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Journal

California Journal of Politics and Policy, 4(3)

Author

Belt, Todd L.

Publication Date

2012-10-01

DOI

10.5070/P2001D

Peer reviewed

Research Article

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A New Day in Hawai‘i: the Lingle to Abercrombie Transition and the State Budget

Abstract: The State of Hawai‘i’s budget for Fiscal Year 2012 was balanced by a combination of spending cuts and the closing of tax loopholes. The process pitted a new governor, working on his predecessor’s budget proposal, against a somewhat fragmented legislature. Several controversial proposals were floated, but in the end, Hawai‘i did what it usually does, and passed the tax increases on to the tourists.

Keywords: Hawai‘i State Budget; Neil Abercrombie; Rental Car Tax; Transient Accommodations Tax

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1 Introduction

On December 5, 2010, the state of Hawai‘i ended eight years of divided government, inaugurating Neil Abercrombie as governor. Two-term Republican Governor Linda Lingle handed the reins of power to Democrat Neil Abercrombie, who promised a “New Day for Hawai‘i”.

The deck is stacked against the new governor in many ways. The economic downturn that began in 2008 continued to create substantial budgetary headaches during his first year in office, culminating in a \$1.3 billion shortfall for the fiscal year (FY) 2012. Former Governor Lingle’s budget, transmitted to the legislature just before Abercrombie’s inauguration, reflected vastly different priorities than those of the incoming governor. Abercrombie and his staff scrambled to introduce an adjustment package shortly after the state legislature convened, but they could only do so much. Among the priorities for funding were capital improvement projects (CIPs), servicing of debt obligations, and the funding of

human services programs, all of which were of lower priority in the outgoing Republican governor's budget.

The problem was even more difficult because the governor and legislature were working on a biennial budget. Abercrombie would not get his first full crack at the budget for another two years. Many of his projects, including various stimulus measures, will have to wait until the middle of his term to see the light of day.

As the budget bill moved from the state House to the Senate, revenue projections continued to slip. The anticipated rebound in tourism did not materialize to the degree expected. Moreover, the disaster resulting from the earthquake and tsunami in Japan reduced the number of Japanese tourists visiting Hawai'i, further postponing the economic recovery and cutting into anticipated revenues.

The budget signed by Abercrombie was significantly smaller than requested. In order to balance the budget, the gap was filled half by new revenues and half by spending cuts. New revenues were generated by altering deductions allowed under the state income tax, closing loopholes on the state General Excise Tax (GET), redistributing the Transient Accommodations Tax (TAT), increasing fees on auto rentals and vehicle registration, and raiding special funds. The majority of spending cuts were made by the legislature, but \$50 million in cuts were mandated at the governor's discretion.

2 State of the Economy

While the economic downturn that began in 2008 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. Hawai'i has the 11th highest foreclosure rate in the nation, with one in nine homes sold in the state in 2010 being foreclosed upon (Niesse 2011a).

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% in January 2008, to a high of 7.1% in June of 2009, which plateaued for the remainder of the year. As a backdrop to the 2011 legislative session, unemployment was at a steady 6.6% through the duration of the legislative session from January to May (Figure 1).

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, and these two sectors are closely linked. Tourism creates a demand not only for vacation accommodation, but also real estate purchases (and associated development). Credit tightening as a result of the banking

Figure 1: Seasonally-adjusted Unemployment in Hawai'i by Month, January 2007 to April 2011.

Source: BLS LAU (2011).

crisis made it more difficult to obtain funding for building projects (DBF 2009). During the legislative session, a small turnaround of 2% growth was expected for 2011 over 2010 (McAvoy 2011), slightly better than the 1.2% growth from 2009 to 2010. By the end of the year, real GDP growth was 1.2% (DBEDT 2012).

Much of the growth in Hawai'i's economy has been because of increases in tourism. Compared to 2010, estimates for visitor arrivals released in the first quarter of 2011 were up by 4.0% and the number of visitor days was expected to increase by 4.1%. Even more impressive was the expected growth in visitor expenditures, at 9.2% (DBEDT 2011); but, the aforementioned estimates were released before the Japanese earthquake and tsunami of March 2011. Japanese visitors were expected to decline by 25% because of the tsunami (Niesse 2011b). Visitors from Japan make up 17% of total tourist revenue (about \$1.9 billion), outspending American visitors by twofold, and Hawai'i is the top USA tourist destination for Japanese tourists (Song 2011). In March, Japan Airlines (JAL) reduced the number of direct flights from Tokyo to Honolulu. It was estimated that the cuts would last from April 6 to about April 27 (Cooper 2011). The number of flights from Narita to Honolulu was cut from 21 to 14 per week. At the end of October 2010, JAL stopped flying direct routes from Narita to Kona, a route which had been served daily for 15 years (Mendoza 2010).

