S&P Global
Ratings

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Summary:

Hawaii Airport System
Hawaii; Airport

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Credit Profile		
US$217.9 mil arpt sys rev bnds (AMT) (Hawaii Arpt Sys) ser 2022A due 07/01/2052		
Long Term Rating	A+/Positive	New
US$54.26 mil rfdg arpt sys rev bnds (AMT) (Hawaii Arpt Sys) ser 2022B due 07/01/2024		
Long Term Rating	A+/Positive	New
Hawaii		
Hawaii Arpt Sys, Hawaii		
Hawaii (Hawaii Airport System)		
Long Term Rating	A+/Positive	Affirmed

Rating Action

S&P Global Ratings revised the outlook to positive from stable and affirmed its 'A+' long-term rating and underlying rating (SPUR) on Hawaii Airport System's (HAS or the system) senior-lien general airport revenue bonds (GARBs) outstanding and its 'A' rating on the system's series 2013 lease revenue subordinate-lien certificates of participation (COPs). At the same time, S&P Global Ratings assigned its long-term rating of 'A+' with a positive outlook to HAS' $217.9 million senior-lien revenue bonds, series 2022A (AMT) and $54.26 million refunding series 2022B (AMT).

The outlook revision to positive indicates that we could raise HAS' market position to extremely strong over the outlook horizon if overall activity levels continue to improve and normalize, particularly the international passenger segment, supporting both rate-setting flexibility and revenue growth resulting in adequate debt service coverage levels and overall strong financial profile.

Although the passenger recovery could stall or be hampered by ongoing threats from coronavirus variants, weakening consumer confidence, and domestic or international restrictions or limitations that inhibit travel, we believe the recovery and stabilization of activity levels and a return to business-as-usual rate making supplemented using federal stimulus over the near term, could result in HAS achieving sustainable and balanced financial operations. Specifically, continued strong domestic enplanement performance combined with a material improvement and stabilization of the international passenger segment (17% of total passengers in 2019) would enhance revenue performance and could contribute to an improved market position assessment consistent with a higher rating. For more information, see "U.S. Transportation Infrastructure Sector Update And Medians: U.S. Airport Sector View Is Now Positive," published Nov. 10, 2021, on RatingsDirect.

The series 2022A-B bonds and all parity bonds are secured by senior-lien system revenue and aviation fuel tax revenue after operations and maintenance costs. The airport system's series 2013 COPs, which we rate based on our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019, are special limited obligations of the airports division and represent assignment of a proportionate interest in the lease and in the right to receive rent payments under the lease. Lease payments are secured solely by revenue and aviation fuel tax revenue but are junior in priority to the pledge of the revenue securing the airport system revenue bonds outstanding. Debt service reserves (DSRs) provide additional liquidity for bondholders. The DSR for the senior-lien GARBs totals approximately $107.5 million, all of which is cash-funded.

Proceeds of the sale of the series 2022A-B bonds will be used to fund the ongoing $2.2 billion capital improvement program (about $228.5 million), refund existing bonds ($57 million), pay capitalized interest ($17.9 million), make a deposit into the debt service reserve fund ($8.9 million), and pay for issuance costs. A combination of capitalized interest and refunding transactions have reduced debt service through 2024 and slightly extend the maturity schedule. After the sale of the series 2022A-B bonds, the airport system has approximately $1.47 billion in debt outstanding, consisting of $1.78 billion of senior-lien GARBs, $186 million of COPs, and $424.3 million of customer facility charge (CFC) revenue bonds. The CFC bonds are a separate credit and not secured by airport system revenues.

Credit overview

The ratings reflect our view of HAS' very strong enterprise risk profile and strong financial risk profile. The enterprise risk assessment incorporates HAS' weakened market position associated with the pandemic and its associated negative impacts on passenger traffic and diminished operating revenue performance. Our financial risk profile is based on what we expect to be HAS' improving revenue-generating capacity relative to historical levels supported by strong liquidity and financial flexibility afforded by federal pandemic relief operating grants. Overall, management is forecasting a passenger traffic recovery by 2025, slightly slower than S&P Global Ratings' estimates, along with adequate debt service coverage (DSC) in 2022-2027 aided by airline rate increases and management actions taken to reduce near-term debt service requirements.

