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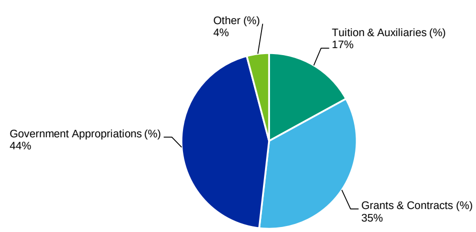
University of Hawaii, HI

Sole system of higher education in the state with strong budget and capital support

Credit overview

University of Hawaii's (UH, Aa3 stable) role as the sole provider of public higher education for the State of Hawaii remains a key component of its credit strength, including programmatically diverse enrollment, strong partnership with the State of Hawaii (Aa2 stable) and a unique research enterprise. While the strategic and financial connection with the state is a credit strength, it also highlights the university's vulnerability to the state's fiscal condition as demonstrated during the pandemic when funding was drastically cut. Funding was subsequently restored and the university stands to benefit from a solid increase over the next biennium. However, net tuition revenue will be constrained as enrollment declines persist across the system, primarily at the community colleges. The university's large research engine continues to benefit form areas of distinction and strong state and federal support.

Exhibit 1
Good revenue diversity with significant support from State of Hawaii supports credit quality
Fiscal 2022 operating revenue attribution



Source: Moody's Investors Service

University of Hawaii will maintain its very good brand and strategic positioning as the sole provider of public higher education for the State of Hawaii, which remains a key component of its credit strength. Programmatic diversity and a unique research enterprise will continue to drive solid student demand. While mainland demand remains strong for the four-year universities, the community colleges continue to lose enrollment following Hawaii's strong economic rebound and low statewide unemployment rate. The system at large has lost about 9% FTE enrollment over the last five years and net tuition revenue has declined over the same period, much of which has been driven by the effects of the pandemic. State support becomes even more critical at this juncture as student charges are unlikely to keep pace with inflation over the next couple of years.

Growing state appropriations will support budget stability over the next biennium, but the university will remain vulnerable to declines in funding if the current global economic slowdown leads to shifts in tourism and ultimately a reduction in state revenue. While the university benefits from good revenue diversity, it relies on the state for most of its revenue, 44% in fiscal 2022 including funding for fringe benefits. As mentioned above, state support becomes more important as the tuition pricing strategy calls for a freeze for fiscal years 2024 and 2025, followed by modest 2% increases in fiscal years 2026 and 2027 at the four-year campuses. Community college and graduate tuition rates will remain frozen for all four years. Through December 31, 2022, the fiscal 2023 budget appears to be aligned with historical performance, generally break-even or a modest deficit. While revenue is up over 10% through the period, expenses are up an equivalent amount.

Bolstered by solid investment returns, a rebound in state funding and federal pandemic related funding, wealth levels are at an all-time high. Total cash and investments reached over $1.4 billion in fiscal 2022 and provide a strong cushion for the university's relatively modest direct debt burden. However, when factoring in the university's exposure to an unfunded pension liability, coverage of total adjusted debt becomes much weaker. Favorably, the state remains committed to covering most of the university's fringe benefit costs. Unrestricted liquidity has risen along with the university's total wealth and continues to support adequate financial flexibility, providing monthly days cash on hand of 179 days at fiscal year-end 2022.

UH will continue to manage a relatively stable debt burden due to healthy state capital support and regular amortization. State capital appropriations have averaged around $150 million annually over the last five years, a trend that will likely continue over the next biennium. While the support keeps debt levels down, it's just above annual depreciation and the university continues to maintain a relatively high amount of deferred maintenance needs. Through public private partnerships, the university is addressing some of its academic and student housing needs. The Residences for Innovative Student Experiences (RISE) project will be completed in 2023 and remains on budget (approximately $70 million) and on time.

Exhibit 2
UNIVERSITY OF HAWAII, HI

	2018	2019	2020	2021	2022	Median: Aa Rated Public Universities
Total FTE Enrollment	34,774	34,000	33,566	32,649	31,595	32,387
Operating Revenue ($000)	1,635,474	1,697,895	1,692,960	1,632,996	1,707,561	1,374,020
Annual Change in Operating Revenue (%)	6.4	3.8	-0.3	-3.5	4.6	1.5
Total Cash & Investments ($000)	953,065	1,017,699	1,019,843	1,270,888	1,429,291	1,970,591
Total Debt ($000)	564,156	543,283	521,932	486,896	555,199	733,584
Total Cash & Investments to Total Adjusted Debt (x)	0.3	0.3	0.2	0.3	0.3	1.0
Total Cash & Investments to Operating Expenses (x)	0.6	0.6	0.6	0.8	0.9	1.3
Monthly Days Cash on Hand (x)	138	145	118	149	179	203
EBIDA Margin (%)	6.7	6.5	7.1	10.8	13.8	13.1
Total Debt to EBIDA (x)	5.2	5.0	4.4	2.8	2.4	3.9
Annual Debt Service Coverage (x)	1.9	2.4	2.7	4.5	7.7	3.7

Source: Moody's Investors Service

Issuer profile

The University of Hawaii 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. The scope and scale of the university is reflected in its $1.7 billion of operating revenue and over 31,500 FTE students. The university has a strong and unique research profile, particularly in earth and marine sciences.

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