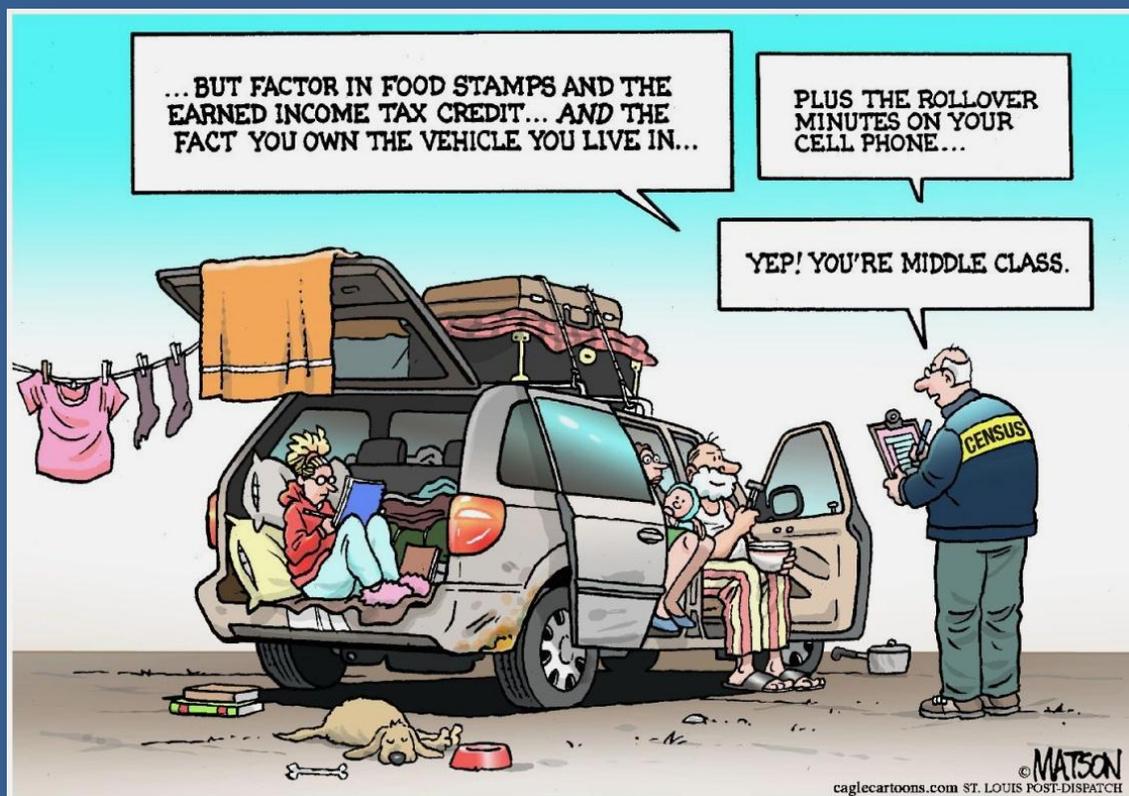


THE STATE OF POVERTY IN HAWAI'I

& How to Restore Our Legacy of Fairness



Hawai'i Applesed Center
for Law and Economic Justice
Policy Brief:

April 2012

*How the Great Recession disproportionately
impacted Hawai'i's disadvantaged and policy
recommendations to achieve fairness*

THE STATE OF POVERTY IN HAWAI'I



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Executive Summary:

Hawai'i's Poverty Crisis & Suggested Policies to Face It

THE HAWAI'I APPLESEED CENTER for Law and Economic Justice has compiled this report to illustrate the crisis facing those living in poverty in Hawai'i and who are suffering severely as they bear the heaviest burden of the recession. We also propose solutions to address the crisis by increasing revenue and implementing policies that strengthen our community. Hawai'i must take immediate, substantive action to prevent its residents from being driven into poverty and languishing there for generations.

CRISIS IN PARADISE: As the recession lingers, Hawai'i's low-income residents are still struggling. The national backdrop is grim: the U.S. ranks low on international scales of social justice and income inequality. Here in Hawai'i, 131,982 residents live in poverty, including 41,230 children —14 percent of all of the state's children

These alarming figures fail to capture the true number of people who are struggling, given our extremely high cost of living and relatively low wages. A look at the economic data shows:

- Hawai'i taxpayers with incomes in the bottom 20 percent pay combined state taxes at almost twice the rate of the top 1 percent.

- Among all states, Hawai'i has the second highest number of millionaire households per capita, a figure which has grown 18.1 percent in just three years.

- Two-thirds of single adult families with one or two children are below the self-sufficiency level.

18.5 percent of two-adult families with two children also fall below it.

- When unemployment almost tripled between November 2006 and November 2011, low-income workers were hit hardest.

- Hawai'i has the highest cost of living in the nation but the lowest average-adjusted income in the nation. Honolulu is the second-most expensive city in the nation after New York City.

- Hawai'i's housing costs are the highest in the nation. Our median rent is 50 percent more than the national median and 75 percent of poor households spend more than half of their income on rent.

- A "thrifty food plan," as defined by the U.S. Department of Agriculture, costs 61 percent more in Hawai'i than on the mainland. Enrollment in the Supplemental Nutrition Assistance Program (formerly food stamps) has increased by 39 percent since 2007, while 15 percent of households don't always know how they'll get their next meal.

- Hawai'i has the third highest homelessness rate among the states, with an increase of 11 percent between 2010 and 2011. Of these homeless individuals, 42 percent are children.

- Between 2008 and 2010, the need for benefits spiked: There was a 13 percent increase in families receiving Temporary Assistance for Needy Families and a 17 percent increase in the amount of time on assistance; the number of people receiving state medical assistance jumped 22 percent; and applications to federally qualified health centers increased 62 percent.

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- Hawai'i's ratings in child well-being, particularly in health indicators, slipped significantly since the mid-2000s, while educational achievement continued to lag.

INCREASED NEED, DECREASED SERVICES: More Hawai'i families are on public benefits and stay on them longer, but a survey by the Hawai'i Appleseed Center found that social services organizations providing crucial safety net services faced funding cuts of 18.6 percent and were forced to reduce staff by 16 percent.

Social services programs hit by these cuts include early childhood and family, mental health and domestic violence programs. More devastating cuts are on the horizon.

REPAIRING THE SAFETY NET: The state must swiftly implement revenue-raising measures and enact policies that will repair the social safety net. Doing so will save the state money in the long term. Relief for those in poverty can also come through sound fiscal policies that protect and supplement their hard-earned income, such as a state earned income tax credit and an increase in the minimum wage.

For the more fortunate, we should introduce policies that ensure everyone pays their fair share in

contribution to our community. Specific policy proposals include:

- Increase taxes on hard liquor, implement a tax on sugary beverages and collect taxes on internet sales.
- Tax all sources of income equally, including the pensions of wealthy retirees and income from capital gains.
- Increase federal funding by maximizing enrollment in federal programs, such as SNAP.
- Invest in programs for young children, preventative care, justice reinvestment and drug treatment programs.

CONCLUSIONS: Ensuring fair and equal opportunity for all citizens must move to the forefront of our political and social dialogue. We must take a hard look at how our state is impacted by the struggle of people living in poverty.

To preserve our economic stability, human capital and long-term well-being, Hawai'i must restore its legacy of fairness. Should we fail to act now, this crisis may irreversibly damage our community as increasingly more people are dragged into poverty by inequitable policies and inefficient use of available resources.

We hope this report will raise awareness while sparking a vigorous dialogue about solutions.

