



HAWAII RESPONDS

FINANCIAL CYCLES go up and down in response to shocks in the environment. As we contemplate possible scenarios for **COVID-19**, let's remember that Hawaii has repeatedly faced similar situations, taken action, and recovered. Visitor arrivals have been on an upward trend for decades, but temporary reversals are part of the pattern. Whenever they've happened, the economy has been affected and families have needed short-term help to get by.

THERE'S A LOT POLICY-MAKERS CAN DO NOW TO HELP OUT THE PEOPLE AND ECONOMIES IN COMMUNITIES ACROSS THE STATE

KEY STRATEGIES

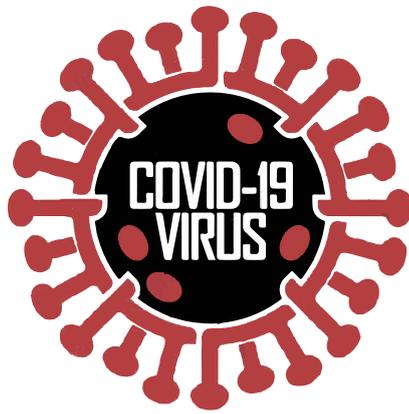
- Support Med-QUEST's capacity to enroll and serve low-income people who may be affected by coronavirus. Consider expanding eligibility throughout the pandemic period to COFA migrants and immigrants.
- Put people to work by investing in public infrastructure projects that complete high-priority capital projects. Prepare to expedite contracts and payments.
- Keep money flowing to communities and relieve families hurt by work reductions. Take advantage of federally-funded SNAP, Medicaid and TANF programs, and support the refundable state tax credits that help low-income families. The priorities are the Earned Income Tax Credit (EITC), the Food/General Excise Tax Credit, and the Low-Income Renters Tax Credit.
- Supplement more of the wages lost to reductions in hours, and keep businesses primed to rebound when the economy expands again.
- Take advantage of federal waivers and emergency funding to increase and expand unemployment benefits and paid sick leave, expand nutrition programs, and expand coronavirus testing and payment for treatment.
- Slow the spread of disease by developing guidance for businesses and schools on closures, work from home policies, and discourage or delay non-essential public gatherings.

IF BUDGETS NEED TO BE TRIMMED:

Prioritize funding for the services people need most. Remember, these may be provided under contract by nonprofit organizations, which are employers as well as essential care providers.

If necessary, shift resources to cover tax credits and Medicaid increases, and expand state programs that assist with SNAP enrollment and unemployment compensation. Food banks, mental health services, programs that support emergency housing and those that serve homeless people are all front line services.

HAWAI'I: STRENGTHENING THE SOCIAL SAFETY NET



HAWAI'I RESPONDS

RELIEVE FAMILIES,
STIMULATE THE
ECONOMY

HAWAI'I IS STRONGER when we invest in our people so they can better contribute to our economy and community. Low-income workers will be hurt first and most severely by an economic downturn. Policies that target help to these families also keep money circulating through the economy.

Programs that helped the most people get through the Great Recession were the Supplemental Nutrition Program (SNAP), the Earned Income Tax Credit (EITC) and Unemployment Insurance. Medicaid also made an important difference for states with expanded eligibility, like Hawai'i.¹

INCREASE FOOD & ECONOMIC SECURITY

State lawmakers should ask Congress to expand SNAP eligibility and benefits and to prepare for increased enrollment. The supplemental nutrition assistance program (SNAP) is designed to supplement the food budget of low-income individuals and families. SNAP vouchers have a proven track record of reducing poverty for millions of Americans through increased access to nutritious food. Moreover, studies have shown that SNAP is the most effective form of government spending for counteracting recessions.

In a weak economy, every \$1 dollar spent for SNAP generates \$1.71 in economic activity, according to Moody's Analytics.² The U.S. Department of Agriculture also

found that SNAP redemptions increased employment rates more than any other kind of government spending.³ This is because people who get SNAP benefits use them immediately, injecting money directly into the local economy and creating jobs in the process. This effect was most notable in rural areas and during the Great Recession.

