

JAN 24 2007

A BILL FOR AN ACT

RELATING TO ASSET BUILDING.

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

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PART I

FINDINGS AND PURPOSE

SECTION 1. The legislature finds that economic stability does not arise solely from income. Financial assets, such as cash savings, stocks, bonds, and home and business equity, are a critical component of economic security. Financial assets offer individuals a viable and hopeful future, stimulate development of human and other capital, and enhance the welfare of children.

For many Hawaii residents, the cost of a house, a post-secondary education, and starting a business is increasing. Traditional public assistance programs that concentrate on income are not successful in promoting and supporting the transition to increased economic self-sufficiency. That is because many of the programs that are designed to assist low- and moderate-income families focus on the importance of work and income while penalizing participants for asset building.



1 The legislature further finds that income-based policies
2 should be complemented with asset-based policies because, while
3 income-based policies ensure that consumption needs, such as
4 food, clothing, child care, and health care, are met,
5 asset-based policies provide the means to achieve greater
6 independence and economic well-being.

7 The December 2006, report entitled *Asset-Building Policy*
8 *for Hawaii*, produced by Hawaii Alliance for Community-Based
9 Economic Development, highlighted several key goals to help
10 people move from "just getting by" to "getting ahead." Among
11 the recommendations are ensuring that working families can meet
12 their needs. A self-sufficiency standard should be established
13 to determine the actual amount needed to afford basic needs such
14 as food, housing, and healthcare in Hawaii. The department of
15 health should then apply the self-sufficiency standard in the
16 determination of public assistance for all usual and absolute
17 minimum recurring living and shelter expenses, including rent or
18 mortgage payments and utilities.

19 Currently, the federal earned income tax credit provides a
20 refundable tax credit to low-income wage earners that can result
21 in significant refunds for people who stay in the workforce.
22 Hawaii should join the national trend, established by twenty



1 other states, and enact a refundable state earned income tax
2 credit equal to at least twenty per cent of the federal earned
3 income tax credit. The initiative will offer low-income
4 families an opportunity to save and invest their refund.

5 It is not enough to offer people an opportunity to build
6 assets if they do not know how or why to save and invest or how
7 to protect their assets. Therefore, it is important that a
8 comprehensive policy include a financial education component
9 that promotes an understanding of consumer, economic, and
10 personal financial concepts, including the basic principles
11 involved with earning, budgeting, spending, saving, investing,
12 and taxation.

13 Another key component to a comprehensive policy is
14 incentives for people to save. Currently, many incentives and
15 subsidies benefit those with higher incomes and greater wealth.
16 For instance, many low-income families have insufficient tax
17 liability to benefit from tax credits or deductions, or lack the
18 resources to cover a down payment or mortgage on a home.

19 Changes to the current individual development accounts law
20 could help more individuals take advantage of this asset
21 building tool. An individual investment account enables a
22 participant to receive a match for every dollar that the



1 participant saves. Moneys in the account can then be used for
2 qualified expenditures such as costs associated with first
3 homeownership, post-secondary education, vocational training,
4 and small or micro-business capitalization.

5 The purpose of this Act is to provide asset building
6 opportunities for Hawaii's low- and moderate-income families by:

- 7 (1) Establishing a self-sufficiency standard that will
8 determine the assistance allowance;
- 9 (2) Establishing a refundable state earned income tax
10 credit;
- 11 (3) Providing financial education to temporary assistance
12 for needy families applicants and recipients;
- 13 (4) Expanding the provision of individual development
14 accounts; and
- 15 (5) Making appropriations necessary for these purposes.

16 **PART II**

17 **SELF-SUFFICIENCY STANDARD**

18 SECTION 2. Section 201-3, Hawaii Revised Statutes, is
19 amended to read as follows:

20 **"§201-3 Specific research and promotional functions of the**
21 **department.** Without prejudice to its general functions and



1 duties the department of business, economic development, and
2 tourism shall have specific functions in the following areas:

3 (1) Industrial development. The department shall
4 determine through technical and economic surveys the
5 profit potential of new or expanded industrial
6 undertakings; develop through research projects and
7 other means new and improved industrial products and
8 processes; promote studies and surveys to determine
9 consumer preference as to design and quality and to
10 determine the best methods of packaging, transporting,
11 and marketing the State's industrial products;
12 disseminate information to assist the present
13 industries of the State, to attract new industries to
14 the State, and to encourage capital investment in
15 present and new industries in the State; assist
16 associations of producers and distributors of
17 industrial products to introduce [~~such~~] these products
18 to consumers; and make [~~such~~] grants or contracts as
19 may be necessary or advisable to accomplish the
20 foregoing;

21 (2) Land development. The department shall encourage the
22 most productive use of all land in the State in



1 accordance with a general plan developed by the
2 department; encourage the improvement of land tenure
3 practices on leased private lands; promote an
4 informational program directed to landowners,
5 producers of agricultural and industrial commodities,
6 and the general public regarding the most efficient
7 and most productive use of the lands in the State; and
8 make [~~such~~] grants or contracts as may be necessary or
9 advisable to accomplish the foregoing;

- 10 (3) Credit development. The department shall conduct a
11 continuing study of agricultural and industrial credit
12 needs; encourage the development of additional private
13 and public credit sources for agricultural and
14 industrial enterprises; promote an informational
15 program to acquaint financial institutions with
16 agricultural and industrial credit needs and the
17 potential for agricultural and industrial expansion,
18 and inform producers of agricultural and industrial
19 products as to the manner in which to qualify for
20 loans; and make [~~such~~] grants or contracts as may be
21 necessary or advisable to accomplish the foregoing;



- 1 (4) Promotion. The department shall disseminate
2 information developed for or by the department
3 pertaining to economic development to assist present
4 industry in the State, attract new industry and
5 investments to the State, and assist new and emerging
6 industry with good growth potential or prospects in
7 jobs, exports, and new products. The industrial and
8 economic promotional activities of the department may
9 include the use of literature, advertising,
10 demonstrations, displays, market testing, lectures,
11 travel, motion picture and slide films, and [~~such~~]
12 other promotional and publicity devices as may be
13 appropriate; [~~and~~]
- 14 (5) Tourism research and statistics. The department shall
15 maintain a program of research and statistics for the
16 purpose of:
- 17 (A) Measuring and analyzing tourism trends;
18 (B) Providing information and research to assist in
19 the development and implementation of state
20 tourism policy;
21 (C) Encouraging and arranging for the conduct of
22 tourism research and information development



- 1 through voluntary means or through contractual
2 services with qualified agencies, firms, or
3 persons; and
- 4 (D) Providing tourism information to policy makers,
5 the public, and the visitor industry. This
6 includes:
- 7 (i) Collecting and publishing visitor-related
8 data including visitor arrivals, visitor
9 characteristics and expenditures;
- 10 (ii) Collecting and publishing hotel-related
11 statistics including the number of units
12 available, occupancy rates, and room rates;
- 13 (iii) Collecting and publishing airline-related
14 data including seat capacity and number of
15 flights;
- 16 (iv) Collecting information and conducting
17 analyses of the economic, social, and
18 physical impacts of tourism on the State;
- 19 (v) Conducting periodic studies of the impact of
20 ongoing marketing programs of the Hawaii
21 tourism authority on Hawaii's tourism
22 industry, employment in Hawaii, state taxes,



1 and the State's lesser known and
2 underutilized destinations; [~~and~~]

3 (vi) Cooperate with the Hawaii tourism authority
4 and provide it with the above information in
5 a timely manner[-]; and

6 (6) Self-sufficiency standard. The department shall
7 establish annually the self-sufficiency standard that
8 is the absolute minimum amount required to be expended
9 in Hawaii on the costs of housing, food, childcare,
10 transportation, healthcare, all taxes, and other
11 expenses such as clothing, shoes, utilities, and
12 household items. The self-sufficiency standard shall
13 be utilized by the department of human services in
14 determining the assistance allowance under section
15 346-53, and may otherwise be used as an economic
16 barometer of the State's economic development and
17 related issues.

