

In the opinion of Watanabe Ing Kawashima & Komeiji LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2005 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2005 Bonds is exempt from all taxation by the State of Hawaii or any county or political subdivision thereof, except inheritance, transfer and estate taxes and certain franchise taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$183,915,000
STATE OF HAWAII
Highway Revenue Bonds
2005 Series A and B
(Base CUSIP: 41981C)

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The 2005 Series A and B Bonds (collectively, the "2005 Bonds") are being issued for the purpose of providing funds to finance certain highway capital improvement projects and related projects and to refund certain outstanding Highway Revenue Bonds of the State of Hawaii (the "State"). The 2005 Bonds are special limited obligations of the State, payable solely from and secured by the Pledged Funds under the Certificate as described herein, consisting principally of highway fuel license taxes, vehicle registration fees, vehicle weight taxes and rental motor vehicle and tour vehicle surcharge taxes, as more fully described in this Official Statement.

The 2005 Bonds are issuable in fully registered form and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the 2005 Bonds, purchases of the 2005 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the 2005 Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest on the 2005 Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants (See "BOOK-ENTRY SYSTEM" herein). Purchases of the 2005 Bonds may be made in the denomination of \$5,000 or any integral multiple thereof.

Interest on the 2005 Bonds is payable on each January 1 and July 1 commencing July 1, 2005. The 2005 Bonds are subject to optional redemption prior to maturity as stated herein.

The 2005 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 the State are not pledged to the payment of the principal of or interest on the 2005 Bonds.

The 2005 Bonds are being issued pursuant to the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as supplemented.

The scheduled payment of principal of and interest on the 2005 Bonds maturing on July 1 of the years 2008 through 2025, inclusive (the "Insured 2005 Bonds") when due will be guaranteed by an insurance policy to be issued concurrently with the delivery of the 2005 Bonds by FINANCIAL SECURITY ASSURANCE INC.



This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE - See Inside Cover Page

The 2005 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, and to the approval of legality by Watanabe Ing Kawashima & Komeiji LLP, Honolulu, Hawaii, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCarriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the 2005 Bonds in definitive book-entry form will be available for delivery on or about March 15, 2005.

A.G. EDWARDS

CITIGROUP

Dated February 10, 2005

\$183,915,000
STATE OF HAWAII
Highway Revenue Bonds

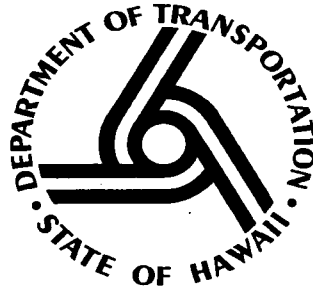
MATURITY SCHEDULE

2005 Series A

<u>Maturity Date (July 1)</u>	<u>Principal*</u>	<u>Interest</u>	<u>Yield</u>	<u>Maturity Date (July 1)</u>	<u>Principal*</u>	<u>Interest</u>	<u>Yield</u>
2006	\$2,060,000	3.00%	2.35%	2016	\$2,890,000	5.00%	3.61%
2007	2,120,000	3.00	2.52	2017	3,020,000	3.80	3.82
2008	2,185,000	3.00	2.61	2018	3,160,000	5.00	3.74
2009	2,250,000	3.00	2.75	2019	3,320,000	5.00	3.81
2010	2,320,000	3.00	2.94	2020	3,490,000	5.00	3.86
2011	2,390,000	3.00	3.09	2021	3,670,000	5.00	3.91
2012	2,475,000	4.00	3.23	2022	3,855,000	5.00	3.94
2013	2,570,000	3.50	3.34	2023	4,055,000	5.00	3.98
2014	2,665,000	3.75	3.44	2024	4,265,000	5.00	4.02
2015	2,770,000	3.75	3.54	2025	4,470,000	4.50	4.26

2005 Series B

<u>Maturity Date (July 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Yield</u>	<u>Maturity Date (July 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Yield</u>
2010	\$ 1,250,000	5.00%	2.94%	2014	\$17,630,000	5.00%	3.44%
2010	3,315,000	3.00	2.94	2015	18,510,000	5.00	3.54
2011	5,395,000	5.00	3.09	2016	19,445,000	5.00	3.61
2011	1,000,000	3.00	3.09	2017	6,990,000	5.00	3.68
2011	800,000	3.50	3.09	2018	7,345,000	5.25	3.71
2012	7,125,000	5.00	3.23	2019	7,730,000	5.25	3.78
2012	3,600,000	4.00	3.23	2020	8,130,000	5.25	3.82
2013	10,000,000	5.00	3.34	2021	4,425,000	5.25	3.87
2013	1,225,000	3.50	3.34				



STATE OF HAWAII

Linda Lingle, Governor
James R. Aiona, Jr., Lieutenant Governor

DEPARTMENT OF TRANSPORTATION

Rodney K. Haraga, Director

Deputy Director
Deputy Director, Highways Division
Deputy Director, Airports Division
Deputy Director, Harbors Division
Administrator, Highways Division
Administrator, Airports Division
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Escrow Agent

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the 2005 Bonds described in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the State of Hawaii or the Underwriters. This Official Statement does not constitute an offer to sell the 2005 Bonds or a solicitation of an offer to buy by any person, nor shall there be any sale of the 2005 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth in this Official Statement has been furnished by the State and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriters. The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date of this Official Statement.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "INSURANCE," Appendix G - "SPECIMEN OF THE MUNICIPAL BOND INSURANCE POLICY" and Appendix H - "SPECIMEN OF THE MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY" herein, none of the information in the Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2005 Bonds; or (iii) the tax exempt status of the interest on the 2005 Bonds.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

STATE OF HAWAII

\$183,915,000

Highway Revenue Bonds 2005 Series A and B

INTRODUCTION

This Official Statement, which includes the cover page and appendices (the “Official Statement”), provides information with respect to the issuance and sale by the State of Hawaii (the “State”) of \$183,915,000 principal amount of State of Hawaii Highway Revenue Bonds, 2005 Series A (the “2005 Series A Bonds”) and 2005 Series B (the “2005 Series B Bonds,” and together with the 2005 Series A Bonds, the “2005 Bonds”). Capitalized terms not otherwise defined in this Official Statement shall have the respective meanings given to such terms in Appendix A “SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Definitions of Certain Terms.”

The State will issue the 2005 Bonds pursuant to the Constitution, the laws of the State and the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds dated as of August 1, 1993, as heretofore supplemented and as further supplemented by a Seventh Supplemental Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, 2005 Series A and B, dated as of March 15, 2005 (collectively, the “Certificate”). See “THE 2005 BONDS” for a description of the 2005 Bonds. Under the Certificate, the State has previously issued its Highway Revenue Bonds, Series 1996 (the “1996 Bonds”), currently outstanding in the aggregate principal amount of \$34,635,000 (before refunding as herein described), its Highway Revenue Bonds, Series 1998 (the “1998 Bonds”), currently outstanding in the aggregate principal amount of \$69,195,000 (before refunding as herein described), its Highway Revenue Bonds, Series 2000 (the “2000 Bonds”), currently outstanding in the aggregate principal amount of \$43,855,000 (before refunding as herein described), its Highway Revenue Bonds, Series 2001 (the “2001 Bonds”), currently outstanding in the aggregate principal amount of \$65,445,000 (before refunding as herein described), and its Highway Revenue Bonds, Refunding Series 2003, currently outstanding in the aggregate principal amount of \$41,065,000 (collectively, the “Outstanding Bonds”). Additional bonds and refunding bonds may subsequently be issued on a parity with the 2005 Bonds and the Outstanding Bonds (collectively with the 2005 Bonds and the Outstanding Bonds, the “Senior Bonds”) or may be issued subordinate in right of payment to the 2005 Bonds and other Senior Bonds (the “Subordinate Bonds”). The 2005 Bonds and the Outstanding Bonds and any additional Senior Bonds and Subordinate Bonds are collectively referred to as the “Bonds.”

The 2005 Bonds are being issued to provide moneys, together with other available moneys of the State, to finance certain highway capital improvement projects and related projects and to refund certain outstanding Bonds as described in “PLAN OF FINANCE.”

The Bonds are special limited obligations of the State, payable from and secured by Pledged Funds as provided under the Certificate, consisting of moneys held in the funds and accounts under the Certificate, revenues derived by the State from the ownership and operation of the statewide

system of highways, streets and roads (the "State Highway System") and receipts of Pledged User Taxes related thereto, consisting principally of the highway fuel license taxes, vehicle registration fees, the vehicle weight tax, and the rental motor vehicle and tour vehicle surcharge taxes, as described in this Official Statement under "SECURITY FOR THE BONDS." All Senior Bonds, including the 2005 Bonds, are and will be secured equally and ratably by the Pledged Funds. Receipts of the Pledged User Taxes are deposited into the State Highway Fund, a special fund created by State law in the State Treasury, for credit to the Highway Revenue Special Account created by the Certificate. The 2005 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 the State are not pledged to the payment of or as security for the 2005 Bonds. See "SECURITY FOR THE BONDS" and "REVENUE SOURCES" for a description of the security for the Bonds and sources of Pledged Funds.

The State Highway System is owned, operated, maintained and improved by the Department of Transportation of the State (the "Department"). The Department maintains an ongoing capital improvement program (the "Program") to improve, renew and renovate the State Highway System. See "CAPITAL IMPROVEMENT PROGRAM" for a description of the Program and Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION" for a description of the State Highway System.

Every other fiscal year, the Department prepares a program of proposed capital improvement projects to the State Highway System for approval of the Governor and the Legislature of the State. The Program is funded on a biennial basis through Legislative appropriations. In the first year of a biennium budget, the Department may revise the second year of that biennium budget for presentation to the Governor for approval and to the Legislature for subsequent authorization.

Payment of principal of and interest on the 2005 Bonds maturing on July 1 of the years 2008 through 2025, inclusive (the "Insured 2005 Bonds"), will be guaranteed by an insurance policy issued concurrently with the delivery of the 2005 Bonds by Financial Security Assurance Inc. ("Financial Security"). In addition, Financial Security will issue a debt service reserve fund policy to satisfy the Reserve Requirement for the Highway Senior Debt Service Reserve Subaccount, as defined in the Certificate. For additional information concerning the policies to be issued by Financial Security, see "INSURANCE" herein, and Appendix G - "SPECIMEN OF THE MUNICIPAL BOND INSURANCE POLICY" and Appendix H - "SPECIMEN OF THE MUNICIPAL BOND DEBT SERVICE RESERVE FUND POLICY."

The cover page and this Introduction contain certain information for general reference only. They are not intended to be a summary of the 2005 Bonds. 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 and the Program, summaries of the 2005 Bonds, the security for the Bonds and certain provisions of the Certificate. All references to the Certificate and to the 2005 Bonds are qualified by the definitive forms of such Certificate and 2005 Bonds, copies of which may be obtained from the Department at 869 Punchbowl Street, 5th floor, Honolulu, Hawaii 96813. 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.

PLAN OF FINANCE

Capital Improvement Projects

Pursuant to the Certificate, a portion of the proceeds of the sale of the 2005 Bonds will be used to finance certain highway capital improvement projects and related projects comprising portions of the state-wide system of highways, streets and roads.

Refunding

A portion of the proceeds of the sale of the 2005 Bonds, together with other available moneys, will also be used to refund the Outstanding Bonds identified below (the "Refunded Bonds"):

<u>Bonds to be Refunded</u>	<u>Principal Amount</u>	<u>Redemption Date</u>
1996 Bonds Maturing in 2010 through 2016	\$26,135,000	July 1, 2006
1998 Bonds Maturing in 2010 through 2016	\$30,275,000	July 1, 2008
2000 Bonds Maturing in 2011 through 2020	\$31,340,000	July 1, 2010
2001 Bonds Maturing in 2012 and 2021	\$40,955,000	July 1, 2011

The 2005 Bond proceeds and other funds to be used for the refunding will be deposited for such purpose with The Bank of New York, as escrow agent (the "Escrow Agent"), in a separate account in an escrow fund (the "Escrow Fund") held by the Escrow Agent pursuant to an escrow deposit agreement (the "Escrow Deposit Agreement") by and between the Department, the Department of Budget and Finance of the State and the Escrow Agent. Upon deposit with the Escrow Agent, such moneys shall be immediately invested in non-callable direct obligations of the United States of America (the "Federal Securities"). The principal of and interest on the Federal Securities, together with any cash balances in the Escrow Fund, shall be applied in accordance with the Escrow Deposit Agreement to pay the maturing principal of and interest coming due on the Refunded Bonds through and including their respective redemption dates (as indicated above) and to redeem all remaining Refunded Bonds of each series on the applicable redemption date for such series.

Upon such deposit and investment of funds in the Escrow Fund, the obligation of the State under the Certificate and the liens, pledges and charges and the covenants and agreements of the State made therein shall be fully discharged and satisfied as to the Refunded Bonds, and the Refunded Bonds shall no longer be deemed outstanding under the Certificate. See Appendix A — "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE — Discharge of Obligations." At the time of such deposit and investment, the State will give the Escrow Agent irrevocable instructions to give timely notice of redemption of the Refunded Bonds, and to apply moneys on deposit in the Escrow Fund to the payment of the principal or redemption price of and interest on the Refunded Bonds.

The accuracy of the mathematical computations concerning the adequacy of the Escrow Fund, including earnings derived from investment of moneys therein in Federal Securities, to refund the

Refunded Bonds will be evidenced by a report of the independent certified public accounting firm of Causey, Demgen & Moore, Inc. prior to or at the delivery of the 2005 Bonds. See "ESCROW VERIFICATION."

THE 2005 BONDS

General

The 2005 Bonds will be dated their date of delivery and will bear interest from such date at the rates per annum set forth on the inside cover page of this Official Statement, and will mature on July 1 in the years and in the principal amounts set forth on the cover of this Official Statement. Interest will be payable on each January 1 and July 1, commencing July 1, 2005 (each an "Interest Payment Date"). Principal of, premium, if any, and interest on the 2005 Bonds will be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

The 2005 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2005 Bonds. Individual purchases of the 2005 Bonds will be made in book-entry form only (the "Book-Entry System"), in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the 2005 Bonds. Principal of and interest on the 2005 Bonds will be paid by the Paying Agent for the 2005 Bonds to DTC, which will in turn remit such principal and interest to its Participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the 2005 Bonds, as described herein. See "BOOK-ENTRY SYSTEM," below.

If the Book-Entry System is discontinued for the 2005 Bonds, thereafter (i) principal of on the 2005 Bonds will be payable upon presentation and surrender of the 2005 Bonds at the principal office of the Department of Budget and Finance of the State, as Paying Agent for the 2005 Bonds (together with any successor, the "Paying Agent"); and (ii) interest on each 2005 Bond will be paid on each Interest Payment Date by check mailed by the Paying Agent to the owner in whose name the 2005 Bond is registered upon the books of registry to be kept and maintained by the Department of Budget and Finance of the State, as registrar for the 2005 Bonds (the "Registrar"), as of the close of business on the 15th day of the calendar month (whether or not a business day) next preceding each Interest Payment Date at such owner's address as shown on the Bond Register.

The Department, the Registrar, and the Paying Agent, may deem and treat the person in whose name any 2005 Bond is registered upon the Bond Register (an "Owner" or "Holder") as the absolute owner of such Bond for all purposes of the Certificate, including receiving payment of the principal of and interest due on the 2005 Bonds. So long as the 2005 Bonds are in the Book-Entry System, the registered owner of the 2005 Bonds in the Bond Register will be Cede & Co., and all such payments will be made to Cede & Co., as registered Owner.

Authority for Issuance

Article VII, Section 12 of the State Constitution and Part III, Chapter 39, 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 Pledged Funds upon the approval of a

majority of the members of each house of the Legislature and pursuant to a certificate of the Director of the Department (the "Director"), which becomes effective upon filing with the Director of Finance. The General Revenue Bond Law does not limit the aggregate principal amount of revenue bonds that may be issued, but does limit 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 Legislature from time to time enacts laws (including the general appropriations acts) 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; provided that the Department, with the approval of the Governor, may issue refunding bonds without further authorization of the Legislature. 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 Certificate provides the terms of the Bonds, including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department.

The 2005 Bonds are being issued pursuant to the Certificate and under the authority of and pursuant to the General Revenue Bond Law and Act 289, Session Laws of Hawaii ("SLH") 1993, as amended by Act 252, SLH 1994, Act 218, SLH 1995, as amended by Act 287, SLH 1996, Act 328, SLH 1997, as amended by Act 116, SLH 1998 and Act 91, SLH 1999, as amended by Act 281, SLH 2000, Act 259, SLH 2001, as amended by Act 177, SLH 2002, and Act 200, SLH 2003, as amended by Act 41, SLH 2004.

Redemption

Optional Redemption. The 2005 Series A Bonds maturing on and after July 1, 2016, and the 2005 Series B Bonds maturing on July 1 of the years 2016 and 2017, shall be subject to redemption at the option of the State prior to their stated maturity on and after July 1, 2015 as a whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date fixed for redemption. All remaining maturities of the 2005 Bonds are not subject to redemption prior to their stated maturities.

Notice of Redemption; Selection of Bonds. The Department shall cause notice of redemption to be mailed not less than 30 days prior to the redemption date, by registered or certified mail, to each registered holder of a 2005 Bond to be redeemed at its address appearing on the books of registry maintained by the Director of Finance. At the time notice of any optional redemption is given, the Department may also give notice to certain national information services selected by the Department and must also so notify certain bond information repositories. See "CONTINUING DISCLOSURE" and Appendix F.

If less than all of the 2005 Bonds of a series are to be redeemed, the Bonds of such series to be redeemed shall be selected in such order of maturity as may be designated by the Department and by lot within each designated maturity. See "THE 2005 BONDS - Book-Entry System" for a discussion of the notice of redemption to be given to Beneficial Owners (as therein defined for the purposes of such discussion) and the manner of selection of the 2005 Bonds to be redeemed when the Book-Entry System for such Bonds is in effect.

Effect of Redemption. If a 2005 Bond is subject by its terms to redemption and has been duly called for redemption in accordance with the Certificate, and if sufficient moneys available for the payment of the redemption price and interest to accrue to the redemption date on such 2005 Bond are

held for such purpose by the Director of Finance, such 2005 Bond so called for redemption shall become due and payable, and interest on such Bond shall cease to accrue, on the redemption date designated in such notice.

Upon surrender of any 2005 Bond to be redeemed in part only, the Department will execute and deliver to the holder a new Bond (or Bonds) of the applicable series and maturity representing the unredeemed principal amount of the Bond surrendered.

BOOK-ENTRY SYSTEM

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

DTC will act as securities depository for the 2005 Bonds. The 2005 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the 2005 Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC and its Participants

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

Purchase of Ownership Interests

Purchases of 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the 2005 Bonds on DTC's records. The ownership interest of each purchaser of a beneficial interest in a 2005 Bond (each, a "Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial interests in the 2005 Bonds are to be accomplished by entries

made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial interests in 2005 Bonds, except in the event that use of the Book-Entry System for the 2005 Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Bonds deposited by Participants with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of 2005 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 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications

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

Neither DTC nor Cede & Co. will consent or vote with respect to the 2005 Bonds. 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 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments

Principal and interest payments on the 2005 Bonds will be made by the Paying Agent only to Cede & Co., as registered Owner. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, or the State or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, 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.

Discontinuance of Book-Entry System; Replacement Bonds

DTC may discontinue providing its services as securities depository with respect to the 2005 Bonds at any time by giving reasonable notice to the State or the Department. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

In the event the Book-Entry System is discontinued, the principal of and interest on the 2005 Bonds will be payable as described above under "THE 2005 BONDS - General" and the following provisions will apply.

Each 2005 Bond may be transferred or exchanged upon the books of registry by the registered Owner, in person or by its duly authorized attorney, upon surrender of such 2005 Bond for cancellation, accompanied by a written instrument of transfer or exchange satisfactory in form to the Registrar, duly executed by the registered owner or its duly authorized attorney. Upon the surrender of any 2005 Bond for transfer or exchange, the Registrar will deliver in the name of the transferee or Owner one or more new 2005 Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered 2005 Bond, in any authorized denomination and in the manner and subject to the conditions set forth in the Certificate.

All such transfers and exchanges will be made without expense to the owner of such Bonds, except that the Registrar shall require the payment by the owner requesting such transfer of any tax or other governmental charges required to be paid with respect to such transfer. No owner may require an exchange or transfer of 2005 Bonds to be made during the 15 days next preceding an Interest Payment Date or during a period beginning at the opening of business 15 days before the mailing of a notice of redemption of Bonds selected for redemption and ending on the close of business on the day of such mailing, or an exchange or transfer to be made of any 2005 Bond or portion thereof which has been selected for redemption.

Use of Certain Terms in Other Sections of the Official Statement

In reviewing this Official Statement it should be understood that so long as Cede & Co. is the registered Owner of the 2005 Bonds, references herein to the registered Owners or Holders will mean Cede & Co. and will not mean the Beneficial Owners. Under the Certificate, payments made by the State or the Paying Agent to Cede & Co. will satisfy the State's obligations under the Certificate to the extent of the payment. The Beneficial Owners will not be, and will not be considered by the State or the Paying Agent to be, and will not have any rights as, the Holders of the 2005 Bonds under the Certificate, but (i) all rights of ownership, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to Owners by the State or the Paying Agent will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

DTC and Book-Entry Information

Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters, the State or the Department.

Neither the State nor the Department 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 DTC, any Direct Participants or Indirect Participants, or (ii) the payment of any amount due by DTC to a Direct Participant, or the payment by any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest on the 2005 Bonds, or (iii) delivery of any notice by DTC to any Direct Participant or by any Direct Participant or Indirect Participant to any Beneficial Owner, which is required or permitted to be given to registered Owners under the Certificate, or (iv) any consent given or other action taken by DTC as owner of the 2005 Bonds, or (vi) any other event or purpose.

ESTIMATED SOURCES AND USES OF THE PROCEEDS OF THE 2005 BONDS

The following table shows the estimated sources and uses of moneys realized by the Department of the proceeds of the 2005 Bonds:

Sources:

Bond Proceeds:	
Par Amount of 2005 Bonds	\$183,915,000.00
Net Original Issue Premium/Discount	18,156,366.60
Other Sources of Funds:	<u>1,401,015.28</u>
TOTAL SOURCES OF FUNDS	\$203,472,381.88

Uses:

Deposit to Project Fund	\$ 62,642,606.85
Deposit to Escrow Fund	139,248,007.00
Underwriters' Discount	963,898.52
Bond Insurance and Debt Service Reserve Insurance Policy	536,793.32
Other Costs of Issuance	<u>81,076.19</u>
TOTAL USES OF FUNDS	\$203,472,381.88

SECURITY FOR THE BONDS

General

The Bonds, including the 2005 Bonds, are special limited obligations of the State, and will be payable from and secured by the Pledged Funds. The 2005 Bonds, the Outstanding Bonds and any Additional Senior Bonds that may subsequently be issued under the Certificate are equally and ratably secured by a lien and charge on the Pledged Funds prior and paramount to the lien thereon of any other bonds.

“Pledged Funds” is defined in the Certificate to include the Revenues held in the Highway Revenue Special Account created in the Certificate and the Highway Bond Proceeds Account in the State Bond Fund. “Revenues” is defined to include the following when deposited in the State Highway Fund: Pledged User Taxes, certain revenues derived from the ownership or operation of, or disposition of properties constituting part of, the State Highway System, and certain investment earnings. “Pledged User Taxes” is defined to include the receipts of the highway fuel license taxes, vehicle registration fees, the vehicle weight tax, and the rental motor vehicle and tour vehicle surcharge taxes. See “REVENUE SOURCES” below.

The Bonds do not constitute general or moral obligations of the State nor a charge upon the general fund of the State. The full faith and credit of the State are not pledged to the payment of the principal of or interest on the Bonds. The real property and improvements comprising the State Highway System have not been pledged or mortgaged to secure payment of the Bonds.

State law creates a special fund in the Treasury of the State designated as the State Highway Fund. The Certificate creates the Highway Revenue Special Account in the State Highway Fund and requires that the Highway Revenue Special Account be continued as long as any Bonds remain outstanding and provides that all Revenues will be deposited in the State Highway Fund for credit to the Highway Revenue Special Account. The Certificate further provides that amounts deposited in the Highway Revenue Special Account will be used in the order of priority established by the Certificate. Payment of principal of and interest on the Senior Bonds is the first priority and charge against the Highway Revenue Special Account. See "Funds and Accounts and Application of Revenues" below.

