



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

April 21, 2020

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers, State Capitol
Honolulu, Hawaii 96813

Dear Governor Ige:

As your administration considers alternatives to address the unprecedented revenue shortfall facing Hawaii due to the COVID-19 crisis, the Hawaii Government Employees Association stands resolute in opposition to considering a drastic furlough of government employees.

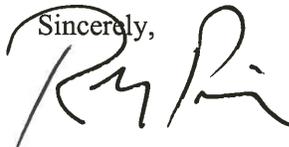
As stated in previous correspondence to you, such a furlough would have a devastating effect on our local economy, further reducing the economic confidence of our community as government employees would severely curtail spending. Now is clearly not a time for economic contraction; in fact, a furlough would become the self-fulfilling prophesy of a deeper economic trough, creating a negative spiral downward from which we may not soon recover.

At this time, as pointed out by the University of Hawaii Economic Research Organization (UHERO), a more favorable alternative for Hawaii would be to borrow money from the Federal Reserve's Municipal Liquidity Facility (Fed). This program is designed, as described in the attached UHERO blog post, to bridge funding gaps for municipalities. Hawaii can borrow a substantial amount to meet our projected revenue shortfall and could potentially repay this loan once the Congress acts on anticipated legislation to provide unrestricted aid to the states.

As pointed out by UHERO, the 20% pay cut your furlough would impose on employees would lead to a staggering \$3.3B drop in Gross Domestic Product in Hawaii from 2020-22. This would severely, if not permanently, affect our local economy.

We strongly urge you to consider the alternative of borrowing from the Fed as a short-term revenue replacement tool. We would hope that reason and economic sense, and not a fear of public reaction will guide the decision of your administration. It is time to do the right thing and not be guided by knee-jerk public opinion.

We look forward to your favorable consideration of the Fed borrowing option to help set our state on a path forward.

Sincerely,

Randy Perreira
Executive Director

Attachment

Tap Fed Lending Facilities to Support Local Economy

[April 21, 2020](#) Blogs, Byron Gangnes, Carl Bonham, Coronavirus, Economy, James Mak, Sumner La Croix

By Carl Bonham, Byron Gangnes, Sumner LaCroix, and James Mak

The State and counties are facing unprecedented budget shortfalls in this fiscal year and the next. While a combination of carry-over funds and monies from various special funds could tide the State over in the very short run, tax revenue declines that could easily top 15-20% will almost certainly require reductions in some public programs, given balanced budget rules. The State is also considering large cuts to public worker salaries. Meanwhile, proposals are flooding in on how to help families and businesses by reducing their tax burdens. What's badly needed right now is a holistic look at the entire fiscal situation and the full range of options that the State and county governments may be able to take advantage of to get through this unprecedented shut-down.

For Hawaii, the best possible solution to our sharp near-term decline in revenues is for the Federal Government to borrow in the bond markets to make large direct grants to states. Such grants are in the best interest of the entire country, if we are to avoid having draconian spending cuts at the state and local level neutralize the positive effects of the federal CARES act and future federal stimulus. Unlike state and local governments, the Federal Government has vast borrowing capacity without balanced-budget restrictions, making it the ideal agent to address what is at base a transitory medical and economic challenge.

What solutions are potentially available to Hawaii if the Federal Government fails to act? One possible option to avoid large near-term cuts to state and county spending is to take advantage of the [Federal Reserve's Municipal Lending Facility](#). The purpose of this facility is to allow states and municipalities to borrow despite the dysfunction in funding markets.

The Municipal Lending Facility allows for use of short-term borrowing—up to 24 months—to bridge funding gaps. The maximum amount that could be borrowed under this program is a little over \$3b for the State and up to \$4b if county borrowing is included as well (20% of [2017 general fund revenue](#)). Proceeds from borrowing may be used to deal with the impact of income tax deferrals, loss of tax revenue, increased expenses resulting from the COVID-19 pandemic, or to make principal and interest payments on existing state and county obligations.

How will the State repay such borrowing? A temporary future increase in the General Excise & Use tax is an obvious candidate for revenues to service refinanced bonds. But such a tax increase will need to be paired with relief for the lowest-income households for whom excise taxes are particularly burdensome. Because of this, it is important to consider other forms of tax increases and to allow for rates to gradually decline as the borrowing is repaid. There is a strong rationale for the Federal Government to step in, as well, to alleviate the repayment burden. Because state and local borrowing will support CARES Act objectives of restoring employment, the Federal Government should provide additional assistance by waiving repayment of state and local government borrowing from the Fed's new municipal lending facility under conditions similar to those applied to small businesses accessing [Paycheck Protection Program loans](#).

We have not addressed here any constitutional issues that may arise for example due to balanced budget [requirements](#), or if State borrowing were to exceed the [debt ceiling](#). We will leave these legal issues to others. We do note in passing that governments regularly borrow short-

term to fill funding gaps. Local governments rely heavily on the property tax to fund their operations. Property taxes are usually paid once or twice per year, so there is always a mismatch between spending and revenue that is resolved by short-term borrowing.

Notwithstanding practical challenges or fear of future debt, we think it is essential for policymakers to consider the potential use of the Municipal Lending Facility or any other reasonable means of maintaining state and local spending and employment levels during the current crisis. We cannot overstate the tremendous adverse impact that a sharp contraction in government spending will have on the Hawaii economy, and the corresponding positive effects that sustaining public spending will confer. The experience of the Great Recession is particularly informative. That crisis spawned a large economic literature arguing that more federal and state spending would have significantly accelerated recovery, and that budget-driven reductions in state spending instead prolonged the economic pain. And the severity of this crisis, at least in the short run, far outstrips the Great Recession impacts.

How big are these effects? Very preliminary analysis by UHERO suggests that a cut of 20% to State salaries would lead to a drop in GDP of \$3.3 billion over the 2020-2022 period. This reflects a spending “multiplier” of 1.5—that is the likelihood that every \$1 reduction in State salary outlays results in a \$1.50 reduction in overall economic activity here. In fact, the academic [literature](#) that has studied the regional effects of the 2009 ARRA stimulus and other government spending programs has found that multipliers can be even larger in periods of extreme slack, such as the downturn we are now entering. The results from our models may very well understate the benefit of borrowing now to keep state and county spending in place.

Beyond the direct impacts on GDP and income, spending cuts risk prolonging what has already turned into the deepest downturn the state has ever experienced. The [long-term consequences](#) of a prolonged, high rate of unemployment is a deterioration in health outcomes and a decline in worker productivity and wages that could potentially last for many years. While the pandemic has not destroyed Hawaii’s hotels, restaurants, airports and beaches, the risk of long-term damage to Hawaii’s work force is large and will be made worse the deeper and more prolonged the downturn.

Photo by Peter Fuleky.

[Facebook](#)

[Twitter](#)

Leave a Comment

Your email address will not be published. Required fields are marked *

Type here..

Name*