STATE OF HAWAII
BOARD OF EDUCATION
P. O. BOX 2360
HONOLULU, HAWAII 96804

June 22, 2009

The Honorable Colleen Hanabusa
21st Senatorial District
Hawaii State Capitol, Room 409
415 South Beretania Street
Honolulu, HI 96813

Dear Senator Hanabusa:

The state Board of Education is extremely concerned about the impact Governor Linda Lingle's plan to balance the budget will have on Hawaii's public schools. Therefore, I wanted to encourage you and your colleagues to hold a special session to look at options to preserve funding for schools and ensure a faster economic recovery for the state.

I hope this letter explains why possible alternatives such as tapping into the Hawaii Hurricane Relief and Rainy Day funds and/or temporarily raising the General Excise Tax would lessen the fiscal burden on thousands of students, teachers and parents while ensuring that financial stability returns to Hawaii sooner rather than later.

As you are aware, the state Department of Education stands to lose $468 million over the 2009-2011 biennium under Governor Lingle's directive to reduce the public schools budget by an amount equivalent to three furlough days per month. While the administration has described its proposal as one that is fair and will have the least impact on families, the Board believes just the opposite to be true.

In fact, a June 19 study by the Center on Budget and Policy Priorities concluded that during a recession, spending cuts are more harmful for a state's economy than properly-structured tax increases. The report points out that a growing number of states – realizing that budget shortfalls are too great to be addressed through a cuts-only strategy – are combining tax increases with cuts in expenditures.

Here's how a group of 120 economists recently explained to New York legislators and Governor David Paterson how tax increases are more beneficial than deep cuts in services like the one Governor Lingle has put forward:

> *"The reasons are simple. Almost every dollar that states and localities spend on aid for the needy, salaries of public employees, and other vital services enters the local economy immediately. So if states cut their spending in these areas, overall demand suffers at a time when demand is already too low and support services are most needed.*
> *The alternative—raising taxes—also reduces spending, but by less than budget cuts of comparable size. And by targeting these taxes appropriately, their negative effects can be minimized. For example, high-income households typically spend only a fraction of their income and save the rest. As a result, each $1 increase on taxes on high-income households will reduce their spending by much less than $1."*

When North Carolina, South Carolina, Virginia and Washington raised taxes during the last downturn, they experienced faster-than-average growth in employment and personal income from 2004 to 2007. Meanwhile, a number of states that failed to raise taxes had lower-than-average economic growth, the report said.

As you can see, states that adopt small tax adjustments are able to retain essential government services and rebound quicker from economic downturns.

It is important to note, however, that even if Hawaii were to utilize special funds or raise the GET, the Department of Education as well as other state agencies would still face drastic budget cuts. But by raising revenue and minimizing those reductions, the legislature would ensure schools can guide our students toward success and place the state on the path of economic prosperity.

Sincerely,

Garrett Toguchi

Garrett Toguchi
Chair

c: All Members of the Hawaii State Senate

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HONOLULU, HAWAII 96804

June 22, 2009

The Honorable Calvin K.Y. Say
20th Representative Disctrict
Hawaii State Capitol, Room 431
415 South Beretania Street
Honolulu, HI 96813

Dear Speaker Say:

The state Board of Education is extremely concerned about the impact Governor Linda Lingle's plan to balance the budget will have on Hawaii's public schools. Therefore, I wanted to encourage you and your colleagues to hold a special session to look at options to preserve funding for schools and ensure a faster economic recovery for the state.

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Chair

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