

RatingsDirect®

Summary:

Hawaii Department of Transportation Hawaii Airport System; Non-Recourse Proj, Single or Multi Tenants, Entert

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Credit Profile

Hawaii Dept of Transp, Hawaii

Hawaii Arpt Sys, Hawaii

Hawaii Dept of Transp (Hawaii Airport Sys)

Long Term Rating

A-/Negative

Downgraded, Removed from
CreditWatch

Rating Action

S&P Global Ratings lowered its long-term rating to 'A-' from 'A+' on the Hawaii Airport System's (HAS or the system) customer facility charge (CFC) revenue bonds outstanding. At the same time, we removed the rating from CreditWatch, where it had been placed with negative implications on Aug. 7, 2020. The outlook is negative.

The HAS consolidated rental car facility (ConRAC) ratings, along with many other U.S. airport and airport-related credit ratings, were previously placed on CreditWatch to reflect the material negative impact of the COVID-19 pandemic on traffic levels, expected financial performance metrics, and overall credit quality. For more information, see "U.S. Airport Ratings Placed On CreditWatch Negative On Severe Passenger Declines And Weakening Credit Metrics," published Aug. 7, 2020, on RatingsDirect.

HAS approximately \$424.3 million in outstanding CFC debt as of Sept. 1, 2020. The bonds are secured solely by a \$4.50-per-day rental car CFC for cars rented at all airports in the airport system, including the consolidated rental car facilities (ConRACs). While the state also collects a \$5.00-per-day motor vehicle surcharge tax, those revenues are not pledged to the bonds outstanding. The bonds are also payable from certain payments by the rental car operators, including deficiency payments, and any amounts necessary to maintain the CFC stabilization fund and the capital improvement, repair, and replacement fund at their respectively required levels. The bonds financed various projects at the system's rental car facilities. The ConRAC has a debt service reserve (DSR) equal to 100% maximum annual debt service. DSRs provide additional security for bondholders. The DSR for the ConRAC debt totals approximately \$23.9 million, and is fully funded with cash. Management anticipates no draws from the DSRs to make required debt service payments at this time.

The ConRAC System is an integral component of the department's modernization program that kicked off in 2007 and includes ConRACs under construction at Honolulu International Airport (HNL), nearly 75% complete at this time and scheduled to be completed in April 2022, and recently completed and operational at Kahului Airport (OGG). The overall cost of ConRAC projects is \$985 million, including financing costs, reserve accounts, rolling coverage funds, a \$480 million ConRAC facility at HNL, a \$437 million ConRAC facility at OGG, \$21 million in land acquisition costs

related to a future ConRAC at Lihue Airport on the island of Kauai, and \$5.5 million in other CFC-eligible projects. Cash CFC collections already and to be collected are estimated to fund about 50% of the overall \$948 million project costs, and at this point there are no expected future debt issuances to fund ConRAC capital projects.

Credit overview

The rating action and negative outlook reflect our expectation that rental car activity will be severely or materially depressed or unpredictable for 2020 and beyond as a result of the COVID-19 pandemic and associated effects that we believe are outside of management's control. The severe drop in activity, in our view, has diminished the ConRAC's overall credit quality and will stress its financial performance over the intermediate term. For additional information, see "This Time Is Different: An Anemic And Uncertain Passenger Recovery Will Challenge U.S. Airports' Credit Quality," published Aug. 7, 2020, and "Activity Estimates For U.S. Transportation Infrastructure Show Public Transit And Airports Most Vulnerable To Near-Term Rating Pressure," published June 4, 2020.

