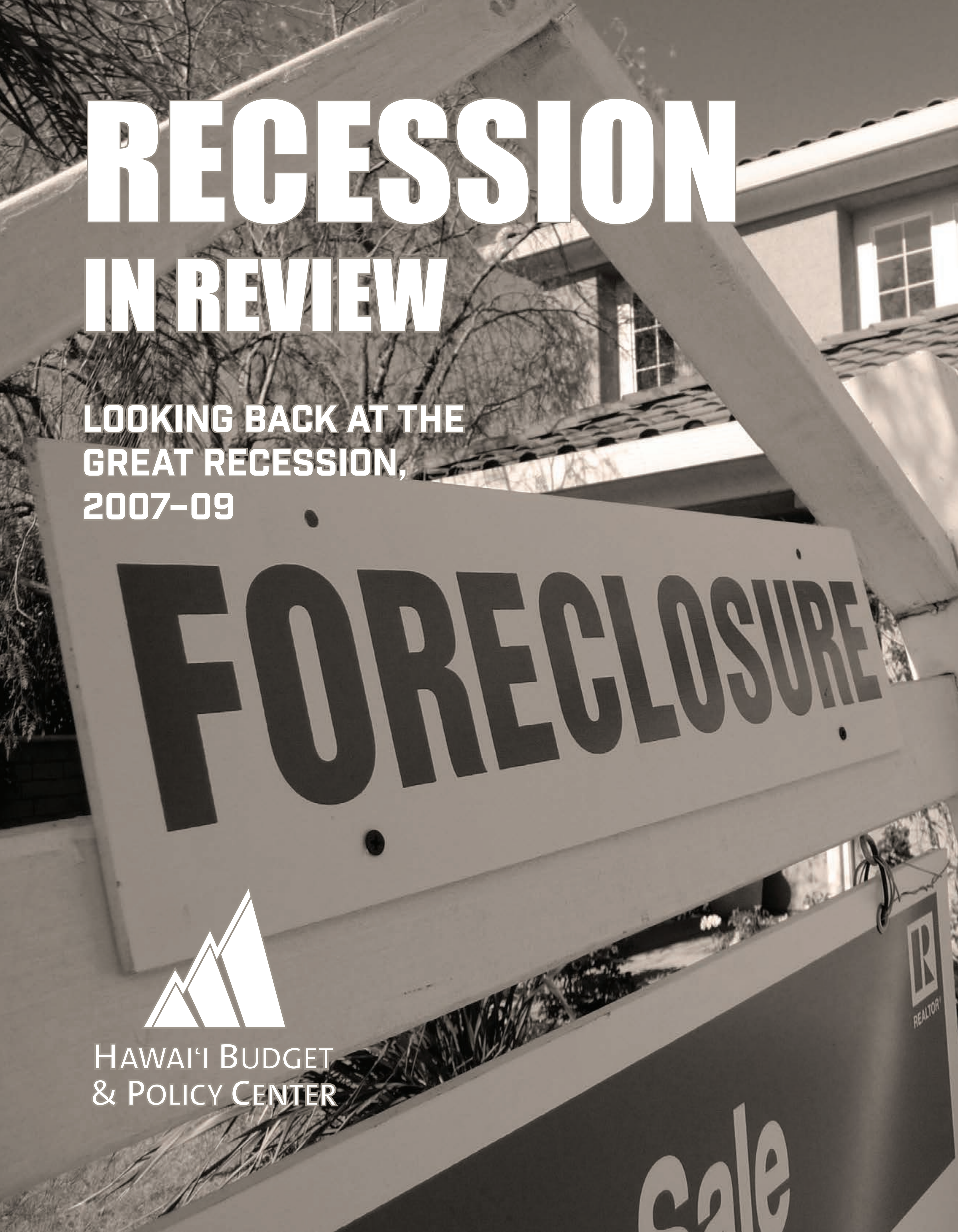
RECESSION IN REVIEW

LOOKING BACK AT THE GREAT RECESSION, 2007–09



Hawai'i Budget & Policy Center

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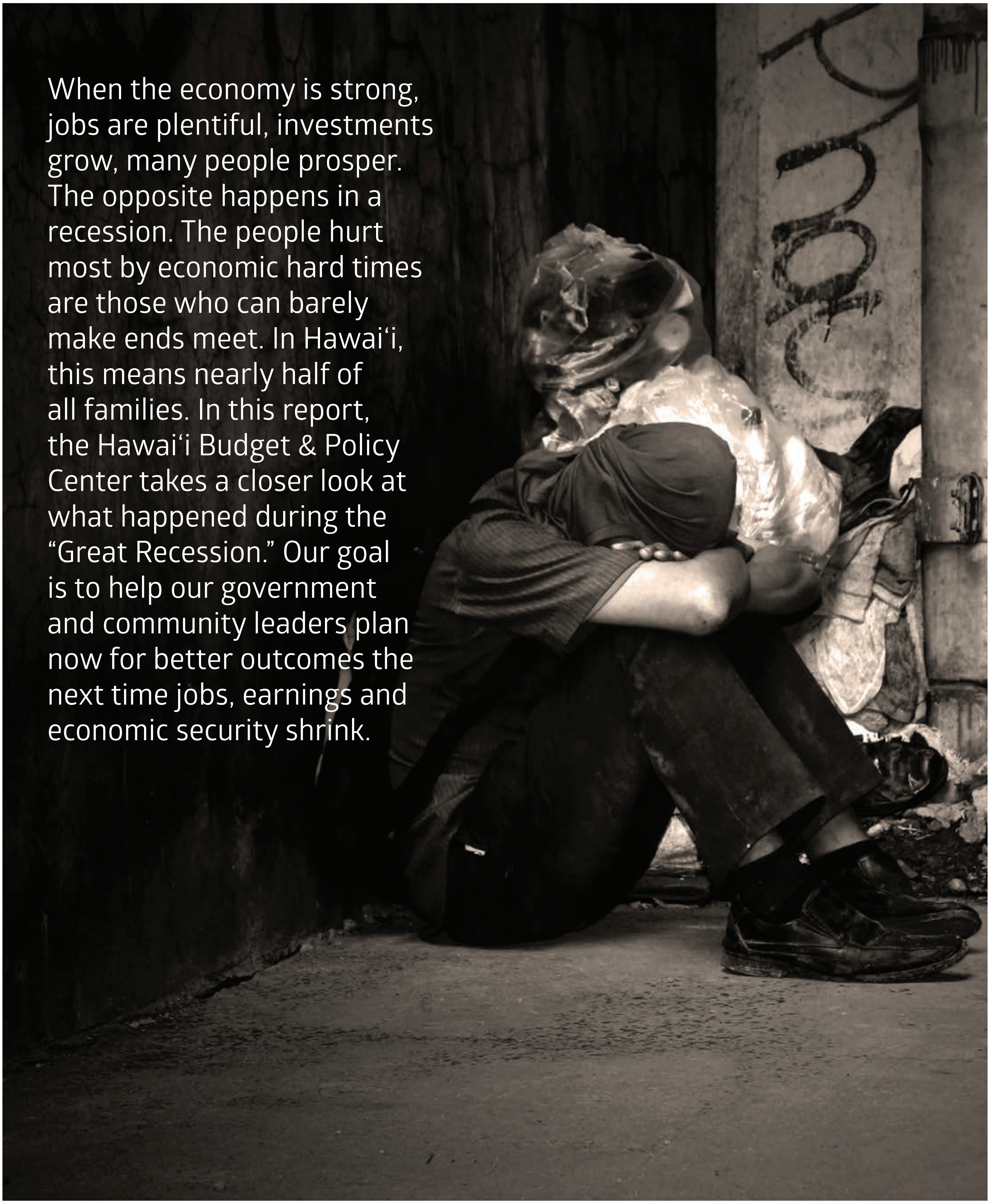
Data in this report came from:

- State budget worksheets;
- State Department of Business, Economic Development, and Tourism State Data Books for various years;
- State Department of Budget & Finance Budget in Brief Reports; and
- State Department of Taxation Annual Reports



When the economy is strong, jobs are plentiful, investments grow, many people prosper. The opposite happens in a recession. The people hurt most by economic hard times are those who can barely make ends meet. In Hawai‘i, this means nearly half of all families. In this report, the Hawai‘i Budget & Policy Center takes a closer look at what happened during the “Great Recession.” Our goal is to help our government and community leaders plan now for better outcomes the next time jobs, earnings and economic security shrink.

