COMPARING HAWAIʻI STATE/LOCAL GOVERNMENT FINANCES TO THOSE OF OTHER AMERICAN STATES

(From Fiscal 1993 to Fiscal 2013 for most data)

Volume I: Report Text

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SUMMARY HIGHLIGHTS

For the ordinary person, there may be few topics more boring than statistics on government finance. And this report mostly paints the overall condition of government finances in Hawai‘i as boringly ordinary.

What is *extra*ordinary is how this conclusion flies in the face of popular stereotypes of Hawai‘i as being a “tax hell” with “bloated bureaucracy.” For the most part, the numbers say otherwise, at least since the turn of the century. Our combined governments’ Total Revenue, Total Expenditures, and Workforce have, for the most recent years of available data, been very close to those of the statistical “Average State” in the nation. However, our governments’ Total Debt is somewhat higher, and Cash and Securities Holdings lower, than in the “Average State” (i.e., all state results divided by 50).

The validity of these conclusions depends, of course, on the data source and how states are measured against each other.

Sources: This study is based entirely on U.S. Census data – mostly (1) the *U.S. Census Survey of State and Local Government Finances* (all years from Fiscal Year 1993 to 2013, except 2001 and 2003), with some limited information from (2) the Census Bureau’s *Annual Survey of Government Employment and Payroll* (one month per year for each year from 1993 to 2014, except 1996). We also used Census data on state population and U.S. Bureau of Economic Analysis data on state GDP (Gross Domestic Product).

Key Principles of Measurement and Comparison:

1. ***Need to Compare Combined State/Local Government Data –*** Comparing financial data for Hawai‘i’s state government (alone) to other state governments (alone) will generally produce incorrect or misleading results. Hawai‘i’s state government takes on functions (such as Education, Airports, and Hospitals) that in most other places are assumed far more by local governments. Valid comparison requires use of the Census dataset for <u>combined</u> State/Local governments. This limits action implications for any one level of government, but is critical for appropriate comparisons.

2. ***Value of Looking at Comparisons over Time –*** While the appendices (Vol. II and III) and some exhibits in this Vol. I provide detailed focus for the most recent available data (generally FY 2013), any one year's results could be atypical. It is also useful to see change or stability over time. So the study repeatedly charts Hawai'i data against the other 49 states and the "Average State" since FY 1993.

3. ***For Any Component of Spending or Revenue, Look First at Composition, Then at Levels*** – Whether through deliberate grand policy actions that may be enshrined in state/local constitutions, or through a series of independent small actions, each set of governments has made de facto general decisions about how it will allocate revenue sources and expenditures. Before asking, "Does Hawai'i have a higher level of some *particular* form of taxation (e.g., individual income tax) than other states?" it is important to understand the composition of *all* revenue sources. If Hawai'i leans more to taxes than to charges/fees, then of course many types of taxes will be higher here … but perhaps balanced by lower revenue from other sources. That context is critical.

4. ***Preference for GDP over Per-Capita Measures for Comparing Levels –*** Dollars or jobs must be divided by something to produce a "yardstick" for comparison among states. We provide two such "yardsticks," (1) dividing by state Gross Domestic Product (Percent of GDP – "How much of the *economy* is represented by government?"); and (2) dividing by resident population (Per Capita – "How much do *people* pay for or receive from government?"). However, we recommend the former, in good part because the Per-Capita approach misses the fact that tourists demand services and pay taxes.

We also caution the reader to remember that comparisons are always tricky because all states differ in geography, history, economy, etc. We attempted to identify a limited set of truly "Comparable States" to Hawai'i (based on land size, GDP, population, etc.) but did not find this feasible or helpful for the study.

General Purpose and Value: This is a "50,000-foot level" analysis aimed at *comparison*. It also helps clarify the structure of Hawai'i's combined governments' finances, at least by standard Census categories. There are many questions unaddressed by the study, including whether Hawai'i or the "Average State" is taxing and spending wisely; if government is effective or intrusive; impacts on business and equity; etc. Census data focus on current finances, *not* future liabilities/revenue, so do *not* measure fiscal "health."

Revenue Results Overview: Especially as measured by Percent of GDP, Hawai‘i governments’ Total Revenue has been very close to the “Average State,” but *sources* of revenue have been skewed toward taxes – especially taxes borne in part by tourists (e.g., the general excise tax), yet also strongly affecting residents. These are arguably balanced by comparatively low levels of corporate income taxes, transfers from the federal government, local property taxes, and various “other” taxes and fees.

Expenditure Results Overview: In the 1990s, as a Percent of GDP, Hawai‘i Total Expenditures were higher than those of the “Average State,” and Hawai‘i combined governments had one of the nation’s poorest marks for spending more than they received. But in more recent years, especially since the Great Recession, Hawai‘i governments’ Total Expenditures closely resemble those of the “Average State,” and spending has roughly matched income. Hawai‘i spends relatively less than other places on certain functions (e.g., Correction or, given reliance on private schools, K-12 Education), and relatively more on others (Airports, Sewerage/Solid Waste at the local level, and various general governmental activities).

Workforce/Payroll Results Overview: Hawai‘i’s combined governments’ workforce size and salaries are now very much in line with the rest of the country, despite greater population demands for services (including the visitor population) and despite Hawai‘i’s greater cost of living.

Debt Results Overview: Total Debt for Hawai‘i has been higher than for the “Average State” but not among the very highest. Hawai‘i has consistently ranked Number 50 among states for the percent of Total Debt used for what the Census calls “Private Purposes” – e.g., as a conduit for things like housing or student loans, private stadiums and conference centers, etc. This is much more common elsewhere.

Cash/Securities Holdings Results Overview: For Total Holdings, Hawai‘i strongly resembled the “Average State” in the 1990s, but from FY 2004 to FY 2013 has had below-average figures. This appears due in part to increasingly low reserves set aside as Offset to Debt, and also because Hawai‘i Employee Retirement System (ERS) holdings went from being a bit above average in the 1990s to below average in the 2000s (though the State has subsequently started to put more funds into the ERS).

Selected Specific Findings of Interest:

- Hawai'i's unusually high concentration of government activity at the state level is best illustrated by FY 2013 data on how much of the combined state/local annual payroll (76%) and full-time-equivalent workforce (78%) were at the state level alone. The next highest figures, for Delaware, were 52% and 53% – and for the "Average State" just 34% and 31% – respectively (Vol. III Appendix A).
- Though Hawai'i governments' *Total* Revenue closely matches that of the "Average State" relative to GDP, Hawai'i consistently gets comparatively less from the federal government and from government-run utilities (or state-run liquor stores). So combined "General Revenue from *Own Sources*" has been somewhat higher than average, and since the Great Recession was trending up through FY 2013 while figures for the "Average State" trended down (Section 2.3.2). Drivers for this recent Hawai'i revenue growth appear to include General Excise Tax, Transient Accommodations Tax, and the small but regressive Motor Vehicle Tax – all increasing faster than GDP during this period (Section 2.5.2).
- At the same time, governments in both Hawai'i and virtually all other states since the Great Recession have been cutting back on Total Expenditures relative to GDP. This has helped both Hawai'i and the "Average State" get back recently to something like "balanced budget" outcomes (Section 3.2 and Section 3.3). This report does not attempt a comprehensive analysis of all specific areas where Hawai'i particularly cut funding during this period, but Interest on General Debt and Elementary/Secondary (K-12) Education were clearly among them (Section 3.5).
- There have been great swings in how much of Hawai'i governments' expenditures have gone both to Capital Outlays (infrastructure and purchase of land/buildings/equipment) and also to Salaries/Wages. At different times since FY 1993, Hawai'i was last or near-last in the nation for each, and at times highest or near-highest for Capital Outlays (but never much above average for Salaries/Wages – Section 3.6 and Section 3.8).

Next Steps: This is a very simple, unsophisticated study – mostly just charts to illustrate comparisons, with little attempt to explore reasons or implications. We hope it can provide a foundation for some State agency and/or University researchers to maintain and further develop.

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1. INTRODUCTION

This chapter summarizes the study purpose, methods, and limits to our conclusions. It explores some important conceptual and technical issues in making *appropriate* comparisons between Hawai‘i and other places in regard to the five categories of government finances studied in the remaining chapters: Taxes and Other Revenues; Expenditures; Government Employees and Payroll (one particular category of "Expenditures"); Debts; and Cash and Securities Holdings.

1.1 PURPOSE

This is a *comparative* study of the finances of Hawai'i's governments (combined State and local) with those of all other American states, and/or of the "average state." It pays particular attention to U.S. Census data for the latest available year (usually FY 2013), but also looks at similar information from the preceding 20 years. It thus permits analysis of:

- How the **composition**, or structure, of Hawai'i's government finances compares to those of other states – for example, the extent to which we depend on taxes, or some particular type of tax, rather than fees and charges or other things.
- How the **level** of spending or revenue compares to the average state – based on economic activity (or perhaps population), are we better or less able than other places to afford the money flowing in and out of our governments?
- How much or how little **change** there has been here over 20 years in any of these factors.

People typically ask first about comparative level – e.g., is our "tax burden" greater here than elsewhere? That's an appropriate first question for overall revenue, overall spending, etc. But as soon as the focus shifts to some particular category or sub-category ("Are *income* taxes higher here?" or "Do we spend more on *schools* here?"), it's usually wrong to compare us to other states without also understanding (1) the unique structure of our governments, and (2) the composition of our various revenue sources or of our longstanding budgetary priorities about how we spend government money.

1.2 SOURCES AND METHODS

- **U.S. Census Data on State and Local Governments:** Most of the primary data in this report come from the *U.S. Census Survey of State and Local Government Finances* (Fiscal Year 1993 to 2013, but no data published for FY 2001 or 2003), with some from the Census Bureau's *Annual Survey of Government Employment and Payroll* (one month per year for each year from 1993 to 2014, except 1996).[1] We also used Census data on state population and U.S. Bureau of Economic Analysis data on state GDP (Gross Domestic Product). (See citations in appendix tables.)
- **Simple Spreadsheet Calculation:** Using Microsoft Excel, we calculated various percentages of totals, proportions of GDP, per capita rates, and rankings among states. Because the key source data are for fiscal years,[2] when we divided these numbers by GDP or by population (which are reported in calendar years), we generally first averaged the GDP/population for the two calendar years relevant to the fiscal year. Full results are in Vol. II appendices, with summaries in this volume.

[1] The two Census series on government go back even further, but these are the years available in readily downloadable spreadsheet form.

[2] These may vary by government. Data for "FY 2013" include all reporting entities' fiscal years ending between July 1, 2012 and June 30, 2013.

Summary of Census Data Collection Methods for *U.S. Census Survey of State and Local Government Finances*[3]

- A complete census of all states (and, though not included here, the District of Columbia), counties, municipalities, townships, special buildings, and school building agencies is conducted in years ending in "2" and "7."
- In other years, a *sample* (Probability Proportionate to Size, PPS) of the local-level governments is taken from the most recent Governments Integrated Directory (adjusted for "births" and "deaths" of local government units), according to criteria "… designed to produce state by level of government estimates with a coefficient of variation of 3.0 percent or less for long-term debt, total revenue, and total expenditures." The 2013 sample size was 10,824 non-school units.
- Data collection can be done by mail canvass, Internet collection, and central collection from state sources, with exact methods varying by state and type of government. Government accounting records. Government accounting records provide data for most state agencies and the largest county/municipal governments. Central collection procedures unique to each state were used to gather 2013 local government data in about 28 states. Other data were collected via mail questionnaires. For incomplete or questionable responses, Census statisticians would consult the government's Comprehensive Annual Financial Report (CAFR). Some remaining values had to be imputed by various methods.
- Results are based on each government's standard accounting system. Some governments still use cash accounting, but most use the modified accrual system recommended by the Governmental Accounting Standards Board (GASB).

Summary of Data Collection Methods for *U.S. Census Annual Survey of Government Employment and Payroll*[4]

- An annual PPS sample of local governments (but all 50 state governments, District of Columbia, and all Hawai'i local units) is drawn from the last full Census of Governments (e.g., for 2014, from the 2012 Census), updated with known "births." The 2014 sample was "… designed to produce state-by-type of government estimates with a relative standard error of three percent or less for FTE employees and total payroll." The 2014 sample size contains 10,507 state and local governments (including all Hawai'i local units).
- Most state government provided 2014 data from central payroll records. A few states and most local governments were sent mail questionnaires, with option of Internet response using a Census website. Some values imputed when partial or total non-responses were encountered, and results were projected up to the total population of governments.

[3] There may be small changes in methods each year. This summary of how information is collected is primarily taken from the *2013 Annual Survey of Local Government Finances Methodology* (http://www2.census.gov/govs/local/2013_local_finance_methodology.pdf), with additional information from the much more extensive set of detailed definitions and procedures is in the U.S. Bureau of the Census *Government Finance and Employment Classification Manual*, Oct. 2006 (https://www.census.gov//govs/local/). The latter also provides definitions for the *Annual Survey of Government Employment and Payroll*. (Note: Summary on this page omits some details of the sampling methodology.)

[4] From the *2014 Annual Survey of Public Employment & Payroll Methodology*, http://www2.census.gov/govs/apes/14_methodology.pdf.

1.3 LIMITS TO STUDY CONCLUSIONS

- **Aggregated State and County Data:** For reasons explained shortly, it is almost always necessary to look at combined state and county data in order to make valid comparisons with other places. Therefore, it is often difficult to apply conclusions to the State government alone or to any of our county governments alone.
- **Many Important Questions Are Not Answered by These Numbers:** This is a study at the "50,000-foot level" – a general comparison of Hawai'i figures vs. those from other places. This tells us if we are similar to, or different from, other states. But it does not answer many other important questions about government finances and size, such as:
  - Is local government larger (or smaller) than *we* believe it should be, no matter how it compares to other places?
  - How do our particular taxation and spending policies affect the economy? our most vulnerable citizens? Have we found a good balance between progressive approaches to helping people and impacts on job-providing business?
  - Within the broad categories used for this study, are we using the right *types* of taxes (or of spending approaches, or of ways of generating needed debt)? For example, the Census looks at "sales taxes" overall, but there have been many issues raised about Hawai'i's particular type of sales tax, the General Excise Tax.
  - Is local government "bigger" in the sense of being *too intrusive* (issues related to things like over-regulation or possibly burdensome requirements for small business, such as mandated benefits)?
- **Approximate Nature of Data:** Most government statistics involve some measurement error and/or are estimates. U.S. statisticians routinely revise GDP and population estimates for back years, and the Government Finances data may also be revised in smaller ways due to definition tweaks … so most of the numbers reported here will likely change slightly in future years. Also, as will be reported, we reorganized some Census categories for simplicity of reporting.
- **Categories/Results That May Not Match Local Published Data:** In order to produce comparable data, the U.S. Census Bureau uses its own standardized categories, and re-allocates State and county budget figures in ways that may not be immediately apparent to people familiar with locally published budget data. The Census produces "statistical descriptions" of government budgets, not true "accounts" familiar to local budgeters. This also results in ***minimal discussion of special funds for particular Hawai'i activities***, as these can vary from one state to another.
- **Exclusion of Unfunded Liabilities from Debt Calculations:** The Census Bureau's *statistical* approach does not reflect standard *accounting* measures of future liabilities or revenue streams. This is particularly important for Debt, because it means sizeable obligations in Hawai'i and elsewhere for Employee Retirement System future pensions and benefits (such as medical) are excluded. Census data are not suited to measuring overall government fiscal "health."
- **Multiple Issues about Valid Comparisons among States:** There are enough of these that we devote the next section to explaining them.

1.4 CHALLENGES OF MAKING APPROPRIATE NATIONAL COMPARISONS

The big question for this sort of study is whether comparisons are truly appropriate, whether we are trying to compare "pineapples vs. oranges." Here are some of the most critical issues, along with our responses and study implications:

Table 1.1: Comparability Issues and Decisions or Approaches Taken for Study

Issue	Response / Study Implication
Governments in Different Places Have Different Functions: We're a small state, but our state government is a giant relative to our counties. As shown later, 75%-80% of state/local govt. jobs in Hawai'i are at the state level; the next closest in the nation (Delaware) is a little over 50%, and for the average state it's about 31%. That is because the Hawai'i State govt. assumes many functions (particularly K-12 Education but also to some extent Corrections, Hospitals, etc.) conducted elsewhere more by cities, counties, townships, independent school districts, etc. Above and beyond the question of which *level* of government assumes responsibility for a particular function is the question of whether *any* governmental entity conducts some activities. Hawai'i leaves some things to private businesses or regulated utilities that are elsewhere handled by government (e.g., liquor stores, electrical utilities). Different states may decide to provide differing levels of service for things like public hospitals or state universities.	1. Using <u>combined</u> state and local government data is usually the *only* way to make appropriate comparisons between Hawai'i and other places. Otherwise, our state government will very often appear to be the "largest in the nation," which is technically true but must be balanced by understanding our county governments are very small and limited. Fortunately, the U.S. Census provides combined state and local government data. It should be noted that Hawai'i data cited in this report consists mostly of state and county figures, but also includes numbers from the Office of Hawaiian Affairs and 16 soil and water conservation districts. 2. The Census partially addresses the problem of different functions by separately reporting numbers for Utilities, Liquor Stores, and Insurance Trusts.
Some States May Be More Comparable to Us Than Others: Should Hawai'i be compared to *all* other states, or just those most "like us?" There are certainly states that are extremely <u>unlike</u> us, or even unlike most others – for example the energy-producing states (such as Alaska, Wyoming, N. Dakota), which get high revenue from oil trust funds and so can have low taxes. If we do try to compare just to states "like us," then we have to determine "like us … in what respect?" There is no other island state, no other state with our particular economic conditions and history, no other state with our mix of state and local functions. Even Delaware (a small state with three counties and one big city) has municipal governments, which we do not, as well as a different economic base and a much higher population density.	We elected to *try* to do both sorts of comparisons. Each of our detailed appendices first shows Hawai'i's place among all 50 states (excluding the District of Columbia), and then makes the same comparison with just 5 other states. Based on examining factors shown in Vol. II Appendix A – population, income, GDP, land area, population density – and to some extent on judgment, we selected Delaware and New Hampshire (probably the closest matches) as well as Rhode Island, Vermont, and Nebraska. <u>But</u>, with some exceptions, we generally found almost as much variability for state/local government revenue and spending structures among this limited group as among all 50 states. Therefore, while the appendices still show the "comparable state" averages, this Volume I summary generally ignores this analysis. Bottom line: There really is no perfect comparison.

Issue	Response / Study Implication
Do We Compare State Levels Based on Per Capita or Percent of GDP? The composition of revenue or spending is a matter of percentages of some total, and those percentages are mathematically equivalent in each other state. But levels can only be compared by dividing amounts by some common "yardstick." The best two candidate yardsticks are population (to get a per capita or per-resident amount) and GDP (to determine how much of the economy is involved).[5] Both have some drawbacks, especially the per-resident approach (even though it is more familiar to many people). Residents are not the only ones who pay taxes or receive government services. We have a large tourist population and our "de facto" (including visitors) population is about 9% bigger than our resident population alone, so *per capita numbers based just on residents can inflate our apparent rates of public workers, taxation, etc.* We have a high military population, but some of them pay income taxes in home states. And revenue/services apply not just to the resident population as a whole, but also to businesses, people who use or pay services for particular activities, property owners, etc. As for GDP, govt. expenditures (but not revenue) are actually part of its definition – and GDP measures economic activity but not underlying wealth (i.e., assets or "ability to pay").	Our solution is to base comparisons on both Percent of GDP and Per Capita figures, at least for Total Revenue, Expenditures, Debts, etc. … but to consider Percent of GDP the better figure and therefore sometimes look only at it, especially when the analysis focuses on sub-totals or sub-sub-totals of overall revenue or expenditures For Hawai'i alone, it might be possible to adjust per capita numbers to include visitors. It would probably be too simplistic just to push up the denominator by 9%, because tourists have different types of effects on different types of government workers and services. However, reasonable estimates could be made about what those effects are and how they sum up. But even if we did that for Hawai'i, we wouldn't know how to do it for other states, and there are no standard national de facto numbers. Further, the issue about revenue and services applying not just to the general population is something that really affects comparisons among all states. (There are still some cases when dividing by resident population has more validity than dividing by GDP – e.g., comparing numbers of govt. workers by state.) GDP may be a measure of just economic activity (not wealth), but, other than property taxes, revenue comes from economic activity.
Comparing Hawai'i to the Whole "Including Us" vs. "Everybody But Us:" While this report will present figures and rankings for all 50 states, it's also natural to ask "How do we compare to the *norm* for the country?" That sort of question is usually answered by comparing Hawai'i's figure to some sort of national average or percentage. The question is: Should that average or percentage be based on all 50 states, including Hawai'i, or just the average of the other 49 states? (And for the attempt to compare Hawai'i to five states that are particularly "like us," should we use the average for all six states or just the other five?)	We decided to compare Hawai'i to the 50-state averages for purposes of national comparisons, but just to the five-state averages when contrasting ourselves with "comparable" states. Those two procedures are admittedly a little different. Technically, the best approach at the national level also would also be to compare our numbers to the averages for just the other 49 states – "us vs. everybody else." But Hawai'i is a very small drop in the national rain-bucket; it really wouldn't make that much difference. And giving 50-state figures provides a complete picture of the national situation (except for the District of Columbia, excluded because it is not a state).

[5] A third option would be to divide dollar figures by averaged **Personal Income** per Resident for each state. In this study, we ignored that possibility mostly for the sake of simplicity but also because total GDP for each state tends to correlate well with total Personal Income.

Issue	Response / Study Implication
Weighted Vs. Unweighted Levels for the National Comparison: When we want to compare some figures expressed as Hawai'i's Percent of GDP or Hawai'i's per-resident average with the national figure, there are two ways to compute that national statistic. The *weighted* national average takes the population of each state into account – e.g., California's per capita rate would count 27 times as much as Hawai'i's because California has 27 times as many people. The *unweighted* figure would count California and Hawai'i equally, because each is just one state. Which do we use?	Our appendix tables again present both weighted and unweighted national figures, just to be complete. However, we will pay more attention to the *unweighted* numbers, and focus only on these in our summary discussions. The weighted figure can be considered to be the answer to the question: "What is the typical situation for all Americans, regardless of where they live?" But the unweighted average effectively answers the question "What is the typical situation among states, taking each state as a unit?" Both questions are important, but this report is more interested in the second question. We wonder whether Hawai'i is different from other *states*, not from the country as a whole.
Weighted Vs. Unweighted Percentages for the National Comparison: Let's say we calculate the percent of each state's total expenditure that goes for employee payroll. Do we compare Hawai'i's percentage to a national percentage that weights California's percentage 27 times as heavily as ours, or do we just sum up all the 50 state percentages and then divide by 50? This question is much the same as the one above. But it can seem a little more troubling because of the mathematics. If you compute the unweighted average number of people and the unweighted average number of workers, you might think that dividing one by the other would give you the "unweighted percentage!" But it turns out that you get a different number if you calculate 50 percentages, sum them, and divide by 50.	Again, we provide both weighted and unweighted percentages in the appendix tables. But our definition of the "unweighted percentage" is the sum of all 50 individual state percentages, which is then divided by 50. This is the *true* "unweighted" percentage. It turns out that the percentage you get by dividing two unweighted national averages is mathematically identical to the national *weighted* average. In general, we are willing to risk the confusion that comes with lots of numbers, because it is better than leaving out numbers that "tell a different story." There are different ways to slice any statistical pie. When different techniques give similar answers, that's good. When they don't, and we eliminate some numbers, we may be biasing the results in the eyes of some readers.

Some of the issues in the above table may deal with technicalities, but it is particularly important to understand why comparisons usually have to involve combined state and local governments, and also the potential pitfalls in using per-capita ("per-resident") numbers to compare Hawai'i with other states.

In the latter regard, it should also be noted that use of Percent of GDP or Per-Resident "yardsticks" is here considered simply as a standardized procedure for this particular study. Comparing states on certain categories or sub-categories of government finance may better use entirely different denominators relevant to that activity – e.g., revenues or spending on education by state typically would better be analyzed *by student*, on Employee Retirement Systems *by beneficiary*, etc. Those sorts of highly focused analyses are properly the focus of separate specialized studies.

1.5 STRUCTURE OF THIS REPORT

This study has three volumes, though the last two volumes are of appendices alone:

- This **Volume I** is the main report and analysis. It has six chapters, the current Introduction plus five more, which focus on the five categories comprising the overall analysis (as well as the last five appendices of Volumes II and III):

  - Government Revenue (including but not limited to taxes);
  - Government Expenditures;
  - Employment and Payroll;
  - Government Debt; and
  - Government Cash and Security Holdings.

  Each of these chapters begins with a section on how the Census data organizes this information – and, in some cases, how we have reorganized the data for what we believe is a somewhat simpler analysis. Following sections give summary analyses for the Total level and for various sub-totals or sub-sub-totals. In each such section, one set of charts or tables focus on comparison of Hawai'i to national percentages or averages for the last available year (usually FY 2013), and following charts show selected categories for Hawai'i, the National Average, and all 50 states from 1993.

- **Volume II** provides appendices that primarily deal with complete FY 2013 or 2014 data for combined State and Local Governments, while **Volume III** provides mostly matching appendices for State Governments only:

Table 1.2: Comparing Appendix Structures of Volumes II and III

Volume II Appendices	Volume III Appendices
A. Characteristics of States Potentially Relevant to Government Comparability *(used for attempt to identify a sub-set of particularly "comparable states," though we don't believe this worked well)*	A. Percentages of Combined Local/State Government Data Coming from State Government Only (for each year below) *(shows each number in Vol. III as % of similar number in Vol. II)*
B. State/Local Government Revenue Data, FY 2013	B. State Government Revenue Data, FY 2013
C. State/Local Government Expenditure Data, FY 2013	C. State Government Expenditure Data, FY 2013
D. State /Local Government Employment/Payroll Data, FY 2014	D. State Government Employment/Payroll Data, FY 2014
E. State/Local Government Debt, FY 2013	E. State Government Debt, FY 2013
F. State/Local Government Cash/Security Holdings, FY 2013	F. State Government Cash/Security Holdings, FY 2013

In general, we do not recommend using the State-only government comparisons in Vol. III but present it anyway for the sake of complete disclosure. Vol. III's Appendix A may be useful for identifying exactly how much of the combined State/Local revenue or taxes really come from just the State or just the local governments in Hawai'i or elsewhere.

2. GOVERNMENT REVENUE

Revenue includes not only taxes, but also money transferred from the federal government, as well as from fees and licenses, student tuition, insurance trust earnings, etc. This chapter shows Hawai‘i’s ***total revenue*** historically has been fairly similar to that of the average state. But our ***sources of revenue*** are skewed toward taxation, particularly consumption taxes paid in part by tourists (and/or by military families who may not necessarily pay income taxes). This means Hawai‘i’s “tax burden” can appear stunningly high by selective focus on certain narrow categories (e.g., sales taxes per resident, especially if comparison is restricted to the state government level). In fact, the big-picture analysis of combined state/local government data shows there are balancing categories in which we are quite low compared to other places – e.g., transfers from the federal government, corporate taxes, local property taxes, various “other” taxes and fees.

NOTE: For definitions and other technical notes relevant to this chapter, see the title page of Appendix B. That appendix contains detailed state-by-state information about data summarized in this part of the report. (Also, see p. 43 in this chapter for explanation of various “Other” categories.)

2.1 ORGANIZATION OF REVENUE ANALYSIS

The Challenge: The U.S. Census Bureau provides almost too much data – many categories (and sub-categories, and sub-sub-categories) of expenditures. It seemed helpful to reorganize, consolidate, and in the actual analysis sometimes eliminate certain categories from detailed attention (especially those generating zero or very little revenue in Hawai‘i).

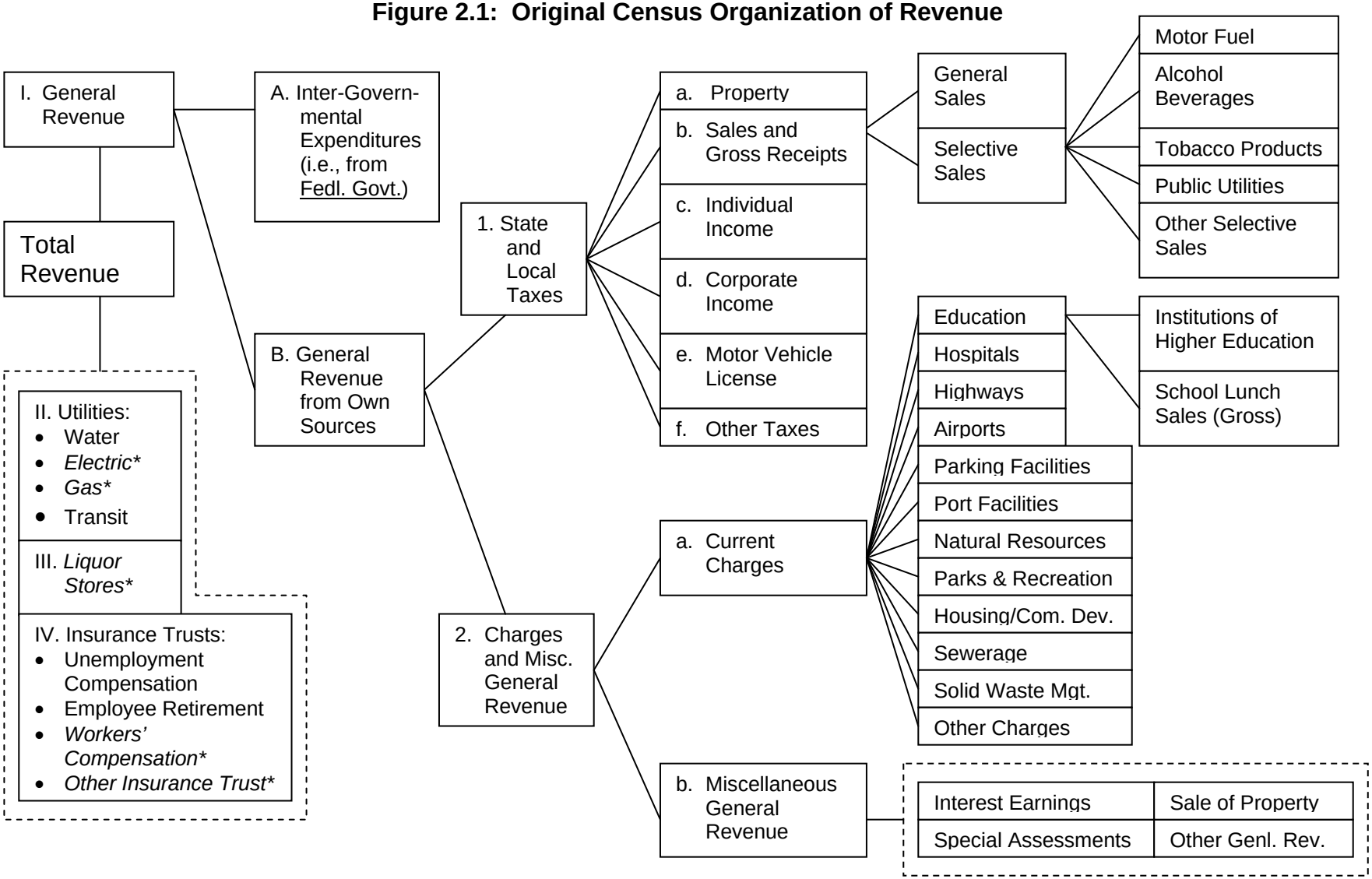
Original vs. Reorganized Categories: The Census Bureau's original categorization scheme for revenue is shown in Figure 2.1, on the following page. Our reorganized approach, shown in Figure 2.2 on the *second following page* (page 12), is less complicated than the Census approach, but still contains multiple steps. The reorganization was based primarily on a judgmental process. We tried to select or create categories that seemed most interesting for a Hawai‘i audience and/or that comprised significant proportions of Hawai‘i revenue.

Steps in the Analysis: Page 12 shows six "Levels of Analysis" to be conducted. The first four of these follow the particularly critical path of Total Revenue, General Revenue from Own Sources, and State/Local Taxes. These are categories for which most states can be compared as to composition and level, though by the "4th Level of Analysis" there can be striking differences – for example, in FY 2013, four states had no general sales taxes of any type at either the state or local level; eight states had zero or almost-zero individual income taxes; and four had no corporate income taxes

Off this path (i.e., the "5th and 6th Levels of Analysis"), different states – in their combined state and local governments – can differ even more greatly from one another in their functions and consequent revenue sources. Some states run liquor stores; many do not. Some states impose certain user fees that others do not. Although Hawai‘i governments tend to get proportionately less of their revenue from such sources, we felt it still might be useful to examine some of them. So our analyses consider selected charges, miscellaneous revenue sources, and insurance trust earnings (particularly Employee Retirement System revenue).

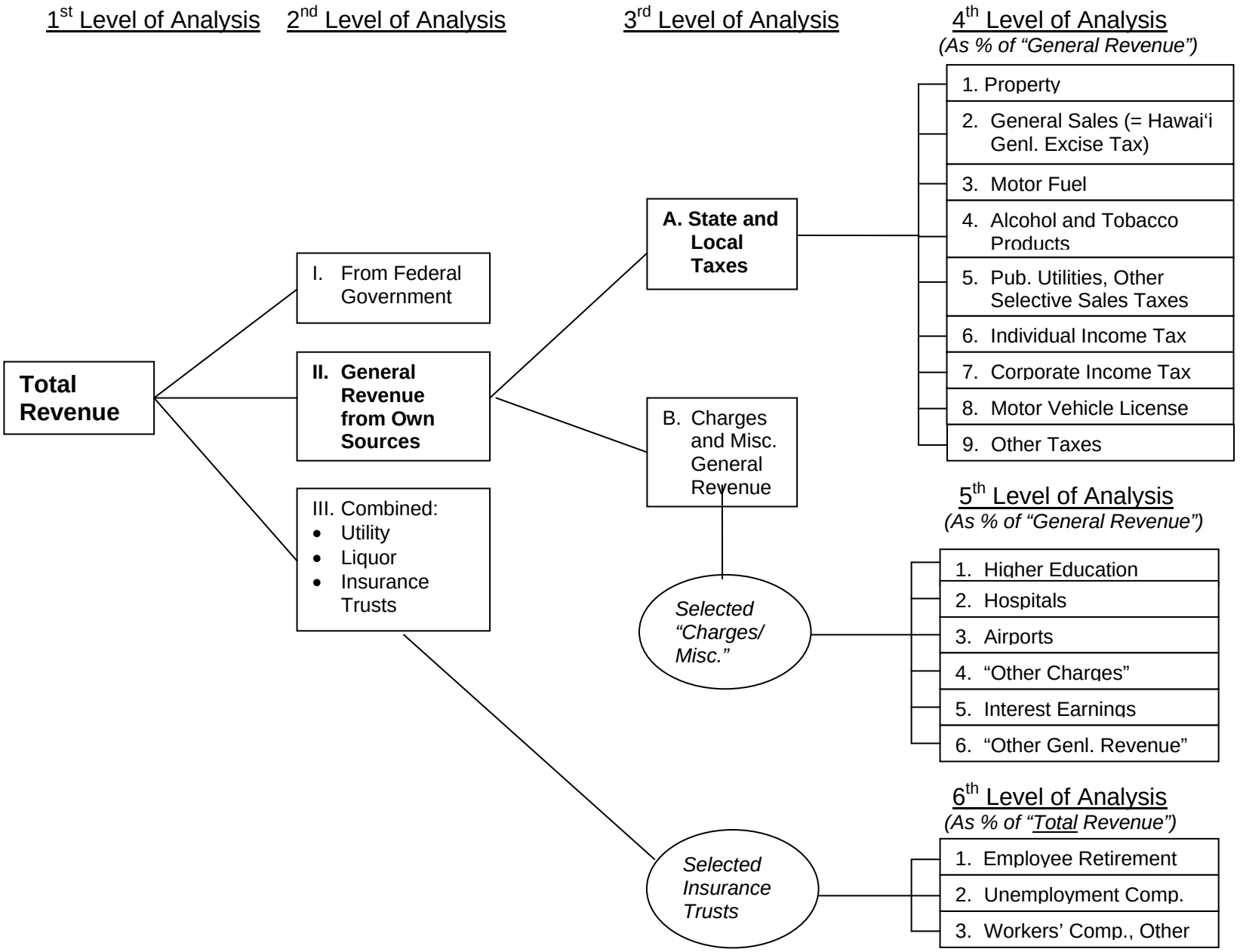
A Reminder: It may be useful at this point to remind readers that the Census uses its own standardized categories – which may not match categories of locally-published budget data – in order to generate numbers that are reasonably comparable for all state and local governments throughout the nation. Our consolidation and reorganization of Census categories means we can sometimes be even one step farther from the categories used by local Hawai‘i State and county budget makers.

Figure 2.1: Original Census Organization of Revenue



* By Census definitions, these italicized items are not governmental functions in Hawai'i; they have $0 revenue or expenditures here. For example, electrical power is provided by a private utility, and workers' compensation is handled for private employers by insurance companies and for government on a pay-as-you-go basis (not an insurance trust).

Figure 2.2: Consolidation/Reorganization of Revenue Categories for This Study



2.2 TOTAL REVENUE, COMBINED STATE/LOCAL GOVERNMENTS

2.2.1 Comparing Hawai‘i Governments’ Total Revenue Level to Those of Other States

As of FY 2013, 78% of combined state/local government Total Revenue accrued to Hawai‘i’s state government alone, compared to 69% for the “Average State” (Vol. III Appendix A). That percentage was 8th highest in the country. However, this study focuses on combined state/local government data in order to maximize the validity of comparisons between Hawai‘i and other states. Detailed state-by-state figures for FY 2013 are in Vol. II Appendix B. Here is a summary –

Figure 2.3: Total Revenue as Pct. of GDP, FY 2013

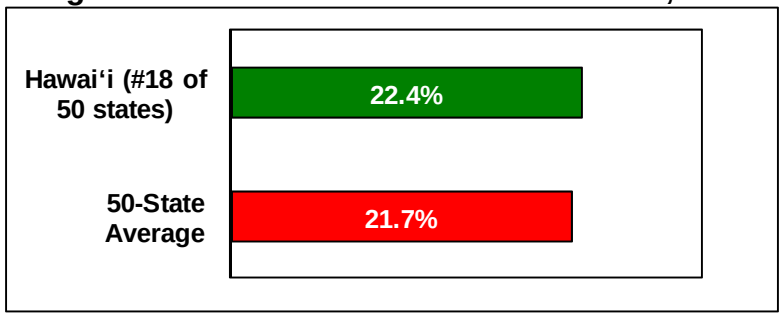
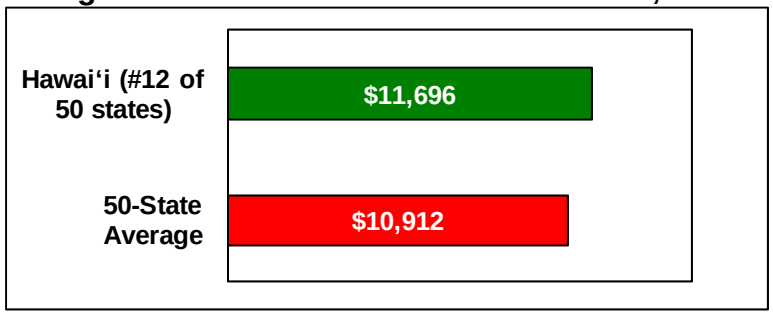


Figure 2.4: Total Revenue Per Resident, FY 2013



And on the following pages, Figure 2.5 and Figure 2.6 show the longer historical situation from FY 1993.

Conclusions: Although Hawai‘i was slightly higher than the average state in FY 2013 (ranking 18th of 50) as measured by *Percent of GDP*, over the preceding 20 years we have generally been a very “average” state. That is, Hawai‘i governments’ revenue rose relative to GDP very slightly from 1993 to 2007 (just as the “Average State” did), then has see-sawed up and down from 2007 to 2013 (just as the “Average State” has) – see Figure 2.6.

Expectably, given the biases associated with using *Per-Capita* values as a yardstick, Hawai‘i by that measure appears relatively higher compared to the “Average State” over the years (ranking 12th in FY 2013) – but still far from the highest ranks of Alaska, Wyoming, and New York. (Their high values of course somewhat bring up “Average State” numbers.) See Figure 2.6.

Caution: While Total Revenue *might* be considered for comparison of different states’ “tax burdens,” the subsequent analysis of the composition of Total Revenue provides important context – Total Revenue includes different specialized revenue sources that not all states have for any of their governments, and it includes federal support funds from outside the state. Thus, the part of Total Revenue labeled “General Revenue from Own Sources” is likely the better overall, broad basis for comparing the extent to which combined state/local governments access or “burden” state economies and residents.

Figure 2.5: Total Revenue as Pct. of GDP from FY 1993, All States

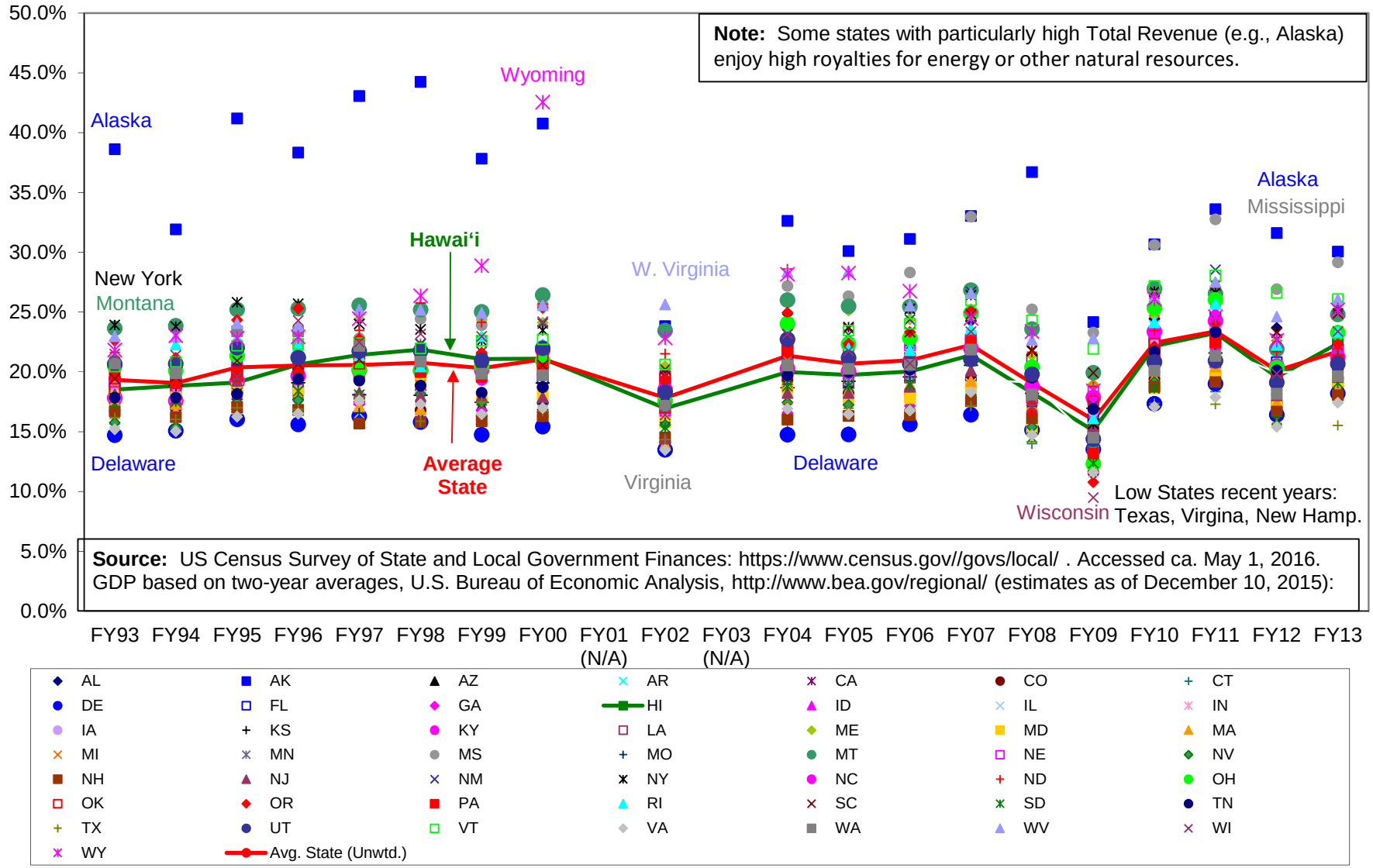
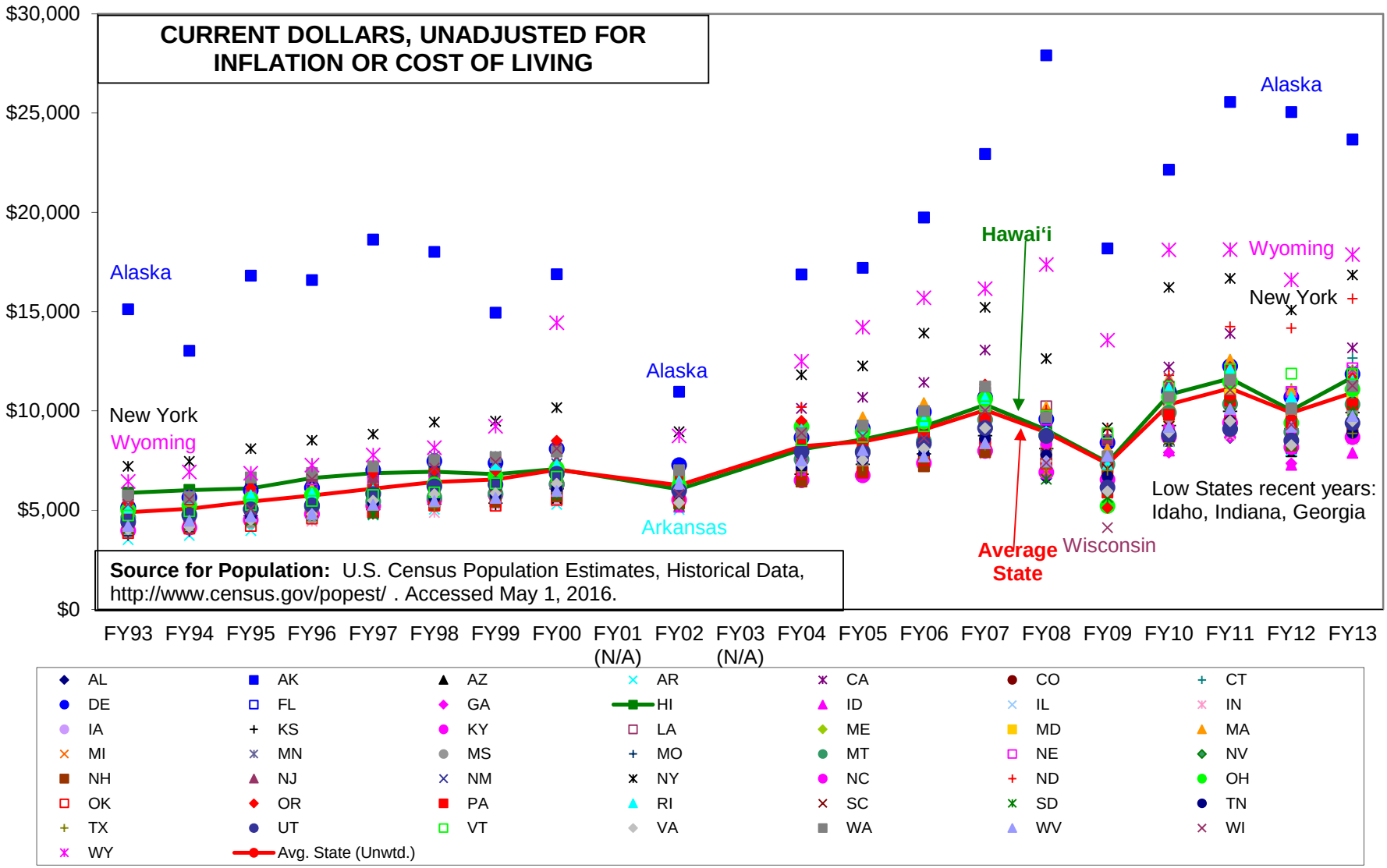


Figure 2.6: Total Revenue Per Resident from FY 1993, All States



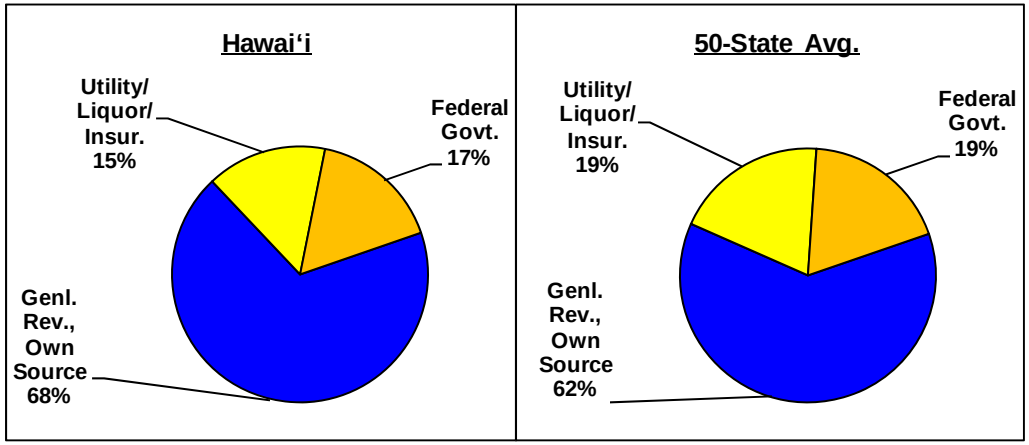
2.3 GENERAL REVENUE AND OTHER COMPONENTS OF TOTAL REVENUE

2.3.1 Composition of Total Revenue

This analysis breaks down Total Revenue into the three components shown on p.12 as the "2nd level of analysis" – (a) General Revenue from Own Sources (including but not limited to taxes), (b) funds from the Federal Government, and (c) combined income from Utilities, Liquor Stores, and Insurance Trusts (the latter being a sort of large Miscellaneous category for purposes of this study). Because it provides a better basis of comparison than does Total Revenue, "General Revenue from Own Sources" will provide a base for much of the rest of this chapter.

Figure 2.7 compares Hawai'i to the "Average State" for FY 2013, and Figure 2.8 and Figure 2.9 provide historical data from FY 1993 for all states for, respectively, the General Revenue and Federal Government percentages of Total Revenue

Figure 2.7: Components of Total Revenue, FY 2013, Hawai'i vs. Average State



Note: All sections of this report involving "Composition" present comparisons (of one sort) between Hawai'i and the "Average State" or all other states. These provide context about different choices/opportunities regarding revenue sources or how to allocate resources. But for the sort of questions people usually ask about relative "size of government," "tax burden," or the like, it is the other sort of comparison – what we are calling "Levels" – that best provide answers. Comparison of "Composition" is important for *understanding* differences in "Levels."

Conclusions: Hawai'i governments now get a little less of their revenue than do those of the "Average State" from federal government (a change from the 1990s – see Figure 2.9)[6] and from utilities, insurance trusts, and liquor stores (the latter of which we do not operate). So we end up depending on our "own sources" (i.e., taxes, charges, and miscellaneous) more than most places. Vol. II Appendix B shows our FY 2013's 68% figure above was 5th highest in the nation. Figure 2.8 suggests we have often been in the top ranks of states on this percentage in recent decades. However, such rankings are less important than those for Percent of GDP (see following discussion), which compare abilities of economies to "afford" the revenue.

[6] Funds from the federal government can include things like planning and construction grants, but a high proportion is for activities such as welfare and Medicaid. The Census source data for this report does not break down federal funds by type, but it is possible that this helps explain why Hawai'i governments were once getting more of their Total Revenue from the federal government during the 1990s, a time when our economy struggled more.

Figure 2.8: General Revenue from Own Sources as Percent of Total Revenue from FY 1993, All States

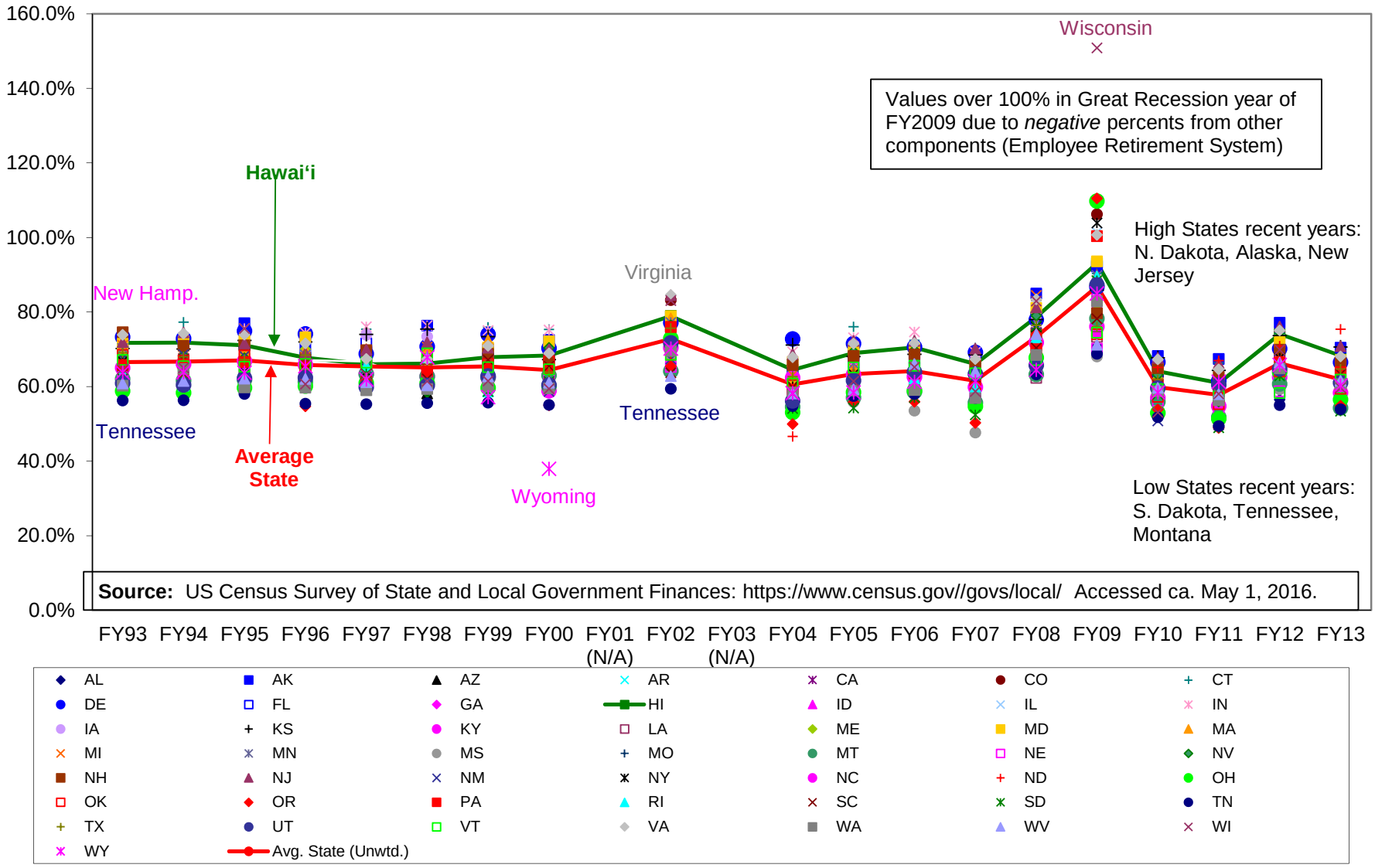
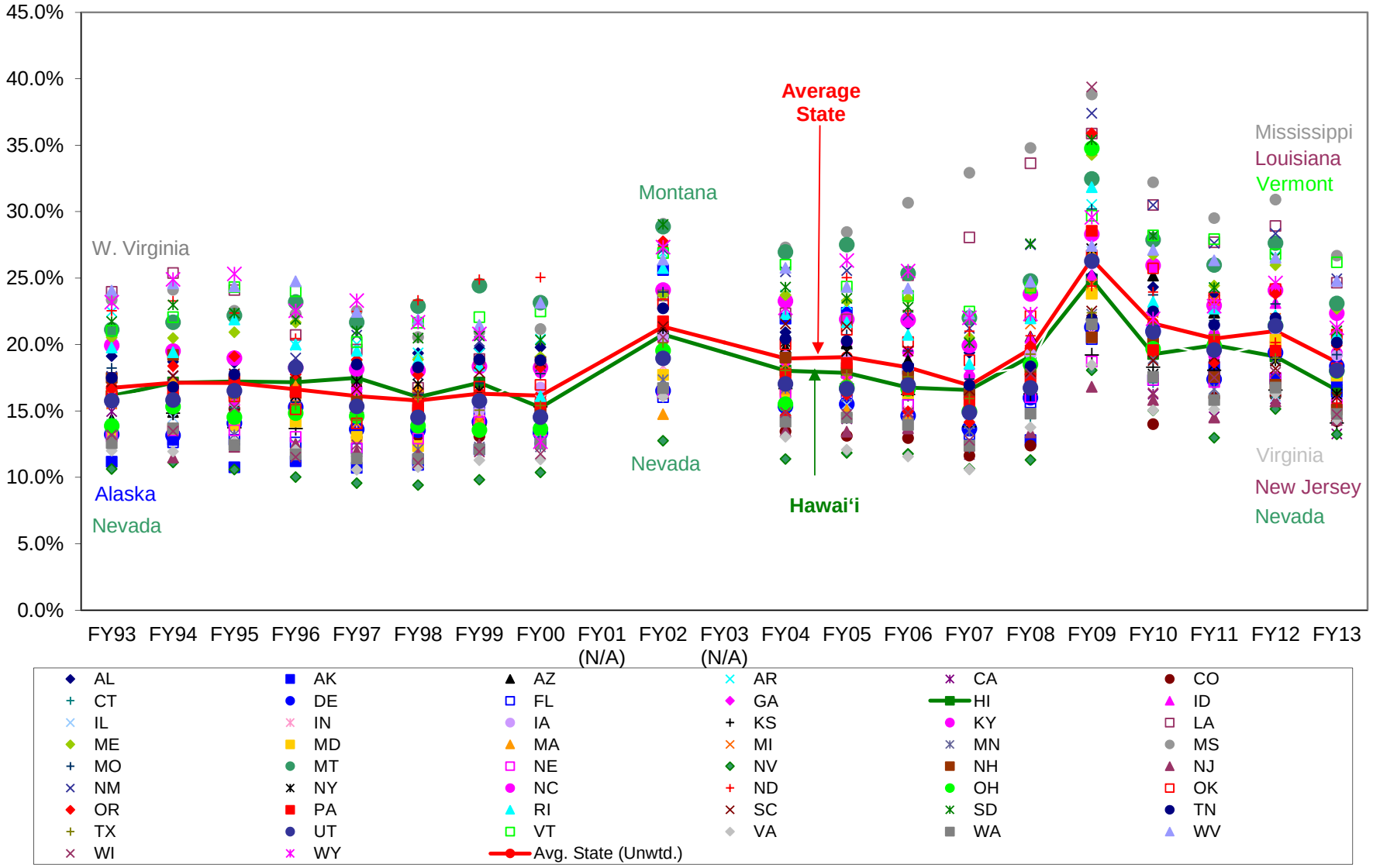


Figure 2.9: Funds from Federal Government as Percent of Total Revenue from FY 1993, All States



2.3.2 Comparing Hawai‘i Governments’ General Revenue Level to Other States

Detailed state-by-state figures for FY 2013 are in Vol. II Appendix B. Here is a summary –

Figure 2.10: General Revenue as Pct. of GDP, FY 2013

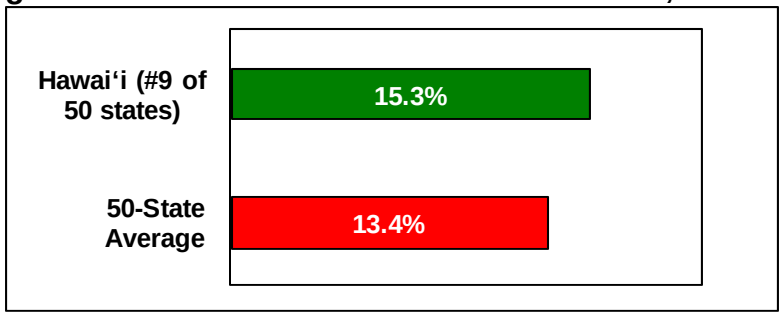
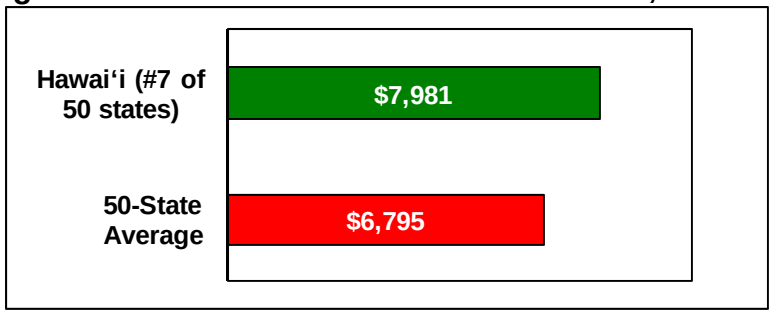


Figure 2.11: General Revenue Per Resident, FY 2013



And on the following pages, Figure 2.12 and Figure 2.13 show the longer historical situation from FY 1993.

