



The PFM Group

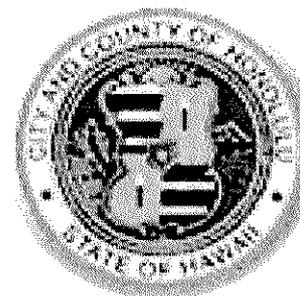
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

CITY CLERK
HONOLULU, HAWAII

May 14 1 42 PM '08

RECEIVED

City and County of Honolulu H-Power Purchase



May 14, 2008

presented by:

Public Financial Management, Inc.

Two Logan Square, Suite 1600
18th and Arch Streets
Philadelphia, PA 19103-2770
P - 215.567.6100
F - 215.567.4180

Plaza South One
7251 Engle Road, Suite 115
Cleveland, OH 44130
P - 440.239.7070
F - 440.239.7074

www.pfm.com

Submitted by the Department of Environmental
Services
May 14, 2008 Budget Committee Meeting

DEPT. COM. 404

B



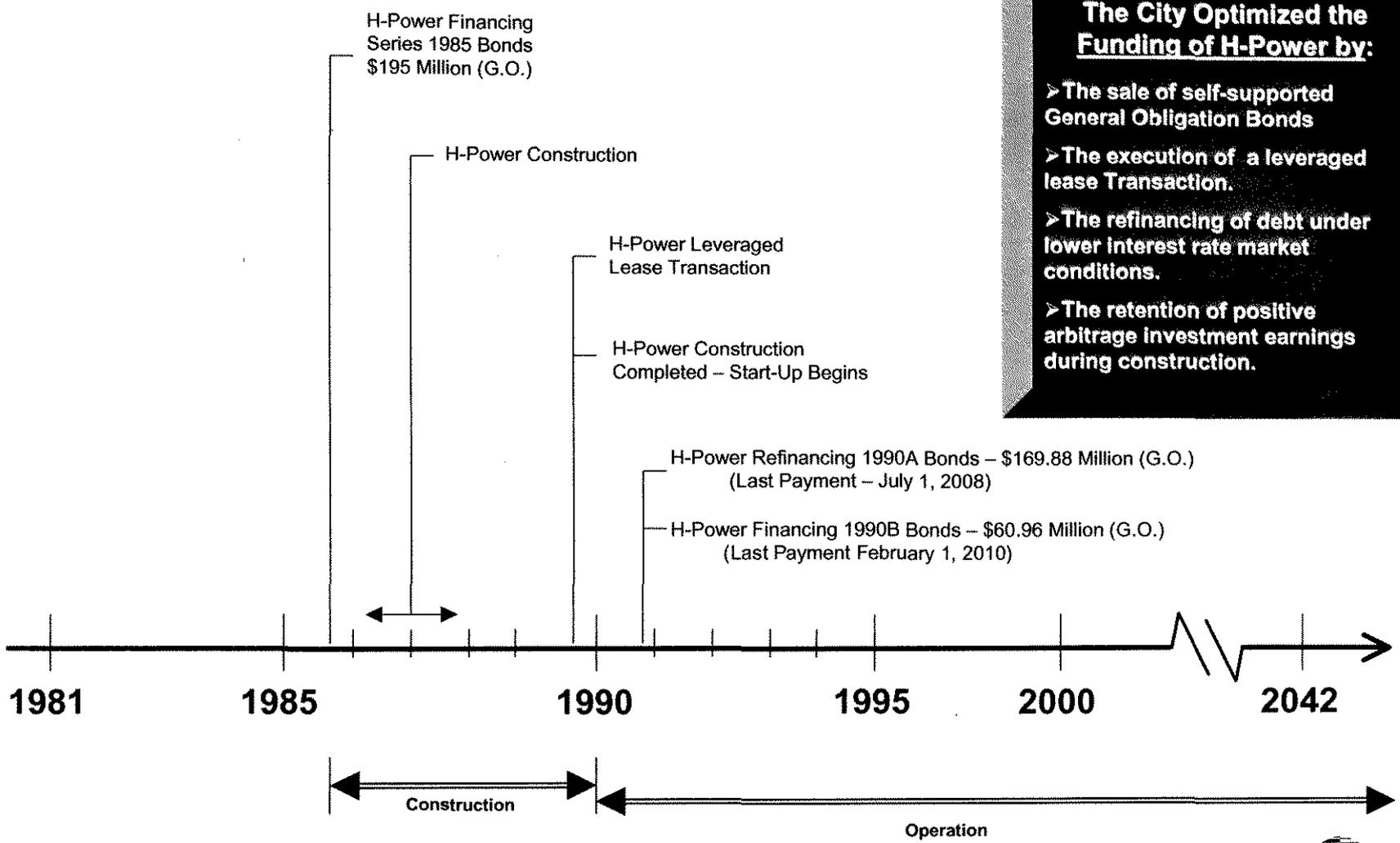
PRESENTATION OVERVIEW

- Background to H-Power Procurement & Financing
- Summary of H-Power Leveraged Lease Transaction
- Summary of H-Power Repurchase Option
- Summary of Negotiated Early Purchase Price





CITY & COUNTY OF HONOLULU BACKGROUND — PROCUREMENT OF H-POWER REFUSE TO ENERGY FACILITY



The City Optimized the Funding of H-Power by:

- > The sale of self-supported General Obligation Bonds
- > The execution of a leveraged lease Transaction.
- > The refinancing of debt under lower interest rate market conditions.
- > The retention of positive arbitrage investment earnings during construction.





THE H-POWER LEVERAGED LEASE TRANSACTION

- The H-Power Leveraged Lease Transactions was made available to public agencies nationwide by provisions of the tax code enacted to encourage the development of alternative energy projects.
 - Accelerated depreciation
 - Investment Tax Credit
- The H-Power Facility was one of a limited number of refuse to energy facilities nationwide to which the leveraged lease provisions of the tax code were applicable.
- The financial benefits of the transactions were made available to the City by:
 - The realization, via the purchase price (~\$312.5 M) and transaction cash flows, of a substantial portion of the tax benefits made available to the private owner.





