

PORT HAWAII: OUR COMMERCIAL HARBOR SYSTEM

Hawaii, its people, and its history are tied to the ocean as a source of sustenance, transport, and commerce. Over 3,000 years ago, a group of Polynesians set sail on wooden double-hulled canoes for the Hawaiian Archipelago equipped with knowledge of the currents, winds, and constellations as wayfinding tools. The cargo these voyagers carried included cuttings and seeds of plants for food, medicine, fabric, and cordage that would be vital for their survival in their new home. Following the settlement of Hawaii, There is evidence of trade and transport among Polynesian communities across the Pacific Ocean for centuries until the ocean carried new explorers from Europe to Hawaii in the late 18th century. Western contact meant the arrival of new “cargo” to the islands – metals, firearms, textiles, and plants and animals new to Hawaii’s ecosystem. Soon thereafter, Hawaii became a central point in the Pacific whaling industry through the middle of the 1800s. As Hawaii’s economy transitioned from whaling to agriculture, ships that carried immigrant labor to Hawaii’s shores and ocean transport of sugar and pineapple became the crux of the new economy. Cruise liners bringing tourists to the islands also spurred Hawaii’s tourism industry that remains the state’s primary economic engine. Hawaii continues to rely on the goods that are carried on the ocean to sustain its people and the ocean remains Hawaii’s lifeline.

Hawaii’s isolated island geography underscores the significance of ocean cargo transport as the lifeline and only viable means to serve and support every facet of the local economy, including tourism, construction, national defense, agriculture, and all other industries. An estimated 80% of all goods consumed in Hawaii are imported, and 98.6% of the imported goods arrive through the commercial harbor system. Hawaii’s residents heavily depend on its commercial harbor system and a disruption of ocean transport services will severely impair the state economy.

