

DAVID Y. IGE
GOVERNOR



CATHY BETTS
DIRECTOR

JOSEPH CAMPOS II
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

February 23, 2021

TO: The Honorable Representative Sylvia Luke, Chair
House Committee on Finance

FROM: Cathy Betts, Director

SUBJECT: **HB 514 HD1 – RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES.**

Hearing: Wednesday, February 24, 2021, 2:00 p.m.
Via Videoconference, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) appreciates the intent of this measure, provides comments, and requests clarifications. DHS also respectfully requests that passage of this measure does not replace or adversely impact priorities identified in the executive budget.

DHS appreciates the amendments of the House Committee on Education that amended the measure by:

1. Applying the income tax credit to be for the creation of on-site group child care centers, rather than on-site early childhood facilities, and making conforming amendments to change "early childhood facility" references to be "group child care center";
2. Changing the effective date to be July 1, 2050; and
3. Making technical, nonsubstantive amendments for the purpose of clarity consistency, and style.

PURPOSE: The proposed bill establishes an income tax credit for employers who create on-site group child care centers. Establishes and appropriates funds for 1.0 FTE on-site group child care center coordinator position. Applies to taxable years beginning after 12/31/2021. Effective 7/1/2050. (HD1)

DHS is the regulatory agency of the state's child care system codified in Chapter 346, Part VIII, Hawaii Revised Statutes (HRS), including licensed group child care centers, licensed group child care homes, and registered family child care homes.

DHS requests clarification as to 'other unforeseeable circumstances' as proposed in subsection (c)(2), page 4, lines 17-18, that would be acceptable to force the group child care center to close and still allow the tax credit to be claimed.

DHS requests clarification of proposed subsection (c)(3), on page 5, lines 1-15, as to what other certification(s) DHS would be providing and to whom, the taxpayer or the department of taxation. DHS respectfully requests that DHS be required to do minimal certifications such as verifying a list provided by the Department of Taxation that the group child care facilities were still actively licensed by DHS as of the last day of the applicable tax year.

DHS supports the need to increase the availability and capacity of child care facilities for Hawai'i's families and children and will continue to dialogue about the various strategies that aim to do so.

However, given the general fund shortfall, we do not anticipate additional general fund appropriations to DHS to implement the additional responsibilities proposed in this measure. DHS respectfully requests an extended effective date, and that any appropriations not reduce or eliminate budget priorities identified in the executive budget.

Thank you for the opportunity to provide comments on this measure.

HB-514-HD-1

Submitted on: 2/23/2021 8:39:43 AM

Testimony for FIN on 2/24/2021 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
HMS BESSD CCPO	Department of Human Services	Comments	No

Comments:

Testimony submitted by the Department of Human Services. Additional DHS staff will be available to provide clarification and respond to questions. Please send the zoom meeting link.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
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To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: February 24, 2021

Time: 2:00 P.M.

Place: Via Videoconference, Hawaii State Capitol

Re: H.B. 514, H.D. 1, Relating to On-Site Early Childhood Facilities

The Department of Taxation (Department) offers the following comments regarding H.B. 514, H.D. 1, for your consideration.

H.B. 514, H.D. 1 adds a new section to chapter 235 to create a refundable on-site group child care center tax credit. The credit is effective for expenses incurred on or after January 1, 2022. The measure has a defective effective date of July 1, 2050.

The Department prefers that an agency with subject matter expertise be designated to certify the credit. Paragraph 235-__ (c)(2) makes references to Department of Human Services (DHS) certification, but no other part of the new tax credit discusses whether this certification exists or how it would be carried out. The Department suggests clarifying the details regarding certification, including which agency will be certifying the credit. For other credits, taxpayers submit a statement of qualifying costs to the certifying agency and that agency issues a certificate, either for the taxpayer's records or required to be attached to an income tax return claiming this tax credit.