The rating reflects our view of the ConRAC's adequate enterprise risk profile and strong financial risk profile, and our expectation that rental car activity at the airport and future performance of the facility will trend weaker for an extended period. This forward-looking view resulted in a weakening of the ConRAC's market position assessment under our criteria, and in turn lowered our enterprise risk profile assessment to adequate from very strong for the facility. Additionally, our assessment also incorporates the diversification of the revenue pledge to include rental car activity at six airports across the system as well as Hawaii's historical status as the most active rental car markets in the U.S. as measured by transaction days. We will monitor the impact of COVID-19 on enplanement reductions and the follow-on effects to rental car activity on the facility's finances. We believe the facility's liquidity position provides support to weather the near-term activity decline. We could weaken HAS' ConRAC financial risk profile if rental car transactions remain materially depressed for an extended period, pressuring financial metrics. See "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020.

Through February 2020, CFC collections and rental car transaction days were up over the previous year. However, starting in March 2020, the travel restrictions and economic shutdown associated with the spread of COVID-19 broadly affected global airport activity, and based on Transportation Security Administration data, national enplanement activity was down approximately 90% to 95% in late March and April, improving slightly to 71% down by the end of August. This significant decline in airport activity was mirrored across HAS and cascaded to airport rental car activity in a material way. Rental car transaction days recorded this fiscal year 2020 across facility relative to 2019 transaction days were lower by 22%.

Given the challenges posed by the pandemic-induced recession and risks of COVID-19 outbreaks and associated effects, S&P Global Ratings believes activity could be unpredictable or materially depressed beyond 2020. HAS expects to receive \$133 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds, and it has no plans to allocate funds to the ConRAC facility but could do so if needed. Currently, the system has approximately \$70.2 million of unrestricted liquidity in the CFC discretionary fund, which management plans to use for CFC debt service and common transportation costs to cover revenue shortfalls.

The rating further reflects our view of the ConRAC's:

- Exposure to potentially prolonged weak or unpredictable rental car activity as a result of COVID-19 outbreaks and

lingering associated effects (such as the pandemic-induced recession, shifting travel restrictions, stay-at-home and social distancing restrictions, or behavioral changes with respect to air travel), making effective financial budgeting and planning challenging;

- Narrow revenue stream that is tied solely to rental car activity across HAS;
- Hampered cash-flow-generation ability as a result of severe declines in enplanements and rental car transactions related to factors outside of management's control, pressuring financial metrics; and
- Exposure to financially stressed rental car companies, including Hertz Global Holdings, which filed for Chapter 11 bankruptcy on May 22.

Partly offsetting the above weaknesses, in our opinion, are the ConRAC's:

- Extremely strong service area economic fundamentals, which include favorable economic activity as measured by GDP per capita, despite a spike in unemployment resulting from COVID-19, as well as Hawaii's status as one of the most active rental car markets in the U.S.;
- Lack of additional debt needs; and
- Experienced, proactive, and effective management team.

Environmental, social, and governance (ESG) factors

Our rating action reflects health and safety risks posed by the COVID-19 pandemic and its impact on passenger activity due to mobility restrictions and behavioral changes related to travel, which we view as a social factor in our ESG factors, resulting in significant operating and financial pressures for HAS. We analyzed the system's risks related to environmental and governance factors, and consider them to be in line with our view of the standard for the airport sector and ConRAC sector, but acknowledge that Hawaii's location also exposes it to considerable environment-related risks, which could dampen its tourism-based economy in the short term, although the state has generally displayed resilience over the longer term as demand for tourism has remained strong despite periodic challenges. We will continue to evaluate these risks as the situation evolves.

Negative Outlook

Downside scenario

We could lower the rating if we come to believe rental car activity will remain materially depressed for longer than we currently expect, negatively affecting finances for an extended period.

Return to stable scenario

We could revise the outlook to stable in the next two years with improved clarity on the trajectory of the rental car demand recovery and if we come to believe that the facility's ability to maintain financial metrics consistent with the current rating is sustainable.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 25, 2020)

Hawaii

Hawaii Arpt Sys, Hawaii

Hawaii (Hawaii Arpt Sys) arpt sys customer fac chg rev bnds

Long Term Rating

A-/Negative

Downgraded, Removed from CreditWatch

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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