MOODY'S INVESTORS SERVICE

ISSUER COMMENT
7 March 2019

RATING

Seniormost Rating [1]

Aa2	Stable

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
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University of Hawaii, HI

Annual comment on University of Hawaii

Issuer profile

University of Hawaii (UH) is a large multi-campus system with three university campuses, seven community college campuses and nine educational centers distributed across six islands throughout the State. In fall 2018, UH had a full-time enrollment of 34,774 students and generated operating revenue of $1.6 billion in fiscal 2018. The university has a strong and unique research profile, particularly in earth and marine sciences.

Credit overview

University of Hawaii's (Aa2 stable) credit profile reflects its essential role in the State of Hawaii (Aa1 stable) as the sole provider of public higher education and a significant economic driver within the state. The university continues to benefit from rising state appropriations for core operations as well as funding for its rising pension and OPEB obligations, currently the sole obligation of the State of Hawaii (Aa1 stable). Additional support is provided through substantial capital support, exceeding $660 million over the last five years. UH's credit profile also incorporates the university's large scale and scope of operations, with unique programming and research, and well-diversified revenues. The rating is tempered by significant expense pressures across the 10-campus system, declining enrollments and a large backlog of deferred maintenance.

EXHIBIT 1

University of Hawaii, HI [2]

	2014	2015	2016	2017	2018	Median: Aa2 rated public university
Total FTE Enrollment	39,237	38,460	36,701	35,608	34,774	41,729
Operating Revenue ($000)	1,500,521	1,479,004	1,530,302	1,537,421	1,635,474	1,537,421
Annual Change in Operating Revenue (%)	4.5	-1.4	3.5	0.5	6.4	3.3
Total Cash and Investments ($000)	774,049	821,912	844,873	909,573	953,065	1,749,623
Total Debt ($000)	620,841	595,965	579,815	568,880	564,156	990,738
Spendable Cash and Investments to Total Debt (x)	0.9	1.0	1.1	1.2	1.2	1.2
Spendable Cash and Investments to Operating Expenses (x)	0.3	0.4	0.4	0.4	0.4	0.7
Monthly Days Cash on Hand	121	130	136	140	141	164
Operating Cash Flow Margin (%)	4.4	4.1	6.3	5.3	8.3	11.4
Total Debt to Cash Flow(x)	9.4	9.8	6.0	7.0	4.2	5.0
Annual Debt Service Coverage (x)	1.6	1.4	2.3	1.8	2.4	3.1

Source: Moody's Investors Service

Market profile: The University of Hawaii has a very good strategic position as the sole provider of higher education in the state through its learning centers, community colleges and comprehensive universities. However, enrollment growth, particularly at the community colleges, will be challenging given the very healthy economy and low unemployment in the state. Relying mostly on Hawaii residents, the university will continue to focus on increasing participation and completion rates as well as leveraging opportunities to recruit out of state students.

» The university's substantial operating base at $1.6 billion in fiscal 2018 has grown by 9% over the last five years, principally driven by a 34% rise in government appropriations.

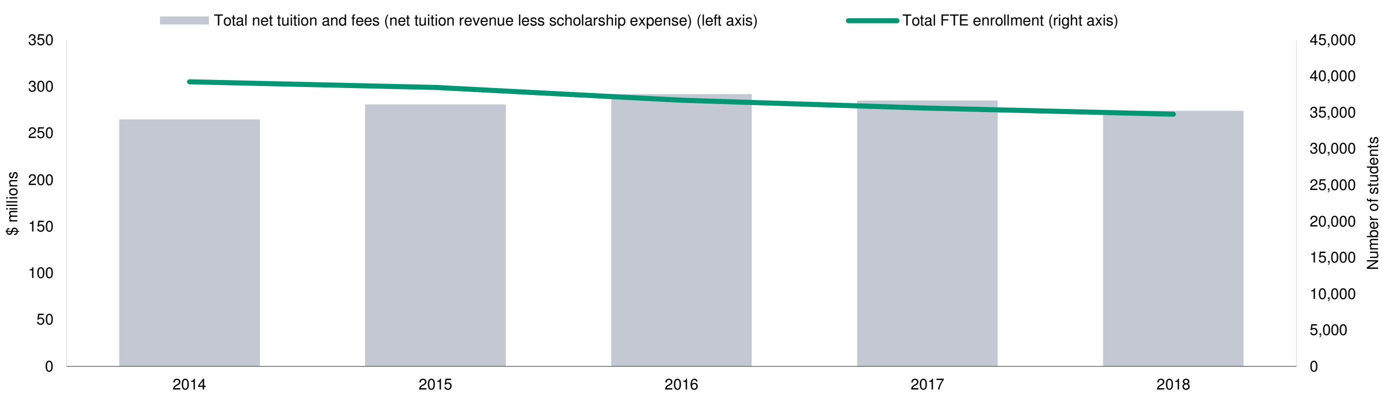
» UH's net tuition revenue declined 4.2% in fiscal 2018, the second year of decline, an impediment to sustained overall revenue growth.

