

03 FEB 2025

Fitch Rates Hawaii Airport Revenue Bonds 'AA-'; Affirms Outstanding; Outlook Stable

Fitch Ratings - Chicago - 03 Feb 2025: Fitch Ratings has assigned a 'AA-' rating to \$855.0 million in series 2025 airports system revenue and refunding bonds issued by State of Hawaii, Department of Transportation (Airports Division). In addition, Fitch has affirmed the 'AA-' rating on \$1.7 billion of outstanding parity airports system revenue bonds and the 'A+' rating on \$82.6 million of outstanding subordinate lien lease revenue certificates of participation (COPs), series 2013.

The Rating Outlook for all of the bonds is Stable.

The Airports Division also has \$37.9 million outstanding in parity COPs that are not rated by Fitch.

RATING RATIONALE

The ratings reflect the essentiality of air services to the state's island system of airports, which encompasses a high degree of tourism and leisure-focused traffic from long-haul domestic and international passengers. The rating distinction between the revenue bond liens reflects the subordinated nature of the obligation securing the COPs and weaker coverage covenants when compared with those of the senior debt.

The ratings also consider the ongoing capital program with a considerable budget, resulting in upward pressure to airline cost and leverage metrics, although the enterprise's overall financial position, aided by their existing strong liquidity profile, should remain intact. Financial metrics under Fitch's rating case remain largely consistent with the 'AA-' senior rating despite additional anticipated borrowings.

KEY RATING DRIVERS

Revenue Risk - Volume - Stronger

State Airports System; Leisure Exposure: The necessity of air travel to, from and between Hawaii's various islands provides the airports system with a sizable base of enplaned passengers of 19 million. The economy is anchored by tourism, which, on a relative basis, has been more vulnerable to fluctuations during downturns. However, the large military presence somewhat stabilizes the traffic base. While Hawaiian Airlines (BB+/Stable) accounts for over 40% of total system enplanements, the expansion of domestic and international services, as well as necessity of air travel for this market mitigates risk. Cost per enplanement (CPE) under Fitch's rating case rises while remaining competitive relative to other large hub airports.

Revenue Risk - Price - Stronger

Strong Rate-Setting and Cost-Recovery Mechanisms: The airport's effective price framework includes both the favorable residual rate setting approach to air carriers, albeit under short-term agreements with quarterly extensions, coupled with a diverse set of non-aeronautical revenues. Collectively, the airports system generates a strong cost recovery rate together with solid coverage levels and a moderate airline cost level under typical operating conditions. The airline use and lease agreement mechanisms allow for surcharges to carriers to meet all of the airport's operating and financing obligations.

Infrastructure Dev. & Renewal - Midrange

Sizable Capital Program: The airport's large current capital improvement program (CIP) through 2031 totals \$2.5 billion and is focused on expanding capacity and modernizing facilities. Of the \$1.8 billion of remaining CIP costs, \$1.5 billion, or a substantial 81%, is expected to be debt funded. The airport has also identified an additional \$2.0 billion in potential projects that could be negotiated for airline approval, though these are still preliminary. Close oversight from the state government together with prudent management of capital spending and borrowings will be important to rating maintenance.

Debt Structure - 1 - Stronger; Debt Structure - 2 - Midrange

Conservative Capital Structure: The airport enterprise's senior revenue bond debt is 100% fixed rate with a generally declining debt service profile and final maturity in fiscal 2055. The rated subordinated certificates (COPs) are also fixed rate with final maturity in fiscal 2029 and have an increasing debt service profile that is structured to match the increase in the annual energy savings guarantee from Johnson Controls Inc. under the energy performance contract. The rating distinction between the revenue bond liens reflects the subordinated nature of the obligation securing the COPs and weaker coverage covenants when compared to those of the senior debt.

Financial Profile

The airports system's overall financial profile remains in a solid position. Debt coverage and liquidity metrics remain at robust levels while leverage has been maintained around 4x. Debt service coverage ratio (DSCR) from cashflows was a solid 1.9x in fiscal 2024 (1.7x excluding coverage accounts). Even when including the additional debt, total cashflow DSCR moderates to around 1.4x through 2029 in Fitch's rating case (FRC).

Liquidity is strong at 665 days cash on hand in 2024 and Fitch anticipates it will remain above 600 in the FRC. Forward leverage remains roughly at or below 10x, despite the continued borrowings for the capital program, consistent with the current rating level. Fitch-calculated CPE of around \$19 for fiscal 2024 is assumed to rise to nearly \$32 by fiscal 2029 in the FRC given the additional borrowings, but it will likely not have a material impact on traffic levels given strong market demand.

PEER GROUP

Hawaii's peers include Greater Orlando Aviation Authority (AA/AA-/Stable) and Las Vegas (Subordinate) (AA-/Stable) given the similar relationship to leisure passenger traffic. Hawaii has the highest carrier

concentration of the three with Hawaiian Airlines holding 44% of market share. Hawaii maintains a comparable liquidity position with Orlando and Las Vegas as measured by DCOH. Hawaii's aggregate leverage levels of 10x are projected higher than both Las Vegas (2x in fiscal 2028) and Orlando (5x in fiscal 2029) should Hawaii proceed with all additional allowance projects, though Fitch's rating case leverage would still be consistent with a 'AA-' rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A period of material and sustained traffic declines resulting in erosion of the airport's current strong financial position;

--Further expansion to the CIP scope resulting in increased borrowing needs that elevate total leverage above 10.0x on a sustained basis in Fitch's rating case.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Continuation of positive growth in traffic volumes coupled with total leverage below 7.0x on a sustained basis, including future borrowing needs would likely lead to positive rating action.

TRANSACTION SUMMARY

The series 2025ABCD bonds are senior secured, fixed rate, and fully amortizing. The bond proceeds will be used to fund \$602 million in CIP as well as refund the remaining \$244.2 million of series 2015AB bonds for savings. The bonds will also be used to fund required deposits to debt service reserve accounts to meet reserve requirements, fund capitalized interest on a portion of the series 2025 bonds, and pay certain costs of issuance. The bonds are secured by the airports' parity debt service reserve fund. Final maturity is fiscal 2055.

SECURITY

The general airport revenue bonds (GARBs) are secured by revenues of the airports system and aviation fuel taxes. The COPs are secured by payments pursuant to the lease, and payable by net revenues of the airports system (including airline revenues as part of the rate base) junior to payment of GARBs, subject to annual appropriation by the state legislature. COP holders have a security interest on the projects and ability to reclaim property in the event of non-appropriation.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity,

either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Hawaii, State of (HI) [Airports]			
<ul style="list-style-type: none"> Hawaii, State of (HI) 	LT	AA- ●	Affirmed
			AA- ●

ENTITY/DEBT	RATING	RECOVERY	PRIOR
/Airport Revenues - First Lien/ 1 LT			

• Hawaii, State of (HI) /Airport Revenues ^{LT} - Second Lien/ 2 LT	A+ 	Affirmed	A+ 
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RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Infrastructure & Project Finance Rating Criteria \(pub.08 Jan 2025\) \(including rating assumption sensitivity\)](#)

[Transportation Infrastructure Rating Criteria \(pub.07 Jan 2025\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing

description of model(s).

GIG AST Model, v1.4.2 (1)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Hawaii, State of (HI) EU Endorsed, UK Endorsed

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