Navigating the Aftermath of the Maui Wildfires:
Hawai‘i’s FY 2025 Budget

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> The road to recovery will be long, and healing will take time, courage, and commitment — but we will get there as we come together as one ‘*ohana* to help and support the Maui community.
>
> —Governor Josh Green, State of the State Address, January 2024

Abstract

Hawai‘i’s FY 2025 budget reflected the state’s efforts to balance recovery from the August 2023 Maui wildfires with ongoing challenges such as housing affordability, economic diversification, and climate resilience. The biennial budget initially authorized $44 billion in spending for FY 2024 and FY 2025, but it was revised to include approximately $600 million for wildfire recovery and over $500 million in hazard pay for public employees. Governor Josh Green’s administration prioritized housing development, tax cuts, and long-term recovery efforts while addressing the immediate demands of the devastating wildfires. The budget process highlighted the state’s reliance on tourism for revenue, raising serious concerns about the long-term sustainability of Hawai‘i’s primary industry. Lawmakers successfully maintained core services and passed historic tax cuts, but some remain concerned that the state’s high levels of spending are unsustainable given recent economic forecasts. This article explores the legislative and political negotiations that shaped Hawai‘i’s FY 2025 budget. It examines how lawmakers sought to manage short-term disaster recovery while making progress on the state’s long-term goals of promoting economic diversity and lowering the exorbitant cost of living in the islands.

Introduction

Hawaiʻi's state budget for FY 2025 was shaped by both urgent crises and long-standing challenges, but no issue influenced discussions more than the aftermath of the August 2023 wildfires. After Hurricane Dora's winds fueled devastating fires across Maui, the historic town of Lāhainā was nearly destroyed, causing the loss of 101 lives and the destruction of 2,000 homes—approximately 3% of the island's entire housing stock—and displacing 6,000 households (Bond-Smith et al. 2023; Tyndall et al. 2024). This disaster further strained Maui's already scarce housing supply and significantly disrupted the island's vital tourism industry. Like other states facing severe wildfire destruction, Hawaiʻi's major utility, the Hawaiian Electric Company (HECO), came under intense scrutiny and faces financial instability due to its alleged negligence in fire prevention.

Governor Josh Green, a progressive Democrat who assumed office in 2022, was responsible for leading Maui's recovery efforts while continuing to address the state's chronic issues, including affordable housing, homelessness, and the high cost of living. The biennial budget for fiscal years 2024 and 2025 initially authorized $44 billion in spending, providing $37.2 billion to state departments and another $4 billion for large infrastructure projects. Yet the devastating fires required significant revisions to this budget plan. In December 2023, Green proposed a supplemental budget seeking an additional $452.2 million for direct wildfire recovery and mitigation, along with millions more for related expenditures (Department of Budget and Finance 2024).

More broadly, the aftermath of the fires presented Hawaiʻi with a range of complex problems, and created legal, economic, and infrastructure challenges that strained the state's resources and its governance capacity. While the state's primary sources of revenue—the General Excise Tax (GET), Transient Accommodations Tax (TAT), and individual income tax—have shown resilience, the economic recovery from the COVID-19 pandemic remains uneven. Tourism has rebounded, but it has yet to reach pre-pandemic levels, and a significant decline in Japanese visitors—a key market—has worried some economists (Bonham et al. 2023a).

Hawaiʻi's budgetary challenges are not limited to immediate disaster recovery. The state's economic potential is held back by a declining and aging population, as well as high living costs and limited affordable housing. These factors have driven many local families to relocate to the continental United States, where economic opportunities are greater and living costs are far lower. Hawaiʻi also faces increasing obligations in areas such as retiree health and pension benefits, Medicaid, and social services, all of which are exerting growing pressure on state revenues.

In response to these mounting pressures, lawmakers largely agreed with the governor's priorities during the 2024 legislative session. With surprisingly little dissent, they approved several significant laws, including a historic reduction in income taxes and a substantial increase in education funding. This article explores the governor's supplemental budget priorities following the Maui tragedy and outlines the budget process from the start of the 2024 session through to its final approval in May.

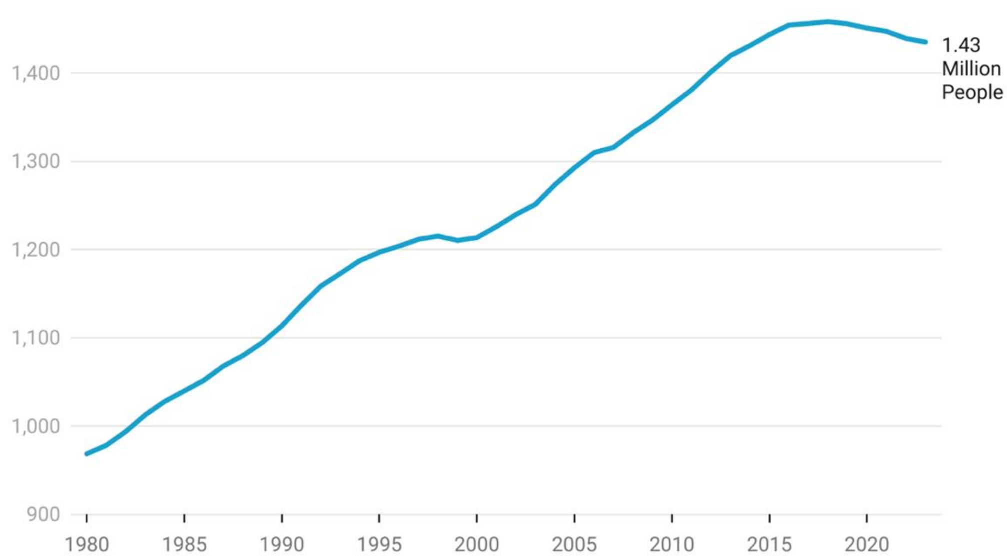
Demographic and Economic Context

Hawaiʻi is justly famous for its stunning beauty, mild climate, and diverse local culture. Beyond these natural and cultural assets, the Aloha State has low unemployment, the highest life expectancy of any state (National Center for Health Statistics 2020), and some of the lowest crime rates in the nation (Statista 2022). For two consecutive years, Honolulu, the state's capital and only major city, has been recognized by *The Economist*'s Global Liveability Index as the most desirable place to live in the United States (Economic Intelligence 2024).

Despite these significant advantages, Hawaiʻi's population has been slowly declining over the past several years, an unfortunate trend with serious implications for the state's economy and culture. As shown in Figure 1, Hawaiʻi saw significant increases in its population during the 1980s and 2000s, but this growth began to slow in 2015, and the population currently stands at approximately 1.43 million. Hawaiʻi now has the dubious distinction to be one of only three western states that lost residents in 2023 (Biernacka-Lievestro and Fall 2024).

Figure 1: Hawaiʻi Population, 1980 - 2023

(in thousands)



Source: U.S. Census Bureau • Created with Datawrapper

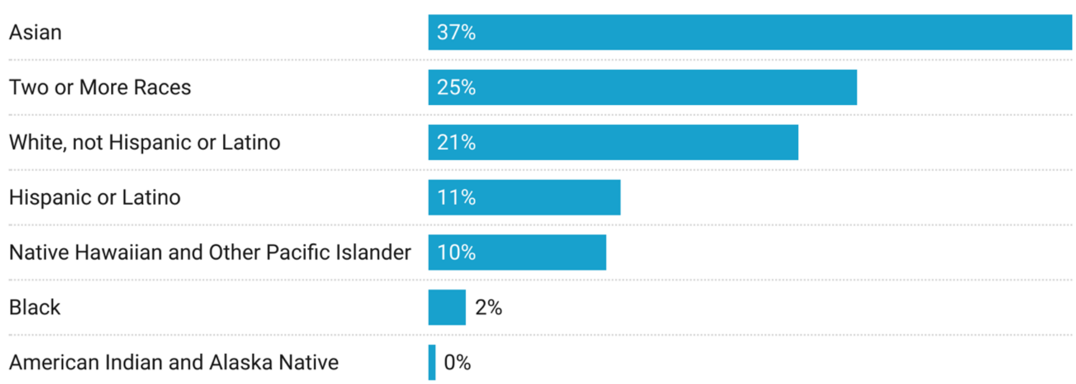
In 2022, Hawaiʻi experienced a net domestic outmigration of 11,000 people, nearly one percent of the state's population (Tyndall et al. 2024). Many of these residents relocated to western states with stronger economies, such as Washington and Nevada (Bonham et al. 2023b). Las Vegas, with its booming construction and visitor services sectors, is an especially popular destination for many former Hawaiʻi residents, which has earned this desert city the unexpected nickname "the ninth island." In Las Vegas and its surrounding suburbs, the population of Native Hawaiians and other Pacific Islanders grew by 40 percent between 2011 and 2021 (Fawcett 2023).

While the state's population losses were partially offset by new arrivals from the mainland, particularly from California, it is likely that many of those who were born and raised in Hawaiʻi will continue to relocate to other states (Bonham et al. 2023b). A 2023 survey revealed that 44% of residents had seriously contemplated leaving Hawaiʻi, and 11% had already experienced a household member moving out of the state. Among those who considered leaving, 52% cited the high cost of living as their primary concern (Pacific Resource Partnership 2023). Perhaps most concerning is that Native Hawaiians constitute a significant proportion of those who have left the state. In fact, today there are more Native Hawaiians living outside of Hawaiʻi than in the archipelago. New census estimates indicate that in 2020, only 47% of Native Hawaiians resided in the state, while 53% lived on the mainland. This is a substantial shift from 2010 when 55% lived in Hawaiʻi and 45% resided in other states (Office of Hawaiian Affairs 2024).

How can we explain the exodus of so many Hawaiʻi residents? Most studies attribute the declining population to the state's low wages relative to its high cost of living. A recent analysis by the University of Hawaiʻi's Economic Research Organization (UHERO) found that per capita income in Hawaiʻi is 12% lower than the national average. This effectively places Hawaiʻi on par with the poorest states in the nation when the cost of living is considered (Bonham et al. 2023b). Most residents who leave the state do so only because they feel they have few other options. "Being away from home, I miss the ocean, the mountains, the greenery, but I don't miss the cost," explained one Native Hawaiian living in Las Vegas (Fawcett 2023).

