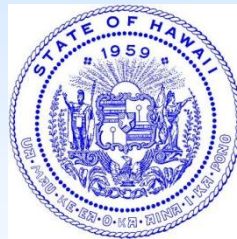


Senate Committee on Ways & Means Informational Briefing

on

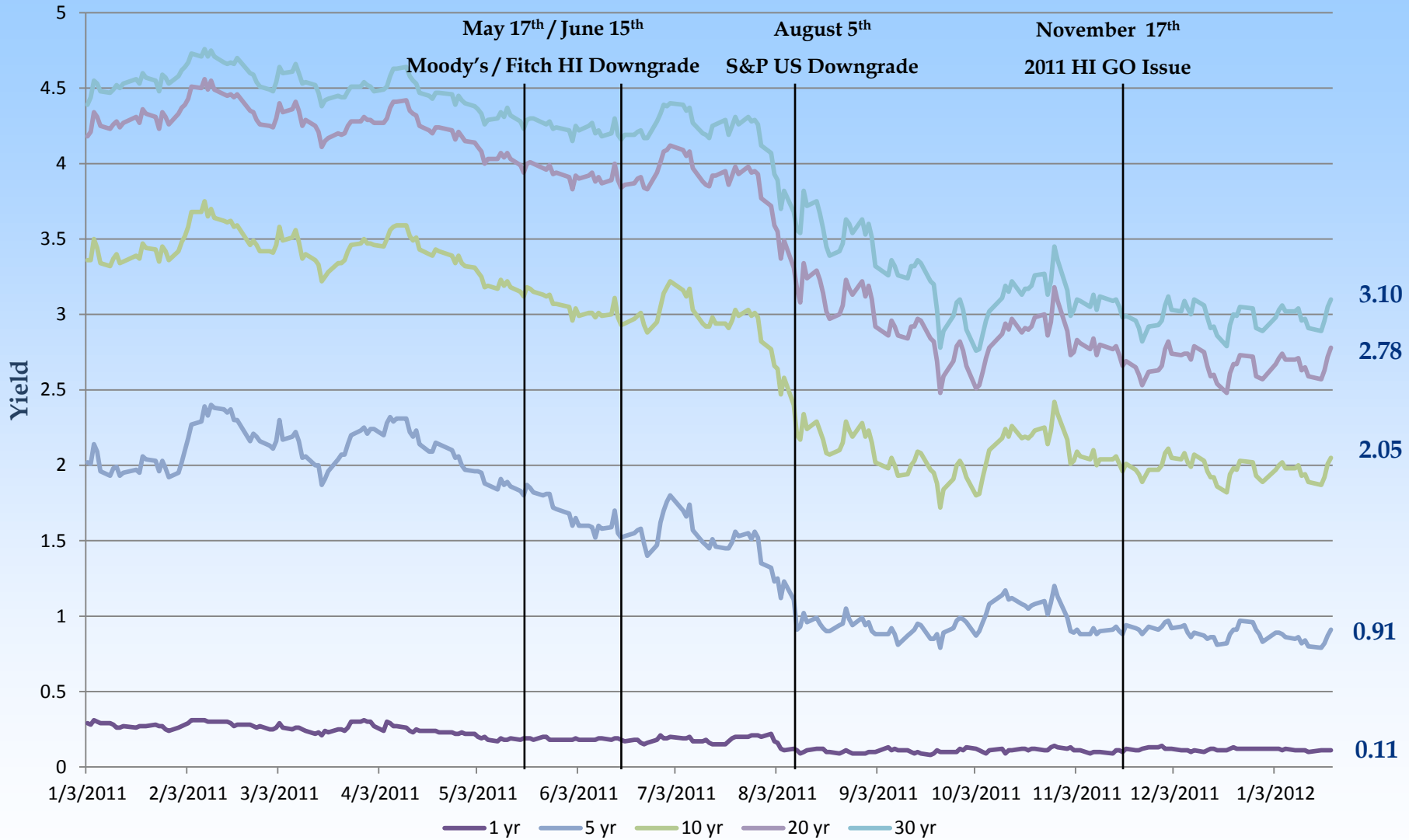
General Obligation Bonds



Presented by:
Kalbert Young, Director
Department of Budget & Finance