The Department also has concerns about the aggregate cap imposed under subsection (c)(3). As currently written, subsection (c)(3) may not be sufficient to impose an aggregate cap on the credit. The Department is not able to administer an aggregate cap as the credit claims come in with tax returns. In other credits that have an aggregate cap, such as the Important Agricultural Land Tax Credit under section 235-110.93(h), Hawaii Revised Statutes, the aggregate cap is enforced through a certification process that requires immediately discontinuing certifying credits when the cap is reached.

In addition, because most taxpayers report taxes on a calendar year, the Department suggests applying the aggregate cap to the calendar year instead of fiscal year. To adopt these

suggestions, and assuming that a certifying agency would exist in subsections (b) and (c), the Department recommends amending subsection (c)(3) to read as follows:

- (3) The total amount of tax credits allowed under this section shall not exceed \$_____ for all taxpayers in any year. If the total amount of credits claimed under this section by all taxpayers in any year exceeds \$_____, the department of _____ shall immediately discontinue issuing certifications and notify the department of taxation. In no instance shall the department of _____ issue certificates for a total amount of credits exceeding \$_____ per year. To comply with this restriction, the department of _____ shall issue certificates for credits on a first come, first served basis. Any taxpayer whose qualified costs are not eligible to be issued a certificate by the department of _____ in a year due to the \$_____ cap having been exceeded for that year, shall be eligible to have those qualified costs be issued a certificate in the subsequent year and those qualified costs shall receive priority for a certificate over qualified costs incurred in that subsequent year. The department of taxation shall not allow the aggregate amount of credits claimed to exceed \$_____ per year.

Thank you for the opportunity to provide testimony on this measure.



STATE OF HAWAII
Executive Office on Early Learning
2759 South King Street
HONOLULU, HAWAII 96826

February 23, 2021

TO: Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
House Committee on Finance

FROM: Lauren Moriguchi, Director
Executive Office on Early Learning

SUBJECT: Measure: H.B. No. 514 H.D. 1 – RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES

Hearing Date: Wednesday February 24, 2021

Time: 2:00 p.m.

Location: Videoconference

Bill Description: Establishes an income tax credit for employers who create on-site early childhood facilities. Establishes and appropriates funds for 1.0 FTE on-site early childhood facility coordinator position. Applies to taxable years beginning after 12/31/2021. Effective 7/1/2050. (HD1)

EXECUTIVE OFFICE ON EARLY LEARNING'S POSITION: Support the Intent

Good afternoon. I am Lauren Moriguchi, Director of the Executive Office on Early Learning (EOEL).

We appreciate the Legislature's support of EOEL's work to increase access to high-quality early learning. EOEL is statutorily responsible for the development of the State's early childhood system that shall ensure a spectrum of high-quality development and learning opportunities for children throughout the State, from prenatal care until the time they enter kindergarten, with priority given to underserved or at-risk children.

EOEL supports the intent of H.B. 514 H.D. 1 to increase capacity for, and access to, high-quality early learning programs by incentivizing employers to develop on-site facilities. We believe that partnering with the private sector is the most cost-effective, time-efficient means for the State to increase access to early learning opportunities.

High-quality child care fulfills two important national goals: keeping children safe while their parents work and nurturing and developing children in ways that prepare them for school and beyond (National Association for the Education of Young Children). As such, EOEL also supports the intent of the 1.0 FTE on-site group child care center coordinator position within the EOEL.

We recommend Section 3 be amended as follows:

“There is established one full-time equivalent (1.0 FTE) on-site group child care coordinator position in the executive office on early learning to assist with ~~licensure and accreditation~~ requirements, work with providers, and ensure appropriate facility and/or classroom design of on-site group child care centers ~~established by employers in the State~~ by providing technical assistance to implement a high-quality learning environment for young children.”

Regulatory oversight of registered and licensed facilities falls under the Department of Human Services, and EOEL would defer to the department to ensure child care licensing requirements are met. EOEL provides high-quality learning experiences that address children’s physical development and health, social and emotional development, cognition, language and literacy, and approaches to learning. EOEL can utilize our expertise and knowledge in building and designing high-quality programs to support on-site group child care centers.

