NEW ISSUE—FULL BOOK-ENTRY

RATINGS: Fitch: AAA/F1+
Moody's: Aaa/VMIG 1
Standard & Poor's: AAA/A-1+

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

OFFICIAL STATEMENT
$250,000,000
CITY AND COUNTY OF HONOLULU
General Obligation Bonds, Series 2001C

Dated: Date of issuance. **Due: As shown on inside cover.**

The Bonds are issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of certificates; payment of the principal of, and premium, if any, and interest on, the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may initially be made in the denomination of $100,000 or any integral multiple of $5,000 in excess thereof.

The Bonds will be dated as of the date of issuance thereof and will bear interest at an Initial Rate of 2.85% per annum (priced to yield 2.05%) through December 3, 2002, payable on December 4, 2002, and thereafter at a rate determined weekly as described herein, unless, at the option of the City and County of Honolulu (the "City and County"), the interest rate on the Bonds is converted to a fixed rate. The Bonds are subject to redemption and tender prior to the stated maturity thereof as described herein.

The Bonds are being issued for the purpose of paying costs of certain public improvements of the City and County, and for the purpose of refunding certain outstanding general obligations of the City and County.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a Municipal Bond New Issue Insurance Policy to be issued concurrently with the delivery of the Bonds by:

FGIC. **Financial Guaranty Insurance Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

The purchase price of any Bonds tendered for purchase as described herein and not remarketed will be payable pursuant to the provisions of a Standby Bond Purchase Agreement between FGIC Securities Purchase, Inc. and First Union National Bank, as Tender and Paying Agent.

The Bonds are offered when, as and if issued and received by the Underwriter, and are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriter by its counsel, Watanabe, Ing & Kawashima, 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 December 5, 2001.

UBS PaineWebber Inc.

November 28, 2001

City and County of Honolulu
$250,000,000 General Obligation Bonds, Series 2001C

Year of Maturity (December 1)	Principal Amount	Year of Maturity (December 1)	Principal Amount
2006	$16,600,000	2014	$16,700,000
2007	16,700,000	2015	16,700,000
2008	16,700,000	2016	16,700,000
2009	16,700,000	2017	16,600,000
2010	16,700,000	2018	16,600,000
2011	16,700,000	2019	16,600,000
2012	16,700,000	2020	16,600,000
2013	16,700,000		

City and County of Honolulu

State of Hawaii
(Incorporated 1907)

MAYOR
Jeremy Harris

CITY COUNCIL

Jon C. Yoshimura
Chair and Presiding Officer

John DeSoto
Vice-Chair

Steve Holmes
Floor Leader

Duke Bainum

John Henry Felix

Rene Mansho

Andy Mirikitani

Gary H. Okino

Romy M. Cachola

DIRECTOR OF BUDGET AND FISCAL SERVICES
Caroll Takahashi

CORPORATION COUNSEL
David Z. Arakawa

BOND COUNSEL
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

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

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

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OFFICIAL STATEMENT

$250,000,000
City and County of Honolulu
General Obligation Bonds, Series 2001C

INTRODUCTION

This Official Statement, which includes the cover page hereof and the appendices hereto, is provided for the purpose of presenting certain information relating to the City and County of Honolulu (the "City and County," the "City," "Honolulu" or "Oahu"), and its $250,000,000 aggregate principal amount of General Obligation Bonds, Series 2001C (the "Bonds").

AUTHORITY FOR AND PURPOSE OF ISSUANCE

Authority for Issuance

The Bonds are being issued pursuant to and in full compliance with Ordinance No. 94-43 for Fiscal Year 1994-95 of the City and County, Ordinance No. 96-39 for Fiscal Year 1996-97 of the City and County, Ordinance No. 98-29 for Fiscal Year 1998-99 of the City and County, Ordinance No. 99-28 for Fiscal Year 1999-00 of the City and County, Ordinance No. 00-24 for Fiscal Year 2000-01 of the City and County, Ordinance No. 01-27 for Fiscal Year 2001-02 of the City and County, Resolution No. 01-295 of the City and County, the Constitution and laws of the State of Hawaii, including Chapter 47, Hawaii Revised Statutes, and the Revised Charter of the City and County. The Bonds are being issued pursuant to a Certificate of the Director of Budget and Fiscal Services of the City and County (the "Authorizing Certificate").

Purpose of Issuance

The proceeds of the Bonds (exclusive of accrued interest and premium, if any) will be used to provide funds for (i) a portion of the unfunded balance of $35,969,984 for public improvements authorized in the Capital Budget Ordinance for the Fiscal Year 1994-95, (ii) a portion of the unfunded balance of $4,527,918 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 1996-97, (iii) a portion of the unfunded balance of $31,669,258 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 1998-99, (iv) a portion of the unfunded balance of $114,531,211 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 1999-00, (v) a portion of the unfunded balance of $243,312,023 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 2000-01, (vi) a portion of the unfunded balance of $366,313,800 for public improvements authorized in the Capital Budget Ordinance for Fiscal Year 2001-02, and (vii) the refunding of certain outstanding general obligations of the City and County, as described in "THE REFUNDING PLAN."

THE REFUNDING PLAN

The Bonds are being issued in part for the purpose of refunding certain outstanding general obligation commercial paper notes of the City and County (the "Refunded Bonds"), in the total amount of $40,400,000, all maturing on December 6, 2001, to be paid on such date in such amount, plus interest accrued to such date.

A portion of the proceeds of the Bonds and other available funds will be held in cash or invested in short-term securities, the maturing principal and interest on which will be sufficient, together with any uninvested cash, to pay the interest on and the principal and redemption price of the Refunded Bonds coming due on their respective redemption dates. Simultaneously with the issuance and delivery of the Bonds, such cash or securities will be deposited into an escrow fund established pursuant to the Authorizing Certificate and held by the Director of Budget and Fiscal Services. The City and County will transfer to the Issuing and Paying Agent for the Refunded Bonds the amount necessary to pay the principal and interest coming due on the Refunded Bonds.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the date of issuance thereof; will mature serially on December 1 of each year in the principal amounts shown on the inside cover page hereof; will bear interest at the Initial Rate set forth on the cover page hereof, computed on the basis of a year of 365 days for the actual number of day elapsed, until December 3, 2002, payable on December 4, 2002, and thereafter at the rates determined as described herein; and will be subject to tender and redemption as described herein.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as Securities Depository for the Bonds. So long as the Securities Depository or its nominee is the registered owner of the Bonds, individual purchases of the Bonds will be made in book-entry form only (the "Book-Entry System"), in Authorized Denominations, as defined below. Purchasers will not receive certificates representing their interest in the Bonds. Principal of and interest on the Bonds will be paid to the Securities Depository, which will in turn remit such principal and interest to its Participants (as defined in Appendix E), for subsequent distribution to the Beneficial Owners (as defined in Appendix E) of the Bonds. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in accompanying proceedings of the City and County. See Appendix E, "Book-Entry System."

Definitions

The following are definitions of certain terms relating to the Bonds used in this Official Statement:

"Alternate Liquidity Facility" means any letter of credit, line of credit, standby bond purchase agreement or other form of liquidity support for the Bonds, provided that any such facility provides a source of funds for the full and timely payment of the Purchase Price of any Bonds tendered for purchase and not remarketed, and complying with Section 47-11, Hawaii Revised Statutes, as amended, and with the provisions of the Authorizing Certificate requiring that it be amended if an Alternate Liquidity is provided by any Liquidity Provider other than the initial Liquidity Provider.

"Alternate Rate" means, on any Rate Determination Date, the rate per annum specified in the index (the "Index") published by the Indexing Agent (as defined in the Authorizing Certificate) and in effect on such Rate Determination Date. The Index shall be based upon yield evaluations at par of bonds, the interest on which is excluded from gross income for purposes of Federal income taxation, of not less than five (5) "high grade" component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The bonds on which the Index is based shall not include any bonds the interest on which is subject to a "minimum tax" or similar tax under the Code, unless all tax-exempt bonds are subject to such tax. When the Bonds are in the Weekly Mode, the yield evaluation period for the Index shall be thirty (30) day yield evaluations. If the Indexing Agent no longer publishes the Index satisfying the requirements of the preceding paragraph, the Alternate Rate for an Interest Period shall be the rate per annum specified in the most recently published Index for a comparable Interest Period.

"Authorized Denominations" means (i) until December 3, 2002, and during any Weekly Mode, $100,000 or any integral multiple of $5,000 in excess thereof; and (ii) during any Fixed Rate Mode, $5,000 or any integral multiple thereof.

"Bond Register" means the books kept by the Registrar pursuant to the Authorizing Certificate for the registration and transfer of the Bonds.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a legal holiday in the City of New York, New York, or any city in which the principal office of the Tender and Paying Agent or the office of the Liquidity Provider at which drawings are required to be presented under the Liquidity Facility, on which banking institutions are authorized by law or executive order to close, or (iii) a day on which the New York Stock Exchange is closed.

"Closing Date" means the date of initial issuance and delivery of the Bonds.

"Electronic Means" means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission.

"Expiration Tender Date" means the date seven (7) days prior to the date upon which the Liquidity Facility expires by its terms or is terminated following an Event of Default thereunder and is not replaced by an Alternate Liquidity Facility or, if such date is not a Business Day, the next succeeding Business Day. Events of Default under the Liquidity Facility include: (a) failure to pay amounts due under the Liquidity Facility; (b) certain actions by the State which would impair the power of the City and County to comply with its covenants and obligations under the documents related to the Bonds or any right or remedy of the Liquidity Provider or any owners of the Bonds to enforce such covenants and obligations; (c) failure of the City and County to observe or perform any covenant or agreement contained in the documents related to the Bonds or to maintain a Remarketing Agent performing the duties thereof contemplated by the Authorizing Certificate; (d) default under any of the documents related to the Bonds; (e) any representation, warranty, certification or statement made by the City and County (or incorporated by reference), in any document related to the bonds shall prove to have been incorrect in any material respect when made; (f) default by the City and County in the payment of principal of or premium, if any, or interest on any other general obligation bond of the City and County; (g) certain acts of bankruptcy of the City and County; (h) any material provision of the Liquidity Facility, the Bonds or any document related to the Bonds shall cease for any reason whatsoever to be a valid and binding agreement of the City and County or the City and County shall contest the validity or enforceability thereof; or (k) failure to pay when due any amount payable under the Bonds.

"Fixed Rate" means the fixed rate of interest per annum on any Bond to the Maturity Date thereof determined pursuant to the Authorizing Certificate, as more fully described in this Official Statement.

"Fixed Rate Mode" means the Mode during which all or any portion of the Bonds bear interest at the Fixed Rate.

"Initial Rate" means the initial rate of interest borne by the Bonds set forth on the cover page hereof.

"Interest Accrual Period" means the period during which a Bond accrues interest payable on the next Interest Payment Date applicable thereto. The Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original delivery of the Bonds, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If interest is in default or overdue on any Bond, such Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Bonds.

"Interest Payment Date" means each date on which interest is to be paid on the Bonds, as follows: (i) with respect to the Bonds bearing interest at the Initial Rate, December 4, 2002; (ii) with respect to a Bond in the Weekly Mode, the first Wednesday of each month; (iii) with respect to a Bond in the Fixed Rate Mode, each January 1 and July 1, beginning with the first January 1 or July 1 that occurs no earlier than three (3) months after the commencement of the Fixed Rate Mode for such Bond; and (iv) any Mode Change Date and each Maturity Date.

"Interest Period" means, for a Bond in a particular Mode, the period of time that such Bond bears interest at the rate per annum which becomes effective at the beginning of such period, which is: (i) in the case of a Bond in the Weekly Mode, the period from (and including) December 4, 2002, to (and including) the next Tuesday, and thereafter the period from (and including) each Wednesday to (and including) the next Tuesday; and (ii) in the case of a Bond in the Fixed Rate Mode, the period from the Mode Change Date upon which such Bond was converted to the Fixed Rate Mode to the Maturity Date for such Bond.

“Liquidity Facility” means, collectively, the Standby Bond Purchase Agreement, dated as of the Closing Date, between the Liquidity Provider and the Tender and Paying Agent, and the related Payment Agreement dated as of the Closing Date, between the Liquidity Provider and the City and County, or any Alternate Liquidity Facility.

“Liquidity Provider” means FGIC Securities Purchase, Inc., or its successor in interest under the Liquidity Facility, or the provider of an Alternate Liquidity Facility.

“Maturity Date” means each stated maturity date of any Bond set forth on the inside cover page hereof.

“Maximum Rate” means a rate of interest of twelve percent (12%) per annum.

“Mode” means, as the context may require, the Weekly Mode or the Fixed Rate Mode.

“Mode Change Date” means the day on which any Bond is converted from a Weekly Mode to a Fixed Rate Mode.

“Notice Party” means each of the City and County, the Remarketing Agent, the Tender and Paying Agent, the Liquidity Provider and the Securities Depository.

“Owner” means the registered owner of any Bond.

“Principal Payment Date” means any date upon which the principal amount of Bonds is due, including the Maturity Date or any Redemption Date.

“Provider Bonds” means any Bonds while the Liquidity Provider is the Beneficial Owner thereof.

“Provider Rate” means the rate of interest borne by the Provider Bonds, as set forth in the Liquidity Facility.

“Purchase Account” means the account by that name created in the Purchase Fund pursuant to the Authorizing Certificate.

“Purchase Date” means, (i) December 4, 2002, (ii) for a Bond in the Weekly Mode, any Business Day selected by the Beneficial Owner of such Bond in accordance with the Authorizing Certificate and as more fully described in this Official Statement, and (iii) any Mode Change Date, any Substitution Tender Date and any Expiration Tender Date, each as more fully described in this Official Statement.

“Purchase Fund” means the fund by that name created in the Authorizing Certificate.

“Purchase Price” means an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus accrued interest, if any, to the Purchase Date.

“Rate Determination Date” means the date on which the interest rate on a Bond shall be determined, which, (i) in the case of the Weekly Mode, shall be each Tuesday or, if Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Tuesday; and (ii) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent, which shall be at least one (1) Business Day prior to the Mode Change Date.

“Rating Agency” means at any time each rating agency then providing a rating on the Bonds at the request of the City and County.

“Registrar” means the Tender and Paying Agent, as keeper of the Bond Register as required by the Authorizing Certificate, and any successor to its duties as registrar for the Bonds.

“Remarketing Agent” means UBS PaineWebber Inc., or any other investment banking firm which may at any time be substituted in its place as provided in the Authorizing Certificate.

“Remarketing Agreement” means that certain Remarketing Agreement relating to the Bonds, dated as of the Closing Date, by and between the City and County and the Remarketing Agent, or any similar agreement between the City and County and the Remarketing Agent, as it may be amended or supplemented from time to time in accordance with its terms.

“Remarketing Proceeds Account” means the account by that name created in the Purchase Fund pursuant to the Authorizing Certificate.

“Securities Depository” means DTC or any successor as securities depository for the Bonds.

“Substitution Tender Date” means the date seven (7) days prior to the date upon which an Alternate Liquidity Facility is to be substituted for the Liquidity Facility then in effect or, if such date is not a Business Day, the next succeeding Business Day.

“Tender and Paying Agent” means First Union National Bank, and any successor to its duties as Tender and Paying Agent for the Bonds under the Authorizing Certificate.

“Tender and Paying Agent Agreement” means that certain Tender and Paying Agreement relating to the Bonds, dated as of the Closing Date, by and between the City and County and the Tender and Paying Agent, or any similar agreement between the City and County and the Tender and Paying Agent, as it may be amended or supplemented from time to time in accordance with its terms.

“Weekly Mode” means the Mode during which all or any portion of the Bonds bear interest at the Weekly Rate.

“Weekly Rate” means the rate of interest per annum on any Bond determined weekly by the Remarketing Agent pursuant to the Authorizing Certificate, as more fully described in this Official Statement.

Payment of Bonds

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

The Bonds will bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof, or, if such date of authentication is an Interest Accrual Date to which interest on the Bonds has been paid in full or duly provided for or the date of initial authentication of the Bonds, from such date of authentication. However, if, as shown by the records of the Registrar, interest on the Bonds is in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the Bonds or, if no interest has been paid on the Bonds, from the date of the first authentication of Bonds. Interest on the Bonds will be paid at the Initial Rate until December 3, 2002, at a

Weekly Rate when the Bonds are in the Weekly Mode and at a Fixed Rate when the Bonds are in a Fixed Rate Mode, all as selected by the City and County and determined in accordance with the Authorizing Certificate; provided, however, that no Bond (other than Provider Bonds) shall bear interest at a rate higher than the Maximum Rate. When a Weekly Mode is in effect, interest will be calculated on the basis of a year of 365 or 366 days for the actual number of days elapsed, and when a Fixed Rate Mode is in effect, on the basis of a year of 360 days comprised of twelve 30-day months.

The interest on the Bonds shall become due and payable on each Interest Payment Date and on each redemption date. The principal of the Bonds shall become due and payable on the Principal Payment Dates.

Determination of Interest Rates

The interest rate for any Bond in the Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Bonds on the Rate Determination Date at a price equal to the principal amount thereof, plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period.

During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 P.M., New York time, on each Rate Determination Date. The Weekly Rate shall be in effect (i) from and including December 4, 2002, to and including the following Tuesday, and (ii) thereafter, from and including each Wednesday to and including the following Tuesday. The Remarketing Agent shall make the Weekly Rate available (i) after 4:00 P.M., New York time, on the Rate Determination Date by Electronic Means to any Beneficial Owner or Notice Party requesting such rate, (ii) by Electronic Means to the Tender and Paying Agent not later than the second Business Day immediately succeeding the Rate Determination Date, and (iii) to the Owners in the manner in which notice shall be made to the Securities Depository, subject to any arrangement among the Securities Depository, the Remarketing Agent, the Tender and Paying Agent and the City and County.

The Remarketing Agent shall determine the Fixed Rate for a Bond being converted to the Fixed Rate Mode not later than 4:00 P.M., New York time, on the Rate Determination Date for such Bond. The Fixed Rate shall be the minimum interest rate which, in the sole judgment of the Remarketing Agent, would result in a sale of such Bond at a price equal to the principal amount thereof on the Rate Determination Date. The Remarketing Agent shall make the Fixed Rate available (i) by Electronic Means to any Notice Party requesting such Fixed Rate, and (ii) to the Owners in the manner in which notice shall be made to the Securities Depository, subject to any arrangement among the Securities Depository, the Remarketing Agent, the Tender and Paying Agent and the City and County. Upon request of any Notice Party, the Remarketing Agent shall give notice of such rate by Electronic Means to such requesting party. The Fixed Rate so established shall remain in effect until the Maturity Date of such Bond and such Bond shall not be entitled to the benefit of the Liquidity Facility.

Notwithstanding the above, during the Weekly Mode, the interest rate for Provider Bonds shall be the Provider Rate.

In the absence of manifest error, the determination of interest rates and Interest Periods by the Remarketing Agent and the interest rates contained in the records of the Tender and Paying Agent shall be conclusive and binding upon the Remarketing Agent, the Tender and Paying Agent, the City and County and the Owners (and any Beneficial Owner).

Alternate Rates

In the event (i) the Remarketing Agent fails or is unable to determine the interest rate for any Bond in the Weekly Mode, or (ii) the method by which the Remarketing Agent determines the interest rate in the Weekly Mode with respect to a Bond shall be held to be unenforceable by a court of law of competent jurisdiction, then such Bond shall bear interest during each subsequent Interest Period at the applicable Alternate Rate in effect on the first day of such Interest Period. In the case of clause (ii) above, the Remarketing Agent shall again make such determination at such time as there is delivered to the Remarketing Agent and the City and County an opinion of bond counsel to the effect that such determinations are no longer subject to any legal prohibitions. This provision shall be the method by which the interest rates shall be determined for a Bond as to which either of the events described in clauses (i) or (ii) above shall be applicable. Such method shall be applicable from and after the date either of the events described in clauses (i) or (ii) above first become applicable to such Bond until such time as the events described in clauses (i) or (ii) above are no longer applicable to such Bond. This provision shall continue to apply until such time as the Remarketing Agent again makes such determinations. Notwithstanding the foregoing, if the Remarketing Agent is prevented from determining a Weekly Rate as a result of any date which would have been a Business Day not being a Business Day due to unforeseen circumstances, then such Bond shall continue to bear interest at the rate theretofore in effect until the next Business Day.

Conversion to Fixed Rate Mode

At the option of the City and County, all or any portion of the Bonds in Authorized Denominations may be changed to the Fixed Rate Mode on any Business Day. The City and County shall give written notice to the Notice Parties stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date, which must be at least ten (10) days (or such shorter time as may be agreed to by the City and County and the Remarketing Agent) after the date such notice is given. Any such change in Mode shall be made as follows:

(i) the Mode Change Date shall be any Business Day; and

(ii) not later than the eighth day next preceding the Mode Change Date, the Tender and Paying Agent shall mail, in the name of the City and County, a notice of such proposed change to the Owners of the Bonds being converted stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date, and that such Owner is required to tender such Owner's Bonds for purchase on such proposed Mode Change Date.

The change to the Fixed Rate Mode shall not occur unless the City and County receives an opinion of bond counsel to the effect that such change will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes or the exemption of interest on the Bonds from all taxation by the State or any county or any political subdivision thereof (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

The Fixed Rate for a Bond to be converted to the Fixed Rate Mode shall be established by the Remarketing Agent on the Rate Determination Date applicable thereto as more fully described herein. Such Fixed Rate shall remain in effect until the Maturity Date of said Bond.

In the event the conditions described above have not been satisfied by the applicable Mode Change Date, then the Fixed Rate Mode shall not take effect and there will not be a mandatory purchase. If the change in Mode fails, the applicable Bond shall remain in the Weekly Mode, with interest rates established in accordance with the provisions relating to the Weekly Mode on and as of the failed Mode Change Date. The Tender and Paying Agent shall immediately mail, in the name of the City and County, a notice of such failed Mode Change Date to the Owners of the Bonds having previously received notice of the proposed Mode change, said notice stating that the Fixed Rate Mode shall not take effect and indicating any condition not satisfied by the Mode Change Date.

Purchase of Bonds

Any Beneficial Owner of a Bond may elect to have such Bond (or portions thereof in amounts equal to Authorized Denominations) purchased on December 4, 2002, or on any Business Day during the Weekly Mode, at a price equal to the Purchase Price, upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Tender and Paying Agent, directly or through the Beneficial Owner's Participant, not later than 4:00 P.M., New York time, on a Business Day not less than seven (7) days before the Purchase Date specified by the Beneficial Owner in such notice. Such notice of tender shall state the principal amount of Bonds tendered, the name of the Participant of record with respect thereto, and that such Bond shall be purchased on the Purchase Date specified therein. Payment of the Purchase Price shall be made by the Tender and Paying Agent to the Owners of tendered Bonds by wire transfer in immediately available funds not later than 3:00 P.M., New York time, on the Purchase Date. A Beneficial Owner who gives the notice of tender as set forth herein may repurchase the Bonds so tendered on such Purchase Date if the Remarketing Agent agrees to sell the Bonds so tendered to such Beneficial Owner, in which event the delivery requirements set forth above shall be waived.

So long as the Bonds are registered in the name of the Securities Depository or any nominee thereof, to exercise an optional tender, a Beneficial Owner must notify the Tender and Paying Agent and its Participant of its decision to demand the purchase of its Bonds.

Bonds to be converted to the Fixed Rate Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price as described herein. Bonds purchased pursuant to such mandatory purchase need not be delivered to the office of the Tender and Paying Agent; rather, the Bonds shall be deemed by the City and County, the Tender and Paying Agent and the Remarketing Agent to have been tendered on the Purchase Date. The Tender and Paying Agent shall draw on the Liquidity Facility in accordance with its terms in an amount sufficient to provide for the Purchase Price of all Bonds deemed tendered, and shall make payment of the Purchase Price by 3:00 P.M., New York time, on such Purchase Date. Transfers of beneficial ownership of the Bonds will be made by the Securities Depository on the registration books of the Securities Depository pursuant to its rules and procedures. The Tender and Paying Agent shall give notice of such mandatory purchase as part of the notice to be sent to the Owners as described above under "Conversion to Fixed Rate Mode."

The Bonds are subject to mandatory purchase on any Substitution Tender Date (or the next Business Day if the Substitution Tender Date is not a Business Day) at the Purchase Price as described herein. Bonds purchased pursuant to such mandatory purchase need not be delivered to the office of the Tender and Paying Agent; rather, the Bonds shall be deemed by the City and County, the Tender and Paying Agent and the Remarketing Agent to have been tendered on the Purchase Date. The Tender and Paying Agent shall draw on the Liquidity Facility in accordance with its terms in an amount sufficient to provide for the Purchase Price of all Bonds deemed tendered, and shall make payment of the Purchase Price by 3:00 P.M., New York time, on such Purchase Date. Transfers of beneficial ownership of the Bonds will be made by the Securities Depository on the registration books of the Securities Depository pursuant to its rules and procedures. Upon written request, the Tender and Paying Agent or the City and County shall promptly furnish each Owner of Bonds with a copy of each Alternate Liquidity Facility received by the Tender and Paying Agent or the City and County. To be acceptable, each Alternate Liquidity Facility shall be satisfactory to the City and County, and no Alternate Liquidity Facility shall be satisfactory to the City and County unless, in addition to all other requirements to be met therefor, (a) a draft of such Alternate Liquidity Facility, and appropriate information concerning the Liquidity Provider which will issue such Alternate Liquidity Facility, together with notice of substitution of the Alternate Liquidity Facility, have been submitted to each Rating Agency and each Rating Agency has provided written notice that the ratings then in effect with respect to the Bonds will not be reduced or withdrawn because of the acceptance of such Alternate Liquidity Facility, (b) the City and County has given written notice to the Tender and Paying Agent at least forty-five (45) days prior to the date such Alternate Liquidity Facility is to become effective that, upon the issuance of such Alternate Liquidity Facility, the Bonds are expected to bear the rating specified in such notice, and (c) with respect to any Substitution Tender Date, the Alternate Liquidity Facility agreement must provide that the provider of the Alternate Liquidity Facility will purchase from the Liquidity Provider any Bonds tendered to the Liquidity Provider under the Liquidity Facility on the related Substitution Tender Date. In connection with such substitution, the Tender and Paying Agent shall also receive an opinion of counsel for the provider of the Alternate Liquidity Facility in substantially the form delivered to the Tender and Paying Agent upon issuance of the Liquidity Facility. Not later than fifteen (15) days before the Substitution Tender Date, the Tender and Paying Agent shall mail, in the name of the City and County, a notice of mandatory purchase to the Owners of the Bonds stating the substitution of the Liquidity Facility and the Purchase Date for such Bonds.

The Bonds are subject to mandatory purchase at the Purchase Price as described herein on any Expiration Tender Date unless prior to such Expiration Tender Date the Tender and Paying Agent has received notice that the Liquidity Facility has been or will be extended or an Alternate Liquidity Facility will be provided. Bonds purchased pursuant to such mandatory purchase need not be delivered to the office of the Tender and Paying Agent on the Purchase Date; rather, the Bonds shall be deemed by the City and County, the Tender and Paying Agent and the Remarketing Agent to have been tendered on the Purchase Date. The Tender and Paying Agent shall draw on the Liquidity Facility in accordance with its terms in an amount sufficient to provide for the Purchase Price of all Bonds deemed tendered and shall make payment of the Purchase Price by 3:00 P.M., New York time, on such Purchase Date. Transfers of beneficial ownership of the Bonds will be made by the Securities Depository on the registration books of the Securities Depository pursuant to its rules and procedures. Not later than fifteen (15) days next preceding the Expiration Tender Date, the Tender and Paying Agent shall mail, in the name of the City and County, a notice of mandatory purchase to the Owners of the Bonds stating the expiration of the Liquidity Facility and the Purchase Date for such Bonds.

Bonds subject to mandatory purchase for which the Tender and Paying Agent has provided notice to the Owner as described herein shall be deemed purchased on the Purchase Date.

Notwithstanding the foregoing, Provider Bonds are not subject to optional or mandatory tender and purchase as described above.