Ultimately, tourism rebounded during the latter half of 2011, but only after the legislature passed its budget in May, based on projections made earlier in the year. Figures for the entire year showed visitor arrivals up by 3.8%, roughly in line with projections, but vacationers stayed longer than expected, with an increase of 5.4% in the number of visitor days (DBEDT 2012). Impressively, visitor spending greatly exceeded expectations, rising 15.4% for 2011 over 2010 (DBEDT 2012). Part of this uptick could be explained by the Hawai'i Tourism Authority's decision to spend \$3 million on advertising in North America, Korea, New Zealand and China to counter the fall-off in Japanese tourism (Tang 2011).

3 Demographics

Hawai'i has experienced moderate population growth in the past 10 years. The 2010 Census shows 148,764 new residents, a rate of 12.3% for the decade (Census 2011). This percentage population increase ranks 17th nationally. Hawai'i's 1,360,301 residents are concentrated on the island of O'ahu, which boasts 876,156 residents (72.3% of state residents). The remaining 335,381 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). Politically, this divides Hawai'i into two very different congressional districts: CD1 for downtown Honolulu, and CD2 for everywhere else.

Hawai'i state residents tend to be slightly older than the national average, with 77.6% of residents being over 18 years old in Hawai'i, compared to 75.7% for the nation as a whole (source: ACS 2009). The median age of Hawai'i state residents has remained relatively unchanged at about 37.9 over the past few years (Census.gov), with O'ahu residents being slightly younger than their neighbors on the other islands, which tend to be more popular areas for retirement.

As one might expect, Hawai'i differs in many ways demographically from "mainland" USA. For one, Hawai'i is the only state to never have had a majority white population (Pratt and Smith 2000). In Hawai'i, only 26.9% of residents claim to be "white" (Table 1). Hispanics are the fastest growing segment of the population, with numbers increasing by 38% from 2000 to 2010 (Kelleher 2011). Not surprisingly, Hawai'i is an attractive home for many immigrants to the USA, with only 80.3% having been born in the USA, compared to 86.3% nationally (source: ACS 2009). The result is a diverse milieu of cultures.

Hawai'i's residents are slightly more educated than the national average, with 89.5% of residents having completed high school, compared to 84.6% nationwide. Similarly, a higher percentage of residents of the state hold Bachelor's degrees or higher (29.2% in Hawai'i compared to 27.5% nationwide).

	Hawai‘i	U.S.
White	26.9	72.0
HS Graduate	89.5	84.6
BA Degree or Higher	29.2	27.5
Born in US	80.3	86.3
Civilian Veterans	12.3	10.1
Serving in Armed Forces	1.3	0.5
Households with Families	70.0	66.7
English-only Households	75.6	80.4
Families Below Poverty Line	6.8	9.9

Table 1: Demographic Comparisons: Hawai‘i vs. U.S. (Percentages).
Source: ACS 2009, Census.gov (2010 data).

The geo-strategic importance of Hawai‘i results in other patterns that are not seen in the mainland. Hawai‘i has a disproportionate number of military bases, service people and veterans. Hawai‘i residents are much more likely than the national average to be currently serving in the military (1.3% vs. 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 proportion of residents who are civilian veterans is 12.3%, compared to 10.1% nationally (census.gov). Accordingly, the US Department of Defense and Department of Veterans’ Affairs are important sources of revenue for the state, which have had their funding protected by the state’s congressional delegation.

Families (known as ‘*ohana*’) play an important role in local Hawaiian culture. Children maintain close relationships with their parents after leaving home, and often remain at home to tend to family needs. In Hawai‘i, 70.0% of all households are families, compared to 66.7% 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 75.6% of households speak English only, compared to 80.4% nationally (census.gov). Beyond Hawaiian, popular second languages include Japanese, Chinese, Korean, Portuguese, Filipino, and other Pacific island languages.

Residents of Hawai‘i benefit from higher wages than residents of the mainland. Median household income for the state of Hawai‘i is \$67,214, a little above the national figure of \$63,366. But higher incomes are more than canceled out by the high cost of living. As a state, Hawai‘i has the highest cost of living in the nation (source: CCER/ACCRA 2010). So, while Hawai‘i has fewer families living below the poverty line than the national average (6.0%–9.9%), 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. Moreover, there is a tendency for the tight-knit families in Hawai'i to pull together (*hui*) when times are tough.

Labor unions have a strong presence in Hawai'i. Nearly one-quarter of the labor force is unionized (24.3%), which is twice the national average of 12.3% (BLS 2010). The strongest unions are the ILWU (International Longshore and Warehouse Union) and HGEA (Hawai'i Government Employees Association). The Hawai'i State Teacher's Union (HSTA) has also played an important role in Hawai'i politics and budget battles, waging a two-year battle over furloughed instructional days.

4 Political Composition of State Government

There are many unique features of Hawai'i's governmental structures. Foremost is that Hawai'i is the only state in the nation without municipal governments. The county is the lowest level of governance, despite Honolulu's "City Council", which actually governs the County of Honolulu, which comprises all of O'ahu. There are three other counties: Hawai'i County (the "Big Island"), Kaua'i County (the island of Kaua'i), and Maui County (including the islands of Maui, Moloka'i and Lana'i). Because of a lack of geographic contiguity, counties have a fair amount of legislative and administrative autonomy, but depend upon revenue programs that are shared with the state.

Another unique feature of Hawai'i politics is Democratic dominance of the state legislature. This has long been the case, but never more so than now. The House of Representatives has been dominated by the Democrats since statehood, and Republicans last had a majority in the Senate in 1965. The lack of party competition has given rise to cleavages within the Democratic Party, including fiscal conservatism and various social issues such as gambling and same-sex marriage. Positions on these hot-button issues create factions within the Democratic Party (Pratt and Smith 2000).

In the 2010 elections, Republicans picked up two seats in the House of Representatives. But the balance remained strongly in favor of the Democrats, with a 43-8 majority. In the Senate, Democrats picked up one seat, giving them an overwhelming 24-1 majority. The lone Republican, and default Minority Leader and Floor Leader is Senator Sam Slom, who serves on all committees as the voice of the loyal opposition.

The Hawai'i state legislature has no term limits. House members serve for two years, while Senators enjoy four-year terms. Legislative leadership positions are important for assignment to committees and selection of chairs. The Republican

pick-up of two seats in the state House of Representatives caused a power vacuum among Democratic factions, with none able to muster the votes needed to elect leadership for weeks before the legislative opening. Eventually, Calvin Say was able to retain the Speakership. Colleen Hanabusa, the former President of the Senate, had moved onward and upward to the US House of Representatives, so Shan Tsutsui took over as President.

Much of the “real” political power of legislators derives from their ties to the power structure within the 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. Many legislators became trustees of the Bishop Estate subsequent to leaving office (Pratt and Smith 2000).

The Hawai'i state legislature is somewhat weaker than the governor, reflecting the “strong governor” systems of many former US territories (Pratt and Smith 2000). Because of its weak position and its short legislative schedule, few statewide leaders emerge from the legislature. The “governor-in-waiting” position has traditionally been the office of Lt Governor, with the prior three democratic governors having held the position before ascending to the governorship. In the November 2010 election, former US Representative Neil Abercrombie overcame this trend by defeating Lingle’s Lt Governor, James “Duke” Aiona. Abercrombie brought with him the young and up-and-coming Brian Schatz as his Lt Governor.

All four members of Hawai'i’s US congressional delegation have traditionally been members of the Democratic Party. The state’s senior senator, Daniel Inouye, has served in the US Congress since statehood, occupying a US 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). In the 2010 fiscal year, Inouye brought home \$412 million (Sample 2010). With the 2011 ban on earmarks, Inouye had to devise clever ways to maintain unfinished earmark projects. For instance, Hawai'i Island’s saddle road upgrades were reclassified as a military access road in order to be included in the military budget (Armstrong 2011a).

The state’s junior senator, Daniel Akaka, has made his signature issue the Native Hawaiian Government Reorganization Act. This Act would establish a process for native Hawaiians to organize a governing entity that could then negotiate with the US national government in a manner comparable to native American tribes. However on March 2, 2011, Akaka announced his intent to retire from the US Senate (Niesse 2011c) following the defeat of the Native Hawaiian Reorganization Act, and his demotion in committee chairmanships. With Senator

Akaka's retirement, the 2012 election will feature the first open-seat election for US Senator from Hawai'i in 36 years.

In 2010, Neil Abercrombie resigned from the US House of Representatives to campaign for governor. Because of a quirky special election, the state's first congressional seat, representing downtown Honolulu, was briefly occupied in 2010 by Republican and former Honolulu Councilman Charles Djou. The election was conducted by mail, and concluded on May 22, 2010. The race was an open, winner-take-all contest, and the two democratic candidates (former second district US Representative Ed Case and State Senate President Colleen Hanabusa) split the democratic vote. This allowed 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 the November 2010 general election by Colleen Hanabusa.

