

**Date:** May 3, 2019  
**To:** Hawai'i State Legislature  
**From:** Policy Analysts - Indira Galvez and Elise Inouye  
**Subject:** Public Education Finance in the State of Hawai'i

---

This paper analyzes the state of Hawai'i's single, statewide education district and its current funding and allocation practices. The Hawai'i State Department of Education continues to fight an uphill battle in regards to financing resources and establishing programs that effectively and efficiently utilize funds to achieve educational goals and objectives. To improve on both fronts, it is recommended that the state increase its general excise tax (GET) rate by 0.5%, in addition to implementing accountability standards, increasing transparency, and providing further administrative support and oversight on school spending.

***Hawai'i Department of Education - An Introduction*** In 1844, in order to address the varying quality of schools across the islands, the Kingdom of Hawai'i made the decision to place all schools and districts under "centralized control." This system remained in place even after Hawai'i was illegally annexed by the United States in 1898, and when Hawai'i became an official state in 1959, it was - and continues to be - the only state in the country to utilize a single statewide school district.<sup>1</sup> As a result, only county governments have possessed the authority to levy local property taxes, which also makes Hawai'i the only state that does not receive public education funding through its local property taxes.<sup>2</sup> The Board of Education (BoE) is charged with operational governance and oversight, as well as policy formulating power and control, however, they are unable to raise funds or levy taxes on their own. The budget for the department is determined by the State Legislature and Governor on a biennial basis, which is discussed in further detail in a following section.

One of the most notable events in the history of public education within the state was the passing of Act 51 in 2004. Act 51 was designed to provide a more equitable fund allocation formula and to help decentralize the department. It established weighted student formulas (WSF) and gave principals more authority on budget and planning-related decisions. Act 51 also helped the Department of Education (DoE) to reorganize its roles and streamline the distribution of resources to schools. Additionally, mandatory School Community Councils (SCC) were established in an effort to increase community involvement in the decision-making processes as well.<sup>3</sup> According to the DoE's website, in fiscal year 2016, Hawai'i was 15th highest in the nation for per-pupil spending at \$13,748 (higher than the national average of \$11,762).<sup>4</sup> As of January 2019, the Hawai'i State Department of Education is made up of 15 complex areas, which encompass 256 public schools and 36 charter schools as part of its purview. The department maintains 4,425 facilities and caters to 179,698 students (50% of whom are considered

---

<sup>1</sup> Roth, Randall W. "Public Education in Hawai'i: Past, Present & Future," *Governor of the State of Hawai'i* (2016): 1, accessed March 18, 2019. <https://governor.hawaii.gov/wp-content/uploads/2016/06/Public-Education-in-Hawaii-Past-Present-and-Future-by-Randy-Roth.pdf>.

<sup>2</sup> Finnerty, Ryan and Catherine Cruz. "Judge Allows Education Property Tax Referendum to Proceed," *Hawai'i Public Radio* (September 10, 2018), accessed March 18, 2019. <https://www.hawaiipublicradio.org/post/judge-allows-education-property-tax-referendum-proceed>.

<sup>3</sup> Levin, Jesse, Jay Chambers, Diana Epstein, Nick Mills, Mahala Archer, Antonia Wang, and Kevin Lane. "Evaluation of Hawai'i's Weighted Student Formula," *American Institutes for Research* (June 2013): 6-7, <https://www.hawaiipublicschools.org/DOE%20Forms/WSF/WeightedStudentFormulaEval061913.pdf> (accessed March 25, 2019).

<sup>4</sup> "How does Hawaii's spending compare nationally?," *Hawai'i State Department of Education* (2019), accessed March 26, 2019. <http://www.hawaiipublicschools.org/ConnectWithUs/Organization/Budget/Pages/home.aspx>.

economically disadvantaged, 12.2% special needs, and 8.3% English as a second language (ESL)).<sup>5</sup> In addition to providing resources and support for its students, the DoE also employs around 22,000 teachers and 20,000 substitutes and casual employees.<sup>6</sup>

**10-Year Strategic Plan (2020-2030)** The purpose of this section is to provide context into the reasoning behind the Department of Education's priorities, specifically in regards to budget requests, spending, and project/program funding in the upcoming years. Since 2013, the Hawai'i DoE has used its own accountability and improvement system, called "Strive HI," to measure student success. Currently, it reflects indicators outlined in the state's 2017-2020 Strategic Plan, which also aligns with the federal requirements laid out in the Every Student Succeeds Act (ESSA). Strive HI replaced many of the No Child Left Behind (NCLB) Act's outdated and ineffective requirements; it was designed by local stakeholders within the state and measures multiple factors involved in defining a "successful student." Rather than solely focusing on test scores, Strive HI also evaluates college, career, and community readiness through student achievement, readiness (i.e., attendance, graduation rates, college enrollment), and achievement gaps (i.e., monitoring growth and reducing the gap between high-needs and non-high-needs students).<sup>7</sup>

This past January, the DoE announced its 10-year action plan for the state, focusing on a three tiered strategy integrating school design, student voice, and teacher collaboration. The Strategic Plan will be implemented in Fall 2019 and seeks to address three key components: defining student success, measuring department values, and catered student support.<sup>8</sup> In this new strategic plan, the DoE suggests incorporating the use of qualitative assessments as well, for example "Nā Hopena A'o" will take a student's sense of belonging, responsibility, aloha, and overall well-being into account when defining student success.<sup>9</sup> In order to achieve this, the department has adopted a design framework and principles that focus on equipping schools with greater decision-making powers and establishing accountability curriculums. The department also wishes to modernize the state's education facilities so they can support educational innovation for students based on "21st century goals" and career aspirations. In addition, the department is currently undertaking a 1-3 year long project to update its outdated technology system: Google for Education is replacing Lotus Notes this summer, Future Schools Now has already been implemented to address antiquated business functions, and the Financial Management System is the next modernization project on the list.<sup>10</sup>

**The Budget Process** Each biennial request, the DoE - which includes principals, teachers, and other staff - puts forth an advisory budget for the Board of Education's review. Once approved, the Board submits it to the Department of Budget and Finance, under the purview of the Governor's office, and they review

---

<sup>5</sup> "Fiscal Biennium 2019-2021 Budget Briefing FB 2019-2021," *Hawai'i State Department of Education* (January 14, 2019), accessed April 16, 2019. <http://www.hawaiipublicschools.org/DOE%20Forms/budget/FB1921-briefing.pdf>.

<sup>6</sup> "The Operating budget," *Hawai'i State Department of Education* (2019), accessed March 26, 2019. <http://www.hawaiipublicschools.org/ConnectWithUs/Organization/Budget/Pages/home.aspx>.

<sup>7</sup> "Hawai'i's school accountability and improvement system," *Hawai'i State Department of Education*, accessed April 16, 2019. <http://www.hawaiipublicschools.org/VisionForSuccess/AdvancingEducation/StriveHISchoolPerformanceSystem/Pages/home.aspx>.

<sup>8</sup> Kishimoto, Dr. Christina M. "Equity, Excellence & Innovation," *Hawai'i State Department of Education* (January 2019): 3, accessed April 16, 2019. <http://www.hawaiipublicschools.org/DOE%20Forms/10year-online.pdf>.

<sup>9</sup> Ibid, 3.

