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No Space in Paradise: Hawai‘i’s FY 2024 Budget and the Cost-of-Living Crisis

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> Thousands of families are voting with their feet, choosing to leave our islands in search of affordable housing and economic opportunity.
>
> —Governor Josh Green, January 23, 2023

Abstract

The State of Hawai‘i’s $37.2 billion biennium operating budget for FY 2024 and FY 2025 provided substantial tax relief for vulnerable residents, and authorized new spending to improve access to affordable housing and health care. This article explores the policy decisions and conflicts among legislators and the newly elected Governor during the budget approval process. Although Governor Josh Green and the Democratic leadership agreed on the state’s most pressing policy priorities, the Legislature rejected Green’s proposal for broad middle-class tax relief in favor of more targeted benefits for low-income families. There were also several major disputes among legislators during the budget approval process, including a fight over the level of education spending, and the controversial creation of a $200 million discretionary fund for the Governor’s use. Beyond the budget, the paper explores several ongoing challenges, including Hawai‘i’s economic dependence on tourism, population decline, skyrocketing housing costs, government corruption, and the tragic fires in West Maui.

1. Introduction

During his debut performance on American Idol, Iam Tongi, who would go on to win the long-standing singing competition, explained that he had recently moved from Hawai‘i to Washington State. “Why on Earth would you leave Hawai‘i?,” asked American Idol judge and R&B legend Lionel Richie. Tongi replied simply that he had been “priced out of paradise” (Nathaniel 2023).

As Hawai‘i’s population has declined over the past seven years, many residents of the Aloha State have joined Tongi in leaving Hawai‘i for less expensive states on the US mainland. This exodus, largely driven by the state’s astronomical cost of living relative to local wages, caused Hawai‘i to lose 15,000 people or 0.5% of its population during 2022, ranking number five among the states with the fastest declining populations (US Census Bureau 2022). Every day, the net population loss averages around 20 people as residents decamp to the mainland (Yerton 2023b). Las Vegas, a favorite destination, has even earned the nickname the “ninth island” because so many of Hawai‘i’s former residents, particularly Native Hawaiians, have made it their new home (Terrell et al. 2020).

Josh Green, Hawai‘i’s recently elected Democratic Governor, built his campaign around a commitment to solve the state’s affordable housing crisis and help more long-time residents stay in the islands. During his tenure as Lieutenant Governor, Green drew on his background as a physician to manage Hawai‘i’s response to the COVID-19 pandemic, becoming a trusted and popular politician in the process. Now, as Governor, he has made housing affordability the central focus of his administration.

Green is fortunate that Hawai‘i’s economy made a strong recovery from its near collapse during the pandemic. The state ended 2022 with an unexpected surplus of nearly $2 billion thanks to increased tax revenues and federal COVID relief funds. Despite Hawai‘i’s relatively healthy balance sheet, the state continues to grapple with its troubling dependence on tourism, the lack of affordable housing, and a large homeless population. After the city of Lahaina, Maui was destroyed by a devastating wildfire on August 8, 2023, these problems may become even more acute in the coming years.

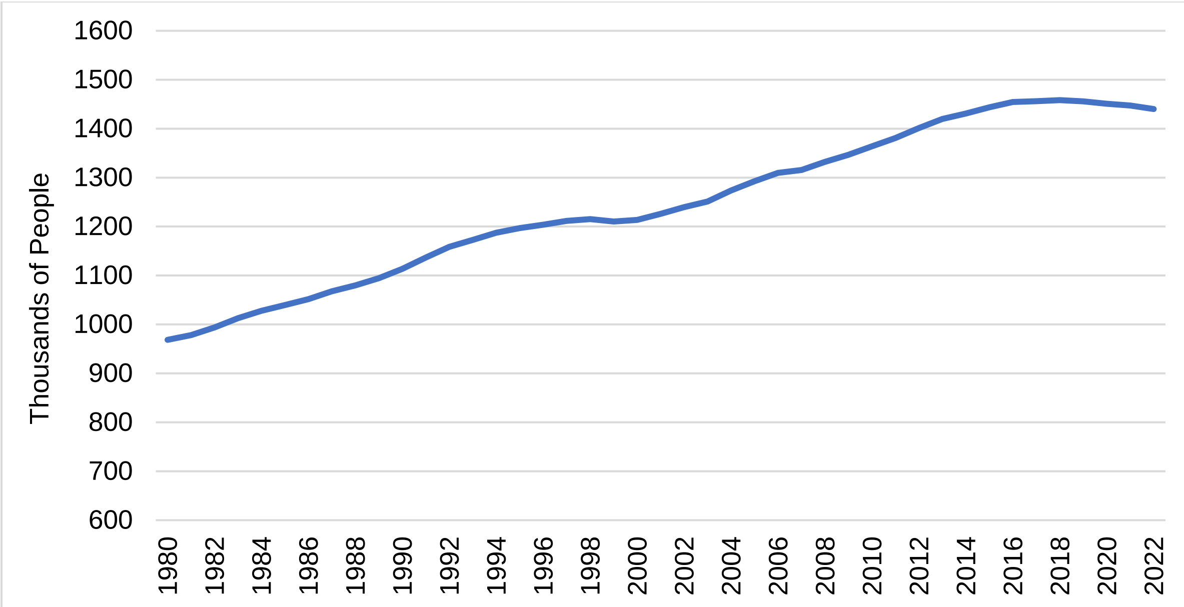
The biennium budget for fiscal years 2024 and 2025 authorizes a total expenditure of approximately $44 billion, encompassing $37.2 billion for state agencies and government branches, an additional $4 billion allocated to capital improvement projects, and $687 million earmarked for one-time appropriations (HBPC 2023). This year’s budget stands out for its substantial allocations to address critical issues such as affordable housing, early childhood education, and access to healthcare services. In this article, I describe the new Governor’s priorities and trace the budget process from the beginning of the 2023 legislative session through the budget’s final approval in June 2023.

2. Demographic and Economic Context

Hawai‘i’s population decline is an alarming development that has potentially dire consequences for the state’s economy and culture. As Figure 1 shows, the Aloha State’s population grew steadily during the 1980s and 2000s until it slowed in 2015. Today the population sits at 1.44 million, nearly the same as it was in 2014. Most of those who leave Hawai‘i resettle in the western states of California, Washington, Texas, and Nevada (UHERO 2023). As more young people depart for better economic opportunities on the mainland, the population is also becoming older. In 2022, Hawai‘i had the dubious distinction of experiencing the largest increase in its median age of any state in the nation (US Census Bureau 2023).

There is no indication that the state’s population decline will abate anytime in the near future. A 2019 survey found that 45% of residents had considered leaving Hawai‘i, and fully two-thirds of 18–34-year-olds had considered leaving or had a member of their own household who had already left the state. Of those who considered leaving, 47% identified the cost of living as their primary concern (Pacific Resource Partnership 2019).

Figure 1. Hawai‘i Resident Population, 1980 - 2022



Source: US Census Bureau

Hawai‘i’s low wages relative to its cost of living are the primary cause of this dramatic exodus. The state has always been an expensive place to live, but according to analysis done by the University of Hawai‘i’s Economic Research Organization (UHERO), the purchasing power of residents has sharply declined. Today, per capita income in Hawai‘i is 12% lower than the national average once it is adjusted for the state’s high cost of living, making it comparable to incomes in Mississippi and West Virginia (UHERO 2023b). Since Hawai‘i’s service-sector economy doesn’t offer many high paying jobs, many people are better off accepting a similar position in a mainland state.

