

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Series 2012 Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds. See "TAX MATTERS" in this Official Statement.



\$265,610,000

**CITY AND COUNTY OF HONOLULU
Wastewater System Revenue Bonds
(First Bond Resolution)**

\$134,175,000

Senior Series 2012A

\$131,435,000

Senior Series 2012B

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The City and County of Honolulu Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2012A and Senior Series 2012B (the "Series 2012A Bonds" and "Series 2012B Bonds," respectively, and collectively, "Series 2012 Bonds"), are issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Series 2012 Bonds, purchases of the Series 2012 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 Series 2012 Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Series 2012 Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Series 2012 Bonds may be made in the denomination of \$5,000 or any integral multiple thereof.

The Series 2012 Bonds bear interest payable on January 1 and July 1 of each year, commencing July 1, 2013 in the case of the Series 2012A Bonds and January 1, 2013 in the case of the Series 2012B Bonds. The Series 2012 Bonds are subject to redemption prior to the stated maturity thereof as described herein. Proceeds of the Series 2012A Bonds will be used to (i) fund the cost of certain additions and improvements to the wastewater system owned by the City and County of Honolulu, Hawaii (the "City and County"), (ii) fund a Separate Series Reserve Account for the Series 2012A Bonds, and (iii) pay the costs of issuance of the Series 2012 Bonds. Proceeds of the Series 2012B Bonds will be used to refund certain outstanding bonds previously issued by the City and County pursuant to the Bond Resolution (as defined below).

The Series 2012 Bonds will be issued by the City and County under a bond resolution, as supplemented (the "Bond Resolution"), pursuant to which the City and County has previously issued bonds and may issue additional bonds on a parity with the Series 2012 Bonds, as described herein (collectively with the Series 2012 Bonds, the "Bonds"). By purchasing the Series 2012 Bonds, the holders thereof shall be deemed to have consented to certain proposed amendments to the Bond Resolution. See "SECURITY FOR THE BONDS—Proposed Amendments to Bond Resolution."

The Series 2012 Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Bonds held or set aside under the Bond Resolution, and certain funds and accounts established by the Bond Resolution, on a parity with all other Bonds issued under the Bond Resolution. Such pledge of the Net Revenues is senior and superior to any pledge of Net Revenues to secure obligations issued under any other bond resolution. **The Bonds are not a general or moral obligation of the State of Hawaii or any political subdivision thereof, including the City and County, and the faith and credit of the State of Hawaii or any political subdivision thereof, including the City and County, are not pledged to the payment of the principal of, premium, if any, or interest on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of Hawaii or any political subdivision thereof, including the City and County, in connection with any default with respect to the Bonds.**

This cover page contains certain information for quick reference only. It is not a summary of the bond issue. Prospective investors must read the entire Official Statement (including the Appendices) to obtain information essential to the making of an informed investment decision.

The Series 2012 Bonds are offered when, as and if issued and received by the Underwriters, and are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the Series 2012 Bonds in definitive form will be available for delivery to DTC, in New York, New York, on or about October 4, 2012.

BofA Merrill Lynch

Piper Jaffray & Co.

MATURITY SCHEDULE

\$265,610,000

**City and County of Honolulu
Wastewater System Revenue Bonds
(First Bond Resolution)**

\$134,175,000 Senior Series 2012A

Year (July 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] (438701)
2017	\$2,910,000	2.00%	0.86%	SL9
2018	2,985,000	3.00	1.17	SM7
2019	3,060,000	2.00	1.47	SN5
2020	3,140,000	3.00	1.72	SP0
2021	3,225,000	2.50	1.97	SQ8
2022	3,315,000	3.00	2.11	SR6
2023	245,000	2.75	2.30*	SS4
2023	3,205,000	5.00	2.24*	TE4
2024	3,625,000	5.00	2.32*	ST2
2025	3,810,000	5.00	2.39*	SU9
2026	4,005,000	5.00	2.45*	SV7
2027	4,210,000	5.00	2.51*	SW5
2028	4,425,000	5.00	2.57*	SX3
2029	4,655,000	5.00	2.63*	SY1
2030	4,890,000	5.00	2.69*	SZ8
2031	5,145,000	5.00	2.75*	TA2
2032	5,405,000	5.00	2.81*	TB0

\$31,485,000 5.00% Term Bond Due July 1, 2037, Price 115.320,* CUSIP[†] 438701TC8

\$40,435,000 5.00% Term Bond Due July 1, 2042, Price 114.597,* CUSIP[†] 438701TD6

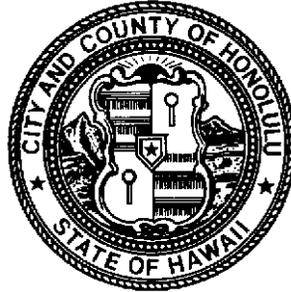
\$131,435,000 Senior Series 2012B

Year (July 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] (438701)
2013	\$ 475,000	2.00%	0.25%	TV6
2014	485,000	3.00	0.39	TW4
2015	505,000	4.00	0.48	TX2
2016	3,960,000	3.00	0.63	TY0
2017	4,105,000	4.00	0.86	TF1
2018	9,990,000	5.00	1.17	TG9
2019	11,015,000	4.00	1.47	TH7
2020	12,055,000	5.00	1.72	TJ3
2021	13,185,000	4.00	1.97	TK0
2022	13,795,000	5.00	2.11	TL8
2023	13,790,000	4.00	2.30*	TM6
2024	14,945,000	3.00	2.51*	TN4
2025	3,830,000	4.00	2.52*	TP9
2026	5,460,000	4.00	2.64*	TQ7
2027	5,655,000	3.00	3.00	TR5
2028	5,855,000	4.00	2.88*	TS3
2029	6,055,000	3.00	3.12	TT1
2030	6,275,000	4.00	3.00*	TU8

* Priced to call at par on July 1, 2022.

[†] Copyright, American Bankers Association. CUSIP data provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the City and County nor the Underwriters takes any responsibility for the accuracy of such numbers.

City and County of Honolulu
State of Hawaii
(Incorporated 1907)



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Manuel Lanuevo
Ross S. Tanimoto

CORPORATION COUNSEL

Robert Carson Godbey

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the City and County in any way, regardless of the level of optimism communicated in the information. The City and County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY AND COUNTY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

* * * * *

The information contained in this Official Statement has been obtained from the City and County of Honolulu and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2012 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2012 Bonds, and if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

THE SERIES 2012 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2012 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012 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.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTORY STATEMENT	1	Ten Largest Customers	36
APPLICATION OF PROCEEDS.....	3	Certain Operating and Financial Statistics	36
Plan of Refunding	3	Rates and Charges	41
THE SERIES 2012 BONDS.....	4	DEBT AND FINANCIAL POLICIES AND	
General	4	INDEBTEDNESS.....	45
Optional Redemption	4	General	45
Mandatory Redemption.....	4	Investments	45
Notice of Redemption	5	Indebtedness.....	45
Selection for Redemption.....	6	FINANCIAL STATEMENTS.....	48
SECURITY FOR THE BONDS.....	6	PENDING WASTEWATER SYSTEM	
General	6	LITIGATION.....	51
Funds and Accounts	7	RATINGS.....	51
Common Reserve Account and Separate		UNDERWRITING	51
Series Reserve Accounts	8	TAX MATTERS	52
Rate Covenant	10	VERIFICATION	54
Additional Bonds and Refunding Bonds.....	11	APPROVAL OF LEGAL PROCEEDINGS.....	54
Proposed Amendments to Bond Resolution.....	12	CONTINUING DISCLOSURE.....	54
THE CITY AND COUNTY AND THE		MISCELLANEOUS.....	54
DEPARTMENT.....	14	Appendix A: Economic and Demographic Factors	
Purpose and Powers	14	Appendix B: Summary of Certain Provisions	
Department Principal Officers	15	of the Bond Resolution	
Department Work Force.....	15	Appendix C: Book-Entry System	
THE WASTEWATER SYSTEM.....	16	Appendix D: Proposed Form of Continuing	
Introduction.....	16	Disclosure Certificate	
General Description of Existing Facilities	16	Appendix E: Proposed Form of Opinion of	
Environmental Compliance.....	17	Bond Counsel	
Projected Customer Growth.....	19		
CAPITAL IMPROVEMENT PROGRAM	20		
Criteria for Ranking CIP Projects by Priority	20		
Classification of CIP Projects	20		
2013-2017 Capital Improvement Program.....	21		
2013-2020 Capital Improvement Program.....	22		
2001-2020 Capital Improvement Program.....	22		
HISTORICAL AND PROJECTED			
REVENUES, EXPENSES AND			
COVERAGES	23		
CERTAIN FINANCIAL, OPERATING			
AND OTHER INFORMATION AND			
STATISTICS	24		
Management’s Discussion of Financial			
Performance	24		
Employee Benefits	25		
Other Post-Employment Benefits.....	35		
Billing and Collection	36		

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OFFICIAL STATEMENT

\$265,610,000
City and County of Honolulu
Wastewater System Revenue Bonds
(First Bond Resolution)

\$134,175,000
Senior Series 2012A

\$131,435,000
Senior Series 2012B

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the appendices, provides certain information in connection with the issuance by the City and County of Honolulu (the “City and County”) in the State of Hawaii of \$265,610,000 aggregate principal amount of Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2012A and Senior Series 2012B (the “Series 2012A Bonds” and “Series 2012B Bonds,” respectively, and collectively, “Series 2012 Bonds”). The Series 2012 Bonds are to be issued under and secured by the First Wastewater Revenue Bond Resolution adopted by the City Council of the City and County on November 10, 1998 (as amended and supplemented from time to time, the “Bond Resolution”), and the Series 2012 Resolution adopted by the City Council of the City and County on September 12, 2012 (the “Series 2012 Resolution”). The Series 2012 Bonds are also to be issued under a certain Bond Series Certificate of the City and County dated the date of this Official Statement, relating to the Series 2012 Bonds (the “Series 2012 Certificate”). The capitalization of any word herein not conventionally capitalized indicates that such word is defined in the Bond Resolution, the Series 2012 Certificate or this Official Statement. A glossary of certain terms used in this Official Statement and the Bond Resolution is set forth in Appendix B under “Certain Definitions.”

Proceeds of the Series 2012A Bonds will be used to (i) fund the cost of certain additions and improvements to the wastewater system owned by the City and County, (ii) fund a Separate Series Reserve Account for the Series 2012A Bonds, and (iii) pay the costs of issuance of the Series 2012 Bonds. Proceeds of the Series 2012B Bonds will be used to refund certain outstanding bonds previously issued by the City and County pursuant to the Bond Resolution. See “APPLICATION OF PROCEEDS” herein.

The Series 2012 Bonds are the 16th and 17th series of bonds (each a “Series” and collectively, the “Bonds” or the “Senior Bonds”) issued under and pursuant to the Bond Resolution and will be secured by and entitled to the protection of the Bond Resolution on a parity with all Bonds heretofore issued and to be hereafter issued under and pursuant to the Bond Resolution. The Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Bonds held or set aside under the Bond Resolution, and certain funds and accounts established by the Bond Resolution. Such pledge of the Net Revenues is senior and superior to any pledge of the Net Revenues to secure obligations issued under any other bond resolution. See “SECURITY FOR THE BONDS.”

As of June 30, 2012, the City and County had \$1,170,430,000 principal amount of Senior Bonds outstanding. As of such date, the City and County also had \$422,684,910 principal amount of bonds outstanding secured by Net Revenues on a subordinate basis to the Senior Bonds (collectively, the “Junior Bonds”). The Junior Bonds were issued by the City and County under a Second Wastewater Revenue Bond Resolution adopted by the City and County on November 10, 1998 (as amended and supplemented from time to time, the “Second Bond Resolution”). The Junior Bonds, together with the Department’s outstanding State Revolving Fund loans, are considered to be Subordinate Obligations for purposes of the Bond Resolution. All outstanding Senior Bonds and Subordinate Obligations are fixed rate obligations. See “DEBT AND FINANCIAL POLICIES AND INDEBTEDNESS – Indebtedness” herein.

The Department of Environmental Services (the “Department”) has the full and complete authority to manage, control and operate the Wastewater System owned or managed and under the jurisdiction of the City and County, including all materials, supplies, equipment and properties used or useful in connection with the Wastewater System. The Department was created July 1, 1998, as part of a city-wide reorganization. Previously, the Department of Wastewater Management, created by a City Charter change effective July 1, 1993, provided operation, maintenance, planning, design and construction of wastewater facilities in the City and County. The City

Charter and Chapter 49, Hawaii Revised Statutes (the “Act”) empower the City and County to issue revenue bonds in its name for the purposes of the Wastewater System. See “THE CITY AND COUNTY AND THE DEPARTMENT.”

As of June 30, 2012, the Wastewater System serviced approximately 144,300 separate accounts and a population of approximately 780,000, which is approximately 82% of the total population of the City and County based on the 2010 census. The service area covers nearly 600 square miles. The customer base includes the residential population, business and industrial users, and other users located in the service area. Of the approximately 144,300 accounts, approximately 136,900 are residential, which generate approximately 70.5% of the total revenue from sewer service charges, and the remaining approximately 7,400 are non-residential, which generate approximately 29.5% of the total revenue from sewer service charges. In Fiscal Year 2012, the average total volume of wastewater processed by the Wastewater System was approximately 100 million gallons per day (“MGD”). See “THE WASTEWATER SYSTEM.”

Pursuant to rate ordinances adopted in 2005 and 2007, the City and County implemented a multi-year wastewater rate increase package effective from July 1, 2005 through July 1, 2010. In June 2011, the City and County adopted a further rate ordinance providing for additional increases in wastewater rates and future rate adjustments over the six-year period from July 1, 2011 through June 30, 2017. In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to wastewater rates effective from July 1, 2012 through June 30, 2017. Billing for non-residential customers using the new rate structure has been temporarily deferred. The approved rate changes for these customers have been implemented during the deferral period using the previous structure. See “CERTAIN FINANCIAL OPERATIONS AND OTHER INFORMATION AND STATISTICS—Rates and Charges.”

The Department is currently undertaking a five-year capital improvement program adopted by the Department and approved by the City Council (the “2013-2017 Capital Improvement Program”). The 2013-2017 Capital Improvement Program is projected to cost approximately \$1.7 billion (in inflated dollars, *i.e.*, adjusted from 2012 dollars) and is being undertaken for the purposes, among others, of meeting the requirements of certain consent decrees, permits, or administrative orders entered into by the Department with Federal and State regulatory bodies and reliably serving projected growth in the number of customers served by the Wastewater System. The 2013-2017 Capital Improvement Program is part of the Department’s 2001-2020 twenty-year capital improvement program (the “2001-2020 Capital Improvement Program”). The 2001-2020 Capital Improvement Program is projected to cost approximately \$4.9 billion (in inflated dollars) and has been undertaken for the same basic purposes as the 2013-2017 Capital Improvement Program. The cost of the 2001-2020 Capital Improvement Program, including the 2013-2017 Capital Improvement Program, is expected to be financed primarily from (i) proceeds of Senior Bonds and Subordinate Obligations (including Clean Water State Revolving Fund loans) previously issued and currently available, (ii) proceeds of additional Senior Bonds (including the Series 2012 Bonds) and Subordinate Obligations (currently expected to consist primarily of Clean Water State Revolving Fund loans) to be hereafter issued, (iii) Net Revenues of the Wastewater System, and (iv) Wastewater System Facilities Charges. See “CAPITAL IMPROVEMENT PROGRAM.”

Pursuant to the Act and the City Charter, the City Council has the power to impose, prescribe and collect rates, rentals, fees or charges for the use and services of, and the facilities furnished by, the Wastewater System so that the Wastewater System will be and remain self-sustaining. The rates, rentals, fees or charges imposed and prescribed are required to produce revenues which will be at least sufficient to pay debt service on all revenue bonds issued for the purposes of the Wastewater System, including the Bonds and the Subordinate Obligations, to provide reserves therefor, to pay the costs of operation, maintenance and repair of the Wastewater System, and to carry out the covenants of all resolutions authorizing the issuance of revenue bonds for the purposes of the Wastewater System, including the Bond Resolution and the Second Bond Resolution. The rates and charges fixed and imposed by the City Council are not subject to approval by any federal or state regulatory bodies. See discussion under “HISTORICAL AND PROJECTED REVENUES, EXPENSES AND COVERAGES.”

APPLICATION OF PROCEEDS

Proceeds from the sale of the Series 2012 Bonds, in an amount equal to the principal thereof plus original issue premium, will be applied to make the following deposits:

Improvement Account	\$150,000,000.00
Escrow Fund ¹	149,013,892.40
Series 2012A Reserve Account ²	4,569,937.50
Costs of Issuance ³	<u>1,249,826.45</u>
Total Uses	<u>\$304,833,656.35</u>

¹ Proceeds of the Series 2012B Bonds to be deposited into the Escrow Fund for application as described under "Plan of Refunding" below.

² The Series 2012A Bonds will be secured by a Separate Series Reserve Account to be funded with a portion of the proceeds thereof. The Series 2012B Bonds will be secured by the Common Reserve Account. See "SECURITY FOR THE BONDS—Common Reserve Account and Separate Series Reserve Accounts" herein.

³ Includes Underwriters' discount.

Plan of Refunding

In connection with the issuance of the Series 2012B Bonds, the City and County will enter into an escrow agreement (the "Escrow Agreement") with U.S. Bank National Association, as escrow agent (the "Escrow Agent") for the purpose of refunding certain outstanding Senior Bonds previously issued by the City and County under the Bond Resolution, as identified in the table below (the "Refunded Bonds").

Refunded Bonds				
<u>Series</u>	<u>Maturity (July 1)</u>	<u>Principal Amount Refunded</u>	<u>Interest Rate</u>	<u>CUSIP[†]</u>
2005A	2016	\$ 3,475,000	5.000%	438701CT9
2005A	2017	3,655,000	5.000	438701CU6
2005A	2018	3,845,000	5.000	438701CV4
2005A	2019	4,040,000	5.000	438701CW2
2005A	2020	3,375,000	5.000	438701CY8
2005A	2020	870,000	4.000	438701CX0
2005A	2021	4,460,000	5.000	438701CZ5
2005A	2022	4,685,000	5.000	438701DA9
2005A	2023	4,930,000	5.000	438701DB7
2005A	2024	5,180,000	5.000	438701DC5
2005A	2025	3,945,000	5.000	438701DE1
2005A	2030	31,175,000	5.000	438701DG6
2006A	2018	3,545,000	5.000	438701EL4
2006A	2019	3,725,000	5.000	438701EM2
2006A	2020	3,915,000	5.000	438701EN0
2006A	2021	4,115,000	5.000	438701EP5
2006A	2022	4,325,000	5.000	438701EQ3
2006A	2023	4,550,000	5.000	438701ER1
2006A	2024	4,780,000	4.750	438701ES9
2006B	2021	585,000	5.000	438701FN9
2006B	2022	615,000	5.000	438701FP4
2006B	2024	675,000	4.750	438701FS8
2006C	2018	2,145,000	5.000	438701GL2
2006C	2019	2,830,000	5.000	438701GM0
2006C	2020	3,505,000	5.000	438701GP3
2006C	2021	3,680,000	5.000	438701GQ1
2006C	2022	3,875,000	5.000	438701GR9
2006C	2023	4,070,000	5.000	438701GS7
2006C	2024	4,270,000	4.750	438701GT5

Upon the issuance of the Series 2012B Bonds, a portion of the proceeds thereof will be deposited into an escrow fund (the “Escrow Fund”) held by the Escrow Agent under the Escrow Agreement. The moneys and securities held in the Escrow Fund are to be applied to the payment of principal of, premium, if any, and interest on the Refunded Bonds. Pending application, moneys deposited in the Escrow Fund will be invested in noncallable direct obligations of the United States (the “Escrow Securities”) which, together with cash held uninvested in the Escrow Fund, will be sufficient, without reinvestment, and will be applied to pay the principal or redemption price of and interest on the Refunded Bonds to and including their respective maturity dates or redemption dates. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Fund, in the amounts needed to pay the principal or redemption price of and interest on the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. The Escrow Securities will be purchased from the Treasury Department of the United States of America or in the open market, in either case at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), not to exceed the applicable yield permitted by such provisions. See “VERIFICATION.”

THE SERIES 2012 BONDS

General

The Series 2012 Bonds will be dated as of the date of their issuance and will bear interest at the rates and mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The Series 2012 Bonds will be issued in minimum denominations of \$5,000 principal amount. Interest will accrue on the Series 2012 Bonds from the date of their issuance and will be due and payable semiannually on January 1 and July 1 of each year, commencing July 1, 2013 in the case of the Series 2012A Bonds and January 1, 2013 in the case of the Series 2012B Bonds. The Director of Budget and Fiscal Services of the City and County will serve as the initial Paying Agent for the Series 2012 Bonds.

The Series 2012 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Series 2012 Bonds (together with its successors, if any, in such capacity, the “Securities Depository”). So long as the Securities Depository or its nominee is the registered owner of the Series 2012 Bonds, individual purchases of the Series 2012 Bonds will be made in book-entry form only (the “Book-Entry System”), in authorized denominations of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2012 Bonds. Principal of and interest on the Series 2012 Bonds will be paid to the Securities Depository, which will in turn remit such principal and interest to its Direct Participants (as defined in Appendix C), for subsequent distribution to Indirect Participants (as defined in Appendix C) and Beneficial Owners (as defined in Appendix C) of the Series 2012 Bonds. The Series 2012 Bonds may be transferred or exchanged in the manner described in the Series 2012 Bonds and as referenced in accompanying proceedings of the City and County. See Appendix C, “Book-Entry System” for certain information regarding the Book-Entry System maintained by DTC, as Security Depository.

Optional Redemption

The Series 2012 Bonds maturing on and after July 1, 2023 are subject to redemption prior to the stated maturity thereof at the option of the City and County at any time and from time to time on or after July 1, 2022, in whole or in part (if in part, the maturities or portions thereof to be redeemed to be selected by the City and County in its sole discretion), in each case at a redemption price equal to the principal amount of such Series 2012 Bonds or portions thereof to be redeemed plus accrued interest to the date of redemption.

Mandatory Redemption

The Series 2012 Bonds identified below are also subject to redemption prior to maturity, in part, on each of the dates and in the respective principal amounts set forth below, at a Redemption Price of 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem the principal amount of Series 2012 Bonds specified for July 1 of each of the years shown below:

**Series 2012A Bonds
Maturing July 1, 2037**

<u>Year (July 1)</u>	<u>Principal Amount</u>
2033	\$5,685,000
2034	5,975,000
2035	6,280,000
2036	6,605,000
2037*	6,940,000

* *Final Maturity.*

**Series 2012A Bonds
Maturing July 1, 2042**

<u>Year (July 1)</u>	<u>Principal Amount</u>
2038	\$7,300,000
2039	7,675,000
2040	8,065,000
2041	8,480,000
2042*	8,915,000

* *Final Maturity.*

Notice of Redemption

Notice of redemption of any Series 2012 Bond is required to be mailed not less than 30 days prior to the redemption date to the holder of such Series 2012 Bond at its address as it appears on the registry books kept pursuant to the provisions of the Bond Resolution. Notice of redemption of Series 2012 Bonds will be given by the Paying Agent.

Each notice of redemption is required to state: (i) the title of the Series 2012 Bonds to be redeemed, the subseries designation thereof (if any), the redemption date, the place or places of redemption and the redemption price payable upon such redemption; (ii) if less than all the Series 2012 Bonds are to be redeemed, the distinctive number of the Series 2012 Bonds to be redeemed, (iii) that the interest on the Series 2012 Bonds, or on the principal amount thereof to be redeemed, designated for redemption in such notice shall cease from and after such redemption date; and (iv) that on said date there will become due and payable on each said Series 2012 Bond the principal amount thereof to be redeemed at the then applicable redemption price and the interest accrued on such principal amount to the redemption date. Each notice of redemption mailed to the holder of a Series 2012 Bond to be redeemed must, if less than the entire principal sum thereof is to be redeemed, also state the principal amount thereof to be redeemed and, if less than the entire principal sum of a Series 2012 Bond all of the principal of which matures on the same day is called for redemption, that such Series 2012 Bond must be surrendered to the Paying Agent in exchange for the payment of the principal amount thereof to be redeemed and the issuance of a new Series 2012 Bond or Bonds equaling in principal amount that portion of the principal sum not to be redeemed of the Series 2012 Bond to be surrendered.

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the Paying Agent on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Series 2012 Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2012 Bonds proposed to be redeemed shall not be received on or prior to the date fixed for redemption, such notice of redemption shall be null and void and of no force and effect, the City and County shall not redeem or be obligated to redeem any Series 2012 Bonds, and the Paying Agent at the City and County's direction shall give notice, in the same manner as notice of redemption is given, that moneys sufficient to pay in full the redemption price of the Series 2012 Bonds proposed to be redeemed were not received on or prior to the date fixed for redemption and such redemption did not occur. In the event of the failure to redeem, all Series 2012 Bonds surrendered for redemption shall be promptly returned to the holder or holders by the Paying Agent.

For so long as a book-entry only system is in effect with respect to the Series 2012 Bonds, notice of redemption, or notice of rescission of any conditional notice of redemption, of Series 2012 Bonds to be redeemed is to be mailed by the Paying Agent to the Securities Depository or its nominee. Any failure of the Securities Depository or of its nominee, or of a direct or indirect participant, to notify a beneficial owner of Series 2012 Bonds of any redemption will not affect the sufficiency or validity of the redemption of the Series 2012 Bonds to be redeemed. See “– Book-Entry System” below for a description of the book-entry only system. Neither the City and County nor the Paying Agent can give any assurance that the Securities Depository, or direct or indirect participants, will distribute such redemption notices to the beneficial owners of the Series 2012 Bonds, or that they will do so on a timely basis.

Selection for Redemption

If fewer than all of the Series 2012 Bonds shall be called for redemption, the Director of Budget and Fiscal Services, as registrar (the “Registrar”), shall designate the maturities from which the Series 2012 Bonds are to be redeemed. For so long as the Series 2012 Bonds are registered in book-entry form and DTC or a successor securities depository is the sole registered owner of such Series 2012 Bonds, if fewer than all of the Series 2012 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2012 Bonds to be redeemed shall be selected in accordance with the operational arrangements of the Securities Depository then in effect; provided that any such redemption must be performed such that all Series 2012 Bonds remaining outstanding will be in authorized denominations. See Appendix C, “Book-Entry System.”

If the Series 2012 Bonds are not registered in book-entry form and if fewer than all of such Series 2012 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2012 Bonds of such maturity and bearing such interest rate to be redeemed will be selected by lot; provided that any such redemption must be performed such that all Series 2012 Bonds remaining outstanding will be in authorized denominations.

SECURITY FOR THE BONDS

General

The Bonds issued under and pursuant to the Bond Resolution, including the Series 2012 Bonds, are limited special obligations of the City and County. Pursuant to the Bond Resolution, there has been pledged, as security for the payment of the debt service on the Bonds, the Net Revenues, proceeds of the Bonds held or set aside under the Bond Resolution, and all Funds and Accounts established by the Bond Resolution other than the Rebate Account, the Subordinate Obligation Account, and the Reimbursable Obligation Account and in certain instances pursuant to the Bond Resolution, the Common Reserve Account or Separate Series Reserve Accounts. The Bonds are equally and ratably payable and secured under the Bond Resolution except that the City and County has reserved the right under the Bond Resolution to afford a particular Series of Bonds or particular Bonds additional or different security through a Support Facility, escrow funds, or the establishment of separate funds and accounts with respect to a particular Series of Bonds funded from sources other than the Net Revenues.

Under the Bond Resolution, Net Revenues means, with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses. Revenues means the moneys, including any moneys collected from the City and County or any department thereof other than the Department, derived by the Department from the rates, rentals, fees and charges prescribed for the use and services of, and the facilities and commodities furnished by, the Wastewater System. Revenues include (i) all income, receipts, profits, and other moneys derived from the furnishing or supplying of the services, facilities and commodities through the Wastewater System; (ii) all income from investments of moneys held under the Bond Resolution except the Rebate Account, the Subordinate Obligation Account or the Reimbursable Obligation Account; (iii) all payments made by Counterparties pursuant to Interest Rate Exchange Agreements; and (iv) moneys and Investment Securities transferred from the Rate Stabilization Account to the Sewer Fund within ninety (90) days following the end of a Fiscal Year. Certain items do not constitute Revenues under the Bond Resolution, including certain deposits subject to refund, certain contributions in-aid-of construction and assessment, impact and other similar fees imposed and collected by the City and County, income, fees, charges, receipts, profits or other moneys derived by the Department from the ownership or operation of any separate utility system, and certain gifts, grants and donations, moneys and

Investment Securities transferred from the Sewer Fund to the Rate Stabilization Account within ninety (90) days following the end of a Fiscal Year, or Wastewater System Facility Charges.

The pledge of the Net Revenues for the security and payment of the Bonds under the Bond Resolution is superior to the pledge and security for Subordinate Obligations and Reimbursable Obligations authorized to be issued pursuant to the Bond Resolution. Subordinate Obligations are obligations of the City and County that are payable from Net Revenues after payment of Senior Bonds, but before payment of Reimbursable Obligations. The City and County's outstanding Subordinate Obligations currently consist of Junior Bonds and State Revolving Fund loans. Reimbursable Obligations are general obligation bonds that are payable from moneys in the City and County's general fund, subject to reimbursement from Net Revenues after payment of Senior Bonds and Subordinate Obligations. As of June 30, 2012, the City and County had \$572,684,910 principal amount of outstanding Subordinate Obligations (consisting of \$422,684,910 of Junior Bonds and \$150,000,000 of State Revolving Fund loans) and \$1,275,799 of outstanding Reimbursable Obligations. The major portion of outstanding Reimbursable Obligations will mature in January 2013. The City and County also had \$2,750,000 principal amount of USDA revenue bonds outstanding as of June 30, 2012, the repayment of which is secured by a pledge of Net Revenues subordinate to the Senior Bonds, the Subordinate Obligations and the Reimbursable Obligations. See "DEBT AND FINANCIAL POLICIES AND INDEBTEDNESS" herein.

The Series 2012 Bonds will constitute Bonds under the Bond Resolution. The Series 2012 Bonds are the 16th and 17th Series of Bonds to be issued under the Bond Resolution. The City and County expects to issue additional Bonds under the Bond Resolution on a parity with the Series 2012 Bonds.

The Bonds are not a general or moral obligation of the State of Hawaii or any political subdivision thereof, including the City and County, and the faith and credit of the State of Hawaii or any political subdivision thereof, including the City and County, are not pledged to the payment of the principal or redemption price of or interest on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of Hawaii or any political subdivision thereof, including the City and County, in connection with any default with respect to the Bonds.

Funds and Accounts

The various funds and accounts established under or pledged by the Bond Resolution, the flow of Revenues through such funds and accounts, the rights and remedies of Bondholders under the Bond Resolution and other related matters are summarized in Appendix B, "Summary of Certain Provisions of the Bond Resolution."

The City and County has established the Sewer Fund by ordinance. Revenues are deposited in the Sewer Fund. The Bond Resolution establishes in the Sewer Fund a Debt Service Account, a Rate Stabilization Account, a Renewal and Replacement Account and a Wastewater General Account, all of which are pledged as security for the payment of debt service on all Bonds subject to the terms and provisions of and the exceptions provided in the Bond Resolution. The Bond Resolution also establishes a Common Reserve Account in the Sewer Fund and permits the establishment in the Sewer Fund of one or more Separate Series Reserve Accounts. The Common Reserve Account is pledged as additional security for the payment of debt service on the Bonds of such Series designated by the City and County to be entitled to the benefit of the Common Reserve Account. Each Separate Series Reserve Account is pledged as additional security for the payment of debt service on the Bonds of such individual Series designated by the City and County to be entitled to the benefit of such Separate Series Reserve Account.

The debt service on and redemption price of the Bonds are payable from the Debt Service Account in the Sewer Fund. In the event of a deficiency in the Debt Service Account, debt service on and redemption price of particular Bonds are payable from the Common Reserve Account or the Separate Series Reserve Accounts, as applicable, but only if such Bonds are entitled to the benefit of such reserve accounts.

Moneys deposited and retained in the Sewer Fund may be maintained in an amount which is reasonable and necessary for working capital and reserves. The Rate Stabilization Account is to be used to stabilize the rates and charges of the Wastewater System. The Rate Stabilization Account is to be maintained in an amount as provided in the Annual Budget and is to be funded from (i) Revenues but only after paying the Operation and Maintenance Expenses and after transferring required amounts to other funds and accounts as provided in the Bond

Resolution, and (ii) transfers from the Wastewater General Account. In addition, federal interest subsidies received with respect to the Senior Series 2009B, 2009C, and 2010B Bonds will be deposited in the Rate Stabilization Account and subsequently transferred to the Sewer Fund. The Renewal and Replacement Account is to be used to pay the costs of improvements to or reconstruction of the Wastewater System, repairs, major or extraordinary repairs and renewals or replacements of the Wastewater System and under certain conditions, as set forth in the Bond Resolution, to meet deficiencies in the Debt Service Account, the Common Reserve Account, Separate Series Reserve Accounts, if any, the Subordinate Obligation Account and the Reimbursable Obligation Account, and will be maintained in an amount provided for in the Annual Budget. The Wastewater General Account may be used for any lawful purpose of the City and County, including funding of the Rate Stabilization Account, and under certain conditions, may be used to meet deficiencies in the Sewer Fund, the Common Reserve Account, Separate Series Reserve Accounts, if any, the Renewal and Replacement Account, the Rebate Account, the Subordinate Obligation Account and the Reimbursable Obligation Account.

The Bond Resolution also establishes in the Sewer Fund a Rebate Account, a Subordinate Obligation Account and a Reimbursable Obligation Account. Such accounts are not pledged as security for the Series 2012 Bonds, or any other Bonds. The funds in the Subordinate Obligation Account are to be used to pay debt service on and redemption price of Subordinate Obligations, provide necessary debt service reserves and other reserves and pay other costs related to Subordinate Obligations. The funds in the Reimbursable Obligation Account are to reimburse the General Fund for payments of debt service on and redemption price of Reimbursable Obligations. The funds in the Rebate Account are to be used to pay required rebates to the United States Treasury Department incurred in respect of the Bonds.

The Bond Resolution also establishes in the Sewer Fund the Wastewater System Facility Charge Account. Wastewater System Facility Charges collected by the Department are deposited in the Wastewater System Facility Charge Account. The Wastewater System Facility Charge Account is pledged under the Bond Resolution as security for the payment of debt service on and redemption price of the Bonds. However, if any amounts are used to pay debt service on or redemption price of the Bonds, the Wastewater System Facility Charge Account must be reimbursed from the Net Revenues with the priority set forth in the Bond Resolution. The Wastewater System Facility Charges are not considered to be Revenues under the Bond Resolution.