The state's other US House member, representing the state's second district (rural O'ahu and all other islands), is Mazie Hirono who won the office that Ed Case left in 2007 after losing the senatorial primary battle with Akaka in 2006. Hirono has worked diligently to continue to seize Hawai'i's share of federal dollars. In April 2011, she attached an amendment to the Federal Aviation Reauthorization and Reform Act, providing \$6 million for upgrades to Hawai'i's airports (AP 2011a). Other federal assistance resulted from the tsunami that hit Hawai'i, which did \$30.6 million in damage overall, with \$8.5 million of that to public property (Jensen 2011). A disaster declaration by President Obama allowed federal assistance covering 75% of the damage to public property (Niesse 2011d).

5 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 particularly worse during the last two years of her tenure as the economic downturn created significant challenges. With the newly elected Governor Abercrombie, Hawai'i returned to a situation of unified government.

Soon after taking office, Abercrombie replaced several legislators, two of whom took places in his administration. Senators Dwight Takamine (SD1) and Russell Kokobun (SD2) took places as department heads, being replaced by Malama Solomon and Gil Kahele, respectively. State Senator Colleen Hanabusa (SD21) won election to the US House of Representatives, and Abercrombie replaced her with Maile Shimabukuro. These appointments allowed Abercrombie to infuse the state house with political allies, increasing his chances of legislative success.

One action by the governor that rubbed political circles the wrong way was his dealings with members of state boards and commissions. In June 2011, the governor sent letters requesting the resignation of dozens of appointees who had been selected by former Governor Lingle (Depledge and Consillio 2011). To many, this seemed a heavy-handed approach to infuse a political spoils system. Earlier, Abercrombie signed a bill whereby the legislature authorized him to make appointments to the Board of Education without screening by an advisory council (Depledge and Consillio 2011). Given his approach to the boards and commissions, the legislature may be more reticent to cede power to a governor who seems to be concentrating his power.

To date, there is little by which to evaluate Governor Abercrombie's leadership style. He set his budget priorities through his State of the State address and a budget revision request sent to the legislature. In his State of the State address, Abercrombie likened the state to a canoe in danger of capsizing, insisting that all of Hawai'i's people must work together to "right our canoe" in these tough economic times (Osher 2011). Beyond his few speeches and his budgetary transmission to the legislature, there were little data to assess in terms of defining his legislative style and identifying particularly powerful friends and foes in the legislature.

6 Major Issues

As with any state legislature, Hawai'i's deals with a number of social issues each year, which are sometimes cynically referred to as shield issues because they divert attention away from the budget. Whether these issues are intentionally placed on the legislative agenda as "red herrings" is irrelevant — it is the effect that matters. But, of course, many social issues may have a real impact on the state's economy as well as other ramifications on state revenues and expenditures. As noted earlier, social issues are one of the main threats to Democratic Party unity in the state legislature, and are hotly contested with much public input.

6.1 Physician-assisted Suicide

In the 2011 session, legislators took up the issue of physician-assisted suicide. Only three other states permit physician-assisted suicide: Montana, Oregon and Washington. The bill (SB 803) died in the Senate Health committee, whose

members voted unanimously against it. The majority of testimony came from disabled residents, car accident survivors, and elder care providers who opposed the bill. The committee chairman was Josh Green, an emergency room doctor who was swayed by the disproportionate slant of the testimony (Niese 2011e).

6.2 Civil Unions

The issue of civil unions was brought up in the 2010 legislative session and passed by the legislature, but vetoed by Governor Lingle. 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.

In 2001, with an agreeable governor in office, civil unions were one of the first issues brought up by the legislature. On February 23, Governor Abercrombie signed the civil union's bill into law, putting to rest a long and contentious issue (Niese 2011f). Civil unions were slated to begin on January 1, 2012. Civil unions also could impact the state's economy with an influx of couples to the island in order to get these unions. These revenues are sometimes referred to as "pink dollars," and generally flow to wedding planners and vacation industries such as tours and accommodations (Stewart 2011a).

6.3 Housing Foreclosures

The legislature considered three bills (HB 894, HB 1411, SB 651) to provide moratoriums on housing foreclosures: one provided a five-month moratorium, and the others a six-month moratorium (with differing mediation procedures). As noted above, Hawai'i's foreclosure rate is 11th in the nation. The median price of a single family home on Oahu is \$570,000 (AP 2011b). State law requires affordable housing be built in conjunction with new developments, but qualifying for these units can require a family income of over \$89,000 (Lauer 2011a). On May 5, 2011, Governor Abercrombie signed SB 651 into law. The act has been heralded as the nation's toughest (Borger 2011). It imposes a moratorium on all non-judicial foreclosures for a year and gives owners the ability to meet with their lender

before foreclosure in a mediated setting to work out a compromise. Members of the state's US Congressional delegation are working at the federal level to provide assistance, as well.

