PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 1, 2018

NEW ISSUE – BOOK-ENTRY ONLY **RATINGS: see RATINGS herein**

*The delivery of the Series 2018 Bonds is subject to the opinion of Katten Muchin Rosenman LLP, Bond Counsel, to the effect that under existing law, interest on the Series 2018 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes and that, assuming continuing compliance with the applicable requirements of the Internal Revenue Code of 1986, interest on the Series 2018 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, (i) interest on the Series 2018A Bonds is an item of tax preference for purposes of computing the individual alternative minimum tax; (ii) interest on the Series 2018B Bonds is not an item of tax preference for purposes of computing the individual alternative minimum tax; and (iii) interest on the Series 2018A Bonds is not excludable from the gross income of owners who are "substantial users" of the facilities financed or refinanced thereby. In the further opinion of Bond Counsel, under the existing statutes, interest on the Series 2018 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2018 Bonds or income therefrom. See "*TAX MATTERS*" herein.*

$413,620,000*
STATE OF HAWAII
Airports System Revenue Bonds

$387,395,000*	$26,225,000*
Series 2018A	**Series 2018B**
(AMT)	**(Non-AMT)**

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

The $387,395,000* aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2018A (AMT) (the "*Series 2018A Bonds*") and $26,225,000* aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2018B (Non-AMT) (the "*Series 2018B Bonds*" and, together with the Series 2018A Bonds, the "*Series 2018 Bonds*") are being issued for the purpose of funding the costs of capital improvement projects at certain facilities of the Airports System (defined herein). The Series 2018 Bonds are special limited obligations of the State of Hawaii (the "*State*"), payable solely from and secured solely by the Revenues (as defined herein) derived by the State from the ownership and operation of the Airports System and the receipts from aviation fuel taxes imposed by the State.

See the inside cover for maturities, principal amounts, interest rates, and yields of the Series 2018 Bonds. The Series 2018 Bonds shall be dated as of their date of delivery and shall bear interest from the date of delivery payable each July 1 and January 1, commencing January 1, 2019. The Series 2018 Bonds are subject to optional and mandatory redemption prior to maturity thereof upon the terms and conditions and at the price as described herein.

The Series 2018 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. Purchases of the Series 2018 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants. Purchases of the Series 2018 Bonds will initially be made in denominations of $5,000 or integral multiples thereof. Beneficial owners of the Series 2018 Bonds will not receive physical delivery of Series 2018 Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2018 Bonds. So long as DTC or its nominee is the registered owner of the Series 2018 Bonds, payment of the principal of, and premium, if any, and interest on, the Series 2018 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants (See "DESCRIPTION OF THE SERIES 2018 BONDS – Book-Entry Only System" herein).

The Series 2018 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Series 2018 Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Series 2018 Bonds.

The Series 2018 Bonds are offered when, as and if issued, subject to the approval of legality by Katten Muchin Rosenman LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their Counsel, Dentons US LLP, Honolulu, Hawaii. It is expected that the Series 2018 Bonds in definitive form will be available for delivery on or about _______________, 2018.

Morgan Stanley **BofA Merrill Lynch**

Goldman Sachs & Co. LLC **Wells Fargo Securities**

Dated: _______________, 2018

* Preliminary, subject to change.

$387,395,000*
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2018A
(AMT)

Year (July 1)	Principal Amount*	Interest Rate	Yield	CUSIP (438670)†
2028	$ 9,775,000			
2029	10,580,000			
2030	11,100,000			
2031	11,650,000			
2032	12,235,000			
2033	12,840,000			
2034	13,490,000			
2035	12,205,000			
2036	12,825,000			
2037	13,455,000			
2038	14,130,000			

$94,360,000* ____% Term Bonds due July 1, 2043*, Priced: ____ to yield ____%, CUSIP† ____________
$158,750,000* ____% Term Bonds due July 1, 2048*, Priced: ____ to yield ____%, CUSIP† ____________

$26,225,000*
STATE OF HAWAII
AIRPORTS SYSTEM REVENUE BONDS,
SERIES 2018B
(Non-AMT)

Year (July 1)	Principal Amount*	Interest Rate	Yield	CUSIP (438670)†
2025	$8,320,000			
2026	8,735,000			
2027	9,170,000			

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. The CUSIP® numbers listed above are being provided solely for the convenience of bondowners only at the time of issuance of the bonds, and no representation is made with respect to the correctness thereof. The CUSIP® number for a specific maturity is subject to being changed after the issuance of the bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity. Neither the State nor the Underwriters assume responsibility for the accuracy of such data.

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters to give any information or to make any representation with respect to the Series 2018 Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement is neither an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of the Series 2018 Bonds offered hereby, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein have been furnished by the State and include information obtained by the State from DTC, the Consulting Engineer and other sources that are deemed to be reliable. Such information and expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change since the date hereof. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Series 2018 Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy, fairness or completeness of such information.

This Official Statement should be considered in its entirety. All references herein to laws, agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Series 2018 Bonds are further qualified by reference to the information with respect thereto contained in the Certificate (including the Thirty-Second Supplemental Certificate). Copies of the Certificate are available for inspection at the offices of the State and the Paying Agent. The information contained herein is provided as of the date hereof and is subject to change.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2018 BONDS, THE UNDERWRITERS MAY OVER–ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2018 BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2018 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

The Series 2018 Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, nor has the Certificate been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts.

In making an investment decision, investors must rely on their own examination of the Airports System and terms of the offering, including the merits and risks involved. Neither the Securities and Exchange Commission, any state securities commission nor any other federal or state regulatory authority has approved or disapproved of the Series 2018 Bonds or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offense.

References to web site addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into and are not a part of this Official Statement.

CUSIP numbers are included in this Official Statement for the convenience of the holders and potential holders of the Series 2018 Bonds. No assurance can be given that the CUSIP numbers will remain the same after the date of issuance and delivery of the Series 2018 Bonds.

Cautionary Note Regarding Forward-Looking Statements

This Official Statement contains disclosures which contain *"forward–looking statements"* within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended. Forward–looking statements include all statements that do not relate solely to historical or current facts, and can be identified by use of words like *"believe," "intend," "expect," "project," "forecast," "estimate," "anticipate," "plan," "continue,"* or similar expressions or by the use of future or conditional verbs such as "*may*," "*will*," "*should*," "*would,*" or "*could*." These forward–looking statements are based on the current plans and expectations of the State and the Consulting Engineer are subject to a number of known and unknown uncertainties and risks, many of which are beyond its control and/or difficult or impossible to predict, that could significantly affect current plans and expectations and the Airports System's future financial position, including but not limited to changes in general economic conditions, demographic trends and State and federal funding of programs which benefit the Airports System. As a consequence, current plans, anticipated actions and forecasted or future financial positions and liquidity may differ materially from those expressed in (or implied by) any forward–looking statements made by the State or the Consulting Engineer herein based on a number of factors, including, among others, the amount of Revenues and Aviation Fuel Taxes, cost reduction, capital markets condition, future long-term and short-term borrowings, the financial condition of the State and/or the Airports System, potential legislative or other actions, and other risks and uncertainties discussed under the caption "CERTAIN INVESTMENT CONSIDERATIONS." Such forward-looking statements include, but are not limited to, certain statements contained in Appendix A "Report of the Consulting Engineer" attached hereto. The Report of the Consulting Engineer should be read in its entirety, including the notes and assumptions set forth therein.

Investors are cautioned not to place undue reliance on such forward–looking statements when evaluating the information presented in this Official Statement. Forward-looking statements speak only as of the date they are made and, except as set forth in this Official Statement under the caption "CONTINUING DISCLOSURE" and Appendix G "Form of Continuing Disclosure Certificate" the State does not have any obligation, and does not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date hereof, whether as a result of new information, future events or otherwise.

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STATE OF HAWAII

David Y. Ige, Governor

Doug Chin, Lieutenant Governor

DEPARTMENT OF TRANSPORTATION

Director	Jade Butay
Deputy Director, Airports	Ross M. Higashi
Deputy Director, Harbors	Darrell T. Young
Deputy Director, Highways	Edwin H. Sniffen
Deputy Director, Administration	Roy Catalani

SPECIAL SERVICES

Paying Agent and Registrar
U.S. Bank National Association
Seattle, Washington

Consulting Engineer
ICF SH&E, Inc.
San Francisco, California

Bond Counsel
Katten Muchin Rosenman LLP
New York, New York

Pricing Advisor
PFM Financial Advisors LLC
San Francisco, California

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OFFICIAL STATEMENT

$413,620,000*
STATE OF HAWAII
Airports System Revenue Bonds

$387,395,000*	**$26,225,000***
Series 2018A	**Series 2018B**
(AMT)	**(Non-AMT)**

INTRODUCTION

This Official Statement, which includes the cover page and appendices (the "*Official Statement*"), provides information regarding the sale and issuance of the $387,395,000* aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2018A (AMT) (the "*Series 2018A Bonds*") and $26,225,000* aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2018B (Non-AMT) (the "*Series 2018B Bonds*" and, together with the Series 2018A Bonds, the "*Series 2018 Bonds*"). See "DESCRIPTION OF THE SERIES 2018 BONDS" for a description of the principal terms of the Series 2018 Bonds. Capitalized terms used but not otherwise defined in this Official Statement shall have the respective meanings given to such terms in the Certificate (as defined below) and Appendix D – Certain Definitions in the Certificate and Appendix E – Summary of Certain Provisions of the Certificate.

The State of Hawaii (the "*State*"), acting by and through its Department of Transportation (the "*Department*"), will issue the Series 2018 Bonds pursuant to the State Constitution, the laws of the State and the Certificate of the Director of Transportation of the State dated as of May 1, 1969, as amended and supplemented (the "*Certificate*"), including as supplemented by the Thirty-Second Supplemental Certificate, dated as of August 1, 2018 (the "*Thirty-Second Supplemental Certificate*"). Pursuant to the Certificate, the State has previously issued 35 Series of State of Hawaii Airports System Revenue Bonds (the "*Prior Bonds*"). As of July 1, 2018, approximately $935.1 million of the Prior Bonds were outstanding. The outstanding Prior Bonds, the Series 2018 Bonds and any additional parity bonds issued by the State under the Certificate are collectively referred to herein as the "*Bonds*."

The Series 2018 Bonds are being issued: (i) to pay the cost of capital improvement projects at certain facilities of the State's airports system defined below (the "*Airports System*"), (ii) to pay capitalized interest on the Series 2018 Bonds, (iii) to fund a deposit into the Debt Service Reserve Account and (iv) to pay certain costs of issuance relating to the Series 2018 Bonds. See "CAPITAL IMPROVEMENTS PROGRAM" and "DESCRIPTION OF THE SERIES 2018 BONDS" below. The State, acting by and through the Department, expects to execute two forward delivery bond purchase contracts relating to its anticipated $93,260,000* Airports System Revenue Bonds, Series 2018C (Non-AMT) (the "*Series 2018C Bonds*") and $143,320,000* Airports System Revenue Bonds, Series 2018D (Non-AMT) (the "*Series 2018D Bonds*"). Subject to the terms of such contracts, the State through the Department expects to issue and deliver Series 2018C Bonds and Series 2018D Bonds on or about April 7, 2020 to refund a portion of the outstanding Series 2010A Bonds for debt service savings. The final principal amount of Series 2018C Bonds and Series 2018D Bonds to be issued and the principal amount of the Series 2010A Bonds to be refunded will depend on market conditions on the date of execution of such contracts and remains subject to change.

The Bonds, including the Series 2018 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Revenues of the Airports System and receipts of the State's aviation fuel taxes ("*Aviation Fuel Taxes*"). **The Bonds, including the Series 2018 Bonds, do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision of the State is pledged to the payment of or as security for the Series 2018 Bonds. All Bonds, including the Series 2018 Bonds, are and will be secured equally and ratably by the Revenues and Aviation Fuel Taxes**. See "SECURITY FOR THE BONDS" and "FINANCIAL INFORMATION" for a description of the security for the Bonds and sources of Revenues of the Airports System.

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* Preliminary, subject to change.

The Airports System is comprised of five primary airports and ten secondary airports. The primary airports consist of Daniel K. Inouye International Airport ("*Daniel K. Inouye International*" or "*HNL*") in Honolulu, Kahului Airport ("*Kahului*") on Maui, Hilo International Airport ("*Hilo International*") and Ellison Onizuka Kona International Airport at Keahole ("*Kona*") on the Island of Hawaii, and Lihue Airport ("*Lihue Airport*") on Kauai. HNL is the State's principal airport. See "THE AIRPORTS SYSTEM." The Airports System is operated as a single integrated system for management and financial purposes on behalf of the State by the Department. See "DEPARTMENT OF TRANSPORTATION." The Department is authorized to impose and collect rates and charges for the Airports System services and properties to generate Revenues which, together with Aviation Fuel Taxes, will be sufficient to pay the costs of operation, to pay debt service on the Bonds, to pay for maintenance and repair of the Airports System and to comply with the terms of the Certificate. Every odd-numbered fiscal year, the Department prepares a capital improvements program (the "*CIP*") that describes ongoing and proposed capital improvement projects that the Department proposes to undertake during that period. See "CAPITAL IMPROVEMENTS PROGRAM" below and Appendix A – Report of the Consulting Engineer, for a description of current capital improvement projects comprising the CIP.

The cover page of this Official Statement and this Introduction contain certain information for general reference only. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision. This Official Statement contains descriptions of the Department, the Airports System and the current CIP and certain other capital improvement projects developed in coordination with the signatory airlines (the "*Capital Program*"); summaries of the Series 2018 Bonds, the security for the Bonds, certain financial information, and certain provisions of the Certificate; and descriptions of the agreements between the Department and the Signatory Airlines and certain concession agreements. All references to agreements and documents are qualified in their entirety by the definitive forms of such agreements and documents. All references to the Certificate and to the Series 2018 Bonds are qualified by the definitive forms of such Certificate and the Series 2018 Bonds. Copies of the Certificate are available for examination at the offices of the Department's Airports Division (the "*Airports Division*"). Any statement or information involving matters of opinion or estimates are represented as opinions or estimates made in good faith, but no assurance can be given that facts will materialize as so opined or estimated. The following appendices are included as part of this Official Statement: Appendix A – Report of the Consulting Engineer on the Proposed Issuance of State of Hawaii, Airports System Revenue Bonds, Series 2018, dated July 31, 2018 (the "*Report of the Consulting Engineer*"), prepared by ICF SH&E, Inc. (the "*Consulting Engineer*"); Appendix B – Financial Statements and Supplemental Schedules June 30, 2017 and 2016 (with Independent Auditors' Report thereon) of the Airports Division, Department of Transportation, State of Hawaii; Appendix C – General Economic Information about the State of Hawaii; Appendix D – Certain Definitions in the Certificate; Appendix E – Summary of Certain Provisions of the Certificate; Appendix F – Form of Bond Counsel Opinion; Appendix G – Form of Continuing Disclosure Certificate; and Appendix H – Book-Entry Only System.

Prospective Financial Information

Prospective financial information in this Official Statement was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Prospective financial information included in this Official Statement, including summaries of prospective financial information from the Report of the Consulting Engineer, has been prepared by, and is the responsibility of, the Airports Division management. BKD LLP, independent auditors, which audited the Airports Division financial statements, has neither examined nor compiled this prospective financial information and, accordingly, BKD LLP does not express an opinion or offer any other form of assurance with respect thereto. The BKD LLP report included in Appendix B of this Official Statement relates to the Airports Division's historical financial information, and procedures have not been performed on the financial information subsequent to the date of their report. It does not extend to the prospective financial information and should not be read to do so.

DESCRIPTION OF THE SERIES 2018 BONDS

General Provisions Regarding the Series 2018 Bonds

The Series 2018 Bonds will be issued as fully registered bonds in the aggregate principal amount as set forth on the inside cover, will be dated the date of initial delivery and will bear interest from that date to their respective maturities as set forth on the inside cover, subject to redemption prior to maturity as described below. Ownership interests in the Series 2018 Bonds will be available in denominations of $5,000 and integral multiples thereof. Interest on the Series 2018 Bonds will be payable on January 1, 2019, and on each July 1 and January 1 thereafter.

So long as Cede & Co. is the registered owner of the Series 2018 Bonds, all payments of principal, premium, if any, and interest on the Series 2018 Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants for subsequent disposition to Beneficial Owners. See "Book-Entry Only System" below and Appendix H – Book-Entry Only System.

Redemption

Optional Redemption of Series 2018 Bonds. The Series 2018 Bonds maturing on and after July 1, 20__ will be subject to redemption at the option of the State, in the order of maturity as directed by the State, on or after July 1, 20__ in whole or in part on any date, by lot within any single maturity, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to the purchase or redemption date.

Sinking Fund Account Redemption Series 2018 Bonds. The Series 2018__ Bonds Maturing July 1, 20__ are subject to Sinking Fund redemption by operation of the Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof on July 1, of the years and in the respective principal amounts set forth below:

$________
Series 2018__ Bonds
Maturing July 1, 20__*

Year	Principal Amount

*Stated maturity.

Notice of Redemption. In the event of redemption of the Series 2018 Bonds, the Department shall cause notice of redemption to be mailed at least thirty (30) days prior to the redemption date to each registered owner of a Series 2018 Bond in whose name the Series 2018 Bond is registered in the books of registry. No exchanges or transfers of the Series 2018 Bonds shall be required to be made during the forty-five (45) days next preceding a date fixed for an optional redemption. At the time notice of any optional or sinking fund redemption is given to Holders of Series 2018 Bonds, the Department shall cause such notice to be provided to Moody's Investors Service, S&P Global Ratings and Fitch Inc. and to major securities depositories and bond information services. See "DESCRIPTION OF THE SERIES 2018 BONDS – Book-Entry Only System."

Selection of Series 2018 Bonds for Redemption. If less than all of a maturity of the Series 2018 Bonds is to be redeemed, the Bonds of such maturity to be redeemed will be selected by lot. See "DESCRIPTION OF THE SERIES 2018 BONDS – Book-Entry Only System" for a description of DTC's practices.

Effect of Redemption. If a Series 2018 Bond is subject by its terms to redemption and has been duly called for redemption in accordance with the Certificate, and if sufficient monies available for the payment of the redemption price and interest to accrue to the redemption date on such Series 2018 Bond are held for such purpose by U.S. Bank National Association, Seattle, Washington, as the Paying Agent and Registrar, such Series 2018 Bond so called for redemption shall become due and payable, and interest on such Series 2018 Bond shall cease to accrue on the redemption date designated in such notice.

Upon surrender of any Series 2018 Bond to be redeemed in part only, the Department will execute and the Paying Agent shall authenticate and deliver to the Holder a new Series 2018 Bond or Bonds representing the unredeemed principal amount of the Series 2018 Bond surrendered.

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of the proceeds of the Series 2018 Bonds:

SOURCES	Series 2018A Bonds	Series 2018B Bonds	Total
Par Amount			
Net Premium/OID			
Total Sources			
USES:			
Deposit to Project Fund			
Deposit to Capitalized Interest Fund			
Deposit to Debt Service Reserve Fund			
Issuance Expenses*			
Total Uses			

* Including underwriters' discount, fees and other costs of issuance.

Book-Entry Only System

The Series 2018 Bonds will be issued as fully registered bonds without coupons and are initially to be registered in the name of Cede & Co., as nominee for DTC, as securities depository for the Series 2018 Bonds. Purchases by beneficial owners are to be made in book-entry form. If at any time the book-entry only system is discontinued for the Series 2018 Bonds, the Series 2018 Bonds will be exchangeable for other fully registered certificated Series 2018 Bonds of the same series in any authorized denomination, maturity and interest rate. See Appendix H – Book-Entry Only System. Interest will be payable by check or draft mailed to the Holder as of the Record Date. The Paying Agent and Registrar may impose a charge sufficient to reimburse the Department or the Paying Agent and Registrar for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Bond. The cost, if any, of preparing each new Bond issued upon such exchange or transfer, and any other expenses of the Department or the Director of Finance as the Paying Agent and Registrar incurred in connection therewith, will be paid by the person requesting such exchange or transfer. At the request of any Holder of at least $1,000,000 principal amount of the Series 2018 Bonds, payment of interest will be made by wire transfer as directed by such Holder. Payment of principal of the Series 2018 Bonds will be made upon presentation and surrender of such Series 2018 Bonds at the office of the Paying Agent and Registrar.

NEITHER THE DEPARTMENT NOR U.S. BANK NATIONAL ASSOCIATION AS THE PAYING AGENT AND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF ANY BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO ANY BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (vi) ANY OTHER MATTER RELATING TO DTC OR THE BOOK-ENTRY ONLY SYSTEM.

Transfer of Series 2018 Bonds

So long as Cede & Co., as nominee for DTC (or other nominee of DTC), is the Bondholder of record of the Series 2018 Bonds, beneficial ownership interests in the Series 2018 Bonds may be transferred only through a Direct Participant or Indirect Participant and recorded on the book-entry system operated by DTC. In the event the book-entry-only system is discontinued, Series 2018 Bond certificates will be delivered to the Beneficial Owners as described in the Certificate. Thereafter, the Series 2018 Bonds, upon surrender thereof at the principal office of the Paying Agent with a written instrument of transfer satisfactory to the Paying Agent, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series 2018 Bonds of the same maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring Series 2018 Bonds is exercised, the Department shall execute and authenticate and deliver the Series 2018 Bonds in accordance with the provisions of the Certificate. For every such exchange or transfer of Series 2018 Bonds, the Department may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer but may impose no other charge therefor.

Authority for Issuance

Article VII, Section 12 of the State Constitution and Part III, Chapter 39 of the Hawaii Revised Statutes ("*HRS*"), as amended (collectively the "*General Revenue Bond Law*"), permit the issuance of revenue bonds of the State payable from and secured by the Revenues and Aviation Fuel Taxes upon the approval of a majority of the members of each house of the State Legislature and pursuant to the Certificate and the Thirty-Second Supplemental Certificate of the Director of the Department (the "*Director*"), the latter of which becomes effective upon filing with the Director of Finance. The General Revenue Bond Law limits the maximum maturity of revenue bonds and also sets forth provisions for the sale, method of execution and other details of all revenue bonds. The State Legislature from time to time enacts laws (including the general appropriations act) authorizing the issuance of revenue bonds (without fixing any particular details), defining the purposes for which the bonds are to be issued and specifying the amount of the proceeds of such bonds which may be applied to such purposes. Pursuant to the General Revenue Bond Law, the Director has issued the Certificate, which, under State law, constitutes the security document pursuant to which all Bonds are issued and secured. The Thirty-Second Supplemental Certificate provides the terms of the Series 2018 Bonds including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department. The Series 2018 Bonds are being issued pursuant to the Certificate, the Thirty-Second Supplemental Certificate and the General Revenue Bond Law.

Administrative Directive No. 00-01, issued by the Governor on July 18, 2000 (the "*Directive*"), requires all departments of the State, including the Department, to organize and coordinate all bond issues with the Department of Budget and Finance. The Directive requires the Director of Finance to approve the amount, timing, pricing and details of every issuance of State bonds. The Director of Finance also approves the method of sale, pricing advisors or consultants, underwriters in a negotiated sale and other participants deemed necessary for each State financing.

Amendments to the Certificate

As a condition to the purchase of any Series 2018 Bond, each purchaser of a Series 2018 Bond, by his or her acceptance thereof, will consent to all of the proposed amendments contained in the Thirty-Second Supplemental Certificate and waive any revocation rights relating to such consent. After delivery of the Series 2018 Bonds, holders representing approximately __%* of the total amount of Bonds outstanding at such time will have consented to the proposed amendments described below.

Costs of Operation, Maintenance and Repair. The following defined term will be added to the Certificate as Section 1.01(i) and all subsequent definitions in said Section 1.01 shall be re-lettered accordingly:

"<u>costs of operation, maintenance and repair</u>" means, for any period, all expenses of the Department incurred for the operation and maintenance of the Undertaking, as determined in accordance with generally accepted accounting principles. Costs of operation, maintenance and repair shall not include: (a) the principal of, premium, if any, or interest on any Bonds, Subordinate Bonds or general obligation bonds; (b) any allowance for amortization, depreciation or obsolescence; (c) any amount of pension and other post-retirement benefits expenses that exceed the amount that the Department deposits to the State funds for the proportional share related to the Undertaking; (d) any expenses payable from moneys other than Revenue and Aviation Fuel Taxes; (d) any extraordinary items arising from the early extinguishment of debt; (e) any capital account items; (f) any expenses related to Special Facilities, or (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties. Costs of operation,

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* Preliminary, subject to change.

maintenance and repair shall include, among other expenses, the Department's overhead expenses allocable to the management of the Undertaking, and the required payments to the State pursuant to the state regulations, such as deposit to the self-insurance fund, or state surcharge pursuant to Hawaii Revised Statutes 36-27 Transfers from special funds for central service expenses, or any similar or successor statute.

SECURITY FOR THE BONDS

General

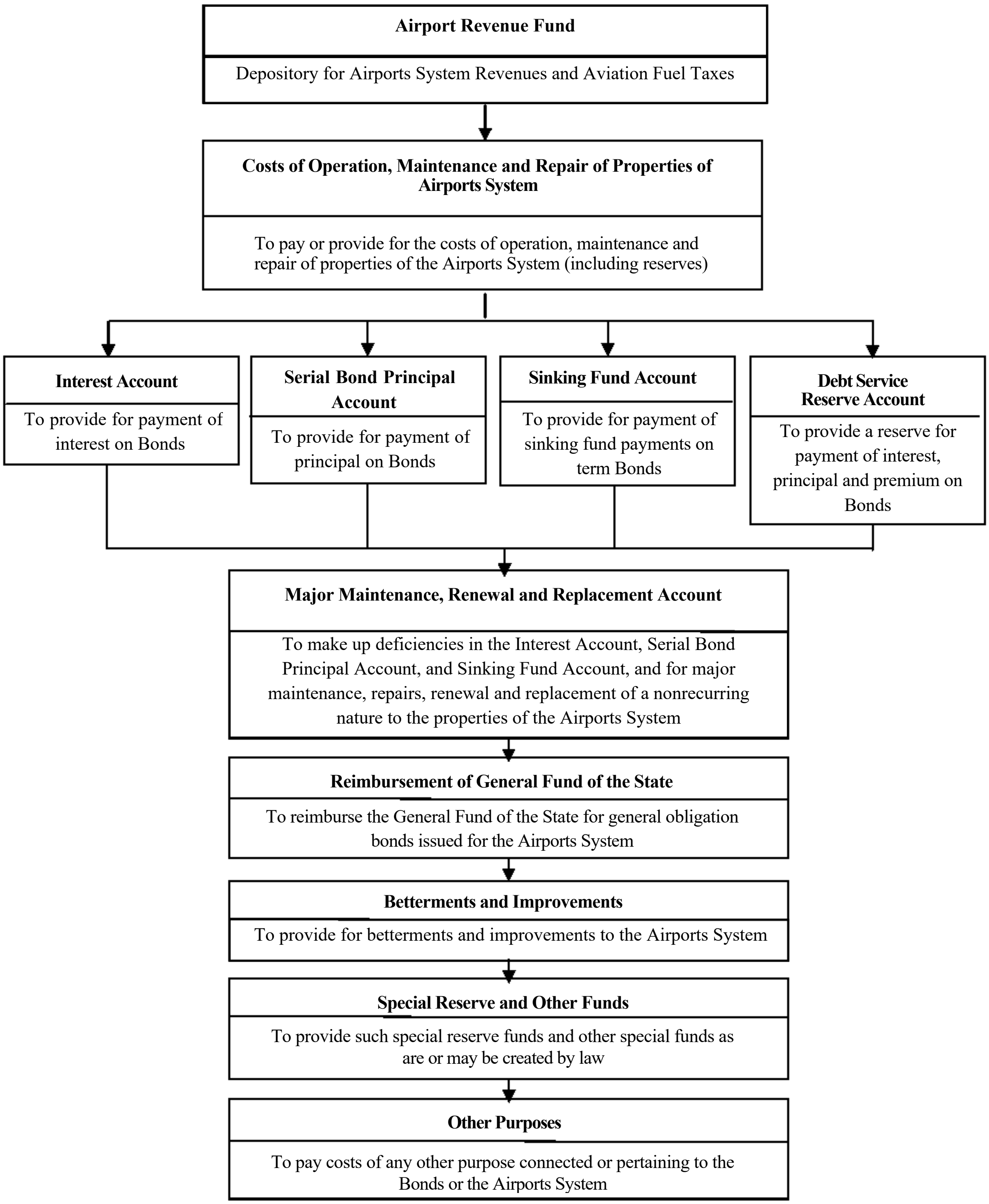
The Bonds, including the Series 2018 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Revenues and Aviation Fuel Taxes. The Bonds, including the Series 2018 Bonds, are equally and ratably secured by a lien and charge on the Revenues and Aviation Fuel Taxes prior and paramount to the lien thereon of any other bonds. The term "*Revenues*" means and includes all income, revenues and moneys derived from the ownership by the State and operation and management by the Department of the Airports System, or the furnishing of services and facilities, and derived from rates, rentals, fees and charges imposed by the Department. Revenues do not include proceeds from the sale of bonds or passenger facility charges unless inclusion is specifically provided in a supplemental certificate. See Appendix E – Summary of Certain Provisions of the Certificate, for complete definitions of Revenues and Aviation Fuel Taxes.

The Bonds, including the Series 2018 Bonds, do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Bonds, including the Series 2018 Bonds. Neither the real property nor the improvements comprising the Airports System have been pledged or mortgaged to secure payment of the Bonds, including the Series 2018 Bonds.

State law creates a special fund in the Treasury of the State designated as the Airport Revenue Fund. The Certificate provides that the Airport Revenue Fund shall be continued as long as any Bonds remain outstanding and provides that all Revenues and Aviation Fuel Taxes shall be deposited in the Airport Revenue Fund. The Certificate further provides that amounts deposited in the Airport Revenue Fund shall be used solely in the following order of priority (and as shown below under the heading "Flow of Funds"): (1) payment of the costs of operation, maintenance, and repair of Airports System properties, including reserves and certain administrative expenses of the Department related to the Airports System; (2) transfer to the Interest Account, Serial Bond Principal Account, Sinking Fund Account and Debt Service Reserve Account for the payment of debt service on Bonds; (3) transfers to the Airports System Major Maintenance, Renewal, and Replacement Account to maintain the balance established pursuant to the recommendation of the Consulting Engineer and to make up any deficiencies in certain of the accounts listed under (2) above; (4) transfers to the State General Fund to reimburse the State General Fund for debt service on reimbursable general obligation bonds issued for Airports System purposes; (5) betterments and improvements to the Airports System; (6) transfers to Special Reserve and Other Funds created by law; and (7) any other lawful purpose in connection with the Bonds or the Airports System. See Appendix E – Summary of Certain Provisions of the Certificate – Application of Revenues and Aviation Fuel Taxes.

Flow of Funds

The following table illustrates the flow of funds in the Airport Revenue Fund pursuant to the Certificate:



Source: Certificate of the Department of Transportation Providing for the issuance of State of Hawaii Airports System Revenue Bonds, dated May 1, 1969, as amended.

Rate Covenant; Pledge of Revenues and Aviation Fuel Taxes

Under the General Revenue Bond Law and section 7.02 of the Certificate, the Department is required to impose, prescribe and collect rates, rentals, fees or charges for the use and services of, and the facilities and commodities furnished by, the Airports System, and to revise such rates, rentals, fees or charges from time to time whenever necessary, so that, together with Aviation Fuel Taxes, the Airports System shall be and always remain self-sustaining. The Department has covenanted in the Certificate to meet this statutory requirement by establishing and collecting such rates, rentals, fees or charges as will produce Revenues which, together with Aviation Fuel Taxes (collectively "*Net Revenues and Taxes*"), will be at least sufficient: (i) to pay the costs of operation, maintenance and repair of the Airports System (including reserves) and the expenses of the Department in connection with such operation; (ii) to pay all indebtedness payable from or secured by Revenues and Aviation Fuel Taxes and to fund all reserves; (iii) to reimburse the General Fund of the State for all bond requirements for general obligation bonds issued for the Airports System, or issued to refund any of such bonds; and (iv) to satisfy the other provisions of the Certificate.

The Department will at all times impose, prescribe, adjust, fix, enforce and collect rates which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a fiscal year (which the Department shall certify as Revenues to the Director of Finance for the next succeeding fiscal year solely for the purposes of this test), yield Net Revenues and Taxes with respect to the immediately ensuing twelve months in an amount at least equal to one and twenty-five hundredths (1.25) times the Debt Service Requirement for such period net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited, as the case may be, by the Director during such period into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account for the purposes of deposits into such accounts provided under the Certificate; and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited, as the case may be, by the Director during such period into the Interest Account for the purpose of paying interest on any Bonds as provided in a Supplemental Certificate (the "*Annual Adjusted Debt Service Requirement*").

For purposes of calculating the Annual Adjusted Debt Service Requirement, Available PFC Revenues includes only PFC proceeds actually deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account during such Fiscal Year, and Federal Direct Payments includes only Federal Direct Payments actually deposited into the Interest Account during such Fiscal Year.

See Appendix E – Summary of Certain Provisions of the Certificate – Rate Covenant for a description of the Rate Covenant.

Debt Service Reserve Account

In order to provide a reserve for the payment of the principal of, premium, if any, and interest on the Bonds, the Certificate creates a Debt Service Reserve Account in the Airport Revenue Fund. Subject to provisions granting the Department the option to fund the Debt Service Reserve Account with a Qualified Letter of Credit or Qualified Insurance, the Certificate requires that moneys credited to the Debt Service Reserve Account be maintained in an amount equal to the Debt Service Reserve Requirement for the Bonds. As of the date of the issuance and delivery of the Series 2018 Bonds, there will be $__________ on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account created by the Certificate, an amount equal to the Debt Service Reserve Requirement for all Bonds then outstanding (including the Series 2018 Bonds). Moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account shall, except for the transfer therefrom to the Airport Revenue Fund of excess amounts in accordance with the Certificate, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the Bonds then outstanding (including the Series 2018 Bonds) when due, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient moneys in the Airport Revenue Fund on credit to the Interest Account, Sinking Fund Account and Serial Bond Principal Account therein for such purposes. In connection with the issuance of Additional Bonds, including the Series 2018 Bonds, unless upon the delivery of such Additional Bonds there shall then already be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), there shall (1) be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein such amount, if any, of the proceeds of the sale of such Additional Bonds as the Department may determine, so that there shall then be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), or (2) if and to the extent there shall not be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein proceeds of such Additional Bonds in an amount so that there shall then be on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds, there shall be credited to the Debt Service Reserve Account, at such time or from time to time as the Department may determine, such amount or amounts, as the Department may determine, of the moneys available therefor so that by no later than five (5) years from the date of such Additional Bonds there shall then be on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds then outstanding, exclusive of other Additional Bonds which may have been issued during such five (5) year period and with respect to which credits are then being made to the Debt Service Reserve Account in accordance with this sentence.

See Appendix E – Summary of Certain Provisions of the Certificate – Application of Revenues and Aviation Fuel Taxes.

Additional Indebtedness

Section 3.04 of the Certificate permits the issuance of additional bonds (the "*Additional Bonds*") payable from and secured by Revenues and Aviation Fuel Taxes on parity with the Bonds (including the Series 2018 Bonds) for the purpose of paying or reimbursing the cost of acquiring, purchasing or constructing properties to constitute part of the Airports System or reconstructing, improving, bettering or extending the Airports System**,** upon satisfaction by the Department of certain prospective or historical debt service coverage tests. The debt service coverage tests read as follows:

1. Prospective Coverage Test.

(a) The Net Revenues and Taxes as certified by the Accountant for the most recent Fiscal Year (for which audited financial statements of the Department are available) preceding the issuance of such series of Additional Bonds shall have equaled not less than one hundred twenty-five per cent of the Annual Adjusted Debt Service Requirement for such Fiscal Year of the Bonds outstanding during such year. In calculating Net Revenues and Taxes, any unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year preceding the Fiscal Year for which the calculation is made, which the Department shall certify as Revenues solely for this purpose to the Director of Finance for the next succeeding Fiscal Year, may be taken into account as provided in Section 7.02; provided, however, that the rates, rentals, fees or charges imposed, prescribed and collected by the Department for such Fiscal Year for which the calculation is being made produce Revenues which, together with the Aviation Fuel Taxes but without the inclusion of unencumbered funds on deposit in the Airport Revenue Fund satisfy the requirement set forth in the second sentence of Section 7.02. For purposes of this paragraph, in calculating Annual Adjusted Debt Service Requirement for such most recent Fiscal Year, (i) Available PFC Revenues includes only PFC remittances actually deposited into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account in such Fiscal Year, and (ii) Federal Direct Payments includes only Federal Direct Payments actually deposited into the Interest Account in such Fiscal Year; and

(b) The annual Net Revenues and Taxes and unencumbered funds on deposit in the Airport Revenue Fund to be designated as Revenues to the Director of Finance solely for this test estimated by the Consulting Engineer to be derived during each of the three Fiscal Years following the close of the Period of Construction (as estimated by the Consulting Engineer) of the project or projects to be financed by such series of Additional Bonds shall equal not less than one hundred twenty-five per cent of the Annual Adjusted Debt Service Requirement for each of the three Fiscal Years following the close of the Period of Construction of all Bonds then outstanding and the Additional Bonds proposed to be issued; or

2. Historical Coverage Test.

The Department delivers to the Director of Finance a certificate of the Director (accompanied by an Accountant's report) certifying that, taking all outstanding Bonds (other than Bonds proposed to be refunded by the series of Additional Bonds proposed to be issued) and the Additional Bonds proposed to be issued into account as if such Bonds had been issued at the beginning of the most recent Fiscal Year for which audited financial statements of the Department are available, the Net Revenues and Taxes for such Fiscal Year plus any unencumbered funds on deposit in the Airport Revenue Fund on the last day of the Fiscal Year preceding the Fiscal Year for which the calculation is made, which the Department shall certify as Revenues to the Director of Finance solely for this purpose (such unencumbered funds not to exceed 25% of the maximum Annual Adjusted Debt Service Requirement with respect to such outstanding Bonds and proposed series of Additional Bonds for any future Fiscal Year), were not less than one hundred twenty-five per cent of the maximum Annual Adjusted Debt Service Requirement with respect to such outstanding Bonds and proposed series of Additional Bonds for any future Fiscal Year.

Subordinate Indebtedness and Other Indebtedness

The Certificate permits the issuance of other bonds or obligations payable from the Revenues and Aviation fuel Taxes junior and inferior to the payment of the bonds from the Revenues and Aviation Fuel Taxes. The Department has issued the Series 2013 Lease Revenue Certificates of Participation in December 2013, the Series 2016 Lease Revenue Certificates of Participation in April 2016 and the Series 2017 Lease Revenue Certificates of Participation in March 2017 (collectively, the "*COPs*"). The COPs represent participations in equipment lease rent payments to be made by the Department. Lease rent payments to holders of the COPs are payable from Revenues and Aviation Fuel Taxes, subordinate in right of payment to the payments of debt service on the Bonds.

In order to finance the construction of consolidated rental car facilities ("*ConRACs*"), at Daniel K. Inouye International and Kahului, the Department entered into a special facility financing with Hawaii Regional Center, LP I and LP IA to borrow up to $76 million (the "*EB5 Loan*") in September 2014 and issued its $249,805,000 principal amount of Airports System Customer Facility Charge Revenue Bonds, Series 2017A (Taxable) (the "*CFC Bonds*") in July 2017. The EB5 Loan and CFC Bonds are secured by a pledge of the rental car customer facilities charge ("*CFC*"), not the Revenues and Aviation Fuel Taxes.

DEPARTMENT OF TRANSPORTATION

Department Organization

The Department is one of 18 principal executive departments of the State. Chapter 26, HRS, empowers the Department to establish, maintain and operate the transportation facilities of the State, including highways, airports, harbors and other transportation facilities. The Department's activities are carried out through three primary operating divisions: Airports, Harbors and Highways.

Through the Airports Division, the Department has general supervision of aeronautics within the State, exercising jurisdiction and control over all State airways and all State owned or managed airports and air navigation facilities. The Airports Division operates all State airports as a single integrated system for management and financial purposes. The Airports Division does not operate airports and air navigation facilities that are either privately owned and operated or under federal jurisdiction and control. The operation of the Airports Division is organized among nine offices and branches: the Staff Services Office, the Visitor Information Program Office, the Information Technology Office, the Airports Operations Office, the Engineering Branch and the Oahu, Maui, Hawaii and Kauai District Offices.

Department Management

The Department is led by the Director, who is appointed by the Governor and confirmed by the State Senate. The Governor also appoints, without State Senate confirmation, four Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms coterminous with the Governor's term.

The Airports Division is managed by a Deputy Director and the Airports Administrator. Currently, the position of Airports Administrator is vacant. Airports within a district area are managed by an airport manager. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management, method, standards and evaluation, and property management functions of the Airports Division. The Airports Operations Office, managed by the Airports Operations Officer, is responsible for general aviation, certification, security and safety, Disadvantaged Business Enterprises, which administers the Americans with Disabilities Act, and firefighting functions of the Airports Division. The Information Technology Office, managed by the Data Processing Systems Analyst, is responsible for developing and maintaining a computerized information systems strategy for the division as well as planning, analyzing, designing, implementing and maintaining computer systems and developing and administering divisional information systems. The Visitor Information Program Office, managed by a Visitor Information Administrator, is responsible for visitor information services at the primary airports and at harbors serving cruise ships. Currently the position of Visitor Information Administrator is vacant. The Engineering Branch, managed by the Engineering Program Manager, is responsible for design and construction, special maintenance and drafting functions of the Airports Division. The Airports Administrator, Administrative Services Officer, Airports Operations Officer, Data Processing Systems Analyst, Planning Engineer, Visitor Information Administrator, Engineering Program Manager and all other senior management of the Airports Division are civil service employees.

Management Personnel

The following are the senior executives of the Department responsible for the management of the Airports System:

Jade Butay, Director, has served as Director of the Department of Transportation since 2017. Previously, Mr. Butay served as Deputy Director of Administration at the Department of Transportation from 2011 to 2013 and again from 2015 to 2017. Between his time serving as Deputy Director of Administration, Mr. Butay served as Deputy Director at the Department of Labor and Industrial Relations. Prior to commencing his service for State government, Mr. Butay served in various leadership positions in the private sector. He received his bachelor's degree in Business Administration from the University of Hawaii and his Master of Business Administration degree from Business Administration from Babson College.

Ross M. Higashi, Deputy Director – Airports, was appointed in January 2015 to lead the Airports Division, where he has worked for almost 30 years. During that time, Mr. Higashi served in various capacities, including Fiscal Management Officer; Administrator of the Accounting Branch; and the Audit Branch Supervisor. Mr. Higashi served as Interim Director of Transportation briefly in 2014. He also spent five years in public accounting. Mr. Higashi graduated from the University of Hawaii at Manoa with a B.S. degree in Accounting.

Kurt T. Yamasaki, Acting Fiscal Management Officer, has been employed at the Airports Division for 25 years. Mr. Yamasaki has served in the Fiscal Management Officer position since May 2014. Previously, he worked as Audit Branch Supervisor for 11 years. He spent four years in the private sector accounting and four years in public accounting prior to joining the Airports Division. He graduated from the University of Hawaii at Manoa with a B.S. degree in Accounting.

Jeffrey Chang, Engineering Program Manager, was promoted to lead the Engineering Branch of the Airports Division in March 2009. Previously, Mr. Chang served as a Construction Engineer for the Airports Division for 14 years. Prior to 1994, Mr. Chang held managerial positions with private general contractors in Hawaii and San Francisco for 12 years. Mr. Chang graduated from the University of Colorado in 1978 with a B.S. degree in Architectural Engineering and from Stanford University in 1979 with a M.S. degree in Civil Engineering.

Labor Relations

State law grants public employees, other than appointed officials, division administrators, the right to organize for the purpose of collective bargaining. Each recognized bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. Under State law, Airports System workers may not strike in the event that an impasse is declared in any labor negotiations.

The Airports Division's employees are represented by three unions in six bargaining units, as follows:

- United Public Workers (the "*UPW*") (Unit 1, blue collar employees).

- Hawaii Government Employees Association (the "*HGEA*") (Unit 2, blue collar supervisors; Unit 3, white collar employees; Unit 4, white collar supervisors; and Unit 13, professional and scientific employees).

- Hawaii Fire Fighters Association IAFF Local 1463 (the "*HFFA*") (Unit 11, rescue and firefighters).

All current collective bargaining contracts are in effect for the period from July 1, 2017 to June 30, 2019. The status of negotiations and arbitration awards for wages and health benefits for is as follows:

Unit 1 (blue collar employees): An agreement was ratified by the United Public Workers (UPW) on August 14, 2017 covering the four-year period from July 1, 2017 through June 30, 2021. The agreement provides for $1,000 lump sum payments (prorated for part time) to all employees on November 1, 2017, and October 31, 2018 as well as across the board wage adjustments of 3.2% on June 1, 2018, 3.45% on May 1, 2019, 2% on July 1, 2019, and 2% on July 1, 2020. In addition, the parties agreed to continue bargaining in good faith on the equivalent of a step movement for the period July 1, 2019, to and including June 30, 2021.

Unit 2 (blue collar supervisors): Following the Hawaii Labor Relations Board's declaration of an impasse in negotiations wage increases were submitted to arbitration. The arbitrator awarded blue collar supervisors a 2.0% wage increase effective July 1, 2017, a 1.2% wage increase effective January 1, 2018, a 2.25% wage increase effective July 1, 2018, and a 1.2% wage increase effective January 1, 2019. The award also provides for a continuation of step movement adjustments for eligible employees.

Unit 3 (white collar employees): Following the declaration of an impasse in negotiations wage increases were submitted to arbitration. The arbitrator awarded white collar workers a 2.0% wage increase effective July 1, 2017, a 1.5% wage increase effective January 1, 2018, a 2.25% wage increase effective July 1, 2018, and a 1.25% wage increase effective January 1, 2019. The award also provides for a deletion of the lowest step on the salary schedule.

Unit 4 (white collar supervisors): Following the declaration of an impasse in negotiations wage increases were submitted to arbitration. The arbitrator awarded white collar supervisors a 2.0% wage increase effective July 1, 2017, a 1.5% wage increase effective January 1, 2018, a 2.25% wage increase effective July 1, 2018, and a 1.25% wage increase effective January 1, 2019. The award also provides for a deletion of the lowest step on the salary schedule.

Unit 11 (firefighters): Following the declaration of an impasse in negotiations wage increases were submitted to arbitration. The arbitrator awarded firefighters a 2.0% wage increase effective July 1, 2017, and a 2.25% wage increase effective July 1, 2018. The award also provides for a continuation of step movement adjustments for eligible employees.

Unit 13 (professional and scientific employees): Following the Hawaii Labor Relations Board's declaration of an impasse in negotiations wage increases were submitted to arbitration. The arbitrator awarded professional and scientific employees a 2.0% wage increase effective July 1, 2017, and a 2.25% wage increase effective July 1, 2018. The award also provides for a continuation of step movement adjustments for eligible employees.

See "FINANCIAL INFORMATION – Employee Benefits" for a description of employee benefits payable to employees of the Department.

Proposed Legislation

In the preceding two legislative sessions legislation was introduced which proposed establishing an independent airports corporation to assume operations of the Airports System from the Airports Division. This legislation was not approved and has not been enacted. The Department cannot predict at this time whether any such legislation may be enacted in the future. Although the constitution of the United States contains prohibitions against the impairment of contracts, the Department cannot predict what impact, if any, such legislation would have on the operations of the Airports System or the availability of Revenues or Aviation Fuel Taxes.

THE AIRPORTS SYSTEM

General

The Department operates and maintains 15 airports at various locations within the State. The Airports Division has jurisdiction over and control of the Airports System. Virtually all non-military passenger traffic throughout Hawaii passes through the Airports System, which includes five primary airports and ten secondary airports. The primary airports are Daniel K. Inouye International (on the Island of Oahu), Kahului (on the Island of Maui), Hilo International and Ellison Onizuka Kona International at Keahole (both on the Island of Hawaii), and Lihue (on the Island of Kauai). All of the primary airports provide facilities for interisland flights (in-State flights among the airports in the Airports System) and direct overseas flights to the continental United States. In addition, Daniel K. Inouye International and Ellison Onizuka Kona International provide international flights to the Pacific Rim and Oceania. Lihue and Kahului Airports also provide pre-cleared international service to and from Canada. The five primary airports accounted for approximately 98.8% of total enplaned passengers in the Airports System in fiscal year 2017.[1]

The other airports in the Airports System are Port Allen Airport on the Island of Kauai, Dillingham Air Field (currently leased from the United States military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana Airports on the Island of Maui, Waimea-Kohala and Upolu Airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa Airports on the Island of Molokai. Upolu Airport, Port Allen Airport and Dillingham Air Field serve only general aviation, while the others provide interisland airline service.

Primary Airports

Daniel K. Inouye International Airport. Daniel K. Inouye International Airport ("*Daniel K. Inouye International*" or "*HNL*"), the primary airport in the Airports System, is located approximately six miles west of downtown Honolulu. Daniel K. Inouye International is the largest and busiest of the State's airports, accounting for 57.1% of all passengers enplaned in the Airports System in fiscal year 2017. In 2016, according to the Federal Aviation Administration (the "*FAA*"), Daniel K. Inouye International was the twenty-eighth busiest in the United States in total passengers (enplaned and deplaned). In fiscal year 2017, 10.2 million passengers were enplaned at Daniel K. Inouye International – 6.9 million overseas passengers and 3.3 million interisland passengers. Daniel K. Inouye International is a: (1) large origin-destination passenger base (related to the visitor industry), (2) geographic location in the central Pacific, and (3) role as a hub for Hawaiian Airlines, which provide connecting service from Daniel K. Inouye International to the other Airports System primary airports. Daniel K. Inouye International serves interisland flights, and domestic overseas flights and international flights to destinations on the Pacific Rim, Oceania and Canada.

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[1] The fiscal year for the State of Hawaii begins on July 1 of each year and ends on June 30 of the following calendar year. For purposes of this statistic, "fiscal year" refers to the calendar year in which such fiscal year ended. For example, "fiscal year 2017" means the fiscal year that began July 1, 2016 and ended June 30, 2017.

Daniel K. Inouye International has four runways, two of which (12,000 and 12,300 feet long) are amongst the nation's longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Daniel K. Inouye International has 13 aircraft parking positions in Terminal 1 and 29 aircraft gate positions in Terminal 2 plus commuter aircraft parking positions near the Diamond Head Concourse. After closing the surface parking lot in front of the Commuter Terminal, Daniel K. Inouye International has 7,685 spaces for public and employee parking. Daniel K. Inouye International also provides runways for Joint Base Pearl Harbor Hickam and the Hawaii Air National Guard.

Kahului Airport. Kahului Airport is located approximately three miles east of the town of Kahului, which, together with Wailuku, is the principal business and commercial center of the Island of Maui. Kahului is the second busiest airport in the State. Kahului has one 7,000 foot runway and one 5,000 foot runway. The terminal complex includes ticket counters, 16 aircraft gate positions with loading bridges, a baggage claim area and ancillary service facilities. Kahului has public parking facilities for approximately 1,200 vehicles. In addition to interisland service, Kahului provides facilities for domestic overseas flights and pre-cleared international flights to and from Canada.

Lihue Airport. Lihue Airport is located approximately one and one-half miles east of Lihue, the governmental and business center of the Island of Kauai. Lihue has two 6,500-foot runways. The terminal complex includes ticket counters, eight aircraft gate positions with loading bridges, two baggage claim areas and ancillary service facilities. Lihue has public parking facilities for approximately 670 vehicles, a 30,400 square foot cargo building, a 5,600 square foot air commuter terminal, 14 T-hangars, a training facility for aircraft rescue and firefighting, and helicopter facilities. In addition to interisland service, Lihue provides facilities for domestic overseas flights and pre-cleared international flights to and from Canada.

Ellison Onizuka Kona International Airport at Keahole. Ellison Onizuka Kona International Airport at Keahole is located in North Kona on the western shore of the island of Hawaii, approximately seven miles northwest of Kailua-Kona, the business center of the western part of the Island of Hawaii. Ellison Onizuka Kona International, which was opened in 1970, has one runway of 11,000 feet. The terminal complex includes ticket counters, 10 boarding gates (serving 14 aircraft parking spots) and ancillary service facilities. Ellison Onizuka Kona International has public parking facilities for approximately 1,380 vehicles. In addition to interisland service, Ellison Onizuka Kona International provides facilities for domestic overseas flights and pre-cleared international flights to and from Pacific Rim, Oceania and Canada.

Hilo International Airport. Hilo International Airport (formerly General Lyman Field) is located immediately east of Hilo, the business center of the eastern shore of the Island of Hawaii and the governmental center of the Island of Hawaii. Hilo International has a 9,800 foot runway and a 5,600 foot runway. The terminal complex includes ticket counters, 10 aircraft gates and ancillary service facilities. Hilo International has public parking facilities for approximately 550 vehicles and eight T-hangars. Hilo International provides facilities for interisland and domestic overseas flights.

CAPITAL IMPROVEMENTS PROGRAM

As of March 31, 2018, the Airports Division's current Capital Improvements Program (the "*CIP*") extends from fiscal year 2018 through fiscal year 2024 and includes projects approved by the Legislature in the 2019 Regular Session, projects approved in prior sessions, and other projects subject to future approval. As of March 31, 2018, the cost estimate for the current CIP was $2.4 billion, approximately 32.8% of which has been expended on CIP costs to date. The Airports Division internally reviews the CIP on a quarterly basis.

Capital Budget Process

The CIP is managed by the Airports Division's Engineering Branch. The Department has contracted with independent consultants, architects, engineers, and planners for planning, design, and construction of certain phases of each major component of the projects included in the CIP. Schedule and cost information provided in this section are estimates from different sources depending on the status of each project and will be revised as the Airports Division proceeds with its implementation of the CIP.

To undertake a capital project for the Airports System, the Department is required to obtain an appropriation from the Legislature, approval of allotment requests from the Office of the Governor, and concurrence from the Signatory Airlines when applicable. In each Fiscal Year, the Airports Division prepares a CIP budget for the ensuing six Fiscal Years, including projects that the Airports Division plans to undertake during that period. The CIP includes many projects that have received approvals from prior years, and is reviewed from time to time to add new projects and to remove completed and no longer required projects.

In each odd-number Fiscal Year (such as FY 2019), the Airports Division identifies the projects in the first two years of the CIP (such as FY 2020 and FY 2021) that have not received legislative approval, and prepares project budget requests for inclusion in the Governor's Executive Budget. The Executive Budget is submitted to the Legislature for review and approval. The Legislature approves all or a portion of the submitted capital projects for both Fiscal Years. The Department may submit supplemental appropriation requests for the second year of the biennium budget (such as in FY 2020 for FY 2021 projects) as part of the Governor's Supplemental Budget, and receive an appropriation for the second year from the Legislature. The legislative approval of a project (or component of a project) includes identification of the means of financing for the project. The Airports Division utilizes primarily five sources of financing: federal grants (from the Federal Aviation Administration ("*FAA*") and Transportation Security Administration ("*TSA*")), Passenger Facility Charge ("*PFC*") revenues, internally generated funds (referred to by the State and the Airports Division as "*Special Funds*"), Bonds, and Customer Facility Charge ("*CFC*") revenues. The Legislature's appropriation of bond funds for a project serves as authorization for the State to issue those bonds when required in the future. The Department submits allotment requests to the Office of the Governor when needed to initiate projects. The approval of an allotment request serves as the Governor's approval for a capital expenditure.

The Signatory Airlines have fully approved all capital projects to be financed with the proceeds of the Series 2018 Bonds.

Summary of the Capital Improvement Program

The following table presents the estimated funding sources for the major components of the CIP. The table is followed by a description of the major capital improvement projects at each Airport.

AIRLINE PROJECTS BY AIRPORT
Through Fiscal Year 2024
State of Hawaii, Department of Transportation, Airports Division
(as of June 30, 2018; in millions)

		Projected Costs by Funding Sources			
	Total	**Federal Grants**	**PFC pay-as-you-go**	**Internal Cash**	**Revenue Bonds**
HNL					
HNL - Mauka Concourse	$ 717	$ 1	$ 25	$ 16	$ 676
HNL - Airfield	182	48	43	25	66
HNL - Terminal	482	38	24	17	403
HNL Subtotal	1,380	87	91	58	1,145
OGG	$ 210	$ 4	$ 21	$ 23	$ 162
KOA	217	55	71	50	40
ITO	78	37	4	3	34
LIH	57	15	3	7	33
Other Airports	69	18	-	3	48
Energy Saving Project	207	-	-	-	207*
Other Statewide Projects	66	2	-	33	31
Subtotal	$ 2,284	$ 218	$ 190	$ 177	$ 1,699
2019 Appropriations	110	-	-	-	110
Total CIP	$ 2,394	$ 218	$ 190	$ 177	$ 1,809
% of Total	100.0%	9.1%	7.9%	7.4%	75.6%

Source: Department of Transportation – Airports Division.
* Subordinate bonds. See "Description of Major Capital Improvement Projects - Energy Saving Projects" below.

Description of Major Capital Improvement Projects

The major capital improvement projects at each airport are described below.

Daniel K. Inouye International Airport. The major capital improvement projects at HNL are:

- **Mauka Concourse Program ($717 million)**. The Mauka Concourse Program includes the design and construction of a 280,000-square-foot concourse located at the northwest corner of Terminal 1 (formerly the Interisland Terminal) at HNL, as well as the related enabling projects. The program includes the Mauka Concourse Extension designed to provide six wide-body aircraft gates or 11 narrow-body gates, operation areas, new security screening lanes, concessions, a restroom and service core, common area and public area furnishing, fixtures and equipment, aircraft parking aprons, airfield pavement, jet blast fencing, an extension of the fuel hydrant system, and other associated work ($263 million); Taxiways G and L widening ($154 million); relocation of maintenance and cargo buildings including the demolition and relocation of cargo and maintenance hangars for Aloha Air Cargo and Hawaiian Airlines, as well as for related site preparation and parking lot expenses ($166 million); and other supporting projects including roadway terminal signage improvements, commuter terminal relocation, and Mauka Concourse program management expenses ($134 million).

- **Airfield Improvements ($181 million)**. These projects provide for the repair and/or reconstruction of the concrete aprons used for aircraft parking at the Diamond Head concourse and the Ewa Concourse ($55 million); replace the entire asphalt concrete pavement of Taxiway A with reinforced concrete ($50 million); widen Runway 8L to a minimum of 200 feet to accommodate airplane design group VI aircraft ($46 million); pavement reconstruction for Runway 4R, Runway 4L lighting, taxiway hold lights, and other miscellaneous projects ($30 million).

- **Terminal Improvements ($482 million).** These projects provide for improvements to ticketing lobbies 4, 5, and 6 in Terminal 2 and improvements to the baggage handling system in lobbies 2 and 3 ($133 million); electrical system improvements for emergency power ($33 million); renovation of restrooms in Terminal 1 and renovation of the Central Concourse and Diamond Head Concourse in Terminal 2 ($54 million); design and construction of renovations to the terminal facilities, including as many as 31 escalators, 12 elevators, a telephone system, and other related improvements ($27 million); improvements to the three pedestrian bridge crossings between the Terminal 2 and the Terminal 2 Parking Garage ($27 million); provision for loading bridge improvements ($26 million); improvement to two gates at the Ewa Concourse to accommodate the A380 aircraft ($16 million); providing additional concession space in the Diamond Head Concourse including the demolition and/or renovation of existing restrooms, and the enclosure of the exterior sidewalk by relocating the existing curtain wall toward the roadway curb ($15 million); substantially complete projects including access control and CCTV Systems, Terminal 2 Second-Level Roadway Improvements, Terminal Improvements to the Shuttle Station, concession improvement at the Ewa Concourse, Terminal 2 Metal Roof Replacement, Terminal 1 Third-Level Roadway and Miscellaneous Improvements, and Automated Passport Control Kiosks ($84 million); and miscellaneous projects including terminal reroofing and roadway improvements, agricultural inspection facility, and other supporting and planning projects anticipated to be completed between 2018 and 2020 ($42 million).

Kahului Airport. The major projects at Kahului Airport are: the Apron and Lease Lots project providing for the design of aviation lease lots for aviation use at OGG, including improvements to grading and infrastructure ($65 million); expanding seating capacity of the holdrooms by connecting Holdrooms A and B and incorporating the walkways as part of the Holdrooms, potentially increasing the number of gates by repositioning and adding loading bridges and expanding the conditioned air system, flight information display system, fire alarm systems, lighting and seating into the holdrooms ($46 million); the substantially complete second phase of the apron structural improvements, including extending the existing concrete apron and milling and replacing 16 inches of asphalt concrete at most gates ($23 million); the purchase of adjacent land for compatible use ($15 million); and other miscellaneous projects including inbound baggage handling system improvements; escalator, elevator, and moving walkway replacements; a new pass and ID office and conference room; holdroom and restroom improvements; Taxiway A/C intersection reconstruction; an environmental impact study for Runway 2-20; and other miscellaneous projects ($60 million).

Ellison Onizuka Kona International Airport at Keahole. The major projects at Ellison Onizuka Kona International Airport are Terminal Modernization including the construction of a centralized security checkpoint and a baggage handling system, and the connectivity of the north and south holdroom areas, additional restrooms, concession spaces, and the integration of the Flight Information Display and Public Address Systems ($84 million); as well as a new Federal Inspection Services Building ("*FIS*") which will replace the existing temporary facility where flights between Japan and Ellison Onizuka Kona International Airport are currently processed ($70 million); construction of an aircraft rescue and firefighting ("*ARFF*") regional training facility ($33 million); construction of Fixed Base Operator (FBO) and aircraft lease lots on the south ramp ($11 million); and miscellaneous projects including an agricultural inspection station, emergency power improvements, access control and CCTV systems, a perimeter fence replacement, and other miscellaneous projects ($19 million).

Hilo International Airport. The major projects at Hilo International Airport include ARFF facility improvements (substantially completed for $20 million), Runway 3-21 pavement improvements (substantially completed for $13 million), New Roof and Facility Painting ($10 million, anticipated to be completed in 2019), and other improvements, such as restroom improvements, aircraft apron reconstruction, access control system improvements, airfield drainage improvements, west ramp demolition and leased lots, and other miscellaneous projects.

Lihue Airport. The major projects at Lihue Airports are terminal holdroom improvements ($18 million); Runway 3-21 and Taxiway B rehabilitation ($17 million); ticket lobby and holdroom improvements ($10 million); and other miscellaneous projects.

Energy Saving Projects. The Energy Saving Projects include a collection of projects (the "*ESCO Project*") to implement energy conservation measures throughout the Airports System. The Department entered into an Energy Performance Contract with Johnson Controls, Inc. ("*JCI*") under Section 36-41, HRS. The Department has financed the ESCO Project by issuing approximately $227.3 million principal amount of COPs as described in "SECURITY FOR THE BONDS – Subordinate Indebtedness and Other Indebtedness" above. The first phase has been completed, while the second phase is anticipated for completion in late 2018.

Projects Not Included in CIP

Rental Car Projects. The Airports Division has implemented a Statewide Car Rental Facilities Development Program (the "*Rental Car Projects*"), which includes consolidated rental car facilities ("*ConRACs*") at HNL, Kahului Airport, and Lihue Airport, as well as related planning, design, program management, and enabling projects. The ConRACs are in various stages of completion. Debt service on bonds issued for the Rental Car Projects is payable solely from the Customer Facility Charges ("*CFCs*") and other ConRAC related funds and accounts, and is not secured by Revenues or Aviation Fuel Taxes. CFCs are not Revenues as defined in the Certificate.

Diamond Head Concourse at HNL. In addition to the project described above, in July 2017, the Airports Division submitted the eighth concurrence to the ACH regarding planning, design, and construction of a new Diamond Head Concourse at HNL. The program also includes reconfiguring the existing Diamond Head Concourse and related apron work. It has an estimated order-of-magnitude cost of $1.1 billion. In October 2017, the ACH conditionally concurred with the project, requiring the Airports Division and the ACH to work collaboratively to proceed with the pre-design phase. The project is in the early pre-design stage and does not have a final scope, schedule, or cost estimate. Therefore, at this time the CIP includes only $5 million for the pre-design work.

OGG Runway 2-20 Reconstruction. The OGG Runway 2-20 surface was deteriorated with depressions, shoving, rippling, and racking that created foreign object debris on the runway. This presented a safety hazard. In December 2016, the Airports Division completed a repaving project at a cost of approximately $4.5 million. The Airports Division still needs a long-term solution to replace the asphalt pavement with new Portland Cement Concrete pavement for the full length but must do so without shutting down the air traffic at OGG. The Airports Division is in the process of conducting an environmental impact study. The project's construction portion will not likely occur before FY 2022. Because of uncertainty regarding the schedule, cost, and funding, the CIP does not include this project.

Funding of the Capital Improvements Program

The Airports System utilizes a variety of programs to fund capital improvements including bonds, federal AIP discretionary grants and PFCs. In fiscal year 2017, the Airports System received $20.7 million in federal capital grants, and collected $41.2 million in PFCs (including interest). In fiscal year 2016, the Airports System received $25.6 million in federal capital grants, and collected $38.5 million in PFCs (including interest). In fiscal year 2015, the Airports System received $30.6 million (unaudited) in federal AIP grants, and collected $37.7 million in PFCs (including interest).

The following table summarizes the sources of funds and expenditures to finance projects in the CIP through March 31, 2018. Totals may vary from the preceding table due to rounding.

Means of Financing (millions)(unaudited)

	Expended as of March 31, 2018	To be Spent	Total
Revenue Bonds	$ 404	$ 1,199	$ 1,603
Subordinated Debt	174	33	207
Federal Grants	70	148	218
Special Funds	60	117	177
PFC Pay-as-you-go	77	114	190
Total	$ 784	$ 1,610	$ 2,394

Source: Department of Transportation – Airports Division

The funding sources expected to be available to finance projects in the CIP are as follows:

Federal and State Grants and Transportation Security Administration Funding. The Federal Aviation Administration's Airport Improvement Program ("*AIP*") consists of entitlement and discretionary allocations for AIP-eligible projects funded through the federal Airport and Airway Trust Fund with revenues from federal aviation user fees and taxes. Entitlement funds are distributed through grants by a formula currently based on: (1) levels of funding authorized and appropriated by Congress for the AIP, (2) the number of passengers and the amount of cargo accommodated by the Airports System, and (3) airport hub status, with reductions based on the amount of PFC collected per eligible enplaned passenger. These FAA grants are to be used for airport infrastructure projects to enhance safety, security, capacity, and access, and are made available to airport operators in the form of FAA entitlement and discretionary allocations for AIP-eligible projects.

After the terrorist attacks of September 11, 2001, Congress passed the Aviation and Transportation Security Act ("*ATSA*"), creating the Transportation Security Administration (the "*TSA*") under the Department of Homeland Security, and mandating implementation of explosive detection systems ("*EDS*") at U.S. airports. In addition to the FAA grants, the Airports Division also receives grants from the TSA for explosive detection system-related grants and security closed-circuit televisions. The Airports Division has requested grants from the TSA for eligible baggage system related project costs.

The Airports Division expects to use a total of $132 million in federal grants for projects in the CIP, of which $63 million has already been awarded and the balance of which will be awarded during the CIP period. AIP grants encompass both entitlement grants and discretionary grants; entitlement grants are determined on a formula based on passenger numbers, while discretionary grants are determined by the FAA based on the nature of the specific project in comparison with projects at other airports in the FAA region. The Airports Division received $13.8 million of the AIP grants in federal fiscal year 2017, and $5.5 million in federal fiscal year 2018 through July 27, 2018. For large-hub airports, such as HNL, and for medium-hub airports, such as Kahului, the FAA grants cover 75% of eligible project costs. For all other airports, the grant covers 90% of eligible project costs. Daniel K. Inouye International and Kahului receive less in AIP entitlement funding than they would otherwise receive, because they are large- and medium-hub airports, respectively, where the $4.50 PFC is collected.

No assurance can be given that the Department will actually receive federal grants-in-aid in the amount or at the time contemplated by the Department. See "Certain Investment Considerations - Considerations Regarding Certain Other Sources of Funds – FAA AIP Program."

Passenger Facility Charges. Passenger Facility Charges ("*PFCs*") are fees imposed on enplaned passengers by airport sponsors to generate revenues for airport projects that preserve or enhance airport capacity, safety or security, relieve aircraft noise or enhance airline competition. In 1990, PFCs were established by Title 49 U.S.C. §40117, that authorized the Secretary of Transportation, acting through the FAA, to give airport operators the authority to impose a $1.00 to $3.00 PFC per eligible enplaned passenger. In 2000, Congress amended the PFC law increasing the maximum PFC to $4.50 per enplaned passenger. The amendment included specific language requested by the State to prohibit collection of a PFC from passengers on interisland flights, including flight segments between two or more points in Hawaii. Upon passage of the exclusion, the State of Hawaii agreed to participate in the PFC program.

The Airports Division started PFC collections at five major airports of Hawaii Airports System at the $3.00 level in October 2004 and increased the collection level to $4.50 effective November 2008. In November 2013, the Airports Division received approval from the FAA for its PFC Application No. 5 for $414 million, under which the Airports Division may use PFC revenues for pay-as-you-go project costs at the five primary airports, statewide PFC administrative costs, as well as debt service on certain PFC-eligible projects. The total PFC collection authority is $669 million, of which the Airports Division has collected $413 million on a cumulative cash basis as of March 31, 2018 (unaudited). The PFC cash fund balance was $174 million as of March 31, 2018. The Airports Division plans to submit further PFC applications in the future for other PFC-eligible projects in the CIP.

Section 261-5.5, HRS was amended effective July 1, 2009, to provide the Airports Division the flexibility of using PFC revenues either to fund Airports System capital improvement projects on a "pay-as-you-go" basis or to pay debt service on Bonds and reduce the Debt Service Requirement. The Certificate provides that, solely for purposes of the Additional Bonds tests and the Rate Covenant (to yield Net Revenues and Taxes that are not less than 1.25 times the aggregate of the Debt Service Requirement), the Debt Service Requirement shall be reduced by the amount of Available PFC Revenues irrevocably committed for deposit (or actually deposited, as applicable) by the Director into the applicable debt service-related accounts in the Airport Revenue Fund.

Customer Facility Charges and Related Indebtedness. CFCs are charges imposed on certain car rentals for the purpose of paying certain qualified costs including the costs of constructing the Rental Car Projects. CFC revenues do not constitute Revenues or Aviation Fuel Taxes for purposes of the Certificate and do not secure the Bonds. The State separately collects a $3.00 daily Rental Car Tax on all rental car transactions in the State, which is not part of the CFC revenues nor Revenues and Aviation Fuel Taxes. The payment of CFC bonds and loans is not secured by Revenues or Aviation Fuel Taxes. See "FINANCIAL INFORMATION – AIP Grants, Passenger Facility Charge and Customer Facility Charge" for more information on the Airports Division's use of CFCs.

Special Funds. Over the years, the Airports Division has accumulated cash balances from Airports System operations. As of March 31, 2018, the Airports Division had cash and investments of $569 million in unrestricted accounts, of which approximately half is estimated to be available in accounts that could be used to fund capital projects. An additional $60 million was available in the Major Maintenance, Renewal, and Replacement Account, which the Airports Division classifies as internally restricted, though such funds could be used to cure deficiencies in the O&M expenses or debt service. The Airports Division expects to use $117 million of internal cash in total for the CIP. Prior to the issuance of the Series 2018 Bonds, cash has been used for certain "bond funded" projects and those advances may be reimbursed from proceeds of the Series 2018 Bonds.

Revenue Bonds. The Department issued approximately $479 million of revenue bonds in 2010 and $244 million of revenue bonds in 2015, in each case to fund construction of CIP projects, and to reimburse the Department for funds previously advanced from internally generated cash. In addition to the Prior Bonds, the Department currently plans to issue Additional Bonds (which will be on a parity basis with all outstanding Bonds) after the issuance of the Series 2018 Bonds to fund the remaining costs of CIP project costs.

COPs. As described above, the Department issued $227.3 million of COPs to finance the ESCO Project. The Department's obligation to pay lease rent for the COPs is subordinate in right of payment to the Bonds.

PASSENGER TRAFFIC AND AIRLINES

The following Table 1 and Table 2 summarize passenger counts and aircraft operations at Daniel K. Inouye International and the neighbor island airports in the Airports System and landed weights for fiscal years 2013 through 2017:

TABLE 1
PASSENGERS AND AIRCRAFT OPERATIONS

	Fiscal Year Ending June 30,					2017 vs 2016 % Increase (Decrease)
	2013	2014	2015	*2016*	2017	
Enplaned Passenger Activity						
Daniel K. Inouye International Airport	9,853,086	9,700,237	9,707,527	9,936,591	10,201,879	2.7
Kahului Airport	3,030,789	3,009,069	3,246,892	3,398,955	3,520,512	3.6
Ellison Onizuka Kona International	1,444,380	1,415,189	1,490,934	1,566,316	1,729,855	10.4
Lihue Airport	1,358,556	1,353,125	1,386,017	1,432,633	1,518,423	6.0
Hilo International Airport	679,594	644,656	648,491	661,161	678,079	2.6
All Others	176,354	172,721	202,934	219,704	210,471	(4.2)
Total Passengers	16,542,759	16,294,997	16,682,795	17,215,360	17,859,218	3.7
Daniel K. Inouye International Airport as a Percentage of Total Enplaned Passengers	59.6%	59.5%	58.2%	57.7%	57.1%	
Interisland Passengers	7,118,800	7,022,309	6,998,066	7,137,313	7,541,249	5.7%
Overseas Passengers	9,423,959	9,272,688	9,684,729	10,078,047	10,317,969	2.4%
Total Statewide Enplaned Passengers	16,542,759	16,294,997	16,682,795	17,215,360	17,859,218	3.7%
Interisland Passengers as a Percentage of Total Enplaned Passengers	43.0%	43.1%	41.9%	41.5%	42.2%	

	Fiscal Year Ending June 30,									
Enplaned Passengers	2013 (1000s)	% of Total Enplaned Passengers	2014 (1000s)	% of Total Enplaned Passengers	2015 (1000s)	% of Total Enplaned Passengers	2016 (1000s)	% of Total Enplaned Passengers	2017 (1000s)	% of Total Enplaned Passengers
Domestic Overseas	6,659	40.3%	6,481	46.7%	6,834	41.0%	7,099	41.2%	7,240	40.6%
International	2,765	16.7%	2,791	10.2%	2,851	17.1%	2,979	17.3%	3,078	17.2%
Interisland	7,119	43.0%	7,022	43.1%	6,998	41.9%	7,137	41.5%	7,541	42.2%
Total	16,543	100%	16,295	100%	16,683	100%	17,215	100%	17,859	100%

	2013	2014	2015	*2016*	2017	2017 vs 2016 % Increase (Decrease)
	Fiscal Year Ending June 30,					
Aircraft Operations (Combined Landing and Take-Off Reported by Air Traffic Control Tower)						
Daniel K. Inouye International Airport	284,532	300,976	315,474	306,826	308,791	0.6%
Kahului Airport	130,620	127,143	132,496	135,743	142,511	5.0%
Ellison Onizuka Kona International Airport at Keahole	119,098	117,075	144,098	120,798	111,142	(8.0)%
Lihue Airport	122,240	125,569	132,758	118,132	128,947	9.2%
Hilo International Airport	88,100	90,733	85,770	78,237	79,999	2.3%
All Others	210,106	215,830	214,211	211,407	228,638	8.2%
Total Aircraft Operations	954,696	977,326	1,024,807	971,143	1,000,028	3.0%
Daniel K. Inouye International Airport as a Percentage of Total Aircraft Operations	29.8%	30.8%	30.8%	31.6%	30.9	

Source: Department of Transportation – Airports Division Planning Section.

TABLE 2
LANDED WEIGHTS (1,000 pound units)

	2013	% of Total Landed Weights	2014	% of Total Landed Weights	2015	% of Total Landed Weights	2016	% of Total Landed Weights	2017	% of Total Landed Weights
	Fiscal Year Ending June 30,									
Daniel K. Inouye International Airport	16,136,632	64%	16,239,285	64%	16,528,924	62%	16,680,345	63%	17,210,458	62%
All Other Airports	9,075,102	36%	9,020,105	36%	9,920,013	38%	9,963,182	37%	10,494,972	38%
Total Landed Weights	25,211,734	100%	25,259,390	100%	26,448,937	100%	26,643,527	100%	27,705,430	100%

	2013	% of Total Landed Weights	2014	% of Total Landed Weights	2015	% of Total Landed Weights	2016	% of Total Landed Weights	2017	% of Total Landed Weights
	Fiscal Year Ending June 30,									
Overseas	15,180,7468	60%	15,300,279	61%	16,190,994	61%	16,629,128	62%	16,943,475	61%
Interisland	10,030,988	40%	9,959,111	39%	10,257,944	39%	10,014,399	38%	10,761,955	39%
Total Landed Weights	25,211,734	100%	25,259,390	100%	26,448,938	100%	26,643,527	100%	27,705,430	100%

Source: Department of Transportation – Airports Division Planning Section

Airline Service and Passenger Activity Operations

Air transportation in Hawaii is characterized by three types of service: (1) domestic in-state service among the islands in Hawaii and airports in the Airports System, referred to as "interisland" service, (2) domestic overseas service to the continental United States, and (3) international overseas service, primarily to destinations in the Pacific Rim, Oceania, and Canada. Interisland service accounted for 42.2% of enplaned passengers in fiscal year 2017. Overseas service, including flights to both the continental United States and international destinations, accounted for 40.6% and 17.2%, respectively, of enplaned passengers in the Airports System for fiscal year 2017. The number of passengers enplaned in the Airports System in fiscal year 2017 increased 3.7% over fiscal year 2016. This increase is primarily due to increased traffic from interisland passengers.

Daniel K. Inouye International Airport is served by 30 Signatory Airlines (as parties to separate airport-airline lease agreements described below). Of the Signatory Airlines, 25 are passenger airlines, including 8 major domestic and national U.S. airlines (including airlines with multiple leases following mergers), two airlines that only provide interisland service, and 15 foreign-flag airlines. The Primary Neighbor Island Airports are served by a total of 11 scheduled passenger airlines, including seven major and national airlines, two regional and commuter airlines, and two foreign-flag airlines.

The following signatory airlines served the State with scheduled or charter overseas passenger flights in fiscal year 2017: Air Canada, Air China Limited, Air Japan Co., Ltd., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., All Nippon Airways Co., Ltd., Allegiant Air, L.L.C., American Airlines, Inc., Asiana Airlines, Inc., China Airlines, Ltd., Continental Airlines, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Co., Ltd., Jetstar Airways Pty Limited, Jin Air Co., Ltd., Korean Airlines Company, Ltd., Philippine Airlines, Inc., Qantas Airways Limited, United Airlines, Inc., Virgin America and WestJet. The signatory airlines providing interisland passenger flight services are: Hawaiian Airlines, Inc., Hawaii Island Air, Inc., and Mokulele Flight Service, Inc. Allegiant Air, L.L.C. ceased services to Hawaii in fiscal year 2018.

In fiscal year 2017, interisland flights accounted for 32.7% of enplaned passengers at Daniel K. Inouye International and 42.2% of all enplaned passengers in the Airports System. Overseas (both domestic and international) flights accounted for 67.3% of enplaned passengers at Daniel K. Inouye International and 57.8% of enplaned passengers in the Airports System. The share of overseas passengers enplaned at the airports, excluding Daniel K. Inouye International, stayed the same at 45.1% for fiscal years 2016 and 2017. Hawaiian Airlines had 51.3% market share of all enplaned passengers followed by United Airlines (10.2%), Delta Air Lines (7.9%), Alaska Airlines (6.6%), American Airlines (6.3%), Hawaii Island Air (3.6%), Japan Airlines (2.8%) and All Nippon Airways (1.3%). Other airlines together had 10.0% market share of enplaned passengers in the Airports System.

Since March 2008, Hawaiian Airlines, Inc. has provided the majority of all interisland service within the State. In fiscal year 2017, Hawaiian Airlines had the largest market share of enplaned passengers in the Airports System, with an 87.3% share. Hawaii Island Air ceased all operations in fiscal year 2018.

Cargo service providers pay applicable landing fees and Airports System support charges ("*Airports System Support Charges*") based on landed weight, not cargo volume. Further, ground rentals for cargo facilities are based on rented square footage, not cargo volume.

The following tables present the landed weights and enplaned passengers for each of the Signatory Airlines and the Nonsignatory Airlines in fiscal years 2013 through 2017.

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TABLE 3
LANDED WEIGHTS AT AIRPORTS SYSTEM
(1,000 pound units)
Fiscal Year Ended June 30,

	2013	2014	2015	2016	2017
Signatory Airlines(1)					
Hawaiian Airlines, Inc.	9,772,907	9,929,976	10,703,014	10,807,739	11,226,172
United Airlines, Inc. (2)	2,879,703	2,770,747	2,895,360	2,849,402	2,739,204
Delta Airlines, Inc.	1,898,870	1,718,355	1,885,065	1,788,603	1,834,631
American Airlines, Inc.(3)	1,375,996	1,398,242	1,443,560	1,392,112	1,416,271
Aeko Kula, Inc.	802,579	962,754	1,043,583	1,120,314	1,206,634
Alaska Air, Inc.	1,215,373	1,113,837	1,156,009	1,209,898	1,154,901
Japan Airlines International Co., Ltd.	719,597	908,241	946,723	924,764	986,700
United Parcel Service Co.	768,419	763,276	805,546	833,155	886,799
Hawaii Island Air, Inc.	480,327	560,258	621,815	459,007	768,115
Federal Express Corporation	747,947	754,655	646,953	663,012	658,197
Korean Airlines Company, Ltd.	441,009	487,013	436,743	410,789	407,395
All Nippon Airways Co. Ltd.	219,580	121,660	124,160	247,872	299,128
Mokulele Flight Service, Inc.	192,712	291,873	309,808	311,126	278,613
Westjet	217,976	239,448	245,021	262,417	254,002
Kalitta Air, LLC	177,252	186,026	207,102	236,208	252,278
Qantas Airways, Ltd.	224,320	198,264	206,248	229,313	230,871
Air Canada	181,120	174,080	198,400	217,600	206,400
Virgin America	0	0	0	77,991	201,088
China Airlines, Ltd.	219,858	248,972	208,562	208,964	200,581
JetStar Airways	0	0	237,306	230,956	193,257
Asiana Airlines, Inc.	138,933	120,381	107,189	108,872	108,013
Philippine Airlines, Inc.	68,128	87,552	110,272	118,156	106,948
Air Japan Co., Ltd	0	77,440	116,800	117,120	104,960
Jin Air Co. Ltd	0	0	0	63,940	89,700
Air New Zealand, Ltd.	52,125	58,659	64,765	66,730	81,600
Air China Limited	0	27,628	66,066	76,076	72,472
Allegiant Air LLC	112,266	103,356	93,852	81,774	37,422
Polar Air Inc.	10,281	666	25,974	34,826	34,632
Air Pacific, Ltd.	21,648	21,664	21,872	21,488	21,888
Evergreen International	7,326	29,304	0	0	0
Mesa Airlines, Inc.	676,283	400,487	0	0	0
Pacific Wings LLC	43,894	289	0	0	0
North American Airlines, Inc.	1,600	0	0	0	0
Total Then-Current Signatory Airlines	23,668,029	23,755,103	24,927,768	25,170,224	26,058,872
Total Then-Current Nonsignatory Airlines	1,543,705	1,504,289	1,521,170	1,473,303	1,646,558
Total All Airlines	25,211,734	25,259,392	26,448,938	26,643,527	27,705,430

(1) Indicating signatory status as of June 30, 2017. Statistics for prior years may be under non-signatory status.
(2) Including United Airlines and Continental Airlines.
(3) Including American Airlines and US Airways.

TABLE 4
ENPLANED PASSENGERS AT AIRPORTS SYSTEM
Fiscal Year Ended June 30,

	2013	2014	2015	2016	2017
Signatory Airlines(1)					
Hawaiian Airlines, Inc.	8,118,433	8,238,027	8,563,446	8,911,143	9,162,470
United Airlines, Inc. (2)	2,118,011	1,871,540	1,884,224	1,840,933	1,827,468
Delta Airlines, Inc.	1,233,540	1,191,308	1,301,125	1,312,233	1,406,136
Alaska Air, Inc.	1,192,957	1,130,377	1,184,524	1,234,398	1,170,754
American Airlines, Inc. (3)	1,092,109	1,110,347	1,101,419	1,102,920	1,123,274
Hawaii Island Air, Inc.	331,045	353,790	431,518	325,601	644,621
Japan Airlines International Co., Ltd.	492,660	536,935	539,209	555,331	505,183
All Nippon Airways Co. Ltd.	149,848	143,200	151,587	218,357	232,287
Mokulele Flight Service, Inc.	169,392	239,684	250,626	248,336	221,440
Westjet	199,665	221,106	221,581	223,039	217,727
Korean Airlines Company, Ltd.	219,727	222,972	224,362	218,702	211,832
Virgin America	0	0	0	68,034	174,723
Air Canada	118,652	96,850	133,449	150,777	155,501
JetStar Airways	76,378	94,944	114,396	136,290	124,078
China Airlines, Ltd.	116,561	128,537	125,650	130,396	123,630
Jin Air Co. Ltd	0	0	0	41,116	65,732
Qantas Airways, Ltd.	36,260	35,071	42,561	51,005	59,740
Asiana Airlines, Inc.	64,698	59,584	59,246	60,385	58,957
Air New Zealand, Ltd.	31,642	35,801	39,387	37,713	46,850
Philippine Airlines, Inc.	28,317	31,239	38,120	37,706	43,344
Allegiant Air LLC	102,554	94,439	89,322	79,874	37,300
Air China Limited	0	9,950	24,886	30,079	28,954
Air Pacific, Ltd.	14,473	14,783	15,762	14,868	15,065
Mesa Airlines, Inc.	518,975	310,882	0	0	0
Pacific Wings LLC	34,783	40	0	0	0
Total Then-Current Signatory Airlines	16,460,680	16,171,406	16,536,400	17,039,236	17,657,066
Non-Signatory Airlines					
Makani Kai Helicopters	611	27,918	44,165	25,439	85,640
China Eastern	28,427	38,194	44,451	51,199	57,520
Omni Air International	47,097	50,294	49,164	49,698	50,995
Makani Air Charters	0	0	0	44,350	0
Air Transport International	1,935	2,373	2,686	2,735	2,649
Kaiser Air	0	0	0	0	2,448
Big Island Air	3,523	3,511	4,262	1,180	1,495
Trans Air	486	1,301	1,667	489	1,405
Trans Executive	0	0	0	1,034	0
Total Then-Current Nonsignatory Airlines	82,079	123,591	146,395	176,124	202,152
Total All Airlines	16,542,759	16,294,997	16,682,795	17,215,360	17,859,218

(1) Indicating signatory status as of June 30, 2017. Excludes cargo-only carriers. Statistics for prior years may be under non-signatory status.
(2) Including United Airlines and Continental Airlines.
(3) Including American Airlines and US Airways.

FINANCIAL INFORMATION

General

State law and the Director's Certificate require the State to operate the Airports System on a self-sustaining basis. The Director's Certificate requires the Department to impose, prescribe and collect rates, rentals, fees and charges for the use and services of, and the facilities and commodities furnished by, the Airports System to generate Revenues which, together with the receipts of Aviation Fuel Taxes, will be sufficient to pay the principal of and interest on all Bonds issued for the Airports System, to pay the costs of operation, maintenance and repair of the Airports System, to reimburse the general fund of the State for all bond requirements for all general obligation bonds issued for the Airports System and to satisfy the other provisions of the Director's Certificate. Revenues of the Airports System are derived from aeronautical revenues, concession fees, non-aeronautical revenues other than concession fees (including building space and land rentals), non-operating revenues, Aviation Fuel Taxes and other sources.

Net Revenues and Taxes and Debt Service Requirements

As shown in the Table 5, "CALCULATIONS OF NET REVENUES AND TAXES AND DEBT SERVICE REQUIREMENT," the relative importance of each source of Revenue has varied, and is expected to vary, over time. Variations are caused by many factors, including, without limitation, the number and origin of persons who visit the State, the number, origin and destination of flights scheduled by airlines, the types of aircraft used and fuel consumed, credits given against Aviation Fuel Taxes paid, the space available for concessions and rentals, levels of bids received for concession agreements, the number of persons using the Airports System, the amount of money available for investment and the policies of the Department and the Airports Division in imposing rates, rentals, fees and charges.