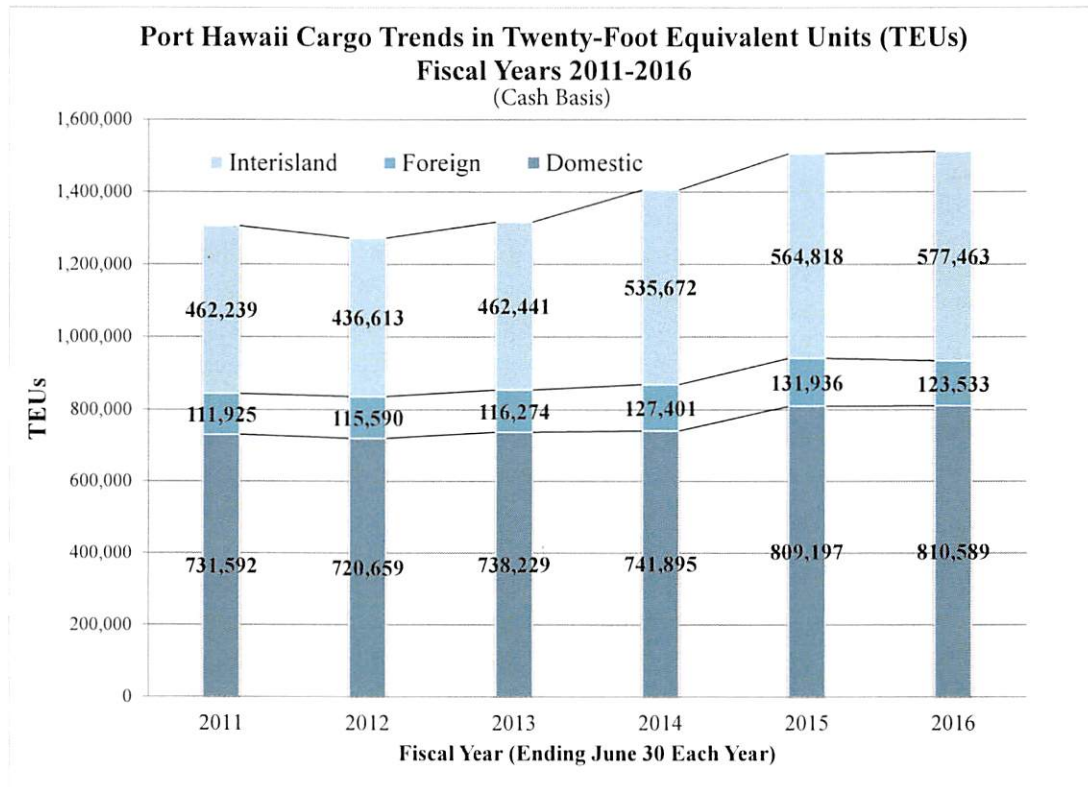
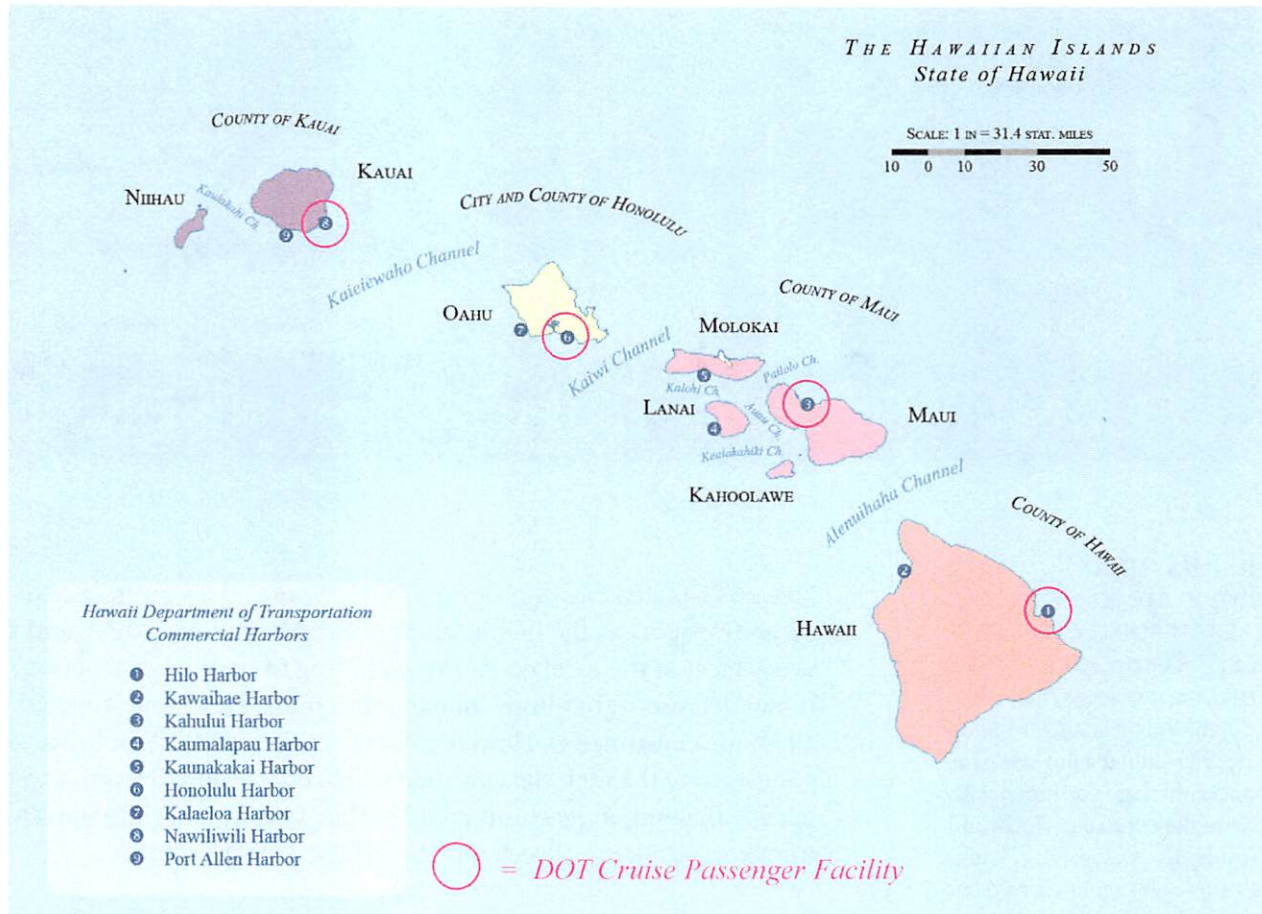
The State of Hawaii Department of Transportation Harbors Division (“HDOT Harbors”) is tasked with the mission of effectively managing and operating the statewide commercial harbors system that facilitates the efficient movement of people and good to, from, and between the Hawaiian Islands.