Key credit strengths, in our opinion, include HAS':

- Favorable service area economic fundamentals, which support air travel demand to and within the state, good economic activity as measured by GDP per capita, a large population base, and improving employment levels despite a lag in the leisure and hospitality sector;
- Very strong market position, highly essential role, and no practical competition reflective a strong recovery in domestic enplanements to pre-pandemic levels;
- Maintenance of very strong available liquidity as measured by days' cash, which has been supported by federal operating grants; and
- Very strong management and governance, as evidenced by the state Department of Transportation's (DOT) ability to adjust revenue, expenses, and capital spending under recently stressed and currently improving industry conditions.

Partially offsetting these strengths, in our view, are HAS':

- Exposure to an international oversees passenger segment, which has been much slower to recovery than domestic passenger segment due to pandemic-related health and safety requirements and protocols;
- Projected adequate DSC for 2022-2027 likely to range between 1.1x-1.15x (S&P Global Ratings-calculated) based on

current management projections along with weaker near-term cash flow generation, particularly derived from activity-based concession revenue sources including duty free; and

- Rising cost and debt metrics associated with a large $2.2 billion capital program with $543 million in additional bonds in planned GARBS over the next three years.

Environmental, social, and governance (ESG)

We view the 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 as a social factor in our environmental, social, and governance analysis which has resulted in significant operating and financial pressures for HAS. We analyzed the airport'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. While we acknowledge that Hawaii's location also exposes it to considerable environment-related risks, which could dampen its tourism-based economy in the short term, 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.

Positive Outlook

Upside scenario

We could upgrade the rating over the outlook horizon if the system experiences an improvement in its enterprise risk profile from a strengthened market position exhibited by a continued recovery and normalization of overall traffic to sustainable levels, improving rate-setting flexibility while maintaining an overall strong financial risk profile.

Return to stable scenario

We could revise the outlook to stable over the outlook horizon if HAS' activity levels and financial performance metrics erode from current and projected levels and we believe they will likely remain materially weaker for an extended period.

Credit Opinion

Like most U.S. airports, the Hawaii Airport System entered the pandemic from 2019 both operationally and financially strong, with combined total enplanements near an all-time peak of 18.7 million, strong DSC at 1.5x (S&P Global Ratings-calculated), with strong debt-to-net revenue levels projected to be about 10x by 2024, and very strong overall liquidity levels with more than 650 days' cash. Visitors to the state were at a historical high (9.9 million in 2019) and international travelers, who tend to stay longer and spend more, were also near an all-time high of 3.2 million as measured in enplaned passengers. In addition, in March 2019, the domestic overseas U.S. market saw a significant boost with the entrance of Southwest Airlines, which has since increased to 12% of the entire Hawaii market including 16% of the interisland market, both historically dominated by Hawaiian Airlines (with 43% and 77% market shares in 2020, respectively). We anticipate the ongoing expansion by Southwest, which doubled seat capacity in 2021 versus 2019, will support the continued growth of domestic U.S. and interisland travel.

The unique nature of Hawaii as an island state and tourist destination for U.S. and international travelers with its three different passenger segments has influenced HAS' rebound in traffic demand. Since the system's precipitous decline in April 2020, which resulted in enplaned passengers declining to 6.1 million in fiscal 2021 from 18.7 million in fiscal 2019, traffic began to ramp up in March 2021 to a peak of 82% of pre-pandemic levels as of July 2021 and, as of November 2021, was at 78% of November 2019's total passenger levels.