In the event of a default, the Holders of at least 25% in principal amount of the Senior Bonds then outstanding and the Holders of at least 25% in principal amount of the Subordinate Bonds outstanding may declare an immediate acceleration of maturities by written notice to the Department, which notice shall also be filed with the Director of Finance of the State.

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. The State has waived by statute its immunity from contractual claims. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition against suits against a state extends 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 State officials to enforce such payment.

The State has never defaulted in the payment of either principal of or interest on any indebtedness.

Pledge of Revenues

Under the Certificate, the State and the Department pledge and grant a lien on the Pledged Funds to secure the Senior Bonds, which pledge and lien are superior and prior to the pledge of and lien upon the Pledged Funds in respect of the Subordinate Bonds; and pledge and grant a lien on the Pledged Funds to secure the Subordinate Bonds, which pledge and lien are inferior and subordinate to the pledge of and lien upon the Pledged Funds in respect of the Senior Bonds. The Certificate provides that the lien on the Pledged Funds to secure the Bonds is a prior and paramount lien, subject only to the provisions of the Certificate permitting the application of such funds for the purposes and on the terms and conditions thereof.

The Certificate further provides that the moneys in the State Highway Fund shall, until used, applied and disbursed in accordance with the provisions of the Certificate, be held in trust: (1) for the equal benefit and security of the Holders of the Senior Bonds; and (2) subject to the prior and senior rights, benefits and security of the Holders of the Senior Bonds, for the equal benefit and security of the Holders of the Subordinate Bonds. Subject to the provisions of the Certificate concerning application of amounts on deposit in the subaccount relating to the Senior Bonds, all Senior Bonds have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to such subaccount and the investments in which such Revenues may be invested, over and ahead of all Subordinate Bonds and all bonds, notes or other evidences of indebtedness which may subsequently be issued. Subject to the prior and paramount lien provided in respect of the Senior Bonds and further subject to the provisions of the Certificate concerning application of amounts on deposit in the subaccount relating to the Subordinate Bonds, all Subordinate Bonds have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to such subaccount and the investments in which such Revenues may be invested, over and ahead of all bonds, notes or other evidences of indebtedness which may subsequently be issued.

Under the General Revenue Bond Law, the Department is obligated to impose, prescribe and collect rates, rents, fees, or charges for the use and services of, and the facilities and commodities furnished by, the State Highway System which, together with the proceeds of the Pledged User Taxes derived from the State Highway System, are at least sufficient: (1) to make the required payments of principal and interest on all Bonds, including reserves therefor; (2) to pay the costs of operation, maintenance and repair of the State Highway System, including reserves therefor; and (3) to carry out the covenants of the Certificate.

The State has considered but does not presently anticipate imposing any tolls, rates, rentals, fees or charges for the use and services provided by the State Highway System and, as indicated, expects that the principal source of payment of the Bonds will derive from the Pledged User Taxes imposed pursuant to law.

The State Constitution defines a “user tax” as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking (an “Undertaking”), improvement or system. The specific acts of the Legislature authorizing Highway Revenue Bonds direct that they shall be payable from and secured by the revenues derived from highways and related facilities under the ownership of the State or operated and managed by the Department comprising the State Highway System, and from the highway fuel license taxes, vehicle registration fees, the vehicle weight tax, and the rental motor vehicle and tour vehicle surcharge taxes levied and paid pursuant to Sections 243-4, 248-8, 249-31, 249-33, and 251-2, HRS, and federal moneys received by the State or any department thereof which are available to pay principal of and interest on indebtedness of the State, and other user taxes, fees or charges currently or hereafter derived from or arising through the ownership, operation, and management of highways and related facilities and the furnishing and supplying of the services thereof. Each of the aforesaid taxes, charges and fees constitutes a “user tax” within the meaning of the State Constitution.

Under the General Revenue Bond Law, the Legislature has covenanted, pledged and obligated the Legislature, whenever the Legislature shall have authorized the issuance of bonds for an Undertaking such as the State Highway System, payable from and secured by the user taxes derived with respect to such Undertaking, or by both revenues and user taxes, or by any combination of both,

to impose or continue to impose user taxes with respect to such Undertaking in amounts at least sufficient, together with the revenue of the Undertaking, to make the payments described above. These provisions would not prohibit the Legislature from changing the rate of existing Pledged User Taxes or other user taxes or fees or from deleting some or all of existing Pledged User Taxes or other user taxes or fees and substituting other or different user taxes or fees.

There is no requirement under the Certificate or the General Revenue Bond Law that the Legislature levy and deposit Pledged User Taxes into the State Highway Fund in excess of the amount necessary to make the deposits described in paragraphs FIRST through FIFTH under “Funds and Accounts and Application of Revenues” below.

Highway Senior Debt Service Reserve Subaccount

In order to provide a reserve for the payment of the principal of and interest on the Senior Bonds, the Certificate creates a Highway Senior Debt Service Reserve Subaccount in the Highway Revenue Special Account. The Certificate requires that moneys on deposit in the Highway Senior Debt Service Reserve Subaccount shall be maintained in an amount at least equal to one-half (1/2) of the maximum Aggregate Bond Service for the Senior Bonds at the time outstanding for any Bond Year (the “Reserve Requirement”), beginning with the Bond Year in which such determination is made. In lieu of the deposit of moneys to the Highway Senior Debt Service Reserve Subaccount, the Certificate allows the Department to credit one or more Support Facilities in an amount equal to the difference between the Reserve Requirement and the aggregate of (1) moneys already deposited in such Subaccount and (2) amounts available to be drawn under any Support Facility already credited to such Subaccount. See “Highway Senior Debt Service Reserve Subaccount” and definitions of Aggregate Bond Service, Bond Year and Support Facility in Appendix A - “SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE.”

At the time of the delivery of the 2005 Bonds, the Reserve Requirement will be satisfied by a support facility in the form of a Municipal Bond Debt Service Reserve Insurance Policy issued by Financial Security. See “INSURANCE - Debt Service Reserve Insurance Policy” herein and Appendix H - “SPECIMEN OF THE MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY.”

Funds and Accounts and Application of Revenues

The Certificate creates the Highway Revenue Special Account, comprised of the subaccounts listed below, within the State Highway Fund and provides that, so long as any Bonds are Outstanding: (1) the State Highway Fund and the Highway Revenue Special Account shall both be continued; and (2) all Revenues deposited in the State Highway Fund shall be credited to the Highway Revenue Special Account. Revenues from specified sources are deposited into the State Highway Fund. See “REVENUE SOURCES” below. Moneys that are paid into and are on deposit in the State Highway Fund constitute the Revenues that are pledged to the payment of the Bonds. Revenues credited or to be credited to the Highway Revenue Special Account are required to be applied and used in the following order of priority:

FIRST: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Senior Interest Subaccount;
- (b) Highway Senior Principal Subaccount; and
- (c) Highway Senior Debt Service Reserve Subaccount;

SECOND: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Subordinate Interest Subaccount;
- (b) Highway Subordinate Principal Subaccount; and
- (c) Highway Subordinate Debt Service Reserve Subaccount;

THIRD: For payment of operation and maintenance expenses of the State Highway System;

FOURTH: For payment of the costs of acquisition, construction, addition, expansion, improvement, renewal, replacement, reconstruction, engineering, investigation and planning for the State Highway System;

FIFTH: To reimburse the general fund of the State for reimbursable general obligation bonds of the State;

SIXTH: All or any portion of available moneys credited to the Highway Revenue Special Account, after satisfying the requirements of priority items FIRST through FIFTH above, determined in conformance with law by the Director of Transportation to be in excess of 135% of the requirements for the ensuing 12 months for the Highway Revenue Special Account, or such other percentage as may be authorized by law, may be transferred from the Highway Revenue Special Account as permitted by and in accordance with State law; and

SEVENTH: To provide funds for other special reserve funds and other special funds as may be created by law.

Additional Bonds and Refunding Bonds

The Certificate permits the issuance of Additional Bonds payable from and secured by Pledged Funds on a parity with the 2005 Bonds, the Outstanding Bonds and other Senior Bonds, or the issuance of Additional Bonds which are Subordinate Bonds, for the purpose of paying or reimbursing the cost of acquisition or construction of properties to constitute part of the State Highway System or the making of additions to, expansions of, improvements of, renewals of or reconstructions of the State Highway System. Additional Bonds which are Senior Bonds must be fixed rate bonds. Additional Bonds which are Subordinate Bonds may be fixed rate bonds or variable rate bonds. The conditions for issuance of Additional Bonds include, among other things, that the Director certify that:

(1) no default in the payment of any Bond has occurred and is continuing; no deficiency exists in the State Highway Fund or the Highway Revenue Special Account; and there does not exist any Event of Default under the Certificate or a condition which upon the passage of time would constitute such an Event of Default;

(2) upon delivery of such Bonds, there shall be credited to the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount an amount equal to, in each case, the Reserve Requirement; provided that such requirement may be satisfied by a deposit of proceeds of such Bonds or a support facility; and

(3) in the case of Additional Bonds, the Revenues for any consecutive twelve-month period out of the last eighteen consecutive calendar months immediately preceding the date of issuance of such Bonds shall be at least equal to: (a) in the case of Senior Bonds proposed to be issued, two times maximum Aggregate Bond Service for any future Fiscal Year on all Senior Bonds to be outstanding after the issuance of such Additional Senior Bonds; and (b) in the case of Subordinate Bonds proposed to be issued, 1.30 times maximum Aggregate Bond Service for any future Fiscal Year on all Bonds to be outstanding after the issuance of such Additional Subordinate Bonds.

The Certificate permits the issuance of Refunding Bonds payable from and secured by Pledged Funds on a parity with the 2005 Bonds and other Senior Bonds, or Refunding Bonds which are Subordinate Bonds, for the purpose of refunding any then outstanding Bonds, so long as the State has satisfied the requirement set forth in the first and second subparagraphs described above and without satisfying any financial tests. See Appendix A "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds."

The Certificate permits the issuance of other bonds or obligations payable from the Revenues subordinate and inferior to the payment of the Bonds from the Revenues.

INSURANCE

The following information concerning the Municipal Bond Insurance Policy and the Municipal Bond Debt Service Reserve Insurance Policy has been provided by Financial Security. No representation is made by the State or the Underwriters as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date hereof.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the Insured 2005 Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Insured 2005 Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a

direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2004 Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,255,933,000 and its total unearned premium reserve was approximately \$1,561,771,000 in accordance with statutory accounting practices. At September 30, 2004, Financial Security's total shareholder's equity was approximately \$2,612,989,000 and its total net unearned premium reserve was approximately \$1,286,985,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Insured 2005 Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Insured 2005 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured 2005 Bonds or the advisability of investing in the Insured 2005 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the State the information presented under this caption for inclusion in the Official Statement.

Debt Service Reserve Insurance Policy

Concurrently with the issuance of the 2005 Bonds, Financial Security will issue its Municipal Bond Debt Service Reserve Insurance Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal of and interest on the 2005 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Department, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy, which maximum amount represents \$13,429,242.50. Financial Security will make such payments to the paying agent (the "Paying Agent") for the 2005 Bonds on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Security shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Department. The term "nonpayment" in respect of a 2005 Bond includes any payment of principal or interest made to an owner of a 2005 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancelable and the premium will be fully paid at the time of delivery of the 2005 Bonds. The Reserve Policy covers failure to pay principal of the 2005 Bonds on

their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the 2005 Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the earlier of the scheduled final maturity date of the 2005 Bonds or the date on which no 2005 Bonds are outstanding under the Certificate.

Generally, in connection with its issuance of a Reserve Policy, Financial Security requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the Department fails to reimburse Financial Security for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Security's consent. The specific rights, if any, granted to Financial Security in connection with its issuance of the Reserve Policy are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the 2005 Bonds is required to provide additional or substitute credit enhancement, and related matters.

The Reserve Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

REVENUE SOURCES

State Highway Fund

The State imposes taxes, fees and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the State Highway Fund established under Section 248-8, HRS. Moneys deposited in the State Highway Fund are used for acquisition, planning, design, construction, operation, repair and maintenance of the State Highway System.

The current taxes, fees and charges deposited to the State Highway Fund consist of: (1) the highway fuel license taxes; (2) vehicle registration fees; (3) the vehicle weight tax; and (4) the rental motor vehicle and tour vehicle surcharge taxes. Together, these taxes, fees and charges accounted for most of the receipts of the State Highway Fund in the Fiscal Year ended June 30, 2004. See "Historical Revenues" below. Other sources of Revenues include interest earnings on moneys previously credited to the State Highway Fund, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees and other miscellaneous Revenues. There are no toll roads or bridges in the State. The primary sources of Revenues are further described below.

Sources of Revenues and Pledged User Taxes

The following is a summary of the sources of Revenues that are deposited to the State Highway Fund. This summary does not purport to be a complete description of each of these Revenue sources and accordingly is qualified by reference to the Hawaii Revised Statutes regarding

sources of Revenues. The Legislature has altered and may in the future alter the statutes governing these Revenue sources, the rates of the Pledged User Taxes and their allocation.

Highway Fuel License Taxes. Highway fuel license taxes consist of license taxes on fuel sold to motor vehicle operators pursuant to Chapter 243, HRS. The distributor of motor vehicle fuel pays the fuel license tax for liquid fuel produced or imported by the distributor to be sold or used by the distributor. Highway fuel license taxes are assessed at a rate of \$0.16 per gallon of gasoline and diesel oil (highway use), \$0.11 per gallon of liquid petroleum gas (highway use), and \$0.01 per gallon of gasoline, diesel oil and liquid petroleum gas (non highway use). The highway fuel license taxes are collected by the Department of Taxation, which then transfers the receipts to the State Highway Fund. The counties have a similar tax that is not included in the State's fuel license tax rate, as described in Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION." Receipts of aviation fuel taxes and taxes collected with respect to liquid fuel sold for use in small boats are transferred to the Airport Revenue Fund and the Boating Special Fund, respectively, and not to the State Highway Fund.

Vehicle Registration Fees. All vehicles, including motor vehicles, must be registered annually with one of the four counties of the State. The vehicle owner must pay a State registration fee of \$25 for each vehicle, pursuant to Section 249-31, HRS. From each annual motor vehicle registration fee, \$20 is deposited into the State Highway Fund and \$5 into the emergency medical services special fund. The four counties each collect the vehicle registration fee along with their respective county registration fees and transfer the State's vehicle registration fee to the State Highway Fund. (See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION.")

Vehicle Weight Taxes. All vehicles, including motor vehicles, are assessed an annual State vehicle weight tax pursuant to Section 249-33, HRS. The tax rate is \$0.0075 per pound for vehicles less than 4,000 pounds; \$0.01 per pound for vehicles between 4,001 and 7,000 pounds, \$0.0125 per pound for vehicles between 7,001 and 10,000 pounds, and \$150.00 per vehicle for vehicles over 10,000 pounds. Vehicle weight taxes increased from a minimum rate of \$0.0045 per pound to \$0.0050 per pound to \$0.0075 per pound and a maximum charge of \$36.00 per vehicle to \$65.00 per vehicle to \$150.00 per vehicle over the period from 1991 to 2002. The four counties each collect the vehicle weight tax along with their respective county vehicle taxes and transfer the State's vehicle weight tax to the State Highway Fund. (See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION.")

Rental Motor Vehicle and Tour Vehicle Surcharge Taxes. Chapter 251, HRS, imposes a surcharge tax on all rental motor vehicles and tour vehicles. The rental motor vehicle surcharge tax is imposed on the owner of the rental company when a rental motor vehicle is rented or leased. Through Act 223, SLH 1999, the surcharge tax was increased from \$2.00 per day to \$3.00 per day or any portion of the day. The additional \$1.00 per day or any portion of the day is effective from September 1, 1999 through August 31, 2007.

The tour vehicle surcharge tax is imposed on the tour vehicle operator. The surcharge tax is \$65.00 per month for each tour vehicle used or partially used during the month.

All rental and tour companies must register with the State. The registration fee is a one-time \$20.00 fee.

Interest Earnings. Interest income is derived from the investment of moneys on deposit in the State Highway Fund.

Historical Revenues

The following table sets forth the sources of Revenues which were deposited into the State Highway Fund for each of the last ten (10) fiscal years ended June 30, 2004.

Sources of Revenue Deposited in the State Highway Fund (in thousands of \$)

Fiscal Year	Fuel Taxes	<u>Pledged User Taxes</u>					Misc. ¹	Total Revenues
		Registration Fees	Weight Taxes	Rental/Tour Vehicle Surcharge	Interest			
1995	\$67,702	\$17,352	\$21,013	\$21,465	\$ 9,924	\$ 3,559	\$141,015	
1996	69,010	16,130	21,055	21,951	11,054	3,468	142,668	
1997	69,880	16,245	21,363	22,600	10,961	3,323	144,372	
1998	68,580	16,418	21,753	23,702	8,076	3,255	141,784	
1999	67,209	16,749	22,434	23,591	10,535	3,885	144,403	
2000	68,088	17,216	24,425	34,587	12,314	5,662	162,292	
2001	71,931	17,616	25,345	38,633	13,616	5,616	172,757	
2002	73,046	17,461	25,444	36,054	11,453	25,769	189,227	
2003	75,506	19,037	28,184	39,472	11,952	10,820	184,971	
2004*	79,607	19,174	28,421	41,414	8,570	4,988	182,174	

* Unaudited.

¹ *Miscellaneous Revenues include vehicle weight tax penalties, periodic motor vehicle inspection charges, and rents from State Highway System properties, commercial license fees, and other miscellaneous Revenues. For 2002, the Department of Transportation received \$22,506,672 for a gasoline litigation settlement of which \$22,000,000 was transferred to the State general fund. For 2003, \$2,500,000 was received for the sale of certain property.*

Source: Department of Transportation.

The rate of taxation on fuel and the registration fee and taxes on motor vehicles changed and increased significantly between 1975 and 1991 but has not changed since 1991. Highway fuel license taxes increased from \$0.085 per gallon of gasoline and diesel oil and \$0.060 per gallon of liquid petroleum gas in 1975, to \$0.110 per gallon of gasoline and diesel oil and \$0.080 per gallon of liquid petroleum gas in 1985, to the present rate of \$0.160 per gallon of gasoline and diesel oil and \$0.110 per gallon of liquid petroleum gas, which became effective on July 1, 1991.

The State vehicle registration fee has been increased from \$1.00 per vehicle in 1979 to \$10.00 per vehicle in 1985 to \$20.00 per vehicle in 1991 and to \$25 per vehicle in 2004. The vehicle owner must pay a State registration fee of \$25 for each vehicle, pursuant to Section 249-31, HRS. From each annual motor vehicle registration fee, \$20 is deposited into the State Highway Fund and \$5 into the emergency medical services special fund. Vehicle weight taxes increased from a minimum rate of \$0.0045 per pound to \$0.0050 per pound to \$0.0075 per pound and a maximum charge of \$36.00 per vehicle to \$65.00 per vehicle to \$150.00 per vehicle over the same period.

See “DEBT SERVICE COVERAGE” for a discussion of projected Revenues.

THE 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 such other transportation facilities. The Department’s activities are carried out through three primary operating divisions: Airports, Harbors and Highways. The Department’s Airports Division has general responsibility to construct, operate and maintain the Airports system. The Harbors Division has general responsibility to construct, operate and maintain the Harbors system.

Through the Highways Division (the “Highways Division”), the Department has general supervision of the management and maintenance of the State Highway System and the location, design and construction of new highways and facilities. The Highways Division provides supervision to assure completion of State highway contracts in accordance with plans and specifications.

The Department also has administrative offices which are responsible for Department-wide administrative functions and multi-modal statewide transportation planning. See Appendix B - “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION” for additional information regarding the Department.

Department Management

The Department is headed by the Director, a single executive appointed by the Governor and confirmed by the State Senate. The Governor also appoints, without State Senate confirmation, two Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms coterminous with the Governor’s term.

Chapter 26, HRS, establishes the Commission on Transportation which sits in an advisory capacity to the Director on matters within the jurisdiction of the Department. The Commission on Transportation consists of at least one member from each of the four counties of the State.

The Highways Division is managed by the Highways Division Administrator. Each of the major islands is managed by a district manager with the exception of Maui District which includes the islands of Maui, Molokai and Lanai. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management and

method, standards and evaluation functions of the Highways Division. Other major functional operations within the Highways Division include Landscape Services Office, Motor Vehicle Safety Office, Planning Branch, Design Branch, Materials Testing and Research Branch, Construction and Maintenance Branch, Traffic Branch and Rights of Way Branch.

Management Personnel

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

Rodney K. Haraga, Director assumed his present position in January 2003. Mr. Haraga retired from the City of Los Angeles, Department of Public Works as a Deputy City Engineer. He has over 32 years of design and construction management experience in the public sector. His project knowledge and experience are diverse. He has managed and directed many programs including municipal buildings, police and fire facilities, emergency operations, sewers, bridges, storm drains, fire/life safety programs, earthquake reconstruction programs and seismic restoration. He has successfully directed projects from the Federal Highway Administration for grade separation projects, street improvements projects and seismic restoration of bridges. He was successful as the lead negotiator for the City of Los Angeles in obtaining \$140 million from the Federal Emergency Management Agency, Northridge Earthquake, 1994.

Bruce Y. Matsui, First Deputy Director, assumed his position with the Department in August 2003. Previous to that he served as a deputy attorney general with the State of Hawaii Department of the Attorney General for about 15 years, advising the State Department of Transportation (DOT). He has worked with all three divisions - airports, highways, and harbors - focusing on transactional work, including land acquisitions, facility expansions, property development, lease negotiations, and airport concession matters. He was also involved in a number of bond and financing transactions. Prior to joining the State, Mr. Matsui practiced with the law firm of Kobayashi, Watanabe, Sugita, Kawashima & Goda in the areas of land use, property development, business, and insurance defense litigation. He graduated from the University of Hawaii in 1981 with a Bachelor of Business Administration and from Hastings College of the Law in 1984.

Brennon Morioka, Ph.D., P.E., Deputy Director for Highways was appointed to the Hawaii Department of Transportation as Deputy Director in January 2005. Prior to this position, Dr. Morioka was Chairman and Executive Director of the Hawaii Republican Party. His previous professional experience included serving as a senior geotechnical engineer in the Honolulu Office of URS Corporation that involved design and report writing for trenchless technologies, solid waste landfills, landslide mitigation, and other work for geotechnical foundation and infrastructure projects. He was also an engineer with Harding Lawson Associates and Metcalf & Eddy, Pacific. Dr. Morioka earned his bachelor's and master's degrees in civil engineering from the University of California at Berkeley and a doctorate degree in civil engineering with a specialty in geotechnical engineering from the University of Hawaii at Manoa. He was named Hawaii State Young Engineer of the Year in 2000 and represented the United States as one of five delegates to the First International Youth Geotechnical Engineering Conference the same year for his research at the University of Hawaii.

Glenn M. Yasui, Highways Division Administrator, assumed the position of Administrator on June 1, 2001. He is responsible for the operations, maintenance and management of the State Highway System and the planning, design and construction of new state highways and ancillary

facilities. Prior to assuming this position, he served as the Senior Transportation Engineer with the Federal Highway Administration, Hawaii Division. Mr. Yasui has over 40 years of highway engineering and administrative experience. From 1964 to 2001, he worked for the Federal Highway Administration in progressive positions of responsibility including Highway Engineer, Assistant Area Engineer, Area Engineer, Urban Transportation Engineer and Senior Transportation Engineer/Territorial Representative. Mr. Yasui graduated from the University of Hawaii with a Bachelor of Science in Civil Engineering in 1964 and received a Master of Public Administration from the University of Southern California in 1985. He is a member of the American Society of Civil Engineers and the Institute of Transportation Engineers. Mr. Yasui is Licensed Professional Engineer (Civil) in Hawaii, California, Guam and the Commonwealth of the Northern Mariana Islands. While with the Federal Highway Administration, Mr. Yasui guided the successful completion of the \$1.4 billion Interstate Route H-3 project and managed the marketing, technology transfer and implementation of the state-of-art Intelligent Transportation System (ITS) projects in Hawaii. He was also responsible for improving the efficiency and effectiveness of the programming, planning, design and construction processes of the Federal-aid highway programs in the State of Hawaii, the Territory of American Samoa, the Territory of Guam and the Commonwealth of the Northern Mariana Islands.