January 24, 2012

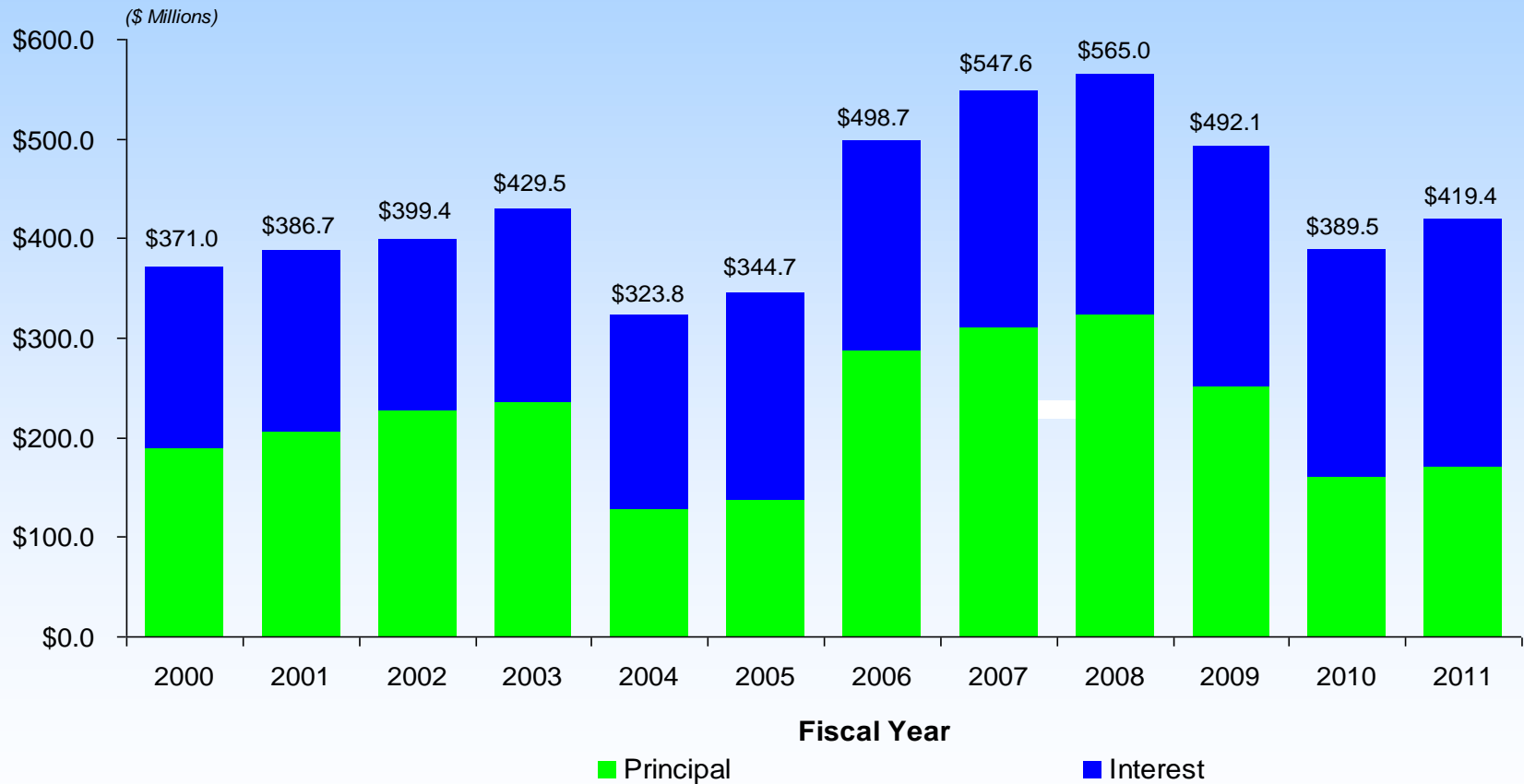
US Treasury Yields 2011 to Present



Source: US Treasury Department

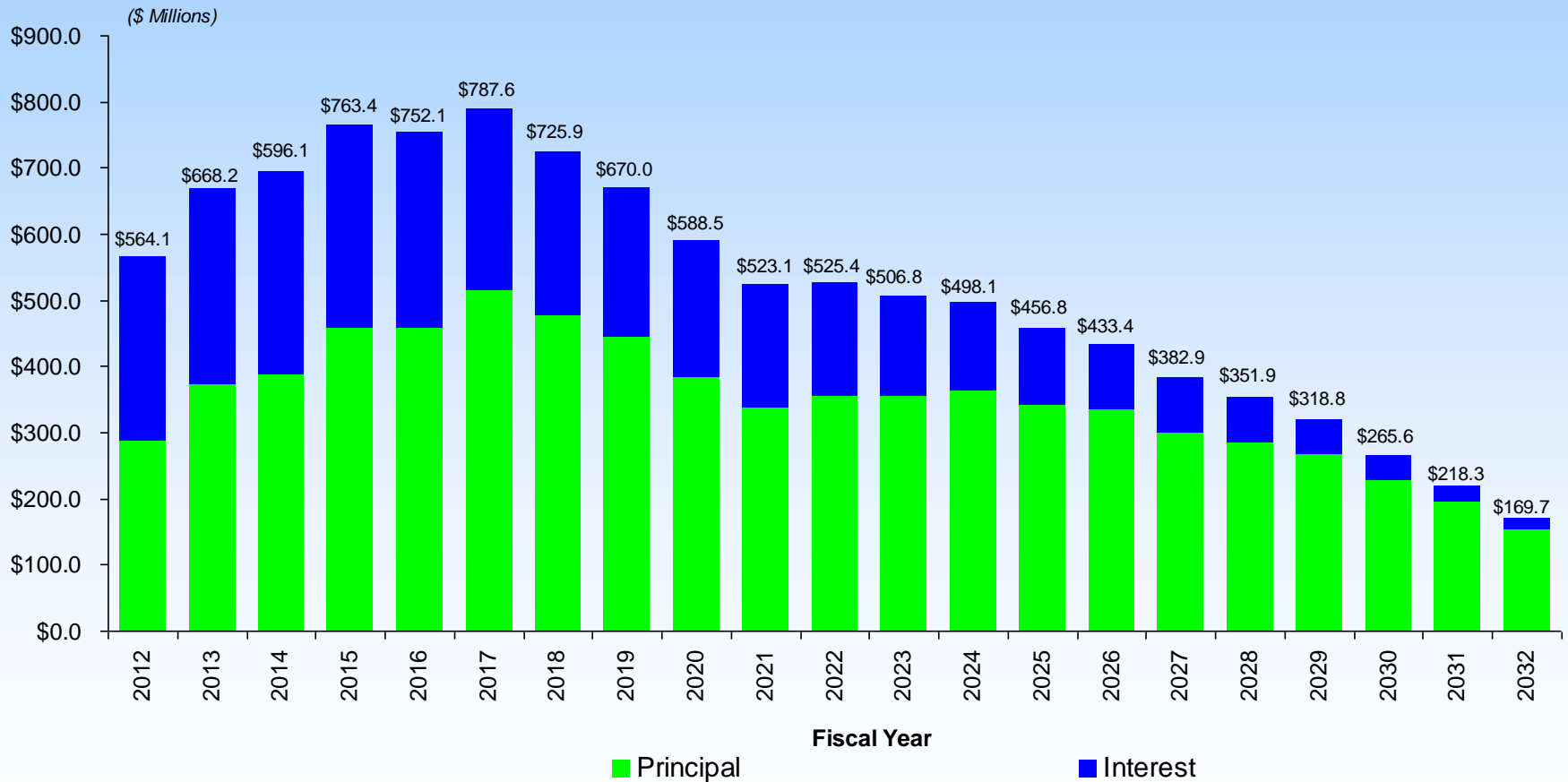
State of Hawaii Bonds Outstanding and Debt Profile

