

NEW ISSUE  
FULL BOOK-ENTRY

RATINGS: Fitch: AAA  
Moody's: Aaa  
Standard & Poor's: AAA

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, 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" in this Official Statement.*

**\$321,620,000**  
**CITY AND COUNTY OF HONOLULU**  
**General Obligation Bonds,**  
**Series 2004A, Series 2004B and Series 2004C**

**Dated: Date of issuance.**

**Due: July 1, as shown on inside cover.**

The Bonds are issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. 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 issuance 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, 2004. The Bonds are subject to redemption prior to the stated maturity thereof as described herein.

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 scheduled payment of principal of and interest on each series of the Bonds when due will be guaranteed under a separate Financial Guaranty Insurance Policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Bonds.



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, San Francisco, California, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston 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 14, 2004.*

**UBS Financial Services Inc.**

April 1, 2004

### City and County of Honolulu

#### \$321,620,000 General Obligation Bonds, Series 2004A, Series 2004B and Series 2004C

##### \$123,065,000 Series 2004A

<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$ 2,975,000	2.000%	NRO	2017	\$ 4,905,000	5.000%	3.930%*
2006	3,035,000	2.000	1.520%	2018	5,165,000	5.250	3.970*
2007	3,105,000	2.500	1.870	2019	5,440,000	5.250	4.030*
2008	3,225,000	5.000	2.280	2020	5,730,000	5.000	4.190*
2009	3,390,000	5.000	2.570	2021	6,020,000	5.000	4.260*
2010	3,525,000	3.000	2.850	2022	6,330,000	5.000	4.330*
2011	3,650,000	4.000	3.100	2023	6,655,000	5.000	4.390*
2012	3,820,000	5.000	3.320	2024	6,995,000	5.000	4.430*
2013	4,015,000	5.000	3.470	2025	7,355,000	5.000	4.450*
2014	4,220,000	5.000	3.630	2026	7,730,000	5.000	4.460*
2015	4,440,000	5.000	3.740*	2027	8,130,000	5.000	4.470*
2016	4,665,000	5.000	3.830*	2028	8,545,000	5.000	4.480*

##### \$192,850,000 Series 2004B

<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2008	\$15,240,000	5.000%	2.280%	2013	\$19,575,000	5.000%	3.470%
2009	16,020,000	5.000	2.570	2014	20,575,000	5.000	3.630
2010	16,845,000	5.000	2.850	2015	21,630,000	5.000	3.740*
2011	17,705,000	5.000	3.100	2016	22,740,000	5.000	3.830*
2012	18,615,000	5.000	3.320	2017	23,905,000	5.000	3.930*

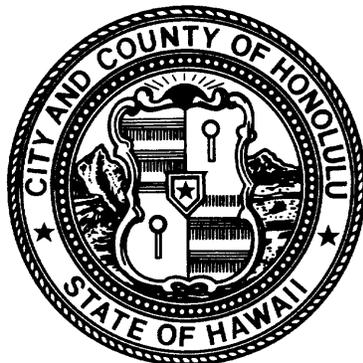
##### \$5,705,000 Series 2004C

<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$5,705,000	2.000%	NRO

\*Priced to the call date of July 1, 2014 at par.

# City and County of Honolulu

State of Hawaii  
(Incorporated 1907)



## **MAYOR**

Jeremy Harris

## **CITY COUNCIL**

Donovan M. Dela Cruz  
Chair and Presiding Officer

Ann H. Kobayashi  
Vice-Chair

Romy M. Cachola  
Floor Leader

Charles K. Djou

Mike Gabbard

Nestor R. Garcia

Barbara Marshall

Gary H. Okino

Rod Tam

## **DIRECTOR OF BUDGET AND FISCAL SERVICES**

Ivan M. Lui-Kwan

## **CORPORATION COUNSEL**

David Z. Arakawa

## **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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has 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 Underwriter does 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.

**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 UNDERWRITER 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

**\$321,620,000**  
**City and County of Honolulu**  
**General Obligation Bonds,**  
**Series 2004A, Series 2004B and Series 2004C**

### 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 \$321,620,000 aggregate principal amount of General Obligation Bonds, Series 2004A, Series 2004B and Series 2004C (the “Bonds”).

### AUTHORITY FOR AND PURPOSE OF ISSUANCE

#### Authority for Issuance

The Bonds are being issued pursuant to and in full compliance with Ordinance No. 99-11, Resolution No. 04-61 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 (the “Authorizing Certificate”).

#### Purpose of Issuance

The proceeds of the Bonds will be used to provide funds for the refunding of certain outstanding general obligations of the City and County, as described in “THE REFUNDING PLAN.”

### THE REFUNDING PLAN

The Bonds are being issued for the purpose of refunding certain outstanding general obligations of the City and County in advance of the stated maturity thereof (the “Refunded Bonds”), including all of the General Obligation Bonds, Series 2000A, and General Obligation Bonds, Series 2000B, currently outstanding in the aggregate principal amounts of \$130,350,000 and \$5,750,000, respectively, and all bearing interest at a variable rate and subject to redemption on May 4, 2004, at a price equal to the principal amount thereof; and \$8,100,000 of the general obligation commercial paper notes maturing June 10, 2004, with interest accrued on such commercial paper notes to such date. The following table sets forth the series, maturity date, principal amount of bonds outstanding, principal amount of bonds to be refunded, interest rate, maturity or redemption date and redemption price of other general obligation bonds which will be included in the Refunded Bonds:

Issue	Maturity Date	Principal Amount Outstanding	Principal Amount Refunded	Coupon	Call Date	Redemption Price	CUSIP
Series 1994B	06/01/2005	\$ 4,530,000	\$ 4,530,000	5.600%	06/01/2004	101%	4386696D0
Series 1995A	11/01/2008	4,290,000	4,290,000	5.100%	N/A	N/A	438669V91
Series 1995A	11/01/2009	2,275,000	2,275,000	6.000%	N/A	N/A	438669W25
Series 1995A	11/01/2011	5,000	5,000	5.375%	11/01/2005	101%	438669W41
Series 1995A	11/01/2012	4,290,000	4,290,000	5.000%	11/01/2005	101%	438669W58
Series 1995A	11/01/2013	5,000	5,000	5.250%	11/01/2005	101%	438669W66
Series 1995A	11/01/2014	5,000	5,000	5.500%	11/01/2005	101%	438669W74
Series 1995A	11/01/2015	4,290,000	4,290,000	5.000%	11/01/2005	101%	438669W82
Series 1996A	09/01/2008	2,610,000	2,610,000	6.000%	N/A	N/A	438669X99
Series 1996A	09/01/2011	2,610,000	2,610,000	5.500%	09/01/2006	102%	438669Y49
Series 1996A	09/01/2012	5,000	5,000	5.625%	09/01/2006	102%	438669Y56
Series 1996A	09/01/2013	5,000	5,000	5.625%	09/01/2006	102%	438669Y64
Series 1996A	09/01/2014	5,000	5,000	5.625%	09/01/2006	102%	438669Y72
Series 1996A	09/01/2015	5,000	5,000	5.500%	09/01/2006	102%	438669Y80
Series 1996A	09/01/2016	5,000	5,000	5.500%	09/01/2006	102%	438669Y98
Series 1997B	11/01/2008	1,655,000	1,655,000	5.500%	N/A	N/A	438669Z97
Series 1997B	11/01/2013	2,585,000	2,585,000	5.000%	11/01/2007	101%	4386692E2
Series 1997B	11/01/2014	2,585,000	2,585,000	5.000%	11/01/2007	101%	4386692F9
Series 1997B	11/01/2015	5,000	5,000	5.000%	11/01/2007	101%	4386692G7
Series 1997B	11/01/2016	2,585,000	2,585,000	5.000%	11/01/2007	101%	4386692H5
Series 1997B	11/01/2017	2,585,000	2,585,000	5.000%	11/01/2007	101%	4386692J1
Series 1999B	07/01/2005	2,510,000	2,510,000	5.000%	N/A	N/A	4386693T8
Series 1999B	07/01/2008	2,890,000	2,890,000	5.125%	N/A	N/A	4386693W1
Series 1999B	07/01/2014	3,900,000	3,900,000	5.125%	07/01/2009	101%	4386694C4
Series 1999B	07/01/2015	4,095,000	4,095,000	5.125%	07/01/2009	101%	4386694D2
Series 1999B	07/01/2016	4,305,000	4,305,000	5.125%	07/01/2009	101%	4386694E0
Series 1999B	07/01/2017	4,530,000	4,530,000	5.125%	07/01/2009	101%	4386694F7
Series 1999C	07/01/2004	12,050,000	9,895,000	5.000%	N/A	N/A	4386694S9
Series 2001A	09/01/2005	4,290,000	3,150,000	4.500%	N/A	N/A	438670AA9
Series 2001A	09/01/2008	4,850,000	4,850,000	4.125%	N/A	N/A	438670AD3
Series 2001A	09/01/2012	5,875,000	5,875,000	5.375%	09/01/2011	100%	438670AH4
Series 2001A	09/01/2013	6,200,000	6,200,000	5.375%	09/01/2011	100%	438670AJ0
Series 2001A	09/01/2014	6,545,000	6,545,000	5.375%	09/01/2011	100%	438670AK7
Series 2001A	09/01/2015	6,905,000	6,905,000	5.375%	09/01/2011	100%	438670AL5
Series 2001A	09/01/2016	7,285,000	7,285,000	5.375%	09/01/2011	100%	438670AM3
Series 2001A	09/01/2017	7,690,000	7,690,000	5.375%	09/01/2011	100%	438670AN1
Series 2001A	09/01/2018	8,115,000	8,115,000	5.375%	09/01/2011	100%	438670AP6
Series 2001A	09/01/2019	8,550,000	8,550,000	5.125%	09/01/2011	100%	438670AQ4
Series 2001A	09/01/2020	9,000,000	9,000,000	5.125%	09/01/2011	100%	438670AR2
Series 2001A	09/01/2021	9,475,000	9,475,000	5.125%	09/01/2011	100%	438670AS0
Series 2001A	09/01/2022	9,975,000	9,975,000	5.250%	09/01/2011	100%	438670AT8
Series 2001A	09/01/2023	10,515,000	10,515,000	5.250%	09/01/2011	100%	438670AU5
Series 2001A	09/01/2024	11,080,000	11,080,000	5.250%	09/01/2011	100%	438670AV3

