

**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, 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 in 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.

**OFFICIAL STATEMENT
\$250,000,000
CITY AND COUNTY OF HONOLULU
General Obligation Bonds, Series 2003A**

Dated: Date of issuance.

Due: March 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 March 1 and September 1 of each year, commencing March 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 paying costs of certain public improvements of the City and County, and 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 the Bonds when due will be guaranteed under a Financial Guaranty Insurance Policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.



The Bonds are offered when, as and if issued and received by the Underwriters, 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 Underwriters by their counsel, McCorrison 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 August 8, 2003.

Citigroup
July 29, 2003

UBS Financial Services Inc.

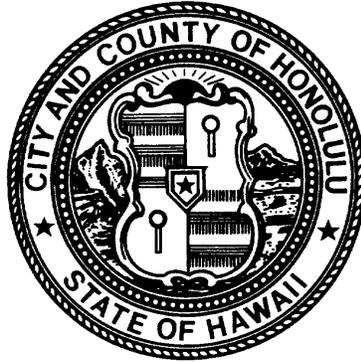
City and County of Honolulu
\$250,000,000 General Obligation Bonds, Series 2003A

<u>Year (March 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2008	\$ 3,315,000	2.625%	2.75%
2008	3,750,000	5.000%	2.75%
2009	3,460,000	3.000%	3.09%
2009	3,880,000	5.000%	3.09%
2010	990,000	3.300%	3.44%
2010	6,645,000	5.000%	3.44%
2011	2,080,000	4.000%	3.73%
2011	5,920,000	5.250%	3.73%
2012	1,020,000	3.750%	3.91%
2012	7,375,000	5.250%	3.91%
2013	1,655,000	3.900%	4.04%
2013	7,165,000	5.250%	4.04%
2014	2,010,000	4.000%	4.16%
2014	7,255,000	5.250%	4.16%*
2015	385,000	4.125%	4.26%
2015	9,340,000	5.250%	4.26%*
2016	605,000	4.250%	4.36%
2016	9,625,000	5.250%	4.36%*
2017	420,000	4.300%	4.45%
2017	10,340,000	5.250%	4.45%*
2018	450,000	4.400%	4.53%
2018	10,870,000	5.250%	4.53%*
2019	510,000	4.500%	4.62%
2019	11,400,000	5.250%	4.62%*
2020	275,000	4.550%	4.68%
2020	12,260,000	5.250%	4.68%*
2021	325,000	4.625%	4.76%
2021	12,865,000	5.250%	4.76%*
2022	360,000	4.700%	4.82%
2022	13,520,000	5.250%	4.82%*
2023	1,590,000	4.750%	4.87%
2023	13,015,000	5.250%	4.87%*
2024	15,365,000	5.250%	4.92%*
2025	16,170,000	5.250%	4.96%*
2026	17,020,000	5.250%	4.99%*
2027	17,915,000	5.250%	5.00%*
2028	3,985,000	4.900%	5.01%
2028	14,870,000	5.250%	5.01%*

* Priced to the call date of March 1, 2013, at par.

City and County of Honolulu

State of Hawaii
(Incorporated 1907)



MAYOR

Jeremy Harris

CITY COUNCIL

Gary H. Okino
Chair and Presiding Officer

Ann H. Kobayashi
Vice-Chair

Romy M. Cachola
Floor Leader

Donovan M. Dela Cruz

Charles K. Djou

Mike Gabbard

Nestor R. Garcia

Barbara Marshall

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

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

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OFFICIAL STATEMENT

\$250,000,000

City and County of Honolulu General Obligation Bonds, Series 2003A

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 \$250,000,000 aggregate principal amount of General Obligation Bonds, Series 2003A (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. 98-29 for Fiscal Year 1998-99 of the City and County, Ordinance No. 99-28 for Fiscal Year 1999-00 of the City and County, Ordinance No. 00-24 for Fiscal Year 2000-01 of the City and County, Ordinance No. 01-27 for Fiscal Year 2001-02 of the City and County, Ordinance No. 02-27 for Fiscal Year 2002-03, Resolution No. 02-290 of the City and County, the Constitution and laws of the State of Hawaii, including Chapter 47, Hawaii Revised Statutes, and the Revised Charter of the City and County. The Bonds are being issued pursuant to a Certificate of the Director of Budget and Fiscal Services of the City and County (the "Authorizing Certificate").

Purpose of Issuance

The proceeds of the Bonds (exclusive of premium, if any) will be used to provide funds for (i) a portion of the unfunded balance of \$2,425,708 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 1998-99, (ii) a portion of the unfunded balance of \$4,104,063 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 1999-00, (iii) a portion of the unfunded balance of \$134,910,254 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 2000-01, (iv) a portion of the unfunded balance of \$361,760,034 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 2001-02, (v) a portion of the unfunded balance of \$274,687,500 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 2002-03, and (vi) 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 in part for the purpose of refunding certain outstanding general obligation commercial paper notes of the City and County (the "Refunded Bonds"), in the total amount of \$145,300,000, all maturing on August 15, 2003, to be paid on such date in such amount, plus interest accrued to such date.

A portion of the proceeds of the Bonds and other available funds will be held in cash or invested in short-term 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 their respective redemption dates. Simultaneously with the issuance and delivery of the Bonds, such cash or securities will be deposited into an escrow fund established pursuant to the Authorizing Certificate and held by the Director of Budget and Fiscal Services. The City and County will apply such fund to pay the principal and interest coming due on the Refunded Bonds.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the date of issuance thereof; and will mature serially on March 1 of each year in the principal amounts shown on the inside cover page hereof; and will bear interest (computed on the basis of a 360-day year) payable March 1 and September 1 of each year, commencing March 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 E), for subsequent distribution to the Beneficial Owners (as defined in Appendix E) 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 E, "Book-Entry System."

Prior Redemption

The Bonds maturing after March 1, 2013, are subject to redemption at the option of the City and County on and after March 1, 2013, 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.

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. The City and County, at its option, in addition to giving notice of redemption by mailing, may give notice of such redemption by publication not less than thirty (30) days prior to the date fixed for the redemption thereof of one such notice in The Bond Buyer or in some other financial paper published in any of the cities of New York, New York, Chicago, Illinois, or San Francisco, California. 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 E -- 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. 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 E, "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, 2004:

**CITY AND COUNTY OF HONOLULU
GENERAL OBLIGATION BONDS, SERIES 2003A
DEBT SERVICE REQUIREMENTS**

FY Ending June 30	Principal	Interest	Total
2004		\$7,198,896.66	\$7,198,896.66
2005		12,766,516.26	12,766,516.26
2006		12,766,516.26	12,766,516.26
2007		12,766,516.26	12,766,516.26
2008	\$7,065,000.00	12,766,516.26	19,831,516.26
2009	7,340,000.00	12,491,997.50	19,831,997.50
2010	7,635,000.00	12,194,197.50	19,829,197.50
2011	8,000,000.00	11,829,277.50	19,829,277.50
2012	8,395,000.00	11,435,277.50	19,830,277.50
2013	8,820,000.00	11,009,840.00	19,829,840.00
2014	9,265,000.00	10,569,132.50	19,834,132.50
2015	9,725,000.00	10,107,845.00	19,832,845.00
2016	10,230,000.00	9,601,613.76	19,831,613.76
2017	10,760,000.00	9,070,588.76	19,830,588.76
2018	11,320,000.00	8,509,678.76	19,829,678.76
2019	11,910,000.00	7,919,203.76	19,829,203.76
2020	12,535,000.00	7,297,753.76	19,832,753.76
2021	13,190,000.00	6,641,591.26	19,831,591.26
2022	13,880,000.00	5,951,147.50	19,831,147.50
2023	14,605,000.00	5,224,427.50	19,829,427.50
2024	15,365,000.00	4,465,615.00	19,830,615.00
2025	16,170,000.00	3,658,952.50	19,828,952.50
2026	17,020,000.00	2,810,027.50	19,830,027.50
2027	17,915,000.00	1,916,477.50	19,831,477.50
2028	18,855,000.00	975,940.00	19,830,940.00

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 and the capital budget for Fiscal Year 2003 authorized and appropriated a total of \$1,262,908,060 for public improvements to be financed from the proceeds of general obligation bonds or notes. As of March 31, 2003, \$475,449,202 of general obligation bonds and notes had been issued to finance appropriations for such Fiscal Years, and \$201,363,548 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 \$586,095,310, the balance of such appropriations, will be funded from the proceeds of the Bonds and from proceeds of other general obligation bond or note issues to be issued in the future.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

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

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City and 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 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 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 policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does 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 policy also does 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 Insurance Corporation (“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 policy 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:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2002;
and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended March 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, 2002, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 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 March 31, 2003 MBIA had admitted assets of \$9.3 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.2 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 B 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 B 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 and 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 public utilities, such as motor carriers, common carriers by water, contract carriers and airlines. In an overview of the taxing authority relationship between the State and all the counties, the Tax Foundation of Hawaii, found that of the \$4.3 billion collected in taxes by the State and county governments during the Fiscal Year ended June 30, 2002, \$3.6 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, 2002, are set forth in Appendix A hereto. (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 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, then the public service company tax levied and assessed shall be in excess of the four percent rate of gross income. The rate of tax in excess of the four percent shall not be less than 1.885 percent or more than 4.2 percent. 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.

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 2003-04 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⁽¹⁾
BY LAND AND IMPROVEMENTS
For Fiscal Year 2004
(in thousand dollars)

	<u>Land</u>	<u>Improvements</u>	<u>Total</u>
Gross assessed valuation.	\$50,611,843	\$44,440,513	\$95,052,356
Less exemption valuation	<u>(3,760,734)</u>	<u>(11,336,180)</u>	<u>(15,096,914)</u>
Assessor's net taxable value.	46,851,109	33,104,333	79,955,442
Less 50% of valuations on appeal	<u>(405,617)</u>	<u>(395,278)</u>	<u>(800,895)</u>
Net assessed valuation for rate purposes.	\$46,445,492	\$32,709,055	\$79,154,547

⁽¹⁾ At 100% of fair market value.

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>Rate</u>								
<u>Net Taxable Land</u>										
Improved Residential	\$27,176,656	\$3.65	\$25,898,762	\$3.65	\$26,533,079	\$3.65	\$27,308,923	\$3.65	\$30,260,954	\$3.75
Unimproved Residential	760,368	4.66	690,342	4.66	428,191	4.66	714,387	4.66	655,236	5.35
Apartment	5,583,553	4.49	5,119,280	4.49	5,038,002	4.21	4,950,109	3.93	5,074,206	3.75
Hotel/Resort	2,495,333	9.96	2,358,990	9.96	2,435,463	9.96	2,347,705	9.96	2,251,394	10.63
Commercial	5,349,769	9.25	4,876,113	9.25	4,798,891	9.25	4,839,541	9.25	4,766,874	10.63
Industrial	3,336,296	9.39	2,997,584	9.39	2,838,755	9.39	2,850,632	9.39	2,802,730	10.63
Agricultural	350,929	9.89	318,530	9.89	227,205	9.89	308,874	9.89	298,044	10.63
Conservation	416,401	9.25	431,440	9.25	352,070	9.25	359,754	9.25	327,476	10.63
Public Service					164,174	0.00	20,201	0.00	8,579	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	\$9,230,152	\$3.65	\$9,315,911	\$3.65	\$10,066,199	\$3.65	\$12,230,871	\$3.65	\$13,252,073	\$3.75
Unimproved Residential	41,303	4.66	40,789	4.66	41,985	4.66	42,458	4.66	46,627	5.35
Apartment	8,770,891	4.49	8,460,667	4.49	8,480,325	4.21	9,305,365	3.93	11,059,012	3.75
Hotel/Resort	2,181,039	9.96	2,068,493	9.96	2,121,627	9.96	2,226,305	9.96	2,266,434	10.63
Commercial	4,376,172	9.25	4,370,036	9.25	4,361,422	9.25	4,322,821	9.25	4,349,397	10.63
Industrial	1,592,305	9.39	1,562,797	9.39	1,581,298	9.39	1,570,203	9.39	1,568,117	10.63
Agricultural	94,232	9.89	88,643	9.89	74,444	9.89	100,594	9.89	87,971	10.63
Conservation	65,278	9.25	77,821	9.25	73,224	9.25	70,744	9.25	72,125	10.63
Public Service					55,219	0.00	14,870	0.00	7,291	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	\$36,406,808		\$35,214,673		\$36,599,278		\$39,539,794		\$43,513,027	
Unimproved Residential	801,671		731,131		470,176		756,845		701,863	
Apartment	14,354,444		13,579,947		13,518,327		14,255,474		16,133,218	
Hotel/Resort	4,676,372		4,427,483		4,557,090		4,574,010		4,517,828	
Commercial	9,725,941		9,246,149		9,160,313		9,162,362		9,116,271	
Industrial	4,928,601		4,560,381		4,420,053		4,420,835		4,370,847	
Agricultural	445,161		407,173		301,649		409,468		386,015	
Conservation	481,679		509,261		425,294		430,498		399,601	
Public Service					219,393		35,071		15,870	
Total All Classes	\$71,820,677		\$68,676,198		\$69,671,573		\$73,584,357		\$79,154,540	

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	100.0%
2001	\$68,676,198	\$5.58	\$374,099	100.4%
2002	\$69,671,573	\$5.44	\$371,234	101.8%
2003	\$73,584,357	\$5.26	\$392,606	NA
2004	\$79,154,540	\$5.43	NA	NA

* Valuation is 100% of fair market value.

The real property tax revenues of \$382.4 million accounted for 66.6% of the General Fund revenues of \$574.6 million for the Fiscal Year ended June 30, 2002.

Table 4

**TEN LARGEST REAL PROPERTY TAXPAYERS
As of June 30, 2003
(in thousand dollars)**

<u>Taxpayer⁽¹⁾</u>	<u>Type of Business</u>	<u>Gross Assessed Valuation⁽²⁾</u>	<u>% of Total Assessed Valuation</u>
Kyo-Ya Co. Ltd.	Hotel/Resort	\$997,367,900	1.12%
GGP Ala Moana LLC	Real Estate Management and Leasing	746,422,100	0.84%
Hilton Hawaiian Village Joint Venture	Hotel/Resort	699,786,000	0.78%
Bishop Estate	Educational Trust Estate	786,673,100	0.88%
MFD Partners	Commercial	352,030,000	0.39%
Bancorp Hawaii Inc.	Financial Institution	346,412,800	0.39%
Dole Food Co.	Processed and Fresh Food, Real Estate	341,425,000	0.38%
Victoria Ward Ltd.	Shopping Center	230,430,100	0.26%
C K Corporation	Hotel/Resort	206,454,500	0.23%
WBM Resort LP	Hotel/Resort	196,622,000	0.22%
		<u>\$4,903,623,500</u>	<u>5.49%</u>

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

⁽²⁾ Assessed valuation 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, 2002, the City and County received \$31.6 million as its allocable share of the State transient accommodation tax, which amount is 5.5% 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¢ per pound and 1.25¢ 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 2002, 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 11½ cents per gallon to 16½ 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 2002, the City and County collected \$46.7 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 2002, the City and County collected \$23.7 million of such taxes.

Projected 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; and in Fiscal Year 2002 were \$657.7 million and \$644.9 million, respectively. For Fiscal Year 2003, the City and County has estimated for budgeting purposes \$680.2 million in General Fund revenues and \$679.7 million in General Fund expenditures, including transfers out for debt service, mass transit subsidy and other purposes, and transfers in for recovery of debt service and other purposes.

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, to determine and certify the amount of its funded debt and exclusions therefrom. Accordingly, a certification has been prepared of the funded debt of the City and County and the exclusions therefrom as of July 1, 2003, 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 July 1, 2003. Table 7 lists all general obligation funded debt of the City and County as of July 1, 2003.

Table 5

**STATEMENT OF FUNDED DEBT
As of July 1, 2003
(Including July 1, 2003 maturities)**

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				<u>1,601,790,536</u>	
5. Taxpayers' valuation				78,353,652,364	
6. Add 50% of valuation on appeal				<u>800,895,268</u>	
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	(a)
9. Funded debt:					
a. General obligation bonds		\$	1,766,313,204		
b. Revenue bonds			791,082,890		(b)
c. Notes payable:					
Federal Government			3,350,920		
State of Hawaii			89,316,917		
d. Special assessment bonds			<u>1,375,000</u>		
e. Gross funded indebtedness		\$	<u>2,652,388,931</u>		
Less exclusions:					
f. Revenue bonds					
Self-supporting waterworks	\$	119,270,000			
Self-supporting wastewater		671,812,890			
g. General obligation bonds issued for H-Power waste disposal facility		127,365,000			
h. General obligation bonds issued for Housing		118,418,952			
i. General obligation bonds issued for solid waste		71,290,888			
j. General obligation bonds issued for sewer projects		67,728,817			
k. State of Hawaii notes issued for sewer projects		85,495,629			
l. Special assessment bonds		<u>1,375,000</u>		<u>1,262,757,176</u>	
1. Net funded debt				<u>1,388,681,755</u>	
10. Gross limit of additional funded debt			\$	10,484,500,390	
11. Less general obligation bonds authorized and unissued:					
	Authorizing Ordinance	Total Authorized (c)	Amount Issued	Amount Unissued	
	Ordinance No. 98-29	\$ 181,321,298	\$ 176,951,742	\$ 4,369,556	
	Ordinance No. 99-28	135,533,212	131,459,389	4,073,823	
	Ordinance No. 00-24	209,820,859	82,418,722	127,402,137	
	Ordinance No. 01-27	260,181,643	84,619,349	175,562,294	
	Ordinance No. 02-33	274,687,500		274,687,500	
		<u>\$ 1,061,544,512</u>	<u>\$ 475,449,202</u>	<u>\$ 586,095,310</u>	
				<u>586,095,310</u>	
12. Net limit of additional funded debt			\$	<u><u>9,898,405,080</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 July 1, 2003
(Including July 1, 2003 maturities)**

<u>Direct Debt</u>	<u>Effective Interest Rate</u>	<u>Original Amount of Issue</u>	<u>Maturing Serially From/To</u>	<u>Optional Call Dates</u>	<u>Outstanding</u>
General Obligation Bonds:					
April 1, 1977 Series A	4.37100%	\$ 5,000,000	1/1/79-11	01/01/1986	\$ 1,915,000
July 2, 1990 Series A	7.29949%	169,880,000	7/1/95-08	Non-callable	93,300,000
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	17,180,000
April 1, 1993 Series B	5.43923%	611,335,000	10/1/94-13	Non-callable	293,145,000
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	25,550,000
September 1, 1996 Series A	5.45420%	100,000,000	9/1/00-16	09/01/2006	13,100,000
November 1, 1997 Series B	5.09054%	83,000,000	11/1/01-17	11/01/2007	27,515,000
November 1, 1997 Series C	5.40595%	157,605,000	11/1/99-10	Non-callable	105,065,000
April 1, 1999 Series A	4.03549%	12,000,000	7/1/02-03	Non-callable	6,150,000
April 1, 1999 Series B	5.00249%	88,000,000	7/1/03-24 ⁽¹⁾	07/01/2009	88,000,000
April 1, 1999 Series C	4.91016%	349,215,000	7/1/01-20	07/01/2009	327,915,000
November 3, 1999 Series D	4.72927%	45,820,000	2/1/01-10	Non-callable	34,065,000
May 24, 2000 Series A ⁽²⁾	Variable	138,500,000	1/1/04-20	Any time	138,500,000
May 24, 2000 Series B ⁽²⁾	Variable	11,500,000	1/1/04-05	Any time	11,500,000
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 ⁽³⁾	Variable	150,000,000	Not Applicable	Non-callable	128,100,000
December 1, 2001 Series 2001C	Variable	250,000,000	12/1/06-20	12/04/2003 ⁽⁴⁾	250,000,000
		<u>\$ 2,896,545,000</u>			<u>\$ 1,766,313,205</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	89,316,917
		<u>\$ 127,802,962</u>			<u>\$ 92,667,837</u>
Total Gross Direct Debt		<u><u>\$ 3,024,347,962</u></u>			<u><u>\$ 1,858,981,042</u></u>
Less exclusions:					
Bonds issued for solid waste				\$ 71,290,888	
Bonds issued for housing				118,418,952	
Bonds issued for H-Power waste disposal facility				127,365,000	
Bonds issued for sewer projects				67,728,817	
State of Hawaii Notes issued for sewer projects				85,495,629	470,299,286
Net Funded Debt					<u><u>\$ 1,388,681,756</u></u>

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

⁽²⁾ 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.

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

⁽⁴⁾ On December 4, 2003, the City and County will have the option to enter into a weekly or extended rate mode.

Table 7

**CITY AND COUNTY OF HONOLULU
DEBT SERVICE CHARGES ON
OUTSTANDING GENERAL LONG-TERM DEBT
July 1, 2003 to Maturity ⁽¹⁾**

FY Ending June 30	General Obligation Bonds		Other Debt ⁽³⁾		Gross Debt Service Charges	Reimbursable Debt		Net Debt Service Charges
	Principal	Interest ⁽²⁾	Principal	Interest ⁽⁴⁾		Principal	Interest	
2004	\$ 98,405,000	\$ 81,261,837	\$ 6,206,560	\$ 2,569,971	\$ 188,443,368	\$ 41,211,371	\$ 22,762,620	\$ 124,469,377
2005	103,214,000	75,638,541	5,834,176	2,394,290	187,081,007	42,525,283	20,375,583	124,180,141
2006	103,229,000	70,589,973	6,144,986	2,246,673	182,210,632	44,085,722	18,165,060	119,959,850
2007	115,366,205	65,423,225	5,415,358	2,093,305	188,298,093	45,315,434	15,982,309	127,000,350
2008	117,519,000	58,263,749	5,552,294	1,937,493	183,272,536	45,155,893	13,071,752	125,044,891
2009	121,594,000	52,031,445	5,694,340	1,776,077	181,095,862	47,003,829	10,480,362	123,611,671
2010	105,155,000	46,271,513	5,838,786	1,611,740	158,877,039	29,512,763	8,519,303	120,844,973
2011	99,291,000	40,323,967	5,987,574	1,424,282	147,026,823	21,479,616	7,070,734	118,476,473
2012	92,970,000	35,485,672	6,140,043	1,238,247	135,833,962	18,783,382	6,168,005	110,882,575
2013	94,200,000	30,838,619	6,297,573	1,057,975	132,394,167	17,588,484	5,377,054	109,428,629
2014	85,885,000	26,262,016	5,155,286	695,567	117,997,869	13,871,629	4,435,319	99,690,921
2015	59,550,000	22,556,975	2,702,325	423,563	85,232,863	11,716,378	3,738,805	69,777,680
2016	62,945,000	19,687,163	2,712,930	315,017	85,660,110	11,812,050	3,195,902	70,652,158
2017	63,025,000	16,729,825	2,433,224	210,725	82,398,774	12,453,890	2,643,030	67,301,854
2018	64,795,000	13,725,019	2,175,603	124,206	80,819,828	12,555,392	2,068,950	66,195,486
2019	64,170,000	10,703,322	1,179,668	56,643	76,109,633	11,707,030	1,503,677	62,898,926
2020	64,065,000	7,723,913	203,331	23,363	72,015,607	9,038,398	1,013,399	61,963,810
2021	57,940,000	4,706,644	176,830	15,925	62,839,399	7,095,805	580,730	55,162,864
2022	14,990,000	2,954,847	182,109	8,865	18,135,821	1,876,093	358,762	15,900,966
2023	15,765,000	2,167,581	87,230	1,717	18,021,528	1,969,642	262,619	15,789,267
2024	23,060,000	1,413,781	-	-	24,473,781	4,267,718	189,161	20,016,902
2025	11,080,000	290,850	-	-	11,370,850	-	-	11,370,850
2026	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-
	<u>\$ 1,638,213,205</u>	<u>\$ 685,050,475</u>	<u>\$ 76,120,226</u>	<u>\$ 20,225,644</u>	<u>\$ 2,419,609,550</u>	<u>\$ 451,025,802</u>	<u>\$ 147,963,136</u>	<u>\$ 1,820,620,612</u>

⁽¹⁾ Including July 1, 2003 maturities. Excludes commercial paper dated 6/21/02 and excludes self-supporting revenue bonds.

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

⁽³⁾ Includes:

\$ 3,350,920	U.S. Government note payable for City's share of Kaneohe Reservoir Recreation & Fish and Wildlife Development
89,316,917	State of Hawaii notes payable for various sewer projects, reimbursable from Sewer Fund.
693,633	Lease purchase agreement for City's telephone network
<u>2,010,183</u>	Installment purchase contracts for various fixed assets
<u>\$ 95,371,653</u>	

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

Trend of General Obligation Indebtedness

The following table sets forth the trend of outstanding general obligation indebtedness of the City and County as of June 30 of each of the most recent five Fiscal Years. Except for the Bonds to be issued, the City and County has not issued any general obligation bonds or general obligation notes subsequent to June 30, 2001.

Table 8

TREND OF GENERAL OBLIGATION INDEBTEDNESS Fiscal Years 1999-2003

<u>General Obligation Bonds</u>					
FY Ending June 30	Non- Reimbursable^(a)	Reimbursable for Other Purposes^(b)	Total General Obligation Bonds	Note Payable	Total General Obligation Debt
1999	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	1,385,330,836	470,299,286	1,855,630,122	3,350,920	1,858,981,042

^(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.

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, the Board of Water Supply issued revenue bonds to finance improvements to the water system, in the principal amounts of \$18,000,000 in March, 1996, \$66,600,000 in May, 2001 (in part to refund all of the revenue bonds issued in 1996), and \$54,400,000 in March 2002. 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, HPower 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, HPower 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 2055. The leases are financed from general resources. Expenditures for such leases approximated \$1.9 million for the Fiscal Year ended June 30, 2002, and future expenditures for such leases are projected to be \$9.3 million.

Special Assessment Indebtedness

The City and County had outstanding as of June 30, 2002, \$1,745,000 principal amount of special assessment bonds of various improvement districts, none of which is applicable to the limit of 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 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, 2002, approximately \$78.7 million of revenue bonds issued for housing purposes.

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 1998 - 2003
(in million dollars)

Fiscal Year	Grand Total	Expenditures ⁽¹⁾				Cash			Cash as % of Total
		General Obligation	Sewer Revenue	Finance Hsg. Dev.	Total ⁽¹⁾	Federal Grants	Cash ⁽²⁾	Total	
1998 ⁽³⁾	302.7	187.6	50.8	0.0	238.4	61.3	3.0	64.3	21.2%
1999 ⁽³⁾	296.2	194.4	43.5	1.9	239.8	49.0	7.4	56.4	19.0%
2000 ⁽³⁾	241.9	133.9	56.7	0.0	190.6	37.5	13.8	51.3	21.2%
2001 ⁽³⁾	385.5	251.9	88.3	0.0	340.2	26.9	18.4	45.3	11.8%
2002 ⁽³⁾	449.5	262.0	170.2	0.0	432.2	10.3	7.0	17.3	3.8%
2003	444.0	274.7	144.8	0.0	419.5	21.6	2.9	24.5	5.5%

⁽¹⁾ Inclusive of encumbrances.

⁽²⁾ Funds from current revenues and surplus.

⁽³⁾ Adjusted for lapses.

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 HPower waste disposal facility, which went into commercial operation in June 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 HPower 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 \$26.3 million in the Fiscal Year ended June 30, 2002, representing an investment yield of 2.89%.

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 her control, except pension or retirement funds, funds set aside for redemption of bonds or the payment of interest thereon, and private trust funds, for the purpose of paying warrants and checks drawn against any fund temporarily depleted. All sums so used are required to be repaid to the credit of the fund from which taken immediately after the replenishment of such depleted fund.

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

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 Years ended June 30, 1998 and 1999 was KPMG Peat Marwick, L.L.P., and the City and County's auditor for the Fiscal Years ended June 30, 2000, 2001 and 2002 is PricewaterhouseCoopers. Included herein as Appendix A are the basic financial statements of the City and County for the year ended June 30, 2002, and the auditors' report thereon. KPMG Peat Marwick has not reviewed this Official Statement and has no responsibility with respect to this Official Statement.

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

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 (Director of Finance prior to July 1, 1998) of the City and County based on audited financial statements for the Fiscal Years ended June 30, 1998 to 2002, 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, 1998 through June 30, 2002
(in thousand dollars)**

	FY Ended June 30, <u>1998</u>	FY Ended June 30, <u>1999</u>	FY Ended June 30, <u>2000</u>	FY Ended June 30, <u>2001</u>	FY Ended June 30, <u>2002</u>
ASSETS:					
Cash and Securities	\$38,990	\$60,945	\$59,877	\$34,330	\$58,128
Receivables:					
Real Property Taxes	7,132	7,025	6,638	5,950	5,234
Other	7,964	16,347	4,693	19,295	12,532
Component unit -CASE fees	0	0	8,413		
Due from other funds	<u>2,335</u>	<u>1,594</u>	<u>579</u>	<u>0</u>	<u>305</u>
Total Assets	<u>\$56,421</u>	<u>\$85,911</u>	<u>\$80,200</u>	<u>\$59,575</u>	<u>\$76,199</u>
LIABILITY AND FUND BALANCES					
Liabilities:					
Accounts payable			\$5,305	\$1,323	\$6,094
Checks payable	\$2,605	\$3,719	3,500	2,261	2,507
Due to other funds	6,386	5,183	2,408	300	640
Accrued payroll and fringes	0	15,551		3,807	3,686
Deferred revenues	<u>7,164</u>	<u>11,715</u>	<u>10,128</u>	<u>10,348</u>	<u>8,922</u>
Total Liabilities	16,155	36,168	21,341	18,039	21,849
Fund Balances:					
Reserved for encumbrances	\$15,755	\$19,228	\$20,683	\$18,189	\$19,191
Unreserved-undesignated	<u>24,511</u>	<u>30,515</u>	<u>38,176</u>	<u>23,347</u>	<u>35,159</u>
Total Fund Balances	<u>\$40,266</u>	<u>\$49,743</u>	<u>\$58,859</u>	<u>\$41,536</u>	<u>\$54,350</u>
Total Liabilities and Fund Balances	<u>\$56,421</u>	<u>\$85,911</u>	<u>\$80,200</u>	<u>\$59,575</u>	<u>\$76,199</u>

Table 11

**CITY AND COUNTY OF HONOLULU
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For Fiscal Years Ended June 30, 1998 through June 30, 2002
(in thousand dollars)**

	FY Ended June 30, 1998	FY Ended June 30, 1999	FY Ended June 30, 2000	FY Ended June 30, 2001	FY Ended June 30, 2002
REVENUES:					
Real property tax	\$404,415	\$402,827	\$399,115	\$380,098	\$407,270
Licenses and permits	18,275	18,469	25,969	26,820	25,897
Intergovernmental revenues	45,450	38,302	33,680	35,742	32,063
Charges for services	15,786	11,288	5,110	4,836	3,912
Fines and forfeitures	226	270	222	159	249
Miscellaneous	<u>88,688</u>	<u>110,626</u>	<u>124,113</u>	<u>105,184</u>	<u>105,248</u>
Total Revenues	<u>\$572,840</u>	<u>\$581,782</u>	<u>\$588,209</u>	<u>\$552,839</u>	<u>\$574,639</u>
EXPENDITURES:					
Current:					
General government	\$81,639	\$87,197	\$83,464	\$86,444	\$95,817
Public safety	172,605	186,325	178,544	193,692	199,990
Highways and streets	3,850	3,842	1,387	2,964	5,768
Sanitation	34,576	36,701	0	0	0
Health and Human Resources	12,036	14,380	12,324	14,327	14,579
Culture and recreation	39,668	35,012	34,859	38,792	41,339
Urban redevelopment and housing	31	0	0	0	0
Utilities and other enterprises	0	49	8	140	0
Miscellaneous	108,194	91,884	67,602	66,112	100,573
Capital outlay	1,936	93	86	2,670	0
Debt service:					
Principal retirement	1,596	1,789	1,501	1,084	1,207
Interest charges	<u>548</u>	<u>511</u>	<u>438</u>	<u>362</u>	<u>310</u>
Total Expenditures	<u>\$456,679</u>	<u>\$457,783</u>	<u>\$380,213</u>	<u>\$406,587</u>	<u>\$459,583</u>
Excess of Revenues over Expenditures	<u>\$116,161</u>	<u>\$123,999</u>	<u>\$207,996</u>	<u>\$146,252</u>	<u>\$115,056</u>
OTHER FINANCING SOURCES (USES):					
Inception of installment purchase contracts	\$1,936	\$93	\$86	\$2,670	0
Sales of general fixed assets	80	1,367	6,531	117	\$187
Operating transfer-in	119,377	88,737	44,714	47,634	82,919
Operating transfer-out	<u>(252,404)</u>	<u>(204,719)</u>	<u>(250,211)</u>	<u>(213,996)</u>	<u>(185,348)</u>
Total Other Financing Sources (Uses)	<u>(\$131,011)</u>	<u>(\$114,522)</u>	<u>(\$198,880)</u>	<u>(\$163,575)</u>	<u>(\$102,242)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(14,850)	9,477	9,116	(17,323)	12,814
Fund Balance—July 1	46,964	40,266	49,743	58,859	41,536
Residual equity transfer from other fund	<u>8,152</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance—June 30	<u>\$40,266</u>	<u>\$49,743</u>	<u>\$58,859</u>	<u>\$41,536</u>	<u>\$54,350</u>

Table 12

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2002 (AUDITED)
WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2001 (AUDITED)
(in thousand dollars)**

	General Fund	Highway Fund	General Obligation Bond and Interest Redemption Fund	General Improvement Bond Fund	Other Governmental Funds	TOTALS (MEMORANDUM ONLY)	
						2001	2002
Revenues:							
Taxes.....	\$407,270	\$70,476				\$448,986	\$477,746
Special assessments.....					\$440	445	440
Licenses and permits.....	25,897	27,800			2,917	56,266	56,614
Intergovernmental.....	32,063				113,376	170,152	145,439
Charges for services.....	3,912	4,123			10,447	20,718	18,482
Fines and forfeitures.....	249	2			209	366	460
Miscellaneous:							0
Reimbursements and recoveries.....	76,706	144			23	87,264	76,873
Interest.....	7,519		\$1,516		1,051	15,234	10,086
Other—primarily rents, concessions, trust receipts.....	21,023	4,358	85		12,733	21,663	38,199
Total revenues.....	<u>\$574,639</u>	<u>\$106,903</u>	<u>\$1,601</u>	<u>\$0</u>	<u>\$141,196</u>	<u>\$821,094</u>	<u>\$824,339</u>
Expenditures:							
Current:							
General government.....	\$95,817	\$10,680			\$8,817	\$104,720	\$115,314
Public safety.....	199,990	20,233			4,051	217,504	224,274
Highways and streets.....	5,768	9,352			2	14,976	15,122
Sanitation.....		446			45	482	491
Health and human resources.....	14,579				50,326	68,986	64,905
Culture and recreation.....	41,339				17,071	55,555	58,410
Urban redevelopment and housing.....					0	0	0
Utilities or other enterprises.....		1,452			22,341	23,621	23,793
Miscellaneous:							0
Retirement and health benefits.....	81,647	9,100			3,633	60,158	94,380
Other.....	18,926	1,300			151	15,774	20,377
Capital Outlay.....				\$153,519	104,347	203,714	257,866
Debt service:							0
Principal retirement.....	1,207		\$26,151		370	147,703	27,728
Interest charges.....	310		80,766		129	77,896	81,205
Total expenditures.....	<u>\$459,583</u>	<u>\$52,563</u>	<u>\$106,917</u>	<u>\$153,519</u>	<u>\$211,283</u>	<u>\$991,089</u>	<u>\$983,865</u>
Revenues over (under) Expenditures.....	<u>\$115,056</u>	<u>\$54,340</u>	<u>(\$105,316)</u>	<u>(\$153,519)</u>	<u>(\$70,087)</u>	<u>(\$169,995)</u>	<u>(\$159,526)</u>
Other financing sources (uses):							
Proceeds of general obligation bonds.....				\$153,015	\$52,000	\$150,060	\$205,015
Proceeds of general obligation refunding bonds.....			\$90,584			9,300	90,584
Proceeds of revenue bonds with accrued interest.....							0
Proceeds of long-term notes.....					1,119		1,119
Inception of installment purchase contracts.....						2,670	0
Sales of general fixed assets.....	\$187	\$345				283	532
Payment to refunded bond escrow agent.....							0
Insurance cost.....							0
Payment of refunded bonds.....			(90,584)			(9,300)	(90,584)
Operating transfers in.....	82,919		105,316		23,674	221,828	211,909
Operating transfers out.....	(185,348)	(45,303)			(22,614)	(288,503)	(253,265)
Other.....							0
Total Other Financing Sources (Uses).....	<u>(\$102,242)</u>	<u>(\$44,958)</u>	<u>\$105,316</u>	<u>\$153,015</u>	<u>\$54,179</u>	<u>\$86,338</u>	<u>\$165,310</u>
Revenues and Other Sources over (under) Expenditures and Other Uses.....	\$12,814	\$9,382	\$0	(\$504)	(\$15,908)	(\$83,657)	\$5,784
Fund balances—July 1.....	41,536	17,702		13,469	101,801	\$180,631	174,508
Residual equity transfers from (to) other funds.....							0
Fund balances—June 30.....	<u>\$54,350</u>	<u>\$27,084</u>	<u>\$0</u>	<u>\$12,965</u>	<u>\$85,893</u>	<u>\$96,974</u>	<u>\$180,292</u>

Table 13

**CITY AND COUNTY OF HONOLULU
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 For Fiscal Years Ended June 30, 1999 through June 30, 2002
 (in thousand dollars)**

	(Audited) FY Ended <u>June 30, 1999</u>	(Audited) FY Ended <u>June 30, 2000⁽¹⁾</u>	(Audited) FY Ended <u>June 30, 2001</u>	(Audited) FY Ended <u>June 30, 2002⁽²⁾</u>
REVENUES:				
Taxes	\$466,115	\$461,255	\$448,986	\$477,746
Special assessments	537	447	445	440
Licenses and permits	46,357	55,157	56,266	56,614
Intergovernmental revenues	130,128	165,189	170,152	145,439
Charges for services	141,828	20,489	20,718	18,482
Fines and forfeitures	456	477	366	460
Miscellaneous	260,965	407,685	316,265	454,633
Total revenues	<u>\$1,046,386</u>	<u>\$1,110,699</u>	<u>\$1,013,198</u>	<u>\$1,153,814</u>
EXPENDITURES:				
Current:				
General government	\$229,670	\$348,481	\$282,406	\$430,133
Public safety	198,273	202,353	218,724	225,186
Highways and streets	24,006	14,980	15,051	15,138
Sanitation	82,620	1,083	1,043	856
Health and human resources	67,243	63,892	70,991	66,990
Culture and recreation	56,142	68,861	64,975	68,201
Utilities or other enterprises	9,688	20,582	23,648	23,865
Miscellaneous	115,463	76,581	75,932	114,757
Capital Outlay	143,749	198,031	203,714	257,866
Debt service:				
Principal retirement	68,501	69,417	147,703	27,728
Interest charges	83,280	75,982	77,896	81,205
Total expenditures	<u>\$1,078,635</u>	<u>\$1,140,243</u>	<u>\$1,182,083</u>	<u>\$1,311,925</u>
Revenues over (under) Expenditures	<u>(\$32,249)</u>	<u>(\$29,544)</u>	<u>(\$168,885)</u>	<u>(\$158,111)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of general obligation bonds	\$150,000	\$111,500	\$150,060	\$205,015
Proceeds of general obligation refunding bonds	614,474	38,500	9,300	90,584
Proceeds of revenue bonds with accrued interest	27,345			
Proceeds of long-term notes	10,999	6,094		1,119
Inception of installment purchase contracts	93	86	2,670	
Sales of general fixed assets	10,189	18,006	283	532
Operating transfers in	277,672	230,941	221,828	211,909
Operating transfers out	(321,659)	(348,236)	(288,503)	(253,265)
Payment to refunding bond escrow agent	(614,474)			
Insurance cost		(918)		
Expenditures for refunded bonds		(43,500)	(9,300)	(90,584)
Other				
Total Other Financing Sources (Uses)	<u>\$154,639</u>	<u>\$12,473</u>	<u>\$86,338</u>	<u>\$165,310</u>
Revenues and Other Sources over (under)				
Expenditures and Other Uses	\$122,390	(\$17,071)	(\$82,547)	\$7,199
Fund balances--July 1	275,417	240,421	210,015	205,002
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>

⁽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, 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. Three bargaining units either have gone or will shortly go to final or binding arbitration: firefighters have been awarded a two-year contract ending on June 30, 2005; The firefighters settled on a two-year agreement ending June 30, 2005; police have finished arbitration and later this year will receive a four-year contract ending June 30, 2007; and institutional, health and correctional workers will be going into final and binding arbitration later this year. 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. 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. The actuarial cost method used to calculate employer contributions was changed by said Act 327 from the frozen initial liability method. As of June 30, 2002, the total unfunded liability was \$1,865 million (represents the funding for all state and county workers), excluding the early incentive retirement program costs. The City and County's estimated share of the unfunded actuarial liability was \$278.3 million and the Board of Water Supply's was \$19 million.

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 five Fiscal Years, exclusive of costs for employees of the Board of Water Supply, was \$57,133,400 for 1998, \$32,333,500 for 1999, \$10,285,300 for 2000, \$1,070,400 for 2001 and \$34,385,900 for 2002, 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, 2002, there were no pensioners and 14 beneficiaries under these pensions. Such unfunded payments amounted to \$108,496 for 1998, \$100,269 for 1999, \$92,780 for 2000, \$78,561 for 2001 and \$67,699 for 2002. 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, 2000, June 30, 2001 and June 30, 2002, judgments against the City and County paid from the General and Highway Funds amounted to \$2,589,518, \$2,799,841.86 and \$4,763,233, respectively.

The City and County is subject to several claims arising from its change in the designation of certain parcels of land in East Honolulu from residential to conservation in order to prevent development. The matters are the subject of current litigation. Estimates of the amount of damages vary widely, depending on the basis for valuing the property. While the City and County cannot predict its ultimate liability with respect to these claims, the City and County does not believe that they will have a material adverse effect on its 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, 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 the opinion of Bond Counsel for the Bonds is set forth in Appendix C hereto.

The amount (if any) by which the amount (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) to be paid at maturity of any maturity of the Bonds exceeds the issue price of such Bonds constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income 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. 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 purchasers 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 greater 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 purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium allocable to such purchaser. 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 covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. 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 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) 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 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 Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of 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 Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

APPROVAL OF LEGAL PROCEEDINGS

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 C 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 Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

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 Policy insuring the payment of the principal of and interest on the Bonds will be issued by MBIA Insurance Corporation. 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 underwriters set forth on the cover page of this Official Statement (the "Underwriters"). The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$259,266,464.60 (equal to the principal amount of the Bonds, plus net premium of \$10,421,709.60, less an underwriting discount of \$1,155,245.00). The bond purchase contract with respect to the Bonds provides that the Underwriters will purchase all the Bonds if any are purchased.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the 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 Underwriters to purchase the Bonds. The form of the Master Continuing Disclosure Certificate and the proposed form of the Series Certificate for the Series 2003A Bonds are contained in Appendix D.