6.4 Failing Revenue Proposals

To shore up the expected \$1.3 billion two-year budget shortfall, the legislature considered many proposals for generating new revenue. Those that failed are dealt with below, while successful proposals are detailed in the latter part of this article.

An internet tax extending the state GET to internet purchases was mulled by the state legislature (HB 1183). The tax was expected to bring in \$30 million and enforcement would be voluntary on the part of internet retailers. Amazon.com threatened to cut off business with Hawai'i-based companies if the state took such an action (Niesse 2011g). A similar tax was passed and vetoed by Lingle two years earlier. The bill died in conference committee.

As with many states, Hawai'i has given consideration to gambling as a solution for the state's budget crisis. But it has been a tough sell, with the legacy of Christian missionaries setting a historical tone against it — Hawai'i is one of two states in the union that forbid gambling (Utah is the other). Proposals for gambling in 2011 included a casino in Waikiki, bingo on Hawaiian Home Lands (HHL), shipboard gambling, a state lottery, slot machines, and a proposal to join a multistate lottery (AP 2011c). Geographically, one bill would have legalized gambling only in Aloha Tower in Honolulu, another would have legalized it on ships, and one-third would have allowed it on HHL (80% would go to HHL and 20% to the State's general fund). One bill would re-classify poker as a game of skill rather than gambling, including poker machines (Niesse 2011h). Ultimately, none of the gambling measures passed.

Another initiative to raise revenues was to increase the alcohol tax and to levy a tax on soda pop. Senate Bill 1289 would have raised taxes on alcoholic beverages by 50% above current levels (Stewart 2011b). The bill passed the Senate, but died in the House Finance Committee. Another bill, HB 1216, included a tax on sugary beverages, but died in the Senate Health Committee. The combined measure was estimated at being able to generate \$52 million in new revenue (AP 2011d).

Another interesting bill that found its way to the conference committee before it died was related to medical marijuana (SB 1458). 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 have created legal

dispensaries in a five-year pilot project (AP 2011e). The bill died in conference when legislators could not decide how to initiate the pilot program.

A particularly controversial proposal floated by Governor Abercrombie was to end Medicare Part B reimbursements for retirees (AP 2011f). This measure was met with a tremendous public backlash and went nowhere. Abercrombie also floated a plan to tax pensions on those earning \$37,500 annually or \$75,000 as a couple to generate \$112 million. Amid public pressure, the House Finance Committee increased the thresholds to individuals earning \$100,000 annually, and couples earning \$200,000. This measure (HB 2102) was expected to raise \$17 million annually (Niesse 2011i). Ultimately, the House Finance Committee killed the highly unpopular bill.

The General Excise and Use Tax (GET) is a major source of revenue for the state. It is a tax on goods and services, including things not commonly taxed in other states, such as food and medical care. Governor Abercrombie resisted raising the GET until the end of March. At that time, while refusing to propose an increase, he indicated to the Senate Ways and Means Committee that he would be open to an increase (Niesse 2011j). The GET is 4% on neighbor islands and 4.5% on O'ahu, whose residents pay the higher rate in order to fund rail transit (the increased levy began in January 2007). An increase of 1% would generate an estimated \$500 million per year. Other than the rail levy on O'ahu, the GET has not been raised since 1965 and nearly 40% of it is borne by tourists (Niesse 2011j). On April 8, the Senate killed the proposed GET hike (Niesse 2011k).

6.5 School Furloughs and Union Renegotiations

Hawai'i has the only statewide school system. In the previous academic year, teachers were required to take furlough days, reducing the number of school days to the lowest in the nation in a state that consistently ranks at the bottom of the nation in testing scores. Legislative leaders intended to restore lost school days to a full 180-day year for the 2011–2012 academic year, but the promise fell victim to the FY 2012–2013 budget constraints (Niesse 2011l).

Last year, 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). These furloughs amounted to an 8% pay cut. Moreover, the state employees saw their benefits premiums rise by 23.4% (Nakaso 2010). In April 2011, HGEA struck a deal with the governor that would end the furloughs but cut pay by 5% (Armstrong 2011b).

6.6 Other Issues

The issue of gifts to legislators was brought up during the 2011 session. Lobbyists and community groups argued that the ban on gifts limited their abilities to provide tickets to events that would increase communications between legislators and the community. On March 1, the Senate Judiciary Committee voted down a proposal (SB 671) that would allow gifts of less than \$200 to government employees (Niesse 2011m).

The state has always tried to stay at the forefront of renewable energy because of its heavy dependence upon imported fuel. House Bill 1176 would have allowed the Public Utilities Commission (PUC) to move forward on undersea power transmission projects (Miller 2011). The legislation would have given authority to the PUC to establish a regulatory structure for inter-island transmission cables. For the most part, this would entail wind, solar and geothermal energy feeding the island of O'ahu. The bill died in committee in March.

Hawai'i has long been an attractive location for the filming of movies and television shows. Notable recent examples include the TV show "Lost" and the "Pirates of the Caribbean" movies. But Hawai'i, like California, is losing these businesses as they move out of the country. A bill to provide tax credits for movie filming in Hawai'i (HB 1551) was introduced, and actor Cuba Gooding Jr lobbied in favor of it (AP 2011g). Ultimately the bill failed to clear committees in the Senate.

6.7 Republican Response

The alternative budget proposal put forth by House republicans proposed to balance the budget without tax increases. Their proposals included delaying tax returns, continuing furloughs, raiding the hurricane relief fund, and selling off public lands (AP 2011h). Given the tremendous numerical superiority of the Democrats in both chambers, their plan had no chance of impacting budget negotiations whatsoever. Another Republican response was to institute financial impact reports for bills. Hawai'i is the only state that does not have some such requirement (Niesse 2011n). The bill, HB 449 was introduced in the House, but failed to clear House committees.

7 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 2011, the legislature convened on January 19 and adjourned *sine die* on May 5. The legislative session may be extended by the governor or by each chamber's presiding officers at the request of two-thirds of the members of each chamber (Pratt and Smith 2000).

The governor is required to prepare two budgetary proposals. These proposals are prepared by the Department of Budget and Finance. The first is the budget request, which is a biennial request in budget years and a supplemental in off-years. In addition to the budget request, the governor is required to prepare a six-year financial plan for the state. The State Constitution requires a balanced budget. The fiscal year begins on July 1 and runs through June 30 of the subsequent year, so fiscal years are sometimes hyphenated to reflect this. For example, the fiscal year running from July 2011 through June 2012 is sometimes referred to as "FY 2011–2012," and other times just with the ending year, "FY 2012." Accordingly, the biennial budget running from July 2011 through June 2013 is alternatively referred to as "FY 2011–2013" or "FY 2012 and 2013", which occasionally causes confusion. To avoid problems, many parse the biennial budget in order to refer to elements of each of the individual years.

The governor submits the budget 30 days before the legislative session convenes. The governor's budgetary 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 may 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.

Because of the short time 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.

Neil Abercrombie was inaugurated on December 6, 2010. Because the upcoming biennial budget for FY 2012 and 2013 was required to be submitted that month, it was prepared by outgoing Governor Lingle's administration. Abercrombie was

forced to transmit the former governor’s request to the state legislature, and it was introduced on January 21, 2011 (see Table 2 for budget timeline). By February 22, Abercrombie’s administration had finished hastily cobbling together a set of adjustment requests, which were taken up as the budget was considered by the House Finance Committee. On March 16, the budget was passed in the House and was transmitted to the Senate, where more fiscally conservative members of the Ways and Means Committee worked on it. By mid-April, the budget was passed in the Senate. The budget was worked over in conference committee for two weeks, and then passed by both chambers on May 3, 2011. The governor signed the budget on June 23, 2011.

8 Executive Budget

As noted above, the budget submitted to the state legislature was the work of former Governor Lingle and her administration. As such, the spending priorities were vastly different than those preferred by Governor Abercrombie. Although by no means a complete budget, Abercrombie’s adjustment request reflected some significant changes to the budget prepared by his predecessor. Many of the spending increases he sought were for restoring funding to cuts passed under Lingle’s administration (Table 3). On the expenditures side, Abercrombie made the restoration of funding to Capital Improvement Projects (CIP) his main concern. The governor’s adjustment request quadrupled Lingle’s CIP request to a total of \$1.7 billion FY 2012, and more than doubles it in FY 2013 to just under \$1 billion.

Date	Action
Jan. 21	Budget Introduced in House
Feb. 22	Governor’s Adjustments Submitted
Mar. 9	Passed by House Finance Committee
Mar. 16	Passed by House
Mar. 17	Received by Senate
Apr. 5	Passed Senate Ways and Means
Apr. 12	Passed Senate
Apr. 28	Passed by Conference Committee
May 3	Passed House and Senate
May 3	Transmitted to Governor
Jun. 23	Signed by Governor

Table 2: Hawaii State Budget Timeline, 2011 Session.