EXECUTIVE SUMMARY

SPECULATION OVER ANOTHER economic decline in the near future is increasing, as unsettling trends in employment, bankruptcies, and visitor growth continue.[1] To prepare for economic downturns in our future, the Hawai'i Budget & Policy Center (HBPC) examined how the most significant recession in recent U.S. history, from December 2007 through June 2009, affected Hawai'i's workers, economy and state revenues and spending.

"...NOT ALL BUDGET CUTS ARE EQUAL. SOME SERVICES ARE ESSENTIAL AND NEED FULL SUPPORT, AND DIMINISHING THEM THROUGH ACROSS-THE-BOARD REDUCTIONS COULD END UP MAKING MATTERS WORSE FOR HAWAI'I RESIDENTS IN THE LONG RUN..."

Why is it important to revisit the "Great Recession?" We need to understand what happened so we can be prepared to make smart financial decisions when the economy, once again, faces a destabilizing contraction.

Government spending decisions have a big impact on how well we, as a community, weather a recession. In fact, these decisions are just as important to the state's post-recession economy and the long-term well-being of residents as they are to withstanding the actual recession. The state may have to cut its budget, but not all budget cuts are equal. Some services are essential and need full support, and diminishing them through across-the-board reductions could end up making matters worse for Hawai'i residents in the long run, or make it more difficult for people to get back on their feet once the recession ends.

For example, forcing public schools to close for 17 days during the 2009–10 school year was a particularly calamitous decision. This action hurt a greater number of people than did shuttering some other departments for three days out of each month, or 36 days, during that same period. Likewise, certain programs, such as government-supported mental health services, are more essential in the event of an economic decline, despite strained public resources. Other than increasing Medicaid support, Hawai'i did not do well by this measure during the last recession.

The state largely met its goal of retaining its workforce. This was a generally sound principle, but it resulted in passing along bigger budget cuts to nonprofits that provide direct services under contract with the state. Hawai'i's Department of Health and Department of Human Services, together, cut more than $25 million in such services during the fiscal biennium 2010–11. As a result, crucial services provided with great efficiency were lost, and the nonprofit agencies that deliver these services were forced to lay off their employees.

KEY FINDINGS

1 **Visitor industry down.** One million fewer visitors arrived in 2009 than in 2007, and the visitors that did come spent nine million fewer days in the state. Resultant visitor spending reductions caused a loss of $3 billion to Hawai'i's economy.

2 **Job and wage losses.** The state average unemployment rate rose from 2.7 percent to 7 percent, with higher rates outside Honolulu County. The plummeting economy caused a loss of 43,850 jobs. Half of all jobs lost were in the tourism, transportation, retail and service industries. More than one in four construction jobs across the state were cut. Wages also declined and, due to changing labor market dynamics, low-wage jobs now pay less than before the recession.

3 **State revenue losses.** In 2009, tax revenue was $525 million less than in 2008. This half-a-billion dollar reduction was duplicated in 2010. It wasn't until 2012 that tax revenues exceeded the 2008 total.

4 **State budget cuts.** Despite stimulus money from the federal government, between 2010 and 2011 the state budget declined by more than half a billion dollars—that amounted to $400 less for every person living in Hawai'i. The resulting cuts, which included a reduction in student class time by nearly a month during the 2009–10 school year, a slashing of behavioral health services, and a shrinking of essential services provided under contract by nonprofit agencies, have created long-term consequences for the state.

RECOMMENDATIONS

1 **Plan now to support essential services.** Now is the time for the administration, legislators and community leaders to engage in sober discussion and planning for state action to address the next recession. This is necessary to ensure support for the most vulnerable and emerge with a stronger economy. The need for public services will likely increase during a recession, including public health insurance and behavioral health care. Nonprofit health and human services providers that deliver cost-effective essential services on behalf of the state should be prioritized, rather than getting the first and most extensive cuts.

2 **Preserve public employment and set priorities.** It will once again be critical to maintain the public workforce and public services, but we must be prepared to prioritize some positions, such as teachers. The negotiations in 2011 that reduced salaries in exchange for providing additional flexible time-off managed to cut costs without the negative effects on education and public services that resulted from the furloughs of the prior administration.

3 **Expedite stimulus payments.** Prepare to deploy federal stimulus funds (or state funds if necessary) to support jobs. These stimulus funds should be directed to state priorities, such as capital spending for housing and infrastructure, and operating costs for essential services. The state administration should be prepared to streamline temporary state hiring and procurement to get funds out to the private sector.

4 **Create better and more diverse job options.** The wage gap between skilled and unskilled labor will continue to widen, and those in unskilled jobs will be hit hardest by a recession. Hawai'i should work toward a more diversified economy to increase opportunities and reduce risks. Growth should emphasize sectors that pay higher wages, such as knowledge-based jobs that depend on higher education, technology and specialized skills. Among other things, this will require a significant investment in quality public education from pre-Kindergarten through graduate school, and targeted technical training for other workers.

JOBS AND THE ECONOMY

Currently, Hawai'i's economy is largely unvaried, relying on the government, hospitality and retail sectors for more than half of all employment. On top of this, more than half of all jobs pay low wages. Hawai'i remains, according to some critics, one of the least diversified and most recession-vulnerable states in the country.

DURING ECONOMIC BAD TIMES, low-wage workers are typically the hardest hit by unemployment and reduced wages. Earnings of low-wage workers in Hawai'i dropped by as much as 10 percent during the last recession, and many of these workers have yet to recover. The recession increased the gap between people with few resources and those with more secure incomes. Unfortunately, even as our economy has been in a growth cycle for years, half of the state's residents struggle to make ends meet.

As described in the Aloha United Way A.L.I.C.E. (Asset-Limited, Income-Constrained, Employed) report, between 2007 and 2015—at the same time low-income wages were dropping—the minimum "survival budget" for a family of four increased by 20 percent. This not only hurts the families involved, but also the well-being of our state. When jobs in Hawai'i pay less than the cost of living, workers cannot pay for decent housing, nutritious food, quality childcare, training and education, and a better future. They may have to work more than one job, leaving little time for family and community. These circumstances have the greatest effect on the economic prospects for Hawai'i.

In 2007 (Pre-Recession):

- Hawai'i's unemployment rate was 2.7 percent (currently about the same).
- An average of 6,600 people filed for weekly unemployment benefits.
- The number of civilian jobs in the state was estimated to be 624,000.

During the Recession:

- The unemployment rate hit its peak in 2009 when it rose to 6.9 percent.
- The largest number of people applying for unemployment benefits was also in 2009, when the weekly average number of filers was 20,500 (triple the number of 2007 filers).
- Between 2007 and 2010, 6 percent of all jobs disappeared. The low in job numbers in 2010 was 593,200, or 38,000 less than 2007's high of 631,350.

VISITOR INDUSTRY

It goes without saying that tourism is important to Hawai‘i’s economy. Between 2007 and the recession low-point, in 2009, Hawai‘i experienced:

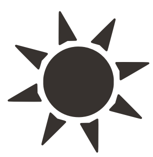
- 1 million fewer visitor arrivals, down 14 percent;
- 9 million fewer visitor days, down 13 percent;
- $3 billion drop in visitor spending, down 22 percent.

The decrease in visitors contributed to, and was worsened by, Aloha Airlines’ bankruptcy and closure in March 2008, followed shortly thereafter by that of American Trans Air (ATA). Additionally, two of three Norwegian Cruise Line ships were pulled from the Hawai‘i market in early 2008.