» Student enrollment has contracted materially by 11% to 34,774 students in fall 2018 from 39,237 students in fall 2014, primarily driven by declines in the community colleges.

» Relatively low net tuition per student of $7,684 in fiscal 2018 reflects the affordability initiatives of the university as well as its sizeable community college enrollment.

» UH's tuition discount is moderate and has remained stable at 39.3% in fiscal 2018 compared to fiscal 2014, highlighting a stable pricing environment.

Exhibit 2
Multiple years of enrollment decline is contributing to a contraction of net tuition revenue



Source: Moody's Investors Service

Operating performance: We expect operating performance to remain generally stable as the university continues to benefit from direct and on-behalf state support helping to offset expense pressures related to high labor and pension costs. Fiscal 2019 performance will be comparable to fiscal 2018, possibly a little weaker. Management expects an approximate 7.0% increase in expenses mostly attributable to collective bargaining increases managed by the state. Favorably, the state is funding the increase and therefore the revenues should mostly offset the increased expense burden.

» UH's operating cash flow margin of 8.3% in fiscal 2018 highlights adequate financial operations. It reflects steady improvement since fiscal 2014 with some minor fluctuation.

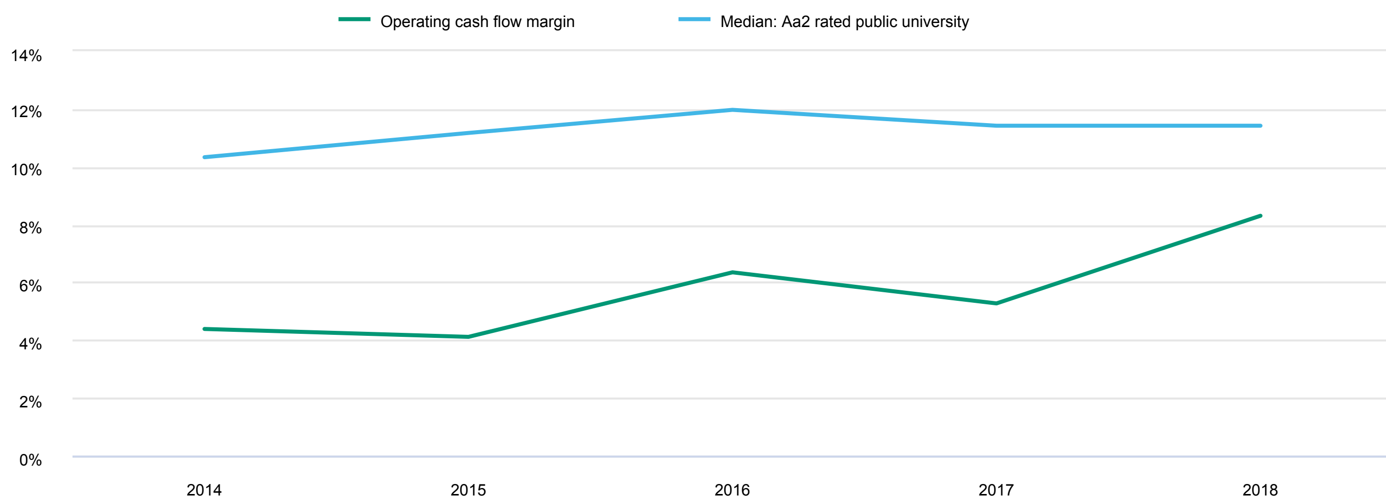
» Debt service coverage is solid at 2.4x in fiscal 2018 and has risen modestly from 1.6x in fiscal 2014.