	FY 2012			FY 2013		
	Lingle Budget (\$ millions)	Abercrombie Adjustments (\$ millions)	Revised Total (\$ millions)	Lingle Budget (\$ millions)	Abercrombie Adjustments (\$ millions)	Revised Total (\$ millions)
Revenues						
General Funds	5568.2	133.8	5702.0	5754.0	160.3	5914.3
Special Funds	2511.1	311.4	2822.5	2540.6	78.9	2619.5
Federal Funds	1982.0	28.3	2010.3	2013.7	-17.9	1995.8
Private Contributions	0.4	0.0	0.4	0.4	0.0	0.4
County Funds	0.7	0.0	0.7	0.7	0.0	0.7
Trust Funds	233.0	2.0	235.0	237.0	1.5	238.5
Interdept'l Transfers	111.2	11.0	122.2	111.2	11.1	122.3
ARRA (Fed Stimulus)	56.5	0.0	56.5	20.9	0.0	20.9
Revolving Funds	393.1	4.3	397.4	393.2	3.8	397.0
Other Funds	10.8	0.0	10.8	10.8	0.0	10.8
subtotal	10,867.0	490.8	11,357.8	11,082.5	237.7	11,320.2
Expenditures						
Operating Budget	5568.2	133.8	5702.0	5754.0	160.3	5914.3
CIP	483.6	1206.2	1689.7	486.3	503.0	989.3
General Obligation	202.2	824.3	1026.5	201.9	247.8	449.7
subtotal	6254.0	2164.3	8418.2	6442.2	911.1	7353.3
Balance	4613.0	-1673.5	2939.6	4640.3	-673.4	3966.9

Table 3: Governor's FY 2012–13 Budget Request and Revisions.*Source: Department of Budget and Finance.*

Another major difference was that Abercrombie's adjustments greatly increased Lingle's requests for payments on the state's debt obligations. While Lingle requested a mere \$202 million for debt for FY 2012, Abercrombie's adjustments brought it up to just over \$1 billion. Debt service for FY 2012 was to be doubled under Abercrombie to \$450 million. Both the CIP and debt obligation adjustments indicate that while Abercrombie wanted to restore certain levels of funding for the coming fiscal year, his requests for the following year fell well short.

What is a bit more obscure is the overall operating budget. Here, Abercrombie's adjustments play a bit of a shell game that is not reflected in Table 3. It appears that the governor's adjustments to the operating budgets for FY 2012 and FY 2011 are small, but there is a little give-and-take behind those numbers. Abercrombie proposed restoring \$54 million in healthcare premium payments for government workers, \$50 million in welfare benefits, and \$10 million in higher education (Lauer 2011b). However, he proposed budget savings to fund these programs by reducing departmental expenses by 10% across the board (Niesse 2011o).

On the revenue side, Abercrombie indicated expectations of small increases to general funds through the expiration of tax deductions and increases to special taxes noted above. His biggest adjustment to revenues for the coming year was a result of raiding various pools of money. Specifically, the governor's plan included raiding the hurricane relief fund, the rainy day money funds, and other special funds. The governor anticipated using far fewer special funds to finance spending in FY 2013, presumably because there would be fewer to raid. All other adjustments to revenue streams were marginal.

In total, the governor's budget adjustments were unrealistic. They produced surpluses of \$3 billion for FY 2012 and \$4 billion for FY 2013. Even in the best of times, these types of surpluses are unheard of. The governor appeared to have been too optimistic on revenues and too lean on expenditures, especially for FY 2013.

9 Legislative Budget

In February, legislators questioned Abercrombie about his proposal. Specifically, they asked him to justify adding an additional 236 government workers, taxing pension income and soft drinks, and eliminating reimbursements for Medicare Part B for government retirees (Niesse 2011p). These proposals were either too controversial or too optimistic for the legislature, and were ultimately defeated, particularly in light of gloomy revenue projections.

The budget bill that moved through the House made revenue projections based on 0.5% growth, but the Council on Revenues revised figures during the process to a contraction of 1.6% (Niesse 2011b). As projections declined and the bill made its way from the House to the Senate, another \$654 million was cut from the governor’s proposal (Niesse 2011o). The bill continued two monthly furlough days for state government employees. These furloughs amount to pay cuts of 8%–10% (Niesse 2011o). The furloughs for HGEA members were avoided through contract renegotiations that included wage cuts.

The House passed its version of the budget on March 17. The budget at that time was estimated at \$10.98 billion for the fiscal biennium. It was 7% bigger than the previous budget, and cut \$379 million from Abercrombie’s budget proposal. The various budget bills then made their way to the Senate, and its more budget-hawkish committees. When the final budget emerged from conference committee, many revenue bills were shot down (see above), but eight new major revenue streams were created (Table 4).