Gerald K.L. Dang, Administrative Services Officer, became the head of the Staff Services Office of the Highways Division in July 1995. He is responsible for project programming, budgeting, fiscal and personnel activities of the Highways Division. Prior to joining the Department, Mr. Dang served as the Administrative Services Officer for the Department of Business, Economic Development and Tourism (1993-1995), and Budget and Accounting Officer for the Department of Accounting and General Services (1990-1993), and Accountant for various state agencies from 1980-1990. Mr. Dang received a bachelor's degree in Business Administration from the University of Hawaii.

Employees

The Highways Division presently has approximately 1,000 employees. Hawaii law grants public employees in Hawaii, except appointed officials and 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.

Substantially all of the Highways Division employees are represented by bargaining units. Generally, blue collar workers are represented by United Public Workers, Local 606. Blue collar supervisors, white collar workers and white collar supervisors are represented by Hawaii Government Employees' Association, Local 152, American Federation of State, County and Municipal Employees.

CAPITAL IMPROVEMENT PROGRAM

General

In every odd-numbered year, the Department prepares for the Governor's approval a capital improvements program for the next six fiscal years, describing ongoing and proposed State Highway System capital improvement projects which the Department proposes to undertake during that period.

After the Governor's review, the succeeding two fiscal years' capital improvement projects for the State Highway System are submitted to the Legislature as a part of the Administration's executive biennium budget. The Legislature reviews the executive biennium budget in detail and authorizes all or a portion of the executive biennium budget by individual capital improvement project. Subsequently, in every even-numbered year, the Department may amend the second year of that executive biennium budget for presentation to the Governor for approval and to the Legislature for supplemental authorization.

Authorization of a capital improvement project by the Legislature as a part of the executive biennium budget includes the appropriation of moneys from a designated source to pay for that project. Since the Legislature only appropriates for a two-year period, appropriations to complete capital improvement projects extending beyond that period must be approved by subsequent Legislatures. An appropriation of bond funds to match federal funds does not lapse.

The Legislature can appropriate funds for the State Highway System capital improvement projects from six sources: bonds (either general obligation bonds, reimbursable general obligation bonds or revenue bonds), federal funds, the State general fund, special funds, other funds (such as AMTRAK funds) and private contributions (such as private development impact fees). The Legislature also authorizes the issuance of bonds to fund the appropriation for which bond funds are designated as the source for payment of a capital improvement project.

The Department prepares a three year multimodal transportation improvement program for U.S. Department of Transportation review and approval that is updated every two years. This program, called the Statewide Transportation Improvement Program ("STIP"), includes all projects for which the Department will request federal aid during the three year period. See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION" for additional information regarding the STIP.

The Program includes many capital improvement projects still in the preliminary stage. As the Program is continuously developed and revised, the individual capital improvement projects included in the Program undergo changes in priority, timing and cost. The current Program for fiscal years 2005 through 2010 provides authorization for completion of previously approved capital improvement projects, for new capital improvement projects, and for certain additional capital improvement projects which have not yet been authorized.

The Program consists of separate capital improvement projects on the six major islands of the State. From the first year of issuance of Highway Revenue Bonds in 1993 through 2004, the Legislature has appropriated a total of \$2.038 billion, excluding lapses, for the planning, design, and acquisition and construction of projects.

Plan of Finance

The Governor and the Legislature have approved the funding sources for all appropriations made in prior fiscal years. Of the \$2.038 billion appropriated from 1993 through the 2004 session, excluding lapses, the Department has been authorized to finance approximately \$1.194 million with federal funds, approximately \$153.18 million with available State Highway funds, approximately

\$2.02 million with the proceeds from general obligation bonds, approximately \$646.108 million with the proceeds from the sale of revenue bonds and approximately \$11.52 million with other funds.

The Department has previously received federal funds for surface transportation projects under the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”). In 1998, the Transportation Equity Act for the 21st Century (“TEA-21”) to provide for federal aid was passed by Congress, and the Department expects that the level of funding that it receives under the TEA-21 legislation will be the same as or greater than the levels it has received in the past. Accordingly, the Department does not expect any material adverse impact as a result of the TEA-21 legislation.

Historically the Department financed a major portion of the State’s share of the cost of capital improvement projects using reimbursable general obligation bonds. The Department is required to reimburse the State general fund for the payment of the principal of and interest on such bonds. See “DEBT SERVICE COVERAGE -Reimbursable General Obligation Bonds” for additional information.

Beginning in 1993, the State determined to finance the Program by issuing revenue bonds secured by a pledge of the Pledged Funds rather than by issuing reimbursable general obligation bonds. The Department has previously issued \$75 million in such revenue bonds in 1993, \$55 million in 1996, \$95 million in 1998, \$50 million in 2000, \$70 million in 2001, and \$44.94 million in 2003. There are currently \$254,195,000 aggregate principal amount of such bonds outstanding, of which \$128,705,000 will be refunded with the proceeds of the 2005 Bonds. See “PLAN OF FINANCE - Refunding.”

DEBT SERVICE COVERAGE

Projected Revenues

The Department’s current forecast of Revenues assumes that future Revenues will grow at a lower rate than the historical growth. The forecast reflects an upward growth trend, with Revenues increasing at an average annual rate of approximately one percent (1%), exclusive of any fuel tax increase.

The actual Revenues which will be collected and deposited into the State Highway Fund may vary from this projection because of fluctuating economic conditions, changes by the Legislature in the laws governing the Pledged User Taxes and other variables affecting Revenues. Such variances *could be* material.

Projected Revenues
Fiscal Years Ending June 30, 2005 through June 30, 2011
(in thousands of \$)

Pledged User Taxes

<u>Fiscal Year</u>	<u>Fuel Taxes</u>	<u>Registration Fees</u>	<u>Weight Taxes</u>	<u>Rental/Tour Vehicle Surcharge¹</u>	<u>Interest</u>	<u>Misc.²</u>	<u>Total Revenues</u>
2005	\$80,811	\$19,462	\$28,847	\$42,242	\$11,900	\$2,879	\$186,141
2006	84,163	19,754	29,280	42,876	10,900	2,908	189,881
2007	85,426	20,050	29,719	43,519	10,900	2,938	192,552
2008	86,707	20,351	30,165	44,172	10,900	2,969	195,264
2009	88,008	20,656	30,617	44,834	10,900	3,001	198,016
2010	89,328	20,966	31,077	45,507	10,900	3,014	200,792
2011	90,668	21,280	31,543	46,189	10,900	3,014	203,594

¹ Reflects \$1.00 increase in the rental car surcharge by Act 223/99, effective September 1, 1999 to August 31, 2007.

² Miscellaneous Revenues include vehicle weight tax penalties, periodic motor vehicle inspection charges, rents from State Highway System properties, commercial license fees, and other miscellaneous Revenues.

Source: Department of Transportation.

Debt Service Requirements for the Bonds

The following table sets forth the principal and interest requirements for the 2005 Bonds and the Outstanding Bonds:

Revenue Bond Debt Service

FY Ending 6/30	Outstanding Bonds Debt Service ¹	Estimated 2005 Bonds Debt Service			Total Debt Service
		Principal	Interest	Total	
2005	\$22,937,803	-0-	-0-	-0-	\$ 22,937,803
2006	17,478,630	-0-	\$ 6,876,570	\$ 6,876,570	24,355,200
2007	17,435,460	\$ 2,060,000	8,624,923	10,684,923	28,120,383
2008	17,445,005	2,120,000	8,562,223	10,682,223	28,127,228
2009	17,409,405	2,185,000	8,497,648	10,682,648	28,092,053
2010	17,349,271	2,250,000	8,431,123	10,681,123	28,030,394
2011	12,924,688	6,885,000	8,281,598	15,166,598	28,091,285
2012	10,463,500	9,585,000	7,966,098	17,551,098	28,014,598
2013	7,283,925	13,200,000	7,466,748	20,666,748	27,950,673
2014	7,279,100	13,795,000	6,850,710	20,645,710	27,924,810
2015	1,786,900	20,295,000	6,043,579	26,338,579	28,125,479
2016	1,786,900	21,280,000	5,038,173	26,318,173	28,105,073
2017	1,786,900	22,335,000	3,965,110	26,300,110	28,087,010
2018	14,837,850	10,010,000	3,174,605	13,184,605	28,022,455
2019	14,819,400	10,505,000	2,670,669	13,175,669	27,995,069
2020	270,000	11,050,000	2,112,950	13,162,950	13,432,950
2021	270,000	11,620,000	1,526,375	13,146,375	13,416,375
2022	270,000	8,095,000	1,017,806	9,112,806	9,382,806
2023	5,535,000	3,855,000	713,525	4,568,525	10,103,525
2024	-0-	4,055,000	515,775	4,570,775	4,570,775
2025	-0-	4,265,000	307,775	4,572,775	4,572,775
2026	-0-	4,470,000	100,575	4,570,575	4,570,575
TOTAL	\$189,369,736	\$183,915,000	\$98,744,544	\$282,659,554	\$472,029,290

¹ Assumes that all Refunded Bonds (as identified under "PLAN OF FINANCE -Refunding") will be defeased with a portion of the proceeds of the 2005 Bonds.

Source: Department of Transportation.

Historic and Projected Debt Service Coverage

The following table sets forth historical and projected debt service coverage for fiscal years ending June 30, 1994 through 2011. (A fiscal year is a twelve month period ending on a June 30). Debt service for the fiscal years ending June 30, 1994 through 2004 is based on the actual interest rates for the Outstanding Bonds. Debt service projections for future fiscal years are based on the interest rates for the Outstanding Bonds and an assumed rate of 3.76% for the 2005 Bonds. Revenues for the fiscal years ending June 30, 1994 through 2004 are based on actual Revenues for such fiscal years; projected Revenues for present and future fiscal years are based on the Department's projections identified in the table entitled "Projected Revenues" under "DEBT SERVICE COVERAGE" herein. (The Department calculates Revenues on the basis of its fiscal year).

**Historic and Projected Debt Service Coverage
(Revenue Bond Debt Service Only)**

<u>Fiscal Year</u>	<u>Pledged Revenues</u> ¹	<u>Outstanding Revenue Bond Debt Service</u> ²	<u>2005 Bonds Debt Service</u>	<u>Aggregate Revenue Bond Debt Service</u>	<u>Coverage (Revenue Bonds)</u>
1994	\$133,231,000	\$ 5,865,243	-0-	\$ 5,865,243	22.72
1995	141,015,000	5,864,683	-0-	5,864,683	24.04
1996	142,668,000	5,868,562	-0-	5,868,562	24.31
1997	144,372,000	10,003,143	-0-	10,003,143	14.43
1998	141,784,000	10,434,609	-0-	10,434,609	13.59
1999	144,403,000	14,408,883	-0-	14,408,883	10.02
2000	162,292,000	14,965,993	-0-	14,965,993	10.84
2001	172,757,000	17,954,646	-0-	17,954,646	9.62
2002	189,227,000	21,452,982	-0-	21,452,982	8.82
2003	184,971,000	23,655,579	-0-	23,655,579	7.82
2004	182,174,000	18,914,976	-0-	18,914,976	9.63
2005	186,141,000	22,937,803	-0-	22,937,803	8.12
2006	189,881,000	17,478,630	\$ 6,876,570	24,355,200	7.80
2007	192,552,000	17,435,460	10,684,923	28,120,383	6.85
2008	195,264,000	17,445,005	10,682,223	28,127,228	6.94
2009	198,016,000	17,409,405	10,682,648	28,092,053	7.05
2010	200,792,000	17,349,271	10,681,123	28,030,394	7.16
2011	203,594,000	12,924,688	15,166,598	28,091,285	7.25

¹ Actual for 1994 through 2004 (2004 unaudited); projected for 2005 through 2011.

² Assumes that all (as identified under "PLAN OF FINANCE -Refunding") will be defeased with a portion of the proceeds of the 2005 Bonds.

Source: Department of Transportation.

**Historic and Projected Debt Service Coverage
(Total Debt Service Supported by Highway Revenue)**

<u>Fiscal Year</u>	<u>Pledged Revenues¹</u>	<u>Outstanding Revenue Bond Debt Service²</u>	<u>2005 Bonds Debt Service</u>	<u>Aggregate Revenue Bond Debt Service</u>	<u>G.O. Debt Service</u>	<u>Total Debt Supported By Highway Revenue</u>	<u>Coverage (Revenue and G.O. Bonds)¹</u>
1994	\$133,231,000	\$ 5,865,243	-0-	\$ 5,865,243	\$28,567,658	\$34,432,901	3.87
1995	141,015,000	5,864,683	-0-	5,864,683	27,729,327	33,594,010	4.20
1996	142,668,000	5,868,562	-0-	5,868,562	49,721,718	55,590,280	2.57
1997	144,372,000	10,003,143	-0-	10,003,143	40,383,243	50,386,386	2.87
1998	141,784,000	10,434,609	-0-	10,434,609	31,301,706	41,736,315	3.40
1999	144,403,000	14,408,883	-0-	14,408,883	29,084,721	43,493,604	3.32
2000	162,292,000	14,965,993	-0-	14,965,993	23,145,778	38,111,771	4.26
2001	172,757,000	17,954,646	-0-	17,954,646	27,273,953	45,228,599	3.82
2002	189,227,000	21,452,982	-0-	21,452,982	24,494,091	45,947,073	4.12
2003	184,971,000	23,655,579	-0-	23,655,579	17,858,196	41,513,775	4.46
2004	182,174,000	18,914,976	-0-	18,914,976	10,987,493	29,902,469	6.09
2005	186,141,000	22,937,803	-0-	22,937,803	10,858,121	33,795,924	5.51
2006	189,881,000	17,478,630	\$ 6,876,570	24,355,200	20,218,205	44,573,405	4.26
2007	192,552,000	17,435,460	10,684,923	28,120,383	17,686,416	45,806,799	4.20
2008	195,264,000	17,445,005	10,682,223	28,127,228	17,117,257	45,244,485	4.32
2009	198,016,000	17,409,405	10,682,648	28,092,053	16,488,939	44,580,992	4.44
2010	200,792,000	17,349,271	10,681,123	28,030,394	10,723,903	38,754,297	5.18
2011	203,594,000	12,924,688	15,166,598	28,091,285	10,438,425	38,529,710	5.28

¹ Actual for 1994 through 2004 (2004 unaudited); projected for 2005 through 2011.

² Assumes that all (as identified under "PLAN OF FINANCE -Refunding") will be defeased with a portion of the proceeds of the 2005 Bonds.

Source: Department of Transportation.

Reimbursable General Obligation Bonds

As of June 30, 2004, there were outstanding \$104,139,292 reimbursable general obligation bonds issued for the State Highway System. These bonds are general obligation bonds of the State, but since the proceeds of these bonds were used to finance improvements to the State Highway System, the Department is required to reimburse the State general fund for the payment of the principal of and interest on such bonds. Reimbursement currently is made principally from the Pledged User Taxes, and occurs after the payment of the principal of and interest on the Bonds, including reserves therefor, and the costs of operation and maintenance and improvement of the State Highway System.

The following table sets forth the principal and interest requirements for all reimbursable general obligation bonds outstanding as of June 30, 2004. Debt service requirements on the reimbursable general obligation bonds are set forth in the year in which they are scheduled to be paid. There are no current legislative authorizations for additional reimbursable general obligation bond funded State highway projects.

**State Highway System
Reimbursable General Obligation Bond Debt Service**

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	Total Reimbursable General Obligation <u>Bond Debt Service</u>
2005	\$ 6,465,070	\$4,393,051	\$10,858,121
2006	16,119,899	4,098,306	20,218,205
2007	14,296,149	3,390,267	17,686,416
2008	14,413,816	2,703,441	17,117,257
2009	14,481,840	2,007,099	16,488,939
2010	9,374,688	1,349,215	10,723,903
2011	9,540,848	897,577	10,438,425
2012	6,889,837	501,575	7,391,413
2013	3,837,938	197,406	4,035,344
2014	3,092,966	115,802	3,208,768
2015	2,881,649	67,018	2,948,666
2016	1,555,327	24,801	1,580,128
2017	1,105,886	13,412	1,119,298
2018	19,328	4,136	23,464
2019	20,308	3,170	23,477
2020	21,334	2,154	23,488
2021	22,409	1,088	23,496

Source: Department of Transportation.

LITIGATION

The State is subject to litigation in connection with the day-to-day operation of the State Highway System by the Department. There are no claims or judicial proceedings affecting the State Highway System or the Pledged Funds, except for claims incidental to the operation of the State Highway System. The State is self-insured with respect to tort claims against the Department and the State Highway System. To pay for tort judgments and settlements involving the State Highway System, the Legislature appropriates money from the State Highway Fund after providing for payment of the Bonds and required reserves. There is no litigation now pending or threatened to restrain or to enjoin the issuance and delivery of the 2005 Bonds or the power and authority of the Department or the State to impose, prescribe or collect Pledged User Taxes or in any manner questioning the power and authority of the Department or State to impose, prescribe or collect such Pledged User Taxes or to issue and deliver the 2005 Bonds or affecting the validity of the 2005 Bonds.

TAX MATTERS

In the opinion of Watanabe Ing Kawashima & Komeiji LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2005 Bonds is not a specific preference item for purposes of the federal individual or corporate

alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2005 Bonds is exempt from all taxation by the State of Hawaii or any county or political subdivision thereof, except inheritance, transfer and estate taxes and certain franchise taxes. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the 2005 Bonds is less than the amount to be paid at maturity of such 2005 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2005 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 2005 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2005 Bonds is the first price at which a substantial amount of such maturity of the 2005 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2005 Bonds accrues daily over the term to maturity of such 2005 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2005 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2005 Bonds. Owners of the 2005 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2005 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2005 Bonds in the original offering to the public at the first price at which a substantial amount of such 2005 Bonds is sold to the public.

2005 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of a Premium Bond should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2005 Bonds. The State has made certain representation and has covenanted to comply with certain restrictions designed to insure that interest on the 2005 Bonds will not be included in federal gross income. Inaccuracy of these representations or a failure to comply with these covenants may result in interest on the 2005 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2005 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2005 Bonds may adversely affect the value of, or the tax status of interest on, the 2005 Bonds.

Certain requirements and procedures contained in or referred to in the Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2005 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2005 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Watanabe Ing Kawashima & Komeiji LLP.

Although Bond Counsel is of the opinion that interest on the 2005 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds may otherwise affect an Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Owner or the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the 2005 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the 2005 Bonds. Prospective purchasers of the 2005 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2005 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2005 Bonds ends with the issuance of the 2005 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the State or the beneficial owners regarding the tax-exempt status of the 2005 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2005 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2005 Bonds, and may cause the State or the beneficial owners to incur significant expense.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the 2005 Bonds are subject to the approval of Watanabe Ing Kawashima & Komeiji LLP, Bond Counsel to the State. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the 2005 Bonds. The form of opinion Bond Counsel proposes to render is set forth in Appendix E hereto.

Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorrison Miller Mukai MacKinnon LLP.

The Seventh Supplemental Certificate of the Director, providing for the issuance of the 2005 Bonds, will be approved as to form and legality by the Attorney General of the State.

RATINGS

Moody's Investors Service, Standard & Poor's and Fitch have assigned ratings of "Aaa," "AAA" and "AAA" respectively, to the Insured 2005 Bonds, in each case based upon the understanding that upon delivery of the Insured 2005 Bonds, Financial Security will issue its Bond Insurance Policy with respect to the Insured 2005 Bonds. Moody's, Standard & Poor's and Fitch have also assigned underlying ratings of "Aa3," "AA" and "AA-," respectively, to the 2005 Bonds, in each case determined without regard to the Bond Insurance Policy.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 99 Church Street, New York, New York 10007; Standard & Poor's, 25 Broadway, New York, New York 10004; and Fitch IBCA, Inc., One State Street Plaza, New York, New York 10004. Generally a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that either of such ratings will continue for any given period of time or that such ratings will not be revised downward, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The State undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings may have an adverse effect on the market price of the 2005 Bonds.

ESCROW VERIFICATION

Causey Demgen & Moore Inc., a firm of independent public accountants, will deliver to the State and Bond Counsel its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the State and its representatives related to the refunding of the 1993 Bonds effected from the proceeds of the 2005 Bonds. See "THE 2005 BONDS." Included in the scope of its examination will be a verification of the mathematical accuracy of the mathematical computations of the adequacy of the cash, the maturing principal amounts and the interest on the Federal Securities deposited with the Escrow Agent to pay the interest, principal and redemption price coming due on the Refunded Bonds on and prior to their respective maturity or redemption dates as described in "THE 2005 BONDS."

UNDERWRITING

The 2005 Bonds are being purchased by the A.G. Edwards & Sons, Inc. and Citigroup Global Markets Inc. (collectively, the "Underwriters"). The Underwriters have agreed to purchase the 2005 Bonds at a price of \$202,071,366.60, which includes net original issue premium, and will retain an underwriting discount of \$963,898.52. The Underwriters will be responsible for the payment of

certain costs of issuing the 2005 Bonds. The Purchase Contract provides that the Underwriters will purchase all of the 2005 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the 2005 Bonds may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2005 Bonds to certain dealers (including dealers depositing 2005 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) at prices lower than the public offering prices stated on the cover of this Official Statement.

CONTINUING DISCLOSURE

The Department has executed a Continuing Disclosure Certificate (the "Disclosure Certificate") for the benefit of the Holders and beneficial owners of the 2005 Bonds to provide certain financial information and operating data relating to the Department to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). See Appendix F - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

A failure by the Department to comply with the Disclosure Certificate will not constitute an event of default under the Certificate or on the 2005 Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2005 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2005 Bonds and their market price. The State has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. The Department has complied in all material respects with all previous similar undertakings under continuing disclosure certificates.

The obligations of the Department described in the Disclosure Certificate will remain in effect until the 2005 Bonds are no longer Outstanding (within the meaning of the Certificate) or the Rule no longer applies to the 2005 Bonds. Any provision of the Disclosure Certificate may be amended or waived upon the conditions set forth therein.

The Disclosure Certificate is solely for the benefit of the Holders and beneficial owners from time to time of the 2005 Bonds. The exclusive remedy for any breach of the Disclosure Certificate by the Department is limited to the right of the Holders and beneficial owners to cause to be instituted and maintained proceedings to obtain specific performance by the Department of its obligations under the Disclosure Certificate. Any such proceedings challenging the adequacy of the information provided in accordance with the Disclosure Certificate may be instituted and maintained only by Holders and beneficial owners of not less than 25% in principal amount of the 2005 Bonds then Outstanding.

FINANCIAL STATEMENTS

The audited financial statements of the Highways Division as of and for the fiscal years ended June 30, 2002 and 2003, are set forth in Appendix D to this Official Statement. These financial

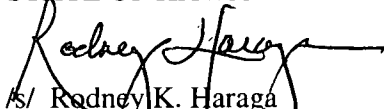
statements have been audited by Deloitte & Touche LLP, Honolulu, Hawaii, independent certified public accountants, whose report is set forth in Appendix D.

MISCELLANEOUS

The references in this Official Statement to Acts of the Legislature and the Certificate (including the supplements thereto) do not purport to be complete and are subject to the detailed provisions thereof to which reference is hereby made. The Acts and other Hawaii statutes may be amended by the Legislature. The Department has provided the information in this Official Statement relating to the Highways Division, and other matters, as indicated.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such statements will be realized. The agreements of the Department and the State are fully set forth in the Certificate and the General Revenue Bond Law, and the Official Statement is not to be construed as a contract or agreement between the Department or the State and the purchasers or Holders of any of the 2005 Bonds.

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII



/s/ Rodney K. Haraga

By: Rodney K. Haraga

Director of Transportation

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

For purposes of this Appendix A, Certificate means the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as heretofore supplemented and as further supplemented by the Seventh Supplemental Certificate. The following is a summary of certain of the provisions of the Certificate. The summary does not purport to be complete or to follow the exact language of the Certificate, and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meanings set forth in the Certificate. For the complete provisions of the Certificate and the precise wording thereof, reference should be made to the Certificate, copies of which are available upon request at the office of the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

Definitions of Certain Terms [Certificate Section 1.01]

The following are definitions in summary form of certain terms contained in the Certificate and used in this Official Statement.

“Aggregate Bond Service” means, as of any date of calculation and with respect to any period, the sum of the amounts of Bond Service for all Series of Bonds for such period.

