State of Hawaii
General Fund Situation Analysis

April 2020

Revenue Projections & Impact on GF Budget

	FY20	FY21	FY22	FY23	FY24	FY25
COR 8/28/19	4.1%	3.0%	3.0%	4.0%	4.0%	4.0%
COR 3/11/2020	3.8%	0%	5.0%	4.0%	4.0%	4.0%

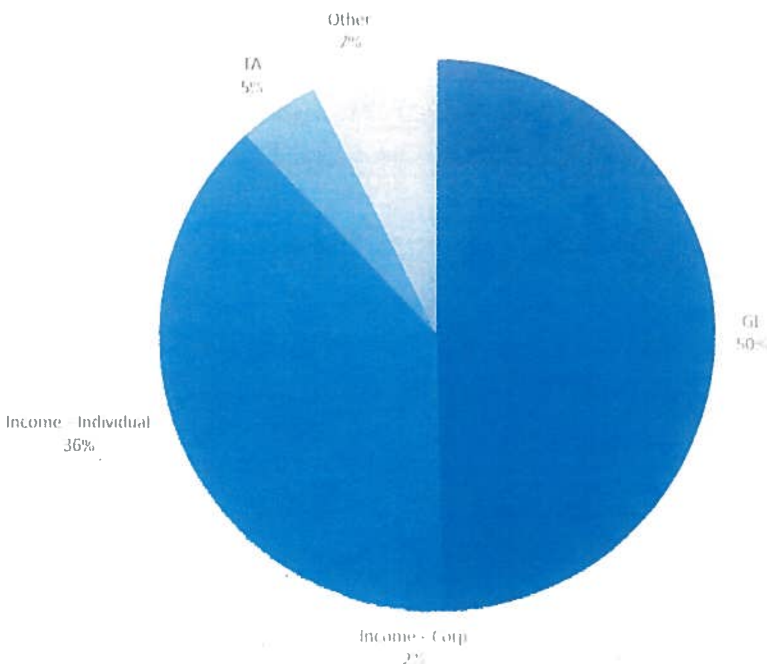
We asked three of our economists to update their projections on April 1, 2020. Three economists agreed that there would be a near term impact on GF:

- Two economists are projecting a significant drop in the remainder of FY20.
- All three economists agree that the end of FY20 and FY21 will be challenging, resulting in **a cumulative revenue loss of more than $1B**.
- While two economists are expecting recovery in FY21, one is projecting a global recession, delaying recovery to FY23.

All three agree that there are numerous factors that make it **difficult at best to project beyond FY21 or FY22, at best**.

	FY19	FY20	FY21	FY22	FY23	FY24
COR 03-11-20		3.80%	0.00%	5.00%	4.00%	4.00%
$	7,141.8	7,413.2	7,413.2	7,783.8	8,095.2	8,419.0
Seth		-7.50%	3.80%	4.60%	4.80%	4.00%
$	7,141.8	6,606.2	6,857.2	7,172.6	7,516.9	7,817.6
Annual Dif		-807.0	-556.0	-611.2	-578.3	-601.4
Cumulative Dif			-1,363.0	-1,974.2	-2,552.5	-3,153.9
Eugene		-8.00%	4.50%	4.30%	4.00%	4.00%
$	7,141.8	6,570.5	6,866.1	7,161.4	7,447.8	7,745.7
Annual Dif		-842.7	-547.1	-622.5	-647.4	-673.3
Cumulative Dif			-1,389.8	-2,012.3	-2,659.6	-3,332.9
Carl		1.17%	-15.95%	-8.63%	7.46%	4.91%
$	7,141.8	7,225.4	6,072.9	5,548.8	5,962.8	6,255.5
Annual Dif		-187.8	-1,340.3	-2,235.0	-2,132.4	-2,163.5
Cumulative Dif			-1,528.1	-3,763.1	-5,895.6	-8,059.0
		-6.00%	-3.00%	0.00%	5.00%	4.00%
AVG	7,141.8	6,713.3	6,511.9	6,511.9	6,837.5	7,111.0
Annual Dif		-699.9	-901.3	-1,272.0	-1,257.7	-1,308.0
Cumulative Dif			-1,601.2	-2,873.1	-4,130.9	-5,438.9

