

CREDIT OPINION

12 February 2016

Update

Contacts

Kurt Kruppenacker 212-553-7207
*VP-Sr Credit Officer/
 Manager*
 kurt.kruppenacker@moodys.com

Chee Mee Hu 212-553-3665
MD-Project Finance
 cheemee.hu@moodys.com

Christopher Yared 212-553-2998
Associate Analyst
 christopher.yared@moodys.com

Hawaii (State of) Port Facility

Update: Moody's affirms A2 on Hawaii Port Facility's senior lien revenue bonds; Outlook is stable

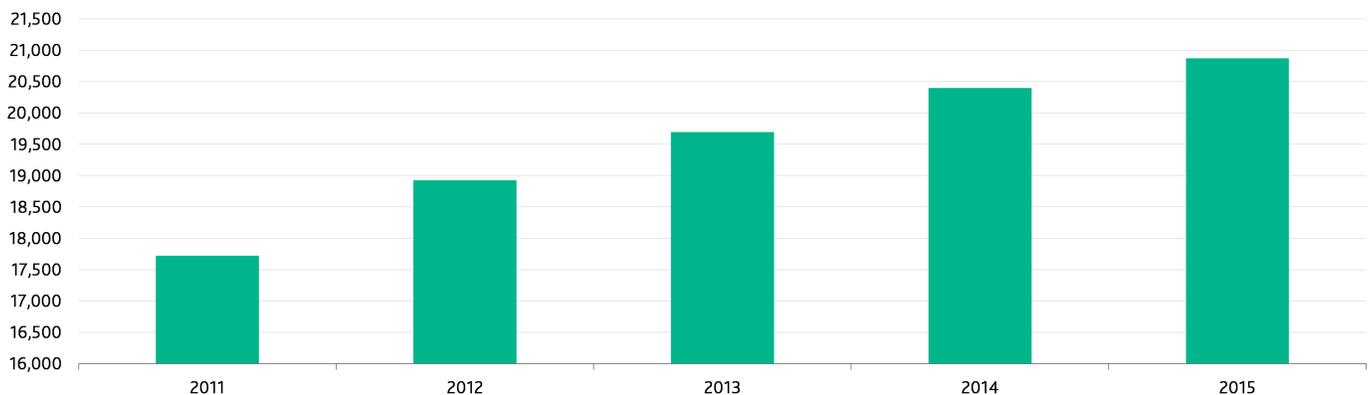
Summary Rating Rationale

Moody's Investors Service has affirmed the A2 rating on all series of the State of Hawaii's Port Facility senior lien bonds totaling \$368.7 million. The rating outlook is stable.

The A2 rating is based on the harbor 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. A growing Hawaiian economy should continue to drive demand for goods shipped through the harbor system. The system expects to issue a sizable amount of debt in the 2016 time frame to fund its new capital improvement program, but we believe the incremental effect on debt service coverage ratios and leverage metrics is mitigated by the substantial liquidity position of the port.

The system'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 is a credit weakness. The system's proposed change to the DSRF requires consent from 100% of bondholders, which is not expected before 2017. The provision will change the DSRF requirement to 50% of the maximum annual debt service requirements from the lesser of average annual debt service or the maximum amount allowable by the tax code. Moody's believes this change materially reduces bondholder protection for instruments issued under the 1997 Certificate that governs the division's revenue bonds and will make the credit more sensitive to other changes in credit strength.

Exhibit 1

Total Cargo Tonnage ('000)

Source: Moody's Investors Service

Credit Strengths

- » Strong monopoly position and highly essential asset to island economy that derives revenues from cargo, shipping containers, and cruise passengers
- » Debt service coverage ratios above 2.0 times, though we expect coverage levels to fall slightly as a result of upcoming bond offer
- » Tariff increases over the past several years have led to a substantial increase in liquidity providing financial flexibility to manage operational and financial risks
- » Strong cargo and container growth since 2011 driven by demand from a growing Hawaiian economy

Credit Challenges

- » Exposure to potential volatility due to economic concentration in tourism and concentration in largest shipping line (Matson Navigation Company 43% of FY2015 cargo)
- » Debt service reserve requirement is being reduced to 50% of MADS once 100% of bondholders consent to the change
- » Flow of funds permits outflow to State of funds in excess of 150% of coming year's requirements, though outflows have been limited in recent years

Rating Outlook

The stable outlook reflects our expectation that container volumes and revenues will remain flat or grow near the 3% scheduled annual tariff increase. We expect future borrowing will only mildly affect debt service coverage ratios which are strong at over 2.0 times.

