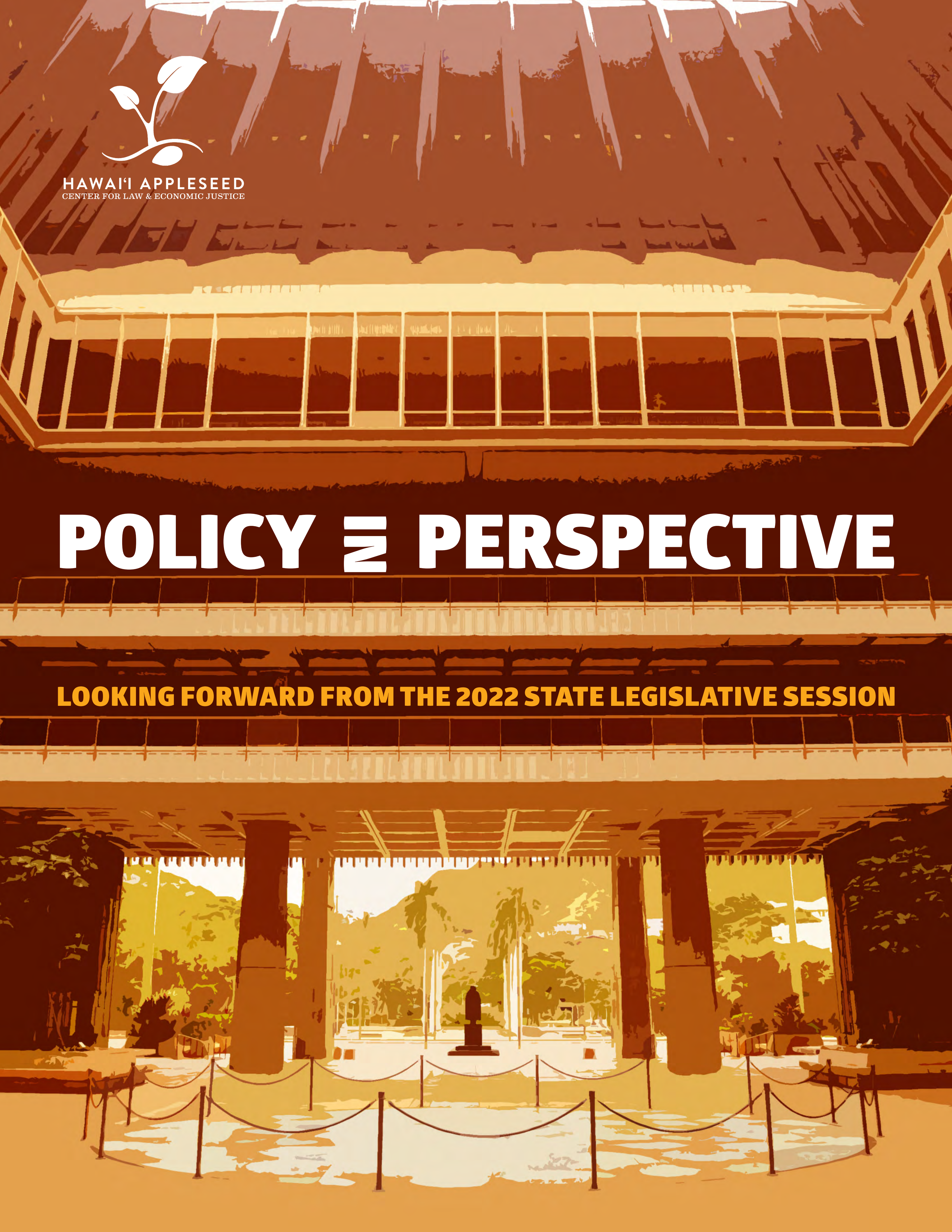
HAWAIʻI APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

POLICY IN PERSPECTIVE

LOOKING FORWARD FROM THE 2022 STATE LEGISLATIVE SESSION



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Author: Will Caron

Hawaiʻi Appleseed envisions a Hawaiʻi that puts its people first—a Hawaiʻi where everyone can meet their basic needs while living happy, healthy and creative lives. We advocate for economic justice for and with Hawaiʻi's people.

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EXECUTIVE SUMMARY

AN ECONOMY THAT HELPS EVERYONE in Hawai‘i thrive is possible. The economic forces that shape our communities aren't natural phenomena out of our control. Rather, they were created through policy choices. That means policymakers can alter and improve the rules by which the economy operates so that it delivers the opportunity for everyone to meet their basic needs and live happy, healthy and creative lives.

And yet, today, we have an economy that too often fails to achieve this outcome. Instead, policy choices can reinforce systemic barriers that prevent many in Hawai‘i from accessing this promised opportunity. We should collectively strive to craft policies that dismantle those barriers. Doing so would create a more equitable society and a healthier community here in the Hawaiian Islands.

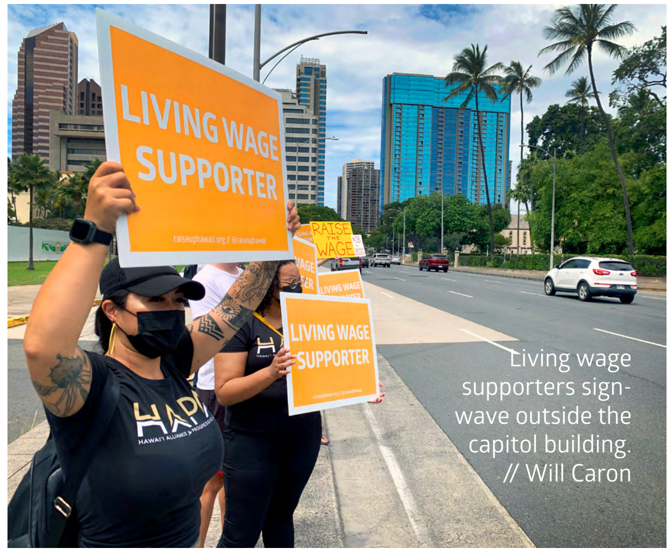
Finding the path through the legislative process to successfully implement these policies requires the joint efforts of concerned community members, community-based organizations, businesses, researchers and government officials who share in this vision of a local economy that democratizes its prosperity to all, and not just the few.

The 2022 Hawai‘i legislative session included extraordinary examples of the types of actions policymakers can take to rewrite the economic rulebook. Highlights from the session include:

- **Raising the minimum wage to $18 by 2028**, which is projected to generate $1 billion in additional wages to over 200,000 workers each year, increasing the annual income of minimum wage workers by $16,400 (up from the $21,000 they currently earn) (HB2510);
- **Expanding and making permanent Hawai‘i's Earned Income Tax Credit** (EITC), a wage supplement that will reach some 100,000 households each year, providing a total of $40 million, annually, targeted toward struggling working families with children (HB2510);
- **Appropriating $600 million for the Hawai‘i State Department of Hawaiian Homelands** (DHHL) to address Hawai‘i's affordable housing crisis starting with Hawaiian Homeland beneficiaries, many of whom have been waiting decades for a homestead (HB2511);
- **Creating a $500 per month housing subsidy** for low-income families using $23 million in unused federal Temporary Assistance for Need Families (TANF) funds (HB2233);
- **Creating protections from discrimination** against families that rely on Section 8 vouchers to help pay for their housing (SB206), and creating an incentive program for landlords to participate in Section 8 (HB1752); and
- **Combatting houselessness** through extension of the ‘Ohana Zones Program and provision of regulatory exemptions for permanent supportive housing (HB2512).

Changes of this magnitude are rare, but they need not be. The purpose of this report is to review the 2022 legislative session to better understand these outcomes. What worked well in achieving them? And where do we still need to improve so we can continue to reshape our economy into one that is more robust, sustainable, and supportive of all of Hawai‘i's people?

Our 2021 Policy in Perspective report identified the need for "a dramatic shift in our public policy that is capable of bringing forth transformational change in our economic and social systems." That report concluded that 2021 was "a serious missed opportunity for addressing the deep flaws in our system." For this year's report, we are focused on what was different about 2022 that facilitated a much more productive legislative session so that we can continue to build on the foundation for change that has been established.



