CREDIT OPINION

28 March 2018

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Hawaii (State of) Port Facility

Update following upgrade to A1 of Hawaii Harbor System senior lien revenue bonds; Outlook stable

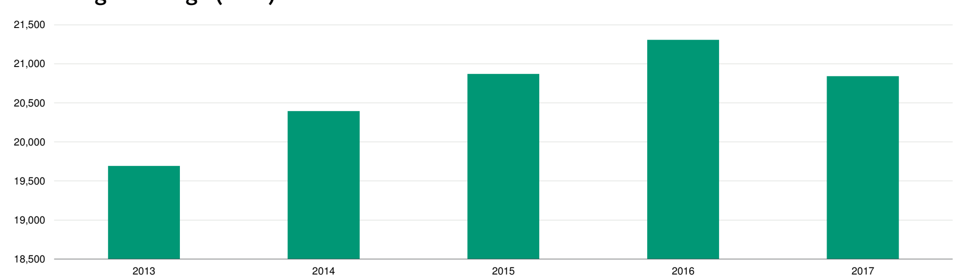
Summary

The Hawaii harbor system credit profile is based on the port system's near monopoly position providing port services for seaborne cargo and cruise passengers in the state; solid actual and projected debt service coverage ratios (DSCRs); recent multi-year tariff increases that have improved operating margins, DSCRs and liquidity, and recent stability in cargo and cruise passenger levels. We expect the growing Hawaiian economy will continue to drive demand for goods shipped through the harbor system, notwithstanding the recent imposition of federal tariffs on certain imports. The harbor system expects to issue a sizable amount of debt in 2019 to fund its capital improvement program (CIP). Incremental effects of this debt on DSCRs and leverage metrics should be mitigated by cargo volume growth, revenue growth from planned tariff increases, and the system's substantial liquidity position.

While the system experienced cargo and revenue declines in the last recession, under a similar forecast stress scenario and assuming $250 million in planned additional debt, the system's pro forma financial metrics and liquidity remain commensurate to A1 rated peers.

Exhibit 1

Total Cargo Tonnage ('000)



Source: Moody's Investors Service

Credit strengths

» Strong monopoly position and highly essential enterprise to an island economy; approximately 98% of all of the island's imported freight flows through the harbor system

» DSCRs have consistently remained above 2.0x; although we expect coverage levels to fall slightly as a result of an upcoming bond issue in fiscal 2019, the resulting DSCRs remain comfortable

» Tariff increases over the past several years reflect a strong management focus on financial performance and have led to a substantial improvement in the operating ratio and an increase in liquidity, providing financial flexibility to manage operational and financial challenges

» Strong cargo and container growth since 2011 has been driven by demand from a growing Hawaiian economy

Credit challenges

» Service area has economic concentration in tourism and system customer concentration of cargo in one shipping line (Matson Navigation Company with 43% of fiscal 2017 wharfage revenue)

» Flow of funds permits outflow to state in excess of 150% of next years' requirements at the bottom of the flow of funds, though outflows have been limited in recent years

» “Ceded Lands” annual payments represent a moderate additional operating expense that must be accommodated

Rating outlook

The stable outlook reflects our expectation that container volumes and operating revenues will remain flat or grow near the 5% average historical growth rate. We expect future borrowing will only mildly affect DSCRs, which will remain strong at over 2.0x.

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 above 2.5x for all debt

» Debt to operating revenue below 2.0x consistent with Aa3 rated ports

» Continued strong liquidity at targeted levels of 1,000 days cash on hand

Factors that could lead to a downgrade

» Sustained decline in total net DSCRs below 2.0x

» Decline in liquidity significantly below targeted 1,000 days

» Inability to preserve strong financial metrics amid declines in cargo and cruise volumes

Key indicators

Exhibit 2

HAWAII (STATE OF) PORT FACILITY

	2013	2014	2015	2016	2017
Total Cargo Tonnage ('000)	19,694	20,395	20,871	21,309	20,844
Debt Outstanding ($'000)	396,828	382,221	366,872	350,770	361,840
Debt to Operating Revenues (x)	3.5	3.2	3.0	2.7	2.6
Days Cash on Hand ('000)	1,142	1,269	1,667	1,852	1,466
Senior Lien Debt Service Coverage By Net Revenues (x)	1.95	2.36	2.56	2.74	2.78
Total Debt Service Coverage By Net Revenues (x)	1.78	2.13	2.31	2.47	2.51

[1] Days Cash on Hand and Debt Coverage Ratios Reflect Moody's Standard Calculations
Source: Moody's Investors Service

Recent Developments

Hawaii's economy has experienced solid growth, driven by lower oil prices, lowering of the cost of goods shipped to the island, and cheaper flights for tourists. A weakening US dollar has helped stabilize tourism, especially from Japan and Canada. The harbor system has seen solid growth, with operating revenues increasing 5.8% from fiscal 2016 to fiscal 2017 on account of a 17% tariff increase Revenue growth is expected to continue with tariff increases of 15% in both fiscal 2018 and 2019, and we expect limited demand elasticity effects as has been the case in recent years.

The system's capital improvement plan calls for the issuance of up to $250 million in fiscal 2019.