Historical G.O. Bond Debt Service



State of Hawaii Bonds Outstanding and Debt Profile and Planned GO Bond Issuances Through FY 2015 Prior to Series EA- ED Refunding*

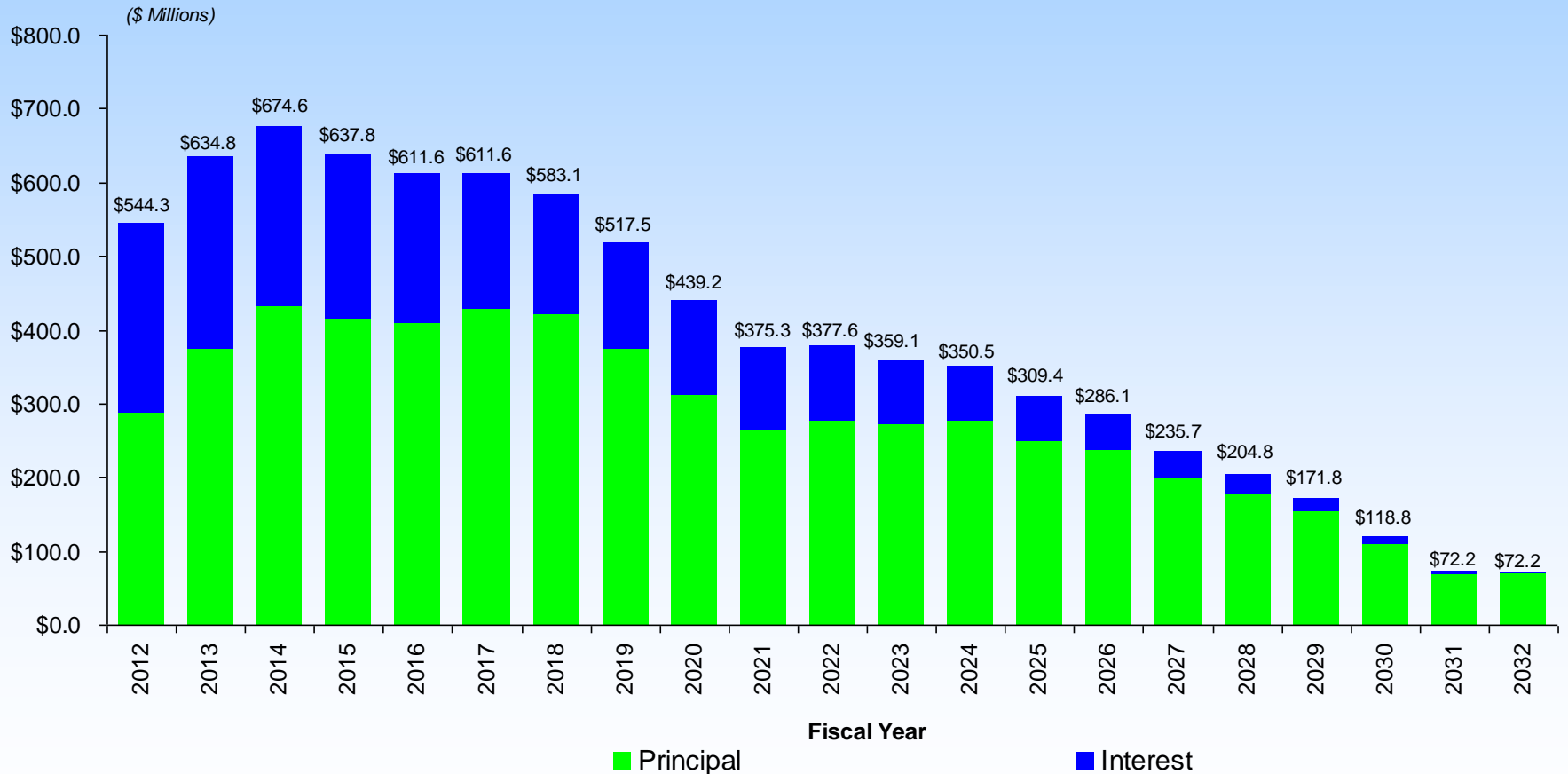
G.O. Bond Debt Service with Proposed New Bond Issuances as of July 1, 2011