Nevertheless, one reason many choose to remain in Hawaiʻi, despite its high cost of living and service sector economy, is the vibrant cultural life that stems from its remarkably diverse population. As Figure 2 illustrates, Asians constitute the largest racial group in the state at 37%, followed by Whites at 21%. Latinos and Native Hawaiians and Pacific Islanders make up 11% and 10% of the population, respectively, while a full quarter of residents identify as multiracial.

Figure 2. Hawaiʻi Demographics: Race and Hispanic Origin



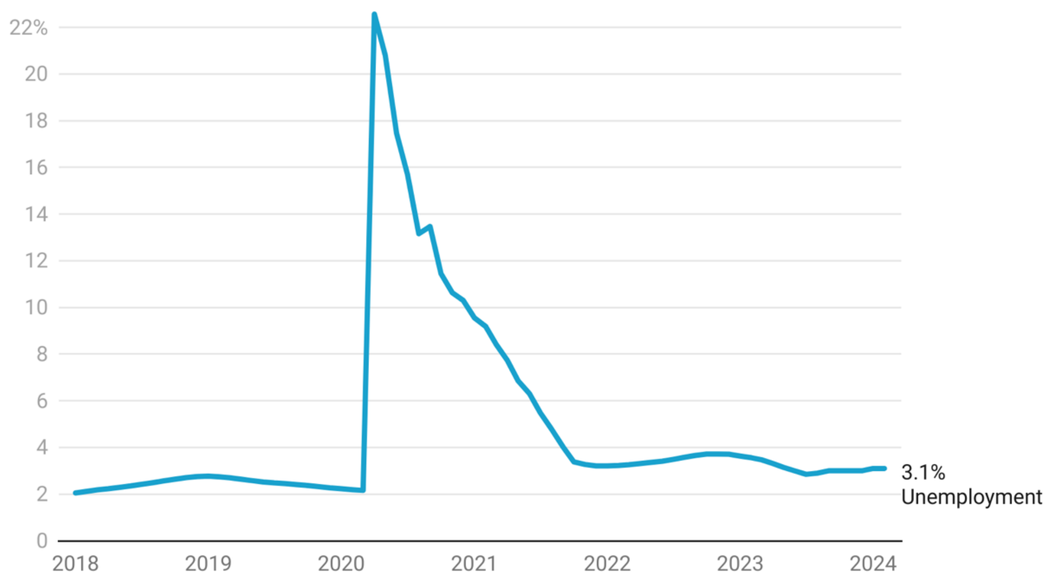
Note: Does not total 100.

Source: U.S. Census Bureau • Created with Datawrapper

Hawaiʻi has historically maintained a relatively low unemployment rate, thanks in large part to the strong demand for service sector jobs driven by the visitor industry. The COVID-19 pandemic, however, brought the tourism industry to a standstill, causing unemployment to soar to some of the highest levels in the country. At the height of the pandemic, travel to Hawai'i was nearly impossible, because the state implemented some of the strictest vaccine and mask mandates in the country. As a result, visitor arrivals plummeted to almost zero for several months in 2020, but they began to recover by mid-2021.

As Figure 3 shows, the unemployment rate fell to 9.5% in January 2021 and is now holding steady at 3.1%, which is slightly better than the national rate of 3.8% (US Bureau of Labor Statistics 2024). Although visitor numbers have not quite reached the record levels seen in 2019, the industry has largely bounced back (Bonham et al. 2024a). As Figure 4 illustrates, by 2024, the number of quarterly tourists had risen to 2.4 million, just below the peak numbers recorded in 2019.

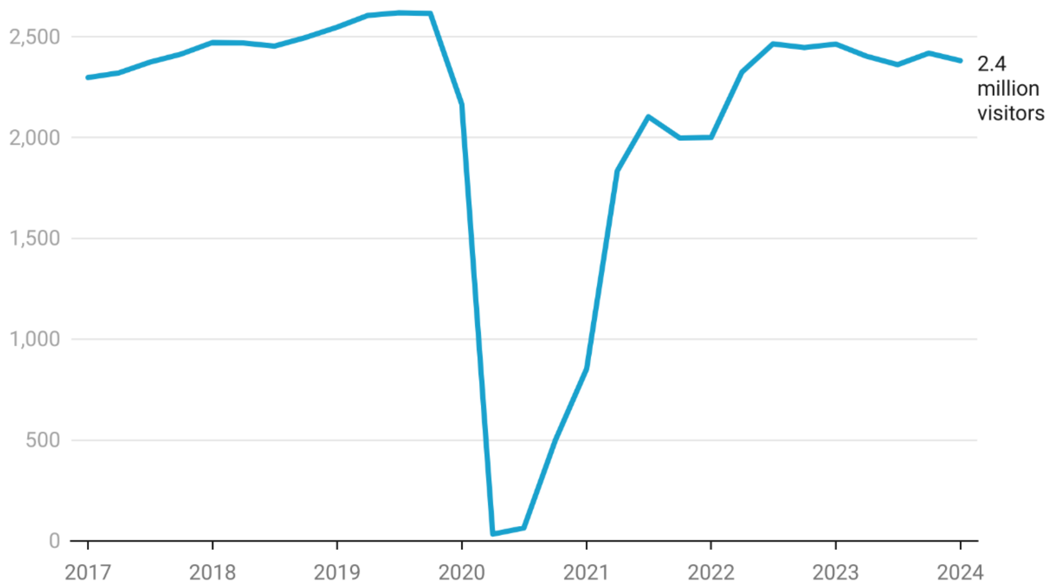
Figure 3: Hawai'i Unemployment Rate, 2018 - 2024



Source: U.S. Bureau of Labor Statistics • Created with Datawrapper

Figure 4: Total Visitor Arrivals by Quarter, 2017 - 2024

Arrivals in Thousands



Source: University of Hawai'i Economic Research Organization • Created with Datawrapper

With the return of visitors, Hawai‘i's economy has largely rebounded from the pandemic. Table 1 indicates that visitor spending increased approximately 150% from 2020 to 2021 and then 40.6% from 2021 to 2022. Over the next two years, UHERO expects Hawai‘i's GDP to grow by 1.5% in 2024, and predicts slightly more robust growth of 2.7% in 2025. Unfortunately, inflation will likely outpace the modest growth in personal income over the next two years, which will present further challenges for residents trying to navigate the state's high cost of living (Bonham et al. 2024a).

Table 1.
Hawai‘i Economic Indicators: Year-Over-Year Percentage Change

	2020	2021	2022	2023	2024	2025
Visitor Arrivals by Air	-73.9	150.3	36.2	4.4	2.0	4.8
Real Visitor Spending	-71.9	150.4	40.6	2.2	-1.9	-0.2
Non-farm Payrolls	-14.9	4.8	5.2	2.8	0.8	0.9
Inflation Rate, Honolulu	1.6	3.8	6.5	3.1	3.4	2.4
Real Personal Income	2.7	3.6	-6.1	2.3	1.6	1.7
Real GDP	-11.6	6.0	2.0	3.7	1.5	2.7

Note: Figures for 2024-2025 are forecasts
Source: University of Hawai‘i Economic Research Organization 2024

UHERO forecasts that statewide job growth in 2024 will be less than 1%, a reflection of the state's labor force, which is nearly 15,000 people smaller than it was at the end of 2019. This decline in available labor is due to both population loss and an aging workforce, resulting in an overall lower labor force participation rate. Economists warn that this will cause slow economic growth as local businesses struggle to find skilled workers. (Bonham et al. 2024b).

Hawaiʻi's Revenue Base and Expenditure Trends

Hawaiʻi funds its government primarily through a progressive income tax, the General Excise Tax (GET), and a hotel room tax known as the Transient Accommodations Tax (TAT). The GET is not a sales tax, but a 4% tax excise tax that is levied on both goods and services. In FY 2023, as shown in Table 2, the GET generated about $4.4 billion, providing more than 40% of the state's total tax revenue. Progressives have criticized the GET as a regressive tax because it disproportionally impacts lower-income residents, but it remains a politically popular way to generate revenue because some of the burden falls on visitors.

Hawaiʻi's individual income tax is the second-largest source of state revenue. In FY 2023, residents paid $3.1 billion in income taxes, accounting for nearly 30% of the state's total tax dollars (Hawaiʻi Department of Taxation 2023). The state's progressive income tax structure imposes lower rates on those with less income, but due to outdated tax brackets that are not indexed to inflation, many middle-class households now find themselves subject to relatively high tax rates. For instance, an 8.25% tax rate applies to all income over $48,000, impacting the majority of Hawaiʻi's households. Compounding the issue is Hawaiʻi's low standard deduction, one of the lowest in the nation, at $2,200 for single filers and $4,400 for joint filers (Colby 2023).

Table 2.
Hawaiʻi Tax Revenue by Selected Categories, FY2023

Category	**Total Revenue ($ thousands)**	**Share of Total Revenue**
General Excise	4,442,651	42.56%
Individual Income	3,100,465	29.70%
Transient Accommodation	865,257	8.29%
Corporate	316,599	3.03%
Fuel	171,647	1.64%
Motor Vehicle Tax	143,329	1.37%
Conveyance	92,132	0.88%
All Other Taxes	1,305,706	12.53%
Total Tax Revenue	**10,437,786**	**100%**

Source: Hawaiʻi Department of Taxation, *Annual Report*, 2022-23.

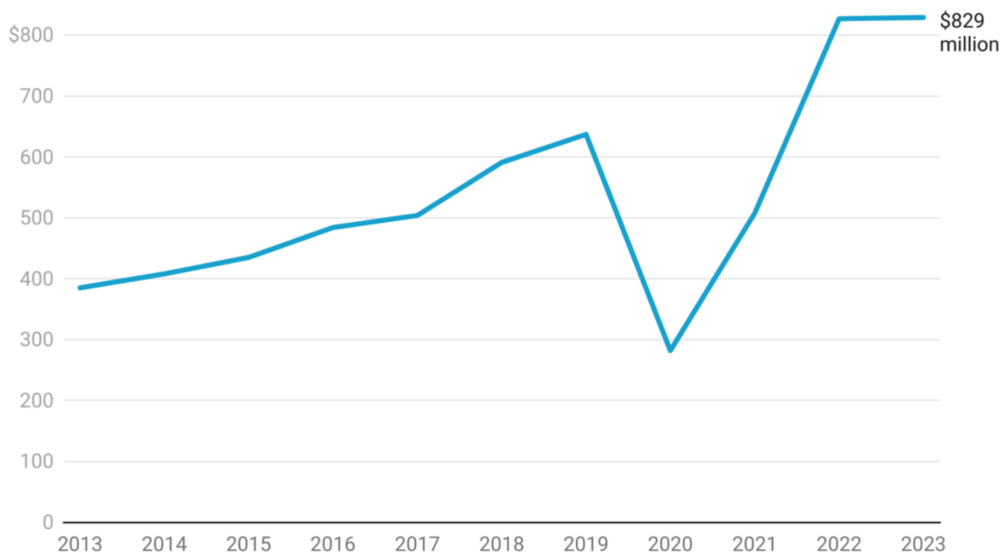
The TAT, which levies a 7.25% tax on tourist accommodations, also constitutes a significant share of state tax revenue. In FY 2023, the TAT generated $865 million, which was approximately 8.3% of Hawaiʻi's total tax revenue for that year. The state's reliance on the visitor industry for a significant portion of its revenue is clearly illustrated in Figure 5. During the pandemic, TAT collections dropped from $637 million in 2019 to just $282 million in 2020.

However, as visitors returned to the islands, TAT revenue rebounded, and it has now surpassed pre-pandemic levels. In 2023, TAT collections reached a record high of $829 million, driven by strong tourist demand that has pushed up hotel rates and the taxes collected from them.

Despite this robust recovery, economists remain concerned about the decline in international visitors. While U.S. mainland tourists accounted for 77% of all Hawaiʻi's visitors in 2023, they generally spent less than those from international markets. Japanese visitors have also reduced their spending, because of the sharp decline in the yen. Before the pandemic, Japanese visitors spent about one-third more per person than U.S. visitors, but their spending today closely matches that of domestic tourists (Bonham et al. 2024b).

Figure 5: Transient Accommodation Tax Revenue, 2013 - 2023

(millions of current dollars)



Source: State of Hawaiʻi, Department of Taxation • Created with Datawrapper

Along with tourism dollars, Hawaiʻi remains notably reliant on federal funds. Per capita federal spending amounted to $19,289 in 2022, while per capita federal receipts were only $11,699. According to the Rockefeller Institute of Government, Hawaiʻi ranks tenth among all states that receive more federal funds than they contribute to the federal treasury. In other words, for every dollar Hawaiʻi sends to the federal government, it receives $1.65 in return. Among western states, only Alaska (#3) and New Mexico (#4) rank higher on this index (Rockefeller Institute of Government 2022).

Overall, as shown in Table 3, the state's tax revenues have remained robust and stable after a sharp decline during the pandemic. In FY 2023, Hawaiʻi collected $10.44 billion in total tax revenue, slightly below the record $10.46 billion collected in FY 2022. Income tax receipts decreased as individual incomes fell, largely due to the conclusion of federal pandemic relief efforts that had boosted incomes among lower-income residents and increased state income tax collections.

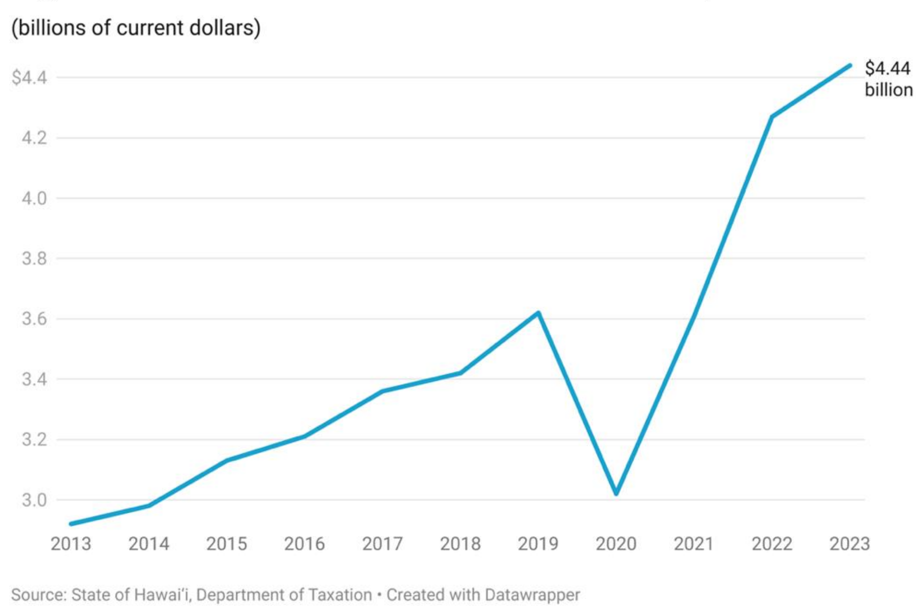
Table 3.
Hawai‘i Tax Revenue, FY 2022 and FY 2023

Category	FY 2023 ($ thousands)	FY 2022 ($ thousands)	Percent Change
General Excise	4,442,651	4,009,909	8.4%
Individual Income	3,100,465	3,761,269	-17.6%
Corporate	316,599	256,033	23.7%
Transient Accommodation	865,257	738,664	17.1%
Other taxes	1,712,814	1,695,963	1.0%
Total Tax Revenue	**10,437,786**	**10,461,837**	**-0.2%**

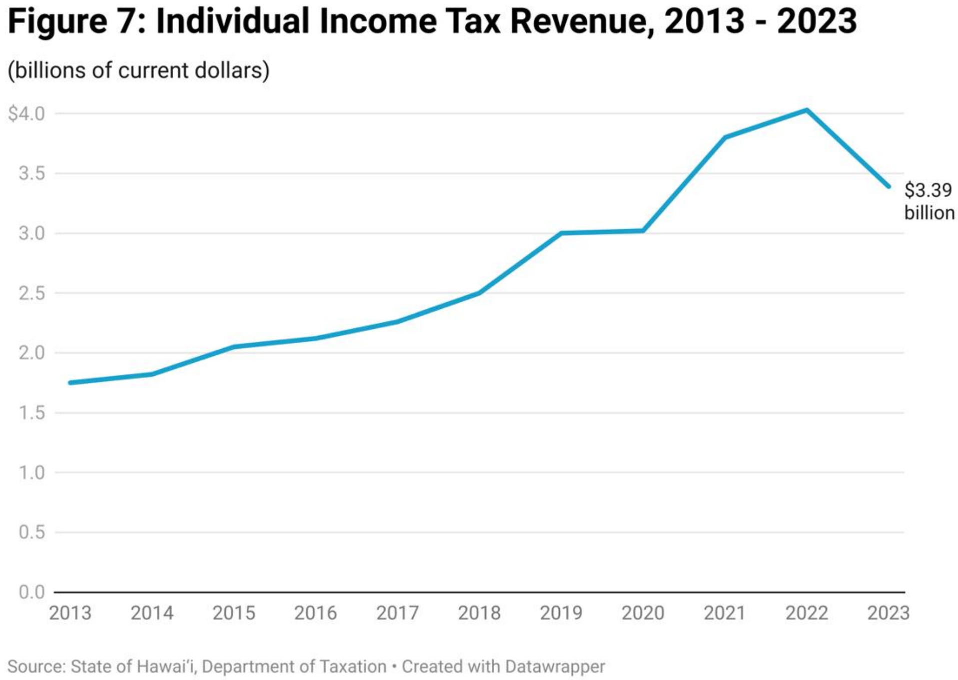
Source: Hawai‘i Department of Taxation, *Annual Report*, 2022-23.

As Figure 6 illustrates, revenue from the GET—Hawai‘i’s most significant source of tax revenue—climbed quickly during the pandemic recovery but began to level off somewhat in FY 2023. The increase in GET revenues was largely driven by strong demand from visitors, which put upward pressure on the average price of hotel rooms and other activities. In December of 2023, the average hotel room price per night was $377; by contrast, the average room price in December 2019 was nearly $100 less at about $288. Overall, total visitor spending reached $5.13 billion during the fourth quarter of 2023, which is about $600 million more than the fourth quarter of 2019 (UHERO 2024).

Figure 6: General Excise and Use Tax Revenue, 2013-2023



While the GET showed strong growth, individual income tax collections declined. As Figure 7 shows, there was a 17% drop in individual income tax collections in FY 2023. This trend of reduced income tax receipts is expected to accelerate sharply in the coming years as the income tax cuts passed during the 2024 legislative session are fully implemented. These developments are discussed in greater detail later.

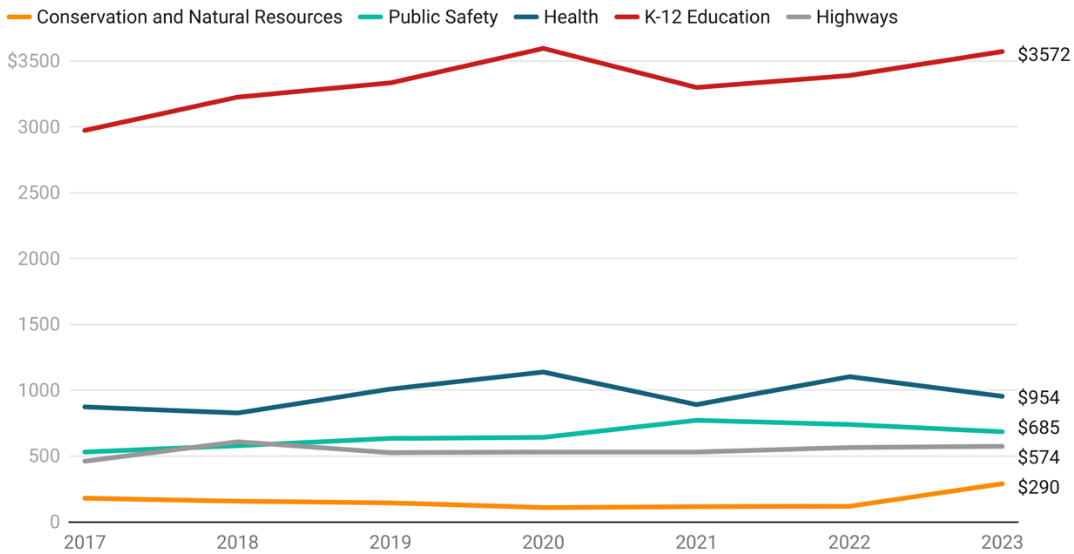


Despite the volatility in GET and TAT revenues, Hawai‘i's public expenditures have remained fairly consistent over the past five years. Figure 8 shows that spending on health surged during the pandemic due to federal relief funds, but has decreased slightly since then. Spending on K-12 education has nearly returned to 2020 levels in the past two years. One factor contributing to the high proportion of education spending is Hawai‘i's unique statewide K-12 school system, which requires the state to fund all educational expenses with no financial support from the counties.

Aside from these sectors, spending across other state functions has remained relatively stable, with the notable exception of a significant boost in expenditures for conservation and natural resources. These agencies have benefited from earmarked funds for several key initiatives, such as the restoration and management of Kaho‘olawe—an island once used for Naval bombing exercises—and the establishment of the Mauna Kea Stewardship and Oversight Authority. This agency is tasked with managing the summit of Mauna Kea, home to some of the world's most advanced telescopes, while also enhancing oversight by Native Hawaiian groups who consider the summit sacred (HBPC 2023). Increased spending on conservation is likely to continue as the state intensifies its efforts to combat invasive plants and insect species such as fire ants and coconut rhinoceros beetles. The FY 2025 budget added 44 new positions focused on noxious weeds and entomology to strengthen the fight against invasive species. (Wu 2024).

Figure 8: State Expenditures by Function, 2017 - 2023

(millions of dollars)



Source: State of Hawai'i, Department of Accounting and General Services • Created with Datawrapper

Political Context and the Budget Approval Process

Hawai‘i has long been a stronghold for the Democratic Party. Although the state has had two Republican governors, the legislature has been under Democratic control since Hawai‘i became the fiftieth state in 1959. With a Cook Partisan Voting Index of D+14, it stands as the third most Democratic-leaning state in the country (Cook Political Report 2024). Today, every major partisan office is held by Democrats, including the state's entire congressional delegation, and Republicans often have trouble fielding competitive candidates for statewide offices.

Governor Josh Green, who assumed office in 2022, has effectively used his experience as an emergency room physician to portray himself as a political outsider, despite serving eighteen years in the state legislature before becoming governor. His popularity rose significantly during his time as lieutenant governor when he led Hawai‘i's response to the COVID-19 pandemic. Green has made healthcare access and addressing the homelessness crisis key pillars of his administration.

Along with improving social services, the governor has focused on expanding access to affordable housing. Unlike previous governors, Green has primarily concentrated on reducing barriers to housing development, rather than using state funds to develop subsidizing housing projects. In an unprecedented move, he issued an emergency proclamation on housing, setting an ambitious goal of constructing 50,000 new homes over the next five years. The order includes temporary suspensions of several state and county laws related to land use, environmental assessment, and historical preservation (Green 2023).

Initially, Green formed a 22-member Build Beyond Barriers working group, composed of government officials, county mayors, and representatives from nonprofit organizations, to oversee these efforts. But after facing strong opposition from some environmental organizations, Green dissolved the group and redirected his focus to legislative solutions. His strong relationships with legislative leaders and county mayors, most of whom advocate for supply-side solutions to the state's housing affordability crisis, have proven instrumental in advancing this agenda.

Politics of the Hawaiʻi State Legislature

In Hawaiʻi the state legislature is a part-time body that convenes annually from January through May. Like most U.S. states, members meet for only a few months every year to preserve their identity as "citizen legislators." It is comparatively well-staffed, and legislators are provided with relatively generous salaries of $74,160 plus per diems for those who do not reside on the island of Oʻahu (NCSL 2024).

Political scientists often assess state legislative professionalization using the Squire Index, which evaluates factors such as legislative salaries, staff resources, and the length of legislative sessions. According to this metric, Hawaiʻi ranks as having one of the nation's most professionalized legislatures, placing seventh on the Squire Index—remarkably high for such a small state (Squire 2017). Most of Hawaiʻi's legislators work year-round, and only a few hold full-time jobs outside the capitol building. One comprehensive survey found that a majority of Hawaiʻi legislators devote over 70% of their working hours to legislative duties (Bowen 2014). Where Hawaiʻi differs from other highly professionalized legislatures is in the limited duration of its legislative session. Despite relatively high salaries and generous staff resources, the total number of days lawmakers spend in session is below the national average (Bowen 2014).

During the 2024 legislative session, the Democratic Party maintained its overwhelming majority in both chambers, with 45 Democrats to 6 Republicans in the House of Representatives and 23 Democrats to 2 Republican in the state senate. Given the overwhelming Democratic supermajorities in both legislative chambers, Republicans have little influence in the policymaking process.

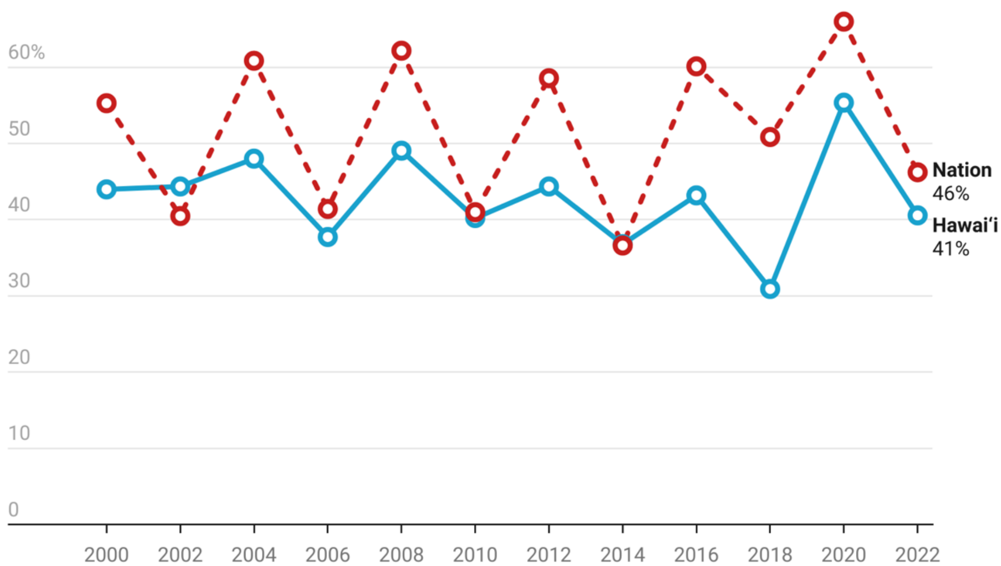
While previous Republican caucuses raised important concerns about ethics and transparency, the current Republican legislators are frequently embroiled in internal conflicts, making it challenging for them to secure even minor policy victories. At the end of the 2023 legislative session, for example, freshman Republican Kanai Souza described her caucus as "a cult," and refused to meet in person with her Republican colleagues (Dayton 2023a). In recent years, they have become preoccupied with issues that generate little political traction in Hawaiʻi, such as voter fraud, banning transgender athletes in school sports, and opposition to mandatory vaccinations (Fukumoto 2024). More broadly, Republican politicians in Hawaiʻi are divided between those who see themselves as an independent alternative to the dominant Democrats and those who align more closely with former President Donald Trump's MAGA movement.

On the whole the state's elected Democrats tend to be relatively centrist, and their concerns are primarily focused on attending to basic cost of living issues. Labor unions play a significant role in state politics, reflecting the fact that nearly 26% of the state's workforce is represented by unions, a much higher rate than any other state and more than double the national average of 10% (US Bureau of Labor Statistics 2024a).

Despite being a Democratic stronghold, Hawaiʻi has rarely been at the forefront of advancing progressive economic or social policies over the last few decades. For example, Hawaiʻi remains the only Pacific state where recreational marijuana sales are not legal (NCSL 2024a). In response to the state's slow progress on some liberal priorities, progressives in Hawaiʻi have been gaining momentum in recent years. In the August 2024 primary, the powerful Speaker of the House, Scott Saiki, lost his urban Honolulu seat to social activist Kim Coco Iwamoto by just 256 votes in a hotly contested downtown district (Office of Elections 2024). This upset shocked nearly all political observers in the state and will lead to significant leadership changes in the state legislature following the November general election.

The dominance of a single party may have also contributed to Hawaiʻi's low voter turnout. As Figure 9 illustrates, voter turnout in Hawaiʻi has long trailed behind the rest of the country. While the state occasionally matches national turnout rates during midterm elections, it falls significantly below during presidential elections. Although this is partly due to the state's irrelevance in federal elections, voter turnout is low even in competitive statewide races. Hawaiʻi has implemented several measures to make voting more accessible, such as declaring Election Day a state holiday, allowing same-day registration, and adopting all-mail voting. Unfortunately, these changes have had relatively little impact on voter turnout. In fact, turnout during Hawaiʻi's August 2024 primary election was the lowest in the state's history.

Figure 9. Voting Eligible Turnout Rate: Hawaiʻi and National Average, 2000 - 2022



Source: University of Florida Elections Lab (2024) • Created with Datawrapper

Along with low voter turnout, Hawai‘i has fewer and fewer candidates willing to stand for public office. This year, only 279 candidates registered to run for state and local offices, which is the lowest figure in a decade (Lovell 2024). Some argue that a generous public campaign financing program, like those in place in Maine and Connecticut, could increase electoral competition, contribute to greater diversity among candidates and donors, and encourage more contact between candidates and voters (Moore 2023). Over the past two legislative sessions, bills proposing a publicly financed campaign system have been introduced, but despite receiving favorable media coverage and apparent backing from legislative leaders, they have frequently been killed at the last minute with little public explanation (Wiens 2024).

