HAWAIʻI APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

HAWAIʻI BUDGET PRIMER

FY2026–27

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www.hiappleseed.org

Author: Devin Thomas

Hawaiʻi Appleseed is committed to a more socially and economically just Hawaiʻi, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems to address inequity and foster greater opportunity by conducting data analysis and research to address income inequality, educating policymakers and the public, engaging in collaborative problem solving and coalition building, and advocating for policy and systems change.

The work of Hawaiʻi Appleseed is about people. The issues we work on—housing, food, wages, mobility, the state budget and taxation, and racial and indigenous equity—are important because they ensure people have access to shelter, sustenance, and the means to survive and thrive individually and collectively. Addressing these issues requires the knowledge and expertise of the people that have first-hand experience and live with the adverse consequences of our flawed systems.

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733 Bishop Street, Suite 1180, Honolulu, HI 96813

BUDGET BASICS

THE INVESTMENTS that Hawaiʻi's government makes in its people through the state budget should reflect our shared priorities and values. This budget primer is intended to help readers understand how our state budget works and to encourage policy decisions that lift up Hawaiʻi's working families.

The state budget funds Hawaiʻi's three government branches: the Legislature; the Judiciary; and the Executive. A small portion funds the Office of Hawaiian Affairs (OHA) as well. Nearly 99 percent of the state budget goes toward funding the executive branch.

Legislature

- Creates laws and decides how the state's money is spent.
- Consists of the State Senate and House of Representatives, Office of the Auditor, Office of the Ombudsman, and the Legislative Reference Bureau.

Judiciary

- Interprets laws and resolves legal cases through the court system.
- Consists of the Hawaiʻi Supreme Court, Intermediate Court of Appeals, Land Court, Tax Appeal Court, Circuit Courts, Family Courts, District Courts, Environmental Courts, and Office of the Administrative Director of the Courts.

Executive

- Enforces laws and manages the daily operations of the state government.
- Consists of the Governor, Lieutenant Governor, State Departments, and the University of Hawaiʻi System.

