Research Update:

Maui County, HI Series 2025 GO Bonds Assigned 'AA+' Rating; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to Maui County, Hawaii's anticipated $301.195 million general obligation (GO) bonds, series 2025.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the county's outstanding GO bonds.
- The outlook is stable.

Rationale

Security

The bonds are secured by the county's authority to levy unlimited ad valorem property taxes annually to repay debt service. Bond proceeds will be used to fund additional capital projects over the next three years, with a portion of the proceeds used to reimburse the county for capital costs already incurred.

Credit highlights

The county's local economy has demonstrated steady recovery since the devastating wildfires in August 2023 that destroyed most of the town of Lahaina and damaged other areas of the island. While the county's overall tax base fell by 1.2% in fiscal 2022, total taxable value began to increase in the years thereafter, with an average annual increase of 11% from fiscal 2023 through fiscal 2026. The tax base grew by 20% in fiscal 2024 and by 14% in fiscal 2026, reflecting very high home prices and continued property developments that include new and renovated hotel and resort properties throughout the island. The county continues to make good progress in the rebuilding of Lahaina Town and continues to actively work with both federal and state agencies towards recovery and rebuilding. The county was recently approved to receive an additional $1.639 billion in funding under the Community Development Block Grant Disaster Recovery (CDBG-DR) federal program administered by the U.S. Department of Housing and Urban Development (HUD). We understand the county will begin using these funds to further support the rebuilding of Lahaina Town. We note that Maui County does not have any liabilities related to the recent Lahaina fire settlement of $4.037 billion, although the county did pay $10 million towards the "One Ohana" settlement fund maintained by the state of Hawaii to provide direct relief to victims of the wildfire. The $4 billion settlement funds will be disbursed to impacted residents to further aid in rebuilding which will have a positive impact on the county's overall tax base.

Tourism levels have also recovered since the wildfires, although visitor levels have fluctuated in recent years due to both the COVID-19 pandemic and the more recent wildfires. Total visitors decreased by 74% in 2020 from 3.1 million to just 807,000 due to the pandemic but recovered sharply, with a 189% increase in 2021. Visitor volume decreased by 1% in 2022, increased by 7% in 2023, but decreased again by 6%, or 2.3 million, in 2024 due to the wildfires. However, even though visitor volume in 2024 remains below pre-pandemic levels in 2019, management indicates that revenues per available room (RevPAR) exceed pre-pandemic levels due to notably higher average daily room rates in 2024 compared to 2019. As costs continue to grow, with historically high inflation, we believe the county may continue to experience fluctuating tourism levels overall, which could weaken economic activity on the island and become a negative credit factor. However, management notes that tourism demand from wealthier visitors is inelastic and is expected to remain strong despite higher costs. We note that the county is currently deliberating Bill 9, a measure that would phase out a significant number of short-term rental properties on the island, which could result in a reduction in certified assessed values and property tax revenues and a potential reduction in tourism. However, we note that implementation of this measure, if passed, would likely require several years. We will continue to monitor any credit impacts of Bill 9.

Despite the fluctuations in visitor volume as well as the recent wildfires, the county continues to demonstrate very strong financial performance, with double-digit operating surpluses reported in its general fund. Property taxes are the largest revenue stream of the general fund, representing 75% of total general fund revenues based on the fiscal 2024 audit, and have demonstrated strong growth over the past several years despite the recent wildfires. Transient accommodations taxes (TAT hotel/resort taxes) are the second-largest revenue stream but represent only 10% of general fund revenues. TAT has fluctuated in recent years, although total collections remain above pre-pandemic levels. General excise taxes (GET) are a new tax that became effective Jan. 1, 2024 and are projected to generate $60 million in fiscal 2025, or approximately 8.9% of general fund revenues. We note that 20% of GET revenues are directed to a Department of Homelands Fund for county projects. General fund reserve levels continue to remain very strong, with available general fund reserves reaching $315 million, or 46% of general fund revenues, well above the county's formal reserve policy of 20%. Management reports that it expects to end fiscal 2025 with further growth in available general fund reserves and that its fiscal 2026 budget is balanced.

Overall, we believe Maui County continues to demonstrate a strong overall credit profile despite some fluctuations in visitor volume, bolstered by its maintenance of very strong general fund reserve levels, very strong financial performance in recent years, and prudent fiscal management practices. As the county works to rebuild Lahaina Town, we expect its tax base will continue to grow during the next several years, further supporting general fund revenues, and will help maintain its general fund reserves.

Credit fundamentals supporting the 'AA+' rating include:

- Local economy that has diversified over time but retains a significant component within the leisure and hospitality sector. Our forward-looking view of the economy acknowledges the potential for continued growth tied to new development, the rebuilding of Lahaina, and affordable housing options, but with fluctuating visitor volume in recent years.