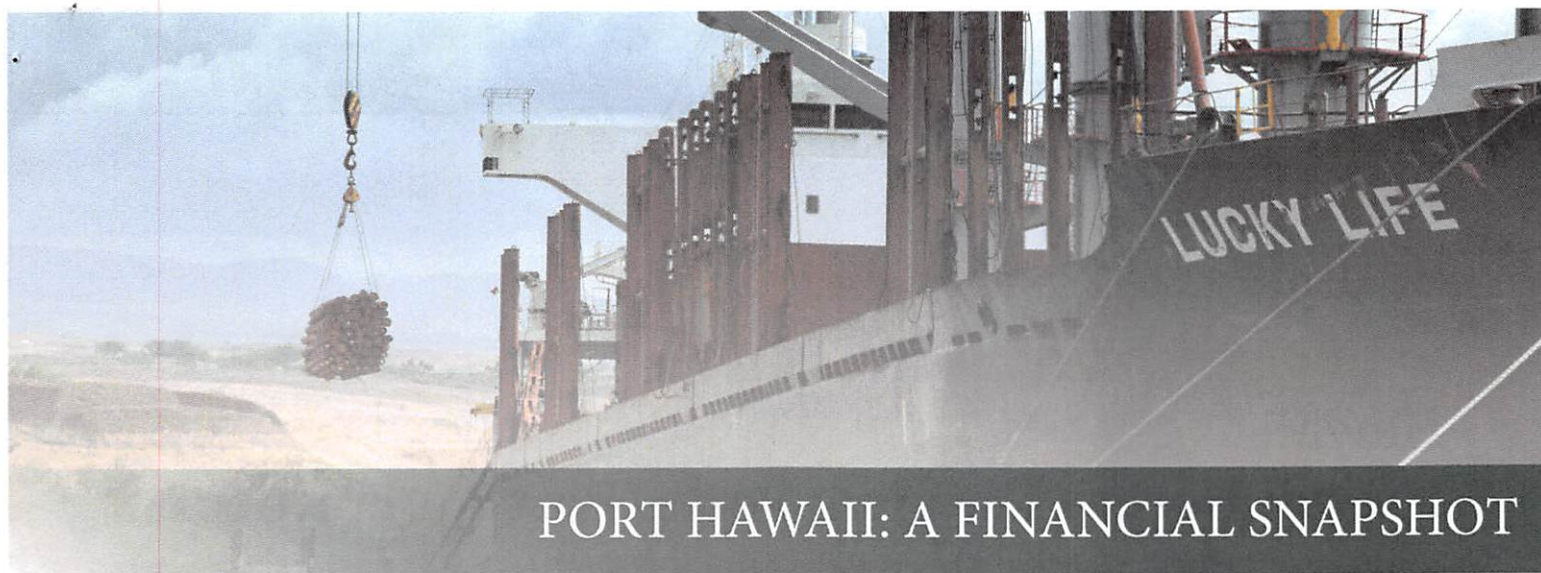
Hawaii’s commercial harbor system, Port Hawaii, operates as a hub-and-spoke system with Honolulu Harbor on the island of Oahu (where 68% of Hawaii’s 1.4 million residents live) as the hub and primary entry point for incoming cargo from the continental United States and foreign countries. From Honolulu, cargo is distributed to five other islands served by seven commercial harbor facilities on six islands. The two harbors on Oahu are responsible for generating 78% of the system’s operating revenue.