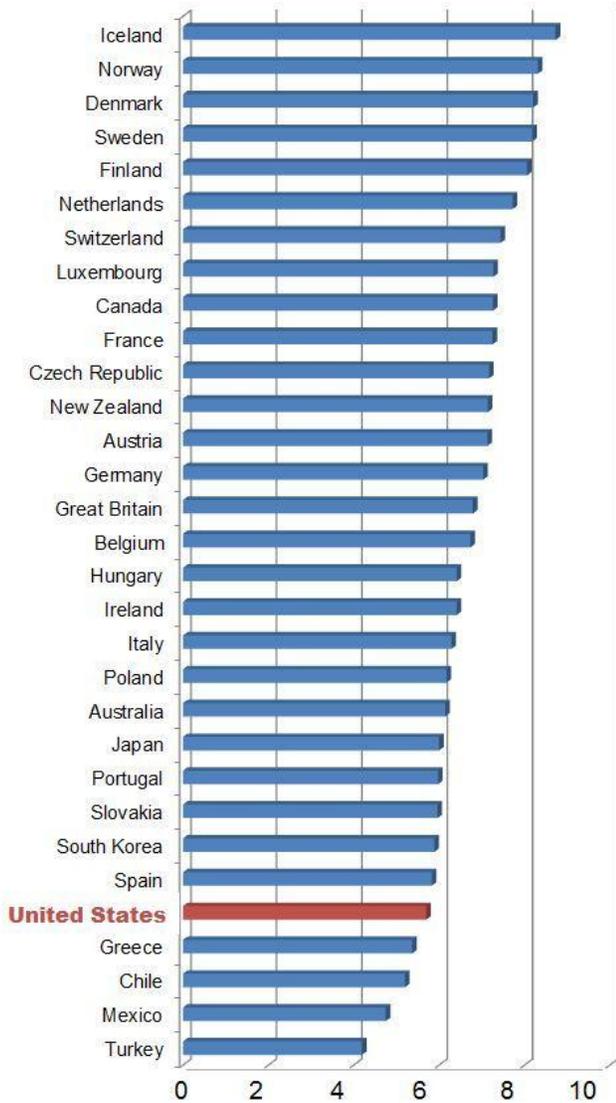
Poverty and Inequality – How the U.S. Compares to the World

WE LIKE TO THINK OF THE U.S. as a land of opportunity and equality. Yet despite its wealth, the U.S. has fallen behind most other developed countries in adopting policies and providing opportunities for its residents to avoid and pull themselves out of poverty. Our failure is widely rec-

ognized: The Organization for Economic Cooperation and Development recently conducted a comprehensive analysis of social justice across its 31 member states, analyzing poverty, income inequality, health care, pre-primary education and policies that affect future generations.

Among the 31 OECD member nations, the U.S. ranks 27th in terms of social justice, followed only by Greece, Chile, Mexico and Turkey – all countries with lower per capita incomes. Iceland, the highest ranking country, has a per capita income 21 percent lower than that of the U.S.

Overall Social Justice Rating



Source: "Social Justice in the OECD (Organization for Economic Cooperation and Development) -- How Do the Member States Compare?"

U.S. RANKING IS DISTURBINGLY LOW: As one of the most prosperous countries in the world, the U.S. has more than enough money to address the social inequalities that lead to and perpetuate poverty. But instead we have fallen to the bottom among these 31 peer nations. The U.S. ranking in each of the categories used in the OECD social justice analysis is disturbingly low, falling in the bottom third in every indicator:

- 29th in overall poverty prevention.
- 29th in overall poverty rate.
- 28th in child poverty.
- 25th in senior citizen poverty.
- 28th in income inequality.
- 22nd in public expenditures on pre-primary education as a percentage of gross domestic product.
- 23rd in health ratings based on inclusiveness, quality of services and perceived health between highest and lowest income.
- 21st in intergenerational justice, which includes family and pension policies, environmental policies and an assessment of political and economic well-being established for future generations.

U.S. Ranks among the More Unequal

Based on the Gini index, which measures the degree of inequality in the distribution of household income in a country, the U.S. ranks 40th most unequal among 140 countries, bettered by nations such as Uganda, Russia and Turkey.

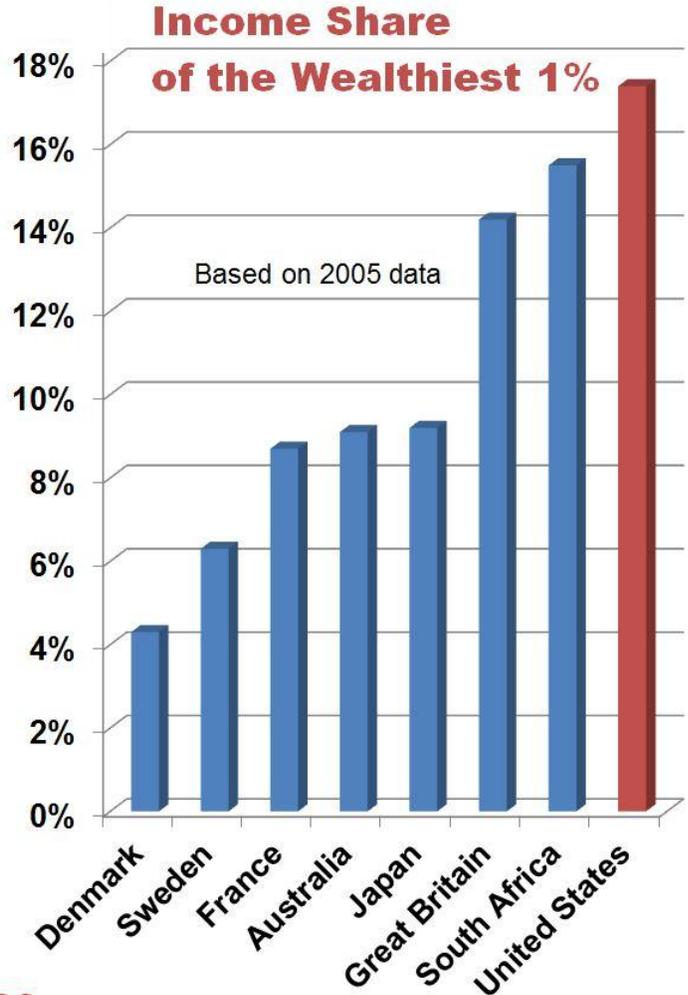


Source: CIA World Factbook

INCOME INEQUALITY SOARS: It has become increasingly apparent that income inequality in the U.S. is growing at an alarming rate. Income inequality can be understood as one way of measuring a country's equality of opportunity and concern for its people. The American middle class is dwindling and sinking into poverty, while the poor are growing poorer.

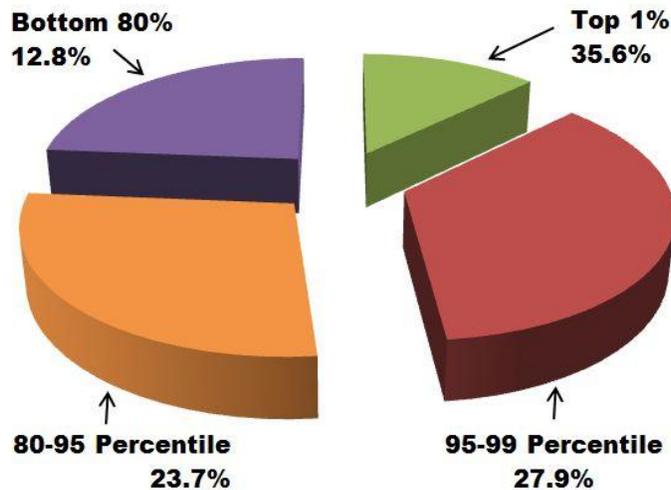
Disparities in wealth can impair economic mobility and solidify a class system. The poorer a family is, the fewer opportunities its members will have unless we build a strong system of social services and commit to reversing this trend of extreme wealth and serious poverty.

Income inequality may ultimately undermine our democracy, as the ability of lower-income people to participate in the government dissipates. The American dream was founded on ideals of equality and opportunity, but if we don't commit to reversing this trend of inequality, it will slip away.



Source: "The World Top Incomes Database," Paris School of Economics

Distribution of U.S. Wealth, 2009



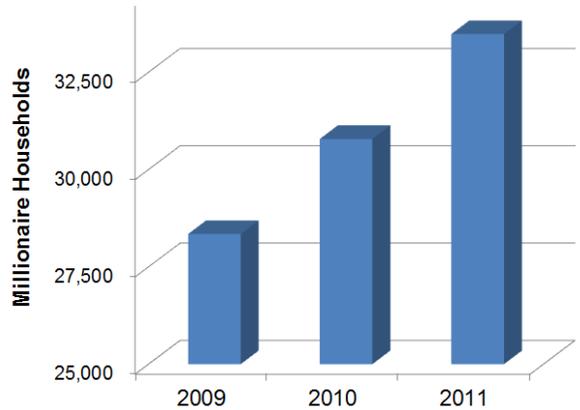
Source: Economic Policy Institute, The State of Working America 2011, "Wealth Holdings Remain Unequal in Good and Bad Times"

Income Inequality Is on the Rise in Hawai'i, Too

DESPITE HAWAI'I'S being mired in the deepest economic slump since the Great Depression, between 2009 and 2011 the number of millionaires in Hawai'i actually *increased* from 6.4 percent to 7.2 percent. This represents an 18 percent increase at a time when the national median income actually *decreased* by 6.7 percent.

