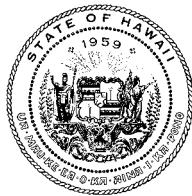


LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

STANLEY SHIRAKI  
DEPUTY DIRECTOR

## LATE TESTIMONY

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
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### JOIN SENATE COMMITTEES ON EDUCATION & HOUSING, HUMAN SERVICES, AND COMMERCE & CONSUMER PROTECTION TESTIMONY REGARDING SB 2437

#### RELATING TO THE FUNDING OF THE STATE PROGRAMS

\*\*\*WRITTEN TESTIMONY ONLY\*\*\*

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 1, 2010**

**TIME: 1:15PM**

**ROOM: 225**

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This measure, among other things, increases the general excise tax by 1% for purposes of restoring educational instructional days currently impacted by Board of Education furloughs. This measure also seeks to offset the impact of the tax increase by providing an income tax credit against general excise taxes spent on food, as well as an increase in the standard deduction.

The Department of Taxation (Department) **opposes the tax increase** in this measure as the means for solving the furloughing of Hawaii public school teachers.

**THE GOVERNOR HAS ALREADY PROPOSED A PLAN TO PUT TEACHERS BACK IN THE CLASSROOM**—As has been publicly discussed on several occasions over the past months, the Governor has proposed a responsible plan to use \$50 million from the Rainy Day Fund to put teachers back in school. The Department defers to the Office of the Governor on the details of this plan.

**OPPOSITION TO A GENERAL EXCISE TAX INCREASE**— The GET is the broadest of state taxes applying to all gross income or gross proceeds of a business, unless exempt. The GET collections also constitute over 50% of the general fund revenues. The GET is an effective tax because of its broad base and low rate. It is capable of having such a low rate purely as a result of the breadth of its tax.

The Department opposes the GET increase at this time. At a time when the State's economy is struggling greatly, the Department cannot support a 25% tax increase on the daily costs incurred by Hawaii families, assuming a 1 percent increase. Though the increase in GET is laudably offset

by various credits, the Department is unsure that such offsets will markedly reduce such a regressive tax increase.

In short, the Department cannot support a tax increase such as this when the economy cannot handle such an increase and Hawaii will become a less attractive and more regressive state to live and conduct business.

**CONCERNS REGARDING THE FOOD TAX CREDIT**—The Department supports the general concept of income tax relief from the regressive general excise tax by means of a credit. By crediting the offset against the income tax, the local taxpayers that pay the general excise tax are provided direct relief. There are numerous problems with the credit in this measure:

- **Refundable or Nonrefundable**—There are conflicting provisions in this measure as to whether or not the credit is refundable or nonrefundable. Provisions say conflicting things. The Department suggests that the credit be refundable to assist the poor, who are impacted by a general excise tax increase the most.
- **Too Complicated**—The credit in this measure is too complicated. It doesn't need to be anything more than a simple refund to offset the imputed general excise tax paid by a taxpayer. It does not need to be specifically for food. Simply utilize the current income tax credit for general excise taxes paid under HRS § 235-55.85 and make it available for all taxpayers.
- **No Cap**—The Department opposes the cap contained in this measure. If serious tax relief is going to be provided for the general excise tax increase, then there should be no cap. Moreover, there are no guidelines for implementing the cap. The Department's computer system is not currently capable of implementing a cap. Should the cap be administered on a first-to-file basis? Should the poor get the credit first? The rich? The Department suggests that the cap be eliminated.

**REVENUE IMPACT**—This measure will result in a revenue impacts as follows—

- Annual revenue loss from raising the standard deduction and providing a food tax credit is estimated as follows: FY 2011, \$87.4 million; FY 2012 – FY 2016, \$91.5 million; and FY 2017 and after, \$74.4 million.
- Annual revenue gain from raising GET by 1% is estimated as follows: FY 2011 (11 months), \$458.0 million; and FY 2012 and after, \$500.0 million. However, the General Fund expenditure for FY 2011 and after will be increased by the amount equivalent to the additional GET generated under this proposal.

