Fitch Ratings

Fitch Affirms Maui County, HI's GOs at 'AA+'; Outlook Stable

Fitch Ratings-San Francisco-17 February 2017: Fitch Ratings has affirmed the following Maui County, HI (the county) ratings at 'AA+':

--$218.5 million outstanding general obligation (GO) bonds;
--Issuer Default Rating (IDR).

The Rating Outlook is Stable.

SECURITY
The bonds are payable from an unlimited property tax levied on all taxable property within the county's jurisdiction.

KEY RATING DRIVERS

The 'AA+' IDR reflects the county's very strong revenue profile and adequate spending flexibility as reflected by its excellent operating performance. Its long-term liability burden is moderate given the lack of overlapping debt.

Economic Resource Base
The county serves a population of approximately 160,000 (11% of the state total) on the islands of Maui, Molokai, and Lanai and the uninhabited island of Kahoolawe. The county's growing economy remains highly concentrated in the tourism sector, with hotels and resorts accounting for most major employers and taxpayers. However, Maui's tourism sector has maintained a strong fundamental base despite volatility associated with economic cycles. Median household income is high at 25% above the U.S. average, and unemployment is consistently below average.

Revenue Framework: 'aaa' factor assessment
The resource base consists primarily of property tax revenues, which have exhibited low volatility due in part to the county's ability to adjust rates. The county has the unlimited legal ability granted under the state constitution to set

and adjust property tax rates. Strong revenue growth has exceeded that of U.S. economic performance, a trend that Fitch expects to continue.

Expenditure Framework: 'aa' factor assessment
The county has adequate spending control and the natural pace of spending growth is generally in line with that of revenues. Carrying costs are moderate and the pace of spending is expected to generally be in line with revenue growth.

Long-Term Liability Burden: 'aa' factor assessment
Long-term liabilities are moderate in relation to the county's resource base.

Operating Performance: 'aaa' factor assessment
The county's financial resilience is strong, and reserves are high given historical revenue volatility and strong budget flexibility. Budget management during the economic expansion has been solid with the county setting aside reserves to address long-term liabilities.

RATING SENSITIVITIES
Expenditure Management: The IDR is sensitive to maintenance of the county's solid expenditure flexibility. Material reductions in the county's ability to manage spending, including unexpected increases in fixed carrying costs for debt and retiree benefits, could pressure the rating.

CREDIT PROFILE

Tourism remains the chief engine of the county's economy despite increasing diversification. Approximately one-third of county employment is in the leisure and hospitality sector. Resort and time-share properties account for four of the county's top 10 employers and nine of its top 10 taxpayers. Both visitor arrivals and expenditures have recovered from the great recession and are above prior peaks.

Revenue Framework
Property taxes account for more than 80% of revenues. The county's share of the statewide transient accommodation tax (TAT) provides the county's second largest source of revenue (8% of general fund revenues), but growth is

limited by a state cap on allocations to counties.

Revenue growth has been strong, above both the U.S. economic performance and inflation, and Fitch expects this strength to continue given economic fundamentals. Property tax rates have been regularly adjusted by the county. While assessed value (AV) fell a cumulative 25% between fiscal 2010 and 2013, the property tax levy fell by just 8% during the same period, as the council approved recurring tax rate hikes. An additional rate hike in fiscal 2014 was followed by reductions for fiscals 2015 through 2017, as renewed AV growth supported increased tax revenues.

Under the state constitution, all functions, powers and duties relating to taxation of real property are vested in the counties. The rate and classification of real property taxes are reviewed annually as part of the county's budget process. The county's tax structure also provides for large homeowner exemptions and differential rates for the 11 categories of property type. Property tax rate increases have met minimal political opposition.

Expenditure Framework
Public safety accounts for about one-third of spending, with general government accounting for about 40%.

Spending is expected to be in line with revenue growth, which is likely to continue to be above U.S. economic performance.

Carrying costs for debt service, pension contributions, and contributions related to other post-employment benefits (OPEB) are moderate at about 19% of spending. This metric includes funding of the OPEB annually required contribution (ARC), which the county has been contributing for several years. Carrying costs would be about 16% including just the paygo portion of OPEB. Labor contracts and terms are negotiated at the state level. As such, the county has limited ability to adjust or set terms beyond layoffs/furloughs.

Long-Term Liability Burden
The county's long-term liability burden, including overall debt and pension liability, is moderate at 11% of personal income. The county has no overlapping debt, as public education is the responsibility of the state. Further,

amortization of existing debt is rapid, with about 75% of principal repaid within 10 years. The county's net direct debt totaled $32 million at fiscal 2016 year-end.

The six-year capital improvement plan (CIP) is sizeable at $1 billion and reflects the broad responsibilities of county government in Hawaii. Much of the plan focuses on water, sewer, and road projects financed through non-general fund sources. The county expects to issue approximately $25 million in general fund-backed bonds in fiscal 2018, which Fitch does not expect to meaningfully impact the debt burden given the relatively modest amount and rapid amortization rate.

The county participates in the Hawaii Employees' Retirement System (ERS), which has a ratio of assets to liabilities of about 58.3% adjusted to a 7% return on investment. The county's net pension liability stands at about $381 million, or 6.5% of personal income.

The county continues to address its OPEB liability and, has funded its actuarially-determined ARC for such benefits since fiscal 2008, well in advance of a state requirement for full funding by fiscal 2019. In addition, it contributed $78 million above the ARC in fiscal 2014. As a result, the funded ratio was 33.4% as of July 1, 2015; however, the liability remains high at about $297 million, or 4% of personal income.

Operating Performance
Given high budget flexibility and relatively low historical revenue volatility, Fitch believes the county's financial resilience in a moderate economic contraction would be high. Historical sensitivity of revenues to economic decline is somewhat understated due to the county's periodic adjustment of property tax rates. The county has maintained reserves in excess of 23% for the past three years, down from over 60% due to the large contribution to its OPEB liability in fiscal 2014. A 2012 deficit resulted from the planned drawdown of reserves for one-time purposes.

The county has maintained conservative budget management during the recovery, including paying down of some of its OPEB liability with reserves and continuing to pay the OPEB ARC.

Contact:

Primary Analyst
Shannon Groff
Director
+1-415-732-5628
Fitch Ratings, Inc.
650 California Street, 4th Floor
San Francisco, CA 94108

Secondary Analyst
Stephen Walsh
Director
+1-415-732-7573

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
(https://www.fitchratings.com/site/re/879478)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?

pr_id=1019172&cft=0)
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1019172)
Endorsement Policy (https://www.fitchratings.com/regulatory)

and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and

its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.