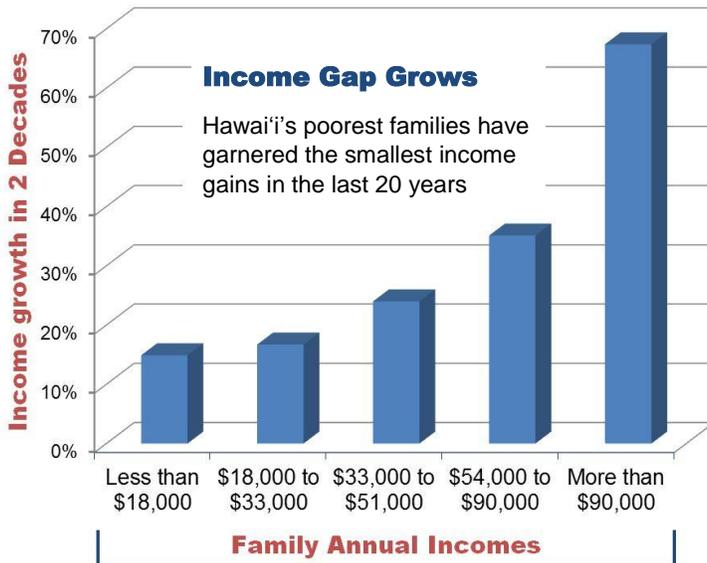
Hawai'i's proportion of millionaires is the second highest in the country, just 0.01 percent behind Maryland, the highest ranking state. While the poor are in free fall, thousands of Hawai'i's richest citizens are growing richer.

The Number of Millionaire Households in Hawai'i Grew 18.1% in Just Three Years



Source: Phoenix Marketing International Global Wealth Monitor

Hawai'i's Poor Gained the Least



Source: Economic Policy Institute/Center on Budget and Policy Priorities, *Pulling Apart: A State-by-State Analysis of Income Trends*

Hawai'i Is Second in Nation for Millionaires per Capita

Rank	State	% Millionaire Households	Millionaire Households
1	Maryland	7.22%	157,779
2	HAWAI'I	7.21%	33,461
3	New Jersey	7.19%	231,456
4	Connecticut	7.13%	98,392
5	Massachusetts	6.41%	162,619
6	Alaska	6.39%	16,239
7	Virginia	6.26%	195,006
8	New Hampshire	6.06%	31,159
9	California	6.01%	750,686
10	District of Columbia	5.88%	15,603

Source: Phoenix Marketing International, "U.S. States with the Most Millionaires 2010"

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STATE TAX IMPACT ON POOR: Due to its regressive General Excise Tax and relatively high income tax, low-income people face a particularly heavy financial burden in Hawai'i.

These taxes weigh most heavily on the poor: The bottom 20 percent pay almost twice the rate that the top 1 percent do. The average annual income of the bottom 20 percent is a mere \$9,800. That group is

hit with an average tax payment of \$1,196, or 12.2 percent of their income. Meanwhile, the top 1 percent – whose average income is \$1.04 million – pay a mere \$65,540, or only 6.3 percent.

The combined impact of the GET and the heavy income tax levied on the poorest residents means that Hawai'i's tax system is highly regressive, hitting low-income workers the hardest.

Poorest Hawai'i Taxpayers Pay More Than Their Share

Comparing by income group the total percentage of family income of non-elderly paid in taxes, including combined sales, property and income taxes, minus a federal tax deduction offset

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					83rd - 95th percentile	96th - 98th percentile	Top 1%
Income range	Less than \$18,000	\$18,000 - \$33,000	\$33,000 - \$51,000	\$54,000 - \$90,000	\$85,000 - \$176,000	\$176,000 - \$400,000	More than \$400,000
Average income	\$9,800	\$24,700	\$41,400	\$69,900	\$117,800	\$251,100	\$1.04 million*
Average Tax Rate	12.20%	11.80%	11.20%	9.40%	7.80%	6.60%	6.30%

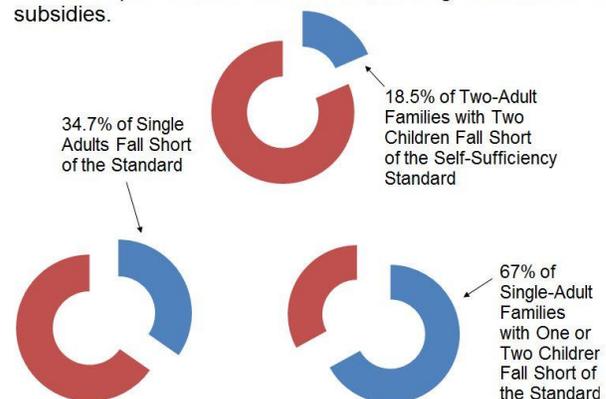
* Mean income for this group

Source: Institute on Taxation & Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, November 2009

ECONOMIC SELF-SUFFICIENCY: The Self-Sufficiency Income Standard is the amount of money that individuals and families require to meet basic needs without government or other subsidies. These figures assume that adults are working a full 40-hour week. The calculation reflects costs related to housing, food, child care, transportation, health care, clothing, other household expenses and taxes, while factoring in children's ages, geography and the number of household wage earners. This figure covers only the bare essentials and excludes any additional comforts such as entertainment.

Hawai'i Individuals and Families Fall Below the Self-Sufficiency Standard

Economic self-sufficiency is the amount of money individuals and families require to meet basic needs without government or other subsidies.



Hawai'i Department of Business, Economic Development and Tourism, "Self-Sufficiency Income Standard: Estimates for Hawai'i 2008"

The Few Dollars the Poor Have Don't Go Very Far

THAT HAWAII'S LOW-INCOME RESIDENTS are struggling comes as no surprise: The cost of living here is 165 percent of the national average and is ranked the highest among the 50 states by the CNBC report, America's Top States for Business. The "price of paradise" means spending more on groceries, housing, utilities, transportation, health care, and other miscellaneous goods and services. These costs hit people in Hawai'i particularly hard, since we have a lower median income than other

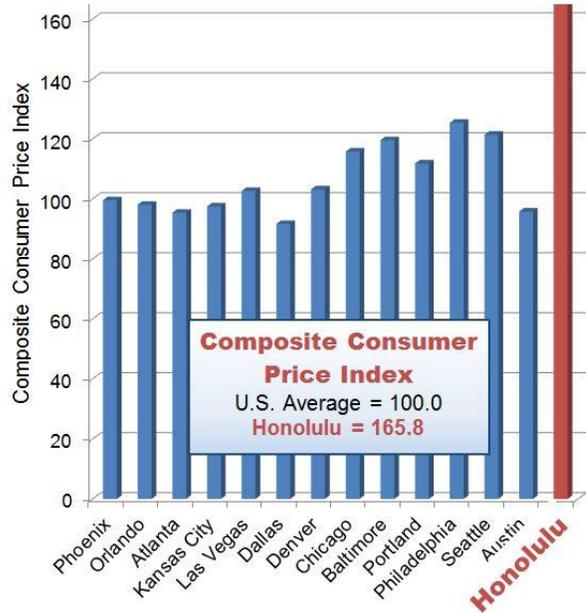
Worst State to Earn a Living

A comprehensive analysis by MoneyRates.com of factors that affect the ability to make a living -- average state wages, state unemployment rate, state tax rate and state cost of living -- shows Hawaii is a tough place to survive. An extremely high cost of living, coupled with a fairly elevated tax rate, gives Hawaii the lowest adjusted-average income, \$22,107.96.

Rank	State	Adjusted average income	Rank	State	Adjusted average income
1	Illinois	\$41,986.51	26	Alaska	\$35,015.52
2	Washington	\$41,455.73	27	South Dakota	\$34,952.96
3	Texas	\$41,427.12	28	Kentucky	\$34,877.67
4	Virginia	\$41,120.49	29	Maryland	\$34,752.51
5	Delaware	\$39,104.64	30	New York	\$34,599.53
6	Massachusetts	\$38,664.86	31	Iowa	\$34,553.03
7	Georgia	\$38,228.47	32	Idaho	\$34,393.37
8	Tennessee	\$38,038.27	33	Arizona	\$34,317.48
9	Colorado	\$38,020.24	34	North Carolina	\$34,181.22
10	Minnesota	\$37,721.99	35	Florida	\$34,110.86
11	Wyoming	\$37,699.79	36	New Jersey	\$33,854.94
12	Ohio	\$37,472.30	37	New Mexico	\$33,838.78
13	Michigan	\$37,427.11	38	Louisiana	\$33,278.64
14	Pennsylvania	\$37,084.61	39	Arkansas	\$32,968.21
15	Kansas	\$36,971.74	40	Nevada	\$32,745.48
16	Missouri	\$36,594.35	41	South Carolina	\$31,636.27
17	Nebraska	\$36,549.33	42	West Virginia	\$31,357.15
18	Indiana	\$36,401.98	43	Mississippi	\$30,952.90
19	Wisconsin	\$35,990.56	44	Rhode Island	\$30,611.87
20	Oklahoma	\$35,764.70	45	Oregon	\$30,343.10
21	Utah	\$35,665.57	46	Vermont	\$29,985.60
22	North Dakota	\$35,365.30	47	California	\$29,772.40
23	Alabama	\$35,232.41	48	Montana	\$29,495.73
24	New Hampshire	\$35,121.11	49	Maine	\$29,159.19
25	Connecticut	\$35,037.91	50	Hawaii	\$22,107.96

Source: Moneyrates.com

Honolulu's Cost of Living Is among Highest in the U.S.