The first passenger segment, composed of domestic U.S. travelers (45% of total enplanements in 2019), has fully recovered to pre-pandemic levels (even exceeding 2019 volumes during the summer months in 2021), aided by vaccination progress, a loosening of COVID-19 restrictions by the state in July 2021, pent-up demand, additional airline seat capacity, and the likely diversion to Hawaii by U.S. travelers and away from other international destinations. HAS' second passenger segment includes interisland passengers (39% of total enplanements in 2019), composed of both Hawaii residents and interisland travel by visitors, which has recovered to 60% of 2019's level. The recovery of this passenger segment has generally mirrored the domestic U.S. travel recovery and in pre-pandemic times had seen a slower growth rate as more islands have developed direct airline service.

However, the smaller but important international passenger segment (17% of total passengers in 2019) remains significantly affected and is only at 7% of pre-pandemic levels. These are visitors from Japan (the largest market, at 15%-20% of all eastbound visitors to the state) and Korea as well as other countries, many of which currently face vaccine, testing, and evolving quarantine restrictions upon their return to their country of origin, making a trip to Hawaii less desirable than other vacation destination markets. These restrictions are in addition to the COVID-19 protocols required to visit Hawaii.

At the start of the pandemic, Hawaii implemented a 14-day quarantine period for overseas travelers and all persons traveling from within the state; however, international travel requirements are now aligned with U.S. federal standards, which require vaccination and a negative COVID-19 test. Beginning Jan. 11, 2022, the state will modify its requirements for arriving visitors under the Hawaii's Safe Travels Program, eliminating the need to complete a health form prior to arrival that expedited processing upon deplaning and reducing the quarantine requirement for unvaccinated visitors who do not test negative to five days from 10 days. Fully vaccinated visitors who have tested negative for the coronavirus do not need to quarantine when they arrive in the state.

We view management projections showing a complete recovery of total passenger enplanements to pre-pandemic levels by fiscal 2025 as moderately conservative and generally aligned with S&P Global Ratings' activity estimates, although we believe there is an inherent level of near-term uncertainty given evolving pandemic considerations, possible future travel restrictions, and other uncontrollable factors such as the response to global health and safety conditions by countries whose residents visit Hawaii. (see "Updated Activity Estimates For U.S. Transportation Infrastructure Show Recovery For Air Travel Demand Accelerating And Public Transit Lagging," July 29, 2021.) Management assumptions include domestic U.S. passengers increasing at about 2%-3% through 2027 from current levels. Full recovery of the international component to pre-pandemic activity of 3.3 million enplaned passengers from 72,000 in 2021 is estimated to occur in 2027. If health and safety issue in the Pacific region improve more rapidly, the rebound in international visitors to the state would likewise rebound faster than currently projected.

We view proactive measures taken by HAS management along with the substantial federal support provided to the airport system as materially positive credit factors, mitigating weaker financial metrics resulting from the drop in passenger activity. HAS received approximately $324 million in federal COVID-19 operating grants under the three federal aid packages in fiscal years 2020 and 2021 and has drawn on them to provide rate relief to airlines and airport concessionaires. The bulk of these federal grants has already been used with approximately $40 million intended for fiscal 2023.

S&P Global Ratings-calculated DSC for HAS declined to below 1.0x in fiscal years 2020 and 2021 from a strong 1.54x in 2019 excluding federal COVID-19-relief operating grants, the system's funded carry-over coverage account and including passenger facility charges (PFCs) pledged or committed to debt service as revenue rather than as a debt service offset. Management's DSC of senior-debt obligations as permitted under the rate covenant is inclusive of federal grants and coverage accounts as revenues and PFC offsets to debt service and was 2.0x in 2020 and 3.4x in 2021. Given the airport's conservative budgeting practices and reasonable assumptions along with restructured and lower debt service through 2024, DSC per our calculations is likely be maintained in the adequate range (1.1x-1.25x) based on management projections as debt service increases and financial operations return to business-as-usual. After keeping terminal rental rates at Daniel K. Inouye International Airport, or Honolulu International Airport (HNL) flat in 2021, HAS management increased rates almost 10% for the current fiscal 2022 and landing fees have also increased under the residual rate-making formula with overall fiscal 2022 airline revenue expected to increase by 31%. Most of the rent deferrals management allowed the airlines to take have been collected.