The proceeds of the Bonds will be used to purchase direct non-callable obligations of the United States of America (the “Federal Securities”), the maturing principal and interest on which will be sufficient, together with any uninvested cash, to pay the interest on and the principal and redemption price of the Refunded Bonds coming due on and prior to their respective maturity or redemption dates. Simultaneously with the issuance and delivery of the Bonds, such Federal Securities will be deposited with Wells Fargo Bank, National Association (the “Escrow Agent”) under an Escrow Agreement to be entered into by the City and County and Escrow Agent. At the time of such deposit, the City and County will give the Escrow Agent irrevocable instructions to give notice of the redemption of the Refunded Bonds and to apply the maturing principal of and interest on the Federal Securities, together with any uninvested cash, held in trust solely for the payment of the interest and redemption price coming due on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

## THE BONDS

### Description of the Bonds

The Bonds will be dated as of the date of issuance thereof; will mature serially on July 1 of the years and in the principal amounts shown on the inside cover page hereof; will bear interest (computed on the basis of a 360-day year) payable January 1 and July 1 of each year, commencing July 1, 2004, at the rates per annum shown on the inside cover hereof; and will be subject to redemption as described herein.

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."

### Prior Redemption

The Series 2004A Bonds and Series 2004B Bonds maturing after July 1, 2014, are subject to redemption at the option of the City and County on and after July 1, 2014, in whole or in part, at any time, in any order of maturity selected by the City and County, and by lot within a maturity, at the principal amount thereof, plus the interest accrued to the date fixed for the redemption thereof, without premium. The Series 2004C Bonds are not subject to redemption prior to maturity.

Notice of redemption of any Bond will be mailed, at least once not less than thirty (30) days prior to the date fixed for redemption, to the holder in whose name the Bond is registered upon the Bond Register as of the close of business on the forty-fifth (45th) day (whether or not a business day) next preceding the date fixed for redemption. The failure of the registered holder to receive such notice by mail or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of any Bond. If a Bond is of a denomination in excess of \$5,000, portions of the principal sum thereof in amounts of \$5,000 or any integral multiple thereof may be redeemed, and if less than all of the principal sum thereof is to be redeemed, in such case, upon the surrender of such Bond to the Registrar there shall be issued to the registered holder thereof, without charge therefor, for the then unredeemed balance of the principal sum thereof, Bonds of like series, maturity and interest rate in any of the authorized denominations. If notice of redemption of any Bond (or any portion of the principal sum thereof) has been duly given, and if on or before the date fixed for such redemption the City and County has duly made or provided for the payment of the principal sum to be redeemed to the date fixed for such redemption, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest thereon shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed. See "APPENDIX D -- Book-Entry System" for a discussion of the notice of redemption to be given to beneficial owners of the Bonds when the Book-Entry System for the Bonds is in effect.

### 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, 2005:

**CITY AND COUNTY OF HONOLULU  
GENERAL OBLIGATION BONDS, SERIES 2004A, SERIES 2004B AND SERIES 2004C  
DEBT SERVICE REQUIREMENTS**

FY Ending June 30	Principal	Interest	Total
2005		\$11,116,276.21	\$11,116,276.21
2006	\$8,680,000	15,484,637.50	24,164,637.50
2007	3,035,000	15,367,487.50	18,402,487.50
2008	3,105,000	15,298,325.00	18,403,325.00
2009	18,465,000	14,797,887.50	33,262,887.50
2010	19,410,000	13,851,012.50	33,261,012.50
2011	20,370,000	12,891,762.50	33,261,762.50
2012	21,355,000	11,902,137.50	33,257,137.50
2013	22,435,000	10,825,637.50	33,260,637.50
2014	23,590,000	9,675,012.50	33,265,012.50
2015	24,795,000	8,465,387.50	33,260,387.50
2016	26,070,000	7,193,762.50	33,263,762.50
2017	27,405,000	5,856,887.50	33,261,887.50
2018	28,810,000	4,451,512.50	33,261,512.50
2019	5,165,000	3,595,681.25	8,760,681.25
2020	5,440,000	3,317,300.00	8,757,300.00
2021	5,730,000	3,031,250.00	8,761,250.00
2022	6,020,000	2,737,500.00	8,757,500.00
2023	6,330,000	2,428,750.00	8,758,750.00
2024	6,655,000	2,104,125.00	8,759,125.00
2025	6,995,000	1,762,875.00	8,757,875.00
2026	7,355,000	1,404,125.00	8,759,125.00
2027	7,730,000	1,027,000.00	8,757,000.00
2028	8,130,000	630,500.00	8,760,500.00
2029	8,545,000	213,625.00	8,758,625.00

**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, 2000, 2001, 2002, 2003, and for the Fiscal Year ending June 30, 2004, authorized and appropriated a total of \$1,436,482,460 for public improvements to be financed from the proceeds of general obligation bonds or notes. As of February 5, 2004, \$617,793,813 of general obligation bonds and notes had been issued to finance appropriations for such Fiscal Years, and \$260,194,277 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 \$558,494,370, the balance of such appropriations, will be funded from the proceeds of other general obligation bond or note issues to be issued in the future.

## **BOND INSURANCE**

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policies.

### **The MBIA Insurance Corporation Insurance Policies**

MBIA's policy for each series of Bonds unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the County to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds of such series as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds of such series pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policies do not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policies do not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policies also do not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

## **MBIA**

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policies and MBIA set forth under the heading “BOND INSURANCE.” Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **MBIA Information**

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

The Company’s Annual Report on Form 10-K for the year ended December 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company’s Quarterly Report on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.2 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

## **Financial Strength Ratings of MBIA**

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

**The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.**

## **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 72% 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. In an overview of the taxing authority relationship between the State and all the counties, the Tax Foundation of Hawaii, found that of the \$4.4 billion collected in taxes by the State and county governments during the Fiscal Year ended June 30, 2003, \$3.7 billion went to the State Treasury.

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 2004. The current Mayor is serving his second term, which expires on January 2, 2005. 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 two-year regular terms expiring on January 2, 2005 while the councilmembers for council districts II, IV, VI and VIII were elected to four-year regular terms expiring on January 2, 2007. 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." However, the councilmembers for council districts I, III, V, VII and IX shall be subject to Section 3-102 of the City Charter after the expiration of their two-year regular 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, 2003, are set forth at the Website of the City and County at <http://www.co.honolulu.hi.us/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 "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 approximately two-thirds of General Fund revenues, and the allocation of the State transient accommodation tax are described below. See Table 12 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.

Beginning in Fiscal Year 2004, the real property tax rates for various classes of property have been revised, resulting in a net increase of 3.2% in average tax rates. Table 2 sets forth such classes of property and their values, together with the applicable rates for Fiscal Years 2000 through 2004.

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) conservation and (9) public service (a new classification applicable to certain public utilities added by Ordinance No. 00-66 which took effect for tax year 2001-2002). In determining the value of land, other than land classified as agricultural and used for agriculture, 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. The value of buildings is the cost of replacement less depreciation, with consideration given to age, condition, utility or obsolescence. Real property owned by the respective governments of the United States, the State of Hawaii and the several counties of the State is exempt 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 \$40,000, except that such exemption is gradually increased for classes of persons based on age, from \$60,000 for persons age 55 to \$120,000 for persons age 70 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 does not tax the real property of public service companies, and it included in its budget for the Fiscal Year ending June 30, 2004, approximately \$24,500,000 for its share of the public service company tax.

Under Ordinance No. 84-30 of the City and County, as amended, real property tax relief is allowed to homeowners 55 years and older with multiple home exemptions whose total household income does not exceed \$20,000 annually. The tax relief, in the form of a refund, is the amount by which real property tax due for the year exceeds 5% of the total household income, but such refund is limited to \$500 for each eligible homeowner. Beginning in fiscal year 2005, Ordinance No. 03-28 amends the real property tax relief allowed to homeowners 55 years and older with multiple home exemptions by increasing the total household income limit to \$26,100 annually, and changing the form from a refund to a credit without limit, provided the tax shall not be less than the minimum tax.

By Ordinance No. 93-112 of the City and County, approximately \$600,000 in real property taxes annually have been exempted from payment starting in Fiscal Year 1994-95 for native Hawaiians leasing properties as homesteads from the State Department of Hawaiian Home Lands pursuant to the Hawaiian Homes Commission Act of 1920. The minimum real property tax on property of the Hawaiian Home Lands leased as homesteads is currently \$100 annually per homestead.

Additionally, to encourage agriculture, the value of land classified and used for agriculture, whether or not dedicated for such use, is the value of such land for such use without regard to its value for its highest and best use. Further, (1) an owner of land, whether such land be situated in an agricultural district, a rural district, a conservation district or urban district, may elect to dedicate such land for a specific ranching or other agricultural use, provided such land is used for such purpose at the time of dedication and was substantially so used for the two-year period preceding the dedication, and if the dedication is approved, such land is thereafter taxed as agricultural land; and (2) land situated in any agricultural district may be dedicated for a specific ranching or other agricultural use for a period of 20 years, and if the dedication is approved, is taxed at 50% of its assessed value in the agricultural use.

The breakdown of assessed valuations by land and improvements of real property in the City and County for Fiscal Year 2005 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, 2000 through 2004.

