

**State of Hawaii**

**Department of Transportation  
Highways Division**

**± \$140,000,000**

**Highway Revenue Bonds, Series 2014A and Series 2014B**

**Investor Presentation**

July 22, 2014

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# Presenters

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Deputy Director of Finance

### **Scott Kami**

Administrator

## Robert W. Baird & Co. (Senior Manager)

### **Brian H. Colon**

Managing Director



# Financing Overview\*

## USE OF PROCEEDS

- ± \$120.0 million Highway Projects
- ± \$37.9 million Refund portions of Series 2005A
- ± \$1.2 million DSRF Surety Bond Premium and Costs of Issuance

## SECURITY

- Gross pledge and lien on funds deposited in the Highway Revenue Fund and the Highways Revenue Special Account created by the Certificate
- DSRF equal to ½ Aggregate MADS
- Covenant to maintain 1.0x coverage
- Additional Bonds Test - 2.00x MADS for parity lien and 1.3x MADS for subordinate lien (12 out of last 18 consecutive months)

## RATING

- S&P: AA+
- Moody's: Aa2
- Fitch: AA

## BOND STRUCTURE

- Serial Bond Structure 2015 – 2034 (approx. annual maturity amounts ranging from \$2.4MM - \$8.06MM)
- 20-Year Level P&I

## TIMING

- Retail Pricing: July 29
- Institutional Pricing: July 30
- Settlement: August 14

July 2014							August 2014						
S	M	T	W	Th	F	Sa	S	M	T	W	Th	F	Sa
		1	2	3	4	5						1	2
6	7	8	9	10	11	12	3	4	5	6	7	8	9
13	14	15	16	17	18	19	10	11	12	13	14	15	16
20	21	22	23	24	25	26	17	18	19	20	21	22	23
27	28	29	30	31			24	25	26	27	28	29	30
							31						

\* Preliminary, Subject to Change.

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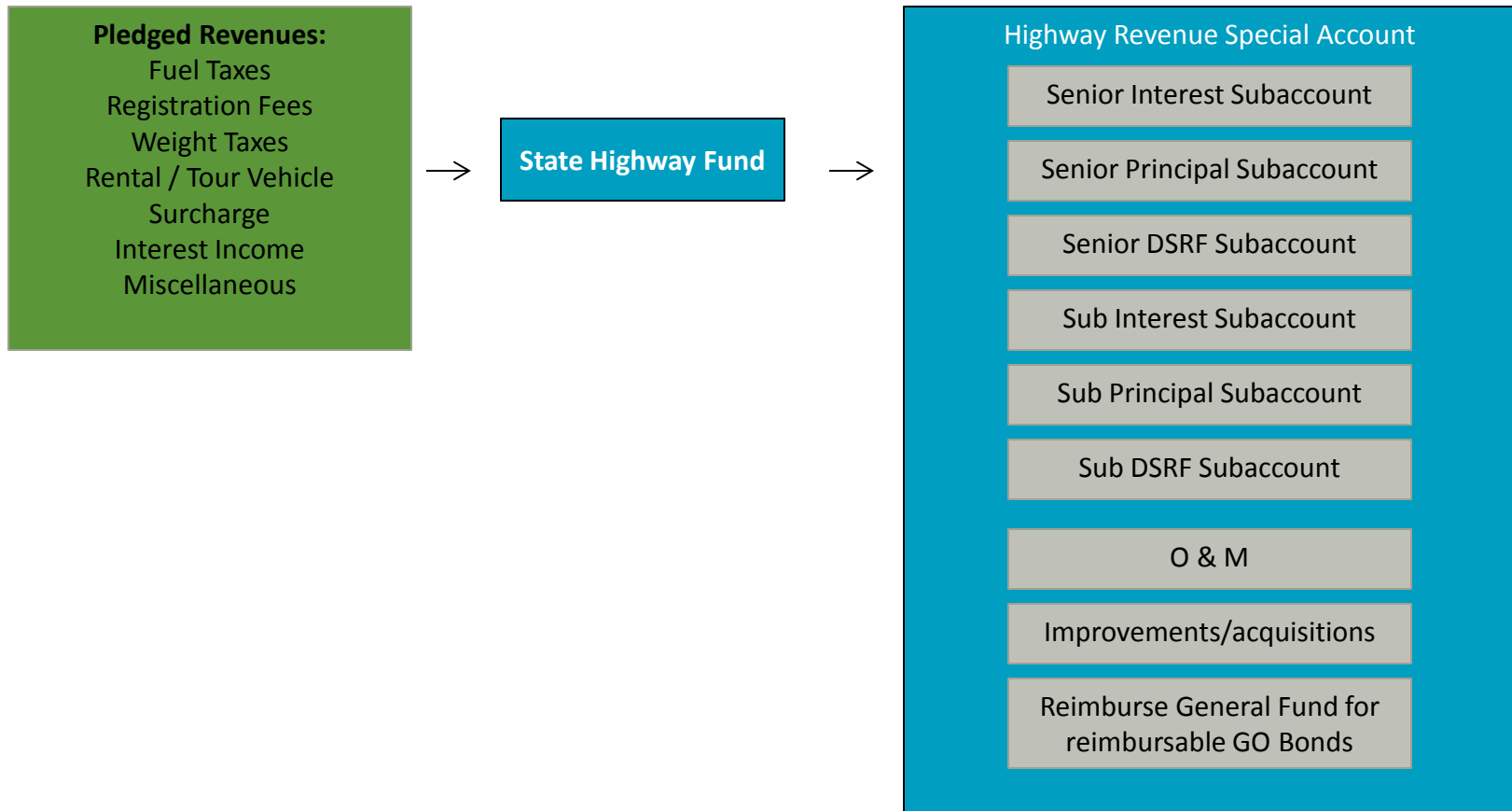
## Summary of Highways System Credit Strengths

