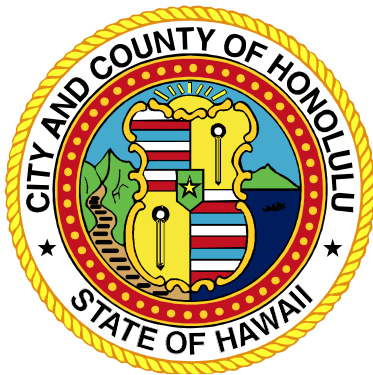


Honolulu, EPA, and Affordability

November 17, 2010



2. Honolulu Overview



Honolulu Overview

Honolulu is the Economic Engine of Hawaii

- ✓ Honolulu is the 13th Largest City in the Country
- ✓ Honolulu is the entire island of Oahu
- ✓ The City and County of Honolulu has Approximately:
 - 72% of State of Hawaii's Population (over 900,000)
 - 71% of State of Hawaii's Available Labor Pool
 - 71% of State of Hawaii's Private Sector Employment
- ✓ State Government, University of Hawaii and U.S. Military Presence
- ✓ Honolulu is the Largest Visitor Draw in Hawaii
- ✓ Highest Per Capita Income in the State
- ✓ Honolulu is the #1 City to Raise a Family in the U.S. (National Center for Health Statistics)
- ✓ Honolulu is Ranked #1 in Safest Cities with a Population Greater than 500,000

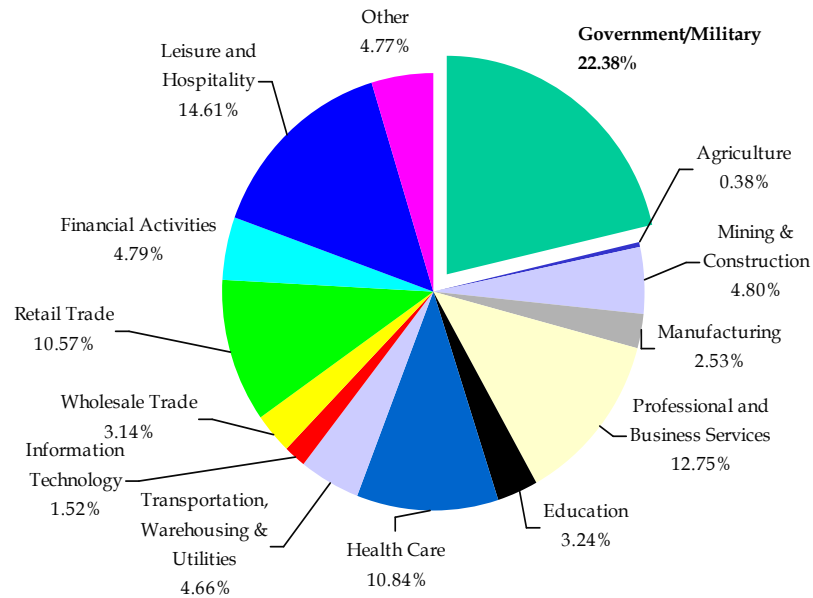
Source: Hawaii Department of Business, Economic Development and Tourism, CNBC, Citydata.com.



