



## Rating Action: Moody's assigns Aa2/Aa3 to Honolulu, HI Sewer Enterprise's senior lien/junior lien revenue bonds

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New York, October 11, 2019 -- Moody's Investors Service has assigned Aa2 ratings to the City and County of Honolulu's Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2019A Bonds, Senior Series 2019B Bonds (Refunding), and Senior Series 2019C Bonds (Taxable Refunding), expected to be issued in par amounts of \$202.2 million, \$168.6 million, and \$19.0 million, respectively. Moody's has also assigned an Aa3 rating to the \$22.9 million Wastewater System Revenue Bonds (Second Bond Resolution) Junior Series 2019A Bonds (Refunding). Moody's maintains Aa2 and Aa3 ratings on the enterprise's senior and junior lien revenue bond ratings. The rating outlook is stable.

### RATINGS RATIONALE

The Aa2 senior lien rating reflects the wastewater system's large and stable service area that covers most of the City and County of Honolulu (Aa1 stable), as well as satisfactory debt service coverage and extremely strong liquidity. The rating also takes into consideration the system's forward-looking leadership that has strategically managed its rate and capital plans over a long period of time and has adopted solid practices and policies. Finally, the rating incorporates the extensive capital needs of the system to address environmental risks that will result in substantial borrowing in the coming years.

The Aa3 junior lien rating reflects the shared credit characteristics of the senior lien rating but factors in its weaker position in the flow of funds.

### RATING OUTLOOK

The outlook for the Honolulu Sewer Enterprise is stable. The enterprise continues to complete projects on time and on budget to comply with a 2010 Consent Decree while maintaining very healthy liquidity and healthy debt service coverage. The stable outlook reflects our view that the system's strong management team will continue to maintain satisfactory debt service coverage and liquidity levels going forward, despite significant future borrowing plans.

### FACTORS THAT COULD LEAD TO AN UPGRADE

- Sustained improvement in debt service coverage
- Material reduction in financial leverage
- Material completion of all capital projects related to the consent decree

### FACTORS THAT COULD LEAD TO A DOWNGRADE

- Material weakening of debt service coverage
- Significant growth in financial leverage
- Substantial additional capital needs beyond already identified projects

### LEGAL SECURITY

The senior and junior lien bonds are secured by a first lien and second lien on the net revenues of the city's sewer enterprise.

### USE OF PROCEEDS

The Senior Series 2019A bonds will be used for capital improvements to the wastewater system. The Senior Series 2019B and 2019C bonds, as well as the Junior Series 2019A bonds will be used to refinance for savings certain previously issued outstanding bonds.

### PROFILE

With approximately 147,000 accounts, the wastewater system serves approximately 80% of the population of the City and County of Honolulu. The system has nine wastewater treatment plants, 70 pumping stations, 2,100 miles of pipe, and four preliminary treatment facilities. The system handles an average daily flow of 110 million gallons per day.

## METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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William Oh  
Lead Analyst  
Regional PFG West  
Moody's Investors Service, Inc.  
One Front Street  
Suite 1900  
San Francisco 94111  
US  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Eva Bogaty  
Additional Contact  
Regional PFG West  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653



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