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**Learning to Do Less with Less:
The Hawai‘i State Budget for Fiscal Year 2011**

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Abstract

The economic downturn in 2008 created budgetary problems for the state of Hawai‘i through 2010. The 2009 biennial budget anticipated a shortfall of \$2.1 billion. Tax increases, contract renegotiations, employee furloughs, and across-the-board cuts implemented in 2009 and continued in 2010, were not enough, and the governor and the legislature became locked in a struggle over priorities. For reasons unique to Hawai‘i, certain departments and programs shouldered the brunt of these cuts while others remained relatively unscathed.

Keywords: Hawaii state budget, Hawaii politics, taxes, Linda Lingle

Learning to Do Less with Less: The Hawai'i State Budget for Fiscal Year 2011

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Introduction

The economic downturn that began in 2008 continued to create budgetary problems for the state of Hawai'i through 2010. The biennial budget passed in 2009 reflected an anticipated shortfall of \$2.1 billion. The budget was balanced half by appropriations cuts, and half by revenue increases. At the end of 2009, Hawai'i was ranked as one of the 10 states with the worst budget deficit problems (Paulson 2009). Even though the state took drastic actions to furlough teachers and other state employees for nearly three days a month, cut spending, and raised taxes, projections at the end of 2009 showed the state had a 13 percent shortfall halfway into the fiscal year (FY 2010, see Paulson 2009).

As the legislative session began at the beginning of 2010, revenue projections came in even lower than anticipated, leaving a significant deficit for the legislature to reconcile. Because of a constitutional requirement that the budget be balanced annually, the state had to revise the biennial budget passed the prior year (FB 2009-11). Off-year supplemental budget packages including adjustments to revenues and appropriations are made as a matter of course, but the situation in 2010 was particularly significant given the \$1.2 billion expected shortfall for the fiscal biennium (HCF 2010).

Tax increases, contract renegotiations, employee furloughs, and across-the-board cuts were implemented in 2009 and were continued in 2010. Still, they were not enough, and the governor and the legislature became locked in a struggle over priorities. For many reasons unique to the politics of the state of Hawai'i, certain

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State of the Economy

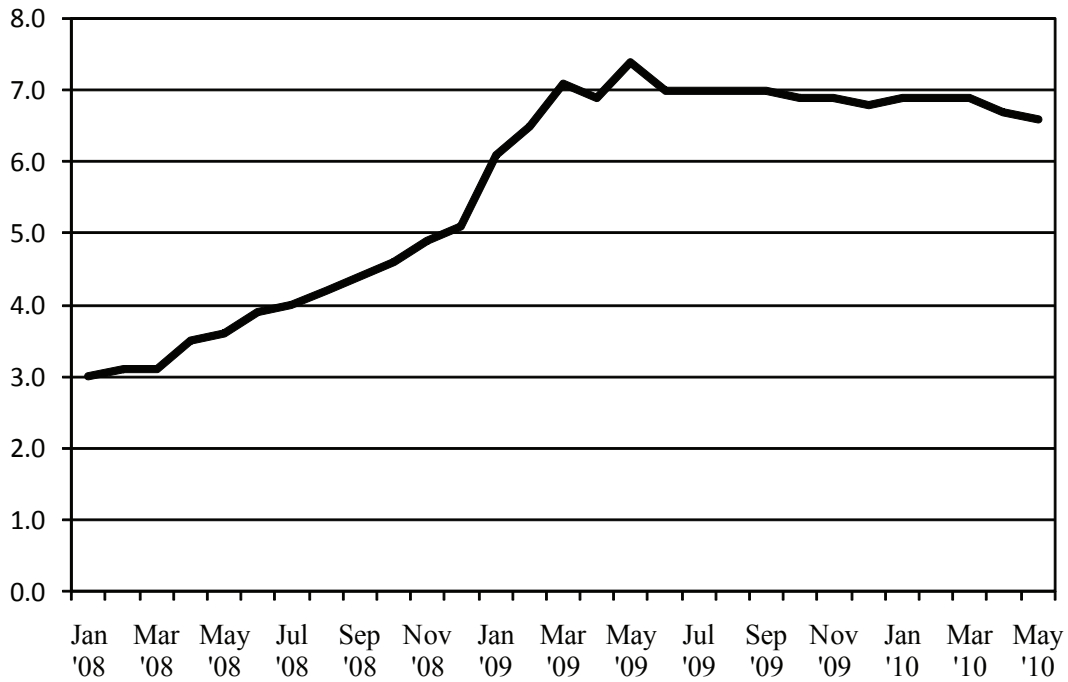
While the economic downturn of 2008-2009 was felt nationwide, it was particularly troubling for the state of Hawai'i. Housing costs have always been high in the state, so it was not surprising that Hawai'i was hit hard by housing foreclosures, ranking among the 10 states with the highest rates (Schaefers 2010).

Government is the largest economic sector in Hawai'i, and the largest private economic sectors are real estate and tourism (Magin 2009). Both have suffered greatly during the recession. These two sectors are closely linked. Tourism creates a demand not only for vacation accommodations, but also real estate purchases and associated development. Credit tightening as a result of the banking crisis made it more difficult to obtain funding for building projects (DBF 2008). The tourism industry struggled throughout 2008 and 2009 as fewer vacationers visited the state (Yonan 2010). The forecast in 2010 was for a gradual recovery of the tourism industry throughout the year (Blair 2010). From 2005 to 2008, Hawai'i enjoyed one of the lowest unemployment rates in the nation. That changed in 2008. Seasonally adjusted statewide unemployment increased from 3.0 percent in January 2008, to a high of 7.4 percent in May of 2009. As a backdrop to the 2010 legislative session, unemployment remained at around 6.9 percent for the first three months of 2010, gradually declining to 6.6 percent in May (see Figure 1, source: BLS LAU).

