



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on Higher Education  
February 13, 2018 at 2:10 p.m.

By

Donald O. Straney, Vice President for Academic Planning and Policy  
University of Hawai'i System

### HB 2640 – RELATING TO THE HAWAII PROMISE PROGRAM

Chair McKelvey, Vice Chair Hashem, and members of the committee:

Thank you for the opportunity to comment on HB 2640 that makes scholarships under the Hawai'i Promise program available to any qualified student enrolled at the University of Hawai'i, regardless of whether the student is enrolled at a community college, establishes a trust fund for the program, and increases individual income taxes for the highest income earners to provide funding for the program.

Last session the State Legislature appropriated \$1.8M for the Hawai'i Promise program providing for scholarships to assure that community college students with unmet direct costs of their education would have those costs met by grant aid. The program is a last dollar scholarship, meaning that students are first awarded Pell grants, UH scholarships, and private scholarships before being awarded the Hawai'i Promise scholarship if it is needed to eliminate those unmet direct costs.

The program was implemented for Fall 2017 students and as of today approximately 1500 students have benefited from the Hawai'i Promise program at a cost of approximately \$2.2M. The funds needed beyond the \$1.8M appropriated by the legislature were provided from community college operating reserves.

The Legislature's commitment to the Hawai'i Promise program and the funding that was provided this past year contributed to college affordability for many of Hawai'i's students.

The University appreciates the Legislature's expanding Hawai'i Promise scholarships through HB 2640, to reach students beyond the community colleges and to be available to any qualified student enrolled at any UH campus. This broadened accessibility of the program to students at all UH campuses will attract more students, make college more affordable, and create opportunities for 4-year as well as 2-year degrees.

HB 2640 proposes to establish a trust fund for the Hawai'i Promise program administered by the University of Hawai'i. A separate fund is not required to implement the program, and it would not be appropriate to deposit state, federal, and private funds

given the separate regulations and restrictions governing these different sources of funds. A sub account can be created within the University of Hawai'i general fund to provide for a full accounting of the Hawai'i Promise awards.

Finally, the University would defer to the Hawai'i Department of Taxation to provide analysis of the sections of HB 2640 that propose changes to the income tax structure.

Thank you very much for the opportunity to provide comments on HB 2640.



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

**Date:** 02/13/2018  
**Time:** 02:10 PM  
**Location:** 309  
**Committee:** House Higher Education

**Department:** Education

**Person Testifying:** Dr. Christina M. Kishimoto, Superintendent of Education

**Title of Bill:** HB 2640 RELATING TO THE HAWAII PROMISE PROGRAM.

**Purpose of Bill:** Makes scholarships under the Hawaii promise program available to any qualified student enrolled at the University of Hawaii, regardless of whether the student is enrolled at a community college. Establishes a trust fund for the program. Increases individual income taxes for the highest income earners to provide funding for the program.

**Department's Position:**

The Department of Education (Department) supports the intent of HB 2640. The Department supports opportunities for all public school graduates to have affordable access to quality higher education opportunities at any University of Hawaii campus.

Thank you for the opportunity to testify on HB 2640.

The Hawaii State Department of Education seeks to advance the goals of the Strategic Plan which is focused on student success, staff success, and successful systems of support. This is achieved through targeted work around three impact strategies: school design, student voice, and teacher collaboration. Detailed information is available at [www.hawaiipublicschools.org](http://www.hawaiipublicschools.org).

DAVID Y. IGE  
GOVERNOR



LAUREL A. JOHNSTON  
ACTING DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE**

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ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**

TESTIMONY BY LAUREL A. JOHNSTON  
ACTING DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON HIGHER EDUCATION  
ON  
HOUSE BILL NO. 2640

**February 13, 2018  
2:10 p.m.  
Room 309**

**RELATING TO THE HAWAII PROMISE PROGRAM**

House Bill No. 2640 makes scholarships under the Hawai'i Promise Program available to all eligible students within the University of Hawai'i system; establishes a trust fund for the program; and increases income taxes on the State's highest income earners to provide funding for the program.

The Department of Budget and Finance opposes the earmarking of general tax revenues for any specific purpose, and notes that there are no current earmarks of income tax revenues for any programs of the Department of Education program or the University of Hawai'i. Within limited general fund revenues, the State must first pay such legal obligations as public employee pension and health fund benefits, debt service on borrowed funds for facilities repair and maintenance, and provide for basic health and human services to those in need. Earmarking of general funds is not sound fiscal policy and will negatively impact the Administration's and Legislature's ability to fund other priorities and make adjustments in program funding when faced with economic downturns.

Thank you for your consideration of our comments.