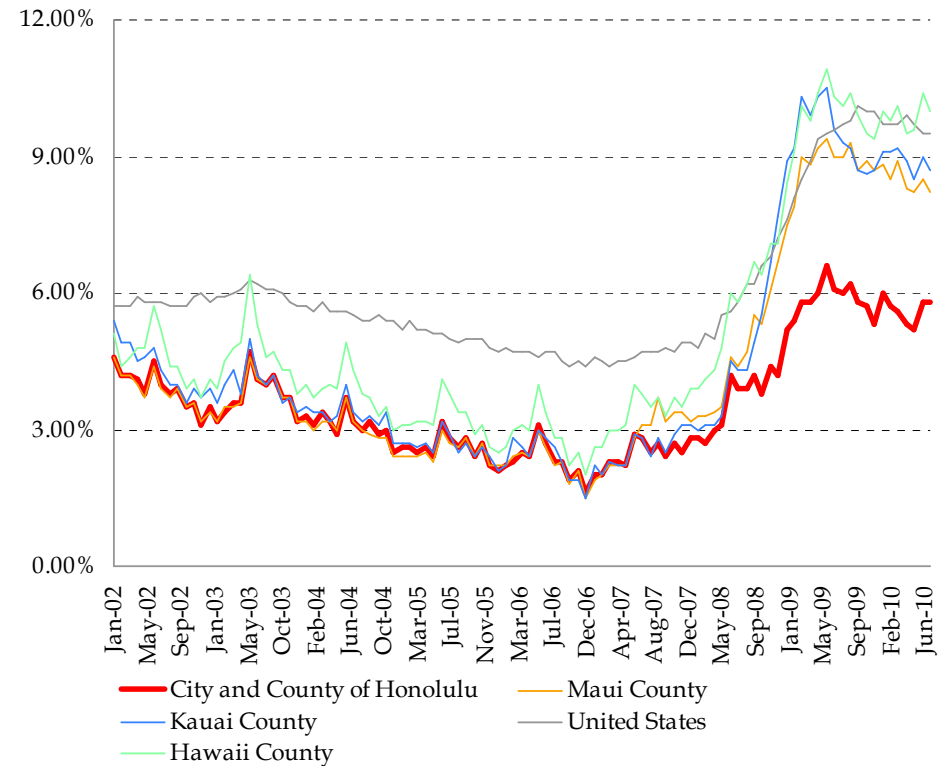
Honolulu Overview

Honolulu has a Diverse and Stable Economy

**Sector Breakdown of Economy
by Number of Employees⁽¹⁾
(As of July 2010)**



**Unemployment Rates⁽¹⁾
CY 2002-2010YTD**



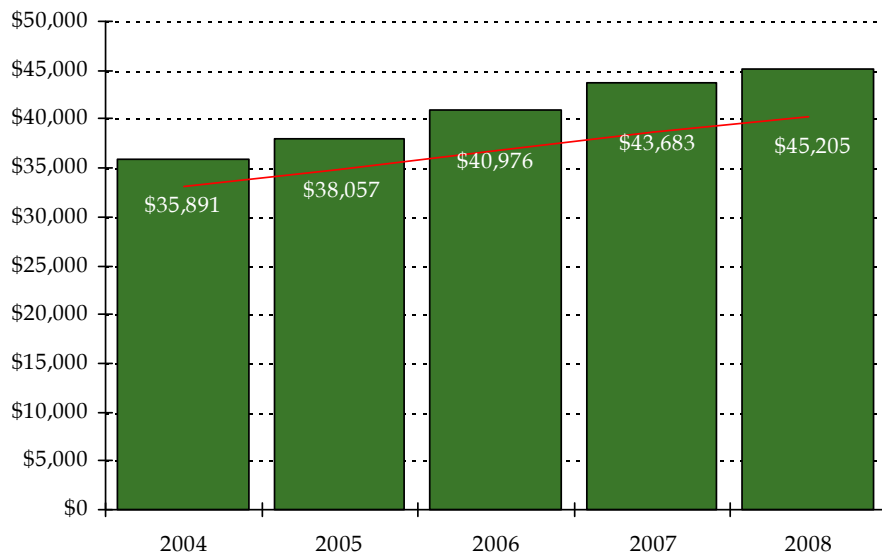
(1) Source: Hawaii Department of Labor and Industrial Relations, United States Department of Labor.



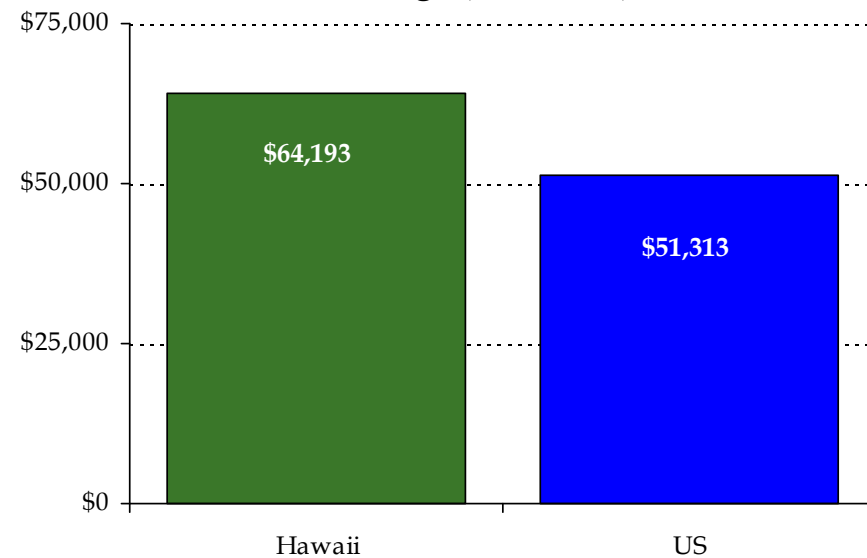
Honolulu Overview

Honolulu's Income Levels are Among the Highest in the U.S.

Honolulu Personal Income (Per Capita)⁽¹⁾
CY 2004-2008



Median Household Income⁽²⁾
Average (2006-2008)



Hawaii is ranked #5 in the nation based on median household income

Note: Red line represents U.S. per capita income.

(1) Source: Hawaii Department of Business, Economic Development and Tourism.

(2) Source: U.S. Census Bureau.