We would also like to respectfully request that any appropriation not supplant budget priorities identified in the executive budget.

As the state’s coordinating body for early learning, EOEL is working toward increasing access to high-quality early learning programs for our keiki *together* with our public and private partners. Our community-based providers have been the mainstay of early learning programs and services for decades. EOEL’s statutory charge is to build a cohesive, comprehensive, and sustainable system in which *all* existing early learning programs and services – whether publicly- or privately-run, which consist of a variety of early learning approaches, service deliveries, and settings, including center-based programs, family child care programs, family-child interaction learning programs, and home-based instruction programs designed to promote early learning, each of which provide an important option for families – are coordinated, improved, and expanded.

Thank you for the opportunity to testify on this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for On-Site Early Childhood Facilities

BILL NUMBER: HB 514, HD1

INTRODUCED BY: House Committee on Education

EXECUTIVE SUMMARY: Establishes an income tax credit for employers who create on site early childhood facilities. Applies to taxable years beginning after 12/31/2021.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish an on-site group child care center tax credit. The amount of the credit is 25% of the qualified costs for acquiring, constructing, and establishing the facility, up to \$____ per employer. The credit is refundable.

Defines “qualified costs” as the expenses incurred in acquiring, constructing, and establishing a qualified on-site group child care center and the associated operating costs; except for insurance.

Defines “qualified on-site group child care center” as an on-site group child care center offered by an employer to all employees that is licensed and approved by the department of human services and receives an accreditation from a recognized national early childhood accredited agency within two years of initial operation.

Limitations of the credit include: (1) the total credit allowed for an employer in any taxable year shall not exceed \$____; (2) the total amount of tax credits allowed under this section shall not exceed \$____ all taxpayers in any fiscal year; if the total amount of credits claimed is greater, the credit shall be allowed to taxpayers based on the date of certification by DHS on a first come, first served basis, where any taxpayer who is certified by the department of human services in a fiscal year and who is not eligible to claim the credit due to the \$____ having been exceeded for that fiscal year shall be eligible to claim the credit in the subsequent year and shall receive priority for the credit over taxpayers who receive certification in the subsequent fiscal year.

The on-site group child care center shall operate for a minimum of ten years or all of the credit taken in the preceding ten taxable years may be recaptured, except if the department of human services certifies that the employer ceased operating the facility for reasonable cause, including but not limited to going out of business, being forced to close the facility due to a natural disaster or other unforeseeable circumstances, and closing the facility temporarily with the intention of reopening it for a reason such as facility refurbishment or improvement.

Every claim, including amended claims, for the tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. Failure to do so shall constitute a waiver of the right to claim the tax credit.

No other income tax credit may be claimed for the same qualified costs.

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: The tax system is there to raise revenue to keep the government moving. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount.

Furthermore, tax credits are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse, overtaxed by the pandemic?

If lawmakers want to subsidize this activity, then a direct appropriation would be more accountable and transparent. That way lawmakers will be very clear on (1) how much we taxpayers are paying, and (2) what we are getting in return. For example, lawmakers could authorize a grant program for the construction or refurbishment of on-site group child care centers much like how Hawaii Energy offers rebates for energy-saving appliances and components.

Digested 2/22/2021



MAUI

CHAMBER OF COMMERCE
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308
WEDNESDAY, FEBRUARY 24, 2021 AT 2:00 P.M.**

To The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair; and
Members of the Committee on Finance,

COMMENTS ON HB514 HD1 RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES

Aloha, my name is Pamela Tumpap. I am the President of the Maui Chamber of Commerce, in the county most impacted by the COVID-19 pandemic in terms of our dependence on the visitor industry and corresponding rate of unemployment. I am writing share our comments on HB514 HD1.