“Average Annual Bond Service” of a Series of Bonds means the result obtained by dividing (A) the aggregate Bond Service for such Series for the period from the date of issuance of such Series until the final maturity date of such Series by (B) the number of Bond Years in such period.

“Bond Service” means, as of any date of calculation and with respect to any period for any Series of Bonds, an amount equal to the sum of: (i) the interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from (y) amounts credited to the Highway Senior Interest Subaccount or the Highway Subordinate Interest Subaccount, (z) any other account set aside exclusively for the payment of interest, and (ii) that portion of the next succeeding Principal Installment for the Bonds of such Series accruing during such period assuming each such Principal Installment were deemed to accrue daily (based on a year of 12 months each of 30 days’ duration) in equal amounts from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding Principal Installment due date for such Series, then from a date one year preceding the due date of such Principal Installment or from the date of delivery of the Bonds of such Series, whichever is later). Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof. The Bond Service definition contains additional provisions concerning the calculation of debt service on Variable Rate Bonds and Capital Appreciation Bonds.

“Bond Year” means, with respect to any series of Bonds, any period of 12 consecutive months terminating on the due date of a Principal Installment for the Bonds of such series; provided that the initial Bond Year for each series shall be of such duration as is set forth in the Supplemental Certificate providing for such series.

“Code” means the Internal Revenue Code of 1986, as from time to time amended, and any successor statute thereto, and any Treasury regulations or proposed regulations thereunder.

“Federal Securities” means any of the following:

(i) any direct and general obligations of, or any obligations fully and unconditionally guaranteed as to the full and timely payment of principal and interest by, the United States of America;

(ii) obligations issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America; Export-Import Bank of the United States (backed by the full faith and credit of USA); Government National Mortgage Association (Ginnie Mae) (backed by the full faith and credit of USA); Public Housing Authority (backed by the full faith and credit of USA); Farm Credit System Financial Assistance Corporation (senior debt rated in highest category by the Rating Agencies); Student Loan Marketing Association (Sallie Mae) (senior debt rated in highest category by the Rating Agencies); Tennessee Valley Authority (senior debt rated in highest category by the Rating Agencies); Inter-American Development Bank (senior debt rated in highest category by the Rating Agencies); World Bank (International Bank for Reconstruction & Development) (senior debt rated in highest category by the Rating Agencies); Federal Farm Credit Banks (Consolidated Systemwide Bonds) (senior debt rated in highest category by the Rating Agencies); Federal Home Loan Banks (consolidated debt of banks and deposits of 8 of the 12 individual banks rated in highest category by the Rating Agencies); Federal Home Loan Mortgage Corp. (senior debt (not subordinated debt) rated in highest category by the Rating Agencies); Federal National Mortgage Association (senior debt (not subordinated debt) rated in highest category by the Rating Agencies); and Resolution Funding Corporation (Refcorp) (rated in highest category by the Rating Agencies);

(iii) any obligations of any state or political subdivision of a state (collectively, “Municipal Bonds”) which Municipal Bonds are either (A) rated “Aaa” by Moody’s and “AAA” by S&P (whether such rating is based upon the credit of the issuer, an insurance policy, a letter of credit or otherwise) or (B) are fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bonds, and which Municipal Bonds are rated “Aaa” by Moody’s and “AAA” by S&P and provided, however, that such Municipal Bonds are accompanied by (a) an opinion of Bond Counsel to the effect that such Municipal Bonds are not subject to redemption prior to the date the proceeds of such Municipal Bonds will be required for the purposes of the investment being made therein and (b) a report of an Independent Public Accountant verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bonds; and

(iv) securities commonly referred to as CATs, TGRs, STRIPS, or other certificates of direct ownership of the principal of, or interest on, direct and general obligations of the United States of America or certificates of direct ownership of the interest on obligations of the Resolution Funding Corporation, which obligations are held by a commercial bank which is a member of the Federal Reserve System in trust on behalf of the holders of the derivative product;

provided, however, that the term Federal Securities shall exclude unit investment trusts or mutual funds which otherwise meet the criteria set forth above in clauses (i) through (iv) unless the trust or fund is in the highest rating category of the Rating Agency.

“Highway Bond Proceeds Account” means the special account created in the State Bond Fund into which shall be credited proceeds of any Bond for the payment of the costs of highway and road projects, and other related facilities and properties constituting a part of the Undertaking.

“Highway Revenue Special Account” means the special account of that name created in the Certificate in the State Highway Fund.

“Highway Senior Debt Service Reserve Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Debt Service Reserve Subaccount.”

“Highway Senior Interest Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Interest Subaccount.”

“Highway Senior Principal Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Principal Subaccount.”

“Highway Subordinate Debt Service Reserve Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Subordinate Debt Service Reserve Subaccount.”

“Highway Subordinate Interest Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Subordinate Interest Subaccount.”

“Highway Subordinate Principal Subaccount” means the separate special subaccount of the Department created in the Highway Revenue Special Account and designated as the “Highway Subordinate Principal Subaccount.”

“Operation and Maintenance Expenses” means the expenses of operation, maintenance and repair of the properties constituting the Undertaking, including without limitation, the cost of equipment and general administrative overhead in connection with those properties, but excluding any (i) arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148 of the Code, (ii) depreciation expense, and (iii) surcharges imposed by the State for central services relating to administration of funds of the Department.

“Outstanding”, when used with respect to any Bond, shall have the construction given to such word in Section 11.01 of the Certificate, as described below under “Discharge of Obligations of the State Under the Certificate”. For purposes of the Certificate, in the event any Bonds of a Series are issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount or the compounding of interest, the amount of such Bonds deemed to be Outstanding for the purpose of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or direction or the taking of any other action that the Holders of the Bonds are entitled to take pursuant to Articles X and XI of the Certificate or otherwise, shall be the accreted value thereof.

“Pledged Funds” means the Revenues and the moneys held in the Highway Revenue Special Account, the Highway Bond Proceeds Account and such other funds and accounts which may be hereafter pledged to the payment of the principal of and interest on the Bonds.

“Pledged User Taxes” means the highway fuel license taxes, the vehicle weight taxes, the vehicle registration fees, the rental motor vehicle surcharge taxes and tour vehicle surcharge taxes, respectively levied and paid pursuant to Sections 243-4, 249-33, 249-31, and 251-2, Hawaii Revised Statutes, and other user taxes, fees or charges currently or hereafter derived from or arising through the ownership, operation, and management of the Undertaking and the furnishing and supplying of the services thereof, which are deposited in the State Highway Fund and made available pursuant to State law for the payment of the Bonds.

“Principal Installment” means, as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding: (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the definition of “Sinking Fund Installment”) of any Sinking Fund Installment due on a certain future date for Bonds of such Series which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to such unsatisfied balance of such Sinking Fund Installment, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of such Sinking Fund Installment due on such future date.

“Rating Agency” means Moody’s Investors Service and Standard & Poor’s Corporation and their respective successors and assigns or, if either (or both) shall for any reason no longer perform the functions of a securities rating agency, such other nationally recognized rating agency designated by the Department; provided, however, that any reference to a Rating Agency (other than in the definition of Federal Securities) shall only be effective while such Rating Agency is providing a rating on the Outstanding Bonds.

“Reimbursable General Obligation Bonds” means general obligation bonds of the State to which the State has pledged its full faith and credit and which are payable from the general fund of the State, the proceeds of which were or are to be used to finance highway and road projects with respect to properties constituting part of the Undertaking, and with respect to which the general fund of the State is to be reimbursed from Revenues, except insofar as the obligation or reimbursement has been or is canceled by the State Legislature.

“Reserve Fund Facility” means each Support Facility at any time on deposit in the Highway Senior Debt Service Reserve Subaccount, including the Series 2005 Reserve Fund Policy.

“Reserve Requirement” means with respect to Senior Bonds or Subordinate Bonds, an amount, as of any date of determination, equal to one-half (1/2) of the maximum Aggregate Bond Service for Senior Bonds or Subordinate Bonds, as the case may be, in any Bond Year, beginning with the Bond Year in which the date of determination occurs and ending with the Bond Year after which no Senior Bonds or Subordinate Bonds, as the case may be, are Outstanding.

“Revenues” means and includes the items set forth below when and to the extent the same are deposited in the State Highway Fund to the credit of the Highway Revenue Special Account: (A) all income, revenues and moneys collected by the State from the ownership or operation of the Undertaking or the supplying and furnishing of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from rates, rentals, fees, tolls and charges prescribed for the uses and services of, and the facilities and commodities furnished by, the Undertaking; (B) earnings on the investment of moneys held under the Certificate and the proceeds of the sale of any such investments; (C) income, revenues and moneys paid to the State or the Department with respect to properties that constitute part of the Undertaking on the effective date of the Certificate but are sold, leased or otherwise disposed of or transferred pursuant to the provisions of the Certificate so as to no longer constitute part of the Undertaking; (D) the Pledged User Taxes; and (E) any other moneys or funds deposited by the State or the Department into the Highway Revenue Special Account; provided, however, that the term “Revenues” shall not include: (i) moneys received as proceeds from the sale of Bonds; (ii) condemnation proceeds or insurance proceeds except insurance proceeds received from rental or business interruption insurance; (iii) grants-in-aid or similar payments received from the Federal Government or public agencies if (1) the application of such moneys are restricted to a specific purpose other than payment of principal of and interest on indebtedness of the State, or (2) such grants or payments constitute a reimbursement to the State for expenditures previously made from the State Highway Fund or the Highway Revenue Special Account; (iv) moneys or securities received by the State or the Department as gifts or grants, the use of which is restricted by the donor or grantor; (v) investment income derived from any moneys or securities which may be placed in escrow or trust to defease bonds of the State, including the Bonds, or which may be held in the Highway Bond Proceeds Account; (vi) any arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148(f) of the Code; and (vii) the proceeds of any Support Facility.

“Senior Bond” or “Senior Bonds” means any bond, some of the bonds or all of the bonds issued under and at any time Outstanding pursuant to the Certificate, being the 1993 Bonds, the 1996 Bonds, the 1998 Bonds, the 2001 Bonds, the 2003 Bonds and the 2005 Bonds issued pursuant to the Certificate, any Additional Senior Bonds issued pursuant to the Certificate, and any Refunding Senior Bonds issued pursuant to the Certificate.

“Sinking Fund Installment” means, with respect to each Series of Bonds, the amount designated as such in the Supplemental Certificate authorizing such Series of Bonds. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (as the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

“Subordinate Bond” or “Subordinate Bonds” means any bond, some of the bonds or all of the bonds issued under and at any time Outstanding pursuant to the Certificate, being any Additional Subordinate Bonds and any Refunding Subordinate Bonds issued pursuant to the Certificate.

“Supplemental Certificate” or “Certificate supplemental to the Certificate,” means a certificate duly issued by the Director of Transportation for any of the purposes of Article IX of the Certificate or otherwise amendatory of or supplemental to the Certificate but only if and to the extent specifically authorized thereunder.

“Support Facility” means any instrument such as a letter of credit, a committed line of credit, an insurance policy, a surety bond or a standby bond purchase agreement, or any combination of the foregoing, issued by a bank or banks, other financial institution or institutions, or any combination of the foregoing, which provides for: (i) with respect to any series of Bonds, the payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such series, or providing for the purchase of such Bonds or a portion thereof by the issuer of such Support Facility; or (ii) with respect to the Highway Senior Debt Service Reserve Subaccount or the Highway Subordinate Debt Service Reserve Subaccount, the funding, in whole or in part, of the Reserve Requirement.

“Undertaking” means and includes all highways and roads, and other related facilities and properties (real, personal or mixed) now belonging to or controlled by the State and under the administration, jurisdiction, control and management of the Department, and all improvements, betterments or extensions thereto hereafter constructed or acquired, except bikeways, and without limiting the generality of the foregoing, the term “Undertaking” shall include each and every, all and singular, the properties and facilities 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 and interest of which is reimbursable, from the State Highway Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the State Highway Fund or in any other fund maintained therefrom.

“Value of Investment Securities” and words of like import means the amortized value thereof, provided, however, that all United States Treasury Obligations - State and Local Government Series shall be valued at par and those obligations which are redeemable or otherwise subject to payment (including purchase) at the option of the owner thereof shall be valued at the price at which such obligations are then redeemable or otherwise subject to payment. The computations made under this definition shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition, “amortized value”, when used with respect to a security purchased at par, means the purchase price of such security and when used with respect to a security purchased at a premium above or discount below par means, as of any subsequent date of valuation, the value obtained by dividing the total premium or discount by the number of interest payment dates remaining to maturity on any such security after such purchase and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase and (i) in the case of a security purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of a security purchased at a discount, by adding the product thus obtained to the purchase price.

“Variable Rate Bonds” means any Subordinate Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof, based upon an index, or

otherwise calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For the purposes of this definition, Subordinate Bonds shall not be considered to be Variable Rate Bonds upon the establishment of or conversion of the rate of interest thereon to a fixed interest rate.

Allocation and Application of Revenues [Certificate Section 5.01]

For so long as any Bonds are Outstanding, (1) the State Highway Fund and the Highway Revenue Special Account shall both be continued and (2) all Revenues that are deposited in the State Highway Fund shall be immediately credited to the Highway Revenue Special Account. The Revenues credited or to be credited to the Highway Revenue Special Account shall be applied, used and disposed of as follows, and in the following order of priority:

FIRST: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Senior Interest Subaccount;
- (b) Highway Senior Principal Subaccount;
- (c) Highway Senior Debt Service Reserve Subaccount;

SECOND: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (d) Highway Subordinate Interest Subaccount;
- (e) Highway Subordinate Principal Subaccount; and
- (f) Highway Subordinate Debt Service Reserve Subaccount;

THIRD: For payment of Operation and Maintenance Expenses;

FOURTH: For payment of the costs of acquisition (including real property and interests therein), construction, addition, expansion, improvement, renewal, replacement, reconstruction, engineering, investigation, and planning for the Undertaking and bikeways, all or any of which in the judgment of the Department are necessary to the performance of its duties or functions;

FIFTH: To reimburse the general fund of the State for Reimbursable General Obligation Bonds;

SIXTH: All or any portion of available moneys credited to the Highway Revenue Special Account, after satisfying the requirements of priority items **FIRST** through **FIFTH** above, determined in conformance with Section 248-9, Hawaii Revised Statutes, as amended, or any successor statute thereto, by the Director of Transportation to be in excess of 135% of the requirements for the ensuing 12 months for the Highway Revenue Special Account may be transferred from the Highway Revenue Special Account as permitted by and in accordance with Section 37-53, Hawaii Revised Statutes, as amended, or any successor statute thereto; and

SEVENTH: To provide funds for other special reserve funds and other special funds as may be created by law.

Highway Senior Interest Subaccount [Certificate Section 5.02]

The moneys credited to the Highway Senior Interest Subaccount shall be disbursed solely for the purpose of paying interest on the Senior Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Senior Bonds, if any, is provided for from the proceeds of a Series of Senior Bonds, with respect to each Series of Senior Bonds, commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Senior Bonds of such Series are Outstanding, the Department shall credit to the Highway Senior Interest Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Senior Bonds on such Interest Payment Date or the amount required to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment thereof. In making the credits to the Highway Senior Interest Subaccount required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Senior Bonds, and for interest capitalized from the proceeds of a Series of Senior Bonds (which accrued or capitalized interest shall in each case be deposited in the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount), and for any other credits otherwise made to said account.

Highway Senior Principal Subaccount [Certificate Section 5.03]

In the event of the issuance of any Senior Bonds under the Certificate in the form customarily known as "serial bonds," in order to provide for the payment of principal of such Senior Bonds, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such Senior Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Senior Bonds maturing serially and in each month thereafter so long as any of such Senior Bonds so maturing are Outstanding, there shall be credited to the Highway Senior Principal Subaccount an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Senior Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding each such next principal payment date be equal to the principal amount of said Senior Bonds becoming due on such principal payment date.

In the event of the issuance of any Senior Bonds under the Certificate in the form customarily known as "term bonds", for the purpose of retiring such Senior Bonds, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such term Senior Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Senior Bonds is due, and in each month thereafter so long as any of such Senior Bonds are Outstanding, there shall be credited to the Highway Senior Principal Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment

falls due be sufficient to redeem the term Senior Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the Highway Senior Principal Subaccount for the purpose of providing for the retirement of Senior Bonds issued in the form of term bonds shall be applied by the Director of Finance, without further authorization or direction, to the redemption of the Senior Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Senior Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Senior Bonds with the second Sinking Fund Installment for each such Series, semi-annually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment date. The Director of Finance shall give notice of a such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the Highway Senior Principal Subaccount for the retirement of term Senior Bonds of a Series to the purchase of said Senior Bonds; provided, however, that no Senior Bonds shall be purchased during the interval between the date on which notice of redemption of said Senior Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Senior Bonds so purchased are Senior Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Highway Senior Principal Subaccount for such Series, and provided further, that no purchases of Senior Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Highway Senior Principal Subaccount unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Senior Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Senior Bonds as described in this paragraph may be made with or without tenders of Senior Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. All Senior Bonds purchased or redeemed as described in this paragraph shall be canceled and not reissued.

If the principal amount of Senior Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Senior Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking Fund Installments, such excess or the principal amount of Senior Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a certificate of the Director of Transportation and delivered to the Registrar on or prior to the forty-fifth day preceding the next Sinking Fund Installment due date established for such Senior Bonds.

Highway Senior Debt Service Reserve Subaccount [Certificate Section 5.05]

The Highway Senior Debt Service Reserve Subaccount shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Senior Bonds for the payment of which there shall be insufficient money in the Highway Senior Interest Subaccount or Highway Senior Principal Subaccount. The Reserve Requirement shall be determined at the time of issuance of a Series of Senior Bonds, the deposit

therein of any Support Facility, July 1 of each year, and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Senior Bonds.

Subject to the remaining provisions described under this caption, (a) if at any time during a Fiscal Year the moneys on credit to the Highway Senior Debt Service Reserve Subaccount are less than the Reserve Requirement (including any deficiency in a Support Facility used to fund all or a portion of the Reserve Requirement), the amount of the deficiency shall be restored from the first available Pledged Funds (after making the deposits and credits required by the Certificate); (b) if at the end of any fiscal year, the moneys (taking into account the amount then available to be drawn under any Reserve Fund Facility) credited to the Highway Senior Debt Service Reserve Subaccount are less than the Reserve Requirement, the Department shall (after making the deposits and credits required by the Certificate) credit an amount to the Highway Senior Debt Service Reserve Subaccount from Pledged Funds credited to the Highway Revenue Special Account so that there shall then be credited to the Highway Senior Debt Service Reserve Subaccount an amount equal to the Reserve Requirement; (c) if the deficiency in the Highway Senior Debt Service Reserve Subaccount is due to the application of moneys credited thereto (or payments under any Reserve Fund Facility) to pay principal of or interest on any Senior Bonds, then in each month, commencing with the month which follows the month in which such application is made from the Highway Senior Debt Service Reserve Subaccount, the Department shall (after making the deposits and credits as required by the Certificate) credit from the Pledged Funds credited to the Highway Revenue Special Account to the Highway Senior Debt Service Reserve Subaccount the greater of (1) 1/12 of the aggregate Reserve Fund Facility Costs (as hereinafter defined) relating to each draw under any Reserve Fund Facility (which amounts will be used by Department to pay amounts due under a Support Facility) or (2) an amount which, if the same amount were so credited in each month thereafter until such day as the Department shall determine, which day shall not be more than 60 months from the making of the first of such credits, there shall be credited to such Subaccount on such day an amount not less than the Reserve Requirement; (d) if at any time and for so long as the moneys credited to the Highway Senior Debt Service Reserve Subaccount are at least equal to the Reserve Requirement and all Reserve Fund Facility Costs have been paid, then no further credits shall be made to the Subaccount, and any amounts in excess of the Reserve Requirement may be retained in the Highway Revenue Special Account for use and application as are all other moneys on deposit therein; and (e) any Reserve Fund Facility Costs shall be paid by the Department from amounts deposited into the Highway Senior Debt Service Reserve Subaccount. For purposes of the foregoing, "Reserve Fund Facility Costs" shall mean any fees and expenses for, and amounts necessary to reimburse any claims or draws under a Reserve Fund Policy.

When Senior Bonds are refunded in whole or in part or are otherwise paid so that all or a portion of the Senior Bonds are no longer Outstanding and all amounts due to any issuer of a Support Facility are paid, then moneys credited to the Highway Senior Debt Service Reserve Subaccount in excess of the Reserve Requirement may be withdrawn from the Highway Revenue Special Account to pay or provide for the payment of such Senior Bonds or refunded Senior Bonds, as the case may be, or may be transferred and applied by the Department to make up any deficiency in any other subaccounts under the Certificate or to any other account in the State Highway Fund; provided that immediately after such withdrawal or transfer there shall be on credit to the Highway Senior Debt Service Reserve Subaccount an amount equal to the Reserve Requirement.

In lieu of the credit of moneys to the Highway Senior Debt Service Reserve Subaccount, the Department may cause to be so credited one or more Support Facilities in an amount equal to the

difference between the Reserve Requirement and the aggregate of (1) amounts then credited to the Highway Senior Debt Service Reserve Subaccount and (2) the amounts then available to be drawn under any Reserve Fund Facility then credited to such Subaccount. In the event a Support Facility is obtained to satisfy a portion of the Reserve Requirement so long as such Support Facility is in effect any moneys in the Reserve Subaccount shall be used to make up any deficiency in the Highway Senior Principal and Interest Subaccounts prior to any draw on any Support Facility. The Support Facility shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be applied from the Highway Senior Debt Service Reserve Subaccount to the payment of the principal of or interest on any Senior Bonds. Prior to the use of a Support Facility pursuant to the provisions of this paragraph, the Department shall receive written confirmation from the Rating Agency that the rating on the Senior Bonds Outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a Support Facility provided pursuant to this paragraph, the Department shall be obligated either (i) to reinstate the maximum limits of such Support Facility or (ii) to credit to the Highway Senior Debt Service Reserve Subaccount, funds in the amount of the disbursement made under such Support Facility, or a combination of such alternatives, as shall provide that the amount credited to the Highway Senior Debt Service Reserve Subaccount equals the Reserve Requirement for all Senior Bonds; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period described in the second preceding paragraph. Notwithstanding the provisions of said second preceding paragraph, the Department shall not permit any Support Facility which has been established in lieu of a deposit into the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount to terminate or expire prior to depositing to such Subaccount for credit to such Subaccount the amount satisfied previously by such Support Facility.

Highway Subordinate Interest Subaccount [Certificate Section 5.06]

Moneys on credit to the Highway Subordinate Interest Subaccount shall be disbursed solely for the purpose of paying interest on the Subordinate Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Subordinate Bonds, if any, is provided for from the proceeds of a Series of Subordinate Bonds, (a) with respect to each Series of Subordinate Bonds (other than Variable Rate Subordinate Bonds which have Interest Payment Dates occurring at intervals of one month or less), commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Subordinate Bonds of such Series are Outstanding, the Department shall credit to the Highway Subordinate Interest Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Subordinate Bonds on such Interest Payment Date or the amount required to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment thereof, and (b) with respect to Variable Rate Subordinate Bonds which have Interest Payment Dates occurring at intervals of one month or less, on the first Business Day of the month prior to each Interest Payment Date the Department shall credit to the Highway Subordinate Interest Subaccount from amounts credited to the Highway Revenue Special Account the amount required together with other funds available therefor credited to such account, to pay, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of, the interest payable on such Interest Payment Date or Dates on the Outstanding Variable Rate Subordinate Bonds.

In making the credits to the Highway Subordinate Interest Subaccount required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Subordinate Bonds, and for interest capitalized from the proceeds of a Series of Subordinate Bonds (which accrued or capitalized interest shall in each case be deposited in the Highway Revenue Special Account for credit to the Highway Subordinate Interest Subaccount), and for any other credits otherwise made to said account. Variable Rate Subordinate Bonds shall be assumed to bear interest at the assumed interest rate as determined pursuant to the Certificate, and monthly credits made with respect to Variable Rate Subordinate Bonds shall be adjusted to the extent possible to reflect the actual interest rate on Variable Rate Subordinate Bonds in the preceding month so that, as of any Interest Payment Date, the amount available is sufficient to pay the interest then due; provided, however, that any payments to a Support Facility provider as Holder of a Subordinate Bond which are in excess of the stated rate of interest on such Subordinate Bond, whether denominated additional interest, penalty rate, or otherwise, shall not constitute interest for purposes of this paragraph.

