

AIRPORTS DIVISION FY 2006 ANNUAL REPORT

The statewide airport system consists of eleven airports serving commercial airlines and general aviation flights and four airports serving general aviation flights only. In Fiscal Year (FY) 2006, statewide airports handled 33,009,103 passengers, a 1.3 percent increase compared to the previous year.

Security issues remain a primary concern in this post 9/11 era. The Transportation Security Administration (TSA) and the Airports Division continue their partnership to improve the passenger checkpoint and baggage screening process without adversely impacting the passenger flows. There are plans to reconfigure the baggage screening at additional ticket lobbies at Honolulu International, as well as ticket lobbies at Kahului, Lihue and Hilo International Airports. The baggage screening equipment currently located in the ticket lobbies will be relocated behind the walls and integrated with the conveyor systems. This will relieve the congestion in the ticket lobbies and the baggage screening portion of the check-in process will appear seamless to the passengers.

The Airports Division ended fiscal year 2006 with increases in total passenger activity and total revenue passenger landings of 1.3% and 6.4%, respectively, when compared to fiscal year 2005. However, aircraft operations, revenue landed weights, and deplaning international passengers slightly decreased by (1.2) %, (0.5) % and (2.9) %, respectively, as compared to fiscal year 2005. It should be noted that the increase in revenue passenger landings, or the number of times aircraft with passengers utilize gates, is mainly due to Hawaii Island Air, Inc.'s relocation of its operations from the Kahului Airport commuter terminal to the main terminal requiring payment of non-exclusive joint use charges beginning May 2005.

In terms of comparing growth from year to year, activity statistics over the past six years reflects fiscal year ended June 30, 2005 as the best performance year since the events of September 11, 2001, with fiscal year ended June 30 2006 coming in at a close second. In general, passenger and airline activities at Hawaii's airports appear to have stabilized, except for Kona International Airport at Keahole which reflected gains of 5.7% and 8.6% in passenger activity and revenue landed weights, respectively, as compared to fiscal year ended 2005.

The majority of the operating revenues at the Airports Division is activity-based and directly relates to the number of passengers and aircraft operations.

The financial results for fiscal year 2006 improved as compared to fiscal year 2005. Income before capital contributions for fiscal year ended 2006 was \$1.3 million as compared to a loss of \$8.2 million for fiscal year ended 2005. Total non-operating revenues increased by \$24.7 million due to increases in interest income, federal operating grants, and passenger facility charges. Interest income increased by \$11 million due to the rise of interest rates comparing fiscal year 2006 and 2005. In addition, federal operating grant and passenger facility charge revenues increased by \$6.2 million and \$6.9 million, respectively.

Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to the Airports Division to impose and collect passenger facility charges (PFC) at the Honolulu International Airport, Kahului Airport, Kona International Airport at Keahole, and Lihue Airport. The PFC revenue is to be utilized for seven FAA approved projects, which must be

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implemented by September 30, 2006. The terms of the PFC approval do not permit the use of PFC revenues to pay debt service on any new or outstanding bonds issued to finance other-than-approved PFC projects. The maximum approved PFC revenue including interest earned to be collected between October 1, 2004 and February 1, 2007 at all four principal airports is \$42,632,466. The PFC revenues (including interest) generated between October 1, 2004 and June 30, 2006 was \$37.8 million.

Federal capital grants in the amount of \$28.5 million were received in FY 2006. The Airports Division will utilize such grants to replace and improve equipment and facilities.

Operational expenditures before depreciation increased by 17.4% or \$26.1 million mainly due to increases in salaries and wages, other personnel services (security), utilities, State of Hawaii surcharges on gross receipts, special and major maintenance costs.

Total non-operating expenses decreased by 8.7% or \$3.9 million mainly due to the decrease in airport revenue bond interest expense.

