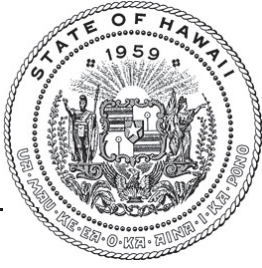

Business Revitalization Task Force Report

SB2974 SD2 HD1 CD1, SLH 2024 Act 142

October 2025



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
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XX October 2025

To the Honorable Members of the Thirty-Third Legislature:

Act 142 of Session Laws of Hawai'i 2024 (SB2974 CD1) established a Business Revitalization Task Force within the Department of Business, Economic Development, and Tourism to identify methods to improve Hawai'i's general economic competitiveness and business climate, including the mitigation of regulatory and tax burdens.

The task force was composed of 26 members from state and county governments, representative industry sectors, business organizations, and one academic institution. Five permitted interaction groups investigated issues related to (i) regulations, (ii) workforce development, (iii) business costs, (iv) access to capital, and (v) innovation and economic climate. This report summarizes the task force findings and presents a legislative proposal to improve Hawai'i's business environment.

Thank you for your consideration of this report and the legislative proposal.

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19. Dr. Patrick Sullivan, Founder & Chief Executive Officer

Oceanit

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22. Jacob Aki, Public Affairs Manager

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EXECUTIVE SUMMARY

Act 142, SLH 2024 created the Business Revitalization Task Force to identify ways to improve Hawai'i's business climate. After studying the issue, the task force finds that Hawai'i is one of the most difficult places to do business in the country. High costs and burdensome regulations harm profitability and growth, resulting in anemic private sector activity. The poor business climate results in fewer jobs, lower incomes, higher costs of living, and reduced tax revenue. Hawai'i's income level is falling behind the rest of the country, a trend that will likely worsen if the business environment does not materially improve.

Hawai'i faces a choice: either it must improve the business climate, or it must accept the effects of subdued economic growth. The Task Force finds that there are multiple overlapping factors harming the state's competitiveness. No single piece of legislation or policy reform will resolve this crisis. The road to reform will require political will, creative problem-solving, and a shared commitment to change.

To meet this challenge, the task force recommends that the Legislature establish a framework that encourages key stakeholders to proactively address the underlying issues.

The task force recommends the passage of the Hawai'i Business Competitiveness Bill which 1) commits the State of Hawai'i to having one of the ten best business climates in the nation by 2045, and 2) creates the Hawai'i Business Competitiveness Working Group, which is tasked with developing targeted policies to improve Hawai'i's business competitiveness and strengthen its position in national rankings. Legislature shall deliberate over the proposals and enact legislation that improves Hawai'i's competitiveness. A draft of the Hawai'i Business Competitiveness Bill is provided in this report.

If the Legislature believes that the private sector plays an important role in Hawai'i, then they should make it an explicit priority. This report proposes a workable strategy to improve the state's business environment by setting 1) a goal and 2) creating the institutional architecture to achieve the goal.

I. BACKGROUND

The Legislature finds the state’s business environment is among the worst in the nation. The State ranks among the bottom ten in business formation. Hawai‘i has the lowest early startup survival rate in the country. Additionally, self-employment remains persistently below U.S. levels—Hawai‘i ranked 40th in 2020. Tax burdens appear to deter investment and immigration. Hawai‘i is the 6th highest in state and local taxes per capita and ranks 42nd for overall business climate by the Tax Foundation.

Act 142, SLH 2024 (SB2974 SD2 HD1CD1) established the Business Revitalization Task Force to:

- Identify methods to improve Hawai‘i’s general economic competitiveness and business climate, including mitigation of regulatory and tax burdens.
- Develop and recommend legislation to increase Hawai‘i’s general economic competitiveness.
- Develop recommendations for improving governmental operations and costs.

A 26-member task force convened to study issues that harms business activity and formulate recommendations. The process began with an assessment of Hawai‘i’s economic competitiveness and business climate by the Research and Economic Analysis Division (READ) in the Department of Business, Economic Development, and Tourism (DBEDT). The task force then formed five Permitted Interaction Groups (PIGs) to study issues related to: 1) regulation, 2) workforce development, 3) business costs, 4) access to capital and entrepreneurship, and 5) innovation and economic climate. The reports of each PIG are found in the appendix of this report. Upon reviewing the PIG reports (Appendix C-G), the task force formulated a proposal to present to the Legislature.

II. ASSESSING HAWAI‘I’S ECONOMIC COMPETITIVENESS AND BUSINESS CLIMATE

Low levels of economic growth coupled with a high cost of living threaten the wellbeing of state residents. Hawai‘i’s per capita personal income was \$71,019 in 2024, below the national average of \$73,204. Lower income is coupled with a higher cost of living as measured by regional price parities (RPP). When adjusted for income, Hawai‘i ranked 48th

out of 50 states for the highest cost of living.¹ This measure included housing, utilities, food, and other expenses.

Hawai'i scores near the bottom in nearly all national rankings assessing business environment. These rankings evaluate factors like business costs, access to capital, innovation/technology, and infrastructure. Table 1 shows Hawai'i's placement across categories for the CNBC, U.S. News, ITIF, and the Tax Foundation rankings. Overall, Hawai'i placed in the bottom ten among all states except the US News ranking where the state placed 31st.

Table 1. Hawai'i's Business and Economic Environment Ranking by Multiple Entities

Ranking Institution	Description	Year	Overall Ranking	Business/ Economy Climate	Business Cost	Workforce	Access to Capital	Cost of Living /Affordability	Infrastructure	Technology & Innovation
CNBC ²	American Top States for Business	2024	50	49	50	32	48	48	47	45
US News	Best State Ranking	2024	31	47	49	12	46	41	47	
ITIF ³	State New Economy Index	2020	46	42		32	40		40	47
Forbes	Best States for Business	2019	47	24	50	32		40		
Wallet Hub	Best & Worst State Economies	2024	50	49		50				50
ALEC ⁴	Economic Outlook	2024	41	42	41					
Tax Foundation	State Business Tax Climate Index	2024	42		42					

READ produced a report that analyzed Hawai'i's general economic competitiveness and business climate to assist the task force. The areas covered in the report include access to capital, workforce development, business costs, and infrastructure dynamics. The full report is listed in Appendix B. Below is a summary.

Hawai'i's research and development (R&D) investment is well below the U.S. average. The value-added of R&D represented only a small share of state GDP, declining between 2017 and 2021. In Hawai'i, government provides 48.4% of R&D and business provides

¹ U.S. Bureau of Economic Analysis, "[SARPP Real personal income, real PCE, and regional price parities by state](#)"

² Consumer News and Business Channel

³ Information Technology and Innovation Foundation

⁴ American Legislative Exchange Council

47.8%. The largest industries with the largest R&D investment were professional, scientific, and technical services, with modest contributions from manufacturing and information.

Access to capital appears to be a barrier for Hawai'i businesses. Most small businesses reported relying on banks for credit, with the top reasons being operating expenses and expansion. For 2014-2023, the Small Business Administration (SBA) lending volumes in the state typically ranged from \$30 million to \$50 million per year. The primary recipients of the SBA loans were businesses in accommodation and food services, construction, administrative services, manufacturing, and retail sectors.

Hawai'i's regulatory environment is a major burden for businesses.⁵ Hawai'i ranks last in the nation for both regulatory burden and approval times. These inefficiencies stem from slow approval cycles, outdated systems, and a complex web of state and county regulations. The result is longer project timelines, higher operating, increased financing costs, and greater uncertainty for developers and entrepreneurs. Stringent environmental, cultural, and land-use laws further lengthen processes, making Hawai'i's regulatory framework among the most costly and time-consuming in the U.S.⁶

Hawai'i's stringent occupational licensing requirements place a heavy burden on workers and businesses.⁷ The state requires licenses for roughly 63% of the 102 tracked measure. It imposes licensing fees of \$500 on average, and it requires an estimated 972 days of training and experience, compared to 350 days nationally. These costly requirements cascade through the economy, raising expenses for both households and businesses.

Hawai'i has one of the highest tax burdens in the nation, but this is expected to change. In 2024, the Governor's Green Affordability Plan (GAP-II) is projected to reduce household income-tax liabilities substantially by 2031. While corporate income tax collections are relatively low as a share of GDP when compared to other states, Hawai'i businesses are subject to the general excise tax, which increases their tax burden.

Hawai'i has the highest energy prices and commercial rents in the country. The state has the highest energy prices in the nation for business activities. High commercial rents, which also among the highest in the country, exacerbate the fixed-cost challenges for space-intensive operations, from retail to warehousing to labs.

Hawai'i's business environment imposes excessive costs in nearly all areas that were measured. Companies could presumably tolerate excessive costs in one area. However, it

⁵ Source: Inafuku, Rachel, Justin Tyndall, and Carl Bonham. (April 2022) "Measuring the Burden of Housing Regulation in Hawaii" UHERO Briefs.

⁶ See Appendix E, Business Costs Report, "Pricing Business Out of Paradise".

⁷ Source: U.S. Chamber of Commerce, Lawsuit Climate Survey 2019.

is very difficult for businesses to succeed and grow in an environment where high costs are imposed across the board.

III. KEY FINDINGS AND RECOMMENDATIONS

KEY FINDINGS

The task force finds that Hawai‘i has one of the most burdensome business environments in the nation. Businesses struggle to operate and survive, much less grow and compete nationally. Hawai‘i’s income level is falling behind the rest of the country, a trend that will likely worsen if the business environment does not materially improve.⁸ The weakened condition of the private sector poses a serious threat to the long-term prosperity of the State of Hawai‘i and its people.

Hawai‘i businesses face the most restrictive regulations, the slowest approval processes, the highest logistics costs, the highest utilities, some of the highest rents and land costs, and one of the highest tax burdens (see Table 2).⁹ Some costs reflect the geographic realities of an island economy, but many of these costs are downstream of political choices imposed by legislation and policies.

Hawai‘i continually ranks as one of the worst places to do business. CNBC’s America’s Top States for Business, a widely respected and comprehensive platform, ranked Hawai‘i as the worst place to do business in the country in 2024 and 49th out of 50 states in 2025. CNBC’s ranking of America’s Top States for Business uses 135 metrics to evaluate ten categories of competitiveness (see Table 3).

The task force finds that there are multiple overlapping factors harming the state’s competitiveness. No single piece of legislation or policy reform will resolve this crisis. The policies and laws that burden business were put in place for a reason. This means that the solutions will require political will, creative problem-solving, and a shared commitment to change. The road to reform involves trade-offs, stakeholder consultation, and an in-depth understanding of the issues.

Hawai‘i faces a choice: either it must improve the business climate, or it must accept the lackluster private sector performance and the effects of anemic economic growth.

⁸ See Appendix E, Business Costs Report, “Pricing Business Out of Paradise”.

⁹ See Appendix E, Business Costs Report, “Pricing Business Out of Paradise”.

Table 2. Business Cost Rankings for Hawai'i

Costs Type	Hawaii Ranking	Source
Overall Business Costs	50th	CNBC
Labor/ Human Capital		
Wage	11th (nominal)/ 43rd (PPP)	USA Facts
Labor Participation Rate	38th	BLS
Mandated Fringe Benefits	50th	Independent Research
Unemployment Insurance Tax	49th	Tax Foundation
Regulations		
Permitting Speed	50th	Independent Research
Regulatory Restrictiveness	50th	UHERO
Taxation		
Overall state and local burden	48th	Tax Foundation
GET	Lowest rate/ broadest scope	Tax Foundation
Individual Income*	49th	DOTAX
Corporate Income	23rd	Tax Foundation
Estate Tax	50th	Tax Foundation
Other Costs		
Rents/land cost	48-50th	Commercialcafe.com
Shipping	49-50th	HI DOT
Utilities	50th	CNBC

*The 2024 tax cut bill will significantly lower the income tax burden by 2031 if fully implemented

Table 3. Hawai'i's ranking, CNBC's Top State's for Doing Business, 2024-2025

	Category	Hawai'i Ranking 2024	Hawai'i Ranking 2025
1	Economy	49	39
2	Infrastructure	47	48
3	Workforce	32	29
4	Cost of Doing Business	50	50
5	Business Friendliness	42	44
6	Quality of Life	7	6
7	Technology & Innovation	45	48
8	Education	41	42
9	Access to Capital	48	48
10	Cost of Living	48	49
	Overall	50	49

Source: CNBC America's Top States for Business <https://www.cnbc.com/2025/07/10/Hawai'i-top-states-for-business-ranking.html>

RECOMMENDATION

To meet this challenge, the task force recommends that the Legislature enact the Hawai'i Business Competitiveness Bill. A legislative proposal is located in the appendix of this report.

The bill has two key components:

- 1) It commits the State of Hawai'i to having one of the ten best business climates in the nation by 2045.**
- 2) It creates the Hawai'i Business Competitiveness Working Group, which will be tasked with developing targeted policies to improve Hawai'i's business competitiveness and strengthen its position in national rankings.** The working group shall be located within the Department of Business, Economic Development, and Tourism (DBEDT).

Under this framework, the working group shall submit the following to the Legislature each year:

- 1) A report outlining measurable progress.
- 2) A menu of legislative options to improve Hawai'i's competitiveness.

The Legislature shall deliberate over these proposals and enact legislation aimed at achieving the goals outlined in the Hawai'i Business Competitiveness Bill. In this way, the Legislature is responsible for finding a way to meet the goal that it set for itself.

The Goal

The State of Hawai'i has a history of setting ambitious, long-term goals and working collaboratively to achieve them. A prime example is the Hawai'i Clean Energy Initiative, launched in 2008 to reduce dependence on fossil fuels and achieve the nation's first 100% renewable energy standards by the year 2045. This approach can be applied to improving Hawai'i's economic competitiveness.

The goal is to improve Hawai'i's ranking to:

- 45th or better by 2030
- 35th or better by 2035
- 20th or better by 2040
- 10th or better by 2045

The Metric

The task force selected the **CNBC America's Top States for Business** ranking as the preferred benchmark for the following reasons:

- It provides the most comprehensive assessment of actual business conditions using ten categories and 135 metrics.
- It offers annual updates enabling consistent progress tracking.
- It uses a balanced approach to measuring the business environment without reverting to an anti-tax or small-government bias.
- It serves as the most widely recognized and cited state business ranking.
- Hawai'i will receive publicity and recognition for improving the rankings, which will attract investment.

The CNBC Top States for Business ranks states across ten categories, with the weight of each category indicated in parentheses, as follows:

1. **Economy (17.8%):** Measures economic strength through GDP and job growth, fiscal stability, credit ratings, real estate health, business diversity, trade exposure, and new business survival.
2. **Infrastructure (16.2%):** Assesses transportation networks, utilities, broadband, site readiness, land availability, market access, and climate resiliency.
3. **Workforce (13.4%):** Evaluates skilled labor availability, education levels, migration of talent, productivity, training programs, and labor flexibility.
4. **Cost of Doing Business (11.8%):** Examines tax competitiveness, wages, utilities, property and insurance costs, and business incentives.
5. **Business Friendliness (10.8%):** Focuses on regulatory and legal environments, permitting efficiency, land-use rules, and support for emerging industries.
6. **Quality of Life (10.6%):** Measures livability, including safety, environment, health care, childcare, worker rights, inclusiveness, and reproductive freedoms.
7. **Technology & Innovation (10.2%):** Captures states' innovation capacity via patents, research funding, R&D support, and participation in semiconductor and AI sectors.
8. **Education (4.4%):** Assesses K–12 and higher education systems, funding, access, and workforce alignment through community colleges partnerships.
9. **Access to Capital (2.4%):** Measures availability of venture capital, bank lending, state-backed financing, and foreign direct investment.

10. **Cost of Living (2.4%):** Evaluates affordability through housing, consumer goods, and insurance costs, factoring inflation and overall living expenses.

If CNBC discontinues the ranking, the Competitiveness working group shall identify and recommend another ranking metric to measure the state's progress.

Implementation Structure

The Legislature shall instruct DBEDT to create the Hawai'i Business Competitiveness Unit, which shall be tasked with developing targeted proposals to improve Hawai'i's business competitiveness and strengthen its position in national rankings. The working group shall consult with business groups, labor unions, community organizations, and county governments.

The working group shall draw on the extensive body of research available, such as:

- Reports from the State of Hawai'i Department of Business, Economic Development, and Tourism.
- The 2030 Blueprint by the Chamber of Commerce Hawai'i.
- The Comprehensive Economic Development Strategy reports for the State of Hawai'i and each county.
- Studies produced by the University of Hawai'i Economic Research Organization.
- Policy recommendations and studies submitted by the Business Revitalization Task Force.

Each year, the working group shall submit to the Legislature the following:

- A report outlining measurable progress.
- A slate of legislative options to improve Hawai'i's competitiveness.

The Legislature shall then deliberate on these proposals and pass legislation aimed at achieving the goals outlined in the Hawai'i Business Competitiveness Bill.

Budget Request

The Hawai'i Business Competitiveness Working Group requires an initial 2-year budget of \$300,000 to cover the costs of independent research, staffing, travel, and other administrative expenses. This amount shall be readjusted every two years after the passage of the law.

Research & Staffing	\$250,000
Travel, Admin, Events	\$50,000
<hr/>	
Total	\$300,000

IV. APPENDICES

APPENDIX A. LEGISLATIVE PROPOSAL OF LAW

____.B. NO.____

A BILL FOR AN ACT

RELATING TO ECONOMIC DEVELOPMENT AND BUSINESS COMPETITIVENESS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The Legislature finds that Hawaii ranks among
2 the least competitive states for business in national
3 assessments, including CNBC's America's Top States for Business,
4 which ranked Hawaii 50th in 2024 and 49th in 2025. Businesses
5 in Hawaii face high regulatory burdens, elevated costs, and slow
6 governmental processes, which collectively hinder economic
7 growth and threaten the long-term prosperity of the State and
8 its residents.

9 The Business Revitalization Task Force, created by Act 142,
10 Session Laws of Hawaii 2024, was established to identify
11 strategies to improve Hawaii's business climate. The task force
12 recommends the creation of a permanent framework to advance
13 business competitiveness through sustained policy development
14 and stakeholder engagement.

15 Accordingly, the purpose of this Act is to:

- 16 (1) Commit the State of Hawaii to achieving a top-ten
17 national ranking in business climate by the year 2045;
18 and

1
2 (2) Task the department of business, economic development,
3 and tourism to work with private sector organizations
4 and other relevant parties to develop and recommend
5 policies that improve Hawaii's business environment on
6 a yearly basis.

7 SECTION 2. Chapter 201, Hawaii Revised Statutes, is
8 amended by adding a new part to be appropriately designated and
9 to read as follows:

10 **"PART I . HAWAII BUSINESS COMPETITIVENESS**

11 **§201- Definitions.** (a) As used in this part:

12 "Ranking metric" means CNBC's America's Top States for Business
13 or a comparable national index selected by the department. The
14 CNBC ranking scores each state using 135 metrics in ten broad
15 categories of competitiveness. The categories are:

16 (1) Economy: Measures economic strength through GDP and job
17 growth, fiscal stability, credit ratings, real estate
18 health, business diversity, trade exposure, and new
19 business survival.

20 (2) Infrastructure: Assesses transportation networks,
21 utilities, broadband, site readiness, land availability,
22 market access, and climate resiliency.

- 1 (3) Workforce: Evaluates skilled labor availability,
2 education levels, migration of talent, productivity,
3 training programs, and labor flexibility.
- 4 (4) Cost of Doing Business: Examines tax competitiveness,
5 wages, utilities, property and insurance costs, and
6 business incentives.
- 7 (5) Business Friendliness: Focuses on regulatory and legal
8 environments, permitting efficiency, land-use rules, and
9 support for emerging industries.
- 10 (6) Quality of Life: Measures livability, including safety,
11 environment, health care, childcare, worker rights,
12 inclusiveness, and reproductive freedoms.
- 13 (7) Technology & Innovation: Captures innovation capacity via
14 patents, research funding, R&D support, and participation
15 in semiconductor and AI sectors.
- 16 (8) Education: Assesses K-12 and higher education systems,
17 funding, access, and workforce alignment through
18 community colleges partnerships.
- 19 (9) Access to Capital: Measures availability of venture
20 capital, bank lending, state-backed financing, and
21 foreign direct investment.

1 (10) Cost of Living: Evaluates affordability through housing,
2 consumer goods, and insurance costs, factoring inflation
3 and overall living expenses.
4

5 **§201- State commitment to business climate improvement.**

6 The State shall endeavor to achieve a ranking among the top ten
7 states in the nation for business climate by the year 2045, as
8 measured by the ranking metric. Interim goals shall include:

- 9 (1) Ranking of 45th or better by 2030;
10 (2) Ranking of 35th or better by 2035;
11 (3) Ranking of 20th or better by 2040; and
12 (4) Ranking of 10th or better by 2045.

13 If CNBC discontinues the America's Top States for Business
14 ranking, the department shall identify and recommend an
15 alternative national ranking metric that provides a
16 comprehensive and balanced assessment of state business
17 climates.

18 **§201- Powers of the department.** The department shall:

- 19 (1) Develop targeted policies and legislative proposals to
20 improve Hawaii's business competitiveness;
21 (2) Consult persons from business groups, labor unions,
22 community groups, and other government entities;

1 (3) Review and analyze relevant research, including:

2 (A) Reports from the department of business, economic
3 development, and tourism;

4 (B) The Chamber of Commerce Hawaii's *2030 Blueprint*;

5 (C) The office of planning and sustainable
6 development's *Comprehensive Economic Development*
7 *Strategy* reports for the State of Hawaii and each
8 county;

9 (D) Studies from the University of Hawaii Economic
10 Research Organization; and

11 (E) Recommendations from the business revitalization
12 task force established by Act 142, Session Laws
13 of Hawaii 2024.

14
15 **§201- Annual report.** (a) The department shall submit
16 an annual report to the Legislature no later than twenty days
17 prior to the convening of each regular session. The report
18 shall include:

19 (1) Measurable progress toward the State's competitiveness
20 goals; and

21 (2) A slate of legislative options to improve Hawaii's
22 business climate.

1 (b) The Legislature shall deliberate on the department's
2 proposals and enact legislation to advance the goals set forth
3 in this part."

4 SECTION 3. There is appropriated out of the general
5 revenues of the State of Hawaii the sum of \$300,000 or so much
6 thereof as may be necessary for fiscal year 2026-2027 to cover
7 the costs of independent research, staffing, travel, and other
8 administrative expenses for the purposes of this Act.

9 The sum appropriated shall be expended by the department of
10 business, economic development, and tourism.

11 SECTION 4. New statutory material is to be codified in
12 chapter 201, Hawaii Revised Statutes.

13 SECTION 5. This Act, upon its approval, shall take effect
14 on July 1, 2026.

15
16 INTRODUCED BY: _____

17 BY REQUEST

Report Title:

DBEDT; Hawaii Business Competitiveness; Appropriation

Description:

Establishes a legislative goal to enact reforms that will move Hawaii's business environment to be among the top ten in the nation. Tasks the Department of Business, Economic Development, and Tourism to develop and recommend policies that improve Hawaii's business competitiveness. Appropriates funds.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

APPENDIX B. HAWAI'I GENERAL ECONOMIC COMPETITIVENESS AND BUSINESS CLIMATE

Hawai‘i’s General Economic Competitiveness and Business Climate



May 2025



This report was prepared by Mustafa Shirzad, Economist, under the direction of Dr. Eugene Tian, Division Administrator and Dr. Joseph Roos, Economic Research Program Manager with edits by Paul Migliorato

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Section 1. Introduction

The Department of Business, Economic Development and Tourism (DBEDT) was requested by the Thirty-Second Hawai'i State Legislature to establish a taskforce to identify methods to improve Hawai'i's general economic competitiveness and business climate by mitigating regulatory and tax burdens. This report provides analysis regarding Hawai'i business climate, access to finance, workforce development, and business costs. The objective of this report is to assist the taskforce in formulating recommendations in these areas.

Competitiveness is a multifaceted concept and has been the subject of significant consideration in academic literature. The Institute for Strategy and Competitiveness at Harvard Business School has developed a competitiveness framework and analysis for all U.S states and defined competitiveness as labor productivity which creates value (Porter, 2012). Similarly, competitiveness was also referred to as state capacity to enhance economic growth, wage growth and welfare (Ketels et al, 2012). Competitiveness was also indicated by significant market presence in emerging and strategic clusters or groups of industries (UNIDO, 2009).

This report builds its discussion framework on general economic competitiveness based on earlier definitions of competitiveness as productivity and the ability of the state to create value and promote economic growth. This framework examines the dimensions related to economic growth, job creation, wage increase, and welfare improvement of Hawai'i residents. Successful economic competitiveness policies at the state level not only contribute to the economic well-being within the state but also greatly contribute to the national economic health.

Both microeconomic and macroeconomic phenomena have been vital to the state economic competitiveness and general business environment (Porter 2012). Microeconomic competitiveness includes, but is not limited to, the improvement of firm performance toward gaining competitive labor force, attracting capital and investment and promoting efficient energy and infrastructure development for business operation and performance (Haughton, 2013) (Bartik, 1991) (Francis, 2017). The macroeconomic side focuses on economy-wide conditions and pretexts for firms to improve competition and business environments. Economy-wide policies that directly or indirectly impact the business climate are examined through the lens of business costs including regulatory burdens, tax burdens, and associated costs related to the business operation and survival. Business costs cover factors related to a conducive environment for businesses in terms of regulatory climate, tax policy, and business incentives.

The goal of this report is to analyze trends and recent microeconomic, macroeconomic, and regulatory factors impacting Hawai'i's economic competitiveness and business environment. We summarize Hawai'i's general economic competitiveness and business climate by developing the discussion framework to facilitate the process of exploring factors relevant and vital to economic competitiveness. Our analysis framework includes major areas of access to capital, workforce and infrastructure development, and business costs that cover both regulatory and tax burdens.

Diagram 1. Economic Competitiveness, Discussion Framework

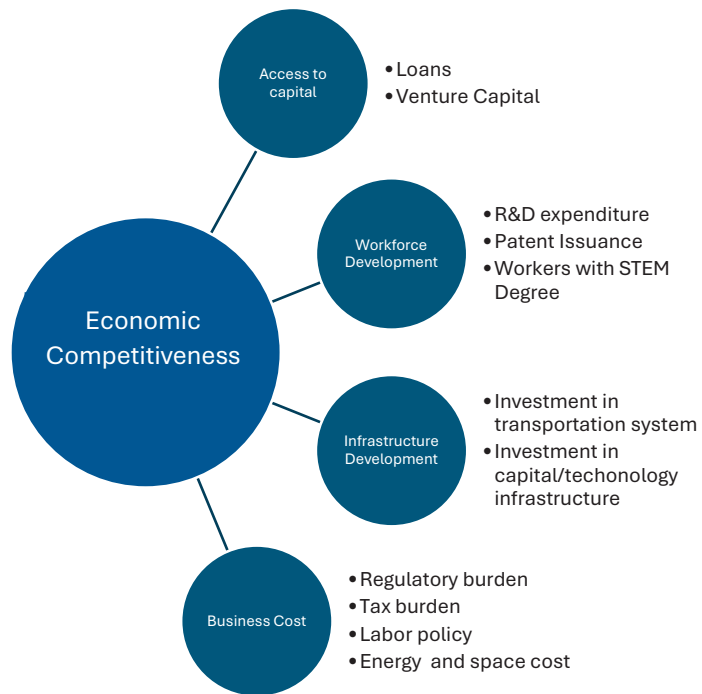


Table 1. Economic Competitiveness Core Areas and Assessment Metrics

Component	Metrics	Measurement unit
Microeconomic Competitiveness: focuses on firm performance toward gaining competitive labor force, attracting capital and investment for incumbents and startups as well as promoting efficient energy and infrastructure development for business operation and performance		
Access to Capital: equip businesses with vital financial and operational support to create jobs and compete in both local and traded market.	Business loans	<ul style="list-style-type: none"> Small business loan/ GDP (nominal)
	Venture capital	<ul style="list-style-type: none"> Capital net flow in \$ Aggregate Asset in \$ under Management (AUM)
Workforce Development: market condition and investment toward equipping labor force with competitive knowledge to meet market demand and promote economic growth and innovation.	Research and Development (R&D)	<ul style="list-style-type: none"> R&D expenditure \$ per 1000 population R&D value added
	Patent issuance	<ul style="list-style-type: none"> Number of patents per 100,000 population
Infrastructure Development: investment toward efficient transportation, technology, and electricity infrastructure.	Expenditure in public infrastructure, technology sites, equipment and other forms of capital.	<ul style="list-style-type: none"> Capital spending as percentage of total spending and nominal GDP
	Transportation infrastructure	<ul style="list-style-type: none"> Road acceptance rate %
Macro and regulatory policy: focuses on State and local regulation and strategies that include taxation, regulatory climate, labor cost, and energy cost that directly or indirectly hinder/enhance conducive environment for business growth, investment and innovation.		
Regulatory Policy	Regulatory climate	<ul style="list-style-type: none"> State ranking for regulatory fairness for businesses
Tax Policy	Tax burden	<ul style="list-style-type: none"> Tax burden on personal income
		<ul style="list-style-type: none"> Corporate Income Tax % nominal GDP
Labor cost	State and local imposed cost of hiring an employee	<ul style="list-style-type: none"> Cost in dollar amount per \$100 wage by employer
Energy Cost	State/local price for energy for commercial activities	<ul style="list-style-type: none"> Price per millions of BTUs of energy unit
Space cost	Average cost to rent office/retail space/... for commercial activities	<ul style="list-style-type: none"> Asking price per square foot

Section 2. Economic Overview

In 2024, Hawai'i Gross Domestic Product (GDP) was \$117.62 billion dollars ranking as 40th largest economy for the size of GDP. However, with per capita GDP of \$81,339, Hawaii ranked 23rd among the 50 states. GDP and incomes aside, the high cost of living is a consistent challenge for Hawai'i's economy, business environment, and its residents. According to a 2023 ranking for the cost of living by state published by Forbes¹, Hawai'i ranks as the nation's most expensive state with average annual expenditure of over \$55,000 per average household.