**Table 1**

**ASSESSED VALUATION OF REAL PROPERTY<sup>(1)</sup>  
BY LAND AND IMPROVEMENTS  
For Fiscal Year 2005**

	<b>Total</b>
Gross assessed valuation.....	\$109,784,146,100
Less exemption valuation .....	<u>(15,864,776,200)</u>
Assessor's net taxable value .....	93,919,369,900
Less 50% of valuations on appeal .....	<u>(1,497,987,355)</u>
Net assessed valuation for rate purposes.....	<u>\$92,421,382,545</u>

<sup>(1)</sup> At 100% of fair market value.

<sup>(2)</sup> Ordinance 02-45 eliminated 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 2000 - 2004 (values in thousands)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>
<u>Net Taxable Land</u>					
Improved Residential Unimproved Residential Apartment	\$27,176,656	\$25,898,762	\$26,533,079	\$27,308,923	\$30,260,954
	4.66	4.66	4.66	4.66	5.35
Hotel/Resort Commercial Industrial	5,583,553	5,119,280	5,038,002	4,950,109	5,074,206
	9.96	9.96	9.96	9.96	10.63
Agricultural Conservation Public Service*	5,349,769	4,876,113	4,798,891	4,839,541	4,766,874
	9.25	9.25	9.25	9.25	10.63
	3,336,296	2,997,584	2,838,755	2,850,632	2,802,730
	9.39	9.39	9.39	9.39	10.63
	350,929	318,530	227,205	308,874	298,044
	9.89	9.89	9.89	9.89	10.63
	416,401	431,440	352,070	359,754	327,476
	9.25	9.25	9.25	9.25	10.63
			164,174	20,201	8,579
			0.00	0.00	0.00
Total All Classes	\$45,469,305	\$42,691,041	\$42,815,830	\$43,700,126	\$46,445,493
<u>Net Taxable Improvements</u>					
Improved Residential Unimproved Residential Apartment	\$9,230,152	\$9,315,911	\$10,066,199	\$12,230,871	\$13,252,073
	3.65	3.65	3.65	3.65	3.75
Hotel/Resort Commercial Industrial	41,303	40,789	41,985	42,458	46,627
	4.66	4.66	4.66	4.66	5.35
Agricultural Conservation Public Service*	8,770,891	8,460,667	8,480,325	9,305,365	11,059,012
	4.49	4.49	4.21	3.93	3.75
	2,181,039	2,068,493	2,121,627	2,226,305	2,266,434
	9.96	9.96	9.96	9.96	10.63
	4,376,172	4,370,036	4,361,422	4,322,821	4,349,397
	9.25	9.25	9.25	9.25	10.63
	1,592,305	1,562,797	1,581,298	1,570,203	1,568,117
	9.39	9.39	9.39	9.39	10.63
	94,232	88,643	74,444	100,594	87,971
	9.89	9.89	9.89	9.89	10.63
	65,278	77,821	73,224	70,744	72,125
	9.25	9.25	9.25	9.25	10.63
			55,219	14,870	7,291
			0.00	0.00	0.00
Total All Classes	\$26,351,372	\$25,985,157	\$26,855,743	\$29,884,231	\$32,709,047
<u>Net Taxable Real Property</u>					
Improved Residential Unimproved Residential Apartment	\$36,406,808	\$35,214,673	\$36,599,278	\$39,539,794	\$43,513,027
	801,671	731,131	470,176	756,845	701,863
Hotel/Resort Commercial Industrial	14,354,444	13,579,947	13,518,327	14,255,474	16,133,218
	4,676,372	4,427,483	4,557,090	4,574,010	4,517,828
	9,725,941	9,246,149	9,160,313	9,162,362	9,116,271
	4,928,601	4,560,381	4,420,053	4,420,835	4,370,847
	445,161	407,173	301,649	409,468	386,015
	481,679	509,261	425,294	430,498	399,601
			219,393	35,071	15,870
Total All Classes	\$71,820,677	\$68,676,198	\$69,671,573	\$73,584,357	\$79,154,540

\* As discussed above, the public service category was established in the fiscal year ended June 30, 2002, but the City does not currently tax property in this category. In lieu of taxing such property, the City 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, 2000 to 2004 are shown in the table below.

**Table 3**

**STATEMENT OF REAL PROPERTY TAX LEVIES AND COLLECTIONS  
SHOWING ASSESSED VALUATIONS AND TAX RATES  
Fiscal Years 2000 - 2004 (values in thousands)**

<u>Fiscal Year</u>	<u>Net Valuation for Tax Rate Purposes*</u>	<u>Weighted Average Tax Rate Per \$1,000</u>	<u>Amount of Levies</u>	<u>Percent of Collections to Levy</u>
2000	\$71,820,677	\$5.58	\$393,000	101.6%
2001	\$68,676,198	\$5.58	\$374,099	101.6%
2002	\$69,671,573	\$5.44	\$371,234	103.0%
2003	\$73,584,357	\$5.26	\$392,606	100.6%
2004	\$79,154,540	\$5.43	\$435,318	NA

\* Valuation is 100% of fair market value.

The real property tax revenues of \$385.9 million (excluding public service company tax) accounted for 66.7% of the General Fund revenues of \$570.3 million for the Fiscal Year ended June 30, 2003.

**Table 4**

**TEN LARGEST REAL PROPERTY TAXPAYERS  
As of June 30, 2004**

<u>Taxpayer<sup>(1)</sup></u>	<u>Type of Business</u>	<u>Assessed Valuation<sup>(2)</sup></u>	<u>% of Net Assessed Valuation</u>
Kyo-Ya Co. Ltd.	Hotel/Resort	\$990,423,300	1.25%
Bishop Estate	Educational Trust Estate	768,915,800	0.97%
GGP Ala Moana LLC	Real Estate Management and Leasing	753,668,900	0.95%
Hilton Hawaiian Village Joint Venture	Hotel/Resort	667,028,400	0.84%
Outrigger Hotels Hawaii	Hotel/Resort	451,394,300	0.57%
Dole Food Co.	Processed and Fresh Food, Real Estate	359,082,100	0.45%
Bancorp Hawaii Inc.	Financial Institution	305,399,100	0.39%
Victoria Ward Ltd.	Shopping Center	220,076,800	0.28%
C K Corporation	Hotel/Resort	199,745,200	0.25%
WBM Resort LP	Hotel/Resort	198,423,300	0.25%
Total		<u>\$4,914,157,200</u>	<u>6.21%</u>

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

(2) Assessed valuation as of January 30, 2003, at 100% of market value.

**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, 2003, the City and County received \$32.6 million as its allocable share of the State transient accommodation tax, which amount is 5.7% 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.

## 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 2003, the City and County collected \$26.7 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 2003, the City and County collected \$47.2 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 2003, the City and County collected \$22.7 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 1999 were \$672.0 million and \$662.5 million, respectively; in Fiscal Year 2000 were \$639.5 million and \$630.4 million, respectively; in Fiscal Year 2001 were \$603.3 million and \$620.6 million, respectively; in Fiscal Year 2002 were \$657.7 million and \$644.9 million, respectively; and in Fiscal Year 2003 were \$669.8 million and \$651.3 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 has adopted debt and financial policies, 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.

**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 benefitted 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 seven percent 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 February 5, 2004, and Table 5 sets forth a summary statement of such funded debt and exclusions as of such date. Set forth in Table 6 is a detailed schedule of all outstanding general obligation funded debt of the City and County as of February 5, 2004. Table 7 lists all general obligation funded debt of the City and County as of February 5, 2004.

**Table 5**

**STATEMENT OF FUNDED DEBT  
As of February 5, 2004**

1. Gross assessed valuation of real property, January 31, 2003.....				\$	95,052,356,100
2. Less exempt valuation .....					15,096,913,200
3. Assessor's net taxable value.....					<u>79,955,442,900</u>
4. Less valuations on appeal.....					1,601,790,536
5. Taxpayers' valuation.....					<u>78,353,652,364</u>
6. Add 50% of valuation on appeal .....					800,895,268
7. Net assessed valuation of real property for rate purposes.....				\$	<u><u>79,154,547,632</u></u>
8. Limit of funded debt as set by the Constitution of the State of Hawaii .....				\$	11,873,182,145 <sup>(a)</sup>
9. Funded debt:					
a. General obligation bonds .....		\$ 1,825,723,205			
b. Revenue bonds .....		888,897,890		(b)	
c. Notes payable:					
Federal Government .....		3,350,920			
State of Hawaii .....		86,528,315			
d. Special assessment bonds.....		1,010,000			
e. Gross funded indebtedness.....		<u>\$ 2,805,510,330</u>			
Less exclusions:					
f. Revenue bonds					
Self-supporting waterworks.....	\$ 218,180,000				
Self-supporting wastewater .....	670,717,890				
g. General obligation bonds issued for H-Power waste disposal facility .....	110,185,000				
h. General obligation bonds issued for Housing.....	111,228,010				
i. General obligation bonds issued for solid waste .....	77,848,265				
j. General obligation bonds issued for sewer projects .....	67,956,373				
k. State of Hawaii notes issued for sewer projects .....	82,829,646				
l. Special assessment bonds.....	<u>1,010,000</u>	<u>1,339,955,184</u>			
m. Net funded debt.....					<u>1,465,555,146</u>
10. Gross limit of additional funded debt.....				\$	10,407,626,999
11. Less general obligation bonds authorized and unissued:					
	<b>Authorizing Ordinance</b>	<b>Total Authorized <sup>(c)</sup></b>	<b>Amount Issued</b>	<b>Amount Unissued</b>	
Ordinance No. 98-29 .....	\$ 178,860,068	\$ 177,189,068	\$ 1,671,000		
Ordinance No. 99-28 .....	135,490,435	132,417,893	3,072,542		
Ordinance No. 00-24 .....	205,619,016	171,238,820	34,380,196		
Ordinance No. 01-27 .....	260,088,220	118,624,607	141,463,613		
Ordinance No. 02-33 .....	222,656,044	18,323,425	204,332,619		
Ordinance No. 03-18 .....	173,574,400	-	173,574,400		
	<u>\$1,176,288,183</u>	<u>\$ 617,793,813</u>	<u>\$ 558,494,370</u>		<u>558,494,370</u>
12. Net limit of additional funded debt				\$	<u><u>9,849,132,629</u></u>

(a) 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.