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

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City and County of Honolulu
General Purpose Financial Statements
For the Fiscal Years Ended June 30, 2002 (Audited)

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Report of Independent Accountants

To the Chair and Members of the
City Council
City and County of Honolulu
Honolulu, Hawaii

We have audited the accompanying basic financial statements of the City and County of Honolulu, State of Hawaii (City), as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our report dated December 26, 2001, we expressed an opinion that, except for the effects on the financial statements for certain adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the carrying value of the inventories of materials and supplies and related expense, the fiscal 2001 financial statements fairly presented the financial position, results of operations and cash flows of its proprietary funds (Sewer Fund) in conformity with accounting principles generally accepted in the United States of America. As described in Note 12, the City has adjusted its July 1, 2001 net assets to correct the carrying value of the inventories of materials and supplies and related expense.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Honolulu, State of Hawaii, as of June 30, 2002, and the changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As also described in Notes 12 and 16, the City has adjusted its July 1, 2001 net assets to properly include certain previously excluded capital assets owned by certain proprietary funds, together with the related depreciation expense and to correct the accounting for customer advances of the component unit.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1 to the financial statements, the City has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," effective July 1, 2001.

The management's discussion and analysis and budgetary comparison information on pages 17 through 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents under other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
March 21, 2003

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) is designed to provide an overview of the financial performance of the City and County of Honolulu for the fiscal year ended June 30, 2002. The information presented in this MD&A should be considered in conjunction with the letter of transmittal in the Introductory Section of this report and the financial statements that follow this subsection.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2002

- The City's net assets, excess of assets over liabilities, amounted to \$1.2 billion. Of this amount, \$143.5 million is unrestricted. The unrestricted net assets of the City's governmental activities are \$79.6 million and may be used to meet the City's ongoing obligations to citizens and creditors. The unrestricted net assets of the City's business type activities are \$63.9 million and may be used to meet the ongoing obligations of the City's housing, sewer, solid waste, and public transportation business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$180.3 million.
- Total fund balance in the General Fund increased \$12.8 million for the year ended June 30, 2002. The General Fund reported total fund balance of \$54.3 million of which \$35.2 million was unreserved at the end of the current fiscal year.
- The capital assets for the governmental activities amounted to \$1.6 billion at June 30, 2002.
- The City's net debt applicable to the legal debt margin of \$10.5 billion was \$1.3 billion for the fiscal year ended June 30, 2002.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide a broad overview of the City's finances, in a manner similar to the private sector. Accordingly, it provides both long-term and short-term information about the City's financial status.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as an indicator as to whether the financial position of the City is improving or deteriorating.

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of activities* presents how the City's net assets changed during the current fiscal year. Revenues and expenses are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As such, the statement includes information for some items that will result in cash flows in the future fiscal periods (e.g. uncollected taxes).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that recover all or a significant portion of its costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, community service, sanitation, culture and recreation. The business-type activities of the City include four enterprise activities: housing, sewer, solid waste and public transportation. The governmental activities and the business-type activities comprise the City's primary government.

The City's government-wide financial statements include separate component unit reporting for the semi-autonomous operations of the Board of Water Supply. The focus of the government-wide statements are clearly on the primary government, however, the presentation allows the user to address the relative relationship with the component unit. Complete financial statements of the Board of Water Supply, which include its MD&A, may be obtained from the Board of Water Supply at 630 South Beretania Street, Honolulu, Hawaii 96843.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

The City maintains 30 individual governmental funds, which are categorized as major and non-major. The major category always includes the General Fund. The other major funds consist of the Highway Fund, General Obligation Bond and Interest Redemption Fund, and General Improvement Bond Fund. The other major funds are those funds whose revenues, expenditures, assets, or liabilities are at least 10% of corresponding totals for all governmental funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. For the major funds, information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Information for the other 26 funds are included in the non-major category and are combined into a single, aggregated presentation in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report.

Proprietary Funds. Enterprise services for which the City charges fees to customers are reported as proprietary funds. Like the government-wide financial statements, the proprietary fund statements report long-term and short-term financial information.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, the Financial Section of this report presents certain required supplementary information.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. The individual fund statements and schedules can be found following the combining statements of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE)

In accordance with GASB Statement No. 34, the City is not required to restate prior periods for the purpose of providing comparative information. However, in future years, when prior year information is available, a comparative analysis of government-wide information will be presented.

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$1.2 billion, excluding its component unit, at the close of the 2002 fiscal year.

**CITY AND COUNTY OF HONOLULU
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The largest portion of the City's net assets (83.4%) reflects its investment in capital assets (i.e., land, construction work in progress, buildings and improvements, equipment and machinery, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (4.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$143.5 million in unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Although the total unrestricted net assets is \$143.5 million, the unrestricted net assets of the City's business-type activities (\$63.9 million) may not be used to fund governmental unrestricted activities.

The following is a summary of the City's (primary government) net assets as of June 30, 2002:

**Summary Statement of Net Assets
(Amounts in millions)**

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	\$ 304.8	\$ 344.0	\$ 648.8
Capital assets	1,570.8	1,647.3	3,218.1
Total assets	<u>1,875.6</u>	<u>1,991.3</u>	<u>3,866.9</u>
Noncurrent liabilities	1,458.6	1,078.5	2,537.1
Other liabilities	60.6	68.9	129.5
Total liabilities	<u>1,519.2</u>	<u>1,147.4</u>	<u>2,666.6</u>
Net assets:			
Invested in capital assets, net of debt	275.5	725.5	1,001.0
Restricted	1.3	54.5	55.8
Unrestricted	79.6	63.9	143.5
Total net assets	<u>\$ 356.4</u>	<u>\$ 843.9</u>	<u>\$ 1,200.3</u>

**CITY AND COUNTY OF HONOLULU
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following are the key elements of the changes in the City's net assets for the 2002 fiscal year:

	Changes in Net Assets (Amounts in millions)		
	Governmental Activities	Business-type Activities	Total Primary Government
Revenues			
Program revenues:			
Charges for services	\$116.0	\$235.0	\$ 351.0
Operating grants and contributions	79.5	--	79.5
Capital grants and contributions	41.3	63.6	104.9
General revenues:			
Property taxes	381.3	--	381.3
Other taxes	95.8	--	95.8
Other	54.9	18.8	73.7
Total revenues	768.8	317.4	1,086.2
Expenses			
General government	141.3	--	141.3
Public safety	221.4	--	221.4
Highways and streets	61.2	--	61.2
Sanitation	0.6	--	0.6
Health and human resources	81.6	--	81.6
Culture and recreation	76.0	--	76.0
Utilities	48.8	--	48.8
Retirement and health benefits	93.8	--	93.8
Miscellaneous	34.1	--	34.1
Interest	54.9	--	54.9
Housing	--	13.3	13.3
Sewer	--	112.7	112.7
Solid waste	--	126.8	126.8
Public transportation	--	148.3	148.3
Total expenses	813.7	401.1	1,214.8
Decrease before transfers	(44.9)	(83.7)	(128.6)
Transfers	(41.4)	41.4	--
Change in net assets	(86.3)	(42.3)	(128.6)
Net assets – beginning	442.7	886.2	1,328.9
Net assets – ending	\$356.4	\$843.9	\$1,200.3

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

Total revenues for the primary government amounted to \$1.1 billion of which \$768.8 million pertained to governmental activities and \$317.4 million was for business-type activities. On the other hand, expenses for the primary government totaled \$1.2 billion of which \$813.7 million applied to governmental activities and \$401.1 million related to business-type activities. Depreciation expense amounted to \$47.6 million and \$65 million for the governmental activities and business-type activities, respectively, and is reflected in the expenses on page 21.

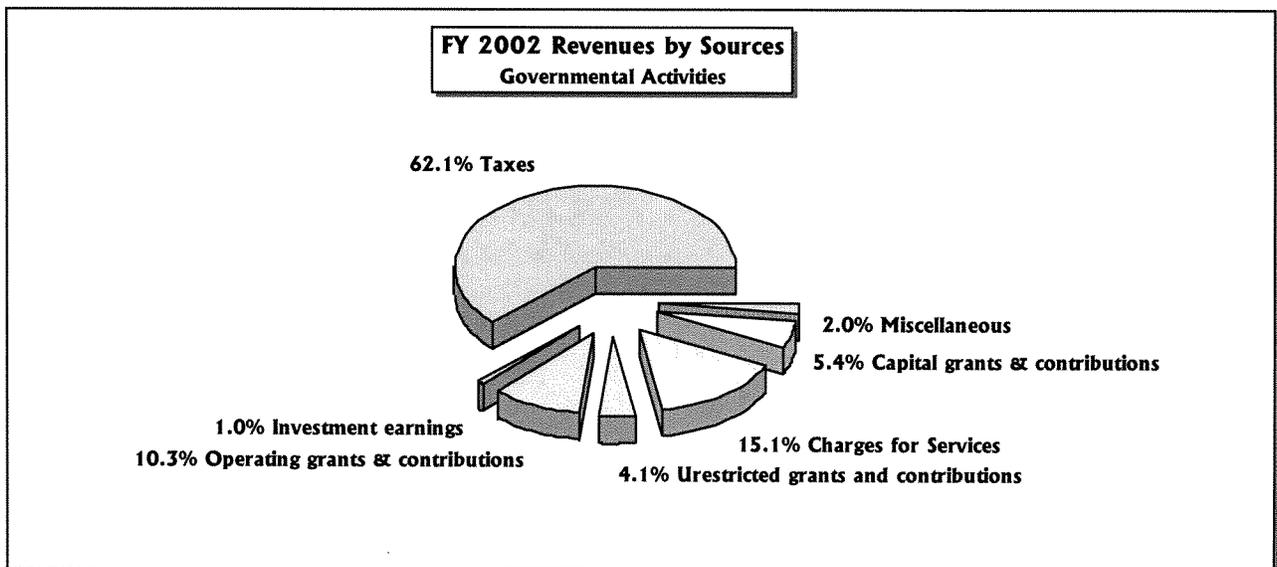
Statement of Activities

As noted earlier, the *statement of activities* presents how the City's net assets changed during the current fiscal year. Revenues and expenses are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As such, the statement includes information for some items that will result in cash flows in the future fiscal periods (e.g. uncollected taxes).

Governmental Activities

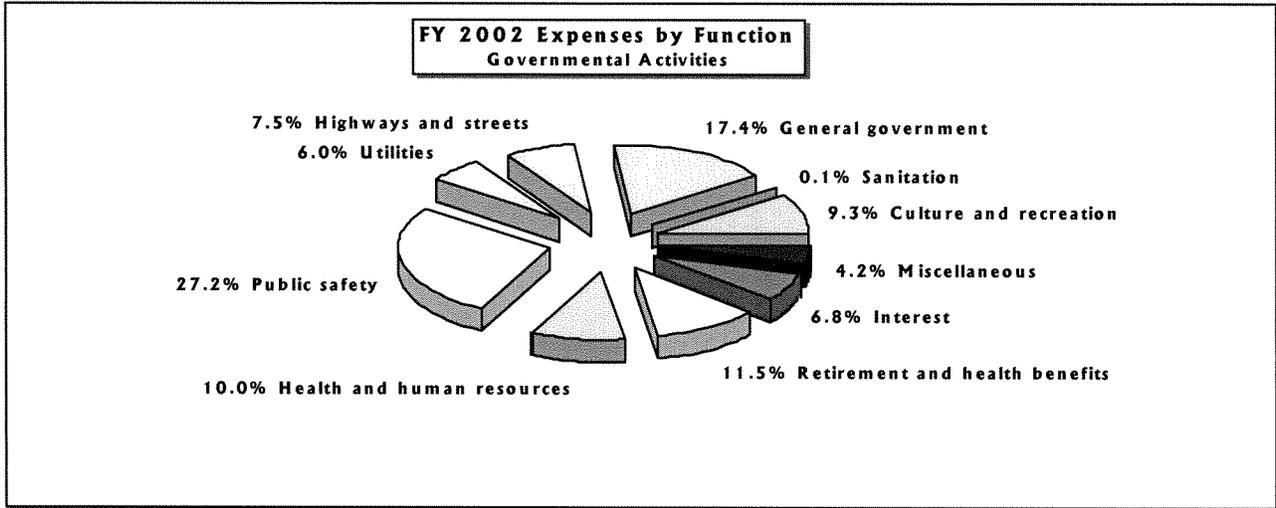
Governmental activities decreased the City's net assets by \$86.3 million in fiscal year 2002. Key elements of the decrease in net assets were depreciation expense for capital assets, unexpected high retirement benefits expense, increase in costs for normal wage and inflation expenses, and the costs of providing increased level of services while not raising tax rates.

Revenues. As indicated in the Revenues by Sources exhibit below, taxes amounted to 62.1% of revenues for governmental activities. More specifically, real property taxes accounted for 49.6% or \$381.3 million of the revenues for governmental activities.



CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

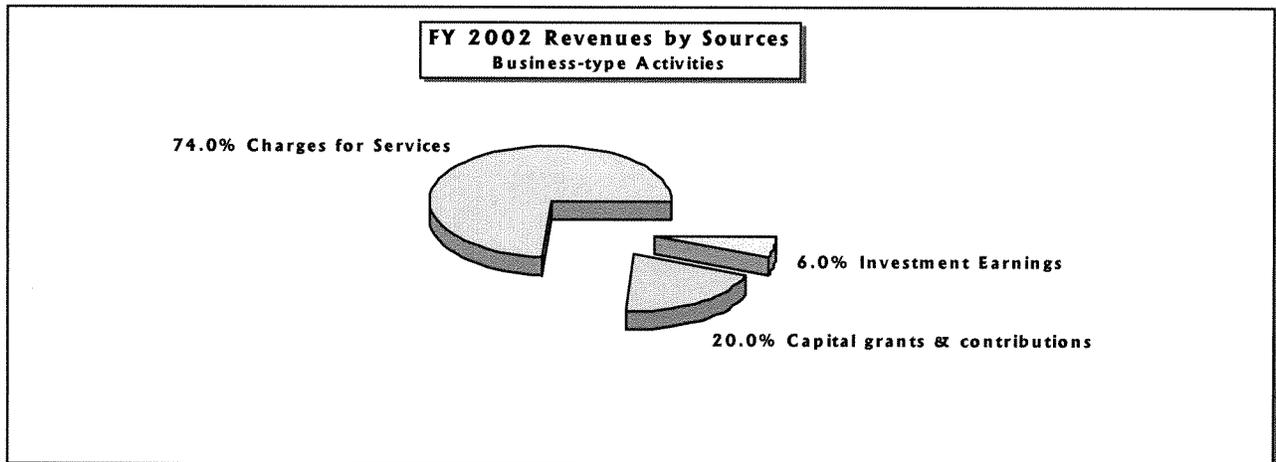
Expenses. The City spent \$221.4 million or 27.2% of the governmental activities budget on public safety, \$141.3 million or 17.4% on general government and \$93.8 million or 11.5% on retirement and health benefits as displayed below on the exhibit of expenses by function.



Business-type Activities

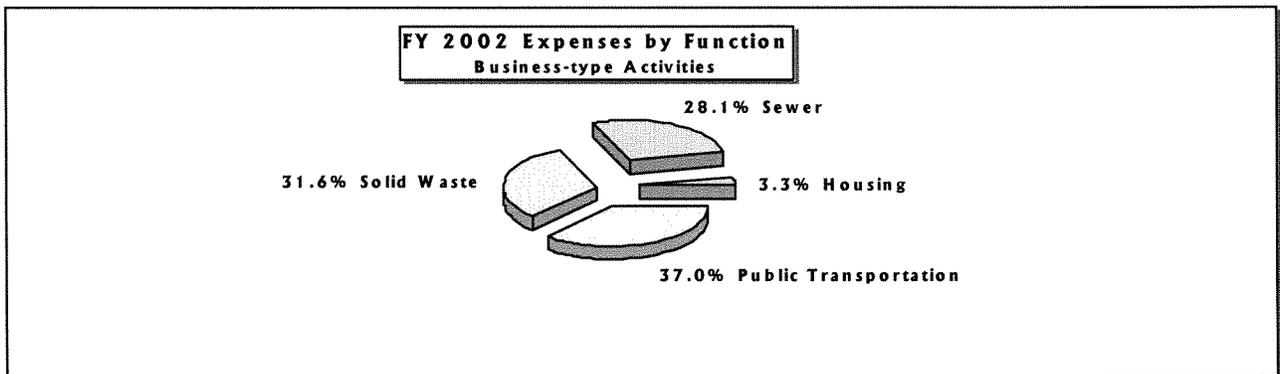
Business-type activities decreased the City's net assets by \$42.3 million. The decrease is primarily due to holding the key user fees stable despite increase in costs for normal wage and inflation expenses and the costs of expanded services, and to the transfer of funds.

Revenues. The exhibit below indicates that charges for services provided 74% of the revenues for business-type activities. Charges for services totaled \$235 million and can be disaggregated as follows: housing (\$12 million), sewer (\$113.8 million), solid waste (\$76.9 million) and public transportation (\$32.3 million).



CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses. As displayed in the exhibit below, business-type activities with the most expenses are public transportation (37%), solid waste (31.6%) and sewer (28.1%). The public transportation (bus and handi-van) operations were subsidized by the governmental activities in the amount of \$75.4 million for fiscal year 2002.



FINANCIAL ANALYSIS OF THE CITY GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**CITY AND COUNTY OF HONOLULU
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As of the end of the 2002 fiscal year, the City's governmental funds reported combined increase in fund balances of \$5.8 million as indicated below.

**Changes in Fund Balances
(Amounts in millions)**

	General Fund	Highway Fund	General Obligation Bond and Interest Redemption Fund	General Improvement Bond Fund	All Other Funds	Total
Revenues:						
Taxes	\$ 407.3	\$ 70.4	\$ --	\$ --	\$ --	\$477.7
Other	167.3	36.5	1.6	--	141.2	346.6
Total revenues	574.6	106.9	1.6	--	141.2	824.3
Expenditures	459.6	52.5	106.9	153.5	211.3	983.8
Subtotal	115.0	54.4	(105.3)	(153.5)	(70.1)	(159.5)
Transfers and other	(102.2)	(45.0)	105.3	153.0	54.2	165.3
Change in Fund Balance	\$ 12.8	\$ 9.4	\$ --	\$ (0.5)	\$(15.9)	\$ 5.8

The above changes in fund balances for the governmental funds differ from the changes in net assets for governmental activities on page 21. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported in the changes in net assets as described on page 37.

General Fund.

The general fund is the chief operating fund of the City. At June 30, 2002, unreserved fund balance of the general fund was \$35.2 million, while total fund balance was \$54.3 million. The total fund balance in the General Fund of the City increased \$12.8 million during fiscal year 2002.

Real property taxes, the primary general fund revenue source, rose 0.6% (\$2.4 million) compared to the prior year. The increase was due to a slight increase in assessed valuations on real property. Due to enabling State of Hawaii legislation effective July 1, 2001, public service company taxes were collected and amounted to \$24.8 million for fiscal year 2002.

Highway Fund.

The highway fund includes special revenue proceeds that have been earmarked by law for highway and related activities. Major revenue sources include the City fuel tax, vehicle weight tax and public

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

utility franchise tax. At June 30, 2002, the highway fund's total fund balance was \$27.1 million, of which \$25.6 million was unreserved. During the 2002 fiscal year, the total fund balance in the highway fund increased by \$9.4 million. The increase was due primarily to overall higher revenues (fiscal year 2002 revenues increased \$4 million over fiscal year 2001) combined with a decrease in expenditures for general government, highways and streets.

General Obligation Bond and Interest Redemption Fund.

The general obligation bond and interest redemption fund accounts for principal and interest payments on general obligation serial bonds that have been issued by the City. At June 30, 2002, the fund had matured bonds and interest payable of \$359,000.

General Improvement Bond Fund.

The general improvement bond fund consists of maturing City improvement district assessment bonds and special assessment collections. At June 30, 2002, the total fund balance was \$13 million. The fund balance includes \$331.3 million for encumbered contracts underway and is offset by an unreserved capital projects funds deficit of \$318.3 million, which will be eliminated as encumbrances are liquidated.

All Other Funds.

All other funds consist of the City's nonmajor governmental funds. The \$15.9 million decrease in fund balance is primarily attributable to the excess of expenditures and other uses over revenues and other sources for the Federal Grants Fund, Highway Improvement Bond Fund, Federal Grants Fund and Capital Projects Fund. The current year deficiency for the nonmajor funds is offset by the beginning fund balance of \$101.8 million and results in an ending fund balance of \$85.9 million.

Proprietary Funds

The City's proprietary funds are reported in the fund financial statements and as business-type activities in the government-wide financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant differences between the original budget and the final amended budget. Changes between the original and final amended budget represent appropriation transfers within the General Fund, resulting in no total difference between the original and final budget.

For fiscal year 2002, actual revenues exceeded budgetary estimates by \$8.3 million or 1.5%. The majority of this difference is in tax revenues. Actual expenditures were less than budgetary estimates by \$22.3 million or 4.5%. The favorable variance was created by expenditure control measures. The net effect of over-realization of revenues and under-utilization of appropriations resulted in a favorable variance of \$30.6 million, thus eliminating the need to draw upon existing fund balance.

