

FITCH RATES THE UNIVERSITY OF HAWAII'S REVS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-07 December 2017: Fitch Ratings has assigned a 'AA' rating to the following Board of Regents of the University of Hawaii (UH) University Revenue Bonds (URBs):

--\$4,310,000 Series 2017A;
--\$10,120,000 Series 2017B;
--\$4,115,000 Series 2017C;
--\$11,050,000 Series 2017D;
--\$4,455,000 Series 2017E;
--\$52,350,000 Series 2017F;
--\$20,825,000 Series 2017G.

The series 2017A bonds will be used primarily to fund capital expenditures and the series 2017B-G bonds will be used primarily to refund existing indebtedness. Bond proceeds will also be used to pay costs of issuance. Approximately \$29 million is expected to be taxable; the remainder tax-exempt. The series 2017 bonds are expected to price the week of December 11 via negotiated sale.

The Rating Outlook is Stable.

SECURITY

The series 2017 URBs will be secured by net revenues of UH's auxiliary network (the network) and a subordinate pledge of legislative appropriations.

KEY RATING DRIVERS

STRONG MARKET POSITION: The 'AA' rating reflects UH's key role as the sole provider of public higher education in the state, which supports consistent and healthy demand. UH encompasses the state's community college system as well as traditional university campuses.

STATE SUPPORT; CLOSE TIES: The state of Hawaii (GO bonds rated AA/Positive Outlook) consistently provides strong operating and capital support to UH. State capital support has kept UH's leverage low and helps mitigate UH's otherwise thin operating performance.

REVENUE DIVERSITY: UH's operating revenues are well-diversified, which insulates it somewhat to unexpected shifts in any one revenue source. In addition to state operating support (30%), UH generates significant net tuition and fee revenue (24%) and receives meaningful research funding (27%), mainly from federal sources.

LOW DEBT BURDEN: UH's debt burden is low, reflecting strong state support of UH's capital needs. While operations are somewhat weak on a GAAP basis, debt service coverage from operations remains sound. UH's debt burden is expected to remain low due to a moratorium on new construction and authorizations for a marginal \$25 million in additional debt through fiscal 2018 (year ending June 30).

RATING SENSITIVITIES

ADDITIONAL LEVERAGE: A material increase in the University of Hawaii's (UH) debt without a commensurate increase in financial resources or sustained operating improvement could pressure the rating.

STATE AND FEDERAL FUNDING: Material declines in UH's state appropriations or federal research funding which persist over a multi-year period could negatively affect the rating, particularly if they are not offset by increases in other revenue streams.

CREDIT PROFILE

The University of Hawaii was founded in 1907 and is the sole provider of public higher education within the state. The system comprises three university campuses, seven community college campuses, three university centers, and multiple learning, research and service sites across six of Hawaii's islands.

UH's flagship campus Manoa is located in Honolulu. Manoa represented over 70% of the four-year campus enrollment in 2017 and houses the majority of UH's research activity. The UH system supported 51,674 enrolled students and reported \$1.6 billion in total revenue in fiscal 2017 (year ending June 30).

KEY MARKET ROLE, STATE SUPPORT

UH's position as the sole provider of public higher education in the state provides a strong and consistent demand base, driven more by state policy and demographic trends than any competition.

The state provides consistent and robust support of the UH system of universities and colleges, via approximately \$471 million in general appropriations in fiscal 2017. Capital support has been consistent between \$130 million and \$200 million since 2010, evidencing UH's essential service and importance to the overall state economy.

The state is supporting various efforts to increase affordability, improve college-going rates, and increase graduation rates, which is viewed positively. Current demographic data indicate that Hawaii's graduating high school class totals are expected to increase from a recent low 13,300 in 2016 to 15,900 by 2026. In addition, while tuition will be held largely level through the 2019/20 school year, UH has a new last-dollar scholarship program for community college students supported by \$1.8 million annually appropriated within the state budget.

IMPROVING OPERATIONS

UH recorded operating deficits in the past four fiscal years including fiscal 2017 at negative 8.8% on a GAAP basis (Fitch-adjusted, excludes annual OPEB costs paid directly by the state). Performance was impacted by slightly softer enrollment (particularly at the community colleges, as expected) and significantly by a significant increase in pension and benefit expense, a portion of which was non-cash. Excluding the non-cash portion, the deficit would have been more similar to the prior year.

Still, UH's available funds (defined as cash and investments less nonexpendable restricted net assets and unspent bond proceeds) of \$590 million equaled a steady 100% of total debt and 33% of operating expenses, both comparable to similarly rated peers and reflecting solid capital support from the state.

LOW DEBT BURDEN

State capital support has facilitated UH's relatively low debt burden and manageable leverage. A \$1.2 billion capital improvement plan (2018 - 2023) was approved in 2016, focused primarily on reducing deferred maintenance, which will be primarily funded by state sources.

In fiscal 2017, there were \$564 million in total bonds outstanding, with an additional \$39 million in bond premiums and notes payable. Maximum annual debt service of \$46 million occurs in 2018, which equaled a manageable 3% of total operating revenues. Further, UH's long-term debt is 100% fixed rate. Including the \$4.3 million in series 2017 new money debt, there remains approximately \$25 million of new debt possible under a debt authorization, which expires June 30, 2018. Fitch's pro forma debt includes this amount but the impact is minimal, in the agency's view.

At fiscal year-end 2017, UH's reported share of net pension liability and other postemployment benefits liability was a substantial \$1.7 billion and \$788.8 million, respectively. While suppressing its unrestricted net position, an annual required payment is made directly by the state from its general fund appropriation and not out of UH's operating budget appropriation. The state is committed to paying its unfunded pension and OPEB annual required contribution (ARC) by 2019, currently expected by 2018. For more information, see "Fitch Rates Hawaii's \$857.6MM GO Bonds 'AA'; Outlook Stable" dated May 16, 2017, available at www.fitchratings.com.

Contact:

Primary Analyst
Emily Wadhwani
Director
+1-312-368-3347
Fitch Ratings, Inc.
70 W. Madison Street
Chicago, IL 60602

Secondary Analyst
Tipper Austin
Associate Director
+1-212-908-9199

Committee Chairperson
Kevin Holloran
Senior Director
+1-512-813-5700

Relevant Committee Date: August 30, 2017

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017)

<https://www.fitchratings.com/site/re/898969>

U.S. Public Finance College and University Rating Criteria (pub. 26 Apr 2017)

<https://www.fitchratings.com/site/re/897285>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001