NEW ISSUE
FULL BOOK-ENTRY

RATINGS:
Fitch: AA+
Moody's: Aa1
(See "Bond Ratings" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and 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 and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal 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.

$304,345,000
CITY AND COUNTY OF HONOLULU
General Obligation Bonds
Series 2011A and 2011B

Dated: Date of Delivery **Due: August 1, as shown on inside cover**

The City and County of Honolulu General Obligation Bonds, Series 2011A and Series 2011B (the "Series 2011A Bonds" and "Series 2011B Bonds," respectively, and together, the "Bonds"), are being issued by the City and County of Honolulu (the "City and County") in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of certificates; payment of the principal of, and premium, if any, and interest on, the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may initially be made in the denomination of $5,000 or any integral multiple thereof.

The Bonds will be dated as of the date of delivery thereof and will bear interest at the rates shown on the inside cover, payable on February 1 and August 1 of each year, commencing August 1, 2012 for the Series 2011A Bonds and February 1, 2012 for the Series 2011B Bonds. The Bonds are subject to redemption prior to the stated maturity thereof as described herein.

The Bonds are being issued for the purpose of funding certain capital improvement projects of the City and County and to refund certain outstanding general obligation bonds of the City and County.

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

The Bonds 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, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the Bonds in definitive form will be available for delivery to DTC, in New York, New York, on or about August 4, 2011.

BofA Merrill Lynch

Piper Jaffray & Co.

July 13, 2011

$304,345,000
CITY AND COUNTY OF HONOLULU
General Obligation Bonds

$141,235,000 Series 2011A

Year (August 1)	Principal Amount	Interest Rate	Yield	CUSIP (438670)*	Year (August 1)	Principal Amount	Interest Rate	Yield	CUSIP (438670)*
2016	$4,150,000	4.00%	1.46%	XY2	2027	$6,735,000	5.00%	3.80%†	YK1
2017	4,315,000	4.00	1.88	XZ9	2028	7,085,000	5.00	3.90†	YL9
2018	4,495,000	4.00	2.23	YA3	2029	7,410,000	4.00	4.20	YM7
2019	4,675,000	4.00	2.52	YB1	2030	7,760,000	5.25	3.99†	YN5
2020	4,865,000	4.00	2.78	YC9	2031	8,180,000	5.25	4.09†	YP0
2021	5,065,000	4.00	2.98	YD7	2032	8,575,000	4.25	4.45	YQ8
2022	5,270,000	4.00	3.19†	YE5	2033	8,995,000	5.25	4.27†	YR6
2023	5,515,000	5.00	3.35†	YF2	2034	9,480,000	5.25	4.34†	YS4
2024	5,800,000	5.00	3.48†	YG0	2035	9,950,000	4.50	4.65	YT2
2025	6,095,000	5.00	3.61†	YH8	2036	10,410,000	4.50	4.68	YU9
2026	6,410,000	5.00	3.72†	YJ4					

$163,110,000 Series 2011B Bonds

Year (August 1)	Principal Amount	Interest Rate	Yield	CUSIP (438670)*	Year (August 1)	Principal Amount	Interest Rate	Yield	CUSIP (438670)*
2016	$ 3,500,000	2.00%	1.46%	YV7	2021	$1,335,000	3.25%	2.98%	ZA2
2016	6,820,000	5.00	1.46	ZG9	2021	11,710,000	5.00	2.98	ZM6
2017	2,040,000	2.50	1.88	YW5	2022	13,705,000	5.00	3.19†	ZB0
2017	8,730,000	5.00	1.88	ZH7	2023	14,405,000	5.00	3.35†	ZC8
2018	1,565,000	3.00	2.23	YX3	2024	1,010,000	3.50	3.64	ZD6
2018	9,715,000	5.00	2.23	ZJ3	2024	14,125,000	5.00	3.48†	ZP9
2019	420,000	3.00	2.52	YY1	2025	15,905,000	5.00	3.61†	ZE4
2019	11,420,000	5.00	2.52	ZK0	2026	16,720,000	5.00	3.72†	ZF1
2020	1,165,000	3.25	2.78	YZ8	2027	5,000,000	4.00	4.02	ZN4
2020	11,265,000	5.00	2.78	ZL8	2027	12,555,000	5.00	3.80†	ZQ7

† *Priced to call at par on August 1, 2021.*

City and County of Honolulu

State of Hawaii

(Incorporated 1907)

MAYOR

Peter B. Carlisle

CITY COUNCIL

Ernest Y. Martin
Chair and Presiding Officer

Ikaika Anderson
Vice Chair

Romy M. Cachola
Floor Leader

Tom Berg

Stanley Chang

Tulsi Gabbard

Nestor R. Garcia

Breene Harimoto

Ann H. Kobayashi

DIRECTOR OF BUDGET AND FISCAL SERVICES

Michael R. Hansen

ACTING CORPORATION COUNSEL

Robert Carson Godbey

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

$304,345,000
City and County of Honolulu
General Obligation Bonds
Series 2011A and Series 2011B

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 $304,345,000 aggregate principal amount of General Obligation Bonds, Series 2011A and Series 2011B (the "Series 2011A Bonds" and "Series 2011B Bonds," respectively, and together, the "Bonds").

AUTHORITY FOR AND PURPOSE OF ISSUANCE

Authority for Issuance

The Bonds are being issued pursuant to and in full compliance with Ordinance Nos. 98-29, 00-24, 01-27, 02-27, 03-08, 04-15, 05-15, 06-34, 07-26, 08-14, 09-13, 10-13, 11-12 and 99-11 of the City and County, Resolution No. 11-168 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.

Purpose of Issuance

The proceeds of the Bonds will be used to provide funds (i) to pay the costs of certain capital improvement projects of the City and County, and (ii) to refund certain outstanding general obligation bonds of the City and County, as described below under "The Refunding Plan," and (iii) to pay certain costs of issuance relating to the Bonds.

The Refunding Plan

The Series 2011B Bonds are being issued to refund the following general obligation bonds of the City and County (the "Refunded Bonds"):

Series	Maturity	Principal Amount	Interest Rate	Series	Maturity	Principal Amount	Interest Rate
1993A	01/01/2013	$ 2,700,000	6.000%	2003A	03/01/2014	$ 1,680,000	5.250%
1993B	10/01/2011	15,100,000	5.500	2003A	03/01/2015	2,160,000	5.250
1993C	09/01/2011	1,460,000	4.875	2003A	03/01/2016	2,230,000	5.250
1993C	09/01/2012	1,530,000	4.875	2003A	03/01/2017	2,395,000	5.250
2001A	09/01/2011	5,595,000	4.375	2003A	03/01/2018	2,515,000	5.250
2003A	03/01/2015	330,000	4.125	2003A	03/01/2019	2,640,000	5.250
2003A	03/01/2016	520,000	4.250	2003A	03/01/2020	2,840,000	5.250
2003A	03/01/2017	360,000	4.300	2003A	03/01/2021	2,980,000	5.250
2003A	03/01/2018	385,000	4.400	2003A	03/01/2022	3,130,000	5.250
2003A	03/01/2019	440,000	4.500	2003A	03/01/2023	11,185,000	5.250
2003A	03/01/2020	235,000	4.550	2003A	03/01/2028	12,775,000	5.250
2003A	03/01/2021	280,000	4.625	2004A	07/01/2012	2,840,000	5.000
2003A	03/01/2022	310,000	4.700	2004A	07/01/2020	4,260,000	5.000
2003A	03/01/2023	1,365,000	4.750	2004A	07/01/2021	4,475,000	5.000
2003A	03/01/2024	13,205,000	5.250	2004A	07/01/2022	4,705,000	5.000
2003A	03/01/2025	13,895,000	5.250	2005A	07/01/2012	5,985,000	5.000
2003A	03/01/2026	14,625,000	5.250	2005F	07/01/2012	4,950,000	5.250
2003A	03/01/2027	15,395,000	5.250	2007A	07/01/2012	8,380,000	4.000

Upon the issuance of the Series 2011B Bonds, a portion of the proceeds thereof will be deposited into an escrow fund (the "Escrow Fund") to be established with U.S. Bank National Association, as escrow agent (the "Escrow Agent"), for the purpose of effecting the refunding of the Refunded Bonds. The moneys and securities held in the Escrow Fund are to be applied to the payment of principal of, premium, if any, and interest on the Refunded Bonds. Pending application, moneys deposited in the Escrow Fund will be invested in noncallable direct obligations of the United States (the "Escrow Securities") which, together with cash held uninvested in the Escrow Fund, will be sufficient, without reinvestment, and will be applied to pay the principal or redemption price of and interest on the Refunded Bonds to and including their respective maturity dates or redemption dates. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Fund, in the amounts needed to pay the principal or redemption price of and interest on the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein for a discussion of certain mathematical computations relating to the Escrow Fund and the Series 2011B Bonds.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the date of delivery thereof; will mature serially on August 1 of the years and in the principal amounts shown on the inside cover page hereof; will bear interest at the rates per annum shown on the inside cover hereof (computed on the basis of a 360-day year) payable February 1 and August 1 of each year, commencing August 1, 2012 for the Series 2011A Bonds and February 1, 2012 for the Series 2011B Bonds; 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 ("DTC"), New York, New York, which will act as securities depository for the Bonds (together with its successors, if any, in such capacity, the "Securities Depository"). 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 of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds. Principal of and interest on the Bonds will be paid to the Securities Depository, which will in turn remit such principal and interest to its Participants (as defined in Appendix D), for subsequent distribution to the Beneficial Owners (as defined in Appendix D) of the Bonds. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in accompanying proceedings of the City and County. See Appendix D, "Book-Entry System."

Payment of Bonds

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

Optional Redemption

The Bonds maturing on and after August 1, 2022 are subject to redemption prior to the stated maturity thereof at the option of the City and County on or after August 1, 2021, in whole or in part at any time, from any maturities selected by the City and County (in its sole discretion), at a redemption price equal to 100% of the principal amount of the Bonds or portions thereof to be redeemed plus accrued interest to the date of redemption.

Selection for Redemption

If fewer than all of the Bonds shall be called for redemption, the City and County shall designate the maturities from which the Bonds are to be redeemed. For so long as the Bonds are registered in book-entry form and DTC or a successor Securities Depository is the sole registered owner of such Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and interest rate to be redeemed shall be selected in accordance with the operational arrangements of the Securities Depository then in effect; provided that any such redemption must be performed such that all Bonds remaining outstanding will be in authorized denominations. See Appendix D, "Book-Entry System."

Notice of Redemption

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. The failure of the registered holder to receive such notice by mail or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of any Bond. If a Bond is of a denomination in excess of $5,000, portions of the principal sum thereof in amounts of $5,000 or any integral multiple thereof may be redeemed, and if less than all of the principal sum thereof is to be redeemed, in such case, upon the surrender of such Bond to the Paying Agent, 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.

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the City and County on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Bonds proposed to be redeemed shall not be received on or prior to the date fixed for redemption, such notice of redemption shall be null and void and of no force and effect, the City and County shall not redeem or be obligated to redeem any Bonds, and the Paying Agent at the City and County's direction shall give notice, in the same manner as notice of redemption is given, that moneys sufficient to pay in full the redemption price of the Bonds proposed to be redeemed were not received on or prior to the date fixed for redemption and such redemption did not occur. In the event of any such failure to redeem, all Bonds surrendered for redemption shall be promptly returned to the holder or holders by the Paying Agent.

If notice of redemption of any Bond (or any portion of the principal sum thereof) has been duly given, and if on or before the date fixed for such redemption the City and County has duly made or provided for the payment of the principal sum to be redeemed to the date fixed for such redemption, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest thereon shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed. See Appendix D, "Book-Entry System," for a discussion of the notice of redemption to be given to Beneficial Owners of the Bonds when the Book-Entry System for the Bonds is in effect.

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, 2012:

CITY AND COUNTY OF HONOLULU
General Obligation Bonds,
Series 2011A and Series 2011B
Debt Service Requirements

FY Ending June 30	Principal	Interest	Total
2012	-	$ 3,860,025.83	$ 3,860,025.83
2013	-	17,664,910.63	17,664,910.63
2014	-	14,430,125.00	14,430,125.00
2015	-	14,430,125.00	14,430,125.00
2016	-	14,430,125.00	14,430,125.00
2017	$ 14,470,000	14,141,625.00	28,611,625.00
2018	15,085,000	13,523,075.00	28,608,075.00
2019	15,775,000	12,836,775.00	28,611,775.00
2020	16,515,000	12,095,225.00	28,610,225.00
2021	17,295,000	11,312,068.75	28,607,068.75
2022	18,110,000	10,498,468.75	28,608,468.75
2023	18,975,000	9,634,700.00	28,609,700.00
2024	19,920,000	8,688,675.00	28,608,675.00
2025	20,935,000	7,674,875.00	28,609,875.00
2026	22,000,000	6,609,075.00	28,609,075.00
2027	23,130,000	5,480,825.00	28,610,825.00
2028	24,290,000	4,320,325.00	28,610,325.00
2029	7,085,000	3,560,950.00	10,645,950.00
2030	7,410,000	3,235,625.00	10,645,625.00
2031	7,760,000	2,883,725.00	10,643,725.00
2032	8,180,000	2,465,300.00	10,645,300.00
2033	8,575,000	2,068,356.25	10,643,356.25
2034	8,995,000	1,650,018.75	10,645,018.75
2035	9,480,000	1,165,050.00	10,645,050.00
2036	9,950,000	692,325.00	10,642,325.00
2037	10,410,000	234,225.00	10,644,225.00
Total:	$304,345,000.00	$199,586,598.96	$503,931,598.96

SECURITY FOR THE BONDS

Security Provisions

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

Outstanding and Expected General Obligation Bonds

The capital improvement budgets for the Fiscal Years ended June 30, 1999 through 2011 and for the Fiscal Year ending June 30, 2012, authorized and appropriated a total of $5,701,205,533 for public improvements to be financed from the proceeds of general obligation bonds or notes. As of March 31, 2011, $2,144,260,257 of general obligation bonds and notes (including reimbursable general obligation bonds) had been issued to finance appropriations for such Fiscal Years, and $642,676,113 of such appropriations had lapsed pursuant to the terms of the Revised Charter of the City and County. It is expected that $2,914,269,163, the balance of such appropriations, will be funded from the proceeds of the Bonds or of other general obligation bond or note issues to be issued in the future.

See "BUDGET PROCESS AND FINANCIAL MANAGEMENT – Budgets and Expenditures" for more information relating to lapsing of capital budget appropriations. See also "DEBT STRUCTURE— High-Capacity Transit Corridor Project" for a discussion of the City and County's fixed guideway mass transit project to be funded in part through the issuance of general obligation bonds.

