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IN REPLY REFER TO:
CMS-AP00-01778

HONOLULU AUTHORITY for RAPID TRANSPORTATION

August 25, 2016

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The Honorable Ernest Y. Martin, Chair
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Martin and Councilmembers:

Subject: Request and Issuance of Debt Financing for the Honolulu Authority for Rapid
Transportation (HART)

I am writing as a courtesy to inform you that HART is in the process of requesting issuance of debt financing in the form of Tax Exempt Commercial Paper (TECP) for \$50,000,000.00 very shortly in order to meet our cash flow and management needs.

For your information, I have included copies of the request to draw on the City's General Obligation TECP, and the Supplemental Tax Certificate to continue funding operations of HART which have been transmitted to the Department of Budget and Fiscal Services (BFS).

What follows is a summary of the debt financing process that HART and BFS plan on following regarding the issuance of debt financing for the project now and going forward:

Overview of the TECP Process

- HART to determine the need to draw on the TECP based on fund balance, cash flow, and MOU requirements.
- HART submits a draw request letter to BFS, which includes an amount that is requested to be drawn on the TECP.
- After the TECP is drawn, the proceeds are received and deposited into the City's General Improvement Bond Fund by the City. A transfer of these funds will then be deposited into the Transit Fund to allow HART the ability to use those funds.
- Resolution 15-314, authorizes HART to draw on the TECP up to \$350,000,000.00.
- As the TECP outstanding amount increases, it may need to be refunded through a General Obligation bond issue, which requires City Council approval, similar to any other General Obligation bond issue.
- HART reimbursement of the costs related to the debt service will be in accordance with the MOU that was executed between the City and HART.

DEPT. COM. 601

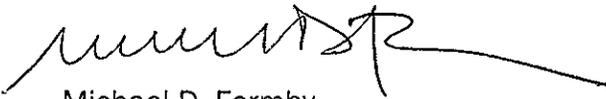
The Honorable Ernest Y. Martin, Chair
and Members

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August 25, 2016

If you have any questions regarding this matter, please do not hesitate to contact me at 768-6146 or Diane Arakaki, Chief Financial Officer, at 768-6156.

Very truly yours,

A handwritten signature in black ink, appearing to read "mformby", with a long horizontal flourish extending to the right.

Michael D. Formby
Acting Executive Director

Attachments

cc: HART Board Members

Mr. Roy K. Amemiya, Jr., Managing Director
Office of the City Clerk

Honolulu Authority for Rapid Transportation, Honolulu, Hawaii
Request Pursuant to Memorandum of Understanding Referred to Herein
Commercial Paper Notes, Subissue B-1 & Subissue B-2

No. 001

1. The Honolulu Authority for Rapid Transportation of Honolulu, Hawaii (“HART”) hereby requests the City and County of Honolulu, Hawaii (the “City”), in accordance with the Memorandum of Understanding dated May 7, 2015 between HART and the City, and all amendments and supplements hereto and hereafter executed by HART and the City (the “MOU”), to draw the following amount of funds from the City’s General Obligation Tax Exempt Commercial Paper Program (the “TECP”) on the following date and transfer/deposit these funds to the special transit fund (the “Transit Fund”) established pursuant to Article XVII, Section 17-114 of the Revised Charter of the City and County of Honolulu 1973, as amended (“Charter” or “RCH”). The General Obligation Commercial Paper Notes are described in Schedule I hereto, bearing such dates and in such amount, at such interest rates and maturing on such dates as are set forth in such Schedule I.

Amount of Draw: \$50,000,000.00

Date of Request: August 25, 2016

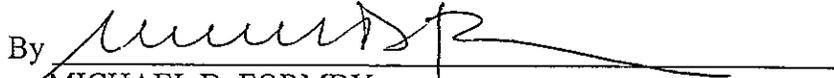
2. HART hereby represents and warrants that: (i) no Events (as defined in the MOU) exist under the MOU; (ii) HART has performed all of the covenants and agreements that it is required to have performed and to have continuously complied with under the MOU and any related agreements, such as the Certificate of HART; (iii) this request and delivery of TECP proceeds have been duly authorized by HART; and (iv) immediately after the issuance and delivery of such Commercial Paper for the draw amount and giving effect to any intermediate application of the proceeds thereof to the payment of the Commercial Paper outstanding will be indicated opposite Item 1 on Schedule I, and the Stated Amount under the Credit Agreement at such times will be indicated opposite Item 2 on Schedule I. Item 3 on Schedule I indicates the respective amounts of the proceeds of sale of the Commercial Paper which are to be deposited into the Subissue B-1 Principal Account or Subissue B-2 Principal Account, respectively, or transferred to the City for deposit into the Transit Fund.