Conclusions:

- General Revenue is likely the best *overall* measure by which to compare the magnitude of Hawai‘i governments’ total revenue to that of other states. By the preferred “yardstick” of Percent of GDP, Hawai‘i was in the higher ranks of states in FY 2013 (ranking 9th), and of course ranked somewhat higher (7th) by the more biased Per-Capita measure. (See above figures.)

- The historical data in both Figure 2.12 and Figure 2.13 suggest that Hawai‘i’s performance in FY 2013 – its difference over and above the “Average State” – was somewhat atypically higher in 2013 than in most previous years. Particularly by the preferred GDP measure, General Revenue for the “Average State” has been declining slightly since the Great Recession, whereas Hawai‘i governments’ General Revenue inched *up* from FY 2008 to FY 2013, with particularly clear increases from FY 2011.[7]

  While Hawai‘i’s ranking on the GDP measure was 9th among the 50 states in 2013, it had been 16th in 1993 and 15th in 2008. That is still among the top third of the 50 states, but not as high as recently. Subsequent analysis will look at what components of General Revenue seemed to be particularly driving this Hawai‘i increase.

[7] Note that a similar pattern can be seen for the late 1990s in Figure 2.12, and then Hawai‘i came back closer to the “Average State” in the mid-2000s.

Figure 2.12: General Revenue Own Sources as Percent of GDP from FY 1993, All States

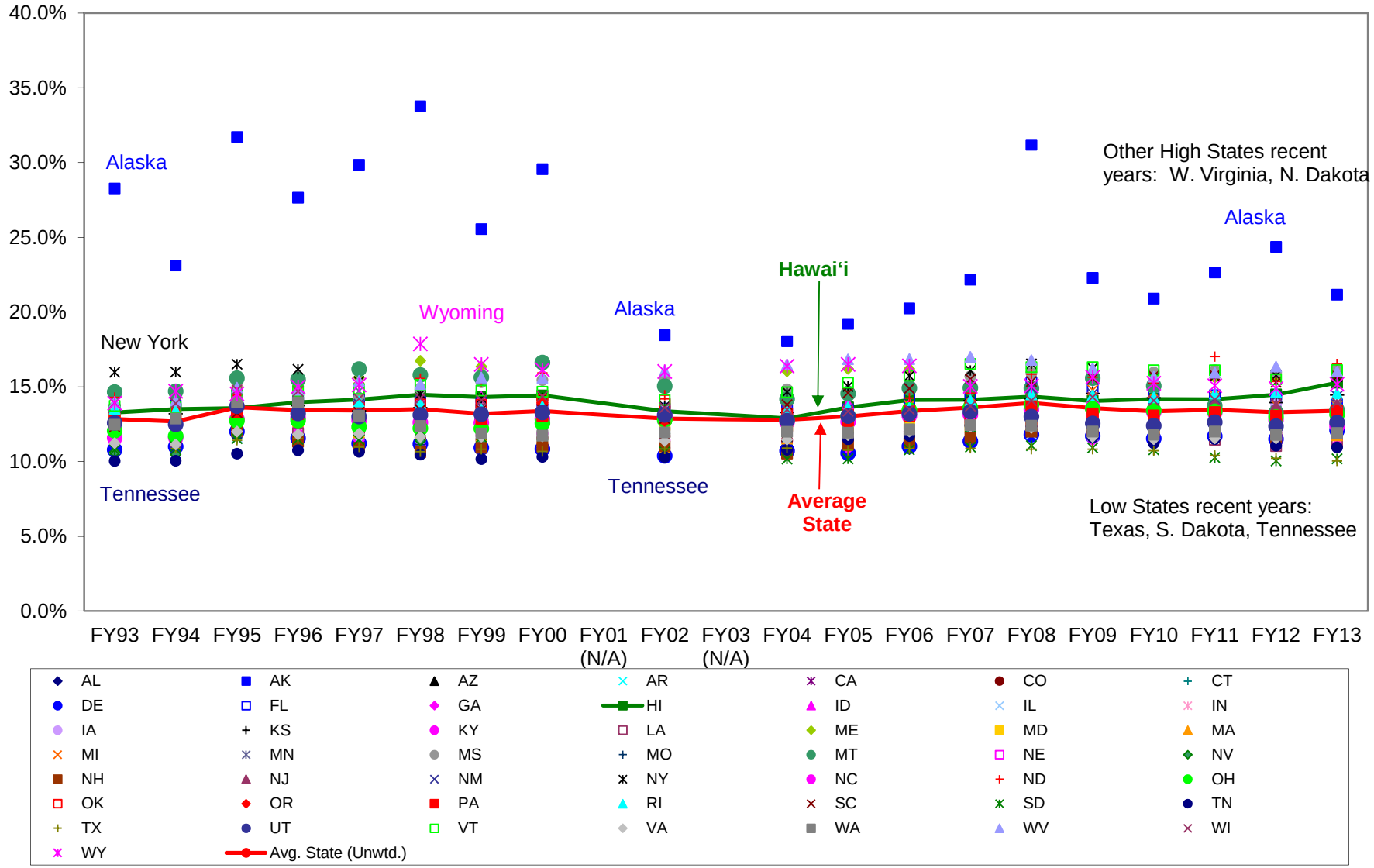
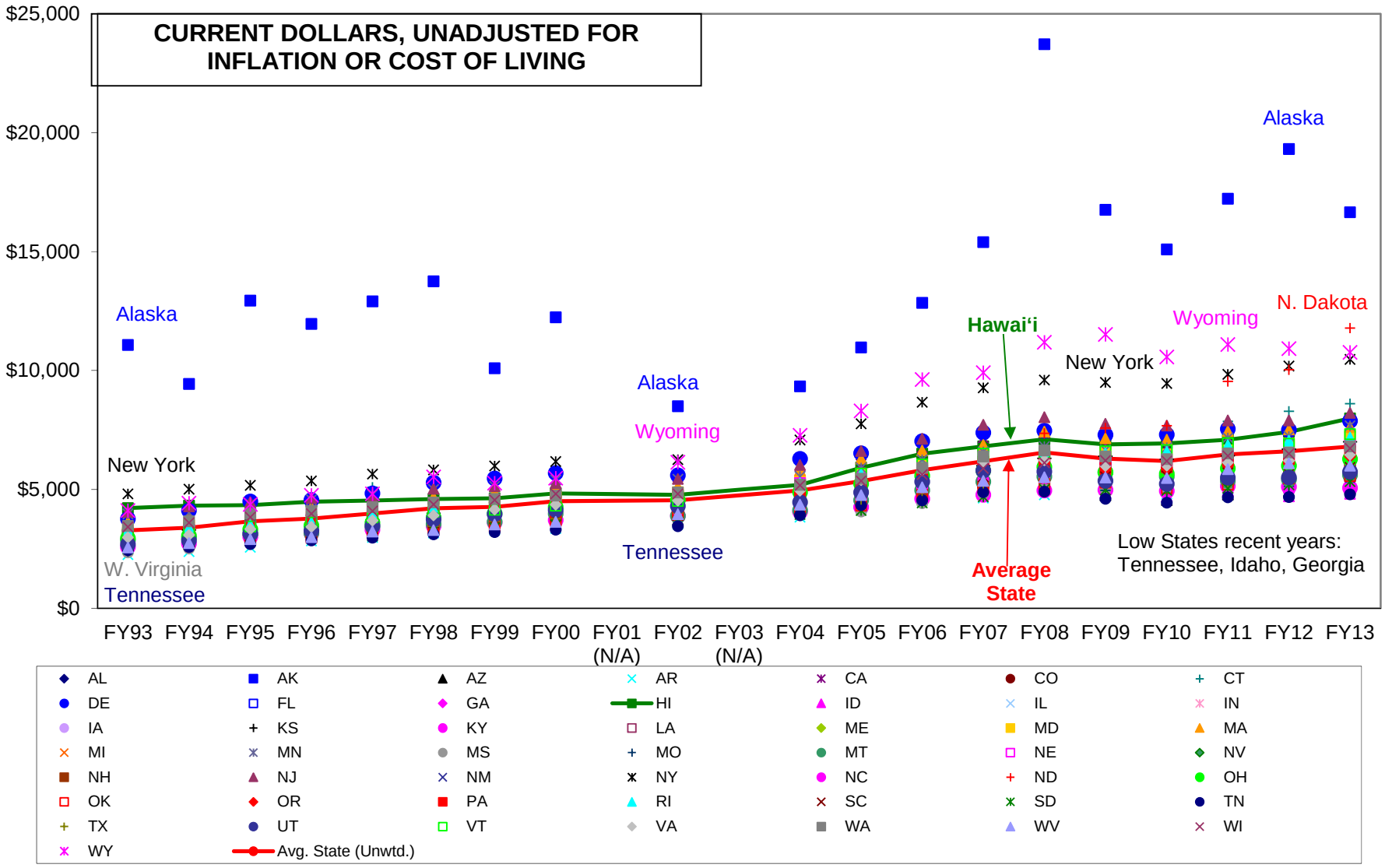


Figure 2.13: General Revenue Own Sources Per Resident from FY 1993, All States



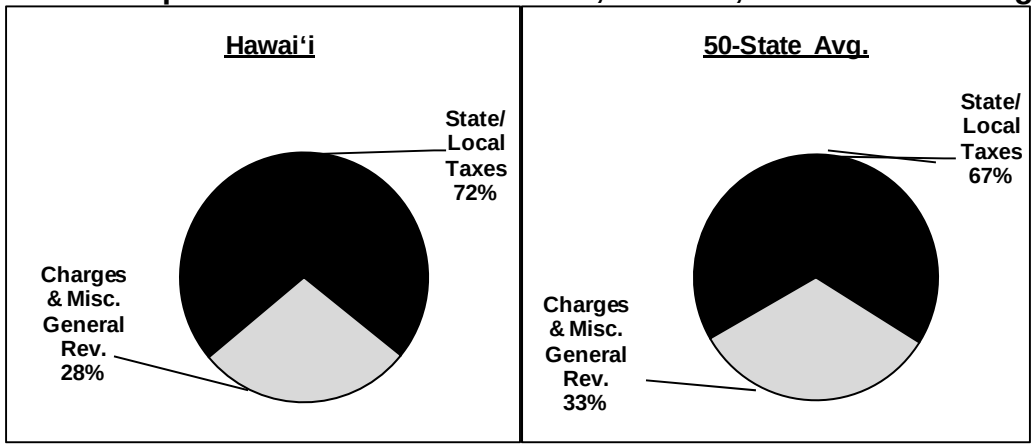
2.4 TOTAL TAXES AND OTHER COMPONENTS OF GENERAL REVENUE

2.4.1 Composition of General Revenue Own Sources

We now focus on the two major components of General Revenue: (a) State and Local Taxes (of all types, combined), and (b) Charges and Miscellaneous Revenue. This is the "3rd Level of Analysis" in the framework of Figure 2.2, page 12. Public attention is typically focused more on taxes, and these will be further broken down and studied in the next section. However, charges and fees – though sometimes directed into special funds – can also contribute to government operating resources, and so there will be some further analysis in a later section on how Hawai'i governments compare on these as well.

Figure 2.14 compares Hawai'i to the "Average State" for FY 2013, and Figure 2.15 provides historical data from FY 1993 for all states for the State/Local Taxes percentages of Total Revenue.

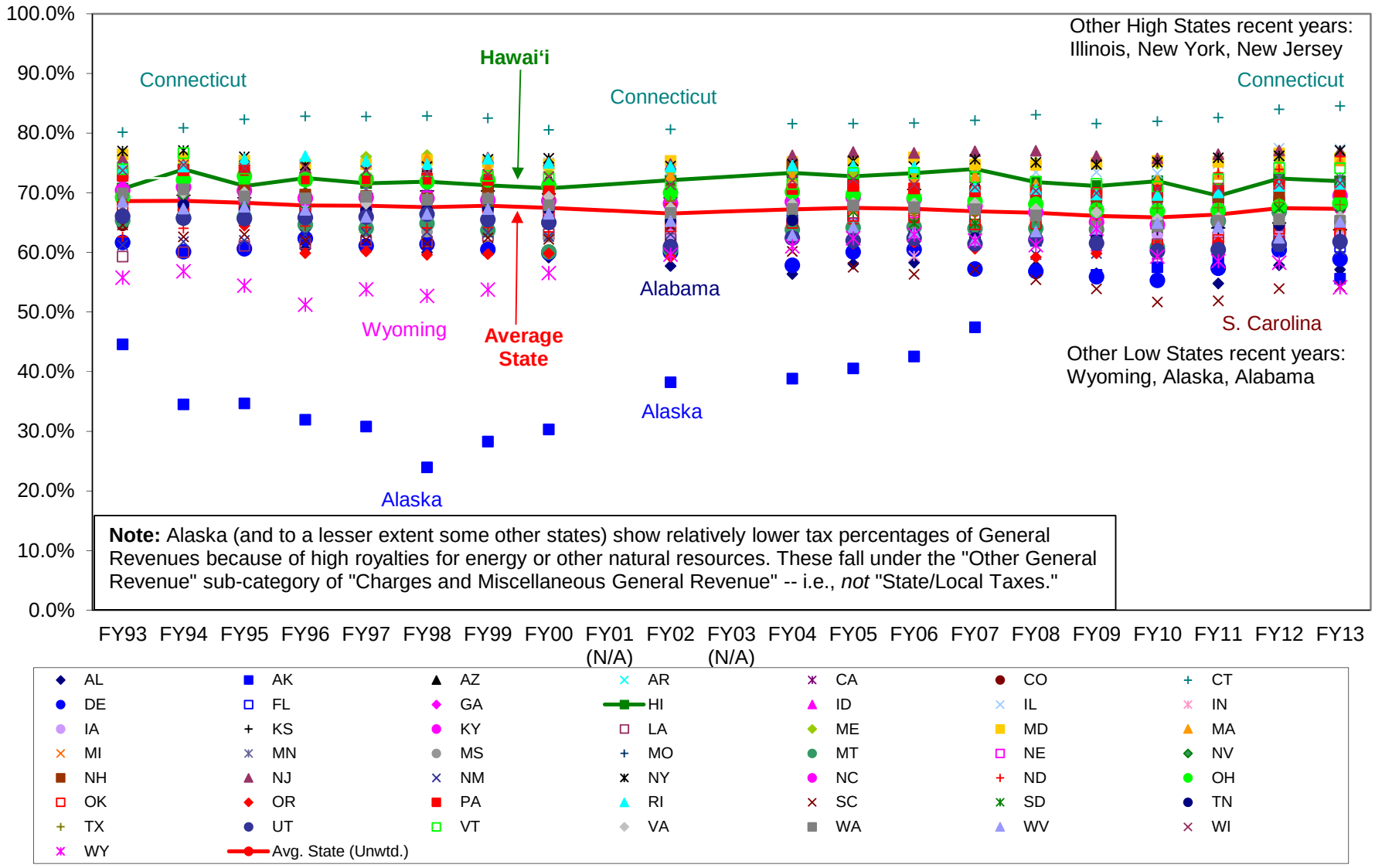
Figure 2.14: Components of General Revenue, FY 2013, Hawai'i vs. Average State



Conclusions: The historical data in Figure 2.15 suggest most states (including their local governments) adopt a clear philosophy – whether or not it is articulated policy – about how much revenue to obtain from taxes rather than charges, and they stick to it over time. The "Average State" has consistently obtained 65% to 68% of General Revenue from taxation, while Hawai'i has consistently garnered a higher level of 70% to 74%. Our 72% figure[8] for FY 2013 (Figure 2.14 above) was 11th highest in the nation – nowhere near national leader Connecticut's 85% mark, but still a fairly high ranking. (Again, rankings based on percentages of revenue tell us something, and help *explain* differences in Percent of GDP, but it is these differences in GDP proportions – discussed next – that provide the better measurement of "tax burden" and similar concepts.)

[8] Vol. III Appendix B shows Hawai'i's State Government (only) figure was also 72%. But this is much closer to the national "Average State" for states only, excluding local governments. That average figure is 70%, and Hawai'i's 72% gave it a ranking of 24th, not 11th, for State governments only.

Figure 2.15: All State/Local Taxes as Percent of General Revenue from FY 1993, All States



2.4.2 Comparing Hawai‘i Governments’ Level of Total State/Local Taxes to Other States

Detailed state-by-state figures for FY 2013 are in Vol. II Appendix B. Here is a summary –

Figure 2.16: State/Local Taxes as Pct. of GDP, FY 2013

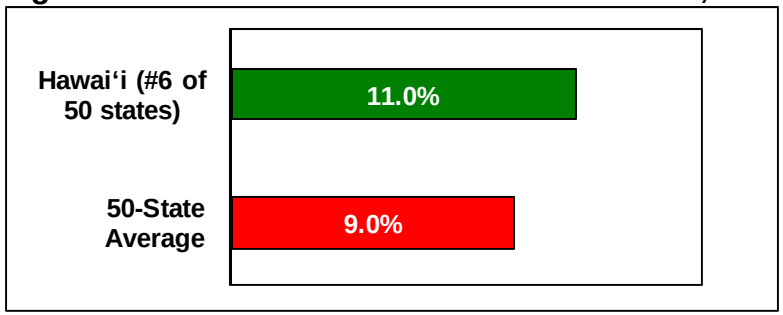
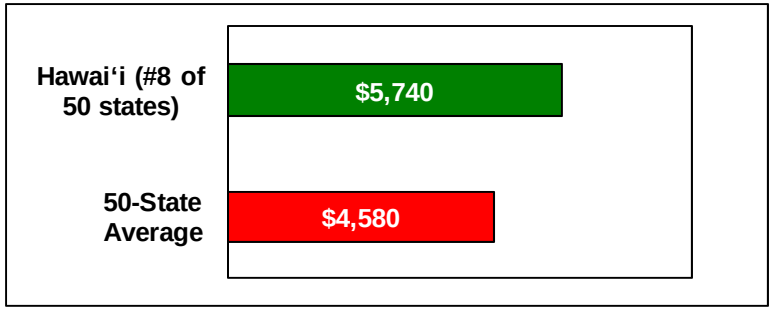


Figure 2.17: State/Local Taxes Per Resident, FY 2013



And on the following pages, Figure 2.18 and Figure 2.19 show the longer historical situation from FY 1993.

Conclusions:

- Given that the *composition* of Hawai‘i governments’ general revenue is skewed toward taxes rather than charges and fees, it is unsurprising to see that Hawai‘i then has relative *levels* of total taxation higher than those for most other states. In FY 2013, Hawai‘i ranked 6th in the nation by the GDP “yardstick,” 8th by the Per-Capita measure.[9]

- Combined Hawai‘i State/Local Government tax revenue was rising faster than GDP in the last few years for which data are available (Figure 2.18), accounting for at least some of the previously-noted rise in overall General Revenue relative to GDP (Figure 2.12). It remains to be investigated which particular types of taxes have most contributed to this.

- The bump in total taxes as Percent of GDP by FY 2013 is not dramatic but is still palpable. The 11.0%-of-GDP figure indicated above in Figure 2.17 is the highest value in the entire period of time charted in Figure 2.18. (The lowest was 9.4%.)

[9] If these FY 2013 rankings were based on State Government (only) data, which are available in Vol. III Appendix B, they would are first appear only slightly higher: 4th on a GDP basis and 5th on a Per-Capita basis. But the state-government-only “tax burden” data can still be presented – we would argue inappropriately – in a way that makes Hawai‘i look more like “tax hell” than do the combined State/Local Government discussed here. The Hawai‘i numbers in Figure 2.16 and Figure 2.17 are roughly 25% higher than those for the “Average State.” They are roughly *50%* higher than for the “Average State” in the state-government-only dataset Vol.III. This percent can be selectively/wrongly cited to make Hawai‘i ‘tax burden” look very high.

Figure 2.18: All State/Local Taxes as Percent of GDP from FY 1993, All States

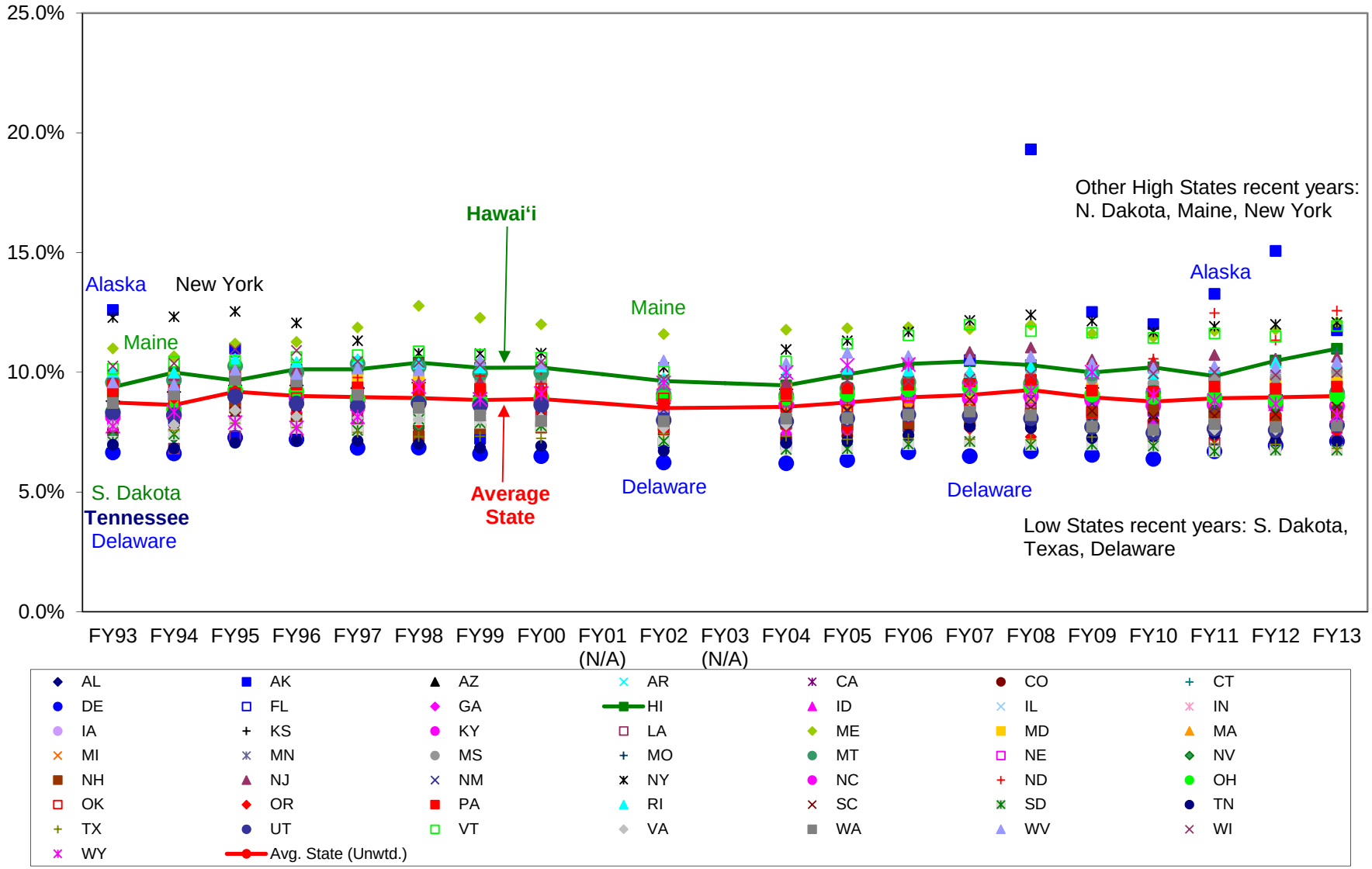
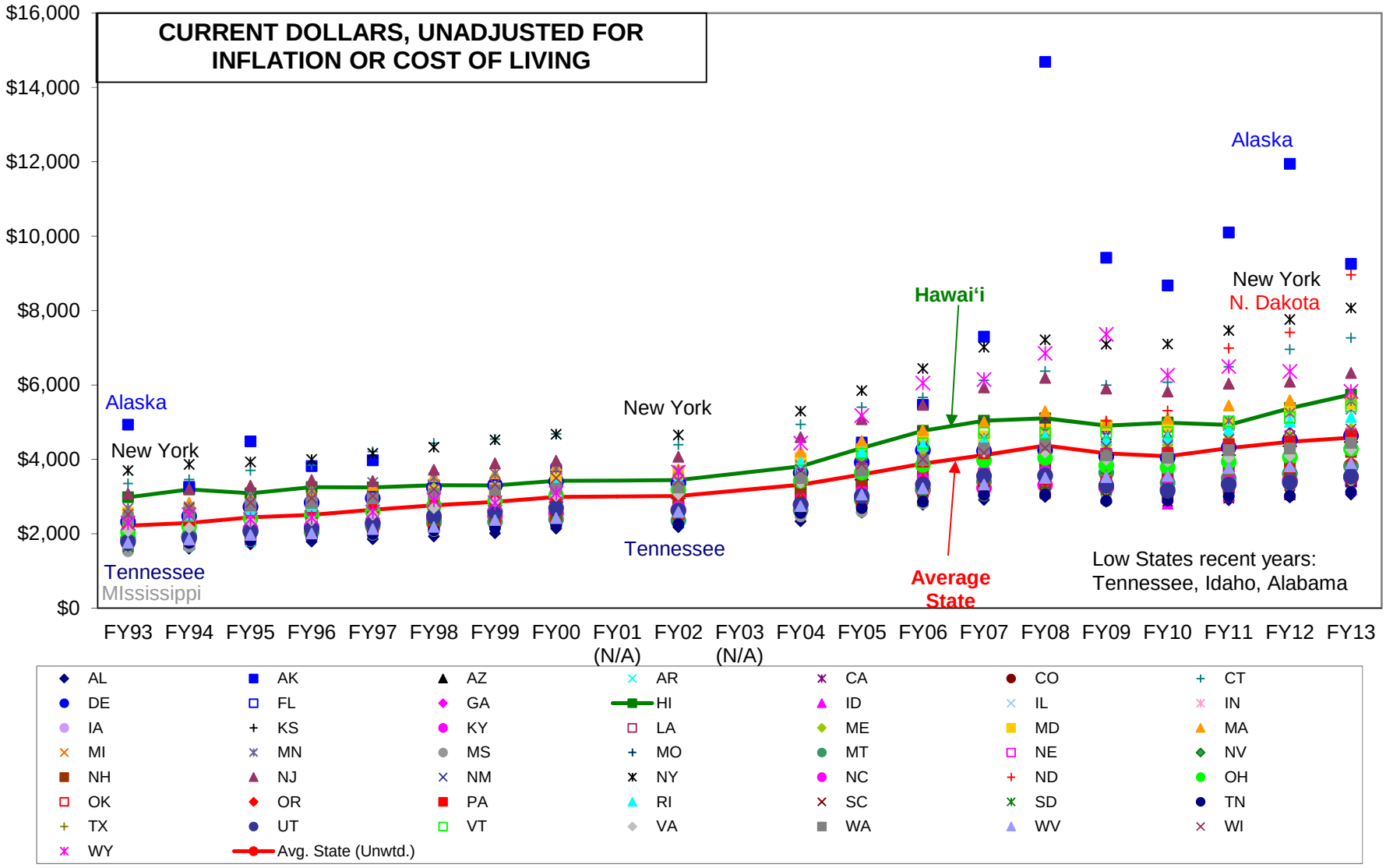


Figure 2.19: All State/Local Taxes Per Resident from FY 1993, All States



2.5 SPECIFIC TYPES OF STATE OR LOCAL TAXES

2.5.1 Composition of State and Local Taxes (Nine Specific Types)

Not only do Hawai‘i governments depend more than most other places on taxes (as opposed to other possible revenue sources), but they also depend much more on some *types* of taxes and much less on others. Table 2.1 shows all nine types of tax categories for this analysis, with FY 2013 percentages of General Revenue (so percentages across columns add to 72% for Hawai‘i and 67% for the “Average State,” as per Figure 2.14.). And the next three charts show change or stability over time in the percent of the three largest tax categories for Hawai‘i – General Sales, Individual Income, and Property.

Table 2.1: Categories of Specific Taxes by Percent of General Revenue, FY 2013

	Types of Taxes for Which Hawai‘i Tended to Rank High in FY 13 (Composition)				
	General Sales*	Individual Income Tax	Other Selective Sales Taxes,* Public Utilities	Motor Vehicle License	Alcohol/Tobacco Products
Hawai‘i, % Genl. Revenue	27.9%	15.5%	8.0%	3.1%	1.4%
50-State Avg., % Genl. Rev.	15.2%	14.2%	4.8%	1.3%	1.3%
Hawai‘i’s Rank (of 50)	*2*	*28*	*4*	*1*	*20*
% to State Only (Hawai‘i)	94%	100%	82%	51%	100%
% to State Only (50-St. Avg.)**	80%	96%	76%	92%	97%

* Hawai‘i’s General Excise Tax would fall under "General Sales," and its Transient Accommodations Tax under "Selective Sales Taxes."

	Types of Taxes for Which Hawai‘i Tended to Rank Low in FY 13 (Composition)			
	Property Taxes	Motor Fuel	Corporate Income	Other Taxes
Hawai‘i, % Genl. Revenue	11.9%	1.5%	1.1%	1.5%
50-State Avg., % Genl. Rev.	20.6%	2.2%	2.3%	5.4%
Hawai‘i’s Rank (of 50)	*44*	*44*	*43*	*49*
% to State Only (Hawai‘i)	0%	55%	100%	76%
% to State Only (50-St. Avg.)**	6%	97%	96%	73%

** From Vol. III Appendix A. Average based on all states that have such taxes at some level of government; may not always be 50.

Conclusions: Hawai‘i seems to rely more than the “Average State” on taxes that tourists (and perhaps military families who may not always pay income taxes here) can help with: e.g., the GET, the TAT, and taxes on motor vehicle licenses. Hawai‘i’s GET – now comprising the highest share of any state/local governments’ General Revenue except for Washington’s sales tax (Figure 2.20) – has remained roughly stable at 26%-28% since 1993 (getting slightly higher in the 2000s as the GET rose to 4.5% on O‘ahu). Despite a recent slight uptick, Hawai‘i’s Individual Income Tax has clearly gone *down* in importance over time, now close to the “Average State” level (Figure 2.21). And Property Taxes – the main source of revenue for Hawai‘i’s counties – have been at fire sale levels compared to the rest of the country since at least 1993 (Figure 2.22).

Figure 2.20: General Sales Taxes as Percent of General Revenue from FY 1993, All States

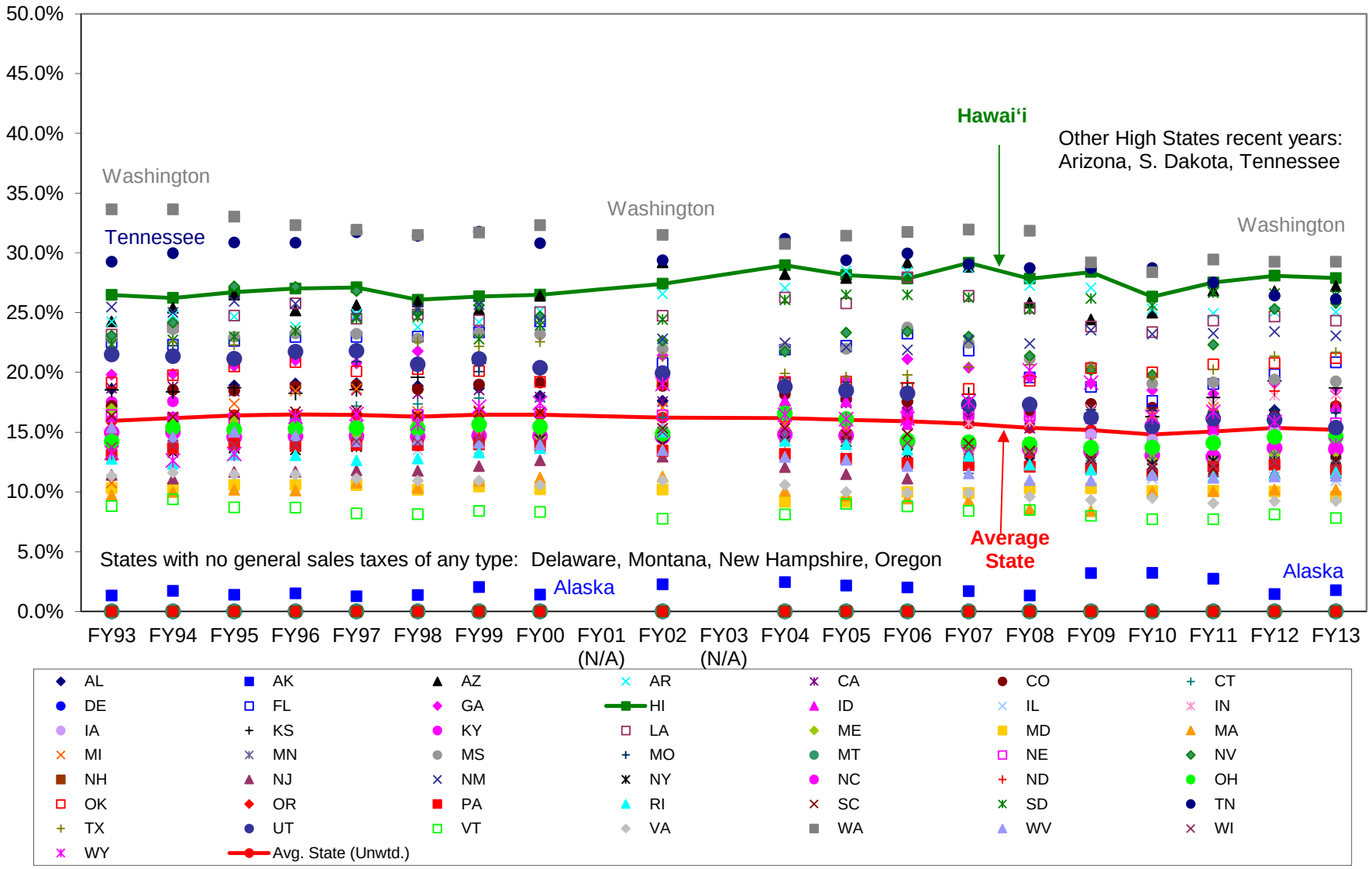


Figure 2.21: Individual Income Taxes as Percent of General Revenue from FY 1993, All States

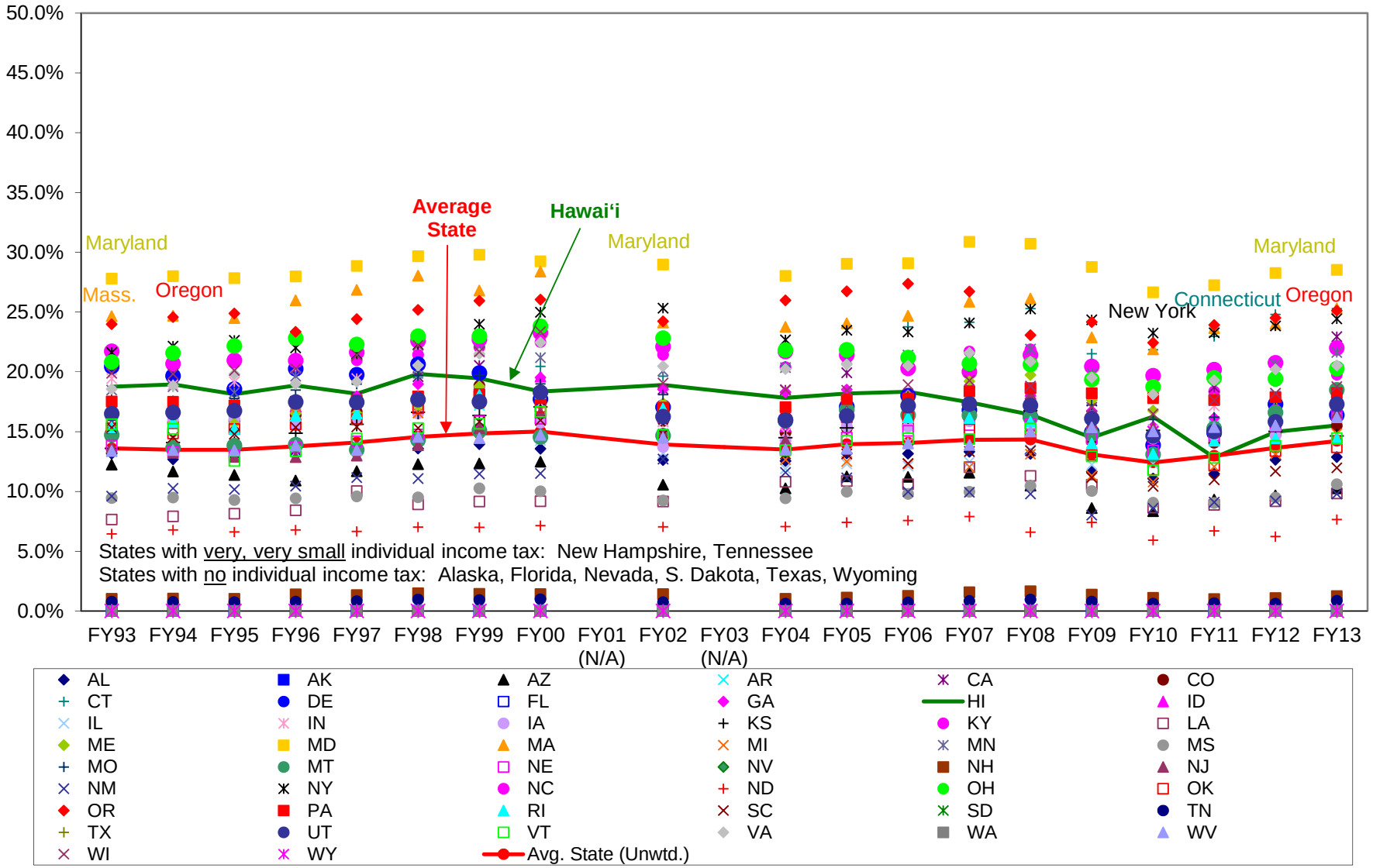
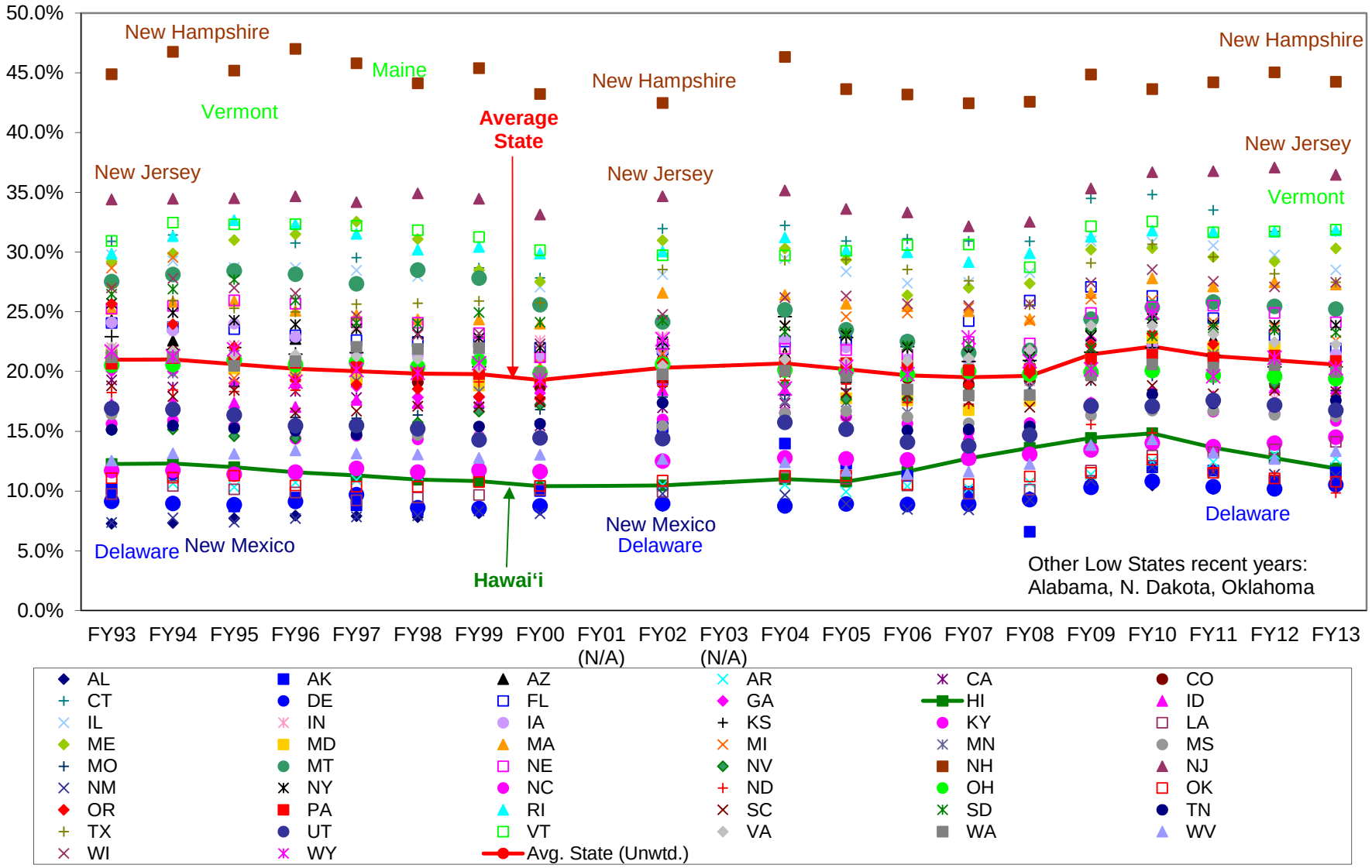


Figure 2.22: Property Taxes as Percent of General Revenue from FY 1993, All States



2.5.2 Comparing Hawai‘i Governments’ Levels of Specific Taxes (Nine Types) to Other States

Again, given the *structure* of Hawai‘i’s revenue and taxation system, the *levels* fall closely in line. Table 2.2 tells much the same story as did the foregoing similar Table 2.1 on composition, except that by FY 2013 Hawai‘i unquestionably had the highest sales tax (as well as motor vehicle license) “burden” in the country – whether measured by GDP or per capita – but in some ways balanced by very low taxes in other categories, including Property and Corporate Income.

Table 2.2: Levels of Specific Taxes by Percent of GDP and Per-Resident Values, FY 2013

	Types of Taxes for Which Hawai‘i Tended to Rank High in FY 13 (Level)				
	General Sales*	Individual Income Tax	Other Selective Sales Taxes,* Public Utilities	Motor Vehicle License	Alcohol/Tobacco Products
Hawai‘i, Pct. of GDP	4.3%	2.4%	1.2%	0.5%	0.22%
50-State Avg., Pct. of GDP	2.0%	1.9%	0.6%	0.2%	0.17%
Hawai‘i’s Rank (of 50)	*1*	*17*	*4*	*1*	*13*
Hawai‘i, Per Resident	$2,226	$1,239	$639	$247	$115
50-State Avg., Per Resident	$981	$952	$314	$86	$86
Hawai‘i’s Rank (of 50)	*1*	*14*	*3*	*1*	*11*

* Hawai‘i’s General Excise Tax would fall under "General Sales," and its Transient Accommodations Tax under "Selective Sales Taxes."

	Types of Taxes for Which Hawai‘i Tended to Rank Low in FY 13 (Level)			
	Property Taxes	Motor Fuel	Corporate Income	Other Taxes
Hawai‘i, Pct. of GDP	1.8%	0.2%	0.2%	0.2%
50-State Avg., Pct. of GDP	2.7%	0.3%	0.3%	0.8%
Hawai‘i’s Rank (of 50)	*42*	*34*	*42*	*48*
Hawai‘i, Per Resident	$948	$119	$88	$118
50-State Avg., Per Resident	$1,392	$138	$166	$465
Hawai‘i’s Rank (of 50)	*38*	*35*	*39*	*44*

Note: Expressing some of the above taxes on a per capita basis is a matter of convenience rather than strict accuracy – e.g., Corporate Income Taxes would logically be better expressed on a “per corporation” basis, Property Taxes on a “per property” basis, and Motor Vehicle Taxes possibly on a “per vehicle” basis.

Additional Analysis/Conclusion: Remaining is the question of which specific taxes contributed most to Hawai‘i seeing a rise in General Revenue from FY 2008 to FY 2013 (in GDP terms), while the “Average State” was falling. We found no contributing pattern of this type from Individual Income, Property, or Corporate taxes. However, Figure 2.23 through Figure 2.25 clearly indicate that General Sales (the GET), Selective Sales (including the TAT), and Motor Vehicle Taxes were all growing faster than GDP in those recent years. The Motor Vehicle Tax is very small in absolute size, but vehicle use is critical to lower-income and middle-class residents, and the growth in this tax may be having regressive effects.

Figure 2.23: General Sales Taxes as Percent of GDP from FY 1993, All States

(For Hawai'i, this means the General Excise Tax)

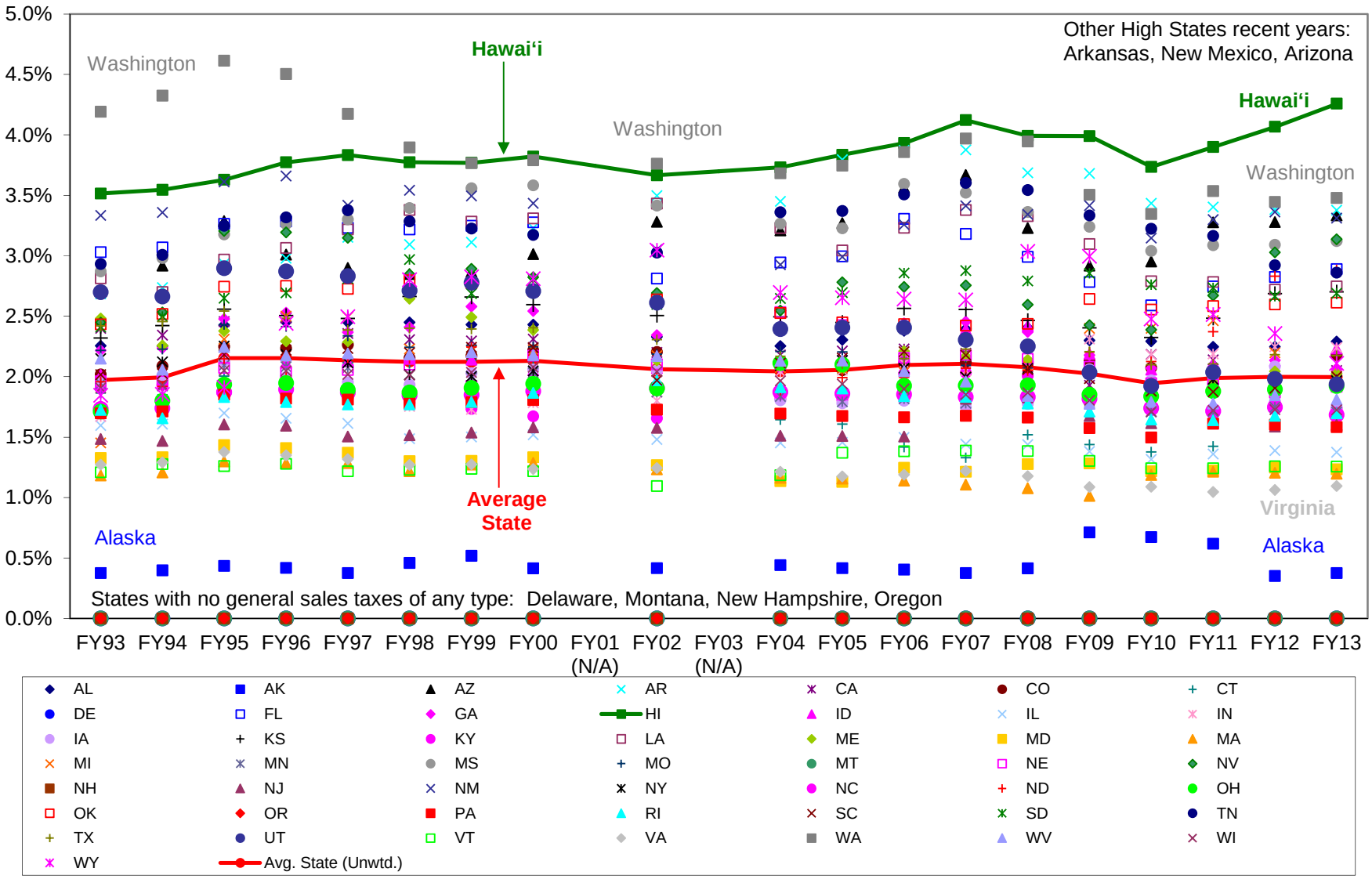


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Figure 2.24: "Selective Sales" and Public Utilities Taxes as Percent of GDP from FY 1993, All States
(For Hawai'i, this includes the Transient Accommodations Tax)

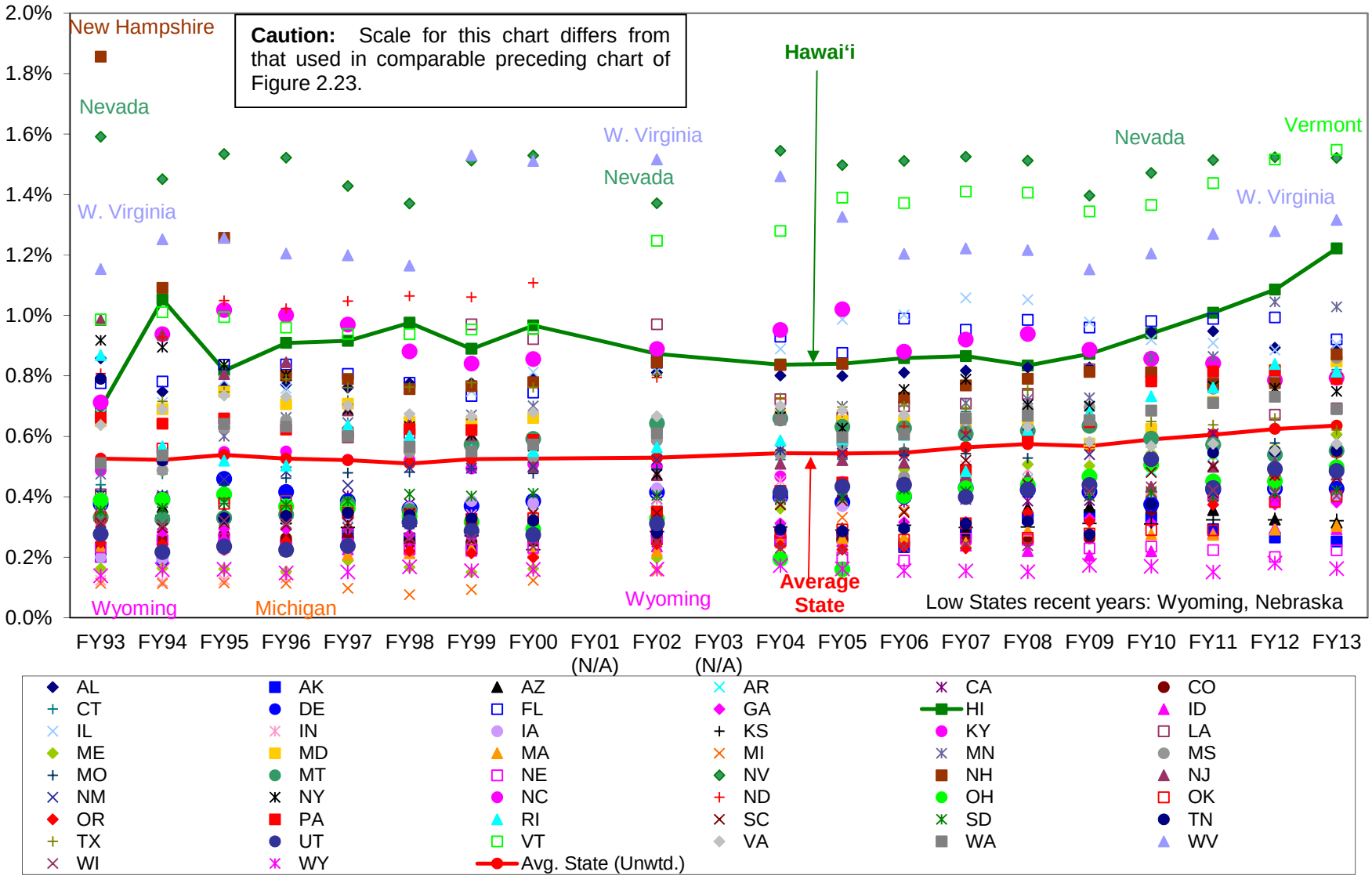
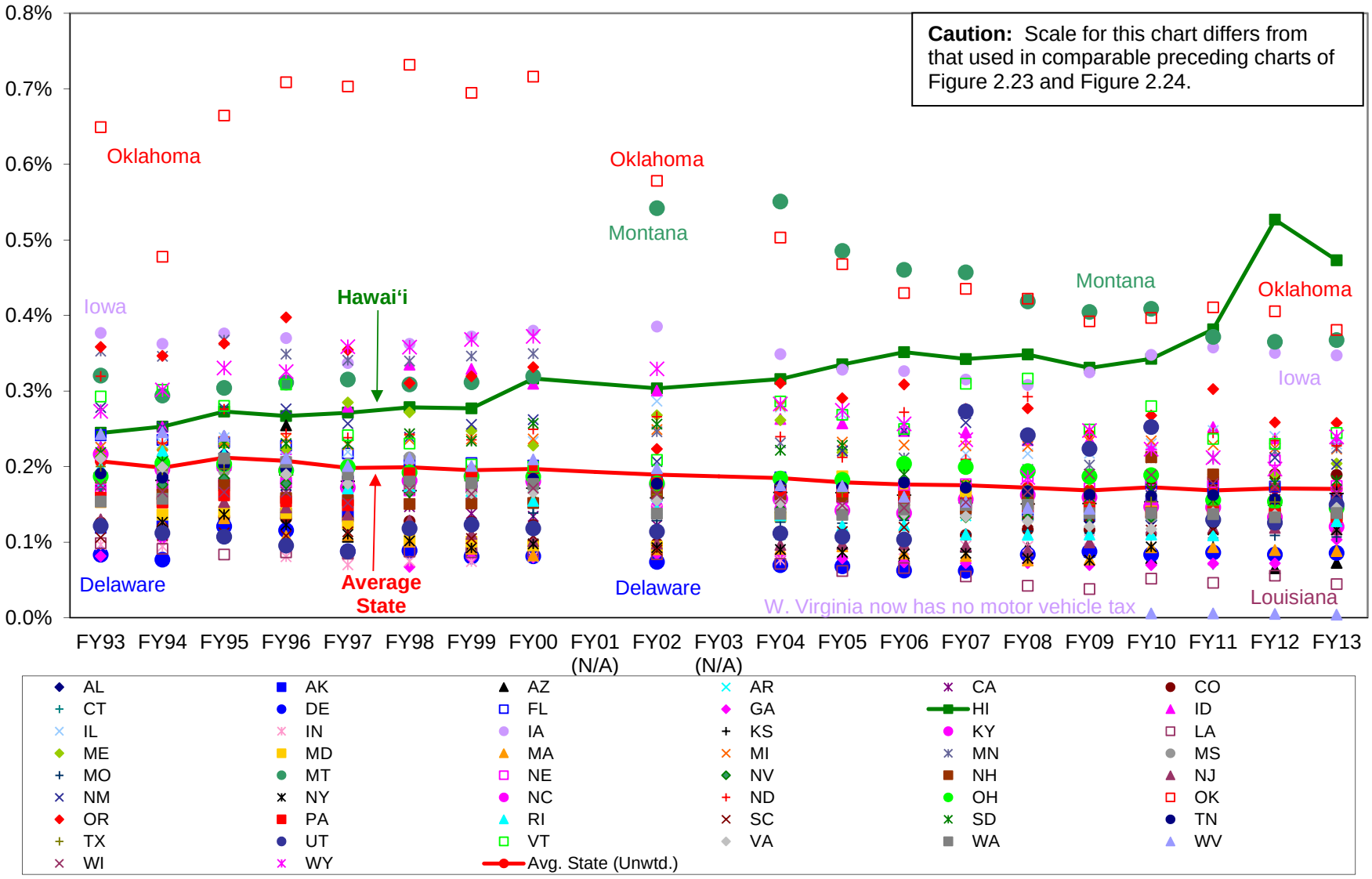


Figure 2.25: Motor Vehicle Taxes as Percent of GDP from FY 1993, All States



2.6 SELECTED NON-TAX REVENUE TYPES

2.6.1 Selected "Charges and Miscellaneous General Revenue"

We invite the reader to take another look at the framework of Figure 2.2, page 12. If this is interpreted as a decision tree, the preceding pages show how, at each decision point, Hawai'i's combined state and local governments have been relatively more inclined than other places to lean *toward* taxation (especially taxes that are paid in part by tourists) and *away* from a wide variety of other possible revenue sources.

Critics of government may wish to argue this reflects a lack of imagination or lack of entrepreneurial attitudes. Defenders may wish to argue this is the logical outcome of reasoned policy choices – for example, State government in Hawai'i has determined that it does not wish to run lotteries or manage liquor sales in government-certified stores. Overall, this issue far exceeds the scope of this analysis, although it certainly may be worthwhile to conduct a systematic review of potential revenue sources that Hawai'i governments have tapped little or not at all.