DAVID Y. IGE  
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To: The Honorable Angus L.K. McKelvey, Chair  
and Members of the House Committee on Higher Education

Date: Tuesday, February 13, 2018  
Time: 2:10 P.M.  
Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 2640, Relating to the Hawaii Promise Program

The Department of Taxation (Department) offers the following comments on H.B. 2640 for the Committee's consideration.

H.B. 2640 amends the individual income tax brackets and rates to fund a newly established Hawaii promise program, a scholarship program for students enrolled at University of Hawaii. The bill is effective on July 1, 2018, but the changes to the individual income tax apply to taxable years beginning after December 31, 2018.

Section 4 of the bill amends the highest individual income tax bracket and rate by adding new tax brackets at unspecified amounts, taxed at an unspecified rate. Currently, the highest marginal tax rate of 11% applies to taxable income over \$200,000 for single filers, \$300,000 for head of households, and \$400,000 for joint filers.

Section 5 of the bill amends Hawaii Revised Statutes section 235-119 by allocating the additional revenues collected from the increase in individual income taxes per Section 4 of this bill to Hawaii promise program trust fund established under new section 304A-B, beginning January 1, 2019.

The Department notes that it has concerns with the new allocation of revenues in Section 5. This allocation may result in the disclosure of confidential taxpayer information as there may be a limited number of taxpayers that fall within the new income tax brackets per Section 4. If the Legislature wishes to fund the Hawaii promise program, it may consider a direct appropriation of a specified amount.

Finally, the Department is able to implement changes to individual income tax in Section 4 of this bill with its current effective date as it applies to taxable years beginning after December 31, 2018.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Hike to Fund Hawaii Promise Program

BILL NUMBER: HB 2640

INTRODUCED BY: TODD, GATES, HOLT, QUINLAN

EXECUTIVE SUMMARY:

**SYNOPSIS:** Adds two new section to chapter 304A, HRS, providing that the Hawaii promise program shall provide scholarships for qualified students enrolled at any campus of the University of Hawaii, including community college campuses; and establishing a trust fund to pay for them.

Amends section 235-51, HRS, to add a new income tax bracket after the current 11% bracket. The income threshold and the tax rate are unspecified.

Amends section 235-119, HRS, to specify that the revenues from the new tax bracket is to be deposited into the Hawaii promise program trust fund established by this bill.

**EFFECTIVE DATE:** July 1, 2018; the tax increase applies to taxable years beginning after December 31, 2018

**STAFF COMMENTS:** The higher tax rates contemplated by this bill create an image that Hawaii is a poor place to live, work, and invest, underscoring the poor business climate. When the 9%, 10%, and 11% rates were enacted in 2009, the national Tax Foundation was motivated to write:

## **Taxing High-Income Earners Has Failed Before as Sound Fiscal Policy**

The trend may be new, but the policy has been tried before. Through the early 1990s, several states maintained double-digit income tax rates, including California (11% until 1996) and Hawaii (10% until 1998). These rates came down due to a combination of booming tax revenues from all sources, and growing expert understanding that location decisions of highly mobile entrepreneurs are sensitive to state income tax rates, particularly in the interstate context. To attract and keep good talent, create jobs and drive economic growth, legislators knew that state tax systems had to be competitive with their neighbors.

We still see elements of that today. Even in adopting its millionaires' tax, New York did not let its rate go above neighboring New Jersey, and other states are wary of crossing the 10% psychological barrier. The California Franchise Tax Board has taken pains to deny that their 10.3% top tax rate is in the double digits, referring on their website and on tax forms to a 9.3% top rate and elsewhere noting that there is a 1% surcharge. Now those rates are 9.55% and 10.55% . . . .

If states are still concerned about interstate tax competition, what has really changed? The short answer is priorities. States that adopt new taxes on high-income earners are ones where policymakers are persuaded to ignore concerns about long-term economic growth in favor of a short-term budget fix that avoids deep spending cuts. In New Jersey, while the new millionaires' tax raised revenue for the state and helped reduce a budget shortfall, it reduced the state's overall economic output and harmed its ability to grow during and after the recession.

This is the tradeoff that proponents of taxes on high-income earners usually fail to acknowledge. Yes, such taxes will generally raise revenue in the short term without a sudden exodus of wealthy people fleeing to the state next door, especially in Hawaii. But over the medium term, the taxes will negatively impact location decisions. People expanding old businesses or creating new ones will incorporate the higher cost of doing business into their decision-making, and steer clear of the state. California currently faces an enormous brain drain of dynamic individuals after five years of double-digit income taxes, and it seems that New Jersey may now be seeing the evidence of a brain drain from its millionaires' tax. Hawaii has long been accused of chasing out its best and brightest, and it can only be exacerbating that problem with these new tax rates.

