S&P Global Ratings

RatingsDirect®

Hawaii; General Obligation

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Credit Profile		
US$736.55 mil taxable GO rfdg bnds ser 2021GJ due 08/01/2027		
Long Term Rating	AA+/Stable	New
US$600.0 mil taxable GO bnds ser 2021GD due 10/01/2042		
Long Term Rating	AA+/Stable	New
US$200.0 mil taxable GO rfdg bnds ser 2021GE due 10/01/2042		
Long Term Rating	AA+/Stable	New
US$141.5 mil taxable GO rfdg bnds ser 2021GH due 08/01/2023		
Long Term Rating	AA+/Stable	New
US$107.8 mil taxable GO rfdg bnds ser 2021GI due 08/01/2024		
Long Term Rating	AA+/Stable	New
US$86.5 mil taxable GO rfdg bnds ser 2021GG due 08/01/2022		
Long Term Rating	AA+/Stable	New
US$27.5 mil taxable GO rfdg bnds ser 2021GF due 02/01/2022		
Long Term Rating	AA+/Stable	New
Hawaii GO		
Long Term Rating	AA+/Stable	Outlook Revised
Hawaii GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Outlook Revised

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings revised its outlook on Hawaii to stable from negative and assigned its 'AA+' rating to the following bonds issued by the state:

- Series GD 2021 (taxable) GO bonds;
- Series GE 2021 (taxable) GO refunding bonds;
- Series GF 2021 (taxable) GO refunding bonds;
- Series GG 2021 (taxable) GO refunding bonds;
- Series GH 2021 (taxable) GO refunding bonds;
- Series GI 2021 (taxable) GO refunding bonds; and
- Series GJ 2021 (taxable) GO refunding bonds.

At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on Hawaii's GO bonds outstanding.

The outlook revision reflects our view that despite the country's strictest pandemic response measures and continued controlled reopening of its economy, Hawaii's economic momentum has shifted sufficiently upward to provide a more manageable operating environment. While we believe the state remains susceptible to evolving pandemic-related pressures in the short term--most acutely to its broad leisure and hospitality sector--its economic recovery to date, has strengthened sufficiently to offer Hawaii a more predicable budgetary planning backdrop to achieve lasting structural balance in the future, in our view. Nevertheless, pressures on the state's overall credit profile persist, including its comparatively elevated fixed costs as it continues to address its weak pension funding and large other postemployment benefit (OPEB) obligation, which will require ongoing active budgetary management to avoid future budgetary stress. Additionally, and more immediately, in our view, its weakening demographic trends (including limited population growth, coupled with an elevated age dependency cohort compared to its similarly rated peers) could lead to stagnant economic development and consequently, lasting budgetary pressure. To the extent the state's active budget management (including its commitment to rebuild its reserves while addressing its longer-term liabilities) will remain a priority to its executive and legislative leadership, we believe its overall credit profile will remain stable within our outlook period.

All GO bonds are secured by Hawaii's full faith and credit, which the state considers its highest payment priority, according to its constitution. Proceeds of the 2021 series GD bonds will support general capital expenditure programs; with the 2021 series GE proceeds being used to refund an outstanding bond anticipation note, and all the other series' bond proceeds being used to refunding outstanding debt for debt service savings.

Credit overview

Reflecting the material improvement in revenue expectations and trends, the state's Council on Revenue (COR) initially forecasted (May 2020) a 12% decline in total general revenues in fiscal year 2021 (compared to baseline fiscal year 2020), though estimated results reflect 8.3% growth. The COR's latest forecast for fiscal year 2022 (released Sept. 7, 2021) reflects total general fund growth of 6.3% relative to fiscal year 2021. Compared to the May 2020 forecast, this reflects a near 18% upward swing in expectations for fiscal year 2022. With the support of extraordinary federal aid, the state's ability to manage through the volatility presented by the pandemic-induced recession has been easier to navigate, in our view, and has not required significant budgetary adjustments to date to narrow operating gaps. Indeed, Hawaii was able to forgo its initially planned suspension of its pre-funding OPEB contribution and made a $250 million deposit into its emergency budget reserve fund (EBRF) to begin replenishing it from its fiscal year 2020 draw.

