

RatingsDirect®

Summary:

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

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Hawaii Arpt Sys, Hawaii

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

Long Term Rating	A+/Stable	Upgraded
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Hawaii Dept of Transp, Hawaii

Hawaii Arpt Sys, Hawaii

Hawaii Dept of Transp (Hawaii Airport Sys)

Long Term Rating	A+/Stable	Upgraded
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Credit Highlights

- S&P Global Ratings raised its long-term rating by two notches to 'A+' from 'A-' on the Hawaii Airport System's (HAS or the system) customer facility charge (CFC) revenue bonds outstanding.
- The outlook is stable.
- The upgrade reflects our view of strong recovery in enplaned passengers and car rental activity for the system, supporting revenue recovery and financial resiliency.

Security

The HAS consolidated rental car facility (ConRAC) bonds are secured 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). 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. While the state also currently collects a \$6.00-per-day motor vehicle surcharge tax, those revenues are not pledged to the bonds outstanding. 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 (MADS). The DSR for the ConRAC debt totals approximately \$23.9 million, and is fully funded with cash. HAS had approximately \$403.3 million in outstanding CFC debt as of Sept. 1, 2022.

The ConRAC System is an integral component of the department's modernization program that kicked off in 2007 and includes ConRACs recently completed and operational at Kahului (OGG) and Honolulu International (HNL) airports. Both cash CFC collections up to now 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 reflects an improved enterprise risk profile to very strong, consistent with our pre-pandemic view, and an unchanged strong financial risk profile. Our improved market position assessment is based on generally recovered rental car activity, reflecting the enplanement recovery of the system to near pre-pandemic levels. Because of strong recovery in rental car activity, we expect HAS will maintain CFC financial metrics consistent with a strong financial risk profile.

HAS operational recovery as measured by passenger demand is stronger than national trends, largely due to expansion on interisland travel, the gradual return of international visitors from Japan, and strong domestic demand from the continental U.S. Fiscal 2022 pledge revenues improved to 83% of fiscal 2019, while fiscal 2022 aggregate annual rental car transaction days across the airport system increased to 92.5% of fiscal 2019 levels as a result of strong demand stemming from the system's recovered demand from a large market of 31.6 million annual origin-and-destination (O&D) enplanements in 2022. October, November, and December 2022 monthly enplanements were 100%, 100%, and 101%, respectively, of pre-pandemic levels in 2019. In the near-term enplanement forecast, HAS estimates enplanements will continue to exceed 2019 levels in fiscal 2023, which we view as reasonable based on year-to-date actual results.

Our rating also incorporates the diversification of the revenue pledge including rental car activity at six airports across the system with no airport contributing no more than about 40% of total CFC revenues, as well as Hawaii's historical status as the most active rental car market in the U.S. as measured by transaction days. We believe the facility's liquidity position provides support to weather unanticipated near-term activity decline as the national economy faces headwinds.

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

- Very strong market position given its monopolistic position and Hawaii's status as one of the most active rental car markets in the U.S., offset slightly by the somewhat weaker essentiality of car rental activity versus airline travel.
- Extremely strong service area economic fundamentals, which include favorable economic activity as measured by GDP per capita, below-average unemployment levels, and the strength of its tourism industry
- Strong financial risk profile, reflecting our expectation that generally favorable airport car rental demand will continue to support S&P Global Ratings-calculated debt service coverage above 2x, debt to EBIDA will be maintained below 10x, and liquidity to debt generally above 20%.

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

- Exposure to an international overseas passenger segment, which, although accelerating recently, has been much slower to recover than domestic passenger segment due to pandemic-related health and safety requirements and protocols; and
- Pledged revenues that could be sensitive to tourism activity and other discretionary customer behaviors.

Environmental, social, and governance

We analyzed the system's risks related to environmental and governance factors, and consider them neutral to our credit analysis, 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. Elevated health and safety concerns, as evidenced during the COVID-19 pandemic, are considered a social risk factor, but are abating given the recovery in air passenger traffic.

Outlook

The stable outlook reflects our expectation that rental car demand will remain generally favorable and will support strong financial metrics.

Downside scenario

Although unlikely within the outlook period, we could lower the rating if demand for rental car activity significantly declines, weakening finances for an extended period and suggesting a weaker financial risk profile.

Upside scenario

We do not anticipate raising the rating given our view that coverage is unlikely to materially exceed forecast levels. Rating upside is also limited given the pledged revenues moderately high reliance on tourism and other discretionary customer behaviors.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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