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 2010 U.S. Census, the resident population of the State was 1,360,301, and that of Honolulu was 953,207, approximately 70% 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, including substantial army, navy, air force, marine and coast guard installations), manufacturing, major educational and scientific, and significant agricultural activities are located on Oahu.

Reference is made to Appendix A hereto for certain additional demographic and economic information with respect to the State and the City and County.

Government and Organization

Introduction. Government in the State of Hawaii is highly centralized, with the State assuming several major functions usually performed by local governments in other jurisdictions. Foremost among these, in terms of cost, are health, education, welfare and judicial functions. For example, the public schools and public medical facilities in the City and County are administered and funded by the State. The State is also responsible for the operation and maintenance of all airports and harbors. See Appendix A for 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, the public service company tax on certain public utilities, the 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 use taxes and the personal and corporate income taxes. In addition, the State imposes taxes on liquor, tobacco, insurance premiums, banks and other financial corporations, inheritances, transient accommodations, estates and real property transfers.

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 2012. 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, approval of indebtedness and establishment of community plans and zoning. The City Council is comprised of nine members, each of whom represents a separate council district. Pursuant to Section 16-122 of the City Charter, the staggering of the terms of councilmembers commenced on January 2, 2003. The councilmembers for council districts I, III, V, VII and IX were elected to four-year regular terms expiring on January 2, 2013, while the councilmembers for council districts II, IV, VI and VIII were elected to four-year regular terms expiring on January 2, 2015. Section 3-102 of the City Charter provides that "No person shall be elected to the office of councilmember for more than two consecutive four-year terms."

Semi-Autonomous Agencies. The City and County may create, by Charter or ordinance, semi-autonomous agencies with such powers as are granted by the applicable Charter provision or ordinance. Two semi-autonomous agencies have been created by Charter:

- The Board of Water Supply maintains exclusive management and control over the public water system servicing the Island of Oahu. The Board consists 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.

- The Honolulu Authority for Rapid Transportation was created effective July 1, 2011 to develop, operate, maintain and expand a fixed guideway mass transit system for the City and County. The Authority is under the direction of a ten-member policy making board of directors consisting of seven appointed voting members, two ex officio voting members (the Director of the State Department of Transportation and the City and County's Director of Transportation Service) and one ex officio nonvoting member (the City and County's Director of Planning and Permitting). See "DEBT STRUCTURE – High Capacity Transit Corridor Project" for certain information regarding the proposed transit system.

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 revisions 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, 2010, are accessible from the City and County's website at http://www.honolulu.gov/budget/cafr.htm, or may be obtained from the City and County by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawaii 96813. Information on the City and County's website other than the audited financial statements is not part of this Official Statement. See "FINANCIAL INFORMATION AND ACCOUNTING – Financial Statements" herein for certain financial information based on the City and County's audited financial statements. See also Appendix A hereto for a discussion of certain economic conditions that could potentially impact the City and County's revenues, including conditions relating to the current national and international economic environment.

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 70% of General Fund revenues, and the allocation of the State transient accommodation tax are described below. See also Table 13 under "FINANCIAL INFORMATION AND ACCOUNTING."

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

Under the Tax Ordinance, all real property in the City and County, except as exempted or otherwise taxed, is subject each year to a tax upon the fair market value thereof. Real property in the City and County is classified and taxed as (1) residential, (2) hotel and resort, (3) commercial, (4) industrial, (5) agricultural, (6) vacant agricultural, (7) conservation and (8) public service. In determining the value of land consideration is given to its highest and best use, selling prices and income, productivity, actual and potential use, advantage or disadvantage of factors such as location, accessibility, transportation facilities, availability of water and its cost, easements, zoning, dedication as to usage, and other influences which fairly and reasonably bear upon the question of value. Real property owned by the governments of the United States, the State of Hawaii or the several counties of the State is excluded from taxation, but is taxable when leased to or occupied by a private entity under certain conditions described in the Tax Ordinance. Real property owned and actually and exclusively used for an 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 a home is exempt from taxation to the extent of $80,000 ($120,000 for persons age 65 and over). In lieu of the exemptions set forth in the previous sentence, qualified low-income taxpayers can receive exemptions that gradually increase based on age, from $140,000 for persons age 75 to $200,000 for persons age 90 and over. In lieu of taxing the real property of public service companies, the City and County collects a public service company tax on the gross income of such companies allocable to operations within the City and County, as discussed below under "Public Service Company Tax."

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

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

Under the State Constitution, the City and County is permitted to adjust its real property tax rates upward or downward from time to time with Council approval. In the past, the City and County has at times increased the tax rates applicable to certain classes of real property when needed to produce sufficient revenues to support its budgeted expenditures.

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

The assessed valuation of real property in the City and County for Fiscal Years 2011 and 2012 is 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 and applicable tax rates for each class of property for Fiscal Years 2008 through 2012.

Table 1

ASSESSED VALUATION OF REAL PROPERTY [(1)]
Fiscal Years 2011 and 2012
(values in thousands)

	2011	2012
Gross assessed valuation	$178,034,158	$178,264,649
Less exemption valuation	(23,584,782)	(23,737,362)
Assessor's net taxable value	154,449,376	154,527,287
Less 50% of valuations on appeal	(1,340,271)	(934,669)
Net assessed valuation for rate purposes	$153,109,105	$153,592,618

[(1)] *At 100% of fair market value.*

Table 2

REAL PROPERTY NET ASSESSED VALUES BY CLASSIFICATION AND TAX RATES
Fiscal Years 2008–2012
(values in thousands)

Classification	2008 Value	2008 Rate	2009 Value	2009 Rate	2010 Value	2010 Rate	2011 Value	2011 Rate	2012 Value	2012 Rate
Improved Residential [(1)]	$100,858,035	$ 3.29	$136,983,348	$3.29	$134,490,385	$3.42	$ --	$ --	$ --	$ --
Unimproved Residential [(1)]	431,257	5.70	--	--	--	--	--	--	--	--
Apartment [(1)]	38,352,746	3.29	--	--	--	--	--	--	--	--
Homeowner [(2), (3)]	--	--	--	--	--	--	62,837,101	3.42	--	--
Non-Homeowner [(2), (3)]	--	--	--	--	--	--	59,448,272	3.58	--	--
Residential [(3)]	--	--	--	--	--	--	--		123,324,298	3.50
Hotel/Resort	6,872,417	12.40	6,979,025	12.40	7,234,047	12.40	6,522,528	12.40	7,102,339	12.40
Commercial	12,282,509	12.40	13,505,161	12.40	14,312,242	12.40	14,425,794	12.40	13,938,863	12.40
Industrial	6,711,928	12.40	7,249,188	12.40	7,968,538	12.40	7,969,269	12.40	7,685,514	12.40
Agricultural	1,054,884	5.70	1,133,318	5.70	1,248,062	5.70	1,315,389	5.70	1,004,163	5.70
Vacant Agricultural	111,524	8.50	110,808	8.50	143,153	8.50	203,137	8.50	112,244	8.50
Conservation	349,430	5.70	377,099	5.70	381,713	5.70	384,308	5.70	421,553	5.70
Public Service [(4)]	--	--	--	--	3,938	--	3,307	--	3,644	--
Total All Classes	$167,024,730		$166,337,947		$165,782,078		$153,109,105		$153,592,618	

[(1)] *Ordinance 07-10 combined the Improved Residential, Unimproved Residential and Apartment classifications into a new single classification, "Residential" (data for which is presented in the Improved Residential row in the table above), effective with the Fiscal Year ended June 30, 2009.*

[(2)] *Ordinance 09-32 divided the Residential classification into two new classifications, Homeowner and Non-Homeowner, effective with the Fiscal Year ended June 30, 2011.*

[(3)] *Ordinance 10-31 replaced the classifications of Homeowner and Non-Homeowner with Residential effective with the Fiscal Year ending June 30, 2012.*

[(4)] *As discussed above and under "Public Service Company Tax" below, the public service classification of property was established in the Fiscal Year ended June 30, 2002, but the City does not currently tax property in this category. In lieu of taxing such property, the City receives a portion of the public service tax imposed by the State on the gross income of public service companies.*

Assessments are determined as of October 1 of each year. Notices of assessments are sent to taxpayers on or prior to December 15 of each year. Prior to the following January 15, taxpayers may appeal such assessments on the grounds that the assessed value of the property in question exceeds its market value by more than 10%, that an exemption was improperly denied or that the assessment was otherwise contrary to law. Appeals are heard by the City and County's Board of Review or the State Tax Appeals Court.

Subject to the foregoing right to appeal, real property taxes are levied on July 1 and billed on July 20 of each year based on assessed valuations 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, 2008 to 2012 are shown in the table below.

Table 3

STATEMENT OF REAL PROPERTY TAX LEVIES AND COLLECTIONS SHOWING ASSESSED VALUATIONS AND TAX RATES
Fiscal Years 2008–2012
(values in thousands)

Fiscal Year	Net Valuation for Tax Rate Purposes [1]	Weighted Average Tax Rate Per $1,000	Amount of Levies	Percent of Collections to Levy
2008	$167,024,730	$4.73	$760,409	101.2%
2009	166,337,947	4.83	804,120	101.3
2010	165,782,078	5.05	836,448	101.6
2011	153,109,105	5.21	797,722	N/A
2012	153,592,618	5.19	796,927	N/A

(1) *At 100% of fair market value.*

In the Fiscal Year ended June 30, 2010, real property tax revenues (excluding $49.4 million of public service company tax collections) totaled of $852.3 million, accounting for 71.9% of the General Fund revenues for the year. The following two tables identify the ten largest real property taxpayers in the City and County for the Fiscal Year ended June 30, 2011 (the latest period for which such information is currently available). Table 4 lists the taxpayers according to the assessed value of their real property, and Table 5 lists the taxpayers according to the amount of tax levied on such property.

Table 4

TEN LARGEST REAL PROPERTY TAXPAYERS
BY ASSESSED VALUE
Fiscal Year ended June 30, 2011

Taxpayer [1]	Type of Business	Gross Assessed Valuation [2]	% of Total Assessed Valuation
Bishop Estate [3]	Educational Trust Estate	$1,380,593,400	0.78%
General Growth Properties [4]	Real Estate Investment	1,254,080,800	0.70
Kyo-Ya Company [5]	Hotel/Resort	1,129,265,200	0.63
Hilton Hawaiian Village	Hotel/Resort	911,199,700	0.51
Outrigger Hotels Hawaii	Hotel/Resort	596,438,400	0.34
First Hawaiian Bank	Financial Services	511,343,600	0.29
Ko Olina Hotel Etal.	Hotel/Resort	451,419,600	0.25
Reynolds/Shidler	Real Estate	441,500,800	0.25
Weinberg, H&J Foundation Inc.	Trust Estate	408,099,100	0.23
James Campbell Estate	Real Estate	406,155,900	0.23
		$7,490,096,500	4.21%

(1) *Taxpayer's name as recorded on real property tax records*
(2) *Assessed valuation as of January 28, 2010 at 100% of market value.*
(3) *Now known as Kamehameha Schools.*
(4) *General Growth Properties was restructured in bankruptcy in November 2010, resulting in the company's properties being divided between itself and a new entity known as The Howard Hughes Corporation. Resulting changes in property ownership will be reflected in the City and County's real property tax records for Fiscal Years beginning on and after July 1, 2012.*
(5) *Includes The Royal Hawaiian Hotel, Sheraton Waikiki, Sheraton Princess Kaiulani, Westin Moana Surfrider and other Starwood properties.*

Table 5

TEN LARGEST REAL PROPERTY TAXPAYERS
BY AMOUNT OF TAX LEVIED
Fiscal Year ended June 30, 2011

Taxpayer [1]	Type of Business	Amount of Tax Levied	% of Total Amount Levied
General Growth Properties[2]	Real Estate Investment	$15,454,598	1.94%
Kyo-Ya Company [3]	Hotel/Resort	14,003,225	1.76
Bishop Estate[4]	Educational Trust Estate	12,498,969	1.57
Hilton Hawaiian Village	Hotel/Resort	11,115,984	1.39
Outrigger Hotels Hawaii	Hotel/Resort	7,274,263	0.91
First Hawaiian Bank	Financial Services	6,306,689	0.79
Ko Olina Hotel Etal.	Hotel/Resort	5,635,474	0.71
Reynolds/Shidler	Real Estate	4,982,357	0.62
James Campbell Estate	Real Estate	4,837,206	0.61
Weinberg, H&J Foundation Inc.	Trust Estate	4,623,024	0.58
		$86,731,789	10.88%

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

(2) *General Growth Properties was restructured in bankruptcy in November 2010, resulting in the company's properties being divided between itself and a new entity known as The Howard Hughes Corporation. Resulting changes in property ownership will be reflected in the City and County's real property tax records for Fiscal Years beginning on and after July 1, 2012.*

(3) *Includes The Royal Hawaiian Hotel, Sheraton Waikiki, Sheraton Princess Kaiulani, Westin Moana Surfrider and other Starwood properties.*

(4) *Now known as Kamehameha Schools.*

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. From January 1, 1999 through June 30, 2009, the transient accommodations tax was imposed at the rate of 7.25% of gross rental proceeds. Effective July 1, 2009 through June 30, 2010, the rate was increased to 8.25%, and effective July 1, 2010 through June 30, 2015, the rate has been increased to 9.25%. Revenues collected from the transient accommodations tax are distributed as follows: 17.3% of revenues is deposited to the Convention Center Enterprise Special Fund, 34.2% of revenues is deposited to the Tourism Special Fund, 44.8% of revenues is distributed to the counties, and the remaining revenues are deposited to the State's General Fund. The City and County receives 44.1% of the revenues distributed to the counties, or 19.8% of the total.

The following presents the City and County's allocable share of the transient accommodations tax and the percentage of General Fund revenues represented by this tax for the five Fiscal Years ended June 30, 2007 through 2011:

Fiscal Year (Ended June 30)	Allocable Share [1] (Dollars in Millions)	Percent of General Fund Revenues [2]
2007	$44.3	4.5%
2008	45.3	3.9
2009	41.2	3.4
2010	40.6	3.15
2011 (estimated)	40.9	NA

(1) *Represents the City and County's share of total transient accommodations tax revenues collected by the State.*

(2) *Represents the City and County's share of total transient accommodations tax revenues as a percentage of its General Fund revenues.*

In the 2011 legislative session, the State Legislature passed Senate Bill 1186, which was subsequently signed into law by the Governor as Act 103, Session Laws of Hawaii 2011 ("Act 103"), which limits the total amount of the transient accommodation tax revenues allocated to all of the counties to $93 million per Fiscal Year from July 1, 2011 through June 30, 2015. In comparison, the amount allocated to the counties in the Fiscal Year ended June 30, 2010 was approximately $102 million and is estimated at approximately $117.7 million for the Fiscal Year ended June 30, 2011. The City and County's operating budget for the Fiscal Year ending June 30, 2012 includes 41.0 million of revenue from this tax, which reflects the limit imposed under Act 103 as applied to the City and County.