After having used a significant portion of its EBRF and Hawaii Hurricane Relief Fund (HHRF) in the past, Hawaii entered the pandemic-induced recession from a strong position, having steadily rebuilt its balances. After a draw of $345 million from EBRF balance in fiscal year 2020, the above-mentioned deposit in fiscal year 2021 brought the balance back to $319.5 million. Combined with a general fund balance of roughly $500 million (excluding $750 million in working capital), reserves equaled 9.3% of fiscal year 2021 total expenditures. The state also held reserved funds in its HHRF ($187.2 million), which equaled an additional 2.1% of total general fund expenditures for the year. Hawaii has generally accumulated these balances in recent years by maintaining conservative fiscal practices even when the economy expanded. For fiscal year 2022, it plans to make a $1.05 billion transfer to its EBRF contingent on how the U.S. Department of Education determines how such a transfer will affect certain maintenance-of-effort funding requirements for public education as prescribed in the American Rescue Plan Act. While the transfer would require legislative approval, should it occur, the EBRF's balance alone would total 15.5% of total general fund expenditures for the year.

During periods of economic stress, the state has demonstrated a willingness to make necessary adjustments to correct structural imbalances, which we expect to continue as the current economic cycle evolves. Hawaii's financial management has also reflected an alignment with its economic realities with a commitment to growing its balances and reducing its long-term liabilities during the last economic expansion to prepare for a slowdown. While the use of reserves in an economic downturn is reasonable, we expect a commensurate demonstrated commitment to sustainable budgetary adjustments to maintain the current rating. The planned transfer in the current fiscal year in the EBRF, in our view, also reflects the reality that its previous balance was insufficient to effectively cushion a severe blow to the state's economy.

As an island-economy state, Hawaii is inherently vulnerable to the negative effects of certain types of exogenous shock events. Although its economy has proved relatively resilient to prior shocks, we believe the current evolving pandemic and the policy measures to help control its spread will continue to present unique challenges to the state, notably its broad tourism sector. That said, the state's Department of Business, Economic Development and Tourism reports that total passenger arrivals have continued to show strong improvement since the implementation of the Safe Travels Program in the fall of 2020, and in July were back to 90% of 2019 levels. Even with international travel still minimal, domestic travelers for much of the summer exceeded their 2019 levels. Though visitor arrivals have come down recently, following the general seasonal pattern, the state anticipates continued interest and desire from travelers to visit the state.

On the employment side, the Bureau of Labor Statistics reports leisure and hospitality payrolls remain depressed, standing at 75% of their peak levels just before the onset of the pandemic. They've nevertheless continued to improve substantially month over month. S&P Global Economics' baseline forecast is for U.S. GDP to expand 6.7% (annual) in 2021, up from a 3.5% contraction in 2020 relative to 2019. By 2022, the U.S. economy is forecast to grow 3.7%. (For additional information, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021, on RatingsDirect.) In tandem, employment growth is expected to revert to growth in 2021 at 3.4% relative to 2020 and followed by 3.9% in 2022, again exceeding the national level. As the state continues to climb out of the depth of the recession, we anticipate that relative to its peers, it will be marginally slower to reach its pre-pandemic output but will reach it far sooner than initially forecasted.

The 'AA+' GO rating reflects our view of:

- The state's strong financial position, which has weathered several major economic stressors, including the most recent pandemic-induced recession;
- Management's well-established, proactive budget monitoring practices, including frequent revenue forecast updates from the independent COR, which facilitates prompt identification of potential budget adjustments for budget alignment;
- The governor's executive authority to restrict all executive branch expenditures through such actions as cutting spending midyear without legislative approval or cutting or delaying disbursements during the course of a fiscal year; and

- Other strong constitutional protections, including requiring budget balance, that allow for tax increases with legislative approval and give GO bonds first-lien priority before all other disbursements.

Partly offsetting the above strengths is our view of:

- Hawaii's inherent susceptibility to exogenous shocks that have the potential to weaken its broad tourism sector, which accounted for 14% of state employment in 2020;
- The weak funded status of the state's retirement system and generally higher-than-average debt ratios because of its centralized provision of public-sector services; and
- Comparatively large OPEB liability despite statutory annual contributions, which equal the actuarially required levels, though the state is making progress by making pre-funding payments to limit growth in the future.

Based on the analytic factors we evaluate for states, we have assigned Hawaii a composite score of '1.8' on a four-point scale in which '1' is strongest.