In Fiscal Year 2017, 1.5 million TEUs of containerized cargo, 265,000 automobiles, 4,439 tons of bulk cargo, 31,263 barrels of liquid cargo (through pipelines), and 1.08 million passengers moved through Port Hawaii.

Port Hawaii is a self-sufficient and self-funded enterprise that generates revenue from harbor use fees and charges to cover operating and maintenance costs as well as capital improvement projects.

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PORT HAWAII: A FINANCIAL SNAPSHOT

FINANCIAL RESULTS, FISCAL YEAR ENDING JUNE 30, 2017

OPERATING REVENUES	
Services (including Harbor Use Fees)	\$ 113,161,394
Rentals	22,878,352
Other Revenues	1,581,308
Total Operating Revenues	\$ 137,621,054
OPERATING EXPENSES BEFORE DEPRECIATION	\$ 57,583,769
REVENUES AVAILABLE FOR DEBT SERVICE	\$ 98,267,034
AGGREGATE DEBT SERVICE COVERAGE	3.15

BOND RATINGS:
 S&P: AA-/STABLE
 FITCH: A+/POSITIVE
 MOODY'S: A2/STABLE

SYSTEM STAFF:
 247 POSITIONS

CARGO TRAFFIC FOR PORT HAWAII, FISCAL YEAR ENDING JUNE 30, 2017

WHARFAGE	CARGO REVENUE (OOOs)	CARGO VOLUME IN VARIOUS UNITS (OOOs)
Containers Expressed in twenty-foot equivalent units (TEUs)	\$ 76,801	1,517
Autos and Trucks	8,132	265
General Merchandise and Bulk Items Expressed in tons; includes cement, molasses, sugar, explosives, lumber, scrap metal, vehicles, trucks, trailers	10,450	4,439
Pipelines Petroleum and chemicals expressed in barrels; water is not included in data	4,442	31,263
Other Cargo	354	53
Passengers	8,143	1,086
TOTAL	\$ 108,322	

S&P Global Ratings

Hawaii

Hawaii Harbor Division; Ports/Port Authorities

Credit Profile

Hawaii

Hawaii Harbor Div, Hawaii

Hawaii (Hawaii Harbor Division)

Long Term Rating

AA-/Stable

Upgraded

Hawaii (Hawaii Harbor Div)

