City and County Honolulu, Hawaii

New Issue Report

Ratings

Long-Term Issuer Default Rating	AA+
New Issues	
$212,990,000 General Obligation Bonds, Series 2017A, 2017B	AA+
$141,075,000 General Obligation Refunding Bonds, Series 2017C, 2017D	AA+
$32,925,000 General Obligation Crossover Refunding Bonds, Series 2017E	AA+
$3,740,000 General Obligation Crossover Refunding Bonds (Taxable), Series 2017F	AA+
$20,065,000 General Obligation Bonds (Taxable Green Bonds) ,Series 2017G	AA+
$350,000,000 (Honolulu Rail Transit Project) General Obligation Bonds (Index Floating Rate Bonds), Series 2017H	AA+
Outstanding Debt	
General Obligation Bonds	AA+

Rating Outlook

Stable

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New Issue Summary

Sale Date: Week of Sept. 4 for Series 2017H; week of Aug. 14 for all other series.

Series: 2017A and 2017B (Tax-Exempt), 2017C and 2017D (Tax-Exempt Refunding Bonds), 2017E (Tax-Exempt Crossover Refunding Bonds), 2017F (Taxable Crossover Refunding Bonds), 2017G (Taxable Green Bonds) and 2017H (Honolulu Rail Transit Project Index Floating-Rate Bonds).

Purpose: To fund various capital needs, including the Honolulu Rail Transit Project, and to refund outstanding debt for interest savings.

Security: General obligation

Analytical Conclusion

The 'AA+' Issuer Default Rating (IDR) and general obligation (GO) bond rating reflect Honolulu's (the city) strong revenue framework, affordable long-term liabilities and robust operating performance, somewhat offset by its high carrying costs for debt service and retiree benefits.

Key Rating Drivers

Economic Resource Base: Honolulu's economy has proven stable over the long term, with ongoing growth in tourism activity despite periodic downturns. The city also benefits from its position as the state's political and business center, in addition to substantial defense-related investments. Honolulu's population of 1 million represents approximately 70% of the statewide total. Labor force growth has exceeded U.S. medians over the past 10 years, and personal income levels are relatively high, although below average in real terms as a result of the state's high cost of living.

Revenue Framework: 'aaa' factor assessment. Property taxes account for more than 80% of general fund revenues, and total revenue growth has been strong historically, exceeding overall U.S. economic performance over the past 10 years. The city has unlimited legal authority to modify property tax rates and has made periodic adjustments to increase revenues.

Expenditure Framework: 'aa' factor assessment. Based on recent spending practices and continued strong revenue performance, Fitch expects city expenditure increases will be in line with to marginally above revenue growth. However, carrying costs for debt service and retiree benefits are high relative to similarly rated entities and could challenge the city's ability to reduce expenditures in a downturn.

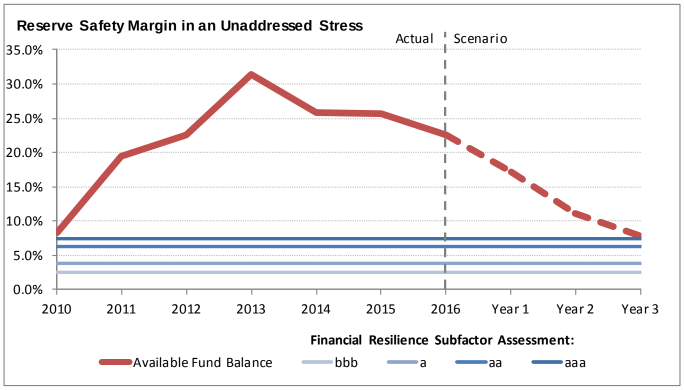
Long-Term Liability Burden: 'aa' factor assessment. Long-term liabilities for debt service and pensions are low relative to total personal income, but other post-employment benefits (OPEBs) liabilities are large and inflexible. Recent statewide reforms to retiree benefits will help slow the growth of related liabilities, but funded ratios remain relatively low.

Operating Performance: 'aaa' factor assessment. The city is well positioned to address economic challenges as a result of limited revenue volatility and substantial reserves. Financial management is conservative, and budgets have been consistently balanced.

Honolulu (City & County) (HI)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

Substantial reserves and a history of limited revenue volatility contribute to an assessment of strong financial resilience in a moderate economic downturn. Unrestricted reserves of $315 million in fiscal 2016 (equal to 23% of general fund spending) provide a considerable cushion against revenue declines anticipated in a moderate recession.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(2.5%)	1.2%	4.8%
Inherent Budget Flexibility	High		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2010	2011	2012	2013	2014	2015	2016	Year 1	Year 2	Year 3
Total Revenues	1,185,786	1,151,702	997,263	1,012,408	1,039,068	1,140,345	1,203,597	1,173,555	1,187,239	1,244,547
% Change in Revenues	-	(2.9%)	(13.4%)	1.5%	2.6%	9.7%	5.5%	(2.5%)	1.2%	4.8%
Total Expenditures	691,050	704,861	743,148	733,510	762,755	830,195	885,055	902,756	920,811	939,227
% Change in Expenditures	-	2.0%	5.4%	(1.3%)	4.0%	8.8%	6.6%	2.0%	2.0%	2.0%
Transfers In and Other Sources	102,339	106,607	114,435	135,950	146,729	137,372	182,247	177,698	179,770	188,448
Transfers Out and Other Uses	563,749	542,963	361,917	330,684	434,975	432,795	508,890	519,068	529,449	540,038
Net Transfers	(461,410)	(436,356)	(247,482)	(194,734)	(288,246)	(295,423)	(326,643)	(341,370)	(349,679)	(351,591)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	33,326	10,485	6,633	84,164	(11,933)	14,727	(8,101)	(70,571)	(83,251)	(46,271)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	2.7%	0.8%	0.6%	7.9%	(1.0%)	1.2%	(0.6%)	(5.0%)	(5.7%)	(3.1%)
Unrestricted/Unreserved Fund Balance (General Fund)	104,053	243,225	249,858	334,022	308,849	323,576	315,475	244,904	161,653	115,382
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	104,053	243,225	249,858	334,022	308,849	323,576	315,475	244,904	161,653	115,382
Combined Available Fund Bal. (% of Expend. and Transfers Out)	8.3%	19.5%	22.6%	31.4%	25.8%	25.6%	22.6%	17.2%	11.1%	7.8%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	39.9%	20.0%	12.5%	7.5%	5.0%
Reserve Safety Margin (aa)	30.0%	15.0%	10.0%	6.2%	3.7%
Reserve Safety Margin (a)	20.0%	10.0%	6.2%	3.7%	2.5%
Reserve Safety Margin (bbb)	7.5%	5.0%	3.7%	2.5%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	8/9/17
AA+	Revised	Stable	4/30/10
AA	Assigned	Stable	3/12/99

