

## **How to Replace a Lion? Hawai‘i Prepares for Budget Life without Dan Inouye**

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### **Introduction**

Though Neil Abercrombie had served as governor of Hawai‘i for a little over two years, his first full state budget finally made its way through the legislature in the spring of 2013. Shortly after his inauguration in 2010, Abercrombie was forced to introduce a budget prepared by his Republican predecessor, reflecting her priorities. Because Hawai‘i’s budgets are biennial, Abercrombie could only work with the legislature on adjustments during the past two legislative sessions, foregoing many new programs. Making the problem of promoting his own priorities even more difficult was the fact that the budget had to be revised down due to poorer than expected revenue projections in his second year in office.

The FY 2013–2015 budget was the first to fully reflect the spending priorities of Governor Abercrombie. These included his “New Day” initiatives, such as universal preschool and a program to stimulate small business. These initiatives lost a bit of steam as the state shuffled to fill in lost revenue from the federal budget sequester as well as lost federal largesse that flowed from the efforts of US Senator Dan Inouye, who directed billions in federal dollars to the islands. In the end, the governor could claim a few victories, and the legislature began the hard work of dealing with mounting postemployment benefit liabilities for retired state workers.

### **State of the Economy**

The economic recovery in Hawai‘i was slow but steady leading up to the 2013 legislative session. Consumer spending across the state was up, with credit and debit transactions in 2012 jumping 9.8 percent for the year (Segal 2013). The main source of revenue for the state is tourism, so economic indicators in that sector of the economy foreshadow conditions in other sectors. The state Department of Business, Economic Development and Tourism predicted visitor arrivals to grow by 3.6 percent and spending to increase by 5.2 percent in 2013 (Schaefers 2013a).

The estimated number of airplane seats available to Hawai‘i increased 6.8 percent for the year over 2012 (Schaefers 2013b). This translated into more visitors with hotel occupancy up 1.7 percent and, more importantly, revenue per room up 13.7 percent (Schaefers 2013d). A total of 8.5 million visitor arrivals were expected in 2013, more than a half-million more than 2012, bringing \$15.8 billion in spending. This sudden increase in tourism caused concern among some economists that there might not be enough hotel rooms to satisfy the growth (Schaefers 2013c).

Hawai‘i continued to rebound from the foreclosure crisis throughout 2012 and into 2013. Distressed homeowners were supposed to have been helped by a law requiring mediation between the homeowner and lender. However, the law seems to have had a negligible effect as the number of foreclosures was up 28 percent in January 2013 over the prior year (Gomes 2013). In February 2013 it was 50 percent higher than the previous month, although there was a slight decline over the previous year (PBN 2013).

From 2005 to 2008, Hawai‘i enjoyed one of the lowest unemployment rates in the nation. That changed in 2008 when seasonally adjusted statewide unemployment increased from 3.0 percent in January 2008, to a high of 7.1 percent in July of 2009. Unemployment finally began to decline in mid-2011; down to 5.0 percent by the end of 2012 (see Figure 1). The unemployment rate continued a slow decline during the 2013 legislative session, from 4.9 percent in January to 4.7 percent in May.

Energy has always been a vital concern for Hawai‘i. Apart from a few solar, wind, and geothermal facilities, the islands are heavily dependent on imported oil. Two of the premiums residents must pay to live in Hawai‘i are the high prices of electricity and gasoline, which are close to the highest in the nation. In early 2013, Tesoro announced the closing of the Campbell Industrial Park Refinery, one of only two refineries in the state. The closure could have cost the state 200 jobs and sparked worries of even higher gasoline and electricity prices. In June, Par Petroleum Corporation acquired Tesoro’s interest in the facility and a crisis was averted. The incident underscores the fragility of Hawai‘i’s isolated island economy.