Highway Subordinate Principal Subaccount [Certificate Section 5.07]

In the event of the issuance of any Series of Subordinate Bonds under the Certificate in the form customarily known as “serial bonds”, in order to provide for the payment of principal of such Subordinate Bonds of such Series, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such Subordinate Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Subordinate Bonds maturing serially and in each month thereafter so long as any of such Subordinate Bonds so maturing are Outstanding, there shall be credited to the Highway Subordinate Principal Subaccount an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Subordinate Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding each such next principal payment date be equal to the principal amount of said Subordinate Bonds becoming due on such principal payment date.

In the event of the issuance of any Subordinate Bonds under the Certificate in the form customarily known as “term bonds,” for the purpose of retiring such Subordinate Bonds, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such term Subordinate Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Subordinate Bonds is due, and in each month thereafter so long as any of such Subordinate Bonds are Outstanding, there shall be credited to the Highway Subordinate Principal Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment falls due be sufficient to redeem the term Subordinate Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the Highway Subordinate Principal Subaccount for the purpose of providing for the retirement of Subordinate Bonds issued in the form of term bonds shall be applied by the Director of Finance, without further authorization or direction, to the redemption of

the Subordinate Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Subordinate Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Subordinate Bonds with the second Sinking Fund Installment for each such Series, semi-annually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment dates. The Director of Finance shall give notice of such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the Highway Subordinate Principal Subaccount for the retirement of term Subordinate Bonds of a Series to the purchase of said Subordinate Bonds; provided, however, that no Subordinate Bonds shall be purchased during the interval between the date on which notice of redemption of said Subordinate Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Subordinate Bonds so purchased are Subordinate Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Highway Subordinate Principal Subaccount for such Series, and provided further, that no purchases of Subordinate Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Highway Subordinate Principal Subaccount unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Subordinate Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Subordinate Bonds as described in this paragraph may be made with or without tenders of Subordinate Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. A Subordinate Bonds purchased or redeemed as described in this paragraph shall be canceled and not reissued.

If the principal amount of Subordinate Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Subordinate Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking Fund Installments, such excess or the principal amount of Subordinate Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a certificate of the Director of Transportation and delivered to the Registrar on or prior to the forty-fifth day preceding the next Sinking Fund Installment due date established for such Subordinate Bonds.

Highway Subordinate Debt Service Reserve Account [Certificate Section 5.09]

The Highway Subordinate Debt Service Reserve Account shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Subordinate Bonds for the payment of which there shall be insufficient money in the Highway Subordinate Interest Subaccount or Highway Subordinate Principal Subaccount. The Reserve Requirement shall be determined at the time of issuance of a Series of Subordinate Bonds, July 1 of each year, at the time any Variable Rate Subordinate Bonds of a Series cease to be Variable Rate Subordinate Bonds, and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Subordinate Bonds.

Subject to the remaining provisions described under this caption, (a) if at any time during a Fiscal Year the moneys on credit to the Highway Subordinate Debt Service Reserve Subaccount are less than the Reserve Requirement (including any deficiency in a Support Facility used to fund all or a portion of the Reserve Requirement), the amount of the deficiency shall be restored from the first available Pledged Funds; (b) if at the end of any Fiscal Year, the moneys credited to the Highway Subordinate Debt Service Reserve Subaccount are less than the Reserve Requirement, the Department shall (after making the deposits and credits to other subaccounts and purposes as required by the Certificate) credit an amount to the Highway Subordinate Debt Service Reserve Subaccount from Pledged Funds credited to the Highway Revenue Special Account so that there shall then be credited to the Highway Subordinate Debt Service Reserve Subaccount an amount equal to the Reserve Requirement; (c) if the deficiency in the Highway Subordinate Debt Service Reserve Subaccount is due to the application of moneys credited thereto to pay principal of or interest on a Series of Subordinate Bonds, then in each month, commencing with the month which follows the month in which such application is made from the Highway Subordinate Debt Service Reserve Subaccount, the Department shall (after making the deposits and credits to other subaccounts and purposes as required by the Certificate) credit from the Pledged Funds credited to the Highway Revenue Special Account to the Highway Subordinate Debt Service Reserve Subaccount an amount which, if the same amount were so credited in each month thereafter until such day as the Department shall determine, which day shall not be more than 60 months from the making of the first of such credits, there shall be credited to such account on such day an amount not less than the Reserve Requirement; and (d) if at any time and for so long as the moneys credited to the Highway Subordinate Debt Service Reserve Subaccount are at least equal to the Reserve Requirement, no further credits shall be made to the account, and any amounts in excess of the Reserve Requirement may be retained in the Highway Revenue Special Account for use and application as are all other moneys on deposit therein.

When a Series of Subordinate Bonds is refunded in whole or in part or is otherwise paid so that all of the Subordinate Bonds of such Series are no longer Outstanding, moneys credited to the Highway Subordinate Debt Service Reserve Subaccount may be withdrawn from the Highway Revenue Special Account to pay or provide for the payment of such Subordinate Bonds or refunded Subordinate Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Subordinate Bonds issued to refund such refunded Subordinate Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Highway Subordinate Debt Service Reserve Subaccount an amount equal to the Reserve Requirement.

In lieu of the credit of moneys to the Highway Subordinate Debt Service Reserve Subaccount, the Department may cause to be so credited a Support Facility in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the Highway Subordinate Debt Service Reserve Subaccount. In the event a Support Facility is obtained to satisfy a portion of the Reserve Requirement allocable to a Series of Subordinate Bonds, so long as such Support Facility is in effect, the Owners of such Series of Subordinate Bonds shall not be entitled to payment from or a lien on the funds credited to the Highway Revenue Special Account credited to the Highway Subordinate Debt Service Account to satisfy that portion of the Reserve Requirement allocable to other Series of Subordinate Bonds, nor shall the Owners of Subordinate Bonds of such other Series be entitled to any payment from such Support Facility. The Support Facility shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be applied from the Highway Subordinate Debt Service Reserve Subaccount to the payment of the principal of or interest on any Subordinate Bonds of such Series and such withdrawals may not be made from

amounts credited to the Highway Subordinate Debt Service Reserve Subaccount for such Series of Subordinate Bonds. Prior to the use of a Support Facility pursuant to the provisions of this paragraph, the Department shall receive written confirmation from the Rating Agency that the rating on the Subordinate Bonds Outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a Support Facility provided pursuant to this paragraph, the Department shall be obligated either (i) to reinstate the maximum limits of such Support Facility or (ii) to credit to the Highway Subordinate Debt Service Reserve Subaccount, funds in the amount of the disbursement made under such Support Facility, or a combination of such alternatives, as shall provide that the amount credited to the Highway Subordinate Debt Service Reserve Subaccount allocable to a Series of Subordinate Bonds equals that portion of the Reserve Requirement allocable to such Series; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period described in clause (b) under "Events of Default; Remedies--Events of Default" below. Notwithstanding the provisions of said clause (b), the Department shall not permit any Support Facility which has been established in lieu of a deposit into the Highway Revenue Special Account for credit to the Highway Subordinate Debt Service Reserve Subaccount to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the Support Facility.

Investment of Moneys [Certificate Section 5.10]

Moneys in the Highway Revenue Special Account credited to the Highway Senior Interest Subaccount, the Highway Senior Principal Subaccount, the Highway Subordinate Interest Subaccount, and the Highway Senior Subordinate Principal Subaccount therein shall be invested by the Director of Finance in Investment Securities which have ratings provided by Moody's and S&P that are not less than the ratings given to the Senior Bonds then Outstanding and which 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 maturity or upon the redemption thereof. Moneys in the Highway Revenue Special Account credited to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount therein shall be invested by the Director of Finance in Federal Securities which have ratings provided by Moody's and S&P that are not less than the ratings given to the Senior Bonds then Outstanding and which have maturities or are redeemable at the option of the Holder thereof in not more than 5 years from the date of investment, but in any event by no later than the last or final maturity date of the Senior Bonds or Subordinate Bonds then Outstanding, as the case may be. The Department in the Certificate grants its approval for all investments made by the Director of Finance pursuant to the Certificate, and no further approvals of the Department shall be necessary therefor.

Income derived from investments made pursuant to the foregoing provisions of the Certificate shall be treated as Revenues; 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.

All moneys in the Highway Revenue Special Account and the Highway Bond Proceeds Account, the investment of which is not otherwise provided for in the Certificate, 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 or 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 State Highway Fund, or any fund or account therein, which may be required for the purposes of the Certificate, the Value of Investment Securities shall be determined at the time of any withdrawal therefrom and as of July 1 of each year.

The Department will maintain records to enable it to cause to be made the computations necessary to determine whether a Series of Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes meets the requirements of Section 148 of the Code, including, but not limited to, records showing the dates and amounts of all investments of funds credited to a subaccounts in the Highway Revenue Special Account and the Highway Bond Proceeds Account.

Revenues Held in Trust, Lien of Bondholders [Certificate Section 5.11]

The moneys in the State Highway Fund shall be, until used, applied and disbursed in accordance with the provisions of the Certificate, held in trust: (i) for the equal benefit and security of the Holders from time to time of the Senior Bonds; and (ii) subject to the prior and senior rights, benefits and security of the Holders from time to time of the Senior Bonds, for the equal benefit and security of the Holders from time to time of the Subordinate Bonds. Subject to the provisions of the Certificate relating to application of moneys, all Senior Bonds shall have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount, the Highway Senior Principal Subaccount and the Highway Senior Debt Service Reserve Subaccount therein and the investments in which such Revenues may from time to time be invested, over and ahead of all Subordinate Bonds and all bonds, notes or other evidences of indebtedness which may subsequently be issued, and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred, and all the Senior Bonds shall be equally and ratably secured, without priority by reason of series, number, date of execution or of any Supplemental Certificate providing for the issuance thereof, date of Senior Bonds, date of issuance, date of sale, date of execution, date of authentication, or date of delivery, by such lien in accordance with the provisions of the Certificate. Subject to the prior and paramount lien provided in the preceding sentence in respect of the Senior Bonds and further subject to the provisions of the Certificate relating to application of moneys, all Subordinate Bonds shall have a lien on the Revenues paid into the Highway Revenue Special Account for credit to the Highway Subordinate Interest Subaccount, the Highway Subordinate Principal Subaccount and the Highway Subordinate Debt Service Reserve Subaccount therein and the investments in which such Revenues may from time to time be invested, over and ahead of all bonds, notes or other evidences of indebtedness which may subsequently be issued, and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred, and all the Subordinate Bonds shall be equally and ratably secured, without priority by reason of series, number, date of execution or of any Supplemental Certificate providing for the issuance thereof, date of Subordinate Bonds, date of issuance, date of sale, date of execution, date of authentication, or date of delivery, by such lien in accordance with the provisions of the Certificate. Subject to the provisions of the Certificate relating to application of moneys, no claim, encumbrance or obligation against the Pledged Funds subsequently arising or incurred shall be secured by or entitled to a lien or charge thereon prior to or equal with the payments required by the Certificate to be made from the Pledged Funds to provide for the payment of the Bonds.

Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds [Certificate Section 4.02]

The Department at any time and from time to time may authorize the issuance of one or more Series of: (i) additional Senior Bonds (“Additional Senior Bonds”) or refunding Senior Bonds (“Refunding Senior Bonds”) payable from the Highway Revenue Special Account on a parity with all other Senior Bonds then Outstanding and equally and ratably secured therewith, or (ii) additional Subordinate Bonds (“Additional Subordinate Bonds”) or refunding Subordinate Bonds (“Refunding Subordinate Bonds”) payable from the Highway Revenue Special Account on a parity with any Additional Subordinate Bonds or Refunding Subordinate Bonds then Outstanding and equally and ratably secured therewith, in each case upon compliance with the following conditions:

1. The issuance of the Additional Bonds or Refunding Bonds shall have been authorized by law and are issued under and pursuant to a Supplemental Certificate or Certificates.

2. The Supplemental Certificate providing for the issuance of such Bonds shall provide that any accrued interest received upon the sale of said Bonds or any interest capitalized from the proceeds of said Bonds shall be paid into the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount or the Highway Subordinate Interest Subaccount;

3. At the time of the issuance of such Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bond; no deficiencies exist in the State Highway Fund or the Highway Revenue Special Account; and there does not exist an “Event of Default” or a condition which upon the passage of time would constitute such an “Event of Default”;

4. Upon the delivery of such Bonds, there shall be credited to the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount an amount equal to, in each case, the Reserve Requirement; provided however, that the Supplemental Certificate providing for the issuance of such Series of Bonds may provide that part of the proceeds thereof shall be paid or a Support Facility may be deposited, into the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount or the Highway Subordinate Debt Service Reserve Subaccount, as the case may be.

5. In the case of the issuance of Additional Bonds, upon compliance with the additional conditions summarized below.

6. In the case of the issuance of Refunding Bonds, upon compliance with the additional conditions summarized below.

Additional Conditions for the Issuance of Additional Bonds [Certificate Section 4.03]

Each of the following conditions, in addition to those set forth above, shall be met upon the issuance of Additional Bonds:

(a) Such Bonds shall be issued only for the purpose of the payment or reimbursement of the cost of the acquisition or construction of properties to constitute part of the Undertaking or the making of additions to, expansions of, improvements of, renewals of, replacements of, or reconstructions of, the Undertaking or of properties which shall constitute part of the Undertaking; and

(b) The Revenues for any 12 consecutive calendar month's period out of the last eighteen (18) consecutive calendar month's period immediately preceding the date of issuance of the Series of Bonds, as derived from the most recent publicly available financial statements of the Department, shall be at least equal to: (i) in the case of Senior Bonds proposed to be issued, two (2) times maximum Aggregate Bond Service for any future Fiscal Year on a Senior Bonds to be Outstanding after the issuance of such Additional Senior Bonds; and (ii) in the case of Subordinate Bonds proposed to be issued, one and thirty-hundredths (1.30) times maximum Aggregate Bond Service for any future Fiscal Year on all Bonds to be Outstanding after the issuance of such Additional Subordinate Bonds.

Additional Conditions for the Issuance of Refunding Bonds [Certificate Section 4.04]

The following conditions, in addition to those set forth above under "Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds," shall be met upon the issuance of Refunding Bonds:

(a) Such Refunding Bonds are being issued for the purpose of refunding at their maturity or at any time within one year prior to their maturity, any of the then Outstanding Bonds, for the payment of which sufficient funds are not available, which Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds; and

(b) Refunding Bonds may be issued to refund prior to maturity all or part of the Outstanding Bonds, including therein amounts to pay principal of, and redemption and acquisition premium and interest on the Bonds to be refunded, which Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds.

Variable Rate Bonds [Certificate Section 4.02]

Nothing in the Certificate shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Department from issuing Variable Rate Bonds; provided, however, that no Variable Rate Bond may be issued as a Senior Bond. The Supplemental Certificate providing for the issuance of such Variable Rate Bonds may provide for, without limitation, the following: Support Facilities or alternative Support Facilities and support agreements in connection therewith; remarketing agreements and the appointment of remarketing agents; the appointment of tender agents to accept mandatory or optional tenders of Variable Rate Bonds; the payment, redetermination and accrual over specified periods of interest; the establishment, use, composition, adjustment and change of interest indices or modes or the establishment and use of alternative interest indices or modes or the establishment of a fixed interest rate or rates; the establishment of special funds and accounts in connection with the issuance of such Variable Rate Bonds; special redemption or purchase provisions for such Variable Rate Bonds and notice provisions in connection with the purchase, redemption,

delivery or tender of such Variable Rate Bonds; and any other terms and provisions not in conflict with the Certificate.

Annual Audit [Certificate Section 6.04]

The Department shall maintain and keep, or cause to be maintained and kept, proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking. Such accounts shall show the amount of the Revenues and the application of such Revenues to the purposes specified in the Certificate and all financial transactions in connection therewith, including all deposits into and disbursements from the State Highway Fund, the Highway Revenue Special Account and the Highway Bond Proceeds Account.

The Department shall cause its accounts to be audited by an accountant (herein defined and referred to as the "Independent Public Accountant") employed by it, such period of appointment or employment to be from year to year. Such Independent Public Accountant shall be selected with special reference to his general knowledge, skill and experience in auditing books and accounts, and shall be a certified or licensed accountant or firm of certified or licensed accountants who, or each of whom, is in fact independent and not under the domination of the State (including the Department) and who, or each of whom, is not connected with the State (including the Department) as an officer or employee thereof, but who may be regularly retained to make annual or similar audits of any of the books of the State (including the Department). Such audit shall be made annually and shall be completed within 270 days after the close of each Fiscal Year, shall include a detailed statement of the Revenues and the expenditure and application thereof for such year and a detailed balance sheet of the Undertaking as of the close of such year, including therein a statement of the State Highway Fund and the Highway Revenue Special Account and accounts therein, and be accompanied in writing by a certificate of the Independent Public Accountant. Each such audit shall certify as to the correctness of the schedules contained in the audit report. A copy of each such annual audit shall be filed with the Director of Finance and shall be open for public inspection, and shall be mailed to any Holder of the Bonds filing with the Department a request for same. The cost of any such audit shall be an Operation and Maintenance Expense.

Annual Budget [Certificate Section 6.05]

The Department shall prepare and file with the proper officers of the State at the time and in the manner prescribed by law, an estimated budget of Revenues and Operation and Maintenance Expenses, Bond Service, capital improvements and any other proposed expenditures for the Undertaking for each Fiscal Year, which budgets shall be open to inspection by any Holder of Bonds or other interested party.

Amending Certificate Without Consent of Bondholders [Certificate Section 9.01]

The State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time and without the consent or concurrence of the Holder of any Bond, may make and execute a Supplemental Certificate (i) for the purpose of providing for the issuance of Additional Bonds or the issuance of Refunding Bonds, (ii) to make any changes or modifications thereof, or amendments, additions or deletions thereto which may be required to permit the Certificate to be qualified under the Trust Indenture Act of 1939 of the United States of America,

and (iii) if the provisions of such Supplemental Certificate shall not materially 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 supplement thereto as to which it shall have been advised by its counsel that the same are minor clerical or typographical 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 therein or in any such supplement thereto, or to insert in the Certificate such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable;

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 supplement hereto;

4. To confirm as further assurance any lien, pledge or charge, or the subjection of any additional revenue, property or collateral to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any supplement thereto;

5. To grant to or confer upon the Holders of the Bonds or any Support Facility provider, 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 Bonds and the incurring of indebtedness by the State payable from the Revenues;

7. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to obtain a favorable rating or ratings from any Rating Agency;

8. To add or modify any provision of the Certificate as a result of enactment of any State or federal law which changes the treatment of the Bonds or interest thereon for tax purposes;

9. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to permit such Series to be available through a book-entry system maintained by, or to be cleared through, The Depository Trust Company, New York, New York, or other securities depository, clearing corporation, or clearing agency;

10. To make any changes or corrections to the Certificate as are necessary to provide for the issuance of Bonds in a form not contemplated by the express provisions of the Certificate, including without limitation in the form of commercial paper, indebtedness which converts from a variable rate to a fixed rate, indebtedness which initially compounds or accrues interest and then converts to a current interest-bearing instrument, and a Series of

Bonds whereby the State pays a particular rate of interest and such interest payment is divided in a manner such that certain Bondholders receive a variable interest rate determined by the market and other Bondholders receive a residual interest rate approximating the difference between the interest payment paid by the State and such variable rate of interest; or

11. To modify, amend or supplement in any other respect any of the provisions of the Certificate, provided that such modifications shall have no adverse affect as to any Bond or Bonds which are then Outstanding.

Except for Supplemental Certificates providing for the issuance of Additional Bonds or Refunding Bonds, the State shall not make and execute any instrument or Certificate supplemental to the Certificate, unless in the opinion of counsel the making and entering into of such instrument or such Supplemental Certificate is permitted by the provisions of the Certificate and the provisions of such instrument or of such Supplemental Certificate are not contrary to or inconsistent with the covenants or agreements of the State contained in the Certificate as originally issued or as amended with the consent of the Bondholders.

Amending Certificate With Consent of Bondholders [Certificate Section 9.02]

With the consent of the Holders of not less than a majority of the principal amount of the Bonds then Outstanding, the State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time, may make and execute an instrument or certificate amending or supplementing the provisions of the Certificate for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any supplement thereto, or modifying or amending the rights and obligations of the Department thereunder, or modifying in any manner the rights of the Holders of the Bonds; provided, however, that, without the specific consent of the Holder of each Bond which would be affected thereby, whether or not such Bond shall then be deemed to be Outstanding thereunder, no such instrument or certificate amending or supplementing the provisions thereof 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; (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Certificate; (4) authorize the creation of any pledge of the Revenues or any lien or charge thereon prior or superior to or on a parity with the pledge of and lien and charge thereon created in the Certificate for the payment of the Bonds except to the extent provided in the Certificate; or (5) deprive any Holder of the Bonds of the pledge and lien created by the Certificate; and provided further, that if moneys or Federal Securities shall have been deposited in accordance with the provisions of the Certificate for the payment of particular Bonds and such Bonds shall not in fact have been paid, no amendments or supplements to the provisions of Article XI of the Certificate shall be made without the specific consent of the Holder of each Bond which would be affected thereby. A modification or amendment of the provisions of Article V of the Certificate with respect to any of the accounts therein shall not be deemed a change in the terms of payment of the Bonds; 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 Highway Revenue Special Account for credit to all accounts therein.

Events of Default; Remedies [Certificate Sections 10.01 to 10.05]

Events of Default. The following shall constitute “Events of Default:”

(a) If payment of the interest on, or principal (including any Sinking Fund Installment) or 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

(b) If the Department shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate or in any Certificate supplemental thereto, on the part of the Department to be performed, and such default shall continue for 90 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Department by the Holders of not less than 20% in principal amount of the Bonds then Outstanding, or any trustee or committee therefor; provided, however, that if such failure shall be such that it cannot be corrected within such 90-day period, it shall not constitute an Event of Default if correction action is instituted within such period and diligently pursued until the failure is corrected; or

(c) 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 any other moneys pledged and charged in the Certificate or in any Certificate supplemental thereto, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or State statute now or hereafter enacted; or

(d) If, under the provision 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 90 days from the date of assumption of such custody or control; or

(e) If the Department or the State shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

Declaration of Principal and Interest as Due. Upon the occurrence and continuation of an Event of Default, then and in each and every case the Holders of not less than 25% in principal amount of the Senior Bonds then Outstanding and the Holders of not less than 25% in principal amount of the Subordinate Bonds then Outstanding may, by written notice to the Department filed in the office of the Department and with the Director of Finance, proceed to declare the principal of all Bonds then Outstanding, together with all accrued and unpaid interest thereon and together with all other moneys secured thereby, if not already due, to be due and payable immediately, and upon any such declaration the same shall become and be due and payable immediately, anything in the Certificate, any Supplemental Certificate, or in any of the Bonds contained to the contrary notwithstanding, except to the extent otherwise provided in connection with a Support Facility. This provision is subject, however, to the condition that, if at any time after the principal of the Bonds, together with accrued and unpaid interest thereon shall have been so declared due and payable and

before any further action has been taken (other than the making of the above declaration), the principal amount of all Bonds which have matured either according to the maturity date or dates specified therein or otherwise (except as a result of such declaration) and all arrears of interest upon all Bonds, except interest accrued but not yet due on said Bonds, shall be paid or caused to be paid, and all other Events of Default, if any, which shall have occurred shall have been remedied, cured or secured, then and in every such case the Holders of a majority in principal amount of the Senior Bonds then Outstanding and not less than 25% in principal amount of the Subordinate Bonds then Outstanding, by notice in writing delivered to the Department and the Director of Finance, may waive such default and its consequences and rescind such declaration. No such waiver or rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Bondholders' Committee. Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the Holders of not less than 20% in principal amount of the Senior Bonds then Outstanding and not less than 20% in principal amount of the Subordinate Bonds then Outstanding may call a meeting of the Holders of Bonds for the purpose of electing a Bondholders' Committee. Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to the Certificate. At such meeting the Holders of not less than a majority of the principal amount of the Senior Bonds then Outstanding and not less than a majority of the principal amount of the Subordinate Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any notice. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the Holders of a majority in principal amount of the Senior Bonds and by the Holders of a majority in principal amount of the Subordinate Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for a Bondholders. The Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it, and may provide for the termination of the existence of the Bondholders' Committee.