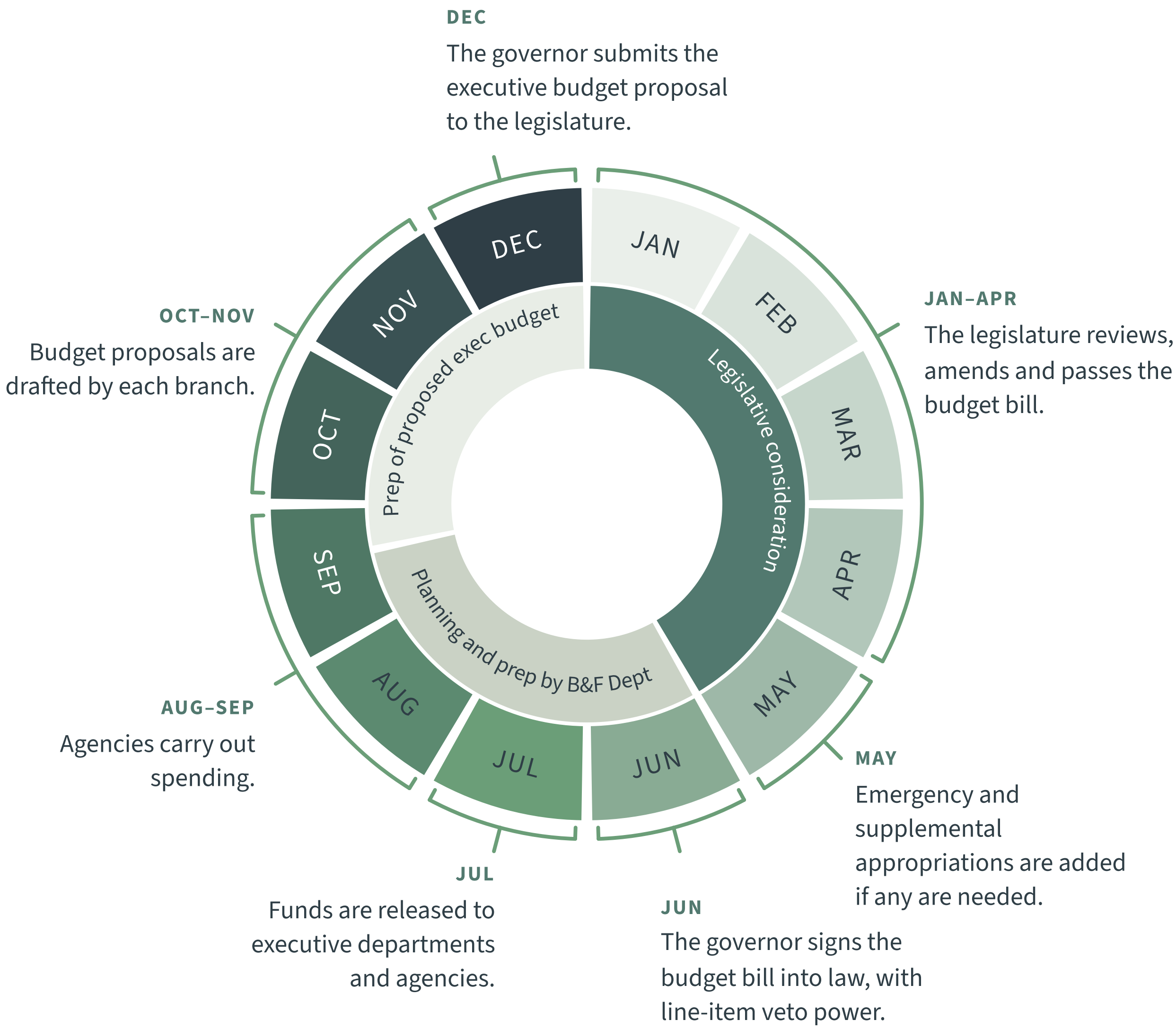
Office of Hawaiian Affairs

- Responsible for improving the wellbeing of Native Hawaiians.
- Semi-independent state agency that is mostly funded by public trusts and its own investments.

Budget Process

Hawaiʻi uses a two-year (biennial) budget cycle. The full budget is passed in odd-numbered years, and adjustments can be made in the second year. Fiscal Years (FY) cover July 1 through June 30, labeled by the calendar year in which they end (e.g. FY 2027 runs from July 2026 through June 2027).

Figure 1. Hawaiʻi Budget Lifecycle



HOW MONEY IS SPENT

Government spending is essential for the economy, especially in times of crisis. The executive branch alone employs over 47,000 workers, not including contractors.[1] These employees are in charge of Hawaiʻi's departments and agencies—a task that is only made possible with billions of dollars in funding.

There are three types of spending: operating, capital improvement, and one-time/emergency appropriations.

Operating Budget

- Regular funding for state agencies, public services, and programs.

Capital Improvement Appropriations

- Funds to build, maintain, or improve infrastructure, such as roads, schools, and hospitals.

One-Time & Emergency Appropriations

- Temporary funding for unexpected needs, such as disaster response or special projects.

Since it manages the state's departments and agencies, the Executive Branch receives almost all of the funds in each spending category.

