

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 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Series 2011 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 2011 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 2011 Bonds. See "TAX MATTERS" in this Official Statement.

**\$169,190,000
CITY AND COUNTY OF HONOLULU
Wastewater System Revenue Bonds
(First Bond Resolution)
Senior Series 2011A**

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 2011A (the "Series 2011 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 2011 Bonds, purchases of the Series 2011 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 2011 Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Series 2011 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 2011 Bonds may be made in the denomination of \$5,000 or any integral multiple thereof.

The Series 2011 Bonds bear interest payable on January 1 and July 1 of each year, commencing July 1, 2012. The Series 2011 Bonds are subject to redemption prior to the stated maturity thereof as described herein. The proceeds of the Series 2011 Bonds will be used (i) to 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) to fund a separate series reserve account for the Series 2011 Bonds, and (iii) to pay the costs of issuance of the Series 2011 Bonds.

The Series 2011 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 2011 Bonds, as described herein (collectively with the Series 2011 Bonds, the "Bonds"). The Series 2011 Bonds are limited special obligations of the City and County payable solely from, and secured solely by, a pledge of proceeds of Bonds held or set aside under the Bond Resolution, the Net Revenues, 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 2011 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, McCarriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the Series 2011 Bonds in definitive form will be available for delivery to DTC, in New York, New York, on or about November 3, 2011.

BofA Merrill Lynch

Piper Jaffray & Co.

MATURITY SCHEDULE

\$169,190,000
City and County of Honolulu
Wastewater System Revenue Bonds
(First Bond Resolution)
Senior Series 2011A

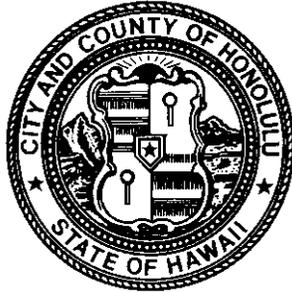
<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†] <u>(438701)</u>
2016	\$3,550,000	5.00%	1.46%	RJ5
2017	3,675,000	2.00	1.89	RK2
2018	3,785,000	4.00	2.21	RL0
2019	3,960,000	5.00	2.57	RM8
2020	4,125,000	3.25	2.84	RN6
2021	4,280,000	4.00	3.03	RP1
2022	4,475,000	5.00	3.19*	RQ9
2023	4,695,000	4.50	3.35*	RR7
2024	4,910,000	4.50	3.49*	RS5
2025	4,575,000	5.00	3.47*	SE5
2025	570,000	3.50	3.47*	RT3
2026	5,405,000	5.00	3.57*	RU0
2027	5,665,000	4.50	3.80*	RV8
2028	5,360,000	4.50	3.90*	SF2
2028	565,000	3.75	3.90	RW6
2029	6,195,000	4.50	3.99*	RX4
2030	6,480,000	4.50	4.04*	RY2
2031	6,765,000	4.00	4.09	RZ9

\$36,700,000 5.25% Term Bonds Due July 1, 2036, Yield 4.05%*, CUSIP[†] 438701SC9
\$2,680,000 4.25% Term Bonds Due July 1, 2036, Yield 4.30%, CUSIP[†] 438701SA3
\$18,800,000 5.00% Term Bonds Due July 1, 2038, Yield 4.16%*, CUSIP[†] 438701SD7
\$31,975,000 5.00% Term Bonds Due July 1, 2041, Yield 4.18%*, CUSIP[†] 438701SB1

* Priced to call at par on July 1, 2021.

† 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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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 2011 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 2011 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 2011 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2011 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 2011 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$169,190,000
City and County of Honolulu
Wastewater System Revenue Bonds
(First Bond Resolution)
Senior Series 2011A

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 \$169,190,000 aggregate principal amount of Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2011A (the “Series 2011 Bonds”). The Series 2011 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 2011 Resolution adopted by the City Council of the City and County on October 5, 2011 (the “Series 2011 Resolution”). The Series 2011 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 2011 Bonds (the “Series 2011 Certificate”). The capitalization of any word herein not conventionally capitalized indicates that such word is defined in the Bond Resolution, the Series 2011 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.”

The proceeds of the Series 2011 Bonds will be used (i) to fund the cost of certain additions and improvements to the City and County’s Wastewater System, (ii) to fund a Separate Series Reserve Account for the Series 2011 Bonds, and (iii) to pay the costs of issuance of the Series 2011 Bonds. See “APPLICATION OF PROCEEDS” herein.

The Series 2011 Bonds are the fifteenth 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, proceeds of Bonds held or set aside under the Bond Resolution, the Net Revenues, 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, 2011, the City and County had \$1,014,090,000 principal amount of Senior Bonds outstanding. As of such date, the City and County also had \$435,397,890 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, 2011, the Wastewater System serviced approximately 144,100 separate accounts and a population of approximately 640,000, which is approximately 73% of the total population of the City and County. 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 144,100 accounts, approximately 136,600 are residential, which generate approximately 70.5% of the total revenue from sewer service charges, and the remaining approximately 7,500 are non-residential, which generate approximately 29.5% of the total revenue from sewer service charges. The average total volume of wastewater processed by the City and County’s Wastewater System was 105.0 million gallons per day (“MGD”) average day annual flow in Fiscal Year 2011. A number of small private wastewater systems also serve some areas in the City and County. The average total volume of wastewater processed by all such private systems is 4.2 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 (Ordinance No. 11-17) providing for additional increases in wastewater rates and future rate adjustments over the six-year period from July 1, 2011 through June 30, 2017. 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 “2012-2016 Capital Improvement Program”). The 2012-2016 Capital Improvement Program is projected to cost approximately \$1.4 billion (in inflated dollars, *i.e.*, adjusted from 2011 dollars) and is being undertaken for the purposes, among others, of meeting 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 2012-2016 Capital Improvement Program is a part of the 2001-2020 twenty-year capital improvement program (the “2001-2020 Capital Improvement Program”) the Department has undertaken. The 2001-2020 Capital Improvement Program is projected to cost approximately \$5 billion (in inflated dollars) and has been undertaken for the same basic purposes as the 2012-2016 Capital Improvement Program. The cost of the 2001-2020 Capital Improvement Program, including the 2012-2016 Capital Improvement Program, is expected to be financed primarily from (i) proceeds of Senior Bonds and Subordinate Obligations previously issued and currently available, (ii) proceeds of additional Senior Bonds (including the Series 2011 Bonds) and Subordinate Obligations 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 2011 Bonds, in an amount equal to the principal thereof plus original issue premium, will be applied to make the following deposits:

Improvement Account	\$175,001,070.48
Separate Series Reserve Account ¹	5,739,850.00
Costs of Issuance ²	<u>1,052,360.52</u>
Total Uses	<u>\$181,793,281.00</u>

¹ The Series 2011 Bonds will be secured by a Separate Series Reserve Account to be funded with a portion of the proceeds thereof. See "SECURITY FOR THE BONDS-Common Reserve Account and Separate Series Reserve Accounts" herein.

² Includes Underwriters' discount.

THE SERIES 2011 BONDS

General

The Series 2011 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 2011 Bonds will be issued in minimum denominations of \$5,000 principal amount. Interest will accrue on the Series 2011 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, 2012. The Director of Budget and Fiscal Services of the City and County will serve as the initial Paying Agent for the Series 2011 Bonds.

The Series 2011 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 2011 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 2011 Bonds, individual purchases of the Series 2011 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 2011 Bonds. Principal of and interest on the Series 2011 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 2011 Bonds. The Series 2011 Bonds may be transferred or exchanged in the manner described in the Series 2011 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 2011 Bonds maturing on and after July 1, 2022 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, 2021, 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 2011 Bonds or portions thereof to be redeemed plus accrued interest to the date of redemption.

Mandatory Redemption

The Series 2011 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 2011 Bonds specified for July 1 of each of the years shown below:

**Series 2011 Bonds
Maturing July 1, 2036
(5.25% Interest Rate)**

<u>Year (July 1)</u>	<u>Principal Amount</u>
2032	\$6,600,000
2033	6,955,000
2034	7,320,000
2035	7,710,000
2036*	8,115,000

* *Final Maturity.*

**Series 2011 Bonds
Maturing July 1, 2036
(4.25% Interest Rate)**

<u>Year (July 1)</u>	<u>Principal Amount</u>
2032	\$480,000
2033	505,000
2034	535,000
2035	565,000
2036*	595,000

* *Final Maturity.*

**Series 2011 Bonds
Maturing July 1, 2038**

<u>Year (July 1)</u>	<u>Principal Amount</u>
2037	\$9,165,000
2038*	9,635,000

* *Final Maturity.*

**Series 2011 Bonds
Maturing July 1, 2041**

<u>Year (July 1)</u>	<u>Principal Amount</u>
2039	\$10,130,000
2040	10,650,000
2041*	11,195,000

* *Final Maturity.*

Notice of Redemption

Notice of redemption of any Series 2011 Bond is required to be mailed not less than 30 days prior to the redemption date to the holder of such Series 2011 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 2011 Bonds will be given by the Paying Agent.

Each notice of redemption is required to state: (i) the title of the Series 2011 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 2011 Bonds are to be redeemed, the distinctive number of the Series 2011 Bonds to be redeemed, (iii) that the interest on the Series 2011 Bonds, or on the principal amount thereof to be redeemed, designated for redemption in such notice shall cease to accrue from and after such redemption date; and (iv) that on said date there will become due and payable on each said Series 2011 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 2011 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 2011 Bond all of the principal of which matures on the same day is called for redemption, that such Series 2011 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 2011 Bond or Bonds equaling in principal amount that portion of the principal sum not to be redeemed of the Series 2011 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 2011 Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2011 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 2011 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 2011 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 2011 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 2011 Bonds, notice of redemption, or notice of rescission of any conditional notice of redemption, of Series 2011 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 2011 Bonds of any redemption will not affect the sufficiency or validity of the redemption of the Series 2011 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 2011 Bonds, or that they will do so on a timely basis.

