

Research Update:

Hawaii Series 2026 GO, GP, And GQ Bonds Rated 'AA+'; Outlook Stable

April 7, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of [Hawaii](#)'s general obligation (GO) bonds of 2026, series GO (taxable), series GP (taxable), and series GQ (taxable).
- At the same time, it affirmed its 'AA+' long-term rating on [Hawaii](#)'s GO debt outstanding.
- The outlook is stable.

Rationale

Security

Hawaii's GO debt is secured by the state's full faith and credit and taxing power.

Credit highlights

The rating reflects our view of Hawaii's proactive financial management and oversight; the state has demonstrated a commitment to budgetary balance responsive to evolving economic conditions and effective management of its elevated long-term liabilities. While its tourism sector has softened and is forecast to remain flat in 2026 and 2027, we nevertheless expect Hawaii's economic base will support budgetary stability, allowing the state to achieve structurally balanced budgetary performance and sustain sufficient budgetary flexibility to address challenges as they arise.

S&P Global Market Intelligence estimates Hawaii's economic output rose slightly higher than the national level at 2.7% (gross state product) to end 2025 but will increase a more modest 1.7% in 2026 and 1.3% in 2027. Market Intelligence projects employment to increase modestly but be largely in line with the national level, weighed down by a forecast contraction in professional and business services and government sectors. From a macroeconomic perspective, the shifting federal policy mix is altering the U.S. economic outlook with rising headwinds. S&P Global Ratings Economics forecasts real GDP growth of approximately 2.2% in 2026 and 2% in 2027. For now, our baseline assumes a supply-driven oil shock to be temporary, with prices reverting closer to averages by year-end. Nevertheless, our forecast leans to the downside as the duration and path to an end of the conflict in the Middle East remain highly uncertain. (For additional information, see "[Economic Outlook U.S. Q2 2026: Curb Your Enthusiasm](#)," March 25, 2026. Reflecting in part a

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mixed economic outlook, in September 2025, Hawaii's Council on Revenue (COR) lowered its fiscal 2026 general fund tax revenues forecast by 1.2 percentage points to negative 4.7%. The COR forecasts growth to resume in fiscal years 2027 and 2028 at about 2%. The state is assessing the budgetary effects resulting from adoption of H.R.1, particularly on its Supplemental Nutrition Assistance and Medicaid programs. We believe, as it has with other cost pressures, the state will prudently work to minimize the potential budgetary impact while holding to its goal to support beneficiaries. (For more, see "[The Tax Bill Comes Due: Near-Term Risks Are Low, Long-Term Pressures Rising For U.S. Public Finance Entities](#)," July 7, 2025.)

Following revisions to the state's revenue outlook in March, Hawaii's preliminary multiyear financial plan now projects a modest general fund deficit in fiscal 2026 that will rise in fiscal 2027 to 6.8% of total expenditures before moderating to balanced operations in fiscal 2028. On balance, we view the forecasts' assumptions as reasonable relative to Hawaii's economic expectations and elevated degree of federal policy uncertainty. Consistent with previous practice, the state has demonstrated a willingness to proactively make budgetary adjustments to align shifts in both revenues and expenditure demands. Of note, the administration has proposed the suspension of planned income tax reductions after July 1, 2027, to support long-term structural balance that the multiyear plan achieves by fiscal 2030. The state has worked prudently to build its reserve balances to provide a cushion for unexpected shocks to expenditures and revenues and ended fiscal 2025 with \$2.1 billion in unencumbered cash carryover or nearly 19% of total expenditures; this averages approximately \$1 billion through the forecast ending fiscal 2031. The balance in the emergency and budget reserve fund is estimated to remain unchanged, averaging \$1.77 billion from fiscal 2026-2031 and providing additional budgetary flexibility. In our view, the recent adverse weather events resulting in flooding and property damage in the state will not have a meaningful credit impact. For additional information, please see, "[Hawaii Counties Are Poised To Weather Recent Storms With Credit Quality Intact](#)," April 3, 2026.

