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# Righting the Canoe: the Slow Recovery and FY 2013 in Hawai‘i

**Abstract:** Gov. Abercrombie’s promise to “right the canoe” is progressing slowly. The institutional impediment of working with former Gov. Lingle’s biennial budget is one reason for this. Another is the painstakingly slow economic recovery. This budget report covers those topics and the budget passed by the legislature for FY 13. That operating budget of \$11.2 billion was slightly more than the governor requested. But, the big budget story for FY 2013 involves the CIP budget, which swelled to \$3.2 billion, more than a billion more than the governor’s request. The additions to the CIP budget involved a good deal of borrowing in order to stimulate Hawai‘i’s economy and improve its infrastructure in order to prod along the sluggish economic recovery.

**Keywords:** budget; FY 12–13; governor; Hawai‘i; legislature.

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## 1 Introduction

Neil Abercrombie took over the governorship of Hawai‘i on December 5, 2010, giving Democrats both the state house and the governor’s mansion. But shortly after his inauguration, he was forced to introduce a budget prepared by his Republican predecessor, Linda Lingle. Abercrombie, who campaigned on a set of programs called a “New Day for Hawai‘i,” quickly scrambled to muster a package of adjustments to the 2011–2013 biennial budget.

The governor could only do so much, and many of his controversial revenue proposals to fund new programs were shot down by the 2011 legislature. The 2012 legislature worked on the second year of the biennial budget, and anticipated revenue increases allowed the legislature to fill in many of the cuts budgeted the prior year. This allowed for passage of 11 of the governor’s 14 priority initiatives.

A major achievement celebrated by the legislature and governor was the settlement to resolve a ceded lands dispute. Senate Bill 2783 conveyed parcels of land in Honolulu to the Office of Hawaiian Affairs. The total value of the land was estimated at \$200 million.

During the legislative session, there was an intense focus on repair and maintenance capital improvement projects (CIPs) to create jobs. In addition to adding \$428 million in funding, the legislature considered a bill to streamline environmental impact statements across county, state, and federal levels. Republican opposition to these projects was voiced mainly along environmental rather than fiscal lines, casting a curious partisan role reversal on the issue of the environment.

The “elephant in the room” at the state legislature was OPEBL – Other Post-Employment Benefit Liability. Estimates indicated an \$8 billion state liability in funding these benefits. To rectify the situation, the state should be putting away about \$500 million per year to eat into the liability. During the session, the state House wanted to make progress on funding the liability, but the Senate refused. In a similar vein of kicking the can down the road, the House worked to recapitalize the Hurricane Relief and Rainy Day Funds raided to balance prior budgets. Again, the Senate preferred paying these funds back up at a later date.

Ultimately, the legislature passed an operating budget of \$11.2 billion, slightly more than the governor requested. The big budget story for FY 2013 involves the CIP budget, which swelled to \$3.2 billion, more than a billion more than the governor’s request. The additions to the CIP budget involved a good deal of borrowing to stimulate Hawai‘i’s economy and improve its infrastructure in order to prod along the sluggish economic recovery.

## 2 State of the Economy

Hawai‘i has been hit particularly hard by the home foreclosure crisis. Housing costs have always been high in the state, so it was not surprising that Hawai‘i suffered a high rate of housing foreclosures. In 2011, Hawai‘i had the 8th highest foreclosure rate in the nation at 3.8% in 2011, with 6.6% of mortgages 90 days or more overdue (Sauter et al. 2012). In 2012, the state stepped in, passing a law requiring a moratorium on all non-judicial foreclosures for a year.

The law gave owners the ability to meet with their lender before foreclosure in a mediated setting to work out a compromise. The act has been heralded as the nation’s toughest and went into effect on January 1, 2012 (Borger 2011). Members of the state’s US Congressional delegation continue to work at the federal level to provide assistance.

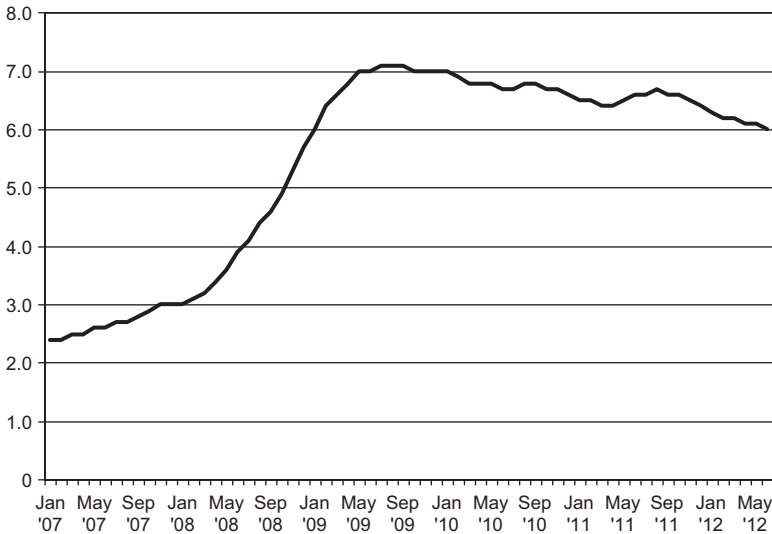
Unemployment in Hawai‘i increased throughout 2008 and early 2009 during the Great Recession. Unemployment peaked at a high of 7.1% in June of 2009, and

made a gradual descent during the long, slow recovery. By the end of the legislative session, unemployment had crept down to 6.1%, but still remained almost three times higher than pre-recession figures (see Figure 1).

The economy in Hawai'i was expected to recover slowly throughout 2012, and no double-dip in the recession appeared imminent (Isotov 2011). For 2011, real GDP growth came in at 1.2%, and was forecast at 1.8% for 2012 (DBEDT 2012). Much of this growth has come from increases in tourism.

Despite the Japanese earthquake and tsunami, tourism rebounded during the latter half of 2011. Figures for the entire year showed visitor arrivals up 3.8%, roughly in line with projections, but vacationers stayed longer than expected, with an increase of 5.4% in the number of visitor days (DBEDT 2012). Visitor spending greatly exceeded expectations, rising 15.4% for 2011 over 2010 (DBEDT 2012).

Part of this uptick could be explained by the Hawai'i Tourism Authority's decision to spend \$3 million on advertising in North America, Korea, New Zealand, and China to counter the falloff in Japanese tourism (Tang 2011). Throughout 2012, more air capacity was added, with more seats than ever available due to new routes from Hawaiian Airlines, Allegiant Air, United Airlines, and Alaska Airlines. Mid-2012 estimates showed the state on track for a total of 7.8 million tourists in the year, the most ever (DEBDT 2012).



**Figure 1:** Seasonally-Adjusted Unemployment in Hawai'i by Month.

January 2007 to June 2012.

Source: BLS 2011.

### 3 Demographics

Hawai‘i continues to experience moderate population growth, with 148,764 new residents, a rate of 12.3%, from 2000 to 2010 (Census 2011). These numbers include many nonresident military personnel based in Hawai‘i. Residents of the state are overwhelmingly concentrated on the island of O‘ahu which boasts 72.3% of state residents (source: Census.gov). The remaining residents live on the “Neighbor Islands” of Hawai‘i (known as the “Big Island”), Maui, Moloka‘i, Lana‘i and Kaua‘i.

Hawai‘i has the highest life expectancy in the nation (Lum 2007). Accordingly, state residents are slightly older than the national average, with 77.6% of residents over 18 years old in Hawai‘i, compared to 75.7% for the nation as a whole (source: ACS 2006–2009). 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 slightly younger than their neighbors on the other islands – which tend to be more popular areas for retirement.

Major differences from the “mainland” US include a higher level of ethnic diversity than other states, a higher percentage of immigrants, a higher percentage of active-duty and retired military, and slightly higher educational attainment (Belt 2012). Another distinguishing characteristic of the state is the importance of family (known as *‘ohana*). Family members maintain close ties throughout life, and many families reside with adult children. This leads to a larger average family size than the rest of the US, as well as a lower percentage of families below the poverty line, as out of work family members reside with employed family members (see Table 1).