<sup>10</sup> Ibid, 4.

the proposed budget. The Budget and Finance office has line-item veto power and possesses the final say before the official budget is presented to the State Legislature. There are two budgets presented - the Operating Budget and Capital Improvement Program (CIP) Budget - the former handles expenses incurred from running schools, the latter deals with expenses for repairing and maintaining the DoE's facilities; however, the CIP budget is handled through an entirely different process. For the purposes of this paper, the analysis will be focusing on the Operating Budget. In the Legislature, the proposed budget is reviewed by the Education, Ways and Means, and Finance Committees of the House and Senate. They hold hearings on particular line items, which is when the DoE can lobby for funds that may have been removed by the Governor's Office of Budget and Finance. Once the final amount is agreed upon, the funds are appropriated in May for use by the DoE at the beginning of its fiscal year in July.<sup>11</sup> (See Fig. 1 for a simplified illustration of the budget process). For fiscal year (FY) 2019 - which began on July 1, 2018 and will end on June 30, 2019 - the DoE had an Operating budget of \$1.99 billion, \$1.63 billion (81%) of which came from the state's General Fund. The remaining 19% was comprised of federal, special, and trust funds. The CIP budget received \$320.9 million.<sup>12</sup>

In the 2019-2021 fiscal biennium budget request (which encompasses FY 2020 and FY 2021), the DoE has highlighted four goals it seeks to meet based on the new 10-year Strategic Plan: (1) reprogramming of existing funds, (2) focusing on significant CIP needs, (3) addressing Title IX in athletics, and (4) advancing specific priority areas. For the first goal, the department plans to reprogram its base budget in order to reduce its previous biennium request by a projection of \$40 million. This pool of existing funds will primarily be drawn from salary differences among employees and turnover savings from vacated positions that are not being filled. To achieve its second goal, the DoE is asking for \$539.5 million to invest in modernizing any outdated public school infrastructure. \$10.7 million of this request will be used to meet the department's third goal of providing equitable access for under-resourced high schools with no athletic facilities. The fourth goal asks for \$43.4 million to be used in support of the department's new Strategic Plan, focusing on areas such as increased access to early college course programs, pre-K classes, and teacher recruitment/retention, among other things. \$6 million of this will be allocated to the Weighted Student Formula to roll out implementation of new standards in alignment with the new Strategic Plan; \$3 million will be allocated to Early College Access efforts; \$2.75 million will be used for Leadership Development and Support.<sup>13</sup>

***The Fund Allocation Process and Weighted Student Formula (WSF)*** Currently, funds from the Operating budget are distributed by program categories known as EDNs. In FY 2019, funding was split between seven categories: (1) EDN 100 is used to support individual school-level resources and programs and is distributed using the weighted student formula (WSF). EDN 100 also encompasses programs related to athletics, JROTC and any Alternative Learning Center the school may offer; (2) EDN 150 is used to fund resources for special education students; (3) EDN 400 pays a facility's bills (i.e., electric, water, sewer, food service, etc.); (4) EDN 500 funds Adult Education programs; and (5) EDN 700 funds Pre-K programs. These first five categories comprise the "direct-to-school" funding, which is where the bulk of the budget is allocated (93.4%). The remaining two categories, EDNs 200 and 300, are used to

---

<sup>11</sup> Thompson, John A. "Funding and Spending in Paradise Notes on the Hawaii Model of Educational Finance," *Journal of Education Finance* 12, no. 2 (1986): 287-289, <http://www.jstor.org/stable/40703545> (accessed April 10, 2019).

<sup>12</sup> "The Operating budget" (2019).

<sup>13</sup> "Fiscal Biennium 2019-2021 Budget Briefing FB 2019-2021" (2019).

provide support at the school, district, and state levels. Funds are used for things such as statewide testing, administrative support (i.e., personnel, technology, and fiscal), as well as community programs, such as A+ after-school programs.<sup>14</sup>

Historically, EDN 100 has received a significant portion of the Operating budget; in FY 2019, 58.2% (\$948.3 million) of the budget was allocated to this program category.<sup>15</sup> Funds from EDN 100 are then distributed to individual schools using the WSF. The WSF allocation process was adopted by the Hawai‘i State Department of Education in 2006 as a means to, “...provide a more equitable system of school finance, streamline the allocation of resources to schools, and usher in a process for increasing local authority (including school leadership, parents, and community members) over educational decision making.”<sup>16</sup> The DoE believes that it is a “fair and equitable” way to distribute funding to schools. First, all of the schools are provided with base funding (e.g., for the proposed fiscal biennium (FB) 2019-2021 budget, it is being recommended that elementary schools start with \$307,000, middle schools start with \$461,000, and high schools start with \$472,000). Second, a baseline amount is determined for a student with no weighted characteristics. These students are assigned a baseline “weight” of 1.0; for the FB 2019-2021 budget, it is being proposed that the baseline weight is increased to \$4,480.94. Third, additional funding is calculated for students with different needs and characteristics (e.g., low-income, English proficiency, etc.). (See Fig. 2 for a breakdown of weighted characteristics and their proposed values for the 2019-2021 fiscal biennium). The weights of these characteristics are recommended by the Committee on Weights and then subject to approval by the Board of Education.<sup>17</sup>

***Equity of the WSF*** According to the Department of Education, the WSF process is “equitable, predictable, and transparent.”<sup>18</sup> There are three justifications as to why the DoE elects to use this formula: (1) the cost of educating students can be more accurately assessed because it is based upon the unique needs of each student; (2) allocated funds follow students to each school they attend; and (3) the budget process is more transparent.<sup>19</sup> Additionally, due to the internal and external oversight provided (e.g., School Community Councils), each school’s administration, staff, and community members must work together to create annual Financial and Academic Plans. In order to ensure that the money is being allocated fairly, updated enrollment counts are conducted to adjust allocations three times throughout the year, in case a student leaves or moves to another school, etc. These are done once right after school begins, again at the end of the first quarter, and a third time at the beginning of the second semester.<sup>20</sup> In 2013, the American Institutes for Research evaluated the WSF and conducted an in-depth statistical analysis that showed a statistically stronger, positive relationship between funding and student need

---

<sup>14</sup> “The Operating budget” (2019).

<sup>15</sup> Ibid.

<sup>16</sup> Levin, Jesse, Jay Chambers, Diana Epstein, Nick Mills, Mahala Archer, Antonia Wang, and Kevin Lane. “Evaluation of Hawaii’s Weighted Student Formula: Highlighted Findings,” *American Institutes for Research* (June 2013): 1, [http://www.hawaiipublicschools.org/DOE%20Forms/WSF/Evaluation\\_Hawaii%27s\\_Weighted\\_Student\\_Formula\\_06-17-13.pdf](http://www.hawaiipublicschools.org/DOE%20Forms/WSF/Evaluation_Hawaii%27s_Weighted_Student_Formula_06-17-13.pdf) (accessed April 25, 2019).

<sup>17</sup> “Weighted Student Formula,” *Hawai‘i State Department of Education* (2019), accessed March 26, 2019. <http://www.hawaiipublicschools.org/DOE%20Forms/budget/FB1921/WSF.pdf>.

<sup>18</sup> “Factsheet WSF/COW,” *Hawai‘i State Department of Education*, accessed April 15, 2019. <http://www.hawaiipublicschools.org/DOE%20Forms/WSF/WSFCOW.pdf>.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

across all grade levels since implementation. They determined that Hawai‘i’s overall funding equity had increased, effectively becoming one of the highest in the country.<sup>21</sup>

The same evaluation also identified a list of successes and challenges for the WSF.<sup>22</sup> Three significant successes that are attributed to implementation include: (1) increased flexibility and discretion over funding and innovation decisions within individual schools; (2) empowerment of local stakeholders and community members through the creation of School Community Councils; and (3) improvement in the equity and transparency of funding. However, there are some challenges that remain, the most significant being the state’s ability to provide sufficient funding for the WSF. Both the principal survey and stakeholder interview analyses show that there is a rising concern in regards to the level of available funding for the WSF; the money being allocated to the schools is not enough to cover even minimum operational costs, effectively draining any funds that could be used for innovative programming for students. A second challenge focused on ensuring that the weighting factors used for the WSF were accurately reflecting the “true costs” of providing resources to grant all students (especially those from smaller schools, or a specific degree of geographic isolation) with equal opportunities and the ability to achieve the objectives expected of them.