* Debt service with current planned issuances ends in FY 2035

State of Hawaii Bonds Outstanding and Debt Profile

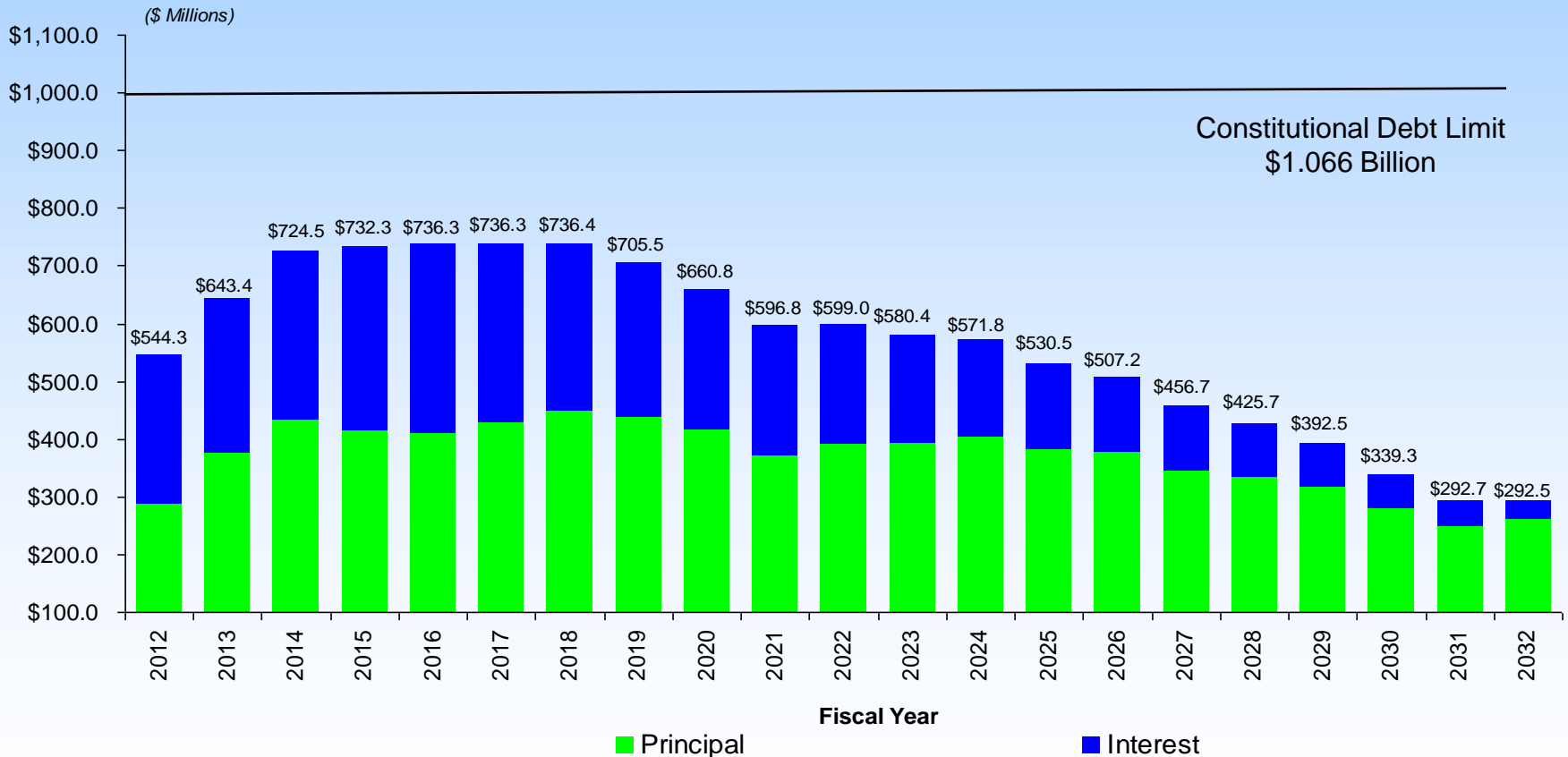
Outstanding G.O. Bond Debt Service as of January 1, 2012



State of Hawaii Bonds Outstanding and Debt Profile with Planned Additional Bond Issuances Through FY 2015 Subsequent to Series DZ New Money and Series EA-ED Refunding*

Implemented Strategic Plan to Levelize Debt Profile in FYs 14 Through 18

Outstanding and Planned G.O. Bond Debt Service as of January 1, 2012

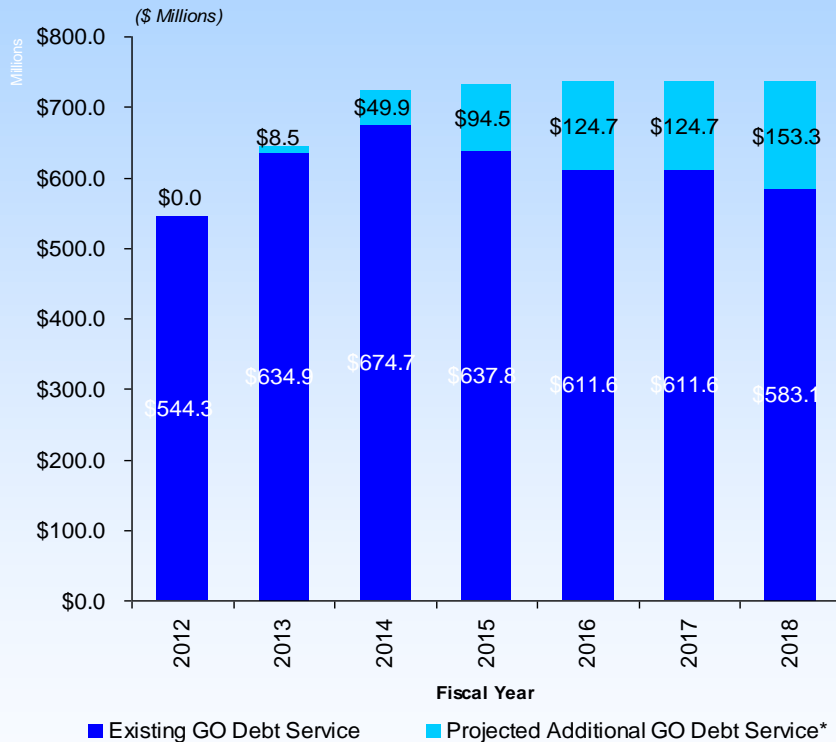


* Debt service with current planned issuances ends in FY 2035

State of Hawaii Bonds Outstanding and Debt Profile

Outstanding G.O. Bond Debt Service with Expected Future Issuances*

Planned G.O. Issuance Schedule*



Expected Timing	Amount
1st half FY 2013	325,000,000
2nd half FY 2013	375,000,000
1st half FY 2014	500,000,000
2nd half FY 2014	350,000,000
1st half FY 2015	500,000,000
2nd half FY 2015	325,000,000
Total	\$ 2,375,000,000

* Proposed Bond Issuance Plan in the Executive Supplemental Budget Request .