Environmental, social, and governance factors

We consider the state's social capital risks as slightly higher than the sector given somewhat elevated aging demographics and substantially higher cost-of-living metrics that have constrained in-migration and are reflected in the state's slowing or negative population growth trends in recent years. We also view Hawaii as having exposure to acute and chronic physical risks, including potentially severe weather events--such as hurricanes and coastal flooding--and longer-term exposure to sea level rise, which could dampen its tourism-based economy. However, we believe the state has incorporated these risks in its long-term capital plans and has exhibited resilience over the longer term as demand for tourism has experienced a swifter recovery despite these environmental and social risks. We view the state's governance risks as being in line with the sector and it has historically maintained a strong management and policy framework to respond to pressures posed by high fixed costs.

Stable Outlook

Downside scenario

Should the state's economic recovery stumble, leading to deteriorating fiscal performance and lower-than-projected reserves, we could lower the rating. Additional downside potential exists should the state's weakening demographic profile not improve--namely, its elevated age dependency ratio and limited population growth. Further growth in its debt and long-term liability profile escalating to a level we no longer believe is sustainable, despite the state's proactive management, would also likely lead to a downgrade.

Upside scenario

An improvement in the state's economic metrics including an uptick in population and leveling age-dependency ratio could support upward ratings potential. However, despite the progress and commitment Hawaii has demonstrated with respect to its pension and other long-term liabilities, we believe these obligations currently represent a constraint on upward movement of the ratings. We specifically do not expect to raise the rating until the state has shown a steady trend toward a well-funded pension system, which we believe is beyond the current outlook period.

Credit Opinion

Governmental Framework

Hawaii's constitution requires that the state operate on a balanced budget, including on an intrayear basis, as it monitors revenues and expenditures throughout the year and makes necessary adjustments to ensure that general fund expenditures do not exceed current general fund revenues and unencumbered cash balances. There are no constitutional restrictions on its ability to raise taxes or other revenues, but property tax authority rests with the counties. Approval of taxes is by simple majority vote of the legislature, and the legislature has broad legal latitude to adjust spending levels. The governor has authority to restrict all executive branch expenditures and to cut spending midyear without legislative approval via such methods as cutting or delaying spending on education, but this is politically difficult in practice.

Hawaii is not a voter-initiative state, and no vote is required to issue GO bonds or increase taxes. GO bonds in Hawaii have a first-lien status, prior to all other payments, and the issuance of GO bonds must be authorized by a majority vote of the legislature.

The Hawaii state government is highly centralized, so the level of services provided to local governments is higher than in other states. The state directly runs the public school system, as well as the university and community college systems. It also administers the public welfare system and operates prisons, harbors, and airport systems. The county functions are primarily property related (police, fire, streets, water, sewer, and parks). That being said, Hawaii is less exposed to fiscal pressures from rising health care and Medicaid costs than are most states. Its Prepaid Health Care Act of 1974 effectively mandates that employers provide health care coverage for any employees who work 20 hours or more per week, which has resulted in historically high rates of health care coverage. The transition to complying with the Federal Patient Protection and Affordable Care Act has, therefore, been more incremental in Hawaii than in most states.

On a four-point scale in which '1' is the strongest, we have assigned a score of '1.7' to Hawaii's governmental framework.

Financial Management

We consider the state's management practices strong under our Financial Management Assessment (FMA) methodology. An FMA of strong indicates our view that practices are strong, well embedded, and likely sustainable. Among the highlights of the state's management techniques are statutorily required six-year operating and capital budgets that are updated by the governor and finance staff annually for legislative approval. COR provides quarterly revenue forecasts for inclusion in the biennial budget, budget updates, and the multiyear financial forecast. The state's finance staff identifies budget variances throughout the year, and the governor is empowered to curtail expenditures without legislative approval, if required. The finance staff and treasury adhere to an official investment policy, and investment performance is disclosed monthly.

There are statutory debt caps, including a calculation to ensure that the total amount of debt service payments required will not cause the state to exceed its debt limit of 18.5% of the average of three prior years' general fund revenues. The state constitution requires that all GO state debt begin to amortize principal within five years of issuance, mature within 25 years, and have either level debt service or level principal payments. The state currently does not use swaps or other derivative products. The legislature created the EBRF, which serves as an emergency fund. A formalized reserve policy has been established with a target of 5% for the unassigned general fund carryover balance and 10% for the EBRF. Additionally, legislatively mandated debt policies and a debt affordability study were adopted in fiscal 2017, restricting the amount and types of bonds issued by the state.

Budget management framework

COR, a seven-member, independent revenue forecasting body, prepares revenue forecasts at least quarterly, but also in special sessions when fiscal conditions warrant. The executive branch and legislature are required to consider the council's estimates in the budget process. Should they use a different forecast, this development and the rationale must be publicized.

Spending is controlled through an allotment system, and the Hawaii Department of Budget and Finance monitors expenditures throughout the year. Budget adjustments are implemented periodically throughout the fiscal year as the state considers necessary. Restrictions can be implemented at any time but are usually imposed at the beginning of the fiscal year. Adjustments requiring legislative action are handled during the legislative session, which begins shortly after the start of the third quarter; in extraordinary circumstances, a special legislative session may be called. The governor has unilateral authority to restrict executive branch spending. Legislative approval is required to authorize spending, impose new taxes, or increase existing ones.

We have observed that the state has demonstrated willingness to provide timely and structural budget solutions when confronting previously projected budget deficits in the past decade. Generally, enacted deficit-closing solutions have been mostly structural, though one-time solutions were deployed most recently.

On a four-point scale in which '1' is the strongest, we have assigned a score of '1' to Hawaii's financial management.

Economy

Prior to the onset of the pandemic economic indicators such as GDP and population growth for the state had slowed relative to similarly rated peers. Hawaii's population is also growing older, putting the state in a slightly weaker demographic position, in our view, than the nation as a whole. In our view, this could result in a challenge for the state in funding government services and anticipated increases in longer-term health care costs for the elderly as the working-age population will barely increase over the next decade.

As the state climbs out of the depth the recession, we anticipate Hawaii's economy will produce comparatively stronger growth than the U.S. given that its economic trough was deeper than the nation as a whole, though, before leveling off in outer years. We note, however, that prior to pandemic state output had been growing more slowly than U.S. GDP, and the gap has widened more recently through the pandemic-induced recession. Over the past 10 years, state GDP grew in real terms at a compounded average annual rate of 0.65%, which is below the average U.S. annual rate of GDP growth of 1.68%. For 2020, IHS Markit estimates that Hawaii's GDP contracted by 8%, higher than the projected 3.4% national decline. For 2021, IHS forecasts 5.4% growth, again falling short of the national level of 6.1% growth, although likely to accelerate, with 7.8% growth in 2022 and 4.4% in 2023 exceeding the national level by 3.4 and 3.1 percentage points, respectively.

Similar to sluggish GDP growth, population growth rates have slowed recently, with 2021 growth estimates, according to IHS, showing growth remained flat through 2023 in contrast to the national average growth of 0.5%. During the past 10 years, Hawaii's population compound annual growth rate increased 0.31% per year, on average, versus 0.63% for the nation. The state's age-dependency ratio increased to 67.3% in from 58.4% in 2012, higher than the nation as a whole, which has a ratio of 63.1%. IHS estimates that Hawaii's aging, 65-plus population represents a growing 18.4% of its total population (2019), which was among the highest proportions of the elderly among all the states. This proportion is expected to increase to 20% by 2025, ranking Hawaii near the fifth-most-aged state in the country. Should the state's population growth continue to fall behind the rest of the country, we would likely revise our assessment of its overall economic score to weaker levels.

In our view, the strong presence of military facilities and corresponding spending from federal sources provide a stabilizing anchor to the state. While susceptible to fluctuations in national defense spending, military payrolls have remained stable over the last two decades, which collectively with contract spending accounted for 7.7% of state GDP, according to the state's Department of Business, Economic Development and Tourism, ranking it second among all states. The incomes of these personnel and households have a stabilizing influence on the rest of the state economy, in our view.

On a four-point scale in which '1' is strongest, we have revised our score of Hawaii's economy to '1.9'.

Budgetary Performance

More than a decade removed from the Great Recession and steadily rebuilding its reserves, the state relied on its EBRF in fiscal year 2020 to support operations. At the end of fiscal 2020, combined general fund and EBRF balances are to decrease to approximately $1.05 billion from $1.1 billion in 2019. The state has maintained an additional $191.3 million in its HHRF at the end of 2020. Unaudited fiscal year 2021, combined general fund and EBRF reserves grew to approximately $1.57 billion, which includes $750 million in working capital funds; net of working funds, reserves stood at nearly $820 million, or approximately 10.2% of general fund operations. Of note, a deposit of $250 million was appropriated into the EBRF to replenish the balance. The HHRF remained relatively unchanged at $187.2 million in fiscal year 2021. That fund was established to provide hurricane insurance policies when they are not available in the private market. Although the state has used the fund for general reserves in the past, we do not currently consider the HHRF in our calculation of its fund balances but recognize its availability in the event of budget or liquidity pressures. Favorable revenue trends, preceding the pandemic enabled the state to accumulate impressive general fund ending balances and budget reserves that, in our view, added to its capacity to weather the potential for economic softening.