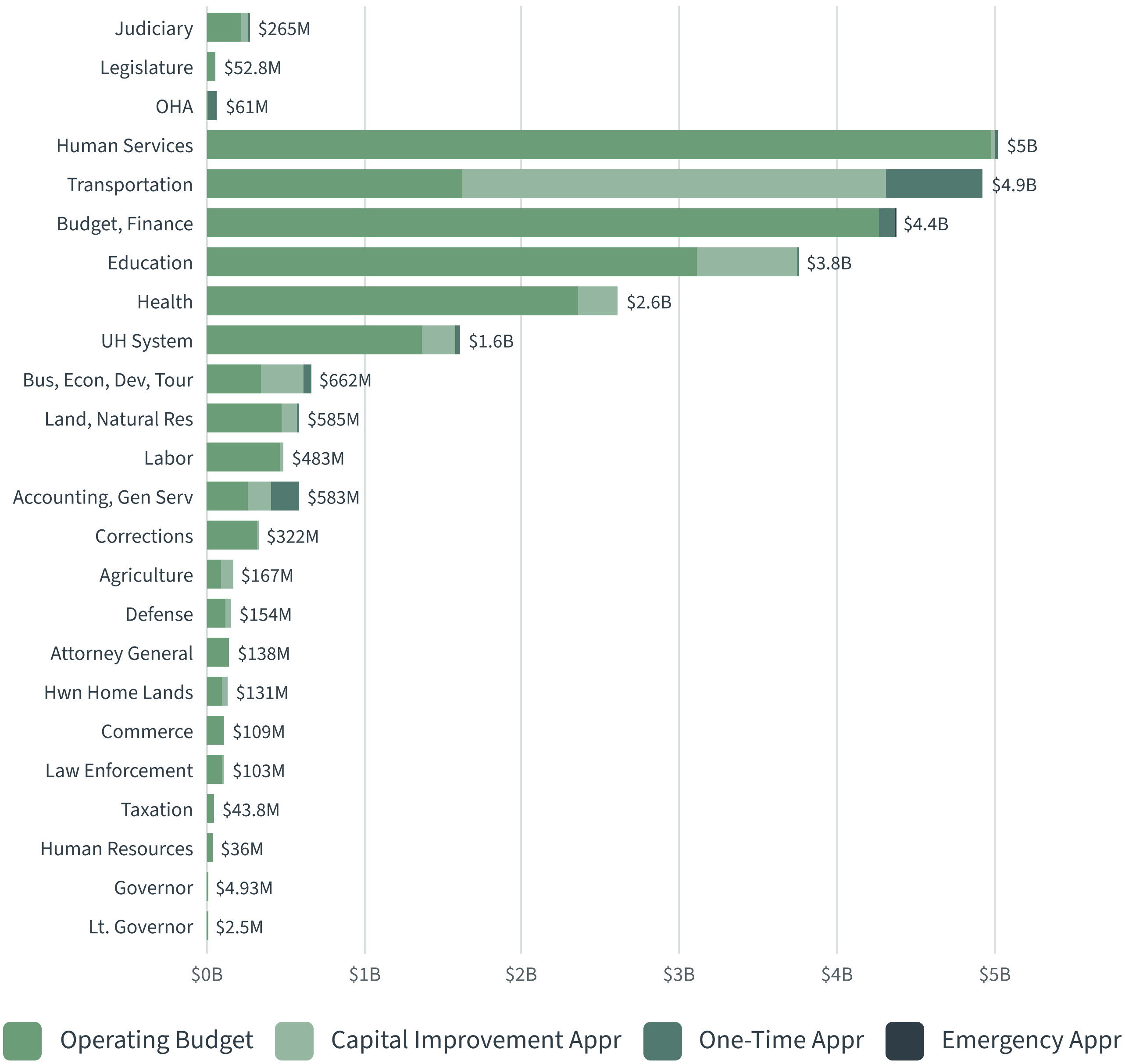
Table 1. Budget Breakdown by Branch and Spending Category, Hawaiʻi, FY 2026–2027

	Executive[2]	Judiciary[3]	Legislature[4 5]	OHA[6 7]
Operating Budget	$20.32 billion	$218.77 million	$52.82 million	$6 million
Capital Improvement Appropriations	$4.53 billion	$45.4 million	$0	$0
One-Time Appropriations	$997.87 million	$684,385	$0	$55 million
Emergency Appropriations	$2.87 million	$0	$0	$0
Total	**$25.85 billion**	**$264.85 million**	**$52.82 million**	**$61 million**

Spending Categories

Operating Budget

Figure 2. Hawaiʻi State Budget by Branch and Department, FY2027



Note: Some capital dollars appear under the department that builds a project — the Department of Accounting and General Services, for example, often manages construction on behalf of other departments.

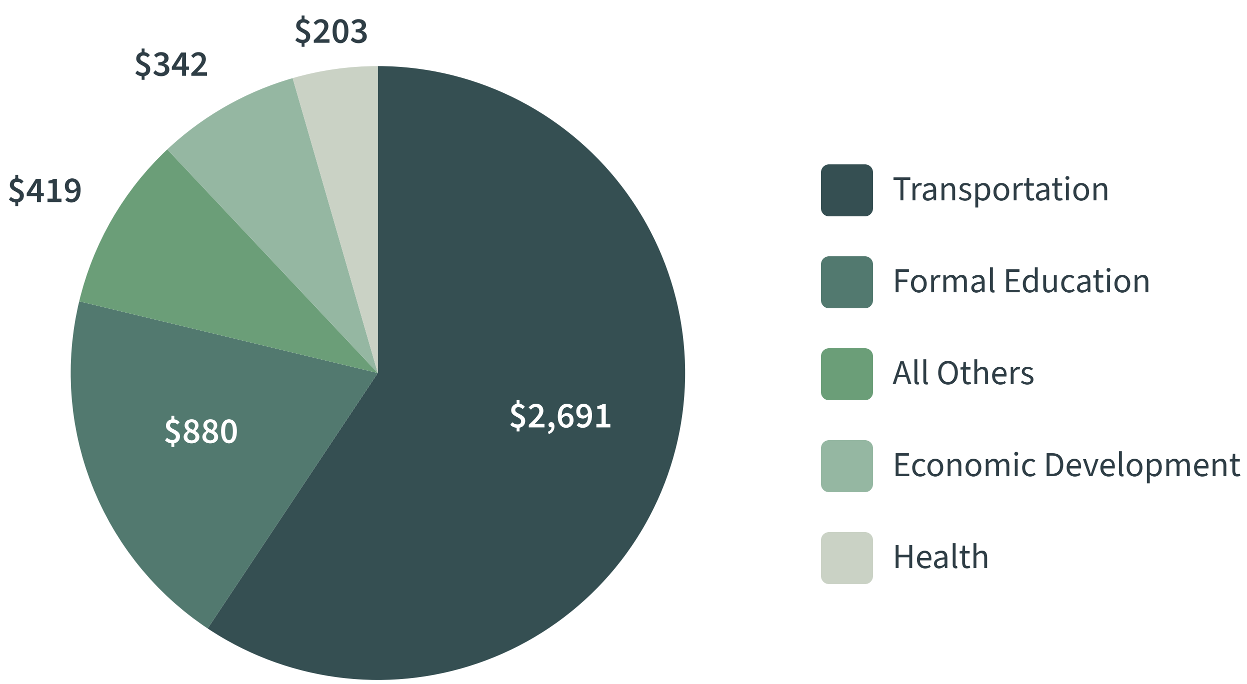
The Executive departments with the largest overall budgets are the Departments of Human Services, Transportation, Budget and Finance, and Education. The Department of Transportation's Capital Improvement Appropriations budget is larger than its operating budget—the state's airports, harbors, and highways are in the middle of a multi-year construction cycle. The Department of Health has a larger operating budget than all but three departments, and the DOE operating budget covers K–12 public school teacher salaries statewide.

Obligated Costs

Before any other spending, the Hawaiʻi constitution requires the state to pay its non-negotiable obligated costs: pensions, health benefits, Medicaid, and debt payments—roughly $5 billion, or a quarter of the operating budget. This share is growing each year, limiting the state's flexibility to invest in housing, schools, economic development, and climate resilience.