The strain on the unemployment system caused the state to increase the unemployment insurance tax on businesses. Unfortunately, the information environment was clouded with erroneous estimates for the increase, causing a "stampede" of misinformed business owners on state legislators (Kunstman 2010). In 2009, businesses paid an average of \$90 annually per employee. During the legislative session, rumors swirled that in order to keep the fund solvent, the tax would have to be increased almost twelve-fold to \$1,070 per year per employee. The figure gained a life of its own through repetition in the media (Kunstman 2010) even though it was calculated based on the highest paid employees. The issue was resolved on March 11, 2010, when Governor Lingle signed a bill that lowered the increase to \$630 on average and slowed increases for next year (Niesse 2010a). The result was a \$17 million deficit that had to be filled by borrowing from the federal government (Yonan 2011).

Overall business projections for the state remained flat. On the plus side, inflation was negligible, Hawai'i consumers remain among the nation's best when it comes to creditworthiness, and travel to the islands began to rebound. On the negative side, unemployment remained high, unemployment tax increases made

Figure 1. Seasonally-Adjusted Unemployment in Hawai'i by Month, January 2008 to May 2010



it difficult for small businesses to hire or even retain employees, and pay cuts and furloughs reduced consumer spending (Kalani 2010).

By April 2010, the tourism industry showed signs of improvement with not only more tourist arrivals but greater spending per individual. From January to April, the number of tourists increased by 3.6 percent over the same period in 2009. Moreover, spending increased by four percent for the same period compared to the prior year (AP 2010a).

Demographics

The state of Hawai'i has experienced moderate population growth since the 2000 Census. Estimates peg the growth at 6.9 percent for the decade, with 83,640 new residents. This percentage change ranks in the middle of the pack at 27th nationally. In the past year, Hawai'i grew slightly slower than the rest of the country, growing at a rate of 0.6 percent compared to the national rate of 0.9 percent. Hawai'i's 1,295,178 residents are concentrated on the island of O'ahu which boasts 907,574 residents (70% of state residents). The remaining 387,604

residents live on the “Neighbor Islands” of Hawai‘i (known as the “Big Island”), Maui, Moloka‘i, Lana‘I, and Kaua‘i (source: Census.gov). This gives rise to two interesting and highly geographically contrasted congressional districts: CD1 for downtown Honolulu and CD2 for everywhere else.

The median age of Hawai‘i state residents has remained unchanged at 37.7 over the past few years (2007 and 2008, source: ACS). Residents of O‘ahu are only slightly younger than neighbor island residents. Hawai‘i state residents trend slightly older than the national average, with 77.9 percent of residents over 18 years old in Hawai‘i, compared to 75.7 percent for the nation as a whole (source: ACS).

When comparisons are made to national data, Hawai‘i’s unique features appear. Hawai‘i is the only state to never have had a majority white population (Pratt and Smith 2000). In Hawai‘i, only 42.6 percent of residents claim to be “white” either alone or as a combination of more racial groups (see Table 1). Hawai‘i’s residents are slightly more educated than the national average, with 90.3 percent of residents having completed high school, compared to 85.0 nationwide. Similarly, a higher percentage of residents of the state hold bachelor’s degrees or higher (29.1% in Hawai‘i compared to 27.7% nationwide). Not surprisingly, Hawai‘i is an attractive home for many immigrants to the United States, with only 82.2 percent having been born in the U.S., compared to 87.5 nationally (source: ACS).

Hawai‘i’s geographic position in the middle of the Pacific Ocean gives it tremendous strategic importance from a military perspective. Hawai‘i has a disproportionate number of military bases, service people, and veterans. Hawai‘i residents are eight times more likely than the national average to be currently serving in the military (4.2% to 0.5%). Many people who have served on bases in Hawai‘i decide to take up residence in the state following their service commitment. The percentage of residents who are civilian veterans is 12.2, compared to 10.1 percent nationally. Accordingly, the U.S. Department of Defense and Department of Veterans’ Affairs are important sources of revenue for the state.

In Hawai‘i, the concept of ‘ohana (extended family) is an integral part of local culture. Children maintain close relationships with their parents after leaving home, and often remain at home to tend to family needs. In Hawai‘i, 69.4 percent of all households are families, compared to 66.3 percent nationally. Not surprisingly, the average family size is larger in Hawai‘i (3.41 persons), compared to the national average (3.20 persons). Similarly, the average household size in Hawai‘i is larger than the national average (2.85 persons compared to 2.61 nationally). Residents of Hawai‘i are more likely to speak other languages in the home than residents of other states. In Hawai‘i, only 74.6 percent of households speak English only, compared to 80.3 percent nationally.

