State receives two rating upgrades to its general obligation bond rating to Aa1 and AA+

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HONOLULU – Governor Ige announced today that both Moody’s Investors Service and Standard & Poor’s upgraded the State of Hawai‘i’s general obligation (G.O.) credit rating to its highest ever bond ratings and the strongest credit position the state has ever achieved in its history. Moody’s upgraded its rating from Aa2 to Aa1 and Standard & Poor’s upgraded its rating from AA to AA+. Hawai‘i’s strong credit ratings will allow the state to reduce its borrowing costs to taxpayers through its upcoming bond sale.

The rating upgrades, done in conjunction with the state’s upcoming $750 million bond sale, recognize strong revenue and financial performance, continued fiscal prudence, restoration of state reserves and proactive measures taken to reduce unfunded liabilities pertaining to pension and health benefits. Both Moody’s and Standard & Poor’s had previously maintained positive outlooks on the state’s credit. In addition to these two credit upgrades, Fitch Ratings also affirmed its current rating of AA on the state’s G.O. bonds.

The rating upgrades reflect a multi-year effort during which the state effectively showcased its improved financial position and continued commitment to fiscal prudence and budgetary stability, a process which included multiple meetings with Gov. Ige and the rating agencies. With these rating actions, Hawai‘i becomes the only state to achieve multiple rating upgrades in 2016 and is also the only state to receive a rating upgrade this year from Moody’s Investors Services.
“The strong budgetary and financial policies that I have promoted and established, along with the actions taken by the Legislature, were recognized as very significant by Moody’s and Standard & Poor’s in their review of our credit rating. We have enhanced the financial stability of the state by addressing long-term pension and health fund liabilities and building-up the state’s reserve to better position the state to withstand future downturns in the economic cycles. Striving to live within our financial resources is something that we all do as individuals and something that we definitely must adhere to as a state,” said Gov. Ige.

In August of this year, Gov. Ige established a formal State Reserve Policy that established specific and defined minimum general fund and emergency budget and reserve (“Rainy Day”) fund balances to be targeted.

The Moody’s report cited Hawai’i’s positive economic and revenue trends, the restoration and continued building of its reserves, and its proactive measures to improve the funding of its pensions and other post-employment benefits liabilities (OPEB), including the Administration’s plan to fully fund its OPEB employer’s annual required contribution a full year ahead of its statutory requirement, as the key reasons for the rating upgrade.

The Standard & Poor’s report cited as reasons for the rating upgrade Hawai’i’s strengthened fiscal position, aided by the formalization of the state’s reserve policy and demonstrated commitment to managing its long-term liabilities, and strong general fund ending balances and reserves as a result of favorable revenue trends and by maintaining budgetary control.

While Fitch maintained its current AA rating and stable outlook, its report also cited the state’s solid operating performance, strong revenue growth, rising reserves and a resilient economy.

The ratings were announced in advance of the state’s upcoming G.O. bond sale, which will provide funding for infrastructure improvements and other needed capital projects that will support the state’s economic growth and provide facilities that serve the people of Hawai’i. The sale, which begins on Wednesday, September 28th, will also refinance bonds previously issued at
higher interest rates and as a result, is expected to save the state’s taxpayers millions of dollars.

With the rating upgrades from Standard & Poor’s and Moody’s, Hawai‘i now enjoys the second highest ratings possible by both rating agencies. There are only eight states that currently have higher published ratings by both Standard & Poor’s and Moody’s.

Wesley K. Machida, Director of Finance, who is responsible for executing the governor’s fiscal policies and oversaw the credit rating process, stated, “The ratings upgrade to Aa1 by Moody’s and AA+ by Standard and Poor’s, reflects the steady continuous improvements made by the state to bolster its financial position. In implementing the governor’s fiscal initiatives, we have made significant improvements to the state’s financial standing. However, we must continue, and in fact must improve and enhance, actions that support the long-term financial standing of the state.”

The 2016 G.O. bonds are expected to be sold with a retail only order period on Wednesday, September 28, 2016 with the highest priority of orders reserved for State of Hawai‘i residents. The retail order period will be followed by an institutional order period on Thursday, September 29, 2016.

Citigroup will serve as the lead underwriter for the offering, with Bank of America, Merrill Lynch and Morgan Stanley serving as co-senior managers. A selling group will also be utilized to maximize the participation by Hawai‘i retail investors.

Anyone interested in purchasing the bonds should contact their broker or any member of the underwriting team or selling group.

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**Media Contacts:**
Rod Becker
Deputy Director
Department of Budget and Finance