

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aa2 to Hawaii's 2024 GO Bonds; affirms Aa2 issuer rating; Hawaiian Home Lands' revenue bonds upgraded to Aa3; outlook stable**

---

14 Nov 2024

New York, November 14, 2024 -- Moody's Ratings (Moody's) has assigned a Aa2 rating to the State of Hawaii's \$750 million Taxable General Obligation Bonds of 2024 Series GN. We have also affirmed the state's Aa2 issuer rating; affirmed the Aa2 ratings on \$8.1 billion of outstanding general obligation (GO) bonds; upgraded to Aa3 from A1 the rating on the Department of Hawaiian Home Lands' \$19.3 million of outstanding revenue bonds; affirmed the Aa3 rating on the Department of Hawaiian Home Lands' \$8.3 million of outstanding certificates of participation; and affirmed the Aa2 rating on \$451.3 million of outstanding highway revenue bonds. The outlook is stable.

Affirmation of the issuer rating reflects Hawaii's solid finances, strong governance and strategic location, balanced against its very high leverage and dependence on the tourism industry that can be vulnerable to external events. The stable outlook reflects our expectation that Hawaii's prudent fiscal management will continue to help it address its long-term challenges, especially its high leverage.

#### RATINGS RATIONALE

The state's Aa2 issuer rating is supported by its sound financial position and strong governance (G-1 IPS), underscored by a rainy day fund strengthened to a record 15% of 2023 general fund revenue, demonstrated executive authority to amend budgets as needed and steady efforts to pay down long-term liabilities. These strengths mitigate the state's economic and revenue reliance on its tourism sector, which is sensitive to external factors. The issuer rating also considers Hawaii's slower real GDP growth relative to the US, its remote location, high living costs and demographic challenges that constrain economic diversity and growth. Positively, Hawaii's strategic location will continue to ensure a consistent federal and military presence that provide economic stability.

The issuer rating additionally reflects Hawaii's relatively weak per capita income (86% of the US) and considers the state's stronger median household income after adjusting for regional cost of living. The rating also considers the state's above average leverage (combined debt, pension, OPEB and other liabilities) that totals 250% of fiscal 2023 own-source revenue, because it is responsible for several functions typically provided by local governments in other states. Notably, Hawaii's leverage has moderated significantly from a high of 500% in fiscal 2021, partly because of recent strong revenue growth. The state's fixed costs burden, 18.1% of own-source revenue, is also well above the 50-state median but also reflects Hawaii's commitment to pay down pension and OPEB obligations.

The Aa2 rating on the state's GO bonds is equivalent to the issuer rating because of the broad full faith and credit pledge on the bonds.

The Aa3 rating on the Department of Hawaiian Home Lands' certificates of participation, one notch below the issuer rating, reflects the limited, subject to appropriation nature of the leases; the essentiality of the financed asset; and the state's obligation to fund administrative and operating costs of the department, including lease payments, from its general fund.

The upgrade to Aa3 from A1 on the Department of Hawaiian Home Lands' revenue bonds reflects the department's consistent practice of paying the bulk of annual revenue bond debt service from monies received from the Office of Hawaiian Affairs (OHA) and the expectation of long-lasting partnership between the department and OHA. The availability of this OHA revenue offsets the inherent volatility and lessee concentration of the real estate-derived revenues pledged to the bonds. The one-notch distinction from the state's issuer rating also reflects our view that both the department and OHA are essential agencies of the state because they carry out missions protected in the state's constitution.

The Aa2 rating on the highway revenue bonds reflects the bonds' priority lien on a mix of state-wide transportation revenues which we consider somewhat broad with manageable volatility, offset by strong maximum annual debt service (MADS) coverage exceeding 6 times provided by the pledged revenue. The rating also considers the state legislature's demonstrated willingness to add or modify pledged revenues as needed to fund the state's highway program, in addition to the bonding program's 2.0 times additional bonds test.

## RATING OUTLOOK

The stable outlook reflects our expectation that through careful fiscal management, the state's financial position will remain healthy to safeguard against economic fluctuations. The stable outlook also reflects our expectation that the state will continue to proactively tackle its long-term challenges, including bolstering climate resilience, enhancing affordability, navigating demographic hurdles and addressing higher-than-average pension and OPEB burdens.

## FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Stronger and more stable trend of economic growth relative to the US
- Diversification of the state's economy, including within its tourism industry
- Stronger socioeconomic profile and demographic trends
- Continued progress in reducing long-term liabilities, fixed-costs and capital asset condition that brings Hawaii closer to state sector medians

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Economic volatility that leads to material revenue declines, persistent budget imbalance, or narrower reserve and liquidity positions
- Material changes in federal policy that reduce or delay funding provided to the state
- Sustained growth in leverage to more than 500% of state own source revenue
- (Highway revenue bonds only) A severe decline in pledged revenues and/or material increase in leverage resulting in maximum annual debt service coverage falling consistently below 4.0x

## LEGAL SECURITY

Hawaii's general obligation bonds are payable by the state's pledge of its full faith, credit and resources. The bonds have a first charge on all general fund resources.

The Department of Hawaiian Home Lands' COPs are payable by lease payments to be made by the state from its general fund for the use of the Department of Hawaiian Home Lands' headquarters facility in the Kapolei area of Oahu. Lease payments are subject to appropriation by the state legislature.

The Department of Hawaiian Home Lands' revenue bonds are special limited obligations of the department payable 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 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.

The highway revenue bonds are limited obligations of the state, payable by a gross pledge of highway fund revenues including fuel taxes, registration fees, weight taxes, and car rental surcharges.

## USE OF PROCEEDS

Proceeds of the 2024 Series GN bonds will be used to finance or to reimburse the state for the costs of acquisition, construction, extension or improvement of various public improvement projects, including public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries, parks, and highways, and other public purposes.

## PROFILE

Hawaii is the 40th largest state by population, at 1.4 million. Its nominal state gross domestic product, \$110 billion as of 2023, is the 40th largest. The state's resident income levels are below average, with per capita personal income equal to roughly 86% of the US level after adjusting for regional cost of living. However, Hawaii has a larger average household size than the nation and as such, Hawaii's median household income is closer to 110% of the nation's even after adjusting for regional cost of living.

The state government of Hawaii has responsibility for many functions that are performed by or shared by local governments in most other parts of the US, most notably the public school system.

## METHODOLOGY

The principal methodology used in these ratings was US States and Territories published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425428>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating 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.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

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

Please see <https://ratings.moody's.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moody's.com> for additional regulatory disclosures for each credit rating.

Xing Chen Zhu  
Lead Analyst  
State Ratings  
Moody's Investors Service, Inc.  
405 Howard Street  
Suite 300  
San Francisco 94105  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Timothy Blake  
Additional Contact  
State Ratings  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007

U.S.A

JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

---

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees,

agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned



credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.