

City Council. Under the provisions of and except as otherwise provided in the Charter of the City and County, the legislative power of the City and County is vested in and exercised by the City Council. The City Council is the policy-making body of the City and County. Its major functions include approval of the budget, establishment of all fees and rates (other than those under the jurisdiction of semi-autonomous agencies) and taxes, appropriation of funds, and establishment of community plans and zoning. The City Council is comprised of nine members, each of whom represents a separate Council District. Pursuant to Section 16-122 of the City Charter, the staggering of the terms of councilmembers commenced on January 2, 2003. The councilmembers for council districts I, III, V, VII and IX were elected to four-year regular terms expiring on January 2, 2009, while the councilmembers for council districts II, IV, VI and VIII were elected to four-year regular terms expiring on January 2, 2011. Section 3-102 of the City Charter provides that “No person shall be elected to the office of councilmember for more than two consecutive four-year terms.”

Semi-Autonomous Agencies. The Board of Water Supply is a semi-autonomous entity of the City and County, consisting of seven members, of which the Chief Engineer of the City Department of Facilities Maintenance and the Director of the State Department of Transportation are ex-officio members, with five other members appointed by the Mayor and confirmed by the City Council. Although the Board is subject to the Civil Service and administrative procedures governing the City and County, it maintains exclusive management and control over its water system servicing the Island of Oahu. The Board of Water Supply is created by the Charter of the City and County. The City Council may create by ordinance other semi-autonomous agencies with such powers as the City Council may legally grant.

Recalls, Initiatives and Charter Amendments. The Mayor and any member of the City Council may be recalled pursuant to petition initiated by the voters in accordance with procedures provided in the Charter of the City and County. Also, voters may propose and adopt ordinances by initiative powers in accordance with procedures set forth in the Charter. Such initiative powers do not extend to any ordinance authorizing or repealing the levy of taxes, the appropriation of moneys, the issuance of bonds, the salaries of City employees and officers, or any matters governed by collective bargaining contracts. Amendments or revisions to the Charter may be initiated by resolution of the City Council or by petition of the voters presented to the City Council. No amendments or revision to the Charter become effective unless approved by a majority of the voters voting thereon at a duly called election.

CITY AND COUNTY REVENUES

The taxes and other revenues discussed below account for substantially all the tax receipts and other revenues of the City and County. All tax receipts are credited to either the General Fund or the Special Revenue Funds of the City and County (the “Special Revenue Funds”). The audited financial statements of the revenues and expenditures of these funds for the Fiscal Year ended June 30, 2006, are accessible from the City and County’s website at <http://www.honolulu.gov/budget/cafr.htm>, or may be obtained from the City and County by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawaii 96813. See also “FINANCIAL INFORMATION AND ACCOUNTING – Financial Statements” herein.

General Fund

The General Fund is utilized to account for all financial resources except those required to be accounted for in another fund. The sources of revenues of the General Fund are (i) real property taxation; (ii) licenses and permits; (iii) intergovernmental revenues (including the allocation of the State transient accommodation tax); (iv) charges for services; (v) fines and forfeits; and (vi) miscellaneous revenues. Real property taxes, which generally account for over two-thirds of General Fund revenues, and the allocation of the State transient accommodation tax are described below. See Table 13 under “FINANCIAL INFORMATION AND ACCOUNTING.”

Real Property Taxation. Under the State Constitution, all functions, powers and duties relating to taxation of real property reside in the counties. In the case of the City and County of Honolulu, Chapter 8, Revised Ordinances of Honolulu, 1990 (the “Tax Ordinance”) governs administration, setting of tax rates, assessment and collection of real property tax, including exemption therefrom, dedication of land and appeals. While each county has exclusive authority over real property tax within its jurisdiction, the Hawaii State Association of Counties has recommended uniformity in the methods of assessing real property. In support of such recommendation, the City Council adopted Resolution No. 89-509 on November 8, 1989, but recognized that other provisions of real property tax law need not be uniform.

Under the Tax Ordinance, all real property in Honolulu, except as exempted or otherwise taxed, is subject each year to a tax upon the fair market value thereof. Land in Honolulu is classified and taxed as (1) improved residential, (2) unimproved residential, (3) apartment, (4) hotel and resort, (5) commercial, (6) industrial, (7) agricultural, (8) vacant agricultural (a new classification applicable to agricultural land that has no residential buildings and is not in agricultural production added by Ordinance No. 04-34 which took effect for tax year 2006), (9) conservation and (10) public service. Beginning July 1, 2008, Ordinance 07-10 combines the improved residential, unimproved residential and apartment classes into one classification called “residential.” In determining the value of land consideration is given to its highest and best use, selling prices and income, productivity, actual and potential use, advantage or disadvantage of factors such as location, accessibility, transportation facilities, availability of water and its cost, easements, zoning, dedication as to usage, and other influences which fairly and reasonably bear upon the question of values. Real property owned by the respective governments of the United States, the State of Hawaii and the several counties of the State is excluded from taxation, but is taxable when leased to or occupied by a private entity under certain conditions described in the Tax Ordinance. Real property owned and actually and exclusively used for the exempt purpose by hospitals and religious, educational, community and charitable organizations is also exempt from taxation under certain conditions described in the Tax Ordinance. In addition, real property owned as homes is exempt from taxation to the extent of \$80,000 (\$120,000 for persons age 65 and over). In lieu of the exemptions set forth in the previous sentence, qualified low-income taxpayers can receive exemptions that gradually increase based on age, from \$140,000 for age 75 to \$200,000 for persons age 90 and over. Under Chapter 239, Hawaii Revised Statutes, if a county exempts real property owned or leased (if the lessee is required to pay any real property taxes) by a public service company from real property taxes, the county is entitled to receive a portion of the public service company tax imposed by the State on the gross income of public service companies. Currently, the City and County does not tax the real property of public service companies, and it included approximately \$35.4 million in its budget for the Fiscal Year ending June 30, 2008 for its share of the public service company tax.

Under Ordinance 05-026 of the City and County, as amended, real property tax relief is provided in the form of a real property tax credit to homeowners whose combined income of all title holders of the property does not exceed \$50,000. Qualified homeowners’ taxes are limited to 4% of the combined income of all title holders of the property. Homeowners must apply for the tax credit by September 30 preceding the tax year in which a credit is being sought thereby providing the City and County time to make allowances for it in its budget. Beginning July 1, 2008, Ordinance 07-20 amends the real property tax credit by providing additional relief to homeowners 75 years of age or over by reducing the percentage of combined income of all title holders from 4% to 3%.

Additionally, to encourage agriculture, land dedicated to a specific agricultural use or as vacant agricultural land is classified as agricultural or vacant agricultural, respectively. Dedicated land is assessed based on the term of the dedication period. Land dedicated for a specific agricultural use for one year is assessed at 5% of its fair market value, for five years at 3% and for ten years at 1%. For land dedicated for pasture use for a period of one, five or ten years is assessed at 1% of its fair market value. Vacant agricultural land dedications must be for ten years and are assessed at 50% of its fair market value.

From time to time proposals to amend the City and County’s real property tax laws are submitted to the Council for consideration. Certain of these proposed amendments, if enacted, could have the effect of reducing the real property tax revenues of the City and County. It is not possible to predict whether or in what form any such proposals may be enacted, or the potential effects of such proposals, if enacted, on the real property tax revenues of the City and County.

The breakdown of assessed valuations by land and improvements of real property in the City and County for Fiscal Year 2008 and the components of assessed valuations by class of property are shown in Table 1 below, with the valuation of governmentally owned real property excluded from both the gross assessed valuation and the exemption valuation. Table 2 shows the net taxable values for each class of property within the City and County and the tax rates applicable thereto for the five Fiscal Years ending June 30, 2004 through 2008.

Table 1

**ASSESSED VALUATION OF REAL PROPERTY⁽¹⁾
For Fiscal Year 2008**

	Total
Gross assessed valuation	\$191,491,947,900
Less exemption valuation	<u>(22,740,584,700)</u>
Assessor's net taxable value	\$168,751,363,200
Less 50% of valuations on appeal	<u>(1,726,632,394)</u>
Net assessed valuation for rate purposes	<u>\$167,024,730,807</u>

⁽¹⁾ At 100% of fair market value. Ordinance 02-45 removed the requirement to set forth values for land and building separately.

Table 2

**CITY AND COUNTY OF HONOLULU
REAL PROPERTY NET ASSESSED VALUES BY CLASSIFICATION AND TAX RATES
Fiscal Years 2004 – 2008 (values in thousands)**

Classification⁽¹⁾	2004		2005		2006		2007		2008	
	Value	Rate	Value	Rate	Value	Rate	Value	Rate	Value	Rate
Improved Residential	\$43,513,027	\$ 3.75	\$52,078,717	\$ 3.75	\$68,475,274	\$ 3.75	\$89,283,029	\$ 3.59	\$100,858,035	\$ 3.29
Unimproved Residential	701,863	5.35	539,376	5.72	524,508	5.72	754,815	5.72	431,257	5.70
Apartment	16,133,218	3.75	19,832,878	3.75	24,671,194	3.75	32,642,928	3.59	38,352,746	3.29
Hotel/Resort	4,517,828	10.63	4,526,843	11.37	4,708,327	11.37	5,787,719	11.97	6,872,417	12.40
Commercial	9,116,271	10.63	9,025,643	11.37	9,618,183	11.37	10,814,805	11.97	12,282,509	12.40
Industrial	4,370,847	10.63	4,615,760	11.37	4,972,434	11.37	5,513,282	11.97	6,711,928	12.40
Agricultural	386,015	10.63	1,382,516	9.57	735,975	8.57	875,793	8.57	1,054,884	5.70
Vacant										
Agricultural ⁽²⁾					33,867	8.57	38,547	8.57	111,524	8.50
Conservation	399,601	10.63	404,535	9.57	363,128	9.57	365,292	9.57	349,430	5.70
Public Service ⁽³⁾	<u>15,870</u>	0.00	<u>15,114</u>	0.00	<u>(10)</u>	0.00	<u>(1,300)</u>	0.00	<u>0</u>	0.00
Total All Classes	\$79,154,540		\$92,421,382		\$114,102,880		\$146,074,910		\$167,024,730	

⁽¹⁾ Ordinance 02-45 eliminated the requirement to set forth values for land and building separately.

⁽²⁾ Combined with "Agricultural" in previous years.

⁽³⁾ As discussed above, the public service category was established in the Fiscal Year ended June 30, 2002, but the City and County does not currently tax property in this category. In lieu of taxing such property, the City and County receives a portion of the public service tax imposed by the State on the gross income of public service companies.

Assessments are determined as of October 1. Real property taxes are levied on July 1 and billed on July 20 of each year based on assessed valuation as of October 1, and are due in two equal installments on the following August 20 and February 20. Real property taxes receivable as of June 30 of each year are deemed delinquent and amounts which are not collected within sixty days of the end of the Fiscal Year are reported as deferred revenue. A lien for real property taxes attaches as of July 1 of each year. Annual assessments, levies and average tax rates and collection percentages for the Fiscal Years ending June 30, 2004 to 2008 are shown in the table below.

Table 3

**STATEMENT OF REAL PROPERTY TAX LEVIES AND COLLECTIONS
SHOWING ASSESSED VALUATIONS AND TAX RATES
Fiscal Years 2004 – 2008 (values in thousands)**

Fiscal Year	Net Valuation for Tax Rate Purposes⁽¹⁾	Weighted Average Tax Rate Per \$1,000	Amount of Levies	Percent of Collections to Levy
2004	\$ 79,154,545	\$5.49	\$435,318	100.7%
2005	92,421,382	5.37	496,428	99.8
2006	114,102,880	5.10	581,801	101.0
2007	146,074,910	4.92	718,090	NA
2008	167,024,730	4.73	790,164	NA

⁽¹⁾ At 100% of fair market value.

The real property tax revenues of \$591.4 million (excluding public service company tax) accounted for 73.6% of the General Fund revenues of \$803.6 million for the Fiscal Year ended June 30, 2006. The ten largest real property taxpayers in the City and County for the Fiscal Year ending June 30, 2008 are identified in the following two tables. Table 4 lists the taxpayers according to the assessed value of their real property, and Table 5 lists the taxpayers according to the amount of tax levied on such property.

Table 4

**TEN LARGEST REAL PROPERTY TAXPAYERS
BY ASSESSED VALUE
For Fiscal Year ending June 30, 2008**

Taxpayer⁽¹⁾	Type of Business	Gross Assessed Valuation⁽²⁾	% of Total Assessed Valuation
Bishop Estate	Educational Trust Estate	\$1,261,674,300	0.66%
Kyo-ya Co. Ltd.	Hotel/Resort	1,133,113,400	0.59
GGP Ala Moana LLC, et al.	Real Estate Management and Leasing	1,029,974,700	0.54
Hilton Hawaiian Village, et al.	Hotel/Resort	773,111,200	0.40
Ko'Oolina Hotel, et al.	Hotel/Resort	673,855,600	0.35
Outrigger Hotels Hawaii	Hotel/Resort	556,093,700	0.29
First Hawaiian Bank	Financial Services	467,016,300	0.24
James Campbell Estate	Real Estate	413,556,900	0.22
Azabu Building Company Limited, et al.	Hotel/Resort	285,037,700	0.15
Halekulani Corporation	Hotel/Resort	<u>275,836,600</u>	<u>0.14</u>
		<u>\$6,869,270,400</u>	<u>3.59%</u>

⁽¹⁾ Taxpayer's name as recorded on real property records.

⁽²⁾ Assessed valuation as of October 1, 2006 at 100% of fair market value.

Table 5

**TEN LARGEST REAL PROPERTY TAXPAYERS
BY AMOUNT OF TAX LEVIED
For Fiscal Year ending June 30, 2008**

Taxpayer⁽¹⁾	Type of Business	Amount of Tax Levied	% of Total Amount Levied
Kyo-ya Co. Ltd.	Hotel/Resort	\$14,039,070	1.78%
GGP Ala Moana LLC, et al.	Real Estate Management and Leasing	12,287,905	1.56
Bishop Estate	Educational Trust Estate	10,662,593	1.35
Hilton Hawaiian Village, et al.	Hotel/Resort	8,532,461	1.08
Outrigger Hotels Hawaii	Hotel/Resort	7,003,108	0.89
Ko'Olina Hotel, et al.	Hotel/Resort	6,227,689	0.79
First Hawaiian Bank	Financial Services	5,690,991	0.72
James Campbell Estate	Real Estate	3,721,786	0.47
Azabu Building Company Limited, et al.	Hotel/Resort	3,505,592	0.44
Halekulani Corporation	Hotel/Resort	<u>3,409,105</u>	<u>0.43</u>
		<u>\$75,080,300</u>	<u>9.50%</u>

⁽¹⁾ Taxpayer's name as recorded on real property records.

Allocation of State Transient Accommodation Tax. Under Section 237D, Hawaii Revised Statutes, a transient accommodation tax (basically a hotel tax) is collected by the State of Hawaii. The tax was at a rate of 5% until July 1, 1994, when it was increased to 6%. Effective January 1, 1999, the tax rate was increased from 6% to 7.25% to be distributed as follows: 17.3% to the state convention center capital special fund, 37.9% to the state tourism special fund, and 44.8% to the four counties, with the City and County receiving 44.1% of such distribution, or 19.8% of the total. In the Fiscal Year ended June 30, 2006 the City and County received \$43.1 million as its allocable share of the State transient accommodation tax, which amount is 5.3% of the General Fund revenues for such year. There can be no assurance that the allocation will continue to be maintained at current levels.

Other Revenues. In addition to the real property tax revenues and revenues from the allocation of the State transient accommodation tax, the City and County receives revenues from State and federal grants, sales of licenses and permits, rentals of City and County-owned property and charges for services, including sewer user charges.

Excise Tax. Under State law, counties electing to do so are allowed to impose a 0.5% surcharge (to be collected and distributed by the State) on the existing 4.0% State general excise tax in order to fund transportation projects. Effective January 1, 2007, the City and County imposed this surcharge on Oahu transactions subject to general excise tax. The surcharge will expire on December 31, 2022. The City and County plans to apply proceeds of the surcharge to fund a new fixed guideway transit system for Oahu. See "DEBT STRUCTURE – High-Capacity Transit Corridor Project" for additional information concerning the proposed transit system. For the period from January 2007 to June 2007, the City and County received \$48,424,382.68 from the general excise tax surcharge, net of administrative fees charged by the State.

Special Revenue Funds

The Special Revenue Funds are utilized to account for the revenues derived from a specific source (other than special assessments) or which are applied to finance specified activities as required by law or administrative regulation. The primary sources of revenues of the Special Revenue Funds are outlined below.