Federal aid has also supported HAS' available liquidity at $494 million as of June 30, 2021 (S&P Global Ratings-calculated), which management has maintained at levels we consider very strong (weighted average of almost 600 days over the past three years) and that we assume will be sustained. Management reports 636 days' cash on hand as of Dec. 31, 2021.

As a result of the $2.2 billion capital program ($712 million or 32% already spent), the cost per enplaned passenger (CPE) is anticipated to rise almost 50% from $11 in 2020 to $16.78 by 2027, which we consider to be moderately high but in line with international hub destinations. An additional $543 million in GARBs is anticipated over the next three years along with almost $400 million in grants to support the capital program. Even with the growing debt, we expect debt-to-net revenue levels of 8%-11%, in the range we consider to be strong-to-very strong. A faster passenger recovery would have the effect of lowering CPE, both by increasing the denominator in the calculation but also by increasing non-airline revenues, particularly from duty-free concessions (which totaled $40 million in 2019 or 22% of concession revenues). Sales from duty-free shops both at on- and off-airport locations are derived from international passengers and currently are closed at HNL due to the dearth of passengers. Under the airline agreements, duty-free revenues are credited the calculation of terminal rental rates at HNL.

The U.S. economy has felt less impact with each wave of the coronavirus and has been able to withstand the damage with the new omicron variant a stark reminder that the COVID-19 pandemic is far from over. We maintain our assessment of U.S. recession risk over the next 12 months at 10%-15%, our lowest assessment in six years. However, as supply chain disruptions continue, S&P Global Economics has lowered its U.S. GDP growth forecast to 5.5% for 2021 and 3.9% for 2022 (from 5.7% and 4.1%, respectively). Supply chain disruptions are the largest stumbling block for the U.S. economy. Although there are signs that supply chain issues are easing, we expect price pressures to last well into 2022 and inflation to not reach the Federal Reserve's target until late 2023. Surging inflation continues to erode consumer confidence, as the latest University of Michigan Consumer Sentiment Index reading hit its lowest level in the past 10 years. Consumers are registering disappointment, both for today and for the future, with current conditions falling to a 10-year low while expectations dropped to an eight-year low. Despite the slowdown, GDP is still likely to rise to a 37-year high in 2021, with solid readings for 2022, based on continued economic demand from healthy balance sheets. For more information, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," Nov. 29, 2021.

We view management and governance characteristics to be very strong. HAS and DOT management teams have developed and maintained a strategic plan for the system, and have strong oversight of operations and facility control via airline-use agreements while maintaining a long-term financial plan and capital plan that are updated annually. The state of Hawaii owns and operates the system through its Department of Transportation, Airports Division. The system includes all commercial facilities in the state, and the state accounts for them as a single integrated enterprise fund. The airports division has the authority to levy rates and charges that, along with aviation fuel taxes, are set to comply with the bond indenture's flexible requirements. The extensive, mostly origination and destination (90%) 15-airport system consists of one medium-hub airport (HNL, previously a large hub), four medium-to-small-hub airports, and 10 non-hub or secondary airports. HAS is the sole provider of commercial aviation facilities in the state, and multiple airports in the system can accommodate overseas flights (allowing direct flights from the U.S. mainland to the neighboring islands). HNL, the 34th-largest airport in the U.S. in 2020 serving the state's largest population center, has by far the largest share of systemwide traffic (56% of enplanements) with long (12,000-foot) parallel runways and ample gate capacity, including 33 overseas gate positions and 13 interisland gate positions.

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 January 7, 2022)		
Hawaii Arpt Sys airport system rev bnds ser 2015A due 07/01/2045		
Long Term Rating	A+/Positive	Affirmed
Hawaii Arpt Sys AIRPORTS		
Long Term Rating	A/Positive	Affirmed
Hawaii		
Hawaii Arpt Sys, Hawaii		
Hawaii (Hawaii airpt sys) rev rfdg bnds (taxable)		
Long Term Rating	A+/Positive	Affirmed