***Internal and External Oversight*** Since 1989, Hawai‘i has enacted numerous reforms with the intent of increasing local autonomy, transparency, and stakeholder engagement. There are a few fund allocation and other budget-related oversight efforts currently in place, one of which includes the creation of School Community Councils (SCC) mandated by Act 51 in 2004.<sup>23</sup> The SCC provides a forum for idea exchange among both internal and external stakeholders involved with a school. It brings together a group of people - including principals, teachers, parents, students, and community members - to brainstorm strategies to improve student achievement. The SCC also assists the principal in crafting the school’s Academic and Financial Plans. These Academic and Financial Plans are publicly accessible documents that can be found on the DoE’s website.<sup>24</sup> However, a brief browsing of the reports shows that they are not uniform in format across schools. These plans are designed to provide a framework and overarching perspective on how schools and complex areas are aligned with the DoE’s current strategic plan; they are seen as a tool for monitoring and evaluating goals set by schools in order to achieve objectives set by the department’s strategic plan.<sup>25</sup>

With the implementation of the WSF, the DoE also established the Committee on Weights (COW) to determine how individual student and school characteristics should be used to allocate funds using the WSF. The COW is made up a diverse group of stakeholders across the state, including the superintendent, teachers from all islands (both regular and special education), members of the community, and administrators at all levels of education. The various perspectives, knowledge, and experience that each committee member brings to the table highlights their competency and qualifications as a group, enabling them to make decisions regarding student funding. The committee meets to determine how the WSF should allocate funds, as well as what “weight” each student or school characteristic should carry in the

---

<sup>21</sup> Levin, et al. “Evaluation of Hawaii’s Weighted Student Formula: Highlighted Findings,” 4.

<sup>22</sup> Ibid, 5.

<sup>23</sup> Ibid, 6.

<sup>24</sup> “Report Finder,” *Hawai‘i State Department of Education*,  
<http://www.hawaiipublicschools.org/VisionForSuccess/SchoolDataAndReports/reportfinder/Pages/home.aspx>.

<sup>25</sup> Levin, et al. “Evaluation of Hawaii’s Weighted Student Formula,” 9.



formula.<sup>26</sup> The implementation of weighted student formulas and creation of the Committee on Weights have both aided in the efforts of increasing funding equity and decentralizing the department through the empowerment of principals and local stakeholders in the decision-making process, specifically in regards to academic and fiscal planning.

***The General Excise Tax (GET)*** In FY 2017, the state of Hawai‘i collected the majority of its General Fund revenue from four main taxing sources: the General Excise Tax, the Income Tax, Transient Accommodations (i.e., hotel room) Tax, and the Corporate Income Tax. The General Excise Tax (GET) is the state’s largest source of revenue; in FY 2017, it accounted for \$3.2 billion (51.3%) of the General Fund’s revenue and 44% of the state’s overall revenue (See Fig. 3 and 4).<sup>27</sup> Since the GET contributes the highest percentage to the General Fund revenue, it follows that the amount collected from this source will heavily influence the amount which the Department of Education can receive in funding; essentially, the bigger the “pot,” the more funds available for the department to request. As such, this analysis will be focusing on this particular source of tax revenue.

The General Excise Tax (GET) is a “privilege tax” levied on those who partake in business activities within the state and is based on the gross income earned by business owners. The GET is also accompanied by a “use tax” that is imposed on the value of tangible personal property, services, and any imports brought into the state from outside of Hawai‘i. This tax is unique to states with a lot of tourism that earn most of their revenue from sales, compared to any other source. Theoretically, the GET is designed to utilize the taxes paid by tourists and visitors to fund public services that benefit the local communities.<sup>28</sup> The GET rate varies depending on the business activity (i.e., it is lower on things such as insurance commissions (0.15%) and wholesaling (0.5%)) but for most part, it remains at the 4.0% rate.<sup>29</sup> Other examples of activities include construction, retailing, contracting, and rental of property. Those expected to pay the GET include: independent contractors, freelancers, small business owners, self-employed individuals, and any company with a physical presence in the state.

***Considering Local Property Taxes*** In January 2018, the Hawai‘i State Legislature introduced Senate Bill (SB) 2922 in an effort to address the growing concern of funding stability for the Department of Education. SB 2922 sought to amend the State Constitution and authorize the Legislature to levy a surcharge on “investment real property,” the proceeds of which would be used to “support public education.”<sup>30</sup> Supporters of SB 2922 argued that the proposed property surcharge had the potential to raise additional revenue for public education and tax wealthy individuals their “fair share,” leading to a

---

<sup>26</sup> Ibid, 7-8.

<sup>27</sup> “State of Hawaii Tax Review Commission: Study of the Hawaii Tax System,” *State of Hawai‘i Department of Taxation* (August 7, 2017), accessed March 18, 2019. [http://files.hawaii.gov/tax/stats/trc/docs2017/sup\\_170912/Hawaii\\_Draft%20Report\\_080717.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/sup_170912/Hawaii_Draft%20Report_080717.pdf).

<sup>28</sup> Petranik, Steve. “Should You Vote Yes or No on a Property Tax Measure?” *Hawaii Business* (September 14, 2018), accessed April 23, 2019. <https://www.hawaiibusiness.com/vote-yes-or-no/>.

<sup>29</sup> “Annual Report 2017-2018,” *State of Hawai‘i Department of Taxation* (January 2019): 3, accessed April 20, 2019. <http://files.hawaii.gov/tax/stats/stats/annual/18annrpt.pdf>.

<sup>30</sup> Hawai‘i State Legislature, Senate, *Proposing Amendments to Articles VIII and X of the Constitution of the State of Hawaii to Authorize the Legislature to Establish a Surcharge to Increase Funding for Public Education*, SB 2922, 29th Legislature, 1st session, introduced in Senate January 24, 2018, [https://www.capitol.hawaii.gov/session2018/bills/SB2922\\_HD1\\_.htm](https://www.capitol.hawaii.gov/session2018/bills/SB2922_HD1_.htm).

more equitable burden of the property tax.<sup>31</sup> However, those advocating against SB 2922 were concerned because the language of the bill was vague and nonspecific: there was no “real definition” of what classified investment properties, nor did it specify how large the surcharge would be, or how long it would be in place; the language did not explicitly set limits (floor or ceiling) on property values and it did not exempt primary residences.<sup>32</sup> Additionally, some public officials were concerned that allowing the DoE to levy property taxes would threaten the funds available to county governments.<sup>33</sup> In 2018, the majority of the county budgets were contributed to by the property taxes that were collected (Kaua‘i County: 84%, Hawai‘i County: 76%, Honolulu County: 71%, and Maui County: 77%).<sup>34</sup> In October 2018, the Hawai‘i State Supreme Court ruled the measure invalid because the ballot language was not “sufficiently clear.” As a result, election officials were ordered not to count any votes cast on the measure, even though it was printed on ballots in November.<sup>35</sup> Despite this setback, the DoE (along with the State Legislature) is still weighing all of its options to find ways that will generate more revenue and levying property taxes is still not completely off the table; however, there are some concerns that need to be addressed.