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- **Highways Division has maintained a conservative debt management program with strong debt service coverage well exceeding the 1.00x covenant**
  - 5.41x for 2013 and 2014 for Revenue bonds only
  - 4.91x for 2013 and 4.99x for 2014 for Revenue and Reimbursable GO Bonds
- **Debt Service coverage exceeds other comparably rated highway credits**
- **Continues to maintain stable and diversified sources of pledged revenues, some not sensitive to economy**
- **Demonstrated willingness to take appropriate legislative measures to boost and stabilize highway revenues**
  - Support ongoing operations and maintenance
  - Help maintain debt service coverage
- **Conservative legal provisions including a 2.0x additional bonds test and a debt service reserve fund of one-half maximum annual debt service**
- **Consistent federal government aid, although not part of Pledged Revenues**
- **Proven and experienced management team committed to maintaining strong financial stability**



## Flow of Funds



# Highways Division Overview

- One of the three operating divisions under the Department of Transportation
- Responsible for the general supervision, management and maintenance of the State Highway System and the location, design and construction of new highways and facilities
- The Highways System consists of 947 linear miles of roadways, consisting of interstate, freeway expressway, principal arterial, minor arterial, major collector, minor collector, and local
- Highways Division has approximately 1,030 positions
- Highways Division is committed to a balanced approach to maintaining its existing highway system and to provide for adequate capacity

## Linear Miles of Roadways by Island

Functional Classification	Oahu	Hawaii	Maui	Kauai	Molokai	Lanai	Total
Interstate	54.90	-	-	-	-	-	54.90
Freeway Expressway	33.65	-	-	-	-	-	33.65
Principal Arterial	123.57	110.32	57.62	23.12	-	-	314.63
Minor Arterial	21.11	183.50	34.21	49.96	-	-	288.78
Major Collector	3.31	39.05	79.03	27.73	53.50	13.68	216.30
Minor Collector	10.31	12.64	-	2.79	-	-	25.74
Local	7.50	-	-	6.07	-	-	13.57
Total	254.35	345.51	170.86	109.67	53.50	13.68	947.57



