

STATE OF HAWAII
REQUEST FOR EXEMPTION FROM CHAPTER 103D, HRS

'06 FEB 14 AM 13

TO: Chief Procurement Officer

STATE PROCUREMENT

FROM: Department of Transportation, Harbors Division
(Department/Division/Agency)

Pursuant to § 103D-102(b)(4), HRS, and Chapter 3-120, HAR, the Department requests a procurement exemption to purchase the following:

Description of goods, services, or construction:
 Services of a certified public accountant firm is needed to provide accounting services for the issuance of Harbor Revenue Bonds proposed for sale in Spring, 2006. The Harbors Division proposes to issue approximately \$100 million Harbor Revenue Bonds to finance needed capital improvements at harbor facilities statewide. The division must issue an Official Statement (bond prospectus). The Official Statement will contain financial information on the division's operations. As the division issues its financial statements on a fiscal year basis, information may be required to provide updated financial information on revenues and expenditures for the period between the date of the last financial statements and issuance of the bonds. This accounting must be reviewed by a certified public accountant before it is incorporated into the official statement. The Harbors Bond Certificate also requires for any proposed issuance of bonds that certain financial tests and forecasts be performed to demonstrate the financial capacity of the Harbors Division to cover the increased debt service associated with the new bonds.

The Harbors Division has historically included these services in its contracts for services related to the financial audit of its annual financial statements and the audit on compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. On June 28, 2004, a contract was entered into with Grant Thornton LLP to perform the financial audits and any bond related services needed to issue harbors system revenue bonds in conjunction with the audits for Fiscal Years 2004, 2005 and 2006.

In May, 2005, the division was notified that the Office of the Auditor would be contracting the services of certified public accountants to conduct the financial statement audits beginning with the fiscal year ending June 30, 2005. As the division had an existing contract with Grant Thornton LLP to provide this service, the Auditor requested that our contract be amended to replace the division with the Office of the Auditor for the FY 2005 and FY 2006 audits. Because other services besides the financial audits were included in the harbors' contract, the division decided to terminate for convenience the bond-related services from the subject contract. The subject contract was then amended as requested by the Auditor.

The Official Statement issued for the proposed bond issuance must include the latest audited financial statements. Inclusion of the audited Fiscal Year 2005 Financial Statements will require that Grant Thornton LLP review the Official Statement and also issue its consent. As updating of the financial information may be required, the procedures used in attesting to the "stub" information will require the review of the Fiscal Year 2005 financial statements.

Performance of the bond related services requires that the audit firm have a general knowledge of the nature of the division's business transactions and the key factors upon which its future financial results appear to depend upon. The audit firm should also have an understanding of the accounting principles and practices of the division.

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|-----------------|--------------------------------|--------------|
| Name of Vendor: | Grant Thornton LLP | Cost: |
| | 1132 Bishop Street, Suite 1000 | \$200,000.00 |
| Address: | Honolulu, Hawaii 96813 | |

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|--------------------------|------------------------|----------------------|-----------------|
| Term of Contract: | From: Date of Approval | To: December 31,2007 | Prior Exemption |
| Ref. No. (if applicable) | | | |

PE-06-047-C

Explanation describing how procurement by competitive means is either not practicable or not advantageous to the State:

In its bond offerings, the division has historically engaged the same certified public accountant firm that provided audit services on the financial statements to conduct the bond related financial services. As the Official Statement must incorporate the most recent financial statements, the issuance of a comfort letter from the auditor of record would be needed. Commonly held industry expectations are that an issuer would use the same firm to audit its financial statements as well as participate in its bond offerings. The use of different firms may be confusing and raise questions with the financial markets. It would further be difficult for a different firm to attest to revenues and expenditures and rely upon the audited financial statements of another firm without first going through extensive procedures to attest to the numbers. This essentially is duplicative and will increase costs for the division as well as unduly extend the time needed to complete the work.

As our auditor of record, Grant Thornton has a general knowledge of the nature of the division's business transactions and the key factors upon which our future financial results depend upon. The audit firm also has a good understanding of the accounting principles and practices of the division. The use of a different firm will be more costly due to the duplication of work involved and the work would likely take more time to complete due to the new firm's unfamiliarity with the Harbor's financial operations. Due to our schedule to issue the bonds, we request that Grant Thornton be engaged to provide the bond related services as the firm currently serves as the auditor of record and can complete the work in the most advantageous and practical manner for the division.

If approved, we will follow the compensation schedule as originally entered into for the bond related work before the services were terminated under the original contract for audit and bond related services.

Details of the process or procedure to be followed in selecting the vendor to ensure maximum fair and open competition as practicable:

Under the circumstances, only one firm is capable of providing the services needed in the response time necessary to complete the bond sale.

A description of the agency's internal controls and approval requirements for the exempted procurement:

The contract for services will be conducted under the supervision of Barry Fukunaga, Deputy Director for Harbors, and subject to his final approval.

A list of agency personnel, by position title, who will be involved in the approval process and administration of the contract:

Deputy Director for Harbors Division
 Harbors Administrator
 Harbors Administrative Services Officer

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| Direct questions to: Barry Fukunaga | Phone Number: 587-3650 |
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This exemption should be considered for list of exemptions attached to Chapter 3-120, HAR: Yes No

PE-06-047-C

I CERTIFY THAT THE INFORMATION PROVIDED ABOVE IS TO THE BEST OF MY KNOWLEDGE, TRUE AND CORRECT.

2/3/06

 Department Head or Designee Date

 Deputy Director for Harbors
 Title (If other than Department Head)

Chief Procurement Officer's Comments:

This approval is for the preparation of the Official Statement necessary for the issuance of 100 million of Harbor Revenue Bonds. Also, the approval is for the solicitation process only, chapter 103D-310, HRS, shall apply.

Please ensure adherence to applicable administrative requirements.

APPROVED

DISAPPROVED

2/23/06

 Chief Procurement Officer Date

cc: Administrator,
State Procurement Office