Economically, the slightly higher wages enjoyed by Hawai‘i’s population are more than offset by the tremendously high cost of living – the highest in the

**Table 1:** Demographic Comparisons: Hawai‘i vs. US (Percentages).

	Hawai‘i	US
White	26.9	72.0
HS graduate	89.5	84.6
BA degree or higher	29.2	27.5
Born in US	80.3	86.3
Civilian veterans	12.3	10.1
Serving in armed forces	1.3	0.5
Households with families	70.0	66.7
English-only households	75.6	80.4
Families below poverty line	6.8	9.9

Source: ACS, Census.gov (2010 data).

nation (source: CCER/ACCRA 2010). Labor unions are a strong force in Hawai'i, with nearly a quarter of the labor force unionized (24.3%), twice the national average of 12.3% (BLS 2010). The strongest unions are the ILWU (International Longshore and Warehouse Union) and HGEA (Hawai'i Government Employees Association), as well as the Hawai'i State Teacher's Union (HSTA). Despite their power, HGEA and HSTA were forced to take furloughs during the recession in order to bring the budget into balance.

## 4 Political Composition of State Government

A distinguishing characteristic of Hawai'i state government is one-party dominance of the legislature. The House of Representatives has been dominated by Democrats since statehood, and Republicans last had a majority in the Senate in 1965. The lack of party competition means that cleavages arise within the Democratic Party. Traditionally, these fissures exist along issues of fiscal conservatism, various social issues such as gambling and same-sex marriage, and the O'ahu delegation vs. the neighbor island delegations (see Pratt and Smith 2000). More recently, a stark division within the Democratic Party in the House has been due to leadership struggles between House Speaker Calvin Say and would-be speaker Joe Souki. In fact, the leadership of the House was not resolved until Say could cobble together a coalition in the 11th-hour before the start of the 2011 session in order to retain his speakership.

Republicans picked up two seats in the House of Representatives in the 2010 elections. But the balance remained strongly in favor of the Democrats, with a 43–8 majority. In the Senate, Democrats picked up one seat, giving them an overwhelming 24-1 majority. This caused the lone Republican, Sam Slom, to take on all duties of the minority party, including leadership and committee service.

Terms for State House members are 2 years and for Senators 4 years. The legislature has no term limits, and though there is frequent turnover, some members have served for a very long time (Representative Say has served since 1977). Legislative leadership positions are powerful in terms of assignment to committees and selection of chairs.

Throughout 2012, the state's senior senator was Daniel Inouye, who had served in the US Congress since statehood, and occupied a Senate seat since 1963. Inouye was renowned for bringing federal dollars to the state and earned the nickname the "king of pork" (Kirkpatrick and Herszenhorn 2009, p. 21). On March 2, 2011, the state's junior senator, Daniel Akaka, announced his intent to retire

from the US Senate (Niesse 2011). The end of 2012 saw a great deal of turnover in the state's congressional coalition – bringing in new blood, but losing seniority.

## 5 Governor-Legislature Relationship

With Neil Abercrombie taking over the governorship, Hawai'i had its first unified government in 8 years. But the challenges of the first year put a strain on the relationship between legislators and the governor. A particular challenge was the fact that, shortly after his inauguration, the governor had to submit a biennial budget that was prepared by his Republican predecessor, Linda Lingle. In his State of the State address in 2011, Abercrombie insisted that all of Hawai'i's people must work together to “right our canoe” through tough economic times (Osher 2011). He sent the legislature a number of adjustment proposals in March, but many proved highly controversial and subsequently died. The budget shortfall necessitated a number of other unpopular measures to raise revenues and cut spending to bring the budget into balance.

Another major difficulty during last years' session was that the Abercrombie administration had just gotten underway, with new appointees coming on during the legislative session. Complicating matters even further was new leadership in the Senate and a number of freshmen Representatives and Senators. This created the dual “learning curves” of new legislators getting to know their jobs and all legislators getting to know new administration personnel.

The 2012 legislative session was more fruitful. The governor had time to prepare suggestions for adjustments to the biennial budget. Abercrombie was very involved in the legislative session, showing up to many committee meetings, and his tone was less combative. Blake Oshiro, the Governor's Deputy Chief of Staff, and himself a popular former legislator, was the head of the Governor's legislative team. Legislators commented that they felt that they knew the people in the administration better and that the concerns of both sides were discussed more freely (Shapiro 2012a).

## 6 Major Issues

A number of major issues, both fiscal and social, came to a head during the 2012 legislative session. Some issues, such as tourism, gambling, and marijuana, have become perennial features of the past few legislative sessions. Social welfare and

infrastructure development were on the agenda as the state struggled with the slow recovery. Other issues were forced onto the agenda by national concerns, such as gay marriage. The governor supported gay marriage, stating his belief that the state's civil unions were insufficient in providing equal rights to gay couples. The following issues garnered the greatest public scrutiny.

## 6.1 Tourism

Tourism is on the rise. In 2011, Hawaiian Airlines flew 2.9% more passengers than in the previous year (AP 2012a). To handle increasing demand, Hawaiian Airlines launched a nonstop from Honolulu to New York, in June of 2012. Small interisland carrier Island Air increased the size of its fleet during the year and hired new pilots (AP 2012b). Nonstop flights from Japan to Hawai'i Island have resumed, and Japanese tourism is rebounding.

## 6.2 K-12 Issues

In order to qualify for a \$75 million federal Race to the Top grant, the Hawai'i State Teachers' Association agreed to an extra hour of instruction per day at targeted low-income schools (Kelleher 2012a). In December of 2011, the US Department of Education chastised Hawai'i for unsatisfactory performance under the grant (Kelleher 2012b). One particular issue involved teachers' performance measures. The Hawai'i State Teachers Association resisted this nationwide trend, having shot down a state proposal.

In late 2011, the state was forced to raise the cost of school lunches by \$0.85 to \$3.35, high above the national average of \$2.20. The action was taken to make up for a \$6 million state funding cut in FY 2012. It did not affect 58% of students who qualify for free or reduced-fee meals below the current level (AP 2011a). The 2012 legislature worked to cut these increases in half.

## 6.3 Social Welfare and Special Funds

Because prior year budgets were balanced by raiding the state's special funds, especially the "rainy day" and "hurricane relief" funds, paying them back became an issue in 2012. The funds were raided in part to avoid cuts to social welfare programs such as health, education, and other human services. The Abercrombie administration proposed using funds from a bond sale to replenish the "rainy



day” fund, which would send a message of fiscal responsibility to credit rating agencies (DePledge 2012). Ultimately, the special funds were not replenished in the FY 2013 budget.

## 6.4 Mortgage/Foreclosure Crisis

In 2011, the legislature passed and the governor signed the “toughest in the nation” mortgage mediation law. In addition to a 1-year moratorium, the law requires mandatory mediation and allows borrowers to meet face-to-face with lenders to work out a compromise. The law went into effect in January of 2012 and produced immediate results, with foreclosures plummeting 53% since the law was enacted (Shapiro 2012b). On the national front, Hawai‘i is part of the federal-state mortgage settlement with the five biggest mortgage servicers. The state’s estimated share is \$71 million (AP 2012c).

## 6.5 Hawaiian Lands

For many years the state government had been in negotiations with the Office of Hawaiian Affairs to resolve claims of ceded lands. These are lands that belonged to the Hawaiian Monarchy that were taken by the US government following the overthrow of 1893. After Hawai‘i became a state, the lands were transferred from the US federal government to the Hawai‘i state government. To settle the dispute, parcels of land in Honolulu (known as *Kaka ako Makai*), including the Fisherman’s Wharf area, were transferred to the Office of Hawaiian Affairs. The total value of the land was estimated at \$200 million. Governor Abercrombie lobbied aggressively for the settlement bill, but it was never amended.

## 6.6 Agriculture

Over the past few budget cycles, the state Department of Agriculture has taken big hits in terms of cuts, particularly in enforcement inspectors. House Bill 280 was passed to help coffee growers fight counterfeiters of Hawai‘i’s Kona coffee. The governor indicated he would veto it due to disproportionate effects on large vs. small farms. The state Department of Agriculture is required to inspect coffee to certify the place of origin and grade. The bill would make these inspections voluntary. The bill’s supporters said that the measure was necessary due to time delays in certification – the East side of Hawai‘i Island, where Kona coffee is grown, has

only one state inspector due to budget cuts. Opponents of the bill worry about the circulation of counterfeit coffee, since Hawaiian coffee is priced at a premium (Stewart 2012). The bill became law without the governor's signature.

