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Reference No.: 40121900

Vincent Orgo
Administrative Officer
Public Finance Ratings

Standard & Poor's

A Division of The McGraw-Hill Companies 

October 23, 2001

Ms. Sheelagh Flanagan
Managing Director
Financial Security Assurance Inc.
1550 Spear Tower
One Market
San Francisco, CA 94105

Re: *\$65,445,000 State of Hawaii, Highway Revenue Bonds, Series 2001, dated: October 25, 2001, due: July 1, 2005-2022, (POLICY #28037-N/DSRF #28037-R)*

Dear Ms. Flanagan:

This is to advise you that we have changed the rating to 'AAA' from 'AA' on the subject bonds.

The rating change reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing.

When using the Standard & Poor's rating, include the definition of the rating together with a statement that this may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. This rating is not a "market rating", because it is not a recommendation to buy, hold or sell the obligations.

If you have any questions, please contact us.

Very truly yours,

Vincent S. Orgo/na

na



Moody's Investors Service

99 Church Street
New York, NY 10007

October 22, 2001

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022

To Whom It May Concern:

Moody's Investors Service has assigned the rating of **Aaa** (Financial Security Assurance Inc, Insured - Policy No. 28037-N) to the **\$65,445,000.00** , **State of Hawaii---Highway Revenue Bonds, Series 2001** , dated October 25, 2001 which sold through negotiation on October 10, 2001. The rating is based upon an insurance policy provided by Financial Security Assurance Inc..

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Margaret Kessler at (212) 553-7884.

Sincerely yours,

Margaret Kessler

Margaret L. Kessler
Vice President/Senior Analyst

MK:SY

FITCH

FITCH IBCA, DUFF & PHELPS

Mr. Robert P. Cochran
Chairman & Chief Executive Officer
Financial Security Assurance Inc.
Financial Guaranty Group
350 Park Avenue
New York, NY 10022
October 23, 2001

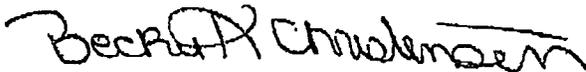
Dear Mr. Cochran:

RE: State of Hawaii
\$70,000,000 in aggregate principal amount of
Highway Revenue Bonds, Series 2001
(28037-N)

Fitch has assigned a rating of 'AAA' to the above referenced Bonds. This reflects credit enhancement in the form of a bond insurance policy provided by Financial Security Assurance Inc. (FSA), which has an insurer financial strength rating of 'AAA'. Fitch defines companies with 'AAA' insurer financial strength ratings as follows: "Companies are viewed as possessing exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small."

Ratings assigned by Fitch are based on information provided to us by FSA. Fitch does not audit or verify the truth or accuracy of such information. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payment made in respect of any security. The insurer financial strength rating assigned to FSA may be changed, withdrawn, suspended, or placed on RatingWatch as a result of changes in FSA's financial condition. The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to the use of its name as an expert in connection with any registration statement filed under the Federal securities laws or under the Financial Securities Act 1986.

Sincerely,

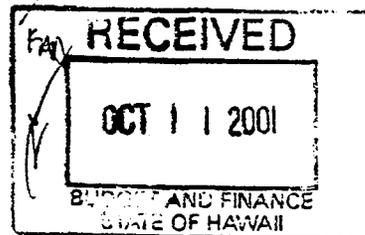


Becky K. Christensen
Manager / Insured Ratings



October 2, 2001

Mr. Neal Miyahira
Director of Finance
Department of Budget and Finance
No. 1 Capitol District Building
250 S. Hotel Street
Honolulu, Hawaii 96813



C: Stan S.

Re: State of Hawaii
\$70,000,000
Highway Revenue Bonds, Series 2001

Dear Mr. Miyahira:

FITCH has assigned a rating of "AA-" to the above referenced issue.

Ratings assigned by FITCH are based on the documents and information provided to us by the State of Hawaii, its experts and agents, and is subject to receipt of the final closing documents. FITCH does not audit or verify the truth or accuracy of such information.

It is important that FITCH be provided with all information that may be material to the rating so that our rating continues to accurately reflect the current condition of the issue. Ratings may be changed, withdrawn, suspended or placed on Rating Watch due to changes in, additions to or the inadequacy of information.