Table 1. Demographic Comparisons: Hawai‘i vs. U.S. (Percentages)

	Hawai‘i	U.S.
White (alone or as a combination with one or more)	42.6	77.0
HS Graduate	90.3	85.0
BA Degree or Higher	29.1	27.7
Born in U.S.	82.2	87.5
Civilian Veterans	12.2	10.1
Serving in Armed Forces	4.2	0.5
Households with Families	69.4	66.3
English-only Households	74.6	80.3
Families below Poverty Line	6.0	9.7

Source: ACS, Census.gov

Median household income is \$67,214, a bit above the national figure of \$63,366. However, higher incomes in Hawai‘i are more than cancelled out by the cost of living. Hawai‘i has the highest cost of living in the nation (source: CCER/ACCRA 2010). While Hawai‘i has fewer families living below the poverty line than the national average (6.0% to 9.7%), this figure is not an accurate portrayal of the number of Hawai‘i residents struggling to make ends meet given the state’s tremendously high cost of living.

Labor unions have always been a powerful force in Hawai‘i politics. Nearly a quarter of the labor force is unionized (24.3%), twice the national average of 12.3 percent (BLS 2010). The strongest unions are the ILWU (International Longshore and Warehouse Union) and HGEA (Hawai‘i Government Employees Association). The Hawai‘i State Teacher’s Union (HSTA) has also played an important role in Hawai‘i politics and budget battles, and was drawn into a national controversy this year over teacher furloughs (see below).

Enrollments at the University of Hawai‘i System hit a record high in 2010, at 55,761 students for the spring semester, an increase of 9.4 percent. The Hawai‘i Community College system saw an even greater increase of 14.5 percent for a total of 31,333 students (Wilson 2010). Obviously, the recession sent people back to school and caused a greater level of student retention, causing an even greater squeeze on the state budget.

Political Composition of State Government

Hawai‘i’s governmental system is unique in that it is the only state in the nation without municipal governments. In Hawai‘i, the county is the lowest level of

governance. While Honolulu has a “City Council,” this council actually governs the County of Honolulu, which comprises all of the island of O‘ahu. The other counties are Hawai‘i County (the “Big Island”), Kaua‘i County for the island of Kaua‘i, and Maui County, which comprises the islands of Maui, Moloka‘i, and Lana‘i. While counties have a good deal of autonomy, they are dependent upon state largesse and cooperative revenue programs shared with the state.

The Hawai‘i State Legislature has historically been dominated by the Democratic Party. 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 factions within the Democratic Party. The cross-cutting cleavages that define these factions are fiscal conservatism and various social issues, especially gambling and same-sex marriage. Positions on these issues are more likely to threaten democratic unity rather than perceptions of overall liberalness/conservatism (Pratt and Smith 2000).

The 2008 elections, with favorite son Barack Obama leading the ticket, gave the Democrats in the Hawai‘i State Legislature even greater margins. Democrats picked up two seats in the House of Representatives, giving them a 45-6 majority. In the Senate, Democrats picked up another three seats, giving them an overwhelming 23-2 majority.

House members serve for two years, while senators enjoy four-year terms. Neither have term limits. The Speaker of the House of Representatives for the 2010 legislative session was Calvin Say, and the President of the Senate was Colleen Hanabusa. These leadership positions are important for assignment to committees and selection of chairs.

A legislator’s individual political power comes less from the power of the office than from ties to the power structure of the political community (Pratt and Smith 2000). Particularly influential are unions, corporations (especially tourism and developers), and the Bishop Estate. The Bishop Estate is the state’s largest landowner and endows the private Kamehameha Schools for native Hawaiian children. Several legislative leaders have moved on to become trustees of the Bishop Estate following their political careers (Pratt and Smith 2000).

Owing partially to its political history first as a Kingdom and then as a territory with strong appointed governors, the Hawai‘i state legislature is somewhat weaker than the governor (Pratt and Smith 2000). Because of its weak position and its part-time schedule in the public eye, few statewide leaders emerge from the legislature. The “governor-in-waiting” position has traditionally been the office of lieutenant governor, with the prior three democratic governors having held the position before ascending to the governorship. In the November of 2010, former U.S. Representative Neil Abercrombie bucked this trend by defeating Lieutenant Governor James “Duke” Aiona, Jr., to succeed the termed-out Governor Linda Lingle.

In 2010, Lingle was serving her second term as governor of Hawai'i. She was reelected by a wide margin in 2006 and remained very popular for much of her two terms, which is unusual for such a solidly democratic state. Lingle replaced a long string of democratic governors. Democrats had held the governor's mansion for 40 years—almost since statehood. No prior democrat had served less than two terms. Governors and lieutenant governors are limited to two terms under the limit established by the Hawai'i State Constitutional Convention in 1978. Lieutenant Governor Aiona had served alongside Lingle since her first election in 2002.

The election of 2002 pitted Lieutenant Governor Mazie Hirono against former Maui County Mayor Linda Lingle. Two circumstances paved the way for an ascendancy of a Republican to the governorship. First, Lingle ran against what she called the “old boys” network of democrats. The democrats had dominated the legislature and governorship for so long that they had become perceived as corrupt and lazy. Several democratic politicians and business interests were exposed in a pay-to-play scheme of campaign contributions for government contracts (Broder 2002). Second, Lingle's Democratic opponent, Lt. Gov. Mazie Hirono, had to fend off a strong primary challenge by former House Speaker Ed Case. Hirono barely prevailed in the Democratic primary, with 41 percent to Case's 39 percent. The primary weakened Hirono's standing within her own party and depleted financial resources that could have been used toward the general election. These circumstances, combined with Lingle's strategy of not going away after her failed 1998 campaign—she was chair of the Republican Party and was a voice of opposition as she built her campaign machinery for four years—lifted her to the governor's mansion.