A formalized state reserve policy has been established with the administration committed to maintaining budget reserves equal to 10% or more of general fund revenues, which we view favorably. While financial reserves remain particularly important for Hawaii given its above-average fixed costs stemming from its relatively large long-term liabilities, it has achieved an especially strong position. We anticipate the state will remain committed to strengthening its reserves to provide additional flexibility to shifts in budgetary performance, which we view as essential given its comparatively higher long-term liability costs.

For fiscal 2021, the legislature authorized a combination of reduced appropriations and the governor authorized suspension of its OPEB prefunding to address Hawaii's then-projected fiscal deficit. The state also authorized certain budget measures, which we viewed as one-time in nature, including the authorization of $2.1 billion working capital borrowing (of which it used $750 million for the fiscal year) and use of $183 million in the HHRF. As initially outlined, we calculated the structural deficit (which does not include anticipated resources from working capital borrowing) in the general fund for fiscal 2021 to be $1.3 billion, or about 15% of annual expenditures. By fiscal year-end, the state did not have to rely on certain measure given the reversal of tax revenue growth and extraordinary federal aid. Excluding working capital, the general fund operating deficit (preliminary unaudited) for fiscal year 2021 totaled approximately $503 million, or 5.7%. We note, however, that the state appropriated $390 million to continue its pre-funding progress for its OPEBs and also made a $250 million deposit into its EBRF.

Federal aid to the state, like all states, has been indispensable in providing support across functions to manage the negative consequences of the pandemic and support a stronger recovery. In 2020, Hawaii reports to have been allocated $12.45 billion, including roughly $7.9 billion from the Coronavirus Aid, Relief, and Economic Security Act and $3.6 billion for the Paycheck Protection Program and Health Care Enchantment Act. Additionally, the Consolidated Appropriations Act, 2021 provided $1.38 billion with another $5.5 billion made available under the American Recuse Plan Act of 2021.

Audited financial statements (GAAP fiscal year 2020)

Audited fiscal results for 2020 published in the state's annual comprehensive financial report indicate that general fund tax revenues consisted primarily of the general excise and use taxes (approximately 46% of revenues) and the individual and corporate income tax (36%). The audited combined ended assigned and unassigned fund balance in fiscal 2020 was $1.7 billion, or 18% of expenditures before other financing sources. At the end of fiscal 2020, cash and equivalents across all governmental funds totaled $880.26 million, or 12.78% of general fund expenditures on a GAAP basis. Cash is monitored on a daily basis, with daily reports reflecting the state's investment positions. The state forecasts its liquidity needs on a one-year-forward basis, including recurring and known expenditures (debt service payments and payroll), and makes investments to provide liquidity on those dates. Annual cash flow is generally predictable, although the state has made revisions of forecasted revenue trends through economic cycles. The state monitors and manages its disbursements with greater-than-average scrutiny to provide for positive general fund balances at fiscal year-end.

On a four-point scale in which '1' is strongest, we have assigned a score of '1.4' to Hawaii's budgetary performance.

Debt and liability profile

GO bond authorizations require a majority vote of the legislature, and each year, the state's GO authorization bill determines the aggregate amount of GO bonds that may be issued to finance capital improvement projects. The bill also provides a calculation to ensure that the total amount of debt service payments required will not cause the state to exceed its debt limit of 18.5% of the average of the preceding three years' general fund revenues. Furthermore, Hawaii's Constitution requires that all GO debt begin to amortize principal within five years of issuance, mature within 25 years, and maintain level debt service payments.

Hawaii's debt ratios, as of June 30, 2020, on a per capita and percentage basis were high, in our view, with direct state debt (including GO and highway debt) approximately $7.3 billion, or $5,171 per capita, 8.5% of total state personal income, and 8.1% of state GDP, which ranks among the highest of all the U.S. states. In our view, Hawaii's high per capita debt reflects its capital finance responsibilities for many functions that, in other states, are generally financed by local governments, including education, health, and welfare. Debt amortization is rapid, with 67% of principal repaid within 10 years. Total annual tax-supported debt service (GO bonds, appropriation-backed debt, and the state highway fund) equaled $901 million in fiscal 2020, or about 11.2% of the expenditures from the general and state highway funds, which we consider high.

