HEALING HAWAI‘I’S ECONOMY

The State Government’s Crucial Role in Countering the Pandemic Recession

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HAWAI‘I BUDGET
& POLICY CENTER

The devastation of the COVID-19 pandemic goes beyond the tragedy of infection rates and death counts. In October 2020, the U.S. Census Bureau's Household Pulse Survey reported that nearly 60 percent of Hawai'i respondents had at least one member of the household who lost employment income since March. Approximately, one in three has found it somewhat or very difficult to pay for usual household expenses. The pandemic recession calls for state policymakers to use the lessons learned during the Great Recession to restore Hawai'i's economy.

Government exists to carry out the public good—those services we all depend on that can't be performed individually. One of these essential services is economic regulation. During economic downturns, government needs to increase spending to counteract the drop in private sector activity. In other words, when the engine of private sector spending sputters, government has to provide the back-up power to keep the economy aloft. Another essential government service is to increase support for basic needs—food, healthcare, housing—for people hurt by a bad economy. For these reasons, prudent governments do not cut jobs or services in hard times.

Although the federal government has the primary responsibility for stimulus, Hawai'i's state government also has a very significant impact on the health of the economy and the wellbeing of the people who live here. The COVID-19 pandemic has only added to the list of responsibilities our state government needs to address.

This brief shares lessons learned during the Great Recession to guide Hawai'i's policymakers as we rebuild a vibrant economy in the wake of the pandemic. It provides strategies to increase revenues that will help Hawai'i make a strong recovery.

The Hawai'i Budget & Policy Center (HBPC) is committed to a Hawai'i where all can thrive, and where state and local policies increase economic opportunity for all residents. We do this by analyzing and understanding the implications of tax and budget decisions and providing clear, compelling explanations to the public and policy-makers. Our principles include independence, economic fairness, empowerment, equity and nonpartisanship. HBPC is part of the nonprofit Hawai'i Appleseed Center for Law & Economic Justice.

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THE WRONG TIME TO CUT THE STATE BUDGET

ECONOMISTS AGREE that state and local government spending is critical to economic recovery during a recession. These are times when more people need state help to meet basic needs.

Compared to the Great Recession (2007–09), the pandemic recession is making Hawai'i's already considerable gap between lower- and higher-income workers much worse. Unemployment filers between March and August 2020 were much more likely to be in lower-wage occupations than in higher-wage jobs.[1] As shown in **Figure 1**, the pandemic recession has fallen hardest on women, and on Filipino and Native Hawaiian populations, who on average already earn less than the state's median income.

Unfortunately, plans are already being made to cut general fund spending from the state budget. General funds support half of Hawai'i's $16 billion operating budget. In September, the governor asked all state departments to present budgets for the next fiscal year that reduce general fund spending. He called for two budget scenarios, one reducing general fund-supported spending by 5 percent, and a second contingency budget cutting those costs by 10 percent. In addition, the governor has proposed a two-day per month furlough for state workers.

Another concern is that nonprofit organizations that provide services on behalf of the state are being notified of significant contract reductions, in some cases by much larger percentages than the 10 percent contingency budget cuts proposed for executive branch departments. **Table 1** shows the magnitude of the damage these proposed budget cuts will inflict on our faltering economy.

