

Honolulu, Hawaii

FEB 15 2008

RE: S.B. No. 2164  
S.D. 2

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fourth State Legislature  
Regular Session of 2008  
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 2164, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO EDUCATION,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Create an income tax credit for charter school repair, maintenance, acquisition, predevelopment, rehabilitation, construction, and other capital improvements; and
- (2) Establish the Hawaii Charter School Facilities Fund.

Your Committee received testimony in support of this measure from the Kamehameha Schools and Kanu o ka 'Aina Learning 'Ohana. Testimony in opposition was received from the Department of Budget and Finance. Comments were received from the Governor's Policy Office; State Attorney General; Department of Taxation; and Tax Foundation of Hawaii.

Your Committee finds that as charter schools provide an alternative learning experience for students and families, funding for charter school operations, including facilities, must also be accomplished by creative or alternative means. This measure establishes the Hawaii Charter School Facilities Fund to provide funding for repair, maintenance, and other facilities needs. The Hawaii Charter School Facilities Fund is modeled after Hawaii



3R's, which utilizes private financial and human resources to address the Department of Education repair and maintenance backlog. As Hawaii 3R's has enjoyed great success by saving taxpayers money, helping schools with much needed repair and maintenance projects, and benefiting businesses through tax credits, a similar program to assist charter schools is an intriguing idea.

Your Committee further finds that innovative, cost-effective public-private partnerships are promising means of addressing this issue. Additionally, this program would provide a mechanism to leverage scarce public resources with private resources and to use state investments to leverage federal funding for charter school facilities, which often is unavailable absent state funding.

Furthermore, this measure complies with Article X, section 1 of the Constitution of the State of Hawaii which indicates that the State has a constitutional obligation to support charter school facilities. In relevant part, it states that "[t]he State shall provide for the establishment, support and control of a statewide system of public schools free from sectarian control, a state university, public libraries and such other educational institutions as may be deemed desirable, including physical facilities therefor."

The Department of Taxation testified that tax law allows a charitable tax deduction for donations of goods to qualifying educational institutions. Therefore, this measure would result in a double tax benefit. Current tax law also allows persons that donate services to be entitled to a credit for those services performed. However, those donated services are taxable as income to the recipient of those services. Therefore, this measure makes the tax credit less attractive.

The revenue estimate is that this measure could potentially result in revenue loss of approximately \$250,000 in fiscal year 2009, and annually thereafter. The tax credit will most likely be of negligible impact; similar to the current tax credit claims for public schools maintenance and repair that was valued at \$4,300 in 2005.

Your Committee has amended this measure by deleting the income tax credit, and making technical, nonsubstantive amendments.



As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2164, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as S.B. No. 2164, S.D. 2.

Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Taxation,



CAROL FUKUNAGA, Chair