The following Table 5 represents a summary of Revenues, Net Revenues and Taxes and Debt Service Requirement on Airports System Revenue Bonds for the fiscal years 2013 through 2017. Airports Division's major sources of revenue follows:

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TABLE 5
CALCULATIONS OF NET REVENUES AND TAXES
AND DEBT SERVICE REQUIREMENT
(in thousands)

	Fiscal Year Ending June 30,				
	2013	**2014**	**2015**	**2016**	**2017**
Revenues and Taxes:					
Concession fees:					
Duty-free	$ 41,338	$ 34,512	$ 32,300	$ 32,300	$ 32,942
Other concessions	110,053	109,058	116,535	113,230	128,285
Airport landing fees	59,874	52,930	59,659	66,088	77,858
Aeronautical rentals	103,360	93,896	97,667	115,422	126,145
Non-aeronautical rentals	14,241	14,467	15,003	15,791	22,996
Aviation fuel tax	4,674	4,847	4,455	2,568	2,156
Airports system support charges	1	0	31	0	0
Interest income(1)	1,991	2,064	3,140	4,873	8,856
Federal operating grants	5,039	2,656	1,558	2,273	2,925
Miscellaneous	5,047	7,414	6,289	7,672	7,226
Business interruption insurance recovery	19,000	0	0	0	0
Total Revenues and Taxes	364,618	321,844	336,637	360,218	409,389
Operating and maintenance expenses:					
Salaries & wages	83,989	82,780	88,183	92,251	110,722
Other personnel services	52,602	50,588	54,478	58,559	67,426
Utilities	50,360	48,882	41,739	34,415	33,901
Special Maintenance	6,550	4,459	8,914	8,662	9,911
Repairs & maintenance	20,181	29,270	30,637	34,031	32,445
Materials and supplies	5,557	6,304	6,114	5,477	6,180
DOT administrative expenses	5,445	6,555	5,078	5,595	5,919
State of Hawaii surcharge of gross receipts	12,474	12,261	12,568	12,786	13,576
Insurance	3,189	2,412	2,412	2,676	2,633
Others	3,961	3,370	3,431	4,770	5,930
Total operating & maintenance expenses(2)	244,308	246,881	253,555	259,223	288,644
Major maintenance, renewal and replacement account reserve reimbursement	20	101	27	0	0
Total Deductions	244,328	246,982	253,581	259,223	288,644
Net Revenues and Taxes	120,290	74,862	83,056	100,995	120,745
Funded coverage account(3)	21,223	19,311	19,310	21,186	22,338
Adjusted Net Revenues and Taxes(A)	141,513	94,173	102,366	122,181	143,083
Debt service requirement:					
Airports systems revenue bonds	81,010	76,624	77,086	79,882	84,117
Less credits to the interest account(4)	0	(19,000)	(18,500)	(4,321)	(651)
Total Debt Service Requirement(B)	$81,010	$57,624	$58,586	$75,501	$83,466
Debt Service Coverage(A)/(B)	1.75x	1.63x	1.75x	1.62x	1.71x
Debt service coverage requirement	1.25x	1.25x	1.25x	1.25x	1.25x

Source: Department of Transportation – Airports Division Fiscal Section.
(1) Includes interest on investment of Bond proceeds and Airport Revenue Fund receipts.
(2) Does not include depreciation.
(3) Includes rolling coverage.
(4) In FY 2014, FY 2015 and FY 2016, the airlines operating at the Airports System contributed $19 million, $18.5 million and $4 million, respectively, from the Prepaid Airport Use Charge Fund to reduce their payments. In addition, Passenger Facility Charge (PFC) Revenues were used for debt service in the amount of $320,597 in FY 2016 and $650,817 in FY 2017.

Revenues

The following describes the major sources of Revenues of the Airports System in greater detail. It is only a summary of certain important sources of revenues. For more information on all operating and non-operating revenues, refer to the State of Hawaii, Department of Transportation – Airports Division's audited financial statements for fiscal years 2013 through 2017 at http://hidot.hawaii.gov/airports/library/financial-audit-reports/

Airports System Revenues consist of Operating Revenues and Nonoperating Revenues. Operating Revenues include the following revenue sources: concession fees (duty-free, retail, food and beverage, parking, rental car, ground transportation, and other), landing fees, aeronautical rentals (nonexclusive joint-use premise charges and exclusive-use premise charges pursuant to Airport-Airline lease agreements), nonaeronautical rentals, Aviation Fuel Taxes, Airports System support charges, and miscellaneous fees. Nonoperating revenues include interest income (on investments, passenger facility charges, rental car customer facility charges, and other loans and investments), federal operating grants, passenger facility charges, rental car customer facility charges, debt service support charges, and other revenues.

The Airports System's main sources of Revenues consist of: aeronautical revenues including landing fees, non-aeronautical revenues include duty-free terminal rentals, other miscellaneous fees and charges, Aviation Fuel Tax and (in certain years) certain federal grants used to reimburse the cost of certain special maintenance projects. The Governor is authorized by legislative action to adjust or waive landing fees and Airports System charges.

Concession Fees. Concession fees are the rents and fees paid to the Department by private parties operating concessions in the Airports System. Concession fees have been a large source of revenue for the Airports System in recent years. Under the various concession agreements, the Airports Division is paid the greater of a minimum annual guaranty (the "*MAG*") specified in each contract and a specified percentage of gross sales. The following table sets forth the concession fees and their percentage of total Concession Revenues for fiscal years 2013 through 2017.

Concessions
Fiscal Year Ending June 30,

	2013		2014		2015		2016		2017	
	$ (000s)	% of Total	$ (000s)	% of Total	$ (000s)	% of Total	$ (000s)	% of Total	$ (000s)	% of Total
Duty-Free	41,338	27.3%	34,512	24.0%	32,300	21.7%	32,300	22.2%	32,942	20.4%
Rental Car	58,199	38.5%	56,535	39.4%	60,258	40.5%	53,687	36.9%	64,445	40.0%
Parking	20,211	13.3%	20,927	14.6%	22,463	15.1%	24,935	17.1%	26,996	16.7%
Retail (non-duty-free)	13,994	9.2%	14,204	9.9%	15,469	10.4%	14,668	10.1%	16,037	9.9%
Food & Beverage	8,166	5.4%	7,396	5.2%	8,221	5.5%	8,881	6.1%	10,141	6.3%
Ground Transportation	2,883	1.9%	3,333	2.3%	3,005	2.0%	3,243	2.2%	3,006	1.9%
Other	6,600	4.4%	6,663	4.6%	7,119	4.8%	7,816	5.4%	7,659	4.8%
Total	151,391	100.0%	143,570	100.0%	148,835	100.0%	145,530	100.0%	161,227	100.0%

Source: Department of Transportation – Airports Division: Audited Financial Statements and work paper support for the Fiscal Years 2013 to 2017.

Duty-free Concession. The exclusive concession contract for the sale of in-bond (duty-free) merchandise has been a major source of concession revenues for the Airports System. DFS Group, L.P. ("*DFS*") operates the in-bond concessions at Daniel K. Inouye International, Ellison Onizuka Kona International Airport at Keahole and two off-airport locations pursuant to a 10-year lease agreement that began in 2007. Effective October 31, 2014, the in-bond concession contract was amended to provide for the following: (1) the term of the contract was extended in through May 31, 2027, (2) the MAG shall be as follows: (a) for the period from June 1, 2017 through May 31, 2019, $40 million, (b) for the period from June 1, 2019 through May 31, 2020, $47.5 million, (c) for the period from June 1, 2020 through May 31, 2021, 85% of the actual annual fee paid and payable (either MAG or percentage) for the previous year, (d) for the period from June 1, 2021 through May 31, 2022, the same as the previous year, (e) for the period from June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable for the previous year, (f) for the period from June 1, 2023 through May 31, 2027, the same as the MAG for the period of June 1, 2022 through May 31, 2023, (3) the percentage fees for the extension period will be set at 30% of gross receipts from on-airport sales and 18% of gross receipts from off-airport sales, and (4) percentage fee for merchandise converted from duty free status to duty paid status shall be 1.25%, and (5) the concession fee for items that are "High Price/Low Margin

Merchandise" shall be 2.5% of the gross receipts from the sale. Previously, from June 1, 2011 through May 31, 2017, the MAG was $32.3 million per contract year.

In addition, DFS agreed to pay $27.9 million for improvements to the Central Waiting Lobby Building at Daniel K. Inouye International, and another $39.2 million for concession improvements.

Rental Car Concessions. In fiscal years 2015, 2016 and 2017, car rental concession revenues were $60.3 million, $53.7 million and $64.4 million, respectively, accounting for about 95% of all ground transportation revenues in each fiscal year. Companies operating on-airport rental car operations at the primary airports pay 10% of gross receipts, subject to specified MAGs for each airport.

The Airports Division has entered into the new ConRAC Leases covering rental car facilities at Daniel K. Inouye International and Kahului for the period effective June 1, 2015. Once completed, all on-airport rental car concessions at Daniel K. Inouye International and Kahului will operate from the ConRAC.

Existing car rental concession agreements continue in effect through May 31, 2019 at Hilo International, Ellison Onizuka Kona International, Kahului and Lihue Airport, with eight operators (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty) at each of these airports. The existing car rental concession agreement in effect at Molokai Airport with Alamo as the sole on-airport car rental operator continues through May 31, 2019. The Department is negotiating new car rental concession agreements for these airports with operators.

Off-airport rental car operations pay fees in accordance with Chapter 19-20.1 of the Hawai'i Administrative Rules. The rules provide that an off-airport operator must pay an annual fee of $20 for each rent-a-car vehicle in its fleet as of October 1 of each year, an annual administrative fee of $100, and an annual registration fee of $250 for each courtesy vehicle used to transport customers to and from the airport. The off-airport rent-a-car operators are not a significant source of airport revenue.

The Airports Division also collects Customer Facility Charges ("*CFCs*") on all rental car transactions at airport locations. CFCs are not considered, and are not included in determining, Revenues of the Airports System.

Parking. Parking facilities at Daniel K. Inouye International, Lihue, Hilo International, Ellison Onizuka Kona International and Kahului airports are managed by ABM Parking Services (formerly Ampco System Parking). The Airports Division receives 80% of gross receipts from parking operations at Daniel K. Inouye International and Kahului, 65% from Ellison Onizuka Kona International and Lihue Airport and 55% from Hilo International.

Food and Beverage. The Airports Division has had an agreement with Host International, Inc. ("*Host*") since 1993 to provide exclusive food and beverage services at Daniel K. Inouye International. The current agreement is in effect through April 30, 2029, with a MAG of approximately $4.8 million. Host also has food and beverage concession agreements at Kahului (expires September 30, 2022) and Lihue Airport (expires September 30, 2023). Volume Services dba Centerplate continues to operate food and beverage concessions at Hilo International and Ellison Onizuka Kona International. Food and beverage revenues increased from $8.9 million in fiscal year 2016 to $10.1 million in fiscal year 2017 due to an increase in passenger traffic.

Retail (non duty-free). Non-duty-free retail concessions include revenues from retail shops and gift shops in the Airports System. DFS will operate the (non-duty-free) retail concession for Daniel K. Inouye International, through March 31, 2026. DFS will pay to the Airports Division the greater of the MAG (set at $9.3 million for the period of April 1, 2017 through March 31, 2018) or 20% of gross receipts (percentage). In subsequent years, the MAG will be set at 85% of what was paid and payable in the prior concession year with the actual concession fee being the higher of the MAG or the percentage. DFS also operates retail concessions at Kahului through August 31, 2026. Travel Traders, Inc. will continue to hold the retail concession at Lihue Airport through June 30, 2021. The Tiare Enterprises, Inc. concession agreement was extended for Hilo International and Ellison Onizuka Kona International through August 31, 2025. Retail concession revenues in fiscal year 2017 were $16.0 million, up 9.3% from $14.7 million in fiscal year 2016.

Ground Transportation. Ground transportation includes revenues from contracts and permits in connection with shuttle services, taxicab operations and other courtesy vehicle operations.

Other. Other concessions include revenues from agreements to provide news, floral services, ATMs, currency exchanges, advertising in the Airports System, Wi-Fi service, and in-flight catering revenues. Other concession revenues are forecasted to increase due to inflation and increases in the number of enplaned passengers.

Aeronautical Revenues

Landing Fees. Under the terms of the Amended Lease Extension Agreements described below, the Signatory Airlines pay landing fees per 1,000 pounds of certificated gross aircraft landed weight to allow the Airports Division to recover certain operating, maintenance, and capital costs of runways, taxiways, and other airfield facilities, after crediting nonsignatory landing fee payments, and any federal grant reimbursements. Nonsignatory commercial airlines pay airport rates and charges equaling 125% of Signatory Airlines rates and charges, and small nonsignatory air operators pay lower rates and charges than the Signatory Airlines.

Aeronautical Revenues include nonexclusive joint-use premise charges, exclusive-use premises charges, and Airports System Support Charges generated pursuant to the Amended Lease Extension Agreements and the Hawaii Administrative Rules, Title 19, Subtitle 2 (the "*Administrative Rules*"). Exclusive-use premise charges are computed using a fixed rate per square foot per year. Airports System Support Charges were established to recover all remaining residual costs of the Airports System, when needed. Airports System Support Charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The following table sets forth the landing fees, aeronautical rentals and Support Changes and their percentage of total Revenues of the Airports System for fiscal years 2013 through 2017.

	Fiscal Year Ending June 30,									
	2013		2014		2015		2016		2017	
	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
Airport landing fees and Airports System Support Charges	59,875	16.4%	52,930	16.4%	59,690	17.7%	66,088	18.3%	77,858	19.0%
Aeronautical rentals	103,360	28.3%	93,896	29.2%	97,667	29.0%	115,422	32.1%	126,145	30.8%
Total Aeronautical Revenues	163,235	44.7%	146,826	45.6%	157,357	46.7%	181,509	50.4%	204,003	49.8%

Airline Lease Agreements. The Department operates pursuant to separate airport-airline lease agreements with certain airlines serving the Airports System (as signatories to the lease agreements, the "*Signatory Airlines*"). There are presently 30 Signatory Airlines, including 25 passenger airlines. Under each airport-airline lease agreement, each Signatory Airline has the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports System and to occupy certain premises and facilities in the Airports System.

In October 2007, the Department and each of the Signatory Airlines executed a First Amended Lease Extension Agreement effective January 1, 2008 (the "*2007 Agreement*" and together with the Lease Agreement as extended by the Lease Extension Agreement and as amended and further extended by the 2007 Agreement, the "*Amended Lease Extension Agreement*"). The Amended Lease Extension Agreement differentiates charges for interisland operations and charges for overseas operations (both domestic and international). The Amended Lease Extension Agreement is extended automatically and the Department and each Signatory Airline may terminate the Amended Lease Extension Agreements upon 60 days prior written notice. The interisland charge is equal to the product of the overseas charge and a discount factor called the interisland rate. The interisland rate discount factor is 47% in fiscal year 2019, and is scheduled to increase 1% annually until it reaches 100%.

The Amended Lease Extension Agreement also established a new methodology to determine the rates and charges required to be paid by each of the Signatory Airlines, a cost center residual rate-setting methodology that apportions costs of specific Airports System facilities among the signatory airlines that directly use them. The rates and charges include: (1) landing fee charges recovered on a revenue landed weight basis, (2) exclusive use airline terminal rentals recovered on a per square foot basis, (3) joint-use premises charges based on a per enplaning or deplaning passenger, or a per bag basis, (4) international arrivals building charges recovered on a per deplaning international passenger basis, (5) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, and Airports System Support Charges recovered on a revenue landed weight basis.

The Amended Lease Extension Agreement includes a formal process that the Airports Division and the Signatory Airlines will use to review any additional capital improvement projects and associated financing plans but does not require the Signatory Airlines' affirmative approval of a proposed capital improvements project. Additional capital improvement projects are deemed accepted by the Signatory Airlines unless rejected in writing twice by a majority-in-interest of the Signatory Airlines. A majority-in-interest constitutes at least 50% of the Signatory Airlines representing at least 50% of the total landing fee and Airports System support charge payments actually paid in the previous fiscal year. If the Signatory Airlines reject a proposed project, such project is deferred, but the Airports Division can undertake the improvements in the following fiscal year. The Airports Division refers to the Signatory Airlines' affirmative support for or non-rejection of capital projects submitted for their review as a "concurrence."

Nonsignatory airlines are subject to the Administrative Rules, which require the payment of specified amounts for landing fees, Airports System Support Charges, and certain other rates, fees, and charges. Under the 2007 Agreement, the Department agreed to amend the methodology for calculating fees and charges so that nonsignatory airline fees and charges would be 125% of Signatory Airline fees and charges. The Airports Division has revised the rates for nonsignatory commercial air carriers pursuant to Chapter 261-7(e), HRS, effective January 1, 2012.

Aeronautical Revenues (Net of Aviation Fuel Tax Credit)

	Fiscal Year Ending June 30,									
	2013		**2014**		**2015**		**2016**		**2017**	
	$ (000s)	**% of Total**	**$ (000s)**	**% of Total**	**$ (000s)**	**% of Total**	**$ (000s)**	**% of Total**	**$ (000s)**	**% of Total**
Signatory	145,176	88.9%	129,837	88.4%	141,691	90.0%	163,525	90.1%	183,946	90.2%
Non-Signatory	18,059	11.1%	16,989	11.6%	15,666	10.0%	17,984	9.9%	20,057	9.8%
Total Aeronautical Revenues	163,235	100%	146,826	100%	157,357	100%	181,509	100%	204,003	100%

Source: Department of Transportation – Airports Division; Audited Financial Statements for Fiscal Years 2013 to 2017.

Prepaid Airlines Interest. The Amended Lease Extension Agreement requires that the Airports Division conduct a year-end settlement to determine over-or-under-collection of airline rates and charges. Pursuant to separate Prepaid Airport Use Charge Fund (PAUCF) Agreements, any over-collection shall be deposited in the PAUCF, which is the property of the Signatory Airlines.

In fiscal year 2014, 2015, and 2016, the Signatory Airlines, through the Airlines Committee of Hawaii, agreed to apply $19 million, $18.5 million, and $4.0 million, respectively, of the PAUCF to reduce airline rates and charges. This amount is shown as prepaid airline interest, a reduction to the Annual Adjusted Debt Service Requirements, as defined in the Certificate.

Aviation Fuel Taxes. Aviation Fuel Taxes are imposed by the State under Section 243-4(a)(2), HRS, on all types of aviation fuel sold in the State. Effective January 1, 2016, the tax was reduced from two cents to one cent per gallon. The Aviation Fuel Tax does not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The following table sets forth the Aviation Fuel Taxes and its percentage of total Revenues of the Airports System for fiscal years 2013 through 2017).

Aviation Fuel Taxes

	Fiscal Year Ending June 30,									
	2013		2014		2015		2016		2017	
	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
Total Aviation Fuel Taxes	4,674	1.3%	4,847	1.5%	4,455	1.3%	2,568	0.7%	2,156	0.5%

Source: Department of Transportation – Airports Division; Audited Financial Statements for Fiscal Years 2013 to 2017.

Both Signatory Airlines and nonsignatory airlines receive rebates and credits in connection with their payment of Aviation Fuel Taxes. State law provides that so long as the Airports System generates sufficient Revenues to meet the Rate Covenant, the Director may, in the Director's discretion, grant to airlines operating in the Airports System a rebate, not to exceed one-half cent per gallon, for Aviation Fuel Taxes paid by the entity that has also paid airport use charges or landing fees during the fiscal year. Signatory Airlines receive credits pursuant to the Amended Lease Extension Agreement, which provides that the payments of Aviation Fuel Taxes by a Signatory Airline shall be credited against such Signatory Airline's landing fees upon submission of a claim in writing within six (6) months of payment of such tax accompanied by a certificate with respect to payment of such taxes from the supplier. The Department provides such credits to nonsignatory airlines as well. Consequently, the amount of landing fees actually received by the State (in contrast with the amount of airline charges actually owing) has been reduced in the past, and may be reduced in the future, by the amounts of such credits.

Non-Aeronautical Revenues Other Than Concession Fees

Non-aeronautical rental revenues include revenues from rental car leases, certain utility reimbursements, and other leased facilities, such as hangars and cargo buildings occupied by nonairline tenants. Certain revenues are forecast according to the terms of the various agreements currently in effect and the additional revenues expected from agreements for new and expanded facilities. The terms of these leases range from 4 years to 15 years for concessionaires and up to 65 years for other airport tenants. Under the terms of the agreements, rental increases are adjusted in proportion with the consumer price index (i.e., inflation).

Miscellaneous Operating Revenues. The Airports Division has agreements with various other companies to provide the sale of utilities and other services, in addition to other miscellaneous income recognized through daily operations of the Airports System.

The following table sets forth the Non-Aeronautical Revenues other than concession fees and its percentage of total Revenues for fiscal years 2013 through 2017.

Non-Aeronautical Revenues Other Than Concession Revenues

	Fiscal Year Ending June 30,									
	2013		2014		2015		2016		2017	
	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes	$ (000s)	% of Total Revenues and Taxes
Non-Aeronautical Revenues Other than Concession Aeronautical Revenues	14,241	3.9%	14,467	4.5%	15,003	4.5%	15,791	4.4%	22,996	5.6%

Source: Department of Transportation – Airports Division; Audited Financial Statements for Fiscal Years 2013 to 2017.

Other Non-Operating Revenues. Other non-operating revenues may include miscellaneous revenues, interest income and investment returns, federal operating and capital grants as reimbursements to such costs and Passenger Facility Charges. Other non-operating revenues accounted for 2.9% of Revenue and Aviation Taxes in fiscal year 2017, and did not include any amount of Passenger Facility Charges and Rental Car Facility Charges.

Federal Operating and Capital Grants. Federal Aviation Administration grants under the Airport Improvement Program (AIP) are funded through the Federal Airport and Airway Trust Fund with revenues from federal aviation user fees and taxes. These FAA grants are to be used for airport infrastructure projects to enhance safety, security, capacity, and access, and are made available to airport operators in the form of FAA entitlement and discretionary allocations for AIP-eligible projects. In addition, the Airports Division receives grants from other federal and state agencies from time to time for eligible projects, including certain grants from the TSA for eligible baggage system related project costs.

Passenger Facility Charges. As described above, a Passenger Facility Charge ("*PFC*") is a charge imposed on enplaned passengers by the Airports Division to generate revenues for eligible airport projects that increase capacity, enhance competition among and between air carriers, enhance safety or security, or mitigate noise impacts. The FAA has approved the Airports Division's Application No. 5 to collect and use PFC's for Airports System Capital Projects. In FY 2016 and FY 2017, respectively, $320,597 and $650,817 of PFC revenues were used for the payment of eligible debt service.

Airports System Expenses

Airports System expenses consist of Operating expenses and Nonoperating expenses. Operating expenses include salaries and wages, other personnel services, utilities, repairs and maintenance, State surcharges on gross receipts, special maintenance, Departmental general administration expenses, materials and supplies, insurance and other expenses. Nonoperating expenses include interest expenses for Airports System Revenue and Special Facility Bonds, interest on Lease revenue certificates of participation, loss on disposal of capital assets, and Bond issue costs.

Operating Expenses. The Airports Division provides most of the maintenance, operating functions, and utilities of the Airports System using a combination of Airports Division staff and contract personnel. Operating expenses include salaries and wages, other personal services, utilities, special and major maintenance expenses, materials and supplies, state surcharge, and Airports Division and allocated State administrative charges. The State surcharge is implemented by the State at 5% of all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered for the payment of Bonds in each Fiscal Year. The State Surcharge increased from $12.5 million in fiscal year 2013 to $13.6 million in fiscal year 2017 (at an average annual growth rate of 2.1%).

Airports System operating expenses are composed primarily of salaries and wages, other personal services, utilities, repairs and maintenance and other expenses. In fiscal years 2016 and 2017, cost of operation, maintenance and repair were $244.0 and $288.6 million, respectively. Salaries and wages have increased from $84.0 million in fiscal year 2013 to $110.7 million in fiscal year 2017 for an annual average growth rate of 7.2%. Excluding $12.6 million of non-cash pension expenses, salaries and wages increased 4.0% annually from fiscal year 2013 to fiscal year 2017.

Debt Service Coverage

As reflected in Table 5, debt service coverage exceeded the Certificate requirement of 1.25 times Net Revenues and Taxes for the fiscal years 2013 through 2017. Annual Adjusted Debt Service Requirements exclude capitalized interest and certain amounts deposited into the Interest Account, as permitted under the Certificate.

Cash and Cash Equivalents

The following table presents a summary of cash and cash equivalents and investments for fiscal years 2013 to 2017.

TABLE 6
SUMMARY OF CASH AND CASH EQUIVALENTS AND INVESTMENTS

	Fiscal Year Ended June 30, (dollars in thousands)				
	2013	**2014**	**2015**	**2016**	**2017**
Petty Cash	$ 5	$ 5	$ 5	$ 5	$ 5
Cash in State Treasury	1,094,427	1,093,626	1,046,533	1,278,501	1,190,777
Amount Held by Trustee	0	0	4,432	262	0
Certificates of Deposit	78,594	96,893	78,594	49,333	78,691
U.S. Government Securities	0	0	0	47,560	34,995
Repurchase Agreements	18,299	0	18,299	0	0
Money Market Funds	0	150,067	34,821	24,069	46,881
	$1,191,325	$1,340,591	$1,182,684	$1,399,730	$1,351,349
Reflected in the balance sheet as follows:					
Cash and Cash Equivalents:					
Unrestricted	$571,172	$569,949	$550,385	$558,290	$576,465
Restricted	523,260	523,682	500,585	720,478	614,842
Total Cash and Cash Equivalents	$1,094,432	$1,093,631	$1,050,970	$1,278,767	$1,191,307
Investments – Restricted	96,893	96,893	96,893	96,893	96,893
COP Funds – Trustee	0	150,068	34,821	24,069	63,149
Total Cash, Cash Equivalents and Investments	$1,191,325	$1,340,592	$1,182,684	$1,399,730	$1,351,349

Note: Effective August 1, 1999, the State instituted a policy whereby all unrestricted cash is invested by the Department of Budget & Finance in an investment pool. Beginning September 1, 2001, all bond proceeds (restricted cash) are invested in the Bond Investment Pool.
Source: Department of Transportation – Airports Division; audited financial statements for Fiscal Years 2013 to 2017.

Outstanding Airports System Revenue Bonds

As of July 1, 2018, approximately $935.1 million of Airports System Revenue Bonds were outstanding. All Bonds were issued as fixed rate debt. At June 30, 2017, the balance of legislatively approved and appropriated but unissued Airports System Revenue Bonds was $1.05 billion. The Department anticipates issuing Additional Bonds to finance a portion of future CIPs. See "CAPITAL IMPROVEMENTS PROGRAM." As described under "INTRODUCTION" above, in addition to the Series 2018 Bonds, the State is evaluating the issuance of one or more additional series of Bonds, to be privately placed on a forward delivery basis, for the purposes of refunding a portion of the outstanding Series 2010A Bonds for debt service savings.

The following table sets forth the principal and interest requirements for the Bonds following issuance of the Series 2018 Bonds.

TABLE 7
TOTAL BONDS DEBT SERVICE[1]

FYE 30-Jun	Outstanding Bonds Debt Service	Series 2018A Bonds Principal	Series 2018A Bonds Interest	Series 2018B Bonds Principal	Series 2018B Bonds Interest	Total Bonds Debt Service
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040						
2041						
2042						
2043						
2044						
2045						
2046						
2047						
2048						
TOTAL						

[1] Numbers for each Fiscal Year reflect payments of interest on the Bonds in January 1 of each Fiscal Year and payments of principal of and interest on the Bonds made on July 1 of the following Fiscal Year.
Source: Department of Transportation - Airports Division.

No Obligations Subject to Mandatory Purchase or Acceleration. The Department currently has no outstanding variable rate obligations subject to purchase by the Department upon an event of default and no direct bank loans or other obligations subject to acceleration upon an event of default which are, in either case, secured or otherwise supported by the Revenues and Aviation Fuel Taxes.

Other Obligations of the Department

Lease Revenue Certificates of Participation. Section 36-41 HRS, authorizes the Department to enter into multi-year energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in State facilities. To date the Department has issued its $167.7 million Series 2013 Lease Revenue Certificates of Participation, its $8.1 million Series 2016 Lease Revenue Certificates of Participation and its $51.5 million Series 2017 Lease Revenue Certificates of Participation. The COPs were issued to finance energy efficient and energy savings projects which themselves are backed by contracts from Johnson Controls, Inc. guaranteeing minimum annual energy cost savings in an amount sufficient to pay all annual debt service on COPs.

Special Facility Leases and Special Obligation Bonds. The State Legislature has authorized $200,000,000 of special obligation bonds ("*Special Obligation Bonds*") pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2017, there were $21,725,000 of Special Obligation Bonds outstanding. These Special Obligation Bonds are payable solely from and collateralized solely by monies derived from the applicable special facilities lease agreements and are not payable from, or secured by, Revenues and Aviation Fuel Taxes. Although the Airports

Division may issue additional Special Obligation Bonds, it does not currently expect to issue any additional Special Obligation Bonds to fund any of the cost of future CIPs comprising the Airline Projects.

The Department expects to finance additional special facility projects from time to time for qualified entities. *All Special Obligation Bonds are payable solely from the revenues derived from the leasing of special facilities financed with the proceeds of Special Obligation Bonds.*

Customer Facility Charge Revenue Bonds. In August 2014, the Department completed a special facility financing by entering into a loan agreement with Hawaii Regional Center, LP I and LP IA to borrow up to $76 million under the EB-5 Immigration Investor Program (the "*EB5 Loan*") for the ConRACs. In July 2017, the Department issued its $249,805,000 principal amount of Airports System Customer Facility Charge Revenue Bonds, Series 2017A (Taxable) (the "*CFC Bonds*") for the ConRACs. The EB-5 Loan and CFC Bonds are secured by CFC collections and are not secured by the Revenues or Aviation Fuel Taxes.

General Obligation Bonds. From time to time, the State may appropriate reimbursable general obligation bonds for the Airports System. Reimbursable general obligation bonds are general obligation bonds of the State, the proceeds of which are used to finance improvements to the Airports System. As a result, the Department is required to reimburse the State general fund from Revenues for the debt service on such bonds. The last reimbursable general obligation bonds issued for the Airports System were repaid in fiscal year 2009 and, currently, there are no such bonds issued or outstanding for the Airports System.

Insurance

The Airports Division has a commercial general liability insurance policy with a $750,000,000 limit for each occurrence. The policy includes extended coverage for $150,000,000 for war, hijacking and other perils. The annual premium for fiscal year 2018 is $774,842. The liability policy has a zero deductible limit, which means that the insurer handles and pays for all claims against the State. The selection of insurance companies is arranged by the Airports Division's designated Insurance Broker, MOC Insurance Services of San Francisco. The State has a separate insurance policy for its structures for which the Airports Division pays the State Department of Accounting & General Services ("*DAGS*") $1,411,587 for fiscal year 2018. The Airports Division has no control over DAGS's insurance premium.

Security

The costs of Airports System security contracts have increased significantly since the events of September 11, 2001. The Airports System's security services are supported by two security companies, certain personal service contracts and the State's Department of Public Safety. Security costs have nearly doubled from the pre-9/11 era. Security expenditures at HNL alone were $21.2 million, $19.4 million and $19.5 million, and for the Airports System as a whole $39.4 million, $35.5 million and $35.3 million in fiscal years 2011, 2012 and 2013, respectively. The decrease in security expenditures is due to the renewal of statewide security contracts, which resulted in decreased labor rates and hours required by such contracts. Further, Airports System security-related expenses are exacerbated due to the System's multiple locations. Under the present conditions, the total security costs for the entire Airports System totals nearly $39.4 million per year. The Airports System is subject to additional expense increases based upon future mandated security directives from the TSA.

Employee Benefits

Employees' Retirement System. The information contained in this section is primarily derived from information produced by the Employees' Retirement System of the State (the "*Retirement System*" or "*ERS*"), its independent accountant and its actuary. None of the State, the Department or the Airports Division has independently verified the information provided by the System, its independent accountant or its actuary, and such entities make no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the System and most recent valuation report of the System may be obtained by contacting the System. The comprehensive annual financial reports of the System are also available on the State's website at http://portal.ehawaii.gov/, and other information about the System are available on the System's website at http://ers.ehawaii.gov/. Such documents and other information are not incorporated herein by reference. The System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the System's Board of Trustees, the System's benefit structure or the actuarial method used by the System) will reflect the actual results experienced by the System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the System), one or more or which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Employee benefits for employees of the Airports Division are an operating expense of the Airports Division. All full-time employees of the Department are required to participate in the System and are also entitled to health care and life insurance benefits afforded to all State employees. Department employees hired after June 30, 1984 participate in a non-contributory retirement plan. Employees hired before that date were given the option of remaining in a contributory retirement plan or joining the new non-contributory plan.

Effective July 1, 2006, the State implemented a new hybrid retirement plan. Members of the contributory and noncontributory plans were eligible to elect to transfer to the hybrid plan and all new employees hired on or after July 1, 2006, become members of the hybrid plan. Under the hybrid retirement plan, employees will receive a benefit multiplier of 2 percent for each year of credited service in the hybrid plan, but must contribute 6 percent of gross pay to this plan, while under the non-contributory retirement plan, employees receive a benefit multiplier of 1.25 percent and do not contribute any funds to the plan.

Legislation enacted in 2011 (Act 163, SLH 2011) changed the pension benefit structure for new employees that reduces the long-term cost to the ERS and provides an acceptable retirement package. All new employees will be affected by new requirements. This across the board revision effective for new hires after June 30, 2012 changes the employee contribution rate, retirement age, vesting period, average final compensation pick up, pension multiplier and post retirement increases. Provisions for interest rate credited to a member's contributions are effective for new hires after June 30, 2011.

Act 163, SLH 2011, also reduced the investment yield rate assumption for fiscal year 2011 from 8 percent to 7.75 percent and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the Retirement System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the Retirement System, the Board of Trustees adopted the assumption recommendations set forth in the Actuarial Experience Study for the five year period ended June 30, 2015, including setting the investment yield rate assumption at 7 percent. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012, and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

The required pension contributions by the Airports Division to the ERS for the years ended June 30, 2017, 2016 and 2015 were $11,615,759, $11,033,008 and $10,261,692, respectively, which represented 19.42%, 18.78% and 18.31% of covered payroll for each of the years then ended. Act 17, SLH 2017, which became effective July 1, 2017, increased employer contribution requirements as follows:

Employer Contribution effective starting	**Police Officers and Firefighters (% of total payroll)**	**Other Employees (% of total payroll)**
July 1, 2017	28.0	18.0
July 1, 2018	31.0	19.0
July 1, 2019	36.0	22.0
July 1, 2020	41.0	24.0

The total assets of the Retirement System on a market value basis amounted to approximately $14.2 billion as of June 30, 2014, $14.5 billion as of June 30, 2015, $14.1 billion as of June 30, 2016 and $15.7 billion as of June 30, 2017. The actuarial certification of assets was $13.6 billion as of June 30, 2014, $14.5 billion as of June 30, 2015, $15.0 billion as of June 30, 2016 and $15.7 billion as of June 30, 2017. As of June 30, 2017, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $12.928 billion. Measurement of assets and actuarial valuations are made for the retirement system as a whole and are not separately computed for individual participating employers such as the Airports Division.

The State anticipates that as the percentage of employees hired on and after July 1, 2012 increases, and increases in the employer contribution rates required by Act 17, SLH 2017, impact the System, the State will be able to fully amortize the UAAL over a 30-year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2023. The combination of the higher contribution policies and new benefit structure for future employees should enable the Retirement System to absorb the prior adverse experience and the revised actuarial assumptions over the 30-year term.

Other Post-Employment Benefits. In addition to pension benefits, state and local governments are required to account for and report other post-employment benefits ("*OPEBs*") under Governmental Accounting Standards Board Statement No. 45 ("*GASB 45*") which, effective for fiscal years after July 15, 2017, is being supplanted by Governmental Accounting Standards Board Statement No. 75 ("*GASB 75*"). The State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "*Trust Fund*") provides OPEBs in the form of certain health and life insurance benefits to retired State and county employees, including retired Airports Division employees. Employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on employees' hiring dates and years of service.

The State has received the Trust Fund's July 1, 2017 Actuarial Valuation Study (the "*Trust Fund Report*") of the Trust Fund's OPEB liabilities. The Trust Fund Report was prepared by the State's professional actuarial advisors, Gabriel Roeder Smith & Company. The Trust Fund Report quantifies the Actuarial Accrued Liabilities ("*AAL*") of the respective employers under GASB 45 and develops Annual Required Contributions ("*ARC*") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year beginning July 1, 2018.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with prefunding of the ARC and a discount rate of 7%. The Trust Fund Report states that the State's unfunded AAL as of July 1, 2017 is $9,314.7 million. The corresponding ARC for the fiscal years ending June 30, 2018 and 2019 are $770.3 million and $787.1 million, respectively, of which 76% is an expense of the General Fund and 24% is to be paid from non-general funds of the State. The Trust Fund Report estimates the "pay as you go" funding amounts for fiscal years ending June 30, 2018 and 2019 are $357.0 million and $386.5 million, respectively.

In the past, the State funded its OPEB costs on a "pay as you go" basis; however, the State began the process of pre-funding its OPEB costs with contributions in the amount of $100 million for fiscal year ending June 30, 2014. The State has met its pre-funding OPEB contribution in accordance with Act 268, SLH 2013 for the fiscal years ending June 30, 2015, 2016, 2017 and 2018 with actual contributions of $117.4 million (versus the $83.0 million Act 268, SLH 2013 required contribution), $249.8 million (versus the $163.6 million Act 268, SLH 2013 required contribution), $333.0 million (versus the $230.2 million Act 268, SLH 2013 required contribution) and $297.1 million (versus the $297.063 million Act 268, SLH 2013 required contribution), respectively. The market value of the State's OPEB assets amounted to $879.5 million as of June 30, 2017.

Act 93, SLH 2017, requires the Trust Fund board of trustees to conduct an annual actuarial valuation of the Trust Fund. Previous practice was to have an actuarial valuation every two years. Act 93 also requires the board to update all assumptions specific to the Trust Fund used in the valuation at least once every three years. Previous practice was to use the ERS's assumptions which were updated every five years.

In addition, the State commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Trust Fund Report. Act 268, SLH 2013, requires the Trust Fund to establish a separate trust fund for public employer contributions with separate accounts for each public employer (which was accomplished as described above) and requires the annual public employer contribution to be equal to the amount determined by an actuary commencing with the fiscal year 2018-2019. There is a schedule to phase in the annual required contribution as follows:

Fiscal Year	Annual Required Contribution
2014-2015	20%
2015-2016	40%
2016-2017	60%
2017-2018	80%
2018-2019	100%

If the State public employer contributions into the fund are less than the amount of the annual required contribution commencing with the FY 2018-2019, general excise tax revenues will be used to supplement State public employer contribution amounts. If the county public employer contributions into the fund are less than the amount of the annual required contribution commencing with the FY 2018-2019, transient accommodations tax revenues will be used to supplement county public employer contribution amounts. This statute also requires the Director of Finance to report to the Legislature on an implementation plan to have both the Trust Fund and the ERS jointly sharing investment information and services for the benefit of the Trust Fund.

Measurement of the actuarial valuation and the annual required contribution (ARC) for OPEB costs are made for the State as a whole and are not separately computed for the individual State departments. The State allocates the ARC to the various departments and agencies. The Airports Division's contribution for the fiscal years ended June 30, 2017 and June 30, 2016 was $9,537,524 and $6,683,710, respectively, which represented 57% and 40%, respectively, of the Airports Division's share of the Department's ARC for OPEB costs of $16,856,141 and $ 16,849,705, respectively.

The State's current practice is to assess all departments, including the Department, a fixed percentage of payroll to cover all fringe benefits, including the employer's share of social security tax, Medicare, retirement benefits for both employees and retirees, the employees' health fund and OPEB cost. The fringe benefit rate was 55.48% of covered payroll for fiscal year 2017 and the interim fringe benefit rate for fiscal year 2018 is 56.48% of covered payroll.

Ceded Lands

Portions of lands underlying HNL, Hilo International Airport and Ellison Onizuka Kona International Airport at Keahole are lands ceded by the Republic of Hawaii to the United States in 1898 and subsequently conveyed to the State by the United States at or following the State's admission to the Union in 1959 (the "*Ceded Lands*"). State policy requires revenue generating State departments to pay an allocable share of the gross proprietary revenues derived from the use of such lands to the Office of Hawaiian Affairs, which administers such funds for the benefit of native Hawaiians. However, under federal law, the Department is exempt from such payments from the Airports System Revenues.

REPORT OF THE CONSULTING ENGINEER

General

The Airports Division retained ICF SH&E, Inc. to serve as the Consulting Engineer in connection with the issuance of the Series 2018 Bonds. The Report of the Consulting Engineer is attached as Appendix A. The Report of the Consulting Engineer has been included in reliance upon the knowledge and experience of ICF SH&E, Inc. as the Consulting Engineer. As stated in the Report of the Consulting Engineer, any forecast is subject to uncertainties. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material. The Report of the Consulting Engineer should be read in its entirety for an understanding of the forecasts and underlying assumptions. Any description or summary of the Report of the Consulting Engineer in this Official Statement is qualified in its entirety by reference to such report.

The Report of the Consulting Engineer will not be updated to reflect the final terms of the Bonds or other changes occurring after the date of the Report of the Consulting Engineer. The Report of the Consulting Engineer is based on a number of assumptions and contains forecasts and statements relating to operating and financial results that may not be realized. The assumptions used reflect the best information available to the Department and reliance on the knowledge and experience of the Consulting Engineer. The Department's future operating and financial performance, however, may vary from the forecasts and such variances may be material.

Forecast of Debt Service Coverage

The following table sets forth the Consulting Engineer's projections of Net Revenues and Taxes and debt service coverage for fiscal years 2018 through 2024 that are based on: the assumptions discussed in the Report of the Consulting Engineer.

For an explanation of the projected debt service coverage and of the assumptions behind the calculations of debt service coverage, see Appendix A – Report of the Consulting Engineer.

TABLE 8
DEBT SERVICE COVERAGE AND RATE COVENANT(1)(2)
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; numbers in thousands)

	Estimated 2018	Forecast 2019	2020	2021	2022	2023	2024
Debt Service Coverage							
Revenues and Aviation Fuel Taxes	$434,593	$455,125	$476,428	$498,632	$524,585	$547,355	$567,291
Costs of Operation, Maintenance and Repair (3)	(308,189)	(327,925)	(347,255)	(355,937)	(375,412)	(395,980)	(417,703)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Reimbursement of General Fund of the State	-	-	-	-	-	-	-
Net Revenues and Taxes	$125,904	$126,700	$128,673	$142,195	$148,673	$150,874	$149,088
Funded Coverage Account Balance (4)	22,338	22,501	24,026	29,132	35,492	36,300	37,183
Adjusted Net Revenues and Taxes	$148,242	$149,201	$152,699	$171,327	$184,164	$187,175	$186,270
Gross Debt Service	$ 87,209	$ 90,006	$ 96,105	$116,527	$141,967	$145,202	$148,731
Airline Prepaid Interests	-	-	-	-	-	-	-
Available PFC Revenues	(937)	(5,791)	(7,856)	(24,289)	(40,861)	(40,908)	(42,037)
Annual Adjusted Debt Service Requirement	$ 86,272	$ 84,214	$ 88,249	$ 92,237	$101,106	$104,294	$106,693
Debt Service Coverage (Must Be No Less Than 1.25)	1.72	1.77	1.73	1.86	1.82	1.79	1.75

(1) As of the date of the Report of the Consulting Engineer; totals may not add due to rounding.
(2) Includes the 2018 Bonds and expected future Bond Issuances in 2020 and 2021 as discussed in the Report of the Consulting Engineer but does not include any debt service savings resulting from the issuance of the Series 2018C Bonds or Series 2018D Bonds.
(3) Excluding certain non-cash items, expected to be effective in FY 2021.
(4) Indicates the amount of unencumbered funds certified by the Airports Division for the purposes of the Rate Covenant.

CERTAIN INVESTMENT CONSIDERATIONS

The Bonds may not be suitable for all investors. Prospective purchasers of the Certificates should give careful consideration to the information set forth in this Official Statement, including, in particular, the matters referred to in the following summary. However, the following summary does not purport to be a comprehensive or exhaustive discussion of risks or other considerations which may be relevant to investing in the Certificates. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other considerations not discussed herein will not become material in the future.

Rate Covenant Not a Guarantee; Failure to Meet Projections

The ability of the Department to pay debt service on the Bonds depends on the ability of the Department to generate Revenues and Aviation Fuel Taxes in the levels required by the Certificate. Although the Department expects that sufficient Revenues will be generated through the imposition and collection of the fees, rents, charges and other Revenues to pay all expenses of the Airports System, there is no assurance that such imposition will result in the generation of Revenues and Aviation Fuel Taxes in the amounts required. As a result, the Rate Covenant does not constitute a guarantee that sufficient Revenues and Aviation Fuel Taxes will be available to make debt service payments on the Bonds.

The operations of the Airports System and the Department's ability to generate Revenues are affected by a variety of legislative, legal, contractual and practical restrictions, including restrictions in the Federal Act, provisions of Amended Lease Extension Agreement, and extensive federal regulations applicable to all airports. The Department cannot provide any assurance that operation of the Rate Covenant will not be limited by the federal law requirement that all aeronautical rates and charges be reasonable. The Department may not be able to increase airline rates and/or other charges to suffice the rate covenant if such rates and charges would not be reasonable. Under such circumstances, there could be delays or reductions in payments on the Bonds.

In addition, all financial forecasts of the Department are based on a number of assumptions. Changes in circumstances could have a material adverse impact on the ability of the Department to pay the principal of and interest on the Bonds.

Certain Considerations Concerning the Airline Industry

General. The financial results of the air transportation industry have been subject to substantial volatility since deregulation. The financial strength and stability of airlines serving the State are a key determinant of future airline traffic. Some factors that may affect future airline traffic at the Airports System or other markets impacting the Airports System include (but are not limited to): (i) growth or decline in tourism and the State population, (ii) State, national and international economic health, (iii) national and international political conditions, (iv) changes in demand for air travel, (v) airline service and cost competition, (vi) airline economics and fares, mergers, the availability and price of aviation fuel and other necessary supplies, (vii) airline service and route networks, (viii) federal regulation, (ix) changes in bankruptcy, industry and other applicable laws, (x) the capacity of the air traffic control system, (xi) availability of employees and labor relations within the airline industry, (xii) environmental risks, noise abatement and air pollution abatement and regulation, (xiii) acts of war or terrorism, (xiv) aviation accidents, and (xv) other risks related to the airline industry.

The Airports Division derives a substantial portion of its operating revenues from landing, facility rental and concession fees. The financial strength and stability of the airlines using the Airports System, together with numerous other factors, influence the level of aviation activity at the Airports System. In addition, individual airline decisions regarding level of service, particularly hubbing activity at the Airports System and aircraft size such as use of regional jets, can affect total enplanements. No assurances can be given that any of these airlines will continue operations or maintain their current level of operations at the Airports. If one or more of these airlines discontinues operations at the Airports, its current level of activity may not be replaced by other carriers.

Effects of Bankruptcy. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the strength of the U.S. economy, other regional and world economies, corporate profitability, airline safety, security and public health concerns, air traffic control limits and other factors. Permanent structural changes to the industry are the result of a number of factors including the impact of low cost carriers, airline consolidation, internet travel web sites, changes in technology and carriers reorganizing under the U.S. Bankruptcy Code.

Airlines operating at the Airport have filed for bankruptcy or have ceased operating generally or within the State in the past and may do so in the future. For example, earlier this year Hawaii Island Air ceased all operations. Potential investors are urged to review the airlines' financial information on file with the SEC and DOT.

In the event a bankruptcy case is filed with respect to any of the Signatory Airlines, a bankruptcy court could determine that the Amended Lease Extension Agreement of such Signatory Airline is an executory contract or unexpired lease pursuant to Section 365 of the Federal Bankruptcy Code. In that event, a trustee in bankruptcy or a debtor-in-possession might reject the Amended Lease Extension Agreement and delays or reductions in payments from the affected airline to the Department could cause delays or reductions in payments on the Certificate. If an

Amended Lease Extension Agreement is rejected, the amounts unpaid as a result of the rejection can be passed on to the remaining Signatory Airlines. If the bankruptcy of one or more Signatory Airlines were to occur, however, there can be no assurance that the remaining Signatory Airlines would be able, individually or collectively, to meet their obligations under the applicable Amended Lease Extension Agreements.

Although Hawaii has recently experienced record numbers of visitors by air, various industry analysts have suggested that further reductions in industry wide domestic capacity may be required to achieve equilibrium between seat supply and passenger demand at airfares adequate to sustain airline profitability. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. The combination of reduced capacity, increased airfares and unstable economic conditions is expected to caused reduced passenger numbers at most airports in the near-term. It is not possible to predict the impact on the Airports System of any future bankruptcies, liquidations or major restructurings of other airlines, especially of one or more large network airlines.

Restructuring of Air Carriers. Certain other airlines serving the Airports System have consolidated in recent years. As described under "PASSENGER TRAFFIC AND AIRLINES – Airline Service and Passenger Activity Operations" above, Hawaiian Airlines served 51.3% of all enplaned passengers at the Airports System. If Hawaiian Airlines were to reduce or cease connecting service within the State, such flights would not necessarily be replaced by other airlines. While historically when airlines have reduced or ceased operations at the Airports System other airlines have absorbed the traffic with no significant adverse impact on Revenues, it is possible that were Hawaiian Airlines or another airline to cease or significantly cut back operations at the Airport, Revenues, PFC collections and costs for other airlines serving the Airport System could be adversely affected.

Alaska Air Group, Inc., the parent company of Alaska Airlines, and Virgin America, Inc. merged effective December 2016. The merged airline received a single operating certificate from the FAA in January 2018. The merged airline moved to a single reservations system on April 25, 2018, and has announced that it will adopt Alaska's name and logo and retire the Virgin America brand. Virgin America commenced operations in the State in the second half of fiscal year 2016 and quickly grew to over 170,000 enplaned passengers by fiscal year 2017. Further airline consolidation remains possible. While prior mergers have had, and the Department expects that recent mergers will have, little impact on the respective combined airlines' market shares in the Airports System, future mergers or alliances among airlines servicing the Airports System may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Revenues, reduced PFC collections and increased costs for the other airlines serving the Airports System.

Faced with the growth of lower-cost airlines, and evolving business technology, legacy airlines have been forced to change their business practices. Many businesses have switched to lower-cost carriers, reduced business and premium class flying and/or implemented significant reductions in business travel. As a result, carriers that once structured their services around the business traveler during the economic expansion in the 1990s have been forced to reduce or eliminate service on unprofitable routes, reduce work force, implement pay cuts, and reduce fares in order to compete with lower-cost carriers.

Federal Law Affecting Airport Rates and Charges. Section 113 of the Federal Aviation Administration Authorization Act of 1994, as amended (the "*1994 Act*"), entitled "Resolution of airport-air carrier disputes concerning airport fees," and codified at 49 U.S.C. §47129, continues the basic federal requirement that airport fees be "reasonable" and provides a mechanism by which the Secretary of Transportation can review rates and charges complaints brought by air carriers. Pursuant to Section 113, in February 1995, the DOT issued its "Final Rule" outlining the procedures to be followed in determining the reasonableness of airport rates and charges; the DOT also issued its "Final Policy" in June 1996 relating to the "fees charged by federally-assisted airports to air carriers and other aeronautical users."

Section 113 of the 1994 Act specifically states that it does not apply to: (1) a fee imposed pursuant to a written agreement with air carriers using airport facilities, (2) a fee imposed pursuant to a financing agreement or covenant entered into prior to the date of the enactment of the section, or (3) any other existing fee not in dispute as of such date of enactment (August 23, 1994). The section further provides that nothing in the section shall adversely affect (1) the rights of any party under any existing written agreement between an air carrier and the owner of an airport, or (2) the ability of an airport to meet its obligations under a financing agreement or covenant that is in force as of the date of the enactment of the section. Both the aforesaid Final Rule and the Final Policy acknowledge that Section 113 excludes from its rates and charges review process those rates and charges established pursuant to written agreements, pursuant to a pre-enactment bond covenant or in existence and undisputed as of August 23, 1994. The Final Policy states specifically that a dispute over such rates and charges will not be processed under the procedures mandated by Section 113. The Department and the Signatory Airlines currently operate under the terms of the Lease Extension Agreement which provides for an automatic extension on a quarterly basis unless either party provides sixty (60) days' written notice to the other party of termination.

The USDOT policy is the subject of an action commenced in the U.S. Court of Appeals for the D.C. Circuit brought by the Air Transport Association. On October 15, 1997, the Court ordered the Secretary of USDOT to reconsider certain enumerated sections of the Final Policy relating to valuation of the airfield, permissible components of the airfield rate base, use of any "reasonable methodology" for valuation of non-airfield assets, and recovery of imputed interest on the airfield rate base. USDOT has not yet proposed revised provisions for these sections of the Final Policy. The Circuit Court decision did not, however, modify the exclusions contained in Section 113 of the 1994 Act.

At this time, the terms of future airline agreements among airlines and the Department cannot be determined. The State believes the Amended Lease Extension Agreements, as well as their rate and fee programs, fall within the provisions mentioned above that preclude signatory air carriers from contesting such rates under Section 113. So long as the Signatory Airlines operate under the Amended Lease Extension Agreements, as they may be extended or amended, or other written agreements, the State believes the Signatory Airlines will not be able to invoke the rates and fees dispute provisions of Section 113. See "FINANCIAL INFORMATION - Aeronautical Revenues." It is conceivable, however, that the Secretary of Transportation would entertain a complaint by a nonsignatory airline (including a Signatory Airline that has terminated its Amended Lease Extension Agreement pursuant to the terms therein), and that such a review might result in a reduction of fees paid by non-signatory carriers.

Cost of Aviation Fuel. Airline profitability is significantly affected by the price of aviation fuel. According to Airlines for America, fuel is the largest single cost component for most airline operations, and therefore an important and uncertain determinant of an air carrier's operating economics. Any increase in fuel prices causes an increase in airline operating costs. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, Organization of Petroleum Exporting Countries' policy, increased demand for fuel caused by rapid growth of economies such as China and India, the levels of fuel inventory maintained by certain industries, the amounts of reserves maintained by governments, currency fluctuations, disruptions to production and refining facilities and weather. The cost of aviation fuel has fluctuated in the past in response to changes in demand for and supply of oil worldwide. Significant fluctuations and prolonged increases in the cost of aviation fuel historically have had an adverse impact on air transportation industry profitability, causing airlines to reduce capacity, fleet and personnel as well as to increase airfares and institute fuel, checked baggage and other extra surcharges, all of which may decrease demand for air travel.

Airline Information

Revenues may be affected by the ability of the airlines serving the Airports System, individually or collectively, to meet their obligations to pay rates, rentals, fees and charges imposed on them. Many of the principal domestic airlines serving the State, or their respective parent corporations, and foreign airlines serving the State with American Depository Receipts ("*ADRs*") registered on a national exchange are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, file reports and other information with the Securities and Exchange Commission (the "*SEC*"). Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at http://www.sec.gov containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial and operating statistics with DOT. Such reports can be inspected at DOT's Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from DOT at prescribed rates.

Foreign airlines serving the State, or foreign corporations operating airlines serving the State (unless such foreign airlines have ADRs registered on a national exchange), are not required to file information with the SEC. Such foreign airlines, or foreign corporations operating airlines, serving the State file limited information only with DOT.

Neither the State nor the Underwriters undertake any responsibility for or make any representation as to the accuracy or completeness of: (i) any reports and statements filed with the SEC or DOT, or (ii) any material contained on the SEC's website as described in the preceding paragraph, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC's website.

Factors Affecting Capital Improvements Program

As described above, the Department is undertaking a significant capital improvement program to meet the demands of a growing population served by the Airports System. The capital improvements are designed to modernize and make more efficient the various facilities of the Airports System. The ability of the Department to complete the CIP may be adversely affected by various factors, including (but not limited to): (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the projects, including changes to federal security regulations, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions and other force majeure events, (8) contractor defaults, (9) labor disputes, (10) unanticipated levels of inflation, and (11) environmental issues. No assurance can be made that the existing projects in the CIP will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue additional indebtedness and may result in increased costs per enplaned passenger to the airlines, thereby making the Airports System less economically competitive. There can be no assurances that significant increases in costs over the amounts projected by the Department will not materially adversely affect the financial condition or operations of the Airports System, leading to different results than projected in the Report of the Consulting Engineer.

Economic Conditions

Historically, the financial performance of the air transportation industry has correlated closely with the state of the national economy and levels of real disposable income. Recession in 2008 and 2009, combined with reduced discretionary income and increased airfares, reduced airline travel demand and airline profitability in 2008 and 2009. However globalization of business and the increased importance of international trade has resulted in U.S. economic growth becoming more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, public health concerns, and hostilities are now important influences on passenger traffic at major U.S. airports. Sustained future increases in passenger traffic in the Airports System will depend on stable and peaceful international conditions as well as global economic growth.

Future increases in passenger traffic will depend largely on the ability of the U.S. and other nations to sustain growths in economic output and income. Although both domestic and global economies have recovered since 2008-2009, the long-term economic effects of U.S. Government's sequestration and regulatory and economic changes are not known at this time. There can be no assurances that such developments will not have an adverse effect on the air transportation industry.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of international hostilities (such as those that have occurred in the Middle East) and terrorist attacks, may have an immediate and significant impact on the demand for aviation services, including, but not limited to, services at the Airports System and depress airline industry revenues and the Revenues. Security concerns can influence passenger travel behavior and air travel demand. These concerns intensified in the aftermath of the events of September 11, 2001, after which enplanements at the Airports Systems and the receipt of Revenues were negatively affect by security restrictions on the airports and the ensuing financial condition of the air transportation industry. Created by the ATSA in 2001, TSA is responsible for transportation security nationally. TSA is required to screen all commercial airline passengers and all baggage loaded onto commercial airplanes, and has promulgated regulations regarding both aviation and maritime security applicable to the Airports System. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Other intensified security precautions include the strengthening of aircraft cockpit doors, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed sky marshals, federalization of airport security functions under the TSA and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

The ATSA requires all United States airports to use EDS to screen all checked baggage unless an alternative system and/or timetable has been approved by the TSA. Currently, all checked baggage at HNL is screened by EDS. The Aviation Security Act also requires that eventually all passenger bags, mail and cargo be screened to prevent the carriage of weapons (including chemical and biological weapons), explosives or incendiary devices; however, to date no regulations regarding these enhanced security measures have been proposed. Because of the congressional mandate to screen all bags, as well as the impact on airport operations of procedures mandated under "Code Orange" (high) and "Code Red" (severe) national threat levels declared by the Department of Homeland Security under the Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports, although to date only relatively minor delays have been experienced as a result of these enhanced security procedures. The Department, like many airport operators, experienced increased operating costs due to compliance with federally mandated and other security and operating changes.

The Department cannot predict the effects and/or likelihood of future terrorist attacks (either domestically or abroad), the effect of any future government-required security measures on passenger activity at the Airports System, future air transportation disruptions, or the impact on the Airports System or the airlines from such incidents or disruptions. Nor can the Department predict how the government will staff the security screening functions or the effect on passenger activity of government decisions regarding its staffing levels.

Public Health Concerns

Public health concerns have also affected travel demand from time to time including, in extreme circumstances, through the imposition of travel restrictions and other public health measures. In 2003, concerns about the spread of severe acute respiratory syndrome, or SARS, led public health agencies to issue advisories against non-essential travel to certain regions of the world. Beginning in April 2009, concerns about the spread of "swine flu" caused by the H1N1 virus reduced certain international airline travel. Since April 2009, the Director-General of the World Health Organization has increased the level of influenza pandemic alert several times and cases of the H1N1 virus have occurred throughout the world. Following an outbreak of the Ebola virus in West Africa in 2014, concerns about the spread of this virus have adversely affected travel to and from certain regions in Africa. The U.S. Centers for Disease Control and Prevention issued travel alerts in 2016 warning pregnant women to avoid travel to areas where outbreaks of the Zika virus, which has been linked to birth defects, were occurring.

Future outbreaks or pandemics may lead to a decrease in air traffic, at least for a temporary period, which in turn could cause a decrease in passenger activity at the Airport and a corresponding decline in Revenues. The Department has plans and procedures in place that are intended to mitigate the potential impacts on the Airports System of any such future pandemic. The Department is unable to predict how serious the impact of any future pandemic become, what effect it may have on air travel to and from the Airports System, and whether any such effects will be material.

Impact of Uncertainties of the Airline Industry on the Airports System

The factors affecting aviation activity at the Airports System include: the growth of population and of the economy in Hawaii, airline service and route networks, the financial health and viability of the airline industry, national and international economic and political conditions, the availability and price of aviation fuel, levels of air fares, the capacity of the national air traffic control system and airport capacity at the Airports System and elsewhere. The Department and the Consulting Engineer have used certain assumptions to prepare the forecasts made in this Official Statement. No assurances can be given that these assumptions will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material.

Considerations Regarding Certain Other Sources of Funds

Passenger Facility Charges. No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the Department. The amount of actual PFC revenues will vary depending on actual levels of qualified passenger enplanements in the Airports System. In addition, the FAA may limit or terminate the Department's ability to impose PFCs, subject to informal and formal procedural safeguards, if the Department's PFC revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Act or the regulations promulgated thereunder or the Department otherwise violates the PFC Act or regulations. The Department's ability to impose a PFC may also be terminated if the Department violates certain provisions of the Airport Noise and Capacity Act of 1990 and its implementing regulations. Furthermore, no assurance can be given that the Airports Division's authority to impose a PFC may not be terminated by Congress or the FAA, or that the PFC program may not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the Department.

FAA AIP Program. No assurance can be given that the Department will actually be receive federal grants-in-aid in the amount or at the time contemplated by the Department. Beginning in 2007, the FAA has been reauthorized in a series of short-term acts, including the FAA Reauthorization and Reform Act of 2012 which reauthorized FAA authority for programs and taxes and AIP project grants for federal fiscal years 2012 through 2015. However federal funding could be adversely impacted by the sequestration provisions of the Budget Control Act enacted in August 2011. Sequestration has been continued by the Continuing Appropriations Act of 2014 enacted on October 16, 2013. Sequestration is a unique budgetary feature restricting federal spending resulting from the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on deficit reductions mandated by the Budget Control Act. Sequestration could result in the reduction of federal grant funds, and spending cuts could be spread over a number of years. No assurance can be given that further reauthorizations or extensions will occur, or at what levels the programs may be funded in the future.

On May 1, 2013 President Obama approved the Reducing Flight Delays Act of 2013, which ended air traffic controller furloughs that had caused air traffic delays across the nation. This act reduced the amount of available federal AIP funds by $253 million in FY 2013 to pay for air traffic controller costs.

On September 29, 2015, Congress approved a six months extension of the AIP through March 31, 2016. Congress has appropriated $1.675 billion for the program, half of the $3.35 billion appropriated for the program in fiscal year 2015.

Before federal approval of any AIP grant applications can be given, eligible airports must provide written assurances that they will comply with a variety of statutorily specified conditions. One such assurance is the so-called "airport generated revenues" assurance, which provides that all airport generated revenues will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the applicant that are directly and substantially related to air transportation of passengers or property. The Department is not aware of any dispute involving the Department concerning the use of Airport Revenues. The Department believes that the Department's use of Revenues is consistent with the applicable laws and regulations. However, no assurance can be given that future disputes, if any, concerning the Department's use of Revenues will not have an adverse effect on the Department's ability to satisfy AIP grant conditions.

Limitation on Bondholders' Remedies

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition of suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against the State or officials of the State to enforce such payment. Neither the State nor the Department has ever defaulted in the payment of either principal of or interest on any indebtedness. Any remedies available to the owners of the Bonds upon the occurrence of an Event of Default are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain.

Cybersecurity

The Airports System, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, the "*Airports System Technology*"). As a recipient and provider of personal, private, or sensitive information, the Airports System may be the target of cybersecurity incidents that could result in adverse consequences to the Airports System Technology, requiring a response action to mitigate the consequences.

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the Airports System Technology for nefarious purposes including, but not limited to, terrorism, the misappropriation of assets or information or causing operational disruption and damage. To mitigate the risk and/or damage from cybersecurity incidents or cyber-attacks, the Department invests in multiple forms of cybersecurity and operational safeguards.

The Office of Enterprise Technology Services ("*ETS*") within the Hawaii State Department of Accounting and General Services provides governance for executive branch information technology projects and supports the management and operation of computer and telecommunication services to State agencies, including programs in fulfillment of statutorily mandated cybersecurity duties outlined under Hawaii Revised Statutes. ETS is led by the Chief Information Officer of the State, with the advice of an eleven-member steering committee appointed by the Governor, Chief Justice, Senate President and Speaker of the House of Representatives. The Chief Information Security Officer reports to the Chief Information Officer and is responsible for establishing cybersecurity standards for the State executive branch and ensuring that system operations stay current with best practices.

While the Airports System Technology cybersecurity and operational safeguards are periodically tested, no assurances can be given by that such measures will effectively prevent cybersecurity threats and attacks. Cybersecurity breaches could damage the Airports System Technology and cause material disruption or damage to the Airports System, its operations or otherwise adversely affect the Airports System, the generation of Revenues, the collection PFC collections and/or the costs for airlines serving the Airport System. The costs of remedying any such damage or protecting against future attacks could be substantial. Further, cybersecurity breaches could expose the Department to material litigation and other legal risks, which could cause the Department to incur additional, and potentially material, costs.

Climate Change Issues

Climate change concerns have led, and may continue to lead to new laws and regulations at the federal and state levels that could have a material adverse effect on the operations of the Airports and on the airlines operating at the Airports.

On June 7, 2017 Governor Ige signed Act 32 Session Laws of Hawaiʻi, 2017 (the "*Climate Change Act*") into law, which, among other things, renamed the Interagency Climate Adaptation Committee as the Hawaii Climate Change Mitigation and Adaptation Commission (the "*Climate Commission*"), clarified and expanded the duties of the Climate Commission and made Hawaiʻi the first state to enact legislation implementing parts of the Paris climate accord. The Climate Change Act anticipates that the Climate Commission will provide direction, facilitation, coordination and planning among state and county agencies, federal agencies, and other partners about climate change mitigation (reduction of greenhouse gases) and climate change resiliency strategies, including, but not limited to, sea level rise adaptation, water and agricultural security, and natural resource conservation. The Fifth Assessment Report by the Intergovernmental Panel on Climate Change (the "*IPCC Report*"), predicted that if greenhouse gas ("*GHG*") continue at the then current (2014) rate of increase, there would be 3.2 feet of global sea level rise by the year 2100. Based upon the IPCC Report, other federal research, and additional scientific literature the Climate Commission prepared the State of Hawaii's 2017 Hawaii Sea Level Rise Vulnerability and Adaptation Report (the "*2017 Climate Report*") which is available at https://climateadaptation.hawaii.gov/wp-content/uploads/2017/12/SLR-Report_Dec2017.pdf. The 2017 Climate Report includes descriptions of the anticipated impact of 3.2 feet of sea level rise on the Airports including, for certain Airports, topographical renderings showing where the future coast line would be in comparison to such Airports. The 2017 Climate Report is not incorporated herein and is not a part of this Official Statement. The Department cannot predict what, if any, sea level rise will occur in the future or what impact it will have on Airport operations, expenses or operating revenues.

The United States Environmental Protection Agency ("*EPA*") has taken steps towards regulation of GHG emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On July 5, 2011, the United States District Court for the District of Columbia issued an order concluding that EPA has a mandatory obligation under the Clean Air Act to consider whether the GHG and black carbon emissions of aircraft engines endanger public health and welfare. On August 15, 2016, EPA found that GHG emissions from certain aircraft cause and contribute to pollution that endangers public health and welfare. In that endangerment finding, EPA stated that it intends to propose GHG emission standards for covered aircraft that will be at least as stringent as emission standards under development by the International Civil Aviation Organization ("*ICAO*"). The ICAO's standards were approved on October 6, 2016 and adopted on March 6, 2017. The ICAO standards apply to new aircraft type designs from 2020 forward, and in-production aircraft must meet the standards by 2028. EPA has publicly indicated as recently as January 2018 its intent to adopt the ICAO emission standards for the United States, but the agency has not initiated rulemaking or set a timeline for such actions. Consequently, the Department cannot predict when EPA's emission standards will be proposed, when the Federal Aviation Administration will adopt regulations to implement those standards, or what effect the standards may have on the Department or on air traffic at the Airports System.

Recent Volcanic Activity

The 2018 lower Puna eruption (the "*LP Eruption*") is an ongoing volcanic event on the island of Hawai‘i on Kīlauea volcano's East Rift Zone that began on May 3, 2018. The LP Eruption, which is believed to be the 62nd episode of Kīlauea's eruption which started in 1983, has caused a significant increase in lava flows and volcanic gas as well as earthquakes and topographical disruptions (including damage to, and resultant closures of, Hawaii Routes 132 and 137). To date the LP Eruption has resulted in the evacuation of approximately 2,000 residents from the Leilani Estates subdivision and nearby areas, the destruction of over 700 homes as well as a number of injuries. While Kīlauea is almost 30 miles from the closest airport (Hilo International), at this time the Department is not able to discern what impact, if any, the LP Eruption, or any future volcanic activity within the State, will have on the Airport System, its operations, expenses or operating revenues.

Transportation Network Companies

Beginning December 1, 2017, the Airports Division implemented a three-month trial period during which certain Uber and Lyft could operate at HNL. The Airports Division extended the program through September 1, 2018. For the first two months of the trial period, the two transportation network companies ("*TNCs*") provided approximately 50,000 pick-ups. The Airports Division has not seen an immediate material negative effect on parking and rental car revenues but anticipates that revenues from taxis and other ground transportation services will decline. The Airports Division may permit TNCs to operate at other airports in the Hawai'i Airports System but expects the impact to be lesser due to the lower population density and the availability of TNC drivers and vehicles, among other considerations. At this time the Department cannot predict the long term impact of TNCs on its non-airline revenues from parking, other ground transportation services or rental cars.

Travel Restrictions

On January 27, 2017 president Donald Trump issued Executive Order 13769 ("*Executive Order 13769*"), which, other than to the extent it was blocked by various court proceeds, was in until it was superseded by Executive Order 13780 issued by president Donald Trump on March 16, 2017 ("*Executive Order 13780*" and, together with Executive Order 13769, the "*Travel Orders*"), in each case suspending the ability for nationals of certain countries from entering the United States. In addition to directly reducing the eligibility of these individuals from entering the State and, in doing so, reducing the pool of potential customers for the Airports System, the Travel Orders each prompted large scale protests at a number of airport facilities across the United States. The Department cannot predict what impact, if any, any future travel restrictions would have on the operations of the Airport System or the collection of Revenues.

LITIGATION

The State is subject to litigation in connection with the day-to-day operation of the Airports System by the Department. There are no claims or judicial proceedings other than the proceedings described in this Official Statement and proceedings incidental to the operation of the Airports System affecting the Airports System or the Revenues, except for claims which are substantially covered by insurance or reserves. Except as otherwise described in this Official Statement, there is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the Series 2018 Bonds or the power and authority of the Department to impose, prescribe or collect rates, rentals, fees or charges for the use and services of, and the facilities or commodities furnished by, the Airports System, or in any manner questioning the power and authority of the Department to impose, prescribe or collect such rates, rentals, fees or charges or to issue and deliver the Series 2018 Bonds or affecting the validity of the Series 2018 Bonds.

TAX MATTERS

Summary of Bond Counsel Opinion. Katten Muchin Rosenman LLP, Bond Counsel, is of the opinion that under existing law, interest on the Series 2018 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "*Code*"), Bond Counsel is of the opinion that interest on the Series 2018 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, (i) interest on the Series 2018A Bonds is an item of tax preference for purposes of the federal alternative minimum tax and is included in corporate earnings and profits used to compute the federal alternative minimum tax on corporations (however, the federal alternative minimum tax imposed on corporations is repealed for taxable years beginning after December 31, 2017) and (ii) interest on the Series 2018B Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, but is includible in corporate earnings and profits used to compute the federal alternative minimum tax on corporations (however, the federal alternative minimum tax imposed on corporations is repealed for taxable years beginning after December 31, 2017). Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest on any Series 2018A Bond for any period during which such Bond is held by a person who is a "substantial user" of the facilities financed or refinanced with the proceeds of such Bond or a "related person" (each as defined in Section 147(a) of the Code). In the further opinion of Bond Counsel, under the existing statutes, interest on the Series 2018 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2018 Bonds or income therefrom.

Exclusion from Gross Income: Requirements. The Code contains certain requirements that must be satisfied from and after the date of issuance of the Series 2018 Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2018 Bonds. These requirements relate to the use and investment of the proceeds of the Series 2018 Bonds, the payment of certain amounts to the United States, the security and source of payment of the Series 2018 Bonds and the use of the property financed with the proceeds of the Series 2018 Bonds. Among these specific requirements are the following:

(a) *Investment Restrictions*. Except during certain "temporary periods," proceeds of the Series 2018 Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a "minor portion") may generally not be invested in investments having a yield that is materially higher than the yield on the Tax-Exempt Series 2018 Bonds.

(b) *Rebate of Permissible Arbitrage Earnings*. Earnings from the investment of the "gross proceeds" of the Series 2018 Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Series 2018 Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term "gross proceeds" includes the original proceeds of the Series 2018 Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Series 2018 Bonds.

(c) *Restrictions on Ownership and Use*. The Code includes restrictions on the ownership and use of the facilities financed with the proceeds of the Series 2018 Bonds. Such provisions may restrict future changes in the use of any property financed with the proceeds of the Series 2018 Bonds.

Covenants to Comply. The State covenants in the Indenture to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Series 2018 Bonds.

Risk of Non Compliance. In the event that the State fails to comply with the requirements of the Code, interest on the Series 2018 Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of issue. In such event, the Indenture does not require acceleration of payment of principal of or interest on the Series 2018 Bonds or payment of any additional interest or penalties to the owners of the Series 2018 Bonds.

Federal Income Tax Consequences. Pursuant to Section 103 of the Code, interest on the Series 2018 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Series 2018 Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE SERIES 2018 BONDS.

(a) *Cost of Carry*. Owners of the Series 2018 Bonds will generally be denied a deduction for otherwise deductible interest on any debt that is treated for federal income tax purposes as incurred or continued to purchase or carry the Series 2018 Bonds. Financial institutions are denied a deduction for their otherwise allowable interest expense in an amount determined by reference to their adjusted basis in the Series 2018 Bonds.

(b) *Corporate Owners*. Interest on the Series 2018 Bonds is taken into account in computing earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Series 2018 Bonds is taken into account in computing corporate alternative minimum tax (which tax, however, is repealed for taxable years beginning after December 31, 2017), the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

(c) *Individual Owners*. Receipt of interest on the Series 2018 Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

(d) *Certain Blue Cross or Blue Shield Organizations*. Receipt of interest on the Series 2018 Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

(e) *Property or Casualty Insurance Companies*. Receipt of interest on the Series 2018 Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

(f) *Foreign Personal Holding Company Income*. A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Series 2018 Bonds held by such a company is properly allocable to the shareholder.

(g) *Information Reporting and Back-up Withholding.* Payments of interest on the Series 2018 Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2018 Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Series 2018 Bonds Purchased at a Premium or at a Discount. The difference (if any) between the initial price at which a substantial amount of each maturity of each Series of the Series 2018 Bonds is sold to the public (the "*Offering Price*") and the principal amount payable at maturity of such Series 2018 Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Series 2018 Bond, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Series 2018 Bond, the difference between the two is known as "original issue discount."

Bond premium and original issue discount are amortized over the term of a Series 2018 Bond on the basis of the owner's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight-line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as an offset against interest paid on the Series 2018 Bond and is subtracted from the owner's tax basis in the Series 2018 Bond. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Series 2018 Bond for federal income tax purposes, to the same extent and with the same limitations as current interest, and is added to the owner's tax basis in the Series 2018 Bond. A Series 2018 Bond's adjusted tax basis is used to determine whether, and to what extent, the owner realizes taxable gain or loss upon the disposition of the Series 2018 Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the Series 2018 Bond).

Owners who purchase Series 2018 Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Series 2018 Bonds. In addition, owners of Series 2018 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series 2018 Bonds. Under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

Change of Law. The opinions of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Series 2018 Bonds are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Series 2018 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of owners

State and Local Income Tax Consequences. In the opinion of Bond Counsel, interest on the Series 2018 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2018 Bonds or income therefrom. Other than the foregoing, Bond Counsel expresses no opinion as to the State and local tax consequences of the ownership of, accrual or receipt of interest on, and the disposition of, the Series 2018 Bonds.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS ON THE PURCHASE, OWNERSHIP AND DISPOSITION OF SERIES 2018 BONDS.

UNDERWRITING

Morgan Stanley & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs & Co. and Wells Fargo Bank, N.A. (collectively, the "*Underwriters*") have agreed to purchase the Series 2018 Bonds for $____________ (representing the principal amount of the Series 2018 Bonds, less underwriters' discount of $____________ and plus net premium of $____________). The Underwriters will be obligated to purchase all the Series 2018 Bonds if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The initial public offering price of the Series 2018 Bonds may be changed from time to time by the Underwriters prior to the Delivery Date. The Underwriters may offer and sell the Series 2018 Bonds to certain dealers (including dealers depositing Series 2018 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) at a price lower than the public offering price stated on the cover of this Official Statement.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2018 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan

Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2018 Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934. Wells Fargo Bank, National Association, acting through its Municipal Products Group ("*WFBNA*"), one of the underwriters of the Series 2018 Bonds, has entered into an agreement (the "*WFA Distribution Agreement*") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "*Wells Fargo Advisors*") ("*WFA*"), for the distribution of certain municipal securities offerings, including the Series 2018 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2018 Bonds with WFA. WFBNA has also entered into an agreement (the "*WFSLLC Distribution Agreement*") with its affiliate Wells Fargo Securities, LLC ("*WFSLLC*"), for the distribution of municipal securities offerings, including the Series 2018 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

LEGALITY FOR INVESTMENT

The Series 2018 Bonds are legal investments for the funds of all public officers and bodies and all political subdivisions of the State, and for the funds of all insurance companies and associations, banks, savings banks, savings institutions, including building or savings and loan associations, trust companies, personal representatives, guardians, trustees and all other persons and fiduciaries in the State who are regulated by law as to the character of their investment.

The Series 2018 Bonds may be deposited by banks with the Director of Finance as security for State moneys deposited in such banks.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Series 2018 Bonds are subject to the approval of Katten Muchin Rosenman LLP, New York, New York. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2018 Bonds and will be delivered with the Series 2018 Bonds. Proposed forms of the opinions of Bond Counsel are annexed as Appendix F. Certain legal matters will be passed upon for the State by the Attorney General of the State and Katten Muchin Rosenman LLP, as disclosure counsel, and for the Underwriters by counsel to the Underwriters, Dentons US LLP, Honolulu, Hawaii.

The Thirty-Second Supplemental Certificate of the Director dated as of August 1, 2018, providing for the issuance of the Series 2018 Bonds has been approved as to form and legality by the Attorney General of the State.

RATINGS

Moody's Investors Service, S&P Global Ratings and Fitch Inc. have assigned ratings of "A1", "AA-," and "A+," respectively, to the Series 2018 Bonds.

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the State makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one, or all three rating companies, if in the judgment of one, or all three companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or one of them, may have an adverse effect on the market price of the Series 2018 Bonds.

PRICING ADVISOR

The Department has retained PFM Financial Advisors LLC, as pricing advisor with respect to the issuance of the Series 2018 Bonds. PFM Financial Advisors LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM Financial Advisors LLC is an independent financial advisory firm.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements if and when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur, unless such updates or revisions are made in the course of fulfilling its continuing disclosure obligation, as described under "CONTINUING DISCLOSURE."

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the State, acting through its Director of Transportation, will undertake in a Continuing Disclosure Certificate, the form of which is set forth in Appendix G (the "Continuing Disclosure Certificate"), to provide to the Municipal Securities Rulemaking Board on an annual basis certain financial and operating data concerning the Department, financial statements, notice of certain events and certain other notices, all as described in the Continuing Disclosure Certificate, provided that if the inclusion or format of such information is changed in any future official statement, annual reports provided by the State thereafter may instead contain or include by reference information of the type included in that official statement as so changed or if different the type of equivalent information included in the most recent official statement. The undertaking is an obligation of the Department that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Series 2018 Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriters to purchase the Series 2018 Bonds.

The Department failed to report certain rating upgrades, including the upgrades of a bond insurer, in a timely manner in 2014 and 2015. The Department has since put policies and procedures in place to enhance compliance with its continuing disclosure undertakings, including its undertakings in the Continuing Disclosure Certificate.

A failure by the Department to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Series 2018 Bonds, although any Beneficial Owner of the Series 2018 Bonds may bring action to compel the Department to comply with its obligations under the Continuing Disclosure Certificate. Any such failure must be reported in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2018 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2018 Bonds and their market price.

MISCELLANEOUS

The references herein to Acts of the State Legislature, the Certificate (including the supplements thereto) and any leases for the use or rental of Airports System properties, do not purport to be complete and are subject to the detailed provisions thereof to which reference is hereby made. The Department has provided the information in this Official Statement relating to the Airports Division, and other matters, as indicated.

The financial statements of the Airports Division as of and for the year ended June 30, 2017 set forth in Appendix B have been audited by BKD LLP, independent auditors, as stated in their report.

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

By: ______________________________
Jade Butay
Director of Transportation

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APPENDIX A

Report of the Consulting Engineer

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Report of the Consulting Engineer

on the proposed issue of
State of Hawai‘i Department of Transportation

for and on behalf of its Airports Division

The State of Hawai‘i
Airports System Revenue Bonds, Series 2018

Prepared for:
State of Hawai‘i Department of Transportation

Prepared by:
ICF
Cambridge, MA

July 31st, 2018

July 31st, 2018

Mr. Jade T. Butay
Director of Transportation
State of Hawai‘i
869 Punchbowl Street
Honolulu, Hawai‘i 96813

Re: Report of the Consulting Engineer
Proposed Issuance of Airports System Revenue Bonds, Series 2018
Hawai‘i Airports System

Dear Mr. Butay:

ICF SH&E, Inc. (ICF) is pleased to submit this Report of the Consulting Engineer (the Report) to support the proposed issuance of the State of Hawai‘i, Airports System Revenue Bonds, Series 2018A and 2018B (together, the 2018 Bonds) in the aggregate principal amount of approximately $413.6 million (preliminary and subject to change). The Report is undertaken to evaluate the ability of the Department of Transportation (the Department) to generate adequate Revenues and Aviation Fuel Taxes to meet the Rate Covenant (defined below) through the fiscal year ending June 30, 2024 (FY 2024). Capitalized terms not otherwise defined in this Report shall have the meanings as included in:

- The *Certificate of the Director of Transportation Providing for the Issuance of State of Hawai‘i Airports System Revenue Bonds*, dated as of May 1, 1969, as amended and supplemented (collectively, the Certificate) or
- The *Airport-Airline Lease Agreement* of 1962 between the Department and certain airlines (the Signatory Airlines) operating at the Hawai‘i Airports System, as extended and amended (the Airline Agreement).

The 2018 Bonds are to be issued as the Additional Bonds under the Certificate. The proceeds of the 2018 Bonds will be used to (a) fund a portion of the project costs of the Hawai‘i Airports System's capital improvement program, (b) fund the Debt Service Reserve Account related to the 2018 Bonds, (c) fund the capitalized interest on the 2018 Bonds, and (d) pay the issuance costs of the 2018 Bonds. The Report does not reflect the impact of any potential refunding transactions that the Department may include in this bond issue.

The 2018 Bonds are limited liabilities of the Department, and are payable only from Revenues and Aviation Fuel Taxes. The general fund of the State of Hawai‘i (the State or Hawai‘i) is not pledged to the payment of the Bonds.

BACKGROUND

This section summarizes the basic information on the Hawai‘i Airports System, the capital improvement program to be partially funded from the proceeds of the proposed 2018 Bonds, the Certificate, and the Airline Agreement.

Hawai‘i Airports System

The Hawai‘i Airports System is a group of 15 airports owned by the State and operated by the Department of Transportation, Airports Division (the Airports Division) as an enterprise fund of the State. The Hawai‘i Airports System handles all non-military passenger traffic activity in Hawai’i. In Fiscal year 2017 the State generated 17.9 million enplaned passengers at its airports. Daniel K. Inouye International Airport (previously named Honolulu International Airport, or HNL) is a large-hub airport as defined by the Federal Aviation Administration (the FAA) and ranked the 28th largest airport in the U.S.[1] Kahului Airport (OGG), on the Island of Maui, is the second largest airport in the State, a medium-hub ranked the 50th largest airport in the U.S. Small-hub State airports include Hilo International Airport (ITO), Ellison Onizuka Kona International Airport at Keahole (KOA), both on the Big Island, and Lihue Airport (LIH), on Kauai, which, together with HNL and OGG, are referred to in this report as the Primary Airports. The Primary Airports other than HNL are referred to as the primary neighbor island airports (the PNI Airports). The other 10 non-hub and general aviation airports in the Hawai’I Airports System are collectively referred to as the Non-primary Airports.

Capital Improvement Program

The Airports Division maintains a rolling capital improvement program to maintain, renovate and develop facilities at the Hawai‘i Airports System. To undertake a capital project, the Airports Division is required to obtain an appropriation from the Hawai‘i State Legislature (the Legislature), approval of allotment requests from the Office of the Governor, and concurrence from the Signatory Airlines when applicable, among other federal and local rules and regulations. The annual appropriation specifies the means of financing, and a bond appropriation serves as the approval to issue Bonds.

The Airports Division identifies additional projects to be added to the capital program, and removes the completed projects from time to time. The capital improvement program as of March 31, 2018 includes two major elements:

- *HNL and OGG Consolidated Car Rental Facilities:* Construction of consolidated rental car facilities (ConRACs) at HNL and OGG, which are under construction, and future projects related to rental car operations (together, the Hawai‘i ConRAC Program), with a total cost estimate of $834.2 million. The Hawai‘i ConRAC Program is funded by customer facility charge (CFC) revenues, which are not part of the Revenues and Aviation Fuel Taxes, and special facility bonds (the CFC Bonds), which are issued pursuant to a separate indenture and are not payable from the Revenues and Aviation Fuel Taxes; Therefore, those projects are excluded from this analysis, as further discussion in Section 2.4 of this Report.

- *Airport Expansion and Upgrade Projects:* Other projects related to the Hawai‘i Airports System, including OGG runway repair and HNL Terminal expansion that are to be funded by a combination of federal and local grants, Passenger Facility Charge (PFC) revenues, internal cash, and proceeds from Bonds, including the 2018 Bonds, and other obligations. These projects are collectively referred to as the CIP in this Report, and have a total cost estimate of $2.4 billion. Approximately $784 million, or 33%, has been spent as of March 31, 2018. The CIP does not include the planned HNL Diamond Head Concourse Program which initial estimates project at a cost of $1.1 billion. This project is anticipated to be completed beyond FY 2025. Therefore, this project is excluded from this analysis, as further discussion in Section 2.4 of this Report.

Certificate

The Certificate sets out the annual revenue requirement (the Rate Covenant), the terms and conditions for the Department to issue additional bonds (the Additional Bond Test), the application of Revenues and Aviation Revenues (also known as the flow of funds), and other covenants of the Department.

The Rate Covenant is specified in Section 7.02 of the Certificate, and requires the Department to:

- Impose, prescribe and collect rates, rentals, fees or charges so that Revenues and Aviation Fuel Taxes will be at least sufficient:
  - To make the required payments of the principal of and interest on all Bonds, including reserves therefor, and the payment of all other indebtedness payable from Revenues and Aviation Fuel Taxes;
  - To pay the costs of operation, maintenance and repair of the Undertaking (the Costs of Operation, Maintenance and Repair), including reserves therefor;

1 Based on revenue enplaned passengers, one fare-paying passenger, in the calendar year 2016.

  - To reimburse the general fund of the State for general obligation bonds which are or shall have been issued for the Undertaking (currently none outstanding), if applicable; and
  - To carry out the provisions and covenants of the Certificate.
- Yield Net Revenues and Taxes, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year which the Department shall certify as Revenues to the Director of Finance, to be at least equal to one and twenty five hundredths (1.25) times the Annual Adjusted Debt Service Requirement.

The purpose of this Report is to evaluate the Department's ability to meet the Rate Covenant through FY 2024. The Department expects to meet the requirements of the Additional Bond Test to be reflected through a separate document. The Application of Revenues is discussed in details later in the Report.

Airline Agreement

The Airline Agreement was initially executed in 1962 with multiple subsequent amendments. The Airline Agreement is extended automatically on a quarterly basis unless either the Department or the Signatory Airlines provides sixty days written notice of termination to the other party. Signatory Airlines accounted for more than 95 percent of landing fees in FY 2017. As of June 2018, 26 Signatory Airlines operate at the Hawai'i Airports System.

The review process of the proposed capital improvement projects is provided in the Lease Extension Agreement of 1994 (the 1994 Extension). Even if concurrence is withheld, the Department can proceed in the following fiscal year and include the related signatory airline costs in the airline rate base, if the Department considers that the project is necessary.

The airline rates and charges methodology is provided in the First Amended Lease Extension Agreement (the 2007 Extension), which includes the following key terms:

- An Airports System Support Charge (the ASSC), if needed, to recover all costs of the Hawai'i Airports System, net of all other applicable Revenues and Aviation Fuel Taxes. The ASSC is designed to ensure that the Department meet the Rate Covenant, so long as the Signatory Airlines continue operations at the Hawai'i Airports System;
- A residual landing fee methodology to recover the net costs of Airfield Cost Center;
- A residual terminal rate methodology for the Primary Airports to recover the net costs of the respective Terminal Cost Center, except that only 50 percent of the net costs at ITO will be recovered before the enplaned passenger level increases above 2.0 million;
- The Department retains the surplus from all other costs centers, and, in case other costs centers generate a deficit, impose the ASSC to meet the Rate Covenant;
- Joint use fees to recover related costs associated with baggage system, common use facilities, and International Arrival Building/federal inspection services; and
- Nonsignatory airline rates at 125 percent of signatory rates and charges. The Airports Division has established procedure 4.13 to set such rates for nonsignatory commercial air carriers according to Hawai'i Revised Statutes (HRS) Section 261-7, and continues to set rate for general aviation users according to Hawai'i Administrative Rules (HAR) Chapter 19-16.1.

ASSUMPTIONS, FORECASTS AND CONCLUSIONS

This section discusses the nature of the assumptions detailed in the attachment of this Report, forecast results, and conclusions.

Passenger Traffic

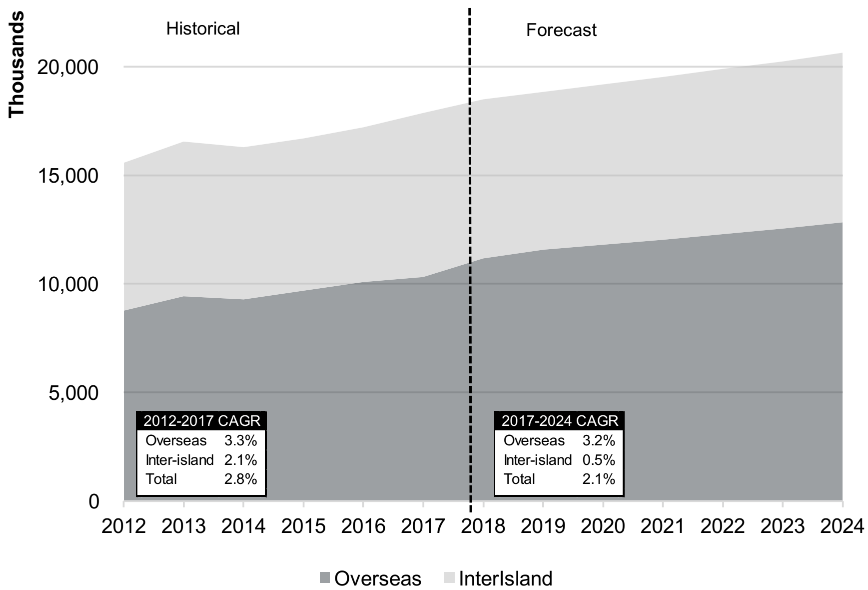
The Hawai'i Airports System reached a record 17.9 million enplaned passengers in FY 2017. The previous record occurred in FY 2000 at 18.0 million enplaned passengers, before declining to 14.9 million the next fiscal year - due to the impact of the global financial crisis. Passenger traffic has grown continuously since FY 2009. ICF projects that air traffic from the Mainland U.S. and international markets will continue to be driven by economic growth of the State, the U.S. and respective international origin markets. Expected continued growth in tourism and diversification of the Hawai'i economy underpin our aviation forecasts going forward.

One of the factors that supports our traffic growth projections is the anticipated entry of Southwest Airlines into this market. Based on recent public announcements, the carrier will commence service at the end of 2018 or early 2019 between four California markets, Oakland, Sacramento, San Diego, and San Jose and four Hawai‘i destinations, Honolulu, Kahului, Lihue, and Kona. Currently, Hawaiian Airlines and Alaska serve those markets. Southwest has further indicated that the airline will also begin some level of inter-island service which will add more inter-island capacity[2], ICF anticipates that the introduction of Southwest service will increase traffic by a net 445 thousand enplaned passengers by FY 2024 from stimulation, which represents 2.6 percent of combined Mainland U.S. and inter-island total enplanements. ICF projects total enplaned passengers to reach 20.6 million by FY 2024, or an average annual increase of by 2.1 percent.

As shown in the exhibit below, overseas and inter-island enplaned passengers are forecast to increase by 3.2 percent and 0.5 percent per year on average from FY 2017 to FY 2024.

Exhibit 0-1: Hawai‘i Airports System Enplaned Passenger Historical and Forecast

Fiscal Years ended June 30, 2012 - 2024



Note: Overseas include Mainland U.S. and International. Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Actual enplanement figures for FY 2012 to FY 2017 were provided by State of Hawai‘i, Department of Transportation. Forecast figures for FY 2018 to FY 2024 were provided by ICF.

Costs of Operation, Maintenance and Repair

Costs of Operation, Maintenance and Repair increased from $244.0 million in FY 2013 to $288.6 million in FY 2017 at an average annual growth rate of 4.3 percent. Gross operating expenses are expected to increase to $437.2 million in FY 2024, at an average annual growth rate of 6.1 percent, partly due to operation and maintenance needs of the new facilities. The Certificate is being amended to introduce a definition of Costs of Operation, Maintenance and Repair to exclude certain non-cash operating expenses recognized under Generally Accepted Accounting Principles (GAAP), as further discussed in Sections 5 and 6.

2 USA Today (4/26/2018)

Debt Service and Other Fund Requirements

Annual gross debt service on existing bonds will increase from $87 million in FY 2018 to $89 million for FY 2019 through FY 2024, and decline to between $48 million and $51 million from 2025 to FY 2045. The Airports Division expects to issue the 2018 Bonds and Future Bonds to fund a portion of the CIP costs. As a result, total annual gross debt service is expected to increase to $148.7 million in FY 2024.

Other than the debt service on Bonds, the Airports Division is obligated to pay annual debt service on subordinate obligations. Such debt service is expected to increase from $14.7 million in FY 2018 to $29.8 million in FY 2029 before being retired in FY 2034.

Non-airline Revenues

Non-airline revenues increased from $170.7 million in FY 2013 to $191.4 million in FY 2017, an average annual growth rate of 2.9 percent, partly affected by the decline of $8 million in duty free revenues. The Airports Division expects future non-airline revenues to be driven by traffic growth, unit pricing, additional facilities and contractual arrangements. Non-airline revenues are expected to increase to $232.0 million in FY 2024, an average annual growth rate of 2.8 percent.

Conclusions

Based on the information, expectations and assumptions presented in the Report, we expect the Department to be able to generate adequate Revenues and Aviation Fuel Taxes to meet the requirements of the Rate Covenant in the Certificate. The following table summarizes the prospective enplaned passengers, debt service coverage ratios and costs per enplaned passenger (CPEs).

Exhibit 0-2: Summary of Forecast Results

FY 2018 – 2024, in US$ thousands

	Estimated 2018	Forecast 2019	2020	2021	2022	2023	2024
ENPLANED PASSENGERS	18,490	18,831	19,179	19,521	19,876	20,243	20,624
% Change	3.5%	1.8%	1.9%	1.8%	1.8%	1.9%	1.9%
DEBT SERVICE COVERAGE CALCULATION							
Net Revenues and Taxes	$125,904	$126,700	$128,673	$142,195	$148,673	$150,874	$149,088
Funded Coverage Account Balance	22,338	22,501	24,026	29,132	35,492	36,300	37,183
Adjusted Net Revenues and Taxes	$148,242	$149,201	$152,699	$171,327	$184,164	$187,175	$186,270
Debt Service Requirement	$ 87,209	$ 90,006	$ 96,105	$116,527	$141,967	$145,202	$148,731
Available PFC Revenues	(937)	(5,791)	(7,856)	(24,289)	(40,861)	(40,908)	(42,037)
Annual Adjusted Debt Service Requirement	$ 86,272	$ 84,214	$ 88,249	$ 92,237	$101,106	$104,294	$106,693
Debt Service Coverage	1.72	1.77	1.73	1.86	1.82	1.79	1.75
COST PER ENPLANED PASSENGER	$ 9.63	$ 9.96	$ 10.16	$ 11.08	$ 11.74	$ 12.52	$ 12.98

Source: estimated – Airports Division records; Forecast – ICF.

REPORT LIMITATION

The forecasts and projections presented in this Report are based on our interpretation of the information provided by the Airports Division, publically available sources and other third-parties, which ICF was under no duty to and has not undertaken to independently verify and as such, makes no assurances as to the accuracy of any such information; expectations of future management actions, and assumptions regarding economy, air traffic, legislation, airport operation and financial operations, among other aspects, all of which have been discussed with and agreed to by the Airports Division management. The Report, including this letter and attachment, documents our interpretation, expectations and assumptions as of the date of the Report, and should be read in its entirety. As agreed to by the Airports Division management, the forecasts fairly present the expected financial results.

However, any forecast is subject to uncertainty, which may lead to actual results substantially different from the forecast results presented in this Report. The report is provided on an as-is basis with no warranty of any kind. ICF does not, nor does anyone acting on behalf of ICF warrant the achievability of the forecast presented in the Report.

NO WARRANTY, WHETHER EXPRESSED OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE IS GIVEN OR MADE BY ICF IN CONNECTION WITH THIS REPORT. ICF IS NOT LIABLE FOR ANY DAMAGES OF ANY KIND ATTRIBUTABLE TO USE THIS REPORT.

We are pleased to assist the Department in this proposed financing.

Sincerely,

ICF

ICF

Attachment A

Information, Expectations and Assumptions for

Report of the Consulting Engineer

on the proposed issuance of

STATE OF HAWAI‘I,
AIRPORTS SYSTEM REVENUE BONDS
SERIES 2018

Table of Contents

EXHIBITS

TABLE OF ACRONYMS/GLOSSARY (GLOSSARY/LIST OF ACRONYMS)

Term	Definition
Hawaiʻi Airports System or the System	A system of 15 airports owned by the State and operated by the Department of Transportation, Airports Division (the Airports Division) as an enterprise fund of the State
Primary Neighboring Island (PNI) Airports	Primary Neighboring Island Airports include Kahului Airport, Ellison Onizuka Kona International Airport, Lihue Airport, and Hilo International Airport
Non Primary Airports	Non Primary Airports include Hana Airport, Kalaupapa Airport, Kapalua Airport, Lanai Airport, Molokai Airport, Waimea-Kohala Airport, Dillingham Airfield, Kalaeloa Airport, Port Allen Airport, and Upolu Airport.
Large Hub	Airports that enplane at least 1.0 percent of total annual US passenger enplanements (FAA).
Medium Hub	Airports that enplane at least 0.25 percent but less than one percent of total annual passenger enplanements in the US (FAA).
Small Hub	Airports that enplane at least 0.05 percent but less than 0.25 percent of total annual passenger enplanements in the US (FAA).
Origin & Destination (O&D)	A measure from the point of origination of a passenger to the final destination. It is the true trip of the passenger, although the passenger may change flights and planes at least once during the journey. It allows carriers to determine where their true business lies.
Yield	Passenger ticket revenue per seat mile, excluding fees paid for ancillary products and services.
State of Hawaiʻi	The State or Hawaiʻi
Transient Accommodation Tax (TAT)	A room, apartment house, condominium, beach house, hotel room, suite, or similar living accommodation rented to a transient person for less than 180 consecutive days.

Acronym	Definition	Acronym	Definition
ASSC	Airports System Support Charge	**ITO**	Hilo International Airport
CFC	Customer Facility Charge	**KOA**	Ellison Onizuka Kona International Airport at Keahole
CIP	Capital Improvement Program	**LIH**	Lihue Airport
DBEDT	Department of Business, Economic Development and Tourism	**MAG**	Minimum Annual Guarantee
FAA	Federal Aviation Administration	**MMA**	Major Market Areas
FIS	Federal Inspection Service	**O&D**	Origin and Destination
FY	Fiscal Year	**OGG**	Kahului Airport
GAAP	Generally Accepted Accounting Principles	**PFC**	Passenger Facility Charge
GDP	Gross Domestic Products	**PNI**	Primary Neighboring Island Airports
HAR	Hawaiʻi Administrative Rules	**TAT**	Transient Accommodations Tax
HNL	Daniel K. Inouye International Airport	**USDOT**	United States Department of Transportation
HRS	Hawaiʻi Revised Statues	**VRBO**	Vacation Rental by Owner

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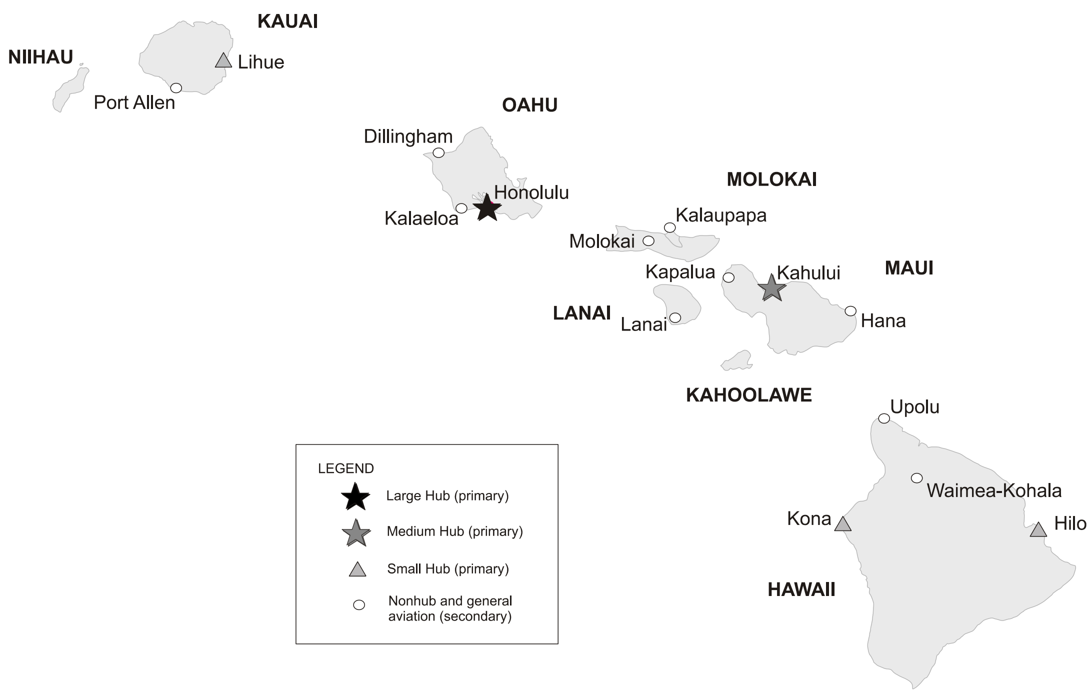
1. INTRODUCTION

1.1 The State

The State of Hawai'i comprises an archipelago of hundreds of islands spreading over 1,500 miles. The eight main islands, listed from northwest to southeast, are Niihau, Kauai, Oahu, Molokai, Lanai, Kahoolawe, Maui and Hawai'i. The island of Hawai'i, also known as the Big Island, is the largest island in the State. However, the island of Oahu has the highest population, accounting for over two-thirds of the State's total population of 1.45 million in 2017[3]. As shown in Exhibit 1-1, the 15 airports operated by the Airports Division are spread across six islands. The State is situated in the center of the Pacific Ocean and is recognized as one of the top global tourism destinations.

Exhibit 1-1: Hawai'i Airports System



1.2 The State Government

The State government includes three branches: the executive branch led by the Governor, the legislative – the State Legislature, and the judicial – Hawai'i State Judiciary. The governor is elected statewide every four years with the next governor scheduled to be elected on November 6th 2018. The governor appoints all other state public officials, including the Director and the Deputy Directors for the Department. There are four Deputy Directors in the Department, one for each division of Administration, Airports, Harbors, and Highways. The Deputy Director – Airports leads the Airports Division on behalf of the Department and the State, and serves the same term as the governor.

The Airports Division relies on the central service of the Department for administrative and managerial duties and relies on other departments of the State for other business functions, such as financial services from the

3 Woods & Poole Economics, 2018. Woods & Poole is a Washington-based economic research, forecasting and data services firm that specializes in developing forecasts of economic and demographic information derived from U.S. Census data.

Department of Budget and Finance, or human resources services from the Department of Human Resources Development.

The Hawai‘i State Legislature consists of the State House of Representatives with 51 members and the State Senate of 25 members. The legislative sessions are held in the State Capitol building in the city of Honolulu annually, with the regular sessions starting on the third Wednesday in January for no more than 60 working days. Among other activities, the Hawai‘i State Legislature reviews and approves the biennium budget for the executive branch, including operating and capital budget of the Airports Division. Furthermore, the Legislature presents and assesses bills that may influence the operations of the Airports Division.

1.3 Hawai‘i Airports System

The Hawai‘i Airports System is managed by the Department through its Airports Division as an enterprise fund of the State. The Hawai‘i Airports System includes 15 airports located on six islands, which handle all commercial aviation activities in the State. Air travel is the primary means of transportation for overseas visitors, which support the tourism industry of the State. According to the Department of Business, Economic Development and Tourism (DBEDT), more than 97 percent of overseas visitors arrived by air in calendar year 2017[4].

Air travel is also the primary means of transportation for residents of the State to travel between islands within the State. The only other commercial inter-island transportation is the ferry services between Maui and Lanai.

As shown in Exhibit 1-2, the Hawai‘i Airports System includes one large-hub airport, one medium-hub airport, three small-hub airports, and 10 non-hub and general aviation airports. There are no commercial airports on the islands of Niihau and Kahoolawe.

- *Oahu Island:* HNL is the largest airport in the Hawai‘i Airports System with 10.2 million enplaned passengers in FY 2017, accounting for 57.1 percent of the system-wide traffic of 17.9 million. HNL is the 28th largest U.S. airport ranked by the FAA based on calendar year 2016 revenue enplaned passengers and is the primary port of entry for international arrival to the State. 67.3 percent of enplaned passengers at HNL head to overseas destinations, including domestic destinations in the U.S. mainland and international destinations in the Americas, Asia, and Oceania. The remaining 32.7 percent of enplaned passengers fly inter-island to other airports in the Hawai‘i Airports System;

- *Maui Island*: OGG is the second largest airport in the Hawai‘i Airports System with 3.5 million enplaned passengers in FY 2017, accounting for 19.7 percent of system-wide traffic. OGG is the 50th largest airport in the U.S., with 57.8 percent of enplaned passengers flying overseas;

- *Hawai‘i and Kauai Islands*: ITO, KOA and LIH are three small-hub airports. Both ITO and KOA are located on the island of Hawai‘i, with ITO serving primarily inter-island traffic. KOA began serving Tokyo-Haneda (HND) and Tokyo-Narita, Japan (NRT) in December 2016 and September 2017, respectively, after the KOA Federal Inspection Service (FIS) station reopened. KOA is now the second port of entry for international arrivals by air, given limited Canadian flights at other Primary Neighboring Island (PNI) airports. LIH is located on the island of Kauai, with 39.8 percent of enplaned passengers flying overseas; and

- Non-primary airports accounted for 1.2 percent of system-wide traffic in FY 2017.

4 Department of Business, Economic Development & Tourism (DBEDT) conducts surveys for all overseas visitors which does not include residents of the State traveling within Hawai‘i and only counts each overseas visitor once regardless of how many islands the visitor may visit.

Exhibit 1-2: Hawaiʻi Airports System

Island	Primary Airports	Non-primary Airports
Oahu	▪ Daniel K. Inouye International Airport (HNL), large-hub	▪ Dillingham Airfield (HDH) ▪ Kalaeloa Airport (JRF)
Maui	▪ Kahului Airport (OGG), medium-hub	▪ Hana Airport (HNM) ▪ Kapalua Airport/West Maui Airport (JHM)
Hawaiʻi	▪ Ellison Onizuka Kona International Airport at Keahole (KOA), small-hub ▪ Hilo International Airport (ITO), small-hub	▪ Upolu Airport (UPP) ▪ Waimea-Kohala Airport (MUE)
Kauai	▪ Lihue Airport (LIH), small-hub	▪ Port Allen Airport (PAK)
Lanai		▪ Lanai Airport (LNY)
Molokai		▪ Molokai Airport (MKK) ▪ Kalaupapa Airport (LUP)

Source: Airports Division records.

1.3.1 Daniel K. Inouye International Airport (HNL)

HNL is located on the south shore of the island of Oahu. HNL occupies 2,216 acres of land and 2,210 acres of water and is located approximately six miles west of downtown Honolulu and nine miles from Waikiki via Interstate H-1. HNL can be accessed via Interstate H-1 and Nimitz Highway from both West Oahu and East Oahu.

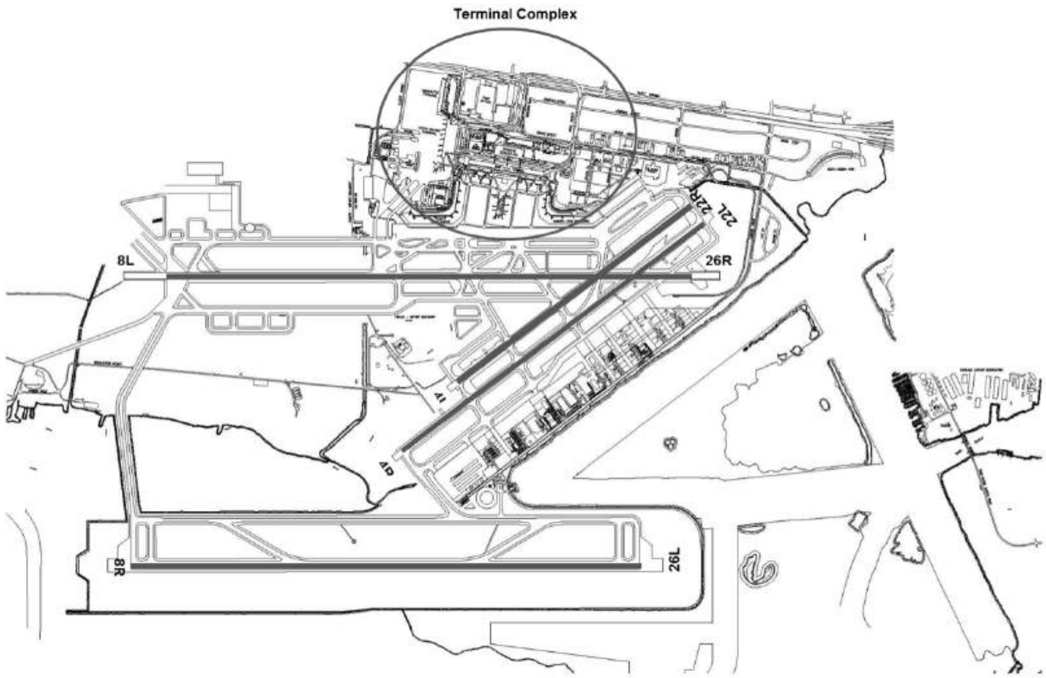
Exhibit 1-3 provides a profile of the airport infrastructure at HNL, and Exhibit 1-4 shows the layout of HNL.

Exhibit 1-3: Profile of HNL Airport Facilities
June 2018

Terminals/Concourses	Gates	Purposes
Terminal 2 / Overseas Terminal		
Diamond Head Concourse	8	Overseas flights
Central Concourse	12	Overseas flights
Ewa Concourse	9	Overseas flights
Terminal 1 / Inter-island Terminal		
Makai Pier	5	Inter-island flights
Inter-island	8	Overseas/Inter-island
All Terminals	42	
Runway	**Length/width (feet)**	
8R/26L	12,000x200	
8L/26R	12,312x150	
4R/22L	9,000x150	
4L/22R	6,952x150	
8W/26W	5,000x300	Seaplane
4W/22W	3,000x150	Seaplane

Source: Airports Division records.

Exhibit 1-4: HNL Layout
June 2018



Source: Airports Division records.

HNL shares the runways with Hickam Air Force Base, which is located on the west side of HNL airfield. The HNL airfield has two sets of runways, and two offshore runways for seaplanes. The primary runway, designated 8R-26L or the Reef Runway, is 12,000 feet long and 200 feet wide. Runway 8L 26R is 12,312 feet long and 150 feet wide, parallel to the Reef Runway. Runway 4R/22L is 9,000 feet long and 150 feet wide, and runway 4L/22R is 6,952 feet long and 150 feet wide.

There are three terminal buildings at HNL. The Airports Division renamed the terminal gate, and baggage claim area on June 1, 2018:

- Terminal 1 (formerly the Inter-island Terminal) serves both Inter-island and overseas flights. As of the date of this Report, Hawaiian Airlines uses all 13 gates at Terminal 1 on a preferential-use basis. The Mauka Concourse Program, an expansion of this terminal, is currently in progress. The program is expected to be substantially complete in 2020, adding 6 wide-body gates or 11 narrow-body gates;

- Terminal 2 (formerly the Overseas Terminal) serves overseas flights to the U.S. mainland and other overseas destinations. Of the 29 gates in Terminal 2, 27 gates are currently common use, and two gates are assigned on a preferential basis, one gate each to Alaska Airlines and Hawaiian Airlines. An international arrivals building is located between Terminal 1 and Terminal 2.

- The Commuter Terminal was closed and demolished in June 2018, with a new facility - Terminal 3 constructed near Diamond Head Concourse for Mokulele Airlines.

HNL has three garages for public parking: the Overseas Parking Garage in front of Terminal 2, the Inter-island Parking Garage on levels 3 to 7 of Inter-island Terminal 1, and the International Parking Garage in front of Inter-island Terminal 1. The Airports Division has a total of 7,685 spaces for public and employee parking, after closing the surface parking lot in front of the Commuter Terminal in June 2018. The Airports Division modified the east side of the Overseas Parking Garage into an interim rental car facility. The facility will revert to public parking and add back 745 public parking spaces when the HNL ConRAC is completed in 2021. The HNL ConRAC is being constructed in front of Terminal 2. The Airports Division is reviewing options to increase public parking spaces but expects the parking revenue forecasts in this Report to be met.

Other facilities at HNL include a complex for general aviation, air cargo, and airport support facilities at the south ramp near Ke'ehi Lagoon, and a complex for maintenance and air cargo facilities, principally for the Inter-island airlines, located west of the terminal complex.

1.3.2 Primary Neighboring Island Airports (PNI)

Kahului Airport (OGG)

OGG is a medium-hub airport located on the northern edge of the island of Maui, between Haleakala and the West Maui Mountain Range on the island of Maui. OGG occupies 1,391 acres and is located three miles east of the town of Kahului, accessible via the Airport Road that connects to Hana Highway. OGG has two intersecting runways, Runway 2/20 is 6,995 feet long and 150 feet wide, and Runway 5/23 is 4,990 feet long and 150 feet wide. A study is underway to evaluate the options to reconstruct Runway 2/20. For the purpose of this Report, it was assumed that the Airports Division would implement the reconstruction project without affecting air traffic if the project is actualized within the forecast period.

OGG has two terminal buildings: the Passenger Terminal Building with 16 gates that accommodate the majority of the commercial air traffic activities, and the Commuter Terminal that serves inter-island commuter traffic. The surface parking lot is located directly in front of the Passenger Terminal Building. The OGG ConRAC is being constructed on the site southwest to the Passenger Terminal Building, as further discussed below. A general aviation area is located at the southeast corner of OGG.

Ellison Onizuka Kona International Airport at Keahole (KOA) and Hilo International Airport (ITO)

Both KOA and ITO are located on the island of Hawaiʻi. KOA is located on the west shore of the island of Hawaiʻi. KOA occupies 3,450 acres and is approximately 8 miles north of Kailua-Kona, accessible via Keahole Airport Road that connects to HI-19. KOA has one single runway, Runway 17/15, which is 11,000 feet long and 150 feet wide.

KOA has two terminals: the Passenger Terminal with 10 boarding gates serving 14 aircraft parking positions, and the Commuter Terminal serving inter-island commuter airlines and air tour/air taxi operators. The surface parking lot is located in front of the terminal. General aviation, cargo, and related facilities are located south of the passenger terminal complex.

The Airports Division has initiated the KOA Terminal Modernization Program, which, among other constructions, will provide for a centralized security checkpoint, baggage handling system, connectivity of the north and south holdrooms, additional pre-security space, concession space and other related facilities and equipment. In December 2016, Hawaiian Airlines initiated service between Haneda, Japan and KOA, making KOA the 2nd port of entry for international visitors by air[5]. Japan Airlines started daily nonstop service between KOA and NRT in September 2017. The Airports Division plans to construct an international arrival building to replace the interim Federal Inspection Services (FIS) facility at KOA.

ITO is located on the east shore of the Island of Hawaiʻi. ITO occupies 1,391 acres and is approximately 2 miles east of the town of Hilo, accessible via Airport Road that connects to HI-11, Mamalahoa Highway. ITO has two runways: Runway 8-26 is 9,800 feet long and 150 feet wide, and Runway 3-21 is 5,600 feet long and 150 feet wide.

ITO has two terminals: the Main Passenger Terminal with 10 gates, and the Commuter Terminal serving primarily helicopter air tours. The general aviation and air cargo facilities are primarily located on the west side of ITO.

Lihue Airport (LIH)

LIH is located on the southeast coast of the island of Kauai. LIH occupies 872 acres and is approximately 2 miles east of the town of Lihue, accessible via Ahukini Road that connects to HI-51, Kapule Highway. LIH has two

5 In September 2017, Japan Airlines began service between KOA and Tokyo-Narita.

runways: Runway 3/21 is 6,500-feet long and 150-feet wide, and Runway 17/35 is 6,500-feet long and 150-feetwide.

LIH has two terminal buildings: the Passenger Terminal has 8 gates with loading bridges and 4 hardstands, and the Commuter Terminal that serves inter-island traffic. A complex for cargo and general aviation operations is located to the northeast of the Passenger Terminal.

1.3.3 Non-primary Airports

Ten additional airports are included in the Hawaiʻi Airports System, referred to as the Non-primary airports. Six of the Non-primary airports (Hana Airport, Kalaupapa Airport, Kapalua Airport, Lanai Airport, Molokai Airport, and Waimea-Kohala Airport) are non-hub airports primarily offering commuter and air taxi service. The four remaining airports (Dillingham Airfield, Kalaeloa Airport, Port Allen Airport, and Upolu Airport) serve general aviation, the U.S. Coast Guard, military, and other uses.

2. CAPITAL IMPROVEMENT PROGRAM (CIP)

To undertake a capital project for the Hawaiʻi Airports System, the Airports Division must obtain an appropriation from the Legislature, the approval of allotment requests from the Office of the Governor, and concurrence from the Signatory Airlines, when applicable. As part of the biennium budget, the Airports Division submits a six-year capital plan, from which the projects in the first two years are reviewed and appropriated by the Legislature and approved by the Governor. The Airports Division adds those projects to the capital improvement program, which includes projects appropriated in previous years. From time to time, the Airports Division removes completed projects from the capital improvement program. This Report refers to the capital improvement program as of March 31, 2018 as the CIP; it includes projects appropriated in the 2018 Regular Sessions of Legislative and excludes the Hawaiʻi ConRAC Program funded from CFC revenues on a pay-as-go basis and related special facility bonds which are paid primarily from CFC Revenues. Projects that the 2018 Bonds will partially fund have received airline concurrence, when applicable. The Department expects to ask for and receive airline concurrence for other projects before implementation.

The CIP includes the projects that the Airports Division plans to implement during the forecast period through FY 2024 but does not include special maintenance projects and certain projects described at the end of this section. Schedule and cost information in this section are estimates from different sources depending on the status of each project. This information will be revised as the Airports Division proceeds with its implementation of the CIP.

2.1 CIP Status

Exhibit 2-1 presents the location of the CIP projects. The CIP includes 168 projects with a total cost estimate of $2.4 billion. Projects at HNL account for more than 50 percent of the CIP total costs.

Exhibit 2-1: CIP Projects by Location *(in US$ millions)*

	Number of Projects	Estimated Costs	% of Total
Project by Airport			
HNL	65	$1,380	57.7%
ITO	12	78	3.3%
KOA	12	217	9.1%
LIH	8	57	2.4%
OGG	14	210	8.8%
Other Airports	20	69	2.9%
Statewide	18	272	11.4%
Subtotal	149	$2,284	95.4%
2019 Appropriations	19	110	4.6%
Total CIP	168	$2,394	100.0%

Source: Airports Division records.

Exhibit 2-2 presents the status of the CIP. Projects accounting for more than 50 percent of the total CIP costs have moved to the construction or closeout stage.

Exhibit 2-2: CIP Status *(in US$ millions)*

	Number of Projects	Estimated Costs	% of Total Costs
Project Status			
Closed/Closeout	22	$179	7.5%
Construction	33	1,070	44.7%
Bid/Award	6	68	2.8%
Design	24	502	21.0%
Planning	83	576	24.1%
Total CIP	168	$2,394	100.0%

Source: Airports Division records.

2.2 Key CIP Projects

Exhibit 2-3 presents the CIP costs by project group, and is included as Exhibit A at the end of this Report. Project details in each group are provided in this section.

Exhibit 2-3: CIP Project Group and Funding Sources
(in US$ millions)

Project Group	# of Projects	Total Costs	Grants	PFC	Cash	Bond
HNL						
Mauka Concourse Program	26	$717	$1	$25	$16	$676
Airfield	12	182	48	43	25	66
Terminal	27	482	38	24	17	403
HNL Subtotal	65	$1,380	$87	$91	$58	$1,145
ITO	12	78	37	4	3	34
KOA						
Terminal Modernization Program	1	$84	$14	$41	$7	$22
Federal Inspection Services Building	1	70	3	28	38	2
Other KOA Projects	10	63	39	3	6	16
KOA Subtotal	12	$217	$55	$71	$50	$40
LIH	8	57	15	3	7	33
OGG	14	210	4	21	23	162
Other Airports	20	69	18	-	3	48
Statewide						
Energy Saving Projects	1	$207	$-	$-	$-	$207
Other Statewide Projects	17	66	2	-	33	31
Statewide Subtotal	18	$272	$2	$-	$33	$237
Subtotal	149	$2,284	$218	$190	$177	$1,699
2019 Appropriations	19	110	0	-	-	110
Total CIP	168	$2,394	$218	$190	$177	$1,809
% of Total		100.0%	9.1%	7.9%	7.4%	75.6%

Source: Airports Division records.

2.2.1 HNL Projects

Projects at HNL are further classified into three project groups: Mauka Concourse Program, airfield projects, and terminal projects.

2.2.1.1 Mauka Concourse Program

The Mauka Concourse Program includes the design and construction of a 280,000-square-foot concourse located at the northwest corner of Terminal 1 (formerly the Inter-island Terminal) at HNL, as well as the related enabling projects. The major components of the program and costs are:

- *The Mauka Concourse Project ($263 million)*: This project is designed to provide six wide-body aircraft gates or 11 narrow-body gates, operation areas, new security screening lanes, concessions, a restroom and service core, common area and public area furnishing, fixtures and equipment, aircraft parking aprons, airfield pavement, jet blast fencing, an extension of the fuel hydrant system, and other associated work. In FY 2018, Hawai‘i Island Air ceased all operations and the other tenant, Mokulele Airlines, agreed to relocate to the east side of the Terminal 2. The Mauka Concourse project is scheduled to be completed in summer 2020;

- *Relocation and construction of cargo and maintenance facilities ($166 million)*: This group of projects provides for the demolition and relocation of cargo and maintenance hangars for Aloha Air Cargo and Hawaiian Airlines, as well as for related site preparation and parking lot expenses. A majority of the projects in this group have been completed;

- *Taxilanes G&L Widening, Phases I, II, and III ($154 million)*: This group of projects provides for the widening and strengthening of Taxilanes G & L from Taxiway A to the future Mauka Concourse to accommodate dual Taxilanes usage of airplane design group V aircrafts. Phase 1 of the project has been completed, providing strengthened pavement through the joint maintenance facility. Phases 2 and 3 are scheduled to be completed in 2021; and

- *Miscellaneous supporting projects ($134 million):* This group of projects includes roadway terminal signage improvements, commuter terminal relocation, and Mauka Concourse program management expenses. The terminal signage project is scheduled to be completed in 2019.

2.2.1.2 HNL Airfield Projects

This group of projects and costs includes improvements related to the HNL Airfield:

- *Apron Reconstruction, Diamond Head and Ewa Concourse ($55 million)*: These two projects provide for repair and/or reconstruction of the concrete aprons used for aircraft parking at the Diamond Head Concourse and the Ewa Concourse. They are scheduled to be completed in 2019 and 2021, respectively;

- *Taxiway A Reconstruction ($50 million):* This project provides for the replacement of the entire asphalt concrete pavement of Taxiway A with reinforced concrete. The project will involve phasing in the shutdown of Taxiway A to allow for the total reconstruction of the taxiway, including the removal of the underlying base course. It is scheduled for completion in 2021;

- *Runway 8L Widening, Phases 1 and 2 ($46 million):* This project provides for the widening of Runway 8L to a minimum of 200 feet to accommodate airplane design group VI aircraft. This project will repave existing shoulder areas to runway standards. It will also update the associated striping, signage, and lighting, where necessary. Phase 1 is scheduled to be completed in late 2018. Phase 2 is scheduled to be completed in 2020; and

- *Other HNL airfield projects ($30 million):* The remaining projects include pavement reconstruction for Runway 4R, Runway 4L lighting, taxiway hold lights, and other miscellaneous projects. The first two projects have been completed. The remaining projects will be completed in 2020.

2.2.1.3 HNL Terminal Projects

This group of projects and costs includes repair, maintenance, renovation, and improvements to the HNL terminal buildings:

- *HNL Ticket Lobby Renovation and Improvements to Baggage Handling System ($151 million):* These two projects provide for improvements to ticketing lobbies 4, 5, and 6 in Terminal 2 to match lobby 7 and lobby 8 with back counter takeaway belts, and to improve the baggage handling system in lobbies 2 and 3. The former project is anticipated for completion in 2021. The baggage handling system project is anticipated for completion in 2019;

- *Electrical Distributed Generation System, Phases 1 and 2 ($33 million):* This project provides electrical system improvements for emergency power at HNL, including the installation of six emergency generators to provide 18 Megawatts of emergency backup power for the terminal buildings, as well as two storage fuel tanks to fuel the new generators. These improvements will give airport users reliable, continuous service necessary for general health, safety, and vital communication services without affecting other commercial users. This project has been substantially completed;

- *HNL Restroom Improvements Phase 2 ($54 million):* This project will renovate restrooms in Inter-island Terminal 1 and renovate the Central Concourse and Diamond Head Concourse in Terminal 2. It will also install new restrooms and/or renovate existing restrooms in the International Arrivals Building as well as provide for other related improvements. Asbestos abatement may be necessary. This project is anticipated for completion in late 2020;

- *HNL Equipment Modernization ($27 million):* This project will provide for the design and construction of renovations to the terminal facilities, including as many as 31 escalators, 12 elevators, a telephone system, and other related improvements. This project is anticipated for completion in 2020;

- *Replacing Parking Structure Pedestrian Bridge ($27 million):* This project includes improvements to the three pedestrian bridge crossings between Terminal 2 and Terminal 2 Parking Garage. This project is anticipated for completion in late 2019;

- *400HZ Power Upgrade and Pre-Conditioned Air Conditioning Units ($26 million):* These two projects will provide for loading bridge improvements, including upgrading the capacity of the existing electrical system, eliminating individual ground power units, and installing pre-conditioned air units on top of existing loading bridges. These projects are anticipated for completion in 2020;

- *A380 Improvements ($16 million):* This project provides for improvement to two gates at Ewa Concourse to accommodate the A380 aircraft, including the installation of a third loading bridge from the third level, the installation of a third-level corridor from the loading bridge to the international arrivals sterile corridor, the strengthening of the hardstand and pavement areas, the upgrading of the electrical capacity, and other miscellaneous improvements as necessary. This project is anticipated for completion in late 2018;

- *Diamond Head Concourse Concession Improvement ($15 million):* The scope of work for this project includes providing additional concession space in the Diamond Head Concourse, the demolition and/or renovation of existing restrooms, and the enclosure of the exterior sidewalk by relocating the existing curtain wall toward the roadway curb. This project is anticipated for completion in 2019;

- *Substantially completed projects ($84 million):* This group of projects is substantially completed. It includes Access Control and CCTV Systems, OST Second-Level Roadway Improvements, Terminal Improvements to the Shuttle Station, concession improvement at the Ewa Concourse, Overseas Terminal Metal Roof Replacement, Inter-island Terminal Third-Level Roadway and Miscellaneous Improvements, and Automated Passport Control Kiosks; and

- *Other miscellaneous projects ($42 million):* This group of projects includes terminal reroofing and roadway improvements, agricultural inspection facility, and other supporting and planning projects to be completed between 2018 and 2020.

2.2.2 ITO Projects

The projects at ITO include *Aircraft Rescue and Firefighting* (ARFF) Facility Improvements (substantially completed for $20 million), Runway 3-21 Pavement Improvements (substantially completed for $13 million), New Roof and Facility Painting ($10 million, to be completed in 2019), and other improvements, such as restroom improvements, aircraft apron reconstruction, access control system improvements, airfield drainage improvements, west ramp demolition and leased lots, and other miscellaneous projects.

2.2.3 KOA Projects

Two major terminal projects are being implemented at KOA, along with other airfield, terminal, and landside projects.

2.2.3.1 KOA Terminal Modernization Program (KOA TMP)

The KOA TMP Project has an estimated total cost of $84 million. The project scope includes the construction of a centralized security checkpoint and a baggage handling system, and the connectivity of the north and south holdroom areas. Additional restrooms in the non-secured and secured areas, concession spaces, and the integration of the Flight Information Display and Public Address (PA) Systems will boost passenger convenience and comfort. This project is anticipated to be substantially completed in summer 2019.

2.2.3.2 KOA Federal Inspection Services Building (KOA FIS)

The KOA FIS Project has an estimated total cost of $70 million. The design is nearly completed, and the Department intends to advertise the construction bid in summer 2018 with an anticipated facility completion date of 2020. Direct international flights between Japan and KOA are processed in a temporary facility, which, under this project, the permanent facility will replace. The facility is designed to meet the latest U.S. Customs and Border Protection (CBP) Airport Technical Design Standards for Passenger Processing Facilities. It includes a ground transportation center.

2.2.3.3 Other KOA Projects

Other KOA projects include:

- *ARFF Regional Training Facility ($33 million):* This project will provide an all-hazard, multi-agency facility, including a fuel spill burner trainer, ARFF vehicles, a structural burn trainer, a confined space trainer, and a variety of firefighting props. Other facilities would include, but not be limited to, classrooms, administrative offices, conference and meeting rooms, dormitories, simulators, dog kennels, a high-speed / wet track driver training track, a shooting range, Urban Search & Rescue, etc. This project is anticipated for completion in 2020;

- *KOA General Aviation Subdivision ($11 million):* This project will provide for the construction of Fixed Base Operator (FBO) and aircraft lease lots on the south ramp. Work includes construction of site improvements and infrastructure including roads, water, sewer, power, communications, and security for the improved area. This project is anticipated for completion in late 2019; and

- *Other miscellaneous projects ($19 million):* Those projects include an agricultural inspection station, emergency power improvements, access control and CCTV systems, a perimeter fence replacement, and other miscellaneous projects.

2.2.4 LIH Projects

The projects at LIH include terminal holdroom improvements ($18 million, to be completed in 2021), Runway 3-21 and Taxiway B rehabilitation ($17 million, to be completed in late 2018), ticket lobby and holdroom improvements ($10 million, to be completed in late 2019), and other miscellaneous projects.

2.2.5 OGG Projects

The projects at OGG include the following groups:

- *Apron and Lease Lots ($65 million):* This project will provide for the design of aviation lease lots for aviation use at OGG, including improvements to grading and infrastructure, such as electric, water, internet, sewer, etc. The project will also construct roadways and subdivide land for lease. This project is an enabling project for the future Runway 2-20 reconstruction. Completion is anticipated in 2023;

- *Holdroom and Gate Improvements ($46 million):* This project will provide expanding seating capacity of the holdrooms by connecting Holdrooms A and B and incorporating the walkways as part of these holdrooms. There may be an increase in the number of gates by repositioning and adding loading bridges. The first phase of this project is anticipated for completion in 2019. Ultimately the project will determine where additional gate positions can be installed. Additional scope of the project is to expand the conditioned air system, flight information display system, fire alarm systems, lighting and seating into the holdrooms;

- *Apron Pavement Structural Improvement Phase 2 ($23 million):* This is the second phase of the apron structural improvements at OGG. It includes extending the existing concrete apron, milling and replacing 16 inches of asphalt concrete at most gates. This project has been substantially completed;

- *Alexander and Baldwin Land Acquisition Phase 2 ($15 million):* This project provides for the purchase of land adjacent to OGG for compatible use. This land was previously owned by Alexander and Baldwin, Inc. The purchase is anticipated for 2019; and

- *Other miscellaneous projects ($60 million):* These include inbound baggage handling system improvements; escalator, elevator, and moving walkway replacements; a new pass and ID office and conference room; holdroom and restroom improvements; Taxiway A/C intersection reconstruction; an environmental impact study for Runway 2-20; and other miscellaneous projects.

2.2.6 Projects at Other Airports

This group has an estimated total cost of $69 million. It includes miscellaneous projects to be implemented throughout the Hawai'i Airports System. A majority of the projects are anticipated for completion on or before 2021.

2.2.7 Energy Saving Projects

The Airports Division initiated a Statewide Energy Saving Performance Contracting project (the Energy Saving Projects) in 2013 to implement energy conservation measures throughout the Hawai'i Airports System. Such key measures include improvements to lighting, HVAC, transformers, and solar photovoltaic systems, as well as equipment replacement.

The first phase has been completed, while the second phase is anticipated to be completed in late 2018. All phases of this project are funded from the proceeds of Certificates of Participation (COPs), which are subordinate obligations.

2.2.8 Other Statewide Projects

Other statewide projects include the Airports Division staff costs managing the CIP, statewide planning and construction management and program management costs, and other statewide projects, such as fire alarm system replacement.

2.2.9 Projects in the FY 2019 Appropriation

The Airports Division has submitted a list of projects for the fiscal year 2019 appropriation, and received airline concurrence in July 2018. A portion of the planned 2018 Bonds proceeds will provide partial funding of the related project costs. The 2019 Appropriation Projects have a total estimated cost of $110 million, excluding appropriations to change the means of financing.

2.3 Funding Sources

As of March 31, 2018, $784 million (or 33 percent of the CIP costs) have been expended. Exhibit 2-4 presents the funding sources of the remaining costs, with each funding source discussed below.

Exhibit 2-4: Remaining CIP Costs, as of March 31, 2018

(in US$ millions)

Bond Proceeds	
2018 and Future Bonds	$1,135
2017 COPs	33
2015 Bonds	64
Subtotal Bonds	$1,232
AIP Grants	132
Other Grants	23
PFC-pay-as-you-go	114
Internal Cash	117
Total Remaining Costs	$1,610

Source: Airports Division records.

2.3.1 AIP Grants and Other Grants

The Airports Division receives federal grants under the Airport Improvement Program (AIP) distributed by the FAA in the form of entitlement grants and discretionary grants. Entitlement grants are determined by a formula based on passenger numbers and total appropriation level, while discretionary grants are determined by the FAA based on the nature of the specific project in comparison to projects at other airports in the FAA region. The AIP grants are used for the federal share of eligibility projects: 75 percent at large and medium-hub airports such as HNL and OGG, and 90 percent at small-hub airports such as ITO, KOA, and LIH. Eligible projects include projects to enhance safety, security, capacity, and access. Also available are certain other AIP grants, such as cargo entitle grants and noise grants.

The Airports Division expects to fund $132 million of future project costs using the AIP grants. Of this amount, approximately $63 million has already been awarded. The remaining $59 million is expected to be awarded throughout the forecast period. The Airports Division is entitled to approximately $26 million of passenger, cargo, and non-primary entitlement grants, although the actual awarded grant amount varies from year to year. In federal FY 2016 the Airports Division received $20.0 million in entitlement grants and $7.4 million in discretionary grants. In federal FY 2017 it received $13.8 million in entitlement grants. If future grants are higher or lower than anticipated, the amount to be funded from other funding sources may be reduced or increased, as necessary.

The Airports Division also received $14.1 million in grants from the Transportation Security Administration for the KOA TMP Projects related to baggage system improvements. It expects to receive $9 million for the HNL USDA facility.

2.3.2 PFC Pay-as-you-go

Passenger Facility Charge (PFC) is an airport user fee with restricted uses. Before collecting and using PFC revenues, a U.S. airport operator must submit a PFC application to the FAA and receive FAA authorization to collect PFC's. Airlines collect PFC revenues from certain enplaned passengers on the airport's behalf, then remit the PFC revenues to the airport operator after deducting an administrative fee of $0.11 per collection. PFC revenues can be used only for the capital costs of the approved eligible projects, with very limited exceptions. Title 49 United State Codes Section 40117 is the PFC statute authorizing PFC collection. CFR Part 158 is the PFC regulation and provides a detailed description of PFC eligibility, application, collection, amendment, and closeout.

To be eligible, a project must preserve or enhance safety, security, or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among air carriers. For large-hub and medium-hub airports, to collect a PFC at the $4.50 level, the airport operator must demonstrate that the project will make a significant contribution to the PFC objectives.

PFC revenues are collected from a majority of revenue enplaned passengers. Among other exclusions, passengers on Inter-island flights within Hawaiʻi are not subject to the PFC collection.

As of March 31, 2018, the Airports Division had a total PFC collection authority of $669 million, of which $413 million had been collected. The Airports Division has spent $239 million on a pay-as-you-go basis and for eligible bond debt service, with an ending fund balance of $174 million.

- PFC applications #1, #2, and #3 have been closed;
- Projects under PFC application #4 have been substantially completed;
- PFC application #5 includes the eligible debt service on bonds related to the Mauka Concourse Program and other projects, as well as $35 million for project costs on a pay-as-you-go basis; and
- PFC application #6 includes the use authority for one project in PFC application #5.

The Airports Division is preparing PFC application #7 for a total impose and use authority of $313 million, including $273 million of eligible debt service and $50 million for projects costs on a pay-as-you-go basis. The Airports Division conducted an airline consultation meeting in May 2018. It expects to receive FAA approval in late 2018.

In addition, the Airports Division plans to continue submitting PFC applications after the approval of PFC application #7 to include other PFC-eligible projects in the CIP. Exhibit B presents the historical and forecast of PFC revenues. The financial forecasts presented in this Report reflect the use of PFC revenues under future applications.

2.3.3 Internal Cash

As of March 31, 2018, the Airports Division had an unrestricted cash balance of $569 million, of which approximately 50 percent was available for capital projects. An additional $60 million was available in the Major Maintenance, Renewal, and Replacement Account (MMRRA), which the Airports Division classifies as internally restricted, though such funds could be used to cure deficiencies in Costs of Operation, Maintenance and Repair or debt service.

The CIP reflects a planned use of $117 million of the internal cash in future years, with most of the spending scheduled to occur during the first three years. The Airports Division recognizes the importance of maintaining a healthy cash position; it continues to evaluate the use of funding sources other than cash. As of the date of this Report, the Airports Division is discussing potential PFC funding for $28 million of the KOA FIS Project with the Signatory Airlines, which has been reflected in this Report.

Prior to the issuance of the 2018 Bonds, the Airports Division has temporarily advanced $50 million of internal cash to fund certain projects that the Bonds will eventually fund. The Airports Division will reimburse this advance using a portion of the proceeds of the 2018 Bonds.

2.3.4 Bond Proceeds

The Airports Division plans to fund approximately $1.1 billion of project costs from the proceeds of the 2018 Bonds and Future Bonds. The Airports Division has been using a cash flow financing approach for the CIP. Under this approach, the 2018 Bonds will fund a portion of the project costs for a selected group of projects through FY 2020. Future Bonds will fund the CIP's remaining costs.

As shown in Exhibit 2-4, the Airports Division had $64 million cash remaining from the 2015 bond proceeds and $33 million cash remaining from the 2017 COPs as of March 31, 2018. This will be used to fund a portion of the CIP costs.

2.4 Other Potential Capital Projects

The Airports Division's annual appropriation of operating costs includes a line item of special maintenance, with a not-to-exceed amount of $28 million in FY 2018 and $31 million in FY 2019 to fund major repair and maintenance projects. A portion of special maintenance costs is capitalized as a capital asset following the GAAP. The remaining amount is included in the GAAP operating expenses and, thus, the Costs of Operation, Maintenance and Repair presented in this Report. The CIP does not include special maintenance projects.

The CIP represents the projects that, as of March 31, 2018, the Airports Division planned to implement during the forecast period through FY 2024. The Airports Division will continue evaluating capital needs at least annually, to include new projects when deemed necessary, or to defer or cancel projects that are no longer needed. In addition, the Airports Division is aware of the following projects that are not included in the CIP:

1. *The OGG Runway 2-20 Reconstruction:* The OGG Runway 2-20 surface was deteriorated with depressions, shoving, rippling, and racking that created foreign object debris on the runway. This presented a safety hazard. In December 2016, the Airports Division completed a repaving project at a cost of approximately $4.5 million. The Airports Division still needs a long-term solution to replace the asphalt pavement with new Portland Cement Concrete pavement for the full length but must do so without shutting down the air traffic at OGG. The Airports Division is in the process of conducting an environmental impact study. The project's construction portion will not likely occur before FY 2022. Because of uncertainty regarding the schedule, cost, and funding, the CIP does not include this project; and

2. *The Diamond Head Concourse Program*: In July 2017, the Airports Division submitted the eighth concurrence to the ACH regarding planning, design, and construction of a new Diamond Head Concourse at HNL. The program also includes reconfiguring the existing Diamond Head Concourse and related apron work. It has an estimated order-of-magnitude cost of $1.1 billion, with the earliest completion date beyond FY 2025. In October 2017, the ACH conditionally concurred with the project, requiring the Airports Division and the ACH to work collaboratively to proceed with the pre-design phase. The project is not anticipated for completion during the forecast period. It is in the early pre-design stage and does not have a final scope, schedule, or cost estimate. Therefore, the CIP includes only $5 million for the pre-design work.

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3. ECONOMIC CHARACTERISTICS OF THE HAWAI‘I AIRPORTS SYSTEM

3.1 Introduction

Air travel demand and passenger traffic at Hawai‘i Airports System are strongly linked to the economic characteristics of the region. Hawai‘i, located in the central Pacific Ocean, is a popular tourist destination for travelers from the United States as well as from Pacific Rim countries, such as Japan, Korea, and Australia. The State is located in the western boundary of the United States (2,400 miles west of San Francisco and 3,800 miles east of Guam, the westernmost U.S. boundary) and has long been a major air transportation hub for Hawaiian Airlines' route system.

Historically, GDP growth within the State has outperformed the U.S., but following the 2008 – 2009 financial crisis this growth rate has moderated. In 2017, GDP growth for the State was 1.7 percent compared to the overall U.S. GDP growth of 2.3 percent[6]. The leisure and tourism industry in the State is mature, but continues to see solid growth in total visitors[7] which have averaged 3.3 percent per year since 2012. For State residents, personal income is projected to grow by 2.1 percent annually over the long-term (2017 – 2032)[8]. These economic drivers are strongly correlated to air travel demand and suggest that passenger activity within the region will continue to grow.

This section of the report covers various economic indicators for the State and the outlook for long-term economic growth.

3.2 Review of Economic and Socioeconomic Trends

3.2.1 Tourism and Visitor Industry

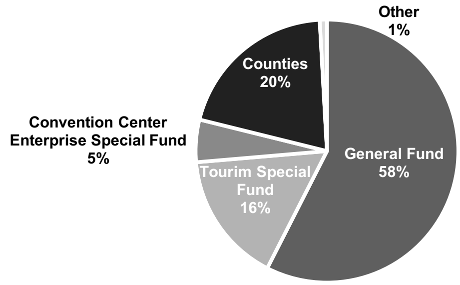
As a leisure market, Hawaii has historically proven to be resilient through economic downturns. While tourism is an important contributor in the State's economy, the economy continues to evolve and diversify, with job growth in emerging sectors such as Education and Health Service and Professional and Business Service. In 2017, for the sixth consecutive years, the State saw new records in visitor arrivals, spending, tax revenue generated, and jobs supported by the tourism industry. With strong visitor demand, new and added capacity by carriers (4.2 percent seat growth in FY June 2018 compared to last fiscal year), as well as new infrastructure development, the tourism and visitor industry are projected to continue to grow.

In 1998, through a legislative act, the State established the Hawai‘i Tourism Authority (HTA) to lead Hawai‘i's tourism policy and goals that will contribute to the growth of the State's economy. The legislative act also established a Transient Accommodations Tax (TAT) that is imposed on transient accommodations[9].

In FY 2017, the State collected $508.4 million in revenue from TAT, a 13.8 percent increase over the previous fiscal year. Of that amount, $82 million is allocated to the Tourism Special Fund for future development and implementations of tourism initiatives. In January 2018, the State increased the TAT by one percentage point from 9.25 percent to 10.25 percent for the next 13 years (2030) to help support and provide additional funding for the Honolulu rail project[10].

6 U.S. Bureau of Economic Analysis preliminary 2017 estimates.
7 Department of Business, Economic Development & Tourism (DBEDT) conducts surveys for all overseas visitors which does not include residents of the State traveling within Hawai‘i and only counts each overseas visitor once regardless of how many islands the visitor may visit.
8 Woods & Poole, 2018.
9 Transient accommodation is a room, apartment, house, condominium, beach house, hotel room, suite, or similar living accommodation rented to a transient person for less than 180 consecutive days.
10 Honolulu Rail Transit Project is a 20-mile-long elevated fixed highway rail system between East Kapolei and Ala Moana Center.

Exhibit 3-1: TAT Distribution
FY 2017



Source: Hawaiʻi Tourism Authority, FY 2017.

In 2017, tourism grew for the sixth consecutive year, achieving new records in terms of visitor arrivals and expenditures. Tourism accounted for roughly 19 percent of the State's GDP[11], with visitor expenditures from those arriving by air and cruise ship generating over $16.8 billion dollars, an increase of 6.2 percent from the previous year. Hawaiʻi welcomed over 9.3 million visitors in 2017, surpassed the 2016 record. In terms of jobs, the tourism industry supported a record 204 thousand jobs, a 5.2 percent increase over the past year and accounted for 31.2 percent of total non-agricultural wage and salary jobs. The forecast in Exhibit 3-2 was derived on economic conditions in the U.S. economy and key international economies, especially Japan as well as the local economy in terms of personal income, labor market, and the tourism industry.

Exhibit 3-2: Historical and Forecasted Visitor Arrivals and Expenditures
CY 2016-2021

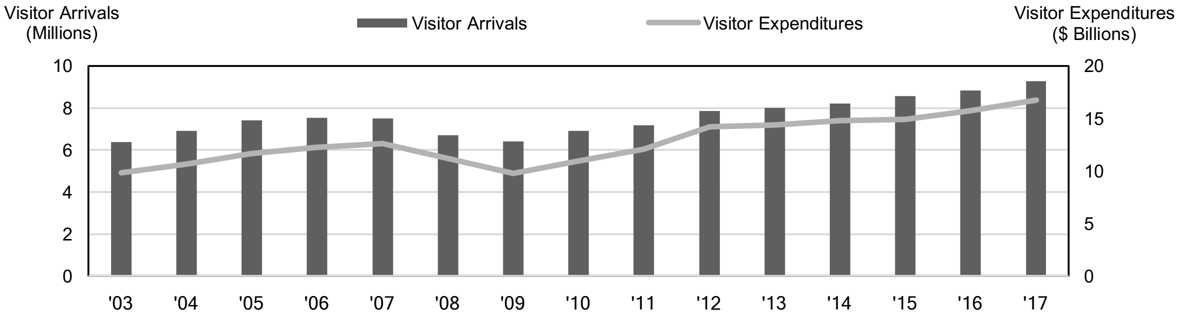
	Actual		Forecast			
	2016	2017	2018	2019	2020	2021
Visitor arrivals (thousands)	8,934	9,383	9,949	10,069	10,208	10,351
Visitor Expenditures (million dollars)	15,911	16,897	18,342	18,702	19,349	20,020
Gross Domestic Product (million dollars)	84,904	88,136	91,661	95,144	98,855	102,710

Visitor supplementary expenditure for 2017 was estimated by DBEDT
Source: Hawaiʻi Tourism Authority; DBEDT.

Exhibit 3-3 shows the historical Statewide air visitor arrivals and expenditures through 2017. Visitor count in this Report represents the number of overseas visitors to the State, but does not include visitors on Inter-island flights. Since 2007, visitor arrivals grew at an average annual rate of 2.1 percent while visitor expenditures grew 2.9 percent annually. Visitor arrivals were affected in 208 and 2009 during the financial crisis and economic recession leading to a drop of 10.4 percent in 2008 and 4.4 percent in 2009. Since 2010, as carriers added capacity between Hawaiʻi and overseas markets, visitor arrivals experienced consistent growth every year.

11 GDP contributed by Tourism is calculated by visitor expenditures divided by gross domestic product.

Exhibit 3-3: **Historical Visitor Arrivals and Expenditures by Air**
CY 2003-2017



Note: 2017 are preliminary figures.
Source: Hawai‘i Tourism Authority.

In 2017, the State welcomed over 9.2 million visitors by air, a 4.9 percent increase from the previous year as shown in Exhibit 3-4. Historically, there has been more westbound traffic flying west to Hawai‘i than eastbound traffic. Since 2004, westbound visitors grew an average of 2.2 percent per year, despite the dip in 2008 that resulted from the economic recession in the United States. The decrease in the value of the Japanese yen affected travelers from Japan, however, overall visitor numbers from the eastbound market grew 2.7 percent per year on average over the same time period.

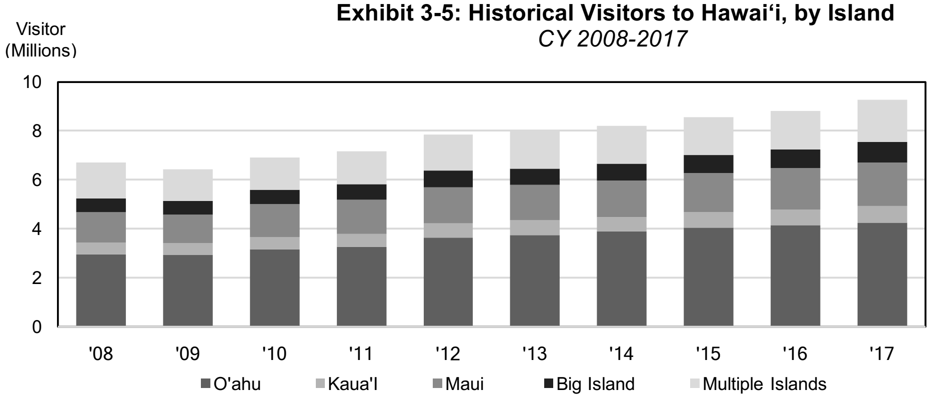
Exhibit 3-4: Historical Visitors to Hawai‘i, by Origin Market
CY 2004-2017

Visitors (000's)	Westbound					Eastbound						
	US West	US East	Canada	Europe	Westbound Total	Japan	South Korea	China	Oceania	Eastbound Total	Other	Total
2004	2,768	1,805	217	115	**4,905**	1,482	38	34	132	**1,687**	320	**6,912**
2005	3,032	1,929	249	112	**5,323**	1,517	35	43	142	**1,737**	356	**7,417**
2006	3,220	1,953	281	106	**5,560**	1,363	38	55	136	**1,592**	376	**7,528**
2007	3,245	1,902	333	108	**5,588**	1,296	42	57	164	**1,559**	350	**7,497**
2008	2,769	1,683	360	115	**4,927**	1,175	38	54	155	**1,423**	363	**6,713**
2009	2,719	1,561	347	104	**4,731**	1,168	51	42	137	**1,398**	291	**6,420**
2010	2,924	1,610	405	113	**5,052**	1,239	82	61	161	**1,543**	321	**6,916**
2011	2,995	1,642	478	120	**5,234**	1,242	113	82	210	**1,646**	294	**7,174**
2012	3,179	1,700	499	129	**5,507**	1,466	153	117	273	**2,009**	351	**7,867**
2013	3,211	1,702	517	137	**5,567**	1,519	177	125	356	**2,176**	260	**8,003**
2014	3,255	1,713	523	142	**5,633**	1,512	178	160	371	**2,221**	342	**8,196**
2015	3,508	1,804	512	145	**5,969**	1,482	194	174	400	**2,249**	345	**8,563**
2016	3,664	1,893	469	144	**6,170**	1,488	257	164	390	**2,300**	352	**8,822**
2017	3,843	1,999	518	140	**6,500**	1,569	258	151	393	**2,371**	386	**9,257**
Average Annual Percent Growth												
2004 - 2007	5.4%	1.7%	15.4%	-2.1%	**4.4%**	-4.4%	3.2%	18.3%	7.5%	**-2.6%**	3.0%	**2.7%**
2007 - 2012	-0.4%	-2.2%	8.4%	3.7%	**-0.3%**	2.5%	29.5%	15.6%	10.7%	**5.2%**	0.1%	**1.0%**
2012 - 2017	3.9%	3.3%	0.7%	1.6%	**3.4%**	1.4%	11.0%	5.3%	7.5%	**3.4%**	1.9%	**3.3%**
2004 - 2017	2.6%	0.8%	6.9%	1.5%	**2.2%**	0.4%	15.8%	12.1%	8.7%	**2.7%**	1.5%	**2.3%**
2016 - 2017	4.9%	5.6%	10.4%	-2.9%	**5.3%**	5.4%	0.5%	-7.9%	0.6%	**3.1%**	9.8%	**4.9%**

Note: 2017 are preliminary figures.
Source: DBEDT.

By island, O'ahu is the most visited among the Hawaiian Islands, accounting for 45.9 percent of visitors that only visited one island, followed by Maui (19.0 percent), the Big Island (7.4 percent), and Kaua'i (7.4 percent). In 2017, O'ahu welcomed over 4.2 million visitors, a 3.1 percent increase per year since 2012 while Maui, Kaua'I, and the Big Islands welcomed over 1.7, 0.7, and 0.8 million visitors, respectively.

Exhibit 3-5: Historical Visitors to Hawaiʻi, by Island
CY 2008-2017

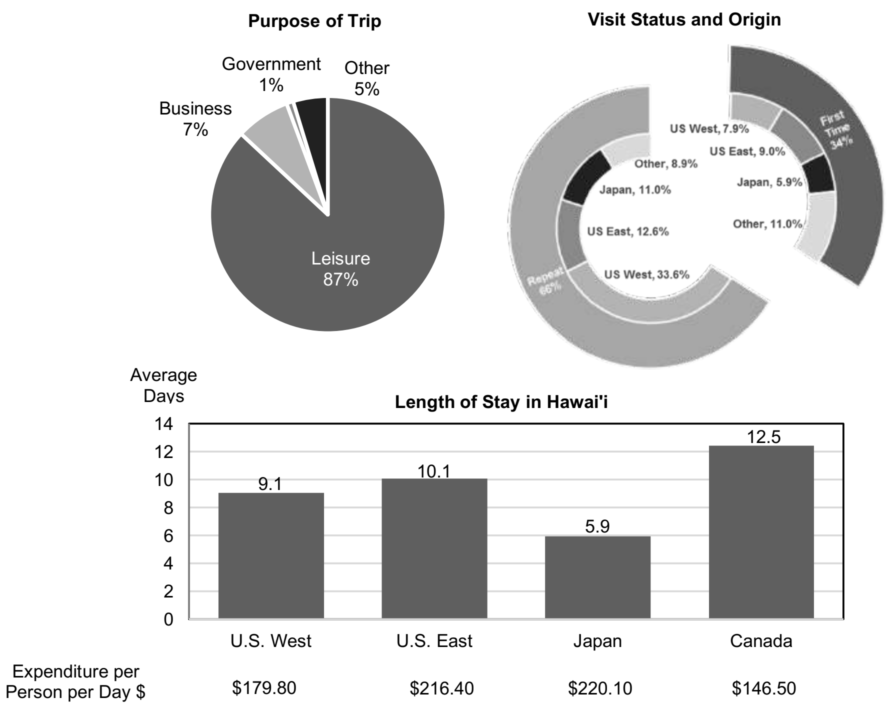


	CAGR '08-'17	CAGR '12-'17
O'ahu	4.1%	3.1%
Kaua'I	3.8%	3.1%
Maui	4.1%	3.8%
Big Island	4.6%	4.7%

Note: 2017 are preliminary figures; only includes visitor's visiting that county only. Maui includes Maui, Molokai and Lanai.
Source: Hawaiʻi Tourism Authority.

Exhibit 3-6 shows the characteristics of Hawaiʻi inbound visitors. In 2017, 86.9 percent of visitors came for leisure purposes and 66.2 percent of visitors have previously traveled to the State. According to DBEDT, visitors from the United States, which comprises of 63.1 percent of visitors, tend to have longer stays compared to visitors from Japan and other regions in the world, excluding Canada – 9.79 days vs 7.86 days, on average. Based on the four major markets areas (MMAs), Japanese visitors are the largest spenders, spending $220.10 per person per day compared to U.S. West spending $179.80; U.S. East spending $216.40; and Canada spending $146.50 per person per day, respectively.

Exhibit 3-6: Hawaiʻi Inbound Visitor Characteristics of Four MMAs
CY 2017



Note: Purpose of Trip – Leisure includes pleasure and visiting friends/relatives, Other includes attending school, sports events, and other, Business includes meetings/conventions/incentive and other business. 2017 are preliminary.
Source: Hawaiʻi Tourism Authority.

Popular U.S. Travel Destination

Hawaiʻi continues to be a highly popular destination for US mainland tourists. Based on user reviews of hotels, restaurants, and attractions, TripAdvisor named Maui, Big Island, and Oahu as the second, third, and fourth most popular destinations in the United States in 2017.

By island, O'ahu is the most visited among U.S. visitors, accounting for 34.5 percent of visitors that only visited one island, followed by Maui (25.6 percent), Big Island (11.8 percent), and Kaua'i (10.8 percent).

Exhibit 3-7: Historical Visitors to Hawaiʻi by Island – U.S Market
CY 2008-2017, thousands

	U.S. West and U.S. East					
Year	O'ahu	Kaua'I	Maui	Big Island	*Multiple Islands*	Total
2008	1,514	454	1,040	473	971	4,452
2009	1,534	437	997	463	849	4,280
2010	1,629	455	1,128	493	829	4,535
2011	1,638	488	1,149	524	838	4,637
2012	1,717	532	1,197	549	916	4,910
2013	1,742	541	1,196	537	897	4,913
2014	1,771	529	1,219	543	907	4,969
2015	1,884	566	1,337	604	920	5,311
2016	1,953	589	2,091	638	946	6,217
2017 (P)	2,017	628	1,493	692	1,012	5,842
Average Annual Percent Growth						
2008 - 2012	3.2%	4.0%	3.6%	3.8%	-1.5%	2.5%
2012 - 2017	3.3%	3.4%	4.5%	4.7%	2.0%	3.5%
2008 - 2017	3.2%	3.7%	4.1%	4.3%	0.5%	3.1%
2016 - 2017	3.3%	6.7%	-28.6%	8.5%	7.0%	-6.0%

Note: 2017 are preliminary figures; only includes visitor's visiting that county only. Maui includes Maui, Molokai and Lanai.
Source: Hawaiʻi Tourism Authority.

Popular Japan Travel Destination

For Japanese visitors, Hawaiʻi continues to be the top U.S. destination with nonstop flights to HNL and KOA, the latter which began in December 2016. In 2017, Japan accounted for over 16 percent of total visitors, an annual increase of 3.3 percent since 2008. Similar to the United States visitors, O'ahu is the most visited among the Japanese visitors, accounting for over 84 percent of visitors that only visited one island. In 2017 O'ahu welcomed over 1.3 million visitors, a 2.7 percent increase from the previous year. The largest growth, in terms of visitors by island, came from the Big Island, which welcomed 54 thousand Japanese visitors in 2017, a 79.4 percent increase from the previous years.

Exhibit 3-8: Historical Visitors to Hawaiʻi by Island - Japan Market
CY 2008-2017, thousands

	Japan					
Year	O'ahu	Kaua'I	Maui	Big Island	*Multiple Islands*	Total
2008	929	2	12	31	200	1,175
2009	945	1	10	23	189	1,168
2010	990	2	11	38	198	1,239
2011	1,009	3	12	31	187	1,242
2012	1,189	2	12	37	226	1,466
2013	1,243	3	14	39	219	1,519
2014	1,280	2	9	29	191	1,512
2015	1,278	3	11	28	162	1,482
2016	1,286	2	10	30	160	1,488
2017 (P)	1,321	2	10	54	181	1,569
Average Annual Percent Growth						
2008 - 2011	2.8%	9.2%	-2.0%	0.3%	-2.3%	1.9%
2012 - 2017	2.1%	-3.1%	-3.1%	8.0%	-4.3%	1.4%
2008 - 2017	4.0%	-2.2%	-2.3%	6.6%	-1.1%	3.3%
2016 - 2017	2.7%	-2.1%	0.7%	79.4%	13.3%	5.4%

Note: 2017 are preliminary figures; only includes visitor's visiting that county only. Maui includes Maui, Molokai and Lanai.
Source: Hawaiʻi Tourism Authority.

Popular Korea Travel Destination

After 2008, Hawaii saw an influx of visitors from South Korea when the Bush administration added South Korea to the Visa Waiver Program. As shown in Exhibit 3-4, visitors from South Korea have been the fastest growing inbound visitor segment, growing 23.7 percent per year, on average, since 2008, and now accounting for 10.9 percent of Eastbound visitors as of 2017. Similar to the United States and Japan visitors, O'ahu is the most visited among the South Koreans, accounting for the 70.9 percent of total South Korean visitors.

Exhibit 3-9: Historical Visitors to Hawai'i by Island – South Korea Market
CY 2012-2017, thousands

Year	O'ahu	Kaua'I	Maui	Big Island	Multiple Islands	Total
	South Korea					
2012	97	1	2	3	50	153
2013	115	0	2	2	59	177
2014	120	0	2	3	53	178
2015	132	0.4	2	2	57	194
2016	185	0.3	2	2	68	257
2017 (P)	183	1	1	2	71	258
Average Annual Percent Growth						
2012 - 2017	13.5%	1.3%	-8.9%	-6.1%	7.2%	11.0%
2016 - 2017	-1.1%	161.3%	-38.9%	10.6%	5.3%	0.5%

Note: 2017 are preliminary figures; only includes visitor's visiting that county only. Maui includes Maui, Molokai and Lanai.
Source: Hawai'i Tourism Authority.

Popular China Travel Destination

Through Hawaii-China marketing initiatives, visitors from China has grown 5.4 percent per year, on average, since 2012. In 2017, visitors from China accounted for 6.4 percent of Eastbound visitors. Similar to the other Eastbound visitors, O'ahu is the most visited among Chinese visitors, accounting for 54 percent of total visitors and roughly 43 percent visited multiple islands (Exhibit 3-10).

Exhibit 3-10: Historical Visitors to Hawai'i by Island - China Market
CY 2012-2017, thousands

Year	O'ahu	Kaua'I	Maui	Big Island	Multiple Islands	Total
	China					
2012	85	1	2	3	25	116
2013	90	1	2	3	29	125
2014	110	1	2	4	43	160
2015	110	0.5	2	5	56	173
2016	101	0.5	2	4	56	164
2017 (P)	82	0	1	3	65	151
Average Annual Percent Growth						
2012 - 2017	-0.9%	-18.5%	-2.5%	-2.6%	20.9%	5.4%
2016 - 2017	-19.2%	-31.4%	-7.2%	-37.2%	15.3%	-7.7%

Note: 2017 are preliminary figures; only includes visitor's visiting that county only. Maui includes Maui, Molokai and Lanai.
Source: Hawai'i Tourism Authority.

3.2.2 Hawai'i Lodging Inventory

Lodging availability has a direct impact on the ability of the State to grow its tourism industry, and therefore the growth in inbound leisure travel. Historically, the high cost of hotel construction and the cyclical nature of the tourism industry have limited the capacity of Hawai'i to absorb increasing tourist demand. Over the past decade, this constraint has been positively impacted by the rise of vacation rental services. Companies such as VRBO and Airbnb have allowed local residents to rent vacant homes, rooms and condos to inbound visitors. The rapid growth of this market segment has opened additional leisure capacity in Hawai'i, and has in part fueled the recent growth of inbound visitors. This new capacity provides confidence that despite high hotel occupancy rates throughout the State, room night availability does not appear to be a constraint to future tourist growth.

In 2017, hotel inventory accounted for 55.3 percent of the State's accommodation with 44,431 unit, an increase of 1.2 percent since 2016. Vacation rentals accounted for 12,659 units or 15.8 percent; Timeshare accounted for 11,062 or 13.8 percent; Condo hotel accounted for 10,875 units or 13.5 percent; and other accommodations accounted for 1,309 units or 1.6 percent. Overall, the State saw an increase of 1.6 percent with 80,336 units in total accommodations.

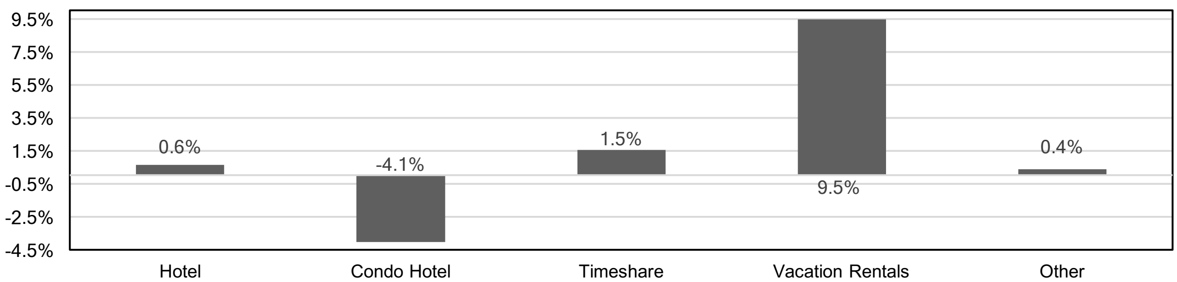
Exhibit 3-11: Unit Counts by Accommodation Type
2010-2017

Year	Hotel	Condo Hotel	Timeshare	Vacation Rentals	Other	**Total**
2010	42,528	14,526	9,940	6,719	1,275	**74,988**
2011	42,853	12,520	10,201	10,620	1,537	**77,731**
2012	43,151	12,188	10,049	7,567	1,695	**74,650**
2013	43,489	11,484	10,389	6,943	1,654	**73,959**
2014	43,575	10,560	10,647	7,162	1,772	**73,716**
2015	43,304	10,942	10,680	10,768	1,444	**77,138**
2016	43,912	10,918	10,716	12,189	1,357	**79,092**
2017	44,431	10,875	11,062	12,659	1,309	**80,336**

Note: Other includes Apartment Hotels, B&B, Hostels, and other units; Condo/hotel consists of individually deeded condominium units but provide hotel-like services.
Source: 2017 Visitor Plant Inventory, Hawai'i Tourism Authority.

The strongest growth in accommodation came from the vacation rental segment. Since 2010, vacation rentals grew 9.5 percent annually per year. Booking sites such as Airbnb and VRBOs make it easy for travelers to search and rent a room or house for their short-term accommodation, transforming the hospitality industry. As these sites continue to become more accepted, the vacation rental segment of the market will continue to help facilitate and support the tourism industry, absorbing the seasonal spill from the hotel segment.

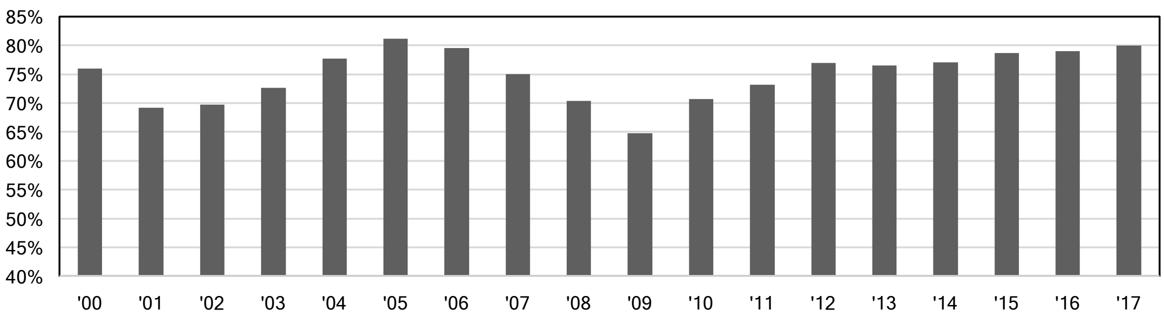
Exhibit 3-12: Accommodation Type, by Percentage Growth
CAGR 2010-2017



Note: Other includes Apartment Hotels, B&B, Hostels, and other units; Condo hotel consists of individually deeded condominium units but provide hotel-like services.
Source: 2017 Visitor Plant Inventory, Hawai'i Tourism Authority.

As shown in Exhibit 3-13**,** statewide, hotel occupancy rate in 2017 reached its highest since 2005 at 80.0 percent, a 1.0 percentage point increase since 2016. The average revenue per available room (RevPAR) averaged $212 while the average daily rate (ADR) was $264, a 5.4 and 4.1 percent increase, respectively, in 2017.

Exhibit 3-13: Statewide Average Hotel Occupancy Rate
CY 2010-2017



Source: Hawai'i Tourism Authority.

Hotel Development

Given the high hotel room occupancy rates in Hawai'i' investment in new hotel rooms and renovation of existing hotel room stock is growing. In 2018, the State's tourism infrastructure will continue to grow in response to strong visitor demand.

Hotel openings and renovations in 2017 included:

- *January 2017:* Hyatt Centric Waikiki Beach, formerly a Waikiki Trade Center office building, has 230 upscale guestrooms;
- *January 2017:* Kohea Kai Resort, a boutique hotel, has 26 rooms with private lanai and ocean views;
- *March 2017:* Laylow, Autograph Collection in Waikiki Beach opened in March after a $60M renovation. The hotel has 251 rooms – 186 guestrooms and 65 suites;
- *March 2017:* Hilton Grand Islander, within the Hawaiian Village Waikiki Beach Resort, is a new timeshare building with one, two, and three bedroom suites;
- March 2017: A multi-year expansion of the Koloa Landing Resort at Poipu, Autograph Collection was completed in March and has 306 total rooms;
- *April 2017:* Prince Waikiki opened in April after a $55 million renovation. The hotel has 563 floors of ocean view guest rooms and suites;
- *April 2017:* Westin Nanea Ocean Villas has eight six story buildings offering one, two, and three bedroom villas;
- *May 2017:* Marriott’s Waikoloa Ocean Club, located within the Waikoloa Beach Marriott Resort & Spa is a vacation ownership property with 112 suites;
- *July 2017:* Holiday Inn Express Waikiki, located three blocks from the beach, is one of the largest Holiday Inn Express in the U.S. with 596 renovated rooms;
- *December 2017:* Alohilani Resort Waikiki Beach, previously known as Pacific Beach Hotel, has 839 all-renovated quest rooms and suites with ocean, Diamond Head, and city views;

Growth in AirBnB and VRBO Inventory

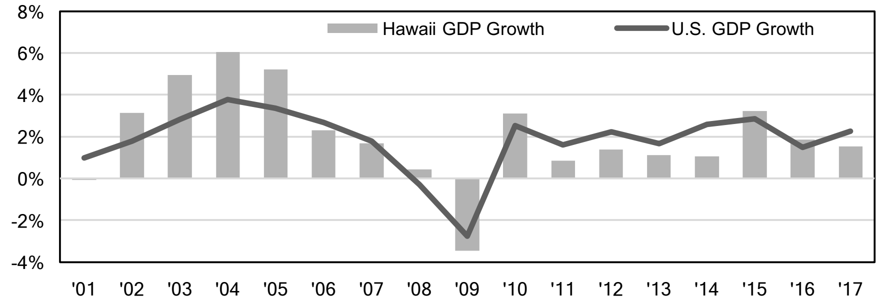
In 2017, based on Airbnb, HomeAway, and TripAdvisor booking sites, there were over 38 thousand vacation rental units advertised, a 17.0 percent increase from 2016[12]. Based on a study by JLL for the Hawai‘i Tourism Authority in 2016, of those surveyed, 33 thousand visitors have indicated that they have stayed in a rental house or vacation rental in the past. 18 percent also indicated that they have stayed in a hotel on the same or additional trips, indicating a small overlap between hotel and house rental visitors. The survey also indicated that 33 percent of visitors booked their accommodation through VRBO, while over 15 percent booked through AirBnB. The main drivers for non-hotel rentals are the low cost and larger accommodation offers for families or groups friends. JLL estimates that the percentage of residents who have made their residential units available for visiting guests will grow from 9 percent to 12 percent over the next five years. Potential growth in the AirBnB and VRBO market, as well as new hotel openings and hotel renovations in the State, indicate the tourism industry will continue to be supported as visitor demands rise.

3.2.3 Economic Outlook

Exhibit 3-14 shows the historical year-over-year GDP growth for the State and the U.S. through 2017. GDP growth within the State has historically outperformed the nation but has slowed down following the 2008 financial crisis. Similar to the rest of the nation, the State’s economy was affected by the financial crisis but rebounded in 2010. In 2010, the State’s GDP recovered slightly faster than the nation, at 3.1 percent GDP growth and picked up again in 2015, increasing by 3.2 percent in 2015 and 1.9 percent in 2016 after a period of growth fluctuation between 2011 to 2014. In 2017, the State’s GDP growth totaled 1.7 percent and is expected to remain stable in the next few years, while the nation experienced growth of 2.3 percent over the same period. According to DBEDT and Woods & Poole, the State’s GDP growth is forecast to increase by 1.6 percent annually through 2021(Exhibit 3-15); U.S. average annual GDP growth is forecast at 2.0 percent through 2021[13].

12 2017 Visitor Plant Inventory, Hawai‘i Tourism Authority. Numbers cited likely overstate the number of individually advertised vacation rental units due to the lack of unique identifying information associated with each of the vacation rental nit listed on the booking sites.
13 DBEDT and Woods & Poole 2018.

Exhibit 3-14: Annual Growth in Hawai'i GDP and U.S. GDP
CY 2001-2017



Note: 2017 figures for Hawai'i reflect U.S. Bureau of Economic Analysis preliminary estimates for the year.
Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

Exhibit 3-15: Hawai'i GDP Forecasts Comparison
CY 2017-2021

	Actual	Projected				CAGR
	2017	2018	2019	2020	2021	2017-2021
Real Gross Domestic Product	Average Annual Percent Increase					
DBEDT	1.7%	1.9%	1.6%	1.4%	1.4%	1.6%
UHERO	1.1%	1.8%	2.1%	1.3%	n/a	n/a

Note: n/a not applicable; University of Hawai'i Economic Research Organization (UHEREO) figures for 2017 GDP growth are UHERO estimates.
Source: DBEDT; UHERO.

3.2.4 Employment Trends

As shown in Exhibit 3-16, Hawai'i is ranked 10th in the western states with over 657.0 thousand employees Hawai'i's employment is up 1.4 percent from December 2016, compared to a 0.5 percent increase over the same period from 2015 to 2016.

Exhibit 3-16: Non-Agricultural Employment for the Western States and Total U.S.
December 2016 to December 2017

		Non-Farm Employees ('000s)				
Rank	State	Dec 2017	Dec 2016	Net Change	Pct Change	Rank by Pct Change
1	California	17,002.9	16,636.9	366.0	2.2%	7
2	Washington	3,370.7	3,283.9	86.8	2.6%	4
3	Arizona	2,795.1	2,736.6	58.5	2.1%	8
4	Colorado	2,686.8	2,625.7	61.1	2.3%	6
5	Oregon	1,896.8	1,851.0	45.8	2.5%	5
6	Utah	1,490.3	1,443.4	46.9	3.2%	2
7	Nevada	1,359.8	1,318.2	41.6	3.2%	3
8	New Mexico	835.8	828.0	7.8	0.9%	12
9	Idaho	728.1	702.9	25.2	3.6%	1
10	**Hawaii**	**657.0**	**647.7**	**9.3**	**1.4%**	**10**
11	Montana	476.7	469.6	7.1	1.5%	9
12	Alaska	326.5	330.9	(4.4)	-1.3%	13
13	Wyoming	283.3	280.2	3.1	1.1%	11
	United States	147,625.0	145,437.0	2,188.0	1.5%	

Note: Seasonally adjusted.
Source: U.S. Department of Commerce, Bureau of Labor Statistics (BLS).

The leading industries for employment (accounting for over half of non-farm employees) in Hawai'i are Government; Leisure and Hospitality; and Trade, Transportation, and Utilities in 2017. As reflected in Exhibit 3-17, figures for December 2017 show that Government Services account for 19.1 percent of Hawai'i's non-farm employees; Leisure and Hospitality account for 19.2 percent; and Trade, Transportation and Utilities represent 18.4 percent of non-farm employees in Hawai'i.

Exhibit 3-17: Non-Agricultural Employment by Industry Sector for Hawai'i and the U.S.
December 2016 to December 2017

	Non-Farm Employees ('000s)					
	December 2017		December 2016		Percent Change	
Industry Sector	U.S	Hawaii	U.S	Hawaii	U.S	Hawaii
Leisure & Hospitality	16,207.0	126.1	15,853.0	120.6	2.2%	4.6%
Government	22,331.0	125.5	22,306.0	124.3	0.1%	1.0%
Trade, Transportation, and Utilities	27,593.0	120.7	27,424.0	121.5	0.6%	-0.7%
Education & Health Services	23,380.0	86.1	22,922.0	82.9	2.0%	3.9%
Professional & Business Services	20,677.0	82.0	20,219.0	82.0	2.3%	0.0%
Mining, Logging, and Construction	7,770.0	37.3	7,468.0	36.9	4.0%	1.1%
Financial Activities	8,511.0	28.4	8,369.0	28.6	1.7%	-0.7%
Other Services	5,822.0	27.9	5,713.0	27.5	1.9%	1.5%
Manufacturing	12,558.0	14.0	12,351.0	14.3	1.7%	-2.1%
Information	2,776.0	9.0	2,812.0	9.1	-1.3%	-1.1%
Total	**147,625.0**	**657.0**	**145,437.0**	**647.7**	**1.5%**	**1.4%**
Percent of Total						
Leisure & Hospitality	11.0%	19.2%	10.9%	18.6%		
Government	15.1%	19.1%	15.3%	19.2%		
Trade, Transportation, and Utilities	18.7%	18.4%	18.9%	18.8%		
Education & Health Services	15.8%	13.1%	15.8%	12.8%		
Professional & Business Services	14.0%	12.5%	13.9%	12.7%		
Mining, Logging, and Construction	5.3%	5.7%	5.1%	5.7%		
Financial Activities	5.8%	4.3%	5.8%	4.4%		
Other Services	3.9%	4.2%	3.9%	4.2%		
Manufacturing	8.5%	2.1%	8.5%	2.2%		
Information	1.9%	1.4%	1.9%	1.4%		
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**		

Note: Seasonally adjusted.
Source: U.S. Department of Commerce, Bureau of Labor Statistics (BLS).

While the Leisure and Hospitality industry supported 19.2 percent of employment in December 2017, the State's economy continues to evolve and diversify with job growth in emerging sectors. Since 1997, overall employment grew 1.1 percent per year with growth in seven of ten sectors over the 20-year period (Exhibit 3-18). Employment in the Mining, Logging, and Construction, Education and Health, and Professional & Business Services sectors grew the fastest, while the Financial Activities, Manufacturing, and Information sectors saw a decline. Mining, Logging, and Construction, Education and Health, and Professional & Business Services increased from 4.4 percent to 5.7 percent, 10.6 percent to 13.1 percent, and 10.7 percent to 12.5 percent, respectively, of Hawai'i's non-agricultural employment from 1997 to 2017.

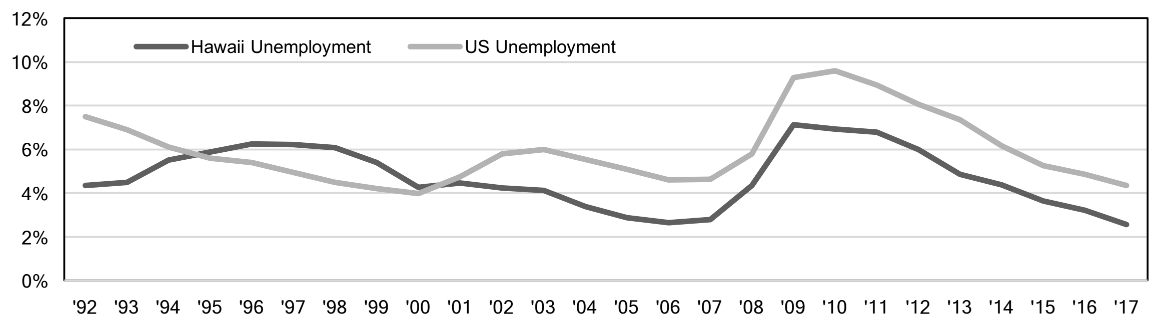
Exhibit 3-18: Non-Agricultural Employment by Industry Sector for Hawai'i
December 1997 to December 2017

Industry Sector	Non-Farm Employees ('000s)				CAGR				Net Change ('000s)			
	1997	2007	2012	2017	'97-'07	'07-'12	'12-'17	'97-'17	'97-'07	'07-'12	'12-'17	'97-'17
Leisure & Hospitality	95.6	109.2	109.1	126.1	1.3%	0.0%	2.9%	1.4%	13.6	-0.1	17.0	30.5
Government	111.6	123.9	125.8	125.5	1.1%	0.3%	0.0%	0.6%	12.3	1.9	-0.3	13.9
Trade, Transportation, and Utilities	108.5	122.9	115.9	120.7	1.3%	-1.2%	0.8%	0.5%	14.4	-7.0	4.8	12.2
Education & Health Services	56.3	73.1	78.3	86.1	2.6%	1.4%	1.9%	2.1%	16.8	5.2	7.8	29.8
Professional & Business Services	56.5	76.9	78.2	82.0	3.1%	0.3%	1.0%	1.9%	20.4	1.3	3.8	25.5
Mining, Logging, and Construction	23.1	39.6	30.2	37.3	5.5%	-5.3%	4.3%	2.4%	16.5	-9.4	7.1	14.2
Financial Activities	29.9	29.9	26.8	28.4	0.0%	-2.2%	1.2%	-0.3%	0.0	-3.1	1.6	-1.5
Other Services	21.8	26.9	26.4	27.9	2.1%	-0.4%	1.1%	1.2%	5.1	-0.5	1.5	6.1
Manufacturing	15.8	15.2	13.4	14.0	-0.4%	-2.5%	0.9%	-0.6%	-0.6	-1.8	0.6	-1.8
Information	10.9	10.1	8.6	9.0	-0.8%	-3.2%	0.9%	-1.0%	-0.8	-1.5	0.4	-1.9
Total	**530**	**627.7**	**612.7**	**657.0**	**1.7%**	**-0.5%**	**1.4%**	**1.1%**	**97.7**	**-15.0**	**44.3**	**127.0**
Percent of Total												
Leisure & Hospitality	18.0%	17.4%	17.8%	19.2%	-0.4%	0.5%	1.5%	1.0%				
Government	21.1%	19.7%	20.5%	19.1%	-0.6%	0.8%	-1.4%	-0.3%				
Trade, Transportation, and Utilities	20.5%	19.6%	18.9%	18.4%	-0.4%	-0.7%	-0.6%	-0.6%				
Education & Health Services	10.6%	11.6%	12.8%	13.1%	0.9%	1.9%	0.5%	1.2%				
Professional & Business Services	10.7%	12.3%	12.8%	12.5%	1.4%	0.8%	-0.4%	0.2%				
Mining, Logging, and Construction	4.4%	6.3%	4.9%	5.7%	3.8%	-4.8%	2.9%	-1.0%				
Financial Activities	5.6%	4.8%	4.4%	4.3%	-1.7%	-1.7%	-0.2%	-1.0%				
Other Services	4.1%	4.3%	4.3%	4.2%	0.4%	0.1%	-0.3%	-0.1%				
Manufacturing	3.0%	2.4%	2.2%	2.1%	-2.1%	-2.0%	-0.5%	-1.3%				
Information	2.1%	1.6%	1.4%	1.4%	-2.4%	-2.7%	-0.5%	-1.6%				
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**								

Note: Seasonally adjusted.
Source: U.S. Department of Commerce, Bureau of Labor Statistics (BLS).

Since 2001, the unemployment rate in Hawai'i has been consistently below the national rate (Exhibit 3-19). The national unemployment rate increased from 4.6 percent in 2007 to over 9.0 percent between 2009 and 2011, peaking at 9.6 percent in 2010[14]. Over the same period, Hawai'i's unemployment rate was below the national average, with a peak of 7.1 percent in 2009. As of April 2018, the national unemployment rate stood at 3.9 percent while Hawai'i was at 2.0 percent.

Exhibit 3-19: Unemployment Rates for Hawai'i and the U.S.
January and July, 1993-2017



Note: The unemployment rate for Hawai'i is a preliminary figure as released by BLS of December 2017.
Source: U.S. Department of Commerce, Bureau of Labor Statistics (BLS).

14 U.S. Department of Commerce, Bureau of Labor Statistics.

3.2.5 Population

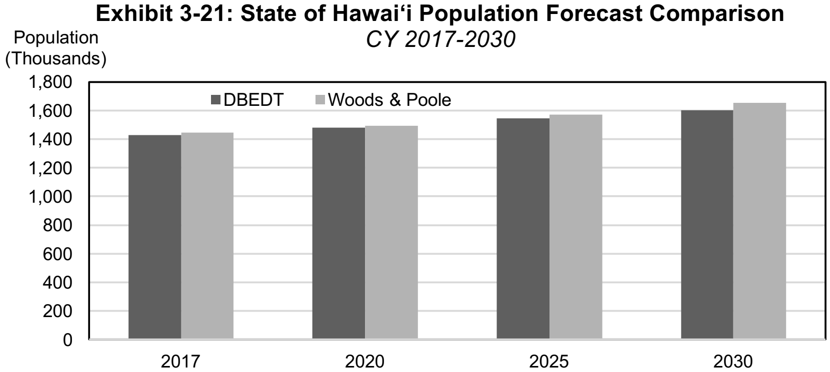
Hawaiʻi's population grew slightly faster compared to the overall U.S. between 2002 and 2017, with the State's population being predominately clustered within the City and County of Honolulu. As shown in Exhibit 3-20, since 2002, the populations of Hawaiʻi, Maui, and Kauai Counties, has grown faster than the State and national population while the population of the City and County of Honolulu grew in-line with the U.S. growth of 0.8 percent. From 2002 to 2017, the population of Hawaiʻi grew by 1.0 percent per year compared to the U.S. population growth of 0.8 percent per year.

Exhibit 3-20: Historical Regional and National Population Growth
CY 2002-2017

	Historical			Estimate	Average Annual Growth		
	2002	2007	2012	2017	'02-'17	'07-'17	'12-'17
Population (in 000s)							
State of Hawaii	1,239.6	1,315.7	1,391.8	1,447.3	1.0%	1.0%	0.8%
By County:							
Honolulu	890.5	925.3	975.9	998.9	0.8%	0.8%	0.5%
Hawaii	154.6	177.7	188.8	201.7	1.8%	1.3%	1.3%
Maui	134.6	148.1	158.6	173.6	1.7%	1.6%	1.8%
Kauai	60.0	64.5	68.6	73.2	1.3%	1.3%	1.3%
United States	287,625.2	301,231.2	313,998.3	325,888.1	0.8%	0.8%	0.7%

Note: Hawaiʻi County is also known as the Big Island. 1969-2016 Woods & Poole population data is historical from the U.S. Department of Commerce. 2016 is projected by Woods & Poole.
Source: Woods & Poole Economics, 2018.

Exhibit 3-21: State of Hawaiʻi Population Forecast Comparison
CY 2017-2030



		DBEDT	Woods & Poole
CAGR	2017-2030	0.8%	1.0%

Note: 2017 is projected by Woods & Poole.
Source: Woods & Poole Economics, 2018; Hawaiʻi State Department of Business, Economic Development and Tourism, as of July 1st 2040 Series dated March 2012

Population growth for the State is forecast by Woods & Poole Economics[15] to increase by 1.0 percent annually while DBEDT projects a slower growth rate of 0.8 percent through 2030; the U.S. average annual population growth rate is forecast at 0.9 percent through 2030.

3.2.6 Personal Income and Per Capita Income

Historically, personal income for the State has grown slightly faster than the U.S. As shown in Exhibit 3-22, from 2002 to 2017, total personal income for Honolulu, Maui, Hawaiʻi, and Kauai grew by 2.4, 3.2, 3.3, and 3.0 percent annually, respectively, compared to the 2.6 percent for the overall State and 2.2 percent for the overall U.S.

15 Woods and Poole Economics is a Washington-based economic research, forecasting and data services firm that specializes in developing forecasts of economic and demographic information derived from U.S. Census data.

Between 2007 and 2017, average annual personal income growth for the county and Hawaiʻi grew by 2.0 percent, slightly faster than 1.8 percent for the U.S.

Per capita income for the City and County of Honolulu has been consistently higher than those in the State and the U.S. In 2017, Honolulu's per capita income was estimated at $49,968 while Maui, Hawaiʻi, and Kauai per capita income were estimated at $39,805; $39,527; and $34,966; respectively. Per capita income in the State increased at an average annual rate of 1.6 percent between 2002 and 2017. During the same period, the national per capita income grew at 1.4 percent annually.

From 2017 to 2032, total personal income in the State is forecast to grow at 2.1 percent annually, while per capita income is forecast to grow 1.1 percent annually (Exhibit 3-22). Over the same time period, personal income growth for Honolulu is projected to grow slower than the State while Maui, Hawaiʻi, and Kauai are projected to grow faster than the State (2.1 percent) and Nation (2.1 percent). Per capita income for the Counties are projected to grow in-line with the State and Nation of 1.1 percent.

Exhibit 3-22: Historical and Forecast Regional and National Income Growth

CY 2002-2032

	Historical			Estimates	Forecast		
Income Levels	**2002**	**2007**	**2012**	**2017**	**2022**	**2027**	**2032**
Total Income (Millions)							
State of Hawaii	$ 45,325	$ 54,795	$ 58,269	$ 66,766	$ 75,264	$ 83,658	$ 91,695
By County:							
Honolulu	*$ 34,828*	*$ 41,218*	*$ 44,094*	*$ 49,911*	*$ 55,515*	*$ 60,828*	*$ 65,739*
Maui	*$ 4,330*	*$ 5,501*	*$ 5,861*	*$ 6,911*	*$ 8,190*	*$ 9,589*	*$ 11,069*
Hawaii	*$ 4,318*	*$ 5,707*	*$ 5,885*	*$ 7,051*	*$ 8,215*	*$ 9,438*	*$ 10,630*
Kauai	*$ 1,849*	*$ 2,369*	*$ 2,429*	*$ 2,892*	*$ 3,344*	*$ 3,805*	*$ 4,256*
United States	$ 10,656,156	$ 12,353,421	$ 13,102,482	$ 14,773,992	$ 16,554,354	$ 18,351,055	$ 20,085,547
Average Annual Growth	**'02 - '07**	**'07 - '17**	**'02 - '17**	**'17 - '22**	**'22 - '27**	**'17 - '27**	**'17 - '32**
State of Hawaii	3.9%	2.0%	2.6%	2.4%	2.1%	2.3%	2.1%
By County:							
Honolulu	3.4%	1.9%	2.4%	2.2%	1.8%	2.0%	1.9%
Maui	4.9%	2.3%	3.2%	3.5%	3.2%	3.3%	3.2%
Hawaii	5.7%	2.1%	3.3%	3.1%	2.8%	3.0%	2.8%
Kauai	5.1%	2.0%	3.0%	2.9%	2.6%	2.8%	2.6%
United States	3.0%	1.8%	2.2%	2.3%	2.1%	2.2%	2.1%
Per Capita Income							
State of Hawaii	$ 36,564	$ 41,648	$ 41,866	$ 46,130	$ 49,367	$ 52,131	$ 54,405
By County:							
Honolulu	*$ 39,112*	*$ 44,544*	*$ 45,182*	*$ 49,968*	*$ 53,689*	*$ 56,910*	*$ 59,676*
Maui	*$ 32,172*	*$ 37,141*	*$ 36,956*	*$ 39,805*	*$ 42,658*	*$ 45,232*	*$ 47,429*
Kauai	*$ 30,831*	*$ 36,741*	*$ 35,435*	*$ 39,527*	*$ 42,106*	*$ 44,208*	*$ 45,765*
Hawaii	*$ 27,933*	*$ 32,107*	*$ 31,178*	*$ 34,966*	*$ 37,482*	*$ 39,675*	*$ 41,297*
United States	$ 37,049	$ 41,010	$ 41,728	$ 45,335	$ 48,500	$ 51,342	$ 53,753
Average Annual Growth	**'02 - '07**	**'07 - '17**	**'02 - '17**	**'17 - '22**	**'22 - '27**	**'17 - '27**	**'17 - '32**
State of Hawaii	2.6%	1.0%	1.6%	1.4%	1.1%	1.2%	1.1%
By County:							
Honolulu	2.6%	1.2%	1.6%	1.4%	1.2%	1.3%	1.2%
Maui	2.9%	0.7%	1.4%	1.4%	1.2%	1.3%	1.2%
Kauai	3.6%	0.7%	1.7%	1.3%	1.0%	1.1%	1.0%
Hawaii	2.8%	0.9%	1.5%	1.4%	1.1%	1.3%	1.1%
United States	2.1%	1.0%	1.4%	1.4%	1.1%	1.3%	1.1%

Note: Figures in 2009 dollars.
Source: Woods & Poole Economics, 2018.

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4. HAWAI'I AIRPORTS SYSTEM TRAFFIC AND SERVICE CHARACTERISTICS

4.1 Introduction

The Hawai'i Airports System is one of the busiest airport systems in the United States, welcoming 17.9 million enplaned passengers in FY 2017. HNL is the principal airport for Hawai'i and the international and connecting hub for the State. In recent years, the Hawai'i Airports System's enplaned passenger traffic has grown to near records. As one of the most popular tourist destinations for travelers from the United States as well as Pacific Rim countries, such as Japan, Korea, and Australia, the State will continue to be a desirable market for air travel.

Exhibit 4-1: Enplaned Passenger at Hawai'i Airports System
FY 2017

	Overseas				
	Mainland U.S.	International	Total	Interlsland	Total
Honolulu	4,015,430	2,850,059	6,865,488	3,336,390	10,201,879
Primary Neighbor Island Airports	3,225,013	227,468	3,452,481	3,994,388	7,446,869
Kahului	1,866,259	167,344	2,033,603	1,486,909	3,520,512
Kona	738,178	39,906	778,084	951,771	1,729,855
Lihue	584,606	20,218	604,824	913,599	1,518,423
Hilo	35,970	-	35,970	642,109	678,079
Other Airports	-	-	-	210,471	210,471
Hawaii Airports System	**7,240,443**	**3,077,527**	**10,317,969**	**7,541,249**	**17,859,218**
Share of Total					
Honolulu	*55.5%*	*92.6%*	*66.5%*	*44.2%*	*57.1%*
Primary Neighbor Island Airports	*44.5%*	*7.4%*	*33.5%*	*53.0%*	*41.7%*
Kahului	*25.8%*	*5.4%*	*19.7%*	*19.7%*	*19.7%*
Kona	*10.2%*	*1.3%*	*7.5%*	*12.6%*	*9.7%*
Lihue	*8.1%*	*0.7%*	*5.9%*	*12.1%*	*8.5%*
Hilo	*0.5%*	-	*0.3%*	*8.5%*	*3.8%*
Other Airports	-	-	-	*2.8%*	*1.2%*
Hawaii Airports System	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

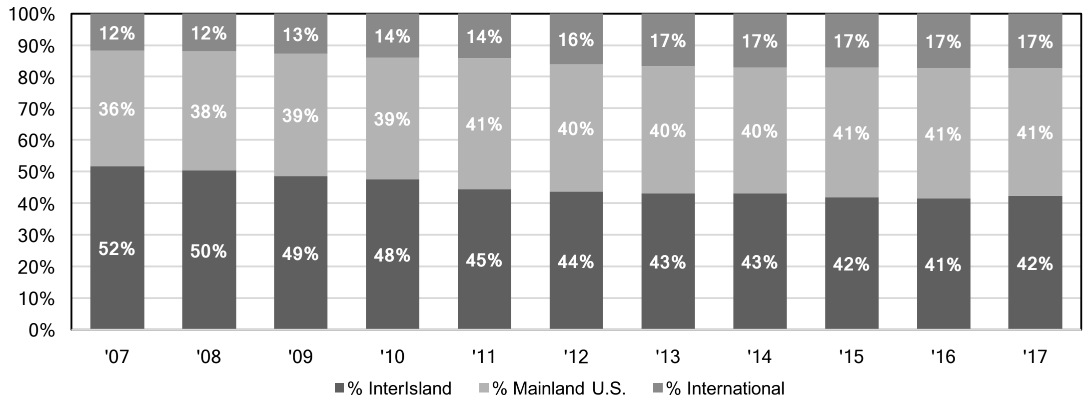
Source: Hawai'i Airports System.

Airline service and traffic in the Hawai'i Airports System can be grouped into three segments:

- *Inter-island* - passengers traveling within Hawai'i;
- *Overseas Mainland U.S.* - passengers traveling from continental U.S. and Alaska; and
- *Overseas International* - passengers traveling from abroad including territories of the United States.

Historically, the majority of passenger traffic in the State has been domestic, accounting for roughly 83 percent of traffic in FY 2017– 42 percent inter-island and 41 percent to the Mainland U.S. The strongest growth in passenger traffic has been from the Mainland U.S. and International segment as new entrants have stimulated the market. From 2007 to FY 2017, the share of inter-island passenger traffic in the Hawai'i Airports System declined from 52 to 42 percent, while traffic from Mainland U.S. grew from 36 percent to 41 percent and international traffic grew from 12 to 17 percent.

Exhibit 4-2: Historical Enplaned Passenger at Hawai‘i Airports System
FY 2007-2017



Source: Hawai'i Airports System.

After Island Air ceased operations in November 2017, only Hawaiian Airlines and Mokulele serve the inter-island market. Mokulele carried less than 3 percent of inter-island enplaned passenger in FY 2017. The overseas market is driven by new entrants and new services to HNL and PNI airports. While OGG, KOA, LIH currently offer limited Canada service, international travelers must connect through HNL or KOA in order to travel to the island of Maui, Kauai, and Lanai, unless passengers are from a pre-cleared airport such as the Canadian airports. Traffic on other islands have increased over the years and will continue to be important to the overall Hawai‘i traffic.

Over the past decade, Hawaiian Airlines service has contributed to the growth of passenger traffic within the Hawai‘i Airports System. Founded in 1929, Hawaiian Airlines is the largest airline serving the State and accounted for 51.3 percent of total enplanements in FY 2017. As of July 2018, Hawaiian Airlines is scheduled to operate 251 average daily departures, including 217 inter-island daily departures, 26 mainland U.S. daily departures, and 8 international daily departures. The airline’s service is concentrated at its main hub at HNL, accounting for 43.4 percent of its scheduled departing seats, with 21.2 percent from there secondary hub, OGG. The Hawai‘i Airports System is also served by six other U.S. carriers[16] – Mokulele, United, Alaska/Virgin America, American, Delta, and Sun Country; and 17 foreign carriers – Japan Airlines, All Nippon Airways, WestJet, Korean Airlines, JetStar, Air New Zealand, Air Canada, Asiana, China Eastern, Qantas, Philippine Airlines, Scoot, AirAsia, Fiji Airways, Air China, Jin Air, and China Airlines.

This section reviews recent and long-term trends in passenger traffic and airline services, including planned service by Southwest Airlines, risk factors, forecast assumptions, and then forecasts enplaned passengers for the Hawai‘i Airports System, for Honolulu Airport and for the Primary Neighbor Island (PNI) Airports.

16 Allegiant Air terminated their Honolulu service in Fall 2017

Exhibit 4-3: Historical Enplaned Passenger Traffic at Hawai'i Airports System

FY 2011-2017

	Actual						
	2011	2012	2013	2014	2015	2016	2017
Hawaii Airports System							
Mainland	6,326,228	6,291,224	6,659,078	6,481,469	6,834,201	7,099,220	7,240,443
International	2,155,555	2,490,098	2,764,881	2,791,219	2,850,528	2,978,827	3,077,527
Overseas Total	8,481,783	8,781,322	9,423,959	9,272,688	9,684,729	10,078,047	10,317,969
Interisland	6,800,509	6,784,974	7,118,800	7,022,309	6,998,066	7,137,313	7,541,249
Total	**15,282,292**	**15,566,296**	**16,542,759**	**16,294,997**	**16,682,795**	**17,215,360**	**17,859,218**
Year-Over-Year Percentage Change							
Overseas		3.5%	7.3%	-1.6%	4.4%	4.1%	2.4%
Interisland		-0.2%	4.9%	-1.4%	-0.3%	2.0%	5.7%
Total		1.9%	6.3%	-1.5%	2.4%	3.2%	3.7%
Honolulu International Airport							
Mainland	3,965,863	3,792,079	4,037,079	3,905,540	3,961,181	4,043,179	4,015,430
International	2,020,020	2,312,063	2,583,545	2,598,258	2,644,456	2,755,117	2,850,059
Overseas Total	5,985,883	6,104,142	6,620,624	6,503,798	6,605,637	6,798,296	6,865,488
Interisland	3,176,115	3,154,076	3,232,462	3,196,439	3,101,890	3,138,295	3,336,390
Total	**9,161,998**	**9,258,218**	**9,853,086**	**9,700,237**	**9,707,527**	**9,936,591**	**10,201,879**
Year-Over-Year Percentage Change							
Overseas		2.0%	8.5%	-1.8%	1.6%	2.9%	1.0%
Interisland		-0.7%	2.5%	-1.1%	-3.0%	1.2%	6.3%
Total		1.1%	6.4%	-1.6%	0.1%	2.4%	2.7%
Primary Neighboring Island (PNI) Airports							
Overseas	2,495,900	2,677,180	2,803,335	2,768,890	3,079,092	3,279,752	3,452,481
Interisland	3,447,770	3,456,265	3,709,984	3,653,149	3,693,242	3,779,314	3,994,388
Total	**5,943,670**	**6,133,445**	**6,513,319**	**6,422,039**	**6,772,334**	**7,059,066**	**7,446,869**
Year-Over-Year Percentage Change							
Overseas		7.3%	4.7%	-1.2%	11.2%	6.5%	5.3%
Interisland		0.2%	7.3%	-1.5%	1.1%	2.3%	5.7%
Total		3.2%	6.2%	-1.4%	5.5%	4.2%	5.5%

Source: State of Hawai'i, Department of Transportation.

Historical Enplaned Passenger Traffic at Hawai'i Airports System

FY 2011-2017

	Actual						
	2011	2012	2013	2014	2015	2016	2017
Kahului							
Overseas	1,537,593	1,591,597	1,642,016	1,637,202	1,822,152	1,949,229	2,033,603
Interisland	1,209,611	1,246,166	1,388,773	1,371,867	1,424,740	1,449,726	1,486,909
Total	**2,747,204**	**2,837,763**	**3,030,789**	**3,009,069**	**3,246,892**	**3,398,955**	**3,520,512**
Year-Over-Year Percentage Change							
Overseas		3.5%	3.2%	-0.3%	11.3%	7.0%	4.3%
Interisland		3.0%	11.4%	-1.2%	3.9%	1.8%	2.6%
Total		3.3%	6.8%	-0.7%	7.9%	4.7%	3.6%
Kona							
Overseas	538,395	539,293	569,962	561,167	649,683	707,101	778,084
Interisland	812,928	823,064	874,418	854,022	841,251	859,215	951,771
Total	**1,351,323**	**1,362,357**	**1,444,380**	**1,415,189**	**1,490,934**	**1,566,316**	**1,729,855**
Year-Over-Year Percentage Change							
Overseas		0.2%	5.7%	-1.5%	15.8%	8.8%	10.0%
Interisland		1.2%	6.2%	-2.3%	-1.5%	2.1%	10.8%
Total		0.8%	6.0%	-2.0%	5.4%	5.1%	10.4%
Lihue							
Overseas	416,522	494,375	542,820	544,551	569,900	588,443	604,824
Interisland	804,383	787,492	815,736	808,574	816,117	844,190	913,599
Total	**1,220,905**	**1,281,867**	**1,358,556**	**1,353,125**	**1,386,017**	**1,432,633**	**1,518,423**
Year-Over-Year Percentage Change							
Overseas		18.7%	9.8%	0.3%	4.7%	3.3%	2.8%
Interisland		-2.1%	3.6%	-0.9%	0.9%	3.4%	8.2%
Total		5.0%	6.0%	-0.4%	2.4%	3.4%	6.0%
Hilo							
Overseas	3,390	51,915	48,537	25,970	37,357	34,978	35,970
Interisland	620,848	599,543	631,057	618,686	611,134	626,183	642,109
Total	**624,238**	**651,458**	**679,594**	**644,656**	**648,491**	**661,161**	**678,079**
Year-Over-Year Percentage Change							
Overseas		1431.4%	-6.5%	-46.5%	43.8%	-6.4%	2.8%
Interisland		-3.4%	5.3%	-2.0%	-1.2%	2.5%	2.5%
Total		4.4%	4.3%	-5.1%	0.6%	2.0%	2.6%
All Other	176,624	174,633	176,354	172,721	202,934	219,704	210,471
Year-Over-Year Percentage Change							
		-1.1%	1.0%	-2.1%	17.5%	8.3%	-4.2%

Source: State of Hawai'i, Department of Transportation.

4.2 Daniel K. Inouye International Airport (HNL)

4.2.1 HNL Passengers

In FY 2017, Honolulu Airport welcomed over 10.2 million enplaned passengers, an increase of 2.7 percent from the previous fiscal year. Exhibit 4-4 shows the history of Honolulu's enplaned passenger traffic.

Passenger traffic at Honolulu has recovered from the 2008-2009 economic downturn, returning close to pre-recession record levels in FY 2017. New international service to Japan, China, and Australia as well as additional services to current markets contributed to the traffic recovery and growth at Honolulu. HNL is more mature than the Hawai'I Airport System as a whole. From FY 2009 to 2017, Honolulu airport enplanement grew by an average of 1.7 percent per year, slower than the total System enplanement growth of 2.3 percent.

Exhibit 4-4: Historical Enplaned Passenger at Honolulu Airport & Hawai'i Airport System
FY 2009-2017

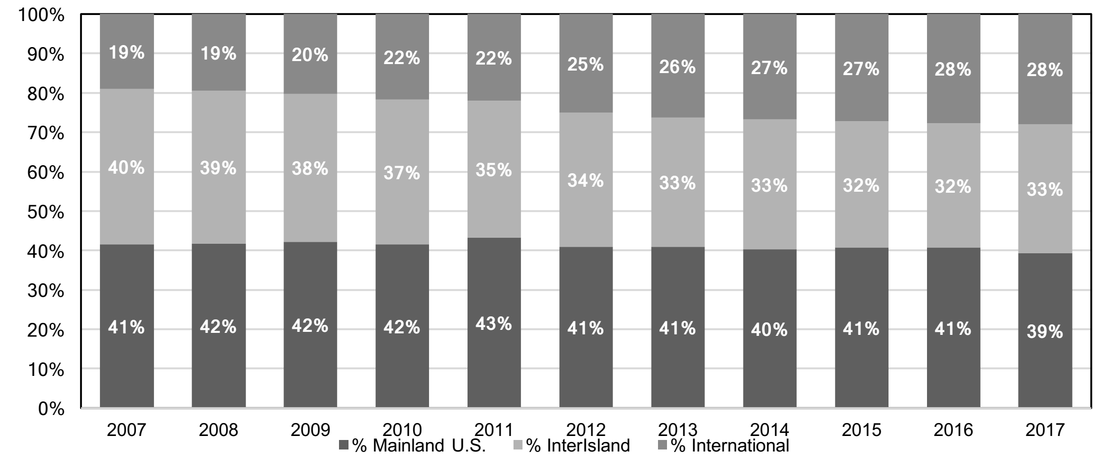
	HNL Enplanements (000s)				Hawaii Airports System (000s)			
	Interlsland	International	Mainland U.S.	Total	Interlsland	International	Mainland U.S.	Total
2009	3,339	1,803	3,757	8,899	7,207	1,896	5,739	14,842
2010	3,351	1,980	3,787	9,118	7,163	2,096	5,821	15,079
2011	3,176	2,020	3,966	9,162	6,801	2,156	6,326	15,282
2012	3,154	2,312	3,792	9,258	6,785	2,490	6,291	15,566
2013	3,232	2,584	4,037	9,853	7,119	2,765	6,659	16,543
2014	3,196	2,598	3,906	9,700	7,022	2,791	6,481	16,295
2015	3,102	2,644	3,961	9,708	6,998	2,851	6,834	16,683
2016	3,138	2,755	4,043	9,937	7,137	2,979	7,099	17,215
2017	3,336	2,850	4,015	10,202	7,541	3,078	7,240	17,859
Average Annual Growth								
2009-2011	-2.5%	5.9%	2.7%	1.5%	-2.9%	6.6%	5.0%	1.5%
2011-2017	0.8%	5.9%	0.2%	1.8%	1.7%	6.1%	2.3%	2.6%
2009-2017	0.0%	5.9%	0.8%	1.7%	0.6%	6.2%	2.9%	2.3%
Perent Change Over Prior Year								
2012	-0.7%	14.5%	-4.4%	1.1%	-0.2%	15.5%	-0.6%	1.9%
2013	2.5%	11.7%	6.5%	6.4%	4.9%	11.0%	5.8%	6.3%
2014	-1.1%	0.6%	-3.3%	-1.6%	-1.4%	1.0%	-2.7%	-1.5%
2015	-3.0%	1.8%	1.4%	0.1%	-0.3%	2.1%	5.4%	2.4%
2016	1.2%	4.2%	2.1%	2.4%	2.0%	4.5%	3.9%	3.2%
2017	6.3%	3.4%	-0.7%	2.7%	5.7%	3.3%	2.0%	3.7%

Source: Hawai'i Airports System.

As shown in Exhibit 4-5, Honolulu's FY 2017 traffic mix is 72 percent domestic, with enplanements traveling either within Hawai'i as inter-island passengers or from Mainland U.S. However, HNL has seen a growth in international passengers, increasing at an average annual growth rate of 5.9 percent between 2011 and 2017 compared to the 6.1 percent for the overall System. HNL has been the main international gateway to the State, making it the largest and busiest airport in the System. Among the U.S. large hub airports, Honolulu is the 14th largest U.S. gateway for international air travel, with international enplanement representing roughly 28 percent of the total enplanements at the Airport. Historical growth trends in each of these segments are discussed in the following sections.

Exhibit 4-5: Historical Enplaned Passenger at Honolulu Airport

FY 2007-2017



Source: Hawai'i Airports System.

Based on CY 2016 enplanement statistics, Honolulu is the 28th busiest U.S. airport (Exhibit 4-6). Additionally, the Hawai'i Airports System, ranked as a single system, is among the top U.S. airports, welcoming over 17.2 million enplaned passengers in CY 2016.

Exhibit 4-6: Ranking of U.S. Large Hub Airports Based on Enplaned Passengers[17]

CY 2006-2016

		Enplanements (millions)		CAGR				Enplanements (millions)		CAGR	
Rank	**Airport**	**2006**	**2016**	**'06 - '16**	**'15 - '16**	**Rank**	**Airport**	**2006**	**2016**	**'06 - '16**	**'15 - '16**
1	Atlanta	41.3	50.5	*2.0%*	*2.4%*	18	Detroit	17.5	16.9	*-0.4%*	*3.7%*
2	Los Angeles	29.4	39.7	*3.1%*	*8.9%*	19	New York La Guardia	12.9	14.8	*1.3%*	*3.1%*
3	Chicago O'Hare	36.8	37.6	*0.2%*	*3.5%*	20	Philadelphia	15.4	14.6	*-0.5%*	*-3.6%*
4	Dallas/Fort Worth	28.6	31.3	*0.9%*	*-0.8%*	21	Fort Lauderdale	10.3	14.3	*3.4%*	*9.2%*
5	New York J F Kennedy	21.1	29.3	*3.3%*	*4.9%*	22	Baltimore	10.3	12.3	*1.8%*	*5.2%*
6	Denver	22.8	28.3	*2.2%*	*7.6%*	23	Washington National	9.0	11.5	*2.5%*	*2.0%*
7	San Francisco	16.2	25.8	*4.7%*	*6.6%*	24	Salt Lake City	10.3	11.1	*0.8%*	*4.8%*
8	Las Vegas	22.0	22.7	*0.3%*	*4.5%*	25	Chicago Midway	8.9	11.0	*2.2%*	*2.0%*
9	Seattle/Tacoma	14.7	21.9	*4.1%*	*8.7%*	26	Washington Dulles	11.0	10.6	*-0.4%*	*2.1%*
10	Charlotte	14.7	21.5	*3.9%*	*-1.8%*	27	San Diego	8.7	10.3	*1.8%*	*3.5%*
11	Miami	15.7	20.9	*2.9%*	*-0.5%*	*28*	*Honolulu*	*9.7*	*9.7*	*0.0%*	*1.8%*
12	Phoenix	20.6	20.9	*0.2%*	*-2.0%*	29	Tampa	9.2	9.2	*0.0%*	*0.4%*
13	Orlando	16.8	20.3	*1.9%*	*8.1%*	30	Portland, Oregon	7.0	9.1	*2.7%*	*8.7%*
14	Houston Intercontinental	20.5	20.1	*-0.2%*	*-2.6%*						
15	New York Newark	17.8	20.0	*1.2%*	*6.8%*		**Total Large Hubs**	**509.8**	**602.4**	***1.7%***	**3.7%**
16	Minneapolis	17.2	18.2	*0.6%*	*3.3%*						
17	Boston	13.5	17.8	*2.8%*	*8.8%*						
	Hawaii Airports System	*16.5*	*17.2*	*0.4%*	*3.2%*						

Note: Based on FAA definition of large hubs.
Sources: U.S. DOT T-100.

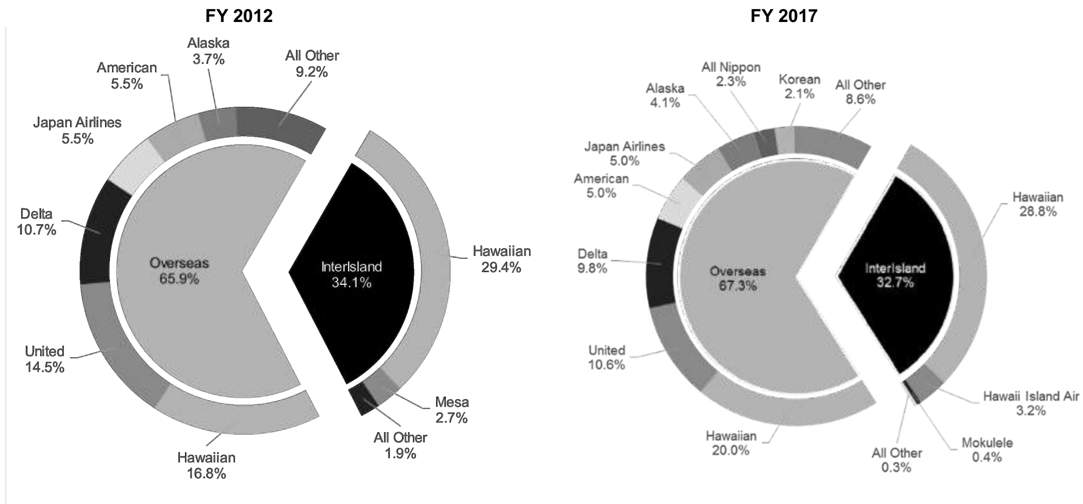
Carrier profiles at HNL have remained relatively stable over the same period with Hawaiian Airlines, United, Delta, Japan Airlines, and American remaining as the top five carriers since FY 2012. Hawaiian Airlines has been and continues to be the leading airline at HNL. As seen in Exhibit 4-7, Hawaiian Airlines is the only carrier to operate both the inter-island and overseas markets while Mokulele operates only inter-island and the remaining

17 Only large hub airports within the continental United States are shown; The FAA defines large hubs as airports that enplane at least one percent of total U.S. air passengers. There are currently 30 large hub airports,

carriers operate overseas service only. Island Air also served the inter-island market until November 2017 when the carrier ceased operations. In FY 2017, Hawaiian Airlines carried over 4.9 million enplaned passengers, maintaining a market share of roughly 49 percent at HNL. United Airlines is the second largest carrier at HNL, accounting for 10.6 percent of total enplanements at HNL, carrying over 1.0 million enplaned passengers in FY 2017. Delta ranked third with 996.1 thousand enplaned passengers or 9.8 percent market share; American and Japan Airlines ranked fifth and sixth with 5.0 percent each, followed by Alaska with 4.1 percent market share. In FY 2017, the top six carriers at HNL accounted for approximately 83.1 percent of HNL's enplanements. Due to growth by other carriers and entry of new airlines, compared to FY 2012, United, Delta, American, and Japan Airlines saw a slight decline in market share. The breakdown of passenger market share by airline at HNL is presented in Exhibit 4-7.

Exhibit 4-7: Airline Share of Honolulu Annual Passengers

FY 2012-2017



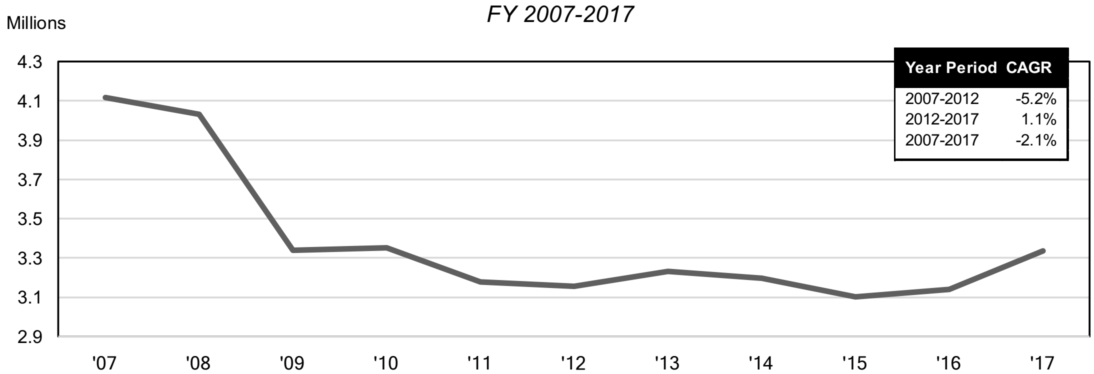
Note: Alaska includes Virgin America.
Sources: Hawai'i Airports System.

Inter-island Passengers

Inter-island passengers include Hawai'i residents and oversea visitors traveling between islands. Honolulu's inter-island passenger traffic reached 3.3 million enplanements in FY 2017. Similar to other U.S. airports, Honolulu saw a decline from 2008 to 2009 due to the economic recession, inter-island including Aloha Air ceasing operation in 2008. Between FY 2012 and 2017, inter-island passenger traffic at HNL grew by an average annual rate of 1.1 percent, slower than overall inter-island passenger traffic in the System, which increased by 2.1 percent per year over the same period.

Exhibit 4-8: Historical Inter-island Enplaned Passenger Traffic at Honolulu

FY 2007-2017

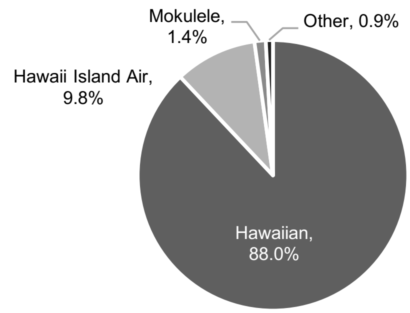


Source: Hawai'i Airports System.

In terms of inter-island passenger traffic, Hawaiian Airlines was the leading inter-island carrier at HNL in FY 2017 capturing an 88 percent market share (Exhibit 4-9). Hawai'i Island Air was the second with a 9.8 percent market share, followed by Mokulele with 1.4 percent.

Exhibit 4-9: Airline Market Share of Honolulu Inter-island Enplaned Passenger

FY 2017



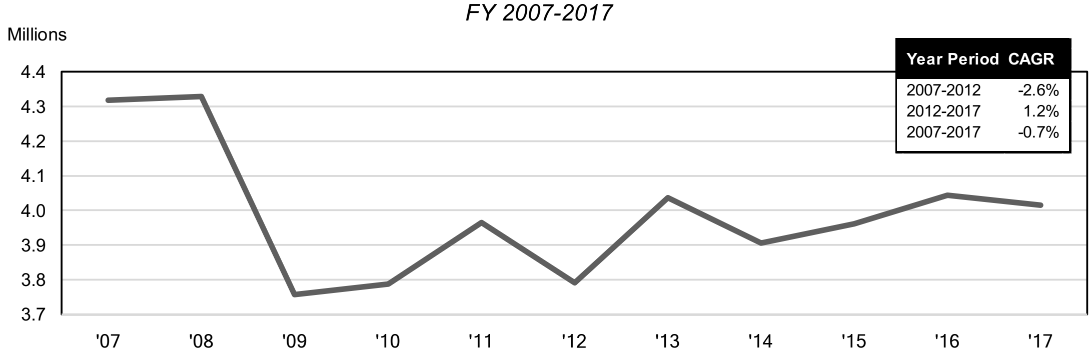
Sources: Hawai'i Airports System.

Overseas Mainland U.S. Passengers

Honolulu's overseas mainland U.S. passenger traffic hovered over 4.0 million enplanement in FY 2017 (Exhibit 4-10). Similar to the inter-island market, Honolulu saw a dramatic decline from 2008 to 2009 due to the economic recession. Between FY 2012 and 2017, mainland U.S. passenger traffic at HNL grew by an average annual rate of 1.2 percent, slower than overall mainland U.S. systemwide passenger traffic growth, which increased by 2.9 percent per year over the same period as U.S. carriers introduced more direct flights to PNI Airports.

Exhibit 4-10: Historical Mainland U.S. Enplaned Passenger Traffic at Honolulu

FY 2007-2017

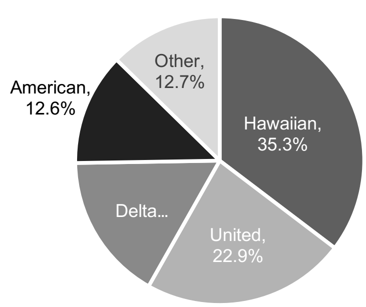


Sources: Hawai'i Airports System.

In terms of mainland U.S. passenger traffic, Hawaiian Airlines was the leading carrier at HNL in FY 2017 with a 35.3 percent market share (Exhibit 4-11). United Airlines was the second with a 22.9 percent market share, followed by Delta with 16.6 percent and American with 12.6 percent.

Exhibit 4-11: Airline Market Share of Honolulu Mainland U.S. Enplaned Passenger

FY 2017



Sources: Hawai'i Airports System.

Honolulu's domestic passenger market[18] is characterized by:

1. Largely Origin and Destination (O&D) traffic;
2. A central location in the Pacific Ocean between North America and Asia; and
3. Hawaiian Airlines' network strategy, providing connecting services from HNL to other airports within the system.

Because of Honolulu's geographic location in the central Pacific, Hawaiian Airlines established HNL as the carrier's connecting hub. More than 79 percent of the domestic passengers using HNL are O&D passengers while 20 percent are connecting passengers (Exhibit 4-12).

Exhibit 4-12: Domestic Local and Connecting Passenger Shares for Top U.S. Large Hub Airports
CY 2016

% Local		% of Domestic Psgrs		% Local		% of Domestic Psgrs	
Rank	Airport	O&D	Connecting	Rank	Airport	O&D	Connecting
1	Orlando	97.5%	2.5%	16	Baltimore	70.7%	29.3%
2	Tampa	97.4%	2.6%	17	Seattle/Tacoma	70.1%	29.9%
3	Boston	97.0%	3.0%	18	Miami	64.6%	35.4%
4	San Diego	96.1%	3.9%	19	Phoenix	64.3%	35.7%
5	Fort Lauderdale	91.8%	8.2%	20	Chicago Midway	63.5%	36.5%
6	New York La Guardia	91.6%	8.4%	21	Washington Dulles	62.7%	37.3%
7	Washington National	88.3%	11.7%	22	Denver	60.1%	39.9%
8	Portland, Oregon	88.1%	11.9%	23	Salt Lake City	58.4%	41.6%
9	Las Vegas	85.9%	14.1%	24	Minneapolis	56.9%	43.1%
10	San Francisco	80.3%	19.7%	25	Detroit	55.9%	44.1%
11	**Honolulu**	**79.6%**	**20.4%**	26	Chicago O'Hare	55.5%	44.5%
12	Los Angeles	79.3%	20.7%	27	Houston Intercontinental	50.0%	50.0%
13	New York J F Kennedy	78.9%	21.1%	28	Dallas/Fort Worth	45.9%	54.1%
14	New York Newark	78.6%	21.4%	29	Atlanta	36.3%	63.7%
15	Philadelphia	71.0%	29.0%	30	Charlotte	29.8%	70.2%
	Average Large Hubs	**67.1%**	**32.9%**				

Note: Includes U.S. Pacific territories.
Source: U.S. DOT O&D Survey via Database Products; ICF Analysis.

Honolulu ranks 12th in terms of airline concentration by the top three carriers, who account for roughly 88 percent of domestic air service at HNL (Exhibit 4-13). As of July 2018, Hawaiian Airlines is the leading carrier at HNL in terms of domestic seat capacity, with 63.5 percent of HNL's scheduled domestic seats. United is the second with a 15.5 percent share, and Delta, is the third largest carrier, providing 7.9 percent of HNL's domestic seat capacity. Given Hawaiian Airlines dominant concentration at HNL, the airport is sensitive to the changes in the Hawaiian Airlines network strategy.

18 Mainland U.S. and inter-island passengers

Exhibit 4-13: Domestic Carrier Market Share at Large Hub Airports, Share of Scheduled Seats
July 2018

			Carrier Share of Non-Stop Domestic Weekly Seats			
Rank	Airport	Code	Largest	2nd Largest	3rd Largest	All Other
1	Chicago Midway	MDW	96.4%	3.4%	0.2%	0.0%
2	Charlotte	CLT	90.1%	4.1%	2.5%	3.4%
3	Dallas/Fort Worth	DFW	83.5%	6.2%	4.3%	6.0%
4	Miami	MIA	81.1%	12.1%	5.1%	1.6%
5	Houston Intercontinental	IAH	78.2%	7.9%	7.8%	6.2%
6	Atlanta	ATL	77.9%	11.2%	3.7%	7.2%
7	Washington Dulles	IAD	74.4%	6.9%	6.7%	11.9%
8	Detroit	DTW	71.1%	10.5%	6.3%	12.0%
9	Minneapolis	MSP	71.0%	6.5%	5.8%	16.7%
10	Philadelphia	PHL	69.9%	7.6%	6.4%	16.1%
11	Salt Lake City	SLC	69.1%	11.0%	6.4%	13.4%
12	Baltimore	BWI	68.3%	9.4%	7.5%	14.8%
13	New York Newark	EWR	66.6%	6.6%	6.4%	20.4%
14	**Honolulu**	**HNL**	**63.5%**	**15.5%**	**7.9%**	**13.1%**
15	Seattle/Tacoma	SEA	50.5%	23.1%	7.7%	18.7%
16	Washington National	DCA	49.9%	15.8%	13.8%	20.5%
17	San Francisco	SFO	48.1%	16.7%	11.2%	24.0%
18	Phoenix	PHX	47.6%	37.6%	6.3%	8.6%
19	Chicago O'Hare	ORD	47.6%	39.0%	5.1%	8.3%
20	New York La Guardia	LGA	43.5%	26.9%	9.6%	19.9%
21	Portland, Oregon	PDX	43.7%	19.3%	13.0%	24.0%
22	Las Vegas	LAS	43.2%	10.2%	10.1%	36.5%
23	Denver	DEN	42.6%	30.6%	11.9%	15.0%
24	New York J F Kennedy	JFK	40.7%	35.9%	17.2%	6.2%
25	Tampa	TPA	40.0%	16.6%	15.2%	28.2%
26	San Diego	SAN	39.6%	13.8%	13.0%	33.6%
27	Boston	BOS	31.4%	19.6%	18.5%	30.5%
28	Orlando	MCO	29.9%	14.5%	13.1%	42.5%
29	Fort Lauderdale	FLL	25.1%	22.1%	21.7%	31.1%
30	Los Angeles	LAX	21.1%	20.4%	18.9%	39.7%
	Average Large Hub		**56.8%**	**16.0%**	**9.4%**	**17.7%**

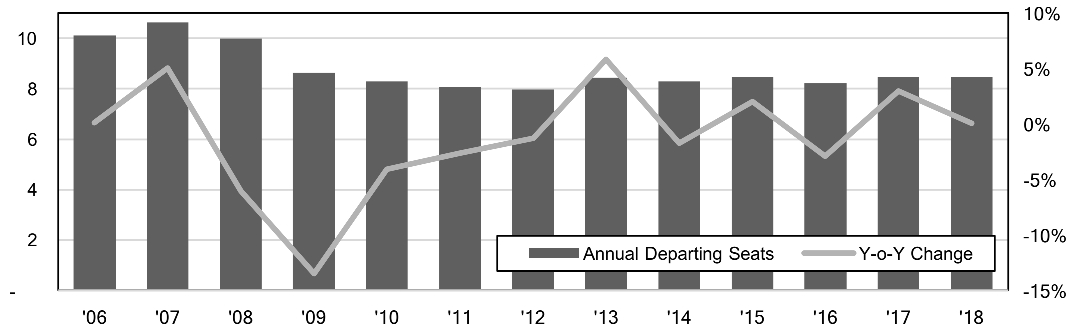
Note: Ranked in ascending order by largest air carrier market share. July 2018 is using advance schedules.
Source: Innovata Schedules, July 2018.

Domestic Capacity Trends at HNL

As illustrated in Exhibit 4-14, HNL domestic (Mainland U.S. and inter-island) departing seat capacity has remained relatively flat over the past 5 years, with 8.46 million annual departing seats in FY 2018. The constant level of domestic departing seat capacity at HNL is partly attributable to an increase in direct flights to other airports within the System. In 2008-2009, during the global economic recession and spike in fuel prices, carriers implemented systemwide service cuts and, seat capacity at HNL declined in subsequent years. In FY 2013, HNL saw a 5.9 percent increase in domestic seat capacity driven largely by Allegiant as they introduced new routes to mainland U.S. From FY 2016 to 2018, carriers have increased domestic seat capacity by 1.5 percent per year as travel demand continues to grow.

Exhibit 4-14: HNL Domestic Scheduled Departing Seats and Year Over Year Change

FY 2006-2018

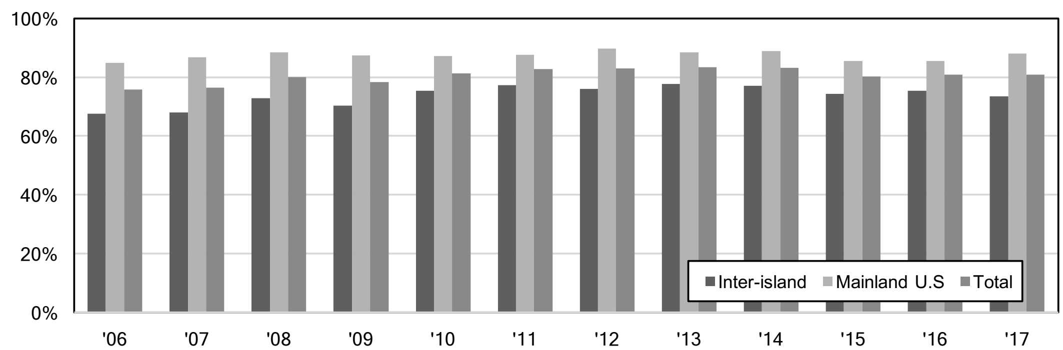


Note: Domestic includes Mainland U.S and inter-island.
Source: Innovata

Exhibit 4-15 shows the continued growth in domestic load factor at HNL. After 9/11, the average domestic load factor grew to approximately 82.7 percent in FY 2010, driven by demand in the Mainland U.S. traffic segment. Load factor continued to rise, reaching 83.3 percent in FY 2014, before dropping in FY 2015 due to lower demand growth. Load factors have remained around 80 percent from FY 2016 through FY 2017.

Exhibit 4-15: HNL Domestic Load Factors

FY 2006-2017



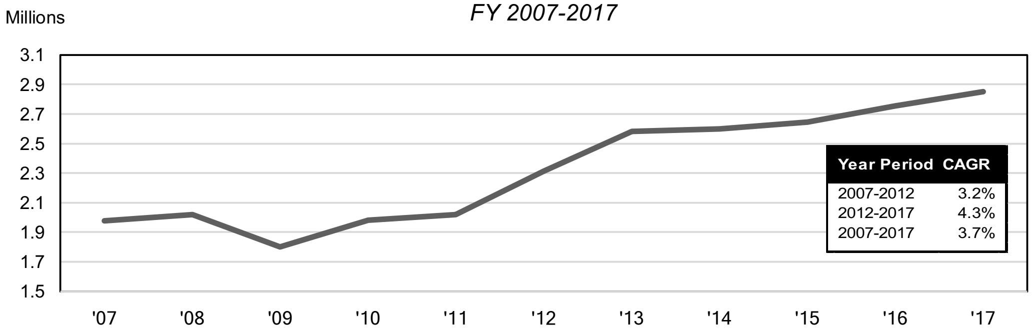
Source: U.S. DOT T-100

Overseas International Passengers

International passenger traffic at HNL had strong growth over the past few years, reaching a new peak of 2.8 million enplaned passengers in FY 2017 (Exhibit 4-16). Over the last five years, international passengers at HNL grew at an average annual rate of 4.3 percent. In FY 2017, the number of international passengers was 41.9 percent greater than FY 2011. Growth has been driven by expansion of Hawaiian Airlines international service at HNL, as well as entry of new foreign carriers. Since 2012, Hawaiian Airlines has grown its international service from HNL by adding nonstop service to Sapporo (CTS), Brisbane, Auckland, and Beijing. HNL also gained new foreign carrier services including Air China, Air Asia X, Jin Air, and Scoot Airlines, the latter three carriers of which are long haul low cost carriers.

Exhibit 4-16: Historical International Enplaned Passenger Traffic at Honolulu

FY 2007-2017

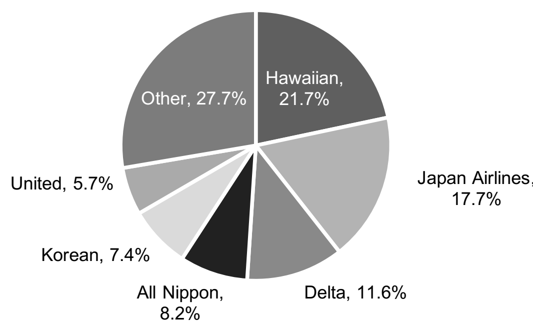


Sources: Hawai'i Airports System.

In FY 2017, Hawaiian Airlines was the leading carrier, accounting for 21.7 percent of HNL's international passengers (Exhibit 4-17). Japan Airlines, which offers daily departures to Japan, was the second largest international carrier with a 17.7 percent share, followed by Delta with an 11.6 percent share.

Exhibit 4-17: Airline Market Share of Honolulu International Enplaned Passenger

FY 2017



Sources: Hawai'i Airports System.

As shown in Exhibit 4-18, HNL is the 14th largest U.S. gateway for international air travel. The Hawai'i Airports System welcomed more than 3.0 million enplaned international passengers in FY 2017.

Exhibit 4-18: Ranking of U.S. Large Hub Airports Based on International Enplaned Passengers

CY 2006-2016

		Enplanements (millions)		CAGR				Enplanements (millions)		CAGR	
Rank	Airport	2006	2016	'06 - '16	'15 - '16	Rank	Airport	2006	2016	'06 - '16	'15 - '16
1	New York J F Kennedy	9.7	15.8	*5.0%*	*6.7%*	15	Seattle/Tacoma	1.1	2.4	*7.7%*	*8.3%*
2	Los Angeles	8.0	11.2	*3.4%*	*13.0%*	16	Philadelphia	1.7	1.8	*0.4%*	*-9.4%*
3	Miami	7.4	10.4	*3.5%*	*-1.7%*	17	Las Vegas	1.0	1.8	*5.8%*	*3.7%*
4	San Francisco	4.1	6.1	*4.2%*	*12.7%*	18	Detroit	1.8	1.6	*-1.1%*	*2.5%*
5	Chicago O'Hare	5.7	6.0	*0.6%*	*4.1%*	19	Charlotte	1.0	1.5	*3.9%*	*-1.1%*
6	New York Newark	5.0	6.0	*2.0%*	*3.3%*	20	Minneapolis	1.2	1.4	*1.2%*	*8.6%*
7	Atlanta	4.1	5.6	*3.1%*	*3.8%*	21	Denver	1.0	1.1	*1.8%*	*4.5%*
8	Houston Intercontinental	3.6	5.3	*3.9%*	*3.0%*	22	Phoenix	0.9	1.0	*1.7%*	*-8.8%*
9	Dallas/Fort Worth	2.6	4.0	*4.3%*	*4.7%*	23	New York La Guardia	0.7	1.0	*3.6%*	*7.8%*
10	Washington Dulles	2.6	3.6	*3.5%*	*3.4%*	24	Baltimore	0.3	0.5	*6.5%*	*6.2%*
11	Boston	1.9	3.1	*5.1%*	*22.5%*	25	Tampa	0.2	0.4	*7.4%*	*28.7%*
						26	Chicago Midway	0.1	0.4	*15.5%*	*1.3%*
	Hawaii Airports System	2.2	3.0	*3.0%*	*4.5%*	27	Salt Lake City	0.2	0.4	*4.6%*	*35.5%*
						28	San Diego	0.2	0.4	*9.5%*	*8.5%*
12	Fort Lauderdale	1.1	2.9	*10.5%*	*12.5%*	29	Portland, Oregon	0.3	0.3	*2.2%*	*10.1%*
13	Orlando	1.1	2.7	*10.0%*	*10.0%*	30	Washington National	0.2	0.2	*-0.6%*	*-7.0%*
14	*Honolulu*	*1.9*	*2.6*	*3.0%*	*2.5%*						
							Total Large Hubs	**70.6**	**101.7**	***3.7%***	***5.8%***

Note: Based on FAA definition of large hubs.
Sources: U.S. DOT T-100.

Honolulu Top Origin-Destination Markets

The top 20 domestic O&D markets (Exhibit 4-19) accounted for approximately 85 percent of Honolulu's total domestic O&D passengers in FY 2017.

Exhibit 4-19: Top Domestic Honolulu O&D Passenger Markets
FY 2017

Rank	City	Nonstop Miles	O&D Psgrs	Percent of Total	5 Year CAGR	Sched. Wkly Nonstop Depts
1	Maui	100	1,592,531	14.0%	3.7%	216
2	Los Angeles	2,557	1,115,410	9.8%	1.6%	140
3	Kona	163	1,107,169	9.8%	4.2%	158
4	Lihue	101	1,030,118	9.1%	3.5%	146
5	San Francisco	2,406	948,875	8.4%	4.6%	77
6	Hilo	216	882,083	7.8%	-0.9%	107
7	Las Vegas	2,758	445,981	3.9%	0.5%	18
8	Seattle/Tacoma	2,674	423,424	3.7%	3.3%	35
9	New York	4,952	328,315	2.9%	5.1%	14
10	San Diego	2,609	301,079	2.7%	6.0%	14
11	Portland	2,601	233,239	2.1%	3.0%	16
12	Washington	4,845	204,253	1.8%	1.5%	-
13	Phoenix	2,911	185,939	1.6%	2.8%	21
14	Chicago	4,244	150,848	1.3%	-1.8%	7
15	Denver	3,359	128,788	1.1%	0.5%	7
16	Salt Lake City	2,990	127,078	1.1%	4.3%	7
17	Dallas/Fort Worth	3,788	125,747	1.1%	0.5%	14
18	Sacramento	2,459	111,915	1.0%	-1.3%	7
19	Atlanta	4,493	100,593	0.9%	2.0%	-
20	Molokai	54	94,448	0.8%	-4.3%	120
	Subtotal Top 20		9,637,833	84.9%	2.6%	
	All Other		*1,707,717*	*15.1%*		
	Grand Total		**11,345,550**	**100.0%**	**2.0%**	

Note: Los Angeles market includes BUR, LGB, ONT, and SNA airports, San Francisco market includes OAK, SFO, and SJC airports, New York market includes JFK, EWR, and LGA airports, Washington market includes BWI, IAD, and DCA airports, Chicago market includes MDW and ORD airports, Dallas/Fort Worth market includes DAL and DFW airports, Houston market includes HOU and IAH airports; Excludes the U.S. Pacific Trust, Puerto Rico, and the U.S. Virgin Islands.

Source: U.S. DOT O&D Survey and Innovata Advanced Schedules (July 2018).

Kahului is currently HNL's largest O&D market. Since FY 2012, the Honolulu-Kahului O&D market has grown at an annual average of 3.7 percent, reaching 1.6 million annual passengers in FY 2017 (Exhibit 4-19). Inter-island markets, including Kona, Kauai, Hilo, and Molokai accounted for 41.5 percent of Honolulu's total domestic O&D. Traffic demand in the inter-island markets has increased 2.6 percent per year since FY 2012, from 4.1 to 4.7 million while the Mainland U.S. markets increased from 6.1 to 6.6 million annual O&D passengers, or 1.5 percent per year since FY 2012.

The average inter-island and mainland U.S. air fares have steadily increased since 2009, this coupled with increasing load factors reflect the strength of the Hawaiian market in recent years. Over the past 9 years, fares have increased from $53 to $74 for inter-island flights and from $280 to $346 for Mainland U.S. flights, a 41 and 23 percent increase in fare cost, respectively (Exhibit 4-20).

Exhibit 4-20: Passengers and Average Fares – Inter-island and U.S. Mainland Markets

FY 2009-2017

Fiscal Years	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Fares									
Interisland	$ 53	$ 53	$ 70	$ 70	$ 69	$ 75	$ 76	$ 76	$ 74
Mainland U.S.	$ 280	$ 271	$ 286	$ 313	$ 300	$ 328	$ 323	$ 324	$ 346
Average Yield (cents per mile)									
Interisland	38.6	38.5	51.1	51.2	50.4	54.5	55.6	56.0	54.8
Mainland U.S.	8.2	8.0	8.5	9.3	9.0	9.8	9.7	9.7	10.4

Source: U.S. DOT O&D Survey.

4.2.2 HNL Air Service Trends

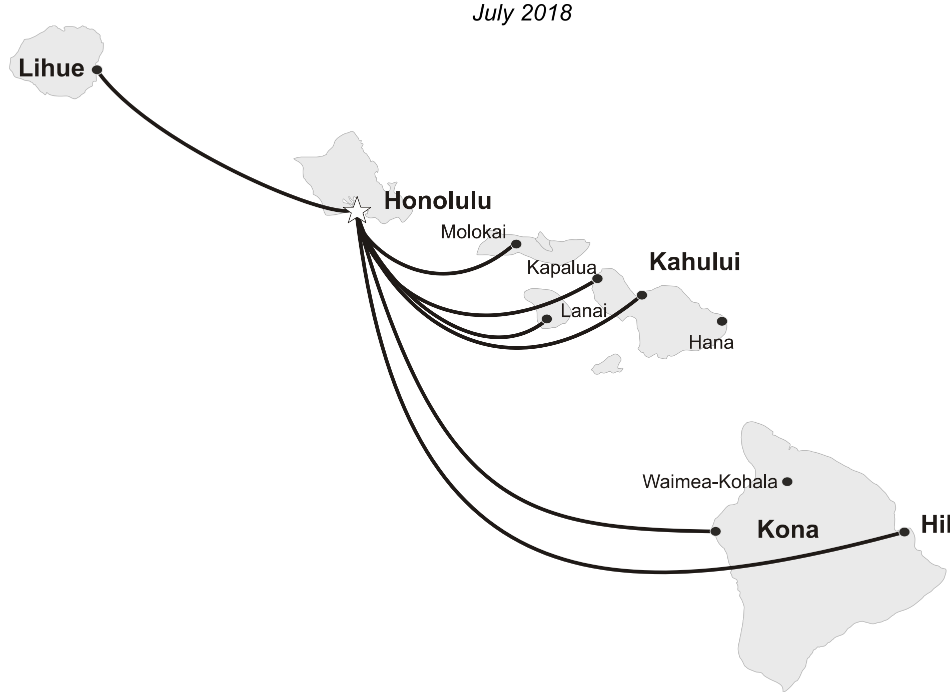
Scheduled air service to and from HNL has moderated in FY 2018. Overall seat capacity increased by 0.7 percent from the previous fiscal year with the fastest growing segment being international and Mainland U.S. with 2.1 percent and 1.6 percent capacity growth, respectively. However in the coming year, inter-island seat capacity is expected to decline by 1.5 percent as the result of Island Air[19] leaving the market. In FY 2018, HNL welcomed two new low-cost carriers: Sun Country and Scoot Airlines. Sun Country, a hybrid low cost carrier, began seasonal operations in May 2018 from Los Angeles to Honolulu with connecting flights to Minneapolis/St. Paul. Scoot Airlines, a Singapore low cost carrier, began service from Singapore to Honolulu with a stopover in Osaka, Japan in December 2017.

Inter-island Service

Two Hawaiian carriers, Hawaiian Airlines and Mokulele, provide scheduled inter-island service from HNL, as of July 2018 (Exhibit 4-21).

Exhibit 4-21: Inter-island Nonstop Markets served from Honolulu

July 2018



Source: Innovata, July 2018 Advanced Schedules.

19 As of November 2017, Island Air ceased operations.

Exhibit 4-22 shows the changes in inter-island air service from Honolulu. Inter-island services will decrease by 23 daily departures or by 16 percent from the previous year, after Island Air suspended operations in November 2017. In July 2018, Hawaiian Airlines increased frequencies in markets such as Kapalua, Lihue, and Molokai. Overall, Hawaiian Airlines is expected to add three average daily departures in 2018. Mokulele is the largest growing carrier, however from a smaller base, adding seven average daily departures, including new service to Kahului in 2018.

Exhibit 4-22: Scheduled Inter-island Service from Honolulu

July 2017-2018

	Avg. Daily Departures		Change ('17 - '18)	
	2017	2018	Net Change	% Change
Hawaiian Airlines	95	98	3	3%
Mokulele Airlines	20	27	7	35%
Island Air	33	-	(33)	-100%
Total	**148**	**125**	**(23)**	**-16%**

Source: Innovata, July 2018 Advanced Schedules.

Mainland U.S. Service

Six U.S. carriers, including Hawaiian Airlines, provide Mainland U.S. service at HNL as of July 2018 (Exhibit 4-23).

Exhibit 4-23: Mainland U.S. Airlines Operating at Honolulu

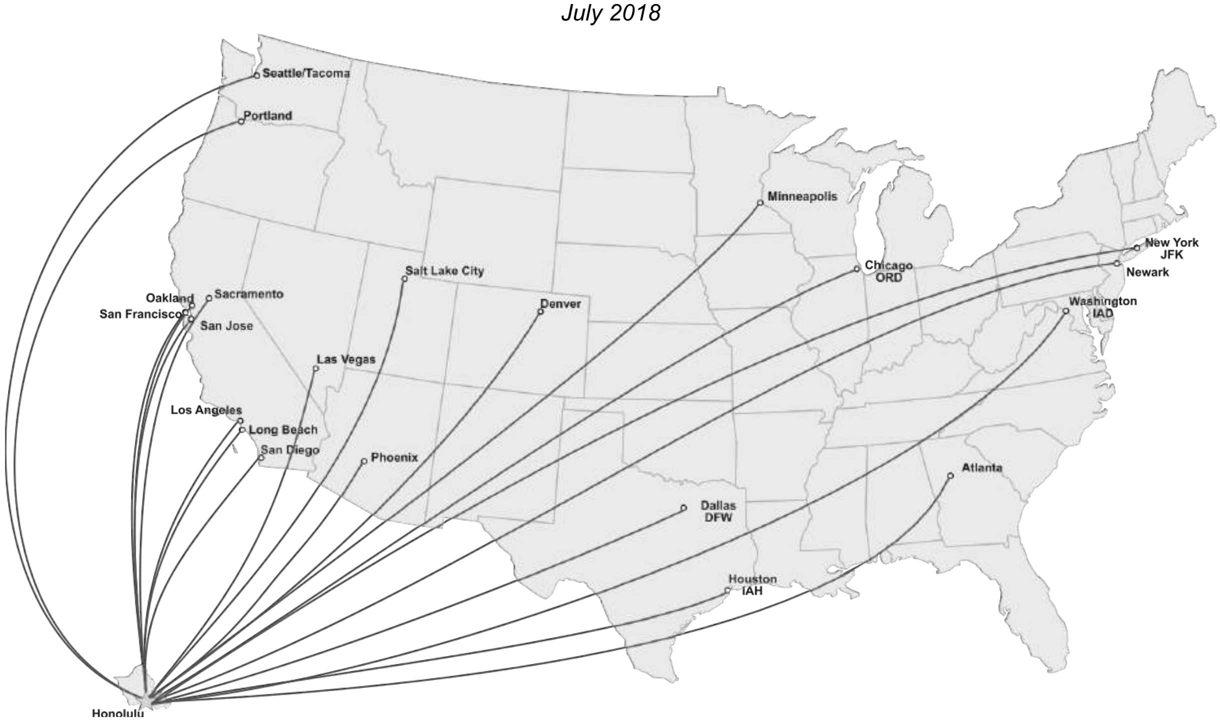
July 2018

Mainland U.S.	
American Airlines	Hawaiian Airline
Alaska Airlines	Sun Country
Delta Airlines	United Airlines

Note: Alaska Airlines includes Virgin America.
Source: Innovata, July 2018 Advanced Schedules.

Exhibit 4-24: Mainland U.S. Nonstop Markets served from Honolulu

July 2018



Source: Innovata, July 2018 Advanced Schedules.

In 2018, Mainland U.S. service has increased by two daily departures (3.0 percent) from the previous year despite Allegiant Air ending their Honolulu service during 2017. Hawaiian Airlines added daily service to Long Beach, California starting in June 2018; Sun Country initiated seasonal service from Los Angeles in May 2018.

Exhibit 4-25: Scheduled Mainland U.S. Service from Honolulu

July 2017-2018

	Avg. Daily Departures		Change ('17 - '18)	
	2017	2018	Net Change	% Change
Hawaiian Airlines	15	16	1	7%
United	15	16	1	7%
Delta	9	9	0	0%
Alaska	9	9	0	0%
American Airlines	10	9	-1	-10%
Sun Country	0	1	1	n/a
Allegiant Air	0	0	0	n/a
Total	**58**	**60**	**2**	**3%**

Note: Allegiant Air terminated their Honolulu service in Fall 2017; Alaska Airlines includes Virgin America.
Source: Innovata, July 2018 Advanced Schedules.

International Service

Three U.S. and 17 foreign flag airlines provide scheduled service to international destinations, including territories of the U.S., from Honolulu as of July 2018.

Exhibit 4-26: U.S. and Foreign Airlines Operating International Service at Honolulu

July 2018

U.S. Carriers
Delta Airlines
Hawaiian Airlines
United Airlines

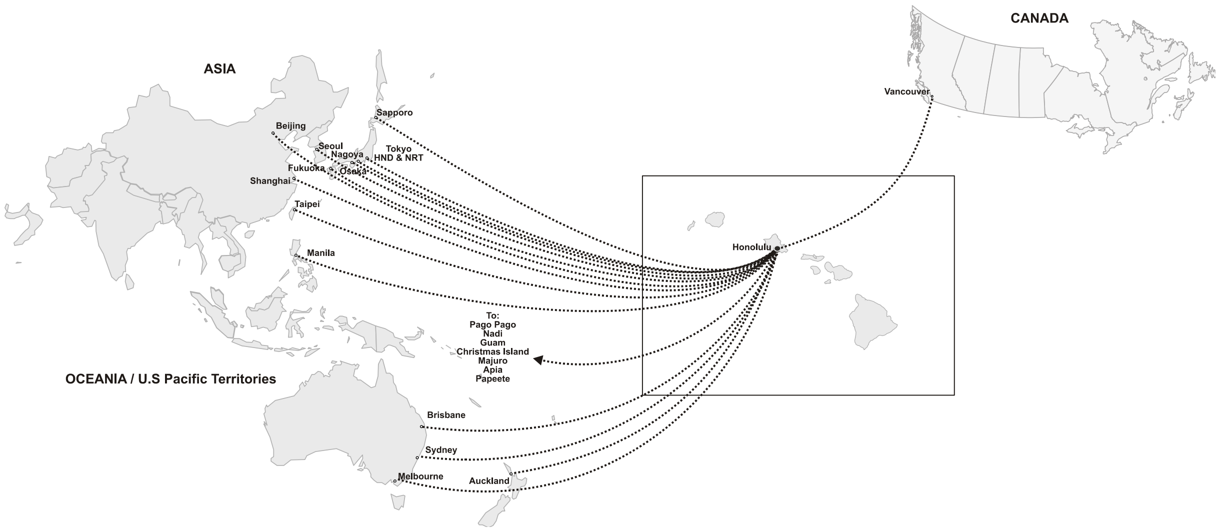
Foreign Flag Carriers	
Air Canada	China Eastern Airlines
Air China	ANA
China Airlines	Air New Zealand
AirAsia X	Asiana Airlines
Fiji Airways	Philippine Airlines
Japan Airlines	Qantas Airways
JetStar Airways	Scoot
Korean Air	
Jin Air	

Source: Innovata, July 2018 Advanced Schedules.

Exhibit 4-27 shows the international markets served nonstop from HNL as of July 2018.

Exhibit 4-27: International and Territories of the U.S. Nonstop Markets served from Honolulu

July 2018



Source: Innovata, July 2018 Advanced Schedules.

As of July 2018, HNL's international service was 24 percent above 2012 levels, with four new foreign carriers entering the market since July 2012. Exhibit 4-28 shows the changes in international service at HNL during this period. Overall, international service decreased by two weekly departures from July 2017 to July 2018. The Singapore based airline Scoot initiated international service between Singapore and Honolulu via Osaka-Kansai in December 2017. In January 2018, All Nippon Airways upgraded international service between Tokyo-Narita and Honolulu to a 787 aircraft and has announced plans to upgrade another aircraft to an Airbus 380 in early 2019.

Exhibit 4-28: Scheduled International Service from Honolulu

July 2017-2018

	Avg. Weekly Departures					Change ('12 -'18)		Change ('17 -'18)	
	2012	2014	2016	2017	2018	Net Change	% Change	Net Change	% Change
U.S. Carriers									
Hawaiian Airlines	41	42	46	53	55	14	34%	2	4%
Delta	39	34	27	33	35	-4	-10%	2	6%
United	17	17	17	17	18	1	6%	1	6%
Subtotal	**97**	**93**	**90**	**103**	**108**	**11**	**11%**	**5**	**5%**
Foreign Carriers									
Japan Airlines	42	42	42	53	49	7	17%	-4	-8%
All Nippon Airways	14	14	21	21	21	7	50%	0	0%
Korean Air	14	18	16	14	14	0	0%	0	0%
Jetstar Airways	7	9	12	10	9	2	29%	-1	-10%
Air New Zealand	3	5	5	6	8	5	167%	2	33%
Asiana Airlines	6	5	5	5	7	1	17%	2	40%
WestJet	6	6	7	7	7	1	17%	0	0%
China Eastern Airlines	2	7	7	6	6	4	200%	0	0%
Philippine Airlines	3	3	5	5	5	2	67%	0	0%
Qantas Airways	3	3	5	5	5	2	67%	0	0%
Air Canada	4	4	5	5	5	1	25%	0	0%
Tiger Airways	0	0	0	0	4	4	n/a	4	n/a
AirAsia X	0	0	0	4	4	4	n/a	0	0%
Fiji Airways	3	3	3	3	3	0	0%	0	0%
Air China	0	3	3	3	3	3	n/a	0	0%
Jin Air	0	0	5	5	2	2	n/a	-3	-60%
China Airlines	7	9	9	9	2	-5	-71%	-7	-78%
Subtotal	**114**	**131**	**150**	**161**	**154**	**40**	**35%**	**-7**	**-4%**
Total	**211**	**224**	**240**	**264**	**262**	**51**	**24%**	**-2**	**-1%**

Source: Innovata, July 2018 Advanced Schedules.

4.3 Primary Neighboring Island (PNI) Airports

The Primary Neighboring Island (PNI) Airports consist of Kahului (OGG), located on the island of Maui; Hilo International (ITO) and Kona (KOA), located on the Big Island; and Lihue (LIH), located on the island of Kauai. The PNI Airports provide inter-island, domestic overseas, and limited but growing international service. While OGG, KOA, LIH currently offer limited Canada service, KOA is the only airport apart from HNL to offer long-haul international service. In December 2016, the U.S. Customs and Immigration Service reopened a Federal Inspection Service (FIS) at KOA, enabling Hawaiian Airlines to begin international service between KOA and Tokyo-Haneda and in September 2017, Japan Airlines began international service between KOA and Tokyo-Narita.

4.3.1 PNI Passengers

In FY 2017, the PNI Airports welcomed over 7.4 million enplaned passengers, an increase of 5.5 percent from the previous fiscal year. Exhibit 4-29 shows the history of PNI Airport's enplaned passenger traffic. This growth reflects the move by U.S and international carriers (other than Hawaiian Airlines) to grow direct service to PNI Airports rather than to focus service solely at HNL.

Enplanement traffic at the PNI airports reached new records in FY 2017. From FY 2009 to 2017, the PNI airports enplanement grew by an average of 3.3 percent per year, faster than the total Hawai'i Airports System enplanement growth of 2.3 percent.

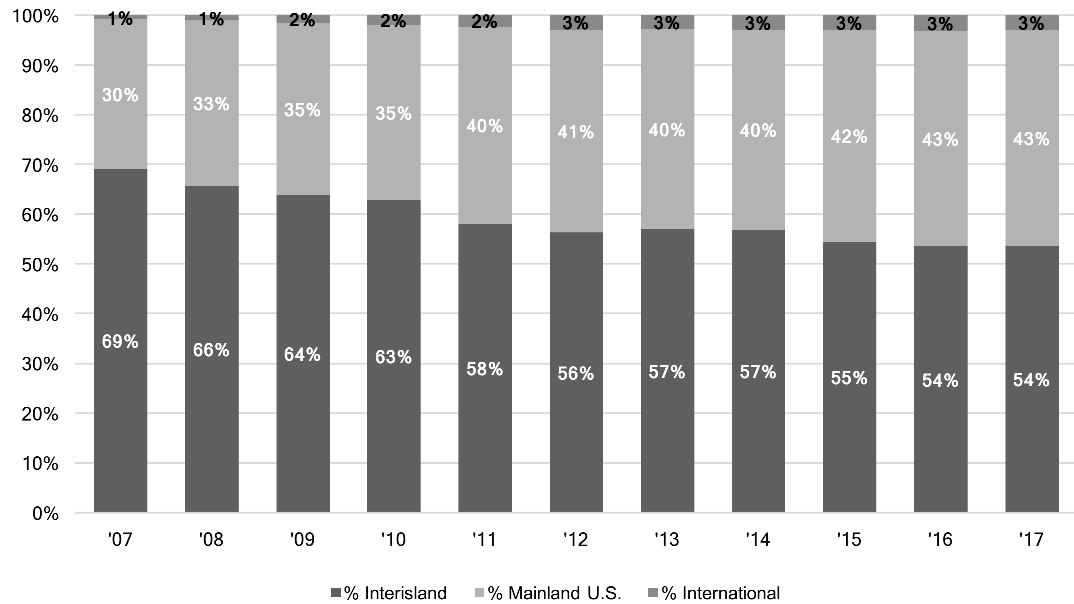
Exhibit 4-29: Historical Enplaned Passenger at PNI Airports
FY 2009-2017

	PNI Airports Enplanements (000s)				Hawaii Airports System (000s)			
	InterIsland	International	Mainland U.S.	Total	InterIsland	International	Mainland U.S.	Total
2009	3,666	93	1,982	5,741	7,207	1,896	5,739	14,842
2010	3,638	116	2,033	5,788	7,163	2,096	5,821	15,079
2011	3,448	136	2,360	5,944	6,801	2,156	6,326	15,282
2012	3,456	178	2,499	6,133	6,785	2,490	6,291	15,566
2013	3,710	181	2,622	6,513	7,119	2,765	6,659	16,543
2014	3,653	193	2,576	6,422	7,022	2,791	6,481	16,295
2015	3,693	206	2,873	6,772	6,998	2,851	6,834	16,683
2016	3,779	224	3,056	7,059	7,137	2,979	7,099	17,215
2017	3,994	227	3,225	7,447	7,541	3,078	7,240	17,859
Average Annual Growth								
2009-2011	-3.0%	20.5%	9.1%	1.8%	-2.9%	6.6%	5.0%	1.5%
2011-2017	2.5%	9.0%	5.3%	3.8%	1.7%	6.1%	2.3%	2.6%
2009-2017	1.1%	11.8%	6.3%	3.3%	0.6%	6.2%	2.9%	2.3%
Perent Change Over Prior Year								
2012	0.2%	31.4%	5.9%	3.2%	-0.2%	15.5%	-0.6%	1.9%
2013	7.3%	1.9%	4.9%	6.2%	4.9%	11.0%	5.8%	6.3%
2014	-1.5%	6.4%	-1.8%	-1.4%	-1.4%	1.0%	-2.7%	-1.5%
2015	1.1%	6.8%	11.5%	5.5%	-0.3%	2.1%	5.4%	2.4%
2016	2.3%	8.6%	6.4%	4.2%	2.0%	4.5%	3.9%	3.2%
2017	5.7%	1.7%	5.5%	5.5%	5.7%	3.3%	2.0%	3.7%

Source: Hawai'i Airports System.

PNI Airport's traffic are heavily oriented to the US. 97 percent of PNI's enplanements were either Mainland U.S or inter-island in FY 2017. Over the last decade, the mix of PNI enplanements shifted from inter-island to Mainland U.S., reducing from 69 percent to 54 percent, reflecting a shift in airline strategy to more direct service to PNI's. PNI Airports also saw strong growth in international enplaned passengers, increasing at an average annual growth rate of 9.0 percent between 2011 and 2017. As shown in Exhibit below, the international segment represented only three percent of PNI's total passengers.

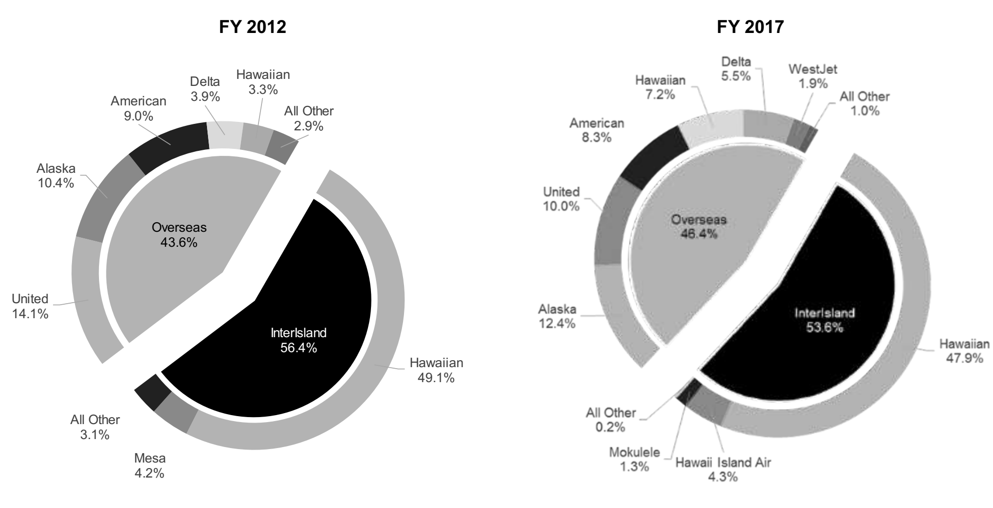
Exhibit 4-30: Historical Enplaned Passenger at PNI Airports
FY 2007-2017



Source: Hawai'i Airports System.

In FY 2017, Hawaiian Airlines carried over 4.1 million enplaned passengers, maintaining a market share of 55.1 percent at the PNI airports. Alaska is the second largest carrier, accounting for 12.4 percent of total enplanements at the PNI airports, carrying over 923 thousand enplaned passengers in FY 2017. United ranked third with 747 thousand enplaned passengers or 10.0 percent market share; American ranked fourth with 8.3 percent, followed by Delta with 5.5 percent. The breakdown of passenger market share by airline at the PNI airports is presented in Exhibit 4-31.

Exhibit 4-31: Airline Share of PNI Airports Annual Passengers
FY 2012-2017



Note: Alaska includes Virgin America.
Sources: Hawai'i Airports System.