# Highways System and Highways Capital Improvement Program

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- **Authorizing Governments - Three levels of government have authority to construct and maintain public highways, streets and roads**
  - **Federal Government:** The Department coordinates with the Federal Highway Administration to improve program delivery and data management
  - **State Government:** Statewide Transportation Improvement Program (DOT – Highways Division)
  - **Local Government:** Coordinated locally
    - For Oahu, Oahu Metropolitan Planning Organization (“OMPO”) identifies Oahu’s future transportation needs and programming of federal funds, with priority assignment based on:
      - ✓ The Oahu Regional Transportation Plan
      - ✓ The Overall Work Program
      - ✓ The Transportation Improvement Program
- **Capital Improvement Program Planning and Approval Process**
  - Every odd-numbered year, the Department prepares for the Governor’s approval a capital improvement program for the next six fiscal years, describing ongoing and proposed State Highway System capital improvement projects
  - Upon review by the Governor, the next succeeding two fiscal years’ capital improvement projects are submitted to the Legislature as part of the executive biennium budget for approval and authorization
  - Appropriation of bond funds to match federal funds for projects have extended lapsing periods (4 additional years)
  - Six sources of funds are available for appropriation: 1) bonds (Revenue, GO or Reimbursable GO), 2) federal funds, 3) State General Fund, 4) special funds, 5) county funds and 6) private contributions (e.g. private development impact fees)
- **Approach to funding since 1993 has been to rely on Revenue Bonds, not GO’s**
- **Authorized Projects for implementation by the State Legislature and the Governor**
  - See pages B-8 through B-12 of the POS





# Sources of Pledged Revenues

- **Highways Fuel License Tax**
  - License taxes on fuel sold to motor vehicle operators; tax on liquid fuel produced or imported by the distributor to be sold or used
    - ✓ Gasoline: \$0.17 / gallon for highway use (\$0.02 / gallon imposed for non-highway use)
    - ✓ Diesel Fuel: \$0.17 / gallon (\$0.02 / gallon imposed for non-highway use)
    - ✓ Liquefied Petroleum Gas: \$0.052/ gallon
  - Electric utilities are the largest consumers of “non-highway” diesel fuel
  - Collected by the Department of Taxation and transferred to the State Highway Fund
- **Vehicle Registration Fees**
  - Annual vehicle registration fee imposed on all vehicles
  - \$45 per vehicle, of which \$5 is deposited to the Emergency Medical Services Special Fund<sup>1</sup>
  - Collected by each of the four counties and transferred to the State Highway Fund
- **Vehicle Weight Tax**
  - Weight tax on all vehicles in the State, with higher tax rate for higher weight
  - 1.75 – 2.25 cents per lb of net vehicle weight. \$ 300 maximum<sup>2</sup>
  - Collected by each of the four counties and transferred to the State Highway Fund
- **Rental Motor Vehicle & Tour Vehicle Surcharge Taxes**
  - Surcharge tax on all rental motor vehicles and tour vehicles
    - ✓ \$3 / day / rental motor vehicle<sup>3</sup>
    - ✓ \$15 / month / tour vehicle with 8-25 passenger seats
    - ✓ \$65 / month / tour vehicle with greater than 25 passenger seats
  - Collected by Department of Taxation and transferred to the State Highway Fund
- **Interest Earnings**
  - Derived from the investment of State Highway Fund moneys on deposit in the State Investment Pool
- **Miscellaneous**
  - Vehicle weight tax penalties, periodic motor vehicle inspection charges and rents from State Highways System properties, commercial licenses fees, and other miscellaneous revenues
  - \$250 fine for mobile electronic device violation
  - \$200 fine for parking a vehicle on a bicycle lane or path
  - Surcharge tax on all car-sharing vehicles of 25 cents per half-hour with maximum \$3 per day

<sup>1</sup> Enacted July 1, 2011, an increase of \$20 per vehicle

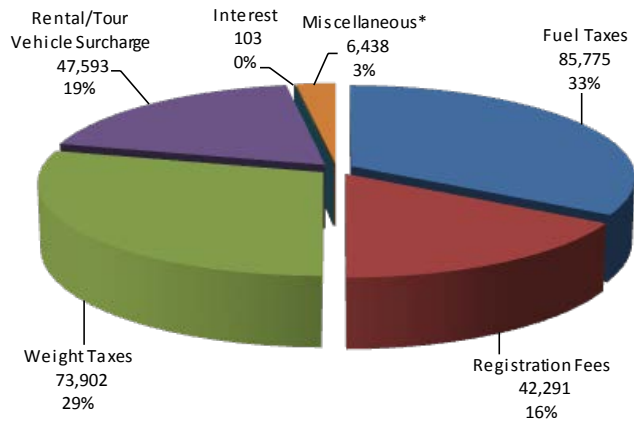
<sup>2</sup> Enacted July 1, 2011, an increase of 0.75 cents to 1.00 cent per lb. of net vehicle weight