Excise Tax. Under State law, counties electing to do so are allowed to impose a 0.5% surcharge (to be collected and distributed by the State) on the existing 4.0% State general excise tax in order to fund transportation projects. Effective January 1, 2007, the City and County imposed this surcharge on Oahu transactions subject to general excise tax. The surcharge will expire on December 31, 2022. The City and County plans to apply proceeds of the surcharge to fund a new fixed guideway mass transit system for Oahu. See "DEBT STRUCTURE – High-Capacity Transit Corridor Project" for additional information concerning the proposed transit system. For the Fiscal Year ended June 30, 2010, the City and County received $157.6 million from the general excise tax surcharge, net of administrative fees charged by the State.

Public Service Company Tax. Under Chapter 239, Hawaii Revised Statutes, if a county exempts real property owned or leased (if the lessee is required to pay any real property taxes) by a public service company from real property taxes, the county is entitled to collect a public service company tax on the gross income of the company allocable to operations within that county. The public service company tax is imposed at rates between 1.885% and 4.2%, based on the ratio between each company's net income and gross income. Currently, the City and County does not tax the real property of public service companies, and it received approximately $49.4 million of public service company tax revenues in the Fiscal Year ended June 30, 2010.

Other Revenues. In addition to the real property tax revenues, revenues from the allocation of the State transient accommodation tax, the excise tax surcharge and the public service company 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.

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 1.25 cents per pound and 2.0 cents per pound, depending on the type of vehicle, with a minimum tax of $12.00 per vehicle. Under State law, the counties collect the vehicle weight tax in connection with their vehicle registration and licensing function. The proceeds from the county vehicle weight tax are restricted by Section 249-18, Hawaii Revised Statutes, to highway and related expenditures in the City and County, including $500,000 for police purposes. In Fiscal Year 2010, the City and County collected $84 million of vehicle weight taxes.

County Fuel Tax. The City and County fuel tax, authorized by Sections 243-4 and 243-5, Hawaii Revised Statutes, is imposed on liquid fuels sold or used within its jurisdiction, except that it does not apply to aviation fuel; and it is imposed only on that portion of diesel fuel used on the public highways. By Resolution No. 89-92, adopted by the City Council on May 24, 1989, the fuel tax for the City and County was increased from 11.5 cents per gallon to 16.5 cents per gallon, effective July 1, 1989. The proceeds from the fuel tax are limited by Section 243-6, Hawaii Revised Statutes, to expenditures for such purposes as designing, constructing, repairing and maintaining highways, roads and streets, highway tunnel and bridges, street lights and storm drains, and for functions connected with county traffic control and safety. In Fiscal Year 2010, the City and County collected $47.6 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 2010, the City and County collected $37.5 million of such taxes.

Certain Recent Legislative Proposals

In recent years, certain legislative proposals have been introduced in the State Legislature to reduce projected shortfalls in the State's operating budget by requiring that collections of taxes otherwise due to the City and County be retained by or transferred to the State. As discussed above under "CITY AND COUNTY REVENUES – General Fund – *Allocation of State Transient Accommodations Tax,*" one such measure recently enacted into law imposes a $93 million annual limit on transient accommodations tax revenues allocated to the counties between July 1, 2011 and June 30, 2015. The City and County cannot predict whether or in what form any other legislative proposals affecting the City and County's tax revenues may be enacted into law in the future. The enactment of any such legislation could have a material adverse impact on the City and County's future receipt of tax revenues affected thereby. However, the power to levy and collect real property taxes (which generally account for approximately 70% of the City and County's General Fund revenues annually) is conferred on the counties by the State Constitution and, as a result, would not be subject to such actions by the State Legislature.

Revenues and Expenditures

The following table presents 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 Years 2006 through 2010.

Table 6

GENERAL FUND REVENUES AND EXPENDITURES

Fiscal Year	Transfers Out (Dollars in Millions)	Transfers In (Dollars in Millions)
2006	$ 871.7	$ 850.2
2007	1,064.5	1,007.3
2008	1,264.4	1,254.1
2009	1,297.5	1,346.9
2010	1,288.1	1,254.8

DEBT STRUCTURE

Legal Requirements

Debt Limit. The creation of general debt by the counties in the State of Hawaii is governed by the State Constitution, 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 net assessed valuation for tax rate purposes of real property in such county, as determined by the last tax assessment rolls pursuant to law.

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

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

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

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

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

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

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

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

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

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

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

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding Fiscal Year.

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

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

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

Funded Debt and Debt Margin

Under State law, a political subdivision (such as the City and County) is required annually, as of each July 1, and upon each issuance to determine and certify the amount of its funded debt and exclusions therefrom. Table 7 sets forth the City and County's most recent summary statement of funded debt and exclusions as of March 31, 2011. Set forth in Table 8 is a detailed schedule of all outstanding general obligation funded debt of the City and County as of March 31, 2011. Table 9 provides debt service charges on outstanding general long-term debt of the City and County as of March 31, 2011.

Table 7

STATEMENT OF FUNDED DEBT
As of March 31, 2011

1.	Gross assessed valuation of real property, January 27, 2011			$ 178,264,648,700
2.	Less exempt valuation			23,737,361,700
3.	Assessor's net taxable value			154,527,287,000
4.	Less valuations on appeal			1,869,337,900
5.	Taxpayers' valuation			152,657,949,100
6.	Add 50% of valuation on appeal			934,668,950
7.	Net assessed valuation of real property for rate purposes			$ 153,592,618,050
8.	Limit of funded debt as set by the Constitution of the State of Hawaii			$ 23,038,892,708 (1)
9.	Funded debt:			
	a. General obligation bonds		$ 2,547,335,000	
	b. Revenue bonds		1,747,197,890 (2)	
	c. Notes payable:			
	Federal Government		1,816,547	
	State of Hawaii		185,158,476	
	d. Gross funded indebtedness		$ 4,481,507,913	
	Less exclusions:			
	e. Revenue bonds			
	Self-supporting waterworks	$ 294,960,000		
	Self-supporting wastewater	1,452,237,890		
	f. General obligation bonds issued for H-Power waste disposal facility	372,600,000		
	g. General obligation bonds issued for Housing	70,750,550		
	h. General obligation bonds issued for solid waste	130,492,377		
	i. General obligation bonds issued for sewer projects	1,276,321		
	j. State of Hawaii notes issued for sewer projects	182,732,567	$ 2,505,049,705	
	k. Net funded debt			1,976,458,208
10.	Gross limit of additional funded debt			$ 21,062,434,500

11. Less general obligation bonds authorized and unissued:

Authorizing Ordinance	Total Authorized (3)	Amount Issued	Amount Unissued	
Ordinance No. 98-29	$ 178,672,387	$ 177,199,935	$ 1,472,452	
Ordinance No. 00-24	197,468,415	197,401,602	66,813	
Ordinance No. 01-27	230,710,880	230,258,536	452,344	
Ordinance No. 02-27	156,680,967	155,230,299	1,450,668	
Ordinance No. 03-08	124,290,160	118,538,671	5,751,489	
Ordinance No. 04-15	118,067,441	110,129,273	7,938,168	
Ordinance No. 05-15	149,853,667	134,066,790	15,786,877	
Ordinance No. 06-34	169,318,466	139,727,008	29,591,458	
Ordinance No. 07-26	224,407,272	177,015,527	47,391,745	
Ordinance No. 08-14	314,648,258	213,915,331	100,732,927	
Ordinance No. 09-13	1,307,596,500	209,003,873	1,098,592,627	
Ordinance No. 10-13	1,450,947,215	147,000,000	1,303,947,215	
	$ 4,622,661,628	$ 2,009,486,845	$ 2,613,174,783	2,613,174,783

12. Net limit of additional funded debt $ 18,449,259,717

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

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

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

Table 8

GENERAL OBLIGATION FUNDED DEBT
OF THE CITY AND COUNTY OF HONOLULU
As of March 31, 2011

Direct Debt	Effective Interest Rate	Original Amount of Issue	Maturing Serially From/To	Optional Call Dates	Outstanding
General Obligation Bonds:					
January 1, 1993 Series A	5.85764%	$ 150,000,000	1/1/97-13	Non-callable	$ 11,180,000
April 1, 1993 Series B	5.43923%	611,335,000	10/1/94-13	Non-callable	64,565,000
September 1, 1993 Series C	4.85624%	28,000,000	9/1/98-18	Non-callable	5,030,000
April 1, 1994 Series A	5.62722%	150,000,000	4/1/98-14	Non-callable	21,105,000
March 1, 2001 Series 2001A	5.09921%	141,500,000	9/1/05-24	9/1/2011	5,595,000
August 8, 2003 Series 2003A	4.85540%	250,000,000	3/1/08-28	3/1/2013	148,390,000
April 14, 2004 Series 2004 A	4.36246%	123,065,000	7/1/05-28	7/1/2014	74,975,000
April 14, 2004 Series 2004 B	3.62613%	192,850,000	7/1/08-17	7/1/2014	144,745,000
May 26, 2005 Series 2005A	3.99266%	186,470,000	7/1/09-29	7/1/2015	175,770,000
May 26, 2005 Series 2005B	3.99266%	27,315,000	7/1/09-19	7/1/2015	23,265,000
May 26, 2005 Series 2005C	3.99266%	76,770,000	7/1/09-21	7/1/2015	67,915,000
May 26, 2005 Series 2005D	3.99266%	81,215,000	7/1/09-23	7/1/2015	73,450,000
November 22, 2005 Series E	4.40023%	247,015,000	7/1/06-23	7/1/2015	198,900,000
November 22, 2005 Series F	4.62695%	149,150,000	7/1/10-29	7/1/2015	144,635,000
November 29, 2007 Series A	4.62201%	268,630,000	7/1/12-31	7/1/2017	268,630,000
April 6, 2009 Series 2007B	4.37937%	152,840,000	7/1/13-19	Non-callable	152,840,000
April 28, 2009 Series A	4.68168%	292,045,000	4/1/14-34	4/1/2019	292,045,000
April 28, 2009 Series B	4.96192%	33,980,000	4/1/12-17	Non-callable	33,980,000
April 28, 2009 Series C	1.89110%	50,685,000	4/1/11-13	Non-callable	50,685,000
November 19, 2009 Series D	4.39363%	141,950,000	9/1/14-34	9/1/2019	141,950,000
November 19, 2009 Series E	3.89828%	50,415,000	9/1/14-34	Non-callable	50,415,000
November 19, 2009 Series F	3.25649%	49,500,000	9/1/14-20	9/1/2019	49,500,000
May 19, 2010 CP Issue A [1]	Variable	100,000,000	Not Applicable	Non-callable	--
May 19, 2010 CP Issue B [1]	Variable	50,000,000	Not Applicable	Non-callable	--
May 19, 2010 CP Issue C [1]	Variable	65,000,000	Not Applicable	Non-callable	--
December 15, 2010 Series A [2]	3.72842%	151,100,000	12/1/2015-35	12/1/2020	151,100,000
December 15, 2010 Series B	4.34416%	196,670,000	12/1/2015-35	12/1/2020	196,670,000
		$ 4,017,500,000			$ 2,547,335,000
Notes Payable - Federal Government	5.11600%	$ 5,668,313	6/20/84-16	Non-callable	$ 1,816,547
Notes Payable - State of Hawaii	Various	332,761,494	Various	Non-callable	185,158,476
		$ 338,429,807			$ 186,975,023
Total Gross Direct Debt		$ 4,355,929,807			$ 2,734,310,023
Less exclusions:					
Bonds issued for solid waste				$ 130,492,377	
Bonds issued for housing				70,750,550	
Bonds issued for H-Power waste disposal facility				372,600,000	
Bonds issued for sewer projects				1,276,321	
State of Hawaii Notes issued for sewer projects				182,732,567	
Net Funded Debt					$ 757,851,815
					$ 1,976,458,208

[1] *The maximum authorized outstanding principal amount of notes under the City and County's commercial paper program is $250,000,000.*

[2] *Issued as Build America Bonds. Effective interest rate is shown net of expected federal interest subsidy.*

Table 9

CITY AND COUNTY OF HONOLULU
DEBT SERVICE CHARGES ON
OUTSTANDING GENERAL LONG-TERM DEBT
March 31, 2011 to Maturity [1]

FY Ending June 30	General Obligation Bonds		Other Debt [2]		Gross Debt Service Charges	Reimbursable Debt		Net Debt Service Charges
	Principal	Interest	Principal	Interest [3]		Principal	Interest	
2011	$ 16,355,000	$ 11,211,370	$ 5,357,617	$ 1,038,709	$ 33,962,696	$ 7,918,640	$ 2,810,891	$ 23,233,165
2012	122,110,000	132,478,240	16,616,700	2,693,464	273,898,404	34,168,700	34,757,342	204,972,362
2013	127,230,000	118,234,906	16,855,437	2,397,575	264,717,918	34,466,871	29,168,734	201,082,313
2014	132,335,000	111,596,648	15,793,376	1,922,140	261,647,164	30,542,802	27,799,404	203,304,958
2015	117,010,000	105,436,236	13,422,430	1,533,932	237,402,598	32,960,219	26,608,667	177,833,712
2016	132,665,000	99,603,479	13,100,253	1,302,024	246,670,756	39,502,123	25,316,627	181,852,006
2017	139,105,000	93,044,695	12,690,634	1,082,479	245,922,808	40,984,543	23,795,123	181,143,142
2018	139,355,000	86,038,369	12,499,503	885,356	238,778,228	35,452,039	22,190,068	181,136,121
2019	123,210,000	79,706,117	11,551,634	705,860	215,173,611	36,522,250	20,876,233	157,775,128
2020	127,045,000	73,611,827	10,026,590	565,597	211,249,014	34,138,284	19,550,173	157,560,557
2021	109,230,000	67,811,871	9,654,477	468,498	187,164,846	31,327,640	18,351,280	137,485,926
2022	106,155,000	62,504,487	9,530,484	383,289	178,573,260	30,780,337	17,252,835	130,540,088
2023	112,235,000	57,329,620	8,727,682	304,157	178,596,459	31,154,517	16,126,295	131,315,647
2024	117,960,000	51,605,418	8,677,225	237,580	178,480,223	32,355,301	14,905,061	131,219,861
2025	94,940,000	46,248,722	8,720,807	172,294	150,081,823	29,949,578	13,708,159	106,424,086
2026	99,780,000	41,401,889	8,764,235	106,880	150,053,004	31,036,841	12,599,660	106,416,503
2027	104,860,000	36,317,869	6,287,512	45,831	147,511,212	29,646,907	11,450,683	106,413,622
2028	110,255,000	30,922,670	1,396,957	5,215	142,579,842	25,951,958	10,216,880	106,411,004
2029	96,160,000	25,177,538	--	--	121,337,538	25,228,549	8,936,967	87,172,022
2030	92,225,000	20,352,709	--	--	112,577,709	24,051,036	7,685,292	80,841,381
2031	70,295,000	16,160,494	--	--	86,455,494	24,548,418	6,449,686	55,457,390
2032	74,070,000	12,377,653	--	--	86,447,653	25,828,594	5,166,056	55,453,003
2033	56,520,000	8,897,238	--	--	65,417,238	24,379,861	3,886,426	37,150,951
2034	59,595,000	5,822,625	--	--	65,417,625	25,640,807	2,628,145	37,148,673
2035	39,930,000	2,582,919	--	--	42,512,919	24,615,000	1,315,046	16,582,873
2036	26,705,000	737,967	--	--	27,442,967	14,700,000	349,125	12,393,842
	$ 2,547,335,000	$ 1,397,213,576	$ 189,673,553	$ 15,850,880	$ 4,150,073,009	$ 757,851,815	$ 383,900,858	$ 3,008,320,336

(1) *Excludes commercial paper dated 5/19/2010, self-supporting revenue bonds and State revolving fund notes payable.*

(2) *Includes:*

$ 1,816,547	*U.S. Government note payable for City and County's share of Kaneohe Reservoir Recreation & Fish and Wildlife Development.*
185,158,476	*State of Hawaii notes payable for various sewer projects, storm dewatering facility and storm water equipment.*
2,698,530	*Installment purchase contracts for various fixed assets.*
$ 189,673,553	

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

Trend of General Obligation Indebtedness

The following table sets forth the outstanding general obligation indebtedness of the City and County as of June 30 of each of the Fiscal Years ended June 30, 2006 through 2010.