We support the intent of this bill to create an incentive for businesses to invest in creating an early childhood program for employees and their children. However, we have deep concerns about the provision in this bill that if the employer did not maintain the facility for 10 years, they could have to repay any tax benefits received and would have to report and explain their reasons for discontinuing the program to the Department of Human Services. This seems unnecessary as the tax credits would only be provided during the time the services are offered as they are for development and operating expenses. Businesses don't want to start a program if they cannot continue it because they know how important it is for employees. Usually these types of programs are not started or continued due to cost or the ability to retain trained personnel and employers shouldn't have to be required to justify their decision with the state. Businesses are not sure what the next couple of years will look like, let alone the next ten years. Therefore, we ask that this section be removed.

Mahalo for your consideration of our testimony.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.



Hawaii
Children's Action Network Speaks!
Building a unified voice for Hawaii's children

Hawai'i Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: Representative Luke, Chair
Representative Cullen, Vice Chair
Housing Committee on Finance

Re: **HB 514 HD1- Relating to On-site Early Childhood Facilities**
2:00 PM, February 24, 2021

Chair Woodson, Vice Chair Kapela, and committee members,

On behalf of HCAN Speaks!, thank you for the opportunity to testify in **support of House Bill 812**, which seeks to establish a trauma-informed education pilot program at the Castle, Kailua, and Kalaheo complex areas.

Trauma-informed care is a structure and framework that recognizes and understands the effects of all types of trauma. According to the Substance Abuse and Mental Health Services Administration, "There is an increasing focus on the impact of trauma and how service systems may help to resolve or exacerbate trauma-related issues. These systems are beginning to revisit how they conduct their business under the framework of a trauma-informed approach¹". Trauma can be caused by experiences in childhood, experiences in adulthood, and experiences to ancestors.

Adverse Childhood Experiences (ACEs) can have long-lasting impacts on a person's health and well-being. Additionally, the traumatic experiences children and youth face can alter their brain development and their social development². Recent research shows the pandemic is putting a greater number of kids at risk for witnessing violence in their households, experiencing food instability, and social isolation. Even though the state saw a decrease in child abuse reporting during the spring and summer months, as children returned to school and interacted with mandatory reporters, the number of reports increased. However, even without witnessing or experiencing abuse, the pandemic has impacted children's development. The need for all those working in education to approach with a trauma-informed lens has never been so urgent as it is now. We cannot only speak of recovering from the pandemic in economic terms; we must also consider recovery for our children and youth.

The importance and value of trauma-informed care is recognized at both the national and state level. Over 26 states have passed legislation to address childhood trauma, child adversity, toxic stress or adverse childhood experiences³. The crisis our children is facing is urgent and dire. Wherever we can expand the ongoing efforts to incorporate trauma-informed practices we must do so.

For these reasons, HCAN Speaks! respectfully requests that your committee vote to pass this bill.

Kathleen Algire
Director of Early Learning and Health Policy

¹ Substance Abuse and Mental Health Services Administration, *SAMHSA's Concept of Trauma and Guidance for a Trauma-Informed Approach*, https://ncsacw.samhsa.gov/userfiles/files/SAMHSA_Trauma.pdf

² Centers for Disease Control and Prevention. (2019) *Preventing Adverse Childhood Experiences (ACEs): Leveraging the Best Available Evidence*. <https://www.cdc.gov/violenceprevention/pdf/preventingACES.pdf>

³ National Conference of State Legislatures, <https://www.ncsl.org/research/health/reducing-the-effects-of-adverse-childhood-experiences.aspx>

Date: February 22, 2021

To: House Committee on Finance
Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair

From: Early Childhood Action Strategy

Re: Support for HB514, Relating to On-Site Early Childhood Facilities

Early Childhood Action Strategy (ECAS) is a statewide cross-sector collaborative designed to improve the system of care for Hawai'i's youngest children and their families. ECAS partners work to align priorities for children prenatal to age eight, streamline services, maximize resources, and improve programs to support our youngest keiki.

ECAS supports passage of HB514, which establishes an income tax credit for employers who create on-site group child care facilities.