State of Hawaii Bonds Outstanding and Debt Profile

Summary of State of Hawaii Bonds Outstanding as of July 1, 2011*

General Obligation (GO)		\$ 4,940,905,000
Revenue Bonds		
DOT-Airports	\$ 999,250,000	
DOT-Harbors	379,750,000	
DOT-Highways	319,850,000	
Sub-total DOT Revenue Bonds	1,698,850,000	
Housing Finance and Development Corporation	470,375,979	
Hawaii Health Care Systems Corporation (Maui Region)	8,000,000	
Hawaiian Home Lands	41,205,000	
University of Hawaii	637,045,000	
Total Revenue Bonds	\$ 2,855,475,979	\$ 2,855,475,979
Total GO and Revenue Bonds Outstanding		\$ 7,796,380,979

* Data is updated annually and submitted to the Legislature in November of each year pursuant to Section 39-93, HRS.

General Obligation Bond Debt Capacity

Time of Issue and Amount of Issue to be Counted Against	Debt Limit at Time of Issuance	Greatest Amount & Year of Principal and Interest	Difference	Potential Additional GO Bond Debt Issuance Capacity**	
2nd Half FY 2012	0	923,694,264	674,659,914 (2013-14)	249,034,350	3,038,772,569
1st Half FY 2013	\$321,750,000	952,083,441	683,105,852 (2013-14)	268,977,589	3,282,124,410
2nd Half FY 2013	\$371,250,000	952,083,441	674,659,914 (2013-14)	277,423,527	3,385,183,625
1st Half FY 2014	\$495,000,000	1,012,388,406	674,659,914 (2013-14)	337,728,492	4,121,038,231
2nd Half FY 2014	\$346,500,000	1,012,388,406	675,298,882 (2015-16)	337,089,524	4,113,241,401
1st Half FY 2015	\$495,000,000	1,066,322,487	701,265,698 (2016-17)	365,056,789	4,454,504,194
2nd Half FY 2015	\$321,750,000	1,066,322,487	718,157,573 (2016-17)	348,164,914	4,248,385,775

* Amounts are net of allowable 1.00% exclusion of GO debt from the debt limit

** Approximate, assuming a 5.25% average coupon, 20 year term, P&I beginning in the first year.

Potential Additional GO Bond Debt Capacity amount shown is a single point in time issuance and not cumulative.

Credit Agency Rating Factors

Evaluation of Rating of Credit Scores

Investment Grade

Moody's/S&P/Fitch	
Aaa/AAA/AAA	} Highest Quality
Aa1/AA+/AA+ Aa2/AA/AA Aa3/AA-/AA-	} Very Strong Capacity
A1/A+/A+ A2/A/A A3/A-/A-	} Strong Capacity
Baa1/BBB+/BBB+ Baa2/BBB/BBB Baa3/BBB-/BBB-	} Adequate

Non-Investment Grade

Moody's/S&P/Fitch	
Ba1/BB+/BB+ Ba2/BB/BB Ba3/BB-/BB-	} Non Investment Grade Speculative
B1/B+/B+ B2/B/B B3/B-/B-	} Highly Speculative
Caa/CCC+/CCC -/CCC/- -/CCC-/-	} Substantial Risk
-/-/DDD -/-/DD -/D/D	} Default

Rating Factors Comparative G.O. Ratings

		Moody's/S&P/Fitch
State of Hawaii	}	Aa2/AA/AA
City and County of Honolulu	}	Aa1/NR*/AA+
County of Maui	}	Aa1/AA+/AA+
County of Kauai	}	Aa2/AA/AA
County of Hawaii	}	Aa2/AA-/AA-

*Not rated by S&P.

Rating Factors State of Hawaii Ratings⁽¹⁾

Individual Issuers

Credit	Moody's	S&P	Fitch
G.O. Bonds	Aa2	AA	AA
COPs	Aa3	AA-	AA-
Airports	A2	A	A
Harbors	A2	A+ ⁽³⁾	A+
Highways	Aa2	AA+	AA
University (UH) ⁽²⁾	Aa2	A+	AA
Homelands (DHHL)			
COPs	A1	NR ⁽⁴⁾	NR ⁽⁴⁾
Revenue Bonds	A1	NR ⁽⁴⁾	A

⁽¹⁾ Excludes Hawaii Housing Financing and Development Corporation, which has multiple ratings for its various programs and conduit financings.

⁽²⁾ Includes University Revenue Bonds and University Bonds.

⁽³⁾ Negative outlook.

⁽⁴⁾ Not rated by respective rating agency.

Hawaii's G.O. Bond Rating Downgraded by Moody's & Fitch

- Moody's Investors Service downgraded Hawaii's G.O. bond rating from Aa1 to Aa2 with stable outlook on May 17, 2011.
- Moody's downgrade is based on the following factors:
 - Hawaii's strained financial operations following recession-driven revenue fall-off over last several years;
 - Near depletion of reserves in FY11;
 - Pension funded ratios that are low relative to other states and are projected to decline;
 - High debt ratios; and
 - OPEB obligation is sizable and growing.
- Fitch Ratings downgraded Hawaii's G.O. bond rating from AA+ to AA with stable outlook on June 15, 2011.
- Fitch downgrade is based on the following factors:
 - State's minimal financial cushion against risk inherent in economy dominated by volatile tourism sector;
 - High debt levels;
 - Pension funding levels are considered weak by Fitch's standards; and
 - OPEB obligation is significant.