Vehicle Weight Tax. Under Section 249-2, Hawaii Revised Statutes, the counties are authorized to impose an annual tax on the net weight of all vehicles used on the public highways. In accordance with Section 249-13, Hawaii Revised Statutes, the City and County imposes taxes between 2.0 cents per pound and 1.25 cents per pound,

depending on the type of vehicle, with a minimum tax of \$12.00 per vehicle. Under State law, the counties collect the vehicle weight tax in connection with their vehicle registration and licensing function. The proceeds from the county vehicle weight tax are restricted by Section 249-18, Hawaii Revised Statutes, to highway and related expenditures in the City and County, including \$500,000 for police purposes. In Fiscal Year 2006, the City and County collected \$58.7 million of vehicle weight taxes.

County Fuel Tax. The City and County fuel tax, authorized by Section 243-4 and 243-5, Hawaii Revised Statutes, is imposed on liquid fuels sold or used within its jurisdiction, except that it does not apply to aviation fuel; and it is imposed only on that portion of diesel fuel used on the public highways. By Resolution No. 89-92, adopted by the City Council on May 24, 1989, the fuel tax for the City and County was increased from 11.5 cents per gallon to 16.5 cents per gallon, effective July 1, 1989. The proceeds from the fuel tax are limited by Section 243-6, Hawaii Revised Statutes, to expenditures for such purposes as designing, constructing, repairing and maintaining highways, roads and streets, highway tunnel and bridges, street lights and storm drains, and for functions connected with county traffic control and safety. In Fiscal Year 2006, the City and County collected \$52.4 million of fuel taxes.

Public Utilities Franchise Tax. Section 240-1, Hawaii Revised Statutes, requires all electric power companies and gas companies operating as public utilities to pay the county in which business is conducted a tax equal to 2½% of the companies' gross receipts for sales in such county, unless such county in its charters with such utilities has agreed to a lower rate of tax. The rate for such tax in the City and County is the full 2½% for all such utilities. In Fiscal Year 2006, the City and County collected \$31.4 million of such taxes.

Revenues and Expenditures

The General Fund revenues and expenditures, including transfers out for debt service, mass transit subsidy and other purposes, and transfers in for recovery of debt service and other purposes, in Fiscal Year 2002 were \$657.7 million and \$644.9 million, respectively; in Fiscal Year 2003 were \$669.8 million and \$651.3 million, respectively; in Fiscal Year 2004 were \$718.5 million and \$729.0 million, respectively; in Fiscal Year 2005 were \$802.6 million and \$791.3 million, respectively; and in Fiscal Year 2006 were \$871.7 million and \$850.2 million, respectively.

DEBT STRUCTURE

Legal Requirements

Debt Limit. The creation of general debt by the counties in the State of Hawaii is governed by the Constitution of the State of Hawaii, the applicable provisions of the Hawaii Revised Statutes and further, in the case of the City and County of Honolulu, by the Revised Charter of the City and County.

The State Constitution provides that the funded debt of each county that is outstanding and unpaid at any time may not exceed 15% of the total of the assessed values for tax rate purposes of real property in such county, as determined by the last tax assessment rolls pursuant to law.

Pursuant to a resolution enacted by the City Council in 1996, the City and County has adopted debt and financial policies, which have been amended periodically, including the establishment of a contingency reserve, a limitation on debt service as a percentage of General Fund revenues and a limitation on variable rate debt. The most recent amendment, Resolution 06-222, replaced the long-term contingency reserve – “rainy day fund” with a reserve for fiscal stability fund that more clearly defines the permitted uses of the fund. See “BUDGET PROCESS AND FINANCIAL MANAGEMENT – Reserve for Fiscal Stability Fund” herein.

Debt Structure and Security. The State Constitution provides that all general obligation bonds with a term of more than two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest, the first installment of principal to mature not later than five years from the date of issue of such series, and the last installment not later than twenty-five years from the date of such issue; provided that the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds, and on bonds constituting instruments of indebtedness under which a county incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of issue of such bonds.

Chapter 47, Hawaii Revised Statutes, is the general law for the issuance of general obligation bonds of the counties, and sets forth the provisions relating to the issuance and sale of general obligation bonds, including details such as method of authorization, maximum maturities, maximum interest rates, denominations, method of sale, form and execution of such bonds and terms of redemptions and refundings.

The Revised Charter of the City and County provides that the City Council, by the affirmative vote of at least two-thirds of its entire membership, may authorize the issuance of general obligation bonds not to exceed the amount and only for the purposes prescribed by the State Constitution. The authorization is enacted in the form of an ordinance.

The State Constitution provides that the interest and principal payments on general obligation bonds shall be a first charge on the general fund of the county issuing such bonds.

Exclusions. In determining the funded debt of a county, the Constitution provides for the following exclusions:

1. Bonds that have matured, or that mature in the then current Fiscal Year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then Fiscal Year, or for the full payment of which moneys or securities have been irrevocably set aside.

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund for the

principal and interest on such bonds are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding Fiscal Year.

7. Reimbursable general obligation bonds issued by the State for a county, whether issued before or after November 7, 1978 (the date of ratification of the Constitutional amendments), but only for as long as reimbursement by the county to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the aforementioned date, the consent of the governing body of the county has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such county.

8. Bonds constituting instruments of indebtedness under which the county incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% of the principal amount of outstanding general obligation bonds not otherwise excluded herein; provided that the county shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the county as provided by law.

9. Bonds issued by the county to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year.

Funded Debt and Debt Margin

Under State law, a political subdivision (such as the City and County) is required annually, as of each July 1, and upon each issuance to determine and certify the amount of its funded debt and exclusions therefrom. Accordingly, a certification has been prepared of the funded debt of the City and County and the exclusions therefrom as of July 1, 2007, and Table 6 sets forth a supplemental summary statement of such funded debt and exclusions as of August 14, 2007. Set forth in Table 7 is a detailed schedule of all outstanding general obligation funded debt of the City and County as of August 14, 2007. Table 8 lists all general obligation funded debt of the City and County as of August 14, 2007.

Table 6

**STATEMENT OF FUNDED DEBT
As of August 14, 2007**

1.	Gross assessed valuation of real property, January 29, 2007.....	\$	191,491,947,900	
2.	Less exempt valuation		<u>22,740,584,700</u>	
3.	Assessor's net taxable value		168,751,363,200	
4.	Less valuations on appeal		<u>3,453,264,787</u>	
5.	Taxpayers' valuation.....		165,298,098,413	
6.	Add 50% of valuation on appeal		<u>1,726,632,394</u>	
7.	Net assessed valuation of real property for rate purposes.....	\$	<u><u>167,024,730,807</u></u>	
8.	Limit of funded debt as set by the Constitution of the State of Hawaii.....	\$	25,053,709,621 ⁽¹⁾	
9.	Funded debt:			
	a. General obligation bonds	\$	1,958,385,875	
	b. Revenue bonds.....		1,494,637,890 ⁽²⁾	
	c. Notes payable:			
	Federal Government		2,540,136	
	State of Hawaii.....		<u>114,744,774</u>	
	d. Gross funded indebtedness.....	\$	<u><u>3,570,308,675</u></u>	
	Less exclusions:			
	f. Revenue bonds			
	Self-supporting waterworks.....	\$	313,470,000	
	Self-supporting wastewater		1,181,167,890	
	g. General obligation bonds issued for H-Power waste disposal facility.....		34,350,000	
	h. General obligation bonds issued for Housing.....		90,370,676	
	i. General obligation bonds issued for solid waste.....		94,470,515	
	j. General obligation bonds issued for sewer projects		21,429,355	
	k. State of Hawaii notes issued for sewer projects.....	\$	<u>111,636,101</u>	
	m. Net funded debt.....		<u>1,723,414,138</u>	
10.	Gross limit of additional funded debt.....	\$	<u>23,330,295,483</u>	
11.	Less general obligation bonds authorized and unissued:			
	Authorizing Ordinance	Total Authorized⁽³⁾	Amount Issued	Amount Unissued
	Ordinance No. 98-29.....	\$ 178,748,768	\$ 177,189,068	\$ 1,559,700
	Ordinance No. 99-28.....	134,773,412	134,773,412	-
	Ordinance No. 00-24.....	197,940,971	197,874,156	66,815
	Ordinance No. 01-27.....	231,496,611	230,628,361	868,250
	Ordinance No. 02-27.....	164,626,268	154,727,762	9,898,506
	Ordinance No. 03-08.....	137,959,931	118,538,671	19,421,260
	Ordinance No. 04-15.....	134,131,178	80,129,272	54,001,906
	Ordinance No. 05-15.....	159,483,406	29,000,000	130,483,406
	Ordinance No. 06-34.....	213,741,000		213,741,000
	Ordinance No. 07-26.....	266,794,930		266,794,930
		<u>\$ 1,819,696,475</u>	<u>\$ 1,122,860,702</u>	<u>\$ 696,835,773</u>
12.	Net limit of additional funded debt			\$ <u><u>22,633,459,710</u></u>

⁽¹⁾ The limit of the funded debt is set at a sum equal to 15% of the net assessed valuation for tax rate purposes of real property.

⁽²⁾ Does not include revenue bonds issued as a conduit issuer for housing.

⁽³⁾ After deducting authorized amounts which have lapsed pursuant to the Charter of the City and County of Honolulu.

Table 7

**GENERAL OBLIGATION FUNDED DEBT
OF THE CITY AND COUNTY OF HONOLULU
As of August 14, 2007**

<u>Direct Debt</u>	<u>Effective Interest Rate</u>	<u>Original Amount of Issue</u>	<u>Maturing Serially From/To</u>	<u>Optional Call Dates</u>	<u>Outstanding</u>
General Obligation Bonds:					
April 1, 1977 Series A	4.37100%	\$ 5,000,000	1/1/79-11	1/1/1986	\$ 1,039,000
July 2, 1990 Series A	7.29949%	169,880,000	7/1/95-08	Non-callable	18,430,000
January 1, 1993 Series A	5.85764%	150,000,000	1/1/97-13	Non-callable	17,140,000
April 1, 1993 Series B	5.43923%	611,335,000	10/1/94-13	Non-callable	167,952,584
September 1, 1993 Series C	4.85624%	28,000,000	9/1/98-18	Non-callable	5,030,000
April 1, 1994 Series A	5.62722%	150,000,000	4/1/98-14	Non-callable	21,120,000
November 1, 1995 Series A	5.28686%	100,000,000	11/1/99-15	11/1/2005	4,290,000
September 1, 1996 Series A	5.45420%	100,000,000	9/1/00-16	9/1/2006	2,615,000
November 1, 1997 Series B	5.09054%	83,000,000	11/1/01-17	11/1/2007	2,590,000
November 1, 1997 Series C	5.40595%	157,605,000	11/1/99-10	Non-callable	49,459,291
April 1, 1999 Series B	5.00249%	88,000,000	7/1/03-24 ⁽¹⁾	7/1/2009	3,035,000
April 1, 1999 Series C	4.91016%	349,215,000	7/1/01-20	7/1/2009	264,425,000
November 3, 1999 Series D	4.72927%	45,820,000	2/1/01-10	Non-callable	15,920,000
March 1, 2001 Series 2001A	5.09921%	141,500,000	9/1/05-24	9/1/2011	20,675,000
June 21, 2001 TECP Issue W ⁽²⁾	Variable	150,000,000	Not Applicable	Non-callable	61,900,000
August 8, 2003 Series 2003A	4.85540%	250,000,000	3/1/08-28	3/1/2013	174,260,000
April 14, 2004 Series 2004 A	4.36246%	123,065,000	7/1/05-28	7/1/2014	85,115,000
April 14, 2004 Series 2004 B	3.62613%	192,850,000	7/1/08-17	7/1/2014	192,850,000
May 26, 2005 Series 2005A	3.99266%	186,470,000	7/1/09-29	7/1/2015	186,470,000
May 26, 2005 Series 2005B	3.99266%	27,315,000	7/1/09-19	7/1/2015	27,315,000
May 26, 2005 Series 2005C	3.99266%	76,770,000	7/1/09-21	7/1/2015	76,770,000
May 26, 2005 Series 2005D	3.99266%	81,215,000	7/1/09-23	7/1/2015	81,215,000
December 8, 2004 TECP Issue H ⁽²⁾	Variable	100,000,000	Not Applicable	Non-callable	100,000,000
November 22, 2005 Series 2005E	4.40023%	247,015,000	7/1/06-23	7/1/2015	229,620,000
November 22, 2005 Series 2005F	4.62695%	149,150,000	7/1/10-29	7/1/2015	149,150,000
		\$ <u>3,763,205,000</u>			\$ <u>1,958,385,875</u>
Notes Payable - Federal Government	5.11600%	\$ 5,668,313	6/20/84-16	Non-callable	\$ 2,540,136
Notes Payable - State of Hawaii	Various	<u>179,168,660</u>	Various	Non-callable	<u>114,744,774</u>
		\$ <u>184,836,973</u>			\$ <u>117,284,910</u>
Total Gross Direct Debt		\$ <u><u>3,948,041,973</u></u>			\$ <u>2,075,670,785</u>
Less exclusions:					
Bonds issued for solid waste				\$ 94,470,515	
Bonds issued for housing				90,370,676	
Bonds issued for H-Power waste disposal facility				34,350,000	
Bonds issued for sewer projects				21,429,355	
State of Hawaii Notes issued for sewer projects				<u>111,636,101</u>	<u>352,256,647</u>
Net Funded Debt					\$ <u><u>1,723,414,138</u></u>

⁽¹⁾ Last maturity date is April 1, 2024.

⁽²⁾ The maximum combined authorized outstanding principal amount of notes under the City and County's commercial paper program is \$250,000,000.

Table 8

**CITY AND COUNTY OF HONOLULU
DEBT SERVICE CHARGES ON
OUTSTANDING GENERAL LONG-TERM DEBT
August 14, 2007 to Maturity⁽¹⁾**

FY Ending June 30	General Obligation Bonds		Other Debt ⁽³⁾		Gross Debt Service Charges	Reimbursable Debt		Net Debt Service Charges
	Principal	Interest ⁽²⁾	Principal	Interest ⁽⁴⁾		Principal	Interest	
2008	\$ 57,720,875	\$ 57,040,099	\$ 8,427,353	\$ 2,625,076	\$ 125,813,403	\$ 14,041,099	\$ 7,915,996	\$ 103,856,308
2009	116,084,000	85,918,676	9,758,159	2,631,757	214,392,592	39,943,114	10,306,768	164,142,710
2010	121,275,000	79,787,722	9,949,068	2,403,510	213,415,300	25,317,468	8,482,535	179,615,297
2011	123,936,000	72,963,695	10,145,708	2,150,465	209,195,868	16,721,007	7,146,053	185,328,808
2012	117,380,000	66,772,543	10,172,723	1,898,896	196,224,162	13,632,528	6,378,447	176,213,187
2013	114,130,000	60,900,037	10,200,177	1,656,401	186,886,615	12,470,335	5,713,714	168,702,566
2014	109,965,000	55,042,098	9,099,268	1,234,969	175,341,335	8,453,394	5,092,041	161,795,900
2015	82,205,000	50,004,114	6,688,739	901,573	139,799,426	7,716,682	4,688,224	127,394,520
2016	86,525,000	45,823,951	6,742,344	730,746	139,822,041	8,116,911	4,293,129	127,412,001
2017	90,810,000	41,405,951	6,507,542	562,544	139,286,037	8,531,449	3,875,268	126,879,320
2018	95,495,000	36,720,210	6,285,720	411,573	138,912,503	8,972,974	3,432,812	126,506,717
2019	77,305,000	32,427,135	5,306,743	278,722	115,317,600	10,339,740	2,951,350	102,026,510
2020	78,880,000	28,599,786	3,750,623	185,152	111,415,561	8,717,308	2,479,875	100,218,378
2021	85,430,000	24,499,775	3,346,738	135,519	113,412,032	10,273,559	2,005,715	101,132,758
2022	61,380,000	20,797,900	3,191,333	83,094	85,452,327	5,708,809	1,605,506	78,138,012
2023	65,225,000	17,852,592	2,356,795	65,949	85,500,336	6,026,433	1,320,284	78,153,619
2024	68,585,000	14,499,330	2,274,533	47,109	85,405,972	6,335,827	1,011,004	78,059,141
2025	43,015,000	11,691,742	2,285,906	30,042	57,022,690	2,991,596	777,298	53,253,796
2026	45,240,000	9,466,665	2,292,279	15,866	57,014,810	3,145,870	623,306	53,245,634
2027	47,580,000	7,126,238	-	-	54,706,238	3,307,216	461,382	50,937,640
2028	50,050,000	4,664,200	-	-	54,714,200	3,478,621	291,098	50,944,481
2029	32,785,000	2,088,800	-	-	34,873,800	3,061,379	112,456	31,699,965
2030	25,485,000	634,608	-	-	26,119,608	721,210	17,962	25,380,436
2031	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-
	<u>\$ 1,796,485,875</u>	<u>\$ 826,727,867</u>	<u>\$ 118,781,751</u>	<u>\$ 18,048,963</u>	<u>\$ 2,760,044,456</u>	<u>\$ 228,024,529</u>	<u>\$ 80,982,223</u>	<u>\$ 2,451,037,704</u>

⁽¹⁾ Excludes commercial paper dated June 21, 2001, self-supporting revenue bonds and state revolving fund notes payable.

⁽²⁾ An estimate of 4% is used in lieu of actual variable rate for the December 1, 2001 Series C Bonds.

⁽³⁾ Includes:

\$ 2,540,136	U.S. Government note payable for City and County's share of Kaneohe Reservoir Recreation & Fish and Wildlife Development
114,744,774	State of Hawaii notes payable for various sewer projects, storm dewatering facility and storm water equipment
<u>1,496,841</u>	Installment purchase contracts for various fixed assets
<u>\$ 118,781,751</u>	

⁽⁴⁾ Includes loan fees charged to interest for State of Hawaii notes payable.

Trend of General Obligation Indebtedness

The following table sets forth the trend of outstanding general obligation indebtedness of the City and County as of June 30 of each of the most recent five Fiscal Years. Except for the Bonds to be issued, the City and County has not issued any general obligation bonds or general obligation notes (other than commercial paper notes) subsequent to November 22, 2005.

Table 9

TREND OF GENERAL OBLIGATION INDEBTEDNESS Fiscal Years 2003 – 2007

<u>General Obligation Bonds</u>					
<u>FY Ending June 30</u>	<u>Non- Reimbursable⁽¹⁾</u>	<u>Reimbursable for Other Purposes⁽²⁾</u>	<u>Total General Obligation Bonds</u>	<u>Note Payable</u>	<u>Total General Obligation Debt</u>
2003	\$1,385,330,839	\$451,025,802	\$1,836,356,641	\$3,350,920	\$1,839,707,561
2004	1,505,216,109	444,667,138	1,949,883,247	3,163,133	1,953,046,380
2005	1,620,378,005	412,567,940	2,032,945,945	2,965,738	2,035,911,683
2006	1,718,340,918	303,476,919	2,021,817,837	2,758,245	2,024,576,082
2007	1,745,719,961	270,438,048	2,016,158,009	2,540,136	2,018,698,145

⁽¹⁾ Direct debt.

⁽²⁾ Pursuant to the State Constitution, the general obligation bonds issued to finance the H-Power waste disposal facilities, water facilities, sewer treatment facilities, the West Loch Subdivision and other low income housing projects may be classified as reimbursable general obligation bonds based on reimbursements having actually been made to the General Fund of the City and County for payment of the principal of and interest on such bonds from the revenues of such undertakings, as determined for the immediately preceding Fiscal Year.

Reimbursement to General Fund for Debt Service

All general obligation bonds of the City and County are payable as to principal and interest from the General Fund of the City and County. The City Council for certain purposes may require that the General Fund be reimbursed for the payment from such fund of the debt service on such bonds, such reimbursement to be made from any revenues, user taxes or other income derived from the carrying out of such purposes or from assessment collections. To the extent that reimbursements are not made, the City and County would be required to apply other money in the General Fund, including receipts from taxes, to pay debt service on general obligation bonds. As noted in the explanation for the table immediately preceding, reimbursable general obligation bonds have been issued to finance capital projects for water facilities, assessable public improvements, H-Power waste disposal facility, wastewater treatment facilities, the West Loch Subdivision and other low income housing projects. As explained under “DEBT STRUCTURE -- Legal Requirements -- Exclusions,” and as shown in the Statement of Funded Debt in Table 7 above, reimbursable general obligation bonds issued for the Board of Water Supply, assessable public improvements, housing projects, H-Power waste disposal facility and wastewater treatment facilities are excluded in determining the funded debt of the City and County beginning in the Fiscal Year when reimbursements are, in fact, made to the General Fund. It is the current policy of the City and County to finance water and sewer improvements with revenue bonds instead of reimbursable general obligation bonds.

Pension and Other Post-Employment Benefits Liability

The City and County provides retirement, disability and death benefits for all regular employees of the City and County through the Employees’ Retirement System of the State. See “EMPLOYEE RELATIONS; PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS” herein for a discussion of the County’s liability under the Employee’s Retirement System of the State for the payment of such benefits.

Leases

The City and County has entered into various capital and operating leases expiring at various dates through 2058. The leases are financed from general resources. Expenditures for such leases approximated \$2.9 million for the Fiscal Year ended June 30, 2006, and future expenditures for such leases are projected to be \$12.3 million.

Revenue Indebtedness

The Board of Water Supply of the City and County has issued revenue bonds in the aggregate principal amount of \$380,405,000 (of which \$313,470,000 are currently outstanding) to finance capital improvements for the water system of the Board of Water Supply, which are payable from revenues of the water system. Such revenue bonds are payable solely out of revenues, assets and funds pledged under the applicable security documents. Such revenue bonds are limited obligations of the City and County, are excluded for purposes of determining the funded indebtedness of the City and County, and do not constitute a general or moral obligation or a pledge of the full faith and credit or taxing power of the City and County or the State.

The City and County has issued a total of \$678,245,000 principal amount of senior revenue bonds and \$218,400,000 principal amount of junior revenue bonds to finance improvements to the City and County's wastewater system, and \$178,540,000 principal amount of senior revenue bonds and \$264,152,890 principal amount of junior revenue bonds to refund certain reimbursable general obligation bonds of the City and County issued to finance the wastewater system. As of August 14, 2007, the outstanding amount of senior and junior revenue bonds were \$724,090,000 and \$457,077,890, respectively. Such revenue bonds are limited obligations of the City and County, are excluded for purposes of determining the funded indebtedness of the City and County, and do not constitute a general or moral obligation or a pledge of the full faith and credit or taxing power of the City and County or the State. The City and County has adopted a \$1.53 billion, five-year capital improvement program (Fiscal Year 2008 to Fiscal Year 2012) to upgrade its wastewater treatment plant and collection system facilities and anticipates issuing additional revenue bonds to finance a portion of the costs associated with the program. See also "PENDING LITIGATION" herein.

The City and County has issued and has outstanding private activity revenue bonds for housing purposes for which it served as conduit issuer.

H-Power Waste Disposal Facility and Operating Agreement

The City and County issued approximately \$256 million of reimbursable general obligation bonds to finance the acquisition and construction of the H-Power waste disposal facility, which went into commercial operation in May 1990. In 1999, the City and County issued general obligation bonds to refund a portion of the reimbursable general obligation bonds issued for the H-Power waste disposal facility.

Prior to completion of the H-Power waste disposal facility, the City and County entered into a leveraged lease transaction pursuant to which the facility was sold to an "Owner Trust" and simultaneously leased to a private operator under a lease which terminates in 2010. Under the terms of such sale, the City and County was obligated to pay the cost of completion of the facility. Pursuant to an operating agreement with such operator (which also terminates in 2010), the City and County will pay the private operator fees in an amount which is expected to be sufficient for such operator to pay lease rentals. The fees under the operating agreement will be paid from disposal fees imposed by the City and County on all users of the facility, including the City and County, from energy and material revenues generated by the facility, from funds appropriated by the City Council for such purpose and from other sources. As consideration for the purchase of the facility, the Owner Trust paid approximately \$80 million in cash, issued its mortgage note for the balance of the purchase price and gave the City and County a mortgage on the facility as security for its obligation to make payments on the mortgage note. The City and County will continue to dispose of its solid waste at the facility pursuant to the operating contract, and is receiving the revenues generated by the facility.

In January 2007, the City and County's Department of Environmental Services issued a request for proposals to build additional waste-to-energy facilities. The Department is currently evaluating proposals received in response to this request and anticipates awarding a contract for the project in mid-2008.

High-Capacity Transit Corridor Project

The City and County is currently planning a new fixed guideway transit system that would provide rail service along the island's east-west corridor between Kapolei and downtown Honolulu (Ala Moana Center). Over 60% of City and County's population currently lives within the area served by this corridor, and this area is projected to continue to grow faster than the rest of Oahu.

Costs related to the construction of the proposed transit system are expected to be funded with proceeds from the 0.5% excise tax surcharge adopted by the City Council in August 2005 and implemented in January 2007, additional bond issuances, and with money received from the U.S. Department of Transportation, Federal Transit Administration. Annual operating costs are expected to be paid from passenger fares and City and County revenues.

Construction of the system could begin as early as 2009. Due to the size and cost of the overall project, it is likely to be built in several phases lasting several years.

No Default

The City and County has never defaulted on the payment when due of the principal of or interest on any indebtedness.

There are no so-called "moral obligation" bonds of the City and County outstanding or authorized which contemplate a voluntary appropriation by the City Council of General Fund revenues in such amounts as may be necessary to make up any deficiency in either a debt service fund or any other funds or accounts.

BUDGET PROCESS AND FINANCIAL MANAGEMENT

Budgets and Expenditures

The Charter of the City and County provides for (1) an annual executive budget consisting of an operating and capital budget, including a statement of relationships between operating and capital items for the executive branch, and (2) a legislative budget setting forth the expenditures of the legislative branch. Appropriations in the legislative and executive operating budget ordinances are valid only for the Fiscal Year for which made, and any part of such appropriations which has not been expended or encumbered on the basis of firm commitments lapses at the end of the Fiscal Year. Appropriations in the executive capital budget ordinance are valid only for the Fiscal Year for which made and for twelve months thereafter, and any part of such appropriations which is not expended or encumbered lapses twelve months after the end of the Fiscal Year.

Expenditures for capital improvements of the City and County, exclusive of capital outlays of the semi-autonomous Board of Water Supply, for the current and last four Fiscal Years are shown in the table below.

Table 10

**EXPENDITURES FOR CAPITAL IMPROVEMENTS
Fiscal Years 2004 – 2008
(in million dollars)**

Fiscal Year	Grand Total	Bond Funds			Cash		Cash as % of Total	
		General Obligation	Sewer Revenue	Total⁽¹⁾	Federal Grants	Cash⁽²⁾		
2004 ⁽³⁾	\$243.8	\$135.3	\$61.1	\$196.4	\$33.3	\$14.1	\$47.4	19.4%
2005 ⁽³⁾	260.1	128.2	99.3	227.5	11.9	20.7	32.6	12.5%
2006 ⁽³⁾	410.8	135.2	205.7	340.9	59.5	10.4	69.9	17.0%
2007 ⁽⁴⁾	680.6	213.7	348.0	561.7	67.3	51.6	118.9	17.5%
2008 ⁽⁴⁾	789.5	266.8	343.8	610.6	98.7	80.2	178.9	22.7%

- ⁽¹⁾ Inclusive of encumbrances.
⁽²⁾ Funds from current revenues and surplus.
⁽³⁾ Adjusted for lapses.
⁽⁴⁾ Budgeted amounts.

Cash Management and Investments

The investment of funds by the City and County is governed by and conforms to Section 46-50, Hawaii Revised Statutes, which authorizes investments in bonds or interest bearing notes or obligations of the county, of the State, of the United States, or of agencies of the United States for which the full faith and credit of the United States are pledged for the payment of principal and interest; federal land bank bonds; joint stock farm loan bonds; Federal Home Loan Bank notes and bonds; Federal Home Loan Mortgage Corporation bonds; Federal National Mortgage Association notes and bonds; securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof; repurchase agreements fully collateralized by any such bonds or securities; bank savings accounts; time certificates of deposit; certificates of deposit open account; bonds of any improvement district of any county of the State; bank, savings and loan association, and financial services loan company repurchase agreements; student loan resource securities including: student loan auction rate securities, student loan asset-backed notes, student loan program revenue notes and bonds, and securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues, issued with either bond insurance or overcollateralization guaranteed by the United States Department of Education; provided all insurers maintain a triple-A rating by Standard & Poors, Moody's, Duff & Phelps, Fitch, or any other major national securities rating agency; provided in each case the investments are due to mature not more than five years from the date of investment.

Chapter 38-3, Hawaii Revised Statutes, provides for collateralization of all public funds on deposit with banks and savings and loan associations, except that portion of deposits insured under the laws of the United States.

The City and County manages its own portfolio and does not engage in pooled investments, speculate with investments or leverage its investments. The City and County's philosophy and policy in managing its investments is: first, for safety of public funds; second, for liquidity, so that funds are available when needed; and third, for yield, after the first two considerations are met.

Interest earnings from funds invested by the City and County totaled \$18.8 million in the Fiscal Year ended June 30, 2006, representing an investment yield of 3.63%.

Under the City Charter, the City and County's Treasury is subject to an audit and verification at such times as necessary, by representatives of the City Council.

Inter-Fund Borrowing

Under State law, the Director of Budget and Fiscal Services may, with the consent of the City Council, use any portion of moneys belonging to any funds under his or her control, except pension or retirement funds, funds set aside for redemption of bonds or the payment of interest thereon, and private trust funds, for the purpose of paying warrants and checks drawn against any fund temporarily depleted. All sums so used are required to be repaid to the credit of the fund from which taken immediately after the replenishment of such depleted fund.

State law also provides that whenever there are moneys in any fund of the City and County, except pension or retirement funds, funds under the control of any independent board or commission, funds set aside for redemption of bonds or the payment of interest thereon and private trust funds, which, in the judgment of the Director of Budget and Fiscal Services of the City and County, are in excess of the amounts necessary for the immediate requirements of the respective funds, and where, in such officer's judgment, such action will not impede the necessary or desirable financial operations of the City and County, said Director may, with the consent of the City Council, make temporary transfers or loans therefrom, without interest, to other funds of the City and County for undertaking public improvements for which the issuance and sale of general obligation bonds have been duly authorized by the City Council. Such transfers shall be made only after passage by the City Council of an ordinance or resolution authorizing the public improvements. Amounts transferred under such statutory authorization shall not exceed the total sum of unissued authorized bonds of the City and County. The funds from which the transfers or loans are made shall be reimbursed by the Director of Budget and Fiscal Services from the proceeds of the bond sales upon the eventual issuance and sale of the bonds, or by appropriations of the City Council.

Reserve for Fiscal Stability Fund

In 2006, the City and County established a special fund known as the Reserve for Fiscal Stability Fund designated for economic and revenue downturns and emergency situations. The fund is maintained outside the General Fund and is available for appropriation only in the event of an emergency or certain economic and revenue triggers, including an increase in unemployment by more than 2% over three fiscal quarters, a decline in net taxable real property value by 2% or more from the preceding fiscal year, a decline in General Fund and Highway Fund revenues of 2% or more from the preceding fiscal year, a decline in Transient Accommodation Tax revenues of 5% or more from the preceding fiscal year, or an increase in nondiscretionary expenditures by more than 5% of the preceding fiscal year's revenues. Deposits to the fund are made from General Fund and Highway Fund surpluses and, by resolution, the fund is targeted to be at least 5% of expenditures, with an optimal target equal to 8% of expenditures. As of June 30, 2007, the fund balance was \$10 million. The City and County appropriated an additional \$7.5 million for the fund as part of its Operating Budget for Fiscal Year 2008.

FINANCIAL INFORMATION AND ACCOUNTING

Independent Audit

The Charter of the City and County requires that at least once every year the City Council obtain an independent audit of the accounts and other evidences of financial transactions of the City and County and of every agency. The audit is made by a certified public accountant or a firm of certified public accountants designated by the City Council. The basic financial statements of the City and County for the year ended June 30, 2006, as audited by the firm of Nishihama & Kishida, CPAs, Inc., may be found at the City and County's website at <http://www.honolulu.gov/budget/cafr.htm>, or may be obtained from the City and County by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawaii 96813. Nishihama & Kishida has not reviewed this Official Statement and has no responsibility with respect to this Official Statement.

The financial statements have been prepared in conformity with generally accepted accounting principles, using the accrual basis of accounting. The fund financial statements are prepared on a modified accrual basis, under which expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred and revenues are recorded when earned. Taxes are recorded when levied and other revenues are recorded when they become both measurable and available for the payment of expenses for the current fiscal period. Proprietary fund accounts are maintained on the accrual basis.

Financial Statements

The following four tables set forth the balance sheet and the statement of revenues and expenditures and changes in fund balance for the General Fund and the balance sheet and the combined statement of revenues and expenditures and changes in fund balance for all governmental fund types and expendable trust funds for the Fiscal Years shown in such tables. The information set forth in such financial statements has been prepared by the Director of Budget and Fiscal Services of the City and County based on audited financial statements for the Fiscal Years ended June 30, 2002 to 2006, inclusive, and has been summarized from the Director's Annual Financial Reports for the related Fiscal Years.

Table 11

**CITY AND COUNTY OF HONOLULU
GENERAL FUND
BALANCE SHEET
For Fiscal Years Ended June 30, 2002 through June 30, 2006
(In thousand dollars)**

	FY Ended June 30, 2002	FY Ended June 30, 2003	FY Ended June 30, 2004	FY Ended June 30, 2005	FY Ended June 30, 2006
ASSETS:					
Cash and Securities	\$58,128	\$13,490	\$45,964	\$51,723	\$86,090
Receivables:					
Real Property Taxes.....	5,234	4,354	8,265	6,008	9,341
Other	9,206	9,393	8,897	10,726	9,722
Component unit – CASE fees.....	3,326	6,600	3,300	6,600	9,900
Due from other funds	305	58,999	21,571	29,939	21,839
Total Assets	<u>\$76,199</u>	<u>\$92,836</u>	<u>\$87,997</u>	<u>\$104,996</u>	<u>\$136,892</u>
LIABILITY AND FUND BALANCES					
Liabilities:					
Accounts payable.....	\$ 6,094	\$ 3,854	\$ 5,089	\$ 4,796	\$11,442
Checks payable	2,507	--	--	--	--
Due to other funds	640	5,271	2,815	1,152	557
Accrued payroll and fringes	3,686	3,887	3,735	4,262	4,728
Deferred revenues.....	8,922	7,008	14,041	17,620	21,557
Total Liabilities.....	<u>\$21,849</u>	<u>\$20,020</u>	<u>\$25,680</u>	<u>\$27,830</u>	<u>\$38,284</u>
Fund Balances:					
Reserved for encumbrances.....	\$19,191	\$21,320	\$20,838	\$19,802	\$22,004
Unreserved-undesignated	35,159	51,496	41,479	57,364	76,604
Total Fund Balances	<u>\$54,350</u>	<u>\$72,816</u>	<u>\$62,317</u>	<u>\$77,166</u>	<u>\$98,608</u>
Total Liabilities and Fund Balances	<u>\$76,199</u>	<u>\$92,836</u>	<u>\$87,997</u>	<u>\$104,966</u>	<u>\$136,892</u>

Table 12

**CITY AND COUNTY OF HONOLULU
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For Fiscal Years Ended June 30, 2002 through June 30, 2006
(In thousand dollars)**

	FY Ended June 30, 2002	FY Ended June 30, 2003	FY Ended June 30, 2004	FY Ended June 30, 2005	FY Ended June 30, 2006
REVENUES:					
Real property tax	\$407,270	\$411,043	\$458,116	\$528,793	\$621,741
Licenses and permits	25,897	29,340	34,258	35,740	36,219
Intergovernmental revenues	32,063	32,763	35,584	39,056	43,519
Charges for services	3,912	4,250	4,650	6,531	5,511
Fines and forfeits	249	303	417	178	420
Miscellaneous	105,248	92,593	89,245	94,749	96,179
Total Revenues	<u>\$574,639</u>	<u>\$570,292</u>	<u>\$622,270</u>	<u>\$705,047</u>	<u>\$803,589</u>
EXPENDITURES:					
Current:					
General government	\$ 95,817	\$ 94,835	\$ 94,690	\$ 100,462	\$ 105,192
Public safety	199,990	222,366	229,602	242,108	249,402
Highways and streets	5,768	2,478	2,076	1,755	1,925
Sanitation	0	0	0	0	0
Health and Human Resources	14,579	1,689	1,403	1,551	1,654
Culture and recreation	41,339	44,578	42,917	45,947	49,433
Urban redevelopment and housing	0	0	0	0	0
Utilities or other enterprises	0	0	0	0	0
Miscellaneous	100,573	88,776	105,914	121,232	135,202
Capital outlay	0	0	0	0	0
Debt service:					
Principal retirement	1,207	1,311	1,336	847	1,135
Interest charges	310	264	205	163	153
Total Expenditures	<u>\$459,583</u>	<u>\$456,297</u>	<u>\$478,143</u>	<u>\$514,065</u>	<u>\$544,096</u>
Excess of Revenues over Expenditures	<u>\$115,056</u>	<u>\$113,995</u>	<u>\$144,127</u>	<u>\$190,982</u>	<u>\$259,493</u>
OTHER FINANCING SOURCES (USES):					
Inception of installment purchase contracts	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Sales of general fixed assets	187	310	10,544	35,616	402
Operating transfer-in	82,919	99,180	85,686	61,978	67,747
Operating transfer-out	(185,348)	(195,019)	(250,856)	(273,727)	(306,200)
Total Other Financing Sources (Uses)	<u>\$(102,242)</u>	<u>\$(95,529)</u>	<u>\$(154,626)</u>	<u>\$(176,133)</u>	<u>\$(238,051)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other					
Uses	\$ 12,814	\$ 18,466	\$ (10,499)	\$ 14,849	\$ 21,442
Fund Balance--July 1	41,536	54,350	72,816	62,317	77,166
Residual equity transfer from other fund	0	0	0	0	0
Fund Balance--June 30	<u>\$ 54,350</u>	<u>\$ 72,816</u>	<u>\$ 62,317</u>	<u>\$ 77,166</u>	<u>\$ 98,608</u>

Table 13

**CITY AND COUNTY OF HONOLULU
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2006 (AUDITED) WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2005 (AUDITED)
(In thousand dollars)**

	Governmental Funds					Totals (Memorandum Only)	
	General Fund	Highway Fund	General Obligation Bond and Interest Redemption Fund	General Improvement Bond Fund	Other Governmental Funds	2006	2005
Revenues:							
Taxes.....	\$621,741	\$83,616	\$0	\$0	\$0	\$705,557	\$607,541
Special assessments.....			0	0	387	387	419
Licenses and permits.....	36,219	61,297	0	0	3,422	100,938	86,649
Intergovernmental.....	43,519		0	0	125,996	169,515	159,612
Charges for services.....	5,511	5,249	0	0	13,231	23,991	24,346
Fines and forfeitures.....	420	12	0	0	266	698	391
Miscellaneous:							
Reimbursements and recoveries.....	78,586	398	0	0	9	78,993	86,776
Interest.....	11,621		0	108	885	12,506	4,620
Other - primarily rents, concessions, trust receipts....	5,972	1,836	0	0	21,006	28,854	24,981
Total revenues.....	803,589	152,608	0	108	165,202	1,121,439	995,335
Expenditures:							
Current:							
General government.....	105,192	14,088	0	0	10,107	129,387	122,306
Public safety.....	249,402	22,766	0	0	15,424	287,592	277,867
Highways and streets.....	1,925	14,858	0	0	331	17,114	15,731
Sanitation.....	0	695	0	0	556	1,251	734
Health and human resources.....	1,654	0	0	0	56,019	57,673	55,877
Culture-Recreation.....	49,433	0	0	0	18,852	68,285	62,971
Utilities or other enterprises.....	0	1,345	0	0	21,985	23,330	29,645
Miscellaneous:							
Retirement and health benefits.....	117,678	11,988	0		4,991	134,657	120,111
Other.....	17,524	1,060	0	0	181	18,765	17,481
Capital outlay.....	0	0	0	67,216	85,386	152,602	198,298
Debt service:							
Principal retirement.....	1,135	0	247,674	0	355	249,164	272,856
Interest charges.....	153	0	89,445	0	32	89,630	83,825
Total expenditures.....	544,096	66,800	337,119	67,216	214,219	1,229,450	1,257,702
Revenues over (under) Expenditures.....	259,493	85,808	(337,119)	(67,216)	(49,017)	(108,011)	(262,367)
Other financing sources (uses):							
Proceeds of general obligation bonds.....	0	0	0	0	0	0	165,313
Proceeds of tax-exempt commercial paper.....	0	0	0	83,022	85,000	168,022	165,800
Proceeds of long-term notes.....	0	0	0	0	0	0	0
Proceeds of refunding bonds.....	0	0	387,324	0	0	387,324	145,077
Payment of refunded bonds.....	0	0	(243,000)	0	0	(243,000)	(145,077)
Sales of general fixed assets.....	402	238	0	0	13	640	36,369
Operating transfers in.....	67,747	0	175,856	0	24,534	268,137	254,927
Operating transfers out.....	(306,200)	(77,293)	0	0	(20,183)	(403,676)	(381,301)
Other.....	0	0	16,939	0	0	16,939	26,487
Total Other Financing Sources (Uses).....	(238,051)	(77,055)	337,119	83,022	89,351	194,386	267,595
Revenues and Other Sources over (under) Expenditures and Other Uses.....	21,442	8,753	0	15,846	40,334	86,375	5,228
Fund Balances - July 1.....	77,166	17,855	0	5,252	73,813	174,086	168,858
Fund Balances - June 30.....	\$ 98,608	\$ 26,608	\$0	\$ 21,098	\$ 114,147	\$ 260,461	\$ 174,086

Table 14

CITY AND COUNTY OF HONOLULU
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For Fiscal Years Ended June 30, 2002 through June 30, 2006
(In thousand dollars)

	FY Ended June 30, 2002 ⁽¹⁾	FY Ended June 30, 2003 ⁽²⁾	FY Ended June 30, 2004	FY Ended June 30, 2005	FY Ended June 30, 2006
REVENUES:					
Taxes	\$477,746	\$480,851	\$532,804	\$607,541	\$705,557
Special assessments	440	520	56	419	387
Licenses and permits.....	56,614	61,220	74,138	86,649	100,938
Intergovernmental revenues	145,439	144,482	180,846	159,612	169,515
Charges for services.....	18,482	20,703	22,145	24,346	23,991
Fines and forfeitures	460	646	657	391	398
Miscellaneous	454,633	114,391	111,490	116,377	120,353
Total Revenues	\$1,153,814	\$822,813	\$922,136	\$995,335	\$1,121,439
EXPENDITURES:					
Current:					
General government	\$430,133	\$115,067	\$115,975	\$122,306	\$129,387
Public safety	225,186	246,109	256,231	277,867	287,592
Highways and streets.....	15,138	13,831	14,964	15,731	17,114
Sanitation.....	856	648	692	734	1,251
Health and human resources	66,990	52,007	56,994	55,877	57,673
Culture-Recreation	68,201	62,260	59,512	62,971	68,285
Utilities or other enterprises.....	23,865	22,557	24,336	29,645	23,330
Miscellaneous.....	114,757	102,042	121,341	137,592	153,422
Capital outlay	257,866	193,722	146,440	198,298	152,602
Debt service:					
Principal retirement	27,728	73,900	258,584	272,856	249,164
Interest charges.....	81,205	83,164	80,774	83,825	89,630
Total Expenditures.....	\$1,311,925	\$965,307	\$1,135,843	\$1,257,702	\$1,229,450
Revenues over (under) Expenditures.....	\$(158,111)	\$(142,494)	\$(213,707)	\$(262,367)	\$(108,011)
OTHER FINANCING SOURCES (USES):					
Proceeds of general obligation bonds.....	\$205,015	\$80,066	\$258,793	\$165,313	\$0
Proceeds of general obligation refunding bonds.....	90,584	36,732	99,264	0	387,324
Proceeds of tax-exempt commercial paper	1,119	2,781	13	165,800	168,022
Proceeds of long-term notes	1,119	2,781	13	0	0
Proceeds of refunding bonds			275,244	145,077	0
Proceeds of refunded bonds			(275,244)	(145,077)	(243,000)
Inception of installment purchase contracts	0	0	0	0	0
Sales of general fixed assets	532	887	10,820	36,369	640
Operating transfers-in	211,909	238,353	274,723	254,927	268,137
Operating transfers-out	(253,265)	(288,175)	(336,228)	(381,301)	(403,676)
Payment to refunding bond escrow agent	0	0	0	0	0
Insurance Cost.....	0	0	0	0	0
Expenditures for refunded bonds.....	(90,584)	0	0	0	0
Other	0	0	(55,285)	26,487	16,939
Total Other Financing Sources (Uses).....	\$165,310	\$70,644	\$252,100	\$267,595	\$194,386
Revenues and Other Sources over (under)					
Expenditures and Other Uses.....	\$7,199	\$(71,850)	\$38,393	\$5,228	\$86,375
Fund Balances—July 1	205,002	206,499	134,649	168,858	174,086
Residual equity transfers from (to) other funds					
Fund Balances—June 30	\$212,201	\$134,649	\$173,042	\$174,086	\$260,461

(1) Effective July 1, 2001, the City and County implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

(2) The reclassification of the Treasury Fund and Real Property Tax Trust Fund from Private-Purpose Trust Funds to Agency Funds resulted in a change in the Fund Balances as of June 30, 2002 and July 1, 2002.

EMPLOYEE RELATIONS; PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

Employee Relations

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawaii Revised Statutes, as amended, provides for 13 recognized bargaining units for all public employees in the State, including City and County employees. Eight of these bargaining units represent City and County employees. (i.e., blue-collar non-supervisory; blue collar supervisory; white-collar non supervisory; white-collar supervisory; institutional health and correctional workers; firefighters; police; and professional scientific). Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. The State and the counties are required to bargain collectively with the bargaining units. Decisions by the employer representatives are determined by simple majority vote, with the Governor having six votes and each of the mayors, Chief Justice and Hawaii Health Systems having one vote for bargaining units involving blue-collar non-supervisory; blue-collar supervisory; white-collar non-supervisory; white-collar supervisory; institutional, health and correctional workers, and professional scientific. For bargaining units involving firefighters and police, the Governor has four votes with each of the mayor having one. Under State law enacted in 1995, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding and except blue-collar non-supervisory workers (who are permitted by law to strike), final and binding arbitration. Although State law characterizes arbitration as “final and binding” it also provides that all cost items are subject to approval by the respective legislative bodies. State law does not permit the workers in any bargaining unit to strike except the blue-collar non-supervisory workers.

Of the City and County of Honolulu’s eight public bargaining units, all have received final and binding arbitration awards or have reached negotiated settlements resulting in two-year contracts which began July 1, 2007 and end June 30, 2009.

Pensions

All regular employees of the City and County are covered under the Employees’ Retirement System of the State (the “State Retirement System”). Retirement, disability and death benefits provided by the State Retirement System are financed by employee contributions and by employer contributions determined on an actuarial reserve basis. Most contributory employee members contribute 7.8% of compensation to the pension accumulation fund, except that for firefighters, policemen and certain correction officers such contribution rate is 12.2% of compensation.

Actuarial valuations are prepared each year to determine the total employer contribution requirement. In accordance with the statutory funding provisions (Sections 88-122 and 88-123, Hawaii Revised Statutes), including the changes due to Act 327, Session Laws of Hawaii 1997; Act 100, Session Laws of Hawaii 1999; and Act 216, Session Laws of Hawaii 2000, the total employer contribution requirement to the pension accumulation fund is comprised of the normal cost plus the level annual payment required to amortize the unfunded accrued liability over a period of 29 years from July 1, 2000. As of June 30, 2006, the total unfunded actuarial accrued liability for the State Retirement System was estimated to be approximately \$5.132 billion. The actuary for the State Retirement System does not provide a breakdown of the unfunded liability for the counties. Historically, the City and County’s contribution has been approximately 14% of the total employer appropriation to the State Retirement System.

Each employer’s (i.e., the State’s or a county’s) annual contribution to the State Retirement System is determined by multiplying (1) the total employer contribution requirement derived from the annual actuarial valuation as of the next preceding June 30, by (2) the ratio of that employer’s (i.e., the State’s and each of the respective county’s) payroll over the total covered payroll included in the actuarial valuation. For example, Honolulu’s contribution requirement for the 2001-02 Fiscal Year is based on the June 30, 1999 actuarial valuation and the payroll used in that valuation. The City and County’s contribution to the State Retirement System for the last five Fiscal Years, exclusive of costs for employees of the Board of Water Supply, was \$34,385,900 for 2002, \$18,500,000 for 2003, \$33,300,000 for 2004, \$47,700,000 for 2005 and \$63,300,000 for 2006, including amortization of a portion of prior service cost in each such year. Retirement contributions are funded on an actuarial basis.

A noncontributory retirement plan for certain public employees was created by enactment of Act 108, Session Laws of Hawaii 1984. All persons hired after June 30, 1984, and those contributory members who elected to join the plan, are covered under the provisions of the noncontributory retirement plan. Police officers, firefighters, elected officers and those employed in positions not covered by social security are excluded from the noncontributory retirement plan. Retirement, disability, and death benefits under the noncontributory plan are less than the contributory plan. There is no major change in the City and County's funding requirements because the cost of the noncontributory retirement plan is about the same as the contributory retirement plan.

In addition to contributions to the State Retirement System, the City and County makes payments under three pension systems established prior to the establishment of the State Retirement System in 1926. These pension systems are administered by the City's Department of Budget and Fiscal Services. At June 30, 2004, there were no pensioners and 12 beneficiaries under these pensions. Such unfunded payments amounted to \$67,699 for 2002, \$53,749 for 2003, \$49,455 for 2004, \$41,511 for 2005 and \$29,012 for 2006. No estimates have been made of the cost of future benefits.

Other Post-Employment Benefits

In addition to pension benefits, beginning with the Fiscal Year ending June 30, 2008, state and local governments are required to account for and report other post-employment benefits ("OPEBs") under Statement No. 45 ("GASB 45") issued by the Governmental Accounting Standards Board. OPEBs consist of certain health and life insurance benefits provided through the State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund") to retired State and county employees, including retired City and County 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.

In May 2007, the State's independent actuarial consultant estimated the actuarial accrued liabilities and annual OPEB costs under GASB 45 for the State and the counties for the Fiscal Year ending June 30, 2008. These estimates were based on earlier projections (as of July 1, 2006) and address two distinct scenarios: (1) no prefunding of obligations; and (2) full prefunding of obligations. The actuarial accrued liabilities for Trust Fund OPEBs were estimated to be approximately \$10.2 billion with no prefunding or \$6.6 billion with full prefunding for such period. The corresponding annual OPEB costs for the Fiscal Year ended June 30, 2008 were estimated to be approximately \$738 million with no prefunding or \$541 million with full prefunding.

The report estimates actuarial accrued liabilities totaling approximately \$1.9 billion with no prefunding or \$1.2 billion with full prefunding are allocable to the City and County for the Fiscal Year ended June 30, 2008, and annual OPEB costs totaling approximately \$138 million with no prefunding or \$99 million with full prefunding are allocable to the City and County for the Fiscal Year ended June 30, 2008.

In its Fiscal Year 2008 Operating Budget, the City and County appropriated \$85.633 million for current Trust Fund requirements, which includes a portion of the OPEB requirement, and \$40.011 million to an internally-held reserve fund for future OPEB funding obligations.

PENDING LITIGATION

In the normal course of business, claims and lawsuits are filed against the City and County. Generally the City and County is self-insured with respect to general liability claims. In the Fiscal Years ended June 30, 2003 through 2006, settlements and judgments against the City and County paid from the General Fund amounted to \$4,762,200, \$3,601,260, \$3,799,617, \$2,542,000 and \$4,134,130, respectively.

A lawsuit filed as a class action against the City and County in July 2002, primarily on behalf of members of the Honolulu Police Department and the Honolulu Fire Department, alleges violations of the Fair Labor Standards Act, including the lack of proper compensation for work performed as a result of pre-shift and post-shift requirements, failure to maintain a proper compensation time system, and incorrect calculation of overtime pay. As a result of mediation, a settlement has been reached whereby the City and County will pay the plaintiffs \$30 million in installment payments over a period of six years until July 31, 2011.

A lawsuit filed by the U.S. Environmental Protection Agency (“EPA”) and State Department of Health (“DOH”) against the City and County in 1994 resulted in a consent decree which requires the City and County, among other things, to comply with the Clean Water Act, to establish a schedule under which the City and County will implement preventive maintenance and sewer replacement and rehabilitation necessary to reduce and prevent spills, to implement and enforce its pretreatment program to regulate industrial discharges, and to develop and implement an effluent and sludge reuse program. The court has retained continuing jurisdiction over implementation of the consent decree. Pursuant to the consent decree, the City and County has established and is currently implementing a \$3.7 billion, 20-year capital improvement plan (Fiscal Year 1998 to Fiscal Year 2017) to upgrade its wastewater collection and treatment system.

In July 2004, the Sierra Club and other environmental groups filed a lawsuit against the City and County seeking injunctive relief and penalties for alleged Clean Water Act violations arising from the City and County’s wastewater collection and treatment system. Of plaintiffs’ original twelve claims, the court dismissed five claims and the plaintiffs agreed to dismiss three more. The plaintiffs filed a motion for summary judgment with respect to three of the four remaining claims in this litigation, which the court granted in part and denied in part in October 2007. The court’s decision did not address the amount of penalties, if any, that would be assessed against the City. The outcome of this litigation cannot be predicted at this stage of the proceedings, and any potential liability in this litigation beyond the costs of the 20-year wastewater system capital improvement plan is speculative.

As a result of a March 2006 sewer spill and after one year of negotiations, the EPA, the U.S. Department of Justice, the DOH and the City and County signed a stipulated order that requires the City and County to take certain actions to evaluate, repair, rehabilitate or replace certain force mains and one pump station in its wastewater collection system, and develop site-specific spill contingency plans. This stipulated order, which has been accepted by the court, resolves the entire civil enforcement action that was simultaneously filed with the stipulated order against the City and County with respect to the spill. The estimated cost of the work in the stipulated order is approximately \$300 million.

In March 2007, the EPA issued a tentative decision to deny an application for a renewed variance from secondary treatment for the Honouliuli wastewater treatment plant. The City and County also expects a tentative decision from the EPA later this year to deny an application for a renewed variance from secondary treatment for the Sand Island wastewater treatment plant. The City and County is vigorously challenging these tentative decisions. If the City and County’s applications are denied, the cost of secondary treatment at Honouliuli and Sand Island is estimated to be \$400 million and \$800 million, respectively, in project costs.

The Corporation Counsel also reports that no pending litigation affects the right of the City and County to levy taxes or to issue evidences of indebtedness.

In the opinion of the Director of Budget and Fiscal Services of the City and County, based on the foregoing, the expected liability arising out of pending litigation would not constitute a significant impairment of the financial position of the City and County.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), bond counsel to the City and County, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), and the Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in Appendix B hereto, subject to the matters discussed below in the subsection entitled “– Proposed Regulations: Possible Change in Form of Bond Counsel Opinion.”

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City and County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and that the Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, on November 5, 2007, the United States Supreme Court heard an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City and County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and County covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the City and County or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and County and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City and County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City and County or the beneficial owners to incur significant expense.

Proposed Circular 230 Rules

The Treasury Department and the Internal Revenue Service ("IRS") have issued major proposed and final regulations under Circular 230 (31 C.F.R. Part 10), governing the practice of attorneys and other tax advisors before the IRS. While Circular 230 historically focused mainly on tax shelter opinions, the revised Circular 230 rules apply more broadly to regulate the form and substance of federal tax opinions and federal tax practice standards generally. One set of revised Circular 230 regulations went into effect June 20, 2005, for most general federal tax matters, but excluding federal tax matters relating to certain State or local governmental bond opinions.

A second set of revised proposed Circular 230 regulations, as modified by IRS Notice 2005-46 (the "Proposed Circular 230 Rules"), provides special rules for federal tax matters relating to certain defined "State or local bond opinions," including traditional tax-exempt bond opinions given at original issuance regarding the exclusion of the interest on State or local governmental bonds from gross income for federal income tax purposes under Section 103 of the Code and opinions on certain other federal tax issues reasonably related and ancillary to these tax-exempt bond opinions. The Proposed Circular 230 Rules for State or local bond opinions have a prospective effective date and provide that any subsequent final regulations with respect to these rules will be effective no earlier than 120 days after final regulations are published in the Federal Register. The Proposed Circular 230 Rules, however, possibly could be finalized and become effective prior to the time the Bonds are issued and Bond Counsel's opinion is delivered.

If the Proposed Circular 230 Rules were to be finalized in their present form and made applicable to Bond Counsel's opinions relating to the Bonds, Bond Counsel expects to deliver an opinion that contain the same overall conclusion regarding the exclusion of interest on the Bonds from federal gross income, subject to certain limitations. The Forward Delivery Bond Purchase Agreement does not provide for the termination of the Underwriter's obligations under the Forward Delivery Bond Purchase Agreement solely because of changes to the form of Bond Counsel's opinion that may be necessary to comply with the Proposed Circular 230 Rules. However, the Forward Delivery Bond Purchase Agreement provides for the termination of the Underwriter's obligations under the Forward Delivery Bond Purchase Agreement if (a) the Proposed Circular 230 Rules were to be finalized and made applicable to the Bonds, and (b) there are changes to the form of Bond Counsel's opinions or other opinions, or a determination is made that one or more "significant federal tax issues" contained in a "separately provided written advice" prepared by Bond Counsel pursuant to and as a result of the application of the Proposed Circular 230 Rules should be discussed in an amendment or supplement to the Preliminary Official Statement, the final Official Statement, or any subsequent disclosure document, as so supplemented or amended, and such change to the opinion or Bond Counsel discussion of a "significant federal tax issue" would, in the sole judgment of the Underwriter: (i) adversely affect the market for the Bonds, or the market value of the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or (ii) limit the ability of the Underwriter to market the Bonds to certain classes of investors. The Proposed Circular 230 Rules define the term "significant federal tax issues" to include any issues

for which the IRS has “reasonable basis” for a successful challenge. See “CERTAIN FORWARD DELIVERY CONSIDERATIONS.” There can be no assurance that any final regulations will be promulgated with provisions similar to those included in the Proposed Circular 230 Rules.

Delayed Settlement for Bonds; Delivery of Opinion of Bond Counsel

The Bonds will be sold pursuant to the terms of the Forward Delivery Bond Purchase Agreement pursuant to which the City and County will agree to execute and deliver to the Underwriter, and the Underwriter will agree to accept and purchase from the City and County, the Bonds on the Settlement Date, subject to the satisfaction of certain conditions provided in the Forward Delivery Bond Purchase Agreement. Bond Counsel expects to be able to deliver on the Settlement Date opinions with respect to the exclusion of interest on the Bonds from federal income taxation and from State income taxation and, assuming no material adverse changes in fact or in federal or State law and based upon certain representations, certifications and covenants of the City and County, it will render an opinion substantially in the form set forth in Appendix B. The issuance and delivery of the Bonds on the Settlement Date will be subject to, among other things, receipt of an opinion of Bond Counsel substantially to the effect of the form of opinion set forth in Appendix B.

LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

BOND RATINGS

Fitch Ratings, Moody’s Investors Service and Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc., have assigned to the Bonds underlying ratings (without regard to bond insurance) of “AA”, “Aa2” and “AA”, respectively. The issuance of the Bonds will be contingent upon the delivery on the Settlement Date of the Policy and evidence satisfactory to the Underwriter that, as of the Settlement Date, Fitch Ratings, Moody’s Investors Service and Standard & Poor’s Ratings Services have issued insured ratings with respect to the Bonds no lower than “AAA”, “Aaa” and “AAA”, respectively, and that such ratings are in full force and effect as of the Settlement Date.

The ratings referred to above reflect only the views of the organization assigning the rating, and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; Moody’s Investors Service, 99 Church Street, New York, New York 10007; and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies concerned, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by UBS Securities LLC. The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$161,694,725.41 (equal to the principal amount of such Bonds, plus net premium of \$9,210,564.00, less an underwriting discount of \$355,838.59). The Forward Delivery Bond Purchase Agreement provides that the Underwriter will purchase all of the Bonds if any are purchased.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., independent certified public accountants (the “Verification Agent”), will verify from the information provided by the Underwriter set forth on the cover page of this Official Statement the mathematical accuracy as of the date of issuance of the Bonds of certain computations provided by the Underwriter to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in escrow will be sufficient to pay when due the principal, interest and call premium payment requirements of the Refunded Bonds. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Bonds will be paid as described in the schedules provided to them, or the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the City and County will undertake in a Master Continuing Disclosure Certificate of the City and County, as supplemented, constituting a written agreement for the benefit of the holders of the Bonds (the “Continuing Disclosure Certificate”), to provide to each Nationally Recognized Municipal Securities Information Repository (as referred to in Rule 15c2-12), and others, on an annual basis, certain financial and operating data concerning the City and County, 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 City and County that is enforceable as described in the Continuing Disclosure Certificate. Beneficial owners of the Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriter to purchase the Bonds. The form of the Master Continuing Disclosure Certificate and the proposed form of the Series Certificate for the Bonds are contained in Appendix C.

The City and County has not failed to comply in any material respect with any of its previous continuing disclosure undertakings under Rule 15c2-12.

MISCELLANEOUS

Additional information may be obtained, upon request, from the Director of Budget and Fiscal Services.

All quotations from, and summaries and explanations of, the State Constitution and laws referred to herein do not purport to be complete, and reference is made to the State Constitution and laws for full and complete statements of their provisions.

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

/s/ Mary Patricia Waterhouse
Mary Patricia Waterhouse
Director of Budget and Fiscal Services
City and County of Honolulu

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC FACTORS

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ECONOMIC AND DEMOGRAPHIC FACTORS

Introduction

Honolulu is a major metropolitan city, ranked 56th out of 280 metropolitan areas in the United States based on population. As of 2000, the population of the City and County of Honolulu was 876,156 (based on U.S. Census data), or 71% of the population of the State of Hawaii. Honolulu's underlying economy is strong, supported by several diversified areas, which include tourism, the federal government and military operations, State and local governments, manufacturing, construction, real estate, education, research and science, trade and services, communications, finance and transportation. The strength of Honolulu's economy has kept its unemployment rate low. As of July 2007, the unemployment rate for Honolulu was 2.8%, much lower than the national unemployment rate of 4.6%. Per capita income for Honolulu has increased over the past few years, reaching \$36,828 in 2005. Additionally, Gross State Product increased by an estimated \$3.5 billion from \$54.8 billion in 2005 to \$58.3 billion in 2006.

Honolulu also is viewed as a premier world-class destination, and has received several accolades from the visitor industry. The natural beauty of Oahu, coupled with the security of a U.S. destination, make Honolulu attractive to both domestic and international visitors. In 2006, over 4.6 million people visited Oahu, serving as a critical cornerstone for the City and County's economy. Further description of Honolulu's strong visitor industry is provided below.

Oahu is situated between 21 degrees and 22 degrees north latitude, just below the Tropic of Cancer. The climate has an average mean winter temperature of 70.2 degrees and an average mean summer temperature of 78.6 degrees. Oahu has neither the cold of the temperate zones nor the heat and humidity of the tropics. Two modest mountain ranges, the Koolau and the Waianae, intercept the dominant northeast tradewinds. Average rainfall varies widely from one area of Oahu to another. Rainfall is comparatively light in the leeward coastal area where the larger part of the population is located. Waikiki, located on the leeward side of Oahu, has a dry climate with annual precipitation averaging about 27 inches; precipitation in the upper reaches of the Koolau mountains averages about 400 inches a year and provides an adequate supply of water for irrigation use and retention in large subterranean reservoirs for household and industrial uses.

Land Use

State law establishes four major land use categories in which all lands in the State are to be placed: urban, rural, agricultural, and conservation. The Hawaii State Land Use Commission is vested with authority for grouping contiguous land areas in all of the counties into one of these four major categories. For the City and County of Honolulu, the permitted major uses are: (1) urban, (2) agricultural and (3) conservation. Conservation lands include mountainous regions unsuitable for urban or agricultural development, lands of a historic or scenic nature and lands having recreational uses. As of December 31, 2006, of the total 386,188 acres on Oahu, 100,764 acres, or 26.1%, were classified urban, 156,614 acres, or 40.6%, were classified conservation, and 128,810 acres, or 33.4%, were classified agricultural.

Visitor Industry

The visitor industry encompasses an array of businesses including hotels, restaurants, airlines, travel agencies, taxis, tour-bus operators, gift shops and other service and recreational industries.

Approximately 7.461 million visitors came to the State of Hawaii by air in 2006, which was approximately the same as the total for 2005. The domestic arrivals of 5.496 million visitors represented a 3.4% increase over 2005, but this was offset by a decrease in international arrivals to 1.965 million visitors, representing a 6.6% decrease compared with 2005. The preliminary average daily visitor (by air) census figure for 2006 was 148,053, representing a 2.5% increase over 2005. Hotel occupancy rates on Oahu averaged 83.1% in 2006. More detailed statistics on the visitor industry are as follows:

Table I

**SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS
2002 – 2006**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Arrivals by Air (thousands)	6,389	6,380	6,912	7,416	7,461
Domestic (thousands)	4,359	4,531	4,892	5,313	5,496
International (thousands)	2,030	1,849	2,019	2,103	1,965
Domestic average daily visitor census (thousands).....	125.4	123.3	132.0	144.4	148.0
Domestic average length of stay (number of days).....	10.1	9.9	9.9	9.9	9.8
International average daily visitor census (in thousands)....	39.2	37.6	39.6	41.0	39.6
International average length of stay (number of days).....	7.0	7.4	7.1	7.2	7.3
Hotel inventory-State	70,783	70,742	72,614	73,126	72,516
Hotel inventory – Oahu.....	36,457	35,664	35,987	34,340	34,008
Occupancy – State (percent)	69.7	72.7	77.7	81.2	79.8
Occupancy – Oahu (percent).....	70.5	73.2	79.7	85.6	83.1
Oahu Average Daily Room Rate	\$114	\$116	\$123	\$140	\$156

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

The City and County of Honolulu continues to attract major investment to support the visitor industry, including hotels, restaurants, and recreation facilities. The Waikiki Beach Walk is the largest development project in Waikiki's history. Nearly eight acres long, Lewers Street has been completely rebuilt, with an outdoor entertainment plaza, nearly fifty new retailers, sixteen dining establishments, and five hotels.

The first phase of the project included the construction of forty retailers, six name brand restaurants, and a street-level open-air promenade and entertainment plaza along the length of Lewers Street (between Kalakaua Avenue and Kalia Road). This includes the development by Fairfield Resorts, Inc., the world's largest vacation ownership company, of Wyndham Vacation Ownership. This 195-unit deluxe vacation ownership complex was created through an extensive renovation of the former Ohana Reef Towers hotel. The Embassy Suites, a new deluxe twin-tower hotel, was created through a \$460 million renovation of the Ohana Waikiki Village and Ohana Waikiki Tower hotels. The renovation included the conversion of 844 standard hotel rooms into 17 two-bedroom suites, 352 one-bedroom suites and 52 hotel room suites.

The second phase of the project included the development of the block bordered by Saratoga Road, Beach Walk, and Kalia Road. Included in this phase, the Outrigger Reef Hotel is currently undergoing a \$100 million renovation of all 631 rooms. In addition, the Ohana Islander Waikiki is currently renovating guest rooms and public areas, scheduled for completion in April 2008. Donald Trump and Irongate Capital Partners, a Beverly Hills, California-based investment firm, are bringing a \$350-million-plus, five-star, luxury condominium hotel to Waikiki Beach. The structure will consist of 38 stories with 460 condo hotel units. Construction began in April 2007, and is expected to be completed by August 2009.

Various other renovations and developments are underway in Honolulu. The Waikiki Parc Hotel, a 297-room hotel, recently underwent a complete renovation. The Hilton Waikiki Prince Kuhio Hotel, located in the heart of Waikiki, also recently underwent a \$55 million renovation by the Hilton Corporation. The Kahala Hotel and Resort is in the process of a \$20 million renovation of rooms and public areas. The Royal Hawaiian, a 528-room hotel that opened in 1927, recently announced a plan for major renovations. The \$85 million in renovations to public areas and \$25 million renovations to guest rooms is expected to be completed by early 2008. The Royal Hawaiian renovation is part of a \$750 million renovation of four jointly owned Waikiki properties including the Sheraton Waikiki, Moana Surfrider and the Sheraton Princess Kaiulani.

A new development, the Grand Waikikian, is a 38-story timeshare and retail development at the Hilton Hawaiian Village Beach Resort and Spa. The Grand Waikikian will be operated by Hilton Grand Vacations

Company, the timeshare division of Hilton Hotels Corporation. Upon its anticipated completion in late 2008, the 331 unit Grand Waikikian will feature 34 floors of one-bedroom and two-bedroom timeshare suites, plus an additional four floors of retail, office and guest amenity space.

Additionally, Walt Disney Parks and Resorts is expected to build a 800-unit stand-alone resort in Ko’Olina. The resort, which will have both hotel rooms and timeshare units, is expected to be completed by 2011. The company anticipates hiring at least 1,000 employees to work at the hotel.

Hawaii has experienced continued growth in cruise ship passenger volume in recent years. The number of cruise visitor arrivals increased from 316,546 in 2005 to 425,967 in 2006, a 35% annual increase. The construction of a new cruise passenger terminal at Pier 2, Honolulu Harbor, has been completed and is currently utilized by cruise ship vessels. Norwegian Cruise Lines currently operates three cruise ships exclusively in Hawaii—Pride of America, Pride of Aloha, and Pride of Hawaii—providing year round, inter island service. In February 2008, Pride of Hawaii will be removed from Hawaii service and will operate in Europe as the Norwegian Jade. Recent media reports indicate that Norwegian Cruise Lines expects to determine whether it will continue its Hawaii cruise ship operations by the end of 2008.

Employment

In 2006, the annual average employment was estimated to be 439,850 and the unemployment rate was estimated to be 2.6%. The following table sets forth certain employment statistics for the most recent five years for which data are available.

Table II
EMPLOYMENT STATISTICS -- CITY AND COUNTY OF HONOLULU
2002 – 2006

	2002	2003	2004	2005	2006
Civilian Labor Force ⁽¹⁾⁽²⁾	429,800 ⁽⁴⁾	431,100 ⁽⁴⁾	432,250 ⁽⁴⁾	442,350 ⁽⁴⁾⁽⁵⁾	450,150 ⁽⁴⁾⁽⁵⁾
Employment	412,900 ⁽⁴⁾	415,000 ⁽⁴⁾	418,800 ⁽⁴⁾	430,750 ⁽⁴⁾⁽⁵⁾	439,850 ⁽⁴⁾⁽⁵⁾
Unemployment	16,950 ⁽⁴⁾	16,150 ⁽⁴⁾	13,450 ⁽⁴⁾	11,600 ⁽⁴⁾⁽⁵⁾	10,300 ⁽⁴⁾⁽⁵⁾
Unemployment Rate	3.9%	3.7% ⁽⁴⁾	3.1% ⁽⁴⁾	2.7% ⁽⁴⁾⁽⁵⁾	2.6% ⁽⁴⁾⁽⁵⁾
Total Job Count ⁽³⁾	414,800	421,800	431,900	444,650	454,900

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

⁽¹⁾ As of May 30, 2007 (not seasonally adjusted).

⁽²⁾ As of March 8, 2007 (not seasonally adjusted).

⁽³⁾ Data from 2002 to 2006 reflect 2000-based geography, new model controls, 2000 Census inputs and methodological changes.

⁽⁴⁾ Data from 2002 to 2006 have been benchmarked and 2002 and 2003 are preliminary subject to BLS’ approval. 2006 is preliminary.

⁽⁵⁾ Beginning with January 2005 data, labor force estimates are rounded to the nearest 50 except for unemployment rate with is rounded to 0.1%.

Federal Government and Military

The Federal government plays an important role in Hawaii’s economy as the second largest industry behind Tourism. DBEDT’s Hawaii Travel and Tourism Satellite Account showed that Hawaii’s tourism industry contributed about 23% of Hawaii’s Gross State Product (GSP) in 2005. Federal government activity in Hawaii directly contributed 13.4% of Hawaii’s GSP, 14.2% of Hawaii’s resident population, and 12.4% of total wage and salary jobs in 2005. If indirect and induced impacts are included, Federal government is estimated to contribute

18% of Hawaii's GSP and 23% of Hawaii's total wage and salary jobs. Total expenditures by the federal government in the State amounted to \$12.2 billion during Fiscal Year 2004, representing an 8.1% increase over the preceding year.

The large military establishment maintained in Hawaii is almost entirely on the Island of Oahu. Members of the armed services on Oahu, as of September 30, 2006, totaled 43,432. Civilian dependents of these military personnel numbered 52,879. In addition to uniformed personnel and their dependents, the military agencies in Hawaii provided employment for some 16,718 civilians in 2006. Pearl Harbor, located on the island of Oahu, is home of the Commander-in-Chief of the United States Pacific Fleet and headquarters of the Third Fleet. Pearl Harbor will become the home of the USS Hawaii, the third Virginia Class submarine being built. The command stretches from the West Coast of the Americas to the Indian Ocean and from the North Pole to the South Pole.

Total defense expenditures in Hawaii were \$5.6 billion, an increase of 8.7% over Fiscal Year 2004. Defense procurement contracts in Hawaii totaled nearly \$2.0 billion, increase of 16.2% over Fiscal Year 2004. Appropriations for Fiscal Year 2006 and Fiscal Year 2007 defense projects totaled \$767 million and \$622 million, respectively. In Fiscal Year 2007, Military construction totaled \$208.1 million and other defense related projects accounted for \$372 million. According to the Department of Defense, total direct defense expenditures in Hawaii are expected to be approximately \$5.5 billion from Fiscal Year 2006 through Fiscal Year 2011.

The U.S. military has announced plans and begun the process of privatizing the military housing stock on Oahu. The plans, at various stages by each branch of service, calls for nearly \$2 billion in bonds coupled with approximately \$8 million from developers to be spent over the next ten years for the renovation, demolition and new construction of over 16,000 homes, as well as community centers and landscaping improvements. The largest privatized military housing transaction to date (approximately \$1.49 billion) sold in April 2005 with proceeds expected to fund costs associated with the design, demolition, construction and renovation of 8,132 housing units in six military multi-family rental housing communities on Oahu. At the end of the development period (scheduled for 2015), a total of 7,894 new family housing units are expected to be in place as well as construction of eleven community centers that will offer swimming pools, water parks and tot lots. The scope of work is expected to take ten years to complete with construction spread over three phases. With anticipated slowdowns in residential developments, military and commercial construction projects are expected to support the robust economic construction periods and help insulate against an economic downturn.

Projects currently in progress include a construction project by the U.S. Navy to make Ford Island the center of Pearl Harbor Naval Base operations. This project is part of a master development project that will eventually add 430 new navy housing units to the island by 2007. The infrastructure phase will require the services of 250 construction workers and at the peak of construction could potentially provide employment to approximately 400 local workers. The work involves installing new electrical and telecommunication systems, as well as major improvements to the sewer system and roadways. Once infrastructure work is complete, construction of the new housing units will begin. This project is one part of several large military housing projects in Hawaii scheduled over the next decade that are expected to add several billion dollars to the local economy.

Sporting Events

Honolulu is a popular venue for sporting events. Aloha Stadium, located minutes from downtown Honolulu, hosts the University of Hawaii's football team each year as well as the National Football League's annual Pro Bowl. The Hula Bowl, a college football all-star game scheduled to coincide with the Pro Bowl, is also held in the City.

The Waialae Country Club in East Honolulu is home to the Sony Hawaiian Open Golf Tournament on the PGA tour. Other major golf tournaments on the island include the Pearl Open and Pro-Am, Mid-Pacific Open, PGA Classic, Turtle Bay Resort Match Play Championship, and the Governor's Cup.

The Men's & Women's OP Pro Hawaii surfing competitions, the O'Neill World Cup surfing competition, and the Billabong Pipeline Masters are all held on Oahu. The Honolulu Marathon, one of the largest in the world, has been held in City each December since 1973.

Entertainment

The Neal Blaisdell Center in downtown Honolulu includes a concert hall, arena, exhibition hall, and conference rooms and hosts a wide variety of attractions, including musical performances, trade shows, business meetings and sporting events. The Diamond Head Theatre is another live theatre venue in the City. The theatre is Hawaii's oldest performing arts center and typically seats over 40,000 patrons each year.

Honolulu Academy of Arts, founded in 1927, has a collection of over 50,000 works of art and administers the Academy Art Center at Linekona. The Arts of Paradise Gallery, located in Waikiki, features the art of more than 40 of local artists. The Bishop Museum, located in downtown Honolulu, was founded in 1889 by a member of the Hawaiian royal family. The museum primarily focuses on history and science, and is home to the world's largest collection of Polynesian cultural and scientific artifacts. The Mission Houses Museum, established in 1920, provides a glimpse into 19th century Hawaii life. The museum hosts a wide variety of events including lectures, gallery talks, public programs, demonstrations and workshops.

State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. As of September 2007, the State government generated 71,800 jobs, of which approximately 76% were located on Oahu. The largest number of employees work in the public education and university system, with approximately 80% of these employed in Oahu. The City and County government has generated approximately 12,150 jobs in 2007 (year to date).

Construction

Construction activity statewide amounted to \$7.0 billion in 2006, with the bulk of the activity generated on Oahu. For 2005 year to date, the construction, natural resources and mining industry generated an average of 31,619 jobs per month. Construction contracting receipts, as summarized by the State of Hawaii Department of Taxation (in its General Excise and Use Tax Base), decreased 5.7% in 1995, increased 4.8% in 1996, decreased 10.4% in 1997, increased 2.4% in 1998, decreased .8% in 1999, and increased 20.8%, 4.2%, 13.5%, 6.1%, 8.5%, 18.9% and 19.9% annually in 2000 through 2006, respectively. The value of building permits, a measure of future construction, increased 8.0% in 2006. Expenditures for capital improvements of the City and County amounted to over \$298 million in Fiscal Year 2004. See also "Visitor Industry" above for a description of certain construction projects related to the visitor industry. Table III shows the estimated value of construction authorizations for private buildings for the State as a whole and for the City and County for the last ten years for which such information is available.

Table III

**ESTIMATED VALUE OF BUILDING PERMITS
1996 – 2006
(in thousands of dollars and percentage change from the previous year)**

<u>Year</u>	<u>State</u>	<u>% Change from Prior Year</u>	<u>City & County of Honolulu</u>	<u>% Change from Prior Year</u>
1996	1,117,760	-27.0%	698,697	-28.8%
1997	1,179,182	5.5%	772,825	10.6%
1998	1,054,281	-10.6%	624,226	-19.2%
1999	1,320,218	25.2%	706,358	13.2%
2000	1,513,073	14.6%	694,223	-1.7%
2001	1,585,739	4.8%	682,660	-1.7%
2002	1,772,027	11.7%	876,049	28.3%
2003	2,352,720	32.4%	1,109,568	26.7%
2004	2,726,536	15.9%	1,320,552	19.0%
2005	3,491,964	28.1%	1,364,030	3.3%
2006	3,770,051	8.0%	1,625,328	19.2%

Source: State of Hawaii Department of Business, Economic Development and Tourism
(compiled monthly from county building departments).

Diversified Manufacturing and Agriculture

Manufacturing, other than sugar milling and pineapple canning, consists principally of manufacturing cement (one plant), refining oil (two refineries), and converting oil into synthetic natural gas (one plant). Other activities include the manufacturing of garments, plastic and concrete pipe, jewelry and gift items, and the processing and packaging of tropical fruits, nuts and other food items. Manufacturing is a relatively small sector in the State's and the City and County's economy.

Education, Research and Science

The main campus of the University of Hawaii is located on Oahu, as are four community colleges, three private universities, and one private college. The federally funded East-West Center is adjacent to the Manoa Campus of the University of Hawaii. Research and development activity in Honolulu is expanding, particularly in the fields of oceanography, geophysics and biomedicine. The University of Hawaii has 14 research units which are funded by the State of Hawaii, the six largest of which are the Hawaii Institute of Tropical Agriculture and Human Resources, the Institute for Astronomy, the Hawaii Institute of Geophysics, the Pacific Biomedical Research Center, the Curriculum Research and Development Group, and the Cancer Research Center of Hawaii. In addition, the University of Hawaii broke ground for its \$150 million new medical school in October 2002 in the Kakaako District of Honolulu. The first building, which includes classrooms, was completed in January 2005, and the second building, the Biomedical Research Building, was completed in August 2005. The first classes in the new school began in April 2005. The project was constructed on schedule and under budget. Initially, Phase II of the project site envisioned building of the Cancer Research Center of Hawaii is now a separate project planned for the 5.5 acres adjacent tract, which is currently the interim parking site for Phase I of the project. Phase II is now expected to include research facilities, i.e. the Regional Biocontainment Laboratory as well as a parking structure.

Federal government research agencies in Honolulu include the U.S. Bureau of Commercial Fisheries and the Environmental Science Services Administration. Among private research organizations on Oahu are the Oceanic Institute and the Bishop Museum. The three high technology centers located on Oahu are the Mililani Technology Park, the Kaimuki Technology Enterprise and the Manoa Innovation Center.

Trade and Services

The economy of both the City and County and the State as a whole is heavily trade and service-oriented, largely because of the heavy volume of purchases by visitors to the State, including approximately 7.46 million who arrived in 2006. Another reason for the high volume of trade and service activity is the above-average per capita personal income of the resident population, which in 2005 grew by approximately 5.7% over the prior year, as compared to the national growth rate of 4.3% over the same period. According to the State's Department of Taxation, the State's general excise tax base for trade and service activities amounted to over \$47 billion in 2006, with retail, wholesale and service activities accounting for the majority. Of the State's non-agricultural job count of 626,221 (as of July 2007), the retail sector generated 69,614 jobs (11% of total non-agricultural job count) and the wholesale sector generated 18,043 jobs (3% of total non-agricultural job count). Services accounted for \$9.9 billion in activity.

Finance

Honolulu has a full range of financial services, including banks, savings and loan associations and industrial loan companies. Branch banking is permitted in Hawaii. As of December 31, 2006, total assets of all State of Hawaii chartered financial institutions, including banks, trust companies and savings and loan associations, were reported at \$28.8 billion. The five state chartered banks (195 branches) in Hawaii had combined assets of some \$28.2 billion. In addition, a state chartered financial services company with 14 branches within the State has assets of approximately \$670 million.

Transportation

All parts of the City and County are connected by a comprehensive network of roads, highways, and freeways, and all of the populated areas of the island are served by a bus transit system (TheBus). Ridership has grown from 30 million passengers per year to approximately 71 million today. TheBus is now the 20th most utilized transit system in the country and the 13th most utilized bus fleet. Additionally, on a per-capita basis, the City and County has the sixth highest transit ridership in the country.

State law allows counties to impose a 0.5% surcharge (to be collected and distributed by the State) on the existing 4.0% State general excise tax in order to fund transportation projects. The City and County began imposing this surcharge on January 1, 2007. See "CITY AND COUNTY REVENUES – General Fund – *Excise Tax*" and "DEBT STRUCTURE – High-Capacity Transit Corridor Project" in the forepart of this Official Statement for additional discussion on Honolulu's planned transit project. The State and the City and County also are currently collaborating to develop plans to alleviate traffic congestion on Oahu.

Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu International Airport is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, of which two, at 12,001 feet and 12,357 feet, respectively, are among the nation's longest. According to preliminary data from the publication of the Airports Council International, Honolulu International Airport is one of the busiest air terminals in the world, ranking 60th in the world and 26th in the United States in total passengers serviced in 2006. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft.

Honolulu Harbor is the hub of the State's Statewide System of Harbors, where it serves as a major distribution point of overseas cargo to the neighbor islands and a primary consolidation center for export of overseas cargo. Overseas and inter island cargo tonnage handled through the Honolulu Harbor was 8.6 million short tons in Fiscal Year 2004, 9.2 million short tons in Fiscal Year 2005, and 9.5 million short tons in Fiscal Year 2006. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers. Matson Navigation Co. and Horizon Lines (formerly CSX Lines) are the primary shipping lines to/from the mainland U.S. Pasha Transport Hawaii provides auto-hauling services to/from the mainland U.S. Young Brothers provides inter island shipping services.

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APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

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PROPOSED FORM OF OPINION OF BOND COUNSEL
(See “TAX MATTERS” herein, including the subsection entitled
“ – Proposed Circular 230 Rules” and “ – Delayed Settlement for the
Bonds; Delivery of Opinion of Bond Counsel”)

[Date of Delivery]

City and County of Honolulu
Honolulu, Hawaii

Re: City and County of Honolulu, Hawaii
General Obligation Bonds, Series 2007B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City and County of Honolulu (the “City”) in connection with the issuance of \$152,840,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2007B (the “Bonds”), pursuant to the provisions of Chapter 47, Hawaii Revised Statutes (the “Act”), a Certificate of the Director of Budget and Fiscal Services of the City dated November 14, 2007 (the “Certificate”), and bond authorizing ordinances and a resolution adopted by the City Council and identified in the Certificate (the “Bond Proceedings”).

In such connection, we have reviewed the Bond Proceedings, the Certificate, the Tax Certificate of the City, dated the date hereof (the “Tax Certificate”), an opinion of the Corporation Counsel of the City, certificates of the City and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have 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 City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Proceedings, the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Proceedings, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents described in the second paragraph hereof. Finally, we undertake no

responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding general obligations of the City.
2. The Certificate has been duly executed and delivered by the Director of Budget and Fiscal Services; and the Certificate constitutes the valid and binding obligation of the City.
3. Under the Act, the City is obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the Bonds and the interest thereon, upon all the real property within the City subject to taxation by the City.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX C

FORM OF MASTER CONTINUING DISCLOSURE CERTIFICATE

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FORM OF MASTER CONTINUING DISCLOSURE CERTIFICATE
[Excluding Signatures and Exhibit to Master Certificate]

MASTER CERTIFICATE OF THE DIRECTOR OF FINANCE OF THE
CITY AND COUNTY OF HONOLULU, HAWAII, PROVIDING FOR
CONTINUING DISCLOSURE

I, the undersigned, RUSSELL W. MIYAKE, being the duly appointed Director of Finance (the “Director of Finance”) of the City and County of Honolulu, Hawaii (the “City and County”), and under Part I of Chapter 47, Hawaii Revised Statutes, as amended, and the Revised Charter of the City and County, the officer having the responsibility for issuing, selling, paying interest on and redeeming bonds, notes and other instruments of indebtedness of the City and County authorized by the Council thereof, DO HEREBY CERTIFY as follows:

ARTICLE I

PURPOSE AND DEFINITIONS

Section 1.1. *Purpose.* This Certificate shall constitute a written undertaking for the benefit of the Holders of the Bonds, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. *Definitions.* The following terms used in this Certificate shall have the following respective meanings:

“*Annual Financial Information*” means, collectively, (i) the financial information and operating data with respect to the City and County for each Fiscal Year of the City and County of the type included in the Series 1995A Official Statement under the headings “DEBT STRUCTURE,” “CITY AND COUNTY REVENUES,” “FINANCIAL INFORMATION AND ACCOUNTING,” “EMPLOYEE RELATIONS; PENSIONS,” and “PENDING LITIGATION;” and (ii) the information regarding amendments to this Certificate required pursuant to Sections 3.2(c) and (d) of this Certificate. Audited Financial Statements, if available, or Unaudited Financial Statements shall be included in the Annual Financial Information as described in Section 2.1(c) of this Certificate.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

“*Audited Financial Statements*” means the annual financial statements, if any, of the City and County, audited by such auditor as shall then be required or permitted by State law or the Charter of the City and County. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however,* that the City and County may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(d) of this Certificate shall include a reference to the specific federal or State law or regulation describing such accounting principles.

“*Beneficial Owner*” means any person who (i) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Bonds (including a person who holds Bonds through a nominee, depository or other intermediary), or (ii) is treated as the owner of any Bonds for federal income tax purposes.

“*Bonds*” means any general obligation bonds issued by the City and County and identified in a Series Certificate.

“*Counsel*” means Hawkins, Delafield & Wood or other nationally recognized bond counsel or counsel expert in federal securities laws.

“*Director of Finance*” means any duly appointed director of finance or deputy director of finance of the City and County.

“*GAAP*” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

“*Holder*” means any person who shall be the registered owner, or his duly authorized attorney-in-fact, representative or assign, of any Bond.

“*Material Event*” means any of the following events with respect to the Bonds, whether relating to the City and County or otherwise, if material:

- (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions or events affecting the tax-exempt status of the security;
 - (7) modifications to rights of security holders;
 - (8) bond calls;
 - (9) defeasances;
 - (10) release, substitution, or sale of property securing repayment of the securities;
- and
- (11) rating changes.

“*Material Event Notice*” means notice of a Material Event.

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“*NRMSIR*” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Certificate are Bloomberg L.P. (Princeton, NJ), Disclosure, Inc. (Bethesda, MD), Kenny Information Systems (New York, NY), Moody’s Investors Service (New York, NY), and Thomson Municipal Services Inc. (New York, NY). Filing information relating to such NRMSIRs is set forth in Exhibit A hereto.

“*Official Statement*” means the “final official statement,” as defined in paragraph (f)(3) of the Rule.

“*Rule*” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

“*SEC*” means the United States Securities and Exchange Commission.

“*Series Certificate*” means any certificate executed by the Director of Finance as described in Section 3.3 of this Certificate extending the benefits of this Certificate to the Beneficial Owners, Holders and Underwriters of Bonds of a Series.

“*Series 1995A Official Statement*” means the Official Statement of the City and County relating to its General Obligation Bonds, Series 1995A.

“*SID*” means, at any time, a then-existing a state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

“*State*” means the State of Hawaii.

“*Supplemental Certificate*” means any certificate executed by the Director of Finance as described in Section 3.2 of this Certificate amending the provisions of this Certificate.

“*Unaudited Financial Statements*” means the same as Audited Financial Statements, except that they shall not have been audited.

“*Underwriter*” means any original underwriter of a Series of Bonds who is required to comply with the Rule and who is identified in a Series Certificate.

ARTICLE II

THE UNDERTAKING

Section 2.1. *Annual Financial Information.* (a) The City and County shall provide Annual Financial Information with respect to each Fiscal Year of the City and County, commencing with the Fiscal Year ending June 30, 1996, by no later than eight months after the end of the respective Fiscal Year, to each NRMSIR and the SID. The City and County may provide Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is an Official Statement, available from the MSRB. The City and County may provide Annual Financial Information in one document or multiple documents comprising a package, and at one time or in part from time to time.

(b) The City and County shall provide, in a timely manner, notice of any failure of the City and County to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

(c) If Audited Financial Statements are not provided as part of Annual Financial Information by the date required by Section 2.1(a) of this Certificate, the City and County shall provide (i) as part of the Annual Financial Information, Unaudited Financial Statements in a format similar to the unaudited financial statements contained in the Series 1995A Official Statement under the heading “CITY AND COUNTY REVENUES -- Financial Statements,” and (ii) Audited Financial Statements, when and if available, to each NRMSIR and the SID.

(d) The City and County’s current Fiscal Year is July 1 of a calendar year to June 30 of the succeeding calendar year. The City and County shall promptly notify (i) each NRMSIR, and (ii) the SID of each change in its Fiscal Year.

Section 2.2. *Material Event Notices.* (a) If a Material Event occurs, the City and County shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR, and (ii) the SID.

(b) Upon any legal defeasance of any Bonds of a Series, the City and County shall provide notice of such defeasance to (i) each NRMSIR or the MSRB and (ii) the SID, which notice shall state whether such Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

(c) Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.3. *Additional Disclosure Obligations.* The City and County acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City and County, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City and County under such laws.

Section 2.4. *Additional Information.* Nothing in this Certificate shall be deemed to prevent the City and County from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City and County chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the City and County shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

Section 2.5. *No Previous Non-Compliance.* The City and County represents that since July 3, 1995, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Section 2.6. *Transmission of Information and Notices.* Unless otherwise required by law and, in the City and County's sole determination, subject to technical and economic feasibility, the City and County shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the City and County's information and notices.

ARTICLE III

TERMINATION, AMENDMENT, ENFORCEMENT, BENEFICIARIES AND DISSEMINATION AGENT

Section 3.1. *Termination.* (a) The City and County's obligations under this Certificate with respect to the Bonds of each Series shall terminate upon (i) a prior redemption or payment in full of all of the Bonds of such Series, or (ii) a legal defeasance of all of the Bonds of such Series.

(b) This Certificate, or any provision of this Certificate, shall be null and void in the event that there is delivered (i) to the Director of Finance an opinion of Counsel, addressed to the City and County, to the effect that those portions of the Rule which require this Certificate, or any of the provisions of this Certificate, respectively, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) copies of such opinion to each NRMSIR and the SID.

Section 3.2. *Amendment.* (a) This Certificate may be amended by a Supplemental Certificate of the Director of Finance, without the consent of the Holders of the Bonds, if all of the following conditions are satisfied:

(1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules

or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City and County or the type of business conducted thereby;

(2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(3) there shall have been delivered to the Director of Finance, an opinion of Counsel, addressed to the City and County, to the same effect as set forth in clause (2) above;

(4) there shall have been delivered to the Director of Finance, an opinion of Counsel or a determination by a person, in each case unaffiliated with the City and County (such as bond counsel) and acceptable to the City and County, addressed to the City and County, to the effect that the amendment does not materially impair the interests of the Holders of the Bonds; and

(5) the City and County shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived by a Supplemental Certificate of the Director of Finance, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Certificate which is applicable to this Certificate, (2) there shall have been delivered to the Director of Finance an opinion of Counsel, addressed to the City and County, to the effect that performance by the City and County under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule as amended or officially interpreted and (3) the City and County shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Certificate results in a change in the type of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such amendment shall be provided by the City and County to (i) either the MSRB or each NRMSIR and (ii) the SID.

Section 3.3. *Benefit; Third-Party Beneficiaries; Enforcement.* (a) By execution of a Series Certificate identifying the Underwriters and the Bonds of a Series, the provisions of this Certificate shall inure solely to the benefit of such Underwriters and the Holders from time to time of such Bonds. Beneficial Owners of such Bonds shall be third-party beneficiaries of this Certificate.

(b) Except as provided in this subsection (b), the provisions of this Certificate shall create no rights in any person or entity. The obligations of the City and County to comply with the provisions of this Certificate shall be enforceable by any Holder of outstanding Bonds; provided, however, that such right to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City and County's obligations under this Certificate. In consideration of the third-party beneficiary status of Beneficial Owners of Bonds pursuant to subsection (a) of this Section, Beneficial Owners shall be deemed to be Holders of Bonds for purposes of this subsection (b).

(c) Any failure by the City and County to perform in accordance with this Certificate shall not constitute a default under any ordinance or resolution of the City Council authorizing the Bonds of any Series or any certificate of the Director of Finance providing for the issuance of the Bond of a Series.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 3.4. *Dissemination Agent.* The Director of Finance, on behalf of the City and County, shall disseminate the Annual Financial Information, the Audited Financial Statements, the Unaudited Financial Statements, the Material Event Notices and all other information and notices as described in this Certificate. The Director of Finance may appoint one or more agents to disseminate such information and notices.

Dated this 15th day of November, 1995.

FORM OF SERIES CERTIFICATE OF THE DIRECTOR OF BUDGET AND
FISCAL SERVICES OF THE CITY AND COUNTY OF HONOLULU,
PROVIDING FOR CONTINUING DISCLOSURE

I, the undersigned, MARY PATRICIA WATERHOUSE, being the duly appointed Director of Budget and Fiscal Services (the "Director of Budget and Fiscal Services") of the City and County of Honolulu (the "City and County"), and under Part I of Chapter 47, Hawaii Revised Statutes, as amended, and the Revised Charter of the City and County, the officer having the responsibility for issuing, selling, paying interest on and redeeming bonds, notes and other instruments of indebtedness of the City and County authorized by the Council thereof, DO HEREBY CERTIFY that: (i) this Certificate is a Series Certificate as defined in Section 1.1 and described in Section 3.3 of the Master Certificate of the Director of Finance of the City and County of Honolulu, Hawaii, Providing for Continuing Disclosure, dated November 15, 1995 (the "Master Certificate"); (ii) UBS Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Underwriters of the City and County General Obligation Bonds, Series 2007B, dated the date of delivery thereof (the "Series 2007 Bonds"), shall be beneficiaries of the Master Certificate; (iii) the Holders of the Series 2007 Bonds shall also be beneficiaries of the Master Certificate; (iv) the Beneficial Owners of the Series 2007 Bonds shall be third-party beneficiaries of the Master Certificate; and (v) all capitalized terms used herein shall have the respective meanings as defined in the Master Certificate.

The NRMSIRs as of the date hereof are set forth at www.sec.gov/info/municipal/nrmsir.htm.

Dated as of November 14, 2007.

Mary Patricia Waterhouse
Director of Budget and Fiscal Services
City and County of Honolulu

The above and foregoing certificate is hereby
approved as to form and legality this
November 14, 2007.

Carrie K.S. Okinaga
Corporation Counsel
City and County of Honolulu

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APPENDIX D
BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

Information on DTC and Book-Entry System. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the City and County 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 City and County.

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

DTC and its Participants. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City and County 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

Discontinuance of Book-Entry System. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City and County or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City and County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will 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 Bonds are in the Book-Entry System, references in other sections of this Official Statement to owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the City and County will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

City and County Disclaimer of Responsibility. The City and County will have no responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, or (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest on the Bonds, or (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the City and County to DTC), or (iv) the selection by DTC of any Participant to receive payment in the event of a partial redemption of the Bonds, or (v) any consent given or other action taken by DTC as Owner of the Bonds, or (vi) any other event or purpose.

APPENDIX E

SPECIMEN BOND INSURANCE POLICY

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SPECIMEN BOND INSURANCE POLICY



**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), 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 Financial Security, 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 Financial Security shall have received Notice of Nonpayment, Financial Security 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 Financial Security, 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 Financial Security. 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 Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security 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, Financial Security 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 Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security 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 Financial Security 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 Financial Security 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.

Financial Security 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 Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security 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 Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security 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 Financial Security 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 Financial Security, 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, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

APPENDIX F

FORM OF DELAYED DELIVERY CONTRACT

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FORM OF DELAYED DELIVERY CONTRACT

November __, 2007

UBS Securities LLC
 1285 Avenue of the Americas
 New York, New York 10019

Re: City and County of Honolulu, Hawaii,
 General Obligation Bonds, Series 2007B (the "Bonds")

Ladies and Gentlemen:

This Delayed Delivery Contract (this "Agreement") evidences the agreement of the undersigned party (the "Purchaser") to purchase from UBS Securities LLC (the "Underwriter") and the agreement of the Underwriter to sell to the Purchaser, when, as, and if issued and delivered to the Underwriter:

<u>Par Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Yield</u>	<u>Price</u>
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of the above-referenced Bonds offered by the City and County of Honolulu, Hawaii (the "Issuer") under the Preliminary Official Statement, dated November 6, 2007 (the "Preliminary Official Statement") and the Official Statement, dated November 14, 2007 (the "Official Statement"), at the purchase price, and with the interest rates, principal amounts, and maturity dates shown above, and on the further terms and conditions set forth in this Agreement (the "Purchased Bonds"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Official Statement.

1. Purchase and settlement. The Purchaser hereby agrees to purchase and accept delivery of the Purchased Bonds from the Underwriter on or about April 6, 2009 (the "Settlement Date"). Except as provided in this Section 1 or otherwise agreed to in writing by the Underwriter and the Purchaser, on the Settlement Date the Purchaser shall pay for and accept delivery of the Purchased Bonds if (a) the Bonds shall have been issued and delivered by the Issuer and have been purchased, accepted and paid for by the Underwriter as provided in and subject to satisfaction or waiver, as permitted thereunder, of the conditions to purchase contained in the Forward Delivery Bond Purchase Agreement for the Bonds (the "Purchase Agreement"), between the Issuer and the Underwriter, and (b) the Underwriter shall have received a legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, to the effect that interest on the Bonds is excluded from the gross income of the holders thereof for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. The Purchaser understands that the market price of the Purchased Bonds on the Settlement Date may be greater than or less than the purchase price, and that the Purchaser's obligations hereunder are not subject to cancellation due to an adverse change in the market price or marketability of the Bonds or, except as provided in Section 1(b)(ix) and (x) below, any adverse change in the business, affairs or financial condition of the Issuer or any other obligor on the Bonds. Settlement of the Bonds shall occur on a delivery versus payment basis. Payment shall be made in immediately available funds to an account designated by the Underwriter, and the Purchased Bonds shall be transferred to an account designated by the Purchaser. The Bonds shall be delivered to the Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds and will be registered in the name of Cede & Co., as nominee of DTC. The Bonds will be available only under the book-entry system operated by DTC.

Subject to the foregoing, the obligation of the Purchaser to take delivery hereunder shall be unconditional except in the event that between the date of this Agreement and the Settlement Date:

(a) The Issuer fails to comply with all of the conditions to settlement set forth in Section 13 of the Purchase Agreement by 10:00 a.m. New York time on the Settlement Date, except any such condition waived by the Underwriter in accordance with the Purchase Agreement.

(b) In the sole judgment of the Underwriter,

(i) There is a Change in Law (hereinafter defined);

(ii) Legislative Action (hereinafter defined) has occurred relating to the Federal taxation of interest received on obligations of the general character of the Bonds, which, in the opinion of Bond Counsel has, or will have, the effect of such interest being subject to inclusion in gross income for purposes of Federal or State income taxation (except to the extent such interest is intended to be includable in gross income);

(iii) As a result of any reason other than Legislative Action, Bond Counsel cannot issue an opinion to the effect that (A) interest on the Bonds is excluded from gross income of the holders thereof for Federal income tax purposes, (B) interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax, and (C) interest on the Bonds is exempt from State income taxation;

(iv) Legislation is enacted, or actively considered for enactment with an effective date prior to the Settlement Date, or a decision by a court of the United States of America is rendered, the effect of which, in the judgment of the Underwriter, is that the Bonds or the Authorizing Instruments (as defined in the Purchase Agreement), as the case may be, are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and then in effect (excepting compliance with Rule 15c2-12), or the Trust Indenture Act of 1939, as amended and then in effect;

(v) A stop order, ruling, regulation or official statement by the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter is issued or made or any other event occurs, the effect of which, in the judgment of the Underwriter, is that the issuance, offering, or sale of the Bonds or the adoption of the Authorizing Instruments as contemplated by the Purchase Agreement or the Official Statement, is or would be in violation of any provision of the Federal securities laws, including the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect;

(vi) There shall have occurred any outbreak or escalation of hostilities or any national or international calamity or crisis, the effect of which on the financial markets of the United States of America being such, as in the judgment of the Underwriter, would make it impracticable for the Underwriter to market the Bonds or to enforce contracts for the sale of the Bonds;

(vii) There shall have occurred the declaration of a general banking moratorium by any authority of the United States of America or the State of New York or the State of Hawaii;

(viii) An event of default has occurred and is continuing, technical or otherwise, under the Authorizing Instruments;

(ix) If the Bonds are to be insured, (A) a municipal bond insurance policy on the basis of which the Bonds are rated “AAA” by Fitch, “Aaa” by Moody’s, and “AAA” by S&P (the “Insured Rating Criteria”) is not delivered and in effect on the Settlement Date or (B) if, between the date of execution of the Purchase Agreement and the Settlement Date, one or more of the rating agencies reduces its rating of the claims paying ability of the bond insurer to a level below the Insured Rating Criteria;

(x) If the Bonds are not to be insured, (A) evidence satisfactory to the Underwriter has not been delivered that the Bonds are rated “AA” by Fitch, “Aa2” by Moody’s, and “AA” by S&P (the “Uninsured Rating Criteria”) as of the Settlement Date or (B) if, between the date of execution of the Purchase Agreement and the Settlement Date, one or more of the rating agencies reduces its rating on the Bonds or comparable general obligation bonds of the Issuer to a level below the Uninsured Rating Criteria; or

(xi) An official published ruling, regulation, guidance, release or official announcement, or temporary or proposed regulation, shall have been made or shall have been proposed to be made by the Treasury Department of the United States (the “Treasury Department”) or the Internal Revenue Service (the “IRS”) after the date of the Purchase Agreement with respect to the provisions of Circular 230 (31 C.F.R. Part 10) (collectively, the “Ruling”); and

(A) any counsel delivering an opinion under the Purchase Agreement determines that compliance with such Ruling would require a modification to the form of opinion approved under the Purchase Agreement, including the form of bond counsel opinion attached to the Official Statement (without any amendments or supplements made subsequent to the date of the Purchase Agreement); or

(B) determination is made that one or more “significant Federal tax issues” contained in the “separately provided written advice” prepared by bond counsel pursuant to and as a result of the application of the Ruling as then in effect or as then proposed should be discussed in an amendment or supplement to the Preliminary Official Statement, the Official Statement, or any subsequent disclosure document, and

such modification to the form of opinion or discussion of “significant Federal tax issues” as set forth in subsections (A) and (B) above, respectively, would, in the judgment of the Underwriter: (x) adversely affect the market for the Bonds, or the market value of the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or (y) limit the ability of the Underwriter to market the Bonds to certain classes of investors.

(c) Additional restrictions not in force as of the date of the Purchase Agreement are imposed upon trading in securities generally by any governmental authority or by any securities exchange that would, in the judgment of the Underwriter, materially adversely affect the market for the Bonds.

For purposes of this Section, “**Change in Law**” means any Legislative Action which, in any such case, would, (i) as to the Underwriter, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriter from underwriting the Bonds as provided herein or selling the Bonds or beneficial ownership interests therein to the public as contemplated by the Official Statement, (ii) as to the Issuer, would make the issuance, sale or delivery of the Bonds illegal (or have the retroactive effect of making such issuance, sale or delivery illegal, if enacted, adopted, passed or finalized), or (iii) result in Bond Counsel being unable to give its approving opinion on the Settlement Date to the effect that interest on the Bonds is excluded from gross income for Federal and State purposes and is not an item of tax preference for purposes of the alternative minimum tax.

For purposes of this Section, “**Legislative Action**” means (i) an amendment to the Constitution of the United States of America (“United States”) or of the State or any federal, state or local legislation, whether statutory or as interpreted by the courts or by Federal or state agencies, including any changes in rules, regulations or other

pronouncements or interpretations by Federal or state agencies, (ii) any legislation (A) enacted by the Congress of the United States or (B) introduced therein or recommended to Congress for passage, by press release, or other form of notice or otherwise, by the President of the United States, the United States Treasury Department, the Internal Revenue Service, or by the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives or (C) presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the United States Congress or (D) favorably reported for passage to either House of the Congress by any Committee of such House or by a Conference Committee of both Houses to which such legislation has been referred for consideration (if such enacted, introduced or recommended legislation has a proposed effective date which is on or before the Closing Date or the Settlement Date; (iii) any law, rule or regulation proposed or enacted by any governmental body, department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date which is on or before the Closing Date or the Settlement Date) or (iv) any decision of any court or administrative body of the United States or any ruling or regulation (final, temporary or proposed) on behalf of the Treasury Department of the United States, the Internal Revenue Service or any other authority of the United States.

2. Representations and Warranties; Acknowledgements. The Purchaser represents and warrants that: (a) it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance; (b) it is acting hereunder as principal (or, if previously agreed in writing by the Underwriter, as agent for a disclosed principal); (c) the person executing this Agreement on the Purchaser's behalf is duly authorized to execute and deliver this Agreement on behalf of the Purchaser; (d) it had obtained all authorizations of any governmental body required in connection with this Agreement and such authorizations are in full force and effect; (e) this Agreement constitutes a legal, valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with the terms hereof, (f) the execution, delivery and performance of this Agreement do not and will not violate any law, regulation, ordinance, charter, by-law or rule applicable to the Purchaser or any agreement by which the Purchaser is bound or by which any of its assets are affected; (g) the Purchaser has not sought or relied upon the financial advice of the Underwriter; and (h) the Purchaser is knowledgeable of and experienced in the investment risks of entering into this Agreement, is capable of evaluating (and has so evaluated) the merits and risks of this Agreement and is able to bear the economic risks associated with this Agreement. The Purchaser agrees that it shall be deemed to repeat all of the foregoing representations and warranties on the Settlement Date.

The Purchaser acknowledges and agrees that the Bonds are being sold on a "forward" basis for delivery on the Settlement Date and that the Purchaser is obligated to take up and pay for the Purchased Bonds on the Settlement Date subject to the conditions set forth in Section 1 hereof. The Purchaser acknowledges that it will not be able to withdraw its order as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Purchased Bonds on the Settlement Date because of market or credit changes, including specifically, but not limited to, changes in the financial condition, operations, performance, properties or prospects of the Issuer or the municipal bond insurance policy provider from the date hereof to the Settlement Date (except as provided in Section 1(b)(ix) and (x) hereof). The Purchaser acknowledges and agrees that it will remain obligated to purchase the Purchased Bonds in accordance with the terms hereof, even if the Purchaser decides to sell such Purchased Bonds following the date hereof, unless the Purchaser sells such Purchased Bonds to another financial institution with the prior written consent of the Underwriter and such financial institution provides a written acknowledgment of confirmation of purchase order in the same form as that executed by the Purchaser.

The Purchaser acknowledges that the Underwriter is entering into an agreement with the Issuer to purchase the Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

The Underwriter represents and warrants that (i) it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance; (ii) the person executing this Agreement on the Underwriter's behalf is duly authorized to execute and deliver this Agreement on behalf of the Underwriter; (iii) it has obtained all authorizations of any governmental body required in connection with this Agreement and such authorizations are in full force and effect; (iv) this Agreement constitutes a legal, valid, and binding obligation of the Underwriter enforceable against the Underwriter in accordance with the terms hereof, and (v) the execution, delivery and performance of this Agreement do not and will not violate any law, regulation, ordinance, charter, by-law or rule applicable to the Underwriter or any

agreement by which the Underwriter is bound or by which any of its assets are affected. The Underwriter agrees that it shall be deemed to repeat all of the foregoing representations and warranties on the Settlement Date.

THE PURCHASER ACKNOWLEDGES THAT THE ISSUER HAS DETERMINED THAT THE BONDS WILL BE INSURED.

3. Receipt of Disclosure Material. The Purchaser acknowledges that, on or prior to the date hereof, the Purchaser received a Preliminary Official Statement and an Official Statement each relating to the Bonds.

4. Default. Each of the following events shall be deemed to be an event of default hereunder (an “Event of Default”): (i) the failure of a party to perform its obligations hereunder on the Settlement Date; (ii) any representation made by a party in Section 2 hereof is incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated; (iii) a party disaffirms, rejects or repudiates any of its obligations under this Agreement; (iv) the commencement by a party as debtor of any case or proceeding under any bankruptcy, insolvency, rehabilitation, delinquency, reorganization, liquidation, dissolution or similar law, or the seeking by a party of the appointment of a receiver, conservator, administrator, rehabilitator, custodian, liquidator, trustee, or similar official for such party or any part of such party’s property; (v) the commencement of any case or proceeding against a party, or the seeking of an appointment by another, or the filing against a party, of an application for a protective decree under the provisions of the Securities Investor Protection Act of 1970; or (vi) an acknowledgment by a party that such party has a negative net worth or is insolvent or is not paying or is unable to pay its debts as they become due.

5. Remedies; Damage. Upon the occurrence of an Event of Default hereunder, the nondefaulting party shall be entitled (without limiting any other rights or remedies the nondefaulting party may have under applicable law or regulation or by reason of normal business practice) to (i) terminate this Agreement upon notice to the defaulting party, whereupon the defaulting party shall pay as liquidated damages, and not as a penalty, to the nondefaulting party any resulting loss, damage, cost and expense, including, but not limited to, attorney’s fees, the cost of entering into replacement transactions, any liability or cost incurred as a result of being unable to perform under the Purchase Agreement, and any damages suffered by the nondefaulting party’s entering into, terminating or liquidating, any related hedge transactions; (ii) exercise any rights of setoff which the nondefaulting party may have against the defaulting party; and (iii) take any other action necessary or appropriate to protect and enforce its rights and preserve the benefits of its bargain under this Agreement. The parties hereto agree that the damages described in (i) of this Section 5 are a reasonable preestimate of damages likely to be suffered by the nondefaulting party.

6. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES.

7. Submission to Jurisdiction. The Underwriter and the Purchaser irrevocably submit to the non-exclusive jurisdiction of any court of the State of New York or the United States District Court for the Southern District of the State of New York located in Manhattan for the purpose of any suit, action or other proceeding arising out of this Agreement, or any of the agreements or transactions contemplated hereby, which is brought by or against the Underwriter or the Purchaser, and the parties irrevocably agree that all claims in respect to any such suit, action or proceeding may be heard and determined by any such court. The parties waive any objection to laying of venue of any proceedings brought in any such court, waive any claim that such proceedings have been brought in an inconvenient forum and waive the right to object, with respect to such proceedings, that such court does not have jurisdiction over such party.

8. Severability. If one or more provisions of this Agreement or the applicability of any such provisions to any set of circumstances shall be determined to be invalid or ineffective for any reason, such determination shall not affect the validity and enforceability of the remaining provisions of this Agreement or the applicability of the same provisions or any of the remaining provisions to other circumstances.

9. Miscellaneous. Any and all notices, statements, demands or other communications hereunder may be sent by a party to the other by mail, facsimile, messenger or otherwise to the address specified on the face of this Agreement or indicated below, or so sent to such party at any other place specified in a notice of change of address

hereafter received by the other. Purchaser agrees that, if applicable, it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Stock Exchange, Inc. and any other margin regulations applicable to the Underwriter. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the prior written consent of the other and any purported assignment without such consent shall be null and void. This Agreement may be amended or any of its terms modified only by a written document authorized, executed and delivered by each of the parties hereto. This Agreement may be executed in one or more counterparts and when each party hereto has executed at least one counterpart, this Agreement shall become binding on all parties and such counterparts shall be deemed to be one and the same document.

[Remainder of page intentionally left blank]

It is understood that the acceptance by the Underwriter of any Agreement (including this one) is in the Underwriter's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Agreement is acceptable to the Underwriter, it is requested that the Underwriter sign the form of acceptance below and mail or deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between the Underwriter and the Purchaser when such counterpart is so mailed or delivered by the Underwriter. This Agreement does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

Purchaser

Address

Telephone

By: _____

Name: _____

Title: _____

Accepted: UBS Securities LLC

Name: _____

Title: _____

Name: _____

Title: _____

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