Hawai'i faces a *chronic shortage of child care and early learning opportunities* for our children, which has been exacerbated by the COVID19 pandemic. Across the state, 60% of preschoolers live in homes where all adults are in the workforce, yet our supply of child care reaches fewer than half of those children. Not only is child care and early learning a vital support for working families, but high-quality early learning provides a foundation for school readiness and subsequent academic achievement. Careful research shows that children who attend preschool are more likely to reach kindergarten ready to thrive, are less likely to repeat a grade, and are more likely to graduate from high school and continue into college.

HB 514 would create *reasonable incentives for businesses* to create on-site child care capacity for their employees. National research finds that it makes good sense to encourage businesses to support child care. When employers understand, and respond to, their employees' child care needs, absenteeism and turnover decline, recruitment and training costs are reduced, and productivity increases (U.S. Chamber of Commerce Foundation).

HB514 has the foresight to establish a child care center coordinator position to assist employers with developing high-quality, on-site child care programs. ECAS supports efforts to clarify how responsibilities for the coordinator will be assigned and resourced in order to leverage experience and expertise within and/or between agencies to most effectively support the complex and distinct tasks of 1) licensing group child care facilities, and 2) developing quality/accredited, community-based early care and education programs.

Thank you for this opportunity to provide testimony in support of this measure.

TO: Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
Members of the House Committee On Finance

FROM: Robert G. Peters, Chair
Early Learning Board

SUBJECT: **Measure:** HB 514, HD 1, Relating to On-Site Early Childhood Facilities
Hearing Date: February 24, 2021
Time: 2:00 p.m.
Location: **Via Video Conference**, Conference Room 308

Description: Establishes an income tax credit for employers who create on-site early childhood facilities. Establishes and appropriates funds for 1.0 FTE on-site early childhood facility coordinator position. Applies taxable years beginning after 12/3/2021. Effective 7/1/2050

EARLY LEARNING BOARD'S POSITION: Support the Intent

Good afternoon. I am Robert G. Peters, Chair of the Early Learning Board (ELB). Thank you for this opportunity to offer testimony in support of the intent of HB 514, HD 1.

Through Act 202, Session Laws of Hawaii 2017, ELB transitioned from an advisory to a governing board for the Executive Office on Early Learning (EOEL) and is charged with formulating statewide policy relating to early learning. We are composed of members from across the early childhood field, in both the public and private sectors.

The ELB appreciates the Legislature's recognition that families of young children in Hawaii, now more than ever, need more affordable, high-quality childcare options. The number of seats available to families has decreased statewide in light of the impact of COVID-19. The increased health and safety requirements that have forced some childcare providers to remain closed have for those which opened required reducing the number of available childcare placements. This has made it especially challenging for families with young children who need to find settings for their children as they seek to remain in the workforce. Incentivizing employers to address their employees' childcare needs through tax credits such as the one proposed in this bill would help provide our families with support they need.

The Early Learning Board supports the efforts of the EOEL which is working toward increasing access to high - quality early learning programs for our keiki *together* with public and private partners. Our community - based providers have been the mainstay of early learning programs and services for decades. EOEL's statutory charge is to build a cohesive, comprehensive, and sustainable system in which *all* existing early learning programs and services, whether publicly - or privately - run, are coordinated, improved, and expanded.

The Board respectfully requests amending the 1 FTE EOEL position provided in the bill, recommending that licensing remain the province of DHS and that language related to the position be modified as defined in the EOEL's testimony. We also ask that any appropriation not supplant budget priorities identified in the executive budget. Thank you for this opportunity to testify in support of the intent of this bill.

HB-514-HD-1

Submitted on: 2/23/2021 10:22:32 AM

Testimony for FIN on 2/24/2021 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Joe Hammond	Individual	Support	No

Comments:

I am in support of this bill because with this bill it may encourage parents to enroll their children to start school earlier than kindergarten. With having on-site early childhood facilities it may improve employment retention.