

Rating Action: Moody's assigns Aa2 to Hawaii's GO bonds, 2020 Ser. GA, GB, GC; outlook stable

16 Oct 2020

New York, October 16, 2020 -- Moody's Investors Service has assigned Aa2 ratings to the State of Hawaii's \$147 million General Obligation Bonds of 2020, Series GA; \$600 million Taxable General Obligation Bonds of 2020, Series GB; and \$300 million Taxable General Obligation Refunding Bonds of 2020, Series GC. Following the new issuance, the state will have approximately \$8 billion general obligation bonds outstanding, all rated Aa2. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the State of Hawaii's general obligation bonds recognizes the significant fiscal challenges posed by the current health and economic crisis, but also the state's strong fiscal governance, its positive financial position and liquidity entering the crisis, and our expectation that the state will take timely action to respond to the challenges. Additional long-term credit factors include the volatility of the state's tourism industry; above average debt, pension, and OPEB liabilities; and high fixed costs.

The state is experiencing a severe decline in tax revenues as a result of the rapid downturn in visitor arrivals, resulting in a multi-year fiscal imbalance and the need for significant budget adjustments. The state does not expect visitor arrivals and tax revenues to return to pre-crisis levels before 2024. The state's current financial plan includes a short-term deficit financing with proceeds of the Series GA and GB bonds, indefinitely suspending payments to pre-fund its OPEB liability, employee furloughs, drawing down reserves, and spending cuts/revenue enhancements beyond fiscal 2021 which have not yet been identified.

The rapid and widening spread of the coronavirus outbreak and the deteriorating global economic outlook are creating a severe and extensive credit shock across many sectors, regions and markets. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

RATING OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- An extended economic downturn or extended stagnation in tourism leading to further deterioration of revenue trends, budget imbalance, liquidity pressures, and narrowing of financial position.
- Utilization of additional non-recurring solutions to balance the budget.
- Increased debt ratios relative to other states, or deterioration of pension and OPEB funded ratios.

LEGAL SECURITY

The state's general obligation bonds, including the Series GA, GB, and GC 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.

USE OF PROCEEDS

Proceeds of the Series GA and GB bonds will be used to balance the fiscal 2021 budget as part of the state's general fund financial plan. Proceeds of the Series GC bonds will take out bond anticipation notes issued by state earlier this year.

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 these ratings was US States and Territories published in April 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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.

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

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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 .

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