



Fitch Affirms Department of Hawaiian Home Lands Revenue Bonds at 'A'; Outlook Stable Ratings Endorsement Policy
11 Aug 2011 1:36 PM (EDT)

Fitch Ratings-New York-11 August 2011: Fitch Ratings takes the following action on the State of Hawaii's Department of Hawaiian Home Lands bonds as part of its continuous surveillance effort:

--\$41.205 million revenue bonds, series 2009 affirmed at 'A'.

The Rating Outlook is Stable.

KEY RATING DRIVERS

--The bonds are secured by a gross pledge on certain Department of Hawaiian Home Lands (the department) revenues, which provide sound debt service coverage. Additional security exists in the form of a debt service reserve fund and additional reserve holdings in a pledged fund.

--While not pledged to the bonds, debt service is expected to be funded through monies from the Office of Hawaiian Affairs, pursuant to an executed Memorandum of Agreement between the two entities.

--The department controls significant balances and, while not available to bondholders, these funds offer the department operating flexibility.

--The department is a cabinet level agency with a popularly supported mandate; extensive planning is evident.

--No direct state support is pledged to bondholders.

SECURITY

The bonds are special, limited obligations of the department, secured by a gross pledge on general lease and license and permit fee revenues, as well as interest income generated by the department's administration account.

CREDIT PROFILE

The 'A' rating reflects sound debt service coverage provided by the pledged revenue stream, the additional security provided by a debt service reserve as well as a supplemental reserve, the department's overall financial resources which afford significant operating flexibility, and the state's demonstrated support of the department's mission. The rating also considers cash flow pursuant to a Memorandum of Agreement between the department and the state's Office of Hawaiian Affairs that, while not pledged to the bonds, is the intended repayment source. Pledged revenues are derived largely from general lease payments received on department lands leased to commercial and industrial entities.

The department is a cabinet-level entity in Hawaii's state government, directed by the Hawaiian Homes Commission, which operates pursuant to the Hawaiian Homes Commission Act of 1920. Members of the Commission are appointed by the Governor with the consent of the State Senate. The Chairman of the Commission serves as the department's administrator. The department manages more than 200,000 acres of land held in trust as Hawaiian Home Lands, and the department's primary mission is to provide qualified native Hawaiians the opportunity to own homes on the trust's lands. The series 2009 bonds financed capital improvements necessary to advance the department's goal of providing new homestead awards over a five-year period. Portions of the department's lands are leased for commercial and industrial development purposes while others are utilized under license and permit arrangements for various purposes, and associated revenues generated are applied toward furthering homestead projects.

The bonds are secured by a gross pledge on the general lease and license and permit fee revenues, as well as interest income generated by the department's administration account. Further security is provided by a debt service reserve funded at maximum annual debt service as well as a supplemental reserve maintained over the life of the bonds in the department's general account at 0.25 times (x) aggregate annual debt service. Annual payments totaling \$3 million from the state's Office of Hawaiian Affairs pursuant to an executed Memorandum of Agreement, while not pledged to the bonds, are the intended repayment source for the bonds. Irrespective of this \$3 million contribution, the department's pledged fiscal 2011 revenues are estimated to have provided 4.3x coverage of debt service for the same year.

Fitch notes that approximately 72% of leases in force as of June 1, 2011 will expire prior to bond maturity, reducing the

current revenue stream from the leases by approximately 45%. However, Fitch has applied a stress factor incorporating loss expectations for leases presently in force and Fitch projects coverage from all pledged sources is likely to be greater than 2x over the life of the bonds. This projected coverage ratio does not give credit for leases the department is presently negotiating. The indenture includes an additional bonds test of 1.25x coverage for projected aggregate annual debt service from historical revenues, and the department covenants to maintain rates, rentals, fees, and charges of at least 1.25x aggregate annual debt service. While \$100 million in revenue debt has been authorized, the department currently envisions no further debt under this indenture.

The department maintains seven major funds with balances totaling approximately \$185 million at the close of fiscal 2010, affording it significant operating flexibility. Further, the state has provided appropriations for the department's capital expenditures, though direct support for operating expenses has been reduced. Nonetheless, the state has a constitutional requirement to support the department's mission.

Contact:

Primary Analyst
Kenneth T. Weinstein
Senior Director
+1-212-908-0571
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria', dated Aug. 16, 2010;

--'U.S. State Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

U.S. State Government Tax-Supported Rating Criteria

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2012 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.