Hawai'i's isolation from the mainland, limited labor mobility and access to broader markets highlight its challenging economic landscape. These factors affect the state's ability to improve economic competitiveness and the business environment because they influence its workforce development, infrastructure development, access to capital, and business costs.

According to several rankings entities evaluating the overall business and economy environments of U.S. states, Hawai'i consistently ranks among the lowest-ranked 10 states. The most commonly employed metrics to rank states for business include business creation and growth rate, business cost, workforce and infrastructure development, access to capital, technology and innovation, and affordability. As shown in Table 2, while Hawai'i was recognized as a state with a moderate level of workforce development, it ranked low in several other categories, including business costs, access to capital, infrastructure development, and innovation. The studies indicate that Hawai'i high cost of doing business, high cost of living, limited access to the finance, and relatively less-developed level of infrastructure and technology have been consistent challenges to the state.

¹ Cost of living index was developed by factoring annual expenses for housing, healthcare, taxes, food, and transportation.

Table 2. Hawai'i's Business and Economic Environment Ranking by Multiple Entities

Ranking Institution	Description	Year	Overall Ranking	Business/ Economy Climate	Business Cost	Workforce	Access to Capital	Cost of Living /Affordability	Infrastructure	Technology & Innovation
CNBC ²	American Top States for Business	2024	50	49	50	32	48	48	47	45
US News	Best State Ranking	2024	31	47	49	12	46	41	47	
ITIF ³	State New Economy Index	2020	46	42		32	40		40	47
Forbes	Best States for Business	2019	47	24	50	32		40		
Wallet Hub	Best & Worst State Economies	2024	50	49		50				50
ALEC ⁴	Economic Outlook	2024	41	42	41					
Tax Foundation	State Business Tax Climate Index	2024	42		42					

Note: Note: Numbers in the table represent ranking, 1 stands for 1st position (best) and 50 stands for 50th position (worst). A reddish hue represents the worst position, yellow represents moderate position, and green represents favorable position. Year column indicates the report publishing year.

² Consumer News and Business Channel

³ Information Technology and Innovation Foundation

⁴ American Legislative Exchange Council

Table 3. GDP and GDP per Capita Year 2024 by State

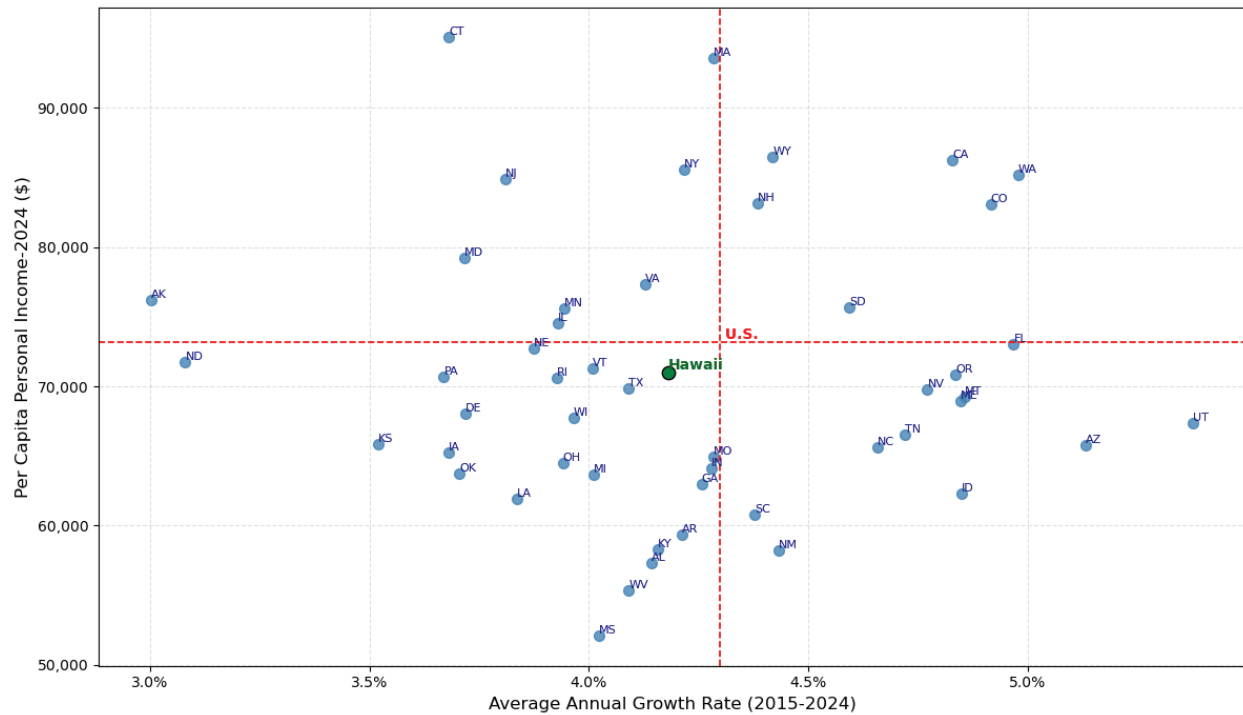
State	GDP 2024 (millions of current dollar)	GDP Ranking	GDP Per Capita 2024(current dollar)	GDP per Capita Ranking	Real GDP (millions of chained 2017 dollar)
California	\$4,048,108	1	\$102,662	5	\$3,306,929
Texas	\$2,769,766	2	\$88,517	13	\$2,221,943
New York	\$2,322,139	3	\$116,883	1	\$1,840,059
Florida	\$1,726,710	4	\$73,879	34	\$1,352,275
Illinois	\$1,148,106	5	\$90,330	11	\$899,126
Pennsylvania	\$1,007,874	6	\$77,062	29	\$803,233
Ohio	\$923,141	7	\$77,684	25	\$721,997
Georgia	\$881,508	8	\$78,841	24	\$697,451
Washington	\$856,014	9	\$107,564	3	\$702,232
New Jersey	\$846,000	10	\$89,045	12	\$675,898
North Carolina	\$844,209	11	\$76,427	30	\$664,132
Massachusetts	\$778,523	12	\$109,095	2	\$628,787
Virginia	\$761,734	13	\$86,451	17	\$613,709
Michigan	\$702,467	14	\$69,274	40	\$562,178
Arizona	\$570,089	15	\$75,186	32	\$446,968
Tennessee	\$561,201	16	\$77,645	26	\$440,200
Colorado	\$557,633	17	\$93,602	10	\$448,839
Maryland	\$546,028	18	\$87,180	16	\$433,106
Indiana	\$519,517	19	\$75,028	33	\$412,003
Minnesota	\$507,688	20	\$87,636	15	\$399,253
Wisconsin	\$453,299	21	\$76,044	31	\$354,382
Missouri	\$448,714	22	\$71,846	36	\$353,307
South Carolina	\$357,074	23	\$65,173	43	\$278,033
Connecticut	\$356,835	24	\$97,096	7	\$286,160
Oregon	\$330,250	25	\$77,299	28	\$263,348
Louisiana	\$329,173	26	\$71,594	37	\$257,056
Alabama	\$325,345	27	\$63,080	47	\$255,629
Utah	\$299,471	28	\$85,475	18	\$234,301
Kentucky	\$295,375	29	\$64,375	46	\$230,966
Nevada	\$269,011	30	\$82,330	21	\$207,352
Iowa	\$265,795	31	\$81,998	22	\$206,439
Oklahoma	\$263,695	32	\$64,388	45	\$210,316
Kansas	\$230,522	33	\$77,601	27	\$181,600
Nebraska	\$189,243	34	\$94,364	9	\$148,103

State	GDP 2024 (millions of current dollar)	GDP Ranking	GDP Per Capita 2024(current dollar)	GDP per Capita Ranking	Real GDP (millions of chained 2017 dollar)
Arkansas	\$188,340	35	\$60,984	48	\$147,390
Mississippi	\$158,192	36	\$53,751	50	\$123,419
New Mexico	\$147,085	37	\$69,046	41	\$119,045
Idaho	\$129,018	38	\$64,457	44	\$99,567
New Hampshire	\$119,337	39	\$84,694	19	\$94,926
Hawaii	\$117,627	40	\$81,339	23	\$91,878
Delaware	\$110,972	41	\$105,495	4	\$85,351
West Virginia	\$106,475	42	\$60,156	49	\$82,717
Maine	\$99,174	43	\$70,586	39	\$77,759
Rhode Island	\$80,381	44	\$72,265	35	\$63,459
North Dakota	\$80,058	45	\$100,504	6	\$63,366
Montana	\$78,441	46	\$68,975	42	\$60,606
South Dakota	\$76,796	47	\$83,052	20	\$57,718
Alaska	\$71,567	48	\$96,695	8	\$55,946
Wyoming	\$51,498	49	\$87,639	14	\$39,781
Vermont	\$46,276	50	\$71,359	38	\$36,399

Source: Census Bureau, State Population & BEA State Annual Summary. READ estimation for GDP per Capita.

Moreover, personal income level and income growth are important metrics because they affect individuals' welfare condition, consumption level and overall economic growth. Figure 1 illustrates average annual growth rate of personal income (horizontal-axis) across all states for the period of 2015-2024 and its level in 2024 (vertical-axis). The upper right quadrant represents states with high income growth and high income level while the lower left quadrant represents states with both low-income growth rate and income level. Hawai'i is spotted in the quadrant of states with both low growth and low real per capita personal income. Hawai'i nominal personal income per capita stands at around \$71,000, below U.S. average level of \$73,204, with the average annual growth rate of 4.2% over the period depicted.

Figure 1. Comparative State Per Capita Personal Income Performance (2015-2024)



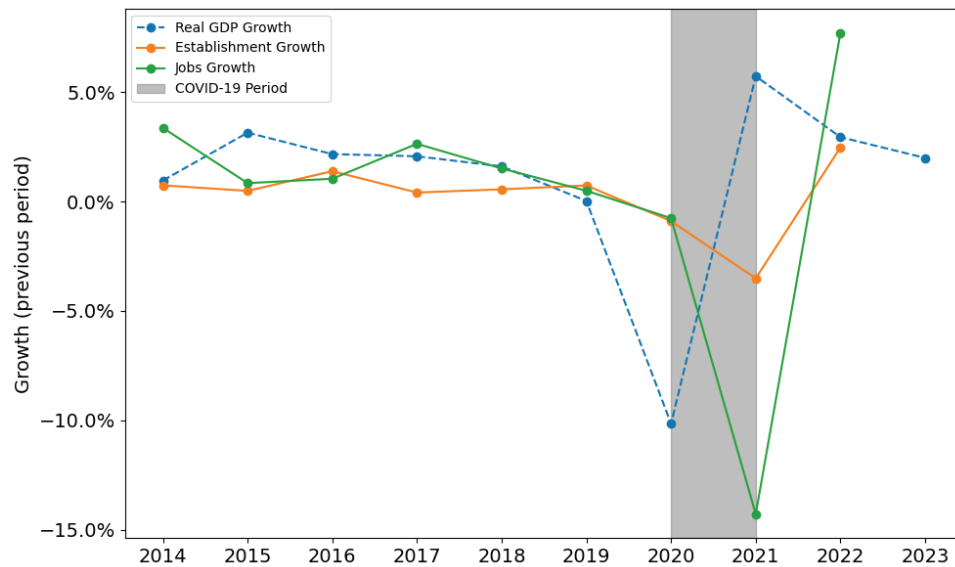
Source: Bureau of Economic Analysis, Real per capita personal income (constant 2017 dollars). Average annual growth rate is calculated as compound annual growth rate for 10 years period in percentage. READ estimation.

The subsequent sections of this study are organized as follows: Section 3 assesses Hawai‘i’s general business environment, Section 4 covers workforce development, Section 5 delves into access to capital, Section 6 explores macroeconomic and fiscal policies, and Section 7 examines findings on infrastructure development.

Section 3. Business Environment

Over the last decade, Hawai‘i’s private sector experienced significant fluctuations in terms of growth in real GDP, business establishments, and jobs. Covid-19 seriously disrupted real GDP and employment growth rate, resulting in declines of 10.5% in real GDP growth in 2020, 15% in job growth and 3.5% in establishment growth in 2021. However, these trends were followed by recoveries in real GDP growth from 2020 to 2021, employment and establishment growth from 2021 to 2022. While growth rates for employment and establishments remained positive, real GDP declined slightly from 2021 to 2023.

Figure 2. Hawai‘i Real GDP, Business Establishment, and Job Growth (2014-2023)

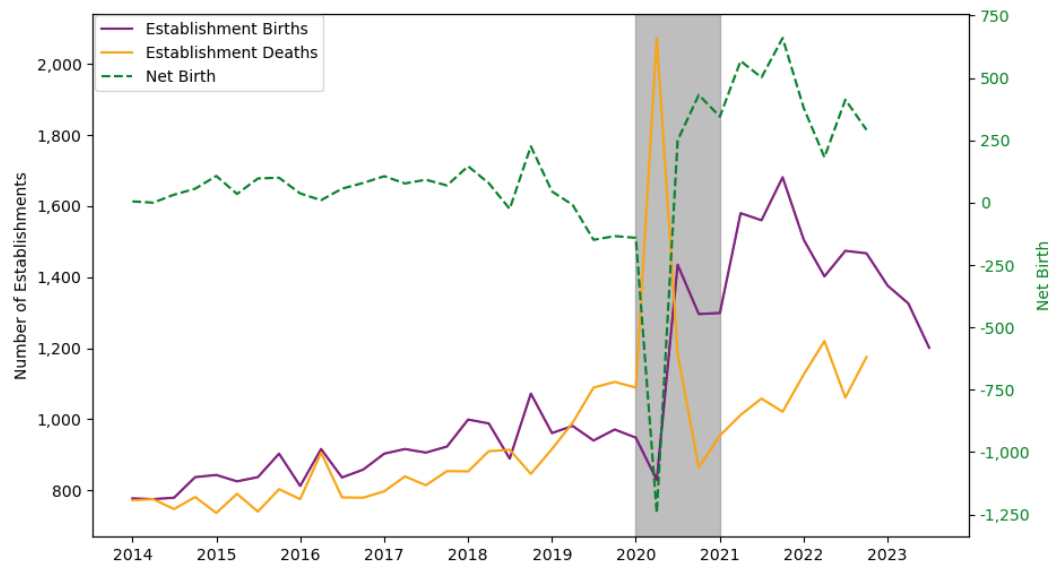


Source: US Census Bureau (Business Dynamics Statistics), Bureau of Economic Analysis (State Annual Summary Statistics) & Bureau of Labor Statistics (Business Employment Dynamics)

Business establishment data shows that establishments net births⁵ declined sharply in Hawai‘i following the Covid-19 pandemic in 2020. Over the course of early to mid-2020, more than 2,000 establishments were closed, leading to the lowest level establishments net births during the period of 2014-2023. However, the level of establishment net births began to recover in 2021 and reached a positive level in 2023.

⁵ Bureau of Labor Statistics defines establishment birth as records with positive employment in the third months of a quarter and zero employment in the third months of the previous four quarters. Establishment death is defined when a business with positive employment report zero employment or does not report at all for a length of time.

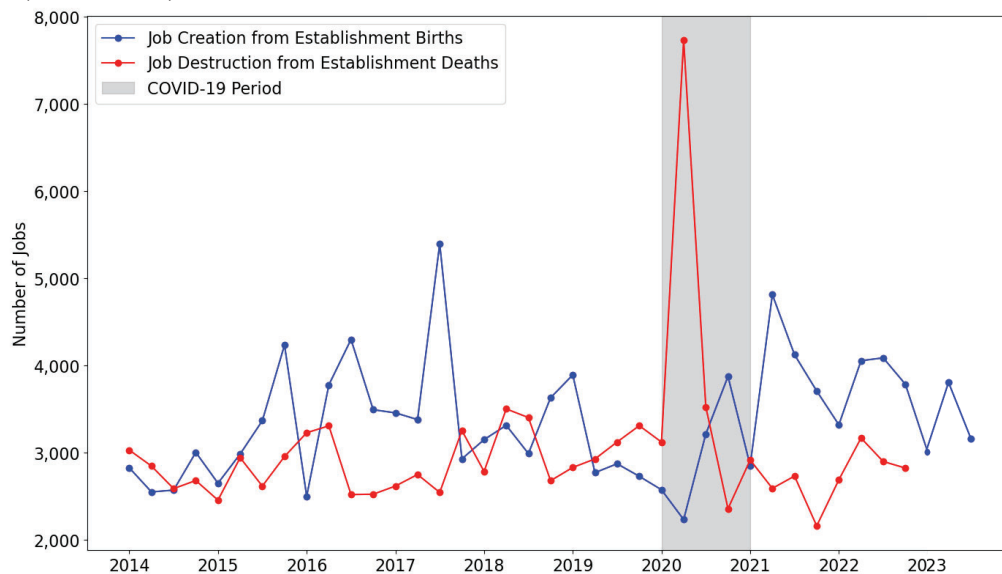
Figure 3. Annual Hawai‘i Establishment Birth and Death (2014-2023)



Source: Bureau of Labor Statistics, BED. Shaded area represents Covid-19 period. Seasonally adjusted data.

Job creation and destruction from both births and deaths have followed a similar pattern over 2014-2023. Figure 4 illustrates that major job losses happened during the Covid-19 period, which is directly related to the establishment closures. On the other hand, it can be observed that the number of jobs created by establishment births has recovered since 2021, remaining higher than job losses from establishment deaths.

Figure 4. Annual Hawai‘i Jobs Creation and Destruction by Establishment Births and Deaths (2014-2023)

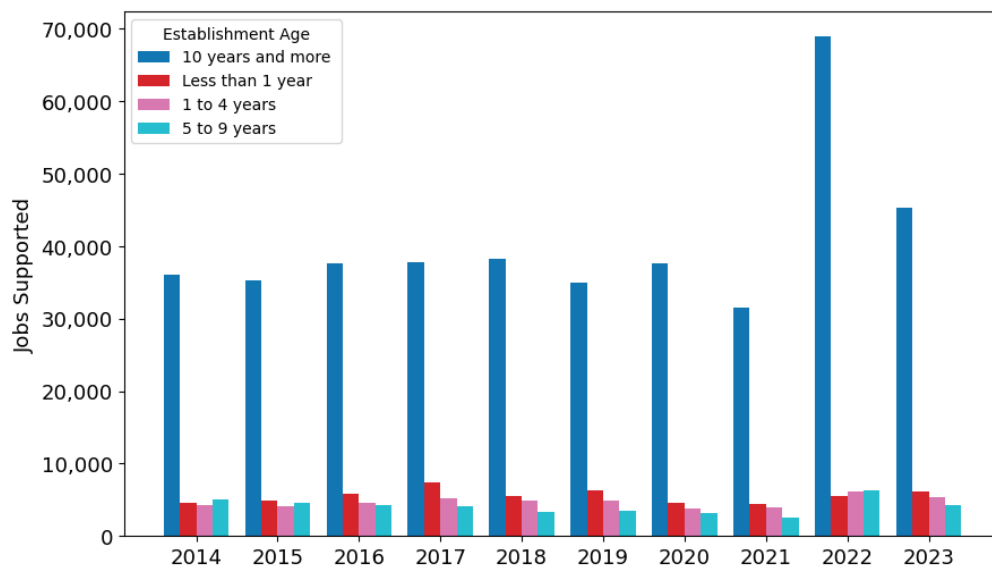


Source: Bureau of Labor Statistics, BED. Seasonally adjusted data.

Analyzing job creation across establishments with respect to their age groups, establishments 10 years old or more have created the most jobs followed by establishments less than one year old.

At the aggregate level, establishments operating for 10 years and more have created more around seventy thousand jobs in 2022 and more than forty thousand in 2023.

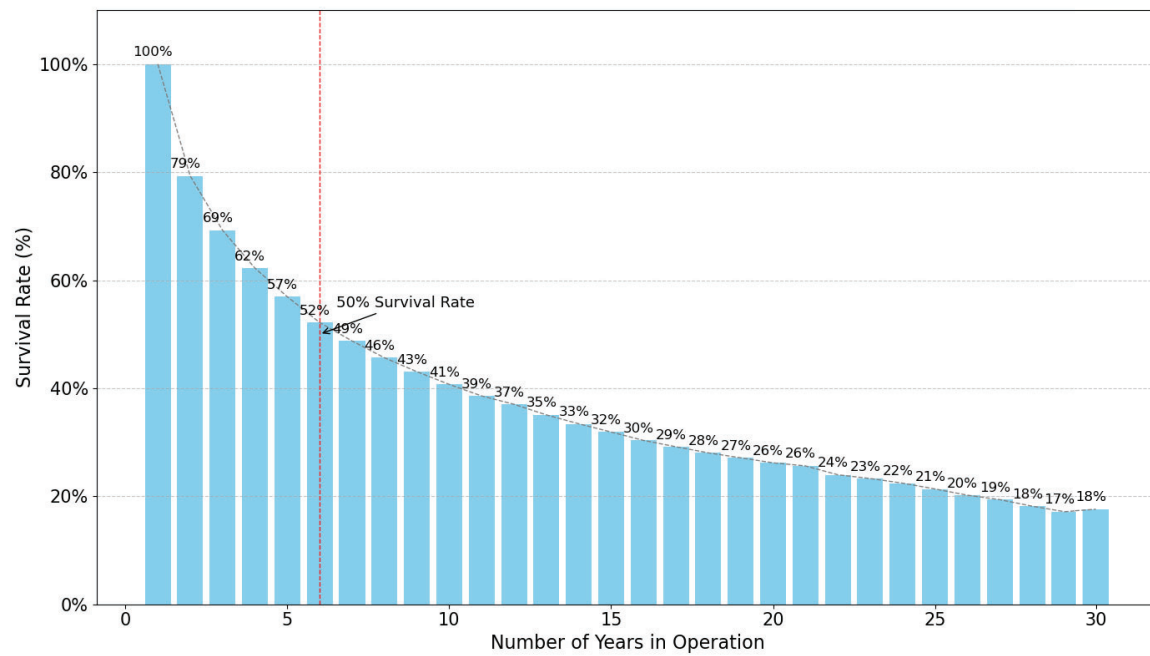
Figure 5. Annual Hawai‘i Job Supported by Establishment Age (2014-2023)



Source: Bureau of Labor Statistics, BED. READ estimation.

Having observed the variation in job creation and establishment age, we turn to analyzing the survival rate of the establishments in Hawai‘i. Related data are reported by the Bureau of Labor Statistics (BLS). Data employed here is for establishments created in or after 1994. Figure 6 illustrates that a survival rate of 50% (red dashed vertical line) corresponds to the businesses which are in operation for the maximum of around 5.7 years. It explains that half of failures take place during the first five years in operation. For businesses in operation for more than six years, the survival rate declines gradually to around 17% for those operating for 30 years.

Figure 6. Hawai‘i Average Survival Rate of Establishments by Number of Years in Operation (1994-2023)



Source: Bureau of Labor Statistics, Establishments age and survival rate. READ estimation.

Section 4. Workforce Development

Equipping the labor force with competitive knowledge and skills to meet market demand is one of the crucial factors in promoting economic growth and labor productivity. Economic competitiveness is closely related and aligned with the workforce development goals and productivity since it focuses on supply of the labor that provides knowledge-based support for the businesses.

4.1 Labor productivity

Labor productivity is an important economic indicator associated with economic growth, competitiveness and living standard in an economy. Labor productivity defines the total volume of economic output (GDP) produced per unit of labor (CRS, 2023) (ILO, 2024). The table below shows that Hawai‘i state labor productivity reached the level of \$137,441 per job in 2022 which is still lower than the national average in the same period. Among Hawai‘i counties, after Honolulu County, Maui and Kauai Counties had the highest labor productivity in 2023.

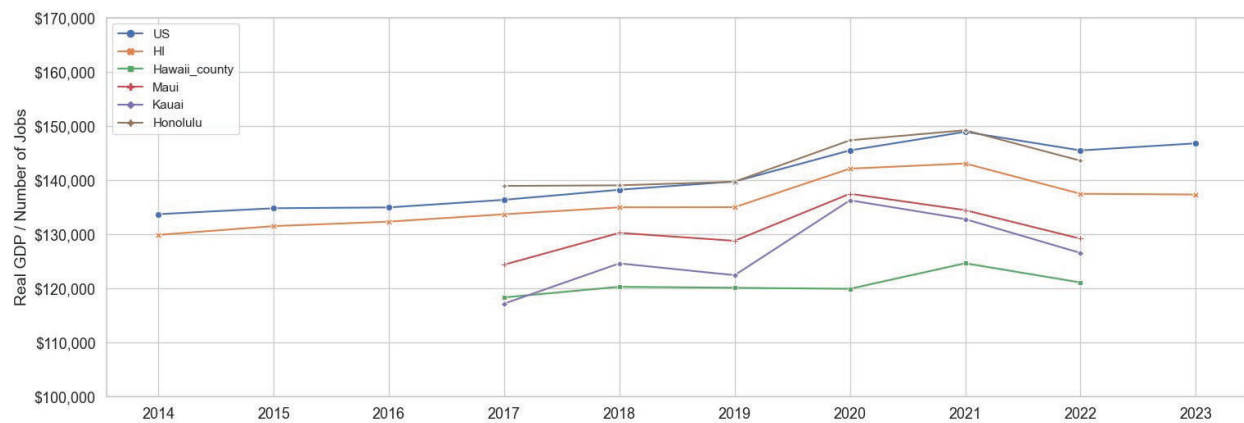
Table 4. Labor Productivity Across Hawai‘i State, Counties and U.S national (2023).

State	Real GDP (millions of chained 2017 dollars)	Number of Jobs	Labor Productivity	Productivity Growth (previous period)
United States	\$ 21,822,037	150,025,676	\$ 145,455	-2.3 %
Hawai‘i State	\$ 85,211.432	619,987	\$ 137,441	-3.9 %
Honolulu	\$ 63,071.690	439,355	\$ 143,555	-3.7 %
Hawai‘i County	\$ 8,497.948	70,199	\$ 121,055	-2.8 %
Maui	\$ 9,692.556	75,054	\$ 129,141	-3.9 %
Kauai	\$ 3,940.174	31,145	\$ 126,510	-4.7 %

Source: LightCast data on number of QCEW jobs & Bureau of Economic Analysis, Real GDP (chained 2017 dollars) data. READ estimation for productivity.

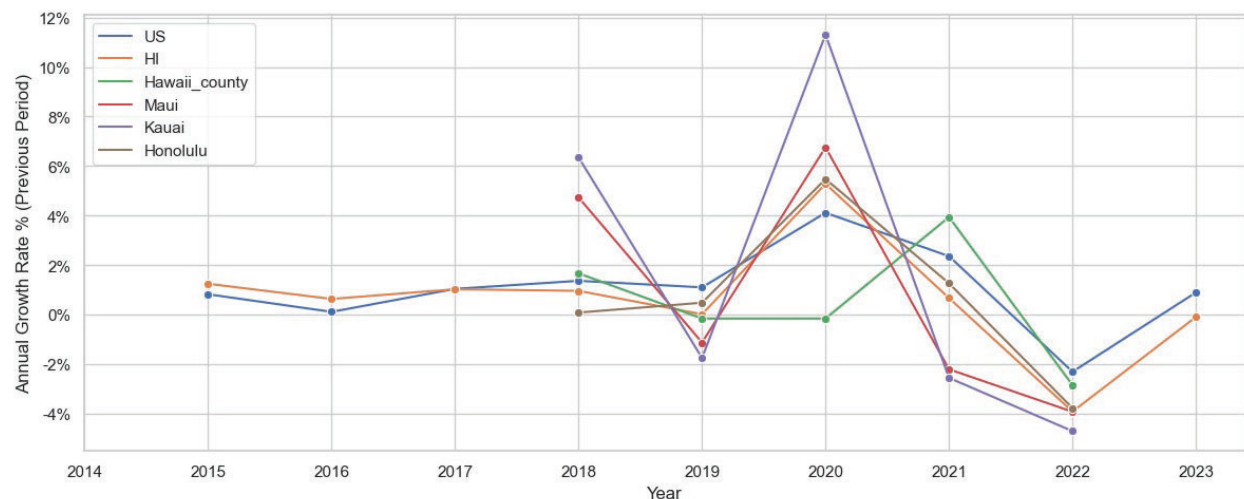
Similarly, observing labor productivity over a longer time span reveals that both the productivity level and growth in the state have been lower than the national average for the last ten years. Among the counties, Honolulu has experienced the highest labor productivity, while Hawai‘i county has experienced the lowest level during the analysis period.

Figure 7. Labor Productivity U.S vs Hawai‘i State (2014-2023)



Source: LightCast, number of jobs for QCEW & Bureau of Economic Analysis, Real GDP (chained 2017 dollars) data. READ estimation of productivity.

Figure 8. Labor Productivity Growth (previous period) U.S vs Hawai‘i State and Counties (2014-2023)



Source: LightCast, number of jobs for QCEW & Bureau of Economic Analysis, Real GDP (chained 2017 dollars) data. READ Estimation of productivity growth rate (previous period).

Next, we conduct a comparative analysis of labor productivity across U.S. states. Figures 9 illustrates labor productivity across all states for the period of 2014-2023. Hawai‘i is in the quadrant with both low 10-year growth and low labor productivity level in 2023. This result is closely aligned with our result for comparative illustration of real personal income per capita shown in Figure 1.