Source: Hawaii Housing Alliance, Honolulu Cost of Living Allowance

states with high costs of living, such as California and New York. As for those living in the capitol, Honolulu's Consolidated Consumer Price Index is the highest of any U.S. urban area except New York City. With such an inflated cost of living but little buying power, poverty in Hawai'i can be debilitating.

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HOUSING: Housing is notoriously expensive in Hawai'i. The median rent is 50 percent higher than the national level, while the median value of a single family home is almost three times the national median. Affordable housing is in extremely short supply: Almost half of Hawai'i's households spend more than 30 percent of their incomes on housing, and three-quarters of poor households pay more than half of their incomes toward housing. Yet these

numbers do not fully capture the elevated cost of living in Hawai'i: When transportation expenses are considered along with housing costs, Hawai'i is even more expensive than the state of New York. Housing prices decrease in less centrally located or convenient areas. As a result, transportation costs climb, both in terms of direct expenses and time spent in transit, and Hawai'i residents are even more overwhelmed financially.

HOUSING BY THE NUMBERS:

50% How much Hawai'i rents exceed the national average.

47.9% The proportion of Hawai'i households paying more than 30 percent of income on housing –highest in the U.S.

75.4% The percentage of poor households in Hawai'i spending more than 50 percent of their income on rent and are therefore considered "severely cost burdened."

17 Number of Hawai'i residents per 1,000 who are "doubled up," living with family or friends because of economic need. This number increased 10.32 percent between 2008 and 2009.

\$1,616 The monthly "fair market" rent required for a two-bedroom home in Hawai'i.

\$64,651 The annual income required to pay fair market rent and utilities for a two-bedroom home in Hawai'i without exceeding 30 percent of income. That's \$31.08 per hour, 40 hours per week, 52 weeks per year.

\$13.65 The mean average wage for a renter in Hawai'i. To afford a two-bedroom apartment at fair market rent without spending more than 30 percent of income on rent and utilities, a renter would have to work 91 hours per week at that wage, or 2.3 wage earners would have to work 40 hours per week, 52 weeks per year.

#1 Hawai'i's rank nationally for cost of electricity.

9,000+ The number of applicants on the waiting list for public housing.

2 to 5 The average wait in years for public housing.

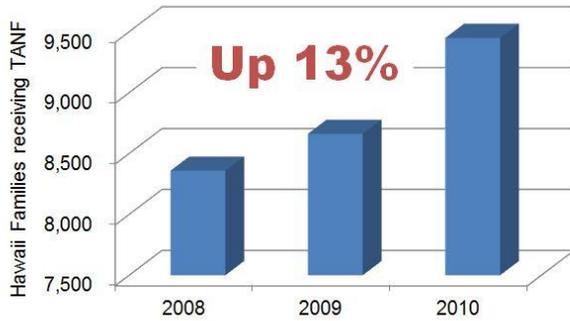
0 The number of new applications being accepted by the Section 8 Housing Choice Voucher Program, which was suspended indefinitely in Hawai'i in May 2005.

56.8% The cut in state funding for public housing, from \$10.2 million to \$4.4 million from fiscal year 2008 through fiscal years 2010 and 2011.

How Much Has Poverty Increased in Hawai'i?

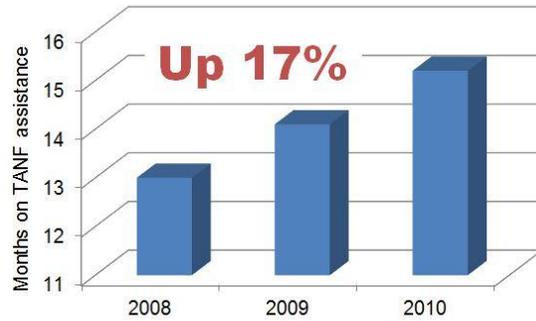
Families Receiving Public Benefits

The average number of Hawaii families receiving Temporary Assistance for Needy Families



Months Spent on Public Assistance

The amount of time, in months, that Hawaii families receiving TANF benefits remained on assistance



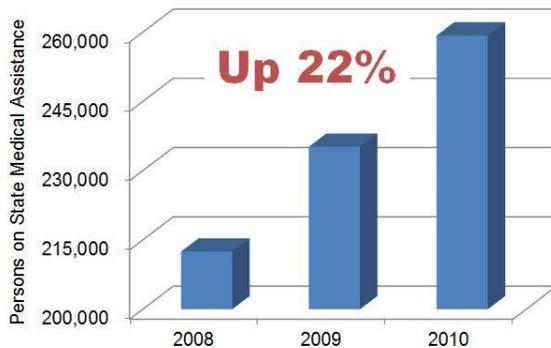
Source: Hawaii Department of Human Services, Report on Fiscal Year 2010

PUBLIC BENEFITS: Many more Hawai'i families are on public assistance and they are continuing to rely on these benefits for longer periods of time, indicating the widespread impact of the recession.

Public benefits are often insufficient to cover basic necessities. Therefore, these numbers indicate how many families are at risk of slipping through the cracks into severe poverty.

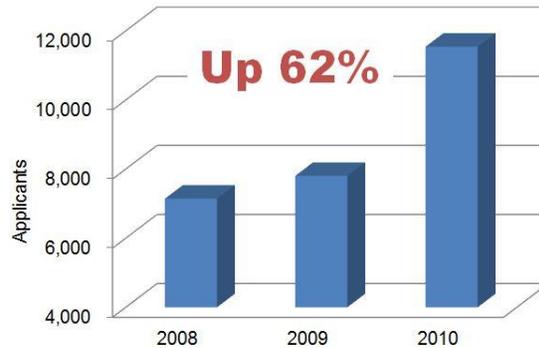
State Medical Assistance

The number of people in Hawaii on state medical assistance increased by 22 percent from 2008 to 2010



Applications to Health Centers

The number of applications to federally qualified health centers in Hawaii increased 62 percent from 2008 to 2010



Source: Hawaii Department of Human Services, Report on Fiscal Year 2010

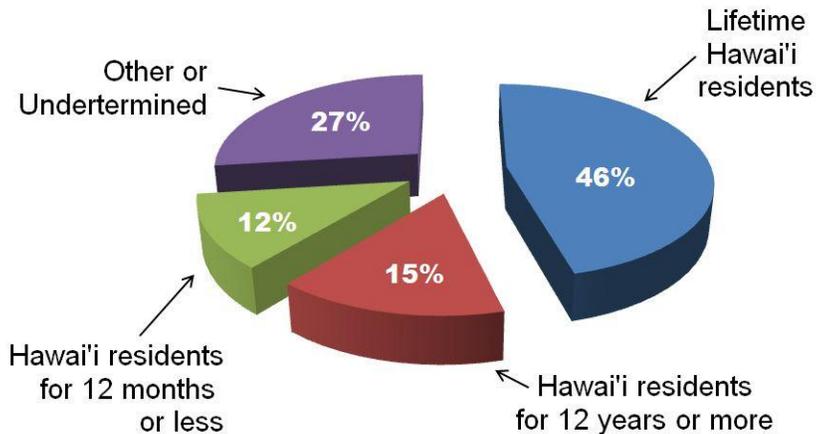
HEALTH CARE: As employment has dropped, more Hawai'i families are in need of state and federal assistance for health care in addition to financial assistance. Meanwhile, programs that provide essen-

tial services that promote public health have been scaled back. Between 2008 and 2010, applications to federally qualified health centers grew dramatically, increasing by 61.6 percent.

HOMELESSNESS: In Hawai'i, homelessness has reached crisis proportions. We have the third highest homelessness rate among the states. The majority of the 6,188 individuals experiencing homelessness here are long-time or lifetime Hawai'i residents. Homelessness occurs for a variety of reasons and we must recognize the complexity of each individual situation and the various reasons people become homeless. Insufficient safety-net services – such as access to affordable housing, substance abuse and mental health treatment, and financial support to help make ends meet – allow individuals and families to slip through the cracks. People in poverty may be just steps away from homelessness: A lost job or unexpected expense can result in losing a stable living situation.