The City and County has also established by ordinance the Improvement Fund. The Bond Resolution establishes in the Improvement Fund an Improvement Account and permits the establishment within the Improvement Account of one or more Series Improvements Subaccounts and one or more Series Improvement Interest Subaccounts. Proceeds of Bonds issued under the Bond Resolution are to be deposited in the Improvement Account or a Series Improvement Subaccount pending application to pay the Costs of Improvements. Proceeds of Bonds issued under the Bond Resolution which are to be used to pay capitalized interest on the Bonds of a Series during the period of construction of an Improvement and for six months thereafter must be deposited in a Series Improvement Interest Subaccount. The Improvement Account, each Series Improvement Subaccount and each Series Improvement Interest Subaccount (but not the Improvement Fund) are pledged under the Bond Resolution as security for the payment of debt service on and redemption price of the Bonds.

Common Reserve Account and Separate Series Reserve Accounts

The Bond Resolution establishes a Common Reserve Account and authorizes the establishment of Separate Series Reserve Accounts for Bonds of any Series that are not entitled to the benefit of the Common Reserve Account. The Common Reserve Account secures all outstanding Senior Bonds except for \$204,435,000 principal amount of Senior Bonds issued in 2010 (the "Series 2010 Bonds") and \$169,190,000 principal amount of Senior Bonds issued in 2011 (the "Series 2011 Bonds"), each of which is secured by a Separate Series Reserve Account. The Series 2012A Bonds will be secured by a Separate Series Reserve Account rather than the Common Reserve Account, while the Series 2012B Bonds will be secured by the Common Reserve Account. As of July 1, 2012, the cash balances in the Common Reserve Accounts and Separate Series Reserve Accounts were as follows:

<u>Reserve Accounts</u>	<u>Cash Balance</u>
<i>Common Reserve Accounts:</i>	
Senior Bonds	\$ 55,878,117
Junior Bonds	36,367,925
<i>Separate Series Reserve Accounts:</i>	
Senior Series 2010 Bonds	\$ 6,257,037
Senior Series 2011 Bonds	5,739,850
Total Reserve Funds	\$104,242,929

Common Reserve Account. Under the Bond Resolution, the City and County may designate one or more Series of Bonds to be entitled to the benefit of the Common Reserve Account. The Series 2012B Bonds, but not the Series 2012A Bonds, will be entitled to the benefit of the Common Reserve Account.

The moneys held in the Common Reserve Account are to be used to pay debt service on the Bonds entitled to the benefit of the Common Reserve Account in the event of a deficiency in the Debt Service Account to pay such debt service. The Common Reserve Account is to be maintained in an amount not less than the Common Reserve Account Requirement. The Common Reserve Account Requirement is an amount that is equal to the greatest amount of Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds entitled to the benefit of the Common Reserve Account; provided, however, that if upon the issuance of a Series of Bonds entitled to the benefit of the Common Reserve Account, such amount would require moneys credited to the Common Reserve Account from the proceeds of such Bonds in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Account Requirement will then be the Common Reserve Account Requirement immediately preceding the issuance of such Bonds and the maximum amount permitted under the Code to be deposited from the proceeds of such Bonds, as certified by an Authorized Officer. The Bond Resolution provides that the Aggregate Debt Service is to be computed with respect to each Variable Rate Bond entitled to the benefit of the Common Reserve Account by using the Assumed Long-Term Fixed Rate.

In lieu of cash or securities, the Bond Resolution permits the Department to satisfy the Common Reserve Account Requirement in part or in whole by causing to be deposited into the Common Reserve Account a Support Facility (which may be an irrevocable letter of credit, surety bond, loan agreement, standby bond purchase agreement, or other agreement facility or insurance or guaranty agreement issued by a bank or banks, or other financial institution or institutions, or any combination of the foregoing) in an amount equal to the difference between the Common Reserve Account Requirement and the sums then on deposit in the Common Reserve Account, if any. The Support Facility must be payable (upon the giving of notice as required thereunder) on or before any interest payment date on which moneys will be required to be withdrawn from the Common Reserve Account and applied to the payment of principal or redemption price of or interest on any Bonds and such withdrawal cannot be met by amounts on deposit in the Common Reserve Account or provided from any other available Fund under the Bond Resolution. Any Support Facility deposited in the Common Reserve Account or the long-term debt of the issuer of any Support Facility deposited in the Common Reserve Account must, in each case, be rated in the highest rating category by each Rating Agency and, if rated by A.M. Best & Company, must also be rated in the highest rating category by A.M. Best & Company. In the event any Support Facility deposited in the Common Reserve Account or the long-term debt of the issuer of any Support Facility deposited in the Common Reserve Account falls below the second highest rating category of each Rating Agency, and A.M. Best & Company, if rated by A.M. Best & Company, the City and County must, within 120 days, obtain a new Support Facility which, or which the long-term debt of the issuer of such new Support Facility, is rated in the highest rating category of such rating agencies; provided, however, that if the new Support Facility is not obtained within 120 days, the City and County must deposit in the Common Reserve Account Net Revenues in the amount provided in the Bond Resolution. If a disbursement is made pursuant to a Support Facility deposited in the Common Reserve Account, the City and County must: first, reinstate the full amount of such Support Facility; and second, if necessary, deposit Net Revenues in the Common Reserve Account in the amount of the disbursement made under such Support Facility, in either case such that the amount in the Common Reserve Account will equal the Common Reserve Account Requirement within a period of time not longer than would be required to restore the Common Reserve Account by application of moneys in the Sewer Fund as required by the Bond Resolution. The City and County may at any time deposit cash or Investment Securities as replacement for one or more Support Facilities.

The Common Reserve Account Requirement, currently in the amount of \$55,878,117, was initially satisfied by the deposit of Support Facilities deposited into the Common Reserve Account pursuant to the Bond Resolution. However, in 2008, the City and County deposited cash into the Common Reserve Account to replace certain Support Facilities on deposit therein which fell below the highest rating category of each Rating Agency. As a result, the Common Reserve Account Requirement is currently fully funded with cash. Although replaced for purposes of meeting the Common Reserve Account Requirement, the Support Facilities remain on deposit in the Common Reserve Account.

Similarly, the Common Reserve Subaccount Requirement for Junior Bonds under the Second Bond Resolution, currently in the amount of \$36,367,925, was initially satisfied by the deposit of Support Facilities, but is now fully funded with cash.

Separate Series Reserve Accounts. The Bond Resolution permits the establishment of a Separate Series Reserve Account to provide additional security for the Bonds of a Series which is not entitled to the benefit of the Common Reserve Account. In the event of a deficiency in the Debt Service Account to pay debt service on the Bonds of a Series entitled to the benefit of a Separate Series Reserve Account, the amounts held in such Separate Series Reserve Account are to be used exclusively to pay such debt service. The amount to be maintained in any such Separate Series Reserve Account for a Series of Bonds is to be determined at the time such Bonds are authorized or sold. The credit quality of a Support Facility to be deposited in any Separate Series Reserve Account for a Series of Bonds is also to be determined at the time such Bonds are authorized or sold.

The Series 2010 Bonds and Series 2011 Bonds are each secured by a Separate Series Reserve Account established for such Series of Bonds. The amount required to be maintained in each of these accounts is equal to 50% of the greatest annual Debt Service payable during any Fiscal Year with respect to each such outstanding Series of Bonds.

Pursuant to the Series 2012 Resolution, a Separate Series Reserve Account will also be established for the Series 2012A Bonds in the amount of \$4,569,938. The Separate Series Reserve Account established for the Series 2012A Bonds shall secure only such Series of Bonds. The amount to be maintained in such Separate Series Reserve Account is equal to 50% of the greatest annual Debt Service payable during any Fiscal Year with respect to the outstanding Series 2012A Bonds; *provided, however*, that if upon issuance of the Series 2012A Bonds, such amounts would require moneys to be credited to the Separate Series Reserve Account from proceeds of the Series 2012A Bonds in an amount in excess of the maximum amount permitted under the Code, the amount required to be maintained in such Account Requirement shall mean the maximum amount permitted under the Code to be deposited therein.

Transfers to Reserve Accounts. The Bond Resolution requires that in each month, after paying and setting aside an amount sufficient to pay the Operation and Maintenance Expenses for such month, and after transferring to the Debt Service Account an amount sufficient to pay debt service on the Bonds to accrue in such month, moneys in the Sewer Fund are to be transferred pro rata to the Common Reserve Account and each Separate Series Reserve Account in such amounts as are required so that the balances in the Common Reserve Account and each Separate Series Reserve Account are equal to their respective requirements, or at the election of the Department, so that at least one-sixth of any deficiency in the Common Reserve Account or each Separate Series Reserve Account is eliminated.

Rate Covenant

The City and County is required by the Bond Resolution, among other things, to fix, charge and collect such rates and other charges as shall be required in order that in each Fiscal Year the Net Revenues shall not be less than the Net Revenue Requirement for such Fiscal Year. The Net Revenue Requirement means with respect to any Fiscal Year or any period, an amount equal to the greater of: (i) the sum of (a) the Aggregate Debt Service in such Fiscal Year or such period and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.20 times the Aggregate Debt Service in such Fiscal Year plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of such Fiscal Year. Net Revenues means, with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses. Aggregate Debt Service means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds. Support Facility Reimbursement Obligations are obligations of the City

and County to directly reimburse the Support Facility Provider of a Support Facility for amounts paid thereunder or a Counterparty under an Interest Rate Exchange Agreement for amounts paid, whether or not such obligation to reimburse is evidenced by a promissory note or similar instrument.

Failure by the City and County to comply with the foregoing rate covenant in any Fiscal Year will not constitute an Event of Default under the Bond Resolution so long as the provisions of the Bond Resolution described below are complied with. Prior to the end of each Fiscal Year the Director of Environmental Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services is required by the Bond Resolution to complete a review of the financial condition of the Department for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the foregoing rate covenant and to make a written certification with respect to compliance or noncompliance. Such review is to take into consideration the completion of any uncompleted Improvements and the issuance of future Series of Bonds if necessary to finance the completion of such Improvements. Such written certification is to set forth a reasonably detailed statement of the actual and estimated Revenues, Operation and Maintenance Expenses, Aggregate Debt Service, and any other estimates or assumptions upon which such determination was based, shall be filed with the City Clerk on or before July 1 in each year. If it is determined in such written certification that the Revenues may not be so sufficient, the Director of Environmental Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services must forthwith make a study for the purpose of determining a schedule of fees, rates and charges which, in the opinion of the Director of Environmental Services or the Director of Budget and Fiscal Services, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with such rate covenant, or the Director of Environmental Services or the Director of Budget and Fiscal Services may elect to cause the Consulting Engineer to make such a study and render such certification. The City Council, as promptly as practicable but no later than 120 days following such determination by the Director of Environmental Services or the Director of Budget and Fiscal Services, or receipt of the Consulting Engineer's recommendation, is required to adopt and place in effect a schedule of fees, rates and charges as so determined or recommended. See "CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS – Rates and Charges" for current sewer charges, "HISTORICAL AND PROJECTED REVENUES, EXPENSES AND COVERAGES" for a discussion of the Department's projected rates, revenues and expenses, and "THE CITY AND COUNTY AND THE DEPARTMENT – Purpose and Powers" for a discussion of the rate making powers of the City Council.

Additional Bonds and Refunding Bonds

The Bond Resolution permits the issuance of additional Series of Bonds (exclusive of refunding Bonds) on a parity with the Bonds then Outstanding ("Additional Bonds") for any lawful use or purpose relating to the Wastewater System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the conditions set forth in the Bond Resolution. The Series 2012 Bonds are being issued as Additional Bonds under the Bond Resolution and their issuance is subject to compliance with such conditions, which include delivery to the Director of Budget and Fiscal Services of the following documents or moneys or securities:

1. A written certificate of the City and County stating the amount required to be in the Common Reserve Account after issuance of the Bonds then to be issued and that the amounts deposited will not be less than the Common Reserve Account Requirement.

2. A written certificate of the City and County stating the amount required to be in the Separate Series Reserve Account established for the Bonds of such Series after issuance of the Bonds then to be issued and that the amounts deposited will not be less than the Separate Series Reserve Account Requirement for the Bonds of such Series.

3. Either:

- (I) a written certificate of the City and County based: (i) on audited figures or (ii) to the extent audited figures are not available, on figures taken by an independent certified public accountant from the Department's books and records, showing that the Net Revenues for: (a) the most recent Fiscal Year, or (b) any consecutive 12-month period out of 24 months immediately preceding the month in which such Bonds are issued were not less than 1.20 times the maximum Aggregate Debt Service on all Bonds

then Outstanding and on the proposed Series of Bonds in any Fiscal Year plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the written certificate of the City and County; or

(II) a written certificate of the City and County or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of: (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Bonds are issued, and (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Bonds are expected to commence operations, or, if the proceeds of such Series of Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Bonds are issued, are estimated to be not less than 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of such written certificate of the City and County or certificate of the Consulting Engineer.

In determining Net Revenues for purposes of the certificates described above, the City and County or the Consulting Engineer, as the case may be, is permitted, and in certain instances is required, to make certain adjustments as provided in the Bond Resolution. In addition, the Bond Resolution requires that certain other adjustments to Net Revenues derived from Debt Service on Variable Rate Bonds and debt service on Bond Anticipation Notes and short-term Subordinate Obligations and Reimbursable Obligations be made for purposes of the written certificates described above. See Appendix B, "Summary of Certain Provisions of the Bond Resolution."

Bonds may be issued as variable rate bonds, fixed rate bonds, bonds providing for the right of the owner thereof to present the Bond for redemption or purchase prior to maturity, zero interest rate or deep discount bonds, bonds providing for the compounding of interest, or any combination thereof. Bonds may be issued or outstanding from time to time with or without credit enhancement provisions. See Appendix B, "Summary of Certain Provisions of the Bond Resolution."

The Bond Resolution also permits the issuance of Bonds ("Refunding Bonds") on a parity with the Bonds then Outstanding to refund all or any part of: (i) a Series of Outstanding Bonds; (ii) Subordinate Obligations; or (iii) Reimbursable Obligations. Refunding Bonds may only be issued by the City and County upon satisfaction of certain conditions set forth in the Bond Resolution.

A more detailed description of the requirements relating to the issuance of Additional Bonds or Refunding Bonds is set forth in Appendix B under "Additional Bonds and Refunding Bonds."

The Bond Resolution also permits the issuance of notes in anticipation of a Series of Bonds if the City and County has theretofore authorized the issuance of such Bonds. The interest on such notes (and any renewal thereof) shall be payable from the proceeds of such notes or other notes or from the proceeds of the sale of the Bonds in anticipation of which such notes are issued. A more detailed description of the provisions for security for payment of such notes and other requirements relating to the issuance of notes is set forth in Appendix B under "Bond Anticipation Notes."

Proposed Amendments to Bond Resolution

Under the current provisions of the Bond Resolution, Refundable Credits (as defined below) or other moneys initially deposited in the Rate Stabilization Account and subsequently transferred to the Sewer Fund within 90 days following the end of a Fiscal Year are treated as Revenues for purposes of the rate covenant, additional bonds test and other calculations of the ratio between Net Revenues and Debt Service. By resolution of the City Council adopted on October 13, 2010, the City and County has proposed certain amendments to the Bond Resolution to provide for the application of Refundable Credits received with respect to Interest Subsidy Bonds (as defined below) as an offset to Debt Service instead of treating such Refundable Credits as Revenues. The City and County has issued three series of Interest Subsidy Bonds under the Bond Resolution, consisting of its Senior Series 2009B Build America Bonds (Taxable) issued in the original principal amount of \$40,775,000, its Senior Series 2009C Recovery Zone Economic Development Bonds (Taxable) issued in the original principal amount of \$29,430,000, and its Subseries 2010B Build America Bonds (Taxable) issued in the original principal amount of \$178,640,000.

The proposed amendments are summarized as follows:

Definition of Debt Service. The City and County proposes to amend the definition of “Debt Service” to provide that: “in determining the amount of interest coming due during any applicable period on any Series of Bonds that are issued as Interest Subsidy Bonds, amounts equal to Refundable Credits the City and County is scheduled to receive during such period shall be deducted from such interest.”

Deposit and Application of Refundable Credits. The City and County further proposes to amend the provisions of the Bond Resolution regarding the Debt Service Account by adding a new subsection (7) which reads as follows:

(7) All of the Refundable Credits received by the City and County shall be deposited immediately upon receipt in the Debt Service Account, and such Refundable Credits are hereby irrevocably pledged to the punctual payment of the interest on the respective Series of Interest Subsidy Bonds to which such Refundable Credits relate, and the Refundable Credits shall not be used for any other purpose while any of the Interest Subsidy Bonds remain Outstanding. All the Refundable Credits as received by the City and County shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of the pledge shall be valid as against, and prior to the lien of, all parties having claims of any kind in tort, contract or otherwise against the City and County irrespective of whether such parties have notice thereof. Notwithstanding the foregoing deposit and pledge, the Refundable Credits are not considered Revenues or included in the calculation of Revenues under this Resolution. Additionally, in calculating the amount that the City and County pays out of the Debt Service Account to the applicable Paying Agents as provided in (A)(1) above, the City and County or the Paying Agent, as applicable, shall take into account Refundable Credits only if they have been deposited in the Debt Service Account on or prior to the Business Days preceding the applicable interest payment date and have not previously been expended to pay Debt Service on the Bonds issued as Interest Subsidy Bonds or otherwise transferred out of the Debt Service Account.

The terms “Interest Subsidy Bonds” and “Refundable Credits” are defined as follows:

“Interest Subsidy Bonds” means (a) any bonds or other obligations issued as Build America Bonds under Section 54AA of the Code, or under any other provision of the Code that creates a substantially similar direct-pay subsidy program, (b) any bonds or other obligations issued as Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, or under any other provision of the Code that creates a substantially similar direct-pay subsidy program, or (c) any other any bonds or other obligations issued under any provision or provisions of the Code that create substantially similar direct-pay subsidy programs to such programs with respect to Build America Bonds and Recovery Zone Economic Development Bonds.

“Refundable Credits” means (a) with respect to a Series of Bonds issued as Build America Bonds under Section 54AA of the Code, the amounts which are payable by the Federal government under Section 6431 of the Code, which the City and County has elected to receive under Section 54AA(g)(1) of the Code, (b) with respect to a Series of Bonds issued as Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, the amounts which are payable by the Federal government under Section 6431 of the Code, which the City and County has elected to receive under Section 1400U-2 of the Code, and (c) with respect to a Series of Bonds issued as any other type of Interest Subsidy Bonds, the amounts which are payable by the Federal government under provisions of the Code governing a direct-pay subsidy program or programs substantially similar to such programs with respect to Build America Bonds and Recovery Zone Economic Development Bonds.

Under the terms of the Bond Resolution, the proposed amendments will not go into effect until such time as the City and County has obtained the consents of the Holders of a majority of the Outstanding Bonds, which consent may be substantiated by such evidence that the City and County, in its discretion, may determine to be sufficient. See “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Amending and Supplementing of Resolution—*Amendment of Resolution with Consent of Holders of the Bonds*” in Appendix B hereto. BY PURCHASING SERIES 2012 BONDS, THE HOLDERS THEREOF SHALL BE DEEMED TO HAVE CONSENTED TO THE PROPOSED AMENDMENTS, AND SUCH CONSENT WILL BE BINDING ON ALL SUCCESSIVE HOLDERS OF THE SERIES 2012 BONDS. Upon the issuance of the Series 2012 Bonds,

there will be \$1,290,340,000 of Bonds Outstanding, of which \$639,235,000 (including the Series 2012 Bonds) will be deemed to have consented to the proposed amendments.

THE CITY AND COUNTY AND THE DEPARTMENT

Purpose and Powers

The City and County. The City and County of Honolulu includes the entire island of Oahu and a number of small outlying islands. Of the eight major islands that constitute the State of Hawaii, Oahu, with an area of 597 square miles, is smaller than the Islands of Hawaii and Maui but larger than the Islands of Kauai, Molokai, Lanai, Niihau and Kahoolawe. With slightly less than one-tenth of the land area in the entire State, Oahu contains more than two-thirds of the State's resident population. According to the 2011 State of Hawaii Data Book, as of July 1, 2011 the resident population of the State was 1,374,810, and that of Oahu was 963,607, approximately 70% of the total State population. Honolulu is the seat of the State Government and is the State's trade, finance, communication, and transportation center. Most Federal establishments and personnel (both civilian and military), as well as major manufacturing, educational, scientific and visitor industry activities are located on Oahu.

City Council and Mayor. The City Council is the governing body of the City and County and consists of nine members, each of whom represents a separate council district. Councilmembers are elected for a four-year term and are limited to two consecutive terms. The terms of the councilmembers for council districts I, III, V, VII and IX expire on January 2, 2013, while the terms of the councilmembers for council districts II, IV, VI and VIII expire on January 2, 2015. One vacancy currently exists on the City Council (district VI), which will be filled following the November 2012 general election. Pursuant to the City Charter, the City Council has the power, among other things: (i) to exercise the legislative power of the City and County, (ii) to enact operating and capital budget ordinances, (iii) with certain exceptions, to fix fees and charges for services rendered by the City and County, and (iv) to authorize the issuance of revenue bonds for the purpose of initiating, constructing, acquiring, extending, replacing or otherwise improving any revenue-producing facility. The Mayor is the Chief Executive Officer of the City and County. The Mayor is elected to serve a four-year term with a limitation of two consecutive full terms. The next regular mayoral election is scheduled to take place in November 2012. The winner of the election will replace the current Mayor. The Mayor exercises direct supervision over all agencies specifically identified in the City Charter and, through the Managing Director, exercises supervision over all other executive agencies of the City and County.

Department of Environmental Services. The Department was established on July 1, 1998, pursuant to a plan of reorganization which combined certain components of the Department of Wastewater Management, the department which previously administered the Wastewater System, with other administrative departments having compatible functions. The Department, among other things, is charged with the responsibility to administer the planning, design and construction of wastewater facilities, oversee the operation and maintenance of sewer lines, treatment plants and pumping stations, monitor the collection, treatment and disposal of wastewater, provide pumping of cesspools, provide solid waste processing, collection and disposal, promulgate rules and regulations as necessary to administer and enforce requirements established by law, and perform such other duties as may be required by law. The Department consists of four divisions: Environmental Quality, Wastewater Treatment and Disposal, Collection System Maintenance, and Refuse Collection and Disposal, plus an Office of Administrative Support. Department programs are funded from three major sources: wastewater programs are funded through the wastewater enterprise sewer fund, solid waste programs are funded through the solid waste enterprise solid waste fund, and storm water programs are funded through the City and County's General Fund.

Power to Fix and Collect Rates and Charges. By ordinance and resolution, the City Council requires that revenues of the Wastewater System be kept in the Sewer Fund and that the wastewater program shall be self-supporting. Consistent with such requirements, the Department is budgeted as a self-sustaining enterprise for the purpose of determining costs associated with providing wastewater services. Through the adoption of the annual operating and capital budgets, the revenue requirements and wastewater rates are reviewed to determine the adequacy of revenues to meet needs. Pursuant to the Act and the City Charter, the City Council has the power to impose, prescribe and collect rates, rentals, fees or charges for the use and services of, and the facilities furnished by, the Wastewater System so that the Wastewater System will be and remain self-sustaining. The rates, rentals, fees or charges imposed and prescribed are required to produce revenues which will be at least sufficient to pay debt

service on all revenue bonds issued for the purposes of the Wastewater System, including the Bonds, and including reserves therefor, to pay the costs of operation, maintenance and repair of the Wastewater System, and to carry out the covenants of all resolutions authorizing the issuance of revenue bonds for the purposes of the Wastewater System, including the Bond Resolution and the Second Bond Resolution. The rates and charges fixed and imposed by the City Council are not subject to approval by any federal or state regulatory bodies. Rates and charges are determined on the basis of a recommendation by the Director of Environmental Services and the Mayor, subject to approval by ordinance of the City Council. An ordinance requires three readings and a public hearing for enactment by the City Council.

Department Principal Officers

The principal officers of the Department include the Director, Deputy Directors and Executive Assistant. The following are brief biographies of the Department's principal officers:

Timothy E. Steinberger, Director. Mr. Steinberger served as the Director of the Department of Environmental Services from 2001 through 2002. In 2003, he was appointed as the Director of Design and Construction, City and County of Honolulu, where he served for the remainder of the Harris Administration. From 2005 to 2008, Mr. Steinberger was employed in the private sector by URS Corporation, as the Hawaii/Guam area manager. He returned to the Department of Environmental Services in 2009 as Director, bringing his previous experience as Director and Deputy Director of Environmental Services and, as a department employee involved in consent decree oversight and wastewater planning. Mr. Steinberger is a licensed Civil Engineer in the State of Hawaii and has a long history of public service in the wastewater arena. He has a Bachelor of Science degree in Mechanical Engineering from the University of Maryland and a Master of Science Degree in Mechanical Engineering from the University of Hawaii.

Manuel Lanuevo, Deputy Director. Mr. Lanuevo joined the Department of Environmental Services in January 2009 as Deputy Director. He is an Electrical Engineer who served with the State of Hawaii, Department of Transportation, Airports Division, Engineering Branch, from 1998 to 2009. Mr. Lanuevo holds a Bachelor of Science in Electrical Engineering from the Mapua Institute of Technology, Manila, Philippines. He is a licensed Professional Electrical Engineer, Philippines; Professional Engineer (Electrical), State of Hawaii; Certified Lighting Efficiency Professional (CLEP), Association of Energy Engineers; and a Leadership in Energy & Environmental Design, Accredited Professional, LEED AP, U.S. Green Building Council.

Ross S. Tanimoto, Deputy Director. Mr. Tanimoto became Deputy Director on April 19, 2007. Mr. Tanimoto has been with the Department of Environmental Services and its predecessor agencies since 1992 and has served as both the Assistant Chief, Division of Environmental Quality, and Branch Chief, Monitoring and Compliance Branch. He has a Master of Science Degree in Mechanical Engineering from California State University, Long Beach, and Bachelor of Science degrees in Mechanical Engineering and Meteorology from the University of Hawaii. Mr. Tanimoto is a registered Professional Engineer in Mechanical Engineering in the States of Hawaii and California.

Timothy A. Houghton, Executive Assistant. Mr. Houghton served as Executive Assistant for the Department of Wastewater Management from its creation on July 1, 1993, and has continued in that role with the Department of Environmental Services, except for the period from July, 2003, through December, 2004, when he served as Deputy Director of the Department. As Executive Assistant, among other things, Mr. Houghton is responsible for Department financial and personnel activities. Prior to that he worked on the Honolulu Rapid Transit Project and with the Department of Auditoriums. Mr. Houghton has a Bachelor of Arts degree from San Francisco State University and a Master of Science in Systems Management degree from the University of Southern California. Mr. Houghton is currently a member of the Board of Directors for the National Association of Clean Water Agencies, and previously served as its Clean Water Funding Issues Leader and as Vice Chair of its Utility Management Committee.

Department Work Force

The Department's current operating budget provides for 731 full-time equivalent employees in various managerial, clerical, engineering and operational positions in support of wastewater activities. This work force, with the exception of 18 excluded and four exempt employees, is represented by five separate bargaining

units—one each for blue-collar non-supervisory employees, blue-collar supervisory employees, white-collar non-supervisory employees, white-collar supervisory employees, and professional and scientific employees.

The City and County has collective bargaining agreements with each of the Hawaii Government Employees Association (“HGEA”), which represents the bargaining units for blue-collar supervisory, white-collar non-supervisory, white-collar supervisory, and professional and scientific employees, and United Public Workers (“UPW”), which represents the bargaining unit for blue-collar non-supervisory employees. Both agreements will expire on June 30, 2013.

Reference is made to “CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS – Employee Benefits” herein for a discussion of health care benefits, pension benefits and other post-employment benefits for which Department employees are eligible.

THE WASTEWATER SYSTEM

Introduction

As of June 30, 2012, the Wastewater System serviced approximately 144,300 separate accounts and a population of approximately 780,000, which is approximately 82% of the total population of the City and County based on the 2010 census. The population outside the service area is composed primarily of military bases with on-site treatment facilities and one private system. The remainder of the population is situated in widely distributed rural communities with wastewater service provided through individual wastewater treatment systems, including cesspools, septic tanks, and private systems serving multi-unit complexes and resorts. The service area covers nearly 600 square miles. The customer base includes the residential population, business and industrial users, and other users located in the service area. Of the approximately 144,300 accounts, approximately 136,900 are residential, which generate approximately 70.5% of the total revenue from sewer service charges; the remaining approximately 7,400 are non-residential, which generate approximately 29.5% of the total revenue from sewer service charges. See “CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS.” In Fiscal Year 2012, the average volume of wastewater processed by the Wastewater System was approximately 100 MGD. The average volume of wastewater processed by private systems during the same period was approximately 4.2 MGD.

General Description of Existing Facilities

The Wastewater System serving the island of Oahu is divided into eight wastewater basins for planning purposes: East Mamala Bay, West Mamala Bay, Kailua/Kaneohe/Kahaluu, North Oahu (West), North Oahu (East), Central Oahu, Waianae and Waimanalo. Each basin is served by a major wastewater treatment plant (“WWTP”). The function of each WWTP is to treat wastewater by removing or reducing organic and inorganic materials to levels that satisfy federal and state permit requirements for the discharge of such wastewater into the ocean, streams, reservoirs or injection wells. In addition to wastewater treatment plants, the Wastewater System includes collection, pumping and other related facilities with approximately 2,100 miles of pipe, 70 pumping stations, and four preliminary treatment facilities.

A description of the wastewater basins and major facilities is as follows:

East Mamala Bay. The largest and the most densely populated basin is East Mamala Bay. Approximately 361,500 people reside in East Mamala Bay, representing approximately 41% of the resident population of the entire island. The basin is served by the Sand Island WWTP, a primary treatment plant, and the largest treatment facility in the Wastewater System in terms of wastewater flow. The treatment plant has a primary treatment capacity of 94.5 MGD, and in Fiscal Year 2012, average daily flows were 58.3 MGD.

West Mamala Bay. West Mamala Bay is the second largest basin and includes Ewa, Central Oahu as far north as Mililani, and the Halawa to Pearl City area. The population of the basin area is approximately 292,500, or 33% of the estimated population of Oahu. The basin is served by the Honouliuli WWTP, which is the second largest treatment plant in the Wastewater System, with a primary treatment design capacity of 40 MGD and a secondary treatment design capacity of 13 MGD. In Fiscal Year 2012, average daily flows were 25.2 MGD. The

secondary treated effluent is provided to a recycled water facility. The City and County will be requesting proposals for an energy savings performance contract for the Honouliuli WWTP during the second half of 2012. This effort, which would include a co-generation facility, should significantly improve the energy independence of the facilities.

Kailua/Kaneohe/Kahaluu. The third largest basin includes the communities of Kailua, Kaneohe, and Kahaluu and surrounding areas in the eastern part of the island. The eastern portion of Oahu is also referred to as the Windward basin area. The basin area population is approximately 104,100, or approximately 12% of the island's population. The basin is served by the Kailua Regional WWTP, the third largest treatment plant in the Wastewater System. The Kailua WWTP has a design capacity of 16 MGD and in Fiscal Year 2012 average daily flows were approximately 10.3 MGD. In July 2012, the City and County entered into an energy savings performance contract for the Kailua Regional WWTP that will include the installation of a co-generation facility. This effort will significantly increase the energy independence of the facilities.

North Oahu (East and West). Most of the North Oahu area does not have centralized sewer service though there are three small facilities, including the Kahuku WWTP (0.4 MGD capacity, secondary), the Pa'alaa Kai WWTP (0.15 MGD capacity, secondary), and the formerly privately operated Laie Water Reclamation Facility (WRF) (0.9 MGD capacity, tertiary) which the City and County began operating on November 1, 2006. In Fiscal Year 2012, these facilities treated estimated average daily flows of 0.18 MGD, 0.08 MGD and 0.44 MGD, respectively.

Central Oahu. Central Oahu (with a population of approximately 37,500, including military bases and the communities of Wahiawa and Whitmore Village) is served by the Wahiawa WWTP (2.6 MGD capacity, secondary with sand filtration). The estimated average daily flows were 1.64 MGD in Fiscal Year 2012.

Waianae. The Waianae basin serves the west coast of the island, which has a population of approximately 44,500. The Waianae WWTP has the capacity to process 5.5 MGD at a secondary level. Estimated average daily flows were 3.33 MGD in Fiscal Year 2012.

Waimanalo. The Waimanalo basin is served by the Waimanalo WWTP, a secondary plant with sand filtration and a capacity to process an average daily flow of 1.155 MGD. The City and County acquired ownership of the plant from the State of Hawaii in June 2012 after having operated the plant for the State since its opening. The WWTP serves the Waimanalo community, with a population of approximately 10,000. In Fiscal Year 2012 average daily flows were estimated at 0.54 MGD.

The Sand Island WWTP, the Honouliuli WWTP and the Kailua Regional WWTP are the three largest WWTPs. The remaining WWTPs provide treatment of wastewater to the rest of the island. Though the six basin areas of Central Oahu, North Oahu (East and West), Waianae, and Waimanalo comprise the majority of the geographical area of the island, the population density is much lower in comparison to the East and West Mamala Bay and the Kailua/Kaneohe/Kahaluu basin areas. The combined population of the six basin areas is less than 15% of the total population of Oahu. The total design capacity of the WWTPs in the six basin areas is approximately 9 MGD and the wastewater flow in Fiscal Year 2012 was approximately 6.2 MGD. A private wastewater system provides collection and treatment for the community of Hawaii Kai. The Hawaii Kai system has an average flow of 4.2 MGD, including flows from the City and County's Kuliouou Wastewater Pumping Station ("WWPS"). The system processes about 4% of the average flow of the City and County's Wastewater System.

Environmental Compliance

The WWTPs and other facilities operated by the Department are governed either by National Pollutant Discharge Elimination System (NPDES) permits or by State of Hawaii Department of Health Underground Injection Control or Wastewater Management permits.

The NPDES permits for the City and County's two largest treatment plants, Sand Island WWTP and Honouliuli WWTP, expired on November 3, 2003 and June 5, 1996, respectively, and have been administratively extended. Applications for new permits for both plants are pending with the State of Hawaii Department of Health. The NPDES permit for the Kailua WWTP expired on June 30, 2009 and has been administratively extended. The NPDES permit for the Waianae WWTP was issued on May 26, 2011, and was

effective June 26, 2011. The City and County is contesting certain permit conditions, which have been stayed pending further review and consideration by the State of Hawaii Department of Health.

Currently in effect are two consent orders between the State of Hawaii Department of Health and the City and County relating to air quality at the Sand Island and Kailua WWTPs. The consent orders each provide for the payment of stipulated penalties when air quality limits are exceeded.

- The Sand Island Air Consent Order is effective until December 31, 2012. In Fiscal Year 2010, \$1,251,000 was paid in stipulated penalties, including a \$950,000 lump sum settlement for prior year violations. In Fiscal Years 2011 and 2012, \$283,500 and \$28,500, respectively, were paid in stipulated penalties.
- The Kailua Air Consent Order is effective until December 31, 2012. In Fiscal Years 2010, 2011 and 2012, \$2,000, \$98,000 and \$116,000, respectively, were paid in stipulated penalties.
- The Honouliuli Air Consent Order was terminated February 13, 2012. No stipulated penalties were paid in Fiscal Years 2010 - 2012.