Remarketing of the Bonds

The Remarketing Agent shall (i) use its best efforts to offer for sale all Bonds or portions thereof as to which notice of tender has been given and all Bonds required to be purchased, (ii) shall notify any purchaser of such Bonds offered for sale whether a notice of optional redemption of such Bonds has been given by the City and County, and (iii) not remarket the Bonds or any portions thereof to the City and County or any insider of the City and County.

On each Purchase Date, the Remarketing Agent shall notify the Participant of each purchaser by Electronic Means not later than 12:30 P.M., New York time, of the registration instructions (i.e., the names, addresses and taxpayer identification numbers of the purchasers and the principal amount of Bonds purchased by each such purchaser). On each Purchase Date, the Remarketing Agent shall give written notice to the Tender and Paying Agent and the City and County no later than 10:45 A.M., New York time, of the aggregate amount of remarketing proceeds on deposit with it and the Purchase Price of all Bonds tendered or deemed tendered; and the Tender and Paying Agent shall draw on the Liquidity Facility in accordance with the terms thereof and to the extent necessary to provide by 2:30 P.M., New York time, on such date funds an amount equal to the Purchase Price of all Bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds notice of the receipt of which was given to the Tender and Paying Agent by the Remarketing Agent. In the event notice is not received by the Tender and Paying Agent as described herein, the Tender and Paying Agent shall draw on the Liquidity Facility in an amount equal to the Purchase Price on all Bonds tendered or deemed tendered. Such funds shall be deposited into the Purchase Account in the Purchase Fund and shall not be commingled with other funds held by the Tender and Paying Agent.

By 3:00 P.M., New York time, on the Purchase Date, the Tender and Paying Agent shall pay for tendered Bonds at the applicable Purchase Price by wire transfer to the Owner in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated: (i) immediately available funds on deposit in the Remarketing Proceeds Account in the Purchase Fund, and (ii) immediately available funds on deposit in the Purchase Account in the Purchase Fund. Neither the Tender and Paying Agent nor the Remarketing Agent shall be obligated to provide funds from any other source.

On each Purchase Date, the Remarketing Agent shall confirm the purchase of the Bonds to the Participant of such purchaser and the Participant shall confirm the purchase of such Bonds to each such purchaser by 3:30 P.M., New York time.

Bonds purchased with amounts derived from draws under the Liquidity Facility will be Provider Bonds owned by the Liquidity Provider and shall be registered immediately in the name of the Participant designated by the Liquidity Provider. Such Participant will not release such Provider Bonds to the Tender and Paying Agent prior to receiving notice from the Liquidity Provider of the reinstatement of the Liquidity Facility in an amount equal to the principal of and accrued interest on such Provider Bonds and a direction to release such Provider Bonds. The Provider Bonds shall bear interest at the Provider Rate and are subject to all of the terms and conditions of the Authorizing Certificate and shall be subject to remarketing by the Remarketing Agent. The Remarketing Agent shall continue to use its best efforts to arrange for the sale of any Provider Bonds, subject to full reinstatement of the Liquidity Facility with respect to the drawings with which such Provider Bonds were purchased, at a price equal to the principal amount thereof plus accrued interest thereon.

Anything in the Authorizing Certificate to the contrary notwithstanding, if there shall have occurred and be continuing a failure by the City and County to pay interest or principal to pay or provide for payment of the Purchase Price (upon optional or mandatory tender for purchase) thereof, the Remarketing Agent shall not remarket any Bonds. All other provisions of the Authorizing Certificate, including without limitation, those relating to the settling of interest rates and interest periods and mandatory and optional purchases, shall remain in full force and effect during the continuance of such a failure.

Redemption Prior to Maturity

The Bonds shall not be subject to redemption before December 4, 2002, and then and thereafter shall be subject to redemption prior to maturity as follows:

Optional Redemption–Weekly Mode. Any Bonds in the Weekly Mode shall be subject to redemption, at the option of the City and County, in whole or in part, in Authorized Denominations, on any Interest Payment Date, at a redemption price equal to the principal amount thereof.

Optional Redemption–Fixed Rate Mode. Any Bonds in the Fixed Rate Mode shall be subject to redemption, at the option of the City and County, in whole or in part on any date (and if in part, in such order of maturity as the City and County shall specify and within a maturity by lot or by such other method as the Tender and Paying Agent determines to be fair and reasonable and in Authorized Denominations) at such redemption prices as the City and County shall determine at the time of the conversion to the Fixed Rate Mode.

Notice of redemption of any Bond will be mailed, at least once not less than ten (10) days prior to the date fixed for redemption, in the case of redemption of a Bond in the Weekly Mode, or thirty (30) days prior to the date fixed for redemption, in the case of redemption of a Bond in the Fixed Rate Mode, to each Owner in whose name a Bond is registered upon the Bond Register as of the close of business on the fifth (5th) day (whether or not a business day) next preceding the date of mailing such notice. The failure of the Owner of a Bond to receive such notice or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of any Bond. The City and County, at its option, in addition to giving notice of redemption by mailing as aforesaid, may give notice of such redemption by publication. If a Bond is of a denomination in excess of a minimum Authorized Denomination, portions of the principal sum thereof in amounts equal to Authorized Denominations may be redeemed, and if less than all of the principal sum thereof is to be redeemed, in such case, upon the surrender of such Bond to the Registrar there shall be issued to the registered holder thereof, without charge therefor, for the then unredeemed balance of the principal sum thereof, Bonds of like series, maturity and interest rate in any of the Authorized Denominations. If notice of redemption of any Bond (or any portion of the principal sum thereof) has been duly given, and if on or before the date fixed for such redemption the City and County has duly made or provided for the payment of the principal sum to be redeemed to the date fixed for such redemption, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest thereon shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed. See Appendix E, “Book-Entry System” for a discussion of the notice of redemption to be given to beneficial owners of the Bonds when the Book-Entry System for the Bonds is in effect.

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, 1995, 1996, 1997, 1999, 2000, 2001 and the capital budget for Fiscal Year 2002 authorized and appropriated a total of $1,232,044,865 for public improvements to be financed from the proceeds of general obligation bonds or notes. As of June 30, 2001, $262,594,968 of general obligation bonds and notes had been issued to finance appropriations for such Fiscal Years, and $173,125,703 of such appropriations had lapsed pursuant to the terms of the Revised Charter of the City and County (See "BUDGET PROCESS AND FINANCIAL MANAGEMENT -- Budgets and Expenditures" for more information relating to lapsing of capital budget appropriations). It is expected that $796,324,194, the balance of such appropriations, will be funded from the proceeds of the Bonds and from proceeds of other general obligation bond or note issues to be issued in the future.

BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City and County. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Tender and Paying Agent of the nonpayment of such amount by the City and County. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the City and County is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2001, the total capital and surplus of Financial Guaranty was approximately $1.181 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312- 3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212- 480-5187).

LIQUIDITY FACILITY

Initial Liquidity Facility. Payment of the Purchase Price equal to the Principal Component and the full amount of interest on the Bonds from the date of delivery thereof through December 3, 2002, and thereafter up to 35 days' accrued Interest Component at a maximum rate of 12% per annum on the Bonds tendered for purchase as described under the captions "THE BONDS -- Purchase of Bonds" and "Remarketing of the Bonds" and not remarketed will be made by FGIC Securities Purchase, Inc. ("FGIC-SPI"), pursuant and subject to the terms of the Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement will expire on the fifth (5th) anniversary of the delivery of the Bonds unless terminated sooner or extended.

A description of the Initial Liquidity Facility and certain information concerning FGIC-SPI (and the obligations of GE Capital to lend sufficient moneys to FGIC-SPI to fulfill its obligations under the Standby Bond Purchase Agreement) are described or contained in the accompanying Prospectus. Delivery of this Official Statement in conjunction with the offering of the Bonds may only be made in conjunction with the delivery of such Prospectus. Investors should also read the entire Prospectus to obtain information essential to the making of an informed investment decision.

THE CITY AND COUNTY OF HONOLULU

Introduction

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

With slightly less than a tenth of the land area in the entire State, Oahu contains nearly three-fourths of the State's resident population. According to the 2000 U.S. Census, the resident population of the State was 1,211,537, and that of Honolulu was 876,156, approximately 72% of the total State population. Honolulu is the seat of the State Government and is the State's trade, finance, communication, and transportation center. Most federal establishments and personnel (both civilian and military), manufacturing, major educational and scientific, and significant agricultural activities are located on Oahu.

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

Government and Organization

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

Because there are no separate city or township governments or any special districts in the City and County with taxing powers, there are no overlapping taxes at the local government level. With the exception of real property taxes, public utility franchise tax on electric power and light companies and vehicle weight taxes, the State collects all taxes for both itself and the counties. The State does not impose any real property tax. The principal taxes imposed by the State are the general excise and user tax (a portion of the transient accommodations tax is allocated to the counties as mentioned under "CITY AND COUNTY REVENUES – General Fund - *Allocation of State Transient Accommodation Tax*") and the personal and corporate income taxes. In addition, the State imposes taxes on liquor, tobacco, insurance premiums, banks and other financial corporations, inheritances, estates and real property transfers. The State also imposes a public service companies tax on the gross income of public utilities, such as motor carriers, common carriers by water, contract carriers and airlines. In an overview of the taxing authority relationship between the State and all the counties, the Tax Foundation of Hawaii, found that of the $4.2 billion collected in taxes by the State and county governments during the Fiscal Year ended June 30, 2000, $3.5 billion went to the State Treasury.

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

Mayor and Executive Branch. Under the provisions of and except as otherwise provided in the Charter of the City and County, the executive power of the City and County is vested in and exercised by the Mayor, as chief executive officer. The Department of Corporation Counsel reports directly to the Mayor; and all other executive departments and agencies of the City and County (excepting the Mayor's office staff and the Board of Water Supply and other semi-autonomous agencies) are supervised by and report directly to the Managing Director as principal administrative aide to the Mayor. The Mayor serves a four-year term. The next regular mayoral election is scheduled to take place in November 2004. The current Mayor is serving his second term, which expires on January 2, 2005. He has announced his intention to run for Governor in 2002, but has not yet officially declared his candidacy. Upon such declaration, he would be required to resign as Mayor and a special election would be held in 2002. No person may be elected to the office of the Mayor for more than two consecutive full terms. Pursuant to the Charter of the City and County, the Department of Budget and Fiscal Services manages the budget and the finances of the City and County, including debt management.

City Council. Under the provisions of and except as otherwise provided in the Charter of the City and County, the legislative power of the City and County is vested in and exercised by the City Council. The City Council is the policy-making body of the City and County. Its major functions include approval of the budget, establishment of all fees and rates (other than those under the jurisdiction of semi-autonomous agencies) and taxes, appropriation of funds, and establishment of community plans and zoning. The City Council is comprised of nine members, each of whom represents a separate Council District. The nine members serve concurrent four-year terms. The next election for all nine seats of the City Council will take place in November 2002; and the current City Council members' terms expire on the January 2 following that election. No person may be elected to the office of a City Council member for more than two consecutive full terms. Seven of the current members of the City Council are currently serving their second terms, and two are serving their first terms. One of the members of the City Council has announced his intention to resign his office effective December 1, 2001.

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

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

CITY AND COUNTY REVENUES

The taxes and other revenues discussed below account for substantially all the tax receipts and other revenues of the City and County. All tax receipts are credited to either the General Fund or the Special Revenue Funds of the City and County (the "Special Revenue Funds"). The audited financial statements of the revenues and expenditures of these funds for the Fiscal Year ended June 30, 2000, are set forth in Appendix A hereto. (See "FINANCIAL INFORMATION AND ACCOUNTING – Financial Statements" herein.)

General Fund

The General Fund is utilized to account for all financial resources except those required to be accounted for in another fund. The sources of revenues of the General Fund are (i) real property taxation; (ii) licenses and permits; (iii) intergovernmental revenues (including the allocation of the State transient accommodation tax); (iv) charges for services; (v) fines and forfeits; and (vi) miscellaneous revenues. Real property taxes, which account for approximately 62.5% of General Fund revenues, and the allocation of the State transient accommodation tax are described below. See Table 12 under "FINANCIAL INFORMATION AND ACCOUNTING."

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

Under the Tax Ordinance, all real property in Honolulu, except as exempted or otherwise taxed, is subject each year to a tax upon the fair market value thereof. Land in Honolulu is classified and taxed as (1) improved residential, (2) unimproved residential, (3) apartment, (4) hotel and resort, (5) commercial, (6) industrial, (7) agricultural, (8) conservation and (9) public service (a new classification added by Ordinance No. 00-66 which took effect for tax year 2001-2002). In determining the value of land, other than land classified as agricultural and used for agriculture, consideration is given to its highest and best use, selling prices and income, productivity, actual and potential use, advantage or disadvantage of factors such as location, accessibility, transportation facilities, availability of water and its cost, easements, zoning, dedication as to usage, and other influences which fairly and reasonably bear upon the question of values. The value of buildings is the cost of replacement less depreciation, with consideration given to age, condition, utility or obsolescence. Real property owned by the respective governments of the United States, the State of Hawaii and the several counties of the State is exempt from taxation, but is taxable when leased to or occupied by a private entity under certain conditions described in the Tax Ordinance. Real property owned and actually and exclusively used for the exempt purpose by hospitals and religious, educational, community and charitable organizations is also exempt from taxation under certain conditions described in the Tax Ordinance. In addition, real property owned as homes is exempt from taxation to the extent of \$40,000, except that such exemption is gradually increased for classes of persons based on age, from \$60,000 for persons age 55 to \$120,000 for persons age 70 and over. Real property owned or leased (if the lessee is required to pay any real property taxes) by a public service company was previously exempt from real property taxation under Chapter 239, Hawaii Revised Statutes, under which the State imposes a tax on such companies in lieu of certain other taxes. Following negotiations among various affected parties to address the concerns of public service companies over payment of both the county real property tax and the State public service company tax, an agreement was reached among the State, each county, including the City, and several public service companies, pursuant to which Chapter 239 was amended to allocate a portion of the public service company tax to each of the counties. Ordinance No. 00-65, amending the Tax Ordinance to repeal the exemption for public service companies which incorporated State law, and Ordinance No. 00-66, adding public service property as a new classification of land, both include provisions under which the exemption from real property tax would continue for Fiscal Year 2001-02 if the proposed amendment to State law took effect. The City and County has included in its budget for the Fiscal Year ending June 30, 2002, approximately $23,000,000 from the State tax that would be allocated to it under the proposed legislation.