(b) Does not include approximately \$78.7 million of revenue bonds issued as a conduit issuer for housing.

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

Table 6

**GENERAL OBLIGATION FUNDED DEBT  
OF THE CITY AND COUNTY OF HONOLULU  
As of February 5, 2004**

<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>
<b>General Obligation Bonds:</b>					
April 1, 1977 Series A	4.37100%	\$ 5,000,000	1/1/79-11	01/01/1986	\$ 1,710,000
July 2, 1990 Series A	7.29949%	169,880,000	7/1/95-08	Non-callable	80,365,000
June 1, 1992 Series One	5.85896%	52,690,000	6/1/94-07	Non-callable	13,673,205
January 1, 1993 Series A	5.85764%	150,000,000	1/1/97-13	Non-callable	17,170,000
April 1, 1993 Series B	5.43923%	611,335,000	10/1/94-13	Non-callable	262,855,000
September 1, 1993 Series C	4.85624%	28,000,000	9/1/98-18	Non-callable	13,895,000
April 1, 1994 Series A	5.62722%	150,000,000	4/1/98-14	Non-callable	23,215,000
June 1, 1994 Series B	5.91399%	94,000,000	6/1/98-14	06/01/2004	4,530,000
November 1, 1995 Series A	5.28686%	100,000,000	11/1/99-15	11/01/2005	25,540,000
September 1, 1996 Series A	5.45420%	100,000,000	9/1/00-16	09/01/2006	13,095,000
November 1, 1997 Series B	5.09054%	83,000,000	11/1/01-17	11/01/2007	27,510,000
November 1, 1997 Series C	5.40595%	157,605,000	11/1/99-10	Non-callable	91,930,000
April 1, 1999 Series B	5.00249%	88,000,000	7/1/03-24 <sup>(1)</sup>	07/01/2009	85,710,000
April 1, 1999 Series C	4.91016%	349,215,000	7/1/01-20	07/01/2009	316,455,000
November 3, 1999 Series D	4.72927%	45,820,000	2/1/01-10	Non-callable	29,820,000
May 24, 2000 Series A <sup>(2)</sup>	Variable	138,500,000	1/1/04-20	Undetermined	130,350,000
May 24, 2000 Series B <sup>(2)</sup>	Variable	11,500,000	1/1/04-05	Undetermined	5,750,000
March 1, 2001 Series 2001A	5.09921%	141,500,000	9/1/05-24	09/01/2011	141,500,000
March 1, 2001 Series 2001B	4.07029%	8,500,000	9/1/04-05	Non-callable	8,500,000
June 21, 2001 TECP <sup>(3)</sup>	Variable	150,000,000	Not Applicable	Non-callable	32,150,000
December 5, 2001 Series 2001C	Variable	250,000,000	12/1/06-20	Undetermined	250,000,000
August 8, 2003 Series 2003A	4.85540%	250,000,000	3/1/08-28	03/01/2013	250,000,000
		<u>\$3,134,545,000</u>			<u>\$1,825,723,205</u>
Notes Payable - Federal Government	5.11600%	\$ 5,668,313	6/20/84-16	Non-callable	\$ 3,350,920
Notes Payable - State of Hawaii	Various	122,134,649	Various	Non-callable	86,528,315
		<u>\$ 127,802,962</u>			<u>\$ 89,879,235</u>
Total Gross Direct Debt		<u>\$3,262,347,962</u>			<u>\$1,915,602,440</u>
<b>Less exclusions:</b>					
Bonds issued for solid waste				\$ 77,848,265	
Bonds issued for housing				111,228,010	
Bonds issued for H-Power waste disposal facility				110,185,000	
Bonds issued for sewer projects				67,956,373	
State of Hawaii Notes issued for sewer projects				82,829,646	
Net Funded Debt				<u>450,047,294</u>	<u>\$1,465,555,146</u>

<sup>(1)</sup> Last maturity date is April 1, 2024.

<sup>(2)</sup> These issues initially bear interest at weekly variable rates (weekly mode) but the rates may, at the option of the City and County, be converted to a fixed interest rate (fixed mode). When any bond is in the weekly mode, it is subject to redemption on any interest payment date. When any bond is in the fixed mode, it is subject to redemption at such date and at such redemption price as the City and County shall determine at the time of conversion.

<sup>(3)</sup> The maximum authorized outstanding principal amount of notes under the City and County's commercial paper program is \$150,000,000.

Table 7

CITY AND COUNTY OF HONOLULU  
DEBT SERVICE CHARGES ON  
OUTSTANDING GENERAL LONG-TERM DEBT  
February 5, 2004 to Maturity <sup>(1)</sup>

FY Ending June 30	General Obligation Bonds		Other Debt <sup>(2)</sup>		Gross Debt		Reimbursable Debt		Net Debt Service Charges
	Principal	Interest <sup>(2)</sup>	Principal	Interest <sup>(4)</sup>	Service Charges	Principal	Interest		
2004	\$ 3,765,000	\$ 35,467,693	\$ 3,922,737	\$ 1,274,860	\$ 44,430,290	\$ 3,801,274	\$ 5,212,262	\$ 35,416,754	
2005	103,214,000	88,405,057	5,834,878	2,394,290	199,848,225	42,525,282	20,758,740	136,564,203	
2006	103,229,000	83,356,490	6,145,709	2,246,673	194,977,872	44,085,722	18,548,217	132,343,933	
2007	115,366,205	78,189,741	5,416,103	2,093,305	201,065,354	45,315,434	16,365,466	139,384,454	
2008	124,584,000	71,030,265	5,553,061	1,937,493	203,104,819	45,367,932	13,666,948	144,069,939	
2009	128,934,000	64,523,443	5,695,130	1,776,077	200,928,650	47,224,122	11,075,572	142,628,956	
2010	112,790,000	58,465,710	5,839,600	1,611,740	178,707,050	29,741,909	9,114,429	139,850,712	
2011	107,291,000	52,153,245	5,988,412	1,424,282	166,856,939	21,719,717	7,665,863	137,471,359	
2012	101,365,000	46,920,949	6,140,905	1,238,247	155,665,101	19,035,338	6,763,164	129,866,599	
2013	103,020,000	41,848,459	6,298,462	1,057,976	152,224,897	17,853,195	5,972,199	128,399,503	
2014	95,150,000	36,831,148	5,156,202	695,567	137,832,917	14,149,696	5,030,593	118,652,628	
2015	69,275,000	32,664,820	2,703,268	423,563	105,066,651	12,008,251	4,334,040	88,724,360	
2016	73,175,000	29,288,776	2,713,901	315,017	105,492,694	12,119,079	3,791,100	89,582,515	
2017	73,785,000	25,800,414	2,434,224	210,725	102,230,363	12,776,826	3,238,198	86,215,339	
2018	76,115,000	22,234,698	2,176,386	124,207	100,650,291	12,895,135	2,664,092	85,091,064	
2019	76,080,000	18,622,526	1,180,474	56,643	95,939,643	12,064,481	2,098,803	81,776,359	
2020	76,600,000	15,021,666	204,161	23,363	91,849,190	9,414,606	1,608,632	80,825,952	
2021	71,130,000	11,348,235	177,685	15,925	82,671,845	7,491,671	1,175,928	74,004,246	
2022	28,870,000	8,905,994	182,989	8,865	37,967,848	2,292,668	953,947	34,721,233	
2023	30,370,000	7,392,009	87,680	1,716	37,851,405	2,407,977	857,752	34,585,676	
2024	38,425,000	5,879,396	-	-	44,304,396	4,728,862	784,330	38,791,204	
2025	27,250,000	3,949,803	-	-	31,199,803	485,304	595,119	30,119,380	
2026	17,020,000	2,810,028	-	-	19,830,028	510,815	595,151	18,724,062	
2027	17,915,000	1,916,478	-	-	19,831,478	537,676	595,195	18,698,607	
2028	18,855,000	975,940	-	-	19,830,940	565,888	595,179	18,669,873	
2029	-	-	-	-	-	-	-	-	
2030	-	-	-	-	-	-	-	-	
2031	-	-	-	-	-	-	-	-	
2032	-	-	-	-	-	-	-	-	
2033	-	-	-	-	-	-	-	-	
	<u>\$ 1,793,573,205</u>	<u>\$ 844,002,983</u>	<u>\$ 73,851,967</u>	<u>\$ 18,930,534</u>	<u>\$ 2,730,358,689</u>	<u>\$ 421,118,860</u>	<u>\$ 144,060,919</u>	<u>\$ 2,165,178,910</u>	

<sup>(1)</sup> Excludes commercial paper dated 6/21/2001 and self-supporting revenue bonds and state revolving fund notes payable.

<sup>(2)</sup> An estimate of 4% is used in lieu of actual variable rate for the 5/24/2000 Series A and B and 12/01/2001 Series C.

<sup>(3)</sup> Includes:

\$ 3,350,920	U.S. Government note payable for City's share of Kaneohe Reservoir Recreation & Fish and Wildlife Development
67,775,173	State of Hawaii notes payable for various sewer projects, storm dewatering facility and storm water equipment
693,634	Lease purchase agreement for City's telephone network
<u>2,032,240</u>	Installment purchase contracts for various fixed assets
<u>\$ 73,851,967</u>	

<sup>(4)</sup> 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 subsequent to February 5, 2004.