Despite the state’s shrinking population and its significantly elevated cost of living, the unemployment rate has usually been quite low. Although the COVID-19 pandemic brought the vital tourism sector to a virtual standstill and caused unemployment to skyrocket, the travel industry quickly rebounded. As Figure 2 shows, the unemployment rate dropped to 9.5% in January 2021, and by July 2023 it reached 2.8%, notably lower than the national rate of 3.5% (US Bureau of Labor Statistics 2023b).

Figure 3 demonstrates just how quickly the state’s visitor industry recovered from the pandemic. Visitors began to return in significant numbers by the second quarter of 2021, and, by the fourth quarter of 2022, the number of tourists reached 2.46 million. By March of 2023, the total number of visitor arrivals were only 3% less than the number of arrivals in March of 2019 (UHERO 2023b).

Figure 2. Hawai‘i Unemployment Rate, 2018 - 2023

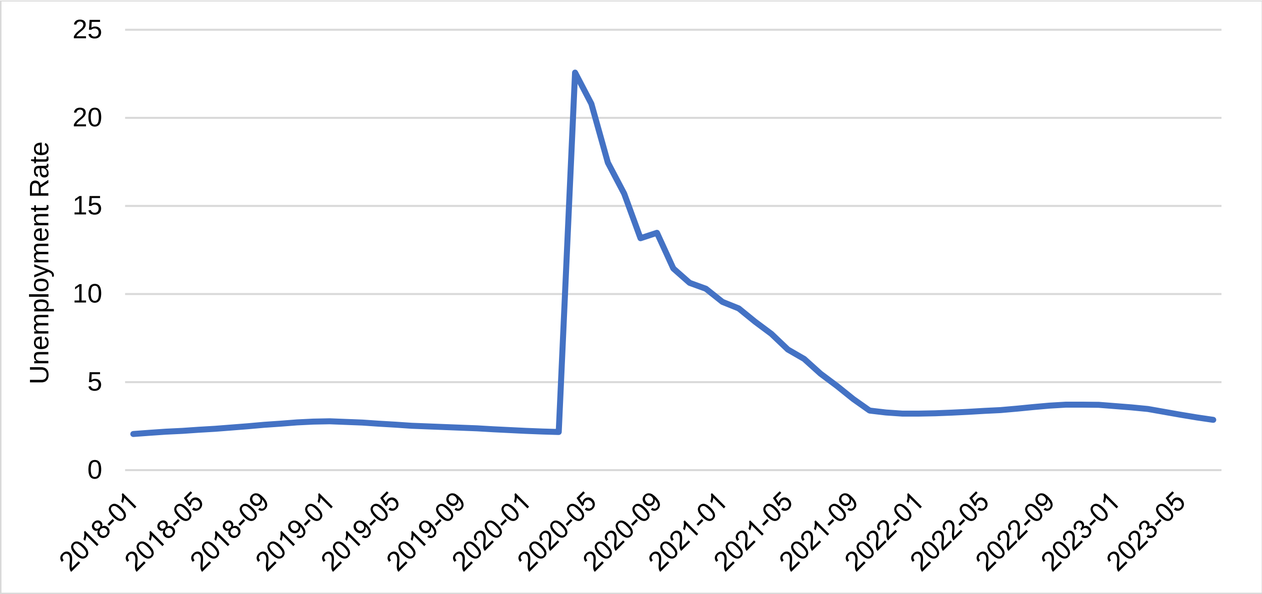
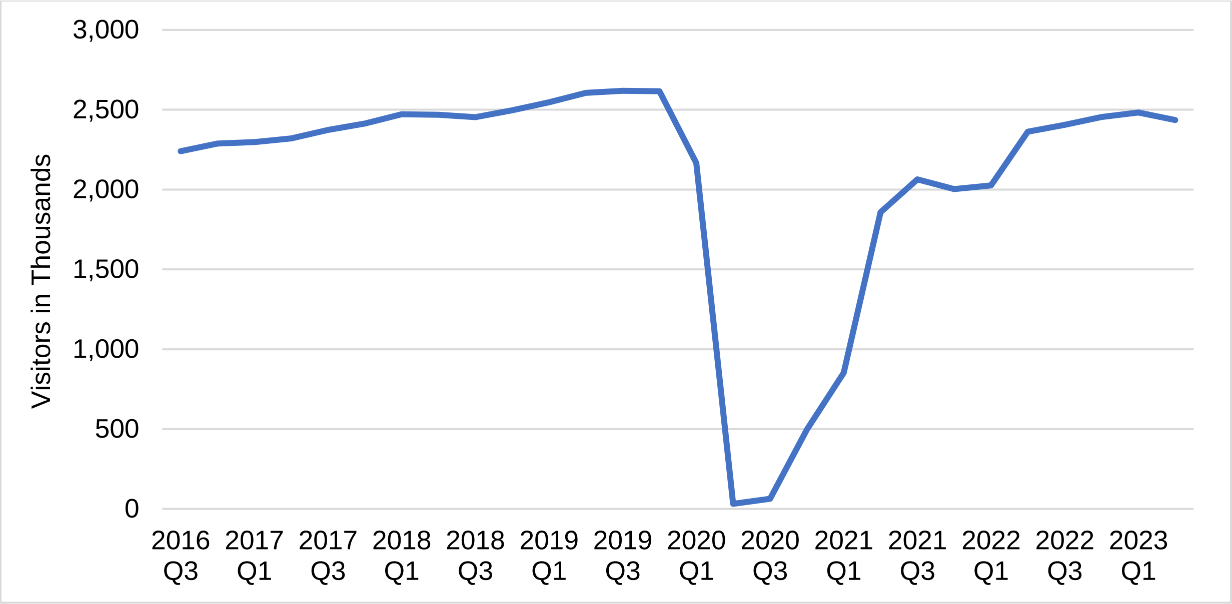


Figure 3. Visitor Arrivals by Quarter, 2016 - 2023



Source: University of Hawai‘i Economic Research Organization

As Table 1 demonstrates, real visitor spending also made a dramatic recovery after its collapse during the pandemic, increasing by more than 150% from 2020 to 2021 and an additional 37.7% from 2021 to 2022. UHERO expects the state’s Gross Domestic Product (GDP) to grow at a modest 2.6% from 2023 and a slightly lower 2% in 2024. Inflation in Hawai‘i was slightly lower than on the mainland United States, but UHERO economists estimate that income still declined by nearly 6% in 2022 because pandemic income support programs ended (UHERO 2023a).

Table 1.
Hawaiʻi Economic Indicators: Year-Over-Year Percentage Change

	2020	2021	2022	2023	2024	2025
Visitor Arrivals by Air	-73.9	150.2	36.5	6.4	-1.1	1.6
Real Visitor Spending	-71.9	150.8	37.7	2.1	-2.2	-1.8
Non-farm Payrolls	-14.9	4.8	5.3	2.5	0.8	1.1
Inflation Rate, Honolulu	1.6	3.8	6.5	2.4	2.2	2.4
Real Personal Income	2.7	1.9	-5.9	3.0	2.0	2.2
Real GDP	-11.6	6.3	1.3	2.6	2.0	2.1

Note: Figures for 2023-2025 are forecasts
Source: University of Hawaiʻi Economic Research Organization 2023a

2.1 Hawaiʻi's Revenue Base

Hawaiʻi draws its tax revenue from two primary sources: a progressive income tax and the General Excise Tax (GET). The GET is a comprehensive 4% tax applied to both goods and services. Counties have the power to add extra charges to the standard GET rate. For example, the City and County of Honolulu increased its rate to 4.7% to generate dedicated funding for the city's new rapid transit rail system.