Under Ordinance No. 84-30 of the City and County, as amended, real property tax relief is allowed to homeowners 55 years and older with multiple home exemptions whose total household income does not exceed $20,000 annually. The tax relief, in the form of a refund, is the excess of real property tax due for the year which exceeds 5% of the total household income, but such refund is limited to $500 for each eligible homeowner.

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

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

The breakdown of assessed valuations by land and improvements of real property in the City and County for Fiscal Year 2001-02 and the components of assessed valuations by class of property are shown in Table 1 below, with the valuation of governmentally owned real property excluded from both the gross assessed valuation and the exemption valuation. Table 2 shows the net taxable values for each class of property within the City and County and the tax rates applicable thereto for the past five Fiscal Years.

Table 1

ASSESSED VALUATION OF REAL PROPERTY(1)
BY LAND AND IMPROVEMENTS
For Fiscal Year 2002
(in thousand dollars)

	Land	Improvements	Total
Gross assessed valuation	$47,430,195	$37,022,437	$84,452,632
Less exemption valuation	4,056,332	9,643,555	13,699,887
Assessor's net taxable value	43,373,863	27,378,882	70,752,745
Less 50% of valuations on appeal	558,035	523,138	1,081,173
Net assessed valuation for rate purposes	$42,815,828	$26,855,744	$69,671,572

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

Table 2

CITY AND COUNTY OF HONOLULU
REAL PROPERTY NET ASSESSED VALUES BY CLASSIFICATION AND TAX RATES
Fiscal Years 1998 - 2002 (values in thousands)

	1998 Value	1998 Rate	1999 Value	1999 Rate	2000 Value	2000 Rate	2001 Value	2001 Rate	2002 Value	2002 Rate
Net Taxable Land										
Improved Residential	$31,966,315	$3.12	$29,075,124	$3.49	$34,255,677	$3.12	$27,176,656	$3.65	$26,533,079	$3.65
Unimproved Residential	917,495	3.92	893,990	4.00	1,012,524	3.92	760,368	4.66	428,190	4.66
Apartment	7,481,771	3.52	6,497,816	3.97	7,918,914	3.52	5,583,553	4.49	5,038,002	4.21
Hotel/Resort	2,584,262	9.64	2,638,300	9.64	2,598,091	9.64	2,495,333	9.96	2,435,463	9.96
Commercial	6,428,697	8.51	5,939,935	8.88	6,521,422	8.51	5,349,768	9.25	4,798,891	9.25
Industrial	3,929,059	8.51	3,779,419	8.62	4,161,332	8.51	3,336,296	9.39	2,838,755	9.39
Agricultural	371,882	9.00	398,599	9.00	429,454	9.00	350,930	9.89	227,205	9.89
Conservation	416,723	9.00	424,699	9.00	374,532	9.00	416,402	9.25	352,070	9.25
Public Service									164,176	0.00
Total All Classes	$54,096,204		$49,647,882		$57,271,946		$45,469,306		$42,815,831	
Net Taxable Improvements										
Improved Residential	$8,654,983	$3.92	$9,049,562	$3.49	$8,406,430	$3.92	$9,230,152	$3.65	$10,066,199	$3.65
Unimproved Residential	40,156	3.92	40,155	4.00	43,508	3.92	41,303	4.66	41,986	4.66
Apartment	10,949,973	3.52	9,762,680	3.97	11,659,513	3.52	8,770,891	4.49	8,480,325	4.21
Hotel/Resort	2,186,204	9.64	2,191,902	9.64	2,045,129	9.64	2,181,039	9.96	2,121,627	9.96
Commercial	4,140,514	8.51	4,190,660	8.88	4,022,314	8.51	4,376,172	9.25	4,361,422	9.25
Industrial	1,512,774	8.51	1,590,950	8.62	1,500,177	8.51	1,592,304	9.39	1,581,297	9.39
Agricultural	91,367	9.00	92,321	9.00	91,537	9.00	94,231	9.89	74,443	9.89
Conservation	60,809	9.00	62,262	9.00	70,484	9.00	65,278	9.25	73,224	9.25
Public Service									55,218	0.00
Total All Classes	$27,636,780		$26,980,492		$27,839,092		$26,351,370		$26,855,741	

	1998 Value	1998 Rate	1999 Value	1999 Rate	2000 Value	2000 Rate	2001 Value	2001 Rate	2002 Value	2002 Rate
Net Taxable Real Property										
Improved Residential	$40,621,298		$38,124,686		$42,662,107		$36,406,808		$36,599,278	
Unimproved Residential	957,651		934,146		1,056,032		801,671		470,176	
Apartment	18,431,744		16,260,495		19,578,427		14,354,444		13,518,327	
Hotel/Resort	4,770,466		4,830,202		4,643,220		4,676,372		4,557,090	
Commercial	10,569,211		10,130,595		10,543,736		9,725,940		9,160,313	
Industrial	5,441,833		5,370,369		5,661,509		4,928,600		4,420,052	
Agricultural	463,249		490,920		520,991		445,161		301,648	
Conservation	477,532		486,961		445,016		481,680		425,294	
Public Service									219,394	
Total All Classes	$81,732,984		$76,628,374		$85,111,038		$71,820,676		$69,671,572	

Assessments are determined as of October 1. Real property taxes are levied on July 1 and billed on July 20 of each year based on assessed valuation as of October 1, and are due in two equal installments on the following August 20 and February 20. Real property taxes receivable as of June 30 of each year are deemed delinquent and amounts which are not collected within sixty days of the end of the Fiscal Year are reported as deferred revenue. A lien for real property taxes attaches as of July 1 of each year. Annual assessments, levies and average tax rates and collection percentages for the Fiscal Years 1998 to 2002 are shown in the table below.

Table 3

STATEMENT OF REAL PROPERTY TAX LEVIES AND COLLECTIONS SHOWING ASSESSED VALUATIONS AND TAX RATES
Fiscal Years 1998 – 2002 (values in thousands)

Fiscal Year	Net Valuation for Tax Rate Purposes*	Weighted Average Tax Rate Per $1,000	Amount of Levies	Percent of Collections to Levy
1998	81,732,984.7	4.97	406,580.5	98.4
1999	76,628,373.7	5.30	405,805.4	98.5
2000	71,820,675.6	5.59	401,743.2	98.4
2001	68,676,198.5	5.60	384,344.6	98.7
2002	69,671,572.0	5.47	381,023.1	-

* *Valuation is 100% of fair market value.*

The real property tax revenues of $379.5 million accounted for 70.9% of the General Fund revenues of $535.6 million for the Fiscal Year ended June 30, 2001.

Table 4

TEN LARGEST REAL PROPERTY TAXPAYERS
As of June 30, 2001
(in thousand dollars)

Taxpayer(1)	Type of Business	Gross Assessed Valuation(2)	% of Total Assessed Valuation
Bishop Estate	Educational Trust Estate	$3,706,701	4.39%
Queens Medical Center	Hospitals, Medicine Services and Leasing	1,052,578	1.25
GGP Ala Moana LLC	Real Estate Management and Leasing	778,683	0.92
Kyo Ya Co. Ltd. (Sheraton)	Hotels & Restaurant	670,045	0.79
Liliuokalani Trust	Real Estate Trust, Leasing	630,227	0.75
James Campbell Trust Estate	Real Estate Trust, Commercial & Leasing	624,286	0.74
Hilton Hawaiian Village	Hotel Operation	617,503	0.73
Samuel M. Damon Trust Estate	Real Estate Trust, Commercial & Leasing	496,947	0.59
Dole Food Co.	Process Fresh Food, Real Estate	437,370	0.52
Outrigger Hotels Hawaii	Hotel Operation	279,085	0.33
		$9,293,425	11.01%

(1) *Taxpayer's name as recorded on real property records.*
(2) *Assessed valuation at 100% of market value.*

Allocation of State Transient Accommodation Tax. Under Section 237D, Hawaii Revised Statutes, a transient accommodation tax (basically a hotel tax) is collected by the State of Hawaii. The tax was at a rate of 5% until July 1, 1994, when it was increased to 6%. Effective January 1, 1999, the tax rate was increased from 6% to 7.25% to be distributed as follows: 17.3% to the state convention center capital special fund, 37.9% to the state tourism special fund, and 44.8% to the four counties, with the City and County receiving 44.1% of such distribution, or 19.8% of the total. In the Fiscal Year ended June 30, 2001, the City and County received $35.6 million as its allocable share of the State transient accommodation tax, which amount is 6.1% of the General Fund revenues for such year. There can be no assurance that the allocation will continued to be maintained at current levels.

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

Special Revenue Funds

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

Vehicle Weight Tax. Under Section 249-2, Hawaii Revised Statutes, the counties are authorized to impose an annual tax on the net weight of all vehicles used on the public highways. In accordance with Section 249-13, Hawaii Revised Statutes, the City and County imposes taxes between 2.0¢ per pound and 1.25¢ per pound, depending on the type of vehicle, with a minimum tax of $12.00 per vehicle. Under State law, the counties collect the vehicle weight tax in connection with their vehicle registration and licensing function. The proceeds from the county vehicle weight tax are restricted by Section 249-18, Hawaii Revised Statutes, to highway and related expenditures in the City and County, including $500,000 for police purposes. In fiscal year 2001, the City and County collected $25.6 million of vehicle weight taxes.

County Fuel Tax. The City and County fuel tax, authorized by Section 243-4 and 243-5, Hawaii Revised Statutes, is imposed on liquid fuels sold or used within its jurisdiction, except that it does not apply to aviation fuel; and it is imposed only on that portion of diesel fuel used on the public highways. By Resolution No. 89-92, adopted by the City Council on May 24, 1989, the fuel tax for the City and County was increased from 11½ cents per gallon to 16½ cents per gallon, effective July 1, 1989. The proceeds from the fuel tax are limited by Section 243-6, Hawaii Revised Statutes, to expenditures for such purposes as designing, constructing, repairing and maintaining highways, roads and streets, highway tunnel and bridges, street lights and storm drains, and for functions connected with county traffic control and safety. In fiscal year 2001, the City and County collected $46.1 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 2001, the City and County collected $22.8 million of such taxes.

Projected Revenues And Expenditures

The General Fund revenues and expenditures, including transfers out for debt service, mass transit subsidy and other purposes, and transfers in for recovery of debt service and other purposes, in Fiscal Year 1998 were $694.2 million and $709.1 million, respectively; in Fiscal Year 1999 were $672.0 million and $662.5 million, respectively; in Fiscal Year 2000 were $639.5 million and $630.4 million, respectively; and in Fiscal Year 2001 were $588.2 million and $618.9 million, respectively. For Fiscal Year 2002, the City and County has estimated for budgeting purposes $652.1 million in General Fund revenues and $601.1 million in General Fund expenditures, including transfers out for debt service, mass transit subsidy and other purposes, and transfers in for recovery of debt service and other purposes.

Recent Events

The recent terrorist attacks in the eastern United States are expected to have adverse effects on the nation's economy, including travel-related businesses in particular, and have resulted initially in a material decline in visitors to the City and County, from which there has been some recovery. In view of the importance of the visitor industry in Honolulu, it is anticipated that the economy of the City and County may also be negatively affected. The extent and duration of such effects cannot be predicted at this time.

DEBT STRUCTURE

Legal Requirements

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

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

Pursuant to a resolution enacted by the City Council in 1996, the City has adopted debt and financial policies, including the establishment of a contingency reserve, a limitation on debt service as a percentage of General Fund revenues and a limitation on variable rate debt.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Funded Debt and Debt Margin

Under State law, a political subdivision (such as the City and County) is required annually, as of each July 1, to determine and certify the amount of its funded debt and exclusions therefrom. Accordingly, a certification has been prepared of the funded debt of the City and County and the exclusions therefrom as of July 1, 2001, and Table 5 sets forth a summary statement of such funded debt and exclusions as of such date. Set forth in Table 6 is a detailed schedule of all outstanding general obligation funded debt of the City and County as of July 1, 2001. Table 7 lists all general obligation funded debt of the City and County as of June 30, 2001.