3. HART acknowledges that the City, as it deems appropriate, will be issuing long term General Obligation Bonds, as permanent funding, to replace the outstanding short term Commercial Paper under the TECP program which issuance and draws were authorized by HART.

4. Unless otherwise defined herein, the terms used in this Request have the respective meanings given to such terms in the MOU. The terms used in the attached Schedule I have the meanings given to such terms in the Certificate of the Director of Budget and Fiscal Services of the City dated as of December 23, 2015, and all amendments and supplements hereto hereafter executed by the Director pursuant to the terms hereof.

IN WITNESS WHEREOF the undersigned has executed this Request as of this date:

HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

By 
MICHAEL D. FORMBY
Acting Executive Director

16-01898/486155

Honolulu Authority for Rapid Transportation, Honolulu, Hawaii, Request Pursuant to
Memorandum of Understanding Referred to Herein, Commercial Paper Notes, Subissue B-1 &
Subissue B-2

06/15/16

SCHEDULE I

TERMS OF COMMERCIAL PAPER, SUBISSUE B-1

<u>Note Number</u>	<u>Direct Participant</u>	<u>Principal Amount</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
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Purchase price of all Notes: 100% of the principal amount thereof.

<u>Item No.</u>	<u>Descriptions</u>	<u>Amount</u>
1	Principal Amount of Commercial Paper Outstanding Under Authorizing Certificate	\$
2	Stated Amount Under Credit Agreement	\$
3	Application of Proceeds:	
	Amount to be deposited to Subissue B-1 Principal Account	\$
	Amount to be transferred to City and County	\$

The terms used in this Schedule I have the respective meanings given to such terms in the Certificate of the Director of Budget and Fiscal Services of the City and County of Honolulu, Hawaii, dated as of December 23, 2015, and all amendments and supplements hereto hereafter executed by the Director pursuant to the terms hereof.

SCHEDULE I

TERMS OF COMMERCIAL PAPER, SUBISSUE B-2

<u>Note Number</u>	<u>Direct Participant</u>	<u>Principal Amount</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
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Purchase price of all Notes: 100% of the principal amount thereof.

<u>Item No.</u>	<u>Descriptions</u>	<u>Amount</u>
1	Principal Amount of Commercial Paper Outstanding Under Authorizing Certificate	\$
2	Stated Amount Under Credit Agreement	\$
3	Application of Proceeds:	
	Amount to be deposited to Subissue B-2 Principal Account	\$
	Amount to be transferred to City and County	\$

The terms used in this Schedule I have the respective meanings given to such terms in the Certificate of the Director of Budget and Fiscal Services of the City and County of Honolulu, Hawaii, dated as of December 23, 2015, and all amendments and supplements hereto hereafter executed by the Director pursuant to the terms hereof.

SUPPLEMENTAL TAX CERTIFICATE

The City and County of Honolulu, Hawaii (the "Issuer") has issued, from time to time, and is issuing, its General Obligation Commercial Paper Notes, Issue A and Issue B, consisting of Subissue B-1 and Subissue B-2 (collectively, the "Notes"). The Notes are being issued pursuant to a Certificate of the Director of Budget and Fiscal Services of the City and County of Honolulu dated as of December 23, 2015 (the "Certificate") and an Issuing and Paying Agent Agreement, dated as of December 1, 2015 (the "Agreement"), between the Issuer and U.S. Bank National Association, as successor paying agent, for each series of the Notes. The proceeds of the Notes will be used to pay or finance (i) public improvements, including equipment, relating to the Honolulu Rail Transit Project (the "Rail Project"), or relating to the wastewater system of the Issuer, or relating to the water system managed by the Board of Water Supply of the City and County, as authorized, or public improvements, including equipment, for which an appropriation is made in a capital budget ordinance, (ii) the principal or, premium (if any) and interest on any General Obligation Bonds to be refunded, (iii) the maturing principal of Notes previously issued for the foregoing purposes or to reimburse amounts drawn to pay such maturing principal under the Credit Agreements or under any replacement credit or liquidity facilities for the Notes, and (iv) costs of issuance of the Notes.