In addition, during the course of operating the Wastewater System, occasional noncompliances with other permits, laws, and regulations occur, including:

- Wastewater spills, which are subject to reporting pursuant to the NPDES permits, the 2010 Consent Decree, and State of Hawaii Department of Health regulations.
- Exceedances of interim effluent limits set forth in the 2010 Consent Decree for the Sand Island and Honouliuli WWTPs, which are reported monthly with the discharge monitoring reports for the plants.
- Exceedances of effluent limits set forth in the NPDES permits for the WWTPs, which are reported monthly with the discharge monitoring reports for the plants.

These are not the subject of existing or threatened enforcement.

The City and County is complying with the terms of a consent decree entered on December 17, 2010 by the United States District Court to resolve the claims of the United States Environmental Protection Agency (“EPA”), the State of Hawaii Department of Health (“DOH”), and various non-governmental entities (collectively, the “NGOs”) related to the City and County’s compliance with the federal Clean Water Act and State law. The consent decree allows ten years for completion of work on the collection system, 14 years for the upgrade of the Honouliuli WWTP to secondary treatment, and up to 25 years, with the possibility of a three-year extension, for the upgrade of the Sand Island WWTP to secondary treatment. The City and County is expected to incur approximately \$3.5 billion in capital costs through Fiscal Year 2020 (which coincides with the term of the collection system portion of the consent decree). This amount will largely be spent on the collection system, and much of it will go toward work that was already required or planned. This amount also includes a portion of the costs of treatment plant upgrades at Sand Island and Honouliuli. Costs for the treatment plant upgrades include approximately \$550 million to replace primary treatment facilities at both plants and \$1.15 billion to upgrade the plants to secondary treatment plants.

In March 2012, after providing an opportunity for public comment, the court approved an order at the request of all of the parties to modify the consent decree to substitute construction of a Kaneohe-Kailua gravity tunnel and an associated influent pump station for the construction of a new force main between the Kaneohe pump station and its Kailua treatment plant and to eliminate requirements to proceed with and maintain storage projects in Kaneohe and Kailua. The court order was the culmination of a year of negotiations among the parties after the EPA and DOH determined that the tunnel proposal offered potential environmental benefits.

See “CAPITAL IMPROVEMENT PROGRAM” herein.

Projected Customer Growth

As shown on Tables 1 and 2 below, the resident population in Oahu, the area served by the Wastewater System, is projected to grow modestly through 2035. The average annual population increase between 2010 and 2035 is projected to be 5,084, or roughly 0.5% annually. Consequently, population growth is not a significant driver in the 2001-2020 Capital Improvement Program.

The majority of growth between the years 2010 and 2035 is expected to occur in East and West Mamala Bay. Of the total population growth projected to occur during this period, approximately 93,000, or 73%, is expected to take place in West Mamala Bay, and approximately 31,000, or 24%, is expected to occur in East Mamala Bay.

Table 1

Actual and Projected Resident Population by Basin, Oahu, 2005-2035

Basin	2005	2010	2015	2020	2025	2030	2035
Kahuku	8,457	8,254	8,472	8,636	8,756	8,844	8,895
Laie	6,025	5,902	6,120	6,263	6,394	6,492	6,557
Kailua-Kaneohe	106,656	104,122	104,954	105,026	103,894	102,334	100,849
Waimanalo	10,348	10,087	10,677	11,092	11,081	10,909	10,745
East Mamala Bay	359,196	361,476	371,211	376,928	382,307	387,511	392,277
West Mamala Bay	279,237	292,468	308,355	328,370	348,633	367,765	385,399
Waianae	43,923	44,490	45,518	46,776	47,847	48,667	49,217
Wahiawa	38,330	37,504	37,524	36,973	36,462	36,028	35,662
North Shore	<u>18,118</u>	<u>17,724</u>	<u>18,325</u>	<u>18,770</u>	<u>19,126</u>	<u>19,375</u>	<u>19,517</u>
Total	870,290	882,027	911,156	938,834	964,500	987,925	1,009,118

Source: City and County of Honolulu, Department of Environmental Services; City and County of Honolulu, Department of Planning and Permitting, 2009.

Table 2

Actual and Projected Percentage Growth in Resident Population by Basin, Oahu, 2005-2035

Basin	2005-2010		2010-2035	
	Average Annual Change	Percent of Total Growth¹	Average Annual Change	Percent of Total Growth¹
Kahuku	-41	-1.7%	26	0.5%
Laie	-25	-1.0	26	0.5
Kailua-Kaneohe	-507	-21.6	-131	-2.6
Waimanalo	-52	-2.2	26	0.5
East Mamala Bay	456	19.4	1,232	24.2
West Mamala Bay	2,646	112.7	3,717	73.1
Waianae	113	4.8	189	3.7
Wahiawa	-165	-7.0	-74	-1.4
North Shore	<u>-79</u>	<u>-3.4</u>	<u>72</u>	<u>1.4</u>
Total	2,347	100.0%	5,084	100.0%

¹ Totals may not add due to rounding.

Source: City and County of Honolulu, Department of Environmental Services; City and County of Honolulu, Department of Planning and Permitting, 2009.

The Department has developed the 2013-2017 Capital Improvement Program, the 2013-2020 Capital Improvement Program and the 2001-2020 Capital Improvement Program, in part to provide new facilities which will be required to reliably serve projected growth in the number of customers served by the Wastewater System. See “CAPITAL IMPROVEMENT PROGRAM” herein.

CAPITAL IMPROVEMENT PROGRAM

The Department staff manages and updates at least annually a long-range Capital Improvement Program (the “CIP”) to achieve several goals. The CIP is a long-range planning tool used to estimate project costs and timing of expenditures over a 20-year period, currently through 2020. The 2013-2017 Capital Improvement Program and the 2013-2020 Capital Improvement Program are part of this 20-year plan. The Department develops the CIP with the objective of providing safe and reliable facilities to process the wastewater discharge of all sewer customers throughout Oahu. CIP projects are needed to meet the requirements of the 2010 consent decree, for the rehabilitation of existing facilities, the expansion of capacity to accommodate growth, and the improvement of facilities and processes.

Criteria for Ranking CIP Projects by Priority

The Department considers the CIP to be a flexible tool which allows the Department staff to determine the impact of adjusting the phasing and priority of projects. As of July 2012, the long-range CIP covering the 20-year period from 2001 through 2020 included a list of projects with estimated appropriations totaling approximately \$4.9 billion (in inflated dollars). Many of the projects shown in the CIP may not begin in the year specified or at all if needs change. The Department staff has developed a policy for ranking the CIP projects by priority to determine order and timing of projects. The policy is shown in the following table, with the highest priority criteria listed first:

Table 3

Priority for CIP Projects

<u>Priority Class</u>	<u>Description</u>
I	Safety and public health – immediate
II	Protection of the environment – immediate
III	Permit and regulatory compliance – immediate
IV	Completion of ongoing projects
V	Preventive
VI	Funding requirements
VII	System expansion
VIII	Other

The rankings are intended as guidelines for CIP project planning, not as hard and fast rules. A project considered in a low priority class may be upgraded to a high priority position in the CIP due to any number of factors. For example, if a service area is very close to reaching and surpassing the capacity of its wastewater facilities, the expansion of the system in that area rises in priority. System expansion can entail projects which affect permit and regulatory compliance, protection of the environment, or safety and public health. Through the use of these guidelines combined with analyses of funding and other resource constraints, Department staff can develop a CIP which best satisfies the needs of the Department customer base. The 2001-2020 Capital Improvement Program was developed using these CIP guidelines and constitutes the current 20-year CIP.

Classification of CIP Projects

The City and County expects to use various funding sources to finance CIP projects: (i) proceeds of Senior Bonds and Subordinate Obligations previously issued and currently available, (ii) proceeds of additional Senior Bonds (including the Series 2012 Bonds) and Subordinate Obligations (currently expected to consist primarily of State Revolving Fund loans) to be issued, (iii) the Net Revenues of the Wastewater System, and (v) Wastewater System Facility Charges. Revenues from Wastewater System Facility Charges are intended to cover a

portion of the project expenditures relating to expansion of the Wastewater System to serve future growth in the number of customers. Revenues from sewer service charges are earmarked for the expenditures resulting from rehabilitation or upgrade of the wastewater system for existing users. To effectively determine the costs to be recouped by these respective charges, the Department makes a fair estimate of the share of costs attributable to expansion and rehabilitation. Where an improvement benefits both existing and future users, the Department identifies the relative portion allocable to each. The classes of CIP projects include system expansion, system upgrade, and replacement/rehabilitation.

System expansion: Improvements which increase the design capacity of treatment, transmission, or support facilities and equipment to accommodate new or future growth. Future users would finance system expansion project costs partially through revenues from Wastewater System Facility Charges.

System upgrade: Improvements which upgrade the service level standard. For example, an upgrade to secondary treatment processes where only primary treatment processes were used. To fairly allocate costs between future and existing users, the portions of upgrade costs attributable to expansion and current use must be identified.

Replacement/rehabilitation: Improvements which replace or rehabilitate facilities serving existing development. Existing users pay the costs of replacement and rehabilitation projects through sewer service charges.

2013-2017 Capital Improvement Program

To meet certain consent decrees entered into by the Department with Federal and State regulatory bodies and to reliably serve projected growth in the number of customers served by the Wastewater System, the Department has developed and adopted the 2013-2017 Capital Improvement Program. The additions and improvements to the Wastewater System, the costs of which are to be financed in part from the proceeds of the Series 2012 Bonds, are part of the 2013-2017 Capital Improvement Program. The City and County expects to appropriate approximately \$1.7 billion (in inflated dollars) for the 2013-2017 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2013-2017 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2013-2017 Capital Improvement Program are set forth in the following tables.

Table 4
Projected Appropriations for
2013-2017 Capital Improvement Program
(Dollars in Thousands)

<u>Project</u>	<u>Projected Cost</u>
CIP Projects	\$1,630,427
Project Management	41,068
Capital Equipment	<u>42,470</u>
Total	\$1,713,965

Table 5
Expected Sources of Funding for
2013-2017 Capital Improvement Program
(Dollars in Thousands)

<u>Funding Source</u>	<u>Projected Amount</u>
Subordinate Obligations ¹	\$ 101,300
Facility Charges ²	49,931
Net Revenues ³	372,958
Additional Revenue Bonds	<u>1,189,776</u>
Total	\$1,713,965

¹ State Revolving Fund loan proceeds.

² Fees collected for new Wastewater System connections.

³ Cash funded CIP.

2013-2020 Capital Improvement Program

The 2013-2020 Capital Improvement Program is part of the 2001-2020 Capital Improvement Program. The City and County expects to appropriate approximately \$2.6 billion (in inflated dollars) for the 2013-2020 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2013-2020 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2013-2020 Capital Improvement Program are set forth in the following tables.

Table 6
Projected Appropriations for
2013-2020 Capital Improvement Program
(Dollars in Thousands)

<u>Project</u>	<u>Projected Cost</u>
CIP Projects	\$2,482,889
Project Management	68,905
Capital Equipment	<u>71,142</u>
Total	\$2,622,936

Table 7
Expected Sources of Funding for
2013-2020 Capital Improvement Program
(Dollars in Thousands)

<u>Funding Source</u>	<u>Projected Amount</u>
Subordinate Obligations ¹	\$ 131,300
Facility Charges ²	83,629
Net Revenues ³	682,958
Additional Revenue Bonds	<u>1,725,049</u>
Total	\$2,622,936

¹ State Revolving Fund loan proceeds.

² Fees collected for new Wastewater System connections.

³ Cash funded CIP.

2001-2020 Capital Improvement Program

The 2001-2020 Capital Improvement Program is the current twenty-year CIP the Department has undertaken. The City and County expects to appropriate approximately \$4.9 billion (in inflated dollars) for the

2001-2020 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2001-2020 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2001-2020 Capital Improvement Program are set forth in the following tables.

Table 8

**Projected Appropriations for
2001-2020 Capital Improvement Program
(Dollars in Thousands)**

<u>Project</u>	<u>Projected Cost</u>
CIP Projects	\$4,660,884
Project Management	136,411
Capital Equipment	<u>117,815</u>
Total	\$4,915,110

Table 9

**Expected Sources of Funding for
2001-2020 Capital Improvement Program
(Dollars in Thousands)**

<u>Funding Source</u>	<u>Projected Amount</u>
Subordinate Obligations ¹	\$ 302,269
Facility Charges ²	104,260
Net Revenues ³	796,384
Prior Bonds ⁴	83,985
Revenue Bonds ⁵	<u>3,628,212</u>
Total	\$4,915,110

¹ State Revolving Fund loan proceeds.

² Fees collected for new Wastewater System connections.

³ Cash funded CIP.

⁴ Consists of reimbursable general obligation bonds issued prior to adoption of Bond Resolution.

⁵ Includes \$1,798,795,000 of proceeds from revenue bonds previously issued and \$1,998,759,000 of proceeds from additional revenue bonds expected to be issued in the future.

HISTORICAL AND PROJECTED REVENUES, EXPENSES AND COVERAGES

Since its initial revenue bond issue in 1998, the Department has exceeded coverage requirements under the Bond Resolution annually. Table 10 below sets forth historical (actual and budgeted) revenues, expenses and debt service coverage of the Wastewater System for Fiscal Years 2010 through 2012 and projected revenues, expenses and debt service coverage of the Wastewater System for Fiscal Years 2013 through 2017.

Table 10

Historical and Projected Revenues, Expenses and Debt Service Coverages
(Dollars in Thousands)
(Fiscal Year Ending June 30)

	<u>Actual</u>		<u>Budgeted</u>		<u>Projected</u>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues ¹								
Sewer Service Charges ²	\$299,502	\$343,660	\$331,518	\$345,052	\$360,107	\$375,809	\$395,773	\$428,126
Interest Earnings ³	2,265	374	353	7,155	10,820	10,933	11,119	11,575
BABs/RZEDBs Subsidy ⁴	0	0	2,176	6,010	5,528	5,528	5,528	5,528
Other Revenues ⁵	2,219	154	166	167	168	169	170	171
Total Revenues	\$303,985	\$344,188	\$334,213	\$358,384	\$376,623	\$392,438	\$412,590	\$445,399
Operating Expenses ⁶	\$105,150	\$104,317	\$137,966	\$155,901	\$158,192	\$163,778	\$169,394	\$174,343
Net Revenues	\$198,835	\$239,870	\$196,247	\$202,482	\$218,431	\$228,660	\$243,195	\$271,057
Annual Debt Service								
Senior Lien Bonds ⁷	\$ 38,184	\$ 58,598	\$ 65,042	\$ 76,122	\$ 85,842	\$100,471	\$117,814	\$133,884
D/S Coverage ⁸	5.21x	4.09x	3.02x	2.66x	2.54x	2.28x	2.06x	2.02x
Senior and Junior Lien Bonds ^{7,9}	\$ 64,324	\$ 78,516	\$ 99,507	\$112,190	\$121,914	\$136,545	\$153,888	\$169,955
D/S Coverage ⁸	3.09x	3.06x	1.97x	1.80x	1.79x	1.67x	1.58x	1.59x
Total Obligations ¹⁰	\$ 92,048	\$102,371	\$120,289	\$134,637	\$143,367	\$155,778	\$173,740	\$190,495
D/S Coverage ⁸	2.23x	2.37x	1.71x	1.57x	1.59x	1.53x	1.46x	1.48x

¹ Does not include Wastewater System Facility Charges, which are pledged under the Bond Resolution but are not defined in Revenues.

² Sewer service charges increased by 18% in Fiscal Year 2010, 15% in Fiscal Year 2011, and 4% in Fiscal Year 2012. Projections reflect approved increases of 4% in each of Fiscal Years 2013, 2014, and 2015, 5% in Fiscal Year 2016, and 8% in Fiscal Year 2017.

³ The interest rate used to project earnings is 2% for Fiscal Year 2013 and 3% for each fiscal year thereafter.

⁴ Includes Refundable Credits in the form of federal interest subsidies received with respect to the Series 2009B and 2009C Bonds and Subseries 2010B Bonds issued under the Bond Resolution. Under the current provisions of the Bond Resolution, such interest subsidies are not treated as Revenues in the year of receipt for purposes of the rate covenant, additional bonds test or other calculations of the ratio between Net Revenues and Debt Service. However, if initially deposited in the Rate Stabilization Account and subsequently transferred to the Sewer Fund within 90 days following the end of a fiscal year, such interest subsidies may be treated as Revenues in the year of the transfer. See "SECURITY FOR THE BONDS – Proposed Amendments to Bond Resolution" for a discussion of certain proposed amendments to such provisions.

⁵ Higher other revenues in Fiscal Year 2010 reflect overtime reimbursement from contractors for overtime inspection of construction projects. As a widely variable amount, revenue projections are maintained at a lower level going forward.

⁶ Operating expense projections reflect both anticipated operational changes and beyond Fiscal Year 2013 are inflated at 3% per year for expenses, 5% in Fiscal Year 2014 for salary costs, 6% in Fiscal Year 2014 for fringe benefit costs, and 3% per year thereafter for all personnel costs. Operating expenses do not include debt service, depreciation, or cash expenditures on capital improvements. Cash expenditures on capital improvements were between \$11.5 and \$12.5 million for Fiscal Years 2010 and 2011, and increased to approximately \$70 million in Fiscal Years 2012 and 2013 reflecting funds generated through previous years coverage earnings.

⁷ Includes actual debt service for outstanding Senior Bonds, estimated debt service for Series 2012 Bonds, and assumes a 5.75% interest rate for additional issues of Senior Bonds through Fiscal Year 2014 and a 5.5% interest rate for Senior Bonds issued thereafter.

⁸ Minimum debt service coverage requirements are: Senior Lien Bonds – 1.2x; Senior and Junior Lien Bonds – 1.1x; Total Obligations – 1.0x. Debt service coverage for Total Obligations includes revenue from System Facility Charges. System Facility Charge revenues are shown in Table 28.

⁹ Includes actual debt service for outstanding Junior Bonds.

¹⁰ Includes actual debt service for existing obligations including Senior and Junior Bonds; Reimbursable General Obligation Bonds; State Revolving Fund loans; and any other debt obligations and assumes future interest rates for Revenue Bonds as indicated above.

CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS

Management's Discussion of Financial Performance

In the period since the wastewater program became fully self-supporting in 1993, the program's financial position has been consistently strong. The change to enterprise fund status in 1998 further strengthened the position of the utility through clearer definition of enterprise assets, understanding of their current value, and clarity in responsibilities. The sale of the initial wastewater revenue bonds in 1998, accompanied by a strong debt and

financial policy adopted by the City Council, served to insure a continuing commitment to a strong financial posture for the wastewater enterprise.

In 2005, the City and County adopted a rate ordinance providing for increases in wastewater rates and future rate adjustments for the period July 1, 2005 through June 30, 2011, and in 2007 adopted increases to those rates for the period July 1, 2007 through June 30, 2011. In 2011, the City and County adopted a further rate ordinance providing for increases in wastewater rates and future rate adjustments for the period from July 1, 2011 through June 30, 2017. In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to wastewater rates from July 1, 2012 through June 30, 2017. See “Rates and Charges” below. Revenues have been sufficient throughout the period to meet all operation and maintenance and debt service requirements, including coverage. The significant base component of the rate structure and growth in customers prevents changes in water use from having a major impact on revenues. The sewer service charge program will remain strong reflecting the high residential component of wastewater customers and the lack of any single large commercial customer.

The Wastewater System Facility Charge accounts for approximately 1.2% of revenues, is solely dedicated to expansion, and is not considered when calculating debt service coverage for the Bonds and Subordinate Obligations. Wastewater System Facility Charge revenue peaked in Fiscal Year 2006 representing construction occurring in Fiscal Year 2007. Revenue fluctuations are due largely to the timing of major development projects. This revenue source reflects the limited growth of service area population and generally only the redistribution of that population. As such, it is not considered a major source of funds on which to base financial capability.

Efforts continue to control expenses, however, cost escalation, additional facilities, and increased operational requirements have resulted in higher operating budgets. Continuing analyses of operational procedures and increased automation opportunities are expected to help control expenses in the long term.

Net revenues have increased through Fiscal Year 2011, reflecting increased revenue from rate increases. The enterprise has continued to maintain a surplus throughout that period. Revenues are expected to exceed projections for Fiscal Year 2012 and the Department expects to meet or exceed revenue projections for Fiscal Year 2013. This consistency in revenues is due to the lack of reliance on a specific business or industry as a major source of revenue. The residential customer class continues to pay water/sewer bills without a significant increase in delinquencies. Further, revenue projections are conservative and have been consistently exceeded in previous years.

As part of the commitment to ensure the financial strength of the Wastewater System, the City Council adopted Ordinance No. 05-006 on March 31, 2005, pledging not to transfer Sewer Fund monies to the City and County’s General Fund.

In the opinion of the Department, the financial position of the Wastewater System is strong, with a substantial reserve balance which provides reasonable protection against unforeseen events and financial flexibility for the future. Financial planning continues to identify the best alternative to maintain a strong financial posture while providing quality service to the customer and the community at a reasonable price. City Council and administration policies support the continuing revenue levels necessary to provide for current and future requirements.

See Appendix A, “Economic and Demographic Factors,” for a discussion of certain economic conditions that could potentially impact the City and County’s revenues.

Employee Benefits

Set forth below is certain information regarding health care benefits, pension benefits and other post-employment benefits for which Department employees are eligible. Over the last ten years, the Department has accounted for an average of 6.4% of the City and County’s annual costs for such benefits.

Health Care Benefits. All regular employees of the City and County, including Department employees, are eligible for coverage under health plans provided through the State of Hawaii Public Employer-Union Health Benefit Trust Fund (the “Trust Fund”), which was established in 2003 to design, provide and

administer health and other benefit plans for State and county employees, retirees and their dependents. The Trust Fund is administered by a ten-member Board of Trustees (the “Board”) appointed by the Governor comprised of five union representatives and five management representatives. The Board is responsible for determining the nature and scope of health plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, ruling on eligibility and establishing management policies for the Trust Fund and overseeing Trust Fund activities. The Trust Fund currently provides medical, prescription drug, dental, vision, chiropractic and group life benefits. Benefits with respect to regular employees are funded by a combination of employer contributions set by collective bargaining agreement or by executive order (with respect to non-union employees) and employee contributions through payroll deductions. Benefits for retirees are funded by a statutory formula.

In recent years, public and private health plan providers nationwide and in Hawaii, including the Trust Fund, have experienced substantial increases in health care costs. In the case of the Trust Fund, the current fiscal situation faced by the State and county employers has made it extremely difficult for the employers to increase employer contributions for health benefits in order to maintain the historical employer-employee contribution ratio. In the past, the Board has attempted to mitigate health plan rate increases by modifying benefits, and employees have been required to bear a larger share of the increased rates. The City and County cannot predict what actions will be taken (including changes to future plan benefits or employer-employee contribution rates) to address the impact of rising health care costs on the Trust Fund or what financial effects such changes may have on the City and County.

Pensions. All regular employees of the City and County are covered under the Employees’ Retirement System of the State (referred to herein as the “State Retirement System” or the “System”), a cost sharing, multiple employer defined benefit pension plan that provides retirement, disability and death benefits funded by employee contributions and by employer contributions. This section contains certain information relating to the System. The information contained in this section is primarily derived from information produced by the System, its independent accountant and its actuary. The City and County has not independently verified the information provided by the System, its independent accountant and its actuary, and makes no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the System and most recent valuation report of the System may be obtained by contacting the System. The comprehensive annual financial reports of the System are also available on the State’s website at <http://ehawaii.gov>, and other information about the System are available on the System’s website at <http://ers.ehawaii.gov/>. Such documents and other information are not incorporated herein by reference.

The System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the System’s Board of Trustees, the System’s benefit structure or the actuarial method used by the System) will reflect the actual results experienced by the System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System’s actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are “forward- looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the System), one or more of which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. See “—General Information” and “— Actuarial Valuation” herein for more information on the actuarial assumptions used by the System.

Much of the disclosure set forth in this “State Employees’ Retirement System” section is based on the Report to the Board of Trustees on the 86th Annual Actuarial Valuation for the Year Ended June 30, 2011 (the “2011 Valuation Report”), which is the most recent valuation report of the System. The information presented in the 2011 Valuation Report was based on actuarial assumptions adopted by the System’s Board of Trustees in December 2010. As described more fully under “—General Information” below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. The new benefit structure does not apply to any employees currently covered by the System. Therefore, the liabilities disclosed in the 2011 Valuation Report prepared by the System’s actuary do not yet reflect the impact of the new benefit provisions. However, projections showing the long-term impact of both

the increased employer contributions and the change in benefits for employees first hired after June 30, 2012 are included in the 2011 Valuation Report.

Reference is made to “—*Recent Developments*” below for a discussion of recent Hawaii legislation to reduce the unfunded actuarial accrued liability of the State Retirement System by limiting the impact of the practice (known as “spiking”) of inflating employees’ average final compensation in order to increase pension benefits. Also included is a discussion of the Government Accounting Standards Board’s Statement No. 67, Financial Reporting for Pension Plans (effective for reporting periods beginning after June 15, 2013), and Statement No. 68, Accounting and Financial Reporting for Pensions (effective for fiscal years beginning after June 15, 2014).

General Information

The System began operation on January 1, 1926. The System is a cost sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System’s plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost-sharing plan, the System does not allocate its liabilities among participating employers. The City and County’s contribution to the System for the last five Fiscal Years, exclusive of costs for employees of the Board of Water Supply, was \$67,500,000 for 2007, \$73,000,000 for 2008, \$88,600,000 for 2009, \$96,700,000 for 2010, and \$90,100,000 for 2011, including amortization of a portion of prior service costs in each such year. Contributions are budgeted at \$96,852,000 for Fiscal Year 2012.

The statutory provisions of HRS Chapter 88 govern the operation of the System. Responsibility for the general administration of the System is vested in a Board of Trustees, with certain areas of administrative control being vested in the Department of Budget and Finance. The Board of Trustees consists of eight members: the Director of Finance of the State, ex officio; four members of the System (two general employees, one teacher, and one retiree) who are elected by the members and retirees of the System; and three citizens of the State (one of whom shall be an officer of a bank authorized to do business in the State, or a person of similar experience) who are appointed by the Governor and may not be employees of the State or any county. All contributions, benefits and eligibility requirements are established by statute, under HRS Chapter 88, and may only be amended by legislative action.

Prior to 1984, the System consisted of only a contributory plan. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan provides for reduced benefits and covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The minimum service required for retirement eligibility is five years of credited service under the contributory plan and ten years of credited service under the noncontributory plan. Both the contributory and noncontributory plans provide a monthly retirement allowance based on the employee’s age, years of credited service, and average final compensation (the “AFC”). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971 or the three highest paid years of service, excluding the vacation payment (whichever is higher). The AFC for members hired after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new defined benefit contributory plan (the “Hybrid Plan”) was established pursuant to Act 179, SLH 2004. Members in the Hybrid Plan are eligible for retirement with full benefits at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the Hybrid Plan. Most new employees hired from July 1, 2006 were required to join the Hybrid Plan.

In December 2010, the System’s actuary completed an Actuarial Experience Study for the five-year period ended June 30, 2010 (the “2010 Experience Study”). In Fiscal Year 2011, based in part on the results of the Experience Study, the Legislature acted to limit the growth of the State’s pension liabilities by passing Act 163, SLH 2011. This Act, effective July 1, 2012, enacts certain changes to the funding of the System and the

benefit structure for new members in all plans. Funding changes include increasing the statutorily required employer contribution rates (see “—Funding Status” below). Benefit changes for new members include increasing the age and service requirements for retirement eligibility, reducing the retirement benefit multiplier and reducing the interest rate credited to employee contributions to 2%. The change in the interest rate credited to employee contributions to 2% is for new members in the Hybrid Plan and Contributory Plan hired on or after July 1, 2011. All other benefit changes are effective for new members hired on or after July 1, 2012. Act 163, SLH 2011, also reduced the investment yield rate assumption for Fiscal Year 2011 from 8% to 7.75% and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the System, the Board of Trustees adopted the assumption recommendations set forth in the 2010 Experience Study, including continuing the investment yield rate assumption of 7.75%.

In Fiscal Year 2011, the Legislature acted to improve and protect the System’s funded status by placing a moratorium on the enhancement of benefits. Act 29, SLH 2011, provides that there shall be no benefit enhancement for any group of members until the actuarial value of the System’s assets is 100 percent of the System’s actuarial accrued liability.

As of March 31, 2010, the contributory plan covered 7,035 active employees or 10.7% of all active members of the System, the noncontributory plan covered approximately 21,268 active employees or 32.3%, and the Hybrid Plan covered 37,587 active members or 57.0%. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

As of June 30, 2011, the System’s membership comprised approximately 65,310 active employees, 6,649 inactive vested members and 39,689 pensioners and beneficiaries. The following table shows the number of active members, inactive members and retirees and beneficiaries of the System as of June 30, 2010 and 2011:

Table 11

STATE RETIREMENT SYSTEM MEMBERSHIP

<u>Category</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Active	65,890	65,310
Inactive	6,895	6,649
Retirees and beneficiaries	38,441	39,689
Total	111,226	111,648

Funded Status

Like most public pension funds in the United States, the System was significantly impacted by the severe downturn in the investment markets during Fiscal Year 2009. Based on the actuarial valuation as of June 30, 2011, the System’s underfunded status has increased significantly because of continued recognition of market investment losses and changes to the actuarial assumptions. However, the System had a partially offsetting liability experience gain which was caused primarily by lower than expected salary increases. The unfunded actuarial accrued liability (the “UAAL”) as of June 30, 2011 was \$8.154 billion. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 19.70% for police and fire employees and 15.00% for all other employees, the future contribution rates established in statute (see “—Funding Policy” below), and the new benefit tier for employees hired after June 30, 2012, the actuary has determined that the remaining amortization period is 25 years. Because this period is less than 30 years (the maximum period specified by Section 88-122(e)(1), Hawaii Revised Statutes), the financing objectives of the System are currently being realized. Section 88-122(e)(1), Hawaii Revised Statutes, provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See “—Funding Policy” below for information on increases in the employer contribution rates and benefits changes.

Funding Policy

Prior to Fiscal Year 2006, the System was funded on an actuarial reserve basis. Actuarial valuations were prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In earlier years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, SLH 1997, amended Section 88-107, Hawaii Revised Statutes, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. For those two valuations, the investment earnings in excess of a 10% actuarial return was to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122, Hawaii Revised Statutes, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund was comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement was determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation was paid during the third fiscal year following the valuation date, *e.g.*, the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the Fiscal Year ended June 30, 2001. The actuarial cost method used to calculate employer contributions was changed in 1997 by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions were determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation (15.75% for their police officers, firefighters, and correction officers and 13.75% for other employees) effective July 1, 2005. Pursuant to Act 256, SLH 2007, employer contributions beginning July 1, 2008 increased to 19.70% for police officers, firefighters, and correction officers and 15.00% for all others employees. As described above, the State Retirement System’s actuary determined that the remaining period required to amortize the UAAL as of June 30, 2010 was 41.3 years, which is greater than the maximum of 30 years specified by Section 88-122(e)(1), Hawaii Revised Statutes. As a result, and pursuant to the recommendations of the 2010 Experience Study, the Board of Trustees requested an increase in the statutory employer contribution rates to bring the funding period down to 30 years. In response, the Legislature enacted Act 163, SLH 2011, pursuant to which, effective July 1, 2012, employer contribution requirements will gradually increase as follows:

Table 12

STATE RETIREMENT SYSTEM EMPLOYER CONTRIBUTION REQUIREMENTS

Employer Contribution effective starting	Police Officers, Firefighters, and Correction Officers (% of total payroll)	Other Employees (% of total payroll)
July 1, 2012	22.0%	15.5%
July 1, 2013	23.0	16.0
July 1, 2014	24.0	16.5
July 1, 2015	25.0	17.0

Under the contributory plan, police officers, firefighters, and corrections officers are required to contribute 12.2% of their salary to the plan and most other covered employees are required to contribute 7.8% of their salary. Under the Hybrid Plan, covered employees are generally required to contribute 6.0% of their salary to the plan, with sewer workers in specified classifications, water safety officers and emergency medical technicians required to contribute 9.75% of their salary. Effective July 1, 2012, contribution rates for newly hired employees covered under the contributory and Hybrid Plan increase by 2% pursuant to Act 163, SLH 2011, such that the corresponding contribution rates for new employees as discussed in this paragraph will be 14.2%, 9.8%, 8.0%, and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

Actuarial Methods

The System's actuary uses the entry age normal cost method. The most recent valuation was performed for the year ended June 30, 2011.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. For the June 30, 2011 valuation, this determination was made using an open group projection to reflect both the increasing contribution rates and the changes in benefits for members hired after June 30, 2012.

Because of this amortization procedure, any change in the unfunded actuarial accrued liability due to (i) actuarial gains and losses, (ii) changes in actuarial assumptions, or (iii) amendments, affects the funding period.

On an aggregate basis with regard to the contributory, the Hybrid, and the noncontributory plans, the total normal cost for benefits provided by the System as of June 30, 2011 was 11.06% of payroll, which was 9.59% of payroll less than the total contributions required by law (15.52% from employers plus 5.00% in the aggregate from employees). Since only 6.06% of the employers' 15.52% contribution is required to meet the normal cost (5.00% comes from the employee contribution), it is intended that the remaining 9.46% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year. Due to the changes enacted in 2011 (increases in the employer contribution rates and new benefits and contribution rates for members hired after June 30, 2012), the percentage of payroll available to amortize the unfunded actuarial liabilities is expected to increase each year for the foreseeable future.

Actuarial Valuation

The actuarial value of assets is equal to the market value, adjusted for a four-year phase-in of actual investment return in excess or below of expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds. The actuarial value of assets has been based on a four-year smoothed valuation that recognizes the excess or shortfall of investment income over or under the actuarial investment yield rate assumption. The actuarial asset valuation method is intended to smooth out year-to-year fluctuations in the market return. The excess or shortfall in the actual return during the year, compared to the investment yield rate assumption, is spread over this valuation and the next three valuations.

The System's actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. Prior to Fiscal Year 2012, Section 88-122(b), Hawaii Revised Statutes, provided for the Board of Trustees to adopt the assumptions to be used by the System except the investment yield rate, which was set by the Legislature. Act 163, SLH 2011, set the investment yield rate at 7.75% for Fiscal Year 2011 but also amended Section 88-122(b), Hawaii Revised Statutes, to allow the Board of Trustees to establish, for subsequent fiscal years, all assumptions to be used by the System, including the investment yield rate assumption. The Board of Trustees periodically evaluates and revises the assumptions used by the System for actuarial valuations, including by commissioning experience studies to evaluate the actuarial assumptions to be used by the System. The current assumptions, including continuing the investment yield rate of 7.75%, were adopted by the System's Board of Trustees based on the recommendations of the System's actuary in the most recent experience study, the 2010 Experience Study. The new assumptions, funding changes and benefit structure are reflected in the 2011 Valuation Report.

The following table sets forth the schedule of funding progress of the System for the ten most recent actuarial valuation dates.