Unfortunately, the dominance of a single party and the lack of electoral competition in Hawai‘i have contributed to an environment conducive to corruption and insider dealmaking. Over the past fifteen years, the state has experienced numerous scandals involving improper campaign donations, and in 2022, two senior legislators pleaded guilty to accepting bribes in exchange for legislative favors related to government contracts. Despite a series of new laws and internal investigations, a culture of soft corruption continues to affect Hawai‘i politics. Many of the state’s part-time legislators are employed by companies that do business with the government, and most campaign donations come from employees of companies with large state contracts (Lovell et al. 2024).

Budget Approval Process

Hawai‘i operates on a biennial budget that must be balanced, and this often requires mid-cycle adjustments by the legislature. The governor, in collaboration with executive departments, is constitutionally required to submit a budget bill that addresses the needs of 17 executive departments, the Governor’s Office, the Office of the Lieutenant Governor, and the University of Hawai‘i System (HBPC 2023). This bill is then introduced to the legislature by request through the Senate President and Speaker of the House of Representatives. In even-numbered years, such as 2024, the governor submits a supplemental appropriations bill to amend the operating expenses for the current fiscal biennium.

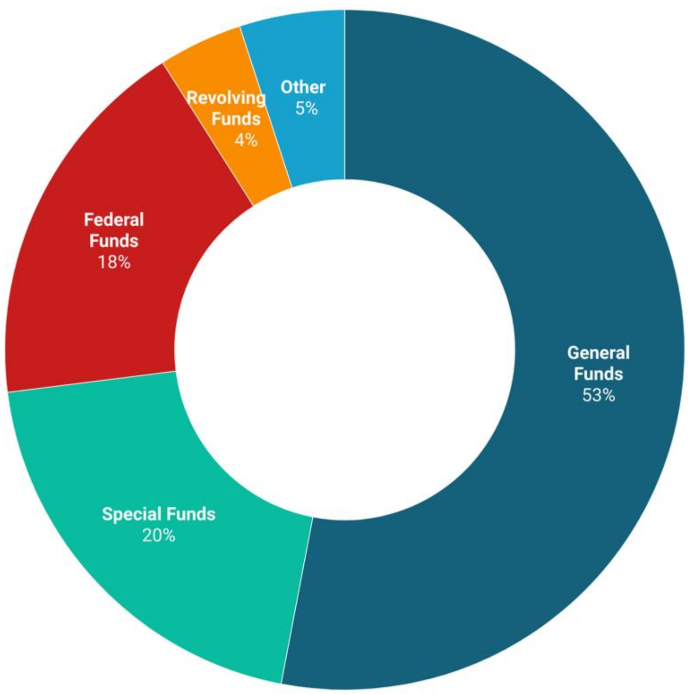
In addition to the executive budget, separate budgets are prepared for the judicial and legislative branches, as well as the Office of Hawaiian Affairs (OHA), which functions as a unique “fourth branch” of Hawai‘i’s government. OHA is tasked with promoting the education, health, housing, and economic well-being of Native Hawaiians. For short-term or one-time funding needs outside the regular budget, separate appropriations bills are used, and emergency appropriations can be authorized by the legislature to address unexpected shortfalls in the current fiscal year (Giesting 2024).

The Senate Ways and Means Committee and the House Finance Committee are responsible for reviewing all financial bills. The budget itself is divided into general departmental operating expenditures and Capital Improvement Project (CIP) appropriations. CIP appropriations fund infrastructure projects like roads and state facilities, often using general obligation bonds, and are not typically included in the operating budget (Giesting 2024).

As shown in Figure 10, general funds make up slightly more than half of Hawai‘i’s FY 2025 operating budget. These funds are generated from major tax revenues. Special funds, which constitute about 20% of FY 2025 spending, are designated for specific purposes, including infrastructure, public education, and tourism. Federal funds are essential for supporting social programs like public health and income assistance, while revolving funds, raised from various sources, offer more flexible spending options. For example, in FY 2025, the governor utilized the Risk Management Revolving Fund to support Maui’s recovery efforts (Department of Budget and Finance 2024b).

Figure 10: FY 2025 Executive Supplemental Operating Budget: $19.2 billion

Statewide Totals by Means of Financing



December 18, 2023

Source: State of Hawai'i, Department of Budget and Finance • Created with Datawrapper

To maintain some semblance of spending discipline, Hawai‘i has a constitutional obligation to establish an expenditure ceiling for the general fund that is overseen by the Council on Revenues—a body of economists and business leaders appointed by the governor and legislative leaders. As a balanced-budget state, the Hawai‘i State Constitution requires that “general fund expenditures for any fiscal year shall not exceed the State’s current general fund revenues and unencumbered cash balances” (Constitution of the State of Hawai‘i). If projected spending surpasses revenues and no carryover funds are available, the legislature must either raise additional revenue or reduce expenditures.

The general fund expenditure ceiling is adjusted annually based on the state’s economic growth, and this is calculated as the average percentage change in personal income over the previous three years. If a proposed budget exceeds this ceiling, the state must declare the excess amount and justify the excess spending (Mak et al. 2020). In recent years, exceeding the expenditure ceiling has become common, and the "justification" has become a routine declaration at the end of budget bills.

A final consideration in preparing the budget is the state's "obligated costs," which include interest on borrowed funds, public worker benefits, the state's share of Medicaid, and post-employment benefits for public sector employees. These costs account for about one-quarter of the state's operating budget and consume nearly half of the general fund. Over the past decade, these obligations have grown from $3.1 billion to $4.7 billion (Giesting 2024).

Governor's Proposed Supplemental Budget and Legislative Approval

Hawaiʻi's biennium budget for 2024 and 2025 totaled $44 billion, which included $37.2 billion earmarked for state department functions and an additional $4 billion dedicated to major infrastructure projects. For FY 2025, the state's total operating budget across all branches, including OHA, amounted to $19.4 billion, of which $19.1 billion was allocated to the executive branch. This allocation covered the offices of the governor and lieutenant governor, as well as 19 state departments, including the University of Hawaiʻi System.

Despite these budget plans, the state's fiscal outlook faced unexpected headwinds in late 2023. Just a year before Governor Green released his supplemental budget, the state had a record surplus of more than $3.9 billion, fueled by federal pandemic aid and robust income tax receipts. Yet just before the legislative session began in January 2024, this surplus had dwindled significantly, and the state's budget office projected a much reduced surplus of $607 million. Despite these financial setbacks, Governor Green remained optimistic, even in the face of escalating costs related to the Maui disaster. "We had a very large surplus before some of the economic downturn and the Maui wildfire, so our new budget will continue to fund all of our priorities such as housing, homelessness, health care, so the fiscal picture is OK," Governor Green explained after the release of his supplemental budget (Dayton 2023b).

To address the Maui wildfires, Governor Green requested an additional $452.2 million for emergency response and future wildfire prevention. He proposed reallocating $164.1 million from other state projects and replacing $160.2 million in general fund appropriations with state bonds to free up funds for recovery while allowing the projects to continue. Of these funds, $65 million was allocated to immediate wildfire relief, while $99.1 million was reserved for temporary housing and debris cleanup. In addition, the governor's supplemental budget included a proposal for $452.2 million to support long-term recovery and statewide mitigation efforts. This included funding for more firefighters and various wildfire prevention measures (Department of Budget and Finance 2023).

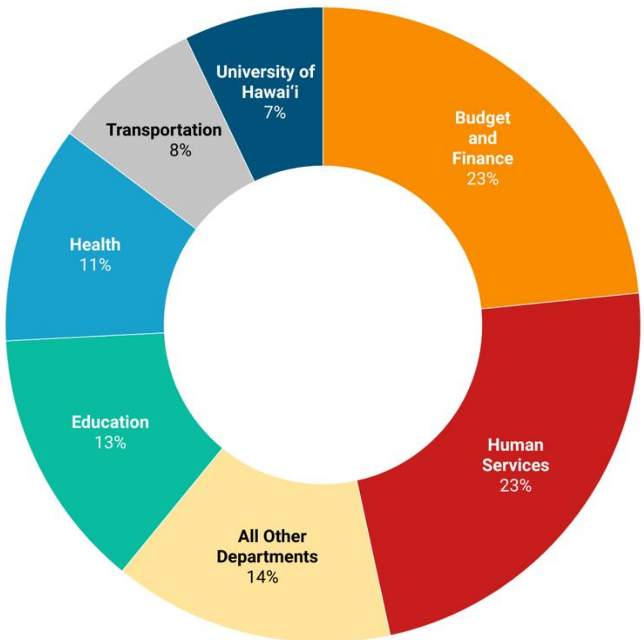
As he had done in the previous legislative session, Green urged the legislature to pass his proposed Climate Impact Fee, which would have imposed a $25 fee on all visitors to Hawaiʻi to help mitigate the effects of climate change (Green 2024). According to the Department of Taxation, this fee, when added to the state's existing 10.25% transient accommodations tax and the 3% county surcharge, is projected to generate an additional $68 million in revenue. However, economists estimate that the fee could result in a reduction of between 18,360 and 23,760 U.S. visitors annually (La Croix and Mak 2024). Although there was considerable press coverage about this idea, legislators were skeptical even before the session began. Some thought it would further burden the visitor industry, while others were concerned about implementation. “How do you enforce the green fee?” asked House Speaker Scott Saiki. “It’s not fair to just impose it on hotel visitors” when many tourists people stay at vacation rentals in local neighborhoods (Dayton 2023c).

The governor also revisited his tax reform proposals from last year’s session, collectively known as the Green Affordability Plan. In his State of the State address, Green emphasized the necessity of tax breaks to help local families remain in Hawaiʻi. “We must find additional ways to reduce the cost of housing, food, and healthcare, and make Hawaiʻi more affordable for our people,” he told residents in his January speech (Green 2024). Early estimates suggested that these tax breaks would have reduced income tax collections by about $104 million in the next fiscal year and nearly $130 million the following year (Dayton 2024a).