Suits at Law or Equity and Mandamus. 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 the provisions, limitations and conditions contained in the Certificate so far as the remedies provided in the Certificate are concerned, the Holder of any Bond at the time Outstanding shall be entitled, 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 Holder 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 covenant or agreement contained in the Certificate, 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.

Remedies Not Exclusive: Effect of Waiver of Default; Effect of Abandonment of Proceedings or Adverse Determination. The Holders from time to time of the Bonds shall be entitled to all the remedies and benefits of the Certificate as is and as shall be provided by law, and nothing herein shall be construed to limit the rights or remedies of any such Holders under any applicable statute that may

now exist or be enacted hereafter. The remedies prescribed by the Certificate shall not be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given thereunder, or now or hereafter existing at law or in equity or by statute and may be exercised without exhausting and without regard to any other remedy.

No waiver of any default or breach of duty or contract by any Holder or any Bond shall extend to or affect any subsequent default or breach of duty or contract, or shall impair any rights or remedies thereon. No delay or omission of any Holder of a Bond to exercise any right or power accruing upon any default shall impair any such right, or power or shall be construed to be a waiver of any such default or acquiescence therein. Every substantive right and remedy conferred upon the Holders of the Bonds may be enforced from time to time and as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and then discontinued or abandoned, or shall be determined adverse to the Holders of the Bonds, then and in every such case the State and such Holders shall be restored to their former positions and rights and remedies as if no suit, action or proceeding had been brought or taken.

Discharge of Obligations of the State Under the Certificate [Certificate Section 11.01]

The obligations of the State, including, without limiting the generality of the foregoing, of the Department, under the Certificate and the liens, pledges, charges, trusts, assignments, covenants and agreements of the State, including the Department, therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding under the Certificate,

(A) if 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) as to any Bond not theretofore purchased and cancelled, surrendered for cancellation or subject to cancellation, when payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest on such principal (calculated, in the case of Variable Rate Bonds, at the maximum numerical rate permitted by the terms thereof) 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

(1) shall have been made or caused to be made when due and payable in accordance with the terms thereof, or

(2) shall have been provided by irrevocably depositing with the Director of Finance or other Paying Agent therefor, in trust solely for such payment, either (i) moneys sufficient to make such payment or (ii) Federal Securities maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, or (iii) a combination of both moneys and Federal Securities, and all necessary and proper fees, compensation and expenses of any Paying Agent, transfer agent or Registrar appointed by the State pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such Paying Agent, transfer agent or Registrar. At such time as a Bond shall be deemed to be no longer Outstanding under

the Certificate, as aforesaid, except for the purpose of any such payment from such moneys or Federal Securities, such Bond shall no longer be secured by or entitled to the benefits of the Certificate and shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided therein, or otherwise).

Notwithstanding the foregoing, with respect to Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof and which the State elects to so redeem or prepay, no deposit under clause (2) of subparagraph (B) above shall constitute such discharge and satisfaction as aforesaid until such Bonds shall have matured or shall have been irrevocably called or designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been given as provided in the Certificate or irrevocable provision shall have been made for the giving of such notice; provided that nothing in the foregoing shall require or be deemed to require the State to elect to redeem or prepay such Bonds or, in the event the State shall elect to redeem or prepay such Bonds, shall require or be deemed to require the redemption or prepayment as of any particular date or dates.

Any such moneys so deposited with the Director of Finance or other Paying Agents as described above may at the direction of the Department be invested and reinvested in Federal Securities, maturing in the amounts and times as hereinbefore set forth, and all income from all such Federal Securities in the hands of the Director of Finance and other Paying Agents which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys shall have been so deposited, shall, to the extent permitted by law, be deposited in the Highway Revenue Special Account as and when realized and collected for use and application as are other moneys deposited in such Fund.

Notwithstanding the foregoing, the payment of (i) the purchase price of and interest on Variable Rate Bonds tendered for purchase pursuant to the terms thereof and of a remarketing agreement, or similar agreement, or (ii) principal of or interest on any Variable Rate Bonds with a draw, borrowing or payment under a Support Facility shall not be deemed payment of such Variable Rate Bonds pursuant to the Certificate; provided, however, that with respect to (ii) above, a reimbursement or other payment by the State with respect to a draw, borrowing or payment under a Support Facility for the payment of principal, premium, if any, or interest on Variable Rate Bonds when due, shall be deemed to the payment of such Variable Rate Bonds for the purpose of said provision.

All moneys or Federal Securities set aside and held in trust pursuant to the foregoing provisions for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Federal Securities have been so set aside in trust.

If moneys or Federal Securities have been deposited or set aside with the Director of Finance or other Paying Agent pursuant to the Certificate for the payment of Bonds and such Bonds shall be deemed to have been paid and be no longer Outstanding, but such Bonds shall not have in fact been actually paid in full, no amendment to the provisions of the Certificate relating to the defeasance of Bonds shall be made without the consent of the Holder of each Bond affected thereby and such Bonds shall be considered to be Outstanding for purposes of the Certificate.

The State may at any time surrender to the Director of Finance for cancellation by him any Bonds previously executed and delivered, which the State may have acquired in any manner whatsoever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding.

Additional Provisions Regarding Support Facilities [Articles VI and VII, Seventh Supplemental Certificate]

The Policy and Reserve Policy to be issued by Financial Security Assurance Inc. (“Financial Security”), as described in this Official Statement, will constitute Support Facilities with respect to the 2005 Bonds for purposes of the Certificate. The following is a brief description of certain provisions of the Seventh Supplemental Certificate regarding the Policy and the Reserve Policy.

The Policy. Unless it fails to honor its obligations under the Policy, Financial Security shall be deemed to be the holder of all the Insured 2005 Bonds for the purpose of exercising any rights of holders to take, direct or consent to any actions taken pursuant to the Certificate, including actions taken upon the occurrence of an Event of Default. If the Insured 2005 Bonds are accelerated, Financial Security may elect to pay the principal of and interest on the Insured 2005 Bonds either on the accelerated payment date or on the scheduled payment dates as if no acceleration had occurred. Upon making any payments under the Policy, Financial Security shall be subrogated to the rights of the holders of the Insured 2005 Bonds to the extent of such payments. Subject to the provisions of the Seventh Supplemental Certificate, Financial Security shall also have the rights, among others, to receive specified financial information and notices of certain material events regarding the Department, and to consent to amendments or supplements to the Certificate which require the consent of Bondholders.

The Reserve Policy. If the Department fails to reimburse Financial Security for draws under the Reserve Policy, Financial Security shall be entitled to exercise any and all legal and equitable remedies available to it other than (i) acceleration and (ii) any other remedy which adversely affects any holders of Senior Bonds. Subject to the provisions of the Seventh Supplemental Certificate, Financial Security shall also have the rights, among others, to receive specified financial information and notices of material events regarding the Department, and to consent to amendments or supplements to the Certificate which require the consent of Bondholders.

APPENDIX B

ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE
HIGHWAY SYSTEM AND THE HAWAII DEPARTMENT OF TRANSPORTATION

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**ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES,
THE STATE HIGHWAY SYSTEM AND
THE DEPARTMENT OF TRANSPORTATION**

This Appendix B contains additional information relating to Revenue sources and other factors affecting the Department's ability to raise Revenues, federal aid to Hawaii, the State Highway System and the Department of Transportation.

INFORMATION RELATING TO REVENUE SOURCES

Motor Vehicle Registration. The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2003.

Motor Vehicle Registration

<u>Calendar Year</u>	<u>Passenger Vehicles</u>	<u>Ambulances & Hearses</u>	<u>Buses</u>	<u>Trucks</u>	<u>Motorcycles & Scooters</u>	<u>Trailers</u>	<u>Total</u>
1994	691,158	53	3,772	163,227	16,934	22,864	898,008
1995	694,239	54	3,660	162,415	17,388	23,535	901,291
1996	703,094	59	3,468	160,742	17,254	23,153	907,770
1997	704,693	54	3,226	159,134	17,160	22,697	906,964
1998	713,732	61	3,084	159,614	16,936	22,326	915,753
1999	725,142	59	3,028	161,698	17,008	22,539	929,474
2000	754,840	56	2,902	165,783	17,661	23,496	964,738
2001	775,737	58	2,847	169,223	19,286	25,412	992,563
2002	792,482	62	2,814	171,813	20,427	25,996	1,013,594
2003	830,672	47	2,588	175,517	22,019	26,780	1,057,623

Source: Department of Business, Economic Development and Tourism, Research and Economic Analysis Division, Statistics Branch.
Department of Transportation Motor Vehicle Safety Office.

Licensed Drivers. The following table sets forth the total number of drivers licenses in force in the State for the ten calendar years ending December 31, 2003.

Drivers Licenses in Force

<u>Year</u>	<u>Oahu</u>	<u>Hawaii</u>	<u>Mauai</u>	<u>Kauai</u>	<u>Total</u>
1994	527,756	94,257	80,643	42,736	745,392
1995	516,780	94,048	79,639	42,041	732,508
1996	515,780	94,943	80,998	41,775	733,496
1997	517,904	96,665	82,217	42,079	738,865
1998	520,734	98,525	84,980	42,363	746,329
1999	521,671	100,331	87,550	43,141	752,693
2000	529,890	104,058	90,964	44,471	769,383
2001	542,244	106,557	93,595	45,424	787,820
2002	560,222	110,561	97,045	46,840	814,668
2003	572,665	113,760	99,716	48,047	834,188

Source: Department of Transportation, Motor Vehicle Safety Office.

Fuel Consumption. The following table is a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel tax for the ten fiscal years ending June 30, 2004.

Motor Vehicle Fuel Consumption (In Thousands of Gallons)

<u>Fiscal Year</u>	<u>Gasoline</u>	<u>Diesel</u>	<u>Liquid Petroleum</u>	<u>Total</u>
1993	382,857	191,376	4,028	578,261
1994	394,081	181,457	4,065	579,603
1995	389,029	200,373	3,364	592,766
1996	397,078	177,883	3,665	578,626
1997	399,327	197,140	3,827	600,294
1998	395,866	185,612	3,821	585,299
1999	392,811	193,094	3,643	589,426
2000	391,114	310,299	3,583	704,996
2001	411,314	210,970	3,643	625,927
2002	416,827	219,694	3,179	639,700
2003	434,595	161,132	3,160*	598,887
2004	459,132	170,318	2,019	631,469

Source: Liquid Fuel Tax Base & Tax Collections - FY Ending June 30, 2004, State of Hawaii, Department of Transportation.

*Updated by the Department of Taxation.

FACTORS THAT MAY IMPACT REVENUE SOURCES

Federal and County Fuel and Weight Taxes

Fuel taxes are presently imposed by federal, State and county governments. The retail price of a gallon of gasoline in the City and County of Honolulu presently includes fuel taxes of \$0.509

(\$0.184 federal + \$0.16 state + \$0.165 county) per gallon plus the State's 4% general excise tax, of which taxes only \$0.16 is the State fuel license tax. The feasibility of imposing additional taxes and fees on fuel and motor vehicles is affected in part by the amount and rate of fuel and other taxes and fees imposed by federal and county governments. These other taxes and fees are not pledged to the payment of the Bonds and are not available for such payment. The following is a summary of the various fuel taxes presently imposed by the federal government and fuel and vehicle taxes presently imposed by county governments:

Federal Fuel Taxes. The Internal Revenue Code imposes federal fuel taxes at the rate of \$0.184 per gallon of gasoline and \$0.244 per gallon of diesel fuel.

State General Excise Tax. The State's 4% general excise tax on goods and services extends to gasoline, diesel fuel and liquid petroleum gas. Since 1991, general excise tax collections have been paid to the State general fund, not the State Highway Fund.

County Fuel Taxes. Each county imposes a tax on gasoline, diesel oil and liquid petroleum gas for highway use. County fuel taxes are collected by the Department of Taxation together with the fuel license taxes and deposited into the respective county highway funds to be expended by each county on county highway improvements. The fuel tax rates for the County of Hawaii are \$0.088 per gallon of gasoline and diesel oil, and \$0.06 per gallon of liquid petroleum gas. The fuel tax rates for the City and County of Honolulu are \$0.165 per gallon of gasoline and diesel oil, and \$0.11 per gallon of liquid petroleum gas. The fuel tax rates for the County of Maui are \$0.13 per gallon of gasoline and diesel oil, and \$0.043 for liquid petroleum gas. The fuel tax rates for the County of Kauai are \$0.10 per gallon of gasoline and diesel oil, and \$0.07 per gallon of liquid petroleum gas.

County Vehicle Weight Taxes. Each county imposes and collects a tax on all vehicles, including motor vehicles, based on weight. Each county collects both State and county vehicle taxes and remits the State vehicle weight tax to the State to be paid into the State Highway Fund.

The county vehicle tax rates for the City and County of Honolulu are \$0.0125 per pound for passenger motor vehicles and noncommercial vehicles not exceeding 6,500 pounds, and \$0.02 per pound for commercial vehicles and all other motor vehicles, with a minimum of \$12.00 annually for all motor vehicles and \$1.00 annually for other vehicles.

The tax rates for the County of Maui are \$0.0125 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.020 per pound for nonpassenger commercial vehicles and all other motor vehicles, with a minimum of \$6.00 annually for all vehicles.

The tax rates for the County of Kauai are \$0.0075 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.02 per pound for nonpassenger vehicles and all other motor vehicles, with a minimum of \$12.00 annually for all vehicles.

The tax rates for the County of Hawaii are \$0.005 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.01 per pound for nonpassenger motor vehicles and commercial vehicles and motor vehicles over 6,500 pounds, with a minimum of \$6.00 annually for all vehicles.

County Vehicle Registration Fees

Each county imposes various registration fees for vehicles, including fees for certificates of registration, license plates and decals. Each county collects both State and county vehicle registration fees and remits the State vehicle registration fees and reimbursements for State-incurred expenses to the State to be paid into the State Highway Fund. The fees range from \$0.50 for decals, between \$2.00 to \$3.00 for registration certificates and between \$3.50 to \$5.00 for license plates.

None of such federal or county taxes or fees, nor the State general excise tax, is pledged to the payment of the Bonds or provides a source of revenues for such payment, but such taxes and fees do affect the feasibility of imposing additional charges on the use of vehicles.

FEDERAL AID TO HAWAII

Federal Aid Reimbursements

Generally the costs of financing highways for which the federal government provides assistance is undertaken on a shared basis with the State, with the federal government providing reimbursement to the State for 90% of eligible costs of construction when federal-aid funding is used on Interstate Highways and 80% of the costs on other highways and streets not functionally classified as local or rural minor collector roads. Federal aid reimbursements are deposited in the State Highway Fund. Such amounts are not Pledged Funds under the Certificate.

The following table sets forth federal aid reimbursements to the State for each of the last ten fiscal years ended June 30, 2004.

Federal Aid Reimbursements to the State

<u>Fiscal Year</u>	<u>Interstate</u>	<u>Primary</u>	<u>Secondary</u>	<u>Other</u>	<u>Total Amount Reimbursed</u>
1995	\$129,850,812	\$ 196,001	\$ 100,936	\$ 50,366,387	\$180,514,136
1996	114,012,607	4,039,307	1,195,734	69,686,057	188,933,705
1997	129,155,903	1,336,632	1,329,788	76,519,728	208,342,051
1998	66,735,974	186,552	411,853	67,257,999	134,592,378
1999	56,126,780	283,780	120,114	53,672,131	110,202,805
2000	20,813,022	307,449	283,863	57,611,498	79,015,832
2001	62,528,229	(226,626)	575,525	60,138,667	123,469,045
2002	12,299,728	2,040,319	2,106,025	122,276,644	138,722,716
2003	12,653,232	50,769	2,399,240	116,978,413	132,081,654
2004 ^{1,2}	4,089,068	32,847	-0-	78,416,173	82,538,088

1 Unaudited.

2 During fiscal year 2003 and 2004, the Department implemented a higher proportion of non-federal aid projects that resulted in a decrease of federal aid reimbursements for 2004. For the first half of fiscal year 2005, the Department has received over \$75 million in federal aid reimbursements.

Source: Department of Transportation.

Intermodal Surface Transportation Efficiency Act of 1991 and Transportation Efficiency Act for the 21st Century

A significant portion of the federal aid reimbursements to the Department has been received pursuant to the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”). The stated purpose of said Act was “to develop a National Intermodal Transportation System that is economically efficient, environmentally sound, provides the foundation for the Nation to compete in the global economy and will move people and goods in an energy efficient manner.” The major effect of ISTEA was to reorganize the manner in which federal aid for surface transportation projects, including highways, would be provided to state and local governments. ISTEA provided authorization for federal assistance for highways, highway safety and mass transportation for federal fiscal years 1992 through 1997.

In 1998, Congress passed an ISTEA reauthorization bill called the Transportation Efficiency Act for the 21st Century (“TEA-21”) that expired on September 30, 2003. The bill reauthorized the federal highway program for fiscal years 1998 through 2003. Congress needs to pass new multi-year legislation to renew TEA-21 and was unable to do so in Federal Fiscal Year 2004. Congress extended TEA-21 for a 5th time during the 108th session that extends the federal program into Federal Fiscal Year 2005, and is currently pushing action on a multi-year authorization bill into the 109th session that started January 4, 2005. Hawaii’s share of federal funds under TEA-21 increased from \$140.5 million in 1999 to \$156.1 million in 2004. The average funding for the last six year period was \$155.6 million. This is an increase of approximately \$35 million over the average funding for the last three years of ISTEA (1995, 1996 and 1997) which was \$120.2 million. The actual apportionments of federal funds received were \$118.4 million in 1998; \$140.5 million in 1999; \$156.1 million in 2000; \$168.0 million in 2001; \$171.7 million in 2002; \$141.5 million in 2003; and \$156.1 million in 2004. The estimated apportionment of federal funds for 2005 is \$140 million to \$150 million. The increase in federal apportionments in Federal Fiscal years 2000, 2001, and 2002 is primarily due to the additional funds authorized by the Revenue Aligned Budget Authority (“RABA”), and from discretionary and earmarked funds received.

THE STATE HIGHWAY SYSTEM

General

In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,310 linear miles of public highways, streets and roads administered by the Department and the counties. An additional 180 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

There are four counties in the State: the City and County of Honolulu includes the entire island of Oahu and the uninhabited windward islands, Kauai County includes the islands of Kauai and Niihau, Maui County includes the islands of Molokai, Maui, Lanai and Kahoolawe, and Hawaii County is comprised of the island of Hawaii. There are no roadways or bridges connecting one island to another.

Honolulu, on Oahu, is the State’s only major metropolitan area. Approximately 72% of the population of the State lives on Oahu.

The State’s highways, streets and roads are discussed below, first by the level of government responsible for administering the roadways, followed by a discussion of the federal aid system and the functional classifications. The State Highway System receives most of the federal aid highway funds made available to the State.

State Highway System

The State Highway System, which is administered by the Department, consists of 927.97 linear miles of roadways. The Department has classified the State Highway System as follows: interstate (54.90 miles), freeway expressway (33.65 miles), principal arterial (306.54 miles), minor arterial (267.44 miles), major collector (265.44 miles), and minor collector (0 miles).

The following tables set forth the number of miles of the various categories of public highways, streets and roads, comprising the State Highway System.

State Highway System							
Functional Classification	Oahu	Hawaii	Maui	Kauai	Molokai	Lanai	Total
Interstate	54.90	0.00	0.00	0.00	0.00	0.00	54.90
Freeway Expressway	33.65	0.00	0.00	0.00	0.00	0.00	33.65
Principal Arterial	121.05	110.48	53.88	21.13	0.00	0.00	306.54
Minor Arterial	23.22	168.30	29.33	46.59	0.00	0.00	267.44
Major Collector	6.54	64.75	85.72	39.03	55.72	13.68	265.44
Minor Collector	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	239.36	343.53	168.93	106.75	55.72	13.68	927.97

Source: Department of Transportation.

The most important component of the State Highway System is the interstate system on Oahu. Interstate H-1 is a 27 mile freeway through the major populated areas of Honolulu, from Ewa on the western end of Oahu to Kahala on the eastern end. Interstate H-2 is an eight mile freeway from the H-1 freeway at Pearl City to the U.S. Army’s Schofield Barracks in Wahiawa. Interstate H-3 is a recently-completed 16 mile freeway from the H-1 freeway at Halawa Valley in Pearl Harbor through the Koolau mountains to the U.S. Marine Corps Air Station at Kaneohe in windward Oahu. Interstate H-201, Moanalua Freeway connects to the H-1 Freeway at the Middle Street and Halawa Interchanges.

Other major State highways on the island of Oahu include the Pali Highway and Likelike Highway which connect Honolulu to the Windward Oahu communities of Kailua and Kaneohe, respectively, and Kamehameha Highway and Farrington Highway, which circle Oahu’s windward and leeward coastlines. Kalaniana’ole Highway circles the eastern part of Oahu and connects eastern Honolulu to the windward coastline.

Major State highways on the island of Hawaii include the Queen Kaahumanu Highway in North Kona, the Kuakini Highway in South Kona, the Mamalahoa Highway in West Hawaii, and portions of the Hawaii Belt Road in East Hawaii.

Major State highways on the island of Kauai include Kaumualii Highway in west Kauai and Kuhio Highway in east Kauai.

Major State highways in Maui County, include on the island of Maui Honoapiilani Highway and Kahekili Highway in West Maui and Hana Highway, Haleakala Highway, Mokulele Highway and Piilani Highway in east Maui. Maunaloa Highway and Kamehameha V Highway are the major State roads on the island of Molokai.

Federal Agencies

Various federal agencies have jurisdiction over certain public highways, streets and roads open to the public in national parks and military reservations in the State, including the United States National Park Service and the military services. The United States National Park Service also builds and maintains roads within the boundaries of the national parks.

THE DEPARTMENT OF TRANSPORTATION

Management Directions. The Department continues to focus its management efforts on programs that will bring about operational improvements and cost efficiencies through innovation and new technology. The Department implemented a new concept approach to working with the private sector referred to as “partnering.” All parties must agree to commit to the quality, safety, timeliness and cost efficiency of the project.

To increase efficiency for planning and maintaining highway improvements, the Department will be utilizing an integrated and automated database management system. This Coordinated Data System (CDS) will compile all highway improvement data (e.g., road inventory, pavement condition survey, vehicular traffic, highway improvement and maintenance expenditure) provided by the various offices within the Department. Updating and maintenance of such data will be transmitted electronically to the CDS.

To service the general public more efficiently, the Department installed electronic highway message signs at various locations on Oahu to forewarn motorists of lane closures, obstructions or accidents ahead. The Department also keeps the employees and general public informed on projects, events, public hearings and departmental news with newsletters, an internet site and provides telephone hotlines for instant information and feedback.

Oahu Metropolitan Planning Organization (“OMPO”). The Federal Surface Transportation Assistance Act of 1973 and other federal laws require states to designate and fund a metropolitan planning organization (MPO) for any urbanized area with a population greater than 50,000 to ensure that the plans and program for each metropolitan area shall provide for the development and integrated management and operation of transportation systems and facilities that will function as an intermodal transportation system for the metropolitan area. The process for developing the plan and program is required to provide for the consideration of all modes of transportation and to be continuing, comprehensive, and cooperative.

In 1975, the State Legislature established the Oahu Metropolitan Planning Organization (OMPO), an advisory organization responsible for coordinating transportation planning for Oahu. The decision making body of OMPO is its Policy Committee, which consists of six state legislators, five Honolulu City Council members, the Director of the State Department of Transportation and the Director of the City Department of Transportation Services.

OMPO is responsible for identifying Oahu's future transportation needs and programming the federal funds for projects and programs. The federal funds are programmed based on a process which prioritizes the projects based on needs and available funding. This is achieved through the development of the following three documents:

(a) The Oahu Regional Transportation Plan (ORTP) – The 25 year long range transportation plan for Oahu.

(b) The Overall Work Program (OWP) – Annual work program that identifies all of OMPOs planning activities.

(c) The Transportation Improvement Program (TIP) - The three year multimodal transportation improvements program for Oahu, that is updated every two years.

Statewide Transportation Improvement Program (“STIP”). On December 9, 2003, the Federal Highway Administration and the Federal Transit Administration approved the STIP for Fiscal Years 2004-2006. The Department is currently working on revising the Fiscal Year 2005 STIP. The Department has started developing the STIP for Fiscal Years 2006-2008 and will obtain approval from the Federal Highway Administration and the Federal Transit Administration by October 2005.

