MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 rating to approximately $800M State of Hawaii G.O. Bonds of 2012, Series EE, Refunding Series EF, and Taxable Series EG; outlook is stable

Global Credit Research - 07 Nov 2012

Approximately $5.3 billion G.O. debt outstanding

New York, November 07, 2012 -- Moody's Ratings

Issue: General Obligation Bonds of 2012, Series EE; Rating: Aa2; Sale Amount: $374,000,000; Expected Sale Date: 11/30/2012; Rating Description: General Obligation

Issue: General Obligation Refunding Bonds of 2012, Series EF; Rating: Aa2; Sale Amount: $399,510,000; Expected Sale Date: 11/30/2012; Rating Description: General Obligation

Issue: Taxable General Obligation Bonds of 2012, Series EG; Rating: Aa2; Sale Amount: $26,000,000; Expected Sale Date: 11/30/2012; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned Aa2 ratings to the State of Hawaii's $374 million General Obligation Bonds of 2012, Series EE; $399.51 million General Obligation Refunding Bonds of 2012, Series EF; and $26 million Taxable General Obligation Bonds of 2012, Series EG

SUMMARY RATINGS RATIONALE

The Aa2 rating incorporates Hawaii's improving financial operations following the recession-driven revenue fall-off over the last several years; low pension funded ratios and growing expenses for other post employment benefits (OPEB); and high debt ratios that in part reflect debt issues for K-12 school capital projects. The state's vital tourism industry continues to show signs of improvement. The fiscal 2013 revenue forecast was recently reduced slightly, largely due to a reassessment of the cost of renewable energy tax credits. However, the annual growth projection remains relatively healthy at 4.9%. Hawaii has relatively strong governance practices such as multi-year financial planning and quarterly binding consensus revenue forecasting, and its fiscal 2011 audit was released in a timely manner, reversing four consecutive years of late audits from fiscal 2007 to fiscal 2010.

STRENGTHS

-- Financial governance that includes well-established multi-year, quarterly consensus revenue forecasting, and strong executive power to reduce spending

-- Historical fiscal conservatism; prompt action to address revenue shortfalls

-- Continued military housing construction helps offset slow residential and commercial markets

-- A good liquidity position that is sufficient for the state to avoid short-term cash flow borrowing

-- Rapid amortization of debt; no exposure to variable rate debt or derivative products

CHALLENGES:

-- Vulnerability to shifts in Hawaii's tourism-based economy, resulting in revenue falloff and budget shortfalls

-- Modest reserve levels reduce the state's ability to address further revenue erosion

-- Large state and local government employment sector contributes to spending pressure for salary and benefit settlements

-- Debt ratios that are among the highest in the nation and likely to remain there given state-level capital funding,

especially for education, combined with relatively low pension funding levels despite recent reforms; high OPEB liability

Outlook

The rating outlook for Hawaii is stable reflecting expectations of continued revenue growth; signs of economic stabilization as tourism rebounds; a decreased reliance on one-time resources to balance the 2012-2013 biennial budget; and the state's proactive measures to improve the funded status of its retirement systems. The stable outlook also reflects our expectation that the state will manage its budget challenges and make appropriate adjustments as needed to restore budget balance in the event that the economic recovery is more prolonged and/or weaker than currently projected, resulting in revenue shortfalls.

WHAT COULD MAKE THE RATING GO UP

-- Rebuilding and maintenance of strong reserve levels and restoration and maintenance of structural budget balance

-- Reduced economic volatility and sustained job growth

-- Sustained reduction in debt ratios and significant improvement in pension funded ratios, and sooner than currently projected

WHAT COULD MAKE THE RATING GO DOWN

-- Economic weakening leading to sustained employment erosion or deterioration of revenue trends leading to budget imbalance, liquidity pressure, and narrowing of financial position

-- Increased use of non-recurring solutions to balance budget

-- Increased debt or debt service ratios relative to other states or deterioration of pension funded ratios below already low levels

RATING METHODOLOGY

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information, and confidential and proprietary Moody's Analytics' information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Nicole Johnson
Senior Vice President
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Nicholas E Samuels
VP - Senior Credit Officer
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE