New Issue: **Honolulu (City & County of) HI**

MOODY'S ASSIGNS Aa2 RATING AND STABLE OUTLOOK TO CITY AND COUNTY OF HONOLULU'S GENERAL OBLIGATION BONDS

Approximately $2.3 Billion of Debt Affected, Including Current Offering

County
HI

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Series 2009A		Aa2
Sale Amount	$294,035,000	
Expected Sale Date	04/07/09	
Rating Description	General Obligation	
General Obligation Bonds, Series 2009B (Taxable)		Aa2
Sale Amount	$33,975,000	
Expected Sale Date	04/07/09	
Rating Description	General Obligation	
General Obligation Bonds, Series 2009C		Aa2
Sale Amount	$50,050,000	
Expected Sale Date	04/07/09	
Rating Description	General Obligation	

Opinion

NEW YORK, Apr 2, 2009 -- Moody's Investors Service has assigned an Aa2 rating and stable outlook to the City and County of Honolulu's General Obligation Bonds, Series 2009A, Series 2009B (taxable) and Series 2009C, expected to be issued in the amount of $377.91 million. The Series 2009A bonds ($294.01 million) will provide long-term financing for a variety of projects included in the city's capital improvement plan and will refund all of the city's outstanding $152.7 million of tax-exempt commercial paper. The Series 2009B taxable bonds ($33.98 million) will reimburse the city for interim financing extended for the purchase of H-Power, a renewable energy facility. The Series 2009C bonds ($49.92 million) will refund outstanding general obligation bonds for debt service savings. In conjunction with the current credit review, Moody's has also affirmed the Aa2 rating and stable outlook on the city's approximately $1.9 billion of outstanding general obligation bonds. The bonds are secured by an unlimited property tax pledge; debt service payments represent a first charge on the city's General Fund. The Aa2 rating primarily reflects the city's sizable economic base despite recent recessionary pressures, above average resident wealth, sound financial operations that will face growing budget pressures over the near- to medium-term, and a manageable debt profile. Despite being faced with a series of near- to medium-term economic and fiscal challenges, Moody's expects that the city will continue to make the necessary budgetary adjustments to maintain fiscal stability.

HONOLULU'S ECONOMY SOFTENING AS VISITOR TRAFFIC DECLINES AND REAL ESTATE VALUES FLATTEN

After several very strong years, Honolulu's tourism industry began to soften in calendar year 2006 and visitor counts have been stagnant since that time. Visitor arrivals were essentially flat year-over-year in 2007 and are expected to decline in 2008 by more than previously expected. Air travel has felt the negative effects of high energy prices, as well as the bankruptcy of two carriers serving the islands, although airline seat capacity has recently improved. Nevertheless, Honolulu remains an attractive tourist destination and officials have been successful in niche marketing the island of Oahu. Examples include sports- and eco-tourism, both of which attract a higher percentage of first time visitors and stimulate longer average stays. While tourism is Honolulu's most important economic contributor, Moody's also notes improving economic diversity across other sectors including the military, health care, and banking. Despite the moderating influence of many tourism-related service jobs, wealth indicators in Honolulu are favorable with per capita and median family income at 107.1% and 149.3% of the U.S., respectively.

Real estate has been another important element of Honolulu's economic success, leading to strong growth in assessed values in the period from 2001 to 2008, though a slowdown is clearly underway. Following a period of rapid escalation in property values in the late 1980s and early 1990s Honolulu's tax base experienced significant erosion from 1996 through 2001, losing almost one-fifth of its value during that period. Since 2005, assessed valuation has grown by an average of 12.4% annually, though growth has been flat-to-slightly declining since the 2008 tax year when assessed value peaked at $167.0 billion. More recently, however, residential, commercial and industrial real estate activity have all slowed considerably. Building permit activity on Oahu declined by 12.9% in 2007, and is expected to decline further in 2008 when final figures become available. On the positive side, several large-scale public works projects should help prop up construction activity in the near- to medium-term. The city's successful efforts to finance light rail development through a general excise tax surcharge should help stimulate further housing and business development in west Oahu, especially in the Kapolei and Ko Olina areas. Honolulu's fiscal 2010 net assessed value totals $165.8 billion and full value per capita totals an impressive $183,228, indicating an unusually wealthy tax base.

Honolulu's employment base has held up reasonably well to date, due in part to the significant presence of government and military jobs. Honolulu's unemployment rate was 4.2% in December 2008, while the state rate was 5.1% and the national rate was 7.1%. Honolulu's economic activity represents roughly three-fourths of statewide economic output, so local figures mirror those of the state fairly closely. Since 2000, the city's unemployment rate has remained well below the state and national levels, reversing a pattern in the 1990s, when the city and state unemployment levels rose as the national rate declined. While government jobs represent the state's largest employment sector (19.6%) the state's primary source of job gains in recent years has been in several industry sectors, particularly services and construction. The construction sector gained jobs at an astonishing but likely unsustainable rate of 15.4% in 2006, more than three times the national pace of 4.8% that year, in part due to the continued favorable interest rate environment. Hawaii's construction job growth dropped to a still healthy 5.8% in 2007 as the housing market softened. Nationally, construction jobs declined 1% in 2007. Significant federal military construction and defense-related spending in Hawaii should remain strong over the near term, helping to offset the decline in residential and commercial construction.