APPENDIX C

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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**GENERAL INFORMATION ABOUT
THE STATE OF HAWAII**

The statistical information presented by this Appendix A is the most current information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INTRODUCTION

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. Based on the 2000 U.S. Census, approximately 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of other races, such as African Americans and American Indians.

State Government

The Constitution of the State provides for three separate branches of government: the legislative branch, the executive branch and the judicial branch. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his or her inability to exercise and discharge the powers and duties of his or her office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision

of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six-year program and financial plan, the State budget, and financial management programs of the State.

The Counties and Their Relationship to the State

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi-county, Kalawao). Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. *There are no independent or separate cities or other municipalities, school districts or townships.* The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "**State of the Economy**" through and including "**Table 10**" has been excerpted from the November 2004 Quarterly Statistical and Economic Report ("QSER") or otherwise prepared by the State of Hawaii Department of Business, Economic Development & Tourism ("DBEDT") some of which may be found at <http://www2.hawaii.gov/dbedt/latest/>. 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 to calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "**GENERAL ECONOMIC INFORMATION.**" Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position. See "**APPENDIX B—FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII.**"

DBEDT's current forecast for nominal Gross State Product ("GSP") (the value of all goods and services produced and consumed within the State) growth in 2004 is 5.2%. In real terms (adjusting for inflation), DBEDT estimates that 2004 GSP growth over 2003 will be 2.6%.

State of the Economy

Data for the third quarter of 2004 show that Hawaii's economy is running on all cylinders. Visitor arrivals have rebounded from the short-term setback in 2003 of the war in Iraq and Asia's

bout of severe acute respiratory syndrome (SARS) and increased 7.6% in the third quarter of 2004 over the same quarter in 2003.

At the same time, Hawaii's economy is being buoyed by robust construction and real estate activity and increased federal government spending. Total value of private building authorizations increased 1.5% and government contracts awarded increased 835.0% (due to three large Navy contracts).

Economic indicators of all types are positive in 2004. Most important, Hawaii's employment picture has improved. Civilian employment rose by 3.0% in the third quarter of 2004 compared to the third quarter of 2003 to record levels. At the same time, the labor force increased by 1.4% in the same period. On average, for the third quarter, 611,700 people were employed in Hawaii, 19,800 more than the year before. Jobs were up in nearly all sectors, most notably in Agriculture (7.6%), Information (7.5%), Transportation, Warehousing and Utilities (5.8%), Retail Trade (3.6%), and Manufacturing (3.0%). The unemployment rate was down to 3.2% for the third quarter of 2004 from 4.8% for the same period in 2003.

The strong employment conditions were reflected in the increase in nominal personal income, which rose 5.8% in the second quarter of 2004 compared to the same period in 2003. Wages and salaries, the largest component of personal income, increased by 5.8%. Supplements to wages and salaries showed the highest rate of increase (9.8%). Almost all industries saw year-to-year quarterly increases in earnings with the exception of Farm earnings.

Tax revenues distributed to the State general fund were up 15.4% for the third calendar quarter of 2004 compared to the third quarter of 2003. Revenues from the general excise and use tax increased by 9.7%, net individual income tax was up by 18.8%, and net corporate income taxes increased 85.9%. Transient Accommodations Tax (TAT) revenues increased 14.0%.

Hawaii bankruptcy filings decreased by 11.4% in the first quarter of 2004. This was the ninth straight quarterly decline in Hawaii bankruptcy filings.

Outlook for the Economy

The forecast for Hawaii's economy prepared for the November 2004 Quarterly Statistical and Economic Report includes updated forecasts of the number and spending of Hawaii visitors and incorporates more recent information on consumer price increases in early 2004.

Forecasts of Hawaii's future economic growth are based primarily on the rate of expansion in the mainland U.S. and Japan economies; the sources of Hawaii's tourism demand and the main export markets for Hawaii's goods and services. The November 2004 Blue Chip Economic Forecast, which is based on an average of 50 major U.S. forecasts, expects real U.S. GDP to rise by 4.4% in 2004 and by 3.5% in 2005.

Recent forecasts of Japan's economy suggest more support for Hawaii's continuing economic growth. After several years of economic malaise and deflation in Japan, the Blue Chip Forecast now projects that Japan's economy will produce 4.2% positive growth in real GDP in 2004, sustaining a relatively strong 2.2% real GDP growth in 2005. Current visitor arrivals from Japan appear to reflect this improved income picture.

Total Hawaii visitor arrivals, days and expenditure forecasts for 2004 have been revised upward from the August forecast based on better-than-expected performance through the first three quarters. In 2004, total visitor arrivals are predicted to grow 7.6%, expenditures are predicted to grow 9.7% and visitor days are forecast to increase 5.0%. This upward revision reflects the strength of both the U.S. and Japanese visitor markets. Total visitor arrivals are projected to increase another 3.0% in 2005, a growth rate sufficient to cause the annual total to exceed 7 million for the first time in State history.

Total wage and salary jobs in the state are expected to grow 2.2% in 2004 continuing the impressive 1.9% job expansion that occurred in 2003. Job growth is expected to be positive again in 2005 with a further 1.5% increase.

After inflation, real personal income is forecast to show a 2.5% increase in 2004 and another 2.6% increase in 2005. The 2004 income projection has been revised downward largely as result of the larger forecast price increases. Real gross state product is expected to grow 2.6% in 2004 and 2.7% in 2005.

**INFORMATION ON EMPLOYMENT, WAGES AND SALARIES,
TAX REVENUES AND TAX BASE**

**Table C-1
SELECTED ECONOMIC ACTIVITIES: STATE OF HAWAII**

	<u>UNIT</u>	<u>3rd QUARTER 2004</u>		<u>YEAR TO DATE</u>	
		<u>NUMBER</u>	<u>% CHANGE YEAR AGO</u>	<u>NUMBER</u>	<u>% CHANGE YEAR AGO</u>
Civilian Labor Force ¹⁾	Persons	632,200	1.4	628,650	2.1
Civilian Employment	Persons	611,700	3.0	607,100	3.0
Civilian Unemployment	Persons	20,450	-31.3	21,550	-18.4
Unemployment Rate ²⁾	%	3.2	-1.6	3.4	-0.9
Total Wage & Salary Jobs	Jobs	585,100	2.7	584,550	2.3
Total Non-Agriculture Wage & Salary Jobs	Jobs	577,350	2.6	577,150	2.3
Natural Resources, Mining, Construction	Jobs	29,100	2.8	28,750	4.0
Manufacturing	Jobs	15,300	3.0	15,150	2.0
Wholesale Trade	Jobs	17,100	1.8	17,150	2.7
Retail Trade	Jobs	66,550	3.6	65,650	3.1
Transportation, Warehousing, Utilities	Jobs	28,100	5.8	27,400	2.4
Information	Jobs	10,700	7.5	10,250	-2.8
Financial Activities	Jobs	28,900	.9	28,800	1.9
Professional & Business Services	Jobs	70,650	.9	70,750	2.1
Educational Services	Jobs	12,650	1.2	12,950	3.6
Health Care & Social Assistance	Jobs	54,600	3.5	54,050	3.2
Arts, Entertainment & Recreation	Jobs	11,500	4.1	11,400	3.2
Accommodation	Jobs	38,100	3.8	37,600	2.7
Food Services and Drinking Places	Jobs	53,950	3.6	53,250	3.4
Other Services	Jobs	24,500	1.2	24,400	1.2
Government	Jobs	115,650	1.6	119,650	1.0
State	Jobs	32,100	.9	31,900	0.9
Federal	Jobs	65,950	1.5	70,600	0.9
Local	Jobs	17,600	3.2	17,150	1.2
Agriculture Wages & Salary Jobs	Jobs	7,750	7.6	7,400	3.5
State General Fund Revenues	\$1,000	946,218	15.5	2,766,906	15.1
General Excise and Use Tax Revenues	\$1,000	519,129	9.7	1,508,124	9.1
Income-Individual	\$1,000	325,902	18.8	923,375	19.3
Declaration of Estimated Taxes	\$1,000	56,255	36.1	228,380	30.9
Payment with Returns	\$1,000	13,991	34.4	121,319	66.0
Withholding Tax on Wages	\$1,000	283,007	6.4	851,191	5.5
Refunds	\$1,000	27,351	-37.0	277,515	-0.9
Transient Accommodations Tax	\$1,000	53,338	14.0	150,421	13.3
Visitor Days by Air	Days	16,621,049	2.9	47,382,088	4.6
Domestic Visitor Days	Days	12,854,109	2.6	36,469,485	3.6
International Visitor Days	Days	3,766,940	3.8	10,912,602	8.0
Visitor Arrivals by Air	Persons	1,849,151	7.6	5,198,945	8.7
Domestic Flight Visitors	Persons	1,314,579	6.5	3,698,819	7.1
International Flight Visitors	Persons	534,572	10.4	1,500,126	12.8
Hotel occupancy rates ²⁾	%	81.6	4.2	79.2	6.2

¹⁾ Labor force and jobs are based on monthly rounded data.

²⁾ Change represents absolute change in rates rather than percentage change in rates.

Source: Hawaii State Department of Labor & Industrial Relations; Hawaii State Department of Taxation; Hawaii State Department of Business, Economic Development & Tourism and Hospitality Advisors, LLC. Compiled by Hawaii State Department of Business, Economic Development & Tourism.

Key Economic Indicators

Table C-2
ACTUAL AND FORECAST KEY ECONOMIC INDICATORS
FOR HAWAII: 2002 TO 2007

<u>Economic Indicators</u>	2002 <u>Actual</u>	%	2003 <u>Actual</u>	%	2004	%	2005	%	2006	%	2007	%
	<u>Change</u>		<u>Change</u>		<u>Forecast</u>	<u>Change</u>	<u>Forecast</u>	<u>Change</u>	<u>Forecast</u>	<u>Change</u>	<u>Forecast</u>	<u>Change</u>
Total population (in thousands)	1,237.0 ¹⁾	1.0 ¹⁾	1,249.4	1.0 ¹⁾	1,263.6	1.1	1,278.0	1.1	1,291.3	1.0	1,304.5	1.0
Visitor arrivals (in thousands)	6,452.8	1.6	6,442.0	-0.2	6,891.5	7.0	7,089.8	2.9	7,268.2	2.5	7,450.7	2.5
Visitor expenditures (in million dollars)	9,993.8	8.7	10,104.2	1.1	10,812.0	7.0	11,332.9	4.8	11,967.3	5.6	12,573.6	5.1
Honolulu CPI-U (1982-84=100)	180.3	1.1	184.5	2.3	189.1	2.5	193.5	2.3	197.3	2.0	201.5	2.1
Personal income (in million dollars)	37,064.4	5.5	38,916.3	5.0	41,056.6	5.5	43,109.5	5.0	45,049.4	4.5	47,121.7	4.6
Real Personal income (\$1996 million)	35,090.9	4.3	36,005.4	2.6	37,059.3	2.9	38,037.4	2.6	38,969.7	2.5	39,923.9	2.4
Total wage & salary jobs (in thousands)	564.0	0.3	574.4	1.9	586.6	2.1	594.2	1.3	601.3	1.2	608.0	1.1
Gross state product (in million dollars)	46,026.6 ²⁾	5.3 ²⁾	48,235.9 ²⁾	4.8 ²⁾	50,744.2	5.2	53,179.9	4.8	55,573.0	4.5	58,129.3	4.6
Real gross state product (in \$1996 million)	40,134.9 ²⁾	3.3 ²⁾	41,196.3 ²⁾	2.6 ²⁾	42,281.4	2.6	43,272.4	2.3	44,203.0	2.2	45,196.8	2.2
Gross state product deflator (1996=100)	114.7 ²⁾	1.9 ²⁾	117.1 ²⁾	2.1 ²⁾	120.0	2.5	122.9	2.4	125.7	2.3	128.6	2.3

¹⁾ DBEDT estimate. U.S. Census Bureau is currently reviewing its Hawaii estimates.

²⁾ DBEDT estimate.

Source: Hawaii State Department of Business, Economic Development & Tourism, November 10, 2004.

Labor Force and Jobs

Hawaii's civilian employment continued to grow at a vigorous rate in the third quarter of 2004 increasing 3.0% from the same quarter of 2003, resulting in 17,800 more persons employed. The total number of civilian persons employed in Hawaii averaged 611,700 for the third quarter. The current number of civilians employed in Hawaii has set a new all time high for the fifth straight quarter.

During the third quarter of 2004, the civilian labor force increased by 1.4% or 8,550 persons over the third quarter of 2003. The number of unemployed in Hawaii was 20,450 in the third quarter of 2004. This was 9,300 or 31.3% fewer than the third quarter of 2003. Since the number of unemployed declined and the labor force increased, the unemployment rate declined from 4.8% during the third quarter of 2003 to 3.2% during the third quarter 2004.

Total wage and salary jobs increased by 2.7% or 15,400 jobs measured year-to-year for the third quarter of 2004. All reported sectors showed positive job growth from the strong levels of the third quarter of 2003.

Among private sector industries, the greatest number of new jobs between the third quarters of 2003 and 2004 was created in Retail Trade, which increased by 2,300 jobs or 3.6%. The greatest rate of increase in jobs occurred in Agriculture at 7.6%, or 550 jobs.

Job increases were also experienced in Health Care and Social Assistance (1,850 jobs); Food Service and Drinking Places (1,850); Transportation, Warehousing and Utilities (1,550 jobs); Accommodation (1,400 jobs); and Natural Resources, Mining and Construction (800 jobs).

The number of jobs increased 1.6% or 1,850 jobs in the government sector during the third quarter of 2004. Federal government jobs rose 0.9% over the third quarter 2003 level, State

government jobs increased by 1.5% or 1,000 jobs, almost all of which were in the Department of Education and University of Hawaii. County-level government jobs increased by 3.2%, or 550 jobs.

Table C-3
CIVILIAN LABOR FORCE AND EMPLOYMENT
(in thousands of persons)

<u>Year</u>	<u>Civilian Labor Force</u>	<u>% Change Civilian Labor Force</u>	<u>Civilian Employment</u>	<u>% Change Civilian Employment</u>	<u>Civilian Unemployment Rate</u>
1994	580.2	-1.0	545.0	-2.8	6.1
1995	576.4	-0.6	542.7	-0.4	5.9
1996	593.6	3.0	555.8	2.4	6.4
1997	602.6	1.5	564.1	1.5	6.4
1998	603.6	0.2	565.9	0.3	6.3
1999	602.7	-0.1	568.9	0.5	5.6
2000	604.0	-1.9	578.2	1.6	4.3
2001	619.6	0.0	591.1	2.2	4.6
2002	606.5	-1.5	580.8	-1.8	4.2
2003	618.3	6.2	591.8	1.9	4.3

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

Personal income continued to grow at a strongly positive rate during the second quarter of 2004 (the period for which the latest data is available from the Bureau of Economic Analysis) measured against the second quarter of 2003. The increase was led by the earnings of labor and proprietors, followed by transfer payments, and dividends, interest, and rent. There were year-to-year quarterly increases in earnings for all industries, except Farm earnings.

Nominal personal income, not adjusted for inflation, rose \$2.2 billion or 5.8% in the second quarter of 2004 compared to the second quarter of 2003. The wage and salary component grew by about \$1.3 billion or 5.8% in the second quarter of 2004. Wages and salaries make up the largest share of personal income accounting for about 58% of the total.

Supplements to wages and salaries (formerly called "Other Labor Income") consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased by about \$567 million or 9.8% in the second quarter of 2004 compared to 2003.

Proprietors' income, the income most closely related to entrepreneurial activity, grew by about \$214 million or 8.3% in the second quarter of 2004 compared to the second quarter of 2003.

Dividends, interest, and rent rose by \$173 million or 2.8% in the second quarter of 2004 compared to the prior year's second quarter. Personal current transfer receipts (previously called "Transfer Payments") consisting largely of retirement and medical payments, grew by about \$233 million or 4.8% for the second quarter compared to the prior year's second quarter. Contributions for

Government Social Insurance (formerly “Personal Contributions to Social Insurance”), payments subtracted from personal income, increased \$241 million or 7.6%.

Private sector earnings increased across almost all industries between the second quarter of 2003 and the second quarter of 2004, except for Farm earnings. In dollar terms, the largest increases came in Accommodation and Food Service, followed by Health Care and Social Assistance, and Professional and Technical Services. Earnings increased by 5.8% in the public sector, largely as a result of the 9.1% increase in Military.

Hawaii experienced a relatively low rate of inflation through the first half of 2003 with higher rates of inflation since then. The Honolulu Consumer Price Index rose by 2.9% in the second half of 2003 compared to the same period in 2002. This was higher than the 2.0% inflation experienced on the Mainland during the period. For all of 2003, Hawaii and the U.S. both had CPI increases of 2.3%.

The BLS released the Honolulu CPI-U for the first half of 2004 after the release of DBEDT’s August 2004 Quarterly Statistical and Economic Report. Accordingly, the Honolulu CPI-U rose 3.3% during the first half of 2004 compared to the first half of 2003, a full percentage point higher than the U.S. average for the same period.

Table C-4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(in millions of dollars at seasonally adjusted annual rates)

<u>Series</u>	<u>2003Q2</u>	<u>2004Q2</u>	<u>2004Q2 from 2003Q2</u> <u>(Percentage Change)</u>
Personal Income	38,277	40,496	5.8
Derivation of Personal Income			
Earnings by place of work	30,398	32,454	6.8
Wage and salary disbursements	22,011	23,286	5.8
Plus: Supplements to wages and salaries ¹⁾	5,814	6,381	9.8
Plus: Proprietors' income	2,573	2,787	8.3
Less: Contributions for government social insurance ²⁾	3,185	3,426	7.6
Dividends, interest, rent	6,232	6,405	2.8
Personal current transfer receipts ³⁾	4,831	5,064	4.8
Earnings by Industry	30,399	32,453	6.8
Farm	221	218	-1.4
Nonfarm	30,178	32,235	6.8
Private	20,485	21,978	7.3
Forestry, fishery, other	68	70	2.9
Mining	42	45	7.1
Utilities	256	262	2.3
Construction	2,008	2,074	3.3
Manufacturing	773	849	9.8
Wholesale trade	893	949	6.3
Retail trade	2,054	2,158	5.1
Transportation and Warehousing	1,194	1,262	5.7
Information	695	788	13.4
Finance and Insurance	1,169	1,199	2.6
Real Estate and Rental and Leasing	708	813	14.8
Professional and Technical Services	1,868	2,013	7.8
Management of Companies and Enterprises	483	562	16.4
Administrative and Waste Services	1,235	1,330	7.7
Educational Services	432	448	3.7
Health Care and Social Assistance	2,721	2,936	7.9
Arts, Entertainment, and Recreation	416	428	2.9
Accommodation and Food Services	2,485	2,747	10.5
Other Services, except Public Administration	986	1,045	6.0
Government and government enterprises	9,693	10,257	5.8
Federal, civilian	2,384	2,494	4.6
Federal, military	3,464	3,780	9.1
State and local	3,845	3,983	3.6

¹⁾ Series formerly called "Other labor income."

²⁾ Series formerly called "Personal contributions for social insurance."

³⁾ Series formerly called "Transfer payments."

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *State Quarterly Personal Income, September 28, 2004* - <http://www.bea.gov/bea/regional/spi/> - assessed September 28, 2004; and calculations by the Hawaii State Department of Business, Economic Development & Tourism.

Table 5
PERSONAL INCOME
(in millions of dollars at seasonally adjusted annual rates)

<u>YEAR</u>	<u>ANNUAL AVERAGE</u>	<u>% CHANGE¹⁾</u>
1994	29,424	2.2
1995	29,927	1.7
1996	30,122	0.7
1997	31,002	2.9
1998	31,757	2.4
1999	32,646	2.8
2000	34,451	5.5
2001	35,039	1.7
2002	36,759	4.9
2003	38,470	4.7
2004 ²⁾	40,203	5.7

¹⁾ Percentage change from the same period in previous year.

²⁾ 2004 is based on first two quarters of data and % change is relative to the first two quarters of 2003.

Source data for 2001Q1 through 2004Q1 have been revised.

Source: U.S. Bureau of Economic Analysis, State Annual Quarterly Personal Income, September 28, 2004 – <http://www.bea.gov/bea/regional/spi/> – accessed September 28, 2004; and calculations by the Hawaii State Department of Business, Economic Development & Tourism.

Table C-6
CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U), AND
SELECTED ITEMS, FOR U.S. AND HONOLULU: 1994-2003
(1982-1984 = 100)

HONOLULU										
Year	U.S.	All Items	Food & Beverages	Housing	Apparel & Upkeep	Trans.	Medical Care	Recreation ¹⁾	Education & Comm ¹⁾	Other Goods & Services
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	²⁾	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	²⁾	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	²⁾	100.4	112.5	307.6

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half year previous.

(NA) Not available.

¹⁾ New Indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

²⁾ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.

Source: U.S. Bureau of Labor Statistics, February 20, 2004.

Tourism

During the third quarter of 2004, Hawaii's visitor industry continued to grow at a relatively robust pace. Both the number of visitor arrivals and the average daily visitor census showed strong gains. Hotel occupancy rates showed moderate improvement for the quarter.

The number of visitor arriving by air was up 7.6% in the third quarter of 2004 compared to the third quarter of 2003. This is about 130,000 more visitors than in the third quarter of 2003.

The overall quarterly increase was bolstered by a double-digit increase in international arrivals while domestic arrivals also increased solidly. The number of travelers arriving on international flights increased by 10.4% or 50,000 visitors, while arrivals on domestic flights were up 6.5% or 80,000 visitors comparing the third quarter of 2004 to the third quarter of 2003.

Comparing the different major market areas, the greatest positive influence again came from the U.S. West market which increased by about 56,000 or 7.8% from the third quarter 2003 to the third quarter 2004. U.S. East arrivals and Japan arrivals were also up, both increasing about 40,000 with the U.S. East increasing 10.0%, and arrivals from Japan up 11.4%.

Average daily visitor census numbers showed slightly lower rates of increase than the visitor arrival growth rates in the third quarter of 2004. For domestic visitors, those arriving on flights from U.S. mainland airports, average daily visitor census was up 2.6% and for international visitors daily census was up 3.8%. This produced an increase in total visitor census of 2.9%. The average daily census reflects both arrivals and length of stay.

Hotel occupancy rates rose 4.0 percentage points from 77.6% in the third quarter of 2003 to 81.6% in the third quarter of 2004.

Table C-7
VISITOR ARRIVALS ¹⁾
Average Length of Stay, Visitor Days, Average Daily Census
(Percentage Change from the Same Period in Previous Year)

	<u>2002</u>	<u>2003</u>	<u>% Change 2002-2003</u>	<u>January – September</u>		<u>% Change 03-04²⁾</u>
				<u>2003²⁾</u>	<u>2004²⁾</u>	
TOTAL ARRIVALS						
Total	6,389,058	6,380,439	-0.13	4,783,371	5,198,945	8.70
Domestic	4,358,850	4,531,289	3.96	3,453,139	3,698,819	7.10
International	2,030,208	1,849,150	-8.92	1,328,233	1,500,126	12.90
AVERAGE DAILY CENSUS						
Total	164,572	164,999	0.26	175,618	180,664	2.90
Domestic	125,406	127,329	1.53	136,187	139,719	2.60
International	39,165	37,670	-3.82	39,431	40,945	3.80

¹⁾ Staying overnight or longer.

²⁾ Preliminary.

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

Table C-8
HOTEL OCCUPANCY RATE
(in percent)

<u>Year</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Annual</u>
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.5	69.2
2002	70.8	67.5	72.4	67.1	69.8
2003	74.6	67.1 ¹⁾	77.6	71.3	72.5
2004	80.1	75.7	81.6	(NA)	(NA)

¹⁾ Revised.

(NA) Not available.

Quarterly 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.

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

Construction

The major indicators of Hawaii construction industry activity were mixed in the third quarter of 2004. Total private building authorizations increased moderately while government contracts awarded declined somewhat. Commercial and industrial building permits declined for the fourth straight quarter.

The value of residential building permit authorizations was up 12.5% statewide during the same period. The number of single family unit authorizations increased by 0.7%, and multi-family units authorized were up 140.6%. Honolulu's total private authorizations are up by 6.2% from the third quarter of 2003, Maui residential was up 49.4%, Hawaii County authorizations decreased 1.3%, and Kauai County was down 10.5%. Beginning in the third quarter of 2002, Kauai permit value data are only for residential.