Real GDP per Labor (2023)

Average Annual Growth Rate (%) of Real GDP per Labor (2014-2023)

U.S. real GDP per labor: 170,500.0

U.S. real Growth in GDP per labor: 0.763

Hawaii

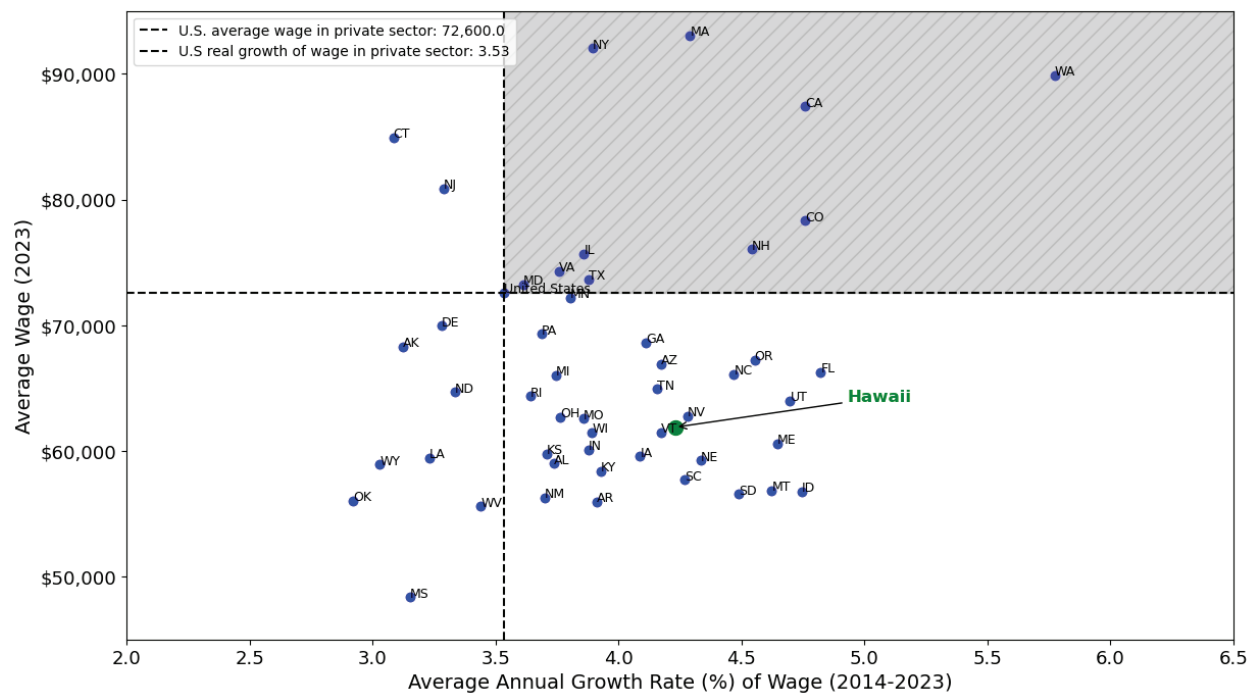
United States

States labeled: DE, AK, WY, NJ, CT, MD, VA, TX, NE, WA, MA, CO, CA, HI, ND, GA, NM, MN, NH, IA, IL, IN, OH, MI, WV, FL, KS, OR, ME, VT, ID, AR, KY, MO, AL, NV, RI, PA, OK, NC, LA, MS.

4.2 Wages

In addition, Hawai‘i is among the states that increased minimum wage in 2024. According to the recent data from Economic Policy Institute, minimum wage in Hawai‘i increased to \$14 per hour statewide. Across industries in private sector in Hawai‘i, average hourly earnings ranged from \$20 to over \$50 in 2023. Retail Trade, Accommodation and Food services had the lowest average hourly earnings while Utility and Professional, Scientific, and Technical Services had the highest in 2023.

Figure 10. Comparative State Nominal Wage Performance (2014-2023)



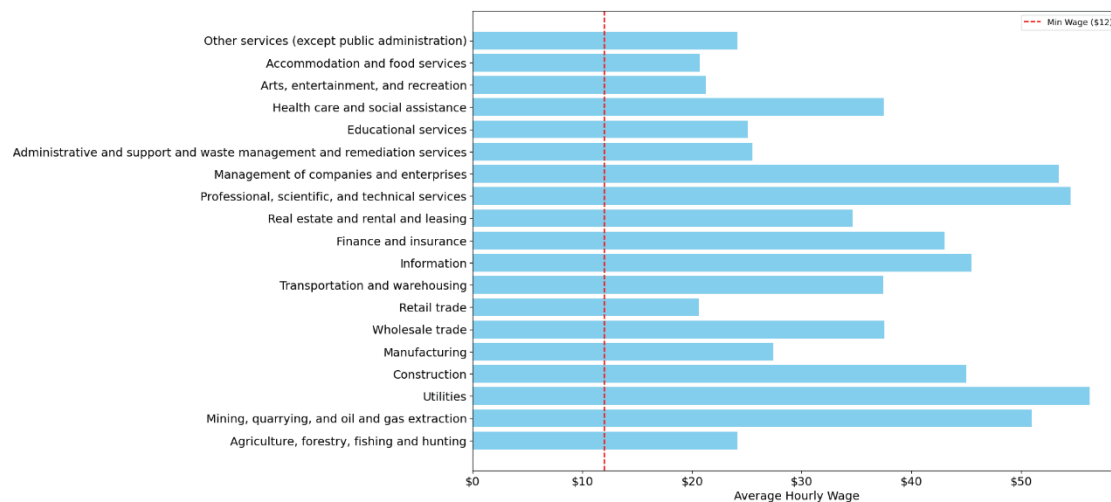
Source: Bureau of Labor Statistics, QCEW private sector labor force and total wages all industries for all establishment sizes. Average annual growth rate is calculated as compound annual growth rate for 10 years period in percentage. READ estimation.

Table 5. States Increased Minimum Wage in 2023-2024

State	2023 minimum wage	2023 tipped minimum wage	2024 minimum wage	2024 tipped minimum wage	Minimum wage increase	Tipped minimum wage increase	Type of increase
Washington	\$15.74	—	\$16.28	—	\$0.54	—	Inflation adjustment
California	\$15.50	—	\$16.00	—	\$0.50	—	Inflation adjustment
New York	\$15.00	\$10.00	\$16.00	\$10.65	\$1.00	\$0.65	Legislation
Connecticut	\$15.00	\$6.38	\$15.69	\$6.38	\$0.69	\$0.00	Inflation adjustment
New Jersey	\$14.13	\$5.26	\$15.13	\$5.26	\$1.00	\$0.00	Legislation
Maryland	\$13.25	\$3.63	\$15.00	\$3.63	\$1.75	\$0.00	Legislation
Colorado	\$13.65	\$10.63	\$14.42	\$11.40	\$0.77	\$0.77	Inflation adjustment
Arizona	\$13.85	\$10.85	\$14.35	\$11.35	\$0.50	\$0.50	Inflation adjustment
Maine	\$13.80	\$6.90	\$14.15	\$7.08	\$0.35	\$0.18	Inflation adjustment
Hawai'i	\$12.00	\$11.00	\$14.00	\$12.75	\$2.00	\$1.75	Legislation
Illinois	\$13.00	\$7.80	\$14.00	\$8.40	\$1.00	\$0.60	Legislation
Rhode Island	\$13.00	\$3.89	\$14.00	\$3.89	\$1.00	\$0.00	Legislation
Vermont	\$13.18	\$6.59	\$13.67	\$6.84	\$0.49	\$0.25	Inflation adjustment
Delaware	\$11.75	\$2.23	\$13.25	\$2.23	\$1.50	\$0.00	Legislation
Missouri	\$12.00	\$6.00	\$12.30	\$6.15	\$0.30	\$0.15	Ballot measure
Nebraska	\$10.50	\$2.13	\$12.00	\$2.13	\$1.50	\$0.00	Ballot measure
Alaska	\$10.85	—	\$11.73	—	\$0.88	—	Inflation adjustment
South Dakota	\$10.80	\$5.40	\$11.20	\$5.60	\$0.40	\$0.20	Inflation adjustment
Minnesota	\$10.59	—	\$10.85	—	\$0.26	—	Inflation adjustment
Ohio	\$10.10	\$5.05	\$10.45	\$5.25	\$0.35	\$0.20	Inflation adjustment
Michigan	\$10.10	\$3.84	\$10.33	\$3.93	\$0.23	\$0.09	Legislation
Montana	\$9.95	—	\$10.30	—	\$0.35	—	Inflation adjustment

Source: Economic Policy Institute, Working Economics Blog, 2023

Figure 11. Hawai‘i Average Hourly Earnings by Industry Year 2023

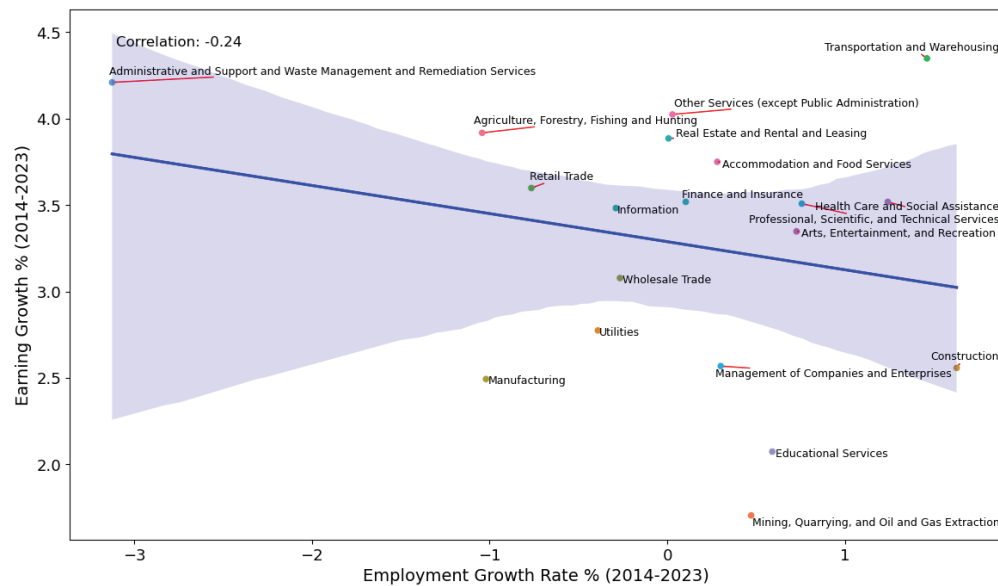


Source: Bureau of Labor Statistics. READ estimation

Fluctuations in the hourly earnings across industries provide reason to delve further into competitiveness across industries in Hawai‘i. Figure 12 illustrates a weak negative correlation between employment growth and earnings growth for 2013-2023. A negative fitted line implies that employment growth and earnings growth negatively correlated with employment growth exceeding earnings growth. Transportation and Warehousing experienced the fastest growth for both employment and earnings, while two sectors, 1) Administrative and Support and Waste Management and Redemption Services, and 2) Manufacturing, exhibited the slowest growth for both employment and earnings during the period depicted.

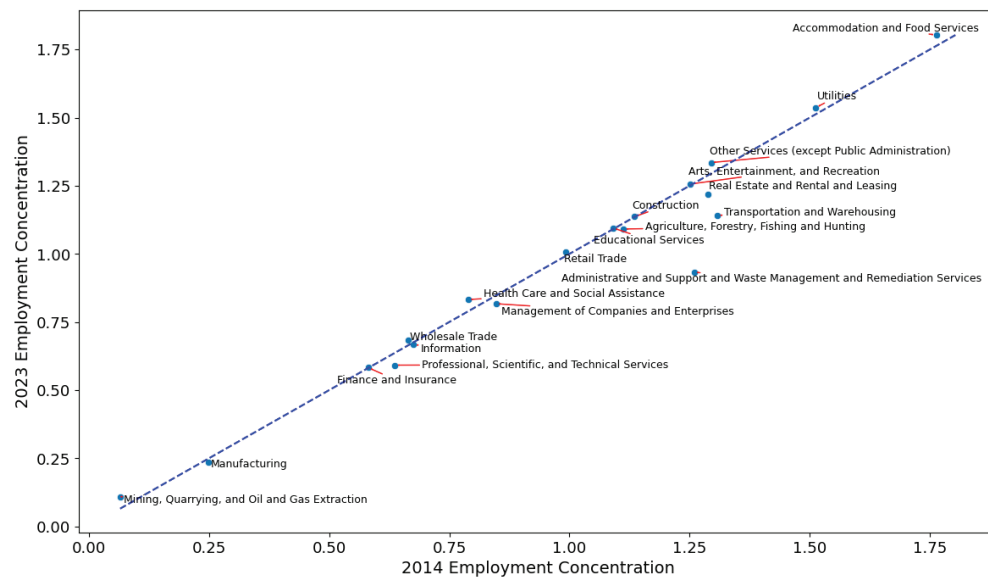
To further study competitiveness across industries, we analyze the ability of the industries to attract and retain workers within the state and regional economy. More jobs in the industry implies growth of the industry, while lower jobs signal a decline. One way to investigate this topic is to assess the industry level employment concentration over time. Figure 13 illustrates Hawai‘i industry-level employment concentration for 2014 versus 2023 in the private sector. The diagonal 45-degree line in Figure 13 enables us to represent which industries have become more concentrated (above the line) or less concentrated (below the line) over the last 10 years. No industry became more concentrated during this period (no dispersion above the line) while only two industries (Administrative and Support and Waste Management and Redemption Services, and Transportation and Warehousing) became less concentrated.

Figure 12. Cross-Plot of Employment Growth Versus Earnings Growth by Industry (2014-2023)



Source: Lightcast, QCEW. Growth rate is calculated as compound annual growth rate in %. Unclassified industry is not included in this analysis. READ estimation.

Figure 13. Hawai'i Private Sector Employment Concentration by Industry 2014 vs 2023



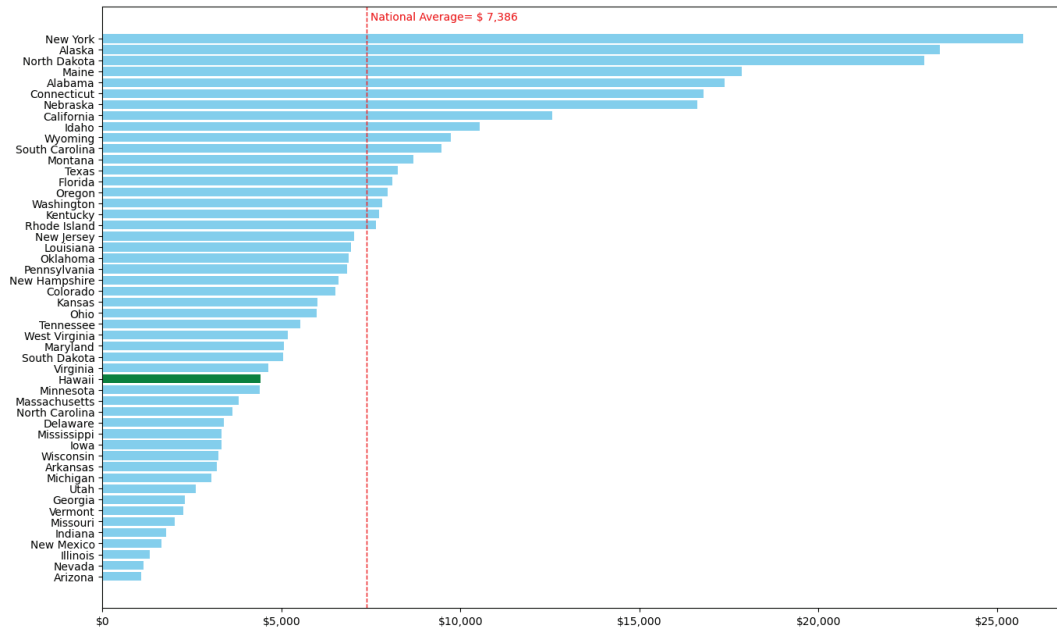
Source: Lightcast, QCEW. Unclassified industry is not included. READ estimation.

Based on the last two figures, we can clearly identify both strengths and weaknesses across industries. It can be observed that high earning-growth industries experienced negative or no employment growth. This slightly weak but negative correlation merits consideration of how research, technology, capital investment, and regulatory as well as industry level policies impacted both employment and earnings across industries in Hawai'i.

4.3 Research and Development

This section addresses the level of research and development (R&D) expenditure in Hawai‘i. For a better comparison analysis across states, we compare research and development expenditure across states per thousands of populations.

Figure 14. Research and Development Expenditure per Thousands of Populations (2022)



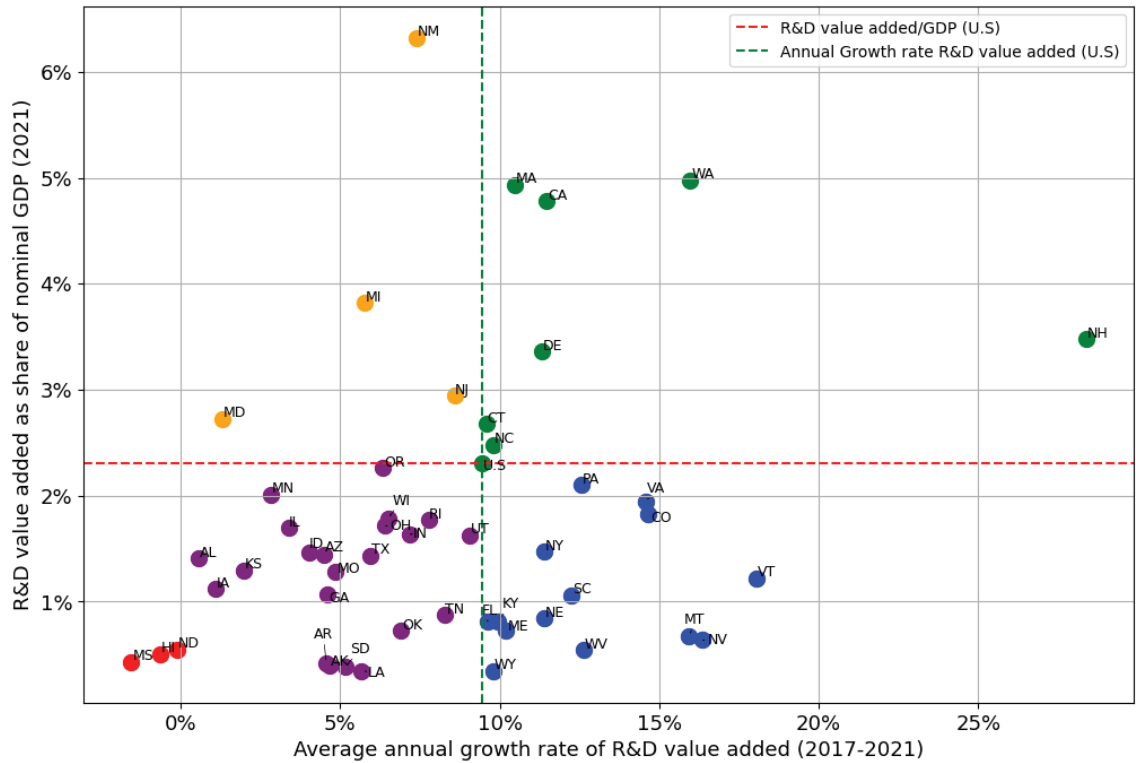
Source: National Center for Science and Engineering Statistics, State government expenditures for R&D and plant, by state and performer: FY 2022. READ estimation.

The Data shows that there was \$4,400 in research and development expenditure per thousand population in Hawai‘i for 2022. This ranks well below the national average expenditure of \$7,386.

We also examine the contribution of research and development investment in terms of value generated by the states. For this metric, we compare the value added⁶ by research and development activities in each state as a percentage of their respective nominal GDP. Figure 15 below shows that Hawai‘i is among the states with the lowest ratio of R&D value added as a share of its nominal GDP in 2021. Hawai‘i ratio for these metric equals to 0.5%, while states such as New Mexico, California, Washington, and Massachusetts have ratios near or above 5%. Hawai‘i, Mississippi and North Dakota are the only three states which experienced declines in their average annual growth of R&D value added during the period of 2017-2021.

⁶ R&D value added consists of the value that an industry generates as part of R&D production after it has accounted for its costs of energy, materials, and services used up in R&D production.

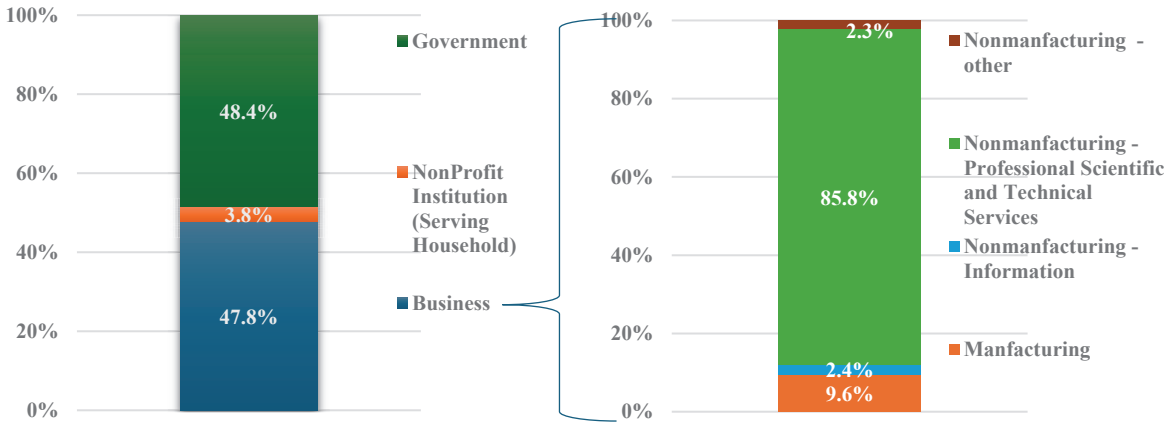
Figure 15. Comparative State R&D Value Added as share of Nominal GDP vs R&D Value Added Average Annual Growth Rate (2017-2021).



Source: Bureau of Economic Analysis, Experimental R&D value added (millions of current dollars) statistics & Nominal GDP (millions of current dollars).

More than 48% of R&D value added in Hawaii in 2021 was generated by the government sector. The business sector generated more than 47%, with 85.8% of the R&D value added was generated by the Professional, Scientific and Technical Services industry (nonmanufacturing) followed by Manufacturing (9.6%), and Information (2.4%) industries. This finding clearly highlights the importance of role business sector plays in generating R&D value added.

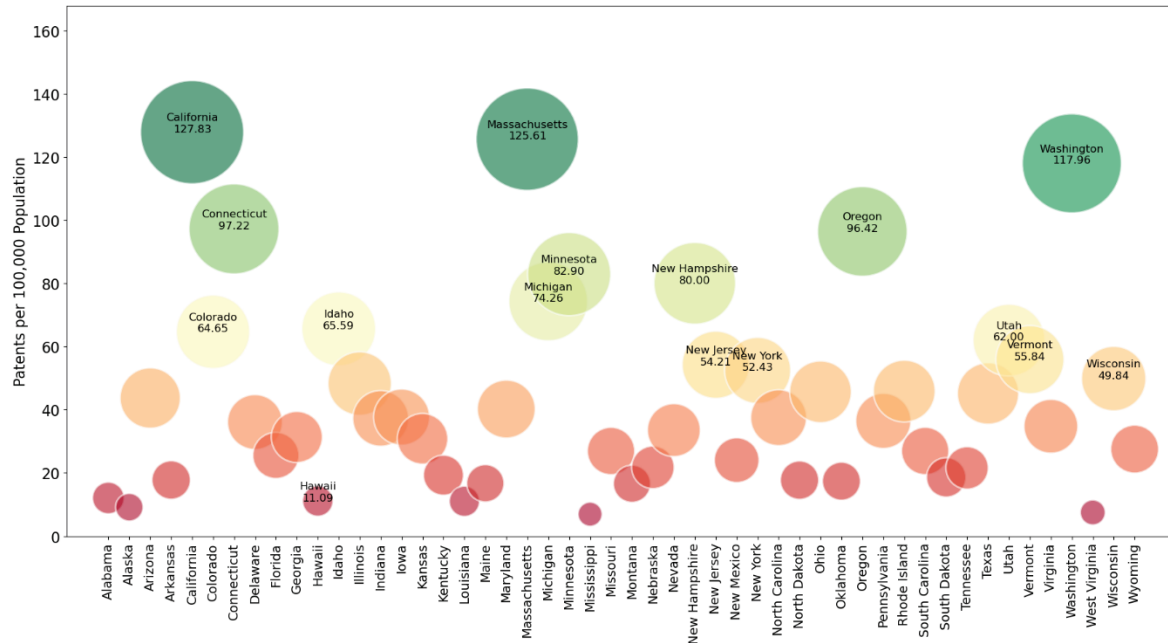
Figure 16. Sector and Business Industry Comparison: Hawaii R&D Value Added, Year 2021



Source: Bureau of Economic Analysis, Experimental R&D value added (millions of current dollars) statistics. READ Estimation.

U.S. Patent and Trademark Office data tracking the number of patents issued by each state provide an additional R&D metric. We analyze the ratio of patents per hundred thousand of population for each state. Figure 17 shows that Hawai‘i has value of 11.9 for this ratio for 2020, ranking Hawai‘i among the states with the lowest patent issuance.

Figure 17. Number of Patents per Hundred Thousand Population by States, Year 2020



Source: Patents Statistics 2020, U.S Patent and Trademark Office. READ estimation.

Section 5. Access to Finance

Access to finance is a vital factor for business growth and survival, particularly for small businesses since they act as an active catalyst for creating jobs and advancing economic competitiveness (Jeong, 2023). Banks, financial institutions, and credit unions play significant roles in providing financing to the small businesses. According to the Small Business Credit Survey (SBCS, 2024), more than 50% of the small businesses in Hawai'i rely on banks (both large and small) to access finance followed by financial companies (25%) and credit unions (14%).

In addition, the main reasons businesses and firms sought financing in Hawai'i in 2023 included meeting operating expenses and business expansion (SBCS, 2024). It clearly highlights the importance of access to finance for businesses to support not only their daily/routine operation and performance, but also to foster business growth. In this section, we use two proxies to measure access to finance: Small Business Administration loans and venture capital investment.

Figure 18. Reasons Firms/Business Seek Financing, Hawai'i Year 2023.



Source: Small Business Credit Survey (SBCS, 2024). Note: Respondents could select multiple options. "other" not shown.

5.1 Business Loans

First, we focus on the amount and pattern of loan issuance by the Small Business Administration (SBA) and its impact on employment opportunities in Hawai'i during the period 2014-2023. SBA's annual report on different loan programs provides information about 7(a)⁷, 504⁸, Community Advantage (CA), and Microloan⁹, which are major loan programs for businesses.

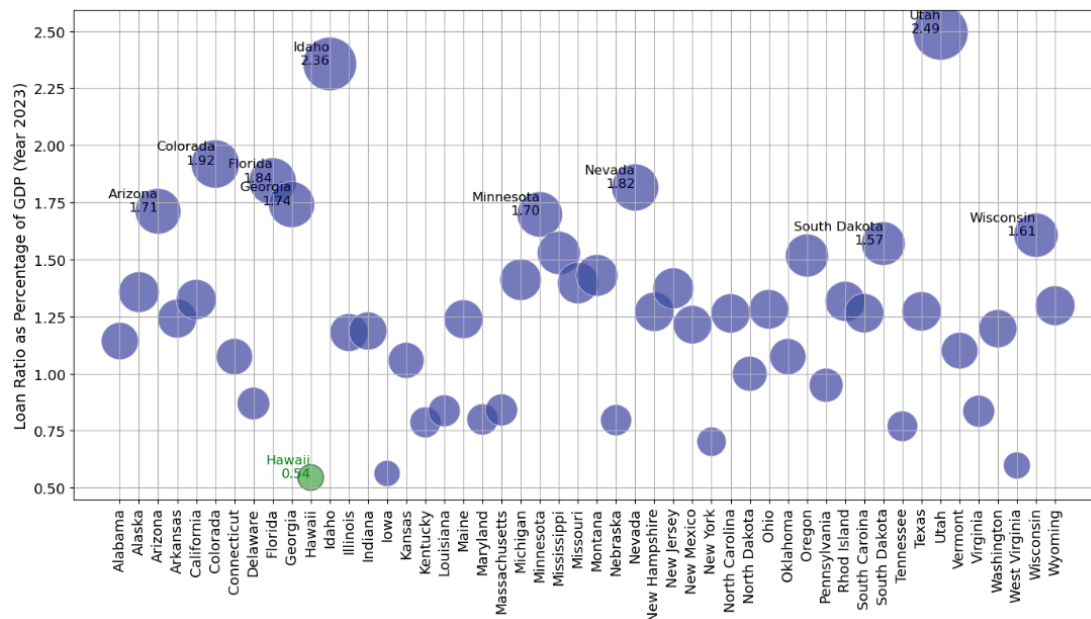
Figure 19 indicates that the ratio of aggregate loan amount received by Hawai'i as a percentage of its nominal GDP is around 0.54 which is below the ratio obtained by top-ranked states for the business ranking and economic competitiveness.

⁷ The 7(a) loan program provides loan guaranties to lenders that allow them to provide financial help for small businesses with special requirements, Source: SBA

⁸ The 504 loan program provides long-term, fixed rate financing for major fixed assets that promote business growth and job creation, Source: SBA

⁹ Microloan program provides up to 50,000\$ to the business owners through financing intermediaries, Source: SBA

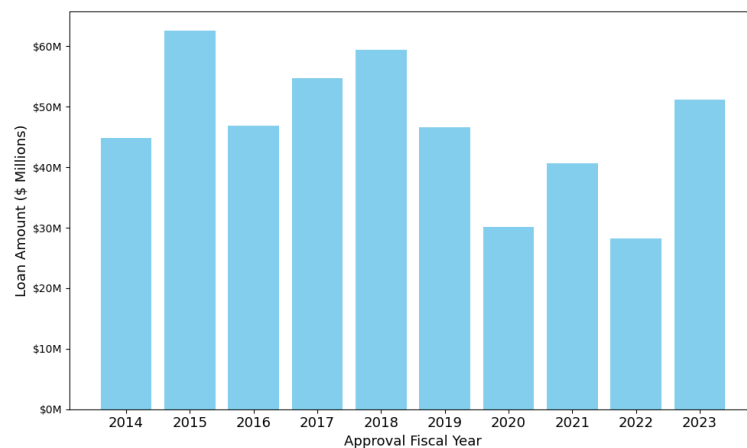
Figure 19. Small Business Loan Amount as Ratio of GDP (nominal) Year 2023



Source: Small Business Administration, 7(a) & 504 Activity Reports, (Disaster loan data is not included in this estimation). Bureau of Economic Analysis, GDP (Thousands of current dollars). READ estimation.