18 The department shall be the central agency to coordinate
19 film permit activities in the State."

20 SECTION 3. Section 346-1, Hawaii Revised Statutes, is
21 amended by amending the definition of "assistance allowance" to
22 read as follows:



1 "Assistance allowance" means a single monthly public
2 assistance grant, including funds received from the federal
3 government, expressed in a dollar amount per recipient or per
4 recipient family to be provided a recipient or recipient family
5 for all usual and absolute minimum recurring living and shelter
6 expenses, including rent or mortgage payment and utilities[~~and~~
7 ~~excluding medical care~~]."

8 SECTION 4. Section 346-14, Hawaii Revised Statutes, is
9 amended to read as follows:

10 "**§346-14 Duties generally.** Except as otherwise provided
11 by law, the department of human services shall:

12 (1) Establish and administer programs and standards, and
13 adopt rules as deemed necessary for all public
14 assistance programs;

15 (2) Establish, extend, and strengthen services for the
16 protection and care of abused or neglected children
17 and children in danger of becoming delinquent to make
18 paramount the safety and health of children who have
19 been harmed or are in life circumstances that threaten
20 harm;

21 (3) Establish and administer programs, and adopt rules as
22 deemed necessary, for the prevention of domestic and



- 1 sexual violence and the protection and treatment of
2 victims of domestic and sexual violence;
- 3 (4) Assist in preventing family breakdown;
- 4 (5) Place, or cooperate in placing, abused or neglected
5 children in suitable private homes or institutions and
6 place, or cooperate in placing, children in suitable
7 adoptive homes;
- 8 (6) Have authority to establish, maintain, and operate
9 receiving homes for the temporary care and custody of
10 abused or neglected children until suitable plans are
11 made for their care; and accept from the police and
12 other agencies, for temporary care and custody, any
13 abused or neglected child until satisfactory plans are
14 made for the child;
- 15 (7) Administer the medical assistance programs for
16 eligible public welfare and other medically needy
17 individuals by establishing standards, eligibility,
18 and health care participation rules, payment
19 methodologies, reimbursement allowances, systems to
20 monitor recipient and provider compliance, and
21 assuring compliance with federal requirements to
22 maximize federal financial participation;



- 1 (8) Cooperate with the federal government in carrying out
2 the purposes of the Social Security Act and in other
3 matters of mutual concern pertaining to public
4 welfare, public assistance, and child welfare
5 services, including the making of reports, the
6 adoption of methods of administration, and the making
7 of rules as are found by the federal government, or
8 any properly constituted authority thereunder, to be
9 necessary or desirable for the efficient operation of
10 the plans for public welfare, assistance, and child
11 welfare services or as may be necessary or desirable
12 for the receipt of financial assistance from the
13 federal government;
- 14 (9) Carry on research and compile statistics relative to
15 public and private welfare activities throughout the
16 State, including those dealing with dependence,
17 defectiveness, delinquency, self-sufficiency standard,
18 and related problems;
- 19 (10) Develop plans in cooperation with other public and
20 private agencies for the prevention and treatment of
21 conditions giving rise to public welfare problems;



- 1 (11) Adopt rules governing the procedure in hearings,
2 investigations, recording, registration, determination
3 of allowances, and accounting and conduct other
4 activities as may be necessary or proper to carry out
5 this chapter;
- 6 (12) Supervise or administer any other activities
7 authorized or required by this chapter, including the
8 development of the staff of the department through in-
9 service training and educational leave to attend
10 schools and other appropriate measures, and any other
11 activities placed under the jurisdiction of the
12 department by any other law;
- 13 (13) Make, prescribe, and enforce policies and rules
14 governing the activities provided for in section
15 346-31 it deems advisable, including the allocation of
16 moneys available for assistance to persons assigned to
17 work projects among the several counties or to
18 particular projects where the apportionment has not
19 been made pursuant to other provisions of law, if any,
20 governing expenditures of the funds;
- 21 (14) Determine the appropriate level for the Hawaii
22 security net, by developing a tracking and monitoring



