

13 NOV 2024

## Fitch Rates Hawaii's \$750MM GOs 'AA'; Outlook Stable

Fitch Ratings - New York - 13 Nov 2024: Fitch Ratings has assigned 'AA' ratings to the following state of Hawaii (state) general obligation (GO) bonds:

--\$750 million taxable GO bonds of 2024 series GN.

The par amount is subject to change, dependent on market conditions.

The bonds will price via negotiated sale on or about December 4. Proceeds will be used to finance capital projects and reimburse the state for prior capital expenses.

Fitch has also affirmed the following ratings:

--State of Hawaii Long-Term Issuer Default Rating (IDR) at 'AA';

--Outstanding GO bonds at 'AA'.

The Rating Outlook is Stable.

The state of Hawaii's 'AA' Long-Term IDR and GO bond ratings reflect Hawaii's solid revenue growth prospects, high independent revenue-raising ability and demonstrated ability to control spending. The state's focus on prudent near-term and long-term fiscal planning will help maintain robust fiscal resilience and budgetary flexibility despite substantial long-term liabilities and related carrying costs.

### SECURITY

The GO bonds are general obligations of the state that carry the state's full faith and credit pledge.

### KEY RATING DRIVERS

#### Revenue Framework - 'aa'

General excise taxes (GETs) and individual income taxes provide the majority of Hawaii's general fund revenues. Fitch Ratings anticipates medium-term revenue growth will exceed inflation but lag the pace of U.S. GDP expansion, driven by solid prospects for continued economic gains. The state has full independent control over its revenues with no legal limits on potential tax or fee increases.

#### Expenditure Framework - 'aa'

Fitch expects that expenditure increases will be in line with, to marginally above, the natural pace of revenue growth absent offsetting policy actions by the state. Carrying costs for debt service and retiree benefits are somewhat elevated for a U.S. state, partially reflecting the state's relatively unique commitment to provide full actuarial funding for its other post-employment benefit (OPEB) obligations.

### **Long-Term Liability Burden - 'a'**

Hawaii's long-term liabilities for debt and pension benefits are well above the median for U.S. states but still in the moderate range relative to personal income. Direct debt includes bonds issued for the state's public schools, which are paid for by local governments in most other U.S. states. Changes to retiree benefits and higher contributions have helped to slow the growth of and fund related liabilities.

### **Operating Performance - 'aaa'**

The state is well-positioned to address economic challenges given its strong level of reserves and control over a broad array of budget balancing options. Budget management is guided by frequent revenue forecasts and multiyear financial plans that the state uses effectively to make policy adjustments as required.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Deterioration in operating performance, potentially driven by unanticipated revenue volatility as the state implements recent tax policy changes or expense growth beyond current expectations related to the Maui wildfires recovery, that threatens ongoing structural balance and reduces the state's financial resilience, with reserves falling closer to or below 7% of general fund revenues;

--A diminished commitment to addressing the state's retiree liabilities, potentially evidenced by repeated contributions below actuarially determined levels for pensions and/or OPEB.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--A material and sustained reduction in long-term liabilities to below 20% of personal income and/or carrying costs closer to or below 10% of spending, likely resulting from the state's actions in managing retiree obligations;

--Sustained revenue growth closer to or above the national pace of economic growth.

## **PROFILE**

The state of Hawaii has a population of nearly 1.5 million, over two-thirds of whom reside on the island of Oahu. Personal income is above average on a nominal basis, but real spending power is curtailed by the state's high cost of living. The leisure and hospitality and government (due to the substantial military presence) sectors remain key components of the state's employment and economic base.

Tourism recovery has been slow and buffeted by last year's Maui wildfires. Importantly, visitor spending surged past 2019 levels by the spring of 2022 and remains comfortably ahead of pre-pandemic levels despite a slight dip in 2024. Yet, total visitor arrivals by air remain below pre-pandemic levels with international visitor volume well short of pre-pandemic levels. Domestic volume exceeded 2019 levels by the spring of 2021, dipped below that level after the Maui wildfires and has modestly recovered since then.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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### Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Hawaii, State of (HI) [General Government]	LT IDR	AA	Affirmed	AA

- Hawaii, State of (HI) /General Obligation<sup>LT</sup> - Unlimited Tax/ 1 LT
 

	AA	Affirmed	AA
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### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

### Applicable Criteria

[U.S. Public Finance State Governments and Territories Rating Criteria \(pub.02 Apr 2024\) \(including rating assumption sensitivity\)](#)

### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.0 [\(1\)](#)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Hawaii, State of (HI) EU Endorsed, UK Endorsed

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