

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON WAYS AND MEANS AND
ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM**

**May 21, 2020
1:00 p.m.
Auditorium**

Thank you for the opportunity to comment on the financial impacts of COVID-19.

As you are well aware, the COVID-19 pandemic and the actions taken to control it have taken an unprecedented toll on Hawai'i's residents and businesses. Our unemployment rate went from one of the lowest in the nation to one of the highest in a short span of several weeks as many economic sectors closed in response to "stay at home" orders and travel quarantines. This shutdown of economic activity has led to a severe drop in State tax collections in April, which reflect economic activity in March. Preliminary general fund tax revenues grew only 0.2% for the first ten months of FY 20 over FY 19 – this is compared to a 5.7% growth rate for the first nine months of FY 20 before the "stay at home" orders took effect. State tax collections for the remaining two months of FY 20 will decline into negative growth as May's and June's State tax collections reflect economic activity in April and May when the "stay at home" orders were in full effect.

At this juncture, there are too many uncertainties and unknowns for our office to hazard a guess as to where State tax revenues will end up for this fiscal biennium, much less for the ensuing fiscal bienniums of the general fund financial planning period.

Suffice to say, we are anxiously awaiting the Council on Revenues' projections from their meeting on May 28th.

Making up the revenue shortfall will be an extremely arduous task as we face:

1. The immediate challenge of balancing the financial plan through the end of this fiscal biennium (FB 2019-21); and
2. The longer-term challenge of adjusting to an expected, substantially reduced revenue stream for the near future.

The Legislature's efforts this past two weeks have gone a long way in reducing the immediate revenue gap, but depending on how severely Hawai'i's economy has been impacted and the conditions for recovery, further actions may be required. There is hope that Congress will pass the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act to help states and counties; however, the extent, type and timing of this assistance is up in the air at the present time.

Longer term, our office believes that a thorough review of State programs and services is needed to match expenditure levels with the expected, reduced future revenue stream. More than likely, the State will not be able to afford the current level of programs and services it provides in the ensuing fiscal bienniums. We believe that difficult budget choices will have to be made starting in the upcoming FB 2021-23.

From the bond issuance perspective, the economic impact of the COVID-19 pandemic on the State could likely lead to a ratings downgrade of our general obligation bond debt by the three major bond rating agencies. A ratings downgrade will result in higher interest costs over prevailing market rates for future bond issuances.

That concludes my comments. I will be available to answer questions that the Committees may have.