» Substantial state support from the state through operating appropriations, including funding for fringe benefits, has grown 34% between fiscal years 2014-2018. The university has significant expenses related to pension and OPEB liabilities.

» UH has diverse revenue streams with 23% from net tuition, 23% form research related grants and contracts and 47% from state appropriations.

Exhibit 3

Operating cash flow margin remains weaker than the median for similarly rated peers



Source: Moody's Investors Service

Wealth and liquidity: Cash and investments will continue to grow moderately, bolstered by expected improvement in operating cash flow, a low debt burden and stable fundraising. While the university will continue to invest its own financial resources in capital and addressing deferred maintenance needs, the bulk of investment will continue to come from the state. This will enable the university to retain cash flow and continue growing its unrestricted liquidity, which is particularly important given the university's location and its exposure to environmental risks, evidenced by last year's hurricane and volcanic activity.

» The university's total cash and investments have grown materially by 23% to $953 million in fiscal 2018 compared to $774 million in fiscal 2014.

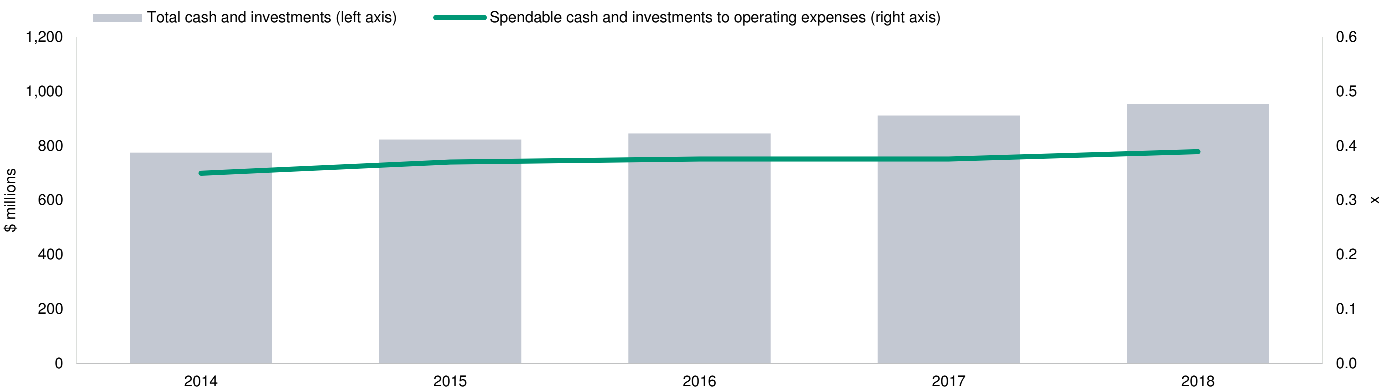
» UH's spendable cash and investments to operating expenses is thin and has increased slightly from 0.35x in fiscal 2014 as a result of improving reserves, but remains weaker than the Aa2-rated public university median of 0.68x.

» Monthly days cash on hand is favorable at 141 days in fiscal 2018 and has risen from 121 days in fiscal 2014. It is modestly lower than the median of 164 monthly days cash on hand for similarly rated peers.

» The university's total cash and investments per student is moderate at $27,407 in fiscal 2018, but has increased significantly by 39% since fiscal 2014. However, this is largely due to a material decline in enrollment rather than wealth growth.

Exhibit 4

Wealth continues to grow, but spendable cash and investments modestly covers expenses



Source: Moody's Investors Service

Leverage: UH's debt burden will remain low and manageable as no debt plans are being considered for the next couple years. The university and its board recently adopted a six-year capital improvement program, which consists of $1.6 billion of investment through 2023. The state, which funded nearly $1.6 billion of capital investment over the last 10 years, will be the primary source of funding.

» The university's strong spendable cash and investments to total debt of 1.2x in fiscal 2018 strengthened from 0.9x in fiscal 2014 due to improving reserves and the university's amortizing debt structure.

» UH's moderate debt to cash flow has improved significantly to 4.2x in fiscal 2018 from 9.4x in fiscal 2014. It is stronger than the Aa2-rated public university median of 5.0x.

