

NEWS RELEASE from the Grassroot Institute of Hawaii
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Hawaii debt increases \$9 billion over past 8 months, to \$97 billion



Long-standing economic policies exacerbated by the lockdowns need to be reversed, says the Grassroot Institute of Hawaii

HONOLULU, Oct. 15, 2020 >> Hawaii's unfunded liabilities for infrastructure and public health benefits have increased so far this year to \$97 billion, according to the Grassroot Institute of Hawaii.

That's \$9 billion more than the \$88 billion in unfunded liabilities calculated last year by the Hawaii Executive Collaborative,¹ and is mainly the result of long-standing economic policies that have only been exacerbated by the coronavirus lockdowns, now in their eighth month, according to the institute.

Joe Kent, institute executive vice president, said the additional \$9 billion debt burden consists of \$1.3 billion for rail,² \$595 million for unemployment insurance,³ \$137 million for Medicaid,⁴ \$1.4 billion for public pensions,⁵ \$505 million for the public health benefits,⁶ \$1.2 billion in bonds,⁷ and a \$4 billion state general fund shortfall by fiscal 2023.⁸

Kent noted that Gov. David Ige has said he will reduce state spending by cutting programs and implementing 10% furloughs from fiscal 2021 to fiscal 2024,⁹ but even then, the state will run out of money by fiscal 2024, resulting in a cumulative deficit of \$785 million by fiscal 2025.¹⁰

Keli'i Akina, Grassroot Institute of Hawaii president, said the state's collapsing economy and increasing debt load should be a wake-up call for Hawaii lawmakers. He specifically advised against raising taxes as a means to pay for the debt.

"Taxpayers already are strapped to the max," he said. "So instead of raising taxes, which would hurt them even further, our lawmakers should reduce spending, ease taxes, scale back regulations and generally make it easier for people to get back to work. Otherwise, Hawaii residents will be on hard times for years, maybe even decades, to come."

According to the institute:

>> Costs for the Honolulu rail project recently spiked by \$1.3 billion, due to an extra \$832 million in projected construction and related expenses and a \$450 million reduction in revenues from its share of the state general excise and transient accommodations taxes.¹¹

¹ ["Troubled Waters: Charting a new fiscal course for Hawaii"](#) Hawaii Executive Collaborative, Oct. 2, 2019.

² Marcel Honore, ["Honolulu Rail's New Budget Hole Estimated At More Than \\$1 Billion,"](#) Honolulu Civil Beat, Oct. 15, 2020.

³ ["UI Budget,"](#) United States Department of Labor, Employment & Training Administration, Oct. 13, 2020.

⁴ The state of Hawaii budgeted \$1.123 billion for Medicaid in fiscal 2020; 12.2% of \$1.123 billion is \$137 million. ["The Operating and Capital Budget,"](#) Hawaii State Budget FY 2021, Hawaii Department of Budget and Finance, Dec. 16, 2019, p. 45.

⁵ ["Previewing the COVID-19 Impact on State Pension Plans,"](#) Reason Foundation, April 22, 2020.

⁶ Joe Kent, ["Ige's EUTF Funding Dodge Will Come Back To Haunt Us,"](#) Honolulu Civil Beat, Sept. 21, 2020. The \$505 million figure was calculated by adding the state's skipped payment of \$388 million and county skipped payments of \$6.7 million for Kauai County, \$90 million for Honolulu County and \$20 million for Hawaii County.

⁷ ["Taxable General Obligation Bonds of 2020, Series FZ,"](#) State of Hawaii, p. B-5, Aug. 5, 2020.

⁸ ["States Grappling With Hit to Tax Collections,"](#) Center of Budget and Policy Priorities, Oct. 5, 2020.

⁹ Kevin Dayton, ["Ige Plans Furloughs For Public Workers Starting In November,"](#) Honolulu Civil Beat, Aug. 18, 2020.

¹⁰ ["Taxable General Obligation Bonds of 2020, Series FZ,"](#) State of Hawaii, page B-14, Aug. 5, 2020. The carry over balance is projected to be -\$261.9 million in fiscal 2024 and -\$523.1 million in fiscal 2025 for a cumulative deficit of \$785 million by fiscal 2025.

¹¹ See footnote #2.

>> Hawaii's unemployment fund has borrowed \$595 million¹² from the federal government to continue making unemployment payments, since the fund was depleted in May.¹³

>> Medicaid costs nationwide could increase by 12.2% because of bolstered enrollment due to the spike in unemployment, according to the Kaiser Family Foundation,¹⁴ which for Hawaii would cost an extra \$137 million.¹⁵

>> The state's public pension fund had estimated investment returns of only 1% for fiscal 2020,¹⁶ which is far below the target of 7%,¹⁷ and this could increase its unfunded liabilities by \$1.4 billion to \$15.4 billion, according to an accounting tool developed by the Reason Foundation.¹⁸

>> Hawaii's public health benefits debt will mushroom by at least \$505 million because the governor in July allowed the state and counties to skip their prefunding payments.¹⁹ The total likely will be more, however because of the unrealized investment returns due to the suspended payments.

>> The state has sold a record \$995 million in taxable general obligation bonds this year²⁰ "to stimulate the local economy by spending on capital projects."²¹ But the money will need to be paid back with \$246 million in interest.²²

All of these factors combined equal about \$9 billion, pushing the estimated total of the state's unfunded liabilities to \$97 billion.

"Hawaii's unfunded liabilities have grown to nearly \$100 billion," Akina said, "and that will drag down the economy, stifle opportunities and weigh heavily on Hawaii taxpayers now and into the future."

He said, "If our lawmakers ever hope to bring our economy back from the brink, the only way is to cut spending, lower taxes, reduce regulations, rely more on the private sector and let people get back to work."

¹² See footnote #3.

¹³ "[Hawaii lawmakers recess after addressing budget shortfall](#)," The Associated Press, May 21, 2020.

¹⁴ "[Medicaid Enrollment & Spending Growth: FY 2020 & 2021](#)," Kaiser Family Foundation, Oct. 14, 2020.

¹⁵ See footnote #4.

¹⁶ "[Taxable General Obligation Bonds of 2020, Series FZ](#)," State of Hawaii, p. A-34, Aug. 5, 2020.

¹⁷ "[Employees Retirement System of the State of Hawaii, Report to Board of Trustees on the 94th Annual Actuarial Valuation for the Year Ending June 30, 2019](#)," Employees' Retirement System of the State of Hawaii, Jan. 13, 2020, p. 5.

¹⁸ See footnote #5.

¹⁹ See footnote #6.

²⁰ "[Taxable General Obligation Bonds of 2020, Series FZ](#)," State of Hawaii, pgs. D1 - D11, Aug. 5, 2020.

²¹ "[Gov. Ige announces bond sale for capital improvement projects](#)," Office of the Governor, Aug. 12, 2020.

²² "[Taxable General Obligation Bonds of 2020, Series FZ](#)," State of Hawaii, p. B-5, Aug. 5, 2020.

He urged anyone who has not yet read the institute's "[Road map to prosperity](#)" to visit the institute's website and download a copy.

For more information or to arrange an interview with Keli'i Akina or Joe Kent, please call Mark Coleman at 808-386-9047 or email mark.coleman@grassrootinstitute.org.

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