**Table 8**

**TREND OF GENERAL OBLIGATION INDEBTEDNESS  
Fiscal Years 1999 – 2003**

<b>General Obligation Bonds</b>					
<b>FY Ending June 30</b>	<b>Non- Reimbursable<sup>(a)</sup></b>	<b>Reimbursable for Other Purposes<sup>(b)</sup></b>	<b>Total General Obligation Bonds</b>	<b>Note Payable</b>	<b>Total General Obligation Debt</b>
1999 <sup>(c)</sup>	\$ 978,575,686	\$536,622,775	\$1,515,198,461	\$4,015,014	\$1,519,213,475
2000	1,055,244,446	505,547,957	1,560,792,403	3,861,202	1,564,653,605
2001	1,103,083,519	510,263,618	1,613,347,137	3,699,520	1,617,046,657
2002	1,310,484,560	498,061,235	1,808,545,795	3,529,568	1,812,075,363
2003	1,385,330,839	451,025,802	1,836,356,641	3,350,920	1,839,707,561

(a) *Direct debt.*

(b) *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.*

(c) *General obligation bonds issued to finance wastewater treatment facilities were reclassified beginning fiscal year ending June 30, 1997, as reimbursable general obligation bonds.*

Between 1969 and 1996, in lieu of revenue bonds, the Board of Water Supply of the City and County had resorted exclusively to the issuance of reimbursable general obligation bonds by the City and County to finance the Board's capital projects, using the full faith and credit of the City and County. However, since 1996 the Board of Water Supply issued revenue bonds to finance improvements to the water system, as described below under "Revenue Indebtedness." In the future, the Board of Water Supply may issue revenue bonds or may seek the issuance of reimbursable general obligation bonds to finance improvements to the water system.

The City and County has issued a total of \$191,320,000 principal amount of senior revenue bonds and \$218,400,000 principal amount of junior revenue bonds to finance improvements to the wastewater system of the City and County, 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 of the City and County. In the future, the City and County may issue revenue bonds or may issue reimbursable general obligation bonds to finance improvements to the wastewater system, although current plans are to issue revenue bonds for such purpose.

In lieu of issuance of special assessment bonds to fund the unpaid portion of the property owners' share of the cost of improvements undertaken under Sec. 14-25.1, Revised Ordinances of Honolulu 1990, relating to improvement districts created and established by initiation on the part of the City and County, since 1969 the City and County has primarily utilized the issuance of reimbursable general obligation bonds to fund assessable public improvements. In addition, the City and County has utilized the issuance of reimbursable general obligation bonds to finance the H-Power waste disposal facility, sewer treatment facilities, the West Loch Subdivision and other low income housing projects.

## **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 of the Board of Water Supply, 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 6 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. In December 1998, the City issued \$264,152,890 principal amount of junior revenue bonds to refund certain reimbursable general obligation bonds of the City and County issued to finance capital improvements to the wastewater system of the City and County to achieve a more level overall debt service profile for such debt.

## **Pension 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" 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 \$1.8 million for the Fiscal Year ended June 30, 2003, and future expenditures for such leases are projected to be \$8.3 million.

## **Special Assessment Indebtedness**

The City and County had outstanding as of June 30, 2003, \$1,375,000 principal amount of special assessment bonds of various improvement districts, none of which is subject to the limit on funded debt of the City and County or is a charge against the full faith and credit of the City and County.

## **Revenue Indebtedness**

The Board of Water Supply of the City and County has issued revenue bonds in the aggregate principal amount of \$239,000,000 (of which \$218,180,000 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 of Honolulu or the State of Hawaii.

In addition, the City and County has issued senior and junior revenue bonds to finance capital improvements for the wastewater system of the City and County, and has issued junior revenue bonds to refund certain reimbursable general obligation bonds of the City and County issued to finance capital improvements for the wastewater system of the City and County in order to achieve a more level overall debt service profile for such debt, both of which are payable from revenues of the wastewater system. Such revenue bonds are payable solely out of revenues, assets and funds pledged under the applicable security documents. Such revenue bonds are also limited

obligations of the City and County, are also excluded for purposes of determining the funded indebtedness of the City and County, and also 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 of Honolulu or the State of Hawaii.

The City and County had outstanding as of June 30, 2003, approximately \$78.7 million of revenue bonds issued for housing purposes where it served as conduit issuer.

**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 six months thereafter, and any part of such appropriations which is not expended or encumbered lapses six 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 last five Fiscal Years are shown in the table below.

**Table 9**

**EXPENDITURES FOR CAPITAL IMPROVEMENTS  
Fiscal Years 2000 - 2004  
(in million dollars)**

Fiscal Year	Grand Total	Expenditures <sup>(1)</sup>						
		Bond Funds			Cash			Cash as % of Total
		General Obligation	Sewer Revenue	Total <sup>(1)</sup>	Federal Grants	Cash <sup>(2)</sup>	Total	
2000 <sup>(3)</sup>	\$241.9	\$133.9	\$ 56.7	\$190.6	\$37.5	\$13.8	\$51.3	21.2%
2001 <sup>(3)</sup>	385.5	251.9	88.3	340.2	26.9	18.4	45.3	11.8%
2002 <sup>(3)</sup>	449.5	262.0	170.2	432.2	10.3	7.0	17.3	3.8%
2003	425.1	222.7	150.2	372.9	40.3	11.9	52.2	12.3%
2004 <sup>(4)</sup>	293.6	173.6	63.3	236.9	42.1	14.6	56.7	19.3%

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

**H-Power Waste Disposal Facility**

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 with respect to the facility pursuant to which the facility was sold to an "Owner Trust" and simultaneously leased to a private operator. 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, 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.

### **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'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 totaled \$13.9 million in the Fiscal Year ended June 30, 2003, representing an investment yield of 1.57%.

Under the City Charter, the City'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 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.

## **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 City and County's auditor for Fiscal Year ended June 30, 1999 was KPMG Peat Marwick, L.L.P., and the City and County's auditor for the Fiscal Years ended June 30, 2000, 2001, 2002 and 2003 is PricewaterhouseCoopers. The basic financial statements of the City and County for the year ended June 30, 2003, may be found at the Website of the City and County at <http://www.co.honolulu.hi.us/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. Neither KPMG Peat Marwick nor PricewaterhouseCoopers has reviewed this Official Statement and neither has any 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.

The City and County is currently in compliance with GASB 34.

### **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, 1999 to 2003, inclusive, and has been summarized from the Director's Annual Financial Reports for the related Fiscal Years.

**Table 10**

**CITY AND COUNTY OF HONOLULU  
GENERAL FUND  
BALANCE SHEET  
For Fiscal Years Ended June 30, 1999 through June 30, 2003  
(In thousand dollars)**

	<b>FY Ended June 30, 1999</b>	<b>FY Ended June 30, 2000</b>	<b>FY Ended June 30, 2001</b>	<b>FY Ended June 30, 2002</b>	<b>FY Ended June 30, 2003</b>
<b>ASSETS:</b>					
Cash and Securities.....	\$60,945	\$59,877	\$34,330	\$58,128	\$13,490
Receivables:					
Real Property Taxes .....	7,025	6,638	5,950	5,234	4,354
Other .....	16,347	4,693	19,295	12,532	15,993
Component unit – CASE fees.....	--	8,413	--	--	--
Due from other funds.....	1,594	579	--	305	58,999
<b>Total Assets .....</b>	<b>\$85,911</b>	<b>\$80,200</b>	<b>\$59,575</b>	<b>\$76,199</b>	<b>\$92,836</b>
<b>LIABILITY AND FUND BALANCES</b>					
Liabilities:					
Accounts payable .....	--	\$ 5,305	\$ 1,323	\$ 6,094	\$ 3,854
Checks payable.....	\$ 3,719	3,500	2,261	2,507	--
Due to other funds.....	5,183	2,408	300	640	5,271
Accrued payroll and fringes .....	15,551	--	3,807	3,686	3,887
Deferred revenues .....	11,715	10,128	10,348	8,922	7,008
<b>Total Liabilities.....</b>	<b>\$36,168</b>	<b>\$21,341</b>	<b>\$18,039</b>	<b>\$21,849</b>	<b>\$20,020</b>
Fund Balances:					
Reserved for encumbrances.....	\$19,228	\$20,683	\$18,189	\$19,191	\$21,320
Unreserved-undesignated .....	30,515	38,176	23,347	35,159	51,496
<b>Total Fund Balances.....</b>	<b>\$49,743</b>	<b>\$58,859</b>	<b>\$41,536</b>	<b>\$54,350</b>	<b>\$72,816</b>
<b>Total Liabilities And Fund Balances.....</b>	<b>\$85,911</b>	<b>\$80,200</b>	<b>\$59,575</b>	<b>\$76,199</b>	<b>\$92,836</b>

**Table 11**

**CITY AND COUNTY OF HONOLULU  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
For Fiscal Years Ended June 30, 1999 through June 30, 2003  
(In thousand dollars)**

