

Rating Action: Moody's affirms A2 on State of Hawaii Port Facility's revenue debt

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The Harbors Division has a total of \$379.8 million rated debt outstanding

New York, March 20, 2014 -- Moody's Investors Service affirms the A2 rating on the State of Hawaii's Port Facility 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 and the fulfillment of that requirement with sureties from a provider with declining credit strength places negative pressure on the rating.

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 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 (73%) determined by volume levels, which have proven quite volatile
- *Cargo tonnage and container volume has seen a marked improvement in recent years, although still remain below 2007 levels.
- *Exposure to potential volatility due to economic concentration in tourism and concentration in largest shipping line (Matson Navigation Company 43% of FY2013 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 Municipal
- *Flow of funds permits outflow to State of funds in excess of 150% of coming year's requirements

Outlook

The stable outlook is based on Moody's expectation that total net revenue debt service coverage will remain between 1.75 times and 2.00 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 2.0 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 1.75x 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.

The principal methodology used in this rating was Public Port Revenue Bonds published in December 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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