It should be mentioned that property taxes have been identified as an “efficient,” “pro-growth and least harmful” tax with less opportunity for distortion, however, there are a few key issues that must be addressed if the state were to levy residential property taxes for public education funding: (1) the current fund allocation system (i.e., WSF) should not be altered; if individual school funding were to be contingent on residential property taxes, it would diminish funding equity among schools; (2) since the current property tax rates are quite low compared to the rest of the country, one could argue that the only way to generate a significant amount of revenue is to increase the rate, which might not be popular amongst residents; and (3) if the Department of Education were allowed to levy residential property taxes for funding, it is pertinent that doing so does not decrease the amount of funds available to county governments (i.e., this should be considered as an option only if additional revenue can be generated). County governments are currently the only state entities allowed to levy local property taxes for funding and in 2017, Hawai‘i was already below the national average for spending on public safety. If the counties had to share their funding source with another department, this could risk further degradation of the standard of services currently being provided.<sup>36</sup>

A report published in 2017 by the Hawai‘i State Department of Business, Economic Development and Tourism stated that Honolulu was ranked 52 out of 53 areas studied for the lowest property tax rates in

---

<sup>31</sup> Bonham, Carl and James Mak. “Some thoughts on property taxes and school funding,” *UHERO - The Economic Research Organization at the University of Hawai‘i* (October 19, 2018), accessed March 18, 2019. <https://www.uhero.hawaii.edu/news/view/339>.

<sup>32</sup> “General Election 2018 - State Constitutional Convention and Amendment PROS and CONS,” *League of Women Voters of Hawaii* (2018), accessed March 18, 2019. <http://d2i6zaiwaewm8m.cloudfront.net/2018%20Pros%20and%20Cons%20on%20Hawaii%20State%20Questions.pdf>.

<sup>33</sup> Finnerty, Ryan and Catherine Cruz. “Battle Lines Drawn Over Property Tax Amendment,” *Hawai‘i Public Radio* (October 5, 2018), accessed March 18, 2019. <https://www.hawaiipublicradio.org/post/battle-lines-drawn-over-property-tax-amendment>.

<sup>34</sup> “General Election 2018 - State Constitutional Convention and Amendment PROS and CONS.”

<sup>35</sup> “Hawaii Surcharge on Investment Properties to Fund Public Education Amendment (2018),” *BallotPedia.org* (2018), accessed March 18, 2019. [https://ballotpedia.org/Hawaii\\_Surcharge\\_on\\_Investment\\_Properties\\_to\\_Fund\\_Public\\_Education\\_Amendment\\_\(2018\)](https://ballotpedia.org/Hawaii_Surcharge_on_Investment_Properties_to_Fund_Public_Education_Amendment_(2018)).

<sup>36</sup> “An Analysis of Real Property Tax in Hawaii,” *Department of Business, Economic Development & Tourism* (March 2017): 18, accessed March 18, 2019. [http://files.hawaii.gov/dbedt/economic/data\\_reports/real\\_property\\_tax\\_report\\_final.pdf](http://files.hawaii.gov/dbedt/economic/data_reports/real_property_tax_report_final.pdf).

the country. The property tax share of the state's revenue is also among the lowest in the nation at 12.2%.<sup>37</sup> Considering this, one can assume that levying local property taxes may not be the best source of revenue for the the DoE to expand its budget. In regards to the allocation of funds (i.e., WSF), enabling the DoE to fund schools based on residential property tax revenue would be counterproductive as well. After accounting for the homeowner exemptions which in-state residents qualify for, the effective average residential property tax rate for in-state-owners is 0.43% for the state overall; this rate also varies by county (See Fig. 5 for details). These rates are higher for out-of-state homeowners; the effective average rate being 0.83% for the state overall, but it varies by county as well (See Fig. 6).<sup>38</sup> That being said, public education funding would vary tremendously among districts if Hawai'i adopted a finance system that allocated funds to schools based on the revenue generated from local residential property taxes.

With regards to increasing the property tax rates, proponents of SB 2922 argue that levying property taxes could expand the tax base to raise more funds for education; this is especially true if the state were to increase the residential property tax rate for out-of-state residents. According to a report from 2017, approximately 12.5% of residential properties within Hawai'i are owned by non-residents.<sup>39</sup> Therefore, increasing the residential property tax rate for out-of-state homeowners would be ideal under the same premise as the GET (i.e., it would expand the state's capacity to export the burden of its taxes on non-residents). Since nearly  $\frac{1}{3}$  (32.3%) of the state's property taxes are contributed by owners are from out-of-state, perhaps Hawai'i could also impose a tax on foreign/non-resident property owners and/or a tax on homes that are not primary residences. Based on this report, raising the average out-of-state owner residential property tax rate by 0.75% (from 0.83% to 1.58%) could raise an additional \$200 million in overall revenue for the state.<sup>40</sup> Of course there are challenges presented, including administration and enforcement issues. The success of this increased rate is completely contingent on the assumption that the state can and will collect the full amount of property taxes due from out-of-state residents.

**Recommendation 1 - Raise GET by 0.5%** During the 2019 legislative session, another "controversial" school funding bill was proposed in the Hawai'i State Senate. In March, Senate Bill (SB) 1474 was overwhelmingly approved and crossed into the House for review; however, the House Finance Committee chair decided it would not get a hearing.<sup>41</sup> SB 1474 proposed to increase the state's current general excise tax (GET) rate by 0.5%, effectively raising it to 4.5%, to provide a dedicated source of funding for the Department of Education; this increase had the potential to generate at least \$200 million more for public education funding.<sup>42</sup> Senate Vice President Michelle Kidani, who is also chair of the Senate Education Committee, acknowledged the "regressive nature of the GET," however, she argued that the DoE is in dire need of additional funding and the current GET rate has remained stagnant at 4% for the past 54

---

<sup>37</sup> Ibid, 9.

<sup>38</sup> Ibid, 6.

<sup>39</sup> Ibid, 10.

<sup>40</sup> Ibid, 39.

<sup>41</sup> "Funding for Hawaii's public schools: What are lawmakers doing about it?" *KITV 4 Island News* (March 28, 2019), accessed April 15, 2019. <https://www.kitv.com/story/40217157/funding-for-hawaiis-public-schools-what-are-lawmakers-doing-about-it>.

<sup>42</sup> Nagaoka, Ashley. "How to better fund education? Teachers propose bumping up GET," *Hawaii News Now* (February 14, 2019), accessed April 15, 2019. <https://www.hawaiinewsnow.com/2019/02/15/doe-teachers-support-raising-general-excise-tax-help-fund-public-schools/>.



years.<sup>43</sup> Supporters of SB 1474 echo these sentiments, declaring that the state's public schools are severely underfunded; Corey Rosenlee, President of the Hawai'i State Teachers' Association (Hawai'i's teachers union), stated, "All this [increase] would do is cost a half penny per dollar."<sup>44</sup> However, proponents against SB 1474 argue that this tax increase, in addition to all of the other taxes Hawai'i residents pay, would add up. Even though they agree that public education is a good investment, opponents of SB 1474 believe that it would "...[only further] increase the cost of living and businesses will be forced to charge customers more to make up the tax."<sup>45</sup>

**Cons** Raising taxes under any circumstances is an unfavorable political decision, especially in a state with an already high cost of living. Other bills proposing an increase in taxes have been introduced before, but SB 1474 was considered "a long shot from the start."<sup>46</sup> There are a few challenges that would be encountered if the state decided to increase the GET rate; one such challenge, identified by Thompson, is the compounding nature of the tax.<sup>47</sup> Overall, excise taxes are considered regressive and can potentially reduce the overall progressivity of a tax system. This is especially true for larger families in lower income brackets: "The bottom quintile earns 4.3% of income, but accounts for 12% of total consumption. On average, tax units in the bottom income quintile spend nearly twice their annual income."<sup>48</sup> Taxes that are compounding could also potentially cause problems of distortion (i.e., producers selling their products directly to a consumer might pay less taxes overall compared to retailers who need to go through a wholesaler first). Additionally, since the GET is levied at each step in a transaction (i.e., from producer to wholesaler, wholesaler to retailer, then retailer to consumer), the consumer tends to bear the burden of the tax.<sup>49</sup> Even though the business is responsible for paying the GET, they can - and often do - pass this obligation on to their consumers; typically, they raise the total purchase price to include the cost of the tax.<sup>50</sup> Raising the GET could also encourage people to purchase items that the GET cannot be collected on (e.g., remote sales), and increasing the rate would also raise the costs of input purchases, making it more expensive for some businesses to operate within the state.<sup>51</sup>

**Pros** One of the most common ways for states to raise funds for public education is by increasing existing tax rates. Professors Odden and Picus state that the most "economically efficient taxes" are those with a broad base and low rate, and Hawai'i's GET meets both of these criteria.<sup>52</sup> The current rate (4%) is

---

<sup>43</sup> Lovell, Blaze. "Senate Approves Proposed Tax Increase To Help Public Schools," *Honolulu Civil Beat* (March 5, 2019), accessed April 15, 2019. <https://www.civilbeat.org/2019/03/senate-approves-proposed-tax-increase-to-help-public-schools/>.