The latest trend for loan issuance for Hawai‘i indicates that the amount of loans issued annually for Hawai‘i ranged from above \$30m to over \$50m during the period 2014-2023. In 2023, the total SBA loan amount recovered to pre-Covid 2019 levels.

Figure 20. Aggregate SBA Loan Amount Issued for Hawai‘i (2014-2023)



Source: SBA 7(a) & 504 FOIA Reports, READ estimation of aggregate loan. (Disaster loan is not included in this stats). Only loans under status¹⁰ COMMIT, PIF, CHGOFF and EXEMPT are considered for this analysis.

¹⁰ COMMIT = Undisbursed

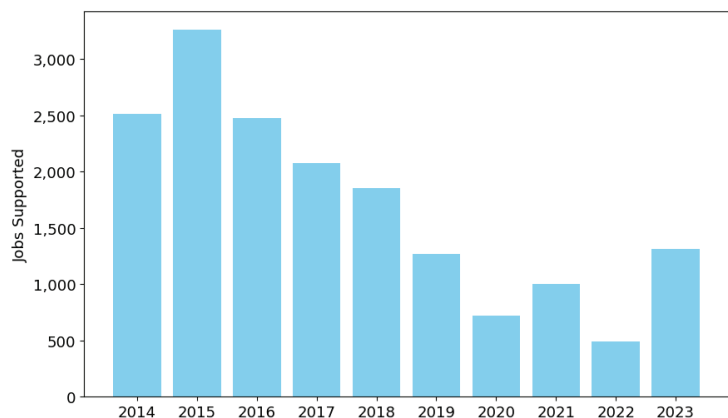
• PIF = Paid in Full

• CHGOFF = Charged off

• EXEMPT = The status of loans that have been disbursed but have not been cancelled, paid in full, or charged off are exempt from disclosure under FOIA Exemption 4.

In addition, annual jobs supported by SBA loans declined by 6% annually, on average, over the period of 2014-2023 with the lowest level in 2022 and the highest level in 2015.

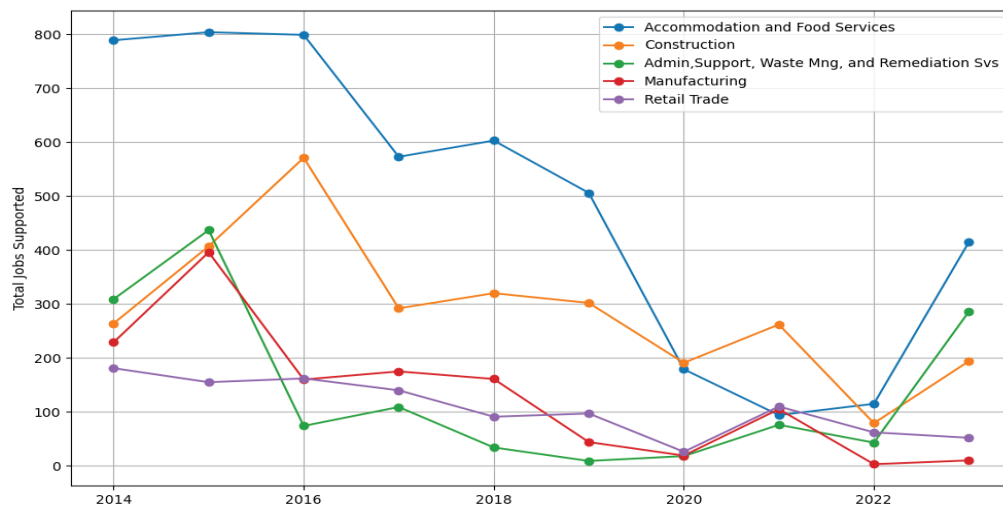
Figure 21. Annual Supported Jobs by SBA Loans in Hawai‘i (2014-2023)



Source: Source: SBA 7(a) & 504 FOIA Reports, READ estimation of aggregate loan. (Disaster loan is not included in this stats). Only loans under status COMMIT, PIF, CHGOFF and EXEMPT are considered for this analysis. READ estimation.

The impact of SBA loans on job creation varied across industries, with some sectors experiencing larger gains and others more modest ones over the last 10 years (2014-2023). Figure 22 shows that the number of jobs supported in all industries significantly declined during the period analyzed, particularly during the Covid-19 period. Sectors that experienced the most job creation through SBA loans include Accommodation and Food Services most prominently, and in addition Construction, Administration Support, Waste Management and Remediation Services, Manufacturing and Retail Trade.

Figure 22. Annual Jobs Supported in Hawai‘i by Sector through SBA Loans (2014-2023)



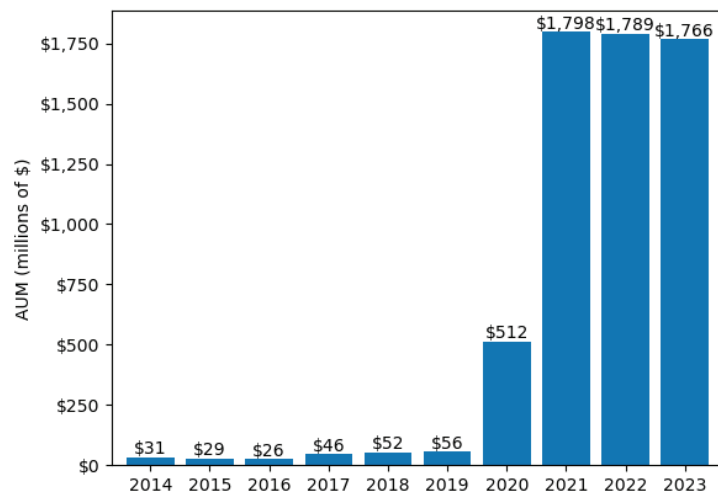
Source: SBA 7(a) & 504 FOIA Reports, READ estimation of aggregate loan. (Disaster loan is not included in this stats). Only loans under status¹¹ commit, pif, chgoff and exempt are considered for this analysis

Overall, business loans play a vital role in supporting industries and creating jobs. Financial assistance and loans are directly related to the firm's operation toward accessing technological advancement and innovation. Limited financial access can hinder limit technological and infrastructure investment, both of which overall can impact the creation and level of supporting jobs.

5.2 Venture Capital

Venture capital (VC) provides both financing and non-financing support to the high-growth and innovative companies. VC investment flow and expansion facilitate the development of cutting-edge technologies and businesses across different sectors. Aggregate assets under VC-backed management have increased in Hawai'i from \$31M to more than \$1.7B between 2014 and 2023.

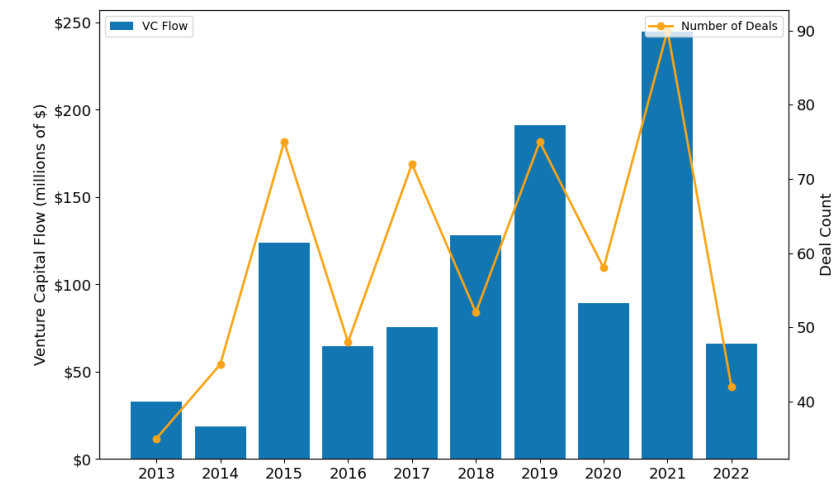
Figure 23. Hawai'i VC-backed Companies' Aggregate Asset under Management (AUM) 2014-2023



Source: Pitchbook, NVCA 2024 Yearbook.

In addition, venture capital flow along with the number of venture capital deals fluctuated significantly in Hawai'i between 2013 and 2022. Venture capital flow increased from less than \$50 million in 2013, peaking at \$250 million in 2021, which was the highest level of venture capital flow Hawai'i experienced during this period.

Figure 24. Hawai'i Venture Backed Investment Net Flow (\$million), 2013-2022



Source: Pitchbook, venture capital and private equity database.

Section 6. Business Cost

As we discussed in the previous sections, businesses and entrepreneurs are essential for creating jobs and stimulating economic growth. Facilitating an environment conducive to the emergence and attraction of new businesses and startups is a crucial step toward both job and aggregate output growth rate. Conversely, any undue hindrances in terms of regulation, taxes, and costs of operating businesses can discourage start-ups, reduce a location's attractiveness, and can drive firms to locations with more conducive environments.

The business costs considered here refer to various regulations, taxes and other costs associated with the business operation that are controlled by government. There is not a single definition of what an ideal environment is for business attraction and operation in terms of both regulatory and tax climates. However, previous studies on business costs and burdens have identified several key areas to assess business costs. These areas include state level tax policy on businesses, state regulatory climate, and state occupation and licensing environment, as well as labor, energy and space cost for commercial and business operations.

6.1 Regulatory burden

We start the regulatory burden analysis by investigating state general regulatory climate for businesses. The U.S Chamber of Commerce Institute for Legal Reform developed Lawsuit Climate Survey to rank states based on how fair and reasonable state regulatory systems are for businesses. This ranking focuses on the attitude of the business community toward individual state's legislature systems and how it impacts the business environment. The first position in this ranking implies the state has the most fair and reasonable legal system for businesses. Hawai'i ranked in 15th position in this ranking with an overall score of 71.

Table 6. States Legal Climate for Businesses Ranking (2015-2019)

State	2019 Rank	2019 score	2017 Rank	2015 Rank
Delaware	1	76.3	11	1
Maine	2	73.8	9	14
Connecticut	3	73.8	16	22
Wyoming	4	73.1	8	8
Alaska	5	73.1	6	12
North Dakota	6	72.6	17	15
Montana	7	72.5	27	34
Nebraska	8	72.3	7	3
Idaho	9	72.2	3	6
South Dakota	10	72	1	9
Vermont	11	71.7	2	2
Virginia	12	71.3	10	11
Wisconsin	13	71.2	20	20
Oklahoma	14	71.2	31	33
Hawai'i	15	71.1	23	30
North Carolina	16	70.9	33	7
Arizona	17	70.8	25	25
New Hampshire	18	70.7	5	5
Utah	19	70.7	12	10
Minnesota	20	70.7	4	13
Colorado	21	70.7	35	16
New Mexico	22	70.6	32	45
Iowa	23	70.6	13	4
Rhode Island	24	70.5	24	26
Oregon	25	69.9	21	32
Washington	26	69.8	28	29
Maryland	27	69.7	19	28
Massachusetts	28	69.6	14	17
Nevada	29	69.5	37	35
Arkansas	30	69.5	36	41
Indiana	31	68.9	15	18
Kansas	32	68.8	18	19
Michigan	33	68.8	22	24
Tennessee	34	68.3	30	23
Ohio	35	67.7	26	27
New York	36	67.7	29	21
South Carolina	37	67.6	34	36
Texas	38	67.1	39	40
Pennsylvania	39	66.6	38	37
Kentucky	40	66.5	42	39
Georgia	41	66.1	40	31
Alabama	42	65.6	43	46
New Jersey	43	65.4	41	38
Missouri	44	64.4	49	42
West Virginia	45	63.3	45	50
Florida	46	62.3	46	44
Mississippi	47	61.9	44	43
California	48	60.2	47	47
Louisiana	49	60	50	49
Illinois	50	59.6	48	48

Source: U.S Chamber of Commerce, Lawsuit Climate Survey 2019.

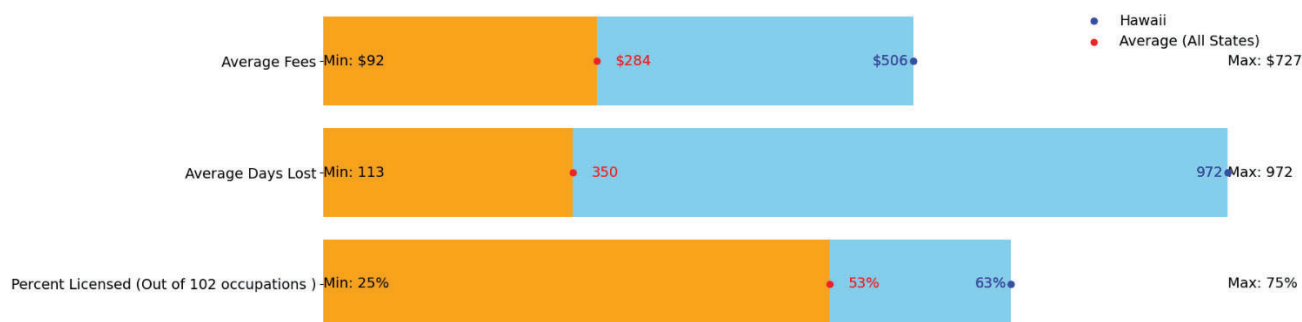
6.1.1 Occupational licensing and permits

Occupational permits and licensing (all legal practices) are another important aspect of a state's regulatory environment. The Institute for Peace publishes an annual state ranking based on burdens imposed on licensing and occupational permits¹². This ranking assesses the percentage of total license and permits each state's issues, average fees, education and experience eligibility and exams as well as average minimum grade required to pass the exams across the 50 states.

The first category illustrates the percentage of licenses issued by each state out of 102 occupation licenses or permits recognized nationally. Average fees indicate the average payment required to process paperwork for registering and acquiring an occupational license. Also, average education and experience are examined in terms of how many days are required as part of education and experience to receive specific licenses¹³. The measurement is labeled as the number of days lost in the process of acquiring the necessary qualification.

Figure below shows that Hawai'i is above the average of all states in all three categories. Regarding the education and experience requirements, an estimate of 972 days is lost in Hawai'i compared to only 350 days national average; Hawai'i has the highest experience and education requirements across all states. The average licensing fee in Hawai'i is approximately \$506, nearly double the national average of \$284. Hawai'i ranks above the national average in terms of the number of occupations for which states issue licenses; Hawai'i issues licenses for 63% of the 102 occupations.

Figure 25. Occupational Licensing and Permits Comparison (Hawai'i vs U.S Average) Year 2022



Source: Institute for Peace, License to Work 3rd Edition November 2022.

Finally, a complete state ranking based on the average burden of licensing requirements is illustrated below in Table 7. Hawai'i is ranked first, meaning that its licensing and permit requirements are the most burdensome in the U.S.

¹² The most recent published version of this report is 2022 Ranking, data for this ranking was collected over a period of two years from February 2020 to March 2022. The final version of this report was published in November 2022.

¹³ For example, to receive a cosmetology license in Michigan, aspirants must complete either two years of apprenticeship or 1,500 hours of cosmetology training. We interpret this requirement as 350 days lost in acquiring cosmetology license in Michigan.

Table 7. States Ranking Average Burden Based on Occupational Licensing year 2022

Rank	State	Number of occupations licensed	Average Fees	Average estimated days lost	Average exam	Average min grade	Average min age
1	Hawai'i	64	\$506	972	2	2	16
2	Nevada	75	\$727	883	2	1	15
3	California	75	\$517	837	2	1	15
4	Arizona	68	\$481	689	2	1	16
5	Florida	55	\$300	658	1	1	13
6	Virginia	72	\$319	580	1	1	14
7	Oregon	69	\$311	530	1	1	13
8	Massachusetts	50	\$331	511	1	3	11
9	Maryland	58	\$295	532	1	1	11
10	New Mexico	66	\$273	495	2	1	14
11	Delaware	42	\$230	495	1	2	10
12	Georgia	41	\$197	472	2	3	13
13	Kentucky	38	\$281	404	2	4	12
14	New Jersey	54	\$279	422	1	3	10
15	South Carolina	60	\$243	428	2	1	7
16	Oklahoma	42	\$307	405	2	2	10
17	Connecticut	65	\$290	374	1	1	6
18	Texas	38	\$264	329	2	3	10
19	New Hampshire	37	\$209	326	2	2	8
20	Michigan	48	\$281	308	1	3	12
21	Montana	32	\$316	295	2	4	11
22	Wyoming	26	\$373	259	2	4	11
23	Indiana	37	\$162	306	1	2	12
24	Idaho	66	\$187	330	1	1	7
25	Rhode Island	70	\$236	297	1	2	14
26	Maine	46	\$226	323	1	1	5
27	South Dakota	32	\$244	281	2	2	11
28	Missouri	33	\$192	281	1	2	12
29	Arkansas	72	\$267	282	1	2	8
30	New York	41	\$275	275	2	1	11
31	Vermont	31	\$194	266	2	3	6
32	Ohio	40	\$145	269	1	3	10
33	Colorado	34	\$355	257	2	1	11
34	Illinois	41	\$281	234	1	3	14
35	Minnesota	35	\$243	266	2	1	7
36	Tennessee	69	\$339	245	1	2	7
37	Iowa	71	\$152	269	1	2	5
38	North Carolina	66	\$231	228	1	1	14
39	Kansas	35	\$160	199	2	3	9
40	West Virginia	67	\$200	214	2	1	8
41	Alaska	64	\$439	230	1	1	5
42	Wisconsin	42	\$258	197	1	1	10
43	Mississippi	65	\$343	169	2	2	6
44	Louisiana	77	\$333	175	1	1	7
45	Alabama	63	\$374	154	2	2	5
46	Washington	76	\$230	171	1	1	6
47	North Dakota	65	\$151	113	1	1	13
48	Utah	64	\$321	130	1	0	4
49	Pennsylvania	50	\$116	120	1	1	8
50	Nebraska	61	\$92	114	1	2	6

Source: Institute for Peace, License to Work 3rd Edition, November 2022. 1st rank represents the state with the highest level of burden, while 50th represents the state with the lowest level of burden.

6.2 Tax burden

Tax burdens play a crucial role for individual and corporate decisions toward consumption, savings, and investment. According to a report by the Tax Foundation¹⁴, Hawai‘i ranked 48th for state and local tax burden in years 2021 and 2022. Hawaii has the highest tax burden in the nation after Connecticut and New York. Hawai‘i’s tax rates range from 1.4% to 11% for individual income tax rate and from 4.4% to 6.4% for corporate income taxes.

Table 8. State-Local Tax Burdens as a Percentage of Real GDP, 2019-2022 (Top-Ranked States vs Low-Ranked States)

State	2019	Rank	2020	Rank	2021	Rank	2022	Rank
Alaska	5.60%	1	5.00%	1	4.10%	1	4.60%	1
Wyoming	7.90%	3	9.30%	7	8.30%	4	7.50%	2
Tennessee	6.90%	2	7.60%	2	7.70%	2	7.60%	3
South Dakota	8.60%	5	8.80%	4	8.70%	6	8.40%	4
Michigan	9.60%	20	9.60%	12	9.00%	7	8.60%	5
Texas	8.40%	4	8.70%	3	8.40%	5	8.60%	6
North Dakota	9.20%	14	9.90%	16	7.90%	3	8.80%	7
Georgia	9.00%	9	9.40%	9	9.10%	10	8.90%	8
South Carolina	9.20%	13	9.90%	17	9.40%	13	8.90%	9
Oklahoma	8.80%	6	9.60%	13	9.00%	8	9.00%	10
Maine	11.60%	41	12.10%	39	12.40%	42	12.40%	41
Delaware	11.30%	39	12.20%	40	12.20%	40	12.40%	42
Virginia	10.90%	35	12.40%	41	12.40%	41	12.50%	43
Illinois	11.20%	38	12.50%	42	12.90%	44	12.90%	44
New Jersey	11.90%	44	12.80%	45	13.00%	45	13.20%	45
California	12.20%	46	12.90%	47	13.30%	46	13.50%	46
Vermont	12.00%	45	12.80%	46	13.40%	47	13.60%	47
Hawai‘i	13.20%	49	13.70%	49	13.90%	48	14.10%	48
Connecticut	12.50%	48	13.70%	48	14.70%	49	15.40%	49
New York	14.20%	50	14.90%	50	15.20%	50	15.90%	50
U.S	10.60%		11.20%		11.20%		11.20%	

Source: Tax Foundation, combined report on tax burden 2019-2022 (Includes income, corporate, property, GET taxes).

Currently, Hawai‘i’s income tax rate is among the highest in the nation. Figure 26 shows that for a family of four with annual income of \$88,005 in Hawai‘i, there is \$5,068 tax burden.

Considering the same category of household and income level, we can see that Hawai‘i has the second highest tax burden for this category after Oregon, a state where there is no sales tax.

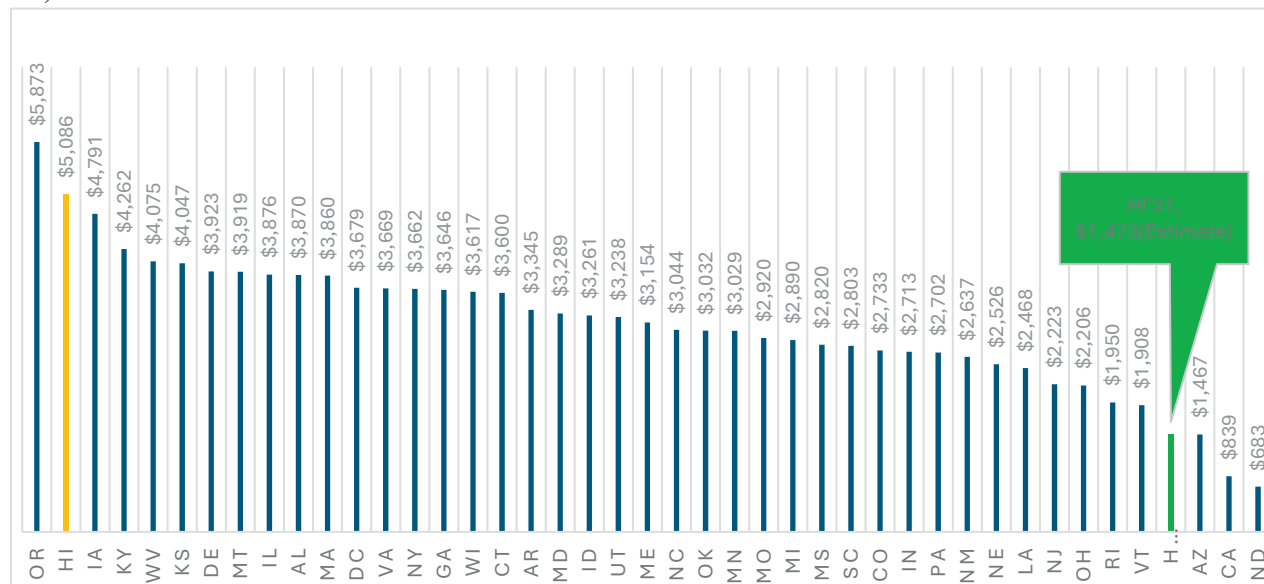
However, a tax law change known as Green Affordability Plan (GAP-II)¹⁵ was signed in 2024 by Hawai‘i’s governor. It will reduce Hawai‘i’s residents’ income tax liability by the largest amount in the state’s history. According to this tax cut bill, the standard deduction for all income

¹⁴ State Business Tax Climate Index Report 2023

¹⁵ Hawai‘i governor signed tax bill H.B. 2404 H.D. 1, S.D.1, C.D.1 into law, Act 46 SLH 2024.

categories will be raised, which allows a larger exemption from taxation. The estimated standard deduction will increase from \$4,400 for a married couple filing jointly to \$24,000, and from \$2,200 for single/married filing separately to \$12,000 (Colby, 2024)¹⁶. Given the application of this standard deduction, Hawai‘i’s income tax burden will significantly decrease by almost six-fold. With the mentioned standard deduction, tax burden for a family of with annual income of \$88,005 in Hawai‘i will decrease from \$5,068 to \$1,473 (estimated) by 2031(Colby, 2024)¹⁷.

Figure 26. Income Tax Burden by State, for a Family of Four with Annual Gross Income of \$ 88,005



Source: Department of Taxation, State of Hawaii, Tax Research Insights, June 2024

6.2.1. Corporate tax burden analysis

Corporation tax burdens are vital to the study of economic competitiveness and business growth since they have direct and indirect impact toward business innovation, expansion, and investment toward new technology and infrastructure. State Business Tax Climate Index (Tax Foundation, 2024) report shows that the majority states ranked highest for business formation either employ a flat tax rate or have no corporate or income taxes.

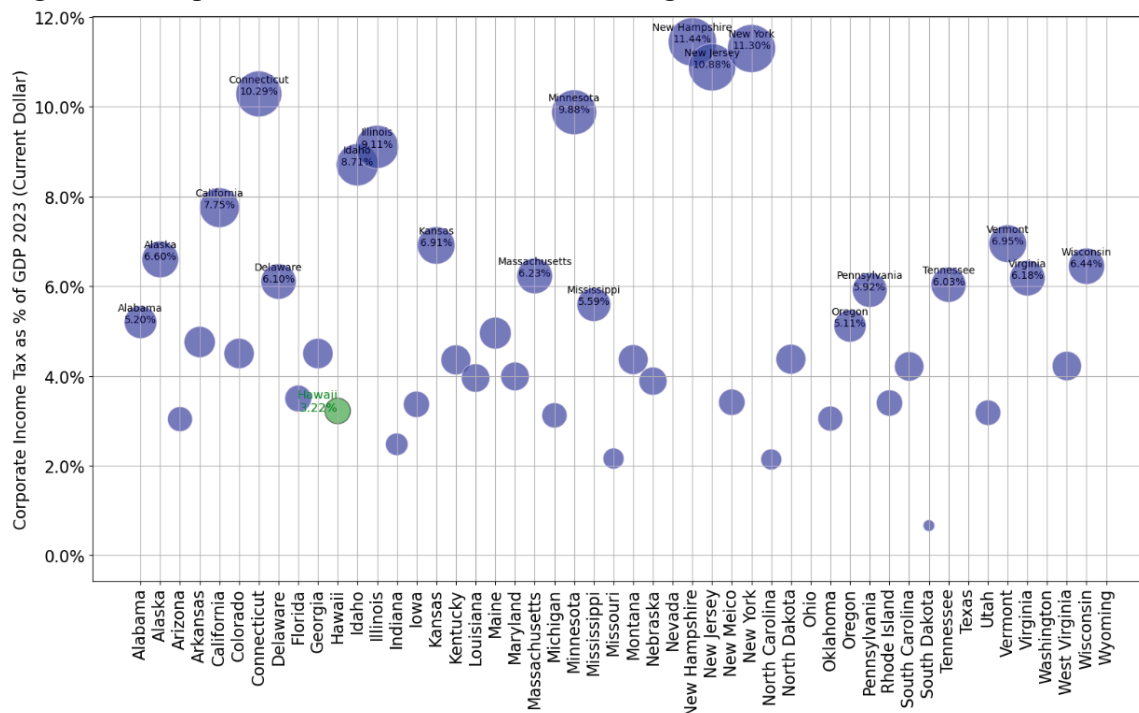
For this study we analyze the corporate tax burden as a ratio of corporate income tax (CIT) revenue collected by each state to their respected nominal GDP. Hawai‘i’ is among the states with the lowest corporate tax ratio as a percentage of its nominal GDP. Its ratio is 3.2%, a level which in comparison with the states with the highest ratio, ranging from 8% to 12%, ranks among the states which have the lowest corporate tax burdens. However, an important caveat is that Hawai‘i corporations also pay General Excise Tax (GET) at various rates, depending on their

¹⁶ Research Insights, Department of Taxation, State of Hawaii

¹⁷ Research Insights, Department of Taxation, State of Hawaii

industry. Our analysis only examines corporate income tax rates and does not include GET paid by corporations.

Figure 27. Corporate Income Tax Ratio as Percentage of GDP Year 2023

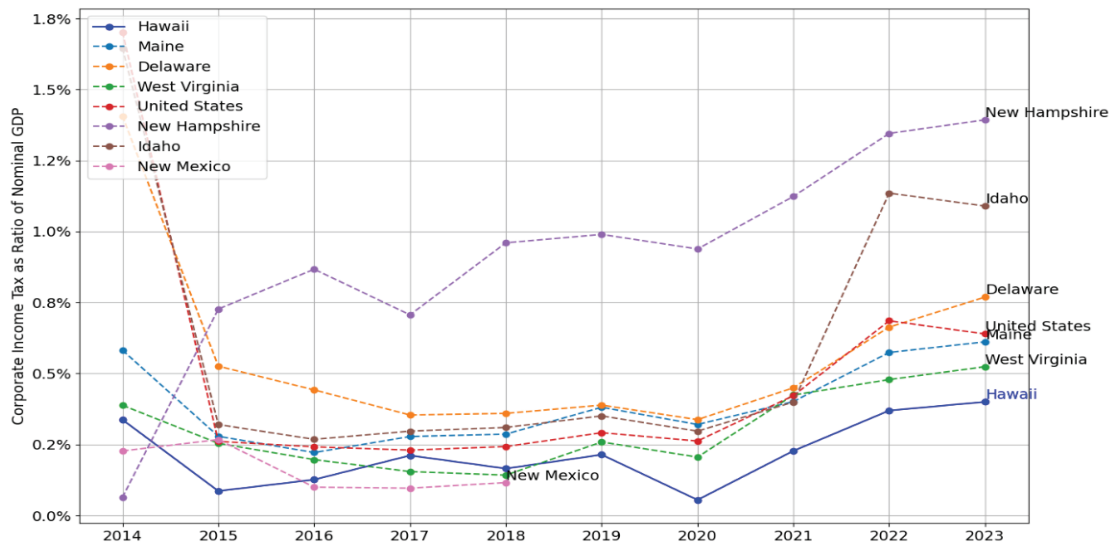


Source: Census Bureau, Annual Survey of State Government Tax Collections (STC) and nominal GDP (current dollars). READ estimation

Our deeper analysis of corporate tax burdens compares the corporate tax burden in Hawai‘i with the states with similar GDP. For this analysis we assess CIT burden and business growth for the same period. Figure 28 illustrates that Hawai‘i has the lower CIT burden compared to the states having similar GDP over the last 10 years. The states with the highest CIT burden are New Hampshire, Idaho, and Delaware.