Moody's rates the State of Hawaii Aa1 with a stable outlook.

Detailed credit considerations

Revenue Generating Base

The commercial harbors that make up the harbor system consist of ten harbors on six islands. The harbor system is essential to the Hawaiian economy as 80% of goods are imported and 98% of those goods flow through the ports 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 expected in 2019. A $164 million construction contract for landside improvements was awarded in December 2017 and in-water permits are in process. Other key projects include completion of the $44.8 million construction of an inter-island terminal pier and the New Kumau Street Extension project at Hilo Harbor.

Financial Operations and Position

Revenue levels continue to improve albeit at a lower rate as the tariff rate increases have been implemented and are expected to continue to grow with the implementation of 15% tariff increases in both fiscal 2018 and 2019. Fiscal 2017 operating revenues grew 5.8% over fiscal 2016 though operating expenses increased by 16.1% owing to the operating expense payment of $13.539 million to the Office of Hawaiian Affairs (OHA) under state Act 178, which provides for native Hawaiians to receive a portion of income derived from the use of ceded lands. These payments are forecasted by the harbor system at an annual amount which we consider conservative. Nevertheless the tariff increases have bolstered senior DSCR to over 2.78x and 2.51x for all debt in fiscal 2017 based on Moody's net revenue coverage calculation. Coverage is expected to drop slightly with the additional planned bond issuance in fiscal 2019.

Strong cash balances are expected to remain a stabilizing credit factor. Days cash on hand decreased from 1,851 days at the end of fiscal 2016 to 1,466 days in fiscal 2017, representing $208.3 million in unrestricted cash and cash equivalents. The system expects to maintain a minimum of 1,000 days cash on hand going forward, which is an important credit consideration given the system's large capital needs and exposure to some economic volatility due to dependence on tourism.

Cargo tonnage and volume have exhibited a steady recovery since the recession. Total container volume slightly improved in fiscal 2017 with a 0.4% increase though total cargo tonnage decreased 2.2%. Cruise passengers grew slightly by 0.6% in fiscal 2017. Moody's expects volumes to remain stable and trend primarily with the recovery of the state economy.

Including the portion of state general obligation debt that the harbor system is obligated to pay the system has nearly $334 million of debt outstanding. The system expects to incur an addition $250 million in senior bonds in 2019 that will appreciably increase leverage and weaken key financial metrics such as the DSCR and debt to operating revenues. However, pro forma DSCRs will remain comfortable and liquidity will remain robust at the targeted 1,000 days cash on hand, and we expect a strong Hawaiian economy combined with planned tariff increases to further mitigate the impact on financial metrics from the new debt. Under the management base case financial forecast, which includes the $250 million debt issue, DSCRs decrease to 2.20x in fiscal 2020, excluding available contingency fund balances of $10.898 million.

LIQUIDITY

Fiscal 2017 liquidity as measured by days cash on hand decreased to 1,466 days compared to 1,851 days the year prior. While reduced from the year earlier, this balance remains very strong and is an important credit consideration. The system forecasts continued strong cash flows and expect to maintain liquidity at a minimum of 1,000 days, though it expects to use some of its available funds for future capital expenditures.

Debt and Other Liabilities

DEBT STRUCTURE

Total rated system debt outstanding of $309,407,000 is comprised of the following series, excluding a portion of general obligation debt issued by the state of Hawaii, currently outstanding in the amount of $25.376 million for which the port is responsible to pay debt service.

Series 2007A- $24,530,000

Series 2010 A&B - $172,935,000

Series 2013 - $20,770,000

Series 2016 - $91,235,000

All of the debt is fixed-rate. Debt service payments are level through 2023, and decline substantially thereafter; however, an anticipated bond sale in fiscal 2019 is expected to extend the authority's level debt payments for several years. All bonds currently outstanding mature on July 1, 2040.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The fiscal 2017 net pension liability (NPL) and Moody's adjusted net pension liability (ANPL) for the issuer are $35,453,242 and $81,113,291, respectively. Moody's ANPL reflects our standard adjustments to reported pension data. While the ANPL is relatively high compared with outstanding debt, it is manageable given the port's resources and 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 harbor 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, though the payment to OHA for ceded lands in fiscal 2017 did increase fiscal 2017 operating expenses.

The bonds are secured by a 100% MADS debt service reserve fund. The debt service reserve is funded in cash apart from the reserve for the Series 2010 A&B bonds, which is funded with a surety from Assured Guaranty Municipal Corporation (A3, 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 Hawaii harbors system is responsible for running ten commercial ports on six islands throughout the state an is charged with the operations and maintenance of these facilities. Nearly all goods in Hawaii are imported (80%), and 98% flow through the harbors system.

Methodology Scorecard Factors

The published rating is the same as the grid indicated rating.

The principal methodology used in this rating was the Public Port Revenue Bonds Methodology, published in October 2017.

Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Exhibit 3

Factor	Subfactor	Score	Metric
1. Market Position	a) Port Size (Operating Revenues) (000s)	A	137621
	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	5.80%
	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	2.43x
	b) Debt to Operating Revenue (3 year avg)	A	2.77x
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 October 2017. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology

REPORT NUMBER 1117681

CLIENT SERVICES

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EMEA	44-20-7772-5454