Table 13

**SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in millions)**

June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b)-(a)	Funded Ratio (a)/(b)	Payroll (c)	UAAL as a Percentage of Payroll ((b)-(a))/(c)
2002	\$9,415.2	\$11,210.2	\$1,795.1	84.0%	\$2,671.7	67.2%
2003	9,074.0	11,952.1	2,878.1	75.9%	2,826.7	101.8%
2004	8,791.1	12,271.3	3,474.2	71.7%	2,865.1	121.3%
2005	8,914.8	12,986.0	4,071.1	68.6%	3,041.1	133.9%
2006*	9,529.4	14,661.4	5,132.0	65.0%	3,238.3	158.5%
2007	10,589.8	15,696.5	5,106.8	67.5%	3,507.0	145.6%
2008	11,381.0	16,549.1	5,168.1	68.8%	3,782.1	136.6%
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011**	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%

* Assumption changes and new Hybrid Plan effective June 30, 2006.

** Assumption changes effective June 30, 2011.

Source: The 2011 Valuation Report.

The total assets of the System on a market value basis amounted to approximately \$8.8 billion as of June 30, 2009, \$9.8 billion as of June 30, 2010 and \$11.6 billion as of June 30, 2011. Actuarial certification of assets as of June 30, 2009 was \$11.4 billion (See “— Summary of Actuarial Certification Statement” below). The June 30, 2011 actuarial certification of assets was \$11.9 billion, and its unfunded actuarial accrued liability was \$8.2 billion. Since the System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. The following table shows the normal cost as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for Fiscal Year 2010 and 2011:

Table 14**NORMAL COST**

	June 30					
	2011			2010		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	20.29%	9.87%	11.06%	18.80%	11.84%	12.60%
Employee contribution rate	12.20%	4.09%	5.00%	12.20%	6.05%	6.70%
Effective employer normal cost rate	8.09%	5.78%	6.06%	6.60%	5.79%	5.90%

Source: The 2011 Valuation Report.

The following table shows a comparison of the actuarial value of assets (“AVA”) to the market values, the ratio of the AVA to market value and the funded ratio based on AVA compared to funded ratio based on market value of assets, for the last two valuation dates:

Table 15

ASSET VALUES

	June 30, 2011	June 30, 2010
AVA	\$11,942.8 million	\$11,345.6 million
Market Value of Assets	\$11,642.3 million	\$9,821.6 million
Market Value as Percentage of AVA	97.5%	86.6%
Funded Ratio (AVA)	59.4%	61.4%
Funded Ratio (Market Value)	57.9%	53.1%

Source: The 2011 Valuation Report.

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 10 valuation dates. Employer contribution rates are set by the statute (see above) and, accordingly, may be greater or less than the ARC:

Table 16

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in thousands)**

June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2002	167,459	167,459	100.0%
2003	190,586	190,586	100.0%
2004	235,686	235,686	100.0%
2005	328,717	328,717	100.0%
2006*	423,446	423,446	100.0%
2007	476,754	454,494	95.3%
2008	510,727	488,770	95.7%
2009	526,538	578,635	109.9%
2010	536,237	547,613	102.1%
2011	582,535	534,858	91.8%

* Effective July 1, 2005 the required contributions are based on contribution rates and not specific dollar amounts.

Source: The 2011 Valuation Report.

Asset Allocation

The following table shows the target and actual asset allocation of the System as of June 30, 2011:

Table 17

**ASSET ALLOCATION
(as of June 30, 2011)**

Asset Type	Actual Allocation		Target Allocation		Allocation Difference
	Amount (\$mm)	Percentage	Amount (\$mm)	Percentage	
Domestic Equity	\$ 5,530.0	47.8%	\$ 4,050.0	35.0%	12.8%
Non-US Equity	1,990.0	17.2%	2,430.0	21.0%	-3.8%
Fixed Income	2,710.0	23.4%	2,780.0	24.0%	-0.6%
Real Estate	810.0	7.0%	810.0	7.0%	0.0%
Private Equity	380.0	3.3%	580.0	5.0%	-1.7%
Real Return	150.0	1.3%	580.0	5.0%	-3.7%
Other	0.0	0.0%	350.0	3.0%	-3.0%
Total	\$11,600.0	100.0%	\$11,600.0	100.0%	

Source: Valuations provided by Northern Trust – 2011; values unaudited.

Employer Contribution Rate

The schedule which follows shows the total actuarially determined employer contribution rate for all employees based on the last six annual actuarial valuations.

Table 18

EMPLOYER CONTRIBUTION RATES

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2004	13.95	22.6
2005	13.95	25.7
2006	13.95	35.2
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3
2011	15.52	25.0

* Reflects Act 181, SLH 2004, which amended Sections 88-105, 88-122, 88-123, 88-124, 88-125, 88-126, Hawaii Revised Statutes, and Act 163, SLH 2011.

In Fiscal Year 2005, the funding period increased due to recognition of large actuarial losses. In Fiscal Year 2006, the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions. The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008 pursuant to Act 256, SLH 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in Fiscal Years 2009 and 2010 were from the recognition of the actuarial asset loss from the significant decline in the financial markets during Fiscal Year 2009. The decrease in the funding period in 2011 is a reflection of Act 163, SLH 2011, which was enacted to raise the employer contribution rates over the next several years and to provide for smaller benefits for employees hired after June 30, 2012, to bring the funding period in line with the 30-year statutory requirement.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2010 and 2011 is set forth below:

Table 19

**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2010 and 2011
(Includes all counties)**

ASSETS	2011	2010
Total current assets	\$11,942,753,360	\$11,345,618,006
Present value of future employee contributions	1,610,447,797	1,435,479,895
Present value of future employer normal cost contributions	1,863,531,307	1,601,394,963
Unfunded actuarial accrued liability	8,154,177,009	7,138,050,585
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	<u>\$23,570,909,472</u>	<u>\$21,520,543,449</u>
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	10,183,713,229	9,259,425,898
Present value of future benefits to active employees and inactive members	<u>13,387,196,243</u>	<u>12,261,117,551</u>
TOTAL LIABILITIES	<u>\$23,570,909,472</u>	<u>\$21,520,543,449</u>

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2011, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately \$8.154 billion. The System's funded ratios – assets divided by the actuarial accrued liability - decreased during Fiscal Year 2011 as shown below:

Table 20

FUNDED RATIOS

<u>June 30, 2010</u>	<u>June 30, 2011</u>
61.4%	59.4%

The actuarial report for the Fiscal Year ended June 30, 2012 is expected to be available in December 2012. According to the System's Administrator, the System posted an estimated 0.5% investment loss for the Fiscal Year, and the unfunded actuarial accrued liability as of June 30, 2012 is expected to be higher than the \$8.154 billion amount reported as of the previous Fiscal Year-end.

In addition to contributions to the State Retirement System, the City and County makes payments under three pension systems established prior to the establishment of the State Retirement System in 1926. These pension systems are administered by the City and County's Department of Budget and Fiscal Services. At June 30, 2011, there were four beneficiaries under these pensions. Such unfunded payments amount to less than \$20,000 annually.

Recent Developments

In 2012, the Hawaii legislature passed, and the Governor signed into law, two bills seeking to reduce the overall UAAL of the State Retirement System by limiting the impact of spiking by public employees:

- Senate Bill 1269, signed into law as Act 152, Session Laws of Hawaii 2012, revises the method of computing Retirement System pension benefits for employees hired after July 1, 2012 by excluding from compensation (for pension calculation purposes) all non-base

compensation components, such as overtime, supplemental payments, bonuses, lump sum salary supplements, allowances or differentials.

- House Bill 2487, signed into law as Act 153, Session Laws of Hawaii 2012, seeks to hold state or local governmental employers financially responsible for excessive overtime and related employee practices by increasing each governmental employer's annual contributions to the State Retirement System to include the actuarial present value of the "excess maximum retirement allowance resulting from significant non-base pay increases" relating to that employer's current and former employees.

The City and County does not believe that these Acts will have a material adverse effect on the City and County's finances or operations or materially impair its ability to pay debt service on the Bonds.

In June 2012, the Governmental Accounting Standards Board (GASB) voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments.

- Statement No. 67, Financial Reporting for Pension Plans. Effective for reporting periods beginning after June 15, 2013, this Statement will require enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans.
- Statement No. 68, Accounting and Financial Reporting for Pensions. Effective for fiscal years beginning after June 15, 2014, this Statement will require governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the State Retirement System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

The full impact of GASB Statements 67 and 68 cannot be predicted at this time. However, it is anticipated that these Statements may result in substantial increases in the reported unfunded pension liabilities of most governmental defined benefit pension plans.

Other Post-Employment Benefits

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

In June 2012, the State's independent actuarial consultant estimated the actuarial accrued liabilities and annual OPEB costs under GASB 45 for the State and the counties for the Fiscal Year ending June 30, 2013. These estimates were based on the actuarial valuation as of July 1, 2011. Assuming full prefunding of obligations, the actuarial accrued liability for Trust Fund OPEBs for the City and County was estimated to be approximately \$1.78 billion with full prefunding for such period. The corresponding annual required contribution is estimated to be approximately \$139.7 million for the Fiscal Year 2013 with full prefunding, as compared to \$155.78 million for the Fiscal Year 2012. The annual OPEB cost is estimated at \$142.6 million for Fiscal Year 2013, as compared to \$158.5 million for Fiscal Year 2012.

Transfers to the Trust Fund to prefund the City and County's OPEB obligations in part are determined on a year-by-year basis. On June 30, 2009, the City and County transferred \$40.11 million to the Trust

Fund for this purpose. On June 29, 2012, the City and County transferred an additional \$40 million to the Trust Fund for this purpose. A further transfer in the amount of \$43.52 million is included in the City and County's operating budget for the Fiscal Year ending June 30, 2013.

Billing and Collection

Over 95% of Wastewater System sewer service charge billing is done by the Board of Water Supply through inclusion on the water bill. The delinquency rate for this billing program (*i.e.*, the dollar amount of bills more than 60 days past due expressed as a percentage of total revenues) during fiscal years 2008 through 2012 was 0.97%, 0.90%, 0.83%, 0.79% and 0.92%, respectively. Should bills not be paid, the authority exists, and has been exercised, to terminate water service for nonpayment of water and sewer service charges.

In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to wastewater rates effective from July 1, 2012 through June 30, 2017. Billing for non-residential customers using the new rate structure has been temporarily deferred. The approved rate changes for these customers have been implemented during the deferral period using the previous structure.

Ten Largest Customers

The ten largest customers of the Wastewater System in Fiscal Year 2012 (see table below) account for 6.49% of the annual sewer service charge revenues of the system.

Table 21

**Ten Largest Customers
Fiscal Year 2012¹**

<u>Customer</u>	<u>Sewer Service Charges</u>	<u>Percentage of Sewer Service Charge Revenues</u>
University of Hawaii	\$ 5,270,471	1.49%
State of Hawaii, Airport Maintenance	5,153,869	1.46%
State of Hawaii, Hawaii Public Housing Authority	3,602,710	1.02%
Hilton Hotels Corporation	3,422,775	0.97%
United Laundry Services	1,365,029	0.39%
Sheraton Waikiki Hotel	1,314,420	0.37%
Hyatt Regency Waikiki	845,078	0.24%
State of Hawaii, Halawa Correctional Center	657,880	0.19%
Halekulani Hotel	654,209	0.19%
State of Hawaii, DAGS, Central Service Division	<u>646,783</u>	<u>0.18%</u>
Total	\$22,933,225	6.49%

¹ Totals may not add due to rounding.

Certain Operating and Financial Statistics

Certain operating and financial statistics of the Department are summarized in the following tables. Unless otherwise noted, tables provided herein contain data furnished by the City and County.

Table 22**Board of Water Supply (BWS) and Wastewater Customer Accounts as of July 2012**

	A	B	C	D	E	F	G	J	L	M	N	P	Q	S		
Customer Class	Sewer Regular Monthly Charges	Cesspool Monthly Charge (Contract)	Cesspool Per Call	Separate BWS Water Meter (domestic use)	Cesspool Chemical Treat	Agreed to Monthly Charge	Sewer No Charge	Non-residential SS surcharge	Private Water Well	Private Waste-water Meter	Private Water Meter	Minimum Monthly Charge Only	Septic System	Submetr Program	Total	Percent Accounts
1 - Public Sewer																
10 – Single family/duplex	130,078	5	11,136	0	0	5	8,929	0	0	620	0	0	0	695	169	87.96%
15 – Mixed residential	0	0	4	0	0	0	197	0	0	3	0	0	0	1	0	0.12%
20 - Multi-family	5,911	0	115	0	0	0	486	0	0	16	0	0	0	3	142	3.87%
25 – Mixed users	3	0	6	0	0	2	325	0	0	0	0	0	0	2	0	0.20%
Total BWS residential accounts	135,992	5	11,261	0	0	7	9,937	0	0	639	0	0	0	701	311	92.14%
WW Res Accts	135,992	0	0	0	0	7	0	0	0	639	0	0	0	0	311	94.88%
30 – Commercial	4,763	0	680	1	0	23	3,363	599	0	13	0	0	78	38	140	5.63%
40- Hotels	243	0	6	0	0	0	11	0	0	0	0	0	0	0	0	0.15%
50 – Industrial	421	0	86	0	0	2	23	0	0	0	0	0	0	2	0	0.31%
61 - US Military Installation	11	0	13	0	0	0	13	0	0	0	0	0	0	1	0	0.02%
62 - US Non-military	25	0	7	0	0	0	5	0	0	0	0	0	0	0	0	0.02%
63 - State	208	0	104	0	0	161	359	0	0	0	0	0	0	2	13	0.49%
65 - City	113	0	140	0	0	131	673	0	0	0	0	0	45	6	0	0.64%
70 – Agriculture	2	0	437	0	0	0	30	0	0	0	0	0	0	15	0	0.28%

Table 22

Board of Water Supply (BWS) and Wastewater Customer Accounts as of July 2012

	A	B	C	D	E	F	G	J	L	M	N	P	Q	S		
Customer Class	Sewer Regular Monthly Charges	Cesspool Monthly Charge (Contract)	Cesspool Per Call	Separate BWS Water Meter (domestic use)	Cesspool Chemical Treat	Agreed to Monthly Charge	Sewer No Charge	Non-residential SS surcharge	Private Water Well	Private Waste-water Meter	Private Water Meter	Minimum Monthly Charge Only	Septic System	Submetr Program	Total	Percent Accounts
80 – Religious	453	0	49	0	0	2	12	0	0	0	0	0	0	4	23	0.31%
Total BWS Non-res Accts	6,239	0	1,522	1	0	319	4,489	599	0	13	0	0	123	68	176	7.86%
WW Non-res Accts	6,239	0	0	1	0	319	0	599	0	13	0	0	123	0	93	5.12%
Total BWS Accounts	142,231	5	12,783	1	0	326	14,426	599	0	652	0	0	123	769	487	100.00%
Total WW Accts	142,231	0	0	1	0	326	0	599	0	652	0	0	123	0	404	100.00%
% Total BWS Accts	82.50%	0.00%	7.41%	0.00%	0.00%	0.19%	8.37%	0.35%	0.00%	0.38%	0.00%	0.00%	0.07%	0.45%	0.28%	
% WW Accts	98.54%	0.00%	0.00%	0.00%	0.00%	0.23%	0.00%	0.42%	0.00%	0.45%	0.00%	0.00%	0.09%	0.00%	0.28%	

Table 23**History of New Sewer Connections by Type**

Fiscal Year Ended June 30	Single Family	Multi Family		Nonresidential	Total
	<u>New Units</u>	<u>New Units</u>	<u>ESDUs</u>	<u>ESDUs</u>	<u>ESDUs</u>
2008	307	874	612	24	943
2009	437	780	546	15	998
2010	221	324	227	0	448
2011	403	739	517	79	999
2012	756	758	531	63	1,349
Five year average	425	695	487	36	948
Projected annual growth	1,200	529	370	30	1,600

Table 24**Existing Sewer Users
Fiscal Year Ended June 30, 2012**

Customer Classification	Number of Living Units	Number Of Equivalent Single-Family Dwelling Units (ESDUs)	Estimated Wastewater Flow (MGD)
Residential			
Single family/duplex	137,399	137,399	41.907
Multi-family residences	121,904	84,754	25.850
Less: Hawaii Kai	994	994	0.303
Total residential	258,309	221,159	67.453
Nonresidential	--	78,383	23.907
Infiltration/Inflow	--	--	8.687
Total	258,309	299,542	100.047

Table 25**Historic Population Growth
Oahu, 2001 – 2011**

Calendar Year	Resident Population	De facto Population¹
2001	882,755	926,713
2002	890,473	934,070
2003	894,311	931,880
2004	907,997	949,262
2005	918,181	959,340
2006	926,954	967,400
2007	925,335	963,577
2008	933,680	962,908
2009	943,177	972,202
2010	955,636	988,317
2011	963,607	N/A

¹ Includes visitor population.

Source: State of Hawaii, Department of Business, Economic Development & Tourism, Data Book, 2011.

Table 26**Number of Equivalent Single-Family Dwelling Units (ESDUs)**

Fiscal Year Ending June 30	Single-Family Units	Multifamily Units	ESDUs	Commercial ESDUs	Total ESDUs
2003	129,187	111,436	77,426	77,967	284,580
2004	130,624	112,955	78,489	77,986	287,099
2005	132,115	113,386	78,791	78,032	288,938
2006	133,325	115,050	79,956	78,034	291,315
2007	135,275	118,429	82,321	78,202	295,798
2008	135,582	119,303	82,933	78,226	296,741
2009	136,019	120,083	83,479	78,241	297,739
2010	136,240	120,407	83,706	78,241	298,187
2011	136,643	121,146	84,223	78,320	299,186
2012	137,399	121,904	84,754	78,383	300,536

Table 27**Wastewater Flows by Treatment Facility (MGD) ¹**

Treatment Facility ²	Design Capacity ³	2012 Flow ⁴	Projected Flow (2020)
Sand Island	94.50	58.33	92.60
Kahuku WWTP	0.40	0.18	0.15
Honouliuli WWTP	38.00	25.22	32.80
Waimanalo WWTP	1.10	0.54	0.62
Kuliouou WWPS (Hawaii Kai WWTP) ^{2,5}	--	0.51	0.38
Wahiawa WWTP	2.50	1.64	1.89
Kailua WWTP	15.25	10.29	13.40
Waianae WWTP	5.20	3.33	3.50
Paalaa Kai WWTP	0.14	0.08	0.14
Laie WRF ⁶	<u>0.90</u>	<u>0.44</u>	<u>0.63</u>
TOTAL:	145.49	100.05 ²	146.11

¹ Average day annual flow (ADAF), MGD.² Does not include 0.51 MGD of flow from the City and County's Kuliouou WWPS which is treated by the Hawaii Kai WWTP, a private treatment facility.³ ADAF estimated based on 105% of design capacity for average dry weather flow.⁴ Actual average daily flow during 2012 may have exceeded ADAF Design Capacity or Projected Flow due to weather conditions.⁵ The Kuliouou WWPS does not provide treatment, but pumps wastewater from a Department Collection System to a private treatment plant (Hawaii Kai WWTP). Inclusion here is to show total volume of wastewater handled by the Department.⁶ The City and County assumed operational responsibility for the Laie Water Reclamation Facility on November 1, 2006.

Table 28

History of Major Wastewater Revenue Sources

Fiscal Year Ended June 30	Sewer Service Charges*	Wastewater System Facility Charges**
2003	\$111,878,243	\$3,811,825
2004	111,886,155	3,076,678
2005	112,746,082	5,339,119
2006	142,167,282	8,822,000
2007	160,963,313	4,691,000
2008	219,906,956	5,024,765
2009	250,264,958	1,555,359
2010	299,501,972	6,686,130
2011	343,659,885	3,224,263

* Sewer service charge only - does not include connection or lateral installation charges.

** Fluctuations in Wastewater System Facility Charges are due largely to the timing of major development projects.

Rates and Charges

Pursuant to rate ordinances adopted in 2005 and 2007, the City and County implemented a multi-year wastewater rate increase package effective from July 1, 2005 through July 1, 2010. In June 2011, the City and County adopted a further rate ordinance providing for additional increases in wastewater rates and future rate adjustments over the six-year period from July 1, 2011 through June 30, 2017. In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to wastewater rates from July 1, 2012 through June 30, 2017. The schedule of rates under the Ordinance No. 12-7 is intended to allow for financial planning and projection for the Department and the City and County. Tables 29 and 30 below set forth schedules under the Ordinance No. 12-7 for residential and non-residential users, respectively. Table 31 sets forth a schedule of Wastewater System Facility Charge adjustments, effective July 1, 2012 (Ordinance No. 12-7) through June 30, 2017.

Table 29

Schedule of Residential Sewer Service Charges

	Effective July 1 of:	
Single-family and duplex dwellings served by city water system per dwelling unit per month:		
1. Monthly base charge	2012	\$63.23
	2013	65.76
	2014	68.39
	2015	71.81
	2016	77.55
2. Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%; provided that residential users who install and maintain a water meter for submetering nonsewer water shall not have the water consumed reduced by the water irrigation factor.	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63
Single-family and duplex dwellings not served by city water system per dwelling unit per month		
	2012	\$90.14
	2013	94.03
	2014	97.79
	2015	102.68
	2016	110.89
Multiple-unit dwellings served by city water system per dwelling unit per month		
1. Monthly base charge	2012	\$43.47
	2013	45.21
	2014	47.02
	2015	49.37
	2016	53.32
2. Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%; provided that residential users who install and maintain a water meter for submetering nonsewer water shall not have the water consumed reduced by the water irrigation factor.	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63
Multiple-unit dwellings not served by city water	2012	\$70.65
	2013	73.47
	2014	76.41
	2015	80.23
	2016	86.65

Table 30

Schedule of Non-Residential Sewer Service Charges

Effective July 1 of:

Domestic Strength Wastewater:

1. Metered Water Usage:

(1) Monthly base charge per Equivalent Single Family Dwelling Unit (ESDU):	2012	\$63.23
	2013	65.76
	2014	68.39
	2015	71.81
	2016	77.55

(2) Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%:	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63

2. Metered Wastewater Discharge:

(1) Monthly base charge per Equivalent Single Family Dwelling Unit (ESDU):	2012	\$63.23
	2013	65.76
	2014	68.39
	2015	71.81
	2016	77.55

(2) Charge per 1,000 gallons:	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63

Extra Strength Wastewater

1. Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%, use the following formula:	2012	\$3.77
	2013	3.93
0.857 + 0.143(SSm/200) multiplied by applicable rate	2014	4.08
	2015	4.29
	2016	4.63

2. Charge per 1,000 gallons of wastewater discharge, use the following formula:	2012	\$3.77
	2013	3.93
0.857 + 0.143(SSm/200) multiplied by applicable rate	2014	4.08
	2015	4.29
	2016	4.63

Table 31

Schedule of Wastewater System Facility Charges

- (1) Residential wastewater system facility charge per ESDU:

<u>Fiscal Year</u>	<u>Amount</u>
2011/12	\$5,707
2012/13	5,878
2013/14	6,055
2014/15	6,236
2015/16	6,424
2016/17	6,616

- (2) Low-income housing wastewater system facility charges per ESDU:

<u>Fiscal Year</u>	<u>Amount</u>
2011/12	\$1,180
2012/13	1,216
2013/14	1,252
2014/15	1,290
2015/16	1,329
2016/17	1,368

- (3) Nonresidential wastewater system facility charge for domestic strength wastewater per ESDU:

<u>Fiscal Year</u>	<u>Amount</u>
2011/12	\$5,707
2012/13	5,878
2013/14	6,055
2014/15	6,236
2015/16	6,424
2016/17	6,616

- (4) Nonresidential wastewater system facility charge for extra-strength wastewater per ESDU based on the following formula:

$$\text{Wastewater System Facility Charge for extra-strength wastewater} = A + ((\text{SSi}/200) \times B)$$

where SSi = the imputed suspended solids loading, in mg/L and applicable values for terms “A” and “B” are set forth as follows:

<u>Fiscal Year</u>	<u>Terms in Extra-Strength Surcharge Formula</u>	
	<u>A</u>	<u>B</u>
2011/12	4,906	801
2012/13	5,053	825
2013/14	5,205	850
2014/15	5,361	876
2015/16	5,522	902
2016/17	5,687	929

DEBT AND FINANCIAL POLICIES AND INDEBTEDNESS

General

The City Council, by resolution adopted on November 10, 1998, established the Debt and Financial Policies for the Wastewater System to provide a general framework for the conduct of financial activities and has been in compliance with such policies since their adoption. Such debt and financial policies specify, among other things, that the City and County will target to maintain revenues (excluding Wastewater System Facility Charges) of 1.60 times senior revenue bond debt service and 1.25 times debt service for all revenue bonds, regardless of the priority of lien. It is expected that the City and County will adopt increases in the sewer service charges necessary to meet the debt service coverage requirements prescribed in its debt and financial policies. The debt and financial policies do not constitute an agreement with holders of Bonds, and the City and County has not undertaken any obligation to such holders or any other person to comply with such policies or to meet such targets. Since establishment of these policies in November 1998, the Wastewater Enterprise has consistently met or exceeded all policy requirements.

Investments

The City and County manages its own investment portfolio in accordance with state law and a written investment policy of the City and County. The City and County does not engage in pooled investments, speculate with investments or leverage its investments. The City and County's investment portfolio does not include any derivative or structured instruments and has minimal exposure to auction rate securities. The City and County's philosophy and policy in managing its investments is: first, for safety of public funds; second, for liquidity, so that funds are available when needed; and third, for yield, after the first two considerations are met. All Sewer Fund investments, except for a single investment agreement holding the common reserve subaccount for the Senior Series 2006 Bonds issued under the First Bond Resolution, are managed as part of the City and County investment pool.

Indebtedness

Table 32 sets forth the Senior Bonds and Junior Bonds of the City and County secured by the Net Revenues under the First Bond Resolution and the Second Bond Resolution; Table 33 sets forth the debt service requirements for such Senior Bonds and Junior Bonds.

Table 32

Outstanding Wastewater Revenue Bonds

<u>Senior Bonds</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of June 30, 2012</u>
2005 Senior Bonds	\$152,815,000	\$ 146,355,000
2006 Senior Bonds	340,760,000	333,185,000
2007 Senior Bonds	171,890,000	171,890,000
2009 Senior Bonds	148,285,000	145,375,000
2010 Senior Bonds	204,435,000	204,435,000
2011 Senior Bonds	169,190,000	<u>169,190,000</u>
		\$1,170,430,000
<u>Junior Bonds</u>		
Junior Series 1998 Bonds	\$264,152,890	\$ 22,659,910
Junior Series 2003 Bonds	218,400,000	78,400,000
Junior Series 2008 Bonds	112,440,000	103,925,000
Junior Series 2009 Bonds	127,045,000	116,945,000
Junior Series 2010 Bonds	100,755,000	<u>100,755,000</u>
		\$ 422,684,910

In addition to the outstanding Senior Bonds and Junior Bonds shown above, \$150,000,000 principal amount of State Revolving Fund loans (classified as Subordinate Obligations under the Bond Resolution), \$1,275,799 of Reimbursable Obligations, and \$2,750,000 principal amount of USDA revenue bonds were outstanding as of June 30, 2012. The major portion of outstanding Reimbursable Obligations will mature in January 2013. All of the outstanding Senior Bonds, Junior Bonds, State Revolving Fund loans, Reimbursable Obligations and USDA revenue bonds are fixed rate obligations, and the City and County has not entered into any interest rate swap agreements or other derivative product arrangements with respect to any of these obligations.

Table 33**Revenue Bond Debt Service Requirements
(Years Ending June 30) ¹**

Fiscal Year	Series 2012 Bonds			Debt Service on Outstanding Senior Bonds ²	Total Senior Debt Service ²	Debt Service on Outstanding Junior Bonds	Other Debt Service ³	Total Debt Service	BABS/RZEDB Subsidy ⁴	Total Net Debt Service
	Principal	Interest	Total							
2013	\$ -	\$ 1,279,698	\$ 1,279,698	\$72,917,463	\$74,197,160	\$35,920,488	\$22,594,837	\$132,712,485	\$ (5,367,122)	\$ 127,345,363
2014	475,000	13,056,818	13,531,818	68,420,902	81,952,720	35,923,919	21,049,382	138,926,021	(5,367,122)	133,558,899
2015	485,000	11,533,238	12,018,238	70,675,793	82,694,030	35,925,475	18,279,003	136,898,508	(5,367,122)	131,531,386
2016	505,000	11,515,863	12,020,863	75,294,777	87,315,640	35,925,494	18,138,619	141,379,752	(5,367,122)	136,012,630
2017	3,960,000	11,446,363	15,406,363	75,362,471	90,768,833	35,922,656	18,071,590	144,763,079	(5,367,122)	139,395,957
2018	7,015,000	11,275,763	18,290,763	75,370,840	93,661,602	35,926,025	17,675,524	147,263,151	(5,367,122)	141,896,029
2019	12,975,000	10,870,038	23,845,038	69,852,097	93,697,135	35,935,969	16,533,189	146,166,293	(5,367,122)	140,799,171
2020	14,075,000	10,324,613	24,399,613	69,287,686	93,687,298	35,934,119	14,907,229	144,528,646	(5,367,122)	139,161,525
2021	15,195,000	9,725,238	24,920,238	68,769,408	93,689,646	35,936,156	14,459,636	144,085,438	(5,325,087)	138,760,351
2022	16,410,000	9,072,750	25,482,750	68,100,050	93,582,800	35,925,278	14,241,113	143,749,191	(5,237,136)	138,512,055
2023	17,110,000	8,374,138	25,484,138	67,997,866	93,482,004	35,927,150	13,445,038	142,854,192	(5,141,046)	137,713,147
2024	17,240,000	7,620,244	24,860,244	68,523,033	93,383,277	35,934,675	13,412,977	142,730,928	(5,035,813)	137,695,115
2025	18,570,000	6,946,150	25,516,150	67,738,645	93,254,795	36,363,325	13,380,751	142,998,871	(4,921,003)	138,077,868
2026	7,640,000	6,459,500	14,099,500	79,036,203	93,135,703	36,366,525	13,348,262	142,850,490	(4,797,027)	138,053,463
2027	9,465,000	6,078,325	15,543,325	77,407,492	92,950,817	36,367,350	10,783,441	140,101,608	(4,617,849)	135,483,758
2028	9,865,000	5,678,925	15,543,925	77,171,387	92,715,312	36,367,925	3,560,330	132,643,567	(4,383,345)	128,260,222
2029	10,280,000	5,261,125	15,541,125	76,921,399	92,462,524	36,362,563	935,440	129,760,527	(4,139,489)	125,621,037
2030	10,710,000	4,826,200	15,536,200	73,258,471	88,794,671	13,939,125	147,320	102,881,117	(3,885,964)	98,995,153
2031	11,165,000	4,371,250	15,536,250	72,991,258	88,527,508	13,934,000	147,259	102,608,768	(3,620,578)	98,988,190
2032	5,145,000	3,994,875	9,139,875	79,755,435	88,895,310	13,938,125	147,196	102,980,631	(3,340,857)	99,639,774
2033	5,405,000	3,731,125	9,136,125	70,277,695	79,413,820	13,934,875	147,130	93,495,824	(3,047,941)	90,447,884
2034	5,685,000	3,453,875	9,138,875	69,979,090	79,117,965	--	147,061	79,265,026	(2,743,089)	76,521,937
2035	5,975,000	3,162,375	9,137,375	69,657,614	78,794,989	--	146,989	78,941,977	(2,425,759)	76,516,219
2036	6,280,000	2,856,000	9,136,000	69,296,687	78,432,687	--	146,915	78,579,602	(2,078,551)	76,501,051
2037	6,605,000	2,533,875	9,138,875	58,483,451	67,622,326	--	146,838	67,769,164	(1,700,446)	66,068,717
2038	6,940,000	2,195,250	9,135,250	43,083,525	52,218,775	--	146,757	52,365,532	(1,307,606)	51,057,927
2039	7,300,000	1,839,250	9,139,250	31,240,678	40,379,928	--	146,674	40,526,601	(899,812)	39,626,789
2040	7,675,000	1,464,875	9,139,875	30,814,587	39,954,462	--	146,587	40,101,049	(476,478)	39,624,571
2041	8,065,000	1,071,375	9,136,375	24,023,616	33,159,991	--	--	33,159,991	(130,416)	33,029,575
2042	8,480,000	657,750	9,137,750	11,474,875	20,612,625	--	--	20,612,625	--	20,612,625
2043	8,915,000	222,875	9,137,875	--	9,137,875	--	--	9,137,875	--	9,137,875
Total	\$265,610,000	\$182,899,734	\$448,509,734	\$1,933,184,493	\$2,381,694,227	\$668,711,216	\$246,433,087	\$3,296,838,530	\$ (112,192,265)	\$3,184,646,265

¹ Based on payments, not on accruals. Totals may not add in some columns due to rounding.² Excludes debt service on the Refunded Bonds.³ Includes \$150,000,000 principal amount of State Revolving Fund loans, \$2,750,000 principal amount of USDA revenue bonds, and \$1,275,799 principal amount of Reimbursable General Obligation Bonds.⁴ Includes BAB/RZEDB subsidies relating to certain of the 2009 and 2010 Senior Bonds. The subsidies will be deposited into the Rate Stabilization Account upon receipt and subsequently transferred to the Sewer Fund. Under the provisions of the Bond Resolution, subsidies transferred from the Rate Stabilization Account to the Sewer Fund within 90 days after the end of a fiscal year will be treated as Revenues in the year of the transfer. See "SECURITY FOR THE BONDS – Proposed Amendments to the Bond Resolution" for certain proposed amendments to such provisions.

FINANCIAL STATEMENTS

The operations of the Department are accounted for in the Sewer Fund and the Wastewater System Facility Charge Account. The Sewer Fund is classified as an enterprise fund of the City and County and is currently audited as a part of the City and County's general purpose financial statements that are prepared annually.

Extracts from the financial statements of the City and County as of June 30, 2011, relating to the Sewer Fund, together with the auditor's report thereon delivered by Accuity LLP, may be found at the Website of the City and County at <http://www.honolulu.gov/budget/cafr.htm>, or may be obtained from the Department by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawaii 96813. Except for such financial statements and auditor's report, the contents of the City and County's website are not part of this Official Statement and are not incorporated herein by the above reference. Accuity LLP has not reviewed and has no responsibility with respect to this Official Statement.

The following tables have been extracted from audited financial statements of the City and County relating to the Department. It should be noted that "Revenues" as defined in the Bond Resolution does not include Wastewater System Facility Charges.

Table 34 summarizes revenues and expenses and Table 35 provides fund balances, both reflecting enterprise accounting and consistency with GASB 34 reporting requirements.

Table 34

**Department of Environmental Services
Sewer Fund
Enterprise Fund Statement of Revenues, Expenses and Charges in Retained Earnings (Deficit)
(Dollars in Thousands)***

	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>
Operating Revenues:			
Sewer Service Charges	\$250,265	\$299,502	\$343,660
Other Revenue	<u>1,688</u>	<u>8,905</u>	<u>3,378</u>
Total Operating Revenues	\$251,953	\$308,407	\$347,038
Operating Expenses:			
Administrative and general	\$ 29,962	\$ 45,490	\$ 43,529
Maintenance	818	377	454
Depreciation	40,682	42,281	47,321
Contractual services	17,054	16,223	22,041
Fringe benefits	12,911	21,196	16,652
Materials and supplies	8,957	9,625	11,028
Fuel and lubricants	2,279	1,769	1,341
Utilities	<u>17,683</u>	<u>16,719</u>	<u>20,213</u>
Total Operating Expenses	\$130,346	\$153,680	\$162,579
Operating Income	\$121,607	\$154,727	\$184,459
Nonoperating Revenues (Expenses):			
Interest income	\$ 7,080	\$ 957	\$ 1,082
Interest expense	(45,270)	(43,555)	(50,832)
Other	<u>(3,329)</u>	<u>(409)</u>	<u>3,786</u>
Total Nonoperating Expenses	\$(41,518)	\$(43,007)	\$(45,964)
Income before operating transfers and contributed capital	\$ 80,089	\$111,207	\$138,495
Transfers In	\$ --	\$ --	\$ --
Operating Transfers Out	(12,931)	(9,485)	(9,552)
Contributed Capital	<u>5,678</u>	<u>5,962</u>	<u>823</u>
Change in Net Assets	\$ 72,835	\$108,197	\$129,766
Net Assets at Beginning of Year, as previously reported			
Prior period adjustment			
Net Assets at Beginning of Year, as restated	\$727,739	\$800,575	\$ 908,772
Net Assets at End of Year	\$800,575	\$908,772	\$1,038,538

* Differs from presentation in Table 10 due to the fact that information presented in this Table 34 is presented in conformance with GAAP whereas information in Table 10 is presented in accordance with definitions presented in the First Bond Resolution.

Table 35

**Department of Environmental Services
Sewer Fund
Enterprise Fund Balance Sheet*
(Dollars in Thousands)**

	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 324,297	\$ 388,640	\$528,697
Investments	12,707	12,707	53,009
Receivables			
Accounts	34,551	41,088	48,596
Interest	25	45	73
Employee advances	--	1,269	1,205
Due from other funds	1,117	1,027	1,015
Inventories of parts, materials and supplies at cost	9,126	11,021	11,040
Prepaid expenses	<u>1,895</u>	<u>1,980</u>	<u>2,075</u>
Total Current Assets	\$ 383,718	\$ 457,777	\$645,710
Fixed Assets:			
Land	6,101	6,292	33,070
Land improvements	3,511	3,511	3,511
Buildings and Improvements	783,081	792,663	867,109
Transmission and distribution system	1,016,907	1,104,257	1,245,825
Equipment and machinery	33,134	38,819	42,097
Construction work in progress	348,609	463,267	406,868
Accumulated depreciation	<u>(318,186)</u>	<u>(360,192)</u>	<u>(406,878)</u>
Total Assets	\$2,264,214	\$2,514,985	\$2,847,576
LIABILITIES AND FUND EQUITY (DEFICIENCY)			
Current Liabilities:			
Accounts payable	\$ 30,715	\$ 24,472	\$ 26,420
Due to other funds	--	3,532	3,855
Interest payable-current	26,284	30,146	35,185
Notes payable-current	12,471	15,365	16,900
Bonds payable-current	19,446	24,262	29,653
Accrued Payroll	147	1,552	1,423
Other current liabilities	<u>315</u>	<u>355</u>	<u>337</u>
Total Current Liabilities	\$ 89,378	\$ 99,684	\$ 113,773
Notes payable	144,839	177,839	183,492
General obligation bonds payable	6,442	1,276	63
Revenue bonds payable	1,210,027	1,301,853	1,480,176
Deferred credits and other liabilities	<u>12,953</u>	<u>25,662</u>	<u>31,534</u>
Total Liabilities	\$1,463,639	\$1,606,213	\$1,809,038
Commitments and Contingencies Net Assets:			
Invested in capital assets	574,370	586,031	591,927
Reserved for debt service	131,469	144,307	158,662
Unrestricted	<u>94,736</u>	<u>178,434</u>	<u>287,949</u>
Total net assets	\$ 800,575	\$ 908,772	\$1,038,538

* Totals may not add due to rounding.

The Bond Resolution requires the Department to maintain and keep proper books of account relating to the Wastewater System and in accordance with generally accepted accounting principles. The Bond Resolution also requires that within one hundred eighty (180) days after the end of each Fiscal Year the Department

will cause such books of account to be audited by an independent certified public accountant. Such audit may be part of a comprehensive audit of the City and County if the Wastewater System in such audit is treated as an “enterprise fund” and the revenues and expenses of the Wastewater System are stated in a manner which permits identification by category of the sources and uses of the Revenues.

PENDING WASTEWATER SYSTEM LITIGATION

The City and County and the Department generally are self-insured with respect to general liability claims. In the Fiscal Years ended June 30, 2010, 2011, and 2012, the Department reached settlements of lawsuits and claims related to the Wastewater System and paid with general funds of \$75,443, \$3,528,144*, and \$71,624, respectively. The City and County’s Corporation Counsel is of the opinion that no pending litigation will be determined so as to result individually or in the aggregate in a final judgment against the Department which would constitute a material impairment of the Department’s financial position. The Corporation Counsel also reports that no pending litigation affects the right of the City and County to levy taxes or to issue evidence of indebtedness.

Information relating to pending litigation can be found in Note 12 to the audited financial statements for the Sewer Fund for the fiscal year ended June 30, 2011.

RATINGS

Moody’s Investors Service and Fitch, Inc. have assigned ratings of “Aa2” and “AA,” respectively, to the Series 2012 Bonds. Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, Inc., 99 Church Street, New York, New York 10007, and Fitch, Inc., One State Street Plaza, New York, New York 10004. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an effect on the market price of the Series 2012 Bonds.

UNDERWRITING

The Series 2012 Bonds are being purchased for reoffering by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Piper Jaffray & Co., as Underwriters. The Underwriters have agreed to purchase the Series 2012 Bonds at an aggregate purchase price of \$303,589,509.54, being an amount equal to the principal amount of the Series 2012 Bonds, plus a net original issue premium of \$39,223,656.35, and less an underwriting discount of \$1,244,146.81. The contract of purchase with respect to the Series 2012 Bonds provides that the Underwriters will purchase all the Series 2012 Bonds if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The Underwriters may offer and sell the Series 2012 Bonds to certain dealers (including depositing the Series 2012 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City and County, for which they received or will receive customary fees and expenses.

The City and County intends to use a portion of the proceeds from this offering to redeem the Refunded Bonds. To the extent an Underwriter or an affiliate thereof is an owner of Refunded Bonds, such

* Of this amount, \$3,500,000 was paid pursuant to the terms of the 2010 consent decree, Civil No. 94-00765 DAE-KSC (D. Hawaii).

Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the Series 2012 Bonds contemplated herein in connection with such Refunded Bonds being redeemed by the City and County.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City and County. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Piper Jaffray & Co. (“Piper”) and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the “Distribution Agreement”) which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper, including the Bonds. Under the Distribution Agreement, Piper will share with Pershing LLC a portion of the fee or commission paid to Piper.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), bond counsel to the City and County, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), and the Series 2012 Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2012 Bonds is less than the amount to be paid at maturity of such Series 2012 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2012 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2012 Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Series 2012 Bonds is the first price at which a substantial amount of such maturity of the Series 2012 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 Series 2012 Bonds accrues daily over the term to maturity of such Series 2012 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 Series 2012 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2012 Bonds. Beneficial owners of the Series 2012 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2012 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2012 Bonds is sold to the public.

Series 2012 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial

owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2012 Bonds. The City and County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2012 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2012 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2012 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2012 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes and that the Series 2012 Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2012 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012 Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012 Bonds. Prospective purchasers of the Series 2012 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2012 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City and County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and County covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2012 Bonds ends with the issuance of the Series 2012 Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the City and County or the beneficial owners regarding the tax-exempt status of the Series 2012 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and County and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City and County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012 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 Series 2012 Bonds, and may cause the City and County or the beneficial owners to incur significant expense.

VERIFICATION

Causey Demgen & Moore P.C., independent public accountants (the “Verification Agent”), will verify from the information provided by the Underwriters the mathematical accuracy as of the date of issuance of the Series 2012 Bonds of (1) the computations contained in the schedules provided by the Underwriters to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in escrow will be sufficient to pay when due the principal, interest and any call premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Escrow Securities and the Series 2012 Bonds contained in the schedules provided to Bond Counsel for use in its determination that the interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Series 2012 Bonds will be paid as described in the schedules provided to them, or the exclusion of the interest on the Series 2012 Bonds from gross income for federal income tax purposes.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Series 2012 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix 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, McCarriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the City and County will undertake in a Continuing Disclosure Certificate, the form of which is set forth in Appendix D (the “Continuing Disclosure Certificate”), to provide to the Municipal Securities Rulemaking Board on an annual basis certain financial and operating data concerning the Department, financial statements, notice of certain events and certain other notices, all as described in the Continuing Disclosure Certificate. The undertaking is an obligation of the Department that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriters to purchase the Series 2012 Bonds. The City and County has never failed to comply with any previous undertaking under Rule 15c2-12.

MISCELLANEOUS

Additional information may be obtained, upon request, from either the Department of Budget and Fiscal Services or the Department of Environmental Services of the City and County.

Reference in this Official Statement to the Act, the City Charter, the Bond Resolution, the Series 2012 Resolution and the Series 2012 Certificate do not purport to be complete. Refer to the Act, the City Charter, the Bond Resolution, the Series 2012 Resolution and the Series 2012 Certificate for full and complete details of their provisions. Copies of the City Charter, the Bond Resolution and the Series 2012 Resolution are on file with the City Clerk of the City and County.

The agreements of the City and County with holders of the Series 2012 Bonds are fully set forth in the Bond Resolution and the Series 2012 Resolution. Neither any advertisement of the Series 2012 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2012 Bonds.

Any statements in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are intended merely as expressions of opinion or estimates, and not as representations of fact, and no representation is made that any of the estimates will be realized.

The City and County's use of certain information included in this Official Statement has been furnished or reviewed and authorized by the sources described below. While the City and County believes that these sources are reliable, the City and County has not independently verified this information and does not guarantee the accuracy or completeness of the information furnished by the respective sources. The City and County is relying on certificates from certain sources, to be delivered at or prior to the time of delivery of the Series 2012 Bonds, as to the accuracy of such information provided or authorized by such sources.

The information regarding DTC and DTC's book-entry system has been furnished by DTC.

Extracts of the financial statements of the City and County as of June 30, 2011, relating to the Sewer Fund, together with the auditor's report thereon, may be found at <http://www.co.honolulu.gov/budget/cafr.htm>.

The execution and delivery of this Official Statement by the Director of Environmental Services and the Director of Budget and Fiscal Services have been duly authorized by the City and County.

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

/s/ Timothy E. Steinberger
Director of Environmental Services
City and County of Honolulu

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC FACTORS

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC FACTORS

Introduction

The City and County of Honolulu, which includes the entire island of Oahu and a number of small outlying islands, is a major metropolitan city with a population of 963,607 (approximately 70% of the State's population) as of July 1, 2011, according to the 2011 State of Hawaii Data Book. Honolulu's underlying economy is strong, supported by several diversified areas, which include tourism, the federal government and military operations, State and local governments, manufacturing, construction, real estate, education, research and science, trade and services, communications, finance and transportation. Honolulu also is viewed as a premier world-class destination, and has received several accolades from the visitor industry.

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

Certain Economic Indicators

Employment. Table I below sets forth certain employment statistics for the City and County for the five years ending December 31, 2007 through 2011 and the second quarters of 2011 and 2012.

Table I
EMPLOYMENT STATISTICS*

	Year Ended December 31					2 nd Quarter	
	2007	2008	2009	2010	2011	2011	2012
Civilian Labor Force	441,750	447,050	444,300	452,750	460,650	461,950	455,600
Average Civilian Employment	430,550	430,700	418,400	426,350	434,200	435,950	429,400
Unemployment	11,200	16,350	25,900	26,400	26,450	26,000	26,200
Unemployment Rate	2.5%	3.7%	5.8%	5.8%	5.7%	5.6%	5.8%
Total Job Count	456,950	454,300	442,650	436,150	443,850	440,150	NA

* Data benchmarked by the State of Hawaii Department of Labor & Industrial Relations in March 2012.

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

As indicated on Table I, the unemployment rate for the City and County increased from 2.5% in 2007 to 3.7% in 2008 and again to 5.8% in 2009 and 2010 before declining to 5.7% in 2011. Since 2008, the City and County's unemployment rate has compared favorably on an annual basis to the unemployment rates for the State (4.1% in 2008, 6.9% in 2009 and 2010, and 6.7% in 2011) and the nation as a whole (5.8% in 2008, 9.3% in 2009, 9.6% in 2010, and 8.9% in 2011). In the second quarter of 2012, the City and County gained 4,000 or 0.9 percent non-agricultural wage and salary jobs over the second quarter of 2011.

Personal Income. In recent years, per capita personal income for Honolulu residents has consistently been higher than for the State of Hawaii and the United States as a whole. The following table sets forth the per capita personal income for Honolulu residents in comparison to the State and the country for the years 2005 through 2010

(the most recent year for which county income data is available from the U.S. Department of Commerce, Bureau of Economic Analysis).

Table II
PER CAPITA PERSONAL INCOME

<u>Year</u>	<u>Honolulu</u>	<u>State of Hawaii</u>	<u>United States</u>
2005	37,317	35,067	35,452
2006	39,938	37,507	37,725
2007	42,611	39,946	39,506
2008	44,421	41,520	40,947
2009	44,174	40,572	38,846
2010	45,216	41,550	39,937

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Housing Market. Median home resale prices (single family homes and condominiums) in Honolulu increased annually from 2001 through 2007 before declining in the course of the global economic downturn. More recently, median resale prices in the Honolulu housing market have shown signs of returning to stability. The following table presents median resale prices for single family homes and condominiums in Honolulu between 2001 and 2011 and for the second quarters of 2011 and 2012.

Table III
MEDIAN HOME RESALE PRICES

<u>Year</u>	<u>Single Family Homes</u>		<u>Condominiums</u>	
	<u>Median Resale Price</u>	<u>% Change</u>	<u>Median Resale Price</u>	<u>% Change</u>
2001	\$299,900	1.7	\$133,000	6.4
2002	335,000	11.7	152,000	14.3
2003	380,000	13.4	175,000	15.1
2004	460,000	21.1	208,500	19.1
2005	590,000	28.3	269,000	29.0
2006	630,000	6.8	310,000	15.2
2007	643,500	2.1	325,000	4.8
2008	620,500	-3.6	325,000	0.0
2009	575,000	-7.3	305,000	-6.2
2010	593,000	3.1	305,000	0.0
2011	575,000	-3.0	300,000	-1.6
2011(Q2)	580,000	0.0	297,750	-2.5
2012(Q2)	620,000	6.9	305,000	2.4

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

State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. In 2011, the State government generated 71,400 jobs, of which approximately 76% were located on Oahu. The largest number of State employees work in public education and the State university system, with approximately 80% of these employed on Oahu. In addition, the City and County government generated approximately 12,050 jobs as of December 31, 2011.

Federal Government and Military

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

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

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

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

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

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

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

In April 2012, U.S. and Japanese officials announced an agreement between the two nations for the relocation of approximately 9,000 marines currently stationed in Okinawa. DoD officials expect that approximately

5,000 of these marines will be transferred to Guam, and the remaining 4,000 will be transferred to other Pacific locations, including Hawaii and Australia. The timeline for the relocation and the number of potential transferees to Hawaii are subject to further study.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit.

Finance

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

Honolulu currently has five Hawaii-chartered banks, one Hawaii-chartered financial services company, two federally-chartered savings associations, one national bank and two interstate branch banks with combined assets totaling \$45.0 billion as of June 30, 2012, according to information from the Federal Deposit Insurance Corporation. The Hawaii-chartered banks (Bank of Hawaii, Central Pacific Bank, First Hawaiian Bank, Ohana Pacific Bank and Pacific Rim Bank) have a combined total of 181 branches and total assets of \$34.4 billion as of June 30, 2012. The Hawaii-chartered financial services company (Finance Factors, Ltd.) has 14 branches and total assets of \$478.3 million as of June 30, 2012. The two federally-chartered savings associations (American Savings Bank and Territorial Savings Bank) have 85 branches and \$6.5 billion of total assets as of June 30, 2012. The national bank (Hawaii National Bank) has 14 branches and \$598.0 million of total assets as of June 30, 2012. The two interstate branch banks (Bank of the Orient and HomeStreet Bank) have six Hawaii offices and total assets of \$3.0 billion as of June 30, 2012.

Transportation

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

The City and County is proceeding with plans for a new \$5.17 billion, 20-mile fixed guideway mass transit system to provide rail service along the island's east-west corridor between Kapolei and downtown Honolulu (Ala Moana Center). Over 60% of the City and County's population currently lives within the area served by this corridor, and this area is projected to continue to grow faster than the rest of Oahu.

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

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

Costs related to the construction of the transit system are expected to be funded with proceeds from the 0.5% excise tax surcharge implemented by the City and County in January 2007, proceeds of future general obligation bond issues, and money received from the U.S. Department of Transportation, Federal Transit Administration. The debt service on future general obligation bonds issued for the project is expected to be paid

with proceeds from the 0.5% excise tax surcharge or federal funds. Annual operating costs are expected to be paid from passenger fares and City and County revenues.

Two lawsuits and an appeal from an administrative decision are currently pending which challenge the validity of the environmental impact statement and archeological inventory survey for the project and the award of the rail car contract for the transit system. On August 24, 2012, the Hawaii Supreme Court ruled in one of the lawsuits that the City and County violated state law by beginning construction on the first phase of the project before completing an archeological inventory survey for the entire project. As a result of this ruling, construction on the project has stopped (except for certain activities related to long-term maintenance and public safety) while the City and County completes the required archeological inventory survey. In addition, the two mayoral candidates in the November 2012 general election disagree as to whether the City and County should continue with construction of the project. The outcome of these events and their impact on the project cannot be predicted at this time.

Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu International Airport (HNL) is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, of which two, at 12,001 feet and 12,357 feet, respectively, are among the nation's longest.

According to the Federal Aviation Administration, HNL was the 13th largest U.S. gateway airport in 2009 based on the number of international enplaned passengers. The 2011 Airports Council International Worldwide Traffic Report listed HNL as the 27th busiest in the United States in total passengers (enplaned and deplaned).

Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. In Fiscal Year 2011, HNL recorded 262,716 aircraft operations as compared to 263,440 for Fiscal Year 2010. In addition, HNL passenger counts for Fiscal Year 2011 decreased from 18,443,873 in Fiscal Year 2010 to 17,947,177.

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

The Airports Division is also planning to construct new rental car facilities at both Honolulu International Airport and Kahului Airport on Maui. The total combined cost of the projects is \$500 million, and is expected to be funded with a combination of rental car Customer Facility Charges and bond financing. The new facilities are expected to be completed by 2017.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 9.0 million short tons in Fiscal Year 2009, 8.8 million short tons in Fiscal Year 2010, and 8.9 million short tons in Fiscal Year 2011. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

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

Construction

The value of new building permits issued by the City and County in 2008 decreased 11.6% from 2007, the first year-over-year decline in total permit value since 2001. The decline continued in 2009, before improving in 2010 with an 8.8% increase over the prior year. Although total permit value declined again in 2011, the City and County experienced strong growth in total permit value through the first two quarters of 2012. Total permit value increased by 42.1% in the second quarter of 2012 and by 32.5% for the first half of the year, as compared to the same periods in 2011.

Table IV shows the estimated value of construction authorizations for private buildings for the City and County and for the State as a whole for the last ten years and the second quarters of 2011 and 2012.

Table IV
ESTIMATED VALUE OF BUILDING PERMITS
(Dollars in Thousands)

Year	State ^{(1), (2)}	% Change from Prior Year	City & County of Honolulu ⁽¹⁾	% Change from Prior Year
2002	\$1,772,027	11.7	\$ 876,049	28.3
2003	2,361,233	33.3	1,109,568	26.7
2004	2,726,536	15.5	1,320,552	19.0
2005	3,491,964	28.1	1,364,030	3.3
2006	3,770,051	8.0	1,625,328	19.2
2007	3,585,447	-4.9	1,676,232	3.1
2008	2,906,578	-18.9	1,481,272	-11.6
2009	1,998,908	-31.2	1,247,196	-15.8
2010	1,980,296	-0.9	1,357,314	8.8
2011	1,858,763	-6.1	1,272,923	-6.2
2011(Q2)	438,364	-18.4	313,380	-15.5
2012(Q2)	NA	NA	445,237	42.1

⁽¹⁾ In thousands of dollars.

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

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

Presented below are selected highlights of recent and anticipated construction activity in the City and County.

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

In Waikiki, the Royal Hawaiian Shopping Center recently completed an \$85 million renovation and re-tenanting, providing additional retail and restaurant options for visitors, and General Growth Properties is preparing to add approximately 700,000 square feet of new stores and restaurant to the Ala Moana Shopping Center.

In July 2012, The Howard Hughes Corporation announced that it will move forward with a previously-planned 57,000 square foot expansion of the Ward Village Shops in the Ward Centers complex in Kakaako. Ward Centers is a 550,000 square foot retail complex which currently houses over 135 shops and restaurants and a 16-screen movie theater. Construction is scheduled to commence in the summer of 2012 and to be completed in the fall of 2013.

Also in July 2012, TRG IMP LLC, an affiliate of Michigan-based mall developer Taubman Centers Inc., announced that it will construct a \$300 million Waikiki retail complex on a six-acre site currently occupied by the International Market Place, the Waikiki Trade Center and the 358-room Miramar Hotel. The proposed retail complex is expected to contain 355,000 square feet of leasable space, roughly double the amount of retail space currently at the site. According to the developer, construction of the complex is expected to commence in 2013 and to be completed in 2015.

Residential Development. Two major master-planned communities are proposed on Oahu: Koa Ridge, a proposed 5,000 home project to be developed in Central Oahu by Castle & Cooke Homes Hawaii, Inc.; and Hoopili, a proposed 11,750 home project to be developed in West Oahu by D. R. Horton - Schuler Holmes, LLC. Both projects will be located on former or current agricultural land, and the change in use of both sites requires a reclassification of the land by the State Land Use Commission and re-zoning by the City and County. The reclassification of both sites was approved by the Land Use Commission in June 2012. Subject to obtaining the requisite approvals from the City and County, both developers have announced plans to break ground in 2013 and to begin delivering completed homes as early as 2014. In July 2012, two lawsuits were filed in state court seeking to overturn the Land Use Commission's reclassification of the project sites.

In July 2012, Pacrep LLC, a California developer, announced plans to construct a 34-story, 459-unit condominium hotel tower in Waikiki. The developer's plans call for construction of this \$275 million project to commence as early as March 2013. Another California-based developer, OliverMcMillan, is developing a \$380 million, 407-unit mixed use condominium project in the Kakaako neighborhood. The Howard Hughes Corporation, in partnership with the MacNaughton Group and the Kobayashi Group, are in the final stages of design to build a 210-unit condominium project atop a parking garage adjacent to the Nordstrom department store in the Ala Moana Shopping Center.

In August 2012, Downtown Capital LLC, an affiliate of Tradewind Capital and Island Insurance, announced that it completed the acquisition of the former Honolulu Advertiser building in Kakaako and tentatively plans to develop the 3.7-acre parcel by building two 400-foot high-rise condominium towers.

Tourism-Related Development. The Waikiki area has been experiencing a sustained period of construction and development since 2005, when construction began on the Waikiki Beach Walk, an eight-acre complex bordered by Kalakaua Avenue, Lewers Street, Kalia Road, Beach Walk and Saratoga Road. This complex has been reconstructed as a showcase and gathering place in Waikiki, featuring an outdoor entertainment plaza, 40 new retailers, six restaurants, and four hotels. The Beach Walk project, which represents an investment of approximately \$535 million, is part of Outrigger Enterprises' master plan for Waikiki. The project includes the Trump International Hotel, a 38-story, 464-unit condominium-hotel, and the \$110 million renovation of the Outrigger Reef on the Beach property, converting 836 rooms into 639 larger rooms.

Other major projects in Waikiki include the Hilton Grand Vacation Club's 38-story Grand Waikikian time-share located between the Hilton Hawaiian Village and Ilikai Hotel; the new Allure Waikiki on Kalakaua Avenue, a 35-story condominium; the Modern Honolulu (formerly, the Waikiki Edition), a 353-room luxury hotel developed by boutique hotelier Ian Schrager in the former Yacht Harbor Tower of the Ilikai Hotel; and a \$200 million renovation project at the Sheraton Waikiki Beach Resort. There are also plans for an expansion of the Hilton Hawaiian Village, including two separate towers consisting of over 550 time share units. Construction of the towers is expected to begin in 2013 and 2018, respectively.

In the fall of 2011, the 451-room Ocean Resort Hotel Waikiki became the 426-room Hyatt Place Waikiki Beach as part of an extensive renovation and repositioning. Phase one involved the renovation of the 19-story Pali Tower, which reopened in December 2011. Phase two, the renovation of the 14-story Diamond Tower, was completed in the spring of 2012.

Kyo Ya, owner of all Oahu Sheraton properties, is scheduled to begin a \$700 million redevelopment project at the Sheraton Princess Kaiulani in 2012, including construction of a new 34-story tower with both hotel and residential units. Kyo Ya has also received partial approval from the Honolulu Department of Planning and Permitting for a \$700 million project at the Moana Surfrider that includes construction of a 26-story hotel and condominium complex.

Outside Waikiki, the Turtle Bay Resort, on Oahu's north shore, recently completed a \$50 million renovation. In August 2011, Disney completed its first Hawaii resort, named Aulani, an \$800 million resort on 21 acres at Ko'Olina Resort & Marina. The resort features 350 hotel rooms and 480 Disney Vacation Club time-share villas. In West Oahu, the Makaha Resort & Golf Club is undergoing a complete upgrade including the conversion of 172 existing hotel rooms and suites into luxury timeshare apartments.

See "Transportation" above for a description of the State of Hawaii's multi-year improvement programs for the airports and harbors systems and the City and County's proposed fixed guideway mass transit system. See also "Education, Research and Science" below for a description of certain other construction projects related to the University of Hawaii.

Trade and Services

The economy of both the City and County and the State as a whole is heavily trade and service oriented, largely because of the heavy volume of purchases by visitors to the State. According to the State's Department of Taxation, the State's general excise tax base for trade and service activities exceeded \$37 billion in 2011, with retail, wholesale and service activities accounting for the majority. Of the State's 616,450 non-agricultural jobs in 2011, retail and wholesale trade together accounted for 83,900 jobs, or 13.6% of the total, and professional and business services, financial services, educational services, food and accommodation services and other services together accounted for 243,300 jobs, or 39.4% of the total.

Agriculture and Diversified Manufacturing

Oahu accounts for approximately 30% of the State's agricultural production. Agricultural sales totaled over \$184 million for Oahu in 2009.

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

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

Renewable Energy

Renewable energy is a growing industry on Oahu.

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

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

In March 2011, Kahuku Wind Power LLC completed Oahu's first large-scale commercial wind farm on the North Shore of the island. This 30-megawatt wind farm is expected to generate 83 million kilowatt hours of electricity annually. On August 1, 2012, a fire at the facility severely damaged a warehouse which contained approximately 12,000 battery packs. The company has not provided an estimate as to when the wind farm will resume operations.

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

Education, Research and Science

The University of Hawaii is Hawaii's sole state public university system and is governed by a single Board of Regents. It is comprised of ten campuses, including three University campuses, seven community college campuses, three University Centers, multiple learning centers, and extension, research, and service programs distributed across six islands throughout the State. In addition to the flagship campus of the University at Manoa, the University System also includes the 4,139-student (as of fall 2011) campus at Hilo on the island of Hawaii and the smaller campus in West Oahu on the island of Oahu. The community college system in the University System consists of seven community colleges. There are four community college campuses on the island of Oahu and one community college campus on each of the islands of Maui, Kauai, and Hawaii, making college classes accessible and affordable and easing the transition from high school to college for many students. Nine educational centers are located in the more remote areas of the State, and support the rural communities via interactive television classrooms. In addition to the University of Hawaii System, there are also three private universities and one private college on Oahu.

The University is accredited by the Accrediting Commission for Senior Colleges and Universities and the Accrediting Commission for Community and Junior Colleges ("ACCJC") of the Western Association of Schools and Colleges. All campuses meet or exceed their accreditation requirements. The most recent reaffirmation of accreditations at the University at Manoa and Hilo campuses were for 10 years each, and for seven years at the West Oahu campus. Each community college is separately accredited and the most recent reaffirmation of accreditation for each campus was for six years, the maximum allowed by ACCJC policy. Professional programs in curriculum are individually accredited by appropriate agencies. Students may transfer credits to other U.S. or foreign universities on the same basis as course credits are transferred by other accredited U.S. universities.

The University System provides students with one doctoral-research campus, two comprehensive baccalaureate campuses, and seven community college campuses located on the four major islands. Students of the University System can earn a variety of degrees including certificates in more than 100 fields of study, 117 associate degrees in liberal arts and career and technical education, bachelor's degrees in 139 programs, master's degrees in 91 programs, and doctoral degrees in 53 programs, including MD, JD, PharmD, and DArch degrees. In addition, the University maintains a co-operative extension program. The three University Centers extend access to baccalaureate or higher degrees and certificates in communities beyond the physical location of campuses. There are a total of 627 curricula offered in the University System.

The University at Manoa is a research university of international standing. It has a Carnegie classification of "Research University/Very High" research activity (RU/VH), the top classification for doctoral-research universities, and the closest to the old "Carnegie Research I University" classification no longer in use. Students have special opportunities for Hawaiian, Asian, and Pacific educational experiences and involvement in research activities, learning community service, and co-curricular activities. The University is one of 32 universities or consortia in the United States designated as a land, sea and space grant college and is ranked in the top 30 public universities in federal research funding for engineering and science and 49th overall by the National Science Foundation. As a major research university, the University at Manoa has the capability of serving not only the State but the nation and the international community as well. The University at Manoa has widely recognized strengths in tropical agriculture, tropical medicine, oceanography, astronomy, electrical engineering, volcanology, evolutionary biology, comparative philosophy, comparative religion, Hawaiian studies, Asian studies, Pacific Islands studies, and Asian and Pacific region public health. The University at Manoa offers instruction in more languages than most American institutions. In addition to the University faculty expertise in benthic and pelagic oceanography, the Hawaii Institute of Marine Biology leads global research in coral reefs and zooxanthellae.

The University has research partnerships with local, mainland and international universities, research institutions and business organizations. The University has also been designated as the fifth Naval University Affiliated Research Center, which is expected to generate at least \$10 million in additional funding per year

beginning in 2012. The University also secures research funding from various other sources, including the State, the National Science Foundation, National Institutes of Health, Department of Defense, Department of Agriculture, National Aeronautics and Space Administration, Department of Energy and the Environmental Protection Agency.

Currently in progress or in the planning stages are \$137.5 million of projects at the Manoa campus. These include the construction of a \$42 million, 74,000 square foot Information Technology Center, a \$28 million expansion and renovation of student recreation facilities at the Campus Center, \$15.3 million of science laboratory renovations, a \$13.4 million expansion of the University's athletic complex, and \$38.8 million of additional renovations at various academic, library and housing facilities on the campus.

In 2010, the University began construction of the new Cancer Research Center of Hawaii next to the John A. Burns School of Medicine in Kakaako. The \$180.4 million state-of-the-art research facility is expected to be completed in the fall of 2012.

The University of Hawaii is in the planning stages of constructing the Culinary Institute of the Pacific through Kapiolani Community College. The sustainable LEEDS-rated facility will be constructed on the slopes of historic Diamond Head, at the site of the former Cannon Club. The facility will include 40,000 square feet on 7.5 acres of land, including two laboratory buildings (8,000 square feet each), a classroom building (4,000 square feet), an administration/faculty office building (4,000 square feet), a culinary amphitheater (4,000 square feet) and a restaurant (9,000 square feet). The project will cost approximately \$40 million, and will be funded through a combination of private giving and bond funding.

Federal government research agencies in Honolulu include the U.S. Bureau of Commercial Fisheries and the Environmental Science Services Administration. Among private research organizations on Oahu are the Oceanic Institute and the Bishop Museum. The three high technology centers located on Oahu are the Mililani Technology Park, the Kaimuki Technology Enterprise and the Manoa Innovation Center.

Visitor Industry

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

After a strong fourth quarter in 2011, Hawaii's tourism sector showed continued strong performance through the first two quarters of 2012. Both domestic and international visitor arrivals, especially international visitor arrivals increased in the second quarter, as compared with the same quarter in 2011. Due to longer lengths of stay, the increase in daily visitor census was higher than the increase in visitor arrivals. In addition, since visitors spent more on a daily basis during the second quarter, total visitor spending increased significantly higher than the increase in visitor arrivals in the quarter. For the economy, visitor spending is more important than visitor arrivals.

In 2011, total visitor arrivals by air increased 257,503, or 3.7 percent, while average daily census increased 7,875, or 4.4 percent, from the previous year. In the second quarter of 2012, the total number of visitors arriving by air to Hawaii increased 184,910, or 10.7 percent, as compared to the same quarter of 2011. The total average daily census was up 21,681, or 12.5 percent, in the quarter. For the first half of 2012, total visitor arrivals by air increased 337,897, or 9.6 percent, while average daily census increased 18,766, or 10.1 percent, from the same period in 2011.

In 2011, domestic arrivals by air were up 169,939, or 3.4 percent, from the previous year. Following a modest 2.9 percent growth in the second quarter of 2011, total visitor arrivals on domestic flights increased 70,890, or 5.5 percent, in the second quarter of 2012, as compared to the same quarter of 2011. For the first half of 2012, domestic arrivals were up 131,036, or 5.2 percent, from the same period in 2011.

In 2011, international arrivals were up 87,564, or 4.5 percent, from the previous year. After a negative 2.1 percent growth in the second quarter of 2011, arrivals on international flights increased a very strong 114,020, or 26.7 percent, in the second quarter of 2012, as compared to the second quarter of 2011. For the first half of 2012, international arrivals were up 206,861, or 21.4 percent, from the same period in 2011.

In terms of major market areas, arrivals from U.S. West were up 70,301, or 2.4 percent, in 2011; arrivals from the U.S. East were up 31,858, or 2.0 percent; and Japanese arrivals were essentially unchanged (up 2,498) from the previous year. From the second quarter of 2011 to the same period of 2012, arrivals from the U.S. West increased 40,042, or 5.1 percent; arrivals from the U.S. East increased 24,055, or 5.8 percent; and arrivals from Japan increased 67,291, or 27.8 percent. For the first half of 2012, arrivals from U.S. West were up 82,397, or 5.7 percent; arrivals from the U.S. East were up 35,932, or 4.2 percent; and Japanese arrivals were up 93,504, or 17.1 percent, from the same period last year.

In 2011, domestic average daily census increased 5,620, or 4.1 percent; international average daily census increased 2,255, or 5.4 percent, from the previous year. Because of longer lengths of stay, the average total daily visitor census increased more than the increase in visitor arrivals. The total average daily visitor census was up 12.5 percent, or 21,681 visitors per day, in the second quarter of 2012 over the same quarter of 2011. Domestic average daily census increased 6.0 percent, or 8,338 visitors per day, while international average daily census increased 37.2 percent, or 13,343 visitors per day. In the first half of 2012, domestic average daily census increased 6,700, or 4.7 percent; international average daily census increased 12,065, or 28.1 percent from the same period in 2011.