<sup>44</sup> Nagaoka (2019).

<sup>45</sup> Ibid.

<sup>46</sup> "Funding for Hawaii's public schools: What are lawmakers doing about it?" (March 28, 2019).

<sup>47</sup> Thompson, John A. "Notes on the Centralization of the Funding and Governance of Education in Hawaii," *Journal of Education Finance* 17, no. 4 (1992): 288, <https://www.jstor.org/stable/41575922> (accessed April 10, 2019).

<sup>48</sup> Rosenberg, Joseph. "The Distributional Burden of Federal Excise Taxes," *Urban Institute & Brookings Institution Tax Policy Center* (September 2, 2015): 3, 9, accessed May 1, 2019. <https://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000365-the-distributional-burden-of-federal-excise-taxes.pdf>.

<sup>49</sup> Thompson (1992), 288.

<sup>50</sup> Rosenberg, 10.

<sup>51</sup> Fox, William F. "Final Report - Selected Issues with the Hawaii General Excise Tax," *Hawaii Tax Review Commission* (July 22, 2012): 24, accessed May 1, 2019. [http://files.hawaii.gov/tax/stats/trc/docs2012/sup\\_120724/GET-Dr.Fox.Final.revised.pdf](http://files.hawaii.gov/tax/stats/trc/docs2012/sup_120724/GET-Dr.Fox.Final.revised.pdf).

<sup>52</sup> Picus, Lawrence O. and Allan R. Odden. "Reinventing School Finance: Falling Forward," *Peabody Journal of Education* 86, no. 3 (2011): 295, <https://www.jstor.org/stable/23048629> (accessed April 15, 2019).

among the lowest compared to sales tax rates in other parts of the country, and Hawai‘i still has the highest per capita collection and broadest scope of any comparable tax in the nation (See Fig. 7); adjusting the GET rate, even by 0.5%, can also result in significant increases to the General Fund (See Fig. 8).<sup>53</sup> Since the broad tax base thrives off of the tourists who visit the state, the GET presents a unique opportunity to raise a significant amount of revenue for public education while expanding the tax burden to include everyone (e.g., locals, tourists, non-residents). Three different studies found that between 20-38% of the GET burden is exported to tourists and visitors; in addition, since the tax applies to everyone, the administrative burden is low.<sup>54</sup> According to Leong and Kamins, the GET is more comprehensive than any other tax because it has very limited exemptions and is applied to every “link” in the production chain.<sup>55</sup> In regards to the regressivity of the tax, a report conducted by the 2015-2017 Tax Review Commission for the State of Hawai‘i determined that even though the GET alone is regressive in nature, the state’s individual income tax is progressive. Thus, overall, the burden of these taxes are distributed in a “mildly progressive fashion” even among the lowest income categories (See Fig. 9).<sup>56</sup> Altogether, this tax is economically efficient (i.e., low compliance and administrative costs; with its extensively broad base, a slight increase in the rate would not outweigh the benefits of the additional revenue generated); fair (i.e., coupled with Hawai‘i’s progressive individual income tax, the burden levied on lower income families is actually mildly progressive); and relatively stable (i.e., revenue generated is closely correlated with GDP growth rather than economic trends; See Fig. 10).<sup>57</sup>

Despite the arguments against raising the GET rate, we support SB 4714 and argue that an increase would assist in providing additional funding for public education. However, rather than use this additional revenue to address the backlog of maintenance projects or to provide resources to recruit and retain teachers (as Rosenlee proposed), we recommend that the revenue be allocated to the WSF instead (i.e., for the additional \$6 million requested by the DoE according to the new Strategic Plan discussed at the beginning of this paper). Currently, teachers are paid according to their level of education, hours of professional development training, and/or years of experience; they are separated into three different steps: Class II, Class III, and Class VII (See Fig. 11 for details).<sup>58</sup> There are also bonuses available for teachers who elect to work in schools that are considered “hard-to-staff” and for teachers who complete and maintain their National Board for Professional Teaching Standards certification; teachers who maintain their national board certification and elect to teach at a school located in a focus/priority/superintendent zone, a school with a high turnover rate, or a hard-to-fill school are also eligible to receive bonuses.<sup>59</sup> So while it is true that the state struggles with teacher retention - which can be attributed to the low salary rates - because of the single, statewide school district, personnel costs are

<sup>53</sup> Colby, Seth. “Hawaii Tax System: GET.” Powerpoint Presentation, Tax Research & Planning, DOTAX, June 5, 2017: Slide 14, 26. [http://files.hawaii.gov/tax/stats/trc/docs2017/sup\\_170605/Hawaii%20Tax%20System%20GET.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/sup_170605/Hawaii%20Tax%20System%20GET.pdf) (accessed May 1, 2019).

<sup>54</sup> Ibid, Slide 18.

<sup>55</sup> Leong, Y.S. and Robert M. Kamins. “Hawaii’s General Excise After a Quarter of a Century,” *National Tax Journal* 16, no. 4 (December 1963): 365-366, <https://www.jstor.org/stable/41790961> (accessed April 10, 2019).

<sup>56</sup> “Report of the 2015-2017 Tax Review Commission,” *State of Hawai‘i Department of Taxation* (2018), accessed April 22, 2019. [http://files.hawaii.gov/tax/stats/trc/docs2017/trc\\_rpt\\_2017.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/trc_rpt_2017.pdf).

<sup>57</sup> Colby, Slide 16.

<sup>58</sup> “Teachers’ Salary Schedule - Entry Levels for New Employees,” *Hawai‘i State Department of Education Office of Talent Management* (January 2019), accessed May 1, 2019. <http://www.hawaiipublicschools.org/DOE%20Forms/OTM/TeachersSalary19-20.pdf>.

<sup>59</sup> “Teacher Salary,” *Hawai‘i State Department of Education*, accessed April 16, 2019. <http://www.hawaiipublicschools.org/ConnectWithUs/Employment/WorkingInHawaii/Pages/home.aspx>.

handled differently for Hawai‘i compared to other states. Allocating any additional revenue towards personnel costs may not be the most efficient use of funds because teachers are considered state employees and their salaries are subject to approval by certain legislative bodies (i.e., if the DoE wanted to use the additional revenue to supplement teacher salaries, it would have to be approved through the collective bargaining process, which is negotiated every three years, between the State of Board of Education and the Hawai‘i State Teachers Association (HSTA)).<sup>60</sup> Additionally, there is no guarantee that the revenue allocated to the state’s personnel budget would be earmarked specifically for public school teacher salaries. Taking this into consideration, we believe the additional revenue generated by an increase in the GET would be more effective if used to support the WSF that would directly fund student programs and resources. Perhaps the additional revenue could also be used to increase the “weight” for students in schools with smaller populations or located in geographically isolated areas.

