STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

University of Hawaii Board of Regents; Public Coll/Univ - Unlimited Student Fees

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Credit Profile		
US$81.0 mil univ rev bnds ser 2015B dtd 09/24/2015 due 10/01/2038		
Long Term Rating	A+/Stable	New
US$48.0 mil univ rev bnds ser 2015E dtd 09/24/2015 due 10/01/2031		
Long Term Rating	A+/Stable	New
US$30.0 mil univ rev bnds ser 2015C dtd 09/24/2015 due 10/01/2038		
Long Term Rating	A+/Stable	New
US$18.2 mil univ rev bnds ser 2015D dtd 09/24/2015 due 10/01/2031		
Long Term Rating	A+/Stable	New
US$8.57 mil univ rev bnds ser 2015A dtd 09/24/2015 due 10/01/2045		
Long Term Rating	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to the University of Hawaii Board of Regents university revenue bonds including:

- $8.57 million series 2015A (taxable);
- $81 million series 2015B (refunding);
- $30 million series 2015 C (taxable refunding);
- $18.2 million series 2015D (medical school taxable refunding); and
- $48 million series 2015E (medical school forward delivery refunding).

At the same time, Standard & Poor's affirmed its 'A+' underlying rating (SPUR) on the outstanding revenue bonds issued by the University of Hawaii Board of Regents for the University of Hawaii (UH), based on our application of government-related entities (GRE) criteria. The stand-alone credit profile rating was affirmed at 'a+'. Some long-term ratings may be higher due to bond insurance. The outlook is stable.

The rating reflects the system's unique position as the only public system of higher education in the state and its reliance on strong support from the state of Hawaii, which is granted in the form of operating and capital appropriations, as well as its participation in the state's general obligation bond issuances. This offsets an otherwise moderate enterprise profile and relatively light financial profile for the rating.

More specifically, the ratings reflect our opinion of the university's:

- Quasi-monopolistic position as the state's only public system of higher education;
- Strong support from the state of Hawaii through operating and capital funds and GO debt issuances; and
- Manageable maximum annual debt service (MADS) burden of about 2.8% with no plans for additional debt in the

near term.

Partly offsetting the preceding credit strengths is our view of the university's:

- Negative adjusted operations on a full-accrual basis, but positive on a cash basis after adding back annual other postemployment benefit (OPEB) costs and depreciation expenses;
- Slightly declining enrollment during the past few years (though we believe this is partly due to increasing graduation rates) coupled with a moderate demand profile; and
- Low financial resource ratios for the rating category at June 30, 2014, with negative unrestricted net assets (UNA). However, we note that the ratios improve when adjusting UNA for the university's share of OPEB liabilities (for better comparability) but is still low at 12% of adjusted operations and 35.8% of pro forma debt.

Following the issuance of the series 2015A-E bonds, which we estimate will provide $8.57 million of new money, the system will have pro forma debt of approximately $600 million, including $17 million of notes payable and nothing outstanding on its line of credit. All debt of the university is fixed rate. University debt is secured by three slightly different security structures, which we rate the same based on our view of the broad, interconnected mix of pledged revenues available for payment of debt service.

About 42% of the university's revenue bond debt is secured by dedicated revenue streams, which we consider a strength. Debt service is level at $43 million to $47 million through 2033, with MADS of $47.1 million occurring in 2018 (excluding the Build America Bonds (BABs) interest subsidy although not including the $17 million note), making for a debt burden we view as low at less than 3% of expenditures. Management has indicated that they do not expect to issue any additional revenue debt in the near future.

Network revenues, which include receipts from auxiliaries as well as special and revolving fund appropriations, secure the university revenue bonds, including the 2006A (expected to be refunded by the series 2015B and C bonds), 2009, 2010B-1 (taxable BABs), 2010B-2, and 2012A bonds (about $327.8 million as of July 31, 2015). We consider this pledge to be equivalent to the broadest or unlimited student fee pledge. Network net revenues were about $40.2 million in fiscal 2014. The pledge of appropriations is subordinate to the 2006A university bonds. Funds available from special and revolving fund appropriations were $510.40 million in fiscal 2014.

The $127.6 million series 2010A-1 (taxable BABs) and 2010A-2 bonds, the proceeds of which were used for the construction of a cancer research building, are also secured by the above network and special and revolving fund appropriations and are additionally secured by cigarette tax revenues. The cancer research special fund receives 2 cents per cigarette sale to be used solely for 2010A debt service or operations of the cancer center. The fund had a balance of $20.8 million in June 2014, and debt service for these bonds was paid solely through this fund in fiscal 2014.

The university also has about $118.6 million of series 2006A medical school bonds outstanding that are separately secured by a lien on special and revolving funds of the university, as well as state-allocated and appropriated money from the Hawaii Tobacco Settlement Special Fund. In fiscal 2015, this fund yielded an estimated $11.6 million for debt service on the 2006 bonds. We expect these bonds will be particularly refunded with the series 2015D and E bonds under the university revenue bond security structure.

Outlook

The stable outlook reflects our expectation that during the next two years state support will continue to be strong, university operating performance will begin to improve on a full accrual basis, and financial resource measures will slowly improve compared to the rating. We do not expect any additional debt to be issued during the two-year outlook period.

We could consider a positive rating action over time with sustained improvement to the university's annual operating performance coupled with steadily improving financial resource measures and continued strong support from the state. A negative rating action could be considered with significant declines in the enterprise profile that adversely affect the university's financial position, or with the issuance of substantial additional debt without a commensurate increase in financial resources.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings Detail (As Of September 8, 2015)		
University of Hawaii Brd of Regents, Hawaii		
University of Hawaii, Hawaii		
University of Hawaii Brd of Regents (University of Hawaii) univ rev bnds		
Long Term Rating	A+/Stable	Affirmed
University of Hawaii Brd of Regents (University of Hawaii) univ rev bnds ser 2006A (Berkshire)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
University of Hawaii Brd of Regents (University of Hawaii) univ rev bnds (University of Hawaii) ser 2006A		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
University of Hawaii Brd of Regents (University of Hawaii) univ rfdg bnds (University of Hawaii) ser 2006A		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
University of Hawaii Brd of Regents (University of Hawaii) (MBIA of Illinois) ser 2006A		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Univ of Hawaii Brd of Regents (Univ of Hawaii) univ rev bnds ser 2009A		
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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