Lingle faced divided government for both of her two terms as governor. She vetoed a good deal of the legislation sent to her, only to watch many of her vetoes be overridden by the heavily democratic legislature. Using the governor's ability to withhold funds appropriated by the state legislature (excepting the Judiciary and the Office of Hawaiian Affairs), Lingle developed a strategy of releasing funding for legislatively authorized projects sequentially over the duration of the fiscal year instead of all at once. This allowed her to be on hand to claim credit for these projects, keeping her in the public eye year-round.

All four members of Hawai'i's U.S. congressional delegation have traditionally been Democrats. The state's congressional delegation butted heads with the governor over her 2009 decision to use federal stimulus money to shore up the state budget instead of using it for intended infrastructure projects.

The state's senior senator, Daniel Inouye, has served in the U.S. Congress since statehood, occupying a Senate seat since 1963. Senator Inouye's long tenure and committee chairmanships have brought a great deal of federal funding to the state, earning him the nickname the “king of pork” (Kirkpatrick and Herszenhorn 2009,

21). The state's junior senator, Daniel Akaka, has made his signature issue Native Hawaiian Government Reorganization Act, which would establish a process for native Hawaiians to organize a governing entity that could then negotiate with the U.S. national government in a manner comparable to Native American tribes.

The state's first congressional seat, representing downtown Honolulu, was briefly occupied in 2010 by Republican and former Honolulu Councilman Charles Djou. When former Representative Neil Abercrombie left office to run for governor, an all-mail special election to succeed him was concluded May 22, 2010. The race was an open winner-take-all contest, and the two democratic candidates (former second district U.S. Representative Ed Case and Senate President Colleen Hanabusa) split the democratic vote, allowing Djou to become Hawai'i's first Republican congress member since Pat Saiki held the seat from 1987 until 1991. The seat was retaken by the Democrats in November, 2010 by Colleen Hanabusa. The state's other U.S. house member is Mazie Hirono, representing the state's second district (rural O'ahu and all other islands), winning the office Ed Case left in 2007 after his losing senatorial primary battle with Akaka in 2006.

Governor-Legislature Relationship

As might be expected in a situation of divided government, Governor Lingle never had a particularly smooth relationship with the legislature, but relations grew worse during the last two years of her tenure as the economic downturn created significant challenges. The democratic supermajorities in the House and Senate virtually insured that any bill Governor Lingle vetoed was overridden. This left the governor with few opportunities for negotiation and compromise.

Governor Lingle's legislative strategy was largely one of "going public" — appealing to the public to put pressure on legislators. This strategy lost effectiveness as her popularity waned. In 2006, Lingle was re-elected by a wide margin, with 62 percent of the vote. By June 2009, her job approval had decreased to 51 percent (Daily Kos 2009). Toward the end of the legislative session in April of 2010, only a minority (40%) had a favorable opinion of her job performance (DePledge 2010a).

The recession has highlighted contrasting budget priorities, with the governor favoring budget cuts and delaying income tax returns, whereas the legislature favoring increased taxes and reprogramming of funds in order to cover the expected \$1.2 billion deficit. In mid-March, the relationship got particularly testy when the House version of the budget eliminated vacation payouts for the governor's staff following the end of the governor's term, as well as gubernatorial transition funds (Borreca 2010).

Major Issues

An issue that became a tremendous black eye for the State of Hawai'i in 2010 was the issue of teacher furloughs. In 2009, the Hawai'i State Teacher's Union (HSTA) negotiated with the Lingle administration to remove 17 days from the academic year as furlough days. These furlough days generally consisted of every other Friday, and created a significant child-care problem for working families. Worse yet, they reduced the state's public school system's number of instructional days to the lowest in the nation. The furlough plan received negative press nationally, reinforcing many residents' fears about being viewed by the rest of the country as a second-rate state. When the national stories broke, the governor was on a trip to China, and ordered Lieutenant Governor Aiona to immediately open renegotiations with the HSTA. These negotiations dragged on until March of 2010, when the HSTA and the governor agreed to a plan to reinstate the scheduled furlough days for the remainder of the academic year as well as the following year (AP 2010b).

Just after the Easter weekend, 16 parents and their children, upset with the furloughs, staged a sit-in protest in the lobby of the governor's office. Protestors were locked out of the office if they left to use the bathroom (Sample 2010a). The parents were members of an informal group called "Save our Schools", or SOS, and their sit-in lasted a week (Sample 2010b). Protestors sat in shifts, and by the end of the week, nine had been cited with misdemeanor trespassing charges and two were arrested (Sample 2010c).

The governor finally held a news conference and invited the protestors into her office, but did not speak about their concerns or take their questions, instead focusing on the negotiations with the teachers' union and her own position. This conference angered the protestors, who later staged their own press conference (Sample 2010d). Causing the impasse was the governor's decision to release funds only for "essential workers" on the furlough days, versus the union's position that all employees work on the restored furlough days (Niese 2010a).

An issue that was brought up at the beginning of the legislative session, died mid-session, and was resurrected by the end was same-sex unions. This issue deflected attention away from the ongoing budget crisis. Despite Hawai'i's overwhelmingly democratic majority, the democrats are sharply divided on social issues such as gay marriage and end of life care. Historically, Hawai'i was Christianized by missionaries, and Christian religious values still play a big role in Hawai'i's politics, with many democrats having conservative opinions on social issues such as these.

