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# A BILL FOR AN ACT

RELATING TO STATE EMPLOYEE BENEFITS.

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

1 SECTION 1. The legislature finds that vacancy rates across  
2 government agencies, particularly in the executive department,  
3 persists at elevated levels. These vacancies are fueled in part  
4 by Hawaii's high cost of living and lack of sufficient affordable  
5 housing which drives many residents to leave for less expensive  
6 jurisdictions on the mainland to pursue their dream of  
7 homeownership and the stability and financial security it  
8 brings. This housing crisis disproportionately affects younger  
9 employees, lower- and middle-wage earners, and renters, groups  
10 that form a large portion of the state workforce and represent  
11 the future of public service (National Association of Realtors,  
12 2025).

13 National surveys confirm that the down payment, ordinarily  
14 required to qualify for a mortgage or to avoid the added expense  
15 of mortgage insurance, is the single greatest barrier to  
16 homeownership. Sixty-eight per cent of renters cite  
17 affordability and insufficient savings for a down payment as the  
18 main reason why they remain renters (Gallup, 2024). A 2024

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1 Bankrate survey likewise found that more than half of aspiring  
2 homeowners cannot save for a down payment because of high living  
3 costs and low income, with one in five believing they may never  
4 save enough (Bankrate, 2024).

5 The legislature further finds that a potential resource for  
6 state employees to fund these down payments may exist in the  
7 earned vacation benefits held by each individual state employee.  
8 Under the terms of current collective bargaining agreements, a  
9 typical full-time employee for the State accrues fourteen hours  
10 of vacation leave per month and can carry up to a balance of  
11 seven hundred twenty hours from year-to-year. Upon a separation  
12 of service, because of retirement or other break of service  
13 lasting more than seven calendar days without rehire, the  
14 employee is paid the value of the accumulated vacation leave as  
15 a lump sum equal to the amount of compensation the employee  
16 would be entitled or allowed if the vacation leave was used in  
17 the normal manner. These lump sum payments, especially for  
18 separating employees with high vacation accrual balances, can be  
19 worth tens of thousands of dollars. While employees who  
20 separate to find other employment or who retire will receive the  
21 lump sum payment, employees who continuously work for the State

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1 without a break in service are not permitted to "cash out" their  
2 accrued vacation balances.

3 SECTION 2. Accordingly, the purpose of this Act is to  
4 authorize the department of health to establish a three-year  
5 vacation payout pilot project to liquidate a portion of  
6 employees' earned and accrued vacation benefits and apply the  
7 disbursement to the down payment of a personal primary residence  
8 without the necessity of a separation of service, thereby  
9 increasing the department's recruitment and retention of  
10 employees. The project aligns with the State's broader housing  
11 and workforce development policies by addressing a primary  
12 barrier to homeownership without creating new subsidies or  
13 pension liabilities. As a time-limited pilot, it is capped per  
14 employee, subject to available funds, and includes reporting to  
15 the legislature to evaluate effectiveness and determine future  
16 expansion. By enabling employees to remain in Hawaii  
17 communities, the project supports a more stable workforce,  
18 lowers turnover costs, and strengthens local families and  
19 neighborhoods.

20 SECTION 3. (a) The department of health may establish a  
21 vacation payout pilot project to permit department of health

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1 employees to use earned vacation leave benefits to fund the down  
2 payment of a personal primary residence in the State of Hawaii.

3 (b) A department of health employee eligible to  
4 participate in the vacation payout pilot project shall meet the  
5 following criteria, at a minimum:

6 (1) Is a purchaser of residential real property in the  
7 State of Hawaii who:  
8 (A) Is a citizen of the United States;  
9 (B) Is a bona fide resident of the State;  
10 (C) Is at least eighteen years of age; and  
11 (D) Does not personally, or whose spouse does not if  
12 the person is married, own any interest in a  
13 primary residence within or without the State and  
14 who has not owned a primary residence within  
15 three years immediately prior to the application  
16 to participate in the vacation payout pilot  
17 project.

18 (2) Is a permanent full or part-time employee with the  
19 department of health in good standing. For purposes  
20 of this paragraph, "good standing" means the employee:  
21 (A) Is not serving an initial or new probationary  
22 period;

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1 (B) Is not subject to suspension, pending  
2 disciplinary action, or termination proceedings  
3 at the time of application;

4 (C) Has received at least a satisfactory rating on  
5 the most recent performance evaluation; and

6 (D) Is not the subject of a pending investigation or  
7 substantiated investigation that may reasonably  
8 lead to discipline; and

9 (3) Has been employed by the department of health for at  
10 least one year at the time of the application;

11 (4) Submits an affidavit stating that the requestor:  
12 (A) Will occupy the purchased property as their  
13 primary residence within ninety days of the deed  
14 being recorded;

15 (B) Intends to maintain occupancy in the purchased  
16 property for at least three years;

17 (C) Is not the child, spouse, or parent of the seller  
18 of the purchased property; and

19 (5) Is not acting as the agent of any other person or  
20 entity in purchasing the mortgaged property.

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1 (c) The department of health shall establish procedures to  
2 receive, review, and adjudicate applications requesting vacation  
3 pay out pursuant to this Act.

4 (d) Funds shall be paid on behalf of the employee directly  
5 to the escrow, title company, or company lender at closing, and  
6 not as a lump-sum to the employee, subject to any withholdings  
7 required by state and federal law.

