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Workshop summary:[1]

"Priorities for the Low-Income Residents on State Budget and Tax Issues"

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Poverty is a critical issue that is often ignored. The definition of poverty is simple. Household income is less than the cost of necessities. A new study released by Aloha United Way shows that 48% of the households in our community are part of a demographic described as Asset Limited Income Constrained Employed ("ALICE"). These individuals and families are working yet cannot afford basic necessities to remain self-sufficient. There are a few key items, related to the state budget, that affect low-income residents including affordable housing, food security, taxes and utilization of federal funds.

Affordable housing has been noted as a crisis since a 1971 report. Currently, 47% of necessary housing development is needed for families making less than $45,000 per year. The cost of housing has increased faster than income. In 1968, 23% of Honolulu renters were paying more than 30% of income toward housing. In 2005, that percentage rose to 46% and in 2016 it rose even further, with 54% of households paying more than 30% of income toward rent.

Food security is also a factor and the cost of food makes up 17% of a household budget for a family of four according to the ALICE study. 15% of Hawaii households report food insecurity, yet we underutilize federal resources like free school breakfast and summer meals. We are 49th in the nation for the utilization of free school breakfast, and only 1 out of 9 eligible children receive summer meals. The only bright spot is the increased utilization of Supplemental Nutrition Assistance Program ("SNAP") better known as Food Stamps.

Taxes are also a concern for low-income residents. The lowest 20% of income earners are paying 13-13.5% of their household income to state and local taxes compared to 8% for the wealthiest 1%. This is an indication of a regressive tax system. General excise tax ("GET"), which falls most heavily on low income households, is regressive and accounts for 44% of state tax revenue.

Hawaii is the lowest ranked state for percentage of state budget coming from federal funds. If considered on a per capita basis, our use of federal funds puts us 36th among states. Obligated costs, which are pensions, the state's share of Medicaid costs, public worker retiree and active employee health benefits, and debt service, consume 47% of General Funds.

An example of how the state budget supports low-income residents is the historic investment in 2017 to the Rental Housing Revolving Fund ("RHRF"). There was an increase from $25 to $200 million. This funding, along with $360 million in GET exemptions for housing projects with 20 percent of the units for households at or below 80 percent of the Area Median Income ("AMI") and the remainder for households at or below 140 percent of AMI could support 24,000 affordable rental units according to leaders in the legislature. Other positive housing policy and budget items include funding for Ohana Zones which are transitional areas to support shelters, Law Enforcement Assisted Diversion, $15 million for homeless service programs, and $800,000 for a homeless coordinated entry system.

Issues still needing attention include making the new Earned Income Tax Credit refundable and indexing the minimum wage to inflation. In addition, Medicaid was expanded but we haven't funded adequate adult dental services. Another opportunity to pursue is increasing the Department of Education's use of Medicaid funding to support students' Individual Education Plans ("IEP").

There are multiple barriers to building affordable housing in Hawaii, including the need for infrastructure, the high cost of construction, and multiple landowners. Some ways to finance development are Tax Increment Financing, large bond programs, and the Rental Housing Revolving Fund for households at 60% of AMI or below. Right now, the Transient Accommodation Tax ("TAT") and GET are locked up until 2030 for rail. In 2018, the Legislature passed a bill to collect taxes on e-commerce. Estimates on revenue range from $50 to $240 million. This is not a new tax but currently "use taxes" are seldom paid. The Supreme Court ruling and state legislation clear the way to create a system to easily file and pay excise or sales tax. Third party sales, such as those brokered by Etsy or eBay, will be the most difficult to collect. Taxing B&Bs needs further study, and the counties need to figure out the enforcement system.

Finally, in order to expand jobs beyond tourism other career paths need to be created. The Legislature created incentives for JABSOM graduates to stay in Hawaii, made community college tuition free, made some investments in the digital economy through programs like Searider Productions and aqua culture. These create more options for economic diversity and higher paying jobs.

The Legislature's biggest policy statement is the state budget and the Hawaii Budget and Policy Center is working on a budget primer to help people understand and help shape it.

[1] A draft was prepared by Rona Fukumoto, Hawaiʻi Access to Justice Commission commissioner, and edited by the presenters.