2011 General Obligation Bonds

State of Hawaii

New Series

DZ - \$800,000,000

Refunding Series

EA, EB, EC, ED - \$488,000,000

Credit Rating Date:

November 4, 2011

Pricing Date:

November 15 - 17, 2011

Closing Date:

December 7, 2011

Overall Transaction

- Largest bond issue in the history of the State of Hawaii to date
- \$1.286 billion
 - \$800 million in new money
 - \$486 million refunding current outstanding bonds for savings
- November 15-17, 2011 Sale
- December 7, 2011 Closing
- Credit agencies affirmed ratings
 - Aa2 / AA / AA
 - Moody's / S&P / Fitch
 - Stable Outlooks

State's Rating was Affirmed in Conjunction with the Recent Bond Sale

- The State's Aa2, AA and AA ratings were affirmed by Moody's Investor Service, Standard & Poor's and Fitch Ratings, respectively, in conjunction with the November 2011 General Obligation bond sale. All three rating agencies have a "Stable Outlook" for the State's rating.
- Strengths cited:
 - Management's well established, proactive budget monitoring practices including frequent revenue forecasts from the COR which facilitate prompt identification of potential adjustments to the budget.
 - Executive authority to restrict spending.
 - Stabilization of and modest growth across a number of key economic indicators.
 - Rapid amortization of debt with no exposure to variable rate or derivative products.
 - Plan to recapitalize the EBRF and HHRF
- Weaknesses cited:
 - High reliance on tourism.
 - Low funded status of the ERS and lack of funding for Other Post Employment Benefits (OPEB) liability.
 - High debt ratios (although recognizing the State's broad responsibilities to fund education for example, which is funded at a municipal or district level in other states).

Overall Transaction

- Significant subscription
 - \$4.2 billion in orders
 - \$53.8 million individual Hawaii retail orders
 - \$39.4 million individual national retail orders
 - \$284.8 million in professional retail orders
 - \$3.9 billion in institutional orders
- \$180 million in additional proceeds
- Increased investor intelligence campaign
- Multiple underwriter team

New Money Component

- \$ 800,000,000 par value
- Tax-exempt for bond holders
- 20-year maximum maturity
- 5-year principle delay
- True interest cost of 3.65%
- Bonds sold at premium for additional \$107 million
- Total proceeds \$907 million

Refunding Component

- \$ 486,000,000 par value
- Tax-exempt for bond holders
- 12-year maximum maturity
- True interest cost of 2.53%
- Refunded bonds will save \$59 million in debt service

Execution Strengths

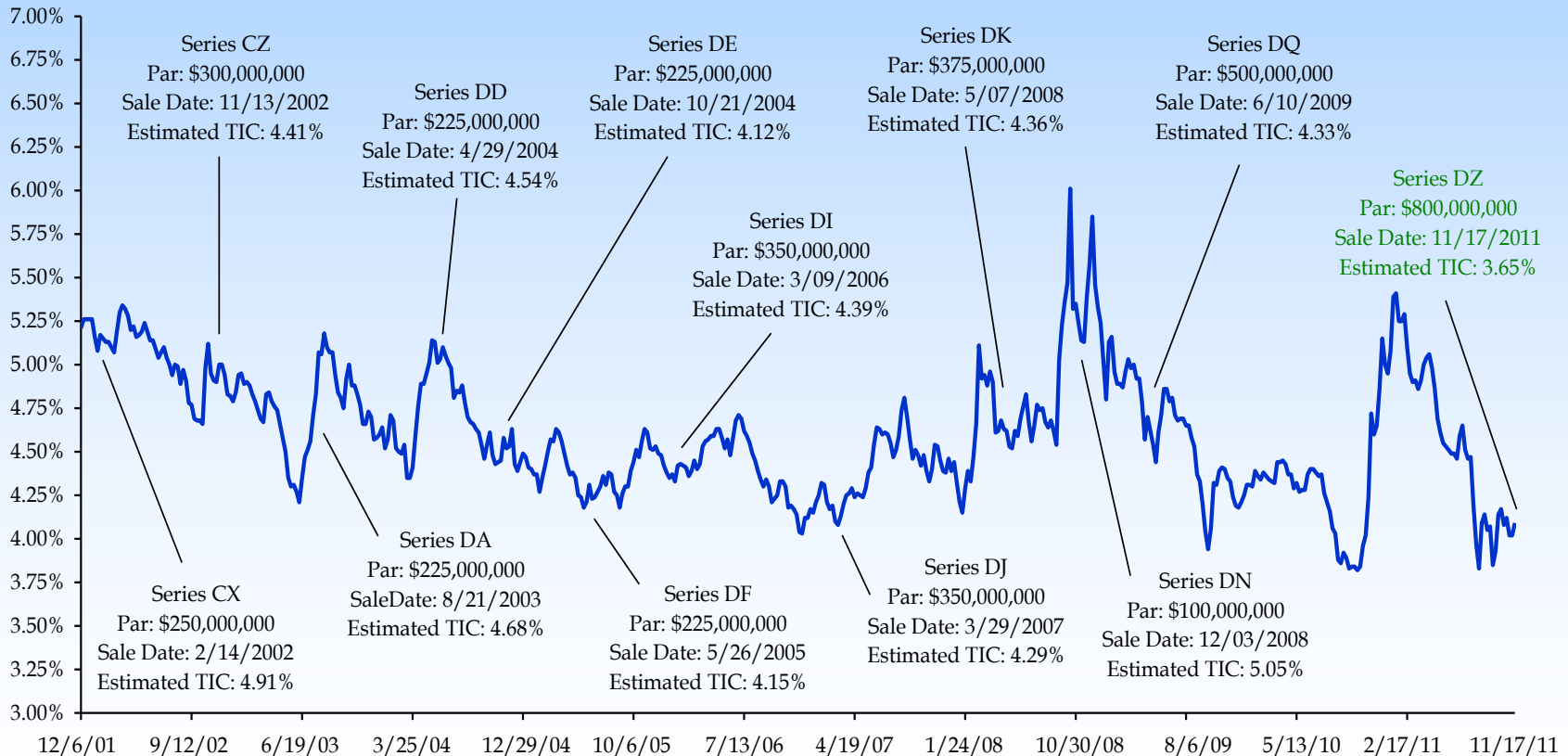
- Multiple underwriter transaction
 - Bank of America Merrill Lynch & Goldman Sachs as co-senior managers
 - CitiGroup, JP Morgan, Morgan Stanley, and Barclays Capital as co-managers
- Investor and broker presentations
 - 2-day local retail period
 - Online investor presentations, 1-on-1 presentations locally, via conference calls and in-person in NY
- Financial pricing advisor
 - Montague DeRose & Associates