In 2011, visitor expenditures increased \$1,189.9 million, or 11 percent, from the previous year. Nominal visitor expenditures by air totaled \$3,450.4 million in the second quarter of 2012, up 25.9 percent, or \$710.3 million, from the same quarter of 2011. For the first half of 2012, visitor expenditures increased \$1,241.5 million, or 21.2 percent, from the same period in the previous year.

In 2011, total airline capacity, as measured by the number of available seats flown to Hawaii, increased 1.0 percent, or 92,378 seats, from the previous year. Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 5.1 percent, or 117,561 seats, in the second quarter of 2012; domestic seats increased 0.8 percent, or 13,856 seats; international seats increased 17.5 percent, or 111,246 seats, compared to the same quarter of 2011. For the first half of 2012, the number of total available seats increased 4.8 percent, or 225,249 seats, from the same period in 2011.

Current airline capacity levels reflect the opening of operations since 2010, including the introduction of service between Honolulu and Tokyo's Haneda Airport by Japan Airlines, All Nippon Airways and Hawaiian Airlines in the fourth quarter of 2010 and the addition of a new route to Seoul, South Korea, in 2010. In addition, in January 2011, Alaska Air introduced a non-stop flight between Bellingham, Washington, and Honolulu. In the summer of 2011, Hawaiian Airlines introduced service to Osaka-Kansai, Japan, and China Eastern Airlines introduced non-stop service between Honolulu and Shanghai, representing Hawaii's first regularly scheduled service to China. In addition, in December 2011, Delta Air Lines introduced seasonal service between Honolulu and Fukuoka, Japan.

More recently, Hawaiian Airlines introduced service to Fukuoka, Japan, in April 2012 and to New York, New York, in June 2012. Hawaiian has also announced plans to introduce service to Honolulu from Sapporo, Japan, and Brisbane, Australia, in the fourth quarter of the year, and from Auckland, New Zealand, in the Spring of 2013. Hawaiian plans to begin interisland turboprop operations using smaller (50 seats or less) planes that would allow Hawaiian to serve smaller neighbor island airports. Allegiant Air introduced service to Honolulu from Las Vegas, Nevada, and Fresno, California, in June 2012 and has indicated that it intends to introduce additional routes to Hawaii from other mainland cities by the end of the year. In addition, Alaska Airlines has announced plans to introduce service to San Diego, California, and Portland, Oregon, in the fourth quarter of 2012.

In 2011, the statewide hotel occupancy rate averaged 73.4 percent, up 2.7 percentage points from the previous year. According to the most recent data available, in the second quarter of 2012, statewide hotel occupancy rate averaged 73.9 percent, up 5.3 percentage points from the same quarter of 2011. For the first half of 2012, statewide hotel occupancy rate averaged 77.1 percent, up 4.6 percentage points from the same period in 2011.

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

Table V**SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS**

	Year Ended December 31					2 nd Quarter	
	2007	2008	2009	2010	2011	2011 ⁽³⁾	2012 ⁽³⁾
Arrivals by Air – State ⁽¹⁾	7,497	6,713	6,420	6,917	7,174	1,724	1,909
Domestic	5,583	4,902	4,672	4,957	5,127	1,298	1,369
International	1,914	1,812	1,748	1,960	2,047	427	541
Arrivals by Air – Oahu ⁽¹⁾	4,695	4,194	4,025	4,274	4,402	1,046	1,194
Domestic	2,950	2,555	2,447	2,532	2,592	661	705
International	1,744	1,639	1,578	1,741	1,806	384	490
Average Daily Visitor Census – State ⁽¹⁾	189.4	172.5	165.1	177.9	185.8	174.0	195.6
Domestic	151.0	135.2	129.1	136.4	142.0	138.1	146.4
International	38.5	37.2	36.0	41.5	43.8	35.9	49.2
Visitor Expenditures – State ⁽²⁾	\$12,578	\$11,182	\$9,794	\$10,858	\$12,047	\$2,740	\$3,450
Hotel Occupancy Rate – State	75.0%	70.4%	64.8%	70.7%	73.4%	68.6%	73.9%
Hotel Occupancy Rate – Oahu	76.8%	75.0%	72.3%	78.2%	80.9%	76.1%	81.8%

⁽¹⁾ In thousands.

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

⁽³⁾ 2012 data are preliminary.

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

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

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

In November 2011, Honolulu served as the primary location for the Asia-Pacific Economic Cooperation Conference (APEC), which drew thousands of attendees, including President Obama and other heads of state, ministers, political staff, business leaders, and generated global news coverage from approximately 1,200 registered media outlets.

As discussed below under "Sporting Events," major sports events held in Honolulu such as the NFL Pro Bowl and the Honolulu Marathon attract thousands of visitors annually. In addition, as discussed under "Construction" above, the City and County continues to attract major investment to support the visitor industry, including hotels, restaurants, and recreation facilities.

Sporting Events

Honolulu is a popular venue for sporting events. Aloha Stadium, located minutes from downtown Honolulu, hosts the University of Hawaii's football team each year. The National Football League's Pro Bowl game was held at Aloha Stadium annually from 1980 through 2009. The Pro Bowl was relocated to Miami in 2010, but returned to Honolulu in 2011 and January 2012, and will be played in Honolulu again in 2013. The location of the game beyond 2013 has not been determined. According to the Hawaii Tourism Authority, the 2011 Pro Bowl attracted an estimated 17,000 visitors to Honolulu and generated an estimated \$25 million in spending.

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

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

The Honolulu Marathon, one of the largest in the world, has been held in City each December since 1973. In 2011, the Honolulu Marathon drew over 22,600 participants, including approximately 14,500 visitors, of which more than 13,000 were international visitors. According to a Hawaii Pacific University study, the 2011 Marathon generated an estimated \$107 million in spending.

Arts and Entertainment

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

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

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

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

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

Film and Television

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

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

Filmed in Honolulu, CBS's hit series Hawaii Five-O completed its second season in May 2012. CBS began filming the third season in July.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bond Resolution contains terms and conditions relating to the issuance of Bonds, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Bond Resolution, to which reference is hereby made. Copies of the Bond Resolution are available from the City and County.

Certain Definitions

Certain definitions contained in the Bond Resolution are summarized below. This summary does not purport to be comprehensive or definitive, and is subject to all provisions of the Bond Resolution, to which reference is hereby made. Copies of the Bond Resolution are available from the Department of Budget and Fiscal Services or the Department of Environmental Services of the City and County.

“Accrued Debt Service” means as of any date of computation and with respect to the Bonds of any Series, an amount equal to the sum of: (i) interest on such Bonds accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) principal, Sinking Fund Installment and redemption premium which are due and unpaid for such Bonds and that portion of the principal, unsatisfied balance of any Sinking Fund Installment (as determined in accordance with the Bond Resolution) and redemption premium for such Bonds next due which would have accrued to the end of such calendar month if deemed to accrue monthly from a date one year prior to its due date.

“Act” means Chapter 49, Hawaii Revised Statutes, and all laws amendatory or supplemental thereto.

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

“Assumed Long-Term Fixed Rate” means, with respect to Variable Rate Bonds, (i) a numerical rate of interest that such Bonds would have borne if issued as Fixed Rate Bonds with the same maturity and taking into account Sinking Fund Installments; or (ii) if the City and County has in connection with such Variable Rate Bonds entered into an Interest Rate Exchange Agreement which provides that the City and County is to pay to another person an amount determined based upon a fixed rate of interest on a notional amount and which requires the Counterparty to pay to the City and County an amount equal to the amount by which interest on the notional amount stated therein at the rate borne by such Variable Rate Bonds exceeds the interest payable on such notional amount at a rate stated therein, the fixed rate or other rate of interest set forth in or determined in accordance with such agreement. With respect to the Bonds described in clause (i) of the preceding sentence, an Authorized Officer is to certify or cause the Remarketing Agent for such Series of Variable Rate Bonds or other qualified person to certify such Assumed Long-Term Fixed Rate on the issue date of such Bonds, taking into account such market factors as such Authorized Officer or such Remarketing Agent or such qualified person deems necessary or appropriate.

“Authorized Officer” means the Director of Budget and Fiscal Services, any Deputy Director of Budget and Fiscal Services, the Director of Environmental Services or any other officer of the City and County designated by resolution of the City Council.

“Bond Anticipation Notes” means bond anticipation notes which the City and County may issue for purposes of the Wastewater System if the requirements set forth in the Bond Resolution for such issuance are satisfied.

“Bond Counsel” means an attorney or a firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds selected by the City and County.

“*Bondholder*” or “*holder of a Bond*” or “*Holder*” means the registered owner of any Bond which at the time is registered other than to bearer, or such holders’ duly authorized attorney in fact, representative or assigns.

“*Capital Appreciation Bond*” means any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof.

“*City Charter*” means the 1973 Revised Charter of the City and County of Honolulu (1994 Edition), as the same may be amended from time to time.

“*City Code*” means the Revised Ordinances of Honolulu 1990, as the same may be amended from time to time.

“*City Council*” mean the City Council of the City and County.

“*Code*” means the Internal Revenue Code of 1986, as amended, and any successor statutes thereto, and any applicable regulations thereunder.

“*Common Reserve Account Requirement*” means as of any date of computation, an amount equal to the greatest amount of Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds entitled to the benefit of the Common Reserve Account; provided however, that if upon issuance of a Series of Bonds entitled to the benefit of the Common Reserve Account, such amount would require moneys to be credited to the Common Reserve Account from such Bond proceeds in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Account Requirement will mean an amount equal to the sum of the Common Reserve Account Requirement immediately preceding issuance of such Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as certified by an Authorized Officer; provided further, however, that for purposes of this definition, Aggregate Debt Service is to be computed with respect to each Variable Rate Bond entitled to the benefit of the Common Reserve Account by using the Assumed Long-Term Fixed Rate applicable thereto.

“*Consulting Engineer*” means the engineer or engineering firm or corporation retained from time to time pursuant to the Bond Resolution to perform the acts and carry out the duties provided for such Consulting Engineer in the Bond Resolution.

“*Costs*” means all costs of any Improvement and include, but are not be limited to, all costs and estimated costs of the issuance of the Bonds, all architectural, engineering, inspection, financial and legal expenses, the cost of causing the payment of the principal or interest or both of the Bonds to be insured or guaranteed, the initial cost of any Support Facility or Interest Rate Exchange Agreement obtained or permitted by the Act, and interest which it is estimated will accrue during the construction of any Improvements and for six (6) months thereafter.

“*Debt Service*” means, as of any particular date of computation, with respect to any Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside in such period for the payment (or retirement) of the principal and Redemption Price (if any) of, and interest on, such Bonds; provided, however, that the term “Debt Service” does not include interest on Bonds to the extent it is to be paid from amounts on credit to a Series Improvement Interest Subaccount, amounts on credit to the Debt Service Account or any other provisions made for the payment of interest.

“*Department*” means the Department of Environmental Services of the City and County as established by the City Charter, or the successor thereto.

“*Depositary*” means any bank, national banking association or trust company selected and appointed by an Authorized Officer in accordance with the Bond Resolution as a depositary of moneys and Investment Securities held under the provisions of the Bond Resolution.

“Depository” means The Depository Trust Company, New York, New York, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Series Certificate relating to such Series of Bonds to serve as securities depository for the Bonds of such Series.

“Director of Budget and Fiscal Services” means the Director of Budget and Fiscal Services of the City and County appointed pursuant to and having the powers as set forth in the Act and the City Charter, or any successor.

“Director of Environmental Services” means the Director of the Department of Environmental Services of the City and County appointed pursuant to and having the powers as set forth in the Act and the City Charter, or any successor.

“Exempt Obligation” means an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, and which; at the time an investment therein is made or such obligation is deposited in any fund or account under the Bond Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, “Aa” or better by Moody’s and “AA” or better by S&P, or, if such obligation is not rated by Moody’s or S&P, or, if such obligation is rated by neither Moody’s nor S&P, has been assigned a comparable rating by another nationally recognized rating service, but in no event rated lower than the lowest rating on Outstanding Bonds assigned by Moody’s or S&P.

“Fiscal Year” means the twelve month period established by the City and County or provided by law from time to time as its fiscal year, and which, as of the date of adoption of the Bond Resolution, is the 12-month period commencing on July 1 of any year and ending on June 30 of the following year.

“Government Obligation” means a direct obligation of the United States of America, an obligation the principal of, and interest on, which are guaranteed by the United States of America, provided, that the full faith and credit of the United States of America is pledged to any such direct obligation or guarantee.

“Improvements” means the acquisition, purchase, construction, reconstruction, improvement, betterment or extension of the Wastewater System.

“Interest Rate Exchange Agreement” means an agreement entered into by the City and County relating to Bonds of one or more Series which provides that during the term of such agreement the City and County is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on a notional amount and that the Counterparty is to pay to the City and County either (i) an amount based on the interest accruing on such notional amount at a fixed, capped or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one will pay to the other any net amount due under such agreement, or (ii) an amount based on the amount by which the rate per annum at which such Bonds bear interest exceeds a rate per annum stated in such agreement.

“Investment Agreement” means an agreement for the investment of moneys with a Qualified Financial Institution.

“Investment Securities” means any of the following, if and to the extent that the same are legal for the investment of funds of the Department:

- (i) Government Obligations;
- (ii) Investment Agreements;
- (iii) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the

Federal Home Loan Mortgage Corporation (“FHLMCs”); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of Fannie Mae (“FNMA’s”); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association (“GNMA’s”); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit bonds of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(iv) direct obligations of any state or territory of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, “Aa” or better by Moody’s and “AA” or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, “Aa” or better by Moody’s and “AA” or better by S&P;

(v) commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, “P-1” by Moody’s and “A-1” or better by S&P;

(vi) Federal funds, unsecured certificates of deposit, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which, at the time of purchase, has a short-term “Bank Deposit” rating of “P-1” by Moody’s and a “Short-Term CD” rating of “A-1” or better by S&P.

(vii) deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation (“FDIC”);

(viii) investments in money-market funds rated “Aaa” by Moody’s, and “AAAm” or “AAAm-G” by S&P;

(ix) repurchase agreements collateralized by Government Obligations, GNMA’s, FNMA’s or FHLMC’s with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated in the top two rating tiers by Moody’s, and “AA-1” or “AA-” or better by S&P, provided:

(a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(b) the securities are held free and clear of any lien by the Depository or an independent third party acting solely as agent (“Agent”) for the Depository, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, and the Depository has received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Depository; and

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Depository; and

(d) the repurchase agreement has a term of 3 years or less, and the Depository or the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

(e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%;

(x) investments in any mutual fund whose portfolio is limited to Government Obligations and the investments described in clause (ii) of Investment Securities; and

(xi) student loan resource securities including student loan auction rate securities, student loan asset-backed notes, student loan program revenue notes and bonds, and securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues, issued with either bond insurance or overcollateralization guaranteed by the United States Department of Education, provided all insurers maintain an "Aaa" by Moody's, "AAA" by S&P or equivalent rating by other rating agencies.

"LIBOR" means the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Moody's" means Moody's Investors Service, Inc., its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, "Moody's" is deemed to refer to any other nationally recognized rating agency, if any, designated by the Director of Budget and Fiscal Services.

"Net Revenue Requirement" means with respect to any Fiscal Year or any period, an amount equal to the greater of (i) the sum of (a) the Aggregate Debt Service in such Fiscal Year or such period, and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.20 times the Aggregate Debt Service in such Fiscal Year or such period, plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of such Fiscal Year or such period.

"Net Revenues" means, with respect to any period; the Revenues during such period less amounts required to pay Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" means the costs and expenses of operating and maintaining the Wastewater System, including, without limiting the generality of the foregoing, (i) all expenses includable in the operation and maintenance expense accounts of the Department relating to the Wastewater System according to generally accepted accounting principles, exclusive of depreciation and amortization of property values or losses, (ii) to the extent not included in the preceding clause (i) or paid from Bond proceeds or otherwise, the Department's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others, and (iii) the amounts, if any, payable to the United States Treasury Department pursuant to Section 148 of the Code.

"Opinion of Counsel" means with respect to the City and County a written opinion of counsel selected by the Director of Budget and Fiscal Services who is not an employee of the City and County, and which, with respect to Federal income tax law and securities law relating to obligations issued by state and local governmental units, is Bond Counsel. Any Opinion of Counsel may be based (insofar as it relates to factual matters or information which is in the possession of the City and County) upon a written certificate of the City and County

unless such counsel knows, or in the exercise of reasonable care should have known, that such written certificate is erroneous.

“Outstanding” or *“outstanding”* when used with reference to Bonds means, as of any date, Bonds theretofore or thereupon issued pursuant to the Bond Resolution, except: (a) any Bonds canceled by a Paying Agent or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds have been delivered pursuant to the Bond Resolution; (c) Bonds deemed to be no longer outstanding under the Bond Resolution as provided in the Bond Resolution and (d) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution or the Series Certificate relating to such Bonds.

“Parity Support Facility Reimbursement Obligation” means the obligation of the City and County described in the Bond Resolution to directly reimburse the Support Facility Provider of any Support Facility for amounts paid by such Support Facility Provider under such Support Facility or a Counterparty under an Interest Rate Exchange Agreement for amounts paid thereunder, on a parity with the obligation of the City and County to pay the Bonds, whether or not such obligation to reimburse is evidenced by a promissory note or other similar instrument.

“Paying Agent” means, as to Bonds of any particular Series, the Director of Budget and Fiscal Services or the bank or trust company designated for the payment of the principal and Redemption Price, if any of, and interest on, the Bonds of such Series in the Series Resolution authorizing the issuance of such Series or the Series Certificate relating to such Series.

“Record Date” means, with respect to any Series of Bonds, (i) with respect to the payment of interest, the fifteenth (15th) day (whether or not a Business Day) of the month preceding an interest payment date; (ii) with respect to notice of redemption, the 45th day (whether or not a Business Day) preceding the date of redemption; or (iii) such other day as may be provided in the Series Resolution authorizing the issuance of such Series or the Series Certificate relating to such Series.

“Refunded Municipal Obligations” means Exempt Obligations which are rated in the highest rating category by Moody’s and S&P and provision for the payment of the principal of and interest on which has been made by an irrevocable deposit with a trustee or escrow agent of Governmental Obligations, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which Government Obligations will be sufficient to pay, when due, the principal of and interest on such Exempt Obligations.

“Reimbursable Obligations” means reimbursable general obligation bonds issued and delivered or to be hereafter issued and delivered by the City and County to finance certain costs related to the Wastewater System, the debt service on which the Department is required by State law to reimburse the City and County’s General Fund.

“Reimbursable Obligation Requirement” means, with respect to any period of time, the amount required to be credited to the Reimbursable Obligation Account pursuant to the ordinances and resolutions of the City Council authorizing the issuance and delivery of Reimbursable Obligations.

“Required Deposits” means, for any period, amounts required: (i) to be paid into the Common Reserve Account, each Separate Reserve Account, the Subordinate Obligation Account and Reimbursable Obligation Account; and (ii) to pay Support Facility Reimbursement Obligations.

“Revenue Bond Index” means the 30 year Revenue Bond Index of The Bond Buyer, a publication in New York, New York, or any successor publication maintaining such Index or in the event The Bond Buyer or any successor publication does not maintain such Index, an equivalent index with the same or similar components as the Revenue Bond Index.

“Revenues” means the moneys, including any moneys collected from the City and County or any department thereof other than the Department, derived by the Department from the rates, rentals, fees and charges

prescribed for the use and services of, and the facilities and commodities furnished by, the Wastewater System, including, without limiting the generality of the foregoing, (i) all income, receipts, profits, and other moneys derived from the furnishing or supplying of the services, facilities and commodities through the Wastewater System; (ii) all income from investments of moneys held under the Bond Resolution including investment income on the Improvement Account but not including any earnings on the Rebate Account, the Subordinate Obligation Account or the Reimbursable Obligation Account; (iii) all payments made by Counterparties pursuant to Interest Rate Exchange Agreements; and (iv) moneys and Investment Securities transferred from the Rate Stabilization Account to the Sewer Fund within 90 days following the end of a Fiscal Year. "Revenues" will not include, (i) deposits subject to refund until such deposits have become the property of the City and County; (ii) contributions in-aid-of construction and assessment, impact and other similar fees imposed and collected by the City and County which are targeted to pay the Costs of specific Improvements; (iii) income, fees, charges, receipts, profits or other moneys derived by the Department from the ownership or operation of any separate utility system; (iv) any gifts, grants, donations or other moneys received by the City and County for purposes of the Wastewater System from any State or Federal agency or other person if such gifts, grants, donations or other moneys are the subject of any limitation or reservation: (a) imposed by the donor or grantor; or (b) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds; (v) amounts retained in the Sewer Fund for working capital and operating reserves pursuant to the Bond Resolution; (vi) moneys and Investment Securities transferred from the Sewer Fund to the Rate Stabilization Account within 90 days following the end of a Fiscal Year; or (vii) Wastewater System Facility Charges:

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, S&P is deemed to refer to any other nationally recognized rating agency designated by the Director of Budget and Fiscal Services.

"*Serial Bonds*" means Bonds which mature serially and which are not Term Bonds.

"*Series,*" "*Series of Bonds*" or "*Bonds of a Series*" means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Bond Resolution.

"*Sinking Fund Installment*" means an amount so designated which is established pursuant to the Bond Resolution. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Bond Resolution toward the same (or the original amount of any such Sinking Fund Installment if no such amounts have been credited toward the same) will constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

"*Subordinate Obligations*" means any bonds, notes or other evidences of indebtedness of the City and County payable from the Net Revenues, other than the Bonds and the Reimbursable Obligations, issued in compliance with the provisions of the Bond Resolution.

"*Subordinate Obligation Requirement*" means with respect to any period of time, the amount required to be deposited in the Subordinate Obligation Account pursuant to the Bond Resolution, indenture or other instruments of the City and County adopted by or entered into by the City and County in accordance with the Bond Resolution and providing for all payments with respect to Subordinate Obligations.

"*Supplemental Resolution*" means any resolution adopted by the City Council and becoming effective pursuant to and in compliance with the provisions of the Bond Resolution which amends or supplements the provisions of the Bond Resolution, any Series Resolution or any other Supplemental Resolution.

"*Support Facility*" means an irrevocable letter of credit, surety bond, loan agreement, standby purchase agreement or other agreement, facility or insurance or guaranty arrangement issued or extended by one or more Support Facility Providers, pursuant to which the City and County is entitled to obtain moneys to pay the principal or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof in accordance with the Bond

Resolution and with the Series Resolution authorizing such Bonds or a Series Certificate relating to such Bonds, whether or not the City and County is in default.

“Support Facility Provider” means a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the City and County or a Counterparty.

“Support Facility Reimbursement Obligation” means the obligation of the City and County described in the Bond Resolution to directly reimburse the Support Facility Provider of a Support Facility for amounts paid thereunder or a Counterparty under an Interest Rate Exchange Agreement for amounts paid thereunder, whether or not such obligation to reimburse is evidenced by a promissory note or other similar instrument.

“Tax-exempt Bonds” means Bonds the interest on which is intended by the City and County to be excluded from gross income of the holders of such Bonds for federal income taxation purposes pursuant to the Code.

“Term Bonds” means Bonds, the retirement or the redemption of which is to be provided for from moneys credited to the Debt Service Account pursuant to the Bond Resolution.

“Variable Rate Bonds” means any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time based on the terms thereof, based upon an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such Bonds from being ascertainable in advance as provided for in the Bond Resolution.

“Wastewater System” means all plants and properties, both real and personal and tangible and intangible, now or hereafter existing, under the management, control or jurisdiction of the Department, used for, useful in, or pertaining to the collection, pretreatment, advanced primary treatment, primary treatment, secondary treatment, tertiary treatment, purification, conveyance, storage, drainage, discharge and disposal of sewage, water, wastewater, stormwater, influent, effluent, or other liquids or suspended solids, or incidental or necessary to the preservation of the City and County’s or the Department’s wastewater conveyance facilities, wastewater treatment plants, wastewater disposal facilities, storm drains and sewers, sewage pump stations, sewage treatment plants, sewers, interceptors, outfall and other related facilities and plants, and the integrity thereof. The terms used in the preceding sentence have the meanings as ascribed to them in the City Code. Without limiting the generality of the foregoing, the Wastewater System includes: (1) the existing plants and properties comprising the Wastewater System under the management, control or jurisdiction of the Department, as of the date of adoption of the Bond Resolution; and (2) all Improvements thereafter constructed or otherwise acquired, purchased or annexed.

“Wastewater System Facility Charge” has the meaning specified in the City Code.

Pledge Made in the Bond Resolution

The Bonds are payable solely from and secured by the funds pledged therefor under the Bond Resolution. The City and County has pledged as security for the payment of the principal of, Redemption Price, if any, and interest on the Bonds in accordance with their terms and the provisions of the Bond Resolution, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution: (i) the proceeds of sale of the Bonds pending application thereof in accordance with the provisions of the Bond Resolution or of a Series Resolution or a Series Certificate; (ii) the Net Revenues; and (iii) all Funds and Accounts held under the Bond Resolution other than the Rebate Account, the Subordinate Obligation Account, the Reimbursable Obligation Account, with respect to any Series of Bonds not entitled to the benefit of a Separate Series Reserve Account, such Separate Series Reserve Account, and with respect

to any Series of Bonds not entitled to the benefit of the Common Reserve Account, the Common Reserve Account, including the investments, if any, in such Funds and Accounts; and the Bondholders have a lien on, and a security interest in, such proceeds, Net Revenues and Funds and Accounts for such purpose and subject to such provisions of the Bond Resolution. Such lien and security interest for the payment of Bonds are prior and superior to the lien and security interest for the payment of Subordinate Obligations and Reimbursable Obligations.

The Bond Resolution provides that each of the obligations, duties, limitations and restraints imposed upon the City and County by the Bond Resolution is deemed to be a covenant between the City and County and every Holder of the Bonds, and the Bond Resolution and every provision and covenant set forth in the Bond Resolution is deemed to be and constitute a continuing contract and agreement between the City and County and the Holders from time to time of the Bonds issued under the Bond Resolution, to secure the full and final payment of the principal and redemption price of and interest on all Bonds which may from time to time be issued, executed, and delivered under the Bond Resolution. The covenants and agreements set forth in the Bond Resolution to be performed by the City and County are for the equal and proportionate benefit, security and protection of all Holders of the Bonds without preference, priority or distinction as to payment or security or otherwise of any of the Bonds over any of the others for any reason or cause whatsoever except as expressly provided in the Bond Resolution, in a Series Resolution, a Series Certificate or a Supplemental Resolution, or in the Bonds.

Additional Bonds

Basic Test. One or more Series of Bonds (exclusive of refunding Bonds) may be issued at any time and from time to time for any lawful use or purpose relating to the Wastewater System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the provisions set forth in the Bond Resolution, including, among other things, delivery to the Director of Budget and Fiscal Services of the following documents or moneys or securities:

1. A written certificate of the City and County stating the amount required to be in the Common Reserve Account after issuance of the Bonds then to be issued, and that after deposit in the Common Reserve Account of the amount, if any, to be deposited therein in connection with the issuance of such Bonds, the amounts on deposit in the Common Reserve Account will not be less than the Common Reserve Account Requirement.

2. A written certificate of the City and County stating the amount required to be in the Series Reserve Account created, if any, to provide additional security for the Bonds of such Series after issuance of Bonds then to be issued, and that after deposit in such Separate Series Reserve Account of the amount to be deposited therein in connection with the issuance of such Bonds, the amounts on deposit in such Separate Series Reserve Account will not be less than the Separate Series Reserve Account Requirement for such Separate Series Reserve Account.

3. Either (I) a written certificate of the City and County based: (i) on audited figures or (ii) to the extent audited figures are not available, on figures taken by an independent certified public accountant from the Department's books and records, showing that the Net Revenues for: (a) the most recent Fiscal Year, or (b) any consecutive 12-months' period out of 24 months immediately preceding the month in which such Bonds are issued were not less than 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year, plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the written certificate of the City and County, or (II) a written certificate of the City and County or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of: (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Bonds are issued, and (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Bonds are expected to commence operations, or, if the proceeds of such Series of Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Bonds are issued, are estimated to be not less than 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, plus 1.00 times the aggregate Support Facility Reimbursement Obligations

outstanding as of the date of such written certificate of the City and County or certificate of the Consulting Engineer, as the case may be.

Certain Adjustments. The Bond Resolution permits and requires certain adjustments to be made in determining whether the Basic Test described above for the issuance of Bonds other than Refunding Bonds is met.

1. In determining Debt Service on Variable Rate Bonds then Outstanding and Variable Rate Bonds then proposed to be issued for purposes of the Basic Test described above, the interest rate is to be calculated as: (i) if any Variable Rate Bonds are then Outstanding and have been Outstanding for at least 24 months, the average interest rate borne by such Variable Rate Bonds over the preceding 12-month period or if no such Variable Rate Bonds are then Outstanding, (a) for the proposed Variable Rate Bonds that are Tax-exempt Bonds, the average interest rate of the Revenue Bond Index over the preceding 12-month period at the time of calculation, and (b) for the proposed Variable Rate Bonds that are not Tax-exempt Bonds, the average interest rate of LIBOR over the preceding 12-month period at the time of calculation..

2. Bond Anticipation Notes then Outstanding are to be treated as Bonds. In determining Debt Service on such Bond Anticipation Notes, such Bond Anticipation Notes are assumed to mature in 30 years and bear interest equal to the Revenue Bond Index at the time of calculation.

3. Subordinate Obligations and Reimbursable Obligations originally issued with a maturity of five (5) years or less are assumed to mature in 30 years and bear interest equal to the Revenue Bond Index at the time of calculation.

4. In preparing the certificate required by the Basic Test described above, the Authorized Officer or the Consulting Engineer, as applicable, may make adjustments to the Net Revenues as follows:

a. If any changes have been made in the schedule of rates and charges imposed by the City and County for commodities and services furnished by the Wastewater System which are in effect at the time of adoption of the Series Resolution authorizing the issuance of the Bonds then being issued and were placed into effect subsequent to the start of the Fiscal Year or the 12-month period selected pursuant to item 3 of the *Basic Test* described above, the Authorized Officer, may, if such changes result in increases in such rates and charges, and must, if such changes result in reductions in such rates and charges, adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if the schedule of rates and charges in effect at the time of the adoption of the Series Resolution providing for the issuance of such Bonds had been in effect during the portion of such period in which such schedule was not in effect.

b. If customers are being served by the Department at the time of adoption of the Series Resolution authorizing the issuance of the Bonds then being issued and who were added to the Wastewater System subsequent to the start of the Fiscal Year or the 12-month period selected pursuant to item 3 of the *Basic Test* described above, the Authorized Officer may adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if the additional customers had been served during the portion of the period in which such customers were not served.

c. If residential, commercial, industrial or institutional customers which are in existence are not then served by the Wastewater System at the time of adoption of the Series Resolution authorizing the issuance of the Bonds then being issued, but are then expected to be served during the five (5) Fiscal Years covered by such certificate, the Authorized Officer or the Consulting Engineer, as applicable, must estimate the effect which such new customers would have had on the Net Revenues for the period selected pursuant to item 3 of the *Basic Test* described above, if such new customers had been served during the entire period and may adjust the Net Revenues for such period to give effect to such new customers. Any such estimate will be based upon the operating experience and records of the Department with respect to the Wastewater

System and upon any available financial and quarterly statistics deemed pertinent by the Authorized Officer or the Consulting Engineer, as applicable.

d. If any long-term, guaranteed contracts with customers of the Wastewater System are in effect at the time of adoption of the Series Resolution authorizing the issuance of the Bonds then being issued and which were entered into subsequent to the start of the Fiscal Year or 12-month period selected pursuant to item 3 of the *Basic Test* described above, the Authorized Officer may adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if such contracts had been in effect for the entire period.

e. In rendering the certificate required pursuant to item 3 of the Basic Test, the Authorized Officer or the Consulting Engineer, as applicable, must deem the Operation and Maintenance Expenses for the Wastewater System for the first Fiscal Year of the five (5) year period to be equal to such Operation and Maintenance Expenses for the Fiscal Year immediately preceding the Fiscal Year in which the proposed Series of Bonds is to be delivered, and thereafter the Authorized Officer or the Consulting Engineer, as applicable, must adjust, if deemed necessary, for any increased Operation and Maintenance Expenses which are estimated to occur during any subsequent Fiscal Year during the five (5) year period and are, in the judgment of the Authorized Officer or the Consulting Engineer, as applicable, essential to maintaining and operating the Wastewater System.

f. In rendering any certificate pursuant to the Bond Resolution, the Authorized Officer or the Consulting Engineer, as applicable, may rely upon estimates from other sources which the Authorized Officer or the Consulting Engineer, considers reliable, making such adjustments and provisions for contingencies based on similar projects and other considerations as deemed appropriate by such Authorized Officer or the Consulting Engineer.

Refunding Bonds

The City and County may issue a Series of refunding Bonds at any time for the purpose of refunding (including by purchase) all or any portion of Bonds Outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding Bonds and of effecting such refunding if the conditions set forth in the Bond Resolution are complied with, including all of the conditions of the *Basic Test* described above, except that condition 3 need not be complied with if the maximum annual Debt Service in any Fiscal Year on the refunding Bonds proposed to be issued does not exceed maximum annual Debt Service in any Fiscal Year on the refunded Bonds by more than 10%.

The City and County may also issue a Series of refunding Bonds at any time for the purpose of refunding (including by purchase) all or any portion of outstanding Subordinate Obligations or Reimbursable Obligations, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding Bonds and of effecting such refunding if the conditions set forth in the Bond Resolution are complied with, including all of the conditions of the *Basic Test* described above.

Bond Anticipation Notes

Bond Anticipation Notes may be issued by the City and County at such time as the City and County shall have by a Series Resolution duly adopted authorized the issuance of Bonds under the Bond Resolution. No Bond Anticipation Notes may be issued unless there has been filed with the Director of Budget and Fiscal Services on or prior to the date of issuance of such Bond Anticipation Notes, a written certificate of the City and County to the effect that, based on market conditions expected to be prevailing at the time of issuance of the Series of Bonds in anticipation of which such Bond Anticipation Notes are issued and on other reasonable assumptions set forth in such written certificate, the provisions of the Bond Resolution for the issuance of additional Bonds other than refunding Bonds are expected to be complied with at the time of issuance of such Series of Bonds. The maximum maturity of any Bond Anticipation Notes, including the renewals thereof, must not exceed five years from the date of the original Bond Anticipation Note. The principal of Bond Anticipation Notes may be paid from the

proceeds of such Bond Anticipation Notes (or any renewal thereof) or from the proceeds of the Bonds in anticipation of which such Bond Anticipation Notes were issued. The interest on such Bond Anticipation Notes may be secured by a lien on and pledge of, and be paid from, the Net Revenues on a parity with the lien on and pledge of the Net Revenues created in the Bond Resolution for the payment and security of the Bonds. The principal of Bond Anticipation Notes will be secured by a lien on and pledge of the proceeds of the Bonds in anticipation of which such Bond Anticipation Notes were issued and any such pledge will have priority over any other pledge of such proceeds created by the Bond Resolution. Bond Anticipation Notes issued under the Bond Resolution are to be treated as Bonds for all purposes of the Bond Resolution, and are to be payable from the Debt Service Account, except to the extent that the principal of any such Bond Anticipation Note is paid from the proceeds of other Bond Anticipation Note or from the proceeds of Bonds.