SNAP benefits are provided by the federal government. The State of Hawai'i provides application, enrollment, outreach, and administrative support. The Department of Human Services should prepare to deploy resources needed to accommodate increased SNAP enrollment.

Because recent federal policy changes will make expanding SNAP more challenging, the state should explore flexibility and waivers

in addition to asking for Congressional help to reverse these SNAP rules and supplement benefits, as they did under the American Reinvestment and Recovery Act (ARRA). This is good time, too, to take a look at the USDA State Options Report⁴ for SNAP to see how else Hawai'i can make it easier for people to get and keep food benefits without the need for legislative changes at the state or federal level.

Hawai'i should request federal waivers and create a school closure action plan to provide meals to children when school are closed. Nearly 90,000 of Hawai'i's most vulnerable children depend on the free or reduced-price meals that they get at school. Hard-pressed families will have an even harder time now to increase their food budgets.

1. Moffitt, Robert, "The Great Recession and the Social Safety Net," *The ANNALS of the American Academy of Political and Social Science*, November, 2013, Volume 650, Issue 1, 143-166, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4822557>
2. Zandi, Mark, "Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits," Moody's Analytics, February 2012, <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>
3. Pender, John, Young Jo, Jessica E. Todd, Cristina Miller, "The Impacts of Supplemental Nutrition Assistance Program Redemptions on County-Level Employment, US Department of Agriculture Economic Research Service, May 2019, <https://www.ers.usda.gov/webdocs/publications/93169/err-263.pdf?v=1509.3>
4. "State Options Report," United States Department of Agriculture Food and Nutrition Service, May 2018, <https://fns-prod.azureedge.net/sites/default/files/snap/14-State-Options.pdf>



Hawai'i's Department of Education can provide meals to students via the Seamless Summer Option in the event of school closures. Community partners that feed children during the summer via the Summer Food Service Program can also provide meals during school closures. The state should request federal waivers to expedite and ease plans to offer meals to children if schools close. State departments and community partners need to come together to assess capacity and create a plan of action to provide meals to as many children as possible.

Any COVID-19 appropriations should include emergency funds for food banks across the state. With school closures and income reductions, many families, including grandparents raising grandchildren, will need for food assistance urgently.

INCREASE REFUNDABLE TAX CREDITS FOR LOW-INCOME FAMILIES

The Earned Income Tax Credit (EITC) was cited as one of the most effective programs to help low-income families through the Great Recession. It has no program caps, isn't dependent on the appropriation of funds, and doesn't require an application process, being available to eligible families through the tax system.

Researchers found that more people got EITC benefits during the Great Recession, despite increases in unemployment (only working families qualify for EITC benefits). This may have been because, although working families' incomes fell, they continued to work part-time or because one out of two earner-household remained employed.⁵

During an economic downturn, the EITC program may work best in combination with "job sharing" or the Short-Time Compensation program, which encourages employers to retain worker, even if they

have to reduce work hours. Economists have shown that the EITC program contributes \$1.24 to economic activity in communities for every \$1 spent.⁶

Other refundable state tax credits that target low-income families are the Food/General Excise Tax Credit and the Low-Income Renters Tax Credit. Raising the eligibility limits and increasing the amount of these credits, as proposed in 2020 legislation, would have much the same effect as the EITC, as they would put more money in the pockets of people who need it most and who will keep it circulating through the economy.

EXPAND MED-QUEST

The Medicaid program (Med-QUEST, in Hawai'i) pays for essential health care services for low-income families and for children in households with incomes up to 308 percent of the federal poverty level. Med-QUEST not only contributes to better health for individuals and reduces bankruptcies related to medical care, it also reduces poverty among its beneficiaries.⁷

People without health insurance are especially vulnerable to the spread of coronavirus, and may be reluctant to be tested and treated because of payment concerns. Most uninsured residents are low-income and many are not enrolled in Med-QUEST because they are COFA migrants or immigrants. As an important public health initiative, at least through the pandemic period, the state should enroll low-income residents in Med-QUEST, even if they are not eligible for federal matching funds.