Table 10

GENERAL OBLIGATION INDEBTEDNESS
Fiscal Years 2006–2010

	General Obligation Bonds				
FY Ending June 30	Non-Reimbursable [1]	Reimbursable for Other Purposes [2]	Total General Obligation Bonds	Notes Payable	Total General Obligation Debt
2006	$1,718,340,918	$303,476,919	$2,021,817,837	$2,758,245	$2,024,576,082
2007	1,745,719,961	270,438,048	2,016,158,009	2,540,136	2,018,698,145
2008	1,838,389,129	249,697,067	2,088,086,196	2,310,869	2,090,397,065
2009	1,944,522,922	272,001,209	2,216,524,131	2,069,873	2,218,594,004
2010	1,899,459,975	389,725,789	2,289,185,764	1,816,547	2,291,002,311

[1] *Direct debt.*

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

Reimbursement to General Fund for Debt Service

All general obligation bonds of the City and County are payable as to principal and interest from the General Fund of the City and County. The City Council for certain purposes may require that the General Fund be reimbursed for the payment from such fund of the debt service on certain general obligation bonds, such reimbursement to be made from any revenues, user taxes, assessments or other income derived from the facilities or systems funded by the bonds. 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 footnote 2 to Table 10 above, reimbursable general obligation bonds have been issued to finance capital projects for water facilities, assessable public improvements, H-Power waste disposal facility, wastewater treatment facilities, the West Loch Subdivision and other low income housing projects. As explained under "DEBT STRUCTURE -- Legal Requirements -- Exclusions," and as shown in the Statement of Funded Debt in Table 7 above, reimbursable general obligation bonds issued for the Board of Water Supply, assessable public improvements, housing projects, H-Power waste disposal facility and wastewater treatment facilities are excluded in determining the funded debt of the City and County beginning in the Fiscal Year when reimbursements are, in fact, made to the General Fund. It is the current policy of the City and County to finance water and sewer improvements with revenue bonds instead of reimbursable general obligation bonds.

Pension and Other Post-Employment Benefits Liability

The City and County provides retirement, disability and death benefits for all regular employees of the City and County through the Employees' Retirement System of the State. See "EMPLOYEE RELATIONS; PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS" herein for a discussion of the City and 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 2036. The leases are financed from general resources. Expenditures for such leases approximated $1.0 million for the Fiscal Year ended June 30, 2010, and future expenditures for such leases are projected to be $13.4 million in the aggregate through 2036.

Revenue Indebtedness

The Board of Water Supply of the City and County has issued $294,960,000 of outstanding revenue bonds to finance capital improvements for the water system of the Board of Water Supply. Such revenue bonds are payable solely out of the water system revenues, assets and funds pledged under the applicable security documents. Such revenue bonds are limited obligations of the City and County, are excluded for purposes of determining the funded indebtedness of the City and County, and do not constitute a general or moral obligation or a pledge of the full faith and credit or taxing power of the City and County or the State.

The City and County has issued senior and junior lien revenue bonds to finance improvements to the City and County's wastewater system and to refund certain reimbursable general obligation bonds of the City and County issued to finance the wastewater system. As of March 31, 2011, the outstanding amounts of senior and junior revenue bonds were $1,014,090,000 and $435,397,890, respectively. In addition, the City and County has obtained a loan from the U.S. Department of Agriculture, outstanding in the amount of $2,750,000 as of March 31, 2011, which is secured by a pledge of revenues of the City and County's wastewater system. Such revenue bond and loan obligations are limited obligations of the City and County, are excluded for purposes of determining the funded indebtedness of the City and County, and do not constitute a general or moral obligation or a pledge of the full faith and credit or taxing power of the City and County or the State. The City and County has adopted a $1.32 billion (in inflated dollars), five-year capital improvement program (Fiscal Year 2012 to Fiscal Year 2016) to upgrade its wastewater treatment plant and collection system facilities and anticipates issuing additional revenue bonds to finance a portion of the costs associated with the program. See also "PENDING LITIGATION" herein for a discussion of the 2011consent decree pertaining to the wastewater system.

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

H-Power Waste Disposal Facility

In 1985 and 1990, the City and County issued approximately $195 million and $61 million, respectively, of reimbursable general obligation bonds to finance the acquisition and construction of the H-Power waste disposal facility, a waste-to-energy facility which produces electricity that is sold to the local electric company. The facility went into commercial operation in May 1990. In 1999, the City and County issued general obligation bonds to refund a portion of the reimbursable general obligation bonds issued for the H-Power waste disposal facility.

Prior to completion of the H-Power waste disposal facility, the City and County entered into a leveraged lease transaction pursuant to which the facility was sold to an "Owner Trust" and simultaneously leased to a private operator. In 2008, the City and County exercised an option to purchase the facility at a purchase price of approximately $44 million. The City and County issued general obligation bonds in April 2009 to reimburse the general fund for a temporary advance of funds used to pay the purchase price of the facility.

The City and County is proceeding with a project to expand the H-Power facility by adding an additional boiler to process an additional 900 tons of waste per day and generate an additional 25-30 megawatts of electricity. The expansion project is expected to be completed in mid-2012. In addition, new air pollution control equipment mandated by federal law has been constructed at the facility and was operational beginning in April 2011. In 2009 and 2010, the City and County issued $325.7 million aggregate principal amount of reimbursable general obligation bonds to fund the costs of the expansion and air pollution control projects.

High-Capacity Transit Corridor Project

The City and County is proceeding with plans for a new $5.3 billion, 20-mile fixed guideway mass transit system to provide rail service along the island's east-west corridor between Kapolei and downtown Honolulu (Ala

Moana Center). Over 60% of the City and County's population currently lives within the area served by this corridor, and this area is projected to continue to grow faster than the rest of Oahu.

Due to the size and cost of the overall project, it is expected to be built in five phases lasting several years. The first phase covers the initial 6.5-mile segment of the fixed guideway system from Kapolei to Pearl City. A $482.9 million design-build contract for the first phase was awarded in October 2009, and the City and County broke ground on this phase in February 2011. The second phase covers the 3.9-mile segment from Pearl City to Aloha Stadium. A $372 million design-build contract for this phase was awarded in March 2011. The remaining three phases and train stations along the route are expected to be constructed under separate design-build contracts to be awarded as plans progress.

In March 2011, the City and County awarded a $574 million design-build contract for the project's "core systems" (train vehicles and system control center), including an initial order of 80 train cars. The contractor will also be responsible for operating and maintaining the rail system.

Costs related to the construction of the transit system are expected to be funded with proceeds from the 0.5% excise tax surcharge adopted by the City Council in August 2005 and implemented in January 2007, proceeds of future general obligation bond issues, and money received from the U.S. Department of Transportation, Federal Transit Administration. The City and County submitted its Draft Financial Plan for Entry into Final Design to the Federal Transit Administration in April 2011 and met with its Oversight Contractor in May 2011.

The debt service on future general obligation bonds issued for the project is expected to be paid with proceeds from the 0.5% excise tax surcharge or federal funds. Annual operating costs are expected to be paid from passenger fares and City and County revenues. Reference is made to "CITY AND COUNTY REVENUES—General Fund—*Excise Tax*" herein for a discussion of the excise tax surcharge imposed by the City and County.

As discussed herein under "THE CITY AND COUNTY OF HONOLULU – Government and Organization – *Semi-Autonomous Agencies,*" the City and County established the Honolulu Authority for Rapid Transportation effective July 1, 2011 to develop, operate, maintain and expand the transit system.

No Default

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

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

BUDGET PROCESS AND FINANCIAL MANAGEMENT

Budgets and Expenditures

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

Expenditures for capital improvements of the City and County, exclusive of capital outlays of the semi-autonomous Board of Water Supply, for the Fiscal Years ended June 30, 2007 through 2011 are shown in the table below.

Table 11

EXPENDITURES FOR CAPITAL IMPROVEMENTS
Fiscal Years 2007–2011
(in millions of dollars)

		Expenditures [1]						
		Bond Funds			Cash			
Fiscal Year	Grand Total	General Obligation	Sewer Revenue	Total [1]	Federal Grants	Cash [2]	Total	Cash as % of Total
2007 [3]	$ 594.0	$ 169.0	$ 331.7	$ 500.7	$ 44.1	$ 49.2	$ 93.3	15.7%
2008 [3]	545.1	225.6	216.8	442.4	27.9	74.8	102.7	18.8
2009 [3]	787.9	314.6	166.0	480.6	21.9	285.4	307.3	39.0
2010 [4]	1,766.1	1,307.6	157.1	1,464.7	120.3	181.1	301.4	17.1
2011 [4]	2,127.7	1,450.9	329.0	1,779.9	232.9	114.9	347.8	16.3

(1) *Inclusive of encumbrances.*

(2) *Funds from current revenues and surplus.*

(3) *Adjusted for lapses until March 31, 2011.*

(4) *Budgeted amounts plus single purpose added in 2010 and 2011.*

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; commercial paper with an A1/P1 or equivalent rating by any national securities rating service; and bankers' acceptance with an A1/P1 or equivalent rating by any national securities rating service; 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 investment portfolio in accordance with the foregoing statutes and a written investment policy of the City and County. The City and County does not engage in pooled investments, speculate with investments or leverage its investments. The City and County's investment portfolio does not include any derivative financial instruments and has minimal exposure to auction rate securities. The City and County's philosophy and policy in managing its investments is: first, for safety of public funds; second, for liquidity, so that funds are available when needed; and third, for yield, after the first two considerations are met.

Interest earnings from funds invested by the City and County totaled $5.6 million in the Fiscal Year ended June 30, 2010, representing an investment yield of 0.18%.

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

Inter-Fund Borrowing

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

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

Reserve for Fiscal Stability Fund

In 2006, the City and County established a special fund known as the Reserve for Fiscal Stability Fund designated for economic and revenue downturns and emergency situations. The fund is maintained outside the General Fund and is available for appropriation only in the event of an emergency or certain economic and revenue triggers, including an increase in unemployment by more than 2% over three fiscal quarters, a decline in net taxable real property value by 2% or more from the preceding Fiscal Year, a decline in General Fund and Highway Fund revenues of 2% or more from the preceding Fiscal Year, a decline in Transient Accommodation Tax revenues of 5% or more from the preceding Fiscal Year, or an increase in nondiscretionary expenditures by more than 5% of the preceding Fiscal Year's revenues. Deposits to the fund are made from General Fund and Highway Fund surpluses and, by resolution, the fund is targeted to be at least 5% of expenditures, with an optimal target equal to 8% of expenditures. As of June 30, 2010, the fund balance was $26.9 million. An additional $2.6 million was deposited into the Fund in June 2011. No withdrawals from the Reserve for Fiscal Stability Fund have been made as of the date hereof, and none is included in the City and County's Operating Budget for Fiscal Year 2012.

FINANCIAL INFORMATION AND ACCOUNTING

Independent Audit

The Charter of the City and County requires that at least once every year the City Council obtain an independent audit of the accounts and other evidences of financial transactions of the City and County and of every agency. The audit is made by a certified public accountant or a firm of certified public accountants designated by the City Council. The basic financial statements of the City and County for the year ended June 30, 2010, as audited by the firm of Accuity LLP, may be found at the City and County's website at http://www.honolulu.gov/budget/cafr.htm, or may be obtained from the City and County by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawaii 96813. Accuity LLP has not reviewed this Official Statement and has no responsibility with respect to this Official Statement. Information on the City and County's website other than the basic financial statements is not part of this Official Statement.

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

Financial Statements

The following four tables set forth the balance sheet and the statement of revenues and expenditures and changes in fund balance for the General Fund and the balance sheet and the combined statement of revenues and expenditures and changes in fund balance for all governmental fund types and expendable trust funds for the Fiscal Years shown in such tables. The information set forth in such financial statements has been prepared by the Director of Budget and Fiscal Services of the City and County based on audited financial statements for the Fiscal Years ended June 30, 2006 through 2010, and has been summarized from the Director's Annual Financial Reports for the related Fiscal Years.