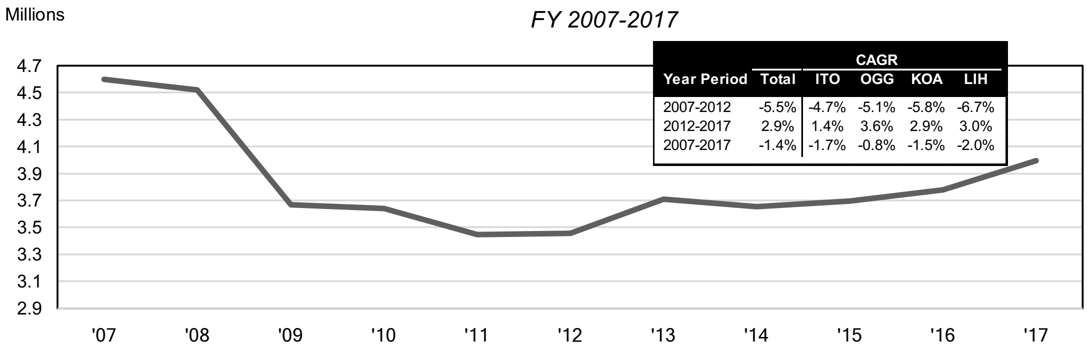
Historical growth trends in each of these segments are discussed in the following sections.

Inter-island Passengers

In FY 2017, inter-island passenger traffic at the PNI Airports reached over 3.9 million enplanements. Similar to HNL, the PNI airports saw a dramatic decline from 2008 to 2009 due to the economic recession inter-island. Between FY 2012 and 2017, inter-island passenger traffic grew on an average annual rate of 2.9 percent, more rapidly than overall inter-island passenger traffic within Hawai'i.

Exhibit 4-32: Historical Inter-island Enplaned Passenger Traffic at PNI Airports

FY 2007-2017



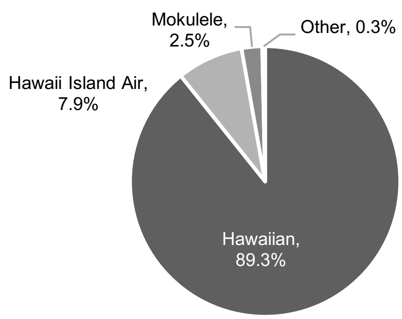
Year Period	Total	CAGR ITO	OGG	KOA	LIH
2007-2012	-5.5%	-4.7%	-5.1%	-5.8%	-6.7%
2012-2017	2.9%	1.4%	3.6%	2.9%	3.0%
2007-2017	-1.4%	-1.7%	-0.8%	-1.5%	-2.0%

Source: Hawai'i Airports System.

In terms of inter-island passenger traffic, Hawaiian Airlines dominated inter-island carrier in FY 2017 with an 89.3 percent market share (Exhibit 4-33). Hawai'i Island Air was the second with a 7.9 percent market share, followed by Mokulele with 2.5 percent.

Exhibit 4-33: Airline Market Share of Inter-island Enplaned Passenger at PNI Airports

FY 2017



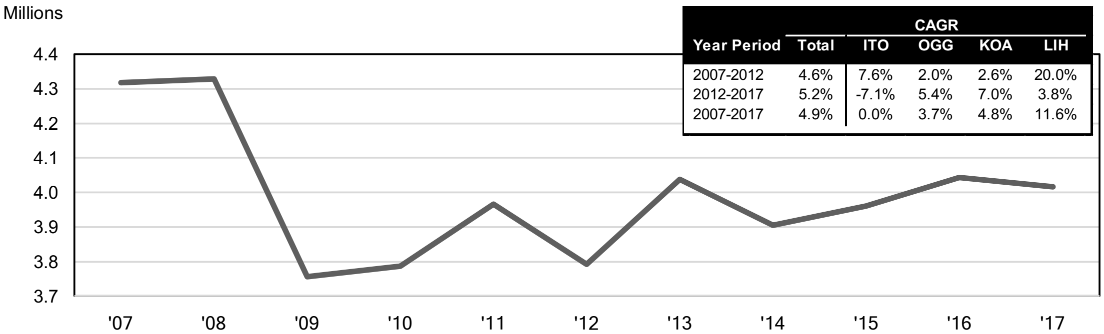
Sources: Hawai'i Airports System.

Overseas Mainland U.S. Passengers

Overseas Mainland U.S. passenger traffic at PNI Airports reached over 3.2 million enplanements in FY 2017. Between FY 2012 and 2017, Mainland U.S. passenger traffic at the PNI airports grew by an average annual rate of 4.9 percent, almost twice as fast as the total Mainland U.S. passenger traffic (2.9 percent per year).

Exhibit 4-34: Historical Mainland U.S. Enplaned Passenger Traffic at PNI Airports

FY 2007-2017



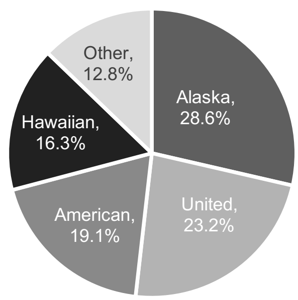
Year Period	Total	CAGR ITO	CAGR OGG	CAGR KOA	CAGR LIH
2007-2012	4.6%	7.6%	2.0%	2.6%	20.0%
2012-2017	5.2%	-7.1%	5.4%	7.0%	3.8%
2007-2017	4.9%	0.0%	3.7%	4.8%	11.6%

Sources: Hawaiʻi Airports System.

Unlike HNL, the airline market share at PNI Airports is more balanced. Alaska Airlines is the leading carrier in FY 2017 with a 28.6 percent market share (Exhibit 4-35). United Airlines was the second with a 23.2 percent market share, followed by American with 19.1 percent and Hawaiian with 16.3 percent.

Exhibit 4-35: Airline Market Share of Mainland U.S. Enplaned Passenger at PNI Airports

FY 2017



Note: Alaska includes Virgin America.
Sources: Hawaiʻi Airports System.

PNI Airports Domestic Capacity Trends

As illustrated in Exhibit 4-36, PNI domestic departing seat capacity has been increasing since FY 2010, reaching over 8.9 million annual departing seats in FY 2018, and has almost rebounded to pre-recession levels of FY 2007. Similar to HNL, in 2008-2009, during the global economic recession and spike in fuel prices, carriers implemented system wide service cuts. However, from FY 2010 through FY 2013, carriers increased domestic seat capacity by approximately 3.4 percent on average per year. While seat capacity declined in FY 2014 as a result of airline consolidation and capacity cuts, carriers have shifted focus towards PNI Airports with domestic seat capacity growing by 3.8 percent per year from FY 2014 through FY 2018. In FY 2018, the loss of Island Air led to a decline in Inter-island seat capacity, however, carriers significantly increased overseas seat capacity by over 14 percent over the previous fiscal year.

Exhibit 4-36: PNI Airports Domestic Scheduled Departing Seats and Year Over Year Change

FY 2006-2018

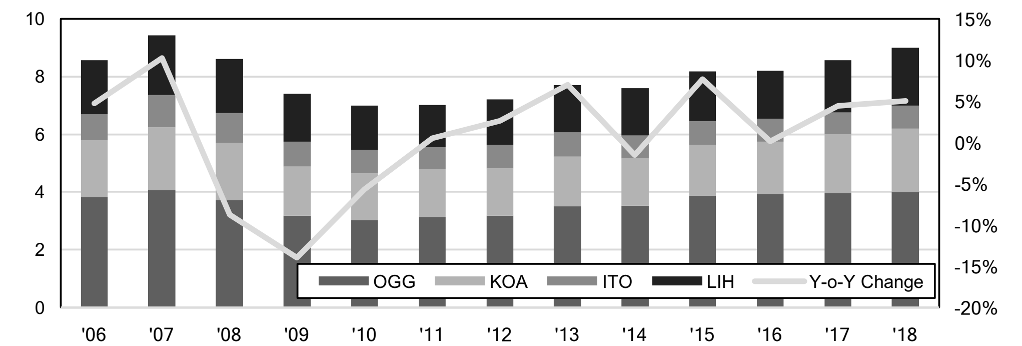
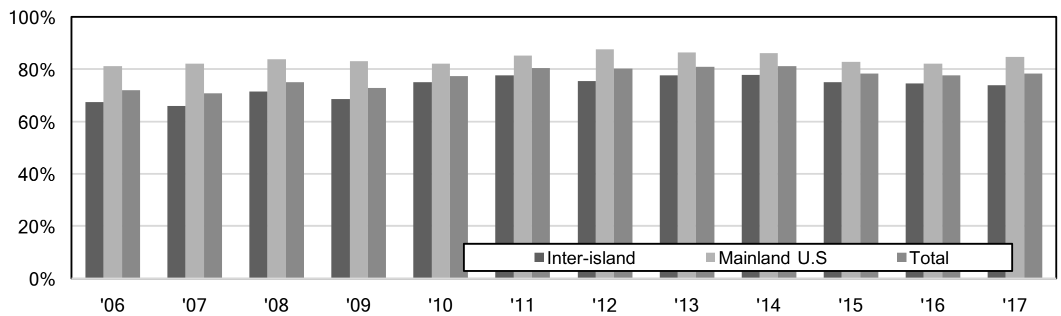


Exhibit 4-37 shows the domestic load factor growth at PNI Airports since FY 2006. Load factors have maintained a level of between 78 and 81 percent since FY 2011 indicating strong demand for these airports.

Exhibit 4-37: PNI Airports Domestic Load Factors

FY 2006-2017



Source: U.S. DOT T-100

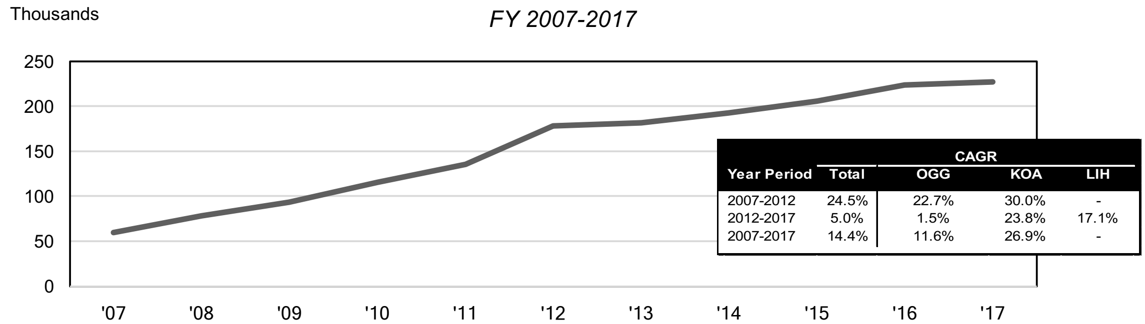
Overseas International Passengers

International Passenger traffic at PNI Airports has grown continuously over the past decade, reaching a new record of 227 thousand enplaned passengers in FY 2017 (Exhibit 4-38). Over the last five years, international passengers grew at an average annual rate of 5.0 percent. In December 2016, the U.S. Customs and Immigration Service reopened a Federal Inspection Service (FIS) at KOA, enabling non-stop service between KOA and Japan. While OGG, KOA, LIH currently offer limited Canada service, KOA offers long-haul international service. However, with the advent of the Tokyo 2020 Olympic Games, the Japanese government has plans to implement pre-clearance services and this will likely have a positive benefit to PNI Airports. Tokyo Narita was selected in 2015 as one of the ten new international airports to be considered for pre-clearance with the U.S., and Kansai International Airport in Osaka was selected in 2016. However, no decisions have been made regarding approval or timing[20]. In FY 2017, PNI Airport international passenger levels were 67.8 percent greater than FY 2011, driven by new international service from Hawaiian Airlines, Japan Airlines service to Tokyo and additional service to Canadian markets.

20 Department of Homeland Security.

Exhibit 4-38: Historical International Enplaned Passenger Traffic at PNI Airports

FY 2007-2017



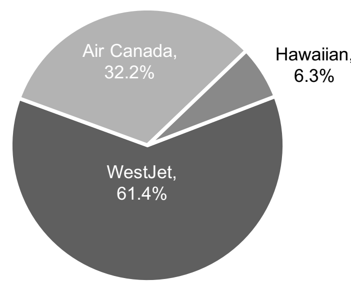
Year Period	Total	CAGR OGG	KOA	LIH
2007-2012	24.5%	22.7%	30.0%	-
2012-2017	5.0%	1.5%	23.8%	17.1%
2007-2017	14.4%	11.6%	26.9%	-

Sources: Hawai‘i Airports System.

In terms of international passenger traffic mix, WestJet accounted for 61.4 percent of PNI Airports international passengers in FY 2017, followed by Air Canada with 32.2 percent and Hawaiian with 6.3 percent (Exhibit 4-38).

Exhibit 4-39: Airline Market Share of International Enplaned Passenger at PNI Airports

FY 2017



Sources: Hawai‘i Airports System.

PNI Airports Top Origin-Destination Markets

The top 20 domestic O&D markets (Exhibit 4-40) accounted for 81 percent of PNI’s total domestic O&D passengers in FY 2017 while 9.3 percent of domestic O&D passengers travel between the PNI Airports.

Exhibit 4-40: Top Domestic PNI Airports O&D Passenger Markets

FY 2017

Rank	City	Nonstop Miles from Kahului	O&D Psgrs	Percent of Total	5 Year CAGR	Sched. Wkly Nonstop Depts
1	Honolulu	100	4,611,901	36.8%	2.8%	626
2	San Francisco	2,346	1,323,134	10.5%	6.2%	147
3	Los Angeles	2,487	1,151,747	9.2%	5.6%	186
4	Seattle/Tacoma	2,637	603,843	4.8%	3.2%	59
5	Portland	2,560	348,377	2.8%	2.8%	22
6	San Diego	2,537	331,845	2.6%	9.1%	28
7	Phoenix	2,839	212,735	1.7%	5.6%	28
8	Sacramento	2,401	189,587	1.5%	2.4%	7
9	Denver	3,297	180,596	1.4%	4.1%	21
10	New York	4,893	175,474	1.4%	6.7%	-
11	Las Vegas	2,691	168,199	1.3%	1.7%	-
12	Salt Lake City	2,931	150,182	1.2%	14.5%	-
13	Chicago	4,185	144,595	1.2%	2.0%	5
14	Dallas/Fort Worth	3,714	115,763	0.9%	1.9%	21
15	Minneapolis	3,911	106,863	0.9%	6.9%	-
16	Washington	4,783	89,998	0.7%	3.5%	-
17	Boston	5,029	70,894	0.6%	5.7%	-
18	Molokai	47	61,224	0.5%	14.4%	66
19	Atlanta	4,422	59,688	0.5%	11.5%	-
20	Houston	3,824	58,547	0.5%	2.8%	-
	Subtotal Top 20		10,155,192	81.0%	4.1%	
	Within PNI		1,169,244	9.3%	5.8%	
	Other Markets		2,389,498	19.0%		
	Grand Total		**12,544,690**	**100.0%**	**4.3%**	

Note: Los Angeles market includes BUR, LGB, ONT, and SNA airports, San Francisco market includes OAK, SFO, and SJC airports, New York market includes JFK, EWR, and LGA airports, Washington market includes BWI, IAD, and DCA airports, Chicago market includes MDW and ORD airports, Dallas/Fort Worth market includes DAL and DFW airports, Houston market includes HOU and IAH airports; Excludes the U.S. Pacific Trust, Puerto Rico, and U.S. Virgin Islands.

Source: U.S. DOT O&D Survey and Innovata Advanced Schedules (July 2018).

Honolulu is currently PNI's largest O&D market. Since FY 2012, the PNI-Honolulu O&D market has grown at an annual average of 2.8 percent, reaching over 4.6 million annual passengers in FY 2017 (Exhibit 4-41). The average Inter-island and mainland U.S. fares have increased substantially since 2009, from $56 to $77 for Inter-island flights and from $287 to $333 for Mainland U.S. flights, a 37.5 and 16.0 percent increase in fare cost, respectively (Exhibit 4-41).

Exhibit 4-41: Passengers and Average Fares – Inter-island and U.S. Mainland Markets

FY 2009-2017

Fiscal Years	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Fares									
Interisland	$ 56	$ 57	$ 74	$ 74	$ 72	$ 78	$ 79	$ 79	$ 77
Mainland U.S.	$ 287	$ 265	$ 274	$ 300	$ 300	$ 338	$ 331	$ 321	$ 333
Average Yield (cents per mile)									
Interisland	38.5	38.5	50.3	50.0	49.3	53.6	54.2	54.2	53.3
Mainland U.S.	9.0	8.3	8.7	9.6	9.6	10.8	10.6	10.3	10.7

Source: U.S. DOT O&D Survey.

4.3.2 PNI Airports Air Service Trends

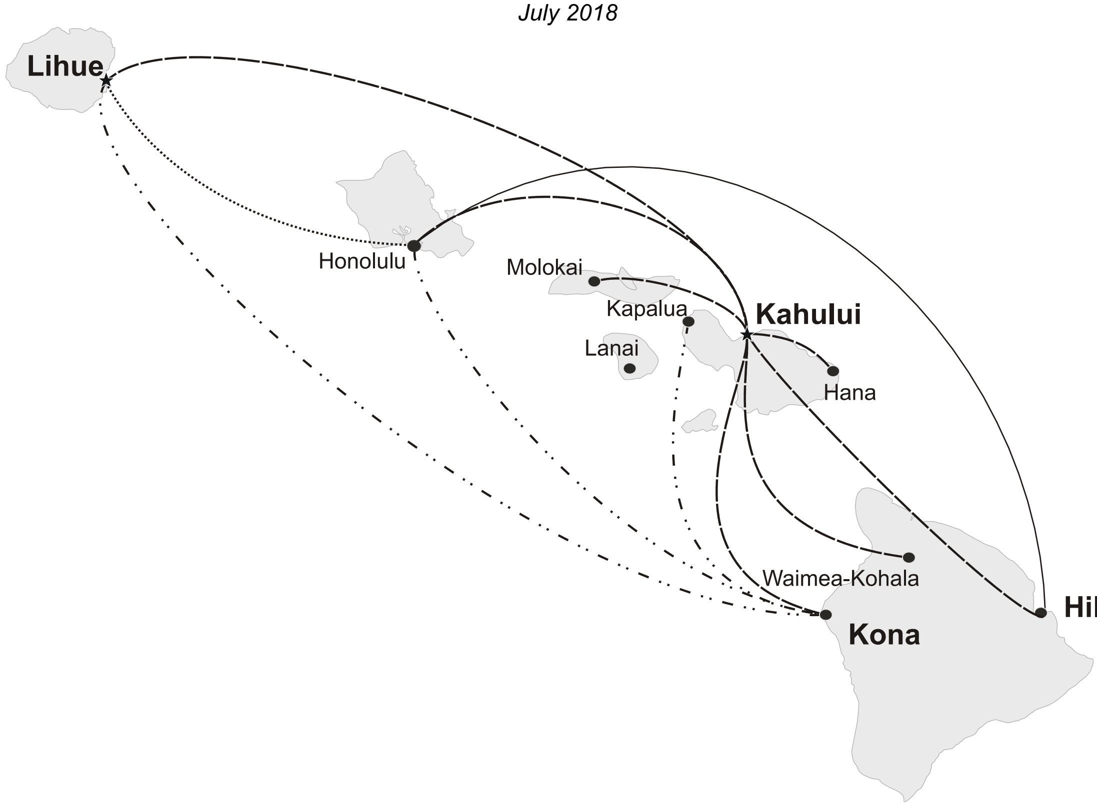
Since FY 2015, carriers have increased overall seat capacity at the PNI Airports, driven largely by the international and Mainland U.S. markets. In FY 2018, overall seat capacity is expected to increase by 6.0 percent from the previous fiscal year with the fastest growing segment being international and Mainland U.S. with a 33.8 percent and 14.7 percent capacity growth, respectively. Inter-island seat capacity is expected to decline by 1.6 percent from Island Air[21]. In September 2017, Japan Airlines launched service between KOA and Tokyo-Narita, Japan after suspending its service in October 2010.

Inter-island Service

Two Hawaiian carriers, Hawaiian Airlines and Mokulele, provide scheduled inter-island service from PNI Airports, as of July 2018 (Exhibit 4-42).

Exhibit 4-42: Inter-island Nonstop Markets served from PNI Airports

July 2018



Source: Innovata, July 2018 Advanced Schedules.

Exhibit 4-43: Scheduled Inter-island Service from PNI Airports

July 2017-2018

	Avg. Daily Departures		Change ('17 - '18)	
	2017	2018	Net Change	% Change
Hawaiian Airlines	111	107	-4	-4%
Mokulele Airlines	44	49	5	11%
Island Air	33	-	(33)	-100%
Total	**188**	**156**	**(32)**	**-17%**

Source: Innovata, July 2018 Advanced Schedules.

Exhibit 4-43 shows the changes in inter-island air service from PNI Airports. Inter-island services will decrease by 32 daily departures or by 17 percent from the previous year, after Island Air suspended operations in November 2017. In July 2018, Hawaiian Airlines decreased frequencies in markets such as Kapalua, Molokai,

21 As of November 2017, Island Air ceased operations.

and Kona. Overall, Hawaiian Airlines is expected to decrease 4 average daily departures in 2018. Mokulele is the largest growing carrier, adding 5 average daily departures, including 3 daily departures to Honolulu and 2 daily departures to Kahului.

Mainland U.S. Service

Five U.S. carriers, including Hawaiian Airlines, provide Mainland U.S. service from the PNI Airports as of July 2018 (Exhibit 4-44).

Exhibit 4-44: Mainland U.S. Airlines Operating at PNI Airports

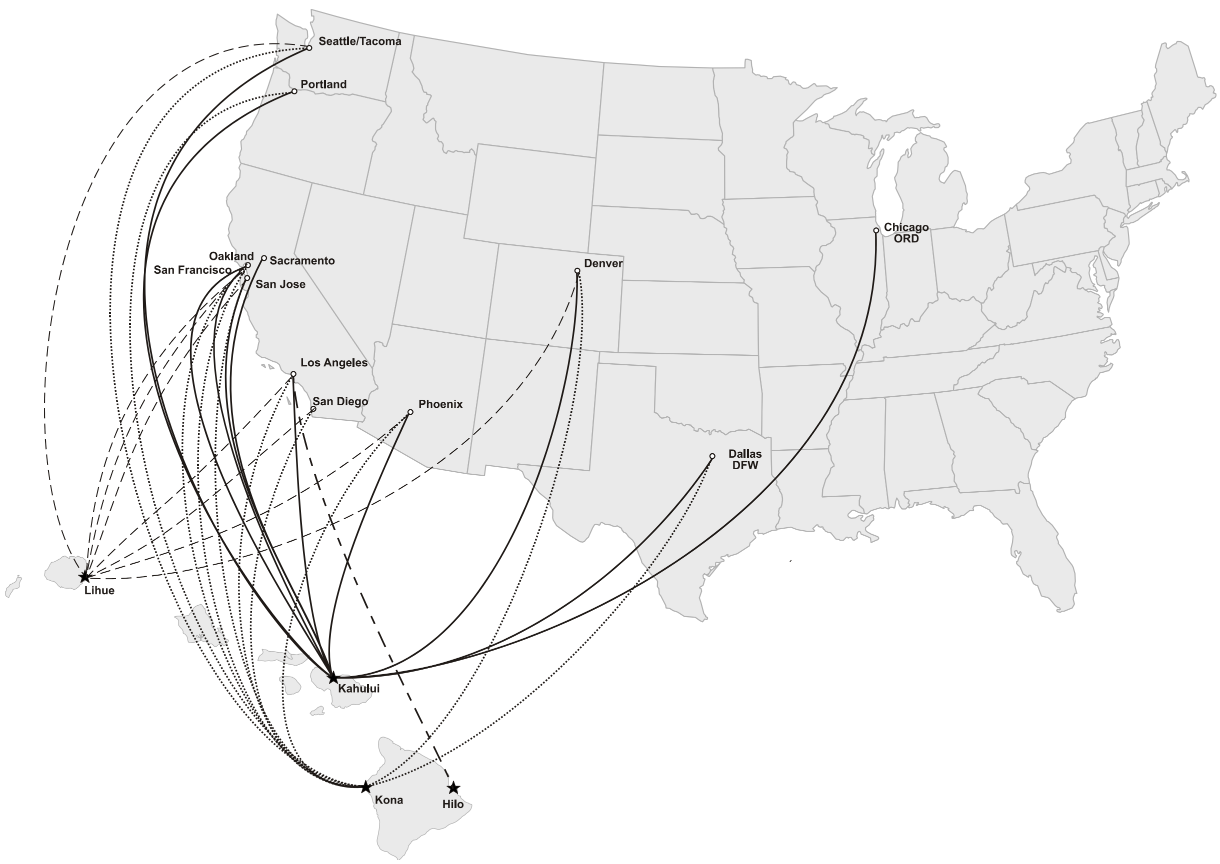
July 2018

Mainland U.S.	
American Airlines	Hawaiian Airline
Alaska Airlines	United Airlines
Delta Airlines	

Note: Alaska Airlines includes Virgin America.
Source: Innovata, July 2018 Advanced Schedules.

Exhibit 4-45: Mainland U.S. Nonstop Markets served from PNI Airports

July 2018



Source: Innovata, July 2018 Advanced Schedules.

In 2018, Mainland U.S. services will increase by 12 daily departures or 19 percent from the previous year. In June 2018, United Airlines increased daily service from Chicago-O'Hare, Denver, Los Angeles, and San Francisco. Overall, United Airlines is expected to increase to five average daily departures in 2018. Alaska will begin services from Los Angeles and San Francisco while increasing service from Portland, San Diego, and San Jose. Overall, Alaska will add three average daily departures in 2018. In December 2018, Alaska will begin 3 weekly flights between Sacramento and Kona on a 737 aircraft in anticipation of Southwest service. Hawaiian Airlines will begin service from Portland and San Diego, while increasing daily departures from Los Angeles. Overall, the airlines will add 12 average daily departures.

Exhibit 4-46: Scheduled Mainland U.S. Service from PNI Airports

July 2017-2018

	Avg. Daily Departures		Change ('17 - '18)	
	2017	2018	Net Change	% Change
United	17	22	5	29%
Alaska	16	19	3	19%
American	16	16	0	0%
Hawaiian	7	10	3	43%
Delta	7	8	1	14%
Total	**63**	**75**	**12**	**19%**

Note: Alaska Airlines includes Virgin America.
Source: Innovata, July 2018 Advanced Schedules.

International Service

One U.S. and three foreign flag airlines will provide scheduled service to international destinations from the PNI airports in July 2018 (Exhibit 4-47). Exhibit 4-48 shows the international markets served nonstop from PNI airports in July 2018.

Exhibit 4-47: U.S. and Foreign Airlines Operating International Service at Honolulu

July 2018

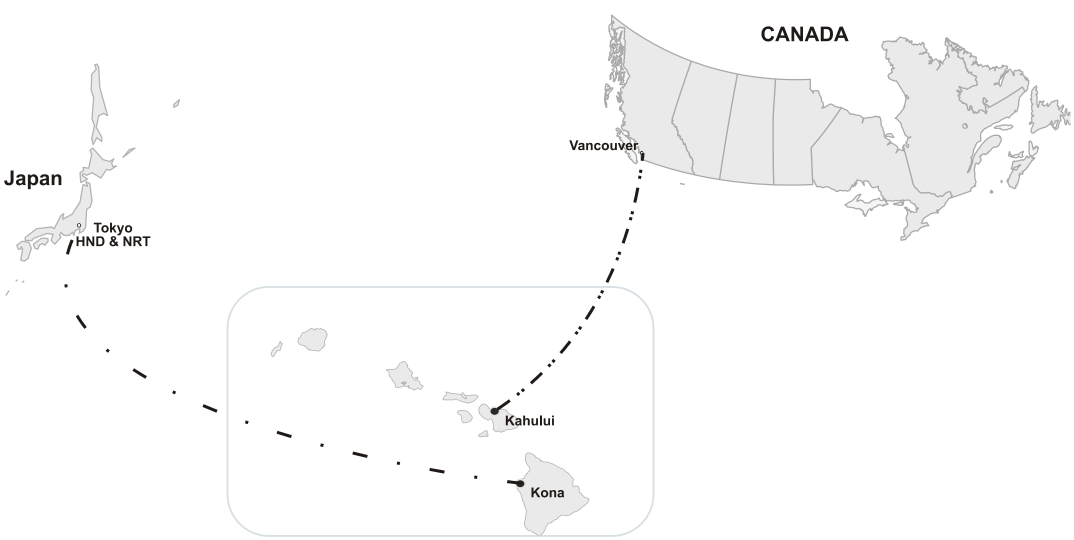
U.S. Carriers
Hawaiian Airlines

Foreign Flag Carriers
WestJet
Japan Airlines
Air Canada

Source: Innovata, July 2018 Advanced Schedules.

Exhibit 4-48: International and Territories of the U.S. Nonstop Markets served from Honolulu

July 2018



Source: Innovata, July 2018 Advanced Schedules.

Exhibit 4-49 shows the changes in international service at PNI Airports. Overall, international service increased from 12 weekly departures in July 2017 to 19 weekly departures July 2018. In December 2017, the Singapore based airline Scoot began service between Singapore and Honolulu via Osaka-Kansai.

Exhibit 4-49: Scheduled International Service from PNI Airports

July 2012-2018

	Avg. Weekly Departures					Change ('12 -'18)		Change ('17 -'18)	
	2012	2014	2016	2017	2018	Net Change	% Change	Net Change	% Change
U.S. Carriers									
Hawaiian Airlines	-	-	-	3	3	3	n/a	0	0%
Subtotal	**-**	**-**	**-**	**3**	**3**	**3**	n/a	**0**	0%
Foreign Carriers									
WestJet	8	8	7	7	7	-1	-13%	0	0%
Japan Airlines	-	-	-	0	7	7	n/a	7	n/a
Air Canada	1	1	2	2	2	1	100%	0	0%
Subtotal	**9**	**9**	**9**	**9**	**16**	**7**	**78%**	**7**	**78%**
Total	**9**	**9**	**9**	**12**	**19**	**10**	**111%**	**7**	**58%**

Source: Innovata, July 2018 Advanced Schedules.

4.4 Recent Events Impacting the Hawai‘i Airport System

4.4.1 Island Air

As the second oldest Hawaiian carrier, Island Air served the State for over three decades. In FY 2017, the carrier had the second largest share of the inter-island market accounting for 8.6 percent of the passengers. The carrier also provided 12.5 percent of inter-island departing seats at HNL in FY 2017. However, in October 2017, Island Air filed for Chapter 11 bankruptcy, then one month later, was converted to a Chapter 7 liquidation case when the airline was unable to satisfy all of its post-petition debts. Island Air ceased all inter-island operations and the loss of this carrier resulted in a statewide inter-island seat capacity reduction of 1.3 percent in FY 2018.

4.4.2 *Kilauea* Volcano

On May 3rd 2018, after a magnitude 5.0 earthquake, Kilauea volcano, one of the three active volcanoes in Hawaii, erupted and continues to spew lava and flames over the Puna District of the Big Island. With recent developments of volcanic smog, acid rain and blue flames of methane gas as well as new openings of fissures, there are potential threats of explosions within the area. The National Park, which sees over 2 million visitors a year has closed due to these conditions.

The closure of the National Park and forced evacuation of some local residents may have some impact to tourism and near term demand for air travel. So far, we have seen no evidence that this event has negatively impacted airport passengers, despite reports in the media of hotel and vacation cancellations. Hilo International Airport is located on the eastern side of the island of Hawai‘i and is the closest airport to the volcanic activity. To date, Hawaiian airlines has modified its interisland schedule but the Airports Division expects no material negative impact to airport revenue. However, Hilo represents only 3.8% of total enplanements and 2.3% of the total revenue of the Hawai‘i Airport System. Even if Hilo International Airport were to experience extended cancellation of flights and loss of passengers, this would have minimal impact on the total revenue stream of the System.

Preliminary domestic passenger numbers for the month of May from the Department of Business Economic Development & Tourism (DBEDT) shows an increase in passenger count to the Big Island by 24.2 percent compared to last May. For the purpose of this Report, it was assumed that the volcano eruption would affect only the eastern tip of the Big Island for a limited period, and would not materially affect the air traffic or revenue stream of the Hawai‘i Airports System.

4.4.3 Southwest Airlines

In mid-2017, Southwest Airlines announced its intention to begin air service to the Hawaiian Islands. Southwest Airlines is the second largest US domestic airline, after American Airlines, in terms of annual passengers. Southwest pioneered low fare services in the U.S. and has been one of the most profitable airlines over the past two decades. The carrier has an extensive route network within the U.S. and has now targeted Hawai‘i as a significant market opportunity.

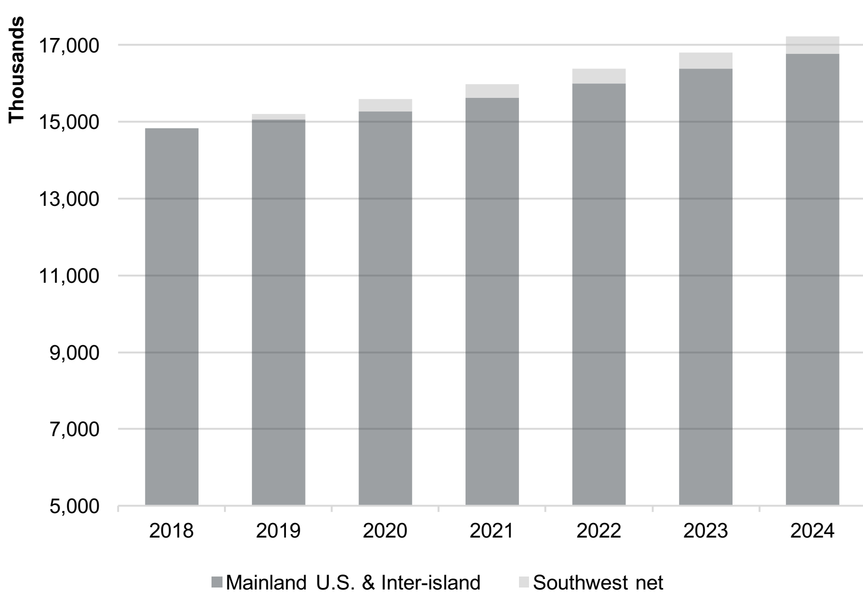
In March 2018, the carrier took the first step in securing routes to Hawai‘i by obtaining a permit to operate at Daniel K. Inouye International Airport. Southwest has also filed a permit application with the State for Lihue Airport. The carrier is still waiting for FAA approval to fly the Trans-Pacific route but has announced intentions to fly from the West Coast and potentially to provide inter-island service as well. In April 2018, Southwest announced intention to serve four Hawai‘i destinations: Honolulu, Kahului, Lihue, and Kona[22] from Hawai‘i to four California markets, Oakland, Sacramento, San Diego, and San Jose.

Southwest's Hawai‘i service will likely start at the end of 2018 or in early 2019. The carrier is the largest carrier, in terms of passengers, at each of the four California airports that it intends to start service from, and also has the ability to connect passengers from its entire network through these airports. So the Southwest announcement represents an important new source of air service for Hawai'i. We also believe that Southwest will offer lower fares into the market in order to attract passengers to these flights with the consequence of lowering the average airfare in the mainland to Hawai'I and inter-island markets. This would be consistent to Southwest's performance when it has entered other leisure markets, such as Mexico and the Caribbean. ICF believes that Southwest will likely stimulate the market and capture some of the passenger share held by current carriers. ICF has made assumptions regarding service frequencies and included the number of passengers that this new service will generate in our forecast.

Based on our analysis, ICF anticipates that the introduction of Southwest service will increase traffic by a net of 445 thousand enplaned passengers by FY 2024 from stimulation, which represents approximately 2.6 percent of combined Mainland U.S. and inter-island total enplanements.

Exhibit 4-50: Hawai‘i Airports System Mainland U.S. and Inter-island Enplaned Passenger Forecast

Fiscal Years ended June 30



Note: Overseas include Mainland U.S. and International. Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Actual enplanement figures for FY 2012 to FY 2017 were provided by State of Hawai‘i, Department of Transportation. Forecast figures for FY 2018 to FY 2024 were provided by ICF.

4.4.4 Hawaiian Airlines

Started in 1929, Hawaiian Airlines is currently the largest airline serving the State, accounting for 51.3 percent of total enplanements in FY 2017. The airline operates primarily out of its main hub in HNL with OGG as a secondary hub. In FY 2017, on average, Hawaiian Airlines had 226 daily departures scheduled, 47.4 percent and 19.4 percent departing from HNL and OGG, respectively. Hawaiian Airlines continues to be an integral part of traveling

22 USA Today (4/26/2018)

between overseas and inter-island markets as inter-island activity plays an important role in the carrier's strategy. As the carrier inducts its A321s fleet into service, several of the aircrafts will operate as 'tag' segments, providing inter-island service as they make their way to and from the West Coast. The A321 aircrafts will allow Hawaiian Airlines to access secondary West coast markets such as Long Beach, more effectively and the delivery of the aircraft coincides with their 767 retirements. Even though direct inter-island flights have moderated connecting traffic, inter-island traffic continues to grow as visitor growth continues.

On March 14, 2018, Hawaiian Airlines executed a non-binding Letter of Intent for the purchase of 10 new Boeing 787-9 "Dreamliner" aircraft, which will help expand Hawaiian's existing service and growth between Asia, Europe and North America. The 787's fuel efficiency will enhance Hawaiian's economies on its long-haul Asia/Pacific and Mainland U.S. routes. The 787's are scheduled to arrive in early 2021, and given their wide-cabin space, they will seat 279 passengers, which nearly matches the 278 total seats in Hawaiian's currently in-service A330-200s[23].

Hawaiian Airlines has also recently trimmed its summer flying schedule due to engine problems on Airbus's most popular jet variant series, the A321neo. Regulators grounded some of the A321-200neos earlier in March due to faulty new engine seals on the Pratt & Whitney geared turbofans. This has led to delays in Hawaiian deliveries of nine new A321neo jets for 2018. These delays will primarily affect service out of the Bay Area, where Hawaiian has removed an extra summer flight between San Francisco and Honolulu, and a seasonal flight between Oakland and Kona. However, with their 767-300 aircrafts, Hawaiian Airlines has the option to extend their 767 operations to cover the initial shortfall until their A321neo are delivered. The entry of the A321neo will be 'one of the most important things [the carrier will be] doing' in 2018 [24]. The second is a joint venture agreement with Japan Airlines. As of March 2018, the carriers launched their first codeshare flight, allowing passengers to book flights on either sites with the ability to receive miles and lounge benefits.

Exhibit 4-51: Hawaiian Airlines Fleet Orders

Aircraft	Current Fleet	Total Orders	Aircraft Deliveries 2018	2019	2020	2021-2025
767-300	7	0	0	0	0	0
787-9	**0**	**10**	**0**	**0**	**0**	**10**
A321-200neo	2	15	9	5	1	0
A330-200	24	0	0	0	0	0
Total	**33**	**25**	**9**	**5**	**1**	**10**

Note: Hawaiian Airlines 767-300 aircrafts will retire in 2018.
Source: CAPA Fleets. As of April 2018.

With the recent entrance of Sun Country and potential service from Southwest, Hawaiian Airlines CEOs believe that there will be limited impact given the new competitive landscape. The carrier has maintained a strong presence as competitors have entered and left the market in prior years. By adding one more competitor to an already competitive market, Southwest will 'unlikely have the effect as a carrier that is sitting on a monopoly[25].'

4.5 Air Traffic Forecasts

ICF developed independent aviation forecasts for the Hawai'i Airport System based on a range of forecast assumptions, including the following:

23 CAPA Fleets (as of 3/14/2018)
24 Koenig, David. "Hawaiian ready to compete with Southwest in Hawaii, CEO says in Q&A." USA Today, April 2, 2018.
25 CNBC Interview with Hawaiian Airlines CEO.

4.5.1 Forecast Assumptions

1. The State's economy will experience GDP growth averaging 1.4 percent per year during 2018 to 2024;

	Actual	Projected							CAGR
	2017	2018	2019	2020	2021	2022	2023	2024	2018-2024
	Average Annual Percent Increase								
GDP	1.7%	1.9%	1.6%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%

2. The State will continue to see tourism growth, with FY 2018 visitors growing at similar rates to those seen through FYTD February 2018 as published by Hawai‘i Tourism Authority;
3. HNL will continue to be the principal connecting hub and international gateway for Hawaiian Airlines;
4. Southwest will begin Mainland U.S. service in FY 2019 from HNL, OGG, LIH, and KOA to OAK, SJC, SAN, and SMF and limited inter-island service in FY 2020;
5. The airlines serving the Hawai‘i Airports System will be financially viable and able to add the seating capacity required to accommodate additional demand;
6. The Department will continue implementing its capital program and provide capacity needed to realize the traffic forecast included in the Report; and
7. The share of connecting passengers over HNL and other Hawai‘i airports will remain constant during 2018 to 2024.

4.5.2 Forecast Risks

Any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between ICF's forecast and actual results, and those differences may be material. While the traffic and visitor forecasts are based on historical data and future assumptions that ICF believes are reasonable, some of the underlying assumptions that are detailed explicitly or implicitly may not materialize due to unforeseen events or circumstances. Some uncertainties to the forecasts include:

- National and global economy;
- Hawai‘i as a top global tourism destination;
- Airline industry status;
- Future jet fuel prices;
- Changes in air travel propensities; and
- Other general factors.

National and Global Economy

Economic cycles are one of the primary factors affecting air traffic levels at the Hawai‘i Airports System. More than 87 percent of overseas visitors who are considered to be more price-sensitive travel to Hawai‘i for leisure purposes. In FY 2009, the number of enplaned passengers declined from 17.5 million in FY 2008 to 14.8 million, driven by the economic recession as well as changes in airline service due to airline bankruptcy. The related economic indicators, such as unemployment rate and real disposal income in the U.S., strongly correlates to the changes of the number of visitors from U.S. mainland to Hawai‘i.

In addition, the economic condition in Japan and other countries in the Pacific Rim as well as the exchange rates also affect Hawai‘i's air traffic levels. In FY 2017, international enplaned passengers accounted for 17.2 percent of system-wide enplaned passengers. In January 2018, The Bank of Japan forecasted Japan's GDP to be between 1.3 to 1.5 percent in FY 2018 and, between 0.7 to 0.9 percent in FY 2019. Unexpected decline in Hawai‘i, national or global economies or unfavorable changes in exchange rates may negatively affect the forecast air traffic level.

Hawai‘i as a Top Global Tourism Destination

In FY 2017, over 57 percent of enplaned passengers at the Hawai‘i Airports System were overseas visitors, largely because Hawai‘i is a top global tourism destination. Therefore, the State's ability to continue developing tourism infrastructure, attractions and market Hawai‘i as a destination to global travelers are key factors in affecting air traffic levels. Developments of additional infrastructure and tourism facilities, especially on the islands of Maui, Hawai‘i and Kauai, may attract additional visitors or repeat visitors.

Airline Industry Status

The realization of air traffic forecast depends on the supply of service, the airlines' willingness and ability to provide air seats at certain price levels, and demand, the travelers' willingness and ability to travel to Hawai‘i. According to U.S. Department of Transportation, U.S. passenger airlines had a combined operating profit of $5.7 billion in 2000, and an operating loss of $10.4 billion in 2001 as a result of the September 11th terrorist attack and ensuing economic recession. The operating result improved to a profit of $6.7 billion in 2007 before declining to a loss of $5.6 billion in 2008. The airline industry's profitability has since improved gradually, largely due to improving economy and capacity disciplines, leading to an operating profit of $28.0 billion in 2015. During the economic downturns, many airlines reduced their capacity and/or have gone bankrupt.

In 2009, Inter-island enplaned passengers at the Hawai‘i Airports System declined from a peak of 9.0 million in 2007 to a trough of 6.8 million, partially due to the bankruptcy of Aloha Airlines and reduced competition since. Changes in airline profitability, fare level, and consolidation will continue affect air traffic level at the Hawai‘i Airports System. Among other issues, Alaska Air Group Inc., parent company of Alaska Airlines, announced a merger with Virgin America Inc., and determined on March 22, 2017 to operate all Virgin America flights under Alaska Airlines' brand name starting 2018. This change may lead to the elimination of duplicate routes to Hawai‘i. In FY 2017, Virgin America accounted for 1.0 percent of system-wide enplaned passengers. Further airline consolidations may happen, and its effect on the forecast air traffic level is uncertain.

Future Jet Fuel Prices

Accordingly to U.S. Department of Transportation, the costs of jet fuel accounted for more than one-quarter of operating expenses for U.S. airlines. Bureau of Transportation Statistics reported that average domestic cost per gallon of jet fuel increased to as high as $3.69 in July 2008, and declined to as low as $2.06 in January 2018. Fluctuating jet fuel prices as well as availability of jet fuel will continue to affect the forecast air traffic level at the Hawai‘i Airports System.

Changes in Air Travel Propensity

Technology development and other changes may affect the propensity of air travel in the future. Historically, those concerns have been focused on issues such as electronic communication, video conferencing, and other technologies that may reduce the needs for business travel. The recent developments of virtual reality, drones and remote-controlled cameras may also lead to a reduction of the willingness for personal travel.

In addition, the development of alternative transportation modes may affect the air travel propensity. The potential implementation of Hyperloop, driverless car, or personal flying equipment may divert traffic from commercial airports, although it is a lesser concern for the State due to the nature of being an island. However, an Inter-island ferry service at a commercially viable price may affect air traffic level at the Hawai‘i Airports System. As of the date of this Report, there is no known plan to expand Inter-island ferry service, and the feasibility to develop such services is unknown.

Other General Factors

There are many other factors that could potentially affect the realization of the air traffic forecast, which includes, among other factors:

- Aviation security and terrorist attack;
- Governmental foreign or economic policy;
- Latest Immigration and travel ban from the current administration;
- Issuance of visitor visas to the U.S.;
- Cybersecurity;
- Environmental regulation and cost implication;
- National Disaster or Accident;
- Individual airline route decisions; and
- Airport capacity limitation

In general, it is assumed that no unfavorable event will occur during the forecast period that will materially and negatively affect the air traffic level forecast in this Report.

4.5.3 Enplaned Passenger Forecast Summary

Historical and forecast enplaned passengers are shown in Exhibit 4-52. The number of enplaned passengers in the Hawaiʻi Airports System is projected to increase 3.5 percent in FY 2018. Overseas passenger traffic is expected to increase 8.4 percent while inter-island passenger traffic is expected to decrease 3.1 percent.

In the long term, the passenger traffic in the State is expected to increase consistent with the growth of the overall economy.

- International enplaned passengers are forecast to increase at an average growth rate of 2.9 percent per year between FY 2017 and FY 2024, reaching over 3.7 million in FY 2024;
- Domestic overseas enplaned passengers is forecast to increase at an average growth rate of 3.3 percent per year between FY 2017 and FY 2024, reaching over 9.0 million in FY 2024; and
- Inter-island enplaned passengers is forecast to increase at an average rate of 0.5 percent between FY 2017 and FY 2024, reaching 7.8 million by FY 2024.

HNL is forecast to welcome over 11.7 million enplaned passengers in FY 2024.

- International enplaned passengers are forecast to increase at an average growth rate of 2.4 percent per year between FY 2017 and FY 2024, reaching over 3.3 million in FY 2024;
- Domestic overseas enplaned passengers is forecast to increase at an average growth rate of 2.8 percent per year between FY 2017 and FY 2024, reaching over 4.8 million in FY 2024; and
- Inter-island enplaned passengers is forecast to increase at an average rate of 0.8 percent between FY 2017 and FY 2024, reaching over 3.5 million by FY 2024.

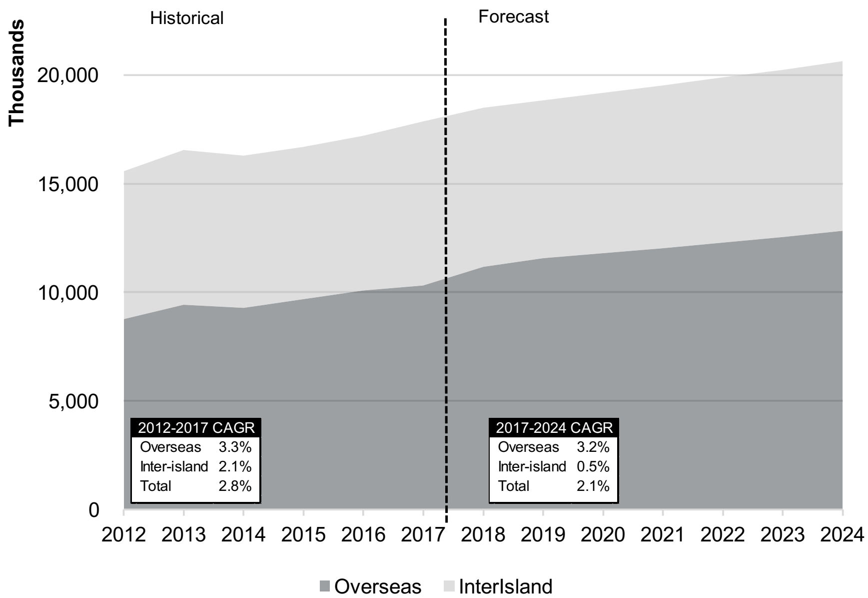
The strongest growth will come from the PNI airports, which are forecast to welcome over 8.6 million enplaned passengers in FY 2024.

- Overseas enplaned passengers is forecast to increase at an average growth rate of 4.1 percent per year between FY 2017 and FY 2024, reaching over 4.5 million in FY 2024; and
- Inter-island enplaned passengers is forecast to increase at an average rate of 0.3 percent between FY 2017 and FY 2024, remaining at near 4.0 million by FY 2024.

Overall, the Hawaiʻi Airports System is forecast to welcome over 20.6 million enplaned passengers in FY 2024.

Exhibit 4-52: Hawai‘i Airports System Enplaned Passenger Forecast

Fiscal Years ended June 30



Note: Overseas include Mainland U.S. and International. Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Actual enplanement figures for FY 2012 to FY 2017 were provided by State of Hawai‘i, Department of Transportation. Forecast figures for FY 2018 to FY 2024 were provided by ICF.

Exhibit 4-53: Hawai‘i Airports System Enplaned Passenger Forecast

Fiscal Years ended June 30

	Actual							Forecast							CAGR	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Historical 2012-2017	Forecast 2017-2024
Hawaii Airports System																
Mainland	6,326,228	6,291,224	6,659,078	6,481,469	6,834,201	7,099,220	7,240,443	7,729,767	8,058,644	8,244,124	8,438,576	8,642,142	8,854,941	9,077,091	2.9%	3.3%
International	2,155,555	2,490,098	2,764,881	2,791,219	2,850,528	2,978,827	3,077,527	3,451,760	3,498,397	3,547,378	3,597,031	3,647,379	3,698,431	3,750,198	4.3%	2.9%
Overseas Total	8,481,783	8,781,322	9,423,959	9,272,688	9,684,729	10,078,047	10,317,969	11,181,527	11,557,041	11,791,502	12,035,607	12,289,521	12,553,372	12,827,289	3.3%	3.2%
Interisland	6,800,509	6,784,974	7,118,800	7,022,309	6,998,066	7,137,313	7,541,249	7,308,481	7,273,605	7,387,577	7,485,299	7,586,160	7,690,121	7,797,140	2.1%	0.5%
Total	**15,282,292**	**15,566,296**	**16,542,759**	**16,294,997**	**16,682,795**	**17,215,360**	**17,859,218**	**18,490,008**	**18,830,647**	**19,179,080**	**19,520,906**	**19,875,681**	**20,243,493**	**20,624,429**	**2.8%**	**2.1%**
Year-Over-Year Percentage Change																
Overseas		3.5%	7.3%	-1.6%	4.4%	4.1%	2.4%	8.4%	3.4%	2.0%	2.1%	2.1%	2.1%	2.2%		
Interisland		-0.2%	4.9%	-1.4%	-0.3%	2.0%	5.7%	-3.1%	-0.5%	1.6%	1.3%	1.3%	1.4%	1.4%		
Total		1.9%	6.3%	-1.5%	2.4%	3.2%	3.7%	3.5%	1.8%	1.9%	1.8%	1.8%	1.9%	1.9%		
Honolulu International Airport																
Mainland	3,965,863	3,792,079	4,037,079	3,905,540	3,961,181	4,043,179	4,015,430	4,151,474	4,159,743	4,286,439	4,420,362	4,561,621	4,710,310	4,866,528	1.2%	2.8%
International	2,020,020	2,312,063	2,583,545	2,598,258	2,644,456	2,755,117	2,850,059	3,147,320	3,147,320	3,191,386	3,236,056	3,281,351	3,327,280	3,373,852	4.3%	2.4%
Overseas Total	5,985,883	6,104,142	6,620,624	6,503,798	6,605,637	6,798,296	6,865,488	7,298,794	7,307,063	7,477,825	7,656,418	7,842,972	8,037,591	8,240,380	2.4%	2.6%
Interisland	3,176,115	3,154,076	3,232,462	3,196,439	3,101,890	3,138,295	3,336,390	3,214,237	3,248,656	3,304,890	3,355,070	3,407,220	3,461,303	3,517,284	1.1%	0.8%
Total	**9,161,998**	**9,258,218**	**9,853,086**	**9,700,237**	**9,707,527**	**9,936,591**	**10,201,879**	**10,513,031**	**10,555,719**	**10,782,715**	**11,011,488**	**11,250,192**	**11,498,894**	**11,757,664**	**2.0%**	**2.0%**
Year-Over-Year Percentage Change																
Overseas		2.0%	8.5%	-1.8%	1.6%	2.9%	1.0%	6.3%	0.1%	2.3%	2.4%	2.4%	2.5%	2.5%		
Interisland		-0.7%	2.5%	-1.1%	-3.0%	1.2%	6.3%	-3.7%	1.1%	1.7%	1.5%	1.6%	1.6%	1.6%		
Total		1.1%	6.4%	-1.6%	0.1%	2.4%	2.7%	3.0%	0.4%	2.2%	2.1%	2.2%	2.2%	2.3%		
Primary Neighboring Island (PNI) Airports																
Overseas	2,495,900	2,677,180	2,803,335	2,768,890	3,079,092	3,279,752	3,452,481	3,882,733	4,249,978	4,313,678	4,379,189	4,446,549	4,515,781	4,586,909	5.2%	4.1%
Interisland	3,447,770	3,456,265	3,709,984	3,653,149	3,693,242	3,779,314	3,994,388	3,895,953	3,823,181	3,878,588	3,923,773	3,970,101	4,017,566	4,066,165	2.9%	0.3%
Total	**5,943,670**	**6,133,445**	**6,513,319**	**6,422,039**	**6,772,334**	**7,059,066**	**7,446,869**	**7,778,686**	**8,073,159**	**8,192,266**	**8,302,962**	**8,416,650**	**8,533,348**	**8,653,074**	**4.0%**	**2.2%**
Year-Over-Year Percentage Change																
Overseas		7.3%	4.7%	-1.2%	11.2%	6.5%	5.3%	12.5%	9.5%	1.5%	1.5%	1.5%	1.6%	1.6%		
Interisland		0.2%	7.3%	-1.5%	1.1%	2.3%	5.7%	-2.5%	-1.9%	1.4%	1.2%	1.2%	1.2%	1.2%		
Total		3.2%	6.2%	-1.4%	5.5%	4.2%	5.5%	4.5%	3.8%	1.5%	1.4%	1.4%	1.4%	1.4%		

Note: U.S. Pacific Territories is categorized under Overseas International; Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Traffic figures for FY 2011 to FY 2017 were provided by State of Hawai‘i, Department of Transportation. Forecast figures for FY 2018 to FY 2024 were provided by ICF.

Hawai'i Airports System Enplaned Passenger Forecast

Fiscal Years ended June 30

	Actual							Forecast							CAGR	
															Historical	Forecast
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2012-2017	2017-2024
Kahului																
Overseas	1,537,593	1,591,597	1,642,016	1,637,202	1,822,152	1,949,229	2,033,603	2,172,987	2,333,615	2,360,370	2,387,426	2,414,794	2,442,477	2,470,479	5.0%	2.8%
Interisland	1,209,611	1,246,166	1,388,773	1,371,867	1,424,740	1,449,726	1,486,909	1,396,832	1,337,106	1,353,046	1,360,765	1,368,447	1,376,090	1,383,691	3.6%	-1.0%
Total	**2,747,204**	**2,837,763**	**3,030,789**	**3,009,069**	**3,246,892**	**3,398,955**	**3,520,512**	**3,569,820**	**3,670,720**	**3,713,416**	**3,748,191**	**3,783,241**	**3,818,567**	**3,854,170**	**4.4%**	**1.3%**
Year-Over-Year Percentage Change																
Overseas		3.5%	3.2%	-0.3%	11.3%	7.0%	4.3%	6.9%	7.4%	1.1%	1.1%	1.1%	1.1%	1.1%		
Interisland		3.0%	11.4%	-1.2%	3.9%	1.8%	2.6%	-6.1%	-4.3%	1.2%	0.6%	0.6%	0.6%	0.6%		
Total		3.3%	6.8%	-0.7%	7.9%	4.7%	3.6%	1.4%	2.8%	1.2%	0.9%	0.9%	0.9%	0.9%		
Kona																
Overseas	538,395	539,293	569,962	561,167	649,683	707,101	778,084	934,600	1,055,351	1,067,446	1,079,677	1,092,049	1,104,564	1,117,222	7.6%	5.3%
Interisland	812,928	823,064	874,418	854,022	841,251	859,215	951,771	942,841	918,276	926,633	933,375	940,111	946,840	953,559	2.9%	0.0%
Total	**1,351,323**	**1,362,357**	**1,444,380**	**1,415,189**	**1,490,934**	**1,566,316**	**1,729,855**	**1,877,441**	**1,973,627**	**1,994,079**	**2,013,053**	**2,032,160**	**2,051,403**	**2,070,782**	**4.9%**	**2.6%**
Year-Over-Year Percentage Change																
Overseas		0.2%	5.7%	-1.5%	15.8%	8.8%	10.0%	20.1%	12.9%	1.1%	1.1%	1.1%	1.1%	1.1%		
Interisland		1.2%	6.2%	-2.3%	-1.5%	2.1%	10.8%	-0.9%	-2.6%	0.9%	0.7%	0.7%	0.7%	0.7%		
Total		0.8%	6.0%	-2.0%	5.4%	5.1%	10.4%	8.5%	5.1%	1.0%	1.0%	0.9%	0.9%	0.9%		
Lihue																
Overseas	416,522	494,375	542,820	544,551	569,900	588,443	604,824	730,272	816,138	840,484	866,200	893,307	921,822	951,764	4.1%	6.7%
Interisland	804,383	787,492	815,736	808,574	816,117	844,190	913,599	908,700	894,404	918,245	941,622	966,106	991,695	1,018,385	3.0%	1.6%
Total	**1,220,905**	**1,281,867**	**1,358,556**	**1,353,125**	**1,386,017**	**1,432,633**	**1,518,423**	**1,638,971**	**1,710,542**	**1,758,729**	**1,807,822**	**1,859,413**	**1,913,517**	**1,970,148**	**3.4%**	**3.8%**
Year-Over-Year Percentage Change																
Overseas		18.7%	9.8%	0.3%	4.7%	3.3%	2.8%	20.7%	11.8%	3.0%	3.1%	3.1%	3.2%	3.2%		
Interisland		-2.1%	3.6%	-0.9%	0.9%	3.4%	8.2%	-0.5%	-1.6%	2.7%	2.5%	2.6%	2.6%	2.7%		
Total		5.0%	6.0%	-0.4%	2.4%	3.4%	6.0%	7.9%	4.4%	2.8%	2.8%	2.9%	2.9%	3.0%		
Hilo																
Overseas	3,390	51,915	48,537	25,970	37,357	34,978	35,970	44,875	44,875	45,378	45,886	46,399	46,919	47,444	-7.1%	4.0%
Interisland	620,848	599,543	631,057	618,686	611,134	626,183	642,109	647,580	673,395	680,664	688,011	695,436	702,942	710,529	1.4%	1.5%
Total	**624,238**	**651,458**	**679,594**	**644,656**	**648,491**	**661,161**	**678,079**	**692,454**	**718,270**	**726,042**	**733,896**	**741,836**	**749,861**	**757,974**	**0.8%**	**1.6%**
Year-Over-Year Percentage Change																
Overseas		1431.4%	-6.5%	-46.5%	43.8%	-6.4%	2.8%	24.8%	0.0%	1.1%	1.1%	1.1%	1.1%	1.1%		
Interisland		-3.4%	5.3%	-2.0%	-1.2%	2.5%	2.5%	0.9%	4.0%	1.1%	1.1%	1.1%	1.1%	1.1%		
Total		4.4%	4.3%	-5.1%	0.6%	2.0%	2.6%	2.1%	3.7%	1.1%	1.1%	1.1%	1.1%	1.1%		
All Other	176,624	174,633	176,354	172,721	202,934	219,704	210,471	198,291	201,769	204,099	206,456	208,840	211,251	213,691	3.8%	0.2%
Year-Over-Year Percentage Change																
		-1.1%	1.0%	-2.1%	17.5%	8.3%	-4.2%	-5.8%	1.8%	1.2%	1.2%	1.2%	1.2%	1.2%		

Note: U.S. Pacific Territories is categorized under Overseas International; Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Traffic figures for FY 2011 to FY 2017 were provided by State of Hawai'i, Department of Transportation. Forecast figures for FY 2018 to FY 2024 were provided by ICF.

5. FINANCIAL FRAMEWORK

The State owns the Hawai‘i Airports System, which it operates through the Airports Division as an enterprise fund. The financial operations of the Hawai‘i Airports System are governed by Federal, State, and local rules and regulations, as well as by contractual arrangements that the Department has executed with airport users and other parties. Key elements of the financial framework include:

- State Regulations;
- The Certificate;
- The Airline Agreement;
- Commercial Agreements;
- Other Agreements

The Airports Division is one of the operating branches of the Department and follows the same State rules and regulations governing all State agencies. The Airports Division has no contracting power and relies on the Department to issue bonds or execute contracts on behalf of the Airports Division. Legislative bills can be proposed during the annual legislation session and passed by the Governor to directly impact the operations of the Hawai‘i Airports System, so long as the bill does not violate existing contractual arrangements.

The Certificate provides for conditions and covenants that the Department must follow for existing bonds of the Airports Division and for future bonds to be issued. The Airline Agreement provides a hybrid residual airline ratemaking methodology, which ensures that the financial covenants of the Certificate be met. Although the Airline Agreement can be canceled by either the Department or the Signatory Airlines, it has been automatically extended quarterly since 1997 and is assumed to be extended throughout the forecast period. Commercial agreements affect the Airports Division’s ability to generate non-airline revenues, and affect the level of airline rates and charges. The subordinate bond document governs the use of Revenues and Aviation Fuel Taxes after the obligations under the Certificate is fulfilled, and the special facility bond documents governs the use of incomes other than the Revenues and Aviation Fuel Taxes.

5.1 State Rules and Regulations

Existing State laws, rules, and regulations are provided through the Hawai‘i Constitution, Hawai‘i Revised Statutes, Hawai‘i Administrative Rules, and session laws. The Legislature includes the Hawai‘i State House of Representatives, consisting of 51 members, and the Hawai‘i State Senate, consisting of 25 members. Each year, the Legislature convenes from the third Wednesday in January for a session of no longer than 60 working days. From time to time, special sessions may be organized to address specific issues. The Legislature has broad powers in affecting all aspects of the Airports Division’s operations so long as the action does not violate existing contractual obligations.

5.1.1 Appropriation of Operating Budget and Capital Budget

In each odd Fiscal Year (such as FY 2017), the Airports Division prepares a biennium budget covering the following two Fiscal Years (such as FY 2018 and FY 2019) and including (a) an operating budget for operating expense, debt service and other fund deposits, and (b) a capital budget for capital expenditure. The Airports Division submits the biennium budget to the Department; it becomes part of the executive budget of the Governor. The budget preparation is governed by HRS Title 5, Article 37, Part IV: the Executive Budget. No less than 30 days before the convening date of the Legislature, the Governor submits the executive budget to the Legislature. During the legislative session, the Legislature reviews and revises the executive budget, and prepares the appropriation for the executive budget, along with other bills in the regular sessions, for the Governor’s approval. Under Article III, Section 16 of the Hawai‘i Constitution, the Governor may approve or veto a bill, or take no action, which would turn the bill into a law after 10 days.

Upon the Governor’s approval, the appropriation forms the spending ceiling of the Airports Division for the Fiscal Years. Certain adjustments can be made if airport internal cash, which the State refers to as “the special fund,” is available.

The appropriation for operating costs includes operating expenses, debt service payments, and other amounts for operating costs, and the number of approved positions. The appropriation is organized by expense category, such as payroll, other expenses, equipment, motor vehicles, or lease financing, and by location, such as HNL or OGG. The Airports Division can reallocate appropriations across certain categories, subject to completion of a staff study. Any appropriation for operating costs will lapse at the end of the Fiscal Year, unless it is encumbered under a specific contract. In addition, the appropriation does not include any non-cash accrued liabilities or inter-government transfers, and therefore is not directly comparable to operating expenses following *generally accepted accounting principles* (GAAP).

The appropriation of capital investment costs specifies the total costs and funding sources for each capital project. A bond appropriation serves as the State's approval to issue bonds for a project. Among other considerations and actions, to use the capital appropriation, the Airports Division must submit an allotment request to the Office of the Governor; it can advertise the project after the Governor's approval. Appropriations for a project will expire at the end of the next biennium budget cycle unless encumbered under a contract; appropriations including federal funding sources have long durations before expiration. The Airports Division may supplement the capital appropriations using internal cash subject to the Governor's approval but cannot revise the bond appropriations without additional legislative approval.

In each even Fiscal Year (such as FY 2018), the Airports Division submits a supplemental budget for the second year of the biennium cycle (such as for FY 2019). Upon approval, it is added to the existing appropriations.

5.1.2 Central Service, State Surcharge, and Grandfathered Payments

As part of the State government, the Airports Division receives services from other State offices and agencies. Such services include, for example:

- Department of Accounting and General Services for payroll and other payment processing;
- Department of Agriculture for agriculture inspection (fruits and vegetables are prohibited on overseas flights);
- Department of Attorney General for legal services;
- Department of Budget and Finance for bond issuance, budget preparation, financial management, and fund investment;
- Department of Business, Economic Development & Tourism for bond issuance and economic forecast;
- Office of the Governor for administrative services;
- Department of Human Resources Development and Human Services for hiring and all other human resource management services;
- Department of Land & Natural Resources for lease review;
- Legislature;
- Department of Public Safety for sheriff services; and
- Department of Transportation, of which the Airports Division is an operating branch.

Other than certain direct reimbursement for services provided, the Airports Division makes payments to the State's general fund for central service expenses, known as the State Surcharge. The State Surcharge is provided under HRS Section 36-27 to defray government central service expenses in relation to all special funds. It is calculated as 5 percent of all receipts excluding debt service payments. The State Surcharge was $13.6 million in FY 2017.

The State Surcharge is implemented prior to the *Policy and Procedures Concerning the Use of Airport Revenue* published in 1999 and is a grandfathered revenue diversion. However, Title 49 United State Codes Section 47115(f) provides that the Secretary of the United States Department of Transportation (the USDOT) shall consider the revenue diversion when distributing discretionary grants if the related amount exceeds the 1994 actual amount adjusted for inflation.

The inflation-adjusted amount was $14.1 million in FY 2017, compared to the actual payment of $13.6 million on a GAAP basis. However, with increasing revenues from the Hawaiʻi Airports System, the calculated State Surcharge using 5 percent of receipts net of debt service is expected to exceed the inflation-adjusted amount during the forecast period. The Airports Division intends to limit the amount of the State Surcharge to be paid to the State at or below the inflation-adjusted amount. This is reflected in the projection of operating expenses.

5.1.3 Other State Regulations

The Legislature has broad powers in affecting all aspects of the Airports Division's operations, so long as the action does not violate existing contractual obligations. The Office of the Governor can also affect the Airports Division's operations through executive actions. Historically, such actions have included, for example:

- Waiver of landing fee during economic downturn;
- Rent relief provided to concession operators during economic downturn;
- Permission to extend concession contract terms in exchange for capital investment commitment;
- Revision of aviation fuel tax and fuel tax credits;
- Establishment of Customer Facility Charge (CFC) and increase of CFC level; and
- Temporary suspension of CFC collection prior to adoption of CFC indenture.

In the preceding two legislative sessions legislation was introduced which proposed establishing an independent airports corporation to assume operations of the Airports System from the Airports Division. This legislation was not approved and has not been enacted. The Department cannot predict at this time whether any such legislation may be enacted in the future. Although the Constitution of the United States contains prohibitions against the impairment of contracts, the Department cannot predict what impact, if any, such legislation would have on the operations of the Airports System or the availability of Revenues or Aviation Fuel Taxes.

5.2 The Certificate

The Certificate sets out the annual revenue requirement (the Rate Covenant), the terms and conditions for the Department to issue additional bonds (the Additional Bond Test), the application of Revenues and Aviation Revenues (also known as the flow of funds), and other covenants of the Department for the operation of the Undertaking (Hawai‘i Airports System).

5.2.1 Rate Covenant

The Rate Covenant is specified in Section 7.02 of the Certificate. It requires the Department to, among other things:

- Impose, prescribe, and collect rates, rentals, fees, or charges so that Revenues and Aviation Fuel Taxes will be sufficient to at least:
  - Make the required payments of the principal of and interest on all Bonds, including reserves therefor, and the payment of all other indebtedness payable from Revenues and Aviation Fuel Taxes;
  - Pay the costs of operation, maintenance, and repair of the Undertaking (the Costs of Operation, Maintenance and Repair), including reserves therefor; and
  - Reimburse the State’s general fund for general obligation bonds which are or shall have been issued for the Undertaking (none outstanding as of FY 2019) and carry out the Certificate’s provisions and covenants.
- Yield Net Revenues and Taxes, along with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year which the Department shall certify as Revenues to the Director of Finance, to be equal to at least one and twenty-five hundredths (1.25) times the Annual Adjusted Debt Service Requirement.

The former test is referred to as the “flow test” and the latter as the “coverage test.”

Revenues includes all income, revenues, and moneys the State derived from the ownership by the State or operation and management by the Department or the furnishing and supplying of the services, facilities, and commodities, including interest earnings on certain funds. Revenues does not include PFC revenues unless specifically provided through a supplemental certificate, nor does Revenues include CFC revenues. Aviation Fuel Taxes are levied pursuant to HRS at a half-cent per gallon in FY 2018 and are estimated to be $2.2 million in FY 2018. A majority of the Aviation Fuel Taxes are credited to the landing fee according to certain reimbursement procedures.

The Costs of Operation, Maintenance and Repair are not defined in the Certificate; however, they generally include all daily operations involved in operating and maintaining the Hawai‘i Airports System, including, among other items, the State Surcharge and reimbursement to State agencies, including the DOT. The Costs of Operation, Maintenance and Repair shown in Exhibit E prior to FY 2021 include certain non-cash expenses as a result of implementing Governmental Accounting Standards Board (GASB) Statement 45 (GASB 45), and GASB 68. During the issuance of the planned 2018 Bonds, the Airports Division is introducing a definition of the Costs of Operation, Maintenance and Repair to exclude non-cash items, including future non-cash items to be recognized under GASB 75 starting FY 2018. The Airports Division expects the amendment will become effective in FY 2021 after the issuance of the planned 2020 Bonds. The exclusion of such non-cash items from FY 2021 forward has been reflected in Exhibit E as a reduction to gross operating expenses. Therefore, the Costs of Operation, Maintenance and Repair in Exhibit starting from FY 2021 no longer includes such non-cash items.

The Airports Division no longer has general obligation bonds requirements and does not expect to incur such obligations in the future.

Net Revenues and Taxes includes the aggregate of the Revenues and Aviation Fuel Taxes, excluding (i) the Costs of Operation, Maintenance and Repair, (ii) the credit to the Debt Service Reserve Account, (iii) the credit to the Major Maintenance, Renewal, and Replacement Account (MMRRA), and (iv) reimbursement for general obligation bonds.

For Rate Covenant purposes, the Airports Division has established an internal account – the Funded Coverage Account – to serve as the "unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year which the Department shall certify as Revenues to the Director of Finance." This equals approximately 25 percent of gross debt service net of capitalized interest. There are no limitation on the amount in the Funded Coverage Account for purposes of the Rate Covenant.

Annual Adjusted Debt Service Requirement means the Debt Service Requirement net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited as provided in a Supplemental Certificate. The Airports Division plans to continue committing Available PFC Revenues but does not plan to include PFC revenues as Revenues or receiving Federal Direct Payments.

For purposes of this Report, Debt Service Coverage Ratio is defined as Net Revenues and Taxes, along with the balance in the Funded Coverage Account, divided by Annual Adjusted Debt Service Coverage. A Debt Service Coverage Ratio of 125 percent implies that the coverage test of the Rate Covenant has been met for the Fiscal Year.

5.2.2 Application of Revenues

So long as any Bonds remain Outstanding, Revenues and Aviation Fuel Taxes must be deposited to the Airport Revenue Fund and applied pursuant to Section 6.01 of the Certificate in the following order, shown in Exhibit 5-1:

1. Payment of the costs of Operation, Maintenance, and Repair, including reserves and certain administrative expenses of the Department related to the Airports System;
2. Transfers to the Interest Account, Serial Bond Principal Account, Sinking Fund Account, and Debt Service Reserve Account for the payment of debt service on Bonds;
3. Transfers to the MMRRA to make up any deficiencies in the accounts listed above, and to maintain the balance established pursuant to the recommendation of the Consulting Engineer;
4. Transfers to the State General Fund to reimburse the State General Fund for debt service;
5. Betterments and improvements to the Airports System;
6. Any special reserve funds and other special funds created by law; and
7. Any other lawful purpose in connection with the Bonds or the Airports System.

Exhibit 5-1: Flow of Funds

Priority	Fund / Account	Purpose
	Revenue Fund	Depository for Revenues and Aviation Fuel Taxes
1	**Costs of Operation, Maintenance and Repair**	To pay the Costs of Operation, Maintenance and Repair
2	**Annual Adjusted Debt Service Requirement**	To pay Bond obligations, net of adjustments (a)
	Interest Account	
	Serial Bond Principal Account	
	Sinking Fund Account	
	Debt Service Reserve Account	
3	**Major Maintenance, Renewal and Replacement Account**	To maintain a balance determined by the Department
4	**General Fund Reimbursement**	To reimburse the State for related general obligation bonds
5	**Betterments and Improvements**	To provide for betterments and improvements
6	**Special Reserve and Other Funds**	To provide such special reserve funds and other special funds
7	**Other Purposes**	To be used for any other lawful purposes

(a) Net of Available PFC Revenues, among other exclusions.

Source: the Certificate.

The Certificate does not set a reserve for the Costs of Operation, Maintenance, and Repair. Instead, the Airline Agreement requires the Airports Division to reserve cash equaling 25 percent of annual operating and maintenance expenses at the beginning of a Fiscal Year. The Airports Division has established an internal account, referred to as the O&M Reserve Account, to withhold 25 percent of annual appropriation of operating costs, net of debt service. Because the O&M Reserve Account is established under the Airline Agreement rather than the Certificate and is initially funded from internal cash instead of Revenues and Aviation Fuel Taxes, the related deposit requirement is not included in the Application of Revenues as the highest priority. Similarly, the credit to the Funded Coverage Account is not shown separately in the Application of Revenues.

In recent years, the Airports Division has maintained an MMRRA balance of $60 million based on the Consulting Engineer's recommendations. For repair and maintenance, the Airports Division expects to rely primarily on the operating costs or the capital appropriations instead of paying out of the MMRRA.

5.2.3 Additional Bond Test

The 2018 Bonds are to be issued as Additional Bonds under the Certificate. The Certificate sets out the conditions to issue Additional Bonds if either a historical coverage test or a prospective coverage test is met:

A. The historical coverage test requires Net Revenues and Taxes, plus certain unencumbered funds, for the most recent Fiscal Year with audited financial statements, to be at least 125 percent of the maximum aggregate Annual Adjusted Debt Service Requirement, taking into consideration the Outstanding Bonds and the proposed bonds, such as the 2018 Bonds. The amount of unencumbered funds is limited to no more than 25 percent of the applicable Annual Adjusted Debt Service Requirement;
B. The perspective coverage test requires two additional tests:
   a. The Rate Covenant is met for the most recent Fiscal Year for which the audited financial Statements are available; and
   b. For each of the three Fiscal Years following the Period of Construction of the project(s) to be financed with the Additional Bonds: the Consulting Engineer estimates that annual Net Revenues and Taxes and certain unencumbered fund balances will be not less than 125 percent of the Annual Adjusted Debt Service Requirement for each of those three Fiscal Years, provided the Rate Covenant is also estimated to be met during each of those three Fiscal Years.

The financial forecasts included in this Report reflect the Airports Division’s intention to issue Future Bonds beyond the 2018 Bonds to fund the CIP. Therefore, is not produced for purposes of an Additional Bond Test. The Airports Division expects to meet the requirements of the Additional Bond Test through a separate certificate.

5.3 The Airline Agreement

The Airline Agreement was initially executed in 1962 and has had multiple subsequent amendments. The Airline Agreement is extended automatically on a quarterly basis unless either the Department or the Signatory Airlines provides 60 days written notice of termination to the other party. For the purpose of this Report, it was assumed that the Airline Agreement exists in its current form throughout the forecast period. Exhibit 5-2 lists Signatory Airlines as of April 2018; these airlines accounted for more than 95 percent of the landing fee revenues in FY 2017. In addition, Southwest Airlines announced it would serve the Hawai‘i market in late 2018 or early 2019, and may become a Signatory Airline.

Exhibit 5-2: Signatory Airlines

As of June 2018

AEKO KULA INC	ASIANA AIRLINES INC	KOREAN AIRLINES CO LTD
AIR CANADA	CHINA AIRLINES	MOKULELE FLIGHT SERVICE INC
AIR CHINA LIMITED	DELTA AIR LINES INC	PHILIPPINE AIRLINES INC
AIR Japan Co., LTD.	FEDERAL EXPRESS CORP	POLAR AIR INC
AIR NEW ZEALAND	HAWAIIAN AIRLINES INC	QANTAS AIRWAYS LTD
AIR PACIFIC LIMITED	JAPAN AIRLINES	UNITED AIRLINES INC
ALASKA AIRLINES INC	JETSTAR AIRWAYS PTY LIMITED	UNITED PARCEL SERVICE INC
ALL NIPPON AIRWAYS CO LTD	JIN AIR CO LTD	WESTJET
AMERICAN AIRLINES	KALITTA AIR LLC	

Source: Airports Division records.

5.3.1 Ratemaking Methodology

The 2007 Extension provides hybrid residual ratemaking methodologies for setting airline rates and charges. Costs of Operation, Maintenance and Repair, Annual Adjusted Debt Service Requirements, fund deposits, subordinate obligations, and revenue credits are allocated to each of the following cost centers:

1. Airfield Cost Center, which comprises the airfields of every airport in the Hawai‘i Airports System
2. Terminal Cost Centers
   a. Honolulu International Airport Terminal Cost Center, which includes Terminal 2 and Inter-island Terminal, but not the Commuter Terminal, which is scheduled to be demolished in summer 2018;
   b. Kahului Airport Terminal Cost Center;
   c. Kona International Airport at Keyhole Terminal Cost Center;
   d. Lihue Airport Terminal Cost Center; and
   e. Hilo International Airport Terminal Cost Center.
3. Remaining costs are related to all other cost centers of the Hawai‘i Airports System, including parking, rental car, cargo, and maintenance, among other activates; this Report refers to them collectively as the Non-Airline Cost Center

Landing fee rates are calculated on a cost center residual basis and apply to airfields of all airports in the Hawai‘i Airports System. The Airfield Requirement includes direct and indirect operating expenses, debt service, deposits to the MMRRA, and the O&M Reserve Account. After a credit from the non-signatory landing fee, the Net Airfield Requirement is divided by Total Landed Weight to calculate the landing fee rate, which takes into consideration the Inter-island Rate. The Inter-island Rate is a discount ratio applied to the landing fee rates and certain terminal user fees for Inter-island operations, set at 36 percent for FY 2008 and increasing by one percentage point annually until it reaches 100 percent. In FY 2018, the Inter-island Rate is 46 percent, resulting in an inter-island landing fee rate of $1.81 per 1,000 pounds of landed weight, compared to an overseas landing fee rate of $3.94.

Terminal rental rates are calculated separately for each of the five Primary Airports on a cost center residual basis, except that only 50 percent of the net costs at ITO is recovered unless ITO’s enplaned passenger count reaches 2.0 million annually. In FY 2017, ITO’s enplaned passenger count was 678,000. Historically, a certain discount applied to the calculation of terminal rental rates at LIH, KOA, and OGG. Those discounts expired in FY 2016.

The Terminal Requirement for each terminal cost center includes direct and indirect operating expenses, debt service, deposits to the MMRRA, and the O&M Reserve Account. The Net Terminal Requirement reflects the credit from annual terminal concession revenues; it is divided by airline Leased Space at each terminal cost center to calculate terminal rental rates. Duty-free revenues are credited to the calculation of the HNL terminal rental rate.

The 2007 Extension provides for the calculation of Airports System Support Charges (ASSC), which serves as a residual safety net for the Hawai‘i Airports System. To the extent that all other airline revenues and non-airline revenues are inadequate to cover all obligations, the ASSC would be implemented to ensure compliance with the Rate Covenant. A net ASSC Requirement less than zero implies that the Airports Division has generated an operating surplus from operation of the Non-Airline Cost Center, which the Airports Division can use for any lawful purpose, including funding the CIP. The Inter-island Rate applies to the calculation of the ASSC Rate.

In addition, the 2007 Extension and subsequent revisions provide the following terminal user fees calculated separately for each of the five Primary Airports. The Inter-island Rate applies to all terminal user fees at ITO, LIH, KOA, and OGG, but not at HNL.

- *Joint Use Holdroom Charges* are calculated as the product of the Terminal Rental Rate and the square footage of Joint Use Holdrooms, divided by enplaned passengers using the Joint Use Holdroom;
- *Joint Use Baggage Charges.* Pursuant to a letter agreement between the Department and the Signatory Airlines, the baggage-related charge is further separated into two charges:
    - The previous “Joint Use Baggage Charges” is renamed to “Joint Use Baggage Claim Charges” and is calculated as the product of the Terminal Rental Rate and the related square footage, divided by the annual number of bags processed through the Joint Use baggage claim area; and
    - A Joint Use Baggage Makeup Charge is established to accommodate Joint Use baggage makeup operations at the HNL Overseas Terminal. It is applied to the number of bags processed through the Joint Use baggage makeup area;
- *International Arrivals Building Charges* are calculated as the product of the applicable Terminal Rental Rate and the square footage of the international arrivals area of the Airports System, divided by Deplaned International Passengers who use the international arrivals area. As of FY 2018, both HNL and KOA have an international arrivals area;
- *Common Use Ticketing Position Charges*, which has not been implemented; and
- *Common Use Passenger Processing Systems Charges*, which has not been implemented.

Rental rates for commuter terminals and other non-terminal buildings or terminal building at Non-Primary airports are established pursuant to the Airports Division Procedures 4.5, last updated in September 2017 through appraisal. The landing fee rate at Non-Primary Airports is the same as the rate at Primary Airports.

5.3.2 Capital Review Process

The 1994 Extension provides the capital review process that remains effective. To submit Additional Capital Improvements to the Signatory Airlines for review and concurrence:

- The Department shall submit a report containing a description, justification, financing plan, and impact to Costs of Operation, Maintenance and Repair to the Signatory Airlines;

- Within 30 to 60 days after distribution of a report, the Signatory Airlines shall meet with the Department to discuss the Additional Capital Improvement. The Additional Capital Improvement shall be deemed accepted unless, within 60 days after distribution of the report, concurrence is specifically withheld in writing by at least 50 percent of the Signatory Airlines representing at least 50 percent of the total landing fees and ASSCs actually paid in the previous state Fiscal Year;
- If the Additional Capital Improvement is not accepted, the Department has the option to convene a second meeting within 120 days after distribution of a report. The Additional Capital Improvement shall be deemed accepted unless, within 30 days after such a meeting, concurrence is specifically withheld as described above; and
- Even if concurrence is withheld, the Department may include the cost of such projects in the succeeding State Fiscal Year calculation for airline rates and charges if the Department determines the project is necessary or prudent to ensure compliance, permit continued operation and maintenance, satisfy judgements, or repair casualty damage to the Hawai‘i Airports System.

The Department has received bond appropriations for the projects to be funded by the proceeds of the 2018 Bonds, and anticipates to receive airline concurrence prior to the bond closing.

5.3.3 Facility Control

The 2007 Extension provides that the holdrooms at the Hawai‘i Airports System shall be for Joint Use or preferential use. Any Signatory Airline that qualifies for preferential holdrooms at no fewer than six daily turns per holdroom can submit a request annually to the Department. The Department will review the request for preferential holdrooms and approve the request at its discretion. If the usage drops below the utilization threshold, the Department may revoke the Signatory Airlines’ preferential holdroom.

Exhibit 5-3 presents the preferential holdrooms in FY 2018 at the Primary Airports, excluding Hawai‘i Island Air, which ceased all operations in November 2017. The number of holdrooms does not include holdrooms at commuter terminals.

Exhibit 5-3: Holdroom Usage
FY 2018

Airports	Total Number of Holdrooms	Number of Preferential Holdrooms
HNL	42	Hawaiian Airlines: 14 Alaska Airlines: 1
ITO	7	Hawaiian Airlines: 2
KOA	10	Hawaiian Airlines: 3
OGG	16	Hawaiian Airlines: 7 Alaska Airlines: 1
LIH	10	Hawaiian Airlines 3
Total	**85**	

Source: Airports Division records.

5.3.4 Non-Signatory Airlines

The 2007 Extension requires the Department to set non-Signatory Airline rates and charges at 125 percent of Signatory Airline rates and charges. The Airports Division has established procedure 4.13 to set such rates for non-signatory commercial air carriers according to Hawai‘i Revised Statutes (HRS) Section 261-7. It continues to set the rate for general aviation users according to Hawai‘i Administrative Rules (HAR) Chapter 19-16.1. Non-signatory commercial air carriers are defined as non-Signatory Airlines that operate under Federal Aviation Regulars Part 121 or 129, or high-frequency Part 135 operators.

5.3.5 Prepaid Airport Use Charge Fund Agreement

After execution of the 2007 Extension, the Department and the Signatory Airlines entered into a Prepaid Airport Use Charge Fund (PAUCF) Agreement regarding the annual settlement calculation. After a Fiscal Year ends, the Department calculates the airline rates and charges using actual results, including the Costs of Operation, Maintenance and Repair, debt service, non-airline revenues, traffic statistics, and other data. The positive variance between the actual accrued revenues and the re-calculated airline requirement is deposited into the PAUCF. The negative variance can be withdrawn from the PAUCF based on the Signatory Airlines’ approval, or directly billed to the Signatory Airlines.

The Department and the Signatory Airlines agree that the PAUCF is the Signatory Airlines' property, although the Airports Division keeps the PAUCF as a restricted internal fund. The Airlines Committee of Hawai‘i (ACH), which represents a majority of the Signatory Airlines operating at the Hawai‘i Airports System, may request, and the State may approve, from time to time, the application of funds on deposit in the PAUCF. Historically, and as recently as FY 2016, the funds in the PAUCF have been used to reduce the Annual Adjusted Debt Service Requirement and, therefore, airline rates and charges, referred to as Airline Prepaid Interests. Although not forecast in this Report, the ACH may request similar use of the PAUCF in the future.

5.4 Commercial Agreements

Other than the Airline Agreement, the Department has entered into agreements with concession operators and other non-airline tenants regarding operations at the Hawai‘i Airports System. Act 46, Session Laws of Hawai‘i 2012, as extended by Act 126, Session Laws of Hawai‘i 2014, allowed the Department to extend the terms of existing concession agreements provided that the concessionaire agreed to make revenue-enhancing improvements to the airport concession. Therefore, the terms of many concession agreements are extended to 2025 and beyond. Exhibit 5-4 summarizes key agreements. Unless specified, the minimum annual guarantee (MAG) is reset annually at the lower of 85 percent of the prior year's MAG or 85 percent of prior year payments. The percentage fee rent for a majority of the concessions, other than the duty-free operators, exceeded the MAG.

Exhibit 5-4: Summary of Key Concession Agreements

As of April 2018

Type/Airport	Concessionaire	Earliest Expiration Date
Duty Free - Statewide	DFS Group, L.P.	May 2027
Food and Beverage		
HNL	Host International, Inc.	April 2029
ITO	Volume Services	Holdover
KOA	Volume Services	Holdover
OGG	Host International, Inc.	September 2022
LIH	Host International, Inc.	September 2023
Parking - Statewide	ABM Parking Services	June 2026
Rental Car	Varies	Described below
Retail		
HNL	DFS Group, L.P.	March 2026
ITO	Tiare Enterprises, Inc.	August 2025
KOA	Tiare Enterprises, Inc.	August 2025
OGG	DFS Group, L.P.	August 2026
LIH	Travel Traders, Inc.	June 2021
Advertising		
HNL	Inter-Space Services	May 2027
Other Airports	Pacific Radio Group	May 2027

Source: Airports Division records.

5.4.1 Parking

ABM Parking Services (formerly Ampco System Parking) manages public parking services at all five Primary Airports under a concession agreement expiring June 2026. Under the concession agreements, the Airports Division receives 80 percent of gross receipts from parking operations at HNL and OGG, 65 percent from KOA and LIH, and 55 percent from ITO.

The maximum daily parking rate is $18 for HNL garages, $10 for the HNL economy lot, and $15 for parking at other Primary Airports.

5.4.2 Rental Car

The Department has implemented the Hawai‘i ConRAC Program, with ConRACs currently being constructed at HNL and OGG. Four rental car companies have executed the Statewide Airports Car Rental Facilities Concession Agreement and Facility Lease (the Rental Car Agreement), including Avis Budget Group, Inc. (Avis Budget), Enterprise Holdings, Inc. (Enterprise), Hertz Global Holdings, Inc. (Hertz), and Advantage Opco, LLC (Advantage). Those companies (the Signatory RACs) account for a majority of rental car operations at the Hawai‘i Airports System, with some smaller firms operating off-airport.

The Signatory RACs pay 10 percent of gross receipts to the Airports Division as rental car concession revenues, so long as those Signatory RACs operate on-airport. As of April 2018, the following operations of the Signatory RACs are located off-airport:

- Advantage: off-airport at OGG;
- Enterprise: off-airport at HNL with Alamo brand; and
- Hertz: off-airport at HNL with Dollar and Thrifty brands.

Those off-airport operations of the Signatory RACs, along with other off-airport operators, pay a nominal per-vehicle fee to the Airports Division; they do not pay a concession percentage fee. When those off-airport operations of the Signatory RACs move on-airport, anticipated to happen during summer 2019 at OGG and spring 2022 at HNL, the Signatory RACs will pay the concession percentage fee of 10 percent of gross receipts. In addition, the Signatory RACs pay the ground rent related to the ConRAC sites and other space the Signatory RACs lease from the Department; these are classified as non-aeronautical rentals.

The Department is in the process of updating concession operating agreements at other Primary Airports. It expects on-airport rental car companies to continue paying 10 percent of gross receipts. The Department does not expect any on-airport rental car operations to move off-airport during the forecast period, or any existing off-airport rental car operations to gain a materially higher share of rental car market.

CFC revenues or Minimum Annual Requirement Deficiency pursuant to the Rental Car Agreement are not Revenues defined under the Certificate. They are pledged to the special facility bonds debt service payments.

5.4.3 Duty Free

DFS Group, L.P. (DFS) operates the in-bond duty-free concessions for international air travelers departing from Hawai'i. As of May 2018, DFS operates duty free stores at HNL, KOA and OGG, as well as at off-airport locations at Waikiki. The DFS contract has been amended with the MAG structure as follows:

- $40 million annually for the two Contract Years from June 1, 2017 to May 31, 2019 (Contract Years 2018 and 2019);
- $47.5 million for the Contract Year 2020;
- 85 percent of the prior year's actual payment (either percentage fee or MAG) in the Contract Year 2021;
- Same MAG in the Contract Year 2022 as in 2021;
- 85 percent of the prior year's actual payment in the Contract Year 2023; and
- Same MAG in the Contract Years 2024 to 2027 as in 2023.

The percentage fees are calculated as 30 percent of gross receipts from on-airport locations and 18 percent of gross receipts from off-airport locations, with duty paid goods at 1.25 percent to 2.5 percent.

In addition, DFS agreed to improve the central waiting lobby building at HNL at its cost of $27.9 million, and to spend an additional $39.2 million for duty-free facility improvements at HNL.

5.4.4 Food and Beverage

Host International Inc. (Host) operates food and beverage concessions at HNL, OGG, and LIH, with expiration dates between 2022 and 2029. Host pays to the Airports Division the higher of a MAG ($4.8 million in FY 2018 at HNL) or a percentage fee between 5 percent and 13 percent of gross receipts. As a condition of extending lease terms, Host has committed to spending at least $13.6 million at HNL to improve concession facilities and base facilities, among other investments.

Volume Services dba Centerplate continues to operate food and beverage concessions at ITO and KOA in holdover period.

5.4.5 Retail

DFS also operates the non-duty-free retail operations at HNL and OGG, with the earliest expiration date being May 31, 2026, and pays the higher of a MAG ($9.3 million in FY 2018 at HNL) or a percent fee at 13 percent to 22 percent of gross receipts.

Traveler Traders, Inc. operates the retail concession at LIH, with the earliest expiration date being June 2021. Tiare Enterprise, Inc. operates the retail concession at ITO and KOA, with the earliest expiration date being August 2025.

5.4.6 Other Concession Contracts

In addition, the Department has entered into a wide range of commercial agreements and permits with other terminal concession operators and ground transportation companies, including advertising, Wi-Fi, banking, taxi, shuttle bus, and transportation network companies (TNCs) such as Uber and Lyft, among other commercial operators.

In December 2017, the Department approved two TNCs – Uber (operating as Rasier LLC) and Lyft – to operate during a trial period of three months at HNL, and to pay 7 percent of gross revenues as the percentage fee. During the trial period, TNCs paid approximately $124,000 to the Airports Division. The trial period has since been extended for an additional six months. There is no TNC operations at other airports in Hawai‘i Airports System.

5.4.7 Other Rentals

The Department collects ground rent and building rent for non-terminal buildings from airlines as non-Terminal Rentals and from other non-airline tenants as non-aeronautical rentals. The rental rates are set pursuant to an appraisal process and published as Airports Division Procedure 4.13, unless provided otherwise under contractual obligations.

Among other tenants, Hawaiian Airlines occupies cargo and maintenance hangars located to the west of Inter-island Terminal 1. It pays an annualized rent of $4.1 million in its second year occupying the hangars. In 2018, Hawaiian Airlines initiated a discussion with the Department regarding credits for certain defect works related to the cargo and maintenance hangars. If settled in favor of Hawaiian Airlines, this would reduce the hangar rentals to the Department.

5.5 Other Agreements

Other agreements primarily include the subordinate bond document and the special facility bond document.

5.5.1 Subordinate Bond Document

The Airports Division initiated a Statewide Energy Saving Performance Contracting project (the Energy Saving Projects) in 2013, using proceeds of Lease Revenue Certificates of Participation (COPs) issued under the Indenture of Trust between the Department and U.S. Bank National Association as of December 1, 2013, as amended and supplemented (the Subordinate Bond Document). Debt service on the COPs are payable from Revenues and Aviation Fuel Taxes, but are subordinate to the payment of the obligations specified in the Certificate.

The Department financed the first phase of the Energy Saving Projects by issuing $167.74 million in COPs in December 2013 (the 2013 COPs). It amended the contract to add $7 million for HNL underground piping replacement, using $8.1 million of the proceeds of the 2016 COPs. In 2017, the Department issued another series of COPs (the 2017 COPs) of $51.5 million to finance the second phase of the Energy Saving Projects.

5.5.2 Special Facility Bond Document

In August 2014, the Department entered into a loan agreement to borrow up to $76.0 million for rental car related projects, pursuant to an Indenture of Trust between the Department and MUFG Union Bank, N.A. as Trustee dated as of August 1, 2014, as amended and supplemented (the CFC Indenture). Subsequently, the Department issued a series of CFC bonds in August 2017 to borrow $249.8 million for rental car projects. Those obligations issued under the CFC Indenture (the CFC Bonds) are not payable from Revenues and Aviation Fuel Taxes. The Department plans to issue another series of the CFC Bonds in mid-2019 to complete the rental car related projects.

In addition, the Airports Division entered into special facility lease agreement with Continental Airlines, Inc. in 1997 and 2000 and issued a total of $31.9 million of special facility bonds, which are payable solely from rentals related to those special facilities. Those bonds have a final maturity date of 2027.

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6. FINANCIAL FORECAST

The purpose of this Report is to evaluate the Department's ability to meet the Rate Covenant through FY 2024, taking into consideration the Outstanding Bonds, the 2018 Bonds, and Future Bonds. The Rate Covenant includes two tests:

1. The "flow test" requires that the Department generate adequate Revenues and Aviation Fuel Taxes to pay the Annual Adjusted Debt Service Requirement, the Costs of Operation, Maintenance and Repair, and subordinate debt service obligations such as the debt service on COPs, among other requirements; and
2. The "coverage test" requires that the Department generate adequate Revenues and Aviation Fuel Taxes after deducting the Costs of Operation, Maintenance and Repair and including the amount in the Funded Coverage Account, to be at least 125 percent of the Annual Adjusted Debt Service Requirement.

The Department generates non-airline revenues through commercial agreements and permits; it generates airline revenues prescribed in the Airline Agreement. Because the Airline Agreement provides a residual safety net through the ASSC, the Rate Covenant is expected to be met during the forecast period, assuming that the Airline Agreement remains in place and that the Signatory Airlines continue operating in the Hawai‘i Airports System. This section presents the financial forecasts and expected results, including passenger airline payment per enplaned passenger (CPE) and the Debt Service Coverage Ratio, among other financial metrics.

Therefore, this section presents the requirements, including the Annual Adjusted Debt Service Requirement, the subordinate debt service, and the Costs of Operation, Maintenance and Repair, followed by a discussion of non-airline revenues and airline revenues, a calculation of CPE, and two tests in the Rate Covenant. The financial forecasts are based on historical audited operating results in FY 2016 and FY 2017, estimated results of FY 2018 using the actual data in the first 9 months, and assumptions for FY 2019 through FY 2024 that the Airports Division management reviewed and to which the Airports Division management agreed. The forecasts are subject to uncertainty, which may lead to actual results that are substantially different from the forecasted results that this Report presents.

6.1 Annual Adjusted Debt Service Requirement

As of June 2018, the Airports Division has five series of Bonds outstanding, with a total par amount of $975.8 million, or $55 per enplaned passenger based on the 2017 enplaned passenger count of 17.9 million. The Outstanding Bonds include:

- Series 2010A Bonds and Series 2010B Bonds have a final maturity date in FY 2039. The refunding component has a final maturity of FY 2021;
- Series 2011 Bonds have a final maturity date in FY 2024; and
- Series 2015A Bonds and Series 2015B Bonds have a final maturity date in FY 2045.

Annual gross debt service net of capitalized interest for the Outstanding Bonds is $87.2 million in FY 2018. It is expected to increase to $89 million for FY 2019 through FY 2024, then decline to between $48 million and $51 million for FY 2025 through FY 2045.

6.1.1 Debt Service on the 2018 Bonds and Future Bonds

Morgan Stanley & Co. LLC, the underwriter for the 2018 Bonds, provided the estimated sources and uses, as well as the debt service schedule for the 2018 Bonds and Future Bonds, as presented in Exhibits C and D. To fund a portion of the CIP's remaining costs, the Airports Division expects to issue the following Bonds:

- The 2018 Bonds will be issued to fund $426.3 million in project costs, with a level debt service structure, a 30-year maturity, and an all-in true-interest-cost below 4.2 percent.
- The 2020 Bonds will be issued in July 2020 to fund $358.1 million in project costs, with majority of the principal payments scheduled in FY 2046 to FY 2050, and all-in true-interest cost of 4.8 percent
- The 2021 Bonds will be issued in July 2021 to fund $350.2 million in project costs, a level debt service structure, a 30-year maturity, and an all-in true-interest cost of approximately 5.1 percent

Annual gross debt service net of capitalized interest is expected to increase to $148.7 million in FY 2024 before declining below $126 million through the final maturity.

To realize interest savings, the Airports Division may issue refunding bonds to fund a portion or all of the Outstanding Bonds. The forecasts in this Report do not reflect those interest savings.

6.1.2 Available PFC Revenues and Airline Prepaid Interest

As discussed in the previous section, the Airports Division has received FAA approval to use PFC revenues for the project and financing costs of PFC-eligible projects in the CIP. These PFC revenues will be used to pay a portion of eligible debt service on the Outstanding Bonds, the 2018 Bonds, and the Future Bonds. In addition, the Airports Division is in the process of submitting PFC application #7, as well as additional PFC applications in the forecast period to cover other PFC-eligible costs in the CIP.

Those Available PFC Revenues applied to debt service are deducted from the calculation of Annual Adjusted Debt Service Requirements. The Airports Division has planned $0.9 million of Available PFC Revenues in FY 2018 and $5.8 million in FY 2019. During the forecast period, it expects to use up to $42 million annually for debt service, reflecting the anticipated submission and approval of future PFC applications.

In historical years and as recently as FY 2016, the Signatory Airlines used a portion of the balance in the PAUCF to reduce the Annual Adjusted Debt Service Requirement and, therefore, the allocated amount to the airline cost centers. The financial forecasts do not include any Airline Prepaid Interests, although the Signatory Airlines may decide to do so during the forecast period.

6.2 Costs of Operation, Maintenance and Repair

Costs of Operation, Maintenance and Repair generally include all daily operation costs involved in operating and maintaining the Hawai‘i Airports System, including, among other items, the State Surcharge and reimbursement to State agencies, including the DOT. Costs of Operation, Maintenance and Repair are forecast to increase, driven by the higher costs of maintaining existing facilities as well as by incremental expenses required to maintain the planned facilities in the CIP.

6.2.1 Historical Costs of Operation, Maintenance and Repair

Exhibit 6-1 presents historical Costs of Operation, Maintenance and Repair by category. Costs of Operation, Maintenance and Repair increased from $244.0 million in FY 2013 to $288.6 million in FY 2017 – an annual average growth rate of 4.3 percent. The 2017 amount reflected higher salary and wage expenses due to the inclusion of non-cash pension expenses under GASB 68, and lower utility expenses due to the implementation of Energy Saving Projects, as discussed below.

Exhibit 6-1: Historical Costs of Operation, Maintenance and Repair

(In US$ thousands)

	2013	2014	2015	2016	Audited 2017	% in 2017	AAG 2013-17
O&M Expenses							
Salary and Wages	$ 83,989	$ 82,780	$ 88,183	$ 92,251	$110,722	38.4%	7.2%
Other Personnel Services	52,602	50,588	54,478	58,559	67,426	23.4%	6.4%
Utilities	50,360	48,882	41,739	34,415	33,901	11.7%	-9.4%
Special Maintenance	6,550	4,459	8,914	8,662	9,911	3.4%	10.9%
Repair and Maintenance	20,181	29,270	30,637	34,031	32,445	11.2%	12.6%
Materials and Supplies	5,557	6,304	6,114	5,477	6,180	2.1%	2.7%
DOT Administrative Expenses	5,445	6,555	5,078	5,595	5,919	2.1%	2.1%
Other Expenses	6,294	5,781	5,744	7,113	8,108	2.8%	6.5%
Bad Debt	580	-	99	333	455	0.2%	-5.9%
Subtotal	$231,558	$234,620	$240,987	$246,436	$275,067	95.3%	4.4%
State Surcharge	12,474	12,261	12,568	12,786	13,576	4.7%	2.1%
O&M Expenses	$244,031	$246,881	$253,555	$259,223	$288,644	100.0%	4.3%
Year-over-year % Change							
O&M Expenses							
Salary and Wages		-1.4%	6.5%	4.6%	20.0%		
Other Personnel Services		-3.8%	7.7%	7.5%	15.1%		
Utilities		-2.9%	-14.6%	-17.5%	-1.5%		
Special Maintenance		-31.9%	99.9%	-2.8%	14.4%		
Repair and Maintenance		45.0%	4.7%	11.1%	-4.7%		
Materials and Supplies		13.4%	-3.0%	-10.4%	12.8%		
DOT Administrative Expenses		20.4%	-22.5%	10.2%	5.8%		
Other Expenses		-8.1%	-0.6%	23.8%	14.0%		
Bad Debt		-100.0%	0.0%	236.3%	36.3%		
Subtotal		1.3%	2.7%	2.3%	11.6%		
State Surcharge		-1.7%	2.5%	1.7%	6.2%		
O&M Expenses		1.2%	2.7%	2.2%	11.3%		

Source: Airports Division records.

6.2.1.1 Salaries and Wages Expenses

Salaries and wages expenses are personnel expenses for the Airports Division staff, including regular salaries, overtime payments, pension contributions to the Employees' Retirement System of the State of Hawai‘i (ERS), health plan contributions, and other payments, as well as non-cash accrued liabilities related to pension expenses and OPEB expenses. Salaries and wages expenses increased from $84.0 million in FY 2013 to $110.7 million in FY 2017 (at an average annual growth rate of 7.2 percent) and accounted for 23.4 percent of FY 2017 expenses. Excluding $12.6 million of non-cash pension expenses, salaries and wages increased 4.0% annually from FY 2013 to FY 2017.

Changes in salaries and wages expenses are driven primarily by changes in:

- The number of employees in the Airport Division. In the 2013-2017 period, the employee count was relatively stable. In FY 2018, the employee count began to increase due to more hiring activities. As of February 2018, the Airports Division had a total of 1,337 approved positions, of which 1,250 positions were established in the State system and 1,076 were filled;
- Average salaries and wages, which are further driven by cost-of-living adjustments, merit-based increases, step-based increases due to union contracts, and other discretionary changes; and
- Employee benefits. Other than the increase in health plan contributions due to higher costs, the State has established a trust fund for OPEB expenses to fund the annual required contribution. It has also increased pension contributions. As disclosed in the State's general obligation 2018 bonds official statement, the net pension liabilities are approximately 55 percent funded.

6.2.1.2 Other Personnel Service Expenses

Other personnel service expenses are paid to the Airports Division's contractors for professional services. Other personnel service expenses increased from $52.6 million in FY 2013 to $67.4 million in FY 2017 (at an average annual growth rate of 6.4 percent) and accounted for 23.4 percent of FY 2017 expenses. Major contractors included:

- Securitas Security Services USA, which provides security services throughout the Hawai‘i Airports System, accounting for 62 percent of FY 2017 other personnel service expenses;
- Robert Hawai‘i, which provides pre- and post-security shuttle bus services, accounting for 10 percent of FY 2017 other personnel service expenses;
- The county sheriff, which provides police functions, accounting for 8 percent of FY 2017 other personnel service expenses; and
- Other miscellaneous contract services, accounting for the remaining 20 percent.

6.2.1.3 Utility Expenses

Utility expenses decreased from $50.4 million in FY 2013 to $33.9 million in FY 2017. They accounted for 11.7 percent of FY 2017 expenses. The decline in utility expenses is attributable primarily to the implementation of Energy Saving Projects, which reduced energy consumption in the Hawai‘i Airports System, and to changes in average utility rates. As a result of implementing the Energy Savings Projects, the Airports Division pays the debt service on COPs (which provided the funding for the Energy Saving Projects and amounted to $13.0 million in FY 2017) as well as additional expenses to maintain the equipment that the project provided.

6.2.1.4 Special Maintenance

The Airports Division’s annual appropriation of operating costs includes a line item of special maintenance, which is initially paid out of the operating budget. At the end of each Fiscal Year, the auditor reviews the special maintenance spending and classifies a portion of the actual expenditure to capital assets. The remaining amount in the operating expenses increased $6.5 million in FY 2013 to $9.9 million in FY 2017 – an annual growth rate of 10.9 percent and accounting for 3.4 percent of FY 2017 expenses.

6.2.1.5 Repair and Maintenance

Repair and maintenance expenses are paid to contractors for maintaining the asset in the Hawai‘i Airports System. Repair and maintenance expenses increased from $20.2 million in FY 2013 to $32.4 million in FY 2017 (at an average annual growth rate of 12.6 percent) and accounted for 11.2 percent of FY 2017 Expenses. The increased spending reflected the Airports Division’s higher investment in renovating and rehabilitating the airport facilities.

6.2.1.6 DOT Administrative Expenses

To each operating branch, including the Airports Division, the DOT provides centralized services, such as management, financial control, and human resources, among other services, and allocates a portion of the DOT expenses based on benefits received. DOT administrative expenses increased from $5.4 million in FY 2013 to $5.9 million in FY 2017 (at an average annual growth rate of 2.1 percent) and accounted for 2.1 percent of FY 2017 Expenses.

6.2.1.7 Other Airports Division Expenses

Other Airports Division expenses included material and supplies and other miscellaneous expenses. This category accounted for 5.2 percent of FY 2017 Expenses

6.2.1.8 State Surcharge

As discussed in the previous section, the State implements a State Surcharge, calculated as 5 percent of all cash receipts net of debt service payment. The State Surcharge increased from $12.5 million in FY 2013 to $13.6 million in FY 2017 (at an average annual growth rate of 2.1 percent) and accounted for 4.7 percent of FY 2017 O&M Expenses.

6.2.2 Forecast Costs of Operation, Maintenance and Repair

Exhibit E presents the forecast Costs of Operation, Maintenance and Repair through FY 2024, including Costs of Operation, Maintenance and Repair to maintain existing assets, as well as incremental changes due to implementation of the projects in the CIP.

The forecast Costs of Operation, Maintenance and Repair required to maintain existing facilities are based on the following assumptions:

- Salaries and wages expenses are estimated to increase by 8.5 percent in FY 2018 due to higher hiring activities, among other drivers. They are forecast to increase by 7.0 percent in FY 2019 and 6.0 percent annually through 2024;
- Other personnel service expenses are estimated to increase by 7.1 percent in FY 2018. They are forecast to increase by 5.4 percent in 2019 and 6.0 percent thereafter;
- Other categories of expenses are generally forecast to increase by 5.0 percent annually after FY 2019:
    a. Special maintenance expenses are forecast to increase to $15 million in FY 2019 due to a focus on repair and maintenance; and
    b. DOT administrative expenses are estimated to increase by 25 percent in FY 2018 due to an IT upgrade and other projects.

The forecast Costs of Operation, Maintenance and Repair for future facilities to be implemented are shown as "Incremental Expenses" on Exhibit E. They include:

- A reduction of $3.2 million in annual utility expenses due to the anticipated completion of Energy Saving Projects phase 2 in FY 2020;
- Incremental expenses to operate and maintain the Mauka Concourse Project, with $2.5 million in FY 2020 increasing to $7.5 million in FY 2021; and
- An increase of $2.0 million in FY 2020 for the KOA TMP Project and the ARFF regional training facility, with an additional $1.0 million in FY 2021 for the KOA FIS Project.

During the issuance of the planned 2018 Bonds, the Airports Division is introducing a definition of the Costs of Operation, Maintenance and Repair to exclude non-cash items, including future non-cash items to be recognized under GASB 75 starting FY 2018. The Airports Division expects the amendment will become effective in FY 2021 after the issuance of the planned 2020 Bonds. The exclusion of such non-cash items from FY 2021 forward has been reflected in Exhibit E as a reduction to gross operating expenses. Therefore, the Costs of Operation, Maintenance and Repair in Exhibit starting from FY 2021 no longer includes such non-cash items.

The gross operating expenses are forecast to increase from $288.6 million in FY 2017 to $437.2 million in FY 2024, at an average annual growth rate of 6.1 percent. Costs of Operation, Maintenance and Repair are forecast to be $417.7 million in FY 2024, after excluding $19.5 million of non-cash expenses. Approximately 62.3 percent of the Costs of Operation, Maintenance and Repair are expected to be allocated to the airline cost centers in FY 2024. Under the hybrid residual ratemaking methodology, all airline cost center expenses are recovered through airline rates and charges, except for a minor adjustment for the ITO terminal.

6.3 Subordinate Obligations

In addition to the Bonds issued under the Certificate, the Airports Division has issued Certificate of Participation notes to fund the Energy Saving Projects in 2013, 2016 (private placement), and 2017 (private placement). As of June2018, $222.5 million of COPs principal amount is outstanding, or $12 per enplaned passenger based on the FY 2017 enplaned passenger count of 17.9 million. The Signatory Airlines have concurred with the Energy Saving Projects and the inclusion of the COPs debt service in the calculation of airline rates and charges.

Annual COPs debt service is $14.7 million in FY 2018. It increases to $19.3 million in FY 2020 and to $23.8 million in FY 2024. The COPs debt service will peak at $29.8 million in FY 2029. Debt service is designed to match the expected savings from the Energy Saving Projects. It will decline to less than $6 million annually before expiring in FY 2034.

Johnson Controls, the contractor for the Energy Saving Projects, provided a guaranteed amount of electricity consumption savings measured in kilowatt hours (KWHs). If actual performance, adjusting for traffic increase and other factors, does not provide the guaranteed savings in KWHs, Johnson Controls must make an additional payment to the Airports Division. For the purpose of this Report, it was assumed that no such payment would be necessary.

6.4 Non-Airline Revenues

The Airports Division generates non-airline revenues from terminal concession operations, parking, rental car, ground transportation, and non-aeronautical rental and other revenue sources.

Exhibit 6-2 presents historical non-airline revenues from FY 2013 to FY 2017. Non-airline revenues increased from $170.7 million in FY 2013 to $191.4 million in FY 2017 at an average annual growth rate of 2.9 percent. This growth rate is higher than the average annual growth rate of enplaned passengers of 1.9 percent, partly due to rates and pricing changes driven by inflation.

Exhibit 6-2: Historical Revenues and Aviation Fuel Taxes

(in US$ thousands)

	2013	2014	2015	2016	Audited 2017	% in 2017	AAG 2013-17
Nonairline Revenues							
Duty Free	$ 41,338	$ 34,512	$ 32,300	$ 32,300	$ 32,942	17.2%	-5.5%
Food and Beverage	8,166	7,396	8,221	8,881	10,141	5.3%	5.6%
Retail	13,994	14,204	15,469	14,668	16,037	8.4%	3.5%
Other Terminal Concessions	6,600	6,663	7,119	7,816	7,659	4.0%	3.8%
Parking	20,210	20,926	22,463	24,935	26,996	14.1%	7.5%
Rental Car	58,199	56,535	60,258	53,687	64,445	33.7%	2.6%
Ground Transportation	2,882	3,333	3,005	3,243	3,006	1.6%	1.1%
Nonaeronautical Rentals	14,241	14,467	15,003	15,791	22,996	12.0%	12.7%
Miscellaneous Operating Revenı	5,047	7,414	6,289	7,672	7,226	3.8%	9.4%
Total Nonairline Revenues	$170,679	$165,451	$170,127	$168,993	$191,448	100.0%	2.9%
Year-over-year % Change							
Duty Free		-16.5%	-6.4%	0.0%	2.0%		
Food and Beverage		-9.4%	11.2%	8.0%	14.2%		
Retail		1.5%	8.9%	-5.2%	9.3%		
Other Terminal Concessions		0.9%	6.8%	9.8%	-2.0%		
Parking		3.5%	7.3%	11.0%	8.3%		
Rental Car		-2.9%	6.6%	-10.9%	20.0%		
Ground Transportation		15.6%	-9.8%	7.9%	-7.3%		
Nonaeronautical Rentals		1.6%	3.7%	5.2%	45.6%		
Miscellaneous Operating Revenues		46.9%	-15.2%	22.0%	-5.8%		
Total Nonairline Revenues		-3.1%	2.8%	-0.7%	13.3%		

Source: Airports Division records.

Exhibit 6-3 presents distribution of FY 2017 non-airline revenues across airports. Revenues from HNL accounted for more than 60 percent of total non-airline revenues.

Exhibit 6-3: FY 2017 Non-Airline Revenues

(in US$ thousands)

	HNL	ITO	KOA	OGG	LIH	Others	Total
Nonairline Revenues							
Duty Free	$ 32,942	$ -	$ -	$ -	$ -	$ -	$ 32,942
Food and Beverage	6,664	92	548	2,037	779	21	10,141
Retail	11,407	95	891	2,866	778	(0)	16,037
Other Terminal Concessions	6,834	50	(121)	741	153	2	7,659
Parking	18,198	1,045	1,884	4,202	1,666	0	26,996
Rental Car	15,440	2,408	12,936	21,889	11,516	255	64,445
Ground Transportation	2,217	30	291	368	81	19	3,006
Nonaeronautical Rentals	16,452	418	1,190	3,596	1,234	106	22,996
Miscellaneous Operating Revenues	5,507	38	634	602	435	9	7,226
Total Nonairline Revenues	$115,661	$ 4,175	$18,254	$36,302	$16,644	$ 413	$ 191,448
% of Statewide Total							
Duty Free	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Food and Beverage	65.7%	0.9%	5.4%	20.1%	7.7%	0.2%	100.0%
Retail	71.1%	0.6%	5.6%	17.9%	4.9%	0.0%	100.0%
Other Terminal Concessions	89.2%	0.6%	-1.6%	9.7%	2.0%	0.0%	100.0%
Parking	67.4%	3.9%	7.0%	15.6%	6.2%	0.0%	100.0%
Rental Car	24.0%	3.7%	20.1%	34.0%	17.9%	0.4%	100.0%
Ground Transportation	73.8%	1.0%	9.7%	12.2%	2.7%	0.6%	100.0%
Nonaeronautical Rentals	71.5%	1.8%	5.2%	15.6%	5.4%	0.5%	100.0%
Miscellaneous Operating Revenues	76.2%	0.5%	8.8%	8.3%	6.0%	0.1%	100.0%
Total Nonairline Revenues	60.4%	2.2%	9.5%	19.0%	8.7%	0.2%	100.0%

Source: Airports Division records. All duty free revenues are listed under HNL.

Exhibit F presents the forecast non-airline revenues from $191.1 million in FY 2017 to $232.0 million in FY 2024 at an average annual growth rate of 2.8 percent. The forecast of non-airline revenue annual growth rate is higher than the 1.6 percent average annual growth rate, primarily due to inflation adjustment and the existence of higher rental car revenues after certain off-airport rental car companies relocate to the ConRACs.

6.4.1 Duty-Free

DFS operates duty-free stores at both HNL, KOA, and OGG, as well as T Galleria and other off-airport stores located at Waikiki. Changes in duty-free sales are driven by passenger volume changes, product mix and pricing, currency exchange rate, and the pricing gap between the U.S. and the destination countries, among other factors. In FY 2017, visitors from Japan accounted for 54.4 percent of overseas enplaned passengers, which is the primary contributor to duty-free sales. The Japanese Yen exchange rate fluctuated during the 2013-2017 period, between 94 Yen per U.S. Dollar and 126 Yen per U.S. Dollar. A strong dollar leads to higher pricing in Japanese Yen, negatively affecting duty-free sales.

Duty-free gross sales declined from approximately $199.6 million in the contract year ending May 31, 2013 to $100.8 million in the contract year 2017. During the first 9 months of the contract year 2018, duty-free gross sales improved 5.1 percent year-over-year, driven by higher numbers of international enplaned passengers and better facilities, among other factors. Because annual gross sales are below $155 million in the DFS agreement, DFS pays the MAG of $40 million for the contract year ending May 31, 2018.

Approximately one-quarter of duty-free gross sales are generated at on-airport locations, while three-quarters are generated from the Waikiki store. In 2017, as a condition of the lease term extension, DFS completed renovations of the Central Concourse concession facilities. The Airports Division expects this to lead to higher sales for on-airport locations.

Duty-free revenues to the Airports Division are expected to remain at the MAG level throughout the forecast period. The MAGs are expected to increase to $46.9 million for FY 2020 and then decline to $40.4 million annually in FY 2021 and FY 2022, and $34.3 million annually in FY 2023 and FY 2024.

6.4.2 Food and Beverage

Food and beverage gross sales are driven by passenger volume, product mix and pricing, and facility location. Food and beverage revenues to the Airports Division increased from $8.2 million in FY 2013 to $10.1 million in FY 2017 at an average annual growth rate of 5.6 percent. Approximately two-thirds of food and beverage revenues are generated from HNL, with one-fifth from OGG and the rest mainly from other Primary Airports. At all airport locations, the percentage fee rents exceed the MAG.

In addition to the concession facility improvement undertaken by the food and beverage concessionaires, the Airports Division completed the Ewa Concourse Concession Improvement project, which provided more concession space at the Ewa Concourse. The Airports Division is also in the process of constructing similar facilities at the Diamond Head Concourse. After the completion of Diamond Head MarketPlace in FY 2019, the percentages applicable to the percentage fee will increase by one percentage point, from 8 percent for food and 13 percent for liquor to 9 percent for food and 14 percent for liquor. Therefore, an additional 15% increase was assumed for FY 2020.

Food and beverage revenues to the Airports Division are expected to increase from $10.1 million in FY 2017 to $14.5 million in FY 2024 at an average annual growth rate of 5.2 percent.

6.4.3 Retail

Retail gross sales are driven by passenger volume, product mix and pricing, and facility location. Retail revenues to the Airports Division increased from $14.0 million in FY 2013 to $16.0 million in FY 2017 at an average annual growth rate of 3.5 percent. Approximately three-quarters of food and beverage revenues are generated from HNL, with one-sixth from OGG and the rest mainly from other Primary Airports.

Retail concessionaires generally pay 13 percent to 20 percent of gross sales to the Airports Division as percentage rents. Future retail revenues are also anticipated to benefit from improved facilities at HNL, among other drivers. Retail revenues to the Airports Division are expected to increase from $16.0 million in FY 2017 to $20.5 million in FY 2024 at an average annual growth rate of 3.6 percent.

6.4.4 Other Terminal Concessions

Other terminal concessions include advertising, news vending, wireless internet, foreign exchange, florists, in-flight catering, smart-carte, merchandise delivery, and other miscellaneous revenues. In FY 2017, in-flight catering accounted for more than half this revenue category. Other terminal concession revenues to the Airports Division increased from $6.6 million in FY 2013 to $7.7 million in FY 2017 at an average annual growth rate of 3.8 percent. In 2017 the Airports Division executed two advertising contracts that are expected to generate higher advertising revenues in FY 2018 and beyond. In addition, the Airports Division is implementing wireless internet service throughout the HNL terminals.

Other terminal concession revenues are expected to increase from $7.7 million in FY 2017 to $10.7 million in FY 2024 at an average annual growth rate of 4.9 percent.

6.4.5 Parking

Parking revenues are driven by the number of residents traveling, ground transportation method, length of trip, and parking rate, among other factors. Because Hawai‘i is a global tourist attraction, resident travelers were estimated to account for only 17 percent of total O&D enplaned passengers. Therefore, at the Hawai‘i Airports System, parking revenues are lower than rental car revenues – a situation that is different from what most U.S. airports experience. The maximum daily parking rate is $18 at the HNL garage, $10 at the HNL surface parking lot, and $15 at other Primary Airports. Approximately two-thirds of parking revenues come from HNL, with one-sixth percent from OGG, and the rest mainly from other Primary Airports.

During holidays, the parking garage at HNL is near capacity. In addition, the surface lot near the current Commuter Terminal is expected to be closed during the summer of 2018 to accommodate construction of the Mauka Concourse Project. The Aviation Department expects to evaluate other surface parking lots and to manage parking capacity to meet increasing demand. After the HNL ConRAC is completed in FY 2022, the Aviation Department will convert the east side of the Overseas Parking Garage from the interim rental car facility to public parking.

6.4.5.1 TNC Impacts

Beginning December 1, 2017, the Airports Division implemented a three-month trial period during which the Transportation Network Companies (TNCs) operated at HNL. The Airports Division extended the program through September 1, 2018. For the first two months of the trial period, Uber and Lyft, the two TNCs, provided approximately 50,000 pick-ups. The Airports Division has not seen an immediate material negative effect on parking and rental car revenues but anticipates that revenues from taxis and other ground transportation services will decline. The Airports Division may permit TNCs to operate at other airports in the Hawai‘i Airports System but expects the impact to be lesser due to the lower population density and the availability of TNC drivers and vehicles, among other considerations.

6.4.5.2 Honolulu Rail Transit Project

The Honolulu Authority for Rapid Transportation (HART) is constructing the Honolulu Rail Transit Project (the Rail Project) on the south shore of the island of Oahu. The Rail Project is a 20-mile-long elevated fixed guideway rail system between East Kapolei and Ala Moana Center. It does not extend to Waikiki, one of the major tourism attractions on the island of Oahu. According to HART, the first phase from East Kapolei to Aloha Stadium is scheduled to open in late 2020. The first phase does not extend to HNL. The target date of the full revenue service is December 2025. The Rail Project has an initial estimated cost of $6.7 billion, which actually may go up to $10 billion or more, with $1.55 billion of that from federal funding and the remainder from a half-percent surcharge on goods and services purchased on Oahu, and a 1 percent increase in statewide TAT. Four park-and-ride facilities are planned, none of them located at HNL.

The Rail Project includes a station at HNL, which may be opened before December 2025. The Department does not expect to have moving sidewalks between the rail station and the HNL terminals. Considering the inconvenience of transferring between modes with luggage and the fact that the Rail Project does not extend to Waikiki, the Rail Project is not expected to have a material adverse effect on the parking or rental car demand at HNL during the forecast period.

6.4.5.3 Parking Forecasts

For purposes of this Report, it was assumed that (a) HNL parking revenues would decline by 5 percent due to the impact from the TNC, (b) in FY 2021 the daily maximum parking rate would increase by to $20 for HNL garages and $16 for other Primary Airports, and (c) either an adequate parking facility would be provided to accommodate demand, or additional rate increases would be implemented to reach the parking revenue forecast that this Report presents. As a result, parking revenues are expected to increase from $27.0 million in FY 2017 to $31.7 million in FY 2024 at an average annual growth rate of 2.3 percent.

6.4.6 Rental Car

Rental car revenues are driven by the number of visitors traveling, choice of ground transportation method, length of rental car transaction, rental car mix and pricing, and rental car operation location, among other factors. Rental car revenues increased from $58.2 million in FY 2013 to $64.4 million in FY 2017 at an average annual growth rate of 2.6 percent. The distribution of rental car revenues across airports is different from the distribution of all other revenues. In FY 2017, rental car revenues were generated from OGG (34 percent), HNL (24 percent), KOA (20 percent), LIH (18 percent), ITO (4 percent), and other airports (0.4 percent). Rental car concession revenues are pledged to the payment of Bonds debt service, but not the CFC Bonds.

Historical rental car revenues were negatively impacted in FY 2014 due to Dollar relocating its HNL on-airport operation to an off-airport location and in FY 2016 due to the relocation of HNL rental car operations to an interim facility. The Airports Division collects 10 percent of rental car gross receipts as a percentage fee for all on-airport rental car operations, but charges only a nominal fee per vehicle for off-airport operations. Therefore, when Dollar moved its operations off-airport, the negative impact to FY 2014 rental car revenues was approximately $2 million.

In FY 2015, the Airports Division executed the ConRAC Agreement with major rental car companies, including Avis Budget, Enterprise, Hertz, and Advantage. Upon completion, the Signatory RACs will relocate all rental car operations at HNL and OGG to the ConRAC. Therefore, the relocation of Alamo's, Dollar's, and Thrifty's HNL operations to the on-airport ConRAC will bring additional rental car concession revenues to the Airports Division.

Based on the first 9 months of actual data in FY 2018, rental car revenues are expected to increase from $64.4 million in FY 2017 to $71.0 million, or 10.2 percent. This increase is driven primarily by higher numbers of overseas enplaned passengers to KOA and LIH, and, to a secondary degree, by higher numbers of overseas enplaned passengers to OGG.

For purposes of this Report, it was assumed that (a) HNL rental car revenues would decline by 5% in FY 2019 due to the TNC's impact, (b) HNL rental car revenues would increase by 15 percent in FY 2021 and by an additional 15 percent in FY 2022 due to the relocation of off-airport operations, and (c) rental car revenues would otherwise be driven by an increase in enplaned passengers, without assuming an increase in unit pricing. As a result, rental car revenues are expected to increase from $64.4 million in FY 2017 to $84.0 million in FY 2024 at an average annual growth rate of 3.8 percent.

6.4.7 Ground Transportation

Ground transportation revenues include revenues from airport shuttle bus services, taxi services, TNCs, and other miscellaneous ground transportation permittees. TNCs pay 7 percent of gross revenues to the Airports Division, similar to taxi operators. Ground transportation revenues increased from $2.9 million in FY 2013 to $3.0 million in FY 2017. Due to TNC operations, they are expected to increase to $3.5 million in FY 2018.

It was assumed that ground transportation revenues would increase by an additional 10 percent in FY 2019 due to TNC operations and would thereafter be driven by inflation and passenger traffic growth. Ground transportation revenues are expected to increase from $3.0 million in FY 2017 to $4.6 million in FY 2024 at an average annual growth rate of 6.2 percent.

6.4.8 Non-aeronautical Rentals

Non-aeronautical rentals includes building and land rental paid by non-airline tenants. Approximately half comes from ground rent paid by the rental car companies. Non-aeronautical rental revenues were $23.0 million in FY 2017, including a lump sum payment of $4.2 million from the Harbors Division of the DOT for certain land rentals. Excluding this lump sum payment, non-aeronautical rental revenues increased from $14.2 million in FY 2013 to $18.8 million in FY 2017 at an annual average growth rate of 7.0 percent.

Upon completion of the HNL and OGG ConRACs, rental car companies will collectively pay the ground rent of both ConRACs but may return a portion of their existing rented land to the Airports Division. Non-aeronautical rental revenues are expected to increase from $18.8 million in FY 2017 (excluding the one-time payment) to $23.9 million in FY 2024 at an average annual growth rate of 3.5 percent.

6.4.9 Miscellaneous Revenues, Reimbursements, and Interest Income

Miscellaneous revenues collected by the Airports Division are primarily utility reimbursements. Such revenues increased from $5.1 million in FY 2013 to $7.2 million in FY 2017 at an average annual growth rate of 9.4 percent. They are expected to increase to $7.9 million in FY 2024 at 1.3 percent annually.

The Airports Division receives reimbursement for law enforcement office expenses; this is assumed to be $2.0 million annually.

The Airports Division participates in the investment pool managed by the Department of Budget and Finance. It was assumed that the interest earning rate would increase to 2 percent annually starting in FY 2019. This would drive interest incomes to over $18.7 million annually.

6.5 Airline Revenues

Airline revenues include rates and charges paid by the Signatory Airlines and non-signatory airlines, including landing fees, terminal rentals, and other aeronautical payments.

6.5.1 Landing Fee Revenues

Based on the system-wide cost center residual ratemaking prescribed in the 2007 Extension, landing fee revenues are calculated on Exhibit F-1 based on the following inputs allocable to the Airfield Cost Center:

- Allocable Costs of Operation, Maintenance and Repair and equipment and motor vehicles
    - a. Plus Annual Adjusted Debt Service Requirements;
    - b. Plus debt service on COPs;
    - c. Plus Deposit to MMRRA; and
    - d. Plus Credit to the O&M Reserve Fund
- Equals airfield revenue requirement
    - e. Less non-signatory landing fee; and
    - f. Less federal grant reimbursement
- Equals signatory landing fee revenues

The signatory landing fee revenues are divided by weighted landed weight, taking into consideration the Inter-island Rate, to calculate the landing fee per 1,000 pounds of landed weight. Signatory landing fee revenues are expected to increase from $79.4 million in FY 2018 to $116.3 million in FY 2024, primarily due to increasing Costs of Operation, Maintenance and Repair. The resulting landing fee rates are expected to increase from $3.96 charged in FY 2019 to $4.91 in FY 2024.

6.5.1.1 Aviation Fuel Taxes

Pursuant to HRS Section 243-4(a)(2), the State imposes an aviation fuel tax of one cent per gallon but permits a credit equal to the aviation fuel tax paid. In FY 2017, the State collected $2.2 million in Aviation Fuel Taxes, while the Airports Division provided a credit to the landing fee revenues of $1.7 million.

For purposes of this Report, it was assumed that the collected Aviation Fuel Tax would be fully credited to the landing fee calculation. Therefore, the landing fee revenues calculated on Exhibit F-1 are shown in two separate lines on Exhibit F, as landing fee revenues and Aviation Fuel Taxes.

6.5.2 Airline Terminal Rental Revenues

Exhibit F-2 provides a calculation of the HNL terminal rental rate, as well as a summary of terminal rental revenues at other Primary Airports. HNL terminal rental revenues accounted for approximately three-quarters of total airline terminal rental revenues. OGG terminal rental revenues accounted for one-sixth, while ITO, KOA, and LIH accounted for the rest. Based on the fully residual terminal ratemaking methodology for HNL, the HNL terminal rental rates reflect the following inputs allocable to the HNL Terminal Cost Center:

- Allocable Costs of Operation, Maintenance and Repair and equipment and motor vehicles
    a. Plus Annual Adjusted Debt Service Requirements;
    b. Plus debt service on COPs;
    c. Plus Deposit to MMRRA; and
    d. Plus Credit to the O&M Reserve Fund
- Equals terminal revenue requirement
    e. Less annual terminal non-airline revenues; and
    f. Less federal grant reimbursements
- Equals Net Terminal Requirements

Terminal rental rate is calculated as the Net Terminal Requirements divided by Leased Space, and applied to all types of terminal space without a differential. Signatory Airlines terminal rentals are expected to increase from $100.3 million in FY 2018 to $156.0 million in FY 2024, due primarily to incremental debt service related to the Mauka Concourse Projects and other HNL terminal projects and incremental Costs of Operation, Maintenance and Repair. The resulting HNL terminal rental rates are expected to increase from the billed rate of $74.11 per square foot in FY 2018 to $101.26 per square foot in FY 2024.

Net Terminal Requirements are other Primary Airports are fully recovered, except that only 50% is recovered for ITO during the forecast period.

6.5.3 Airline Non-Terminal Building Rental Revenues

Non-terminal building rental revenues that Signatory Airlines and non-signatory airlines paid in FY 2017 totaled $26.1 million, including $14.7 million from ground rents, $7.3 million from building rentals, and $4.2 million from other fees and aircraft storage revenues. Starting in November 2017, Hawaiian Airlines started paying ground and building rentals for its cargo and maintenance hangars at a cost of approximately $4 million annually. This revenue category is forecasted to increase by 1 percent annually during the forecast period, from $28.5 million estimated for FY 2018 to $33.1 million in FY 2024.

6.5.4 Passenger Airline Payments per Enplaned Passenger

The CPE calculation presented in Exhibit F-3 reflects the system-wide average unit cost of passenger airline payments, excluding all-cargo airline landing fee payments and airline prepaid interests. CPE is expected to increase from $9.60 in FY 2017 to $12.98 in FY 2024, reflecting higher Costs of Operation, Maintenance and Repair and debt services.

6.6 Rate Covenant Compliances

Exhibits G and H present the calculation of rate covenant compliance, including the flow test and the coverage test. The Airports Division plans to fund the Funded Coverage Account at 25 percent of gross debt service. Therefore, it expects the Debt Service Coverage Ratio to be between 1.72 and 1.86 during the forecast period. Based on the assumptions and discussion that this Report provides, the Rate Covenant is expected to be met during the forecast period. Exhibit I provides the key financial metrics.

6.7 Sensitivity Test

Exhibit J provides the key financial metrics under a hypothetical sensitivity test regarding the Department’s ability to satisfy the Rate Covenants, based on the following assumptions:

- Enplaned passenger count would be 15 percent below the enplaned forecast presented in Exhibit 4-51 (the Base Case) starting in FY 2020;
- PFC revenues applied to the debt service would remain the same because the Airports Division has an adequate cash balance during the forecast period;
- Parking revenues, rental car revenues, terminal concession revenues, and other ground transportation revenues are expected, in general, to be 15 percent lower; and
- ASSC would be implemented to cover the shortfall, if any.

CPE is expected to increase to $16.67 in FY 2024, compared to $12.98 under the Base Case. The Debt Service Coverage Ratio is expected to be between 1.63 to 1.76, lower than the Base Case that is between 1.72 and 1.86.

Exhibit A: Project Costs and Sources of Funding
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ millions)

Project Group	Grants	PFC Pay-go	Airport Cash	Senior/Sub. Bonds	Total Costs
		Funding Sources			
HNL					
Mauka Concourse Program	$ 1	$ 25	$ 16	$ 676	$ 717
Airfield	48	43	25	66	182
Terminal	38	24	17	403	482
HNL Subtotal	$ 87	$ 91	$ 58	$ 1,145	$ 1,380
ITO	37	4	3	34	78
KOA					
Terminal Modernization Program	$ 14	$ 41	$ 7	$ 22	$ 84
Federal Inspection Services Building	3	28	38	2	70
Other KOA Projects	39	3	6	16	63
KOA Subtotal	$ 55	$ 71	$ 50	$ 40	$ 217
LIH	15	3	7	33	57
OGG	4	21	23	162	210
Other Airports	18	-	3	48	69
Statewide					
Energy Saving Projects (a)	$ -	$ -	$ -	$ 207	$ 207
Other Statewide Projects	2	-	33	31	66
Statewide Subtotal	$ 2	$ -	$ 33	$ 237	$ 272
Subtotal	$ 218	$ 190	$ 177	$ 1,699	$ 2,284
FY 2019 Appropriations	0	-	-	110	110
Total CIP	$ 218	$ 190	$ 177	$ 1,809	$ 2,394
% of Total	9.1%	7.9%	7.4%	75.6%	100.0%

Note: (a) Energy Saving Projects are funded from the proceeds of the Certificates of Participation.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Airports Division records.

Exhibit B: Historical and Forecast of PFC Revenues
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

		Historical	Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
PFC Collections									
Enplaned Overseas Passengers (a)	10,078	10,318	11,182	11,557	11,792	12,036	12,290	12,553	12,827
Percent of PFC Eligible Passengers	84.9%	87.4%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
PFC Eligible Enplaned Passengers	8,559	9,021	9,504	9,823	10,023	10,230	10,446	10,670	10,903
PFC Level	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
less: PFC Airline Collection Fee	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
Net PFC Level	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
Annual PFC Collections	$ 37,575	$ 39,601	$ 41,724	$ 43,125	$ 44,000	$ 44,911	$ 45,858	$ 46,843	$ 47,865
Cumulative PFC Collections with Interest Earnings	$347,032	$388,185	$432,491	$479,496	$527,463	$576,282	$626,102	$677,095	$729,312
PFC Cashflow									
PFC Fund - Beginning Balance	$143,977	$153,476	$156,674	$190,252	$201,595	$199,071	$195,600	$204,559	$214,645
Deposits:									
Annual PFC Collections	$ 37,575	$ 39,601	$ 41,724	$ 43,125	$ 44,000	$ 44,911	$ 45,858	$ 46,843	$ 47,865
Interest Earnings	879	1,552	2,583	3,880	3,967	3,908	3,962	4,151	4,351
Annual PFC Revenues with Interest Earnings	$ 38,454	$ 41,153	$ 44,306	$ 47,005	$ 47,967	$ 48,819	$ 49,820	$ 50,993	$ 52,216
Annual Use of PFC Revenues									
Pay-as-you-go	$ (28,635)	$ (37,304)	$ (9,792)	$ (29,871)	$ (42,635)	$ (28,000)	$ -	$ -	$ -
Available PFC Revenues									
PFC Application #5	(321)	(651)	(937)	(937)	(937)	(8,919)	(13,491)	(12,933)	(12,930)
PFC Application #7	-	-	-	(4,854)	(6,919)	(6,919)	(10,466)	(10,033)	(10,031)
Future Applications	-	-	-	-	-	(8,452)	(16,904)	(17,941)	(19,076)
Total Annual Use of PFC Revenues	$ (28,956)	$ (37,955)	$ (10,729)	$ (35,662)	$ (50,490)	$ (52,289)	$ (40,861)	$ (40,908)	$ (42,037)
PFC Fund - Ending Balance	$153,476	$156,674	$190,252	$201,595	$199,071	$195,600	$204,559	$214,645	$224,824

Note: (a) Interisland enplaned passengers are not subject to the PFC collection.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Historical and Estimated – Airports Division records. Forecast – ICF.

Exhibit C: Sources and Uses of Bond Funds
State of Hawaii, Department of Transportation, Airports Division
(in US$ thousands)

	Proposed 2018A Bonds	Proposed 2018B Bonds	Future 2020 Bonds	Future 2021 Bonds	Total
Sources of Funds					
Bond Proceeds	$ 387,395	$ 26,225	$ 386,365	$ 375,115	$ 1,175,100
Premium/(Discount)	46,627	4,383	12,523	5,647	69,180
Total Sources	$ 434,022	$ 30,608	$ 398,888	$ 380,762	$ 1,244,280
Use of Funds					
Project Costs	$ 398,055	$ 28,283	$ 358,077	$ 350,250	$ 1,134,663
Costs of Issuance	2,148	134	2,144	2,106	6,532
Deposit to Debt Service Reserve Account	2,784	196	27,167	19,384	49,531
Deposit for Capitalized Interest	31,035	1,995	11,501	9,023	53,553
Total Uses of Funds	$ 434,022	$ 30,608	$ 398,888	$ 380,762	$ 1,244,280

Source: Morgan Stanley & Co. LLC., July 2018

Exhibit D: Annual Adjusted Debt Service Requirement and Subordinate Obligations
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

		Historical	Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual Adjusted Debt Service Requirement									
Outstanding Bonds									
2010 Refunding	$ 25,708	$ 25,696	$ 25,704	$ 25,733	$ 31,564	$ 15,270	$ -	$ -	$ -
2010 New Money	23,011	23,011	23,011	23,011	23,011	23,011	41,016	38,819	38,807
2011 Refunding	28,526	28,537	28,529	28,500	22,669	38,962	36,224	38,426	38,434
2015A Bonds	2,517	6,682	9,693	11,150	11,742	11,742	11,742	11,742	11,742
2015B Bonds	59	190	271	365	365	365	365	365	365
Subtotal Outstanding	$ 79,822	$ 84,117	$ 87,209	$ 88,759	$ 89,352	$ 89,351	$ 89,348	$ 89,352	$ 89,348
Proposed 2018A Bonds	-	-	-	1,208	6,123	16,999	19,370	19,370	19,370
Proposed 2018B Bonds	-	-	-	39	630	1,085	1,311	1,311	1,311
Future 2020 Bonds	-	-	-	-	-	9,091	18,383	18,980	19,318
Future 2021 Bonds	-	-	-	-	-	-	13,556	16,189	19,384
Gross Debt Service	$ 79,822	$ 84,117	$ 87,209	$ 90,006	$ 96,105	$116,527	$141,967	$145,202	$148,731
Airline Prepaid Interests (a)	(4,000)	-	-	-	-	-	-	-	-
Debt Service Requirement	$ 75,822	$ 84,117	$ 87,209	$ 90,006	$ 96,105	$116,527	$141,967	$145,202	$148,731
Available PFC Revenues (b)	(321)	(651)	(937)	(5,791)	(7,856)	(24,289)	(40,861)	(40,908)	(42,037)
Annual Adjusted Debt Service Requirement	$ 75,501	$ 83,466	$ 86,272	$ 84,214	$ 88,249	$ 92,237	$101,106	$104,294	$106,693
By Cost Center									
Airfield			$ 8,517	$ 6,623	$ 6,809	$ 7,720	$ 9,367	$ 11,880	$ 12,768
Terminals									
Honolulu International			47,906	48,257	50,097	49,213	50,280	50,635	51,276
Hilo International			-	8	49	387	965	957	1,038
Kona International			827	850	1,922	2,203	3,016	2,934	2,990
Kahului			11,504	11,092	11,109	12,507	13,588	13,569	13,848
Lihue			904	863	990	1,442	1,102	1,109	1,193
Other Cost Centers			16,614	16,521	17,273	18,766	22,789	23,209	23,579
Annual Adjusted Debt Service Requirement			$ 86,272	$ 84,214	$ 88,249	$ 92,237	$101,106	$104,294	$106,693
Subordinate Obligations									
2013 Certificate of Participation (COPs)	$ 8,326	$ 13,017	$ 13,734	$ 14,277	$ 15,155	$ 16,272	$ 17,122	$ 17,705	$ 18,774
2016 COPs			921	966	1,013	1,062	1,113	1,168	1,224
2017 COPs	-	-	-	-	3,173	3,332	3,499	3,674	3,858
Total Subordinate	$ 8,326	$ 13,017	$ 14,655	$ 15,243	$ 19,341	$ 20,666	$ 21,735	$ 22,547	$ 23,857

Note: (a) Includes airline prepaid interests to reduce airline rates and charges.

(b) Includes amount approved in PFC application #5, and projected amounts for other eligible projects to be requested in future PFC applications.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Historical and Estimated – Airports Division records; Forecast – ICF.

Exhibit E: Costs of Operation, Maintenance and Repair
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

	2016	Historical 2017	Estimated 2018	Forecast 2019	2020	2021	2022	2023	2024
Costs of Operation, Maintenance and Repair									
Salary and Wages	$ 92,251	$110,722	$120,133	$128,542	$136,255	$144,430	$153,096	$162,282	$172,019
Other Personnel Services	58,559	67,426	72,212	76,147	80,716	85,559	90,692	96,134	101,902
Utilities	34,415	33,901	34,630	36,362	38,180	40,089	42,093	44,198	46,408
Special Maintenance	8,662	9,911	12,000	15,000	15,750	16,538	17,364	18,233	19,144
Repair and Maintenance	34,031	32,445	32,445	34,068	35,771	37,560	39,438	41,409	43,480
Materials and Supplies	5,477	6,180	6,489	6,813	7,154	7,512	7,887	8,282	8,696
DOT Administrative Expenses	5,595	5,919	7,399	7,399	7,769	8,158	8,566	8,994	9,444
Other Expenses	7,113	8,108	8,513	8,939	9,386	9,855	10,348	10,866	11,409
Bad Debt	333	455	-	-	-	-	-	-	-
Base Expenses net of Surcharge	$246,436	$275,067	$293,822	$313,270	$330,981	$349,700	$369,485	$390,397	$412,501
Incremental Expenses	-	-	-	-	1,327	7,393	7,763	8,151	8,558
State Surcharge	12,786	13,576	14,367	14,655	14,948	15,247	15,552	15,863	16,180
Gross Operating Expenses	$259,223	$288,644	$308,189	$327,925	$347,255	$372,339	$392,799	$414,410	$437,239
Excluding Non-Cash Expenses (a)	-	-	-	-	-	(16,402)	(17,386)	(18,429)	(19,535)
Costs of Operation, Maintenance and Repair	$259,223	$288,644	$308,189	$327,925	$347,255	$355,937	$375,412	$395,980	$417,703
% Change of Gross Operating Expenses	2.2%	11.3%	6.8%	6.4%	5.9%	7.2%	5.5%	5.5%	5.5%
By Cost Center									
Airfield			$ 71,869	$ 77,510	$ 82,666	$ 88,474	$ 93,322	$ 98,443	$103,852
Terminal									
Honolulu International			84,284	90,359	94,729	102,605	108,187	114,080	120,303
Hilo International			4,714	5,086	5,363	5,635	5,950	6,283	6,635
Kona International			6,057	6,555	7,548	8,240	8,687	9,159	9,657
Kahului			8,471	9,140	9,629	10,110	10,666	11,254	11,875
Lihue			5,588	6,019	6,345	6,667	7,038	7,431	7,846
Other Cost Centers			127,206	133,257	140,973	134,206	141,562	149,330	157,536
Costs of Operation, Maintenance and Repair			$308,189	$327,925	$347,255	$355,937	$375,412	$395,980	$417,703

Note: (a) The amendment to the Certificate to exclude non-cash expenses is expected to be effective in FY 2021.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Historical and Estimated – Airports Division records; Forecast – ICF.

Exhibit F: Revenues and Aviation Fuel Taxes
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

		Historical	Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenues and Aviation Fuel Taxes									
Signatory Airline Payments									
Landing Fees (a)	$ 63,477	$ 74,676	$ 79,426	$ 83,254	$ 88,924	$ 94,998	$ 102,272	$ 109,888	$ 116,307
Passenger Terminal Rentals	88,865	97,617	100,282	106,233	108,404	124,192	134,607	147,597	155,958
Aviation Fuel Taxes (b)	2,568	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Non-Terminal Rentals	11,004	11,522	13,700	15,381	15,681	15,982	16,610	16,915	17,222
Total Signatory Airline Payments	$ 165,914	$ 185,971	$ 195,564	$ 207,024	$ 215,165	$ 237,327	$ 255,645	$ 276,556	$ 291,643
Non-signatory Landing Fees (a)	2,611	3,182	3,572	3,721	3,958	4,188	4,457	4,744	5,005
Non-Signatory Terminal Payments	2,230	2,425	2,455	2,485	2,517	2,548	2,580	2,612	2,645
Non-signatory Other Aeronautical Payments	13,323	14,582	14,764	14,948	15,135	15,324	15,516	15,710	15,906
Total Revenues and Aviation Fuel Taxes	$ 184,078	$ 206,159	$ 216,355	$ 228,179	$ 236,775	$ 259,388	$ 278,198	$ 299,622	$ 315,200
Nonairline Revenues									
Duty Free	$ 32,300	$ 32,942	$ 40,000	$ 40,625	$ 46,906	$ 40,375	$ 40,375	$ 34,319	$ 34,319
Food and Beverage	8,881	10,141	10,837	11,355	12,779	13,177	13,591	14,024	14,474
Retail	14,668	16,037	17,150	17,599	18,154	18,714	19,298	19,908	20,543
Other Terminal Concessions	7,816	7,659	8,416	9,094	9,393	9,698	10,017	10,350	10,698
Parking	24,935	26,996	26,890	26,394	26,897	29,916	30,482	31,068	31,677
Rental Car	53,687	64,445	71,045	72,388	73,595	74,748	78,398	82,562	83,953
Ground Transportation	3,243	3,006	3,528	3,902	4,029	4,158	4,294	4,435	4,583
Nonaeronautical Rentals	15,791	22,996	19,081	20,420	21,775	22,047	22,823	23,608	23,903
Miscellaneous Operating Revenues	7,672	7,226	7,316	7,408	7,500	7,594	7,689	7,785	7,882
Total Nonairline Revenues	$ 168,993	$ 191,448	$ 204,263	$ 209,184	$ 221,028	$ 220,427	$ 226,966	$ 228,058	$ 232,032
Operating Revenues	$ 353,071	$ 397,608	$ 420,618	$ 437,363	$ 457,803	$ 479,815	$ 505,164	$ 527,680	$ 547,232
Federal Grant Reimbursements	2,273	2,925	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Interest Income									
Operating Funds and Reserves	4,309	7,996	10,095	13,546	13,757	14,660	15,430	15,526	15,691
Construction Fund	565	859	1,879	2,215	2,868	2,158	1,992	2,148	2,368
REVENUES AND AVIATION FUEL TAXES	$ 360,218	$ 409,389	$ 434,593	$ 455,125	$ 476,428	$ 498,632	$ 524,585	$ 547,355	$ 567,291
Signatory Airline Revenues as % of Total	46.1%	45.4%	45.0%	45.5%	45.2%	47.6%	48.7%	50.5%	51.4%

Note: (a) Net of credits for aviation fuel taxes. (b) Including aviation fuel taxes paid by all airlines.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Historical and Estimated - Airports Division records; Forecast - ICF.

Exhibit F-1: Signatory Airlines Landing Fee Revenues
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

	Forecast 2019	2020	2021	2022	2023	2024
Airfield Requirement						
Costs of Operation, Maintenance and Repair	$ 77,510	$ 82,666	$ 88,474	$ 93,322	$ 98,443	$103,852
Equipment and Motor Vehicles	372	394	432	453	476	500
Annual Adjusted Debt Service Requirement	6,623	6,809	7,720	9,367	11,880	12,768
Certificates of Participation Payments	3,133	4,007	4,286	4,508	4,674	4,948
Deposit to Maintenance, Renewal and Replacement Account	-	-	-	-	-	-
Credit to O&M Reserve Account	1,711	1,379	647	1,451	1,532	1,618
Subtotal	$ 89,349	$ 95,255	$101,559	$109,102	$117,005	$123,686
LESS:						
Annual Non-signatory Landing Fee	(3,721)	(3,958)	(4,188)	(4,457)	(4,744)	(5,005)
Federal Grant Reimbursements	(217)	(217)	(217)	(217)	(217)	(217)
Signatory Landing Fee Revenue Requirements	$ 85,410	$ 91,080	$ 97,154	$104,428	$112,044	$118,463
Interisland Signatory Landed Weight	9,671	9,892	10,055	10,220	10,389	10,560
Interisland Rate	47.0%	48.0%	49.0%	50.0%	51.0%	52.0%
Adjusted Interisland Signatory Landed Weight	4,545	4,748	4,927	5,110	5,298	5,491
Overseas Signatory Landed Weight	17,084	17,474	17,762	18,054	18,352	18,655
Adjusted Signatory Landed Weight (1,000 lbs)	21,630	22,222	22,688	23,164	23,651	24,147
Signatory Landing Fee Rate per 1,000 lbs (a)						
Overseas	$ 3.95	$ 4.10	$ 4.28	$ 4.51	$ 4.74	$ 4.91
Interisland	1.86	1.97	2.10	2.26	2.42	2.55

Note: (a) Actual billed overseas landing fee rate is $3.96 in FY 2019.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: ICF.

Exhibit F-2: Signatory Airlines Terminal Rentals
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

	Forecast 2019	2020	2021	2022	2023	2024
Honolulu Terminal Requirements						
Costs of Operation, Maintenance and Repair	$ 90,359	$ 94,729	$102,605	$108,187	$114,080	$120,303
Equipment and Motor Vehicles	434	451	501	525	552	579
Annual Adjusted Debt Service Requirement	48,257	50,097	49,213	50,280	50,635	51,276
Certificates of Participation Payments	6,253	7,872	8,397	8,829	9,168	9,693
Deposit to Maintenance, Renewal and Replacement Account	500	500	500	500	500	500
Credit to O&M Reserve Account	1,994	1,580	750	1,682	1,775	1,875
Subtotal	$147,797	$155,229	$161,965	$170,003	$176,710	$184,226
LESS:						
Annual Terminal Nonairline Revenues	(67,584)	(75,847)	(70,292)	(71,314)	(66,329)	(67,449)
Federal Grant Reimbursements	(1,129)	(1,129)	(1,129)	(1,129)	(1,129)	(1,129)
Net Terminal Requirements	$ 79,084	$ 78,253	$ 90,544	$ 97,559	$109,252	$115,648
Leased Space	1,091	1,092	1,142	1,142	1,142	1,142
Average Terminal Rental Rate (a)	$ 72.52	$ 71.66	$ 79.28	$ 85.42	$ 95.66	$ 101.26
Signatory Airlines Terminal Rentals						
Honolulu International	$ 79,084	$ 78,253	$ 90,544	$ 97,559	$109,252	$115,648
Hilo International	2,464	2,617	2,900	3,372	3,537	3,757
Kona International	5,155	7,192	8,056	9,345	9,694	10,209
Kahului	14,395	14,819	16,520	18,143	18,600	19,407
Lihue	5,135	5,523	6,172	6,189	6,515	6,938
Total	$106,233	$108,404	$124,192	$134,607	$147,597	$155,958

Note: (a) Actual billed HNL terminal rental rate is $74.11 per square foot per year in FY 2019.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: ICF.

Exhibit F-3: Passenger Airlines Payment Per Enplaned Passenger
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

	Historical		Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Airline Payments									
Aviation Revenues	$184,078	$206,159	$216,355	$228,179	$236,775	$259,388	$278,198	$299,622	$315,200
Less: Non-Terminal Aeronautical Rentals	(23,911)	(25,371)	(28,464)	(30,330)	(30,816)	(31,307)	(32,126)	(32,625)	(33,128)
Subtotal	$160,167	$180,788	$187,891	$197,850	$205,958	$228,081	$246,072	$266,997	$282,072
Less: All-Cargo Landing Fee Revenues	(7,869)	(9,304)	(9,902)	(10,364)	(11,051)	(11,784)	(12,661)	(13,580)	(14,357)
Add: Airline Prepaid Interests	4,000	-	-	-	-	-	-	-	-
Passenger Airline Payments	$156,298	$171,484	$177,989	$187,485	$194,907	$216,297	$233,411	$253,417	$267,715
Enplaned Passengers	17,215	17,859	18,490	18,831	19,179	19,521	19,876	20,243	20,624
Passenger Airline Payments per e.p.	$ 9.08	$ 9.60	$ 9.63	$ 9.96	$ 10.16	$ 11.08	$ 11.74	$ 12.52	$ 12.98

Note: Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: Historical and Estimated - Airports Division records; Forecast - ICF.

Exhibit G: Application of Revenues and Aviation Fuel Taxes
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

		Historical	Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenues and Aviation Fuel Taxes									
Aviation Revenues	$184,078	$206,159	$216,355	$228,179	$236,775	$259,388	$278,198	$299,622	$315,200
Nonairline Revenues	168,993	191,448	204,263	209,184	221,028	220,427	226,966	228,058	232,032
Operating Revenues	$353,071	$397,608	$420,618	$437,363	$457,803	$479,815	$505,164	$527,680	$547,232
Nonoperating Revenues	7,146	11,781	13,975	17,762	18,625	18,818	19,421	19,674	20,059
Revenues and Aviation Fuel Taxes	$360,218	$409,389	$434,593	$455,125	$476,428	$498,632	$524,585	$547,355	$567,291
Application of Revenues and Aviation Fuel Taxes									
Costs of Operation, Maintenance and Repair (a)	$259,223	$288,644	$308,189	$327,925	$347,255	$355,937	$375,412	$395,980	$417,703
Annual Adjusted Debt Service Requirement									
Gross Debt Service	79,822	84,117	87,209	90,006	96,105	116,527	141,967	145,202	148,731
Prepaid Interest	(4,000)	-	-	-	-	-	-	-	-
Available PFC Revenues	(321)	(651)	(937)	(5,791)	(7,856)	(24,289)	(40,861)	(40,908)	(42,037)
Deposit to Maintenance, Renewal and Replacement Account	-	-	500	500	500	500	500	500	500
Reimbursement of General Fund of the State	-	-	-	-	-	-	-	-	-
Other Purposes									
Subordinate Obligations	8,326	13,017	14,655	15,243	19,341	20,666	21,735	22,547	23,857
Funds Remaining (b)	17,168	24,262	24,977	27,243	21,082	29,292	25,832	24,034	18,537
Application of Revenues and Aviation Fuel Taxes	$360,218	$409,389	$434,593	$455,125	$476,428	$498,632	$524,585	$547,355	$567,291

Note: (a) Excluding certain non-cash items, expected to be effective in FY 2021.

(b) Funds remaining are used for other legal purposes, such as deposit to the Funded Coverage Account and the O&M reserve account.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: ICF.

Exhibit H: Debt Service Coverage and Rate Covenant
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

		Historical	Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Debt Service Coverage									
Revenues and Aviation Fuel Taxes	$360,218	$409,389	$434,593	$455,125	$476,428	$498,632	$524,585	$547,355	$567,291
Costs of Operation, Maintenance and Repair (a)	(259,223)	(288,644)	(308,189)	(327,925)	(347,255)	(355,937)	(375,412)	(395,980)	(417,703)
Deposit to Debt Service Reserve Account	-	-	-	-	-	-	-	-	-
Deposit to Maintenance, Renewal and Replacement Account	-	-	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Reimbursement of General Fund of the State	-	-	-	-	-	-	-	-	-
Net Revenues and Taxes	$100,995	$120,745	$125,904	$126,700	$128,673	$142,195	$148,673	$150,874	$149,088
Funded Coverage Account Balance (b)	21,186	22,338	22,338	22,501	24,026	29,132	35,492	36,300	37,183
Adjusted Net Revenues and Taxes	$122,181	$143,083	$148,242	$149,201	$152,699	$171,327	$184,164	$187,175	$186,270
Gross Debt Service	$ 79,822	$ 84,117	$ 87,209	$ 90,006	$ 96,105	$116,527	$141,967	$145,202	$148,731
Airline Prepaid Interests	(4,000)	-	-	-	-	-	-	-	-
Available PFC Revenues	(321)	(651)	(937)	(5,791)	(7,856)	(24,289)	(40,861)	(40,908)	(42,037)
Annual Adjusted Debt Service Requirement	$ 75,501	$ 83,466	$ 86,272	$ 84,214	$ 88,249	$ 92,237	$101,106	$104,294	$106,693
Debt Service Coverage (Must Be No Less Than 1.25)	1.62	1.71	1.72	1.77	1.73	1.86	1.82	1.79	1.75

Note: (a) Excluding certain non-cash items, expected to be effective in FY 2021.

(b) Indicates the amount of unencumbered funds certified by the Airports Division for the purpose of the Rate Covenant.

Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: ICF.

Exhibit I: Summary of Financial Forecasts
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

	Historical		Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
ENPLANED PASSENGERS	17,215	17,859	18,490	18,831	19,179	19,521	19,876	20,243	20,624
% Change	3.2%	3.7%	3.5%	1.8%	1.9%	1.8%	1.8%	1.9%	1.9%
DEBT SERVICE COVERAGE CALCULATION									
Net Revenues and Taxes	$100,995	$120,745	$125,904	$126,700	$128,673	$142,195	$148,673	$150,874	$149,088
Funded Coverage Account Balance	21,186	22,338	22,338	22,501	24,026	29,132	35,492	36,300	37,183
Adjusted Net Revenues and Taxes	$122,181	$143,083	$148,242	$149,201	$152,699	$171,327	$184,164	$187,175	$186,270
Annual Adjusted Debt Service Requirement	75,501	83,466	86,272	84,214	88,249	92,237	101,106	104,294	106,693
Debt Service Coverage	1.62	1.71	1.72	1.77	1.73	1.86	1.82	1.79	1.75
AIRLINE FEES AND CHARGES									
Overseas Landing Fee Rate (per 1,000 lbs)	$ 3.25	$ 3.62	$ 3.94	$ 3.95	$ 4.10	$ 4.28	$ 4.51	$ 4.74	$ 4.91
HNL Terminal Rental Rate (per square foot)	61.97	70.31	68.80	72.52	71.66	79.28	85.42	95.66	101.26
Airline Payments per Enplaned Passenger	9.08	9.60	9.63	9.96	10.16	11.08	11.74	12.52	12.98
CONCESSION REVENUES									
Concession Revenues	$145,530	$161,227	$177,866	$181,356	$191,753	$190,786	$196,454	$196,665	$200,246
Concession Revenues per Enplaned Passenger	$ 8.45	$ 9.03	$ 9.62	$ 9.63	$ 10.00	$ 9.77	$ 9.88	$ 9.71	$ 9.71
Percentage Change	-5.2%	6.8%	6.6%	0.1%	3.8%	-2.2%	1.1%	-1.7%	-0.1%

Note: Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: ICF.

Exhibit J: Summary of Financial Projections – Sensitivity Test
State of Hawaii, Department of Transportation, Airports Division
(for Fiscal Years ending June 30; in US$ thousands)

	Historical		Estimated	Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
ENPLANED PASSENGERS	17,215	17,859	18,490	18,831	16,302	16,593	16,894	17,207	17,530
% Change	3.2%	3.7%	3.5%	1.8%	-13.4%	1.8%	1.8%	1.8%	1.9%
DEBT SERVICE COVERAGE CALCULATION									
Net Revenues and Taxes	$100,995	$120,745	$125,904	$125,826	$119,411	$126,059	$140,260	$138,299	$142,746
Funded Coverage Account Balance	21,186	22,338	22,338	22,501	24,026	29,132	35,492	36,300	37,183
Adjusted Net Revenues and Taxes	$122,181	$143,083	$148,242	$148,328	$143,438	$155,191	$175,752	$174,599	$179,929
Annual Adjusted Debt Service Requirement	75,501	83,466	86,272	84,214	88,249	93,212	103,055	105,455	108,117
Debt Service Coverage	1.62	1.71	1.72	1.76	1.63	1.66	1.71	1.66	1.66
AIRLINE FEES AND CHARGES									
Overseas Landing Fee Rate (per 1,000 lbs)	$ 3.25	$ 3.62	$ 3.94	$ 3.95	$ 4.10	$ 4.29	$ 4.53	$ 4.75	$ 4.92
HNL Terminal Rental Rate (per square foot)	61.97	70.31	68.80	72.09	81.56	88.69	95.38	104.62	110.56
Airline Payments per Enplaned Passenger	9.08	9.60	9.63	9.94	13.17	13.81	15.09	15.75	16.67
CONCESSION REVENUES									
Concession Revenues	$145,530	$161,227	$177,866	$180,746	$162,789	$162,051	$166,971	$167,250	$170,365
Concession Revenues per Enplaned Passenger	$ 8.45	$ 9.03	$ 9.62	$ 9.60	$ 9.99	$ 9.77	$ 9.88	$ 9.72	$ 9.72
Percentage Change	-5.2%	6.8%	6.6%	-0.2%	4.0%	-2.2%	1.2%	-1.7%	0.0%

Note: Historical data in this exhibit was based on a range of publicly available sources. The analysis and assumptions relied on this information, and were reviewed and approved by the Airport Division management.

Source: ICF.

APPENDIX B

Audited Financial Statements

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Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Independent Auditor's Report and Financial Statements

June 30, 2017

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

June 30, 2017

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BKD LLP
CPAs & Advisors
1801 California Street, Suite 2900 // Denver, CO 80202-2606
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Independent Auditor's Report

The Auditor
State of Hawaii
Oahu, Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Transportation, Airports Division, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Auditor
State of Hawaii

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Airports Division, State of Hawaii as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Airports Division present only the Airports Division enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airports Division's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the Airports Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airports Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airports Division's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
December 8, 2017

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Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

The following Management's Discussion and Analysis of the Airports Division, Department of Transportation, State of Hawaii (the Airports Division) activities and financial performance provides the reader with an introduction and overview of the financial statements of the Airports Division for the fiscal years ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Airports Division operates and maintains 15 airports at various locations within the State of Hawaii (the State) as a single integrated system for management and financial purposes. Daniel K. Inouye International Airport on the Island of Oahu is the principal airport in the airports system providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. It has four runways, two of which (12,000 and 12,300 feet long) are among the nations longest. In addition, it has the only reef runway in the nation (12,000 feet long by 200 feet wide). Kahului Airport on the Island of Maui, Hilo International Airport and Ellison Onizuka Kona International Airport at Keahole, both on the Island of Hawaii, and Lihue Airport on the Island of Kauai are the other major airports in the airports system, all of which provide facilities for interisland flights. Kahului Airport and Ellison Onizuka Kona International Airport at Keahole also provide facilities for direct domestic overseas flights and flights to and from Canada. Lihue Airport and Hilo International Airport also provide facilities for domestic overseas flights. Ellison Onizuka Kona International Airport at Keahole also provides facilities for international flights to and from Japan. The Daniel K. Inouye International Airport accommodated 57.0% and 57.7% of total passenger traffic in the airports system during fiscal years 2017 and 2016, respectively. The other four principal airports accommodated 41.7% and 41.0% of the total passenger traffic for fiscal years 2017 and 2016, respectively.

The other airports in the airports system are Port Allen on the Island of Kauai, Dillingham Airfield (currently leased from the U.S. military) and Kalaeloa Airport on the Island of Oahu, Kapalua and Hana airports on the Island of Maui, Waimea-Kohala and Upolu airports on the Island of Hawaii, Lanai Airport on the Island of Lanai, and Molokai and Kalaupapa airports on the Island of Molokai. These facilities are utilized by air carriers, general aviation, and by the military, with the exception of the Upolu and Port Allen airports, which are used exclusively by general aviation. The Airports Division assumed operations of Kalaeloa Airport (formerly, Barbers Point Naval Air Station) on the Island of Oahu as a general reliever airport for the Daniel K. Inouye International Airport on July 1, 1999. The other airports in the airports system accommodated 1.2% and 1.3% of the total passenger traffic for fiscal years 2017 and 2016, respectively.

The Airports Division is self-sustaining. The Department of Transportation (DOT) is authorized to impose and collect rates and charges for the airports system services and properties to generate revenue to fund operating expenses. The Capital Improvements Program is primarily funded by airports system revenue bonds and lease revenue certificates of participation issued by the Airports Division, federal grants, passenger facility charges (PFCs), customer facility charges (CFCs), and the Airports Division's revenues.

Airline Signatory Rates and Charges

Lease Agreement with Signatory Airlines

The DOT entered into an airport-airline lease agreement with the signatory airlines to provide those airlines with the nonexclusive right to use the airports system facilities, equipment improvements, and services, in addition to occupying certain exclusive-use premises and facilities. These leases were set to expire in 1992 but were extended under various short-term agreements.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the airport-airline lease agreement, effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the airport-airline lease agreement, with an adjustment for terms and provisions relating to airports system rates and charges. The lease extension agreement's residual rate-setting methodology provided for a final year-end reconciliation containing actual airports system cost data to determine whether airports system charges assessed to the signatory airlines were sufficient to recover airports system costs, including debt service requirements. Annual settlements based on this final reconciliation were made in accordance with the terms of the lease extension agreement and various agreements between the DOT and airlines since June 30, 1997.

In October 2007, the Airports Division and a majority of the signatory airlines executed the First Amended Lease Extension Agreement, effective January 1, 2008. The terms and conditions of the airport-airline lease agreement were amended to reflect a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. An airports system support charge cost center is set up to serve as the residual cost center to ensure airports system operating revenue is sufficient to cover airports system operating costs.

The Airports Division is in the process of implementing a modernization program that will include significant capital improvements for several of the major airports in the State, including Daniel K. Inouye, Kahului, Ellison Onizuka Kona, and Lihue. The program's remaining cost to be paid for planned projects is $1.8 billion and will be paid for from a variety of sources including cash, federal grants, PFCs, and revenue bonds.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the First Amended Lease Extension Agreement, which provides for an automatic extension on a quarterly basis unless either party provides 60 days' written notice of termination to the other party.

Overview of the Financial Statements

The Airports Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type, which is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

The Airports Division's financial report includes three financial statements: the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

Airports Division Activities and Highlights

The Airports Division ended fiscal year 2017 with increases in total passengers, revenue landed weights, and in deplaning international passengers of 3.7%, 4.0%, and 3.1%, respectively, as compared to fiscal year 2016. Increasing passenger traffic, in addition to airline carriers maximizing passenger load factors, are the reasons for such changes. Although overseas carriers account for a higher percentage, 62.7%, of revenue landed weights, the overall carrier mix remains diverse.

The Daniel K. Inouye International Airport continues to be the dominant airport, although a portion of the market share shifted to the Kahului Airport, Ellison Onizuka Kona International Airport at Keahole, and Lihue Airport as a result of increased direct flights to such destinations. The majority of the operating revenue at the Airports Division is activity based and directly relates to the number of passengers and aircraft operations.

For fiscal year 2017, Hawaiian Airlines, Inc. and United Airlines, Inc. accounted for 41% and 10% of the total landed weights, respectively. Hawaiian Airlines, Inc., United Airlines, Inc., and Delta Airlines, Inc. accounted for 23%, 16%, and 11% of the overseas landed weights, respectively. Hawaiian Airlines, Inc. and Aeko Kula, Inc. accounted for 68% and 10% of the interisland landed weights, respectively. Hawaiian Airlines, Inc. accounted for 22% and Japan Airlines International Company, Ltd. accounted for 18% of the deplaned international passengers.

The following airlines served the State with scheduled or charter overseas passenger flights in fiscal years 2017: Air Canada, Air China Ltd., Air Japan Co., Air New Zealand, Ltd., Air Pacific, Ltd., Alaska Airlines, Inc., Allegiant Air, L.L.C., Asiana Airlines, Inc., All Nippon Airways Co., Ltd., American Airlines, Inc., China Airlines, Ltd., China Eastern, Inc., Continental Airlines, Inc., Continental Micronesia, Inc., Delta Air Lines, Inc., Hawaiian Airlines, Inc., Japan Airlines International Company, Ltd., Jetstar Airways PTY Ltd., Jin Air Co. Ltd., Korean Airlines Company, Ltd., Omni Air International, Inc., Philippine Airlines, Inc., Qantas Airways Limited, United Airlines, Inc., U.S. Airways, Inc., Virgin America, Inc. and WestJet. The principal airlines providing interisland passenger flight services are Hawaiian Airlines, Inc., Hawaii Island Air, Inc., and Mokulele Flight Service, Inc.

Activity for the airports system for the fiscal years ended June 30, 2017 and 2016 is as follows:

	2017	2016	Percentage increase (decrease) from 2016
Passengers (enplaning and deplaning passengers activity):			
Daniel K. Inouye International Airport	20,374,952	19,873,182	2.52 %
Kahului Airport	7,048,609	6,797,911	3.69
Ellison Onizuka Kona International Airport at Keahole	3,454,151	3,132,632	10.26
Lihue Airport	3,033,195	2,865,267	5.86
Hilo International Airport	1,367,152	1,322,322	3.39
All others	421,529	439,408	(4.07)
Total passengers	35,699,588	34,430,722	3.69 %
Revenue landed weights (1,000-pound units):			
Daniel K. Inouye International Airport	16,494,135	16,027,528	2.91 %
Kahului Airport	4,418,029	4,394,951	0.53
Ellison Onizuka Kona International Airport at Keahole	2,146,995	1,907,839	12.54
Lihue Airport	1,841,146	1,700,405	8.28
Hilo International Airport	899,632	848,575	6.02
All others	258,935	290,925	(11.00)
Total signatory airlines	26,058,872	25,170,223	3.53
Nonsignatory airlines	1,646,558	1,473,303	11.76
Total revenue landed weights	27,705,430	26,643,526	3.99 %

	2017	2016	Percentage increase (decrease) from 2016
Revenue passenger landings:			
Daniel K. Inouye International Airport	76,734	72,660	5.61 %
Kahului Airport	37,666	37,934	(0.71)
Ellison Onizuka Kona International Airport at Keahole	21,012	19,000	10.59
Lihue Airport	14,447	12,609	14.58
Hilo International Airport	6,719	6,604	1.74
All others	16,462	19,278	(14.61)
Total signatory airlines	173,040	168,085	2.95
Nonsignatory airlines	576	815	(29.33)
Total revenue passenger landings	173,616	168,900	2.79 %
Deplaning international passengers:			
Daniel K. Inouye International Airport	2,679,839	2,615,738	2.45 %
Ellison Onizuka Kona International Airport at Keahole	15,872	-	-
Total signatory airlines	2,695,711	2,615,738	3.06
Nonsignatory airlines	56,684	53,476	6.00
Total deplaning international passengers	2,752,395	2,669,214	3.12 %

Financial Operations Highlights

The financial results for fiscal years 2017 and 2016 reflected income before capital contributions of $115.5 million and $90.2 million, respectively. Operating revenue increased by $44.5 million, or 12.6%, resulting from increased revenue from airport landing fees, aeronautical rentals, nonaeronautical rentals and concessions revenue. Total nonoperating revenue increased by $6.1 million, or 5.1%, mainly due to an increase in investment income, rental car customer facility charges and passenger facility charges offset by decrease in debt service support charges.