As shown in Figure 11, the Governor’s proposed supplemental budget followed the typical allocation of state funds across executive departments. The combined spending on K-12 schools and the University of Hawaiʻi accounted for about one-fifth of the total state budget. This is largely because the state’s school system and the University of Hawaiʻi are the largest employers of public-sector workers. The Department of Human Services, which oversees key programs such as Med-QUEST (Hawaiʻi’s Medicaid program), SNAP, TANF, and public housing, accounted for 23% of the budget. The largest individual departmental allocation went to the Department of Budget and Finance, which manages the state’s emergency reserve fund, public employee retirement systems, debt service for all state agencies, and payroll taxes and benefits for both state and county employees (Giesting 2024).

Figure 11: FY 2025 Executive Supplement Operating Budget: $19.2 Billion

Statewide Totals by Department



December 18, 2023

Source: State of Hawai'i, Department of Budget and Finance • Created with Datawrapper

Legislative Changes and Approval

Concerns about the Maui fire dominated the lead-up to the legislative session and Governor Green's supplemental budget. In the months following the fire, before the full scope of federal aid was clear, the state was spending up to $1 million per day to shelter displaced families (Dayton 2024a). While the state had expected to cover these initial housing costs, officials anticipated that FEMA would reimburse nearly 90% of the expenses. Yet by February, uncertainty had grown about how much federal funding would be made available (Dayton 2024b).

Senate Ways and Means Chair Donovan Dela Cruz raised concerns about the state's increasing expenses related to the fires in February, warning that federal contributions might be significantly less than anticipated. Dela Cruz argued that without substantial federal support, state agencies should prepare to cut their budgets by 10% to 15% (Dela Cruz 2024). Speaker Scott Saiki also feared that costs to the state could exceed $700 million. The combined financial strain of the Maui disaster and the state's commitment to hazard pay for public workers during the pandemic left legislators worried that the total burden might surpass $1 billion (Dayton 2024b). The state's potential liabilities were concerning enough that there were even proposals to slash the state's arts council budget, which supports, among other events, the cherished annual Kamehameha Day celebration and an extensive public arts program (Downey 2024).

At the same time, legislators faced calls from Maui County for major financial assistance. Maui Mayor Richard Bissen asked for $125 million for FY 2025 as part of a larger $405 million package over three years that would be used for infrastructure and other emergency response activities (Gomes 2024a). "We must make our people whole again. We cannot do it without the support of the state," he pleaded with the legislature. Without this help, the mayor warned, it "would set us back for decades" (Dayton 2024c). Although legislators were sympathetic, they were concerned that significant long-term subsidies to the county would negatively impact other state programs (Dayton 2024c). By March of 2028, however, the initial panic over the costs of wildfire recovery had subsided somewhat, and the governor predicted that the state could use current funds to pay for recovery efforts without the need to reduce spending or to tap the state's $1.5 billion emergency reserve fund (Gomes 2024a).

The financial burden on the state was eased when the federal government announced it would cover 100% of the estimated $107 million needed to remove toxic fire debris from Lāhainā (Gomes 2024a). This federal support and nonprofit contributions shifted the tone from the dire predictions earlier in the year. The state's improved budget position even allowed for the appropriation of $140 million for major construction projects at schools and state-managed hospitals, without resorting to general obligation bonds (Dayton 2024g).

The initial House draft of the budget allocated $1 billion, or 10% of the total budget, for potential Maui recovery expenses. Nearly half of this amount was designated for temporary housing costs, with $151 million set aside to subsidize fire-related expenses for Maui County and $135 million for Hawaiʻi's share of federal disaster assistance (Gomes 2024a). In addition, $65 million was allocated to the "One ʻOhana Fund," a plan developed by the governor to compensate fire victims and their families, provided they agreed not to sue the state or other stakeholders such as HECO (Dayton 2024e).

By late April, House and Senate leaders had resolved their relatively minor differences over the supplemental appropriations. Both Senate Ways and Means Chair Dela Cruz and House Finance Chair Kyle Yamashita were able to navigate these differences with ease, a marked contrast to the tense budget negotiations of past years. This was especially surprising given the increased pressure from Maui wildfire recovery, which was expected to intensify debates over spending priorities. As Yamashita announced at the conclusion of the negotiations, "our immediate focus remained to address the Maui wildfire recovery efforts, prioritizing safety and rehabilitation of our communities while ensuring core services for our state were not neglected" (Gomes 2024b).

Table 4 compares the governor's original proposal with the adjustments made in the final House and Senate conference bill. Overall, the legislature reduced total supplemental appropriations by a modest $132 million. The most significant change was a $205 million cut in funding for the Department of Accounting and General Services and a $186 million reduction for the Department of Budget and Finance. These cuts were due to the legislature's decision to appropriate the bulk of Maui recovery funds through separate legislative appropriations. In contrast, the Department of Business, Economic Development, and Tourism saw a significant $243 million increase, with a large portion of that directed to the Hawaiʻi Housing Finance and Development Corporation to support affordable housing projects and rental assistance (Hawaiʻi State Legislature 2024a and 2024b).

Not all budget adjustments were tied to the Maui recovery efforts. The Department of Education received a $40 million increase to support small and rural public schools; a win for progressives on the House education committee who have grown increasingly vocal in recent years (Dayton and Blair 2024a). This represented a significant shift from the previous year, when the Department of Education's budget was slashed by approximately $170 million, leading to outrage from some lawmakers who took the unusual step of voting against the state budget on the House floor (Tagami 2024).

Table 4.
Governor's Supplemental Budget and Legislative Changes, FY 2025

Executive Departments	Biennium Budget for FY 2025	Governor's FY 2025 Adjustments	House & Senate Conference Bill	Change from Governor's Draft to Final Budget
All Departments	**$18,206.4M**	**$19,341.7M**	**$19,209.5M**	**-$132.2M**
Accounting & General Services	$210.3M	$448.3M	$243.2M	-$205.1M
Agriculture	$57.6M	$61.3M	$60.5M	-$0.8M
Attorney General	$118.3M	$121.2M	$122.1M	+$0.9M
Business, Economic Development & Tourism	$408.5M	$315.6M	$558.6M	+$243.0M
Budget and Finance	$4,268.1M	$4,505.3M	$4,319.0M	-$186.3M
Commerce & Consumer Affairs	$109.9M	$118.2M	$119.5M	+$1.3M
Defense	$119.3M	$140.3M	$140.3M	$0
Education	$2,641.7M	$2,771.6M	$2,811.7M	+$40.1M
Governor	$5.4M	$5.4M	$5.4M	$0
Hawaiian Home Lands	$65.7M	$85.9M	$66.5M	-$19.4M
Health	$2,097.1M	$2,180.7M	$2,184.7M	+$4.0M
Human Resources Development	$32.0M	$33.4M	$33.4M	$0
Human Services	$4,218.5M	$4,464.5M	$4,459.8M	-$4.7M
Labor and Industrial Relations	$450.3M	$452.8M	$452.8M	$0
Land and Natural Resources	$253.5M	$358.8M	$342.9M	-$15.9M
Law Enforcement	$65.2M	$90.5M	$96.6M	+$6.1M
Lieutenant Governor	$2.7M	$2.7M	$2.7M	$0
Public Safety	$318.7M	$318.9M	$319.0M	+$0.1M
Taxation	$42.0M	$42.6M	$42.6M	$0
Transportation	$1,394.3M	$1,466.4M	$1,467.0M	+$0.6M
University of Hawai'i	$1,327.2M	$1,357.5M	$1,361.2M	+$3.7M

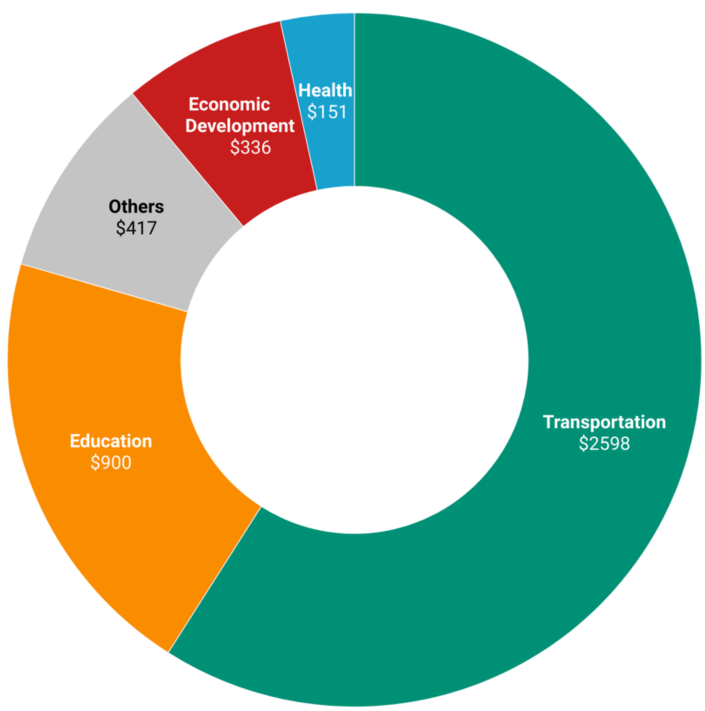
Capital Improvement Projects and Emergency Appropriations

Major infrastructure projects, known in Hawaiʻi as Capital Improvement Projects (CIPs), are approved as separate budget bills. Nearly two-thirds of the funding for these projects are borrowed through state general obligation bonds. As shown in Figure 12, the vast majority of CIP funds are allocated for transportation initiatives, including highway, harbor, and airport maintenance and upgrades.