Pension liabilities

Pension benefits are administered by the ERS of the State of Hawaii, which began operations on Jan. 1, 1926. The system is a cost-sharing, multiple-employer, defined-benefit pension plan that covers all regular employees of the state and each of its counties, including judges and elected officials. The state recognized a net pension liability of $14.6 billion for fiscal 2020. This translates to $5,614 on a per capita basis and 9.2% of total personal income, both of which we view as high.

We consider the state's three-year average pension funded ratio weak at 55%. The plan reported what we still consider a pension actuarial market funded ratio of 55.3% as of June 30, 2020. Despite annual valuations, the state historically does not adjust its pension contributions mid-biennium, resulting in a delayed response to required contribution increases. In addition, its prior practice (which ended in 2005) of reducing employer contributions when investment returns exceeded the assumed rate of return contributes to the ERS' currently relatively low funded ratio.

The state has put in place numerous reforms to improve pension funding. Notably, it adopted Senate Bill 936 in the 2017 legislative session to restore the ERS to full funding within the statutorily required 30 years by phasing in higher systemwide contribution rates through 2021. The bill required contribution rates to increase to 24% by fiscal 2021 for the general plan and a more aggressive jump to 41% by fiscal 2021 for police and fire. The state also adopted a bill which enables each separate employer to be credited individually for advance payments made into the ERS, which may create an incentive for employers to pay down liabilities faster. Previously, an advance payment by one employer benefited all employer members in the system. In our opinion, the successful implementation of the increased contribution rate and other reforms are vital to the state's long-term financial capacity and are essential to maintaining credit quality. To the extent that the changes lead to significant strain on future budgets operations or reserves, we could view this as an indication of weakening financial capacity.

Annual pension contributions are set according to statutory formula. Since 2011, the contribution rate has repeatedly been applied to a smaller-than-expected state government workforce, the growth of which was constrained in response to the Great Recession. As a consequence, actual contributions have fallen short of the actuarially recommended level, though they are typically above 90% of it. However, the state's phased-in statutory contributions are expected to meet its actuarially determined contribution.

We believe that management factors and actuarial inputs do not change our view of the state's overall pension funding discipline, which we view as weak. However, we also believe that successful implementation of the pension reforms could improve our opinion of funding discipline over time. The ERS sets statutory contribution rates based on a 30-year amortization period and a level percentage of pay method, which assumes rising future payroll and results in escalating pension contributions over time. The plan reported an actual 1.3% rate of return as of June 30, 2020, which is lower than its current actuarial assumed rate of return of 7%. However, the state reported favorable investments conditions in fiscal 2021, resulting in an estimated 26.2% return on investments. Additionally, the plan smooths assets based on a four-year window of actuarial value of assets. This means significant costs are being deferred when investment losses occur. The plan's ratio of active members to beneficiaries equals 1.4, which is in line with the median national ratio. However, the plan's weak pension funded ratio is below the median. It was the ERS' practice to produce an experience study every five years, but state law now requires experience studies to be completed every three years.

OPEB risk assessment

In 2013, Hawaii enacted legislation (Act 268), which initiated a schedule for prefunding its retiree health care benefit liability. Under the legislation, the state's prefunding of the OPEB liability would ramp up to 100% of the annual required contribution (ARC) by fiscal 2019 from 20% of the ARC in fiscal 2015. Although Hawaii's efforts to prefund its OPEB liability were temporarily suspended at the onset of fiscal 2021, the state restored these funds, making its $437 million OPEB contribution requirement and an additional $390 million contribution in excess of the ARC in July 2021. We believe it illustrates the policymakers' ongoing commitment to addressing liabilities.

It is common that pension and OPEB reform efforts produce material improvement in key metrics only as a result of sustained commitment on the part of policymakers and sometimes over many years. While the effects of Hawaii's Act 268 and its various pension reforms do not result in an immediate improvement to our rating on the state, we view them as important to its ability to maintain the current rating through economic cycles while also enhancing its potential for a higher rating.

We have assigned a score of '3.2' out of '4' to Hawaii's debt and liability profile, on a scale where '1' is the strongest score and '4' the weakest.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020