Ratings are not recommendations to buy, sell or hold securities. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,

[Handwritten signature of Frederic J. Martucci]

Frederic J. Martucci
Managing Director
Public Finance

FJM:ld

cc: Mr. John Noell --- A.G. Edwards & Sons, Inc.

Tax Supported
New Issue

State of Hawaii

Rating

Highway Revenue Bonds AA-

Analysts

Claire G. Cohen
1 212 908-0552
claire.cohen@fitchratings.com

Ruth Corson Maynard
1 212 908-0596
ruth.corson@fitchratings.com

Issuer Contact

Neal Miyahira
Director of Finance
1 808 586-1518

New Issue Details

\$70,000,000 Highway Revenue Bonds, Series 2001, expected through negotiation the week of Oct. 1 through A.G. Edwards & Sons, Inc. Bonds will be due July 1, 2003-22, call features not yet determined.

Security: Special limited obligations of the State of Hawaii payable from a first lien on revenues deposited into the state highway fund, principally derived from fuel taxes, registration fees, weight tax, and rental and tour vehicle surcharge taxes. A debt service reserve fund equal to one-half maximum annual debt service (met from a surety policy) will be maintained.

■ Outlook

Hawaii's highway capital program is closely intertwined with the state's general fund, as about 35% of highway bonds are reimbursable general obligation bonds of the state. But as the state now addresses its highway needs with revenue bonds, this proportion will continue to drop. Although not general obligations, highway revenue bonds are payable from revenues deposited into the state highway fund which become pledged user taxes upon deposit to the fund. These sources are the fuel license tax accounting for some 42% of pledged revenues, together with vehicle registration fees, weight taxes, and rental and tour vehicle surcharge taxes.

Although the underlying growth of state highway fund revenues has been slow, coverage remains satisfactory, well above the covenanted 2.0 times (x) level required for additional issuance. Coverage of maximum debt service on both highway revenue and reimbursable general obligation bonds is 3.6x, based on fiscal 2001 pledged revenues, and for revenue bonds alone, 6.8x. Highway revenues were flat or declining during much of the 1990s, reflecting the negative effects on Hawaii's tourists economy from recession in Asia and in the United States particularly California. In the last two years, collections have improved along with the state's economy. An element of uncertainty has been injected, at least in the short term, by the attack on New York's World Trade Center. New restrictions on aviation as well as reluctance to fly will be factors in visitor arrivals as will be any ensuing rational recession. The pledged revenue most vulnerable to reduced visitors is the rental/tour vehicle surcharge which accounts now for 22% of revenue.

■ Rating Considerations

The department of transportation administers the state highway system that is comprised of nearly 1,000 linear miles of roadway on the six primary islands, representing some 22% of the total roadway in the state. (The department of transportation also operates the state's airports and harbors as separately financed divisions.) The remaining roads and streets in the state are the responsibility of the four counties and various federal agencies. Until 1993 when the highway revenue bond program was instituted, all state highway construction was financed by general obligation bonds, some of which are reimbursable from revenues credited to the state highway fund after payment of revenue bond debt service. The close integration with the state's general fund is highlighted by the fact that 35% of highway bonds have been issued as reimbursable general obligations. Going forward, the state plans to address the remainder of its six-year highway

capital plan through 2007 with revenue bond issuance instead of general obligation debt, reducing its relative importance. Last year, G.O.s were 41% of the total.

Highway revenue bonds are payable from revenues deposited into the state highway fund, principally the fuel license (gas) tax, vehicle registration fees and weight taxes, and rental motor vehicle and tour vehicle surcharge taxes. The fuel license tax provides about 42% of the pledged user taxes. All of these revenues become pledged user taxes upon deposit to the fund; neither the individual tax sources nor the fund itself is pledged as security. Rates for all taxes and fees have been in effect since the early 1990s, with the rental vehicle surcharge increased 50% (to \$3 per day) from Sept. 1, 1999–Aug. 31, 2007 when it sunsets. The surcharge increase flows to the state's general fund in fiscal 2000 and 2001, and beginning in fiscal 2002, it will remain with the state highway fund. Although underlying growth of state highway fund revenues has been slow, collections have gained in fiscal 1999 and 2000 with the state's economic improvement, following a 1.9% decline in fiscal 1998. Further improvement followed in 2001. There is some concern currently about future tourism in light of the attack on the World Trade Center. At least in the short term, there will be a negative impact. Coverage is satisfactory, above the covenanted 2.0x level required for issuance, at 3.6x for maximum on all requirements and 6.8x on revenue bonds alone.