Subordinate Obligations

The City and County may issue Subordinate Obligations which are payable out of, and which may be secured by a pledge of, such amounts in the Subordinate Obligation Account as may from time to time be available for the purpose of payment. The City and County may, by resolution, provide for various priorities in the liens and pledges securing Subordinate Obligations, and nothing in the Bond Resolution shall be construed so as to require that the payment of, or pledges securing, Subordinate Obligations be on a parity *inter se*.

The City and County may also issue Subordinate Obligations: (i) to refund any Subordinate Obligations issued as provided in the Bond Resolution; (ii) to refund Outstanding Bonds; or (iii) to refund any Reimbursable Obligations. Such Subordinate Obligations issued for refunding purposes may be payable out of, and may be secured by a pledge of, such amounts in the Subordinate Obligations Fund or Wastewater General Account as may from time to time be available therefor.

The Bond Resolution requires that any resolution, indenture or other instrument securing or evidencing each issue of Subordinate Obligations must contain provisions (which shall be binding on all holders of such Subordinate Obligations) not more favorable to the holders of such Subordinate Obligations than as described below:

(1) In the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the City and County or the Department, or to the property of the City and County or property operated by the Department, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the City and County or the Department, the Holders of all Bonds then Outstanding will be entitled to receive payment in full of all principal and interest on all such Bonds before the holders of the Subordinate Obligations are entitled to receive any payment from the trust estate under the Bond Resolution consisting of the Net Revenues and funds held under the Bond Resolution (the "Trust Estate" for these purposes) on account of principal (and premium, if any) or interest on the Subordinate Obligations.

(2) In the event that any issue of Subordinate Obligations is declared due and payable before its expressed maturity because of the occurrence of an event of default (under circumstances when the provisions of (1) above are not applicable), the Holders of all Bonds Outstanding at the time such Subordinate Obligations so become due and payable because of such occurrence of such an event of default will be entitled to receive payment in full of all principal and interest on all such Bonds before the holders of the Subordinate Obligations are entitled to receive any accelerated payment from the Trust Estate of principal (and premium, if any) or interest on the Subordinate Obligations.

(3) If any Event of Default with respect to the Bonds has occurred and be continuing (under circumstances when the provisions of (1) above are not applicable), the Holders of all Bonds then Outstanding will be entitled to receive payment in full of all principal and interest on all such Bonds before the holders of the Subordinate Obligations are entitled to receive any accelerated payment from the Trust Estate of principal (and premium, if any) or interest on the Subordinate Obligations.

(4) No Bondholder shall be prejudiced in his right to enforce subordination of the Subordinate Obligations by any act or failure to act on the part of the City and County.

(5) The Subordinate Obligations may provide that the provisions of (1), (2), (3) and (4) above are solely for the purpose of defining the relative rights of the Bondholders on the one hand, and the holders of Subordinate Obligations on the other hand, and nothing therein shall impair, as between the City and County and the owners of the Subordinate Obligations, the obligation of the City and County to pay to the owners thereof the principal thereof and premium, if any, and interest thereon in accordance with its terms, nor shall anything therein prevent the holders of the Subordinate Obligations from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights under (1), (2), (3) and (4) above of the Holders of Bonds to receive cash, property or securities otherwise payable or deliverable to the holders of the Subordinate Obligations; and the Subordinate Obligations may provide that, insofar as a trustee or paying agent for such Subordinate Obligations is concerned, the foregoing provisions shall not prevent the application by such trustee or paying agent of any moneys deposited with such trustee or paying agent for the purpose of the payment of or on account of the principal (and premium, if any) and interest on such Subordinate Obligations if such trustee or paying agent did not have knowledge at the time of such application that such payment was prohibited by the foregoing provisions.

Any issue of Subordinate Obligations may have such rank or priority with respect to any other issue of Subordinate Obligations as may be provided in the resolution, indenture or other instrument securing such issue of Subordinate Obligations and may contain such other provisions as are not in conflict with the provisions of the Bond Resolution.

Reimbursable Obligations

The obligation for the payment of Reimbursable Obligations shall be: (i) after and inferior to the lien and security interest for the payment of Bonds and those Subordinate Obligations which are payable from the Subordinate Obligation Account; and (ii) prior and superior to the lien and security interest for the payment of those Subordinate Obligations which are payable from the Wastewater General Account. Reimbursable Obligations are payable from the Reimbursable Obligation Account.

Support Facilities and Interest Rate Exchange Agreements

In connection with the issuance of any Series of Bonds and to the extent permitted by law, the City and County may obtain or cause to be obtained from one or more Support Facility Providers one or more Support Facilities providing for 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 of such Bonds by such Support Facility Providers, or providing, in whole or in part, for the funding of the Common Reserve Account or a Separate Series Reserve Account pursuant to the Bond Resolution.

In connection with the issuance of any Series of Bonds or to better manage its assets and liabilities and, to the extent permitted by law, the City and County may enter into with one or more Counterparties one or more Interest Rate Exchange Agreements; *provided* that no such Interest Rate Exchange Agreement shall adversely affect the exclusion from gross income for purposes of federal income taxation of interest on the Tax-exempt Bonds of any Series.

The City and County may enter into agreements with one or more Support Facility Providers or Counterparties to provide for, among other things: (i) the payment of fees and expenses to such Support Facility Providers or Counterparties; (ii) the terms and conditions of such Support Facility or Interest Rate Exchange Agreement and the Series of Bonds affected thereby; and (iii) the security, if any, to be provided to such Support Facility Providers or Counterparties. The City and County may secure the Support Facility or Interest Rate Exchange Agreement by an agreement providing for the purchase of the Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified in the Series Resolution or the Series Certificate. Debt Service with respect to any Bonds so secured is to be calculated for purposes of the definition of Common Reserve Account Requirement by using the Assumed Long-Term Fixed Rate.

The City and County may also agree in any agreement with the Support Facility Provider of such Support Facility or the Counterparty under an Interest Rate Exchange Agreement to reimburse directly such Support Facility Provider or Counterparty for any amounts paid under the terms of such Support Facility or Interest Rate Exchange Agreement, together with interest thereon (the “Support Facility Reimbursement Obligation”); *provided, however,* that no Support Facility Reimbursement Obligation is to be created, for purposes of the Bond Resolution, until amounts are paid under such Support Facility or Interest Rate Exchange Agreement, as the case may be. Any such Support Facility Reimbursement Obligation may be secured by a lien on and pledge of the Net Revenues on a parity with the lien on and pledge of the Net Revenues created by the Bond Resolution with respect to the Bonds (a “Parity Support Facility Reimbursement Obligation”). Any such Parity Support Facility Reimbursement Obligation will be deemed to be a part of the Series of Bonds to which the Support Facility which gave rise to such Parity Support Facility Reimbursement Obligation relates. Payment of Support Facility Reimbursement Obligation may be made out of the Sewer Fund as provided in the Bond Resolution.

Any Support Facility deposited in the Common Reserve Account or the long-term debt of the Support Facility Provider of such Support Facility must, in each case, be in the highest rating category each Rating Agency, and if rated by A.M. Best & Company, also be rated in the highest rating category by A.M. Best & Company or its successors. In the event any Support Facility deposited in the Common Reserve Account or the long-term debt of the issuer of any Support Facility deposited in the Common Reserve Account falls below the highest rating category of each Rating Agency, and A.M. Best & Company, if rated by A.M. Best & Company, the City and County must, within 120 days, obtain a new Support Facility which is rated in the highest category of each Rating Agency or for which the long-term debt of the issuer of such new Support Facility is rated in the highest rating category of each Rating Agency and A.M. Best & Company, if rated by A.M. Best & Company; provided, however, that if the new Support Facility is not obtained within 120 days, the City and County must deposit in the Common Reserve Account Net Revenues in the amount provided in the Bond Resolution. If a disbursement is made pursuant to a Support Facility deposited in the Common Reserve Account, the City and County must: first, reinstate the full amount of such Support Facility; and second, if necessary deposit Net Revenues in the Common Reserve Account in the amount of the disbursement made under such Support Facility, in either case such that the amount in the Common Reserve Account is equal to the Common Reserve Account Requirement within a period of time not longer than would be required to restore the Common Reserve Account by application of moneys in the Sewer Fund. The City and County may at any time deposit cash or Investment Securities as replacement for one or more Support Facilities.

The City and County must obtain and maintain in effect one or more Support Facilities for Option Bonds. The City and County must obtain a replacement Support Facility to replace any Support Facility for Option Bonds that is expiring, not renewed or terminated. Procedures for such replacement, maintenance and notices to Bondholders, rating agencies or other persons are to be provided in the Series Resolution authorizing the Series of Bonds or the Series Certificate relating to such Bonds.

Funds and Accounts

The City and County has established by ordinances the Sewer Fund and the Sewer Revenue Bond Improvement Fund (the “Improvement Fund”). The Bond Resolution establishes the following accounts in the Sewer Fund:

- Wastewater System Facility Charge Account,
- Debt Service Account,
- Common Reserve Account,
- Rebate Account,
- Rate Stabilization Account,
- Subordinate Obligation Account,
- Reimbursable Obligation Account,
- Renewal and Replacement Account, and
- Wastewater General Account.

The Bond Resolution permits the creation and establishment of one or more Separate Series Reserve Accounts in the Sewer Fund. The Bond Resolution also permits the establishment of one or more Series Improvement Subaccounts

in the Improvement Account and requires the establishment of one or more Series Improvement Interest Subaccounts in the Improvement Account if interest on the Bonds of a Series is to be paid from the proceeds of such Bonds during the period of construction of any Improvements and for six months thereafter.

Sewer Fund

Revenues and Wastewater System Facility Charges will be collected by the Department and deposited into the Sewer Fund. From the amounts deposited in the Sewer Fund, the Department will transfer all moneys collected as Wastewater System Facility Charges to the Wastewater System Facility Charge Account, pay the current Operation and Maintenance Expenses, transfer to the Rebate Account such amount as is necessary to pay the rebate amount due the United States Treasury Department under Section 148 of the Code or to set aside as a reserve for such payment and make the transfers to other funds and accounts as provided in the Bond Resolution. In addition, all other amounts required by the City Charter and the Bond Resolution to be deposited in the Sewer Fund will be so deposited.

In each month, the City and County, after making the transfer, if any, to the Wastewater System Facility Charge Account of all moneys received as Wastewater System Facility Charges, after paying or setting aside a sufficient amount to pay the Operating and Maintenance Expenses and making the transfer to the Rebate Account as described above, will retain, apply or transfer on the 5th day preceding the end of each month a sufficient amount of moneys in the Sewer Fund, in the following order of priority:

First, to the Debt Service Account, if and to the extent required so that the balance in the Debt Service Account will be equal to the Accrued Debt Service for all Bonds Outstanding and the interest accrued on all Bond Anticipation Notes outstanding on said date;

Second, (a) to the Common Reserve Account, if and to the extent required, either (i) an amount such that the balance in the Common Reserve Account will be equal to the Common Reserve Account Requirement on such date, or (ii) an amount such that if the same amount were deposited in each month the amount of any deficiency in the Common Reserve Account will be eliminated at the end of the sixth (6th) month following the first credit; and (b) to each Separate Series Reserve Account, if and to the extent required, either (i) an amount such that the balance in each Separate Series Reserve Account will be equaled to the Separate Series Reserve Account Requirement for each Separate Series Reserve Account on such date, or (ii) an amount such that if the same amount were deposited in each month the amount of any deficiency in each Separate Series Common Reserve Account will be eliminated at the end of the sixth (6th) month following the first credit; provided, however, that such transfers shall be pro rata, based on the proportion of the Common Reserve Account Requirement and each Separate Series Reserve Account Requirement to the sum of the Common Reserve Account Requirement and all Separate Series Reserve Account Requirements;

Third, in the Sewer Fund, a reasonable and necessary amount for working capital and operating reserves;

Fourth, to the Subordinate Obligation Account, the amount, if any, equal to all Subordinate Obligation Requirements theretofore accrued and unpaid and not met from any other source and to accrue and become payable during the succeeding calendar month and not met from any other source;

Fifth, to the Reimbursable Obligation Account, the amount, if any, equal to all Reimbursable Obligation Requirements payable on such day and not met from any other source;

Sixth, to the Renewal and Replacement Account, an amount equal to 1/12th of the amount provided in the Annual Budget of the City and County to be credited to such Account during such Fiscal Year; provided, however, that if any such monthly allocation to the Renewal and

Replacement Account is less than the required amount, the amount of the next succeeding monthly payment must be increased by the amount of such deficiency;

Seventh, to the Wastewater System Facility Charge Account, such amount as is set forth in a written certificate to reimburse such Account for the amount of any transfer to the Debt Service Account made pursuant to the Bond Resolution;

Eighth, to the Rate Stabilization Account, such amount as is provided in the Annual Budget to be transferred to the Rate Stabilization Account in such month or so much thereof as is available; provided, however, that if any such monthly allocation to the Rate Stabilization Account is less than the required amount, the amount of the next succeeding monthly payment must be increased by the amount of such deficiency; and

Ninth, to the Wastewater General Account, such amount as is forth in a written certificate of the City and County.

The City and County may, if provided in a Series Resolution or a Series Certificate relating to such Bonds, directly pay out of the Sewer Fund reimbursements to providers of Support Facilities which have been drawn upon in the same priority and order as payments from the Sewer Fund to the Debt Service Account, the Common Reserve Account, each Separate Series Reserve Account or other Funds and Accounts as if such payments were part of such Funds and Accounts.

Purposes of the Various Funds and Account

Sewer Fund - Debt Service Account. The principal of and interest on, any Sinking Fund Installment, the Redemption Price of and interest on the Bonds and interest on Bond Anticipation Notes are to be paid out of the Debt Service Account in the Sewer Fund to each Paying Agent on or before the respective due dates.

Amounts accumulated in the Debt Service Account by reason of the payment of any Sinking Fund Installment may be applied by the City and County, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to: (i) the purchase of Bonds of the maturity for which such Sinking Fund Installment was established, or (ii) the redemption of such Bonds at the applicable Redemption Price, if then redeemable by their terms. All such purchases of Bonds are to: (i) be made at prices not exceeding the applicable Redemption Price of such Bonds plus accrued interest; (ii) be made as arranged by the City and County in such manner and from such sellers or brokers at such prices as the City and County may determine; and (iii) be made to insure that delivery of the Bonds so purchased will not occur later than the 60th day next preceding the redemption date to which the Sinking Fund Installment is to be applied. The applicable Redemption Price of any Bonds (or principal amount of maturing Bonds) so purchased or redeemed is deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 60th day preceding the due date of any such Sinking Fund Installment, the City and County must proceed to call for redemption on such due date Bonds of the maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as is necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased or redeemed pursuant to the Bond Resolution which the City and County has applied as a credit against such Sinking Fund Installment as provided in the Bond Resolution.

Upon any purchase or redemption pursuant to the Bond Resolution of Bonds of any Series and maturity for which Sinking Fund Installments shall have been established: (i) if the principal amount of the Bonds so purchased is less than or equal to the next succeeding Sinking Fund Installment for such Series there is to be credited to the next such Sinking Fund Installment an amount equal to the principal amount of the Bonds of such Series so purchased; and (ii) if the principal amount of the Bonds so purchased is greater than the next succeeding Sinking Fund Installment, there is to be credited toward each such Sinking Fund Installment thereafter to become due an amount bearing the same ratio to such Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total principal amount of all such Sinking Fund Installments to be so credited or, at the option of the City and County, an amount equal to the next succeeding Sinking Fund Installment. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the

same (or the original amount of any such Sinking Fund Installment if no such amounts have been credited toward the same) will constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

The amount, if any, credited to the Debt Service Account from a Series Improvement Interest Subaccount is to be applied to the payment of interest on the Bonds as the same becomes due and payable as provided in the Bond Resolution.

Sewer Fund - Common Reserve Account. If on the day preceding any principal or interest payment date, the amount in the Debt Service Account is less than the Accrued Debt Service for all Bonds then Outstanding which are entitled to the benefit of the Common Reserve Account, the City and County will pay out of the Common Reserve Account to each Paying Agent for such Bonds the amount necessary to satisfy the deficiency for payment to the holders of such Bonds. Amounts so applied are to be derived first, from cash or Investments Securities on credit to the Common Reserve Account and second, from draws or demands on Support Facilities held as a part of the Common Reserve Account, such draws or demands to be made *pro rata* among all such Support Facilities based on the respective available amounts under such Support Facilities and upon the terms and conditions set forth in such Support Facilities.

Whenever the amounts on deposit in the Common Reserve Account exceed the Common Reserve Account Requirement, the City and County will withdraw the amount of such excess and deposit such excess to the credit of the Debt Service Account or the Sewer Fund, as the City and County may determine.

Whenever the amount (exclusive of Support Facilities) in the Common Reserve Account, together with the amount in the Debt Service Account attributable to Bonds entitled to the benefit of the Common Reserve Account, is sufficient to pay in full the principal or Redemption Price, if any, of and interest on all such Outstanding Bonds in accordance with their terms, the funds on credit to the Common Reserve Account are to be transferred to the Debt Service Account and applied to make such payment. Prior to such transfer, all Investment Securities held in the Common Reserve Account will to be liquidated by the City and County to the extent necessary to provide for timely payment of the principal or Redemption Price, if any, of and interest on such Bonds.

When a Series of Bonds entitled to the benefit of the Common Reserve Account are refunded in whole or in part or is otherwise deemed paid within the meaning of the Bond Resolution, moneys may be withdrawn from the Common Reserve Account to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be; provided that immediately after such withdrawal or transfer there must be on credit to the Common Reserve Account for those Bonds of the Series of Bonds not refunded an amount equal to the Common Reserve Account Requirement for the Bonds entitled to the benefit of the Common Reserve Account then Outstanding after taking into account such refunding or payment.

The City and County may determine in the Series Resolution authorizing a Series of Bonds or a Series Certificate related to a Series of Bonds that such Series of Bonds will not be entitled to the benefit of the Common Reserve Account, in which case no amount will be required from the proceeds of such Series of Bonds for credit to the Common Reserve Account and no amount will be payable from the Common Reserve Account to pay amounts due or payable with respect to such Series of Bonds.

The Common Reserve Account Requirement is to be calculated or recalculated: (i) at the time of issuance of a Series of Bonds (or Bond Anticipation Notes); (ii) at the time a Series of Bonds is retired in its entirety; (iii) at such other time as in the Opinion of Counsel is required to maintain the exclusion of interest on the Tax-exempt Bonds from gross income for federal income taxation purposes.

Sewer Fund - Separate Series Reserve Accounts. If on the day preceding any principal or interest payment date, the amount in the Debt Service Account is less than Accrued Debt Service for the Bonds of a Series then Outstanding which are entitled to the benefit of a Separate Series Reserve Account, the City and County will pay out of such Separate Series Reserve Account to the Paying Agent for such Bonds the amount necessary to satisfy the deficiency for payment to the holders of such Bonds. Amounts so applied shall be derived first, from cash or Investments Securities on credit to such Separate Series Reserve Account and second, from draws or demands on Support Facilities held as a part thereof, such draws or demands to be made *pro rata* among all such

Support Facilities based on the respective available amounts under such Support Facilities and upon the terms and conditions set forth in such Support Facilities.

Whenever the amounts on deposit in any Separate Series Reserve Account exceed the applicable Separate Series Reserve Account Requirement, the City and County will withdraw the amount of such excess and deposit such excess to the credit of the Debt Service Account or the Sewer Fund, as the City and County may determine.

Whenever the amount (exclusive of Support Facilities) in any Separate Series Reserve Account, together with the amount in the Debt Service Account attributable to Bonds entitled to the benefit of such Separate Series Reserve Account, is sufficient to pay in full the principal or Redemption Price, if any, of and interest on all such Outstanding Bonds in accordance with their terms, the funds on credit to such Separate Series Reserve Account are to be transferred to the Debt Service Account and applied to make such payment. Prior to such transfer, all Investment Securities held in such Separate Series Reserve Account will be liquidated by the City and County to the extent necessary to provide for timely payment of the principal or Redemption Price of and interest on such Bonds.

When a Series of Bonds entitled to the benefit of the Separate Series Reserve Account are refunded in whole or in part or are otherwise deemed paid within the meaning of the Bond Resolution, moneys may be withdrawn from such Separate Series Reserve Account to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be; *provided* that immediately after such withdrawal or transfer there must be on credit to such Separate Series Reserve Account an amount equal to the Separate Series Reserve Account Requirement for the Bonds then Outstanding which are entitled to the benefit of such Separate Series Reserve Account after taking into account such refunding or payment.

Each Separate Series Reserve Account Requirement is to be calculated or recalculated: (i) at the time of issuance of a Series of Bonds (or Bond Anticipation Notes); (ii) at the time a Series of Bonds is retired in its entirety; (iii) at such other time as in the Opinion of Counsel is required to maintain the exclusion of interest on the Tax-exempt Bonds from gross income for federal income taxation purposes.

Certain provisions of the Bond Resolution relating to Separate Series Reserve Account may be modified in whole or in part with respect to any Series of Bonds entitled to the benefits of a Separate Series Reserve Account.

Sewer Fund - Rebate Account. If and to the extent required by the Code, an Authorized Officer must periodically, at such times as may be required to comply with the Code, determine the amount required to be rebated or otherwise paid to the Department of the Treasury of the United States of America with respect to each Series of Tax-exempt Bonds and thereafter (i) transfer from any of the Funds and Accounts pledged or held under the Bond Resolution, other than the Debt Service Account, the Subordinate Obligation Account and the Reimbursable Obligation Account and credit to the Rebate Account an amount equal to all or a portion of such amount to be rebated with respect to such Series of Bonds and (ii) pay out of the Rebate Account to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated or otherwise paid. Moneys in the Rebate Account and the subaccounts therein are not available for the benefit of the Holders of the Bonds and are not pledged to the payment of the Bonds or the interest thereon.

If and to the extent necessary to comply with any covenant established in a Series Resolution authorizing a Series of Bonds or in a Series Certificate relating to such Series of Bonds regarding maintaining the exclusion of interest on Tax-exempt Bonds from gross income for Federal income taxation purposes, the City and County may establish a subaccount in the Rebate Account with respect to such Series of Bonds or provide for the establishment such subaccount in such Series Resolution or in such Series Certificate.

Sewer Fund - Rate Stabilization Account. The amount of moneys and Investment Securities to be maintained from time to time in the Rate Stabilization Account is to be provided for in the Annual Budget. Moneys and Investment Securities may be transferred to the Rate Stabilization Account as provided in the Annual Budget from (i) the Sewer Fund in the order of priority provided in the Bond Resolution, or (ii) the Wastewater General Account as provided in the Bond Resolution. Moneys and Investment Securities credited to the Rate Stabilization

Account are to be transferred to the Sewer Fund at the times and in the amounts as may be provided in the Annual Budget for the purposes of stabilizing the rates and charges of the Wastewater System.

Sewer Fund - Renewal and Replacement Account. Moneys on credit to the Renewal and Replacement Account may be applied to the cost of the construction of improvements to or reconstruction of the Wastewater System, emergency repairs of the Wastewater System, and major or extraordinary repairs, renewals or replacements of the Wastewater System, in each case to be set forth in the Annual Budget; (i) to restore or prevent physical damage to the Wastewater System or any part thereof; (ii) for the safe and efficient operation of the Wastewater System; or (iii) to prevent loss of Revenues.

If on the day preceding any interest payment date the moneys in the Debt Service Account, after making the transfer from the Common Reserve Account from each Separate Series Account as provided for in the Bond Resolution and from the Wastewater General Account as provided for in the Bond Resolution, are insufficient to pay the interest, principal and redemption price becoming due on the Bonds, the City and County must transfer from the Renewal and Replacement Account for credit to the Debt Service Account the amount necessary (or all the moneys in such Fund if less than the amount necessary) to satisfy such deficiency.

If on each January 1 and July 1 (i) the moneys, Investment Securities and the amount of Support Facilities in the Common Reserve Account are less than the Common Reserve Account Requirement, and the transfer referred to in the preceding paragraph has been made, the City and County must transfer from the Renewal and Replacement Account for credit to the Common Reserve Account the amount necessary (or all the moneys in such Account if less than the amount necessary) to satisfy such deficiency; and (ii) the moneys, Investment Securities and amount of Support Facilities in any Separate Series Reserve Account are less than the Separate Series Reserve Account Requirement for such Separate Series Reserve Account, and the transfer referred to in the preceding paragraph has been made, the City and County must transfer from the Renewal and Replacement Account for credit to such Separate Series Reserve Account the amount necessary (or all the moneys in said Account if less than the amount necessary) to eliminate such deficiency; *provided, however*, that such transfers will be *pro rata*, based on the proportion of the Common Reserve Account Requirement and each Separate Series Reserve Account Requirement to the sum of the Common Reserve Account Requirement and all Separate Series Reserve Account Requirements.

If the moneys on credit to the Subordinate Obligation Account are less than the Subordinate Obligation Requirement, and the transfers referred to in the preceding two paragraphs have been made, the City and County will transfer from the Renewal and Replacement Account to the Subordinate Obligation Account the amount necessary (or all the moneys in such Account if less than the amount necessary) to satisfy such deficiency.

If the moneys on deposit in the Reimbursable Obligation Account are less than the Reimbursable Obligation Requirement, and the transfers referred to in the preceding three paragraphs have been made, the City and County must transfer from the Renewal and Replacement Account to the Reimbursable Obligation Account the amount necessary (or all the moneys in such Account if less than the amount necessary) to satisfy such deficiency.

Sewer Fund - Subordinate Obligation Account. The City and County must at all times maintain in the Subordinate Obligation Account an amount equal to the Subordinate Obligation Requirement. Moneys on deposit in the Subordinate Obligation Account will be applied by the City and County solely in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in the resolution, indenture or other instrument of the City and County securing or evidencing such Subordinate Obligations. Any moneys credited to the Subordinate Obligation Account are immediately free and clear of the lien and pledge created by the Bond Resolution.

Sewer Fund - Reimbursable Obligation Account. The City and County must at all times maintain in the Reimbursable Obligation Account an amount equal to the Reimbursable Obligation Requirement. Moneys on deposit in the Reimbursable Obligation Account will be applied by the City and County solely to reimburse the General Fund of the City and County for payment of debt service due on Reimbursable Obligation issued or to be issued by the City and County with respect to the Wastewater System. Any moneys deposited in the Reimbursable Obligation Account are immediately free and clear of the lien and pledge created by the Bond Resolution.

Sewer Fund - Wastewater General Account. The City and County will transfer from the Wastewater General Account: (i) to the Debt Service Account, the Common Reserve Account and each Separate Series Reserve Account the amount necessary (or all the moneys in the Wastewater General Account if less than the amount necessary) to satisfy any deficiencies in payments to such Accounts required by the Bond Resolution; (ii) in the event of any transfer of moneys from the Common Reserve Account or any Separate Series Reserve Account to the Debt Service Account, to the Common Reserve Account or such Separate Series Reserve Account the amount of any resulting deficiency in such Account; (iii) provided that all transfers referred to in clauses (i) and (ii) above have been made, to the Renewal and Replacement Account the amount, if any, necessary to satisfy the deficiency in such Fund; (iv) such amount as the City and County may, in its discretion, determine to set aside in reserve for meeting the deficiencies referred to in clauses (i) through (iii) above; (v) provided that all transfers and reserves therefor referred to in clauses (i) through (iv) above have been made, to the Subordinate Obligation Account the amount, if any, necessary to satisfy any deficiency in meeting the Subordinate Obligation Requirement; and (vi) provided that all transfers and reserves therefor referred to in clauses (i) through (v) above have been made, to the Reimbursable Obligation Account, the amount, if any, necessary to eliminate any deficiency in meeting the Reimbursable Obligation Requirement.

Amounts in the Wastewater General Account not required to meet a deficiency referred to in the preceding paragraph may be applied to the following purposes in the following order of priority:

- (1) the Costs of Improvements, or the provision of one or more reserves therefor;
- (2) for transfer to the Rate Stabilization Account in the Sewer Fund such amounts as may be provided in the Annual Budget for the purpose of stabilizing rates and charges;
- (3) the purchase at such price or prices as the City and County may deem advisable or redemption of any Bonds and expenses of such purchase or redemption at any time; and
- (4) for any other lawful purpose of the City and County.

Sewer Revenue Bond Improvement Fund - Improvement Account. As soon as practicable on the date of delivery of the Bonds of a Series, the amount required pursuant to the Series Resolution or Series Certificate will be deposited in the Improvement Fund for credit to the Improvement Account. In addition, the City and County will deposit in the Improvement Fund for credit to the Improvement Account such moneys other than proceeds of the Bonds as the City and County may determine to be proper or appropriate to pay the Costs of Improvements.

The Series Resolution authorizing the issuance of any Series of Bonds (exclusive of Refunding Bonds) may create and establish one or more separate special series improvement subaccounts (a "Series Improvement Subaccount") in the Improvement Account, with such designation as may be appropriate. In the event any interest on such Bonds is to be capitalized from the proceeds of such Bonds, a special series subaccount must be created in the Improvement Account (a "Series Improvement Interest Subaccount") with such designation as may be appropriate.

Moneys, including proceeds of the Bonds of a Series, which are credited to a Series Improvement Subaccount are to be applied to the payment of the Costs as are specified in the applicable Series Resolution or Series Certificate. Any balance remaining in such Series Improvement Subaccount upon completion of payment of such Costs may be used for any lawful purpose of the City and County; *provided* that the City and County has obtained an Opinion of Counsel that any such application will not impair the exemption from Federal income taxation of interest on any of the Tax-exempt Bonds.

Moneys credited to a Series Improvement Interest Subaccount are to be used for the purpose of paying interest on the Bonds of designated Series. On or before the fifth (5th) day preceding the end of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to such Series Improvement Interest Subaccount, the City and County must transfer from a Series Improvement Interest Subaccount to the Debt Service Account an amount which, together with any moneys

therefore held in the Debt Service Account, are sufficient to pay such next maturing installment of interest on such Bonds.

Payments from the Improvement Account are to be made as specified in the Series Resolution authorizing the issuance of a Series of Bonds or a Series Certificate related to a Series of Bonds.

Moneys, including proceeds of the Bonds, in the Improvement Account, pending their application as provided in the Bond Resolution and Series Resolution and Series Certificate, are subject to a prior and paramount lien and charge in favor of the Holders of the Bonds, and the Holders of the Bonds have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Bond Resolution. In the event that there is an insufficiency in the Debt Service Account to pay Debt Service after all transfers, other than a transfer from the Wastewater System Facility Charge Account, have been made pursuant to and in accordance with the Bond Resolution, the City and County must transfer from the Improvement Account such amount (or all remaining amounts in such Improvement Account) as is deemed necessary by the Director of Budget and Fiscal Services for deposit in the Debt Service Account, which, together with the amounts then on credit to the Debt Service Account, is sufficient to pay Debt Service.

Sewer Fund – Wastewater System Facility Charge Account. Amounts in the Wastewater System Facility Charge Account and any account therein, pending their application, are subject to a prior and paramount lien and charge in favor of the Holders of the Bonds, and the Holders of the Bonds have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Bond Resolution. In the event that there is an insufficiency in the Debt Service Account to pay Debt Service after all transfers have been made pursuant to and in accordance with the Bond Resolution, the City and County must transfer from the Wastewater System Facility Charge Account such amount (or all remaining amounts in the Wastewater System Facility Charge Account) as is deemed necessary by the Director of Budget and Fiscal Services for deposit in the Debt Service Account, which, together with the amounts then on deposit in the Debt Service Account, is sufficient to pay Debt Service. The amount of any such transfer must at the earliest practicable date be reimbursed to the Wastewater System Facility Charge Account as provided in the Bond Resolution.

Amounts held in the Wastewater System Facility Charge Account are to be expended for the purposes specified in Section 6-47.1 of the City Code.

Investment of Funds

Moneys in the Debt Service Account may, to the fullest extent practicable and reasonable, be invested and reinvested solely in noncallable Investment Securities which are Government Obligations, FNMA's or FHLMC's (as such terms are defined in the definition of Investment Securities) and which mature or are subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in Debt Service Account will be required for the purposes intended. Moneys in the Common Reserve Account or any Separate Series Reserve Account not required for immediate disbursement for the purpose for which the Common Reserve Account or such Separate Series Reserve Account is created may, to the fullest extent practicable and reasonable, be invested and reinvested solely in, and obligations credited to the Common Reserve Account or such Separate Series Reserve Account must be, investments specified in items (i) to (vi), inclusive, of the definition of Investment Securities and which mature or are available at par at or prior to five (5) years from the date of investment thereof.

Moneys in the Sewer Fund not required for immediate disbursement for the purpose for which such Fund is created may, to the fullest extent practicable and reasonable, be invested and reinvested, to the extent allowed by law, solely in, and obligations deposited in such Fund will be, Investment Securities which mature or are subject to redemption or payment at par at the option of the holder thereof, not later than such times as will be necessary to provide moneys when needed to provide payments from such Fund.

Moneys in the Improvement Account, other than a Series Improvement Interest Subaccount therein, not required for immediate disbursement for the purposes for which such Account is created may, to the fullest extent practicable and reasonable, be invested and reinvested to the extent allowed by law, solely in, and obligations deposited in such Account will be, Investment Securities which mature or are subject to redemption or

payment at par at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Account.

Moneys in a Series Improvement Interest Subaccount in the Improvement Account not required for immediate disbursement for the purposes for which such Account is created may, to the fullest extent practicable and reasonable, be invested and reinvested to the extent allowed by law, solely in, and obligations deposited in such Account shall be, noncallable Investment Securities which are Government Obligations, FNMA's or FHLMC's (as such terms are defined in the definition of Investment Securities) that mature or are subject to redemption at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Account.

To the extent permitted in the Bond Resolution, all income received from the investment or reinvestment of moneys in the Funds and Accounts established under the Bond Resolution will be deposited in the respective Fund or Account from which such investments are made and applied as a credit against the next succeeding deposit or credit required to be made pursuant to the Bond Resolution; provided however, that except as to the Subordinate Obligation Account and the Reimbursable Obligation Account, all or a portion of the income received from the investment or reinvestment of moneys in any such Fund and Account may be deposited in the Sewer Fund or the Improvement Account, including a Series Improvement Interest Subaccount therein; and *provided, further, however*, that all income received from the investment or reinvestment of moneys in any Series Improvement Interest Subaccount must be deposited in the Debt Service Account.

Neither the Director of Budget and Fiscal Services nor any Paying Agent shall be liable for any depreciation in value of any investments made by the City and County.

Valuation of Investment Securities

In computing the amount in any Fund or Account, Investment Securities therein are to be valued at cost or accreted value, whichever is lower, exclusive of accrued interest. The City and County is to determine the value of Investment Securities held in any Fund or Account as frequently as it deems necessary, but not less often than annually.

