MOODY'S ASSIGN A1 RATING AND STABLE OUTLOOK TO HONOLULU SEWER ENTERPRISE'S JUNIOR LIEN BONDS, SERIES 2008A

Aa3 SENIOR LIEN RATING ALSO AFFIRMED

Water/Sewer
HI

Moody's Rating

<table>
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<th>ISSUE</th>
<th>RATING</th>
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<tr>
<td>Wastewater System Revenue Bonds (Second Bond Resolution), Junior Series 2008A</td>
<td>A1</td>
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<tr>
<td>Sale Amount</td>
<td>$112,825,000</td>
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<td>Expected Sale Date</td>
<td>04/22/08</td>
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<td>Rating Description</td>
<td>Junior Lien Sewer Revenue Bonds</td>
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Opinion

NEW YORK, Apr 21, 2008 -- Moody's Investors Service has assigned an A1 rating and stable outlook to the City and County of Honolulu's Wastewater System Revenue Bonds (Second Bond Resolution), Junior Series 2008A, expected to be issued in the approximate amount of $112.8 million. At this time, Moody's also affirms the Aa3 rating on the system's approximately $730.7 million of outstanding senior lien bonds and the A1 rating on the system's approximately $457.1 million of outstanding junior lien bonds (excluding the current offering). Proceeds from the current offering will refund all of the system's outstanding auction rate securities (with fixed rate bonds) and may additionally advance refund certain other junior lien bonds if market conditions permit; after the issuance of the Series 2008A bonds, the City's sewer enterprise will have no remaining variable rate debt. The ratings are based primarily on satisfactory coverage of debt service provided by existing revenues, the City's recent approval of substantial multi-year rate increases to support system obligations, continuing progress on the system's sizable capital improvement plan which will require additional borrowing in the coming years, and the favorable economic base served by the wastewater enterprise. The stable rating outlook is based on Moody's expectation that, despite the presence of significant future borrowing plans, the wastewater system will continue to maintain favorable financial performance consistent with the City's conservative financial and debt policies.

SYSTEM NET REVENUES PROVIDE SOUND DEBT SERVICE COVERAGE, CITY IMPLEMENTING MULTI-YEAR RATE INCREASES

The City was careful to adopt substantial rate increases in advance of debt issuance, enabling system revenues to keep pace with growing debt service requirements and provide satisfactory overall coverage. In fiscal 2007, first lien coverage was strong at 3.03 times, while coverage of first and second lien bonds combined was a sound 2.20 times. Including reimbursable general obligation bonds and SRF loans, 2007 coverage of all system obligations was 1.61 times, though this total coverage figure is expected to decline in the coming years as total debt service requirements ramp up from recent and planned borrowings. The City's long-term financial projections indicate that coverage levels will continue to comply with its adopted policy calling for a satisfactory 1.6 times on senior lien bonds and 1.25 times on combined senior and junior lien bonds; including reimbursable general obligation bonds and SRF loans, projected coverage of all system obligations is expected to comfortably exceed the City's target of 1.05 times coverage on all system obligations. At the Aa3 and A1 rating levels on the senior and junior lien bonds, respectively, Moody's believes that it will continue to be important for the City to maintain debt service coverage levels in excess of established policy levels.

An important consideration in the assigned ratings is the City's adoption of substantial multi-year wastewater system rate increases in 2005, and again in 2007. As part of its inaugural budget in 2005, the Mayor proposed rate increases of 25% in fiscal 2006 and 10% annual increases thereafter through fiscal 2011; in June 2005, the City Council passed an ordinance adopting these increases. In June 2007, the City approved another round of rate increases to take effect in 2008 through 2011. Under the current structure, rates were increased by 25% in 2008 (15% higher than originally adopted in 2005) 15% in 2009 and 2010 (6% higher than the rates approved in 2005) and 15% in 2011 (5% higher than previously approved). Even after rate increases of 25% in fiscal 2006, 10% in 2007 and 25% in 2008, wastewater rates remain comparable to the rates of other major urban systems on the mainland. Moody's believes these rate actions represent important
LARGE CAPITAL PLAN COULD EXPAND WITH RECENT REGULATORY CONCERNS

As with other wastewater treatment systems, the City and County of Honolulu faces evolving state and federal regulations on treatment and discharge standards. The potential for stricter standards in the future adds a measure of uncertainty to the system’s future capital needs and additional borrowing plans beyond those currently contemplated by management. For example, in March 2007, the Environmental Protection Agency (EPA) issued a tentative decision to deny application for a renewed variance from secondary treatment at the City’s Honolulu Water treatment plant. In December 2007, EPA issued a similar denial for a variance from secondary treatment at the larger Sand Island treatment plant. If renewed variances are denied, the City estimates additional CIP costs of approximately $400 million for the Honolulu Water plant and $800 million for Sand Island. Though the City is engaged in efforts to reach a global settlement on these matters with EPA, Moody’s believes that the outcome of these negotiations will result in substantial additional capital requirements not currently included in the capital improvement plan. Moody’s will monitor the progress of these negotiations and comment as warranted. To maintain the system’s current ratings, Moody’s anticipates that the City will continue to raise rates as necessary to maintain satisfactory debt service coverage even if additional borrowing expands beyond currently planned levels to address these regulatory issues.

The system provides wastewater services for approximately 74% of the island of Oahu’s population which includes Honolulu (general obligation bonds rated Aa2/ stable). The customer base is diversified with residential users representing 77% of the system’s fiscal 2007 revenues while the ten largest customers accounted for only 5.5% of 2007 revenues. The system operates eight wastewater treatment plants serving an area of almost 600 square miles.

Since 1991, EPA, the State of Hawaii, and several environmental groups have filed various legal and regulatory actions against the City and County of Honolulu alleging violations of the federal Clean Water Act and several of the permits held by the wastewater department. Honolulu has entered into four consent decrees in connection with the settlement of these actions which establish a required compliance schedule for project implementation. Among other things, the consent decrees require that Honolulu rehabilitate and expand certain existing facilities and construct new facilities. In addition to actions taken to date, the wastewater department has developed capital improvement plans covering periods of five, ten and twenty years, in part to comply with the existing consent decrees. The long-range capital program will address safety and public health, permit compliance, system expansion and reliability issues. Capital expenditures over the 2009-2013 period are estimated to total $1.48 billion. Approximately $1.12 billion of funding will come from additional system revenue bonds (combined senior and junior lien) and $88.5 million from state revolving fund loans. As a result, the system’s 2007 debt ratio of 63.4% is expected to grow over time, but remain manageable.

ROBUST, THOUGH SLOWING ECONOMY

Honolulu’s economy has performed well in recent years, particularly given the sharp declines in travel to Hawaii for a brief period following the 9/11 terrorist attacks. Unemployment in Honolulu, at 2.8% in February 2008, remains among the lowest in the nation. Real estate values and visitor traffic, both important contributors to the economy, have flattened somewhat from the relatively robust growth rates experienced in recent years. Nevertheless, Hawaii remains a unique and attractive tourist destination and officials have been successful in niche marketing the island. Moody’s notes that airline capacity serving the Hawaii tourism market relies on the health of the financially volatile airline industry. Moody’s also notes improving diversity in the Honolulu economy which includes the military, health care, and banking sectors as important contributors. The City’s successful efforts to finance light rail development through a general excise tax should help stimulate further housing and business development in west Oahu, especially in the Kapolei and Ko Olina areas. Despite the moderating influence of many tourism-related service jobs, wealth indicators in Honolulu are also favorable with per capita and median family income at 101.9% and 120.1% of the U.S., respectively.

STANDARD LEGAL PROVISIONS BOLSTERED BY ADOPTION OF FORMAL FINANCIAL POLICIES

Legal provisions include covenants to maintain a Debt Service Reserve Fund, equal to maximum annual debt service, on both liens of bonds and stipulate the maintenance of rates and charges sufficient to generate net revenues at least equal to 1.20 times the amount needed to pay debt service on the senior lien bonds and 1.10 times on combined senior and junior lien debt service. A similar covenant is provided for the issuance of additional parity bonds under both liens. The reimbursable general obligation bonds, as well as the debt service on the system’s state revolving fund loans, are secured by a lien on net system revenues which is subordinate to the lien created by the junior lien bonds.

Legal provisions are significantly bolstered by the formal adoption of conservative debt and financial operating policies by the City Council which require compliance with annual targets of 1.6 times coverage on the senior lien bonds and 1.25 times on first and second lien bonds combined. In addition, the City Council resolution incorporates a favorable three month operating and maintenance reserve fund policy which will serve to insulate the system from unexpected events. Moody’s expects that the system will comply with these
more stringent operating policies as opposed to the levels stipulated by the legal covenants of the bond documents.

Outlook

The stable rating outlook is based on Moody's expectation that, despite the presence of significant future borrowing plans, the wastewater system will continue to benefit from approved rate increases and maintain favorable financial performance consistent with the City's financial and debt policies.

KEY STATISTICS:

Service area population: 876,156

Operating ratio, 2007: 52.0%

Senior lien debt service coverage, 2007: 3.03x

Combined senior and junior lien debt service coverage, 2007: 2.20x

Debt service coverage of all system obligations (including G.O. and SRF loans), 2007: 1.61x

Peak senior lien debt service coverage by FY 2007 net revenues: 1.83x

Peak senior and junior lien debt service coverage by FY 2007 net revenues: 1.07x

Debt ratio, 2007: 63.4%

Net working capital as % of gross revenues, 2007: 155.6%

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