October 9, 2025

MEMO TO: David Raatz, Director of Council Services

F R O M: Ellen B. McKinley, Legislative Analyst EBM

SUBJECT: **WEBINAR: HOW WILL FEDERAL FUNDING CHANGE UNDER TRUMP?** (PAF 25-010(8))

This report summarizes the Hawai‘i Economic Association webinar, entitled “How Will Federal Funding Change Under Trump?” held on May 9, 2025. The moderator was Seth Colby, former Tax Research & Planning Officer, Hawai‘i Department of Taxation, now Chief State Economist, Hawai‘i Department of Business, Economic Development & Tourism. The presenters were Wes Machida, Senior Advisor, Hawai‘i State Legislature; and Trey Gordner, Policy Researcher and Data Scientist, Economic Research Organization at the University of Hawai‘i.

The webinar explored how Hawai‘i could be impacted by executive action, Department of Government Efficiency cuts, and the federal budget passed by Congress.

Moderator Colby said federal funding would decline regardless of who is in the White House because COVID funds are being exhausted. Federal interest payments now surpass military spending and are squeezing the federal budget. While the budget can be increased, the bond market can only bear so much; if borrowing increases, interest rates will go up, aggravating the situation.

Trump campaigned on not taxing Social Security or tips, which would decrease revenue and require cutting federal programs to avoid adding to the deficit. Social Security, Medicaid, and Medicare comprise almost 50 percent of the budget. Military spending and interest payments on the debt each comprise about 12 percent. Discretionary spending, other than military spending, is relatively small.

Trey Gordner said cuts to federally-funded public sector jobs could include:

- Direct federal civilian employment in Hawai‘i, which could decline by seven percent.

- Losing those 2300 jobs would be comparable to the economic impact sustained due to the job loss from the Lahaina fires.

- Most of the jobs would be military civilians, not active duty or reserves.

- Early retirements would have less of an effect than layoffs.

- There could be an increase in National Guard and Active-Duty Military Reserves.

- Steep cuts to U.S. Departments of Veterans Affairs and Commerce (i.e., National Oceanic and Atmospheric Administration) are also anticipated.

- Federally-funded State employees, who make up about seven percent of the executive branch.

  - The top three departments — Department of Human Services, Department of Education, and Department of Health — employ 70 percent of federally-funded State employees and are at high risk for cuts.

  - The State must fund and staff programs to compensate for any federal cuts.

- Federally-funded county employees are concentrated in housing, human services, transportation, and public health.

  - There are 118 federally-funded county employees in Maui County.

  - There could be a 40-percent reduction in Department of Housing and Urban Development rental assistance. Section 8 housing vouchers are also vulnerable.

  - Maui County Emergency Management Agency is at unique risk because 97 percent of its operating budget is from federal sources, even though MEMA employees are not federally funded.

In addition, UHERO is creating a predictive model for funding freezes and permanent reductions in federal grants and direct payments. UHERO is also mapping funding-flow vulnerabilities of organizations and program areas (e.g., homelessness) to provide support for philanthropy and possible special legislative session decisions. Notably, only 42 percent of disaster grants obligated have been outlaid, so they could be reduced.

Many assistance programs, worth $485 million, are at risk based on their award descriptions including "no-no words" such as "diversity," "equity," and "climate change."

In its May 9, 2025, State forecast, UHERO predicts a mild recession.

Wes Machida explained that mandatory or "entitlement" spending (Social Security, Medicare and Medicaid) need not be approved by Congress annually and constitutes two-thirds of the budget. Benefits are automatic for those who qualify.

In contrast, discretionary spending must be appropriated annually, including salary and benefits for employees, military funding, and 15 percent constitutes grants to state and local governments.

Hawaiʻi's State Operating Budget for fiscal year 2026 is $20.6 billion, of which $4.6 billion is attributable to federal funding appropriations. Of the $4.6 billion, $3.1 billion is operating appropriations for the State Department of Human Services, including $2.3 billion for Medicaid in 2026 and 2027 and significant sums for rental assistance services, childcare, child protective services, and other programs. The potential reduction to Hawaiʻi DHS is more than $800 million.

The main program impacted by HHS cuts would be Medicaid. Beneficiaries are low-income families and disabled individuals. About 30 percent of adults and 50 percent of children in Hawaiʻi are on Medicaid. There may be changes in the percentage the federal government pays and changes to eligibility requirements.

In addition, Hawaiʻi relies on many other HHS programs, including Administration for Children and Families; Substance Abuse and Mental Health Services Administration; Center for Disease Control and Prevention; Health Resource and Services Administration; and Administration for Strategic Preparedness and Response.

In 2016, the State implemented a budget reserve policy requiring at least 10 percent of general fund revenue be maintained in the Emergency Budget and Reserve Fund and at least five percent of general fund revenue as a general fund balance. The Emergency Budget and Reserve Fund, the "Rainy Day Fund," contains about $1.55 billion. In addition, the State's six-year financial plan estimates the State has an excess general fund balance of $1.3 billion. The legislature set aside $200 million in 2025 to be used to address federal funding reductions to be authorized in a potential special legislative session.

Thank you for the opportunity to attend this webinar. The webinar recording can be accessed at: https://www.youtube.com/watch?v=dXKikj6a-m0. The webinar materials are available at: https://drive.google.com/drive/folders/1yyglSst1SHYhu-kgdlaPzW3Rbo7Cv36p.

If you have any questions or would like more information, please contact Ellen at ext. 7661.

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cc: Deputy Director of Council Services