Depositaries

All moneys held by the City and County or any Depositary under the provisions of the Bond Resolution are to be held in trust and applied only in accordance with the provisions of the Bond Resolution, and each of the Funds and Accounts established by the Bond Resolution shall be a trust fund.

Each Depositary must be a bank or trust company organized under the laws of any state of the United States or a national banking association having capital stock, surplus and undivided earnings of \$5,000,000 or more and willing and able to accept such office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Bond Resolution.

Concerning Depositaries and Paying Agents

Qualifications and Appointment. The Director of Budget and Fiscal Services may appoint one or more Paying Agents and Depositaries as of the date of issuance and delivery of the first Series of Bonds and may at any time or from time to time appoint one or more other Paying Agents or other Depositaries having the qualifications of a depositary, as described in the Bond Resolution; provided however, the Director of Budget and Fiscal Services may be designated Paying Agent and/or Depositary. Each Paying Agent, other than the Director of Budget and Fiscal Services, and each Depositary, other than the Director of Budget and Fiscal Services, shall signify its acceptance of the duties and obligations imposed upon it by the Bond Resolution by executing and delivering to the City and County and the Director of Budget and Fiscal Services a written acceptance thereof.

Paying Agents and Depositaries May Buy, Hold, Sell or Deal in Bonds and Other Indebtedness of the City and County. Each Paying Agent and each Depositary and its respective directors, officers, employees or

agents, may in good faith buy, sell, own, hold and deal in any of the Bonds issued under the provisions of the Bond Resolution and may join any action which any Holder of a Bond may be entitled to take, with like effect as if such Paying Agent or Depository were not a Paying Agent or any Depository, as the case may be, under the Bond Resolution. Any Paying Agent or any Depository may in good faith hold any other form of indebtedness of the City and County; own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and County, and make disbursements for the City and County and enter into any commercial or business arrangement therewith.

Reimbursement of Paying Agents and Depositories for Fees, Expenses and Charges. Each Paying Agent and each Depository shall be entitled to reasonable fees and to reimbursement by the City and County for all expenses and charges reasonably incurred by it in the performance of its duties. No Paying Agent nor Depository shall have a lien for such fees and reimbursement on the moneys pledged to secure the Bonds under the Bond Resolution at any time held by it, prior to the lien or claim of the Holders of the Bonds on all such moneys.

Covenants

The City and County has covenanted and agreed in the Bond Resolution with the Holders of all Bonds issued pursuant to the Bond Resolution as follows:

Maintenance of the Properties of the Wastewater System; Keeping the System in Good Repair. The Department will: (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Wastewater System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall properly and advantageously be conducted, and (iii) comply, or cause to be complied with the terms and conditions of any permit or license for the Wastewater System or any part thereof issued by any federal or state governmental agency or body and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Wastewater System or requiring a license, permit or approval therefor.

Rates and Charges. The City and County will at all times fix, charge and collect such rates and other charges as shall be required in order that in each Fiscal Year the Net Revenues will be not less than the Net Revenue Requirement for such Fiscal Year ("*Rate Covenant*"). The failure in any Fiscal Year to comply with the foregoing *Rate Covenant* does not constitute an Event of Default if the City and County complies with requirements described in the next paragraph.

Prior to the end of each Fiscal Year the Director of Environmental Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services must complete a review of the financial condition of the Department for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the *Rate Covenant* and must by a written certificate make a determination with respect to such compliance. Such review may take into consideration the completion of any uncompleted Improvement and the issuance of future Series of Bonds if necessary to finance the completion of such Improvements. Such written certificate must set forth a reasonably detailed statement of the actual and estimated Revenues, Operation and Maintenance Expenses, Aggregate Debt Service, and any other estimates or assumptions upon which such determination was based, and must be filed with the City Clerk on or before July 1 in each year. If it is determined in such written certificate that the Revenues may not be so sufficient, the Director of Environmental Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services must forthwith make a study for the purpose of determining a schedule of fees, rates and charges which, in the opinion of the Director of Environmental Services or the Director of Budget and Fiscal Services, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with the *Rate Covenant* and will cause additional Revenues to be collected in such following and later Fiscal Years sufficient to eliminate the amount of any deficiency at the earliest practicable time, or the Director of Environmental Services or the Director of Budget and Fiscal Services may elect to cause the Consulting Engineer to make such a study and render such opinion. The City Council shall as promptly as practicable but no later than the 120 days following such determination by the Director of Environmental Services or the Director of Budget and Fiscal Services, or receipt of

the Consulting Engineer's recommendation, adopt and place in effect a schedule of fees, rates and charges as so determined or recommended pursuant to the Bond Resolution.

Sale, Lease or Other Disposition of Properties of the Wastewater System. The properties of the Wastewater System may not be sold, mortgaged, leased or otherwise disposed of except as described below.

The properties of the Wastewater System may be sold, leased, or otherwise disposed of in their entirety if simultaneously with such sale, lease or other disposition thereof provision is made for the payment of all Bonds then Outstanding and such Bonds are no longer deemed Outstanding within the meaning of the Bond Resolution.

Any portion of the properties of the Wastewater System may be sold, leased, or otherwise disposed of on such terms and conditions as may be determined by the City and County if the value of such portion of the properties as of the date of such sale, lease or disposition does not exceed five percent (5%) of the net book assets of the Wastewater System as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the Department. Any part of the properties of the Wastewater System having a value as of the date of the sale, lease or disposition which exceeds five percent (5%) of the net book assets of the Wastewater System as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the Department may be sold, leased, or otherwise disposed of if the Consulting Engineer certifies to the City and County in writing that the terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Wastewater System, after taking into consideration the use by the Department of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the City and County to comply with all covenants and conditions of the Bond Resolution. Proceeds of any sale, lease or other disposition of any portion of the properties of the Wastewater System pursuant to this paragraph are to be paid into the Debt Service Account and applied to the purchase or redemption of Bonds or into the Sewer Fund and applied by the City and County for the purpose of constructing extensions, betterments or improvements to the Wastewater System as the City and County may determine.

Surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of the Wastewater System and real and personal property comprising a part thereof, which, in the opinion of the Director of Environmental Services, have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Wastewater System, or no longer necessary, material to, or useful in such operation may be sold, leased, or otherwise disposed of. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Wastewater System pursuant to this paragraph are to be paid into the Sewer Fund.

If permitted by the laws of the State, the City and County may transfer without consideration the properties comprising the Wastewater System to a public corporation or political subdivision of the State, provided such corporation or subdivision assumes all of the City and County's or the Department's obligations and duties under the Bond Resolution.

In the event that any part of the properties of the Wastewater System is transferred from the City and County through the operation of law (including condemnation), any moneys received by the City and County as a result of such transfer are to be paid: (i) if such proceeds are not in excess of \$250,000, into the Sewer Fund; or (ii) if such proceeds are in excess of \$250,000: (a) into the Debt Service Account and applied to the purchase or redemption of Bonds; or (b) into the Renewal and Replacement Account and applied by the City and County for the purpose of constructing replacements, extensions, betterments or improvements to the Wastewater System, as the City and County shall determine.

Insurance. Except as provided for in the next paragraph, the Department must keep, or cause to be kept, the works, plants and facilities comprising the properties of the Wastewater System and the operations thereof insured to the extent available at reasonable at reasonable cost with responsible insurers, with policies payable to the City and County or the Department, against risks of direct physical loss, damage to or destruction of the above-ground structures, and the equipment and contents therein, of the Wastewater System arising from accidents, casualties or negligence, and other causes customarily insured against, at least to the extent that similar insurance is usually carried by utilities operating like properties, including liability insurance and workman's compensation

insurance; provided, however, that any time while any contractor engaged in constructing any part of the Wastewater System is fully responsible for such insurance, the Department is not required to keep such part of the Wastewater System insured. All policies of insurance shall be for the benefit of the Holders of the Bonds and the City and County or the Department as their respective interests may appear.

In the event of any loss or damage to the properties of the Wastewater System covered by insurance, the Department will: (i) with respect to each such loss, promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the Wastewater System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless, in case of loss or damage involving \$250,000 or more, the Department determines that such repair and reconstruction will not be undertaken; and (ii) if the Department does not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, are to be paid into the Sewer Fund. If the Department does not obtain insurance from responsible insurers as provided for in the Bond Resolution, the City and County or the Department must self-insure; provided, however, that if the Department fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Wastewater System, it must secure the concurrence of an independent insurance consultant. In making its decision whether to concur in such self-insurance, the independent insurance consultant must (i) make an estimate of the added financial risks, if any, assumed by the Department as a result of the self-insurance; (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the Department's costs and charges for its services; and (iii) determine whether the added financial risk, if any, being assumed by the Department is prudent in light of the savings to be realized from such self-insurance or in light of the general availability of insurance.

The Department may include insurance required by the Bond Resolution as part of a blanket insurance policy of the City and County.

Consulting Engineer. The City Council, the Director of Environmental Services or the Director of Budget and Fiscal Services may from time to time retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill, knowledge and experience in analyzing the operations of wastewater systems, preparing rate analyses, forecasting the loads and revenues of wastewater systems, preparing feasibility reports respecting the financing of wastewater systems and advising on the operation of wastewater facilities, who shall be available to advise the Department, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Bond Resolution.

Books of Account; Annual Audit. The Department will maintain and keep proper books of account relating to the Wastewater System and in accordance with generally accepted accounting principles. Within 180 days after the end of each Fiscal Year commencing with the Fiscal Year ending June 30, 2000, the Department will cause such books of account to be audited by an independent certified public accountant. The audit required by the Bond Resolution may be part of a comprehensive audit of the City and County, *provided* that the Wastewater System in such audit is treated as an "enterprise fund" and the revenues and expenses of the Wastewater System are stated in a manner which permits identification by category of the sources and uses of the Revenues. A copy of each audit report prepared in conformity with generally accepted accounting principles must be filed promptly with the City and County and sent to any Bondholder filing with the Director of Environmental Services a written request for a copy thereof. and to any Rating Agency which has rated any Bonds.

To Pay Bonds Punctually. The City and County will duly and punctually pay, or cause to be paid, but only from the Revenues, income and other funds specified in the Bond Resolution, the principal and Redemption Price (if any) of, and interest on, each and every Bond on the dates and at the places, and in the manner provided in the Bonds according to the true intent and meaning thereof, and the City and County will faithfully do and perform and at all times fully observe and keep any and all of its covenants, undertakings, stipulations and provisions contained in the Bonds and in the Bond Resolution.

Payment of Taxes and Other Claims. The Department must from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or payments in

lieu thereof, lawfully imposed upon the properties of the Wastewater System (or any part thereof) or upon the Net Revenues or income received therefrom when the same become due, as well as all lawful claims for labor, material and supplies, which, if not paid, might become a lien or charge upon said properties or any part thereof, or upon the Revenues derived from the ownership or operation of the Wastewater System, or which might in any way impair the security of the Bonds, except any such assessments, charges or claims which the Department in good faith contests as to validity.

Extension of Payment of Bonds. The City and County will not, directly or indirectly, extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds, coupons, if any, or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest is extended, such Bonds or claims for interest will not be entitled, in case of any default under the Bond Resolution, to the benefit of the Bond Resolution or to any payment out of any assets of the City and County or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the Bond Resolution) held by the Paying Agents, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

Sound Improvements and Extensions. The Department will not expend any of the income, revenues, receipts, profits and other moneys derived by it from the ownership or operation of the Wastewater System for any renewals, replacements, additions, betterments and improvements to, or extensions of, the Wastewater System which, in the sole opinion of the Director of Environmental Services, will not properly and advantageously contribute to the conduct of the business of the Wastewater System in an efficient and economical manner unless required to do so to permit the continued operation of the Wastewater System or to preserve or protect the Wastewater System.

Annual Budget. Not later than May 31 before the beginning of any Fiscal Year the City and County or the Department will prepare a preliminary budget of Operation and Maintenance Expenses of the Wastewater System and reserves therefor for the ensuing Fiscal Year. Each such budget and each Annual Budget will include, in addition to provisions for all anticipated Operation and Maintenance Expenses, provision for the payments required to be made to the Renewal and Replacement Account, provided that such payments shall in the aggregate at least equal the amount described below. Such preliminary budget and any Annual Budget may set forth such additional material as the City and County or the Department may determine.

Except as described below, on or before the 15th day of each such Fiscal Year, the City and County must finally adopt the Annual Budget for such year. The City and County may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year. Copies of the Annual Budget and of any amended Annual Budget are to be made available for inspection by the Bondholders and are to be sent to each Rating Agency.

If for any reason the City and County does not adopt the Annual Budget before the 15th day of any Fiscal Year, the budget for the preceding Fiscal Year is deemed to be in effect for such Fiscal Year until the Annual Budget for such Fiscal Year is adopted. For any purpose of computation under the provisions of the Bond Resolution, the budget for the preceding year is deemed to have been adopted for any Fiscal Year until the Annual Budget for such year is adopted.

Every preliminary budget, Annual Budget and amended Annual Budget must: (i) set forth in reasonable detail amounts required for repair, replacement or reconstruction of the Wastewater System and major or extraordinary repairs, renewals or replacements of the Wastewater System, if any, for the period to be covered by such budget; (ii) specify the amounts to be deposited in the Renewal and Replacement Account, the Subordinate Obligation Account, the Reimbursable Obligation Account and the Wastewater General Account, and the amounts to be maintained in the Sewer Fund for working capital and operating reserves and in the Rate Stabilization Account for rate stabilization purposes, if any, for such purposes for such period, (iii) specify the amounts to be transferred from the Wastewater General Account to the Rate Stabilization Account and to other Funds and Accounts; and (iv) project the amounts required for such purposes for the next five Fiscal Years in such format as the Director of

Environmental Services may determine. A copy of each such report is to be filed and maintained in the records of the City and County.

Events of Default

Each of the following events constitutes an Event of Default under the Bond Resolution:

- (a) if payment of the principal and Redemption Price, if any, of any Bond, is not punctually made when due and payable, whether at the stated maturity thereof or upon proceedings for the redemption thereof (whether by voluntary redemption or a mandatory sinking fund redemption or otherwise);
- (b) if payment of the interest on any Bond is not punctually made when due;
- (c) if the provisions of any Series Resolution with respect to mandatory Sinking Fund Installment payments or the redemption of Term Bonds therefrom, as the case may be, are not punctually complied with at the time and in the manner specified in such Series Resolution;
- (d) if the City and County or the Department fails to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Bond Resolution or in the Bonds, on the part of the City and County or the Department to be performed, and such failure continues for 90 days after written notice thereof from the Holders of not less than 20% of the Bonds then Outstanding; provided that, if such failure is such that it cannot be corrected within such 90-day period, it will not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; and
- (e) if the City and County: (i) admits in writing its inability to pay its debts generally as they become due; or (ii) files a petition in bankruptcy or seeking a composition of indebtedness under the provisions of any Federal or state bankruptcy or similar law; or (iii) makes an assignment for the benefit of its creditors; or (iv) files a petition or any answer seeking relief under the provisions of any Federal or state bankruptcy or similar law; or (v) consents to the appointment of a receiver of the whole or any substantial part of the Wastewater System; or (vi) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City and County or the Department, or of the whole or any substantial part of the Wastewater System.

Notice to Bondholders of Event of Default

Immediately after the occurrence of an Event of Default or within 30 days after any Paying Agent knows of any other Event of Default, the Paying Agent or Paying Agents shall give notice of all such Events of Default to the Bondholders, all other Paying Agents and Support Facility Providers, and each Rating Agency, in the manner as provided for in the Bond Resolution, unless such Events of Default shall have been cured before the giving of such notice.

Acceleration of Bonds

If an Event of Default shall happen and shall not have been remedied, then and in every such case the Holders of not less than 25% in principal amount of the Bonds then Outstanding, by notice in writing to the City and County and the Director of Budget and Fiscal Services, may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable. The right of the Holders of not less than 25% in principal amount of the Bonds then Outstanding to make any such declaration, however, shall be subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and all other sums then payable by the City and County under the Bond Resolution (except the

principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the City and County or provision satisfactory to the Holders of a majority in principal amount of the Bonds then Outstanding shall be made for such payment, and all defaults under the Bonds or under the Bond Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be cured or be secured to the satisfaction of the Holders of a majority in principal amount of the Bonds then Outstanding or provision deemed by such Holders of the Bonds to be adequate shall be made therefor, then and in every such case the Holders of at least a majority in principal amount of the Bonds then Outstanding, by written notice to the City and County, may rescind such declaration and annul such default in its entirety, but no such rescission shall extend to or affect any subsequent default or impair or exhaust any resulting right or power.

The bond insurers for all Outstanding Bonds and for the Series 2007 Bonds have certain consent rights in connection with any default which may constrain the rights of the Holders described above.

Inspection of Books and Records; the City and County to Account as Trustee for Express Trust

The City and County covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the Department relating to the Wastewater System and all other records relating thereto shall at all times be subject to the inspection and use of the Holders of at least 25% in principal amount of the Bonds then Outstanding and of their respective agents and attorneys or of any committee therefor.

The City and County covenants that if an Event of Default shall have happened and shall not have been remedied, the City and County will continue to account, as a trustee of an express trust, for all Revenues and other moneys, securities and funds pledged under the Bond Resolution.

Application of Revenues in an Event of Default

During the continuance of an Event of Default as described in items (a) through (c) of the Events of Default described above or of any other Event of Default resulting in an Event of Default described in items (a) through (c) of the Events of Default described above, the Revenues received by a receiver appointed pursuant to the Bond Resolution as the result of the taking of possession of the business and properties of the Wastewater System, are to be applied by the receiver: first, to the payment of all necessary and proper Operation and Maintenance Expenses of the Wastewater System and all other proper disbursements or liabilities made or incurred by the receiver; second, to the then due and overdue payments into the Debt Service Account, including the making up of deficiencies therein; and last, for any lawful purpose in connection with the Wastewater System.

In the event that at any time the funds held by the receiver are insufficient for the payment of the principal and Redemption Price (if any) of, and interest then due on, the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons) and all Revenues of the Department and other of its moneys received or collected for the benefit or for the account of Holders of the Bonds by the receiver are to be applied as follows:

- (1) Unless the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper Operation and Maintenance Expenses of the Wastewater System and all other proper disbursements or liabilities made or incurred by the receiver;

Second, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amount due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Bonds at the time of such payment without preference or priority of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper Operation and Maintenance Expenses of the Wastewater System and all other proper disbursements or liabilities made or incurred by the receiver;

Second, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied as described in the foregoing paragraphs, such moneys shall be applied by the receiver at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the Holders of the Bonds, their respective agents and attorneys, and all other sums payable by the City and County under the Bond Resolution including the principal and Redemption Price (if any) of all Bonds which shall then be payable, shall either be paid in full by or for the account of the City and County or provision satisfactory to the receiver shall be made for such payment, and all defaults under the Bond Resolution or the Bonds shall be made good and secured to the satisfaction of the receiver or provision deemed by the receiver to be adequate therefor, the receiver shall pay over to the Department all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bondholders' Committee (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Bond Resolution to be deposited or pledged, with the Director of Budget and Fiscal Services), control of the business and possession of the property of the Department shall be restored to the Department, and thereupon the City and County shall be restored to its former positions and rights under the Bond Resolution, and all Revenues shall thereafter be applied as provided for in the Bond Resolution. No such payment over to the Department by the receiver or resumption of this application of Revenues as provided in the Bond Resolution, shall extend to or affect any subsequent default under the Bond Resolution or impair any right consequent thereon.

Suits at Law or Equity and Mandamus and Appointment of a Receiver

If an Event of Default shall happen and shall not have been remedied, then and in every such case, but subject to the provisions, limitations and conditions as set forth in the Bond Resolution, 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, protect and enforce the rights vested in such Holder by the Bond Resolution 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 Bond Resolution, or in aid of the exercise of any power granted in the Bond Resolution, or to enforce any other legal or equitable right vested in the Holders of Bonds by the Bond Resolution or by law; provided, however, that no judicial proceeding shall be brought seeking the appointment of a receiver to take possession of the Wastewater System or to manage, receive and apply the Revenues unless the Holders of not less than a majority in principal amount of the Bonds then Outstanding or a Bondholders' Committee representing the Holders of not less than a majority in principal amount of the Bonds then Outstanding shall have joined in or consented to such proceeding.

Bondholders' Committee

If an Event of Default shall happen and shall not have been remedied, the Holders of not less than 25% in principal amount of the 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 Bond Resolution. At such meeting the Holders of not less than a majority of the principal amount of the 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 other than that required by the Bond Resolution. 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 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 all 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.

Bondholders May Direct Proceedings

The Holders of not less than a majority in principal amount of the Bonds at the time outstanding are authorized and empowered: (1) to direct the time, method, and place of conducting any proceeding for any remedy available to the holders of the Bonds; or (2) on behalf of the holders of the Bonds then outstanding, to consent to the waiver of any Event of Default or its consequences. No waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

The bond insurers for all Outstanding Bonds and for the Series 2007 Bonds have certain consent rights in connection with any default which may constrain the rights of the Holders described above.

Abandonment of Proceedings; Adverse Determination

No delay or omission of any Holder of Bonds to exercise any right or power arising upon the occurrence of a default under the Bond Resolution, including an Event of Default, shall impair any right or power or shall be construed to be a waiver of any such default or to be an acquiescence therein. Every power and remedy given by the Bond Resolution to the Holders of Bonds may be exercised from time to time and as often as may be deemed expedient by such Holders.

In case the Holders of the Bonds or a Bondholders' Committee formed pursuant to the Bond Resolution shall have proceeded to enforce any right under the Bond Resolution and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Holders of the Bonds or such Bondholders' Committee, then and in every such case the City and County, and the Holders of the Bonds shall be restored to their former positions and rights under the Bond Resolution, and all rights, remedies and powers of the Holders of the Bonds shall continue as if no such proceedings had been taken.

Amending and Supplementing of Resolution

Amending and Supplementing of Resolution Without Consent of Holders of Bonds. The City and County, from time to time and at any time and without the consent or concurrence of any Holder of any Bond, may adopt (i) a Series Resolution for the purpose of providing for the issuance of Bonds pursuant to the provisions as set forth in the Bond Resolution; (ii) to make any changes, modifications, amendments or deletions to the Bond Resolution which may be required to permit the Bond Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America; or (iii) if the rights of the Holders of the Bonds then Outstanding shall not be materially adversely affected thereby, a Supplemental Resolution (herein defined and referred to as a "Supplemental Resolution") for any one or more of the following purposes:

1. to make any changes or corrections in the Bond Resolution as to which the City and County shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Bond Resolution, or to insert in the Bond Resolution such provisions clarifying matters or questions arising under the Bond Resolution as are necessary or desirable;

2. to add additional covenants and agreements of the City and County for the purpose of further securing the payment of the Bonds;

3. to surrender any right, power or privilege reserved to or conferred upon the City and County by the terms of the Bond Resolution;

4. to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Bond Resolution;

5. to grant to or to confer upon the Holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; and

6. to modify in any other respect any of the provisions of the Bond Resolution.

Except for Series Resolutions authorizing the issuance of Bonds pursuant to the Bond Resolution, the City and County shall not adopt any Supplemental Resolution authorized by the foregoing provisions of the Bond Resolution unless in the Opinion of Counsel the adoption of such Supplemental Resolution is permitted by the Bond Resolution and the provisions of such Supplemental Resolution do not materially adversely affect the rights of the Holders of the Bonds then Outstanding.

Amendment of Resolution With Consent of Holders of the Bonds. With the consent of the Holders of not less than a majority of the Bonds then Outstanding and with written consent of each Support Facility Provider, the City and County from time to time and at any time may adopt a resolution amendatory of or supplemental to the Bond Resolution for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Bond Resolution, or modifying or amending the rights and obligations of the City and County thereunder, or modifying or amending in any manner the rights of the Holders of the Bonds then Outstanding. For purposes of the preceding sentence, the written consent of each Support Facility Provider providing a Support Facility for any Bonds will constitute consent of the Holders of such Bonds. Without the specific consent of the Holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Bond Resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the Redemption Price (or the redemption premium) payable upon the redemption or prepayment thereof; or (2) reduce the aforesaid percentage of Bonds, the Holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Bond Resolution; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Bond Resolution; or (4) authorize the creation of any pledge of the Revenues and other moneys pledged under the Bond Resolution, prior, superior or equal to the pledge of and lien and charge thereon created in the Bond Resolution for the payment of the Bonds except to the extent provided in the Bond Resolution; or (5) deprive any Holder of the Bonds in any material respect of the security afforded by the Bond Resolution; provided further, however, that without the specific consents of the Holders of not less than a majority in principal amount of the Term Bonds then Outstanding and affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Bond Resolution shall (a) change the amount of any Sinking Fund Installments for the retirement of Term Bonds or the due dates of such installments or the terms for the purchase or redemption thereof from such installments, or (b) reduce the aforesaid percentage of Term Bonds, the Holders of which are required to consent to any such Supplemental Resolution. (Nothing in this paragraph contained, however, shall be construed as making necessary the approval of the Holders of the Bonds of the adoption of any Supplemental Resolution). A modification or amendment with respect to the Sewer Fund or the Debt Service Account or Common Reserve Account or any Separate Series Reserve Account therein shall not be deemed a change in the terms of payments; provided 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 credited to the Debt Service Account or Common Reserve Account or any Separate Series Reserve Account.

The bond insurers for all Outstanding Bonds and for the Series 2007 Bonds have certain consent rights in connection with any amendment which may constrain the rights of the Holders described above.

The proof of the giving of any consent of any Holder required and of the holding of Bonds for the purpose of giving consents shall be made in accordance with the Bond Resolution. Proof of consent may include any evidence that the City and County and the Director of Budget and Fiscal Services, in their separate discretion, determine to be sufficient. It shall not be necessary that the consents of the Holders of the Bonds approve the particular form of wording of the proposed amendment or supplement or of the Supplemental Resolution affecting such amendment or supplement, but it shall be sufficient if such consents approve the substance of the proposed amendment or supplement. A record, consisting of the papers required by the Bond Resolution, shall be proof of the matters therein stated until the contrary is proved. No action or proceeding to set aside or invalidate such Supplemental Resolution or any of the proceedings for its adoption shall be instituted or maintained unless such action or proceeding is commenced within 60 days after the publication and mailing of the notice required by the Bond Resolution.

The City and County shall furnish a notice of each amendment or supplement and a copy of the Supplemental Resolution effecting such amendment or supplement to each rating agency at least 15 days prior to the effective day of the Supplemental Resolution.

Discharge of Liens and Pledges; Bonds No Longer Outstanding and Deemed to be Paid

Except as otherwise provided in the Bond Resolution with regard to Option Bonds, the obligations of the City and County under the Bond Resolution and the liens, pledges, charges, trusts, covenants and agreements of the City and County made or provided for in the Bond Resolution, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding under the Bond Resolution:

(i) when such Bond shall have been canceled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by or behalf of the City and County from moneys held under the Bond Resolution; or

(ii) as to any Bond not canceled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal and redemption price (if any) of such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with the Paying Agent for such Bond, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) noncallable Refunded Municipal Obligations or noncallable Investment Securities described in item (i) of the definition of Investment Securities as set forth in the Bond Resolution, maturing as to principal and interest in such amount and at such times as will insure, together with any cash deposit, the availability of sufficient moneys to make such payment, whichever the City and County deems to be in its best interest and as verified by an independent nationally recognized firm of certified public accountants in a report delivered to the City and County and the Director of Budget and Fiscal Services, and all necessary and proper fees, compensation and expenses of the Director of Budget and Fiscal Services and the Paying Agents 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 the Director of Budget and Fiscal Services and said Paying Agents.

At such time as a Bond shall be deemed to be no longer Outstanding under the Bond Resolution, as aforesaid, such Bond, except for the purposes of any payment from such moneys, Refunded Municipal Obligations or Investment Securities, shall no longer be secured by or entitled to the benefits of the Bond Resolution.

Notwithstanding the foregoing, in the case of a Bond which is to be redeemed or otherwise prepaid prior to its stated maturity, no deposit under clause (b) of subparagraph (ii) of the second preceding paragraph above shall constitute such payment, discharge and satisfaction as aforesaid until such Bond shall have been irrevocably designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been previously given in accordance with the Bond Resolution or provision shall have been irrevocably made for the giving of such notice.

Any such moneys so deposited with the Paying Agents for the Bonds as provided in the Bond Resolution may at the direction of the City and County also be invested and reinvested in Investment Securities, maturing in the amounts and times as set forth in the Bond Resolution. All income from all Refunded Municipal Obligations and Investment Securities in the hands of the Paying Agents which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to the City and County for deposit in the Sewer Fund free and clear of any trust, lien, security interest, pledge or assignment securing any Bonds or otherwise existing under the Bond Resolution.

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

If moneys, Refunded Municipal Obligations or Investment Securities have been deposited or set aside with a Paying Agent pursuant to the Bond Resolution for the payment of a specific Bond and such Bond is deemed to have been paid and to be no longer Outstanding under the Bond Resolution as provided in the defeasance provisions of the Bond Resolution, but such Bond has not in fact been actually paid in full, no amendment to the defeasance provisions of the Bond Resolution may be made without the consent of the Holder of each Bond affected thereby.

The City and County may at any time surrender to a Paying Agent for a Series of Bonds for cancellation by it any Bonds of such Series previously executed and delivered, which the City and County may have acquired in any manner whatever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding under the Bond Resolution.

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APPENDIX C
BOOK-ENTRY SYSTEM

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APPENDIX C

BOOK-ENTRY SYSTEM

The information in this Appendix C concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and neither the City and County nor the Underwriters takes responsibility for the completeness or accuracy thereof. Neither the City and County nor the Underwriters can or does give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2012 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2012 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2012 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2012 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any series and maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such series and maturity.

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

Purchases of the Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series 2012 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City and County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City and County or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent or the City and County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and County or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to the City and County or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

APPENDIX D

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX D

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City and County of Honolulu, Hawaii (the “City and County”) in connection with the issuance of \$265,610,000 Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2012A and Senior Series 2012B (the “Bonds”). The Bonds are being issued pursuant to Chapter 49, Hawaii Revised Statutes, and the Revised Charter of the City and County of Honolulu, as amended (collectively, the “Act”), and the proceedings of the City Council, including Resolutions No. 98-195 and the applicable Series Resolutions relating to the Bonds, and a Certificate of the Director of Budget and Fiscal Services of the City and County, acknowledged and agreed to by the Director of Environmental Services of the City and County dated September 12, 2012 (the “Certificate”). The City and County covenants and agrees as follows:

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

Section 2. **Definitions.** In addition to the definitions set forth in the Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

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

“*Department*” means the Department of Environmental Services of the City and County.

“*Dissemination Agent*” means the City and County, or any successor Dissemination Agent designated in writing by the City and County and which has filed with the City and County a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

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

“*Official Statement*” shall mean the Official Statement, dated September 20, 2012, prepared and distributed in connection with the initial sale of the Bonds.

“*Participating Underwriters*” means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

Section 3. ***Provision of Annual Reports.***

(a) The City and County shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year of the City and County (presently June 30), commencing with the report for the fiscal year ending June 30, 2012, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. If the City and County's fiscal year changes, the City and County, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) In a timely manner prior to the date set forth in subsection (a) above, the City and County shall provide the Annual Report to the Dissemination Agent (if other than the City and County). If the City and County is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City and County shall send a notice to the MSRB in substantially the form attached as Exhibit A. The audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the City and County) file a report with the City and County certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. ***Content of Annual Reports.***

(a) The Annual Report shall contain or incorporate by reference the following information:

(i) Audited financial statements of the Department for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Department's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement relating to the Bonds, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available;

(ii) Budgeted revenues and expenditures of the Department for the current fiscal year;

(iii) To the extent not provided in the audited financial statements, historical information of the type shown in Tables 34 and 35 of the Official Statement, entitled "Department of Environmental Services Sewer Fund Enterprise Fund Statement of Revenues, Expenses and Charges in Retained Earnings (Deficit)" and "Department of Environmental Services Sewer Fund Enterprise Fund Balance Sheet," respectively; and

(iv) To the extent not provided in the audited financial statements, historical information of the type shown in Tables 32 and 33 of the Official Statement, entitled "Outstanding Wastewater Revenue Bonds" and "Revenue Bond Debt Service Requirements," respectively.

(b) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the City and County or related public entities, which have been made available to the

public on the MSRB's website. The City and County shall clearly identify each such other document so included by reference.

Section 5. ***Reporting of Significant Events.***

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

- i. Principal and interest payment delinquencies;
- ii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iii. Unscheduled draws on credit enhancements reflecting financial difficulties;
- iv. Substitution of credit or liquidity providers, or their failure to perform;
- v. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- vi. Tender offers;
- vii. Defeasances;
- viii. Rating changes; or
- ix. Bankruptcy, insolvency, receivership or similar event of the obligated person.

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

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

- i. Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- ii. Modifications to rights of Bondholders;
- iii. Optional, unscheduled or contingent Bond calls;
- iv. Release, substitution, or sale of property securing repayment of the Bonds;
- v. Non-payment related defaults;

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

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

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

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

Section 6. **Termination of Reporting Obligation.** The City and County's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment of amounts fully sufficient to pay and discharge the Bonds, or upon delivery to the City and County or the Dissemination Agent (if other than the City and County) of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the City and County shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. **Dissemination Agent.** From time to time, the City and County may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City and County shall be the Dissemination Agent. The initial Dissemination Agent shall be the City and County. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the City and County. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the City and County.

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

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

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

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

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

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

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

Section 11. ***Duties, Immunities and Liabilities of Dissemination Agent.*** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City and County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the City and County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. **Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City and County, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: October 4, 2012

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

The above and foregoing certificate is hereby approved as to form and legality this 4th day of October, 2012.

Robert Carson Godbey
Corporation Counsel
City and County of Honolulu

EXHIBIT A

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

Name of Issuer: City and County of Honolulu, Hawaii
Name of Bond Issue: Wastewater System Revenue Bonds (First Bond Resolution),
Senior Series 2012
Date of Issuance: October 4, 2012

NOTICE IS HEREBY GIVEN that the City and County of Honolulu, Hawaii (the "City and County") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated October 4, 2012, executed by the City and County for the benefit of the holders and beneficial owners of the above-referenced Bonds. The City and County anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY AND COUNTY OF HONOLULU, HAWAII

By: _____
Authorized Signatory

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

City and County of Honolulu
Honolulu, Hawaii

Re: City and County of Honolulu
Wastewater System Revenue Bonds
(First Bond Resolution) Senior Series 2012A and 2012B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City and County of Honolulu (the “City and County”) in connection with the issuance of \$265,610,000 aggregate principal amount of its Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2012A and 2012B (the “Bonds”), pursuant to a First Bond Resolution and a Series Resolution of the City and County (collectively, the “Resolution”), and a Series Certificate of the Director of Budget and Fiscal Services of the City and County (the “Certificate”). Terms not otherwise defined herein shall have the meanings assigned to them in the Certificate.

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City and County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid and binding special obligations of the City and County.
2. The Bonds are payable solely from and are secured by the Net Revenues and other funds pledged to the payment thereof pursuant to the Resolution, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.
3. The Resolution has been duly adopted and constitutes the valid and binding obligation of the City and County, and the Certificate has been duly executed and delivered and constitutes the valid and binding obligation of the City and County.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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