Selection for Redemption

If fewer than all of the Series 2011 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 2011 Bonds are to be redeemed. For so long as the Series 2011 Bonds are registered in book-entry form and DTC or a successor securities depository is the sole registered owner of such Series 2011 Bonds, if fewer than all of the Series 2011 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2011 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 2011 Bonds remaining outstanding will be in authorized denominations. See Appendix C, "Book-Entry System."

If the Series 2011 Bonds are not registered in book-entry form and if fewer than all of such Series 2011 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2011 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 2011 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 2011 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, proceeds of the Bonds held or set aside under the Bond Resolution, the Net Revenues, 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, 2011, the City and County had \$635,789,808 principal amount of outstanding Subordinate Obligations (consisting of \$435,397,890 of Junior Bonds and \$200,391,918 of State Revolving Fund loans) and \$1,275,799 of outstanding Reimbursable Obligations. The major portion of outstanding Reimbursable Obligations will finally mature in January 2013, with only small amounts of refunded Reimbursable Obligations remaining outstanding thereafter. See "DEBT AND FINANCIAL POLICIES AND INDEBTEDNESS" herein.

The Series 2011 Bonds will constitute Bonds under the Bond Resolution. The Series 2011 Bonds are the fifteenth 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 2011 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 (i) from the 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) from transfers from the Wastewater General Account. 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 2011 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 \$796,805,000 of outstanding Bonds issued under the Bond Resolution prior to 2010. In 2010, the City and County issued \$204,435,000 of additional Bonds (the "Series 2010 Bonds") under the Bond Resolution which are secured by a Separate Series Reserve Account established therefor.

As discussed below, the Series 2011 Bonds will be secured by a Separate Series Reserve Account to be established therefor, and will not be secured by the Common Reserve Account or any Separate Series Reserve Account established for any other Series of Bonds.

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 2011 Bonds will not 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 previously issued under the Bond Resolution are secured by a Separate Series Reserve Account established for such Series of Bonds. The amount required to be maintained therein is equal to 50% of the greatest annual Debt Service payable during any Fiscal Year with respect to the outstanding Series 2010 Bonds.

Pursuant to the Series 2011 Resolution, a Separate Series Reserve Account will also be established for the Series 2011 Bonds. The Separate Series Reserve Account established for the Series 2011 Bonds shall secure only such Series of Bonds. The amount to be maintained in such Separate Series Reserve Account will be equal to 50% of the greatest annual Debt Service payable during any Fiscal Year with respect to the outstanding Series 2011 Bonds; *provided, however*, that if upon issuance of the Series 2011 Bonds, such amounts would require moneys to be credited to the Separate Series Reserve Account from proceeds of the Series 2011 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 2011 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 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 (as defined below) 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 not less than a majority of the Outstanding Bonds. 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 2011 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 2011 BONDS. Upon the issuance of the Series 2011 Bonds, there will be \$1,170,430,000 of Bonds Outstanding, of which \$373,625,000 (including the Series 2011 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 2010 U.S. Census, the resident population of the State was 1,360,301, and that of Oahu was 953,207, 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 it consists of nine members. All members are elected from nine districts to serve four-year terms with a limitation of two consecutive full terms. Pursuant to the City Charter of the City and County, 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 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.

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 Director 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, serves as its Clean Water Funding Issues Leader, and has previously served as Vice Chair of the 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 a two-year collective bargaining agreement with the Hawaii Government Employees Association (the "HGEA"), which represents the bargaining units for blue-collar supervisory, white-collar non-supervisory, white-collar supervisory, and professional and scientific employees. An agreement with the bargaining unit representing blue-collar non-supervisory employees, United Public Workers, expired on June 30, 2011, and negotiations for a new agreement are currently pending.

The HGEA agreement covers the period from July 1, 2011 through June 30, 2013. The agreement includes: a 5% across the board reduction in salaries; equal cost sharing of the final premium rates established by the State of Hawaii Public Employer-Union Health Benefits Trust Fund for employee health plans, including administrative fees; six hours per month of administrative time off; and a "favored nation" provision, in consideration of HGEA being the first union to settle, that would incorporate more favorable terms in the event that such terms are included in agreements currently under negotiation with the other public worker unions.

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, 2011, the Wastewater System serviced approximately 144,100 separate accounts and a population of approximately 640,000, which is approximately 73% of the total population of the City and County. The population outside the city 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. 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 144,100 accounts, approximately 136,600 are residential, which generate approximately 70.5% of the total revenue from sewer service charges; the remaining approximately 7,500 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." The average volume of wastewater processed by the City and County's Wastewater System was 105.0 MGD in Fiscal Year 2011. A number of small private wastewater systems also serve some areas in the City and County. The average volume of wastewater processed by all such private systems is 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 86 MGD, and in Fiscal Year 2011, average daily flows were 61.3 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 2011, average daily flows were 25.9 MGD. The secondary treated effluent is provided to a recycled water facility.

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 2011 average daily flows were approximately 11.5 MGD.

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'ālaa 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 2011, these facilities treated estimated average daily flows of 0.19 MGD, 0.09 MGD and 0.46 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 2011.

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 3.31 MGD in Fiscal Year 2011.

Waimanalo. The Waimanalo basin is served by the Waimanalo WWTP, which is owned by the State and operated by the City and County. It is a secondary plant with sand filtration. The State recently completed an upgrade of the facility to an average daily flow of 1.155 MGD. The WWTP serves the Waimanalo community, with a population of approximately 10,000. In Fiscal Year 2011 average daily flows were estimated at 0.55 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 2011 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'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. A draft permit was issued by the State of Hawaii Department of Health for public comment and the City is awaiting a final permit. The NPDES permit for the Waianae WWTP was issued on May 26, 2011, and was effective June 26, 2011. The City is contesting some of the permit provisions and a hearing is scheduled for November 21 – 23, 2011.

Currently in effect are three consent orders between the State of Hawaii Department of Health and the City relating to air quality at the Sand Island, Honouliuli, 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, 2011. \$ 1,251,000 was paid in stipulated penalties in FY 2010, including a \$950,000 lump sum settlement for prior year violations, and \$283,500 was paid in stipulated penalties in FY 2011.
- The Honouliuli Air Consent Order is effective until January 24, 2012. No stipulated penalties were paid in FY 2010 or FY 2011.
- The Kailua Air Consent Order is effective until December 31, 2012. \$2,000 was paid in stipulated penalties in FY 2010, and \$98,000 was paid in stipulated penalties in FY 2011.

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 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 Sand Island and Honouliuli WWTPs, which are reported monthly with the discharge monitoring reports for the respective 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 respective plants.

These are not the subject of existing or threatened enforcement.

A 2010 consent decree, approved by the EPA, the DOH, the Sierra Club, Hawaii Chapter, Our Children's Earth Foundation, and Hawaii's Thousand Friends, was entered by the United States District Court in Hawaii. The 1994, 2004, and 2007 lawsuits, alleging violations of the federal clean water act and the several NPDES and DOH permits held by the City and County, previously reported have been dismissed. The consent decree replaced a 1995 Consent Decree and a 2007 Stipulated Order, and terminated all outstanding litigation and administrative compliance orders concerning the City and County's Wastewater Treatment Plants and Wastewater Collection System. The City and County's appeal of the EPA's January 2009 final decisions denying the City's applications to renew its permit variances from secondary treatment for the Honouliuli and Sand Island Wastewater Treatment Plants was dismissed on February 2, 2011. The consent decree allows 10 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 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. As part of the settlement, the City has paid a civil penalty in the amount of \$800,000 to the United States, and \$800,000 to the State of Hawaii. In addition, the City has paid \$800,000 to the Sierra Club, Hawaii Chapter, Our Children’s Earth Foundation, and Hawaii’s Thousand Friends, to fund four identified supplemental environmental projects.

The consent decree was lodged with the federal court on August 11, 2010, and was subject to a 30-day public comment period. The United States then filed its motion to enter the consent decree on November 15, 2010, which included its responses to the public comments received. The consent decree became effective upon its entry by the Court on December 17, 2010. The City has also settled the NGO plaintiffs’ claim for their attorneys’ fees and costs for an additional payment of \$1.1 million.

The cost of any potential liability for the above referenced events for alleged violations or penalties, beyond the City and County’s approximately \$5 billion (in inflated dollars) 2001-2020 Capital Improvement Program to upgrade its collection systems and wastewater treatment plants, is speculative.

See “CAPITAL IMPROVEMENT PROGRAM” herein. See also “PENDING WASTEWATER SYSTEM LITIGATION” herein with respect to the 2010 consent decree.

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 over 33,000, or 24%, is expected to occur in East Mamala Bay.

Table 1

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

<u>Basin</u>	<u>2005</u>	<u>2010</u>	<u>2015</u>	<u>2020</u>	<u>2025</u>	<u>2030</u>	<u>2035</u>
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**

<u>Basin</u>	<u>2005-2010 Average Annual Change</u>	<u>Percent of Total Growth¹</u>	<u>2010-2035 Average Annual Change</u>	<u>Percent of Total Growth¹</u>
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 2012-2016 Capital Improvement Program, the 2012-2020 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 2012-2016 Capital Improvement Program and the 2012-2020 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 2011, the long-range CIP covering the 20-year period from 2001 through 2020 included a list of projects with estimated appropriations totaling approximately \$5 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 2011 Bonds) and Subordinate Obligations 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.