FY19 General Funds, by Tax Type



Notes:

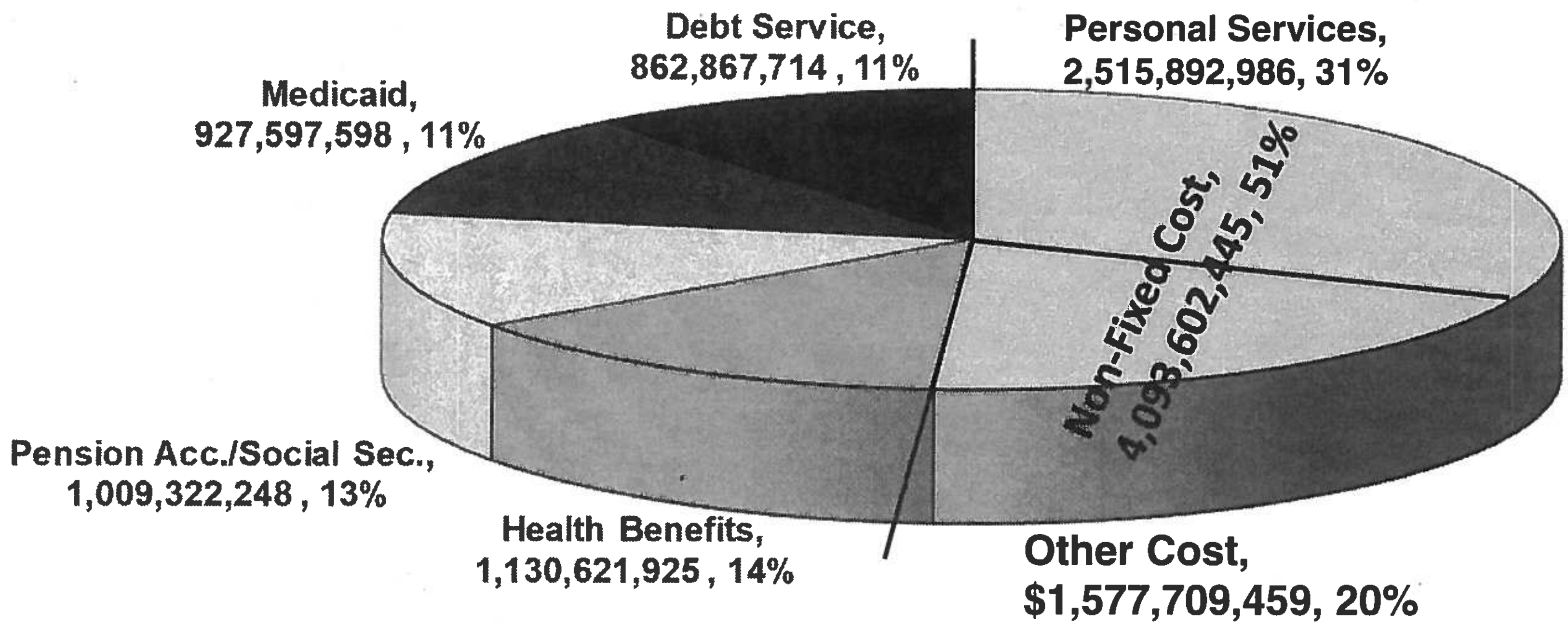
- GE is about 50% of GF $
  About 25% of GE is attributed to Tourism.
- Income tax payments for TY 2020 were deferred to July 2020 to conform to IRS as the IRS return is needed for the HI return. This will reduce GF Income tax collections.
  Individual Income refunds are still being processed to get cash back to taxpayers.
- $250M+ in Transient Accommodation (TA) tax collections are distributed to various special funds (convention center, tourism SF, Turtle Bay conservation fund, Counties, Transit)

FY20: Revenue Projection

- GF revenues in February 2020 closed at \$4,889.8M, 7.0% over FY19.
- March 2020 DOTAX net collections have been holding. We are estimating that we will close slightly under March 2019, bringing us to about \$5,385.2M, 6.0% over FY19.
  (Note: March tax collections reflect February business activity. April STO will be finalized on April 15.)
- Scenarios:
  - To hit the optimistic projection to end FY20 at 1.17%, we'd need to post \$1.87B in GF revenue in the Q4 of FY20, \$230M (11%) less than Q4 of FY20.
  - To hit the less optimistic projection (7.75%), we'd need to post \$1.12B in GF, \$854M (42%) less than Q4 of FY20.
- Considerations:
  - 2019 Income Tax return and payment due date was deferred to July 20, 2020, deferring about \$150M to FY21.
  - Federal aid will provide additional funds to support Hawaii's economy.
  - Stay at home order began on 3/20. And, the Travel quarantine order was effective 3/26. Thus, April tax returns and payments will be lower, but not \$0.

FY 2020 Act 5, SLH 2019 Plus Other Budget Appropriations

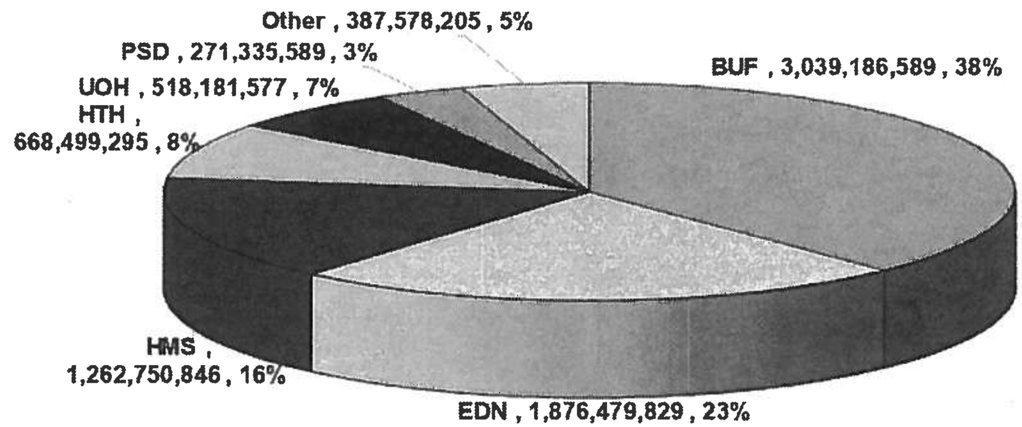
Major Cost Breakdown



Total $8.0 B

FY 2020 Act 5, SLH 2019 Plus Other Budget Appropriations
General Funds By Department

Dept	FY 2020	%	Cumulative
BUF	3,039,186,589	37.88%	8,024,011,930
EDN	1,876,479,829	23.39%	4,984,825,341
HMS	1,262,750,846	15.74%	3,108,345,512
HTH	668,499,295	8.33%	1,845,594,666
UOH	518,181,577	6.46%	1,177,095,371
PSD	271,335,589	3.38%	658,913,794
AGS	116,443,750	1.45%	387,578,205
LNR	65,745,185	0.82%	271,134,455
ATG	35,820,958	0.45%	205,389,270
TAX	33,542,355	0.42%	169,568,312
DEF	25,611,509	0.32%	136,025,957
LBR	25,392,734	0.32%	110,414,448
HRD	20,825,847	0.26%	85,021,714
HHL	18,638,060	0.23%	64,195,867
BED	21,555,322	0.27%	45,557,807
AGR	18,219,027	0.23%	24,002,485
GOV	3,863,903	0.05%	5,783,458
LTG	977,555	0.01%	1,919,555
SUB	942,000	0.01%	942,000
CCA	-	0.00%	-
TRN	-	0.00%	-
TOTAL	8,024,011,930	100%	



Total $8.0 B

Plan of Action (draft)

- B&F to re-forecast the financial plan through FY22 (instead of FY25) to end with at least $50M in cash.
- Continue to monitor financial position, including cash collections. Re-visit financial plan as additional information becomes available to determine if additional cost control measures need to be instituted.
- Maximize use of federal funds.
- Continue to accelerate CIP to keep construction & ACE working.
- Payroll: [Coordinate with JUD and LEG branches? Counties?]
  - All appointees/Exempt pay cut (10+%) Evaluate need for exempt (at-will) positions.
  - All employees paid $100K+ to take 10% pay cut. (?)
  - Put all CB adjustments on hold
  - Vacancy freeze
  - Suspend Ch 89 to facilitate re-assignment of non-essential staff to essential programs, including federally funded positions.
  - Terminate 89-day hires and use re-assigned Civil Service staff for essential functions.

FY20: Mitigating Measures

- Spending restrictions: EM 20-01, 4/3/2020 (10% of GF budgets were restricted at the beginning of FY21)
  - Vacancy Freeze
  - Additional expenditure restrictions
- Proposed: Cabinet (+ Exempts?) to reduce compensation by 10%.
- Proposed: Legislature not re-convening puts the CB increases on hold, at least temporarily. (?)

- Floating Bonds ($600M) to accelerate shovel ready CIP projects (keep construction working)
- Maximizing Federal Funding available (est. $4+ billion)

Even with all of the expenditure control measures, FY20 is expected to utilize GF cash reserves.

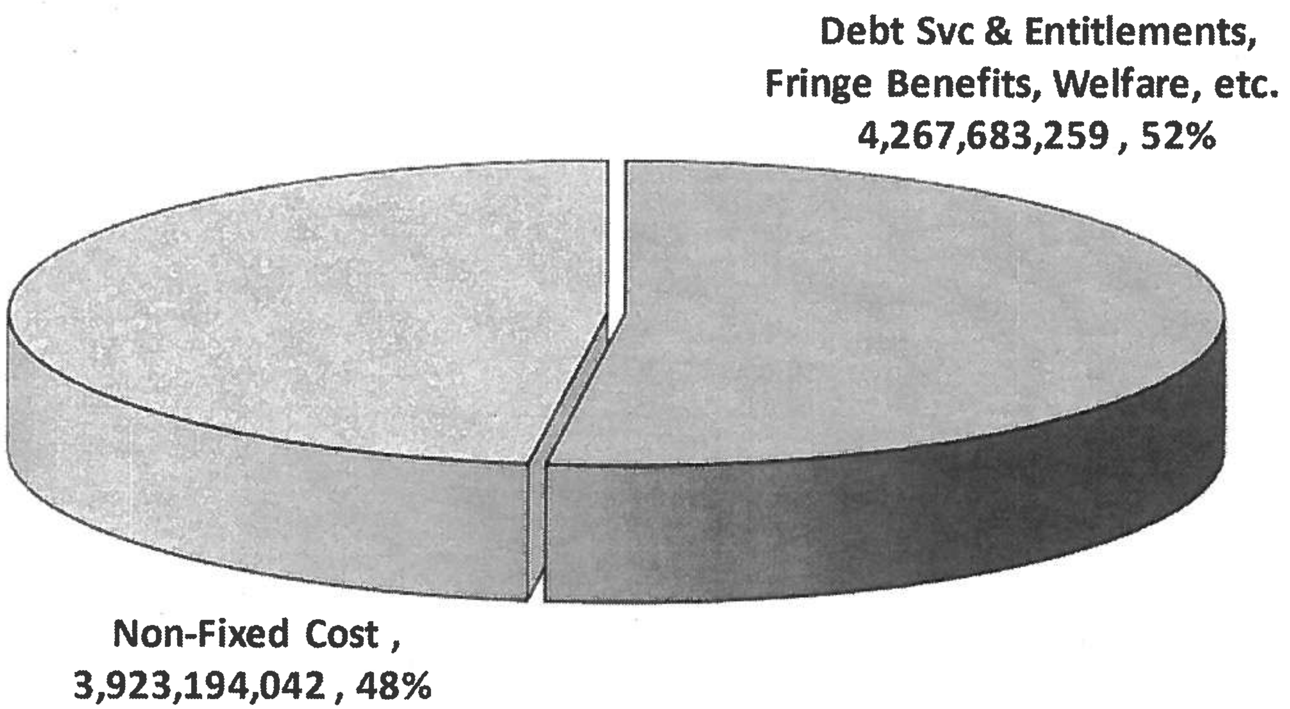
FY21: Revenue Outlook

- Projections:
  - Two economists predict that FY21 will start to see a recovery, estimating ~4% growth over FY20. Because their FY20 estimates were low, the impact of a growth forecast is minimal, still reflecting revenues under that projected by the COR.
  - One economist predicted that FY21 would continue to see a revenue loss.

- Impact: All three economists agree that FY21 will end a cumulative revenues loss of $1.4 - $1.5B.

There are too many uncertainties to effectively project beyond FY21 or FY22. The forecast will be revisited by the COR in May 2020.

Expanded Discretionary Base
FY 2021 Act 5, SLH 2019 Plus Other Budget Appropriations
Fixed and Non-Fixed



Total $8.2 B

FY21 Budget

- The 2019 Legislature approved a budget that included GF appropriations:
  [Note: I grabbed these from the budget bill. Need to confirm $ amounts, but not a critical data point for this analysis.]
  - FY20: $7,925,622,466
  - FY21: $8,141,445,737
- Assuming the 2020 Legislature **does not reconvene**, the State will need to operate within the FY 20/21 budget adopted in 2019.
- The State has about $700M in GF carryover.
- The monthly expense rate is about $550M.

- Problems:
  - The 2020 budget was based on the COR's August 29, 2019 projections.
  - Given the COVID-19 crisis, the COR's March 2020 projections were lower than in August 2019.
  - And, it is questionable as to whether the COR's March 2020 projections are realistic (over-optimistic).
  - The COR is scheduled to meet in May 2020.

Thus, the Administration needs a plan for managing the budget.

FY21/22: Mitigating measures

(some are in the B&F revised financial plan as FY22)

Revenue Adjustments:

- Raid Special Funds:
  - EBRF: $378.2M
  - HHRF: $183.8M
- Private placement GF revenue bonds: $600M
  (Note: This is budget neutral as the $600M would be expended)

Expense Adjustments:

- Deferral of all CB increases, including increases given in FY20
- Suspend Act 368 OBEP contribution requirements and revert to pay as you go retirement premiums + 25% prefunding from FY21+
- Reduce base other current expenditures by **86%**, essentially eliminating operating $. This cripples most departments.

Options Considered

- **Voluntary early retirement (or mandatory retirement for eligible personnel)**. This alternative is not advantageous as retirees will need to be paid out for vacation and will become long term pensioners, limiting cash savings.
- **Shutdown non-essential programs**. This would result in a RIF, with bumping, limiting savings to be achieved. Instead, re-assign personnel to essential programs.
- **Eliminate non-essential exempt positions**. This limits the availability of flexible, at-will staff to support essential functions.
- **Furlough low compensation employees who can collect unemployment, including the additional $600/week**. This increases burden on UI and creates management complexity/overhead.

- **CARES Act –** Federal funds could be used to offset some expenses, provided that they can be COVID-related and can meet certain federal procurement requirements. These funds also need to be spent by December 30, 2020. Caution: some of the early guidelines/requirements provide the funds in the form of grants that must be distributed and/or have other strings attached.

- **Bond Financing** – Moody's recently downgraded Hawaii's outlook to negative from stable and affirming the long-term ratings on its outstanding debt, incorporates the impact of the coronavirus outbreak on the state and its tourism industry. We expect a sudden and severe decline in the state's tax revenues as a result of the rapid downturn in visitor arrivals and the negative economic effects of the state's own efforts to stem the outbreak. We expect that the decline in fiscal 2020 and 2021 will be more severe than in other states and the recovery beyond fiscal 2021 will be slower due to the significance of the tourism industry in Hawaii and the industry's dependence on air travel. The state's strong financial position and liquidity entering the crisis, as well as its strong fiscal governance, enhance its ability to enact spending cuts and other measures to offset the revenue loss, but the state will be challenged in these efforts by its high fixed costs for debt service, pensions and OPEB. The outlook revision also incorporates the mitigating impacts of substantial federal emergency assistance. This includes direct aid to the state through enhanced Medicaid matching and other cash reimbursements, and indirect aid through expanded unemployment benefits and cash payments to individuals that will help support personal income and consumption.

  Other financing mechanisms: Municipal Liquidity Facility via Federal Reserve may be available up to $2 billion, but pricing is unknown; short term financing, etc.

- **Other sources of funds**: If the Legislature reconvenes, it may be possible to access the Hawaii Hurricane Relief Fund, Emergency & Budget Reserve Fund; raid certain special funds or defer ERS and EUTF payments. These actions will negatively impact the State's bond rating.