Table 12

CITY AND COUNTY OF HONOLULU
GENERAL FUND
BALANCE SHEET
For Fiscal Years Ended June 30, 2006 through June 30, 2010
(In thousand dollars)

	FY Ended June 30, 2006	FY Ended June 30, 2007	FY Ended June 30, 2008	FY Ended June 30, 2009	FY Ended June 30, 2010
ASSETS:					
Cash and securities	$ 86,090	$136,752	$196,653	$101,360	$143,001
Receivables:					
Real property taxes	9,341	9,168	12,642	16,046	15,728
Other	9,722	47,328	57,090	53,080	62,747
Component unit – CASE fees	9,900	7,800	--	--	--
Due from other funds	21,839	22,334	26,793	21,001	27,339
Total Assets	$136,892	$223,382	$293,178	$191,487	$248,815
LIABILITY AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 11,442	$ 8,951	$ 9,964	$ 8,423	$ 13,733
Due to other funds	557	36,689	93,379	41,134	45,217
Accrued payroll and fringes	4,728	5,098	5,025	2,417	18,062
Deferred revenues	21,557	16,842	18,735	22,821	21,785
Total Liabilities	$ 38,284	$ 67,580	$127,103	$ 74,795	$ 98,797
Fund Balances:					
Reserved for encumbrances	$ 22,004	$ 27,767	$ 58,794	$ 48,868	$ 45,965
Unreserved-undesignated	76,604	128,035	107,281	67,824	104,053
Total Fund Balances	98,608	155,802	166,075	116,692	150,018
Total Liabilities and Fund Balances	$ 136,892	$223,382	$293,178	$191,487	$248,815

Table 13

CITY AND COUNTY OF HONOLULU
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For Fiscal Years Ended June 30, 2006 through June 30, 2010
(In thousand dollars)

	FY Ended June 30, 2006	FY Ended June 30, 2007	FY Ended June 30, 2008	FY Ended June 30, 2009	FY Ended June 30, 2010
REVENUES:					
Real property tax [1]	$621,741	$727,015	$805,174	$851,265	$901,687
Licenses and permits	36,219	40,648	36,127	33,360	34,686
Intergovernmental revenues	43,519	92,760	214,530	202,216	198,142
Charges for services	5,511	5,752	5,163	6,402	5,521
Fines and forfeits	420	557	877	645	562
Miscellaneous	96,179	111,729	110,424	107,987	45,188
Total Revenues	$803,589	$978,461	$1,172,295	$1,201,875	$1,185,786
EXPENDITURES:					
Current:					
General government	$ 105,192	$ 115,200	$ 125,323	$ 133,597	$ 128,576
Public safety	249,402	268,521	288,860	308,990	312,443
Highways and streets	1,925	2,239	2,554	3,718	2,086
Sanitation	--	2,245	5,536	4,828	2,959
Health and human resources	1,654	2,356	2,772	3,646	3,081
Culture and recreation	49,433	51,844	60,512	64,346	58,826
Utilities or other enterprises	--	--	--	6	123
Miscellaneous	135,202	141,236	141,159	176,051	180,423
Capital outlay	--	--	2,078	1,984	1,548
Debt service:					
Principal retirement	1,135	395	693	726	823
Interest charges	153	166	221	188	162
Total Expenditures	$544,096	$584,202	$629,708	$698,080	$691,050
Excess of Revenues over Expenditures	$259,493	$394,259	$542,587	$503,795	$494,736
OTHER FINANCING SOURCES (USES):					
Capital Leases	$ --	$ 1,674	$ 865	$ 189	$ --
Sales of general fixed assets	402	74	176	346	72
Operating transfer-in	67,747	84,300	91,018	95,060	102,267
Operating transfer-out	(306,200)	(423,113)	(624,373)	(648,773)	(563,749)
Total Other Financing Sources (Uses)	$(238,051)	$(337,065)	$(532,314)	$(553,178)	$(461,410)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	$ 21,442	$ 57,194	$ 10,273	$(49,383)	$ 33,326
Fund Balance--July 1	77.166	98,608	155,802	166,075	116,692
Fund Balance--June 30	$ 98,608	$ 155,802	$ 166,075	$ 116,692	$ 150,018

(1) *Includes public service company taxes collected in lieu of real property taxes. See "CITY AND COUNTY REVENUES – General Fund – Public Service Company Tax" herein.*

Table 14

CITY AND COUNTY OF HONOLULU
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For Fiscal Year Ended June 30, 2010 (Audited) with Comparative Totals For Fiscal Year Ended June 30, 2009 (Audited)
(In thousand dollars)

	Governmental Funds					Totals (Memorandum Only)	
	General Fund	Highway Fund	General Obligation Bond and Interest Redemption Fund	Transit Fund	Other Governmental Funds	2010	2009
Revenues:							
Taxes	$ 901,687	$ 85,141	$ --	$ --	$ --	$ 986,828	$ 952,531
Special assessments	--	--	--	--	18	18	17
Licenses and permits	34,686	87,367	--	--	4,155	126,208	112,397
Intergovernmental	198,142	--	--	--	164,257	362,399	355,530
Charges for services	5,521	5,149	--	--	17,044	27,714	23,924
Fines and forfeitures	562	--	--	--	193	755	932
Miscellaneous:							
Reimbursements and recoveries	40,623	764	--	--	10	41,397	96,435
Interest	422	--	--	247	186	855	13,291
Other - primarily rents, concessions, trust receipts	4,143	2,019	--	17	19,850	26,029	29,576
Total revenues	$1,185,786	$180,440	$ --	$ 264	$ 205,713	$1,572,203	$1,584,633
Expenditures:							
Current:							
General government	$ 128,576	$ 18,058	$ --	$ 1,999	$ 11,080	$ 159,713	$ 163,280
Public safety	312,443	29,360	--	--	15,345	357,148	359,277
Highways and streets	2,086	19,541	--	--	147	21,774	28,271
Sanitation	2,959	--	--	--	--	2,959	4,828
Health and human resources	3,081	--	--	--	75,310	78,391	73,401
Culture-Recreation	58,826	--	--	--	23,033	81,859	87,888
Utilities or other enterprises	123	1,910	--	3,583	21,506	27,122	28,857
Miscellaneous:							
Retirement and health benefits	158,939	15,180	--	1,354	7,171	182,644	208,354
Other	21,484	1,000	--	69	1,253	23,806	27,492
Capital outlay	1,548	--	--	92,121	202,826	296,495	225,663
Debt service:							
Principal retirement	823	--	92,192	--	--	93,015	122,273
Interest charges	162	--	93,063	--	--	93,225	104,980
Total expenditures	$ 691,050	$ 85,049	$ 185,255	$ 99,126	$ 357,671	$1,418,151	$1,434,565
Revenues over (under) Expenditures	$ 494,736	$ 95,391	$(185,255)	$ (98,862)	$ (151,958)	$ 154,052	$ 150,068
Other financing sources (uses):							
Proceeds of general obligation bonds	$ --	$ --	$ 242	$ --	$ 30,012	$ 30,254	$ 150,089
Proceeds of tax-exempt commercial paper	--	--	--	--	20,000	20,000	45,000
Proceeds of refunding bonds	--	--	64,318	--	--	64,318	368,742
Payment of refunded bonds	--	--	(64,318)	--	--	(64,318)	(367,178)
Capital leases	--	--	--	--	--	--	189
Sales of fixed assets	72	397	--	--	112	581	661
Operating transfers in	102,267	--	185,013	157,555	32,516	477,351	573,642
Operating transfers out	(563,749)	(93,605)	--	--	(20,366)	(677,720)	(772,174)
Total Other Financing Sources (Uses)	$ (461,410)	$ (93,208)	$185,255	$ 157,555	$ 62,274	$ (149,534)	$ (1,029)
Revenues and Other Sources over (under) Expenditures and Other Uses	33,326	2,183	--	58,693	(89,684)	4,518	149,039
Fund Balances – July 1	116,692	21,338	--	305,197	314,571	757,798	608,759
Fund Balances – June 30	$ 150,018	$ 23,521	$ --	$ 363,890	$ 224,887	$ 762,316	$ 757,798

Table 15

CITY AND COUNTY OF HONOLULU
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For Fiscal Years Ended June 30, 2006 through June 30, 2010
(In thousand dollars)

	FY Ended June 30, 2006	FY Ended June 30, 2007	FY Ended June 30, 2008	FY Ended June 30, 2009	FY Ended June 30, 2010
REVENUES:					
Taxes	$ 705,557	$ 815,284	$ 891,982	$ 952,531	$ 986,828
Special assessments	387	354	28	17	18
Licenses and permits	100,938	120,802	115,657	112,397	126,208
Intergovernmental revenues	169,515	238,926	358,552	355,530	362,399
Charges for services	23,991	24,754	23,766	23,924	27,714
Fines and forfeitures	398	868	1,183	932	755
Miscellaneous	120,353	135,475	136,434	139,302	68,281
Total Revenues	$1,121,439	$1,336,463	$1,527,602	$1,584,633	$1,572,203
EXPENDITURES:					
Current:					
General government	$ 129,387	$ 141,459	$ 153,759	$ 163,280	$ 159,713
Public safety	287,592	306,161	329,108	359,277	357,148
Highways and streets	17,114	21,000	24,066	28,271	21,774
Sanitation	1,251	2,674	5,537	4,828	2,959
Health and human resources	57,673	60,883	65,144	73,401	78,391
Culture-Recreation	68,285	71,084	82,328	87,888	81,859
Utilities or other enterprises	23,330	22,917	27,818	28,857	27,122
Miscellaneous	153,422	160,447	161,687	235,847	206,450
Capital outlay	152,602	187,001	197,410	225,663	296,495
Debt service:					
Principal retirement	249,164	102,794	260,680	122,273	93,015
Interest charges	89,630	103,869	100,362	104,980	93,225
Total Expenditures	$1,229,450	$1,180,289	$1,407,899	$1,434,565	$1,418,151
Revenues over (under) Expenditures	$ (108,011)	$ 156,174	$ 119,703	$ 150,068	$ 154,052
OTHER FINANCING SOURCES (USES):					
Proceeds of general obligation bonds	$ 0	$ 0	$ 109,000	$ 150,089	$ 30,254
Proceeds of general obligation refunding bonds	387,324	0			
Proceeds of tax-exempt commercial paper	168,022	94,000	75,000	45,000	20,000
Proceeds of refunding bonds	0	0	140,130	368,742	64,318
Payment of refunded bonds	(243,000)	0		(367,178)	(64,318)
Capital leases	0	1,674	865	189	0
Sales of fixed assets	640	430	362	661	581
Operating transfers-in	268,137	377,590	559,299	573,642	477,351
Operating transfers-out	(403,676)	(545,042)	(740,887)	(772,174)	(677,720)
Other	16,939	0	0	0	0
Total Other Financing Sources (Uses)	$ 194,386	$ (71,348)	$ 143,769	$ (1,029)	$ (149,534)
Revenues and Other Sources over (under) Expenditures and Other Uses	$ 86,375	$ 84,826	$ 263,472	$ 149,039	$ 4,518
Fund Balances—July 1	174,086	260,461	345,287	608,759	757,798
Fund Balances—June 30	$ 260,461	$ 345,287	$ 608,759	$ 757,798	$ 762,316

EMPLOYEE RELATIONS; HEALTH CARE BENEFITS; PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

Employee Relations

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawaii Revised Statutes, as amended, provides for 13 recognized bargaining units for all public employees in the State, including City and County employees. Eight of these bargaining units represent City and County employees (i.e., blue-collar non-supervisory; blue collar supervisory; white-collar non-supervisory; white-collar supervisory; institutional health and correctional workers; firefighters; police; and professional scientific). Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer.

The State and the counties are required to bargain collectively with the bargaining units. Decisions by the employer representatives are determined by simple majority vote, with the Governor having six votes and each of the county mayors, Chief Justice of the State Supreme Court and Hawaii Health Systems having one vote for bargaining units involving blue-collar non-supervisory; blue-collar supervisory; white-collar non-supervisory; white-collar supervisory; institutional, health and correctional workers; and professional and scientific. For bargaining units involving firefighters and police, the Governor has four votes and each of the mayors has one.

Under State law enacted in 1995, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding and, except blue-collar non-supervisory workers (who are permitted by law to strike), final and binding arbitration. Although State law characterizes arbitration as "final and binding" it also provides that all cost items are subject to approval by the respective legislative bodies. State law does not permit the workers in any bargaining unit to strike, except the blue-collar non-supervisory workers.

The City and County has a two-year collective bargaining agreement with the Hawaii Government Employees Association (the "HGEA"), which represents the bargaining units for blue-collar supervisory, white-collar non-supervisory, white-collar supervisory, and professional and scientific employees. Collective bargaining agreements for the other bargaining units expired on June 30, 2011, and negotiations for new agreements are currently pending.

The HGEA agreement covers the period from July 1, 2011 through June 30, 2013. The agreement includes: a 5% across the board reduction in salaries; equal cost sharing of the final premium rates established by the State of Hawaii Employer-Union Health Benefits Trust Fund for employee health plans, including administrative fees; six hours per month of administrative time off; and a "favored nation" provision, in consideration of the HGEA for being the first union to settle, that would incorporate more favorable terms in the event that such terms are included in agreements currently under negotiation with the other public worker unions.

Health Care Benefits

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

In recent years, public and private health plan providers nationwide and in Hawaii, including the Trust Fund, have experienced substantial increases in health care costs. In the case of the Trust Fund, the current fiscal situation faced by the State and county employers has made it extremely difficult for the employers to increase employer contributions for health benefits in order to maintain the historical employer-employee contribution ratio. In the past, the Board has attempted to mitigate health plan rate increases by modifying benefits, and employees have been required to bear a larger share of the increased rates. The City and County cannot predict what actions will be taken (including changes to future plan benefits or employer-employee contribution rates) to address the impact of rising health care costs on the Trust Fund or what financial effects such changes may have on the City and County. As discussed under "Employee Relations" above, subject to a "favored nation" contract provision, the collective bargaining agreement with HGEA includes a change in the employer-employee contribution ratio (historically set at 60% for employers/40% for employees) to a 50/50 ratio. A comparable change has been proposed in pending negotiations for the collective bargaining agreements with the remaining public worker unions.

The information included under the following two captions "Pensions" and "Other Post-Employment Benefits" relies on information produced by the State Retirement System (as defined below) and the Trust Fund, respectively. Actuarial assessments are "forward-looking" information that reflect the respective judgments of the fiduciaries of the State Retirement System and the Trust Fund. Such actuarial assessments are based upon a variety of different assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experiences of the State Retirement System and the Trust Fund.

Pensions

All regular employees of the City and County are covered under the Employees' Retirement System of the State (the "State Retirement System"), a cost sharing, multiple employer defined benefit pension plan that provides retirement, disability and death benefits funded by employee contributions and by employer contributions determined on an actuarial reserve basis. Employees are covered under a contributory plan, a noncontributory plan or a hybrid contributory plan.

Actuarial valuations are prepared annually by the consulting actuary to the State Retirement System's Board of Trustees to determine the employer contribution requirement.

Employer contributions are determined in accordance with Sections 88-122 and 88-123, Hawaii Revised Statutes, as amended. Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the State Retirement System. Commencing with the 1995 Fiscal Year, the total employer contribution requirement has been calculated to include the normal cost (based on the entry age normal actuarial cost method) plus the level annual payment required to amortize the unfunded accrued liability over a period of 29 years from July 1, 2000. As discussed below, the total unfunded actuarial accrued liability for the State Retirement System as a whole (including the State and the counties) was estimated to be approximately $7.138 billion as of June 30, 2010. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate (currently established by statute at 8% per annum) applied in actuarial valuations to determine the net employer appropriations to be made to the State Retirement System.