In 1993, the Hawai'i State Supreme Court issued a ruling clearing the way for Hawai'i to be the first state to legalize same-sex marriage, but voters overwhelmingly (by 70%) approved a "defense of marriage" constitutional amendment in 1998. The amendment gave the legislature the power to ban gay marriages, which they

did, but left open the issue of same-sex civil unions. The same-sex civil unions bill, which would grant gay and lesbian couples the same state benefits as married couples, attracted the most attention of any issue the legislature faced during the 2010 session (Niesse 2010b). A similar bill failed the year before, and in 2010 the bill stalled and then languished in the House as legislators were unsure if they could muster the two-thirds majority needed to override a veto (Governor Lingle never made clear her intentions on the bill). The House resurrected the bill on the last day of the legislative session, voting it up 31-20 (short of a two-thirds majority needed to override a veto). The next day (April 30), Lingle's office reported having to field over 1,000 phone calls on the issue and a flood of emails (Vorisno 2010). Ultimately, Lingle vetoed the bill, stating her belief that the issue should be subject to popular referendum.

Another issue debated in 2010 was an increase on the tax on crude oil. The tax increase proposed to raise the tax of 5 cents to \$1.05 per barrel. The plan would generate \$22 million, with \$13.2 million going to the budget shortfall and \$8.8 million going to energy and agricultural development programs. The tax would mean an increase of two cents per gallon at the pump for consumers (Niesse 2010c). The oil tax passed, was vetoed by Governor Lingle, and her veto was overridden on April 29 (Niesse 2010d).

An issue that caused a great deal of conflict within the state legislature was the plan to raise revenues by cutting off high-tech tax credits. The plan was to originally leave the tax credit (known as Act 221) in place until December of 2010, but the legislature voted to end it in May and suspend it for three years in order to raise an estimated \$93 million in revenue over the 2011 fiscal year (DePledge and Pang 2010). Act 221 provided a 100 percent tax credit for investments into high technology businesses. Subsequent analyses of the effects of the measure showed that 82 of the 141 businesses receiving the credit had no employees, casting doubt on its effectiveness in stimulating high-tech job growth (Hao 2010).

As with any time of recession, the legislature was under great pressure to preserve jobs. Senate Bill 2840 was called the "Local Jobs for Local People" bill, and required that Hawai'i residents compose 80 percent of workers on public works contracts (Pang 2010). The governor vetoed the bill because, while she supported "local jobs for local people . . . this measure does not create jobs because it does not incentivize any new economic activity" (Pang 2010). The legislature overrode her veto on April 30.

In addition to teachers, other state employees were required to take furloughs. The Hawai'i Governmental Employees Association (HGEA) ratified a contract that forced state employees to take 18 furlough days in the 2010 fiscal year, and 24 in 2011 (also known as "Furlough Fridays," occurring every other week). The furloughs amounted to an eight percent pay cut, and state employees saw their

benefits premiums rise by 23.4 percent (Nakaso 2010). Administratively, furloughs for state governmental employees were much easier to implement than the teachers' furloughs, which suffered from a backlash over child care and quality education.

The University of Hawai'i System's faculty union, the University of Hawai'i Professional Assembly (UHPA), was in its contract renegotiation year during FY 2010. The governor negotiated with the faculty union, insisting on pay cuts. The faculty had been working without a contract, but had benefitted from an "evergreen clause" in the prior contract that kept it binding until a new contract could be negotiated. These negotiations dragged on for six months, as UHPA had no incentive to cooperate with pay cuts, since a federal mediator had upheld the legality of the prior contract's evergreen clause. Ultimately, the faculty agreed to 6.7 percent pay cuts over the current and next fiscal year, with the cuts to be paid back over three years beginning in 2013. Full salaries would be reinstated in 2011, with raises to follow. The contract permitted state government to borrow against faculty wages in order to shore up the budget.

Due to the upheaval in the financial markets, the state's investment schemes went sour. The state's Department of Budget and Finance invested \$1 billion in student loan-backed securities that would not mature in five years, as required by state law. Moreover, the department broke its rule on portfolio diversification, which requires that no more than 20 percent of state money be held in one type of investment. Investments in these securities lost \$225 million in FY 2010. Worse yet, the state could not liquidate its investment due to a two-year freeze on the securities. These troubles came to light when state auditor, Marion Higa released a report that was highly critical of the Department of Budget and

Finance. Governor Lingle criticized the report as misleading. Higa, whose office is an arm of the state legislature, responded that she and her aides would be willing to take lie detector tests in order to verify the accuracy of their report provided that Lingle's Director of Budget and Finance Georgina Kawamura and her aides would do the same (Sample 2010e). The spat over this issue illustrates how frustrated both sides became as they searched for creative ways to bridge a budget deficit that seemed to be widening every day.

As with many states, Hawai'i's budgetary solutions for the looming deficit came down to some creative "shell games" of moving money around. One solution suggested by the governor was to delay tax refunds until the start of the next fiscal year in July. By doing this, the debt could be shifted to the next fiscal year and the current budget would be easier to balance. In her six-year plan, she suggested that this proposal be made permanent (Niese 2010b).

A major component of the budgetary adjustments made for FY 2011 was the issue of whether or not the year's adjustments should become permanent measures. For instance, in the governor's six-year plan, she foresaw state employee pay cuts

and welfare cuts to last through at least the next two fiscal years (Niesse 2010e). The House Finance committee report slammed the governor's proposal to raid special funds and delay tax refunds as "one-time solutions [that would be] quick and easy to accomplish, [but] the full effects of these actions are unknown and may have lasting effects on many" (HCF 2010, 1). The House committee noted that 1,000 permanent job cuts resulted in only one-quarter of the savings that were garnered through job-saving furloughs (\$43 million vs. \$198 million, see HCF 2010, 2).

Cuts in pay, teacher furloughs, and welfare had become so unpopular that residents staged rallies in support of increasing taxes. On Tuesday, March 23, more than 200 people demonstrated at the state capitol to persuade legislators to increase the state's General Excise Tax (GET). At the rally, the pro-tax group was countered by 20 anti-tax "tea party" protestors. The GET is a source of revenue for both the state and county, with counties given the option of increasing it by 0.5 percent to fund transportation projects. As of now, only the county of Honolulu (which comprises all of O'ahu) does this in order to fund its nascent light rail project. As such, O'ahu residents pay a 4.5 percent tax, whereas residents on all of the other island pay 4.0 percent.

A one percent increase would have raised an estimated \$458 million in revenues, covering a third of the projected deficit. The plan was more palatable than an income tax increase, because 38 percent of the GET would be expected to be paid by tourists, making it a more appealing revenue option (Niesse 2010f). Governor Lingle rejected the approach as being too burdensome on the state's businesses. When debated by the Senate Ways and Means Committee, Chairwoman Donna Mercado Kim insisted that the state could balance the budget without raising the GET (Niesse 2010g).

Another interesting bill that cleared the Senate was related to medical marijuana (SB 2213). In Hawai'i, marijuana is legal to smoke and grow for licensed users with medical conditions. However, it is still illegal to purchase marijuana. The proposal would create legal dispensaries, known as "compassion centers." The state has 7,095 registered marijuana patients who would be taxed if they were to purchase marijuana at the dispensaries. The bill called for a tax of \$30 per ounce. Along with the four percent GET, it was estimated that this plan would generate \$50 million in additional state revenue (Niesse 2010h). Using marijuana as a source of revenue has received fresh interest in several states not only because of budget deficits, but also because of President Obama's directive to the Justice Department to ease federal prosecutions of medical marijuana cases (see Stout and Moore 2009; Welch and Leinward 2010). Ultimately, SB 2213 languished in the House after clearing the Public Safety and Health Committees, and did not become law.

While there appeared to be widespread agreement that the Transient Accommodations Tax (TAT) should be increased and used to help offset the budget

deficit, two major debates arose: how much to raise the tax and how to divide up the revenue. Historically, the TAT had been a shared source of revenue between the state and counties. The governor proposed that the state take all of the TAT revenue away from counties (\$100 million), whereas legislative proposals had the state taking \$45 million (Niese 2010i). The measure died after a strong lobbying push against it by the county mayors (DePledge 2010b).

A final issue that caused a pinch in the budget was the need for a special election to replace Representative Neil Abercrombie, who resigned his congressional seat on February 28 to run for governor. The special election cost \$925,000. In January, an accounting error due to a federal reimbursement for voting machines being mistakenly allocated to a voting assistance fund revealed an extra \$1.3 million available. The state comptroller, Russ Saito, requested that this money be transferred to the general fund for the purpose of the election, otherwise the congressional seat would remain vacant until January 2011 (Niese 2010j).

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 2010, the legislature convened on January 20 and adjourned *sine die* on April 29. The legislative session may be extended by the governor or by each chamber's presiding officers at the request of 2/3 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 is a biennial request in budget years and a supplemental in off-years. In addition, the governor is required to prepare a six-year financial plan for the state.

The governor submits the budget 30 days before the legislative session convenes. The request reflects the needs of 17 departments, his/her office, the office of the Lieutenant Governor, and the University of Hawai'i System. The state House of Representatives acts first upon the request, and then the budget bill is passed to the Senate. The relevant House committee is the Finance Committee, and in the Senate it is the Ways and Means Committee. Both of these committees get to act on budget bills after they have come out of other relevant committees (depending upon 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 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.

In the 2010 legislative session, 21 bills relating to FY 2011 were prepared. The governor has the option to sign or veto certain bills. As mentioned above, override battles between Governor Lingle and the state legislature became commonplace. This was particularly the case in 2010, when both sides dug in their heels. The governor has the administrative prerogative to delay tax refunds, and this strengthened her relatively weak position in 2010, her last year as governor.

Executive Budget

Half of the FY 2010 budget was balanced with an increase in the Transient Accommodation Tax (TAT), an increased tax on the highest incomes, furloughs, general fund changes (including dipping into the “rainy day fund”), a permanent Reduction-In-Force (RIF) of 1,000 employees, federal stimulus monies, credit adjustments, and a carryover of the prior surplus. The other half was achieved through cuts to the budget. Against this backdrop, and revised drops in state revenue projected by the Council on Revenues, the governor prepared her budget request, which was finalized in December 2009 and sent to the legislature for action.

The budget as submitted by the governor contained prescriptions for raising revenues and reducing appropriations to cover the \$1.2 billion deficit. The largest component of revenue generation was to make permanent the delayed implementation of the 2009 income tax refunds, resulting in a \$275 million increase in funds for FY 2011 (DBF 2009). The delayed income tax return scheme proposed by the governor was challenged as the budget bill moved through the legislature, though legislators had little chance of affecting its implementation prior to July. A bill was considered by the legislature to mandate tax refunds within 90 days, but the measure failed.

To reduce appropriations, the governor directed all departments and agencies to critically review their programs in order to determine core functions of state government, with an eye toward cutting 13.85 percent from the general fund. The governor’s budget proposal indicated that she had directed the Department of Budget and Finance to continue to search for revenues that may be gained through other areas as well as streamlined efficiencies within existing departments.

In terms of expenditure cuts, the governor’s budget called for three broad measures. The first was a restructuring of the state’s bond debt, which was predicted

to bring \$75.2 million in savings. The governor's budget also called for a freeze on Capital Improvement Projects (CIP) funding. Third, in terms of job cuts, the governor's budget request called for the elimination of an additional 1,990 positions, of which 792 were vacant. These cuts were to occur through the elimination or restructuring of certain projects. The most significant job losses would occur in the departments of Health and Human Services and Agriculture (DBF 2009).

The governor's budget plan called for \$548.3 million in revenue increases and \$361.4 million in appropriations decreases (job cuts, layoffs, etc.). The projected balance of increased revenues and decreased appropriations came in at \$909.7 million (see Table 2). This plan covered only three quarters of the projected \$1.2 billion deficit.

The second component of the governor's budget was to refinance and restructure the state's bond debt. She ordered the Department of Budget and Finance to do so to save \$10 million for FY 2010. The plan to do so for FY 2011 was estimated to create another \$75.2 million in revenue. And as with FY 2010, the governor suggested tapping into the American Recovery and Reinvestment Act (ARRA) in order to shift revenue to the general fund. This was expected to provide an additional \$19.8 million in revenue.

The second largest revenue increase suggested by the governor was a continuation of increase in the Transient Accommodations Tax, and to rescind the counties' share of it. This tax on hotel stays and other lodging figured prominently into the FY 2010 budget. While the hotel and tourism industries complain that this tax hurts their businesses, it is popular among residents because it reduces their income tax burden. In addition to continuing the tax, the governor planned ramped-up enforcement of the tax, and a plan to publish and hunt down the "Top 50 Tax Scofflaws." The public humiliation associated with delinquent tax listings on the internet has resulted in net revenues for other states that have tried it (Prah 2004). These taxation and enforcement mechanisms were expected to generate an additional \$178.3 million for FY 2011.

Proposed position eliminations constituted a \$78 million reduction in appropriations. Cuts to the Department of Agriculture included the elimination of the Agricultural Statistics Services Branch and the Market Analysis and News Branch, plus the deletion of over a quarter (30) inspectors in the Plant Quarantine program. An additional \$1.7 million was estimated to be raised through new Plant Quarantine program fees in order to support the general fund.

The Department of Health was to take the hardest blow under the governor's budget. The Dental Hygiene Services program that provides preventive services to students would be eliminated. The County Health Division would also be eliminated and its services folded into the tobacco settlement program account. The Adult Mental Health program would be cut by 37 positions (20%), the Family Services

Table 2. Governor’s FY 2001 Supplemental Budget

	Revenue (\$ millions)
Revenue Increases	
Delayed Tax Refunds	275.0
Refinance/Restructure Bond Debt	75.2
ARRA	19.8
TAT and Administration of Tax System	178.3
Subtotal	548.3
Appropriations Decreases	
Position Eliminations	78.0
Continue Furloughs	198.4
Move Cash Support to TANF	13.1
Move Plant Quarantine to Program Fees	1.7
CIP Lapse	70.2
Subtotal	361.4
Balance	909.7

Source: Department of Budget and Finance

Program would have 62 positions (36%) eliminated, the Public Health Nursing program stood to lose 23 positions, and (89%), and the Vector Control Branch would see 37 positions (63%) cut. These cuts would have serious ramifications for resident’s health and welfare, particularly the neediest.

More reductions in aid to the needy were to come from cuts to the Department of Human Services. The overall Medicaid program was to be reduced by 113 positions (38%), and Medicaid adult dental services would be curtailed to only cover emergency services (extractions). Cash support for the aged, blind, and disabled individuals was to be consolidated into the general assistance program (TANF). The department would also see information processing, communications, and custodial positions cut by a third.

Furloughs would be continued under the governor’s budget, and these would require a significant amount of contract renegotiations in order to perpetuate them. Furloughs were the second most important way to help bridge the budget gap under the governor’s plan, accounting for an estimated 198.4 million in savings. The final component of the governor’s plan was to allow increases slated for Capital Improvements Projects to lapse. This was expected to account for an availability of \$70.2 million for reprogramming.

Legislative Budget

Though there were protracted fights with Governor Lingle, the budget FY 2011 Supplemental Budget ultimately passed by the state legislature incorporated many of her ideas. The governor had suggested a ratio of 60 percent revenue increases and 40 percent appropriations decreases (\$548.3 million in new revenues, \$361.4 million in cuts). However, her suggested budget of \$909.7 million came in a half billion dollars short of what was ultimately needed to bridge the deficit. The budget passed by the legislature completely bridged the \$1.46 billion gap, with a ratio of 41/59 percent revenue increases to appropriations decreases (\$605.8 million in revenues, \$856.9 million in cuts, see Table 3). Paradoxically, the budget passed by the democratic legislature was more austere (in terms of cuts) than the request of the Republican governor.