Factors that Could Lead to an Upgrade

- » Significant and sustained higher-than-projected operating revenues due to increased volumes or rate increases, with resulting higher net revenue coverage sustained materially 2.0 times for all debt
- » Continued strong liquidity

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

Factors that Could Lead to a Downgrade

- » Decline in liquidity ratios
- » Decline in total debt service coverage by Moody's net revenue calculation sustained below 1.75x

Key Indicators

Exhibit 2

HAWAII (STATE OF) PORT FACILITY

	2011	2012	2013	2014	2015
Total Cargo Tonnage ('000)	18,817	19,082	19,842	20,395	20,871
Debt Outstanding (\$'000)	419,971	410,547	396,828	382,221	366,872
Debt to Operating Revenues (x)	4.9	4.0	3.5	3.2	3.0
Days Cash on Hand (days)	1,142	1,095	1,142	1,373	1,700
Senior Lien Debt Service Coverage By Net Revenues (x)	1.59	2.05	1.95	2.36	2.50
Total Debt Service Coverage By Net Revenues (x)	1.45	1.84	1.78	2.13	2.25

Source: Moody's Investors Service

Recent Developments

Hawaii's economy has experienced significant growth driven by low oil prices, which both lowers the cost of goods shipped to the island, and increases tourism as flights are cheaper. Even amid a global slowdown driven by reduced growth in China and other developing Asian countries, Hawaii has seen solid growth at the port with operating revenues increasing 1.5% from 2014 to 2015, while operating expenses decreased by 1.5% over that same time frame. Moody's rates the state of Hawaii Aa2 with a positive outlook owing to strong construction activity throughout the state, high levels of tourism and hotel occupancy, low unemployment, and renewed federal military spending.

The system's capital improvement plan calls for the issuance of about \$250 million around April 2016, which will go to fund a new container terminal at the Kapalama Military Reservation. The project is expected to be completed by 2019 and will add 80 additional acres of land-side facilities and provide the harbor system with redundant systems to mitigate the effect of natural disasters. Phase 2 is expected to begin in 2018 with an additional \$200 million needed for the project; current plans anticipate funding sources to include liquidity on hand as well as a future bond offering.

Detailed Rating Rationale

Revenue Generating Base

The commercial harbors that make up the harbor system consist of ten harbors on six islands. The Harbors System is essential to the Hawaiian economy as 80% of goods imported or exported from the state travel through the system. The system is self-sustaining and is authorized to impose rates and charges sufficient to cover its operating and maintenance expenses as well as debt service costs.

The Harbors Modernization Plan (HMP) is a set of system-wide projects to improve and expand port infrastructure throughout the state. The largest HMP project by size, the new container terminal at Kapalama, will improve container transfer efficiency in Honolulu Harbor. The project is expected to cost \$450 million inclusive of a \$250 million bond issue. Other key projects include the \$47 million construction of an inter-island terminal pier, which is commencing construction in February 2016, as well as Pier 35 building and site improvements, which will complete construction in February 2016 with the tenant expected to move in by March 2016. The New Kumau Street Extension project, which cost \$6.2 million has been completed along with Pier 2 Terminal Improvements at Kawaihae Harbor, an \$8.5 million project.

Financial Operations and Position

Revenue levels continue to improve albeit at a lower rate as the new tariff rates have all been implemented save for a 3% annual escalation going forward. FY 2015 showed increases in operating revenues of 1.5%, while operating expenses decreased 1.5% over the same period. The tariff increases have bolstered debt service coverage to over 2.25 times in 2015, based on Moody's net revenue coverage calculation. Coverage is expected to drop slightly with the additional planned bond issuance in Q1 2016.

The division's cash balances remain a key stabilizing factor for the rating. Days cash on hand jumped from 1,373 days at the end of FY 2014 to 1,700 in FY 2015, representing \$204.5 million in unrestricted cash and cash equivalents. During the year, the system generated almost \$40 million of cash, which considerably added to the system's liquidity position. Moody's believes strong liquidity is an important credit consideration for the system given the volatility of cargo levels and the proposed decrease in the debt service reserve requirement discussed above layers an additional need for liquidity at the current rating level.

Cargo tonnage and volume have exhibited a steady recovery. Container volume and total cargo tonnage showed improvement with increases of 7.2% and 2.3%, respectively in FY 2015. Pipeline throughput increased 5.7%, while cruise passengers fell 12%; however, the fall reflects a change in procedure for how passengers are counted. Moody's expects volumes to remain stable and trend primarily with the recovery of the state economy.