■ **Strengths**

- Highway funding closely integrated with state's general fund and budget.
- Diverse revenue sources to state highway fund.
- Satisfactory coverage levels, with legislative flexibility to alter capital plans.

■ **Risks**

- Securing revenues are only pledged upon deposit to state highway fund and are subject to legislative alteration.
- Growth of yield from pledged revenues has been flat, aggravated by state's economic weakness of the mid-1990s; growth improving in fiscal 2000.
- State fuel tax is comparatively modest but city and county taxes limit rate increases.
- Tourism may continue to be adversely affected by aftermath of World Trade Center attack.

■ **Security Features**

The bonds are special obligations of the state, secured and payable on a parity with \$220,705,000 outstanding senior lien bonds. Issuance is governed by a certificate (resolution) adopted in 1993 with the advent of the revenue bond financing program; this issue is under the fifth supplemental certificate. Security derives from the deposit of the highway-related revenues into the state highway fund, with the revenue pledge not occurring until moneys are deposited. The highway fund operates as a separate fund in the state treasury, with senior lien debt service having a first lien on revenues in the fund. (Subordinate lien debt is permitted under the certificate, although none has been issued.) While the sources and amounts of the revenues credited to the state highway fund are not specifically pledged and can be altered by the legislature, the state has covenanted to provide 2.0x coverage of projected maximum debt service (from 12 consecutive months of the prior 18 months). A debt service reserve fund is established and will be funded to its requirement of one-half maximum annual debt service from a surety policy.

■ **Pledged Revenues**

Pledged revenues, principally represented by "pledged user taxes," consist of moneys deposited into the state highway fund, a special fund in the state treasury, for deposit to the highway revenue special account. Neither specific tax sources nor the fund itself are pledged. Principal sources of pledged user taxes include the highway fuel license taxes, vehicle registration fees, the vehicle weight tax and the rental motor vehicle and tour vehicle surcharge taxes.

The fuel license tax accounts for 48% of fiscal 2001 pledged user taxes and 45% of the total revenues; the bulk of the difference derives from interest income which approximates some \$10 million annually and was \$14 million in 2001. The state fuel tax, levied since fiscal 1992 at \$0.16 per gallon, is collected at the distributor's level by the state's department of taxation (which also serves to collect the county and city fuel taxes which range from \$0.088 in the County of Hawaii to \$0.165 in the city and county of Honolulu) and transferred to the state highway fund. From fiscal 1995–2000, fuel tax revenues grew 2.6%, peaking in fiscal 1997, then declining through fiscal 1999. Fuel tax revenues again grew in each of the next two years as the state's economy began to improve. (The state also levies a 4% excise tax on gas, not available for security since 1991 when it was

Hawaii Highway Revenue Bonds — Coverage of Debt Service Requirements

(\$ Mil., Fiscal Years Ending June 30)

	Total Pledged Revenues	Debt Service Highway Revenue Bonds*	Coverage (x)	Total Debt Service (Incl. G.O. Highway Bonds)	Coverage (x)
1996	142.7	5.9	24.2	55.6	2.6
1997	144.5	10.0	14.5	50.4	2.9
1998	141.8	10.4	13.6	41.7	3.4
1999	145.8	14.4	10.1	43.5	3.3
2000	159.6	15.0	10.7	38.1	4.2
2001	173.1	18.6	9.6	44.2	3.9
2002**	170.1	21.5	7.9	46.2	3.7
2003**	170.9	25.5	6.7	48.7	3.5
2004**	171.7	25.5	6.7	44.5	3.9
2005**	172.5	25.5	6.8	44.1	3.9
2006**	173.6	25.5	6.8	42.2	4.1
2007**	175.4	25.5	6.9	41.7	4.2

*Including new issue. **Projected; growth assumed at an annual average of 1.25% per year.

directed to the state's general fund and not the highway fund.) Gasoline consumption represented 66% of total fuel consumption in fiscal 2001; the remainder was diesel and liquid petroleum.

Vehicle weight taxes account for about 14% of total revenues and are collected by the counties (along with non-pledged county weight taxes) and transferred to the state highway fund. State registration fees, \$20 per vehicle, are collected at the county level along with county fees and also transferred to the state highway fund; this source represents some 10% of total revenues. Registration fees declined 0.8% from fiscal 1995–2000, but in fiscal 2001 were 1.5% over the prior peak fiscal 1995 level. However, motor vehicle registrations rose 3.1% from 1995–99, and in 1999 finally surpassed the prior peak level of 1991 and in 2000 rose 3.8%. The rental car and tour vehicle surcharges provide about 22% of total revenues to the state highway fund and were increased by 50% (to \$3 per day) for the period Sept. 1, 1999 through Aug. 31, 2007. The increase remains with the state's general fund through 2001, becoming available to the state highway fund in fiscal 2002–07. The surcharge is probably the most vulnerable to any drop in tourism.

On a combined basis, the pledged user taxes were up 13.5% from fiscal 1995–2000, largely reflecting the 50% increase in the tour vehicle surcharges that were in effect for 10 months of fiscal 2000). Absent the increase, growth from fiscal 1995–2000 would have approximated 7%. Total revenues, including interest income, were up 3.4% from fiscal 1995–99, a slow rate of gain and reflective of the mid-1990s impact on Hawaii from both the U.S. (particularly California)

recession and the Asian economic crisis. After a 1.9% decline in fiscal 1998, total revenues rose 2.8% in fiscal 1999 and, with the increased surcharge rate, were up 9.8% in fiscal 2000. Although partly reflecting a full year of the surcharge increase, revenues were up 8.5% in 2001, as the economy strengthened.

■ **The Highway Program**

The highway department is one of three separate divisions in the state's department of transportation (the others being the airports and harbors divisions), headed by a director appointed by the governor and subject to senate confirmation. An advisory commission consists of one member from each of the four counties. Until 1993, highway construction was handled through the issuance of state general obligation bonds; issuance of revenue bonds was authorized in that year, although state general obligation debt, \$153,886,000 outstanding, continued to be issued; currently, there are \$220,705,000 revenue bonds outstanding. As required by the U.S. Department of Transportation, the department annually prepares a multimodal capital improvement program as part of the six-year capital plan, financing for the first two years of which are submitted to the legislature as part of the administration's biennial budget. The current 2002–07 plan incorporates projects on the six major islands. Through 2001, appropriations total \$2.32 billion including \$183 million added by the legislature in 2001. Financing has come \$1,517 million from federal funds, \$25.8 million from state funds, \$26 million from reimbursable general obligation bonds, and \$504 million from revenue bonds. Federal funds, under TEA-21, are expected to average \$137 million annually from 1998–2003, a reported increase of about \$17 million

each year from the prior ISTEA program. The state intends to issue \$80 million revenue bonds in 2003–05. With the four counties as well as the federal government, also having responsibility for streets and roads, the state-administered highway system

encompasses about 979 miles of highways or about 22% of the state's linear miles of roadway. Oahu accounts for about 24% and includes the state's entire interstate and freeway expressway system.

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Telephone: New York, 1-800-753-4824, (212) 908-0500, Fax (212) 480-4435; Chicago, IL, (312) 368-3100, Fax (312) 263-1032;
London, 011 44 20 7417 4222, Fax 011 44 20 7417 4242; San Francisco, CA, 1-800-953-4824, (415) 732-5770, Fax (415) 732-5610
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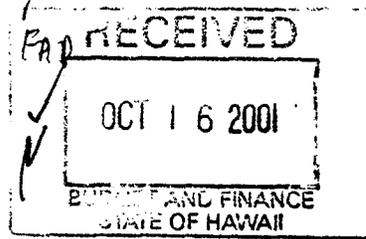
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Moody's Investors Service

OCT 22 7 52 AM '01

FINANCIAL
LEGISLATION DIV.
BUDGET AND FINANCE
STATE OF HAWAII



Three Embarcadero Center, Suite 920
San Francisco, CA 94111
Tel: 415.274.1700

October 10, 2001

Mr. Neil Miyahira
Director of Finance
State of Hawaii Department of Budget & Finance
No.1 Capitol District
250 South Hotel Street
Honolulu, HI 96813

Dear Mr. Miyahira,

We wish to inform you that on October 8, 2001, Moody's Rating Committee assigned an Aa3 rating to the State of Hawaii's Highway Revenue Bonds, Series 2001.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw the rating at any time.

The rating as well as any other revisions or withdrawals thereof will be publicly disseminated by Moody's through the normal print and electronic media and in response to verbal requests to Moody's rating desk.

In order for us to maintain the currency of our rating, we request that you provide ongoing disclosure, including annual financial and statistical information.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Ray Murphy at (914) 749-1926.

Sincerely,

Renee Boicourt
Managing Director

MoodyResearch.com | [Home](#)**Moody's Investors Service**
Global Credit ResearchMunicipal Credit Research
New Issue
Published 8 Oct 2001

Hawaii (State of)

Contacts

Raymond Murphy	212-553-4673
Robert A. Kurtter	212-553-4453
Renee Boicourt	212-553-7162

Moody's Rating

Issue	Rating
Highway Revenue Bonds, Series 2001	Aa3
Sale Amount	\$70,000,000
Expected Sale Date	10/10/01
Rating Description	Highway Revenue Bonds

MOODY'S ASSIGNS Aa3 RATING TO STATE OF HAWAII HIGHWAY REVENUE BONDS

Opinion

Moody's Investors Service has assigned a rating of Aa3 to the State of Hawaii's highway revenue bonds, in conjunction with the upcoming sale of the Series 2001 bonds. These bonds are being issued to finance certain highway capital improvement projects and related projects comprising portions of the statewide system of highways. These bonds are limited obligations of the state and are secured by a gross pledge of Highway Fund revenues, including fuel tax and various registration fees and surcharges. The assigned rating reflects the ample coverage provided by the gross revenue pledge to the payment of these bonds, and the diverse revenue stream dedicated to the Highway Fund and pledged to the payment of the highway revenue bonds, and the state's covenant to maintain resources for debt service payments. However, the bonds do not constitute a general obligation of the state, nor do they constitute a charge upon the General Fund. The credit outlook for these bonds is stable.

The Aa3 rating is based on the following credit factors.

PLEDGE OF HIGHWAY REVENUES PROVIDES AMPLE COVERAGE

Historically, the state financed a major portion of its share of the cost of capital improvement projects using reimbursable general obligation bonds. Beginning in 1993, the state began financing the projects through revenue bonds, secured by a first pledge of revenues deposited into the Highway Fund. Nearly half of these revenues are derived from state highway fuel license taxes. The balance consists primarily of vehicle registration fees and weight taxes and surcharges for rental and tour vehicles.

The pledge to pay the reimbursable general obligation bonds is subordinate to payment of highway revenue bonds and the operations and maintenance expenses of the state's Department of Transportation Highway Division. For all outstanding highway revenue bonds and currently anticipated future revenue bonds through 2005, the pledged revenues provide a minimum of 3.7 times coverage throughout the term of the bonds, assuming revenues remain at fiscal 2001 levels. As long as highway revenue bonds are outstanding, all principal and interest payments of the bonds will have first claim on the pledged revenues.

LEGAL PROVISIONS PROVIDE ADDITIONAL SECURITY FOR THE BONDS

Bond provisions provide for a debt service reserve fund of one-half maximum annual debt service. Issued pursuant to a Supplemental Certificate, the 2001 bonds are on parity with the outstanding 1993, 1996, 1998 and 2000 Highway Revenue Bonds, and the General Revenue Bonds Law requires the Department of Transportation to impose sufficient charges to pay for debt service, operations and maintenance, and carry out the Certificate's covenants. In addition, parity bonds can only be issued if revenues for any 12 consecutive months out of the last 18 months are at least equal to two times maximum annual debt service.

POSITIVE PLEDGED REVENUE GROWTH THROUGHOUT MOST OF THE 1990'S DESPITE STATE'S WEAK ECONOMIC PERFORMANCE

The 1990's proved to be the weakest economic period for the state since World War II. From 1990 through 1998, the state did not experience any appreciable growth as employment gains in tourism and construction - the state's growth industries of the prior two decades - came to a halt. The state experienced thousands of job losses during this period and saw its unemployment rate rise by two percentage points. But despite this weak performance, since 1990 the state realized gains in pledged revenue collections in all but one of these years, with the decline in that year (1998) being less than 2%. While the state has seen changes in gas tax consumption throughout this period, the changes have not been sizable enough to cause a decline in revenues - reflecting the diversity of the pledged revenue stream. The 1998 decline in pledged revenues was directly attributable to a nearly \$3 million drop in Highway Fund interest income. Annual fund interest income has since recovered, but still represents less than 6% of total pledged revenues.