As Table 2 shows, the GET generates more than $4 billion and accounted for nearly 40% of the state's income. The GET is a regressive tax that has a disproportionate impact on the poor, and studies have shown that it takes a larger percentage of income from lower-income households (HBPC 2020). Nevertheless, the GET is a favored vehicle to collect revenue because, in a tourist-oriented economy like Hawaiʻi's, a nontrivial percentage of GET taxes are paid by visitors. A related source of revenue comes from a 7.25% Transient Accommodations Tax (TAT), which is collected through a charge on accommodations for visitors (Hawaiʻi Department of Budget and Finance 2023). In FY 2022, the TAT generated $738 million, representing 7.1% of the state's total tax revenue.

Table 2. Hawaiʻi Tax Revenue by Category for 2022

Category	**Total Revenue ($ thousands)**	**Share of Total Revenue**
General Excise	4,009,909	38.3%
Individual Income	3,761,269	36.0%
Corporate	256,033	2.5%
Transient Accommodation	738,664	7.1%
Motor and Vehicle Rental	222,381	2.1%
Fuel and Environmental	196,504	1.9%
Conveyance	188,418	1.8%
Other Taxes	1,088,659	10.4%
Total Tax Revenue	**10,461,837**	

Source: State of Hawaiʻi, Department of Taxation, *Annual Report*, 2021-22.

Hawai'i also relies on an individual income tax that collected $3.76 billion in FY 2022 and accounted for 36% of total tax revenue (Hawai'i Department of Taxation 2022). The state's income tax follows a progressive structure whereby the tax rate starts off relatively low for those with lower incomes and gradually increases as income rises. However, since the tax brackets are not indexed to inflation and haven't been adjusted for many years, individuals with relatively modest incomes now find themselves subject to high tax rates. For example, because an 8.25% tax rate is applied to all income exceeding $48,000, most Hawai'i taxpayers are taxed at this rate. According to the Department of Taxation's own study, "Hawai'i has one of the highest income tax burdens of any state for all income levels" (Colby 2023). To compound this problem, Hawai'i also has one of the lowest standard deductions of any state ($2,200 single/ $4,400 joint).

Table 3. Hawai'i Tax Revenue, FY 2021 and FY 2022

Category	FY 2022 ($ thousands)	FY 2021 ($ thousands)	Percent Change
General Excise	4,009,909	3,080,194	30.2%
Individual Income	3,761,269	3,355,452	12.1%
Corporate	256,033	186,680	37.2%
Transient Accommodation	738,664	215,316	243.1%
Other taxes	1,695,963	1,330,981	27.4%
Total Tax Revenue	**10,461,837**	**8,168,623**	**28.1%**

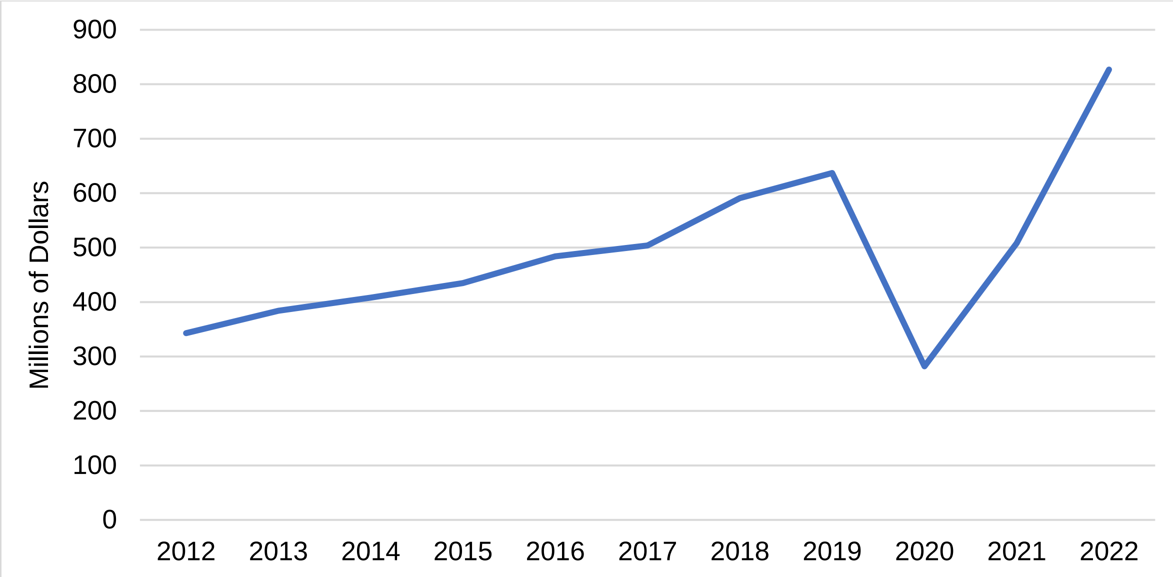
Source: Hawai'i Department of Taxation, *Annual Report*, 2021-22.

The dependence of the Aloha State's tax revenue on visitor spending caused it to fall precipitously during the depths of the pandemic. During that period, total tax revenue declined from $7.14 billion in 2019 to $6.69 billion at the end of fiscal year 2020. In 2020, the state's Council on Revenues made a dire prediction that it could decline as far as $5.96 billion in FY 2021 (Council on Revenues 2020). Indeed, some economists predicted state tax collections would not return to the 2019 baseline until 2024 (Dayton 2020). As Figure 4 shows, revenue from the TAT also collapsed, falling from $637 million in 2019 to only $282 million in 2020.

Fortunately, none of these grim predictions came to pass. In fact, as indicated in Table 3, the state's tax revenues made a remarkable rebound. In FY 2021, Hawai'i collected $8.1 billion in taxes, surpassing its total revenue in FY 2019. In FY 2022, the collections exceeded even the most optimistic projections, growing to $10 billion and leaving the state with a projected $2 billion surplus at the end of fiscal year 2023 (Dayton 2022).

The state's impressive uptick in revenue collections was due to the rapid recovery of its tourism industry. Real visitor spending (see Table 1) also made a robust recovery and by March 2022 was actually 7% higher than in 2019 (UHERO 2023b). Furthermore, as Figure 4 shows, transient accommodation tax revenues grew quickly, too, and soon outpaced tax collections in FY 2019.

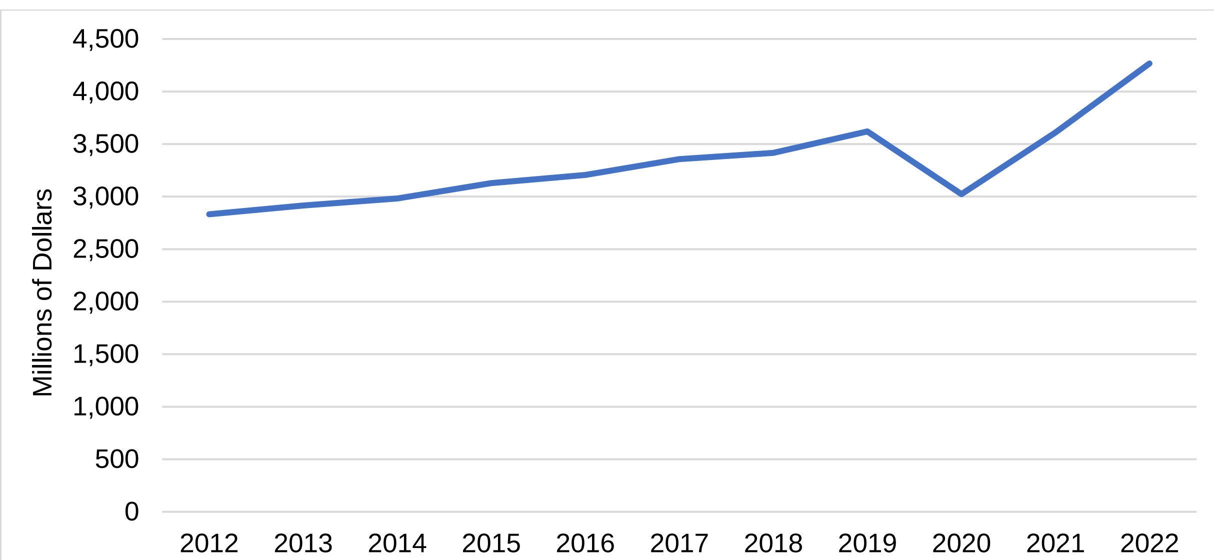
Figure 4: Transient Accommodations Tax Revenue, 2012 - 2022



Source: University of Hawai‘i Economic Research Organization

Prior to the beginning of the 2023 legislative session, the outgoing administration of Governor David Ige deposited almost $1 billion in Hawai‘i's "rainy day" fund, and added $3.7 billion to shore up the health care fund for public sector workers and retirees (Dayton 2022). A huge part of this support came from the American Rescue Plan Act that provided Hawai‘i with $1.6 billion in 2021 (Dayton 2021). But other federal support, such as the Paycheck Protection Program and additional unemployment benefits, provided the state and its residents with more than $20 billion in federal support in 2020 and 2021 (Dayton 2022). This support was so generous that, as shown in Table 1, personal income increased by 2.7% in 2020.

Figure 5: General Excise and Use Tax Revenue, 2012 - 2022

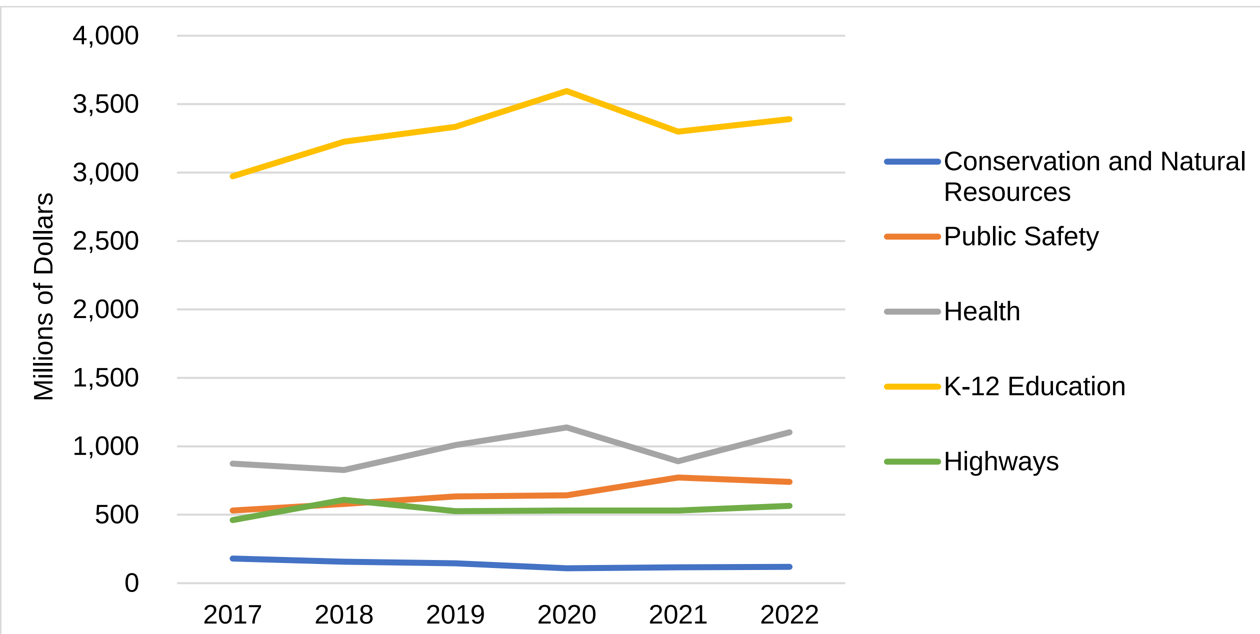


Source: University of Hawai‘i Economic Research Organization

As Figure 5 shows, the state's all-important GET revenue recovered quickly from its decline in 2020 and had fully recovered by 2021. This uptick in GET revenue was fueled by robust demand from tourists, which has, in turn, put upward pressure on the price of hotel rooms, leading to further increases in tax revenue. In December of 2022, the average hotel room price per night was $373, which was 15% more than the going rate for rooms in 2019 (UHERO 2023a). By May of 2022, revenue per hotel room was 6% above the rates in 2019 (UHERO 2023b).

Despite this impressive recovery, some economists remain concerned about the decline in Japanese visitors, who have long been a lucrative market for Hawaiʻi's tourism industry. As of March 2023, only a quarter as many Japanese tourists were visiting Hawaiʻi compared to before the pandemic. On the plus side, the drop in visitor numbers has been far less severe in other markets. By the end of 2022, international visitors were at 82% of their 2019 levels (UHERO 2023a).

Figure 6: Selected Expenses by Function, 2017 - 2022



Source: Hawaiʻi State Department of Accounting and General Services, *Comprehensive Annual Financial Report*, 2022.

As Figure 6 shows, spending for K-12 education and health grew significantly during the pandemic, benefiting from a boost by federal relief funds, but dropped again as federal COVID funds expired. This is in part because Hawaiʻi is the only state in the nation to maintain a single state-run school district, so all education expenses are paid by the state, rather than by municipal or county governments. Other expenses have grown more modestly, and spending on natural resources and conservation has slightly declined for several years. Consequently, lawmakers faced significant pressure to increase funding for state agencies heading into the 2023 legislative session.

3. Political Context and the Budget Approval Process

Governor Josh Green, a former state senator and emergency room physician from the Big Island of Hawaiʻi, assumed office on December 5, 2022. Green was elected overwhelmingly, winning 61% of the vote and easily beating his opponents in Hawaiʻi's all-important Democratic primary. He repeated his strong performance in the November 2022 general election, winning in a landslide over former Republican Lieutenant Governor Duke Aiona (Hawaiʻi Office of Elections 2022).

As a white Jewish doctor from Pennsylvania, Green was an unusual choice for Governor of the Aloha State. He arrived in Hawaiʻi in 2000 as a member of the National Health Service Corps assigned to a rural hospital on the Big Island. In 2004, he was elected to the state House of Representatives and then to the state Senate four years later.

Despite serving in the Legislature for eighteen years prior to his election as Governor, Green was never a core member of its leadership, and he spent much of his legislative career focusing on health and social services issues. Nevertheless, his professional experience as a physician served him well during the coronavirus pandemic. As Lieutenant Governor, he became deeply involved with the state's relief efforts, hosting question-and-answer sessions on Facebook to explain the latest infection rates. and provide advice to worried residents.

After his leadership during COVID, Green became a household name throughout the state, giving him the highest approval ratings of any major political figure in Hawaiʻi. In May of 2021, 63% of respondents approved of his performance as Lieutenant Governor, a stunning result when compared to the dismal performance of his boss, Governor David Ige, who managed an approval rating of only 22% (Blair 2021). This made Green the candidate to beat in the gubernatorial race: he maintained a commanding financial and polling lead throughout the contest. In his inaugural address, Green promised to tackle the longstanding problem of affordable housing, pledging to "unite us in common purpose, bring public officials together with private developers and philanthropists, and build thousands of new homes for Hawaiʻi families" (Green 2022).

3.1 Characteristics of the Hawaiʻi State Legislature

In Hawaiʻi the state Legislature is a part-time body that convenes annually from January through May. Without exception, the Legislature has been under Democratic control since Hawaiʻi achieved statehood in 1959. During the 2023 legislative session, the Democratic Party maintained its commanding majority in both chambers, with 45 Democrats to 6 Republicans in the House of Representatives and 23 Democrats to 2 Republican in the state Senate.

Since Hawaiʻi is effectively a one-party state, the legislative process is seldom marked by sharp partisan battles. Instead, conflicts more often arise from the ever-shifting alliances among senior Democrats and tend to be driven by personal relationships as much as by policy objectives. But like many states dominated by Democrats, there are various shades of blue, and a newly engaged progressive caucus made up of younger legislators has become increasingly vocal in recent years.

The state’s Democratic leadership tends to be politically cautious and somewhat socially conservative. Although the leadership is consistently strong on economic justice issues, they are often reluctant to liberalize social polices like similar states on the US mainland. Hawai‘i, for example, is the only Pacific state where marijuana is illegal for recreational use (Hawai‘i Department of Health 2023).

Organized labor remains an important force in local politics and legislators are particularly responsive to the state’s powerful public sector unions. Nearly 22% of all workers in Hawai‘i are members of unions, giving the Aloha State the highest rate of union membership in the country, and more than double the national average of 10.1% (US Bureau of Labor Statistics 2023a).

The risk-averse Legislature was rocked by scandal in February 2022 when the US Department of Justice charged a former state Senator, and a state Representative with bribery. Rep. Ty Cullen, who served at the time as vice-chair of the powerful House Finance Committee, confessed to accepting cash and casino chips in exchange for favorable legislative action (US Attorney’s Office 2022). Former Senator J. Kalani English admitted to accepting bribes to allow a wastewater treatment contractor to preview legislative reports (Lovell 2022).

Hawai‘i’s legislative leadership, clearly shaken by this scandal, formed a commission led by Daniel R. Foley, a respected retired judge, to propose a series of ethics reforms (Lovell 2022b). In the end, the Commission made 31 legislative proposals that were “intended to steer the Legislature toward reform in these areas of the law and to recalibrate elected officials, public servants, and private citizens who engage with state and county governments toward ‘true north’ values of honesty, public service, and ethical behavior” (Hawai‘i State Legislature 2022).

During this turbulent period of legislative scandal and reform, three of Governor Green’s nominations received chilly receptions in the state Senate, a response likely intended to send a warning shot across the bow of the popular new administration. Green’s nominee to lead the politically sensitive Department of Hawaiian Homelands was rejected because several senators resented his strong connections to a powerful political action committee run by the Hawai‘i Regional Council of Carpenters. The Senate surprised political observers by rejecting two additional nominees to lead major state agencies (Lovell and Blair 2023). Green, never one to mince words, responded that the “people elected us to take on problems like the housing shortage, affordability and homelessness, not to play politics” (Lovell 2023).

3.2. Budget Approval Process

Like many states, Hawai‘i plans a biennial budget that must be balanced, and this often requires the Legislature to make off-year amendments to adjust spending. The Constitution requires the Governor to present a budget request, prepared in consultation with executive departments, which reflects the needs of 17 executive departments, the Governor’s Office, the Office of the Lieutenant Governor, and the University of Hawai‘i System. The Governor is also required to submit a six-year financial plan for the state (HBPC 2020).

The Constitution requires the Legislature to establish a spending limit for the general fund, and this task is overseen by the Council on Revenues. This council is comprised of economists and business leaders appointed by the Governor, President of the Senate, and Speaker of the House. Since Hawai‘i is a balanced-budget state, its general spending cannot exceed its incoming revenues and accessible cash reserves. According to Article VII, Section 5 of the Hawai‘i State Constitution, “general fund expenditures for any fiscal year shall not exceed the State’s current general fund revenues and unencumbered cash balances” (Constitution of the State of Hawai‘i). If planned expenditures exceed state revenues, the Legislature must raise more revenue or cut spending to cover the balance if there are no remaining carryover funds (Mat et al. 2020).

At the Legislature, two powerful “money committees,” the Senate Ways and Means Committee and the House Finance Committee, consider all financial bills. The budget’s first section is for general departmental spending, and the second is for Capital Improvement Project (CIP) appropriations that include state infrastructure investments. These are traditionally funded by general obligation bonds and are not typically included in the overall state budget. Each expense within the budget is associated with the corresponding funding source. The primary funding sources include general funds that are generated by taxation; special funds, including university tuition; and federal grant funds (HBPC 2023). For some agencies, such as the University of Hawai‘i, special funds generate the lion’s share of their revenue, but this is not typical.

4. Governor’s Proposed Budget and Legislative Approval

Governor Green’s FY 2024 executive budget began with an unexpected request to lower taxes, a rare proposition in Hawai‘i. Green pledged to “reduce Hawai‘i’s high cost of living by easing the State tax burden on necessities such as food and medicine and finding ways to support our most vulnerable populations” (Hawai‘i Department of Budget and Finance 2022). Later branded as the Green Affordability Plan (GAP), the Governor recommended doubling the food excise tax credit, and increasing the income threshold for qualification to $60,000 for joint filers. He also proposed increasing the income tax credit for low-income renters, and requested an increase in the Earned Income Tax Credit (EITC) from 20% to 30% of the Federal EITC (Green 2023).

Along with these recommendations to ease the cost of living for low-income households, the Governor announced plans to dramatically increase the child and dependent care tax credit to 50% of qualified expenses for families making up to $150,000, and to increase the allowable expenses to $10,000 for one child and $20,000 for two or more children. In addition, Green caught some members of the Legislature off guard by proposing to index Hawai‘i’s income tax brackets to inflation and solve the state’s notorious bracket creep problem (Green 2023).

Overall, the GAP plan was greeted with general support from policy analysts and economists in the state. One analysis found that the lion’s share of the benefits would go to households whose annual income was under $50,000. Although some of these benefits would also provide a tax break for wealthier households, this effect was primarily caused by the plan to index the state’s income tax code to inflation. Thus, the report concluded, “the GAP’s benefits for the rich are due to the elimination of a previously scheduled tax hike, rather than a tax cut” (UHERO 2023a).

Along with these dramatic tax cuts, the Governor highlighted the need for increased spending on housing and the homeless, a cause that Green had long championed as a state Senator and Lieutenant Governor. Among his other budget recommendations was increased funding to expand a series of small villages known as “kauhale” that provide tiny homes with shared bathroom and laundry facilities (Angarone 2023b).

4.1. Legislative Changes and Approval

In line with the Governor’s budget recommendations and policy priorities, the legislative leadership prepared for an ambitious session aimed at addressing various economic and social issues. Armed with a $2 billion surplus, many predicted aggressive action to cut taxes, replenish the state’s rainy-day fund, pay down pension and health care liabilities, and expand several major social programs.

Despite this general support for the Governor’s initiatives, legislators balked at the price tag for the GAP tax cuts. The cost of Green’s initial proposal was estimated at $313 million in the next fiscal year, plus around $20 million in each subsequent year, causing the overall annual price tag to reach $417 million by fiscal year 2029. Adding to legislative leaders’ concerns was a decision by the Council on Revenues, which sets the official estimates of the state’s revenue, to predict that the state would likely collect $328 million less than they had previously estimated (Angarone 2023a).

Scott Saiki, the powerful Speaker of the House, announced early in the session that he was primarily interested in expanding the EITC and warned that the changes Green proposed were complex and would provide too many benefits to wealthier taxpayers (Dayton 2023a). Other legislators, including the influential Chair of the Senate Ways and Means Committee, Donovan Dela Cruz, announced plans to spend more of the surplus on infrastructure to ease the cost of building affordable housing (Dayton 2023a).

Rather than adopt Green’s full package of cuts, legislators decided to approve a more modest package of tax relief proposals that were aimed at the state’s most needy citizens. In the final version of the tax bill, the state’s EITC was doubled and the available tax credit for the food excise tax was increased (HBPC 2023).

To be sure, this plan will still provide meaningful tax relief. According to the Legislature’s own report, a single mother with two kids who is making approximately $45,000 will see her tax liability decrease by $1,300 (Hawaiʻi State Legislature 2023). Nevertheless, it does not fix the longstanding problem of Hawaiʻi’s tax bracket creep. The director of the Department of Budget and Finance announced that indexing the tax brackets and increasing personal exemptions would be presented to the Legislature next year during “phase two” of the plan (HBPC 2023).

The rejection of the Governor’s full tax relief plan left the Legislature with additional funds to spend on its members own priorities. After several years of cautions appropriations, the promised surplus offered legislators a golden opportunity to boost the budgets of favored agencies and to fund a variety of pet projects.

Table 4 shows the changes in budget drafts during the 2023 Legislative Session. With just three exceptions, the Legislature appropriated more money for every department than the Governor requested. The Department of Budget and Finance saw a substantial increase in its funding, thanks to a $500 million allocation to bolster the state's rainy-day fund, and an additional $348 million earmarked for addressing pension and healthcare obligations for public workers in FY 2024.

Table 4. Changes in Budget Drafts During 2023 Legislative Session

Department	Base Budget	Governor's Draft	House Draft	Senate Draft	Conference Draft	Change from Governor's Draft to Final Budget
All Departments	$32,022.3M	$35,884.7M	$37,729.1M	$37,992.2M	$38,320.9M	$2,436.2M
Accounting & General Services	$381.8M	$466.7M	$452.2M	$433.7M	$455.7M	$-11.0M
Agriculture	$96.8M	$111.5M	$109.5M	$128.9M	$127.1M	$15.6M
Attorney General	$234.9M	$238.5M	$238.5M	$244M	$243.3M	$4.8M
Business, Economic Development & Tourism	$341.4M	$535.4M	$742.6M	$1245.7M	$1,275M	$739.6M
Budget and Finance	$7,591.0M	$8,613.6M	$9,205.3M	$8,650.2M	$9,569.2M	$955.6M
Commerce & Consumer Affairs	$190.7M	$210.5M	$212.6M	$218M	218M	$7.5M
Defense	$222.3M	$245.7M	$235.7M	$265.9M	$260.1M	$14.4M
Education	$4,836.3M	$5,032.4M	$5,406.0M	$5,726.5M	$5,466.2M	$433.8M
Governor	$8.2M	$12.5M	$10.5M	$11.7M	$10.8M	$-1.7M
Hawaiian Home Lands	$131.0M	$131M	$131.0M	$131M	$131.0M	$0M
Health	$2,155.4M	$2,399.5M	$3,819.2M	$4,128.3M	$4,104.6M	$1,705.1M
Human Resources Development	$52.7M	$62.4M	$62.7M	$60.6M	$68.9M	$6.5M
Human Services	$7,619.4M	$8,147.7M	$8,111.9M	$8,711.2M	$8,402M	$254.3M
Labor and Industrial Relations	$968.4M	$945.0M	$966.3M	$1,041.2M	$991.1M	$46.1M
Land and Natural Resources	$406.4M	$488.2M	$910.0M	$612.9M	$698.6M	$210.4M
Law Enforcement	$68.2M	$92.7M	$95.4M	$166.5M	$158.1M	$65.4M
Lieutenant Governor	$2.1M	$3.6M	$4.7M	$5.4M	$5.3M	$1.7M
Public Safety	$611.9M	$629.3M	$633.9M	$668.2M	$643.9M	$14.6M
Taxation	$65.2M	$85.8M	$85.8M	$86.2M	$87.0M	$1.2M
Transportation	$1,699.7M	$2,737.6M	$3,578.5M	$2,756.3M	$2,755.9M	$18.3M
University of Hawaiʻi	$2,614.2M	$2,736.6M	$2,716.8M	$2,690M	$2,649.3M	$-87.3M

Source: Hawaiʻi State Legislature 2023b and Department of Budget and Finance 2022

In a major departure from past practice, this year's Legislature appropriated $642 million from the operating expenses budget to finance several Capital Improvement Projects (CIP). Typically, such projects rely on funding from general obligation bonds. Indeed, the Legislature has only used $22 million in general funds to pay for CIP over the last decade. At the Department of Business, Economic Development and Tourism (DBEDT), for example, these unique CIP funds were designated to support a planned emergency management operations center. Other big-ticket items funded through DBEDT included $146 million to aid the development of affordable housing and $64 million for various infrastructure projects overseen by the Hawaiʻi Community Development Authority (HBPC 2023).

Not everyone was pleased with this use of general funds. Echoing the concerns of many progressive legislators, the Hawaiʻi Budget and Policy Center noted, "By using general funds for CIP, the Legislature aimed to reduce borrowing costs. However, it also gave them a reason to limit the amount of general funds they put towards underfunded operating programs and to avoid approving taxpayer refunds" (HBPC 2023).

In addition to the generous funding allocated to DBEDT for capital projects, both the Department of Human Services (DHS), and the Department of Land and Natural Resources (DLNR) saw substantial budget increases. DHS secured $267 billion, primarily aimed at addressing crucial reimbursement rate enhancements for Med-Quest, the state's Medicaid program, and an additional $31 million designated for the establishment of a new Office of Homelessness and Housing (HBPC 2023).

The DLNR saw its budget soar from a base budget of $406 million to nearly $700 million. These funds were earmarked for various purposes, including the restoration and management of Kahoʻolawe, an island once used for Naval bombing exercises, and the establishment of the Mauna Kea Stewardship and Oversight Authority, which is responsible for governing the summit area of the massive volcano and its advanced astronomical observatories (HBPC 2023).

Contrary to the expectations of many observers, there was little to no substantial increase in the education budget. While the Department of Education, responsible for running all public and public charter schools in the state, did experience a notable boost in funding on paper, these monies were allocated to cover collective bargaining pay raises for teachers. This $577 million bargain gave teachers a pay increase of 14.5% over a four-year period, with an even more substantial increase of 32% for entry-level teachers. But the budget available for schools, aside from teacher salaries, was actually reduced by $44 million for FY 2024 (HBPC 2023). As Table 4 shows, the University of Hawaiʻi system fared even worse, receiving $87.3 million less in the final budget than had originally been requested by the Governor.

Despite the challenges faced by the education budget, a major expansion in access to early childhood education emerged as one of this session's landmark achievements. Both the Governor and the legislative leadership threw their weight behind an initiative aimed at granting low-income families access to thousands of additional preschool slots—an effort that one legislator aptly described as "probably the most important bill for the 2023 session" (Dayton 2023b). Spearheaded by Lt. Governor Sylvia Luke, this legislation paved the way for a significant expansion of the state's subsidy for its Open Doors preschool program, increasing its annual funding from $12 million to $50 million, with the ultimate goal of increasing the number of available slots from 1,400 per year to 4,000 (Dayton 2023b).

4.2. The Final Budget

The final budget approval process revealed sharp divisions within the Legislature, particularly among progressives who expressed concerns about transparency in the conference committee negotiations between the House and Senate money chairs. In the end, eight members of the House took the unusual step of voting against the final budget on the House floor, a shocking display of infighting for a party that prizes unity above all else—at least outside the caucus room (Hawaiʻi State Legislature 2023b).

In addition to their frustration with the process, progressives were equally furious that public schools and the university system did not receive more support. House Education Chair Rep. Amy Perruso described the reduction in funding for the University of Hawaiʻi during a surplus year as "ridiculous," while Rep. Jeanne Kapela noted that "It is immoral for us to pit the [Department of Education] against teachers by cutting school services to pay for a very modest pay raise for hardworking teachers that deserve so much more" (Dayton and Angarone 2023). The decision to create a $1 billion emergency reserve fund rather than provide more generous funding for education was singled out for criticism, although House Finance Chair Rep. Kyle Yamashita argued that retaining substantial financial reserves could help to improve the state's bond rating (Dayton and Angarone 2023).

Another area of contention revolved around the allocation of $200 million in discretionary funding to the Governor, which one senior lawmaker denounced as a "slush fund" (Dayton and Angarone 2023). Legislative leaders did not reveal the reason for this unusual move, but it may have been borne out of their desperation to make a final deal, since the final budget negotiations dragged on until the eleventh hour of the session. To alleviate concerns, the Governor offered reassurances to progressive lawmakers by committing to use a portion of the fund to increase the University of Hawaiʻi's budget (Dayton and Angarone 2023).

For his part, the Governor praised the final budget as a good start to reduce the cost of living and provide more options for affordable housing. "People in society are desperate," he noted. "Some people — often young people — don't feel hope, they don't think there's going to be a future for them. They don't have a house they can see in the future for them, they don't see where they're going" (Angarone 2023c). Although the Legislature did not endorse his complete GAP package of tax cuts, the Governor commended the Legislature for beginning what he termed "generational tax reform," aimed at offering financial relief to low-income families (Dayton 2023c).

One important proposal that failed to gain approval was the introduction of a climate impact fee, often referred to as a "green fee," intended to be levied on tourists to fund environmental management and protection programs (Mak 2021). The concept involved imposing a $50 fee on incoming tourists for access to state beaches, parks, trails, and other recreational areas, with the Governor estimating it could generate up to $500 million annually. This proposal was a popular part of Green's campaign platform and had significant public support. In a January 2023 survey, for instance, two-thirds of voters expressed support for such a fee. Nevertheless, legislators remained concerned about its constitutionality, while other prominent analysts criticized it as difficult to administer (Mak and Ebel 2022).

While not a core part of the Governor's agenda, this year's Legislature refused to create a program for paid family leave. In contrast to other deep blue states like California and Washington, Hawaiʻi has no state-supported paid family leave policy (NCSL 2023b). Despite years of advocacy, the bill has never been adopted because the Department of Labor and Industrial Relations finds it to be too complex to administer (Hawaiʻi State Legislature 2023c).

The legalization of recreational marijuana also failed to pass this year, although it came closer than it ever has in the past. Hawaiʻi is the only Pacific state that has not fully legalized marijuana, even though it boasts a well-established medical cannabis program (NCSL 2023a). The opposition to this effort was not only championed by law enforcement agencies, but also by existing medical marijuana cultivators who were concerned that the proposed bill might favor recreational dispensaries over local growers (Dayton 2023c).

4.3. Unusual Budget Practices

The conclusion of this year's budget negotiations was marked by three unusual developments. First, the state's spending surpassed the constitutional budget limit. The budget for FY 2024 exceeded this spending cap by $1.6 billion, equivalent to more than 16% of the expenditure limit (Gomes 2023). The Hawaiʻi Constitution mandates that spending cannot grow faster than the three-year average of personal income growth. This provision, established during the 1978 constitutional convention, was designed to ensure that state spending remains aligned with the overall economic growth of the state (Constitution of the State of Hawaiʻi).

Although this may sound like a difficult bar to clear, legislators can override the ceiling with a two-thirds vote, which is an insignificant obstacle in a one-party state like Hawaiʻi. This year the Legislature provided a particularly vague justification, simply noting that the expenditures above the limit were "necessary to serve the public interest" (Gomes 2023). Given that this breach was the largest in the state's history—more than twice as large as in 2022—one might have expected a more detailed explanation.

Another atypical development during this year's budget session was the use of general funds to support Capital Improvement Projects (CIPs). This decision contributed to the expenditure limit breach. Traditionally, general funds are used to pay for operating expenses, while CIP projects are funded through general obligation bonds. As the Hawaiʻi Budget and Policy Center noted in its review of the budget, $600 million in general funds were used to support capital projects and an additional $700 million more was allocated "for items in operating budgets that should reasonably be classified as capital improvement project expenditures" (HBPC 2023).

A final noteworthy development was the Legislature's allocation of $200 million in general funds to be distributed by the Governor. Although this may seem like a relatively small percentage of total state funds, it is larger than the general fund totals for ten of the state's agencies (HBPC 2023). Nevertheless, Lt. Governor Sylvia Luke defended the Legislature's decision to allocate these funds by noting that the Governor must still provide notice about how he intends to spend the money. "It's not as if the Governor can do whatever he wants," the Lieutenant Governor said. "It's not just kind of a pass" (Yerton 2023a).

Following the final budget approval, the Council on Revenues released another report that further reduced revenue expectations. In their May report, the Council lowered its revenue forecast from 2% growth to negative 1% (Council on Revenues 2023). This adjustment led to a reduction of approximately $1.1 billion in the total general fund.

To meet the balanced budget requirement, Governor Green had to exercise his line-item veto power to reduce funding for several projects in FY 2024. The Governor reduced the $1 billion appropriation to the rainy-day fund to $500 million, an easy decision that generated little controversy. But he also made some difficult cuts, such as authorizing only $120 million from an original planned allocation of $340 million for teacher housing, removing $88.8 from a project to fund water and irrigation infrastructure, and vetoing a $71 million first responder campus that was the pet project of a powerful legislator (Blair 2023b).

5. Emerging and Ongoing Policy Challenges

After experiencing high unemployment and plummeting state revenue during the depths of the pandemic, Hawaiʻi's quick economic recovery, driven by federal dollars and robust demand from tourists, has been nothing short of remarkable. Nevertheless, the state remains plagued by a declining population, astronomical housing prices, resident frustration with the state's dominant tourism industry, continued problems with government corruption, and new challenges presented by climate change.

Tourism. One of the most surprising developments during the pandemic was the backlash against tourism. This was especially unexpected given that Hawaiʻi was grappling with the severe economic consequences caused by the abrupt decline of its primary industry. Resident sentiment surveys revealed a significant shift: in 2009, nearly 80% of Hawaiʻi residents believed that the tourism industry brought more benefits than problems. But in 2021, at the height of the pandemic, only half of surveyed residents agreed that tourism was largely beneficial. While these numbers have improved slightly to 57% in 2022, many locals remain deeply frustrated by the overcrowding and pollution generated by the millions of people who visit the islands every year (Hawaiʻi Tourism Authority 2023).

Industry leaders are understandably alarmed by this negative public sentiment. Highlighting the financial danger of neglecting Hawaiʻi's most important industry, the president of the Hawaiʻi Hotel Alliance argued that marketing Hawaiʻi must never stop "no matter how well we think we are doing" (Yerton 2023a). Although the Hawaiʻi tourism industry has aggressively defended the need to provide stable state funding for tourism marketing, there is surprisingly little support in the Legislature.

The Hawaiʻi Tourism Authority (HTA), established in the 1990s to market tourism in Hawaiʻi, has taken the brunt of the criticism for attracting too many tourists who spend too little money. During the past legislative session, several bills attempted to radically shift the HTA's focus from tourism marketing to tourism management. One particularly bold proposal even sought to dissolve the semi-independent agency entirely and integrate it into the Department of Budget, Economic Development, and Tourism (Yerton 2023a).

Although these bills did not pass this session, the Legislature provided no dedicated funding for the HTA. This was after a disappointing year in 2022, when HTA received barley half of its $60 million funding request (Schaefers 2023). Consequently, in FY 2024, the HTA will need to rely on remaining funds allocated in FY 2023 and the Governor's commitment to allocate a portion of his $200 million discretionary fund to ensure the HTA can sustain its operations (Blair 2023b).

Ethics Reform. Political observers expected ethics reform to pay a central role in this year's legislative session—and, in many respects, significant progress was achieved. Twenty of the thirty-three recommendations from the Commission to Improve Standards of Conduct were addressed (Gomes and Nakaso 2023). However, two of the most significant bills, a proposal for term limits and an expanded and revitalized campaign finance system, did not get out of committee. Most legislators made it clear that they opposed term limits and, despite strong advocacy by several good government organizations, this proposal was effectively dead on arrival. As the House Judiciary Chair explained, "This one—I didn't think was good policy, and that was the one that was only passed by a 4-3 vote out of the Commission to Improve Standards of Conduct" (Bodon 2023).

Another significant ethics bill that failed to progress in any form was a proposal for publicly financed political campaigns. While Hawaiʻi has had a public financing system in place since 1980, the level of state financial support has remained stagnant for nearly three decades, leaving the system unable to provide a competitive level of funding for candidates to run serious campaigns (Moore 2023). The bill would have authorized Hawaiʻi to develop a system similar to the ones currently used by Arizona, Maine, and Connecticut. Under the proposed system, candidates who could obtain a required number of $5 donations from voters would receive a block grant from the state to cover the costs of their campaign (Blair 2023a). Although the bill did make it out of the House, it was watered down in the Senate and failed to be scheduled for a conference committee hearing.

Despite these notable failures, the session was among the most productive for good government reforms in recent memory. As Karl Rhodes, Chair of the Senate's Judiciary committee and a longtime champion of stronger ethics rules noted, "When the dust settles, and you look at all the stuff that's gotten through, this was a banner year for ethics for campaign spending, for making the criminal penalties tougher for those who would do what a couple of our colleagues did a couple of years ago" (Bodon 2023).

Affordable Housing. Affordable housing remains Hawaiʻi's chief policy challenge. Only a decade ago, a household could afford the median single-family house on Oahu if they earned an annual income of $85,000. Today, a household must make $190,000 to afford the that same home, an almost impossible hurdle for most local families. The situation on the rural islands is even worse; on Kauai, for example, the income needed to afford the median single-family home has risen by 190% over the last decade (UHERO 2023b). According to research conducted by UHERO, the primary culprit for the housing crisis is the insufficient growth in housing supply. Hawaiʻi's rate of new housing construction has fallen significantly, even when compared to historical norms. In fact, compared to 2005, Hawaiʻi has issued permits for only 35% as many homes, ranking 49th in the nation in terms of housing production (UHERO 2023b).

In 2022, former Governor Ige and the Legislature made efforts to address this issue by allocating $600 million to accelerate the construction of homes on land managed by the Department of Hawaiian Homelands (DHHL). While DHHL homes are only available to Native Hawaiians, the intention behind this effort was to provide more homes to eligible Hawaiians and thereby reduce the housing demand in other areas of the state. There are also plans underway to build an additional 10,000 units of public housing (UHERO 2023b).

Governor Green has made affordable housing a central part of his administration's policy. In a first for any state in the nation, Green proclaimed that Hawai'i's lack of affordable housing was an emergency, citing the fact that one-quarter of Hawai'i residents were at risk of becoming homeless. "We don't have enough houses for our people. It's really that simple," the Governor told reporters at a press conference. "If it's not a crisis, if it's not an emergency, I don't know what is" (Yerton 2023b).

The order itself includes provisions for the temporary suspension of several state and county laws associated with land use, environmental assessment, and historical conservation. It establishes a 22-member Build Beyond Barriers working group comprised of government officials, county mayors, and representatives from both environmental and pro-development nonprofit organizations. This working group assumes the responsibility to manage environmental and land use regulations previously overseen by state and county agencies (Yerton 2023b). Although the Governor has predicted that it will lead to the construction of 50,000 new homes over the next five years, opposition from environmental, Native Hawaiian, and historical preservation groups may limit its effectiveness. Several lawsuits have already been filed that question the legality of this proclamation (Yerton 2023c).

Tragedy in Lahaina. In early August 2023, intense winds caused by the passing of Hurricane Dora south of Maui exacerbated dry conditions on the island and led to a series of wildfires. On the morning of August 8, a fire began that would later consume the historic town of Lahaina and kill at least 97 people. Along with these tragic deaths, the fire will have enormous economic consequences for Maui, a place that was already struggling with a lack of affordable housing and economic inequality. Roughly 2,000 homes were destroyed in the fire, amounting to 3% of the entire housing stock on Maui (Bond-Smith et al. 2023).

Furthermore, businesses that relied on tourism will suffer. UHERO estimates that the loss in revenue from the destruction of short-term vacation rentals as well as the closure of many tourism facilities on Maui will result in a decline of $13 million in tourism spending per day. Based on these projections, Maui County and the state will lose $30 million in tax revenue for the month of August alone, with similar losses expected for every subsequent month that tourism activities remain restricted in West Maui (Bond-Smith et al. 2023). The recovery of Lahaina will undoubtedly dominate conversations about public policy in Hawai'i for the foreseeable future.

6. Conclusion

After several years of population decline, Governor Josh Green entered office promising to take bold action to solve Hawai'i's housing and homelessness crisis and to reduce the cost of living so residents would not be forced to move to the US mainland. The Governor's plan to cut taxes on low-income households and middle-class families received a sympathetic reception by the Legislature, but Democratic leaders ultimately opted to double the state's EITC, and provide tax relief aimed at the most vulnerable people.

After suffering from high unemployment during the COVID-19 pandemic, the state's economy recovered remarkably quickly. At the start of the legislative session, the state's Council on Revenues predicted a $2 billion surplus, but this was cut significantly during the session as tax revenues came in lower than originally predicted. Nevertheless, the final biennium budget increased spending across the board, with boosts for most executive departments, significant investments in infrastructure projects, healthcare, and the partial replenishment of the state's rainy-day fund.

Despite this progress, progressive legislators expressed frustration with what they saw as a lack of transparency in budget negotiations, leading eight members of the House to vote against the final budget. Key areas of contention included the allocation of $1 billion to the emergency reserve fund, and the authorization of a $200 million discretionary fund for the Governor to allocate to executive agencies of his choice. Progressives were also upset that the University of Hawaiʻi's funding was reduced, and that the Department of Education's operating budget remained flat during a budget surplus year.

Emerging and ongoing policy challenges in Hawaiʻi include the state's dependence on tourism, its declining population, skyrocketing housing prices, and government corruption. Ethics reform made significant progress during the legislative session, but key proposals, such as term limits and an expanded campaign finance system, faced opposition.

Governor Green's decision to declare a housing emergency may help boost the number of homes constructed, but the proclamation faces legal challenges from environmental and historical preservation groups. Finally, the recovery from the wildfires on Maui will be a central focus for Governor Green and Hawaiʻi's policymakers for years to come.

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