

MOODY'S INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 to Hawaiian Homelands revenue bonds; outlook stable

Global Credit Research - 13 Jul 2017

New York, July 13, 2017 -- Issue: Revenue Bonds, Series 2017; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: \$35,005,000; Expected Sale Date: 07/25/2017; Rating Description: Revenue: Other;

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to the Hawaii State Department of Hawaiian Homelands' Revenue Bonds, Series 2017. The department is an executive agency of the State of Hawaii (Aa1 stable), responsible, pursuant to federal and state statutes, for the management of certain trust lands for the benefit of native Hawaiians. Through its homestead lease program, the department leases much of the trust land to native Hawaiians for residential and agricultural purposes. Trust land not needed for homestead purposes is made available for commercial, industrial and other uses through leases, licenses and permits, to generate revenues to fund the department's core homestead programs.

The revenue bonds are secured by a first lien on the department's income derived from these non-homestead trust lands (the pledged revenues). In addition, the Office of Hawaiian Affairs (OHA) has contracted to make a payment of \$3 million per year to the department, to be used for the payment of debt service, as long as the revenue bonds are outstanding, although the payment is not pledged. OHA's obligation to make the payment is not subject to appropriation, and debt service is roughly \$3 million per year. The Aa3 rating on the revenue bonds reflects the satisfactory coverage of debt service by pledged revenues, the inherent volatility and lessee concentration of these real estate-derived revenues, and the availability of the state's payment through OHA.

Rating Outlook

The outlook on both the revenue bonds and the certificates of participation is stable reflecting the state's general credit quality and the recent performance of the state's economy and commercial real estate market.

Factors that Could Lead to an Upgrade

Significant expansion and diversification of the revenue stream pledged to the revenue bonds and from which lease payments are appropriated.

Factors that Could Lead to a Downgrade

A weakening of the state's general credit quality, economy or commercial real estate market.

A reduction in coverage below current levels.

The unexpected, early termination of the contract between the department and OHA, or the issuance of additional revenue bonds without amending the contract with OHA to cover the additional debt service.

Legal Security

The revenue bonds are special limited obligations of the department secured by a first lien on revenues from general leases, licenses, permits, and investment income collected from management and operation of the available lands. In addition, pursuant to a contract between the department and the Office of Hawaiian Affairs (OHA), a separate state agency, OHA has agreed to pay the department \$3 million annually as long as the revenue bonds are outstanding. Although not pledged to the bonds, the OHA payments are specifically designated in the contract for the payment of debt service on the revenue bonds. In practice, the department has always used the OHA payments and interest earnings on the payments to pay debt service on the revenue bonds. OHA's obligation to make the annual payments is absolute and unconditional, and not subject to appropriation by the state legislature.

Use of Proceeds

Proceeds of the Series 2017 bonds will be used to refund the department's Series 2009 revenue bonds for debt service savings.

Obligor Profile

Hawaii is the 40th largest state by population, at 1.4 million. Its state gross domestic product is 38th largest. The population's income levels are above average, with per capita personal income equal to 100% of the US level and a median household income equal to 133%. Its poverty rate is in the bottom third among states.

Methodology

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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