The largest source of new revenues came from eliminating loopholes on the state’s General Excise Tax (GET). Primary contractors are allowed to shield from the GET monies subcontracted to other businesses, which avoids double taxation. This arrangement will hit Hawaiian Airlines particularly hard, as the airline subcontracts out maintenance and is allowed to shield aircraft leases from the GET. The measure had a tough ride through the Senate, but SB 754 was eventually passed, yielding the state a new line of revenue of \$173.2 million for FY 2012.

In 2010, a controversial issue emerged with respect to the Transient Accommodations Tax (TAT) on hotel rooms. The state legislature proposed taking away the counties’ share of the revenue, but a concerted lobbying effort by the county mayors prevented it. In 2011, the legislature voted to cap the level of TAT dollars sent to the counties at current levels. The scheme generated \$40.4 million in revenues for the state.

Legislation	Revenue Increases	(\$ millions)
SB 754	Remove GET Tax Exemptions	173.2
SB 1186	Transiently Accomodatons Tax Distribution Cap	40.4
SB 570	Eliminate/Defer Income Tax Deductions	97.0
SB 1328	Vehicle Registration Fee Increase	22.9
SB 1329	Vehicle Weight Tax	32.9
HB 865	Import Tax Hike	5.0
SB 120	Transfer from Special Funds	38.0
HB 1039	Rental Car Fee Increase	60.8

Table 4: New Sources of Revenue in the FY 2012 Hawaii State Budget.

Another large revenue stream opened up for the state had to do with income tax deductions. The taxation of pension income failed, but the state tax deduction and itemization limitations for high-income earners (\$100,000 individual, \$200,000 joint) were eliminated. A planned increase in the standard deduction was delayed, creating an additional \$52 million (Niesse 2011q). Together, these tax reforms created an additional \$97 million in new revenue.

In February, the House Transportation Committee promoted an idea to raise \$56 million from increased auto registration and weight fees (\$22.9 and \$32.9 million, respectively). On average, this means an additional \$51 per car or truck. The purpose of the charge was to offset money for road repairs that had previously been diverted into the general fund to balance the budget (Niesse 2011r).

In order to offset the loss of agricultural inspectors under the previous budget, the state initiated an import tax hike. The tax on imported freight increased by 50%, from 50 cents to 75 cents for every 1000 pounds (Lucas-Zenk 2011). The bill, HB 865, was signed into law by Governor Abercrombie, and is expected to raise a little under \$5 million.

In addition to \$600 million in cuts to Abercrombie's spending requests, the legislature reprogrammed the state's "special funds," including the rainy day fund (Niesse 2011s). Transfer from these savings accounts into the general fund amounted to \$38 million.

The final major revenue increase was another one to "stick it to the tourists." This was a more than doubling of the tax on rental cars. The proposal raised the tax from \$3.00 to \$7.50 per day, generating an estimated \$60.8 million in revenue (AP 2011c).

The legislature required the governor to make another \$50 million in spending cuts in each of the next fiscal years, but gave him discretion as to where to cut. At the close of the legislative session, work left undone included a needed \$2.3 million for the APEC conference, \$2.7 million for legal settlements, and \$5 million for the UH medical school (Niesse 2011t).

10 Summary/Conclusion

The FY 2012–13 biennial budget process was full of surprises and confusion. The hands of the legislature and the governor had been tied to a degree by the budget submitted by the outgoing Lingle administration. Given this, sweeping reforms were untenable. The governor will have to wait another two years to get his first real crack at the budget and to implement his projects.

In total, the annual budget came in at \$11 billion, 8% higher than the previous fiscal year. Many avenues of revenue enhancement proved unpalatable to Senate committees. Gambling will not be coming to Hawai'i any time soon. Soda drinkers and alcohol consumers will not bear a burden of state taxes. New taxes were imposed on businesses, rental cars, and high-income earners. Revenue increases filled \$600 million of the \$1.3 billion shortfall, and the rest was made up in spending cuts, some at the discretion of the governor.

But the state had additional help. Hawai'i has proven adept at securing federal dollars for a number of programs to help the state's long-term economic recovery. In September, the state received a \$2.9 million grant to help improve job opportunities for persons with disabilities (AP 2011i). In the same month, the state received a \$7 million federal grant to promote renewable energy projects, the bulk of which was to increase solar energy (AP 2011j). The state's community colleges benefitted from an influx of \$25 million in federal funds for workforce development and job training (AP 2011k). A total of 14 million in federal dollars from the Affordable Care Act was secured to set up health insurance exchanges.

These federal funds are not likely to be sustained in the coming years. Next year's budget will be marked by an effort to fill in the pots of lost federal dollars. The main concern will be monitoring tourism. A rebound in tourism could stimulate the state's economy and insure the influx of state revenues. But if tourism remains flat, the state will be in for another round of cuts for FY 2013.

11 About the Author

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