

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms University of Hawaii's (HI) Aa3 ratings; outlook stable

25 Sep 2024

New York, September 25, 2024 -- Moody's Ratings (Moody's) has affirmed University of Hawaii's Aa3 issuer and revenue bond ratings. The university had \$510 million of debt outstanding as of June 30, 2023. The outlook is stable.

RATINGS RATIONALE

Affirmation of the University of Hawaii's Aa3 issuer rating reflects its role as the sole provider of public higher education for the State of Hawaii including a strong relationship with the state that includes substantial operating and capital support. The university offers diverse programming across the islands and operates a unique research enterprise. The university's large research engine continues to benefit from areas of distinction and growing state and federal support. 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. Following pandemic driven cuts, funding has been restored and the university is benefiting from further increases in funding over the current biennium. Net tuition revenue growth will be closer to pre-pandemic levels due to strong enrollment numbers at Manoa and Community Colleges. Debt levels remain manageable as the system benefits from consistent state funded capital support, but capital needs remain across the large system.

Affirmation of the Aa3 rating on the revenue bonds incorporates the issuer rating and the broad pledge of system revenue.

RATING OUTLOOK

The stable outlook reflects our expectations of well-balanced operations with EBIDA margins sufficient for debt service and capital investment. It incorporates the stability of state operating and capital support with general maintenance of wealth and liquidity levels.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained and material improvement to operating cash flow with EBIDA margins of at least 12% assuming no material increase in debt
- Substantial growth of reserves relative to debt and operations
- Strengthening of the state's credit profile

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained reduction of state support, capital or funding of fringe benefit payments without offsetting revenue growth
- Inability to maintain EBIDA margins in the 7%-10% range
- Material decline of monthly liquidity

LEGAL SECURITY

All university revenue bonds are secured by a first lien on the Network revenue, including System revenues consisting of various housing and auxiliary activities, a subordinate lien on Legislative Appropriations in special and revolving funds appropriated or allocated to the Board of Regents, the university, the System or the Network, to the extent permitted by law, which includes tuition and fees.

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 over \$1.8 billion of operating revenue and over 32,000 FTE students. The university has a strong and unique research profile, particularly in earth and marine sciences.

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in July 2024 and available at <https://ratings.moody.com/rmc-documents/425580>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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