Illustrating business growth in the above states, Figure 29 shows that despite Hawai‘i’s low CIT burden, business growth pace has not been higher in Hawai‘i compared to states with higher CIT burdens. Business growth in Hawai‘i remains lower than the states of Maine, Delaware, New Hampshire, and the U.S overall.

Figure 28. Corporate Income Tax Burden, Hawai‘i vs Selected States 2014-2023



Source: Census Bureau, Annual Survey of State Government Tax Collection, READ Estimation

Figure 29. Business Formation Growth Rate, Hawai‘i vs Selected States (2014-2023)



Source: Bureau of Economic Analysis, Business Formation Statistics

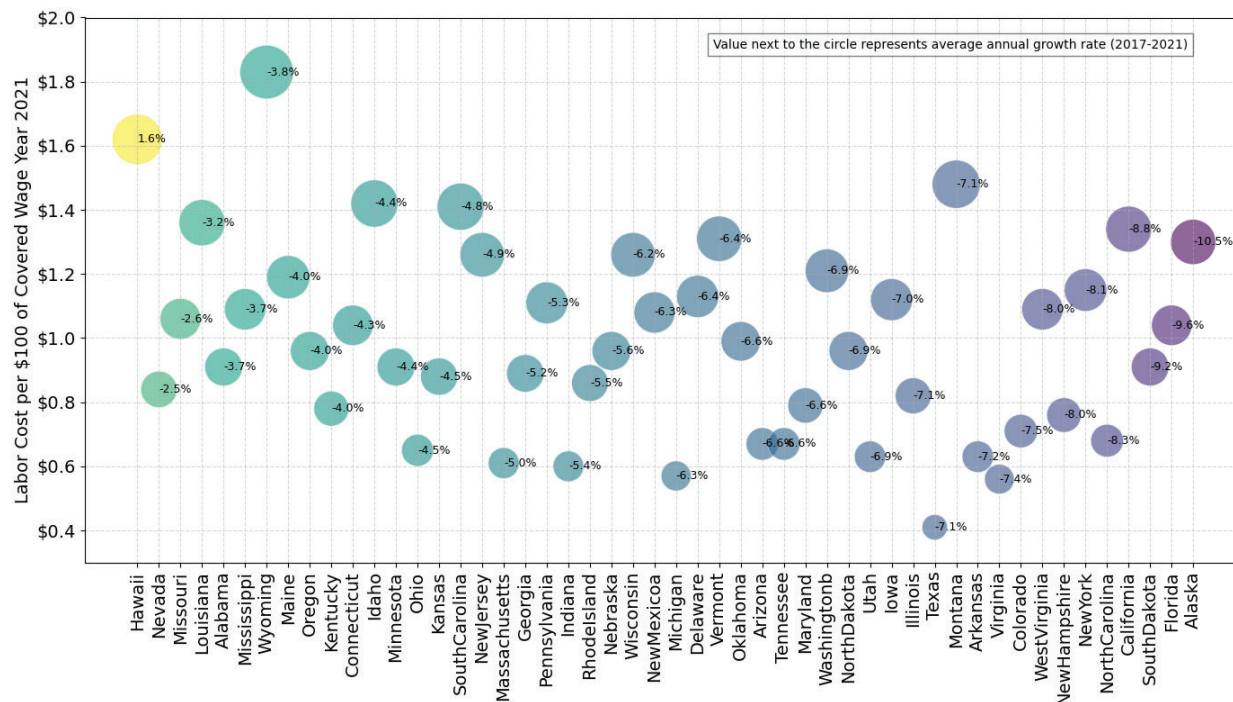
6.3 Labor cost

Labor costs are directly related to the overall operation cost and profitability of any business. Labor costs include wages, benefits, insurance, retirement savings, and social security payments. Higher labor cost environment can hinder a firm's investments funding expansion and innovation, a category generally termed capital investment. According to the recent report on Small Business Credit Survey (SBCS, 2024), 77% of firms in Hawai'i indicated that the high costs of goods, services, and/or wages were one of the main financial challenges they faced during 2023. A study by the National Academy of Social Insurance (Tyler et al, 2024¹⁸) examines labor costs covering workers' compensation benefits, insurance and other related costs imposed

¹⁸This study uses data collected in 2021 and it excludes federal and state employees.

by state law across all states. This study shows that, on average, it costs an employer an average of \$1.62 per \$100 to hire an employee in Hawai'i. It also shows that Hawai'i is the only state which experienced positive average annual growth (1.6%) in labor costs during 2017-2021. In contrast, other states experienced a negative growth in their labor costs.

Figure 30. Employee Cost and Growth Rate in Cost per \$100 of Covered Wage (Year 2021)



Source: National Academy of Social Insurance (NASI, 2024)

6.4 Energy and Real Estate Costs

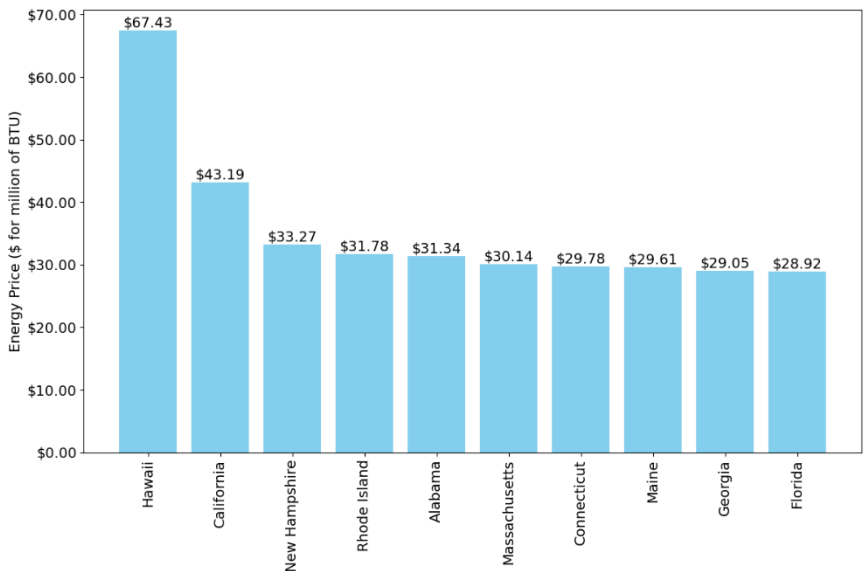
Finally, we compare both energy and space costs for businesses and startups in Hawai'i with those of other states. Energy and space cost are directly related to the operational cost of the businesses. High energy and space costs can significantly increase the cost burden on a business and reduce its allocation toward expansion, including capital and technology investment. For instance, businesses that require high energy consumption can be directly impacted by any fluctuation in energy price or high energy price as it is an obstacle to their competitiveness and performance. Similarly, businesses that require larger space can be significantly impacted by high rent and lease cost for office, warehouse, and retail space. Therefore, it is not attractive for businesses to operate or expand in locations with high energy and space cost as doing so significantly impacts their allocation toward other strategic investment in both workforce and infrastructure development.

Hawai'i ranked first in terms of energy price for business activities compared to all other state in 2022. With an average cost of \$68 per million of BTUs¹⁹, its energy price is higher than the

¹⁹ BTU is the amount of energy needed to raise the temperature of water by one degree Fahrenheit.

energy price in California and more than double the amount in states such as Massachusetts, New Hampshire, and Connecticut.

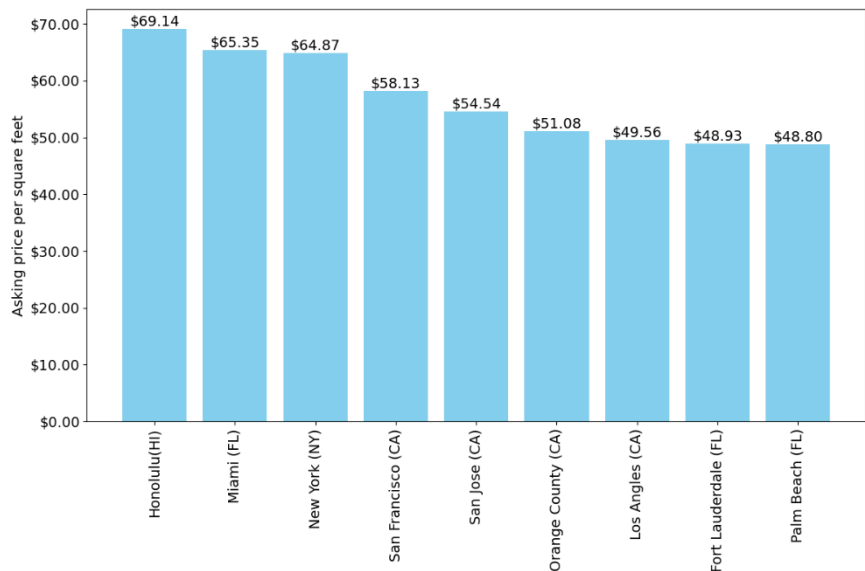
Figure 31. Energy Price for the Most Expensive States, Year 2022



Source: U.S. Energy Information Administration, State Energy Data System. Energy price represents a composite value for both primary energy (fuel, gas, etc.) and electricity for commercial activities.

To evaluate the costs of commercial space rental, we compare the costs in Honolulu with those in major urban areas. With an average rent of around \$70 per square foot, Honolulu is the most expensive city in the U.S. to rent commercial space. Commercial rent levels in Hawai‘i’s largest metropolitan city are higher than those in major technology and financial hubs including New York city (NY), San Jose (CA), San Francisco (CA).

Figure 32. Asking Rent Price per Square Foot for Commercial Space, Year 2024 Q2



Source: Collier, Retail Market Statistics Report, 2024 Q2.

Overall, we observed that both rent and energy costs are substantially higher for businesses in Hawai‘i. The high cost of energy and electricity can be explained to a great extent by the high cost of petroleum, with 74.1% of Hawai‘i electricity being generated from petroleum-fired sources²⁰. The high demand for real estate and limited availability of land, itself partly due to geographical isolation, combine to make rent levels for office, retail, and industrial space in Hawai‘i the highest among all the states. The above two factors significantly impact both the business environment and business competitive performance.

²⁰ U.S Energy Information Administration (2024)

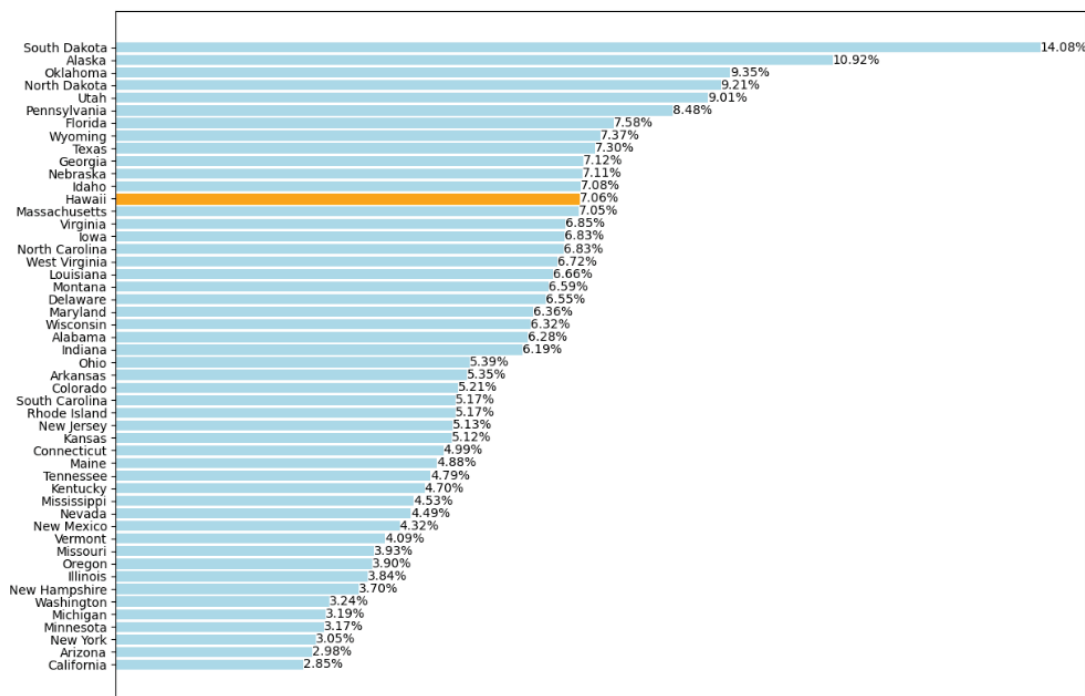
Section 7. Infrastructure Development

A state's investment in public infrastructure, transportation structures, and utility system is vital to economic growth, job creation and promoting economic competitiveness. A state's spending in capital, and public infrastructure that includes, but not limited to, ports, roads, schools, technology sites, and utility system affect its overall ability to develop and function competitively (Munnell, 1992) (Bivens, 2014).

7.1 Capital Expenditure

Figure 33 shows that capital spending ranged from 2% to 14% of total spending by U.S. states in 2022. Total spendings in capital constituted around 7% of the Hawai'i total spending during the fiscal year 2022.

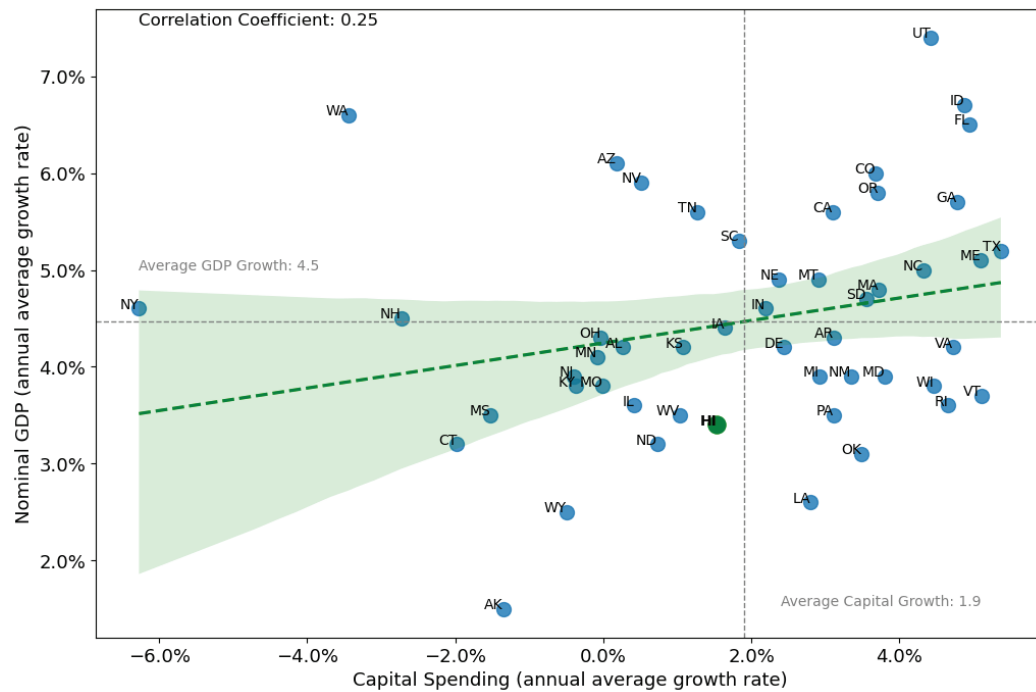
Figure 33. Capital Spending as Share of Total State Spending, 2022



Source: U.S Census Bureau, Annual Surveys of State and Local Government Finances. READ Estimation.

Using state level spending on capital as a metric, we analyze capital spending and GDP (nominal) growth patterns across states for the 2013-2022 period. Figure 34 shows that around 25% of the states with higher annual growth in capital spending experienced higher GDP (nominal) growth during the period. Hawai'i is among the states with relatively low growth in both capital spending and GDP. This finding highlights that capital investment is an important player for economic performance and growth.

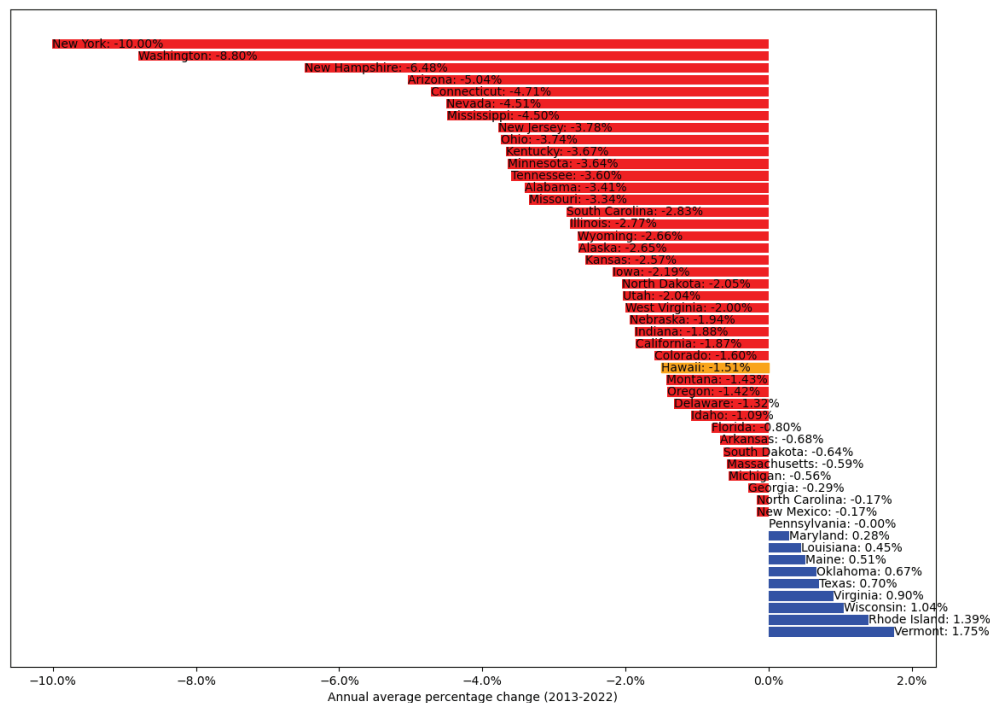
Figure 34. Annual Average Growth Rate, Capital Spending vs Nominal GDP (2013-2022)



Source: U.S Census Bureau, Annual Surveys of State and Local Government Finances. Bureau of Economic Analysis, State Annual Summary Statistics: GDP State. READ estimation.

We further analyze capital spending considering the size of the economy across all states. Our finding highlights that most states experienced a decrease in their capital spending as a share of their GDP (Nominal) during the 2013-2022 period. Hawai'i capital spending as a ratio of its nominal GDP experienced an annual average decrease of 1.5% during this period

Figure 35. Capital Spending as Share of Gross Domestic Product (Nominal), Annual Average Percentage Change (2013-2022)



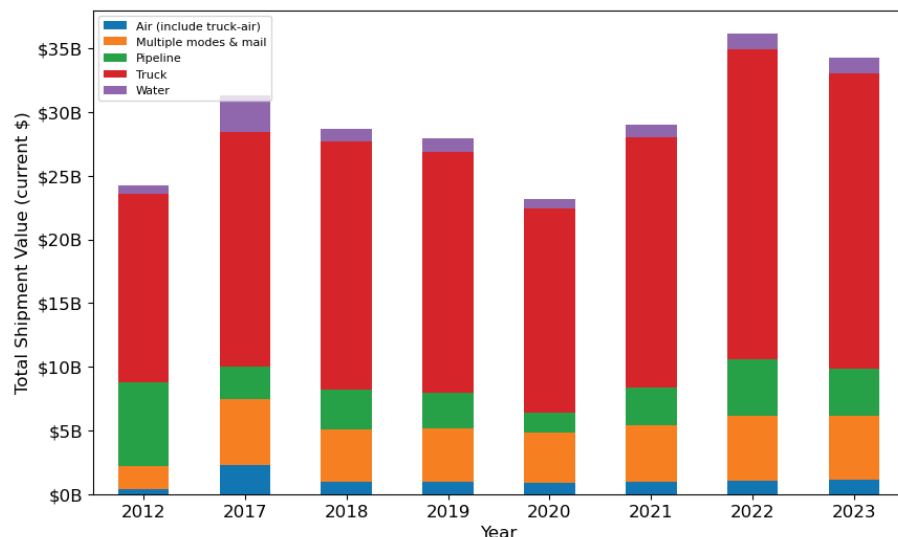
Source: U.S Census Bureau, Annual Surveys of State and Local Government Finances. Bureau of Economic Analysis, State Annual Summary Statistics: GDP State. READ estimation.

7.2 Transportation Infrastructure

A state's investment in transportation structures exerts a direct impact on the efficient movement of goods, services, and people. A developed transportation system reduces both cost and time associated with the transit, and accessibility to a broader market for businesses. Facilitating access to wider market significantly enhances business climate.

In this section, we first analyze the trends in goods and services shipment modes in Hawai'i. Figure 36 shows that a large share of goods and services were shipped and transported within Hawai'i by trucks during the 2012-2023 period. It highlights the importance and vitality of road structures and networks in supporting economic and business activities in Hawai'i. It emphasizes that investments in road and bridge infrastructure have a significant and positive impact on the volume of goods and services shipped and transported within and from Hawai'i.

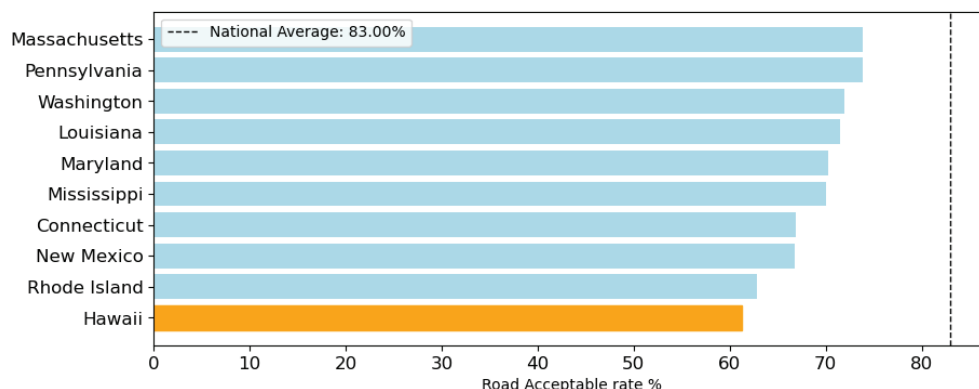
Figure 36. Total Shipment Value by Transportation Mode within the Hawai'i in current dollar (2012-2023).



Source: Freight Analysis Framework and National Bureau of Transportation. Freight data is generated based on a combination of survey data, administrative records, and economic modeling.

The state's transportation infrastructure, particularly its roads, faces challenges. As Figure 37 indicates, the road condition acceptability rate in Hawai'i ranks the lowest across the nation. Only 61% of the roads in Hawai'i were rated acceptable for goods and services shipments and transportation of people. The data suggest that there is a clear need for a more developed ground transportation infrastructure and network in Hawai'i to meet current and future needs.

Figure 37. Road Acceptable Rate, 10 Lowest-Ranked States, Year 2022.



Source: Bureau of Transportation Statistics (includes all highways, arterials and expressways).

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APPENDIX C. PERMITTED INTERACTION GROUP 1. REGULATION

Economic Revitalization Taskforce



Dean I. Hazama

Deputy Director

Department of Commerce and
Consumer Affair



Tina Yamaki

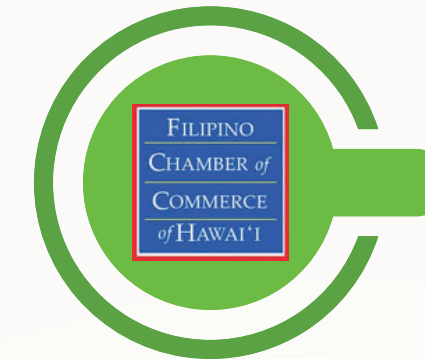
President

Retail Merchants of Hawai'i

Sharon Z. Banaag

Executive Assistant

Office of the Mayor, County of
Maui



Constancio Paranal

Representative

Filipino Chamber of Commerce
of Hawai'i

Garth Yamanaka

Representative

Small Business Regulatory
Review Board



Sherry Menor- McNamara

CEO

Chamber of Commerce Hawai'i

Alec Sou

President & General Manager

Aloun Farms



Lauren Zirbel

Executive Director

Hawai'i Food Industry Association

Roseann Freitas

CEO

Building Industry Association
of Hawai'i



Jacob Aki

Public Affairs Manager

Alaska/ Hawaiian Airlines

**Regulation
Permitted Interaction
Group (PIG)
Members**



PERCENTAGE OF RESPONSES BY INDUSTRY



Real Estate

This was the highest concentration at 31.7%



Healthcare

6.7%



Insurance

3.3%



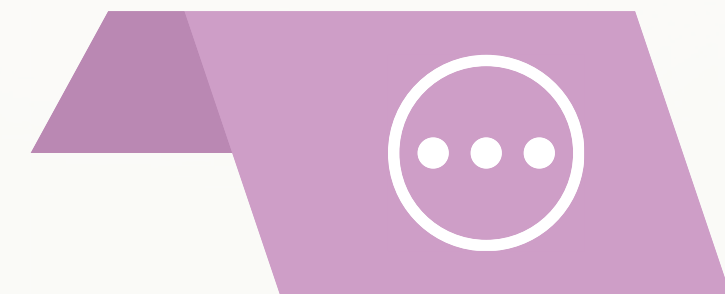
Construction

11.7%



Retail

6.7%



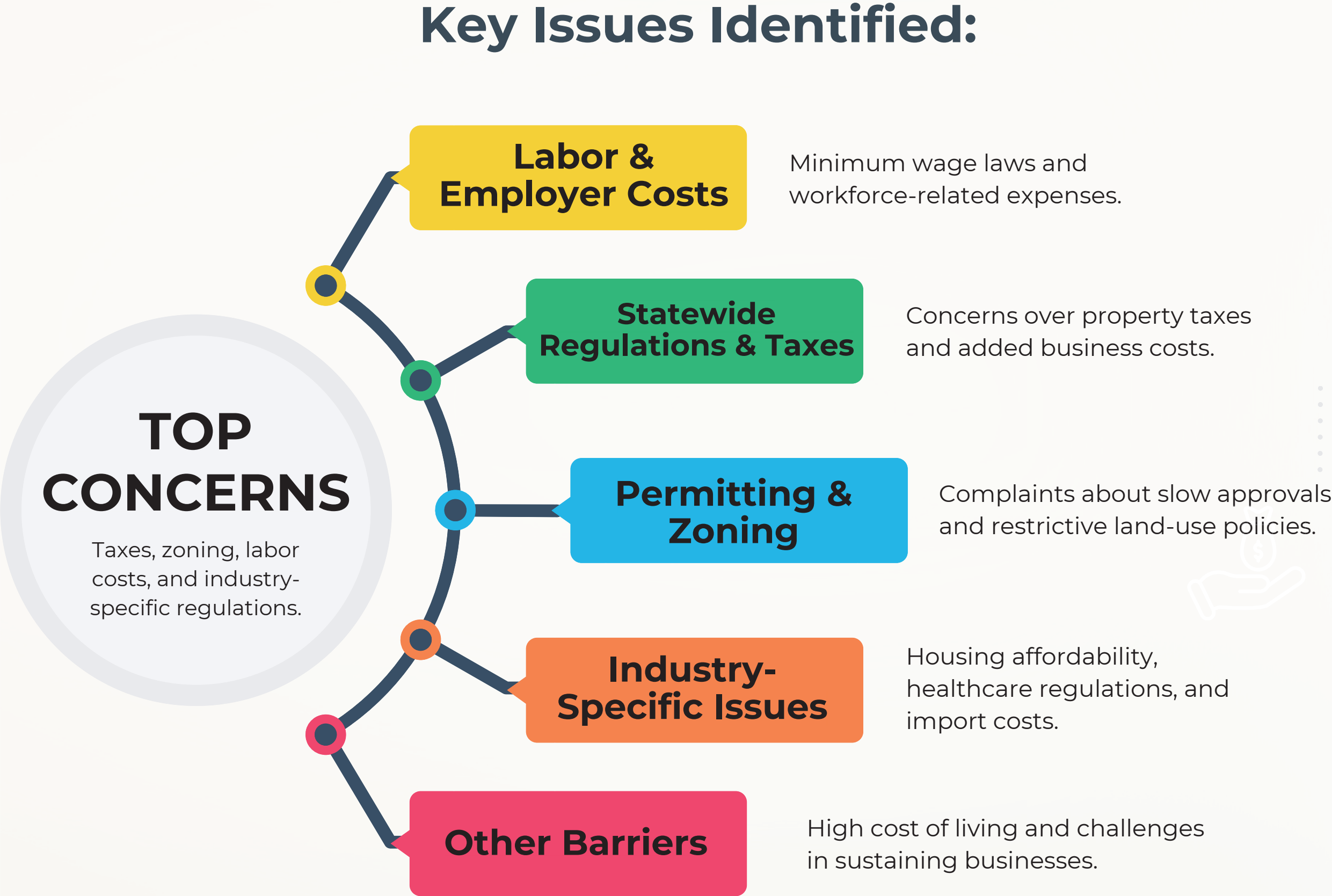
Other

Non Profits, Entertainment,
Finance, Food & Beverage
39.9%



Survey Data Summary

- **Total Responses:** 59
- **Solutions & Impact:** Respondents believe addressing these issues will improve affordability, business growth, and economic sustainability.
- **Additional Comments:** Many highlighted frustration with regulatory delays and sought more proactive solutions.





TOP PRIORITY ISSUES ACROSS INDUSTRIES

- **Taxes & Financial Burdens** – Many respondents expressed concerns over excessive taxation, particularly in real estate and business operations.
- **Housing Affordability & Availability** – The most common issue in real estate-related industries, emphasizing high costs, zoning restrictions, and regulatory delays.
- **Permitting & Bureaucracy** – Complaints about slow permitting processes and excessive red tape delaying development and business operations.
- **Industry-Specific Challenges** – Healthcare respondents noted regulatory hurdles affecting emergency services and facility transfers.



SECOND PRIORITY ISSUES

- **Loan Regulations & Interest Rates** – Concerns about financial barriers to homeownership due to restrictive lending practices.
- **Workforce & Employment Costs** – Businesses worried about labor laws, staffing shortages, and minimum wage increases affecting operations.

2

THIRD PRIORITY ISSUES

- **Government Regulations & Ethics** – Some respondents cited excessive government intervention and ethical concerns within industries.
- **Inventory Shortages & Market Constraints** – Supply chain issues contributing to affordability challenges.
- **Healthcare Administration Issues** – Delays in regulatory approvals affecting service delivery in healthcare.

3

FOURTH PRIORITY ISSUES

- **State Self-Sufficiency & Economic Stability** – Concerns about Hawaii's reliance on imports and overall economic resilience.
- **Regulatory Staffing Issues** – Lack of personnel in government offices slowing down approvals and enforcement.

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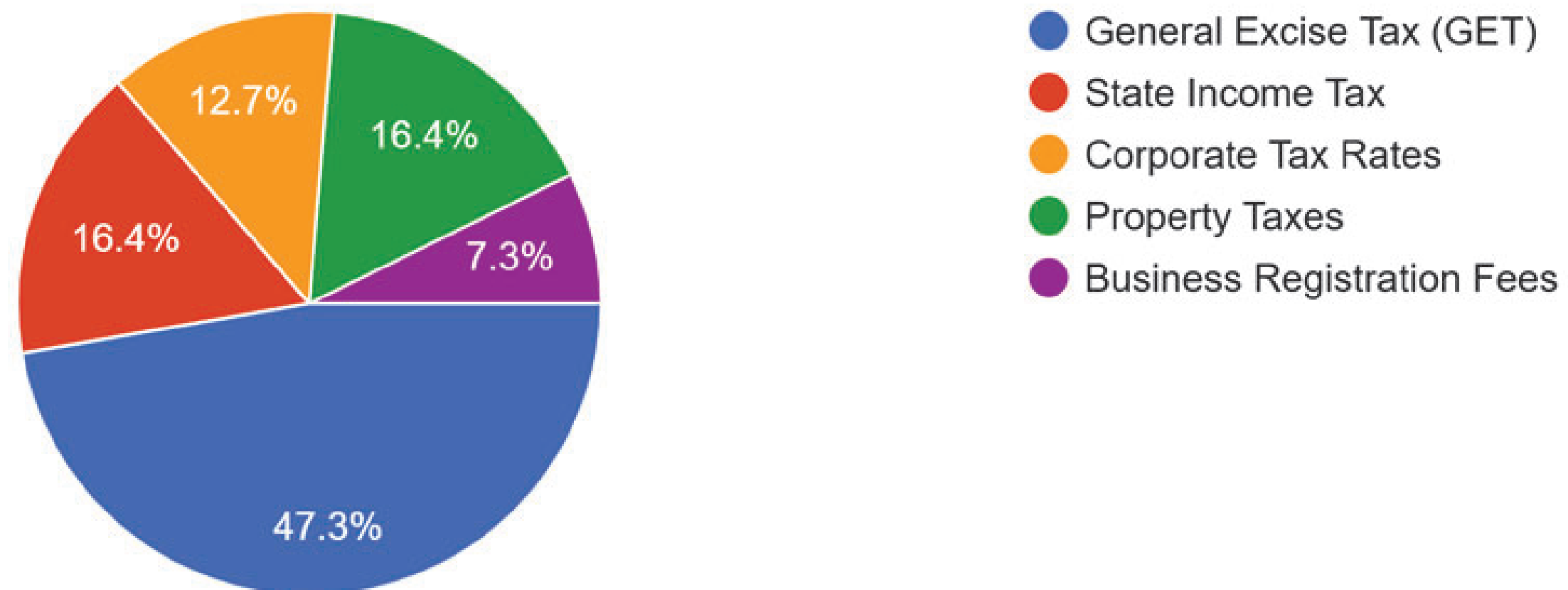
FIFTH PRIORITY ISSUES

- **Business Sustainability & Economic Confidence** – Respondents expressed concerns about consumer confidence, spending ability, and the long-term stability of their industries.
- **Infrastructure & Public Services** – Some responses mentioned the need for improved infrastructure, particularly in areas affecting business operations and quality of life.

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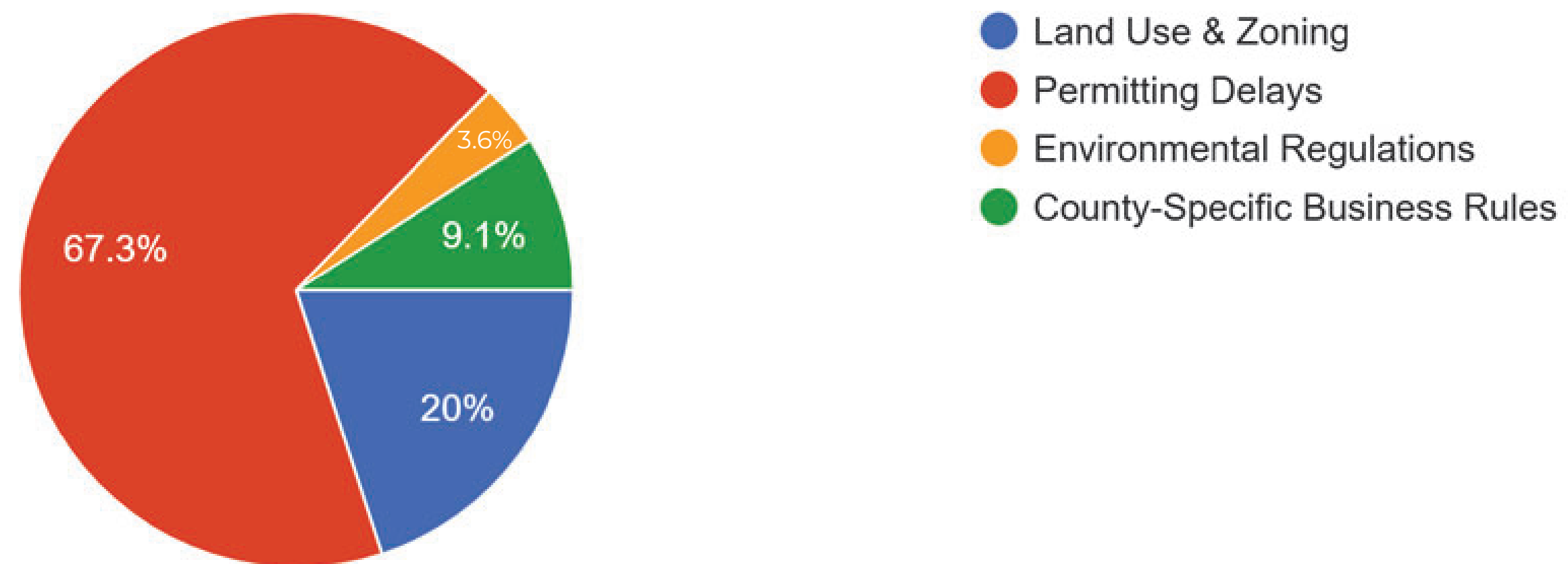
Please select your biggest concern regarding Statewide Regulations & Taxes

55 responses



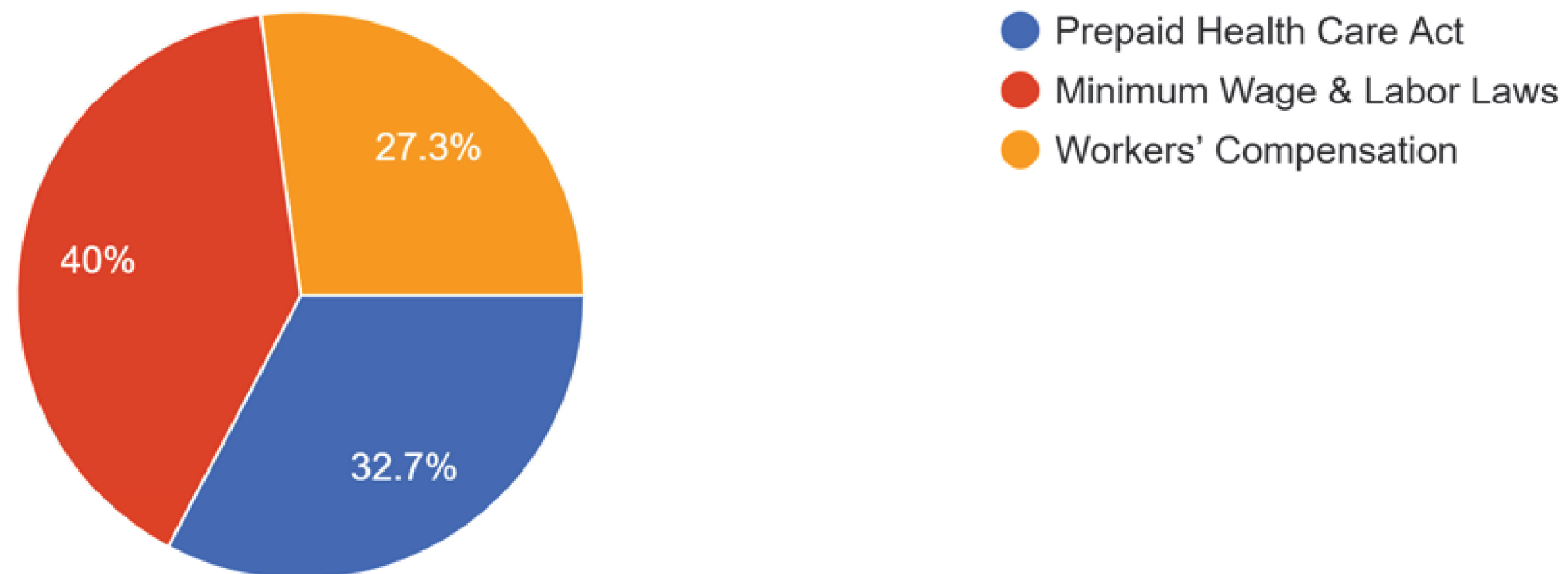
Please select your biggest concern regarding Permitting, Zoning & Business Approvals

55 responses



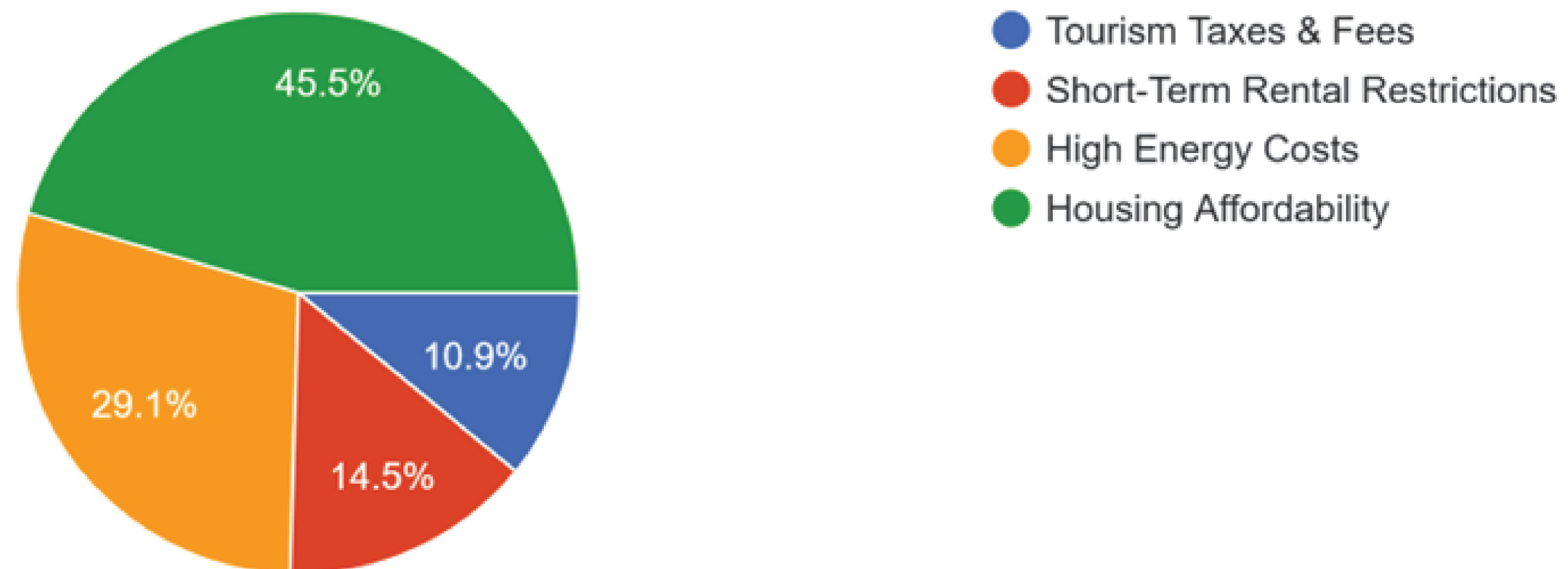
Please select your biggest concern regarding Labor & Employer Costs

55 responses



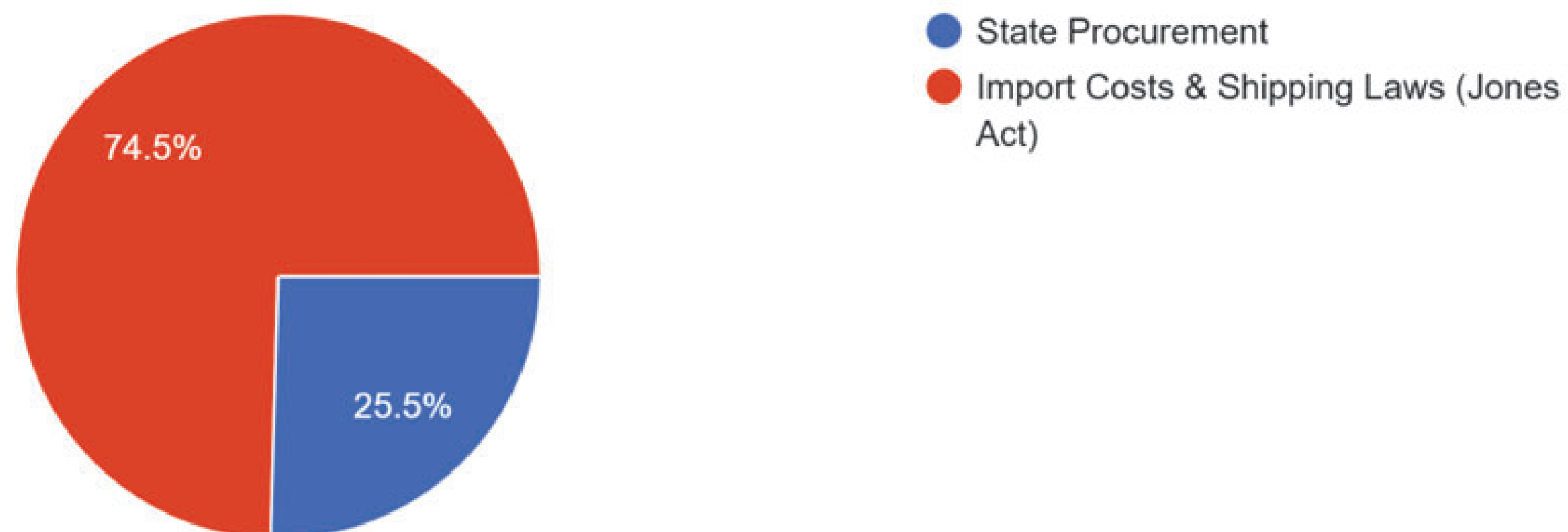
Please select your biggest concern regarding Industry-Specific Regulations

55 responses



Please select your biggest concern regarding Other Business Barriers

55 responses



OVERALL THEMES

- Across industries, there is a consistent desire to reduce bureaucratic delays (such as permitting and review processes) and to tackle economic pressures—whether through addressing tax burdens, interest rates, or labor costs.
- The solutions offered by respondents suggest that resolving these issues would not only alleviate current pain points but also create a more favorable environment for growth, innovation, and market stability.

GET Reductions

Take food/essentials out of GET.

Permitting

Shot clock on permitting (60 days)
- Support SB66: Requires counties to grant building permits within 60 days.

Review

Expense review during the next leg session, where is the spending going?

SOLUTIONS

Taxes

Taxes should be on net profits for businesses versus gross revenues.

Property Taxes

If property taxes are going to be increased, other taxes need to be decreased, or the education system should be considered (states with high property taxes have supreme public schools).

Income Taxes

Income under \$100k could be exempt from taxes, the cost of living is already high in Hawaii.

Building Codes

The pace of change in codes and the constant confusion of what codes are in affect is creating problems for design professionals and builders across the state. An every other code cycle should be adopted.

REFERENCE DATA REQUEST

- **Department of Taxation:** What's the net change going to be if GET was modified? Please put together a table showing different percentages – less revenue needs to be weighed with the spending to see how possible it is to reduce the taxes.



THANK YOU

The survey will remain available and quarterly updates with updated data will be provided.

Economic Revitalization Taskforce
Regulation Permitted Interaction Group

APPENDIX D. PERMITTED INTERACTION GROUP 2. WORKFORCE DEVELOPMENT

BUSINESS REVITALIZATION TASK FORCE

Workforce Development Permitted Interaction Group

Report: Findings and Recommendations

April 10, 2025

PIG Members:

- **Thomas Chock**, Program Specialist DBEDT/Creative Industries Division
- **Tonga Hopoi**, Vice President, Economic Development, Government & Community Relations Chamber of Commerce Hawaii
- **Amy Asselbaye**, Executive Director C&C of Honolulu OER
- **Sue Kano**, Managing Director, Island Chapters Kauai Visitor and Convention Bureau
- **Brian Miyamoto**, Executive Director, Hawaii Farm Bureau

Purpose & Context

This document presents key themes and early ideas from the Workforce Development Permitted Interaction Group (WFD PIG), a sub-group within the Business Revitalization Task Force. Our kuleana was to explore workforce development issues and opportunities through the lens of business revitalization—asking not just how to train workers, but how to ensure businesses across Hawaii can hire, retain, and support the workforce they need to thrive.

We recognize that workforce development is already a major area of investment and activity across the state. Our goal wasn't to reinvent the wheel, but to identify gaps, surface overlooked issues, and provide grounded, actionable insights that can inform broader revitalization efforts—especially for small businesses struggling to remain viable.

Throughout our conversations, we've tried to center the real-world challenges faced by businesses and workers, while also staying open to systems-level thinking and practical experimentation. What follows is a summary of what we surfaced in our conversations.

Workforce as a Barrier to Business Vitality

Hiring and staffing shortages are among the most immediate and persistent challenges facing businesses across Hawaii—especially small, local businesses. This isn’t about scaling up or expanding. For many, it’s about staying open at all.

Businesses are cutting back hours, closing for entire days, or turning down new business—not because of lack of demand, but because they don’t have the staff to support it. And it’s not isolated to one island. From Hilo to Hanapēpē, business owners are saying the same thing: they can’t find enough workers, and they’re burning out the ones they do have.

This raises a fundamental question that we kept returning to throughout our discussions:

Which businesses are we trying to revitalize? Are we aiming to support the needs of major employers like Queen’s or Hawaiian Airlines—or the neighborhood plate lunch shop that serves the community every day? The answer matters. Workforce challenges and solutions look very different depending on the size, type, and location of the business in question.

The takeaway is simple: workforce development isn’t just a labor market issue. It’s a business survival issue. And until we treat it like essential economic infrastructure—on par with roads, energy, or broadband—we’ll keep seeing workforce shortfalls act as a drag on local business vitality.

Housing & Affordability as Core Workforce Issues

Housing and affordability are central to workforce development—but they rarely get treated that way in policy or planning conversations. It’s not that people don’t see the problem. Everyone working in or around workforce development knows how serious the housing situation is. The issue is that we don’t talk about it nearly as much as we should, given how directly it affects our ability to recruit, retain, and support workers.

We’re conditioned to focus on education, training, and credentials when we think about workforce development. But for many residents across Hawaii, decisions about whether to take a job—or keep one—hinge more on rent, commute, and childcare than on access to training programs.

This plays out in real and often frustrating ways. Workers sometimes turn down raises or reduce their hours to avoid losing eligibility for key supports like housing assistance, SNAP benefits, or childcare subsidies. Others earn just enough to disqualify them from these programs, but not enough to cover the full cost of living—leaving them stuck in the “gap” with no clear next step.

On O’ahu, this shows up in long commutes from areas like Wai’anae to tourism hubs like Waikīkī, where workers spend a huge share of their income just getting to and from their

jobs. It's not just about cost—it's about quality of life. Picture the working parent—say, a nurse—who drops her child at school in Honolulu, works a full shift, picks them up after practice or rehearsal, battles traffic westbound, grabs a quick dinner on the way home, helps with homework, and then starts the whole routine again at 4:30 a.m. the next day. When that kind of daily grind is the norm, it takes a toll on family health, well-being, and long-term sustainability.

On neighbor islands, the story looks different but carries the same weight: local families are being priced out of the very communities they've lived in for generations. Businesses in these areas are shortening hours or closing multiple days a week—not due to lack of demand, but because their workers can't afford to live nearby.

Some local governments are beginning to respond. Kaua'i, for example, recently increased property taxes on visitor accommodations to fund gap housing initiatives. The revenue will go into a dedicated fund—not the general fund—and will be used to explore land partnerships and housing solutions with major landowners.

In some cases, businesses themselves are also stepping in—particularly when housing is the difference between filling a critical position or not. On Kaua'i and elsewhere, a growing number of employers have purchased homes or condos to provide housing for key staff, such as general managers or specialized professionals. It's a costly move, but for certain businesses, it's become a necessary one to stabilize operations and retain leadership.

The broader takeaway is this: If housing remains outside the workforce conversation, we will keep trying to build a workforce system on a shaky foundation. Addressing affordability head-on is not optional—it's structural. And it's not just about recruitment—it's about long-term retention. If workers don't see a viable future for themselves and their families here, they will look elsewhere, regardless of how strong our training programs may be.

Place-Based Needs, Siloed Systems & Misaligned Incentives

Not all workforce challenges are created equal—and not all communities face the same barriers or opportunities. One of the consistent themes in our discussions was the need to ground workforce development strategies in the lived realities of specific places across Hawaii.

Neighbor islands face very different conditions than urban Honolulu. Even on O'ahu, workforce needs and constraints in Wai'anae differ sharply from those in Kaka'ako or Kāne'ohe. Access to childcare, transportation options, proximity to major employers, internet connectivity, and housing stock all shape how individuals engage with work, and how businesses find and keep talent.

Yet many statewide workforce initiatives are designed almost as if a one-size-fits-all model will work. These efforts often miss the chance to flex around place-based conditions—or to support local actors who are already working creatively within them.

We also want to acknowledge that there are many strong, well-intentioned efforts happening across the state. Public agencies, educational institutions, nonprofits, and private partners are all making meaningful contributions—and in many cases, gaining traction. At the same time, there's a growing sense of frustration that these efforts often happen in silos. The right hand doesn't always know what the left is doing, which can lead to duplication, missed opportunities, or even unproductive competition. When budgets are tight and needs are high, that kind of fragmentation feels especially costly. Without stronger alignment around a shared vision and outcomes, the overall impact falls short of what it could be.

Nainoa Thompson, of the Polynesian Voyaging Society, offered a metaphor that became useful in our discussions: What is our destination? Are we all agreed on where we're trying to go? Right now, it feels like many parts of the system are navigating without a clear, shared destination. And when the path isn't coordinated, even well-intentioned efforts can work at cross-purposes.

Adding to this challenge is the reality that many key stakeholders are operating with different, and sometimes conflicting, incentives. A training provider might be funded based on program completions, not job placements. Employers may be incentivized to offer low-wage positions with minimal benefits, while workers are trying to secure long-term stability and housing. Even within families, priorities can differ—*what mom and dad want for their child might not match what the child actually wants for themselves*. These differences shape decisions in ways that don't always show up in the data.

When we don't account for these misaligned incentives, it's easy to mistake surface-level activity for impact. Any serious effort to align workforce development with business revitalization needs to grapple with this underlying system dynamic—not just to coordinate better, but to actually reward what we want to see more of.

This also sets up a deeper challenge we'll explore in the next section: even when training and support systems work well, if the long-term opportunity isn't here, in Hawai'i, people will still leave. That's not just a workforce issue—it's an economic development issue.

Information Gaps & Legislative Needs

There's a lot of workforce development activity happening across the state—but very few people have a full picture of it. Legislators, in particular, often lack a clear sense of what programs exist, who's doing what, and how it all connects (or doesn't). This information gap

makes it harder to craft effective policy, allocate funding strategically, or identify where coordination is needed.

Early in our discussions, we floated the idea of building a comprehensive statewide inventory of all WFD initiatives. It's a good idea in theory—but in practice, it risks duplicating work that's already been done (or started and stalled). Plus, without a clear owner or process for keeping that kind of inventory updated, it could quickly become outdated or underutilized.

Instead, we see a more pragmatic and impactful approach: hold legislative informational briefings that bring together key players across the WFD landscape. These briefings would provide space for each major stakeholder to speak to what they're doing, what gaps they see, and where coordination could help. Importantly, they'd also make space for players who are often left out of the conversation—like small businesses, community-based nonprofits, and even private schools who play a significant role in shaping Hawai'i's talent pipeline.

Key organizations to include:

- Department of Labor and Industrial Relations (DLIR)
- University of Hawai'i System
- Department of Education (DOE)
- Workforce Development Council
- County workforce boards
- Nonprofits and community-based organizations
- Private sector employers (including small business reps)
- Private K–12 schools (e.g., Kamehameha Schools, Punahou, 'Iolani)

A series of these briefings could build momentum toward a more unified view of what's working, what's missing, and where public investment could have the most impact. It could also help legislators craft policies and funding strategies that are responsive to real, on-the-ground needs—rather than working from outdated assumptions or incomplete data.

Ideas in Motion

Alongside the challenges we discussed, our group also explored a range of ideas and approaches that could help reframe or retool how workforce development is approached—

especially if we want it to support long-term business revitalization, not just short-term program delivery.

Here are some of the ideas we think deserve further exploration:

1. Use AI to Analyze and Compare WFD Plans

There are dozens of plans, strategies, and initiatives across Hawaii's workforce development landscape—some well-funded and formal, like the Workforce Development Council's comprehensive statewide plan, and others more local or sector-specific. But very few people have the time or tools to cross-analyze them all. One idea is to feed these plans into an AI or natural language tool to identify patterns, redundancies, gaps, or underserved populations. It wouldn't replace human judgment, but it could support decision-makers in understanding how all these pieces fit together—or where they don't.

2. Apply Supply Chain Thinking to Workforce Systems

What if we approached workforce development like a supply chain? Not just as a pipeline of workers, but as an interconnected set of inputs (education, training, housing, transportation), conversion points (credentialing, hiring, upskilling), and outputs (employment, retention, economic mobility). This kind of mapping could help identify bottlenecks, weak links, or areas where small changes could lead to big improvements. It also helps ground the conversation in systemic mechanics rather than just individual behavior.

3. Incentive Mapping as a Diagnostic Tool

We've talked a lot about misaligned incentives—between workers, employers, training providers, and even within families. One way to start addressing that is to map out what each stakeholder group is currently incentivized to do, and how that aligns (or doesn't) with broader workforce or economic development goals. If we want coordinated action, we need aligned motivation—and we can't build that alignment unless we understand the current landscape.

4. Legislative Briefings as a Starting Point for Coordination

Instead of building another dashboard or database, why not start with dialogue? Regular, facilitated briefings for legislators—featuring real voices from across the WFD landscape—could create shared understanding, uncover common ground, and help move the conversation toward smarter, more integrated policy.

5. Action Over Perfection

Sometimes, the biggest breakthrough isn't a new tool or policy—it's just the decision to move. As one member put it, *doing something is better than continuing to talk about it*. We

need to build momentum, even in small steps. Perfect alignment can come later—what’s needed now is action that shows commitment and opens the door to further coordination.

Recommendations & Takeaways

Based on our conversations, here are the key takeaways and recommendations we believe the Task Force should consider as part of any serious strategy to align workforce development with business revitalization in Hawai‘i:

1. Treat Workforce Development as Economic Infrastructure

- Workforce capacity is essential for business continuity—not just growth.
- Addressing labor shortages is as fundamental as maintaining roads or utilities.
- This includes factoring in housing, transportation, and affordability as core to workforce policy—not side issues.