## **Demographics**

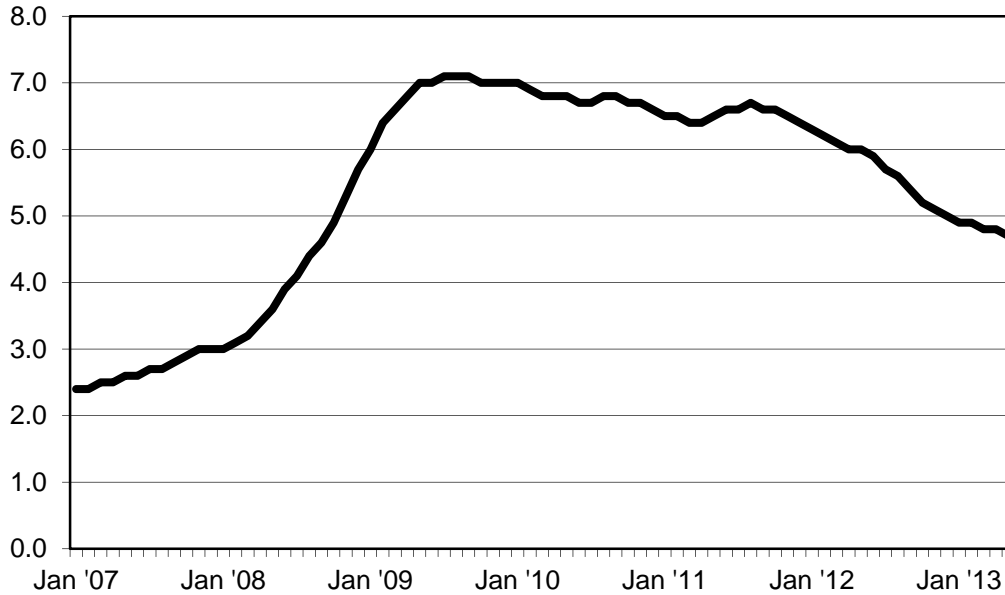
Hawai‘i’s population continues to increase at a moderate rate, growing 12.3 percent between the 2000 and 2010 censuses (Census 2011). This percentage change ranks 17th nationally. Hawai‘i’s population in 2013 was estimated at 1,404,054 (census.gov). One unique characteristic of Hawai‘i is the varied population density across islands. The island of O‘ahu has the highest density, with 72.3 percent of state residents. The remaining residents live on the “Neighbor Islands” of Hawai‘i (known as the “Big Island”), Maui, Moloka‘i, Lana‘i and Kaua‘i. Politically, this divides Hawai‘i into two very different congressional districts: CD1 for downtown Honolulu, and CD2 for everywhere else.

With a warm year-round climate, minimal pollution, and a highly active population, Hawai‘i has the highest life expectancy in the nation (Lum 2007). The state often ranks first in polls of the “happiest states” in the US (see Blair 2013). The median age of Hawai‘i state residents has remained relatively unchanged at about 37.9 over the past few years (census.gov), with O‘ahu residents being slightly younger than their neighbors on the other islands, which tend to be more popular areas for retirement.

As one might expect, Hawai‘i differs in many ways demographically from the “mainland” United States. Hawai‘i is the only state to never have had a majority white population (Pratt and Smith 2000). Only 26.1 percent of residents self-identify as “white” (census.gov). Hispanics are the fastest growing segment of the population, increasing 38 percent from 2000 to 2010 (Kelleher 2011). Not surprisingly, Hawai‘i is an attractive home for many immigrants to the United States, with 18.1 percent foreign-born persons, compared to 12.9 percent nationally (source: ACS). The result is a uniquely diverse cultural milieu.

The geo-strategic importance of Hawai‘i results in other patterns that differ from the mainland. Hawai‘i has a disproportionate number of military bases, service people, and veterans (Belt

**Figure 1. Seasonally Adjusted Unemployment in Hawai‘i by Month, January 2007 to May 2013**



Source: BLS LAU

2012). Hawai‘i residents are much more likely than the national average to be currently serving in the military (1.3 percent to 0.5 percent). Many people who have served on bases in Hawai‘i decide to take up residence in the state following completion of their service commitment. The percentage of residents who are civilian veterans is 12.3, compared to 10.1 percent nationally (census.gov). Accordingly, the US Department of Defense and Department of Veterans’ Affairs are important sources of revenue for the state.

Families (known as *‘ohana*) play an important role in local Hawaiian culture. Children maintain close relationships with their parents after leaving home and often return home to tend to family needs. In Hawai‘i, 70.0 percent of all households are families, compared to 66.7 percent nationally (Belt 2013). Not surprisingly, the average number of persons per household is larger in Hawai‘i (2.95), compared to the national average (2.61, census.gov). Residents of the state are more likely to speak other languages in the home than residents of other states. In Hawai‘i, only 75.6 percent of households speak English only, compared to 80.4 percent nationally (census.gov). In addition to Hawaiian, popular second languages include Japanese, Chinese, Korean, Portuguese, Tagalog, and other Pacific island languages.

Hawai‘i’s residents are slightly more educated than the national average, with 89.5 percent of residents having completed high school, compared to 84.6 nationwide. Similarly, a higher percentage of residents of the state hold bachelor’s degrees or higher (29.6 percent in Hawai‘i compared to 28.5 percent nationwide, census.gov). Residents of Hawai‘i benefit from higher wages than residents of the mainland. Median household income for the state is \$67,492, significantly above the national figure of \$53,046 (census.gov). But higher incomes are more than cancelled out by the high cost of living.