Most of Hawai'i's Homeless Are Not Newcomers

61 percent of Hawai'i's homeless have resided in the state for at least 12 years; 46 percent are lifelong residents.



Source: Homeless Service Utilization Report, Hawai'i 2010, University of Hawai'i Center on the Family

HAWAII HOMLESSNESS BY THE NUMBERS:

6,188 Number of homeless individuals in Hawai'i.

2,569 Number of homeless individuals who are children (42 percent of the homeless population).

9% Percentage of homeless children ages 6-17 who were not attending school in 2010.

772 Number of chronic homeless (13.35 percent of homeless population).

11.2% Increase in homelessness from 2010-2011.

2,556 Hawai'i's unsheltered homeless population.

44.4 Homeless individuals per 100,000 people (third highest homelessness rate in the U.S.; fourth highest including Washington, D.C.).

52% Percentage of homeless families that have one or two adults working full- or part-time.

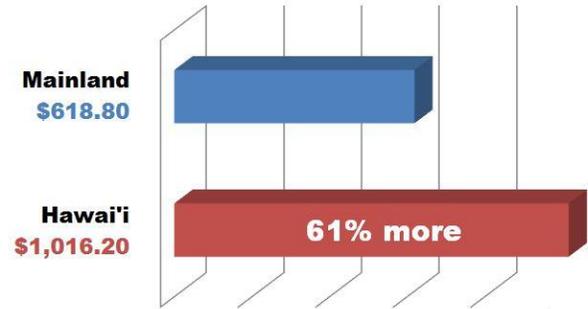
HUNGER: The astronomical cost of food in Hawai'i is widely recognized and hits low-income households particularly hard. Food is the most basic necessity, yet many families face painfully difficult choices between food and other essentials, such as rent, utilities, or medical bills. SNAP, the Supplemental Nutrition Assistance Program or "food stamps," is designed to alleviate some of this burden.

An increasing number of families rely on SNAP, but the program has not stopped hunger in Hawai'i. Food insecurity means that a family does not always know how they will afford their next meal, while very low food security indicates that they have reported having experienced hunger.

The U.S. Department of Agriculture's Thrifty Food Plan outlines a nutritious meal plan at a minimal cost, designed to demonstrate that low-income families can afford to consume healthy foods. This

Monthly Food Costs

For a family of four on USDA Thrifty Food Plan



Source: U.S. Department of Agriculture, Thrifty Food Plan, 2006, updated using Consumer Price Index for specific foods

does not hold true in Hawai'i, where food for a family of four under this plan costs 61 percent more than it does on the mainland.

HUNGER IN HAWAI'I BY THE NUMBERS:

168,158 Hawai'i participants in the SNAP program as of September 2011.

77,133 Average number of Hawai'i households receiving SNAP each month.

39% Increase in individuals (56,656 persons) and households (29,416 households) receiving SNAP from July 2007 to July 2011.

11.93% Percentage of total Hawai'i population receiving SNAP.

183,500 Unique individuals served by Hawai'i food banks between February and June 2009.

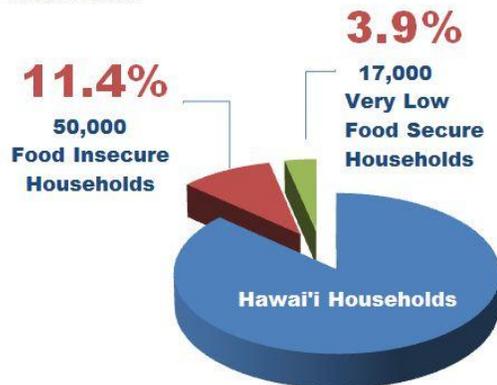
14% Percentage of the population served by Hawai'i food banks.

39% Increase in the number of individuals (51,000 more) served by Hawai'i food banks from 2005 to 2009.

Food Insecurity

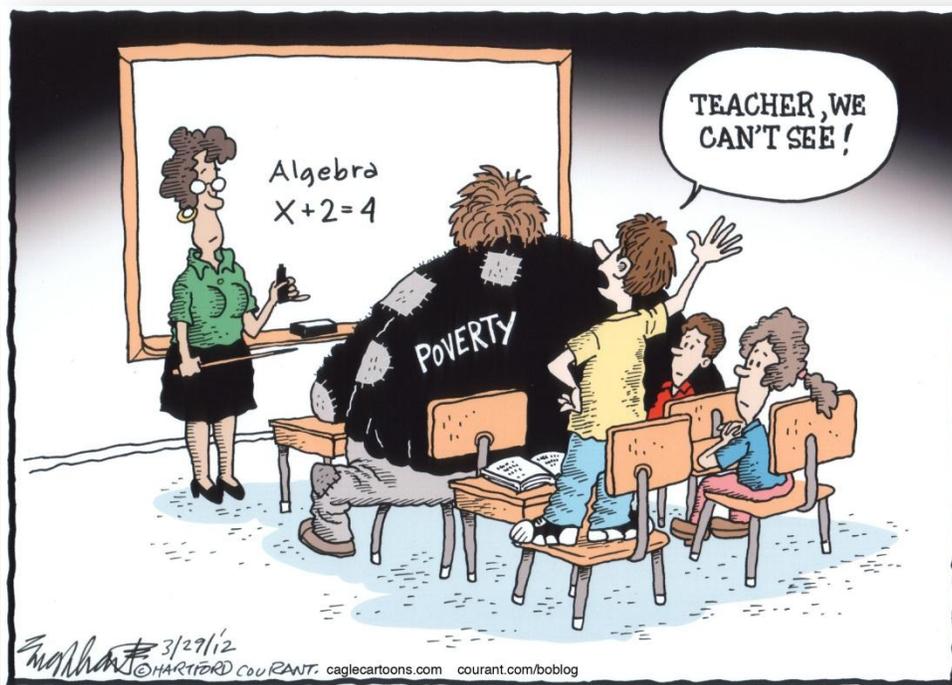
Food insecure households reported reduced quality, variety or desirability of diet.

Very low food secure households reported hunger, disrupted eating patterns and reduced food intake.



Source: Hawai'i Fact Sheet, USDA Economic Research Service

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CHILDREN: Hawai'i is slipping from its legacy of caring for our keiki. A composite index developed by the Annie E. Casey Foundation, a nonprofit organization dedicated to improving the lives of disadvantaged children, ranked Hawai'i as 26th in the nation for childhood well-being. In the mid-2000s, Hawai'i was ranked 11th. Worsening indicators include:

- 8 percent increase in low-birthweight babies between 2000 and 2008.
- 40 percent increase in the child death rate between 2000 and 2007.
- 33 percent of Hawai'i's 2-year-olds are not fully immunized.
- 5 percent of children are lack medical insurance.
- Children make up 42 percent of total Medicaid enrollment.

Hawai'i's public K-12 schools are also underperforming academically.

- Of public school fourth graders, 74 percent are unable to read at grade level and 63 percent are unable to do math at grade level.
- Of public school eighth graders, 78 percent are unable to read at grade level and 75 percent are unable to do math at grade level.
- There has been a 40 percent *increase* from 2000 to 2009 in Hawai'i teens not in school and who have not graduated from high school. Nationally, there has been a 45 percent *decrease* in the number of teens who aren't in school and who are not high school graduates.

These lags in educational achievement are not surprising given that only 8.4 percent of 3-year-olds and 14.5 percent of 4-year-olds are enrolled in pre-K, Head Start or special education programs. Early education programs are key to increasing children's chances at success.

The Recession's Impact on Hawai'i Care Providers

PROVIDER SURVEY: The Hawai'i Appleseed Center for Law and Economic Justice conducted a survey to find out the level of funding and staffing cuts to social services organizations, along with the impact on programs and clients, from 2008-11. The organizations surveyed reported an 18 percent cut in funding amounting to \$23.5 million. Staffing was also

slashed, with 366 jobs cut over the period, amounting to a 16 percent decrease.

These organizations provide crucial services to Hawai'i's most disadvantaged individuals and families, and their ability to continue providing these services has been seriously compromised at a time when low-income people need them the most.

Hawai'i Nonprofit Service Providers See Funding Cut by 18.6% ...

Organization	2008 Budget	2009 Budget	Percent Change	2010 Budget	Percent Change	2011 Budget	Percent Change	2008-2011 Change	Percent Change
A	\$ 3,029,930	\$ 2,915,101	-4%	\$ 2,698,380	-7%	\$ 2,151,163	-20%	-\$878,767	-29%
B	270,449	97,968	-64%	117,968	20%	117,968	0%	-152,481	-56%
C	5,200,000	5,100,000	-2%	4,500,000	-12%	4,200,000	-7%	-1,000,000	-19%
D	15,333,417	15,738,524	3%	12,515,838	-20%	12,392,270	-1%	-2,941,147	-19%
E	1,288,000	1,392,000	8%	1,400,000	1%	1,580,000	13%	292,000	23%
F	11,971,000	11,467,000	-4%	9,550,000	-17%	8,000,000	-16%	-3,971,000	-33%
G	31,943,092	26,873,868	-16%	23,490,481	-13%	20,342,057	-13%	-11,601,035	-36%
H	19,618,750	24,100,956	23%	20,192,020	-16%	21,266,366	5%	1,647,616	8%
I	12,700,000	11,800,000	-7%	10,800,000	-8%	10,000,000	-7%	-2,700,000	-21%
J	8,900,000	8,300,000	-7%	7,400,000	-11%	7,200,000	-3%	-1,700,000	-19%
K	8,889,161	9,111,611	3%	7,679,097	-16%	8,481,330	10%	-407,831	-5%
L	1,000,000	1,000,000	0%	400,000	-60%	200,000	-50%	-800,000	-80%
M	21,000,000	17,000,000	-19%	22,000,000	29%	19,000,000	-14%	-2,000,000	-10%
TOTALS	\$ 141,143,799	\$ 134,897,028		\$ 122,743,784		\$ 114,931,154		-\$26,212,645	-18.57%

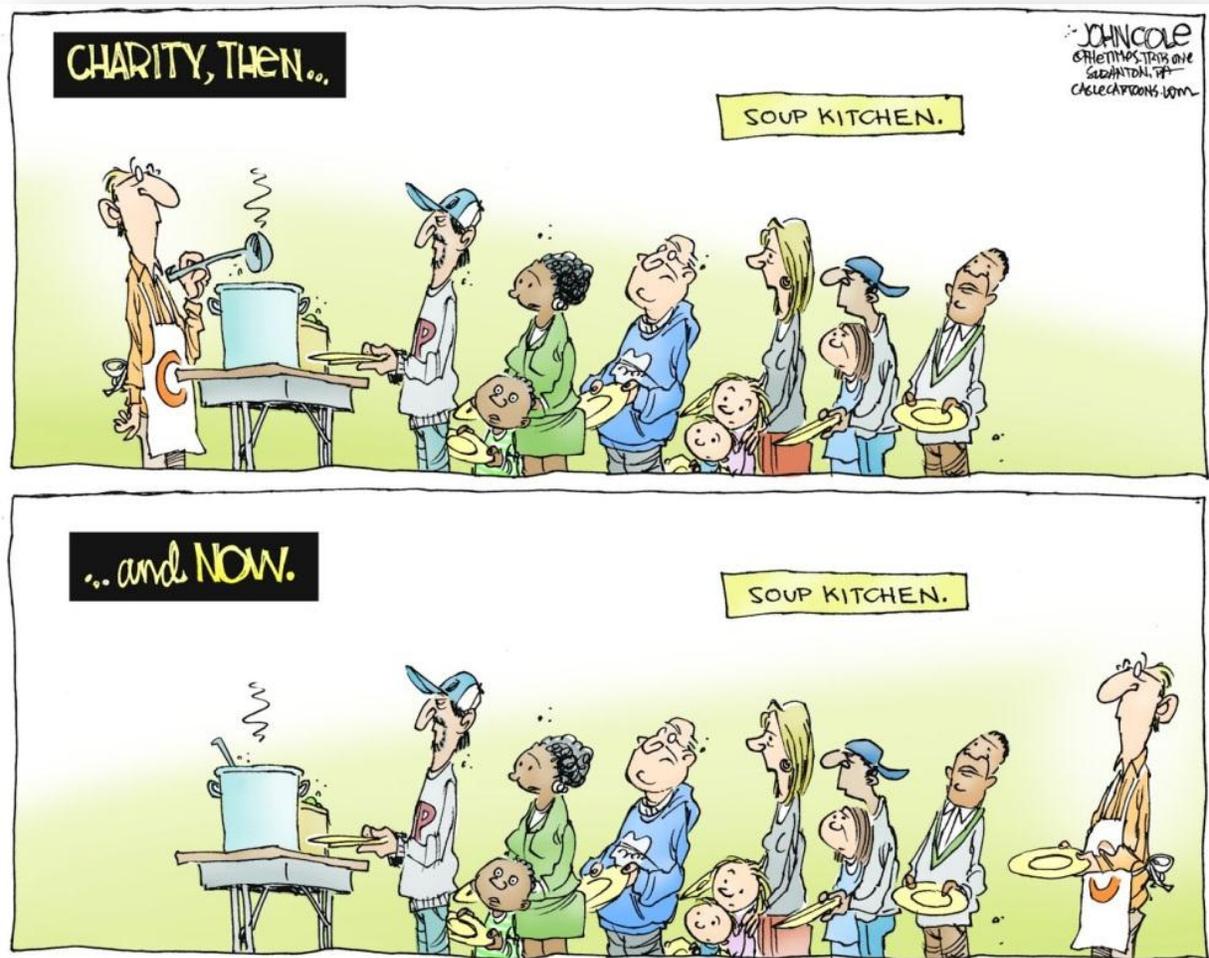
... as Staffs¹ Are Slashed by 16% from 2008 to 2011

Organization	2008 Staff	2009 Staff	Percent Change	2010 Staff	Percent Change	2011 Staff	Percent Change	2008-2011 Change	Percent Change
A	45.5	39.5	-13%	35.5	-10%	33	-7%	-13	-27%
B	6.5	6	-8%	6	0%	6	0%	-1	-8%
C	100	95	-5%	90	-5%	85	-6%	-15	-15%
D	243	258	6%	243	-6%	194	-20%	-49	-20%
E	5	6	20%	6	0%	5	-17%	0	0%
F	222	266	20%	239	-10%	128	-46%	-94	-42%
G	539	503	-7%	449	-11%	425	-5%	-114	-21%
H	325	334	3%	308	-8%	310	1%	-15	-5%
I	150.5	147.5	-2%	135	-8%	127	-6%	-23.5	-16%
J	143	144	1%	135	-6%	126	-7%	-17	-12%
K	47	54	15%	57	6%	46	-19%	-1	-2%
L	5	5	0%	3	-40%	3	0%	-2	-40%
M	430	400	-7%	435	9%	410	-6%	-20	-5%
TOTALS	2,259	2,258		2,142		1,898		-364	-16%

¹ Full-time equivalents

Source: Survey of 13 nonprofit Hawai'i social service providers by the Hawai'i Appleseed Center for Law and Economic Justice, January 2012

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HANO/PHOCUSED SURVEY: Another survey by the Hawai'i Alliance of Nonprofit Organizations (HANO) and Protecting Hawai'i's Ohana, Children, Underserved and Disabled (PHOCUSED), canvassed a wider section of the nonprofit community and also showed alarming reductions occurred in 2009. Non-profits saw state funding cuts of 58 percent, resulting in layoffs, lowered salaries and serving fewer clients.

These devastating cuts throughout the nonprofit sector have resulted in reduced programming, higher caseloads, lower quality of services, lack of resources needed to serve clients, and an inability to

fulfill their organizations' goals. Overall, organizations reported that some 100,000 clients were going unserved, an average of 4,366 per agency. Many of these were from the most vulnerable populations: keiki, veterans with disabilities, families in poverty, children with developmental delays, people with HIV/AIDS, women and children in domestic violence situations, and many more.

The long-term impact of these cuts could be disastrous: homelessness for those who are already struggling to get by, poor health outcomes and more frequent hospitalizations, and delayed interventions and preventative measures for young children.

A Call to Action – Restore Hawai‘i’s Legacy of Fairness

REPAIR THE SAFETY NET: As the preceding sections clearly demonstrate, Hawai‘i’s low-income community has expanded and suffered disproportionately from the recession. During this time of increased hardship, we must restore funding of social services to its previous levels. Our community needs social services more than ever before.

We have already seen the effect drastic cuts have had on our most vulnerable populations. Many of these cuts will result in dire ramifications for decades due to the impact on child development, health, quality of education, incarceration rates, homelessness and related social problems. Unless we address social problems at their root, they will continue to worsen and future costs will rise.

Countless programs, organizations and their clients have been hit hard by these cuts. For example:

Domestic violence programs have been heavily reduced as a result of cuts. These include defunding a program to assist victims of domestic violence to obtain temporary restraining orders. Staff has been reduced as demand has significantly increased and the investment in prevention has shrunk. In 2011, only a little more than \$600,000 went into programs preventing domestic violence and sexual assault.

Early Childhood programs have been eliminated, including:

- BabySAFE, which provided direct services to high-risk pregnant women on the Leeward coast.
- The Fetal Alcohol Spectrum Disorders program.
- The Keiki Care Project.

Additional reductions in funding and services included:

- Healthy Start – \$9 million cut; \$1.2 million remaining with two programs still operating.
- Prenatal Health Programs – 12 percent reduction.

- Family Planning – 25 percent reduction.
- Parental Support Programs – 9 percent reduction.
- Department of Human Services child care and preschool subsidies – reduced.
- Early Intervention Services for Children with Biologically and Environmental Risks – reduced.
- Family Planning program – cut 25 percent.

Reductions in mental health services are potentially devastating for individuals and may well result in significant social costs as a result of increases in hospitalizations, incarcerations, and homelessness. Aloha House’s community-based case management services for persons with serious mental illness have experienced a 75 percent reduction.

AVOID FUTURE CUTS: Countless other programs are at risk of reductions or termination, and organizations are already making painful decisions in anticipation of future cuts.

For example, without the restoration of rainy day funds to Child and Family Services, domestic violence programs on the island of Hawai‘i will be devastated. In addition to assistance with temporary restraining orders, CFS has also engaged in advocacy for women and children to help them navigate the court system; this program will be terminated.

Court-ordered intervention programs for perpetrators of domestic violence will remain, but support and counseling groups for those who have experienced domestic violence will end.

In addition, permanency support services will completely end unless funding is restored. These services help grandparents who are adopting their grandchildren to maintain the adoption. If the placement fails, a child may well end up in a group home, costing the state far more than the support services that have been cut.

Policy Proposals to Address the Crisis Facing Hawai'i's Disadvantaged

SPECIFIC POLICY PROPOSALS: To fundamentally address the crisis that is dragging people into poverty and keeping them there, Hawai'i should look to successful models in other states and implement pragmatic, effective policies. In addition to policy improvements that can keep households out of poverty or help them escape it, certain revenue-raising mechanisms can also benefit public health and bolster the local economy, improving conditions for everyone.

1. INCREASE LIQUOR TAX: An effective way to increase revenue while reducing costs is to raise taxes on hard liquor. Hawai'i's liquor taxes are relatively low at \$5.98 per gallon of hard alcohol. The Centers for Disease Control estimated that the economic cost of alcohol abuse from effects such as lost workplace productivity, alcohol-related health care costs, increased policing and criminal justice expenses, and motor vehicle crashes was a staggering \$224 billion in 2006. A meta-analysis of

alcohol tax studies found that doubling an alcohol tax results in 35 percent fewer alcohol-related deaths. These numbers do not account for unquantifiable costs such as pain and suffering to problem drinkers, their families, and the larger community. Alarming, heavy drinking in Hawai'i is 1.3 times higher than the national average, while the binge drinking rate is about three times higher. By increasing this tax, Hawai'i would raise revenue, reduce alcohol-related costs and save lives.

2. ENACT SUGARY BEVERAGE TAX: A modest tax on sugary beverages is a win-win for the state of Hawai'i. It would be a way to raise revenues while lowering health care costs. The percentage of obese and overweight residents, both children and adults, has grown rapidly. Sugar-sweetened soft drinks are the only food or beverage proven to increase the risk of becoming overweight or obese. According to the Center on Science in the Public Interest, if Hawai'i were to add a 5-cent tax on each 12-ounce serving of soda, the projected revenue would be \$39 million annually. If the tax rate is high enough, it can be

expected to reduce consumption while making an impact on reducing obesity. Yale's Rudd Center for Food Policy and Obesity estimates that increasing the cost of soft drinks by 20 percent would result in a 20 percent reduction in consumption. States around the country already have raised millions through this simple tax that brings in easy revenue while promoting public health. Levying a sugary beverage tax can simultaneously reduce health problems and raise revenues, allowing the state to spend more on other worthwhile programs that help prevent and reduce poverty.

3. TAX PENSIONS OF WEALTHY: The Hawai'i Tax Review Commission has repeatedly called for Hawai'i to join 40 other states and the federal government in taxing pensions above a certain level as regular income. While many seniors struggle on limited incomes, wealthy retirees should pay their fair share. Other forms of retirement income, such as Social Security payments, are taxed as income already, and pensions should be treated the same.

Exemptions can ensure that low- and middle-income seniors maintain comfortable incomes.

In addition, a pension tax could ultimately benefit many of Hawai'i's seniors, particularly those on limited incomes, by providing additional revenue for social services providers. It is time to treat all forms of retirement income equally and to tax working-age and retired adults at comparable rates to ensure the well-being of those from every age group.

4. INCREASE CAPITAL GAINS TAX: Hawai'i is one of a handful states that has a significant capital gains income tax preference. While the top income tax bracket is 11 percent, capital gains are taxed at a mere 7.25 percent – almost the same income tax rate paid by those making less than \$24,000. By providing this preferential tax rate, Hawai'i misses out on \$39 million in potential tax revenue. Moreover, this lost revenue stays in the pockets of Hawai'i's wealthiest residents: The bottom 80 percent of taxpayers receive no benefit at all from the overall capital gains tax break. The wealthiest 5

percent enjoy 99 percent of the windfall from this tax preference while the bottom 80 percent of taxpayers receive no benefit at all.

These funds contribute little to the local economy, since the wealthy spend a smaller percentage of their incomes on purchases. All other states with comparable income tax rates treat capital gains like regular income. Hawai'i must eliminate its two classes of income: one for the earned income of workers and a special one for money derived from the investments that only the relatively wealthy can afford to make.

5. COLLECT INTERNET SALES TAXES: According to the National Conference of State Legislatures, Hawai'i will lose up to \$122.5 million in uncollected taxes on Internet and catalog sales in 2012 alone. Taxes are due on purchases made over the Internet, just as they would be if purchased in a local store. However, a quirk in federal law limits Hawai'i's ability to collect taxes from online business that don't have a physical presence in the state. Instead, consumers in Hawai'i are supposed to pay taxes on their Internet purchases directly to the state, which

often does not happen. This tax loophole gives online businesses a price advantage over brick-and-mortar competitors that are required to collect sales taxes directly from consumers.

In this time of financial strain, Hawai'i can ill afford to forgo the opportunity to collect taxes from Internet and catalog sales that are already legally due. Enacting legislation to maximize Hawai'i's ability to collect taxes on Internet sales will greatly enhance Hawai'i's ability to meet its current fiscal challenges.

6. DO NOT INTRODUCE GAMBLING: Gambling is not the harmless solution to budgetary shortfalls that its proponents claim: It has a disproportionate negative impact on low-income people. The surrounding community is seriously impacted by the presence of a casino. Residing within ten miles of a casino is associated with a whopping 90 percent increase in the odds of being a problem gambler, and the most disadvantaged neighborhoods have 12 times the rate of problem gambling as residents of the most privileged areas. The National Gambling Impact Study Commission found that the litany of gambling-related harms is tragically long: job loss,

substance abuse, crime, divorce, child abuse and neglect, domestic violence, bankruptcy, homelessness and more. These tragedies can worsen the plight of already poor families and drive others into poverty. In addition, the revenue-creating taxes on gambling, similar to excise taxes on cigarettes or alcohol, are ultimately heavily regressive taxes on low-income people. Poor people are more likely to spend a higher percentage of their income on gambling, resulting in more of their income going to gambling taxes as well. By introducing an industry that exploits the poor, Hawai'i would only exacerbate the crisis people in poverty now face.

7. DO NOT RAISE REGRESSIVE GET: Hawai'i's General Excise Tax is inherently regressive, since the lower a household's income, the more they must spend on taxable items and services – even on essentials such as groceries and medical care. As a result, the less a family earns the higher percentage of their income goes to taxes. The Institute on Taxation and Economic Policy has estimated that low-income families typically spend three-quarters of their incomes on items subject to tax, while the wealthiest

spend just one-sixth of their incomes on items subject to sales tax. Poor families have no choice but to spend most of what they make on consumption, while wealthy families save and pay proportionately less tax. Raising the GET likely would have the effect of driving consumer spending down, also, since families cannot afford to pay ever-higher percentages of their incomes in taxes. To increase a regressive tax in a time of economic crisis would further harm low-income families.

8. ENACT STATE EITC: One of the best strategies to ensure that working families stay out of poverty is an earned income tax credit. An EITC is a refundable tax credit for working families that allows them to keep more of what they earn. The federal EITC was introduced by President Nixon and heralded by none other than President Reagan as "the best anti-poverty, the best pro-family, the best job-creation measure to come out of Congress." It continues to enjoy widespread bipartisan support because the EITC

encourages work, since only working families can receive it. In 2009, the federal EITC lifted 6.5 million individuals out of poverty, more than half of them children. Almost half the states have created their own EITC to supplement the federal credit, but Hawai'i has yet to join them, despite its relatively high taxes and its expensive cost of living. A Hawai'i state EITC would supplement the federal credit to help low-income, working families alleviate the disproportionate tax burden that they face.

9. INCREASE THE MINIMUM WAGE: To further help working low-income families survive in Hawai'i, the state should increase the minimum wage to a level that is closer to a living wage. The current minimum wage is a mere \$7.25. For a full-time worker, this amounts to just \$290 for a 40-hour workweek and slightly more than \$15,000 a year. This amount is clearly insufficient to live on in Hawai'i. To make matters worse, Hawai'i's minimum wage has remained stagnant since 2007. Meanwhile, the cost of living has spiked 11 percent. A higher minimum wage not only would help workers and

families manage financially, it also would boost Hawai'i's economy. Additional income increases immediate spending; it helps households afford necessities that they might otherwise receive from social service providers or from public benefits. Businesses also would see a positive impact: When workers earn more, there is significantly less employee turnover, resulting in more experienced and productive workers and lower costs. Raising the minimum wage is a meaningful step toward reducing poverty that also benefits businesses and the economy as a whole.

10. INCREASE FEDERAL FUNDING: A consensus has been forming in Hawai'i around the importance of increasing federal funding to support the many needs of our state's low-income population. Because of the current limitations on federal earmarks, we should explore the expansion of other programs that provide services to those in need. Federal funding for many of these programs tends to be distributed based on the number of participants served in each state. Examples of programs that could be expanded using federal funds include:

- ▶ **Increase SNAP Enrollment** – Supplemental Nutrition Assistance Program benefits, also known as food stamps, are intended to alleviate hunger and malnutrition in low-income households by providing fully federally funded benefits to help eligible households purchase food. The costs of all SNAP benefits are funded by the U.S. Department of Agriculture. In addition, the Department of Agriculture reimburses 50 percent of all of the state's expenses for the administration of the SNAP program. Expanded outreach efforts to enroll more households in SNAP will help improve food security and increase families' access to nutrition.

- ▶ **Increase School Meals Program Participation** – The school meals program provides free or low cost breakfast, lunch and afterschool meals for eligible students. The U.S. Department of Agriculture reimburses the Hawai'i State Department of Education for many of the expenses associated with this program. Hawai'i can increase the amount of federal reimbursements for school meals by enrolling more low income children in the program. This can be done in a number of ways including increasing the direct certification process to include all eligible children and conducting extensive outreach to families, including immigrants. Participation rates for school breakfasts could easily be increased by experimenting with successful mainland models such as serving breakfast in the classroom. Currently, only 40 percent of the children eating free and reduced price school lunches are participating in the school breakfast program. By bringing this

figure up to 60 percent, Hawai'i would receive an additional \$2.4 million in federal reimbursements.

- ▶ **Coordinate Applications for Federal Grants and Contracts** – Every year, nonprofit and for-profit organizations have numerous opportunities to compete for funding distributed by various federal departments and agencies. Many of these opportunities require that relevant state departments actively support, and sometimes participate in, the preparation and/or submission of proposals. Organizations interested in applying for funding often encounter difficulty having their requests for support processed by the required state departments. The ability to receive timely indications of support from the department bureaucracy is often critical given the limited time frames required for submission. Although discussed many times, the state has never created an "ombudsman" to work collaboratively with nonprofit and for-profit organizations. The ombudsman's responsibilities would include keeping abreast of opportunities for federal funding and actively facilitating the creation of partnerships with state departments. He or she would help interested applicants by removing barriers to coordination and provide the support required for submitting a successful proposal.

- ▶ **Increase the Number of Eligible Disabled Individuals Receiving Social Security Benefits** – The federal Social Security Administration provides two sources of income for disabled individuals. The Social Security Disability Insurance program provides disabled workers who have been employed for 20 out of the prior 40 quarters with minimum monthly benefits of \$1,000. The Supplemental Insurance Program provides disabled individuals who do not have sufficient quarters to be eligible for the SSDI program with minimum monthly benefits of \$694.

To be determined eligible for either program, disabled individuals must prove they are "totally and permanently" disabled. The SSA denied the initial claims of more than 64 percent of applicants in 2009. When denied, applicants have a right to appeal through an administrative hearing process. Those

who are represented by counsel win more than 60 percent of their appeals and receive benefits. Under SSA regulations, when successful, the costs of representation may be paid out of the retroactive award provided to the successful applicant. State health

and social services programs can conduct outreach and implement a system to refer potentially eligible clients to private attorneys. Social Security benefits can help reduce individuals' reliance on state financial assistance.

11. INVEST IN PREVENTION: Programs emphasizing prevention lay the groundwork for a better future that will enrich lives, reduce poverty and ultimately save the state money. By investing more in these programs, we will see both immediate and long-term results that lead to better outcomes for our community.

► **Early Childhood Programs** focusing on education, health care, and social services are not only critical to the well-being of our keiki, but to our entire state. Research has shown that 85 percent of brain development occurs by age five, meaning that early childhood programs confer a lifelong benefit on children. Because of their long-lasting effects, such programs benefit all of Hawai'i.

► **Early Childhood Education** programs promote healthy development and education for children from birth until five. High-quality early childhood education has been proven extremely effective. The fiscal benefits of early childhood education are impressively high: For each dollar invested in early childhood education, research has estimated that returns range from \$2.50 to \$17. Not only does it pay off in the long run, but Hawai'i will soon see direct results from this investment. Early childhood education reduces the need for remedial programs in K-12 education and, given its wide appeal, can help attract parents with valuable skills to the state, providing a better labor supply and strengthening our economy. The jobs created by expanding ECE itself can also help reduce unemployment.

► **Parenting Skills** programs teach parenting skills through home visitation or other forms of prenatal and early childhood support programs. Hawai'i

has received national recognition as an innovator in this area for its Healthy Start program, which was one of the first programs in the nation to offer free home visits for new mothers during a child's first three years. Though Healthy Start has served as a model around the world, the program has nonetheless been heavily hit in recent budget cuts, with only the Hilo and Leeward Oahu sites remaining open. Hawai'i cannot abandon its obligation to care for our keiki and should expand its health and educational support services to families. Over time, these programs will reduce costs by leading to healthier children and families who need fewer social services.

► **Expanded Primary Care** – Effective, evidence-based preventative care programs such as vaccines and disease screening can result in large cost-savings for Hawai'i. Nationally, preventative care only accounts for 2-3 percent of health care expenditures, with disease care driving most of our health care spending. Yet a lack of preventative care can result in significantly higher costs in the long run as individuals ultimately require costly treatment for disease. In addition to reducing health care expenditures and saving lives, preventative care can result in effects that are rarely measured as part of cost savings, such as increased workforce productivity, in addition to more intangible effects on households, education, public safety and other social issues.

► **Justice Reinvestment** – Over the last decade, the crime and victimization rates in Hawai'i have steadily declined, yet the number of people incarcerated and the amount of money spent on corrections have both increased over the same time period. Prison overcrowding has led to an arrangement to house about 1,750 inmates – almost a third of

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Hawaii's inmates – at two for-profit facilities in Arizona, costing the state \$60 million annually. A new analysis conducted by the Council of State Governments' Justice Center found that by implementing a set of common-sense measures Hawaii could bring home two-thirds of the inmates currently housed in Arizona and save \$108 million over the next six years, all while improving public safety. These measures include reducing procedural delays in the pre-trial process, focusing resources on high-risk offenders, increasing judicial discretion in sentencing low-level offenders and employing swift and proportionate responses to parole and probation violations.

► **Drug Treatment** – There is good reason to believe that one of the best ways to reduce the need for criminal justice spending is to direct more resources to drug abuse treatment and prevention.

The National Conference of State Legislatures estimates that 80 percent of all state spending on prisons, parole and probation is for offenders who are involved with drugs. Furthermore, researchers at Columbia University's National Center on Addiction and Drug Abuse found that drugs or alcohol were involved in 78 percent of all violent crimes, 83 percent of all property crimes, and 77 percent of public order, immigration, weapons and parole or probation violations. Yet few funds go toward prevention in Hawaii: For every \$100 the state spends on substance abuse, the state spends \$99.32 on dealing with the consequences and human wreckage of addiction and abuse. Meanwhile, only 55 cents is spent on prevention, treatment and research. A significant investment in drug abuse treatment and prevention is urgently needed to protect both the health and finances of Hawaii's future generations.



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