Extract from email from Ben Porter dated August 18, 2009

1) Borrowing and debt levels: The Guidance requires a debt service schedule whenever the capital financing plan includes borrowing. Your submittal indicated the annual amount of principal and interest payments, but did not relate these to individual annual issuances of debt. Please provide a debt service schedule that shows each tranche of debt, along with assumptions on interest rates and debt rating. Also, the Guidance requires that the debt service schedule include a comparison to the most restrictive debt covenant – which in your case would be the City's total amount of general obligation debt, including debt issued for this project, relative to the City's affordability guidelines. In past years, you have provided this information. Please provide a comparison of total general obligation debt and related debt service to the City's affordability guidelines for the entire period for which project-related debt will be outstanding. If you believe the affordability guidelines will not apply, please explain why this is the case, and include an endorsement of this position by the City's chief financial officer.

Response from Honolulu:

Debt service schedule showing issuances and assumptions on interest rates and credit rating

Debt service schedule for each bond issuance is provided as an attachment to this transmittal in spreadsheet format. It includes information on interest rates, year of issuance and term to maturity for each bond issue. As stated on page 2-10 of the May 2009 Financial Plan, revised in August 2009 (the Financial Plan), the City is assumed to maintain its current AA credit rating. Municipal Market Data (MMD) AA rates were used as of August 5, 2009, increased by an additional 100 bps contingency. The table below shows a summary of the main assumptions on long-term borrowing used for the Honolulu High-Capacity Transit Corridor Project (the Project). For more information on financial assumptions, please refer to pages 2-8 through 2-11 of the Financial Plan.

Long-term Borrowing Assumptions for the Financial Plan

Year of Issuance	Term (Years)	Interest Rate (%p.a.)	Gross Proceeds (YOE $M)	Credit Rating
2013	10	4.53%	347	AA
2014	9	4.26%	531	AA
2015	8	3.98%	369	AA
2016	7	3.71%	101	AA
2017	6	3.38%	443	AA
2018	5	3.05%	17	AA
2019	4	2.65%	46	AA

Comparison of total general obligation debt and related debt service to the City's affordability guidelines

The City's affordability guidelines regarding its Debt and Financial Policies are formalized in Resolution 06-222, introduced on June 16, 2006 (attached to this transmittal). The most important guidelines for the Project, "which may be suspended for emergency purposes or because of unusual circumstances", are as follows:

Affordability Guideline III.G.1: Debt service for general obligation bonds including self-supported bonds as a percentage of the City's total Operating budget, including enterprise and special revenue funds, should not exceed 20 percent.

Affordability Guideline III.G.2: Debt service on direct debt, excluding self-supported bonds, as a percentage of General Fund revenues should not exceed 20 percent.

As stated in the Financial Plan, the Project benefits from a dedicated source of funding from the General Excise and Use Tax (GET). The proceeds from this source are deposited into the City's Transit Fund. As such, the bonds issued for the Project are assumed to be self-supported (supported by revenues from funds other than the General Fund). Therefore, the affordability guideline III.G.1 mentioned above represents the relevant and most restrictive debt test for the Project.

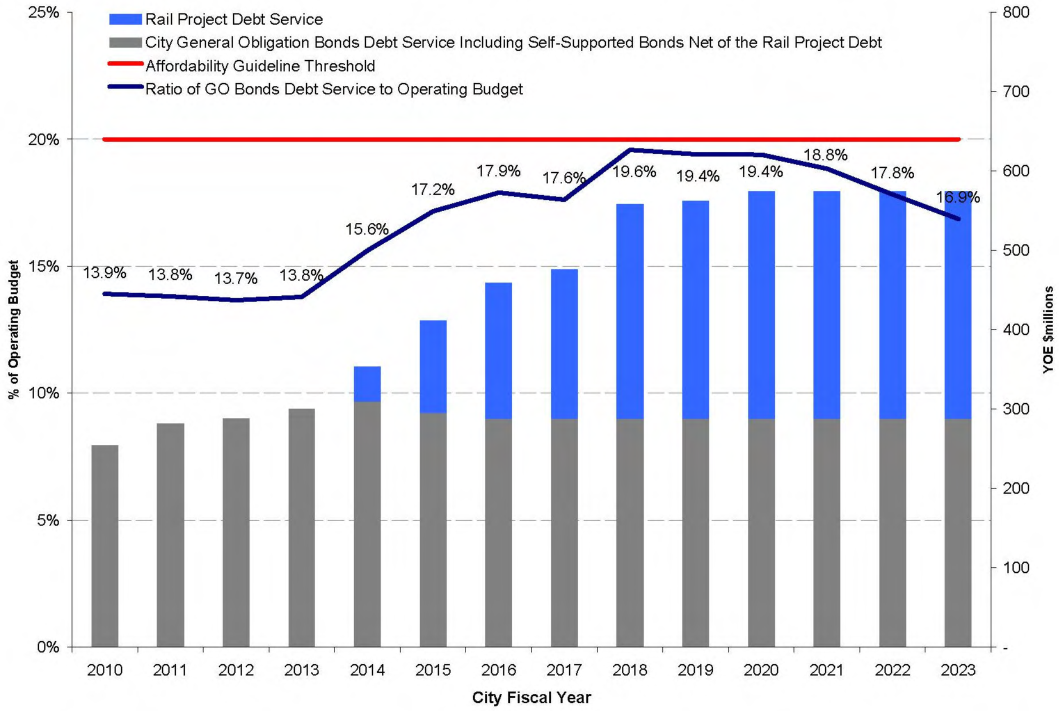
The City's 6-year operating budget is available from the latest proposed operating budget for FY2010.[1] The forecast was extrapolated to FY2023 (the last year of repayment of the Project's debt) using the average annual growth rate assumed between FY2010 and FY2015, which is equal to approximately 5.4% per year.

The City's debt service schedule through FY2015 was obtained from the City's Department of Budget and Fiscal Services for GO bonds including self-supported bonds. The forecast was extrapolated beyond FY2015 by assuming that the average annual debt service between FY2010 and FY2015 would be incurred from FY2016 through FY2023.

The chart below shows the result from the debt test corresponding to affordability guideline #1 that computes the ratio between projected debt service payment for GO bonds and self-supported debt to the City's operating budget. As shown in the chart, the ratio (left axis) is expected to remain under 20% through FY2023, the last year of debt service repayment for the Project. The chart also shows the annual projected debt service payment on City GO bonds including self-supported bonds with the long-term debt related to the Project shown separately (right axis).

[1] City and County of Honolulu Proposed FY2010 Operating Budget page A-25

Debt Test against City's Affordability Guideline



It is important to note that all of the assumptions described above are subject to change as the City's overall capital program and operating budget are revised every year, subject to adoption by the City Council. Similarly, the assumptions in the Financial Plan are subject to change as the Project advances through the development process and depending on changes in economic conditions, changes in the capital markets, as well as refinements in the Project capital cost estimates.

The debt test presented above was performed to meet the FTA guidelines for the Financial Plan and does not constitute in any way an opinion on the City's future financial condition for the purpose of evaluation by credit rating agencies or other financial institutions.