Hawai‘i has the highest cost of living in the nation (Yonan 2013). So while Hawai‘i has fewer families living below the poverty line than the national average (10.8 to 14.9 percent), this figure is not an accurate portrayal of the number of Hawai‘i residents struggling to make ends meet. As an example, rents in Honolulu, the state’s most populous area, are more than double the national average (Petranik, Creamer, and Catanzariti 2011).

Labor unions are a strong force in Hawai‘i. Nearly a quarter of the labor force is unionized (24.3 percent), twice the national average of 12.3 percent (BLS 2011). The strongest unions are the International Longshore and Warehouse Union (ILWU) and Hawai‘i Government Employees Association (HGEA). The Hawai‘i State Teacher’s Union (HSTA) also plays an important role in state politics and budget battles, waging a two-year battle over furloughed instructional days. Hawai‘i used to have the highest percentage of government employment in the nation, but slipped to third place in 2013. Federal, state, or local government employs 27.8 percent of Hawai‘i’s workforce. (Lauer 2013a). The state trails Alaska and the District of Columbia in percentage of workforce in government.

## **Political Composition of State Government**

This biggest change in Hawai‘i’s government in recent years came at the federal level. Beginning in 2013, the state’s congressional delegation underwent a tremendous shakeup by the steady standards of Hawai‘i. US Senator Daniel Akaka retired and was replaced by former US Rep. Mazie Hirono. Longtime US Senator Dan Inouye passed away and was replaced by former Lt. Gov. Brian Schatz. Governor Abercrombie selected Brian Schatz as Inouye’s replacement during the Christmas holiday in 2012, and Schatz flew with President Obama aboard Air Force One just prior to the New Year’s Eve negotiations to avoid the so-called “fiscal cliff.” Schatz took his oath of office a week before the swearing-in of the new class of senators, making him the state’s “senior” senator by a few days, even though Hirono was elected nearly two months’ prior.

Tulsi Gabbard was elected to replace Mazie Hirono in the House, joining fellow Representative Coleen Hanabusa. Hanabusa was assigned to the Armed Services Committee and the Natural Resources Committee. Gabbard was assigned to the Foreign Affairs Committee and the Homeland Security Committee.

The selection of Inouye’s replacement was closely watched. According to state law, the governor could select one of three individuals nominated by the party—in this case, the Democrats—that controlled the vacant seat. Prior to passing, Senator Inouye conveyed his wish that US Representative Coleen Hanabusa be chosen as his successor, and she was one of the three names the party sent to the governor. The other two nominees were Lt. Governor Brian Schatz and Esther Kia‘aina, a deputy director in the state Land and Natural Resources Department. The three were selected from a field of 14 applicants.

The governor’s appointment of his Lt. Governor Brian Schatz to the Senate made it evident there was “a new sheriff in town”—the Inouye power base had been replaced. Moreover, the governor parlayed his one pick into four. The state constitution put Senate President Shan Tsutsui next in line for the Lt. governor position, which he accepted. Had he not, the position would next be offered to the Speaker of the state house, Calvin Say. Tsutsui had been Speaker prior to 1999, when he was ousted by Say. Abercrombie’s decision concentrated his power in DC as well as the state legislature.

Abercrombie then replaced State Senator Tsutsui with State Representative Gil Keith-Agaran and then needed to fill the Agaran's position. The governor's cascade of replacements had an effect on the selection of house leadership, tightening the leadership struggle between Joe Souki and Say. Souki had planned to wrest the Speakership from Say and needed Keith-Agaran's support to do so (Oi 2013). Abercrombie appointed Justin Woodson to take Keith-Agaran's spot in the house, and Souki was able to attain the Speakership. Donna Mercado Kim was elected Senate president to succeed Tsutsui.

A unique feature of Hawai'i politics is Democratic dominance of the state legislature. This has long been the case, but never more so than in recent years. The House of Representatives has been "owned" by the Democrats since statehood, and Republicans last had a majority in the Senate in 1965. The lack of party competition has given rise to cleavages within the Democratic Party over fiscal conservatism and social issues such as gambling and same-sex marriage, hot-button issues that have created factions in the Democratic Party (Pratt and Smith 2000).

In the 2012 elections, Democrats picked up an extra seat in the House of Representatives, yielding a 44–7 majority. In the Senate, Democrats retained their overwhelming 24–1 advantage. The lone Republican, and default Minority Leader and Floor Leader is Senator Sam Slom, who serves on all committees as the voice of the loyal opposition.

Even though they controlled an overwhelming majority in the House in the recent past, Democrats have split nearly evenly within their party in choosing their leadership. In order to obtain enough votes to become Speaker at the start of the 2011 session, Say's allies privately offered Republicans "greater staff parity and an extra slot on the house finance committee" (DePledge 2013a). But lacking majority support in the majority party can cause problems. In opening day speeches, House Speaker Souki indicated his willingness to rebuild programs that had suffered due to the recession, whereas Senate President Kim called for fiscal prudence and not imposing any taxes that might stall the slow recovery (DePledge and Reyes 2013).

The neighbor islands received a boost in representation when Hawai'i Island was awarded a fourth state Senate seat during redistricting following the 2010 census. The award was intensely litigated, and Hawai'i Island retained the seat in court rulings before the 2012 election. The litigation continued, and in July of 2013 a federal court dismissed a suit challenging the plan on the basis of the US Constitution's Equal Protection clause. At issue was whether Oahu's 108,767 nonresident military, military dependents and students could be included in the count (Lauer 2013b). The redistricting plan originally included the nonresident population, but the redistricting commission was ordered by the state Supreme Court to redraw the map.

In August of 2013, plaintiffs appealed to the US Supreme Court. One issue is the deviation in population among the redistricting plan's seats. The Supreme Court presumes a plan to be unconstitutional if population per seat deviates by more than 10 percent. The Hawai'i State Senate redistricting plan included seats that deviate by as much as 44.2 percent in order to insure against the creation of "canoe districts" that include more than one island (Lauer 2013c). In the end, the Big Island retained its fourth Senate seat.

## **Governor-Legislature Relationship**

Since coming to office, Governor Abercrombie's relationship with the state legislature gradually improved (although his brash style did not endear him to the electorate). During his first year, Abercrombie had to forge working relationships with legislators while managing new appointees. In his second year, the governor had time to prepare suggestions for adjustments to the

biennial budget and developed a more active approach to dealing with members of the legislature. Legislators said they had grown to know the people in the administration better and concerns on both sides were more freely discussed.

During the 2013 session, the governor maintained largely positive relationships with legislators as he pushed his “New Day” agenda. The agenda items included an increase in the minimum wage, universal preschool, increased funding to protect the watershed, public-private partnerships to develop state lands, and support for small business innovation (Abercrombie 2013). Additionally, the governor advocated paying \$100 million into the state’s underfunded pension-benefits liability (OPEBL), and economic stimulus through construction investments and the development of unused school lands.

At the end of the legislative session Kalbert Young, the state finance director and a main advocate for the governor, said there was a greater level of collaboration between the governor and legislators than in previous years, and he would grade it “somewhere between a B and a B+” (Hofschneider 2013e, 7). The success of the collaboration between the governor and the legislature reflects not only better budget conditions and a fresh biennial budget, but also the change in leadership in the House and Senate (Reyes and Zoellick 2013).

## **Major Issues**

In 2013, the Hawai‘i state legislature considered over 700 pieces of legislation. In addition to the governor’s “New Day” agenda, efforts to repeal the Public Land Development Corporation, hearings into financial mismanagement at the University of Hawai‘i, a bill to require the labeling of genetically modified foods, and a bill to protect the privacy of celebrities garnered much public interest. The following highlights the most prominent pieces of legislation:

### **Preschool**

In early January, before the official opening of the legislature, Abercrombie made a big public push for preschool, his pet project. The initiative sought to expand preschool to 3,500 children and would have cost \$28.2 million per year starting in FY 2015. The governor also requested \$2.9 million in FY 2014 for planning and an expanded Executive Office on Early Learning (DePledge 2013b). One bill that passed, SB 1084, authorized a November 2014 referendum on whether state funds could be appropriated for private preschool programs. Ultimately, the governor got legislation that was significantly pared back, but the governor hailed it as a good start saying, “No other piece of legislation this year was more important” (AP 25 June 2013). The referendum eventually went down to defeat.

### **Minimum Wage**

In 2013, the minimum wage in Hawai‘i was set at the federal minimum of \$7.25 and had not been raised since 2007. Raising the minimum wage was a policy priority for Abercrombie, and SB 331 addressed the issue. The bill would have increased the minimum wage to \$8.25 on January 1, 2014. The minimum would rise to \$8.75 later in 2014, to \$9.25 in 2015, and would then be tied to increases in the Consumer Price Index. The bill failed as House and Senate members were unable to negotiate a compromise on the tip credit—the reduction from the minimum wage for employees who earn a majority of their income in tips.

## **Marijuana**

Medical marijuana is legal in Hawai‘i, but recreational use is not. A poll taken in late 2012 showed a new majority in support of legalization when 57 percent of Hawai‘i residents favored legalization, taxation, and regulation of marijuana, compared to 37 percent in 2005 (Pang 2013). In February 2012, Abercrombie wrote a letter to the federal Drug Enforcement Administration supporting the reclassification of marijuana as a Schedule II drug, which would allow it to be prescribed by doctors and dispensed by pharmacists. In the previous year, a bill decriminalizing marijuana was passed by the state Senate but died in the House.

Bills in the 2013 session (HB 150 / SB 472) would allow persons over 21 to possess and consume small amounts of marijuana, with possession set at one ounce. The bills would have permitted cultivation and retail sales with purchases subject to a 15 percent excise tax. The House Judiciary Committee tabled the bill on February 12 when there appeared to be enough votes for the bill to pass out of committee, but not enough to secure passage in the full House (DePledge 2013d). A bill dealing with medical marijuana passed and was signed by the governor that increased the amount of marijuana a registered medical patient can possess.

## **The University of Hawai‘i and the Wonder Blunder**

In 2012, The University of Hawai‘i Athletics Department was duped into believing it had booked musician Stevie Wonder to perform a benefit concert. The university lost its \$200,000 deposit when it turned out the promoter was a scam artist with no ties to the musician. The administrator responsible for the blunder was put on leave and given a new job within the university. The blunder was such a black eye for the university that the out-of-session Senate engaged in oversight hearings, bringing in the president of the University, among others, to answer questions. The blunder caused increased legislative scrutiny of the university, particularly with the inflation of administrative salaries—the university has more than 72 employees who earn more than \$200,000 per year (DePledge 2013c). The salaries are difficult to defend in light of the 263 percent tuition increase from 2006 to 2016 (Kagawa 2013).

The tense relationship between the legislature and the university resulted in ramifications for the university in terms of both finance and autonomy. House Bill 114 stripped procurement power from the UH president and invested it in the State Procurement Office. Another bill removed the president of the university’s research corporation from the UH Board of Directors. The state decided not to fund \$22 million in faculty raises out of the state general fund, insisting that the money come from tuition. The state also failed to fund a building for the College of Pharmacy at UH Hilo, putting the college’s accreditation in jeopardy. Along with questionable UH procurement procedures making headlines, UH Hilo’s planned pharmacy building was considered by some members of the legislature to be extravagant.

## **Public Land Development Corporation**

In 2011, the legislature authorized creation of the Public Land Development Corporation (PLDC). The corporation was created with little opposition until later in the year when its extensive mandate to oversee development received greater public scrutiny. The public backlash to the PLDC in 2012 was voiced at public forums as the PLDC was creating its administrative rules. Opponents included environmental, labor, and native Hawaiian groups. The groups staged a protest during the opening ceremonies of the state legislature in January (Zoellick 2013a).

In February, the House Water and Land and Finance Committees held a five-hour joint hearing in the capitol. The testimony overwhelmingly opposed the PLDC and urged its repeal. Senator Malama Solomon refused to hold a hearing on a bill to repeal the PLDC on the Senate side, asserting that she wanted to see how the House would act. On February 11, House Water and Land and Finance Committees voted to repeal the PLDC (Hofschneider 12 February 2013). The House bill passed the House and Senate unanimously and was signed by the governor.

In a similar vein, the House and Senate sought to create public-private partnerships to develop unused state lands in close proximity to schools. The governor advocated for the bill as a way to generate state revenue, but it was significantly pared down from his original request. Ultimately, a pilot program was introduced using only three sites for potential development. The bill failed and was set aside to be carried over in the 2014 legislative session.

## **K-12 Issues**

A House bill was introduced to increase the General Excise Tax (GET) by one percent to generate revenue for school maintenance and teacher salaries (Jensen 2013). The bill stalled in the House but may find a future as it was slated to be carried over into the 2014 legislative session.

On the labor side, the Hawai'i State Teachers Association (HSTA) finally agreed to a contract with the state in April of 2013. A \$75 million Race to the Top Grant had been restricted due to the lack of agreement, specifically to student testing and teacher accountability. The restriction was lifted a few months after the new contract tied salary increases to performance evaluations (DePledge 2013f).

## **Film Credits**

Hawai'i is a desirable place for the movie and television industries to film. Notable films and TV shows have included *Lost*, *Hawaii Five-0*, *The Descendants*, *Jurassic Park*, and movies from the *Pirates of the Caribbean* franchise. State legislators want to make sure that the state remains attractive to the industry and retains employment in the entertainment sector. In 2011 and 2012, the state failed to pass bills that would provide incentives for filming in the islands. A 2013 bill provided such credits, with companies reaping a 20 percent tax credit on O'ahu and 25 percent on other islands. But the bill failed, leaving Hollywood to make do with its current 15 percent tax credit.

## **Online Tax Revenues**

The state has been in court to recover lost tax revenue unpaid by online travel companies including Expedia, Hotels.com, Hotwire, Orbitz, Priceline, and Travelocity. In January 2013, a state appellate judge ordered the companies to pay 12 years' worth of back general excise taxes (GET) totaling \$150 million (Tsai 2013). According to the ruling by state courts, the companies must pay GET, but are not required to pay transient accommodations tax (TAT). In March of 2013, a tax appeal court assigned a fine of \$70 million (Hofschneider March 20, 2013). The decision is under appeal.

## **GMOs**

At the opening of the state legislature, opponents of genetically modified organisms (GMOs) in food called for state measures to require labeling. Among the protesters was Vandana Shiva, an internationally renowned opponent of GMOs (Zoellick 2013a). Opponents of labeling say there is no nutritional difference between GMO and non-GMO foods, and labels will increase the price of food. A House Bill would require labeling, but failed to clear the Senate. The issue was revived at the county level in late 2013 in Kaua‘i and on the Big Island.

## **Soda Tax**

A Senate bill was introduced to levy a one cent per ounce tax on sugary drinks. The bill was estimated to generate \$30 million annually, which would be used to fund programs to prevent childhood obesity (Miller 2013). The bill passed the Senate Health Committee, but died in the Senate later that month.

## **Other Post-Employment Benefits Liability (OPEBL)**

In 2013, the state acted to bring down its \$13.6 billion debt. Much of this debt is for Other Post-Employment Benefits Liability (OPEBL), mostly due to increasing healthcare costs for retired state employees. The state acted to set aside \$217 million over the next two years and to significantly increase contributions to the fund from 2015–2018. In July of 2013, Standard & Poor’s bond rating agency issued a report that praised the plan (Borrea 2013). Although the first payments are small, the plan moves the state in a direction of fiscal responsibility.

## **Other Issues**

The state Senate was star-struck in February, 2013, as classic rockers Steven Tyler and Mick Fleetwood offered testimony for the “Steven Tyler Act.” The bill would criminalize intrusive audio or video collection, using advanced equipment to record individuals on their private property. Originally drafted by Tyler’s lawyer, the bill was gutted by Senate Judiciary Chair Clayton Hee and rewritten based on a similar California law (Hofschneider 2013a). The bill failed in committee in the House.

As a wave of legalization sweeps the nation, the House tabled a same-sex marriage bill. The Senate waited for the House to act, which is where the most opposition would be (Vorsino 2013). When the legislature did not secure a victory for gay marriage during its regular session, the governor called it back for a special session later in 2013 and secured passage. The governor signed the bill, and gay marriage became legal in Hawai‘i on December 2, 2013.

Lastly, the state was forced to come to terms with managing the wild success of its solar power tax credits. Due to rapid expansion of the solar energy market, a bill to gradually reduce the 35 percent tax credit for solar panels was introduced. Proponents felt the credit drained too much revenue and the industry was reaching a saturation point. Ultimately, the bill failed, leaving intact the state’s generous tax credits to promote solar power.

## **Budget Process**

The Hawai'i State Legislature is composed of "citizen legislators" who meet for just over three months at the beginning of each year. According to the state constitution, the legislature convenes on the third Wednesday in January and meets for 60 working days. In 2013, the legislature convened on January 16 and adjourned *sine die* on May 2. The legislative session may be extended by the governor or by each chamber's presiding officers at the request of two-thirds of the members of each chamber (Pratt and Smith 2000).

The governor is required to prepare two budgetary proposals. The proposals are prepared by the Department of Budget and Finance. The first is the budget request. This request is a biennial request in budget years and a supplemental in off years. In addition to the budget request, the governor is required to prepare a six-year financial plan for the state. The state constitution requires a balanced budget. The fiscal year begins on July 1 and runs through June 30 of the subsequent year, and fiscal years are sometimes hyphenated to reflect this. For example, the fiscal year running from July 2013 through June 2014 is sometimes referred as "FY 2013–2014," and other times just with the ending year, "FY 2014." Accordingly, the currently proposed biennial budget running from July 2013 through June 2015 is alternatively referred to as "FY 2013–2015" or "FY 2014 and 2015," which occasionally causes confusion. To avoid problems, many parse the biennial budget in order to refer to elements of each of the individual years.

The governor submits the budget 30 days before the legislative session convenes. The governor's budget request reflects the needs of 17 departments, the office of the governor and lieutenant governor, and the University of Hawai'i System. The state House of Representatives acts first and then passes the budget bill to the Senate. The relevant House committee is the Finance Committee, and in the Senate it is the Ways and Means Committee. Once passed through the Senate, the bill is reconciled in a conference committee. The full House and Senate must vote again on the budget bill once it has been ironed out in the conference committee. All committee members, as well as chairs, are selected by the House Speaker and the Senate President.

Due to the short time span designated to the legislative session, bills must pass in and out of committees and whole chambers at a frenzied pace. Critics claim that this expedited process puts more power into the hands of committees, particularly the conference committees, which are often beyond the scrutiny of other legislators and the public (Pratt and Smith 2000). Other critics point out that such a hasty legislative process leads to confusion, mistakes, and poor judgment. Unlike previous years, the 2013 legislative session produced a budget bill several days before the end of the session, permitting legislators to address other matters (see Table 1 for the 2013 budget timeline).

## **Executive Budget**

On December 17, 2012, Governor Abercrombie revealed his first whole biennial budget. Table 2 shows the executive budget by means of financing. The figures for FY 2014 were optimistic, showing expected revenue up about a billion dollars overall compared to the base figures. The optimism was based on State Department of Budget and Finance figures that showed general fund tax revenues increasing by 12.5 percent during the first three quarters of 2012, an increase of \$411.4 million. Similarly, GET revenues increased by 9.9 percent (\$193.2 million), income tax revenues increased by 11 percent (\$120.5 million), and Transient Accommodations Tax (TAT) revenue increased 13.1 percent (\$31 million, source: DBF 2012). These increased revenue

**Table 1. Hawai'i State Budget Timeline, 2013 Session**

<b>Date</b>	<b>Action</b>
Jan. 18	Budget Introduced in House
Mar. 8	Passed by House Finance Committee
Mar. 11	Reported by House Finance Committee
Mar. 13	<b>Passed by House</b>
Mar. 14	Received by Senate
Mar. 27	Passed Senate Ways and Means
Apr. 2	Reported by Senate Ways and Means
Apr. 4	Passed Senate
Apr. 23	Passed by Conference Committee
Apr. 26	Reported by Conference Committee
Apr. 30	Passed House and Senate
Apr. 30	Transmitted to Governor
Jun. 20	Signed by Governor

projections provided the governor with the revenue streams necessary to request funding for his “New Day” initiatives.

### **Legislative Budget**

As the legislature met in early 2013, revenue estimates continued to be rosy. The Council on Revenues projected a 6.7 percent increase in tax collections over the prior year, which was higher than the 5.1 percent estimate earlier in the year, yielding an extra \$77 million in revenue (DePledge 2013e). This made the legislature positively predisposed towards the governor’s requests. As Table 3 shows, the legislature made very minor adjustments to his requests for funding his executive branch departments. In addition to these executive operating budgets, the legislature made progress on paying back liabilities and lapses. The legislature set aside \$217 towards OPEBL and another \$100 million to replenish the Hurricane and Rainy Day funds. The 5 percent pay cuts taken by state workers were restored, increasing expenditures by \$78 million per year.

The governor’s main program, preschool, was funded to the tune of \$1.2 million for administrative costs and an additional \$6 million in subsidies for early education for 900 children (AP 25 June 2013). The appropriations were less than what the governor wanted, but provided political momentum for the next legislative session and the referendum on private school subsidies.

The House version of the budget (HB 200) included \$11.5 billion in spending for FY 2014 and \$11.6 billion in FY 2015 (DePledge 2013e). The House trimmed about \$600 million of

**Table 2. Governor’s FY 2014 and 2015 Budget Request**

	<b>FY 2014 Budget (\$ millions)</b>	<b>FY 2015 Budget (\$ millions)</b>
General Funds	6,101.3	6,288.4
Special Funds	2,886.7	2,932.3
Federal Funds	2,029.1	2,119.4
Other Federal Funds	196.8	192.7
Private Contributions	0.4	0.4
County Funds	0.7	0.7
Trust Funds	70.7	73.9
Interdept'l Transfers	65.4	65.4
ARRA (Fed Stimulus)	0.2	0.0
Revolving Funds	396.6	396.2
Other Funds	11.0	11.3
<b>Total</b>	<b>11,758.9</b>	<b>12,080.7</b>

Source: Department of Budget and Finance, 2013

Abercrombie’s request for the two budget years. In April, the Senate approved the budget to the tune of \$24 billion, with 11.9 billion in FY 2014 and 12.1 billion in 2015. The Senate budget was only \$136 million short of what Abercrombie wanted. The main difference between the House and Senate bills was a cut of 900 vacant state jobs under the House Bill. The final bill came in at \$23.8 billion. Unlike previous years, the budget was finished early, allowing legislators to focus on other matters at the close of the session. The final budget allocated \$11.8 billion in FY 2014 and \$11.9 billion in FY 2015 (Reyes and Zoellick 2013).

### **Reflections of Politics Elsewhere**

In response to the federal government’s sequester, the state set aside \$25 million over each of the next two fiscal years to shore up gaps (Zoellick 2013b). The state expected to lose \$7 million per year in K-12 education funding alone. About 19,000 Department of Defense workers were furloughed, reducing their income by 20 percent.

The Sandy Hook Elementary School shooting in December of 2012 caused many state legislatures to rethink their gun control laws. Hawai’i was no exception. In January, State Senator Les Ihara introduced SB 219, which would prohibit semi-automatic firearms and make possession a class C felony. This bill died in the Senate. Another bill, SB 36, would have required annual registration of firearms and a biennial firearms course for gun owners, but the bill also failed in the Senate. HB 30 would have banned the sale of ammunition to individuals unable to prove ownership of a registered firearm, but this bill failed in the House (Callis 2013). The only firearms-related bill that passed was SB 69,

**Table 3. FY 2014 and 2015 Expenditures by Department**

	<b>FY 2013-15 Governor's Budget (\$ millions)</b>	<b>FY 2013-15 Legislative Budget (\$ millions)</b>
Accounting and General Serv.	383.5	403.0
Agriculture	108.5	91.0
Attorney General	143.4	142.7
Business, Econ. Dev. & Tourism	526.7	486.9
Budget and Finance	4,239.9	4,281.4
Commerce & Consumer Aff.	108.4	107.0
Defense	222.4	227.1
Education	3,798.9	3,716.2
Governor	9.0	7.8
Hawaiian Home Lands	370.8	406.0
Health	3,068.1	3,047.4
Human Resource Develop.	41.4	41.3
Human Services	5,488.4	5,264.5
Labor & Industrial Relations	989.6	990.4
Land & Natural Resources	261.7	246.1
Lt. Governor	2.4	3.0
Public Safety	495.6	485.0
Transportation	1,739.6	1,739.0
University of Hawaii	2,063.6	2,069.7
<b>Total</b>	<b>24,061.9</b>	<b>23,755.5</b>

Source: Department of Budget and Finance, Hawai‘i State Senate, 2013.

which required fingerprints, photographs, and background checks for out-of-state purchase of firearms. This bill was signed by the governor and became law.

Following the US Supreme Court ruling legalizing gay marriage, the legislature toyed with the idea of convening a special session on the issue. However, supporters could not convince the 2/3 of legislators needed to convene such a session. In July of 2013, a study from the University of Hawai‘i’s Economic Research Organization found that legalized gay marriage would encourage an additional \$217 million in tourism dollars from 2014 through 2016, generating \$10.2 mil-

lion in GET revenue. The study further warned that if the state failed to act, those dollars could be “lost forever” (Garcia 2013). As noted above, the governor called a special session later in the year and gay marriage was made legal.

## **Summary/Conclusion**

The final budget of \$23.8 billion was \$262 million less than requested by the governor. The majority of Abercrombie’s initiatives were funded, but often at lower levels than he requested. The governor’s requests that saw the biggest reductions in funding included the early childhood initiative, updates to the state’s information technology infrastructure, and the “HI Growth” plan to provide resources to entrepreneurs. Flat-out losses for the governor included the minimum wage hike, a new agency to develop harbors and parks, and a 10 cent tax on bags at grocery stores (Hofschneider 2013e). At the close of the session, legislators indicated a willingness to bring up the minimum wage hike as a first order of business in the 2014 session.

A big story of the legislative session was that the state caught up with lapses made during the recession. The legislature showed some fiscal responsibility by allocating even more to OPEBL than the \$200 million requested by the governor. Not only did the legislature agree on \$217 million in funding over the next two years, it passed a bill putting the state on a schedule to completely pay off the liability in the coming years (Hofschneider 2013d). The legislature replenished emergency cash reserves that had been plundered during the recession to the tune of \$100 million (Reyes and Zoellick 2013). The state also made inroads on lapses in capital improvements, allocating \$3 billion for CIPs and another \$130 million for investments in information technology.

New leadership, a fresh start on the biennial budget, increasing revenues, and greater coordination with the governor made 2013 a productive legislative session. Government workers saw their salaries restored and the state strengthened efforts to build on the slow economic recovery. Especially pleasing to lawmakers and the governor was the avoidance of new taxes. Only one tax that was set to lapse was continued, a temporary two-percent increase in the hotel room tax. All told, the 2013–2015 biennial budget represented a significant step forward from previous state budgets.

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