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, amounted to \$1.6 billion for governmental activities and \$3.2 billion for the primary government as of June 30, 2002. This investment in capital assets includes land, construction work in progress, buildings and improvements, equipment and machinery and infrastructure.

Some of the major capital asset events for the governmental funds during the 2002 fiscal year included the completion of construction of the Kapolei Civic Center (\$23.6 million), acquisition of the Pearl Harbor Historic Trail Park (\$8.2 million), purchase of land at the Halawa Corporation Yard (\$5.6 million), Waimea Falls land acquisition (\$5.1 million), and purchase of an IBM mainframe system (\$2.5 million).

The following is a summary of the capital assets for governmental activities as of June 30, 2002:

Governmental Activities Summary of Capital Assets (Amounts in millions)

	<u>Restated Balance July 1, 2001</u>	<u>Net Additions (Deletions)</u>	<u>Balance June 30, 2002</u>
Non-depreciable assets:			
Land	\$ 406.5	\$ 24.0	\$ 430.5
Construction work in progress	217.3	9.5	226.8
Other capital assets:			
Buildings and improvements	631.2	112.3	743.5
Equipment and machinery	193.7	22.9	216.6
Infrastructure	675.9	3.7	679.6
Less: accumulated depreciation	(683.3)	(43.0)	(726.3)
Net	<u>\$1,441.3</u>	<u>\$129.4</u>	<u>\$1,570.7</u>

Additional information on the City's capital assets can be found in notes of this report.

Long-Term Debt

At the end of the 2002 fiscal year, the City's long-term debt consisted of the following: total bonded debt outstanding of \$2.2 billion, notes payable of \$95 million, capital lease obligations of \$1.2 million and various installment purchase contracts of \$2.6 million. Of the total bonded debt, \$575.5 million represent revenue bonds secured solely by specified revenue sources, and \$1.7

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

million comprise special assessment debt for which the City is liable in the event of default by the property owners of the assessment.

Debt activity during the year include the following:

- \$136 million in Senior Series bonds were issued on July 15, 2001 for Wastewater System Revenue Bonds.
- \$250 million in new and refinancing general obligation bonds were issued for various capital improvement projects on December 5, 2001.
- \$54.4 million in Water Revenue Bonds were issued on March 5, 2002.
- \$26 million in low interest state revolving fund notes were secured on various dates.

Concurrent with the issuance of the aforementioned bonds, the City purchased Municipal Bond New Issue Insurance Policies from Financial Guaranty Insurance Company. The policies unconditionally guarantee the payment of principal and interest on the bonds in the event of nonpayment by the City. As a result, Moody's Investor Services Inc. and Fitch Inc. assigned ratings of Aaa and AAA, respectively, for the bonds issued during the 2002 fiscal year. Standard & Poor's Corporation rated the bonds issued on December 5, 2001 and March 5, 2002 as AAA.

The City is within all of its legal debt limitations. State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its net assessed valuation. The debt limitation for the City is \$10.5 billion for the fiscal year ended June 30, 2002. Net debt, excluding debt issued for enterprise fund activities and special assessments, applicable to legal debt margin amounted to \$1.3 billion.

Additional information on the City's debt can be found in notes of this report and in the Statistical Section.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The events of September 11, 2001 continue to have an impact on the Oahu economy. However, indicators suggest that the economy is gradually recovering. Unemployment is down; personal income, wages and salaries, and proprietors' income are up; inflation is stable; and bankruptcies have dropped. In addition, the residential real estate market grew significantly in 2002. The net assessed valuation of real property on Oahu increased 6.9% to \$74.5 billion for fiscal year 2003 from \$69.7 billion for the previous fiscal year.

All of these factors were considered in preparing the City's budgets for the 2003 fiscal year. In order to meet the objectives of the 2003 budget, the City recognized the need to continue its pattern of cost containment while pursuing new revenue sources. The budgets were balanced

CITY AND COUNTY OF HONOLULU MANAGEMENT'S DISCUSSION AND ANALYSIS

without increasing real property tax rates or sewer service charge rates. The City's operating budget for fiscal year 2003 is \$1,390.7 million, the capital improvement budget decreased from \$579.2 million in fiscal year 2002 to \$455.6 million in fiscal year 2003.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawaii 96813.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY AND COUNTY OF HONOLULU
STATEMENT OF NET ASSETS
 JUNE 30, 2002
 (Amounts in thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 4,316	\$ 73,667	\$ 77,983	\$ 16,738
Investments	213,555	200,002	413,557	83,932
Receivables (net)	94,519	38,529	133,048	15,189
Internal balances	(7,576)	7,576	--	--
Inventories	11	16,155	16,166	4,145
Deferred charges and other	--	3,929	3,929	3,146
Restricted assets:				
Cash and cash equivalents	--	816	816	8,654
Investments	--	--	--	71,417
Other	--	3,299	3,299	848
Capital assets (net of accumulated depreciation):				
Land	430,457	102,415	532,872	30,062
Buildings and improvements	496,843	520,143	1,016,986	93,918
Equipment and machinery	94,126	159,453	253,579	79,074
Infrastructure	322,527	736,970	1,059,497	605,396
Construction work in progress	226,778	128,306	355,084	126,959
Total assets	<u>1,875,556</u>	<u>1,991,260</u>	<u>3,866,816</u>	<u>1,139,478</u>
LIABILITIES				
Checks payable	15,491	2,304	17,795	--
Accounts payable	27,732	14,464	42,196	27,398
Matured bonds and interest payable ...	368	--	368	--
Accrued interest payable	17,022	18,072	35,094	1,758
Other liabilities	--	34,025	34,025	11,781
Noncurrent liabilities:				
Due within one year	76,073	53,365	129,438	780
Due in more than one year	1,382,491	1,025,137	2,407,628	120,220
Total liabilities	<u>1,519,177</u>	<u>1,147,367</u>	<u>2,666,544</u>	<u>161,937</u>
NET ASSETS				
Invested in capital assets, net of related debt	275,456	725,510	1,000,966	838,461
Restricted for:				
Capital activity	--	--	--	41,008
Debt service	1,347	54,489	55,836	2,479
Unrestricted	79,576	63,894	143,470	95,593
Total net assets	<u>\$ 356,379</u>	<u>\$ 843,893</u>	<u>\$ 1,200,272</u>	<u>\$ 977,541</u>

The notes to the financial statements are an integral part of this statement.

**CITY AND COUNTY OF HONOLULU
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2002

(Amounts in thousands)

(Page 1 of 2)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government.....	\$ 141,340	\$ 70,096	\$ 5,064	\$ 7,166
Public safety.....	221,355	9,535	3,065	1,003
Highways and streets.....	61,245	90	--	8,893
Sanitation.....	562	2	28	57
Health and human resources.....	81,607	18,334	49,112	9,272
Culture and recreation.....	75,962	17,832	254	1,190
Utilities.....	48,795	70	21,977	13,755
Retirement and health benefits...	93,819	--	--	--
Miscellaneous.....	34,153	--	--	--
Interest.....	54,943	--	--	--
Total governmental activities...	<u>813,781</u>	<u>115,959</u>	<u>79,500</u>	<u>41,336</u>
Business-type activities:				
Housing.....	13,319	12,025	--	--
Sewer.....	112,700	113,811	--	2,066
Solid Waste.....	126,807	76,854	--	3,348
Public Transportation.....	148,231	32,279	--	58,163
Total business-type activities....	<u>401,057</u>	<u>234,969</u>	<u>--</u>	<u>63,577</u>
Total primary government.....	<u>\$ 1,214,838</u>	<u>\$ 350,928</u>	<u>\$ 79,500</u>	<u>\$ 104,913</u>
Component unit:				
Board of Water Supply.....	<u>\$ 104,678</u>	<u>\$ 117,174</u>	<u>\$ --</u>	<u>\$ 11,857</u>

General revenues:

Property taxes.....	
Public service company tax.....	
Fuel tax	
Public utility franchise tax.....	
Investment earnings.....	
Unrestricted grants and contributions.....	
Harbor Court Lease to Fee Conversion.....	
Other.....	
Transfers.....	
Total general revenues and transfers.....	
Change in net assets.....	
Net assets - beginning, as restated for Business-Type Activities and Component Unit.....	
Net assets - ending.....	

The notes to the financial statements are an integral part of this statement.

**CITY AND COUNTY OF HONOLULU
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2002

(Amounts in thousands)

(Page 2 of 2)

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (59,014)	\$ --	\$ (59,014)	\$ --
(207,752)	--	(207,752)	--
(52,262)	--	(52,262)	--
(475)	--	(475)	--
(4,889)	--	(4,889)	--
(56,686)	--	(56,686)	--
(12,993)	--	(12,993)	--
(93,819)	--	(93,819)	--
(34,153)	--	(34,153)	--
(54,943)	--	(54,943)	--
<u>(576,986)</u>	<u>--</u>	<u>(576,986)</u>	<u>--</u>
--	(1,294)	(1,294)	--
--	3,177	3,177	--
--	(46,605)	(46,605)	--
--	(57,789)	(57,789)	--
--	(102,511)	(102,511)	--
<u>(576,986)</u>	<u>(102,511)</u>	<u>(679,497)</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>	<u>24,353</u>
381,330	--	381,330	--
24,821	--	24,821	--
46,728	--	46,728	--
24,217	--	24,217	--
7,519	18,828	26,347	5,554
31,588	--	31,588	--
11,971	--	11,971	--
3,858	--	3,858	--
(41,356)	41,356	--	--
<u>490,676</u>	<u>60,184</u>	<u>550,860</u>	<u>5,554</u>
(86,310)	(42,327)	(128,637)	29,907
<u>442,689</u>	<u>886,220</u>	<u>1,328,909</u>	<u>947,634</u>
<u>\$ 356,379</u>	<u>\$ 843,893</u>	<u>\$ 1,200,272</u>	<u>\$ 977,541</u>

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

MAJOR FUNDS

General Fund

This fund accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund

Highway Fund

This fund accounts for disposition of proceeds from special revenues earmarked by law for highway and related activities. Major revenue sources include the City fuel tax, vehicle weight tax and public utility franchise tax.

Debt Service Fund

General Obligation Bond and Interest Redemption Fund

This fund accounts for payments of principal and interest on general obligation serial bonds issued by the City.

Capital Projects Fund

General Improvement Bond Fund

This fund accounts for proceeds of general obligation bonds issued to pay all or part of those appropriations in the Capital Budget Ordinance for public improvements specified to be expended from this fund.

NONMAJOR FUNDS

Special Revenue Funds

Highway Beautification and Disposal of Abandoned Vehicles Revolving Fund

This fund accounts for receipts from each certificate of registration. These monies are expended primarily for the beautification of highways under the jurisdiction of the City and the disposition of abandoned vehicles.

Bikeway Fund

This fund accounts for the bicycle biennial registration fee, which is earmarked for operating, acquisition and other costs related to bikeways.

Parks and Playgrounds Fund

All monies received in lieu of providing land in perpetuity or dedicating land, together with facilities for park and playground purposes are recorded in this fund. These monies must be expended for the purchase of land for parks and playgrounds, park and playground equipment, and/or the improvement of existing parks and playgrounds.

Federal Revenue Sharing Fund

All monies received from the federal government under the State and Local Fiscal Assistance Act of 1972 are deposited in this fund and expended for purposes authorized by the provisions of the Act.

Governmental Fund Financial Statements (Continued)

NONMAJOR FUNDS (CONTINUED)

Special Revenue Funds (Continued)

Liquor Commission Fund

This fund accounts for all monies collected by as well as received on behalf of the Liquor Commission and used for operational and administrative costs of the Liquor Commission.

Rental Assistance Fund

This fund accounts for all net receipts from the Hale Pauahi parking structure which are expended for monthly rental assistance payments to landlords on behalf of eligible applicants.

Zoo Animal Purchase Fund

This fund accounts for the proceeds from the sale of surplus animals from the Honolulu Zoo and all donations made specifically for the purchase of animals. Funds in this account shall be expended for the acquisition of zoo animals to include shipping, insurance, travel and other related costs.

Hanauma Bay Nature Preserve Fund

This fund accounts for receipts from the entrance and vehicle admission fees to the Hanauma Bay Nature Preserve and is earmarked primarily for the operation, maintenance and improvement of the Nature Preserve.

Special Reserve Fund

This fund accounts for all monies determined to be in excess of expenditures at the end of each fiscal year. All monies deposited into this fund shall be used solely for (1) natural disaster relief, (2) unanticipated obligations to third parties, and/or (3) significant events endangering the health, welfare or safety of the residents of the island of Oahu.

Community Development Fund

Monies are provided by the federal government under the Housing and Community Development Act of 1974, as amended; the National Affordable Housing Act of 1990, as amended; monies generated as program income; and monies carried over from prior years. Funds are expended to carry out the objectives of the Acts.

Golf Fund

Receipts for this fund are derived from the operation of the City's golf facilities. All funds are expended for the management, operation and maintenance of the municipal golf courses.

Special Events Fund

This fund accounts for all revenues derived from the operation of the City's auditorium facilities, Waikiki Shell and Honolulu Zoo. All funds are expended for the operation of the Department of Enterprise Services.

Governmental Fund Financial Statements (Continued)

NONMAJOR FUNDS (CONTINUED)

Special Revenue Funds (Continued)

Farmers Home Administration Loan Fund

This fund accounts for all proceeds from the issuance and sale of bonds to the Farmers Home Administration for the purpose of financing portions of the cost of such projects as approved by the Farmers Home Administration.

Special Projects Fund

This fund accounts for all monies received under special contracts executed between the City and the State of Hawaii. Monies received from various other sources for operating and capital improvement expenditures for which no financing has been provided in other funds, such as contributions from property owners exclusive of improvement district assessment collections, are also accounted for in this fund.

Federal Grants Fund

This fund accounts for all monies received from the federal government as grants for specific projects as well as supporting monies from other sources, where such monies are not accountable in any other fund. All monies placed in the fund are maintained in separate accounts identified with, and expended for, the intended purposes.

Housing and Community Development Rehabilitation Loan Fund

This fund makes loan monies available primarily to low and moderate income applicants unable to secure or qualify for funds under the Rehabilitation Loan Program sponsored by the federal government.

Pauahi Project Expenditures, Hawaii R-15 Fund

This fund was created to facilitate financing of the Pauahi Project redevelopment plan providing for the acquisition, clearance, construction of site improvements, and sale or lease of home, apartment and commercial sites to private parties for development in accordance with said plan.

Housing and Community Development Section 8 Contract Fund

This fund accounts for all monies received from the federal government under the Housing and Community Development Act of 1974 for the purposes set forth under Title II of the Act.

Leasehold Conversion Fund

This fund accounts for all monies to assist lessees to purchase, at fair and reasonable prices, lands upon which are situated either residential condominium, cooperative housing or residential planned development.

Improvement District Revolving Fund

Monies in this revolving fund are available to cover deficiencies, advance interest due, reimburse the General Fund in the event the payment of assessments are late or insufficient, and pay all expenses in connection with the sale of delinquent lots as bid for and purchased for the City by the Director of Budget and Fiscal Services.

Governmental Fund Financial Statements (Continued)

NONMAJOR FUNDS (CONTINUED)

Special Revenue Funds (Continued)

Housing and Community Development Revolving Fund

This fund serves as a working capital fund to facilitate the expenditure of joint costs.

Municipal Stores Revolving Fund

This fund is used to finance the Municipal Stores through bulk purchases and resale of regularly used standard printed forms and various publications dealing with City matters.

Debt Service Fund

Improvement District Bond and Interest Redemption Fund

This fund accounts for the redemption of maturing City improvement district assessment bonds and collections of special assessments.

Capital Projects Funds

Highway Improvement Bond Fund

Proceeds of general obligation bonds issued to pay all or a part of those appropriations in the Capital Budget Ordinance for highway and related public improvements are accounted for in this fund.

Federal Grants Capital Projects Fund

All monies received from the federal government in the form of grants, entitlements or payments in lieu of taxes, to fund capital projects, and Federal Revenue Sharing funds appropriated for capital projects are deposited or transferred into this fund and expended for the purposes for which such monies are received or appropriated.

Capital Projects Fund

Monies received from sources other than the federal government in the form of grants, entitlements, shared revenues or payments in lieu of taxes, to fund capital projects, and City monies appropriated for capital projects are deposited or transferred into this fund and expended for the purposes for which such monies are received or appropriated. All transactions relating to acquisition of capital improvements financed by special assessments are also accounted for in this fund.

CITY AND COUNTY OF HONOLULU
GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2002

(Amounts in thousands)

	General Fund	Highway Fund	General Obligation Bond and Interest Redemption Fund	General Improvement Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments:						
With Treasury	\$ 58,128	\$ 22,306	\$ --	\$ 35,146	\$ 101,932	\$ 217,512
With fiscal agents	--	--	359	--	--	359
Receivables	17,766	17,284	--	--	59,469	94,519
Due from other funds	305	22	--	--	408	735
Inventories	--	--	--	--	11	11
Total Assets	\$ 76,199	\$ 39,612	\$ 359	\$ 35,146	\$ 161,820	\$ 313,136
LIABILITIES AND FUND BALANCES						
Liabilities:						
Checks payable	\$ 2,507	\$ 152	\$ --	\$ 6,495	\$ 6,337	\$ 15,491
Accounts payable	6,094	297	--	8,386	8,874	23,651
Accrued payroll	3,686	205	--	2	188	4,081
Due to other funds	640	--	--	7,298	373	8,311
Matured bonds and interest payable.....	--	--	359	--	9	368
Deferred revenue	8,922	11,874	--	--	60,146	80,942
Total Liabilities	21,849	12,528	359	22,181	75,927	132,844
Fund Balances:						
Reserved for:						
Encumbrances	19,191	1,533	--	331,273	327,422	679,419
Debt service	--	--	--	--	1,347	1,347
Unreserved, reported in:						
General fund	35,159	--	--	--	--	35,159
Special revenue funds	--	25,551	--	--	(2,943)	22,608
Capital projects funds	--	--	--	(318,308)	(239,933)	(558,241)
Total Fund Balances	54,350	27,084	--	12,965	85,893	180,292
Total Liabilities and Fund Balances	\$ 76,199	\$ 39,612	\$ 359	\$ 35,146	\$ 161,820	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

1,570,731

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

80,942

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,475,586)

Net assets of governmental activities

\$ 356,379

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF HONOLULU
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

	General Fund	Highway Fund	General Obligation Bond and Interest Redemption Fund	General Improvement Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes.....	\$ 407,270	\$ 70,476	\$ --	\$ --	\$ --	\$ 477,746
Special assessments.....	--	--	--	--	440	440
Licenses and permits.....	25,897	27,800	--	--	2,917	56,614
Intergovernmental.....	32,063	--	--	--	113,376	145,439
Charges for services.....	3,912	4,123	--	--	10,447	18,482
Fines and forfeits.....	249	2	--	--	209	460
Miscellaneous:						
Reimbursements and recoveries.....	76,706	144	--	--	23	76,873
Interest.....	7,519	--	1,516	--	1,051	10,086
Other.....	21,023	4,358	85	--	12,733	38,199
Total Revenues.....	574,639	106,903	1,601	--	141,196	824,339
Expenditures:						
Current:						
General government.....	95,817	10,680	--	--	8,817	115,314
Public safety.....	199,990	20,233	--	--	4,051	224,274
Highways and streets.....	5,768	9,352	--	--	2	15,122
Sanitation.....	--	446	--	--	45	491
Health and human resources.....	14,579	--	--	--	50,326	64,905
Culture-recreation.....	41,339	--	--	--	17,071	58,410
Utilities or other enterprises.....	--	1,452	--	--	22,341	23,793
Miscellaneous:						
Retirement and health benefits.....	81,647	9,100	--	--	3,633	94,380
Other.....	18,926	1,300	--	--	151	20,377
Capital Outlay:						
General government.....	--	--	--	38,450	7,927	46,377
Public safety.....	--	--	--	8,898	7,879	16,777
Highways and streets.....	--	--	--	3,329	47,611	50,940
Sanitation.....	--	--	--	--	116	116
Health and human resources.....	--	--	--	7,779	9,171	16,950
Culture-recreation.....	--	--	--	95,063	6,629	101,692
Utilities or other enterprises.....	--	--	--	--	25,014	25,014
Debt service:						
Principal.....	1,207	--	26,151	--	370	27,728
Interest.....	310	--	80,766	--	129	81,205
Total Expenditures.....	459,583	52,563	106,917	153,519	211,283	983,865
Revenues over (under) Expenditures.....	115,056	54,340	(105,316)	(153,519)	(70,087)	(159,526)
Other Financing Sources (Uses):						
Proceeds of general obligation bonds	--	--	--	153,015	52,000	205,015
Proceeds of refunding bonds	--	--	90,584	--	--	90,584
Proceeds of long-term notes	--	--	--	--	1,119	1,119
Payment of refunded bonds	--	--	(90,584)	--	--	(90,584)
Sales of general fixed assets.....	187	345	--	--	--	532
Operating transfers in.....	82,919	--	105,316	--	23,674	211,909
Operating transfers out.....	(185,348)	(45,303)	--	--	(22,614)	(253,265)
Total Other Financing Sources (Uses).....	(102,242)	(44,958)	105,316	153,015	54,179	165,310
Net change in fund balances.....	12,814	9,382	--	(504)	(15,908)	5,784
Fund Balances - July 1.....	41,536	17,702	--	13,469	101,801	174,508
Fund Balances - June 30.....	\$ 54,350	\$ 27,084	\$ --	\$ 12,965	\$ 85,893	\$ 180,292

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF HONOLULU
GOVERNMENTAL FUNDS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances--total governmental funds	\$	5,784
Governmental funds report capital outlays as expenditures. The Statement of Activities reports depreciation expense on capital assets. This is the difference between the two amounts for this year.		129,440
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		1,243
Proceeds from the issuance of long-term debt are reported as providing current financial resources in the governmental funds, but are reported as long-term debt in the government-wide financial statements. Repayment of such debt is reported as an expenditure for governmental funds but is reported as a reduction of debt in the government-wide financial statements.		(204,332)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(18,445)
Change in net assets of governmental activities	<u>\$</u>	<u>(86,310)</u>

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Financial Statements

Housing Development Special Fund

This fund accounts for monies designated for the development of housing for sale or for rental by the City. Transactions in this fund are incorporated in the special statements for the housing program.