As a very limited and preliminary step in that direction, we looked at the six selected[10] categories under "Charges and Miscellaneous General Revenue" – the *non-taxation* component of General Revenue (see Figure 2.2).– i.e., the "5th level of analysis" indicated in that chart.

It should of course be noted that much of the revenue from these charges and fees go into special-purpose funds, though there are different practices at different times and places regarding possible use of some of this money for the general fund.

Table 2.3 on the following page summarizes *both* composition and level data for FY 2013. Historical data on subsequent pages for the sake of simplicity are limited to data on "Percent of General Revenue" since 1993 for the three most tangible categories – Hospitals, Higher Education, and Airports.

[10] Four of these categories – Airports, Hospitals, Higher Education, and "Other General Revenue" -- were selected because they (a) involved relatively significant amounts for Hawai'i; and (b) are solely or primarily revenue categories for Hawai'i's state government, which is the greater focus for this study. (One category that might be added by these criteria in future would "Sea and Inland Port Facilities," which is now a greater revenue source than it was at the beginning of the study period.) The other two categories – "Other Charges" and Interest Earnings – were selected because they currently generate relatively low revenue for Hawai'i governments compared to other places. Revenue from the latter two categories also go primarily to state government in Hawai'i (Table 2.3).

Examples of other Census categories omitted from the study include school lunch revenue, highways (Hawai'i has no toll roads), parks and recreation income, housing and community development, etc.

Table 2.3: Composition and Levels of Selected "Charges and Miscellaneous General Revenue," FY 2013

	Airports	Hospitals	Higher Education	"Other Charges"	Interest Earnings	"Other General Revenue"
Composition						
Hawai'i, % Genl. Revenue	3.4%	5.3%	3.4%	0.9%	0.4%	7.1%
50-State Avg., % Genl. Rev.	0.8%	6.4%	5.8%	3.0%	2.9%	7.6%
Hawai'i's Rank (of 50)	*2*	*30*	*44*	*50*	*50*	*21*
% to State Only (Hawai'i)	100%	100%	100%	87%	81%	93%
% to State Only (50-St. Avg.)**	13%	49%	93%	36%	68%	70%
Level						
Hawai'i, Pct. of GDP	0.5%	0.8%	0.5%	0.1%	0.1%	1.1%
50-State Avg., Pct. of GDP	0.1%	0.9%	0.8%	0.4%	0.4%	1.0%
Hawai'i's Rank (of 50)	*1*	*26*	*41*	*50*	*50*	*10*
Hawai'i, Per Resident	$268	$422	$272	$72	$32	$566
50-State Avg., Per Resident	$56	$408	$374	$198	$212	$547
Hawai'i's Rank (of 50)	*1*	*19*	*41*	*50*	*50*	*10*

** From Vol. III Appendix A. Average based on all states that have such taxes at some level of government; may not always be 50.

Conclusions:

- ***Hospitals*:** There is a strikingly wide range among the states for hospital revenue. Hawai'i hospital revenue in recent years is now much closer to that of the "Average State" than it was in the 1990s.
- ***Higher Education*** also shows a fairly wide range among states, as revenue would depend on the number of publicly-funded campuses, tuition, and success in attracting higher-paying out-of-state students. Hawai'i is doing better on a relative basis since the early 1990s but still has a way to go to catch up with the "Average State."
- ***Airports*** are a major money-maker for the State government, even with lower revenue in the 2000s than in the 1990s.
- ***"Other Charges:"*** Though not shown for reasons of space, the historical data show Hawai'i has been pretty much at the lowest rank since at least 1993. Government may wish to investigate some of these revenue possibilities (see discussion of various "Other" categories in the following Section 2.7).
- ***Interest Earnings:*** For whatever reasons, Hawai'i governments *declined* to the current dead-last position from better relative ranking in the 1990s (e.g., 35th in FY 1993, 26th in 1999, based on Percent of General Revenue).
- ***"Other General Revenue:"*** In this catch-all category, Hawai'i's ranking by all the comparability measure in this study used to be near the bottom in the 1990s, but has varied more in the 2000s. FY 2013 was a particularly good year.

Figure 2.26: Hospital Revenue as Percent of General Revenue from FY 1993, All States

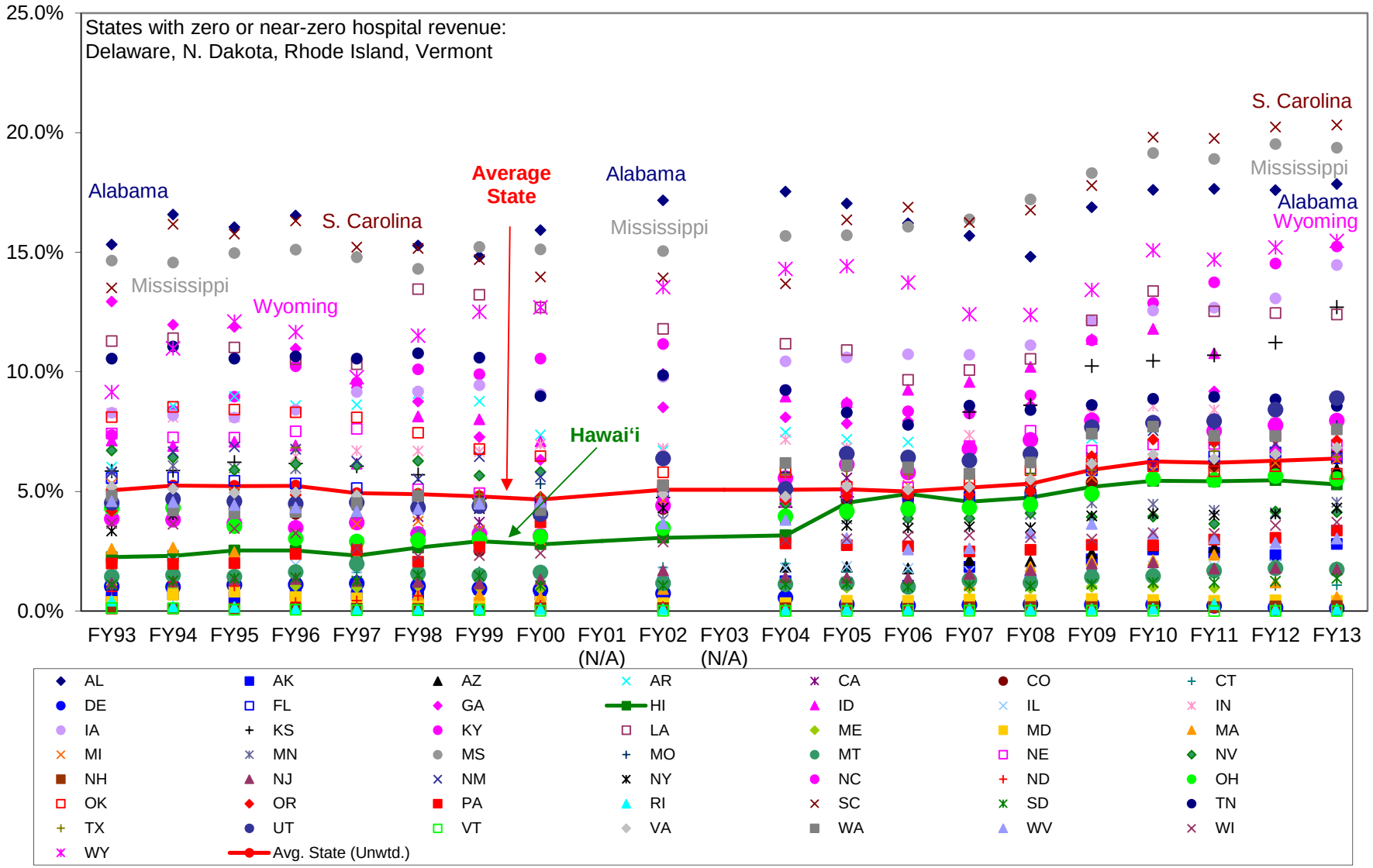


Figure 2.27: Higher Education Revenue as Percent of General Revenue from FY 1993, All States

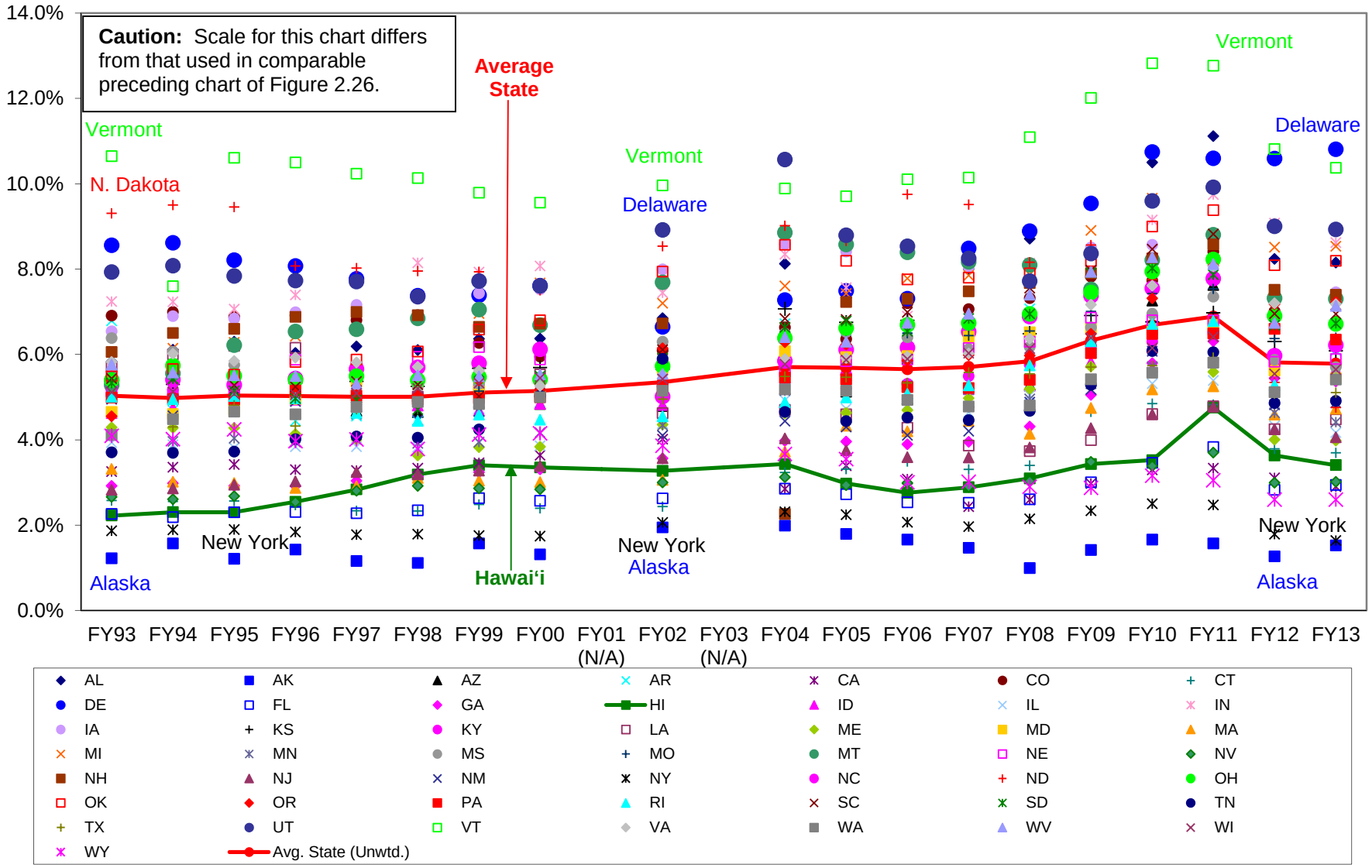
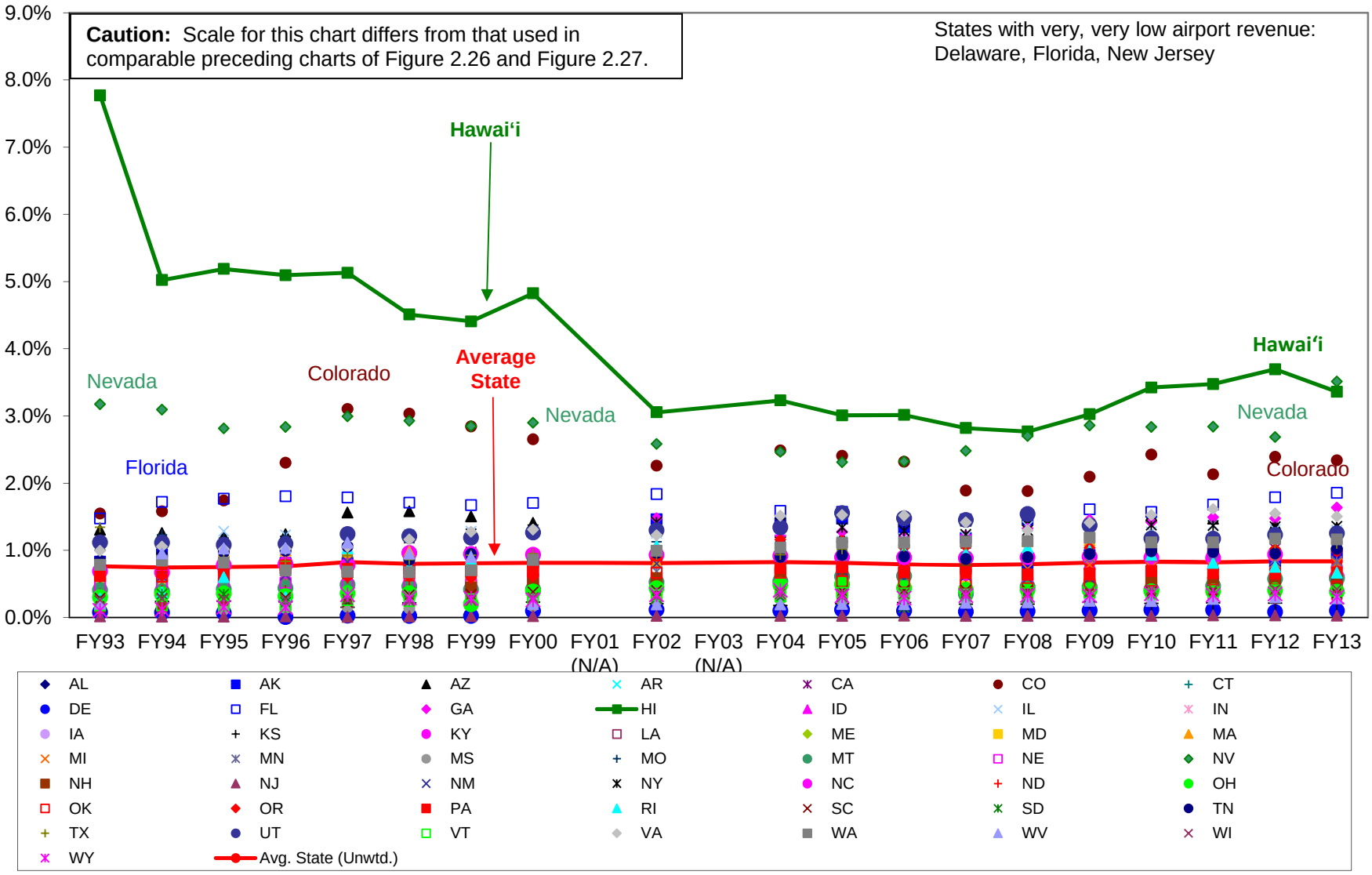


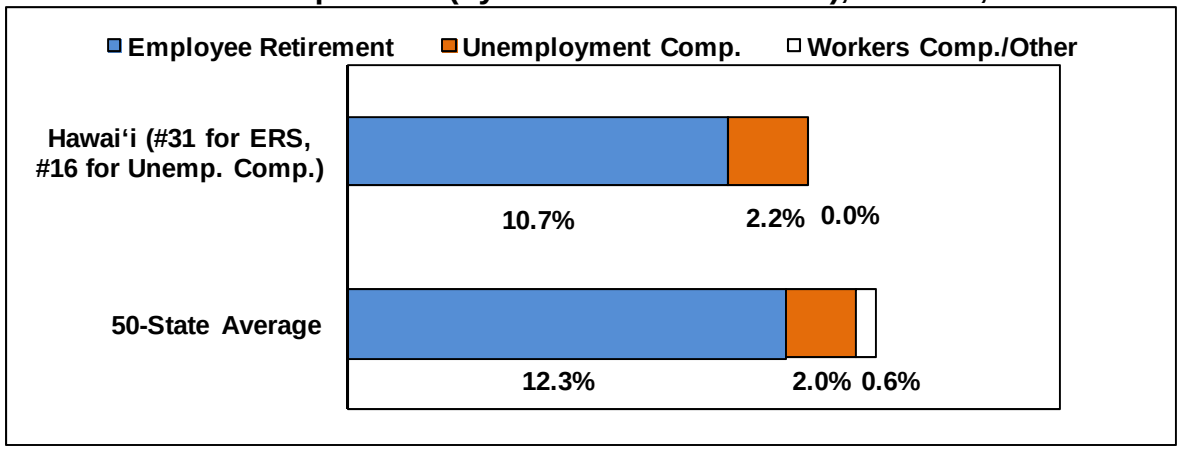
Figure 2.28: Airport Revenue as Percent of General Revenue from FY 1993, All States



2.6.2 Comparing Hawai‘i Governments’ Insurance Trust Revenue (including ERS) to Other States

Composition: Insurance trusts are not considered part of “General Revenue,” but rather a part of “Total Revenue.” In FY 2013, all state/local government insurance trusts combined made up about 15% of *Total* Revenue for the “Average State,” vs. about 13% for Hawai‘i. The Census has four categories of insurance trusts: (1) Employee Retirement Systems (ERS), by far the largest; (2) government-run Unemployment Compensation trusts; (3) government-run Workers’ Compensation trusts; and (4) miscellaneous “other.” Hawai‘i has only the first two, with each operated entirely at the state government level:[11]

Figure 2.29: Insurance Trust Components (by Pct. of Total Revenue), FY 2013, Hawai‘i vs. Average State



Level: For the sake of simplicity, we present only the historical data for the preferred measure of Percent of GDP in the following Figure 2.30 (ERS – Hawai‘i ranked 22nd in FY 2013) and Figure 2.31 (Unemployment – Hawai‘i was 16th in 2013).

Conclusions: In the Census system, revenues for insurance trusts – including Employee Retirement Systems – are comprised of employer and employee contributions, *and* earnings on investment (both realized and unrealized gains/losses). Rarely, as in the Great Recession, large unrealized losses can result in negative numbers. In the Great Recession, states that had been at the top of the heap both before and after the crash were the most affected. Hawai‘i ERS revenue has been close to that of the “Average State” since 1993, and suffered no more or less than the typical state at that time.

Hawai‘i’s much smaller Unemployment Compensation trust revenue (about one-fifth the amount of ERS revenue) has varied more from the “Average State” performance and fared quite poorly in the Great Recession. Otherwise, it has done moderately well relative to other states, and was back to a respectable position relative to other states by FY 2013.

[11] Unemployment trusts are administered only at the state level in all states, but many states have some smaller ERS trusts at the local level as well.

Figure 2.30: ERS Insurance Trust Revenue as Percent of GDP from FY 1993, All States

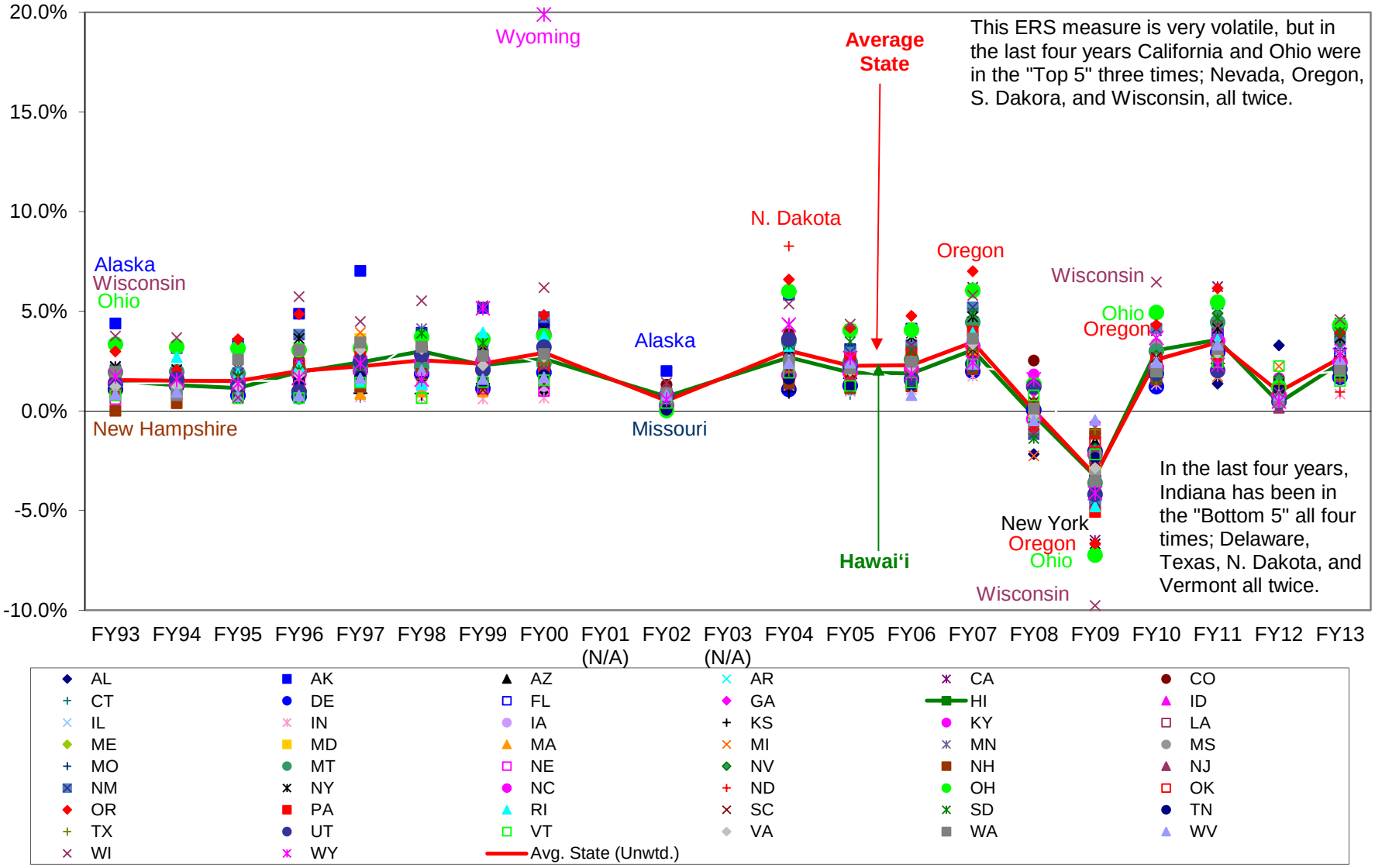
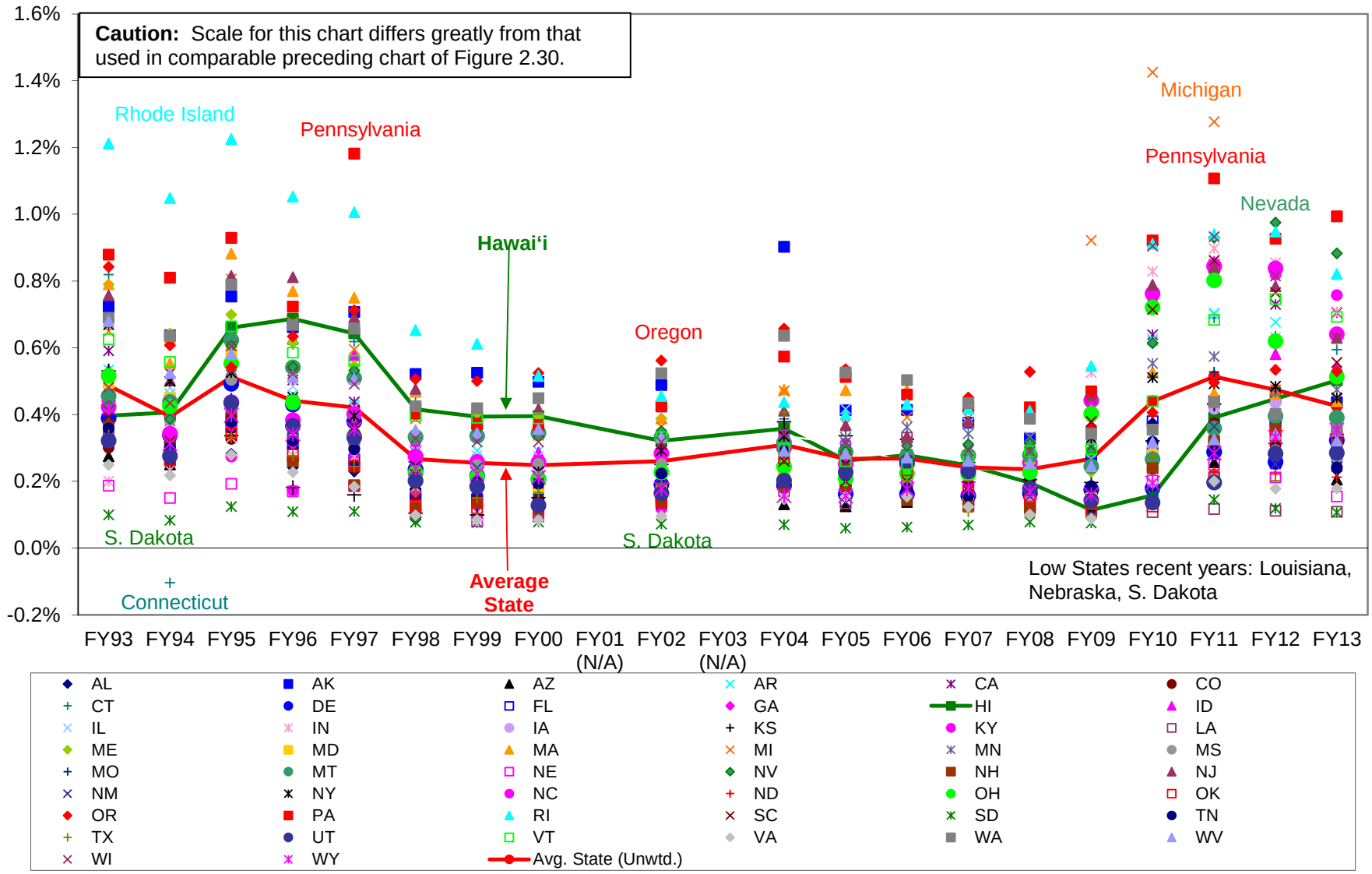


Figure 2.31: Unemployment Compensation Trust Revenue as Percent of GDP from FY 1993, All States



2.7 WHAT DOES "OTHER" MEAN?

Definitions of Various "Other" Revenue Categories: A common finding on the preceding pages is that Hawai'i's combined state/local governments derive proportionately less revenue than Mainland locales, on average, from "other" sources – Other Insurance Trusts, Other Taxes, Other Charges, Other General Revenue. A key exception is Other Selective Sales Taxes, on which we ranked high, due to the TAT. Following is an explanation of these categories, based on the Census Bureau's *Government Finance and Employment Classification Manual* (https://www.census.gov//govs/local/).

Category/Significance	Definition and/or Examples
Other State/Local Taxes % GENL Revenue FY 2013 = 3.23% of 50-state *weighted* avg.; 1.19% for Hawai'i	Examples specified in the Census manual are death and gift taxes; documentary and stock transfer taxes; severance taxes; and all other taxes not elsewhere specified, "such as taxes on land at a specified rate per acre (rather than on assessed value)." Implicitly, because the manual specifies other types of *license* taxes not specified in the dataset, also included would be license taxes for everything except motor vehicles – e.g., on amusements, liquor establishments, franchises, hunting/fishing, specified occupations/businesses, etc. *Some of these may represent revenue opportunities for Hawai'i.*
Other Selective Sales Taxes/Public Utilities (combines original Census categories "Other Selective Sales Taxes" and "Selective Taxes on Public Utilities") % GENL Revenue FY 2013 = 3.84% of 50-state *weighted* avg.; 6.44% for Hawai'i	These two were combined in part for reasons of space. Nationally, in FY 2013, "Other" selective taxes comprise 72% of the combined total for the two (weighted average); in Hawai'i, 64%. The Census manual gives these examples: selective taxes "on specific commodities, businesses, or services not reported separately above (e.g., on contractors, **hotel/motel**, lubricating oil, fuels other than motor fuel, motor vehicles, meals, soft drinks, margarine, etc.)." [emphasis added to show relevance to Hawai'i Transient Accommodations Tax]. Implicitly, because the manual includes other categories which are not reflected in the dataset, also included would be distinctive taxes on amusements, pari-mutuels, and insurance premiums. Selective taxes on "Public Utilities" are those imposed distinctively on utilities (including direct consumer taxes) for transportation, telephone, power, etc.
Other Charges % GENL Revenue FY 2013 = 2.42% of 50-state *weighted* avg.; 0.72% for Hawai'i	Charges not covered by other "Current Charges" specified in Figure 2.1 – e.g., Education, Hospitals, Highways, etc. Examples from manual: "… such as those derived from court and recording fees, police, fire, correction, defense, public welfare, public nursing homes, public libraries, and health activities." (Charges for health clinic services are reported here rather than with Hospitals.) *Again, some of these may represent new revenue opportunities for Hawai'i.*
Other General Revenue % GENL Revenue FY 2013 = 5.35% of 50-state *weighted* avg.; 5.71% for Hawai'i	Rents and royalties; fines and forfeits; private donations; net lottery revenue; and miscellaneous general revenue (including a wide variety of revenue sources not classifiable as tax, inter-governmental revenue or current charges – e.g. dividends on investments other than insurance trust funds; recovery of expenditures made in a prior fiscal year; receipts from escheats; premiums on bonds issued; etc.
Other Insurance Trusts % TOTAL Revenue FY 2013 = 0.21% of 50-state *weighted* avg.; 0% for Hawai'i	This is a fairly incidental category. Examples given: "…such as those for uninsured motorists or disability insurance."

3. GOVERNMENT EXPENDITURES

This chapter examines the way Hawai‘i governments (combined state/local) spend their money overall and on different types of activities, as compared to expenditure patterns in other states. At the overall spending level, Hawai‘i in the 1990s did indeed spend a somewhat higher percentage of the money generated by its economy (GDP) than did the “Average State,” and reported Total Expenditures often exceeded reported Total Revenue. But for most of the 2000s, overall spending in Hawai‘i has closely matched that of the “Average State.” We do consistently allocate relatively more money to certain functions (e.g., Airports/Parking/Ports [largely self-funded from particular revenue sources], various general governmental activities, and at the county level Sewerage/Solid Waste) … and less to others (e.g., Correction, K-12 Education [probably reflecting high private school utilization], and Adult/Vocational Ed/Libraries).

NOTE: For definitions and other technical notes relevant to this chapter, see the title page of Volume II Appendix C. That appendix contains detailed state-by-state information about data summarized in this part of the report.

3.1 ORGANIZATION OF EXPENDITURE ANALYSIS

The Challenge: As with Revenue, the U.S. Census Bureau provides many categories (and sub-categories, and sub-sub-categories) of Expenditures. For purposes of this very general study, it was helpful to reorganize, consolidate, and sometimes eliminate.

Original vs. Reorganized Categories (Two Types of Breakdown): The Census has two principal ways of breaking down combined state and local government expenditure data –

- By "Function" – The *following page* attempts to summarize the highly complex and varied levels and components used by the Census. (In fact, Census technical documentation shows even more detailed levels, but the functional categories on the next page are those used in the actual dataset downloaded from the Census website for this site.) The *second following page* shows how these categories were combined and otherwise re-arranged for purposes of this report.

- By "Character and Object" – These categories were broader and fewer, and we simply omitted one or two for reasons of space. The *third following page* shows both the original Census scheme and our slightly simplified one.

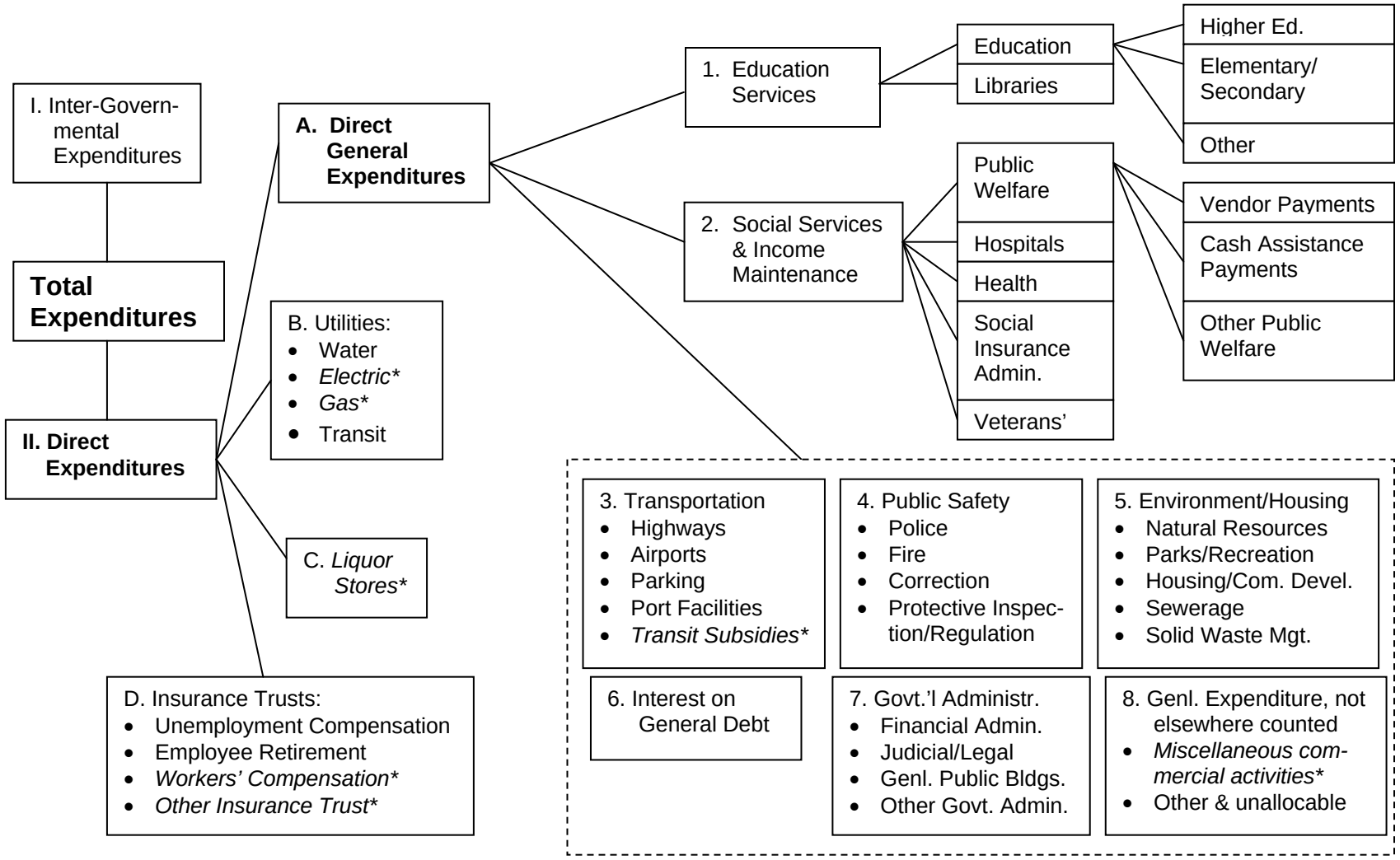
(The payroll data discussed at the very end of this chapter is part of neither of these schemes, but is presented as a separate Census "exhibit." It represents a sort of "6th Level of Analysis" not shown in Figure 3.2 and Figure 3.4.)

Basis for Reorganized Categories: It was primarily judgmental. We sought to preserve individual categories that we thought would have particular meaning in Hawai'i. We also conducted an initial analysis looking for specific categories in which Hawai'i seemed to differ from the national average, and tried to preserve as many of those as possible.

Steps in the Analysis: These are indicated in the five "Levels of Analysis" designated on the following Figure 3.2 and Figure 3.4 (plus an un-shown "6th Level" of Wages/Salary expenditure as well as a "gap" analysis mentioned below). These follow the critical path of Total Expenditures, Direct Expenditures, and Direct General Expenditures. The last category – Direct General Expenditures – provides the most comparable figures for state-to-state analysis, because states vary from one another greatly in terms of the other expenditures (e.g., utilities or liquor store operations).

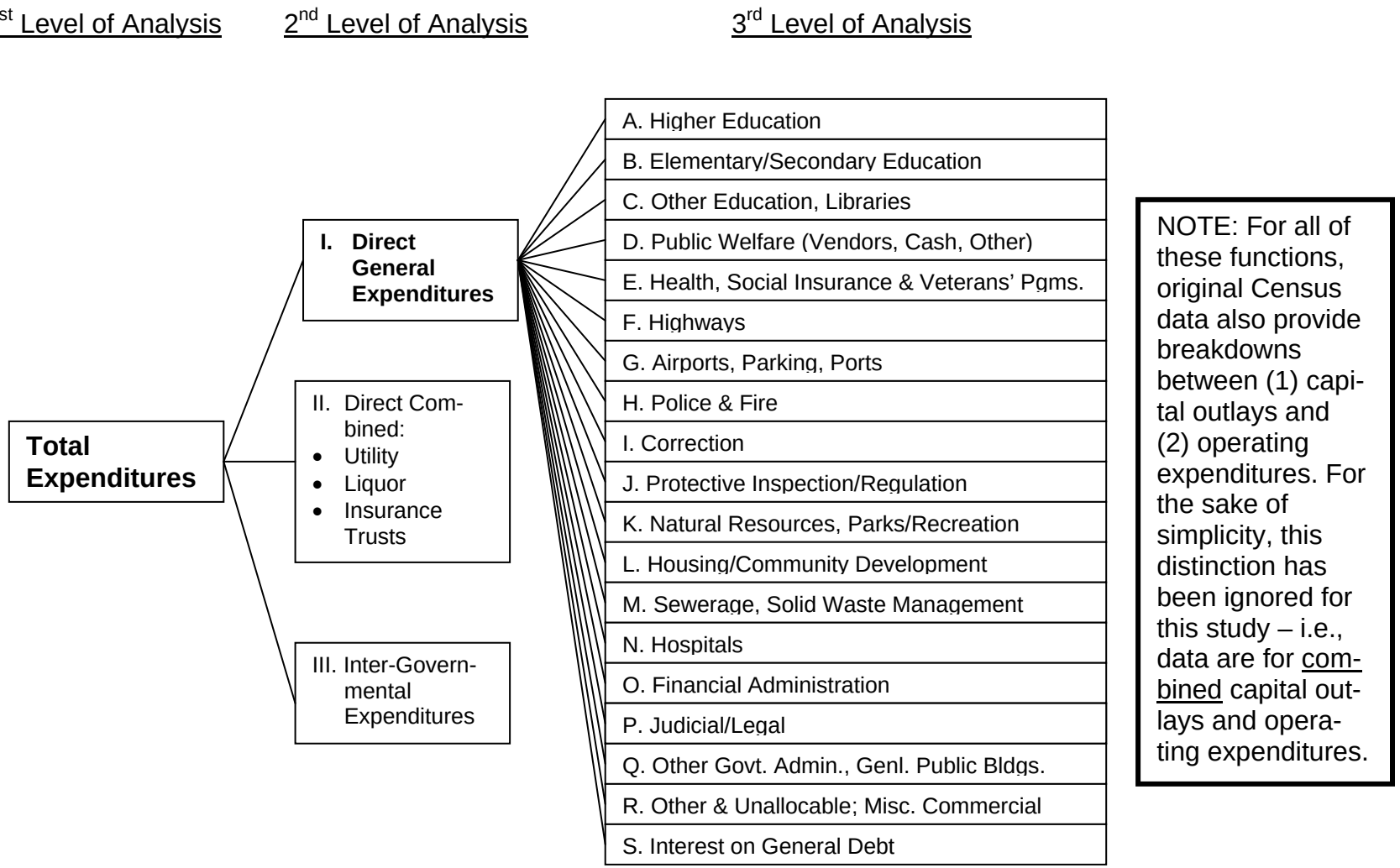
Finally, we will also briefly look at the "gap," or difference, between Total Expenditures and Total Revenue for governments in Hawai'i vs. those of the rest of the nation – the extent to which there is or is not a "balanced budget" at the cumulative level of total state/local governments.

Figure 3.1: Original Census Organization of Expenditures ("by Function")



* By Census definitions, these italicized functions are not governmental functions in Hawai'i; i.e., they have $0 revenue or expenditures here. For example, electrical power is provided by a private regulated utility, and Workers' Compensation is handled for private employers by insurance companies and for government on a pay-as-you-go basis (not an insurance trust). "Transit subsidies" was an early Census category that has recently not been separately reported.

Figure 3.2: Consolidation/Reorganization of Expenditure Categories for This Study ("by Function")



NOTE: For all of these functions, original Census data also provide breakdowns between (1) capital outlays and (2) operating expenditures. For the sake of simplicity, this distinction has been ignored for this study – i.e., data are for combined capital outlays and operating expenditures.

Figure 3.3: Original Census Organization of Expenditures ("by Character and Object")

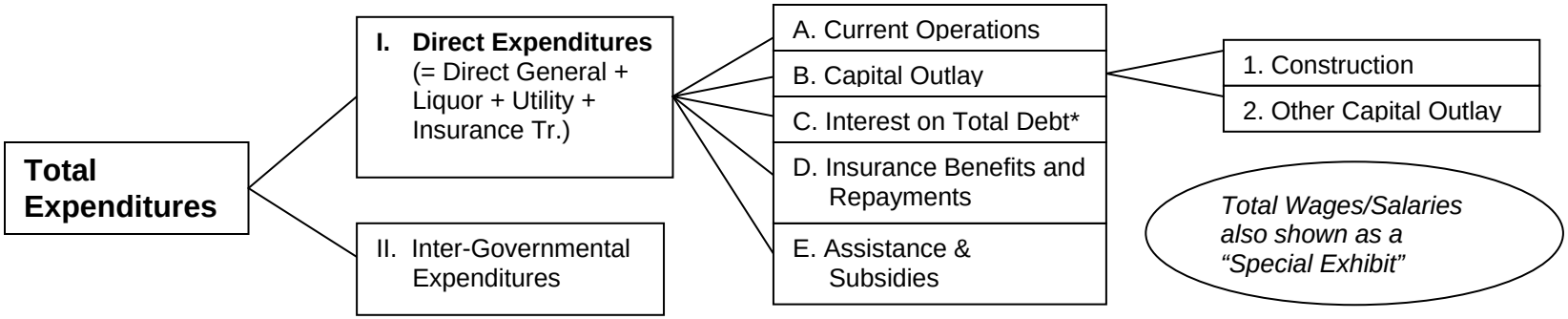
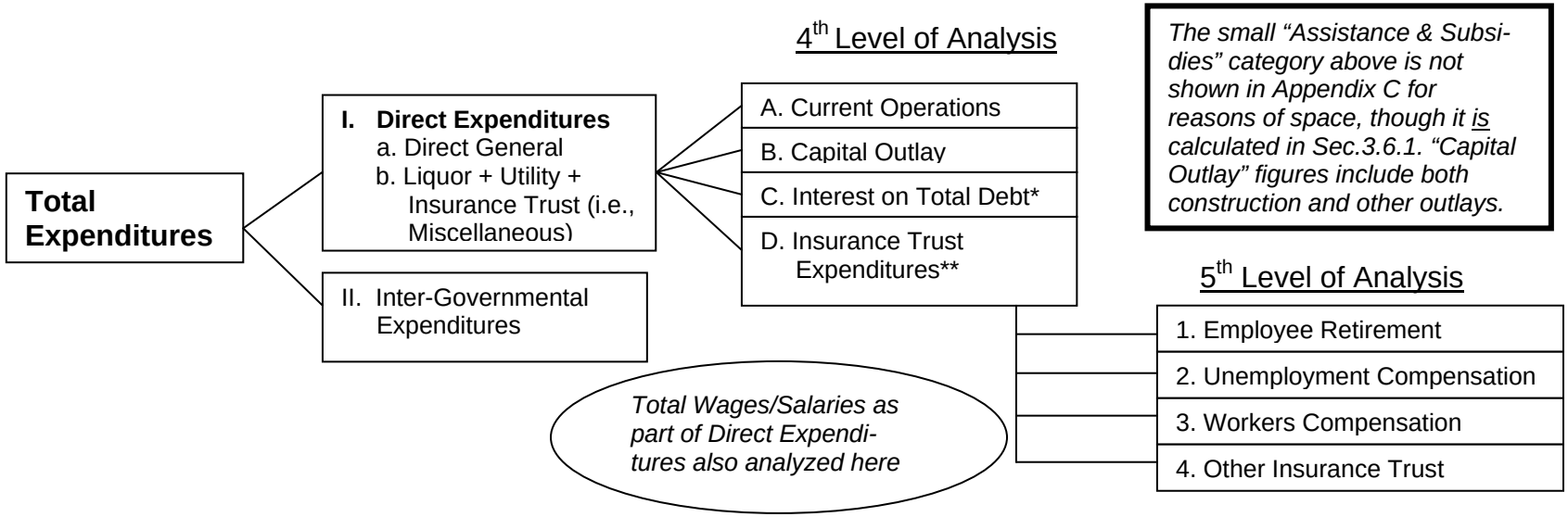


Figure 3.4: Consolidation/Reorganization of Expenditure Categories for This Study ("by Character and Object")



* "Interest on Total Debt" on this page equals "Interest on General Debt" shown on preceding pages plus interest on any debt for government-operated utilities (i.e., in Hawai'i, just water and transit at the county level).
** Census actually has this breakdown of Insurance Trust expenditures with categories "by Function," but we have moved it to "Character and Object" to keep the "Function" categories from being even more numerous (see Figure 3.2). Percentages differ slightly between the two approaches though, because "Functions" are a sub-set of Direct General Expenditures rather than the broader Direct Expenditures used here.

3.2 TOTAL EXPENDITURES, COMBINED STATE/LOCAL GOVERNMENTS

3.2.1 Comparing Hawai‘i Governments’ Total Revenue Level to Those of Other States

As of FY 2013, 79% of combined state/local government Total Expenditures accrued to Hawai‘i’s state government alone (comparable to the 78% for Total Revenue), vs. 67% to state government alone for the “Average State.” The Hawai‘i percentage was 6th highest in the country. However, this chapter again focuses on combined state/local government data. Detailed state-by-state figures for FY 2013 are in Vol. II Appendix C. Following is a summary for FY 2013 (Figure 3.5 and Figure 3.6), and the subsequent Figure 3.7 and Figure 3.8 provide historical data from FY 1993.

Figure 3.5: Total Expenditures as Pct. of GDP, FY 2013

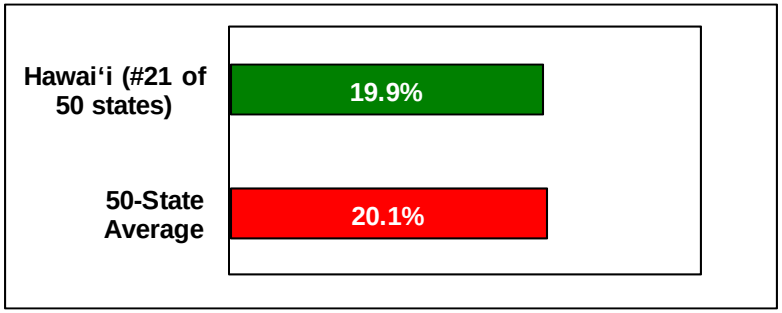
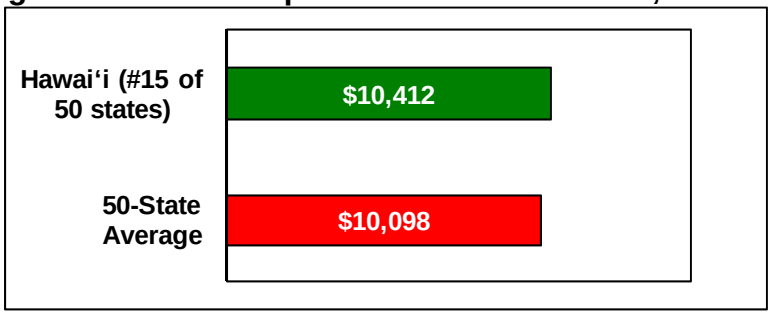


Figure 3.6: Total Expenditures Per Resident, FY 2013



Conclusions: Although conclusions differ *very* slightly depending on which “yardstick” is used – i.e., the recommended approach of Percent of GDP has the FY 2013 Hawai‘i value a little lower than for the “Average State,” while the Per-Capita approach has Hawai‘i a little greater – both show Hawai‘i combined governments’ level of Total Expenditures quite close to the national average for states for the most recent available year. (Again, the Per-Capita approach of Figure 3.6 is shown for the sake of complete disclosure, though it fails to account for the fact that government expenditures in Hawai‘i are required much more than in most places for non-residents – i.e., tourists and part-time residents).

Figure 3.7 and Figure 3.8 again tell very slightly different stories for the Percent of GDP and the Per-Capita approach. The latter shows Hawai‘i governments’ figure consistently (if not greatly) larger than the “Average State” combined governments’ Total Expenditures in the 2000s, while the preferred Percent of GDP approach shows a virtually negligible difference in the 2000s.

Interestingly, both approaches (and particularly the Percent of GDP one in Figure 3.7) indicate that Hawai‘i Total Expenditures were *closer* to the “Average State” in the 2000s than they had been previously. However, this was because the “Average State” tended to spend more in the 2000s while Hawai‘i held Total Expenditures to roughly 20% of GDP.

Figure 3.7: Total Expenditures as Percent of GDP from FY 1993, All States

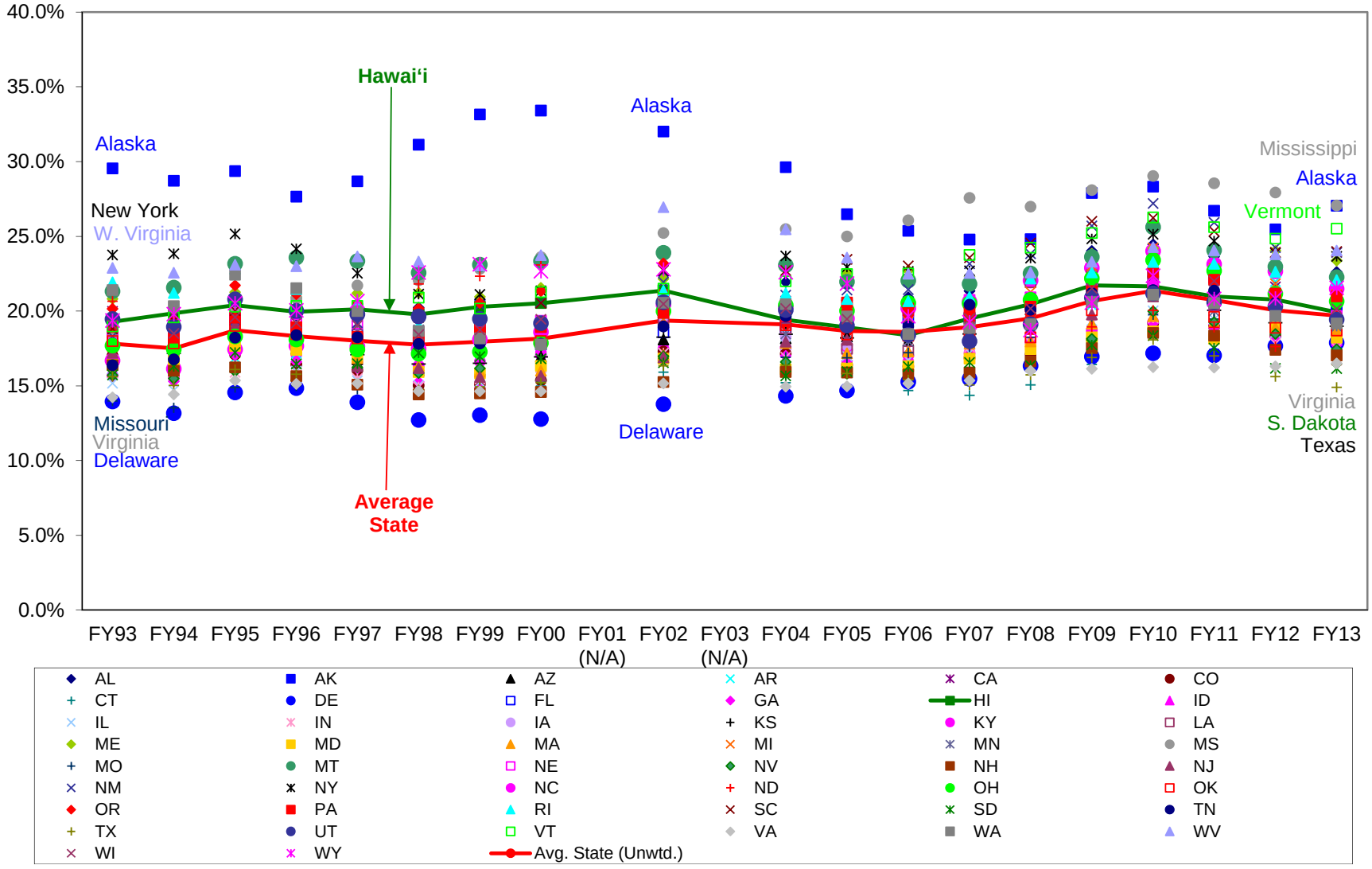
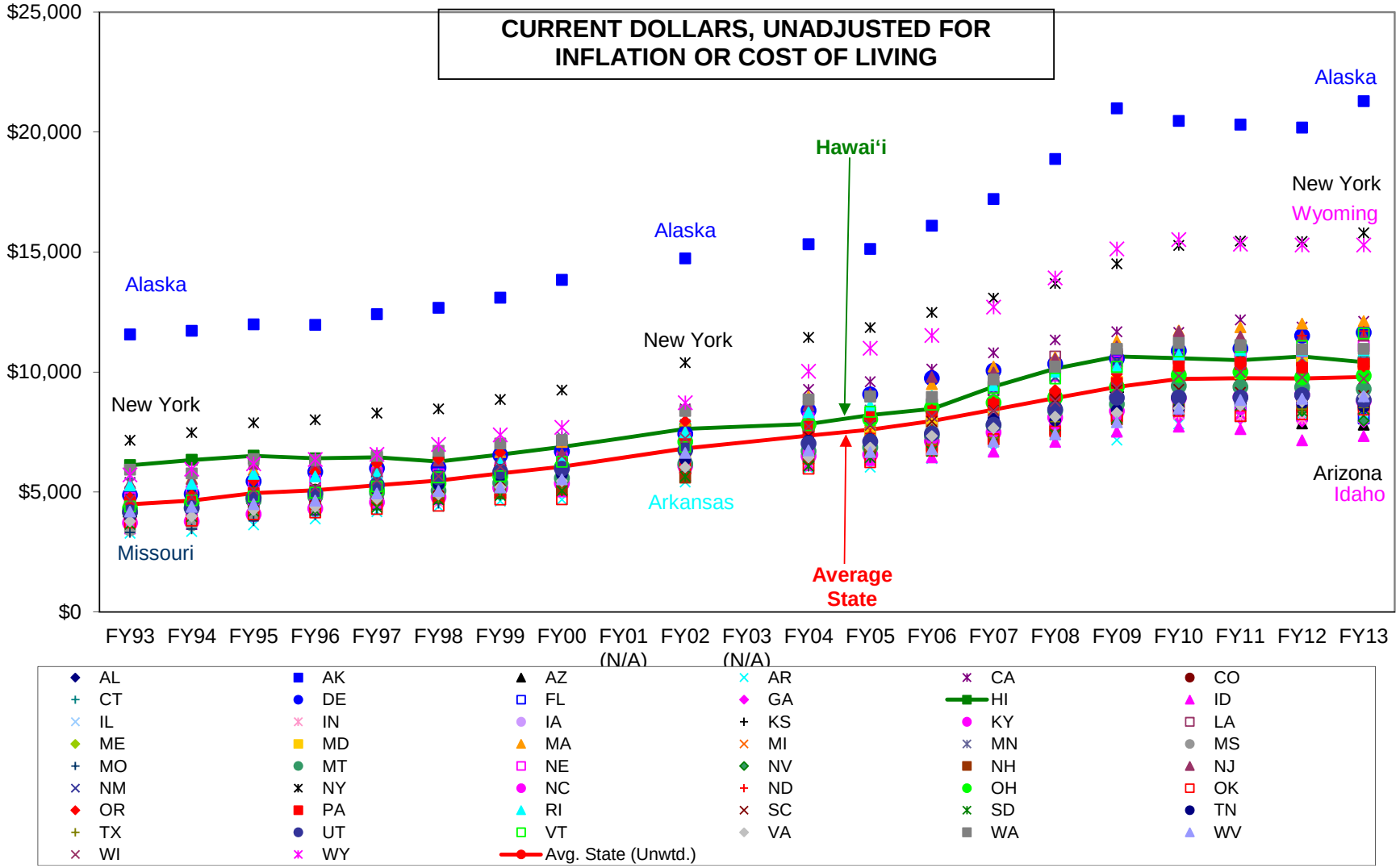


Figure 3.8: Total Expenditures Per Resident from FY 1993, All States



3.3 "GAPS" BETWEEN TOTAL EXPENDITURES AND TOTAL REVENUE

3.3.1 Comparing Hawai'i Governments' Total Revenue/Expenditure "Gaps" to Other States

Before moving to the components of Total Expenditures, we will take a short detour and quickly examine the available data on "gaps" between Total Revenue and Total Expenditures (i.e., Revenue minus Expenditures) – on a cumulative basis, are the governments of Hawai'i and other states spending more than they actually receive in revenue?

Note that this analysis cannot be used to make any sweeping conclusions about "fiscal integrity" of particular governments (i.e., state or municipal), as a state government might have a surplus and local governments a deficit, or vice-versa. More broadly, the Census Bureau's 2006 manual explicitly states that its statistical categories do not reflect established accounting procedures -- particularly "future liability, future revenue streams, and all related measures of future solvency" – and for this and other reasons the Revenue/Expenditure "gap" cannot be considered a true surplus or deficit. This short section is therefore indicative, but not any true measure, of cumulative fiscal solvency for local/state governments.