One particular pest to impact the state's agriculture has been the coffee berry borer. This pest was first discovered on Hawai'i Island in 2010, and in 2011 was responsible for destroying up to 50% of some farms' yields. The state targeted a half of a million dollars for eradication, with \$200,000 coming from the state's tax on oil.

## 6.7 Construction Bond

A large construction bill for capital improvement projects (CIPs) made its way through the legislature. The "Invest in Hawai'i Act of 2012" passed the Senate unanimously before moving to the House (Galuteria et al. 2012). The general obligation bond-funded bill promised to create jobs and upgrade state infrastructure. Under a gut-and-replace maneuver, the bill was folded into the larger operating budget bill, HB 2012, and it came out to \$428 million. Half the bill was for repair and maintenance, which had lapsed due to cuts of \$129 million in previous budgets.

The total spending was higher than the governor and House had proposed and much closer to what the Senate had wanted. Environmental lobbies opposed another bill that would streamline the process of environmental review. Proponents noted that CIPs was hampered by multiple levels (county, state and federal) of environmental review, slowing the flow of much needed dollars to the state economy.

## 6.8 Other Issues

A perennial issue at the state legislature has been film tax credits. Hawai'i has long been an attractive location for filming movies and television shows. Notable recent examples include the TV shows "Lost" and "Hawai'i 5-0" as well as the "Pirates of the Caribbean" movies. Senate Bill 2111 would have added supplemental awards to those who hire locally, rather than putting a mandate on local hiring (Shapiro 2012c). The measure was tabled in April.

Gambling was back in 2012. A stand-alone casino had been proposed for Waikiki. The bill supporting it, HB 2788 would create a state gambling commission and tax the casino's gross receipts at 15% (Shapiro 2012d). Las Vegas is a hot

destination for Hawai'i residents, and many think those dollars are being lost. The bill failed in committee in February.

Another issue that reappeared in 2012 was a soda tax. A bill was introduced that would put a one-cent per fluid ounce tax on sugary beverages. The tax was considered less as a revenue measure, and more as a way to fight childhood obesity. The bill was withdrawn by its sponsor in the Senate when it appeared that it would not pass (Burnett 2012). In a similar vein, Senate Bill 2422 promised to close the “smokeless tobacco” and “little cigar” tax loophole, bringing the tax to 70% for all tobacco products. The point of this bill was to decrease demand rather than to generate revenue. The bill died in March.

In early March, the governor signed a law postponing a scheduled hike in unemployment insurance, making it retroactive to the beginning of the calendar year. The move was welcomed by the business community, who claimed it would promote growth and ease unemployment (Shapiro 2012e).

## 7 Budget Process

According to the State Constitution, the legislature convenes on the third Wednesday in January and meets for 60 working days. In 2012, the legislature convened on January 18 and adjourned *sine die* on May 3. Table 2 shows the budget process during the 2012 legislative session.

The Department of Budget and Finance prepares the governor's two budgetary proposals. The first is a biennial request in budget years and a supplemental

**Table 2:** Hawai'i State Budget Timeline, 2012 Session.

<b>Date</b>	<b>Action</b>
January 19	Budget Introduced in House
March 7	Passed by House Finance Committee
March 9	Reported by House Finance Committee
March 12	Passed by House
March 13	Received by Senate
April 2	Passed Senate Ways and Means
April 5	Reported by Senate Ways and Means
April 10	Passed Senate
April 28	Passed by Conference Committee
May 1	Reported by Conference Committee
May 3	Passed House and Senate
May 3	Transmitted to Governor
June 13	Signed by Governor

in off years (such as FY 2013). This is sent to the legislature 30 days before it convenes. In addition to the budget request, the governor prepares a 6-year financial plan for the state. The state constitution requires a balanced budget.

The House of Representatives' Finance Committee, chaired by Marcus Oshiro, acts on the governor's request before it is passed to the Senate Ways and Means Committee chaired by David Ige. Both committees act on budget bills after they have come out of other relevant committees (depending on the nature of the bill, this maybe be one or more other standing committees). 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 returns from conference committee. The budget was passed on May 3, and signed by the governor on June 13.