Sewer Fund

This fund accounts for all monies received pursuant to the provisions of the Federal Water Pollution Control Act amendments of 1972 and the Hawaii Revised Statutes and expended for the purposes authorized.

Solid Waste Special Fund

This fund accounts for all revenues derived from the operation of the City's Refuse Division, solid waste disposal programs, glass recycling program, and other recycling programs. All monies placed in this fund are maintained in separate accounts identified with and expended for the intended purposes.

Public Transportation System

The Bus Transportation Fund was created for the management, operation, and maintenance of the bus transportation system, including the City bus system (TheBus) and the special transit service (The Handi-Van).

CITY AND COUNTY OF HONOLULU
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2002
 (Amounts in thousands)

	Business-type Activities-Enterprise Funds				
	Housing	Sewer	Solid Waste	Public Transportation System	Totals
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 23,392	\$ 25,643	\$ 14,672	\$ 9,960	\$ 73,667
Investments	--	142,947	57,055	--	200,002
Receivables:					
Accounts (net of allowance for uncollectibles of \$1,641 in 2002 and \$3,404 in 2001)....	2,395	16,772	12,847	--	32,014
Interest	21	985	2,008	--	3,014
Note	3,501	--	--	--	3,501
Due from other funds	--	6,858	885	--	7,743
Inventories of parts, materials and supplies, at cost (net of \$1,227 reserve for obsolescence)	--	4,710	--	6,353	11,063
Inventories of real estate held for sale	5,092	--	--	--	5,092
Prepaid expenses and other assets	16	--	404	1,748	2,168
Total Current Assets	34,417	197,915	87,871	18,061	338,264
Restricted Assets:					
Cash and cash equivalents	--	--	--	816	816
Other	3,295	--	--	4	3,299
Fixed Assets:					
Land	19,708	5,630	19,229	57,848	102,415
Buildings and improvements	108,504	396,975	52,395	50,479	608,353
Transmission and distribution system	--	787,519	--	--	787,519
Equipment and machinery	133	19,963	239,655	24,999	284,750
Buses and other transit vehicles	--	--	--	138,630	138,630
Construction work in progress	17,356	109,690	1,260	--	128,306
Accumulated depreciation	(32,555)	(84,656)	(158,369)	(127,106)	(402,686)
Deferred charges and other	1,336	--	425	--	1,761
Total Assets	\$ 152,194	\$ 1,433,036	\$ 242,466	\$ 163,731	\$ 1,991,427
LIABILITIES					
Current Liabilities:					
Checks payable	\$ 12	\$ 570	\$ 1,718	\$ 4	\$ 2,304
Accounts payable	1,314	5,984	5,016	2,150	14,464
Interest payable-current	1,590	8,127	8,355	--	18,072
Notes payable-current	--	15,591	--	--	15,591
Bonds payable-current	4,894	10,906	17,702	--	33,502
Operating fee obligation, net of note receivable	--	--	4,203	--	4,203
Due to other funds	--	111	56	--	167
Reserve for insurance claims payable	--	--	--	9,519	9,519
Accrued payroll	--	--	392	--	392
Other current liabilities	101	377	69	274	821
Total Current Liabilities	7,911	41,666	37,511	11,947	99,035
Notes payable	--	85,003	--	--	85,003
General obligation bonds payable	118,419	67,644	198,579	--	384,642
Revenue bonds payable	--	453,413	--	--	453,413
Operating fee obligation, net of note receivable	--	--	90,121	--	90,121
Estimated liability for landfill closure and postclosure care costs.....	--	--	11,958	--	11,958
Other liabilities	11,088	5,929	3,193	3,152	23,362
Total Liabilities	137,418	653,655	341,362	15,099	1,147,534
NET ASSETS					
Invested in capital assets, net of related debt	(10,166)	650,381	(59,555)	144,850	725,510
Restricted for debt service	--	54,489	--	--	54,489
Unrestricted	24,942	74,511	(39,341)	3,782	63,894
Total Net Assets (Deficit)	\$ 14,776	\$ 779,381	\$ (98,896)	\$ 148,632	\$ 843,893

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF HONOLULU
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

	Business-type Activities-Enterprise Funds				Totals
	Housing	Sewer	Solid Waste	Public Transportation System	
Operating Revenues:					
Sales of dwelling units and lots	\$ 2,525	\$ --	\$ --	\$ --	\$ 2,525
Rental income	8,330	--	3,223	--	11,553
Sewer service charges	--	112,148	--	--	112,148
Disposal and collection fees	--	--	49,717	--	49,717
Electrical energy fee	--	--	23,112	--	23,112
Passenger fares for transit services	--	--	--	31,844	31,844
Other revenue	--	1,662	802	435	2,899
Total Operating Revenues	10,855	113,810	76,854	32,279	233,798
Operating Expenses:					
Administrative and general	585	32,943	32,948	995	67,471
Maintenance	889	204	598	3	1,694
Depreciation	3,583	29,983	16,629	14,768	64,963
Contractual services	660	6,665	34,442	99,323	141,090
Supplemental operating fee	--	--	3,223	--	3,223
Fringe benefits	14	10,676	5,726	--	16,416
Materials and supplies	78	3,850	1,913	10,243	16,084
Fuel and lubricants	--	1,641	784	5,725	8,150
Insurance	142	--	1,173	8,659	9,974
State taxes - fuel	--	--	161	2,265	2,426
Utilities	911	6,754	154	1,064	8,883
Cost of sales - dwelling units and lots ...	2,247	--	--	--	2,247
Provision for losses on dwelling units and lots	2,757	--	--	--	2,757
Other	206	22	--	695	923
Total Operating Expenses	12,072	92,738	97,751	143,740	346,301
Operating Income (Loss)	(1,217)	21,072	(20,897)	(111,461)	(112,503)
Nonoperating Revenues (Expenses):					
Interest revenue	605	4,779	13,372	61	18,817
Interest expense	(1,148)	(18,208)	(28,922)	--	(48,278)
Gain (Loss) from disposal of property .	--	1	--	(4,491)	(4,490)
Amortization expense	(99)	--	(134)	--	(233)
Net increase in the fair value of investments	--	--	--	11	11
Other	1,170	(1,754)	--	--	(584)
Total Nonoperating Revenues (Expenses)	528	(15,182)	(15,684)	(4,419)	(34,757)
Income (Loss) before Operating Transfers and Capital Contributions.....	(689)	5,890	(36,581)	(115,880)	(147,260)
Operating Transfers In	148	--	46,155	75,412	121,715
Operating Transfers Out	--	(46,995)	(33,364)	--	(80,359)
Capital Contributions	--	2,066	3,348	58,163	63,577
Change in Net Assets	(541)	(39,039)	(20,442)	17,695	(42,327)
Net Assets - July 1 as previously reported.	15,317	612,449	(78,454)	110,948	660,260
Prior period adjustment.....	--	205,971	--	19,989	225,960
Net Assets - July 1 as restated.....	15,317	818,420	(78,454)	130,937	886,220
Net Assets - June 30	\$ 14,776	\$ 779,381	\$ (98,896)	\$ 148,632	\$ 843,893

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF HONOLULU
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

(Page 1 of 2)

	Business-type Activities-Enterprise Funds				Totals
	Housing	Sewer	Solid Waste	Public Transportation System	
Cash flows from operating activities:					
Receipts from customers.....	\$ 8,747	\$ 113,200	\$ 73,093	\$ 32,152	\$ 227,192
Payments to suppliers.....	(2,608)	(59,055)	(51,338)	(127,372)	(240,373)
Payments to employees.....	--	--	(18,110)	(941)	(19,051)
Payments for interfund services used.....	--	(1,661)	(1,257)	--	(2,918)
Other receipts (payments).....	1,170	(75)	(5,456)	--	(4,361)
Net cash provided by (used in) operating activities	7,309	52,409	(3,068)	(96,161)	(39,511)
Cash flows from noncapital financing activities:					
Operating transfers in	51	--	46,119	75,412	121,582
Operating transfers out	--	(46,995)	(33,363)	--	(80,358)
Contributions	--	--	--	21,788	21,788
Net cash provided by (used in) noncapital financing activities	51	(46,995)	12,756	97,200	63,012
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(443)	(71,380)	(231)	(251)	(72,305)
Proceeds from issuing notes	--	26,022	--	--	26,022
Principal paid on operating fee obligation	--	--	(16,873)	--	(16,873)
Interest paid on operating fee obligation	--	--	(13,740)	--	(13,740)
Proceeds from issuing bonds	--	134,397	2,000	--	136,397
Principal paid on notes	--	(4,441)	--	--	(4,441)
Principal paid on bonds	(4,869)	(1,012)	(16,683)	--	(22,564)
Interest paid on notes	--	(2,573)	--	--	(2,573)
Interest paid on bonds	(5,903)	(21,563)	(13,409)	--	(40,875)
Contributed capital	--	--	--	383	383
Net cash provided by (used in) capital and related financing activities	(11,215)	59,450	(58,936)	132	(10,569)
Cash flows from investing activities:					
Purchase of investments	(263,100)	(465,309)	(165,592)	(3,296)	(897,297)
Proceeds from maturities of investments	263,100	387,639	150,447	6,127	807,313
Principal received on notes receivable ...	593	--	13,106	--	13,699
Interest received on notes receivable	1	--	11,025	--	11,026
Withdrawals from restricted assets	1,159	--	--	--	1,159
Interest on investments	567	4,476	2,959	61	8,063
Net cash provided by (used in) investing activities	2,320	(73,194)	11,945	2,892	(56,037)
Net increase (decrease) in cash and cash equivalents	(1,535)	(8,330)	(37,303)	4,063	(43,105)
Cash and cash equivalents - July 1	24,927	33,973	51,975	6,713	117,588
Cash and cash equivalents - June 30	<u>\$ 23,392</u>	<u>\$ 25,643</u>	<u>\$ 14,672</u>	<u>\$ 10,776</u>	<u>\$ 74,483</u>
(Public Transportation includes \$816 in cash and cash equivalents in restricted assets)					

CITY AND COUNTY OF HONOLULU
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

(Page 2 of 2)

	Business-type Activities-Enterprise Funds				Totals
	Housing	Sewer	Solid Waste	Public Transportation System	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (1,217)	\$ 21,072	\$ (20,897)	\$ (111,461)	\$ (112,503)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for losses on dwelling units and lots	2,757	--	--	--	2,757
Depreciation	3,583	29,983	16,629	14,768	64,963
Other revenues	1,223	--	201	--	1,424
Writeoff of capital assets	--	4,464	--	--	4,464
(Increase) decrease in accounts receivable	(2,108)	(366)	2,269	--	(205)
Increase in due from other funds	--	(1,661)	(1,734)	--	(3,395)
(Increase) decrease in parts, materials and supplies	--	(429)	--	1,130	701
Decrease in real estate held for sale	2,023	--	--	--	2,023
Increase in prepaid expenses and other assets	(16)	--	(39)	(81)	(136)
Increase (decrease) in trade accounts and checks payables	1,209	(1,114)	(1,241)	(340)	(1,486)
Increase in reserve for insurance claims payable	--	--	--	1,745	1,745
Increase (decrease) in deferred credits	(145)	--	59	(127)	(213)
Increase (decrease) in other liabilities	--	349	24	(1,795)	(1,422)
Increase in due to other funds	--	111	1,661	--	1,772
Net cash provided by (used in) operating activities	<u>\$ 7,309</u>	<u>\$ 52,409</u>	<u>\$ (3,068)</u>	<u>\$ (96,161)</u>	<u>\$ (39,511)</u>

Supplemental disclosure of noncash capital and related financing activities (amounts in thousands):

Housing

Amortization of deferred refinancing charges amounted to \$99 for the year ended June 30, 2002.

Sewer

The Sewer Fund received approximately \$2,066 in contributions of capital assets from government agencies and developers which are recorded as contributed capital at their cost or estimated cost for the year ended June 30, 2002.

Solid Waste

Amortization of bond discount amounted to \$134 for the year ended June 30, 2002.
 Solid Waste received contributions of fixed assets from the City and County of Honolulu amounting to \$3,505 for the year ended June 30, 2002.

Public Transportation System

The Public Transportation System received contributions of fixed assets from the City and County of Honolulu amounting to \$35,992 for the year ended June 30, 2002.

Fiduciary Fund Financial Statements

General Trust Fund

This fund accounts for monies received by the various agencies of the City for specific purposes, as trustee, escrow agent, custodian or security holder, for which no special fund exists.

Treasury Trust Fund

Receipts and disbursements of monies from this fund are made through commercial checking accounts authorized by the Director of Budget and Fiscal Services.

Real Property Tax Trust Fund

This fund is used for the purpose of making refunds and adjustments relating to real property taxes.

CITY AND COUNTY OF HONOLULU
STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2002
 (Amounts in thousands)

	Private-purpose Trust Funds	Agency Fund
<u>ASSETS</u>		
Cash and cash equivalents	\$ 33,207	\$ 4,501
Investments	1,643	--
Other current assets	1,164	--
Total assets	36,014	4,501
<u>LIABILITIES</u>		
Checks payable	100	2,785
Accounts payable	4,005	--
Other current liabilities	--	1,716
Total liabilities	4,105	4,501
<u>NET ASSETS</u>		
Held in trust for individuals, organizations and other governments	\$ 31,909	\$ --

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF HONOLULU
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2002
 (Amounts in thousands)

	Private-purpose Trust Funds
<u>ADDITIONS</u>	
Interest	\$ 118
Collections for sundry creditors, contributions, etc.....	329,357
Total additions	329,475
<u>DEDUCTIONS</u>	
Payments in accordance with trust agreements	328,060
Total deductions	328,060
Change in net assets	1,415
Net assets - July 1	30,494
Net assets - June 30	\$ 31,909

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

The City and County of Honolulu, State of Hawaii (City) is a municipal corporation governed by an elected mayor and a nine-member City Council. The City operates under a City Charter, which was originally adopted in 1959 and last amended in 1998.

The accompanying financial statements present the operations of the City, as primary government, as well as its discretely presented component unit, the Board of Water Supply.

The City's operations are organized by the following general functions: general government, public safety, highways and streets, sanitation, health and human resources, culture and recreation, urban redevelopment and housing, and utilities or other enterprises.

State of Hawaii (State) agencies assume full responsibility for several major functions usually performed by local governments such as education, welfare, health and judicial functions. These agencies are not dependent on the City and therefore, are not included in these financial statements. There are no separate city, county or township governments nor any school district, special districts, authorities or public corporations with overlapping authority presented in the accompanying financial statements.

Discretely Presented Component Unit – The component unit column in the financial statements includes the financial data of the City's discretely presented component unit, the Board of Water Supply (Board), which is a semi-autonomous proprietary agency of the City. It is reported in a separate column to emphasize that it is legally separate from the City.

A majority of the members of the Board, the governing body, are appointed by the Mayor and confirmed by the City Council. The Board has been granted corporate powers by the City Charter. The City does not have the authority to modify or approve the Board's budgets. Water and revenue bonds payable of the Board are general obligations of the City. As the City would be obligated to repay these bonds in the event of default by the Board, the City is financially accountable for the debts of the Board. Complete financial statements of the Board may be obtained from the Board of Water Supply, 630 South Beretania Street, Honolulu, Hawaii 96843.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

The statement of activities reflects the direct expenses of the functional category or segment, which are supported by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means the amounts are determinable. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues not considered available are recorded as deferred revenues. Revenues susceptible to accrual are real property taxes collected within sixty days after fiscal year end, fuel taxes, rents and concessions, interest and special assessments. Licenses and permits revenues, franchise taxes, charges for current services, fines, forfeitures, penalties and other miscellaneous revenues are not susceptible to accrual because they are not measurable until received in cash.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are essentially two types of these revenues. For one type of revenues, monies must be expended for a specific purpose or project and revenues are recognized to the extent of such expenditures. Revenues of this type are deferred for monies received in advance of expenditures and accrued for expenditures in advance of monies received. For the other type of revenues, monies are virtually unrestricted as to purpose of the expenditure. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City's fiduciary funds are presented in the fund financial statement by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Fund Types – The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund balances, revenues and expenditures/expenses. There are certain minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statement and detailed in the combining section.

The City has the following fund types:

Governmental Fund Types

The focus of governmental fund measurement (in the fund financial statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income.

The City's governmental fund types are as follows:

General Fund – The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, debt principal, interest and related costs.

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The City maintains four proprietary enterprise fund types as well as its discretely presented component unit under the following criteria:

Enterprise Funds – Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises (a) where the intent of the governing body is that the costs (i.e., expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Funds

The City maintains the following fiduciary fund types:

Private-Purpose Trust Funds – The private-purpose trust funds are used to account for resources held by the City for the benefit of parties outside the government.

Agency Funds – Agency funds are custodial in nature and are used to receive and disburse funds for an entity/individual, which is not part of the City. Agency funds function as a clearing account and do not measure results of operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted funds first, then unrestricted resources as they are needed.

The accompanying financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

presentation of the financial statements of the proprietary fund types in accordance with GASB Statement No. 20.

Effective July 1, 2001, the City adopted GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." These Statements significantly change the financial reporting requirements for state and local governments. The implementation of these Statements required the City to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads, sidewalks, etc.) in the statement of net assets and report depreciation expense in the statement of activities. The Statements also required the City to report government-wide financial statements on the accrual basis of accounting, to focus on the government's major governmental and enterprise funds, and to present required supplemental information, which includes a management's discussion and analysis section.

Budgets and Budgetary Accounting

Annual operating and project-length capital budgets are adopted on a basis consistent with GAAP except that encumbrances are treated as budgeted expenditures in the year the commitments are made.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable operating budget appropriation, is employed as an extension of formal budgetary integration in the general fund and in certain special revenue funds (in the fund financial statements). Capital projects funds (in the fund financial statements) employ encumbrance accounting in order to reserve for construction contracts that portion of the applicable capital projects appropriation.

Encumbrances are recorded at the time purchase orders, construction contracts or other contracts or commitments are awarded, except for contracts awarded contingent upon the availability of nonbudgeted federal or state grant monies. Encumbrances outstanding at year end are reported as reservations of fund balances (in the fund financial statements) and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash and Investments

Cash and cash equivalents are considered to be demand and time deposits primarily with various financial institutions in Hawaii, with fiscal agents, short-term investments with original maturity of three months or less from date of acquisition, and imprest and change funds. Cash on deposit with financial institutions is collateralized in accordance with State statutes.

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

Investments consist of investments in U.S. government securities, investments purchased under agreements to resell to banks (repurchase agreements), time certificates of deposit and mutual funds. Included are participating interest-earning investment contracts (repurchase agreements and U.S. government securities), as well as nonparticipating interest-earning investment contracts (time certificates of deposit and repurchase agreements). Both categories of investments are stated at amortized cost.

The City values investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement provides fair value standards for investments in certain types of financial instruments. The City's investments fall into categories that can be valued by cost-based measures.

Real Property Taxes

Real property taxes are assessed and billed annually. The City's real property taxes, which are levied on July 1 and billed on July 20 of each year are based on assessed valuations as of January 1, and are due in two equal installments on the following August 20 and February 20. Accordingly, real property taxes receivable at June 30, 2002 are delinquent and amounts that are not collected within sixty days after year end are reported as deferred revenue in the fund financial statements. A lien for real property taxes attaches as of July 1 of each year.

Unbilled Receivables

Included in the enterprise fund – discretely presented component unit and enterprise fund – proprietary fund type receivables at June 30, 2002, were unbilled water and sewer charges (due to the use of cycle billings) in the amounts of \$7.9 million and \$10.7 million, respectively.

Inventories of Parts, Materials and Supplies

Inventories of parts, materials and supplies are stated at weighted average cost, which approximates fair value. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

Inventory of Real Estate Held for Sale

Real estate held for sale is stated at the lower of cost or estimated net realizable value, with cost being determined by the specific identification method. All estimated costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Costs include all costs directly related to the planning of improvements to be constructed on the land, interest and other carrying charges. Interest on loans used to finance development or construction activities is capitalized during the development period.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for equipment and \$100,000 for buildings, structures and infrastructure, and an estimated useful life of more

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs related to repairs and maintenance are expensed as incurred. Depreciation on all assets is provided for on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Infrastructure	15-100
Buildings and improvements	10-50
Transmission and distribution system	13-60
Equipment and machinery	3-25
Buses and other transit vehicles	7-12

Intrafund and Interfund Transactions

Interfund receivables and payables are reported in each fund. Transfers of financial resources between agencies and activities included in the same fund, which are recorded as revenues by the transferee and expenditures or expenses by the transferor, have been eliminated. Transactions that represent reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund reimbursed.