<sup>3</sup> Eliminated the sunset date of August 1, 2011

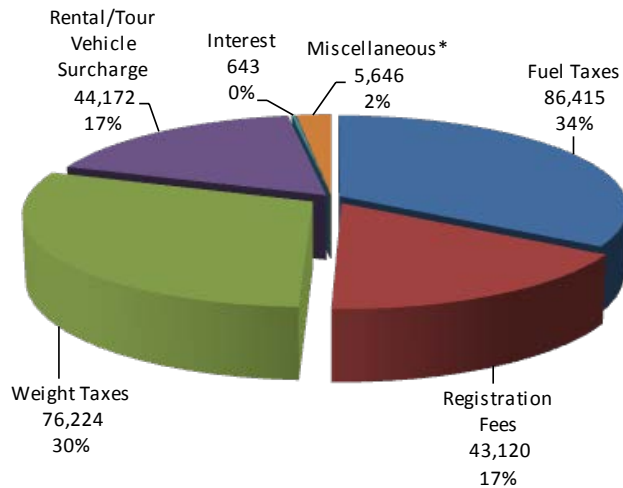


# Sources of Pledged Revenues

**2013 Audited**



**2014 Unaudited**



- **45% of revenues from stable sources not subject to economy**

Highways Fund (\$ in 000's)	2012	2013	Unaudited
			2014
Fuel Taxes	\$86,980	\$85,775	\$86,415
Registration Fees	34,311	42,291	43,120
Weight Taxes	58,679	73,902	76,224
Rental/Tour Vehicle Surcharge	44,987	47,593	44,172
Interest	1,132	103	643
Miscellaneous*	6,453	6,438	5,646
<b>Total</b>	<b>\$232,543</b>	<b>\$256,102</b>	<b>\$256,220</b>

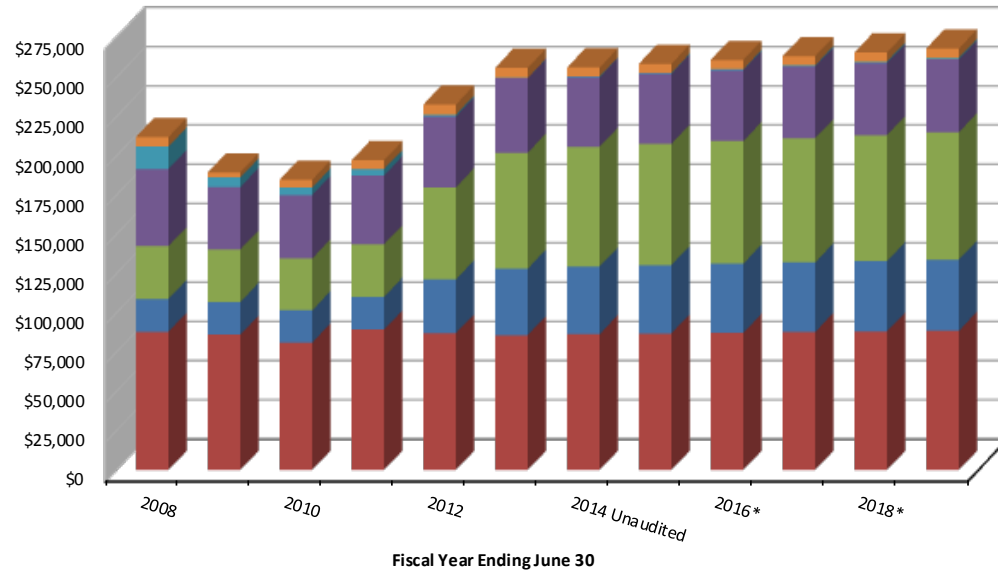
Highways Fund (% of Total)	2012	2013	Unaudited
			2014
Fuel Taxes	37.40%	33.49%	33.73%
Registration Fees	14.75%	16.51%	16.83%
Weight Taxes	25.23%	28.86%	29.75%
Rental/Tour Vehicle Surcharge	19.35%	18.58%	17.24%
Interest	0.49%	0.04%	0.25%
Miscellaneous*	2.78%	2.51%	2.20%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\* Miscellaneous revenues include vehicle weight tax penalties, periodic motor vehicle inspection charges, and rents from State Highway System properties, commercial licenses fees, and other miscellaneous revenues.