## 8 Executive Budget

On December 19, 2011, Abercrombie revealed his proposed adjustments to the biennial budget. The governor insisted that to achieve his goals, the state would not need to raise taxes or cut spending any further (McAvoy 2011). However, the budget included items that have been funded by the federal government, and that funding is likely to cease. A major task is to determine if the state wants to find ways to continue those programs, which include early childhood education, a broadband initiative, and watershed protection (Shapiro 2012a).

Table 3 shows the executive operating budget by means of financing, and Table 4 shows the CIP budget. General funds are expected to increase as the economy slowly rebounds. The governor proposed to continue the raiding of special funds, and even increased the amount to be used to finance the operating budget. The governor proposed to reduce interdepartmental transfers and to take slightly less out of revolving funds. In all, the proposed adjustments bring FY 2013 expenditures slightly above FY 2012, whereas they had originally been proposed to be slightly below.

## 9 Legislative Budget

As the legislative session opened, the state's fiscal situation was improving. Tax revenues during the first month of the fiscal year were \$400 million, doubling the prior year. This was largely due to the income tax payment lag from the prior year. Excise tax revenue was up 17%, generating \$229 million, and the TAT was up 70%, generating \$27 million (AP 2011b). Forecasts at the beginning of the year called

**Table 3:** FY 2013 Supplemental Operating Budget Authorizations and Revisions.

	Act 164 budget (\$ millions)	FY 2013 adjustments (\$ millions)	FY 2013 total (\$ millions)	Percent of total (\$ millions)
<b>Revenues</b>				
General funds	5556.2	34.0	5590.2	50.3%
Special funds	2622.8	148.4	2771.2	24.9%
Federal funds	1991.4	25.2	2016.6	18.2%
Private contributions	0.4	0.1	0.5	0.0%
County funds	0.7	0.0	0.7	0.0%
Trust funds	238.5	0.0	238.5	2.1%
Interdept'l transfers	80.4	-11.8	68.6	0.6%
ARRA (Fed stimulus)	20.9	0.0	20.8	0.2%
Revolving funds	397.0	-13.0	384.0	3.5%
Other funds	10.8	5.8	16.6	0.1%
<b>Subtotal</b>	<b>10,919.0</b>	<b>188.6</b>	<b>11,107.7</b>	<b>100.0%</b>

Source: Department of Budget and Finance.

for revenues to increase by 11.5% over the prior year (AP 2012d). This meant that the legislature would have a \$110 million cash carryover balance to use. While these figures are not a huge uptick, they are a turnaround in the state's fortunes.

The deadline for budget legislation to be passed out of conference was Friday, April 27. The budget bill, HB 2012, was not passed by the deadline, and the deadline was extended to Monday, April 30 (Shapiro 2012f). The budget impasse was ended just before 3:00 a.m. Saturday morning. House Finance Committee Chair Oshiro and Senate Ways and Means Committee Chair Ige agreed on the \$11.2

**Table 4:** FY 2013 Supplemental CIP Budget Authorizations and Revisions.

	Act 164 budget (\$ millions)	FY 2013 adjustments (\$ millions)	FY 2013 total (\$ millions)	Percent of total (\$ millions)
<b>Revenues</b>				
Special funds	200.1	25.0	225.1	10.2%
GO bonds	397.7	300.0	697.7	31.5%
Revenue bonds	94.7	698.5	793.2	35.8%
Federal funds	285.4	88.5	374.0	16.9%
Private contributions	0.0	1.0	1.0	0.0%
County funds	0.0	2.5	2.5	0.1%
Other funds	16.1	105.6	121.7	5.5%
<b>Subtotal</b>	<b>994.0</b>	<b>1221.2</b>	<b>2215.2</b>	<b>100.0%</b>

Source: Department of Budget and Finance.

billion budget and a \$428 million version of the Invest in Hawai'i Act financed by bonds, \$250 million of which for repair and maintenance projects (AP 2012e), so CIPs came in at \$3.2 billion overall. The House and governor wanted less, but the final figures, \$428 million in general obligation bonds and another \$400 million in reimbursable bonds, were much closer to what the Senate wanted.

Other highlights of the budget included \$19.2 million for the governor's signature New Day initiatives. These include funding for watershed protection, an aging and disability resource center, enhanced internet broadband access, obesity and diabetes prevention programs, and early learning initiatives (HB 2012). A total of \$250,000 in tobacco settlement money was used to establish a childhood obesity and diabetes program. Social services received a restoration of prior cuts by \$11.6 million.

Other items of note included the school lunch price hike. The DOE had recommended an increase in student meal prices of 70–80 cents to generate \$6.1 in revenues. Ultimately, the increase was cut in half. And, in an issue that pitted man vs. nature, the legislature authorized \$800,000 per year for 11 new positions to relocate 400 endangered nene geese from around Lihu'e airport on Kaua'i. Government spending opponents cited the issue as a budget boondoggle.

## 10 Reflections of Politics Elsewhere

In November 2011, the state hosted the Asia-Pacific Economic Cooperation (APEC) summit meeting. The state did not plan for the conference in the prior budget and cobbled together funding from various sources. Funding included a federal \$748 million National Special Security Grant to help cover the costs of hosting the summit. The total cost of the event was slightly under \$21 million (AP 2012f).

As with many capitol cities in the US, Honolulu was targeted by “occupy” protests. “Occupy Honolulu” began shortly after “Occupy Wall Street,” and revved up during the APEC conference. In February, the City and County of Honolulu began enforcing a law banning the storage of personal property in public places. Protestors of Occupy Honolulu had been camping in Thomas Square Park, a few blocks away from the Capitol building. Protestors were removed from sight during the conference.

The state of Hawai'i was well prepared to uphold the Affordable Care Act in June of 2012. The state has 97,000 uninsured residents (7.7% of the population), the second lowest nationally (behind only Massachusetts at 5.5%). This low rate is largely due to a state law passed in 1974 that requires employers to provide health care to employees who work a minimum of 20 hours per week. The state

had already put into motion plans for its own insurance exchange and secured a grant to hire a coordinator to implement the healthcare overhaul. The state's Medicaid program has been reformed to align with the ACA requirements, and an expected additional 24,000 individuals will qualify for the program (Garcia 2012).

## 11 Conclusion

Abercrombie's promise to "right the canoe" is progressing slowly. The institutional impediment of working with the Lingle biennial budget is one reason for this. Another is the painstakingly slow recovery. The state has positioned itself well for the recovery, maintaining investments in university education, job training, infrastructure development and alternative energy. But happy days are not yet here again. Tourism significantly lags behind other economic sectors, and it may be several more years before the state is in full recovery and Abercrombie has the resources to fund his pet projects.

This past legislative session was noted for extensive use of the gut-and-replace tactic. This strategy kept bills afloat that might otherwise have died and permitted CIP borrowing to reach a level that would otherwise not have been supported by the House and governor had it not been bundled into the overall budget.

A bill passed to move forward with a plan to establish a regulatory structure for uniting the state's electrical grid via undersea interisland cable. Proponents argued it would permit greater efficiencies and increase the state's portfolio of green power delivery from other islands. Neighbor island residents complained the cable would allow O'ahu residents to "mine" their islands for energy, resulting in no net benefit to them. The Public Utilities Commission will likely hear from both sides in the future as plans develop, and this issue will be key to how the state manages its energy challenges in the future.

The unpopular rental car tax hike, used to generate revenue for the last fiscal year, was not renewed. The tax was designed to soak tourists, but ended up aggravating many residents traveling inter-island. Other notable failures during the legislative session included a proposed tax on plastic shopping bags, mandatory public school teacher evaluations by students, a bill to allow smoking in bars, and the movie industry tax credit. Controversial bills to streamline environmental review for CIPs were killed.

Although the state made no progress on the underfunded pension benefit liability, it did stop some hemorrhaging on pensions. The governor signed a pension anti-spiking bill, limiting overtime accruals to pensions. For new employees no

more than 20% of an employee's pension rate can be calculated with overtime pay. The accrual of overtime pay toward pensions had been used by state employees to bulk up their retirement accounts or to retire early, imposing a significant cost on the state.

The state is already feeling the constraint of waning federal dollars, and the trend will only continue. An example is the cancelling of school bus service to outlying areas, affecting 103 routes and 2400 students. This is due to the loss of the \$8 million federal Impact Aid program that provides funding for a proportion of educational costs of military families (Eagle 2012). Replacing federal dollars with state dollars will be a major challenge in coming budgets. Barring significant growth in the sluggish economy, the state will likely face uncomfortable tradeoffs in the coming years.

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