During fiscal year 2005 and prior, the Airports Division acquired seven buildings upon the expiration of land lease agreements. During the prior fiscal years, no amounts were recorded for the acquisitions, as appraisals at the dates of acquisition were not available. During fiscal year 2006, appraisals were obtained for these building, and the Airports Division recorded these buildings at a value of \$26.8 million. During fiscal year 2006, the Airports Division acquired two buildings upon the expiration of the land lease agreements. No amounts have been recorded for these acquisitions as of June 30, 2006 as appraisals at the dates of acquisition are not available.

During fiscal year 2006, an additional \$19.6 million was recorded for the Hickam land that was donated by the United States Government in fiscal year 2001, in order to update the previously recorded amount to the appraised value of \$20.7 million.

As a result, net assets increased by \$74.6 million for fiscal year 2006, as compared to an increase of \$24.9 million for fiscal year 2005.

In summary, Airports Division continues to generate a positive cash flow and operational income before depreciation. Although passenger traffic to Hawaii has stabilized along with operational revenue, operational expenses have increased in order to maintain airport services and facilities. However, the steady income stream from passenger facility charges, interest income, funding from federal discretionary grants along with the decrease in airport system revenue bond interest has supported the sizeable increase in operational expenses. Therefore, the future financial outlook for the Airports Division continues to remain optimistic and healthy provided worldwide economic conditions and events remain stable.

Honolulu International Airport continues to be the State's busiest airport with a passenger traffic count of 20,072,782 a slight increase of 0.9% in FY 2006 compared to FY 2005. Construction has begun on the Explosive Detection System Integration, Phase I project at HNL. This project is will relocate the TSA baggage screening from the ticket lobbies 1, 2 and 3 to other areas. Work is on-going on the strengthening of the 3rd level Diamond Head concourse "Wiki Wiki" bus infrastructure.

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Honolulu International Airport

Fiscal Year	Passengers	Change
2006	19,954,172	0.3%
2005	19,900,298	5.4%
2004	18,877,076	-1.0%
2003	19,060,548	-0.7%
2002	19,202,734	-13.5%
2001	22,197,793	-3.6%

Kahului Airport is the second busiest airport in the State, with 5,782,115 passengers in Fiscal Year 2006, a slight increase of 1.6% when compared to Fiscal Year 2005. Construction is on-going on the ticket lobby improvement project, Phase Ib for lobby expansion and to accommodate mainland flights.

Kahului Airport

Fiscal Year	Passengers	Change
2006	5,782,115	1.6%
2005	5,692,595	4.7%
2004	5,436,946	0.9%
2003	5,386,688	0.1%
2002	5,380,751	12.7%
2001	6,161,475	1.0%

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Traffic at Kona International Airport at Keahole increased 5.7% to 2,929,149 in FY 2006 when compared to the previous year. This makes Kona International Airport at Keahole the third busiest airport in the State. Work has begun on the Perimeter Road and Fence and General Aviation Apron Lighting project. This project will increase airport security at the perimeter of airport property in addition to improved visibility in the general aviation area.

Kona International Airport at Keahole

Fiscal Year	Passengers	Change
2006	2,929,149	5.7%
2005	2,771,635	6.5%
2004	2,601,508	1.2%
2003	2,571,730	2.6%
2002	2,506,733	-9.9%
2001	2,780,813	0.2%

Lihue Airport is the fourth busiest airport in the State, with 2,565,543 passengers in fiscal year 2006, a slight increase of 1.4% compared to the previous fiscal year. At Lihue Airport, construction is on-going on the Heliport Improvements project. This long anticipated project will consolidate helicopter operations into one area for improved operational safety, efficiency and passenger convenience.

Lihue Airport

Fiscal Year	Passengers	Change
2006	2,565,543	1.4%
2005	2,528,997	0.3%
2004	2,522,191	0.1%
2003	2,524,432	-1.5%
2002	2,563,695	-9.2%
2001	2,823,056	-1.4%

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Hilo International Airport traffic increased to 1,313,716 passengers in Fiscal Year 2006, a slight increase of 2.4% compared to fiscal year 2005. Work was completed on the installation of a security fence along the airport boundary to prevent potential security breaches.

