MOODY'S
INVESTORS SERVICE

Rating Action: Moody's revises State of Hawaii's outlook to negative, affirms outstanding ratings

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New York, April 15, 2020 -- Moody's Investors Service has revised the outlook on the State of Hawaii to negative from stable. We have also affirmed the state's long-term ratings. The outlook change and rating affirmation apply to the following state debts: $7.2 billion, Aa1-rated general obligation bonds; $460 million, Aa1-rated Highway Revenue Bonds; $1.9 million, Aa2-rated Certificates of Participation (State Office Buildings) 2009 Series A; $13.4 million, Aa2-rated Department of Hawaiian Homelands' Certificates of Participation (Kapolei Office Facility), 2017 Series A; and $28.3 million, Aa3-rated Department of Hawaiian Homelands' Revenue Bonds, Series 2017.

RATINGS RATIONALE

Today's action revising Hawaii's outlook to negative from stable and affirming the long-term ratings on its outstanding debt, incorporates the impact of the coronavirus outbreak on the state and its tourism industry. We expect a sudden and severe decline in the state's tax revenues as a result of the rapid downturn in visitor arrivals and the negative economic effects of the state's own efforts to stem the outbreak. We expect that the decline in fiscal 2020 and 2021 will be more severe than in other states and the recovery beyond fiscal 2021 will be slower due to the significance of the tourism industry in Hawaii and the industry's dependence on air travel. The state's strong financial position and liquidity entering the crisis, as well as its strong fiscal governance, enhance its ability to enact spending cuts and other measures to offset the revenue loss, but the state will be challenged in these efforts by its high fixed costs for debt service, pensions and OPEB. The outlook revision also incorporates the mitigating impacts of substantial federal emergency assistance. This includes direct aid to the state through enhanced Medicaid matching and other cash reimbursements, and indirect aid through expanded unemployment benefits and cash payments to individuals that will help support personal income and consumption.

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.

Hawaii's Aa1 general obligation rating reflects its positive long-term economic and revenue trends, the restoration and maintenance of sizable reserves, and proactive measures to improve the funding of its pension and OPEB liabilities. The state's long-term obligations and fixed costs are among the highest in the country, which, combined with the volatility of its key tourism industry, challenge it in the event of a downturn.

The Aa1 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. The Aa1 rating also incorporates a conservative debt structure, and a legal structure that includes the state's covenants to impose pledged revenues as long as the bonds are outstanding. 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 Aa2 rating on the state's 2009 COPs, one notch below the state's Aa1 general obligation rating, incorporates the essential nature of the leased assets, the moderate legal structure, and the subject-to-appropriation nature of the state's payment obligation to make lease payments.

The Aa2 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 Aa3 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 negative outlook reflects the sudden and severe decline in the state's sales, income and tourism-related taxes expected as the negative economic effects of the decline in visitor arrivals and the state's efforts to stem coronavirus take hold, and the significant actions the state will need to take to balance the budget.

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: An increase in coverage coupled with a closing of the lien.

- State COPs, 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 weakening leading to deteriorating revenue trends, budget imbalance, liquidity pressures, and narrowing of financial position.

- GO: Utilization of significant 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.

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

LEGAL SECURITY

The state's general obligation 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 state's 2009 COPs are secured by lease payment to be made by the state for the use of state office buildings. Lease payments are subject to appropriation by the state legislature.

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 state legislature.

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 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 highway revenue bonds 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.

REGULATORY DISCLOSURES

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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating outcome announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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