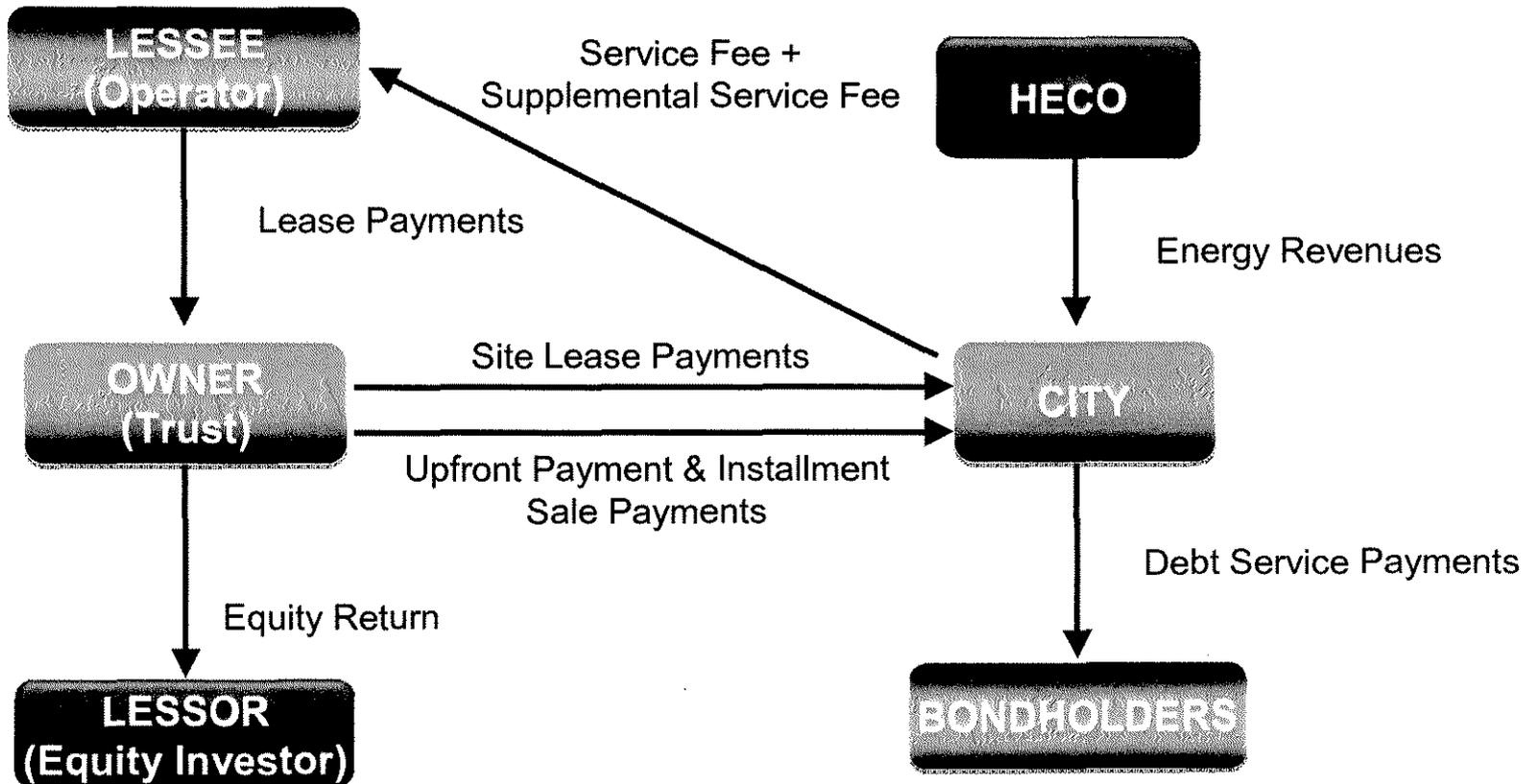
THE H-POWER LEVERAGED LEASE TRANSACTION

Key terms of the transaction included:

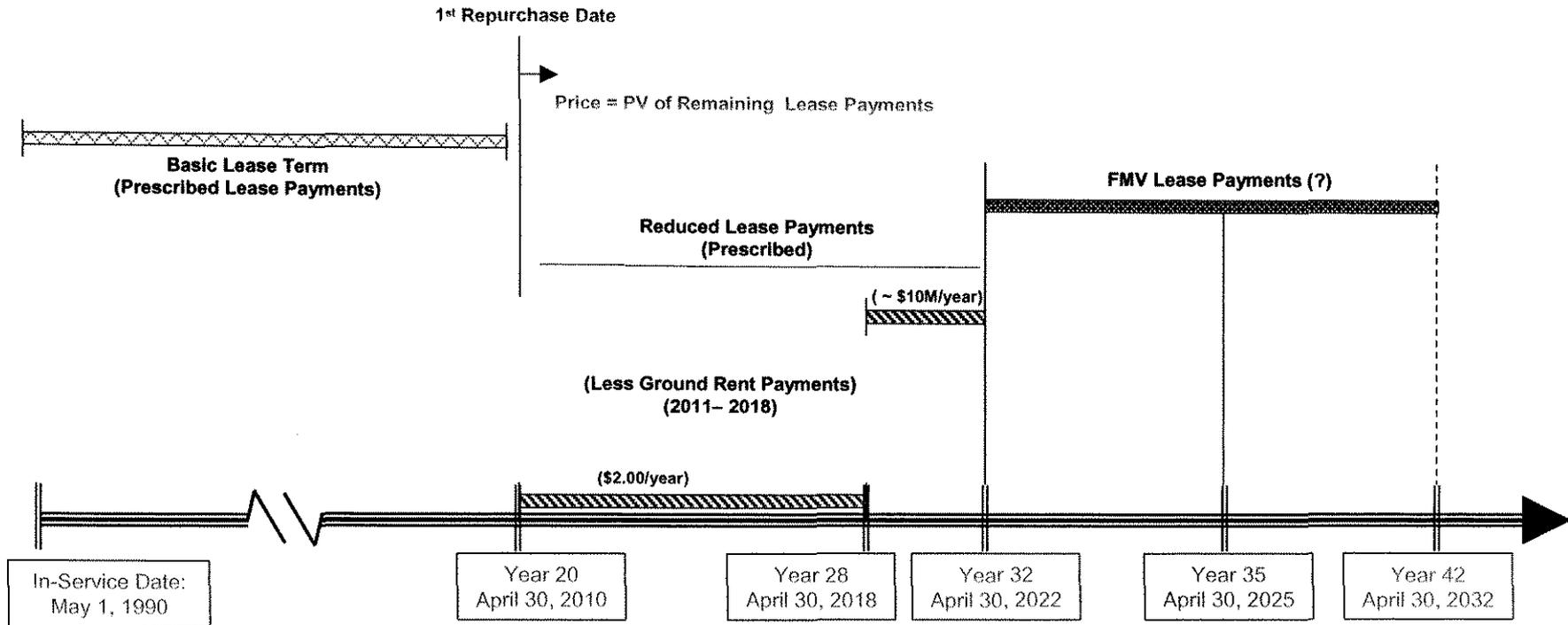
1. The transfer of ownership to a passive investor via a substantial upfront payment of \$80 Million and a mortgage note for the remaining principal and interest.
2. The continued control over and operation of the facility by the City via terms of a 20-year lease agreement.
 - Operating Agreement (HRRV)
 - Energy Sale Agreement (HECO)
3. Recognition of the intention of the City to repurchase the facility at the end of the initial lease term (20 years).
4. The ability of the City to repurchase the facility at a reduced purchase price—pursuant to a formula prescribed in the transaction documents.
5. Transaction cash flows that provided the City with the ability to achieve substantial net present value benefit:
 - Upfront purchase payment
 - Mortgage note payments
 - Lease payments
 - Attractive City purchase price provisions



