S&P Global
Ratings

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Summary:
Hawaii; General Obligation

Primary Credit Analyst:
Thomas J Zemetis, New York + 1 (212) 4381172; thomas.zemetis@spglobal.com

Secondary Contact:
Ladunni M Okolo, Dallas + 1 (212) 438 1208; ladunni.okolo@spglobal.com

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Summary:

Hawaii; General Obligation

Credit Profile		
US$750.0 mil taxable GO bnds of 2024 ser GN due 10/01/2043		
Long Term Rating	AA+/Stable	New
Hawaii GO		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Hawaii's $750 million general obligation (GO) bonds, 2024 series GN (federally taxable).
- At the same time, we affirmed our 'AA+' long-term rating on the state's GO debt outstanding.
- The outlook is stable.

Security

Hawaii's 2024 series GN bonds and GO debt outstanding is secured by the state's full faith and credit and taxing power.

Proceeds from the 2024 series GN bonds will be used to finance or reimburse the state for various public capital improvement projects.

Credit overview

Our long-term rating incorporates our view of Hawaii's proactive financial management and oversight, including the state's demonstrated commitment to expenditure adjustments to close budgetary gaps and its use of comprehensive long-term revenue and expenditure growth forecasting to align finances with evolving economic conditions and manage its relatively high long-term liabilities compared with peers. We view the state's commitment to financial stability and emphasis on long-term planning as an important underpinning of its credit quality, given the pandemic and wildfires on Maui in 2023 that have been disruptive to its leisure and hospitality sector. In our view, Hawaii's economy is positioned to steadily strengthen over the outlook horizon due to a steady flow of domestic tourism and an incremental rebound in international tourism activity in 2024, exceeding the state's conservative economic growth forecasts. The additional visitor spending and a stable-to-improving revenue base will enable the state to achieve structurally balanced budget performance and build on historically high reserve and liquidity levels.

S&P Global Ratings Economics forecasts U.S. real GDP growth will slow from above-trend growth this year (2.7%) to below trend (1.7%) in 2025, accompanied by a rise in the unemployment rate and lower inflation (for more information, see "Economic Outlook U.S. Q4 2024: Growth And Rates Start Shifting To Neutral," published Sept. 24, 2024). In contrast, Hawaii's recovery was marginally slower than that of the nation in the past two years. However, S&P Global Market Intelligence projects Hawaii's real GSP growth will exceed U.S. real GDP growth in 2025 and remain close thereafter. This expectation is partially driven by an increase in private residential properties, hotel development, and substantial public and military capital projects that has propelled construction sector activity. The state's Department of Business, Economic Development, and Tourism (DBEDT) also reports that visitor arrivals recovered to about 92% of 2019 levels (with domestic visitor arrivals having fully recovered to 106% of 2019 levels) through August 2024, and it forecasts visitor spending will remain buoyant at $20.7 billion in 2024, or 116.3% of 2019 levels. International travel continues to lag in its recovery (69% of 2019 levels) due to weaker economic conditions overseas and foreign currencies that have weakened purchasing power against the U.S. dollar. DBEDT currently forecasts visitor arrivals to reach a near-full recovery compared with pre-pandemic numbers in 2027, though robust growth in visitor spending since the pandemic has supported Hawaii's favorable revenue performance and financial stability.

Hawaii's October 2024 update to the 2024-2029 financial plan shows planned spend-downs of general fund carry-over balance that could continue through fiscal 2026. This incorporates expected use of fund balance for nonrecurring capital expenditures and Maui wildfire recovery costs, and we do not consider these drawdowns to be indicative of structural budget imbalance. Due to better-than-anticipated revenue performance in fiscal 2024, Hawaii's financial plan estimates this reduction in the carryover balance totaled $586.0 million for fiscal 2024 (including a $500 million deposit to the Emergency and Budget Reserve Fund [EBRF]) and will be followed by a $520.4 million spenddown for fiscal 2025, less than what the state had projected in December 2023. This will bring the ending balance to approximately $1.1 billion at the end of the fiscal 2024-2025 biennium. Absent further policy adjustments by the state legislature, out-year financial plan projections show operating surpluses of approximately $374 million, $971 million, and $1.3 billion in fiscal years 2027, 2028, and 2029, respectively, and growth in the state's carryover balance to nearly $3.7 billion, supporting our view of Hawaii's commitment to long-term planning and financial stability. At the beginning of the current biennium, the state deposited $542.5 million in the EBRF, increasing the balance to $1.52 billion, or approximately 14.8% of budgeted fiscal 2024 revenue. This level of reserves, coupled with substantial liquidity in its treasury portfolio, in our view, provides Hawaii with a substantial cushion to aid short-term recovery efforts or to offset temporary revenue losses from reduced economic activity.

On July 9, 2024, Hawaii's governor signed into law supplemental budget appropriations of nearly $500 million, including general fund appropriations to fund the state share of health care initiatives and education-related costs, as well as GO bond funds for affordable housing. These supplemental appropriations are funded by reducing a planned fiscal 2025 deposit to the EBRF and realized savings from other projects. Hawaii also redirected $407 million in general fund appropriations in the original biennium budget to be deposited in the Major Disaster Fund to support Maui recovery efforts. Management estimates approximately $226 million will be needed for the fiscal 2026-2027 biennium to fund the state's portion for temporary housing, financial assistance, and the rebuilding of public infrastructure in Maui, although some costs might be reimbursed by the federal government. The state continues to work with various parties on a settlement of pending lawsuits, including insurance companies, Hawaiian Electric, Kamehameha Schools, and Maui County, of which the state has agreed to contribute approximately $800 million toward the settlement, and $65 million to the One Ohana Fund.

On Sept. 5, 2024, Hawaii's Council on Revenue (COR) lowered its fiscal 2025 general fund revenue growth forecast to 3.5% from 4.8%, which reflects softer-than-expected tax revenue collections due to recent income tax-relief measures and conservative expectations for slower-than-anticipated visitor activity. The COR also lowered its outyear revenue forecast, with growth estimates of 2.2% (from 4.5%) for fiscal 2026, 3.5% (from 4.0%) for fiscal 2027 and 3.1% (from 3.5%) for fiscal 2028, followed by a leveling of revenue growth at 3.1% for fiscal years 2028 and 2029. We view the forecast assumptions as reasonable relative to Hawaii's economic expectations and outyear growth due to federal and state assistance and insurance claim funds to support recovery efforts in Maui County.

In addition, we are monitoring the effects of recent tax changes on Hawaii's ability to sustain revenue growth to match its higher service levels. Hawaii enacted income-tax reductions to help address affordability challenges, including an incremental increase to the standard deduction for joint and single filers in tax years 2024, 2026, 2028, 2030, and 2031, raising it to $24,000 and $12,000 for joint and single filers, respectively, from $4,400 and $2,200 over this period. The changes also decrease tax rates and eliminate the bottom income tax brackets in tax years 2025, 2027, and 2029. Although the changes are phased in over seven years, the state estimates the loss to the general fund of $240.3 million for fiscal 2025, $596.6 million for fiscal 2026, $740.1 million for fiscal 2027, and $922.7 million for fiscal 2028. Between fiscal years 2028 and 2032, the projected annual loss in general fund revenue could exceed $1.0 billion. As tax policy changes are fully implemented and economic conditions evolve, we will closely watch actual income tax collections compared with forecasts and how Hawaii implements adjustments to its budget in response to potential revenue shortfalls, should they occur. We will also assess the potential effects on the state's revenue base stemming from a more concentrated general excise tax (GET), which could be a key indicator of Hawaii's fiscal health across economic cycles. At 41.8% of general fund revenue for fiscal 2024, GET is the state's largest general fund revenue source and is supported by both residents and visitors.

In our view, Hawaii's elevated debt, pension, and other postemployment benefits (OPEB) liabilities, which are among the highest of all the U.S. states, remain long-term pressures on its credit profile. High per capita debt reflects Hawaii's issuance for many functions that, in other states, are generally financed by local governments. Including the state's comparatively elevated fixed costs, particularly a very high debt burden, we believe active management will be required to avoid future budget stress as Hawaii continues to implement reforms to improve its historically weak pension funding and large OPEB obligations.

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

- Hawaii's position as an island-state economy and a preeminent market for domestic and international tourism, albeit with per capita gross state product and income metrics that are slightly below those of the nation. The state's economy will continue to expand at a pace close to the U.S. average over the outlook horizon, supported by construction, military, government, and the state's broad tourism sector. However, it has some inherent susceptibility to external shocks that could weaken key industries.
- The state's resilient and stable financial position, partially supported by growth in income and GET revenue, which has been generated by recent high spending by visitors. Hawaii's financial performance and reserves remain resilient, having weathered several major economic shocks, including pandemic-related travel restrictions and other events.
- Management's well-established, proactive budget-monitoring practices, including frequent revenue forecast updates from COR, and the state's identification of potential expenditure adjustments for budget alignment through a long-term financial plan.

- Relatively low pension funding compared with that of peers, coupled with elevated per capita debt measures because of Hawaii's centralized provision of public-sector services and debt financing on behalf of local governments. The state also has a comparatively large OPEB liability despite statutory annual payments that equal the actuarially required contributions, although it has made progress by prefunding payments to limit future growth.
- A centralized institutional framework, highlighted by strong constitutional protections that require maintenance of a balanced budget and strong executive authority granted to restrict expenditures, including midyear cuts or delays to spending disbursements without legislative approval, coupled with no history of voter initiatives and a simple majority approval by the legislature to raise revenue.

Environmental, social, and governance

Hawaii's exposure to acute physical risk events, including hurricane and wildfires, and chronic physical risks from rising sea levels could lead to economic and budgetary stress following a high-impact event, which we view as a moderately negative consideration in our credit rating analysis. However, several mitigants, including the state's strong financial management incorporating physical risks into its long-term planning, the establishment of a hurricane-relief fund to support private property insurance, and statewide coordination and oversight through its Emergency Management Agency, alleviate the additional pressure. Although we view social capital factors as neutral within our credit rating analysis, Hawaii's aging demographics and substantially elevated cost-of-living and housing affordability could affect its economy if long-term trends intensify, although the state has increased its affordable housing programs and tax relief efforts in an attempt to address potential long-term risks. We view governance risks as neutral, given that Hawaii historically has had a strong management and policy framework to respond to pressures posed by high fixed costs.

Outlook

The stable outlook reflects Hawaii's strong financial management and very strong reserves, which remain particularly important for the state given its heavy reliance on tourism. It also reflects our expectation that the state's debt burden will moderate after repayment of working capital debt.

Downside scenario

Should Hawaii's economic growth regress, resulting in deterioration of financial performance and reserves, we could lower the rating. In addition, a weakening debt and long-term liability profile to a degree that we no longer believe is sustainable, despite the state's proactive management, could also lead to a downgrade.

Upside scenario

Despite Hawaii's demonstrated commitment to addressing its elevated long-term liabilities, we believe the currently high debt burden, coupled with slowing population growth relative to those of peers and a higher reliance on tourism-related activities, make an upgrade unlikely. We do not expect to raise the rating unless the state demonstrates substantial and sustained improvement of these metrics to levels commensurate with those of higher-rated peers.

For more information, see our full analysis on the state, published Oct. 1, 2024, on RatingsDirect.

Table 1

Hawaii--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	2.30
Economy	2.5
Financial performance	1
Reserves and liquidity	1
Debt and liabilities	6.00
Management	1.00

Table 2

Hawaii--Key credit metrics

	2024e	2023a	2022a	2021a
Economy				
State population ('000s)	--	1,435	1,439	1,447
Real GSP per capita ($)	--	61,759	60,388	58,392
Real GSP per capita % of U.S.	--	92	92	91
State PCPI ($)	--	66,189	62,589	61,113
State PCPI % of U.S.	--	95	95	95
State unemployment rate (%)	--	3.0	3.3	6.0
Financial performance - S&P Global Ratings adjusted				
Operating fund revenues (mil. $)	10,636	10,192	10,212	9,003
Operating fund expenditures (mil. $)	11,222	10,632	8,842	8,756
Operating result (mil. $)	-586	-440	1,369	247
Operating result % of revenues	-5.5	-4.3	13.4	2.7
Reserves and liquidity - S&P Global Ratings adjusted				
Available reserves (mil. $)	1,516	974	326	320
Available reserves % of operating revenues	14.8	9.6	3.2	3.5
Debt and liabilities				
Net direct debt cost % of revenues	--	6.4	6.3	6.3
Pension and OPEB cost % of revenues	--	8.9	11.3	14.3
Total current cost % of total government revenues	--	15.3	17.6	20.7
Net direct debt (mil. $)	--	9,293	9,289	9,011
Net direct debt per capita ($)	--	6,477	6,456	6,234
Direct debt 10-year amortization (%)	--	67	69	68
Combined NPLs (mil. $)	--	7,392	7,438	6,918
NPLs per capita ($)	--	5,151	5,170	4,786
Combined pension plan funded ratio (%)	--	63.0	62.8	64.3

Financial performance and reserve data and ratios may reflect analytical adjustments. Economy data is sourced directly from S&P Global Market Intelligence and reported on a calendar year basis, while financial data is reported on a fiscal year basis. Combined plan net pension liabilities (NPLs) are calculated applying respective state proportionate share of plan NPLs. Available reserves Emergency and Budget Reserve Fund balances reported as of state fiscal year-end June 30. GSP--Gross state product (real). PCPI--Per capita personal income (nominal). OPEB--other postemployment benefits. e--Estimated. a--Actual.

Ratings Detail (As Of November 15, 2024)

Ratings Detail (As Of November 15, 2024) (cont.)		
Hawaii GO		
Long Term Rating	AA+/Stable	Affirmed
Hawaii GO		
Long Term Rating	AA+/Stable	Affirmed
Hawaii GO		
Long Term Rating	AA+/Stable	Affirmed
Hawaii GO		
Long Term Rating	AA+/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.