

**Rating Action: Moody's assigns Aa2 to Hawaii Highway Rev Bds, Ser 2021; outlook stable**

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17 May 2021

New York, May 17, 2021 -- Moody's Investors Service has assigned a Aa2 rating to the State of Hawaii's \$145 million Highway Revenue Bonds, Series 2021. Following the issuance of the 2021 bonds, the state will have approximately \$546 million highway revenues bonds outstanding, all rated Aa2. The outlook is stable.

**RATINGS RATIONALE**

The Aa2 rating on Hawaii's Highway Revenue Bonds reflects: strong coverage of debt service, even after a significant decline in pledged revenues as a result of the coronavirus pandemic; 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. At the same time, pledged revenues are more vulnerable to a downturn in tourism than comparably-rated state highway bonds due to the significance of car rental surcharges as a share of pledged revenues.

**RATING OUTLOOK**

The stable outlook reflects the state's generally conservative revenue estimates and our expectation that the state will utilize its strong fiscal governance tools to maintain positive reserves and adequate liquidity.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING**

- A sustained increase in coverage coupled with an upgrade of the state's general obligation rating (Aa2 stable).

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING**

- Severe decline in pledged revenues, not offset by new revenue sources, resulting in significantly lower debt service coverage.
- A downgrade of the state's general obligation rating.

**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 2021 bonds will be used to fund elements of the state's highway capital program.

**PROFILE**

Hawaii is the 40th largest state by population, at 1.4 million. Its gross domestic product is 38th largest, at \$97.3 billion. The population's income levels are above average, with per capita personal income equal to 101% of the US level and a median household income equal to 130%. 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 2,477 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 this rating was US Public Finance Special Tax Methodology published in January 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1260087](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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