Hilo International Airport

Fiscal Year	Passengers	Change
2006	1,313,716	2.4%
2005	1,283,188	8.4%
2004	1,184,171	-9.7%
2003	1,311,531	-5.9%
2002	1,394,152	-11.1%
2001	1,568,165	-2.6%

Molokai Airport

Fiscal Year	Passengers	Change
2006	210,235	11.4%
2005	188,675	-4.9%
2004	198,309	1.3%
2003	195,809	-10.6%
2002	218,913	-7.8%
2001	237,482	-10.2%

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Kapalua Airport

Fiscal Year	Passengers	Change
2006	127,431	24.4%
2005	102,403	2.2%
2004	100,177	11.2%
2003	90,058	16.1%
2002	77,588	-34.8%
2001	119,038	-5.3%

Lanai Airport

Fiscal Year	Passengers	Change
2005	97,804	-8.2%
2004	106,524	-13.8%
2003	123,532	-16.7%
2002	148,300	-1.1%
2001	149,974	-10.0%

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AIRPORT	CARGO			MAIL			OPERATIONS		
	FY2006	FY2005	% CHANGE	FY2006	FY2005	% CHANGE	FY2006	FY2005	% CHANGE
Honolulu International (HNL)	371,191	399,877	-7.2%	102,576	96,381	6.4%	316,243	334,797	-5.5%
Kahului (OGG)	33,182	37,419	-11.3%	12,169	11,139	9.2%	164,717	168,184	-2.1%
Hilo International (ITO)	22,323	26,741	-16.5%	2,939	3,726	-21.1%	95,620	117,550	-18.7%
Kona International at Keahole (KOA)	24,333	25,252	-3.6%	7,406	6,930	6.9%	145,215	151,599	-4.2%
Lihue (LIH)	13,616	14,385	-5.3%	2,584	3,145	-17.8%	104,802	105,408	-0.6%
Lanai (LNY)	933	814	14.6%	299	430	-30.5%	7,664	7,830	-2.1%
Molokai (MKK)	1,127	1,160	-2.8%	151	90	67.8%	40,334	37,250	8.3%
Waimea (MUE)	2	0	100%	1,277	1,435	-11.0%	2,128	2,558	-16.8%
Hana (HNM)	30	28	7.1%	169	0	100%	6,040	5,786	-16.8%
Kalaupapa (LUP)	183	232	-21.1%	28	12	133.3%	4,394	4,760	-7.7%
Kapalua (JHM)	751	858	-12.5%	0	0	0.0%	9,464	7,656	23.6%
Totals	467,671	506,766	-7.7%	129,598	123,288	5.1%	896,621	943,378	-5.0%