	<b>FY Ended June 30, 1999</b>	<b>FY Ended June 30, 2000</b>	<b>FY Ended June 30, 2001</b>	<b>FY Ended June 30, 2002</b>	<b>FY Ended June 30, 2003</b>
<b>REVENUES:</b>					
Real property tax .....	\$402,827	\$399,115	\$380,098	\$407,270	\$411,043
Licenses and permits.....	18,469	25,969	26,820	25,897	29,340
Intergovernmental revenues.....	38,302	33,680	35,742	32,063	32,763
Charges for services.....	11,288	5,110	4,836	3,912	4,250
Fines and forfeits .....	270	222	159	249	303
Miscellaneous .....	110,626	124,113	105,184	105,248	92,593
<b>Total Revenues .....</b>	<b>\$581,782</b>	<b>\$588,209</b>	<b>\$552,839</b>	<b>\$574,639</b>	<b>\$570,292</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government .....	\$ 87,197	\$ 83,464	\$ 86,444	\$ 95,817	\$ 94,835
Public safety.....	186,325	178,544	193,692	199,990	222,366
Highways and streets.....	3,842	1,387	2,964	5,768	2,478
Sanitation .....	36,701	0	0	0	0
Health and Human Resources.....	14,380	12,324	14,327	14,579	1,689
Culture and recreation .....	35,012	34,859	38,792	41,339	44,578
Urban redevelopment and housing .....	0	0	0	0	0
Utilities or other enterprises .....	49	8	140	0	0
Miscellaneous.....	91,884	67,602	66,112	100,573	88,776
Capital outlay.....	93	86	2,670	0	0
<b>Debt service:</b>					
Principal retirement .....	1,789	1,501	1,084	1,207	1,311
Interest charges.....	511	438	362	310	264
<b>Total Expenditures .....</b>	<b>\$457,783</b>	<b>\$380,213</b>	<b>\$406,587</b>	<b>\$459,583</b>	<b>\$456,297</b>
<b>Excess of Revenues over Expenditures.....</b>	<b>\$123,999</b>	<b>\$207,996</b>	<b>\$146,252</b>	<b>\$115,056</b>	<b>\$113,995</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Inception of installment purchase contracts .....	\$ 93	\$ 86	\$ 2,670	\$ 0	\$ 0
Sales of general fixed assets .....	1,367	6,531	117	187	310
Operating transfer-in.....	88,737	44,714	47,634	82,919	99,180
Operating transfer-out.....	(204,719)	(250,211)	(213,996)	(185,348)	(195,019)
<b>Total Other Financing Sources (Uses).....</b>	<b>\$(114,522)</b>	<b>\$(198,880)</b>	<b>\$(163,575)</b>	<b>\$(102,242)</b>	<b>\$(95,529)</b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses.....</b>	<b>\$ 9,477</b>	<b>\$ 9,116</b>	<b>\$ (17,323)</b>	<b>\$ 12,814</b>	<b>\$ 18,466</b>
Fund Balance--July 1 .....	40,266	49,743	58,859	41,536	54,350
Residual equity transfer from other fund .....	0	0	0	0	0
<b>Fund Balance--June 30 .....</b>	<b>\$ 49,743</b>	<b>\$ 58,859</b>	<b>\$ 41,536</b>	<b>\$ 54,350</b>	<b>\$ 72,816</b>

Table 12

**CITY AND COUNTY OF HONOLULU**  
**GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR FISCAL YEAR ENDED JUNE 30, 2003 (AUDITED) WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2002 (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	2003	2002
<b>Revenues:</b>							
Taxes.....	\$411,043	\$ 69,808	\$	\$	\$	\$480,851	\$447,746
Special assessments.....					520	520	440
Licenses and permits.....	29,340	29,026			2,854	61,220	56,614
Intergovernmental.....	32,763				111,719	144,482	145,439
Charges for services.....	4,250	4,328			12,125	20,703	18,482
Fines and forfeitures.....	303	2			341	646	460
Miscellaneous:							
Reimbursements and recoveries.....	78,878	20			10	78,908	76,873
Interest.....	3,099				547	3,646	10,086
Other - primarily rents, concessions, trust receipts.....	10,616	4,786		305	15,458	31,165	38,199
Total revenues.....	570,292	107,970		305	143,574	822,141	824,339
<b>Expenditures:</b>							
Current:							
General government.....	94,835	11,143			9,089	115,067	115,314
Public safety.....	222,366	19,342			4,401	246,109	224,274
Highways and streets.....	2,478	11,347			6	13,831	15,122
Sanitation.....		648				648	491
Health and human resources.....	1,689				50,318	52,007	64,905
Culture-Recreation.....	44,578				17,682	62,260	58,410
Utilities or other enterprises.....		1,322			21,235	22,557	23,793
Miscellaneous:							
Retirement and health benefits.....	71,524	7,840			3,427	82,791	94,380
Other.....	17,252	1,337			275	18,864	20,377
Capital outlay.....				80,415	113,307	193,722	257,866
Debt service:							
Principal retirement.....	1,311		72,219		370	73,900	27,728
Interest charges.....	264		82,795		105	83,164	81,205
Total expenditures.....	456,297	52,979	155,014	80,415	220,215	964,920	983,865
Revenues over (under) Expenditures.....	113,995	54,991	(155,014)	(80,110)	(76,641)	(142,779)	(159,526)
Other financing sources (uses):							
Proceeds of general obligation bonds.....				50,066	30,000	80,066	205,015
Proceeds of general obligation refunding bonds.....						0	90,584
Proceeds of tax-exempt commercial paper.....			36,732			36,732	0
Proceeds of revenue bonds with accrued interest.....						0	0
Proceeds of long-term notes.....					2,781	2,781	1,119
Inception of installment purchase contracts.....						0	0
Sales of general fixed assets.....	310	577				887	532
Payment to refunded bond escrow agent.....						0	0
Insurance cost.....						0	0
Payment of refunded bonds.....						0	(90,584)
Operating transfers in.....	99,180		118,282		20,891	238,353	211,909
Operating transfers out.....	(195,019)	(55,671)			(15,331)	(266,021)	(253,265)
Other.....						0	0
Total Other Financing Sources (Uses).....	(95,529)	(55,094)	155,014	50,066	38,341	92,798	165,310
Revenues and Other Sources over (under) Expenditures and Other Uses.....	18,466	(103)		(30,044)	(38,300)	(49,981)	5,784
Fund Balances - July 1.....	54,350	27,084		12,965	85,893	180,292	174,508
Residual equity transfers from (to) other funds.....							
Fund Balances - June 30.....	\$ 72,816	\$ 26,981	\$ 0	\$ (17,079)	\$ 47,593	\$130,311	\$180,292

**Table 13**

**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, 1999 through June 30, 2003**  
**(In thousand dollars)**

	<b>FY Ended June 30, 1999</b>	<b>FY Ended June 30, 2000 <sup>(1)</sup></b>	<b>FY Ended June 30, 2001</b>	<b>FY Ended June 30, 2002 <sup>(2)</sup></b>	<b>FY Ended June 30, 2003</b>
<b>REVENUES:</b>					
Taxes.....	\$466,115	\$461,255	\$448,986	\$477,746	\$480,851
Special assessments.....	537	447	445	440	520
Licenses and permits.....	46,357	55,157	56,266	56,614	61,220
Intergovernmental revenues.....	130,128	165,189	170,152	145,439	144,482
Charges for services.....	141,828	20,489	20,718	18,482	20,703
Fines and forfeitures.....	456	477	366	460	646
Miscellaneous.....	260,965	407,685	316,265	454,633	114,391
Total Revenues.....	<u>\$1,046,386</u>	<u>\$1,110,699</u>	<u>\$1,013,198</u>	<u>\$1,153,814</u>	<u>\$822,813</u>
<b>EXPENDITURES:</b>					
Current:.....					
General government.....	\$229,670	\$348,481	\$282,406	\$430,133	\$115,067
Public safety.....	198,273	202,353	218,724	225,186	246,109
Highways and streets.....	24,006	14,980	15,051	15,138	13,831
Sanitation.....	82,620	1,083	1,043	856	648
Health and human resources.....	67,243	63,892	70,991	66,990	52,007
Culture-Recreation.....	56,142	68,861	64,975	68,201	62,260
Utilities or other enterprises.....	9,688	20,582	23,648	23,865	22,557
Miscellaneous.....	115,463	76,581	75,932	114,757	102,042
Capital outlay.....	143,749	198,031	203,714	257,866	193,722
Debt service:					
Principal retirement.....	68,501	69,417	147,703	27,728	73,900
Interest charges.....	83,280	75,982	77,896	81,205	83,164
Total Expenditures.....	<u>\$1,078,635</u>	<u>\$1,140,243</u>	<u>\$1,182,083</u>	<u>\$1,311,925</u>	<u>\$965,307</u>
Revenues over (under) Expenditures.....	<u>(\$32,249)</u>	<u>(\$29,544)</u>	<u>(\$168,885)</u>	<u>(\$158,111)</u>	<u>(\$142,494)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds of general obligation bonds.....	\$150,000	\$111,500	\$150,060	\$205,015	\$80,066
Proceeds of general obligation refunding bonds.....	614,474	38,500	9,300	90,584	0
Proceeds of tax-exempt commercial paper.....					36,732
Proceeds of revenue bonds with accrued interest.....	27,345	0	0	0	0
Proceeds of long-term notes.....	10,999	6,094	0	1,119	2,781
Inception of installment purchase contracts.....	93	86	2,670	0	0
Sales of general fixed assets.....	10,189	18,006	283	532	887
Operating transfers-in.....	277,672	230,941	221,828	211,909	238,353
Operating transfers-out.....	(321,659)	(348,236)	(288,503)	(253,265)	(288,175)
Payment to refunding bond escrow agent.....	(614,474)	0	0	0	0
Insurance Cost.....	0	(918)	0	0	0
Expenditures for refunded bonds.....	0	(43,500)	(9,300)	(90,584)	0
Other.....	0	0	0	0	0
Total Other Financing Sources (Uses).....	<u>\$154,639</u>	<u>(\$862)</u>	<u>\$86,338</u>	<u>\$165,310</u>	<u>\$70,644</u>
Revenues and Other Sources over (under)					
Expenditures and Other Uses.....	\$122,390	(\$30,406)	(\$82,547)	\$7,199	\$71,850
Fund Balances—July 1.....	275,417	240,421	210,015	205,002	206,499
Residual equity transfers from (to) other funds.....		(13,335)			
Fund Balances—June 30.....	<u>\$397,807</u>	<u>\$210,015</u>	<u>\$127,468</u>	<u>\$212,201</u>	<u>\$134,649</u>

(1) Beginning fiscal year ended June 30, 2000, Sewer and Solid Waste Operations were accounted for as Enterprise Funds and are excluded from the Combined Statement of Revenues, Expenditures and Changes in Fund Balances.