Pursuant to Section 702 of each Certificate, and in part pursuant to Treasury Regulations §1.148-2(b)(2)(i), the Issuer has heretofore entered into a Master Tax Certificate relating to the Notes, originally dated as December 23, 2015 (the "Original Tax Certificate") and, will execute Supplemental Tax Certificates (each, a "Supplement"), made an election under Treasury Regulations §1.150-1(c)(4)(ii) that, as of the date of each Supplement, to start a Separate Issue for federal tax purposes. This Supplement relates only to the Notes that finance the Rail Project. To the extent the Notes financing the Rail Project are not otherwise treated for federal tax purposes as a separate issue, the Issuer hereby elects for the Notes that finance the Rail Project to be treated as a separate purpose pursuant to Treasury Regulations Sections 1.148-9(h) and 1.141-13(d). The Issuer hereby makes the following representations of facts and circumstances and enters into the following covenants. As applicable, the Issuer especially relies on representations and covenants made by the Honolulu Authority for Rapid Transportation, now executed and attached hereto as Exhibit A. Any capitalized terms not defined herein shall have meanings as set forth in the Original Tax Certificate.

I.

In General

1.1 Purpose of Supplement. The Issuer is delivering this Supplement to Orrick, Herrington & Sutcliffe LLP ("Note Counsel"), for the purpose of electing to commence a Separate Issue of the Notes for tax purposes as of September 8, 2016 (the "Closing Date") pursuant to Treasury Regulations §1.150-1(c)(4)(ii) and that any Original Issue Notes and Renewal Notes issued on or after the Closing Date for the rail Project will be treated as part of this Separate Issue.

1.2 Affirmation of Original Tax Certificate. The Issuer hereby states and certifies that the representations, warranties and covenants of the Issuer contained in the Original

Tax Certificate are true and correct in all material respects on and as of the date hereof as if made on the date hereof and the Issuer has complied with all of the terms and conditions of the Original Tax Certificate required to be complied with by the Issuer at or prior to the date hereof.

1.3 Single Issue. No governmental obligations of the Issuer other than the Original Issue Notes issued pursuant to this Supplement have been or will be: (i) sold or issued within (15) days of the Closing Date; (ii) sold pursuant to the same plan of financing as the Notes; and (iii) which are reasonably expected to be paid from substantially the same source of funds as the Notes, determined without regard to guarantees from unrelated parties. For purposes of this Supplement, as provided in Section 1.150-1(c)(4)(ii) of the Treasury Regulations, the Notes are treated as part of a single issue of obligations of the Issuer.

All of the Notes will be issued pursuant to the same commercial paper program and all Notes (except those Notes being issued to pay maturing principal of the Renewal Notes) will be issued during an eighteen (18) month period beginning on the Closing Date and ending on March 8, 2018 (the "*Cut-Off Date*"). The Issuer shall not sell any Notes as part of this issue after the Cut-Off Date, except for Notes sold to refinance outstanding Notes issued pursuant to the commercial paper program provided: (i) that the principal amount of Notes outstanding shall not increase; and (ii) that the commercial paper program does not and shall not have a term in excess of the period reasonably necessary for the governmental purposes of the commercial paper program, or 30 years, whichever is shorter.

1.4 Use of Proceeds; Use of Rail Project. The Notes being issued as described herein will be used to finance the capital costs of the Rail Project. The Issuer expects to issue approximately \$50,000,000 of Notes pursuant to this Supplement and IRS Form 8038-G, which is attached hereto as Exhibit B. The amount of any expected reimbursements is set forth in such form.

Proceeds of the Notes will be deposited into the Issuer's General Improvement Bond Fund and then transferred to the Transit Bond Fund (which is an account within the Transit Fund created by the Issuer's Charter) prior to expenditure. For covenants previously made in the Original Tax Certificate regarding the expenditure of Note proceeds for, and the use of, the Rail Project, and now reaffirmed in this Supplement, the Issuer specifically relies on the representations and covenants made by the Honolulu Authority for Rapid Transportation, attached hereto as Exhibit A.