Rating Sensitivities

Balanced Operations: The IDR and GO bond rating are sensitive to continued strong operating performance and could be pressured by sustained reductions in reserves or uncontrolled expenditure growth. The Stable Outlook reflects Fitch's expectation that such actions are unlikely.

Credit Profile

Honolulu's economy has performed strongly in recent years with increasing diversification, steady growth in tourism and a continued substantial military presence. Tourism activity has been subject to periodic declines historically but has proven resilient over the long term, and unemployment rates have been consistently below the U.S. average. The city also appears likely to benefit from ongoing consolidation of U.S. military activity in the Pacific.

Revenue Framework

Property taxes provide the chief source of general fund support for the city, with no other revenue source accounting for more than 5% of total revenues. Tax rates are set based on property type, allowing the city to limit the tax burden on residents relative to commercial and resort properties.

Fitch expects Honolulu's revenue growth, absent policy actions, to continue to increase more rapidly than U.S. GDP based on the city's resilient economy and ongoing population growth. While revenue gains may be affected by periodic economic shocks, solid growth is expected over the long term.

The city has unlimited legal authority to raise property tax revenues and has regularly adjusted tax rates and property classifications to serve its fiscal needs.

Expenditure Framework

The city provides a broad range of municipal services with the notable exception of elementary and secondary education, which are operated and funded at the state level. Public safety, with associated pension costs, accounts for about half of total general fund expenditures.

Fitch expects that the natural pace of spending growth will be in line with to marginally above expected revenue growth based on the city's current spending profile. The recent trend of steady expenditure growth will continue, but ongoing revenue gains are likely to maintain pace.

The city's ability to control personnel expenses is somewhat limited by negotiation of contracts at the state level and relatively strong labor protections, including binding arbitration. Carrying costs for debt service and retiree benefits are also notably high, at 28% of governmental expenditures as of fiscal 2016, limiting the city's options for spending reductions in a downturn. However, recent increases in expenditures for retiree benefits are based partly on the city's efforts to accelerate pre-funding of OPEBs.

Long-Term Liability Burden

Long-term liabilities for debt and pensions are affordable relative to the city's wealthy resource base at approximately 9% of personal income, but the city's unfunded OPEB liability is also substantial at $1.8 billion as of fiscal 2016, equivalent to an additional 3.4% of personal income. The city has made notable progress funding its OPEB program, moving from pay-go to nearly full funding of the annual required contribution within the span of several years, but has no ability to reduce accrued benefits.

Related Research

Fitch Rates Honolulu, HI's $761MM GOs 'AA+'; Outlook Stable (August 2017)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2017)

The city's fiscal 2016 financial statements reported a 62% ratio of assets to liabilities for its largest pension plan based on its assumed 7.65% investment return rate; this level would fall to 53.6% based on Fitch's more conservative 6% return assumption. Actuarial contribution rates are determined by statute and adjusted periodically if the funding period exceeds 30 years. Earlier this year, the legislature lowered investment returns, extended mortality assumptions, and made employer contribution requirements more stringent; these changes are likely to raise the net pension liability (NPL) and contribution requirements for participating governments as well as improve longer term sustainability of the plan. The plan's funding valuation for June 30, 2016, which incorporates these changes, has lowered the systemwide funded ratio to 54.7% from 62.2%; Fitch expects the new assumptions to raise the NPL and pension carrying costs when they are reflected in the city's fiscal 2017 financial statements.

The city is currently engaged in the construction of a major rail transit project supported by federal funding and a temporary 0.5% general excise tax (GET) surcharge. Project costs to date have been addressed through a combination of pay-go funding and short-term borrowing. Hawaii's legislature will meet in special session later this month to address a widening funding gap for the project. Options under consideration include further extensions of the GET surcharge and reducing the scope of the project. The series 2017H bonds will be the first GO issuance in support of this project, with reimbursement anticipated from the city's rail authority.

Operating Performance

Substantial reserves and a history of limited revenue volatility contribute to an assessment of strong financial resilience in a moderate economic downturn. For details, see Scenario Analysis, page 2.

The city's budget management is conservative, and operations have been consistently balanced. Unrestricted reserves increased substantially in the wake of the recession from 5% of general fund spending in fiscal 2009 to nearly 23% in 2016. Modest reductions in fund balance between fiscal years 2013 and 2016 largely reflected spending for one-time costs.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.