## LATE TESTIMONY

Linda Lingle  
Governor



Vanelle Maunalei Love  
Executive Director

### Charter School Administrative Office

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**FOR:** SB 2437, Relating to the Funding of the State Programs  
**DATE:** Monday, February 1, 2010  
**TIME:** 1:15 p.m.  
**COMMITTEE(S):** Education and Housing; Human Services; and Commerce  
and Consumer Protection  
**ROOM:** Conference Room 225  
**FROM:** Maunalei Love, Executive Director

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Testimony in **support** of S.B. No. 2437, **with proposed revisions**  
Chairs Sakamoto, Chun Oakland, and Baker; Vice Chairs Kidani, Ihara, and Ige; and all  
the Members of the Committees:

Aloha, I am Maunalei Love, executive director of the Charter School Administrative Office (“CSAO”). I want to thank the chair and the entire committee for the time and effort being spent to remedy the issue of adequately funding all public schools. The CSAO supports restoring furlough days and providing every public school student with the educational opportunities that will enable them to succeed.

We do request that this bill’s language be amended to include restoring the reductions and cuts that were suffered by the public charter schools. The charter schools were impacted by the furlough savings as a reduction to the charter school allocation (as did the Department of Education) - with charter schools either downsizing or taking furloughs. The Governor's restrictions imposed upon the charter schools' allocation amounted to a reduction of \$3,791,952.

While some charter schools have not implemented any furloughs, nearly half of them have been forced to implement some level of furloughs this year. Next year’s calendar is still in question. The public charter schools have reduced their spending using varied approaches, including raiding facilities funds, reducing services, and reductions in their staff. Overall, the schools have reported reduction in staff equivalent to 123.75 FTEs and 7 PTEs.

Restoring funding to the charter schools on a pro rata basis with the department (charter school enrollment is approximately 4.5% of all public school students) is the right thing to do to enable our students to continue in their education. We humbly request that you amend this bill by including restoration of funding to the charter schools and **inserting the following language to the end of the sentences on page 2, line 16, page 3, line 10 and page 3, line 21: “except that 4.5% of the sum appropriated shall be expended by the Charter School Administrative Office.”**

Please include any other revisions necessary to include the public charter schools in these funding mechanisms. The CSAO is ready, willing, and able to help with any revisions. Thank you for this opportunity to testify.



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The Twenty-Fifth Legislature, State of Hawaii  
Hawaii State Senate  
Committee on Education and Housing  
Committee on Human Services  
And  
Committee on Commerce and Consumer Protection  
Testimony by  
Hawaii Government Employees Association  
February 01, 2010

LATE

S.B. 2437 – RELATING TO FUNDING OF THE STATE PROGRAMS

The Hawaii Government Employees' Association, AFSCME Local 152, AFL-CIO opposes S.B. 2437 in its present form. We understand and appreciate the concern raised over restoring lost instructional days from the 2010-2011 school year. However, we believe that using the Hawaii Hurricane Relief Fund (HHRF) and emergency and budget reserve fund to pay for the restoration of furlough days only within the DOE is much too limited. This bill also seeks on increase the general excise tax one per cent.

Last session, the legislature chose not to increase the general excise tax or use the HHRF to address the budget shortfall. With the governor's determination to realize savings through workers, negotiations resulted in wage cuts, furloughs and layoffs. And while no one likes the effects of the furloughs in the DOE and elsewhere, they were part of the agreements negotiated under Chapter 89. It would be irresponsible for the legislature to limit its attention to only the DOE without addressing the loss of services in all vital programs that impact public health and safety throughout the state.

A number of other states have use rainy day and other special funds to mitigate the effects of budget cuts and furloughs on state programs, not just education. For example, Okalahoma use \$160 million in state reserves to prevent more drastic cuts in budget allocations. Pennsylvania took its entire rainy day fund of \$755 million to fund its budget. There are many other essential state programs handicapped by furloughs and layoffs where services should be restored through the use of the rainy day fund, the HHRF and other means of funding.

Thank you for the opportunity to testify in opposition to S.B. 2437.

Respectfully submitted,

Leiomalama Desha  
Executive Assistant