1 system to determine what segments of the population
2 are not able to afford the basic necessities of life,
3 and advise the legislature annually regarding the
4 resources required to maintain the security net at the
5 appropriate level;

6 (15) Subject to the appropriation of state funds and
7 availability of federal matching assistance, expand
8 optional health care to low-income persons as follows:

9 (A) Pregnant women and infants under one year of age
10 living in families with incomes up to one hundred
11 eighty-five per cent of the federal poverty level
12 and without any asset restrictions;

13 (B) Children under six years of age living in
14 families with incomes up to one hundred thirty-
15 three per cent of the federal poverty level and
16 without any asset restrictions;

17 (C) Older children to the extent permitted under
18 optional federal medicaid rules;

19 (D) Elder persons;

20 (E) Aliens;

21 (F) The homeless; and



1 (G) Other handicapped and medically needy persons;
2 and

3 (16) Subject to the appropriation of state funds and
4 availability of federal matching assistance, establish
5 the income eligibility level for the medically needy
6 program at one hundred thirty-three per cent of the
7 assistance allowance."

8 SECTION 5. Section 346-53, Hawaii Revised Statutes, is
9 amended by amending subsection (a) to read as follows:

10 "(a) This subsection does not apply to general assistance
11 to households without minor dependents. The standard of need
12 shall equal the [~~poverty level established by the federal~~
13 ~~government in 2006,~~] self-sufficiency standard as established
14 annually by the department of business, economic development,
15 and tourism pursuant to section 201-3, prorated over a twelve-
16 month period based on family size.

17 The assistance allowance provided shall be based on a
18 percentage of the standard of need. For exempt households and
19 households in which all caretaker relatives are minors, living
20 independently with minor dependents and attending school, the
21 assistance allowance shall be set no higher than sixty-two and
22 one-half per cent and no lower than forty-four per cent of the



1 standard of need. For all other households, the assistance
2 allowance shall be set no higher than sixty-two and one-half per
3 cent of the standard of need and set no lower than thirty-four
4 per cent of the standard of need. The standard of need shall be
5 determined by dividing the [~~2006 federal poverty level~~] self-
6 sufficiency standard by twelve and rounding down the quotient.
7 The remaining quotient shall be multiplied by the per cent as
8 set by the director by rules pursuant to chapter 91, and the
9 final product shall be rounded down to determine the assistance
10 allowance; provided that:

- 11 (1) The department may increase or reduce the assistance
12 allowance as determined in this subsection for non-
13 exempt households for the purpose of providing work
14 incentives or services under part XI;
- 15 (2) No reduction shall be allowed that jeopardizes
16 eligibility for or receipt of federal funds;
- 17 (3) Reductions in the assistance allowance shall be
18 limited to no more than one per year; and
- 19 (4) No non-exempt household, which includes an adult who
20 has received sixty cumulative months of temporary
21 assistance to needy families with minor dependents,



1 shall be eligible for an assistance allowance, unless
2 authorized by federal regulations."

3 SECTION 6. The department of business, economic
4 development, and tourism shall report to the legislature on the
5 self-sufficiency standard no later than twenty days prior to the
6 convening of the regular session of 2008, and thereafter at
7 annual intervals.

8 SECTION 7. The department of human services shall report
9 to the legislature with information on the number of persons
10 exiting public assistance, food stamp, and medical assistance
11 programs for work, utilizing the annually adjusted self-
12 sufficiency standard, no later than twenty days prior to the
13 convening of the regular session of 2009, and thereafter at
14 annual intervals.