2012-2016 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 2012-2016 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 2011 Bonds, are part of the 2012-2016 Capital Improvement Program. The City and County expects to

appropriate approximately \$1.4 billion (in inflated dollars) for the 2012-2016 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2012-2016 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2012-2016 Capital Improvement Program are set forth in the following tables.

Table 4
Projected Appropriations for
2012-2016 Capital Improvement Program
(Dollars in Thousands)

<u>Project</u>	<u>Projected Cost</u>
CIP Projects	\$1,331,045
Project Management	37,053
Capital Equipment	<u>29,177</u>
Total	\$1,397,275

Table 5
Expected Sources of Funding for
2012-2016 Capital Improvement Program
(Dollars in Thousands)

<u>Funding Source</u>	<u>Projected Amount</u>
Subordinate Obligations ¹	\$ 107,000
Facility Charges ²	48,477
Net Revenues ³	380,000
Additional Revenue Bonds	<u>861,798</u>
Total	\$1,397,275

¹ State revolving fund loan proceeds.

² Fees collected for new Wastewater System connections.

³ Cash funded CIP.

2012-2020 Capital Improvement Program

The 2012-2020 Capital Improvement Program is part of the 2001-2020 Capital Improvement Program. The City and County expects to appropriate approximately \$2.9 billion (in inflated dollars) for the 2012-2020 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2012-2020 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2012-2020 Capital Improvement Program are set forth in the following tables.

Table 6
Projected Appropriations for
2012-2020 Capital Improvement Program
(Dollars in Thousands)

<u>Project</u>	<u>Projected Cost</u>
CIP Projects	\$2,779,495
Project Management	69,918
Capital Equipment	<u>52,726</u>
Total	\$2,902,138

Table 7
Expected Sources of Funding for
2012-2020 Capital Improvement Program
(Dollars in Thousands)

<u>Funding Source</u>	<u>Projected Amount</u>
Subordinate Obligations ¹	\$ 147,000
Facility Charges ²	92,760
Net Revenues ³	680,000
Additional Revenue Bonds	<u>1,982,378</u>
Total	\$2,902,138

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 \$5 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	\$4,781,971
Project Management	130,327
Capital Equipment	<u>91,843</u>
Total	\$5,004,141

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	\$ 289,269
Facility Charges ²	109,905
Net Revenues ³	723,428
Prior Bonds ⁴	83,985
Revenue Bonds ⁵	<u>3,797,554</u>
Total	\$5,004,141

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 revenue bonds previously issued and \$1,998,759,000 of 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 estimated) revenues, expenses and debt service coverage of the Wastewater System for Fiscal Years 2009 through 2011 and projected revenues, expenses and debt service coverage of the Wastewater System for Fiscal Years 2012 through 2016.

Table 10
Historical and Projected Revenues, Expenses and Debt Service Coverages
(Dollars in Thousands)
(Fiscal Year Ending June 30)

	<u>Actual</u>		<u>Estimated</u>			<u>Projected</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues ¹								
Sewer Service Charges ²	\$250,265	\$299,502	\$335,722	\$331,518	\$364,690	\$380,602	\$397,197	\$418,298
Interest Earnings ³	7,080	2,265	185	336	6,979	11,070	11,680	12,379
BABs/RZEDBs Subsidy ⁴	0	0	0	2,176	6,010	5,528	5,528	5,528
Other Revenues ⁵	133	2,219	1,983	166	167	168	169	170
Total Revenues	\$257,478	\$303,985	\$337,890	\$334,196	\$377,846	\$397,369	\$414,575	\$436,374
Operating Expenses ⁶	114,823	105,150	113,291	137,966	147,592	153,088	\$158,277	\$163,853
Net Revenues	\$142,655	\$198,835	\$224,599	\$196,230	\$230,254	\$244,281	\$256,298	\$272,521
Annual Debt Service								
Senior Lien Bonds ⁷	\$ 42,281	\$ 38,184	\$ 49,644	\$ 65,042	\$ 79,659	\$ 94,340	\$111,120	\$128,043
D/S Coverage ⁸	3.14	5.21	4.52	3.02	2.89	2.59	2.31	2.13
Senior and Junior Lien Bonds ^{7,9}	\$ 76,069	\$ 64,324	\$ 77,980	\$99,507	\$115,727	\$130,413	\$147,193	\$164,117
D/S Coverage ⁸	1.75	3.09	2.88	1.97	1.99	1.87	1.74	1.66
Total Obligations ¹⁰	\$ 104,803	\$ 92,048	\$103,433	\$121,427	\$138,118	\$151,810	\$167,140	\$184,684
D/S Coverage ⁸	1.42	2.23	2.20	1.69	1.74	1.67	1.59	1.53

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 2009, 18% in Fiscal Year 2010 and 15% in Fiscal Year 2011. Projections reflect approved increases of 4% in Fiscal Year 2012, 4% in Fiscal Year 2013, 4% in Fiscal Year 2014, 4% in Fiscal Year 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 and Fiscal Year 2011 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 2012 are inflated at 3% per year for expenses, 5% in Fiscal Year 2013 for salary costs, 6% in Fiscal Year 2013 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 improvement exceeded \$19.2 million in Fiscal Year 2009, were between \$11.5 and \$12.5 million for Fiscal Years 2010 and 2011, and increase to \$70 million in Fiscal Year 2011 reflecting funds generated through previous years coverage earnings.

⁷ Includes actual debt service for outstanding Senior Bonds, estimated debt service for Series 2011 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 18.

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 Funds 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. 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% 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. Higher levels in Fiscal Year 2010 reflect pending future construction. However, Wastewater System Facility Charge revenue decreased in Fiscal Year 2011 and may not increase further through Fiscal Year 2012. 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. The Department expects to meet or exceed revenue projections for Fiscal Year 2012 notwithstanding recent economic conditions. This 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. Historically, the Department has accounted for approximately 7% 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. As discussed under "THE CITY AND COUNTY AND THE DEPARTMENT - Department Work Force" above, subject to a "favored nation" contract provision, the collective bargaining agreement with HGEA includes a change in the employer-employee contribution ratio (historically set at 60% for employers and 40% for employees) to a 50/50 ratio. A comparable change has been proposed in pending negotiations for the collective bargaining agreements with the remaining public worker unions.

The information included under the following two captions "Pensions" and "Other Post-Employment Benefits" relies on information produced by the State Retirement System (as defined below) and the Trust Fund, respectively. Actuarial assessments are "forward-looking" information that reflect the respective judgments of the fiduciaries of the State Retirement System and the Trust Fund. Such actuarial assessments are based upon a variety of different assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experiences of the State Retirement System and the Trust Fund.

Pensions. All regular employees of the City and County are covered under the Employees' Retirement System of the State (the "State Retirement 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 determined on an actuarial reserve basis. Employees are covered under a contributory plan, a noncontributory plan or a hybrid contributory plan. Actuarial valuations are prepared annually by the consulting actuary to the State Retirement System's Board of Trustees to determine the employer contribution requirement.

Employer contributions are determined in accordance with Sections 88-122 and 88-123, Hawaii Revised Statutes, as amended. Employer contributions are 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 State Retirement System. Commencing with the 1995 Fiscal Year, the total employer contribution requirement has been calculated to include the normal cost (based on the entry age normal actuarial cost method) plus the level annual payment required to amortize the unfunded accrued liability over a period of 29 years from July 1, 2000. As discussed below, the total unfunded actuarial accrued liability for the State Retirement System as a whole (including the State and the counties) was estimated to be approximately \$7.138 billion as of June 30, 2010. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in

excess of the investment yield rate (currently established by statute at 8% per annum) applied in actuarial valuations to determine the net employer appropriations to be made to the State Retirement System.

Effective July 1, 2005, Section 88-122, Hawaii Revised Statutes, was amended to establish fixed employer contribution rates as a percentage of compensation. Employer contribution rates were initially set at 15.75% for police officers, firefighters, and corrections officers and 13.75% for other employees. These rates increased on July 1, 2008 to 19.70% for police officers, firefighters, and corrections officers and 15.00% for all others, and will escalate annually from July 1, 2012 through June 30, 2016 from 22.00% to 25.00% for police officers, firefighters, and corrections officers and from 15.50% to 17.00% for all other employees. The contribution rates are subject to adjustment: (1) if the actual period required to amortize the unfunded accrued liability exceeds thirty years; (2) if there is no unfunded accrued liability; or (3) otherwise as determined on the basis of an actuarial investigation conducted in accordance with Section 88-105, Hawaii Revised Statutes. As of June 30, 2010, the actuary of the State Retirement System has calculated the period required to amortize the unfunded accrued liability of the State Retirement System to be 41.3 years.

During the 2011 legislative session (which ended on May 5, 2011), the State Legislature passed legislation, which the Governor subsequently signed into law as Act 163, Session Laws of Hawaii 2011 (“Act 163”), relating to the State Retirement System. Act 163 implements certain changes to the State Retirement System, including increasing contributions under the State Retirement System by employers (as described above) and employees, and altering the way in which certain State Retirement System members who had previously withdrawn from the system can re-enter the system. These changes generally impact employees who enter the State Retirement System after June 30, 2012 and affect members who withdraw and re-enter the system with differing ages and levels of experience.