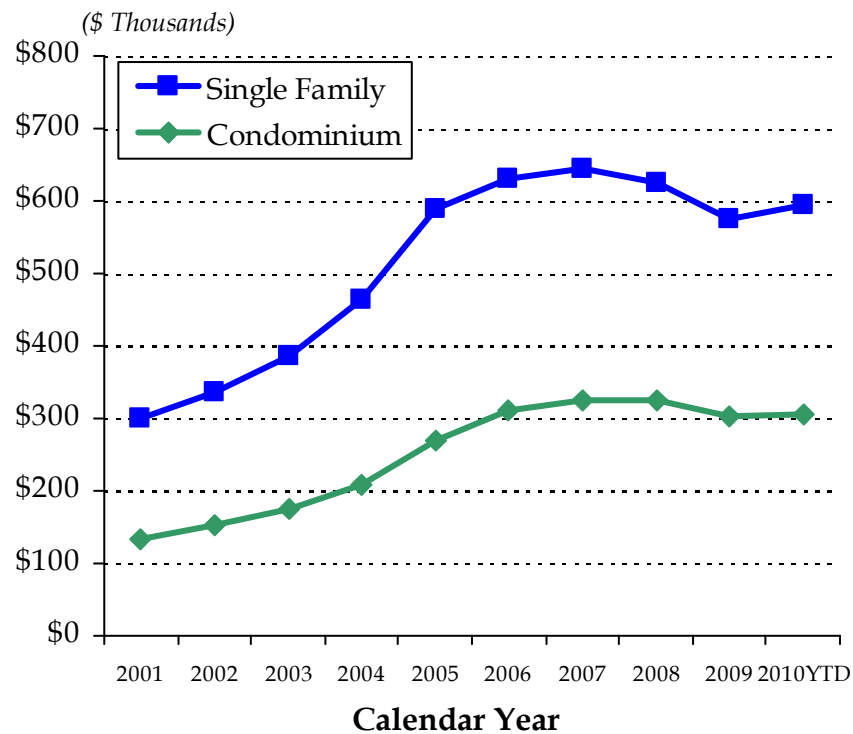


Honolulu Overview

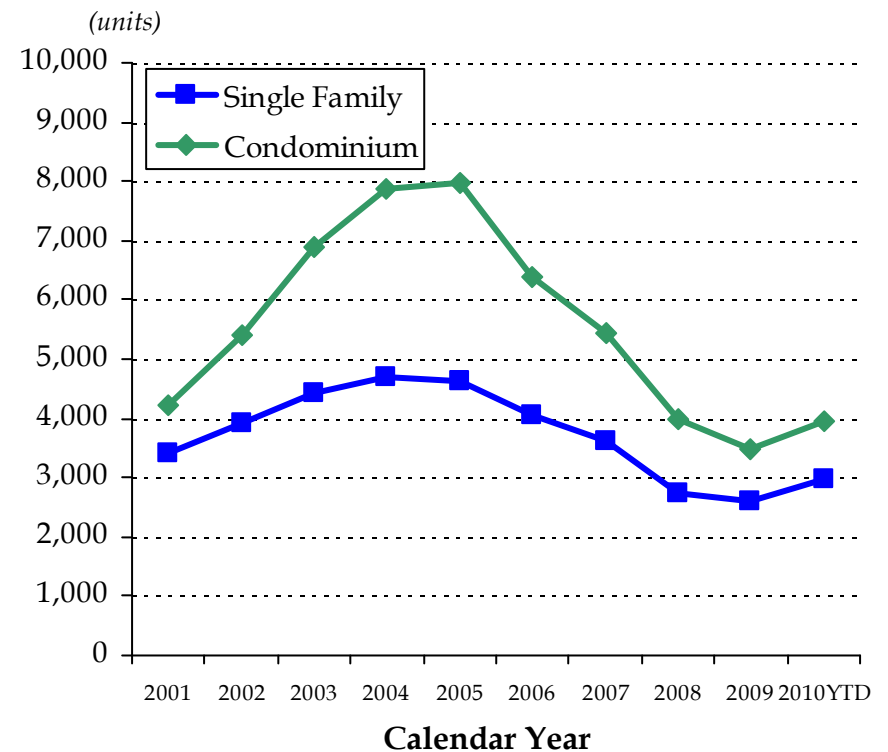
Cost of Living is also high

Both Sales Volume and Median Home Prices Have Risen in 2010

**Residential Median Prices on Oahu
CY 2001 - 2010YTD**



**Sales Volume on Oahu
CY 2001 - 2010YTD**



Source: Honolulu Board of Realtors.

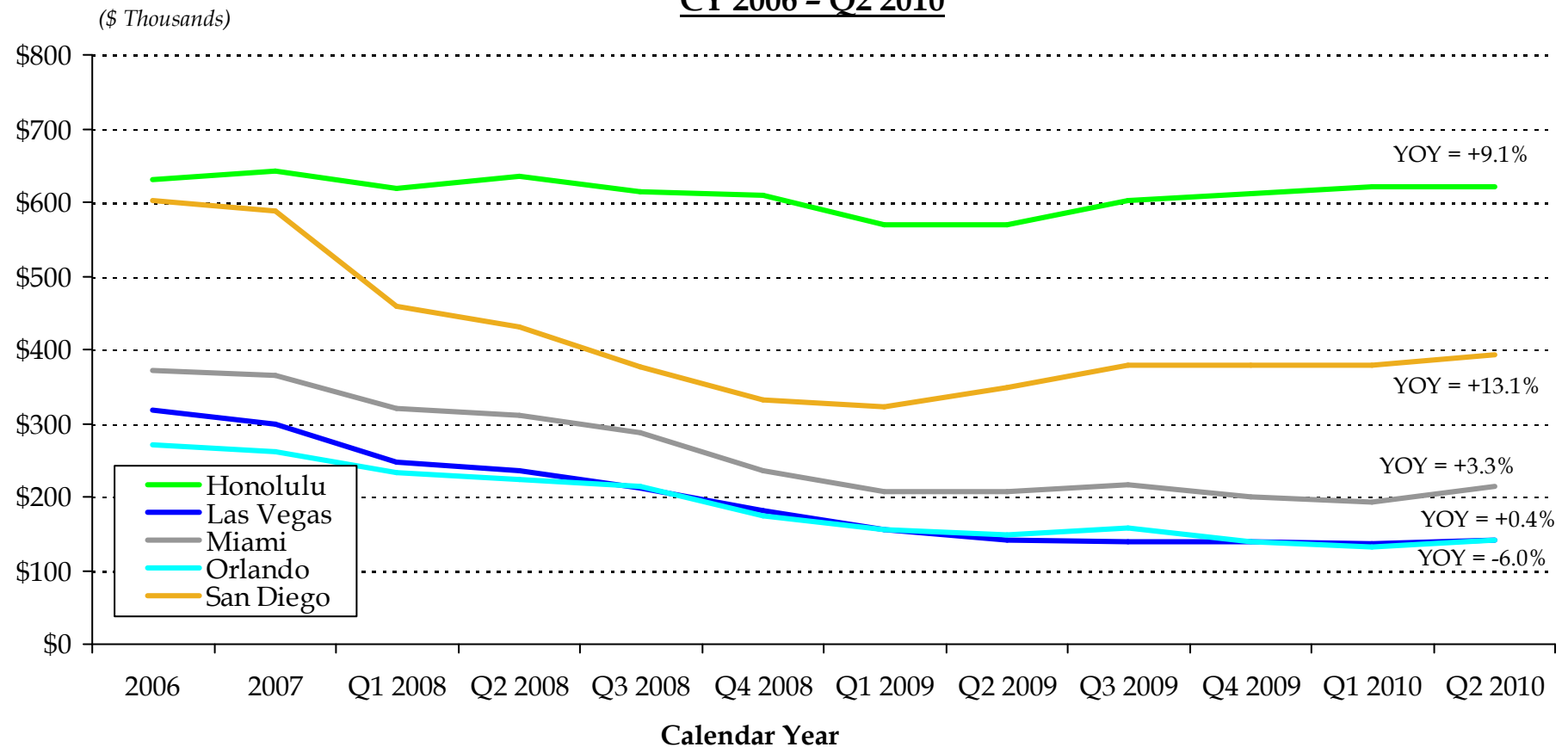
* Through August 2010, sales volume figure adjusted to reflect a full year.



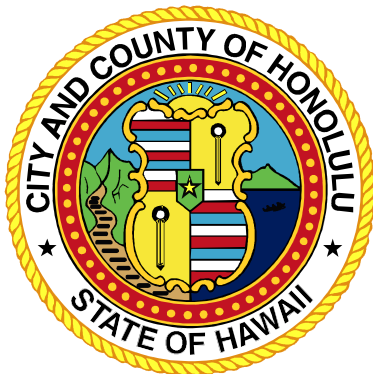
Honolulu Overview

Honolulu Home Prices Have Proved Resilient Compared to Other Key Vacation Markets

Median Single Family Home Prices
CY 2006 - Q2 2010



Source: www.realtor.org, National Association of Realtors.
YOY = Year over year.



