Tax Supported
New Issue

Honolulu, Hawaii

Ratings

New Issues

General Obligation Bonds, Series 2009D	AA
General Obligation Bonds, Series 2009E (Taxable Build America Bonds)	AA
General Obligation Bonds, Series 2009F	AA

Outstanding Debt

General Obligation Bonds	AA

Rating Outlook

Stable

Analysts

Karen Ribble
+1 415 732-5611
karen.ribble@fitchratings.com

Amy Doppelt
+1 415 732-5612
amy.doppelt@fitchratings.com

New Issue Details

Sale Information: $234,645,000 General Obligation Bonds, consisting of $140,285,000 Series 2009D, $50,460,000 Series 2009E (Taxable Build America Bonds), and $43,900,000 Series 2009F to price on Nov. 3.
Security: General obligations of the county; the full faith and credit of the county are pledged for repayment. City has the power and is obligated to levy unlimited ad valorem taxes for the payment of principal and interest on all real property subject to taxation.
Purpose: Series 2009D to fund certain capital improvements. Series 2009E to refund CP issued to fund the same projects. Series 2009F to advance refund certain outstanding GO bonds.
Final Maturity: Sept. 1, 2035.

Related Research

- *City and County of Honolulu, Hawaii, April 1, 2009*
- *Local Government General Obligation Rating Guidelines, March 22, 2007*

Rating Rationale

- The city and county of Honolulu's tourism attraction is strong, and the city and Hawaii have solid tourism infrastructure to promote, maintain, and develop the tourism base.
- The city's role as state capital and regional center adds diversity and stability; Honolulu accounts for 72% of Hawaii's population, labor, and employment.
- The city attracts about 62% of the state's visitor population, although this share appears to be declining modestly.
- The city's financial management is sound, demonstrated by the successful implementation of spending controls and enactment of tax and fee increases, when necessary, combined with strong reserve levels.
- The city's debt burden is low, resulting from its judicious use of long-term financing and the state's central role in infrastructure investment.
- The city's economy is inherently volatile due to its large tourism component; however, its revenue base has only minor direct exposure to volatile tourism revenues, such as sales and hotel taxes.
- Labor negotiations are managed at the state level, somewhat limiting the city's ability to control costs.
- Pension and OPEB funding will continue to pressure the city's finances, but the city has made progress in OPEB funding by establishing and funding an internal reserve and external OPEB trust.

Key Rating Drivers

- Ability to maintain available reserves (including fiscal stability reserve) throughout the recession by cutting spending and raising revenues.
- Some leveling off of the downward trend in statewide tourism.

Credit Summary

The 'AA' rating reflects the city's sound financial position and low debt burden; a highly developed tourism economy supplemented with a stable nontourism economic base, which is balanced by rising labor costs; the volatility inherent in the tourism sector; and the potential for tax base declines as home prices soften and new construction slows. Economic stability is enhanced by the area's role as the commercial center and state capital with a sizable military presence. With a revenue base highly reliant on property taxes, the immediate financial exposure to tourism's fluctuations is limited. Nonetheless, revenue growth has softened, and the city's ability to maintain fiscal balance by cutting spending and raising revenues throughout the economic downturn is key to maintaining its high credit quality.

The city is coterminous with the island of Oahu, and the island's tourism draw is based on sustainable elements, such as natural beauty, diverse accommodations and activities, and proximity to sizable North American markets. Tourism activity exhibits volatility typical of the sector and recently dropped significantly following a strong

Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/27/09
AA	Affirmed	Stable	3/20/09
AA	Affirmed	Stable	10/26/07
AA	Affirmed	Stable	5/12/05
AA	Affirmed	Stable	3/23/04
AA	Affirmed	Stable	7/21/03
AA	Affirmed	—	2/12/01
AA	Affirmed	—	5/23/00
AA	Assigned	—	3/12/99

surge that came after a long decline. Total visitors peaked in 2005, declined modestly in 2006 and 2007, and then dropped 9% in 2008. Annualized data through August 2009 points to further loss in the number of visitors by about 2.3%. Average daily room rates and hotel occupancy softened modestly but still remained strong through 2008 before falling about 12% through the fist half of 2009.

Debt

The vast majority of the city's debt is GO bonds. Since governmental operations are highly concentrated at the state level, there are no overlapping entities or debt, helping to keep the city's debt levels moderate. Total GO debt has increased moderately in recent years, and with stable population levels, a growing tax base, and about average payout (48% in 10 years), debt per capita has increased moderately, and debt to market value has declined. The city's debt totals are moderate at $2,759 per capita and 1.5% of market value.

The city's liability to OPEB — on a prefunded basis — is high at $1.2 billion. The city has prudently established an OPEB reserve, which currently equals about one-half the annual required contribution. In addition, the city has transferred about $40 million to a state-run OPEB trust.

Financial Operations

Financial operations are still sound, as the city continued to raise revenues and cut spending in fiscal years 2009 and 2010. Audited results for fiscal 2008 show an unreserved fund balance of about 8.6% of spending. For fiscal 2009, the city estimates ending the year with an unreserved balance of about 4.6% of spending. In addition to the general fund, the city maintains a fiscal stability reserve, which, along with the internal OPEB reserve, provides an added layer of financial flexibility, bringing the estimated unreserved balance up to 13.9% of fiscal 2009 spending. For fiscal 2010, the city is expecting roughly balanced operations, and it is exploring additional revenue-raising options for fiscal 2011. Fitch Ratings expects that the city's continued willingness to raise recurring revenues, as well as implement prudent spending decisions, will enable the city to retain its solid fund balance levels.

Economy and Tax Base

The city's nontourism economy is substantial and adds balance as the state's commercial and business center, state capital, and home of the University of Hawaii. The U.S. military also is a major economic element. The city makes up 72% of Hawaii's population, about 60% of visitors, and about one-half of the hotel rooms statewide. Nonetheless, the city saw a decline of about 3.7% of its job base from August 2008 to August 2009, resulting in an unemployment rate of 6% in August 2009, compared with 3.8% for August 2008. While this is markedly above historical unemployment rates, it is well below the national unemployment rate of 9.6% for August 2009. Income levels are well above the national average, and market value per capita is a high $183,000.

The real estate market has remained relatively steady, with an estimated 11% decline in home prices offset by new construction or appreciation and resulting in assessed valuation for fiscal 2010 of $165.8 billion, roughly flat compared to fiscal years 2008 and 2009. Median home prices are still high relative to income levels, but the level of nonstandard mortgages is about one-half that of the U.S. average, as are home foreclosure rates. Nonetheless, Fitch believes the city's vulnerability lies in the home price run-up prior to 2006 and the presence of second homes and vacation properties. Property taxes make up about 80% of the city's discretionary general fund revenues. Offsetting this concern somewhat is the city's ability to raise the property tax rate, as was done in fiscal 2010.