Each employer’s (*i.e.*, the State’s or a county’s) annual contribution to the State Retirement System is determined by multiplying (1) the total employer contribution requirement derived from the annual actuarial valuation as of the next preceding June 30, by (2) the ratio of that employer’s payroll over the total covered payroll included in the actuarial valuation. For example, the City and County’s contribution requirement for the 2010-2011 Fiscal Year was based on the June 30, 2008 actuarial valuation and the payroll used in that valuation. Historically, the City and County’s contribution has been approximately 14.48% of the total employer appropriation to the State Retirement System. The City and County’s contribution to the State Retirement System for the last five Fiscal Years, exclusive of costs for employees of the Board of Water Supply, was \$63,300,000 for 2006, \$67,500,000 for 2007, \$73,000,000 for 2008, \$88,600,000 for 2009 and \$96,700,000 for 2010, including amortization of a portion of prior service cost in each such year. Contributions are estimated to be \$97,544,000 for 2011 and budgeted at \$96,852,000 for 2012.

Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the State Retirement System. All persons hired after June 30, 1984, and those contributory members who elected to join the plan, are covered under the provisions of the noncontributory retirement plan. Police officers, firefighters, elected officers and those employed in positions not covered by social security are excluded from the noncontributory retirement plan. Retirement, disability, and death benefits under the noncontributory plan are less than the contributory plan. The creation of the noncontributory plan has not caused any major change in the City and County’s funding requirements because the cost of the noncontributory retirement plan is about the same as the contributory retirement plan.

Effective July 1, 2006, a hybrid contributory plan was established for most new employees hired after that date and certain then-current employees who elected to join the hybrid plan. The State Retirement System’s actuary has determined that the new hybrid plan is cost neutral.

Pursuant to Sections 88-119 and 88-119.5, Hawaii Revised Statutes, assets of the State Retirement System may be invested in: real estate loans and mortgages; preferred and common stocks; government obligations; corporate obligations; certain other debt obligations (such as obligations secured by collateral of certain other authorized securities listed above, obligations issued or guaranteed by certain development banks, insurance company obligations); real property; alternative investments; and other securities and futures contracts. The investment decision is further dictated by internal investment policies and asset allocations established by the State Retirement System’s Board of Trustees.

The total assets of the State Retirement System on a market value basis amounted to approximately \$8.8 billion as of June 30, 2009 and \$9.8 billion as of June 30, 2010. Actuarial certification of assets as of June 30, 2009 was \$11.4 billion. The June 30, 2010 actuarial certification of assets was \$11.3 billion, and its unfunded actuarial accrued liability was \$7.1 billion. The funded ratio (actuarial assets divided by actuarial accrued liability) for the State Retirement System was 64.6% as of June 30, 2009 and 61.4% as of June 30, 2010. The actuarial value of assets is based on a four-year smoothed valuation that recognizes the excess or shortfall of investment income over or under the 8% actuarial investment assumption. The actuary for the State Retirement System does not provide a breakdown of the unfunded liability for the counties. The State Retirement System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

The following table obtained from the State shows the total actuarially determined employer contribution rate for all employees based on the last five annual actuarial valuations.

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll) ¹	Funding Period (Years)
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

¹ Reflects Act 181, SLH 2004, which amended HRS Sections 88-105, 88-122, 88-123, 88-124, 88-125 & 88-126.

In 2005, the funding period increased due to recognition of large actuarial losses. In 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, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in 2009 and 2010 were due to the net asset loss from the significant decline in the financial markets primarily during the 2009 Fiscal Year. As discussed above, under Section 88-122, Hawaii Revised Statutes, employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. Therefore, it is possible that the State Retirement System Board will implement increases in employer contributions rates in the foreseeable future.

A summary of the actuarial certification of the State Retirement System as of June 30, 2008, 2009 and 2010 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2008, 2009 and 2010
(Includes all counties)

ASSETS	2008	2009	2010
Total current assets	\$11,380,961,003	\$11,400,116,874	\$11,345,618,006
Present value of future employee contributions.....	1,321,322,095	1,454,290,782	1,435,479,895
Present value of future employer normal cost contributions.....	1,567,124,012	1,658,595,716	1,601,394,963
Unfunded actuarial accrued liability.....	5,168,108,050	6,236,315,442	7,138,050,585
Present value of future employer Early Incentive Retirement Program contribution	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL ASSETS.....	<u>\$19,437,515,160</u>	<u>\$20,749,318,814</u>	<u>\$21,520,543,449</u>
LIABILITIES			
Present value of benefits to current pensioners and beneficiaries.....	\$ 8,230,338,790	\$ 8,584,029,950	\$ 9,259,425,898
Present value of future benefits to active employees and inactive members.....	<u>11,207,176,371</u>	<u>12,165,288,864</u>	<u>12,261,117,551</u>
TOTAL LIABILITIES	<u>\$19,437,515,161</u>	<u>\$20,749,318,814</u>	<u>\$21,520,543,449</u>

Source: Gabriel, Roeder, Smith & Company.

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, 2010, there were four beneficiaries under these pensions. Such unfunded payments amount to less than \$20,000 annually.

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 Governmental Accounting Standards Board. 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 December 2010, 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, 2010. These estimates were based on the actuarial valuation as of July 1, 2009 and were developed assuming full prefunding of obligations. The actuarial accrued liabilities for Trust Fund OPEBs for the City and County were estimated to be approximately \$1.92 billion with full prefunding for such period. The corresponding annual required contribution was estimated to be approximately \$116.6 million for the Fiscal Year ending June 30, 2010 and \$150.7 million for the Fiscal Year ending June 30, 2011 with full prefunding. The annual OPEB cost was \$105.6 million for Fiscal Year 2009 and \$117.1 million for Fiscal Year 2010.

On June 30, 2009, the City and County transferred \$40.11 million to the Trust Fund to prefund its OPEB obligations in part. Further transfers for this purpose will be determined on a year-by-year basis.

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 2007 through 2011

was 0.87%, 0.97%, 0.90%, 0.83 %, and 0.79% 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.

Ten Largest Customers

The ten largest customers of the Wastewater System in Fiscal Year 2011 (see table below) account for 6.30% of the annual sewer service charge revenues of the system.

Table 11

**Ten Largest Customers
Fiscal Year 2011¹**

<u>Customer</u>	<u>Sewer Service Charges</u>	<u>Percentage of Sewer Service Charge Revenues</u>
State of Hawaii, Airport Maintenance	\$ 4,469,779	1.33%
University of Hawaii	4,102,973	1.22
State of Hawaii, Hawaii Public Housing Authority	3,939,746	1.17
Hilton Hotels Corporation	3,240,811	0.97
Sheraton Waikiki Hotel	1,224,328	0.36
United Laundry Services	1,138,952	0.34
State of Hawaii, Central Service Division	840,798	0.25
Hyatt Regency Waikiki	789,250	0.24
State of Hawaii, Halawa Correctional Center	734,890	0.22
Halekulani Hotel	659,799	0.20
Total	\$21,141,327	6.30%

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 12**Board of Water Supply (BWS) and Wastewater Customer Accounts as of June 30, 2011**

	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	129,687	5	11,131	0	0	5	8,838	0	0	619	0	1	685	138	151,109	87.97%
15 – Mixed residential	0	0	4	0	0	0	196	0	0	2	0	13	1	0	216	9.00%
20 - Multi-family	5,891	0	114	0	0	0	490	0	0	0	0	2	3	132	6,632	3.86%
25 – Mixed users	3	0	6	0	0	2	324	0	0	0	0	21	2	0	358	0.21%
Total BWS residential accounts	135,581	5	11,255	0	0	7	9,848	0	0	621	0	37	691	270	158,315	92.16%
WW Res Accts	135,581	0	0	0	0	7	0	0	0	621	0	34	80	270	136,593	94.84%
30 – Commercial	4,750	0	674	1	0	20	3,243	603	0	13	34	78	37	129	9,582	5.58%
40- Hotels	243	0	6	0	0	0	11	0	0	0	0	0	0	0	260	0.15%
50 – Industrial	429	0	86	0	0	1	23	0	0	0	0	0	2	0	541	0.31%
61 - US Military Installation	11	0	13	0	0	0	13	0	0	0	0	0	2	0	39	0.02%
62 - US Non-military	25	0	7	0	0	0	5	0	0	0	1	0	0	0	38	0.02%
63 - State	208	0	105	0	0	163	357	0	0	0	9	0	2	14	858	0.50%
65 - City	113	0	140	0	0	130	670	0	0	0	4	45	6	0	1,108	0.65%
70 – Agriculture	2	0	436	0	0	0	30	0	0	0	0	0	15	0	483	0.28%

Table 12**Board of Water Supply (BWS) and Wastewater Customer Accounts as of June 30, 2011**

	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	455	0	50	0	0	2	12	0	0	0	5	0	4	23	551	0.32%
Total BWS Non-res Accts	6,236	0	1,517	1	0	316	4,364	603	0	13	53	123	68	166	13,460	7.84%
WW Non-res Accts	6,236	0	0	1	0	316	0	603	0	13	53	123	0	93	7,438	5.16%
Total BWS Accounts	141,817	5	12,772	1	0	323	14,212	603	0	634	53	160	759	363	171,775	100.00%
Total WW Accts	141,817	0	0	1	0	323	0	603	0	634	53	157	80	633	144,031	100.00%
% Total BWS Accts	82.56%	0.00%	7.44%	0.00%	0.00%	0.19%	8.27%	0.35%	0.00%	0.37%	0.03%	0.09%	0.44%	0.21%	100.00%	
% WW Accts	98.46%	0.00%	0.00%	0.00%	0.00%	0.22%	0.00%	0.42%	0.00%	0.44%	0.04%	0.11%	0.06%	0.44%	100.00%	