The Pandemic Recession Hit Groups with Lower Average Earnings Harder

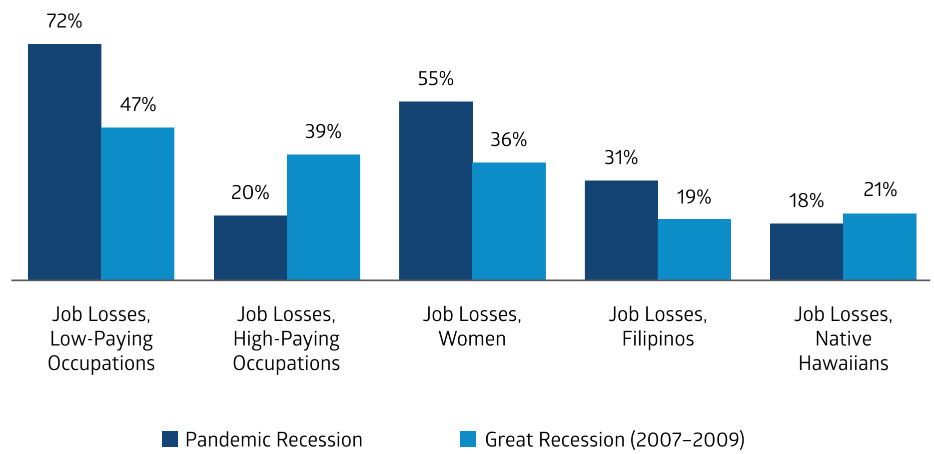

Figure 1. The Pandemic Recession is increasing the gap between lower-income and higher-income households. Compared to the Great Recession, its effects have been more harmful to groups with lower earnings.

State Government Spending Cuts Would Damage Hawai'i's Economy

	Direct Cut	Full Economic Effect (x1.5)
Proposed 5% cut in General Fund-supported budget ($8 billion appropriated in SB2200)	$400 million	$600 million
Contingency 5% cut in General Fund-supported budget	$400 million	$600 billion
Proposed State Worker Furloughs 2-days/month (estimate based on $3.6 billion in wages)	$331 million	$497 million
Effect of cutting 10% from nonprofit service contracts ($575 million in contracts in FY2020)	$58 million	$86 million
Total	**$1.189 billion**	**$1.783 billion**

Table 1. Economists estimate that every $1 cut from state spending takes $1.50 out of the economy. The effect of direct state spending cuts are multiplied by 1.5 times to show their real impact on the economy. Cuts already proposed and those most likely to be targeted would reduce economic activity in Hawai'i by as much as $1.8 billion.

LESSON 1.
ECONOMIC RECOVERY DEPENDS ON STATE SPENDING

"IF POLICYMAKERS LEARN ONE LESSON FROM THE LONG, SLUGGISH RECOVERY FROM THE GREAT RECESSION, IT IS THAT CUTTING PUBLIC SPENDING, PARTICULARLY BY STATE AND LOCAL GOVERNMENTS, IS A RECIPE FOR PROLONGED ECONOMIC PAIN."[2]

WHEN PRIVATE SECTOR economic activity slows during a recession it must be balanced by an increase in government spending. Extensive studies following the Great Recession show that public sector budget cuts only deepen and prolong economic recessions. Economists identified four important lessons for policymakers:

1. Recessions have longer and more painful effects on employment and the economy than previously thought.

2. Removing money from an already slack economy in order to balance state budgets is especially bad policy since doing so further shrinks economic activity.

3. Direct government intervention, such as timely spending on services and infrastructure, can make the difference between a quick, robust recovery and prolonged stagnation.

4. The economic costs of doing nothing can be both high and permanent.

Post-recession analysis specific to state spending policies showed that states that cut their budgets had slower economic recovery than those that expanded spending. One study showed that by 2011 the 20 states that had imposed austerity budgets were experiencing lower economic growth rates, higher unemployment, and greater private sector job loss than the 30 states that had expanded spending in response to the recession. These findings are shown in **Figure 2**.