II *Other Matters*

2.1 Notwithstanding any provision of this Supplement, the Issuer may amend the Tax Certificate and thereby alter any actions allowed or required by this Supplement or the Tax Certificate if such amendment is based on an Opinion of Counsel.

The undersigned is the authorized representative of the Issuer and is acting for and on behalf of the Issuer in executing this Supplement. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change the expectations as set forth herein, and said expectations are reasonable.

Dated as of the Closing Date as defined above.

CITY AND COUNTY OF HONOLULU, HAWAII

By _____
Director of Budget and Fiscal Services

APPROVED AS TO FORM AND LEGALITY:

Corporation Counsel
City and County of Honolulu

EXHIBIT A

CERTIFICATE OF THE HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

The Honolulu Authority for Rapid Transportation (the "Authority") is making certain representations and covenants in support of the issuance by the City and County of Honolulu, Hawaii, of its General Obligation Commercial Paper Notes, Issue A and Issue B (collectively, the "Notes"). The Notes will be issued from time to time by the City and County of Honolulu, Hawaii (the "Issuer") after the date hereof for, among other projects, public improvements, including equipment, relating to the Honolulu Rail Transit Project (the "Rail Project"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Master Tax Certificate to which this Certificate is attached as an exhibit. To the best of our knowledge, we hereby certify and represent as set forth in this Certificate.

1. **Basis of Reliance; Board Control.** The Board of Directors of the Authority has ten members, three of which were appointed by the mayor of the City of Honolulu, another three were appointed by the City Council of the Issuer, and another director is the city director of transportation services, serving as an ex officio director. Accordingly, the majority of the Board of Directors of the Authority is appointed by the Issuer.

The Authority has previously entered into a memorandum of understanding (the "Memorandum of Understanding") with the Issuer, which may be amended after the date hereof, and has made certain representations regarding compliance with the tax rules that are applicable to debt obligations, including the Notes. In such connection, the Authority hereby represents that it has reviewed the Master Tax Certificate and is not aware of any facts or circumstances that would cause it to question the accuracy or reasonableness of any representation made by the Issuer in the Master Tax Certificate. The Authority acknowledges that the Issuer will execute Supplements in connection with each new Separate Issue for additional costs of the Notes, and that, for each Supplement, as applicable, the Issuer will continue to rely on such representations by the Authority made herein.

2. **Plan of Finance for Rail Project; Financing Through Supplements.** The Rail Project is described in more detail in the offering document that was prepared in connection with initial offering of the Notes. As described in such offering documents, the Rail Project will be financed, on a temporary or permanent basis, with multiple sources of funds, including long-term and short-term debt issued by the Issuer. A portion of the Note proceeds being used to finance the Rail Project is expected to be refinanced with long-term bonds, while the remainder is expected to be paid from sources of funds other than a borrowing by the Issuer or the Authority. The Authority will request Notes to be issued periodically to fund such costs of the Rail Project. Additional information will be provided by the Authority to the Issuer to be included in additional Supplements, as needed and requested by the Issuer.

3. **Use of Rail Project.** The Authority hereby makes the representations set forth in this section as to the use and revenues of the Rail Project, including the engagement of an outside

party in the management or operation of the Rail Project.

The Rail Project is owned by the Issuer and the Authority and will be operated by a private contractor, Ansaldo Honolulu JV (the "Contractor") pursuant to an Agreement for Design-Build-Operate-Maintain Services (the "Operating Contract"). The terms of the Operating Contract may cause the Contractor to be treated as a private business user of the Rail Project for purposes of Section 141 of the Code. Other private business use may also arise with respect to the Rail Project. The aggregate expected cost of the Rail Project is substantially larger than the amount of Notes or to be issued to finance the Rail Project. Other sources of funds that are not derived from the issuance of tax-exempt debt include grants and sales tax revenues (the "Other Sources"). The entire Rail Project is to be treated as a "project" and the Other Sources are to be treated as "qualified equity" for purposes of Treasury Regulations Section 1.141-6.

The direct operating costs of the Rail Project, excluding general administrative and overhead charges, are expected to always exceed the operating revenues of the Rail Project in each year that the Notes will be outstanding. The Rail Project will not be pledged as security for the payment of the Notes. For any year that the Notes are outstanding, if any budget is prepared by the Authority that projects that the direct operating costs of the Rail Project, excluding general administrative and overhead charges, are not expected to exceed the operating revenues of the Rail Project, the Authority will immediately notify the Issuer of such budget projections. For any year that the Notes are outstanding, if the direct operating costs of the Rail Project, excluding general administrative and overhead charges, do not in fact exceed the operating revenues of the Rail Project, the Authority will immediately notify the Issuer of such actual financial results.

The real property and structural improvements that are part of the Rail Project constitute approximately 84% of the total cost of the Rail Project and are expected to have a useful life of at least 50 years. The rail vehicles that are part of the Rail Project constitute approximately 3% of the total cost of the Rail Project and are expected to have a useful life of at least 30 years. The other equipment and personal property that are part of the Rail Project constitute approximately 13% of the total cost of the Rail Project and are expected to have a useful life of at least 12 years.

4. **Expenditure of Note Proceeds.** The Authority acknowledges that the Issuer expects to issue, on or after the date hereof (the "Closing Date"), approximately \$50,000,000 of Original Issue Notes to finance the Rail Project. The Authority expects to spend at least 85% of the proceeds of the Original Issue Notes on capital costs of the Rail Project within a three-year period from the Closing Date; the Authority has already incurred a binding obligation to third parties to expend at least 5% of such Original Issue Notes on the Rail Project; and the completion of the Rail Project (and the allocation of such proceeds to expenditures on the Rail Project) will proceed with due diligence.

None of the proceeds of the 2016 Issue will be allocated to pay capital expenditures previously paid by the Issuer or the Authority. Proceeds of the Original Issue Notes will only be allocated to expenditures made (a) more than 60 days prior to the Closing Date to the extent that such expenditures are Preliminary Expenditures, or (b) to the extent that such expenditures are (i) costs of issuing the Original Issue Notes or (ii) other payments made by the Issuer or the Authority on or after the Closing Date. All allocations of Gross Proceeds to the costs of the Rail

Project will be made no later than the later of 18 months after the date on which the related component of the Rail Project is placed in service, but in no event later than five years after the Closing Date.

No disbursement will be paid or reimbursed from Gross Proceeds if such expenditure has been previously paid or reimbursed from the proceeds of any other obligation, whether issued by the Issuer, the Authority or any other party.

5. **General Tax Covenants; Ongoing Compliance Requirements.** In the execution of this Certificate, the Authority acknowledges that the Master Tax Certificate also sets forth other covenants, including those relating to the use and investment of Note proceeds, the use of the Rail Project, and record retention, that are necessary to maintain the preferential tax treatment relating to the Notes. The Authority hereby reaffirms all such representations and covenants, as applicable. In particular, the Authority covenants that it will satisfy the requirements, as they relate to the Notes, set forth in Master Tax Certificate Section 2.11 (Record Retention), Section 4.3 (Yield Restriction), and Article V (Rebate). In this regard, the Authority will (i) track the investment and expenditure/allocation of the proceeds of the Notes held in the Transit Bond Fund, (ii) maintain records relating to such investment and expenditure/allocation of the proceeds of the Notes, and (iii) provide to the Issuer the information the Issuer reasonably requests with respect to the Notes.

The undersigned is the authorized representative of the Authority and is acting for and on behalf of the Authority in executing this Certificate. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change the expectations as set forth herein, and said expectations are reasonable.

Dated as of the Closing Date as defined in the Master Tax Certificate.

HONOLULU AUTHORITY FOR RAPID
TRANSPORTATION

By 
~~MICHAEL D. FORMBY/Acting Executive Director~~

APPROVED AS TO FORM AND LEGALITY:

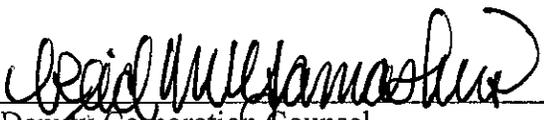

Deputy Corporation Counsel
City and County of Honolulu
REID M. YAMASHIRO

EXHIBIT B

IRS FORM 8038-G

[Attached]