Unenhanced Rating

AA-(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

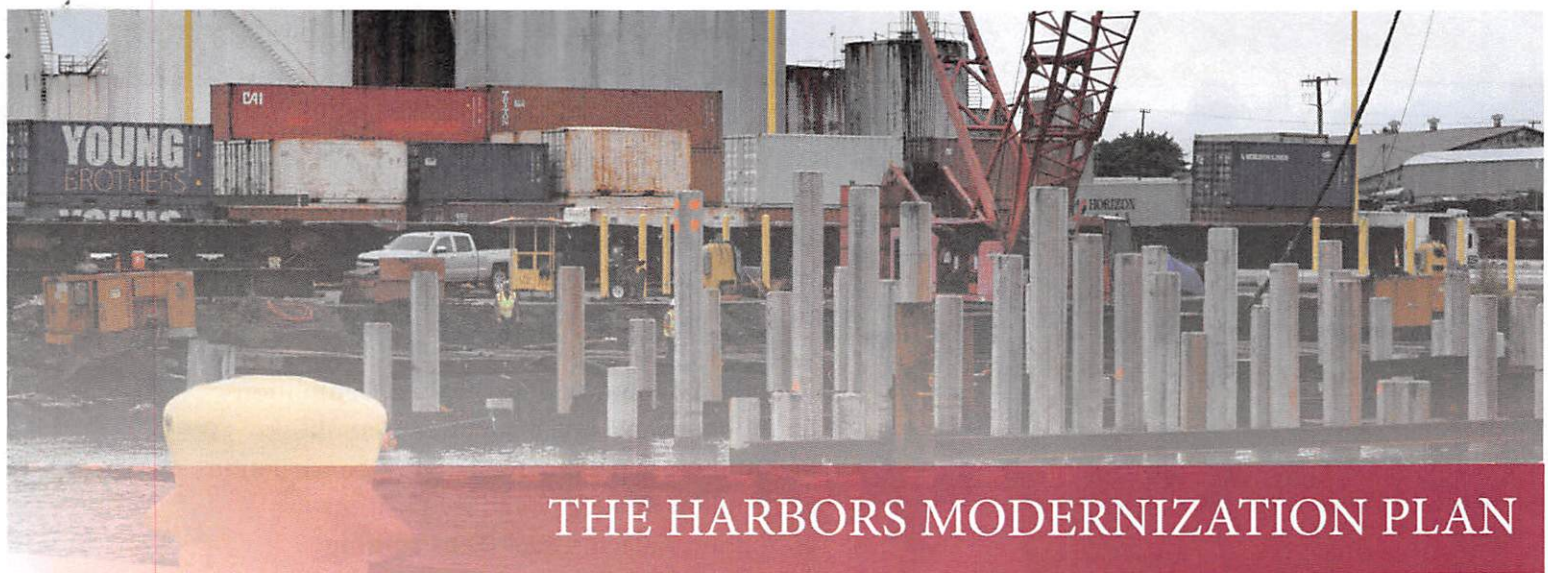
Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A+' on Hawaii's harbor system revenue bonds issued for Hawaii Harbor Division. The outlook is stable.

The rating action reflects our view of the harbor division's historical willingness to make ample tariff increases to support rising operating costs, debt service, and capital needs, and the division's maintenance of very strong coverage and exceptional liquidity in recent years. We also note the division recent formalized its liquidity policy, which requires it to maintain no less than 1,000 days (2.74 years) of operating cash. Despite a large capital plan, management projects that recent and pending approved tariff increases will continue to support very strong debt service coverage (DSC).

The rating also reflects our view of the harbor division's:

- Monopolistic position as Hawaii's sole provider of maritime facilities and services;
- Dominant business position and importance to Hawaii's economy, as approximately 80% of the total volume of goods consumed in Hawaii is imported and roughly 98% is processed through the system;
- Recent and frequent tariff increases that have allowed for consistently strong debt service coverage given rising costs, with incremental revenue providing key funding support for the harbor division's capital improvement program (CIP), and recently approved larger tariff increases of 15% to 17% for fiscal years 2017 to 2019 that will also support growing debt service requirements;
- Exceptional liquidity position, with \$236 million in unrestricted cash, equal to almost five years of operating expenses, as of audited fiscal 2016; and
- Strong all-in DSC in audited fiscal 2016 of 2.42x that includes both revenue bond debt and the system's share of state-issued general obligation (GO) bonds, projected at a range of 2.2x to 2.8x for fiscal years 2017 to 2020.



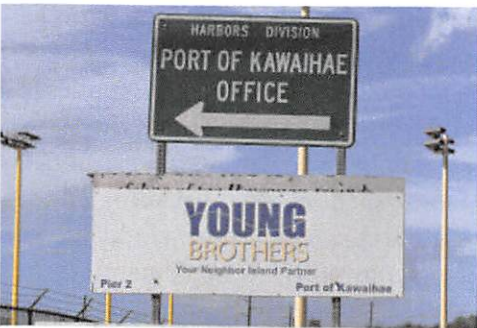
THE HARBORS MODERNIZATION PLAN

An efficient and financially healthy harbors system is vital to the State's economy. The current capacity of Hawaii's commercial harbor system and the underlying aging infrastructure were not expanded or maintained to keep up with economic growth, increased cargo volumes, greater demand for berthing space by more harbor users, and the new needs of the shipping companies re-built business models around container shipments which became the industry norm.