Because the historical data are more critical than numbers for FY 2013 alone, we will direct the reader's attention directly to those results (expressed as Percent of GDP) from FY 1993 through FY 2013 in Figure 3.9:

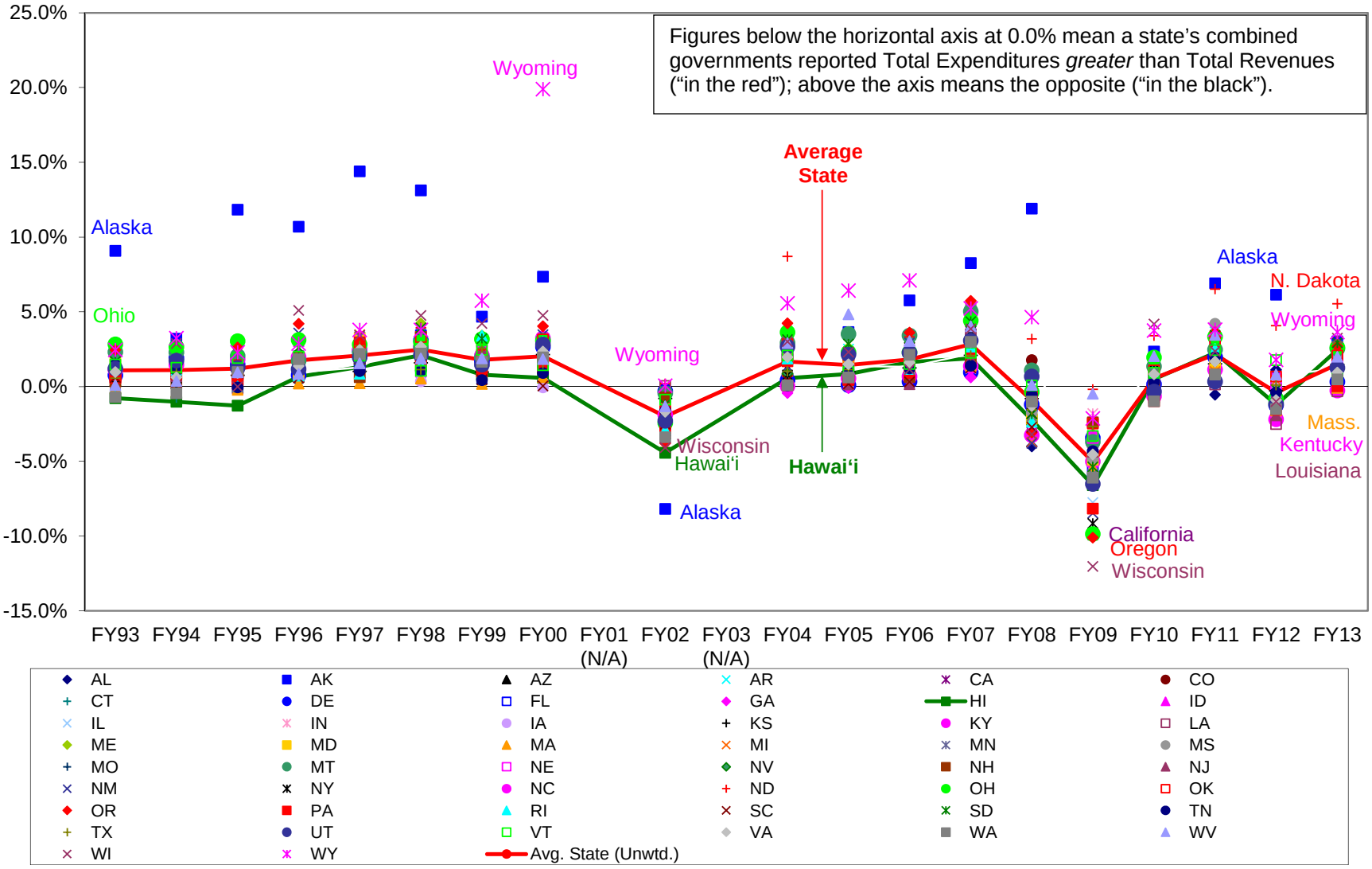
Conclusions: In the early to mid-1990s, when Hawai'i's economy was suffering a tourism slump, the islands' combined governments typically reported spending (Total Expenditures) more than they earned (Total Revenues) – more so, as a Percent of GDP, than any other place in the country. This questionable pre-eminence gradually dissipated, and by the early 2010s Hawai'i had gone from the bottom of the heap to a position pretty much equal to that of the "Average State," and even a little above in FY 2013. Despite not having the sort of energy trust revenues enjoyed by states such as Alaska and North Dakota, Hawai'i governments together had the 11th best ranking in the country for FY 2013.

Figure 3.9 also clearly shows the effects of national recessions on state/local governments' abilities to gather the revenues needed to match expenditures. The study period include two national recessions:[12] (1) March to November 2001, spanning FY 2001 and FY 2002, and (2) the Great Recession of December 2007 to June 2009, technically spanning FY 2008 and FY 2009 but with lingering after-effects. (Note that the stagnation of FY 2012 was also associated with Total Expenditures exceeding Total Revenues to some extent in many states, including Hawai'i.)

In the 2001 recession, Hawai'i was still in the pattern of having more of a negative "gap" between Total Revenues and Total Expenditures than most states – in fact, more than *any* other state but Alaska. The Great Recession was worse in absolute terms and lasted longer, but Hawai'i governments' combined "gap" was closer to the norm for other places.

[12] The recession of July 1990 to March 1991 (FY 1991) precedes the study period shown in these exhibits.

Figure 3.9: Total Revenue/Expenditure "Gaps" as Percent of GDP from FY 1993, All States



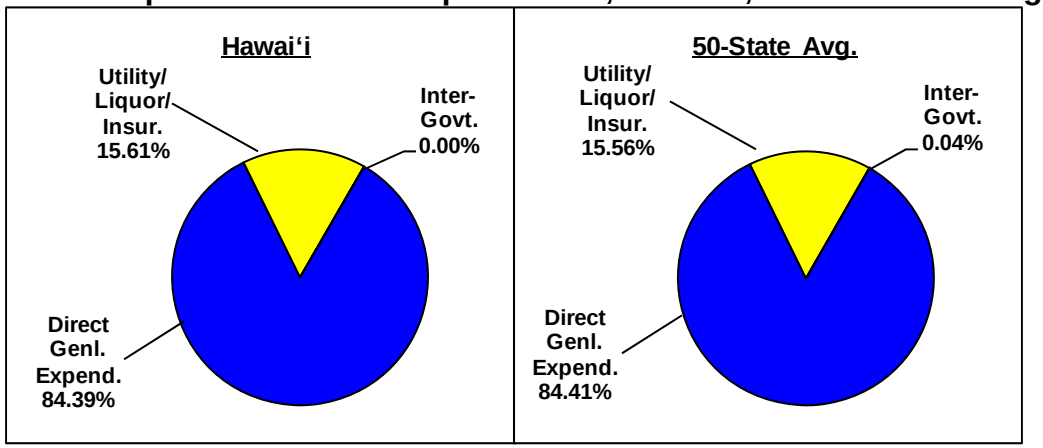
3.4 DIRECT GENERAL EXPENDITURES, AND OTHER COMPONENTS OF TOTAL EXPENDITURES

3.4.1 Composition of Total Expenditures

This is the "2nd Level of Analysis" in the analytic framework of Figure 3.2. For purposes of this study, the most important component is "Direct General Expenditures." These comprise the bulk of government spending and exclude the quasi-commercial activities that vary from state to state in terms of government involvement – i.e., utilities, liquor stores, and insurance trusts (which are here again, as with Revenues in Chapter 2, lumped together in a sort of Miscellaneous category) – as well as the miniscule Inter-Governmental service funds.

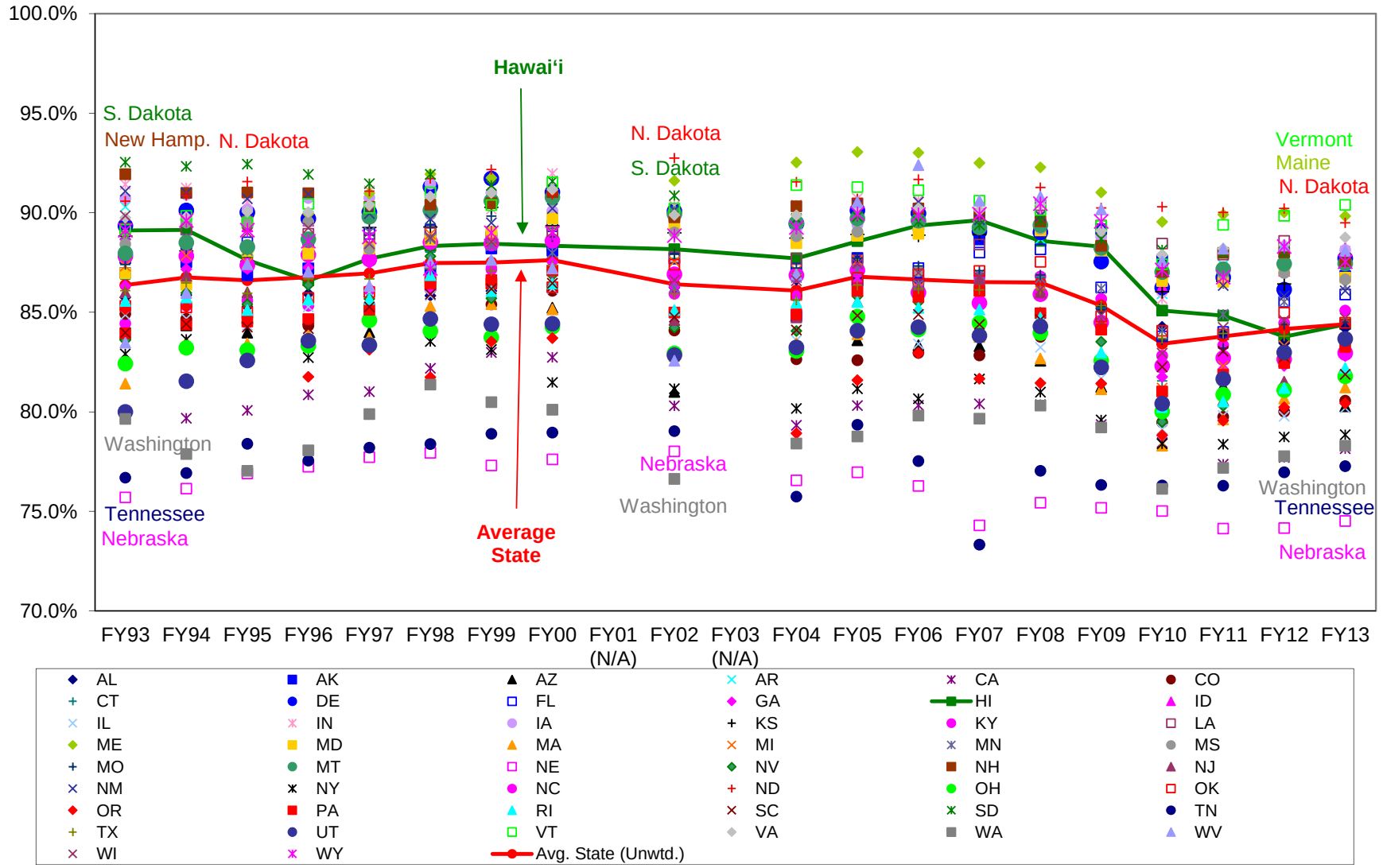
As of FY 2013, 80% of the Direct General Expenditures made by combined Hawai'i governments were actually expended by the *state* government. This was the highest in the country, far ahead of #2 Delaware's 69% and the "Average State's" 51%, again underscoring the dominance of state government here. Comparison still requires combined state/local governments, with Figure 3.10 summarizing FY 2013 composition results, and Figure 3.11 showing historical data.

Figure 3.10: Components of Total Expenditures, FY 2013, Hawai'i vs. Average State



Conclusions: As with Total Revenue in Chapter 2, we look at Hawai'i's distribution of Total Expenditures compared to the "Average State" mostly for *context* for the following comparison on Percent of GDP or other "level" metrics such as Per-Capita differences. The Hawai'i percentage breakdown for FY 2013 (Figure 3.10) was virtually identical to that of the "Average State" (ranking 27th of 50), though in the past (Figure 3.11) the Hawai'i percentage was higher. Like virtually all states during and after the Great Recession, Hawai'i reduced its general governmental expenditures, while spending for insurance trusts, utilities, and (in some places) liquor stores was less affected or not affected.

Figure 3.11: Direct General Expenditures as Percent of Total Expenditures from FY 1993, All States



3.4.2 Comparing Hawai‘i Governments’ Direct General Expenditures Level to Other States

To the extent that the other components of Total Expenditures – liquor stores, utilities, etc. – sometimes comprise different portions in different years, looking only at Direct General Expenditures arguably is the best place-to-place comparison for level of spending. Figure 3.12 and Figure 3.13 summarize FY 2013 results for each “yardstick” approach – Percent of GDP and Per Capita – while Figure 3.14 and Figure 3.15 show historical results for each, respectively, from FY 1993.

Figure 3.12: Total Expenditures as Pct. of GDP, FY 2013

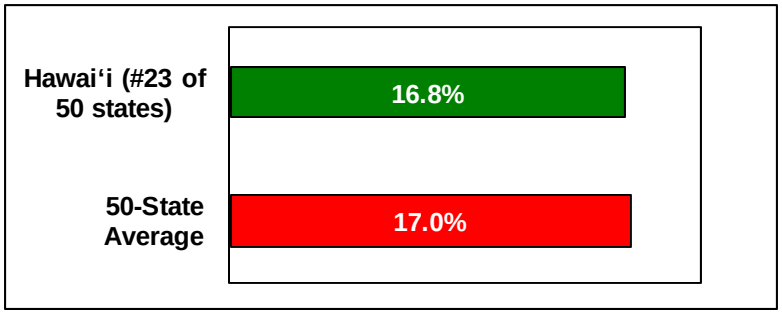
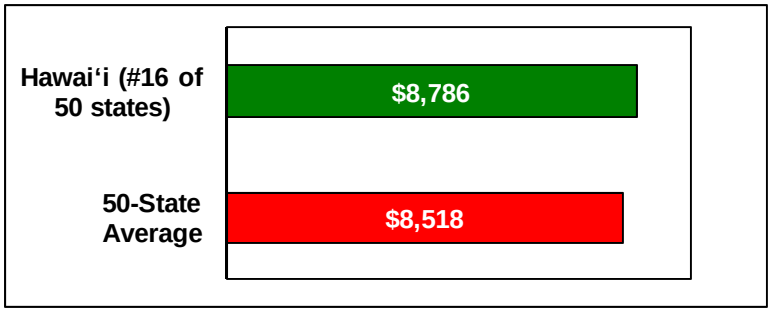


Figure 3.13: Total Expenditures Per Resident, FY 2013



Conclusions: The conclusions for Direct General Expenditures turn out to be very similar to those in the foregoing Section 3.3.1 for Total Expenditures in general. Again, results for Hawai‘i’s combined governments in FY 2013 were very close to those for the “Average State” by either the preferred Percent of GDP approach or the Per-Capita approach, with the latter producing a (misleadingly) slightly higher average for Hawai‘i than for the “Average State.”

The historical perspectives in Figure 3.14 and Figure 3.15 this time not only tell much the same story whether measured by Percent of GDP or Per Capita (Per Resident), but they also closely resemble the Total Expenditures pattern of the preceding Figure 3.7 and Figure 3.8.

This is hardly surprising, given that Direct General Expenditures accounts for such a large share of Total Expenditures. Nor is it surprising to find in Figure 3.14 a repetition of the pattern from Figure 3.7 showing that Hawai‘i governments once spent more than the “Average State” compared to what the economy was generating (GDP) in the 1990s, but the difference has narrowed to the point of vanishing in FY 2013. Again, this was actually because the “Average State” was spending a somewhat higher proportion of its GDP in the 2000s than it did in the 1990s – i.e., the “Average State” came *up* to Hawai‘i’s level rather than Hawai‘i spending coming *down* on average. (However, just since the Great Recession, note the downward trend for both Hawai‘i and the “Average State” as a Percent of GDP in Figure 3.14.)

Figure 3.14: Direct General Expenditures as Percent of GDP from FY 1993, All States

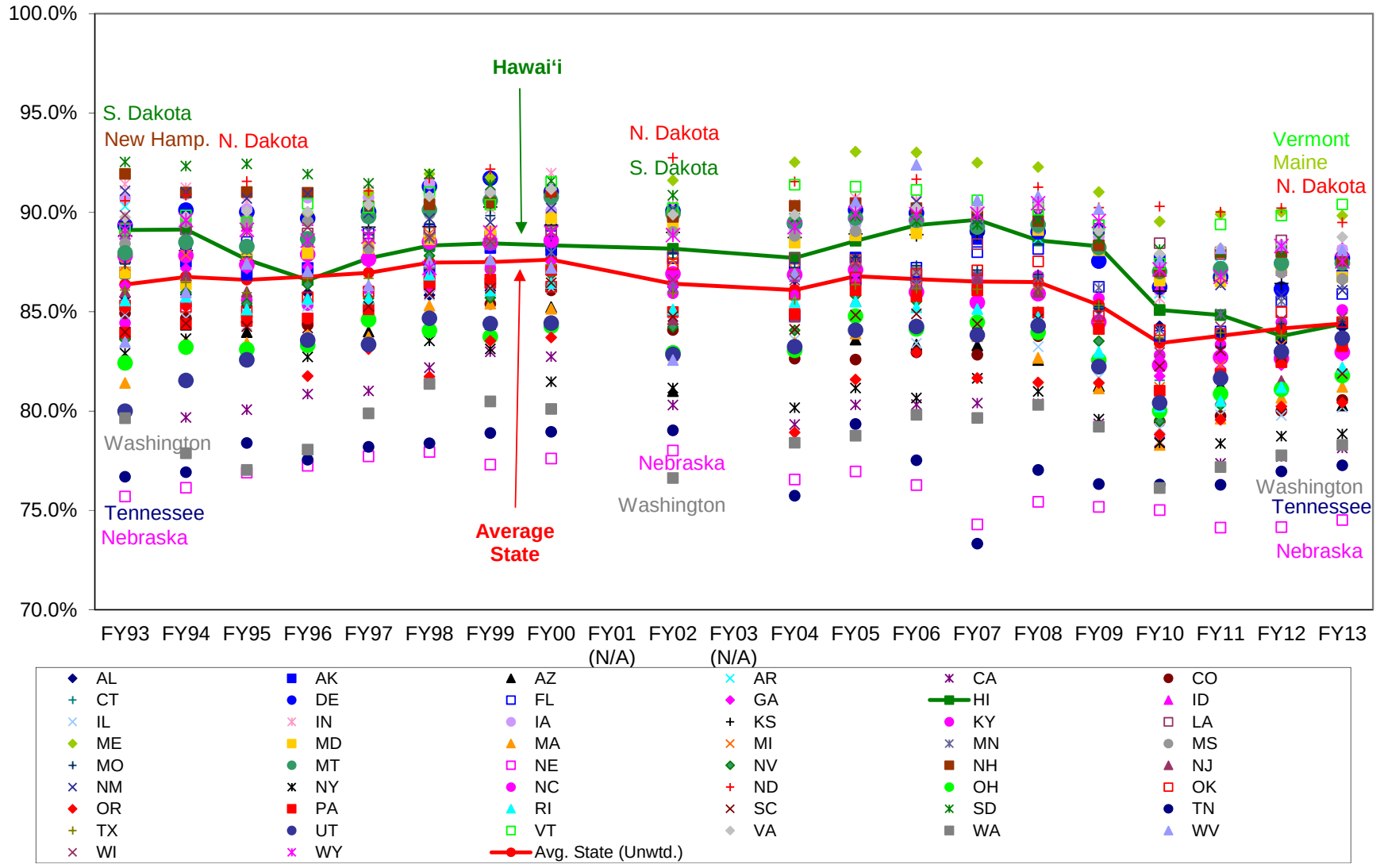
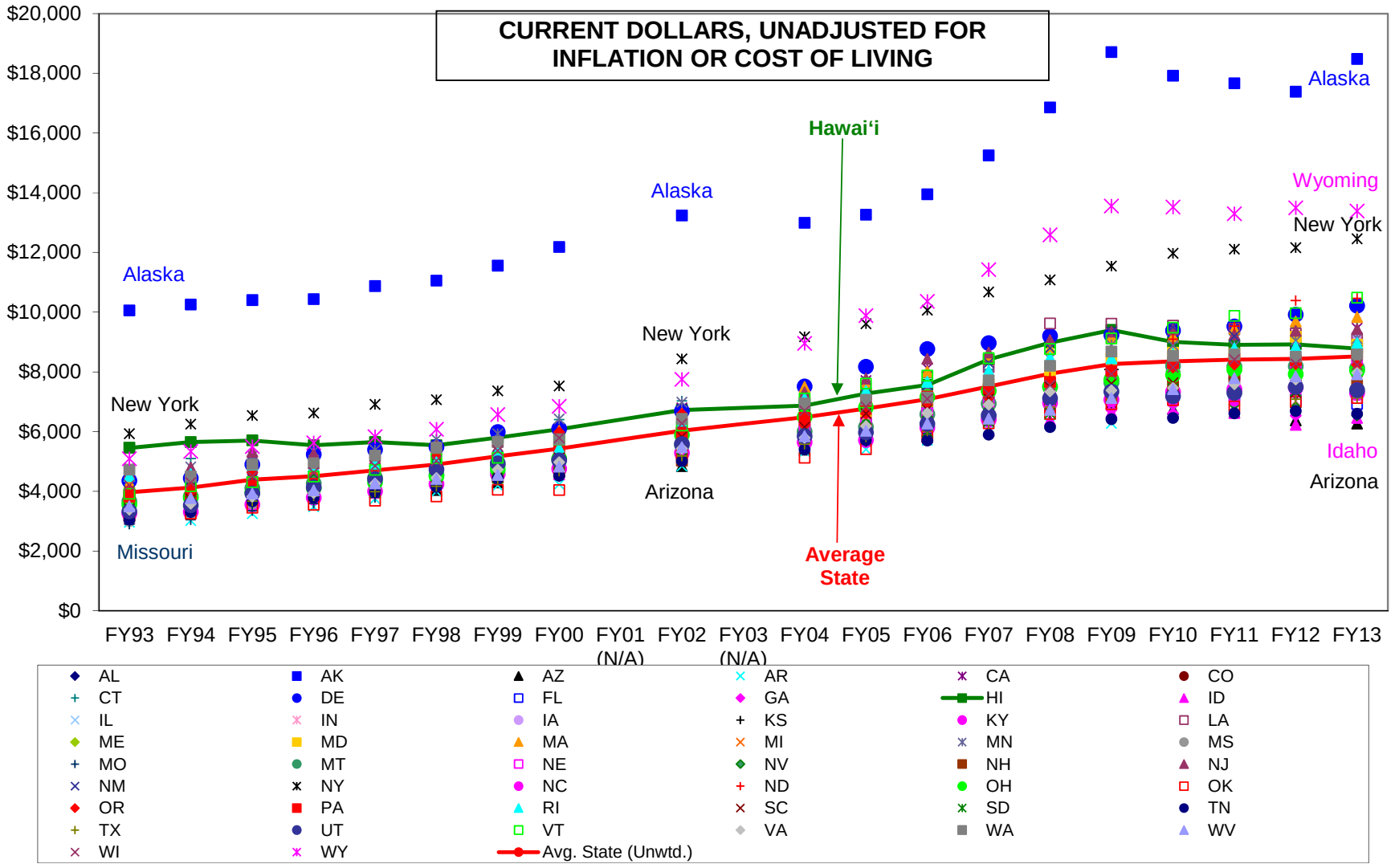


Figure 3.15: Direct General Expenditures Per Resident from FY 1993, All States



3.5 SPECIFIC FUNCTIONAL TYPES OF DIRECT GENERAL EXPENDITURES

3.5.1 Composition of Direct General Expenditures by Function (19 Specific Types)

This is the "3rd Level of Analysis" in the opening Figure 3.1. Table 3.1 shows FY 2013 results for Hawai'i vs. the "Average State," and the following Figure 3.16 to Figure 3.21 present historical data for the three largest categories (in terms of share of all Direct General Expenditures), plus three selected categories showing interesting change in this period.

Table 3.1: Categories of Specific Functional Expenditures by Percent of Direct General Expenditures, FY 2013

"% DGE" = % of Direct General Expenditures	Functions for Which Hawai'i Expenditures Tended to Rank High in FY 13					
	Airports, Parking, Ports	Sewerage, Solid Waste	Judicial / Legal	Other & Unallocable	Other Govt. Admin. / Bldgs.	Interest on Genl. Debt
Hawai'i, % of DGE	2.8%	4.4%	2.2%	9.4%	2.1%	4.3%
50-State Avg., % of DGE	1.0%	2.7%	1.5%	5.0%	1.8%	3.6%
Hawai'i's Rank (of 50)	*2*	*2*	*4*	*4*	*12*	*13*
% by State Only (Hawai'i)	100%	0%	78%	78%	31%	66%
% by State Only (50-St. Avg.)*	19%	3%	57%	40%	23%	50%

"% DGE" = % of Direct General Expenditures	Functions for Which Hawai'i Expenditures Tended to Rank Middling in FY 13						
	Health, Soc. Ins., Veterans	Housing & Community Develop.	Hospitals	Nat. Resources; Parks & Rec.	Higher Education	Police & Fire	Protect. Inspect. & Regulation
Hawai'i, % of DGE	4.2%	2.0%	6.5%	3.1%	11.5%	4.7%	0.3%
50-State Avg., % of DGE	3.4%	1.8%	5.8%	2.9%	10.6%	5.0%	0.5%
Hawai'i's Rank (of 50)	*13*	*16*	*17*	*18*	*22*	*30*	*38*
% by State Only (Hawai'i)	95%	65%	100%	54%	100%	6%	85%
% by State Only (50-St. Avg.)*	69%	28%	53%	46%	90%	12%	71%

"% DGE" = % of Direct General Expenditures	Functions for Which Hawai'i Expenditures Tended to Rank Mid to Low in FY 13					
	Financial Admin.	Highways	Public Welfare	Correction	Other Educ. & Libraries	Elementary/ Secondary Ed.
Hawai'i, % of DGE	1.4%	5.6%	17.3%	1.6%	1.2%	15.3%
50-State Avg., % of DGE	1.7%	7.1%	19.3%	2.6%	2.4%	21.4%
Hawai'i's Rank (of 50)	*36*	*36*	*36*	*50*	*50*	*50*
% by State Only (Hawai'i)	63%	60%	98%	100%	100%	100%
% by State Only (50-St. Avg.)*	59%	63%	95%	70%	82%	3%

* From Vol. III Appendix A. In all states, some level of government made each of these expenditure types.

Conclusions:

- The three largest categories – ***Public Welfare, Elementary/Secondary Education,*** and ***Higher Education*** – together comprised 51% of the "Average State's" Direct General Expenditures in FY 2013 but just 44% for Hawai'i's combined governments. The ***Higher Education*** share of Hawai'i's budget bumped up in FY 2013 but has more often been at or a bit below the "Average State" figure. Hawai'i has kept ***Public Welfare*** fairly constant as a share of Direct General Expenditures since the turn of the century, while the "Average State" has increased welfare spending (Figure 3.16).

  Hawai'i most stands out for its extremely low share of resources devoted to ***Elementary/Secondary Education***, last in the nation almost every year since FY 1993 and falling recently (Figure 3.17). However, this low rank for education is probably due in good part to Hawai'i's high proportion of private school students, as a 2013 Census survey of expenditures *per public-school pupil* ranked Hawai'i closer to the middle of the 50 states (#17, not #50 as in Table 3.1).

- Though not shown for reasons of space, the historical data for ***Other Education/Libraries*** and for ***Correction*** look similar. "Other Education," the bulk of the first category, includes adult education, vocational rehabilitation, etc. – Hawai'i has been #50 every year. Hawai'i used to rank slightly higher for Correction in the 1990s, but other states increased their share of budgets while Hawai'i maintained the same share of resources, reaching #50 in FY 2011.

- ***Hospital*** expenditures have been increasing as a share of Hawai'i budgets, taking us from a relatively low national rank in the 1990s to above the "Average State" figure by FY 2013 (Figure 3.19). None of the other categories showed quite such an abrupt reversal in an *upward* direction.

- By contrast, the proportion of Hawai'i governments' expenditures for ***Housing and Community Development***[13] was highest in the nation in the early to mid-1990s but has now gone *down* to the national average (Figure 3.20). Similarly, Hawai'i combined governments were highest in the nation at the turn of the century for share of expenditures to pay ***Interest on General Debt*** but are now – while still a bit high – drawing closer to the "Average State" (Figure 3.21). Though not charted here, spending share for ***Natural Resources and Parks & Recreation*** has also fallen, from a one-time #1 in the nation in FY 1994 to about the "Average State" level in FY 2013.

- For functions primarily handled at the county level in Hawai'i, ***Sewerage & Solid Waste Management*** has ranked #1 or #2 nationally since FY 2005, while ***Police/Fire*** have consistently been slightly below average since FY 1993.

- In Table 3.1 (and confirmed by review of historical data), other than "Financial Administration," Hawai'i ranks high on general and/or non-specific functions – ***Other Govt. Administration, Judicial/Legal, Other & Unallocable.*** The somewhat high spending on general government tends to balance lower spending on welfare and education.

[13] Defined in Census manual as "Construction, operation, and support of housing and redevelopment projects and other activities to promote or aid public and private housing and community development." See Volume II Appendix C for various other definitions of terms used here.

Figure 3.16: Public Welfare Expenditures as Percent of Direct General Expenditures from FY 1993, All States

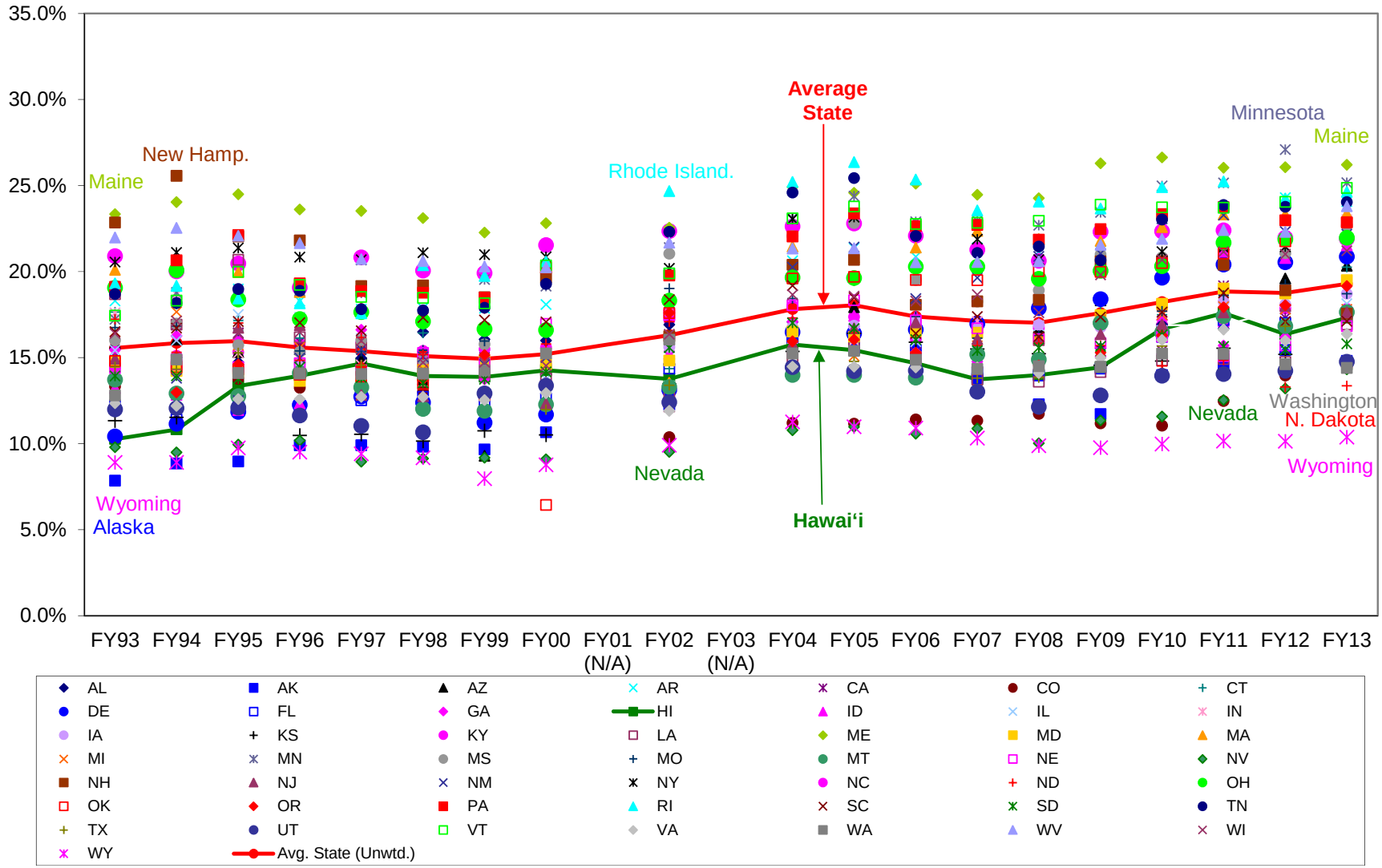


Figure 3.17: K-12 Education Expenditures as Percent of Direct General Expenditures from FY 1993, All States

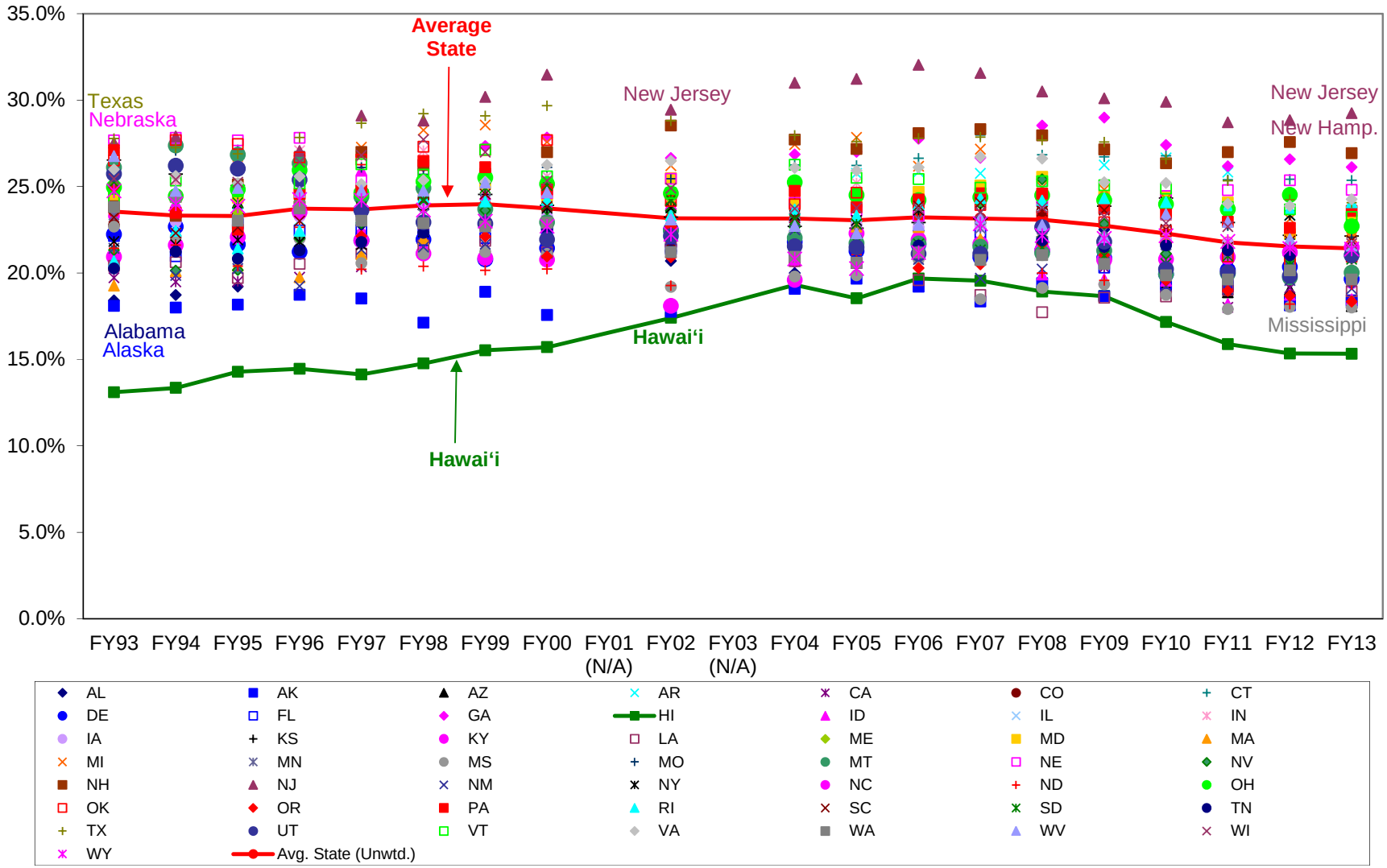


Figure 3.18: Higher Education Expenditures as Percent of Direct General Expenditures from FY 1993, All States

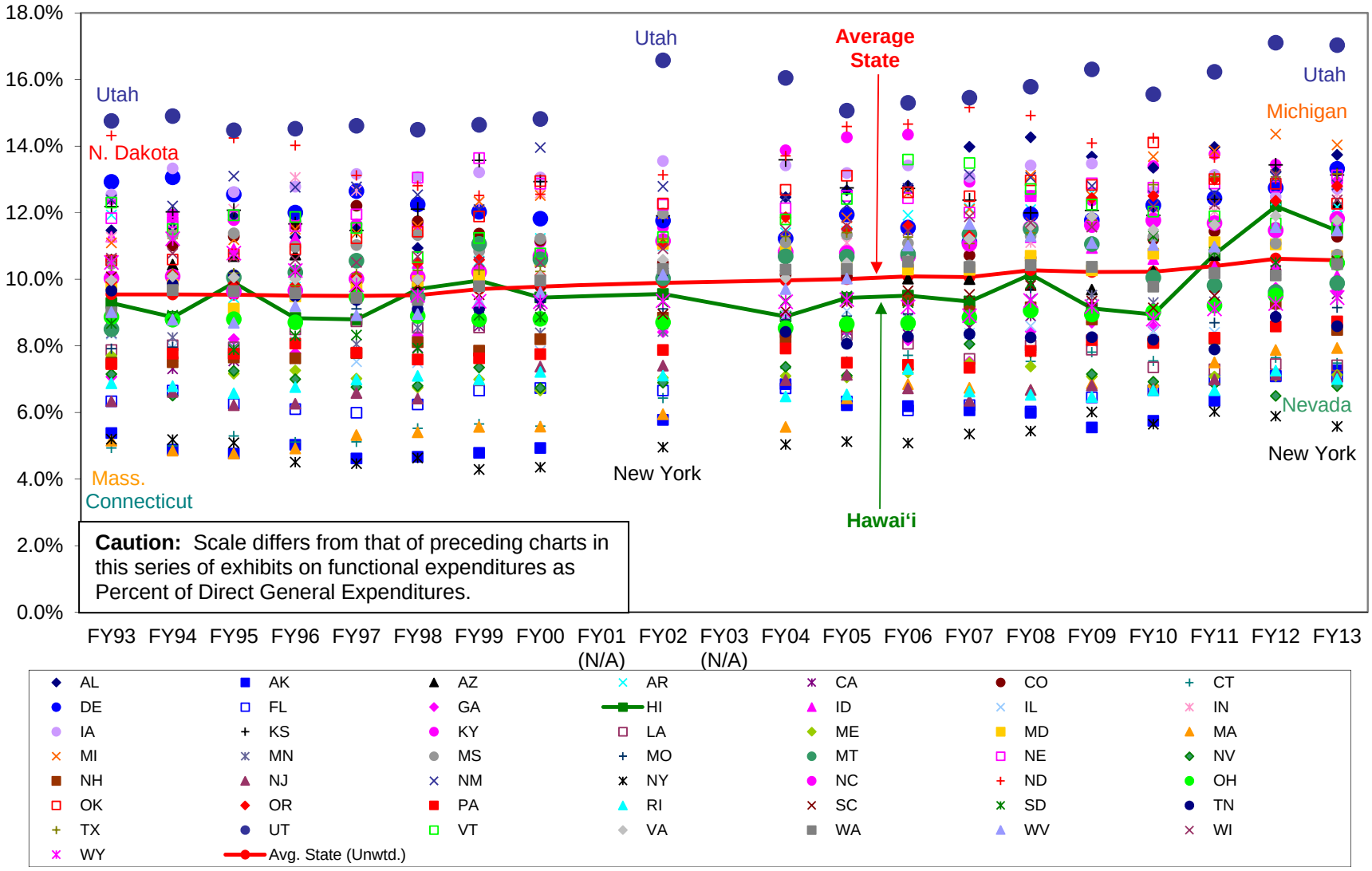


Figure 3.19: Hospital Expenditures as Percent of Direct General Expenditures from FY 1993, All States

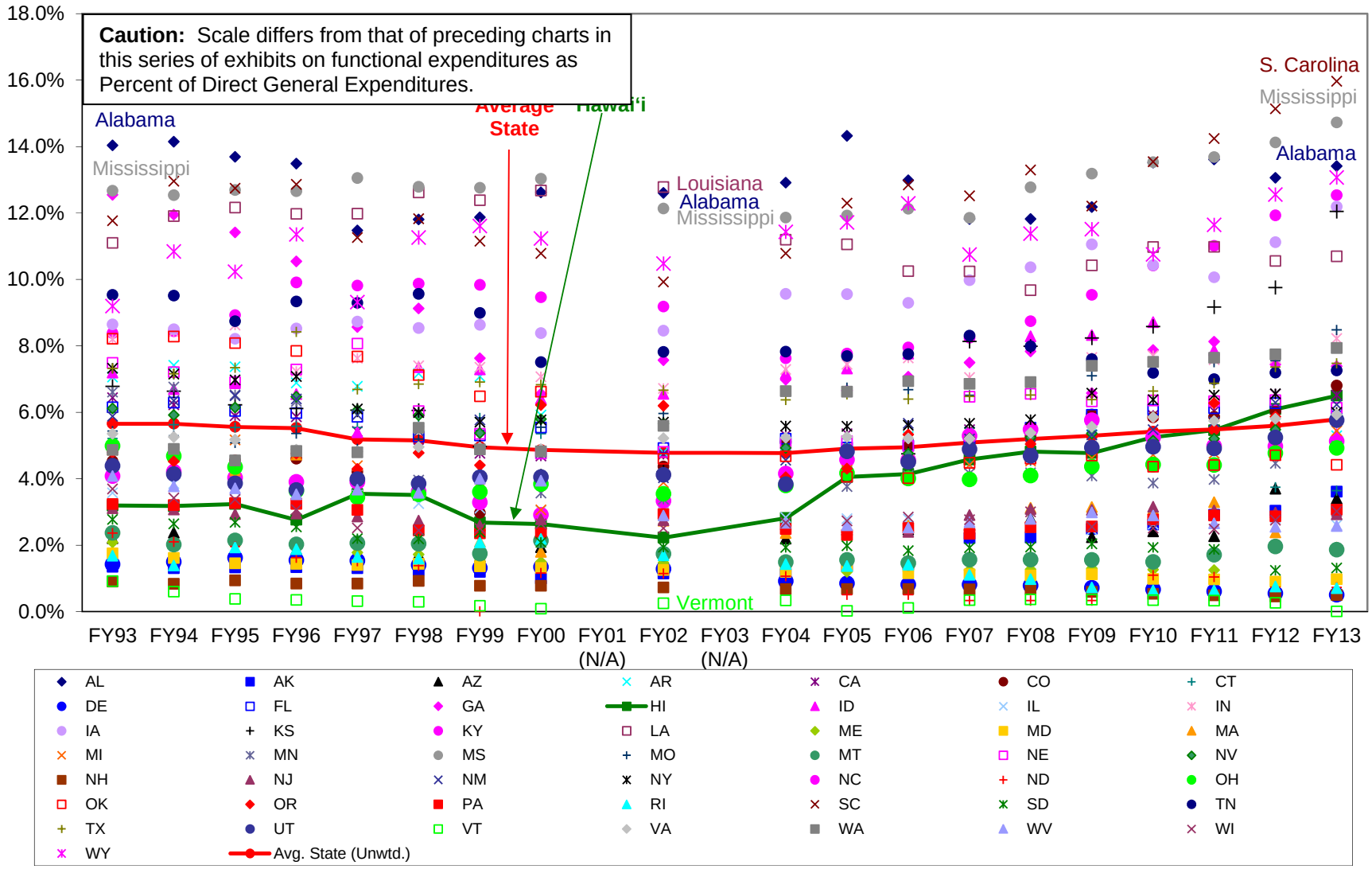


Figure 3.20: Housing and Community Development Expenditures as Percent of Direct General Expenditures from FY 1993, All States

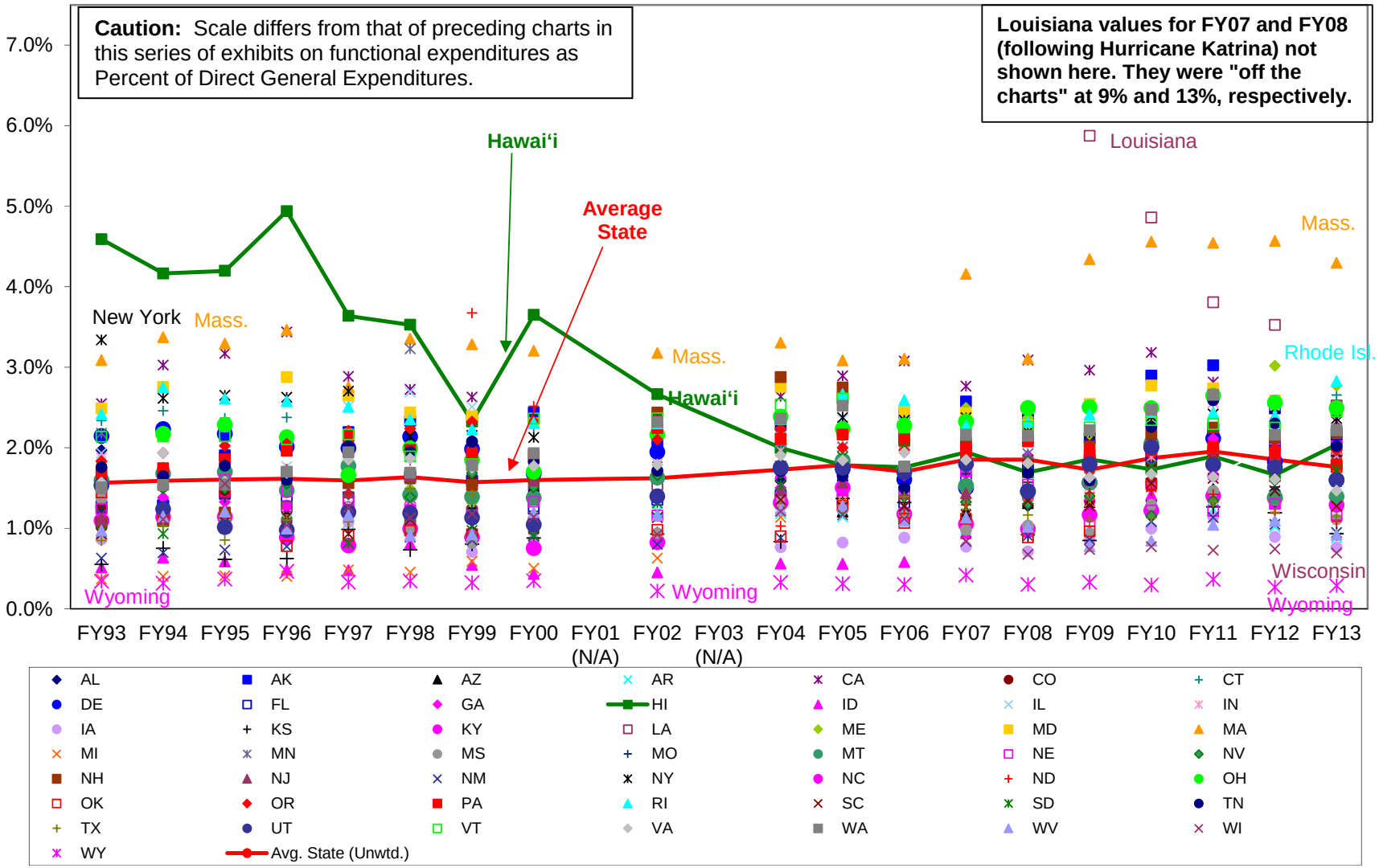
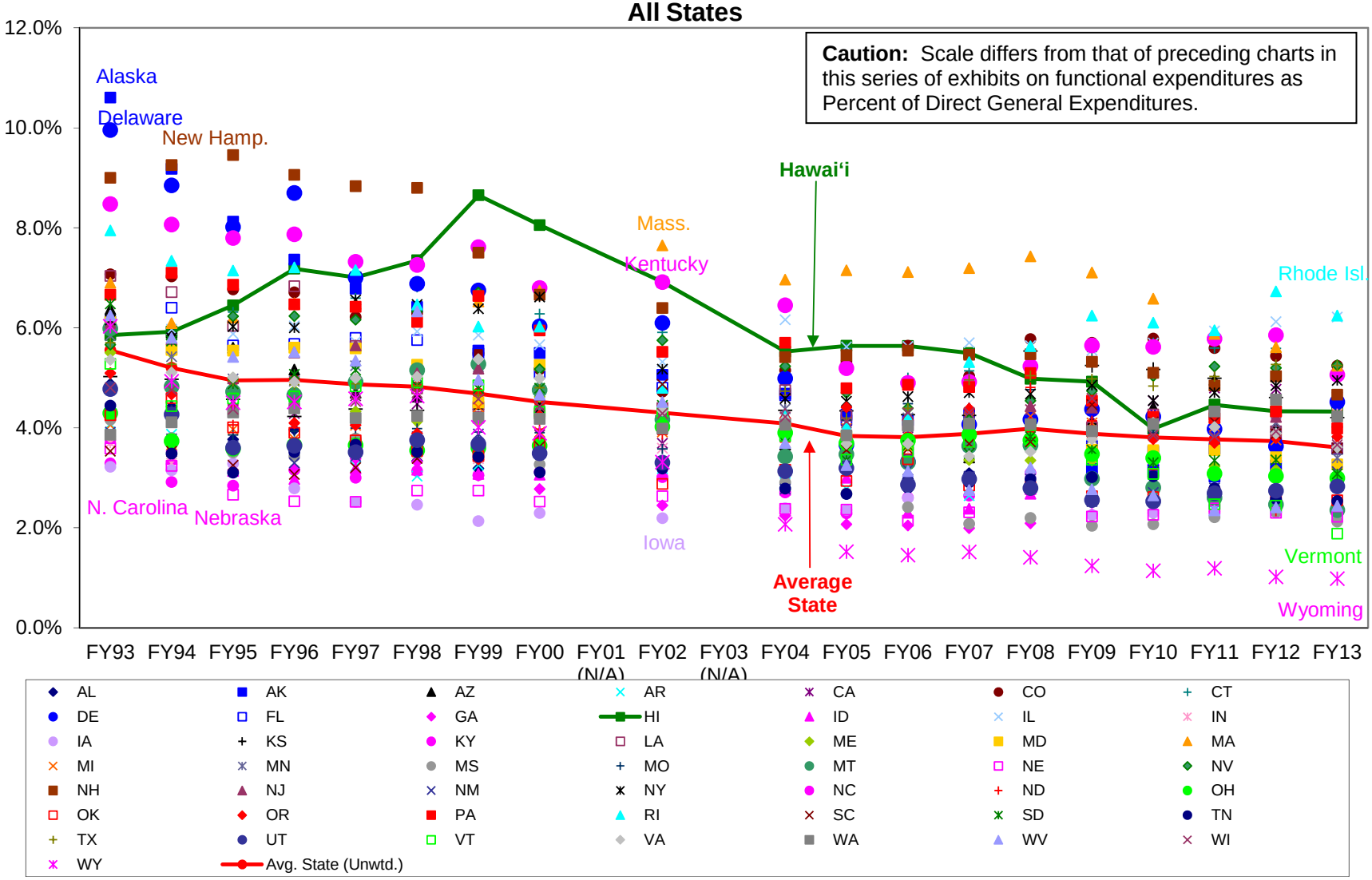


Figure 3.21: Expenditures for Interest on General Debt as Percent of Direct General Expenditures from FY 1993, All States



3.5.2 Comparing Hawai'i Governments' Levels of Specific Functional Expenditures (19 Types) to Other States

Table 3.2 shows the FY 2013 results comparing Hawai'i to the "Average State" by the two standard level metrics, while Figure 3.22 to Figure 3.24 shows the preferred Percent of GDP measure for the three largest categories.

Table 3.2: Levels of Specific Functional Expenditures by Percent of GDP and Per-Resident Values, FY 2013

	Functions for Which Hawai'i Expenditures Tended to Rank High in FY 13					
	Airports, Par-king, Ports	Sewerage, Solid Waste	Judicial / Legal	Other & Un-allocable	Other Govt. Admin. / Bldgs.	Interest on Genl. Debt
Hawai'i, % of GDP	0.47%	0.74%	0.38%	1.58%	0.36%	0.73%
50-State Avg., % of GDP	0.17%	0.46%	0.26%	0.86%	0.30%	0.60%
Hawai'i's Rank (of 50)	*2*	*2*	*2*	*3*	*13*	*11*
Hawai'i, Per Resident	$244	$389	$197	$825	$186	$380
50-State Avg., Per Resident	$87	$228	$131	$459	$154	$306
Hawai'i's Rank (of 50)	*2*	*2*	*6*	*7*	*11*	*11*

	Functions for Which Hawai'i Expenditures Tended to Rank Middling in FY 13						
	Health, Soc. Ins., Veterans	Housing & Com-munity Develop.	Hospitals	Nat. Resources; Parks & Rec.	Higher Education	Police & Fire	Protect. Inspect. & Regulation
Hawai'i, % of GDP	0.70%	0.34%	1.09%	0.52%	1.93%	0.78%	0.06%
50-State Avg., % of GDP	0.58%	0.30%	1.00%	0.49%	1.79%	0.84%	0.08%
Hawai'i's Rank (of 50)	*14*	*13*	*15*	*19*	*20*	*32*	*36*
Hawai'i, Per Resident	$368	$179	$571	$274	$1,007	$409	$29
50-State Avg., Per Resident	$288	$153	$483	$249	$886	$421	$39
Hawai'i's Rank (of 50)	*12*	*13*	*15*	*17*	*15*	*23*	*37*

	Functions for Which Hawai'i Expenditures Tended to Rank Mid to Low in FY 13					
	Financial Admin.	Highways	Public Welfare	Correction	Other Educ. & Libraries	Elementary/ Secondary Ed.
Hawai'i, % of GDP	0.24%	0.94%	2.91%	0.27%	0.20%	2.58%
50-State Avg., % of GDP	0.29%	1.21%	3.31%	0.44%	0.42%	3.62%
Hawai'i's Rank (of 50)	*28*	*32*	*33*	*47*	*49*	*50*
Hawai'i, Per Resident	$124	$490	$1,522	$143	$102	$1,347
50-State Avg., Per Resident	$146	$614	$1,632	$218	$205	$1,821
Hawai'i's Rank (of 50)	*32*	*30*	*27*	*48*	*50*	*47*

Note: The Per-Capita approach for comparison overlooks tourists *and* in some cases would better be done by "per student" or "per beneficiary."

Conclusions: As with the similar analysis of fine-grained categories of Taxes (Chapter 2, Section 2.5), the *structure* of similar decisions over time about budgetary allocations tends (often but not always) to help determine comparative *levels* of expenditures. Thus, results for "Levels" in this Section 3.5.2 – whether by the Percent of GDP or Per-Capita "yardstick" – look very much like the results in the immediately preceding pages of Section 3.5.1 on "Composition" of Taxes.

That is, Hawai'i's FY 2013 ranks in Table 3.2 are similar to the ranks based on portion of Direct General Expenditures in the foregoing Table 3.1. And the relationships over time between Hawai'i and the "Average State" in Figure 3.22 to Figure 3.24 for Public Welfare, Elementary/Secondary Education, and Higher Education are very similar to the parallel charts of Figure 3.16 to Figure 3.18. (For that reason, we do not also reproduce the highly redundant Percent of GDP charts for spending on Hospitals or Housing & Community Development – they change over time relative to the Average State much as previously seen in the parallel charts of Figure 3.19 to Figure 3.21. We do include an exhibit for Interest on General Debt, primarily for purposes of comparison with a subsequent chart for Interest on "Total" Debt, Figure 3.33)[14]

A few small additional comments that could apply either to the results of Table 3.1 *or* Table 3.2 (and the associated historical data that we have examined but did not reproduce):

- The composite ***Airport/Parking/Ports*** expenditure category mostly consists of Airport spending. Hawai'i spends more on this category – more of its budget, more of its GDP – than most other states, but it also gets more revenue from airports (via a special fund supported by landing fees, aviation fuel taxes, airport use charges, etc.) than do most other states. See Figure 2.28 for historical data on Airport Revenue as Percent of General Revenue. That historical pattern looks much like the historical data for spending on this category.

- The category of ***Inspective Protection and Regulation***[15] is a small one in terms of spending. In light of Hawai'i's reputation for being a highly regulated state, it is perhaps ironic that both Table 3.1 and Table 3.2 suggest Hawai'i governments now spend less on this than the "Average State." A review of the historical data found that Hawai'i expenditures in the category were closer to the "Average State" back in the 1990s.

[14] Note that – particularly for Public Welfare – the conclusions about which *other* states are highest or lowest in FY 2013 would differ if looking at Figure 3.16 (share of Direct General Expenditures) instead of Figure 3.22 (Percent of GDP). Composition usually but does not always determine relative level by GDP or Per Resident for a particular state. It depends on the math and the value of the state's GDP or population.

[15] Includes wide spectrum of things like inspection of building plans and permits, liquor licenses and violations, utility regulation, professional occupation regulation, etc. Zoning, however, would be part of general ("Other") Governmental Administration.