Medicaid is the largest source of federal funding in state budget, contributing \$1.8 billion to health care spending in Hawai'i. For every \$1 spent on Medicaid by the state, the federal government contributes \$1.13,

supporting healthcare and health sector jobs, which accounted for 11 percent of all wages in Hawai'i in 2018. As the second largest type of insurer after employer-sponsored coverage, Medicaid plays a major role in Hawai'i's health care economy. Its payments are crucial to health centers and all hospitals, but especially those in rural areas that are part of the state-subsidized Hawai'i Health Systems Corporation.

TAKE ADVANTAGE OF TANF RESERVES

Hawai'i currently has \$300 million in unspent funds from the federal Temporary Assistance for Needy Families (TANF) program. This will ensure that TANF cash assistance is available to all eligible families for immediate short-term emergency assistance. Helping the very poorest families meet their basic needs and retain housing is part of the critical public health response of social distancing.

As outlined by the Center on Budget and Policy Priorities, states can be flexible and quick-acting to address COVID-19 needs with TANF funds.⁸ For instance, Hawai'i should consider:

- Creating new COVID-19-specific programs tailored to evolving needs for families at expanded eligibility levels;
- Temporarily suspending work requirements so that parents can stay home with children or sick relatives, especially when work availability is disrupted;
- Temporarily suspending TANF sanctions and terminations;
- Expediting enrollment or re-enrollment;
- Providing an additional one-time payment to all TANF families in this acute time of need; and
- Making more emergency assistance and one-time payments available.

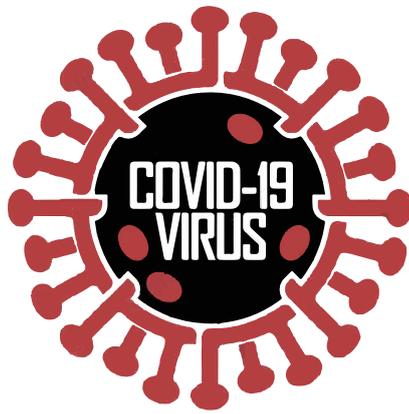
5. Kneebone, Elizabeth, "How Well did the EITC Work During the Recession?" *The New Republic*, July 2011, <https://newrepublic.com/article/92736/how-well-did-the-eitc-work-during-the-recession>

6. Zandi, Mark, "Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits," Moody's Analytics, February 2012, <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>

7. Wagnerman, Karina, "Research Update: Medicaid Pulls Americans Out of Poverty, Updated Edition," Georgetown University Health Policy Institute, March 2018, <https://ccf.georgetown.edu/2018/03/08/research-update-medicaid-pulls-americans-out-of-poverty-updated-edition/>

8. "Using TANF Funds to Support Families Impacted by Covid-19," Center on Budget and Policy Priorities, March 2020, <https://www.nga.org/wp-content/uploads/2020/03/Covid19.pdf>

HAWAI'I: INFRASTRUCTURE INVESTMENT



HAWAI'I RESPONDS

IMPROVE HAWAI'I'S FUTURE, STIMULATE THE ECONOMY

CAPITAL INVESTMENT PRIORITIES

Hawai'i has many potential targets for infrastructure investment. The Hawai'i Executive Conference (HEC) reported a need for significant investment in infrastructure in its 2019 report, *Troubled Waters: Charting a New Fiscal Course for Hawai'i*. It noted that infrastructure investment has a positive effect on job creation and benefits residents and businesses. The HEC estimated infrastructure needs as follows:

- Affordable Housing: \$3.2 billion;
- County Water and Wastewater: \$5.7 billion;
- Transportation: \$14.7 billion;
- Public Schools: \$12.6 billion;
- Public Safety: \$1 billion;
- Deferred Maintenance of Public Facilities

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 support restaurants, shops and other local businesses. This is the best time to invest in public works to expand the supply of affordable housing, improve transportation infrastructure, and tackle a host of projects that add to health, safety, and environmental sustainability.

