THE VOLCKER ALLIANCE

HAWAII Budget Report Card

HAWAII WAS AMONG SIX STATES receiving an average grade of D-minus, the lowest mark possible, in legacy costs for fiscal 2016 through 2018. Like Illinois, Massachusetts, New Jersey, Texas, Washington, and Wyoming, Hawaii failed to make contributions to public worker pension plans and other postemployment benefits, principally health care, in line with actuarial recommendations. Hawaii's chronic pension underfunding left it with only 54.8 percent of the assets needed to meet the its obligations as of 2017, almost 14 percentage points less than the total for US states.

The state's performance in legacy costs contrasts with its steady improvement in the transparency category. While its three-year average was a B, its annual grade rose to an A in 2018 from a C two years before. The catalyst for the jump was Hawaii's introduction of a revised system for reporting tax expenditures and initiation of reports on the cost of deferred infrastructure replacement. Those moves made Hawaii one of only four states to disclose this statistic in budget or related documents in 2018.

Hawaii also received A averages in budget forecasting and reserve funds. It uses consensus revenue forecasting based on calculations from its Council on Revenues, whose members are appointed by the governor, senate, and house.

The state's management of reserve funds includes policies for disbursing and replenishing rainy day fund assets. In 2017, Hawaii established a volatility-based withdrawal limit for its Emergency and Budget Reserve Fund. The state cannot make a withdrawal for the next fiscal year unless it has collected, or is projected to collect, less tax revenue in the current year than in the previous one.

PACIFIC STATES SIDE BY SIDE: Three-Year Average Grades, 2016-18

	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Alaska	B	C	B	A	A
California	B	A	D	A	A
Hawaii	A	B	D-	A	B
Oregon	C	A	A	B	B
Washington	A	B	D	A	B
US AVERAGE	C	B	C	B	B

NOTE States are grouped by US Census Bureau divisions.

Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* at VolckerAlliance.org.

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BUDGET FORECASTING

	2016	2017	2018
CATEGORY GRADE	A	A	A
Consensus Revenue Forecasts	✓	✓	✓
Multiyear Expenditure Forecasts	✓	✓	✓
Multiyear Revenue Forecasts	✓	✓	✓
Revenue Growth Projections	✓	✓	✓
	3-YEAR AVERAGE A	3-YEAR TREND —	

BUDGET MANEUVERS

	2016	2017	2018
CATEGORY GRADE	A	B	B
Deferring Recurring Expenditures	✓	✓	✓
Revenue and Cost Shifting	✓	✗	✗
Funding Recurring Expenditures with Debt	✓	✓	✓
Using Asset Sales and Up-Front Revenues	✓	✓	✓
	3-YEAR AVERAGE B	3-YEAR TREND ↘	

LEGACY COSTS

	2016	2017	2018
CATEGORY GRADE	D-	D-	D-
Public Employee OPEB Funding	✗	✗	✗
Public Employee Pension Funding	✗	✗	✗
Public Employee Pension Funded Ratio*	51%	55%	55%
	3-YEAR AVERAGE D-	3-YEAR TREND —	

RESERVE FUNDS

	2016	2017	2018
CATEGORY GRADE	A	A	A
Positive Reserve or General Fund Balance	✓	✓	✓
Reserve Funds Disbursement Policy	✓	✓	✓
Reserve Funds Replenishment Policy	✓	✓	✓
Reserves Tied to Revenue Volatility	✓	✓	✓
	3-YEAR AVERAGE A	3-YEAR TREND —	

TRANSPARENCY

	2016	2017	2018
CATEGORY GRADE	C	B	A
Consolidated Budget Website	✓	✓	✓
Provides Debt Tables	✓	✓	✓
Discloses Deferred Infrastructure Replacement Costs	✗	✓	✓
Discloses Tax Expenditures	✗	✗	✓
	3-YEAR AVERAGE B	3-YEAR TREND ↗	

KEY

✓	Followed best practice
✗	Did not follow best practice

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* **SOURCE** Bloomberg; 2017 data also used for 2018.

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