Figure 3.22: Public Welfare Expenditures as Percent of GDP from FY 1993, All States

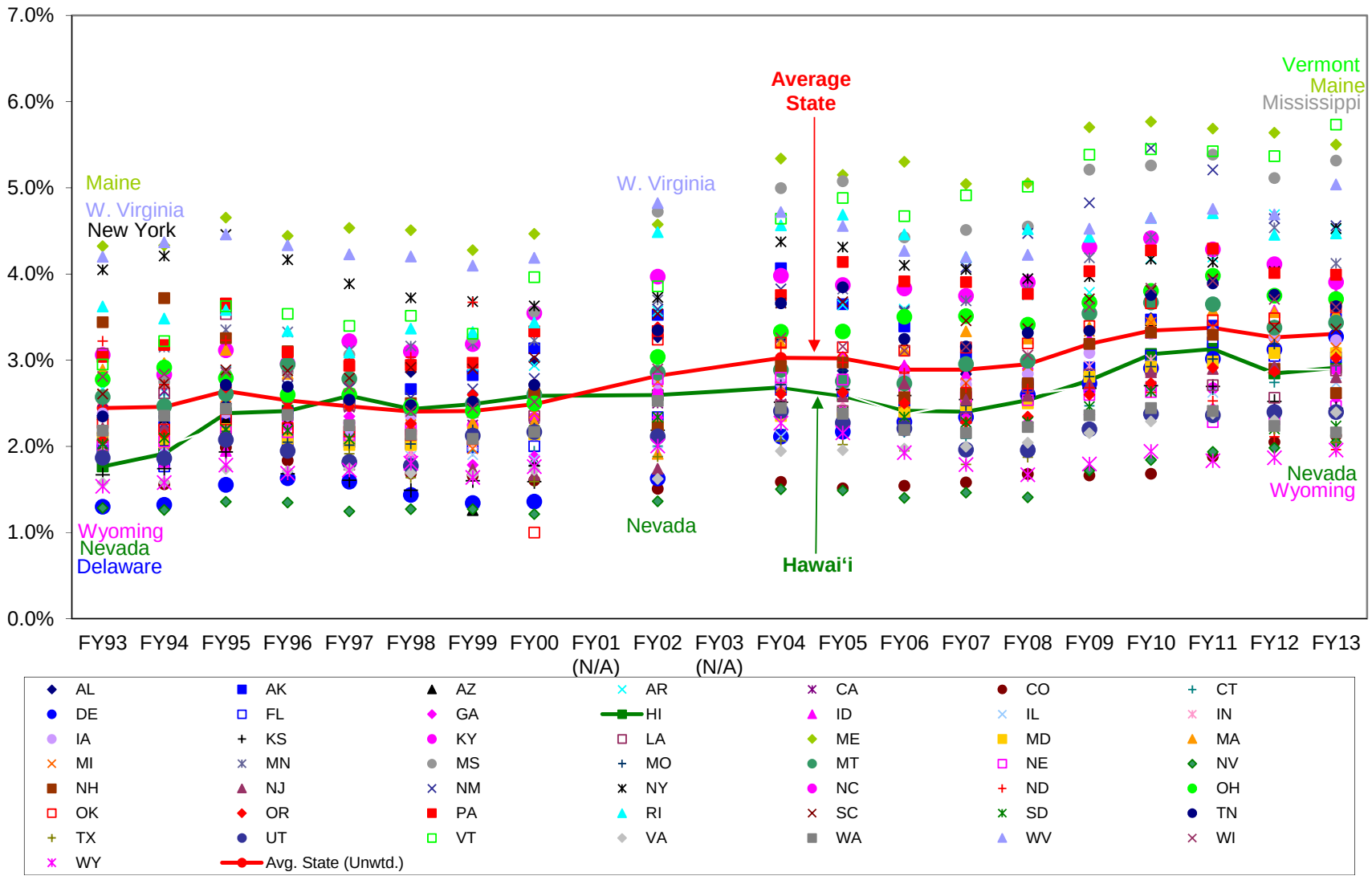


Figure 3.23: K-12 Education Expenditures as Percent of GDP from FY 1993, All States

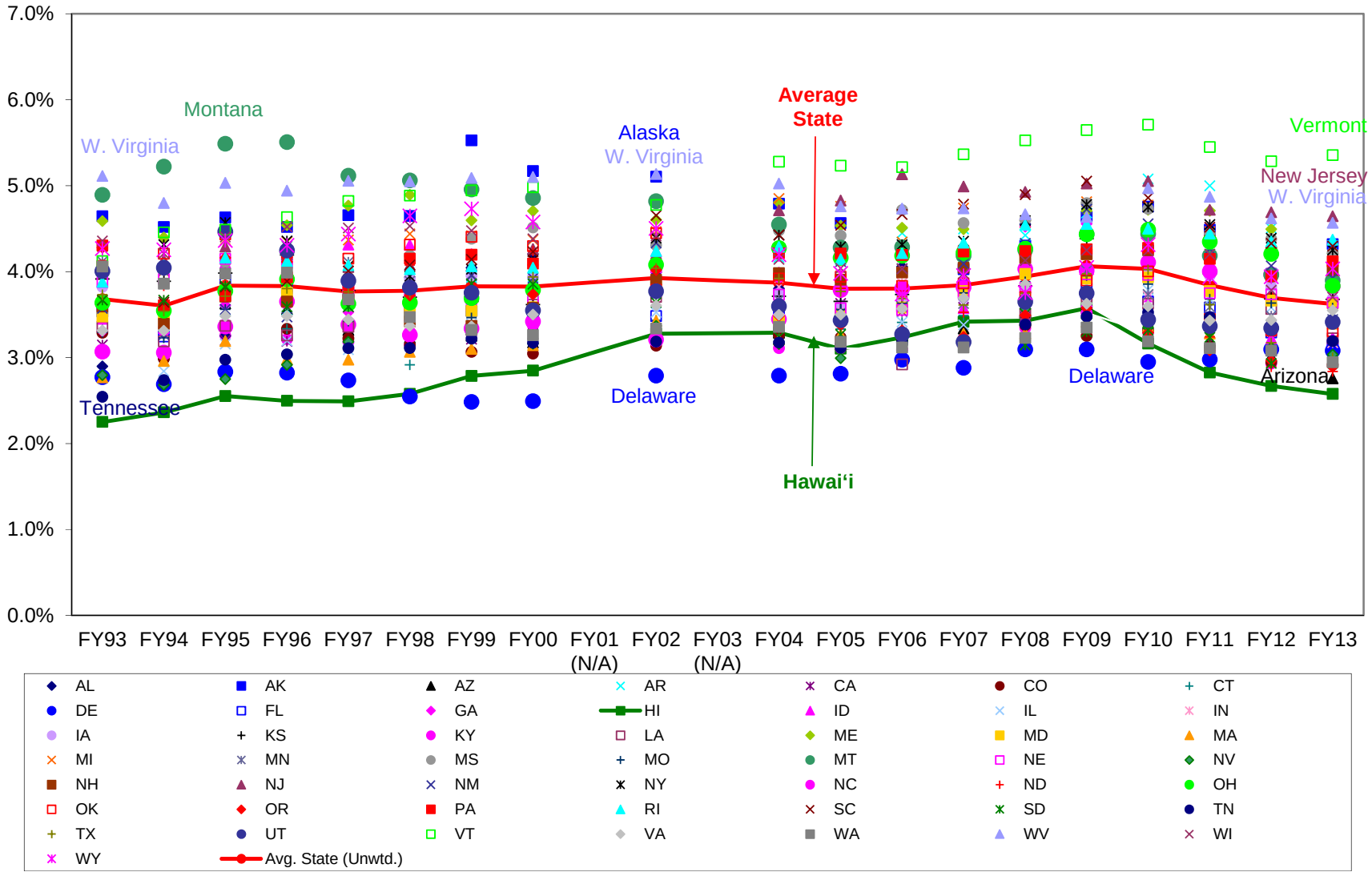


Figure 3.24: Higher Education Expenditures as Percent of GDP from FY 1993, All States

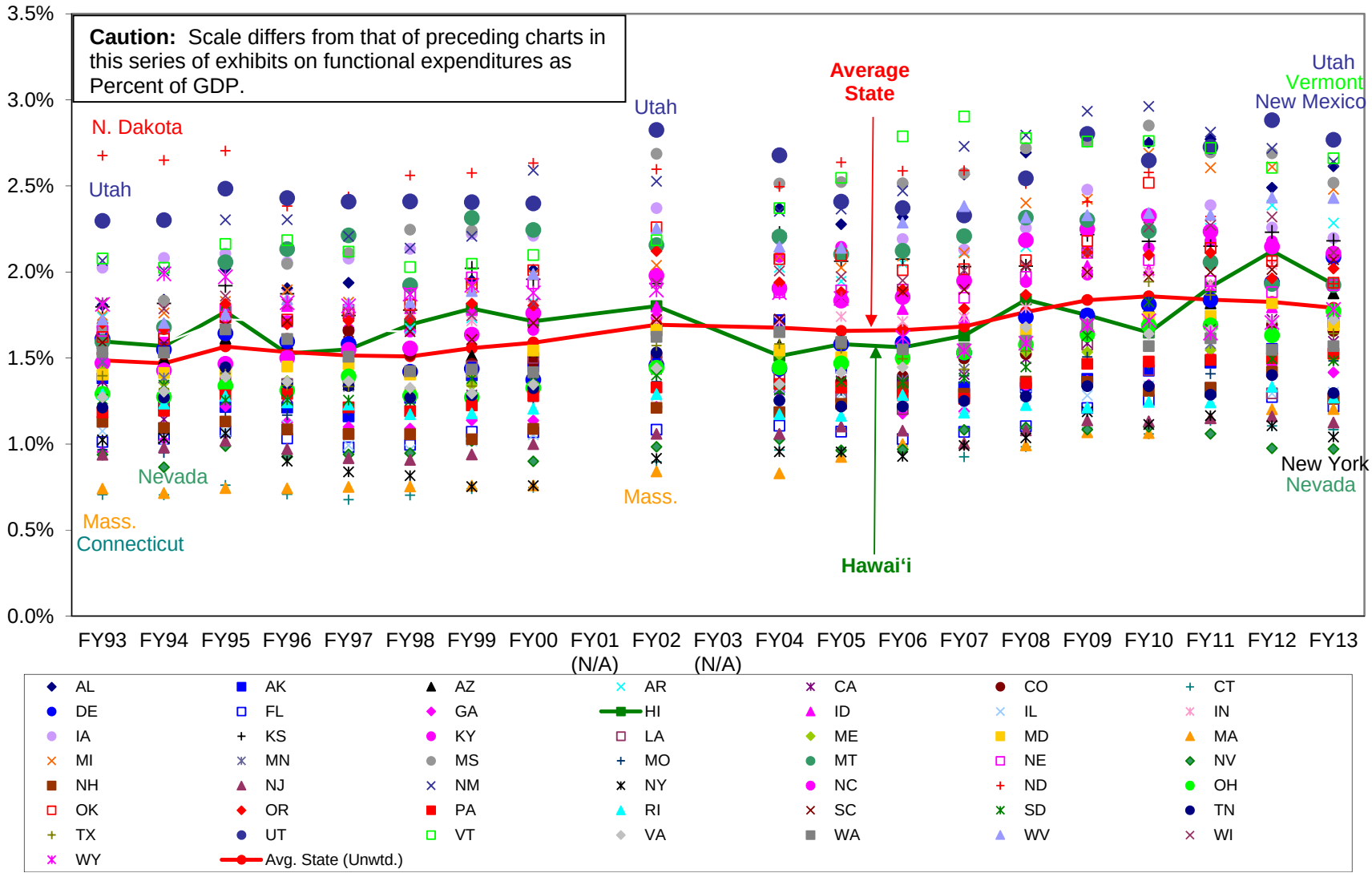
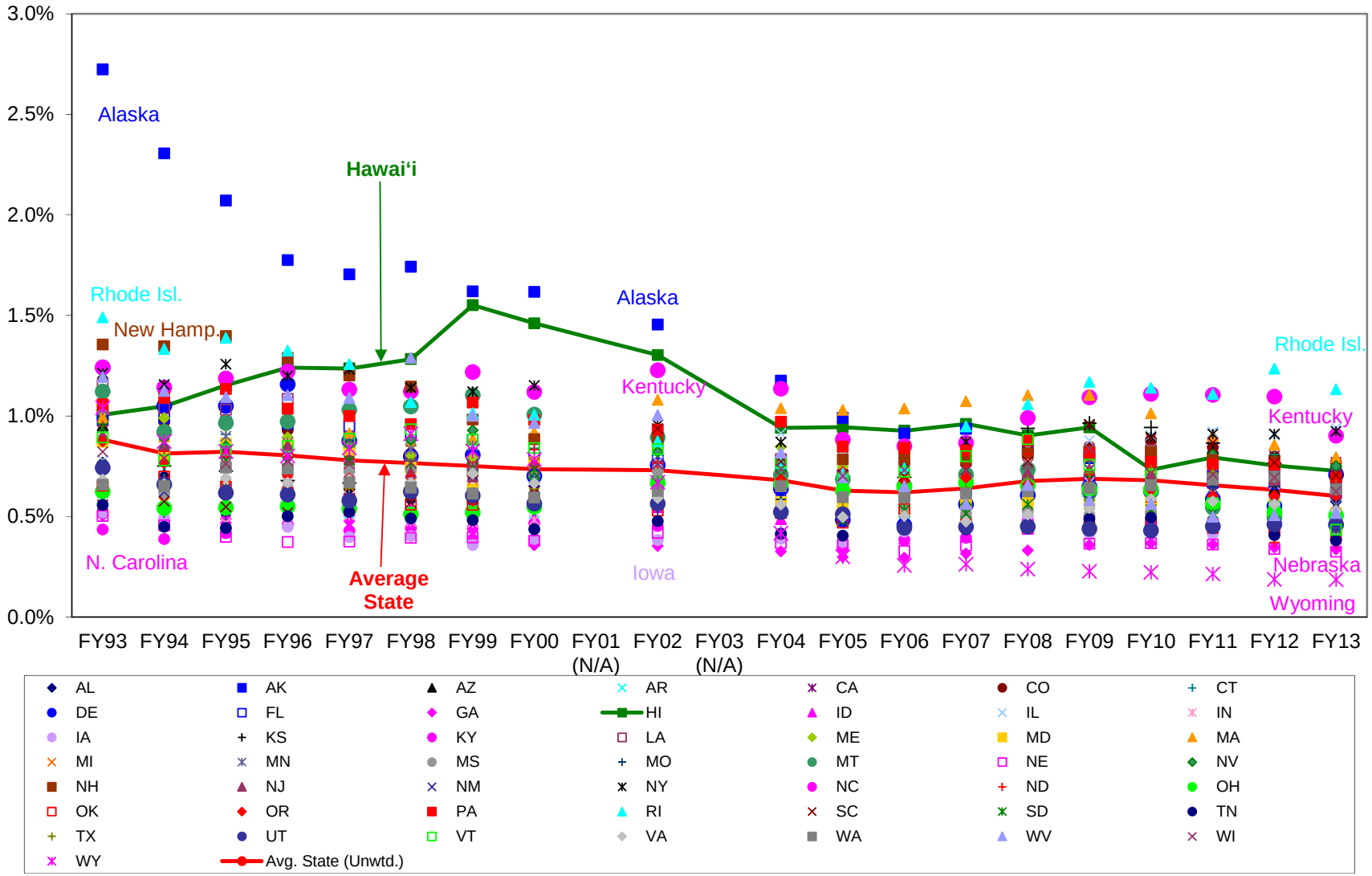


Figure 3.25: Interest on General Debt Expenditures as Percent of GDP from FY 1993, All States

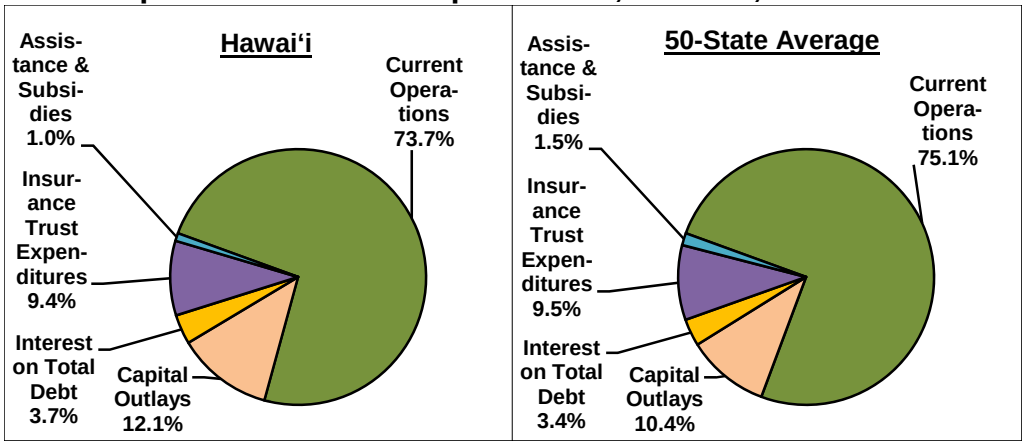


3.6 DIRECT EXPENDITURES BY "CHARACTER AND OBJECT"

3.6.1 Composition of Direct Expenditures

This is the Census Bureau's alternative categorization scheme, and provides the "4th Level of Analysis" shown in the framework of Figure 3.4. It takes all Direct Expenditures (the "Direct General Expenditures" just discussed, plus direct expenditures for any government-run liquor stores, utilities, and insurance trusts) – then divides spending for the categories below (also taken from Figure 3.4) by Direct Expenditures. Figure 3.27 to Figure 3.30 show historical data from FY 1993 for the four main categories – Current Operations, Capital Outlays, Insurance Trusts, and Interest on Total Debt.

Figure 3.26: Components of Direct Expenditures, FY 2013, Hawai'i vs. Average State



Conclusions: As of FY 2013, Hawai'i combined governments were very close to the "Average State" in percentages of Direct Expenditures going to each of these categories – a bit more to Capital Outlays (public works construction or purchase of land, buildings, equipment, etc.), a bit less to Current Operations (salaries, supplies, services, and other operating costs) and to Interest on Total Debt (same as Interest on *General* Debt in preceding section plus any debt associated with utilities, liquor, insurance trusts).

However, historical data show significant variations in the past. As of the early to mid-1990s, Hawai'i governments were *highest* in the nation for percentages of Direct Expenditures going to Capital Outlays, lowest in the nation for percentages going to Current Operations (Figure 3.27 and Figure 3.28). But by FY 2006, Hawai'i was nearly *lowest* in the nation for Capital Outlays (suggesting a significant cutback in investment for infrastructure and buildings), but above average for Current Operations. Following that, the lines cross yet again. Figure 3.29 and Figure 3.30 show both Interest on Debt and Insurance Trust expenditures somewhat expanding in the 1990s, then returning to "Average State" levels in the 2000s.

Figure 3.27: Current Operations as Percent of All Direct Expenditures from FY 1993, All States

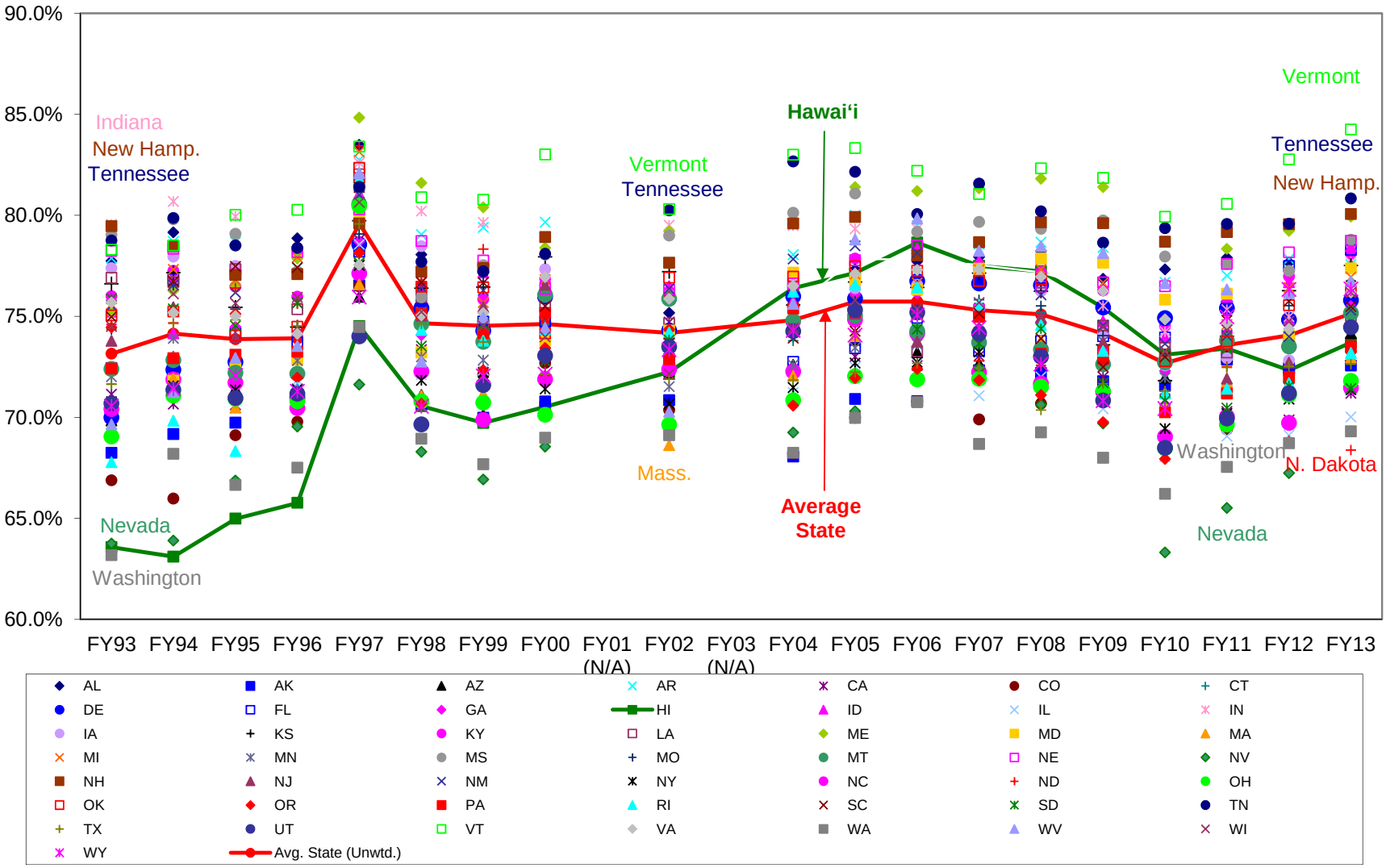


Figure 3.28: Capital Outlays as Percent of All Direct Expenditures from FY 1993, All States

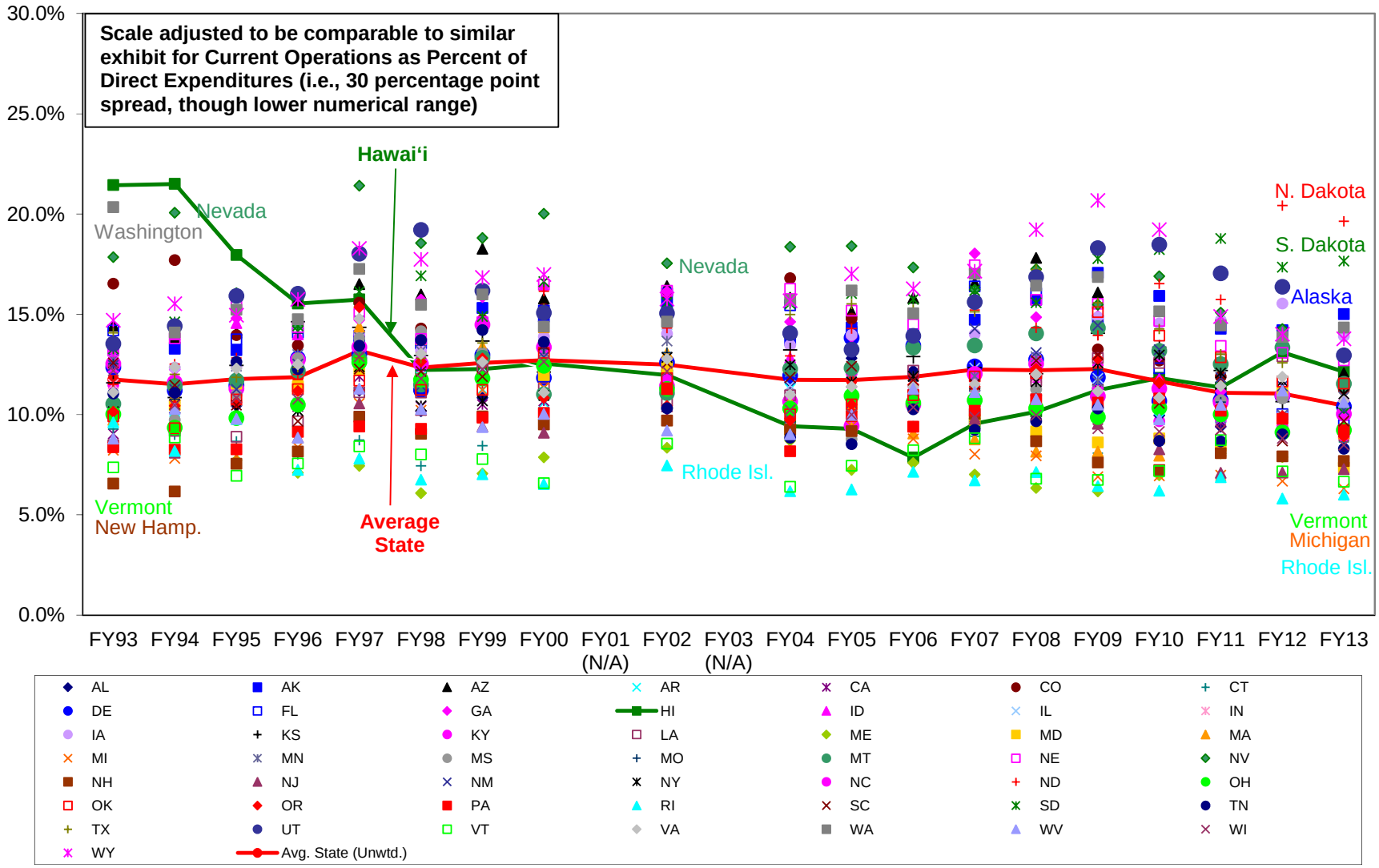


Figure 3.29: Interest on Total Debt as Percent of All Direct Expenditures from FY 1993, All States

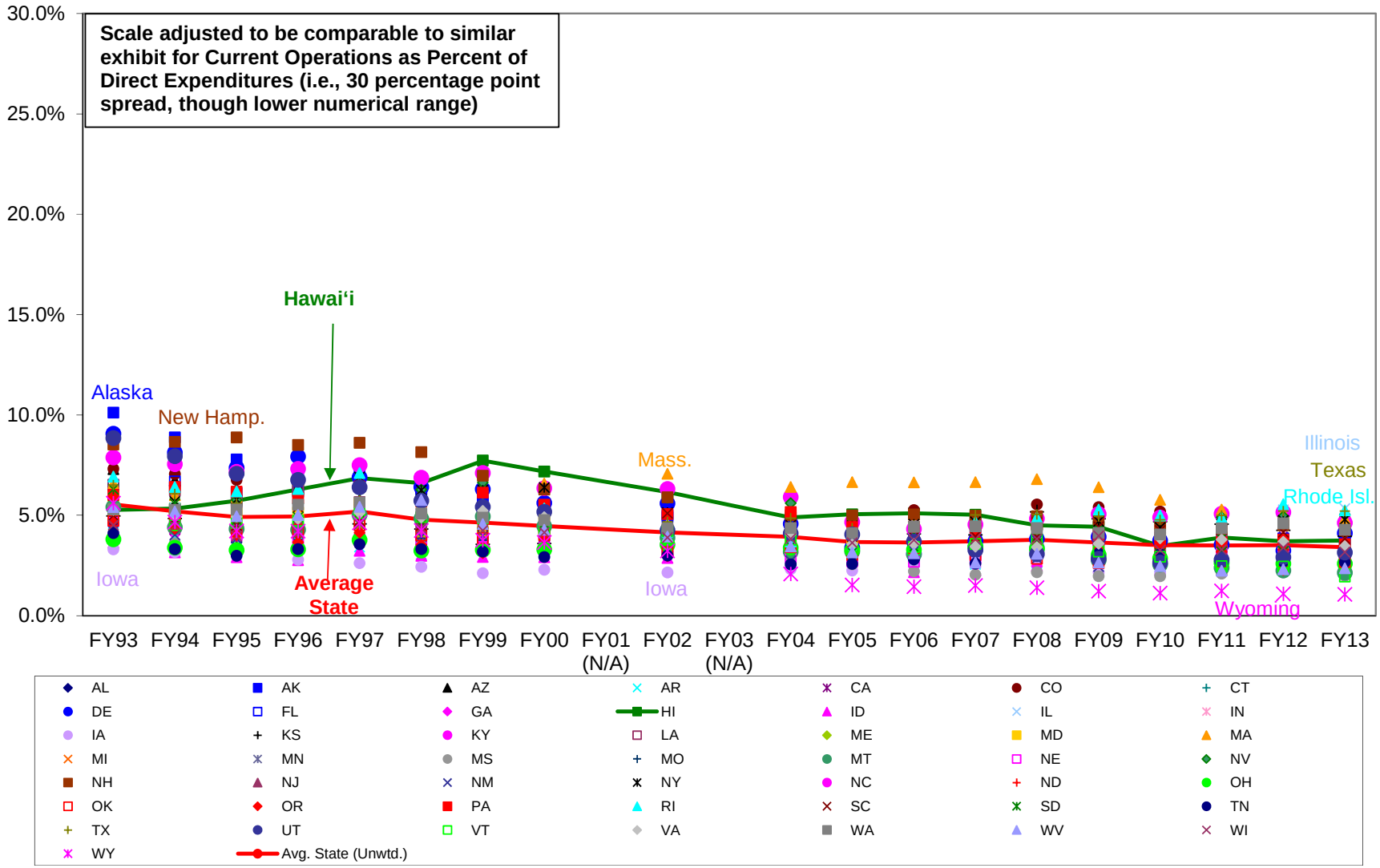
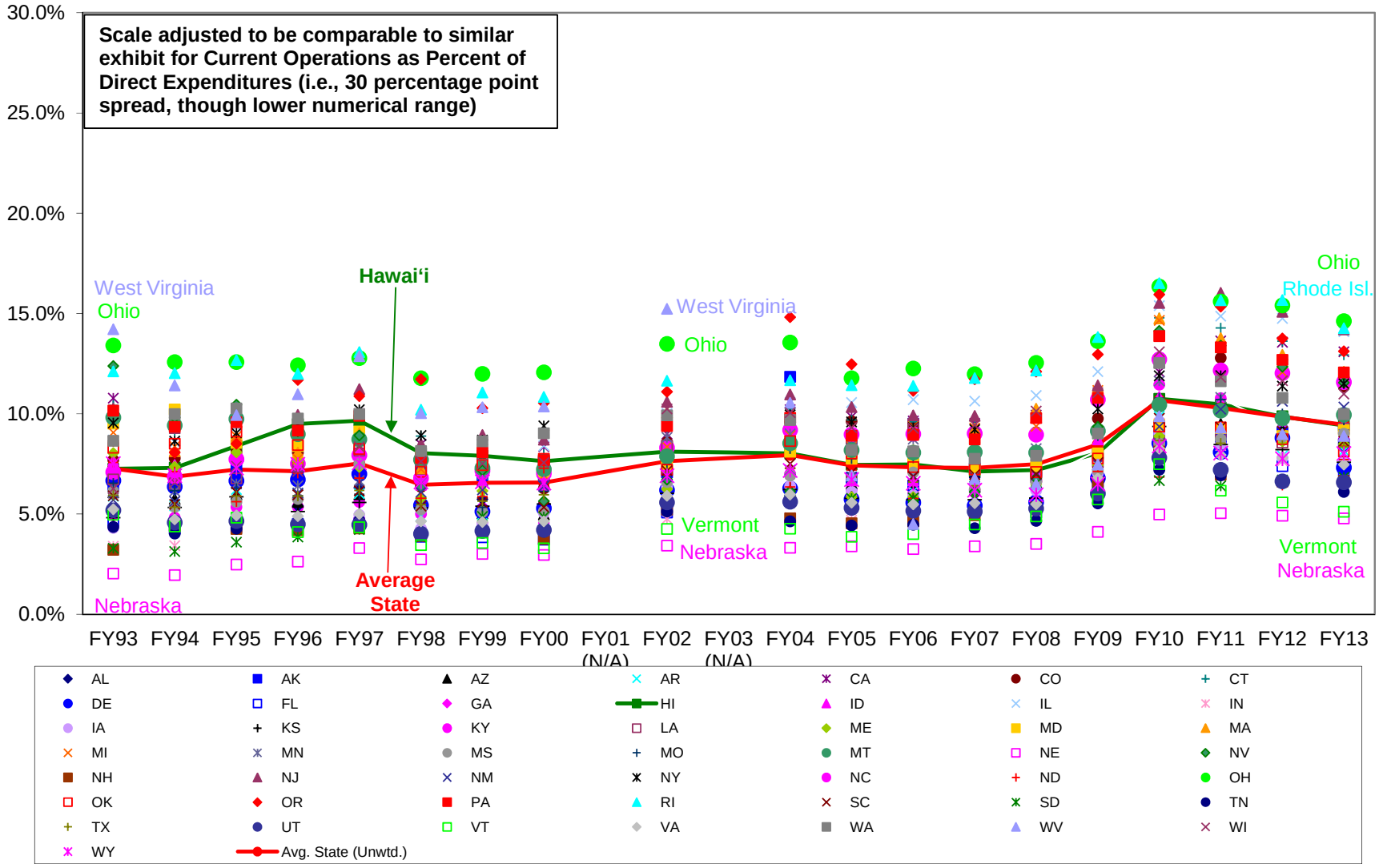


Figure 3.30: Insurance Trust Expenditures as Percent of All Direct Expenditures from FY 1993, All States



3.6.2 Comparing Hawai‘i Governments’ Level of Direct Expenditures for Current Operations to Other States

As the foregoing analysis showed the FY 2013 numbers for Hawai‘i (in terms of Percent of Direct Expenditures) were perhaps atypically similar to those for the “Average State,” we will move directly to the historical overviews, using the preferred comparison “yardstick” of Percent of GDP, and beginning with the primary category of Current Operations. Figure 3.31 provides the comparative data from FY 1993.

Conclusions: Comparing the historical data in Figure 3.31 (Current Operations as a Percent of GDP) with that in Figure 3.27 (Current Operations as a Percent of Direct Expenditures) provides a particularly striking example of why comparison of *levels* should not be done with the *composition* measure based on Percent of Direct Expenditures or some similar larger budgetary unit. Hawai‘i variations from the level of the “Average State” in Figure 3.31 (GDP) are nowhere near as great as they are in Figure 3.27 (Percent of Direct Expenditures). This reflects different levels of economic activity in various places, which is what must be understood if “ability to pay” is the underlying criterion.

The basic conclusion from Figure 3.31 is that Hawai‘i’s expenditures for core government operations have been consistently very much like that of the “Average State” – sometimes a little higher, sometimes a little lower, but similar.[16]

3.6.3 Comparing Hawai‘i Governments’ Level of Direct Expenditures for Capital Outlays to Other States

Figure 3.32 provides the historical data (expressed as Percent of GDP) for expenditures on public works construction and major land/building/equipment purchases. The vertical scale in Figure 3.32 has lower values but the same range (15-point spread) as Figure 3.31, and thus is visually comparable to the “Current Operations” exhibit.

Conclusions: In this case, the underlying math differs, because the swings in Hawai‘i combined governments’ capital outlays have been particularly marked – and the key conclusion from Figure 3.32 (Percent of GDP) reinforces the context of Figure 3.29 (Percent of Direct Expenditures). That is, compared to other states, Hawai‘i’s combined government Capital Outlays really did swing from highest in the nation (almost, really #2 by Percent of GDP) in FY 1994 to near-lowest (#47 by Percent of GDP) in FY 2006, and then back up a little above average by FY 2013.

[16] For the sake of full disclosure, we will note that a *Per-Resident* (“Per-Capita”) historical analysis for Current Operations shows Hawai‘i combined governments consistently above the “Average State,” though falling from #6 in the nation in FY 1993 to #16 in FY 2013. Again, we believe conclusions based on this approach are misleading, because they fail to adjust for Hawai‘i’s unusual level of tourists needing government services. The Per-Capita approach would also slightly overstate Hawai‘i’s relative ranks for Capital Outlays and other categories here, though the effect is particularly noticeable for Current Operations as the largest category of Direct Expenditures.

Figure 3.31: Direct Expenditures for Current Operations as Percent of GDP from FY 1993, All States

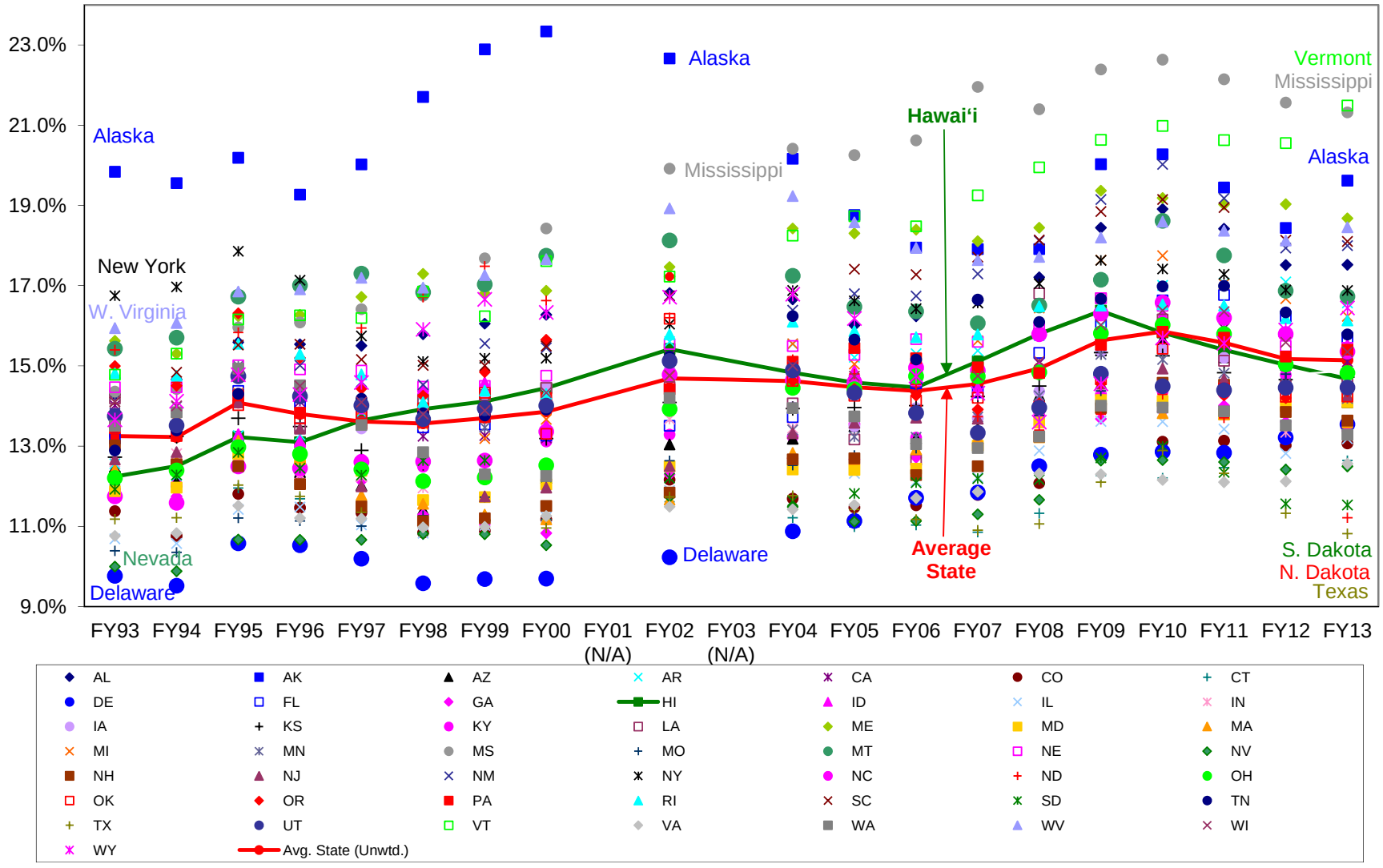
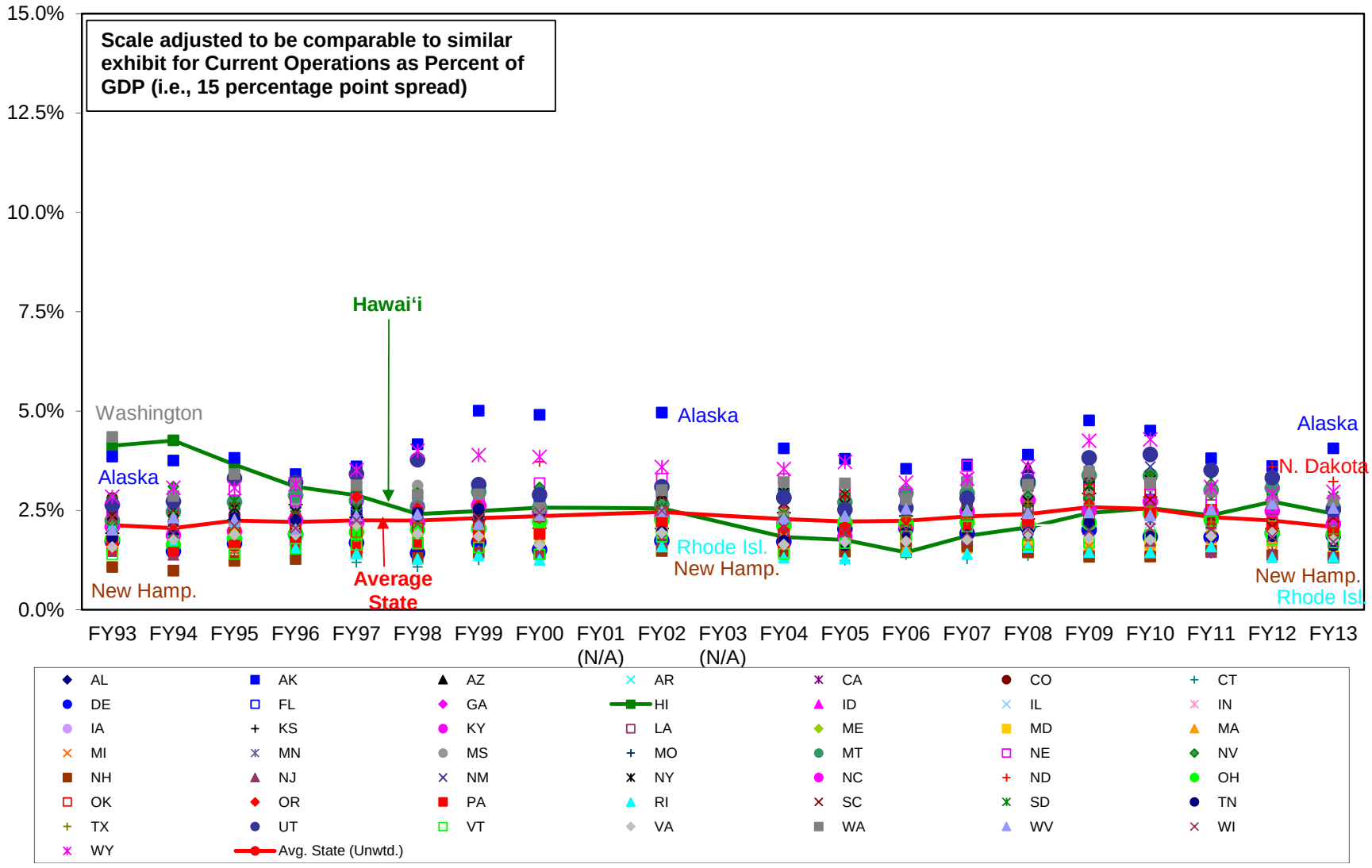


Figure 3.32: Direct Expenditures for Capital Outlays as Percent of GDP from FY 1993, All States



3.6.4 Comparing Hawai‘i Governments’ Level of Direct Expenditures for Interest on Total Debt to Other States

Figure 3.33 shows historical data from FY 1993, expressed as Percent of GDP and again with a 15-percentage-point vertical scale that is visually comparable to the two foregoing exhibits.

Conclusions: With allowances for a more “scrunched” distribution of data points in Figure 3.33, the general pattern over time for Hawai‘i combined government figures vs. those of the “Average State” looks much like that in the preceding Figure 3.29 (Interest on Total Debt as Percent of All Direct Expenditures). It also looks much like the general pattern to be found in the earlier Figure 3.21 and Figure 3.25 relating to “*General* Debt” (the major component of “Total Debt” in most places). They all say the same thing: For a few years at the very end of the 20th century, Hawai‘i governments were #1 or #2 in the nation in terms of paying for Debt. However, at the beginning and end of this approximately 20-year timeframe, Hawai‘i Debt expenditures were essentially the same as the “Average State.”

(Note: These Census data related to Debt have been about expenditures to pay for interest. Chapter 5 contains additional Census data about levels of Debt outstanding, issued, and retired.)

3.6.5 Comparing Hawai‘i Governments’ Level of Direct Expenditures for Insurance Trusts to Other States

Expenditures for Insurance Trusts (including Employee Retirement Systems and Unemployment Compensation in Hawai‘i, plus Workers’ Compensation and a few miscellaneous “other” trusts in some states) are for “payments to beneficiaries, employee retirement annuities and other benefits, and withdrawal of insurance or employee retirement contributions,” according to the Census *Classification Manual* for these data. They do not include administrative costs, thus essentially include only payments to beneficiaries.

Figure 3.34 presents the available historical data, expressed as Percent of GDP, from FY 1993 to FY 2013.

Conclusions: Combined Hawai‘i governments’ cumulative insurance trust expenditures were somewhat higher than those of the “Average State” for much of the 1990s, but for the last decade for which data are available they have been very much in line with the national average for combined state and local governments.

The following Section 3.7 briefly provides a further breakdown of these Insurance Trust expenditures.

Figure 3.33: Direct Expenditures for Interest on Total Debt as Percent of GDP from FY 1993, All States

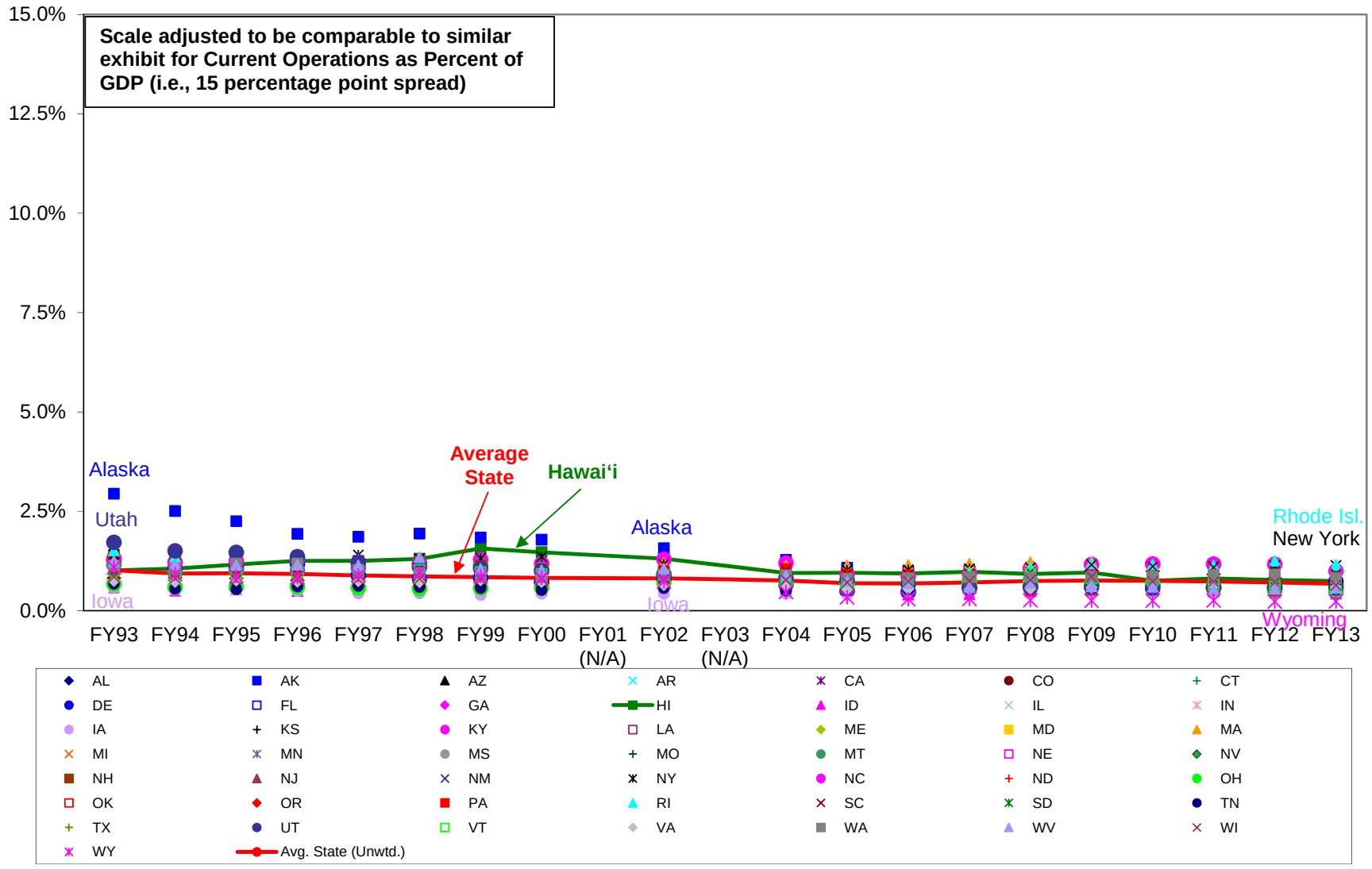
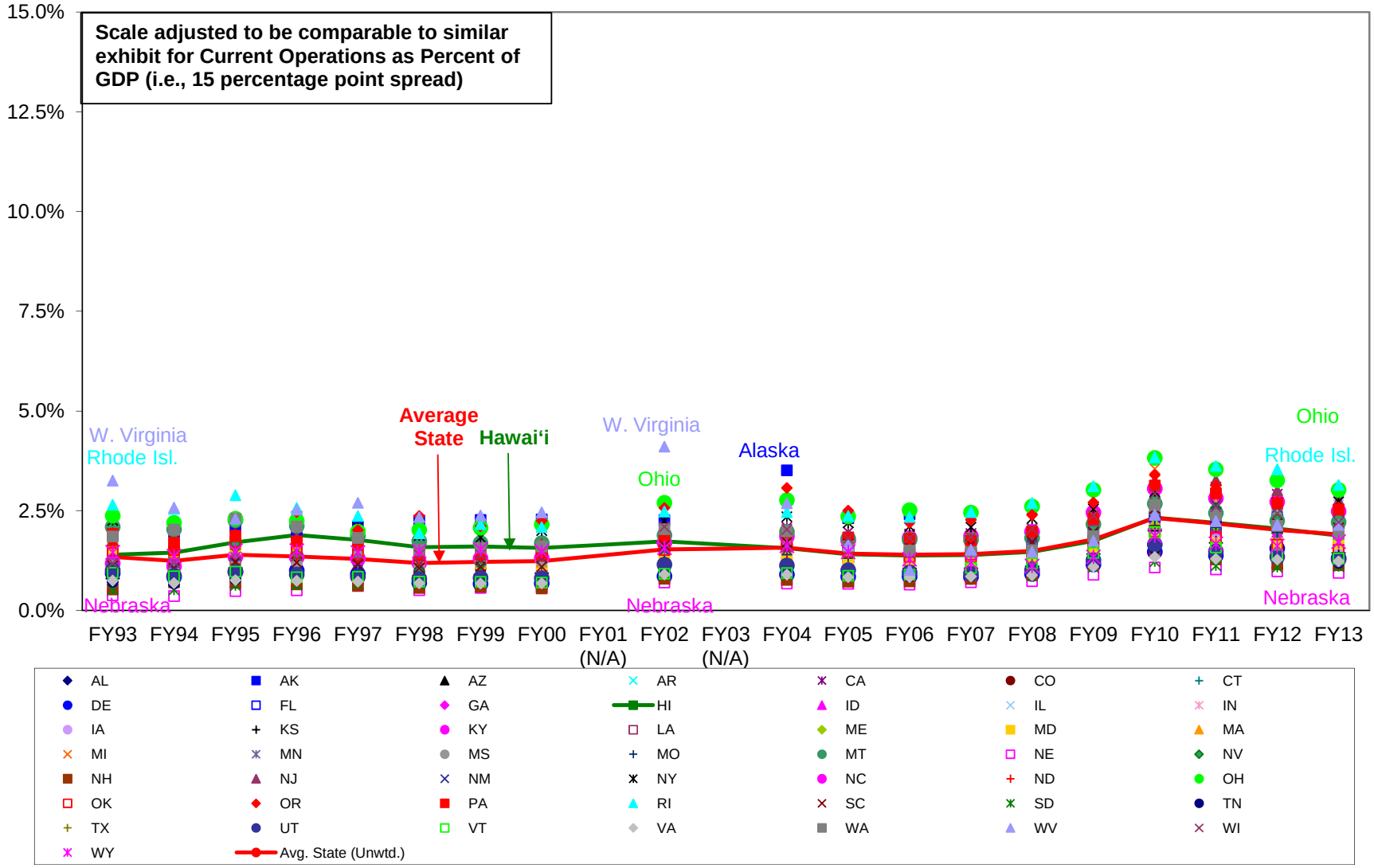


Figure 3.34: Direct Expenditures for Insurance Trusts as Percent of GDP from FY 1993, All States

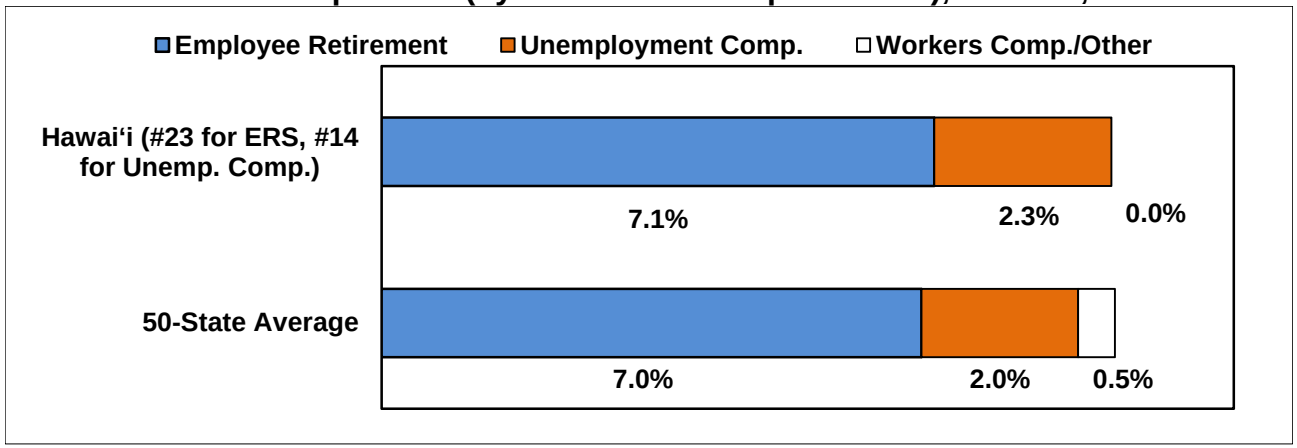


3.7 INSURANCE TRUST EXPENDITURES

The "5th Level of Analysis" from the analytic framework of Figure 3.4 involved *specific* insurance trust expenditures.

Composition: To facilitate comparison with the Revenue summary earlier in Figure 2.29, Figure 3.35 summarizes FY 2013 components as Percent of Direct Expenditures (virtually all combined state/local government expenditures except for a tiny amount of inter-governmental transfers). Hawai'i governments spent a slightly larger share of Direct Expenditures on Unemployment Compensation than did the "Average State," though Hawai'i unemployment payments were still just about one-third of the amount spent for payments to the Employee Retirement System (ERS) beneficiaries. As noted previously, Hawai'i operates only these two insurance trusts on a government-run basis, with Workers' Compensation covered by insurance companies for the private sector and on a "Pay-As-You-Go" basis for public workers.[17]

Figure 3.35: Insurance Trust Components (by Pct. of Direct Expenditures), FY 2013, Hawai'i vs. Average State



Level: Figure 3.36 and Figure 3.37 show historical data (expressed as Percent of GDP) for ERS and Unemployment Compensation expenditures. While the shapes of the trend lines differ for the two types of insurance trusts – constantly rising for ERS as increasing numbers of "Baby Boomers" move into retirement, rising or falling with the economy for Unemployment Compensation –exhibits for *both* trusts show Hawai'i expenditures were somewhat higher than those for the "Average State" in the 1990s but in recent years have closely tracked the national state/local government average.

[17] The Census counts "Pay-As-You-Go" appropriations with general government expenditures, not as part of these ERS or Unemployment Compensation spending figures. Hawai'i has historically handled ERS through "Pay-As-You-Go" funding, too. Expenditures reported here exclude future obligations incurred by current employees in this year, which represent sizeable "unfunded liabilities" for Hawai'i governments.