The return on investment for infrastructure spending is always high. However, during economic downturns the economic benefits are magnified. Every \$1 spent on infrastructure during the Great Recession resulted in between \$1.50 and \$2.50 in GDP growth.^{1,2,3} In addition, construction projects will be most competitively priced for public projects when private investment is scarce.

- and Improvements: \$8.9 billion;
- New Public Facilities: \$1.1 billion;
- Other Private Infrastructure: \$909 million; and
- Preparing for Natural Disasters and Climate Change: \$15.3 billion.

The need for increased capital investment was underscored in the American Society of Civil Engineers' 2019 Hawai'i Infrastructure Report Card, which assessed the conditions of transportation, water, coastal management, and energy systems. The report card rated the state's dams, roads, schools, and systems for drinking water, storm water and wastewater a D+ grade or poorer.⁴

KEY ROLE FOR GOVERNMENT

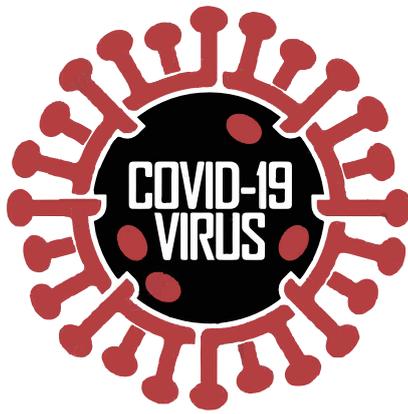
While state and local governments have to

maintain balanced operating budgets, they can borrow money to pay for large capital projects. The federal government effectively subsidizes state and local infrastructure projects by exempting from federal income taxes interest earned on the government bonds that pay for them. As of March 15, 2010, federal interest rates for borrowing dropped to nearly 0 percent.

REMOVE OBSTACLES

Capital projects must be shovel ready in order to improve the economy. Immediacy has been a challenge for Hawai'i. The state and counties need to identify the highest priorities on their infrastructure lists and develop a process to expedite the funding, permits, and approvals needed to get them done.

1. McNichol, Elizabeth, *It's Time for States to Invest in Infrastructure*, Center on Budget and Policy Priorities, March 2019, <https://www.cbpp.org/research/state-budget-and-tax/its-time-for-states-to-invest-in-infrastructure>
2. Bivens, Josh, *The Potential Macroeconomic Benefits from Increasing Infrastructure Investment*, Economic Policy Institute, July 2017, <https://www.epi.org/files/pdf/130111.pdf>.
3. Zandi, Mark, "Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits," Moody's Analytics, February 2012, <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>
4. "Hawai'i Infrastructure Report Card," American Society of Civil Engineers, 2019, <https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-24199-Full-REPORT-2019-FINAL.pdf>



HAWAI'I RESPONDS

FEDERAL ACTION THAT ENDED THE GREAT RECESSION

STATE POLICYMAKERS play an important role in addressing economic shocks. Additionally, the federal government's tax and spending investments are crucial. This first table summarizes federal initiatives taken during the Great Recession to help people and businesses. The second judges their “bang for the buck” as economic stimulus.