15 **PART III**

16 **EARNED INCOME TAX CREDIT**

17 SECTION 8. Chapter 235, Hawaii Revised Statutes, is
18 amended by adding a new section to be appropriately designated
19 and to read as follows:

20 "§235- Earned income tax credit. (a) Each individual
21 taxpayer who:

22



1 (1) Files an individual income tax return for a taxable
2 year; and
3 (2) Is not claimed or is not eligible to be claimed as a
4 dependent by another taxpayer for income tax purposes,
5 may claim a refundable earned income tax credit. The tax
6 credit, for the appropriate taxable year, shall be equal to
7 twenty per cent of the federal earned income tax credit allowed
8 under section 32 (with respect to earned income) of the Internal
9 Revenue Code and reported as such on the resident individual's
10 federal income tax return.

11 (b) In the case of a part-year resident, the tax credit
12 shall equal the amount of the tax credit calculated in
13 subsection (a) multiplied by the ratio of adjusted gross income
14 attributed to this State to the entire adjusted gross income
15 computed without regard to source in the State pursuant to
16 section 235-5.

17 (c) For purposes of claiming the tax credit allowed by
18 this section, a individual taxpayer shall use the same filing
19 status (i.e., "married filing jointly", "head of household",
20 "surviving spouse", or "single") on the taxpayer's Hawaii tax
21 return as used on the taxpayer's federal tax return for the
22 taxable year. In the case of a husband and wife filing



1 separately, the credit allowed may be applied against the tax of
2 either or divided between them, as they elect.

3 (d) All claims including any amended claims for tax
4 credits under this section shall be filed on or before the end
5 of the twelfth month following the close of the taxable year for
6 which the tax credit may be claimed. Failure to comply with
7 this subsection shall constitute a waiver of the right to claim
8 the tax credit.

9 (e) The director of taxation:

10 (1) Shall prepare any forms that may be necessary to claim
11 a tax credit under this section;

12 (2) May require proof of the claim for the tax credit;

13 (3) Shall alert eligible taxpayers of the tax credit using
14 appropriate and available data;

15 (4) Shall prepare an annual report to be presented to the
16 legislature and the public containing the:

17 (A) Number of credits granted for the prior calendar
18 year;

19 (B) Total amount of the credits granted; and

20 (C) Average value of the credits granted to taxpayers
21 whose earned income falls within various income
22 ranges; and



1 (5) May adopt rules pursuant to chapter 91 to effectuate
2 this section."

3 PART IV

4 FINANCIAL EDUCATION

5 SECTION 9. Chapter 346, Hawaii Revised Statutes, is
6 amended by adding a new section to be appropriately designated
7 and to read as follows:

8 "§346- Financial education. In addition to any
9 mandatory programs for certain applicants for and recipients of
10 temporary assistance for needy families required by federal law,
11 the department shall offer financial education to applicants for
12 and recipients of temporary assistance for needy families. For
13 purposes of this section, "financial education" means education
14 that promotes an understanding of consumer, economic, and
15 personal finance concepts, including the basic principles
16 involved with earning, budgeting, spending, saving, investing,
17 and taxation."

18 SECTION 10. There is appropriated out of the general
19 revenues of the State of Hawaii the sum of \$, or so
20 much thereof as may be necessary for fiscal year 2007-2008, and
21 the same sum, or so much thereof as may be necessary for fiscal
22 year 2008-2009, for the department of human services to offer

1 financial education to applicants for and recipients of
2 temporary assistance for needy families.

3 The sums appropriated shall be expended by the department
4 of human services for the purposes of this part.

5 **PART V**

6 **ENCOURAGE SAVINGS**

7 SECTION 11. Section 257-1, Hawaii Revised Statutes, is
8 amended by amending the definition of "qualified expenditures"
9 to read as follows:

10 "Qualified expenditures" means an expense as determined by
11 a fiduciary organization, which may include [~~but not be limited~~
12 ~~to~~]:

- 13 (1) Costs associated with first homeownership;
- 14 (2) Post-secondary education;
- 15 (3) Vocational training; [~~and~~]
- 16 (4) Small or micro-business capitalization[~~-~~]; and
- 17 (5) One motor vehicle purchase for school or work
18 transportation."