Figure 3.36: ERS Insurance Trust Expenditures as Percent of GDP from FY 1993, All States

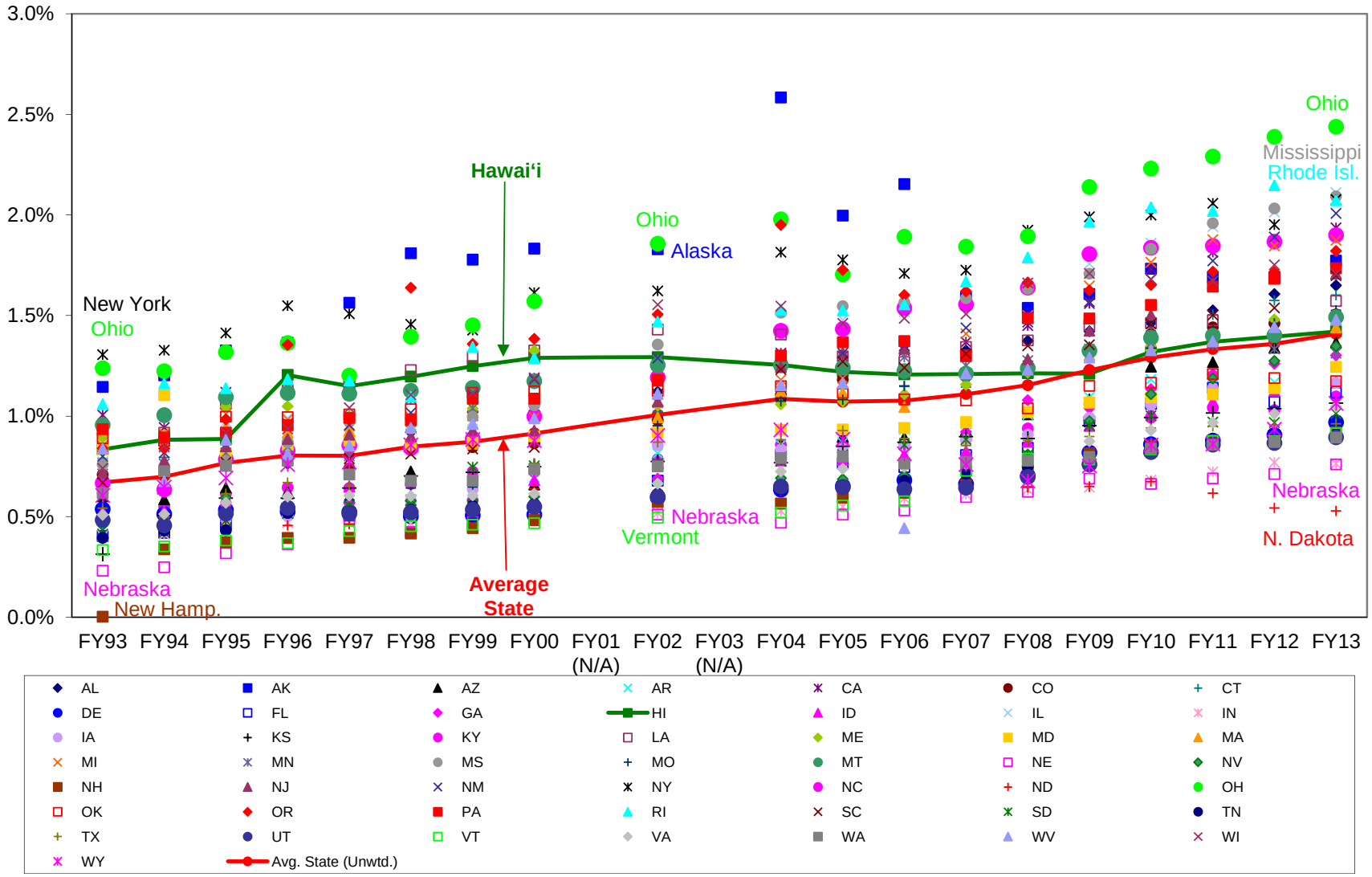
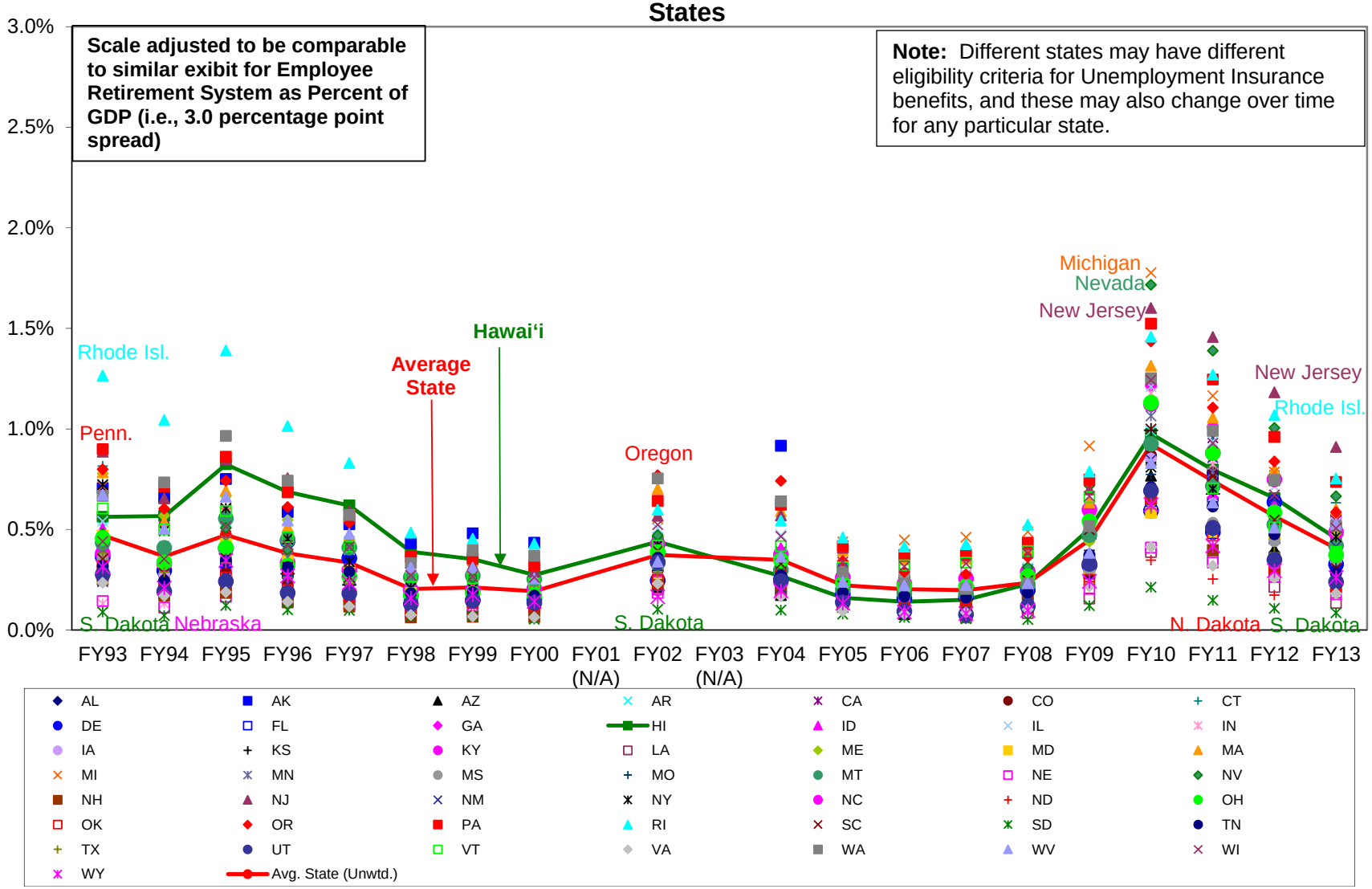


Figure 3.37: Unemployment Compensation Insurance Trust Expenditures as Percent of GDP from FY 1993, All States



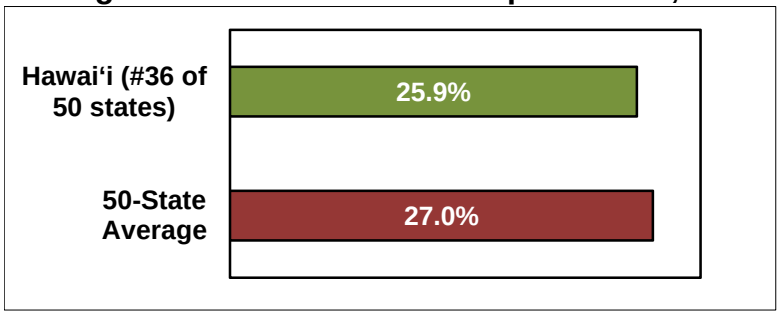
3.8 ANNUAL SALARIES AND WAGES FOR STATE/LOCAL WORKERS

This final analysis of Census data on Expenditures is the beginning of a transition, continued in the following Chapter 4, to a more detailed look at numbers and pay of combined state/local government employees in all 50 states. The data in this Section 3.8 still comes from the same source as all the preceding numbers – annual totals published as a "Special Exhibit" in the *U.S. Census Survey of State and Local Government Finances* – while Chapter 4 will present (theoretically) complementary information from a separate Census survey focused on one-month employee/payroll data.

3.8.1 Total Salaries and Wages as Percent of All Direct Expenditures

Even at a combined level, some state/local governments take on different functions than do governments in other places – e.g., states where some levels of governments run liquor stores and/or different numbers/types of public utilities. Absolute payrolls can vary for that reason alone, though the effect on Percent of Direct Expenditures (or of GDP) would be less pronounced. Figure 3.38 summarizes FY 2013 information, and Figure 3.39 provides historical data

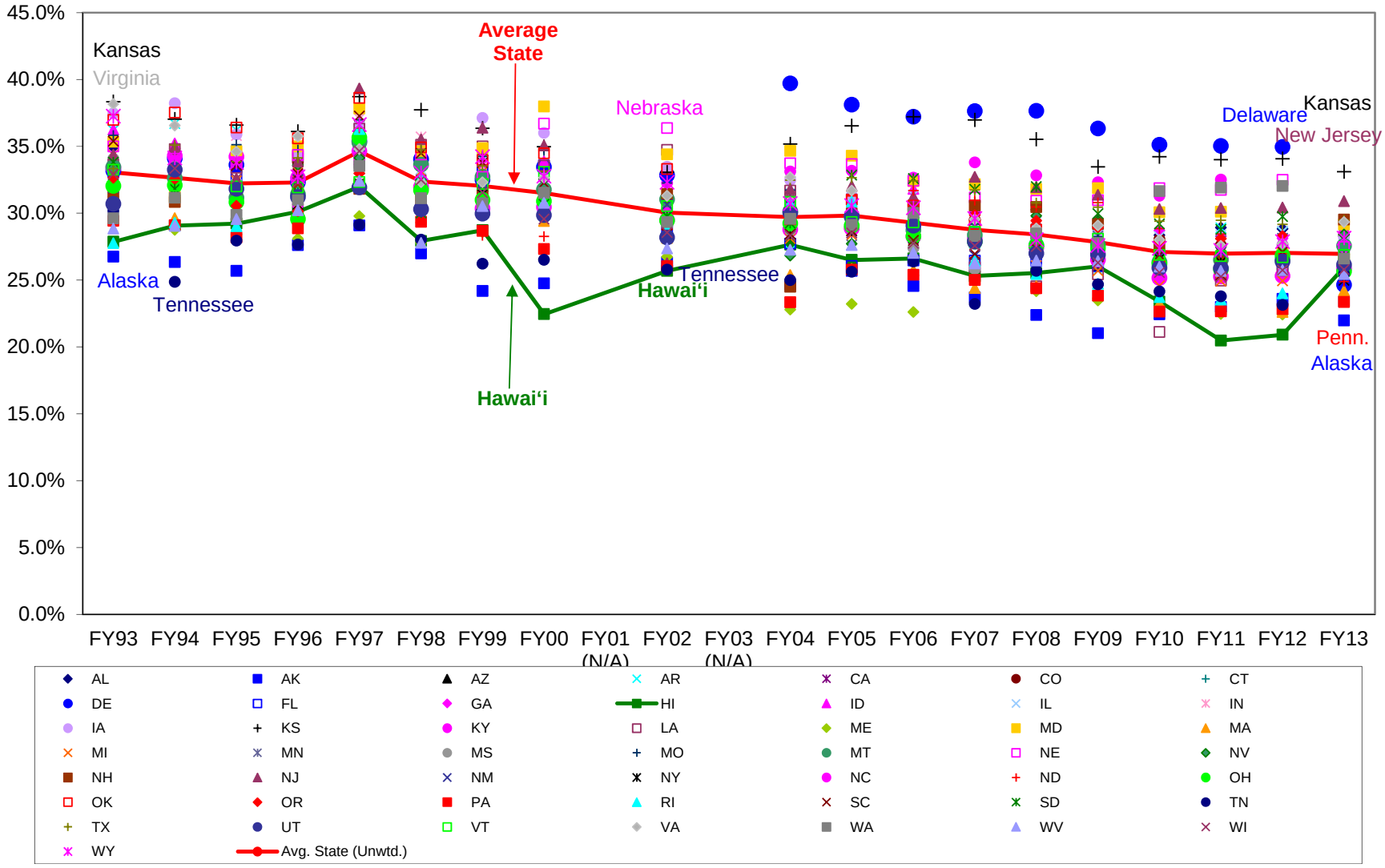
Figure 3.38: Total Salaries and Wages as Percent of Direct Expenditures, FY 2013, Hawai'i vs. Average State



Note: Census definition of "Salaries and Wages" involves gross pay prior to deductions (e.g., taxes), but excludes employer contributions for benefits and value of any in-kind payments that may be made.

Conclusions: While Hawai'i governments spent a *somewhat* smaller share of all Direct Expenditures on gross Salaries/Wages in FY 2013 than did the "Average State," that percentage was *substantially* smaller for some years in the period covered by this study. It was even #50 in the nation for four years for which data are available – FY 2000, 2002, 2011, and 2013. Hawai'i's #36 rank in FY 2013 was the highest for the entire timeframe. While this arguably speaks to policy choices made by government budgeters as to allocation of resources between workers and other operating costs, other analyses are needed to determine if government is necessarily either "under-staffed" or if workers are "under-paid" compared to other states. As will be seen in the following discussion, those conclusions are not always clear-cut.

Figure 3.39: Total Salaries and Wages as Percent of Direct Expenditures from FY 1993, All States



3.8.2 Comparing Hawai‘i Governments’ Level of Expenditures for Salaries and Wages to Other States

This comparison of spending “level” for salaries and wages is about different states’ combined governments’ expenditures for Salaries/Wages relative to their respective resources (economic activity or population), not per-worker pay “levels” (which is addressed in a very broad and rough way in Chapter 4). Although we have sometimes omitted Per-Capita figures in these figures because Percent of GDP is more valid, we include it here because we are essentially are starting a fresh topic, and the practice in this study has been to show the Per-Capita figures at the overview level. Figure 3.40 and Figure 3.41 summarize FY 2013 results for Percent of GDP and Per Resident, while Figure 3.42 and Figure 3.43 provide the historical data from FY 1993 for each of these.

Figure 3.40: Govt. Salaries/Wages as Pct. of GDP, FY 2013

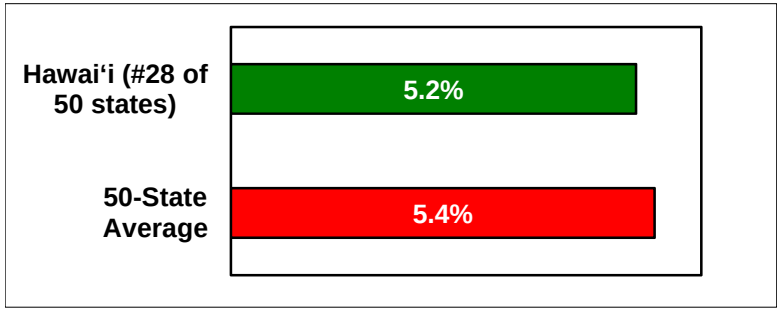
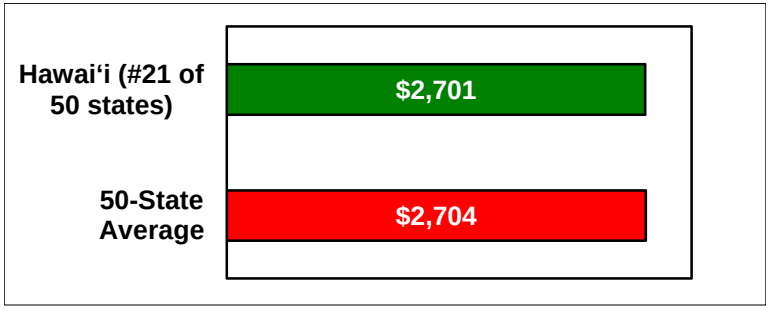


Figure 3.41: Salaries/Wages Per Resident, FY 2013



Conclusions: By the preferred Percent of GDP “yardstick,” in FY 2013 Hawai‘i combined governments were a little under the “Average State” level. Even the more problematic Per-Capita approach (which does not account in the denominator for expenditures to serve tourists and part-time residents) shows the “burden” per resident for Salaries/Wages as virtually identical to that in the average American state for paying all public servants at the state and local levels in FY 2013.

Again, though, the longer view from the historical data of Figure 3.42 and Figure 3.43 shows years in which Hawai‘i has substantially lagged the “Average State.” Because this comparison involves “affordability” and not just Percent of Expenditures, the picture is a little less drastic here, but it still clearly contradicts any impression that may exist of a government workforce consistently consuming inordinate amounts of taxpayer resources, at least relative to other states.

Yet the following Chapter 4 (based on a different Census survey) will find no evidence that Hawai‘i public workers are *deeply* under-staffed or under-paid. Rather, the evidence will be that the number of state/local workers relative to resident population has typically been just a little below that of the “Average State” (though the difference would be somewhat greater if the tourist population could be assessed in each state). And a rough, broad measure of average pay – without regard to cost of living – will find Hawai‘i workers typically very slightly above the “Average State.” We leave for future research a deeper explanation of why Hawai‘i in some years seems to have paid so little for total salaries and wages.

Figure 3.42: Total Salaries and Wages as Percent of GDP from FY 1993, All States

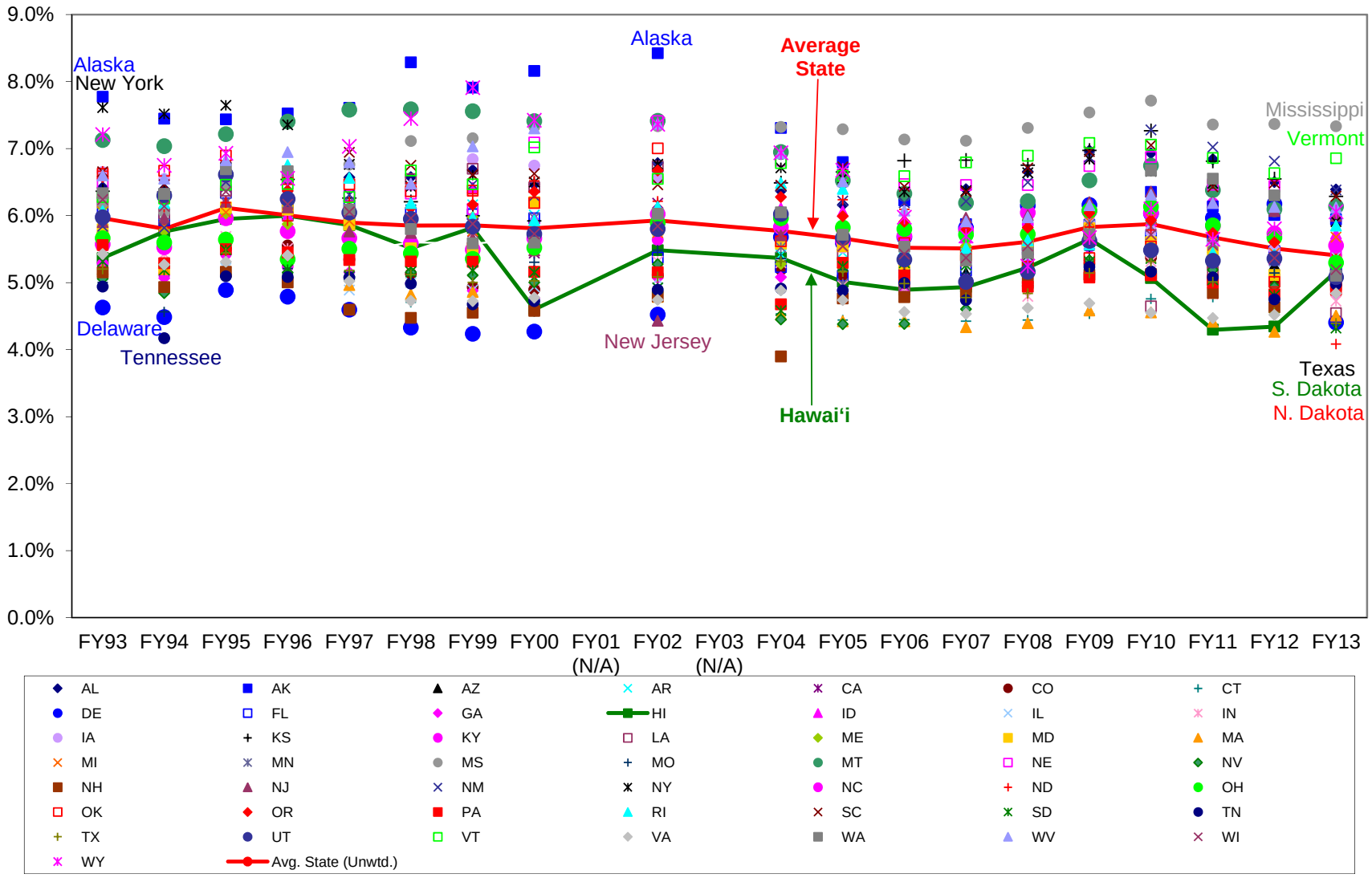
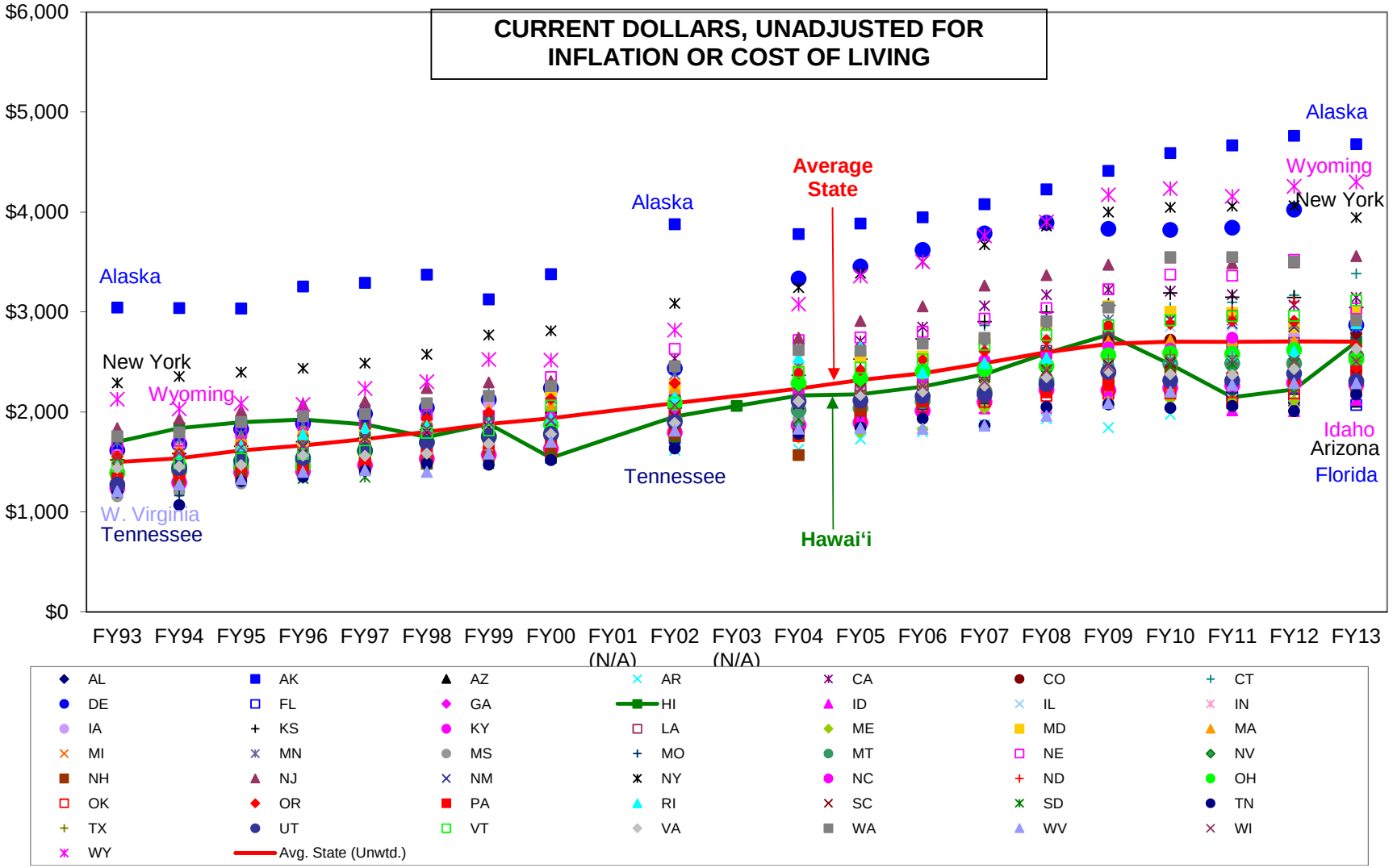


Figure 3.43: Total Salaries and Wages Per Resident from FY 1993, All States



4. EMPLOYMENT AND PAYROLL

This chapter is a specialized continuation of the last chapter's analysis of wage/salary expenditures. Here we examine total numbers of public workers and their average pay for Hawai'i vs. other places in the U.S. The overall picture from the following charts and tables is that Hawai'i's workforce size and salaries are very much in line with the rest of the country, despite greater population demands for services (including the visitor population) and despite Hawai'i's greater cost of living.

NOTE: For definitions and other technical notes relevant to this chapter, see the title page of Appendix D. That appendix contains detailed state-by-state information about data summarized in this part of the report.

4.1 ORGANIZATION OF EMPLOYMENT AND PAYROLL ANALYSIS

Data Source: This is the only chapter of quantitative results that relies not on the *U.S. Census Survey of State and Local Government Finances* but rather on the Census Bureau's associated *Annual Survey of Government Employment and Payroll*. This Census survey gathers detailed information about state and local job counts and payrolls for one month of each year (the month of March since 1997, the month of October before that).

At the time this study of the Census data was prepared, survey data were available through March 2014 and had not been collected only in calendar 1996. We again began historical analysis with the year 1993, though it should be noted October 1993 was part of FY 1994 and March 2014 is part of FY 2015. Thus, this data series in terms of fiscal years starts one year later at the beginning and extends for two years later in terms of "most recent available."[18]

Data Excluded from Analysis: For purposes of this study, the following information was not subjected to analysis here –

1. Job Types: The Census survey contains information about 26 specific sectors (with some further breakdown of police, fire, and education). However, because this study is at a general level, we elected to work with total job counts only.
2. Total Payroll Dollars: Both Total and Full-Time Payroll dollar numbers *are* reported in Vol. II Appendix D. But because the full-year Wage/Salary information at the end of the previous chapter is inherently more complete and reliable, in this Vol. I we *use* these payroll data only to calculate percentages and rough total average pay (see below).

Contents of This Analysis: We used the available Census information to look at three topics in this chapter –

- Combined State/Local Full-Time Jobs and Payroll as Percent of Totals: Total jobs include part-time. This analysis looks at what percent of the total job count is full-time for each state, and does the same for monthly payroll.
- Workers as Percent of Resident Population: Two types of workers were counted – for Full-Time Equivalent (FTE), which blends full-time and part-time workers (two half-time workers = one FTE worker), and for Full-Time Only.
- (Calculated) Average Overall Monthly Pay: Dividing appropriate payroll type by worker counts produces an overall average for (a) FTE workers, and (b) Full-Time Only.

[18] Because the Census Bureau did not collect data for only one year (i.e., no month in calendar 1996) for this *Annual Survey*, but did not publish data for two years (FY 2001 and 2003) for the *Survey of State and Local Government Finances*, this means the historical time series in this chapter includes 21 data points vs. only 19 for other chapters.

4.2 PERCENT OF TOTAL WORKERS AND PAYROLL CONSISTING OF FULL-TIME

Detailed state-by-state figures for March 2014 are in Vol. II Appendix D. In summary, Figure 4.1 and Figure 4.2 show this most recent available year information for Hawai‘i vs. the “Average State,” and the following Figure 4.3 and Figure 4.4 show the historical situation since 1993. (Note: “Payroll” here is defined much as annual “Salaries and Wages” in the previous Section 3.8 – i.e., gross amounts before deductions and excluding employer contributions for benefits.)

Figure 4.1: Percent of All Workers Who Are Full-Time, Hawai‘i vs. Average State, March 2014

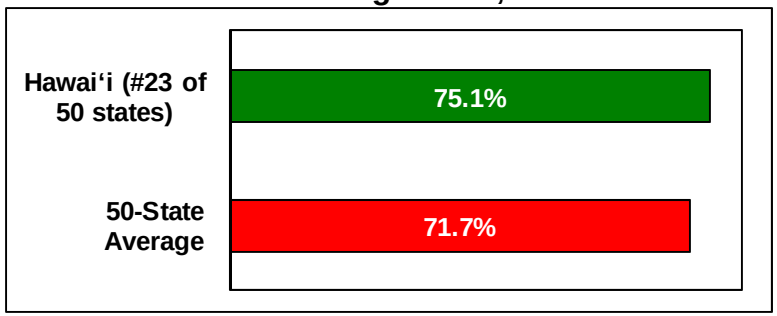
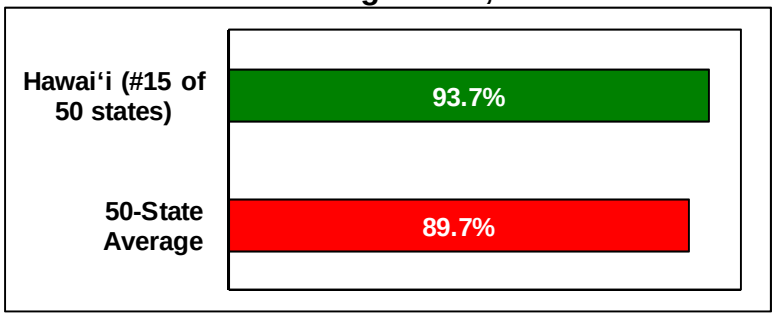


Figure 4.2: Full-Time as Percent of Total Payroll, Hawai‘i vs. Average State, March 2014



Conclusions: Because Hawai‘i government serves an actual de facto population (with tourists) larger than its resident population, one expects a larger workforce here relative to resident than in other places – and to some degree it makes sense that the additional needed workers would be disproportionately full-time.

The data show this is true, and has been consistently true since at least 1993. Although we are not in the very top rank of states whose governments consist primarily of full-time workers, we have usually exceeded the average by a few percentage points. Additionally, Hawai‘i generally has ranked higher in payroll (Figure 4.4) than in simple job counts (Figure 4.3), suggesting that even part-time workers are paid better here.

Some General Cautions: All data in this chapter should be considered rough indicators of the “actual differences” between states on the topics being measured. There are many dimensions of workforce characteristics that differ among states – the state/local split, the full-time/part-time split, different staffing for different sectors, greater or lesser unionization, etc. – and a more sophisticated analysis might be able to control for some of these. As stated in Chapter 1, this is a “50,000-foot study” and should be taken as such.

Figure 4.3: Percent of All Workers Who Are Full-Time, from Calendar 1993, All States

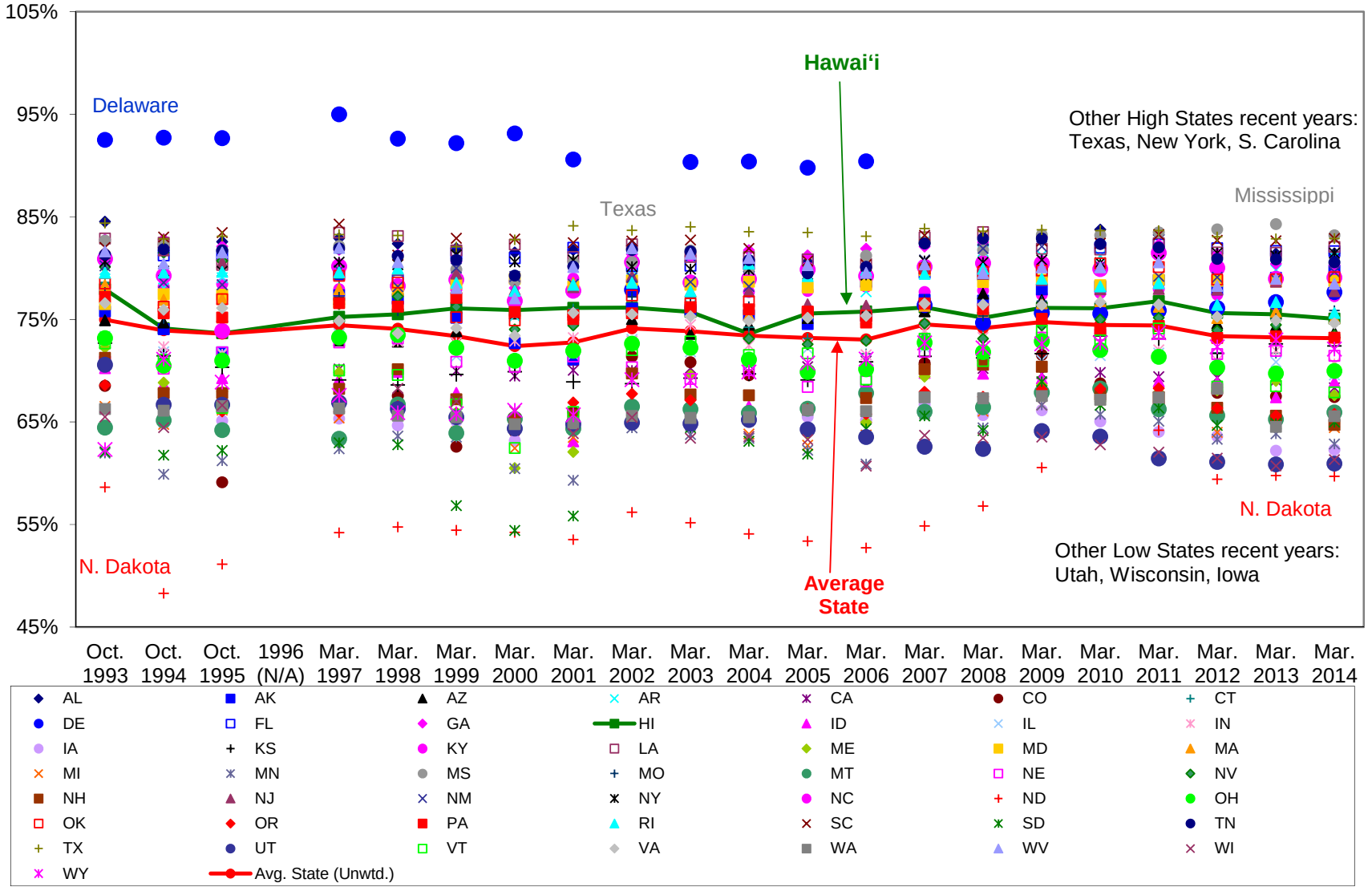
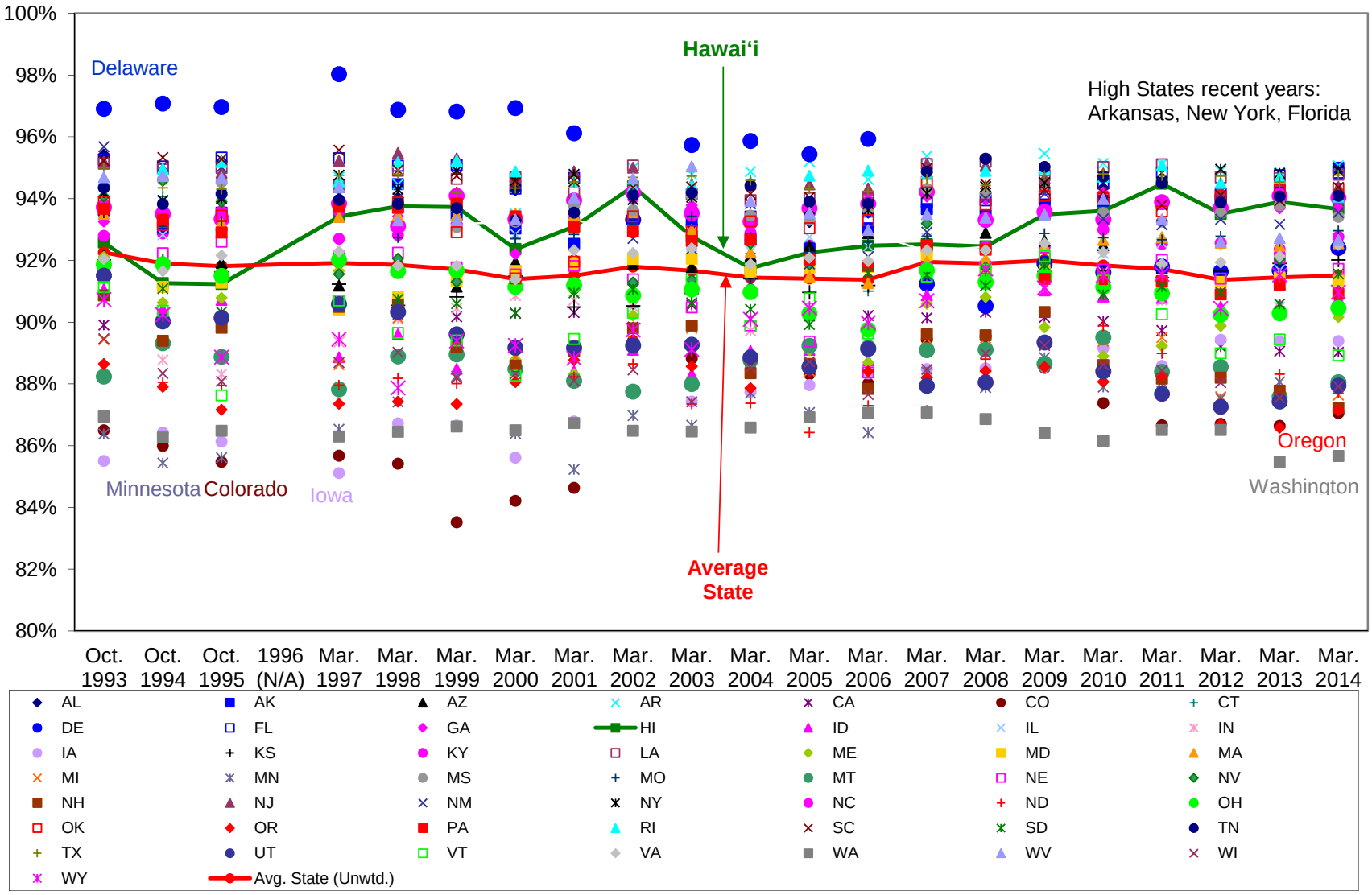


Figure 4.4: Full-Time Payroll as Percent of Total Payroll, from Calendar 1993, All States



4.3 WORKERS AS PERCENT OF RESIDENT POPULATION

Here is where we would particularly expect Hawai‘i to have a higher-than-average ranking because of the need to provide services to the visitor population and not just the resident population – a missing factor when dividing job counts by residents only. And of course state government alone accounted for a particularly high portion of all state/local FTE workers in March 2014 – 78%, about equal to the Total Revenue and Total Expenditure percents but this time 1st among 50 states.

Therefore, the appropriate measure for this comparison is the FTE job count for (as usual in this study) combined state/local government, due to Hawai‘i’s state government taking disproportionate responsibility for education and a few other functions normally handled more at the local level. Figure 4.5 does this for the most recent available year and Figure 4.7 shows historical data from1993. But to make a point, Figure 4.6 does exactly what we caution strongly throughout this report against doing – inappropriately using state-only data to compare Hawai‘i with other places.

Figure 4.5: Combined FTE State/Local Workers as Percent of Resident Population, March 2014

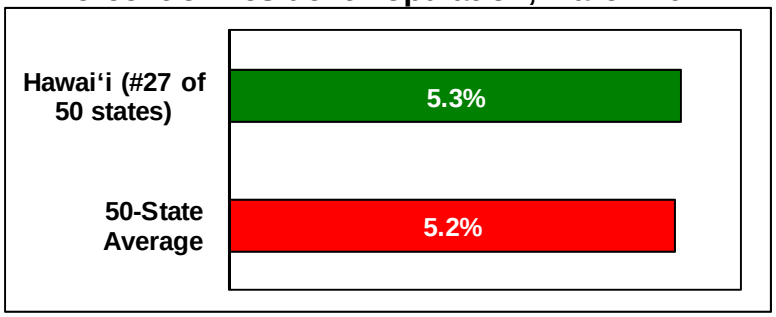
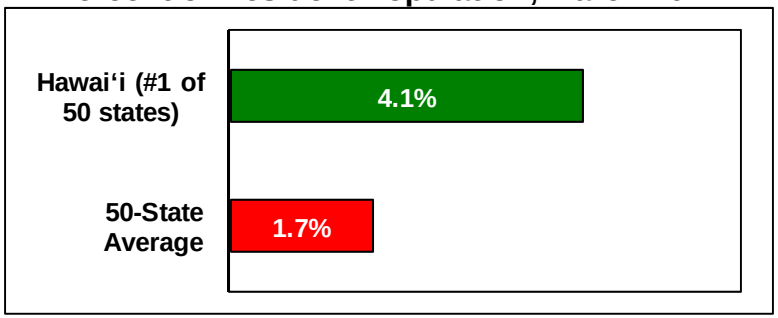


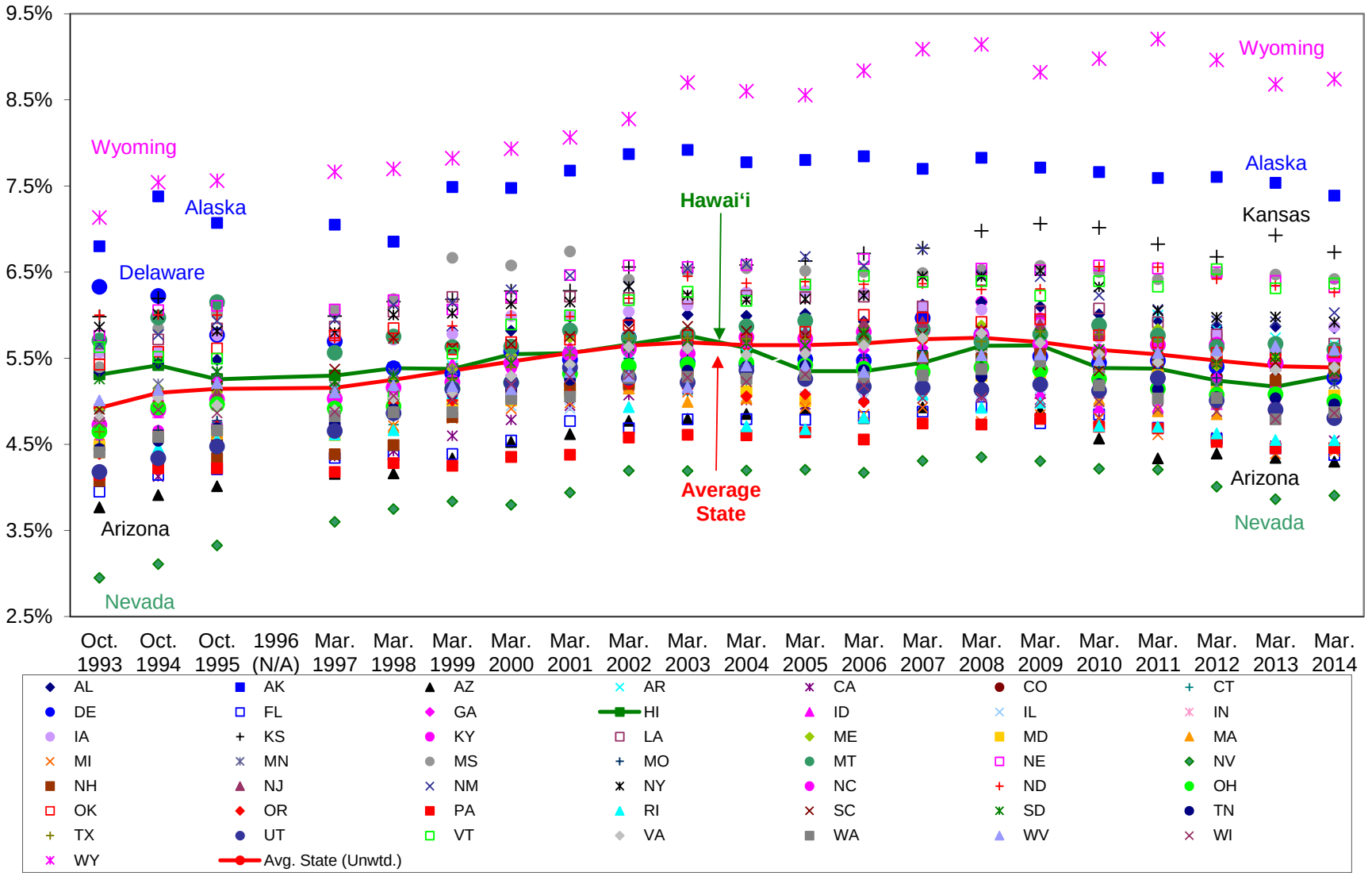
Figure 4.6: State Government Only FTE Workers as Percent of Resident Population, March 2014



Conclusions: By the erroneous logic incorporated in Figure 4.6, relying only on state worker data, Hawai‘i appears to have a “bloated bureaucracy,” with the percent of state government workers more than twice the level of the “Average State” as of March 2014. In fact, the proper comparison using combined state and local job counts yields a percentage almost exactly equal to that of the “Average State (Figure 4.5). That percentage declined slightly from about the time of the Great Recession through March 2013 both in Hawai‘i and most other states, ticking up in Hawai‘i only in 2014 (Figure 4.7).

Given the large visitor population here, Hawai‘i’s local/state workforce would actually appear to be *under-staffed* as of 2014, at least on a comparative basis. (Again, readers with a particular political or economic philosophy might disagree.)The historical data of Figure 4.7 suggest Hawai‘i actually did once have the expectable slight “padding” of workforce to deal with the additional non-resident population – while still remaining close to the “Average State” – until the mid-2000s. This was a time of downsizing in the State government that would seem to have become something close to status quo.

Figure 4.7: FTE State/Local Workers as Percent of Resident Population, from Calendar 1993, All States



4.4 AVERAGE PAY PER WORKER

Dividing monthly payroll by job counts provides a rough sense of overall average monthly pay for the combined State/Local workforce, subject to the cautions noted in Section 4.2. Figure 4.8 and Figure 4.9 illustrate differences between Hawai'i and the "Average State" in the most recent year for which data are available, and Figure 4.10 provides a historical picture for the more critical FTE category.

Figure 4.8: Rough Average FTE Worker Monthly Pay, Hawai'i vs. Average State, March 2014

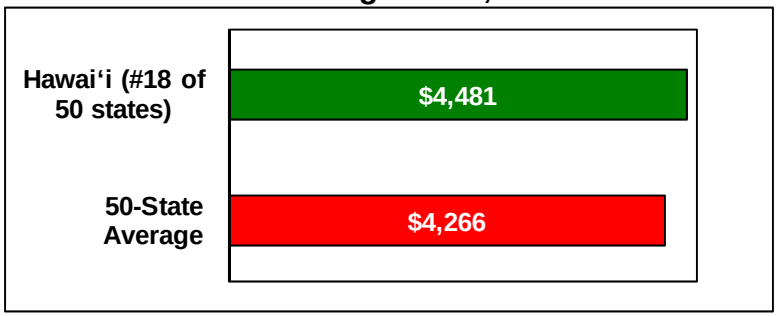
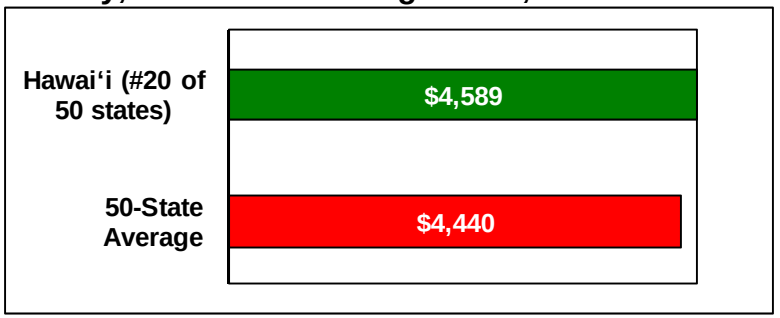
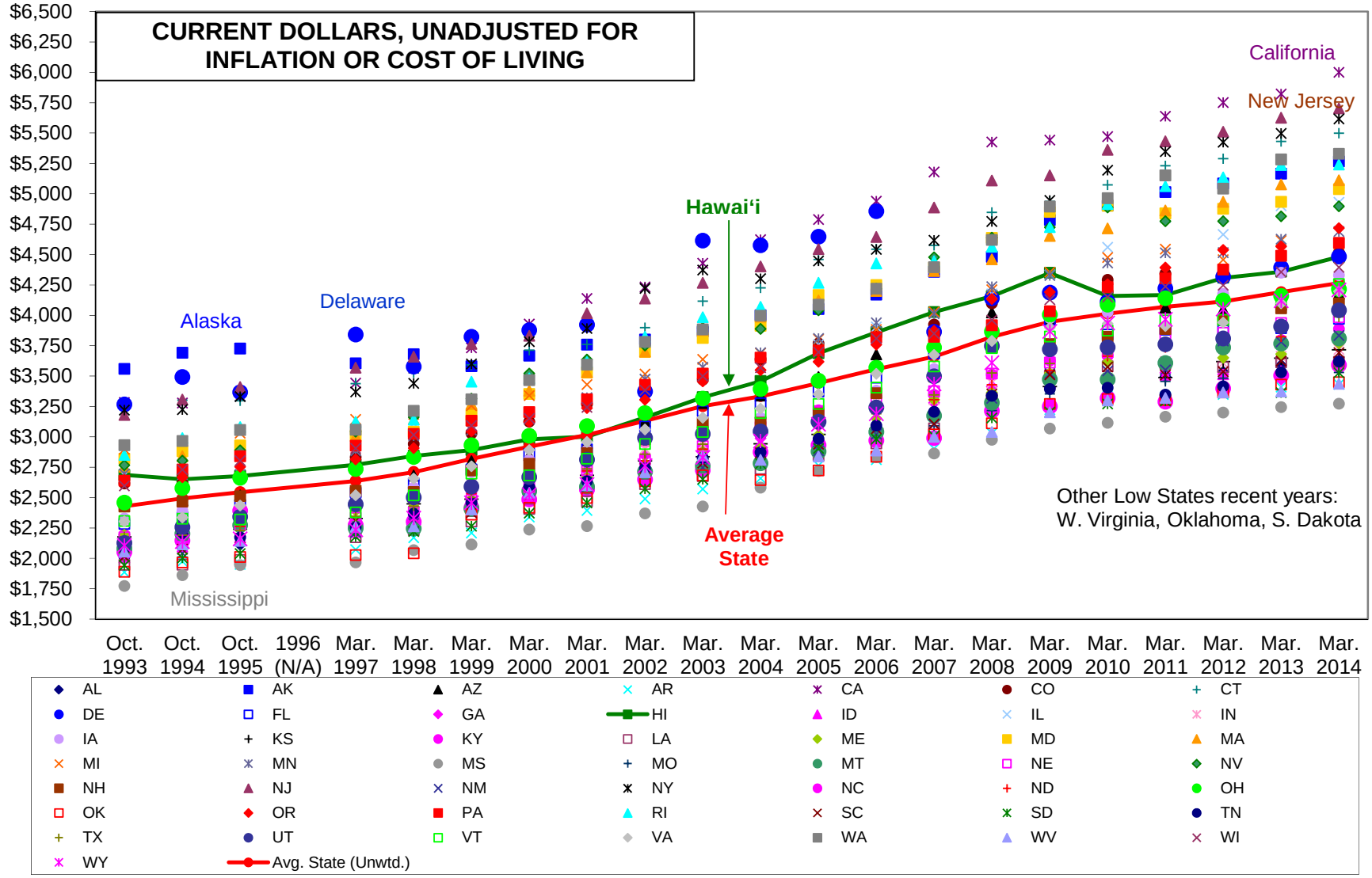


Figure 4.9: Rough Average Full-Time Worker Monthly Pay, Hawai'i vs. Average State, March 2014



Conclusions: Rough overall average state/local government average pay appears very much like that of the "Average State," despite Hawai'i's greater cost of living. If one assumes this higher cost of living means Hawai'i state and local workers *should* be paid more than in other states, that has been true to a modest extent, but Figure 4.10 shows the average-pay indicator for Hawai'i FTE workers dropping back to or almost to that of the "Average State" immediately following each recession period (FY 2001 and FY 2008 and 2009).

Figure 4.10: Rough Average Pay for FTE Workers (State/Local), from Calendar 1993, All States



5. GOVERNMENT DEBT LEVELS

Census data on expenditures to service Debt were presented in Chapter 3. This Chapter 5 looks at "Debt" primarily in terms of outstanding amounts. (As noted previously, though, a critical omission from Census data on Debt involves unfunded future liabilities, particularly for the Employee Retirement System.) Total Debt in Hawai'i has tended to be higher than for the "Average State" but not among the very most heavily debt-ridden places. At the same time, Hawai'i governments have typically issued even less Short-Term (one year or less) than in the great majority of states, and Hawai'i has consistently ranked Number 50 among states for the percent of Total Debt for what the Census calls "Private Purposes" – e.g., as a conduit for things like housing or student loans, private stadiums and conference centers, etc. That is a much more common practice in other places.

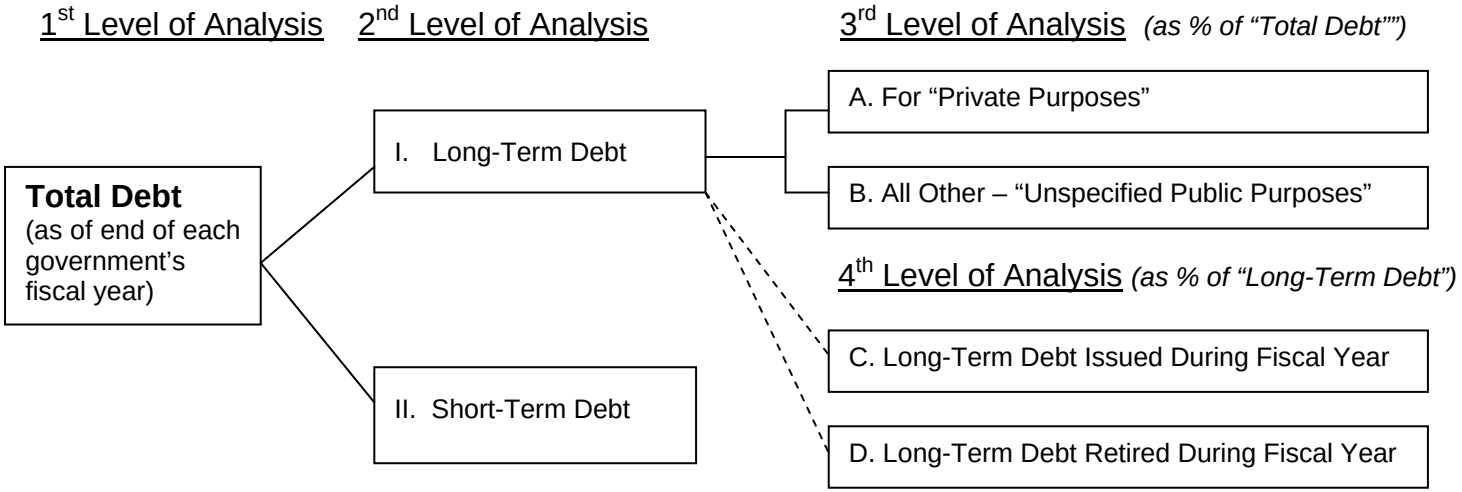
NOTES: For definitions and other technical notes relevant to this chapter, see the title page of Appendix E. That appendix contains detailed state-by-state information about data summarized in this part of the report.

Some specific information about Debt was not produced for FY 1997.

5.1 ORGANIZATION OF DEBT ANALYSIS

The Census organization of Government Debt categories is straightforward and needs no change or re-organization for this study:

Figure 5.1: Census Organization of Government Debt



It may be noted that the Census Bureau previously had more categories of Long-Term Debt – e.g., by functional purpose, as for Education. It also distinguished between Long-Term Debt that was "Guaranteed" (backed by the full-faith and credit of the government) or as "Non-Guaranteed" (such as revenue bonds). These were discontinued beginning with the 2005 survey year.

As will be seen, Hawai'i was the only state in the nation with no short-term debt for either state or local government in FY 2013, as well as having a very small (lowest in the nation) amount of debt for "private purposes" (as defined in Section 5.4).

The analysis will therefore focus in relative depth on comparison of Hawai'i "Total Debt" (and on Debt "Issued" and "Retired") to that of other states, but remain cursory for the composition of Total Debt into Short- and Long-Term, and of Long-Term Debt into Private Purposes and other.

5.2 TOTAL DEBT, COMBINED STATE/LOCAL GOVERNMENTS

5.2.1 Comparing the Level of Hawai‘i Governments’ Total Debt to Other States

As of FY 2013, 58% of Total Debt held by Hawai‘i’s combined state/local governments was at the state level – lower than the percentages for Total Revenue, Total Debt, and Govt. Workers as a Percent of Population (all about 78% for most recent available year) but still higher than the “Average State’s” 45%. Hawai‘i ranked 14th among the 50 states with this 58%. However, again, because our purpose is valid comparison, we look at combined state/local government data.

Detailed state-by-state figures for FY 2013 are in Vol. II Appendix E. Below is a summary, and on the following pages, Figure 5.4 and Figure 5.5 show the longer historical situation from FY 1993.

Figure 5.2: Total Debt as Pct. of GDP, FY 2013

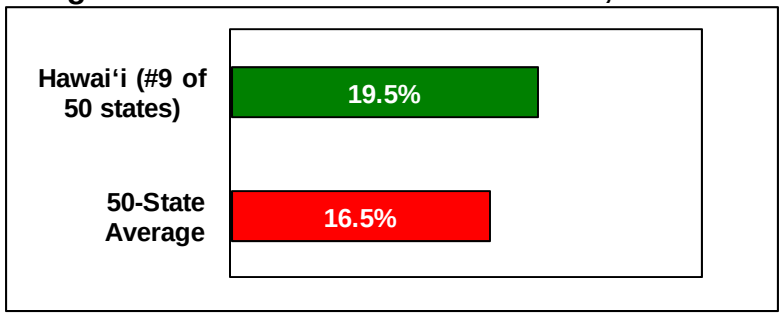
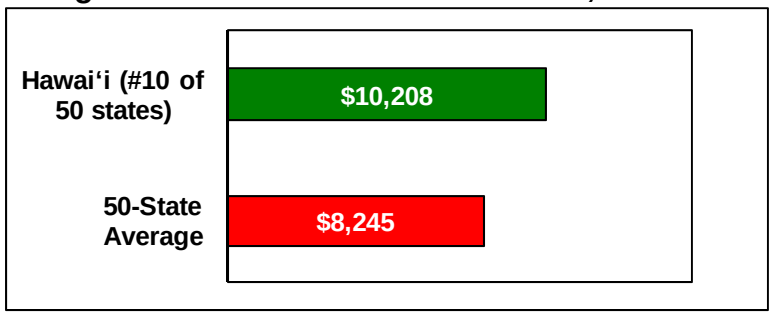


Figure 5.3: Total Debt Per Resident, FY 2013



Conclusions: While we endorse Percent of GDP as the technically better measure, it tells much the same story as Total Debt Per Capita in this case. Hawai‘i ranked moderately high on Total Debt in FY 2013 – though note that it had also done so around FY 2000 and then fell back to or close to the “Average State” by FY 2008.

In the Great Recession and shortly following, both Figure 5.4 and Figure 5.5 show the effects of Keynesian decisions by most states (and perhaps some local governments) to increase debt and stimulate employment through public works. From FY 2010 on, the “Average State” (state/local governments combined) cut back on Total Debt through FY 2013, but Hawai‘i’s governments maintained or slightly increased debt loads as measured either on a per-capita basis or as a percent of GDP during this recent period.