4. Wastewater System



Wastewater System

The Department Provides Wastewater Services for the Island of Oahu, and has Adequate System Capacity to Meet User Needs

Region	Basin	WWTP	Design Capacity ⁽¹⁾ (mgd)	2010 Actual Flow (mgd) ⁽²⁾	Projected 2020 Flow (mgd)	Discharge Location
Metro	• East Mamala Bay	• Sand Island	82.00	62.82	92.60	• Ocean
Leeward	• West Mamala Bay	• Honouliuli	38.00	25.41	32.80	• Ocean/Reuse
	• North Oahu (West)	• Pa'alaa Kai	0.14	0.09	0.14	• Injection Wells
	• Waianae	• Waianae	5.20	3.15	3.50	• Ocean
	• Central Oahu	• Wahiawa	2.50	1.68	1.89	• Reservoir
Windward	• Kailua/Kaneohe/Kahuluu	• Kailua Regional	15.25	11.26	13.40	• Ocean
	• North Oahu (East)	• Kahuku	0.40	0.18	0.15	• Injection Wells
	• Waimanalo	• Waimanalo ⁽³⁾	0.70	0.61	0.62	• Injection Wells
	• North Oahu (East)	• Laie ⁽⁴⁾	0.90	0.43	0.63	• Reuse
	• Kuliouou ⁽⁵⁾	• Hawaii Kai	-	0.46	0.38	• N/A

(1) Average annual flow (ADAF) in million of gallons per day. Based on 105% of design capacity for average dry weather flow.

(2) Actual average daily flow during 2010 may have exceeded ADAF Design Capacity or Projected Flow due to weather conditions.

(3) Owned by the State of Hawaii Department of Land and Natural Resources.

(4) The City and County began operating the Laie WRF (privately owned) as of November 2006.

(5) The Kuliouou WWPS does not provide treatment, but pumps wastewater from a Department Collection System to a private treatment plant (Hawaii Kai WWTP).

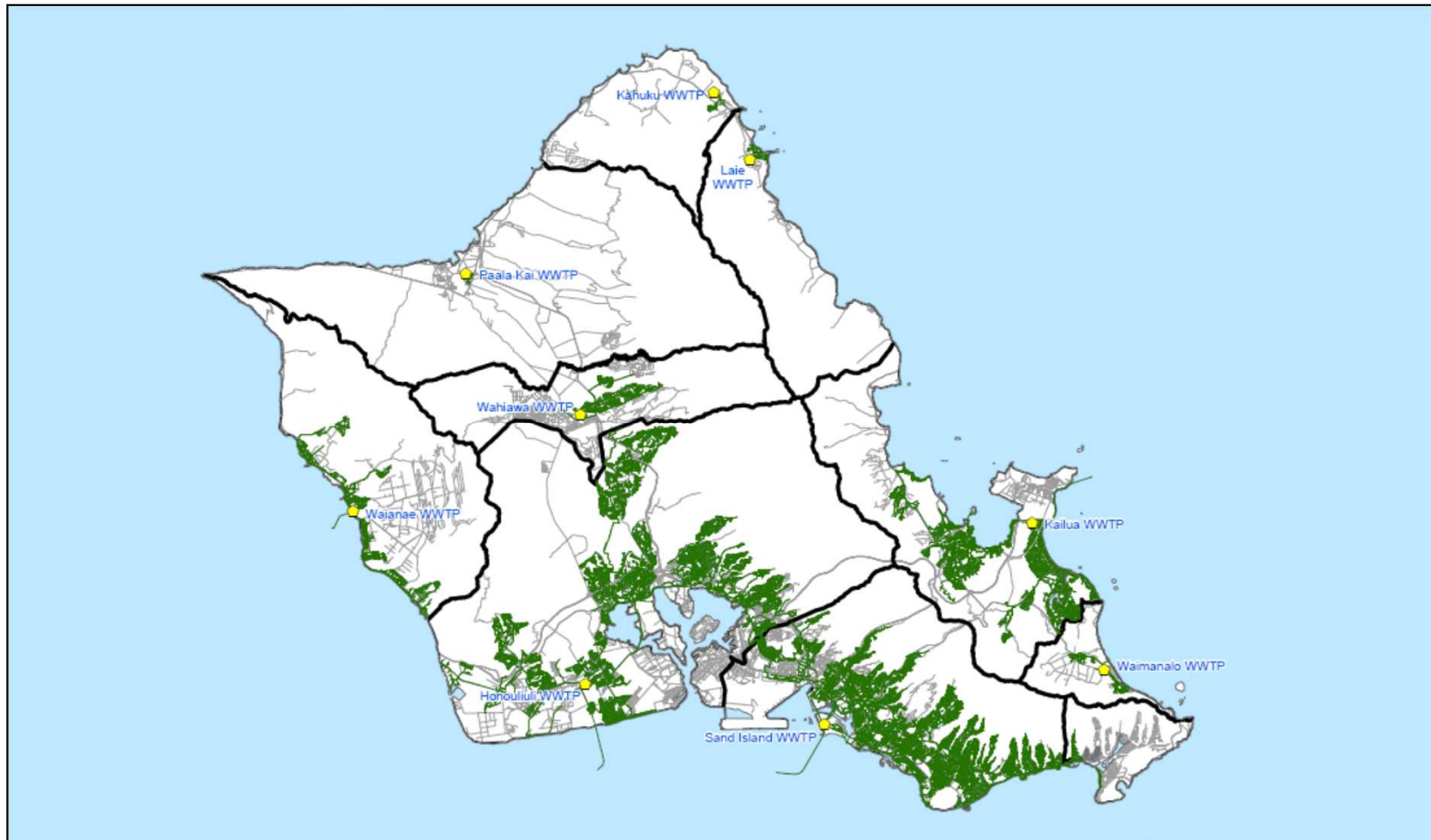
Source: City and County of Honolulu, Department of Environmental Services.