Living wage supporters sign-wave outside the capitol building. // Will Caron

So why was the 2022 legislative session so much more successful than other previous sessions? Our analysis has four main takeaways:

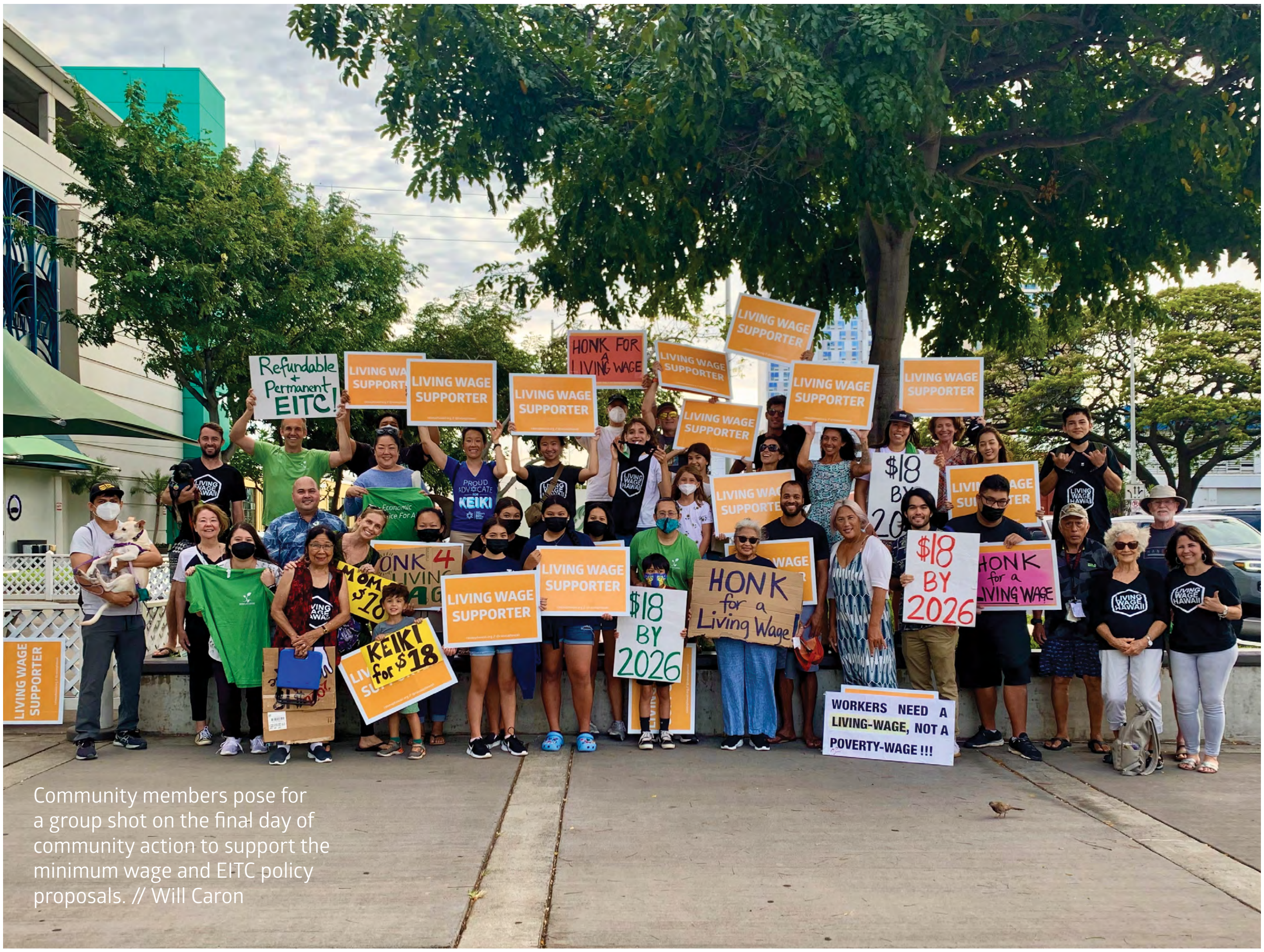
1. **Sufficient revenue helps policymakers turn long-discussed ideas into action.** The more than $6 billion in federal pandemic relief funds allocated to the state and counties bolstered Hawai‘i's economy, giving state legislators the ability to invest the large sums of money necessary to patch Hawai‘i's badly-frayed social safety net and help working families deal with our high cost of living.[1] Rather than wait and hope for federal dollars, Hawai‘i can transform its state and county tax codes to provide a steady revenue stream while alleviating costs to working families and stimulating the economy.

2. **Political pressure makes a difference.** 2022 is a major election year in which every state legislator is up for reelection due to redistricting.[2] With Hawai‘i's soaring cost of living top of mind with a pandemic-weary population, politicians in every legislative district want to be able to say they delivered economic relief to a growing number of struggling voters.[3]

3. **Sustained coalition efforts are necessary.** Because it often takes years to get transformational policy fixes through the legislature, coalitions of organizations and people can help sustain the effort. Collaboration with other advocates can help focus messaging around an issue and drive cohesive campaign efforts efficiently, transferring community energy into legislative success. Seeking unconventional allies and broadening the range of support for an issue can make coalitions more effective.

4. **Centering impacted communities is critical to success.** Building meaningful relationships with everyday working families, bringing them into the policy process, and centering their voice enables us to cut through the distraction and disinformation presented by opponents of change. Data can show why change is needed and why policies make sense, but it's the people that these policies impact that can show lawmakers—viscerally—why these policy changes matter, and how urgently they are needed. In the end, it's people power that drives policy change forward, so putting people first is essential.

POLICY WINS



Community members pose for a group shot on the final day of community action to support the minimum wage and EITC policy proposals. // Will Caron

MINIMUM WAGE & THE EARNED INCOME TAX CREDIT (EITC)

Background on the policies: The EITC and minimum wage are two different, but complementary approaches to helping ensure Hawai‘i’s working families can afford to put food on the table and keep a roof over their heads in the immediate future.

Hawai‘i workers are faced with the largest gap in the country between the median wages earned and the cost of living.[4] Based on Hawai‘i State Department of Business, Economic Development and Tourism (DBEDT) estimates adjusted for inflation, a single worker with no children needed to earn at least $19.56 per hour at the outset of 2022 just to cover their basic needs, and that's on the low end of living wage estimates for Hawai‘i.[5]

In 2018, the final step in the previous minimum wage increase law brought Hawai‘i's minimum wage workers up to $10.10 an hour.[6] That means, working full time, a minimum wage earner in Hawai‘i was making just $21,000 a year. In the state with the highest cost of living, it was impossible for even a single adult with no children to survive on that amount.

Since 2018, Hawai‘i's legislature left the minimum wage to stagnate for years without an increase, allowing inflation to erode wages that were already insufficient to live on. Advocates began fighting for a new bill to increase the minimum wage even before 2018 and have returned every year since, hoping to push the state into doing more than simply keeping up with inflation. Rather, the goal has been to start closing some of the gap between wages and rising cost of living here in Hawai‘i, with the ultimate aim of achieving a minimum wage that is a true living wage.

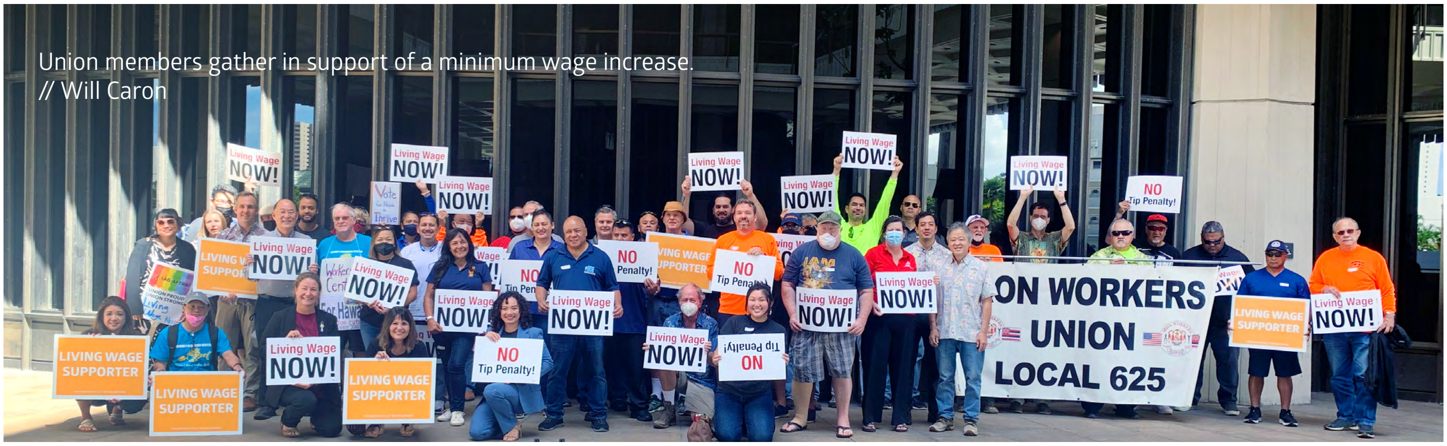
The federal EITC has long acted as a wage supplement for families that are working, but not earning enough to meet their basic needs, including many minimum wage earners. The tax credit reduces or eliminates workers' tax liability.

Because the EITC is targeted at families with children, it is particularly effective at alleviating the impact of child poverty. About 18,000 children in Hawai‘i are kept out of poverty due to the federal EITC each year.[7] This tax credit offers working families a hand up by encouraging and supporting work, and by letting workers keep more of what they earn.

In 2017, the Hawai‘i State Legislature passed a bill establishing a state-level EITC, providing an additional 20 percent of the value of the federal EITC for eligible families. However, unlike the federal credit, the state credit was made to be "non-refundable," which ultimately means that the workers paid the lowest wages are unable to take full advantage of the state level credit.

The legislature also set the EITC to expire at the end of 2022.[8] Advocates have been working ever since 2017 to expand the EITC to make it both permanent and refundable, which would ensure stability and double the cumulative value of the credit, from roughly $20 million per year to $41 million—with most of the additional benefit going to the lowest wage workers who need the most support.[9]

The EITC is a modest investment that can make a big difference in the lives of working families. But, on its own, it carries the risk of serving as a subsidy for low-paying employers. As it works to support low-income working families, this could potentially enable employers to pay sub-living wages to their employees, relying on the public to provide the additional support necessary for their workers to survive. Coupling the EITC with a robust minimum wage—one that brings us closer to a true living wage—helps to mitigate this issue while ensuring that someone working 40 hours a week is better able to make ends meet.



Union members gather in support of a minimum wage increase. // Will Caron

THE HAWAIʻI TAX FAIRNESS COALITION

Created ahead of the 2017 legislative session, the Hawaiʻi Tax Fairness Coalition was the driving force outside the legislature for supporting passage of the original state EITC program.

Since then, the coalition has continued to push for changes to make the state tax system more equitable, and more effective at delivering the revenue needed for critical state investments in working families. That means putting more money into the pockets of working class families through tax credits like the EITC, and increasing taxes on high-income earners and corporations who currently pay a lower effective tax rate than the working class. The dual action of these two kinds of tax fairness policies would simultaneously boost the economy through increased consumer spending, and deliver the kind of steady revenue stream needed to transform our economy into one that works for everyone.

This became the focus of the coalition during the 2021 legislative session, when it proposed a suite of tax fairness bills aimed at raising revenue from the wealthy and corporations, in a variety of equitable ways, to help prevent cuts to programs for working families that were desperately needed during the pandemic, and to lay the groundwork for future investments.[10] The life-saving influx of federal funding preserved and temporarily expanded needed programs, but it also lessened the urgency around making the tax code changes necessary for Hawaiʻi's prosperity over the long term. The legislature did not pass a single coalition proposal that year.

With the state's non-refundable EITC program set to expire at the end of 2022, the coalition switched gears and concentrated its efforts on making sure the legislature committed to making this critical working families tax credit permanent and expanding it so the workers most in need have access to its full benefits.

RAISE UP HAWAIʻI

Created ahead of the 2019 legislative session, the Raise Up Hawaiʻi coalition coordinated the effort to raise the state minimum wage after its last increase capped out at $10.10 in January of 2018. It was clear that there was a need for a broad and unified coalition to come together around the idea that workers should be able to earn enough to put food on the table and a roof over their heads.

In 2019, Raise Up Hawaiʻi pushed for a $17 minimum wage increase by 2024 to match the State Department of Business, Economic Development and Tourism (DBEDT)'s inflation-adjusted self-sufficiency standard for 2016.[11]

A bill that would have raised the minimum wage to $13 by 2024 for businesses that provide employer-sponsored health insurance and $15 for businesses that do not, made it all the way to a conference committee. There, legislators balked at last minute concerns raised by the Department of Labor and Industrial Relations (DLIR), which testified for the first time in the process during this hearing that the healthcare carve out might invite legal challenges.[12]

In 2020, Raise Up Hawaiʻi was back with the same demand: $17 by 2024. In response, both chambers of the legislature and Governor David Ige got together to announce a working families package of bills that would include both an EITC expansion and a minimum wage increase—though only up to $13 by 2024—as well as several hundred million dollars in housing investments.[13]

Then, before Raise Up Hawaiʻi could even begin to organize in support of a better deal for workers, the COVID-19 pandemic struck, and legislative leadership scrapped their entire working families package over concerns about the economy and a potential budget deficit.

In 2021, with uncertainty over the pandemic still a major factor in the legislative outlook, a proposal to raise the minimum wage to $12 in one step beginning in 2022 failed to get even a single hearing in the State House labor committee.

Movement through the legislative process: Multiple bills concerning the EITC and minimum wage were introduced at the legislature in 2022. In the end, both policies were implemented through the same bill—HB2510—but the path legislators took to arrive there was anything but straightforward.

First, the Senate demonstrated strong support for a robust minimum wage increase by passing Senate labor committee chair Brian Taniguchi's bill–SB2018–within just 10 days of the start of the legislative session. The bill—which proposed to bring the state minimum wage up to $18 by 2026 in four steps—passed through two Senate committees and a 24–1 Senate floor vote.

House labor chair Richard Onishi never scheduled SB2018 for a hearing. Instead—more than two weeks after SB2018 arrived in the House, Rep. Onishi finally heard the House's first and only minimum wage bill considered during the session.

The bill, HB2510, was a House leadership omnibus bill that contained three proposed tax credit expansions (to the low-income renters credit, the food/excise credit, and the EITC), as well as a much slower minimum wage increase up to $18 by 2030 reluctantly supported by business industry lobbyists. The wage increase also came paired with an increase in the tip penalty—the amount employers are allowed to deduct from their tipped employee's paychecks.

In response to the weak minimum wage proposal in HB2510, advocates from Raise Up Hawai'i organized more than 100 pieces of testimony and thousands of emails to legislators insisting that the $18 by 2030 wage increase schedule was too slow, and that a tip penalty expansion would harm Hawai'i's working people. Because the bill did include an expansion of the EITC, advocates coordinated with Hawai'i Tax Fairness to make sure that messaging included support for the tax credit portion of the bill.

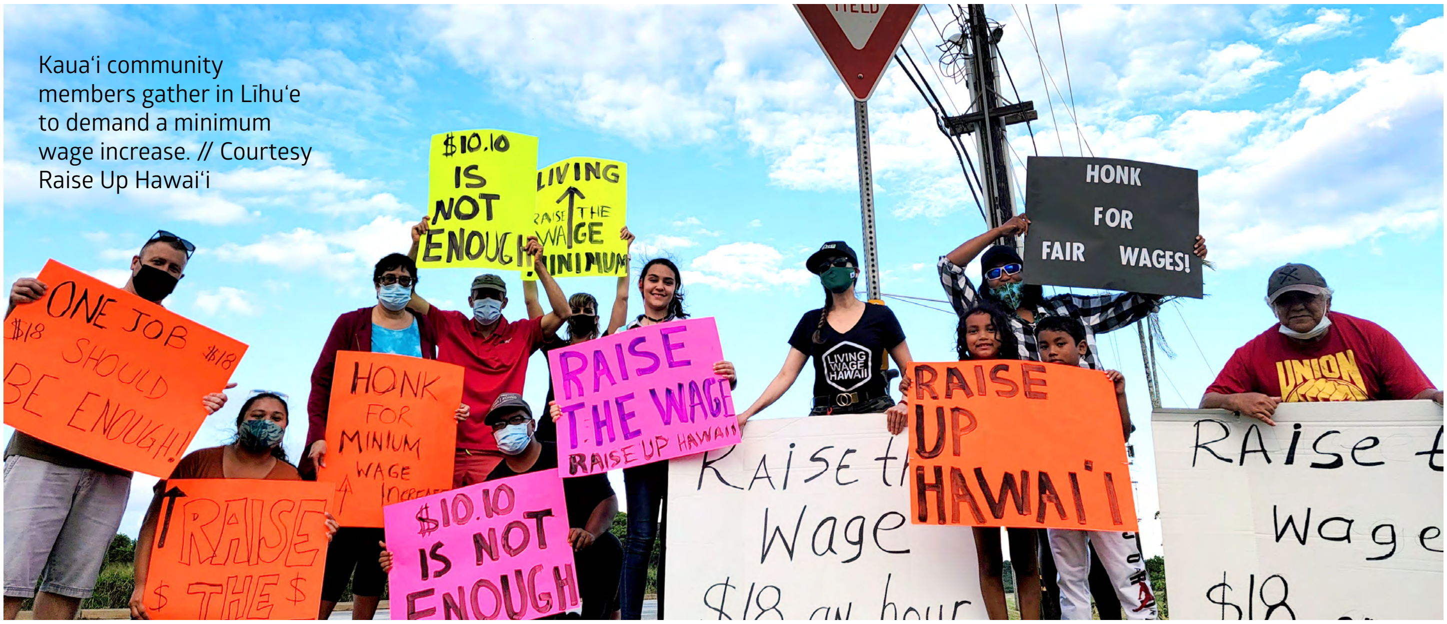
Representative Onishi ultimately passed out an amended version of the bill that made none of the changes advocates requested, except to add in a provision that would have required automatic annual minimum wage adjustments after 2030. However, when the bill reached House finance committee chair Sylvia Luke, the beginnings of a true compromise began to emerge. Representative Luke removed two of the tax credits from the bill (to avoid snags in some of the tax credit language that threatened to sink the whole bill), but left the EITC expansion intact. She also accelerated the wage increase schedule to $18 by 2028, over the objections of the business lobby, but left the tip penalty increase intact as well.

In the meantime, on the Senate side, although there was strong support for a robust minimum wage increase, none of the EITC bills introduced in the Senate were passed out of the chamber. After the House passed a bill (HB1507) that would have made the EITC refundable and permanent, while also eliminating the special tax rate on capital gains by treating it as regular income, the Senate never scheduled it for a hearing.

Once the Senate received the amended HB2510 from the House—which included both EITC and a minimum wage increase to $18 by 2028, Senate labor committee chair Taniguchi removed all mention of the EITC. He also replaced the House's wage increase schedule with the schedule from his own SB2018, which the House had refused to hear. And he went even further, reversing the House proposal to increase the tip penalty and, instead, inserting language to completely phase-out the existing tip penalty by 2026.

With the legislative session entering its final stages, the apparent lack of support for the EITC expansion within the Senate became a concern to advocates in the Hawai'i Tax Fairness Coalition. It began to look as if the Senate might be unwilling to advance any EITC proposal at all. Instead, it appeared that EITC had become a bargaining chip in the battle between the House and Senate around minimum wage, with the Senate using the threat of not passing EITC as leverage to get a more robust minimum wage than the watered-down minimum wage increase preferred by the House.

In one of the few remaining opportunities to influence the outcome on HB2510—the most likely vehicle for



Kauaʻi community members gather in Līhuʻe to demand a minimum wage increase. // Courtesy Raise Up Hawaiʻi

passing both the EITC proposal and a minimum wage increase—the Hawaiʻi Tax Fairness called on the Senate Way & Means committee, chaired by Sen. Donovan Dela Cruz, to restore the EITC component, but the committee took no such action. Four days later, the full chamber approved the Senate version of HB2510, which focused solely on minimum wage, with 24 ayes (one with reservations from Senator Glenn Wakai) and one no vote (from Senator Gil Riviere).

Since the Senate had completely changed the House's bill (while the House had refused to hear the Senate's at all), a new compromise would need to be reached in a conference committee consisting of representatives from both chambers. If lawmakers failed to reach such a compromise, all hope for either a wage increase or an EITC expansion would die for the fourth year in a row.

For Hawaiʻi's struggling working families, this would be a disaster for obvious reasons. In a major election year though, failure to pass these policies could be disastrous for politicians as well. With advocates successfully focusing media and public attention onto the issue, such a failure would be abundantly clear to all. Fortunately, with diplomatic support from key lawmakers, a compromise was worked out the night before the deadline.

The compromise bill would, in the end, reinstate the House minimum wage schedule of $18 by 2028. It would also increase the tip penalty, but by less than the House had originally proposed. And the expanded EITC language was salvaged and placed back into the bill. Together, these components delivered an imperfect bill that was nevertheless a significant win for Hawaiʻi's working families in the area of affordability and fighting the high cost of living.

Crucially, in 2028, this legislation will put Hawaiʻi's low-wage workers closer to a true living wage, closing the gap between cost of living and wages by somewhere just shy of 50 percent.[14]

HOUSING

While the minimum wage and EITC policies address the problem of inadequate income for working families to survive on right now, in the longer term, it is critical that we also bring down the cost of living. And there's no bigger contributor to our highest-in-the-nation cost of living than our housing costs, which are three times the national average.[15]

Advocates have been sounding the alarm about our out-of-control housing crisis for years and have urged the legislature to make concerted, consistent efforts to invest heavily in affordable housing development, along with a wide range of supports that can stabilize and begin to reduce our housing costs.[16] [17] In 2022, the legislature took a significant step forward through the passage of four separate reforms.

Investment in Hawaiian Homelands: A pair of companion bills (HB2511/SB3359) represented the proposed investment of $600 million in public funds for Native Hawaiian beneficiaries through DHHL. As signaled by the huge number of introducers attached to both bills (46 representatives—every single Democrat in the House; and 17 of 25 Senators, including its lone Republican), this proposal was a top priority for the legislature, was widely discussed in the media throughout the legislative process, and was highly visible to the public.

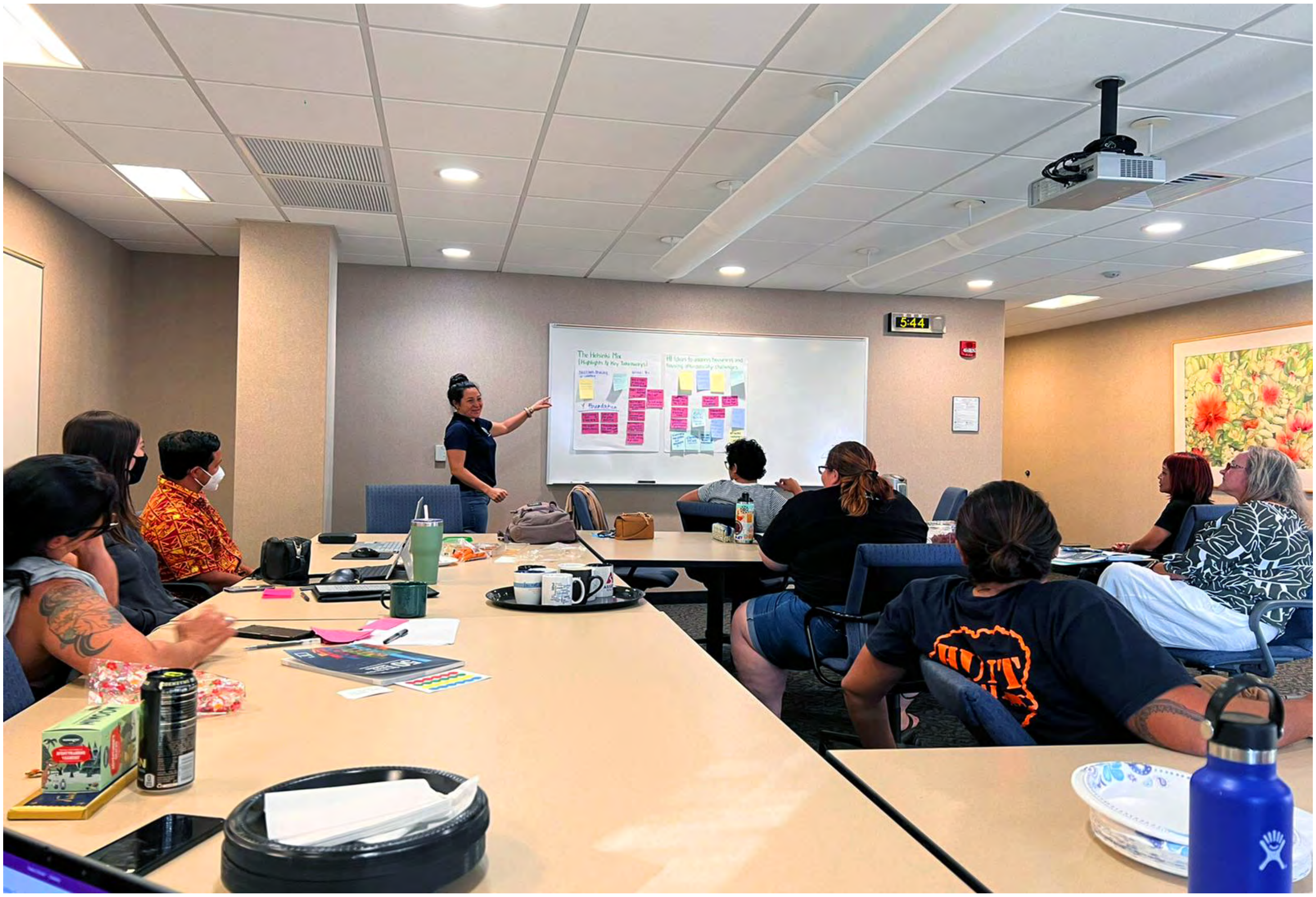
Coming off the heels of a 2020 article by *Star-Advertiser* reporter Rob Perez and *ProPublica* reporter Agnel Philip,[18] which brought national attention to the severe backlog of Hawaiian Homelands beneficiaries and the state's failure to live up to its fiduciary duties in managing the trust, the commitment to invest heavily in DHHL also coincided with the state's decision to finally settle a 23-year-old lawsuit regarding this same failure.[19] While the money—collectively close to $1 billion—only begins to make up for the harm caused by the colonization of the Hawaiian Islands by the United States, Leone Kalima, a lead plaintiff in the lawsuit, said it has the potential to "change thousands of lives."[20]

Transitional housing support: A number of bills looked at the concept of ʻOhana Zones, or kauhale-style communities, as an important component in the continuum of strategies needed to address the houselessness crisis in Hawaiʻi. One of the critical elements of a comprehensive housing plan is transitional housing—simple shelters that help stabilize people dealing with housing insecurity.

The ongoing success of communities like Puʻuhonua o Waiʻanae demonstrate the importance of this part of the continuum of policy needed to address housing and homelessness.[21] Yet, current law makes it difficult to replicate that success.

Out of the multiple bills introduced on this topic, advocates—particularly those with lived experience with housing insecurity and houselessness—preferred SB3018, which would have established a statewide program for kauhale. Kauhale are small homes organized around services and shared communal living, modeled off of initiatives like Puʻuhonua o Waiʻanae.

Importantly, SB3018 would have also made the wise decision to establish a community council to inform the development of transitional housing, with seats reserved for people with lived houselessness experience.



Community advocates meet to discuss housing policy and legislative strategy ahead of the 2023 legislative session. // Kenna StormoGipson

Puʻuhonua o Waiʻanae, afterall, wasn't a state initiative. It was built from the grassroots up by the people impacted by houselessness themselves, taking charge and filling the need that they saw around them in their community. Those are the people who know best what works and what doesn't when it comes to transitional housing, and the bill included an opportunity to put that people-first approach practice into law.

The bill that ended up passing, however, was HB2512. Although it did not include the community council proposal, it did include some improved kauhale language that was inserted thanks to the testimony and recommendations of advocates.

Rental assistance support: Rental housing assistance—in the form of vouchers or other subsidies—can help many of our low- and very low-income households to obtain and keep a rental unit while staying within their community. However, once households receive vouchers they often have a difficult time finding landlords and property managers who will allow them to apply for rental units. As a result, many families that have secured a subsidy lose it simply because they are unable to find a rental that will accept their voucher.

Many advertisements for rentals include language such as “No vouchers” or “No Section 8.” These types of practices are called rental source of income (SOI) discrimination, or discrimination based on where a person’s rental money comes from (i.e., in part or in full from a voucher or subsidy).

Exclusionary practices based on a household’s voucher status keeps people houseless or living in situations of housing instability for longer, and contributes to households losing vouchers they may have been waiting for years to receive. Prohibiting SOI discrimination in Hawai‘i would help to level the playing field and would give households with rental assistance a better chance at getting into safe and stable housing.

After failing to pass a bill addressing SOI discrimination in 2021, the legislature passed two bills this year. HB1752 creates a housing choice voucher landlord incentive program to encourage more landlords to see housing vouchers as assets, not liabilities, when it comes to covering rent. Indeed, the vouchers represent guaranteed rental income from the government.

However, many landlords carry a negative stigma that voucher recipients will be bad tenants, simply because they are low-income. And some landlords are concerned that participation in the Section 8 program could add more cumbersome processes to renting their unit. HB1752 creates financial incentives to mitigate these concerns and encourage landlords to participate.

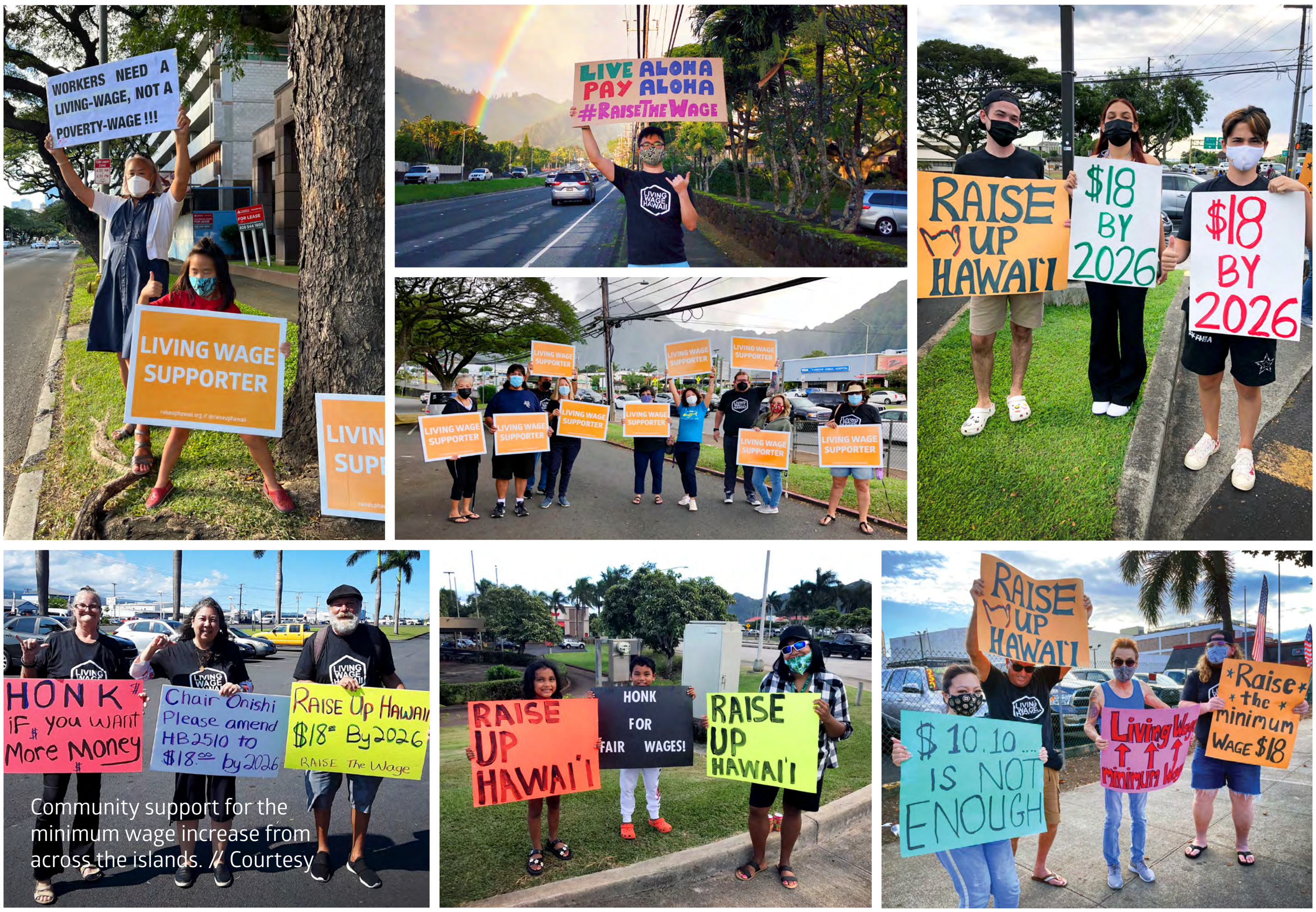
The stigma associated with voucher holders is evident in some of the many advertisements for rentals in Hawai‘i that explicitly state “No Section 8.” The second bill to pass, SB206, bans discrimination—including in advertisements for rental property—in rental transactions based on participation in a section 8 housing choice program or any permanent supportive housing program or requirements related to participation in these housing assistance programs.

The hope is that, together, these policies will work toward greater acceptance of vouchers by landlords, which will lead to greater success in voucher holders actually being able to use their benefits and find a home.

Direct housing subsidies: A pair of companion bills (HB2233/SB2150) designed to expand benefits for Temporary Assistance for Need Families (TANF) and Temporary Assistance for Other Need Families (TAONF, which covers Compact of Free Association migrant families, for example) signaled the legislature’s recognition of the importance of keeping people housed, and not letting struggling families slip into houselessness.

In recent years, Hawai‘i had accumulated the nation’s largest unspent balance of TANF funds, which are intended to help provide families a pathway out of poverty. Recognizing the benefit of getting these funds into the hands of the people that need them, the bills proposed to create a new $500 per month housing subsidy for TANF recipients. By alleviating some of the high costs of housing that keep many families struggling on the edge of eviction, an additional $500 per month to put toward shelter would go a long way toward stabilizing this at-risk population. The legislature ended up sending HB2233 to Governor Ige, who signed the bill on July 6, 2022.

DIFFERENCE-MAKERS



Community support for the minimum wage increase from across the islands. // Courtesy

Just one year after a legislative session in which lawmakers passed up multiple opportunities to make life easier for working families struggling through the midst of a pandemic-recession, the 2022 legislative session resulted in extraordinary progress by comparison.

What made the difference this year? What can we do differently in the coming years to continue to further this trend of lawmakers taking the big steps forward we need to transform Hawaiʻi in a way that makes these islands a place where we all can thrive? Four factors came together to make the 2022 legislative session a success for working families and for our collective economic recovery and prosperity.

SUFFICIENT REVENUE

The Great Recession (2007–09) caused Hawai‘i's unemployment rate to rise from 2.7 percent to a high of 7 percent, representing 43,850 jobs.[22] By contrast, the Pandemic Recession saw Hawai‘i's unemployment rate jump tenfold from 2.7 percent to 28.3 percent (as of April 18, 2020), representing some 185,146 jobs.[23] Not only that, but the Pandemic Recession fell much harder on groups with lower earnings, increasing the gap between lower-income and higher-income households.[24]

Figure 1. The Pandemic Recession Hit Groups with Lower Average Earnings Harder

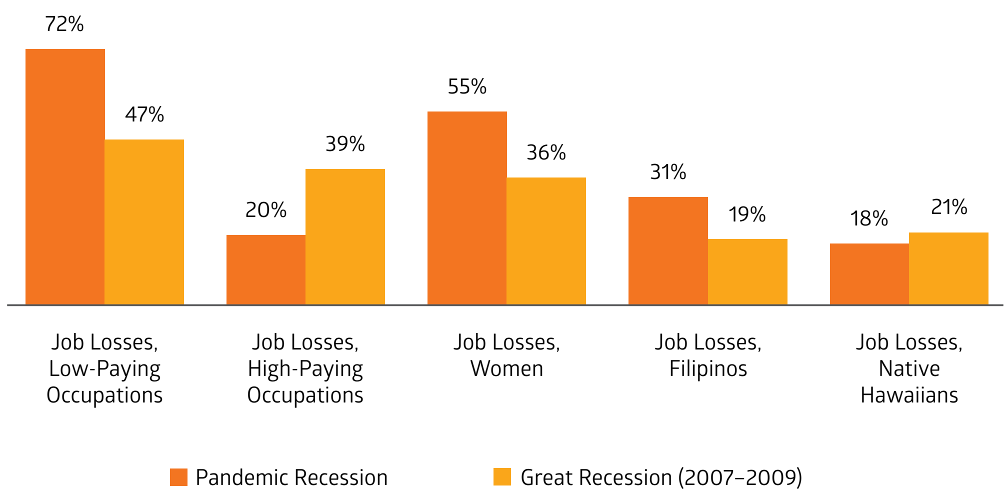


Figure 1. The Pandemic Recession increased the gap between lower-income and higher-income households. Compared to the Great Recession, its effects have been more harmful to groups with lower earnings.

The more than $6 billion in federal pandemic relief funds allocated to the state and counties provided critical support for government programs threatened by budget cuts in the immediate wake of the pandemic-driven recession.[25] These programs were essential to helping Hawai‘i families weather the Great Recession, and would be even more important during the Pandemic Recession.[26]

The federal relief money also bolstered Hawai‘i's economy, generating a larger than expected[27][28] revenue bump to the state. This, in turn, gave state legislators the ability to go big and pass policies that would make meaningful progress in supporting Hawai‘i's working families—many of whom were already struggling before the Pandemic Recession.[29]

"When given the opportunity due to increased revenues, we provided the largest total appropriation in history of our state for the benefit of Native Hawaiians," said House finance committee chair Sylvia Luke in her speech in support of the 2022 state budget bill (HB1600).

In that same speech, the finance chair lists multiple other investments the legislature was able to make because of the tax revenues boost generated by an economy kept moving through government spending:

- The $600 million in DHHL funding to purchase lands and provide down payment and rent subsidies for individuals on its waitlist, along with the $328 million Kalima case settlement, and an additional $10 million for homestead services and $20 million for lot development.

- Boosting the pro rata share of ceded land revenues to the Office of Hawaiian Affairs (OHA) from $15.1 million to $21.5 million and providing an $84 million retroactive payment to the agency.

- A $300 million appropriation to build rental housing and $23 million for direct housing subsidies.

- Although not given a figure in Luke's speech, the EITC expansion (estimated to cost $41 million),[30] along with the cost to provide one-time $100–300 rebates for most Hawai'i taxpayers.

- More than $200 million in early-learning investments, in particular to build new preschools.

Together, these investments will help thousands of Hawai'i families build a foundation for a prosperous future here in the islands—something that will only continue to drive the cycle of growing prosperity and extend its reach to more and more people.

But we don't need to wait for federal funding to continue this work; nor should we. Instead, we should rework our state and local tax system so that it provides a stable revenue stream for continued community investments, while simultaneously reducing the cost to working families at tax time and further stimulating the consumer sectors of the economy. Here are just a few potential means of increasing revenue to bolster investments in Hawai'i's well-being:[31]

- **Raise income taxes on the richest Hawai'i residents.** Hawai'i's top 1 percent earn more than $557,600 per year, with an average income of about $1.3 million. The federal Tax Cuts and Jobs Act gave each of them an average federal income tax break of $35,460 in 2020 for an estimated federal tax savings totaling $253 million.

  If Hawai'i's millionaires, top 1 percent, or top 2 percent were subject to higher personal income tax rates, we could raise between $12.6–$100.2 million in additional revenues per year.

- **Phase-out low tax rates for the richest Hawai'i residents.** Hawai'i currently allows its wealthiest households to benefit from the lower tax brackets designed to benefit middle and lower-income residents. While Hawai'i's top marginal tax rate of 11 percent kicks in at $200,000 for a single taxpayer and $400,000 for married couples filing jointly, these households do not pay 11 percent tax on all of their income. Even multimillionaires benefit by having the first $400,000 they earn in any given year taxed at the state's lower rates of 1.4 percent to 10 percent.

  Three states—Arkansas, Connecticut and New York—have made their tax systems more fair by gradually phasing out these lower rates for the very richest taxpayers. Adopting a similar approach in Hawai'i would raise $18.5–$153.9 million in additional tax revenues.

- **Tax investments the same way regular income is taxed.** Hawai'i is one of only nine states that allows all capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at a lower rate than ordinary income. That's a tax break that goes almost entirely to high-income taxpayers, including non-residents who profit from investing in real estate in Hawai'i.

  Long-term capital gains constitute 10 percent of total taxable income in the state, or nearly $3.5 billion in 2017. If those capital gains were taxed at regular individual income tax rates, the state would bring in about $80.2 million in new revenue.

- **Increase taxes on wealthy inheritances.** The federal Tax Cuts and Jobs Act gave a tremendous tax break to the richest among us, shielding $11 million-worth ($22 million for couples) of property transferred from the deceased to their heirs from taxation.

  Among the states that have estate taxes, Hawai'i has the fourth-highest exemption amount of $5.5 million ($11 million of couples). The exemption amount was only $675,000 in 2001, or less than one-eighth of the exempted amount today. If Hawai'i's estate tax exemption were dropped to between $1 million and $3.5 million, that would generate between $6.6–$18.3 million in additional taxes per year.

- **Raise corporate taxes.** The federal Tax Cuts and Jobs Act cut the federal corporate income tax rate by 14 percentage points, from 35 percent to 21 percent, so companies are getting a large tax break at the federal level. Hawai'i's current top corporate tax rate of 6.4 percent is below the median of the states. We are ranked 34th among states in per capita corporate tax collections, at $103 per person, while the top state, New Hampshire, collects $582 per person.

  If Hawai'i were to have a single tax rate on corporate profits of between 6.4 and 10 percent, it would raise an additional $2.9–$103 million in revenue per year. It is estimated that nearly 60 percent of Hawai'i's corporate income tax is paid by non-residents.

- **Make global corporations pay taxes in Hawai'i.** Corporations use complicated schemes to shift earnings to subsidiaries in offshore tax havens—countries with minimal or no taxes—in order to reduce their tax liability by billions of dollars. The result is that large multinationals have an unfair advantage, avoiding taxes that small local competitors must pay.

  Worldwide combined reporting requires a corporation to report their total global profits and the portion of their overall business activity in a given jurisdiction. So if a state makes up 2 percent of a company's global business, then 2 percent of their taxable profit would be subject to state tax. If Hawai'i adopted worldwide combined reporting, it would collect an additional $38 million per year from large multinational corporations.

- **Make REITS pay their fair share of taxes.** Real Estate Investment Trusts (REITs) own approximately $17 billion worth of Hawai'i real estate and earn about $1 billion in profits every year. Hawai'i REITs should be taxed, as is every other individual and corporation doing business in Hawai'i.

While Hawai‘i has more land value tied up in REITs than any other state in the nation, relatively few Hawai‘i residents own shares in REITs—we rank 40th in the nation for the number of REIT shareholders as a percentage of the population. As a result, not only is income produced on Hawai‘i property leaving the state, but the income that is funneled out of the state is not getting taxed here either.

If REITs paid regular corporate taxes on their profits, that would mean $60 million in potential tax revenue every year.

- **Increase taxes on the sales of mansions.** Real estate is one of the few sectors of Hawai‘i's economy that boomed during the pandemic, with median home prices in Hawai‘i increasing by 22 percent between 2020 and 2021.[32]

  However, sellers of high end properties are not paying their fair tax share in taxes. Our current real estate conveyance tax rates are only 0.50–1.25 percent on multi-million dollar mansions. We should not allow our real estate to be sold at such high prices with such low tax returns. If the conveyance tax were raised on properties valued at $2 million and above, that would mean a boost of $17–$45.4 million to the state's treasury. And if the tax were raised on properties valued at $1 million and above, that would generate up to $71.5 million.

  Furthermore, it is estimated that roughly half, if not more, of the revenue would be generated from out of state residents. In fact, between January 2019 and September 2020, just over half (52 percent) of homes priced at or above $2 million were sold to non-Hawai‘i residents. And of homes worth at least $4 million, 62 percent were sold to non-Hawai‘i residents.

- **Tax vaping and increase other tobacco taxes.** The rise of vaping and use of e-cigarettes among Hawai‘i's youth has erased decades of tobacco prevention and control progress. There is currently no state tobacco tax attached to e-cigarette products, making these lower-priced tobacco alternatives more appealing to youth even though their use carries health risks. Research has shown that increasing prices, such as through cigarette taxes, is proven to reduce the rate of smoking by adult and youth smokers.

  About 25 states have imposed taxes on e-cigarette products. An ad valorem tax on e-cigarette products has been considered by the Hawai‘i legislature in recent years. Projected revenue at 95 percent of the wholesale price based on milliliters sold could generate revenue of around $8.2 million.

  Similarly, increasing the taxes on cigarettes, which has remained stagnant in the last 10 years, would raise an additional $12.9–$15.9 million in new tax revenues per year. Currently, no tobacco taxes are allocated to address tobacco prevention, and revenue from new tobacco taxes could be spent on programs and resources for youth tobacco prevention and cessation.

- Together, these revenue-generating tax code reforms could provide the state between $500 million and $1 billion in additional annual revenue to invest back into Hawai‘i's people, economy and environment.[33] And these are just some of the possibilities. It is within our ability to generate the resources that can fund investments which will make a dramatic difference for Hawai‘i's people and future.

POLITICAL PRESSURE

2022 is a major election year in which every state legislator is up for reelection due to redistricting. With Hawai‘i’s soaring cost of living top of mind with a pandemic-weary populous, politicians in every legislative district wanted to be able to say they delivered economic relief to the growing number of struggling voters.

Ultimately, legislators are motivated most by their desire to remain in office. Reelection depends on winning a majority of the votes cast in a given election, but the method of securing those votes—the funders, the key community connections, the galvanizing issues—depends on a myriad of individual factors that can differ in varying degrees across separate races.

Within this matrix of factors lie opportunities for influence. Professional lobbyists know how to tie the issue they’ve been hired to promote to the reelection prospects of different legislators—often through skillful use of the fundraising component of reelection campaigns. They make it easier for lawmakers to get reelected by steering funds toward candidates who support their issue(s).

Like it or not, fundraising is a proven metric for determining the winner in an election. In Hawai‘i state house Democratic primary races, where the difference in spending between two candidates is larger than $6,000, for example, the candidate with more campaign funds wins in an overwhelming 90 percent of cases.[34]

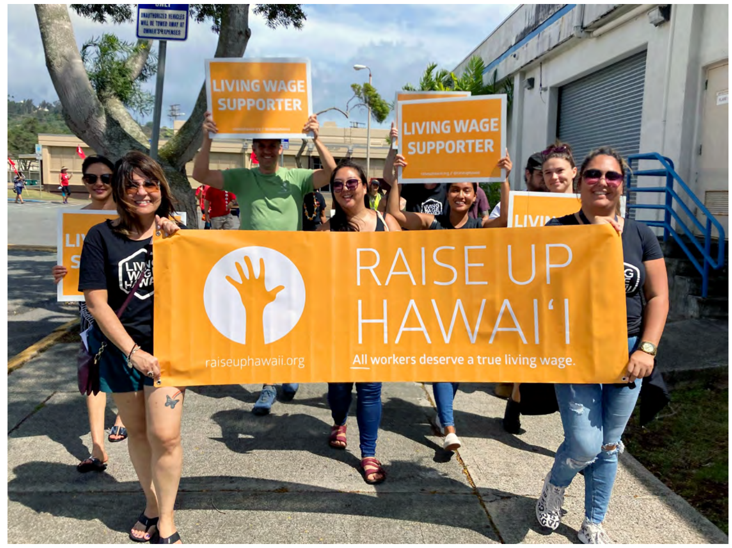
However, money isn’t everything. Political pressure can be generated through the hard work of community organizing as well. The monetary incentive to go along with the agenda of paid lobbyists can be overridden—if the community makes it clear that its differing position on the issue at hand represents a significant bloc of voters.

The role of organizers is to facilitate the galvanization of the community around its position, focus that position into a clear message, and bring the weight of the community to bear on the legislator in question. If a lawmaker can tell that the community they represent is overwhelmingly against an issue, no amount of promised fundraising assistance from a lobbyist on the opposite side of the issue will be worth the risk of alienating a majority of voters.

Creating and focusing pressure from the community onto the key lawmakers involved in an issue at the legislature is often critical to successful the passage of policies—especially ones that are big picture enough to represent transformational change. Lawmakers are cautious by nature and often unwilling to risk losing reelection by taking a chance on a radical idea, even if they agree in principle. Helping them to see that the community is, in fact, behind these big ideas, gives these lawmakers the confidence and political cover to go big and go bold.

After years of struggling to get a minimum wage bill passed, primarily due to the successful lobbying work of trade groups like the Chamber of Commerce of Hawai‘i and the Hawai‘i Restaurant Association, the political pressure generated through community organizing, successfully changed the reelection calculus of enough legislators to finally secure a long-overdue minimum wage increase—and a bigger increase than many thought possible.

COALITION COLLABORATION



It often takes years to get any policy through the legislature, and one thing that can help sustain that effort is the creation of coalitions to help organize and focus the community energy around an issue into a cohesive campaign that is efficient and transferring that energy into legislative success.

The efforts of various coalitions—bringing together advocacy nonprofits, labor unions, service providers, small businesses, community organizations and everyday people—banded together and pooled resources toward strategic and successful legislative campaigns. In particular, the Hawai‘i Tax Fairness Coalition and Raise Up Hawai‘i demonstrated what is possible when a well-organized group of dedicated advocates commits to a collaborative legislative campaign.

Appleseed and its partners worked hard to refine our messaging, both in explaining the benefits of the EITC, minimum wage and various housing proposals, as well as in connecting those policies to the larger narrative of a Hawai‘i growing increasingly out of reach for the average local family—and the responsibility of lawmakers to answer that dire problem with transformative policy. We then leveraged that messaging to drive community organizing efforts, recruit community spokespeople that could center the experience of local working families during key moments during the legislative process, including hearings, rallies and press conferences.

After years working together, the partners in these coalitions shared enough trust with one another to be able to work quickly, efficiently and dynamically to get our refined messaging out through an aggressive public relations campaign that involved earned media pieces, op-eds, and a robust social media presence. The use of non-traditional allies in authoring op-eds—pulling in the voices of small business owners as well as major CEOs of some of Hawai‘i's most prominent firms—helped reach persuadable folks in the middle, broadening our support and building momentum.

Good relationships with key legislators and their staffers provided our coalitions with valuable information about the inner workings of the two chambers and their internal politics. This allowed the coalitions to time actions, media pushes and other tactics to coincide with internal movement within the legislature, maximizing the visibility of the campaigns and capitalizing on key moments.

CENTERING COMMUNITY VOICES

Appleseed is making a conscious effort to shift its theory of change toward one that places a greater emphasis on putting people first. The only way to achieve policies that work for everyone is through policies created for and with the people most adversely impacted by our current system. Most legislators need to hear from these people directly, or no amount of abstract data points will move them to take bold action. This is especially true when they are feeling political pressure from lobbying groups opposed to these changes.