Revenue

A summary of revenue for the years ended June 30, 2017 and 2016 and the amount and percentage of change in relation to prior year amounts is as follows:

	2017		2016		Increase (decrease) from 2016	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Operating revenue						
Concession fees						
Duty free	$ 32,941,667	6.0 %	$ 32,300,000	6.5 %	$ 641,667	2.0 %
Duty free retail	11,731,747	2.2	11,321,021	2.3	410,726	3.6
Airport parking	26,996,010	5.0	24,935,247	5.0	2,060,763	8.3
Car rental	64,445,003	11.8	53,686,828	10.8	10,758,175	20.0
Food and beverage	10,141,016	1.9	8,881,390	1.8	1,259,626	14.2
Other concessions	14,971,478	2.7	14,405,930	2.9	565,548	3.9
Total concession fees	161,226,921		145,530,416			
Airport landing fees, net	77,858,188	14.3	66,087,556	13.2	11,770,632	17.8
Aeronautical rentals						
Nonexclusive joint-use premise charges	70,655,449	13.0	66,307,423	13.3	4,348,026	6.6
Exclusive-use premise charges	55,489,627	10.2	49,114,469	9.8	6,375,158	13.0
Nonaeronautical rentals	22,995,616	4.2	15,790,815	3.2	7,204,801	45.6
Other	9,381,908	1.7	10,240,603	2.1	(858,695)	(8.4)
Total operating revenue	397,607,709	73.0	353,071,282	70.7	44,536,427	12.6
Nonoperating revenue						
Interest income						
Investments	8,725,065	1.6	4,862,834	1.0	3,862,231	79.4
Direct financing leases	1,222,031	0.2	1,222,031	0.2	-	-
Other loans and investment	130,740	0.0	10,583	0.0	120,157	1,135.4
Federal operating grants	2,925,054	0.5	2,273,076	0.5	651,978	28.7
Passenger facility charges	41,153,190	7.6	38,454,274	7.7	2,698,916	7.0
Rental car customer facility charges	72,362,001	13.3	69,604,372	13.9	2,757,629	4.0
Debt service support charges	-	-	4,000,000	0.8	(4,000,000)	(100.0)
Total nonoperating revenue	126,518,081	23.2	120,427,170	24.1	6,090,911	5.1
Capital contributions						
Federal capital grants	20,651,381	3.8	25,614,492	5.1	(4,963,111)	(19.4)
Total revenue	$544,777,171	100.0 %	$499,112,944	100.0 %	$ 45,664,227	9.1 %

Expenses

A summary of expenses for the years ended June 30, 2017 and 2016 and the amount and percentage of change in relation to prior year amounts is as follows:

	2017		2016		Increase (decrease) from 2016	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage
Operating expense						
Salaries and wages	$110,721,712	27.1 %	$ 92,251,266	24.1 %	$ 18,470,446	20.0 %
Other personnel services	67,426,087	16.5	58,559,458	15.3	8,866,629	15.1
Utilities	33,900,871	8.3	34,414,525	9.0	(513,654)	(1.5)
Repairs and maintenance	32,445,349	7.9	34,031,495	8.9	(1,586,146)	(4.7)
State of Hawaii surcharge on gross receipts	13,576,235	3.3	12,786,441	3.3	789,794	6.2
Special maintenance	9,911,265	2.4	8,661,551	2.3	1,249,714	14.4
Department of transportation general administration expenses	5,919,473	1.4	5,595,301	1.5	324,172	5.8
Materials and supplies	6,179,969	1.5	5,476,678	1.4	703,291	12.8
Insurance	2,632,629	0.6	2,675,748	0.7	(43,119)	(1.6)
Bad debt expense	454,587	0.1	333,416	0.1	121,171	36.3
Other	5,475,387	1.3	4,436,841	1.2	1,038,546	23.4
Total operating expenses before depreciation	288,643,564	70.6	259,222,720	67.6	29,420,844	11.3
Depreciation	100,260,055	24.5	99,396,717	25.9	863,338	0.9
Total operating expense	388,903,619	95.2	358,619,437	93.6	30,284,182	8.4
Nonoperating expense						
Interest expense						
Revenue bonds						
Airports system	16,010,553	3.9	17,752,943	4.6	(1,742,390)	(9.8)
Special facility	1,222,031	0.3	1,222,031	0.3	-	-
Lease revenue certificates of participation	1,789,530	0.4	1,046,152	0.3	743,378	71.1
Other	551,152	0.1	523,652	0.1	27,500	5.3
Loss on disposal of capital assets	39,853	0.0	2,228,535	0.6	(2,188,682)	(98.2)
Bond issue costs	112,000	0.0	1,856,122	0.5	(1,744,122)	(94.0)
Other	(6,215)	(0.0)	5,599	0.0	(11,814)	(211.0)
Total nonoperating expense	19,718,904	4.8	24,635,034	6.4	(4,916,130)	(20.0)
Total expense	$408,622,523	100.0 %	$383,254,471	100.0 %	$ 25,368,052	6.6 %

Operating expenses before depreciation for fiscal year 2017 increased by 11.3%, or $29.4 million, as compared to fiscal year 2016 mainly due to increases in salaries and wages, other personnel services, special maintenance, other expenses, State of Hawaii surcharge on gross receipts and materials and supplies offset by decreases in repairs and maintenance and other expenses.

Total nonoperating expenses for fiscal year 2017 decreased by 20.0%, or $4.9 million, as compared to fiscal year 2016 mainly due to decreases in loss on disposal of capital assets, bond issue costs and interest expense on Airports System Revenue Bonds offset by increases in interest expense on Lease Revenue Certificates of Participation.

As a result, net assets increased by $136.2 million and $115.9 million for fiscal years 2017 and 2016, respectively.

A summary of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016 follows:

	2017	2016
Operating revenue	$ 397,607,709	$ 353,071,282
Operating expenses, excluding depreciation	(288,643,564)	(259,222,720)
Operating income before depreciation	108,964,145	93,848,562
Depreciation	(100,260,055)	(99,396,717)
Operating income (loss)	8,704,090	(5,548,155)
Nonoperating revenue - net	106,799,177	95,792,136
Income before capital contributions	115,503,267	90,243,981
Capital contributions		
Federal capital grants	20,651,381	25,614,492
Increase in net position	$ 136,154,648	$ 115,858,473

As a result of the above fluctuations in revenues and expenses, net position for the Airports Division increased $136.2 million during 2017.

In summary, the Airports Division continues to generate operating income before depreciation, as well as positive cash flows from operating activities. The Airports Division continues to obtain its revenue from a diverse mix of sources. The Airports Division continues to monitor signatory airline requirements and adjust rates and charges, accordingly, to assure financial stability and bond certificate requirements are met on a semiannual and annual basis.

- Operating revenues increased by 12.6%, or $44.5 million, due to a $15.7 million increase in concessions revenue, $11.8 million increase in airport landing fees, $10.7 million increase in aeronautical revenue, and $7.2 million increase in nonaeronautical rentals offset by $0.8 million decrease in other revenue. The increases in operating revenues are due to an increase in passenger traffic

- Operating expenses excluding depreciation increased by 11.3% or $29.4 million from $259.2 million in fiscal year 2016 to $288.6 million in fiscal year 2017. The increase in operating expenses is primarily due to increases in salaries and wages (including pension expense) of $18.5 million, other personnel services of $8.9 million, special maintenance of $1.2 million, other expenses of $1.0 million, State of Hawaii surcharge on gross receipts of $0.8 million and materials and supplies of $0.7 million, offset be a decrease in repairs and maintenance of $1.6 million and utilities of $0.5 million.

- The net results of the above resulted in operating income before depreciation of $109.0 million and $93.8 million in fiscal years 2017 and 2016, respectively. Operating income before depreciation for fiscal year 2017 increased by 16.1%, or $15.1 million. Operating income is $8.7 million in fiscal year 2017 as compared to an operating loss of $5.5 million in fiscal year 2016.

- Nonoperating revenue, net, increased by 11.5%, or $11.0 million, in fiscal year 2017, primarily due to a decrease in debt service support charges of $4.0 million offset by an increase in investment interest income of $3.9 million, which was due to overall better investment performance in 2017. Increases of rental car customer facility charges of $2.8 million and passenger facility charges of $2.7 million were caused by overall increases in passenger traffic during 2017. Additionally, interest expense on airports system revenue bonds decreased by $1.7 million, and there was a decrease in loss on disposal of capital assets of $2.2 million.

- Income before capital contributions for fiscal year 2017 of $115.5 million as compared to $90.2 million for fiscal year 2016 was a result of an increase in both operating income and nonoperating revenue, net as noted above.

- Capital contributions decreased by 19.4%, or $5.0 million, in fiscal year 2017, due to a decrease in federal capital grant revenue in fiscal year 2017.

The change in net position is an indicator of whether the overall fiscal condition of the Airports Division has improved or worsened during the year. The change in net position may serve over time as a useful indicator of the Airports Division's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $2,292.7 million at June 30, 2017, representing an increase of $136.2 million from June 30, 2016.

Passenger Facility Charges

The Passenger Facility Charge (PFC) program consists of six Federal Aviation Administration (FAA) approved applications. All projects in PFC Application No. 1 have been completed and the application was closed on June 30, 2013. PFC Application No. 3 was "blended" with PFC Application No. 2. PFC Application No. 3 was closed on September 23, 2016. The PFC collection for PFC Application No. 4 was completed on June 1, 2014. However, three projects in PFC Application No. 4 are still ongoing and therefore, this application remains open. On November 22, 2013, the FAA issued the Final Agency Decision (FAD) for PFC Application No. 5 giving approval for PFC collection during the period from June 1, 2014 through July 1, 2026. On August 30, 2016, the FAA issued the FAD for PFC Application No. 6 giving approval to use PFC revenue in the amount of $14,275,000 for the Kahului Airport (OGG) Land Acquisition project approved in PFC Application No. 5 for collection only. The OGG Land Acquisition project was completed on August 1, 2012.

Since the inception of the PFC program through June 30, 2017, the FAA has approved PFC collections for impose and use totaling $719.0 million with collections currently scheduled through 2026. The total PFC collected amount through June 30, 2017, including interest earned, and expenditures were $388.2 million and $231.5 million, respectively.

The Airports Division plans to submit a new PFC application to the FAA in January 2018. The new PFC application proposes PFC collections for impose and use for eight projects totaling an estimated amount of $340.7 million. The FAD for this new PFC application is anticipated in June 2018.

Rental Car Customer Facility Charges

On July 8, 2008, State Legislative Senate Bill 2365 became law as Act 226 Session Law of Hawaii 2008, authorizing the Airports Division to impose a Customer Facility Charge (CFC) of $1 per day on all u-drive rentals at a state airport, effective September 1, 2008. Moneys collected through the CFC are deposited into a restricted fund to be used for enhancement, renovation, operation, and maintenance of existing rental motor vehicle customer facilities and the development of new rental motor vehicle customer facilities and related services at state airports to better serve Hawaii's visitors and residents. The consolidated rental car facilities will provide a single location for travelers to rent a car of their choice and eliminate the need for multiple pickup and delivery vans from individual rental car companies.

On July 7, 2010, State Legislature Senate Bill 2461 became law as Act 204, Session Laws of Hawaii 2010, authorizing the Airports Division to increase the CFC surcharge to $4.50 per day, effective September 1, 2010.

Since September 1, 2009 through June 30, 2017, the total CFC-related revenue, including interest earned, and CFC-related project expenditures were $381.9 million and $267.6 million, respectively.

Financial Position Summary

A condensed summary of the Airports Division's net position at June 30, 2017 and 2016 is shown below:

	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Unrestricted assets	$ 629,160,555	$ 592,765,781
Restricted assets	97,600,241	96,484,437
Noncurrent Assets		
Capital assets	2,629,877,990	2,373,245,489
Restricted assets	711,113,247	776,417,634
Total assets	4,067,752,033	3,838,913,341
Deferred Outflows of Resources	61,437,399	21,597,705
Total assets and deferred outflows of resources	4,129,189,432	3,860,511,046
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Payable from unrestricted assets	61,236,223	63,488,131
Payable from restricted assets	158,226,688	133,130,316
Noncurrent Liabilities		
Payable from unrestricted assets	274,868,411	210,756,609
Payable from restricted assets	1,339,129,114	1,289,427,534
Total liabilities	1,833,460,436	1,696,802,590
Deferred Inflows of Resources	3,016,031	7,150,139
Total liabilities and deferred inflows of resources	1,836,476,467	1,703,952,729
Net Position		
Net investment in capital assets	1,493,025,362	1,292,149,545
Restricted	453,196,194	519,326,280
Unrestricted	346,491,409	345,082,492
Total net position	$ 2,292,712,965	$ 2,156,558,317

The largest portion of the Airports Division's net position (64.1% and 58.9% at June 30, 2017 and 2016, respectively) represents its investment in capital assets (e.g., land, buildings and improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Airports Division uses these capital assets to provide services to its passengers and visitors using the airports system; consequently, these assets are not available for future spending. Although the Airports Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay such liabilities.

The restricted portion of the Airports Division's net position (20.8% and 25.1% at June 30, 2017 and 2016, respectively) represents bond reserve funds that are subject to external restrictions on how they can be used under the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds* (the Certificate), as well as PFCs and CFCs that can only be used for specific projects.

The largest portion of the Airports Division's unrestricted net position represents unrestricted cash and cash equivalents in the amount of $576.5 million and $558.3 million at June 30, 2017 and 2016, respectively. The $576.5 million and $558.3 million cash balance at June 30, 2017, provides the Airports Division with substantial flexibility, as such unrestricted assets may be used to meet any of the Airports Division's ongoing operations and to fund the CIP projects.

Capital Acquisitions and Construction Activities

As of June 30, 2017 and 2016, the Airports Division had capital assets of approximately $2,629.9 million and $2,373.2 million, respectively. These amounts are net of accumulated depreciation of approximately $2,197.0 million and $2,097.1 million, respectively.

In fiscal year 2017, there were four construction bid openings totaling an estimated $20 million in potential construction contracts. Projects included Ewa and Diamond Head Terminal Reroofing and Roadway Improvements at Daniel K. Inouye International Airport, Automated Passport Control Kiosk Solution at Ellison Onizuka Kona International Airport at Keahole, Airfield Drainage Improvements at Hilo International Airport, and Hangar 110 Renovation – Phase 5 at Kalaeloa Airport.

There were also many ongoing construction projects that were initiated prior to fiscal year 2017, which were under construction during the fiscal year. Major projects included Statewide Energy Savings Performance Contracting, Statewide; Taxilane G & L Widening Phase I, Taxiway Z Structural Improvements, Consolidated Car Rental Facility, and Mauka Extension at Daniel K. Inouye International Airport; Roadway Improvements and Consolidated Car Rental Facility, Airport Access Road to Hana Highway, and Apron Pavement Structural Improvements at Kahului Airport; and Aircraft Rescue and Fire Fighting Facility Improvements at Hilo International Airport.

Finally, there were 12 projects that were substantially completed in fiscal year 2017 and involved planning, design, and construction projects at large, medium, and small hub airports statewide to preserve, maintain, and modernize facilities. These projects included Environmental Impact Statement, Sustainable Management Plan, and Taxiway Z Structural Improvements at Daniel K. Inouye International Airport; Replacement of Loading Bridges, and Upgrade of Explosive Detection System for TSA, at Kahului Airport; Aircraft Rescue and Fire Fighting Facility Improvements at Hilo International Airport; Re-Roof Terminal Buildings and Terminal Improvements-Design at Ellison Onizuka Kona International Airport at Keahole; and Pavement Management System Phase 2, Access Control System Material Procurement, Construction Management Support, Phase 6, and Statewide Stormwater Improvements for statewide airports.

The Airports Division continues its mission to modernize airport facilities to provide safety and efficiency to airport tenants and enhance the passenger experience. At Daniel K. Inouye International Airport and Kahului Airport, restroom improvements will be advertised in fiscal year 2018. At Ellison Onizuka Kona International Airport at Keahole, a terminal modernization program started construction. These are examples of the projects that are being completed to improve safety as well as traffic flow for domestic, international, and interisland passengers, as well as to promote operational efficiency for airport tenants.

Additional information on the Airports Division's capital assets can be found in note 4 of this report.

Indebtedness

Airports System Revenue Bonds

As of June 30, 2017, $1,044.0 million of airports system revenue bonds were outstanding as compared to $1,084.5 million as of June 30, 2016.

At June 30, 2017, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,050,358,121.

Lease Revenue Certificates of Participation

Section 36-41 of Hawaii Revised Statutes authorizes the DOT to enter into multiyear energy performance contracts, including financing agreements, in order to implement energy conservation or alternate energy measures in state facilities. The Airports Division released an invitation for proposal to procure the energy saving projects (the ESCO Project) in May 2011, and selected Johnson Controls, Inc. (JCI) in January 2012. The Airports Division executed a contract with JCI, and issued Series 2013 Lease Revenue Certificates of Participation (COPs) with a par value of $167.7 million in December 2013. The Airports Division is using the net proceeds of COPs, totaling $150.2 million, to implement the ESCO Project. JCI has agreed in the contract to guarantee utility savings at approximately 91.7% of expected annual savings, which are expected to exceed annual debt service on COPs.

On April 13, 2016, the Airports Division issued Series 2016 Lease Revenue Certificates of Participation financing which provided an additional $8.1 million for the ESCO Project.

On March 31, 2017, the Airports Division issued Series 2017 Lease Revenue Certificates of Participation to provide an additional $51.5 million for the ESCO Project.

Special Facility Revenue Bonds

The State Legislature has authorized $200,000,000 of special facility revenue bonds pursuant to Section 261-52 of the Hawaii Revised Statutes. As of June 30, 2017, there were outstanding bond obligations of $21,725,000. The DOT expects to finance additional special facility projects from time to time for qualified entities. All special facility revenue bonds are payable solely from the revenue derived from the leasing of special facilities financed with the proceeds of special facility revenue bonds.

Immigration Investor Program (EB-5)

In August 2014, the State, acting through the DOT, entered into a loan agreement with Hawaii Regional Center, LP I and Hawaii Regional Center, LP II (together, the Lenders), with CanAM HI GP I, LLC, acting as the agent of the Lenders. The Lenders were created to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) created according to legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is $76,000,000. The EB-5 loan is the first Series of obligations issued under an Indenture of Trust between the State, acting through the DOT and MUFG Union Bank, N.A., as Trustee, and is payable solely from Trust Estate, with CFCs being the primary component. The EB-5 loan is not payable from revenue and aviation fuel taxes, which the DOT has pledged for the repayment of Airports System Revenue Bonds issued under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds. At June 30, 2017, the outstanding balance on the loan facility amounted to $76.0 million.

Additional information regarding the Airports Division's indebtedness can be found in notes 5, 6, 7, and 8 of this report.

Credit Rating and Bond Insurance

As of June 30, 2017, there were five series of airports system revenue bonds outstanding in the principal amount of $1,014.8 million. Payment of principal and interest on the bonds was insured by bond insurance policies issued by Federal Guaranty Insurance Company (FGIC) at the time of issuance of the bonds. The airports system revenue bonds are rated as follows:

Standard & Poor's Corporation	A+
Moody's Investors Service	A1
Fitch IBCA, Inc.	A

Request for Information

This financial report is designed to provide a general overview of the Airports Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Ross Higashi, Deputy Director, State of Hawaii, Department of Transportation, Airports Division, 400 Rodgers Boulevard, Suite 700, Honolulu, Hawaii 96819-1880, or by e-mail to *airadministrator@hawaii.gov*.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position

June 30, 2017

Assets

Current Assets	
Unrestricted assets	
Cash and cash equivalents - unrestricted	$ 576,465,188
Receivables	
Accounts, net of allowance of $1,369,072 for uncollectible accounts	31,447,485
Interest	2,276,664
Claims - federal grants	11,019,560
Aviation fuel tax	253,738
Due from state of Hawaii agencies	7,491,437
Total receivables	52,488,884
Inventories of materials and supplies at cost	206,483
Total unrestricted current assets	629,160,555
Restricted assets	
Cash and cash equivalents	
Revenue bond debt service	64,143,238
Debt extinguishment	2,142,566
Security deposits	8,487,652
Prepaid airport use charge fund	10,350,276
Held by loan trustee	524,661
Total cash and cash equivalents - restricted	85,648,393
Passenger facility charges receivable	5,775,895
Rental car customer facility charges receivable	6,175,953
Total restricted current assets	97,600,241
Total current assets	726,760,796

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position (continued)

June 30, 2017

Noncurrent Assets	
Unrestricted assets	
Capital assets, net of accumulated depreciation of $2,196,972,922	$ 2,629,877,990
Total unrestricted noncurrent assets	2,629,877,990
Restricted assets	
Cash and cash equivalents:	
Major maintenance, renewal, and replacement account	60,000,000
Debt extinguishment	591,797
Passenger facility charges	150,898,421
Rental car customer facility charges	131,060,948
Unspent loan proceeds	14,087,037
Bond construction proceeds	172,555,086
Total cash and cash equivalents - restricted	529,193,289
Investments - revenue bond debt service reserve	96,893,008
Investments - held by certificate of participation funds trustee	43,640,967
Investments - certificate of participation debt service reserve held by trustee	16,792,787
Investments - certificate of participation debt extinguishment held by trustee	2,715,442
Net investments in direct financing leases	21,877,754
Total restricted noncurrent assets	711,113,247
Total noncurrent assets	3,340,991,237
Total assets	$ 4,067,752,033

Deferred Outflows of Resources

Deferred loss on refunding	$ 2,172,036
Differences between expected and actual experience	3,429,526
Changes in assumptions	32,454,073
Changes in proportion and differences between Airports Division contributions and proportionate share of contributions	570,181
Differences between projected and actual earnings on pension plan investments	11,195,824
Airports Division contributions subsequent to the measurement date	11,615,759
Total deferred outflows of resources	$ 61,437,399

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position (continued)

June 30, 2017

Liabilities

Current Liabilities	
Payable from unrestricted assets	
Vouchers payable	$ 13,468,701
Contracts payable, including retainage of $2,753,664	19,903,075
Current portion of workers' compensation	1,411,359
Current portion of compensated absences	4,683,191
Accrued wages	7,465,943
Pollution remediation liability	391,312
Other	13,912,642
Total payable from unrestricted assets	61,236,223
Payable from restricted assets	
Contracts payable, including retainage of $20,063,179	74,220,899
Current portion of airports system revenue bonds	38,935,000
Accrued interest	30,236,961
Current portion of lease revenue certificates of participation	6,346,175
Security deposits	8,487,653
Total payable from restricted assets	158,226,688
Total current liabilities	219,462,911
Long-term Liabilities - Net of Current Portion	
Payable from unrestricted assets	
Compensated absences	6,946,319
Workers' compensation	2,850,173
Postemployment liability	92,914,633
Net pension liability	172,157,286
Total payable from unrestricted assets	274,868,411
Payable from restricted assets	
Airports system revenue bonds	1,005,033,638
Special facility revenue bonds	21,725,000
Lease revenue certificates of participation	219,467,133
Loan payable	76,000,000
Prepaid airport use charge fund	16,903,343
Total payable from restricted assets	1,339,129,114
Total long-term liabilities - net of current portion	1,613,997,525
Total liabilities	$ 1,833,460,436

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Net Position (continued)

June 30, 2017

Deferred Inflows of Resources

Differences between expected and actual experience	$	2,468,698
Changes in proportion		547,333
Total deferred inflows of resources	$	3,016,031

Net Position

Net investment in capital assets	$	1,493,025,362
Restricted for		
Revenue debt service payment		38,935,000
Revenue debt service reserve account		75,251,513
Revenue debt extinguishment		2,734,363
Certificate of participation debt extinguishment		2,715,442
Major maintenance, renewal, and replacement		60,000,000
Construction to be funded by PFCs		155,397,911
Construction to be funded by CFCs		118,161,965
Total restricted		453,196,194
Unrestricted		346,491,409
Total net position	$	2,292,712,965

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017

Operating revenue	
Concession fees	$ 161,226,921
Airport landing fees, net	77,858,188
Aeronautical rentals	
Nonexclusive joint-use premise charges	70,655,449
Exclusive-use premise charges	55,489,627
Nonaeronautical rentals	22,995,616
Aviation fuel tax	2,156,017
Miscellaneous	7,225,891
Net operating revenue	397,607,709
Operating expenses	
Salaries, wages and benefits	110,721,712
Depreciation	100,260,055
Other personnel services	67,426,087
Utilities	33,900,871
Repairs and maintenance	32,445,349
State of Hawaii surcharge on gross receipts	13,576,235
Special maintenance	9,911,265
Materials and supplies	6,179,969
Department of Transportation general administration expenses	5,919,473
Claims and benefits	3,262,352
Insurance	2,632,629
Bad debt expense	454,587
Travel	410,379
Communication	362,894
Rent	361,885
Dues and subscriptions	281,758
Printing and advertising	16,273
Freight and delivery	12,605
Miscellaneous	767,241
Total operating expenses	388,903,619
Operating income	8,704,090

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Revenue, Expenses and Changes in Net Position (continued)

Year Ended June 30, 2017

Nonoperating revenue (expenses)	
Interest income	$ 8,855,805
Investments in direct financing leases	1,222,031
Interest expense	
Revenue bonds	
Airports system	(16,010,553)
Special facility	(1,222,031)
Lease revenue certificates of participation	(1,789,530)
Other	(551,152)
Federal operating grants	2,925,054
Passenger facility charges	41,153,190
Rental car customer facility charges	72,362,001
Bond issue costs	(112,000)
Loss on disposal of capital assets	(39,853)
Other	6,215
Total nonoperating revenue, net	106,799,177
Income before capital contributions	115,503,267
Capital contributions	
Federal capital grants	20,651,381
Total capital contributions	20,651,381
Increase in net position	136,154,648
Total net position, beginning of year	2,156,558,317
Total net position, end of year	$ 2,292,712,965

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Cash Flows

Year Ended June 30, 2017

Cash flows from operating activities	
Cash received from providing services	$ 390,329,977
Cash paid to suppliers	(181,087,165)
Cash paid to employees	(89,846,115)
Net cash provided by operating activities	119,396,697
Cash flows from noncapital financing activity	
Proceeds from federal operating grants	3,445,603
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(292,314,683)
Proceeds from federal and other capital grants and contributions	13,852,221
Principal paid on airports system revenue bonds	(37,290,000)
Bond issue costs paid	(112,000)
Proceeds from lease revenue certificates of participation	51,473,427
Principal paid on lease revenue certificates of participation	(4,745,000)
Proceeds from draw on loan payable	41,089,858
Interest paid on outstanding debt	(61,682,316)
Proceeds from passenger facility charges program	39,544,170
Proceeds from rental care customer facility charges	71,603,691
Receipts - other	6,215
Net cash used in capital and related financing activities	(178,574,417)
Cash flows from investing activities	
Proceeds from sale and maturities of investments	154,706,042
Interest received on investments	7,351,615
Purchases of investments	(193,786,017)
Net cash used in investing activities	(31,728,360)
Net decrease in cash and cash equivalents	(87,460,477)
Cash and cash equivalents, beginning of year	1,278,767,347
Cash and cash equivalents, end of year	$ 1,191,306,870

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statement of Cash Flows (continued)

Year Ended June 30, 2017

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 8,704,090
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	100,260,055
Bad debt expense	454,587
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	6,553,067
Changes in operating assets and liabilities	
Accounts receivable	(6,848,659)
Aviation fuel tax receivable	(96,915)
Due from State of Hawaii	(3,792,821)
Deferred outflows of resources - pensions	(40,669,571)
Vouchers payable	(5,069,506)
Contracts payable	(4,545,519)
Unearned income	(1,428,735)
Accrued wages	536,928
Compensated absences	445,988
Postemployment liability	7,318,617
Net pension liability	57,377,743
Pollution remediation liability	(308,061)
Security deposits	1,096,577
Other current liabilities	3,542,940
Deferred inflows of resources - pensions	(4,134,108)
Net cash provided by operating activities	$ 119,396,697

Supplemental information

Noncash investing, capital and financing activities

The Airports Divisions noncash capital and financing activities related to bonds payable included the following

Interest payments on special facility revenue bonds by trustee	$ 1,222,031
Amortization of revenue bond premium	(3,234,973)
Amortization of revenue bond discount	1,052
Amortization of certificates of participation premium	(899,676)
Amortization of deferred loss on refunding revenue bonds	829,877

At June 30, 2017 and 2016, contract payable included $82,988,846 and $56,767,079, respectively, for the acquisition of capital assets

During fiscal year 2017, interest of $38,395,959 was capitalized in capital assets

During fiscal year 2017, capital assets with a net book value of $39,853 were written off

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Note 1: Reporting Entity

The Department of Transportation, Airports Division, State of Hawaii (the Airports Division) was established on July 1, 1961 to succeed the Hawaii Aeronautics Commission under the provisions of Act 1, Hawaii State Government Reorganization Act of 1959, Second Special Session Laws of Hawaii. The Airports Division has jurisdiction over and control of all State of Hawaii (the State) airports and air navigation facilities and general supervision of aeronautics within the State. The Airports Division currently operates and maintains 15 airports located throughout the State.

The accompanying financial statements present only the activities of the Airports Division and are not intended to present fairly the financial position of the State, the results of its operations or, where applicable, its cash flows in conformity with U.S. generally accepted accounting principles.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

An enterprise fund is established to account for an activity that is financed with debt secured solely by a pledge of net revenues from fees and charges of the activity or when laws and regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges rather than with taxes or similar revenues. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). As an enterprise fund, the Airport uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as incurred (flow of economic resources measurement focus).

Operating Revenue and Expenses

Revenue from airlines, concessions, rental cars (excluding customer facility charges), and parking are reported as operating revenue. Transactions that are capital, financing, or investing related are reported as nonoperating revenue. All expenses related to operating the Airports Division are reported as operating expenses. Generally, interest expense and financing costs are reported as nonoperating expenses. Revenue from capital contributions are reported separately, after nonoperating revenue and expenses.

Passenger Facility Charges

The Federal Aviation Administration (FAA) authorized the Airports Division to impose a Passenger Facility Charge (PFC) of $4.50 per passenger effective September 1, 2010. The net receipts from PFCs are restricted to be used for funding FAA-approved capital projects. PFC revenue, along with the related interest income, is reported as nonoperating revenue in the statement of revenue, expenses, and changes in net position.

Rental Car Customer Facility Charge

The State Legislature authorized the Airports Division to impose a Customer Facility Charge (CFC) of $4.50 a day on all u-drive rentals at a state airport. The net receipts from CFCs are restricted to be used for funding approved rental car facility capital projects. CFC revenue, along with the related interest income, is reported as nonoperating revenue in the statement of revenue, expenses and changes in net position.

Capital Contributions

The Airports Division receives federal grants from the FAA and other federal agencies. Grant revenue is considered earned as the related allowable expenditures are incurred. Grants for the acquisition and construction of land, property, and certain types of equipment are reported in the statement of revenue, expenses and changes in net position as capital contributions.

Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

Cash and Cash Equivalents

All highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased are considered to be cash equivalents.

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on collection history and current information regarding the creditworthiness of the tenants and others doing business with the Airports Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

An aging of the accounts receivable at June 30, 2017 was as follows: current - $30,666,845; 30 days - $1,199,823; 60 days - $(59,979); and over 90 days - $1,009,868.

Investments

Investments held outside of the State Treasury pool consist of certificates of deposit, U.S. Treasury bills and repurchase agreements. The certificates of deposit and repurchase agreements are reported at amortized cost due to the nonparticipating nature of these securities. U.S. Treasury bills are measured at fair value within the fair value hierarchy established by generally accepted accounting principles and are based on quoted prices or other observable inputs, including pricing matrices.

Restricted Assets

Restricted assets consist of moneys and other resources, the use of which is limited because of an externally enforceable constraint. Certain proceeds of the airports system revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained separately and the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to make debt service payments, unspent bond proceeds, amounts restricted for bond reserve requirements, unspent PFCs, unspent CFCs, security deposits, customer advances, and the prepaid airport use charge fund.

When both restricted and unrestricted resources are available for use, it is the policy of the Airports Division to use restricted resources first and then unrestricted resources as they are needed.

Capital Assets

Capital assets acquired by purchase or construction are recorded at cost. Contributed property is recorded at acquisition value as of the date of acquisition. Buildings, improvements, and machinery and equipment are depreciated by the straight-line method over their estimated useful lives as follows:

Class of Assets	Estimated Useful Lives	Capitalization Threshold
Land improvements	10 to 20 years	$ 100,000
Buildings	45 years	100,000
Building improvements	20 years	100,000
Machinery and equipment	10 years	5,000

Disposals of assets are recorded by removing the costs and related accumulated depreciation from the accounts with a resulting gain or loss.

Repairs and maintenance, minor replacements, renewals, and betterments are charged against operations for the year. Major replacements, renewals, and betterments are capitalized in the year incurred.

Interest cost is capitalized during the period of construction for all capital improvement projects except the portion of projects funded by grants from the federal government. The following is a summary of interest costs incurred for the year ended June 30, 2017 and the allocation thereof:

Expensed as incurred, excluding special facility interest	$ 18,351,235
Capitalized in capital assets	38,395,959
	$ 56,747,194

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is a consumption of net position by the Airports Division that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Bond Issue Costs

Bond issue costs, with the exception of bond insurance, are recognized as an outflow of resources (expense) in the period when the debt is issued. Bond insurance are capitalized and amortized over the lives of the related debt issues using the effective-interest method.

Bond Original Issue Discount or Premium

Original issue discounts or premiums are amortized using the effective-interest method over the terms of the respective debt issues and are added to, or offset against, the long-term debt in the statement of net position.

Deferred Loss on Refundings

Deferred loss on refundings are amortized using the effective-interest method over the terms of the respective debt issues and are reflected as a deferred outflow of resources on the statement of net position.

Compensated Absences Payable

The Airports Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences (such as employer payroll taxes and fringe benefits), in accordance with the vesting method provided under GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of 168 or 240 hours per calendar year, depending upon job classification. Accumulation of such vacation credits is limited to 720 or 1,056 hours at calendar year-end and is convertible to pay upon termination of employment.

Employees Retirement System

The Airports Division contributions to the Employees Retirement System of the State of Hawaii (ERS) are based on the current contribution rate determined by the State Department of Budget and Finance. The Airports Division policy is to fund its required contribution annually.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Pension investments are reported at their fair value.

Risk Management

The Airports Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division is self-insured for workers' compensation claims as discussed later in these notes. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3: Cash and Cash Equivalents and Investments

The State has an established policy whereby all unrestricted and certain restricted cash is required to be invested in the State's Treasury (the investment pool) in accordance with Section 36-21, of the Hawaii Revised Statutes.

The State Director of Finance (the State Director) is responsible for the safekeeping of all moneys paid into the investment pool. The State Director may invest any moneys of the State, which, in the State Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions.

The State's investment pool at June 30, 2016 is summarized in the table below (amounts in thousands):

			Maturity (in years)	
	Fair Value	Less than 1	1-5	>5
Investments - primary government				
Certificates of Deposits	$ 861,410	$ 829,635	$ 31,775	$ -
U.S. government securities	2,079,266	997,545	1,073,773	7,948
Repurchase agreements	29,704	29,704	-	-
	2,970,380	$ 1,856,884	$ 1,105,548	$ 7,948
Mutual funds	36,214			
Total investments	$ 3,006,594			
Investments - fiduciary funds				
Certificates of Deposits	$ 65,266	$ 62,859	$ 2,407	$ -
U.S. government securities	157,539	75,581	81,356	602
Repurchase agreements	2,250	2,250	-	-
	225,055	$ 140,690	$ 83,763	$ 602
Equity securities	303,129			
Mutual funds	104,809			
Commingled funds	904,990			
Total investments	$ 1,537,983			

Information relating to the State's investment pool at June 30, 2017 will be included in the comprehensive annual financial report of the State when issued.

At June 30, 2017, the amount reported as amounts held in State Treasury reflects the Airports Division's relative position in the State's investment pool and amounted to $1,190,777,444.

Airports Division's cash and cash equivalents and investments at June 30, 2017 consisted of the following:

Petty cash	$ 4,765
Amounts held in State Treasury	1,190,777,444
Certificates of Deposit	78,690,964
U.S. government securities	34,994,831
Money market mutual funds	46,881,070
	$ 1,351,349,074

Such amounts are reflected in the statement of net position as June 30, 2017 as follows:

Cash and cash equivalents	
Unrestricted	$ 576,465,188
Restricted	614,841,682
Total cash and cash equivalents	1,191,306,870
Investments - restricted	96,893,008
Investments - held by certificate of participation funds - trustee	63,149,196
Total cash and cash equivalents and investments	$ 1,351,349,074

Deposits

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State.

A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations.

Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments

At June 30, 2017, the investments held by the Airports Division consisted of money market mutual funds, non-negotiable certificates of deposit, and U.S. Treasury bills. Such investments were insured or collateralized with securities held by the State Treasury or by the State's fiscal agent in the name of the State.

The Airports Division categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quote market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters. Such securities are classified as Level 2 of the valuation hierarchy. In certain cases where Level 1 and Level 2 inputs are not available, the fair values of securities are estimated using significant unobservable inputs and are therefore classified within Level 3 of the hierarchy. The fair value of the U.S. Treasury bills held by the Airports Division are measured using Level 1 inputs.

Certain investments, such as the Airports Division's interest in the State investment pool, are measured using the net asset value per share (or its equivalent) practical expedient and are not required to be classified in the fair value hierarchy. The Airports Division has no unfunded commitments or restrictions on redemptions with regard to its investment in the State investment pool.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Airports Division follows the State's policy of limiting maturities on investments to generally not more than five years from the date of investment. The Airports Division's U.S. Treasury bills have maturities that range from six months to one year.

Credit Risk

The Airports Division follows the State's policy of limiting its investments as authorized in the Hawaii Revised Statutes.

At June 30, 2017, the Airports Divisions investments were rated by Moody's as follows:

	Fair Value	Ratings Moody's
Money market mutual funds		
US Bank - Federated government oblivations fund	$ 46,356,409	Aaa-mf
Fidelity Institutional MMF - Government	524,661	Aaa-mf
	$ 46,881,070	

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Airports Division or the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Airports Division and the State's investments are held at broker-dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess SIPC coverage is provided by the firm's insurance policies. The Airports Division and the State require the institutions to set aside, in safekeeping, certain types of securities to collateralize repurchase agreements. The Airports Division and the State monitor the market value of these securities and obtain additional collateral when appropriate. The Airports Division's investments in money market mutual funds and the State investment pool were not subject to custodial credit risk at June 30, 2017, as their existence is not evidenced by securities that exist in physical book entry form.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. At June 30, 2017, the Airports Division did not hold any investments that represent more than 5% of total investments.

Note 4: Capital Assets

Capital assets activity for the year ended June 30, 2017 consists of the following:

	Balance, June 30, 2016	Increases	Decreases	Transfers	Balance, June 30, 2017
Capital assets not being depreciated					
Land	$ 315,977,962	$ -	$ -	$ -	$ 315,977,962
Land improvements	45,375,534	-	-	1,811,144	47,186,678
Construction in progress	779,943,279	355,254,689	(39,852)	(118,460,623)	1,016,697,493
Total capital assets not being depreciated	1,141,296,775	355,254,689	(39,852)	(116,649,479)	1,379,862,133
Capital assets being depreciated					
Land improvements	1,094,148,665	-	-	59,225,203	1,153,373,868
Buildings and improvements	1,941,396,157	-	-	57,236,975	1,998,633,132
Machinery and equipment	293,486,849	1,677,720	(370,091)	187,301	294,981,779
Total capital assets being depreciated	3,329,031,671	1,677,720	(370,091)	116,649,479	3,446,988,779
Less accumulated depreciation					
Land improvements	(784,504,553)	(30,031,043)	-	-	(814,535,596)
Buildings and improvements	(1,089,250,517)	(54,001,948)	-	-	(1,143,252,465)
Machinery and equipment	(223,327,888)	(16,227,064)	370,091	-	(239,184,861)
Total depreciation	(2,097,082,958)	(100,260,055)	370,091	-	(2,196,972,922)
Capital assets being depreciated, net	1,231,948,713	(98,582,335)	-	116,649,479	1,250,015,857
Total capital assets	$ 2,373,245,488	$ 256,672,354	$ (39,852)	$ -	$ 2,629,877,990

Note 5: Long-term Liabilities

A summary of the long-term liabilities changes during fiscal year 2017 is as follows:

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017	Current	Noncurrent
Workers' compensation (Note 16)	$ 4,261,532	$ 1,279,349	$ (1,279,349)	$ 4,261,532	$ 1,411,359	$ 2,850,173
Compensated absences	11,183,522	4,796,374	(4,350,386)	11,629,510	4,683,191	6,946,319
Prepaid airport use charge fund (Notes 9 and 17)	10,350,276	6,553,067	-	16,903,343	-	16,903,343
Postemployment liability (Note 13)	85,596,016	16,856,142	(9,537,525)	92,914,633	-	92,914,633
Net Pension liability (Note 12)	114,779,543	68,410,751	(11,033,008)	172,157,286	-	172,157,286
Airports system revenue bonds (Note 6)	1,052,050,000	-	(37,290,000)	1,014,760,000	38,935,000	975,825,000
Airports system revenue bonds premiums (Note 6)	32,495,279	-	(3,234,973)	29,260,306	-	29,260,306
Airports system revenue bonds discounts (Note 6)	(52,719)	1,051	-	(51,668)	-	(51,668)
Lease revenue certificates of participation (Note 7)	175,796,521	51,473,427	(4,745,000)	222,524,948	6,346,175	216,178,773
Lease revenue certificates of participation premiums (Note 7)	4,188,035	-	(899,675)	3,288,360	-	3,288,360
Special facility revenue bonds (Note 9)	21,725,000	-	-	21,725,000	-	21,725,000
Loan payable (Note 8)	34,910,142	41,089,858	-	76,000,000	-	76,000,000
	$ 1,547,283,147	$ 190,460,019	$ (72,369,916)	$ 1,665,373,250	$ 51,375,725	$ 1,613,997,525

Note 6: Airports System Revenue Bonds

In 1969, the Director issued the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds (the Certificate) under which $40,000,000 of revenue bonds were initially authorized for issuance. Subsequent issues of revenue bonds were covered by First through Thirty-first supplemental certificates to the original 1969 Certificate.

Certain amendments to the Certificate contained in the Twenty-Sixth Supplemental Certificate took effect contemporaneously with the Twenty-Seventh Supplemental Certificate and delivery of the Airports System Revenue Bonds, Refunding Series of 2001. Other amendments, which required the consent of 100% of the bondholders, took effect as of June 30, 2004 with the issuance of the Airports System Revenue Bonds, Refunding Series of 2003.

These revenue bonds are payable solely from and are collateralized solely by the revenue generated by the Airports Division including all aviation fuel taxes levied. The amended Certificate established an order of priority for the appropriation, application, or expenditure of these revenue as follows:

a. To pay or provide for the payment of the costs of operation, maintenance, and repair of airport properties

b. To pay when due all bonds and interest. Payment shall be provided from the following accounts:

   1. Interest account
   2. Serial bond principal account
   3. Sinking fund account
   4. Debt service reserve account

c. To fund the major maintenance, renewal, and replacement account

d. To reimburse the State General Fund for general obligation bond requirements

e. To provide for betterments and improvements to the airports

f. To provide such special reserve funds and other special funds as created by law

g. To provide for any other purpose connected with or pertaining to the bonds or the airports authorized by law

The amended Certificate requires that the Airports Division impose, prescribe, and collect revenue that, together with unencumbered funds, will yield net revenue and taxes at least equal to 1.25 times the total interest, principal, and sinking fund requirements for the ensuing 12 months. The Airports Division is also required to maintain adequate insurance on its properties.

At June 30, 2017, the amount credited to the revenue bond debt service reserve accounts was in accordance with applicable provisions of the Certificate.

At June 30, 2017, the revenue bond debt service reserve accounts (reported as restricted assets in the accompanying statement of net position) consisted of the following:

Debt service reserve account	$ 96,893,008
Major maintenance, renewal and replacement account	60,000,000
	156,893,008
Principal and interest due July 1	64,143,238
	$ 221,036,246

At June 30, 2017, the balance of legislatively approved and appropriated but unissued airports system revenue bonds was $1,050,358,120.

The revenue bonds are subject to redemption at the option of the Department of Transportation (the DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of airports system revenue bonds issued and outstanding at June 30, 2017:

	Interest Rate	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2010A, refunding	2.00%-5.25%	2039	$ 478,980,000	$ 477,125,000
2010B, refunding	3.00%-5.00%	2020	166,000,000	84,770,000
2011, refunding	2.00%-5.00%	2024	300,885,000	208,605,000
2015A, nonrefunding	4.125%-5.00%	2045	235,135,000	235,135,000
2015B, nonrefunding	4.00%	2045	9,125,000	9,125,000
			$ 1,190,125,000	1,014,760,000
Add unamortized premium				29,260,306
Less unamortized discount				(51,668)
Less current portion				(38,935,000)
Noncurrent portion				$ 1,005,033,638

Annual debt service requirements to maturity for airports system revenue bonds are as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ 38,935,000	$ 49,506,501	$ 88,441,501
2019	40,755,000	47,681,101	88,436,101
2020	42,585,000	45,713,876	88,298,876
2021	44,690,000	43,604,114	88,294,114
2022	46,805,000	41,359,358	88,164,358
2023-2027	192,785,000	172,292,106	365,077,106
2028-2032	113,195,000	138,471,365	251,666,365
2033-2038	145,080,000	105,889,005	250,969,005
2039-2043	179,340,000	65,048,610	244,388,610
2044-2046	170,590,000	17,394,146	187,984,146
	$ 1,014,760,000	$ 726,960,182	$ 1,741,720,182

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranges of 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. The average interest rates of the refunded bonds were 5.749928% and 6.429042%, respectively. Of the net proceeds of $656,136,858 (after the payment of $3,572,788 in underwriting fees, insurance, and other costs), along with an additional $3,069,096 from the debt service reserve account $204,061,069 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

On October 4, 2011, the Airports Division issued $300,885,000 of airports system revenue bonds (Refunding Series of 2011 (AMT)) at interest rates ranging from 2% to 5% to refund its outstanding Refunding Series of 2001 bonds. The average interest rates of the refunded bonds were 5.5782%. Of the net proceeds of $321,287,476 (after payment of $1,664,354 in underwriting fees, insurance and other costs), along with an additional $7,534,244 from the debt service reserve account, $328,821,720 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of Refunding Series of 2001 bonds on November 3, 2011. As a result, the refunded portion of the Refunding Series on 2001 bonds is considered to be defeased and the liability for those bonds has been removed from the financial statements.

The Airports Division recognized an accounting loss of $2,834,351 in connection with this refunding that is reflected as a deferred outflow of resources in the statement of net position and is being amortized to interest expense through 2021.

On November 18, 2015, the Airports Division issued $235,135,000 and $9,125,000 of airports system revenue bonds (Series 2015A (AMT) and Series 2015B (Non-AMT), respectively) at interest rates ranging from 4% to 5% to pay costs of capital improvement projects at certain facilities of the State's airports system, capitalized interest on the Series 2015 Bonds, and certain costs of issuance relating the Series 2015 Bonds.

Note 7: Lease Revenue Certificates of Participation

The Airports Division entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of $167,740,000 at interest rates ranging from 3 to 5.25%.

On April 13, 2016, the Airports Division entered into another lease agreement with Johnson Controls, Inc., amending the Energy Performance Contract dated December 19, 2013, to finance improvements to Daniel K. Inouye International Airport's cooling infrastructure. The costs relating to the lease and installation of certain equipment to implement the third amendment to the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of $8,056,521 at an interest rate of 1.74%.

On March 31, 2017, the Airport Division entered into another lease agreement with Johnson Controls, Inc. amending the Energy Performance Contract dated December 19, 2013 to finance improvements to the lighting infrastructure at multiple airports. The costs relating to the purchase and installation of certain equipment to implement the fourth amendment to the Energy Performance Contract between Airports Division and Johnson Controls, Inc. was financed by lease revenue certificates of participation issued by the Airports Division in the amount of $51,473,427 at an interest rate of 2.87%.

The lease revenue certificates of participation are payable from revenue derived by the Airports Division from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State of Hawaii. The certificates of participation represent participations in equipment lease rent payments to be made by the Department. Lease rent payments to holders of the certificates of participation are payable from Revenues and Aviation Fuel Taxes, subordinate in right of payment to the payments of debt service on bonds.

At June 30, 2017, the outstanding balance of the lease revenue certificates of participation and the unamortized premium are $222,524,948 and $3,288,360, respectively.

The schedule of lease rent payments for the lease revenue certificates of participation are as follows:

Years Ending June 30:	Principal	Interest	Total
2018	$ 6,346,175	$ 9,543,923	$ 15,890,098
2019	7,330,905	9,389,313	16,720,218
2020	10,300,960	9,040,194	19,341,154
2021	12,115,573	8,550,685	20,666,258
2022	13,752,812	7,981,791	21,734,603
2023-2027	95,712,483	28,367,202	124,079,685
2028-2032	68,696,602	5,459,790	74,156,392
2033-2034	8,269,438	249,494	8,518,932
	$ 222,524,948	$ 78,582,392	$ 301,107,340

Note 8: Loan Payable

In August 2014, the State, acting through the DOT, entered into a loan agreement with Hawaii Regional Center, LP I and Hawaii Regional Center, LP II (together, the Lenders), with CanAM HI GP I, LLC, acting as the agent of the Lenders. The Lenders were established to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) provided through legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is $76,000,000. The EB-5 loan is the first series of obligations issued under an Indenture of Trust between the State, acting through the DOT and MUFG Union Bank, N.A., as Trustee, and is payable solely from the Trust Estate, with customer facility charges being the primary component. The EB-5 loan is not payable from revenue and aviation fuel taxes, which the DOT has pledged for the repayment of airports system revenue bonds issued under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.

The loan bears interest at a rate of 1.50% with interest payments due semiannually on July 1 and January 1. For the year ended June 30, 2017, the Airports Division has incurred interest of $551,152. At June 30, 2017, the outstanding balance on the loan facility amounted to $76,000,000. The loan is due in full on August 27, 2019.

Note 9: Leases

Airport Airline Lease Agreement

Airports Division

The DOT and the airline companies serving the airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992 (lease agreement). Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a Series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter, the lease agreement and the five subsequent agreements are collectively referred to as the lease extension agreement). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement, effective January 1, 2008.

Under the lease extension agreement, the airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenue in excess of $100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on appraisal and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (5) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Effective January 1, 2008, under the first amended lease extension agreement, the airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airports system facilities from the signatory airlines that directly use them. The airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Nonsignatory airlines are subject to the Administrative Rules, which require the payment of specified amounts for landing fees, Airports System Support Charges, and certain other rates, fees, and charges. Under the 2007 Agreement, the Department agreed to amend the methodology for calculating fees and charges so that nonsignatory airline fees and charges would be 125% of Signatory Airline fees and charges.

Prepaid Airport Use Charge Fund

The Prepaid Airport Use Charge Fund (the PAUCF) was established in 1994 to provide a process to transfer monies paid to the Airports Division by the signatory airlines in excess of the amounts required under each lease.

In August 1995, the DOT and the signatory airlines entered into an agreement to extend the PAUCF.

Net excess payments for fiscal years 1996 through 2017 have been transferred to the PAUCF (Note 17). These funds are required to be set aside as restricted, is the property of the signatory airlines, and can only be spent for purposes mutually designated by the State and the Airlines Committee of Hawaii, which substantially benefit the state airport system.

Aviation Fuel Tax

The aviation fuel tax amounted to $2,156,017 for fiscal year 2017. In May 1996, the State Department of Taxation issued a tax information release that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination.

Airports System Rates and Charges

Signatory and nonsignatory airlines were assessed the following airports system rates and charges.

Airport landing fees amounted to $79,570,929 for the fiscal year. Airport landing fees are shown net of aviation fuel tax credits of $1,712,741 for fiscal year 2017, on the statement of revenue, expenses, and changes in net position, which resulted in net airport landing fees of $77,858,188 for fiscal year 2017. Airport landing fees are based on a computed rate per 1000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland airport landing fees for signatory airlines is set at 45% of the airport landing fees for overseas flights for fiscal year 2017, and are scheduled to increase 1% annually until it reaches 100%.

Overseas and interisland joint-use premise charges were established to recover airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per enplaning or deplaning passenger. Nonexclusive joint-use premise charges for terminal rentals amounted to $70,655,449 for fiscal year 2017.

International arrivals building charges were established to recover airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger using the international arrivals area. Beginning fiscal year 2000, nonsignatory airline revenue was applied as a credit in calculating the joint-use premise charge and international arrivals building charges.

Exclusive-use premise charges amounted to $55,489,627 for fiscal year 2017, and are computed using a fixed rate per square footage per year. Exclusive-use premise charges for terminal rentals amounted to $30,118,623 for fiscal year 2017.

Airports system support charges were $0 for fiscal year 2017, and were established to recover all remaining residual costs of the airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The airports system interisland support charges for nonsignatory airlines are set at 32% of airports system support charges for overseas flights.

Special Facility Leases and Revenue Bonds

The Airports Division entered into special facility lease agreements with Continental Airlines, Inc. in November 1997 and July 2000. The construction of the related facilities was financed by special facility revenue bonds issued by the Airports Division in the amounts of $25,255,000 and $6,600,000, respectively. These bonds are payable solely from and collateralized solely by certain rentals and other moneys derived from the special facility. Special facility revenue bonds amounting to $16,600,000 were called in full on May 18, 2015.

Bonds with a stated maturity date of November 15, 2027 remain outstanding. The bonds are subject to redemption on or after November 15, 2007 at the option of the Airports Division, upon the request of Continental Airlines, Inc., at prices ranging from 101% to 100% of principal, depending on the dates of redemption or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

The bonds bear interest at 5.625% per annum. Interest-only payments of $611,016 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due. The following principal and interest payments on special facility revenue bonds are required based on the amounts outstanding at June 30, 2017:

Years Ending June 30:	Principal	Interest	Total
2018	$ -	$ 1,222,031	$ 1,222,031
2019	-	1,222,031	1,222,031
2020	-	1,222,031	1,222,031
2021	-	1,222,031	1,222,031
2022	-	1,222,031	1,222,031
2023-2027	-	6,110,156	6,110,156
2028	21,725,000	611,016	22,336,016
	$ 21,725,000	$ 12,831,327	$ 34,556,327

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as an asset and the special facility revenue bonds outstanding are recorded as a liability in the accompanying statement of net position.

Net investments in direct financing leases at June 30, 2017 consisted of the following:

Cash with bond fund trustee	$ 1,199,285
Receivable from lessees, net of unearned interest of $12,678,573	20,525,715
Interest receivable	152,754
	$ 21,877,754

Other Operating Leases

The Airports Division also leases certain building spaces and improvements to concessionaires, airline carriers and other airport users. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users.

The future minimum rentals from these operating leases at June 30, 2017 are as follows:

Years Ending June 30,	
2018	$ 86,185,752
2019	81,307,270
2020	71,819,364
2021	71,671,206
2022	26,148,022
2023-2027	96,008,227
2028-2032	30,370,111
2033-2037	5,151,195
2038-2042	3,262,041
Thereafter	4,332,814
	$ 476,256,002

The leases with concessionaires are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rents included in concession fees for fiscal year 2017 was $80,725,556.

In fiscal years 2006 and 2013, the Airports Division converted certain past-due amounts from two lessees and a lessee, respectively, into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 0 months to 9 years. The balance remaining at June 30, 2017 is $73,541.

Concession fee revenue from the DFS Group, L.P. (DFS), which operates the in-bond (Duty Free) concession, accounted for approximately 20% of total concession fee revenue for fiscal year 2017.

DFS was originally awarded a five-year lease agreement for the in-bond concession in February 2001. By 2003, DFS had been in significant arrears in rents due to the Airports Division as a result of financial difficulties arising from the downturn in Hawaii's economy due to the decrease in international visitor travel. As a result, in August 2003, the Airports Division and DFS entered into a Withdrawal and Settlement Agreement, which provided DFS with certain relief for past-due rents and which allowed the Airports Division to withdraw and recapture all of the leased premises and to early terminate the in-bond lease.

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for a minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was \$37,311,121, and the percentage rent was as follows: (1) for total concession receipts greater than \$165 million, but less than \$200 million, 22.5% for on-airport sales, and 18.5% for off-airport sales and (2) for total concession receipts greater than \$200 million, 30.0% for on-airport sales, and 22.5% for off-airport sales.

Effective June 1, 2006, the lease was extended for a period of one year pursuant to a holdover clause in the lease agreement. During the holdover period, DFS shall have a month-to-month tenancy, with rents and terms the same as those in effect immediately prior to the holdover.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provided for a minimum annual guarantee rent, as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent was \$38 million and the percentage rent was as follows: (1) for total concession receipts greater than \$155 million, but less than \$195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than \$195 million, but less than \$235 million, 30.0% for on-airport sales, and 22.5% off-airport sales; (3) for total concession receipts greater than \$235 million, but less than \$275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than \$275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent was equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period was calculated the same as during the first four years of the lease term.

Effective October 31, 2014, the in-bond concession lease agreement was amended and the lease was extended through May 31, 2027. The amended lease contract provides (a) for the period from June 1, 2017 through May 31, 2019, \$40 million, (b) for the period of June 1, 2019 through May 31, 2020, \$47.5 million, (c) for the period June 1, 2020 through May 31, 2021, 85% of the actual annual fee paid and payable (either minimum annual guarantee rent or percentage rent) for the previous year, (d) for the period of June 1, 2021 through May 31, 2022, the same as the previous year, (e) for the period of June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable for the previous year, (f) for the period from June 1, 2023 through May 31, 2027, the same as the minimum annual guarantee rent for the period of June 1, 2022 through May 31, 2023, (3) the percentage fees for the extension period will be set at 30% of gross receipts from on-airport sales and 18% of gross receipts from off-airport sales, (4) the percentage fee for merchandise converted from duty free status to duty paid status shall be 1.25%, and (5) the concession fee for items that are High Price/Low Margin Merchandise shall be 2.5% of the gross receipts from the sale. In addition, DFS agreed to pay $27.9 million for improvements to the Central Waiting Lobby Building at Daniel K. Inouye International.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Daniel K. Inouye International Airport, with the term commencing on April 1, 2009 and scheduled to terminate on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent (85% of the actual annual fee paid for the preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period, the minimum annual guarantee rent was $12 million. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the minimum annual guarantee rent for the period April 1, 2015 through March 31, 2016 be $12 million and for each subsequent year, the minimum annual guarantee rent will be 85% of the actual annual fee paid for the preceding year.

Note 10: Passenger Facility Charges

Passenger facility charge activity for the year ended June 30, 2017 is as follows:

Restricted assets - passenger facility charges, beginning of year	$ 153,476,125
Passenger facility charges during the year	39,601,244
Interest earned on passenger facility charges during the year	1,551,946
Capital expenditures during the year	(37,954,999)
Restricted assets - passenger facility charges, end of year	$ 156,674,316

Restricted assets – passenger facility charges are presented on the statement of net position as of June 30, 2017 as follows:

Cash and cash equivalents	$ 150,898,421
Receivable	5,775,895
Total restricted assets - passenger facility charges	$ 156,674,316

Note 11: Rental Car Customer Facility Charge

Rental car customer facility charge activity for the year ended June 30, 2017 is as follows:

Restricted assets - rental car customer facility charge, beginning of year	$ 219,369,134
Rental car customer facility charges during the year	70,449,453
Interest earned on rental care customer facility charges during the year	1,912,548
Transfer to Bond Projects	(43,000,000)
Capital expenditures during the year	(110,680,282)
Interest paid on loan payable	(813,952)
Restricted assets - rental car customer facility charges, end of year	$ 137,236,901

Restricted assets – rental car customer facility charges are presented on the statement of net position as of June 30, 2017 as follows:

Cash and cash equivalents	$ 131,060,948
Receivable	6,175,953
Total restricted assets - rental car customer facility charges	$ 137,236,901

Note 12: Pension Information

Plan Description

All eligible employees of the Airports Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees Retirement System (ERS) of the State, a cost-sharing, multiple-employer public defined-benefit pension plan. The ERS provides retirement, survivor and disability benefits with multiple benefit structures known as the contributory, hybrid and noncontributory. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of becoming noncontributory members or remain contributory members. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to become a noncontributory member. Qualified contributory and noncontributory members were given the option of becoming hybrid members, effective July 1, 2006, or remain in their existing class. Starting July 1, 2006, all new employees covered by Social Security are required to be hybrid members.

Benefits Provided

The three benefit structures provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%), multiplied by the average final compensation (AFC), multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

For postretirement increases, every retirees original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For new members hired after June 30, 2012, the postretirement annuity increase was decreased to 1.5% per year.

Contributions

The following summarizes the plan provisions relevant to the general employees of the respective classes:

Contributory

Police officers, firefighters, and certain other members that are not covered by Social Security first hired prior to July 1, 2012 contribute 12.2% of their salary and receive a retirement benefit using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 55 with five years of credited service or at any age with 25 years of credited service, provided the last five years of credited service is any of the qualified occupations.

Police officers, firefighters, and certain other members that are not covered by Social Security first hired after June 30, 2012 contribute 14.20% of their salary and receive a retirement benefit using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of AFC. These members may retire at age 60 with 10 years of credited service or at any age with 25 years of credited service, provided the last five years of credited service is any of the qualified occupations.

All other employees in the contributory class are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Under the contributory class, employees may retire with full benefits at age 55 and five years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

New employees in the contributory class hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Hybrid

Employees in the hybrid class are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Airports Division may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years' service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

New employees in the hybrid class hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 and 20 years of service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Noncontributory

Employees in the noncontributory class are fully vested upon receiving 10 years of credited service. The Airports Division is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial-cost method. Since July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts to pay for the unfunded actuarial accrued liability. The contribution rates for fiscal year 2016 were 25.00% for police officers and firefighters, and 17.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The required pension contributions by the Airports Division for the year ended June 30, 2017 were $11,615,759. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Airports Division.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Airports Division reported a liability of $172,157,286 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Airports Division’s proportion of the net pension liability is determined by a systematic methodology, based on an estimation of covered payroll, utilized by the Department of Accounting and General Services to allocate the State’s proportion of the collective net pension liability to the various departments and agencies across the State. At June 30, 2016, the Airports Division’s proportion was 2.280% which was an increase of .0100% from its proportion measured as of June 30, 2015.

There were no changes in benefit terms that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2017, the Airports Division recognized pension expense of $20,483,823. At June 30, 2017, the Airports Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,429,526	$ 2,468,698
Changes in assumptions	32,454,073	-
Net difference between projected and actual earnings on pension plan investments	11,195,824	-
Changes in proportion and differences between Airports Division contributions and proportionate share of contributions	570,181	547,333
Airports Division contributions subsequent to the measurement date	11,615,759	-
	$ 59,265,363	$ 3,016,031

The $11,615,759 reported as deferred outflows of resources related to pensions resulting for the Airports Division contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	$ 8,531,817
2019	8,531,817
2020	11,564,634
2021	10,094,642
2022	5,910,663
	$ 44,633,573

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Payroll growth rate	3.5%
Investment rate of return, including inflation at 2.5%	7.0% per year

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA. Postretirement mortality rates are based on the 2016 public retirees of Hawaii mortality table, based on generational projections of the BB projection table from the year 2016 and for generational projections for future years. Preretirement mortality rates are based on the RP-2014 tables based on the occupation of the member.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2015. ERS updates their experience studies every five years. Following this regularly scheduled experience study, the ERS board adopted new assumptions for first use on the June 30, 2016 valuation.

The complete assumption set can be found in the experience study dated July 5, 2016. The primary changes include the following:

- Decreased the nominal investment return assumption to 7.00%.
- Decreased the inflation assumption from 3.00% to 2.5%.
- Decreased the nominal general wage inflation assumption from 4.00% to 3.50%

The mortality assumption was modified to assume longer life expectancies as well as to reflect continuous mortality improvement (generational mortality improvement).

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (Risk-based Classes)	Target Allocation	Long-term Expected Geometric Rate of Return
Broad growth	63.00%	8.35%
Principal protection	7.00%	2.20%
Real estate	10.00%	6.15%
Crisis risk offset	20.00%	5.50%
	100.00%	

Discount Rate

The discount rate used to measure the net pension liability was 7.00% a decrease of .65% from the valuation completed at June 30, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Sensitivity of the Airports Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airports Division's proportionate share of the net pension liability calculated using the discount rate of 7.00% proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.00%) or one-percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Airports Division's proportionate share of the net pension liability	$ 220,672,920	$ 172,157,286	$ 132,686,923

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued ERS comprehensive annual financial report (CAFR). The ERS CAFR can be obtained from: http://ers.ehawaii.gov/resources/financials or from the address below:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

The State issues a comprehensive annual financial report that includes the required note disclosures and the required supplementary information in accordance with the provisions of GASB Statement No. 68. This report can be obtained from http://ags.hawaii.gov/accounting/annual-financial-reports/

Note 13: Postretirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined-benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer health benefits plans and a group life insurance benefits program for employees and retirees.

The State pays the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with 10 or more years of credited service.

The State pays the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than 10 years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between 10 and 15 years of credited service; (b) 75 percent of the base monthly contribution if the employee retired with between 15 and 25 years of credited service; and (c) 100 percent of the base monthly contribution if the employee retired with 25 or more years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 2001: (a) one-half of the base monthly contribution for a self-only plan if the employee retired with between 10 and 15 years of credited service; (b) seventy-five percent of the base monthly contribution for a self-only plan if the employee retired with between 15 and 25 years of credited service; and (c) one hundred percent of the base monthly contribution for a self-only plan if the employee retired with 25 or more years of credited service.

The State pays the EUTF a base monthly contribution (currently $4.16) for each retired employee enrolled in the EUTF group life insurance plan.

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Airports Division's contribution for the year ended June 30, 2017 was $9,537,524, which represented 57% of the Airports Division's share of the ARC for postemployment healthcare and life insurance benefits of $16,856,141.

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

Note 14: Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Airports Division, after deducting any amounts pledged, charged, or encumbered, for the payment of bonds and interest during the year. The assessments amounted to $13,576,235 in fiscal year 2017.

The Airports Division is assessed a percentage of the cost of the general administration expenses of the DOT. The assessments amounted to $5,919,473 in fiscal year 2017. During fiscal year 2017, the Airports Division received assessment refunds from the DOT amounting to $1,754,012, which is recorded as a receivable Due from State of Hawaii at year end. Such refunds reduced operating expenses in the accompanying statement of revenue, expenses and changes in net position.

During fiscal year 2017, revenue received from other state agencies totaled $6,171,227 and expenditures to other state agencies totaled $8,421,631. The revenue received relates to various rental agreements that the Airports Division has with the State of Hawaii. The expenses paid relate to various items including security, salary and insurance.

At June 30, 2017, the Airports Division had a receivable due from state agencies for $7,491,437. The receivable includes an assessment refund and rental revenue outstanding at year-end.

Note 15: Commitments

Sick Pay

Accumulated sick leave at June 30, 2017 was $24,709,406. Sick leave accumulates at the rate of 14 or 20 hours per month of service without limit, depending on the employee’s job classification, but can be taken only in the event of illness and is not convertible to pay upon termination of employment.

Accordingly, no liability for sick pay is recorded. However, an Airports Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit with the ERS.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

Accordingly, the assets and liabilities of the State’s deferred compensation plan are not reported in the accompanying financial statements.

Pledged Future Revenue

In accordance with the Certificate, the Airports Division has pledged future revenue net of operation, maintenance and repair expenses, and certain adjustments (net revenue and taxes available for debt service) to repay $1,190,125,000 in revenue bonds issued in 2010, 2011 and 2015, and payable through 2046. The total debt service remaining to be paid on the revenue bonds for the Airports Division is $1,741,720,182. In fiscal year 2017, total debt service paid, exclusive of amounts refunded, and net revenue and taxes available for debt service for the Airports Division was $89,975,366 and $143,082,874, respectively. See also Note 6 for further discussion on the revenue bonds.

Other

At June 30, 2017, the Airports Division has commitments totaling approximately $1,282,465,173 for construction and service contracts.

Note 16: Risk Management

The Airports Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The Airports Division generally addresses these risks through commercial insurance policies. Settled claims have not exceeded this commercial coverage in any of the past three years.

Torts

The Airports Division is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Airports Division's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State General Fund.

Property and Liability Insurance

The Airports Division is covered by commercial general liability policies with a $750 million limit per occurrence. These commercial general liability policies have no deductible and cover bodily injuries and property damage for occurrences arising out of the ownership, operation, and maintenance of state airports.

The Airports Division is covered under the State of Hawaii Statewide Insurance Program for Property, Auto and Crime Insurance.

Workers' Compensation

The State is self-insured for workers' compensation. Accordingly, the Airports Division is liable for all workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims includes the effects of specific incremental claim adjustment expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. At June 30, 2017, the workers compensation reserve was $4,261,532, of which $1,411,359 is included in current liabilities (payable from unrestricted net assets), and $2,850,173 is included in long-term liabilities in the accompanying statement of net position at June 30, 2017. In the opinion of management, the Airports Division has adequately reserved for such claims.

The change in claims payable for 2017 and 2016, including an estimate of incurred but not reported claims, is as follows:

	2017	2016
Beginning balance - July 1	$ 4,261,532	$ 4,261,532
Current year claims and changes in estimates	1,279,349	1,369,943
Claims settled	(1,279,349)	(1,369,943)
Ending balance - June 30	$ 4,261,532	$ 4,261,532

Note 17: Contingent Liabilities and Other

Litigation

The State is subject to a number of lawsuits arising in the ordinary course of its airport operations. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Airports Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the Airports Division. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

Arbitrage

In compliance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the Airports Division is required to calculate rebates due to the U.S. Treasury on the airports system revenue bonds issued since 1986. Rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2017, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

Asserted Claims

Prepaid Airport Use Charge Fund

The PAUCF was increased by $6,553,067 due to an overpayment for fiscal year 2017. The PAUCF liability at June 30, 2017 was $16,903,343.

Environmental Protection Agency

The Airports Division had been notified of certain violations of the Clean Water Act by the Environmental Protection Agency. As part of the terms of a consent decree entered into by the parties dated January 30, 2006, the DOT was required to pay a $1 million fine. The Airports Division's allocated share of the fine was $400,000, which was paid in February 2006. The consent decree was terminated in April 2016 and no further liability exists. The department is expected to expend an additional $391,312 to complete various projects in order to be in compliance with their permit and the Clean Water Act.

Note 18: Subsequent Events

In July 2017, the Airports Division issued $249,805,000 of airports system customer facility charge revenue bonds (Customer Facility Charge Revenue Bonds, Series 2017A) at interest rates ranging from 1.70% to 4.14%. The Series 2017 Bonds are being issued for the costs of design, development and construction of consolidated rental motor vehicle facility projects at certain airports and to fund the Rolling Coverage Fund Requirement and the Debt Service Reserve Fund Requirement for the Series 2017 Bonds and to pay certain costs of issuance relating to the Series 2017 bonds. The Bonds are special limited obligations of the State, payable solely from and secured by the receipts from collection of the Rental Motor Vehicle Customer Facility Charge imposed by the State on rental motor vehicle customers who use or benefit from rental car facilities at all airports in the Airports System.

Supplementary Information

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Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Operating Revenues and Operating Expenses Other than Depreciation

Year Ended June 30, 2017

			Airports					
	Totals	Statewide	Daniel K. Inouye International	Hilo International	Ellison Onizuka Kona International at Keahole	Kahului	Lihue	All Others
Operating revenue								
Concession fees	$ 161,226,921	$ -	$ 93,702,390	$ 3,718,821	$ 16,430,280	$ 32,104,123	$ 14,974,277	$ 297,030
Airport landing fees	77,858,188	-	52,520,243	1,674,437	5,708,784	12,635,802	4,701,116	617,806
Nonexclusive joint-use premise charges	70,655,449	-	54,419,759	1,325,679	2,956,924	8,599,429	3,353,658	-
Exclusive-use premise charges	55,489,627	-	40,134,542	1,722,815	1,920,471	7,738,267	3,271,721	701,811
Nonaeronautical rentals	22,995,616	-	16,451,567	417,942	1,189,696	3,596,227	1,234,147	106,037
Aviation fuel tax	2,156,017	-	839,135	194,861	147,001	737,570	237,450	-
Miscellaneous	7,225,891	499,559	5,007,927	37,987	633,716	601,874	435,355	9,473
	397,607,709	499,559	263,075,563	9,092,542	28,986,872	66,013,292	28,207,724	1,732,157
Allocation of statewide miscellaneous revenue (Note 1)	-	(499,559)	330,947	11,623	36,280	83,044	35,485	2,180
Net operating revenue	$ 397,607,709	$ -	$ 263,406,510	$ 9,104,165	$ 29,023,152	$ 66,096,336	$ 28,243,209	$ 1,734,337
Operating expenses other than depreciation								
Salaries and wages	$ 110,721,712	$ 26,607,886	$ 41,094,429	$ 6,732,528	$ 7,856,345	$ 11,462,272	$ 7,641,640	$ 9,326,612
Other personnel services	67,426,087	6,077,540	38,999,469	4,097,829	4,643,011	5,765,070	4,884,829	2,958,339
Utilities	33,900,871	3,128	24,756,028	1,033,814	2,057,688	3,636,859	1,764,684	648,670
Repairs and maintenance	32,445,349	14,671,915	12,873,118	696,054	1,131,018	1,729,149	917,969	426,126
State of Hawaii surcharge on gross receipts (Note 2)	13,576,235	13,576,235	-	-	-	-	-	-
Special maintenance	9,911,265	1,987,747	2,657,066	(1,901,159)	3,524,154	(224,793)	429,594	3,438,656
Materials and supplies	6,179,969	156,291	2,964,544	512,954	726,387	897,378	489,038	433,377
Department of Transportation general administration expenses	5,919,473	5,919,473	-	-	-	-	-	-
Insurance	2,632,629	2,634,096	-	-	(1,392)	-	-	(75)
Claims and benefits	3,262,352	2,001,548	890,099	31,597	77,152	180,662	19,424	61,870
Travel	410,379	112,919	75,144	34,603	41,793	57,169	36,774	51,977
Communication	362,894	75,372	61,881	50,836	28,541	65,575	45,247	35,442
Rent	361,885	83,893	199,995	11,378	13,919	22,375	13,655	16,670
Dues and subscriptions	281,758	247,033	13,746	2,892	13,962	2,081	-	2,044
Bad debt expense (Note 3)	454,587	454,587	-	-	-	-	-	-
Freight and delivery	12,605	226	484	418	1,974	4,328	4,247	928
Printing and advertising	16,273	14,416	733	32	-	-	458	634
Miscellaneous	767,241	346,153	188,751	56,456	108,823	14,734	36,071	16,253
	288,643,564	74,970,458	124,775,487	11,360,232	20,223,375	23,612,859	16,283,630	17,417,523
Allocation of statewide expenses (Note 4)	-	(74,970,458)	43,779,377	3,985,910	7,095,679	8,284,930	5,713,359	6,111,203
Total operating expenses other than depreciation for statement of revenue, expenses and changes in net position	$ 288,643,564	$ -	$ 168,554,864	$ 15,346,142	$ 27,319,054	$ 31,897,789	$ 21,996,989	$ 23,528,726

Notes:
(1) Statewide miscellaneous revenue is allocated to the airports based upon their respective current year miscellaneous revenue to total current year miscellaneous revenue for all airports.
(2) State of Hawaii surcharge on gross receipts consists of transfers to the State General Fund to defray central service expenses as required by HRS Section 36-28.5.
(3) Bad debt expense is allocated primarily by individually identifiable bad debts with the remainder allocated to the airports based upon their respective current year revenue to total current year revenue for all airports.
(4) Statewide expenses are allocated to the airports based upon their respective current year operating expenses to total current year operating expenses for all airports.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Calculations of Net Revenue and Taxes and Debt Service Requirement
Year Ended June 30, 2017

Revenue and taxes	
Concession fees	$ 161,226,921
Airport landing fees	77,858,188
Aeronautical rentals	
Nonexclusive joint-use premise charges	70,655,449
Exclusive-use premise charges	55,489,627
Nonaeronautical rentals	22,995,616
Aviation fuel tax	2,156,017
Interest income, exclusive of interest on investments in direct financing leases and including interest income of $859,352 on capital improvement projects	8,855,805
Federal operating grants	2,925,054
Miscellaneous	7,225,891
Total revenue and taxes	409,388,568
Deductions	
Operating expenses other than depreciation for net revenue and taxes (Schedule 1)	288,643,564
Annual reserve required on major maintenance, renewal and replacement account	-
Total deductions	288,643,564
Net revenue and taxes	120,745,004
Add funded coverage per bond certificate	22,337,869
Adjusted net revenue and taxes	143,082,873
Debt service requirement	
Airports system revenue bonds	
Principal	38,935,000
Interest (Note 1)	45,182,047
Total debt service	84,117,047
Less funds deposited into the Airport Revenue Fund for credit to interest account (Note 2)	(650,817)
Total debt service requirement	83,466,230
Debt service coverage percentage	125
Total debt service with coverage requirement	104,332,788
Excess of net revenue and taxes over debt service requirement	$ 38,750,085

Notes:

(1) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes, and amounts from the Series 2015 bond proceeds used to pay interest on the Series 2015 bonds until the projects funded by the Series 2015 bonds are in service.

(2) Pursuant to the provisions in Section 6.01 of the Certificate and Hawaii Revised Statutes Section 261-5.5, the Airports Division transferred $650,817 of Passenger Facility Charge revenue into the Airport Revenue Fund for credit to the interest account for Passenger Facility Charge eligible debt service. The transfer is approved by the Federal Aviation Administration.

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Summary of Debt Service Requirements to Maturity – Airports System Revenue Bonds

Year Ended June 30, 2017

	Annual Principal and Interest Requirements		
	Airports System Revenue Bonds		
Year Ending June 30,	Principal	Interest	Total
2018	$ 38,935,000	$ 49,506,501	$ 88,441,501
2019	40,755,000	47,681,101	88,436,101
2020	42,585,000	45,713,876	88,298,876
2021	44,690,000	43,604,114	88,294,114
2022	46,805,000	41,359,358	88,164,358
2023	49,175,000	38,972,064	88,147,064
2024	51,580,000	36,462,114	88,042,114
2025	54,195,000	33,819,389	88,014,389
2026	18,440,000	32,010,804	50,450,804
2027	19,395,000	31,027,735	50,422,735
2028	20,400,000	29,991,676	50,391,676
2029	21,460,000	28,902,164	50,362,164
2030	22,570,000	27,750,854	50,320,854
2031	23,755,000	26,537,559	50,292,559
2032	25,010,000	25,289,112	50,299,112
2033	26,255,000	24,007,487	50,262,487
2034	27,575,000	22,661,737	50,236,737
2035	28,945,000	21,248,737	50,193,737
2036	30,395,000	19,765,237	50,160,237
2037	31,910,000	18,205,807	50,115,807
2038	33,520,000	16,566,357	50,086,357
2039	35,195,000	14,844,597	50,039,597
2040	36,955,000	13,034,869	49,989,869
2041	35,945,000	11,215,256	47,160,256
2042	37,725,000	9,387,531	47,112,531
2043	39,600,000	7,469,006	47,069,006
2044	41,565,000	5,455,056	47,020,056
2045	43,630,000	3,340,956	46,970,956
2046	45,795,000	1,129,128	46,924,128
Total	$ 1,014,760,000	$ 726,960,182	$ 1,741,720,182

Schedule 4

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Debt Service Requirements to Maturity – Airports System Revenue Bonds
Year Ended June 30, 2017

Year Ending June 30,	Refunding Series of 2010A, 2.00% to 5.25%	Refunding Series of 2010B, 3.00% to 5.00%	Refunding Series of 2011, 2.00% to 5.00%	New Issue Series 2015A, 4.12% to 5.25%	New Issue Series 2015B, 4.00%	Total	Interest	Total Requirements
2018	$ 340,000	$ 19,975,000	$ 18,620,000	$ -	$ -	$ 38,935,000	$ 49,506,501	$ 88,441,501
2019	355,000	20,980,000	19,420,000	-	-	40,755,000	47,681,101	88,436,101
2020	255,000	22,165,000	20,165,000	-	-	42,585,000	45,713,876	88,298,876
2021	7,720,000	21,650,000	15,320,000	-	-	44,690,000	43,604,114	88,294,114
2022	14,510,000	-	32,295,000	-	-	46,805,000	41,359,358	88,164,358
2023	18,005,000	-	31,170,000	-	-	49,175,000	38,972,064	88,147,064
2024	16,650,000	-	34,930,000	-	-	51,580,000	36,462,114	88,042,114
2025	17,510,000	-	36,685,000	-	-	54,195,000	33,819,389	88,014,389
2026	18,440,000	-	-	-	-	18,440,000	32,010,804	50,450,804
2027	19,395,000	-	-	-	-	19,395,000	31,027,735	50,422,735
2028	20,400,000	-	-	-	-	20,400,000	29,991,676	50,391,676
2029	21,460,000	-	-	-	-	21,460,000	28,902,164	50,362,164
2030	22,570,000	-	-	-	-	22,570,000	27,750,854	50,320,854
2031	23,755,000	-	-	-	-	23,755,000	26,537,559	50,292,559
2032	25,010,000	-	-	-	-	25,010,000	25,289,112	50,299,112
2033	26,255,000	-	-	-	-	26,255,000	24,007,487	50,262,487
2034	27,575,000	-	-	-	-	27,575,000	22,661,737	50,236,737
2035	28,945,000	-	-	-	-	28,945,000	21,248,737	50,193,737
2036	30,395,000	-	-	-	-	30,395,000	19,765,237	50,160,237
2037	31,910,000	-	-	-	-	31,910,000	18,205,807	50,115,807
2038	33,520,000	-	-	-	-	33,520,000	16,566,357	50,086,357
2039	35,195,000	-	-	-	-	35,195,000	14,844,597	50,039,597
2040	36,955,000	-	-	-	-	36,955,000	13,034,869	49,989,869
2041	-	-	-	34,570,000	1,375,000	35,945,000	11,215,256	47,160,256
2042	-	-	-	36,295,000	1,430,000	37,725,000	9,387,531	47,112,531
2043	-	-	-	38,110,000	1,490,000	39,600,000	7,469,006	47,069,006
2044	-	-	-	40,020,000	1,545,000	41,565,000	5,455,056	47,020,056
2045	-	-	-	42,020,000	1,610,000	43,630,000	3,340,956	46,970,956
2046	-	-	-	44,120,000	1,675,000	45,795,000	1,129,128	46,924,128
	$ 477,125,000	$ 84,770,000	$ 208,605,000	$ 235,135,000	$ 9,125,000	$ 1,014,760,000	$ 726,960,182	$ 1,741,720,182

Schedule 5

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Airports System Charges – Fiscal Year 2008 Lease Extension

Year Ended June 30, 2017

	Airline Activity			Airports System Charges														
						Nonexclusive Joint-use Premise Charges										Exclusive		
	Approved Maximum Revenue Landing Weights (1,000-pound units)	Revenue Passenger Landings	Deplaning International Passengers	Airports Landing Fees	Airports System Support Charges	Joint-use Charges - Overseas Baggage	Joint-use Charges - Overseas Holdroom	Joint-use Charges - Overseas Baggage Make Up	Joint-use Charges - Overseas	Joint-use Charges - Interisland Baggage	Joint-use Charges - Interisland Holdroom	Joint-use Charges - Commuter Baggage	Joint-use Charges - Commuter Holdroom	International Arrivals Building Charges	Preferential Use	Use Premise Charges - Terminal Space	Other Aeronautical Rentals	Total
Signatory airlines																		
Aeko Kula, Inc.	$ 1,206,634	$ -	$ -	$ 2,143,208	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 123,173	$ -	$ 2,266,381
Air Canada	206,400	645	-	747,168	-	365,324	310,712	106,154	-	-	-	-	-	-	-	790,237	-	2,319,595
Air China Limited	72,472	181	30,036	262,350	-	-	42,049	38,268	-	-	-	-	-	209,651	-	155,612	-	707,930
Air Japan Co., Ltd.	104,960	328	60,723	379,955	-	-	91,368	83,152	-	-	-	-	-	423,847	-	-	-	978,322
Air New Zealand, Ltd.	81,600	192	48,219	295,392	-	-	66,527	60,545	-	-	-	-	-	336,569	-	-	-	759,033
Air Pacific, Ltd.	21,888	157	15,397	79,235	-	-	21,619	19,670	-	-	-	-	-	107,471	-	-	-	227,995
Alaska Airlines, Inc.	1,154,901	7,924	-	4,180,743	-	2,307,734	984,859	438,883	-	-	-	-	-	-	577,905	825,819	-	9,315,943
All Nippon Airways Co., Ltd.	299,128	776	172,441	1,082,843	-	-	233,763	212,743	-	-	-	-	-	1,203,638	-	152,112	-	2,885,099
Allegiant Air LLC	37,422	189	-	135,468	-	128,909	53,310	48,516	-	-	-	-	-	-	-	88,450	-	454,653
American Airlines, Inc.	1,416,271	6,915	-	5,126,901	-	2,666,965	2,073,968	669,241	-	-	-	-	-	-	-	1,336,812	-	11,873,887
Asiana Airlines, Inc.	108,013	262	62,401	391,008	-	-	86,174	78,425	-	-	-	-	-	435,559	-	(36,328)	-	954,838
China Airlines, Ltd.	200,581	480	121,832	726,104	-	-	175,555	159,768	-	-	-	-	-	850,387	-	83,634	-	1,995,448
Continental Airlines, Inc.	40,955	280	-	148,256	-	42,445	224,816	-	-	-	-	-	-	-	-	603,501	-	1,019,018
Delta Air Lines, Inc.	1,834,631	6,841	336,987	6,641,363	-	2,842,374	2,283,597	1,296,041	-	-	-	-	-	2,352,169	-	5,776,374	-	21,191,918
Federal Express Corporation	658,197	-	-	2,382,671	-	-	-	-	-	-	-	-	-	-	-	7,708	-	2,390,379
Hawaii Island Air, Inc.	768,115	14,953	-	1,252,027	-	-	-	-	-	358,535	52,266	273,157	370,301	-	192,207	968,257	-	3,466,750
Hawaiian Airlines, Inc.	11,226,176	82,248	604,843	25,972,742	-	-	2,254,618	-	-	13,935,304	63,781	-	-	4,221,804	7,610,921	9,885,806	-	63,944,976
Japan Airlines International Co., Ltd.	986,700	2,448	501,375	3,571,854	-	-	717,360	652,853	-	-	-	-	-	3,499,598	-	1,392,208	-	9,833,873
Jetstar Airways Pty Limited	193,257	487	136,105	699,591	-	-	203,259	184,981	-	-	-	-	-	950,013	-	-	-	2,037,844
Jin Air Co., Ltd.	89,700	195	61,710	324,714	-	-	85,623	77,924	-	-	-	-	-	430,736	-	39,514	-	958,511
Kalitta Air, LLC	252,278	-	-	886,612	-	-	-	-	-	-	-	-	-	-	-	-	-	886,612
Korean Airlines Company, Ltd.	407,395	784	214,512	1,474,770	-	-	301,175	274,092	-	-	-	-	-	1,497,294	-	387,797	-	3,935,128
Mokulele Flight Services, Inc.	278,613	32,778	-	454,139	-	-	-	-	-	-	-	38,946	50,358	-	-	73,306	-	616,749
Philippine Airlines, Inc.	106,948	256	55,622	387,152	-	-	75,286	68,516	-	-	-	-	-	388,242	-	166,564	-	1,085,760
Polar Air Cargo, LLC	34,632	-	-	125,368	-	-	-	-	-	-	-	-	-	-	-	-	-	125,368
Qantas Airways, Ltd.	230,871	260	56,739	835,753	-	-	84,879	77,247	-	-	-	-	-	396,037	-	570,706	-	1,964,622
United Airlines, Inc.	2,698,249	10,529	216,769	9,765,055	-	4,632,778	3,388,328	1,731,662	-	-	-	-	-	1,513,047	-	4,709,878	-	25,740,748
United Parcel Service Co.	886,799	-	-	2,853,585	-	-	-	-	-	-	-	-	-	-	-	48,735	-	2,902,320
US Airways, Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	286,193	-	286,193
Virgin America, Inc.	201,088	1,382	-	727,937	-	391,188	374,387	106,241	-	-	-	-	-	-	-	335,618	-	1,935,371
WestJet	254,002	1,550	-	919,486	-	485,939	468,585	111,634	-	-	-	-	-	-	-	244,516	-	2,230,160
Total Signatory Airlines	26,058,876	173,040	2,695,711	74,973,450	-	13,863,656	14,601,817	6,496,556	-	14,293,839	116,047	312,103	420,659	18,816,062	8,381,033	29,016,202	10,789,413	192,080,837
Nonsignatory airlines	1,646,558	576	56,684	3,182,142	-	254,995	186,509	205,284	-	-	-	-	-	481,632	-	1,296,082	14,581,592	20,188,236
Total airports system charges billed	27,705,434	173,616	2,752,395	78,155,592	-	14,118,651	14,788,326	6,701,840	-	14,293,839	116,047	312,103	420,659	19,297,694	8,381,033	30,312,284	25,371,005	212,269,073
Signatory airlines requirements				76,388,788	-	12,455,543	12,335,981	5,798,379	-	12,673,554	97,249	312,103	420,659	17,108,466	8,325,095	28,822,540	10,789,413	185,527,770
Nonsignatory airlines requirements				3,182,142	-	254,995	186,509	205,284	-	-	-	-	-	481,632	-	1,296,082	14,581,592	20,188,236
Fiscal year 2017 overpayment (underpayment)				$ (1,415,338)	$ -	$ 1,408,113	$ 2,265,836	$ 698,177	$ -	$ 1,620,285	$ 18,798	$ -	$ -	$ 1,707,596	$ 55,938	$ 193,662	$ -	$ 6,553,067

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Summary of Billed Airport Landing Fees

Year Ended June 30, 2017

	Signatory Airlines	Nonsignatory Airlines	Total
Gross airport landing fees billed	$ 74,973,452	$ 3,182,140	$ 78,155,592
Less aviation fuel tax credit	(1,581,712)	(131,029)	(1,712,741)
Net airport landing fees billed	$ 73,391,740	$ 3,051,111	$ 76,442,851

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Signatory Airlines

Year Ended June 30, 2017

	Approved Maximum Revenue Landing Weights (1,000-pount units)				Daniel K. Inouye International and Hilo International Airport – Gross Airport Landing Fees					All Other Airports			
	Daniel K. Inouye International Airport	Hilo International Airport	All Other Airports	Total	Daniel K. Inouye International Airport	Hilo International Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Total Adjusted Airport Landing Fees
Aeko Kula, Inc.	684,762	175,880	345,992	1,206,634	$ 1,292,556	$ 286,684	$ 1,579,240	$ (76,756)	$ 1,502,484	$ 563,967	$ -	$ 563,967	$ 2,066,451
Air Canada	100,480	-	105,920	206,400	363,738	-	363,738	-	363,738	383,430	-	383,430	747,168
Air China Limited	72,472	-	-	72,472	262,350	-	262,350	-	262,350	-	-	-	262,350
Air Japan Co., Ltd.	104,960	-	-	104,960	379,955	-	379,955	-	379,955	-	-	-	379,955
Air New Zealand, Ltd.	81,600	-	-	81,600	295,392	-	295,392	-	295,392	-	-	-	295,392
Air Pacific, Ltd.	21,888	-	-	21,888	79,235	-	79,235	-	79,235	-	-	-	79,235
Alaska Airlines, Inc.	329,364	-	825,537	1,154,901	1,192,297	-	1,192,297	(254,063)	938,234	2,988,446	-	2,988,446	3,926,680
All Nippon Airways Co., Ltd.	299,128	-	-	299,128	1,082,843	-	1,082,843	-	1,082,843	-	-	-	1,082,843
Allegiant Air LLC	37,422	-	-	37,422	135,468	-	135,468	(16,378)	119,090	-	-	-	119,090
American Airlines, Inc.	631,275	-	784,996	1,416,271	2,285,216	-	2,285,216	(108,108)	2,177,108	2,841,686	-	2,841,686	5,018,794
Asiana Airlines, Inc.	108,013	-	-	108,013	391,008	-	391,008	-	391,008	-	-	-	391,008
China Airlines, Ltd.	200,581	-	-	200,581	726,104	-	726,104	-	726,104	-	-	-	726,104
Continental Airlines, Inc.	-	40,955	-	40,955	-	148,256	148,256	-	148,256	-	-	-	148,256
Delta Air Lines, Inc.	1,400,526	-	434,105	1,834,631	5,069,903	-	5,069,903	(97,770)	4,972,133	1,571,460	-	1,571,460	6,543,593
Federal Express Corporation	658,197	-	-	658,197	2,382,671	-	2,382,671	-	2,382,671	-	-	-	2,382,671
Hawaii Island Air, Inc.	383,940	-	384,175	768,115	625,822	-	625,822	(20,884)	604,938	626,206	-	626,206	1,231,144
Hawaiian Airlines, Inc.	6,277,276	682,797	4,266,099	11,226,172	16,261,389	1,113,596	17,374,985	(772,342)	16,602,643	8,597,756	-	8,597,756	25,200,399
Japan Airlines International Co., Ltd.	986,700	-	-	986,700	3,571,854	-	3,571,854	-	3,571,854	-	-	-	3,571,854
Jetstar Airways Pty Limited	193,257	-	-	193,257	699,591	-	699,591	-	699,591	-	-	-	699,591
Jin Air Co., Ltd.	89,700	-	-	89,700	324,714	-	324,714	-	324,714	-	-	-	324,714
Kalitta Air, LLC	238,894	-	13,384	252,278	864,796	-	864,796	-	864,796	21,816	-	21,816	886,612
Korean Airlines Company, Ltd.	407,395	-	-	407,395	1,474,770	-	1,474,770	-	1,474,770	-	-	-	1,474,770
Mokulele Flight Services, Inc.	53,227	-	225,386	278,613	86,760	-	86,760	(12,101)	74,659	367,379	-	367,379	442,038
Philippine Airlines, Inc.	106,948	-	-	106,948	387,152	-	387,152	-	387,152	-	-	-	387,152
Polar Air Cargo, LLC	34,632	-	-	34,632	125,368	-	125,368	-	125,368	-	-	-	125,368
Qantas Airways, Ltd.	230,871	-	-	230,871	835,753	-	835,753	-	835,753	-	-	-	835,753
United Airlines, Inc.	1,866,496	-	831,753	2,698,249	6,756,717	-	6,756,717	(214,736)	6,541,981	3,008,338	-	3,008,338	9,550,319
United Parcel Service Co.	713,959	-	172,840	886,799	2,424,592	-	2,424,592	(3,185)	2,421,407	428,993	(495)	428,498	2,849,905
Virgin America, Inc.	90,068	-	111,020	201,088	326,045	-	326,045	-	326,045	401,894	-	401,894	727,939
WestJet	90,104	-	163,898	254,002	326,175	-	326,175	(4,894)	321,281	593,311	-	593,311	914,592
Total	16,494,135	899,632	8,665,105	26,058,872	$ 51,030,234	$ 1,548,536	$ 52,578,770	$ (1,581,217)	$ 50,997,553	$ 22,394,682	$ (495)	$ 22,394,187	$ 73,391,740

Summary of revenue landing weights:	
Overseas	16,331,269
Interisland	9,727,603
	26,058,872

Aviation fuel tax of $ 2,156,017 was paid by the users for the year ended June 30, 2017. Users can claim a credit for aviation fuel taxes paid up to six months after payment. Aviation fuel tax credits of $ 1,712,741 were credited against airport landing fees in accordance with Article V.E. of the Airport Airline Lease agreement as follows:

Signatory airlines	$ 1,581,712
Nonsignatory airlines	131,029
	$ 1,712,741

Note: The above schedule presents airport landing fees billed to signatory airlines for the year ended June 30, 2017.