- ✓ Service area of almost 600 square miles
- ✓ 9 wastewater treatment plants (WWTP) ranging from 0.1 to 80 million gallons per day (mgd)



Wastewater System

Wastewater Basins and Major Facilities on Oahu



Source: City and County of Honolulu, Department of Environmental Services.

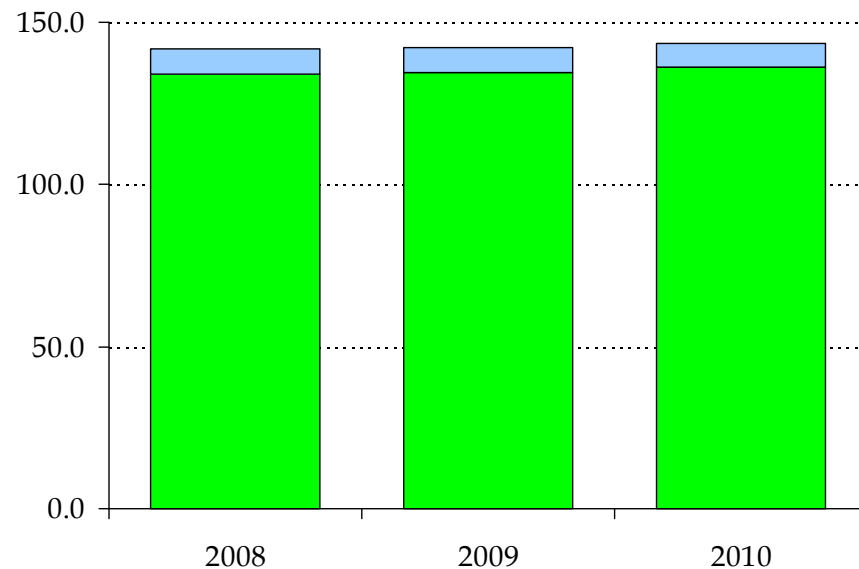


Wastewater System

A Strong Residential Base Ensures Stability to the Wastewater System

By Type of Account

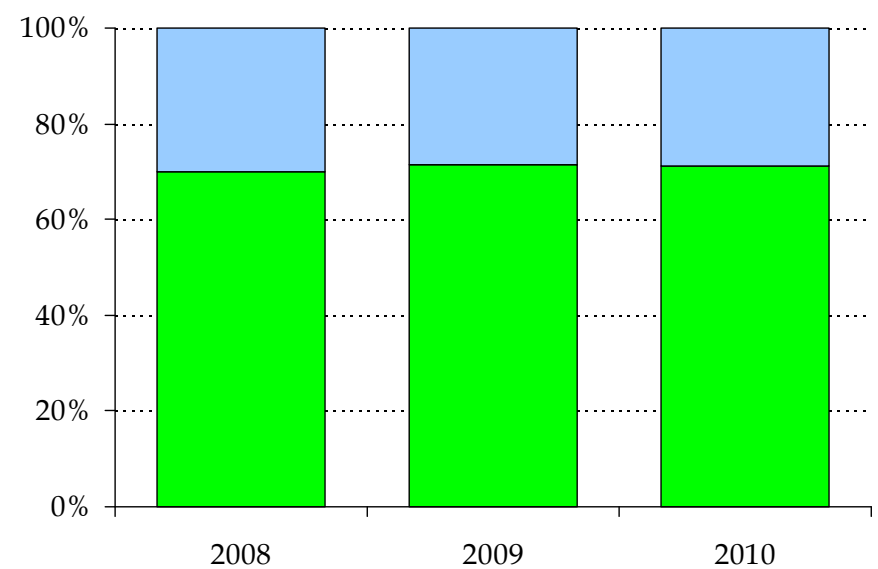
(In 000's)



■ Residential ■ Non-Residential

By Revenue

(% of Total)

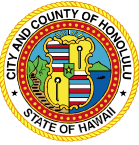


■ Residential ■ Non-Residential

- ✓ Growth is not a major driver of CIP, and ESDU Growth is projected at only 0.55% per year
- ✓ Approximately 70% of the Department's revenue is fixed

Note: Excludes sewer system service charge revenues.

Source: City and County of Honolulu, Department of Environmental Services.



Wastewater System

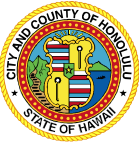
The Largest Users Account for Only 6.4% of the Revenues of the System

Ten Largest Wastewater Customers

Customer	Sewer Service Charges (FY10)	Percentage of Revenues
University of Hawaii	\$3,502,739.22	1.27%
State of Hawaii, Airport Maintenance	3,425,474.90	1.24
State of Hawaii, Hawaii Public Housing Authority	3,346,788.74	1.21
Hilton Hotels Corporation	2,696,250.06	0.98
Sheraton Waikiki Hotel	1,020,626.90	0.37
United Laundry Services	855,391.82	0.31
State of Hawaii, Central Service Division	831,248.54	0.30
Hyatt Regency Waikiki	741,864.14	0.27
State of Hawaii, Halawa Correctional Center	683,007.30	0.25
Halekulani Hotel	550,704.76	0.20
Total	\$17,654,096	6.40%

Note: Government users are highlighted in bold.

Source: City and County of Honolulu, Department of Environmental Services.



PRE-EXISTING ENVIRONMENT

PRE-EXISTING CONSENT DECREE FROM 1995 RELATED TO COLLECTION SYSTEM

- INCLUDED INFILTRATION/INFLOW STUDY THAT PRODUCED COLLECTION SYSTEM PROJECTS TO BE COMPLETED BY 2019

ADMINISTRATIVE ORDERS

- 1999 SAND ISLAND WWTP ADMINISTRATIVE ORDER
- 2002 SAND ISLAND WWTP ADMINISTRATIVE ORDER
- 2003 KALIHI-NUUANU ADMINISTRATIVE ORDER
- 2004 FORCE MAIN ADMINISTRATIVE ORDER