**Recommendation 2 - *Transparency and Heightened Accountability*** According to Picus and Odden, if schools are unlikely to see increases in funding in the future, the challenge then becomes finding ways to use the resources they possess in effective and efficient ways that will lead to improved student learning.<sup>61</sup> Currently, the state of Hawai‘i still utilizes Strive HI as an accountability measure to ensure that student success is being measured on all levels of achievement, rather than just test scores; however, this accountability system still relies heavily on just quantitative methods. As such, adjustments need to be made in order to improve the *quality* of education for all students. In order to do that, the Department of Education must implement even higher standards of accountability and transparency. While the department already publishes a publicly accessible budget each year to track their spending and allocation of money, individual schools must be more uniform and transparent in their own Academic and Financial Plans due to the varying characteristics of their campuses and students.

In order for the DoE to heighten its transparency, certain accountability standards must be met; schools need to be held accountable in posting their Academic and Financial Plans so the DoE, as well as the community, can see how the allocated funds are being spent efficiently and effectively. Recently, the Education Institute of Hawaii hired EduAnalytics LLC to put together a database that would allow the public to plug in a school and find out how much is spent, as well as the specific results it yields, if any. This database would also include context of the school, such as the demographics of the community.<sup>62</sup> This would utilize a data-driven approach to look at how much money each individual school spends and what kind of results are produced from that spending. The Department of Education has a dashboard of its own, however, it is not as comprehensive as the EduAnalytics database. The DoE’s dashboard allows you to look up basic information of individual schools, such as per-pupil spending, teacher qualifications, student academic proficiency, absenteeism, and graduation rates but it does not incorporate any form of data-driven approaches.<sup>63</sup>

To increase fiscal transparency, we recommend that the DoE incorporate this useful analytical tool into their dashboard. That being said, even if a data-driven approach were to be implemented, it would not

---

<sup>60</sup> “Teachers’ Salary Schedule - Entry Levels for New Employees” (January 2019).

<sup>61</sup> Picus and Odden, 296.

<sup>62</sup> Essoyan, Susan. “Budget battle: Nonprofit Seeks Financial Data on Hawaii Public Schools,” *Honolulu Star Advertiser* (April 22, 2019), accessed May 1, 2019. <https://www.staradvertiser.com/2019/04/22/hawaii-news/budget-battle-nonprofit-seeks-financial-data-on-hawaii-public-schools/>.

<sup>63</sup> Ibid.

serve the DoE well unless the schools also publish their Financial Plans in a consistent, uniform format. While the WSF is an equitable approach to allocating funds, the bigger issue remains in ensuring that the schools - and their administrators - are using the funds effectively. Even though the establishment of mandatory School Community Councils, previously mentioned in this paper, provides some budgetary oversight for administrators and ensures that teachers, parents, students, and other members of the community are involved in the decision-making process, the fiscal responsibility ultimately lays in the hands of administrators. According to Lisa Snell, a crucial part of developing effective student-based budgets is a strong principal training program that supports the administrator's financial and academic leadership.<sup>64</sup> Roth echoes this sentiment stating, "...It would be irresponsible to put huge sums of money into the hands of individual principals without also providing support and oversight at a level that [is neither too far, nor too close]."<sup>65</sup> As such, the state should offer some kind of formal training to educate administrators on management best practices. If the DoE cannot demonstrate that its schools are spending funds effectively and efficiently and to the best of their abilities, any proposals to increase public education funding will be moot.

**Conclusion** In 2017, the state's education expenditure level (as a proportion of the state's spending on current operations) was lower than the national average and the lowest in the entire country; essentially, this means that even though the Department of Education was doing the best job they could with the funds they had, the overall amount being allocated to the DoE from the General Fund was not enough.<sup>66</sup> Economists have suggested either increasing the rate on existing taxes or broadening the base of a tax to raise additional funds for public education. Since the GET already applies to everyone in the state, raising the existing rate should be considered a viable option. However, in order to convince the public that raising their taxes is a meaningful investment and that any additional funds will not be wasted, the DoE must also take steps to ensure that: (1) they are providing more fiscal and budgetary transparency, and (2) administrators are being supported and held accountable so that funds are spent in an efficient, and most importantly, effective manner. By updating the department's dashboard system and requiring individual schools to publish uniform Academic and Financial Plans, it is probable that the Department of Education can achieve the goals and objectives it has laid out for its students. Hawai'i's unique public education system allows it to facilitate a statewide funding allocation formula that empowers individual schools and their communities, and the additional revenue from the GET can be used to support this formula. Perhaps the transient accommodations (hotel room) tax could be increased, coupled with a decrease in the state individual income tax, but further research must be conducted and is outside the scope of this project.

---

<sup>64</sup> Snell, Lisa. "A Handbook for Student-Based Budgeting, Principal Autonomy and School Choice," *Reason Foundation*, no. 22 (March 2013): 19, [https://reason.org/wp-content/uploads/files/student\\_based\\_budgeting\\_handbook.pdf](https://reason.org/wp-content/uploads/files/student_based_budgeting_handbook.pdf) (accessed May 1, 2019).

<sup>65</sup> Roth, 66.

<sup>66</sup> "An Analysis of Real Property Tax in Hawaii," 17.