Education related projects, which include new and renovated buildings for state schools and the University of Hawaiʻi system, received $900 million in CIP appropriations for FY 2025. For example, one authorization of $19 million was dedicated to the planning and design of a new elementary and middle school on Maui (Hawaiʻi State Legislature, 2024a). Health facilities, such as state-owned hospitals, were allocated $151 million, while various infrastructure projects aimed at promoting economic development received $336 million. Among these was a $2.5 million earmark for the development of a new Value-Added Product Development Center on the small island of Molokaʻi (Hawaiʻi State Legislature, 2024a)

Figure 12: Capital Improvement Projects by Area of Funding, FY 2025

Millions of dollars



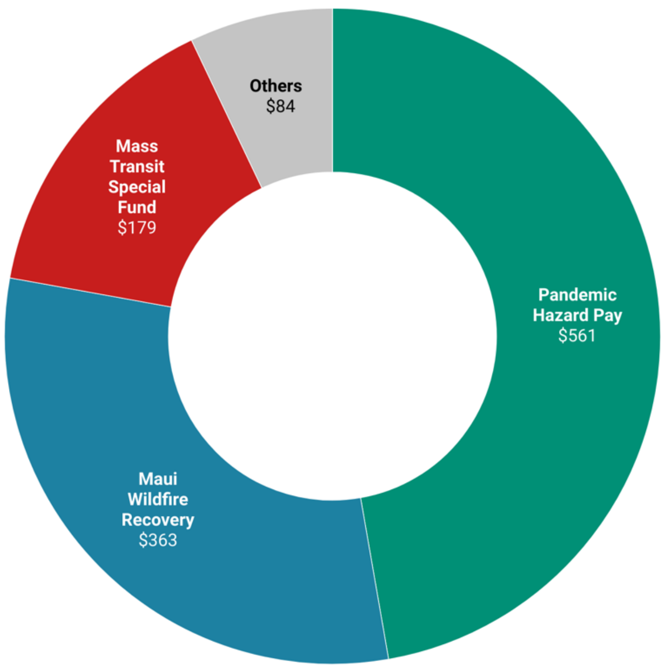
Source: Giesting (2024) and Hawaiʻi State Legislature (2024a). • Created with Datawrapper

Emergency appropriations provide funding outside of the state's regular operating budget. Unlike most legislative sessions, emergency and one-time appropriations played a significant role in the FY 2025 budget due to the Maui wildfires (Dayton and Blair, 2024b). As illustrated in

Figure 13, a total of $1.1 billion in emergency appropriations were approved during the 2024 legislative session. Of this, $362 million was allocated for Maui wildfire recovery efforts. An even larger appropriation of $561 million was designated for retroactive pandemic hazard pay for state workers who performed essential tasks during the COVID-19 pandemic (Gomes, 2024e). The overwhelming support for this measure from both the governor and legislative leaders highlights the influence of public-sector unions in Hawai'i. Finally, a smaller appropriation of $179 million was made to support various mass transit projects, including Honolulu's high-speed rail system, which began partial operations last year after nearly a decade of construction delays.

Figure 13: FY 2025 One-Time and FY2024 Emergency Appropriations by Purpose

Millions of Dollars



Source: Giesting (2024) • Created with Datawrapper

Historic Tax Cuts

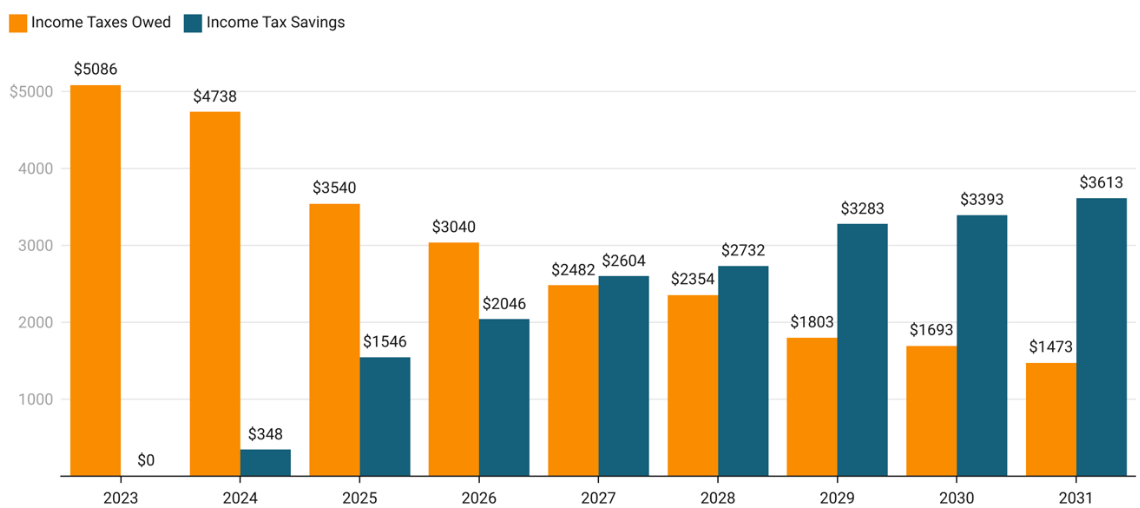
The recovery of Maui dominated much of the discussion during the legislative session, but the most notable development may have been Hawai'i's historic tax cuts. Governor Green, who had been pushing for major tax reform since he took office, argued that the state could afford tax relief and also Maui's recovery (Dayton 2024f). As the governor argued, Hawai'i's cost of living crisis was exacerbated by having some of the highest income taxes in the nation. Few disagreed with the governor's assessment. Indeed, as the state's own Department of Taxation reported, "When sales tax and income tax are combined, Hawai'i's households face the highest tax rate in the country" (Colby 2024).

Initially, the tax cuts received a muted reception at the legislature, whose members were primarily concerned with the costs of Lāhainā's recovery (Dayton 2024a). Nevertheless, as the state's overall budget picture began to improve and it became clear that substantial federal support would cover much of the initial recovery costs, the tax cut proposals received a more favorable reception in the House. Although there were few initial details, when the bill emerged from conference, it became clear that the tax cuts were poised to become the largest in Hawaiʻi's history. On the whole, legislators were enthusiastic supporters of the bill. Sen. Angus McKelvey, who represents Lāhainā and the devastated sections of West Maui, called them "huge," and hailed the tax reform as the most important piece of legislation in 2024 (Dayton and Blair 2024c). Even the governor, who was only briefed on certain aspects of the proposed cuts, noted that they were "much larger than we had even envisioned, which I think is great" (Dayton, 2024j).

Officially known as Act 46, the tax reform is projected to reduce income taxes for 70% of all families and eliminate income taxes for 40% of Hawaiʻi taxpayers by 2031 (Dayton, 2024k). One key change is the substantial increase in the standard deduction. By 2030, it will rise from $2,200 to $12,000 for individuals and from $4,400 to $24,000 for couples. The state tax office estimates that individuals earning between $22,000 and $62,000 annually will see tax reductions ranging from 63% to 72%, while the wealthiest taxpayers will benefit from cuts of 10% to 15% (Gomes, 2024f).

Figure 14 shows how the tax liability for a family of four earning Hawaiʻi's median household income of $88,005 will change from 2024 until the law is fully implemented in 2031. This family's income tax liability will decrease from $5,086 to $1,473 (Colby, 2024). In the end, this bill will transform Hawaiʻi from a state with one of the highest tax-burdens for working families to one of the lowest.

Figure 14: Estimated Tax Liability Change for a Family of Four Making the Median Household Income of $88,005 in Hawaiʻi



Source: Colby (2024) • Created with Datawrapper

While most legislators celebrated the tax reform as a victory for working families, concerns lingered about how the state would manage the projected loss in revenue. The Department of Taxation estimated that the state would lose only $240 million in FY 2024, but revenues are projected to drop by $1.3 billion in FY 2031 (Dayton 2024l; Dayton and Blair 2024c). In total, the state's tax economists project that tax collections will be reduced by $7 billion over the next eight years (Dayton 2024j).

The aggressive nature of the tax cuts raised concerns that the state may eventually be forced to reduce services. As former Democratic Senate Majority Leader Gary Hooser cautioned, "Cutting taxes, there's a price for that. Services have to get cut, or you don't spend money on education, or park preservation, or any number of services — mental health, affordable housing." (Dayton 2024j). Progressive lawmakers were particularly concerned that many of the benefits would go to wealthier families. House Democratic Majority Whip Amy Perruso described the cuts as a "risky approach," pointing out that the lowest tax bracket would only see a savings of $335 (Dayton and Blair 2024c), while the progressive nonprofit Hawaiʻi Appleseed warned that the cuts could eventually "be known more for their harms than their benefits" (Caron 2024). Governor Green, however, expressed confidence that the gap would be offset by increased GET revenues because families living paycheck to paycheck would spend every dollar on local businesses, and that the rise in family incomes would reduce reliance on Medicaid and other social service programs (Dayton 2024k). He also argued that certain state government positions could be eliminated to compensate for the revenue shortfall (Gomes 2024f).

In addition to the income tax cuts, another tax bill received near-universal support. For years, both progressives and conservatives have criticized the application of the state's GET to medical care, which contributed to higher costs and placed a significant burden on clinics and physicians, particularly those serving low-income patients or practicing in rural areas. This year the legislature finally addressed those concerns, and unanimously passed a bill removing the GET from medical and dental services provided to patients on Medicaid, Medicare, and TRICARE (a health insurance program for military personnel and their families). This measure is expected to reduce GET revenue by an estimated $70 million to $84 million annually (Dayton and Blair 2024c; Dayton 2024k).

Governor's Line Item Vetoes and the Final Budget

In Hawaiʻi, the governor has the authority to issue line item vetoes for appropriation bills. After the legislature approved the final budget, Governor Green exercised this power to reduce spending for FY 2025 by $1 billion (Giesting 2024). The largest portion of this reduction came from his line item veto of House Bill 40, which had allocated $300 million to the state's emergency budget reserve fund and $135 million to the public employee retirement system for pension funding. Green reduced both appropriations to just $1.00, opting to maintain a larger cash surplus instead (Dayton 2024i). The governor explained that the emergency reserve fund had already reached a historically high $1.5 billion and argued that maintaining a larger cash reserve would improve the state's bond rating (Borecca 2024c). In addition to these cuts, Green also vetoed various appropriations to state agencies, totaling $74 million (Giesting 2024), and slashed $79.5 million from capital improvement projects (Gomes 2024g).