Effective July 1, 2005, Section 88-122, Hawaii Revised Statutes, was amended to establish fixed employer contribution rates as a percentage of compensation. Employers' contribution rates were initially set at 15.75% for their police officers, firefighters and corrections officers, and 13.75% for other employees, increasing effective July 1, 2008 to 19.70% for police officers, firefighters and corrections officers, and 15.00% for all others. The contribution rates are subject to adjustment: (1) if the actual period required to amortize the unfunded accrued liability exceeds thirty years; (2) if there is no unfunded accrued liability; or (3) otherwise as determined on the basis of an actuarial investigation conducted in accordance with Section 88-105, Hawaii Revised Statutes. As of June 30, 2010, the actuary of the State Retirement System has calculated the period required to amortize the unfunded accrued liability of the State Retirement System to be 41.3 years.

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 payroll over the total covered payroll included in the actuarial valuation. For example, the City and County's contribution requirement for the 2010-2011 Fiscal Year was based on the June 30, 2008 actuarial valuation and the payroll used in that valuation. Historically, the City and County's contribution has been approximately 14.48% of the total employer appropriation to the State Retirement System. The City and County's contribution to the State Retirement System for the last five Fiscal Years, exclusive of costs for employees of the Board of Water Supply, was $63,300,000 for 2006, $67,500,000 for 2007, $73,000,000 for 2008, $88,600,000 for 2009 and $96,700,000 for 2010, including amortization of a portion of prior service cost in each such year. Contributions are estimated to be $97,544,000 for 2011 and budgeted at $96,852,000 for 2012.

Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the State Retirement System. 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. The creation of the noncontributory plan has not caused any major change in the City and County's funding requirements because the cost of the noncontributory retirement plan is about the same as the contributory retirement plan.

Effective July 1, 2006, a hybrid contributory plan was established for most new employees hired after that date and certain then-current employees who elected to join the hybrid plan. The State Retirement System's actuary has determined that the new hybrid plan is cost neutral.

Pursuant to Sections 88-119 and 88-119.5, Hawaii Revised Statutes, assets of the State Retirement System may be invested in: real estate loans and mortgages; preferred and common stocks; government obligations; corporate obligations; certain other debt obligations (such as obligations secured by collateral of certain other authorized securities listed above, obligations issued or guaranteed by certain development banks, insurance company obligations); real property; alternative investments; and other securities and futures contracts. The investment decision is further dictated by internal investment policies and asset allocation established by the State Retirement System's Board of Trustees.

The total assets of the State Retirement System on a market value basis amounted to approximately $8.8 billion as of June 30, 2009 and $9.8 billion as of June 30, 2010. Actuarial certification of assets as of June 30, 2009 was $11.4 billion. The June 30, 2010 actuarial certification of assets was $11.3 billion, and its unfunded actuarial accrued liability was $7.1 billion. The funded ratio (actuarial assets divided by actuarial accrued liability) for the State Retirement System was 64.6% as of June 30, 2009 and 61.4% as of June 30, 2010. The actuarial value of assets is based on a four-year smoothed valuation that recognizes the excess or shortfall of investment income over or under the 8% actuarial investment assumption. The actuary for the State Retirement System does not provide a breakdown of the unfunded liability for the counties. The State Retirement System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

The following table obtained from the State shows the total actuarially determined employer contribution rate for all employees based on the last five annual actuarial valuations.

Table 16

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll) (1)	Funding Period (Years)
2006	13.95	35.2
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3

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

In 2005, the funding period increased due to recognition of large actuarial losses. In 2006, the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions. The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in 2009 and 2010 were due to the net asset loss from the significant decline in the financial markets primarily during the 2009 Fiscal Year. As discussed above, under Section 88-122, Hawaii Revised Statutes, employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. Therefore, it is possible that the State Retirement System Board will implement increases in employer contributions rates in the foreseeable future.

A summary of the actuarial certification of the State Retirement System as of June 30, 2008, 2009 and 2010 is set forth below:

Table 17

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2008, 2009 and 2010
(Includes all counties)

ASSETS	2008	2009	2010
Total current assets	$11,380,961,003	$11,400,116,874	$11,345,618,006
Present value of future employee contributions	1,321,322,095	1,454,290,782	1,435,479,895
Present value of future employer normal cost contributions	1,567,124,012	1,658,595,716	1,601,394,963
Unfunded actuarial accrued liability	5,168,108,050	6,236,315,442	7,138,050,585
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A	N/A
TOTAL ASSETS	$19,437,515,160	$20,749,318,814	$21,520,543,449
LIABILITIES			
Present value of benefits to current pensioners and beneficiaries	$ 8,230,338,790	$ 8,584,029,950	$ 9,259,425,898
Present value of future benefits to active employees and inactive members	11,207,176,371	12,165,288,864	12,261,117,551
TOTAL LIABILITIES	$19,437,515,161	$20,749,318,814	$21,520,543,449

Source: Gabriel, Roeder, Smith & Company.

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 and County's Department of Budget and Fiscal Services. At June 30, 2010, there were four beneficiaries under these pensions. Such unfunded payments amount to less than $20,000 annually.

During the 2011 legislative session (which ended on May 5, 2011), the State Legislature passed legislation, which the Governor subsequently signed into law as Act 163, Session Laws of Hawaii 2011 ("Act 163"), relating to the State Retirement System. Act 163 implements certain changes to the State Retirement System, including increasing employee contributions under the State Retirement System and altering the way in which certain State Retirement System members who had previously withdrawn from the system can re-enter the system. These changes generally impact employees who enter the State Retirement System after June 30, 2012 and affect members who withdraw and re-enter the system with differing ages and levels of experience.

Other Post-Employment Benefits

In addition to pension benefits, beginning with the Fiscal Year ending June 30, 2008, state and local governments are required to account for and report other post-employment benefits ("OPEBs") under Statement No. 45 ("GASB 45") issued by the Governmental Accounting Standards Board. OPEBs consist of certain health and life insurance benefits provided through the Trust Fund to retired State and county employees and their dependents, including retired City and County employees and their dependents. Employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on employees' hiring dates and years of service.

In December 2010, the State's independent actuarial consultant estimated the actuarial accrued liabilities and annual OPEB costs under GASB 45 for the State and the counties for the Fiscal Year ending June 30, 2010. These estimates were based on the actuarial valuation as of July 1, 2009 and were developed assuming full prefunding of obligations. The actuarial accrued liabilities for Trust Fund OPEBs for the City and County were estimated to be approximately $1.92 billion with full prefunding for such period. The corresponding annual required contribution was estimated to be approximately $116.6 million for the Fiscal Year ending June 30, 2010 and $150.7 million for the Fiscal Year ending June 30, 2011 with full prefunding. The annual OPEB cost was $105.6 million for Fiscal Year 2009 and $117.1 million for Fiscal Year 2010.

On June 30, 2009, the City and County transferred $40.11 million to the Trust Fund to prefund its OPEB obligations in part. Further transfers for this purpose will be determined on a year-by-year basis.

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, 2005 through 2010, settlements and judgments against the City and County paid from the General Fund amounted to $2,542,000, $4,134,130, $7,304,115, $4,675,408, $7,720,708 and $6,074,638, respectively.

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

A wastewater consent decree, approved by the EPA, the DOH, the Sierra Club, Hawaii Chapter, Our Children's Earth Foundation, and Hawaii's Thousand Friends, has been entered by the United States District Court in Hawaii. The 1994, 2004, and 2006 lawsuits previously reported have been dismissed. The City and County also is in the process of withdrawing its appeals of EPA's January 2009 final decisions denying the City and County's applications to renew its permit variances from secondary treatment for the Honouliuli and Sand Island Wastewater Treatment Plants. The consent decree allows 10 years for completion of work on the collection system, 14 years for the upgrade of the Honouliuli WWTP to secondary treatment, and up to 25 years, with the possibility of a three-year extension, for the upgrade of the Sand Island WWTP to secondary treatment. The City and County is expected to incur approximately $3.5 billion in capital costs through Fiscal Year 2020 (which coincides with the term of the collection system portion of the consent decree). This amount will largely be spent on the collection system, and much of it will go toward work that was already required or planned. This amount also includes a portion of the costs of treatment plant upgrades at Sand Island and Honouliuli. Costs for the treatment plant upgrades include approximately $550 million to replace primary treatment facilities at both plants and $1.15 billion to upgrade the plants to secondary treatment plants. As part of the settlement, the City and County has paid a civil penalty in the amount of $800,000 to the United States, and $800,000 to the State of Hawaii. In addition, the City and County will provide $800,000 to the Sierra Club, Hawaii Chapter, Our Children's Earth Foundation, and Hawaii's Thousand Friends, to fund four identified supplemental environmental projects.

The consent decree was lodged with the federal court on August 11, 2010, and was subject to a 30-day public comment period. The United States then filed its motion to enter the consent decree on November 15, 2010, which included its responses to the public comments received. The consent decree became effective upon its entry by the Court on December 17, 2010. The City and County has also settled the NGO plaintiffs' claim for their attorneys' fees and costs, for an additional payment of $1.1 million.

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

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

TAX MATTERS

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

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

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

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

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

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

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

LEGAL MATTERS

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

In connection with the issuance of the Bonds and the refunding of the Refunded Bonds, Causey Demgen & Moore Inc., independent certified public accountants, will verify the mathematical accuracy of: (a) certain computations demonstrating the sufficiency of the Escrow Fund to pay the principal or redemption price of and interest on all Refunded Bonds, when due; and (b) certain computations to be relied upon by Bond Counsel for purposes of its opinion to the effect that the interest on the Series 2011B Bonds is excluded from gross income for federal income tax purposes. Such verification will be based in part on schedules and information provided by the Underwriters with respect to the foregoing computations.

BOND RATINGS

Fitch Ratings and Moody's Investors Service have assigned to the Bonds ratings of "AA+" and "Aa1," respectively. The ratings referred to above reflect only the views of the organization assigning the rating, and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; and Moody's Investors Service, 99 Church Street, New York, New York 10007. 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 Merrill Lynch, Pierce, Fenner & Smith Incorporated and Piper Jaffray & Co. The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of $334,284,940.94 (equal to the principal amount of such Bonds, plus a net original issue premium of $31,115,733.00, less an underwriting discount of $1,175,792.06). The bond purchase contract provides that the Underwriters will purchase all of the Bonds if any are purchased.

Piper Jaffray & Co. ("Piper") has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Bonds, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper. Piper also has entered into an agreement with UBS Financial Services Inc., under the terms of which UBS retail customers will have access to the offering at the original issue price. Piper will share a portion of its underwriting compensation for the Bonds with UBS Financial Services Inc.

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 certificate of continuing disclosure (the "Continuing Disclosure Certificate"), constituting a written agreement for the benefit of the holders of the Bonds, to provide to the Municipal Securities Rulemaking Board, on an annual basis, certain financial and operating data concerning the City and County, financial statements, notice of certain events 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 Continuing Disclosure is contained in Appendix C.

The City and County has not failed to comply in any material respect with any of its previous continuing disclosure undertakings under Rule 15c2-12. The City and County has engaged a third-party service provider to assist with post-issuance continuing disclosure compliance.

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/ Michael R. Hansen
Director of Budget and Fiscal Services
City and County of Honolulu

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC FACTORS

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC FACTORS

Introduction

Honolulu is a major metropolitan city with a population of 953,207 (approximately 70% of the State's population) according to the 2010 U.S. Census. Honolulu's underlying economy is strong, supported by several diversified areas, which include tourism, the federal government and military operations, State and local governments, manufacturing, construction, real estate, education, research and science, trade and services, communications, finance and transportation. Honolulu also is viewed as a premier world-class destination, and has received several accolades from the visitor industry.

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.

Employment

The following table sets forth certain employment statistics for the City and County for the five years ending December 31, 2006 through 2010 and the first quarters of 2010 and 2011. As indicated below, the unemployment rate for the City and County increased from 3.6% in 2008 to 5.8% in 2009 before declining slightly to 5.6% in 2010. This compares favorably to the 2010 and 2011 unemployment rates for the State (4.0% in 2008, 6.8% in 2009 and 6.6% in 2010) and the nation as a whole (8.2% in 2008, 10.0% in 2009 and 9.6% in 2010). The City and County's unemployment rate for the first quarter of 2011 stood at 5.3%, which again compares favorably to the unemployment rates for the State (6.2%) and the nation (8.9%) for the quarter.

Table I

EMPLOYMENT STATISTICS
CITY AND COUNTY OF HONOLULU [(1)]

	Year Ended December 31					First Quarter	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
Civilian Labor Force	441,500	440,050	444,050	440,050	439,000	438,350	443,750
Annual Average Civilian Employment	430,850	429,000	428,000	414,700	414,500	413,150	420,550
Unemployment	10,650	11,050	16,050	25,350	24,500	25,200	23,250
Unemployment Rate	2.4%	2.5%	3.6%	5.8%	5.6%	5.8%	5.3%
Total Job Count	453,650	456,950	454,300	442,650	436,150	433,950	442,100

(1) *Data benchmarked by the State of Hawaii Department of Labor & Industrial Relations in March 2011.*

Source: State of Hawaii Department of Labor & Industrial Relations and Department of Business, Economic Development & Tourism.

State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. As of December 2010, the State government generated 74,500 jobs, of which approximately 76% were located on

Oahu. The largest number of State employees work in public education and the State university system, with approximately 80% of these employed on Oahu. In addition, the City and County government generated approximately 12,050 jobs in 2010.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy as the second largest industry behind tourism. It is estimated that between FY 2007-2009, the Department of Defense's (DoD) direct expenditures in Hawaii averaged $6.5 billion per year (in 2009 dollars), with approximately $4.1 billion for personnel and $2.3 billion for procurement. Importantly, such expenditures generated an output of $12.2 billion for Hawaii's economy in 2009, representing over 18% of total spending in the State.

The majority of defense procurement in Hawaii is purchased by the Navy and Army, accounting for nearly 73% of the total spending (approximately $1.7 billion). Defense procurement was relatively constant from 1982 to 1995, but grew steadily thereafter. Hawaii-based procurement varies across the counties, ranging from $10 million and $27 million in Maui and Hawaii counties, respectively, to $106 million in Kauai and $2.2 billion in Honolulu. Honolulu accounts for 94% of the total defense procurement spending within the State. The majority of procurement spending was in four areas: construction ($787 million); professional, scientific and technical ($457 million); administrative and support services ($192 million); and petroleum- and coal-products manufacturing ($176 million).