## Historical and Projected Pledged Revenues – FY 2008 – 2019 (\$ in 000's)

*Strong State support of Highways Division reflected in 2011 legislation resulted in increases in Pledged Revenues in 2012 and thereafter*



- State has demonstrated ability and willingness to increase Pledged Revenues to support the Highways Operations and maintain strong debt service coverage
  - An increase of 0.75 cents to 1.00 cent per lb. of net vehicle weight
  - Elimination of sunset on rental motor vehicle surcharges
  - An increase of \$20 per vehicle on vehicle registration fees

Fiscal Year	Registration		Rental / Tour		Total		Total
Ended June 30	Fuel Taxes	Fees	Weight Taxes	Vehicle Surcharge	Interest	Misc.	Revenues
2008	87,885	21,033	33,549	49,196	14,316	5,876	211,855
2009	86,151	20,788	33,407	39,751	6,165	3,236	189,498
2010	81,027	20,577	32,937	40,401	4,891	4,815	184,648
2011	89,349	20,841	33,423	43,892	4,006	5,631	197,142
2012	86,980	34,311	58,679	44,987	1,132	6,453	232,543
2013	85,775	42,291	73,902	47,593	103	6,438	256,102
2014 Unaudited	86,415	43,120	76,224	44,172	643	5,646	256,220
2015*	86,847	43,551	77,177	44,614	694	5,702	258,585
2016*	87,281	43,987	78,142	45,060	750	5,759	260,979
2017*	87,717	44,427	79,118	45,510	810	5,817	263,399
2018*	88,156	44,871	80,107	45,966	875	5,875	265,850
2019*	88,597	45,320	81,109	46,425	945	5,934	268,330