To change that dynamic and center the voices of impacted community members, it is important to engage them through events, meetings and even by dropping by their places of work to talk about their concerns over the cost of living and to build grassroots support for policies designed to alleviate the financial burden they feel. Through efforts like these, advocates this session were able to mobilize community members to participate in hearings, rallies, press conferences and even a march through Kalihi.

These community-driven actions focused the attention of lawmakers on what everyday working folks think. This people-first approach made the difference in pushing legislators to finally pass a robust minimum wage bill, EITC expansion, and housing bills that were improved because of the perspectives provided by people with lived experience of houselessness and housing insecurity.

HYBRID TESTIMONY

During the 2021 legislative session, the Hawai‘i State Capitol was closed to the public entirely due to COVID-19 precautions. This completely changed the way many seasoned advocates—accustomed to dropping by the offices of lawmakers to talk story—interacted with decision makers. It also changed the way organizers mobilized members of the public to weigh-in through the legislative process of testifying on bills during hearings, as the system went entirely to remote, zoom-based testifying.

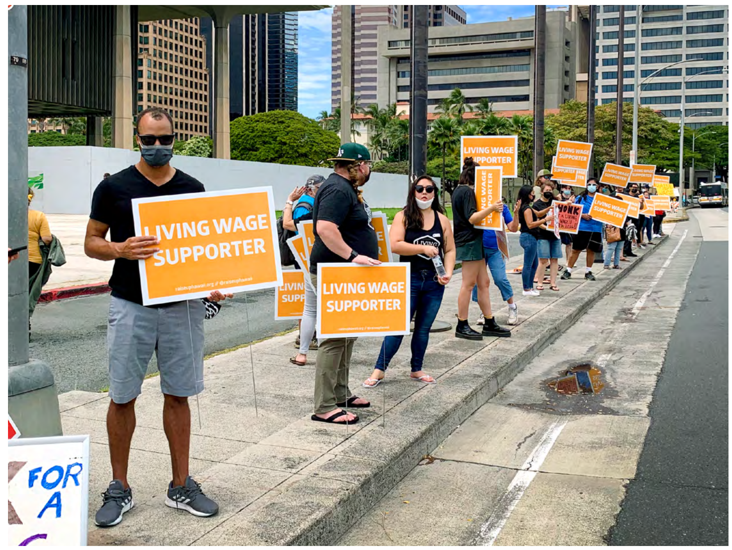
People get comfortable doing something a certain way, and it’s possible that the significant changes to the system of testimony itself was enough to deter verbal testimony—or it could have simply been the heavy toll the pandemic and its lock-downs took on the physical and mental health of many. But whatever the reason, the zoom-only system appeared to noticeably decrease the number of people choosing to speak on issues (they may still have submitted written-only testimony, however) in 2021.

Remote testimony is something advocates have been pushing for years to get—particularly for folks that live in counties outside of Honolulu who otherwise have to buy plane tickets and miss work to fly over to O‘ahu to fully participate in the process. Fortunately, in 2022, the legislature was not only re-opened for in-person testimony (though at reduced capacity), the remote, zoom testimony option was retained as well, creating the hybrid system many had hoped for years to see.

In the future, the hybrid system should make it possible to mobilize a greater number of testifiers overall, thanks to remote access, while also allowing experienced advocates to make critical connections with legislators through office visits and in-person testimony.

RECOMMENDATIONS

So what can advocates, concerned citizens and forward-thinking legislators do to try and build on and replicate the success of the 2022 legislative session?



1. Put people first from the beginning stages of the campaign all the way through to the end and allocate serious resources behind the cultivation of people power. Our community cannot craft solutions that work for everyone if those most adversely impacted by the current system are excluded from decision-making process. When people who are impacted by Hawaiʻi's policies are on your side and you center their voices, lawmakers will listen much more carefully than they will to dry statistics and data alone.

2. Build capacity for long-haul campaigns and know that you will likely be fighting for several years until enough pieces fall into place for a successful push across the finish line. Cultivate relationships with as many organizations and advocates as you can, and do not overlook unlikely or unexpected collaborations that can expand the breadth of your supporters.

3. Pay attention to the whole political chessboard, including electoral politics. Even for nonprofits that avoid involvement in electoral politics, being aware of the political landscape and the pressures that elections are putting on key lawmakers is essential to understanding the motivations behind decisions during the legislative session. Having a good working understanding of these motivations is, in turn, critical to planning effective campaign strategy and knowing when and how to most effectively push for change.

4. Make the connection between everyday problems—from cost of living issues to health policy and everything in between—and a lack of government funding via tax revenue crystal clear at every opportunity. A fair tax system is essential to addressing Hawaiʻi's continuing crises in affordable housing, healthcare, income inequality, food insecurity, climate change and more. By delivering financial relief to struggling working families while asking the wealthy and corporations to contribute sufficiently, we can ensure that the opportunities from which they benefited are expanded and maintained for future generations. This can also be a way to rectify ongoing injustices caused by colonialism and to increase racial and social equity, creating a more balanced, just and healthy society.

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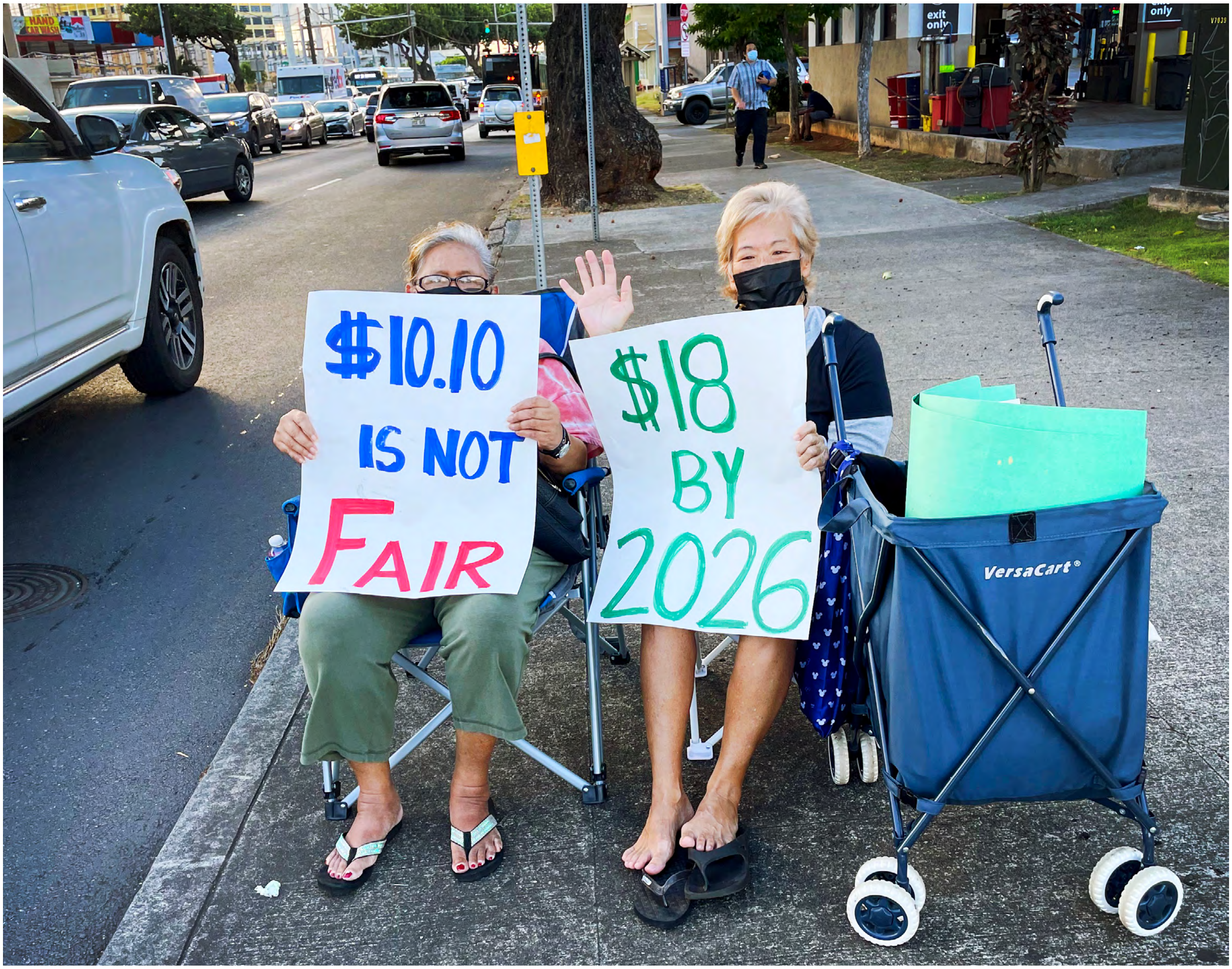

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