Schedule 8

Department of Transportation Airports Division
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Approved Maximum Revenue Landing Weights and Airport Landing Fees – Nonsignatory Airlines

Year Ended June 30, 2017

	Approved Maximum Revenue Landing Weights (1,000-pount units)				Daniel K. Inouye International Airport and Hilo International Airport					All Other Airports			
					Gross Airport Landing Fees								
	Daniel K. Inouye International Airport	Hilo International Airport	All Other Airports	Total	Daniel K. Inouye International Airport	Hilo International Airport	Total	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Gross Airport Landing Fees	Aviation Fuel Tax Credit	Adjusted Airport Landing Fees	Total Adjusted Airport Landing Fees
Aero Micronesia, Inc.	34,576	-	-	34,576	$ 153,834	$ -	$ 153,834	$ -	$ 153,834	$ -	$ -	$ -	$ 153,834
Air Service Hawaii, Inc.	64,935	2,188	89,781	156,904	147,247	3,797	151,044	(28,820)	122,224	184,789	(44,280)	140,509	262,733
Air Transport International LLC	29,700	-	-	29,700	132,276	-	132,276	-	132,276	-	-	-	132,276
Air Ventures Hawaii, LLC	-	-	2,858	2,858	-	-	-	-	-	2,692	-	2,692	2,692
Alexair, Inc.	-	-	13,300	13,300	-	-	-	-	-	11,305	-	11,305	11,305
Aris, Inc.	-	-	21,451	21,451	-	-	-	-	-	18,233	(1,817)	16,416	16,416
Atlas Air Inc.	96,392	-	-	96,392	434,641	-	434,641	-	434,641	-	-	-	434,641
Big Island Air, Inc.	16	-	3,814	3,830	13	-	13	-	13	3,242	-	3,242	3,255
Bradley Pacific Aviation, Inc.	33,228	621	87,291	121,140	74,187	925	75,112	-	75,112	189,718	-	189,718	264,830
Castle & Cooke Homes Hawaii, Inc.	45,169	309	552	46,030	89,094	-	89,094	-	89,094	1,444	-	1,444	90,538
Corporate Air	26,665	357	33,209	60,231	52,058	690	52,748	-	52,748	64,883	-	64,883	117,631
Delta Air Lines, Inc.	117,063	-	-	117,063	519,472	-	519,472	-	519,472	-	-	-	519,472
George's Aviation Services, Inc.	1,596	35	511	2,142	1,357	30	1,387	(554)	833	434	(52)	382	1,215
Hawaii Air Ambulance, Inc.	24,662	-	-	24,662	20,963	-	20,963	(922)	20,041	-	(90)	(90)	19,951
Hawaii Helicopters, Inc.	-	739	11,220	11,959	-	628	628	-	628	10,515	-	10,515	11,143
Hawaii Pacific Aviation, Inc.	-	-	-	-	-	-	-	-	-	9,705	(759)	8,946	8,946
Hawaii Wilderness Adventures LLC	-	125	-	125	-	106	106	-	106	-	-	-	106
Helicopter Consultants Of Maui, Inc.	25,754	95,396	114,255	235,405	21,891	81,087	102,978	-	102,978	96,140	(10,694)	85,446	188,424
International Life Support, Inc.	11,622	145	368	12,135	9,879	123	10,002	-	10,002	313	-	313	10,315
Island Helicopters, Inc.	-	-	26,999	26,999	-	-	-	-	-	22,949	(1,888)	21,061	21,061
Jack Harter Helicopters, Inc.	-	-	20,082	20,082	-	-	-	-	-	17,070	(1,090)	15,980	15,980
K&S Helicopters, Inc.	5,512	22,312	11,945	39,769	4,685	18,965	23,650	(3,852)	19,798	10,153	(425)	9,728	29,526
Kamaka Air, Inc.	13,364	51	14,691	28,106	11,359	43	11,402	-	11,402	12,487	-	12,487	23,889
Makani Kai Helicopters, Ltd.	37,155	7	56,191	93,353	31,582	6	31,588	(336)	31,252	47,763	(671)	47,092	78,344
Manuiwa Airways, Inc.	-	133	-	133	-	113	113	-	113	-	-	-	113
Niihau Helicopters, Inc.	-	-	504	504	-	-	-	-	-	390	-	390	390
Novictor Aviation, LLC	16,052	-	-	16,052	13,644	-	13,644	-	13,644	-	-	-	13,644
Omni Air International, Inc.	78,330	-	1,410	79,740	349,250	-	349,250	-	349,250	6,385	-	6,385	355,635
Pacific Air Charters, Incorporated	2,470	173	1,685	4,328	1,985	147	2,132	(100)	2,032	1,366	(185)	1,181	3,213
Pacific Helicopter Tours, Inc.	1,441	3	1,375	2,819	1,370	2	1,372	(49)	1,323	1,307	(231)	1,076	2,399
Pofolk Aviation Hawaii, Inc.	-	-	34,247	34,247	-	-	-	-	-	29,110	(347)	28,763	28,763
Resort Air, LLC	491	13	960	1,464	417	11	428	(47)	381	816	(200)	616	997
Safari Aviation, Inc.	-	10,666	14,804	25,470	-	9,066	9,066	-	9,066	12,583	-	12,583	21,649
Sky-med, Inc.	-	-	33,873	33,873	-	-	-	-	-	28,792	-	28,792	28,792
Sunshine Helicopters, Inc.	5	175	31,187	31,367	4	149	153	-	153	26,510	(3,523)	22,987	23,140
Trans Executive Airlines Of Hawaii, Inc.	50,127	23,091	143,751	216,969	38,190	19,559	57,749	(9,866)	47,883	125,029	(20,231)	104,798	152,681
Wings Over Kauai LLC	-	-	1,380	1,380	-	-	-	-	-	1,173	-	1,173	1,173
Total	716,325	156,539	773,694	1,646,558	$ 2,109,398	$ 135,447	$ 2,244,845	$ (44,546)	$ 2,200,299	$ 937,296	$ (86,483)	$ 850,813	$ 3,051,112

Summary of revenue landing weights:	
Overseas	612,206
Interisland	1,034,352
	1,646,558

Note: The above schedule presents airport landing fees billed to nonsignatory airlines for the year ended June 30, 2017.

APPENDIX C

General Economic Information About the State of Hawaii

General

The following material pertaining to economic factors in the State has been excerpted from the State of Hawaii Department of Business, Economic Development and Tourism (DBEDT) Second Quarter 2018 Quarterly Statistical and Economic Report (QSER) or from other materials prepared by DBEDT, some of which may be found at http://dbedt.hawaii.gov/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "CERTAIN ECONOMIC INFORMATION." The following descriptions of certain components of the State's economy are primarily related to the visitor industry, and DBEDT's outlook for the economy are below under "State of the Economy" and there is a brief description in the "Outlook for the Economy" section below explaining the impact of these components on the State's fiscal position.

DBEDT's latest forecast for the State's nominal Gross Domestic Product (GDP) (the value of all goods and services produced within the State, formerly called the Gross State Product or GSP) growth in 2018 is 1.9 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2019 State's GDP growth to be 1.6 percent over that of the previous year.

State of the Economy

Hawaii's major economic indicators were mostly positive in the first quarter of 2018. Visitor arrivals, visitor expenditures, State general fund tax revenues, wage and salary jobs, personal income (through the fourth quarter of 2017), private building authorizations, government contracts awarded and State CIP expenditures all increased in the quarter compared to the first quarter of 2017.

In the first five months of 2018, the total number of visitors arriving by air to Hawaii increased to 4,085,744, or by 8.4 percent over the same period in 2017. Total visitors by air spending increased 10.9 percent in the first five months to $7.66 billion. Historical data shows that, after seventeen quarters of positive growth from the third quarter of 2009 to the third quarter of 2013, Hawaii's tourism sector experienced one quarter of negative growth in the fourth quarter of 2013. Since the first quarter of 2014, however, Hawaii's tourism sector returned to positive growth compared with the same quarter in the previous year.

The U.S. Bureau of Economic Analysis (BEA) estimates of quarterly GDP show, in the fourth quarter of 2017, total annualized nominal GDP increased $3,707 million or 4.3 percent from the fourth quarter of 2016. In 2017, total annualized nominal GDP increased $3,232 million or 3.9 percent from the previous year. In the fourth quarter of 2017, total annualized real GDP (in chained 2009 dollar) increased $1,463 million or 2.0 percent from the fourth quarter of 2016. In 2017, total annualized real GDP increased $1,232 million or 1.7 percent from the previous year.

Outlook for the Economy

Hawaii's economy is expected to continue positive growth for 2018 and 2019. This outlook is based on the most recent developments in the national and global economies, the performance of Hawaii's tourism industry, labor market conditions, and the growth of personal income and tax revenues.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the May 2018 *Blue Chip Economic Consensus Forecasts*, U.S. real GDP is expected to increase by 2.8 percent in 2018, 0.1 of a percentage point above the growth rate projected in the January 2018 forecast. For 2019, the consensus forecast predicts an overall 2.6 percent growth in U.S. real GDP.

According to the May 2018 *Blue Chip Economic Consensus Forecast*, real GDP growth for Japan is now expected to increase 1.4 percent in 2018; same as the growth rate in the January 2018 forecast. For 2019, the consensus forecast now expects an overall 1.1 percent growth rate for Japanese real GDP.

Overall, Hawaii's economy, as measured by real GDP of $75,473 million in 2017, is projected to show a 1.9 percent increase in 2018, 0.2 of a percentage point above the growth rate forecasted last quarter. The real GDP growth forecast in 2019 is 1.6 percent, also the same as the previous forecast.

Visitor arrivals of 9,256,761 in 2017 are expected to increase 6.0 percent to 9,948,992 in 2018, a 3.3 percentage points above the previous forecast. The forecast for visitor days in 2018 increased 2.9 percentage points to 5.7 percent. The forecast for visitor expenditure growth in 2018 was revised upward to 8.6 percent, from 4.5 percent growth projected in the previous forecast. For 2019, the growth rate of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.2 percent, 1.4 percent, and 2.0 percent, respectively.

Beyond 2018, the economy is expected to continue its expansion path, with job growth projected to be 0.9 percent in 2020 and 0.8 percent in 2021. Visitor arrivals are expected to increase 1.4 percent in 2020 and 2021. Visitor expenditures are expected to increase 3.5 percent in 2020 and 2021. Real personal income is projected to increase 1.4 percent in 2020 and 1.2 percent in 2021. Hawaii's real GDP growth is expected to increase 1.4 percent in both 2020 and 2021. The unemployment rate is expected to increase to 3.0 percent in 2020 and 3.4 percent in 2021.

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Table 1

2018 QUARTERLY ECONOMIC INDICATORS:

STATE OF HAWAII

SERIES	1st QUARTER 2017	1st QUARTER 2018	1st QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2017	YEAR-TO-DATE 2018	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	689,200	685,800	-0.5	689,200	685,800	-0.5
Civilian employed, NSA	671,050	672,200	0.2	671,050	672,200	0.2
Civilian unemployed, NSA	18,150	13,600	-25.1	18,150	13,600	-25.1
Unemployment rate, NSA (%) 1/ 2/	2.6	2.0	-0.6	2.6	2.0	-0.6
Total wage and salary jobs, NSA	657,000	666,800	1.5	657,000	666,800	1.5
Total non-agric. wage & salary jobs	651,000	659,800	1.4	651,000	659,800	1.4
Nat. Resources, Mining, Constr.	36,100	36,200	0.3	36,100	36,200	0.3
Manufacturing	14,100	13,900	-1.4	14,100	13,900	-1.4
Wholesale Trade	17,900	18,100	1.1	17,900	18,100	1.1
Retail Trade	70,700	69,700	-1.4	70,700	69,700	-1.4
Transp., Warehousing, Util.	32,300	33,200	2.8	32,300	33,200	2.8
Information	9,100	8,900	-2.2	9,100	8,900	-2.2
Financial Activities	28,600	28,500	-0.3	28,600	28,500	-0.3
Professional & Business Services	81,600	83,700	2.6	81,600	83,700	2.6
Educational Services	14,400	14,100	-2.1	14,400	14,100	-2.1
Health Care & Social Assistance	69,100	72,000	4.2	69,100	72,000	4.2
Arts, Entertainment & Recreation	12,500	12,500	0.0	12,500	12,500	0.0
Accommodation	40,900	42,200	3.2	40,900	42,200	3.2
Food Services & Drinking Places	68,300	72,500	6.1	68,300	72,500	6.1
Other Services	27,600	28,000	1.4	27,600	28,000	1.4
Government	127,800	126,300	-1.2	127,800	126,300	-1.2
Federal	33,400	33,400	0.0	33,400	33,400	0.0
State	75,600	73,900	-2.2	75,600	73,900	-2.2
Local	18,800	19,000	1.1	18,800	19,000	1.1
Agriculture wage and salary jobs	6,000	7,000	16.7	6,000	7,000	16.7
State general fund revenues ($1,000)	1,575,636	1,705,829	8.3	1,575,636	1,705,829	8.3
General excise and use tax revenues	831,893	959,068	15.3	831,893	959,068	15.3
Income-individual	556,351	513,388	-7.7	556,351	513,388	-7.7
Declaration estimated taxes	177,743	179,715	1.1	177,743	179,715	1.1
Payment with returns	25,329	28,821	13.8	25,329	28,821	13.8
Withholding tax on wages	525,779	468,472	-10.9	525,779	468,472	-10.9
Refunds ('-' indicates relative to State)	-172,500	-163,620	-5.1	-172,500	-163,620	-5.1
Transient accommodations tax	139,611	156,356	12.0	139,611	156,356	12.0
Honolulu County Surcharge 3/	64,106	(NA)	(NA)	64,106	(NA)	(NA)
Private Building Permits ($1,000)	919,507	699,830	-23.9	919,507	699,830	-23.9
Residential	507,384	382,415	-24.6	507,384	382,415	-24.6
Commercial & industrial	101,405	76,057	-25.0	101,405	76,057	-25.0
Additions & alterations	310,717	241,359	-22.3	310,717	241,359	-22.3
Visitor Days - by air	21,155,927	22,767,447	7.6	21,155,927	22,767,447	7.6
Domestic visitor days - by air	14,648,285	16,015,032	9.3	14,648,285	16,015,032	9.3
International visitor days - by air	6,507,643	6,752,415	3.8	6,507,643	6,752,415	3.8
Visitor arrivals by air - by air	2,223,939	2,438,647	9.7	2,223,939	2,438,647	9.7
Domestic flight visitors - by air	1,451,142	1,626,754	12.1	1,451,142	1,626,754	12.1
International flight visitors - by air	772,797	811,893	5.1	772,797	811,893	5.1
Visitor expend. - arrivals by air ($1,000)	4,367,913	4,811,090	10.1	4,367,913	4,811,090	10.1
Hotel occupancy rates (%) 2/	81.4	82.9	1.5	81.4	82.9	1.5

(1) Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.

(2) Change represents absolute change in rates rather than percentage change in rates.
(3) 0.5% added to the general excise tax to pay for O‘ahu‘s mass transit system and took effect January 1, 2007.

Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.
Source: Hawaii State Department of Business, Economic Development, & Tourism <http://www.hawaii.gov/dbedt/inf>,

Hawaii State Department of Labor & Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>;
Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC.

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KEY ECONOMIC INDICATORS
Table 2
ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2016 TO 2021

Economic Indicators	2016	2017	2018	2019	2020	2021
	(Actual)		(Forecast)			
Total population (thousands)	1,429	1,428	1,435	1,443	1,452	1,462
Visitor arrivals (thousands) 1/	8,934	9,383	9,949	10,069	10,208	10,351
Visitor days (thousands) 1/	80,225	83,991	88,783	89,986	91,256	92,557
Visitor expenditures (million dollars) 1/	15,911	16,897	18,342	18,702	19,349	20,020
Honolulu CPI-U (1982-84=100)	265.3	272.0	279.1	286.6	294.9	304.1
Personal income (million dollars)	71,946	74,144	77,110	80,117	83,322	86,655
Real personal income (millions of 2009$) 2/	55,024	55,850	56,799	57,651	58,458	59,175
Non-agricultural w age & salary jobs (thousands)	646.1	652.7	660.5	666.5	672.5	677.9
Civilian unemployment rate 3/	2.9	2.4	2.2	2.5	3.0	3.4
Gross domestic product (million dollars)	84,904	88,136	91,661	95,144	98,855	102,710
Real gross domestic product (millions of 2009$)	74,241	75,473	76,907	78,137	79,231	80,340
Gross domestic product deflator (2009=100)	114.4	116.8	119.2	121.8	124.8	127.8
Annual Percentage Change						
Total population	0.2	-0.1	0.5	0.6	0.6	0.7
Visitor arrivals 1/	2.9	5.0	6.0	1.2	1.4	1.4
Visitor days 1/	2.0	4.7	5.7	1.4	1.4	1.4
Visitor expenditures 1/	5.3	6.2	8.6	2.0	3.5	3.5
Honolulu CPI-U	2.0	2.5	2.6	2.7	2.9	3.1
Personal income	3.3	3.1	4.0	3.9	4.0	4.0
Real personal income 2/	2.6	1.5	1.7	1.5	1.4	1.2
Non-agricultural w age & salary jobs	1.3	1.0	1.2	0.9	0.9	0.8
Civilian unemployment rate 3/	-0.7	-0.5	-0.3	0.3	0.5	0.4
Gross domestic product	3.7	3.8	4.0	3.8	3.9	3.9
Real gross domestic product	2.0	1.7	1.9	1.6	1.4	1.4
Gross domestic product deflator (2009=100)	1.7	2.1	2.1	2.2	2.5	2.5

(1) Visitors who came to Hawaii by air or by cruise ship. Expenditures includes supplementary expenditures. 2017 supplementary expenditure was estimated by DBEDT.
(2) Using personal income deflator developed by the U.S. Bureau of Economic Analysis and estimated by DBEDT.
(3) Absolute change from previous year.
Source: Hawaii State Department of Business, Economic Development & Tourism, May 24, 2018.

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Tourism

Visitor arrivals continue to be strong, with both domestic and international visitor arrivals increasing in the first quarter of 2018. Due to shorter lengths of stay, the daily visitor census increased less than the increase of visitor arrivals in the quarter. Since visitors spent more on a daily basis, total visitor spending increased more than the growth of the average total daily visitor census in the quarter. With the exception of the fourth quarter of 2013, visitor arrivals have increased since the third quarter of 2009.

The total number of visitor arrivals by air increased 214,708 or 9.7 percent to 2,438,647 in the first quarter of 2018, compared to the same quarter of 2017. The total average daily census was up 17,906 or 7.6 percent in the quarter. In 2017, total visitor arrivals by air increased 434,959 or 4.9 percent to 9,102,178, while the average daily census increased 10,850 or 5.0 percent from the previous year.

In the first quarter of 2018, total visitor arrivals on domestic flights increased 175,612 to 1,626,754 or 12.1 percent compared to the same quarter of 2017. In 2017, domestic arrivals were up 270,246 or 4.5 percent from the previous year.

In terms of major market areas, from the first quarter of 2017 to the same period of 2018, arrivals from the U.S. West increased 114,030 or 13.4 percent, arrivals from the U.S. East increased 49,607 or 9.6 percent, and arrivals from Japan decreased 1,037 or 0.3 percent. In 2017, arrivals from the U.S. West were up 179,059 or 4.9 percent; arrivals from the U.S. East were up 105,883 or 5.6 percent; and Japanese arrivals were up 80,630 or 5.4 percent from the previous year.

In the first quarter of 2018, the length of stay per visitor also increased. Due to the shorter length of stay, the average total daily visitor census increased less than the growth of visitor arrivals in the quarter. The total average daily visitor census was up 7.6 percent or 17,906 visitors per day in the first quarter of 2018, over the same quarter of 2017. The domestic average daily census increased 9.3 percent or 15,186 visitors per day, while the international average daily census increased 3.8 percent or 2,720 visitors per day. In 2017, the domestic average daily census increased 6,322 or 4.0 percent; and the international average daily census increased 4,528 or 7.6 percent from the previous year.

Nominal visitor expenditures by air totaled $4,811.1 million in the first quarter of 2018, up 10.1 percent or $443.2 million from the same quarter of 2017. In 2017, visitor expenditures increased $980.7 million or 6.2 percent compared with the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 10.5 percent or 314,141 seats in the first quarter of 2018, domestic seats increased 13.9 percent or 277,584 seats; international seats increased 3.7 percent or 36,557 seats, compared to the same quarter of 2017. In 2017, the number of total available seats increased 1.8 percent or 215,063 seats from the previous year.

In the first quarter of 2018, the statewide hotel occupancy rate averaged 82.9 percent, 1.5 percentage point higher than the same quarter of 2017. In 2017, the statewide hotel occupancy rate averaged 80.0 percent, 1.0 percentage point higher than the previous year.

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TABLE 3

VISITOR ARRIVALS BY AIR

Average Length of Stay, Visitor Days, Average Daily Census

	2014	2015	2016	2017	% Change 2014-2015	% Change 2015-2016	% Change 2016-2017
Total Arrivals							
Total	8,196,342	8,563,018	8,821,802	9,256,761	4.5	3.0	4.9
Domestic	5,486,059	5,782,140	5,968,779	6,239,025	5.4	3.2	4.5
International	2,710,283	2,780,878	2,853,023	3,017,736	2.6	2.6	5.8
Average Length of Stay							
Total	9.18	9.12	9.03	9.01	-0.7	-1.0	-0.2
Domestic	10.05	9.85	9.68	N/A	-2	-1.7	N/A
International	7.43	7.6	7.7	N/A	2.4	1.3	N/A
Visitor Days							
Total	75,269,197	78,086,081	79,669,135	83,411,666	3.7	2.3	4.7
Domestic	55,142,678	56,949,633	57,759,805	N/A	3.3	1.4	N/A
International	20,126,519	21,136,447	22,097,526	N/A	5	4.5	N/A
Average Daily Census							
Total	206,217	213,934	217,675	228,525	3.7	1.7	5.0
Domestic	151,076	156,026	157,953	164,275	3.3	1.2	4.0
International	55,141	57,908	59,723	64,250	5.0	3.1	7.6

Source: Hawaii Tourism Authority

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TABLE 4

HOTEL OCCUPANCY RATE (%)

Year	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	***Annual Average***
In Percent					
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012	80.3	73.8	78.9	74.5	76.9
2013	82.0	74.2	77.8	72.3	76.5
2014	80.8	74.0	78.7	74.7	77.0
2015	80.0	77.7	79.4	77.8	78.7
2016	80.7	77.5	80.5	77.5	79.0
2017 (1)	81.4	79.2	81.3	78.6	80.0
2018 (1)	82.9	(NA)	(NA)	Year-to-Date	82.9

The 2nd, 3rd, and 4th Quarter averages are computed by Hawaii State Department of Business, Economic Development & Tourism from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly averages from February 1995. The 1st quarter and Annual are as released or revised by source.
(1) Source revises each month of previous year when current year is released, i.e. 2016Q2, 2016Q3.
Source: Hawaii State Department of Business, Economic Development & Tourism, PKF-Hawaii and Hospitality Advisors LLC.

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APPENDIX D

Certain Definitions in the Certificate

The following are definitions of certain terms used in this Official Statement, the Certificate and the Thirty-Second Supplemental Certificate. Reference is hereby made to the Certificate and the Thirty-Second Supplemental Certificate for a complete recital of the terms therein, some of which are set forth below.

"***Accountant***" means the independent Certified Public Accountant or a firm of independent Certified Public Accountants of recognized standing employed by the Department pursuant to the Certificate and selected with special reference to his general knowledge, skill and experience in auditing books and accounts.

"***Additional Bond***" means any additional Bond at any time outstanding issued under the Certificate on parity with the Bonds.

"***Airport Revenue Fund***" means the special fund of that name created in the treasury of the State by Section 248-8, Hawaii Revised Statutes, as amended.

"***Annual Adjusted Debt Service Requirement***" means, with respect to any period of 12 consecutive months, the Debt Service Requirement for such period net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited, as the case may be, by the Director during such period into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account for the purposes of deposits into such accounts provided under the Certificate; and (ii) the amount of Federal Direct Payments deposited or irrevocably committed to be deposited, as the case may be, by the Director during such period into the Interest Account for the purpose of paying interest on any Bonds as provided in a Supplemental Certificate.

"***Available PFC Revenues***" means, with respect to all or a series of the Bonds, or any particular amount of any Bonds, as the case may be, and as of any particular date of computation and for any particular year, the amount of PFC Revenues transferred or irrevocably committed to be transferred, as the case may be, by the Director from the PFC Special Fund for deposit in such year into the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account for the purposes of deposits into such accounts provided under the Certificate, pursuant to a Supplemental Certificate providing for the use of such PFC Revenues. Any Available PFC Revenues so deposited in the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account pursuant to this paragraph shall be excluded from Revenues and shall solely be used to determine the Annual Adjusted Debt Service Requirement.

"***Aviation Fuel Taxes***" means the aviation fuel taxes levied and paid pursuant to Sections 243-4(a)(2) and 248-8, Hawaii Revised Statutes, as amended.

"***Bond***" or "***Bonds***" mean any Bond, some of the Bonds or all of the Bonds issued under and at any time outstanding pursuant to the Certificate, including without limitation Additional Bonds at any time outstanding and Certificate at any time outstanding.

"***Business Day***" shall mean a day: (i) other than a day on which banks located in Honolulu, Hawaii or the City of New York are required or authorized by law or executive order to be closed, (ii) other than a day on which the principal office of the Tender and Paying Agent is required or authorized by law or executive order to be closed, and (iii) on which the New York Stock Exchange is not closed.

"***Certificate***" means the Certificate as originally issued and, unless the context shall clearly indicate otherwise, as it may from time to time be supplemented, modified or amended by any Supplemental Certificate.

"***Code***" means the Internal Revenue Code of 1986, as amended.

"***Consulting Engineer***" means the individual engineer or firm of engineers appointed pursuant to the Certificate, who shall be an independent engineer or engineers, engineering firm or corporation, independent airport consultant or airport consulting firm and having a widely known reputation for skill and experience in the development, operation and management of airports of the approximate size and character as the airports constituting the Undertaking. The Consulting Engineer shall be available to advise the Department upon request, and make such investigations and determinations as may be necessary from time to time under the provisions of the Certificate.

"***Debt Service Requirement***" means with respect to all the Bonds or the 1969 Bonds or a series of Additional Bonds, or any particular amount of any of such Bonds, as the case may be, the total as of any particular date of computation and for any particular year of (i) the amount required to be paid or credited during such year to the Interest Account created in the Airport Revenue Fund to provide for the payment of interest on such Bonds; (ii) the amount required to be paid or credited during such year to the Serial Bond Principal Account created in the Airport Revenue Fund to provide for the retirement of any of such Bonds issued in serial form; and (iii) the amount required to be paid or credited during such year to the Sinking Fund Account created in the Airport Revenue Fund to provide for the retirement of any of such Bonds issued in term form.

"***Debt Service Reserve Requirement***" means, in connection with the issuance of any Additional Bonds, an amount equal to the sum of (i) the amount on deposit, immediately prior to the issuance of such Additional Bonds, in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein created by Section 6.01 of the Certificate, and (ii) the least of (a) the amount which, if added to the amount then on deposit in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein created by Section 6.01 of the Certificate, would cause the total amount then on deposit in said fund and on credit to said account to equal the maximum aggregate Annual Adjusted Debt Service Requirement for all Bonds outstanding in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (b) 10% of the initial offering price to the public of such Additional Bonds as determined under the Code, or (c) the amount which, if added to the amount then on deposit in the Airport Revenue Fund and on credit to the Debt Service Reserve Account therein created by Section 6.01 of the Certificate, would cause the total amount then on deposit in said fund and on credit to said account to equal 125% of the sum of the Annual Adjusted Debt Service Requirement for all Bonds outstanding for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of any Additional Bonds) and terminating with the last Fiscal Year in which any Debt Service Requirement for the Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the Department; provided, however, that in determining Annual Adjusted Debt Service Requirement with respect to any Bonds that constitute Variable Interest Rate Bonds, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been outstanding (or if such Bonds that constitute Variable Interest Rate Bonds have not yet been issued, then the interest rate on such Bonds shall be assumed to be equal to (i) for the first twelve (12) months, at the rate of interest for such Bonds as determined under the variable rate formula on the date of issue, and (ii) for each subsequent twelve (12) month period, at the rate of interest which is the weighted average rate of interest for such Bonds during the preceding twelve (12) month period). If, however, for purposes of (1) above, the amount on deposit is less than the required amount pursuant to Section 6.01, without giving effect to clause (2) therein, then the amount then on deposit in clause (1) above shall be replaced with the amount as required to be on deposit pursuant to Section 6.01, without giving effect to clauses (2) therein.

"***Department***" or "***Department of Transportation***" means the Department of Transportation established by Section 3 of the Hawaii State Government Reorganization Act of 1959 (Section 3 of Act 1, Session Laws of Hawaii, Second Special Session of 1959; Section 26-4, Hawaii Revised Statutes).

"***Department of Budget and Finance***" means the principal department established under the name "Department of Budget and Review" by Section 3 of the Hawaii State Government Reorganization Act of 1959 (Section 3 of Act l, Session Laws of Hawaii, Second Special Session of 1959; Section 26-4, Hawaii Revised Statutes), which name was changed to "Department of Budget and Finance" by Act 114, Session Laws of Hawaii 1963 and which Department under the Hawaii State Government Reorganization Act of 1959 has custody of State funds and is responsible for the safekeeping, management, investment and disbursement thereof and administers State debts.

"***Department Payment***" means any payment, other than a termination payment or payment occurring as a result of default or expense payment, required to be made by or on behalf of the Department under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.

"***Derivative Payment Date***" means any date specified in the Derivative Product on which a Department Payment is due and payable under the Derivative Product.

"***Derivative Product***" means a written contract or agreement between the Department and a Reciprocal Payor, which provides that the Department's obligations thereunder will be conditioned on the absence of: (i) a failure of the Reciprocal Payor to make an payment required thereunder when due and payable, and (ii) a default thereunder with respect to the financial status of the Reciprocal Payor; and (a) under which the Department is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the Department Payments in exchange for the Reciprocal Payor's obligation to pay or to cause to be paid to the Department, on the same scheduled and specified Derivative Payment Dates, the Reciprocal Payments, *i.e.*, the contract must provide for net payments; (b) for which the Department's obligations to make all or any portion of Department Payments may be secured by a pledge of lien on Revenues on a lien subordinate to the lien thereon of Bonds; (c) under which Reciprocal Payments are to be made directly into a bond fund for Bonds; (d) for which the Department Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product; and (e) for which Reciprocal Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product.

"***Director***" or "***Director of Transportation***" means the single executive heading the Department pursuant to Section 26 of the Hawaii State Government Reorganization Act of 1959 (Section 26 of Act 1, Session Laws of Hawaii, Second Special Session of 1959; Section 26-19, Hawaii Revised Statutes).

"***Director of Finance***" means the single executive heading the Department of Budget and Finance pursuant to Section 14 of the Hawaii State Government Reorganization Act of 1959, as amended (Section 14 of Act 1, Session Laws of Hawaii, Second Special Session of 1959, as amended; Section 26-8, Hawaii Revised Statutes).

"***Federal Direct Payments***" means amounts payable by the federal government to the Department, pursuant to Sections 54AA and 6431 of the Internal Revenue Code of 1986, as amended, with respect to any Bonds issued by the Department and designated as "Build America Bonds," in lieu of any credit otherwise available to the Holders of such Bonds.

"***Fiscal Year***" means the fiscal year for the State as established from time to time by said State, currently the period from July 1 in any year to and including the following June 30.

"***Governmental Obligations***" shall mean any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures or notes issued by any of the following Federal agencies: Bank for Cooperatives, Federal Land Banks, or Federal National Mortgage Association (including Participation Certificates); (iii) Public Housing Bonds, Temporary Notes, or Preliminary Loan Notes, fully secured by contracts with the United States, or (iv) full faith and credit direct obligations of any State, or unlimited tax direct obligations of any political subdivision thereof to the payment of which the full faith and credit of such political subdivision is pledged; provided that at the time of purchase such obligations are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in both New York and the State.

"***Holder***" or "***Bondholder***" means any person who shall be the bearer of any Bond not then registered, or the registered owner or his duly authorized attorney-in-fact, representative or assigns, of any Bond which shall at the time be registered other than to bearer.

"***Investment Securities***" means any of the following which at the time are legal investments under the laws of the State for the moneys held under the Certificate then proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following Federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (a) the United States Export-Import Bank (Eximbank) direct obligations or fully guaranteed Certificates of beneficial ownership, (b) Farmers Home Administration (FmHA) (now known as the United States Department of Agriculture, Rural Development) Certificates of beneficial ownership, (c) Federal Financing Bank, (d) Federal Housing Administration Debentures (FHA), (e) General Services Administration participation Certificates, (f) Government National Mortgage Association (GNMA or "Ginnie Mae"), (g) United States Maritime Administration Guaranteed Title XI financing, (h) United States Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures, United States Government guaranteed debentures, United States Public Housing Notes and Bonds, United States government guaranteed housing notes and bonds; (iii) Public Housing Bonds, Temporary Notes, or Preliminary Loan Notes, fully secured by contracts with the United States; (iv) full faith and credit direct obligations of any State, or unlimited tax direct obligations of any political subdivision thereof to the payment of which the full faith and credit of such political subdivision is pledged; provided that at the time of purchase such obligations are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in both New York and the State; (v) bank savings accounts, or time Certificates of deposits, or Certificates of deposit, open account; provided that such accounts or Certificates are collaterally secured in the manner provided by Section 38-2, Hawaii Revised Statutes, by securities which themselves are then eligible under the above clauses (i) through (iv) of this definition for the investment of moneys held under the Certificate and which have a market value at least equal to the amount held in such bank savings accounts or held under such Certificates of deposit; (vi) commercial paper which is rated at the time of purchase in the single highest classification: "A-1+" by Standard & Poor's Ratings Services, A Division of the McGraw Hill Companies, Inc. ("S&P") and "P-1" by Moody's Investors Service, Inc. ("Moody's"), and which have original maturities of not more than 270 days; (vii) (a) investments in money market funds having a rating of "AAAm", "AAAm G" or "AA-m" or better by S&P or "Aaa", "Aa1" or "Aa2" if rated by Moody's or (b) securities or interests in any mutual fund or any open-ended or closed-ended investment company or investment trust registered under the Federal Investment Company Act of 1940, including those mutual funds or investment companies or trusts for which the registration agent or an affiliate of the registration agent serves as an investment advisor, custodian, shareholder, servicing agent, transfer agent, administrator or distributor, if such mutual funds or investment companies or trusts are rated by S&P or Moody's in its highest rating category; (viii) (a) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (c) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively, "United States Obligations"); (ix) Federal Housing Administration Debentures; (x) the following obligations of government-sponsored agencies which are not backed by the full faith and credit of the U.S. government (stripped securities are only permitted if they have been stripped by the agency itself): (a) Federal Home Loan Banks (FHL Banks) Senior debt obligation, (b) Federal Home Loan (FMLMC), Participation Certificates; Senior debt obligations, (c) Federal National Mortgage Association (FNMA), Senior debt obligations, Mortgage-backed securities, (d) Student Loan Marketing Association (SLMA) Senior debt obligations, (e) Resolution Funding Corporation (REFCORP) debt obligations; (f) Farm Credit System, Consolidated system-wide bonds and notes; (xi) deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million; (xii) repurchase agreements with any domestic bank with a debt rated "AA" or better by S&P, or any foreign bank rated at least "AA" by S&P and "Aa" by Moody's, or with any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that such repurchase agreements meet the following requirements: (a) The market value of the collateral is maintain for United States Treasury Securities (and other United States Obligations acceptable to credit facility issuer) at levels acceptable to the credit facility issuer, (b) Failure to maintain the requisite collateral percentage will require the registration agent to liquidate the collateral, (c) The registration agent or a third party acting solely as agent for the registration agent has possession of the collateral or the collateral has been transferred to the registration agent in accordance with applicable state and federal laws (other than by means of entries on the repurchase agreement entity's books) at or before the time of payment, (d) The repurchase agreement shall state and an opinion of counsel shall be rendered that the registration agent has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof and to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds (in case of bearer securities, this means the trustee is in possession), (e) The collateral is free and clear of any third-party liens or claims, (f) An opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code, (g) There is or will be a written agreement governing every repurchase agreement transaction, (h) The registration agent represents that it has no knowledge of any fraud involved in the repurchase agreement transaction; (1) The registration agent receives the opinion of counsel (which opinion shall be addressed to the Department and the registration agent) that such repurchase agreement as legal, valid and binding and enforceable upon the provider in accordance with its terms, and that the repurchase agreement is a lawful investment for the funds of the State; (xiii) collateralized guaranteed investment contracts meeting the criteria then required by the issuer of any credit facility then in effect with respect to the Bonds outstanding; and (xiv) any pooled investment fund that invests solely in one or more of the investments described in (i) through (xiii) above.

"***Net Revenues and Taxes***" means for any past period the aggregate of the Revenues and collections of Aviation Fuel Taxes accrued in the normal course of business during such past period, and for any future period the aggregate of the Revenues and Aviation Fuel Taxes anticipated to be accrued in the normal course of business during such future period, minus for any such past period the aggregate of the following items actually paid or accrued during such past period, or minus for any such future period the aggregate of the following items anticipated to be accrued in the normal course of business as the case may be: (i) the expenses of operation, maintenance and repair of the properties constituting the Undertaking (including reserves therefor) and the expenses of the operation of the Department in connection with those properties; (ii) the amounts required by the Certificate to be credited to the Debt Service Reserve Account created in the Airport Revenue Fund; (iii) the amounts required by the Certificate to be credited to the Airports System Major Maintenance, Renewal and Replacement Account created in the Airport Revenue Fund; and (iv) the amounts required to be paid into the general fund of the State pursuant to the Certificate for all bond requirements for general obligation bonds which have been or are issued for purposes of the airports system or issued to refund bonds issued for such purposes.

"***Paying Agents***" means for all Bonds the Director of Finance of the State and for the 1969 Bonds the additional paying agents therefor appointed in the Certificate and for Additional Bonds the additional paying agents for the respective series of Additional Bonds of which such Additional Bonds are a part appointed, pursuant to the Certificate, in the Supplemental Certificate providing for the issuance of such series of Additional Bonds, including for the Series 2018 Bonds U.S. Bank National Association.

"***PFC***" means a passenger facility charge (i) collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Act of 1990, the Aviation Investment Reform Act of 2000 and 14 C.F.R. Part 158, as amended from time to time, in respect of any component of the Undertaking and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge proceeds; and (ii) deposited into the PFC Special Fund pursuant to Section 261-5.5, Hawaii Revised Statutes, as amended by Act 147, Session Laws of Hawaii 2009.

"***PFC Special Fund***" means the passenger facility charge special fund established in the treasury of the State by Section 261-5.5, Hawaii Revised Statutes, as amended by Act 147, Session Laws of Hawaii 2009.

"***Qualified Insurance***" means any non-cancelable municipal bond insurance policy or surety bond issued by an insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, is rated in the highest rating category by any rating agency which has rated all or any series of Bonds at the request of the State.

"***Qualified Letter of Credit***" means any irrevocable letter of credit issued by a financial institution, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest long term rating categories by one or more of the rating agencies which as rated all or any series of Bonds at the request of the State.

"***Reciprocal Payment***" means any payment to be made to, or for the benefit of, the Department under a Derivative Product by a Reciprocal Payor.

"***Reciprocal Payor***" means any bank or corporation, partnership or other entity which is a party to a Derivative Product and which is obligated to make one or more Reciprocal Payments thereunder.

"***Revenues***" means and includes all income, revenues and moneys derived by the State from the ownership by the State or operation and management by the Department of the Undertaking or the furnishing and supplying of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from the rates, rentals, fees and charges fixed, imposed and collected by the Department pursuant to Section 261-5, Hawaii Revised Statutes, as amended by Act 10, Session Laws of Hawaii 1969, and Section 261-7, Hawaii Revised Statutes, as amended or otherwise derived from or arising through the ownership, operation and management of the Undertaking by the State, or derived from the rental of all or part of the Undertaking or from the sale or rental of any commodities or goods in connection with the Undertaking; earnings on the investment of the proceeds of Bonds; to the extent provided in Section 6.02 of the Certificate, earnings on the investment of moneys held under the Certificate and the proceeds of the sale of any such investments; and to the extent provided in Article XI of the Certificate, income derived by the Department or otherwise derived by the State from a Special Facility Lease; provided, however, that the term "Revenues" shall not include moneys received as proceeds from the sale of Bonds or as grants or gifts, the use of which is limited by the grantor or donor to the construction of capital improvements, except to the extent that any such moneys shall be received as payments for the use of the Undertaking; and provided, further, that nothing in this definition shall be construed or interpreted as requiring the use and application directly or indirectly of any taxes, other than Aviation Fuel Taxes, to the payment of the Bonds. Additionally, the term "Revenues" shall not be construed to include the proceeds of any passenger facility charges which may be permitted by law, unless the inclusion of such proceeds is expressly provided for in a Supplemental Certificate.

"***Special Facility***" means any hangar, maintenance building or other structure and facility referred to under the caption "Special Facility Leases and Special Obligation Bonds" below.

"***Special Facility Lease***" means a lease for a Special Facility between the Department, as lessor, and the user of the Special Facility, as lessee, as described under the caption "Special Facility Leases and Special Obligation Bonds" below.

"***Special Obligation Bonds***" mean bonds of the Department issued to finance the construction of a Special Facility.

"***Spread***" means, with respect to the Make-Whole Redemption Premium for any particular Build America Bond, the percentage provided as such in a Supplemental Certificate.

"***State***" means the State of Hawaii.

"***Supplemental Certificate***" means a Certificate duly issued by the Director for any of the purposes of Article IX of the Certificate or otherwise supplemental to or amendatory of the Certificate but only if and to the extent specifically authorized of the Certificate.

"***Treasury Yield***" means, with respect to the Make-Whole Redemption Premium for any Build America Bond, the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recent Federal Reserve Statistical Release H.15(519) under the heading "Treasury Constant Maturities," for the maturity corresponding to the remaining term to maturity of such Build America Bond being redeemed. The Treasury Yield will be determined as of the third Business Day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Build America Bond being redeemed, then the Treasury Yield will be equal to such weekly average yield. In all other cases, the Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Build America Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Build America Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

"***Undertaking***" or "***Airports System***" means the statewide system of airports of the State and includes all airports, air navigation facilities and other related facilities and related properties (real, personal or mixed), and any rights or interests in airports, air navigation facilities and other related facilities and related properties, as of the date of the Certificate or thereafter belonging to or controlled by the State or under the administration, jurisdiction, control and management of the Department, and all equipment, improvements, extensions or betterments thereto thereafter constructed or acquired belonging to or controlled by the State, and without limiting the generality of the foregoing, the term "Undertaking" shall include (i) any and all of the following of or belonging or pertaining to such airports or air navigational facilities or such rights or interests: lands or water areas, rights-of-way, approaches, contract rights, airport terminal buildings, hangars and other buildings and facilities erected on such lands, runways, taxiways, paved areas access roads, parking lots, airport equipment and any other equipment and property (real, personal or mixed) incidental, to and included in such properties or parts thereof ; and (ii) each and every and all and singular, the properties and facilities constructed or acquired from the proceeds of the Territory of Hawaii Aviation Revenue Bonds, Series A, issued under Resolutions Nos. 59-03 and 59-04, adopted March 31, 1959 by the Hawaii Aeronautics Commission of the former Territory of Hawaii, or constructed or acquired from the proceeds of Bonds issued under the Certificate or constructed or acquired from the proceeds of any other bonds, notes or other evidences of indebtedness payable, or the principal or interest or both of which is reimbursable, from the Airport Revenue Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the Airport Revenue Fund or from moneys in any other fund maintained therefrom; provided, however, that the term "Undertaking" shall not include: (1) properties sold, leased or otherwise disposed of or transferred pursuant to the Certificate; and (2) properties subject to a Special Facility Lease, except to the extent provided in the Certificate.

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APPENDIX E

Summary of Certain Provisions of the Certificate

This Appendix E contains a summary of certain provisions of the Certificate as currently in effect. The summary includes summaries of the amended provisions, which amendments were approved by the Bondholders. The summary does not purport to be complete or to follow the exact language of the Certificate. The summary complements the summaries found under "DESCRIPTION OF THE SERIES 2018 BONDS" and "SECURITY FOR THE BONDS." Reference is made to the full text of the Certificate and the supplements thereto for the precise wording and the complete provisions of the Certificate. Copies of the Certificate are available upon request to the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

Application of Revenues and Aviation Fuel Taxes

So long as any Bonds remain outstanding, the Airport Revenue Fund shall be continued and all Revenues and all Aviation Fuel Taxes shall be deposited in the Airport Revenue Fund, to be used and applied solely as provided in the Certificate. The Airport Revenue Fund and the Revenues and Aviation Fuel Taxes and any other, moneys deposited or to be deposited therein shall be appropriated, applied or expended in the amount necessary therefor for the following purposes and in the following order of priority:

FIRST: For payment of the costs of operation, maintenance and repair of the properties constituting the Undertaking, including reserves therefor, and the expenses of the operation of the Department of Transportation in connection with those properties.

SECOND: For the payment when due all Bonds and interest thereon, including reserves therefor, which payment shall be provided for as follows:

Interest Account. Monthly credits shall be made to the Interest Account for the purpose of paying the interest on the Bonds as and when the same become due.

Serial Bond Principal Account. Monthly credits shall be made to the Serial Bond Principal Account for the purpose of paying the principal of Bonds issued in serial form, commencing with the first business day of the month which is twelve months prior to the first principal payment date of such Bonds issued in serial form and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Sinking Fund Account. Monthly credits shall be made to the Sinking Fund Account for the purpose of providing for the retirement of the principal of Bonds of any series issued in term form, commencing with the first business day of the month which is twelve months prior to the first date upon with Bonds of any series issued in term form would be required to be redeemed and on the first business day of each month thereafter so long as any such Bonds are outstanding.

Application of Moneys Credited to the Interest Account, Serial Bond Principal Account and Sinking Fund Account. The moneys on deposit in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and the Sinking Fund Account therein shall be used and applied solely to the payment of the interest on and the retirement of the principal of the Bonds and shall be so used and applied in accordance with the foregoing provisions. The moneys credited to said accounts shall be transferred by the Director of Finance, without further authorization or direction, to the respective paying agents for said Bonds and the coupons, if any, pertaining thereto, in such amounts and at such times as shall be necessary to pay the principal, premium, if any, and interest on said Bonds as the same become due and payable, whether upon their maturity or upon the redemption or the purchase thereof from the moneys credited to the Sinking Fund Account.

Debt Service Reserve Account. The Debt Service Reserve Account is created in order to provide a reserve for the payment of the principal and interest and premium, if any, on the Bonds. Subject to the remaining provisions of this paragraph with respect to the credits to be made to the Debt Service Reserve Account upon the issuance of Additional Bonds, the moneys on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein shall always be maintained at an amount equal to the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding, and, if at any time the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are less than said maximum required to be maintained therein, there shall be credited to this account from the first moneys available therefor after all payments and credits required by the preceding provisions of this priority item "SECOND" have been met, such amounts as shall be necessary until there is again on credit to the Debt Service Reserve Account an amount at least equal to the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding. If on the first day of any Fiscal Year the moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein are in excess of the maximum aggregate Annual Adjusted Debt Service Requirement for any future year for all Bonds at the time outstanding, the amount of such excess shall be paid into the Airport Revenue Fund, to be used and applied as are all other moneys deposited in or on deposit in that fund; provided that, in anticipation of the issuance of Additional Bonds hereunder, the Department may direct that all or part of such excess amount may be retained in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein. In the event of the issuance of any Additional Bonds, unless upon the delivery of such Additional Bonds there shall then already be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), there shall (1) be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein such amount, if any, of the proceeds of the sale of such Additional Bonds as the Department may determine, or, at the option of the Department, Revenues, a Qualified Letter of Credit or Qualified Insurance, so that there shall then be on deposit in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds (including such Additional Bonds), or (2) if and to the extent there shall not be paid into the Airport Revenue Fund for credit to the Debt Service Reserve Account therein proceeds of such Additional Bonds, or, at the option of the Department, Revenues, a Qualified Letter of Credit or Qualified Insurance, in an amount so that there shall then be on credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds to be outstanding upon the issuance of such Additional Bonds, there shall be credited to the Debt Service Reserve Account, at such time or from time to time as the Department may determine, such amount or amounts, as the Department may determine, of the moneys available therefor after all payments and credits required by the preceding provisions of this priority item "SECOND" have been met, so that by no later than five (5) years from the date of such Additional Bonds there shall then be on deposit in the Airport Revenue Fund for credit to the Debt Service Reserve Account therein an amount equal to the Debt Service Reserve Requirement for all Bonds then outstanding, exclusive of other Additional Bonds which may have been issued during such five (5) year period and with respect to which credits are then being made to the Debt Service Reserve Account in accordance with this sentence. The moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein shall, except for the transfer therefrom to the Airport Revenue Fund of excess amounts therein as heretofore permitted in this paragraph, be used and applied solely for the purpose of paying the principal of and interest and premium, if any, on the Bonds when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Sinking Fund Account in the Airport Revenue Fund, and shall be so used and applied whenever there are insufficient moneys in the Airport Revenue Fund on credit to the Interest Account, Serial Bond Principal Account and Sinking Fund Account therein for such purposes. Before, however, applying any moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account therein to such payment, there shall first be applied to such payment all other moneys in the Airport Revenue Fund lawfully available therefor, which other moneys shall also constitute a reserve hereunder for the payment of the principal, premium, if any, and interest on the Bonds.

THIRD: The Major Maintenance, Renewal and Replacement Account provides a further and additional reserve for the payment of the Bonds. During each Fiscal Year, there shall be credited to the Major Maintenance, Renewal and Replacement Account, at such time or times in each Fiscal Year as shall be determined by the Department, an aggregate amount of $600,000, or such larger amount as the Department may from time to time determine) in each such year, or so much of such sum as is available for that purpose, until there shall be in the Airport Revenue Fund on credit to this account the sum of $2,400,000; provided, that, if the Consulting Engineer shall certify to the Department that in his opinion the aforesaid aggregate sum of $2,400,000 is insufficient for the purposes for which this account is created and if the Department in its sole discretion shall determine to increase said aggregate sum by all or any part of the amount of the increase recommended by the Consulting Engineer, the aforesaid credits to this account shall be resumed, or may be increased if credits to this account are then being made, until such larger sum (if any) deemed advisable by the Department is then on credit thereto. If, however, on the first day of any Fiscal Year the moneys credited to the Major Maintenance, Renewal and Replacement Account are in excess of $2,400,000 or such larger sum as is deemed advisable by the Department, as aforesaid, the amount of such excess may be transferred back into the Airport Revenue Fund, to be used and applied as are all other moneys deposited or on deposit in that fund. The money on credit to the Major Maintenance, Renewal and Replacement Account shall be applied only (i) to make up deficiencies in the Interest Account, Serial Bond Principal Account and Sinking Fund Account created in the Airport Revenue Fund, and (ii) for major maintenance, repairs, renewals and replacements as shall not be annually recurring in nature of the properties constituting the Undertaking, including runways, taxiways and access roads. Whenever moneys are withdrawn from this account, the aforesaid credits shall be resumed, or may be increased if credits to this account are then being made, until the amount on credit to this account shall equal the amount required to be on credit thereto from time to time. In addition, payment shall be provided for such purposes, within the jurisdiction, powers, duties and functions of the Department, including the creation and maintenance of reserves, as are otherwise covenanted in the Certificate or in any Supplemental Certificate.

FOURTH: To reimburse the general fund of the State for all bond requirements for general obligation bonds which are or shall have been issued for the Undertaking or issued to refund any of such general obligation bonds or to refund any of the Territory of Hawaii Aviation Revenue Bonds, Series A, except insofar as such obligation of reimbursement has been or shall be cancelled by the Legislature, such bond requirements being, unless otherwise provided by law, the interest on term and serial bonds, sinking fund for term bonds and principal of serial bonds maturing the following year.

FIFTH: To provide for betterments and improvements to the Undertaking, including reserves therefor.

SIXTH: To provide such special reserve funds and other special funds as are or may be created by law.

SEVENTH: To any other purpose connected with or pertaining to the Bonds or the Undertaking, or both, authorized by law.

In the event that the Revenues and Aviation Fuel Taxes at any time or from time to time are insufficient to make in full the foregoing payments, deposits and credits as required by and in accordance with items “FIRST” through “SEVENTH” above, all the Revenues and Aviation Fuel Taxes shall thereafter be applied, used, paid, deposited and credited, in accordance with all the foregoing provisions, to the satisfaction in full of an item having a higher priority before being applied, used, paid, deposited and credited to an item having a lower priority, including by the making up of any deficiencies in the amounts required to satisfy an item having a higher priority before being applied to an item having a lower priority.

Unless and until adequate provision has been made for the foregoing purposes, the State shall not have the right to transfer to its general fund or apply to any other purposes any part of the Revenues or Aviation Fuel Taxes.

The Debt Service Reserve Account shall be maintained by deposits of cash, a Qualified Letter of Credit or Qualified Insurance, or a combination of the foregoing. To the extent that the Department obtains a Qualified Letter of Credit or Qualified Insurance in substitution for cash or securities in the Debt Service Reserve Account, an amount of the money on deposit in the Debt Service Reserve Account equal to the face amount of the Qualified Letter of Credit or Qualified Insurance shall be transferred to the Airport Revenue Fund to be used and applied as are all other moneys deposited in or on deposit in that fund. In computing the amount on deposit in the Debt Service Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the face amount thereof, and all other obligations purchased as an investment of moneys therein shall be valued at market at least annually.

The market value of securities then credited to the Debt Service Reserve Account shall be determined and any deficiency in the Debt Service Reserve Account shall be made up in equal installments within six months after the date of such valuation. As used in this paragraph, the term cash shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier’s check.

Investment of Moneys in Funds and Accounts

Moneys in the Airport Revenue Fund on credit to the Interest Account, the Serial Bond Principal Account and the Sinking Fund Account therein shall be invested by the Director of Finance in Investment Securities so as to mature in such amounts and at such times so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at the maturity thereof, or upon the redemption or the purchase thereof from moneys credited to the Sinking Fund Account in said fund. Moneys in the Airport Revenue Fund on credit to the Debt Service Reserve Account and the Major Maintenance, Renewal and Replacement Account shall be invested by the Director of Finance in Investment Securities so as to mature as directed by the Department within twelve (12) years from the date of investment, but in any event by no later than the last or final maturity date of the Bonds then outstanding. The Department hereby grants its approval for all investments made by the Director of Finance pursuant to this paragraph, and no further. approvals of the Department shall be necessary therefor. Income derived from investments made pursuant to this paragraph shall be treated as Revenues of the Undertaking; expenses of purchase, safekeeping, sale and redemption and all other expenses attributable to such investments shall be proper expenses of the Undertaking. Securities so purchased shall be considered as being deposited in the custody or control of the Director of Finance by the Department of Transportation. All moneys in the Airport Revenue Fund, the investment of which is not heretofore provided in this paragraph, may be invested, and the income from such investments disbursed or applied, as may be provided by applicable law. All securities shall constitute a part of the respective fund and account from which the investment therein was made. For the purposes of making any calculations or computations at any time and from time to time of the amounts in the Airport Revenue Fund or any fund or account therein which may be required for the purposes of the Certificate, all investments shall be valued at the lower of their face amount or the then market value thereof.

The following shall be conditions precedent to the use of any Derivative Product: (1) the Department shall obtain an opinion of its bond counsel on the due authorization and execution of such Derivative Product opining that the action proposed to be taken by the Department is authorized or permitted by the Certificate or the applicable provisions of any Supplemental Certificate providing for the issuance of a series of Bonds, as such Certificates may be amended or supplemented from time to time and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any Bonds then outstanding; (2) each Derivative Product shall set forth the manner in which the payments are to be calculated and a schedule of Derivative Payment Dates; and (3) prior to entering into a Derivative Product, the Department shall issue a Supplemental Certificate, which shall (i) create and establish a Derivative Product Account or provide for some other way to account for the use of a Derivative Product; (ii) establish general provisions for the retention of Revenues in amounts sufficient to make, when due, payments by the Department; (iii) establish general provisions for the rights of providers of Derivative Products; and (iv) set forth such other matters as the Department deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Supplemental Certificate. Except as may be otherwise provided in the Supplemental Certificate establishing a Derivative Product Account, Additional Bonds may be delivered in connection with any Derivative Product. The Certificate may be amended in the future to reflect the lien position and priority of any payments made in connection with a Derivative Product; provided, however, that the lien on Net Revenues and Taxes of payments under Derivative Products must be subordinate to the lien thereon of outstanding Bonds.

Rate Covenant

The Department shall impose, prescribe and collect rates, rentals, fees or charges for the use and services of and the facilities and commodities furnished by the Undertaking, and shall revise such rates, rentals, fees or charges from time to time whenever necessary, so that, together with the proceeds of the Aviation Fuel Taxes, the Undertaking shall be and always remain self-sustaining. The rates, rentals, fees or charges imposed, prescribed and collected shall be such as will produce Revenues which, together with the proceeds of the Aviation Fuel Taxes, will be at least sufficient: (1) to make the required payments of the principal of and interest on all Bonds, including reserves therefor, and the payment of all other bonds, notes, certificates or other evidences of indebtedness and interest thereon, including reserves therefor for the payment of which the Revenues or the Aviation Fuel Taxes, or both, are or shall have been pledged, charged or otherwise encumbered, or which are otherwise payable from the Revenues or the Aviation Fuel Taxes, or both, or from a special fund or account maintained or to be maintained therefrom; (2) to pay the costs of operation, maintenance and repair of the Undertaking, including reserves therefor, and the expenses of the Department in connection with such operation, maintenance and repair; (3) if and to the extent then required by law, to reimburse the general fund of the State for all bond requirements for general obligation bonds which are or shall have been issued for the Undertaking, or issued to refund any of such general obligation bonds or to refund the Territory of Hawaii Aviation Revenue Bonds, Series A; and (4) to carry out the provisions and covenants of the Certificate, including, without limiting the generality of all the foregoing, the making of all payments and credits required the application of revenues provisions thereof. Without limiting the provisions of the next preceding sentence, at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, fixed, enforced and collected which will, together with that amount of unencumbered funds on deposit in the Airport Revenue Fund on the last day of a Fiscal Year which the Department shall certify as Revenues to the Director of Finance for the next succeeding Fiscal Year solely for the purposes of this test, yield Net Revenues and Taxes with respect to the then immediately ensuing twelve months in an amount at least equal to one and twenty five hundredths (1.25) times the aggregate of (i) the interest payments for such twelve months on all Bonds then outstanding; (ii) the principal amount of all Bonds then outstanding maturing by their terms during such twelve months; and (iii) the minimum payments into the Sinking Fund Account required to be made during such twelve months.

The Legislature of the State has covenanted, pledged and obligated itself to impose, or continue to impose, Aviation Fuel Taxes in amounts at least sufficient, together with the Revenues, so that the Undertaking shall be and always remain self-sustaining.

Other Covenants

In addition to the Rate Covenant, the Department also covenants to, among other things: (1) complete acquisitions and constructions promptly; keep the Undertaking in good repair; make improvements and betterments thereto, manage the Undertaking efficiently, not sell, lease or Dispose of the Undertaking and dispose of worn-out or useless property; (2) file with the Director of Finance a signed copy of the annual report of the Accountant for the preceding Fiscal Year in reasonable detail, and showing among other things for such year the Net Revenues and Taxes (including any unencumbered funds on deposit in the Airport Revenue Fund on the last day of the Fiscal Year preceding the Fiscal Year for which the calculation is made, so designated as Revenues by the Department to the Director of Finance) and the aggregate Debt Service Requirement of the Bonds; (3) not create or give any mortgage, lien, pledge, charge or other encumbrance upon any real or personal property constituting the Undertaking or upon the Revenues, the Aviation Fuel Taxes and the money in the Airport Revenue Fund, other than the liens, pledges and charges specifically created under the Certificate or specifically permitted thereby; (4) keep or cause to be kept insured the properties constituting the Undertaking; (5) maintain and keep proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking and cause such accounts to be audited by the Accountant within one hundred eighty (180) days after the close of each Fiscal Year; (6) retain and appoint from time to time a Consulting Engineer; (7) perform punctually all duties and obligations with respect to the properties constituting the Undertaking; (8) prepare and file with the Legislature and the proper officers of the State, including the Director of Finance, at the time and in the manner prescribed by law, an estimated budget or budgets of Revenues and Aviation Fuel Taxes and other income, expenses of operation, maintenance and repair of the Undertaking, capital improvements, and any other proposed expenditures; (9) duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges or surcharges or payments in lieu thereof lawfully imposed upon the properties constituting the Undertaking or upon the Revenues or upon the Aviation Fuel Taxes or upon the Airport Revenue Fund, or any required payments in lieu thereof; (10) employ competent supervisory personnel for the operation and management of the properties constituting the Undertaking; (11) pass, make, do, execute, acknowledge and deliver all and every such further certificates, resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming the rights, Revenues, Aviation Fuel Taxes and other funds hereby pledged to the payment of the Bonds; and (12) duly and punctually pay, but only from the proceeds of the Bonds and the Revenues and Aviation Fuel Taxes, the principal of and premium, if any, and interest on each and every Bond on the dates, at the place or places and in the manner provided in the Bonds.

Amending and Supplementing the Certificate

The Department may issue Supplemental Certificates to amend the Certificate without the consent of Bondholders, if the provisions of such Supplemental Certificate shall not adversely affect the rights of the holders of the Bonds then outstanding, for any one or more of the following purposes: (1) to make any changes or corrections in the Certificate or any Supplemental Certificate as to which it shall have been advised by its counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained herein or in any such Certificate supplemental hereto, or to insert such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable; provided that such modifications are not contrary to or inconsistent with the Certificate as originally issued or as amended with the consent of Bondholders; (2) to add additional covenants and agreements of the State for the purpose of further securing the payment of the Bonds; provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements contained in the Certificate as originally issued or as amended with the consent of Bondholders; (3) to surrender any right, power or privilege reserved to or conferred upon the State by the terms of the Certificate or any Supplemental Certificate; (4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any Supplemental Certificate; (5) to grant to or confer upon the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; (6) to prescribe further limitations and restrictions upon the issuance of the Bonds and the incurring of indebtedness by the State payable from the Revenues and Aviation Fuel Taxes which are not contrary to or inconsistent with the Certificate as originally issued or as amended with the consent of Bondholders; and (7) to modify in any other respect any of the provisions of the Certificate, or any Supplemental Certificate, previously adopted; provided that such modifications shall have no effect as to any Bond or Bonds which are outstanding as of the issuance of such Supplemental Certificate.

With the consent of the holders of not less than fifty per centum (50%) of the Bonds then outstanding, the Department may make and execute an instrument or certificate amending or supplementing the provisions of the Certificate for the purposes of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any Supplemental Certificate, or modifying in any manner the rights of the holders of the Bonds and coupons then outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no such instrument or certificate amending or supplementing the provisions of the Certificate shall: (1) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any such instrument or certificate amending or supplementing the provisions thereof; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured hereby. A modification or amendment of the provisions with respect to the Airport Revenue Fund or the Interest Account, Serial Bond Principal Account, Sinking Fund Account or Debt Service Reserve Account therein shall not be deemed a change in the terms of payment; provided, however, that no such modification or amendment shall, except upon the consent of the holders of all Bonds then outstanding affected thereby, reduce the amount or amounts required to be deposited in the Airport Revenue Fund for credit to the interest Account, Serial Bond Principal Account, Sinking Fund Account or Debt Service Reserve Account therein.

Upon the issuance of any Certificate amending or supplementing the provisions of the Certificate and the delivery thereof to the Director of Finance, together with an opinion of counsel to the Department, or upon such later date after delivery of such Certificate and opinion to the Director of Finance as may be specified in such Certificate, the Certificate and the Bonds shall be modified and amended in accordance with such Supplemental Certificate, and the respective rights, limitations of rights, obligations, duties and immunities under the Certificate of the State, including the Department of Transportation thereof, and of the holders of the Bonds and coupons shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all of the terms and conditions of any such amending or supplementing Certificate shall be a part of the terms and conditions of the Bonds and of the Certificate for any and all purposes.

No Certificate changing, amending or modifying any of the rights or obligations of the Director of Finance or other fiscal agent (including any paying agent, transfer agent or registrar) may be adopted without the written consent of the Director of Finance or other fiscal agent affected thereby, as the case may be.

Events of Default

The following constitute "Events of Default":

- If payment of the principal and premium (if any) of any Bond, whether at maturity or by proceedings for redemption, by declaration, or otherwise, shall not be made after the same shall become due and payable; or

- If payment of any installment of interest on any Bond shall not be made within thirty days after the same shall become due and payable; or

- If the credits to the Sinking Fund Account in the Airport Revenue Fund shall not be made or satisfied in any year ending June 30 in the amount required for such year and such failure shall have continued for sixty (60) days after the expiration of such year; or

- Unless all the Bonds then outstanding shall have been called for retirement or for redemption, if the Undertaking or any building or facility constituting a part thereof shall be destroyed or damaged so as to reduce the aggregate of the Revenues and Aviation Fuel Taxes below the amount Rate Covenant to be produced and maintained and the Department does not, to the extent of the proceeds of insurance or self-insurance and the moneys on deposit in the Airport Revenue Fund to the credit of the Major Maintenance, Renewal and Replacement Account available therefor, promptly repair or reconstruct such destroyed or damaged building or facility, or does not promptly erect or substitute in place of the building or facility destroyed or damaged other buildings and facilities which produce revenues and with respect to which Aviation Fuel Taxes are derived, comparable to those produced by or derived with respect to the building or facility destroyed or damaged, and does not subject to the lien of the Certificate and deposit in the Revenue Fund an amount of the revenues to be derived therefrom or of the aviation fuel taxes derived with respect thereto, comparable to those theretofore derived from or with respect to the building or facility destroyed or damaged, which amounts so deposited shall constitute Revenues or Aviation Fuel Taxes as the case may be, to be used and applied as are all other Revenues and Aviation Fuel Taxes; provided that nothing in this clause shall be deemed to require the repairing, reconstruction or replacement of any building or facility which at the time of such destruction or damage was unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the security and payment of the Bonds; or

- If the Department shall fail in the due and punctual performance of the certain components of the Rate Covenant, or shall fail to impose, prescribe, and collect rates, rentals, fees and charges for the use and services of and the facilities and commodities furnished by the Undertaking, and to revise such rates, rentals, fees and charges from time to time whenever necessary, so as to produce Revenues and Aviation Fuel Taxes which are at least equal to the greater of (1) the aggregate of the amounts required for the Undertaking to be self-sufficient under the Certificate, and (2) the amount equal, after deducting from the Revenues and Aviation Fuel Taxes the payments and credits required to be transferred to the Interest Account, Serial Bond Principal Account, Sinking Fund Account and Debt Service Reserve Account for the payment of debt service on Bonds during the then immediately ensuing twelve months, to one and twenty-five hundredths (1.25) times the aggregate Debt Service Requirement for such twelve months for all Bonds then outstanding, or if the Legislature of the State shall fail in the due and punctual performance of its pledge, covenant and obligation to impose, or continue to impose, Aviation Fuel Taxes in amounts which, together with the Revenues, aggregate at least the greater of the amounts set forth in clauses (1) and (2) of this paragraph, and any such failure shall continue for ninety days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Department by the holders of not less than twenty per cent (20%) of the principal amount of the Bonds then outstanding or any trustee or committee therefor; or

- If the Department shall fail in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate (other than the covenants, conditions, agreements and provisions regarding the Rate Covenant) or in any Supplemental Certificate, on the part of the Department to be performed, and such failure shall continue for ninety (90) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Department by the holders of not less than twenty per cent (20%) in principal amount of the Bonds then outstanding or any trustee or committee therefor; or

- If any proceedings shall be instituted, with the consent or acquiescence of the State, for the purpose of effecting a composition between the State and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or Aviation Fuel Taxes or any other moneys pledged and charged in any Supplemental Certificate, or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute; or

- If an order or decree shall be entered (a) with the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof; or (b) without the consent or acquiescence of the State or the Department, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof and such order or decree having been entered, shall not be vacated or discharged or stayed on appeal within sixty (60) days after the entry thereof; or

- If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Undertaking or any of the buildings and facilities thereof, and such custody or control shall not be terminated within ninety (90) days from the date of assumption of such custody or control; or

- If the Department shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

Remedies

In case any one or more of the Events of Default shall happen and be continuing, then and in every such case, but subject to certain provisions of the Certificate concerning certain remedies, the holder of any Bond at the time outstanding shall have the right, for the equal benefit and protection of all holders of the Bonds similarly situated, to proceed and protect and enforce the rights vested in such holders by the Certificate by such appropriate judicial proceeding as such holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any duty, obligation, covenant or agreement contained in the Certificate or required by law, or to enjoin any acts or things which may be unlawful or in violation of the provisions of the Certificate and of the rights of the holders of the Bonds under the Certificate or under such laws, or in aid of the exercise of any power granted in the Certificate, or to enforce any other legal or equitable right vested in the holders of Bonds by the Certificate or by law, or to bring suit upon the Bonds.

Special Facility Leases and Special Obligation Bonds

The State, either in its own name or acting by and through the Department, may enter into contracts, leases or other agreements pursuant to which the Department will agree to construct a hangar, maintenance building or other aviation or airport or air navigation facility on land constituting part of the Undertaking or will agree to acquire or construct a hangar, maintenance building or other aviation or airport or air navigation facility on land not then constituting part of the Undertaking (which land if not then owned by the State may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure, or other facility (including the site thereof) for aviation or airport or air navigation purposes (all said hangars, maintenance buildings or other structures and facilities being referred to in under this heading as the “Special Facility”), and lease such Special Facility under certain conditions as provided in the Certificate.

The term “Special Facility Lease” shall mean a lease of property, under and pursuant to which the lessee agrees to pay to the Department the certain required rentals as provided in the Certificate, and to pay in addition all

costs connected with the ownership, operation, maintenance, repair, renewals and rehabilitation of the leased property (including, without limitation, insurance, utilities, taxes or payments in lieu of taxes) under such conditions so that the amounts payable to the Department pursuant to said lease (exclusive of certain additional rental and of the ground rental, if any, in each case payable pursuant to the Certificate) shall be certainly paid free and clear of all charges and whether the leased property is capable of being occupied and used by the lessee or not.

The State, acting by and through the Department or otherwise, may issue Special Obligation Bonds for the purpose of constructing a Special Facility on ground then constituting part of the Undertaking or on ground not then constituting part of the Undertaking (which ground may then be owned by the State or acquired for that purpose), or to acquire and renovate and rehabilitate a Special Facility (including the acquisition of necessary land), for lease pursuant to the Certificate. Such Special Obligation Bonds (i) shall be payable solely from the rentals payable pursuant to the Certificate by the lessee under the Special Facility Lease entered into with respect to the Special Facility to be financed from such Special Obligation Bonds; (ii) shall not be a charge or claim against or payable from the Revenues or the Aviation Fuel Taxes or any other moneys in the Airport Revenue Fund; (iii) shall mature within both the useful life of the Special Facility to be financed from such Special Obligation Bonds and the term of the Special Facility

Lease entered into with respect to such Special Facility; and (iv) shall not be issued unless and until there shall have been filed with the Department an opinion of Counsel to the Department that the leases for the Special Facility to be financed from such Special Obligation Bonds are valid and binding according to their terms and comply with the provisions of the Certificate.

Discharge of Obligations

The obligations of the State, including the Department, under the Certificate (including any Supplemental Certificate) and the pledges and trusts and the covenants and agreements of the State, including the Department, shall be fully discharged and satisfied as to any Bond, and the lien and charge of such Bond on the Revenues and Aviation Fuel Taxes shall be released, discharged and satisfied, and such Bond shall no longer be deemed to be outstanding hereunder when: (a) such Bond shall have been purchased and cancelled by the State or surrendered to the Director of Finance or other paying agent, transfer agent or registrar for cancellation or be subject to cancellation by him or it, or (b) payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in the Certificate, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with the Director of Finance or other paying agent for such Bond, in trust and irrevocably set aside exclusively for such payment, moneys sufficient to make such payment or Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and all necessary and proper fees, compensation and expenses of the paying agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of said paying agents. At such time as a Bond shall no longer be deemed to be outstanding hereunder, as aforesaid, such Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or by declaration as aforesaid, or otherwise) and, except for the purposes of any such payment from such moneys or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Certificate.

If any Bond shall not be presented for payment when the principal thereof shall become due, whether at maturity or upon redemption or prepayment or by declaration as provided in the Certificate or otherwise, or if any coupon shall not be presented for payment at the due date thereof, and if moneys or Governmental Obligations shall have been deposited in accordance with the terms of the Certificate with any paying agent therefor other than the Director of Finance, in trust for that purpose and sufficient and available to pay the principal and the premium, if any, of such Bond, together with all interest due thereon to the due date thereof or to the date fixed for the redemption or prepayment thereof, or to pay such coupon, as the case may be, then, subject to certain provisions the Certificate, all liability of the State for such payment shall forthwith cease, determine and be completely discharged and thereupon it shall be the duty of such paying agent to hold said moneys or Government Obligations, without liability to such Bondholder for interest thereon, in trust for the benefit of the holder of such Bond or coupon, who thereafter shall be restricted exclusively to said moneys or Governmental Obligations for any claim for such payment of whatsoever nature on his part.

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APPENDIX F

Form of Bond Counsel Opinion

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August 22, 2018

Jade Butay
Director of Transportation
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

$________________
State of Hawaii
Airports System Revenue Bonds

consisting of

$______________ Series 2018A (AMT)	**$______________ Series 2018B (Non-AMT)**

Dear Mr. Butay:

At the request of the State of Hawaii (the "State") acting through its Department of Transportation (the "Department"), we have acted as Bond Counsel in connection with the issuance of by the State of its (i) $______________aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2018A (AMT) (the "Series 2018A Bonds") and (ii) $______________aggregate principal amount of State of Hawaii Airports System Revenue Bonds, Series 2018B (Non-AMT) (the "Series 2018B Bonds" and together with the Series 2018A Bonds, the "Series 2018 Bonds").

The Series 2018A Bonds are dated August 22, 2018, are in the denomination of $5,000 or any integral multiple thereof, and mature on July 1 in each of the years and in the respective principal amounts set forth below, with the Series 2018A Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2019 at the rate per annum set opposite such year, as follows:

Maturity (July 1)	**Amount**	**Interest Rate**

The Series 2018B Bonds are dated August 22, 2018, are in the denomination of $5,000 or any integral multiple thereof, and mature on July 1 in the year and in the principal amount set forth below, with the Series 2018B Bonds bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2019 at the rate per annum, as follows:

Maturity (July 1)	**Amount**	**Interest Rate**

The Series 2018A Bonds are subject to optional and sinking fund redemption by the State prior to the respective stated maturities thereof as set forth in the Certificate (as defined herein). The Series 2018 Bonds are transferable and exchangeable upon the terms and conditions set forth therein and have been authorized and issued pursuant to the laws of the State of Hawaii. The Series 2018 Bonds are being issued for the purpose of funding the costs of capital improvement projects at certain facilities of the Airports System of the State. The Series 2018 Bonds are authorized to be issued and are issued under, pursuant to, and in full compliance with the Constitution and statutes of the State of Hawaii, including particularly, Part III of Chapter 39, Hawaii Revised Statutes, as amended, and under and pursuant to that certain Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds, dated as of May 1, 1969, as amended and supplemented (the "Certificate"), duly authorized and delivered under the aforesaid Part III, and pursuant to that certain Thirty-Second Supplemental Certificate of the Director of the Department of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds, Series 2018A (AMT), Series 2018B (Non-AMT), Series 2018C (Non-AMT) and Series 2018D (Non-AMT) dated as of August 1, 2018 (the "Supplemental Certificate"), duly authorized and delivered under the aforesaid Part III and the Certificate. All capitalized terms used herein that are not herein otherwise defined shall have the meanings ascribed thereto in the Certificate.

The Series 2018 Bonds and any bonds heretofore or hereafter issued on a parity therewith under the Certificate are payable from the Revenues of the Undertaking net of the payment of the operation and maintenance expenses of the Undertaking.

The Internal Revenue Code of 1986 (the "Code") contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2018 Bonds. These requirements relate to, among other things, the use and investment of the proceeds of the Series 2018 Bonds, the periodic payment of certain amounts to the United States of America, and the use and tax ownership of any property financed or refinanced with proceeds of the Series 2018 Bonds. In the Tax Compliance Certificate dated the date hereof (the "Tax Certificate"), the Department has made certain certifications and representations and made certain covenants with respect to the Series 2018 Bonds in order to comply with these requirements. Our opinion expressly assumes and relies upon as being true, correct and complete, the certifications and representations and upon compliance with the covenants set forth in the Tax Certificate.

In rendering our opinions set forth herein, we have also 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 State or the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate, the Supplemental Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2018 Bonds to be included in gross income for federal income tax purposes under the Code.

The rights and obligations under the Series 2018 Bonds, the Certificate, the Supplemental 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 the State. 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.

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

(1) The Series 2018 Bonds have been duly authorized and issued by the State and, constitute valid special obligations of the State payable solely from and secured solely by a lien upon and pledge of Net Revenues, on a parity with all bonds which heretofore have been or hereafter may be issued under the Certificate, as set forth in the Certificate.

(2) The provisions of the Certificate and the Supplemental Certificate are valid in accordance with their terms.

(3) Under existing law, interest on the Series 2018 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the requirements of the Code, we are of the opinion that interest on the Series 2018 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes.

(4) We express no opinion as to the exclusion from gross income for federal income tax purposes of interest on any Series 2018A Bond for any period during which such Series 2018A Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of such Series 2018A Bond or a "related person" (as defined in Section 147(a) of the Code). In addition, we advise you that (i) interest on the Series 2018A Bonds is an item of tax preference for purposes of the federal alternative minimum tax and is included in corporate earnings and profits used to compute the federal alternative minimum tax on corporations (however, the federal alternative minimum tax imposed on corporations is repealed for taxable years beginning after December 31, 2017) and (ii) interest on the Series 2018B Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, but is includible in corporate earnings and profits used to compute the federal alternative minimum tax on corporations (however, the federal alternative minimum tax imposed on corporations is repealed for taxable years beginning after December 31, 2017).

(5) Interest on the Series 2018 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2018 Bonds or income therefrom.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Supplemental Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Series 2018 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Series 2018 Bond or the interest thereon if any such change occurs or action is taken or omitted.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We have not undertaken to determine, or to inform any person, as to any change in any existing law, regulation, ruling or judicial decision or the effect of any such change. Our engagement with respect to the Series 2018 Bonds concludes with their issuance, and we disclaim any obligation to update this letter after the date hereof.

Very truly yours,

CMS/ATD

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APPENDIX G

Form of Continuing Disclosure Certificate

Dated ____________, 2018

$____________
State of Hawaii
Airports System Revenue Bonds
$____________ Series 2018A (AMT), and
$____________ Series 2018B (Non-AMT)

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") acting through the State Director of Transportation (the "Director of Transportation") in connection with the issuance of its $____________State of Hawaii Airports System Revenue Bonds Series 2018A (AMT) and $___________ State of Hawaii Airports System Revenue Bonds, Series 2018B (Non-AMT) (collectively, the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Transportation of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to the Bond Certificate, the State covenants and agrees as follows:

Section 1. **Purpose of Disclosure Certificate**. This Disclosure Certificate is being executed and delivered by the State acting through the Director of Transportation for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. **Definitions**. In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the State acting through the Director of Transportation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"*Dissemination Agent*" shall mean the Director of Transportation or any successor Dissemination Agent designated in writing by the State acting through the Director of Transportation and which has filed with the State a written acceptance of such designation.

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

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

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

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

"*Rule*" shall mean Rule l5c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. **Provision of Annual Reports**. (a) The State acting through the Director of Transportation shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2018, provide to the MSRB an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the Department of Transportation, Airports Division may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 Business Days prior to said date, the State acting through the Director of Transportation shall provide the Annual Report to the Dissemination Agent (if other than the Director of Transportation). If the State acting through the Director of Transportation is unable to provide to the MSRB an Annual Report by the date required in Section 3 (a) above, the State acting through the Director of Transportation shall send a notice to the MSRB in substantially the form attached as Exhibit B.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Director of Transportation), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. **Contents of Annual Reports**. The Department of Transportation, Airports Division Annual Report shall contain or include by reference information of the type included in the final Official Statement (the "Official Statement") dated August __, 2018, relating to the Bonds as set forth under the subheadings "THE AIRPORTS SYSTEM" and "FINANCIAL INFORMATION – Net Revenues and Taxes and Debt Service Requirements, Revenues, Aeronautical Revenues, Non-Aeronautical Revenues Other Than Concession Fees, Airports System Expenses, Debt Service Coverage and Cash and Cash Equivalents."

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

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been available to the public on the MSRB's website. The State acting through the Department of Transportation shall clearly identify each such other document so included by reference.

Section 5. **Reporting of Significant Events**. (a) Pursuant to the provisions of this Section 5, the State acting through the Department of Transportation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults, if material;

3. unscheduled draws on the debt service reserves reflecting financial difficulties;

4. unscheduled draws on the credit enhancements reflecting financial difficulties;

5. substitution of the credit or liquidity providers or their failure to perform;

6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or

determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;

7. modifications to rights of Certificate holders, if material;

8. (A) bond calls, if material, and (B) tender offers;

9. defeasances;

10. release, substitution or sale of property securing repayment of the Certificates, if material;

11. rating changes;

12. the foregoing event, such event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the provisions of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended or supplemented from time to time, or any successor statute, and any and all rules and regulations issued or promulgated in connection therewith, or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;

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

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Department shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event, (i) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (ii) in all events, file notice of such occurrence with the MSRB in electronic format. If the Department determines that it failed to file its Annual Report in accordance with Section 4 or that it failed to give notice as required under this Section 5, it shall promptly file a notice of such determination in the same manner.

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

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

Section 8. **Amendment; Waiver**. Notwithstanding any other provision of this Disclosure Certificate, the State acting through the Director of Transportation may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

The amendment or waiver either: (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

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

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

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

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

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

STATE OF HAWAII

By______________________________
Director of Transportation
State of Hawaii

EXHIBIT A

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

Name of Issuer:	State of Hawaii, Department of Transportation
Names of Bond Issues:	State of Hawaii Airports System Revenue Bonds Series 2018A (AMT) and Series 2018B (Non-AMT)
Date of Issuance:	________________, 2018

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate ________________, 2018. [The State anticipates that the Annual Report will be filed by ___________.]

Dates:

STATE OF HAWAII
Acting through the Department of Transportation

By____
Name: ____
Title:____

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APPENDIX H

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2018 Bonds. The Series 2018 Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully registered Series 2018 Bond will be issued for each maturity of each issue of the Series 2018 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This arrangement eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The rules applicable to DTC and its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Series 2018 Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate (for the purposes of the discussion under "Book-Entry System," a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant 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 Series 2018 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Series 2018 Bonds representing their ownership interests in Series 2018 Bonds, except in the event that use of the Book-Entry System for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2018 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such redemptions, tenders, defaults, and proposed amendments to the Certificate or other Series 2018 Bond documents. For example, Beneficial Owners of Series 2018 Bonds may wish to ascertain that the nominee holding the Series 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative. Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar under the Certificate and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2018 Bonds of a Series are being redeemed, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2018 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State 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 Series 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Series 2018 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 State or the Paying Agent under the Certificate, 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, the State or the Paying Agent, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 State, or the Paying Agent under the Certificate, 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.

DTC may discontinue providing its services as securities depository with respect to the Series 2018 Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2018 Bond certificates are required to be printed and delivered.

In reviewing this Official Statement it should be understood that while the Series 2018 Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Series 2018 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 or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices of the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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

None of the State, the Paying Agent nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by the DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Series 2018 Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Series 2018 Bonds or (v) any other event or purpose.

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STATE OF HAWAII • AIRPORTS SYSTEM REVENUE BONDS, SERIES 2018A (AMT) AND SERIES 2018B (NON-AMT)

DEPARTMENT OF TRANSPORTATION

STATE OF HAWAII

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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