Table 5 shows the final FY 2025 budgets for all branches of Hawai‘i’s state government, including the Office of Hawaiian Affairs. It shows the unusually large emergency appropriations of $1.1 billion in FY 2025 and the $4.4 billion in capital improvements projects. Altogether, the FY 2025 budget authorized a total of $25 billion in spending.

Table 5. Operating Budgets, Other Appropriations, and Capital Improvement Projects by Branch of State Government, FY25

Category	Executive Branch	Judicial Branch	Legislative Branch	Office of Hawaiian Affairs	Total
Operating Budget	$19.1B	$210.7M	$48.7M	$6M	$19.4B
One-Time Appropriations	$57.7M	$420,000	$150,000	$0	$58.2M
Emergency Appropriations	$1.1B	$30.5M	$8M	$0	$1.1B
Capital Improvements	$4.4B	$17.0M	$0	$0	$4.4B
Total	**$24.7B**	**$258.6M**	**$56.8M**	**$6M**	**$25.0B**

Source: Giesting (2024) and Hawai‘i State Legislature (2024b and 2024c)

Given the concerns about state revenues at the beginning of the 2024 session, most observers agreed that the legislature effectively navigated the challenges posed by the Maui crisis. Even the normally taciturn Senate President, Ron Kouchi of Kaua‘i, called the legislature’s efforts “amazing.” In the end, lawmakers implemented $5 billion in tax cuts spread over eight years, preserved core services and programs, and allocated nearly $1 billion for Maui’s relief efforts (Gomes 2024e). Long-time *Honolulu Star-Advertiser* political columnist Richard Borecca aptly summed up the fiscal mindset: “In good times, the operative thinking is to spend it if you have it” (Borecca 2024c). Nevertheless, some still advised caution. As James Tokioka, the head of the state’s business and economic development office, noted, “our economy is going to grow slowly in 2024, and while it is not a recession, it will be slower than our growth last year and slower than the nation’s economic growth” (Borecca 2024c). Despite these concerns, major spending initiatives and tax cuts was the prevailing strategy for FY 2025.

Emerging and Ongoing Policy Challenges

Economists predict that Hawai‘i’s economy will continue to grow, but at a slower pace than in recent years. Maui’s rebuilding efforts and the gradual return of international tourists will likely help the visitor industry and offset a decline in visitors from the U.S. mainland. Nevertheless, they expect visitor spending to decline slightly in 2024 and to level off by 2025. Job growth across the state is predicted to be modest, and Maui’s employment numbers will remain significantly below their pre-wildfire employment levels. In the long run, slow population growth is expected to continue to constrain economic expansion (Bonham et al. 2024b). Along with these general concerns about the state’s economic health, there are several policy issues that will present challenges for the state in the years ahead.

Maui Recovery

Maui faces a long road ahead in its recovery. A recent survey of Lāhainā residents affected by the wildfires revealed that over 40% struggled to access medical care and medications, compared to just 10% before the fires. Nearly half (46%) reported a decline in their health, and only 34% are living in their pre-wildfire homes. One-fifth were still jobless earlier this year, and 74% saw a reduction in their household incomes (Juarez et al. 2024).

Maui Settlement Fund

Among Governor Green's more controversial initiatives was the creation of a settlement plan for victims of the Maui wildfires. With over 70 lawsuits naming the State of Hawaiʻi as a defendant, Green proposed the One ʻOhana fund, offering up to $1.5 million in compensation to families of victims in exchange for an agreement not to pursue further legal action against the state. Attorney General Anne Lopez estimated that 75% to 80% of those seriously affected would accept the settlement (Dayton 2024d). In a broader settlement related to the fires, a $4 billion agreement was reached to resolve all other claims, with the state's public electricity utility, HECO, contributing half the money in four annual installments. This agreement, which involves multiple parties, remains subject to judicial approval. Governor Green emphasized the urgency of reaching a settlement to avoid protracted lawsuits and to ensure that resources reach those affected as quickly as possible (Gomes 2024h)

HECO Liability

Lawmakers considered significant changes to HECO in exchange for allowing the utility to charge customers a new fee to cover wildfire-related costs. HECO was seeking authorization to impose this fee outside the standard ratemaking process to help it secure $2.5 billion in low-interest bonds. Although legislators ultimately rejected HECO's plan, they will need to consider alternative solutions during the 2025 legislative session (Yerton 2024a).

Affordable Housing

Hawaiʻi's affordable housing crisis becomes worse every year. Today, a household must earn $190,000 to afford the median single-family home in Honolulu. As a result, only 20% of Hawaiʻi's households can afford a home, a steep decline from 44% just three years ago (Tyndall et al. 2024). Most researchers blame this crisis on a lack of housing supply. Indeed, Hawaiʻi issued permits for only 35% as many homes as it did in 2005, placing the state near the bottom in national housing production rankings (Bonham et al. 2023a; 2023b). Lawmakers are now exploring ways to speed up housing development by reducing regulatory barriers, such as environmental and historic reviews, which many argue slow the process of building much-needed affordable housing (Angarone 2024; Dayton and Blair 2024b).

Short-Term Rentals

As of 2023, Hawaiʻi had 32,000 short-term rentals (STRs), making up nearly 6% of the state's total housing inventory. While there have been efforts to regulate STRs, including Honolulu's enforcement of a 30-day minimum stay in residential neighborhoods, the overall number of active listings remains stable. Kauaʻi saw the largest increase in listings, rising 22% between 2022 and 2023. Legislation passed in 2024 gave counties greater control over STR regulation, and a proposed policy on Maui could shift over 7,000 STRs into the long-term rental market. This may improve housing affordability but economists warn that it is also likely to reduce county revenue and impact the recovery of the tourism industry (Tyndall et al. 2024; Dayton and Blair 2024b).

Condo Insurance

Rising insurance costs, particularly for condominiums, is becoming a major issue in Hawaiʻi, driven by catastrophic events like the Maui fires and rising global reinsurance rates. As premiums increase, many condo associations are choosing reduced coverage or higher deductibles. Currently, around 375 to 390 condo buildings in Hawaiʻi are underinsured, and this is leading to major problems in the local mortgage market (Bonham et al. 2024b; Yerton 2024b). Governor Green recently issued an emergency proclamation to allow two state-backed insurance carriers, the Hawaiʻi Property Insurance Association and the Hawaiʻi Hurricane Relief Fund, to offer hurricane and property insurance policies to condo associations (Gomes 2024i). These condo insurance problems will likely take center stage during next year's legislative session.

Economic Diversity

Hawaiʻi continues to face challenges in diversifying its economy beyond tourism. The visitor industry remains the state's chief industry, but it has experienced slow growth over the past three decades. Hawaiʻi's GDP per capita has dropped from 25% above the U.S. average in the 1970s and 80s to about 8% below the national average today. While visitor numbers have rebounded post-pandemic, Hawaiʻi's economy has struggled to keep pace with the broader U.S. economy, and its high cost of living makes it even more difficult to develop a dynamic and diverse economy (Bond-Smith and Ilamkar 2024). Although policymakers recognize the need for economic diversification, this is easier said than done. Ocean-based industries, such as fishing, port operations, and seafood production, present logical options given Hawaiʻi's location and natural resources. Film production has also seen moderate success in Honolulu and may continue to grow in the future (Bond-Smith and Ilamkar 2024).

Sea-Level Rise

By 2100, the National Oceanic and Atmospheric Administration projects that global sea levels will rise by 3.8 feet, threatening the homes and livelihoods of around one billion people and leading to asset losses between $8-14 trillion (Sweet et al. 2022). In fact, sea level rise is already impacting Hawaiʻi. Approximately 70% of beaches on Maui, Kauaʻi, and Oʻahu are eroding at a rate of -0.4 feet per year, and coastal highways on Oʻahu, Maui, and Molokaʻi are already experiencing damage from erosion and storm surges (Fletcher et al. 2012). A recent survey of state legislators and county officials found that 66% expect significant impacts from sea-level rise within the next 50 years, but only 9% rank managing this looming catastrophe as a top priority (Loeb and Moore 2024).

Conclusion

Hawai‘i’s FY 2025 budget reflected the state’s struggle to balance recovery efforts with long-standing economic and social challenges. Despite the devastation on Maui, the state has remained financially sound. Its principal tax revenues from the GET, TAT, and income taxes are robust, but the spending for Maui’s recovery effort has strained resources, raising questions about how the state will address its other long-term priorities while meeting these immediate demands.

The biennial budget, which authorized $44 billion in spending, was significantly revised in the aftermath of the Maui wildfires when the Green administration requested approximately $600 million for recovery and wildfire mitigation efforts. The governor’s supplemental appropriations were largely aligned with legislative priorities, and the process allowed for quick responses to the most pressing issues. Nevertheless, the budget highlighted the limits of the state’s revenue sources. Despite Hawai‘i’s strong recovery from the pandemic and significant federal support, the reliance on tourism continues to limit Hawai‘i’s ability to generate stable, long-term revenue. Furthermore, while lawmakers agreed with many of the governor’s priorities, such as tax cuts and affordable housing initiatives, there remains a tension between addressing immediate needs like wildfire recovery and maintaining focus on broader reforms, such as fostering initiatives to support economic diversification.

Overall, legislators were able to maintain core services, address wildfire recovery, and pass historic tax cuts, but they also faced hard choices about which programs to prioritize. The housing crisis continues to be at the forefront of the budget process, with significant resources directed toward alleviating the state’s shortage of affordable housing. However, as state lawmakers worked to reduce regulatory barriers and support accessory dwelling unit construction, other critical areas—such as education, infrastructure, and social services—were left competing for limited funds.

Looking ahead to next year, the results of the FY 2025 budget will depend on how effectively the state implements the ambitious programs outlined in Governor Green’s supplemental budget and the legislature’s final appropriations. The allocation of $600 million for wildfire recovery, combined with the largest tax cuts in the state’s history, signals a shift toward immediate relief for residents and a concerted effort to make Hawai‘i more affordable. Yet the budget also raises questions about sustainability, particularly in the face of continued economic uncertainty, rising insurance costs, and the threat of climate change. Going forward, the state’s economic and cultural health will depend on addressing the long-term challenges of maintaining a resilient economy and reducing the cost of living so that working families can stay in their island home.

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