Figure 5.4: Total Debt as Percent of GDP from FY 1993, All States

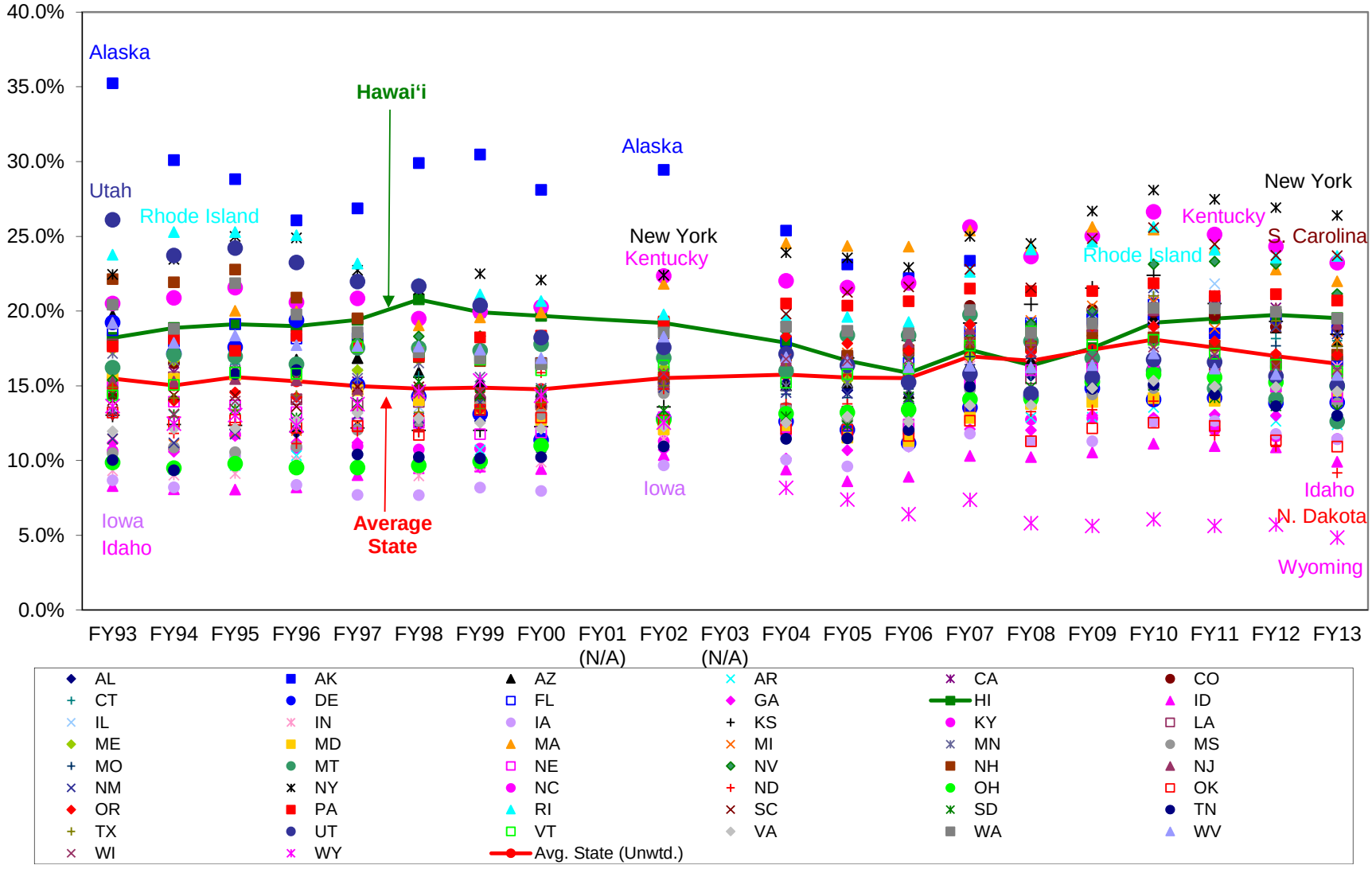
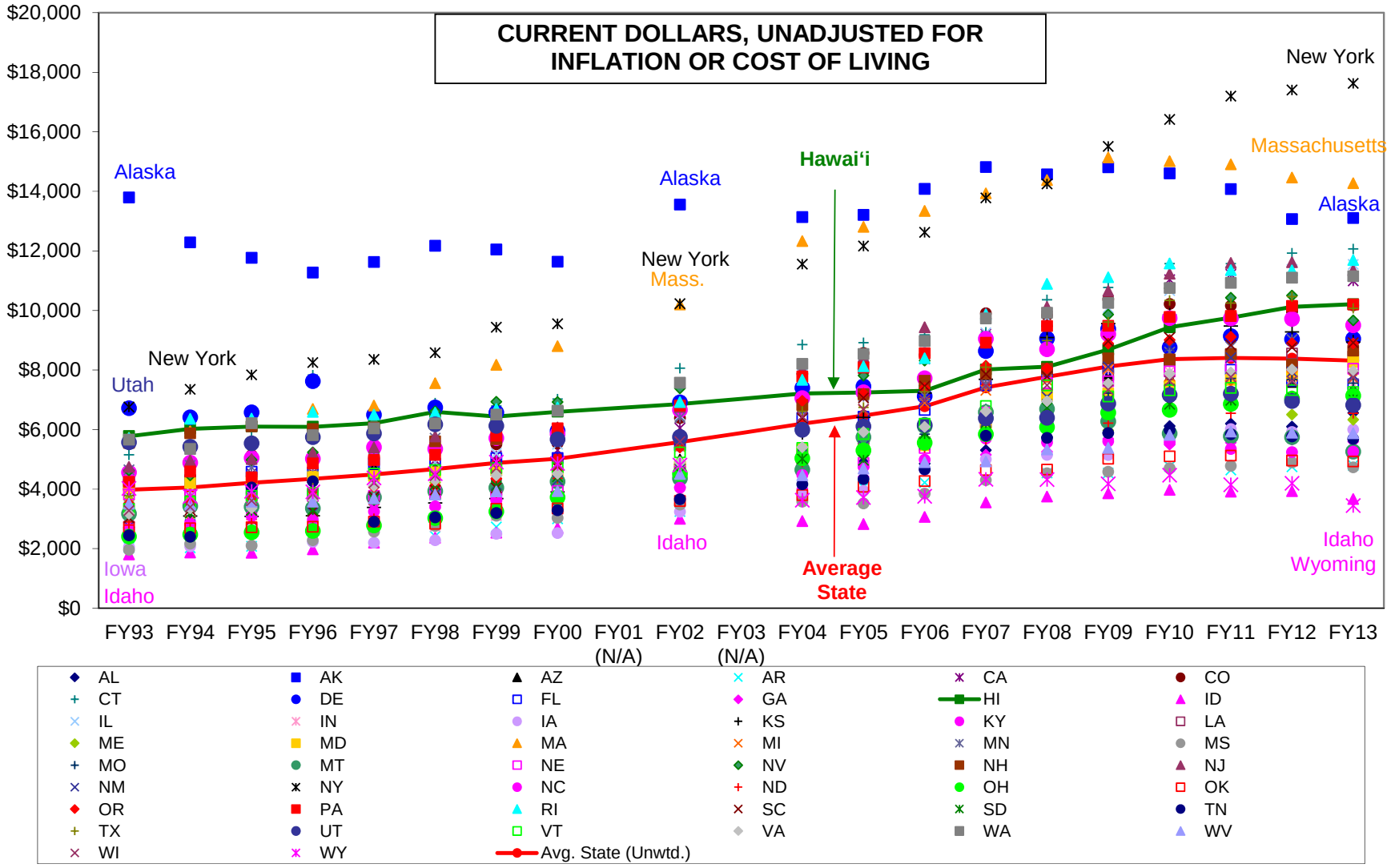


Figure 5.5: Total Debt Per Resident from FY 1993, All States

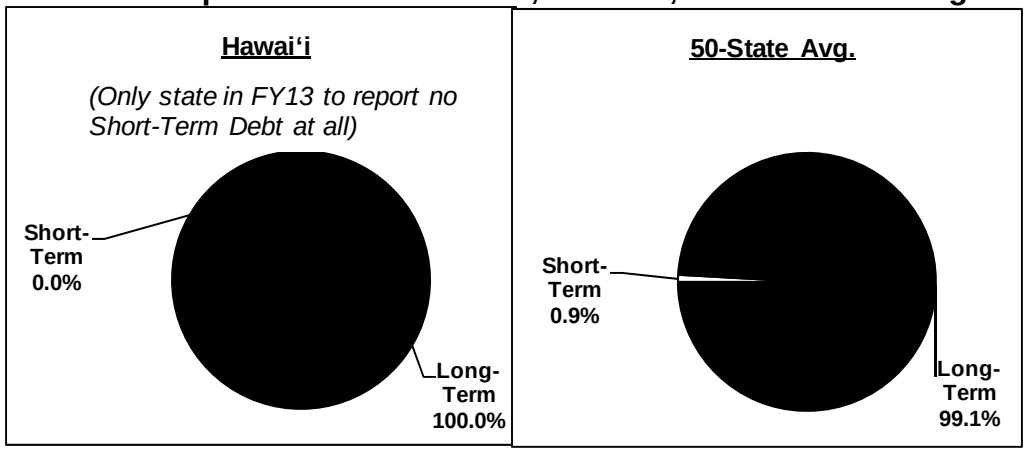


5.3 COMPONENTS OF TOTAL DEBT

5.3.1 Composition of Total Debt

As per Figure 5.1, the Census components are simply Long-Term and Short-Term Debt, with Short-Term defined as "debt payable one year or less from its date of issue," and Long-Term as "more than one year."[19] (See title page of Vol. II Appendix E for some minor qualifications of this definition.) Figure 5.6 summarizes FY 2013 results and the following Figure 5.7 shows historical data from 1993.

Figure 5.6: Components of Total Debt, FY 2013, Hawai'i vs. Average State

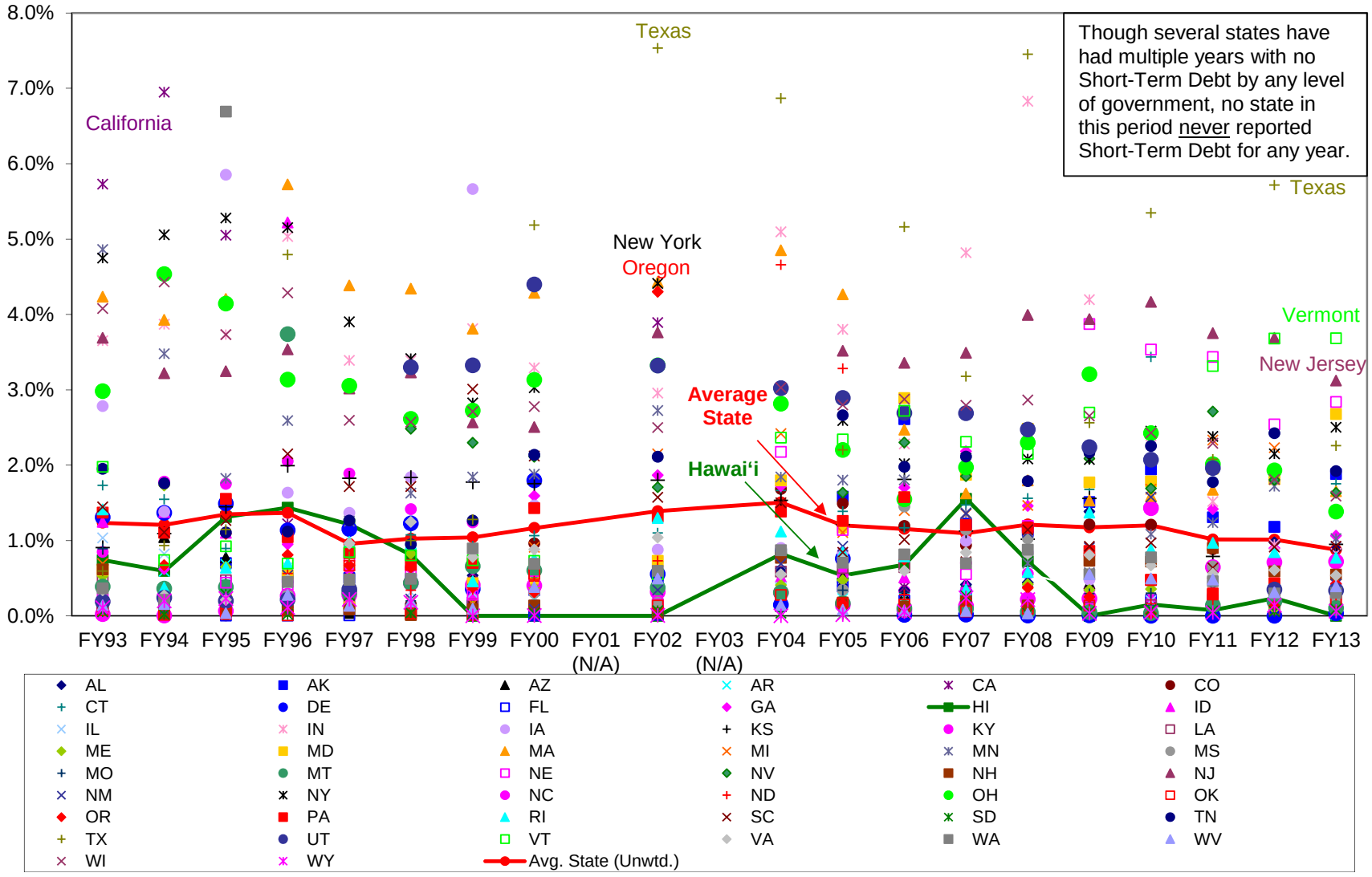


Conclusions: Short-Term Debt typically represents a very small portion of Total Debt for the combined state/local governments of America's 50 states – it has always been about 1% for the "Average State" each year from 1993 (though Figure 5.7 shows some states' combined governments have reached as much as 7.5%). Hawai'i governments have usually remained well below that level, though FY 2013 was one of just five years in this period for which Hawai'i reported absolutely no Short-Term Debt (those years being FY 1999, 2000, 2002, 2009, and 2013).

Because these numbers are so small, especially for Hawai'i, we omit further study of the level of Short- or Long-Term Debt (i.e., as Percent of GDP or Per Resident) and move straight to the Components of Long-Term Debt.

[19] Though there was significant state-to-state variation, in FY 2013 short-term debt was more likely to be offered by local governments than by state governments – see Vol. III Appendix A.

Figure 5.7: Short-Term Debt as Percent of Total Debt from FY 1993, All States

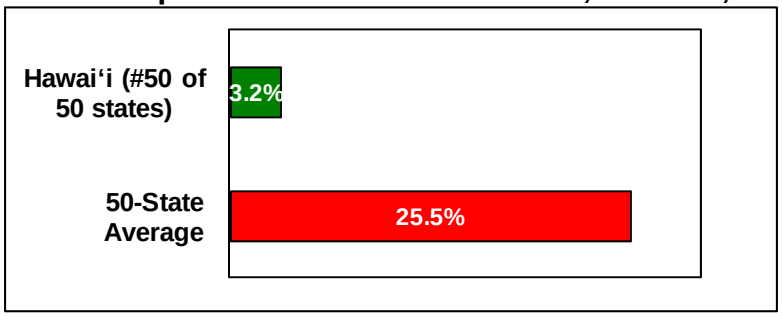


5.4 LONG-TERM DEBT "FOR PRIVATE PURPOSES"

Again as per Figure 5.1, the Census components of Long-Term Debt are only "For Private Purposes" and all others (or "Unspecified Public Purposes"). However, because Hawai'i's Short-Term Debt has been so minimal, for this analysis we chose to compare debt "For Private Purposes" as a percent of *Total* Debt.

State and local governments long disputed the inclusion of the "Private Purposes"[20] category as part of Long-Term Debt, as it was considered "conduit" funding rather than actual government obligation, but it has now been accepted by the Government Accounting and Standards Bureau (GASB). Figure 5.8 summarizes FY 2013 results and the following Figure 5.9 shows historical data from 1993.

Figure 5.8: Debt "For Private Purposes" as Pct. of Total Debt, FY 2013, Hawai'i vs. Average State

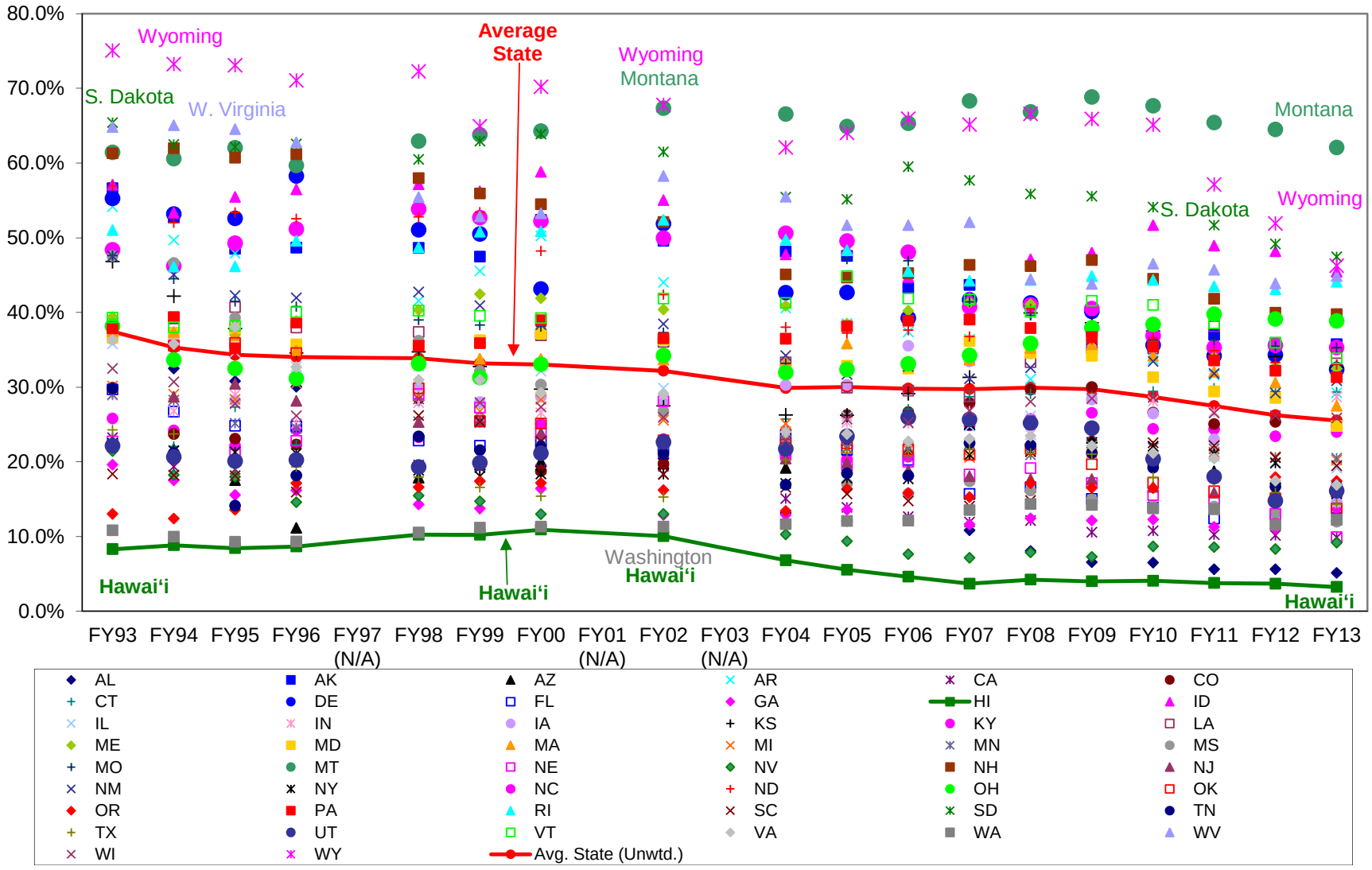


Conclusions: Hawai'i governments had the lowest percent of debt "For Private Purposes" in FY 2013, and has always had the lowest percentage since at least FY 1993. Our percentages in the 2000s have been even lower than in the 1990s (Figure 5.9).

Once more, because Hawai'i numbers are small and the composition makes results of level comparisons a foregone conclusion – i.e., Hawai'i would obviously also rank lowest for "Private Purposes" as Percent of GDP or Per Resident), we will move straight to Debt Issued and Debt Retired.

[20] The 2006 Manual for the Census says examples "include industrial and commercial development, pollution control and abatement, housing and mortgage loans, private hospital facilities, student loans, private ventures such as sports stadiums, convention centers, and shopping malls."

Figure 5.9: Debt "for Private Purposes" as Percent of Total Long-Term Debt from FY 1993, All States

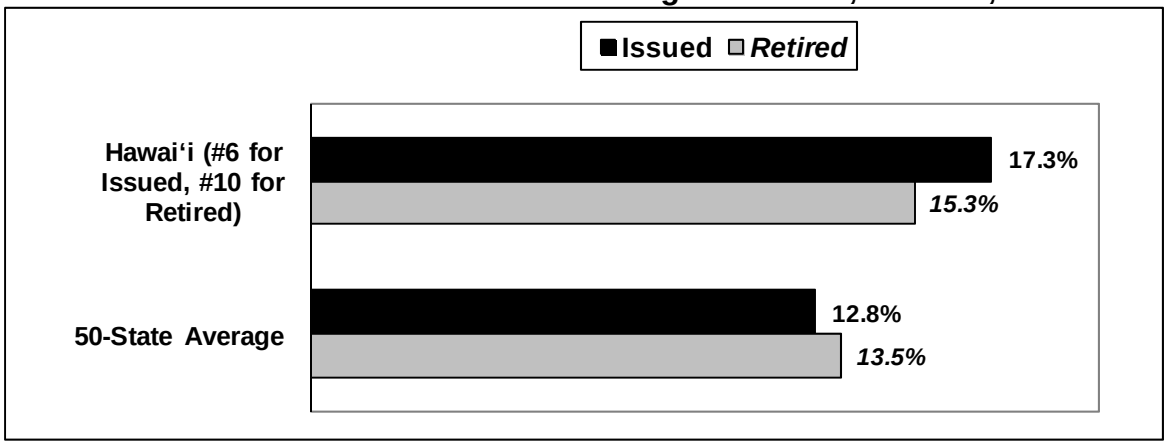


5.5 LONG-TERM DEBT ISSUED AND RETIRED

5.5.1 "Composition" of Long-Term Debt: Debt Issued and Debt Retired

Strictly speaking, neither the amount of Long-Term Debt Issued nor amount of Debt Retired during an entire fiscal year is actually a "component" of the debt figure at the end of that fiscal year. However, the ratios of these numbers (expressed as percentages) provide a sort of "yardstick" for comparison purposes. Figure 5.10 summarizes Hawai'i's status vis-à-vis the "Average State" for FY 2013, while the following Figure 5.11and Figure 5.12 show historical results from FY 1993.

Figure 5.10: Debts Issued and Retired as Pct. of Total Long-Term Debt, FY 2013, Hawai'i vs. Average State



Conclusions: The main conclusion would be one of great variability over time in these somewhat ersatz measures, with states sometimes at or near the top rank in one year and then at or near the bottom in another. For example, Hawai'i has ranked moderately high the last few available years, but in the mid-1990s and again ca. FY 2006 to 2008 much lower (Figure 5.11and Figure 5.12).

Note in Figure 5.11and Figure 5.12 that for some given years, much the same states rank high or low on both Debt Issues and Retired. This likely is due to certain debt instruments being retired but then re-issued.

Figure 5.11: Debt Issued During Year as Percent of Long-Term Debt End of Year from FY 1993, All States

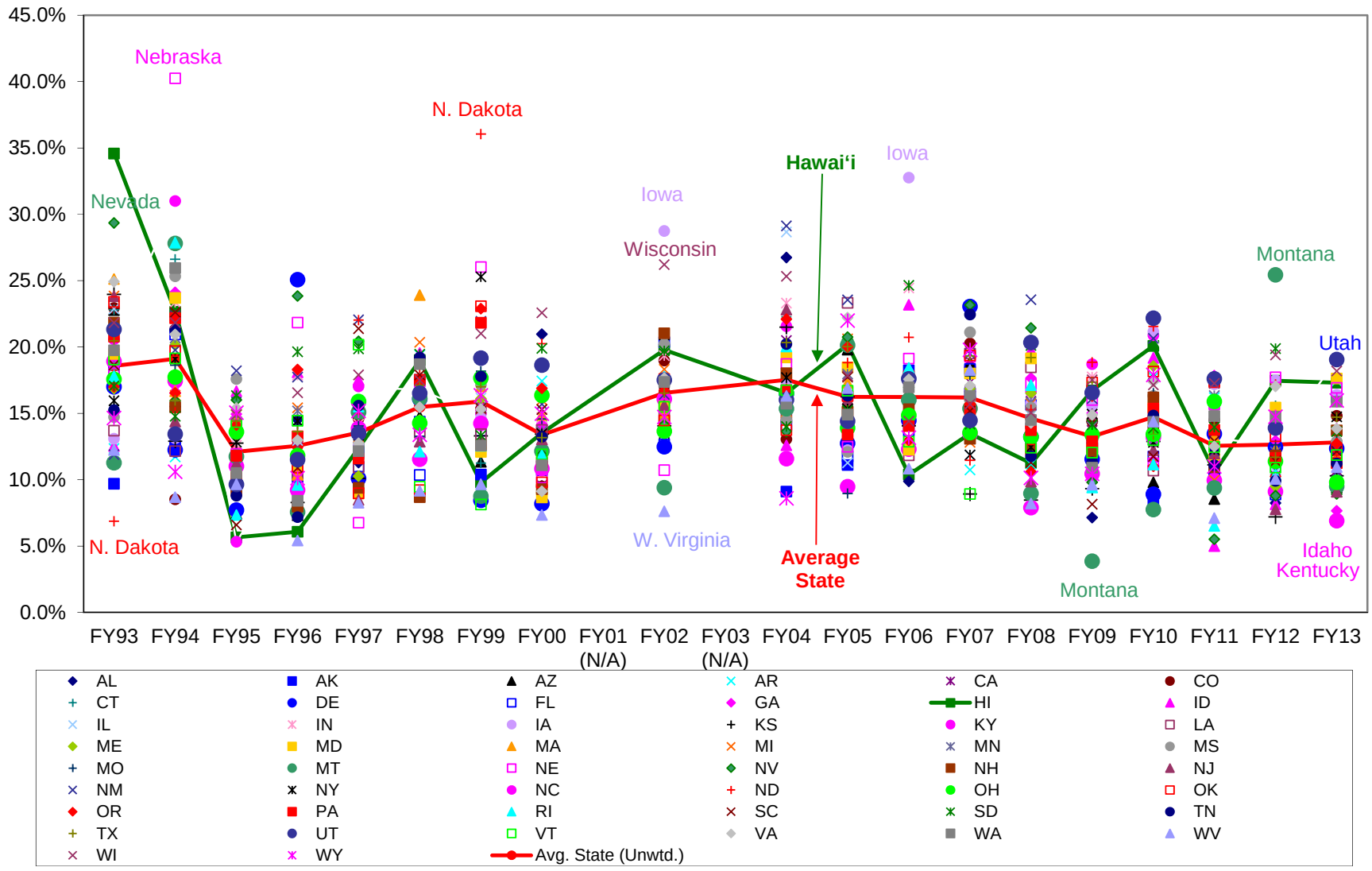
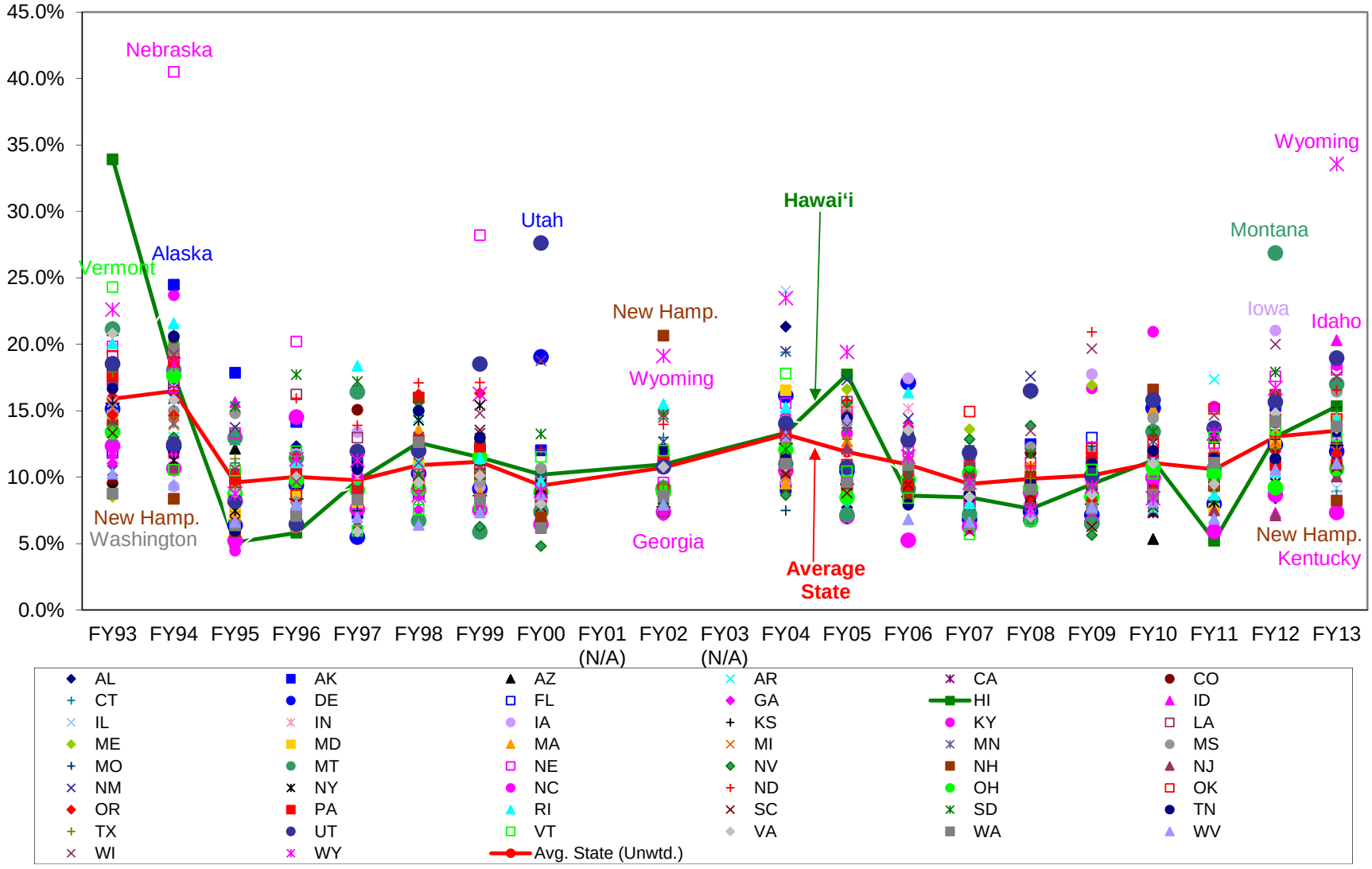


Figure 5.12: Debt Retired During Year as Percent of Long-Term Debt End of Year from FY 1993, All States



5.5.2 Comparing Hawai‘i Governments’ Levels of Debt Issued and Debt Retired to Other States

For space and simplicity, we use only the preferred measure of Percent of GDP to compare Hawai‘i combined state/local governments’ Long-Term Debts Issued and Retired, both for the FY 2013 summary (Figure 5.13 and Figure 5.14) and for the available historical data from FY 1993 (Figure 5.15 and Figure 5.16). (For Debt, we actually have fewer objections to using per-capita comparisons, as there is no reason to believe that the visitor population ought properly to be included in the denominator. We look only at the GDP measure here strictly to save space and be consistent with prior analyses.

Figure 5.13: Debt Issued as Pct. of GDP, FY 2013

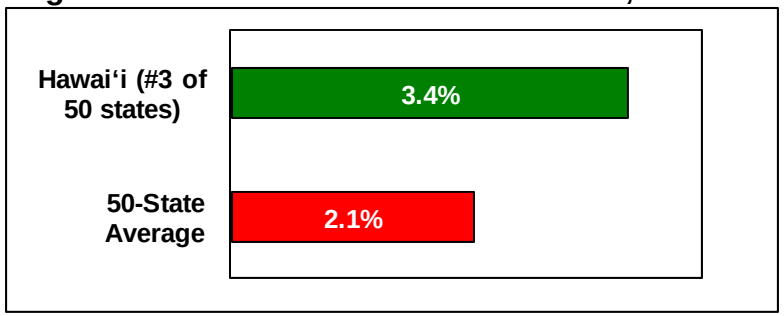
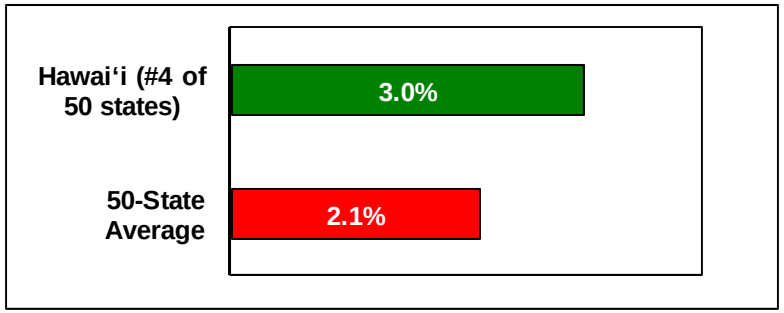


Figure 5.14: Debt Retired as Pct. of GDP, FY 2013



Conclusions: Although Hawai‘i ranked particularly high among the 50 states for both Debt Issued and Debt Retired as measured by Percent of GDP in FY 2013, the historical patterns in both Figure 5.13 and Figure 5.14 closely match the foregoing patterns in Figure 5.11and Figure 5.12. (And the Per-Capita patterns, if included here, would look much the same.)

Thus, Hawai‘i again has no consistent “performance” level compared to other states for these variables.

Figure 5.15: Debt Issued as Percent of GDP from FY 1993, All States

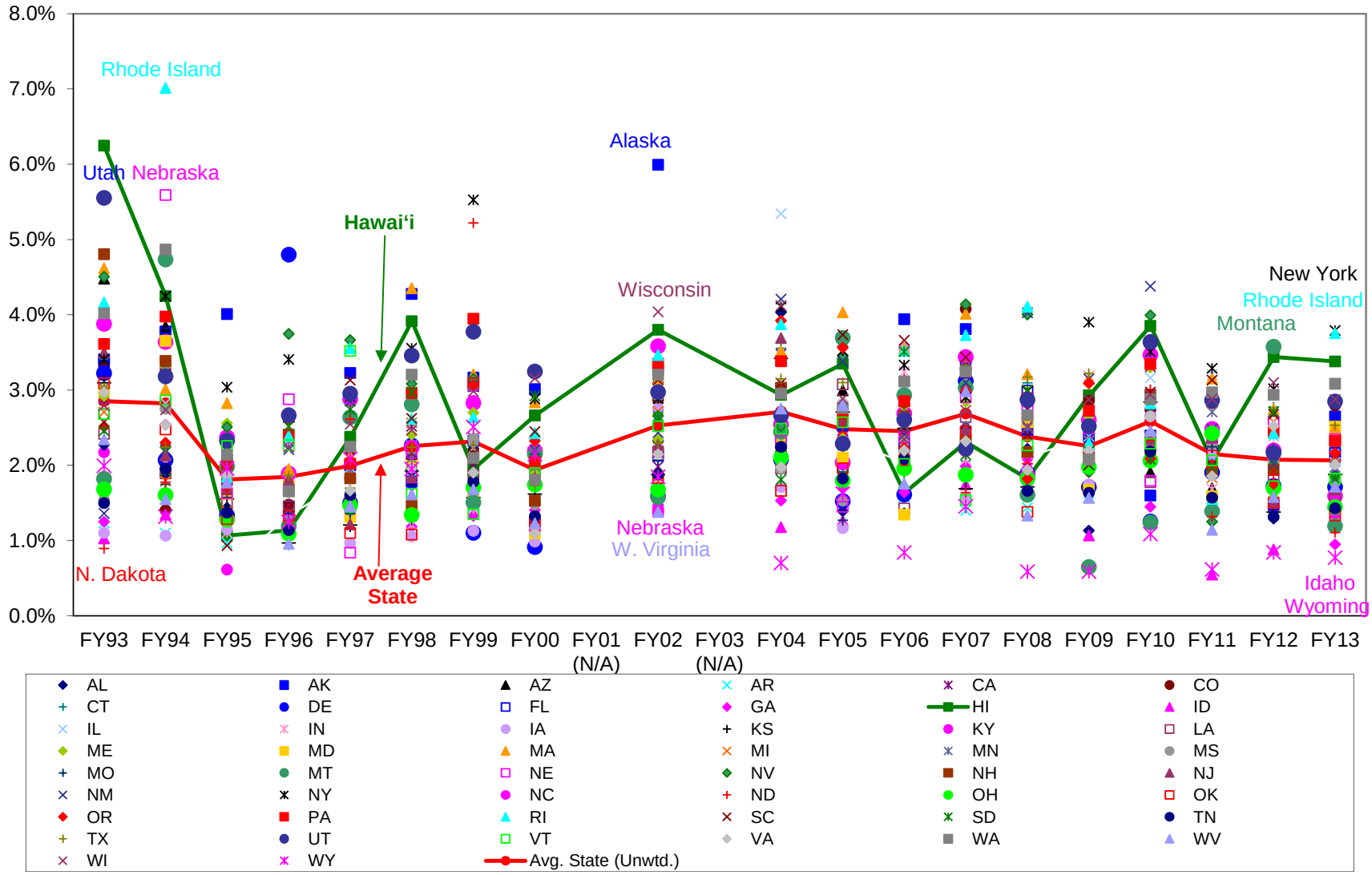
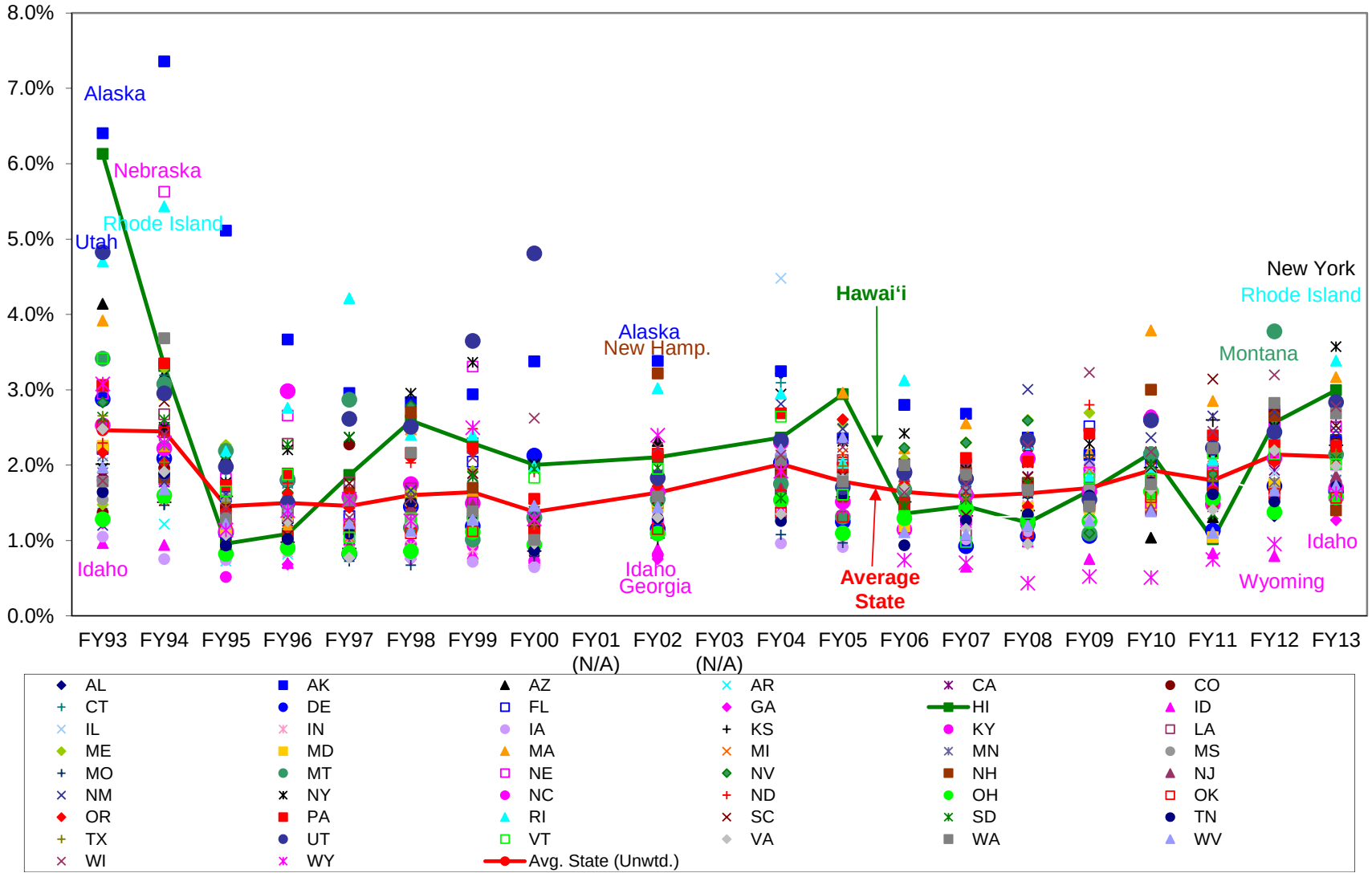


Figure 5.16: Debt Retired as Percent of GDP from FY 1993, All States



6. GOVERNMENT CASH AND SECURITIES HOLDINGS

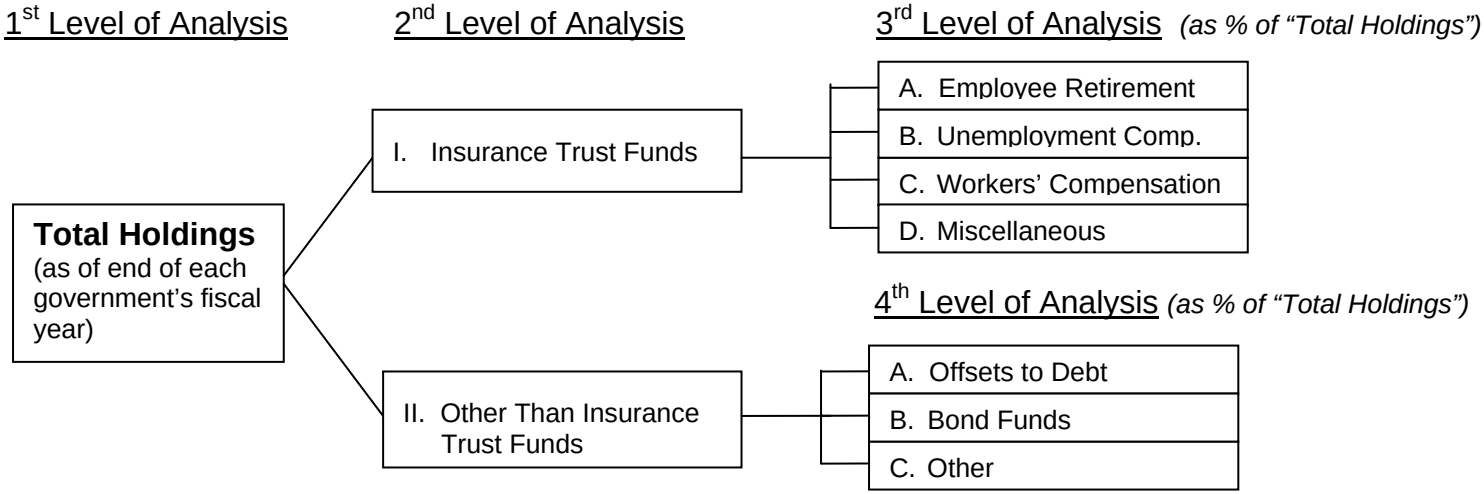
The Census has two over-arching categories for Government Holdings: (1) Insurance Trust Funds (numerically dominated by Employee Retirement Systems, ERSs) and (2) "Other Than Insurance Trust Funds." The largest portion of the latter, for most states, is a further "Other" category including various types of cash and stock/bond holdings – but also included are the often significant "Offset to Debt" and the much smaller "Bond Funds" components. For Total Holdings, Hawai‘i strongly resembled the "Average State" in the 1990s, but from FY 2004 to FY 2013 has had Below-Average holdings. There are several reasons for this. One is that Hawai‘i has always had particularly low reserves set aside as Offset to Debt, and there has been even less in the 2000s. Another is that Hawai‘i ERS holdings went from being a bit above average in the 1990s to below average in the 2000s (though the State has subsequently started to put more funds into the ERS).

NOTE: For definitions and other technical notes relevant to this chapter, see the title page of Appendix F. That appendix contains detailed state-by-state information about data summarized in this part of the report.

6.1 ORGANIZATION OF HOLDINGS ANALYSIS

As with Debt, the Census organization of Government Holdings categories is straightforward and needs no change or re-organization for this study:

Figure 6.1: Census Organization of Government Cash and Securities Holdings



Insurance Trust Funds were also categories for the Chapter 2 analysis of Government Revenues, but this analysis of "Holdings" focuses on the *value* of the funds at the end of each government's fiscal year. Unemployment Compensation funds are defined in such a way that their values can sometimes be negative in times and places of particularly high unemployment (see Vol. II Appendix F title page).

6.2 TOTAL HOLDINGS, COMBINED STATE/LOCAL GOVERNMENTS

6.2.1 Comparing the Level of Hawai‘i Governments’ Total Holdings to Other States

State governments typically claim the bulk of cash and security holdings, far more so than with Total Debt. In FY 2013, the “Average State” had 77% of the Total Holdings of all combined state/local governments. For Hawai‘i, the figure was somewhat higher (83%, which was 18th highest of the 50 states) – a smaller increment over the “Average State” than for all the other categories of government finance in foregoing chapters. However, this chapter again focuses on data for combined state/local governments because our principal purpose is still a valid comparison among states.

Detailed state-by-state figures for FY 2013 are in Vol. II Appendix F. Below is a summary, and on the following pages, Figure 6.4 and Figure 6.5 show the longer historical situation from FY 1993.

Figure 6.2: Total Holdings as Pct. of GDP, FY 2013

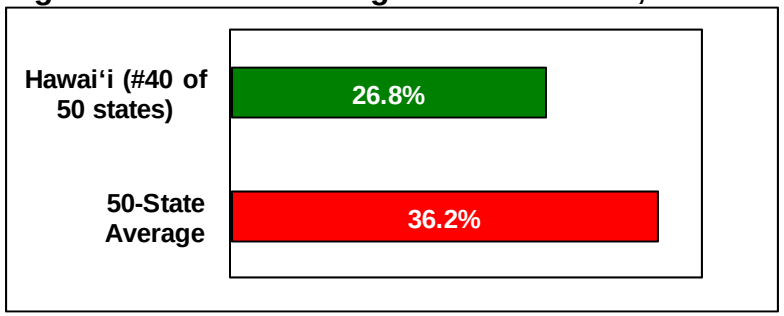
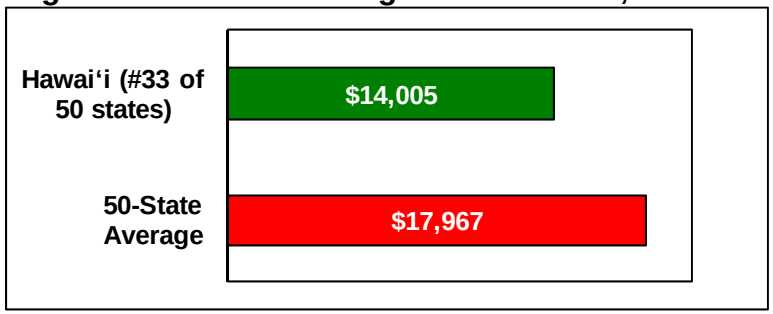


Figure 6.3: Total Holdings Per Resident, FY 2013



Conclusions: Hawai‘i cash and securities Total Holdings – while not in the very lowest tiers of combined state/local governments – were considerably lower than those of the “Average State” in FY 2013 and have been for much of the 2000s. This contrasts with the 1990s, when the Hawai‘i values were roughly equal to those of the “Average State” (Figure 6.4 and Figure 6.5).

Exactly has Hawai‘i lagged behind other states in cash and securities holdings for the last decade’s worth of available data – that is, which component parts of Holdings have the greatest differences from the “Average State” and thus explain more of the overall differences? We will explore this question in the final sections of this report.

Figure 6.4: Total Holdings as Percent of GDP from FY 1993, All States

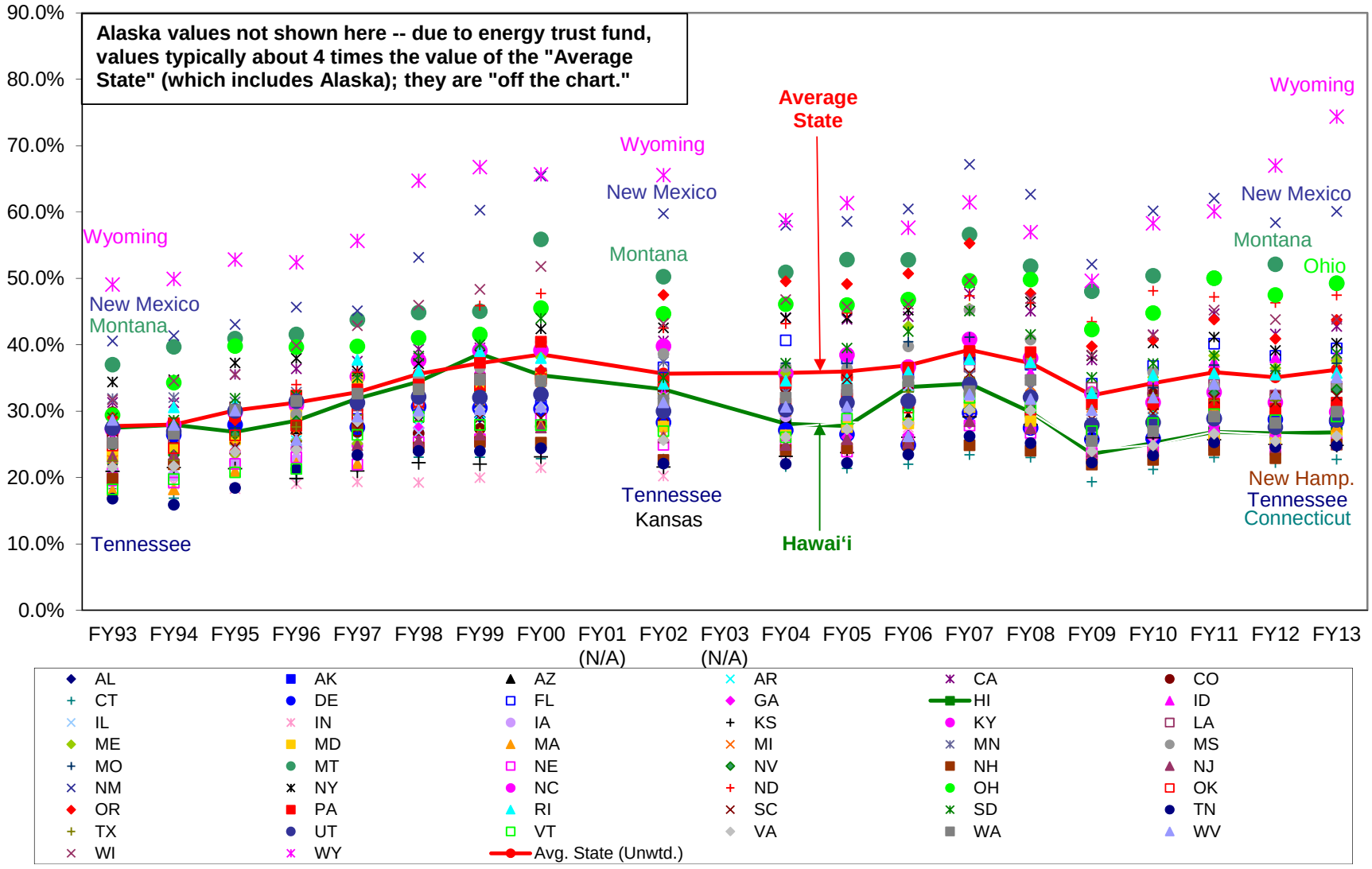
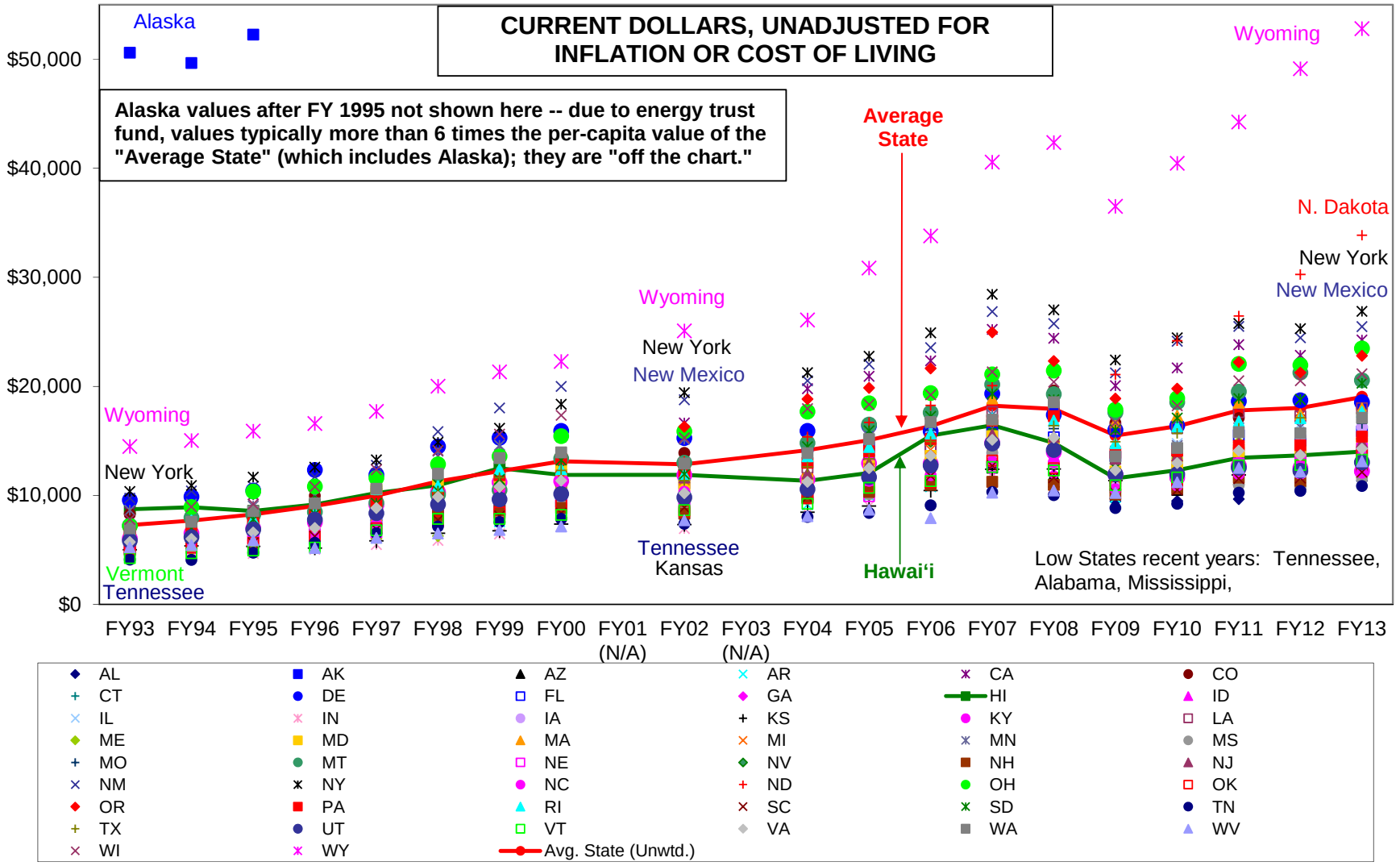


Figure 6.5: Total Holdings Per Resident from FY 1993, All States

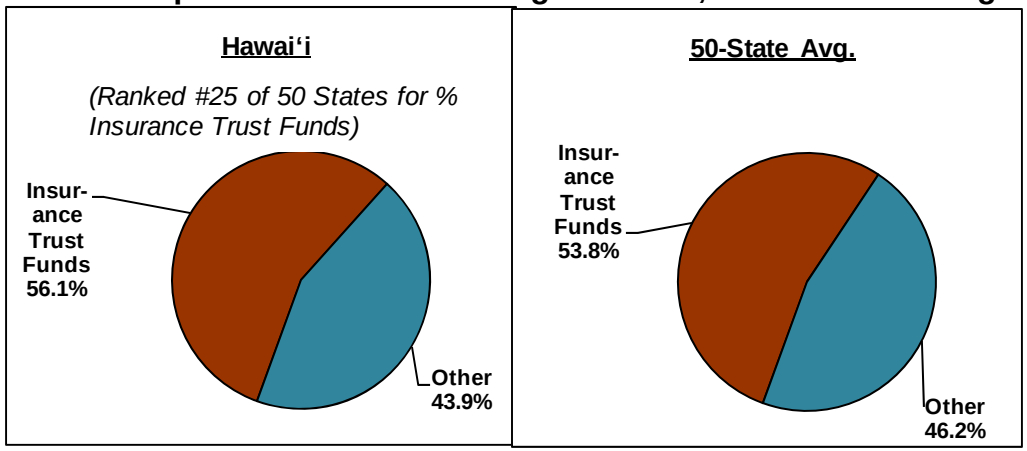


6.3 COMPONENTS OF TOTAL HOLDINGS

6.3.1 Composition of Total Holdings

As per the "2nd Level of Analysis" in Figure 6.1, the Census Bureau has just two components of Total Holdings – Insurance Trust Funds and "Other Than Insurance Trust Funds." Figure 5.6 summarizes FY 2013 results and the following Figure 6.7shows historical data from 1993 for the Insurance Trust Fund percent of the total.

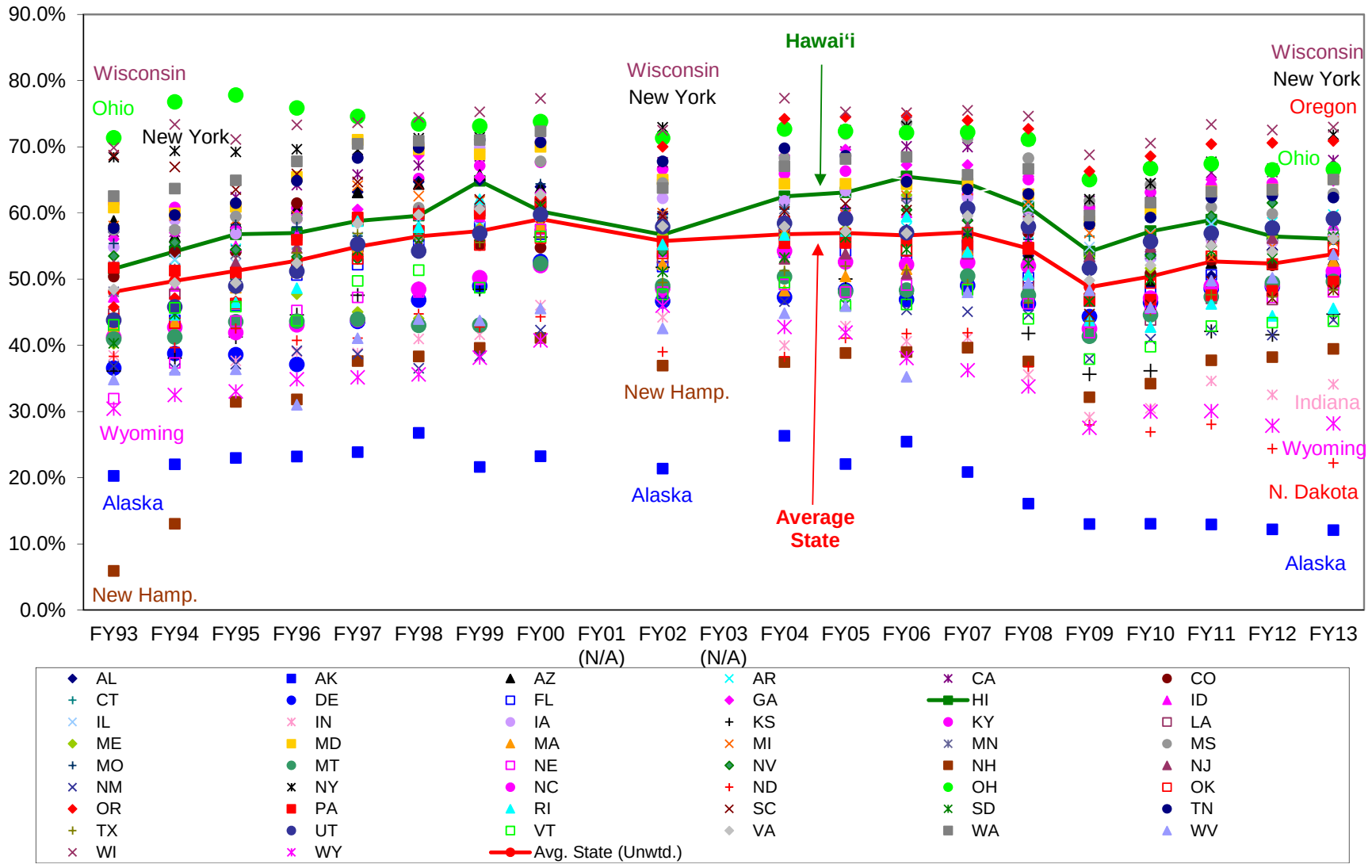
Figure 6.6: Components of Total Holdings FY 2013, Hawai'i vs. Average State



Conclusions: Hawai'i governments' (though in this case entirely the State government's) Insurance Trust Funds as a portion of Total Holdings was very close to that of the "Average State" in FY 2013. Previously, this percentage had been somewhat *higher* (Figure 6.7), so Hawai'i's current short-term trend is toward a 50-50 split in Total Holdings between Insurance Trust Funds and the residual "other" category.