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, are likely to remain long-term pressures on the state's credit profile. High per capita debt reflects its issuance for many functions that, in other states, are generally financed by local governments. Including the state's comparatively elevated fixed costs, particularly the 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 GSP and income metrics that are slightly below those of the nation. While we expect its economy to slow over our outlook horizon supported by ongoing construction and military spending, economic output should remain positive. However, it has some inherent susceptibility to external shocks that could weaken key industries;
- Overall resilient financial performance and comparatively strong reserves, which allow the state to weather economic shocks and physical risk events;
- Management's well-established, proactive budget-monitoring practices, including frequent revenue forecast updates from the COR, and the state's identification of potential expenditure adjustments for budget alignment through a long-term financial plan;

- A centralized institutional framework, highlighted by robust 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; and
- Relatively low pension funding ratio 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.

Environmental, social, and governance

Hawaii's exposure to acute physical risk events, including hurricanes and wildfires, and continued 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. We view 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, as helping to alleviate additional pressure. Although we view social capital factors as neutral in our analysis, Hawaii's aging population and substantially elevated cost of living and housing affordability strain could affect the economy if long-term trends deepen. 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 our view of Hawaii's strong financial management and oversight coupled with very strong reserves that provide the state with ample cushion to manage budgetary pressures should they arise.

Downside scenario

We could lower the rating if Hawaii's economic softness results in a meaningful deterioration of financial performance and reserves. In addition, if the debt and long-term liability profile weakened to a degree that we no longer believe is sustainable, despite the state's proactive management, this would also likely lead to a negative rating action.

Upside scenario

Despite Hawaii's demonstrated commitment to addressing its elevated long-term liabilities, we believe the comparatively high debt burden, coupled with slowing population growth relative to that of peers and a higher reliance on tourism, makes an upgrade unlikely.

Credit Opinion

Institutional framework

The state government is highly centralized, and the level of services provided on behalf of local governments is higher than in most other states, although we believe the executive branch has

significant autonomy to adjust disbursements, control expenditures, and raise revenue. In addition, Hawaii's constitution requires maintenance of a balanced operating budget, enabling the executive branch to monitor the budget and make necessary adjustments to ensure that general fund expenditures do not exceed current general fund revenues and unencumbered cash balances.

Hawaii is not a voter-initiative state and has no voter-approval requirements to issue GO bonds or raise taxes. At the same time, there are no constitutional restrictions on the state's ability to raise taxes or other revenues, and approval of tax hikes requires only a simple majority vote of the legislature. The state directly runs the public school system, as well as the university and community college systems. It also administers public welfare and operates prisons, harbors, and airport systems. The governor has broad legal authority to adjust or restrict spending levels and cut spending—which in practice has included restricting 10% of discretionary appropriations midyear without legislative approval, including reducing or delaying education spending. However, beyond the midyear point, it may prove difficult in practice, in our view.

Management

In our view, Hawaii's budget practices, long-term planning, and formal policies are comprehensive and well embedded, and management 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, although one-time solutions (e.g., reserve use, working capital issuance) were deployed most recently in response to forecast pandemic-related revenue declines.

Other management highlights include:

- A statutory requirement for Hawaii to develop six-year operating and capital budgets that are updated by the governor and finance staff annually for legislative approval. The COR, a seven-member, independent body, also provides quarterly revenue forecasts for inclusion in the biennial budget, identification of budget variances throughout the year, and the multiyear financial forecast, but also in special sessions when fiscal conditions warrant.
- Spending that is controlled through an allotment system, and the Hawaii Department of Budget and Finance monitors expenditures throughout the year. Budget adjustments are made periodically, when deemed necessary. Adjustments requiring legislative action are handled during the legislative session; in extraordinary circumstances, a special legislative session could be called.
- Formal minimum unassigned general fund carryover balance reserve target of 5% of general revenue and emergency and budget reserve fund balance of 10% of general revenue. Collectively, the goal is 20%-25%. The state no longer includes the hurricane relief fund as part of total reserve balance target.
- 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 the previous three years' general fund revenue. The state constitution requires all GO state debt to amortize principal within five years of issuance, mature within 25 years, and have either level principal or debt service. In addition, the legislature mandated debt policies restricting the amount and types of bonds issued by the state and a debt-affordability study, which measures compliance with the debt limit.
- A formal state investment policy, with investment performance disclosed monthly. Hawaii forecasts liquidity needs on a one-year forward-looking basis, while known recurring

expenditures (e.g., debt service, payroll, etc.) are added to the forecast to provide sufficient liquidity on those specified dates.

Economy

Although we expect it to cool, Hawaii's economic growth should remain positive in 2026 and 2027. In addition to the broad tourism sector, which comprises approximately 19.3% of total employment and about 10% of state GSP, the presence of military facilities and corresponding federal spending anchor Hawaii's economy. Although they are susceptible to fluctuations in national defense spending policy and priorities, military payrolls have remained stable in the past two decades. Incomes from federal and military personnel and households generally have been a stabilizing influence on the state economy.

While all states are facing demographic shifts, Hawaii's cohort of residents aged 65 and older and flat-to-decreasing overall population are putting the state in a slightly weaker demographic position than the nation as a whole. If this trend is sustained, it could pressure credit quality. Market Intelligence forecasts the state's population will drop an annual average of roughly a third of a percentage point through 2028. Recent decreases in population, if sustained, could hamper economic development prospects and pressure state finances over time. Market Intelligence also estimates that Hawaii's aging, 65-plus population could rise to nearly 22% of the state's total population by 2030, ranking Hawaii as having one of the highest proportions of individuals in this age cohort of all the states. This could present difficulties in funding government services and anticipated increases in longer-term health care costs for senior citizens as the working-age population will barely climb in the next decade.

Budgetary performance, reserves, and liquidity

In our view, Hawaii's budgetary performance is strong and historically resilient. During periods of economic stress, the state has followed regular and comprehensive revenue and expenditure forecasting practices and demonstrated a willingness to make necessary adjustments to correct structural imbalances, which we expect will continue as economic and federal policy shifts evolve. We believe the state remains well positioned to respond to short-to-medium-term effects of softening economic growth, given its clear focus on working toward structural balance and sustaining ample budgetary flexibility. The 2026-2027 biennial budget totals approximately \$39.5 billion, with general fund appropriations of \$10.4 billion in fiscal 2026 and \$10.6 billion in fiscal 2027. On a budgetary basis, appropriations are about 2.5% higher than estimated final results for the preceding biennium. The state continues to support ongoing costs associated with the Maui wildfire in 2023. Act 301 (2025) provides funding for a settlement trust dedicated to Maui wildfire victims, allocating \$400 million for fiscal 2026 and \$407.5 million for fiscal 2027. The settlement agreement stipulates annual payments of \$201.875 million over four years.

Financial reserves remain particularly important for Hawaii, given its high fixed costs. In fiscal 2020, the state relied on its emergency and budget reserve fund to temporarily support operations but has since rebuilt reserves to historical highs. We view large carryover balances and reserve levels as prudent, given the cyclicity of state revenue derived from tourism and income tax collections, which the state projects will soften in the near term. We anticipate Hawaii will remain committed to higher reserves, providing additional flexibility to shifts in budgetary performance.

In June 2024, Hawaii enacted income tax reductions to help address affordability struggles, 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 from

\$4,400 and \$2,200, respectively, over this period. The policy change also lowers tax rates and eliminates the bottom income tax brackets in tax years 2025, 2027, and 2029. Although the changes were planned to be phased in over seven years, the state initially estimated that this could amount to a cumulative \$5.6 billion reduction in income tax collections between 2024 and 2031. However, the recommended suspension of income tax reforms beginning July 1, 2027, limited the potential overall reduction in revenues. As tax policy changes are implemented, fully or partially, and economic conditions evolve for Hawaii, we will closely watch actual income tax collections compared with forecasts, while also assessing the potential effects that a higher concentration of general excise taxes could have as a key indicator of the state's fiscal health. At approximately 43% of general fund revenue for fiscal 2025, the general excise tax is the state's largest general fund revenue source and is supported by both residents and visitors.

Debt, pension, and OPEB liabilities

Hawaii's direct state debt (including GO and highway debt) total debt, on a per capita basis, ranks among the highest of all 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 care, and welfare. The current budget appropriates approximately \$1.49 billion for GO bond-funded capital improvements program projects in fiscal 2026 and \$800 million in fiscal 2027, basically in line with previous practice. Debt amortization is comparatively rapid, with approximately 70% of principal repaid within 10 years, which we view favorably.

Pension benefits are administered by the Employees' Retirement System (ERS) of the State of Hawaii, 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.