Capital Improvement Appropriations

Figure 3. Distribution of Capital Improvement Project Funding, FY2027 ($Millions)



The total FY2027 Capital Improvement Projects (CIP) budget is $4.53 billion. Transportation projects usually take more than half, maintaining the state's airports, harbors, and 2,433 miles of roads and highways.[9]

One-Time and Emergency Appropriations

$700M Transportation & Budget/Finance — county-surcharge transit funding ($600M) and a new major disaster fund ($100M), under Act 99.[10]

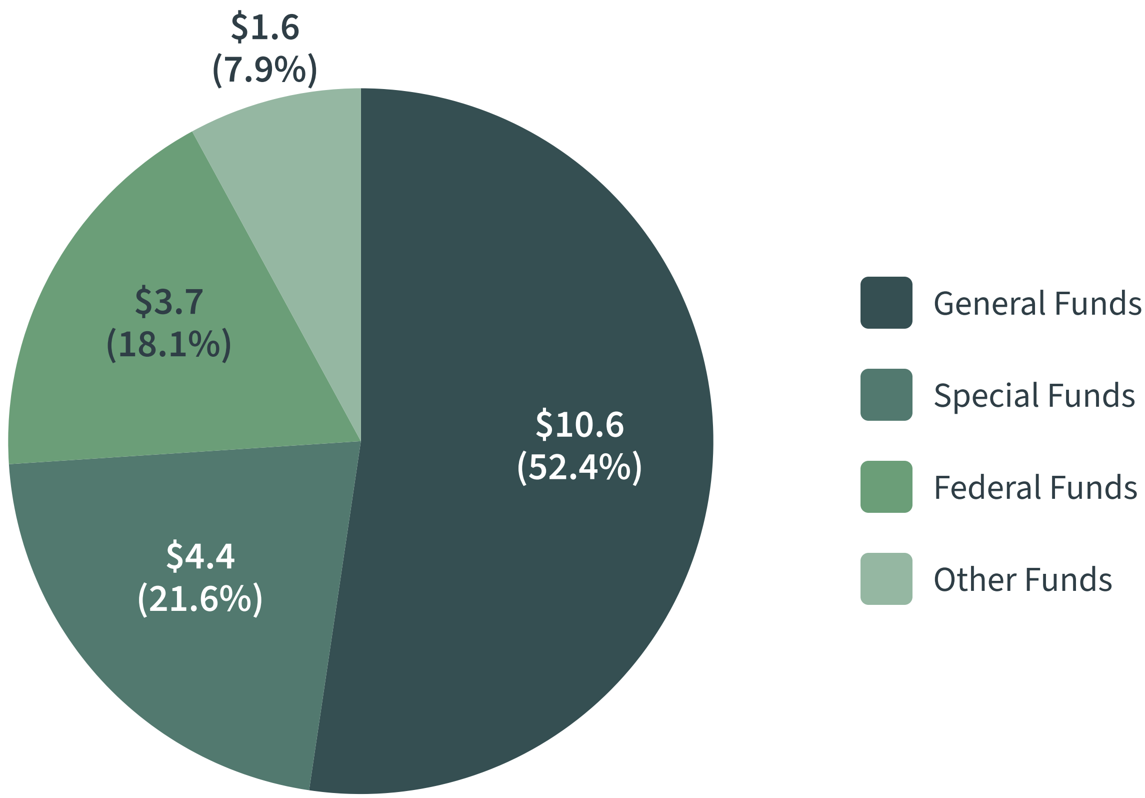
$200M Accounting, Transportation, Land — Maui wildfire insurance proceeds, to rebuild King Kamehameha III Elementary and restore Lahaina's harbor.[11]

$49.5M DBEDT — the New Aloha Stadium district.[12]

Plus further one-time appropriations for UH student housing, ACA premium support and school meals, and $2.9 million in FY27 emergency appropriations.

FUNDING THE BUDGET

Figure 4. Hawaiʻi Budget Means of Finance, FY2027 ($Billions)[18]



Note: A few smaller related categories, including “other federal funds,” are currently grouped into “Other Funds”

The state’s spending primarily falls under three main categories: general funds, special funds and federal funds.