Including the portion of state GO debt that the harbor system is legally obligated to pay, the system has \$369 million of debt outstanding and is contemplating an additional bond issue in Q2 2016 of \$250 million. While this sizable increase in leverage will weigh on the system's financial flexibility, we expect a strong Hawaiian economy combined with a sound liquidity position to offset the risk of lower financial metrics.

In 2015, debt service coverage was 2.25 times on a Moody's net revenues basis. We expect coverages to slightly decrease as a result of the new Q2 2016 offering such that coverages will likely fall closer to 1.75 times.

LIQUIDITY

Liquidity has increased rapidly in recent years as tariff increases pushed revenues higher, while operating costs were generally flat. In 2015, liquidity as measured by days cash on hand increased to 1,700 days from 1,373 days the year prior mainly due to increased cash from operations. The system forecasts continued strong cash flows and liquidity, though it does expect to use some of its available funds for future capital expenditures.

Debt and Other Liabilities

DEBT STRUCTURE

Total System Debt Outstanding of \$368,715,970 is comprised of the following series, including a portion of general obligation debt issued by the state of Hawaii, for which the port is responsible paying debt service.

Series 2004B - \$17,775,000

Series 2006A - \$74,710,000

Series 2007A - \$36,000,000

Series 2010A&B - \$186,620,000

Series 2013 (unrated) - \$22,435,000

State of Hawaii General Obligation debt payable by the Harbor System - \$31,175,970

All of the debt is fixed-rate. Debt service payments are flat through 2023, and decline substantially thereafter; however, an anticipated bond sale in April 2016 is expected to extend the authority's flat debt payments for several years. All bonds outstanding today will mature by 2041.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

Management and Governance

The Hawaii Department of Transportation is one of 18 principal executive departments of the state of Hawaii tasked with maintaining and operating transportation facilities of the state, which includes the state's harbors. Through the Harbors Division, the Director of the Department of Transportation oversees the financial and operational management of the state's ten ports. The director is appointed by the governor and confirmed by the State Senate. Directors serve four-year terms coterminous with the governor's term.

Legal Security

The bonds are special limited obligations of the state, payable solely from the Harbor Special Fund, into which the State is obligated to deposit revenues after accounting for operating and maintenance expenses. Moody's notes the open flow of funds allows the state to transfer excess revenues to the state general fund, but these transfers have been immaterial in recent years.

The bonds are secured by a 100% MADS debt service reserve fund, which is expected to step down to a 50% MADS reserve fund upon either refunding or maturity of the Series 2004B and Series 2006A bonds. The debt service reserve is funded in cash apart from the reserve for the Series 2010A&B bonds, which is funded with a surety from Assured Guaranty Municipal Corporation (A2, stable). A rate covenant of 125% of debt service and an additional bonds test of 125% debt service coverage provide further security to the bonds.

Use of Proceeds

Not applicable

Obligor Profile

The Harbors System is responsible for running ten commercial ports on six islands throughout the state. The authority is charged with the operations and maintenance of these facilities.

Methodology Scorecard Factors**OTHER CONSIDERATIONS: MAPPING TO THE GRID**

The grid is a reference tool that can be used to approximate credit profiles in the U.S. Public Power Electric Utility industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see the Public Port Revenue Bonds Methodology for more information about the limitations inherent to grids.

The actual rating of A2 differs from the scorecard indicated rating of A1 due to the sizable debt issue expected in 2016 to fund the container terminal at the Kapalama Military Reservation. The project is expected to substantially increase debt service and tighten the port's financial flexibility on a forward looking basis.

Exhibit 3

Factor	Subfactor	Score	Metric
1. Market Position	a) Port Size (Operating Revenues) (000s)	A	123,209
	b) Quality of Service Area and Competition	Aaa	
	c) Operational Restrictions	Aa	
2. Diversity and Volatility	a) Financial Revenue Variation (5-year operating revenue CAGR)	Aaa	
	b) Customer Diversity	B	
3. Capital Program	a) Capital Needs Requiring Leverage	B	
4. Key Credit Metrics	a) Net Revenues DSCR (3 year avg)	Aa	2.27
	b) Debt to Operating Revenue (3 year avg)	A	3.22
Notching Considerations		Notch	
	1 - Tax Support for Operations	0	
	2 - Liquidity- Cash to Debt	0	
Scorecard Indicated Rating:		A1	

Source: Moody's Investors Service

Methodology

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

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1011767