2. Invest in Retention, Not Just Training

- Hawai‘i offers strong training and skills-building opportunities.
- The problem isn’t always a lack of programs—it’s that people leave after they complete them.
- Without long-term opportunity and affordability, workforce development becomes a pipeline to somewhere else.

3. Initiate Legislative Briefings to Build Shared Understanding

- A series of workforce development info briefings can bring visibility to existing efforts, surface overlap or gaps, and invite coordination.
- Include public agencies, county boards, private schools, small businesses, nonprofits, and community-based orgs—not just large institutions.

4. Explore System Mapping & Incentive Alignment

- Apply systems thinking to identify bottlenecks in the workforce “supply chain.”
- Map out stakeholder incentives to understand misalignment and create better conditions for cooperation and impact.

5. Leverage AI for Strategic Clarity

- Use AI to scan and compare major WFD plans—including the WDC Statewide Plan—to identify themes, gaps, and duplication.

- This could help shape smarter, more integrated public policy and funding strategies.

6. Embrace Action, Even if Imperfect

- Momentum matters. Sometimes starting with something small, localized, or experimental is better than holding out for a perfect statewide solution.
- Support initiatives that show alignment in motion—even if they're not fully formed yet.

We offer these recommendations not as a final answer, but as a reflection of what we've heard, surfaced, and wrestled with during this process. The opportunity ahead is to move from scattered effort to shared strategy—one that reflects the complexity of Hawai'i's economy and the people who power it.

APPENDIX E. PERMITTED INTERACTIONG GROUP 3. BUSINESS COST

Pricing Business Out of Paradise

Produced by the **Permitted Action Group on Business Cost**
For the **Business Revitalization Task Force**

April 10, 2025

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Executive Summary

Hawaii has the highest cost of doing business in the nation. CNBC ranked the state as the worst place to do business in 2024. These costs harm business activity and threaten the economic prosperity that the state requires to meet the needs of its people. Hawaii is falling behind the rest of the country in terms of growth, a trend that will likely worsen if the issues addressed in this report are not resolved.

*This report highlights the major sources of the state's high cost of doing business. Many of the costs result from existing policies and procedures that can be changed and improved if the political will exists. These include burdensome regulations that drive up costs, social policies that increase labor costs and disincentivize work, and high levels of taxation. Many of the costs imposed on businesses reflect values and priorities. **However, the way that certain values and priorities are currently expressed in the existing regulatory framework is incompatible with a thriving business sector.** The costs of these policies are highlighted in this report so decision-makers can be aware of their impact on the state's economic health.*

Compared to the rest of the country, Hawaii businesses face the most restrictive regulations, the slowest approval processes, the highest logistics costs, the highest utilities, some of the highest rents and land costs, and one of the highest tax burdens. Because of the state's high cost of living and laws mandating the most generous fringe benefits in the country, businesses are burdened with high labor costs while simultaneously lacking access to qualified labor. Prevailing wages are higher than the average on the mainland, but the value of these wages is among the lowest in the country. As a result, businesses struggle to attract qualified workers while bearing abnormally high labor costs.

*There is a bright spot on the horizon. **In 2024, the Legislature approved a tax cut bill that will significantly lower the tax burden placed on business owners and increase the state's economic competitiveness.** This report recommends that state leaders build on this success and embark on a reform agenda that allows Hawaii businesses to compete nationally and internationally.*

Hawaii faces a choice: either it must fundamentally reform the regulatory environment affecting businesses, which is the costliest in the nation, or it must accept the lackluster performance of the private sector and the consequences of anemic economic growth.

Business Cost Ranking for Hawaii

Costs Type	Hawaii Ranking	Source
Overall Business Costs	50th	CNBC
Labor/ Human Capital		
Wage	11th (nominal)/ 43rd (PPP)	USA Facts
Labor Participation Rate	38th	BLS
Mandated Fringe Benefits	50th	Independent Research
Unemployment Insurance Tax	49th	Tax Foundation
Regulations		
Permitting Speed	50th	Independent Research
Regulatory Restrictiveness	50th	UHERO
Taxation		
Overall state and local burden	48th	Tax Foundation
GET	Lowest rate/ broadest scope	Tax Foundation
Individual Income*	49th	DOTAX
Corporate Income	23rd	Tax Foundation
Estate Tax	50th	Tax Foundation
Other Costs		
Rents/land cost	48-50th	Commercialcafe.com
Shipping	49-50th	HI DOT
Utilities	50th	CNBC

*The 2024 tax cut bill will significantly lower the income tax burden by 2031 if fully implemented

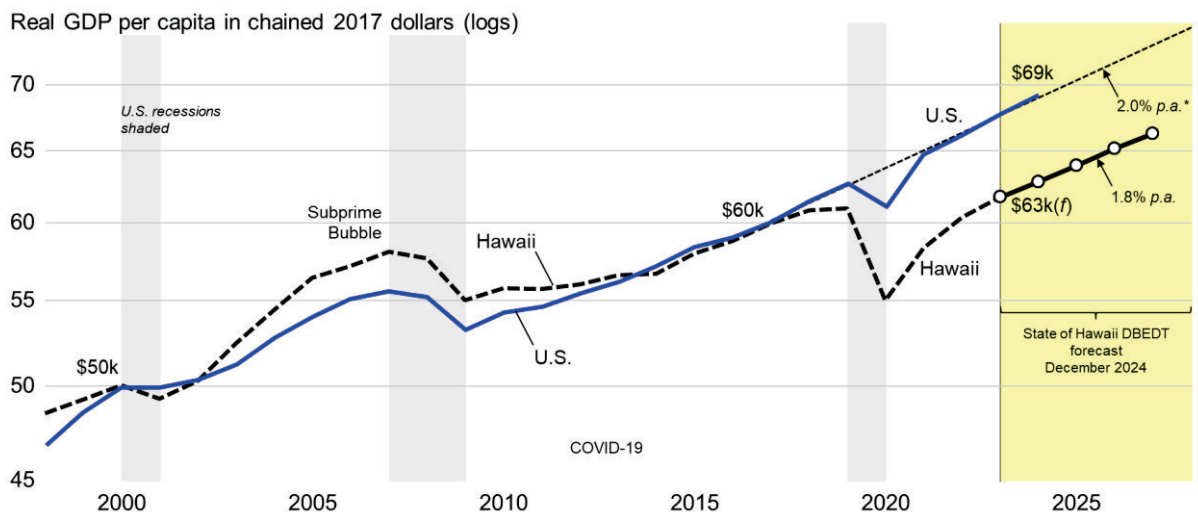
Why Costs Matter:

Business costs affect an enterprise's profitability, growth trajectory, and ultimate survival. When costs rise—whether from labor expenses, rent increases, or regulatory compliance—profit margins naturally contract, limiting a company's ability to reinvest in growth initiatives or weather economic downturns.

Conversely, when businesses successfully manage their costs while maintaining quality and output, the resulting profits serve as powerful signals to entrepreneurs, drawing them into markets where returns appear most promising. This profit mechanism efficiently directs entrepreneurial talent and investment capital toward sectors where consumer demand is strongest relative to production costs.

The health of the business sector is a key driver of economic growth. A thriving business sector does not only benefit owners but also provides employment and generates the bulk of the tax revenue required for vital social services. **Hawaii's economy is falling behind the rest of the United States with no clear path to recovery** (see Figure 1). Creating an environment where local businesses can grow and prosper is essential for the state's economic future.

Figure 1: Hawaii and U.S. per capita real GDP matched, traded places over pre-pandemic decades; risk of persistent Hawaii shortfall in 2020s



Source: Prepared by Paul Brewbaker, TZ Economics. U.S. Bureau of Economic Analysis, (<https://www.bea.gov/data/gdp/gdp-state>). *Stationary trend regression on U.S. real per capita GDP, 2017-2023. Hawaii real per capita GDP forecast growth rate calculated from Hawaii DBEDT (December 4, 2024) *Quarterly Statistical & Economic Report: Outlook for the Economy* (<https://dbedt.hawaii.gov/economic/qser/outlook-economy/>). Annual U.S. data for 2024 GDP scheduled for release January 30, 2025, and GDP by state data for 2024

Hawaii’s businesses bear the highest costs in the country, putting them at a distinct disadvantage. High costs discourage entrepreneurs from starting businesses in Hawaii, make it harder for existing businesses to invest and grow, and incentivize existing businesses to leave the state. **Hawaii should expect anemic business activity until this burden is significantly reduced.**

Some costs are difficult or impossible to change. Hawaii is a small and isolated island chain that will always struggle with high shipping costs, small economies of scale, and high land costs. However, **most costs derive from policies and decisions that can be amended and adjusted if the political will exists.**

Some recommendations, like speeding up the permitting review process, are “no-brainers” that require few trade-offs. Other recommendations will require leaders to confront difficult governance trade-offs. Current policies aim to solicit high levels of community input, promote worker protection, ensure environmental safeguards, and preserve cultural heritage, but they also significantly raise the cost of doing business in the state. As a result, local businesses burdened by this unique cost structure cannot compete with mainland firms.

If revitalizing business is a priority, Hawaii’s leaders will need to fundamentally alter the current regulatory environment to reduce the costs imposed on private sector activity. **Any reform should reflect Hawaii’s commitment to its people, its land, and its culture, but it also needs to support a system where local entrepreneurs can take risks, grow, and thrive.**

This report identifies common elements that contribute to a typical business cost structure and compares them to the rest of the United States. In most categories, Hawaii businesses face the highest costs in the country.

Assessing Hawaii's Business Costs

Access to and Cost of Labor

- Local employers face high labor costs and struggle to attract and retain qualified employees because of the state's high cost of living.
- State mandates require more fringe benefits than any other state, increasing labor costs
- The state's social safety net discourages earning and working more at lower income levels, partly explaining the low labor participation rate.

Why is it important?

Labor expenses are one of the largest components of an operational budget, directly impacting pricing strategies and profit margins. In regions facing labor shortages or skill gaps, businesses may experience production constraints or increased recruitment costs that challenge their competitive standing.

How does Hawaii rank?

The cost and availability of labor are often cited as the number one problem facing employers in the state.¹ Hawaii's high cost of living creates a unique problem for businesses: they have to offer relatively high wages, which drive up costs, but those wages have reduced purchasing power for local workers. **Hawaii's average weekly wage ranks the 11th highest in the country, but its wage value plummets to 43rd in the nation when adjusted for the cost of living.**² This creates a paradox where wage costs are high for employers but low value to workers, making it very difficult to recruit and retain qualified employees.

Businesses confront labor costs that exceed wages by an additional 20-30%. **The relative cost of fringe benefits is the highest in the nation.** The Prepaid Health Care Act of 1974 mandates employer-provided health insurance for employees working 20 hours or more a week. Every other state follows the federal guidelines, which define a full-time employee as someone working at least 30 hours or more per week. The cost of providing health care is highest for lower-wage employees because the health care benefits make up a larger percentage of their overall compensation package compared to higher-wage employees. These employer mandates harm the competitiveness of businesses that work in sectors like agriculture, manufacturing, and retail that have a higher percentage of low-wage employees.

¹ National Association of Home Builders

² U.S. Bureau of Labor Statistics

Local Business Owner's Perspective

Laws Forcing Local Businesses to Provide Social Services Harms Competitiveness

“It is extremely difficult to run many small manufacturing businesses in Hawaii, and every raise to the minimum wage works against it. Another increase would jeopardize the viability of our business, as would other proposed measures like putting the burden of childcare on employers. The state needs to stop putting the burden of managing other costs outside of compensation for labor on businesses.”

– James Chan, Hawaii Chip Company

Hawaii’s generous unemployment insurance (UI) benefits represent another component of non-wage labor costs. **The state has the second-highest UI tax in the country, which can amount to an additional cost of several thousand dollars per worker.** ³

Sectors like hospitality and construction that are highly unionized have wages and fringe benefits that are even higher than average, further raising the cost for businesses.

Hawaii ranks 38th in labor participation rate nationwide. The labor force participation rate is the percentage of people who are working or actively seeking work, divided by the working-age population. Given the state’s high cost of living, one would expect the labor participation rate to be above the national average, not below.

One reason why people may be hesitant to take on additional employment is that they would lose access to valuable social services. Figure 2 below shows the dollar value of public assistance programs at different levels of income for a family of four with two young children. The assistance programs include housing vouchers, SNAP benefits, and federal EITC tax credits. The value of these programs peaks around \$58,000 at \$22,000 of annual income.

³ Tax Foundation

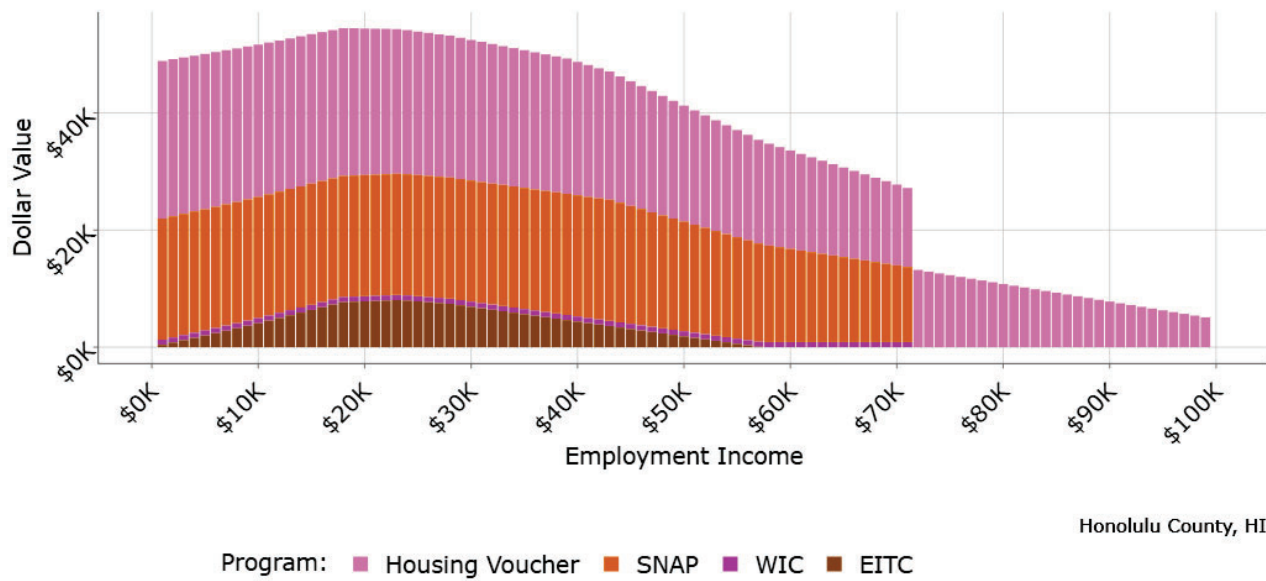


Figure 2 shows the value of social services over different income ranges. The dollar value of the programs peaks around \$22,000 and then declines. For some incomes, the value of the benefits decreases faster than income increases. The fact that families are worse off from working more discourages work and labor force participation. Source: [Atlanta Federal Reserve](#)

Figure 3 shows that families earning between \$40,000 and \$100,000 experience a decline in the value of the social services that exceeds the financial gain from increased income. This means that the families are effectively poorer—net financial resources are less than before—as they start to earn more. Families rarely participate in all benefit programs they are eligible for, so this is not a typical case. Economic work done at the University of Hawaii finds that 10% of households in the lower half of the income distribution face an effective marginal rate of 80%.⁴ Losing access to housing vouchers is the biggest resource loss.

These benefits cliffs occur across the country, but they are particularly acute in Hawaii where the value of benefits is higher due to cost-of-living adjustments. The structure of public assistance discourages people from working more and earning more over a wide range of income. At some incomes, there is a cliff where the loss of benefits is very large. If state support were included in this analysis, the issue would be even worse.

⁴ Dylan Moore. *Ultra-High Marginal Tax Rates in HI*. University of Hawaii Brief. March 2025.



Figure 3 shows a family's net financial resources (income + public assistance - taxes - expenses). A family making \$40,000 would have to earn at least \$100,000 before they are better off than they were at \$40,000 due to the loss of public assistance. A family increasing earnings from \$40,000 to \$70,000 is slightly worse off. After \$70,000, the family is much worse off due to a sharp benefits cliff. Restructuring social assistance programs to encourage work could boost labor force participation. Source: [Atlanta Federal Reserve](#)

Potential Solutions

Reducing the high cost of living in the state would increase the value of wages and help employers attract the talent they need to succeed. This requires lowering the cost of housing by boosting supply. Taking measures to reduce the fringe benefits mandated by law would lower labor costs.

Another approach is to restructure Hawaii's social safety net programs to remove disincentives for earning and working more.

Local Business Owner's Perspective

The loss of benefits discourages work

"Many of my lower-wage employees request fewer hours or think about quitting altogether so as not to lose government benefits like subsidized housing and food stamps due to the strict income limits set on those benefits. This increases employee turnover and decreases the chances of advancement for talented staff."

– James Chan, Hawaii Chip Company

Regulations

- **Hawaii ranks last (50th) in regulatory costs imposed on businesses and 50th in approval times.**
- **Slow approval cycles cost Hawaii businesses an estimated \$3.5 billion every year—the equivalent of 3.5% of annual GDP.**
- **The state has a mix of overlapping regulatory reviews that create significant uncertainty not found elsewhere in the country.**

Why is it important?

State regulations are one of the biggest costs facing Hawaii businesses: 1) They significantly increase project timelines, raising operational costs and harming project viability. 2) They restrict what businesses can do, making operations potentially less efficient. 3) The many hurdles and veto points embedded in the regulatory process create high levels of uncertainty. Particularly burdensome are regulations that create compounding effects when multiple agencies impose overlapping or even contradictory requirements, leading to greater inefficiencies that compound expenses.

How does Hawaii rank?

Hawaii has the worst regulatory environment in the country. While some regulations are necessary for a healthy economy, the complex and byzantine framework that currently exists goes beyond what is needed. **The state ranks 50th in the nation in regulatory burden and 50th in the nation in processing times**, imposing enormous costs and uncertainty on local businesses.⁵

Hawaii is notorious for lengthy permitting processes for development or construction. **On Oahu, permitting delays cost an estimated \$3.5 billion per year (or 3.5% of state GDP)** in capital costs and lost construction activity.⁶ Developers and business owners face long wait times for everything from building renovations to new construction. Those delays translate into higher costs – e.g. added carrying costs on land and loans while waiting, inflated project costs, and lost revenue from deferred openings. Local contractors and business groups frequently complain that Honolulu’s Department of Planning and Permitting is understaffed and uses outdated systems, further slowing approvals.

Hawaii businesses are subject to a complex web of regulatory bodies unmatched on the mainland. Projects requiring approval from different agencies face significantly higher

⁵ Inafuku, Rachel, Justin Tyndall, and Carl Bonham. (April 2022) “Measuring the Burden of Housing Regulation in Hawaii.” UHERO Briefs

⁶ Zirbel, Lauren. *The Economic Benefits from Streamlined Permitting*.

operational risks because it is difficult for businesses to determine in advance if a project will pass regulatory muster. High levels of community input required by law add costs, create delays, and increase uncertainty.

Hawaii's environmental regulations, shaped by HRS 343 and other stringent laws, are more detailed and time-intensive than in other states. Projects must undergo scoping, public input, and specialized studies. Hawaii has strong laws protecting Native Hawaiian cultural and historic sites that require a cultural or archaeological survey before a project can proceed.

Unlike most states where zoning is handled entirely at the local level, Hawaii also has statewide land use districts. The Hawaii Land Use Commission (LUC) oversees district boundary amendments (DBAs) for large parcels (generally over 15 acres) to reclassify land use. This is a lengthy process that often involves Environmental Impact Statements (EISs), public hearings, and potentially contested case hearings.

State-specific EITS requirements, special management area permits, cultural resource assessments, and other procedures add significant costs to projects in Hawaii.

Potential Solutions

The state and local governments should make an explicit goal of improving Hawaii's national ranking in regulatory burdens. Leaders should commit to regulatory reform until the state captures a spot in the mid-thirties—a significant improvement from being the country's worst. Hawaii can protect its cultural and environmental heritage, but it must acknowledge that the current arrangement is actively hurting local businesses.

Creative thinking and political will be necessary to reform the state's regulatory environment. The first step is to accelerate the permitting review times. Slow approval processes do little to protect the public good while imposing significant costs on projects. A second phase of reform should focus on restructuring the approval processes to make them more centralized, faster, and more reliable. This could include the creation of a single commission to streamline reviews of major projects, serving as a one-stop approval center. Such a system would create a more efficient process. New laws and regulations should be reviewed and potentially rescinded.

Taxation

- **Hawaii has one of the highest tax burdens across multiple tax types.**
- **Thanks to the 2024 tax cut bill, the state's tax burden will decrease considerably.**
- **Hawaii has the highest estate tax in the country, placing a financial strain on local family-owned firms.**

Why is it important?

Taxation involves a tradeoff where the government takes money away from people to give to fund public services. Taxes are necessary for a functional government, but the appropriate level depends on government efficiency and the level of services voters expect from their government. If taxes are too low, the government will lack funds to deliver basic services. Taxes that are too high discourage economic activity. Business owners and companies are responsive to levels of taxation. High tax rates lead people to leave the state.⁷

How does Hawaii rank?

Hawaii has one of the highest tax burdens in the country. The state ranks 48th in overall state and local tax burden.⁸

The General Excise Tax (GET) is the state's largest source of tax revenue. Unlike a traditional sales tax that only applies to tangible goods, the GET applies to nearly all business transactions. **While the retail rate of 4.0%—the lowest in the country—its broad scope generates significantly more revenue than other states' sales taxes.** Although the GET is usually passed on to the purchaser, it still imposes costs on businesses.

Excise taxes can lead to tax pyramiding, where the same goods or services are taxed multiple times along the production chain. **The Department of Taxation estimates that Hawaii's effective tax rate is 4.72%.** Pyramiding creates an extra 0.72% of taxation on top of the nominal 4.0% state rate. The low effective rate is due to a relatively low retail rate, a special rate of 0.5% for wholesale transactions, and the structure of state economy, which involves minimal manufacturing and product assembly. Additionally, the GET allows Hawaii to export part of its tax burden, as 30% of GET revenues come from non-residents. Like all consumption taxes, there are concerns about the regressivity of the GET. However, the refundable food/excise tax credit addresses this issue for low-income households.

The individual income tax is the second largest source of state revenue. It features a high rate that applies to relatively low levels of income. Research by the Department of Taxation found

⁷ Rauh, Joshua, and Ryan Shyu. 2024. "Behavioral Responses to State Income Taxation of High Earners: Evidence from California." *American Economic Journal: Economic Policy* 16 (1): 34–86.

⁸ Tax Foundation

that a family of four earning the median income of \$97,000 faces the second-highest income tax burden in the country. Only Oregon, which has no sales tax, ranks higher. When the individual income tax is combined with the GET, Hawaii taxpayers face the largest state tax burden in the country.

Recent legislation aims to alleviate this burden. In 2024, Governor Green and the state legislature passed the largest tax cut bill in the state’s history. The act will reduce the effective income tax rate over six years. When fully implemented, a family of four making the median income will have the 4th lowest income tax burden in the country (see Figure 4).⁹ Higher-income taxpayers will also receive tax relief to a lesser extent. **Thanks to the tax cut bill, Hawaii will go from having some of the highest state income taxes to having amongst the lowest for most taxpayers.**

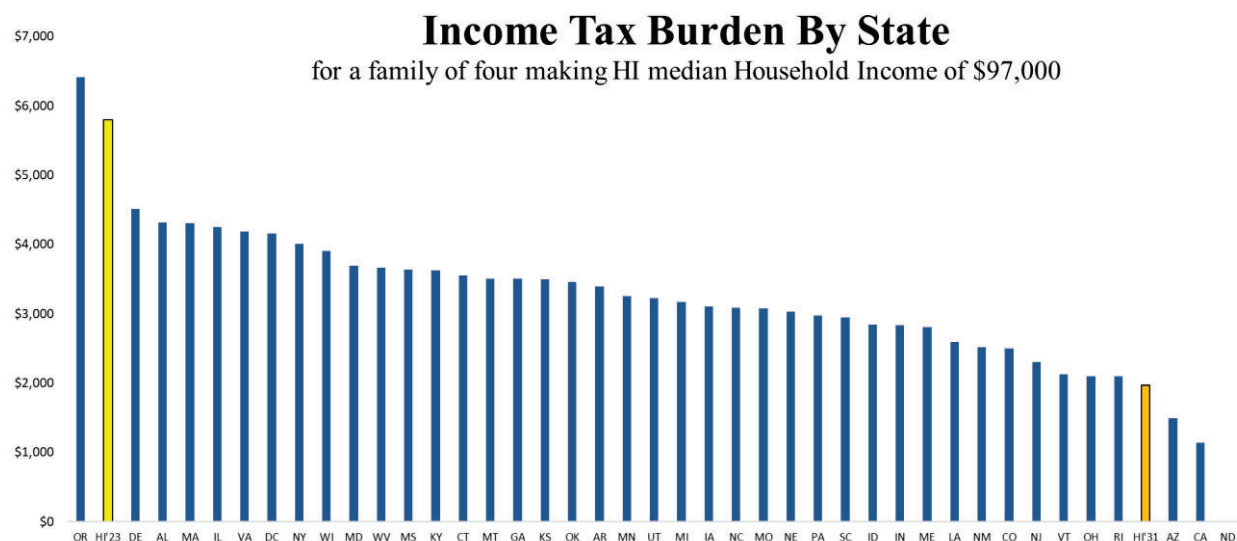


Figure 4. A ranking of income tax burdens for a family of four making the Hawaii median income. The analysis accounts for tax rates, the standard deduction, the personal exemption, and income-based tax credits of each state. The ranking is only for taxpayers taking the standard deduction.

⁹ The ranking compares the 41 states and the District of Columbia that levy tax on wage income. The rankings do not include the impact of any scheduled changes to the individual income tax code in states other than Hawaii.

Hawaii Income Tax Burden Ranking among 41 States plus DC with Income Tax

Starting from state AGI, minus standard deduction, personal exemptions

Then calculated using tax rate schedule net of tax credits

Single	HI Before	GAP I	GAP II 2031
\$25,000	2	4	40
\$50,000	2	2	38
\$75,000	2	2	27
\$100,000	2	2	21
\$150,000	2	2	10
\$200,000	2	2	7
\$500,000	1	1	5
Married Filing Jointly	HI Before	GAP I	GAP II 2031
\$50,000	3	12	41
\$100,000	2	2	39
\$150,000	2	2	29
\$200,000	3	3	23
\$300,000	3	3	11
\$400,000	2	2	8
\$1,000,000	1	1	6

* Ranging from 1 to 42, smaller number indicates higher tax liability.

Note: only Oregon has higher income tax than Hawaii.

Figure 5. A comparison of how Hawaii's income tax burden ranks in relation to other states at different levels of income. HI Before shows the rates prior to the passage of the 2024 tax cut bill and a 2023 tax bill that increases credits to low-income taxpayers, known as GAP I. GAP II 2031 shows how Hawaii will rank when all the changes to the tax brackets and standard deduction have gone into full effect. The ranking does not account for future changes to the tax code in other states.

Eighty-two percent of businesses in the state are structured as S-corps, partnerships, or sole proprietorships. These entities report their business income on their individual tax records.

A reduction in individual tax rates is a reduction in business tax rates for most companies.

Hawaii imposes a 6.4% corporate income tax rate, ranking it 23rd highest nationally. This tax rate is average compared to the rest of the country. It contributes only a small portion of tax collections.

Hawaii's estate tax is the highest in the country and places a unique burden on family-run firms. The top marginal rate is 20% in addition to the top federal rate of 40%, and the exemption amount is relatively low at \$5.49 million. Unlike public companies, small firms

cannot easily sell shares of their businesses. This means that owners may have to sell strategic assets to pay the estate tax. It is often difficult for firms to sell assets without undermining the operational efficiency of the entire firm. For example, a manufacturer cannot sell just 20% of a factory. Given the high tax burden, owners are often forced to sell their entire business to pay the tax. Businesses may also have to pay high premiums for life insurance to defer the cost of the estate tax. This affects how family-run businesses organize themselves and limits the ability to be family-run for more than one generation.

What about tax credits?

Governments often use tax credits to encourage certain industries and specific economic activities, but the track record is mixed. In some cases, targeted credits have helped emerging industries mature and grow until they can compete on their own without any further assistance. In other cases, targeted credits do not fundamentally alter business decisions and simply act as a fiscal transfer to a politically connected industry or firm.

The underlying goal of a business tax credit is to encourage a firm to engage in desired activities that it otherwise would not pursue. Tax credits that give money to businesses for actions that they would already be doing are a waste of public funds. The economic literature is clear about best practices in this area. Economically useful credits should be targeted, time-limited, and require firms or users to bear most of the cost.

This means that a tax credit should be structured to target a specific economic behavior rather than be excessively broad, ensuring the credit is used for its original intention. It should be offered for a limited period so that firms do not become dependent on the credit. Generally, businesses should have most of the “skin in the game” when it comes to investment decisions. Excessively generous credits can encourage businesses to make unsound investments

An inherent risk of tax credits is that they create political constituencies that make them hard to discontinue even when they have outlived their economic use. Governments that use tax credits need to develop objective mechanisms to measure their economic value. A good way to evaluate the success of the credit is to verify that the new economic activity persists after the credit has expired.

The State of Hawaii has a mixed track record in using tax credits to produce lasting economic benefits. The High-Technology Business Investment Tax Credit cost the state \$950 million while producing no lasting increase to the State’s technology sector. In general, the best policy is one that allows all businesses to compete on a level playing field. Tax credits that favor certain industries and businesses should address a clearly articulated market failure and be subject to independent evaluation.