DIVERSITY OF PLEDGED REVENUES WILL ENABLE STATE TO WEATHER DROP IN TOURISM AS A RESULT OF SEPTEMBER 11th ATTACKS

As previously stated, pledged revenues include state highway fuel license taxes, vehicle registration fees and weight taxes, surcharges for rental and tour vehicles, interest income and miscellaneous other revenues. Based on the types of revenues pledged to the payment of these bonds, overall coverage for the bonds is not totally dependent on the performance of the tourism industry, as most of these taxes/fees must be paid by all residents of the state with a registered motor vehicle.

Since the terrorist attacks of September 11th, the state has experienced a significant drop in daily total passenger counts. Over the last week, negative variances from prior year daily totals have ranged from a low of -21.5% to a high of -37.6%. Moody's cannot determine at this time how long the events of September 11th will constrain tourism in the state. While we expect the decline in tourism to weaken the coverage levels provided by the pledged revenues, we do not expect such declines will be as severe as the fall-off in recent passenger arrivals. It should be noted the pledged revenues could absorb a 40% drop-off in collections and still provide nearly 2x coverage for the bonds.

Outlook

The credit outlook for Hawaii's highway revenues bonds at the Aa3 level is stable. The outlook reflects our conservative expectation that pledged revenue collections will continue to provide adequate coverage even as the state experiences a decline in tourism as a result of the recent terrorist attacks, and that future borrowing plans through fiscal 2005 do not significantly exceed current plans.

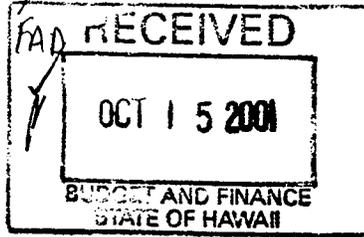
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Ratings Services
One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
Tel 415 371-5004
Reference No.: 991496

Steven G Zimmermann
Managing Director
Public Finance Ratings



Standard & Poor's

A Division of The McGraw-Hill Companies

October 3, 2001

OCT 22 7 52 AM '01

FINANCIAL
INFORMATION ON
CREDITABLE BOND
ISSUES

Mr. Neal Miyahira
Director of Finance
State of Hawaii
Department of Budget and Finance
No. 1 Capital District Building
250 S. Hotel Street
Honolulu, HI 96813

Re: **\$70,000,000 Hawaii, Hawaii, Motor Vehicle Fuel Tax, (Hawaii Department Of Transportation), dated: Date of Delivery, due: July 1, 2022**

Dear Mr. Miyahira:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the *MEMORANDUM OF AGREEMENT* on the reverse side hereof, have assigned a rating of 'AA' to the obligations. S&P views the outlook for this rating over the intermediate to longer term as stable.

Please note that the ongoing information required includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed and should be forwarded to:

*Standard & Poor's Ratings Services
Public Finance
55 Water Street, Muni Drop Box No. 1, 38-3-10
New York, NY 10041-0003*

S&P relies on the issuer and its counsel, accountants and other experts for the accuracy and completeness of the information submitted in connection with the rating. In addition, it should be understood that the rating is not a "market" rating nor a recommendation to buy, hold or sell these securities. Please note that the rating, as is the case with all of S&P's municipal ratings, does not address the likelihood that interest payable on the Bonds may be deemed or declared includable in the gross income of Bondholders by the relevant authorities at any time.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Thank you for choosing Standard & Poor's Ratings Services. If you have any questions, please contact us.

Very truly yours,

ks

cc: Mr. R. Larry Malohn, Managing Director
A.G. Edwards & Sons, Inc.

