

Tax Supported
New Issue

Honolulu, Hawaii

Ratings

New Issues	
General Obligation Bonds, Series 2011A	AA+
General Obligation Bonds, Series 2011B	AA+
Outstanding Debt	
General Obligation Bonds	AA+

Rating Outlook

Stable

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New Issue Details

Sale Information: \$137,645,000 General Obligation Bonds, Series 2011A, and \$175,145,000 General Obligation Bonds, Series 2011B, via negotiation the week of July 11.

Security: Ad valorem property tax levy under the county's full faith and credit pledge.

Purpose: To fund various capital projects and refund outstanding general obligation bonds.

Final Maturity: Aug. 1, 2036.

Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria

- *U.S. Local Government Tax-Supported Rating Criteria, Oct. 8, 2010*
- *Tax-Supported Rating Criteria, Aug. 16, 2010*

Rating Rationale

- The city and county of Honolulu's tourism attraction is strong, and the city and state have solid tourism infrastructure to promote, maintain, and develop the tourism base.
- A large military presence and Honolulu's (the city) role as the regional center and state capital add diversity and stability to the economy.
- The city's financial position remains sound, with healthy fund balance levels and stable revenues. Property tax receipts have remained relatively stable despite the housing downturn, and the city council has authority to raise tax rates as needed.
- The city's economy is exposed to the cyclical tourism industry; however, its revenue base has only minor direct exposure to volatile tourism revenues such as sales and hotel taxes.
- While debt service requirements account for a relatively high proportion of general fund expenditures, the above-average debt burden on taxpayers is offset somewhat by the absence of overlapping debt.
- Retiree pension and healthcare benefits costs will continue to pressure the city's finances.

Key Rating Drivers

- Stability in property tax receipts.
- Maintenance of healthy general fund balances.

Credit Summary

Honolulu's visitor industry is showing strong growth in 2011, following significant declines during the recent recession. Visitor arrivals and days have risen steadily since mid-2009, and 2011 results to date indicate increases to both average daily room rates and hotel occupancy compared with 2010 levels. The city's nontourism economy is also substantial and balances tourism's inherent volatility. The city is the state's commercial and business center, a regional transportation hub, and the state capital and has a sizable U.S. military presence. More than 70% of Hawaii's population and jobs are in Honolulu, and the city receives more than half of all tourist expenditures statewide. Unemployment rates have consistently remained lower than mainland averages and fell to 4.6% in April 2011. Income levels are well above the national average, although this is somewhat offset by the island's high cost of living.

The property tax base in Honolulu remained relatively steady until fiscal 2011's 7.8% decline in assessed value, but fiscal 2012 results show a return to modest growth. Housing starts have continued to rise from their 2008 lows, and several major commercial and residential projects, as well as a planned \$5.3 billion mass transit system, point toward a recovery in the construction sector. These results bode well for the city's finances, as property taxes provide more than 80% of the city's discretionary general fund revenues.

Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	7/6/11
AA+	Affirmed	Stable	5/21/10
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	10/27/09
AA	Affirmed	Stable	10/26/07
AA	Affirmed	Stable	10/24/05
AA	Affirmed	Stable	5/12/05
AA	Affirmed	Stable	3/24/04
AA	Affirmed	Stable	7/21/03
AA	Affirmed	Stable	2/12/01
AA	Affirmed	Stable	5/23/00
AA	Assigned	Stable	3/12/99

Financial operations are sound, as the city continues to control spending to below-budget levels. The unreserved fund balance rose to a healthy 8.3% (\$104 million) of spending in fiscal 2010 and is projected to increase to \$117 million for fiscal 2011. Financial flexibility is further supported by an additional \$29.5 million reserve for fiscal stability. The budget for fiscal 2012 is balanced, with a negotiated 5% reduction in labor costs, as well as increases in user fees, offsetting higher debt service and other expenses.

On a per capita basis, debt levels are moderate at about \$2,200 and 1.1% of market value. Amortization is average, with 54% of principal retired in 10 years. Overall general fund debt service requirements are fairly high at 12% of fiscal 2010 spending. Rising liabilities for pension and other post-employment benefits (OPEBs) remain a concern and will increase spending pressures over the long term. Notably, the city has begun to address its growing OPEB liability with a \$40 million contribution to an irrevocable trust.

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