Operating transfers from the primary government include operating loss subsidies of \$75.4 million to the Public Transportation System and authorized transfers from funds receiving revenues to funds that will expend those resources. Contributions to the capital accounts of enterprise funds are reflected in the statement of revenue, expenses and changes in fund net assets.

Net Assets

Net assets comprise the various net earnings (losses) from operating and nonoperating revenues, expenses, operating transfers and contributed capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments at year-end are not included in the calculation of the amount invested in capital assets, net of related debt. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

Retirement Plan Contributions

The City's contribution to the Employees' Retirement System of the State of Hawaii is based upon actuarial computations and is comprised of the normal cost plus a level annual payment required to amortize an unfunded actuarial accrued liability over the remaining period of 27 years from July 1, 2002. The City is required by State statute to fund the actuarially determined pension contribution requirement annually.

Deferred Compensation Plan

All full-time employees of the City and its component unit are eligible to participate in the City and County of Honolulu's Public Employees' Deferred Compensation Program (Plan), adopted pursuant to Internal Revenue Code Section 457. The plan permits eligible employees to defer a portion of their salary until future years by contributing to a fund managed by a plan administrator. The deferred compensation amounts are not available to employees until termination, retirement, death or unforeseeable emergency.

A trust fund (annuity contract) was established to protect plan assets from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Deferred compensation plan assets of \$259 million are not reported in the accompanying basic financial statements at June 30, 2002.

Compensated Absences

The City accrues accumulated unpaid vacation when earned (or estimated to be earned) by the employee. Vacation benefits accrue at a rate of one and three-quarters working days for each month. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year.

Sick leave accumulates at the rate of one and three-quarters working days for each month, without limit. Sick leave is taken only in the event of illness and is not convertible to pay; accordingly, sick leave is not accrued in the accompanying financial statements. Employees who retire or leave government service in good standing with sixty or more unused sick leave days are entitled to an additional service credit in the retirement system. At June 30, 2002, accumulated sick leave amounted to \$276 million.

Leases

Leases that transfer substantially all of the risks and benefits of ownership are accounted for as capital leases. Other leases are operating leases. Capital leases are included in fixed assets and, where appropriate, are amortized over the shorter of their estimated economic useful lives or lease terms. The related capital lease obligations are included in long-term debt. Operating leases are expensed (or expensed) when the related liability is incurred.

Enterprise Funds

The City maintains five enterprise funds consisting of the Public Transportation System (PTS), the Solid Waste Special Fund, the Sewer Fund and the Housing Development Special Fund, which are included in the proprietary fund type, and the Board of Water Supply, which is a discretely presented component unit.

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

Information describing these enterprise funds, including significant accounting policies, is described in Notes 12 and 16.

Deficit Balances

At June 30, 2002, the \$98.9 million accumulated deficit in the Solid Waste Special Fund results from deficits of H-POWER due to operating transfers to the general fund and due to operating losses. It is anticipated that the City will continue to provide significant operating subsidies to the H-POWER facility to finance operations.

At June 30, 2002, the \$558.2 million unreserved – undesignated fund deficit in the total capital projects fund type results from encumbering the full amount of certain construction contracts to be financed by future bond sales and federal and state grant awards to be received in cash on a reimbursable basis.

Use of Estimates

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

Financial Statement Presentation

Certain prior year information have been presented in the supplementary fund financial statements in order to provide an understanding of the changes in financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. Budgets and Budgetary Accounting

On or before March 3, the Mayor submits to the City Council proposed operating and capital projects budgets for the periods commencing the following July 1. The budgets are on a basis consistent with GAAP except that encumbrances are treated as budgeted expenditures in the year the commitments are made. After public hearings, and prior to June 15, the budgets are legally enacted through passage of a budget ordinance by the City Council.

Formal budgetary integration is employed (i.e., annual operating budgets are legally adopted) for the general fund and special revenue funds. Effective budgetary control for debt service, trust and agency, and revolving funds is achieved through bond indentures, contractual provisions and legislation. Formal budgetary integration is not employed for capital projects because effective budgetary control is achieved through contractual provisions and project oversight. Flexible budgeting (i.e., the relationship of costs to revenues) is employed for enterprise funds.

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

Appropriations lapse at the end of the fiscal year if not expended or encumbered, except that appropriations for capital projects lapse six months after the end of the fiscal year if not at least partially expended or encumbered. Certain federal and state grant funds are automatically appropriated when received.

The Mayor is authorized to transfer appropriations between activities within a department. To transfer appropriations between departments, the legal level of budgeting, amendments must be made to the enacted budget ordinance. Only the Mayor may propose amendments to the enacted budget ordinance. Amendments for items not included in the enacted budget ordinances may be proposed by the Mayor or the City Council.

The financial statements aggregate budgetary information at the functional level. The legal level of budgetary control (i.e., department level) is reported in the individual fund statements.

The budget figures presented include all amendments to the enacted budget ordinances. During the year, several supplementary appropriations were necessary. The overall effect of these supplementary appropriations on the budget was not significant.

3. Restated Beginning Net Assets

The implementation of GASB Statement No. 34 resulted in the following adjustments to the City's June 30, 2001 net assets for the governmental activities (amounts in thousands):

	Governmental Activities
Net Assets:	
Fund balances at June 30, 2001, as previously reported by governmental fund type:	
General	\$ 41,536
Special revenue	58,983
Debt service	1,329
Capital projects	72,660
Total fund balances at June 30, 2001, as previously reported	174,508
GASB Statement No. 34 adjustments:	
Addition of:	
Net capital assets	1,441,291
Long-term liabilities	(1,235,774)
Accrued interest	(17,035)
Reductions of:	
Deferred credits offsetting long-term loans receivable in the fund statements	79,699
	268,181
Net Assets at June 30, 2001, as restated	\$ 442,689

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

4. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance of total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that, "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. However, all current and long-term liabilities are reported in the statement of net assets. The details of this \$1.5 billion difference are as follows (amounts in thousands):

Long-term liabilities (see Note 9)	\$ (1,458,564)
Accrued interest payable	(17,022)
	<u>\$ (1,475,586)</u>

The government fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net change in fund balances of total governmental funds and change in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that, "Governmental funds report capital outlays as expenditures. The statement of activities reports depreciation expense on capital assets." The details of this \$129 million difference are as follows (amounts in thousands):

Capital outlays	\$ 177,028
Depreciation expense	(47,588)
	<u>\$ 129,440</u>

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

Another element of that reconciliation states that, "Proceeds from the issuance of long-term debt are reported as providing current financial resources in the governmental funds, but are reported as long-term debt in the government-wide financial statements. Repayment of such debt is reported as an expenditure for governmental funds but is reported as a reduction of debt in the government-wide financial statements. The details of this \$204 million difference are as follows (amounts in thousands):

Debt Issued:

General obligation bonds	\$ (243,000)
Tax-exempt commercial paper	(52,599)
Notes payable	(1,119)
Total	<u>(296,718)</u>

Principal Repayments:

General obligation bonds	38,706
Tax-exempt commercial paper	50,579
Other long-term debt	1,608
Other	1,493
Total	<u>92,386</u>
Net adjustment	<u>\$ (204,332)</u>

Another element of that reconciliation states that, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$18 million difference are as follows (amounts in thousands):

Compensated absences	\$ (3,751)
Claims and judgments	(4,478)
Early incentive retirement payable	561
Short-term debt	(9,300)
Other	(1,477)
Net adjustment	<u>\$ (18,445)</u>

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

5. Cash and Investments

The City maintains a cash and investment pool that is used by all funds including the component unit, except the workers' compensation trust fund, which is held separately by the independent plan administrator. Each of the funds' and the component unit's portion of this pool are displayed in the accompanying financial statements.

Cash and Cash Equivalents

The City's demand and time certificates of deposits, including those of its fiduciary funds and component unit, are categorized below to give an indication of the level of risk assumed at June 30, 2002. Category 1 includes bank balances, which are fully insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 includes uninsured and uncollateralized cash.

Bank balances and deposits at June 30, 2002 were as follows (amounts in thousands):

	Category			Bank Balances	Carrying Amount
	1	2	3		
Primary government	\$ 78,559	\$ -	\$ 627	\$ 79,186	\$ 78,799
Component unit	25,392	-	-	25,392	25,392
Total	<u>\$ 103,951</u>	<u>\$ -</u>	<u>\$ 627</u>	<u>\$ 104,578</u>	<u>\$ 104,191</u>
Fiduciary funds	<u>\$ 37,708</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,708</u>	<u>\$ 37,708</u>

Approximately \$500,000 of total bank balances of deposits was covered by federal depository insurance.

The City reports cash with fiscal agents as City cash until the agents use the cash to pay the bond principal and interest amounts due. The fiscal agents typically pay the principal and interest amounts due within two days after receiving the cash from the City. At June 30, 2002, \$627,000 was classified as Category 3.

Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of other states, cities, and counties, mutual funds and bank repurchase agreements. Investments in repurchase agreements are primarily U.S. government or federal agency securities. To minimize credit risk, the City invests in U.S. government securities through the book entry systems of the two largest commercial banks in the State. Book entry securities are held in the banks' custodial (i.e., safekeeping) accounts at a Federal Reserve Bank.

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

The following tables present the City's investments at June 30, 2002 and provide information about the credit and market risks associated with the City's investments. Category 1 includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category 2 includes investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name. Category 3 includes investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Investment balances at June 30, 2002 were as follows (amounts in thousands):

	Category			Reported Amount	Fair Value
	1	2	3		
Primary Government:					
Repurchase agreements	\$ 302,675	\$ -	\$ -	\$ 302,675	\$ 302,675
U.S. government securities	110,882	-	-	110,882	111,639
Total	<u>\$ 413,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 413,557</u>	<u>\$ 414,314</u>
Component Unit:					
Mutual funds	\$ 54,565	\$ -	\$ -	\$ 54,565	\$ 54,565
U.S. government securities	100,784	-	-	100,784	100,784
Total	<u>\$ 155,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,349</u>	<u>\$ 155,349</u>
Fiduciary Funds:					
Repurchase agreements	<u>\$ 1,643</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,643</u>	<u>\$ 1,643</u>

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

6. Receivables

Receivable balances, net of allowances for uncollectible accounts, at June 30, 2002 consisted of the following (amount in thousands):

	Governmental Activities	Business-Type Activities
Real property taxes	\$ 5,234	\$ -
Accounts	510	33,655
Special assessments	14,133	-
Notes	54,128	3,501
Intergovernmental	16,414	-
Interest	774	3,014
Component unit – CASE fees	3,326	-
Allowance for uncollectible accounts	-	(1,641)
	\$ 94,519	\$ 38,529

The only receivables not expected to be collected within one year are the noncurrent portion of the notes receivable, which are generally due to the City on various dates through 2055.

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

7. Fixed Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2002 (amounts in thousands):

	Primary Government			Balance at June 30, 2002
	Balance at July 1, 2001	Additions	Retirements/ Transfers	
Governmental Activities:				
Depreciable Assets –				
Infrastructure	\$ 675,947	\$ 3,733	\$ (30)	\$ 679,650
Buildings and improvements	631,198	113,993	(1,744)	743,447
Equipment and machinery	193,689	28,876	(5,968)	216,597
Total depreciable assets	<u>1,500,834</u>	<u>146,602</u>	<u>(7,742)</u>	<u>1,639,694</u>
Less Accumulated Depreciation –				
Infrastructure	(345,310)	(11,814)	1	(357,123)
Buildings and improvements	(224,966)	(21,667)	29	(246,604)
Equipment and machinery	(113,040)	(14,107)	4,676	(122,471)
Total accumulated depreciation	<u>(683,316)</u>	<u>(47,588)</u>	<u>4,706</u>	<u>(726,198)</u>
	817,518	99,014	(3,036)	913,496
Land	406,453	24,004	-	430,457
Construction Work in Progress	217,320	123,340	(113,882)	226,778
Governmental activities – capital assets, net	<u>\$1,441,291</u>	<u>\$ 246,358</u>	<u>\$ (116,918)</u>	<u>\$1,570,731</u>
Business-type Activities:				
Depreciable Assets –				
Infrastructure	\$ 754,021	\$ 33,498	\$ -	\$ 787,519
Buildings and improvements	590,516	24,136	(6,298)	608,354
Equipment and machinery	405,126	25,770	(7,517)	423,379
Total depreciable assets	<u>1,749,663</u>	<u>83,404</u>	<u>(13,815)</u>	<u>1,819,252</u>
Less Accumulated Depreciation –				
Infrastructure	(33,041)	(17,508)	-	(50,549)
Buildings and improvements	(74,236)	(17,201)	3,226	(88,211)
Equipment and machinery	(238,657)	(30,254)	4,985	(263,926)
Total accumulated depreciation	<u>(345,934)</u>	<u>(64,963)</u>	<u>8,211</u>	<u>(402,686)</u>
	1,403,729	18,441	(5,604)	1,416,566
Land	85,350	19,436	(2,371)	102,415
Construction Work in Progress	109,966	77,919	(59,579)	128,306
Business-type activities – capital assets, net	<u>\$1,599,045</u>	<u>\$ 115,796</u>	<u>\$ (67,554)</u>	<u>\$1,647,287</u>

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

	Component Unit			Balance at June 30, 2002
	Balance at July 1, 2001	Additions	Retirements/ Transfers	
Depreciable Assets –				
Infrastructure	\$ 845,208	\$ 68,051	\$ (5,053)	\$ 908,206
Buildings and improvements	113,308	4,430	(183)	117,555
Equipment and machinery	149,139	14,296	(1,655)	161,780
Total depreciable assets	<u>1,107,655</u>	<u>86,777</u>	<u>(6,891)</u>	<u>1,187,541</u>
Less Accumulated Depreciation –				
Infrastructure	(287,951)	(19,557)	4,698	(302,810)
Buildings and improvements	(20,835)	(2,802)	-	(23,637)
Equipment and machinery	(75,499)	(8,797)	1,590	(82,706)
Total accumulated depreciation	<u>(384,285)</u>	<u>(31,156)</u>	<u>6,288</u>	<u>(409,153)</u>
	723,370	55,621	(603)	778,388
Land	29,562	500	-	30,062
Construction Work in Progress	107,168	120,377	(100,586)	126,959
Component unit – capital assets, net	<u>\$ 860,100</u>	<u>\$ 176,498</u>	<u>\$ (101,189)</u>	<u>\$ 935,409</u>

Depreciation expense was charged as follows (amounts in thousands):

Governmental Activities:

General government	\$ 11,492
Public safety	14,155
Highways and streets	10,502
Health and human resources	946
Culture-recreation	<u>10,493</u>
Total depreciation expense – governmental activities	<u>\$ 47,588</u>

Business-type Activities:

Sewer	\$ 29,982
Solid waste	16,630
Housing	3,583
Public Transportation System	<u>14,768</u>
Total depreciation expense – business-type activities	<u>\$ 64,963</u>

Component Unit:

Board of Water Supply (\$1,153 of depreciation expense was capitalized to projects.)	<u>\$ 30,003</u>
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CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

8. Interfund Balances

The following is a summary of amounts due from and due to other funds at June 30, 2002 (amounts in thousands):

	Due From Other Funds	Due to Other Funds
General Fund	\$ 305	\$ 640
Highway Fund	22	-
General Improvement Bond Fund	-	7,298
Nonmajor Governmental Funds	408	373
Enterprise Funds:		
Sewer Fund	6,858	111
Solid Waste Special Fund	885	56
	\$ 8,478	\$ 8,478

There are no interfund balances that are not expected to be repaid by June 30, 2003.

The following is a summary of amounts transferred from and transferred to other funds at June 30, 2002 (amounts in thousands):

	Transferred From Other Funds	Transferred to Other Funds
General Fund	\$ 82,919	\$ 185,348
Highway Fund	-	45,303
G.O. Bond and Interest Redemption Fund	105,316	-
Nonmajor Governmental Funds	23,674	22,614
Enterprise Funds:		
Housing Development Special Fund	148	-
Sewer Fund	-	46,995
Solid Waste Special Fund	46,155	33,364
Public Transportation System	75,412	-
	\$ 333,624	\$ 333,624

The main purpose for these interfund transfers, as provided by ordinance, are for: the recovery of central administrative expenses; debt service payments and recoveries through the general fund; and reimbursement for capital contributions to the general fund. During 2002, \$41 million was transferred from the Sewer Fund to the general fund for reimbursement of capital contributions.

There are no significant transfers that either do not occur on a routine basis or are inconsistent with the fund making the transfer.

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

9. Long-Term Liabilities

The following is a summary of changes in long-term liabilities included in the governmental activities, business-type activities, and the component unit during the fiscal year ended June 30, 2002 (amounts in thousands):

	Balance at July 1, 2001	Additions	Reductions	Balance at June 30, 2002	Amounts Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 1,093,784	\$ 243,000	\$ 38,706	\$ 1,298,078	\$ 44,985
Tax-exempt commercial paper	9,297	52,599	50,579	11,317	11,317
Special assessment bonds with government commitment	2,115	-	370	1,745	370
Notes payable to federal and state governments	3,700	1,119	199	4,620	228
Capital lease obligations (Note 13)	1,742	-	503	1,239	545
Installment purchase contracts	3,155	-	536	2,619	609
Compensated absences	68,915	24,654	20,903	72,666	5,137
Claims and judgments (Note 14)	52,468	21,686	17,208	56,946	12,321
Early incentive retirement payable	9,895	-	561	9,334	561
Total	<u>\$ 1,245,071</u>	<u>\$ 343,058</u>	<u>\$ 129,565</u>	<u>\$ 1,458,564</u>	<u>\$ 76,073</u>
Business-Type Activities:					
General obligation bonds	\$ 441,431	\$ 7,000	\$ 31,336	\$ 417,095	\$ 32,452
Revenue bonds	319,453	136,020	1,010	454,463	1,050
Tax-exempt commercial paper	3	10,183	3	10,183	10,183
Notes payable to state governments	68,829	26,022	4,441	90,410	5,408
Operating fee obligation (Note 12)	95,689	-	1,365	94,324	4,203
Estimated liability for landfill closure and postclosure care costs (see Note 15)	13,152	-	1,125	12,027	69
Total	<u>\$ 938,557</u>	<u>\$ 179,225</u>	<u>\$ 39,280</u>	<u>\$ 1,078,502</u>	<u>\$ 53,365</u>
Discretely Presented Component Unit:					
Revenue bonds	<u>\$ 66,600</u>	<u>\$ 54,400</u>	<u>\$ -</u>	<u>\$ 121,000</u>	<u>\$ 780</u>

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

General Obligation Bonds

The City issues general obligation bonds for the construction of major capital facilities. General obligation bonds in the governmental activities are direct obligations of the City for which its full faith and credit are pledged. Debt service is paid from the debt service fund. These bonds were issued during the fiscal years 1977 through 2002 in the original amount of \$1.9 billion, less a discount (\$1.2 million at June 30, 2002 which is being amortized over the related term of the bond), bear interest at 2.85% to 8.75%, and mature serially through fiscal year 2025. General obligation debt authorized but not yet issued amounted to \$506 million at June 30, 2002.

General obligation bonds in the City's business-type activities are expected to be paid from their respective revenues. These instruments are also direct obligations of the City for which its full faith and credit is pledged. These bonds were issued during the fiscal years 1991 through 2002 in the original amount of \$886 million, less a discount (\$622,000 at June 30, 2002, which is being amortized over the related term of the bond), bear interest at 2.85% to 8.75%, and mature serially through fiscal year 2024.

In December 2001, the City issued Series 2001C general obligation bonds in the amount of \$250 million. The bonds bear variable interest rates and mature annually on December 1, 2006 through 2020. The Series 2001C bonds are subject to redemption, at the option of the City, in whole or in part on any interest payment date but not prior to December 4, 2002. Proceeds from the bonds will be used to fund the cost of certain public improvements and capital equipment of the City.

Short-term general obligation tax-exempt commercial paper in a maximum aggregate principal amount not to exceed \$150 million outstanding at any time was authorized for issuance by the City, in accordance with Ordinance 01-28, during June 2001, to refinance long-term bonds. The \$21.5 million commercial paper bear interest at variable rates (1.35% to 1.50% at June 30, 2002) with varying maturities to a maximum of 270 days from the respective date of issue, and are not subject to redemption prior to maturity. In connection with the issuance, the City entered into an irrevocable letter of credit agreement in which the City may borrow up to \$150 million for payment of principal and up to \$13.3 million for payment of interest. There were no drawings on the letter of credit during fiscal 2002.

Interest on certain variable-rate general obligation bonds reset weekly at prevailing rates.

Revenue Bonds

Water system revenue bonds in the City's component unit were issued during fiscal years 2002 and 2001 in the original amounts of \$54.4 million and \$66.6 million, respectively. Water system revenue bonds are subject to redemption on and after specified dates prior to maturity at the option of the Board at a price equal to 100% of the principal amount thereof, plus accrued interest. The bonds bear interest at variable rates (1.45% auction rate to 4.0% at June 30, 2002) and mature serially through fiscal year 2032. Proceeds from the bonds were primarily used to fund the acquisition of a water reclamation facility, to fund capital

CITY AND COUNTY OF HONOLULU

Notes to the Financial Statements

improvement projects and to retire outstanding bonds. The revenue bonds are collateralized by the component unit's revenues.

Wastewater system revenue bonds in the City's business-type activities were issued during fiscal years 2002 (Series 2001) and 1999 (Series 1998) in the original amounts of \$136 million and \$319 million, respectively. The 2001 and 1998 Series are subject to redemption, at the option of the City, on or after July 1, 2011 and July 1, 2009, respectively. The bonds bear interest at 4.0% to 5.0% at June 30, 2002 and mature at various dates through fiscal year 2032. The revenue bonds are collateralized by the wastewater system revenues.