In 2009, 10% of the State's total employment comprised of active-duty and DoD civilian personnel. More than 75,000 people served in the military or were employed by DoD, comprised of 48,000 active-duty service members, 18,000 DoD civilian employees, and 9,000 National Guard and Reserve members. The median earnings for active-duty service members and DoD civilians are higher than that of other full-time employees in Hawaii. In 2007-2009, the median salary for active-duty personnel were $74,900, while DoD civilian workers were $69,800 (in 2009 dollars). It is estimated that over this time period, state income taxes attributed to these employees have generated more than $113 million of tax revenues for Hawaii.

A major contributing factor to military constructions over the past five years have been the Public/Private Venture military housing partnership between the Army and Air Force with Actus Lend Lease and the Department of the Navy (Navy and Marine housing) partnership with Forest City. Demand for new military housing is expected to continue to support economic growth in Hawaii. Most of the construction efforts will focus on the Army's housing projects ranging from Fort Shafter to Helemano Military Reservation and Schofield Barracks. $1.2 billion worth of military construction projects by Actus Lend Lease are expected to generate about 7,200 construction jobs.

Ongoing programs to privatize construction, renovation and operation of military housing is expected to contribute an estimated $3 billion over the next decade. 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, call for nearly $2 billion in bonds coupled with approximately $8 million from developers to be spent over the next ten years for the renovation, demolition and new construction of over 16,000 homes, as well as community centers and landscaping improvements. The largest privatized military housing transaction to date (approximately $1.49 billion) sold in April 2005 providing funds for costs associated with the design, demolition, construction and renovation of 8,132 housing units in six military multi-family rental housing communities on Oahu. At the end of the development period (scheduled for 2015), a total of 7,894 new family housing units are expected to be in place as well as construction of eleven community centers that will offer swimming pools, water parks and tot lots. The scope of work is expected to take ten years to complete with construction spread over three phases.

It was announced in July 2010, that Hawaii will receive more than $740 million in funding for an array of military construction and veterans affairs projects, including infrastructure projects at the Pacific Missile Range Facility, a new building for the Welding School Shop at Pearl Harbor and a new federal fire station at West Loch.

The U.S. Navy has made major infrastructure improvements to make Ford Island the center of Pearl Harbor Naval Base operations. The work included installation of new electrical and telecommunication systems, major improvements to the sewer system and roadways, and renovation of a 21,000 square foot movie theater into a state-of-the-art conference and meeting center. This project is part of a master development project that will eventually add 430 new navy housing units to the island.

Finance

As the financial center of the State of Hawaii, Honolulu is served by a full range of financial institutions, including banks, savings and loan associations and financial services companies. Branch banking is permitted in Hawaii.

Honolulu currently has five state-chartered banks, one state-chartered financial services company, two federally-chartered savings associations and one national bank with combined assets totaling $39.9 billion as of March 31, 2011 according to information from the Federal Deposit Insurance Corporation. The state-chartered banks (Bank of Hawaii, Central Pacific Bank, First Hawaiian Bank, Ohana Pacific Bank and Pacific Rim Bank) have a combined total of 193 branches and total assets of $32.4 as of March 31, 2011. The state-chartered financial services company (Finance Factors, Ltd.) has 15 branches and total assets of $546 million as of March 31, 2011. The two federally-chartered savings associations (American Savings Bank and Territorial Savings Bank) have 81 branches and $6.3 billion of total assets as of March 21, 2011, and the national bank (Hawaii National Bank) has 14 branches and $585 million of total assets as of March 31, 2011.

Transportation

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

The City and County is proceeding with plans for a new $5.3 billion, 20-mile fixed guideway mass transit system to provide rail service along the island's east-west corridor between Kapolei and downtown Honolulu (Ala Moana Center). Over 60% of the City and County's population currently lives within the area served by this corridor, and this area is projected to continue to grow faster than the rest of Oahu. Reference is made to "DEBT STRUCTURE – High-Capacity Transit Corridor Project" in this Official Statement for certain information regarding this project and the anticipated sources of funding for the project.

Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu International Airport (HNL) 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 Federal Aviation Administration, HNL was the twelfth largest U.S. gateway airport in 2008 based on the number of international enplaned passengers and twenty-fifth busiest in the United States in total passengers (enplaned and deplaned). The 2008 Airports Council International Worldwide Traffic Report listed HNL the seventy-first busiest air terminal in the world.

Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. In fiscal year 2009, HNL recorded 276,272 aircraft operations as compared to 304,839 for fiscal year 2008. In addition, HNL passenger counts for fiscal year 2009 decreased from 20,808,838 in fiscal year 2008 to 17,806,225. The decreases are a reflection of the worldwide economic downturn.

The Airports Division is in the process of implementing a modernization program which will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost in excess of $1.3 billion through 2016, $893 million of which is allocable to HNL, and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 10.1 million short tons in fiscal year 2008, 9.0 million short tons in fiscal year 2009 and 8.8 million short tons in fiscal year 2010. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. The Act authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the Plan is estimated at $618 million, of which $318 million is allocable to Honolulu Harbor.

Construction

The value of new building permits issued by the City and County in 2008 decreased 11.6% from 2007, the first year-over-year decline in total permit value since 2001. The decline continued in 2009, before improving in 2010 with an 8.8% increase over the prior year.

Table III shows the estimated value of construction authorizations for private buildings for the City and County and for the State as a whole for the last ten years.

Table II

ESTIMATED VALUE OF BUILDING PERMITS

Year	State [1], [2]	% Change from Prior Year	City & County of Honolulu [1]	% Change from Prior Year
2001	$1,585,739	4.8	$ 682,660	-1.7
2002	1,772,027	11.7	876,049	28.3
2003	2,357,636	33.0	1,109,568	26.7
2004	2,714,046	15.1	1,320,552	19.0
2005	3,489,736	28.6	1,364,030	3.3
2006	3,819,079	9.4	1,625,328	19.2
2007	3,579,592	-6.3	1,676,232	3.1
2008	2,899,665	-19.0	1,481,272	-11.6
2009	1,998,908	-31.1	1,247,196	-15.8
2010	1,980,296	-0.9	1,357,314	8.8

(1) *In thousands of dollars.*

(2) *Kauai County data consists of residential data only.*

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

Proposed development projects include Castle & Cooke's $2.2 billion Koa Ridge Community Project in Central Oahu. The developer plans to develop the Project in two phases. Phase I is expected to include 3,500 homes, a hotel, a medical campus, a school, parks and commercial space. Phase II is expected to include an additional 1,500 homes and a school.

In October 2010, the State Land Use Commission approved a reclassification of a 576-acre parcel for Phase I of the Koa Ridge Project from agricultural to urban. Commencement of Phase I will also require approval of a zoning change and certain permits from the City and County. Subject to receipt of thes additional approvals and permits, the developer expects to commence construction in 2011 and to begin offering homes in late 2012 or early 2013.

In 2009, the unfinished Pacifica Honolulu Condominium Tower was acquired by a San Diego developer. The developer has resumed construction of this 46-story, 492-unit condominium at an estimated cost of $150 million.

In 2009, the Hawaii Community Development Authority retained MVE Pacific and its team of development and planning specialists to lead the master planning process for Kakaako Makai, the waterfront area of the 600-acre Kakaako District near downtown Honolulu. In April 2011, the consulting team released the Kakaako Makai Conceptual Master Plan Final Report calling for the development of the area as a community gathering place that includes various historical, cultural, educational, research, entertainment and commercial facilities and activities. This cost of this development is estimated in the $250-300 million range.

See “Transportation” above for a description of the State of Hawaii’s multi-year improvement programs for the airports and harbors systems and the City and County’s proposed fixed guideway mass transit system. See also “Visitor Industry” below for a description of certain other construction projects related to the visitor industry.

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. According to the State’s Department of Taxation, the State’s general excise tax base for trade and service activities exceeded $41.2 billion in 2010, with retail, wholesale and service activities accounting for the majority. Of the State’s 586,900 non-agricultural jobs in 2010, retail and wholesale trade together accounted for 83,100 jobs, or 14.2% of the total, and professional and business services, educational services, food services and other services together accounted for 167,800 jobs, or 28.6% of the total.

Agriculture and Diversified Manufacturing

Agriculture is an important component of the City and County’s economy. Approximately one-fifth of the land on Oahu is zoned for agriculture. Oahu produces approximately 30% of the State’s agricultural production. Agricultural sales totaled over $184 million for Oahu in 2009.

With the decline of the sugar and pineapple industries, agricultural lands are returning to an era of small farms growing diversified agricultural products. There are over 600 crop farms on Oahu, with flowers, vegetables and fruits comprising over 95% of the production. Aquaculture (including production of cultivated species of shellfish, finfish and algae) has grown in recent years as well.

Manufacturing is a relatively small sector in the State’s and the City and County’s economy. This sector 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.

Renewable Energy

Renewable energy is a growing industry on Oahu.

The City and County’s H-Power waste-to-energy facility has been in operation since 1990. Since its opening, the facility has turned over 12 million tons of municipal solid waste into electricity sold to the local electric utility. A $325.7 million expansion is currently under construction (with completion anticipated in mid-2012), and is expected to provide capacity to handle an additional 300,000 tons of waste per year.

Honua Power plans to construct a gasification plant expected to produce 12 megawatts of electricity from synthetic gas made from waste. Construction is expected to begin in 2014.

In March 2011, Kahuku Wind Power LLC completed Oahu's first large-scale commercial wind farm on the North Shore of the island. This 30-megawatt wind farm is expected to generate 83 million kilowatt hours of electricity annually.

Other renewable energy projects on Oahu include a 20-megawatt photovoltaic solar farm in Mililani and two 5-megawatt solar farms in Kalaeloa. In addition, Honolulu Seawater Air Conditioning has State legislative approval for a $150 million special purpose revenue bond issue (conduit bond issue) to fund the costs of a district cooling project for downtown Honolulu.

Education, Research and Science

The University of Hawaii System includes two universities and four community colleges on Oahu. The main campus of the University of Hawaii is located in Manoa. The federally funded East-West Center is adjacent to the Manoa campus. The University of Hawaii-West Oahu is currently located in Pearl City pending completion of its new campus in Kapolei (expected to be completed in 2012). The System's community colleges (Honolulu Community College, Kapiolani Community College, Leeward Community College and Windward Community College) offer liberal arts and sciences courses leading to Associate of Arts degrees, as well as courses in career and technical training leading to Associate in Science, Associate in Applied Science or Associate in Technical Studies degrees. In addition to the University of Hawaii System, there are also three private universities and one private college on Oahu.

The University of Hawaii at Manoa is a research university of international standing. It has a Carnegie classification of Research University/very high research activity (RU/VH), the top classification for doctoral/research universities, and the closest to the old "Carnegie Research I University" classification no longer in use. Students have special opportunities for Hawaiian, Asian, and Pacific educational experiences and involvement in research activities, learning community service, and co-curricular activities. The University is one of 39 universities or consortia in the United States designated as a land, sea and space grant college. As a major research university, the University of Hawaii at Manoa has the capability of serving not only the State but the nation and the international community as well. The University of Hawaii at Manoa has widely recognized strengths in tropical agriculture, tropical medicine, oceanography, astronomy, electrical engineering, volcanology, evolutionary biology, comparative philosophy, comparative religion, Hawaiian studies, Asian studies, Pacific Islands studies, and Asian and Pacific region public health. The University of Hawaii at Manoa offers instruction in more languages than any United States institution outside the United States Department of State. In addition to the University faculty expertise in benthic and pelagic oceanography, the Hawaii Institute of Marine Biology leads global research in coral reefs and zooxanthellae.

The University of Hawaii at Manoa is the University's flagship research campus and was recently ranked 29th out of all public universities in the United States in research expenditures. The University has research partnerships with local, mainland and international universities, research institutions and business organizations. The University has also been designated as the fifth Naval University Affiliated Research Center, which is expected to generate at least $10 million in additional funding per year beginning in 2009. The University secures research funding from various other sources, including the State, the National Science Foundation, National Institutes of Health, Department of Defense, Department of Agriculture, National Aeronautics and Space Administration, Department of Energy and the Environmental Protection Agency. The University was awarded one of eight Regional Biocontainment Laboratory grants from the National Institutes of Health, valued at $32.5 million.

In 2010, the University began construction of the new Cancer Research Center of Hawaii next to the John A. Burns School of Medicine in Kakaako. The $180.4 million state-of-the-art research facility is expected to be completed in early 2013.

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.

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.

Following a period of decline from the second quarter of 2008 through the second quarter of 2009, Hawaii's tourism sector showed signs of improvement during the last two quarters of 2009. This improvement continued through 2010 and the first quarter of 2011.

In 2010, total visitor arrivals by air were approximately 6.983 million, representing an 8.8 percent increase over the total for 2009. In the first quarter of 2011, visitor arrivals by air increased by 142,391 or 8.7 percent compared to the same quarter in 2010.

The average daily visitor census, which takes into account visitors' lengths of stay, increased 8.9 percent in 2010 as compared to 2009. In the first quarter of 2011, as a result of higher lengths of stay, the average daily visitor census increased more than the increase in visitor arrivals (i.e., 10.8 percent as compared to 8.7 percent).

Visitor expenditures also showed significant improvement in 2010 and through the first quarter of 2011. Visitor expenditures for 2010 totaled approximately $11.383 million, representing a 16.2 percent increase over 2009. In the first quarter of 2011, visitor expenditures increased 16.8 percent compared to the same quarter in 2010.

The increase in total visitor arrivals by air in 2010 reflected a 7.5 percent increase in domestic arrivals and a 12.1 percent increase in international arrivals as compared to 2009. In the first quarter of 2011, domestic arrivals increased 10.9 percent as compared to the same quarter of 2010, offsetting lower growth in international arrivals (3.8 percent) due largely to the impact of the Japanese earthquake.

Although the recent natural disaster in Japan has led to a decrease in the number of Japanese visitors, the decline has been less than expected. The State's Council on Revenues originally forecasted a drop of 40% in east bound visitors at its March 29 special meeting, but revised its forecast to a 22% decline at its regular May 26 meeting. In addition, the Economic Research Organization at the University of Hawaii (UHERO) has forecasted an 11% decrease in Japanese visitors for 2011, and a rebound of 10% in 2012.

Prior to the earthquake and subsequent tsunami in March, Hawaii's visitor industry had been experiencing sixteen straight months of positive growth due to the strong Yen. A recovery in Japanese tourism was also aided by the restoration of flights between Tokyo's downtown Haneda Airport and Honolulu by Japan Airlines, All Nippon Airways and Hawaiian Airlines in 2010.

In terms of major market areas, arrivals from U.S. West were up 8.8 percent in 2010 as compared to 2009; arrivals from the U.S. East were up 4.4 percent; and Japanese arrivals were up 5.3 percent. From the first quarter of 2010 to the same period of 2011, arrivals from the U.S. West increased 53,630 or 8.7 percent; arrivals from the U.S. East increased 9.0 percent; and arrivals from Japan increased 1.6 percent.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 5.9 percent in 2010 from the previous year. For the first quarter of 2011, as compared to the same period in 2010, the total number of seats increased 4.1 percent in the first quarter of 2011; domestic seats increased 3.8 percent; and international seats increased 4.9 percent.

Increased airline capacity reflected the opening of operations between Honolulu and Tokyo's Haneda Airport by Japan Airlines, All Nippon Airways and Hawaiian Airlines in the fourth quarter of 2010. Hawaiian also added a new route to Seoul in 2010 and plans to introduce service to Osaka-Kansai in the Summer of 2011. In January 2011, Alaska Air introduced a non-stop flight between Bellingham, Washington and Honolulu. More recently, China Eastern Airlines announced that it will introduce non-stop service between Honolulu and Shanghai in August 2011, which will be Hawaii's first regularly scheduled service to China.

In 2010, hotel occupancy for the State averaged 70.7 percent in 2010, an increase of 5.9 percentage points from the previous year. On Oahu, hotel occupancy averaged 78.2 percent in 2010, also 5.9 percentage points higher than the previous year. In the first quarter of 2011, hotel occupancy for the State improved to 77 percent, an increase of 6.4 percentage points over the same period in the previous year, while hotel occupancy on Oahu improved to 82.2 percent in the first quarter of 2011, up 6.2 percentage points.

Select statistics on the visitor industry are set forth in the table below:

Table III

SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS

	Year Ended December 31					First Quarter	
	2006	**2007**	**2008**	**2009**	**2010** (3)	**2010** (3)	**2011** (3)
Arrivals by Air – State (1)	7,528	7,497	6,713	6,420	6,983	1,638	1,780
Domestic	5,550	5,583	4,902	4,672	5,023	1,119	1,241
International	1,978	1,914	1,812	1,748	1,960	519,219	539,119
Arrivals by Air – Oahu (1)	4,688	4,695	4,194	4,025	4,334	990	1,068
Domestic	2,891	2,950	2,555	2,447	2,588	522	615
International	1,797	1,744	1,639	1,578	1,746	437	452
Average Daily Visitor Census – State (1)	189.4	189.4	172.5	165.1	179.7	178.0	197.2
Domestic	149.5	151.0	135.2	129.1	138.2	131.5	146.8
International	39.9	38.5	37.2	36.0	41.5	46.5	50.4
Visitor Expenditures – State (2)	$12,243	$12,578	$11,182	$9,794	$11,383	$2,708	$3,164
Hotel Occupancy Rate – State	79.5%	75.0%	70.4%	64.9%	70.7%	70.6%	77.0%
Hotel Occupancy Rate – Oahu	82.5%	76.8%	75.0%	73.3%	78.2%	76.0%	82.2%

(1) *In thousands.*

(2) *In millions of dollars. By persons arriving by air and staying overnight or longer (excludes supplemental business expenditures).*

(3) *2010 and 2011 data are preliminary.*

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

Honolulu's profile as a visitor destination is enhanced by its role as host of numerous professional and trade conferences and conventions as well as major sports events.

Conferences and conventions held in Honolulu annually attract thousands of visiting participants statewide, nationally and internationally. The primary site for these events is the Hawaii Convention Center, which is located near Waikiki hotel accommodations and visitor attractions.

In November 2010, Honolulu will serve as the primary location for the Asia-Pacific Economic Cooperation Conference (APEC), which is expected to draw 20,000 attendees, including President Obama and other heads of state, ministers, political staff, business leaders and media outlets. According to the APEC 2011 Host Committee, the conference is expected to generate approximately $120 million in economic benefit for the State (primarily Oahu) and could fill over 120,000 hotel rooms on Oahu.

As discussed below under "Sporting Events," major sports events held in Honolulu such as the NFL Pro Bowl and the Honolulu Marathon attract thousands of visitors annually.

The City and County of Honolulu continues to attract major investment to support the visitor industry, including hotels, restaurants, and recreation facilities.

Waikiki Beach Walk, an eight-acre complex bordered by Kalakaua Avenue, Lewers Street, Kalia Road, Beach Walk and Saratoga Road, was reconstructed in recent years as a showcase and gathering place in Waikiki, featuring an outdoor entertainment plaza, 40 new retailers, six restaurants, and four hotels. The Beach Walk project, which represents an investment of approximately $535 million, is part of Outrigger Enterprises' master plan for Waikiki. The project includes the newly constructed Trump International Hotel, a 38-story, 464-unit condominium-hotel, and the recently completed $110 million renovation of the Outrigger Reef on the Beach property, converting 836 rooms into 639 larger rooms.

Other major projects in Waikiki include the $85 million renovation and retenanting of the Royal Hawaiian Shopping Center, providing additional retail and restaurant options for visitors; Ala Moana Shopping Center's addition of approximately 300,000 square feet; Hilton Grand Vacation Club's new 38-story Grand Waikikian time-share located between the Hilton Hawaiian Village and Ilikai Hotel; the new Allure Waikiki on Kalakaua Avenue, a 35-story condominium; the new Waikiki Edition, a 353-room luxury hotel developed by boutique hotelier Ian Schrager and Marriott International in the former Yacht Harbor Tower of the Ilikai Hotel; and a $200 million renovation project at the Sheraton Waikiki Beach Resort.

There are also plans for an expansion of the Hilton Hawaiian Village, including two separate towers consisting of over 550 time share units. Construction of the towers is expected to begin in 2013 and 2018, respectively.

In the Fall of 2011, the 451-room Ocean Resort Hotel Waikiki will become the 425-room Hyatt Place Waikiki Beach as part of an extensive renovation and repositioning. Phase one involves the renovation of the 19-story Pali Tower, which is scheduled to reopen in November. Phase two, the renovation of the 14-story Diamond Tower, is expected to be completed by April 2012.

Kyo Ya, owner of all Oahu Sheraton properties, is scheduled to begin a $700 million redevelopment project at the Sheraton Princess Kaiulani in 2011, including construction or a new 33-story tower with both hotel and residential units. Kyo Ya has also received partial approval from the Honolulu Department of Planning and Permitting for a $700 million project at the Moana Surfrider that includes construction of a 26-story hotel and condominium complex.

Outside Waikiki, the Turtle Bay Resort, on Oahu's north shore, recently completed a $50 million renovation. In December 2010, a developer purchased the 359-room Pagoda Hotel and Floating Restaurant and is undertaking an estimated $6 million of renovations and upgrades to the hotel and dining facilities.

In addition, Disney is nearing completion of its first Hawaii resort, named Aulani, an $800 million resort on 21 acres at Ko'Olina Resort & Marina. Scheduled to open in August 2011, the resort will feature 350 hotel rooms and 480 Disney Vacation Club time-share villas.

Sporting Events

Honolulu is a popular venue for sporting events. Aloha Stadium, located minutes from downtown Honolulu, hosts the University of Hawaii's football team each year. The National Football League's Pro Bowl game was held at Aloha Stadium annually from 1980 through 2009. The Pro Bowl was relocated to Miami, Florida in 2010, but returned to Honolulu in 2011 and is scheduled to be played in Honolulu again in 2012. In 2009, the Pro Bowl attracted an estimated 24,000 visitors to Honolulu. The 2011 Pro Bowl generated an estimated $28.15 million in spending and $3 million in state taxes.

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

The Men's & Women's OP Pro Hawaii surfing competitions, the O'Neill World Cup surfing competition, and the Billabong Pipeline Masters are all held on Oahu.

The Honolulu Marathon, one of the largest in the world, has been held in City each December since 1973. In 2010, the Honolulu Marathon drew 28,600 participants, including 22,000 visitors, of which 18,000 were international visitors. The 2010 Marathon provided an estimated $100 million to the State's economy.

Arts and Entertainment

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

Honolulu Academy of Arts, founded in 1927, has a collection of over 50,000 works of art and administers the Academy Art Center at Linekona. The Arts of Paradise Gallery, located in Waikiki, features the art of more than 40 of local artists.

The Bishop Museum, located in downtown Honolulu, was founded in 1889 by a member of the Hawaiian royal family. The museum primarily focuses on history and science, and is home to the world's largest collection of Polynesian cultural and scientific artifacts.

The Mission Houses Museum, established in 1920, provides a glimpse into 19th century Hawaii life. The museum hosts a wide variety of events including lectures, gallery talks, public programs, demonstrations and workshops.

The Hawaii State Art Museum (HiSAM) exhibits the work of Hawaii Artists. Located in Honolulu's downtown Capitol District, HiSAM has three galleries, a 70-seat events room and a café.

Film and Television

Hawaii is a premier location for filming both television series and major motion pictures. In addition to the lush tropical setting, Hawaii offers a one-stop process to obtain State permits, tax incentives and the only state-owned and operated film studio in the country.

In 2010, Hawaii saw a historic rise in film, television and digital media productions. Production expenditures totaled an estimated $391 million for the year. Oahu continues to be the prime location within the State for media productions.

CBS' hit series Hawaii Five-O completed its first season of filming in Honolulu. CBS plans to begin filming the second season in July.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

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APPENDIX B

FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

City and County of Honolulu
Honolulu, Hawaii

Re: City and County of Honolulu, Hawaii
<u>General Obligation Bonds, Series 2011A and 2011B</u>
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City and County of Honolulu (the "City") in connection with the issuance of $141,235,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2011A (the "Series 2011A Bonds") and $163,110,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2011B (the "Series 2011B Bonds" and, together with the Series 2011A Bonds, 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 July 13, 2011 (the "Certificate"), and bond authorizing ordinances and a resolution adopted by the City Council and identified in the Certificate (the "Bond Proceedings").

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

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

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

1. The Bonds constitute valid and binding general obligations of the City.

2. The Certificate has been duly executed and delivered by the Director of Budget and Fiscal Services; and the Certificate constitutes the valid and binding obligation of the City.

3. Under the Act, the City is obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the Bonds and the interest thereon, upon all the real property within the City subject to taxation by the City.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that 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.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated August 4, 2011

CITY AND COUNTY OF HONOLULU
General Obligation Bonds
Series 2011A and Series 2011B

This Continuing Disclosure Certificate (this "*Disclosure Certificate*") is provided in connection with the issuance by the City and County of Honolulu, Hawaii (the "*City and County*") of $304,345,000 General Obligation Bonds, Series 2011A and Series 2011B (together, the "*Bonds*"). The Bonds are being issued pursuant to the Constitution and laws of the State of Hawaii, including Chapter 47, Hawaii Revised Statutes, and the Revised Charter of the City and County, Ordinance Nos. 98-29, 00-24, 01-27, 02-27, 03-08, 04-15, 05-15, 06-34, 07-26, 08-14, 09-13, 10-13, 11-12 and 99-11 of the City and County, Resolution No. 11-168 of the City and County, and a Certificate of the Director of Budget and Fiscal Services of the City and County. Pursuant to such authority, the City and County covenants and agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered on behalf of the City and County for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. When the following capitalized terms are used in this Disclosure Certificate, such terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the City and County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean the Director of Budget and Fiscal Services of the City and County or any successor Dissemination Agent designated in writing by the City and County and which has filed with the City and County a written acceptance of such designation.

"*Holder*" shall mean the person in whose name any Bond shall be registered.

"*Listed Events*" shall mean any of the events listed in subsection 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org.

"*Participating Underwriters*" shall mean any original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports. (a) The City and County shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City and County's Fiscal Year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2011, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City and County may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City and County's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) In a timely manner prior to the date set forth in subsection (a) above, the City and County shall provide the Annual Report to the Dissemination Agent. If the City and County is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the City and County shall send a notice to the MSRB in substantially the form attached as Exhibit A.

Section 4. Contents of Annual Reports. The City and County's Annual Report shall contain or include by reference information of the type included in the final Official Statement (the "*Official Statement*") dated July 13, 2011, relating to the Bonds, as set forth under the following headings and tables: "CITY AND COUNTY REVENUES—Tables 1 through 6", "DEBT STRUCTURE—Tables 7 through 10", "FINANCIAL INFORMATION AND ACCOUNTING—Tables 12 through 15", "EMPLOYEE RELATIONS; PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS", and PENDING LITIGATION".

The audited financial statements of the City and County for the prior Fiscal Year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City and County's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the City and County, which have been available to the public on the MSRB's website. The City and County shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. (a) Pursuant to the provisions of this Section 5, the City and County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

i. Principal and interest payment delinquencies;

ii. Unscheduled draws on debt service reserves reflecting financial difficulties;

iii. Unscheduled draws on credit enhancements reflecting financial difficulties;

iv. Substitution of credit or liquidity providers, or their failure to perform;

v. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

vi. Tender offers;

vii. Defeasances;

viii. Rating changes; or

ix. Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City and County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

i. Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

ii. Modifications to rights of Bond holders;

iii. Optional, unscheduled or contingent Bond calls;

iv. Release, substitution, or sale of property securing repayment of the Bonds;

v. Non-payment related defaults;

vi. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

vii. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The City and County shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4, as provided in Section 4.

(d) Whenever the City and County obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City and County shall determine if such event would be material under applicable federal securities laws.

(e) If the City and County learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City and County shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The City and County's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City and County shall give notice of such termination in the same manner as for a Listed Event under subsection 5(e).

Section 7. Dissemination Agent. The City and County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City and County pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City and County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders or (ii) does not materially impair the interests of the Holders or Beneficial Owners of the Bonds, as determined in good faith by the City and County.

In the event of any amendment or Waiver of a provision of this Disclosure Certificate, the City and County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City and County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(e), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City and County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City and County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City and County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City and County to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City and County to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the City and County to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City and County, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

CITY AND COUNTY OF HONOLULU

By: ____________________________________
Michael R. Hansen
Director of Budget and Fiscal Services

The foregoing certificate is hereby approved as to form and legality this 4th day of August, 2011.

____
Robert Carson Godbey
Acting Corporation Counsel
City and County of Honolulu

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City and County of Honolulu
Names of Bond Issues:	City and County of Honolulu General Obligation Bonds, Series 2011A and Series 2011B
Date of Issuance:	August 4, 2011

NOTICE IS HEREBY GIVEN that the City and County of Honolulu has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated August 4, 2011. [The City and County anticipates that the Annual Report will be filed by _______________.]

Dated:

CITY AND COUNTY OF HONOLULU

____
Director of Budget and Fiscal Services

APPENDIX D

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

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

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

DTC and its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to

Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemption defaults, and proposed amendments to the Bond documents. For example, Beneficial owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

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

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

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

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

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

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.

Disclaimer of Responsibility. The City and County and the Underwriters will have no responsibility for or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners, nor can or do they give any assurances with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, or (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest on the Bonds, or (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the 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.

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