(2) Effective July 1, 2001, the City 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."

## **EMPLOYEE RELATIONS; PENSIONS**

### **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. 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 four votes and each of the mayors having one vote. 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 for bargaining units for 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.

All of the City and County of Honolulu’s eight public bargaining units (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 and scientific) have reached negotiated four-year agreements ending on June 30, 2003, but all were extended by mutual agreement of the parties. The firefighters settled on a two-year agreement ending June 30, 2005, and police received a four-year contract ending June 30, 2007. Blue-collar supervisory, white-collar non-supervisory, white-collar supervisory and professional and scientific workers have by mutual consent extended their contracts to June 30, 2004, with the option to terminate the extension upon 30-days’ written notice by either party, and have gone to final and binding arbitration. Blue-collar non-supervisory workers have by mutual consent extended their contract to June 30, 2005, with the right to continue negotiation on wage and other cost items if the blue-collar supervisory, white-collar non-supervisory, white-collar supervisory or professional and scientific workers obtain a negotiated increase in wages or other cost items.

### **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 21 years from July 1, 1995. As of June 30, 2003, the total unfunded actuarial accrued liability for the State Retirement System was estimated to be approximately \$2.878 billion. The actuary for the State Retirement System does not provide a breakdown of the unfunded liability for the counties. Historically, the City’s contribution has been approximately 14.7% 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 \$32,333,500 for 1999,

\$10,285,300 for 2000, \$1,070,400 for 2001, \$34,385,900 for 2002, and \$18,500,000 for 2003, 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'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, 2003, there were no pensioners and 13 beneficiaries under these pensions. Such unfunded payments amounted to \$100,269 for 1999, \$92,780 for 2000, \$78,561 for 2001, \$67,699 for 2002 and \$53,749 for 2003. No estimates have been made of the cost of future benefits.

### **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, 1999, June 30, 2000, June 30, 2001, June 30, 2002, and June 30, 2003 judgments against the City and County paid from the General Fund amounted to \$2,321,843, \$2,587,683, \$4,235,175, \$4,762,200, and \$3,601,260 respectively.

During fiscal 2003, the City entered into a settlement agreement with certain landowners to address claims arising from the City's designation and down zoning of certain parcels in East Honolulu to prevent shoreline development. In accordance with the settlement agreement, the City has made an initial lump sum payment of \$5 million to the landowners and is in the process of selling certain City-owned parcels of land designated in the settlement agreement to various third parties. The proceeds from the sale of these City-owned parcels of land will be remitted to the landowners in exchange for ownership of the property subject to claims. The key sale of a certain parcel of land, which finalizes the terms of the settlement, is expected to occur in fiscal 2004. It is the City's belief that these claims are not likely to have a material adverse effect on the City's financial position.

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, 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. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

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 purchaser. 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 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. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Ordinances authorizing the Bonds, the Authorizing Certificate, the Tax Certificate of the City and County relating to the Bonds, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

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 legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers 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 the 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 the 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 the 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 the 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 the County or the beneficial owners to incur significant expense.

#### **LEGAL MATTERS**

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. The form of the opinion Bond Counsel proposes to render is set forth in Appendix B hereto. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Bonds. 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.

#### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey, Demgen & Moore, Inc. (the "Verification Agent") will verify from the information provided by UBS Financial Services Inc. ("UBS") the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the schedules provided by UBS 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, and (2) the computations of yield on both the Federal Securities and the Bonds contained in the schedules provided to Bond Counsel for use in its determination that the interest on the Bonds is excluded from gross income for federal income tax purposes. 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.

#### **BOND RATINGS**

It is expected that Fitch Ratings, Moody's Investors Service, and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., will assign to the Bonds ratings of "AAA", "Aaa" and "AAA", respectively, with the understanding that upon delivery of the Bonds the Policies insuring the payment of the principal of and interest on the Bonds will be issued by MBIA. Such ratings reflect only the respective views of such organizations, 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 Inc., One State Street Plaza, New York, New

York 10004; Moody's Investors Service, 99 Church Street, New York, New York 10007; Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004. 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 the underwriter set forth on the cover page of this Official Statement (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$350,280,767.02 (equal to the principal amount of the Bonds, plus net premium of \$29,572,282.55, less an underwriting discount of \$911,515.53). The bond purchase contract with respect to the Bonds provides that the Underwriter will purchase all the Bonds if any are purchased.

### **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 Series 2004A 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/ Ivan M. Lui-Kwan

Ivan M. Lui-Kwan  
Director of Budget and Fiscal Services  
City and County of Honolulu

## ECONOMIC AND DEMOGRAPHIC FACTORS

### Introduction

The economy of the City and County of Honolulu is somewhat diversified. Employment is provided by tourism, federal government and military, State and county governments, manufacturing, construction, education, research and science, together with the related activities of trade and services, finance, transportation and communications. A brief description of each of these segments of the economy follows. The economic and demographic statistics are the most recent available from sources used by the City and County.

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.

The population of the City and County, based on U.S. Census data, was 353,020 in 1950, 500,409 in 1960, 630,528 in 1970, 762,565 in 1980, 836,231 in 1990 and 876,156 in 2000. The population of the City and County represents approximately 72% of the population of the State of Hawaii.

The per capita income for the City and County for 2001 was \$31,115. Gross State Product increased by \$2.1 billion from \$44.0 billion in 2001 to \$46.1 billion in 2002.

### 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 2002, of the total 386,188 acres on Oahu, 100,447 acres, or 26.0%, were classified urban, 156,619 acres, or 40.6%, were classified conservation, and 129,122 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 6.3 million visitors came to the State of Hawaii by air in 2003, representing a decrease of 0.7% from 2002. The domestic arrivals of 4.5 million visitors represented an increase of 3.2% over 2002. The international arrivals of 1.8 million visitors decreased by 9.0% compared with 2002. The preliminary average daily visitor (by air) census figure for 2003 was 169,557, or an increase of 3.0% compared to 164,572 in 2002. Oahu has 36,457 hotel rooms, or 51.5% of the total hotel rooms in the State. Hotel occupancy rates on Oahu averaged 73.1% in 2003. More detailed statistics on the visitor industry are as follows:

**Table I**

**SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS  
1998 – 2003**

	<b>1998</b>	<b>1999<sup>(R)</sup></b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003<sup>(P)</sup></b>
Total Arrivals by Air (thousands) .....	6,738	6,741	6,949 <sup>(P)</sup>	6,304	6,389	6,345
Domestic (thousands)* .....	4,245	4,256	4,447 <sup>(P)</sup>	4,224	4,359	4,499
International (thousands)* .....	2,493	2,485	2,502 <sup>(P)</sup>	2,079 <sup>(R)</sup>	2,030	1,847
Domestic average daily visitor census (thousands)* .....	119.7	118.0	123.4 <sup>(P)</sup>	118.1	125.4	133.4
Domestic average length of stay (number of days)* .....	10.3	10.1	10.2 <sup>(P)</sup>	10.2	10.5	10.8
International average daily visitor census (in thousands)* .....	40.2	46.4	44.4 <sup>(P)</sup>	40.1	39.2	36.2
International average length of stay (number of days)* .	5.9	6.8	6.6	7.0	7.0	7.2
Hotel inventory-State .....	71,480	71,157	71,506	72,204	70,783 <sup>(P)</sup>	N/A
Hotel inventory – Oahu .....	36,206	35,861	36,303	36,824	36,457 <sup>(P)</sup>	N/A
Occupancy-State (percent) .....	71.5 <sup>(R)</sup>	72.1 <sup>(R)</sup>	76.4	69.2	69.7	72.5
Occupancy – Oahu (percent).....	72.3 <sup>(R)</sup>	71.7 <sup>(R)</sup>	76.2 <sup>(R)</sup>	68.6	70.5	71.3
Oahu Average Daily Room Rate.....	\$111 <sup>(R)</sup>	\$108 <sup>(R)</sup>	\$118 <sup>(R)</sup>	\$116	\$114	\$116

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

\* In 1998, the Hawaii Visitors and Convention Bureau (now known as the Hawaii Tourism Authority) began reporting visitors as domestic and international instead of eastbound and westbound. For purposes of simplicity, for 1998, “westbound” visitors are reported as “domestic” and “eastbound” visitors as “international.”

<sup>(R)</sup> Revised.

<sup>(P)</sup> Preliminary.

More than \$1 billion in public and private investment has gone into wider roads, lush landscaping, sandy beaches and the first major hotel and commercial construction in Waikiki since Hawaii’s recession set in 10 years ago. The City and County of Honolulu’s recently finished project along Kalakaua Avenue – featuring wider sidewalks, new sand, a waterfall, and extensive landscaping – is the most visible of recent work. The city also contributed a \$3 million bandstand and put \$11.5 million into a new façade for the Waikiki Natatorium.

Other work to be done includes a \$5 million pedestrian bridge over Kalakaua Avenue and \$12.6 million in dredging and other work on the Ala Wai Canal, both state projects.

Outrigger Enterprises Inc. is continuing with its \$300 million redevelopment plan for Waikiki. This project will be one of the biggest in the area’s history, razing some of the most dated shops and hotels and creating a retail and entertainment complex, higher grade rooms and lavish open space in the center of Waikiki. The first phase, relating to retail, has commenced, and by the end of the project Outrigger will nearly double its Waikiki shop space to 75,000 square feet. The second phase, expected to break ground in 2005, will see the construction of a new 27-story, 890-room hotel where three small hotels stand. The project, called Waikiki Beach Walk, may be the largest single redevelopment effort ever to take place in Waikiki.