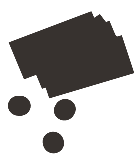
In 2010, visitor arrivals began to pick up, though total visitors did not exceed the 2007 tally until 2012. While the average length of stay between 2007 and 2009 increased slightly from 9 to 9.38 days, spending continued to decline. Spending per visitor dropped to $1,847 in 2009, compared to $2,136 in 2007 (adjusted for inflation). Per visitor spending has continued to decline, amounting to just $1,742 for the first three quarters of 2018.

Between 2007 and 2009, the percentage of visitor arrivals to Hawai‘i decreased by 14 percent, while visitor days dropped by 13 percent, and visitor expenditures by 22 percent. If another recession in the near future resulted in the same percentage of decline, based on 2017 figures, **there would be 1.4 million fewer arrivals, 11 million fewer visitor days, and $3.7 billion less in visitor expenditures.**

1.4 MILLION
fewer visitor arrivals



11 MILLION
fewer visitor days



$3.7 BILLION
fewer dollars spent

JOBS AND BANKRUPTCIES

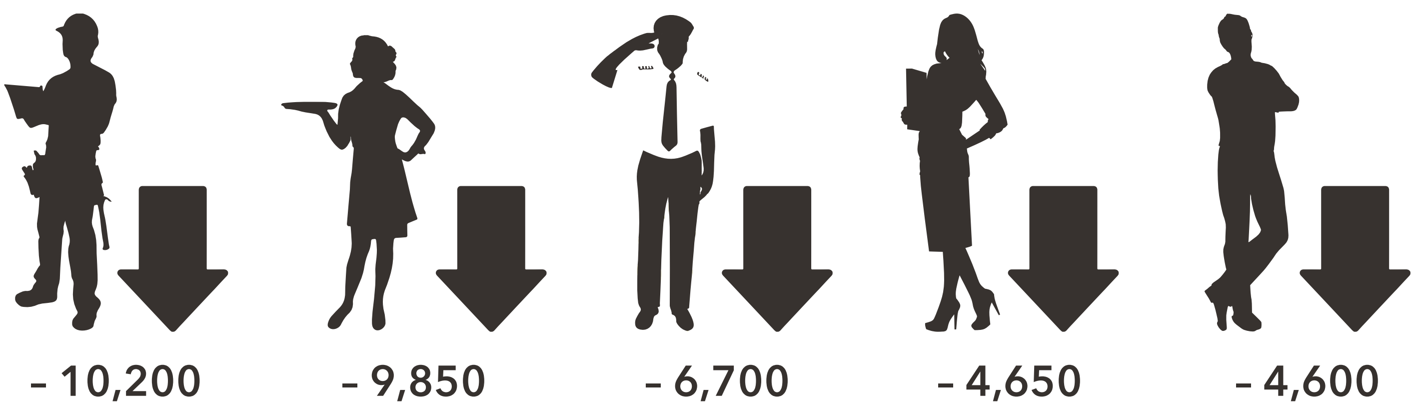
Hawai‘i’s unemployment rate increased from 2.7 percent to 7 percent by 2010 and, that year, bankruptcy filings peaked at a rate four times higher than before the recession. Prior to the recession, Hawai‘i had an estimated 631,350 jobs. During the recession, 44,000 jobs were cut. Four out of five jobs lost came from just five sectors:

- Construction (– 10,200);
- Leisure and Hospitality (– 9,850);
- Transportation, Warehousing, and Utilities (– 6,700);
- Professional and Business Services (– 4,650);
- Retail (– 4,600).

However, some sectors grew, underscoring the uneven effects on the economy. The biggest gain was in federal government jobs (3,150) and those in health and human services (2,250).

Unemployment rates varied across counties, as shown in **Figure 1**. While the state’s highest unemployment rate was 7 percent, the City and County of Honolulu never exceeded 6 percent and Hawai‘i County’s was nearly 10 percent from 2009 through 2011.

Bankruptcy filings in the state reached a peak in 2010, with a level four times that of 2006. During and immediately after the recession, 12,540 bankruptcies were filed. Noted above were the business-ending bankruptcies of Aloha Airlines and ATA, which resulted in the loss of thousands of jobs. Other high profile businesses that filed for bankruptcy during the recession were Hilo Hattie and Hawaiian Telcom. While more than 500 businesses failed, 96 percent of the filings were for non-business bankruptcies.[2]



During the recession, most business sectors shed jobs. **If these sectors lost the same percentage of jobs now, the number of jobs disappearing would be 45,400**. A few sectors gained jobs at a rate of 5.6 percent. If their performance were the same, they would add 6,900 jobs, despite a recession.

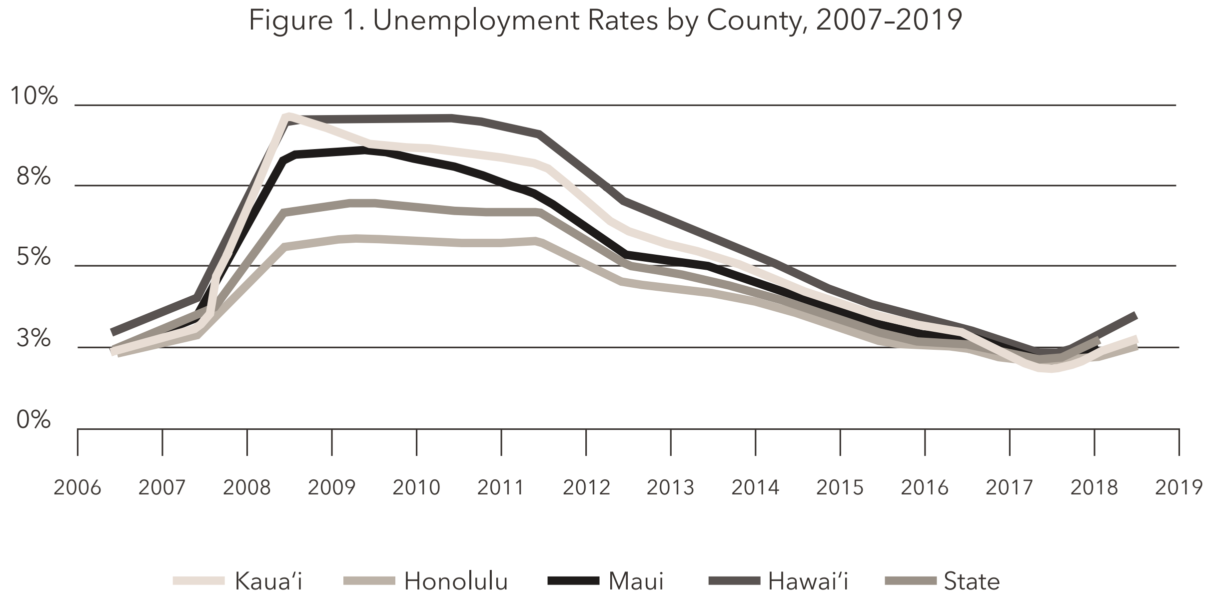


Figure 1. The state's largest job market, within the City and County of Honolulu, kept its unemployment rate below 6 percent. But the state's other three counties, and particularly Hawaiʻi County, were hit harder. The unemployment rate has been creeping upward since late 2017, with Hawaiʻi County once again seeing the largest rise in unemployment.

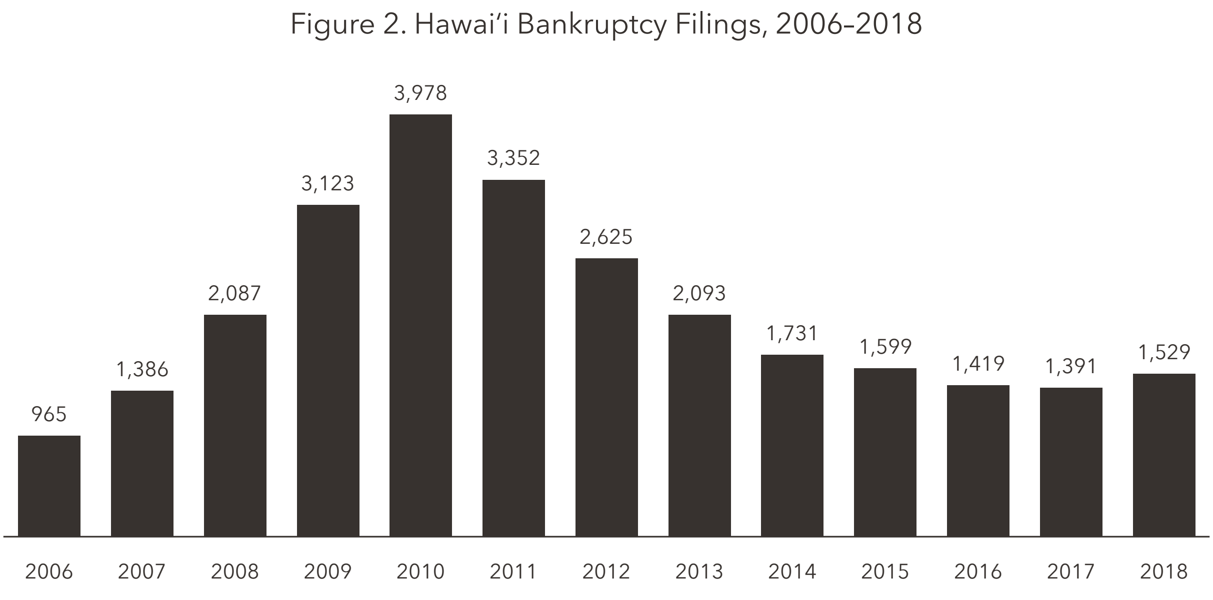
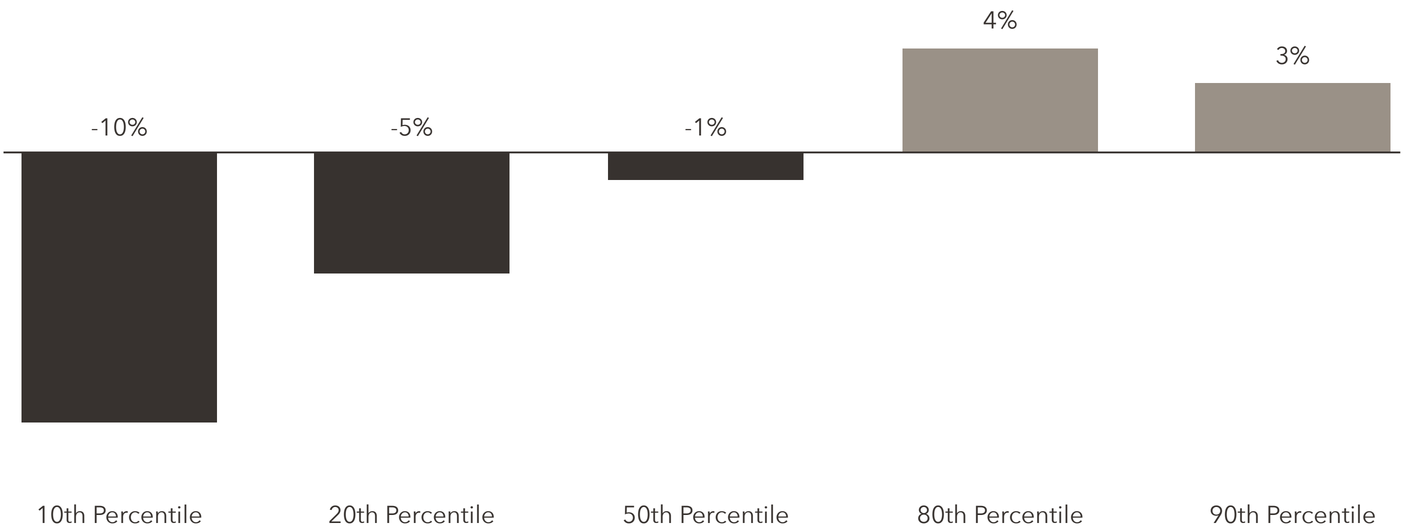


Figure 2. Hawaiʻi bankruptcy filings quickly escalated after 2006 but started dropping in 2011. Note the increase in 2018.

WAGES

Average annual wages for all civilian jobs, as adjusted for inflation, declined by 4 percent during the "Great Recession" and have barely regained their pre-recession value. The average wage, as reported for 2017, is less than 1 percent higher than that earned in 2007. And that's the average: Between 2000 and 2015, earned income declined for workers with incomes at and below the 50th percentile, while it increased for those above the line. This divergence reflects not just recession-related lost ground, but also the increasing pay gap between skilled and unskilled jobs.

Figure 3. Earned Income Growth in Hawai'i, 2000–2015



Source: nationalequityatlas.org/indicators/Income_growth/All_workers:33331/Hawaii/false/

Figure 3. The trend in earned income between 2000–2015 shows that only top earners experienced gains.

HEALTH INSURANCE

Hawai'i is the only state in the nation with an employer mandate to provide health insurance. With job losses, the number of working-age adults without health insurance grew by nearly 21,000, an increase from 8.3 percent in 2007 to 10.7 percent in 2010. With the rise in unemployment, the number of people covered by employer-sponsored health insurance dropped.

The Medicaid program expanded to avert a crisis for many families. Medicaid (Med-QUEST) enrollment expanded to accommodate many unemployed adults and their children, adding 53,900 people to the program during the same period. Gaining Medicaid coverage may have averted some medical cost-related bankruptcies and certainly alleviated for many the stress of being uninsured.

The increase in federal dollars that funded the larger Medicaid program contributed to the economy by paying for care and supporting jobs in the health care industry.

STATE TAX REVENUE

Taxes are collected on income, sales, hotel rooms rented, and other economic activities. It is no surprise, then, that state tax revenues dropped during the recession.

MOST STATE TAXES go into the general fund, which supports about half of all expenses. In Fiscal Year (FY) 2009, tax revenues declined by 10 percent and were flat the following year.

Some individuals and businesses reduce their tax debt by qualifying for a variety of tax credits. The amount of revenue lost to tax credits during fiscal years 2007–2010 is not reported but, in FY2011, tax credits amounted to more than $277 million, equal to 5 percent of all taxes collected. More than half of those credits applied to renewable energy activities and high technology business investments. The size and effectiveness of tax credits should be reviewed in the event of another recession so that state revenues are not unjustifiably reduced.

In an effort to adjust revenues, the legislature passed a number of measures between 2008 and 2011, many of them temporary, to increase taxes. Some also reduced tax credits. There has been no report of which measures were most effective but, with the improving economy, revenues rebounded in 2011 and 2012.

In FY2009, tax revenues declined by 10 percent, the largest drop in the recession period. The state's largest source of revenue, the general excise tax (GET), dropped by 8 percent in 2009 and another 4 percent in 2010. **A 10 percent decrease in tax collections, based on FY2018 revenues, would amount to $790 million in lost revenue.**

Figure 4. Tax Collections by Category in $ Millions, FY2007–2012, Compared with FY2018

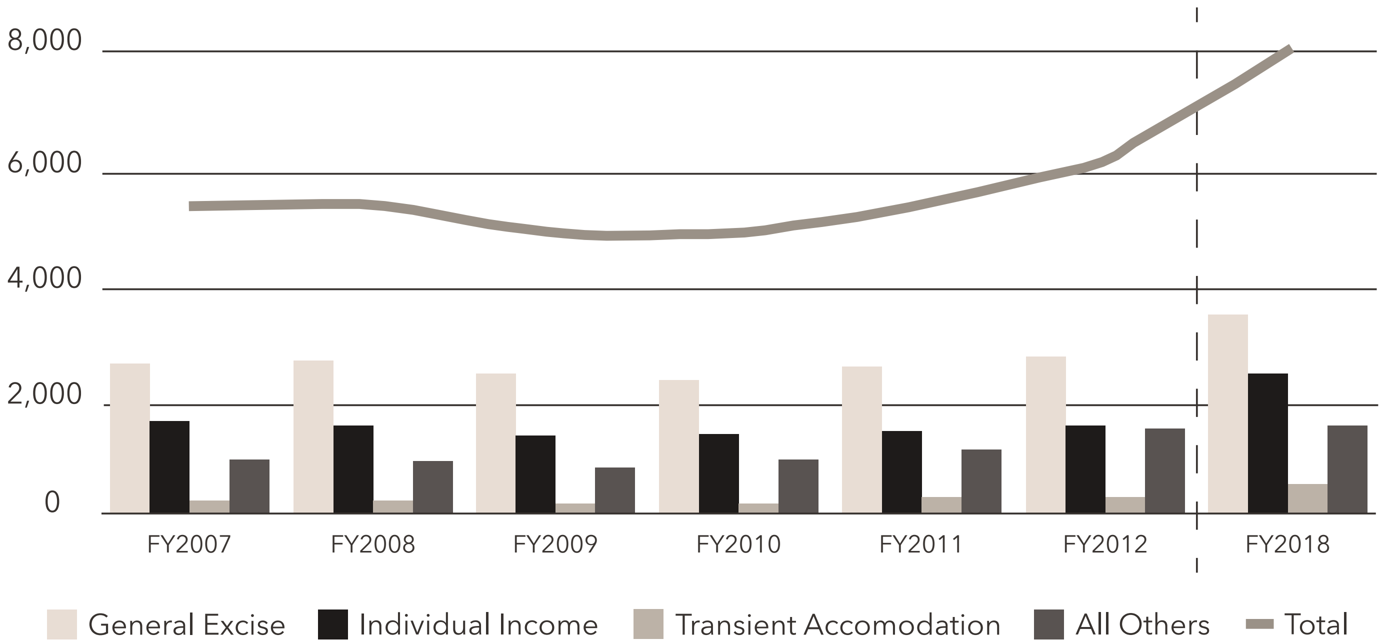


Figure 4. Hawai'i's tax collection trends during the recession show a precipitous drop in FY2009, notable improvement by FY2011, and the start of a growth cycle in FY2012. FY2018's collections are included as a basis of comparison.

STATE BUDGET AND SPENDING

State spending decisions have a big impact on how well we, as a community, weather a recession, and the long-term health of the economy.

OFTENTIMES, RECESSIONS ARE ONLY recognized once they are already underway. During the downturn in 2007, Hawai‘i was in the middle of FY2008. The legislature met in January 2008 and heard a forecast of mildly reduced growth from the Council on Revenues. It then crafted a budget for FY2009 that reflected the expectation of continued moderate growth. Because the state budget plans for a future period based on revenues from a past period, it can be out of sync with an economic downturn, or recovery. In this case, tax and budget reductions were not reflected until FY2010 and FY2011. With this in mind, state government should develop a plan of action in the event of a recession, and the administration should have the authority to implement it even when the legislature is not sitting in session.

HELP FROM THE FEDERAL GOVERNMENT

The American Recovery and Reinvestment Act of 2009 (ARRA) provided short-term funding intended to stimulate the economy. It was to be used to support “shovel-ready” capital projects and programs that would create more jobs and provide essential services. ARRA significantly stabilized the state budget during the recession. Between FY2010 and FY2012, it added $1.5 billion to state budget resources.

Most executive departments received ARRA funds, but the largest supplements went to human services, labor and education. Some of these funds paid for capital needs, such as electronic medical records for the Hawai‘i Health System Corporation and a new telecommunications system for the Emergency Medical System. However, most of the stimulus money replaced or added to on-going state service programs.

In an era of growing federal deficits and uncooperative partisanship, it is uncertain whether a program such as ARRA would be available during a future recession. Without federal assistance, state budgeting could face a much greater crisis than it did in 2009 and 2010.

Figure 5. Hawai'i Budget by Means of Financing, FY2007–2012, in $ Millions

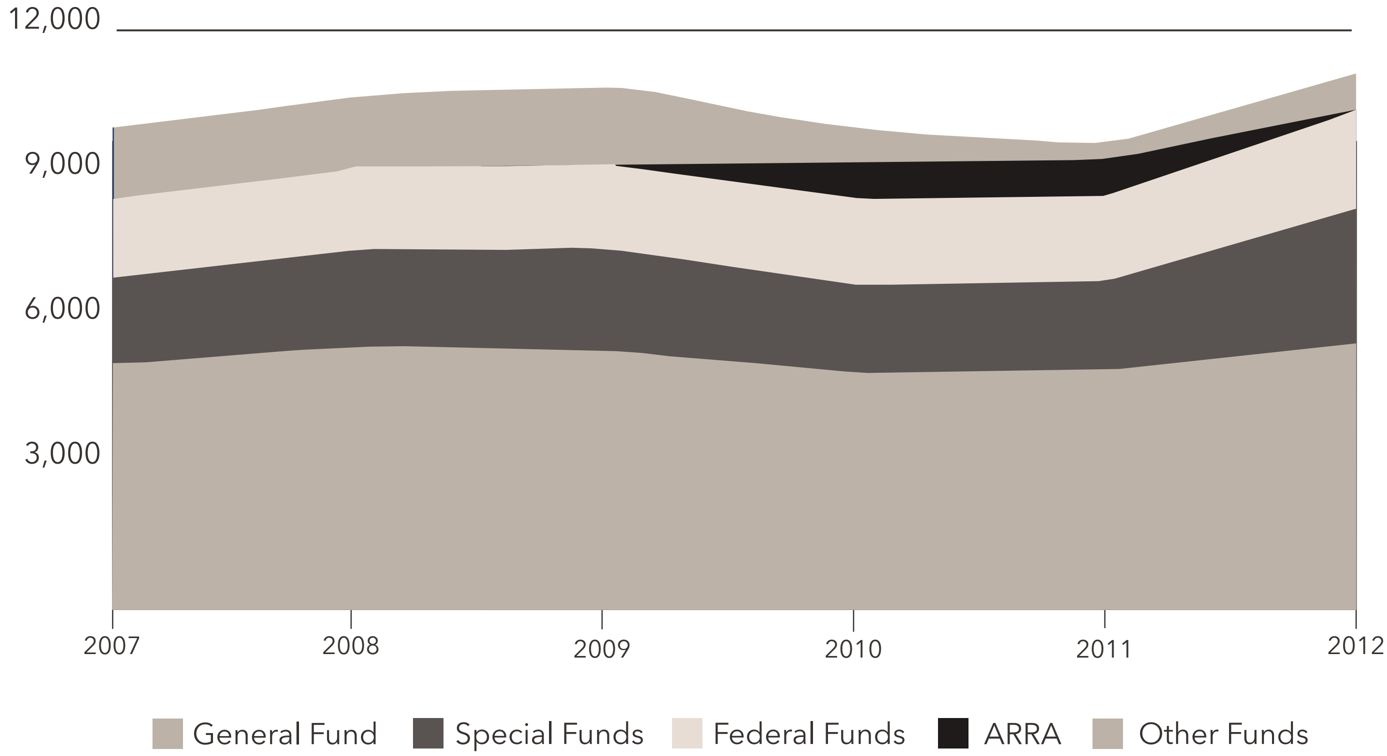


Figure 5. Despite the recession, the state budget continued to grow until FY2011. The comeback in revenues and spending did not start until FY2012. Federal funds from the American Recovery and Reinvestment Act of 2009 (ARRA) were essential to the state's ability to carry on without making even more crippling cut-backs.

Even with the benefit of federal funds from ARRA, the state budget was reduced by 5 percent in FY2011. **A 5 percent cut in the budget, based on FY2019 spending, would be $720 million dollars.**

MANAGING BUDGET OBLIGATIONS

The state's largest expenses are for salaries, fringe benefits and other "fixed costs." These are not easily trimmed during a recession. To help offset recession-related budget cuts, Hawai'i has been building "Rainy Day" funds over the past decade.

STATE WORKERS

A large portion of state spending goes to its workers, but reducing the budget by laying off staff would add to growing unemployment rolls and pose political challenges. With successive downgrades on economic expectations coming from the Council on Revenues, then-Governor Linda Lingle and the Hawai'i State Legislature agreed to a three-day per month furlough on executive branch employees for the fiscal biennium starting July 1, 2009. Teachers, who did not work year-round, had to take 17 furlough days. The furlough plan was expected to save $688 million, or 8 percent of payroll costs, over the two-year period.[3] Another piece of legislation cut salaries by 5 percent for the governor, lieutenant governor, all department directors and deputies, and state judges during FY2010 and FY2011.

All furloughed employees took the same hours off. On Furlough Fridays, all state offices were closed as a result, which created scheduling, logistics and other inconveniences for the public. Much worse, Furlough Fridays closed schools, depriving every public school student of the equivalent of a month of irrecoverable instructional time and forcing parents to scramble to access and pay for day-care or other services and programs to take their children while they were at work.

The school furlough crisis was resolved in May of 2010 when the administration and legislature agreed to take money from the Hurricane Relief Fund to restore instructional days.[4] Furlough Fridays lasted another year for state workers not involved in education. At that time, state workers agreed to take a 5 percent pay cut in exchange for six extra paid hours of leave per month.

"…FURLOUGH FRIDAYS CLOSED SCHOOLS, DEPRIVING EVERY PUBLIC SCHOOL STUDENT OF THE EQUIVALENT OF A MONTH OF IRRECOVERABLE INSTRUCTIONAL TIME."

Furloughs were designed to preserve jobs through reducing paid hours, but this could also have a negative effect on retirement benefits, which are based, in part, on calculating highest earnings over several years. As a result, some employees voluntarily left state employment. In 2010, the number of public worker retirees increased by 4 percent, the largest one-year exodus to-date. The number of employees vested in the public retirement system (that is, qualified for retirement benefits but not currently employed by or retired from public service) increased by 15 percent. Between 2009 and 2011, more than 3,300 experienced public workers retired or left employment, leaving the state with a gap in expert leadership.

State jobs declined by 3 percent between FY2009 and FY2011, but rebounded in FY2012. Jobs in county government grew slightly, and federal jobs increased by 5 percent during the same period.

FIXED COSTS

"Fixed" costs are growing, as a proportion of the

state's budget. Such costs are typically accounted for in the budget before any other decisions are made, and this complicates budget allocations when needs go up and revenues go down. Fixed costs are composed of the state's share of Medicaid, debt service on bonds for capital projects, and employee and retiree benefits. In FY2007, fixed costs consumed 40 percent of all general funds. In the budget for fiscal years 2020–21, fixed costs are expected to take up 50 percent of general funds. In the event of a recession, tax-dependent general funds would shrink but trimming fixed costs would be more challenging. This means there could be less money available for the state's many other priorities and obligations. Other options might exist to reduce fixed costs, however. During the "Great Recession," the administration renegotiated debt service payments, resulting in significant savings in 2010 and 2011.

RAINY DAY FUNDS

Hawai'i's budget reserve (that is, the "Rainy Day" fund) currently amounts to $376 million. At 2.6 percent of FY2019's $14.6 billion operating budget (for all branches), this amount would cover just nine days' worth of spending. In the event of a lengthy recession, our current reserves would be unable to cover several years' worth of deficits.

HUMAN SERVICES

Consistent with the increase in needs for government assistance during a recession, most notably with the growth of Med-QUEST (Medicaid), the budget of the Department of Human Services (DHS) generally increased between the FY2007 baseline year and FY2012. However, essential supports for families and people with disabilities were reduced, and contracts with nonprofit service providers were cut by $2.5 million in FY2010 and by another $1.4 million in FY2011.

DHS lost 150 staff positions, while furlough savings amounted to $13.5 million. Between FY2010 and FY2011, the overall DHS budget relied on ARRA and other federal dollars to meet increasing program needs. Some programs traded reduced state resources for increased federal dollars. In FY2010, ARRA supported 10 percent of all DHS spending.

DHS reduced funding for health care payments, cash supports for families, and services for low-income and disabled adults by $107 million. It cut nonprofit provider contracts for child care, protective services, youth programs and other services by nearly $4 million.

Figure 6. Department of Human Services Budget by Means of Finance, FY2007-12, in $ Millions

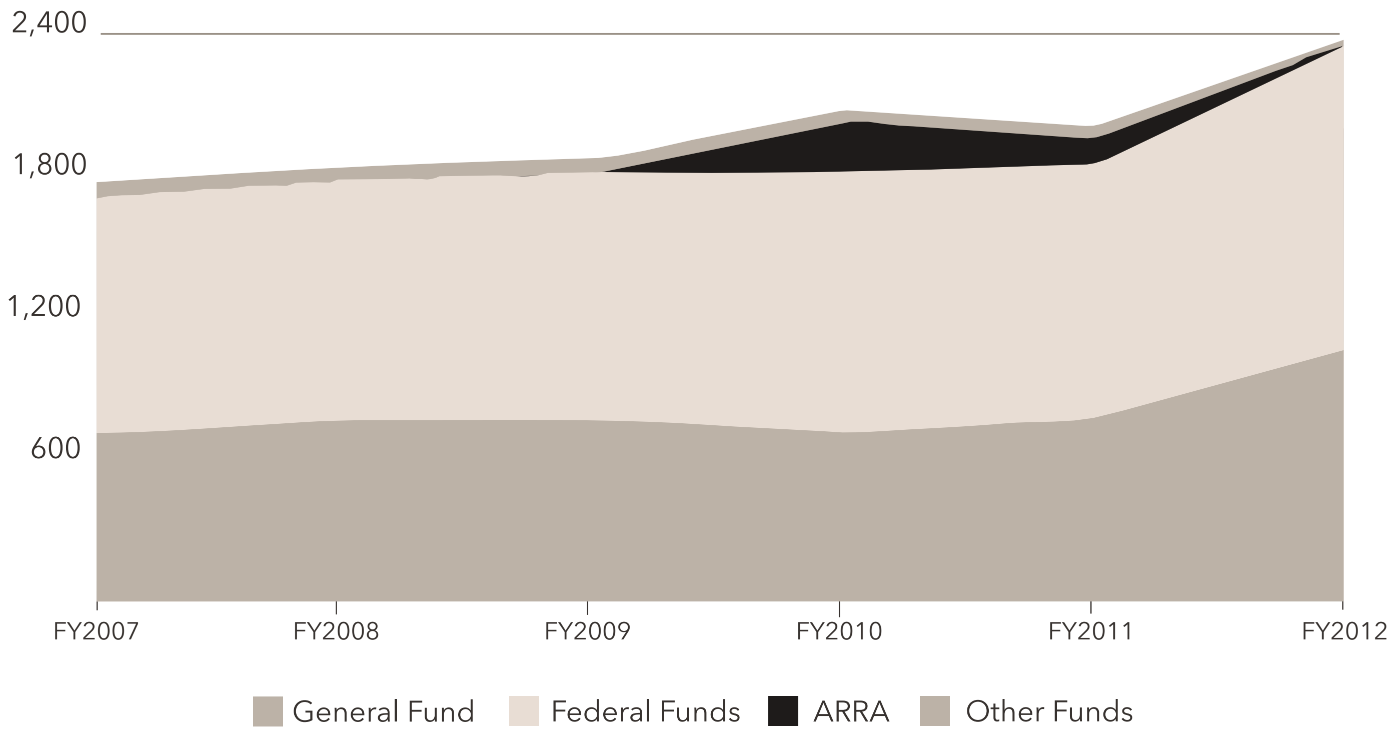


Figure 6 (Opposite Page). State general funds supporting the Department of Human Services dropped but federal funds, especially ARRA, filled the breach. DHS's federal funds have continued to expand, especially for Med-QUEST.

PUBLIC HEALTH

Continuity in public health services must be a priority, especially during a recession when the needs of the public increase and members of affected communities are most vulnerable. The Department of Health receives a smaller portion of its funding from the federal government compared with the Department of Human Services, but DOH was able to increase its reliance on special funds, such as tobacco settlement funds and service fees. Nevertheless, ARRA funds were still important to DOH, adding 5 percent to its budget in FY2011.

In FY2011, DOH's budget was cut by $163 million. Nearly 300 positions were eliminated and furlough savings amounted to $13 million.

Reductions in resources for behavioral health services were especially harsh during the recession. Between FY2009 and FY2011, the Department of Health's behavioral health budget lost $33.6 million, resulting in drastically reduced community services for adults suffering from mental illnesses. These reductions adversely affected counseling and day health services that provide stability, help people take their medications correctly, and prevent worsening health. Group homes sheltering adolescents and adults with behavioral health needs closed, leaving few long-term living options and contributing to worsening rates of homelessness.

The behavioral health service reductions included more than $11 million in nonprofit provider contract cuts over the fiscal biennium. Another $12 million was cut from other contractual services provided by nonprofits, including the elimination of the Healthy Start program, a home visiting program intended to prevent child abuse and neglect.

Behavioral health cuts have had lasting consequences in our communities. Between 2009 and 2011, the State Hospital saw a 7 percent increase in patients while community mental health services (which include assessment and eligibility determination) dropped by 34 percent. Unfortunately, behavioral health service cuts did not stop with the recession. Today, Hawai'i spends 23 percent less per state resident on behavioral health care than it did in 2006, while the number of patients at the state hospital has increased by more than a third.

Special funds increasingly supported the DOH budget during the recession. This was accomplished by raising spending ceilings, collecting more fees, and transferring funds, among other actions. Between FY2009 and FY2011, the Hawai'i Health System Corporation's special funds, most of which come from patient service revenue, increased by more than $100 million. Family Health Services special funds increased by nearly $10 million, and the special funds supporting the Emergency Medical Assistance budget grew by $6.8 million. On the other hand, special funds supporting the Adult Mental Health Division and Child and Adolescent Mental Health Division were cut by $11 million, largely because they were providing fewer services.

Figure 7 (Opposite Page). The Department of Health's budget shifted to include a greater proportion of special funds. It also received a modest amount of ARRA support.

DOH's behavioral health services took the greatest budget hit, losing $33.6 million between FY2010 and FY2011, including:

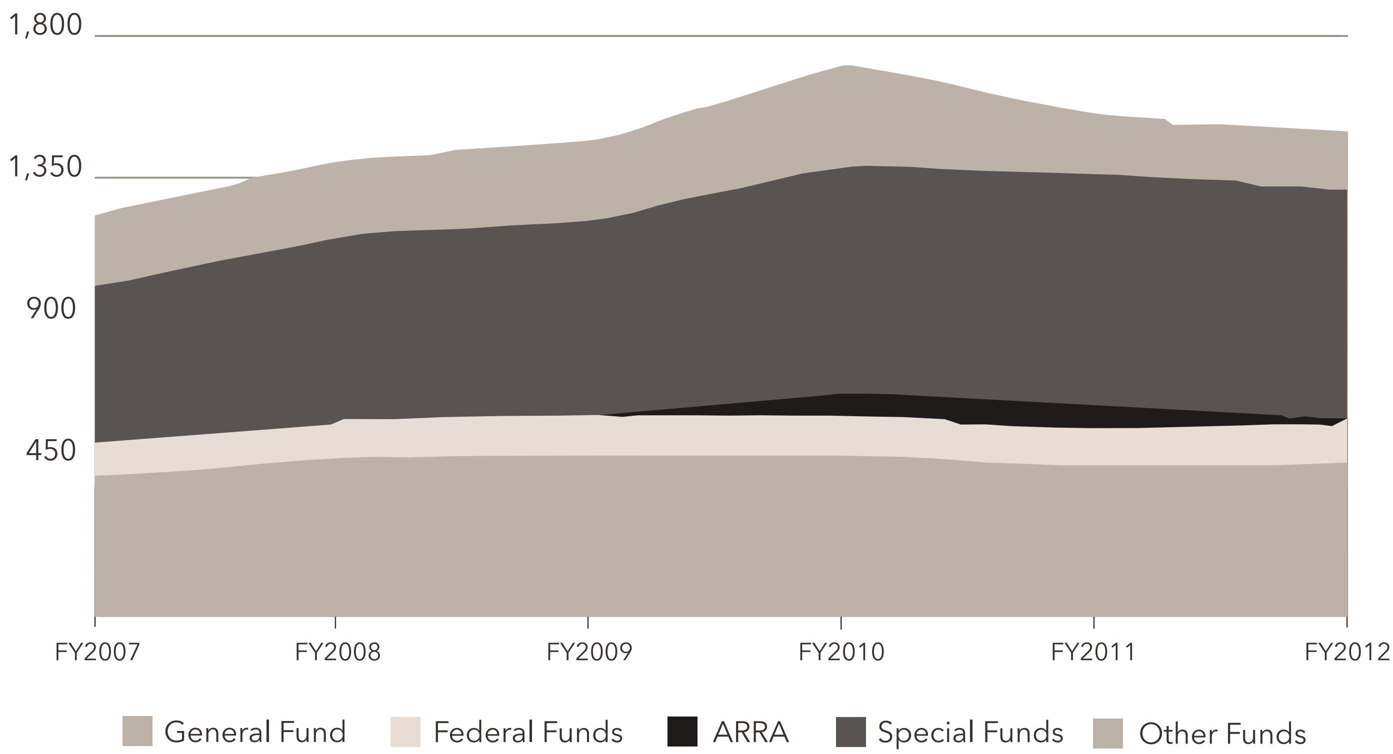
-$8 MILLION from the Child and Adolescent Mental Health Division.

-$21 MILLION from the Adult Mental Health Division,

-$4 MILLION from the State Mental Health Hospital

-$1 MILLION from the Alcohol and Drug Abuse Division.

Figure 7. Department of Health Budget by Means of Finance, FY2007-12, in $ Millions



OTHER SERVICES

Cuts to the important services provided by the Department of Labor resulted in delays in injured workers getting back to their jobs, reduced services for non-English-speaking people, and failure to help residents with the greatest economic needs become more self-sufficient:

- The Disability Compensation program, which helps industrially-injured workers return to work, had its budget cut by $4.9 million;
- The Office of Language Access, which ensures access to public services for people unable to speak English with proficiency, had its budget cut by $126,273, or 29 percent of its already modest funding; and
- The Office of Community Services, which assists low income people, refugees, and immigrants in achieving economic self-sufficiency, had its budget cut by 9 percent. Funds for related contractual services were slashed by $700,000.

MISCELLANEOUS

OTHER STATE AND COUNTY BUDGETS

BRANCHES OF STATE GOVERNMENT

While the executive budget dwarfs all other branches, between FY2009 and FY2011, the judiciary, legislature, and Office of Hawaiian Affairs (OHA) also received cuts. Budget reductions by branch amounted to:

- Judiciary (-$10.6 million, 7 percent);
- Legislative (-$4.7 million, 12 percent);
- Office of Hawaiian Affairs (-$1.2 million, 13 precent); and
- Executive (-$547.4 million, 5 percent).

COUNTIES

Collectively, Hawai‘i’s county budgets were largely unaffected by the recession. Counties did not experience a decline in total revenues in any year, although their share of funding from the state dropped by 11 percent in FY2010, and property taxes fell in FY2010 and FY2011.

Expenditures, too, stayed relatively steady, and about 500 county jobs were added between 2007 and 2012. However, counties spent more than they collected in both FY2009 and FY2010, indicating that a longer recession would eventually result in budget cuts and staff cut-backs at the county level as well.

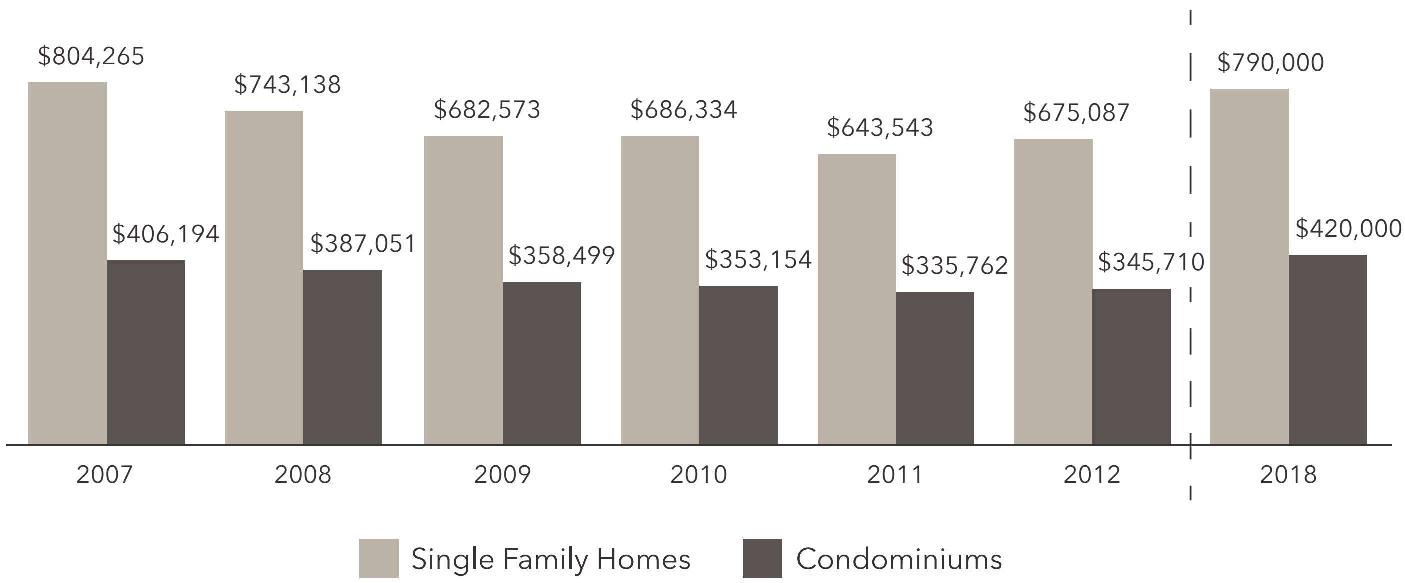
HOUSING PRICES

The median sales prices for O'ahu single family homes and condominiums started to drop in 2008, a trend that accelerated in 2009. The median price for a single family house in 2018 was slightly less than it was in 2007, as adjusted for inflation, although adjusted prices for condos in 2018 exceeded the 2007 price.

Figure 8 (Below). In examining the history of the median sales price of housing before the recession, during and after, the inflation-adjusted figures show that the median sales price for a single family house is still just below the 2007 median price while condominium prices have exceeded those of 2007.

Figure 9 (Opposite Page). As student enrollment increased, general funds supporting the University of Hawai'i System dropped while tuition* increased. This figure shows the per student allocations for FY2008-12 and FY2017.
*Budgeted special funds were used as a proxy for tuition costs.

Figure 8. Median Sales Price Adjusted for Inflation

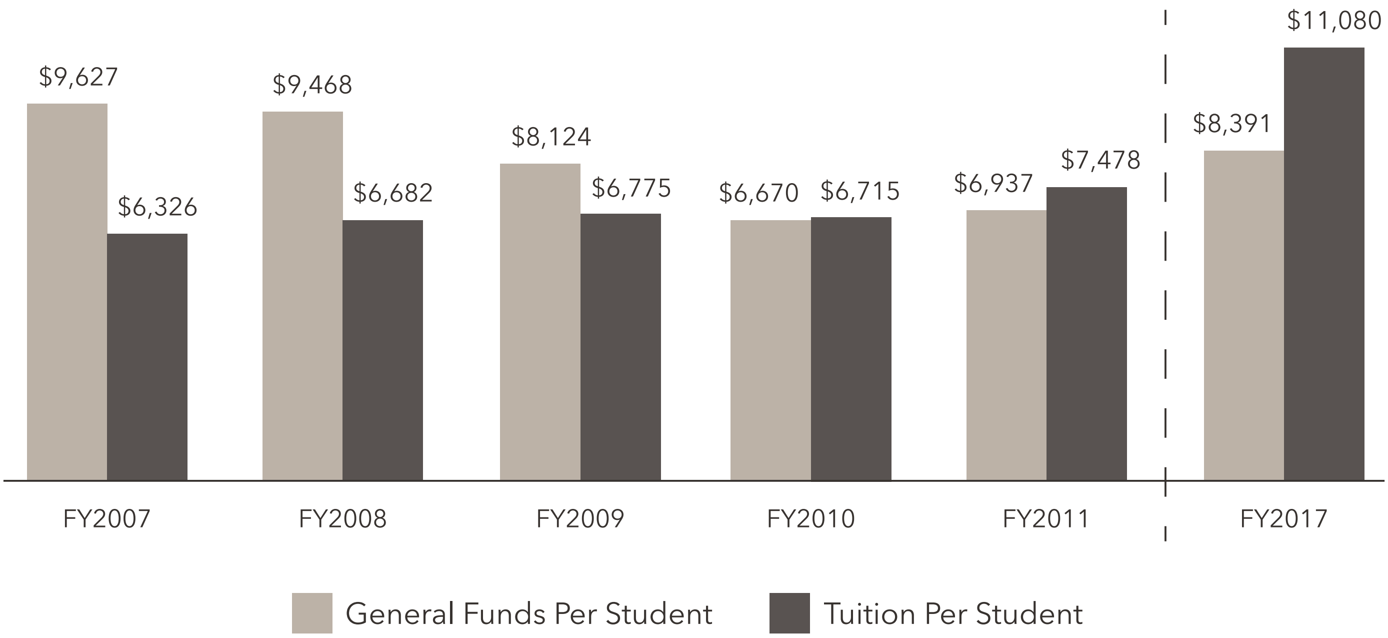


COLLEGE ENROLLMENT

When jobs were scarce, enrollment in higher education increased. Combined enrollment in the University of Hawai'i (UH) System was nearly 18,000 higher in 2011 than in 2007. Enrollment in four-year campuses increased by 18 percent, while community college enrollment increased by 28 percent. Comparatively, 2017 enrollment was only modestly higher than in 2006. Since wages tend to be higher for people with at least some college education, people who diverted to college may have, later, been able to secure better paying jobs. However, anecdotal evidence exists to suggest that students also stayed in school longer to avoid entering a dubious job market, increasing the amount spent on tuition or owed to pay back student loan obligations.

While enrollment increased, the appropriation of general funds for the UH System dropped by 17 percent between 2008 and 2011. On a per student basis, the decrease was an even steeper 26 percent. Since the recession, tuition has increased while state general funds have provided less on a per student basis. This lack of investment contributes to increasing student loan debt, and may discourage less affluent residents from enrolling in college.

Figure 9. General Fund and Tuition Budgets Per Student, Adjusted for Inflation



A FINAL WORD

The importance of good public policy is starkly clear during straitened economic circumstances. Regardless of economic cycles, good budget and tax decisions are the foundation for equal opportunity and well-being. This report recommends that Hawai'i's leaders work now to ensure support for essential services, maintain public employment, use public funds wisely to achieve the greatest good, and invest in an economy that supports the state's residents.

We would do well to use these tenets, not just out of concern for a future recession, but now and always to strengthen our communities and provide economic and social opportunity for all.

ENDNOTES

1 Nationally, construction is faltering, the stock market is more volatile, and the yield curve (an inversion of short-term over long-term interest rates) on U.S. Treasury bonds shows investors' growing skittishness. In Hawai'i, the unemployment rate has been edging upward for more than a year. In March, 2019, bankruptcies reached a four-year high. Hotel occupancy rates are decreasing, and economists at the University of Hawai'i Economic Research Organization have predicted limited growth for 2019–2012.

2 U.S. Bankruptcy Courts, "Caseload Statistics Data Tables," Judicial Branch of the U.S. Government. https://www.uscourts.gov/statistics-reports/caseload-statistics-data-tables

3 Osher, Wendy, "Hawaii state workers furloughed under budget plan," *Maui Now*, June 1, 2009. http://mauinow.com/2009/06/01/hawaii-state-workers-furloughed-under-budget-plan

4 Office of the Governor of the State of Hawai'i, "The end of furlough Fridays in public schools," *Hawaii 24/7*, May 25, 2010. https://www.hawaii247.com/2010/05/25/the-end-of-furlough-fridays-in-public-schools/

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