Table 13**History of New Sewer Connections by Type**

Fiscal Year Ended June 30	Single Family	Multi Family		Nonresidential	Total
	New Units	New Units	ESDUs	ESDUs	ESDUs
2007	1,950	3,379	2,365	168	4,483
2008	307	874	612	24	943
2009	437	780	546	15	998
2010	221	324	227	0	448
2011	403	739	517	79	999
Five year average	664	1,219	853	57	1,574
Projected annual growth	1,200	529	370	30	1,600

Table 14**Existing Sewer Users
Fiscal Year Ended June 30, 2011**

Customer Classification	Number of Living Units	Number Of Equivalent Single-Family Dwelling Units (ESDUs)	Estimated Wastewater Flow (MGD)
Residential			
Single family/duplex	136,643	136,643	41.676
Multi-family residences	121,146	84,223	25.688
Less: Hawaii Kai	994	994	0.303
Total residential	256,795	219,872	67.061
Nonresidential	--	78,320	23.888
Infiltration/Inflow	--	--	14.421
Total	256,795	298,192	105.370

Table 15**Historic Population Growth
Oahu, 2001 – 2009¹**

Calendar Year	Resident Population	De facto Population²
2001	877,189	921,147
2002	882,628	926,225
2003	888,026	925,595
2004	894,406	935,671
2005	900,340	941,498
2006	903,467	943,613
2007	898,695	936,937
2008	902,745	931,973
2009	907,574	936,600

¹ Population estimates are based on revisions released by the U.S. Census Bureau in 2010 and may differ somewhat from earlier figures cited in other tables.

² Includes visitor population.

Source: State of Hawaii, Department of Business, Economic Development & Tourism, Data Book, 2010.

Table 16**Number of Equivalent Single-Family Dwelling Units (ESDUs)**

Fiscal Year Ending June 30	Single-Family Units	Multifamily Units	ESDUs	Commercial ESDUs	Total ESDUs
2002	128,109	110,521	76,788	77,832	282,729
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

Table 17**Wastewater Flows by Treatment Facility (MGD) ¹**

Treatment Facility ²	Design Capacity ³	2011 Flow ⁴	Projected Flow (2020)
Sand Island	82.00	61.29	92.60
Kahuku WWTP	0.40	0.19	0.15
Honouliuli WWTP	38.00	25.92	32.80
Waimanalo WWTP	1.10	0.55	0.62
Kuliouou WWPS (Hawaii Kai WWTP) ^{2,5}	-	0.43	0.38
Wahiawa WWTP	2.50	1.64	1.89
Kailua WWTP	15.25	11.49	13.40
Waianae WWTP	5.20	3.31	3.50
Paalaa Kai WWTP	0.14	0.09	0.14
Laie WRF ⁶	<u>0.90</u>	<u>0.46</u>	<u>0.63</u>
TOTAL:	145.49	105.37	146.11

¹ Average day annual flow (ADAF), MGD.² Does not include 0.43 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 2011 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 18

History of Major Wastewater Revenue Sources

Fiscal Year Ended June 30	Sewer Service Charges *	Wastewater System Facility Charges **
2002	\$112,147,942	\$1,607,571
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	335,721,757	3,224,262

* 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 (Ordinance No. 11-17) providing for additional increases in wastewater rates and future rate adjustments over the six-year period from July 1, 2011 through June 30, 2017. The schedule of rates under the Ordinance No. 11-17 is intended to allow for financial planning and projection for the Department and the City and County. Tables 19 and 20 below set forth schedules under the Ordinance No. 11-17 for residential and non-residential users, respectively.

Table 21 sets forth a schedule of Wastewater System Facility Charge adjustments, effective July 1, 2011 (Ordinance No. 11-17) through June 30, 2017.

Table 19

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

2011	\$71.13
2012	73.97
2013	76.93
2014	80.01
2015	84.01
2016	90.73

2. Monthly usage charge – First 2,000 gallons of metered water consumed.

No charge

3. Charge per 1,000 gallons of metered water consumed over 2,000 gallons, the water consumed reduced by the water irrigation factor of 18%; 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.

2011	\$3.00
2012	3.12
2013	3.24
2014	3.37
2015	3.54
2016	3.82

Single-family and duplex dwellings not served by city water system per dwelling unit per month

2011	\$87.56
2012	91.06
2013	94.70
2014	98.49
2015	103.41
2016	111.69

Multiple-unit dwellings served by city water system per dwelling unit per month

1. Monthly base charge

2011	\$49.82
2012	51.81
2013	53.88
2014	56.04
2015	58.84
2016	63.55

2. Monthly usage charge—First 2,000 gallons of metered water consumed		No charge
3. Charge per 1,000 gallons of metered water consumed over 2,000 gallons, the water consumed reduced by the water irrigation factor of 18%; 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	2011	\$3.00
	2012	3.12
	2013	3.24
	2014	3.37
	2015	3.54
	2016	3.82

Effective July 1 of:

Multiple-unit dwellings not served by city water

2011	\$67.40
2012	70.10
2013	72.90
2014	75.82
2015	79.61
2016	85.98

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Table 20

Schedule of Non-Residential Sewer Service Charges

Effective July 1 of:

Domestic Strength Wastewater:

1. Metered Water Usage:

a. If 9,000 gallons or less per month:

(1) Monthly base charge:

2011	\$63.97
2012	66.53
2013	69.19
2014	71.96
2015	75.56
2016	81.60

(2) Charge per 1,000 gallons:

2011	\$3.26
2012	3.39
2013	3.52
2014	3.66
2015	3.84
2016	4.15

b. If more than 9,000 gallons per month, charge per 1,000 gallons

2011	\$10.36
2012	10.77
2013	11.20
2014	11.65
2015	12.23
2016	13.21

2. Metered Wastewater Discharge:

a. If 7,000 gallons or less per month:

(1) Monthly base charge:

2011	\$63.97
2012	66.53
2013	69.19
2014	71.96
2015	75.56
2016	81.60

(2) Charge per 1,000 gallons:

2011	\$4.16
2012	4.33
2013	4.50
2014	4.68
2015	4.91
2016	5.31

b. If more than 7,000 gallons per month, charge per 1,000 gallons	2011	\$13.16
	2012	13.68
	2013	14.23
	2014	14.80
	2015	15.54
	2016	16.78

Effective July 1 of:

Extra Strength Wastewater

1. Charge per 1,000 gallons of water usage: use the following formula:	2011	\$10.36
	2012	10.77
0.857 + 0.143(SSm/200) multiplied by	2013	11.20
applicable rate	2014	11.65
	2015	12.23
	2016	13.21
2. Charge per 1,000 gallons of wastewater discharge, use the following formula:	2011	\$13.16
	2012	13.68
0.857 + 0.143(SSm/200) multiplied by	2013	14.23
applicable rate	2014	14.80
	2015	15.54
	2016	16.78

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Table 21

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 22 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 23 sets forth the debt service requirements for such Senior Bonds and Junior Bonds.

Table 22

Outstanding Wastewater Revenue Bonds

<u>Senior Bonds</u>	<u>Original Issue Amount</u>	<u>Outstanding Senior Bonds</u>	<u>Amount Outstanding as of June 30, 2011</u>
2001 Senior Bonds	\$136,020,000	2001 Senior Bonds	\$ 3,170,000
2005 Senior Bonds	152,815,000	2005 Senior Bonds	149,640,000
2006 Senior Bonds	340,760,000	2006 Senior Bonds	337,885,000
2007 Senior Bonds	171,890,000	2007 Senior Bonds	171,890,000
2009 Senior Bonds	148,285,000	2009 Senior Bonds	147,070,000
2010 Senior Bonds	204,435,000	2010 Senior Bonds	<u>204,435,000</u>
		Total	\$1,014,090,000
<u>Junior Bonds</u>		<u>Outstanding Junior Bonds</u>	
Junior Series 1998 Bonds ¹	\$264,152,890	Junior Series 1998 Bonds	\$ 26,292,890
Junior Series 2003 Bonds	218,400,000	Junior Series 2003 Bonds	80,475,000
Junior Series 2008 Bonds	112,440,000	Junior Series 2008 Bonds	106,860,000
Junior Series 2009 Bonds	127,045,000	Junior Series 2009 Bonds	121,015,000
Junior Series 2010 Bonds	100,755,000	Junior Series 2010 Bonds	<u>100,755,000</u>
		Total	\$435,397,890

¹ Used to refund certain reimbursable general obligation bonds of the City and County issued to finance the wastewater system of the City and County.