The interisland cruise ship industry continues to grow. Since December 2001, Norwegian Cruise Lines has operated passenger cruises which have included a required stopover in the Republic of Kirabati to comply with federal restrictions on foreign flagged vessels. In 2003, Norwegian obtained an exemption from federal maritime law to operate three foreign built ships under the U.S. flag in Hawaii. Two of these ships were partially constructed under Project America, a loan guarantee provided by the Maritime Administration for American Classic Voyages to build two cruise vessels in a U.S. shipyard for use in Hawaii. Norwegian purchased the partially build vessels upon the bankruptcy of American Classic Voyages. One of these ships, the Pride of America, is currently under

construction and anticipated to be in Hawaii in fall, 2004. The third ship, *Pride of Aloha*, is an existing foreign built vessel, and is anticipated to be in service this summer, 2004. The State's Harbors Division has several projects under design to improve certain terminal facilities statewide to accommodate the increased activity.

## Employment

At the end of 2002, employment was estimated to be 396,050 and the unemployment rate was estimated to be 3.9%. 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**  
**1998 – 2002**

	1998	1999 <sup>(1)</sup>	2000	2001	2002 <sup>(2)</sup>
Civilian Labor Force .....	427,150 <sup>(1)</sup>	423,150	421,200 <sup>(1)</sup>	419,000 <sup>(1)</sup>	412,100
Employment .....	404,250 <sup>(1)</sup>	402,250	405,450 <sup>(1)</sup>	402,050 <sup>(1)</sup>	396,050
Unemployment .....	22,950	20,900	15,750 <sup>(1)</sup>	16,950 <sup>(1)</sup>	16,000
Unemployment Rate .....	5.4%	4.9%	3.8%	4.0% <sup>(1)</sup>	3.9%
Total Job Count <sup>(3)</sup> .....	420,850	403,650	414,250	414,750	413,800

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

<sup>(1)</sup> Revised.

<sup>(2)</sup> Preliminary.

<sup>(3)</sup> Refers to number of jobs rather than number of persons employed.

## Federal Government and Military

Total expenditures by the federal government in the State of Hawaii amounted to \$10.4 billion during Fiscal Year 2002, representing a 7.7% increase over the preceding year. Of the total, \$1.6 billion was expended by the Department of Defense. The remaining \$8.8 billion was expended for nondefense activities in the State, principally for health, education, welfare and transportation. Federal government outlays for both defense and nondefense activities are among the largest expenditures in the State of Hawaii.

The large military establishment maintained in Hawaii is almost entirely on the Island of Oahu. Members of the armed services, as of September 30, 2002, totaled 34,608, an increase of 6.9% since 1999. Civilian dependents of these military personnel numbered 47,002. In addition to uniformed personnel and their dependents, the military agencies in Hawaii provided employment for some 16,508 civilians in 2002. 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. The command stretches from the West Coast of the Americas to the Indian Ocean and from the North Pole to the South Pole.

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 \$2.2 billion to be spent over the next 10 years for the renovation and new construction of over 16,000 homes.

Total federal civilian employment, including both defense and nondefense agencies (Postal Service, Internal Revenue Service, the Social Security Administration, etc.), in Hawaii in 2002 was approximately 31,000.

Other recent and current federal construction includes a \$100 million 670-bed federal pretrial detention facility near the Honolulu International Airport, command center headquarters for the Pacific Command Air Force, construction of six buildings and a 4-lane connector road for the Kolekole Barracks renewal, and a new

administration building, education facility, mess hall, auditorium billets, formation plaza, parade ground and track for the Regional Training Institute.

### State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. As of January 2004, the State government generated 70,100 jobs, of which approximately 76.9% were located on Oahu. The largest number of employees work in the public education and university system, with 80.0% of these employed in Oahu. The City and County of Honolulu government generated 11,450 jobs as of January 2004.

### Construction

Construction activity statewide amounted to \$4.3 billion in 2002, with the bulk of the activity generated on Oahu. For 2003, the construction industry generated 27,300 jobs, or 4.8% of the total non-agricultural job count of the State. 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%, and 13.5% in 2000, 2001 and 2002, respectively. The value of building permits, a measure of future construction, increased a substantial 28.3% in 2002. During Fiscal Year 2003, the City and County expended \$444.0 million on various public improvement projects, which is comparable to what was expected in the previous fiscal year. 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 of Hawaii as a whole and for the City and County of Honolulu for the last ten years for which such information is available.

**Table III**

**ESTIMATED VALUE OF PRIVATE BUILDING  
CONSTRUCTION AUTHORIZATIONS  
1993 – 2002**

**(in thousands of dollars and percentage change from the previous year)**

<b>Year</b>	<b>State</b>	<b>% Change from Prior Year</b>	<b>City &amp; County of Honolulu</b>	<b>% Change from Prior Year</b>
1993	1,496,485	-14.6%	959,041	-9.6%
1994	1,612,899	7.8%	1,073,264	11.9%
1995	1,531,317	-5.1%	980,703	-8.6%
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%

*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 a \$150 million new medical school in October 2002 in the Kakaako District of Honolulu. The first building which includes classrooms is expected to be completed in Fall 2004 with the second building, the Biomedical Research Building, to be completed in Fall 2005. 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 6.3 million who arrived in 2003. Another reason for the high volume of trade and service activity is the above-average per capita personal income of the resident population, which ranks among the highest in the country. Total retail trade in Hawaii was approximately \$17.9 billion in 2002, a 0.3% increase over the previous year. Wholesale trade activity amounted to \$9.3 billion in 2002, an increase of 1.3% from the previous year. Of the State's non-agricultural job count of 555,400, the retail sector generated 64,050 jobs (a 3.1% decrease) and the wholesale sector generated 16,250 jobs (a 1.2% decrease). Services accounted for \$7.4 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, 2002, total assets of all State of Hawaii chartered financial institutions, including banks, trust companies and savings and loan associations, were reported at \$23.6 billion. The four state chartered banks (199 branches) in Hawaii had combined assets of some \$22.4 billion. In addition, there is one state chartered savings and loan association, with 17 branches and assets totaling \$553.7 million, and two state chartered financial services companies that issue investment certificates, with assets of \$494.0 million.

## **Transportation**

A comprehensive network of roads, highways, and freeways connect all parts of Honolulu; and all the of the populated areas of the island are also served by a bus transit system, named the "Best Bus System in America" by a national transit publication. The City and County has proposed a new transit plan that includes a network of dedicated bus and high occupancy vehicle lanes and transit amenities. A new fleet of electric bus rapid transit vehicles will be used in the core of the city, and express buses operating on contra flow lanes and dedicated ramps on freeways will serve the suburbs. The proposal was approved in concept by the City Council in December, 2000. The estimated capital cost of the system through 2010 is \$882 million, with approximately 63% to be derived from federal funds, 4.6% from State funds, and 32.4% from City and County funds. The initial phase of construction has begun on Kuhio Avenue in Waikiki.

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 the publication of the Airports Council International, Honolulu International Airport is one of the busiest air terminals in the world, ranking 42nd in the world and 23rd in the United States in total passengers serviced in 2002. Honolulu International Airport is the fifth busiest airport in the Pacific Rim, after Los Angeles International Airport,

Tokyo International Airport (Haneda), San Francisco International Airport and New Tokyo International Airport (Narita). Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft.

Since January 2002, a number of major airlines have announced the addition of new routes to Hawaii. Delta began nonstop service to Honolulu from its Salt Lake hub in 2002, and it added new nonstop service to Honolulu from its Atlanta and Cincinnati hubs in August and November 2003, respectively. Continental added a second daily nonstop flight to Honolulu from Houston in 2003. United added a nonstop flight to Honolulu from its Denver hub in 2002, and it upgraded the service to daily in 2003. Hawaiian Airlines added new nonstop flights to Honolulu from Phoenix, Sacramento, Ontario and San Diego during this period, and Aloha added new nonstop service to Honolulu from Vancouver and Burbank. Hawaiian announced the commencement of new international service to Honolulu from Sydney, Australia in mid-2004, and Aloha added new service to Honolulu from Pago Pago and Rarotonga. While domestic airline service to Hawaii increased overall during the period, international service from Asia has continued to decline. Additionally, interisland flights have been reduced due to the financial difficulties of Aloha Airlines and Hawaiian Airlines.

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 interisland cargo tonnage handled through the Honolulu Harbor was 8.2 million short tons in fiscal year 2000, 8.4 million short tons in fiscal year 2001, 8.2 million short tons in fiscal year 2002, and 8.0 million short tons in 2003. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City and County of Honolulu  
Honolulu, Hawaii

Re: City and County of Honolulu, General Obligation Bonds  
Series 2004A, Series 2004B and Series 2004C  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City and County of Honolulu (the "City") of \$321,620,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2004A, Series 2004B and Series 2004C (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 April 1, 2004 (the "Certificate"), and a bond authorizing ordinance and 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.

Certain agreements, requirements and procedures contained or referred to in the Bond Proceedings, the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

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. 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 or waiver 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 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

**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, IVAN M. LUI-KWAN, 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 Financial Services Inc., as the Underwriter of the City and County General Obligation Bonds, Series 2004A, Series 2004B and Series 2004C, dated the date of issuance thereof (the "Series 2004 Bonds"), shall be a beneficiary of the Master Certificate; (iii) the Holders of the Series 2004 Bonds shall also be beneficiaries of the Master Certificate; (iv) the Beneficial Owners of the Series 2004 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](http://www.sec.gov/info/municipal/nrmsir.htm).

Dated as of April \_\_, 2004.

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Ivan M. Lui-Kwan  
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 April \_\_, 2004.

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David Z. Arakawa  
Corporation Counsel  
City and County of Honolulu

**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 Underwriter believes to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter 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](http://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.

**SPECIMEN BOND INSURANCE POLICY  
FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]  
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

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President

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Assistant Secretary