Count	Bid Open	Award	Award Amount	Proj No	Project
1	07/28/2005	09/22/2005	\$7,927,218.00	AO1013-07	ITTS 3rd Level DH Roadway Strengthening at Honolulu International Airport
1	10/13/2005	02/10/2006	\$3,165,000.00	AO1022-14	Airfield Lights and Sign Replacement at Honolulu International Airport
1	06/30/2005	11/22/2005	\$779,200.00	AO1038-20	HNL Gates 33/34 Reroofing at Honolulu International Airport
1	06/23/2005	11/22/2005	\$702,814.65	AO1092-19	HNL Sign Directories, Honolulu International Airport
1	10/13/2005	03/30/2006	\$15,172,878.00	AO1095-29	HNL EDS Integration Improvements, Phase I, Honolulu International Airport
1	03/23/2006	05/18/2006	\$9,239,547.00	AO1097-15	FIDS & PA System Upgrade at Honolulu International Airport
1	03/30/2006	04/24/2006	\$11,243,315.00	AO1107-16	Diamond Head Chiller Plant at Honolulu International Airport
1	03/30/2006	04/24/2006	\$9,727,600.00	AO1107-17	Common Chilled Water Loop at Honolulu International Airport
1	06/30/2005	11/21/2005	\$5,144,675.00	AO1141-16	Wash Water Containment at Honolulu International Airport
1	03/23/2006	04/18/2006	\$998,503.00	AS1095-03	Environmental Compliance Measures at Honolulu International Airport
1	06/16/2005	07/13/2005	\$279,078.00	BO1503-33	Rubber Removal on Runways 8L and 4R at Honolulu International Airport
1	06/09/2005	09/09/2005	\$110,800.00	BO1506-73	Pavement and Hardstand Cleaning at Honolulu International Airport
1	06/28/2005	07/18/2005	\$828,888.00	BO1508-53	Maintenance of Video Monitoring Access Control System (VMACS), Honolulu International Airport
1	09/22/2005	12/06/2005	\$115,400.00	BO1602-53	Maintenance of the Fire Alarm System, Honolulu International Airport
1	10/13/2005	01/18/2006	\$600,737.44	BO1603-43	Maintenance of Air Conditioning Equipment at Honolulu International Airport
1	01/05/2006	02/03/2006	\$776,959.00	BO1604-43	Maintenance of Elevators and Escalators, Honolulu International Airport
1	01/26/2006	03/29/2006	\$209,711.00	BO1605-33,	Inspection and Maintenance Services of Airport Fire Protection Equipment, Honolulu International Airport, Dillingham Airfield, Kalaeloa Airport
1	06/24/2005	02/02/2006	\$4,296,200.00	CO1501-33	Taxiways C, F, and RB Pavement Repairs at Honolulu International Airport
1	06/02/2005	08/30/2005	\$4,979,938.00	CO1507-43	Replacement of Passenger Loading Bridges - Phase I, Honolulu International Airport
1	06/24/2005	09/09/2005	\$5,910,459.00	CO1508-53	Upgrade Electrical System at Honolulu International Airport
1	06/30/2005	09/01/2005	\$439,700.00	CO1509-63	Roadway Lighting Improvements at Honolulu International Airport
1	06/28/2005	08/25/2005	\$2,082,439.80	CO1511-63	Reconstruct and Rehabilitate South Ramp Areas, Taxiways & Taxilanes, Phase 1, at Honolulu Airport
1	06/23/2005	08/05/2005	\$74,985.00	CO1513-73	Repair Runway Drain Boxes and Steel Grates at Honolulu International Airport
1	06/29/2005	10/10/2005	\$3,490,791.00	CO1519-23	Taxiway A Pavement Repairs (Phase 1), Honolulu International Airport
1	06/29/2005	08/25/2005	\$731,000.00	CO1520-63	HATS Building Improvements at Honolulu International Airport
1	06/30/2005	08/15/2005	\$146,000.00	CO1521-63	Gates 19 and 23 Walkway Improvements at Honolulu International Airport
1	06/30/2005	08/25/2005	\$404,056.00	CO1524-73	Commuter Terminal Parking Lot Resurfacing at Honolulu International Airport
1	06/30/2005	08/16/2005	\$108,800.00	CO1526-63	Continental Cargo Building Asbestos Abatement at Honolulu International Airport