Execution Strengths

- Investor relations web-site
 - www.hawaii.gov/budget
- One of the largest issues to come to market in 2011
- The largest issuance week in 2011
 - Competed with \$11 billion in other issues during week of November 14 -18, 2011.
- 3x over-subscription
- Outperformed higher credits
- Credit agency comments positive
 - “Governor Neil Abercrombie’s willingness to implement aggressive solutions, totaling \$1.32 billion, to balance the fiscal 2011-2013 biennial budget in light of a projected budget shortfall that had reached \$1.25 billion for the biennium.”
 - ✓ Standard & Poor’s
 - “The state of Hawaii’s ‘AA’ GO rating reflects the state’s sound financial management practices.”
 - ✓ Fitch Rating

Historical Pricing Analysis

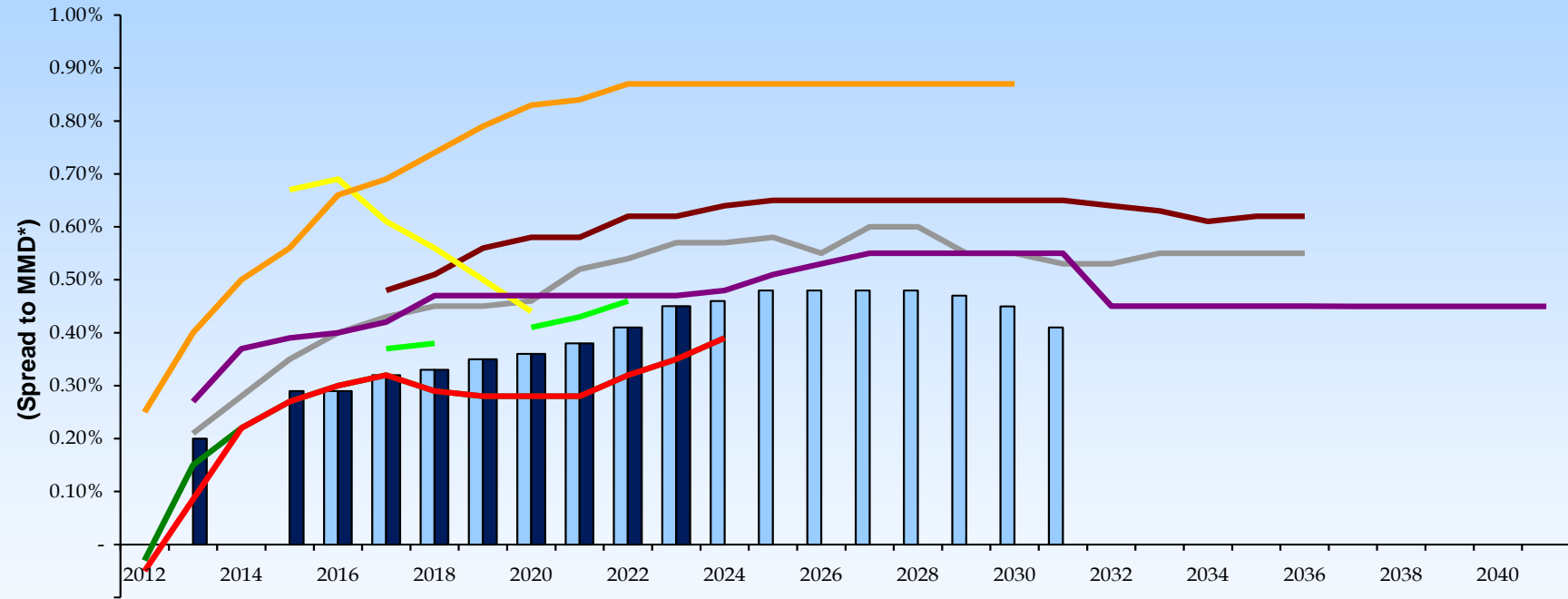
Hawaii's 2011 G.O. Bonds Sold at Record Low Interest Rates



Note: TIC (True Interest Cost) is a calculation of the overall funding cost of a bond sale. Values graphed above represent the benchmark Bond Buyer 20-Bond G.O. Index. All issues noted above are for new money with 20-year level debt service amortization.

