Rating Action: Moody's upgrades to Aa3 from A1 Hawaii Port Facility's senior lien revenue bonds; outlook stable

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New York, October 29, 2019 -- Moody's Investors Service ("Moody's") has upgraded to Aa3 from A1 the rating on the State of Hawaii's Port Facility senior lien bonds totaling $343.141 million. The rating outlook is stable.

RATINGS RATIONALE

The upgrade to Aa3 reflects improved net revenue DSCR above 3.0x resulting from a multi-year tariff increase plan that has increased annual revenue by 27% since fiscal 2016 and has allowed the division to fund more of its capital plan with cash. The rating is based on the port system's near-monopoly position providing port services for seaborne cargo and cruise passengers in the state and among the state's islands, the solid actual and projected DSCRs and consistent history of cargo and cruise passenger levels. Leverage, measured by adjusted debt to operating revenue, has decreased to 2.5x in fiscal 2018 and will rise modestly to 2.7x in fiscal 2020 if the port issues debt to fund its capital plan. The port expects to issue $120 million in debt in 2020 to fund the port's large capital improvement program (CIP), but the incremental effect on DSCRs and leverage metrics should be largely mitigated by cargo volume growth and revenue growth due to the port's tariff increases, as well as its substantial liquidity position.

While the port can opt to reduce the debt service reserve fund (DSRF) requirement to 50% of maximum annual debt service, which in our view would weaken the credit profile, it has no plans to do so.

RATING OUTLOOK

The stable outlook reflects Moody's 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 2.5x if Moody's revenue growth expectations are met.

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 4.0x for all debt

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Sustained decline in total net DSCRs below 2.5x
- Decline in liquidity significantly below targeted 1,000 days over a sustained period
- Inability to preserve strong financial metrics amid declines in cargo and cruise volumes

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.

The bonds are secured by a 100% MADS debt service reserve fund. The debt service reserve for the Series 2010A bonds is funded in cash apart from the reserve for the Series 2010B bonds, which is funded with a surety from Assured Guaranty Municipal Corp. (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.
PROFILE

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 harbors system. Through the Harbors Division, the Director of the Department of Transportation oversees the financial and operational management of the states 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.

The Hawaii harbors system is responsible for running ten commercial ports on six islands throughout the state and 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

The principal methodology used in these ratings was Publicly Managed Ports Methodology published in June 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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