Table 5

STATEMENT OF FUNDED DEBT
As of July 1, 2001
(Excluding July 1, 2001 maturities)

1. Gross assessed valuation of real property, January 31, 2001			$ 84,452,631,900
2. Less exempt valuation			13,699,886,600
3. Assessor's net taxable			70,752,745,300
4. Less valuations on appeal			2,162,345,242
5. Taxpayers' valuation			68,590,400,058
6. Add 50% of valuation on appeal			1,081,172,621
7. Net assessed valuation of real property for rate purposes			$ 69,671,572,679
8. Limit of funded debt as set by the Constitution of the State of Hawaii			$ 10,450,735,902(a)
9. Funded debt:			
a. General obligations bonds		$1,544,517,160	
b. Revenue bonds		386,052,890	
c. Notes payable:			
Federal Government		3,699,520	
State of Hawaii (Sewers)		68,829,977	
d. Gross funded indebtedness .		$2,003,099,547	
Less exclusions:			
e. Revenue bonds			
self-supporting waterworks.	$ 66,600,000		
for sewer projects	319,452,890		
f. General obligation bonds issued for H-Power waste disposal facility	158,660,000		
g. General obligation bonds issued for Housing	128,181,632		
h. General obligation bonds issued for solid waste.	67,235,680		
i. General obligation bonds issued for sewer projects	87,356,329		
j. State of Hawaii notes issued for sewer projects	68,829,977	896,316,508	
k. Net funded debt			1,106,783,039
10. Gross limit of additional funded debt			$ 9,343,952,863

11. Less general obligation bonds authorized and unissued:

Authorizing Ordinance	Total Authorized(b)	Amount Issues	Amount Unissued	
Ordinance No. 94-43	99,306,077	63,336,093	35,969,984	
Ordinance No. 96-39	24,318,590	19,790,672	4,527,918	
Ordinance No. 98-29	179,746,785	148,077,528	31,669,257	
Ordinance No. 99-28	137,361,949	22,830,738	114,531,211	
Ordinance No. 00-24	251,871,960	8,559,937	243,312,023	
Ordinance No.	366,313,800		366,313,800	
	$ 1,058,919,161	$ 262,594,968	$ 796,324,193	796,324,193

12. Net limit of additional funded debt	$ 8,547,628,670

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

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

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

Table 6

GENERAL OBLIGATION FUNDED DEBT
OF THE CITY AND COUNTY OF HONOLULU
As of July 1, 2001
(Excluding July 1, 2001 maturities)

Direct Debt	Effective Interest Rate	Original Amount of Issue	Maturing Serially From/to	Optional Call Dates	Outstanding June 30, 2001
General Obligation Bonds:					
Apr 1, 1977 Issue..................	4.37100%	$ 5,000,000	1-1-79/11	1-1-86	$ 2,300,000
Jul 2, 1990 Issue	7.29949%	169,880,000	7-1-95/08	Non-callable	116,605,000
Jun 1, 1992 Issue	5.85896%	52,690,000	6-1-94/07	Non-callable	20,243,407
Jan 1, 1993 Issue....................	5.85764%	150,000,000	1-1-97/13	Non-callable	17,195,000
Apr 1, 1993 Issue...................	5.43923%	611,335,000	10-1-94/13	Non-callable	354,105,000
Sep 1, 1993 Issue...................	4.85624%	28,000,000	9-1-98/18	Non-callable	13,895,000
Apr 1, 1994 Issue...................	5.62722%	150,000,000	4-1-98/14	Non-callable	23,225,000
Jun 1, 1994 Issue	5.91399%	94,000,000	6-1-98/14	6-1-04	4,530,000
Nov 1, 1995 Issue..................	5.28686%	100,000,000	11-1-99/15	11-1-05	25,560,000
Sep 1, 1996 Issue...................	5.54542%	100,000,000	9-1-00/16	9-1-06	13,105,000
Nov 1, 1997 Issue A	4.54070%	17,000,000	11-1-01/02	Non-callable	2,860,000
Nov 1, 1997 Issue B	5.09054%	83,000,000	11-1-01/17	11-1-07	27,525,000
Nov 1, 1997 Issue C	5.40595%	157,605,000	11-1-99/10	Non-callable	131,335,000
Apr 1, 1999 Issue A..............	4.03549%	12,000,000	7-1-02/03	Non-callable	12,000,000
Apr 1, 1999 Issue B..............	5.00249%	88,000,000	7-1-03/24[(1)]	7-1-09	88,000,000
Apr 1, 1999 Issue C..............	4.91016%	349,215,000	7-1-01/20	7-1-09	340,678,753
Nov 3, 1999 Issue D	4.72927%	45,820,000	2-1-01/10	Non-callable	42,055,000
May 24, 2000 Issue A[(2)].........	Variable	138,500,000	1-1-04/20	Undetermined	138,500,000
May 24, 2000 Issue B[(2)].........	Variable	11,500,000	1-1-04/05	Undetermined	11,500,000
March 1, 2001 Issue A	5.09921%	141,500,000	9-1-05/24	9-1-11	141,500,000
March 1, 2001 Issue B	4.07029%	8,500,000	9-1-04/05	Non-callable	8,500,000
June 21, 2001 TECP[(3)]	Variable	9,300,000	not applicable	Non-callable	9,300,000
		$2,522,845,000			$1,544,517,160
Note Payable--U.S. Gov't......	5.1160%	$ 5,668,313	6-20-84/16	Non-callable	$ 3,699,520
Note Payable--State of Hawaii	Various	107,165,170	Various	Non-callable	68,829,977
		$ 109,560,740			$ 72,529,497
Total Gross Direct Debt.........		$2,632,030,740			$1,617,046,657

Less exclusions:		
Bonds issued for solid waste	$ 67,235,680	
Bonds issued for housing	128,181,632	
Bonds issued for H-Power waste disposal facility	158,660,000	
Bonds issued for sewer projects	156,186,306	510,263,618
Net Funded Debt		$1,106,783,039

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

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

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

Table 7

CITY AND COUNTY OF HONOLULU
DEBT SERVICES CHARGES ON
OUTSTANDING GENERAL LONG-TERM DEBT
July 1, 2001 to Maturity(1)

F.Y. Ending June 30	General Obligation Bonds Principal	General Obligation Bonds Interest(2)	Other Debt Principal	Other Debt Interest(3,4)	Gross Debt Service Charges	Reimbursable Debt Principal	Reimbursable Debt Interest	Net Debt Service Charges
2002	64,676,753	86,947,241	5,977,992	2,562,367	160,164,354	35,670,014	28,062,291	96,432,048
2003	83,287,000	79,110,820	5,604,625	2,399,215	170,401,660	36,723,694	25,061,108	108,616,858
2004	98,405,000	75,412,571	5,742,178	2,229,773	181,789,522	40,908,354	23,248,229	117,632,939
2005	103,214,000	68,751,318	5,605,120	2,073,526	179,643,965	42,214,578	20,634,118	116,795,268
2006	103,229,000	63,607,207	4,795,871	1,936,028	173,568,106	43,767,717	18,394,242	111,406,146
2007	97,806,406	59,569,258	4,917,176	1,801,219	164,094,059	44,201,332	16,509,987	103,382,739
2008	100,819,000	51,952,983	5,041,424	1,663,108	159,476,515	44,354,941	13,260,095	101,861,479
2009	104,894,000	46,225,679	5,169,896	1,520,408	157,809,983	46,194,545	10,653,785	100,961,653
2010	88,455,000	40,970,747	5,300,959	1,374,733	136,101,438	28,695,388	8,677,646	98,728,404
2011	91,891,000	35,388,851	5,435,836	1,206,597	133,922,284	20,657,008	7,214,414	106,050,862
2012	76,270,000	30,637,156	5,574,159	1,040,261	113,521,576	17,949,044	6,297,097	89,275,436
2013	77,500,000	26,495,203	5,716,801	879,573	110,591,577	16,745,105	5,492,296	88,354,175
2014	69,185,000	22,423,700	4,559,599	538,925	96,707,224	13,019,289	4,536,724	79,151,211
2015	42,850,000	19,223,759	2,091,216	288,338	64,453,313	10,854,763	3,826,775	49,771,774
2016	46,245,000	16,859,047	2,086,059	201,705	65,391,811	10,940,988	3,270,704	51,180,119
2017	46,325,000	14,406,809	1,790,004	120,070	62,641,883	11,573,007	2,705,132	48,363,744
2018	48,195,000	11,905,103	1,512,991	56,638	61,669,732	11,664,612	2,118,493	47,886,627
2019	47,570,000	9,384,506	505,302	12,781	57,472,589	10,811,393	1,540,954	45,120,242
2020	47,465,000	6,776,330	0	0	54,241,330	8,573,614	998,971	44,668,745
2021	41,340,000	4,374,644	0	0	45,714,644	6,630,774	571,434	38,512,435
2022	14,990,000	2,954,847	0	0	17,944,847	1,876,093	358,762	15,709,992
2023	15,765,000	2,167,581	0	0	17,932,581	1,969,642	262,619	15,700,320
2024	23,060,000	1,413,781	0	0	24,473,781	4,267,718	189,161	20,016,902
2025	11,080,000	290,850	0	0	11,370,850	0	0	11,370,850
2026	0	0	0	0	0	0	0	0
2027	0	0	0	0	0	0	0	0
2028	0	0	0	0	0	0	0	0
2029	0	0	0	0	0	0	0	0
2030	0	0	0	0	0	0	0	0
2031	0	0	0	0	0	0	0	0
2032	0	0	0	0	0	0	0	0
	1,544,517,159	777,249,989	77,427,206	21,905,267	2,421,099,621	510,263,615	203,885,037	1,706,950,968

(1) Does not include debt service charges on Bonds offered hereby.

(2) An estimate of 6% is used in lieu of actual variable rate for the 5/24/00, Series A, B and C issues and Tax Exempt Commercial Paper dated 6/28/01.

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

(4) Note payable of $3,699,520 to U.S. Government for City's share of cost of Recreation and Fish and Wildlife Development of the Kaneohe Reservoir; $68,829,978 of notes payable to the State of Hawaii for various sewer projects; $1,742,425 lease purchase agreement for City & County's telephone network and $3,155,283 installment purchase contracts for various fixed assets (amounts represent June 30, 2001 balances).

Trend of General Obligation Indebtedness

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

Table 8

TREND OF GENERAL OBLIGATION INDEBTEDNESS
Fiscal Years 1997 – 2001

	General Obligation Bonds					
FY Ending June 30	Non-Reimbursable*	Reimb. for Assessable Improvements	Reimbursable for Other Purposes[(a)]	Total General Obligation Bonds	Note Payable	Total General Obligation Debt
1997[(b)]	856,596,664	81,734	795,836,967	1,652,515,365	4,300,544	1,656,815,909
1998	870,856,359	--	805,855,860	1,676,712,219	4,161,340	1,680,873,559
1999	978,575,686	--	536,622,775	1,515,198,461	4,015,014	1,519,213,475
2000	1,055,244,446	--	505,547,957	1,560,792,403	3,861,202	1,564,653,605
2001	1,103,083,519	--	510,263,618	1,613,347,137	3,699,520	1,617,046,657

**Direct debt.*

(a) *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.*

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

Between 1969 and 1996, in lieu of revenue bonds, the Board of Water Supply of the City and County had resorted exclusively to the issuance of reimbursable general obligation bonds by the City and County to finance the Board's capital projects, using the full faith and credit of the City and County. However, the Board of Water Supply issued revenue bonds to finance improvements to the water system, in the principal amounts of $18,000,000 in March, 1996, and $66,600,000 in May, 2001 (in part to refund all of the revenue bonds issued in 1996), and is currently planning to issue additional revenue bonds. In the future, the Board of Water Supply may issue revenue bonds or may seek the issuance of reimbursable general obligation bonds to finance improvements to the water system.

The City and County has issued a total of $191,320,000 principal amount of senior revenue bonds to finance improvements to the wastewater system of the City and County, and $264,152,890 principal amount of junior revenue bonds to refund certain reimbursable general obligation bonds of the City and County issued to finance the wastewater system of the City and County. In the future, the City and County may issue revenue bonds or may issue reimbursable general obligation bonds to finance improvements to the wastewater system, although current plans are to issue revenue bonds for such purpose.

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

Reimbursement to General Fund for Debt Service

All general obligation bonds of the City and County are payable as to principal and interest from the General Fund of the City and County. The City Council for certain purposes may require that the General Fund be reimbursed for the payment from such fund of the debt service on such bonds, such reimbursement to be made from any revenues, user taxes or other income derived from the carrying out of such purposes or from assessment collections. To the extent that reimbursements are not made, the City and County would be required to apply other money in the General Fund, including receipts from taxes, to pay debt service on general obligation bonds. As noted in the explanation for the table immediately preceding, reimbursable general obligation bonds have been issued to finance capital projects of the Board of Water Supply, assessable public improvements, H-Power waste disposal facility, wastewater treatment facilities, the West Loch Subdivision and other low income housing projects. As explained under "DEBT STRUCTURE -- Legal Requirements -- Exclusions," and as shown in the Statement of Funded Debt in Table 6 above, reimbursable general obligation bonds issued for the Board of Water Supply, assessable public improvements, housing projects, H-Power waste disposal facility and wastewater treatment facilities are excluded in determining the funded debt of the City and County beginning in the Fiscal Year when reimbursements are, in fact, made to the General Fund. In December 1998, the City issued $264,152,890 principal amount of junior revenue bonds to refund certain reimbursable general obligation bonds of the City and County issued to finance capital improvements to the wastewater system of the City and County to achieve a more level overall debt service profile for such debt.

Pension Liability

The City and County provides retirement, disability and death benefits for all regular employees of the City and County through the Employees' Retirement System of the State. (See "EMPLOYEE RELATIONS; PENSIONS" herein for a discussion of the County's liability under the Employee's Retirement System of the State for the payment of such benefits).

Leases

The City and County has entered into various capital and operating leases expiring at various dates through 2055. The leases are financed from general resources. Expenditures for such leases approximated $6.1 million for the Fiscal Year ended June 30, 2000, and future expenditures for such leases are projected to be $32.8 million.

Special Assessment Indebtedness

The City and County had outstanding as of June 30, 2001, $2,115,000 principal amount of special assessment bonds of various improvement districts, none of which is applicable to the limit of funded debt of the City and County or is a charge against the full faith and credit of the City and County.

Revenue Indebtedness

The City and County had outstanding as of June 30, 2001, approximately $78.7 million of revenue bonds issued for housing purposes. Two bonds were called during the year, including Block J which had an outstanding balance of $72 million, resulting in a 44% reduction in bonds outstanding.

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

In addition, the City and County has issued senior revenue bonds to finance capital improvements for the wastewater system of the City and County, and has issued junior revenue bonds to refund certain reimbursable general obligation bonds of the City and County issued to finance capital improvements for the wastewater system of the City and County in order to achieve a more level overall debt service profile for such debt, both of which are payable from revenues of the wastewater system. Such revenue bonds are payable solely out of revenues, assets and funds pledged under the applicable security documents. Such revenue bonds are also limited obligations of the City and County, are also excluded for purposes of determining the funded indebtedness of the City and County, and also do not constitute a general or moral obligation or a pledge of the full faith and credit or taxing power of the City and County of Honolulu or the State of Hawaii.

No Default

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

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

BUDGET PROCESS AND FINANCIAL MANAGEMENT

Budgets and Expenditures

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

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

Table 9

EXPENDITURES FOR CAPITAL IMPROVEMENTS
Fiscal Years 1996 – 2001
(In million dollars)

	Expenditures[(1)]			
Fiscal Year	Total[(1)]	Bond Funds	Cash[(2)]	Cash as % of Total
1996	146.3[(3)]	88.9[(4)]	58.3[(5)]	39.8%
1997	101.3[(6)]	59.1	42.7[(7)]	42.2%
1998	302.7[(8)]	238.4[(9)]	64.3[(10)]	21.2%
1999	296.2[(11)]	239.8[(12)]	56.4[(13)]	19.0%
2000	241.9[(14)]	190.6[(15)]	51.3[(16)]	21.2%
2001	385.5	340.2[(17)]	45.3[(18)]	11.8%

(1) Inclusive of encumbrances.
(2) Funds from current revenues and surplus.
(3) Adjusted for lapses at December 31, 1996.
(4) Includes $.04 million to finance housing developments.
(5) Includes $44.8 million of federal grants.
(6) Adjusted for lapses at December 31, 1997.
(7) Includes $28.5 million of federal grants.
(8) Adjusted for lapses at December 31, 1998.
(9) Includes $50.8 million of sewer revenue bond funds.
(10) Includes $61.3 million of federal grants.
(11) Adjusted for lapses at December 31, 1999.
(12) Includes $43.5 million of sewer revenue bond funds and $1.9 million to finance housing development.
(13) Includes $49.0 million of federal grants.
(14) Adjusted for lapses at December 31, 2000.
(15) Includes $56.7 million of sewer revenue bond funds.
(16) Includes 37.5 million of federal grants.
(17) Includes $88.3 million in sewer revenue bond fund.
(18) Includes $26.9 million in federal grants.