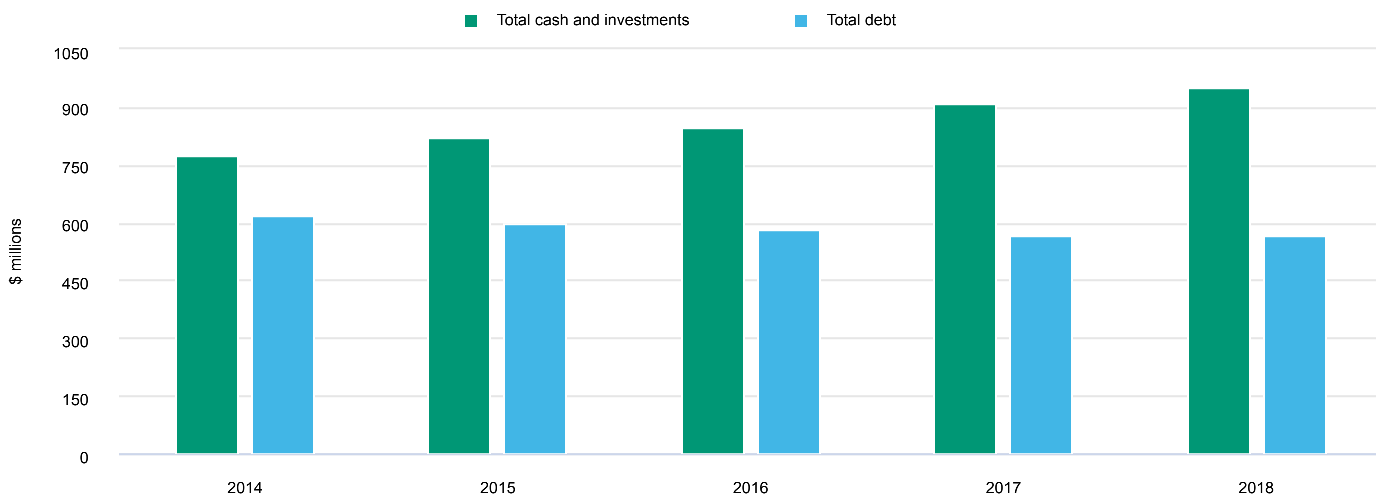
» Debt service is manageable, consuming just 3.2% of operating expenses in fiscal 2018, stronger than the Aa2-rated public university median of 4.2%.

» The university's capital spending ratio is adequate at 1.35x in fiscal 2018 and has generally been above depreciation over the last five years. The university continues to receive significant support from the State of Hawaii.

» Elevated pension and OPEB obligations are funded through an appropriation by the State of Hawaii, but could pose credit risk if funding responsibility shifts to the university.

Exhibit 5

Over the last five fiscal years, wealth has increased consistently while total debt has decreased annually



Source: Moody's Investors Service

Sector trends [3]

We have a negative outlook for the higher education sector through 2019. Maintaining the negative outlook is primarily due to expectations of continued low net tuition revenue growth, the main revenue stream for most colleges and universities. Despite improvement in other revenue streams, we expect credit conditions to remain challenged through 2019 and early 2020. Excluding healthcare operations, expected overall operating expense growth of around 4% will outpace projected revenue growth of 3.7% for the sector, leading to continued cost-containment efforts. Private Moody's-rated universities will fare better than public universities over the outlook period, with nearly 60% projected to achieve revenue growth of 3% or greater. The 3% is our proxy for higher education inflation. We expect less than half of public universities to generate revenue growth that high, constrained by affordability concerns and state government influence on pricesetting. Universities with academic medical centers will have both higher aggregate revenue and expense growth than those without. This reflects the continued expansion of healthcare enterprises through both organic growth as well as mergers and acquisitions. Approximately 15% of our rated universities have patient care revenue, which accounts for almost 25% of aggregate sector revenue.

Endnotes

1 The rating referenced in this report is the college's or university's seniormost public rating.

2 Definitions of the metrics in the Key Indicators table are available in the appendices of Moody's most recently published Higher Education medians reports, public university and private university. The appendices also provide additional metrics broken out by sector and rating category. We use data from a variety of sources to calculate the medians, some of which have differing reporting schedules. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

3 Many public university pension liabilities are associated with participation in the statewide multiple-employer cost-sharing plans.

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