Publication date: 03-Oct-2001
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Summary

Summary: Hawaii Department of Transportation; Tax Secured, Gas Tax

Analyst: Mary Ellen Wriedt, San Francisco (1) (415) 371-5027; Kurt Forsgren, San Francisco (1) (415) 371-5018

Credit Profile

\$70 mil muni debt muni issue
due 2022
AA

Sale date: 10-OCT-2001

AFFIRMED
Hawaii, Hawaii
\$171.765 mil. Hawaii (Hawaii
Dept of Transp) Motor Vehic
Fuel Tax bnds
AA

\$48.940 mil. Hawaii (dept of
transp) dept of transp Ser 2000
Dtd 10/01/2000 Due
07/01/2020
AAA/AA(SPUR)

\$91.780 mil. Hawaii hwy rev
bnds Ser 1998 Dtd 07/01/1998
Due 07/01/2018
AAA/AA(SPUR)

OUTLOOK: STABLE

Rationale

The 'AA' rating on Hawaii's bonds, issued for the Hawaii Department of Transportation, reflects:

- Strong debt service coverage levels, with coverage of maximum annual debt service (MADS), including this issuance, of 6.7 times (x);
- A broad and diverse revenue stream of several highway user taxes;
- Good legal provisions, which comprise a strong 2.0x additional bonds test and a flow of funds that ensures these bonds will be paid prior to all other obligations; and
- A manageable capital plan.

Mitigating these strengths is a softening in the national economy that may be accelerated by the events of Sept. 11, 2001. In the second half of September, domestic and international travel, measured in arriving passengers, has dropped to 70% and 60% of normal levels, respectively. The tourism-based economy in Hawaii may weaken if the visitor count does not recover. The longer-term implications of the slowdown remain to be seen; however, revenues derived from highway user taxes have generally performed well historically during declines in tourism.

The bonds are secured by a gross pledge of revenues deposited into the state highway fund. These revenues consist of fuel taxes (41.5% of pledged revenues for fiscal 2001), weight taxes (14.1%), registration fees (10.2%), rental/tour vehicle surcharges (22.3%), interest earnings (8.6%), and other miscellaneous sources (3.3%). Pledged revenues totaled \$173.2 million for fiscal 2001, a strong 8.2% increase from 2000, primarily due to increased revenues from fuel taxes and rental/tour vehicle surcharges. Pledged revenues have increased an average of 4% annually since 1994. Annual debt service coverage, including the series 2001 bonds, is strong, ranging from 7.9x to 6.7x.

The legal structure is considered to be strong generally with a 2.0x MADS senior lien additional bonds test and a 1.3x MADS junior lien additional bonds test. Issuance of variable-rate debt is not permitted on the senior lien. The provisions also allow for a flow of funds that requires payment of debt service before operations and maintenance and reimbursable GO bonds, and a state covenant to impose user taxes at least sufficient to keep the department self-sustaining. While this form of covenant lacks the force of a traditional enterprise rate covenant, the requirement to pay revenue bond debt service prior to other department requirements effectively boosts coverage on the revenue bonds. The debt service reserve requirement is equal to only one-half MADS, but is mitigated by high coverage levels.

The bonds are being issued to fund various capital improvement projects. Approximately \$52 million of the proceeds will be used to repay temporary advances from the state highway fund for fiscal 2001 projects that were authorized by the legislature, and the remaining portion will be used for fiscal

2002 projects. The state's ongoing highway capital improvement program is manageable at approximately \$183 million for fiscals 2002 and 2003 (a biennial budget). The sources of funds are: \$83 million from the federal government, \$3 million from the state, \$96 million in revenue bonds, and \$1 million in other money. The department's current financial plan projects that after the issuance of the 2001 bonds, \$80 million in additional revenue bonds will be sold during fiscals 2003 and 2005.

The Hawaii Department of Transportation is responsible for state airports, ports, and highways, with the highways division of the department operating 979 linear miles of public highways, streets, and roads throughout the state. The highway division's revenues and expenditures flow through the state highway fund, a special fund with the primary revenue source derived from a highway fuel tax, which includes a \$.16 per gallon tax for gasoline and diesel oil and an \$.11 per gallon tax on liquid petroleum gas for highway use, as well as a \$.01 per gallon tax on gasoline, diesel oil, and liquid petroleum gas for non-highway use. Other primary sources of revenue include a \$3 a day tax on motor vehicle rentals (increased from \$2 effective Sept. 1, 1999 through Aug. 31, 2007); a \$65 monthly tax on tour buses (25 passenger vehicles; \$15/month for 8-25 passenger vehicles); a graduated vehicle weight tax (\$.75-\$1.25 per pound of net vehicle weight with a \$150 maximum); a \$20 per year vehicle registration tax; interest income; and miscellaneous revenues.

Outlook

The stable outlook reflects the expectation of continued growth of pledged revenues and strong debt service coverage as the department continues to implement its capital plan.

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