The Harbors Modernization Plan was developed through a partnership of the Hawaii State Legislature, the Department of Transportation, and the Hawaii Harbors Users Group (HHUG). Where previously the Department had not collaborated to ensure Port Hawaii was maintained to meet the expanding needs of the industry and the state economy, today there is a partnership committed to implementing and financing the Harbors Modernization Plan (HMP).

The Harbors Modernization Plan identified critical capital improvement projects needed to ensure that Port Hawaii is best equipped to support Hawaii's economy and residents. It is founded on an economic study completed in 2007 that concluded: "as high as the costs of harbor upgrades may seem, these costs pale in comparison to the multi-billion dollar impact of doing nothing." The opportunity cost was then estimated to reach \$50 billion by 2030 (in 2007 dollars); there is no feasible alternative to this plan.

The enactment of Act 200 in 2008 marked the launch point of this modernization plan, and today the top priority for the commercial harbor system is the construction of an 84-acre cargo yard and 1,800 linear feet of berthing space at the Kapalama Container Terminal (Piers 41, 42, and 43 in Honolulu Harbor). There are a number of projects underway to support this critical project, as well as a series of projects at other locations in throughout the harbor system -- infrastructure upgrades, development of new infrastructure, expansion of facilities, and land acquisitions -- that are all part of the overarching Harbors Modernization Plan.



HARBORS MODERNIZATION PLAN: STATUS

Completed Projects & Costs

- \$51 million Hilo Pier 4 Cargo Terminal
- \$13 million Honolulu Piers 12 & 15
- \$20 million Honolulu Pier 35 (UH SOEST)
- \$1 million Honolulu Pier 39 Shed Demolition
- \$5 million Kapalama Structures Demolition
- \$19 million Kapalama Design, Pre-construction
- \$21 million Kalaeloa Land Acquisition
- \$3 million Kalaeloa Fuel Pier Planning
- \$8 million Kawaihae Pier 2 Terminal Improvements

Ongoing Projects & Costs

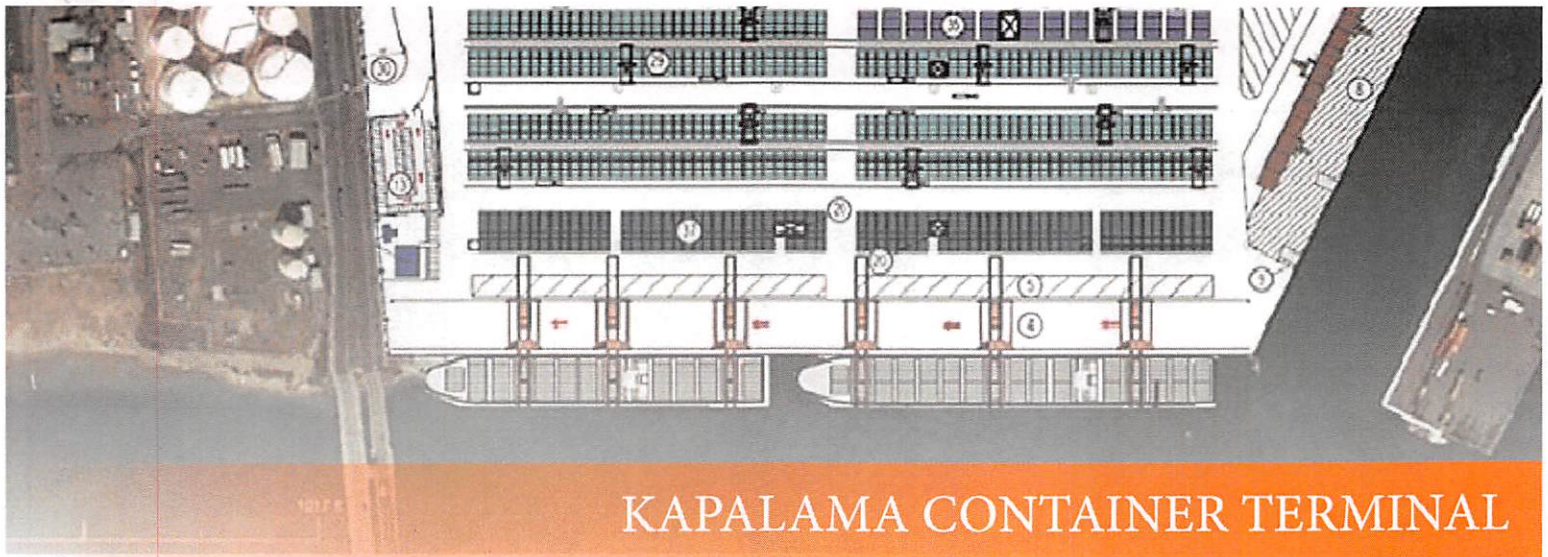
- \$6 million Honolulu Piers 24-28 Utility Improvements
- \$15 million Kahului Land Acquisition
- \$1 million Hana Pier Planning