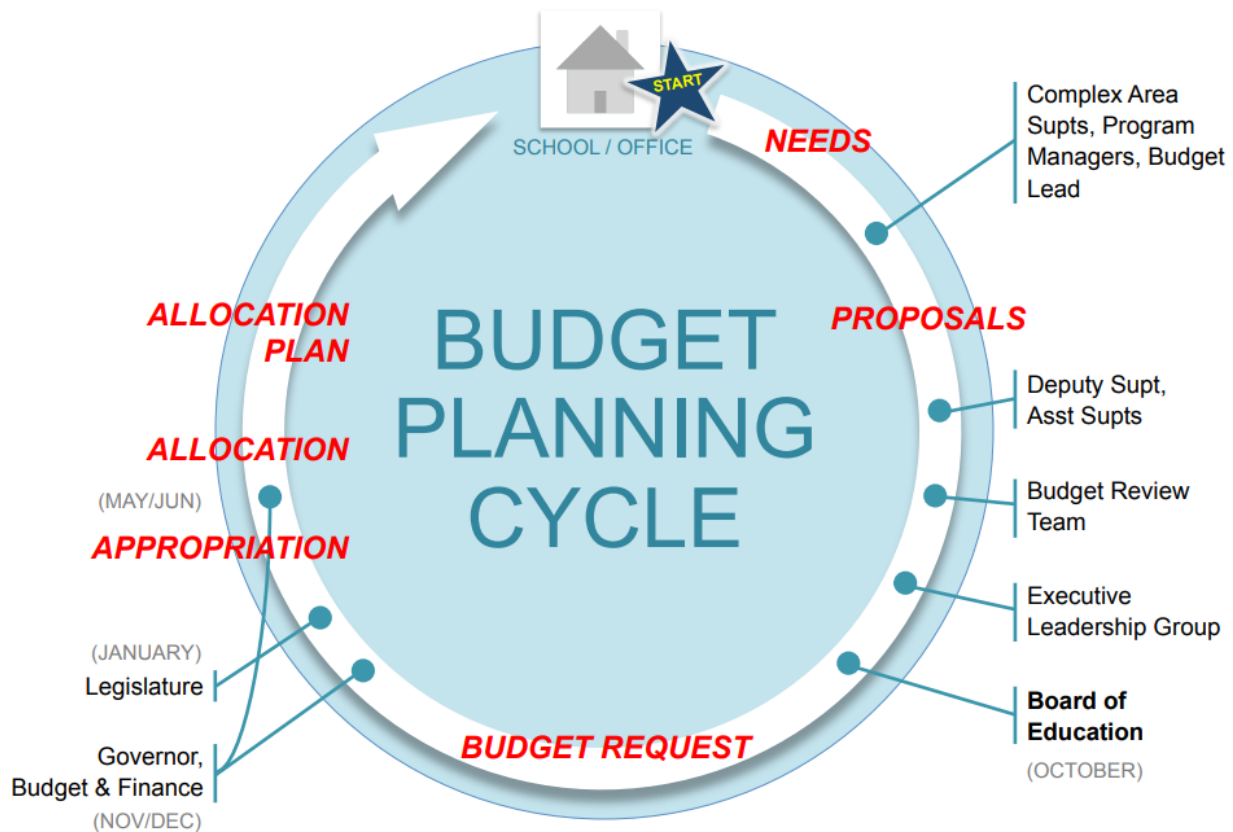


Fig. 1 - Department of Education Simplified Budget Planning Overview  
Source: <http://www.hawaiipublicschools.org/DOE%20Forms/budget/BudgetProcess.pdf>

WEIGHTED CHARACTERISTIC	WEIGHT	VALUE, FB 2019-2021
Economic Disadvantage	.100	\$448.09
English Learner (Fully English Proficient)	.065	\$290.37
English Learner (Limited English Proficient)	.194	\$871.10
English Learner (Not English Proficient)	.389	\$1,742.19
K-2 (class size)	.150	\$672.14
Middle School	.033	\$150.00
Gifted & Talented	.265	\$1,187.45
Transiency	.050	\$224.05
Neighbor Island School	.004	\$17.92

Fig. 2 - Department of Education Weighted Student Characteristics Details (Proposed FB 2019-2021)  
Source: <http://www.hawaiipublicschools.org/DOE%20Forms/budget/FB1921/WSF.pdf>



**ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF MARCH 12, 2019: FY 2019 TO FY 2025**  
Line item projections generated by Tax Research & Planning Office to be consistent with the Council's forecast for the total General Fund tax revenues  
(in thousands of dollars)

TYPE OF TAX	BASE		ESTIMATED						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
General Excise and Use Tax	\$3,239,225	\$3,395,566	\$3,477,250	\$3,600,185	\$3,729,787	\$3,859,295	\$3,992,337	\$4,113,999	\$4,257,462
Individual Income Tax	2,095,436	2,429,836	2,511,805	2,593,243	2,704,454	2,823,358	2,951,608	3,084,000	3,231,329
Corporate Income Tax	173,666	131,119	107,867	119,957	129,265	140,331	150,615	156,635	154,520
Public Service Company Tax	122,159	117,641	122,217	126,767	131,345	135,968	140,627	145,445	150,429
Tax on Insurance Premiums	164,688	159,814	161,980	165,543	169,854	174,354	179,295	193,569	200,839
Cigarette and Tobacco Tax	82,792	79,914	81,316	82,914	85,316	87,667	90,277	92,963	95,784
Liquor Tax	51,167	51,383	52,332	53,153	53,879	54,559	55,200	55,844	56,492
Tax on Banks and Other Financial Corps.	9,174	13,712	11,269	13,035	11,692	12,692	11,917	26,123	27,696
Inheritance and Estate Tax	18,968	29,351	29,967	30,570	31,166	31,758	32,345	32,944	33,553
Conveyance Tax	49,737	55,803	58,706	62,675	67,236	71,970	77,076	81,544	87,204
Miscellaneous Taxes*	15,845	16,633	16,764	16,763	16,759	16,754	16,749	16,743	16,738
Transient Accommodations Tax	292,357	315,264	368,444	415,109	440,358	465,249	490,867	516,661	545,083
<b>GENERAL FUND TOTAL</b>	<b>\$6,315,215</b>	<b>\$6,796,036</b>	<b>\$6,999,917</b>	<b>\$7,279,914</b>	<b>\$7,571,111</b>	<b>\$7,873,955</b>	<b>\$8,188,913</b>	<b>\$8,516,470</b>	<b>\$8,857,129</b>
<b>GROWTH RATE</b>	<b>2.0%</b>	<b>7.6%</b>	<b>3.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>

\* The figures on this line include penalty and interest charges, fees and license charges from various taxes, and allocations to the General Fund from the environmental response, energy and food security tax.

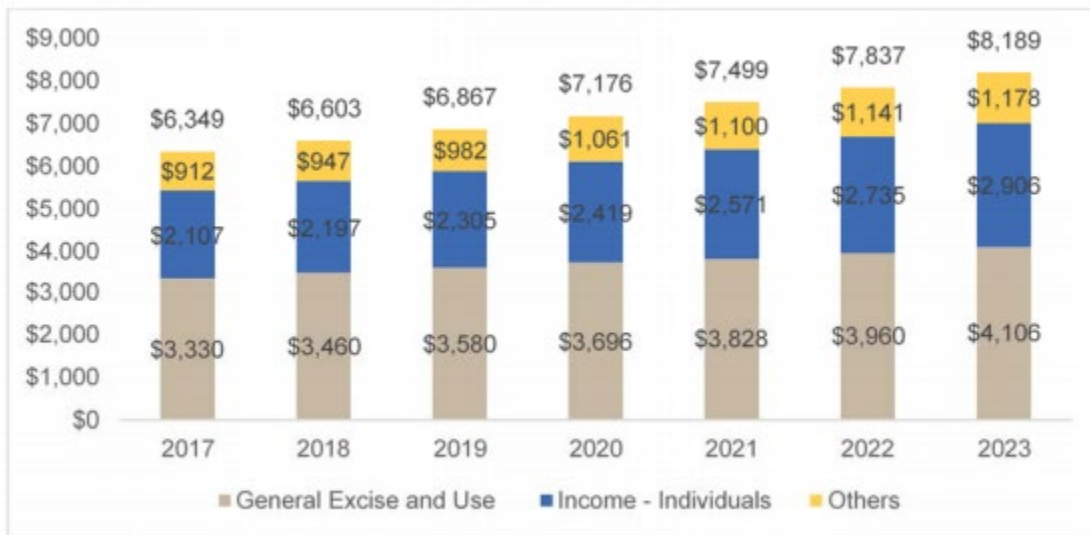
g:\data\trp\cor\forecast\gf1903\ModelGF1903\_FINAL.xlsx

March 12, 2019

Fig. 3 - General Fund Tax Revenue Breakdown: FY 2017, FY 2018, Projections FY 2019-2025

Source: [http://files.hawaii.gov/tax/useful/cor/2019gf03-12\\_attach\\_1.pdf](http://files.hawaii.gov/tax/useful/cor/2019gf03-12_attach_1.pdf)

**Figure 1: Hawaii Projected Tax Collections (General Fund), 2017-2023**



Source: Council on Revenues Estimates as of May 30, 2017

Fig. 4 - Projected Tax Collections for General Fund (2017-2023) (p. 9)

Source: [http://files.hawaii.gov/tax/stats/trc/docs2017/sup\\_170912/Hawaii\\_Draft%20Report\\_080717.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/sup_170912/Hawaii_Draft%20Report_080717.pdf)

Statewide Average	HI County	HNL	Maui	Kauai
0.43%	0.90%	0.38%	0.56%	0.49%

Fig. 5 - Effective average property tax rates for in-state residents, varying by state and counties (p. 38)

Source: [http://files.hawaii.gov/dbedt/economic/data\\_reports/real\\_property\\_tax\\_report\\_final.pdf](http://files.hawaii.gov/dbedt/economic/data_reports/real_property_tax_report_final.pdf)