STIPULATED ORDER RELATED TO FORCE MAINS - MAY 8, 2007

301(H) WAIVERS FOR TWO LARGEST TREATMENT PLANTS

- HONOLULU
 - PERMIT RENEWAL REQUESTED: AUGUST, 30, 2004
 - PERMIT RENEWAL DENIED: MARCH 29, 2007 (TDD ISSUED) / JANUARY 5, 2009 (FDD ISSUED)
- SAND ISLAND
 - PERMIT RENEWAL REQUESTED: MAY 5, 2003
 - PERMIT RENEWAL DENIED: DECEMBER 7, 2007 (TDD ISSUED) / JANUARY 5, 2009 (FDD ISSUED)



ISSUES WITH NGO'S, EPA, AND STATE DEPARTMENT OF HEALTH

NGO'S FILE LAWSUIT IN 2004

- CITY NOT COMPLYING WITH 1995 CONSENT DECREE AND EPA/DOH NOT ENFORCING SUFFICIENTLY

EPA DENIES HONOLULU WAIVER REQUESTS

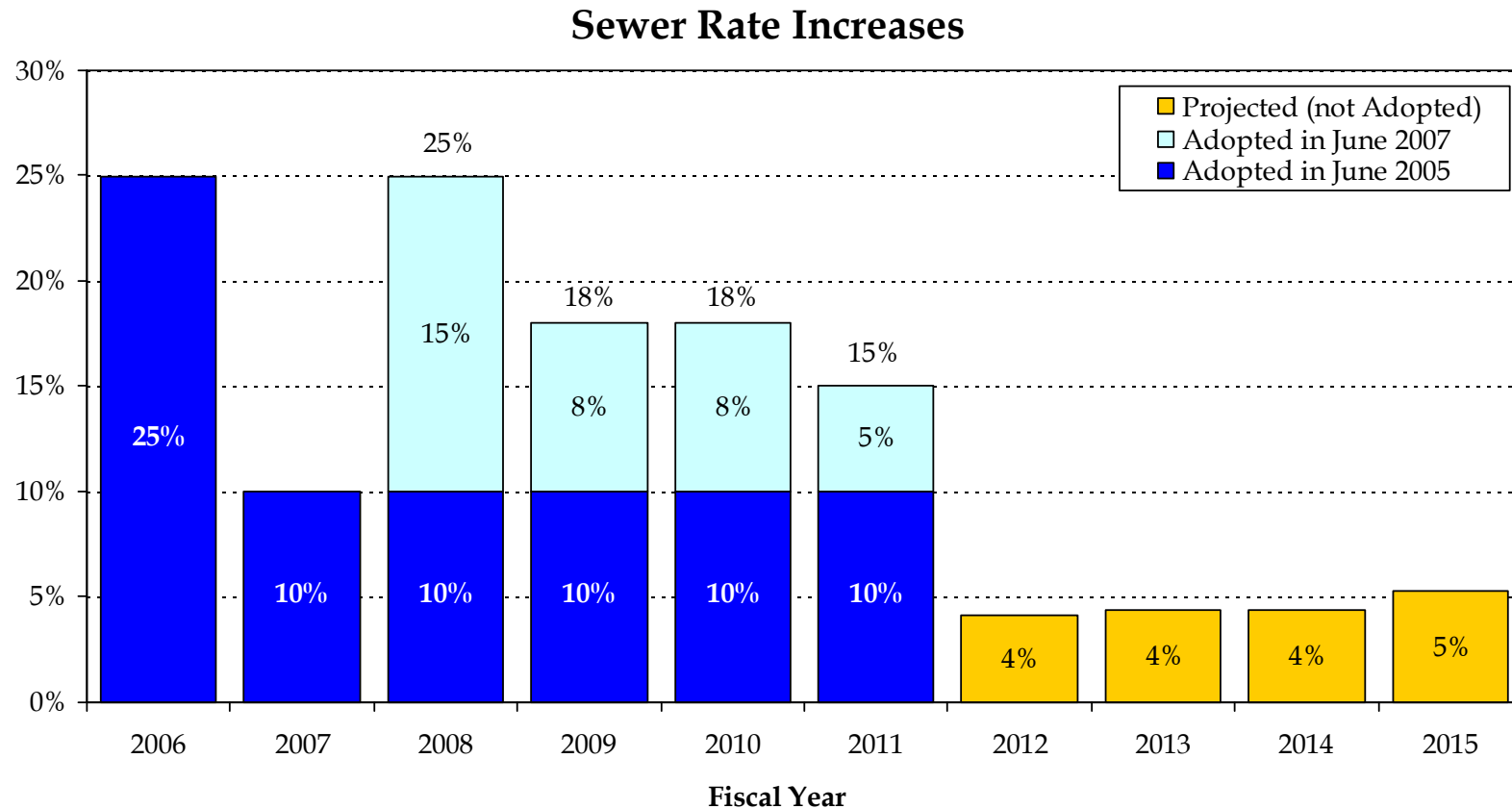
- ESTIMATED \$1.2 BILLION TO UPGRADE PLANTS TO SECONDARY

INAPPROPRIATE AND OUTDATED WASTER QUALITY STANDARDS AS MEASURES OF TREATMENT PLANT PERFORMANCE



Financial Position

The City has Passed Significant Multi-Year Rate Increases (175% Cumulatively from FY2006 to FY2011), Demonstrating its Commitment to the Wastewater System