H-Power Waste Disposal Facility

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

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

Cash Management and Investments

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

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

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

Interest earnings from funds invested by the City totaled $42.9 million in the Fiscal Year ended June 30, 2001, representing an investment yield of 6.08%.

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

Inter-Fund Borrowing

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

State law also provides that whenever there are moneys in any fund of the City and County, except pension or retirement funds, funds under the control of any independent board or commission, funds set aside for redemption of bonds or the payment of interest thereon and private trust funds, which, in the judgment of the Director of Budget and Fiscal Services of the county, are in excess of the amounts necessary for the immediate requirements of the respective funds, and where, in her 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 county for undertaking public improvements for which the issuance and sale of general obligation bonds have been duly authorized by the City Council. Such transfers shall be made only after passage by the City Council of an ordinance or resolution authorizing the public improvements. Amounts transferred under such statutory authorization shall not exceed the total sum of unissued authorized bonds of the City and County. The funds from which the transfers or loans are made shall be reimbursed by the Director of Budget and Fiscal Services from the proceeds of the bond sales upon the eventual issuance and sale of the bonds, or by appropriations of the City Council.

FINANCIAL INFORMATION AND ACCOUNTING

Independent Audit

The Charter of the City and County requires that at least once every year the City Council obtain an independent audit of the accounts and other evidences of financial transactions of the City and County and of every agency. The audit is made by a certified public accountant or a firm of certified public accountants designated by the City Council. The City and County's auditor for Fiscal Years ended June 30, 1996, 1997, 1998 and 1999 was KPMG Peat Marwick, L.L.P., and the City and County's auditor for the Fiscal Year ended June 30, 2000 is Pricewaterhouse Coopers. Included herein as Appendix A are the general purpose financial statements of the City and County for the year ended June 30, 2000, and the auditors' report thereon. Neither KPMG Peat Marwick, L.L.P., nor Pricewaterhouse Coopers has reviewed this Official Statement and neither has any responsibility with respect to this Official Statement.

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

The financial statements may not reflect the current financial condition of the City and County, as a result of the deterioration in the local economy. See "CITY AND COUNTY REVENUES – Recent Events."

Financial Statements

The following four tables set forth the balance sheet and the statement of revenues and expenditures and changes in fund balance for the General Fund and the balance sheet and the combined statement of revenues and expenditures and changes in fund balance for all governmental fund types and expendable trust funds for the Fiscal Years shown in such tables. The information set forth in such financial statements has been prepared by the Director of Budget and Fiscal Services (Director of Finance prior to July 1, 1998) of the City and County based on audited financial statements for the Fiscal Years ended June 30, 1996 to 2000, inclusive, and has been summarized from the Director's Annual Financial Reports for the related Fiscal Years.

Table 10

CITY AND COUNTY OF HONOLULU
GENERAL FUND
BALANCE SHEET
For Fiscal Years Ended June 30, 1996 through June 30, 2000
(In thousand dollars)

	(Audited) FY Ended June 30, 1996	(Audited) FY Ended June 30, 1997	(Audited) FY Ended June 30, 1998	(Audited) FY Ended June 30, 1999	(Audited) FY Ended June 30, 2000
ASSETS:					
Cash and Securities	$38,106	$59,088	$38,990	$60,945	$59,877
Receivables:					
Real Property Taxes	6,887	5,663	7,132	7,025	6,638
Other	9,436	2,610	7,964	16,347	4,693
Component unit – CASE fees	- -	- -	- -	- -	8,413
Due from other funds	332	319	2,335	1,594	579
Total Assets	$54,761	$67,680	$56,421	$85,911	$80,200
LIABILITY AND FUND BALANCES					
Liabilities:					
Accounts payable	- -	- -	- -	- -	$ 5,305
Checks payable	$ 3,159	$ 3,130	$ 2,605	$ 3,719	3,500
Due to other funds	1,857	5,277	6,386	5,183	2,408
Accrued payroll and fringes	- -	4,878	- -	15,551	- -
Deferred revenues	7,892	7,431	7,164	11,715	10,128
Total Liabilities	$12,908	$20,716	$16,155	$36,168	$21,341
Fund Balances:					
Reserved for encumbrances	$19,832	$20,353	$15,755	$19,228	$20,683
Unreserved-undesignated	22,021	26,611	24,511	30,515	38,176
Total Fund Balances	$41,853	$46,964	$40,266	$49,743	$58,859
Total Liabilities And Fund Balances	$54,761	$67,680	$56,421	$85,911	$80,200

Table 11

CITY AND COUNTY OF HONOLULU
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For Fiscal Years Ended June 30, 1996 through June 30, 2000
(In thousand dollars)

	(Audited) FY Ended June 30, 1996	(Audited) FY Ended June 30, 1997	(Audited) FY Ended June 30, 1998	(Audited) FY Ended June 30, 1999	(Audited) FY Ended June 30, 2000
REVENUES:					
Real property tax	$416,987	$413,844	$404,415	$402,827	$399,115
Licenses and permits	12,266	11,952	18,275	18,469	25,969
Intergovernmental revenues	40,899	43,357	45,450	38,302	33,680
Charges for services	24,821	22,735	15,786	11,288	5,110
Fines and forfeits	173	305	226	270	222
Miscellaneous	92,719	91,805	88,688	110,626	124,113
Total Revenues	$587,865	$583,998	$572,840	$581,782	$588,209
EXPENDITURES:					
Current:					
General government	$69,179	$73,498	$81,639	$87,197	$83,464
Public safety	153,811	170,036	172,605	186,325	178,544
Highways and streets	4,038	3,900	3,850	3,842	1,387
Sanitation	36,089	33,127	34,576	36,701	- -
Health and Human Resources	11,829	12,840	12,036	14,380	12,324
Culture and recreation	53,250	48,828	39,668	35,012	34,859
Urban redevelopment and housing	63	- -	31	- -	- -
Utilities or other enterprises	- -	- -	- -	49	8
Miscellaneous	107,452	109,058	108,194	91,884	67,602
Capital outlay	3,204	252	1,936	93	86
Debt service:					
Principal retirement	1,422	1,269	1,596	1,789	1,501
Interest charges	623	579	548	511	438
Total Expenditures	$440,960	$453,387	$456,679	$457,783	$380,213
Excess of Revenues over Expenditures	$146,905	$130,611	$116,161	$123,999	$207,996
OTHER FINANCING SOURCES (USES):					
Inception of installment purchase contracts	$3,204	$252	$1,936	$93	$86
Sales of general fixed assets	841	18	80	1,367	6,531
Operating transfer-in	63,648	94,382	119,377	88,737	44,714
Operating transfer-out	(211,458)	(220,152)	(252,404)	(204,719)	(250,211)
Total Other Financing Sources (Uses)	$(143,765)	$(125,500)	$(131,011)	$(114,522)	$(198,880)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	$3,140	$5,111	$(14,850)	$9,477	$9,116
Fund Balance--July 1	38,713	41,853	46,964	40,266	49,743
Residual equity transfer from other fund	- -	- -	8,152	- -	- -
Fund Balance--June 30	$41,853	$46,964	$40,266	$49,743	$58,859

Table 12
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – FOR FISCAL YEAR ENDED JUNE 30, 2000 (AUDITED) WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 1999 (AUDITED)
(In thousand dollars)

	Governmental		Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	General	**Special Revenues**	**Debt Service**	**Capital Projects**	**Expendable Trust**	**1999**	**2000***
Revenues:							
Taxes	$399,115	$62,140	–	–	–	$466,115	$461,255
Special assessments	–	–	447	–	–	537	447
Licenses and permits	25,969	29,188	–	–	–	46,357	55,157
Intergovernmental	33,680	94,682	–	36,827	–	130,128	165,189
Charges for services	5,110	15,379	–	–	–	141,828	20,489
Fines and forfeitures	222	255	–	–	–	456	477
Miscellaneous:							
Reimbursements and recoveries	97,129	14	–	–	–	78,412	97,143
Interest	13,044	1,202	852	–	535	17,252	15,633
Other - primarily rents, concessions, trust receipts	13,940	14,507	10	339	266,113	165,301	294,909
Total revenues	$588,209	$217,367	$1,309	$37,166	$266,648	1,046,386	$1,110,699
Expenditures:							
Current:							
General government	$83,464	$18,276	–	–	$246,741	$229,670	$348,481
Public safety	178,544	22,238	–	–	1,571	198,273	202,353
Highways and streets	1,387	13,577	–	–	16	24,006	14,980
Sanitation	–	455	–	–	628	82,620	1,083
Health and human resources	12,324	48,700	–	–	2,868	67,243	63,892
Culture-Recreation	34,859	15,266	–	–	18,736	56,142	68,861
Urban redevelopment and housing	–	–	–	–	–	–	–
Utilities or other enterprises	8	20,572	–	–	2	9,688	20,582
Miscellaneous:							
Retirement and health benefits	53,663	7,942	–	–	–	98,458	61,605
Other	13,939	1,037	–	–	–	17,005	14,976
Capital outlay	86	–	–	197,945	–	143,749	198,031
Debt service:							
Principal retirement	1,501	–	67,916	–	–	68,501	69,417
Interest charges	438	–	75,544	–	–	83,280	75,982
Total expenditures	$380,213	$148,063	$143,460	$197,945	$270,562	$1,078,635	$1,140,243
Revenues over (under) Expenditures	$207,996	$69,304	($142,151)	($160,779)	($3,914)	($32,249)	($29,544)
Other financing sources (uses):							
Proceeds of general obligation bonds	–	–	–	$111,500	–	$150,000	$111,500
Proceeds of general obligation refunding bonds	–	–	38,500	–	–	614,474	38,500
Proceeds of revenue bonds with accrued interest	–	–	–	–	–	27,345	–
Proceeds of long-term notes	–	–	–	6,094	–	10,999	6,094
Inception of installment purchase contracts	86	–	–	–	–	93	86
Sales of general fixed assets	6,531	245	–	11,230	–	10,189	18,006
Payment to refunded bond escrow agent	–	–	–	–	–	(614,474)	–
Insurance Cost	–	–	(918)	–	–	–	(918)
Payment of refunded bonds	–	–	(43,500)	–	–	–	(43,500)
Operating transfers in	44,714	14,088	148,167	23,972	–	277,672	230,941
Operating transfers out	(250,211)	(68,792)	(137)	(29,096)	–	(321,659)	(348,236)
Other	–	–	–	–	–	–	–
Total Other Financing Sources (Uses)	($198,880)	($54,459)	$142,112	$123,700	–	$154,639	$12,473
Revenues and Other Sources over (under) Expenditures and Other Uses	$9,116	$14,845	$(39)	$(37,079)	$(3,914)	$122,390	$(17,071)
Fund balances – July 1	$49,743	$52,709	$1,351	$103,320	$33,298	$275,417	$240,421
Residual equity transfers from (to) other funds	–	–	–	(13,335)	–	–	(13,335)
Fund balances – June 30	$58,859	$67,554	$1,312	$52,906	$29,384	$397,807	$210,015

* *From fiscal year ended 6/30/2000 Sewer and Solid Waste Operations accounted as Enterprise Funds and are excluded from Combined Statement of Revenues, Expenditures and Changes in Fund Balances.*

Table 13
CITY AND COUNTY OF HONOLULU ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For Fiscal Years Ended June 30, 1997 through June 30, 2000
(In thousand dollars)

	(Audited) FY Ended June 30, 1997	(Audited) FY Ended June 30, 1998	(Audited) FY Ended June 30, 1999	(Audited) FY Ended June 30, 2000*
REVENUES:				
Taxes	$480,219	$470,385	$466,115	$461,255
Special assessments	551	517	537	447
Licenses and permits	46,606	46,483	46,357	55,157
Intergovernmental revenues	123,275	159,759	130,128	165,189
Charges for services	143,516	146,807	141,828	20,489
Fines and forfeitures	589	559	456	477
Miscellaneous	201,460	199,955	260,965	407,685
Total Revenues	$996,216	$1,024,465	$1,046,386	$1,110,699
EXPENDITURES:				
Current:				
General government	$165,460	$176,939	$229,670	$348,481
Public safety	199,608	202,982	198,273	202,353
Highways and streets	19,112	18,072	24,006	14,980
Sanitation	91,576	92,427	82,620	1,083
Health and human resources	58,070	61,840	67,243	63,892
Culture-Recreation	63,944	63,970	56,142	68,861
Urban redevelopment and housing	6,801	4,708	—	—
Utilities or other enterprises	648	954	9,688	20,582
Miscellaneous	132,296	133,851	115,463	76,581
Capital outlay	100,428	154,800	143,749	198,031
Debt service:				
Principal retirement	74,426	90,899	68,501	69,417
Interest charges	93,209	92,703	83,280	75,982
Total Expenditures	$1,005,578	$1,094,145	$1,078,635	$1,140,243
Excess of Revenues over (under) Expenditures	($9,362)	($69,680)	($32,249)	($29,544)
OTHER FINANCING SOURCES (USES):				
Proceeds of general obligation bonds	$99,999	$100,000	$150,000	$111,500
Proceeds of general obligation refunding bonds	—	138,472	614,474	38,500
Proceeds of improvement district bonds	—	—	—	—
Proceeds of revenue bonds with accrued interest	—	—	27,345	—
Proceeds of long-term notes	—	8,727	10,999	6,094
Inception of installment purchase contracts	252	1,936	93	86
Sales of general fixed assets	181	7,424	10,189	18,006
Operating transfers-in	284,634	349,347	277,672	230,941
Operating transfers-out	(366,770)	(402,481)	(321,659)	(348,236)
Payment to refunding bond escrow agent	—	(138,472)	(614,474)	—
Insurance Cost	—	—	—	(918)
Expenditures for refunded bonds	—	—	—	(43,500)
Proceeds of general obligation bond anticipation notes	—	—	—	—
Other		—	—	—
Total Other Financing Sources (Uses)	$18,296	$64,953	$154,639	$12,473
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	$8,934	($4,727)	$122,390	($17,071)
Fund Balances—July 1	271,210	280,144	275,417	240,421
Residual equity transfers from (to) other funds	—	—	—	(13,335)
Fund Balances—June 30	$280,144	$275,417	$397,807	$210,015

* *From fiscal year ended 6/30/2000 Sewer and Solid Waste Operations accounted as Enterprise Funds and are excluded from combined Statement of Revenue, Expenditures and changes in Fund Balances.*

EMPLOYEE RELATIONS; PENSIONS

Employee Relations

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

In 1999 the Legislature adopted Act 100, which prohibits the State, the respective counties and the public employee unions from negotiating over cost items for two fiscal years, which effectively froze wages and benefits at the level in effect on June 30, 1999. Act 100 was challenged by the bargaining units to be unconstitutional, and the trial court held in their favor. The decision has been appealed to the Hawaii Supreme Court.