- Well-embedded financial management policies and practices that we believe are supportive of very strong credit quality, including active management of general fund operations, with quarterly reporting of budget-to-actuals to council and maintenance of policies and practices such as a formal capital improvement plan and investment, debt, and reserve policies. The county established a cyber security operations center in 2017 that continuously monitors the county's information technology systems.
- Track record of positive operating performance supported by an increasing and predictable property tax revenue stream, along with maintenance of very strong general fund reserve levels that we expect will continue to modestly grow going forward.
- Manageable long-term debt profile, with debt service costs that we expect to increase in the near term before gradually declining through maturity.
- Elevated debt levels as the county continues its debt plans with the current issuance of its series 2025 bonds. Pension liabilities are also elevated as the county participates in the Employees' Retirement System of the State of Hawaii (ERS) cost-sharing multiple-employer pension plan (61.91% funded ratio as of fiscal 2023). However, we note that the county’s other postemployment benefit (OPEB) plan is funded at 77.83%, above average compared to similarly rated peers.
- Predictable revenue environment, limited expenditure mandates that affect long-term budget balance, and considerable flexibility to adjust its primary source of operating revenue, property taxes. For more information on our institutional framework assessment for Hawaii counties, see "Institutional Framework Assessment: Hawaii Local Governments," Sept. 9, 2024.

Environmental, social, and governance

We analyzed the county's environmental, social, and governance factors relative to its economy, management, financial measures, and debt-and-liability profile. We consider the county's social capital factors to be elevated, given its slower growth trends, older population, and significantly higher living costs limiting in-migration. The county's location also exposes it to considerable environment-related physical risks related to extreme weather events such as wildfires, sea-level rise, and volcanic activity, which could lead to budgetary stress and dampen its tourism-based economy, although the county has generally displayed resilience in the long term, as demand for tourism has remained strong despite periodic challenges. We note that the county actively participates in a comprehensive Climate Action and Resiliency Plan (CARP) that provides policies and outlines actions to mitigate and adapt to changes in climate. We view the county's governance risks as neutral within our credit analysis.

Outlook

The stable outlook reflects our view of Maui County as a prominent travel destination and the county's available reserves that provide it with significant budgetary flexibility. We anticipate that during the next two years management will continue to closely monitor its revenue and adjust expenditures as needed to maintain balanced general fund results.

Downside scenario

We could lower the rating if the county produces weaker-than-projected operating results that lead to a substantial decline in reserves and liquidity. We could also lower the rating if tourism activity declines substantially, negatively affecting general fund revenue and resulting in a growing structural imbalance, absent any corrective measures.

Upside scenario

Upward rating potential is contingent on improvement of the county's economic metrics and credit factors--including the diversification of the economy away from tourism, stable population growth, and improved incomes--and further strengthening of the county's financial policies and practices. A higher rating would also be contingent on the county maintaining its very strong reserve levels and positive operating performance at a minimum.

Maui County, Hawaii--Credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.39
Economy	3.5
Financial performance	1
Reserves and liquidity	1
Management	1.70
Debt and liabilities	4.75

Maui County, Hawaii--Key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	88	--	88	91
County PCPI % of U.S.	90	--	90	92
Market value ($000s)	83,728,058	70,342,064	58,699,851	54,115,157
Market value per capita ($)	506,650	425,650	355,201	308,368
Top 10 taxpayers % of taxable value	8.3	9.7	9.4	7.8
County unemployment rate (%)	3.8	4.4	4.4	3.2
Local median household EBI % of U.S.	109	--	109	113
Local per capita EBI % of U.S.	91	--	91	101
Local population	165,258	--	165,258	175,489
Financial performance				
Operating fund revenues ($000s)	--	677,917	566,325	453,165
Operating fund expenditures ($000s)	--	471,832	443,411	371,968
Net transfers and other adjustments ($000s)	--	(118,047)	(30,986)	(35,553)
Operating result ($000s)	--	88,038	91,928	45,644
Operating result % of revenues	--	13.0	16.2	10.1
Operating result three-year average %	--	13.1	12.3	10.0
Reserves and liquidity				
Available reserves % of operating revenues	--	46.5	49.3	45.6

Maui County, Hawaii--Key credit metrics

	Most recent	2024	2023	2022
Economy				
Available reserves ($000s)	--	315,347	279,156	206,557
Debt and liabilities				
Debt service cost % of revenues	--	5.4	6.2	6.2
Net direct debt per capita ($)	4,452	2,862	3,039	2,707
Net direct debt ($000s)	735,662	473,013	502,255	475,100
Direct debt 10-year amortization (%)	48	60	--	--
Pension and OPEB cost % of revenues	--	14.0	13.0	14.0
NPLs per capita ($)	--	3,463	3,463	3,261
Combined NPLs ($000s)	--	572,354	572,354	572,354

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$301.195 mil GO bnds ser 2025 dtd 08/14/2025 due 09/01/2045	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Local Government	
Maui Cnty, HI Unlimited Tax General Obligation	AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.