

**Rating Action: Moody's assigns Aa1 Hawaii GO bonds, Series FW, FX & FY; outlook stable**

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New York, January 25, 2019 -- Moody's Investors Service has assigned Aa1 ratings to the State of Hawaii's current offering of three series of general obligation bonds: \$454 million General Obligation Bonds of 2019, Series FW; \$50 million Taxable General Obligation Bonds of 2019, Series FX; and \$46 million Taxable General Obligation Bonds of 2019, Series FY. Following this sale, the state will have approximately \$7.8 billion general obligation bonds outstanding, all rated Aa1. The outlook on these ratings is stable.

**RATINGS RATIONALE**

Hawaii's Aa1 general obligation rating reflects its positive economic and revenue trends, the restoration and maintenance of sizable reserves, and proactive measures to improve the funding of its pension and OPEB liabilities. Pursuant to statutes, the state ramped up its OPEB contribution to 100% of the actuarially required contribution (ARC) in fiscal 2019. Notably, in fiscal years 2014 through 2018, the state contributed more than the statutorily-required amounts which will result in savings in future years. The legislature also enacted, in 2017, higher employer pension contributions in response to a significant increase in the estimated pension liability. The state's fixed costs will remain among the highest in the country at least over the medium term, which, combined with the volatility of its tourism-based economy, will challenge it in the event of a downturn.

**RATING OUTLOOK**

The stable outlook reflects the expectation that the state will maintain strong reserves while continuing to make planned progress in funding its pension and OPEB liabilities.

**FACTORS THAT COULD LEAD TO AN UPGRADE**

- Increased economic diversification and reduced economic volatility.
- Sustained reduction in debt ratios and significant and accelerated improvement in pension funded ratios.

**FACTORS THAT COULD LEAD TO A DOWNGRADE**

- Economic weakening leading to deteriorating revenue trends, budget imbalance, liquidity pressures, and narrowing of financial position.
- Return to reliance on non-recurring solutions to balance the budget.
- Increased debt ratios relative to other states, or deterioration of pension funded ratios.

**LEGAL SECURITY**

The state's general obligation bonds, including the three series of bonds that comprise the current offering, 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.

**USE OF PROCEEDS**

Proceeds of the Series FW, FX and FY 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 \$88.4 billion. The population's income levels are above average, with per capita personal income equal to 102.8% of the US level and a median household income equal to 128.9%. Its poverty rate is in the bottom third among states.

## METHODOLOGY

The principal methodology used in these ratings was US States and Territories published in April 2018. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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