MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 to Hawaii's Airport System Revenue Bonds, Series 2020A, 2020B, 2020C, and 2020D; outlook is stable

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New York, September 25, 2020 -- Moody's Investors Service, ("Moody's") has assigned an A1 to the State of Hawaii Airport Enterprise's $261.9 million Airports System Revenue Bonds, Series 2020A (AMT), $23.0 million Airports System Revenue Bonds, Series 2020B (Non-AMT) $181.9 million Airports System Revenue Refunding Bonds, Series 2020C (Non-AMT) and $98.2 million Airports System Revenue Refunding Bonds, Series 2020D (Taxable). Hawaii Airport Enterprise also has an additional $950.89 million of outstanding Airport System Revenue Bonds rated A1 and $133.9 million of certificates of participation rated A2. The outlook is stable.

RATINGS RATIONALE

The A1 rating is based on the system's ability to weather continued depressed demand caused by the COVID-19 outbreak from a combination of strong liquidity, federal support from the CARES act, and expected debt service savings the current sale will provide. The rating also reflects Moody's expectation that demand for leisure travel to the island remains relatively robust and will translate into stronger recovery when quarantine restrictions are relaxed, currently planned for October 15th. The rating is also supported by the contractual protections provided to the airport system that requires airlines rates and charges be increased to cover all lost revenue from the system. Though the agreement has been on quarter-to-quarter roll over status since 2007, which increases risks that airlines could collectively decide to not renew, the agreement provides advantageous provisions for providers of inter-island travel that would be lost without the agreement, which incents majority carrier Hawaiian Airlines and Southwest Airlines Co. (Baa1 negative) to remain in the agreement. As long as Hawaiian remains in, all other airlines must follow or else pay higher rates as a non-signatory airline.

The system's strong liquidity measuring 729 days cash on as of June 30, 2020, assuming unaudited operating expenses of $314 million in fiscal 2020, mitigates the risk that enplanement recovery is not as strong as the system expects over the next couple of years. Moody's notes that existing liquidity would cover 21 months of projected operating expense and debt service, assuming no revenue.

The rating additionally reflects additional leverage expected to complete the systems ongoing $1.6 billion capital improvement plan that includes projects that are already in construction and that will not be delayed and additional $1.1 billion in projects that are likely to be completed in between fiscal 2022 and 2026. Moody's notes that the bulk of both capital plans are for airfield or terminal projects that would be able to be recovered from airline revenue, even if the airline lease agreement expired and the airport had to go to rates by ordinance. Though these projects will increase airline costs, Moody's views the costs be manageable given the airport's monopoly position for air travel and the demonstrable demand for travel to Hawaii in normal operating conditions.

The spread of the coronavirus outbreak, the weakened global economic outlook is sustaining a severe and extensive credit shock across many sectors, regions and markets. The airport sector is one of the sectors most significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand and sentiment. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety that has resulted in severe travel restrictions, cancellation of airline routes, travel bans, border closings and new requirements for health and safety at airports. Today's rating assignment balances Hawaii Airport Enterprise's sound liquidity and cost recovery structure against the breadth and severity of the coronavirus' shock and the related uncertain trend in demand for air travel in the upcoming years.

OUTLOOK

The stable outlook reflects Moody's expectation that leisure travel demand will show strong recovery to the island when quarantine requirements are eased, but that strong recovery

rovisions and liquidity mitigate a slower than expected recovery.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Return to near normal operating conditions and passenger levels at the airport

- Further progress on the capital plan financing that provides for expected net revenue debt service coverage ratios above 1.3x on revenue bonds and total coverage of 1.15x while maintaining strong liquidity

- Demonstrated willingness to exercise rate setting to sustain key financial metrics amid enplanement volatility or economic pressure

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant reduction in enplanement levels and slower than anticipated recovery following the coronavirus outbreak

- Failure to roll the current favorable use and lease agreement, or a new agreement that increases rate recovery risks

- Additional debt-funded capital improvements that raise debt per O&D enplanement above $200

- Reduced liquidity below 300 days cash on hand

LEGAL SECURITY

Senior lien bonds are secured by a pledge on net revenues of the airport system and aviation fuel tax revenues. The rate covenant is 125% senior debt service and 100% total debt service with unlimited rolling coverage. The senior lien bonds have an additional bonds test (ABT) that requires revenues plus rolling coverage equal 125% of maximum annual debt service (MADS) or that the rate covenant has been met and will be met, including additional bonds, to the later of 5 years after issuance or 3 years beyond the use of capitalized interest. The bonds also have a debt service reserve that is sized at the lesser of the three-prong test and is fully cash funded.

The COPs are secured by a proportionate interest in the rights of the lease agreement, including the lease agreement payments made by the airport system as a junior obligation to the lessor, Johnson Controls, Inc. JCI has assigned its rights as lessor, including the right to receive rent payments, to the trustee for payment of debt service of the COPS. The airport system's obligation to make payments under the lease agreement from year to year is subject to annual appropriation by the State of Hawaii under a separate line item for capital leases in the department's budget. The payments are treated as "other lawful purposes" of the airport's system.

If the state fails to appropriate the lease payment, the contract can be terminated at the end of the fiscal year for which money has been appropriated and the holders of the certificates would gain recourse to the equipment. Moody's believes this equipment would have little to no value outside of its use with the airport system, but its removal would be significantly detrimental to the operations of the airport system.

USE OF PROCEEDS

The Series 2020A and Series 2020B Bonds will be issued to fund the airport project fund while the Series 2020C and Series 2020D bonds will be issued to refund the remaining Series 2010A Bonds and a portion of the Series 2011 Bonds. The refunding will realize net present value savings in addition to reducing debt service costs in fiscal year 2021 to 2022, allowing Hawaii Airport Enterprise to better navigate the financial ramifications of the coronavirus pandemic.

PROFILE

The Hawaii Department of Transportation (DOT) operates and maintains 15 airports at various locations within the state serving 18.7 million enplaned passengers in fiscal 2019. The DOT is one of 18 principal executive departments of the state and is empowered to establish, maintain and operate the transportation facilities of the state, including highways, airports, harbors and other transportation facilities. The DOT is headed by the director, who is appointed by the governor and confirmed by the state senate. The governor also appoints four deputy directors of transportation. The director and deputy directors of transportation serve four-year terms conterminous with the governor's term. Through the Airports Division all state airports are operated as a single integrated system for management and financial purposes. Virtually all non-military passenger traffic throughout Hawaii passes through the airport system, which includes five primary airports and ten secondary airports. The primary airports are Honolulu (on the Island of Oahu, HNL), Kahului (on the Island of Maui, OGG), Hilo International and Kona International (both on the Island of Hawaii), and Lihue (on the Island of Kauai).

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in March 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1140469. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this 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. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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Earl Heffintrayer
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201

US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
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