Potential Solutions

The state is on a good track toward reducing its income tax burden due to the 2024 tax cut bill. The state should ensure that all reductions are implemented and maintained. Additionally, it should also consider reducing or eliminating the estate tax to support locally owned businesses.

Other Costs

- **Local businesses face some of the highest rents and land costs in the country**
- **Given Hawaii's geography, shipping and logistics costs are the highest in the country. However, some policies exacerbate these costs.**
- **Hawaii utility rates are two to three times higher than on the mainland.**

Rents and Land Costs

Why is it important?

Land costs and rents expenses that affect virtually all businesses, whether through direct ownership costs or lease arrangements. For businesses requiring physical space—from retail to manufacturing to office operations—these location-based expenses often constitute one of the largest fixed costs on their balance sheets. High rents force businesses to either operate in smaller spaces or pay a premium for a location – a significant overhead cost each month.

How does Hawaii rank?

Honolulu's commercial rents rival those of major mainland metropolitan areas. As of 2023, the average office lease rate in Honolulu was about \$37.50 per square foot per year. This is about 18% higher than the U.S. average office rent and is on par with expensive markets like Los Angeles and Washington, D.C. Retail and industrial spaces are similarly pricey. For example, prime retail spaces in tourist hubs (Waikiki, Ala Moana) command top-tier rents comparable to Manhattan or San Francisco in terms of dollars per square foot.

Potential Solutions

High rents are an inescapable reality in small island economies where land is scarce, and demand is high. However, restrictive zoning regulations artificially create even more land scarcity. One potential solution is to rezone more land for industrial and commercial use and allow for greater density.

Shipping and Logistics

Why is it important?

Shipping and logistics expenses directly influence a business's ability to move products through supply chains and reach customers efficiently. These costs are particularly significant for businesses in remoted locations that on dependent on importing materials or exporting finished goods.

How does Hawaii rank?

Because actual freight rates vary by carrier, route, and commodity, there is no single standardized percentage difference. However, multiple industry sources and anecdotal data consistently show that **shipping costs for goods bound to or from Hawaii run significantly higher than comparable shipments between mainland cities.**

Shipping a standard container from the West Coast to Hawaii can cost 30–50% more than a similarly distanced shipment on the mainland (e.g., from Los Angeles to Seattle). Maui, Kauai, and the Big Island require inter-island shipments, effectively adding a second leg to the journey, increasing rates by another 10-20%.

Less-Than-Container or parcel shipments to Hawaii can be anywhere from 20% to over 60% more expensive, depending on the carrier. For example, major parcel services like UPS and FedEx often charge a significant “Hawaii surcharge.” This adds \$8–\$15+ extra per parcel (sometimes more) compared to a similar mainland route, which can translate in a 20–30% price increase for smaller/lighter items and even higher percentages for heavier shipments. Air freight to Hawaii can be 50–100% more compared to a cross-country air shipment on the mainland, depending on weight, speed, and handling requirements.

Potential Solutions

Hawaii is the most isolated island chain in the world. Shipping and logistics costs will always be higher, given its geography. **However, some policies could boost competition and reduce costs in this sector.** The Merchant Marine Act of 1920 (Jones Act) mandates that goods transported between U.S. ports must be on ships that are U.S.-built, -owned, and -crewed. Reforming the Jones Act could increase the number of carriers that service the state.

Utilities

What is it important?

Utility costs—including electricity, water, gas, and telecommunications—are an essential operational expense for virtually all enterprises. For businesses with significant energy needs (e.g., manufacturing and cold storage), utility bills in Hawaii add another cost layer far above what businesses pay in other states.

How does Hawaii rank?

Hawaii’s electricity rates are the highest in the nation, roughly two to three times the U.S. average. Residents and businesses bear the highest utility costs in the country.

Potential Solutions

The Public Utilities Commission should make reducing utility costs a main priority for Hawaii's energy policy.

A Roadmap for Action

- Given the task at hand, leaders need to prioritize actions
- The policy interventions with the biggest impact on business revitalization include speeding up the permitting process and reducing regulatory barriers.
- Other impactful interventions include lowering the high cost of living, restructuring social policies to increase labor participation, eliminating the estate tax, and easing zoning restrictions.

The findings of this report are sobering, but they are not cause for despair. The state has an opportunity to create an environment where local firms can grow and thrive. What needs to be done is well known. **If Hawaii's leaders make business revitalization a priority, the road to reform involves a set of problems that are well understood and have proven solutions.** Since there is much to do, it is impossible to tackle every issue at once. Leaders must prioritize certain interventions over others.

The table below offers a rubric to guide and prioritize action. It recognizes that local leaders do not have control over all costs facing Hawaii's businesses. Therefore, it is better to focus on the issues that Hawaii can control. For each cost discussed in the report, the authors use the ranking of the cost and combine it with the amount of control local leaders have over the issue to assign a score that ranks the urgency of the intervention. The table categorizes priority interventions as high, medium, or low. **Addressing high-priority interventions yields the highest cost-benefit ratio, followed by medium-priority and then low-priority.**

Actions that address permitting speed and regulatory restrictiveness offer the biggest bang for the buck, as they are both ranked high priority. Ensuring that the 2024 tax cut bill is fully implemented would also significantly boost to the state's economic competitiveness.

Policies that lower the cost of living, reduce labor costs, and increase incentives to work would further support business revitalization. Other interventions scored at medium include reducing or eliminating the estate tax, engaging in rezoning efforts to lower rents, and adopting a state energy policy that prioritizes rate reductions.

Interventions with a low priority include amending the GET and the corporate income tax, as neither is a major driver of business costs in Hawaii. Reducing shipping costs with policies that increase competition requires law changes at the federal level and receives a low score because the state has relatively little control over this issue.

A Roadmap to Reform: Prioritizing Measures that Improve Hawaii's Business Climate

Costs Type	Hawaii Ranking	Comparative Cost	Local Control	Priority Intervention	Comments
Labor/ Human Capital					
Wage	11th (nominal)/ 43rd (PPP)	High	Med	Med	Lower cost of living increase wage value
Labor Participation Rate	38th	High	Med	Med	Structure social policies to support work
Mandated Fringe Benefits	50th	Med	High	Med	State can change laws/ hard politics
Unemployment Insurance Tax	49th	Med	High	Med	State can change laws/ hard politics
Regulations					
Permitting Speed	50th	High	High	High	No-brainer
Regulatory Restrictiveness	50th	High	High	High	State can change laws/ hard politics
Taxation					
Overall state and local burden	48th	High	High	In Progress	
GET	Lowest rate/ broadest scope	Low	High	Low	
Individual Income*	49th	High	High	In Progress	2024 tax cut law addresses the issue
Corporate Income	23rd	Low	High	Low	
Estate Tax	50th	Med	High	Med	Would help local businesses
Other Costs					
Rents/land cost	48-50th	High	Med	Med	Rezone and build
Shipping	49-50th	High*	Low	Low	Jones Act is a federal issue
Utilities	50th	High	Med	Med	Prioritize low rates over other things

*The 2024 tax cut bill will significantly lower the income tax burden by 2031 if fully implemented

**APPENDIX F. PERMITTED INTERACTION GROUP 4. ACCESS TO
CAPITAL and ENTREPRENEURSHIP**

Group 4: Access to Capital / Entrepreneurship / Growth Prospect - Findings and Recommendations

While Hawaii has long sought to diversify its economy, often exploring models like Silicon Valley, perhaps the key lies in addressing the underlying business environment. We recognize the inherent potential for innovation within the state, evidenced by the presence of global investors and a talented workforce. The following findings and recommendations aim to contribute to this ongoing effort. We believe that a comprehensive and refined policy strategy, prioritizing the development of a robust business ecosystem with attention to startup growth, human capital enhancement, and strong infrastructure, will be key to achieving lasting economic revitalization.

Executive Summary:

Group 4 was tasked with investigating access to capital, entrepreneurship, and growth prospects in Hawaii. The Group has identified challenges facing our small businesses, including limited access to capital due to risk aversion by local banks and complex federal loan processes, and a challenging entrepreneurial climate marked by regulatory burdens and high operating costs, among other things. To address these issues, we propose a multi-faceted approach focusing on:

- Diversifying capital access: Expanding funding options beyond traditional loans, simplifying application processes, and enhancing financial literacy.
- Strengthening the startup ecosystem: Investing in incubators, accelerators, mentorship programs, and improving infrastructure and connectivity.
- Promoting R&D commercialization: Leveraging University of Hawaii resources, supporting DBEDT/HTDC initiatives, and fostering collaboration between research and industry.
- Improving the business climate: Streamlining regulations, reducing tax burdens, and creating a more welcoming environment for entrepreneurs.

However, as noted above, comprehensive policies (beyond the scope of this working group) to create a favorable and supportive business environment are needed.

Detailed Findings:

1. Access to Capital

- Limited local large financial institutions are willing to give out business loans or credit.
 - Tied to increased regulatory pressure from Feds and lower risk tolerance
 - “Business banking” was eliminated from many regional Hawaii banks due to loans being made on character rather than capacity and cashflow
- Federal loans to businesses are limited and administered through partnership with the Small Business Administration
 - SBA 504, 8(a) and other products are good vehicles for businesses to utilize
 - SBA loans are processed through regional banks or credit unions
 - There has been some pushback at banks on this product due to the SBA loan pay back mechanism being the last resort. If the loan goes bad, the banks have to do their best effort to recoup and collect first before SBA will come in to make the bank whole. Many times, SBA loans that default, remain in the financial institution’s collections department.
- To increase capital available to businesses, an assessment needs to be made on where they are at in their business lifecycle and size. The capital needs and capital stacks are different based on those 2 factors.
 - Need funding for:
 - Working capital
 - Investment in equipment or assets
 - Acquisition
 - R&D
 - Expansion of market into new areas
 - Expansion of services
- While some feel that capital exists in Hawaii, others feel that Hawaii has limited capital. Moreover, it may be that the capital that exists is not available to support entrepreneurship and small businesses, i.e. it is not accessible. So in addition to accessibility issues discussed above, Hawaii also needs to address lack of capital and lack of access to existing capital.
- There is no concrete solution to access to and availability of capital but it is important to have a diverse array of options available.
 - Venture Capital

- Angel investors
- Microgrant or microloan
- Traditional bank loans
- Federal loans
- Wealthy investors (the Hawaii billionaire funds)
- Attract more sources of accessible/available capital to Hawaii
 - Consider DBEDT satellite offices in investment-heavy areas (e.g. DC)
- Timeliness is an important factor for capital
 - Easy to apply and qualify for
 - Approval is fast (30 days or less)
 - Can be funded quickly (ACH or wire)
- Education
 - For smaller size businesses, they may not have the time to understand what is out there.
 - Government can play a role in continuing to educate businesses and connect them to resources
 - Continue to improve the relationship between the State and Counties in identifying program alignment and non-duplication of services, most especially since government entities mostly work with non-profit in the delivery of these services.
 - Training in financial literacy and essential bookkeeping
 - You can't get a loan if you don't know your books and answer the questions
 - Create programs to help business present their needs (think Sharktank)
 - Pitch decks
 - Updating business plans
 - Financial analysis of cashflows, working capital etc.

2. Climate for Entrepreneurship

- Challenges:
 - Complex regulatory processes.
 - Limited access to capital for startups.
 - Lack of mentorship and training programs.
 - Inadequate infrastructure and connectivity.
 - High tax burdens.
 - Availability of resources across all islands in the State.
- Proposed Solutions:

- Simplify regulatory processes through online platforms and one-stop shops (modeled after Arizona and Florida).
- Enhance access to capital through grants, loans, and tax incentives (modeled after California and Nevada).
- Foster a supportive business environment with mentorship, training, incubators, and accelerators (modeled after Texas and Massachusetts).
- Improve infrastructure and connectivity through high-speed internet (Hawaiian Telcom is working to provide reliable internet access to help businesses operate smoothly and reach broader markets) and innovation hubs (modeled after North Carolina).
- Reduce tax burdens and simplify the tax code (modeled after Wyoming).
- Promote business and entrepreneurial resources across all islands of the State.

3. R&D Commercialization

- *Opportunities to commercialize R&D with current/new companies*
 - University of Hawaii
 - UH receives more than \$500M annually in extramural funds, see article [here](#).
 - “Extramural funding is external investments from external agencies such as the federal government, industry and non-profit organizations that support research and training activities conducted by university faculty and staff.”
 - University affiliated entrepreneurship programs - encourage participation in tech commercialization opportunities, including I-Corps programs, SBIR/STTR programs, and accelerators/incubator programs.
 - Pacific Asian Center for Entrepreneurship ([PACE](#)) at the Shidler College - UH systemwide resource that offers 15+ programs (e.g. workshops, mentorship, networking, funding and facilities) to support students that want to bring their ideas to life.
 - Office of Innovation and Commercialization ([OIC](#)) - UH System office with a handful of programs to support the commercialization of research being done at UH.
 - DBEDT/[HTDC](#) - offers many programs that support R&D commercialization
 - [Hawaii SBIR program](#) (matching grants + SBIR company wraparound support projects)

- [Business support and accelerator cohort programs](#) (Quest Accelerator Hawaii, Pacific Impact Zone, PICHTR, Blue Startups).
 - [Pacific Tech conference](#)
 - [Hawaii TechBridge](#)
 - [HI-Cap](#) funds for small business loans and investment funds.
- Examples of companies commercializing R&D and/or benefitting from SBIR/STTR funds
 - [Oceanit](#), [Hnu Photonics](#), [Makai Ocean Engineering](#), [Nalu Scientific](#) and other awardees of HDTC matching funds (list [here](#))
- Organizations that support the innovation/entrepreneurship ecosystem
 - Incubators/accelerators: [Blue Startups](#) (digital/software), [Elemental Excelerator](#) (sustainability), [HATCH](#) (aquaculture), [HI Investment Ready](#) (social impact), [HI-TIDE](#) (UH tech), [Purple Mai'a](#) (social impact), [ManaUp](#) (CPG), and [TLFTIC Launchpad](#) (language). Collectively, they have hundreds of startups and small businesses in their portfolios.
 - Co-working spaces / Innovation hubs ([BoxJelly](#), [Entrepreneurs Sandbox](#), [Hub Coworking Hawaii](#), PACE@Walter Dods, Jr. [RISE](#) Center (for students))
 - Wrap-around support ([HTDC](#), [HI-SBDC](#), [OER](#))
 - Funding support: Hawaii Angels, Startup Capital Ventures, and a host of the accelerators starting their own funds (e.g Elemental Excelerator, Blue Startups, and ManaUp). HTDC's programs, including HISBIR and [HI-CAP](#), for the State Small Business Credit Initiative (SSBCI) – bringing millions in federal funding to expand access to capital for small businesses, startups, and entrepreneurs.
- *Best practices from other states*
 - Components for a vibrant IE ecosystem: startups, startup support organizations, pool of experienced innovators and entrepreneurs, investors, universities, industry engagement, local media support and government support.
 - Challenges for Hawaii: we are an isolated island state (not near any “hubs” of innovation), highly dependent on imports, with a high cost of doing business, a high cost of living, and with limited access to resources (among other things). Makes it difficult to attract and retain professionals and businesses.

- Look to [Iceland](#) as a model. Or, North Carolina's [Research Triangle Park](#).
- Also, the UHERO [report](#), funded by OER, includes a list of “comparable cities with successful programs supporting small business.” The list includes: San Diego, Miami, Virginia Beach, Charleston, Savannah, San Antonio, Anchorage, and Jacksonville.
- *Proposed solutions*
 - Develop policies that create a more welcoming and supportive business environment, including fundamental business support, human capital and hard and soft infrastructure.
 - Increase participation in tech commercialization programs (I-Corps, SBIR/STTR).
 - Support companies commercializing R&D and benefiting from federal funds.
 - Foster collaboration between universities, research institutions, and businesses.
 - Select particular sectors to focus on that align with Hawaii's strengths and obtain alignment from leadership in government, education, industry, etc. In other words, make Hawaii known for the specialty or specialities, and align resources behind it.
 - An example, UH [plan](#) with focus on Science and Technology (from 2020).

Additional Information and Resources:

–Business Climate Rankings:

- Forbes: <https://www.forbes.com/advisor/business/best-states-to-start-a-business/>
- Chief Executive Magazine: <https://chiefexecutive.net/best-worst-states-business/>
- U.S. News and World Report: <https://www.usnews.com/news/best-states/rankings/economy/business-environment?region=HI>
- B2B Reviews: <https://www.b2breviews.com/best-states-to-start-a-business/>
- World Economic Forum: <https://www.weforum.org/stories/2022/08/marketsranked-america-s-best-states-to-do-business-in/>
- Area Development Magazine: <https://www.areadevelopment.com/Top-States-for-Doing-Business/>
- WalletHub: <https://wallethub.com/edu/best-states-to-start-a-business/36934>

- Business Facilities Magazine:
<https://businessfacilities.com/20th-annual-rankings-report-2024-state-rankings/>
- Lendio: <https://www.lendio.com/blog/best-states-for-small-businesses/>
- CNBC:
<https://www.cnbc.com/2024/07/11/americas-top-states-for-business-full-rankings.html>
- Tax Foundation:
<https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>

–Kauffman Indicators (Early-Stage Entrepreneurship):
<https://indicators.kauffman.org/hawaii-snapshot-earlystage>

–Capital Readiness Program Hawaii by MBDA: <https://crp-hawaii.org/>

–UHERO Report (Small Business Success in Honolulu), funded by OER:
<https://uhero.hawaii.edu/wp-content/uploads/2025/01/InvestigatingAndTacklingBarriersAndNeedsForSmallBusinessSuccessInHonolulu.pdf>

–2024 SBA Small Business Profile, Hawaii:
<https://advocacy.sba.gov/wp-content/uploads/2024/11/Hawaii.pdf>

–OHA Report (Native Hawaiian Businesses):
https://www.oha.org/wp-content/uploads/NH-Businesses-and-COVID_final_May2020.pdf

–Hawaii Capital Scan (HIREady):
<https://hiready.net/wp-content/uploads/2022/10/Hawaii-Capital-Scan-Part1-Sept2022-V2.pdf>

–Hawaii Venture Capital Report (HSDC):
<https://hsdc.hawaii.gov/wp-content/uploads/2018/10/Hawaii-Venture-Capital-Report.pdf>

–Thrive HI: <https://www.thrivehi.org/mission-and-vision>

– Sullivan and Brewbaker: [Hawaii - Losing the Future?](#)

– UHERO Report (partly funded by the Climate Resilient Aquaculture Innovation Megahub (CliRAIM) through the NSF Engines Development Award 2305455): [Potential opportunities to diversify the economy of Hawai'i](#)

APPENDIX G. PERMITTED INTERACTION GROUP 5. INNOVATION AND ECONOMIC CLIMATE



BUSINESS REVITALIZATION TASK FORCE: Innovation & Economic Climate PI

Members

- ▶ *Sherry Menor-McNamara, Chamber of Commerce Hawaii*
- ▶ *Sharon Banaag, Mayor's Office, County of Maui*
- ▶ *Lauren Zirbel, Hawaii Food Industry Association*
- ▶ *Wendy Laros, Kona-Kohala Chamber of Commerce*
- ▶ *Monty Pereira, Watanabe Floral*
- ▶ *Constancio Paranal, Filipino Chamber of Commerce*
- ▶ *Tina Yamaki, Retail Merchants Hawaii*
- ▶ *Nicole Cacal, Public Member, TRUE Initiative*

Focus Areas

BUSINESS REVITALIZATION TASK FORCE
Innovation & Economic Climate PIG



Enterprise Zones



Technology Enablement



Community Outreach



Supportive Ecosystem

Enterprise Zones

The **Enterprise Zones (EZ) Partnership Program** aims to boost business activity in economically challenged areas by offering state and county benefits, including tax reductions.

Eligibility & Benefits

State incentives

County incentives

Requirements: Businesses must meet hiring thresholds (e.g., employing Hawai'i residents in targeted areas).

Recent updates: As of 2025, zones remain active for 20-year terms, with ongoing efforts to incentivize local businesses through tax relief.

Technology Enablement

Strategic integration of digital tools, systems, and processes into business operations to improve efficiency, reduce costs, and drive innovation.

HB 448

Appropriates funds to the Hawaii Technology Development Corporation to assist small businesses, including those related to the tourism sector, with technology enablement.

SB 989

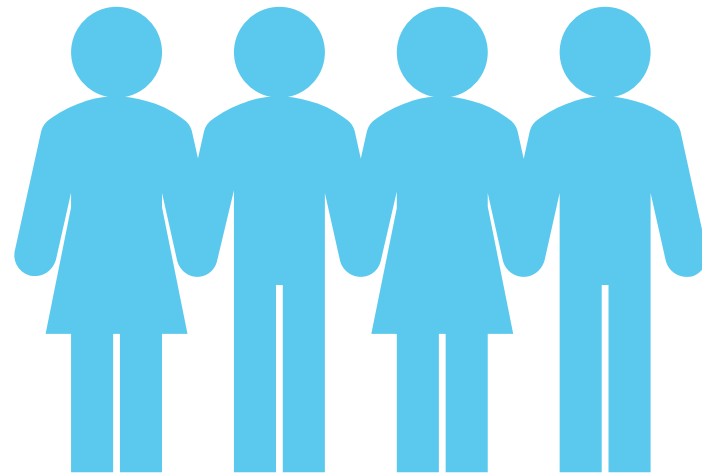
Appropriates funds to the Hawaii Technology Development Corporation to assist small businesses with technology enablement.

Requires a report to the Legislature.



BUSINESS REVITALIZATION TASK FORCE
Innovation & Economic Climate PIG

Community Outreach



Supportive Ecosystem



Technical Assistant Centers



Accelerators



More support for SBDC, HTDC, and SBRRB

Mahalo!

BUSINESS REVITALIZATION TASK FORCE
Innovation & Economic Climate PIG

APPENDIX H. PERMITTED INTERACTION GROUP RECOMMENDATIONS

PIGs Recommendations	CNBC Ranking Category
Tax businesses based on net profits rather than gross revenues to reduce burdens on operational cash flow.	Cost of Doing Business
Reform state labor cost structures by reducing unemployment insurance tax rates and exploring tiered healthcare benefit requirements that ease the burden on employers of lower-wage workers, while maintaining essential coverage standards.	Cost of Doing Business
Reduce or eliminate the estate tax to support locally owned businesses.	Cost of Doing Business
Make reducing utility costs a primary objective for the Public Utilities Commission to support economic competitiveness.	Cost of Doing Business
Reform regulatory structure including building permits.	Business Friendliness
Restructure Hawai'i's social safety net programs to remove disincentives for earning and working more.	Business Friendliness
Prioritize rent/land cost by rezoning more land for industrial and commercial use and allow for greater density.	Business Friendliness
Distribute entrepreneurial resources equitably across all islands, not just O'ahu, to foster statewide business growth.	Business Friendliness

PIGs Recommendations	CNBC Ranking Category
Initiate legislative briefings involving diverse stakeholders (public agencies, private sectors, nonprofits, education institutions) to create a unified workforce development strategy.	Workforce
Prioritize worker retention in workforce development programs instead of focusing solely on training.	Workforce
Integrate housing and transportation affordability directly into workforce development planning.	Workforce
Use Artificial Intelligence to analyze workforce development plans statewide to identify overlaps, gaps, and integration opportunities.	Workforce
Create centralized funding information hubs and connectors to improve access to financial resources.	Access to Capital
Establish centralized hubs and funding connectors to simplify and expedite access to capital for entrepreneurs and small businesses.	Access to Capital
Diversify capital availability for small businesses by attracting venture capital, angel investors, microloans, traditional bank loans, and wealthy individual investors.	Access to Capital
Provide business education programs focusing on financial literacy, capital planning, and pitch preparation.	Access to Capital
Tailor capital programs based on business lifecycle stages, including R&D, equipment investment, and market expansion.	Access to Capital
Expand high-speed internet access statewide and develop innovation hubs modeled after successful ecosystems (e.g., North Carolina).	Technology and Innovation
Remove food and essential goods from the General Excise Tax to ease the cost of living.	Cost of Living

APPENDIX I. TASK FORCE ACTIVITIES

The Business Revitalization Task Force held seven meetings from December 2024 through September 2025.

Activities

1. First Task Force Meeting, December 10, 2024

Establishing the Task Force

The Research and Economic Analysis Division of the Department of Business, Economic Development & Tourism (DBEDT) convened the inaugural meeting of the Business Revitalization Task Force with all designated members and representatives. Dennis Ling, Administrator of the Business Development and Support Division of DBEDT, was appointed as the designee for DBEDT Director James Kunane Tokioka. During this initial meeting, Dennis was selected to serve as Chair of the Task Force, and Sherry Menor-McNamara, President of the Chamber of Commerce Hawai'i, was selected as Vice Chair. During this meeting.

Presentation: Presentation regarding the Business Revitalization Task Force scope, duties, & deliverables.

Dr. Eugene Tian (Administrator for the Research and Economic Analysis Division of DBEDT) summarized the duties and deliverables of this task force and DBEDT's role in supporting the task force.

2. Second Task Force Meeting, Jan 16, 2025

Presentation: Permitted Interaction Groups (PIGS) Scope, Duties and Members

Chair Ling opened the discussion regarding the formation of permitted interaction groups (PIGs) within the task force. He outlined the scope of each group, the authority of members, and the limitations of their investigation. He also clarified that members could not discuss their investigations with other board members who were not part of their group. Five PIGs were established; each composed of designated members. The primary objective of these groups was restated to identify strategies to enhance Hawai'i's overall economic competitiveness and business climate, particularly through the mitigation of regulatory and tax burdens across five key areas outlined as follow:

- Group 1: Regulation
- Group 2: Workforce Development

- Group 3: Business Costs
- Group 4: Access to Capital / Entrepreneurship / Growth Prospects
- Group 5: Innovation and Economic Diversification

Each PIG was tasked with examining its assigned area and reporting on the following:

- Key challenges
- Current status
- Recommendations for improvement

These findings were to be presented at the third task force meeting, scheduled for April 10, 2025.

Presentation: Economic Landscape of Hawai'i

Deputy Director Wicker discussed the state of Hawai'i's economy and the need for diversification. He highlighted the state's strengths in workforce development and areas of weaknesses, which include business costs, access to finance, infrastructure, and innovation. He also presented DBEDT's framework for Hawai'i economy focusing on three major sectors: tech and innovation, creative industries, and product development. He emphasized the importance of workforce development, infrastructure, policy changes, and incentives to support these sectors. He concluded by outlining the three-phase approach of DBEDT's strategy, which includes research and development, market & scale-up, and export.

3. Third Task Force Meeting, April 10, 2025

The leaders of each Permitted Interaction Group (PIG) presented their findings, highlighting the major challenges and offering recommendations for improvement in their respective focus areas. PIGs reports & presentation are attached in Appendix section (E-I) and the summary of each PIGs reports/presentations are outlined in the next section.

4. Fourth Task Force meeting, May 15, 2025

Dennis Ling reviewed the legislation that created the task force, noting that all work must conclude before 2026 legislature session, and recommending quarterly meetings to ensure timely completion.

Dr. Eugene Tian summarized findings from the five Permitted Interaction Groups (PIGs), which addressed Hawai'i's weak rankings in business climate, costs, workforce, access to capital, and innovation.

- Regulation: Called for streamlined permitting and tax reforms.
- Workforce: Pointed to labor shortages and fragmented initiatives.

- Business Costs: Highlighted high costs of labor, energy, shipping, and rent.
- Access to Capital: Identified limited local funding and reliance on federal programs.
- Technology & Innovation: Noted existing programs but few new ideas. He emphasized overlapping challenges and the need for further feasibility checks before final recommendations.

During discussion, members focused on prioritizing issues for the legislative report. Key themes included:

- Quantifying economic gains from faster permitting.
- Addressing Hawai'i's high unemployment insurance tax base.
- Improving the investment climate and energy affordability.

Members agreed to narrow focus areas and conduct a survey to rank priority recommendations for the next meeting in early June.

5. Fifth Task Force Meeting, June 5, 2025

Presentation: Hawai'i Economic Competitiveness and Business Climate

Mustafa Shirzad, Economist at DBEDT, presented data on Hawai'i's business-climate, access to capital, technology and innovation, business cost, infrastructure and workforce development.

Joseph Roos, Economic Research Branch Manager at DBEDT/READ, presented Task Force's recommendations survey result. He highlighted the top 10 priorities voted by majority of the members, which included tax reform, labor cost structures, and strategies for integrating housing into workforce development efforts.

The discussion centered on setting clear improvement targets, pairing rankings with concrete outcome metrics (e.g., financing access, workforce development, business costs), and addressing regulatory and permitting bottlenecks, including outdated building codes. Members agreed on keeping the existing priority-ranking results and adding a dedicated regulatory category to the top of 10 priorities.

6. Sixth Task Force Meeting, July 17, 2025

Joseph Roos, Economic Research Branch Manager at DBEDT/READ, outlined the legislature-bound report's structure and contents. Members discussed the structure of the legislative report and inclusion of the top 10 recommendations in the final report to legislature.

Dr. Seth Colby presented a draft Hawai'i Business Competitiveness Act targeting a move from 50th position to top 10 over 10 years using CNBC's metrics and ranking as baseline. The task force agreed to revise the Act to align priorities with the CNBC metric framework for a cohesive final presentation.

7. Seventh Task Force Meeting, September 12, 2025

Presentation: Hawai'i Business Competitiveness Proposal (draft)

Dr. Seth Colby presented the Hawai'i Business Competitiveness Act, earning support for its measurable benchmarks. Members set phased ranking targets tied to enactment (40th in 5 years; 30th in 10; 20th in 15; 10th in 20) and backed a \$250k annual budget for staffing, research, and engagement, with ideas to link future funding to milestones. The draft will be revised to better align with statutory goals on regulatory/tax reform and government efficiency, and appointments will come from the Governor, House, and Senate with strong private-sector representation; the act was approved with modifications. The group chose to forward with the PIG recommendations organized by CNBC ranking categories.