National Pricing Comparables

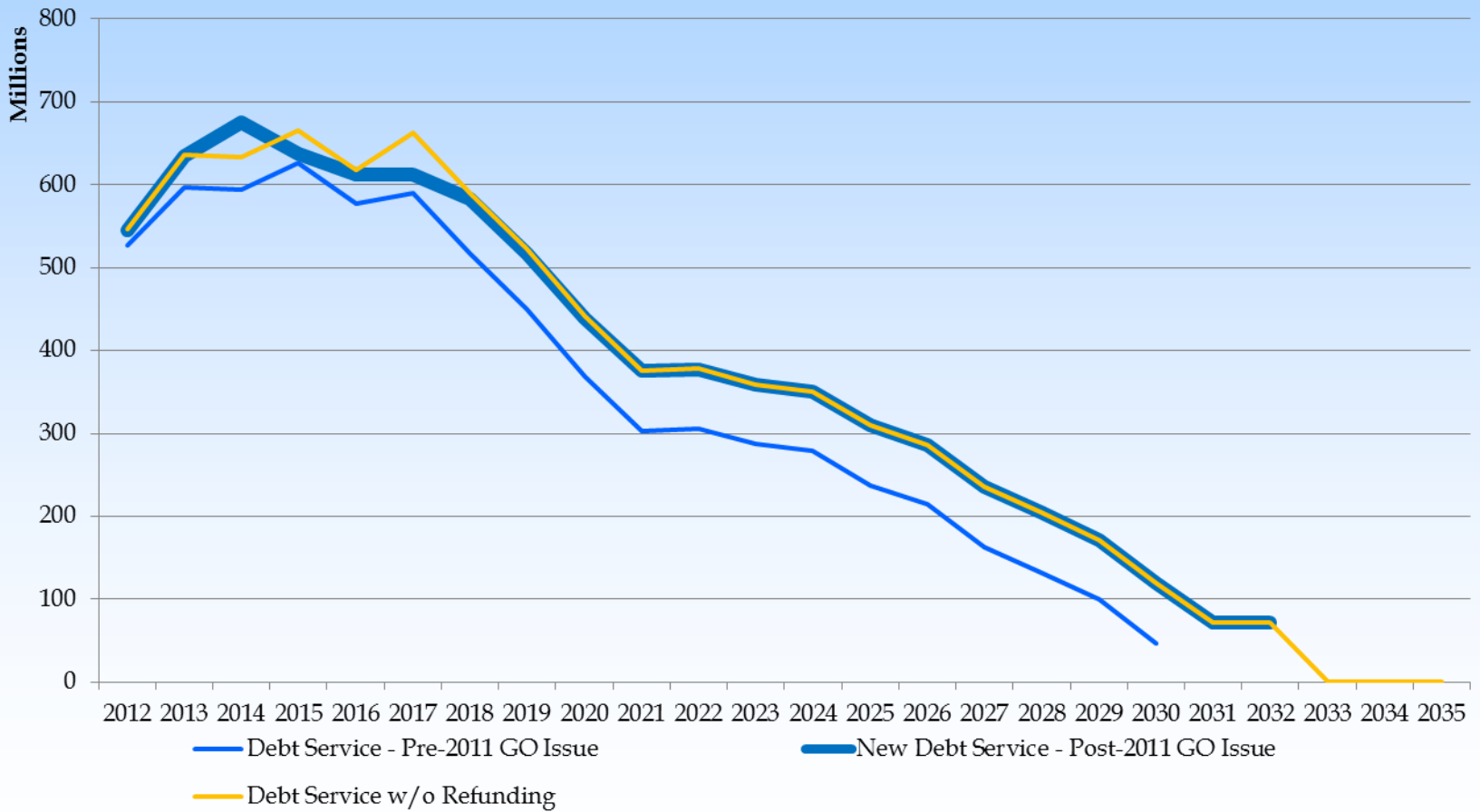
Hawaii's G.O. Pricing Compared Favorably to Most Other National Bond Issues



- State of Hawaii, GO New Money (11/17/2011) Aa2/AA/AA
- State of Hawaii, GO Ref. (11/17/2011) Aa2/AA/AA
- Arizona Transportation Board, Sub. HURF Rev. (11/16/2011) Aa2/AA+/NR
- State of Washington, GO Ref. (10/13/2011) Aa1 / AA+ / AA+
- State of Washington, Fuel Tax GO Ref. (10/13/2011) Aa1/AA+/AA+
- City of New York, GO (09/28/2011) Aa2/AA/AA
- State of Hawaii, GO Ref. (02/09/2010) Aa2/AA/AA
- North Carolina Turnpike Auth., State Appr. Rev. (11/17/2011) Aa2/AA/NR
- State of Nevada, GO Ref. (10/26/2011) Aa2/AA/AA+
- State of Ohio, GO Ref. (11/15/2011) Aa1/AA+/AA+

* Yield differential versus the "AAA" rated tax-exempt index, Municipal Market Data (MMD).

Debt Service Profile



Financial Strategy

- Reduced debt service
 - Saved \$59 million on refunded bonds
- Keeps debt service for FY2012-13 at appropriated level as planned
 - Maximum debt service level at \$674 million (2014)
- Retires future debt earlier for savings
- Normalizes debt service profile
- Builds debt capacity 2014 to 2019

Needed Credit Improvements

- Credit agencies metrics
 - ❑ Rebuild reserves
 - ❑ Reduce unfunded liabilities ratios (pension & OPEB)
 - ❑ Restore and maintain structural budget balance
 - ❑ Reduce economic and revenue volatility
- Economy
 - ❑ Continued revenue improvements in major industries
 - ❑ Balance in significant revenue drivers (i.e. military contributions, federal program spending, etc.)
- Financial Reporting
 - ❑ More timely production of CAFR
 - ❑ Investor accessibility to periodic financial and economic information

Unfunded Liability Update

Pensions & OPEB

Pension System Update

- Latest Employees' Retirement System (ERS) actuarial valuation as of June 30, 2010 reflect that assets (actuarial value) decreased to \$11.3 billion from \$11.4 billion as of June 30, 2009 (actuarial value is currently 115.5% of fair market value)
- Funded ratio decreased from 64.6% to 61.4%
- As of June 30, 2010, the unfunded actuarial accrued liability increased from \$6.2 billion to \$7.1 billion and funding period increased from 28.2 years to 41.3 years
- Act 163, SLH 2011, mitigates growth in the Employee' Retirement System's unfunded liability by changing the pension benefits for new hires after 6/30/12; reducing the investment rate assumption from 8% to 7.75%; increasing employer contributions; and reducing the interest rate on employee contributions from 4.5% to 2%
- Act 29, SLH 2011, establishes a moratorium on enhancement of ERS benefits until the funded ratio is 100%

OPEB Update

- The latest OPEB report (as of July 1, 2009) shows a combined EUTF and HSTA VEBA actuarial accrued liability of \$14.0 billion
- For the near term, retiree health benefits will continue to be funded on a pay as you go basis
- For more than a decade, the State has continuously worked to control retiree health benefit costs
 - Contributions were tiered for employees hired on or after July 1, 1996 (previously paid 100% for employees with at least 10 years of service):
 - 50% for retirees with at least 10 years but less than 15 years of service
 - 75% for retirees with at least 15 years but less than 25 years of service
 - 100% for retirees with at least 25 years of service
 - Contributions were limited to the retiree only for employees hired after June 30, 2001 (previously paid for coverage for retiree, spouse and other dependents)
 - Contributions were converted to a defined contribution basis through a statutory formula that is adjusted annually based on changes in the Medicare Part B premium rate (previously contributions were based on health benefit plan premium costs)

Conclusion