In the end, the legislature was forced to accept the governor's delay in tax refunds for two reasons. First, there was nothing the legislature could do about it during the session other than pass a bill forbidding future governors from doing the same, which would have pushed two years' worth of tax refunds into the FY 2011 budget. Second, the addition of \$275 million to the budget was just too good of a deal to pass up, and formed the largest portion of revenue increases. Citizens grumbled about the wait but were powerless to do anything about it.

Other revenues included lapses on tax credits, specifically for research (Act 221), infrastructure and investment credits, and capital goods, all to the tune of \$113.4 in new revenues (see Table 3 for a complete breakdown and respective legislation where applicable). The wealthy had itemized tax credits capped and their estate taxes were retained, generating \$34.5 million in revenue. Tax increases included a cigarette tax increase of 1 cent per pack and an increase of \$1 per barrel of oil. The oil tax increase was stipulated to sunset in 2015. Cigarette taxes that had been directed to special funds were reprogrammed to the general fund, generating \$10.8 million. The General Excise Tax and Transient Accommodations Tax (TAT) were not increased and the counties were permitted to keep their share of the TAT.

A total of \$9.5 million was generated in new fees and fee increases for government services. A number of other revenue increases were variations of tax settlements, increased enforcement, administration, and tax code conformity, including the "scofflaw" enforcement provision, generating \$76.2 million. Lastly, funds were re-programmed from general and non-general funds in order to generate \$65.4 million in new revenues.

In terms of budget cuts, the state governmental departments took cuts of \$113.7 million in general budgets and \$93.7 million in supplemental budgets. Furloughs were continued through 2011, generating \$366.7 million in budget savings. The Reduction in Force layoffs and freeze on new and replacement employee hiring

Table 3. FY 2001 Supplemental Budget

Legislation	(\$ millions)
<i>Revenue Increases</i>	
	275.0
	13.1
SB 2001	93.3
SB 2401	7.0
HB 1907	26.3
HB 1907	8.2
HB 2866	13.2
HB 2421	10.8
HB 1985	10.8
HB 2542	3.0
SB 1985	6.5
SB 2159	7.5
	5.0
	1.6
HB 2594	5.8
HB 2595	15.0
HB 2596	17.0
HB 2600	21.3
HB 2542	19.4
HB 2542	10.0
	36.0
Subtotal	605.8
<i>Appropriations Decreases</i>	
	113.7
HB 2200	93.7
	170.0
HB 2200	196.7
HB 2200	33.9
	186.4
	62.5
Subtotal	856.9
Balance	1462.7

Source: House Finance Committee

was maintained, contributing \$33.9 million in savings. An additional \$186.4 million was saved through adjustments in debt service. Lastly, the Department of Education and the University of Hawai'i system were forced to take a lapse in Capital Improvement Projects (CIP) to the tune of \$62.5 million.

Summary/Conclusion

As noted, the budget passed for the State of Hawai'i for FY 2011 was austere, with cuts outweighing revenue increases by a ratio of 3:2. The cuts were deeper than the governor requested and reflected a changing budgetary environment as revenue estimates became bleaker and bleaker as the 2010 legislative session wore on. A clearer picture of the winners and losers can be painted by looking at which departments took the greatest cuts.

The biggest winner was Human Resources Development, seeing an increase of \$4.6 million in their budget, up 30.3 percent. However, it is hardly fair to consider this department a winner given the increasing load it shouldered in the tough economic climate. No other department saw an increase in funding for FY 2011.

The largest cuts in absolute dollars were to the Department of Education (DOE) and the University of Hawai'i (UH) system. The DOE took a cut of \$142.7 million, or 10.2 percent. The UH system was cut even more drastically, by \$62.0 million, or 14.7 percent. The cuts to the university system have proven particularly difficult to manage as enrollments have increased during the recession.

The Departments of Health and Human Services each took deep reductions in absolute dollars. The Department of Health lost \$28.1 million, or 6.8 percent of their funding. The Department of Human Services was cut even deeper, losing \$29.4 million in funding, or 11.5 percent. These cuts to vital services augmented the problems faced by the state's neediest citizens.

The department with the greatest percentage in cuts was the Department of Agriculture, losing 30.6 percent of their budget, a reduction of \$4.1 million. The Department of Business, Economic Development and Tourism took a hit of \$2.0 million, or 25.8 percent. The Department of Labor and Industrial Relations lost 3.3 million, or 20.8 percent of their funding.

The largest losers in the governmental sector were agriculture, education, health and human services and labor. For the private sector tax credits that have been used to create a desirable and forward-looking business climate in Hawai'i were cut. The state has spent the last several years wooing high-tech industry through tax credits, and these businesses may relocate without these incentives. Cuts to the Department of Business, Economic Development and Tourism will mean a loss of business revenue in the long run, translating into lost tax revenue. The

services that government can provide to its citizens and industries to ride out and eventually recover from the recession have been drastically cut. And since Hawai‘i is dependent on tourism—an industry that lags the rest of the national economy—recovery for the state will be further slowed. Hawai‘i state government and the residents it serves will surely need to learn to do less with less for some time.

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