General Funds

- General funds are mostly made up of tax revenue. The main pot of state money, these funds can be used for almost any state need.

Special Funds

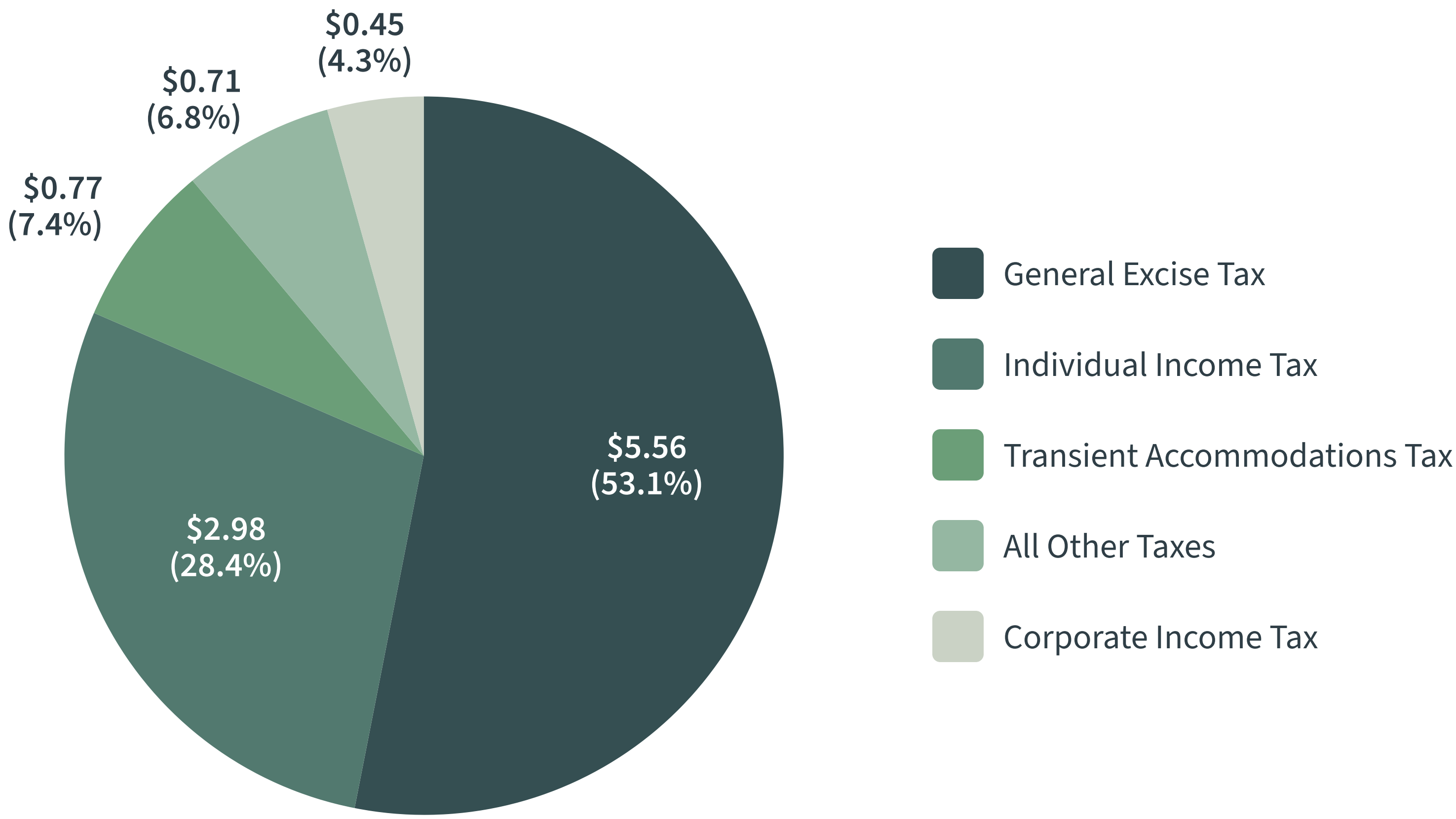
- Money from tuition, fees, settlements, etc., special funds can only be spent on a specific purpose, often related to the revenue source.

