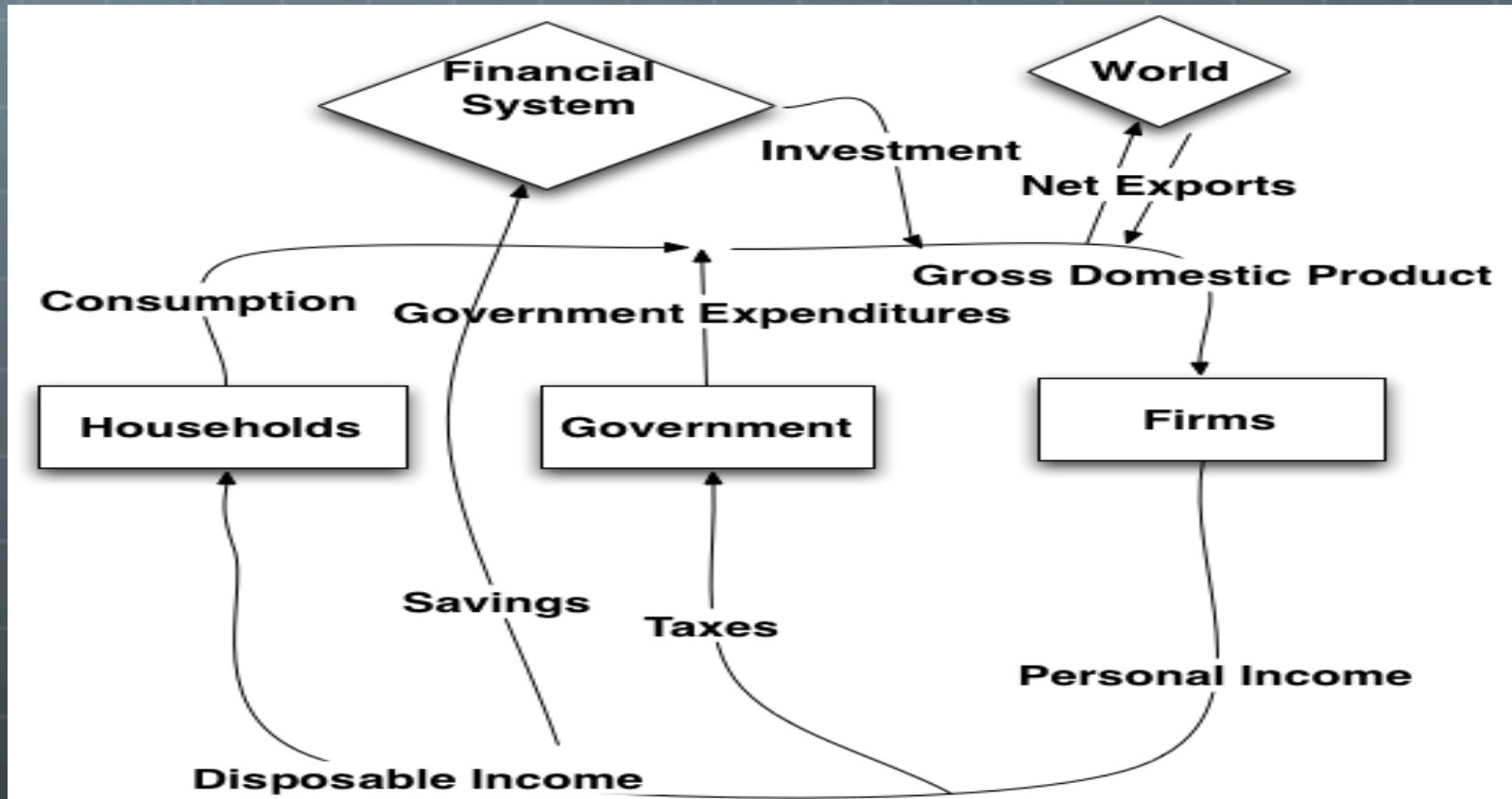




# Hawai'i's Economy, State Budget and the Great Recession

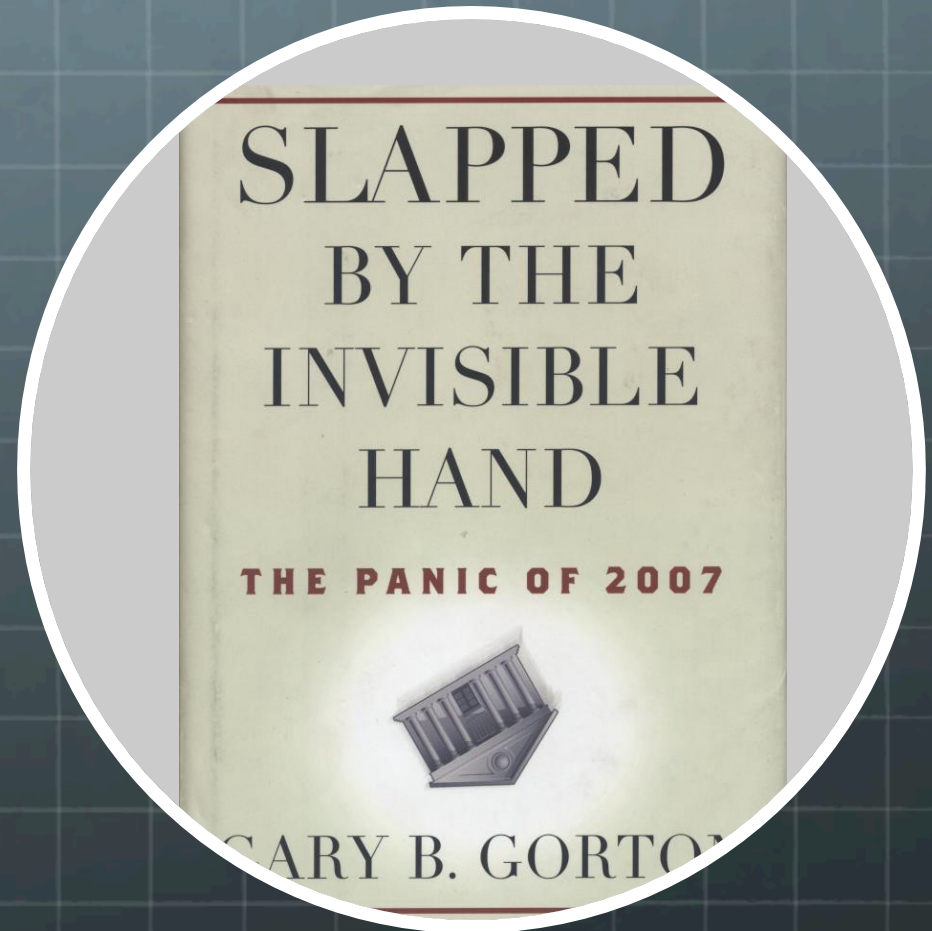
Past, Present, and the Future  
Lawrence W. Boyd Ph. D.  
Center for Labor Education and Research  
University of Hawai'i-West O'ahu  
<http://homepages.uhwo.hawaii.edu/~clear>  
January 8, 2011

# Follow the Money



# The Great Recession

- Subprime mortgages were packaged into bonds that were used in financial instruments like collateralized debt obligations and portfolios of asset backed securities.
- Subprime mortgages actually worked so long as housing prices were rising. When price rises slowed and then fell both the mortgages and the values of the assets that used them fell.
- These assets were used as part of the “shadow” banking system. This banking system composed of large banks and institutions that basically offered something like demand deposits that offered interest.
- When the value of these assets fell there was



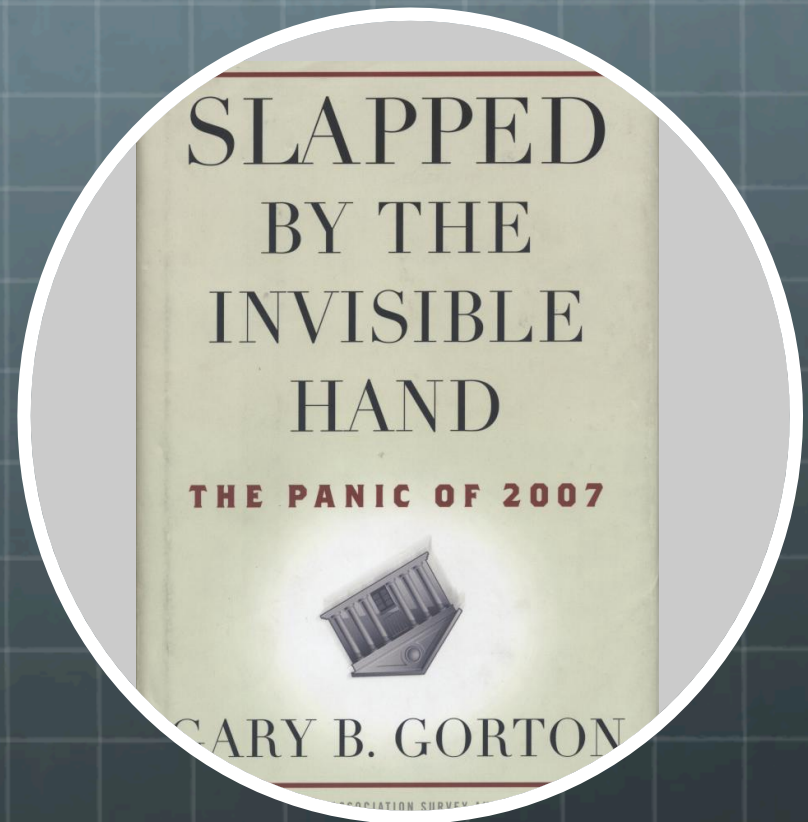
# Panic





# How the Lingle Administration Lost \$1.1 Billion

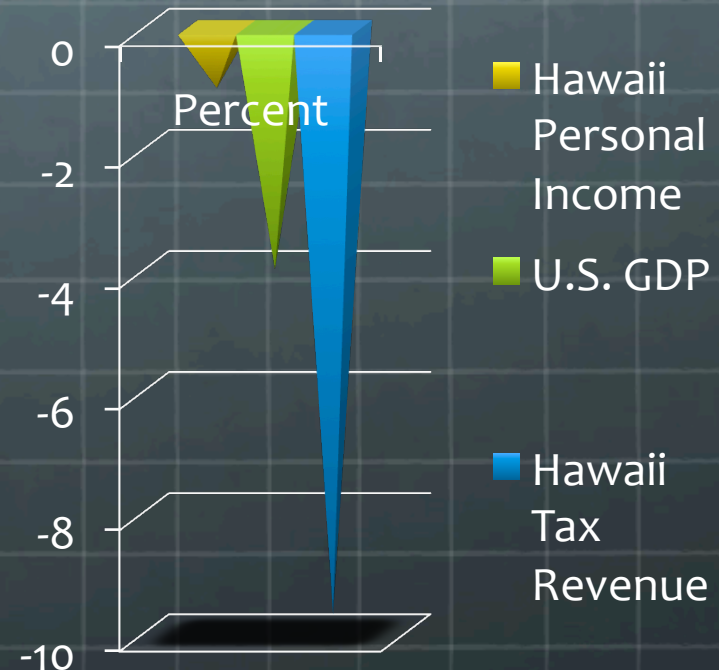
- The state had deposited money in the shadow banking system since 1999. This was supposed to be equivalent to a checking deposit. Furthermore the assets were based on student loans not subprime mortgages.
- The panic spread throughout the banking system through virtual runs on the shadow banks. Banks began to fail.
- Rather than pull money out the Lingle administration put \$600 million dollars in after the panic started.
- Finally the markets froze because there were no trades and Hawaii ended up with more than 1 billion in asset backed securities based on student loans.
- This represented about 3 percent of all of the securities in this category.
- The money is frozen until 2015, and one bond agency lowered Hawaii's credit rating as a result.



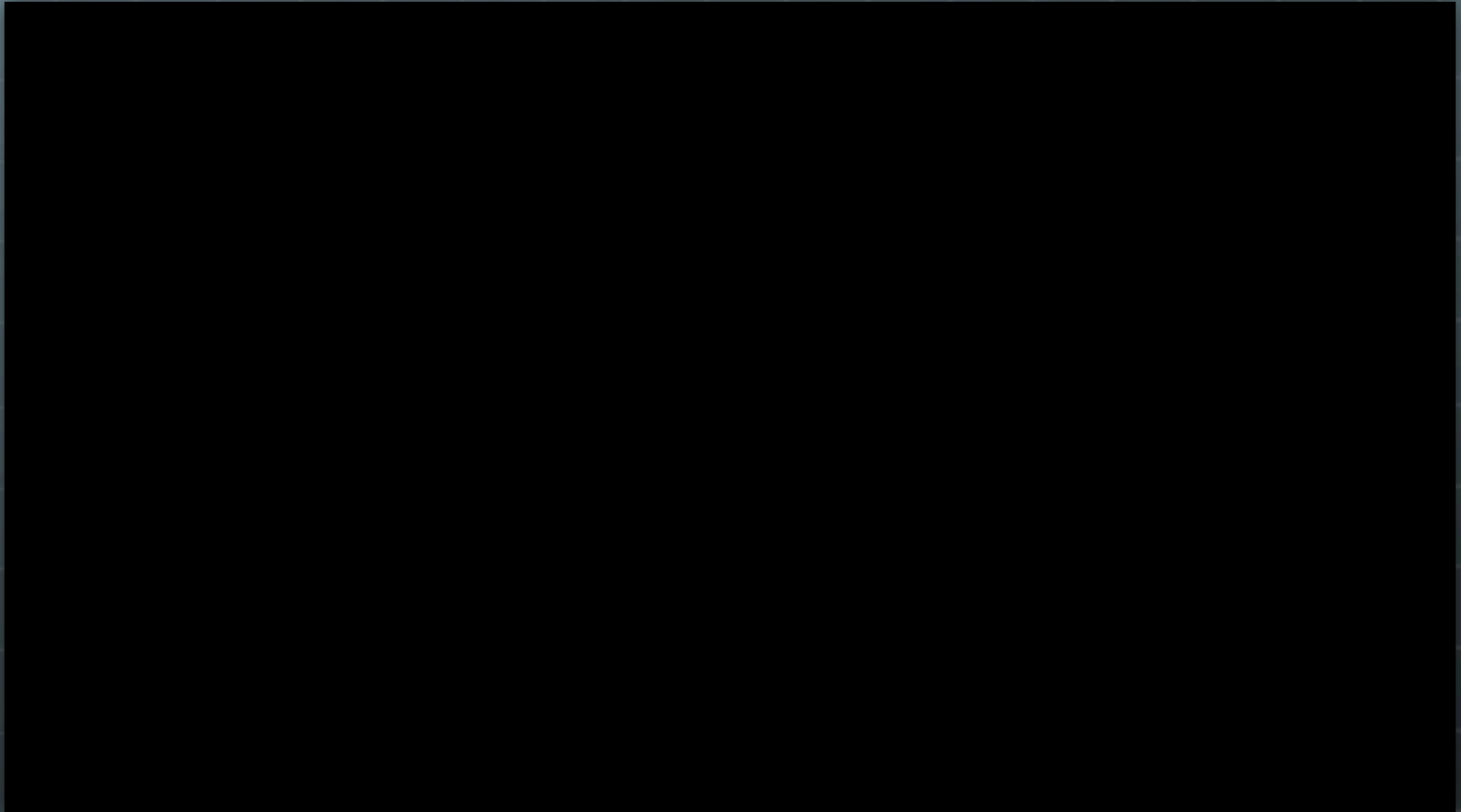
# Hawaii Tax Revenues and the Recession

- Hawaii tax revenues fell by almost 9.5 percent while the national economy fell by 4 percent and Hawaii by about 1 percent
- There have been academic studies of state revenues that indicate Hawaii revenues fall by more than 1 percent for each 1 percent decline in the economy (Net of inflation). They indicate that the revenues fall by around 2 percent for each 1 percent fall in real personal income
- This means that additional budget balancing by the state can propagate and deepen the downturn.

## Decline in Hawaii and U. S. Economy and Hawaii Tax Revenues FY 2009



# The Response

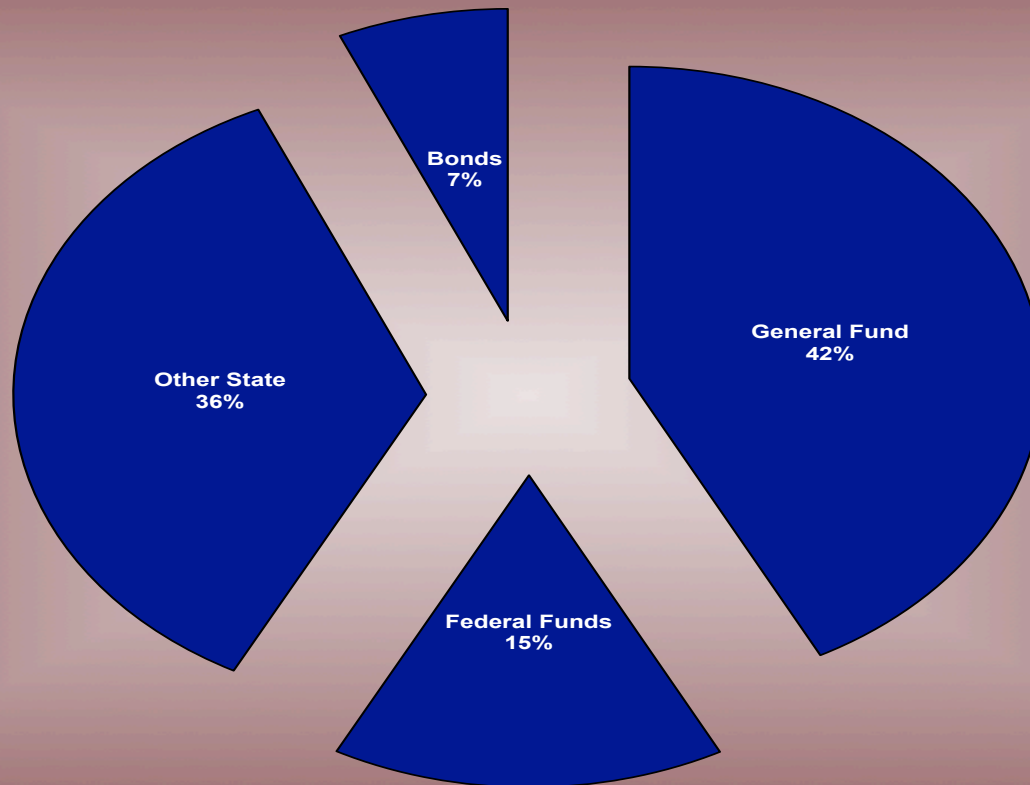


# The Response

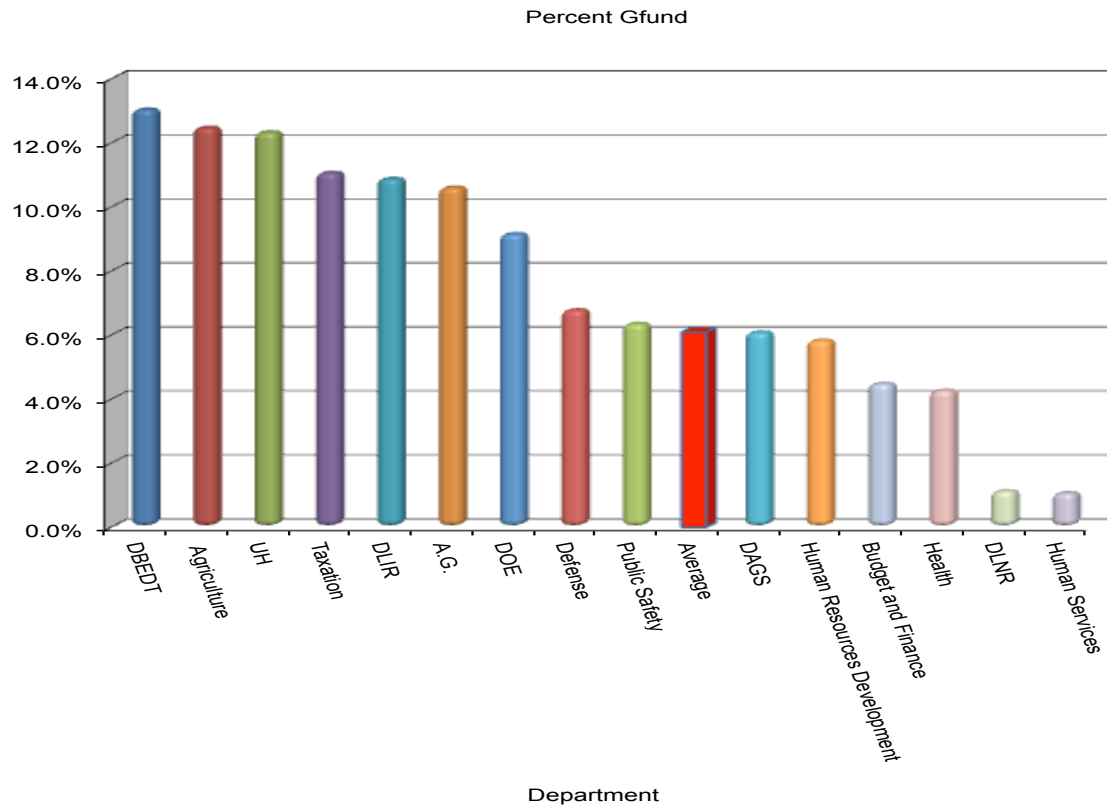
- “Hawaii has a government it can no longer afford”  
Linda Lingle
- Spending cuts such as furloughs
- Limited use of special funds and taxes to balance the budget.
- Inadequate use of federal emergency funds
- Together this response made things worse.



# What proportion of the budget is being balanced?



# Method had a disproportionate effect



# **“Abercrombie confronts vast deficits**

**A \$71.6M shortfall this fiscal year  
and \$771.9M in the next two pinch  
the state”**

**By Derrick DePledge**

**Honolulu Star Bulletin**

**Now reduced to \$38.6 million and  
\$705.9 million because the Council  
on Revenues changed its 2011  
estimated from 2 to 3 percent**



## THE GOVERNOR'S BUDGET

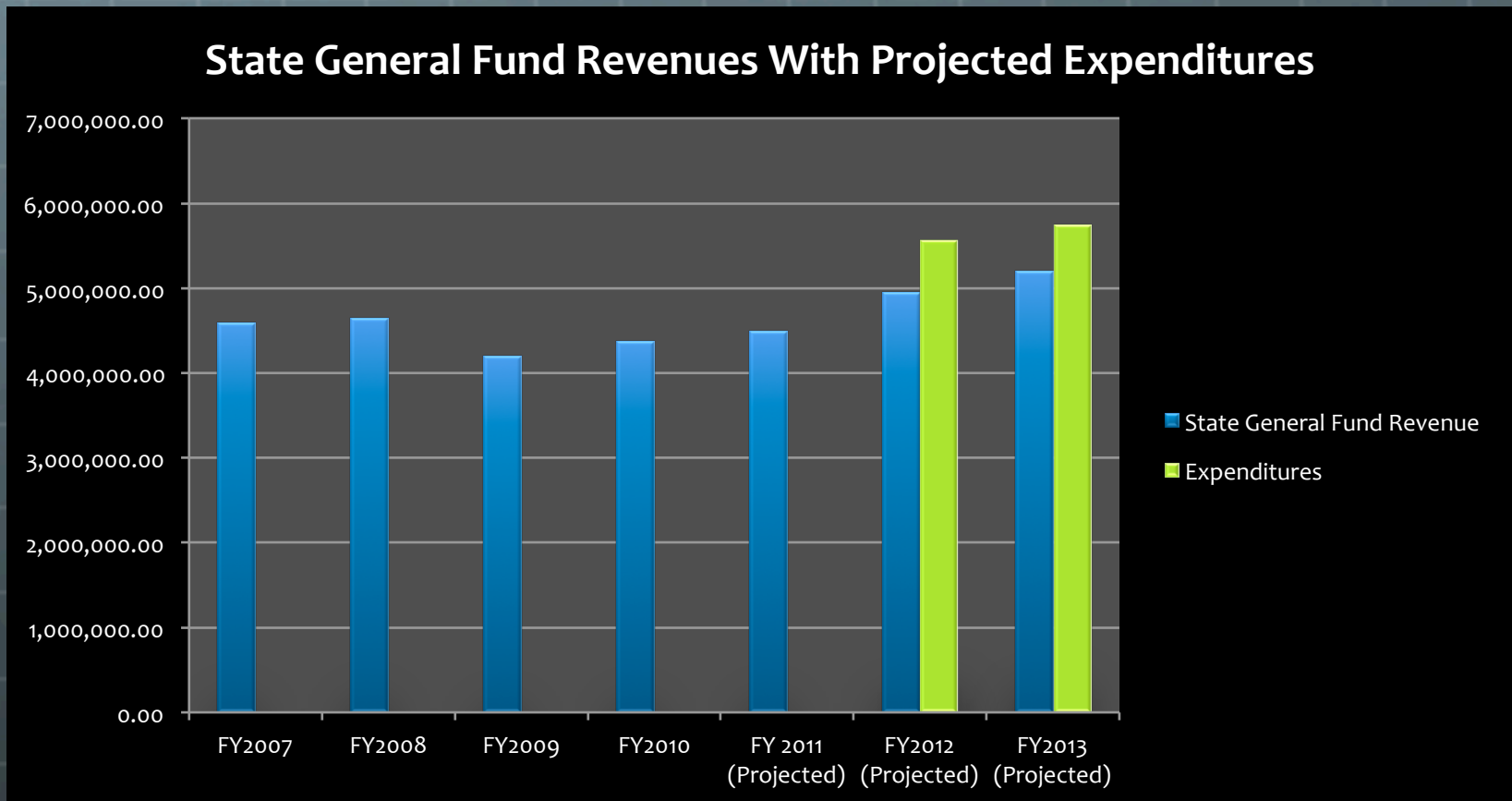
Gov. Neil Abercrombie released his two-year budget draft yesterday, calling for \$10.8 billion in state spending in fiscal year 2012 and \$11 billion in spending in fiscal year 2013. Here is a breakdown in general fund spending, over which the governor and lawmakers have the most control.

	FISCAL YEAR 2012		FISCAL YEAR 2013	
	\$5.57B		\$5.75B	
	AMOUNT	PCT.	AMOUNT	PCT.
Land and Natural Resources	\$25.5M	.5%	\$25.5M	.4%
Accounting and General Services	\$64.4M	1%	\$65.6M	1%
Public safety	\$221.5M	4%	\$221.5M	4%
University of Hawaii	\$401.8M	7%	\$401.8M	7%
Health	\$494.1M	9%	\$495.5M	9%
Human Services	\$1.03B	18%	\$1.07B	19%
Attorney General	\$24M	.4%	\$24M	.4%
Budget and Finance	\$1.8B	32%	\$1.9B	33%
Education	\$1.5B	27%	\$1.5B	26%
Others	\$82.3M	1%	\$82.2M	1%

Source: Governor's Office

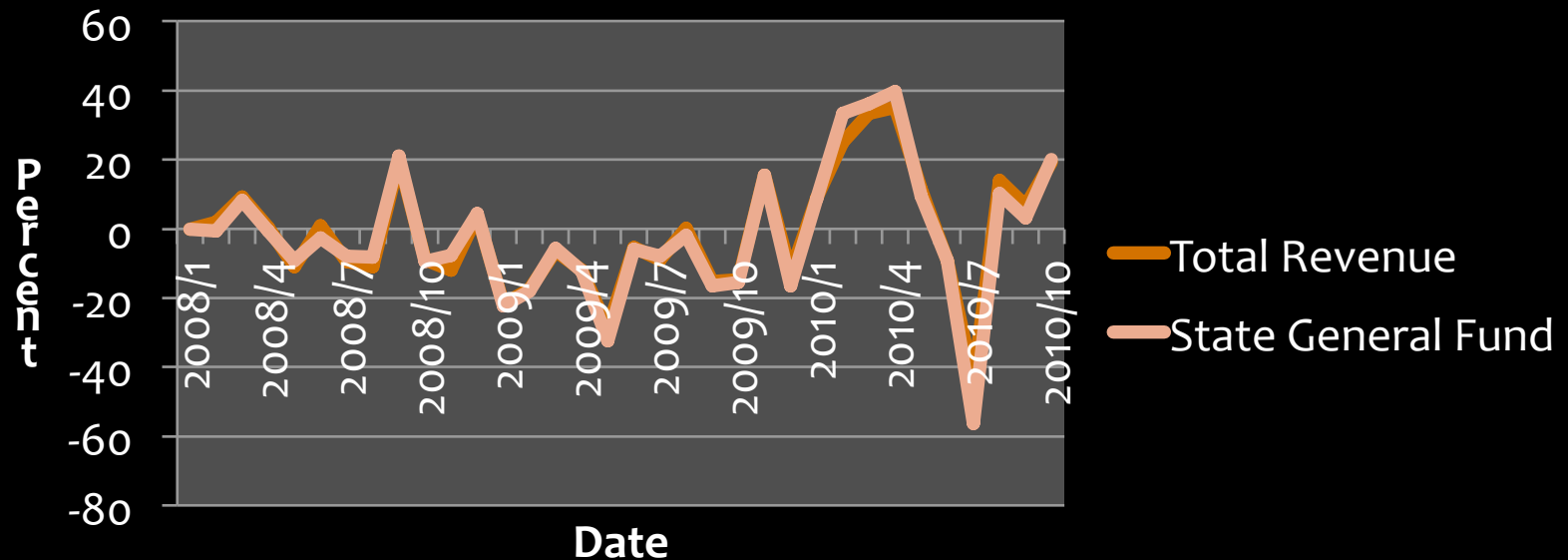


# Tax Revenues Past and Future in Dollars with Projected Expenditures



# Percent Change in General Fund

**Total Revenue and State General Fund Monthly  
Percent Change From Previous Year  
January, 2008 - October, 2010**



# How to Deal With This

- Special Funds
- Revenue
- Federal Funds