All of the City and County of Honolulu's eight public bargaining units (i.e., blue-collar non-supervisory; blue-collar supervisory; white-collar non-supervisory; white-collar supervisory; institutional, health and correctional workers; firefights; police; and professional and scientific) have reached negotiated four-year agreements ending on June 30, 2003. Negotiations for new contracts, which will begin on July 1, 2003, will commence either at the end of 2001 or the beginning of 2002.

Pensions

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

Actuarial valuations are prepared each year to determine the total employer contribution requirement. In accordance with the statutory funding provisions (Sections 88-122 and 88-123, Hawaii Revised Statutes), including the changes due to Act 327, Session Laws of Hawaii 1997; Act 100, Session Laws of Hawaii 1999; and Act 216, Session Laws of Hawaii 2000, the total employer contribution requirement to the pension accumulation fund is comprised of the normal cost plus the level annual payment required to amortize the unfunded accrued liability over a period of 21 years from July 1, 1995. The actuarial cost method used to calculate employer contributions was changed by said Act 327 from the frozen initial liability method. As of June 30, 2000, the total unfunded liability was $465 million (represents the funding for all state and county workers), excluding the early incentive retirement program costs. The City and County was overfunded in the amount of $59 million, excluding the early incentive retirement program costs. The Board of Water Supply's estimated share of the unfunded actuarial liability was $8 million, excluding the early incentive retirement program costs. These figures do not reflect the effects of Act 104/2001, which changes the salary assumption rate of 4% retroactively for actuary valuations made after June 30, 1999.

Each employer's (i.e., the State's or a county's) annual contribution to the State Retirement System is determined by multiplying (1) the total employer contribution requirement derived from the annual actuarial valuation as of the next preceding June 30, by (2) the ratio of that employer's (i.e., the State's and each of the respective county's) payroll over the total covered payroll included in the actuarial valuation. For example, Honolulu's contribution requirement for the 2001-02 fiscal year is based on the June 30, 1999 actuarial valuation and the payroll used in that valuation. The City and County's contribution to the State Retirement System for the five Fiscal Years, exclusive of costs for employees of the Board of Water Supply, was $53,545,400 for 1997, $57,133,400 for 1998, $32,333,500 for 1999, $10,285,300 for 2000, and $1,070,400 for 2001, including amortization of a portion of prior service cost in each such year. Retirement contributions are funded on an actuarial basis.

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

In addition to contributions to the State Retirement System, the City and County makes payments under three pension systems established prior to the establishment of the State Retirement System in 1926. These pension systems are administered by the City's Department of Budget and Fiscal Services. At June 30, 2001, there were 3 pensioners and 16 beneficiaries under these pensions. Such unfunded payments amounted to $130,357 for 1997, $108,496 for 1998, $100,269 for 1999, $92,780 for 2000, and $78,561 for 2001. No estimates have been made of the cost of future benefits.

PENDING LITIGATION

In the normal course of business, claims and lawsuits are filed against the City and County. Generally the City and County is self-insured with respect to general liability claims. In the Fiscal Years ended June 30, 1998, June 30, 1999, June 30, 2000, and June 30, 2001, judgments against the City and County paid from the General and Highway Funds amounted to $2,314,709, $3,732,658, $2,589,518, and $2,799,841.86, respectively.

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

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

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

TAX MATTERS

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

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

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The County has covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Ordinances authorizing the Bonds, the Authorizing Certificate, the Tax Certificate of the City and County relating to the Bonds, and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Orrick, Herrington & Sutcliffe LLP.

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

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. The form of the opinion Bond Counsel proposes to render is set forth in Appendix C hereto. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, Watanabe, Ing & Kawashima, Honolulu, Hawaii.

BOND RATINGS

It is expected that Moody's Investors Service, Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., and Fitch Inc. will assign to the Bonds ratings of "Aaa/VMIG 1", "AAA/A1+", and "AAA/F1+", respectively, with the understanding that upon delivery of the Bonds the Policy insuring the payment of the principal of and interest on the Bonds will be issued by Financial Guaranty Insurance Company and the Liquidity Facility will be issued by FGIC Securities Purchase, Inc.. Such ratings reflect only the respective views of such organizations, and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 99 Church Street, New York, New York 10007; Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004; and Fitch Inc., One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies concerned, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by the underwriter set forth on the cover page of this Official Statement (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of $250,918,716.20 (equal to the principal amount of the Bonds, plus premium of $1,972,500, less an underwriting discount of $1,053,783.80). The bond purchase contract with respect to the Bonds provides that the Underwriter will purchase all the Bonds if any are purchased. The initial public offering price of the Bonds is 100% of the principal amount thereof.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the City and County will undertake in a Master Continuing Disclosure Certificate of the City and County, as supplemented, constituting a written agreement for the benefit of the holders of the Bonds (the "Continuing Disclosure Certificate"), to provide to each Nationally Recognized Municipal Securities Information Repository (as referred to in Rule 15c2-12), and others, on an annual basis, certain financial and operating data concerning the City and County, financial statements, notice of certain events if material, and certain other notices, all as described in the Continuing Disclosure Certificate. The undertaking is an obligation of the City and County that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriter to purchase the Bonds. The form of the Master Continuing Disclosure Certificate and the proposed form of the Series Certificate for the Series 2001C Bonds are contained in Appendix D.

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

MISCELLANEOUS

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

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

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

Caroll Takahashi
Director of Budget and Fiscal Services
City and County of Honolulu

City and County of Honolulu

General Purpose Financial Statements
For the Fiscal Years Ended June 30, 2000 (Audited)

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APPENDIX B

ECONOMIC AND DEMOGRAPHIC FACTORS

Introduction

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

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

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

The per capita income for the City and County for 1999 was $29,465. Gross State Product increased by $2.0 billion to $39.4 billion in 2000.

Land Use

State law establishes four major land use categories in which all lands in the State are to be placed: urban, rural, agricultural, and conservation. The Hawaii State Land Use Commission is vested with authority for grouping contiguous land areas in all of the counties into one of these four major categories. For the City and County of Honolulu, the permitted major uses are: (1) urban, (2) agricultural and (3) conservation. Conservation lands include mountainous regions unsuitable for urban or agricultural development, lands of a historic or scenic nature and lands having recreational uses. As of December 2000, of the total 386,188 acres on Oahu, 99,686 acres, or 25.8%, were classified urban, 156,618 acres, or 40.6%, were classified conservation, and 129,884 acres, or 33.6%, were classified agricultural.

Visitor Industry

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

The recent terrorist attacks in the eastern United States are expected to have adverse effects on the nation's economy, including travel-related businesses in particular, and have resulted initially in a material decline in visitors to the City and County, from which there has been some recovery. In view of the importance of the visitor industry in Honolulu, it is anticipated that the economy of the City and County may also be negatively affected. The extent and duration of such effects cannot be predicted at this time.

Approximately 7.0 million visitors came to the State of Hawaii in 2000, representing an increase of 3.5% over 1999. The domestic arrivals of 4.45 million visitors represented an increase of 4.6% over 1999. The international arrivals of 2.5 million visitors increased by 1.6% in 1999. The preliminary average daily visitor census figure for 2000 was 169,456, or an increase of 3.1%. Oahu has 36,303 hotel rooms, or 51% of the total hotel rooms in the State. Hotel occupancy rates on Oahu averaged 79.0% in 2000. More detailed statistics on the visitor industry are as follows:

Table I

SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS
1996 – 2000

	1996	1997	1998	1999[(R)]	2000
Overnight and longer visitors (thousands)	6,829	6,876	6,738	6,741	6,976
Westbound (thousands)*	4,004	4,078	4,245	4,256	4,452
Eastbound (thousands)*	2,825	2,798	2,493	2,485	2,524
Westbound average daily visitor census (thousands)*	114.4	115.0	119.7	118.0	123.7
Westbound average length of stay (number of days)*	10.5	10.3	10.3	10.1	10.2
Eastbound average daily visitor census (thousands)*	47.2	43.2	40.2	46.4	45.7
Eastbound average length of stay (number of days)*	6.1	5.6	5.9	6.8	6.6
Hotel inventory-State (February)[(a)]	70,288	71,025	71,480	71,157	71,506
Hotel inventory - Oahu (February)[(a)]	36,146	35,971	36,206	35,861	36,303
Occupancy-State (percent)	75.5	74.0	72.0	73.1	77.2
Occupancy – Oahu (percent)	81.6	78.6	73.8	73.1	79.0
Oahu Average Daily Room Rate	$117	$123	$123	$119	$121

Source: State of Hawaii Department of Business, Economic Development & Tourism; Hawaii Department of Labor and Industrial Relations; Department of Taxation; Hawaii Visitors and Convention Bureau; PKP – Hawaii Inc.; and PriceWaterhouse Coopers LLP.

N/A = Not Available.

* *In 1998, the Hawaii Visitors and Convention Bureau discontinued tracking visitors on the basis of eastbound and westbound, and instead began tracking visitors as domestic and international. For purposes of simplicity, this table shows "domestic" visitors in 1999 and 2000 as "westbound" and "international" visitors as "eastbound."*

(a) The reservation service used previously was replaced with information on individual properties for years 1997 and thereafter.

(R) Revised.

More than $350 million in public and private investment has gone into wider roads, lush landscaping, sandy beaches and the first major hotel and commercial construction in Waikiki since Hawaii's recession set in 10 years ago. The City and County of Honolulu's recently finished project along Kalakaua Avenue – featuring wider sidewalks, new sand, a waterfall, and extensive landscaping – is the most visible of recent work. The city also contributed a $3 million bandstand and put $11.5 million into a new façade for the crumbling Waikiki Natatorium.

Other work is in the offing includes $5 million pedestrian bridge over Kalakaua Avenue and $12.6 million in dredging and other work on the Ala Wai Canal, both state projects.

The Hilton Hawaiian Village led the way to redevelopment in Waikiki in 1997, when it announced plans for a $95 million tower on Kalia Road. The 25-floor tower, which adds 453 rooms to the complex, had its grand opening in September 2001.

Outrigger Enterprises Inc.'s recently announced $300 million redevelopment plan for Waikiki will be one of the biggest in the area's history, razing some of the most dated shops and hotels and creating a retail and entertainment mecca, higher grade rooms and lavish open space in the very heart of Hawaii's top visitor destination. The first phase, to begin in 2003, will concentrate on retail, and by the end of the project Outrigger will nearly double its Waikiki shop space to 75,000 square feet. The second phase, expected to break ground in 2005, will see the construction of a new 27-story, 890-room hotel where three small hotels stand. The project, called Waikiki

Beach Walk, may be the largest single redevelopment effort ever to take place in Waikiki. To date, there have been no changes to these plans since the September 11 events.

After the September 11 tragedy, the "Aloha Mission" headed by Hawaii's Governor Benjamin Cayetano and former Governor George Ariyoshi, including the head of the Hawaii Visitors Bureau, and the mayors of all the counties set out to Japan on a major promotional and advertising campaign to assure the Japanese people that Hawaii continues to be a safe and desirable destination. In Japan, wholesale supervalue programs have been set up, charging low fees for airfare and hotel room packages to Hawaii. Starting November 1, when visitors check in at their hotel or other accommodation they will receive a "Hawaii Value Pass", a credit card-like piece of plastic that entitles them to discounts and special deals at more than 1,200 retailers, restaurants, attractions and other establishments and activities around the State. Aloha Airlines will offer 10 percent off its seven-day island pass, which enable visitors to fly anywhere in the Islands as many times as they want over seven consecutive days.

Employment

At the end of 2000, employment was estimated to be 407,600 and the unemployment rate was estimated to be 3.8%. The following table sets forth certain employment statistics for the most recent five years for which data are available.

Table II

EMPLOYMENT STATISTICS -- CITY AND COUNTY OF HONOLULU
1996 – 2000

	1996	1997	1998	1999[(2)]	2000
Civilian Labor Force	429,350	428,100	427,650	423,150	423,500
Employment	406,650	405,450	404,700	402,250	407,600
Unemployment	22,700	22,650	22,950	20,900	15,900
Unemployment Rate	5.3%	5.3%	5.4%	4.9%	3.8%
Total Job Count[(1)]	406,750	404,950	402,850	403,650	414,550

Source: State of Hawaii Department of Labor and Industrial Relations.
(1) Refers to number of jobs rather than number of persons employed
(2) Revised.

Federal Government and Military

Total expenditures by the federal government in the State of Hawaii amounted to $9.0 billion during Fiscal Year 2000, representing a 5.2% increase over the preceding year. Of the total, $3.5 billion was expended by the Department of Defense. The remaining $5.5 billion was expended for nondefense activities in the State, principally for health, education, welfare and transportation. Federal government outlays for both defense and nondefense activities are among the largest expenditures in the State of Hawaii.