Federal Funds

- Federal funds are monies provided to the state by the federal government, almost always in the form of grants.

Taxes

Figure 5. Projected Hawaiʻi State Tax Revenue, FY2027 ($Billions)[19]



General Excise Tax

- The GET is a tax on the sale of goods and services such as retail purchases and rent. Hawaiʻi relies on the GET for half of the state's tax revenue, but the tax increases the cost of living and hits low-income families the hardest.

Individual Income Tax

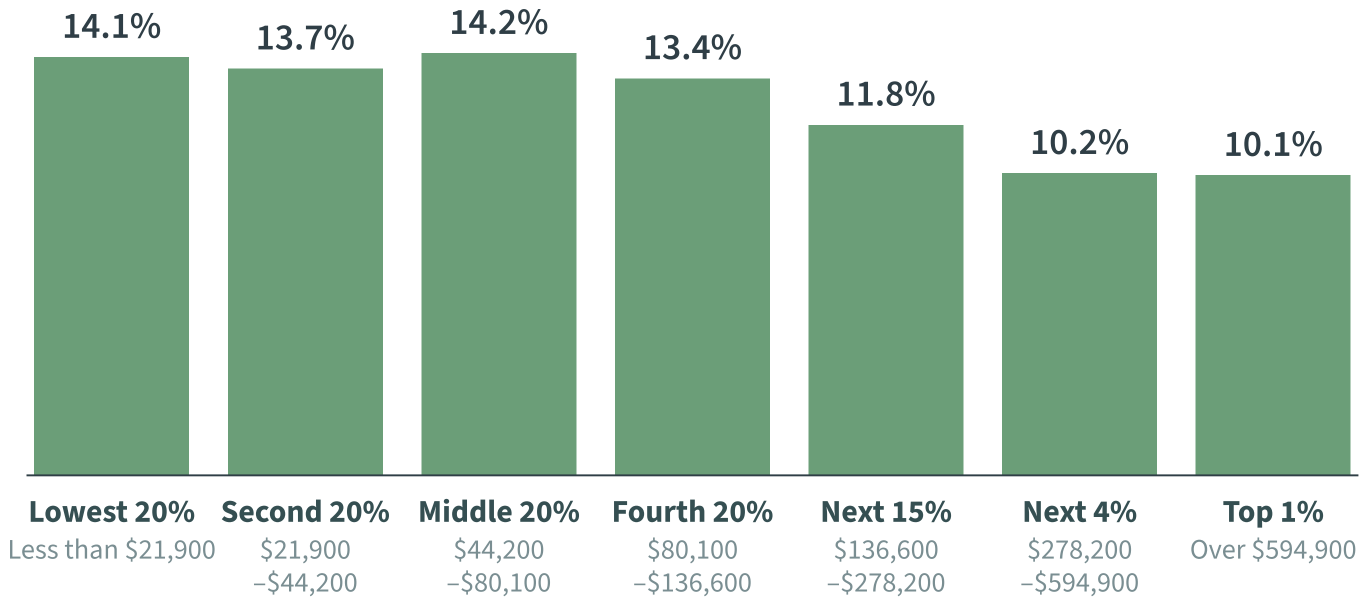
- Hawaiʻi taxes those with high incomes at a progressively higher marginal rates. With the passage of Act 25, the new top rate for people earning over $1 million will be set at 13 percent.

Transient Accommodations Tax

- The TAT is a tax on hotel rooms, short-term rentals and cruise ships. It is paid mainly by tourists and supports the general fund and special funds for tourism promotion, resource management, climate resiliency and economic development.

Who Pays These Taxes?