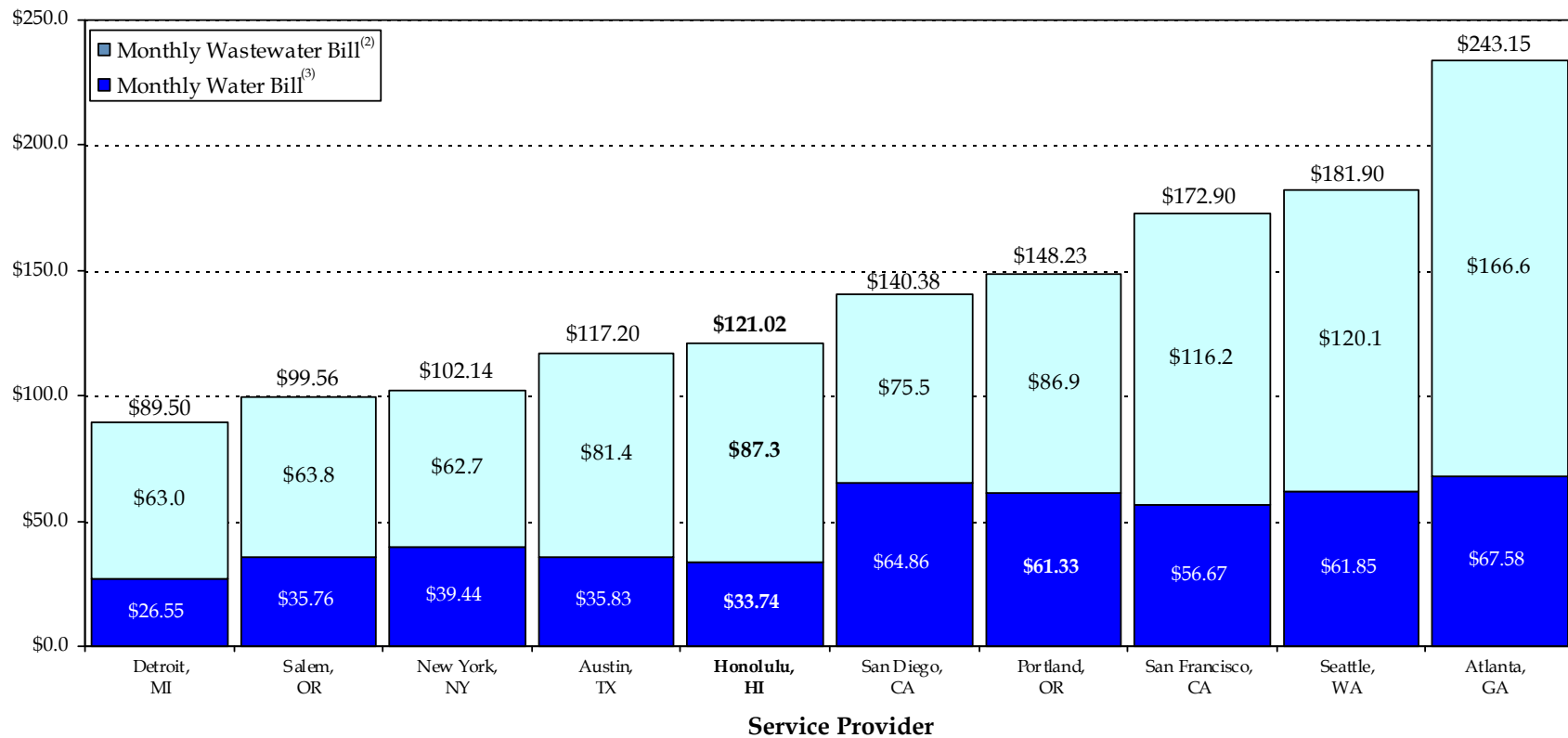
The adopted rate packages, which were approved with minimal public opposition, have increased revenues significantly



Financial Position

Honolulu's Water & Wastewater Rates Are Comparable to Other Major Utilities

Average Monthly Residential Bill⁽¹⁾



(1) Monthly bill figures are current for calendar year 2010 or FYE 2011.

(2) Comparison of residential wastewater bills is based on minimum meter size and average billable flows of 10,000 gallons per month or 13 hundred cubic feet (CF).

(3) Seattle water rates are based on a weighted average of seasonal rates for the assumed consumption of 10,000 and 33,000 gallons. Rates assume 5/8" and 2" meter sizes for residential and commercial customers, respectively. Fire protection and other fees that may be imposed have not been included.



RESOURCE COMPETITION

WASTEWATER PROGRAM IS \$5+B

RAIL TRANSIT PROJECT IS \$ 5+B

OTHER INFRASTRUCTURE



ISSUES FOR CONSENT DECREE

AFFORDABILITY

GLOBAL CONSENT DECREE

- RESOLVE ALL LITIGATION
- TERMINATE ALL ADMINISTRATIVE ORDERS
- EVERYONE, NGO'S INCLUDED, ARE PARTIES
- ADDRESSES SECONDARY TREATMENT ISSUE
- PRIORITY TO COLLECTION SYSTEM WORK



HOW DID WE LOOK AT AFFORDABILITY?

PAST CAPITAL EXPENDITURES

- 1.0 BILLION FROM FY2000 TO 2009

GRAVITY SEWER SPILL REDUCTIONS

- FROM 120 IN 1999 TO 45 IN 2009

PROJECTED FUTURE CAPITAL EXPENDITURES IN VARIOUS SCENARIOS

PROJECTED RATE RELATIONSHIP TO 2% MHI

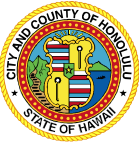
IMPACT ON BOND RATINGS



Draft 2010 Consent Decree

The Draft 2010 Consent Decree Offers the City Many Benefits

- ✓ Provides certainty, long-term stability and protection against future regulatory requirements
 - **Benefit to City:** Fixes capital and O&M expenditures required for collection system and treatment plant improvements over a 30-year horizon
- ✓ Establishes a set schedule for implementation of required improvements
 - **Benefit to City:** Provides certainty of timing of future capital and O&M expenditures
- ✓ Sets priorities for implementation of critical collection system improvements over the first 10-years, followed by treatment plant upgrades over a long-term horizon
 - **Benefit to City:** Maximizes investments in already completed designs for collection system projects, and allows adequate time to complete value engineering assessments and to benefit potentially from advances in future treatment technologies
- ✓ Consolidates all other outstanding Consent Orders, and regulatory compliance actions
 - **Benefit to City:** Provides protection against third-party actions, and simplifies and streamlines the coordination and implementation of future projects
- ✓ Establishes a legal basis for the required improvements
 - **Benefit to City:** The Wastewater CIP becomes "non-discretionary," and provides political impetus for future required rate increases



Summary of Draft 2010 Consent Decree Improvements

Collection System Improvements

Force Mains

- Provide new equipment at select pump stations to divert flows at specified force mains.
- Plan and construct necessary improvements to provide for flow diversion capabilities at specified force mains.
- Prepare spill contingency plans for specified force mains, and one programmatic spill contingency plan for small force mains.
- Construct four back-up force mains and one replacement force main.
- Conduct condition assessments of specified force mains and complete follow-up work identified by the condition assessments.
- Implement an agreed-upon operation and maintenance program for all force mains.