In addition to the outstanding Senior Bonds and Junior Bonds shown above, \$200,391,918 principal amount of State Revolving Fund loans (classified as Subordinate Obligations under the Bond Resolution) and \$1,275,799 of Reimbursable Obligations were outstanding as of June 30, 2011. The major portion of outstanding Reimbursable Obligations will finally mature in January 2013, with only small amounts of refunded Reimbursable Obligations remaining outstanding thereafter. All of the outstanding Senior Bonds, Junior Bonds, State Revolving Fund loans and Reimbursable Obligations 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 23**Revenue Bond Debt Service Requirements
(Years Ending June 30)^{1,2}**

Fiscal Year	Series 2011 Bonds			Debt Service	Total Senior	Debt Service	Total	BABS/RZEDB	Total Net Debt
	Principal	Interest	Total	on Outstanding Senior Bonds	Debt Service	on Outstanding Junior Bonds	Debt Service	Subsidy ³	Service
2012	\$ -	\$ -	\$ -	\$65,042,048	\$65,042,048	\$34,345,766	\$ 99,387,813	\$ (5,892,288)	\$ 93,495,525
2013	-	9,310,108	9,310,108	66,811,848	76,121,957	35,920,488	112,042,444	(5,367,122)	106,675,322
2014	-	8,018,275	8,018,275	66,811,615	74,829,890	35,923,919	110,753,808	(5,367,122)	105,386,686
2015	-	8,018,275	8,018,275	69,066,505	77,084,780	35,925,475	113,010,255	(5,367,122)	107,643,133
2016	-	8,018,275	8,018,275	73,685,490	81,703,765	35,925,494	117,629,258	(5,367,122)	112,262,136
2017	3,550,000	7,929,525	11,479,525	73,680,058	85,159,583	35,922,656	121,082,240	(5,367,122)	115,715,118
2018	3,675,000	7,804,025	11,479,025	73,690,677	85,169,702	35,926,025	121,095,727	(5,367,122)	115,728,605
2019	3,785,000	7,691,575	11,476,575	73,724,635	85,201,210	35,935,969	121,137,178	(5,367,122)	115,770,056
2020	3,960,000	7,516,875	11,476,875	73,716,673	85,193,548	35,934,119	121,127,667	(5,367,122)	115,760,545
2021	4,125,000	7,350,844	11,475,844	73,717,277	85,193,121	35,936,156	121,129,277	(5,325,087)	115,804,190
2022	4,280,000	7,198,213	11,478,213	73,612,275	85,090,487	35,925,278	121,015,765	(5,237,136)	115,778,630
2023	4,475,000	7,000,738	11,475,738	73,514,066	84,989,804	35,927,150	120,916,954	(5,141,046)	115,775,908
2024	4,695,000	6,783,225	11,478,225	73,410,495	84,888,720	35,934,675	120,823,395	(5,035,813)	115,787,582
2025	4,910,000	6,567,113	11,477,113	73,283,001	84,760,113	36,363,325	121,123,438	(4,921,003)	116,202,436
2026	5,145,000	6,332,288	11,477,288	73,161,290	84,638,578	36,366,525	121,005,103	(4,797,027)	116,208,076
2027	5,405,000	6,072,813	11,477,813	72,977,679	84,455,492	36,367,350	120,822,842	(4,617,849)	116,204,993
2028	5,665,000	5,810,225	11,475,225	72,745,412	84,220,637	36,367,925	120,588,562	(4,383,345)	116,205,217
2029	5,925,000	5,551,569	11,476,569	72,490,580	83,967,149	36,362,563	120,329,711	(4,139,489)	116,190,222
2030	6,195,000	5,280,988	11,475,988	68,824,359	80,300,346	13,939,125	94,239,471	(3,885,964)	90,353,508
2031	6,480,000	4,995,800	11,475,800	68,557,208	80,033,008	13,934,000	93,967,008	(3,620,578)	90,346,430
2032	6,765,000	4,714,700	11,479,700	68,275,735	79,755,435	13,938,125	93,693,560	(3,340,857)	90,352,704
2033	7,080,000	4,395,950	11,475,950	58,801,745	70,277,695	13,934,875	84,212,570	(3,047,941)	81,164,629
2034	7,460,000	4,019,200	11,479,200	58,499,890	69,979,090	-	69,979,090	(2,743,089)	67,236,001
2035	7,855,000	3,622,381	11,477,381	58,180,232	69,657,614	-	69,657,614	(2,425,759)	67,231,855
2036	8,275,000	3,204,469	11,479,469	57,817,218	69,296,687	-	69,296,687	(2,078,551)	67,218,136
2037	8,710,000	2,764,413	11,474,413	47,009,038	58,483,451	-	58,483,451	(1,700,446)	56,783,005
2038	9,165,000	2,309,625	11,474,625	31,608,900	43,083,525	-	43,083,525	(1,307,606)	41,775,919
2039	9,635,000	1,839,625	11,474,625	19,766,053	31,240,678	-	31,240,678	(899,812)	30,340,865
2040	10,130,000	1,345,500	11,475,500	19,339,087	30,814,587	-	30,814,587	(476,478)	30,338,110
2041	10,650,000	826,000	11,476,000	12,547,616	24,023,616	-	24,023,616	(130,416)	23,893,200
2042	11,195,000	279,875	11,474,875	-	11,474,875	-	11,474,875	-	11,474,875
Total	\$169,190,000	\$162,572,483	\$331,762,483	\$1,864,368,708	\$2,196,131,191	\$703,056,981	\$2,899,188,172	\$ (118,084,553)	\$2,781,103,619

¹ Based on payments, not on accruals.² Totals may not add due to rounding.³ 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, 2010, 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 24 summarizes revenues and expenses and Table 25 provides fund balances, both reflecting enterprise accounting and consistency with GASB 34 reporting requirements.

Table 24

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

	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>
Operating Revenues:			
Sewer Service Charges	\$ 219,907	\$250,265	\$299,502
Other Revenue	<u>5,197</u>	<u>1,688</u>	<u>8,905</u>
Total Operating Revenues	\$ 225,104	\$251,953	\$308,407
Operating Expenses:			
Administrative and general	\$ 40,790	\$ 29,962	\$ 45,490
Maintenance	487	818	377
Depreciation	39,363	40,682	42,281
Contractual services	13,718	17,054	16,223
Fringe benefits	17,696	12,911	21,196
Materials and supplies	10,702	8,957	9,625
Fuel and lubricants	2,633	2,279	1,769
Utilities	<u>17,088</u>	<u>17,683</u>	<u>16,719</u>
Total Operating Expenses	\$142,477	\$130,346	\$153,680
Operating Income	\$ 82,627	\$121,607	\$154,727
Nonoperating Revenues (Expenses):			
Interest income	\$ 17,884	\$ 7,080	\$ 957
Interest expense	(50,469)	(45,270)	(43,555)
Other	<u>(1,115)</u>	<u>(3,329)</u>	<u>(409)</u>
Total Nonoperating Expenses	\$(33,700)	\$(41,518)	\$(43,007)
Income before operating transfers and contributed capital	\$ 48,927	\$ 80,089	\$ 111,207
Transfers In	\$ --	\$ --	\$ --
Operating Transfers Out	(11,944)	(12,931)	(9,485)
Contributed Capital	<u>78</u>	<u>5,678</u>	<u>5,962</u>
Change in Net Assets	\$ 37,061	\$ 72,835	\$ 108,197
Net Assets at Beginning of Year, as previously reported			
Prior period adjustment			
Net Assets at Beginning of Year, as restated	\$690,678	\$727,739	\$800,575
Net Assets at End of Year	\$727,739	\$800,575	\$908,772

* Differs from presentation in Table 10 due to the fact that information presented in this Table 24 is presented in conformance with GAAP whereas information in Table 10 is presented in accordance with definitions presented in the First Bond Resolution.

Table 25

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

	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 35,984	\$ 324,297	\$ 388,640
Investments	369,081	12,707	12,707
Receivables			
Accounts	31,818	34,551	41,088
Interest	2,878	25	45
Due from other funds	2,875	1,117	1,027
Inventories of parts, materials and supplies at cost	8,016	9,126	11,021
Prepaid expenses	<u>1,825</u>	<u>1,895</u>	<u>1,980</u>
Total Current Assets	\$ 452,477	\$ 383,718	\$ 457,777
Fixed Assets:			
Land	6,065	6,101	6,292
Land improvements	3,510	3,511	3,511
Buildings and Improvements	718,168	783,081	792,663
Transmission and distribution system	1,020,625	1,016,907	1,104,257
Equipment and machinery	32,167	33,134	38,819
Construction work in progress	196,811	348,609	463,267
Accumulated depreciation	<u>(278,193)</u>	<u>(318,186)</u>	<u>(360,192)</u>
Total Assets	\$2,159,639	\$2,264,214	\$2,514,985
LIABILITIES AND FUND EQUITY (DEFICIENCY)			
Current Liabilities:			
Accounts payable	\$ 28,087	\$ 30,715	\$ 24,472
Due to other funds	55	--	3,532
Interest payable-current	27,490	26,284	30,146
Notes payable-current	9,451	12,471	15,365
Bonds payable-current	15,584	19,446	24,262
Accrued Payroll	0	147	1,552
Other current liabilities	<u>610</u>	<u>315</u>	<u>355</u>
Total Current Liabilities	\$ 81,278	\$ 89,378	\$ 99,684
Notes payable	105,396	144,839	177,839
General obligation bonds payable	13,398	6,442	1,276
Revenue bonds payable	1,222,684	1,210,027	1,301,853
Deferred credits and other liabilities	<u>9,143</u>	<u>12,953</u>	<u>25,662</u>
Total Liabilities	\$1,431,900	\$1,463,639	\$1,606,213
Commitments and Contingencies Net Assets:			
Invested in capital assets	558,436	574,370	586,031
Reserved for debt service	84,981	131,469	144,307
Unrestricted	<u>84,322</u>	<u>94,736</u>	<u>178,434</u>
Total net assets	\$ 727,740	\$ 800,575	\$ 908,772

* 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

In the normal course of business, claims and lawsuits are filed against the City and County and the Department and their respective officers and employees. The City and County and the Department generally are self-insured with respect to general liability claims. In the Fiscal Years ended June 30, 2009, 2010, and 2011, the Department reached settlements of lawsuits and claims related to the Wastewater System and paid with general funds of \$419,191, \$75,443 and \$3,528,144*, respectively. Except as set forth below, 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.

Information relating to pending litigation can be found in Note L and M to the audited financial statements for the Sewer Fund for the fiscal year ended June 30, 2010. The City was a party to various legal proceedings arising in the normal course of business which were settled through the 2010 consent decree discussed below.

The 2010 consent decree, approved by the EPA, the DOH, the Sierra Club, Hawaii Chapter, Our Children’s Earth Foundation, and Hawaii’s Thousand Friends, was entered by the United States District Court in Hawaii. The 1994, 2004, and 2007 lawsuits, alleging violations of the federal clean water act and the several NPDES and DOH permits held by the City and County, previously reported have been dismissed. The consent decree replaced a 1995 Consent Decree and a 2007 Stipulated Order, and terminated all outstanding litigation and administrative compliance orders concerning the City and County’s Wastewater Treatment Plants and Wastewater Collection System. The City and County’s appeal of the EPA’s January 2009 final decisions denying the City’s applications to renew its permit variances from secondary treatment for the Honouliuli and Sand Island Wastewater Treatment Plants was dismissed on February 2, 2011. The consent decree allows 10 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 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. As part of the settlement, the City has paid a civil penalty in the amount of \$800,000 to the United States, and \$800,000 to the State of Hawaii. In addition, the City has paid \$800,000 to the Sierra Club, Hawaii Chapter, Our Children’s Earth Foundation, and Hawaii’s Thousand Friends, to fund four identified supplemental environmental projects.

The consent decree was lodged with the federal court on August 11, 2010, and was subject to a 30-day public comment period. The United States then filed its motion to enter the consent decree on November 15, 2010, which included its responses to the public comments received. The consent decree became effective upon its entry by the Court on December 17, 2010. The City has also settled the NGO plaintiffs’ claim for their attorneys’ fees and costs for an additional payment of \$1.1 million.

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.

* *Of this amount, \$3,500,000 was paid pursuant to the terms of the 2010 consent decree, as further discussed and itemized in this section.*

RATINGS

Fitch, Inc. and Moody's Investors Service have assigned ratings of "AA" and "Aa2," respectively, to the Series 2011 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: Fitch, Inc., One State Street Plaza, New York, New York 10004, and Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007. 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 2011 Bonds.

UNDERWRITING

The Series 2011 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 2011 Bonds at an aggregate purchase price of \$180,740,920.48, being an amount equal to the principal amount of the Series 2011 Bonds, plus a net original issue premium of \$12,603,281.00, and less an underwriting discount of \$1,052,360.52. The contract of purchase with respect to the Series 2011 Bonds provides that the Underwriters will purchase all the Series 2011 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 2011 Bonds to certain dealers (including depositing the Series 2011 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.

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 2011 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 2011 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 2011 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 2011 Bonds is less than the amount to be paid at maturity of such Series 2011 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2011 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 2011 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 2011 Bonds is the first price at which a substantial amount of such maturity of the Series 2011 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 2011 Bonds accrues daily over the term to maturity of such Series 2011 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 2011 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity).

of such Series 2011 Bonds. Beneficial owners of the Series 2011 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2011 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2011 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2011 Bonds is sold to the public.

Series 2011 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 Series 2011 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 Series 2011 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 Series 2011 Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Series 2011 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 2011 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 2011 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 2011 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2011 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 2011 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2011 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 2011 Bonds is excluded from gross income for federal income tax purposes and that the Series 2011 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 2011 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 2011 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, on September 12, 2011, the Obama Administration announced a legislative proposal entitled the American Jobs Act of 2011. For tax years beginning on or after January 1, 2013, the American Jobs Act of 2011 generally would limit the exclusion from gross income of interest on obligations like the Series 2011 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 or, or otherwise affect, the exclusion from gross income of interest on obligations like the 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 2011 Bonds. Prospective purchasers of the Series 2011 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 2011 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 2011 Bonds ends with the issuance of the Series 2011 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 2011 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and County and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City and County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2011 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 2011 Bonds, and may cause the City and County or the beneficial owners to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Series 2011 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 2011 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 2011 Resolution and the Series 2011 Certificate do not purport to be complete. Refer to the Act, the City Charter, the Bond Resolution, the Series 2011 Resolution and the Series 2011 Certificate for full and complete details of their provisions. Copies of the City Charter, the Bond Resolution and the Series 2011 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 2011 Bonds are fully set forth in the Bond Resolution and the Series 2011 Resolution. Neither any advertisement of the Series 2011 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2011 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 2011 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, 2010, 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

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 953,207 (approximately 70% of the State's population) according to the 2010 U.S. Census. 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. The following table sets forth certain employment statistics for the City and County for the five years ending December 31, 2006 through 2010 and the second quarters of 2010 and 2011. As indicated below, the unemployment rate for the City and County increased from 3.6% in 2008 to 5.8% in 2009 before declining slightly to 5.6% in 2010. This compares favorably to the 2010 and 2011 unemployment rates for the State (4.0% in 2008, 6.8% in 2009 and 6.6% in 2010) and the nation as a whole (8.2% in 2008, 10.0% in 2009 and 9.6% in 2010). The City and County's unemployment rate for the second quarter of 2011 stood at 5.1%, which represents a 0.5% improvement over the same quarter of 2010 and again compares favorably to the unemployment rates for the State (6.1%) and the nation (9.1%) for the quarter.

Table I
EMPLOYMENT STATISTICS ⁽¹⁾

	Year Ended December 31					Second Quarter	
	2006	2007	2008	2009	2010	2010	2011
Civilian Labor Force	441,500	440,050	444,050	440,050	439,000	439,600	446,000
Annual Average							
Civilian Employment	430,850	429,000	428,000	414,700	414,500	415,100	423,400
Unemployment	10,650	11,050	16,050	25,350	24,500	24,550	22,600
Unemployment Rate	2.4%	2.5%	3.6%	5.8%	5.6%	5.6%	5.1%
Total Job Count	453,650	456,950	454,300	442,650	436,150	436,650	444,050

⁽¹⁾ Data benchmarked by the State of Hawaii Department of Labor & Industrial Relations in March 2011.

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

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

2004 through 2009 (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>
2004	\$35,891	\$33,753	\$33,881
2005	38,057	35,804	35,424
2006	40,976	38,510	37,698
2007	43,874	41,161	39,461
2008	45,625	42,486	40,674
2009	45,496	42,152	39,635

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 2010 and in the second quarters of 2010 and 2011.

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	592,000	3.1	305,000	0.0
2010(2 nd Q)	580,000	1.8*	305,500	-0.7*
2011(2 nd Q)	580,000	0.0*	297,750	-2.5*

* Compared to second quarter of previous calendar year.

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. As of December 2010, the State government generated 74,500 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 in 2010.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy as the second largest industry behind tourism. 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.

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 state-chartered banks, one state-chartered financial services company, two federally-chartered savings associations and one national bank with combined assets totaling \$39.9 billion as of June 30, 2011, according to information from the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. The state-chartered banks (Bank of Hawaii, Central Pacific Bank, First Hawaiian Bank, Ohana Pacific Bank and Pacific Rim Bank) have a combined total of 179 branches and total assets of \$32.4 billion as of June 30, 2011. The state-chartered financial services company (Finance Factors, Ltd.) has 15 branches and total assets of \$537 million as of June 30, 2011. The two federally-chartered savings associations (American Savings Bank and Territorial Savings Bank) have 84 branches and \$6.4 billion of total assets as of June 30, 2011, and the national bank (Hawaii National Bank) has 14 branches and \$578 million of total assets as of June 30, 2011.

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 \$5.3 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. 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.

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 twelfth largest U.S. gateway airport in 2008 based on the number of international enplaned passengers and twenty-fifth busiest in the United States in total passengers (enplaned and deplaned). The 2008 Airports Council International Worldwide Traffic Report listed HNL the seventy-first busiest air terminal in the world.

Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. In fiscal year 2009, HNL recorded 276,272 aircraft operations as compared to 304,839 for fiscal year 2008. In addition, HNL passenger counts for fiscal year 2009 decreased from 20,808,838 in fiscal year 2008 to 17,806,225.

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.

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 10.1 million short tons in fiscal year 2008, 9.0 million short tons in fiscal year 2009 and 8.8 million short tons in fiscal year 2010. 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. Total permit value again declined in the first two quarters of 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 2010 and 2011.

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
2001	\$ 1,585,739	4.8	\$ 682,880	-1.7
2002	1,772,027	11.7	876,049	28.3
2003	2,357,636	33.0	1,109,568	26.7
2004	2,714,046	15.1	1,320,552	19.0
2005	3,489,736	28.6	1,364,030	3.3
2006	3,819,079	9.4	1,625,328	19.2
2007	3,579,592	-6.3	1,676,232	3.1
2008	2,899,665	-19.0	1,481,272	-11.6
2009	1,998,908	-31.1	1,247,196	-15.8
2010	1,980,296	-0.9	1,357,314	8.8
2010(2 nd Q)	537,311	14.2 ⁽³⁾	371,068	17.3 ⁽³⁾
2011(2 nd Q)	438,364	-18.4 ⁽³⁾	313,380	-15.5 ⁽³⁾

⁽¹⁾ In thousands of dollars.

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

⁽³⁾ Compared to second quarter of previous calendar year.

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

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. This cost of this development is estimated in the \$250-300 million range.

In 2009, the unfinished Pacifica Honolulu Condominium Tower was acquired by a San Diego developer. The developer has resumed construction of this 46-story, 492-unit condominium at an estimated cost of \$150 million. The developer expects to complete construction in the Fall of 2011.

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 “Visitor Industry” below for a description of certain other construction projects related to the visitor industry.

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 \$41.2 billion in 2010, with retail, wholesale and service activities accounting for the majority. Of the State’s 586,900 non-agricultural jobs in 2010, retail and wholesale trade together accounted for 83,100 jobs, or 14.2% of the total, and professional and business services, educational services, food services and other services together accounted for 167,800 jobs, or 28.6% 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 (with completion anticipated in mid-2012), and 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.