Current out-of-state Owner Effective Average Rates:	HI County	HNL	Maui	Kauai
<b>0.83%</b>	<b>2.22%</b>	<b>0.46%</b>	<b>1.05%</b>	<b>1.01%</b>

Fig. 6 - Effective average property tax rates for out-of-state residents, varying by state and counties (p. 39)

Source: [http://files.hawaii.gov/dbedt/economic/data\\_reports/real\\_property\\_tax\\_report\\_final.pdf](http://files.hawaii.gov/dbedt/economic/data_reports/real_property_tax_report_final.pdf)

Amongst the lowest sales tax rates in the country						Highest per capita collections of any state			Broadest scope of sales tax of any state		
State	State Tax Rate	Rank	Avg. Local Tax Rate	Combined	Rank	State	Collections per Capita	Rank	State	Sales Tax Breadth	Rank
La.	5.00%	33	4.98%	9.98%	1	Hawaii	\$ 2,090	1	Hawaii (a)	104%	1
Tenn.	7.00%	2	2.46%	9.46%	2	N.D.	\$ 1,835	2	N.D.	73%	2
Ark.	6.50%	9	2.80%	9.30%	3	Wash.	\$ 1,746	3	S.D. (a)	65%	3
Ala.	4.00%	40	5.01%	9.01%	4	Nev.	\$ 1,412	4	Wyo.	62%	4
Wash.	6.50%	9	2.42%	8.92%	5	Wyo.	\$ 1,384	5	N.M. (a)	59%	5
Okla.	4.50%	37	4.36%	8.86%	6	Tex.	\$ 1,226	6	Nev.	49%	6
Ill.	6.25%	13	2.39%	8.64%	7	Miss.	\$ 1,144	7	Miss.	47%	7
Kans.	6.50%	9	2.12%	8.62%	8	Conn.	\$ 1,137	8	Ark.	43%	8
N.Y.	4.00%	40	4.49%	8.49%	9	S.D. (b)	\$ 1,131	9	Tex.	42%	9
Calif.	7.25%	1	1.00%	8.25%	10	Ind.	\$ 1,100	10	Maine	41%	10
Hawaii	4.00%	40	0.35%	4.35%	45	N.M. (b)	\$ 1,082	11	Ariz.	41%	11
						Fla.	\$ 1,075	12	Fla.	40%	12
						Ark.	\$ 1,069	13	Ind.	40%	13
						Kans.	\$ 1,049	14	Idaho	38%	14
						Ohio	\$ 1,025	15	Wash.	38%	15

Fig. 7 - Hawai'i GET rate, Per capita collections rate, and Scope of tax comparison (Slide 14)

Source: [http://files.hawaii.gov/tax/stats/trc/docs2017/sup\\_170605/Hawaii%20Tax%20System%20GET.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/sup_170605/Hawaii%20Tax%20System%20GET.pdf)

## GET headlines numbers and revenue Implications (thousands)

Rate Changes	3.5%	4.0%	4.5%	5.0%	5.5%
Rev Collection	2,820,970	3,205,733	3,590,496	3,975,260	4,360,023
Net Impact	(384,763)	0	384,763	769,526	1,154,290
% of GET	-12.0%	0.0%	12.0%	24.0%	36.0%
% of GF	-6.2%	0.0%	6.2%	12.4%	18.6%

Year 2016

Fig. 8 - Projections of General Fund revenue per 0.5% increase in GET rate (Slide 26)

Source: [http://files.hawaii.gov/tax/stats/trc/docs2017/sup\\_170605/Hawaii%20Tax%20System%20GET.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/sup_170605/Hawaii%20Tax%20System%20GET.pdf)

**TABLE 3 - ESTIMATED BURDENS OF MAJOR STATE TAXES FOR A FAMILY OF THREE, BY INCOME LEVEL**

Tax Type	Household Income Level				
	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
<b>GET</b>	\$1,281	\$1,847	\$2,184	\$2,598	\$3,219
Percent of Income	5.1%	3.7%	2.9%	2.6%	2.2%
<b>Individual Income Tax</b>	\$0	\$1,858	\$3,413	\$4,951	\$8,499
Percent of Income	0.0%	3.7%	4.6%	5.0%	5.7%
<b>Auto Taxes</b>	\$200	\$210	\$295	\$372	\$375
Percent of Income	0.8%	0.4%	0.4%	0.4%	0.3%
<b>Total Tax Burden</b>	\$1,481	\$3,915	\$5,892	\$7,921	\$12,094
Percent of Income	5.9%	7.8%	7.9%	7.9%	8.1%

Notes: Based on data for 2015, but adjusted to include the effects of the State's Earned Income Tax Credit, which was established by Act 17, SLH 2017.

Source: PFM Group Consulting LLC (November 14, 2017), *Op. cit.*, page 48.

Fig. 9 - Tax burden based on income level for a family of three (p. 18)

Source: [http://files.hawaii.gov/tax/stats/trc/docs2017/trc\\_rpt\\_2017.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/trc_rpt_2017.pdf)

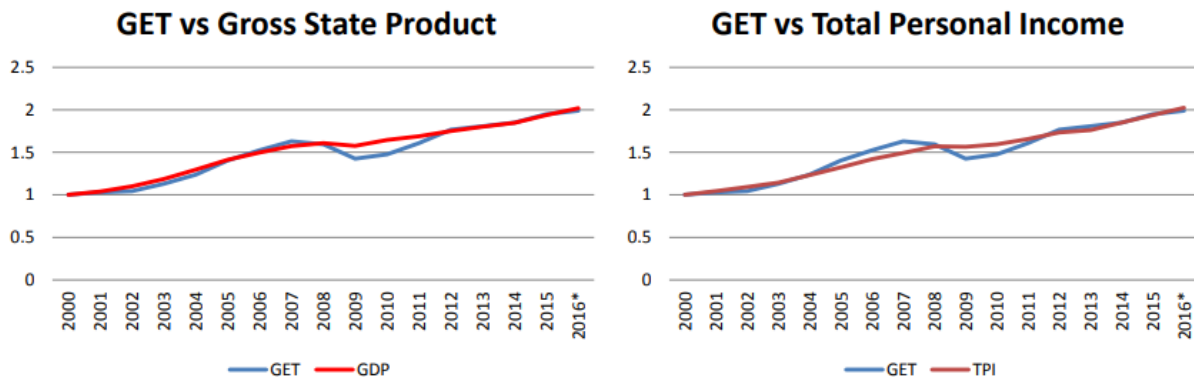


Fig. 10 - Trends of revenue generated from GET compared with trends in state GDP and TPI (Slide 16)

Source: [http://files.hawaii.gov/tax/stats/trc/docs2017/sup\\_170605/Hawaii%20Tax%20System%20GET.pdf](http://files.hawaii.gov/tax/stats/trc/docs2017/sup_170605/Hawaii%20Tax%20System%20GET.pdf)

Years of Teaching Experience Prior to HDOE	Class II Bachelor's		Class III Bachelor's + 30 or Master's		Class VII PhD or EdD	
	Without 21 hrs	With 21 hrs	Without 21 hrs	With 21 hrs	Without 21 hrs	With 21 hrs
* No SATEP 1	\$36,708	\$37,218	\$39,645	\$40,195		
** SATEP 5 (0-4 yrs)	\$48,428	\$49,100	\$52,302	\$53,028	\$62,362	\$63,228
6 (5-6 yrs)	\$49,881	\$50,574	\$53,871	\$54,619	\$64,234	\$65,126

Fig. 11 - Hawai'i Teachers' Salary Schedule (School Year 2019-2020)

Source: <http://www.hawaiipublicschools.org/DOE%20Forms/OTM/TeachersSalary19-20.pdf>