CITY & COUNTY OF HONOLULU
H-POWER LEVERAGED LEASE TRANSACTION
FLOW OF FUNDS OVER LEASE TERM



CITY & COUNTY OF HONOLULU H-POWER LEVERAGED LEASE CITY REPURCHASE OPTION



The H-Power Leveraged Lease Transaction was structured to provide the City with a reduced purchase price pursuant to a formula prescribed in the transaction documents.





SUMMARY OF NEGOTIATED EARLY PURCHASE PRICE

- Because the City is purchasing H-Power early, the City's total payment is composed of two elements:
 1. Net remaining mortgage and lease payments between Owner and City
 2. H-Power purchase price

Present Value of Remaining Payments after October 30, 2008							
Date	Lease Payments	Mortgage Payments	Difference of Payments	PV @ 3.00%	Purchase Price	PV @ 3.00%	TOTAL
10/30/2008	1,266,599.91	1,266,599.91	0.00	0.00	-	0.00	0.00
4/30/2009	29,346,326.53	28,133,874.56	1,212,451.97	1,194,533.96	-	0.00	1,194,533.96
10/30/2009	186,535.47	186,535.47	0.00	0.00	-	0.00	0.00
4/30/2010	30,427,424.85	4,826,721.39	25,600,703.46	24,482,387.77	18,987,453.31	18,158,024.27	42,640,412.04
TOTAL	61,226,886.76	34,413,731.33	26,813,155.43	25,676,921.73	18,987,453.31	18,158,024.27	43,834,946.00

Note: Present Value to October 30, 2008 of Payments to be made after October 30, 2008