Count	Bid Open	Award	Award Amount	Proj No	Project
1	06/29/2005	08/16/2005	\$215,309.00	CO1527-63	CBP Inspection Booths at Honolulu international Airport
1	03/16/2006	05/02/2006	\$125,860.00	CO1604-73	Repaint Administrative Tower at Honolulu International Airport
1	06/28/2005	08/25/2005	\$1,204,576.00	CO2501-63	Extend Taxiway "A" at Dillingham Airfield
1	04/27/2006	06/23/2006	\$2,206,068.60	CO4501-23R	Kalaeloa Airport Pavement Repairs, Phase II
1	06/30/2005	08/16/2005	\$117,000.00	CO4504-63	Kalaeloa Tower Railing Improvements at Kalaeloa Airfield
1	06/30/2005	10/18/2005	\$5,857,938.00	DO1501-63	OST Roof/Drainage Improvements at Honolulu International Airport
1	06/29/2005	08/15/2005	\$1,485,183.00	DO1502-63 & CO1517-43	Air Service Hawaii Building Improvements and Replace Air Conditioning Equipment at Honolulu International Airport
1	05/18/2006	06/16/2006	\$317,200.00	DO1602-63	Temporary Structure - HNL ARFF Vehicles at Honolulu International Airport
1	02/09/2006	04/24/2006	\$353,000.00	DO1605-63 (formerly CO1605-63)	Interior Upgrade Commuter Terminal at Honolulu International Airport
1	05/12/2005	07/06/2005	\$150,121.00	EO1689-73	Tree and Hedge Trimming Services at Honolulu International Airport
1	05/12/2005	07/06/2005	\$63,250.00	EO1690-73	Landscape Maintenance at Lagoon Drive at Honolulu International Airport
1	06/30/2005	02/06/2006	\$57,960.00	EO1693-73	Furnishing Restricted Baggage Claim Area Cleaning Services at Honolulu International Airport
1	01/26/2006	05/01/2006	\$274,000.00	EO1707-73	Maintain Ramp and Storm Drain Oil Separators at the Honolulu International Airport
1	12/01/2005	01/04/2006	\$80,818.80	EO1708-73	Furnishing Window Cleaning Services at Honolulu International Airport
1	01/26/2006	02/23/2006	\$90,000.00	EO1711-73	Furnishing Storm Drainage System Cleaning Services at Honolulu International Airport
1	02/02/2006	03/28/2006	\$48,941.00	EO1712-73	Furnishing Landscape Maintenance for the Cultural Gardens at Honolulu international Airport
1	01/26/2006	03/17/2006	\$41,520.00	EO1714-73	Removal of Wooden Pallets at Honolulu International Airport
1	04/06/2006	06/13/2006	\$51,850.00	EO1716-73	Landscape Maintenance at Elliott Street at Honolulu International Airport
1	04/06/2006	06/13/2006	\$40,350.00	EO1717-73	Landscape Maintenance at Rodgers Boulevard and Aolele Street at Honolulu International Airport
1	05/04/2006	05/23/2006	\$99,454.44	EO1721-73	Maintenance of Gravity Sewer Lines at Honolulu International Airport
1	05/18/2004	07/16/2005	\$29,165.44	FO1680-73, FO1681-73 & FO1682-73	Furnishing and Delivering of Motor Vehicles at the Honolulu International Airport
1	06/29/2005	07/21/2005	\$429,163.92	FO1692-73	Furnishing and Delivering Two (2) Heavy Duty Sweepers to the Honolulu International Airport
1	06/29/2005	08/08/2005	\$43,619.93	FO1695-73, etc.	F/D Equipment and Motor Vehicles at Honolulu International Airport
1	06/29/2005	08/12/2005	\$183,501.97	FO1695-73, etc.	F/D Equipment and Motor Vehicles at Honolulu International Airport
1	06/30/2005	07/14/2005	\$116,176.59	FO1702-05 & FO1703-05	Furnishing and Delivery of Aircraft Rescue and Fire Fighting Two (2) Service Utility Trucks at the Honolulu International Airport
1	05/25/2006	06/20/2006	\$287,027.22	FO1715-06	Furnishing and Delivering of One (1) Water Rescue Craft and One (1) Trailer at Honolulu International Airport

Count	Bid Open	Award	Award Amount	Proj No	Project
1	12/15/2005	01/13/2006	\$62,395.43	FO1719-73	Furnishing and Delivering a Tractor with 20' Flex Wing Rotary Mower to the Honolulu International Airport
1	12/15/2005	01/13/2006	\$218,748.60	FO1720-73	Furnishing and Delivering One (1) Heavy Duty Sweeper to the Honolulu International Airport
1	06/30/2005	08/01/2005	\$65,445.58	FO4706-05	Furnishing and Delivery of Aircraft Rescue Fire Fighting One (1) Fire Mechanic Utility Truck with Lift Gate at the Kalaeloa Airport