SOUND FINANCIAL PERFORMANCE; STABLE PROPERTY TAX REVENUES AND RESPONSIVE MANAGEMENT SHOULD HELP MITIGATE NEAR-TERM BUDGETARY PRESSURES

The city's financial performance has been stable in recent years, due largely to management's willingness to raise property tax rates as needed, combined with the city's successful multi-year effort to control expenditures. Past growth in assessed valuation has been particularly significant to the city's credit profile in that property tax revenues represent approximately two-thirds of operating revenues. Just as important, however, is the city's willingness to adjust tax rates to fund increasing fixed costs such as pension, health, benefits and debt service expenditures. Management's commitment to maintaining budget balance and adequate reserve levels has been an important factor in Moody's credit evaluation of Honolulu.

Audited results for fiscal 2008 show a $10.3 million operating surplus in the General Fund which resulted in total fund balance of $166.1 million, or 13.1% of General Fund revenues; unreserved fund balance totaled $107.3 million, or 8.5% of revenues, which exceeds the city's target range of 5% to 8% of expenditures. In fiscal 2009, however, unreserved General Fund balance is projected to decline to $57.6 million driven in part by cash funding for certain capital projects and a sizeable contribution to the city's OPEB reserve. Further, in the Mayor's proposed 2010 budget, the city is facing a $128 million budget gap driven by revenue declines in investment income, hotel tax and fuel tax revenues as well as spending increases in debt service, police and fire salaries and rising health and pension costs. To address this gap, the city has already implemented several budget restrictions including a hiring freeze and travel restrictions, among other actions. Importantly, the proposed 2010 budget also includes a number of revenue initiatives to close the budget gap including a wide variety of fee increases and a proposed increase in the residential property tax rate from $3.29 to $3.59. The city also maintains a Fiscal Stability Fund outside the General Fund, which totaled $18.1 million in 2008 and is expected to grow by an additional $7.5 million in fiscal 2009, providing additional flexibility.

Though fiscal pressures are mounting for Honolulu, as they are for most major municipalities across the nation, Moody's believes that the city will continue to make the necessary budgetary adjustments to maintain a sound financial position. Nevertheless, it remains likely that Honolulu will continue to face its share of budget challenges in the near-term, in part due to the rising pension, health and benefit costs mentioned above. For example, the city faces a substantial OPEB liability, currently estimated at $1.9 billion (with no prefunding), with an associated annual cost of $142.3 million; it is noted that the city's fiscal 2009 budget includes a total of $82.1 million to meet current OPEB requirements and an additional $51.9 million for an internally-held OPEB reserve. The proposed fiscal 2010 budget funds the pay-as-you-go component of OPEB but does not provide for additional funding of the internally-held reserve.

MANAGEABLE DEBT POSITION REFLECTS MODEST BORROWING PROGRAM AND GROWING TAX BASE

Moody's expects that Honolulu's debt levels will continue to remain manageable given reasonable borrowing assumptions and a relatively conservative debt structure. In addition, Honolulu benefits from the active role the state government plays in financing traditional municipal capital needs more typically funded at the local level throughout the rest of the country including transportation, health, justice, and education. In addition, management has begun to fund the construction activities of various enterprise systems from system rates rather than property taxes. As a result, future borrowings will emphasize revenue bond offerings in addition to more modest general obligation issuances. The city's debt burden compares favorably to other cities and counties in the U. S. with overall debt representing only 1.3% of fiscal 2010 taxable values. Including the current offering, the city has approximately $2.2 billion of outstanding general obligation bonds and about $738 million of remaining unissued authorization. Approximately 55.0% of the city's general obligation debt is retired in ten years.

Outlook

The stable rating outlook on Honolulu's general obligation bonds reflects Moody's expectation that the city's economy will contract in the near-term though the large and stable government and military sectors of the economy will enable the city to avoid a severe recession. The stable credit outlook also incorporates Moody's expectation that city management will continue to take the actions necessary to ensure fiscal stability in light of flat revenue growth and rising pension, health and benefit costs over the near- to medium-term.

KEY STATISTICS:

2007 population: 904,783

2007 per capita income: $28,033 (107.1% of U.S.)

2007 median family income: $74,667 (149.3% of U.S.)

2010 full valuation: $165.8 billion

2010 full value per capita: $183,228

Direct and overall debt burden: 1.3%

Payout of principal, 10 years: 55.0%

FY 2008 total General Fund balance: $166.1 million (13.1% of General Fund revenues)

FY 2008 unreserved General Fund balance: $107.3 million (8.5% of General Fund revenues)

The last rating action with respect to the City and County of Honolulu was on November 7, 2007, when a General Obligation bond rating of Aa2 was assigned.

The principal methodology used in rating the City and County of Honolulu's General Obligation Bonds, Series 2009A, Series 2009B (taxable) and Series 2009C was "Local Government General Obligation and Related Ratings" published in December 2008 which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating the current offering can also be found in the Credit Policy & Methodologies directory.

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