\* Projected

*Nearly 40% increase in Revenues since 2010*



# Historical and Projected Debt Service Coverage

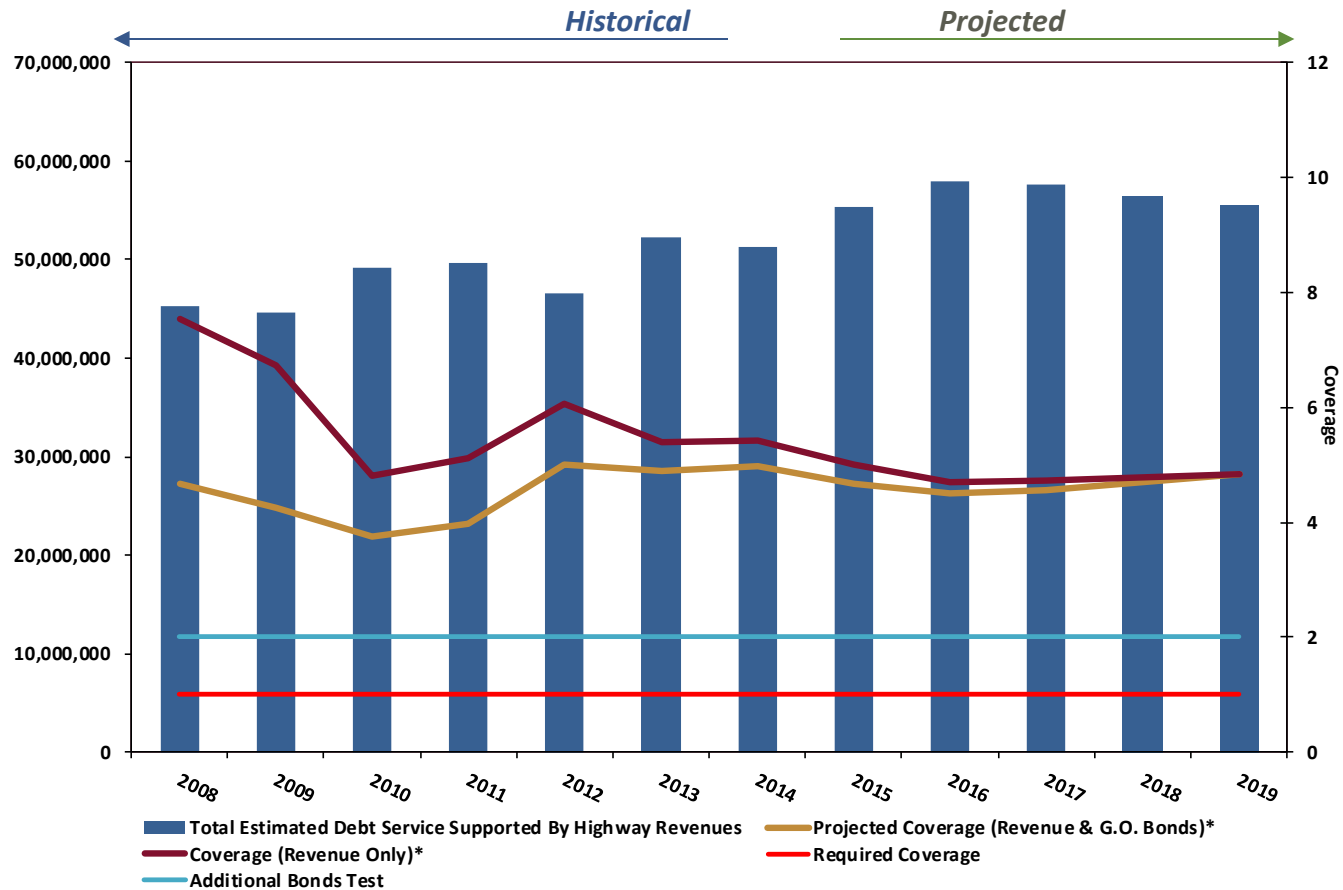
Fiscal Year	Pledged Revenues*	% Change from Prior Year	Outstanding Revenue Bond Debt Service**	2014 Proposed Bonds Debt Service	Aggregate Revenue Bond Debt Service	Projected Coverage (Revenue Bonds)*	Subordinate, Reimbursable G.O. Debt Service	Total Estimated Debt Service Supported By Highway Revenues	Projected Coverage (Revenue & G.O. Bonds)*	Required Coverage
2008	211,855,000	0.41%	28,127,228		28,127,228	7.53	17,117,257	45,244,485	4.68	1.00
2009	189,498,000	-10.55%	28,092,053		28,092,053	6.75	16,488,939	44,580,992	4.25	1.00
2010	184,648,000	-2.56%	38,490,398		38,490,398	4.80	10,723,903	49,214,301	3.75	1.00
2011	197,142,000	6.77%	38,550,498		38,550,498	5.11	11,152,085	49,702,583	3.97	1.00
2012	232,542,800	17.96%	38,338,810		38,338,810	6.07	8,166,676	46,505,486	5.00	1.00
2013	256,102,000	10.13%	47,367,122		47,367,122	5.41	4,820,206	52,187,328	4.91	1.00
2014	256,220,000	0.05%	47,343,023		47,343,023	5.41	4,008,476	51,351,499	4.99	1.00
2015	258,585,000	0.92%	46,875,478	4,781,345	51,656,823	5.01	3,762,353	55,419,176	4.67	1.00
2016	260,979,000	0.93%	45,775,625	9,899,550	55,675,175	4.69	2,329,803	58,004,978	4.50	1.00
2017	263,399,000	0.93%	42,936,263	12,698,850	55,635,113	4.73	1,963,944	57,599,057	4.57	1.00
2018	265,850,000	0.93%	42,872,363	12,700,850	55,573,213	4.78	970,060	56,543,273	4.70	1.00
2019	268,330,000	0.93%	42,837,169	12,706,850	55,544,019	4.83	2,803	55,546,822	4.83	1.00

\* Actual for 2008 through 2013; unaudited for 2014 and projected thereafter

\*\* Net of bonds to be refunded.



# Strong Historical and Projected Debt Service Coverage



\* Actual through 2013; unaudited actual for 2014 and projected for 2015 through 2019. Includes the proposed refunding and the new money bond issue.