11 (f) The minimum vacation leave payout shall be not less  
12 than \$5,000 and the maximum payout shall be no more than \$50,000  
13 per eligible employee, inclusive of any taxes withheld, subject  
14 to the availability of funds within the department of health's  
15 budget.

16 (g) The department of health shall submit a report to the  
17 legislature no later than twenty days prior to the convening of  
18 the regular sessions of 2027, 2028, and 2029. Each report shall  
19 include findings and recommendations, including any proposed  
20 legislation, about the pilot project. The report submitted  
21 prior to the convening of the regular session of 2028 shall make

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1 a recommendation as to whether the pilot project should be  
2 extended.

3 (h) For purposes of this Act, "primary residence" means  
4 owner lives for the majority of the year and intends to use as  
5 their main permanent home.

6 SECTION 4. If any provision of this Act, or the  
7 application thereof to any person or circumstance, is held  
8 invalid, the invalidity does not affect other provisions or  
9 applications of the Act that can be given effect without the  
10 invalid provision or application, and to this end the provisions  
11 of this Act are severable.

12 SECTION 5. This Act shall take effect upon its approval  
13 and shall be repealed on June 30, 2029.

14  
15 INTRODUCED BY: Melanie K. Nelson

16 BY REQUEST  
JAN 26 2026

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**Report Title:**

Vacation Payout Pilot Project; DOH

**Description:**

Authorizes the Department of Health to establish a vacation payout pilot project in which eligible Department of Health employees may defer unused vacation leave credits in favor of a pay out to provide home purchase down payment assistance. Report required. Sunsets June 30, 2029.

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

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## JUSTIFICATION SHEET

DEPARTMENT: Health

TITLE: A BILL FOR AN ACT RELATING TO STATE EMPLOYEE BENEFITS.

PURPOSE: To authorize the Department to establish a vacation payout pilot project for three years.

MEANS: Enact a session law.

JUSTIFICATION: Vacancy rates across state agencies are an ongoing issue as the labor market settles into extant and emerging generational, cultural, and economic shifts.

Hawaii's high cost of living is a major contributor to vacancies, and in particular the exorbitant cost of housing that drives many local residents to leave for less expensive jurisdictions, exacerbating a labor shortage and the "brain drain" phenomenon. National surveys confirm that the down payment is the single greatest barrier to homeownership, and sixty-eight percent of renters cite affordability and insufficient savings for a down payment as the main reasons they remain renters ([Gallup, 2024](https://news.gallup.com/poll/660242/housing-market-perceptions-dampen-homebuying-intentions.aspx), <https://news.gallup.com/poll/660242/housing-market-perceptions-dampen-homebuying-intentions.aspx>). A Freddie Mac survey reported that nearly half of renters view saving for a down payment as the major obstacle to ownership ([Harvard JCHS, 2020](https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Americas_Rental_Housing_2020.pdf), [https://www.jchs.harvard.edu/sites/default/files/Harvard\\_JCHS\\_Americas\\_Rental\\_Housing\\_2020.pdf](https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Americas_Rental_Housing_2020.pdf)). A 2024 Bankrate survey likewise found that more than half of aspiring homeowners cannot save for a down payment because of high living costs and low income, with one in five believing they may never save enough ([Bankrate, 2024](https://www.bankrate.com/mortgages/down-payment-survey/), <https://www.bankrate.com/mortgages/down-payment-survey/>). These consistent findings across multiple reputable sources demonstrate that

down payment requirements, not just housing prices, remain the primary hurdle preventing workers from transitioning into homeownership.

The objective of this pilot project is to permit cash payouts of accrued and unused vacation credits to be applied to the down payment of an employee's personal primary residence. Specifically, the Department's employees who have been employed at least one or more consecutive years in the Department may be permitted to convert between \$5,000 to \$30,000 of their accrued vacation leave and apply that sum to the down payment of a primary home purchase, directly addressing this systemic barrier to homeownership. The Department currently funds the vacation payouts of non-general funded employee separations with its current budget. The Department will continue to prioritize collective bargaining obligations for departing employees, namely vacation payouts, and will not request additional funds for mortgage payouts; if there are insufficient funds in a given fiscal year, then no mortgage payouts will be approved.

The pilot will also provide a benefit to the state treasury in that leave converted today is paid at the employee's current rate of pay, which is typically lower than an employee's rate of pay at retirement. Therefore, this pilot will both strengthen retention by enabling employees to voluntarily access their earned benefits when they need it, while simultaneously reducing the future vacation leave liabilities of the State.

Impact on the public: General overall positive effects are predicted as families have more options and opportunities to remain in Hawaii and build a career with the State. In addition, payout of leave at early or mid-career salaries reduces the

future vacation payment liabilities of the State.

Impact on the department and other agencies:

The Department must monitor total general fund cash balance to ensure funds otherwise set aside from vacation leave payout and intended for mortgage payout do not impact cash flow towards the end of the state fiscal year. The Department of Accounting and General Services may have to adopt special procedures to process payouts and capture basic data.

GENERAL FUND: None.

OTHER FUNDS: None.

PPBS PROGRAM  
DESIGNATION: HTH 907.

OTHER AFFECTED  
AGENCIES: Department of Accounting and General Services.

EFFECTIVE DATE: Upon approval.