The large military establishment maintained in Hawaii is almost entirely on the Island of Oahu. Members of the armed services, as of July 1, 2000, numbered 15,474 for the Army, 7,641 for the Navy, 4,492 for the Air Force, 7,115 for the Marine Corps, and 1,091 for the Coast Guard. Civilian dependents of these military personnel living on Oahu numbered 42,281. In addition to uniformed personnel and their dependents, the military agencies in Hawaii provided employment for some 16,092 civilians in 2000. Pearl Harbor, located on the island of Oahu, is home of the Commander-in-Chief of the United States Pacific Fleet and headquarters of the Third Fleet. The command stretches from the West Coast of the Americas to the Indian Ocean and from the North Pole to the South Pole.

Total federal civilian employment, including both defense and nondefense agencies (Postal Service, Internal Revenue Service, the Social Security Administration, etc.), in Hawaii in 2000 was approximately 30,950.

In 1998, the Navy dedicated the mile long bridge connecting Ford Island with the rest of Pearl Harbor. Plans for development of this previously isolated island include housing, commercial retail shops, restaurants and a museum. The Navy is applying for special congressional legislation to allow private developers to join in a proposed $600 million operation. KPMG has estimated that approximately 600,000 visitors per year will tour the battleship USS Missouri, which is resting on the dock at Ford Island.

Other recent and current federal construction includes a $100 million 670-bed federal pretrial detention facility near the Honolulu International Airport, command center headquarters for the Pacific Command Air Force, construction of six buildings and a 4-lane connector road for the Kolekole Barracks renewal, and a new administration building, education facility, mess hall, auditorium billets, formation plaza, parade ground and track for the Regional Training Institute.

State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. In 2000, the State government generated 66,950 jobs, of which approximately 77% were located on Oahu. The largest number of employees work in the public education and university system.

The City and County of Honolulu government generated 11,450 jobs in 2000, with the police and public works departments having the most employees.

Construction

Construction activity statewide amounted to $3.6 billion in 2000, with $2.8 billion of the activity generated on Oahu. For 2000, the construction industry generated 23,500 jobs, or 4.0% of the total non-agricultural job count of the State. Construction contracting receipts, as summarized by the State of Hawaii Department of Taxation (in its General Excise and Use Tax Base), decreased 5.7% in 1995, increased 4.8% in 1996, decreased 10.4% in 1997, increased 2.4% in 1998, and decreased .8% in 1999, and increased a substantial 20.8% in 2000. The construction industry, declining since 1991, shows signs of recovery. The value of building permits, a measure of future construction, remained static with a slight decrease of 1.7% in 2000. However, a promising indicator, resales of single-family and condominium homes, as reported by the Honolulu Board of Realtors, increased in the first nine months of 2001 by 7.9% and 11.0%, respectively, as compared to the same nine months in 2000. Retail outlets Home Depot, Wal-Mart, and Costco are planning expansion on Oahu, and homebuilders have reported brisk sales and dwindling inventories of unsold new homes. Residential projects to be built within the next four years include 700 single family residences in Ko Olina, 128 single family homes in Makakilo, 300 homes in Mililani and 130 homes in Royal Kunia. During Fiscal Year 2001, the City and County expended $150.2 million on various public improvement projects, a slight increase of $6.5 million from the previous fiscal year. See also “Visitor Industry” above for a description of certain construction projects related to the visitor industry. Table III shows the estimated value of construction authorizations for private buildings for the State of Hawaii as a whole and for the City and County of Honolulu for the last ten years for which such information is available.

Table III

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS
1992 – 2001
(in thousands of dollars and percentage change from the previous year)

Year	State	%	City & County of Honolulu	%
1992	1,751,871	-18.6	1,060,700	-27.5
1993	1,496,481	-14.6	959,041	-9.6
1994	1,612,899	7.8	1,073,264	11.9
1995	1,531,317	-5.1	980,703	-8.6
1996	1,117,760	-27.0	698,697	-28.8
1997	1,179,182	5.5	772,825	10.6
1998	1,054,281	-10.6	624,227	-19.2
1999	1,320,218	25.2	706,358	13.2
2000	1,512,601	14.6	694,223	-1.7
2001(1)	410,824	4.6(1)	181,167	-3.9(1)

Source: State and Honolulu Building Permits.
(1) 2nd Quarter 2001. Percentage change is from 2nd Quarter 2000 to 2nd Quarter 2001.

Diversified Manufacturing and Agriculture

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

Education, Research and Science

The main campus of the University of Hawaii is located on Oahu, as are four community colleges, three private universities, and one private college. The federally funded East-West Center is adjacent to the Manoa Campus of the University of Hawaii. Research and development activity in Honolulu is expanding, particularly in the fields of oceanography, geophysics and biomedicine. The University of Hawaii has 14 research units which are funded by the State of Hawaii, the six largest of which are the Hawaii Institute of Tropical Agriculture and Human Resources, the Institute for Astronomy, the Hawaii Institute of Geophysics, the Pacific Biomedical Research Center, the Curriculum Research and Development Group, and the Cancer Research Center of Hawaii. In addition, the University of Hawaii has announced plans to build a $300 million Health and Wellness Center, including a new medical school, in the Kakaako District of Honolulu. Federal government research agencies in Honolulu include the U.S. Bureau of Commercial Fisheries and the Environmental Science Services Administration. Among private research organizations on Oahu are the Oceanic Institute and the Bishop Museum. The three high technology centers located on Oahu are the Mililani Technology Park, the Kaimuki Technology Enterprise and the Manoa Innovation Center.

Trade and Services

The economy of both the City and County and the State as a whole is heavily trade and service-oriented, largely because of the heavy volume of purchases by visitors to the State, including over 7.0 million who arrived in 2000. Another reason for the high volume of trade and service activity is the above-average per capita personal income of the resident population, which ranks among the highest in the country. Total retail trade in Hawaii was approximately $17.5 billion in 2000, a 9.4% increase over the previous year. Wholesale trade activity amounted to $14.1 billion in 2000, an increase of 14.0% from the previous year. Of the State's non-agricultural job count of

551,500, the retail sector generated 115,400 jobs (a 3.3% increase) and the wholesale sector generated 21.600 jobs (a 2.6% increase). Services accounted for $13.2 billion in activity.

Finance

Honolulu has a full range of financial services, including banks, savings and loan associations and industrial loan companies. Branch banking is permitted in Hawaii. As of December 31, 2000, total assets of all State of Hawaii chartered financial institutions, including banks, trust companies and savings and loan associations, were reported at $24.6 billion. The four state chartered banks (204 branches) in Hawaii had combined assets of some $23.6 billion, with two of such banks having assets in excess of $6.0 billion each. In addition, there is one state chartered savings and loan association, with 16 branches and assets totaling $495.8 million, and 3 state chartered financial services companies that issue investment certificates, with assets of $500 million.

Transportation

A comprehensive network of roads, highways, and freeways connect all parts of Honolulu; and all the of the populated areas of the island are also served by a bus transit system, named the “Best Bus System in America” by a national transit publication. The City and County has proposed a new transit plan that includes a network of dedicated bus and high occupancy vehicle lanes and transit amenities. A new fleet of electric bus rapid transit vehicles will be used in the core of the city, and express buses operating on contra flow lanes and dedicated ramps on freeways will serve the suburbs. The proposal was approved in concept by the City Council in December, 2000, and is currently undergoing environmental review, which is expected to be completed by the end of 2001. The estimated capital cost of the system through 2010 is $882 million, with approximately 63% to be derived from federal funds, 4.6% from State funds, and 32.4% from City and County funds.

Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu International Airport is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, of which two, at 12,001 feet and 12,357 feet, respectively, are among the nation’s longest. According to the publication of the Airports Council International, Honolulu International Airport is one of the busiest air terminals in the world, ranking 39th in the world and 22nd in the United States in total passengers serviced in 2000. Honolulu International Airport is the fifth busiest airport in the Pacific Rim, after Los Angeles International Airport, Tokyo International Airport (Haneda), San Francisco International Airport and New Tokyo International Airport (Narita). Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft.

Honolulu International Airport is currently served by 30 air carriers. Scheduled service is provided direct to most major cities on the mainland, as well as eight cities in Japan, four cities in Canada, Manila, Seoul, Taipei, Sydney, Auckland, Fiji, Samoa, Guam and 12 other island destinations in the Pacific region. Inter-island service is provided to ten destinations within Hawaii. Japan Airlines has announced cuts of approximately 30% of its service to Hawaii to the end of 2001. Aloha and Hawaiian Airlines have each cut 20% interisland service, and United Airlines has cut two daily flights to California, totaling an approximate 10% reduction in daily commercial aircraft operations at the airport. However, Continental has plans to add a second flight from Houston to Honolulu in February 2002.

Honolulu Harbor provides modern port services and terminal facilities for conventional, containerized and roll-on roll-off cargo. Most Mainland-Hawaii cargo is containerized and is handled largely by Matson Navigation Company, Hawaii’s pioneer shipping line. One pier, with warehouse and storage yard, is within U.S. Foreign Trade Zone No. 9, providing convenient means for transshipment of cargo, duty-free. Interisland freight is transported by barge or ocean freighters, or by air. Overseas and Interisland cargo tonnage handled through the Honolulu Harbor was 8.5 million short tons in 1996, 8.6 million short tons in 1997, 8.5 million short tons in 1998 and 7.5 million short tons in 1999.

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City and County of Honolulu
Honolulu, Hawaii

Re: City and County of Honolulu
General Obligation Bonds, Series 2001C
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City and County of Honolulu (the "City") of $250,000,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2001C (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 _______, 2001 (the "Certificate"), and various bond authorizing ordinances adopted by the City Council and identified in the Certificate (the "Bond Ordinances").

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

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

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

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

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

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

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

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

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Respectfully submitted,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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

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

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

ARTICLE I

PURPOSE AND DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities; and

(11) rating changes.

"*Material Event Notice*" means notice of a Material Event.

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

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

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

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

"*SEC*" means the United States Securities and Exchange Commission.

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

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

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

"*State*" means the State of Hawaii.

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

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

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

ARTICLE II

THE UNDERTAKING

Section 2.3. *Annual Financial Information.* (a) The City and County shall provide Annual Financial Information with respect to each Fiscal Year of the City and County, commencing with the Fiscal Year ending June 30, 1996, by no later than eight months after the end of the respective Fiscal Year, to each NRMSIR and the SID. The City and County may provide Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is an Official Statement, available from the MSRB. The City and County may provide Annual Financial Information in one document or multiple documents comprising a package, and at one time or in part from time to time.

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

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

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

Section 2.4. *Material Event Notices.* (a) If a Material Event occurs, the City and County shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR, and (ii) the SID.

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

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

Section 2.5. *Additional Disclosure Obligations.* The City and County acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City and County, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City and County under such laws.

Section 2.6. *Additional Information.* Nothing in this Certificate shall be deemed to prevent the City and County from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City and County chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the City and County shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

Section 2.7. *No Previous Non-Compliance.* The City and County represents that since July 3, 1995, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Section 2.8. *Transmission of Information and Notices.* Unless otherwise required by law and, in the City and County's sole determination, subject to technical and economic feasibility, the City and County shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the City and County's information and notices.

ARTICLE III

TERMINATION, AMENDMENT, ENFORCEMENT, BENEFICIARIES AND DISSEMINATION AGENT

Section 3.9. *Termination.* (a) The City and County's obligations under this Certificate with respect to the Bonds of each Series shall terminate upon (i) a prior redemption or payment in full of all of the Bonds of such Series, or (ii) a legal defeasance of all of the Bonds of such Series.

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

Section 3.10. *Amendment.* (a) This Certificate may be amended by a Supplemental Certificate of the Director of Finance, without the consent of the Holders of the Bonds, if all of the following conditions are satisfied:

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

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

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

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

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

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

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

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

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

Section 3.11. *Benefit; Third-Party Beneficiaries; Enforcement.* (a) By execution of a Series Certificate identifying the Underwriters and the Bonds of a Series, the provisions of this Certificate shall inure solely to the benefit of such Underwriters and the Holders from time to time of such Bonds. Beneficial Owners of such Bonds shall be third-party beneficiaries of this Certificate.

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

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

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

Section 3.12. *Dissemination Agent.* The Director of Finance, on behalf of the City and County, shall disseminate the Annual Financial Information, the Audited Financial Statements, the Unaudited Financial Statements, the Material Event Notices and all other information and notices as described in this Certificate. The Director of Finance may appoint one or more agents to disseminate such information and notices.

Dated this 15th day of November, 1995.

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

I, the undersigned, CAROLL TAKAHASHI, being the duly appointed Director of Budget and Fiscal Services (the "Director of Budget and Fiscal Services") of the City and County of Honolulu (the "City and County"), and under Part I of Chapter 47, Hawaii Revised Statutes, as amended, and the Revised Charter of the City and County, the officer having the responsibility for issuing, selling, paying interest on and redeeming bonds, notes and other instruments of indebtedness of the City and County authorized by the Council thereof, DO HEREBY CERTIFY that: (i) this Certificate is a Series Certificate as defined in Section 1.1 and described in Section 3.3 of the Master Certificate of the Director of Finance of the City and County of Honolulu, Hawaii, Providing for Continuing Disclosure, dated November 15, 1995 (the "Master Certificate"); (ii) UBS PaineWebber Inc., as the Underwriter of the City and County General Obligation Bonds, Series 2001C, dated the date of issuance thereof (the "Series 2001C Bonds"), shall be a beneficiary of the Master Certificate; (iii) the Holders of the Series 2001C Bonds shall also be beneficiaries of the Master Certificate; (iv) the Beneficial Owners of the Series 2001C Bonds shall be third-party beneficiaries of the Master Certificate; and (v) all capitalized terms used herein shall have the respective meanings as defined in the Master Certificate.

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

Dated as of December __, 2001.

____
Caroll Takahashi
Director of Budget and Fiscal Services
City and County of Honolulu

The above and foregoing certificate is hereby approved as to form and legality this December __, 2001.

____
David Z. Arakawa
Corporation Counsel
City and County of Honolulu

APPENDIX E

BOOK-ENTRY SYSTEM

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

DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds of each series in the principal amount of such maturity, and will be deposited with DTC.

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

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

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

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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

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

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other sections of this Official Statement to owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the City and County will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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

APPENDIX F

SPECIMEN BOND INSURANCE POLICY