

Rating Action: Moody's upgrades Hawaii highway bonds to Aa1 from Aa2; outlook stable

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New York, November 07, 2019 -- Moody's Investors Service has upgraded the rating on the State of Hawaii's Highway Revenue Bonds to Aa1 from Aa2. At this time, we have also assigned Aa1 ratings to its Highway Revenue Bonds, Series 2019A and Series 2019B. Following the issuance of the Series 2019A&B bonds, the state will have approximately \$460 million highway revenue bonds outstanding. The outlook is stable.

RATINGS RATIONALE

The highway revenue bonds are limited obligations of the State of Hawaii (general obligation bonds, Aa1 stable), secured by a gross pledge of highway fund revenues including fuel taxes, registration fees, weight taxes, and car rental surcharges. The upgrade to Aa1 reflects the strong coverage of debt service by pledged revenues, the diversity of the pledged revenue stream, the state legislature's demonstrated willingness to add new pledged revenues as needed to fund the state's highway program, and limited future borrowing plans. The Aa1 rating also incorporates the strength of the state's economy, a conservative debt structure, and a legal structure that includes the state's covenants to impose pledged revenues as long as the bonds are outstanding. The additional bonds test of 2.0 times is ample, but relatively low for comparably-rated debt.

RATING OUTLOOK

The outlook for Hawaii's highway revenues bonds is stable, reflecting our expectation that pledged revenues will continue to provide strong coverage of debt service.

FACTORS THAT COULD LEAD TO AN UPGRADE

- An increase in coverage coupled with a closing of the lien.

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Severe falloff of pledged revenues, not offset by new revenue sources, resulting in significantly lower debt service coverage.
- Greater than anticipated additional borrowing to fund capital commitments without commensurate revenue growth or new revenue resources.

LEGAL SECURITY

The highway revenue bonds are limited obligations of the state, secured by a gross pledge of highway fund revenues including fuel taxes, registration fees, weight taxes, and car rental surcharges.

USE OF PROCEEDS

Proceeds of the Series 2019A bonds will be used to fund elements of the state's highway capital program. Proceeds of the 2019B bonds will be used to refund outstanding bonds for debt service savings.

PROFILE

Hawaii is the 40th largest state by population, at 1.4 million. Its gross domestic product is 38th largest, at \$88.4 billion. The population's income levels are above average, with per capita personal income equal to 102.8% of the US level and a median household income equal to 128.9%. Its poverty rate is in the bottom third among states.

The Hawaii Department of Transportation is an executive department of the state, responsible for constructing, operating and maintaining the transportation assets of the state, primarily highways, airports, and harbors. The department is headed by a director appointed by the governor and confirmed by the state senate. The highway system consists of 2,513 lane miles of interstate, freeway, arterial and collector roads on the state's 6 primary

islands, with the majority concentrated in Oahu, the most populous island, and Hawaii, the geographically largest island.

METHODOLOGY

The principal methodology used in these ratings was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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