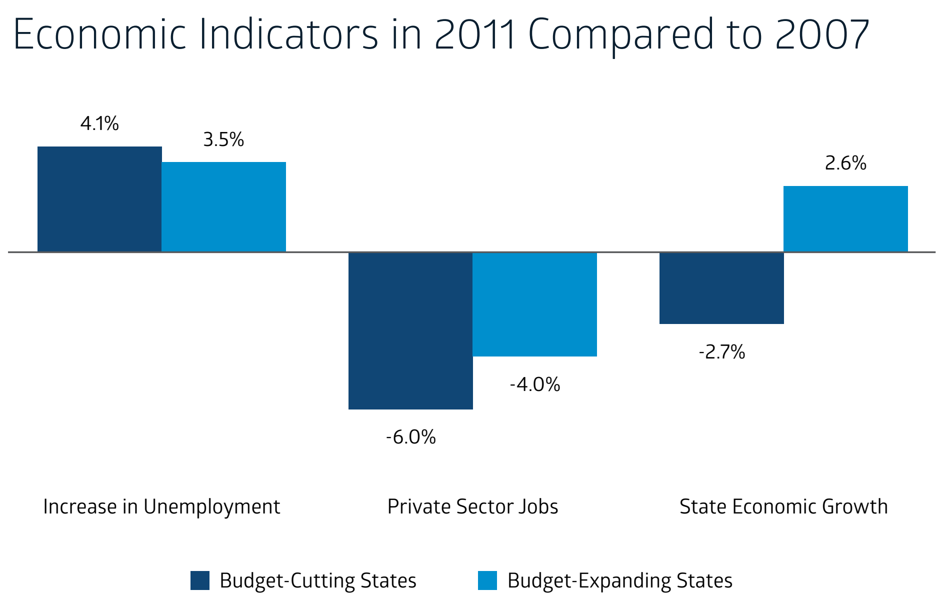

Figure 2. The 20 states that cut their budgets during the Great Recession saw greater increases in unemployment and private sector job losses than the states that expanded their spending. The budget-expanding states also saw positive economic growth by 2011, while the economies of the budget-cutting states continued to stall.

The more severe the recession, the greater the "bang for the buck" a government stimulus investment earns. According to economic estimates, including those reported by UHERO, for every $1 that Hawai'i's state government spends in a stimulus package there is a $1.50 return in economic impact. By the same token, for every $1 cut from state spending there is a $1.50 reduction in economic output. Given the magnitude of the pandemic recession, the multiplier effect for state spending could be even higher.

Maintaining state spending also benefits the economy by sending a message of confidence in recovery. When businesses see the state investing in people and infrastructure, they can see a future for themselves too. When residents have the security of knowing the state will help them get through hard times with basic supports, they are less likely to have to search for a better future in another state.

LESSON 2.
GOVERNMENT SERVICES HELP PEOPLE AND SUPPORT THE ECONOMY

"[W]E WANT TO HELP THE PEOPLE WITHIN THE ECONOMY WHO HAVE BEEN HURT BY LOSING THEIR JOBS OR HOURS OR BY HAVING THEIR BUSINESS ACTIVITY CUT DOWN AND ENSURE THAT WE HAVE THE FUNDS TO START UP THE SECTORS WE HAVE SHUT DOWN LATER, AFTER WE HAVE ADDRESSED THE PANDEMIC AND PUBLIC-HEALTH CRISIS."[3]

TRAGICALLY, the COVID-19 pandemic has created an unprecedented level of need in households across the state. Many people have lost jobs and income, health insurance, and the ability to house, feed and clothe their families. In some cases, being confined at home has increased stress and living expenses, especially in households with children who attend school remotely. Maintaining supports and services for families is both the morally right thing to do and a smart investment in the economy.

As economists have long recognized, during an economic downturn, government investments in services can make the difference between a robust recovery or a prolonged recession. The greatest rate of return comes from stimulus dollars placed into the hands of the people who will spend them immediately. This spending increases the circulation of money throughout the economy.

During the Great Recession, some of the most effective stimulus investments by the federal government went to increasing the Supplemental Nutrition and Assistance Program (SNAP, commonly known as food stamps),

financing workshare programs, extending unemployment benefits, and to increasing the child tax credit.

In the current recession, one of the best examples of how government spending supports the economy was the $600 per week unemployment benefit plus-up. Normally, unemployed workers receive benefits that are a fraction of their previous earning level. However, the unprecedented COVID-related business shutdowns meant there were few job prospects for unemployed workers. From March through July 2020 the temporary federal stimulus of the $600 plus-up in unemployment benefits ensured that out-of-work households could afford to pay rent, to put food on the table, and to cover essentials, while protecting their lives.

Translated into state policy, Hawai‘i should:

1. Maximize enrollment in the Supplemental Nutrition Assistance Program. SNAP not only keeps families and seniors fed but brings federal dollars into the state that will be spent immediately for groceries. This requires maintaining or increasing resources at the Department of Human Services for outreach, enrollment and support services.

2. Enroll families who have lost employer-sponsored health insurance in Med-QUEST. This is an investment in better health that attracts enhanced federal matching funds and helps support one of Hawai‘i's largest economic sectors, healthcare. Again, this requires maintaining or increasing staff and program funding levels at the Department of Human Services.

3. Implement the Short Time Compensation (STC), or Workshare, Program. This program compensates people whose hours are cut more generously than the state's current partial unemployment program does, and helps businesses expand more quickly when the economy improves. In order to implement the STC program, the state needs to apply for a federal grant and technical assistance, and the legislature needs to authorize it by statute.

4. Enhance Tax Credits that Support Low-Income Families. Hawai‘i has several tax credits that can be enhanced to put more money into the hands of struggling families, who will quickly recirculate it in the local economy. One of these is the state Earned Income Tax Credit (EITC), which should be made refundable in order to help families with the lowest earnings. Two others are the Low-Income Renters Tax Credit and the Refundable Food/Excise Tax Credit. Both of these need to be increased to reflect inflation: the Renters Tax Credit has been stuck at the same level since 1989 and the Food Tax Credit has not been updated since 2015.

5. Maintain Support for Rent and Utility Bills. The COVID-19 pandemic left Hawai‘i with the highest unemployment rate in the country. As a result, many households will need assistance with rent and utility bills for an extended period or they may face homelessness. The state and counties established programs to help with these needs using temporary federal CARES Act funding. These funds may now be spent through the end of 2021 to meet ongoing housing and utility needs.

LESSON 3.
CUTTING PUBLIC WORKER POSITIONS AND PAY HURTS THE ECONOMY

"STATES AND LOCAL GOVERNMENTS THAT LAY PEOPLE OFF ARE NOT ONLY ADDING THOSE WORKERS TO THE UNEMPLOYMENT ROLLS, THEY ARE ALSO THREATENING PRIVATE-SECTOR JOBS THAT DEPEND UPON THE SPENDING OF PUBLIC-SECTOR STAFF."[4]

ECONOMIC RECOVERY starts with supporting jobs. Furloughing state workers to balance the budget would only serve to set back economic recovery. Moreover, as proven by Hawai'i's "Furlough Fridays" policy during the Great Recession, cutting public workers' hours would be particularly damaging to public school students and very unpopular with the public.

About 65,500 people work for the state—more than 12 percent of Hawai'i's nonagricultural wage and salary jobs as of September 2020. That is a large share of Hawai'i's workforce to deliberately hobble with a nearly 10 percent pay cut.

Considering that the average state worker's pay is on a par with Hawai'i's median wage, it is likely that almost all earnings immediately circulate through the local economy for rent, food and other basic needs.

Furloughs would decimate this spending. Based on 2018 figures, a two-day per month furlough would reduce the spending capacity of state workers by more than $330 million, but its economic toll would be to pull $500 million per year out of our state's economy since the consequences of state budget cuts are multiplied by 1.5.

Rather than reducing hours for public workers, the state should consider retraining and redeploying employees to ensure ongoing access to programs families need, such as unemployment benefits, SNAP, housing and Medicaid. This could be a moment to evaluate state services and start to implement improvements in interactive information technology, transparency and convenience.

LESSON 4. STATE SERVICE CONTRACTS SUPPORT JOBS THROUGHOUT HAWAI‘I

"THE GOVERNMENT—LIKE FAMILIES AND BUSINESSES—ALSO BUYS A TREMENDOUS VOLUME OF GOODS AND SERVICES FROM THE PRIVATE MARKET. AS BUSINESSES SEE MORE SALES AND POTENTIAL CUSTOMERS, THEY WILL HAVE THE CONFIDENCE IN THE ECONOMY TO ADD JOBS AND CRANK UP THE ECONOMY'S PRIVATE-SECTOR ENGINE."[5]

ABOUT HALF of the state's operating budget goes directly to the private sector to purchase goods and services. Accordingly, cutting the state's contractual costs would be at least as devastating to the economy as cutting state worker hours.

The pandemic has increased health, interpersonal and economic stresses in households across the state. Many of the elevated needs for assistance are met by community-based nonprofit organizations which provide an array of services on behalf of the state.

In fiscal year 2020, the state had $575 million in contracts with Hawai‘i nonprofit organizations to provide essential services, such as food distribution, childcare, family support, disease prevention, physical and mental health care, domestic violence intervention, after school programs, and much more. In addition, the state-managed Medicaid program, Med-QUEST, is budgeted to pay up to $2.8 billion to health insurers and providers statewide to provide needed healthcare.

Nonprofits doing the state's work are themselves economic engines—business anchors in the communities they serve where they offer employment, occupy and maintain facilities, and purchase materials and supplies. Maintaining their state contracts ensures the continuation of effective services, supports jobs, and bolsters the economy by an estimated $863 million per year.

Besides providing services through nonprofits, the state spends hundreds of millions of dollars through contracts with local and national businesses, suppliers and consultants for a wide array of services and materials. Just a small sample includes purchase and lease of information technology equipment and software; facility rent, repair, maintenance and security; payments to foster parents; staff training; program design and independent evaluation; financial audits; business and program supplies; transportation; and utilities. These contracts are necessary to the conduct of state business and support Hawai‘i's economy.

LESSON 5.
INFRASTRUCTURE SPENDING SUPPORTS THE ECONOMY AND BUILDS HAWAI‘I’S FUTURE

“STATES SHOULD ADDRESS UNMET INFRASTRUCTURE NEEDS NOW… HIGHER-QUALITY AND MORE EFFICIENT INFRASTRUCTURE WILL BOOST PRODUCTIVITY…LIFTING LONG-TERM ECONOMIC GROWTH AND WAGES….KEY INFRASTRUCTURE INVESTMENTS WOULD PROVIDE IMMEDIATE JOB OPPORTUNITIES.”[6]

INFRASTRUCTURE INVESTMENT is near the top of the list of effective forms of economic stimulus. It creates jobs in construction and supply companies, and those workers circulate their paychecks throughout the local economy. The return on investment for infrastructure spending is always high. However, during economic downturns the benefits are magnified. Every $1 spent on infrastructure during the Great Recession contributed an average of $1.57 to the economy. In addition, construction projects are likely to be most competitively priced for public projects when private investment is scarce.

Hawai‘i should prioritize infrastructure investments that not only stimulate the economy now but will also add the most to Hawai‘i’s future economic health. Investing now in building housing affordable to Hawai‘i workers is the best example of this kind of project. Innovative legislation, such as SB3104/HB2542, introduced in 2020, would help facilitate this work by authorizing a program funded by obligation bonds to develop infrastructure and leasehold housing on public land.

Additional infrastructure investments should include improving the facilities at our public schools and university, securing broadband access in rural areas, and tackling a host of projects that add to health, safety and environmental sustainability. There is no shortage of need, as noted in “Troubled Waters: Charting a New Fiscal Course for Hawai‘i” published by the Hawai‘i Executive Conference. It identified a list of high priority public infrastructure projects that added up to more than $60 billion.

Infrastructure spending is a good tool for economic stimulus because funds can be borrowed at historically low rates during a recession. State government always has a slate of capital improvement projects (CIP) underway that are financed by public borrowing.

In fiscal biennium 2020–2021, the state capital improvement budget is $8 billion (although more than a third of the projects are related to transportation, which are important investments but create fewer local jobs). The current CIP budget includes little if any money for other much-needed work, such as housing development.

The main drawback to using infrastructure development for a stimulus tool is the length of time it takes to get large projects from concept to completion. These include an array of reviews and assessments as well as chronic delays in planning and permitting approvals. That’s why federal stimulus funding provided during the Great Recession focused capital dollars on “shovel-ready” projects. Policymakers should take this moment to pass sensible reforms that will help us meet current and future infrastructure needs without sacrificing protections for the ‘āina.

REVENUE-RAISING STRATEGIES TO HELP HAWAI‘I MAKE A STRONG RECOVERY

“TAX CHANGES CAN HELP STATES CLOSE THEIR BUDGET SHORTFALLS WHILE PROTECTING VULNERABLE COMMUNITIES AND STATE ECONOMIES. STATES AND LOCALITIES HAVE A NUMBER OF OPTIONS FOR INCREASING REVENUES IN A PROGRESSIVE WAY RIGHT NOW.”[7]

FEDERAL AID remains the best answer to Hawai‘i’s economic stimulus needs, and may still be forthcoming in 2021. Meanwhile, state lawmakers have other tools to shore up operating budgets. These include temporary borrowing and using reserve funds, increasing taxes on the wealthy, and imposing a moratorium on certain business tax credits and exemptions.

In assessing options, lawmakers should bear in mind that the pandemic’s economic burden has been very unevenly shared. Nearly three in four people who lost jobs in Hawai‘i in 2020 were workers with average earnings of less than $20 per hour. At the same time, two in three local households with incomes of $200,000 or more experienced no loss of employment income since March 13, 2020, according to the Census Bureau’s emergency Economic Pulse survey.

Not only have higher-earning households largely escaped economic fallout from the pandemic, but many have prospered because of the strong stock market and rising real estate values. A pointed example of the inequity of the COVID recession is the large number of families in need of rental assistance at the same time that wealthy sellers are profiting from soaring housing sales prices.

Another consideration is Hawai‘i’s tax system, which is already more regressive than progressive. That means it takes a larger proportion of the earnings of low-income residents than from those who earn more. This is primarily due to the General Excise Tax (GET), which is applied to virtually every service and purchase. Since lower-income residents typically spend all of their income on basic living expenses, the GET hits them hard. On the other hand, Hawai‘i’s individual income tax system is progressive and can be updated to make it more so. Some options to build progressive revenues include:

Distribution of Hawai‘i State and Local Taxes by Income Group

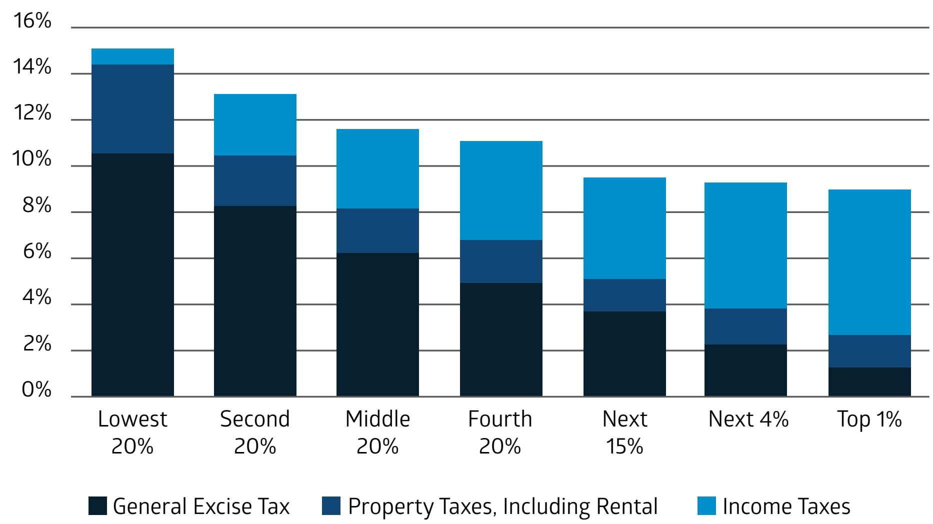

Figure 3. Because of the general excise tax, lower-income households in Hawai‘i pay more of their earnings in taxes than more affluent households.to groups with lower earnings.

TAXES ON TOP EARNERS

The federal Tax Cuts and Jobs Act provided significant tax breaks for the wealthy. In 2017, Hawai‘i increased its marginal tax rates for individual income taxes. A marginal tax rate means that wealthy households pay the highest rates only on the part of their income that exceeds certain thresholds. For instance, a married couple earning more than $400,000 pays Hawai'i's top marginal rate of 11 percent on the income over $400,000 but may pay a rate averaging 8 percent on earnings under $400,000.

After taking various deductions, exemptions, and tax credits, Hawai'i's millionaires paid taxes at an effective rate of just 6.8 percent of their adjusted gross income, according to the state Department of Taxation (page 53).

TAXES ON LONGTERM CAPITAL GAINS

Another reason that wealthy households pay a lower-than-expected effective tax rate is that Hawaii's tax on longterm capital gains is capped at 7.25 percent.

Longterm capital gains are the proceeds of sales of stocks, bonds and other assets. Longterm capital gains, as reported by the state Department of Taxation (pages 38–39) account for more than 10 percent of all taxable income paid in Hawai'i and totals nearly $3.5 billion.

Unsurprisingly, wealthy taxpayers disproportionately benefit from longterm capital gains: 72 percent all longterm capital gains income went to Hawai'i residents who earned $400,000 or more in 2018. More than one third of income earned by households at and above $400,000 comes from longterm capital gains.

TAXES ON ESTATES

The federal Tax Cuts and Jobs Act of 2017 upped the tax exemption for estates, allowing an individual to pass up to $11 million in wealth tax-free to their heirs. Hawai'i excludes the value of estates up to $5.49 million for an individual from taxes, an exemption that was just $675,000 as recently as 2001.

Hawai'i's estate tax rates range from 10 to 20 percent on the taxable value. The revenue it produces is highly variable from year to year: $45.5 million was collected in 2020 but the total was only $18.9 million in 2019, according to the state Department of Taxation (page 31).

TAXES ON REAL ESTATE CONVEYANCE

Hawai'i charges a conveyance tax on transfer of ownership or interest in real property. The seller or transferor is responsible for paying the tax. The basic tax rate increases from 10 cents per $100 for a property valued at less than $600,000, to one dollar per $100 for a property valued at $10,000,000 or greater. The tax rate for a residential property for which the purchaser is ineligible for a property tax homeowner's exemption is higher. It starts at 15 cents per $100 for a property valued at less than $600,000 and increases to $1.25 per $100 for a property valued at $10,000,000 or greater.

The state Department of Taxation reported (pages 28–29) that conveyance tax revenues totaled $61.1 million in fiscal year 2020, but that was a decrease from 2019, when the total was $86 million. Nonetheless, the market for Hawai‘i's luxury homes appears to be undiminished, despite or possible because of the pandemic, and high prices seem to be no obstacle for wealthy investors.

From January 2019 through September 2020, purchasers bought $8.4 billion in houses valued at $1 million or more. More than $2 billion in residential properties were sold for $4 million or more. Nonresidents purchased 58 percent of the houses that sold for $4 to $5.99 million and 68 percent of houses priced at $6 million or more.

TAXES ON REITS

Real Estate Investment Trusts (REITs) are companies that own, operate, or finance income-producing real estate. Unlike corporations, REITs pay no income taxes, instead passing at least 90 percent of their taxable income to shareholders every year.

In Hawai‘i, REITs own $17 billion worth of income-producing real estate, but because of their pass-through structure the state is not compensated when real estate profits earned here are sent to off-shore investors. In 2019, the legislature passed Senate Bill 301, which would have imposed a tax on REIT earnings at rates ranging from 4.4–6.4 percent. The measure was vetoed by Governor Ige.

TAXES ON CORPORATIONS

Just like wealthy individuals, U.S. corporations got a significant tax break from the federal Tax Cuts and Jobs Act when their tax rates dropped from 35 percent to 21 percent.

Hawai‘i has a tiered corporate tax rate, ranging from 4.4 percent on income up to $25,000 to 6.4 percent on income over $100,000. Thirty other states and the District of Columbia use a single rate to asses corporate taxes, and six states have a top rate of 9 percent or more.

In a "Study of the Hawai‘i Tax System" (pages 98–100) prepared by PFM Group Consulting LLC for the Tax Review Commission in 2017, Hawai‘i could increase revenues by $103 million if it implemented a single corporate tax rate of 9 percent, or by $41.7 million if it increased corporate tax rates by 50 percent. Unlike other GET and individual income taxes, corporate income taxes are applied only to profits so increasing corporate tax rates would not undermine struggling businesses.

TAXES ON MULTINATIONAL CORPS

Multinational corporations can use complicated structures to shift earnings around and avoid paying local taxes on locally-based earnings, but Hawai‘i can adopt a "Worldwide Combined Reporting" system to collect taxes on whatever part of the profit is earned in Hawai‘i.