Annual debt service requirements to maturity for general obligation bonds (including tax-exempt commercial paper) and revenue bonds at June 30, 2002, including interest of \$1.3 billion, were as follows (amounts in thousands):

Year Ending June 30:	Governmental Activities		Business-Type Activities		Component Unit		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2003	\$ 65,247	\$ 44,985	\$ 43,880	\$ 33,502	\$ 4,167	\$ 780	\$ 113,294	\$ 79,267
2004	61,172	61,871	41,957	37,629	4,116	2,040	107,245	101,540
2005	57,806	65,480	39,655	38,874	4,056	2,135	101,517	106,489
2006	54,837	64,050	37,470	42,729	3,990	2,180	96,297	108,959
2007	52,034	74,759	35,426	43,840	3,921	2,290	91,381	120,889
2008 - 2012	195,749	412,912	142,460	183,485	18,456	13,135	356,665	609,532
2013 - 2017	98,879	315,107	121,559	125,411	16,012	16,535	236,450	457,053
2018 - 2022	34,394	226,562	86,252	137,909	12,718	21,060	133,364	385,531
2023 - 2027	3,420	43,669	39,709	146,312	8,514	26,745	51,643	216,726
2028 - 2032	-	-	7,844	92,050	5,190	34,100	13,034	126,150
Total	<u>\$ 623,538</u>	<u>\$ 1,309,395</u>	<u>\$ 596,212</u>	<u>\$ 881,741</u>	<u>\$ 81,140</u>	<u>\$ 121,000</u>	<u>\$ 1,300,890</u>	<u>\$ 2,312,136</u>

General obligation bonds are generally subject to redemption by the City for a premium.

Total interest costs incurred by the business-type activities and the component unit for the fiscal year ended June 30, 2002 was \$49.3 million, of which \$12.7 million was capitalized.

Other Long-Term Debt

In December 1994, the City issued \$4.4 million of special assessment refunding bonds, which bear interest at variable rates (6.4% to 6.9% at June 30, 2002) and require annual principal and interest payments through fiscal year 2007. These bonds are collateralized by liens on the properties the assessments are levied against and are term bonds subject to prior redemption based on the availability of funds. They are reported under the governmental activities column of the City's government wide statement of net assets because, should collections of special assessments be insufficient, the City is authorized to use funds in the improvement district revolving fund to make principal and interest payments. These bonds amounted to \$1.7 million at June 30, 2002.

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The note payable to federal government is for the City's share of costs for a federal project to develop recreational facilities and fish and wildlife resources at the Kaneohe Reservoir. The note bears interest at 5.1% and requires annual principal and interest payments through fiscal year 2016. The note amounted to \$3.5 million at June 30, 2002.

The notes payable to state government are for the construction of necessary treatment works and for other projects intended for wastewater reclamation or waste management. The notes amounted to \$91.5 million at June 30, 2002, bear interest at 2.1% to 3.0%, and require annual principal and interest payments through fiscal year 2022.

The City has lease purchase contracts for certain equipment, which are accounted for as capital leases (see Note 13).

The City also utilizes installment purchase contracts to finance purchases of equipment. The equipment is recorded at cost.

Annual debt service requirements to maturity for the City's governmental activities and business-type activities for other long-term debt at June 30, 2002, including interest of \$28.5 million, were as follows (amounts in thousands):

Year Ending June 30:	Special Assessment Bonds		Notes, Leases and Contracts		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2003	\$ 105	\$ 370	\$ 3,133	\$ 6,790	\$ 3,238	\$ 7,160
2004	81	365	3,089	6,986	3,170	7,351
2005	56	365	2,884	6,635	2,940	7,000
2006	32	355	2,715	6,942	2,747	7,297
2007	10	290	2,530	6,253	2,540	6,543
2008 - 2012	-	-	9,741	33,700	9,741	33,700
2013 - 2017	-	-	3,680	24,329	3,680	24,329
2018 - 2022	-	-	425	7,253	425	7,253
Total	\$ 284	\$ 1,745	\$ 28,197	\$ 98,888	\$ 28,481	\$ 100,633

The compensated absences liability attributable to the governmental activities will be liquidated by primarily the City's general and highway funds.

Refunded Bonds

The City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the assets of the irrevocable trust and the liability for the defeased bonds are not included in the City's basic financial statements. At June 30, 2002, \$513 million of bonds outstanding were considered defeased.

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10. Net Assets

At June 30, 2002, net assets of the primary government consisted of the following (amounts in thousands):

	Governmental Activities	Business-Type Activities
Invested in Capital Assets, Net of Related Debt:		
Net property, plant and equipment	\$ 1,570,731	\$ 1,647,287
Less:		
General obligation bonds payable	(1,298,078)	(417,095)
Revenue bonds payable	-	(454,463)
Notes payable and other long-term debt	(10,223)	(90,410)
Tax-exempt commercial paper	(11,317)	(10,183)
Amount of debt related to unspent debt proceeds	<u>24,343</u>	<u>50,374</u>
	275,456	725,510
Restricted for Debt Service	1,347	54,489
Unrestricted	<u>79,576</u>	<u>63,894</u>
Total net assets	<u>\$ 356,379</u>	<u>\$ 843,893</u>

11. Employee Benefit Plans

Defined Benefit Pension Plans

Plan Description – All full-time employees of the City are eligible to participate in the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer defined benefit pension plan. The ERS was established by Chapter 88 of the Hawaii Revised Statutes (HRS) and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to create a new noncontributory option for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. Both plans provide death and disability benefits and cost-of-living increases. In the contributory plan, employees may elect normal retirement at age 55 with 5 or 10 years of credited service or elect early retirement at any age with 25 years of credited service.

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Such employees are entitled to retirement benefits, payable monthly for life, of 2% or 2.5% of their average final salary, as defined for each year of credited service with certain limitations. Benefits fully vest on reaching 5 years of service; retirement benefits are reduced for early retirement. In the noncontributory plan, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching 10 years of service; retirement benefits are reduced for early retirement.

The ERS issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Funding Policy – All funding requirements are established by Chapter 88, HRS, and can be amended by the State legislature. Covered contributory plan employees are required to contribute 7.8% or 12.2% of their salary to the plan; the City is required to contribute the remaining amounts necessary to pay contributory plan benefits when due. The City is also required to contribute all amounts necessary to pay noncontributory benefits when due. The City's contribution requirements are actuarially determined based on actuarial assumptions established by Chapter 88, HRS. Act 100 of the 1999 State Legislative Session authorizes the use of actuarial investment earnings in excess of a ten percent actuarial investment yield rate to reduce the City's contribution requirements. The City's contributions to the ERS, inclusive of its component unit, for the fiscal years ended June 30, 2000, 2001 and 2002 were \$10.3 million, \$1.1 million and \$34.4 million, respectively, which were equal to the required contributions for each year.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State of Hawaii Public Employees Health Fund provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired City employees. Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. Prior to July 1, 1996, the City pays for 100% of these benefits for employees who have at least 10 years of service. According to Act 217, SLH 1995, employees hired after June 30, 1996 with 25 years or more of service receive 100% employer funding. The City's share of the cost of these benefits is prorated for employees with less than 25 years of service. The City also reimburses 100% of Medicare expenses for retirees and qualified dependents (through the State) who are at least 65 years of age and have at least 10 years of service. Currently, approximately 9,124 retirees and qualified dependents are receiving post retirement health care and benefits paid for by the City. The City's contributions for post retirement benefits, which are funded as accrued, amounted to \$32 million for the fiscal year ended June 30, 2002.

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Early Retirement Incentive

Act 212 of the 1994 regular session of the State legislature authorized an early retirement incentive to state and county employees with at least 25 years of service as of December 31, 1994. Qualifying employees received two additional years of service credits for purposes of calculating their retirement benefits. 571 City employees received early retirement benefits, which cost the City \$7.5 million in payouts for accrued vacation during fiscal 1995.

Act 216 of the 2000 State Legislative Session lowered the employer contributions to ERS by extending the payment schedule for the actuarial present value cost of the early retirement incentive bonus from 5 to 19 years effective for the year end 1999. The City's annual payments amount to \$1,070,400 per year. Based on the per-employee analysis of additional retirement contributions calculated by the ERS, the additional retirement contribution, including interest, to be paid by the City for the early retirees is \$20.3 million. At June 30, 2002, the remaining balance was \$9.3 million.

12. Enterprise Funds

The City maintains five enterprise funds: the Housing Development Special Fund, the Sewer Fund, the Solid Waste Special Fund and the Public Transportation System, which are business-type activities, and the Board of Water Supply, which is a discretely presented component unit.

Housing Development Special Fund

The Housing Development Special Fund was created to develop affordable housing for sale or for rental by the City. At June 30, 2002, the City had \$123.3 million of general obligation bonds outstanding, which were used to finance the development of various residential lots and recreational facilities.

During the fiscal year ended June 30, 2002, the City evaluated the recoverability of its dwelling units and lots and determined that estimated future cash flows were below the carrying value of the dwelling units and lots. Accordingly, the City adjusted the carrying value of the dwelling units and lots to their estimated net realizable value by recording a provision for losses on dwelling units and lots of \$2.8 million.

Sewer Fund

The Sewer Fund was created to account for the operations of the City's wastewater system and is operated primarily through user charges. The Sewer Fund also accounts for the proceeds of revenue bonds issued to pay all or part of those appropriations for improvements, repairs, and maintenance of the wastewater treatment system.

During 2002, the City identified capital assets belonging to the Sewer Fund that were erroneously recorded in the City's general fixed assets, certain assets that were required to be capitalized and certain assets acquired by contribution, which had never been recorded. Therefore, the Sewer Fund's prior year's financial statements have been restated to reflect

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these additional assets, related depreciation expense and contributed capital, which resulted in an adjustment of approximately \$213.7 million to the July 1, 2001 net asset balance.

The City also determined that the inventories of materials and supplies and related expense were overstated at June 30, 2001 based on a study performed by a third party in 2002. As a result, the materials and supplies expense and the year-end inventory balances were restated, resulting in an adjustment of approximately (\$7.7 million) to the July 1, 2001 net asset balance.

The total impact of these changes was an increase of approximately \$206 million to the July 1, 2001 net asset balance previously reported.

Solid Waste Special Fund

The Solid Waste Special Fund accounts for the following activities related to the operations of the refuse division:

- the City's refuse collection and disposal operations, which are funded primarily through general fund subsidies.
- the recycling program revenues assessed as 4% of refuse disposal charges and are expended for the establishment, operation, management and expansion of the City's recycling programs, including programs for waste reduction, development of recycling markets and recycling awareness.
- the glass incentive program revenues derived for the recycling of glass containers and paying incentives to glass recyclers.
- operation of the solid waste disposal and energy and materials recovery project (H-POWER Facility).

H-POWER Facility

The City has agreements with Honolulu Resource Recovery Venture (HRRV) to operate a solid waste disposal and energy recovery project, the Honolulu Program of Waste Energy Recovery (the "H-POWER Facility"). The H-POWER Facility processes and disposes of solid waste and, together with combustion facilities, produces steam used for the generation of electricity. Revenues are generated from user tip fees and from the sale of energy products and recovered materials. The operating agreement with HRRV has a 20-year term, and the H-POWER Facility's revenues and expenses are reported in the accompanying financial statements. The operating agreements also require a supplemental operating fee to be paid by the City equivalent to the ground lease payments. The H-POWER Facility commenced commercial operations on May 21, 1990, and the City has a 20-year contract to sell electricity generated to a utility company.

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In November 1989, the City sold the H-POWER Facility for \$312.5 million, receiving an \$80 million cash payment and a 20-year note for \$232.5 million with interest at 8.04%. On the same date, HRRV entered into a 20-year lease for the H-POWER Facility with the new owner. Although the City is not a party to this lease agreement, the operating fee to be paid by the City to HRRV was increased by an amount equal to the lease payments. Accordingly, the H-POWER Facility has been recorded as an asset and a liability in the H-POWER Facility enterprise fund at an amount equal to the present value of this increase in the operating fee for the lease payments.

In November 1989, the City leased the land underlying the H-POWER Facility to the owner of the H-POWER Facility for 35 years.

The note receivable and the obligation for the increase in the operating fee for the H-POWER facility lease payments (\$126.2 million and \$220.5 million at June 30, 2002, respectively) have been offset for financial statement reporting purposes. At June 30, 2002, future payments are as follows (amounts in thousands):

Year Ending June 30:	Operating Fee Obligation	Note Receivable	Difference
2003	\$ 30,613	\$ 23,926	\$ 6,687
2004	30,613	23,321	7,292
2005	30,613	22,894	7,719
2006	30,613	24,294	6,319
2007	30,613	21,881	8,732
2008-2010	<u>154,340</u>	<u>55,752</u>	<u>98,588</u>
Subtotal	307,405	172,068	135,337
Less amount representing interest	<u>86,879</u>	<u>45,866</u>	<u>41,013</u>
Total	<u>\$ 220,526</u>	<u>\$ 126,202</u>	<u>\$ 94,324</u>

At June 30, 2002, the City had \$143.5 million of general obligation bonds outstanding, which were used to finance the construction of the H-POWER Facility.

Public Transportation System

The Department of Transportation Services oversees the administration and operation of the Public Transportation System (the City's bus and paratransit systems or "PTS") on the island of Oahu.

The City has an agreement with Oahu Transit Services, Inc. (OTS), which expires on September 30, 2007, to provide for the management of the City's bus and paratransit systems. OTS provides the employees to operate and manage the bus and paratransit systems.

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The City reimburses OTS for operating expenses. In addition, the agreement requires the City to pay OTS an annual management fee of \$365,000 through September 30, 2007.

The agreement provides that the City furnish, but retain title to, the transit buses, paratransit buses, properties, facilities and equipment used in the systems. Revenues collected by OTS, excluding management fees, are the property of the City and are remitted to a depository controlled by the City.

During fiscal 2002, the City and OTS identified certain property and equipment, which should have been recorded in the PTS financial statements in prior years. Accordingly, the property and equipment, net of accumulated depreciation amounting to approximately \$20 million, resulted in an adjustment to the July 1, 2001 net asset balance previously reported.

Restricted Assets – OTS established trust funds for the purpose of maintaining adequate funds for expenses incurred through its workers' compensation, general, and auto liability self-insurance programs. At June 30, 2002, the restricted assets held by OTS amounted to \$819,000.

Reserve for Insurance Claims Payable – The City sponsors an automotive and general liability self-insurance program for OTS. The self-insurance program is for claims up to \$1,000,000. The City also implemented a workers' compensation self-insurance program, which covers OTS claims up to \$300,000 per occurrence for policy periods through June 30, 1995 and \$250,000 per occurrence for policy periods after July 1, 1995. OTS has obtained excess insurance coverage for general liability, automotive claims and workers' compensation through various insurance companies for amounts in excess of claims covered under the two self-insurance programs.

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13. Commitments

Leases

The City leases equipment and office space under capital and operating leases, which expire at various dates through 2055. At June 30, 2002, the cost of equipment recorded under capital lease arrangements and included in capital assets amounted to \$5.9 million.

Future minimum obligations under capital and operating leases at June 30, 2002 were as follows (amounts in thousands):

Year Ending June 30:	Capital Leases	Operating Leases
2003	\$ 625	\$ 1,824
2004	625	1,639
2005	104	1,505
2006	-	1,194
2007	-	653
2008 – 2012	-	442
2013 – 2017	-	355
2018 – 2022	-	355
2023 – 2027	-	355
2028 – 2032	-	193
2033 – 2055 (\$175 for each five-year increment except \$107 for 2052 – 2055)	-	807
	1,354	\$ 9,322
Total minimum payments		
Less amount representing interest	115	
Present value of future minimum capital lease payments	\$ 1,239	

Certain leases provide for payment of common area charges and for periodic renegotiation of rents. Rent expense under operating leases, principally recorded in the general fund, amounted to \$4.6 million for the fiscal year ended June 30, 2002.

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The City leases to others concession rights and real property under operating leases, which expire at various dates through 2049. Certain leases provide for periodic renegotiation of rents. Future minimum rental income under such leases at June 30, 2002 were as follows (amounts in thousands):

Year Ending June 30:	
2003	\$ 7,381
2004	7,203
2005	6,845
2006	6,490
2007	6,322
2008 – 2012	19,976
2013 – 2017	10,143
2018 – 2022	8,051
2023 – 2027	6,737
2028 – 2032	6,732
2033 – 2037	6,722
2038 – 2042	6,632
2043 – 2049	2,180
	<hr/>
Total minimum rental income	\$ 101,414
	<hr/> <hr/>

Other Commitments

Business-type activities, which do not employ encumbrance accounting, have contractual commitments of approximately \$333 million at June 30, 2002, primarily for construction contracts, which includes the Board's commitments of \$144 million. Other contractual commitments for the expenditure of City monies are encumbered in the governmental funds.

Litigation

OTS and the City are involved in various lawsuits arising from the normal operations of the City bus and paratransit systems. Claims for punitive damages related to certain lawsuits may not be covered by insurance.

14. Contingent Liabilities

The City is exposed to various risks of loss due to claims filed against the City for personal injury, property and other damages. The City's Corporation Counsel reported that these cases are set for pretrial conferences, awaiting actions from plaintiffs, being investigated, ready for trial calendar, or on appeal.

The City is substantially self-insured for workers' compensation claims, general liability claims up to \$1 million, except for public official's liability insured up to \$100,000, and automobile claims up to \$1 million, with certain exceptions. The City purchases excess liability insurance through insurance companies for claims in excess of self-insured amounts as well as when

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required by contract or law. Settled claims have not exceeded these coverages in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. At June 30, 2002, the estimated total liability of the City for claims and judgments amounted to \$56.9 million, which included claims incurred but not reported by the claimant and settled claims for which funds have not yet been appropriated. The estimated total liability has been determined through case-by-case analysis and from actuary studies performed by independent third parties. Expenditures for claims and judgments are appropriated annually. In the opinion of management, the City has adequately reserved for such claims.

The City is subject to a number of claims arising from the City's designation and downzoning of several parcels of property in East Honolulu to prevent shoreline development. The City conducted settlement discussions with the landowners, including a settlement proposal in which the landowners would drop their claims in return for development approvals. However, due to strong opposition, settlement discussions ceased and the matters have resumed in court. The City estimates that the possible loss will be approximately \$30 to \$50 million based on the value of the property. Should the damages be assessed based on the lost profits had the plaintiff been able to develop the property, the total liability could exceed \$100 million.

While the ultimate liability for the matter described in the previous paragraph cannot be determined, it is the City's belief that this claim is not likely to have a material adverse effect on the City's financial position. Accordingly, no provisions for any liabilities that might result from the resolution of these claims have been made in the accompanying financial statements.

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The following is a summary of changes in the claims and judgments liability account during the fiscal year (amounts in thousands):

	<u>Automobile and General Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
Balance at July 1, 2000	\$ 22,980	\$ 36,478	\$ 59,458
Incurred losses and loss adjustment expenses	2,396	6,059	8,455
Payments	<u>(4,089)</u>	<u>(11,356)</u>	<u>(15,445)</u>
Balance at June 30, 2001	21,287	31,181	52,468
Incurred losses and loss adjustment expenses	3,123	18,563	21,686
Payments	<u>(4,846)</u>	<u>(12,362)</u>	<u>(17,208)</u>
Balance at June 30, 2002	<u>\$ 19,564</u>	<u>\$ 37,382</u>	<u>\$ 56,946</u>

The claims and judgment liability will be liquidated from the City's general fund.

15. Environmental Issues

Solid Waste Landfill Costs

GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," which is based on the October 9, 1991 United States Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Facility Criteria," establishes closure requirements for all municipal solid waste landfills that receive waste after October 9, 1991. The EPA rule also establishes thirty-year postclosure care requirements for those landfills that accept solid waste after October 9, 1993 or for those landfills that stopped accepting solid waste between October 9, 1991 and October 9, 1993 and have not met certain requirements established by the EPA rule. In accordance with GASB Statement No. 18, the City estimates in advance the total cost of closure and postclosure care during the life of those landfills rather than after their closings.

Federal and state laws and regulations require the City to place final covers on certain landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Annual additions to the liability for closure and postclosure care costs are based on landfill capacity used as of each balance sheet date. The \$12.0 million reported as the liability in the Solid Waste Special Fund for closure and postclosure care costs at June 30, 2002 represents the cumulative amount reported to date based on the percentage of the estimated capacity used for the following landfills (amounts in thousands). Actual costs may differ from estimates if additional postclosure care requirements

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are determined (due to inflation or deflation, changes in technology, or changes in applicable laws or regulations).

	<u>Capacity Used</u>	<u>Closure Date</u>	<u>Liability at June 30, 2002</u>	<u>Total Estimated Cost</u>
Waipahu incinerator landfill	100.0%	October 1991	\$ 8,277	\$ 9,600
Kapaa sanitary landfill	100.0%	May 1997	<u>3,750</u>	<u>12,797</u>
Total			<u>\$ 12,027</u>	<u>\$ 22,397</u>

For fiscal year 2002, the City has provided the financial resources that will be available to provide for closure, postclosure care and remediation or containment of environmental hazards at the above landfills. The EPA has proposed amendments to the existing financial assurance rules. The proposed amendments added a local government financial test consisting of a financial component, a public notice component, and a recordkeeping and reporting component. Local governments are required to satisfy each of the three components to pass the annual test. Management believes that the City has satisfied each of the components of the local government financial assurance requirements.