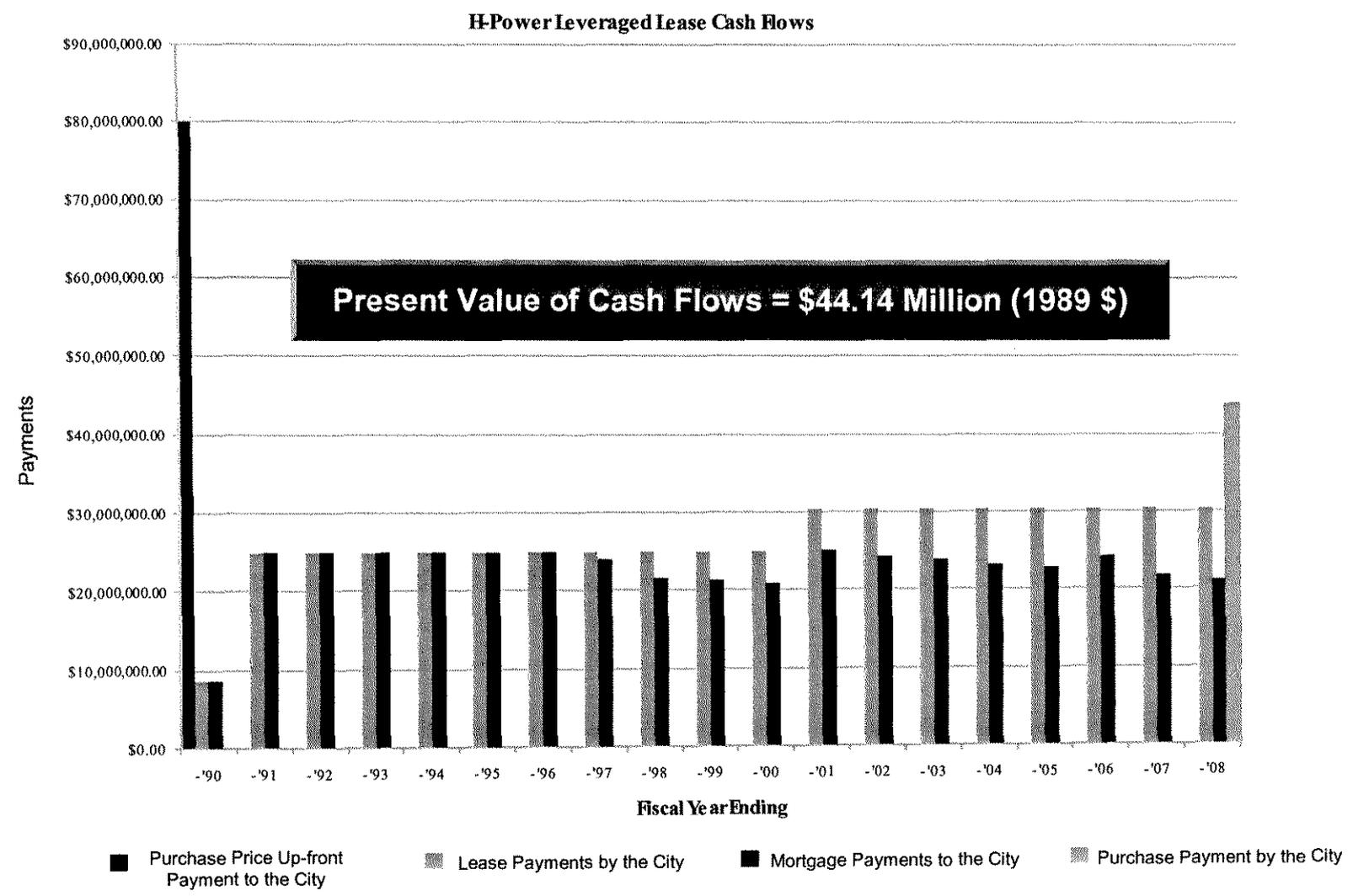
SUMMARY OF NEGOTIATED EARLY PURCHASE PRICE

- The H-Power purchase price was negotiated in accordance with the methodology prescribed in the H-Power Leveraged Lease documents.
- The prescribed purchase price methodology included:
 - ✓ *Fixed assumptions as to:*
 - Lease Payments 2011–2022
 - Supplemental Ground Rent Payments 2011–2018
 - ✓ *Variable assumptions as to:*
 - PV Discount Rate
 - Fair Market Lease Payments (After 2022)
 - Useful Life of the Facility
- The Owners' (Bank of America/Ford Motor Credit) purchase price determinations ranged between \$28.0 Million and \$51.4 Million.
- ✓ The H-Power purchase price is \$18.2 Million.





SUMMARY OF NEGOTIATED EARLY PURCHASE PRICE





SUMMARY OF NEGOTIATED EARLY PURCHASE PRICE

- The negotiated purchase price of the H-Power facility provides the City with net financial benefits that are consistent with and that meet or exceed the financial objectives of the City when it executed the leveraged lease transaction in 1989.
- Approval of the purchase of H-Power will allow the City to achieve all-in net benefits of the H-Power leveraged lease transaction of:
 - ~ \$44.1 Million (Present Value 1989)
 - ~ \$93.0 Million (Present Value 2008)
- Additional benefits of the early purchase of H-Power include:
 - Allows City to acquire facility now, affirming flow control with no additional capital expenditures or legal entanglements.
 - Removes the potential for a purchase price dispute in 2010 and associated financial and legal costs.
 - Removes risk of possible higher purchase price in 2010 related to potential future revenues of the facility.
 - Provides City the ability to expand the capacity of H-Power without the required technical, legal and financial determinations and negotiations with the private owner concerning ownership of the additional facilities.
 - *Option to finance on tax-exempt basis*
 - *Avoidance of risk indemnification*

