

Rating Action: Moody's affirms Hawaii Airport Enterprise's A1 senior lien bonds and A2 subordinate COPs; outlook stable

Global Credit Research - 30 Jun 2017

New York, June 30, 2017 -- Summary Rating Rationale

Moody's Investors Service affirms the State of Hawaii Airport Enterprise's senior lien airport system revenue bonds at A1 and the subordinate certificate of participation (COPs) at A2. The rating outlook is stable. The affirmation reflects the strength of the airport system's virtual monopoly over commercial air travel to and from the islands, the essentiality of air service for both tourism and intrastate travel, relatively low debt per passenger, and improving financial performance. The airport system's liquidity is a key measure of its financial strength and we expect that restricted cash will decline as it implements funds the large on-going capital improvement program (CIP). However, we expect unrestricted cash to be maintained above 600 days cash on hand (DCOH) levels at the current rating. The A1 rating also reflects the airport's move toward full cost recovery, as it has not provided rate relief to airlines since FY 2010 and does not anticipate providing relief moving forward.

The A2 rating on the COPs is based on the lease agreement payments, as junior obligations, made by the airport system to the lessor, Johnson Controls, Inc (JCI). The rating also considers the strong savings in operating expenses that the airport system expects to receive as a result of this contract. The expected savings are guaranteed by JCI for the term of the contract, which extends beyond the maturity of the COPs.

Rating Outlook

The stable outlook is based on Moody's expectation that system-wide enplanement levels will remain near or above current levels and airline and other revenues will maintain DSCRs based on net revenues above 1.0 times. Moody's expects that the system will maintain DCOH above 600 days.

Factors that Could Lead to an Upgrade

A positive change in the economy of the service area that result in enplanement levels that significantly outperform projections on a sustained basis

Net revenue DSCRs sustained above 1.25 times through the completion of the capital program, while maintaining high liquidity to manage operational risks and financial risks

Factors that Could Lead to a Downgrade

Inability or unwillingness by the airport system to fully recover costs from the airlines

Reduction of unrestricted liquidity balances below 600 days

Economic downturn or loss of a major carrier that negatively impacts enplanements

Legal Security

Senior lien bonds are secured by a pledge on net revenues of the airport system and aviation fuel tax revenues. The rate covenant is 125% senior debt service and 110% total with unlimited rolling coverage. The senior lien bonds have an additional bonds test (ABT) that requires revenues plus rolling coverage equal 125% of maximum annual debt service (MADS) or that the rate covenant has been met and will be met, including additional bonds, to the later of 5 years after issuance or 3 years beyond the use of capitalized interest. The bonds also have a debt service reserve that is sized at the lessor of three prong test, and is fully cash funded.

The COPS are secured by a proportionate interest in the rights of the lease agreement, including the lease agreement payments made by the airport system as a junior obligation to the lessor, Johnson Controls, Inc. JCI will assign its rights as lessor, including the right to receive rent payments, to the trustee for payment of debt service of the COPS. The airport system's obligation to make payments under the lease agreement from year to year is subject to annual appropriation by the State of Hawaii under a separate line item for capital

leases in the department's budget. The payments are treated as "other lawful purposes" of the airports system.

If the state fails to appropriate the lease, the EPC can be terminated at the end of the fiscal year for which money has been appropriated and the holders of the certificates would gain recourse to the equipment. Moody's believes this equipment would have little to no value outside of its use with the airport system, but its removal would be significantly detrimental to the operations of the airport system.

Use of Proceeds

Not applicable.

Obligor Profile

The department operates and maintains 15 airports at various locations within the State. The airports division has jurisdiction over and control of the airports system. Virtually all non-military passenger traffic throughout Hawaii passes through the system, which includes five primary airports and ten secondary airports. The primary airports are HNL (on the Island of Oahu), Kahului (on the Island of Maui), Hilo International and Kona International (both on the Island of Hawaii), and Lihue (on the Island of Kauai).

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in November 2015. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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