Because Total Holdings are comprised only of the two components, we need not present a chart for "Other Than Insurance Funds" as a percent of Total Holdings, because it would just be a horizontal mirror image of Figure 6.7, with Alaska, Wyoming, and Indiana showing up at the top rather than the bottom in FY 2013.

Figure 6.7: Insurance Trust Funds as Percent of Total Holdings End of Year from FY 1993, All States



6.3.2 Comparing the Levels of Hawai'i Insurance Trust Fund Holdings – and "Other Holdings" – to Other States

In Section 6.2.1, we were left wondering what components of Total Holdings were most important in explaining the overall Total Holdings difference between Hawai'i and the "Average State." The following charts begin to answer this question.

Figure 6.8: Insurance Trust Holdings as Pct. of GDP, FY 2013

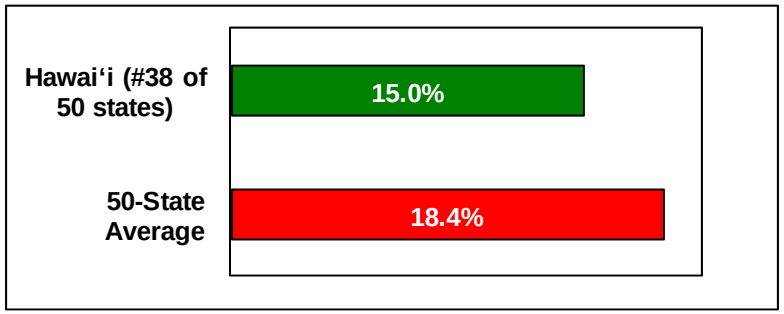


Figure 6.9: Insurance Trust Holdings Per Resident, FY 2013

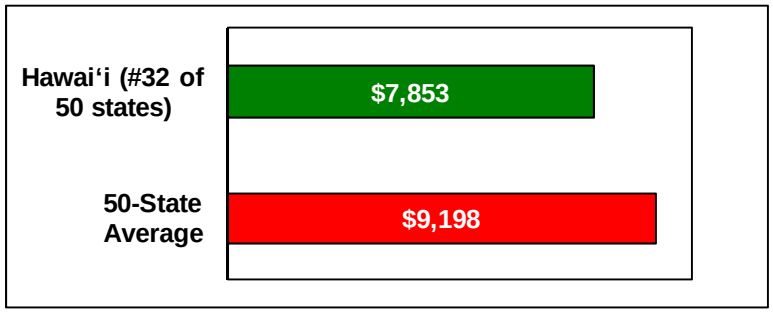


Figure 6.10: "Other" Holdings as Pct. of GDP, FY 2013

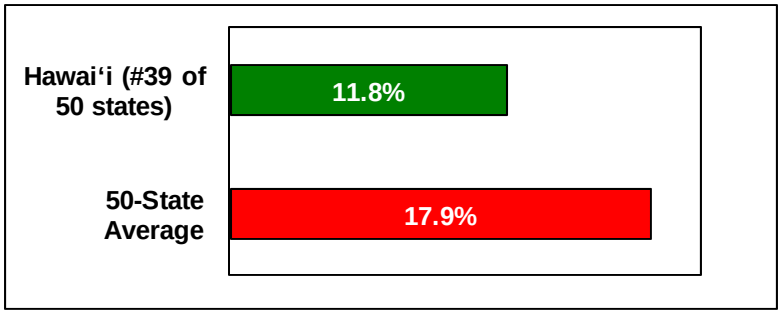
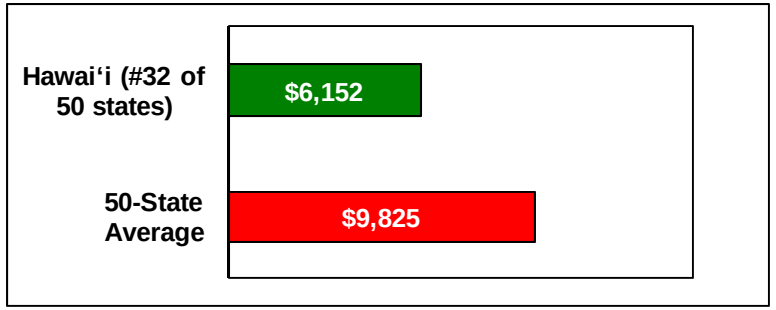


Figure 6.11: "Other" Holdings Per Resident, FY 2013



Conclusions: Insurance Trust Fund Holdings for FY 2013 also have a gap between the Hawai'i values (as measured both by Percent of GDP and a Per-Capita basis), so Insurance Trust Funds are part of the answer. But the relative size of the differences in Figure 6.8 and Figure 6.9 are very similar to those for Total Holdings (preceding Figure 6.2 and Figure 6.3), *and* the historical data in the following Figure 6.12 shows Hawai'i actually used to exceed the "Average State" level.

By contrast, both the FY 2013 data alone (Figure 6.10 and Figure 6.11) as well as the historical GDP data in Figure 6.13 show a much greater difference in the "Other Than Insurance Trust Funds" category. So this is where the greater part of Hawai'i's relatively lower performance in Total Holdings can be explained.

Figure 6.12: Insurance Trust Holdings as Percent of GDP from FY 1993, All States

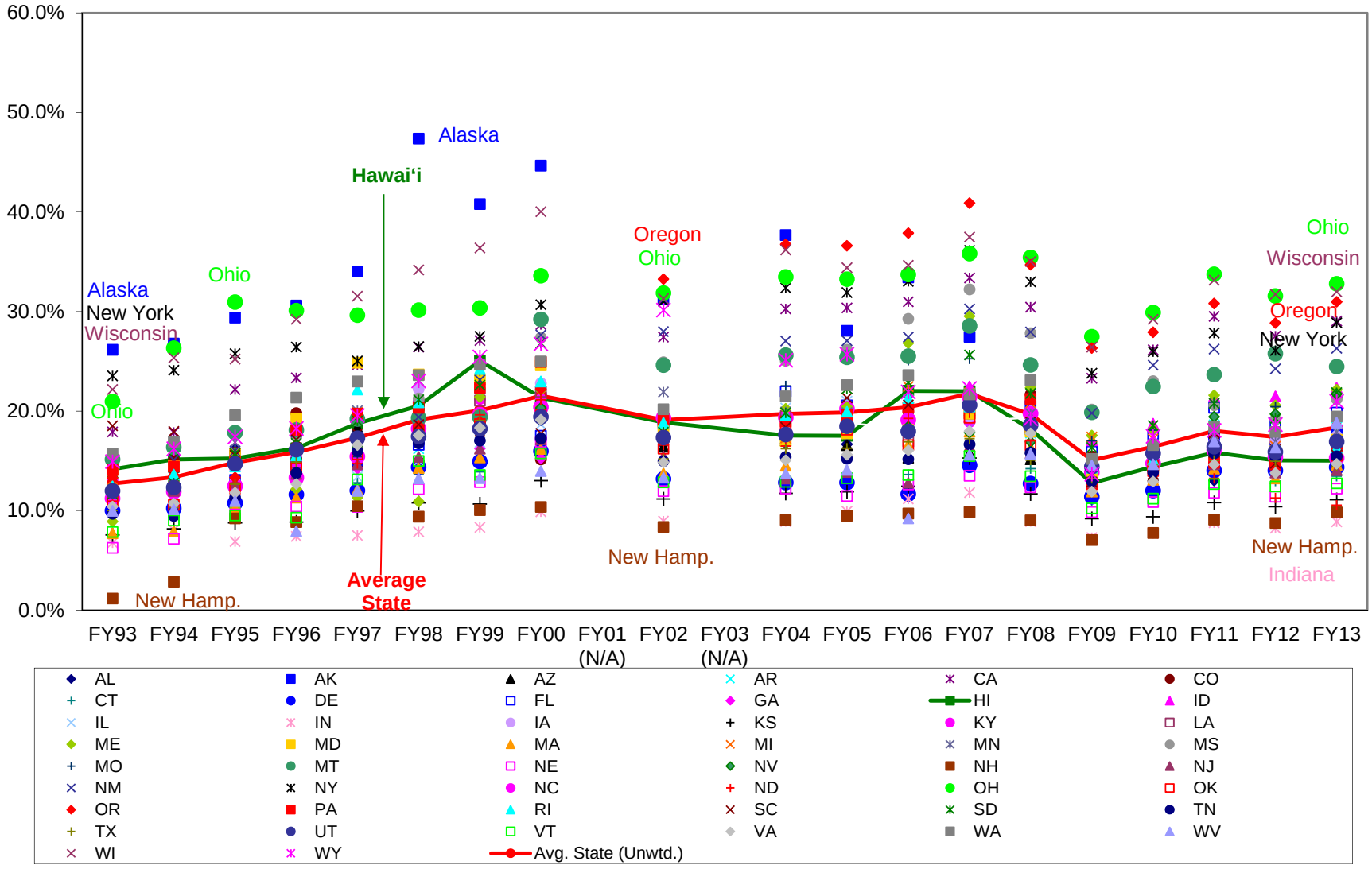
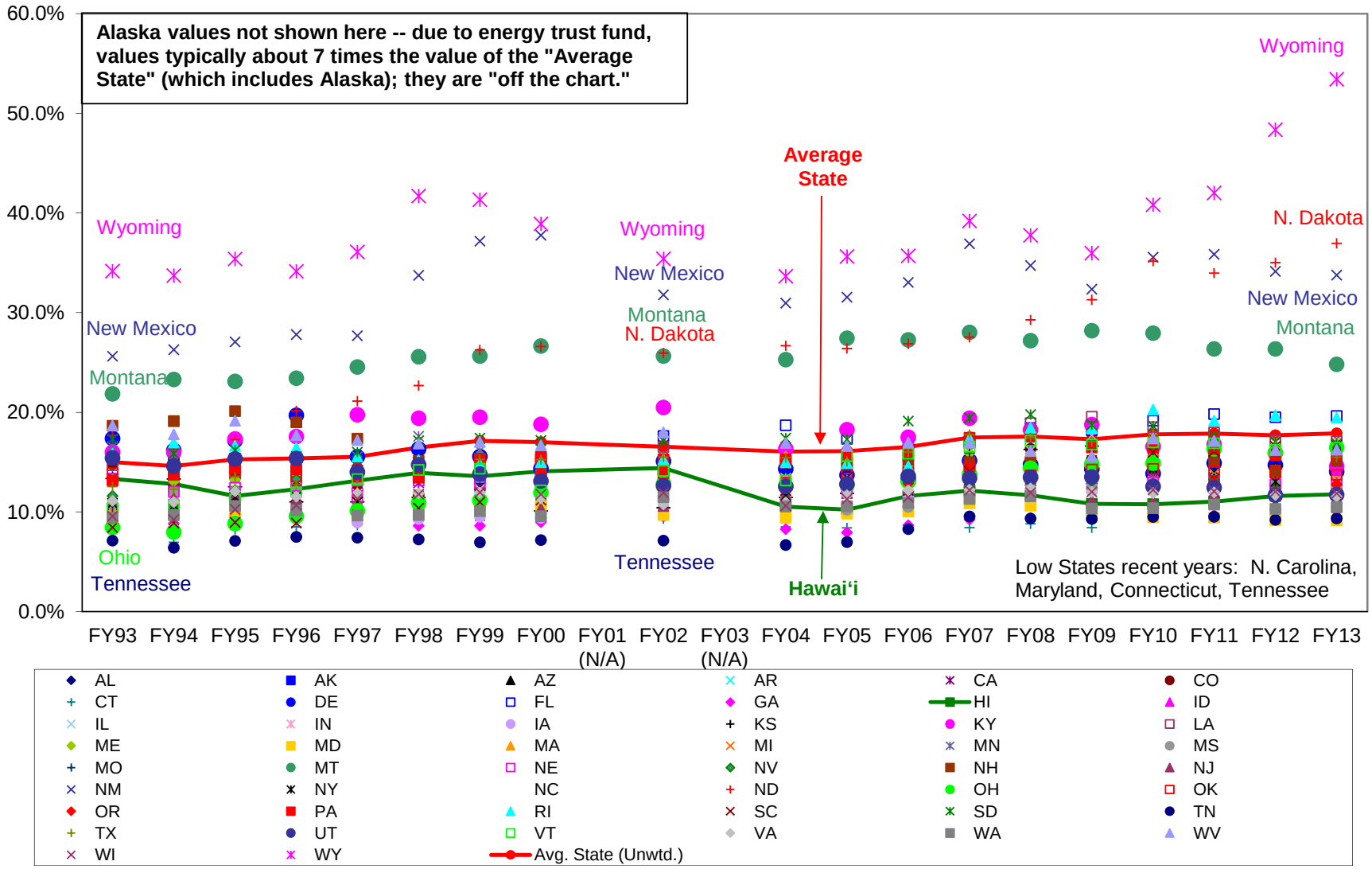


Figure 6.13: "Other Than Insurance Trust" Holdings as Percent of GDP from FY 1993, All States



6.4 COMPONENTS OF INSURANCE TRUSTS (INCLUDING ERS)

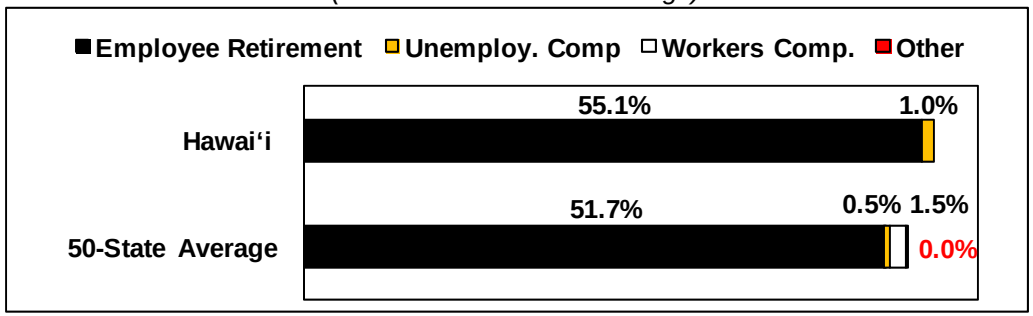
Before a final exploration of which components of "Other Than Insurance Trusts" account for most of the difference between Hawai'i governments' holdings and the "Average State," we will take a quick look at the comparison between Hawai'i's Insurance Trusts and those of other states – particularly the Employee Retirement System (ERS). It will be recalled that Hawai'i has *only* the ERS and an Unemployment Compensation fund directly run by government, both operated by the State.

This equates to the "3rd Level of Analysis" in Figure 6.1.

6.4.1 Composition of Insurance Trust Funds

We will use *Total Holdings* (rather than total value of Insurance Trust Funds) as the denominator for percentages here, to permit comparison between these numbers and those presented in the final Section 6.5.

Figure 6.14: Components of Insurance Trust Funds FY 2013, Hawai'i vs. Average State
(Based on % of Total Holdings)



Conclusions: Employee Retirement Systems contain the vast majority of Insurance Trust Fund holdings, both in Hawai'i and elsewhere. It should be noted that 15 states were still reporting negative holdings in their Unemployment Compensation Funds as of FY 2013, which is why the "Average State" percentage is so low (0.5%). Prior to the Great Recession, the average Unemployment Compensation fund accounted for more of Total Holdings, but still usually just 1% to 2%. In other states than Hawai'i, Workers' Compensation funds are similarly small, and the number of combined state/ local governments with special-purpose other types of Insurance Trust Funds is vanishingly small.

6.4.2 Comparing the Level of Hawai‘i Governments’ ERS Holdings to Other States

We will focus strictly on comparing ERS Holdings here, because the other components of Insurance Trust Funds are so relatively small (or even zero in Hawai‘i). Note that ERS “Holdings” are not net of obligations – i.e., assets are not adjusted to reflect future liabilities for pensions or benefits.

Because so much of Insurance Trust Fund overall Holdings consists of ERS Holdings, we would expect to find the comparison of Hawai‘i’s ERS levels to be very similar to the foregoing comparison in Section 6.3.2 for Insurance Trust Fund levels in general.

Figure 6.15: ERS Holdings as Pct. of GDP, FY 2013

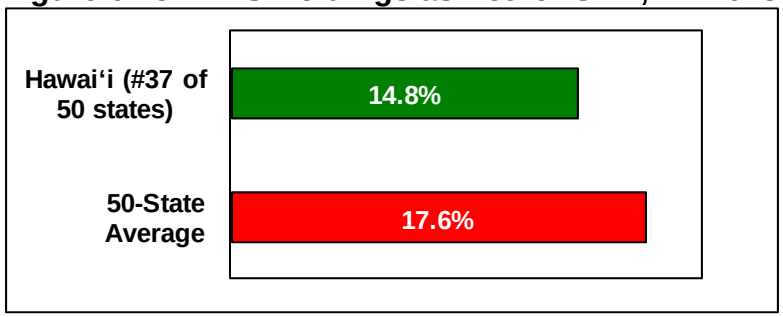
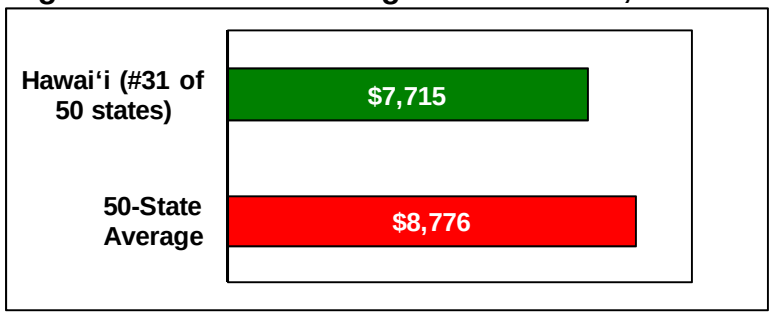


Figure 6.16: ERS Holdings Per Resident, FY 2013

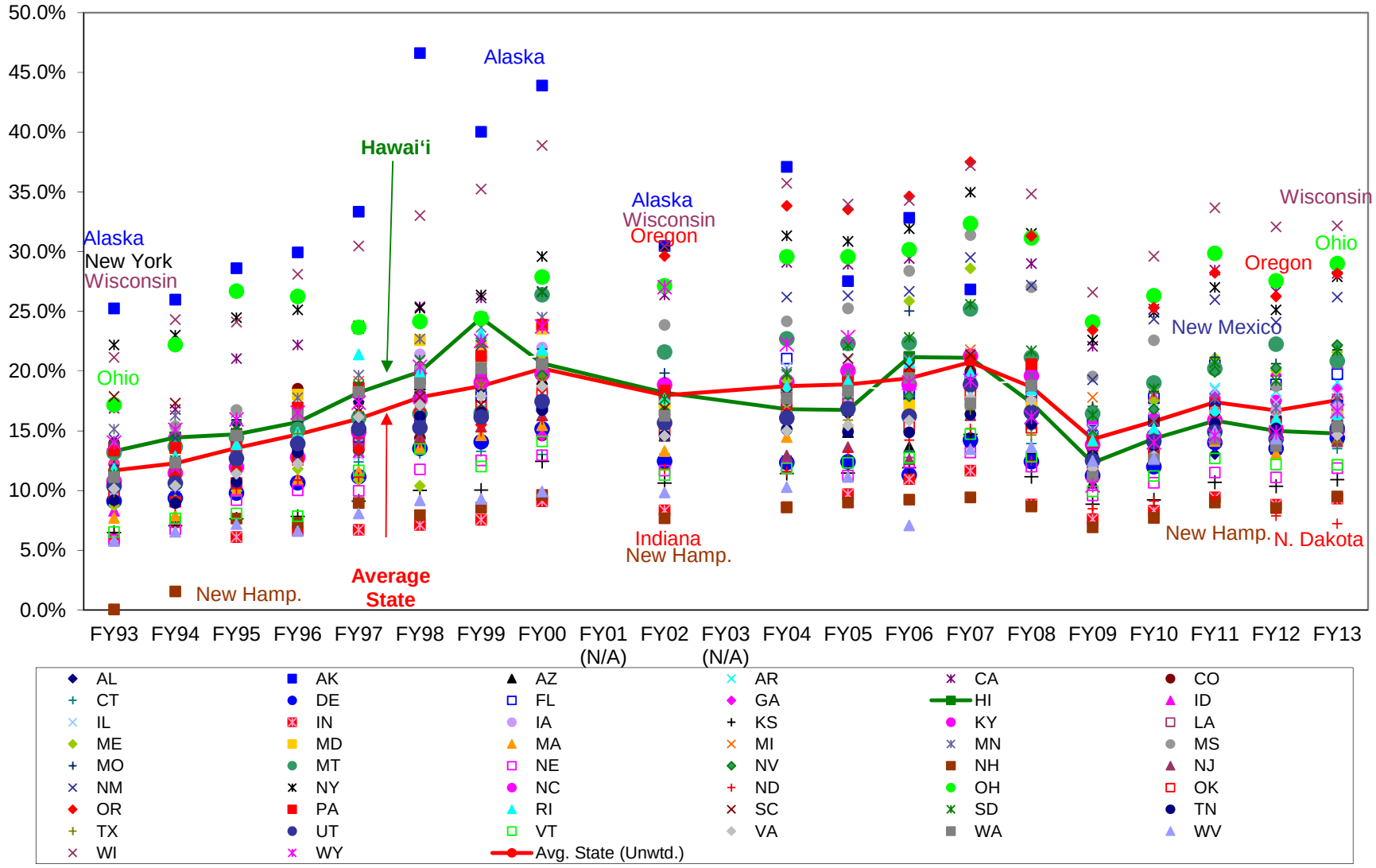


That is exactly the case. With some small differences, Figure 6.15 and Figure 6.16 summarizing FY 2013 look much like the previous Figure 6.8 and Figure 6.9 summarizing overall Insurance Trust Fund holdings for FY 2013. And the following Figure 6.17 summarizing historical data comparing states (on the GDP percentage measure) looks very much like the foregoing Figure 6.12 providing the same summary for overall Insurance Trust Fund holdings since FY 1993.

So the conclusion would also be identical: Hawai‘i ERS holdings were clearly below that of the “Average State” by FY 2013, whereas Hawai‘i’s ERS level had been ahead of the national state/local average in the late 1990s. It remains to be seen if additional contributions voted by the Hawai‘i State Legislature in recent years will bring the level up to or above the national average.

Additionally, the difference between the ERS level for Hawai‘i vs. the “Average State” explains only some of the overall difference in level of Total Holdings between Hawai‘i and the “Average State.” It appears to be a factor, but likely not the dominant factor.

Figure 6.17: ERS Holdings as Percent of GDP from FY 1993, All States



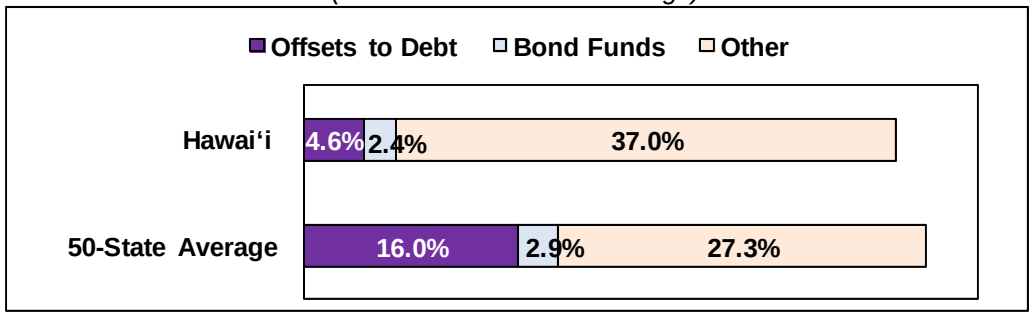
6.5 COMPONENTS OF "OTHER THAN INSURANCE TRUST FUNDS"

6.5.1 Composition of Non-Insurance "Other" Funds

The final "4th Level of Analysis" in the framework of Figure 6.1 contains three component categories for the "Other" group: (1) Offsets to Debt, (2) Bond Funds, and (3) yet a final "Other." The "other" terminology does not mean these are necessarily small amounts. For the nation as a whole and for most states, the amounts are in fact less than the cumulative ERS values (see specifics in Appendix II Volume F). But for some states – particularly those with energy/natural resource royalties – the holdings in these funds can exceed ERS amounts.

We will again use *Total Holdings* (rather than total value of all "Other Than Insurance Trust Funds") as the denominator for percentages in Figure 6.18 below, to permit comparison between these numbers and those presented in the foregoing Section 6.4.1. Because this chart makes it apparent that the final "Other" category dominates,[21] the following Figure 6.19 looks at that particular category over time as a percent of Total Holdings.

Figure 6.18: Components of "Other Than Insurance Trust Funds" FY 2013, Hawai'i vs. Average State
(Based on % of Total Holdings)



Conclusions: In the "Average State," the "Other" sub-category makes up the greatest part of the broader "Other Than Insurance Trust Funds" component. As per notes on Volume II Appendix F title page, this catch-all "Other" includes a long list of examples such as cash on hand, savings accounts, treasury notes, etc. As of FY 2013, Hawai'i had an even higher percent of its Total Holdings in "Other" than did the Average State, and Figure 6.19 shows this has been true since at least FY 1993 – a very stable relationship between Hawai'i and other states. Figure 6.20 shows a similar stability for "Offset to Debt" (Hawai'i always low), but Figure 6.21 shows much more variability for the small "Bond Funds" component.

[21] There is, however, variation among states. In FY 2013, 20 of the 50 states reported percentages of holdings in the "Offsets to Debt" category that exceeded percentages in the "Other" category. The average for the latter is brought up by high percentages in states with energy trusts.

Figure 6.19: Non-Insurance "Other" Holdings as Pct. of Total Holdings from FY 1993, All States

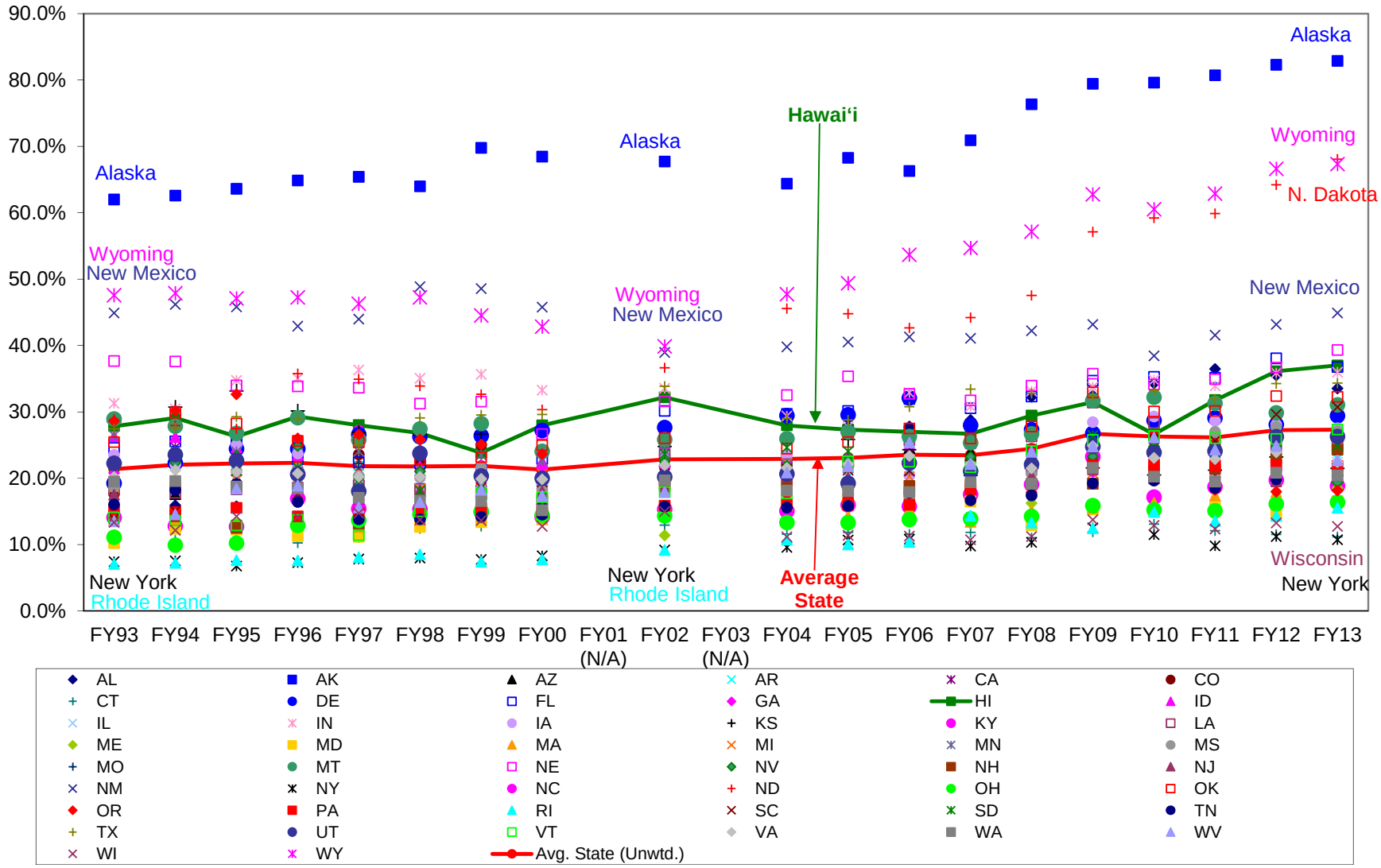


Figure 6.20: Offset to Debt as Pct. of Total Holdings from FY 1993, All States

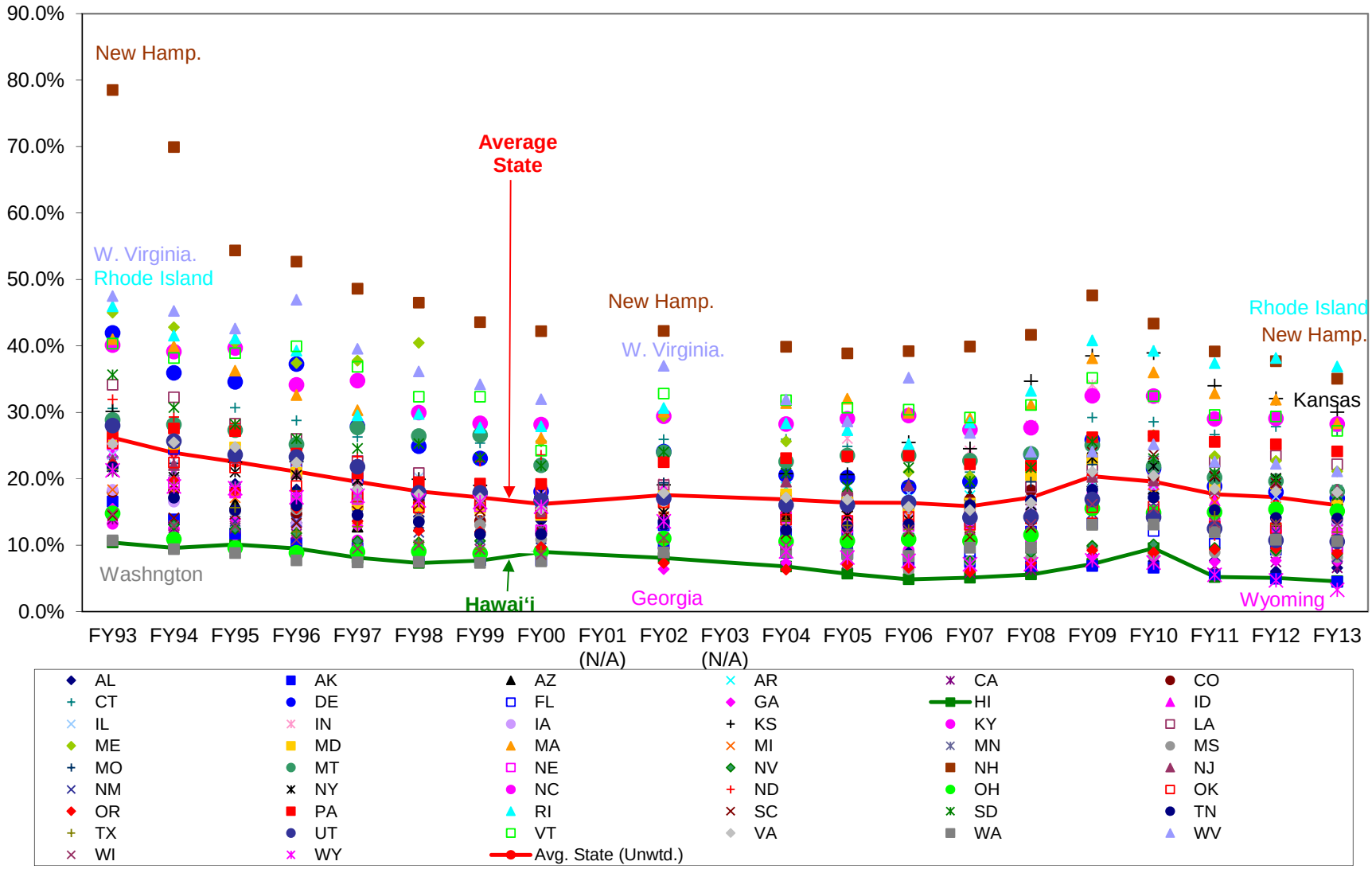
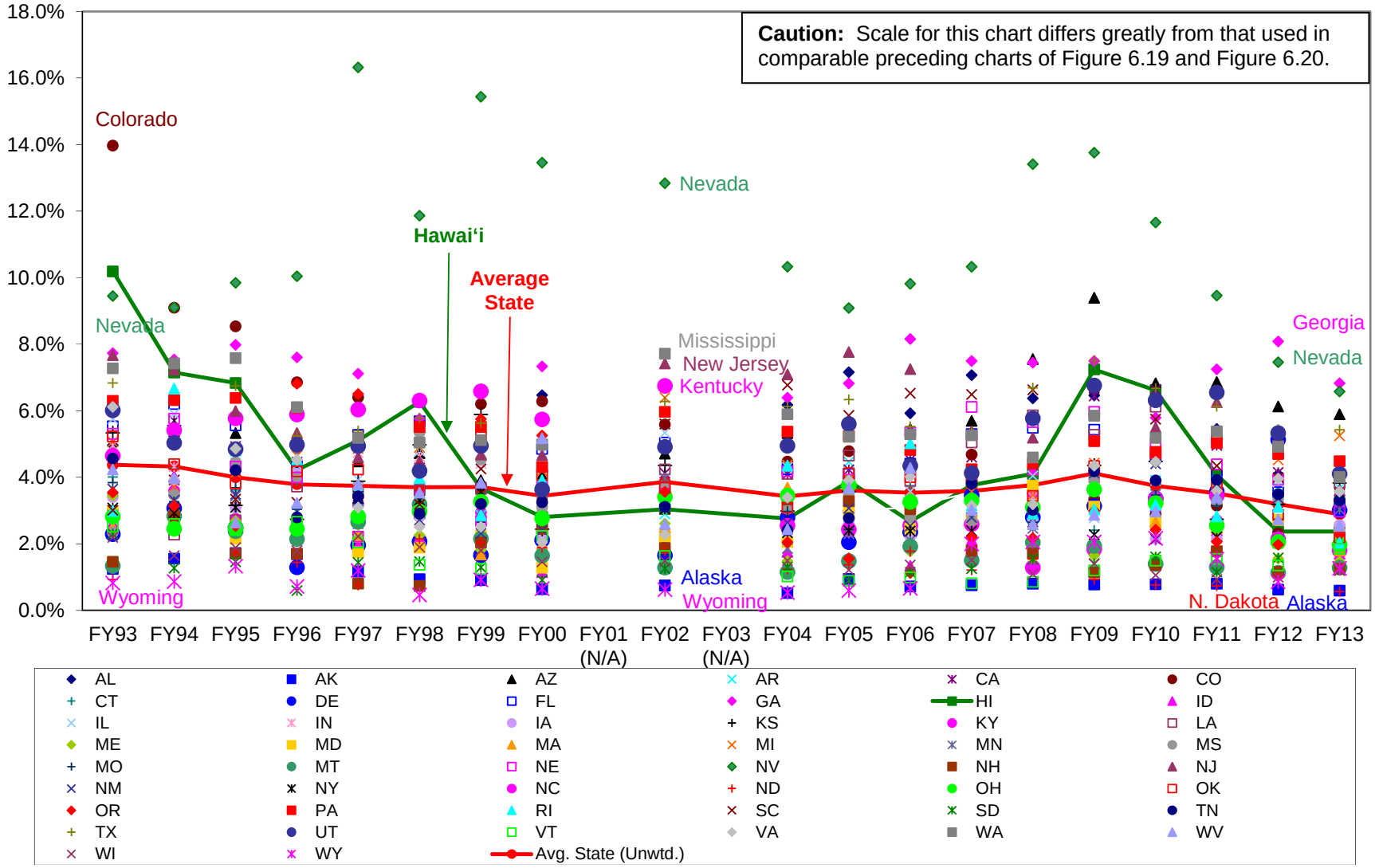


Figure 6.21: Bond Funds as Pct. of Total Holdings from FY 1993, All States



6.5.2 Comparing the Level of Hawai‘i Governments’ Non-Insurance “Other” Holdings to Other States

We will consider each of the three components, starting with the largest (for Hawai‘i and most states), the Non-Insurance “Other” collection of cash on hand and various types of savings instruments.

Figure 6.22: Non-Insurance “Other” Holdings as Pct. of GDP, FY 2013

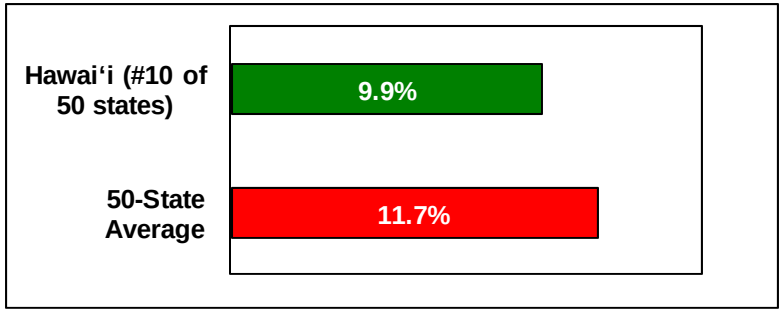
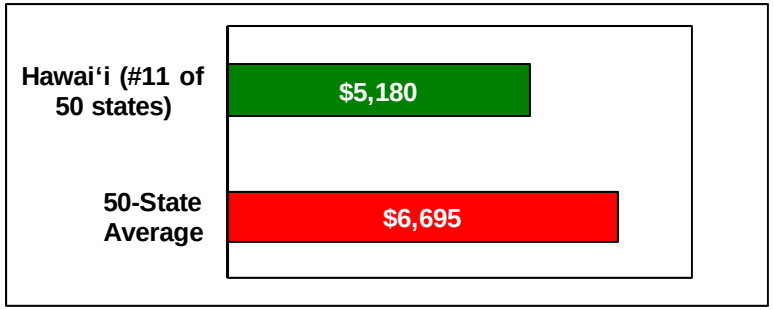


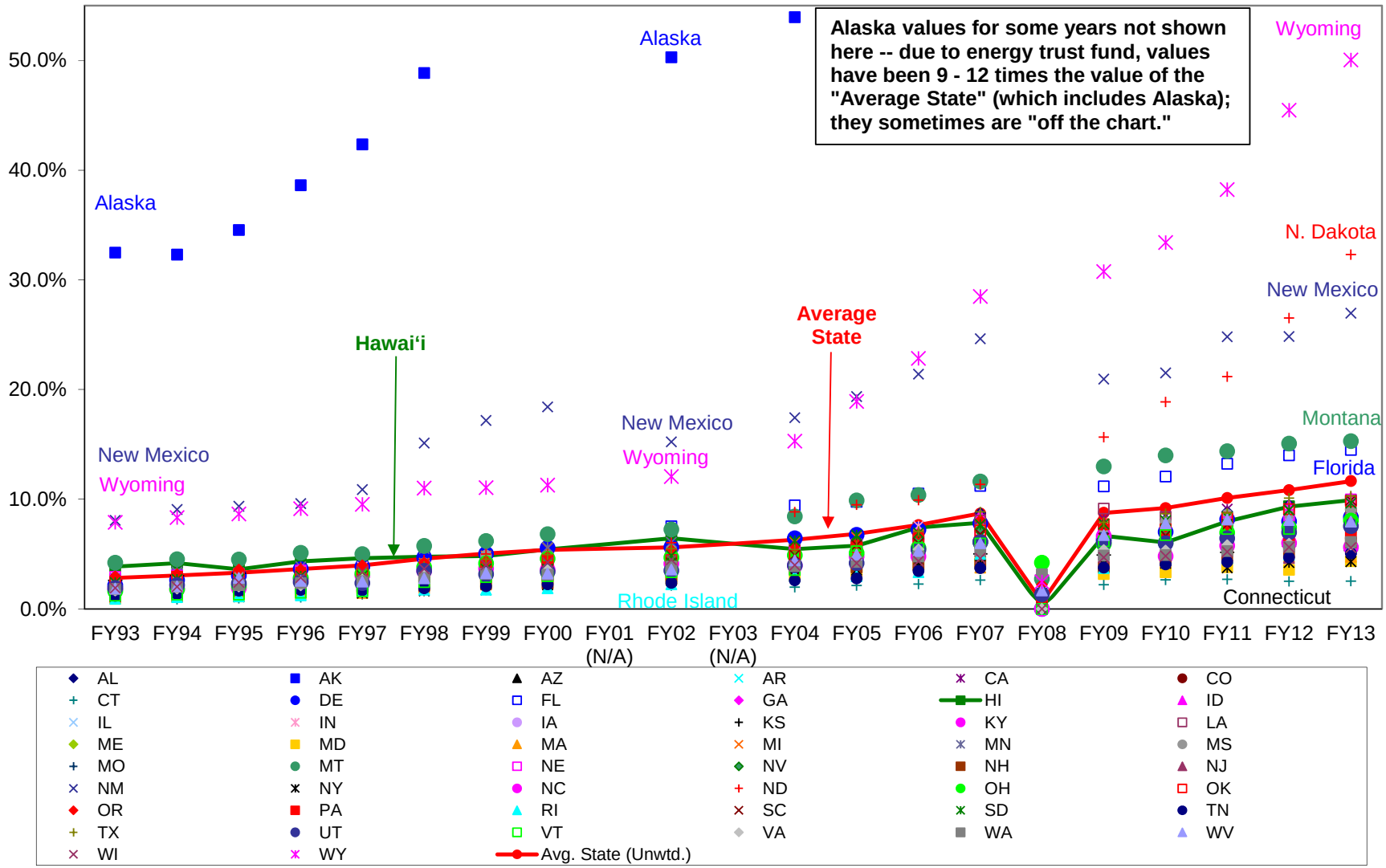
Figure 6.23: Non-Insurance “Other” Holdings Per Resident, FY 2013



Conclusions: At first, the FY 2013 results in Figure 6.22 and Figure 6.23 (which show Hawai‘i with a *smaller* level of these “Other Holdings” than the “Average State” for FY 2013) seem inconsistent with the foregoing results in Figure 6.18 (which show Hawai‘i having a *larger* share of its Total Holdings in this category than does the “Average State). Usually, the composition figures are strong predictors of how the comparison of levels will turn out. Furthermore, Figure 6.22 and Figure 6.23 still show Hawai‘i with a fairly high ranking among states – 10th by the GDP measure, 11th by the per-capita measure – and the GDP historical data in the following Figure 6.24 indicates Hawai‘i’s fairly high ranking nevertheless left if below the “Average State” since at least FY 2004.

But a closer look at the historical data for the GDP measure – and, though not reproduced here, the per-capita measure tells a similar story – explains why this is so. States with natural resource trust funds (Alaska above all, but increasingly so for Wyoming, North Dakota, and New Mexico as well) have so much money that they pull the “Average State” value far above the median. So Hawai‘i can have the 10th highest state rankings in FY 2013 and still be below the “Average State” value for the Percent of GDP represented by its cash and investment holdings.

Figure 6.24: Non-Insurance "Other" Holdings as Percent of GDP from FY 1993, All States



6.5.3 Comparing the Level of Hawai‘i Governments’ Offset to Debt Holdings to Other States

“Offset to Debt” is defined by the Census as “Cash and security holdings held specifically for debt service purposes (interest payments and redemption of principal) on long-term debt, including those of utilities, regardless of debt purpose.” The following Figure 6.25 and Figure 6.26 summarize FY 2013 comparative results for Hawai‘i vs. the “Average State,” and Figure 6.27 shows historical data for the GDP-based measure. (Note the atypical results in Figure 6.27 for FY 2008 as states responded to the Great Recession.)

Figure 6.25: Offset to Debt Holdings as Pct. of GDP, FY 2013

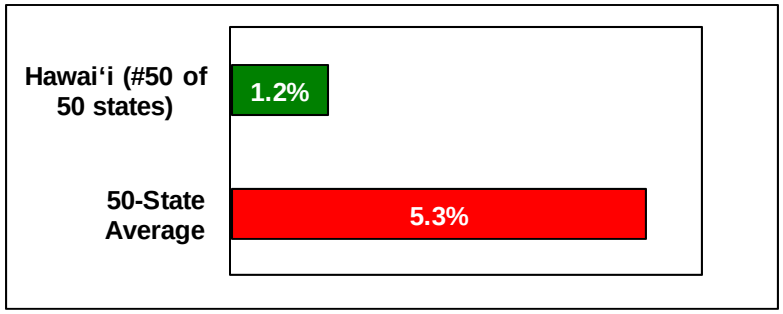
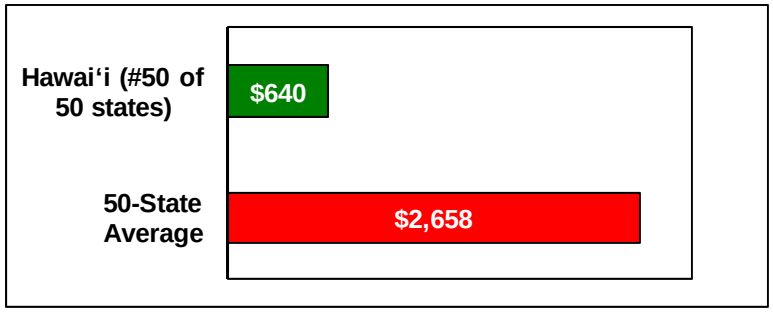
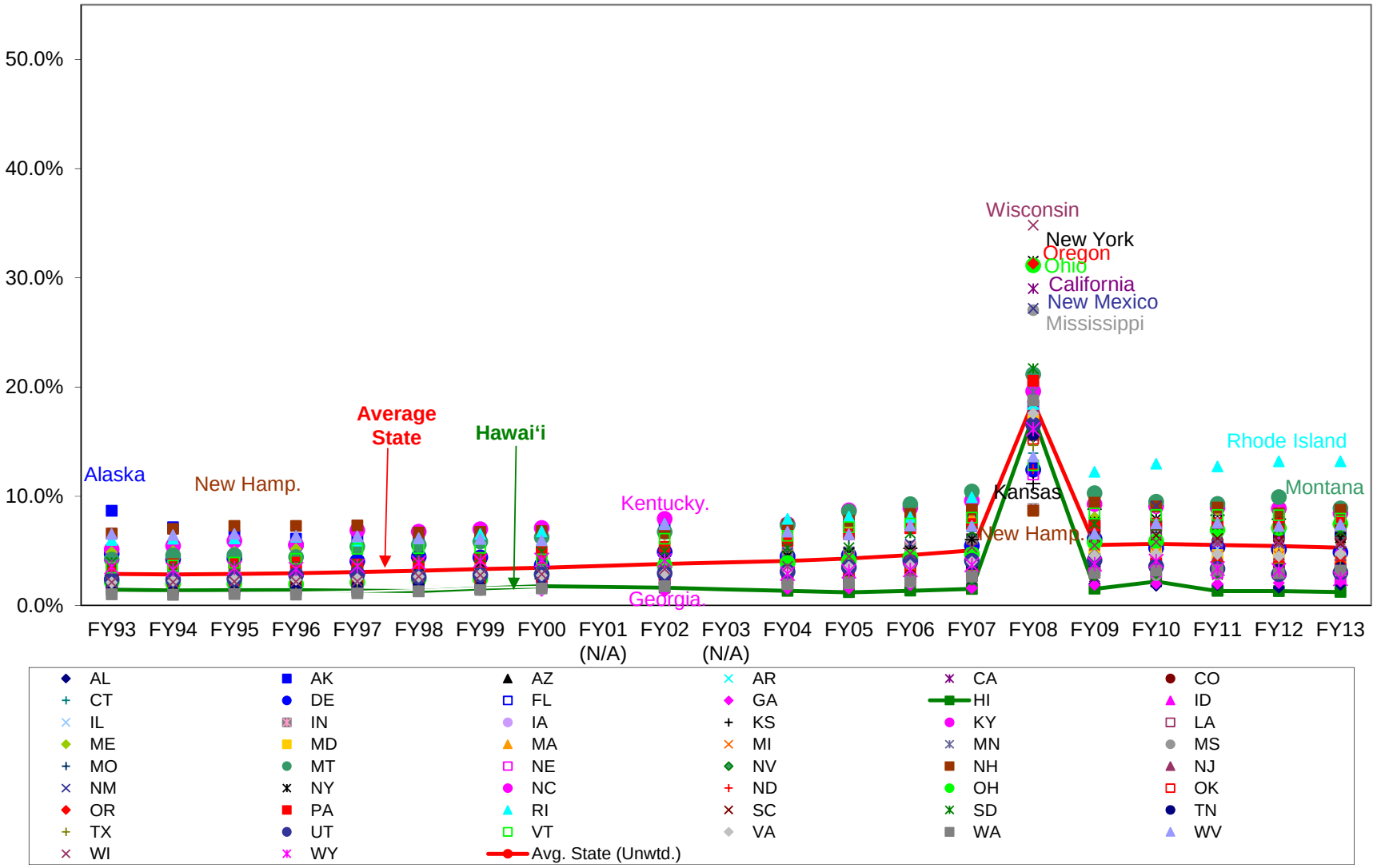


Figure 6.26: Offset to Debt Holdings Per Resident, FY 2013



Conclusions: Hawai‘i governments have a long and consistent track record of minimizing the amount of financial resources set aside for servicing long-term debt. Only during the crisis of the Great Recession was Hawai‘i not at or near the #50 position among states by the GDP measure (and, though not shown, by the per-capita measure as well).

Figure 6.27: Offset to Debt Holdings as Percent of GDP from FY 1993, All States



6.5.4 Comparing the Level of Hawai‘i Governments’ Bond Fund Holdings to Other States

Bond funds represent the smallest proportion of Total Holdings for both Hawai‘i and the “Average State,” though exact levels are subject to substantial variation (Figure 6.21). The following Figure 6.28 and Figure 6.29 summarize FY 2013 results, and Figure 6.30 shows historical data for the GDP-based measure.

Figure 6.28: Bond Fund Holdings as Pct. of GDP, FY 2013

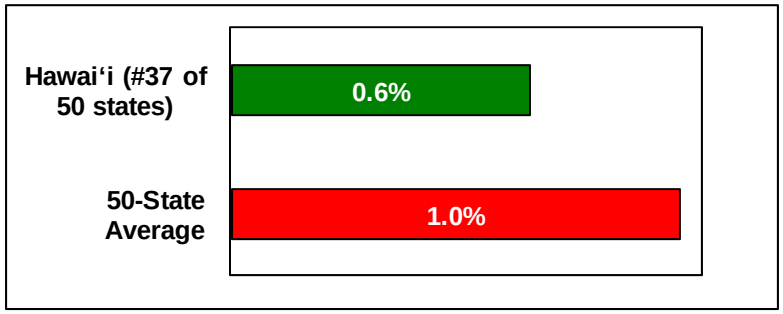
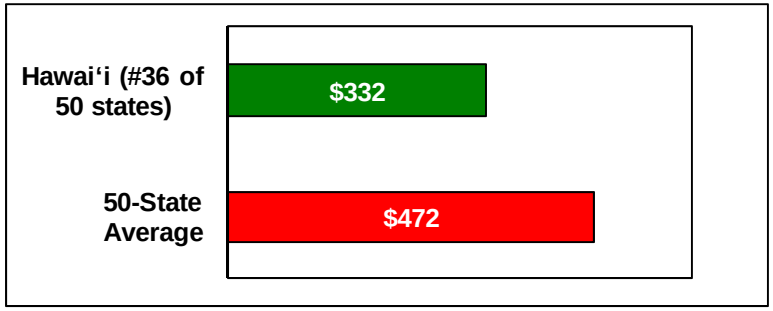
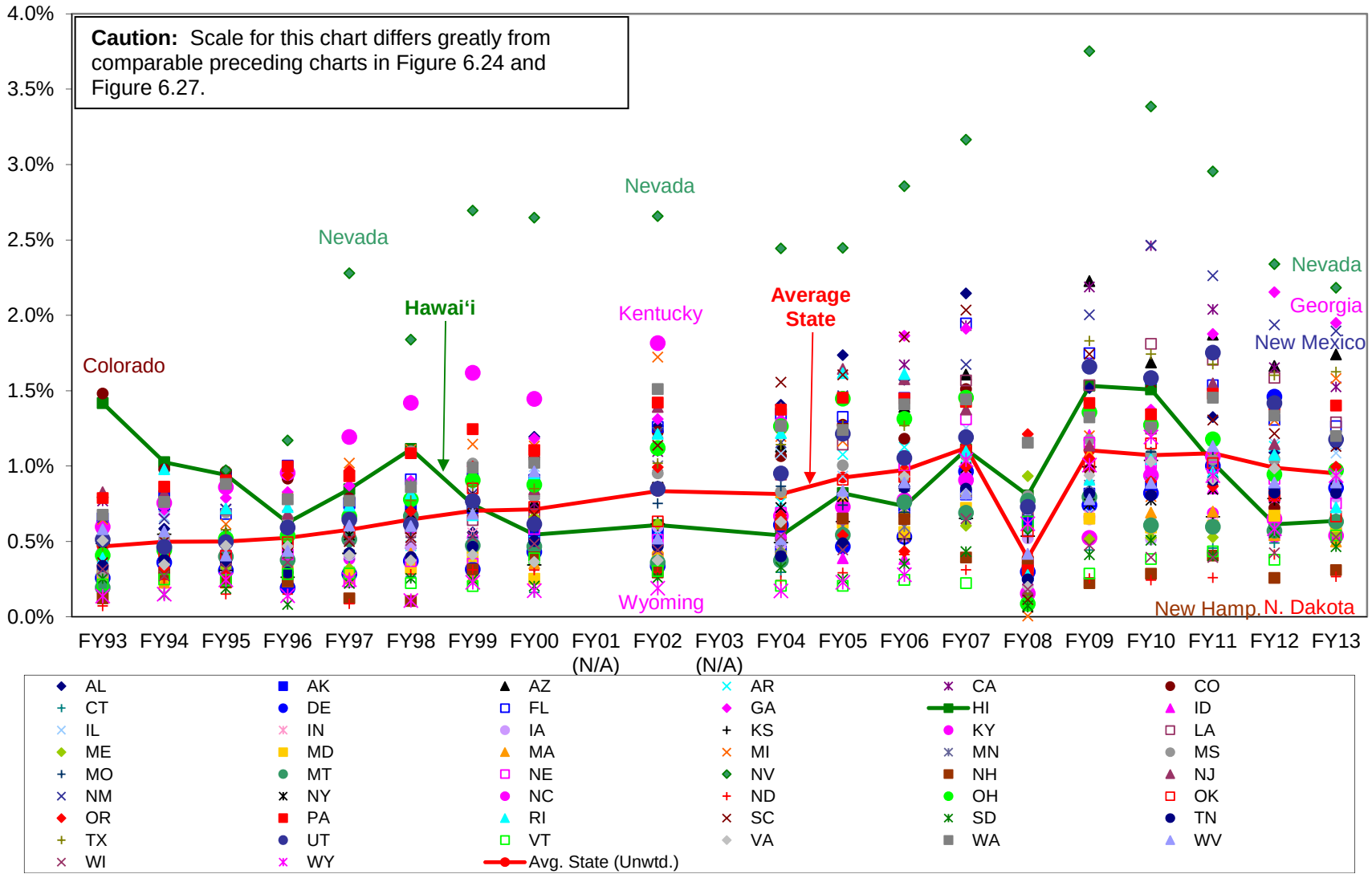


Figure 6.29: Bond Fund Holdings Per Resident, FY 2013



Conclusions: The variation in Bond Funds as a Percent of Total Holdings that was apparent in Figure 6.21 generates a similar picture for the Percent of GDP measure over time in Figure 6.30. Hawai‘i happened to be below the “Average State” in FY 2013 with a moderately low ranking among all states, but in the past Hawai‘i has ranked higher. It is not unusual for there to be such variation over time in data for which the absolute numbers are fairly small.

Figure 6.30: Bond Fund Holdings as Percent of GDP from FY 1993, All States



6.5.5 Summary Analysis of Why Hawai‘i Has Had Lower Levels of Total Holdings than Most Other States

The analysis in Section 6.2.1 of Hawai‘i’s comparative levels of Total Holdings found the grand total of Hawai‘i cash and securities holdings had fallen below that of the “Average State” since FY 2004. The question posed at that point was: Which specific components might be most responsible for this?

Table 6.1 looks at the three most significant components studied thereafter (ERS Holdings, the general cash and savings “Other” Non-Insurance Trust Holdings, and Offset to Debt) for three selected years since the pattern emerged in FY 2004 (but avoiding Great Recession years as possibly atypical).

Table 6.1: Contributions of Three Major Components to Difference in Total Holdings between Hawai‘i and Average State, Three Selected Years
(As Measured by Percent of GDP)

	Total Holdings % of GDP			ERS % of GDP			Non-Insurance "Other: % GDP			Offset to Debt % of GDP		
	Average State	Hawai‘i	Difference	Average State	Hawai‘i	Difference	Average State	Hawai‘i	Difference	Average State	Hawai‘i	Difference
FY 2005	36.0%	27.8%	**8.2%**	18.9%	16.7%	**2.1%**	6.8%	5.8%	**1.1%**	4.3%	1.2%	**3.1%**
	Component Difference Portion of Total Difference:					***26.0%***			***13.1%***			***37.5%***
FY 2010	34.2%	25.2%	**9.0%**	15.8%	14.3%	**1.4%**	9.2%	6.1%	**3.1%**	5.6%	2.2%	**3.5%**
	Component Difference Portion of Total Difference:					***16.0%***			***34.8%***			***38.3%***
FY 2013	36.2%	26.8%	**9.4%**	17.6%	14.8%	**2.8%**	11.7%	9.9%	**1.7%**	5.3%	1.2%	**4.1%**
	Component Difference Portion of Total Difference:					***29.7%***			***18.5%***			***42.9%***

Conclusions: All three contribute to the overall Total Holdings difference between Hawai‘i and the “Average State,” and together largely explain it in each year. But the largest share – though still a plurality rather than a majority of the explanation – was consistently Offset to Debt. Hawai‘i governments have minimized cash or liquid assets being held against payment of long-term debt, but that has not necessarily freed up resources to be held in other categories, such as ERS funds or savings accounts.