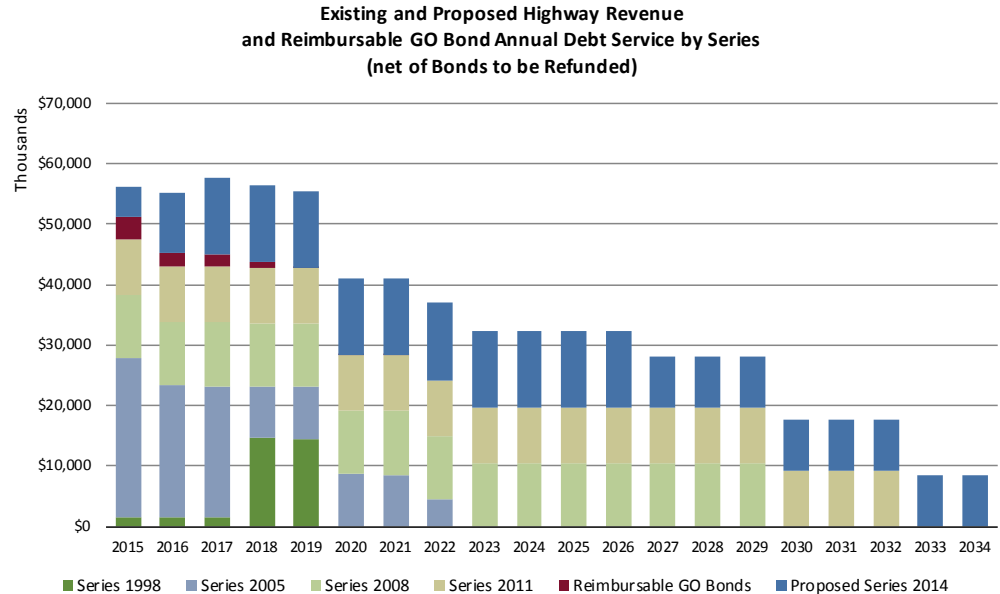
Note: Does not include potential \$80 million offering in both 2016 and 2018



# Outstanding and Proposed Highway Revenue Bond Parity Debt

Highway Revenue Bonds	Issue Amount	Outstanding Bond Balance (\$ in 000's)
Series 1998	\$94,920	\$27,580
Series 2005A	60,000	38,965
Series 2005B	123,915	72,575
Series 2008	125,175	104,545
Series 2011A	112,270	104,595
Series 2011B	5,095	5,095
<b>TOTALS</b>	<b>\$521,375</b>	<b>\$353,355</b>
Less Series 2005A Bonds to be refunded		\$36,195
Plus Proposed Series 2014	\$139,380	\$139,380
<b>TOTALS</b>	<b>\$660,755</b>	<b>\$456,540</b>

Reimbursable GO Bonds	Issue Amount	Outstanding Bond Balance (\$ in 000's)
State of Hawaii GO Bonds	Varies	\$8,726



- The Highways Division's existing annual revenue bond debt profile is level through 2019 at approximately \$47.5 million
- All outstanding debt is fixed rate, with no variable rate exposure
- Portions of Series 2005A are expected to be refunded in conjunction with the new money financing
- The State and the Highways Division have historically issued bonds with a 20-year final maturity with level debt service structure to pay down debt quickly
- The proposed Series 2014 bonds will utilize the same conservative debt structure
- Provides for significant debt capacity and flexibility in the future



# Federal Aid to Hawaii

- **Federal Funds are not Pledged Funds under the Certificate**
- **Federally funded programs account for approximately 30% of total Highways Program Funding**
- **Federal government reimburses the State for certain eligible costs**
  - Approximately 90% of eligible costs on Interstate highways
  - Approximately 80% on other highways and streets not functionally classified as local or rural minor collector roads

Fiscal Year	Interstate	Other	Total Federal Reimbursement
2005	4,527,856	153,676,090	158,203,946
2006	8,052,420	112,460,631	120,513,051
2007	14,222,350	103,783,481	118,005,831
2008	8,410,213	183,929,315	192,339,528
2009	16,885,899	200,117,538	217,003,437
2010	10,770,994	175,714,085	186,485,079
2011	14,115,541	166,163,713	180,279,254
2012	9,570,059	152,192,192	161,762,251
2013	6,130,740	191,068,851	197,199,591
2014*	6,565,656	206,341,346	212,907,002

\* Unaudited

- **In the event of reduced future funding, Highways Division plans to:**
  - Review and re-prioritize ongoing federal-aid projects by management
  - CIP phasing and implementation action under close review and analysis by management to determine whether to re-schedule, suspend, or cancel ongoing projects based on priorities and needs, and ability to service payment requests
  - Management prioritizes and re-schedules letting of new projects to accommodate reduced Federal funding levels



## Summary of Highways System Credit Strengths

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  - 5.41x for 2013 and 2014 for Revenue bonds only
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- **Consistent federal government aid, although not part of Pledged Revenues**
- **Proven and experienced management team committed to maintaining strong financial stability**





## Contacts

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### STATE OF HAWAII

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