Clean Water Act

In 1991, the EPA filed an administrative action against the City alleging violations of the Clean Water Act and conditions and limitations of the National Pollutant Discharge Elimination System Permits by failing to develop and administer pretreatment programs for all of its treatment plants and for unauthorized discharges from the collection system. As a result of a settlement reached between the EPA and the City, a consent decree has been filed which requires certain compliance actions and penalties of \$1.2 million, which were paid in fiscal year 1995. The City has implemented certain compliance actions such as developing rehabilitation and maintenance of the collection system and implementation of the plans. The City has committed to spend at least \$20 million for effluent reuse.

The City has committed to spend at least \$10 million for sludge reuse. Sludge reuse is being accomplished through the U.S. Navy Biosolids Treatment Facility. The cost to the City is \$82 per wet ton of sludge delivered to the facility; currently, the City is delivering an average of 7.2 dry tons (20.1 wet tons) a day. The consent decree cites potential stipulated penalties of \$2,000 per day per violation for failure to comply.

The State and certain environmental groups (nonprofit organizations) also filed actions against the City for declaratory judgment, injunctive relief and civil penalties for violations of the Clean Water Act for the following wastewater treatment plants.

Kailua and Kaneohe – As a result of a settlement reached between the parties, a consent decree has been filed for the Kailua and Kaneohe plants, which requires certain compliance actions such as developing a facilities plan, constructing a feasible ultraviolet

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disinfection facility and establishing and supporting an advisory council. The conceptual facilities plan and the environmental impact statement preparation notice were completed in September 1998. The design phase of the ultraviolet disinfection project was completed in October 1998. Responses to public comments were completed in June 1999. The City contracted a construction company to complete the construction phase for approximately \$2.3 million, which was completed in November 2000. Approximately \$4.3 million and \$2.3 million has been paid as of June 30, 2002 and 2001, respectively, related to these compliance actions. The Kailua Bay Advisory Council was established in October 1995. The City established a \$2.1 million trust fund; hired a program administrator and a third party to provide watershed mapping services; awarded grant projects to four community groups; developed short-term implementation plans for erosion control initiatives, stream bank restoration and refuse control; and developed a web site for the Kailua Bay Advisory Council to disseminate information to the public.

The consent decree cites total costs of at least \$7.4 million for capital improvements, consulting and other fees. The consent decree cites stipulated penalties of \$500 per day per violation for failure to meet the specified obligations and deadlines. The City has not been assessed any penalties, as the specified obligations and deadlines continue to be met. The Kaneohe treatment facility has been converted into a temporary treatment facility.

Wahiawa – A civil action was filed by the State for operating the Wahiawa plant without a permit. Settlement with the State was reached and a consent decree was approved on February 27, 1998. The consent decree requires the City to upgrade the existing treatment plant to produce water suitable for reuse and adjust the outfall. The consent decree stipulates damages of \$600,000 plus \$1,000 – \$5,000 per day if the upgrades are not completed by specified deadlines. In June 2001, the City completed construction of the reclamation system, which amounted to approximately \$12 million. As required by the consent decree, the City also disbursed \$150,000 to various agencies for supplemental environmental projects. A motion to terminate the consent decree has not been filed by the State or City.

Sand Island – The Sand Island wastewater treatment plant operates under a 301(h) waiver permit issued by the EPA. The current permit was effective November 1998. That permit included, amongst other things, a specific timetable for various construction projects related to the Sand Island plant. In October 1999, the EPA issued a finding of violation and order for compliance that required corrective measures and compliance with the November 1998 permit. Although the City responded to that order, some of the construction projects are behind the permit schedule due to unanticipated construction difficulties. For example, an Ultraviolet Disinfection facility was to be constructed by July 1, 2002. That facility is still under construction and is not currently estimated to be completed until December 31, 2003. In October 2002, the EPA identified that the Sand Island plant violated certain discharge limits and ordered the City to stop discharge violations at the Sand Island plant and to submit a plan by December 1, 2002, to bring the facility into continuous compliance with its EPA permit. The City submitted the required

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plan and compliance schedule on November 29, 2002. The EPA has reviewed the plan and is currently discussing it with the City. Failure to comply with the EPA orders could result in fines up to \$27,500 per day and a revocation or non-renewal of the 301(h) waiver permit. Revocation or non-renewal of the 301(h) waiver permit would require the City to upgrade the Sand Island plant to a secondary facility at a construction cost of hundreds of million of dollars.

Kahuku – The State issued a notice of apparent violation resulting from discharge of chlorinated secondary filtered effluent from an effluent pipe break at the Kahuku Wastewater Treatment Plant onto private property. The City has not been assessed any penalties, however, \$750,000 in costs were incurred to construct a new line.

In the opinion of management, the final outcome of the order and complaints as described above are unknown at this time but should not have a material adverse effect on the City's financial statements.

16. Component Unit Disclosure

Board of Water Supply

The Board is a semi-autonomous agency of the City which has full and complete authority to manage, control and operate the City's water system and related properties.

Other Legal Matters – The Board is party to various legal proceedings arising in the normal course of business. The outcome of individual matters is not predictable. However, management believes that the ultimate resolution of all such matters, after considering insurance coverages, will not have a material adverse effect on the Board's financial position, results of operations or liquidity.

Major Transactions with the City –

Billing and Collection Services – The Board has an agreement with the Department of Environmental Services, City and County of Honolulu to provide certain services through June 30, 2004, relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately \$100,000 per year through fiscal 2003. The fees for fiscal 2004 are subject to renegotiation. The revenues related to these fees are included in other operating revenues and the corresponding expense in the Sewer Fund.

Central Administrative Services Expense (CASE) Fee – During fiscal year 2000, the Board entered into an agreement with the City to pay a Central Administrative Services Expense (CASE) fee for treasury, personnel, purchasing and other services that the City provides to the Board on an on-going basis. For fiscal year 2001, the CASE fee was calculated as 4% of the Board's total operating budget less budgeted transfers to the capital improvement, renewal replacement, and other Board funds. The Board's Charter allows for a CASE fee to the extent that it represent a reasonable charge for

CITY AND COUNTY OF HONOLULU
Notes to the Financial Statements

services necessary for the Board to perform its duties. Although CASE fees for fiscal year subsequent to 2001 are currently being negotiated between the Board and the City, the Board accrued their best estimate of approximately \$3.3 million for fiscal year 2002.

Honouliuli Reclamation Facility – In July 2000, the Board entered into a Water Reclamation Facility Sale Agreement and Assignment of Water Reclamation Facility Agreement (the Sale Agreement) with a third-party contractor and the City for the purchase of a water reclamation plant. The total cost of the acquisition is estimated at \$51.6 million, including the initial purchase price of \$48.1 million for the plant and \$3.5 million for certain components of the distribution system. Of the initial purchase price, \$44 million was paid as of June 30, 2002 and the remaining balance of \$4.1 million is to be paid when the facility meets certain performance standards specified in the Sale Agreement and is included in contracts payable from restricted assets at June 30, 2002.

In conjunction with the acquisition, the Board also executed a 20-year service contract with the same third-party contractor to provide design, engineering, operations and maintenance services for the facility. The Board provided for separate financing of the acquisition through a bond offering in fiscal 2002.

During fiscal 2002, the Board had determined that the customer advance liability was overstated as the liability was not properly reduced and recognized as contributions in aid of construction revenue when the related water service was made available to the customer. Accordingly, proper adjustments were made to correct the customer advance liability and contributions in aid of construction revenue, which resulted in an adjustment of approximately \$39.6 million to the July 1, 2001 net asset balance as follows (amounts in thousands):

Net assets, as previously reported	\$ 908,004
Adjustment	<u>39,630</u>
Net assets, as restated	<u><u>\$ 947,634</u></u>

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**REQUIRED SUPPLEMENTARY
INFORMATION OTHER THAN MD&A**

BUDGETARY COMPARISON SCHEDULES

For a brief explanation of the General Fund and Highway Fund, please refer to the divider page for the Governmental Fund Financial Statements preceding page 35.

CITY AND COUNTY OF HONOLULU
GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

(Page 1 of 2)

	Original Budget	Final Budget	Actual on Budgetary Basis	Final Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 394,234	\$ 394,234	\$ 407,270	\$ 13,036
Licenses and permits	25,873	25,873	25,897	24
Intergovernmental	39,117	39,117	32,063	(7,054)
Charges for services	3,865	3,865	3,912	47
Fines and forfeits	125	125	249	124
Miscellaneous:				
Reimbursements and recoveries	79,874	79,874	76,706	(3,168)
Interest	10,002	10,002	7,519	(2,483)
Other	13,258	13,258	21,023	7,765
Total Revenues	<u>566,348</u>	<u>566,348</u>	<u>574,639</u>	<u>8,291</u>
Expenditures:				
Current:				
General government:				
Budget and Fiscal Services	12,172	12,464	11,940	524
City Clerk	2,358	2,433	2,341	92
City Council	4,587	4,627	4,445	182
Corporation Counsel	7,917	7,917	9,073	(1,156)
Customer Services	18,428	18,671	17,351	1,320
Design and Construction	14,340	13,715	12,729	986
Facility Maintenance	10,307	10,159	9,787	372
Human Resources	4,395	4,555	4,451	104
Information Technology	9,843	9,347	8,099	1,248
Mayor	6,232	6,190	5,609	581
Planning and Permitting	7,086	7,101	6,345	756
Prosecuting Attorney	12,239	12,309	12,159	150
Total General government	<u>109,904</u>	<u>109,488</u>	<u>104,329</u>	<u>5,159</u>
Public safety:				
Emergency Services	4,936	5,425	5,339	86
Fire	57,596	59,156	58,928	228
Mayor	563	605	574	31
Medical Examiner	973	973	972	1
Planning and Permitting	4,061	4,046	3,965	81
Police	142,650	142,650	136,009	6,641
Total Public safety	<u>210,779</u>	<u>212,855</u>	<u>205,787</u>	<u>7,068</u>
Highways and streets:				
Facility Maintenance	6,328	6,328	5,856	472
Sanitation:				
Environmental Services	47	47	28	19
Health and human resources:				
Community Services	2,231	2,231	1,995	236
Emergency Services	15,082	15,082	13,727	1,355
Total Health and human resources	<u>17,313</u>	<u>17,313</u>	<u>15,722</u>	<u>1,591</u>

CITY AND COUNTY OF HONOLULU
GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

(Page 2 of 2)

	Original Budget	Final Budget	Actual on Budgetary Basis	Final Variance Favorable (Unfavorable)
Culture-recreation:				
Enterprise Services	69	69	69	--
Mayor	1,563	1,563	1,541	22
Parks and Recreation	43,835	43,835	42,275	1,560
Total Culture-recreation	45,467	45,467	43,885	1,582
Miscellaneous:				
Retirement and health benefits:				
Budget and Fiscal Services	120	120	68	52
City Council	1,418	1,418	1,387	31
Provisional	80,326	81,383	80,192	1,191
Total Retirement and health benefits	81,864	82,921	81,647	1,274
Other:				
Budget and Fiscal Services	6,267	6,267	6,118	149
City Council	210	82	12	70
Provisional	22,743	18,848	13,918	4,930
Total Other	29,220	25,197	20,048	5,149
Total Miscellaneous	111,084	108,118	101,695	6,423
Debt Service:				
Budget and Fiscal Services	359	359	359	--
City Council	--	12	12	--
Customer Services	--	25	25	--
Design and Construction	--	625	625	--
Information Technology	--	496	496	--
Total Debt service	359	1,517	1,517	--
Total Expenditures	501,281	501,133	478,819	22,314
Revenues over Expenditures	65,067	65,215	95,820	30,605
Other Financing Sources (Uses):				
Sales of general fixed assets	200	200	187	(13)
Operating transfers in	85,590	85,590	82,919	(2,671)
Operating transfers out	(197,896)	(198,044)	(185,348)	12,696
Total Other Financing Sources (Uses)	(112,106)	(112,254)	(102,242)	10,012
Net change in Fund Balance	(47,039)	(47,039)	(6,422)	40,617
Encumbrances	--	--	19,236	19,236
Fund Balance - July 1	47,121	47,121	41,536	(5,585)
Fund Balance - June 30	\$ 82	\$ 82	\$ 54,350	\$ 54,268

Budgetary basis includes encumbrances.

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF HONOLULU
HIGHWAY FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

(Page 1 of 2)

	Original Budget	Final Budget	Actual on Budgetary Basis	Final Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 67,600	\$ 67,600	\$ 70,476	\$ 2,876
Licenses and permits	26,508	26,508	27,800	1,292
Charges for services	3,927	3,927	4,123	196
Fines and forfeits	12	12	2	(10)
Miscellaneous:				
Reimbursements and recoveries	318	318	144	(174)
Interest				--
Other	1,413	1,413	4,358	2,945
Total Revenues	99,778	99,778	106,903	7,125
Expenditures:				
Current:				
General government:				
Design and Construction	3,350	3,350	3,193	157
Facility Maintenance	6,499	6,999	6,953	46
Planning and Permitting	1,328	1,328	1,247	81
Total General government	11,177	11,677	11,393	284
Public safety:				
Police	16,804	16,804	16,643	161
Transportation Services	4,078	4,061	3,870	191
Total Public safety	20,882	20,865	20,513	352
Highways and streets:				
Facility Maintenance	13,112	12,612	9,677	2,935
Sanitation:				
Environmental Services	871	871	641	230
Utilities or other enterprises:				
Transportation Services	1,762	1,779	1,472	307
Miscellaneous:				
Retirement and health benefits:				
Provisional	9,668	9,668	9,100	568
Other:				
Provisional	2,813	2,813	1,300	1,513
Total Miscellaneous	12,481	12,481	10,400	2,081
Total Expenditures	60,285	60,285	54,096	6,189
Revenues over Expenditures	39,493	39,493	52,807	13,314

CITY AND COUNTY OF HONOLULU
HIGHWAY FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (Amounts in thousands)

(Page 2 of 2)

	Original Budget	Final Budget	Actual on Budgetary Basis	Final Variance Favorable (Unfavorable)
Other Financing Source (Use):				
Sales of general fixed assets	319	319	345	26
Operating transfers out	(47,934)	(47,934)	(45,303)	2,631
Total Other Financing Source (Use)	(47,615)	(47,615)	(44,958)	2,657
Net change in Fund Balance	(8,122)	(8,122)	7,849	15,971
Encumbrances	--	--	1,533	1,533
Fund Balance - July 1	8,122	8,122	17,702	9,580
Fund Balance - June 30	\$ --	\$ --	\$ 27,084	\$ 27,084

Budgetary basis includes encumbrances.

The notes to the financial statements are an integral part of this statement.

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 2001, of the total 386,188 acres on Oahu, 99,686 acres, or 25.8%, were classified urban, 156,618 acres, or 40.6%, were classified conservation, and 129,884 acres, or 33.6%, 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 6.4 million visitors came to the State of Hawaii in 2002, representing an increase of 0.9% over 2001. The domestic arrivals of 4.44 million visitors represented an increase of 2.7% over 2001. The international arrivals of 2.0 million visitors decreased by 2.9% in 2001. The preliminary average daily visitor census figure for 2003 as of April 2003 was 168,205, or an increase of 3.1% compared to 155,753 for the same period in 2003. Oahu has 36,457 hotel rooms, or 51.5% of the total hotel rooms in the State. Hotel occupancy rates on Oahu averaged 70.3% in 2002. More detailed statistics on the visitor industry are as follows:

Table I

**SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS
1998 – 2002**

	<u>1998</u>	<u>1999^(R)</u>	<u>2000</u>	<u>2001</u>	<u>2002^(P)</u>
Overnight and longer visitors (thousands).....	6,738	6,741	6,949	6,304	6,360
Domestic (thousands)*	4,245	4,256	4,447	4,224	4,340
International (thousands)*	2,493	2,485	2,502	2,080	2,020
Domestic average daily visitor census (thousands)*	119.7	118.0	123.4	118.1	124.1
Domestic average length of stay (number of days)*	10.3	10.1	10.2	10.2	10.4
International average daily visitor census (in thousands)*	40.2	46.4	45.2	40.1	38.7
International average length of stay (number of days)* ..	5.9	6.8	6.6	7.0	7.0
Hotel inventory -State	71,480	71,157	71,506	72,204	70,783
Hotel inventory – Oahu.....	36,206	35,861	36,303	36,824	36,457
Occupancy-State (percent).....	72.0	73.1	77.2	69.2	69.3
Occupancy – Oahu (percent).....	73.8	73.1	79.0	68.6	70.3
Oahu Average Daily Room Rate.....	\$123	\$119	\$121	\$116	\$111

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.”*

^(R) *Revised.*

^(P) *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 crumbling Waikiki Natatorium.

Other work to be done includes \$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, to begin later in 2003, will concentrate on retail, 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 business continues to grow. Since 2002, Norwegian Cruise Lines has operated cruises, which have included a required stopover in the nation of Kiribati to comply with federal restrictions on foreign flagged vessels. Norwegian recently gained U.S. Congressional approval to reflag one of its cruise ships as a U.S. vessel to avoid such restrictions. Norwegian has also purchased one of two vessels from the bankrupt American Hawaii Cruises, which will also operate as a U.S. flagged ship beginning in July 2004. The State’s Harbors Division is considering the expansion of 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**

	<u>1998</u>	<u>1999⁽¹⁾</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽²⁾</u>
Civilian Labor Force.....	427,650	423,150	423,700	429,250	412,100
Employment.....	404,700	402,250	407,800	411,750	396,050
Unemployment	22,950	20,900	15,900	17,500	16,000
Unemployment Rate.....	5.4%	4.9%	3.8%	4.1%	3.9%
Total Job Count ⁽³⁾	420,850	403,650	414,250	414,750	413,800

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

⁽¹⁾ *Revised.*

⁽²⁾ *Preliminary*

⁽³⁾ *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 \$9.7 billion during Fiscal Year 2001, representing a 7.8% increase over the preceding year. Of the total, \$3.7 billion was expended by the Department of Defense. The remaining \$6.0 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 5.8% 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 15,500 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 Kulekole 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. In 2001, the State government generated 67,300 jobs, of which approximately 76.4% were located on Oahu. The largest number of employees work in the public education and university system.

The City and County of Honolulu government generated 11,650 jobs in 2002, with the police and public works departments having the most employees.

Construction

Construction activity statewide amounted to \$4.3 billion in 2002, with the bulk of the activity generated on Oahu. For 2002, the construction industry generated 25,700 jobs, or 4.6% 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, and decreased .8% in 1999, and increased 20.8%, 4.2%, 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 2002, the City and County expended \$257.9 million on various public improvement projects, an increase of \$54.2 million from 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)

<u>Year</u>	<u>State</u>	<u>% Change from Prior Year</u>	<u>City & County of Honolulu</u>	<u>% Change from Prior Year</u>
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 6.4 million who arrived in 2002. 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, 2001, 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 (196 branches) in Hawaii had combined assets of some \$22.6 billion. In addition, there is one state chartered savings and loan association, with 17 branches and assets totaling \$553.7 million, and three state chartered financial services companies that issue investment certificates, with assets of \$488.2 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, and is currently undergoing environmental review, which is expected to be completed by the end of 2001. 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.

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 has announced new nonstop service to Honolulu from its Atlanta and Cincinnati hubs to begin in August and November 2003, respectively. Continental added a second daily nonstop flight to Honolulu from Houston. 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. While domestic airline service to Hawaii increased overall during the period, international service from Asia declined. 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, and 8.2 million short tons in fiscal year 2002. The harbors are continuously maintained through the issuance of appropriate special maintenance contracts to ensure the availability of safe and effective harbor facilities.

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 2003A
(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 \$250,000,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2003A (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 _____, 2003 (the "Certificate"), and various bond authorizing ordinances adopted by the City Council and identified in the Certificate (the "Bond Ordinances").

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

The interest rate on the Bonds and certain agreements, requirements and procedures contained or referred to in the Bond Ordinances, the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents (including, without limitation, refunding of the Bonds). 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 Ordinances, the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure 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 Ordinances, 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 foregoing documents.

Finally, we undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

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

Respectfully submitted,

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) Citigroup Global Markets Inc. and UBS Financial Services Inc., as the Underwriters of the City and County General Obligation Bonds, Series 2003A, dated the date of issuance thereof (the "Series 2003A Bonds"), shall be a beneficiary of the Master Certificate; (iii) the Holders of the Series 2003A Bonds shall also be beneficiaries of the Master Certificate; (iv) the Beneficial Owners of the Series 2003A Bonds shall be third-party beneficiaries of the Master Certificate; and (v) all capitalized terms used herein shall have the respective meanings as defined in the Master Certificate.

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

Dated as of August __, 2003.

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 August __, 2003.

David Z. Arakawa
Corporation Counsel
City and County of Honolulu

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BOOK-ENTRY SYSTEM

Information on DTC and Book-Entry System. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the City and County and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the City and County.

DTC 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 each maturity of the Bonds of each series in the principal amount of such maturity, and will be deposited with DTC.

DTC and its Participants. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 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 nominee do no 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 Cede & Co. 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 such other DTC nominee) will consent or vote with respect to the Bonds. 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal and interest 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 the Tender and Paying Agent or the Remarketing Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Tender and Paying Agent or the Remarketing Agent or the City and County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and County or the Tender and Paying Agent or the Remarketing Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender and Paying Agent or the Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender and Paying Agent or the Remarketing Agent. The requirement for physical delivery of the Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender and Paying Agent's or the Remarketing Agent's DTC account.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the City and County or the Tender and Paying Agent or the Remarketing Agent. Under such circumstances, in the event that a successor Securities 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

President

Attest:

Assistant Secretary

SPECIMEN

