MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Hawaii's GO bonds to Aa2; outlook stable

31 Jul 2020

New York, July 31, 2020 -- Moody's Investors Service has downgraded rating on the State of Hawaii's general obligation bonds to Aa2 from Aa1. At the same time, we have downgraded the state's highway revenue bonds to Aa2 from Aa1; the Department of Hawaiian Homelands' Certificates of Participation (Kapolei Office Facility), 2017 Series A to Aa3 from Aa2; and the Department of Hawaiian Homelands' Revenue Bonds, Series 2017 to A1 from Aa3. These actions affect approximately $9 billion of outstanding debt. At this time, we have also assigned a Aa2 rating to the state's planned issue of $900 million Taxable General Obligation Bonds of 2020, Series FZ. The outlook is revised from negative to stable.

RATINGS RATIONALE

Today's action downgrading Hawaii's long term debt reflects the impact of the coronavirus pandemic on the state and its important tourism industry. The state is experiencing a severe decline in the state's tax revenues as a result of the rapid downturn in visitor arrivals, resulting in a multi-year fiscal imbalance and the need for significant spending adjustments. The state does not expect visitor arrivals and tax revenues to return to pre-crisis level before 2024. Absent significant additional federal assistance, the state's financial plan will likely include a short-term deficit financing, suspending indefinitely payments to pre-fund its OPEB liability, employee furloughs, drawing down reserves, and, beyond fiscal 2021, spending cuts which have not yet been identified.

The Aa2 rating on the general obligation bonds incorporates the state's strong fiscal governance, combined with its strong financial position and liquidity entering the crisis. Balanced against these strengths are the volatility of the state's tourism industry, above average debt, pension, and OPEB liabilities; and high fixed costs.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and financial market declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

The Aa2 rating on the Highway Revenue Bonds reflects the strong coverage of debt service by pledged revenues, the diversity of the pledged revenue stream, the state legislature's demonstrated willingness to add new pledged revenues as needed to fund the state's highway program, and limited future borrowing plans. At the same time, pledged revenues are more vulnerable to a downturn in tourism than comparably-rated state highway bonds due to the significance of car rental surcharges as a share of pledged revenues.

The Aa3 rating on the Hawaiian Homelands' COPs, one notch below the general obligation rating, reflects the limited, subject to appropriation, nature of a lease security; the essentiality of the leased asset; and the state's obligation to fund administrative and operating costs of the department, including lease payments, from its general fund.

The A1 rating on the Hawaiian Homelands' Revenue Bonds, two notches below the general obligation rating, reflects the satisfactory coverage of debt service by pledged revenues, the inherent volatility and lessee concentration of these real estate-derived revenues, and the availability of state payments to the department through Office of Hawaiian Affairs to make debt service payments.

RATING OUTLOOK

The stable outlook reflects the state's generally conservative revenue estimates and our expectation that the state will utilize its strong fiscal governance tools to maintain positive reserves and adequate liquidity.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- GO: Increased economic diversification and reduced economic volatility.

- GO: Sustained reduction in debt ratios and significant and accelerated improvement in pension funded ratios.

- Highway Revenue Bonds: A sustained in coverage coupled with an upgrade of the state's GO rating.

- DHHL COPs and DHHL Revenue Bonds: Upgrade of the state's GO rating.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- GO: An extended economic downturn leading to further deterioration of revenue trends, budget imbalance, liquidity pressures, and narrowing of financial position.

- GO: Utilization of additional non-recurring solutions to balance the budget.

- GO: Increased debt ratios relative to other states, or deterioration of pension and OPEB funded ratios.

- Highway Revenue Bonds: Severe decline in pledged revenues, not offset by new revenue sources, resulting in significantly lower debt service coverage and/or a downgrade of the state's GO rating.

- DHHL COPs and DHHL Revenue Bonds: Downgrade of the state's GO rating.

LEGAL SECURITY

The state's general obligation bonds, including the Series FZ bonds, are general obligations of the state, to which the state has pledged its full faith, credit and resources. The bonds have a first charge on all general fund resources.

The Highway Revenue Bonds are limited obligations of the state, secured by a gross pledge of highway fund revenues including fuel taxes, registration fees, weight taxes, and car rental surcharges.

The Department of Hawaiian Homelands' COPs are secured by lease payments to be made by the state from its general fund for the use of the Department of Hawaiian Homeland's headquarters facility in the Kapolei area of Oahu. Lease payments are subject to appropriation by the state legislature.

The Department of Hawaiian Homelands' Revenue Bonds are special limited obligations of the department secured by a first lien on revenues from general leases, licenses, permits, and investment income collected from management and operation of the available lands. In addition, pursuant to a contract between the department and the Office of Hawaiian Affairs (OHA), a separate state agency, OHA has agreed to pay the department $3 million annually as long as the revenue bonds are outstanding. Although not pledged to the bonds, the OHA payments are specifically designated in the contract for the payment of debt service on the

revenue bonds. In practice, the department has always used the OHA payments and interest earnings on the payments to pay debt service on the revenue bonds. OHA's obligation to make the annual payments is absolute and unconditional, and not subject to appropriation by the

Related Issuers

Hawaii (State of)

Hawaii Department of Transportation

Hawaii State Department Hawaiian Homelands

Related Research

Credit Opinion: Hawaii (State of): Update to credit analysis following downgrade to Aa2 from Aa1

Credit Opinion: Hawaii (State of): Update to credit analysis following outlook change to negative from stable

Credit Opinion: Hawaii (State of)--Highway Revenue Bonds: Update to credit analysis following upgrade to Aa1

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of Hawaii (State of)

Rating Action: Moody's confirms United Airlines Holdings' Ba2 corporate family rating and Ba3 senior unsecured, downgrades senior secured to Ba1; outlook negative

state legislature.

USE OF PROCEEDS

Proceeds of the Series FZ bonds will fund various state public improvement projects.

PROFILE

Hawaii is the 40th largest state by population, at 1.4 million. Its gross domestic product is 38th largest, at $97.3 billion. The population's income levels are above average, with per capita personal income equal to 101% of the US level and a median household income equal to 130%. Its poverty rate is in the bottom third among states.

METHODOLOGY

The principal methodology used in the general obligation ratings was US States and Territories published in April 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in July 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1077147. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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