The total private building authorizations increased 12.5 percent to almost \$600 million during the third quarter of 2004 but government contracts decreased 18.0% from the third quarter of 2003 to the third quarter of 2004.

Median resale prices for single family and condominium units in Honolulu continued to increase in the third quarter of 2004 over the third quarter of 2003. The single family median value was up 19.5% to \$469,000 and the median Honolulu condo price was up 21.1% to \$215,000. The number of single family units resold decreased by 0.8% while the number of condo unit resales was up 11.7%.

Wage and salary jobs in the construction industry increased statewide in the third quarter of 2004. Construction jobs were up 5.5% from the third quarter of 2003 to the third quarter of 2004. (The Natural Resources, Mining and Construction jobs category published by the Department of Labor and Industrial Relations is currently 99% construction jobs and 1% mining jobs.) Construction jobs grew in all counties except Maui County. Hawaii County construction jobs were up 10.1%, the City and County of Honolulu increased 6.4%, and Kauai County was up 3.8%. Maui County construction jobs decreased 6.3% for the third quarter.

In the third quarter of 2004, the Honolulu Construction Cost Index for Single Family Residences increased by 6.1% over the third quarter of 2003. The comparable index for high-rise buildings rose by 6.2%.

Table C-9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(in millions of dollars and percentage change from the previous period)

Year	Contracting Tax Base ¹⁾	%	Private Building Authorizations ⁴⁾						Govt. Contracts Awarded			
			Private Authorizations	%	Residential ⁴⁾	%	Commercial Industrial ²⁾	%	Additions/Alterations	%	Awarded	%
1994	3,322.3	-12.7	1,612.9	7.1	849.3	14.4	370.3	20.2	393.4	-13.6	693.0	6.3
1995	3,133.5	-5.7	1,531.3	-5.1	745.5	-12.2	368.3	-0.5	417.5	6.1	490.2	-29.3
1996	3,285.1	4.8	1,117.8	-27.0	487.0	-34.7	252.8	-31.4	378.0	-9.5	885.5	80.6
1997	2,944.4	-10.4	1,179.2	5.4	542.5	11.4	264.5	4.4	372.2	-1.5	615.6	-30.5
1998	3,016.0	2.4	1,054.3	-10.5	485.5	-10.5	205.6	-22.1	363.2	-2.4	685.5	11.4
1999	2,991.2	-0.8	1,320.2	25.2	628.8	29.5	306.2	48.9	385.3	6.1	584.8	-14.7
2000 ³⁾	3,613.5	20.8	1,513.1	14.6	800.1	27.2	246.2	-19.6	466.2	21.1	810.9	38.7
2001	3,766.4	4.2	1,585.7	4.8	882.4	10.3	329.1	33.7	374.2	-19.8	715.7	-11.7
2002 ⁴⁾	4,274.9	13.5	1,772.0	11.8	1,112.9	26.1	254.2	-22.8	404.9	8.2	768.3	7.3
2003	4,536.3	6.1	2,352.7	32.8	1,336.0	20.0	507.9	99.8	508.8	25.7	633.4	-17.6
2004 1 Qtr	1,143.3	1.9	780.8	19.2	542.5	66.4	107.4	-50.7	130.8	17.5	256.7	52.5
2004 2 Qtr	NA	NA	718.9	1.5	440.5	13.2	50.8	-67.4	227.6	39.3	804.1	835.0
2004 3 Qtr	NA	NA	597.6	12.5	366.0	15.6	73.0	-16.9	158.6	25.3	187.2	-18.0

¹⁾ Formerly, "Value of Construction Completed," subject to revision by Hawaii State Department of Taxation.

²⁾ Includes hotels.

³⁾ Kauai County data for November consist of residential data only.

⁴⁾ Beginning 2002, Kauai data available for residential only.

NA: Not available.

Source: Hawaii State Department of Taxation; county building departments; First Hawaiian Bank, Building Industry Magazine (various issues), and tabulations by Hawaii State Department of Business, Economic Development & Tourism.

Table C-10

**ESTIMATED VALUE OF PRIVATE BUILDING
CONSTRUCTION AUTHORIZATIONS, BY COUNTY**
(in thousands of dollars and percentage change from the previous period)

Year	State	%	City & County of Honolulu	%	Hawaii County	%	Kauai County	%	Maui County	%
1994	1,612,899	7.8	1,073,264	11.9	181,059	-27.1	164,681	91.4	193,894	-4.6
1995	1,531,317	-5.1	980,703	-8.6	267,108	47.5	78,918	-52.1	204,588	5.5
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,227	-19.2	178,220	14.4	88,196	-9.8	163,640	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
2000 ¹⁾	1,512,601	14.6	694,223	-1.7	321,704	31.9	141,313	0.3	355,360	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
2002	1,772,028	11.7	876,051	28.3	449,600	18.2	172,661	28.6	273,716	-12.5
2003	2,352,720	32.8	1,109,568	26.7	620,634	38.0	153,242	-11.2	469,277	71.4
2004 1 Qtr	780,750	19.2	407,757	32.8	217,871	28.0	24,331	-24.9	130,791	-10.0
2004 2 Qtr	718,866	1.5	397,721	10.7	196,694	31.2	34,963	-3.2	89,489	-45.1
2004 3 Qtr	597,587	12.5	257,839	6.2	182,630	10.6	39,979	-10.5	117,139	49.4

1) Kauai County data for November consist of residential data only.

Source: County Building Permits.

Federal Government Expenditures in Hawaii

Total Federal expenditure reached \$11.3 billion in 2003, an increase of 7.6 percent over the previous year. Between 1997 and 2003, the annual average growth rate for federal expenditures was 5.5 percent. Overall, federal activity in Hawaii produces about 13% of Gross State Product (GSP), with much of that being defense-related. The federal government employed 30,880 civilian and 54,300 armed forces personnel in 2003.

According to the U.S. Department of Defense, expenditures on payroll and procurement contracts in Hawaii increased from \$3.2 billion in fiscal year 1994 to \$4.9 billion in fiscal year 2003. Military spending in Hawaii remains a relatively stable and important source of outside income. Over that 10-year period, payroll outlays ranged between \$2.4 billion, or 75% of total Hawaii federal spending in fiscal year 1994 and \$3.1 billion, or 63% of the total Hawaii federal spending in 2003. Procurement contracts accounted for \$0.8 billion, or 25% of total spending in fiscal year 1994, rising to \$1.8 billion, or 37% of the total in 2003. Between fiscal years 2002 and 2003 the total military spending rose 13%, while procurement alone rose 26%.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the first quarter of fiscal year 2004 were 7.0% higher than a year earlier. Total U.S. Department of Defense jobs increased by 0.3% in federal fiscal year 2003 compared to 2002.

On September 20, 2004, U.S. Senator Daniel K. Inouye announced that the U.S. Senate approved more than \$368 million in federal funds for 26 military construction projects in Hawaii during fiscal year 2005 (beginning October 1, 2004). In addition, Hawaii is expected to receive about \$500 million under the Defense Appropriations Bill that the President signed into law on August 5, 2004. In addition, the 2004 for fiscal year 2005, the Omnibus Appropriations Law included \$602.4 million in Hawaii-related initiatives. These amounts are on top of day-to-day defense operations and payroll outlays.

Banks and Other Financial Institutions

As of June 30, 2004, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies were reported at \$24.6 billion, a 6.12% increase from June 30, 2003. The four State-chartered banks accounted for \$24.1 billion of such assets.

Transportation

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low-cost transportation, both interstate and intrastate.

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, surface transportation provides the State with bulk of both its imported goods and delivery of exported local products. Overseas and interisland cargo shipments for the fiscal years 2001, 2002 and 2003 amounted to 17.2 million short tons, 16.9 million short tons, and 16.2 million short tons, respectively.

The interisland cruise ship industry continues to grow. The number of cruise visitor arrivals has increased from 92,250 in 1996 to 229,400 in 2003 to 239,668 in 2004. Since December 2001, Norwegian Cruise Lines has operated passenger cruises that have included a required stopover in the Republic of Kirabati to comply with federal restrictions on foreign flagged vessels. In 2003, Norwegian obtained an exemption from federal maritime law to operate three foreign built ships under the U.S. flag in Hawaii. Two of these ships were partially constructed under Project America, a loan guarantee provided by the Maritime Administration for American Classic Voyages to build two cruise vessels in a U.S. shipyard for use in Hawaii. Norwegian purchased the partially built vessels from the bankruptcy of American Classic Voyages. One of these ships, the *Pride of America*, is currently under construction and anticipated to be in Hawaii in June 2005. A third ship, *Pride of Aloha*, is an existing foreign built vessel, and commenced service in July, 2004. The State's Harbors Division has several projects under design to improve certain terminal facilities statewide to accommodate the increased activity. The construction of a new cruise passenger terminal at Pier 2, Honolulu Harbor, is expected to be underway soon.

The Harbor System is comprised of ten harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, Kalaeloa Barbers Point Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaunapali Harbor on the island of Lanai, comprising the Maui District.

The State uses nine harbors, with the exception of Kewalo Basin, to facilitate the movement of goods from the mainland, foreign and interisland ports. The number of commercial vessels entering all ports was 8,395 in fiscal year 2001, 9,063 in fiscal year 2002, and 9,134 in fiscal year 2003.

Honolulu Harbor is the hub of the State's Statewide System of Harbors, where it serves as a major distribution point of overseas cargo to the neighbor islands and a primary consolidation center

for export of overseas cargo. Overseas and interisland cargo tonnage handled through the Honolulu Harbor was 8.3 million short tons in fiscal year 2001, 8.2 million short tons in fiscal year 2002, and 8.0 million short tons in fiscal year 2003. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Air Transportation. The State operates and maintains fifteen airports on six islands within the State. The principal airport, which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls for 4,579 vehicles, HNL is the most important in the State airports system. The airfield at Barber Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo, and Kona International Airport at Keahole both on the island of Hawaii and Lihue Airport on the island of Kauai, also service direct flights to and from the continental United States.

According to data from the Airports Council International, HNL is the 43rd busiest air terminal in the world, ranking 23rd in the United States in total passengers serviced in 2002. In 2003, HNL recorded 301,919 aircraft operations. For the year 2003 there was a 6.6% reduction in passengers at HNL to 18,447,109 and an 8.0% reduction to 29,615,811 statewide.

The two major inter-island carriers, Aloha Airlines and Hawaiian Airlines, have canceled their intent to merge. Both airlines applied for anti-trust exemption to limit inter-island flights by cooperation, which was approved by the U.S. Department of Transportation for the period up to October 2003.

In calendar year 2003, statewide air cargo and mail totaled 555,386 tons, a 4.4% decrease from calendar year 2002. HNL handled 426,802 tons of cargo and mail in and out in calendar year 2003, a decrease of 6.6% from calendar year 2002. Although of high unit value, air cargo still remains relatively insignificant compared with surface shipping.

Since January 2003, a number of major airlines have announced the addition of new routes to Hawaii. Aloha Airlines added five new routes. They added service from Orange County to Kona, from Burbank to Maui, from Oakland to Lihue (four times per week), from Oakland to Kona (three times per week) and from Honolulu to Pago Pago and Rarotonga (two times per week). American Airlines added a daily flight from Chicago to Kahului, a second daily flight from Chicago to Honolulu, a second flight from Los Angeles to Kona (three times per week) and a second flight from Los Angeles to Lihue (four times per week). Continental Airlines added daily service from Houston to Kahului and Delta Airlines added daily flights from Cincinnati and Atlanta respectively to Honolulu. Hawaiian Airlines increased frequency to Kahului from Portland (three times per week) and San Diego (four times per week). Hawaiian also added a daily flight from Las Vegas to Honolulu. In May 2004, Hawaiian Airlines started service between Honolulu and Sydney, Australia. In June, United Airlines resumed flights between Honolulu and Chicago. Also, in June, Harmony

Airways started nonstop flights from Vancouver, Canada to Honolulu and Kahului. In July, Northwest Airlines began service from Seattle to Kahului and Kona.

Charter carriers also added service to Hawaii in 2003. Hawaiian Vacations added two new routes to Kahului from Boise and Spokane, once a week. Pleasant/ATA added two weekly flights to Lihue from Los Angeles and San Francisco. Suntrips added a weekly flight from Oakland to Lihue. The total net domestic air seats added to Hawaii in 2003 is estimated at over 332,000.

Although domestic service to Hawaii increased overall during calendar year 2003, international service from Japan declined. Additionally, inter-island flights were reduced based on a federal exemption to collaborate on schedules to increase yields of passenger loads. The Hawaiian Airlines bankruptcy which commenced on March 21, 2003 is still pending.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,455 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 138 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 937 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The following table shows the motor vehicle registrations in the State for the years 1999 to 2003, inclusive.

Table C-11
MOTOR VEHICLE REGISTRATION

<u>YEAR</u>	<u>VEHICLES</u>
1999	929,474
2000	964,738
2001	992,563
2002	1,013,594
2003	1,057,623

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2003-2004 school year, system enrollment decreased slightly from the 2002-2003 school year to a total of 182,434 in 284 public schools. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in regular education has decreased, while the number of charter school students has increased.

In the fall of 2003, 50,317 students attended State colleges and universities, 19,863 of them on the Manoa Campus of the University of Hawaii. The University of Hawaii offers bachelors, masters, and doctorate degrees, as well as a certificate in teaching. The system of community colleges, within the University of Hawaii system, offers associate in arts and associate in science degrees and certificates, including certificates of achievement.

In September 2002, the University of Hawaii broke ground on the John A. Burns Health and Wellness Center (the "Project") in the Kakaako district of Honolulu. The Project is anchored by the \$150 million new university medical center expected to be completed in June 2005. Another component of the Project may include a cancer research facility to be relocated from downtown Honolulu. The State expects that the Project will help to attract private investment in the biotechnology industry and to revitalize further the Kakaako area, which lies between downtown Honolulu and Waikiki. The State supports the Project directly through the dedication of a share of its annual tobacco settlement receipts.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other state efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low-income families. Included are the management of low-rent public housing units, the administration of the Section 8 tenant-based housing assistance program and other federal and State programs intended to provide very low to low-income residents with safe, decent and sanitary housing.

The State housing programs are carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). The HCDCH is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HCDCH and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State.

APPENDIX D

FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2003
AND 2002 AND INDEPENDENT AUDITORS' REPORT

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

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PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

State of Hawaii
Honolulu, Hawaii

State of Hawaii Highway Revenue Bonds
2005 Series A and B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of \$_____ aggregate principal amount of its State of Hawaii Highway Revenue Bonds, 2005 Series A and B (the "2005 Bonds"), issued under and pursuant to the Constitution and statutes of the State, including particularly Part III of Chapter 39, Hawaii Revised Statutes, as amended (the "Act") and under and pursuant to the Certificate of the Director of Transportation of the State, dated as of August 1, 1993 (the "Master Certificate"), as heretofore amended and supplemented and as further amended and supplemented by the Seventh Supplemental Certificate of said Director, dated as of March __, 2005 (the "Seventh Supplemental Certificate" and, together with the Master Certificate, the "Certificate"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Certificate.

In such connection, we have reviewed the Certificate; the Tax Certificate of the State dated the date hereof (the "Tax Certificate"), and such other certificates, records, documents, opinions and matters delivered in connection with the issuance of the 2005 Bonds to the extent we deemed necessary to render the opinions set forth herein.

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance and we disclaim any obligation to update

this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. 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 and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2005 Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the 2005 Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against State of Hawaii and its departments. 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 and we express no opinion as to any federal or state tax consequences relating to ownership or disposition of the 2005 Bonds or to the accrual or receipt of interest thereon other than as stated in paragraph 3 below. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The 2005 Bonds constitute the valid and binding special obligations of the State, payable solely from and secured solely by the Pledged Funds under the Certificate.
2. The Seventh Supplemental Certificate has been duly executed and delivered by the Director of Transportation and constitutes the valid and binding obligation of the State. The Certificate creates a valid pledge of the Pledged Funds, subject to the provisions of the Certificate permitting the application of the Pledged Funds for the purposes and on the terms and conditions set forth in the Certificate.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from all taxation by the State of Hawaii or any county or political subdivision thereof, except inheritance, transfer and estate taxes and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Faithfully yours,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the State of Hawaii (the “State”), acting by and through the State Director of Transportation, in connection with the issuance of \$183,915,000 State of Hawaii Highway Revenue Bonds, 2005 Series A and B (the “2005 Bonds”). The 2005 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 and that certain Certificate of the Director of Transportation Providing for the Issuance of the State of Hawaii, Highway Revenue Bonds dated as of August 1, 1993, as supplemented and amended by the Seventh Supplemental Certificate of the Director of Transportation providing for the Issuance of the State of Hawaii, Highway Revenue Bonds, 2005 Series A and B, dated as of March 15, 2005 (collectively the “Bond Certificate”).

Pursuant to Section 7.04 of the Seventh Supplemental Certificate, the State, acting by and through its Director of Transportation, agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the State for the benefit of the Bondholders and Beneficial Owners of the 2005 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 Information” means the type of financial information and operating data set forth under the subheadings “REVENUE SOURCES - Historical Revenues”, “DEBT SERVICE COVERAGE- Bond Debt Service” (where there is a change other than from scheduled principal maturities) and “INFORMATION RELATING TO REVENUE SOURCES” in Appendix B in the final Official Statement, dated February 10, 2005, for the 2005 Bonds.

“Audited Financial Statements” means the audited financial statements of the State Highway Fund and any other fund of the State into which Revenues are deposited, prepared in accordance with generally acceptable accounting principles as promulgated from time to time by the Government Accounting Standards Board and the Financial Accounting Standards Board of the Financial Accounting Foundation.

“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 2005 Bonds (including persons holding 2005 Bonds through a Clearing Agency, nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2005 Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Director of Finance or any successor Dissemination Agent designated in writing by the Director of Finance and which has filed with the Director of Finance a written acceptance of such designation.

“Filing Date” means the first day of the tenth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day).

“Fiscal Year” means each fiscal year of the Department of Transportation commencing on July 1 of each calendar year and ending on June 30 of the immediately succeeding calendar year.

“Listed Events” shall mean any of the events listed in subsection 4(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository as recognized from time to time by the SEC for purposes referred to in the Rule. This National Repositories currently approved by the Securities and Exchange Commission are set forth at www.sec.gov/info/municipal/nrmsir.htm.

“Participating Underwriters” shall mean the original underwriters of the 2005 Bonds required to comply with the Rule in connection with offering of the 2005 Bonds.

“Repositories” shall mean each National Repository and each State Repository.

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

“State” shall mean the State of Hawaii.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Filing of Annual Information and Audited Financial Statements.

(a) The State is the only “obligated person” (as defined in the Rule) for the 2005 Bonds.

(b) The State shall provide, or shall cause the Dissemination Agent to provide, to each Repository:

(i) Annual information for the preceding fiscal year, and unaudited financial statements of the Pledged Funds if Audited Financial Statements are not provided at the same time, not later than the Filing Date for each fiscal year; and

(ii) Audited Financial Statements for the preceding fiscal year, not later than the later of (A) the Filing Date for each fiscal year or (B) 30 days after receipt thereof by the Department of Transportation.

Audited Financial Statements are expected to be available together with the Annual Information. The State is required to deliver, or cause to be delivered, such information in such manner and by such time so that the Repositories receive the information on or before the date specified.

The Annual Information may be submitted as a single document or as separate documents comprising a package and may cross-reference other information including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so included by reference. The Audited Financial Statements may be submitted separately from the Annual Information.

If the Department's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection 4(b).

(c) If the State is unable to provide to the Repositories the information described in subsection (b) by the Filing Date, the Director of Finance shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) If the Director of Finance has appointed a Dissemination Agent, then not later than 15 Business Days prior to Filing Date, the Director of Transportation shall provide the Annual Information and Audited Financial Statements (or unaudited financial statements if the Audited Financial Statements are not available) to the Dissemination Agent.

(e) The Dissemination Agent shall:

(i) determine each year prior to the Filing Date the name and address of each National Repository and the State Repository, if any; and

(ii) if the Dissemination Agent is other than the Director of Finance, file a report with the Director of Finance certifying that the information described in subsection (b) has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 4, the State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2005 Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders,
4. bond calls other than scheduled mandatory sinking fund redemptions;
5. defeasances;
6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the 2005 Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; or
11. release, substitution or sale of property securing repayment of the 2005 Bonds.

(b) Whenever the Director of Transportation or other responsible officials of the State become aware of the occurrence of a Listed Event, the State shall as soon as possible determine if such event would be material under applicable federal securities laws and, if so, the State shall prepare and provide or cause to be provided notice of such occurrence to each Repository.

Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) above need not be given under this subsection (b) any earlier than the notice (if any) of the underlying event is given to Bondholders of affected 2005 Bonds pursuant to the Bond Certificate.

Section 5. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption or repayment in full of all of the 2005 Bonds or (b) when the Rule no longer applies to these 2005 Bonds. If such termination occurs prior to the final maturity of the 2005 Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 4(b).

Section 6. Dissemination Agent. The Director of Finance may, from time to time, appoint or engage a Dissemination Agent to assist the State 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 pursuant to this Disclosure Certificate.

Section 7. Amendment; Waiver; Amendment to Accounting Principles to be Followed.

(a) Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(i) If the amendment or waiver relates to the definition of "Annual Information" or the provisions of subsection 3(a) or (b), or Section 5, 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 the Obligated Person with respect to the 2005 Bonds, or the type of business conducted by the Obligated Person;

(ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel selected by the State, have complied with the requirements of the Rule at the time of the original issuance of

the 2005 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver either (i) is approved by the Holders of the 2005 Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders of the 2005 Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel selected by the State, materially impair the interests of the Holders or Beneficial Owners of the 2005 Bonds.

(b) In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State shall describe such amendment in the next Annual Information, 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 the information being presented by the State.

(c) If the amendment changes the accounting principles to be followed in preparing financial statements from that specified in the definition of Audited Financial Statements, then (i) the State shall give notice of such amendment in the same manner as for a Listed Event under subsection 4(b), and (ii) the Annual Information 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 amended definition of accounting principles and those prepared on the basis of the former definition of accounting principles.

Section 8. Additional Information - Supplements.

(a) Nothing in this Disclosure Certificate shall be deemed to prevent the State 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 Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate.

If the State chooses to include any information in any Annual Information or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Information or notice of occurrence of a Listed Event.

(b) Nothing in this Disclosure Certificate shall be deemed to prevent the State from supplementing this Disclosure Certificate to provide that it shall also govern continuing disclosure for one or more issues of Additional Bonds (as defined in the Bond Certificate).

Section 9. Failure to Perform.

(a) The agreements of the State set forth in Sections 3 and 4 of this Disclosure Certificate are intended to be for the benefit solely of the Bondholders and Beneficial Owners from time to time of the 2005 Bonds.

The sole remedy for any breach of this Disclosure Certificate by the State shall be limited, as hereinafter described, to a right of Bondholders and Beneficial Owners to cause

proceedings at law or in equity to be instituted and maintained to obtain mandamus or specific performance by the State of its obligations hereunder. Any individual Bondholder or Beneficial Owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the State to provide or cause to be provided a pertinent filing if such a filing is due and has not been made. Any such proceedings challenging the adequacy of the information provided in accordance with this Disclosure Certificate may be instituted and maintained only by the Bondholders and the Beneficial Owners of not less than 25% in principal amount of the 2005 Bonds then outstanding or their agent.

(b) Any failure of the State to comply with any provisions of this Disclosure Certificate shall not be a default or an event of default with respect to the 2005 Bonds under the Bond Certificate.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Bondholders and Beneficial Owners from time to time of the 2005 Bonds and shall create no rights in any other person or entity.

Section 11. Recordkeeping. The Director of Finance shall maintain records of all Annual Information and notice of material Listed Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 12. Governing Law. This Disclosure Certificate shall be governed by the laws of the State.

Dated _____, 2005.

STATE OF HAWAII

By: _____

Title: _____

EXHIBIT A
[FORM OF]
NOTICE TO REPOSITORIES OF
FAILURE TO FILE ANNUAL INFORMATION

Name of Issuer: State of Hawaii

Name of Bond Issue: \$_____ Highway Revenue Bonds, 2005 Series A and B

Date of Issuance: [], 2005

NOTICE IS HEREBY GIVEN that the State has not provided the Annual Information with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated _____, 2005. [The State anticipates that the Annual Information will be filed by _____]

Dated: _____, 2005.

STATE OF HAWAII

By: _____

Title: _____