



New Issue: Honolulu (City & County of) HI

MOODY'S ASSIGNS Aa2 RATING AND STABLE OUTLOOK TO HONOLULU'S G.O. BONDS

Approximately \$2.2 Billion of Debt Affected

County
HI

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2007A	Aa2
Sale Amount \$260,000,000	
Expected Sale Date 11/14/07	
Rating Description General Obligation Bonds	
General Obligation Bonds, Series 2007B	Aa2
Sale Amount \$100,000,000	
Expected Sale Date 11/14/07	
Rating Description General Obligation Bonds	
General Obligation Bonds, Series 2007C	Aa2
Sale Amount \$175,000,000	
Expected Sale Date 11/14/07	
Rating Description General Obligation Bonds	

Opinion

NEW YORK, Nov 7, 2007 -- Moody's Investors Service has assigned an Aa2 rating and stable outlook to the City and County of Honolulu's General Obligation Bonds, Series 2007A, Series 2007B and Series 2007C, expected to be issued in the approximate amount of \$535.0 million. The Series 2007A bonds will take out approximately \$150 million of commercial paper and provide long-term financing for a variety of projects included in the city's capital improvement plan. The Series 2007B and Series 2007C bonds 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 \$2.0 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 solid economic performance, rising real estate values on Oahu which have spurred steady growth in assessed valuation, the city's stable financial performance, and a manageable debt profile.

STRONG REGIONAL ECONOMY BENEFITS FROM STABLE VISITOR TRAFFIC, RISING REAL ESTATE VALUES

Honolulu's economy has performed well in recent years, recovering strongly from the sharp declines in travel following 9/11. Low unemployment and rising real estate values have had an important influence on the local economy, but a variety of other factors have contributed as well. Visitor traffic improved significantly following 9/11 and has been stable of late in 2006 and 2007. While eastbound (primarily Asian) and other international traffic still lags historical performance, westbound traffic (primarily from the U.S. West and East coast markets) has generally offset these losses.

Hawaii remains a unique and attractive tourist destination and officials have been successful in niche marketing the island. Examples include sports- and eco-tourism as well as a growing inter-island cruise business, all of which attract a higher percentage of first time visitors and stimulate longer average stays. Moody's notes that airline capacity serving the Hawaii tourism market relies on the health of the financially volatile airline industry. 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. 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 favorable with per capita and median family income at 101.9% and 120.1% of the U.S., respectively.

Real estate has been an important element of Honolulu's economic success, leading to accelerating growth in assessed values since 2001. 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 2003, assessed valuation has grown by an average of 17.8% annually, achieving a substantial \$167.0 billion in the 2008 tax year. Residential, commercial and industrial real estate have all contributed to the growth, which should continue to translate into rising taxable values over the near-term given the lag between real estate prices and assessed valuation, though more moderate growth is expected going forward. Moody's also notes that the current real estate market shows no signs of the type of speculative bubble which occurred in the early 1990s. Honolulu's 2008 assessed value per capita totals an impressive \$184,503 and points to an unusually wealthy tax base.

SOUND FINANCIAL PERFORMANCE; GROWING RESERVES

The city's financial performance has been stable in recent years, due in large part to management's willingness to raise property tax rates as needed, combined with the city's successful multi-year effort to control expenditures. Recent growth in assessed valuation is 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 improving reserves has been increasingly evident and continues to be an important factor in Moody's credit evaluation of Honolulu.

Audited results for fiscal 2006 show a \$21.4 million operating surplus in the General Fund which resulted in total fund balance of \$98.6 million, or 11.3% of General Fund revenues; unreserved fund balance totaled \$76.6 million, or 8.8% of revenues, which exceeds the city's target range of 5%-8% of expenditures. Much of the 2006 surplus is attributable to strong growth in property tax revenues. In fiscal 2007, unreserved General Fund balance is expected to grow further. The city also maintains a Fiscal Stability Fund outside the General Fund, which totaled \$10 million in 2007 and is expected to grow to \$17.5 million in fiscal 2008, providing additional flexibility.

Going forward, Moody's believes that the city's financial position should remain stable as it benefits from a combination of growing tax revenues and careful management of its rising expenditures. 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 \$138 million; it is noted that the city's fiscal 2008 budget includes \$85.6 million for current OPEB requirements and an additional \$40 million of an internally-held OPEB reserve. Despite these ongoing issues, Moody's believes that the city's demonstrated ability to manage its finances well under difficult circumstances bodes well for future financial stability, especially in light of anticipated revenue growth.

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 the expectation of continued tax base growth in the near-term. 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.

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 1.1% of fiscal 2008 taxable values. Including the current offering, the city has approximately \$2.2 billion of outstanding general obligation bonds and about \$436 million of remaining unissued authorization. Approximately 57.2% 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 continue to perform well and that assessed valuation will grow further in the near-term, though at a slower rate than in the recent past. 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 rising pension, health and benefit costs over the near- to medium-term.

KEY STATISTICS:

2000 population: 876,156

1999 per capita income: \$21,998 (101.9% of U.S.)

1999 median family income: \$60,118 (120.1% of U.S.)

2008 full valuation: \$167.0 billion

Direct and overall debt burden: 1.1%

Payout of principal, 10 years: 57.2%

FY 2006 total General Fund balance: \$98.6 million (11.3% of General Fund revenues)

FY 2006 unreserved General Fund balance: \$76.6 million (8.8% of General Fund revenues)

Analysts

Matthew Jones
Analyst
Public Finance Group
Moody's Investors Service

Jolene K. Yee
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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