Tax Foundation, *Fiscal Fact No. 169*, at 5 (May 2009) (footnotes omitted) (accessible at <http://taxfoundation.org/sites/taxfoundation.org/files/docs/ff169.pdf>).

To similar effect is a study sponsored by the American Legislative Exchange Council (ALEC), which states:

State personal income taxes provide one of the most problematic areas where the tax wedge affects the incentives of individuals in harmful ways. Personal income taxes are collected on the wages of employees, the investment income of those savers directing capital toward productive ends and all business earnings from those firms not organized as C-corporations, known as "pass-through" income. In all three cases, these items represent the fruit of productive labor. When these elements are taxed, the incentive to engage in these productive activities is diminished, leading to less work, less investment and less business activity.

As noted previously, numerous studies conclude that taxing the various forms of personal income and corporate taxes are the most damaging taxes for economic growth and economic performance. But the simple comparison of those nine states refraining from taxing personal income against those nine states taxing income at the highest level is telling of this economic connection. Table 7 details this comparison for the most recent available decade's worth of data on population growth, net domestic migration, non-farm payroll employment growth, personal income growth, gross state product growth and even the growth of government revenue. It should be noted that though Tennessee and New Hampshire decline to collect taxes on personal wage income, they do tax investment income. The contrast between these two groupings of nine states is quite telling on the dangers of personal income taxation as a means for collecting government revenue. On

every metric, the states without a personal income tax are outperforming their high tax counterparts, and are doing so in a significant way.

These numbers in a table fail to tell the full story of this comparison in sufficient detail with respect to quality of life. The boost to economic performance, unlocked by avoiding taxation of personal income, provides citizens faster income growth, more opportunity to find a job or climb the career ladder and even faster government revenue growth, which allows for greater public capacity to meet social needs through greater economic growth, not higher tax rates.

This reality is also true for those states choosing to tax personal income at lower levels and to tax income with one flat rate, instead of graduated rates that see highly productive workers facing increased rates of taxation as they earn greater levels of income. Though many taxpayers avoid paying top marginal rates of state income taxes due to various carve-out provisions and graduated rates, there are many taxpayers that do face those rates, or must fear the possibility of facing those top marginal rates, and make economic decisions based on that possibility. The expectations and uncertainties of taxpayers have a major impact on their decisions to produce, invest or grow their businesses.

This effect of top marginal rates is particularly true for investors and pass-through businesses subject to the personal income tax code. Many advocates of high income taxes like to portray high earners as gilded millionaires undeserving of their large incomes. These advocates of “soak the rich” taxation ignore that investors directing capital or businesses reinvesting profits toward hiring expansion or wage enhancing capital investments, grow opportunity for all citizens of a given state.

American Legislative Exchange Council, *Rich States, Poor States* 35-36 (8th ed. 2016) (available at [https://www.alec.org/app/uploads/2015/10/RSPS\\_8th\\_Edition-Final.pdf](https://www.alec.org/app/uploads/2015/10/RSPS_8th_Edition-Final.pdf)).

For these reasons, we recommend that lawmakers think twice before worsening the high individual rates that had put Hawaii on the map for all the wrong reasons.

Digested 2/10/2018





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February 9, 2018

TO: Honorable Chair McKelvey and Members of the Higher Education Committee

RE: HB 2082 Relation to the U. of Hawaii Promise Program

Support for hearing on Feb. 13

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

Many students today have difficulty financing their higher education. This helped cause shortages of qualified people for jobs in nursing, education, and engineering. Therefore, we support HB 2082 which would both help young people fund their educational unmet direct cost needs and support our job market in nursing, elementary or secondary teaching, and civil engineering with qualified new applicants.

ADA also supports HB 2165 and HB2640 as these bills also expand the Hawaii Promise Program.

Thank you for your consideration.

Sincerely,

John Bickel  
President

**HB-2640**

Submitted on: 2/6/2018 4:46:18 PM

Testimony for HED on 2/13/2018 2:10:00 PM

| <b>Submitted By</b> | <b>Organization</b> | <b>Testifier Position</b> | <b>Present at Hearing</b> |
|---------------------|---------------------|---------------------------|---------------------------|
| Randall Francisco   | County of Kauai     | Support                   | No                        |

Comments:

**HB-2640**

Submitted on: 2/7/2018 12:12:16 PM

Testimony for HED on 2/13/2018 2:10:00 PM

| <b>Submitted By</b> | <b>Organization</b> | <b>Testifier Position</b> | <b>Present at Hearing</b> |
|---------------------|---------------------|---------------------------|---------------------------|
| Margaret Maupin     |                     | Support                   | No                        |

Comments: