

ISSUER COMMENT

14 December 2021

RATING

Revenue ¹

Aa2 Stable

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Honolulu Board of Water Supply

Annual Comment on Honolulu Water

Issuer Profile

Honolulu Water provides water service to customers in Honolulu County, Hawaii, which has a population of 984,821 and a high population density of 1,642 people per square mile. The county's median family income is \$101,184 (1st quartile) and the October 2021 unemployment rate was 5.4% (4th quartile) ². The water utility collects water, treats it, and distributes to customers.

Credit Overview

Honolulu Water has a strong credit position and its Aa2 rating is slightly above the US water systems median of Aa3. Notable credit factors include a very large system, the service area's healthy resident income profile and strong debt service coverage. It also reflects a manageable debt profile and solid liquidity.

System Characteristics: The system profile of the water utility is strong and is relatively favorable in comparison to the Aa2 rating assigned. The system size, measured as operating and maintenance expenses (\$162 million), is much larger than the US median. In addition, median family income equals a healthy 131% of the US level. In December 2021, the utility shut down its Halawa Shaft pumping station, which delivers 20% of water to metropolitan Honolulu, due to a contamination of the Navy's water supply from the Red Hill Shaft. The board's Halawa Shaft and the Red Hill Shaft source water from the same aquifer. Overall, this presents a limited credit risk as the board is able to pump at higher rates from other well stations to make up for this loss. Extended closure of the shaft may result in mandatory water conservation measures and moratoriums on new water use to prevent the effects of over pumping other well stations.

Financial Strength: The financial position of Honolulu Water is robust. The coverage of annual debt service by net revenue (4.1x) is very strong and is well above the US median. In addition, debt to operating revenue (1.4x) is consistent with other Moody's-rated water systems nationwide. Lastly, days cash on hand (314 days) is solid but lower than the US median.

Legal Provisions: Legal provisions, which typically include a rate covenant requiring a minimum of 1.0x coverage of debt service or more, are adequate across this sector.

Sector Trends - Hawaii Water

Water and sewer systems in Hawaii have an above-average median age of plant, primarily driven by substantial capital investment in recent years to address environmental issues. Water supply is good, with no supply constraints and minimal treatment requirements.

Utility rates are governed by respective city and county councils and can be adjusted at any time, but are generally set annually.

EXHIBIT 1

Key Indicators ^{3 4} Honolulu Water

Credit Metrics	2016	2017	2018	2019	2020	US Median	Credit Trend
Annual Debt Service Coverage (x)	5.33x	4.55x	2.82x	4.68x	4.04x	2.20x	Weakened
Days Cash on Hand (Days)	150	249	186	317	314	416	Improved
Debt to Operating Revenues (x)	1.8x	1.1x	1.1x	1.1x	1.4x	1.8x	Stable
Median Family Income (% of US Median)	132%	132%	132%	131%	131%	100%	Stable
Remaining Useful Life of Capital Assets (Years)	25	24	24	25	27	31	Stable

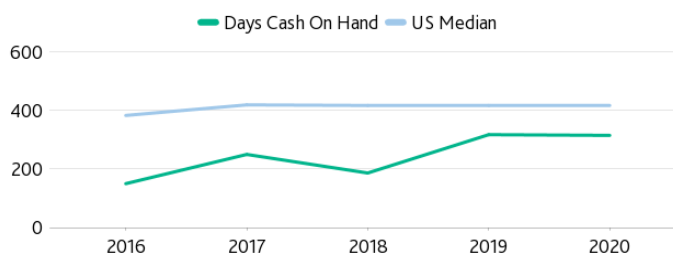
Debt and Financial Data (\$000s)	2016	2017	2018	2019	2020	US Median
Net Funded Debt	\$438,510	\$259,107	\$247,066	\$248,121	\$333,889	\$32,860
Total Revenues	\$243,154	\$231,008	\$232,603	\$247,462	\$252,354	\$18,441
Operating and Maintenance Expenses	\$138,592	\$134,603	\$143,375	\$147,319	\$162,356	\$10,192
Net Revenues	\$104,562	\$96,405	\$89,229	\$100,143	\$89,998	\$8,919
Debt Service	\$19,610	\$21,193	\$31,647	\$21,406	\$22,250	\$3,785

Governance/Legal Provisions	Score
Rate Management	Aa
Regulatory Compliance and Capital Planning	Aa
Rate Covenant	A
Debt Service Reserve Requirement	A

Source: Moody's Investors Service

EXHIBIT 2

Days cash on hand has increased from 2016 to 2020

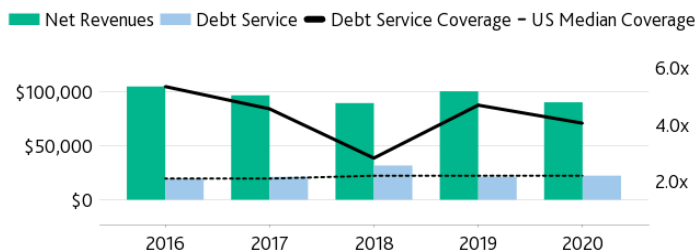


Source: Moody's Investors Service

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EXHIBIT 3

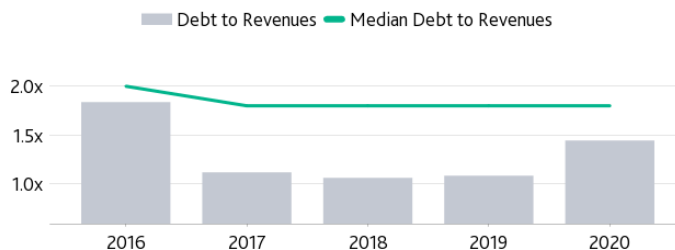
Debt service coverage decreased from 2016 to 2020



Source: Moody's Investors Service

EXHIBIT 4

Debt to operating revenues decreased from 2016 to 2020



Source: Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the rating of the senior most lien on the relevant pledged revenues. Some utilities have bonds separately secured by distinct revenue sources. For these utilities, the rating referenced in this report is the senior most rating only on the relevant revenue pledge (e.g., water); the utility could have a higher rating on a different type of revenue bond (e.g., sewer).
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 Moody's calculations of various statistics can be different than calculations reported in audited financial statements or offering documents. Moody's makes standard adjustments to reported financial data, to facilitate comparisons across issuers. For definitions of the metrics in the Key Indicators Table, see our [US Municipal Utility Revenue Debt](#) methodology.
- 4 The medians come from our most recently published municipal utilities medians report, [Medians - Rate increases support stable financial metrics in 2019 \(May 2021\)](#).

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