Figure 6. Percentage of Income Paid in State and Local Taxes by Household Income Quintile (2024)[20]



In Hawaiʻi, low- and middle-income families spend a larger share of their already stretched income on state and local taxes than wealthy families do. This is mostly due to the GET: a low-income and a wealthy person pay the same dollar amount on the same purchase, but that amount is a far larger share of a low-income paycheck—making it harder to budget for, and often trapping families in cycles of poverty and debt.

This reality is particularly difficult for Native Hawaiians and Pacific Islanders, who report poverty rates of 20 percent —double the state average for Hawaiʻi.[21] Historically, Native Hawaiians have faced systemic issues rooted in colonization: throughout the 1800s, large tracts of land that once provided for communities were taken by Western settlers, who built plantations and then resorts for their own benefit. For many Native Hawaiians, this shift led to a rise in food insecurity and reduced access to affordable housing.

Hawaiʻi must build a tax system that supports these marginalized groups, by reducing their taxes and investing tax dollars in policies that lower the cost of living. Tax credits (and other forms of assistance) are an excellent way to give people of color and low-income communities more leeway to pay for their basic necessities.

Act 46

Although Act 46 (2024) lowered income taxes for most people in Hawaiʻi, wealthier taxpayers benefited the most. In addition, these tax cuts would have eventually cost the state $1.45 billion every year by 2031.[22] This path was not sustainable—it would have led to severe budget cuts, including programs such as SNAP and Medicaid.

With the passage of Act 24 in 2026, the Legislature decided to keep these planned tax cuts for low- to middle-income residents, while raising taxes on people earning over $1 million. Unfortunately, these changes will not recover all of the revenue lost from Act 46. Hawaiʻi also needs to prepare for deep federal spending cuts. In order to do that, the state must consider all the revenue tools at its disposal.

Making Hawai‘i’s Tax System Fairer

These three policies would raise revenue from those best able to pay more, without affecting working families.

1 Tax Investment Profits Like Paychecks

Up to $132M a year

Hawai‘i taxes long-term capital gains at 7.25 percent, while wages are taxed up to 13 percent. As a result, someone who earns their income working a regular job pays potentially more than an investor who profits off their stocks.[23]

Over 70 percent of capital gains flow to households making more than $400,000. Taxing them as ordinary income would raise around $85 million to $132 million in new revenue a year, with 88 percent of it coming from the top 1 percent.

2 Modernize the Conveyance Tax

$70M - $80M a year

Paid when a property changes hands, the conveyance tax is one of the few tools that allows the state to capture revenue from Hawai‘i’s real estate market.[24] Its rates have not moved since 2009, even though out-of-state buyers have continued to drive up housing prices by turning homes into investment properties.

House Bill 2049 (2026) would have shifted the tax to marginal rates—cutting it for most residents, while raising it on high-value investment properties. The bill would have directed up to $300 million a year to the General Fund, various affordable housing funds, and the Department of Hawaiian Homelands.[25]

3 Close Corporate Loopholes

+$85M a year

Multinational corporations are able to shift profits they earn in Hawai‘i to other jurisdictions to avoid being taxed on them.[26] Worldwide Combined Reporting would close that loophole, holding large corporations to the same standard as small businesses and working families.[27]

Tax Credits

Tax credits can lower or even eliminate the taxes that people or businesses owe to the state. These tax credits stimulate the economy by reducing costs either for businesses or struggling families that need help purchasing their basic necessities.

In 2022, the state gave out $433.9 million in tax credits.[28] Only $111 million went to tax credits for lower-income households, such as the Earned Income Tax Credit and Refundable Food/Excise Tax Credit, while a larger $168 million went to tax credits for wealthier taxpayers and businesses, such as the Film/Media Production Credit.

The state should be investing more money in tax credits and other means of lifting up working families. It could, for example, create a state-level Child Tax Credit (CTC). At the national level, the CTC brought 2.9 million children out of poverty in 2021. Other options include programs like RxKids—which has successfully delivered millions of dollars in no-strings-attached benefits to mothers with infants throughout Michigan.

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