Table 1 summarizes program spending, tax cuts, and appropriations bills aimed at reducing human misery and improving the economy.¹

Total Fiscal Stimulus	\$1,484,000,000,000
Spending increases	\$783,000,000,000
Tax cuts	\$701,000,000,000
Economic Stimulus Act of 2008	\$170,000,000,000
American Recovery and Reinvestment Act of 2009 (ARRA)	\$832,000,000,000
· Infrastructure and other spending	\$147,000,000,000
- Traditional infrastructure	\$38,000,000,000
- Nontraditional infrastructure	\$109,000,000,000
· Transfers to state, local governments	\$188,000,000,000
- Medicaid	\$93,000,000,000
- Education	\$95,000,000,000
· Transfers to persons	\$307,000,000,000
- Social Security	\$13,000,000,000
- Unemployment assistance	\$224,000,000,000
- Food Stamps (SNAP)	\$46,000,000,000
- COBRA payments	\$24,000,000,000
· Tax Cuts	\$190,000,000,000
- Business & other tax incentives	\$40,000,000,000
- Working Work Pay	\$64,000,000,000
First-time homebuyer tax credit	\$14,000,000,000
- Individuals excluding increase in AMT exemption	\$72,000,000,000
Cash for appliances	\$300,000,000
Cash for Clunkers	\$3,000,000,000
HIRE Act (Job Tax Credit)	\$17,000,000,000
Worker, Homeownership and Business Assistance Act of 2009	\$91,000,000,000
- Extended unemployment insurance benefits (Mar 16)	\$6,000,000,000
- Extended unemployment insurance benefits (Apr 14)	\$12,000,000,000
- Extended unemployment insurance benefits (May 27)	\$3,000,000,000
- Extended unemployment insurance benefits (Jul 22)	\$34,000,000,000
- Extended/expanded net operating loss provisions of ARRA	\$33,000,000,000
- Extended/expanded homebuyer tax credit	\$3,000,000,000

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1. Blinder, Alan S., Mark Zandi, *The Financial Crisis: Lessons for the Next One*, Center on Budget and Policy Priorities, October 2015, <https://www.cbpp.org/research/the-financial-crisis-lessons-for-the-next-one>



FEDERAL ACTION THAT ENDED THE GREAT RECESSION

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Department of Defense Appropriations Act of 2010	\$2,000,000,000
- Extended guarantees and fee waivers for SBA loans	\$1,000,000,000
- Expanded COBRA premium subsidy	\$1,000,000,000
Education jobs and Medicaid Assistance Act	\$26,000,000,000
Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010	\$189,000,000,000
- Temporary extension of UI benefits	\$56,000,000,000
- Temporary extension of investment incentives	\$22,000,000,000
- Temporary payroll tax holiday	\$112,000,000,000
Temporary Payroll Tax Cut Continuation Act of 2011	\$29,000,000,000
Middle Class Tax Relief and Job Creation Act of 2012	\$125,000,000,000

Table 2 summarizes the effectiveness of various economic stimulus strategies as presented by Moody's Analytics in written testimony before the Joint Economic Committee of Congress.² For every dollar spent, this was the economic return:

Tax cuts	
- Refundable lump-sum tax rebate	\$1.22
- Nonrefundable lump-sum tax rebate	\$1.01
· Temporary Tax Cuts	
- Child tax credit, ARRA parameters	\$1.38
- Payroll tax holiday for employees	\$1.27
- EITC, ARRA parameters	\$1.24
- Job tax credit	\$1.20
- Making work pay	\$1.19
- Payroll tax holiday for employers	\$1.05
- Across-the-board tax cut	\$0.98
- Housing tax credit	\$0.82
- Accelerated depreciation	\$0.29
- Loss carryback	\$0.25
· Permanent Tax Cuts	
- Extend alternative minimum tax patch	\$0.53
- Make dividend and capital gains tax cuts permanent	\$0.39
- Make Bush income tax cuts permanent	\$0.35
- Cut corporate tax rate	\$0.32
Spending Increases	
- Temporary increase in food stamps (SNAP)	\$1.71
- Temporary federal financing of work-share programs	\$1.64
- Extending unemployment insurance benefits	\$1.55
- Increase defense spending	\$1.53
- Increase infrastructure spending	\$1.44
- General aid to state governments	\$1.34
- Low income home energy assistance program (LIHEAP)	\$1.13

2. Zandi, Mark, "Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits," Moody's Analytics, February 2012, <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>