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Fitch: Hawaii Credits Unaffected as Volcano Continues.

Fitch Ratings-New York-30 May 2018: Based on Fitch Ratings' review of initial reports and damage assessments, rating changes are unlikely for Hawaii's U.S. public finance, port and airport credits following ongoing volcanic activity on Hawaii Island. Fitch does expect the state's tourism-driven economy to feel some adverse peripheral effects from the volcanic activity in the short term, but ultimately the fiscal impact of the eruption on rated entities in Hawaii will be largely mitigated by Hawaii's financial flexibility, support from federal and state governments, and private insurance policies.

Kilauea, one of four active volcanoes on Hawaii Island, has been erupting continuously since 1983. The island's major tourist attraction, Hawaii Volcanoes National Park, has closed during the recent increase in eruptive activity but reflects the positive role of volcanoes in Hawaii County's economy. Volcanic events during the most recent activity include localized lava flows, ash and gas eruptions affecting air quality and visibility, and related seismic activity.

The local government most affected by the eruption to date, Hawaii County, is likely to use a combination of federal relief funds, state support and insurance claims to pay for most volcano-related damage. The May 11 federal disaster declaration for Hawaii County enables individuals and local governments to seek individual assistance from the federal government.

Fitch maintains an 'AA+' Issuer Default Rating (IDR) on Hawaii County (population of nearly 200,000), which incorporates an 'aaa' operating performance assessment based in part on its available liquidity. While the ultimate impact of the Kilauea eruption to Hawaii County's economy is not yet known, property damage has been modest to date, destroying 100 to 200 homes in a relatively remote region of the island. Several thousand residents have been displaced, and short-term impacts on tourism, a key industry, appear likely. However, property taxes supporting most local government services are not expected to be materially affected. Lava flows have also threatened Puna Geothermal Venture, which provided one-quarter of the island's electrical supply prior to its recent shutdown, but local utility managers report sufficient reserve capacity to offset this loss.

On the transportation side, management for Hawaii's harbors division (a division of the Hawaii Department of Transportation [HDOT] with harbor system revenue bonds rated 'AA-' with a Stable Outlook) has confirmed to Fitch analysts that commercial ports on Hawaii Island, including facilities at Hilo Harbor and Kawaaihae Harbor, are fully operational with no restrictions resulting from volcanic activity. The harbors division consists of 10 commercial harbors on six islands. Honolulu serves as the state's principal port and trans-shipment station for cargo that is bound for the other islands.

Cargo and passenger operations remain unimpeded, with vessels continuing to safely enter the harbors and dock. Cargo continues to be discharged without impediment with passengers disembarking and embarking from cruise vessels. Furthermore, management for the harbors division commented that seismic events related to the volcanic activity have not affected the structural integrity of HDOT port facilities to date; HDOT personnel continue to conduct ongoing

assessments to monitor potential structural damage to harbor facilities as seismic activity continues.

Similarly, management of Hawaii's airports division (another division of HDOT, airport system revenue bonds rated 'A+' and subordinate COPs 'A' with a Stable Outlook) has confirmed to Fitch that, to date, there has been no disruption to air service at either of the airports on Hawaii Island (Ellison Onizuka International Airport at Keahole and Hilo International Airport), and that there has been no structural damage to either facility. The airports division manages airports across the Hawaiian archipelago.

While port and airport facilities are unscathed by the eruption, follow-on effects to the broader tourism-driven economy are likely in the short term. The closure of Volcanos National Park is likely to affect overall visitor numbers, and certain airlines have waived change fees for travel to Hawaii Island. Harbor division management further acknowledged that certain cruise lines have chosen to reroute ships to avoid Hawaii Island due to the volcanic events.

Airport division management indicated to Fitch that they continue to monitor the tourism industry as it relates to the Kilauea eruptions. For May, they noted that air traffic is at or above levels seen a year prior, indicating limited effects from the volcano on overall results thus far. Management noted that most travellers diverting from Hawaii Island are choosing to travel to other Hawaiian islands rather than forgoing Hawaiian travel altogether. Fitch will continue to monitor activity levels for both airport and harbors divisions to evaluate any longer-term effects on financial results.

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