Gravity Sewers

- Complete 40 projects by set deadlines through December 31, 2016, and evaluate another 38 projects over the next four years.
- Update hydraulic data and flow projections, including rates of infiltration and inflow during wet weather.
- Assess the condition, through closed-circuit television, of 650 miles of gravity sewers, 300 miles during the first three years, and 350 miles during years 4 through 10.
- Repair or replace 144 miles of gravity sewers, 63 miles during the first three years, and 81 miles during years 4 through 10.
- Clean 500 total miles of gravity mains per year.

Fats, Oils, and Grease

- Continue program of permitting, inspecting, and enforcing installation of grease removal devices for food service establishments.

Pump Stations

- Perform specific repairs, storage projects and possible capacity upgrades at identified pump stations.
- Update operations and maintenance manuals for all pump stations.
- Develop standardized training procedures.

Staffing for the Gravity Sewer System

- Prepare a staffing plan and maintain staffing levels consistent with the staffing plan.

Equipment

- Maintain equipment inventory for gravity sewer maintenance and spill response.



Summary of Draft 2010 Consent Decree Improvements

Treatment Facilities Improvements (Sand Island and Honouliuli)

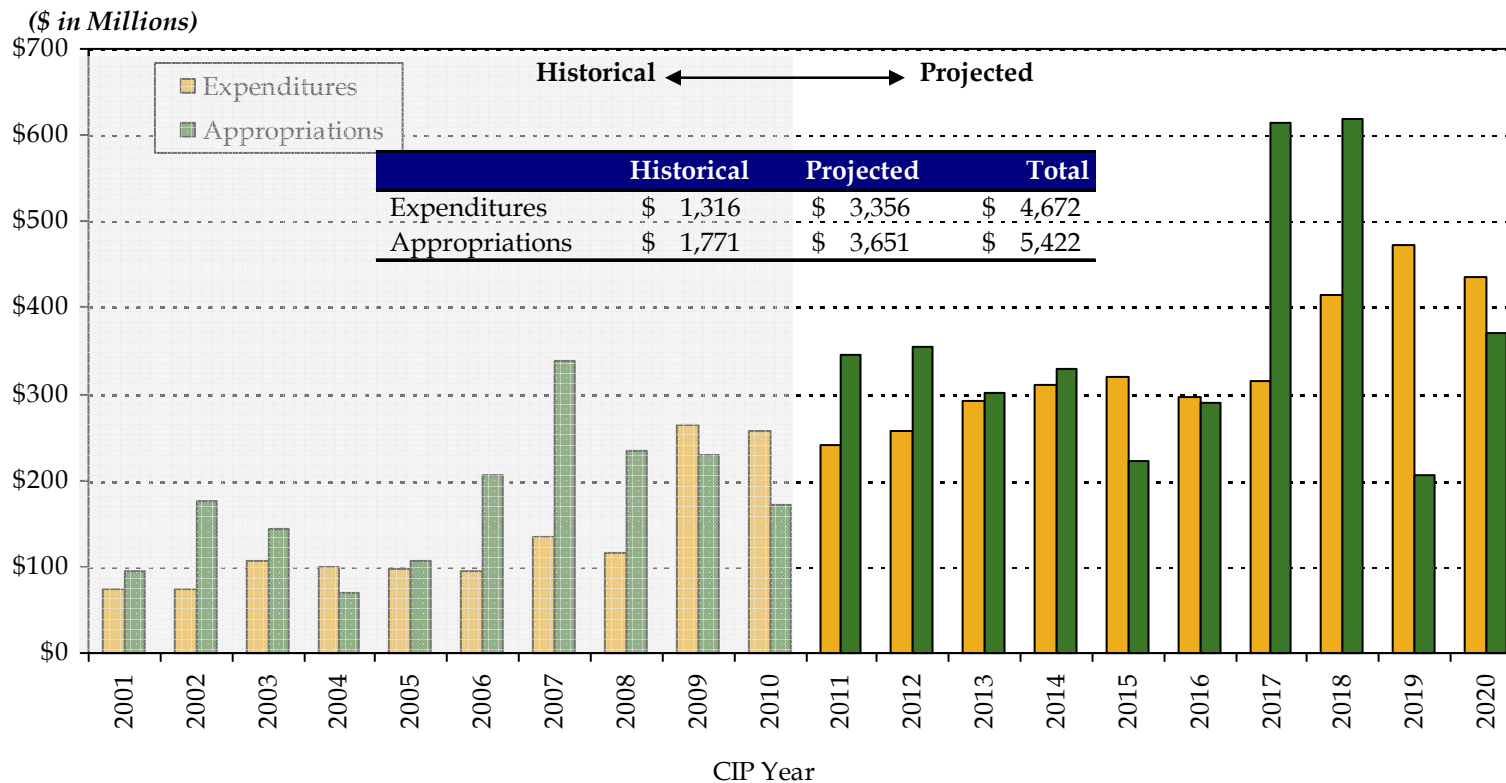
- Honouliuli WWTP is required to be upgraded to meet secondary treatment standards by June 1, 2024.
- Sand Island WWTP is required to be upgraded to meet secondary treatment standards by December 31, 2035, with the possibility of extending the deadline to December 31, 2038 if the City demonstrates that an earlier deadline is not technically feasible, or would impose undue financial hardship.
- The consent decree provides for interim effluent limits that both plants must meet until they achieve full secondary treatment.
- The operations and maintenance manuals for both treatment plants must be updated.



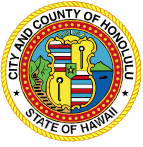
Capital Improvement Program

The Department is Halfway through its 20-Year Long-Term CIP Plan

Historical and Projected CIP Expenditures and Appropriations

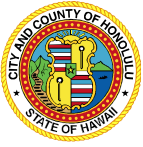


- ✓ The Department uses conservative assumptions for all components of its 20-year CIP plan



POTENTIAL RATE CHANGES

3 TO 5 PERCENT PER YEAR IN CURRENT DOLLARS



FILING OF CONSENT DECREE STILL PENDING