Other renewable energy projects on 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 System includes two universities and four community colleges on Oahu. The main campus of the University of Hawaii is located in Manoa. The federally funded East-West Center is adjacent to the Manoa campus. The University of Hawaii-West Oahu is currently located in Pearl City pending completion of its new campus in Kapolei (expected to be completed in 2012). The System's community colleges (Honolulu Community College, Kapiolani Community College, Leeward Community College and Windward Community College) offer liberal arts and sciences courses leading to Associate of Arts degrees, as well as courses in career and technical training leading to Associate in Science, Associate in Applied Science or Associate in Technical Studies degrees. In addition to the University of Hawaii System, there are also three private universities and one private college on Oahu.

The University of Hawaii 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 39 universities or consortia in the United States designated as a land, sea and space grant college. As a major research university, the University of Hawaii at Manoa has the capability of serving not only the State but the nation and the international community as well. The University of Hawaii 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 of Hawaii at Manoa offers instruction in more languages than any United States institution outside the United States Department of State. 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 of Hawaii at Manoa is the University's flagship research campus and was recently ranked 29th out of all public universities in the United States in research expenditures. 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 2009. The University 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. The University was awarded one of eight Regional Biocontainment Laboratory grants from the National Institutes of Health, valued at \$32.5 million.

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 early 2013.

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.

Following a period of decline from the second quarter of 2008 through the second quarter of 2009, Hawaii's tourism sector showed improvement over the balance of 2009 and through 2010. This improvement continued in the first two quarters of 2011, although the growth rate for the second quarter of 2011 was lower than previous quarters.

In 2010, total visitor arrivals by air were approximately 6.983 million, representing an 8.8 percent increase over the total for 2009. Although this growth continued into 2011, the increase in visitor arrivals by air slowed to 0.5 percent in the second quarter of 2011 as compared to the same quarter in 2010, reflecting the combined effects of two factors: (1) domestic arrivals increased at a lower rate (1.4 percent); and (2) the increase in domestic arrivals was largely offset by a 2.2 percent decrease in international arrivals resulting primarily from the effects of the March 2011 earthquake and tsunami in Japan.

The average daily visitor census, which takes into account visitors' lengths of stay, increased 8.9 percent in 2010 as compared to 2009. In the second quarter of 2011, as a result of longer lengths of stay, the average daily visitor census increased more than the increase in visitor arrivals (i.e., 2.2 percent as compared to 0.5 percent).

Visitor expenditures also showed significant improvement in 2010, totaling approximately \$11.383 billion for the year, a 16.2 percent increase over 2009. This improvement continued through the second quarter of 2011, when visitor expenditures increased 15.0 percent compared to the second quarter of 2010.

In terms of major market areas, arrivals from U.S. West were up 8.8 percent in 2010 as compared to 2009; arrivals from the U.S. East were up 4.4 percent; and Japanese arrivals were up 5.3 percent. From the second quarter of 2010 to the same period of 2011, arrivals from the U.S. West increased 1.7 percent, while arrivals from the U.S. East decreased 2.5 percent and arrivals from Japan decreased 17.6 percent.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 5.9 percent in 2010 from the previous year. In the second quarter of 2011, the total number of seats remained at approximately the same level as the first quarter of 2010. This total reflects a 1.5 percent decrease in domestic seats offset by a 4.2 percent increase in international seats.

Current airline capacity levels reflect the opening of operations between Honolulu and Tokyo's Haneda Airport by Japan Airlines, All Nippon Airways and Hawaiian Airlines in the fourth quarter of 2010. Hawaiian also added a new route to Seoul in 2010 and service to Osaka-Kansai in the Summer of 2011. In January 2011, Alaska Air introduced a non-stop flight between Bellingham, Washington and Honolulu. More recently, China Eastern Airlines introduced non-stop service between Honolulu and Shanghai in August 2011, which is Hawaii's first regularly scheduled service to China. In addition, in September 2011, Delta Air Lines announced that it will introduce non-stop service between Honolulu and Fukuoka, Japan effective in December 2011.

In 2010, hotel occupancy for the State averaged 70.7 percent in 2010, an increase of 5.8 percentage points from the previous year. On Oahu, hotel occupancy averaged 78.2 percent in 2010, 4.9 percentage points higher than the previous year. In the second quarter of 2011, as compared to the same period in 2010, hotel occupancy for the State improved by 1.3 percentage points to 68.6 percent, while hotel occupancy on Oahu improved by 2.3 percentage points to 76.2 percent.

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					Second Quarter	
	2006	2007	2008	2009	2010 ⁽³⁾	2010 ⁽³⁾	2011 ⁽³⁾
Arrivals by Air – State ⁽¹⁾	7,528	7,497	6,713	6,420	6,983	1,715	1,723
Domestic	5,550	5,583	4,902	4,672	5,023	1,279	1,298
International	1,978	1,914	1,812	1,748	1,960	435	426
Arrivals by Air – Oahu ⁽¹⁾	4,688	4,695	4,194	4,025	4,334	1,059	1,047
Domestic	2,891	2,950	2,555	2,447	2,588	665	661
International	1,797	1,744	1,639	1,578	1,746	394	385
Average Daily Visitor Census – State ⁽¹⁾	189.4	189.4	172.5	165.1	179.7	171.2	175.0
Domestic	149.5	151.0	135.2	129.1	138.2	135.0	138.0
International	39.9	38.5	37.2	36.0	41.5	36.2	37.0
Visitor Expenditures – State ⁽²⁾	\$12,243	\$12,578	\$11,182	\$9,794	\$11,383	\$2,490	\$2,865
Hotel Occupancy Rate – State	79.5%	75.0%	70.4%	64.9%	70.7%	67.3%	68.6%
Hotel Occupancy Rate – Oahu	82.5%	76.8%	75.0%	73.3%	78.2%	73.9%	76.2%

⁽¹⁾ In thousands.

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

⁽³⁾ 2010 and 2011 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 will serve as the primary location for the Asia-Pacific Economic Cooperation Conference (APEC), which is expected to draw 20,000 attendees, including President Obama and other heads of state, ministers, political staff, business leaders and media outlets. According to the APEC 2011 Host Committee, the conference is expected to generate approximately \$120 million in economic benefit for the State (primarily Oahu) and could fill over 120,000 hotel rooms on Oahu.

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.

The City and County of Honolulu continues to attract major investment to support the visitor industry, including hotels, restaurants, and recreation facilities.

Waikiki Beach Walk, an eight-acre complex bordered by Kalakaua Avenue, Lewers Street, Kalia Road, Beach Walk and Saratoga Road, was reconstructed in recent years 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 recently completed \$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 \$85 million renovation and retenanting of the Royal Hawaiian Shopping Center, providing additional retail and restaurant options for visitors; Ala Moana Shopping Center's addition of approximately 300,000 square feet; 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 new Waikiki Edition, a 353-room luxury hotel developed by boutique hotelier Ian Schrager and Marriott International 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 will become the 425-room Hyatt Place Waikiki Beach as part of an extensive renovation and repositioning. Phase one involves the renovation of the 19-story Pali Tower, which is scheduled to reopen in November. Phase two, the renovation of the 14-story Diamond Tower, is expected to be completed by April 2012.

Kyo Ya, owner of all Oahu Sheraton properties, is scheduled to begin a \$700 million redevelopment project at the Sheraton Princess Kaiulani in 2011, including construction of a new 33-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 December 2010, a developer purchased the 359-room Pagoda Hotel and Floating Restaurant and is undertaking an estimated \$6 million of renovations and upgrades to the hotel and dining facilities.

In addition, Disney recently completed its first Hawaii resort, named Aulani, an \$800 million resort on 21 acres at Ko'Olina Resort & Marina. Opened in August 2011, the resort features 350 hotel rooms and 480 Disney Vacation Club time-share villas.

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, Florida in 2010, but returned to Honolulu in 2011 and is scheduled to be played in Honolulu again in 2012. In 2009, the Pro Bowl attracted an estimated 24,000 visitors to Honolulu. The 2011 Pro Bowl generated an estimated \$28.15 million in spending and \$3 million in state taxes.

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 2010, the Honolulu Marathon drew 28,600 participants, including 22,000 visitors, of which 18,000 were international visitors. The 2010 Marathon provided an estimated \$100 million to the State's economy.

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 Academy 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.

CBS's hit series Hawaii Five-O completed its first season of filming in Honolulu. CBS began filming the second 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. 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

Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the City and County and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the City and County.

DTC will act as securities depository for the Series 2011 Bonds. The Series 2011 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2011 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of 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 is rated AA+ by Standard & Poor's. 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 Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 2011 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 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 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 Series 2011 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 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 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. Beneficial Owners of the Series 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011 Bonds, such as redemptions, defaults, and proposed amendments to the Series 2011 Bond documents. For example, Beneficial Owners of the Series 2011 Bonds may wish to ascertain that the nominee holding the Series 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Series 2011 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 2011 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or its nominee, the 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 the 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 2011 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, Series 2011 Bond certificates are required to be printed and delivered.

The City and County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2011 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and County believes to be reliable, but the City and County takes no responsibility for the accuracy thereof.

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 \$169,190,000 Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2011A (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 October 13, 2011 (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 October 13, 2011, 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, 2011, 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 24 and 25 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 22 and 23 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: November 3, 2011

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 3rd day of November, 2011.

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 2011A
Date of Issuance: November 3, 2011

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 November 3, 2011, 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 2011A
(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 \$169,190,000 aggregate principal amount of its Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2011A (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 opinion speaks only as of its date and is not intended to, and may not, be relied upon 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, 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. 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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