

## RATING ACTION COMMENTARY

### Fitch Affirms the University of Hawaii Revs at 'AA'; Outlook Stable

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Fitch Ratings - New York - 11 Sep 2024: Fitch Ratings affirms the 'AA' rating on approximately \$396 million outstanding Board of Regents of the University of Hawaii (UH) University Revenue Bonds, consisting of taxable series 2015A, series 2015B(R), series 2015E(R), series 2017A, series 2017B, taxable series 2017C, series 2017D, taxable series 2017E, series 2017F, taxable series 2017G, taxable series 2020A, series 2020B, taxable series 2020C, series 2020D and taxable series 2020E.

In addition, Fitch has affirmed the University of Hawaii's Issuer Default Rating (IDR) at 'AA'.

The Rating Outlook is Stable.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
University of Hawaii (HI)	LT IDR	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
University of Hawaii (HI) /General Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

## [VIEW ADDITIONAL RATING DETAILS](#)

The 'AA' IDR and revenue bond ratings reflect UH's role as the sole public provider of post-secondary education in Hawaii and the strong operating and capital support provided by the state of Hawaii (IDR, AA/Stable). The ratings further reflect an expectation that the university's financial profile will continue to weather near-term economic pressures as enrollment challenges persist at both the four-year institutions and the community colleges, and as it manages extensive renewal and maintenance needs under its capital improvement program over the next several years.

Fall 2023 total headcount enrollment across the system improved slightly to 48,933, after a modest increase at the community colleges fully offset a modest decrease at the four-year institutions and graduate schools.

The Stable Outlook is supported by Fitch's expectation that the state will continue its steady support to the university, which rebounded in fiscal 2023 after a modest decline in fiscal 2022 in the face of ongoing economic pressures, and that the university will manage shifting enrollment and a growing expense base with effective cost management and a tuition rate increase in future years, as recently approved, to preserve balanced operations and resources.

## SECURITY

The University revenue bonds are secured by net revenue of UH's auxiliary network (the network) and a subordinate pledge on legislative appropriations.

## KEY RATING DRIVERS

### Revenue Defensibility - 'aa'

The 'aa' assessment for revenue defensibility is anchored by UH's role as the state's only public provider of higher education, with a largely in-state draw across the system. A significant non-resident student population continues to be a credit strength. UH's overall headcount enrollment has softened in recent years but is generally steady over time.

UH also has revenue diversity with strong levels of state operating support (30.5% of 2023 operating revenue) and research grants (33%), as well as some fundraising, which have all sufficiently offset revenue contraction in a pressured student-generated revenue environment.

### Operating Risk - 'a'

The university's operating risk profile is consistent with an 'a' assessment, reflecting historically thin and inconsistent cash flow margins driven by fluctuations in fringe benefit transfers from the state and variations in expenses, countered with meaningful flexibility and strong external support for capital needs and debt service on certain obligations. Fitch expects that UH will manage its variable costs and capital expenditures effectively against expected revenue pressure.

Non-recurring institutional HEERF funding supported improved cash flow in fiscal 2021 through fiscal 2023. After expending the remaining institutional portion of HEERF funds (\$22.8M) in FY23, Fitch expects margins to be lower but remain consistent with an 'a' assessment.

### Financial Profile - 'aa'

UH's leverage ratio improved to 46% in fiscal 2023 as evidenced by available funds (\$1.14 billion, including foundation assets) to adjusted debt (about \$2.5 billion, including a substantial \$2.01 billion of net pension liabilities) compared to 38% in fiscal 2022. UH maintains a financial profile through Fitch's stress case scenario consistent with a 'aa' assessment under the parameters of the rating positioning table.

This metric is supported by the state's consistent and growing operating support, including for fringe benefits, and improving resource base which effectively lessens the burden of adjusted debt on UH relative to the calculated level and supports a financial profile assessment in the 'aa' category.

### Asymmetric Additional Risk Considerations

No asymmetric factors affected the rating.

## RATING SENSITIVITIES

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

--Material declines in enrollment that constrain net tuition revenue or research funding could pressure the rating, particularly if cash flow margin levels fall below 5%-6% over a prolonged period;

--Diminished state support (whether declining or failing to keep pace with expenditure growth) for long-term liability contributions, operating or capital support would very likely pressure the rating.

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

--Improvement in demand that supports net tuition revenue growth and lessens long-term reliance on state support;

--Improvement in operating performance with adjusted cash flow margins that are sustained over 15%, excluding non-recurring revenue;

--Sustained growth in resources that supports financial leverage ratios above 40% for a prolonged period and in a stress case scenario, including long-term pension liability and fringe benefit contributions in Fitch's calculation of adjusted debt.

## PROFILE

UH, founded in 1907, is the sole provider of public higher education within the state. The system comprises three comprehensive universities, seven community colleges, three university centers and multiple learning, research and academic service sites across six of Hawaii's islands.

UH's flagship campus Manoa is located in Honolulu. Manoa represents over 70% of the four-year campus enrollment in fall 2023 and houses the majority of UH's research activity. The UH system supports about 48,933 enrolled students as of fall 2023, about half of whom are studying in four-year colleges, and the other half in community colleges. UH reported about \$1.91 billion in total revenue (Fitch-adjusted total revenue includes state appropriations and certain other items classified as non-operating) in fiscal 2023.

UH's fiscal 2024 audit is due out in December 2024, and final enrollment census data for fall 2024 will be reported in mid-October. Management reports that a small uptick in enrollment in fall 2024 is expected, along with a small increase in total adjusted revenue near \$1.96 billion for fiscal 2024 (unaudited).

Due to the pandemic, student housing capacity has been limited over the past several years. Auxiliary revenue was down significantly in FY21 largely due to vacated housing in fall 2020 and spring 2021, followed by recovery in fiscals 2022 and 2023, though not to historical levels. Management reports housing capacity back to full occupancy in fall 2023 and fall 2024, and a robust waiting list which is expected to restore auxiliary revenue back to historical levels in FY24 and FY25.

## 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>.

## FITCH RATINGS ANALYSTS

### Nancy Moore

Director

Primary Rating Analyst

+1 212 908 0725

[nancy.moore@fitchratings.com](mailto:nancy.moore@fitchratings.com)

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

### Rebecca Moses

Director

Secondary Rating Analyst

+1 512 215 3739

[rebecca.moses@fitchratings.com](mailto:rebecca.moses@fitchratings.com)

[Kevin Holloran](#)

Senior Director  
Committee Chairperson  
+1 512 813 5700  
kevin.holloran@fitchratings.com

## **MEDIA CONTACTS**

Sandro Scenga  
New York  
+1 212 908 0278  
sandro.scenga@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **APPLICABLE CRITERIA**

[U.S. Public Finance College and University Rating Criteria \(pub. 19 Sep 2023\) \(including rating assumption sensitivity\)](#)  
[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

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

Portfolio Analysis Model (PAM), v2.0.0 (1)

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University of Hawaii Board of Regents (HI)

EU Endorsed, UK Endorsed

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