Although we view Hawaii's pension liabilities as a source of credit pressure, we believe pension funding could improve as the state continues to make progress following reforms enacted in 2017. Under these reforms, the legislature set statutory contribution rates for ERS based on a 30-year amortization period, which was further shortened to 25 years under Act 192 (SB3070) in 2024, for the June 30, 2024, actuarial valuation and then by additional one-year increments until it reaches 20 years for the June 30, 2029, actuarial valuation, and a level percent-of-pay method, which assumes rising future payroll and results in higher pension contributions over time. As a result, the bill required that by fiscal 2021, contribution rates increase to 24% for the general plan, with a more aggressive jump to 41% for police and fire, while also meeting actuarially determined contributions. The state historically has not adjusted pension contributions mid-biennium, which has delayed its response to required contribution increases.

Under Act 268 (2013), Hawaii initiated a schedule for prefunding its retiree health care benefit liability. Under the legislation, it instituted a 30-year closed amortization period (through 2044) with ramped-up prefunding of the OPEB liability to 100% of the annual required contribution by fiscal 2019 from 20% of the actuarially required contribution in fiscal 2015. As of July 1, 2025, the unfunded actuarial accrued liability totaled \$5.37 billion with a funding ratio of 52.6%, an improvement from 46.7% in 2024. The state continues to make its annual required contribution. We believe this illustrates policymakers' ongoing commitment to addressing the state's OPEB liabilities. Although the effects of Hawaii's Act 268 and pension reforms do not result in an immediate improvement to the state's credit quality, we view them as supportive of the rating.

Hawaii--credit summary

Institutional framework (IF) 1

Hawaii--credit summary

Individual credit profile (ICP)	2.30
Economy	2.5
Financial performance	1
Reserves and liquidity	1
Management	1.00
Debt and liabilities	6.00

Hawaii--key credit metrics

	2026e	2025a	2024a	2023a
Economy				
State population ('000s)		1,435	1,435	1,437
Real GSP per capita (\$)			64,046	62,475
Real GSP per capita % of U.S.		94	93	93
State PCPI (\$)			71,593	67,576
State PCPI % of U.S.		98	97	96
State unemployment rate (%)		3.0	2.9	3.3
Financial performance - S&P Global Ratings adjusted				
Operating fund revenues (mil. \$)	11,033	11,267	10,636	10,192
Operating fund expenditures (mil. \$)	11,199	10,888	11,222	10,632
Operating result (mil. \$)	(167)	379	(586)	(440)
Operating result % of revenues	-1.5	3.4	-5.5	-4.3
Reserves and liquidity - S&P Global Ratings adjusted				
Available reserves (mil. \$)	1,625	1,568	1,516	974
Available reserves % of operating revenues	14.5	13.9	14.3	9.6
Debt and liabilities				
Net direct debt cost % of revenues	--	6.3	6.6	6.4
Pension and OPEB cost % of revenues	--	9.0	9.2	8.9
Total current cost % of total government revenues	--	15.4	15.8	15.3
Net direct debt (mil. \$)	--	9,214	9,271	9,324
Net direct debt per capita (\$)	--	6,434	6,462	6,498
Direct debt 10-year amortization (%)	--	71	70	78
Combined NPLs (mil. \$)	--	8,200	8,200	7,905
NPLs per capita (\$)	--	5,726	5,716	5,509
Combined pension plan funded ratio (%)	--	62.9	62.6	61.9

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other periodic disclosures. Economic data is sourced directly from S&P Global Market Intelligence and reported on a calendar year basis, while financial data is reported on a state fiscal year basis. Combined plan NPLs are calculated applying the respective state proportionate share of plan NPLs. GSP--Gross state product (real). PCPI--Per capita personal income (nominal). OPEB--Other postemployment benefits. NPLs--Net pension liabilities. e--Estimated. a--Actual.

Ratings List

New Issue Ratings

Hawaii Series 2026 GO, GP, And GQ Bonds Rated 'AA+'; Outlook Stable

Ratings List

US\$1,023,955,000 State of Hawaii, Taxable General Obligation Bonds of 2026, Series GQ, dated: Date of Delivery, due: October 1, 2045

Long Term Rating AA+/Stable

US\$176,045,000 State of Hawaii, Taxable General Obligation Bonds of 2026, Series GO, dated: Date of Delivery, due: October 1, 2029

Long Term Rating AA+/Stable

US\$300,000,000 State of Hawaii, Taxable General Obligation Bonds of 2026, Series GP, dated: Date of Delivery, due: April 1, 2031

Long Term Rating AA+/Stable

Ratings Affirmed

States

Hawaii, HI General Obligation AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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Hawaii Series 2026 GO, GP, And GQ Bonds Rated 'AA+'; Outlook Stable

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