19 SECTION 12. Section 257-3, Hawaii Revised Statutes, is
20 amended by amending subsections (b), (c), and (d) to read as
21 follows:



1 "(b) Locally-based organizations shall enter into a
2 competitive process for the right to become fiduciary
3 organizations for a portion of the state matching dollars that
4 would be authorized initially. Fiduciary organization proposals
5 shall be evaluated and participation rights awarded on the basis
6 of such items as:

- 7 (1) Their ability to market the program to potential
8 individual development account holders and potential
9 matching fund contributors;
- 10 (2) Their ability to provide safe and secure investments
11 for individual development accounts;
- 12 (3) Their overall administrative capacity, including:
- 13 (A) Certifications or verifications required to
14 assure compliance with eligibility requirements;
- 15 (B) Authorized uses of the accounts matching
16 contributions by individuals or businesses; and
- 17 (C) Penalties for unauthorized distributions;
- 18 (4) Their capacity to provide financial counseling and
19 other related services to potential participants; and
- 20 (5) Their links to other activities designed to increase
21 the independence of individuals and families through
22 high return investments, including homeownership,



1 education and training, and small business
2 development.

3 The State shall provide technical and administrative
4 assistance to fiduciary organizations to meet the criteria under
5 this subsection; provided that the State may expend appropriate
6 federal moneys, including temporary assistance to needy families
7 and community development block grants, for this purpose.

8 (c) If the State approves an application to fund an
9 individual development account project under this section, the
10 State [~~shall~~], not later than one month after June 28, 1999,
11 shall authorize the applicant to conduct the project with state
12 funds [~~for five project years~~] in accordance with the approved
13 application and this section; provided that an applicant may
14 apply for funding during future fiscal years [~~for five project~~
15 ~~years~~] if the State lacks the resources to fund an individual
16 development account project pursuant to this subsection.

17 (d) For each individual development account program
18 approved under this section, the State shall make a grant to the
19 qualified entity or collaboration of entities authorized to
20 conduct the project on the first day of the project year in an
21 amount not to exceed \$100,000 per year [~~for five years~~]."



1 SECTION 13. Section 257-8, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) The State shall match an amount of up to \$100,000 per
4 calendar year for individual development accounts. The State
5 may expend appropriate federal moneys, including temporary
6 assistance to needy families and community development block
7 grants, for purposes of this subsection, in addition to general
8 funds."

9 SECTION 14. Section 257-11, Hawaii Revised Statutes, is
10 amended by amending subsection (d) to read as follows:

11 "(d) Selected fiduciary organizations may use no more than
12 [~~ten~~] twenty-five per cent of state funds as appropriated under
13 this [{}chapter[{}]] to cover administrative costs in any given
14 year."

15 SECTION 15. There is appropriated out of the general
16 revenues of the State of Hawaii the sum of \$2,000,000, or so
17 much thereof as may be necessary for fiscal year 2007-2008, for
18 fiduciary organizations, as defined in section 257-1, Hawaii
19 Revised Statutes, to conduct individual development account
20 programs, as provided in section 257-3, Hawaii Revised Statutes.

21 The sum appropriated shall be expended by the department of
22 human services for the purposes of this subpart.



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PART VI

MISCELLANEOUS PROVISIONS

SECTION 16. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 17. This Act shall take effect upon its approval; provided that, upon its approval, section 8 shall apply to taxable years beginning after December 31, 2007; provided further that sections 2, 3, 4, 6, 7, 9, 10, 11, 12, 13, 14, and 15 shall take effect on July 1, 2007; and provided further that section 5 shall take effect on July 1, 2008.

S.B. NO. 1919

1

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S.B. NO. 1919

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Report Title:

Asset Building; Omnibus Package

Description:

Provides a comprehensive set of asset building opportunities for Hawaii's low- and moderate-income families by establishing a self-sufficiency standard that will determine the assistance allowance; establishing a refundable state earned income tax credit; providing financial education to TANF applicants and recipients; expanding the provision of individual development accounts; and appropriating funds.