Worldwide Combined Reporting works by requiring a company to report its total, global profits, and the portion of the overall business done in state. The Institute on Taxation and Economic Policy reported that Hawai‘i could gain $38 million per year with Worldwide Combined Reporting.

TAX CREDITS AND EXEMPTIONS

Our tax system provides a variety of supports to businesses through tax credits and exemptions that reduce their tax liability. Tax exemptions and credits for businesses may be well-placed investments that support local employment and positive behaviors. However, they are provided with little transparency and public accountability. At the least, the businesses that get these substantial tax breaks should report how much they were worth and how the public was benefited by them.

Hawai‘i provides exemptions that reduce General Excise Tax liability for certain industries. As a result of the Great Recession, the legislature passed Act 105 (Session Laws of Hawai‘i, 2011), which suspended 31 GET exemptions for two years starting July 1, 2011.

In May 2020, the Legislative Auditor reported on how a comparable suspension of GET exemptions would affect tax revenues. Using 2018 data, the auditor concluded that such a suspension would increase state revenues by more than $250 million.

Hawai‘i's tax credits are typically used to reduce individual or corporate income tax. The state even writes a check to a taxpayer that has a "refundable" tax credit if the tax credit exceeds the amount of taxes owed. Tax credits are granted to "promote social welfare," "encourage certain industries or economic activities," or to "avoid double taxation or pyramiding of Hawai‘i taxes."

Tax credits that encourage certain industries have grown significantly since 2000, when they amounted to $16.4 million and accounted for 17.7 percent of all tax credits. By 2018, business tax credits totaled $169.6 million, and made up half of the total.

The industries benefiting most have also increased their share of tax credits the most. The amount granted for the "Motion Picture, Digital Media, and Film Production Income Tax Credit" increased from $2.2 million in 2000 to $80.2 million in 2018, a 3,477 percent growth rate. This is a refundable tax credit so any amount that exceeds the individual or business' tax liability is paid out to the filer.

The "Renewable Energy Technologies Tax Credit" reduces the tax liability for taxpayers (individuals or businesses) that install a renewable energy technology system, such as a solar or wind-powered energy system. In certain cases, the tax credit is refundable or can be carried over. This tax credit grew from $4.4 million in 2000 to $70.5 million in 2018.

Borrowing to maintain operating costs is a state strategy that makes sense this year: Interest rates are low, the state's financial rating is good, and the benefits of maintaining state spending far outweigh the costs to borrow. Last summer, the legislature authorized the governor to borrow up to $2.1 billion from a special Federal Reserve municipal lending facility. The governor did borrow $750 million, but through general obligation bonds. Although the window for borrowing from the Fed is closed as of December 31, 2020, new opportunities may arise in 2021 if needed by states and municipalities.

State government has taken or may consider other actions to help maintain spending. These include deploying the nearly $400 million in the rainy day fund, using more than $480 million in accumulated special and revolving fund accounts for current expenses, maximizing federal dollars to pay for more personnel expenses, and saving $388 million this year by paying retiree health premiums as they come due instead of making expected contributions to the Employer-Union Health Benefits Trust Fund.

The COVID-19 pandemic and recession have taken an unprecedented toll on Hawai'i's economy and workforce. Experience has made it clear that now would be the worst time to cut state spending, furlough state workers, and shrink programs that help families in need. More than ever before, state policymakers need to use all available spending and revenue levers to quickly and completely restore a strong economy and maintain the health and resilience of households across the state.

ENDNOTES

1. Lower-wage occupations are defined here as those that average less than $20 per hour in 2019, according to Occupational Employment and Wages in Hawaii, 2019. Higher-wage occupations are defined here as those with average pay of more than $30 per hour.

2. Cooper, David, "Without federal aid, many state and local governments could make the same budget cuts that hampered the last economic recovery," The Economic Policy Institute, May 27, 2020, https://www.epi.org/blog/without-federal-aid-many-state-and-local-governments-could-make-the-same-budget-cuts-that-hampered-the-last-economic-recovery

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