Staffing Costs

- \$7 million, or 5% of total costs

Honolulu Harbor Tenant Relocations (Related to the HMP)

- Marine Spill Response Corp./Clean Islands Council from Pier 35 to Piers 12 and 15
- University of Hawaii, School of Ocean and Earth Science and Technology from Snug Harbor to Pier 35
- Pacific Shipyards International and Atlantis from Pier 41 to Pier 24



KAPALAMA CONTAINER TERMINAL



The Kapalama Container Terminal project (Piers 41, 42, and 43 in Honolulu Harbor) features an 84-acre cargo yard and 1,800 linear feet of new berthing space serving as the heart of the HMP and a critical component in addressing the severe congestion in the system's hub. The new cargo yard will border the existing interisland cargo yard allowing approximately 50,000 truckloads per year to move directly between the facilities. This location removes these trucks from the adjacent highway and reduces congestion.

The Kapalama Container Terminal project will be constructed in two phases over a four-year period with an estimated project cost of \$448 million. Completion of this project is targeted for 2022.

PHASE I - LANDSIDE CONSTRUCTION, WINTER 2017

- Features: 84-acre container yard, construction of support buildings, entry and exit gates, security fencing, parking, gantry cranes and container-handling equipment, on-site utilities, outdoor energy efficient lighting, a HDOT-Highways weigh station, and other ancillary features
- This phase also includes improvements to pavement surfaces which have been compromised (e.g., asphalt quality and spalling) for areas leading to the adjacent existing inter-island cargo facility
- HDOT-Harbors awarded Kiewit Infrastructure West Company a contract for \$163 million for construction of Phase I.

PHASE II - WATERSIDE CONSTRUCTION, 2018

- Features: Pier construction with berthing capacity for two container ships, dredging along the waterfront and in the harbor channel, widening of the existing slip between Piers 40 and 41 from 256 feet to 300 feet to accommodate wider, 4-by-1 inter-island vessels (barges that measure up to 400 feet in length by up to 100 feet in width), reconstruction of Pier 41 (a single vessel slip behind Pier 41 will be removed), additional piles and replacement of the existing deck at Pier 40 (west side) to structurally improve the foundation or support of the pier for roll-on/roll-off (RO/RO) cargo operations

KAPALAMA CONTAINER TERMINAL



Sources:

Parcel lines—City and County of Honolulu, Department of Planning and Permitting, Honolulu Land Information System (HoLIS). http://gisftp.hicentral.com/layers/Cadastral/tax_parcel.zip downloaded on 5/16/12.

Aerial photograph—USDA-NRCS/DigitalGlobe Inc. dataset, September, 2005.



NORTH

0 175 350 700
SCALE IN FEET



CRUISE PASSENGER FACILITIES



CRUISE PASSENGER FACILITIES



PORT HAWAII:

2017 CRUISE FORECAST DATA

- 28 VESSELS, 13 CRUISE LINES
- 114 VOYAGES
- 411 PORT CALLS

