Announcement: MOODY'S MAINTAINS THE A2 RATING ON THE STATE OF HAWAII'S HARBOR REVENUE BONDS; OUTLOOK IS STABLE

Global Credit Research - 06 Apr 2012

THE STATE'S HARBORS DIVISION HAS A TOTAL OF $379.8 MILLION OF RATED PORT REVENUE DEBT OUTSTANDING

New York, April 06, 2012 -- Moody's Investors Service maintains an A2 rating on the State of Hawaii's Harbor System Revenue Bonds. The rating outlook is stable.

SUMMARY RATING RATIONALE

The rating is based on the port system's near-monopoly position in providing port services for seaborne cargo and cruise passengers into the state and among the state's islands, the solid debt service coverage projected from recently increased tariff rates, and the history of volatile cargo and cruise passenger levels. The port's proposal to reduce the debt service reserve fund (DSRF) requirement to 50% of maximum annual debt service places negative pressure on the rating. The new tariff rates are important to the stability of the rating outlook and were considered when the outstanding bonds were downgraded in January 2010.

LEGAL SECURITY: Net revenues of the harbor system. In conjunction with the Series 2010 bond issue, the division made a number of changes to the bond indenture that must be approved by bond holders before taking effect. Two changes require consent from 50% of bondholders.

The division's proposed change to the DSRF requires consent from 100% of bondholders, which is not expected before 2017. The provision will change the DSRF requirement to 50% of the maximum annual debt service requirements from the lesser of average annual debt service or the maximum amount allowable by the tax code. Moody's believes this change materially reduces bondholder protection for instruments issued under the 1997 Certificate that governs the division's revenue bonds and will make the credit more sensitive to other changes in credit strength.

The DSRF for the Series 2010A bonds is funded with $11.5 million in cash. The DSRF for all other outstanding bonds is funded to maximum annual debt service with a $22.98M surety from Assured Guaranty (rated Aa3, ratings under review for downgrade).

INTEREST RATE DERIVATIVES: None.

STRENGTHS

*Strong monopoly position and highly essential asset to island economy that derives revenues from cargo, shipping containers, and cruise passengers

*Strengthening debt service coverage levels as a result of recently passed tariff increases that will adjust rates significantly higher from 2010 through 2015 and keep up with inflation thereafter

*High level of cash reserves provides financial flexibility to manage operational and financial risks, though change to debt service reserve requirement places an additional stress on this liquidity

CHALLENGES

* Revenues are primarily (65%) determined by volume levels, which have proven quite volatile

*The port has seen significant declines in all cargo and cruise passenger levels since 2007 due to global economic downturn, and the recovery to those levels is expected to be slow

* Exposure to potential volatility due to economic concentration in tourism and concentration in largest shipping line (Matson Navigation Company 43% of FY2011 cargo)

*Debt service reserve requirement is being reduced to 50% of MADS once 100% of bondholders consent to the change

*Debt service reserve for most of the outstanding bonds is supported by a surety policy from Assured Guaranty

Outlook

The stable outlook is based on Moody's expectation that total net revenue debt service coverage will remain between 1.45 times and 1.75 times for the forecast period.

What could change the rating - UP

Significant and sustained higher-than-projected operating revenues due to increased volumes and a rate increase, with resulting higher net revenue coverage sustained above 1.75 times for all debt, as well as continued strong liquidity, may place positive pressure on the rating.

What could change the rating -- DOWN

Decline in liquidity ratios or total debt service coverage by Moody's net revenue calculation sustained below 1.50x could place downward pressure on the rating. With the change in the debt service reserve fund requirement to 50% maximum annual debt service, the rating will be very sensitive to changes in liquidity. A negative change in the financial strength of Assured Guarantee below Aa3 could also place negative pressure on the rating.

The principal methodology used in this rating was Moody's Rating Methodology for U.S. Ports published in February 2005. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Kurt Krummenacker
Vice President - Senior Analyst
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

Chee Mee Hu
MD - Project Finance
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