

HO'OWAIWAI  
...The Hawai'i Asset Policy Initiative

# Asset-Building Policy for Hawai'i



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TABLE OF CONTENTS

INTRODUCTION..... 4

    ABOUT THIS REPORT ..... 5

    WHAT IS ASSET-BUILDING? ..... 5

    THE CURRENT STATE OF ASSET POLICY: AIMED AT PEOPLE WITH ASSETS..... 6

    WHAT CAN ASSET-BUILDING ACHIEVE FOR ALL PEOPLE OF HAWAI`I?..... 6

AN ATTITUDE FOR ASSET-BUILDING: COMMITMENT TO EQUAL OPPORTUNITY..... 7

WHY DO WE NEED ASSET-BUILDING? ..... 8

IMPORTANT ASSET RELATED INDICATORS..... 9

SIX GOALS OF A COMPREHENSIVE ASSET-BUILDING POLICY AGENDA ..... 11

    1. MAKE WORK PAY ..... 12

    2. TEACH ASSET-BUILDING..... 14

    3. BREAK DOWN BARRIERS TO ASSET-BUILDING..... 16

    4. HELP PEOPLE SAVE ..... 18

    5. HELP PEOPLE START BUSINESSES ..... 20

    6. HELP PEOPLE BUY HOMES..... 22

CONCLUSION: DEVELOPING AN ASSET-BUILDING MOVEMENT ..... 24

NOTES..... 25

## **HACBED & The Ho'owaiwai Initiative**

This document was prepared by the Hawai'i Alliance for Community-Based Economic Development (HACBED). HACBED is a statewide, tax-exempt, nonprofit organization established in 1992 to encourage increased investments in sustainable and community-based approaches to economic development. HACBED's mission is to maximize the effectiveness of people working in communities and the nonprofit sector to build a healthier and safer Hawai'i through community-based economic development.

*Ho'owaiwai* is a Hawaiian word meaning "to enrich". *Wai* means "water". In old Hawai'i, it was everyone's *kuleana* or "responsibility" to *malama i ka wai* or "to take care of the water" because it affected the livelihood of the entire village. If you had a sufficient supply of *wai*, you were considered "wealthy". The goal of the *Ho'owaiwai* initiative is to create a collaborative environment that nurtures the wealth of our communities and families in a way that will be perpetuated for future generations. While economic security is fundamental to wealth creation, asset-building strategies must give equal consideration to building natural, human, cultural, and social assets that are the foundation of a community. They must also take into account that, for many, wealth is the ability to share possessions rather than just accumulate them for one's self.

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To better understand the life experiences of families, focus groups were held in Papakolea and Waipahu. Present day stories appearing in this report come from these sessions as well as focus groups conducted for the Family Independence Initiative (FII) of Hawai'i. Some concepts and principles illustrated in this report stem from FII-Hawai'i and the founder of FII-Oakland, Maurice Lim Miller. We are very grateful to Maurice and all the participating families for their *mana'o*. Support for FII – Hawai'i comes from The Hawai'i Community Foundation, the Harold K.L. Castle Foundation, and the Case Foundation.

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## INTRODUCTION

At the heart of Hawai'i is an enduring determination to honor our past and leave a legacy for future generations. Today, many people in Hawai'i enjoy a level of security and comfort unknown to their ancestors. Generation upon generation had to overcome disenfranchisement, disease, disasters, discrimination, difficult work conditions, extreme poverty, and limited opportunity to carve out a better life—for themselves and their children.

They accomplished this with hard work and sacrifice—and *asset-building*. In the early and mid 20<sup>th</sup> century, the people of Hawai'i knew how to build financial assets. In even the most challenging of circumstances, they saved money, started businesses, utilized credit, bought property, invested in education, and saved for retirement.

These abilities were aided by historic movements: unions fought for better wages and benefits, local businesses dedicated themselves to community needs, new industries with better jobs were established, charitable organizations developed a strong safety net, discriminatory practices were curtailed, and public policy focused on ways to ensure that people could get by.

In 2006, the struggle to *just get by* is over for some Hawai'i residents, but not all. Despite how far we have come, too many in Hawai'i still cannot make ends meet, are locked out of opportunities, and are one misfortune—a job loss, a child's illness—away from disaster.

Like the people in Hawai'i's past, people struggling today can build assets and lift themselves and their children to better lives. But today's challenges require different solutions. In 2006 we face a significantly higher cost of living, scarcity of housing, new forms of bias and division, and, most importantly, an outdated public policy regime. For decades, Hawai'i like the rest of the United States has focused on income-based policies to help families get by. The main tools for addressing poverty have been those that increase incomes through welfare payments and employment programs. These income-focused strategies have helped many people, but they have not directly addressed large gaps in wealth and opportunity. With all our focus on how much people *earn*, we have not focused on how much people *own*.

The U.S. has a long history of asset-building policies—often delivered through the tax code—that enable families to save and invest. However, most of these policies are not accessible to low-income families. For example, families without resources to invest in a home cannot benefit from the home mortgage tax deduction, and families that use all their incomes for necessities cannot take advantage of tax-favored retirement savings. Even worse, families who are receiving public benefits are actually penalized for saving because even modest accumulation of assets can make a family ineligible for assistance.

In response, many states are actively building a more equitable asset-building policy infrastructure—one that encourages all families to save and invest in themselves, their families, and their communities.

### then

From the beginning (1926) I work in the (plantation) store so I didn't work hard. But others work in the field, eh, and whenever they come home from work, I see them. They are so tired; their job is so hard...

We open the store four o'clock, early in the morning... Then, in the afternoon, we go home five o'clock, take a bath, eat supper; and go back again to the store, six o'clock. And we close again at eight o'clock p.m. And... mind you, one dollar one day. That's all we getting. One dollar one day.

...I stayed at the Kawailoa store only until 1948. Before I quit, I have to prepare myself. I bought a property at Haleiwa. I bought one lot, almost one acre. It cost me only thirty-seven cents square foot. So cheap. So first I built my store, I call all my friend to come help me build it... After I build the store, I hired contractor to build my house. When my house was ready, I told the plantation I will resign. I resign.<sup>1</sup>

Hawai'i lacks a coordinated and comprehensive asset-building policy and there is limited, if any, dialogue about the costs of asset-poverty and the benefits of policy solutions. As a result, many families are caught in a cycle, where they are just *getting by* rather than taking steps toward *getting ahead*. Hard work and sacrifice by today's families are only half the battle. Better policies are needed to fulfill America's promise of opportunity, equality, and freedom.

This report outlines a set of strategies that can benefit all people in Hawai'i. Asset-building policy will simultaneously improve Hawai'i's overall economy, reward and reestablish the values we claim to live by, and create realistic pathways out of poverty in Hawai'i. Working together on these strategies, Hawai'i's people can bring about a new era in Hawai'i's history—a time when we can all fulfill our obligations to the generations that came before and to those yet to come.

## **ABOUT THIS REPORT**

The 2005 Assets and Opportunity Scorecard is one of the most comprehensive and well-respected measures of financial security in the United States. Produced by CFED (formerly the Corporation for Enterprise Development), this report gave Hawai'i an overall grade of "B" and rated the public policy environment "substandard" for asset-building.<sup>2</sup>

As with all scorecard reports, letter grades can provide a helpful overview but do little to inform policy makers and practitioners. Particularly in Hawai'i—where our unique economy, population characteristics and history skew various measures—it is important to look behind the rankings to uncover the important lessons.

This report attempts to develop that customized understanding of the CFED report and other data and analyses relevant to asset-building in Hawai'i. It draws heavily from the excellent 2006 report by the New America Foundation and the Center for Social Development called *State Policy Options for Building Assets*<sup>3</sup> as well as a 2005 report entitled *Promoting Economic Security for Working Families: State Asset-Building Initiatives*,<sup>4</sup> which spotlights Hawai'i for its emerging state asset-building movement, which this report hopes to advance. As background for this report, we reviewed local data and conducted focus groups with families in low-income communities. We also worked collaboratively with CFED and national experts who are part of this burgeoning, nationwide movement. Across the United States, community organizations, nonprofits, philanthropic organizations, and governments are embracing asset-building as a means to address poverty and develop local economies.

## **WHAT IS ASSET-BUILDING?**

This report is concerned with financial assets—cash savings, stocks, bonds, home and business equity. When asked to define an "asset," many people in Hawai'i mention non-financial assets such as family, community, the natural environment, and culture. For many, these assets are much more valuable than financial assets. But almost everyone agrees that financial assets are critically important—perhaps not as an end, but as the means to a richer life where one can "acquire" and "invest in" precious non-financial assets. Ultimately, financial wealth allows families and communities to exercise more choice and control over their lives.

Financial assets support financial wellbeing by reducing strain on families, decreasing the risk of intergenerational poverty, and increasing economic stability. Research also shows that financial assets foster long-term thinking, increase social "connectedness," decrease marital dissolution, increase health and satisfaction, increase civic engagement, and enhance quality of life.<sup>5</sup>

Asset-building policies help people 1) earn enough beyond basic survival to begin building wealth; 2) preserve hard-earned assets and stabilize their finances; and 3) grow their assets through investment and leveraging.<sup>6</sup> The aim is to help families develop financial sustainability. The Annie E. Casey Foundation—a major supporter of asset-building and funder of this report—states it succinctly in this way: we need to help families ***earn it, keep it, and grow it.***<sup>7</sup> Using this simple slogan as a framework, individuals, communities, and policy makers can make a connection and begin reflecting this common sense approach in personal behavior, business practices, and public policy.

### THE CURRENT STATE OF ASSET POLICY: AIMED AT PEOPLE WITH ASSETS

State and federal asset-building policies that encourage and subsidize saving and investment, already exist. However, they are largely aimed at people with expendable incomes and existing wealth. In 2006, CFED found that the federal government spent \$362 billion to foster asset-building.<sup>8</sup> These policies include the mortgage interest deduction, the capital gains exclusion on sales of principal residences, reduced tax rates on long-term capital gains, tax advantages for retirement savings, and others. Over 45% of these benefits go to the wealthiest 1% of Americans—those whose incomes average more than \$1 million per year. Less than 3% of the benefits go to the bottom 60% of taxpayers.<sup>9</sup> State policies, such as investment tax credits and tax deductions that often mirror federal incentives, add to the regressive nature of existing asset-building policies.

Existing asset-building policies are technically available to all. But in practice, they encourage and subsidize wealth building for those who already have wealth, and do little for people who don't. In the end, society is harmed by a prominent gap between the rich and poor. Today, wealth inequality (disparities in what people *own*) is far more pronounced than income inequality (disparities in what people *make*). The top 20% of wage earners in the U.S. command 43% of earned income, but they control 83% of all net financial assets.<sup>10</sup>

### WHAT CAN ASSET-BUILDING ACHIEVE FOR ALL PEOPLE OF HAWAI'I?

If Hawaii can enact and implement a comprehensive asset-building policy, three important things will happen. Hawai'i will:

1. **Cultivate greater self-sufficiency** for people who are currently dependent on government, charity, and others to meet basic needs. This will decrease intergenerational poverty, increase economic security, and reduce the individual and social ravages of poverty. Over time, increasing long-term self-sufficiency can also decrease state expenditures on social services.
2. **Spark overall economic development** because more people will become full participants in Hawai'i's economy—creating new jobs, growing personal incomes, starting businesses, and investing in the community. Asset-building can also unlock brainpower and entrepreneurial energy that is so important for the modern, knowledge-based economy. Too much of Hawai'i's human ability is currently trapped in the daily grind of just getting by.
3. **Better achieve our social goals** with more civic engagement, greater ability to leave a family legacy, greater ability to invest in public goods like schools and the environment, and a more credible version of the American Dream, where any family truly can get ahead by working hard and playing by the rules.<sup>11</sup>

## AN ATTITUDE FOR ASSET-BUILDING: COMMITMENT TO EQUAL OPPORTUNITY

Asset-building policy will not garner the momentum it needs without confronting pervasive stereotypes about people with lower incomes. People who are struggling today—just as our ancestors before—want to get ahead and can get ahead if given the opportunity. When society is convinced that struggling people cannot, will not, or do not want to build assets, it sells them short. In essence, society joins these families in the constant struggle to just get by rather than offering a hand up. For example, housing policy is currently preoccupied with homelessness and the severe shortage of rental housing. These truly are acute needs, but this should not diminish efforts to launch strong initiatives to get people with little means on the path to homeownership. If anything, homelessness and extreme poverty should fuel our determination to help families build assets—in order to ensure their long-term financial security.

Contrary to popular belief, those who are currently reliant on government assistance do make economically rational choices more often than not. Unfortunately, the government programs that are often collectively known as “welfare” create harsh financial choices for families. Because benefits generally decrease as income increases, it is often economically rational for a person to reject a pay increase or prevent a family member from working. For example, a family of four earning \$13,000 would lose the equivalent of \$4,300 in public assistance if it were to earn an additional \$1,000. In fact, in order to recover the lost value of benefits as more money is earned through work, the family must increase its work income from \$13,000 to \$33,000—an unlikely 153% pay raise.<sup>13</sup>

Benefit programs can also penalize saving. Three major benefits—Temporary Assistance to Needy Families (TANF), Food Stamps, and Medicaid/Med-QUEST—force bleak financial tradeoffs for families. For example, if a low-income family of four

### PROOF OF THE POWER OF ASSET-BUILDING POLICIES

One of the most important asset-building policies to affect Hawai'i was the GI Bill.

The Servicemembers' Readjustment Act of 1944—commonly known as the GI Bill of Rights—nearly stalled in Congress as members of the House and Senate debated provisions of the controversial bill.

Some shunned the idea of paying unemployed veterans \$20 a week because they thought it diminished their incentive to look for work. Others questioned the concept of sending battle-hardened veterans to colleges and universities, a privilege then reserved for the rich.

Ultimately, the Senate approved the final form of the bill on June 12, and the House followed on June 13. President Franklin D. Roosevelt signed it into law on June 22, 1944. The law's key provisions were for education and training, loan guaranties for homes, farms or businesses, and unemployment pay.

Before the war, college and homeownership were, for the most part, unreachable dreams for the average American. Thanks to the GI Bill, millions who would have flooded the job market instead opted for education. In the peak year of 1947, veterans accounted for 49 percent of college admissions. By the time the original GI Bill ended on July 25, 1956, 7.8 million of 16 million World War II veterans had participated in an education or training program.

Millions also took advantage of the GI Bill's home loan guaranty. From 1944 to 1952, the Veterans Administration backed nearly 2.4 million home loans for World War II veterans.<sup>12</sup>

Like the policies suggested in this report, the GI Bill was targeted at people who might not otherwise have the means to save and invest in themselves. Hawai'i's servicemen of World War II who took advantage of this opportunity—Dan Inouye, George Ariyoshi and many others—helped bring a large segment of the population into Hawai'i's democracy, its economy, its public policy, and its social structure.

Asset-building policies that consciously seek to create opportunities where they are limited or nonexistent have the power to benefit *everyone*. They unlock the human potential in our communities and enable people to participate—as consumers *and* investors—in the local economy.

were to accumulate over \$3,500 in savings, they would become ineligible for Med-QUEST but eligible for the more limited QUEST-Net—a loss in benefits of roughly \$4,700 per year.<sup>14</sup> Any economically rational person would realize that, in this system, saving money is a bad choice.

Having an attitude for asset-building means being committed to one economic system for all, where hard work is rewarded and self-sufficiency is encouraged regardless of one's social class. An asset-building attitude transcends partisan politics. It appeals to universal principles of equal opportunity, fairness, and respect.

## **WHY DO WE NEED ASSET-BUILDING?**

Since 2001, the economy of Hawai'i has been growing at a remarkable clip. Most analysts forecast continued growth, albeit at a more moderate rate. But recent attention on homelessness in Hawai'i has begged some key questions: If the economy is doing so well, why does homelessness seem to be on the rise? For that matter, why are so many Hawai'i families in general feeling financially insecure? And why do so many hard working people live paycheck to paycheck?"

The truth is that many in Hawai'i continue to struggle despite a "good economy" as measured by typical economic indicators. Many other indicators, which receive too little attention, better reflect the reality for many of Hawai'i's families. These are the numbers that form the compelling case for a comprehensive asset policy in Hawai'i.

### ***High cost of living: Behind a low rate of poverty and high median income***

The August 30, 2006 Honolulu Advertiser headline, "Census says fewer poor in state" was inadvertently deceiving.<sup>15</sup> The Census found that at 9.8%, Hawai'i has the 7<sup>th</sup> lowest percent of people below the Federal Poverty Level, which, for a family of four, is income of \$19,971 per year. The story that is not conveyed in the headline is the fact that the Federal Poverty Level is an outdated measure that does not adequately account for regional differences in the cost of living. The latest Census figures only tell us the largely immaterial fact that Hawai'i has fewer people at the Federal Poverty Line—an income insufficient to afford the real costs of food and shelter, let alone any other necessities for living.<sup>16</sup> It says little about real poverty and it is hardly something to celebrate.

Hawai'i's unusually high cost of living must also be considered when evaluating another recent finding from the Census: that Hawai'i has the 4<sup>th</sup> highest median income in the nation at \$58,112. This celebrated figure is less encouraging when we consider a recent estimate by the UH Center on the Family that a family of four needs a total of \$55,500 to achieve a bare minimum existence in Hawai'i.<sup>17</sup> About half of Hawai'i's families teeter at or lie below this benchmark.

### ***Low-Wage Jobs: Behind the Low Unemployment Rate***

In 2005, Hawai'i had the lowest unemployment rate in the country.<sup>18</sup> But in Hawai'i, 69% of jobs pay less than a living wage—roughly \$34,600 for one parent with one child—compared to 50% in other states.<sup>19</sup> Furthermore, Hawai'i is worst in the nation for the percentage of involuntary part-time workers—18% of employees want full time work but cannot find it.<sup>20</sup> Low unemployment numbers alone belie the fact that many people in Hawai'i need to work multiple jobs to make ends meet, leaving less time for self-improvement, parenting, citizenship, or other positive activities. Of

the growing job prospects in Hawai'i, eight of the top ten—including cashiers, retail salespersons, waiters, janitors, etc.—do not pay a living wage.<sup>21</sup>

### ***Asset Poverty: Behind the High Net Worth***

Hawai'i households have the highest average net worth in the country.<sup>30</sup> But this is largely a result of Hawai'i's extremely high housing values, which actually hinder prospective, first-time homebuyers from being able to get into the market. A better measure might be median net worth, for which Hawai'i households rank 9<sup>th</sup> highest in the United States at \$86,825.<sup>31</sup> But a median—the midpoint of all values—does not tell us how many above the midpoint are millionaires, and how many below it have zero net worth. As it turns out, Hawai'i has a lot of people with zero or negative net worth. In fact, we are 5<sup>th</sup> worst in the nation with nearly one in five households (19.8%) with no wealth.<sup>32</sup> Hawai'i is also in the bottom third of states for its level of asset poverty—households that, in the absence of income, lack enough assets to live at the Federal Poverty Level (which we know is woefully inadequate to live off of in Hawai'i) for more than three months if their income were disrupted. One in four Hawai'i households is asset poor.<sup>33</sup>

### ***Taxation of the Poor***

The State's large budget surplus at the start of the 2006 legislative session was trumpeted as yet another sign of the healthy economy. However, these tax revenues were generated by a system that is disproportionately burdensome on the poor. Hawai'i's income tax is one of the nation's most onerous for poor families.<sup>34</sup> Furthermore, the general excise tax is regressive—the poorest taxpayers pay 10% of their incomes in general excise tax while the richest pay only 2%.<sup>35</sup> Add to these tax burdens the fact that people with lower incomes are less likely to benefit from existing asset-building policies such as the mortgage deduction, and you have an inequitable tax system—one that is subsidizing wealth-building for its higher-income households, while undermining efforts of low-income households. The 2006 legislative session produced a broad-based tax cut which was not aimed at those who needed the most help—the poorest 20% of taxpayers will receive only 5% of the tax relief while the richest 20% will receive 32%. The changes will do little to change our ignominious standing as a state that burdens the poor with taxes.<sup>36</sup>

#### **IMPORTANT ASSET RELATED INDICATORS**

These are some of the key numbers and rankings that a comprehensive asset policy should address:

##### **Living Wage Jobs<sup>22</sup>**

*% of total jobs that pay the self-sufficient wage for one parent with one child.*

31% (HI), 50% (U.S.)

##### **Income Tax Threshold<sup>23</sup>**

*Income at which income tax begins to be levied: one-parent family of three/two-parent family of four*

\$10,400/\$14,000 Rank: 4<sup>th</sup> worst

##### **Asset Poverty<sup>24</sup>**

*% of households without sufficient net worth to subsist at the federal poverty level for more than three months if their income were disrupted (Rank of 1 is best)*

25.1% Rank: 36 of 51

##### **Zero Net Worth<sup>25</sup>**

*% of households that have zero or negative net worth (Rank of 1 is best)*

19.8% Rank: 46 of 51

##### **Private Loans to Small Business<sup>26</sup>**

*Dollar amount of private business loans under \$1 million per worker (Rank of 1 is best)*

\$1,349 Rank: 40 of 51

##### **Microenterprise Ownership Ratio<sup>27</sup>**

*Total number of microenterprises per 100 people in the labor force (Rank of 1 is best)*

15.4 Rank: 13 of 50

##### **Homeownership<sup>28</sup>**

*% of households that own their home (Rank of 1 is best)*

58.3% Rank: 49 of 51

##### **Homeownership by Income Ratio<sup>29</sup>**

*Homeownership rate among household heads in the wealthiest quintile divided by homeownership rate among household heads in poorest quintile (Rank of 1 is best)*

2.04 Rank: 43 of 51

### ***Tough Small Business Climate***

Hawai'i's residents have substantial entrepreneurial energy, one of our greatest economic assets. Evidence suggests that small businesses have benefited handsomely from the recent economic boom. In 2004, Hawai'i ranked 27<sup>th</sup> among the states for its number of "surviving start-ups and young growing companies," up from 45<sup>th</sup> in the nation the year before. It was also the most improved of all 50 states in both "surviving start-ups" and "young growing companies". Neighbor island small businesses showed particularly strong performance, earning the islands top 25 ratings of 90 rural "hot spots" for entrepreneurs across the country.<sup>37</sup> However, there is little evidence to suggest that mainstream lenders or investors are extending their reach to small businesses, in general, and to microenterprises, started by low-wealth entrepreneurs, in particular. The portion of bank portfolios comprised of small commercial loans<sup>38</sup> has dwindled rather than grown over the past five years, with balances falling from \$800 million in 2000 to under \$750 million in 2005. From 2001 to 2005, Hawai'i consistently ranked among the bottom ten states in Small Business Administration-guaranteed small business lending activity. Hawai'i also ranked in the bottom ten states for overall venture capital investment.<sup>39</sup>

### ***Housing Crisis***

Hawai'i's rapidly rising housing costs have been a boon to those who already own homes, but high costs have become an unscalable wall for non-homeowners. Only 58.3% of Hawai'i's households own their homes, giving the state a 49<sup>th</sup> place ranking among the states.<sup>40</sup> And Hawai'i ranks 43<sup>rd</sup> among states for the disparity in homeownership between rich and poor.<sup>41</sup> The situation is also bad for renters. Hawai'i has the highest median household rent in the country;<sup>42</sup> is 15<sup>th</sup> worst for the percentage of renters who pay more than 50% of their incomes in rent; and is the state with the highest "housing wage" (a full-time worker would have to make \$22.30 per hour to afford a two-bedroom unit at fair market rents).<sup>43</sup> Hawai'i's housing challenge is severe and unique among all the states.

- - - - -

The economic situation in Hawai'i is neither all bleak, nor all positive. The preceding analysis of key indicators reveals significant challenges facing Hawai'i's families and our overall economy. There are also key assets upon which we can build.

We are better served looking at these good economic times, not as a time for celebration, but rather as a time of opportunity—to address some of the fundamental weaknesses in the economy including the lack of economic diversity, the high cost of living, housing challenges, underinvestment in public education, issues of sustainability, and the growing gap between rich and poor. A comprehensive asset-building policy agenda—one that expands opportunities for *all*—will engage more Hawai'i residents in meeting these challenges.

## SIX GOALS OF A COMPREHENSIVE ASSET-BUILDING POLICY AGENDA

Hawaii can help people move from *just getting by* to *getting ahead* for themselves and future generations. Doing so requires the successful pursuit of six key goals:

- 1) **Make work pay.** A family cannot save if there is nothing left after basic needs are met. Calls for people to “get off welfare and start working” are futile if work does not pay enough.
- 2) **Teach asset-building.** Even given an opportunity to build assets, people will not do so unless they know why and how to save and invest and how to protect hard-earned assets over time.
- 3) **Break down barriers to asset-building.** Unethical lending practices, market failures, lack of insurance, and disincentives in public policies conspire to form enormous barriers to asset-building. These barriers leave many people with low- and moderate-incomes stuck in a fringe economy where fees and interest rates are high, information is limited or misleading and saving is penalized.
- 4) **Help people save.** Incentives and subsidies for saving are overwhelmingly aimed at higher-income households. Asset-building policy must level the playing field with policies that create incentives and that can support saving among low- and moderate-income earners.
- 5) **Help people start and own businesses.** Besides helping people leverage their assets into greater wealth, entrepreneurship will create jobs and help the overall economy.
- 6) **Help people buy homes.** A home is the ultimate asset in Hawai'i. Given the natural challenges of living on islands, Hawai'i must launch a substantial effort to achieve this goal. Key to this is a commitment to so-called “demand-side” strategies that enhance the ability of low- and moderate-income earners to compete for housing.

## 1. MAKE WORK PAY

It costs a lot to survive in Hawai'i. People can work very hard, holding multiple jobs. People can sacrifice—skipping meals, medicine and foregoing other needs. But in the end, it still may not be enough to do more than just get by. If work does not pay enough for people to be self-sufficient, they are left to depend on government and others.

The first condition for building assets is the ability to support one's family through work. Because so many jobs pay wages that are insufficient for regular needs in Hawai'i, an asset-building policy must look for ways to bolster incomes, help with core expenses, and create incentives to stay employed and strive for higher incomes.

### then

I [started working] for Pioneer Mill when I was fourteen years old. Outside [in the] field, cut grass. All of us. Mr. Moir told our teacher that whoever likes to work out in the field to apply for the job. [I made] thirty cents a day. I gave [my pay] to my mother. You know what, when I ask her, 'Can I have some money that I earned?' She say, 'Okay.' She put down my money and say, 'This is for your clothing, this is for your food, this is for your shoes.' Was left nothing. (Laughs.)<sup>44</sup>

### Policy Components:

#### 1.1 Maintain and utilize the self-sufficiency standard as a benchmark

The self-sufficiency standard—the actual amount needed to afford basic needs such as food, housing, and healthcare—is a more realistic measure of economic struggle than the Federal Poverty Level. A current self-sufficiency standard would be a useful tool for evaluating programs, designing new policies, and setting benchmarks for measuring economic success. Unfortunately, Hawai'i's self-sufficiency standard has not been updated since the first and only study was completed in 2003. At that time, a single parent with one child needed about \$34,600 per year.<sup>45</sup> It is undoubtedly much higher today given steep recent increases in the cost of fuel, housing and healthcare. Efforts to institutionalize this measure as a helpful tool for local policy makers have stalled.<sup>46</sup> These efforts can be reinvigorated.

#### 1.2 Increase access to the federal EITC

The federal earned income tax credit (EITC) provides a refundable tax credit to low-income wage earners that can result in significant refunds for people who stay in the workforce. The EITC is the largest anti-poverty program in the United States. It is widely supported by both political parties because it is well targeted to people who need the most help and it creates an incentive for people to stay in the workforce. Because it is refundable, the federal EITC is accessible to lower-income families who lack sufficient tax liabilities to benefit from other tax credits. The latest data from 2002 suggested that over 19,000 Hawai'i taxpayers were eligible for the federal EITC, but did not claim it.<sup>47</sup> In 2005, a state grant established a program of the Aloha United Way to help ensure eligible people claim this credit. The credit currently brings \$125 million in federal funds to Hawai'i, but up to \$30 million goes unclaimed each year by Hawai'i's working families. Other states and municipalities have implemented marketing, education, and tax assistance campaigns to increase the amount of federal dollars captured by local families. This investment is small compared to the influx of federal dollars, increased state excise tax revenues and other benefits. In Phoenix, a \$200,000 city government effort funded with general funds and Community Development Block Grant funding led to a \$21.4 million increase in EITC take up in the first year. And in Philadelphia, free tax preparation services funded by state and city government saved lower-income taxpayers \$1.4 million in interest, fees for tax preparation, Refund Anticipation Loans and check cashing alone.<sup>48</sup> These examples demonstrate

the potential return if Hawai'i were to support this effort permanently, and have it coordinated either by a government agency or a private entity.

### **1.3 Establish a refundable state EITC**

In September 2006, Michigan became the 20<sup>th</sup> state to establish a state EITC to further encourage work and to counterbalance regressive state and local taxes.<sup>49</sup> Hawai'i can join this national trend by enacting a refundable state EITC equal to at least 20% of the federal EITC. To claim the credit, a low-income taxpayer would simply multiply their federal EITC claim by the percentage amount and enter the result on their state tax returns. A state EITC will partially offset the effects of the regressive general excise tax, supplement the federal EITC's incentive to choose work over welfare, and create opportunities for low-income families to save and invest.

### **1.4 Increase the income tax threshold**

The income tax threshold is the level at which earned income is subject to the income tax. Even after tax cuts instituted during the 2006 legislative session take effect, Hawai'i will continue to have one of the lowest (worst) income tax thresholds in the nation.<sup>51</sup> In other words, state policy is eroding the incomes of people who have the hardest time supporting themselves. Ironically, state taxes on the most needy make them even more dependent on programs that are funded by state taxes. The goal could be to eliminate income taxes on low-income earners without eroding overall tax revenues. State lawmakers could consider 1) revising tax brackets so that households making 125% of the Federal Poverty Line or less pay no income tax, and 2) provide some method of indexing the tax brackets and standard deductions over time so that they do not become continually more oppressive with rising inflation.

#### **now**

It's hard... I used to work two jobs and (my girlfriend) works five jobs. I work for the hotel industry. At least half of the kitchen staff in the hotel works two jobs—two *full time* jobs.<sup>50</sup>

## 2. TEACH ASSET-BUILDING

One law passed by the 2006 Hawai'i State Legislature and signed by the Governor changed the designation of April from “Financial Literacy for Youth Month” to “Financial Literacy Month.”<sup>53</sup> While this may seem trivial, it is a positive sign that the state recognizes the relevance of financial education in the overall economy and in helping families build assets.

Fortunately, Hawai'i has many elements to develop a strong system of financial education: an organization dedicated to financial education in schools and teacher training (the Hawai'i Council on Economic Education), organizations that implement financial education programs, strong support from Hawai'i's U.S. Senator Daniel Akaka<sup>54</sup>, and state leaders who are aware of the issue.

### Policy Components:

#### 2.1 Maximize financial education opportunities for youth

The No Child Left Behind era for public schools has created challenges for all “peripheral” content areas vying for valuable instructional time. Nevertheless, public and private funding can support efforts to effectively teach financial skills to youth—whether woven into classroom lessons, taught in after-school programs and community assemblies, integrated into club and athletic activities, or led by partner organizations.

#### 2.2 Encourage partnerships between financial institutions and schools

Delaware, New Jersey, Illinois and California have implemented “Bank to School” programs where bank branches are co-located in schools to provide full services and be a learning resource for students and their parents.<sup>55</sup> Hawai'i's banks and credit unions can explore this strategy and other partnerships that increase financial understanding and make banking services more familiar and accessible, while simultaneously cultivating new customers.

#### 2.3 Create public awareness of financial education

There are many resources to help Hawai'i's people understand financial matters, but there is limited demand for them. The symbolic designation of April as “Financial Literacy Month” is a start. The next step is expending public and private resources to raise awareness, teach simple lessons, and point people to those resources.

#### 2.4 Integrate financial education into Department of Human Services programs

Recipients of Temporary Assistance for Needy Families (TANF)—commonly known as welfare payments—must now meet heightened work requirements. Because of this, many recipients do not have the additional time to invest in skill-building activities, such as financial education. As such, job readiness programs and on-the-job training programs should integrate financial education into their curricula. In addition, the Hawai'i Department of Human Services can look for ways to teach financial literacy and create asset-building opportunities in all of their activities. Illinois provides a twelve-hour financial education program that counts as a work activity and has found 80% of participants do a better job of budgeting and tracking expenses. Many have opened bank accounts and rely less on fringe financial services such as payday loans.<sup>56</sup>

### then

Those days, those who knows how to save like me, well, we save money. But those who only wanted to go around, those are people that no more money. (Laughs) Plenty Filipinos (like me) broke their money by buying new car. Sometime, five of them, together, buy car. And if one quit paying and they cannot carry the payment, the garage take back the car. So that's why they cannot save money. In fact, they lose money.

Me, I bought my own car in 1939. I can go to town. I can make money, so I don't have to worry about the car payment. I take passengers to town, Honolulu side.<sup>52</sup>

## 2.5 Encourage financial education in the workplace

Financial education offered at the workplace can help employees avoid personal financial problems that can lower their productivity and cause higher absenteeism, turnover, and stress related illnesses.<sup>58</sup> The federal government has implemented a retirement financial education program for their employees. State and local governments can do the same. Private businesses can provide financial education as an employee benefit. Likewise, unions can provide financial education programs as a member benefit. State government could create incentives, or provide resources, to support all of these efforts.

### **now**

Having access to financial information was a big help. I wouldn't have been paying a \$750 car payment if I knew what I know now. Now I know I have to suck it up... I'm debt free, I have more money in my account than I could have dreamt of and I have a lot more confidence. I can look to the future instead of day-to-day.<sup>57</sup>

### 3. BREAK DOWN BARRIERS TO ASSET-BUILDING

In the past, workers on Hawai'i's plantations often had no choice but to buy necessities at a plantation-owned store. Wages were recycled within these companies and, because wages were too low to cover their cost of living, workers often fell into debt with their employer.

Options for low-income workers to access affordable goods and services have improved, but people still face significant obstacles to building a secure financial future. Today's barriers to asset-building are created by free market forces that leave certain communities and families underserved and by unscrupulous and socially unconcerned businesses that practice predatory lending. Furthermore, government policies are creating additional barriers and disincentives for families to build assets.

#### then

One day, (my) brother bought a washing machine to help my wife. But whatever he was paying for the machine was deducted on the food bill. That made it pretty tough because we accumulated a balance in the plantation store. See, you owe your life to the company store.

They told me, "Well, you have a balance here, so now we have to cut your wages down to seventy-five cents a day." Now that was supposed to feed my two brothers, my wife, my child, and myself.<sup>59</sup>

#### Policy Components:

##### 3.1 Decrease or eliminate work and savings disincentives in government benefits programs

Government policies intended to help the poor pose some of the greatest barriers to escaping poverty. Income criteria and asset limits (sometimes called an "asset test") are used to determine eligibility. Benefits like Food Stamps, TANF and Medicaid are reduced or retracted as a recipient's income and assets increase. Often, the value of the benefits lost outstrips the value gained through work or saving. Thus government often ends up *encouraging* the economically rational person to choose welfare over work. To remedy this, states can eliminate or increase asset tests and adjust income criteria to create rational incentives for people to realistically work their way out of poverty.

#### now

I just recently applied for Food Stamps. I was \$10 short, \$10, of being ineligible. I was telling (the eligibility worker), "Wow... if I get (my annual) raise in two weeks, I disqualify myself because I'm doing a good job?" I want to maintain my job, but my kids and I need that benefit to survive.<sup>60</sup>

In November, the Hawai'i State Department of Human Services implemented a new policy that disregards some of a family's increases in income when determining benefit eligibility in order to encourage work. This idea is a good one, but without additional measures to increase or eliminate the asset tests or providing easy access to savings vehicles that are exempt from the asset test, the state will create an incentive for recipients to spend all the extra income they earn. Ohio, and Virginia more recently, simply eliminated their asset tests for

TANF. Since it did so in 1997, Ohio has experienced steady declines in caseloads.<sup>61</sup> About half of all states have eliminated asset tests for families on Medicaid, and they have found that the cost and time savings in administering the program have far outweighed the cost of any additional caseloads.<sup>62</sup>

If they are not removed, Hawai'i's asset tests could at least be substantially increased. Because they are not adjusted for inflation, the asset limits in Hawai'i are completely out of step with the amount of assets one might need to have minimal financial security.

##### 3.2 Adopt federal anti-predatory mortgage lending standards

Predatory lending, which strips families of their hard-earned assets, is harmful to families and the state economy. Predatory practices include excessive fees, equity stripping (scams where the

homeowner loses the equity in their home), risk-rate disparities (in which borrowers are charged a higher interest rate than risk can justify for a loan) and excess foreclosures.<sup>63</sup> Hawai'i is among the 23 states that have no anti-predatory lending policies to curb these and other abuses in the mortgage industry. Eighteen states have adopted state versions of the existing federal law, and the rest have even tougher standards.<sup>64</sup> To have no policy in a time when home buying is at a fevered pitch leaves families and communities at risk. At the moment, Hawai'i has the second lowest (best) foreclosure rate in the country.<sup>65</sup> However, some fear that the recent flurry of home buying was fueled, at least in part, by subprime loan products that could lead to significant numbers of foreclosures when interest rates rise and the economy cools.

### **3.3 Enact State Auditor's recommendations on payday lending**

Many check cashers and payday lenders charge unscrupulously high fees to their primarily low-income customer base. In her December 2005 Sunrise Analysis, which looked at whether to add new regulations for check cashers and payday lenders, the Hawai'i State Auditor had three recommendations: 1) require payday lenders to post fees and annual percentage rates, 2) reduce the maximum allowable fee for a loan, and 3) institute mandatory registration with the Department of Commerce and Consumer Affairs (Hawai'i is one of three states that does not require special licensing).<sup>66</sup> Given the Auditor's analysis of this issue, the next logical step is for Hawai'i to enact these recommendations into law. An effort to do so stalled during the 2006 legislative session.<sup>67</sup> These simple regulations would help protect the assets of many people in Hawai'i, particularly military families who are some of the largest users of payday lending services.<sup>68</sup>

### **3.4 Free up trapped equity on Hawaiian Home Lands**

The trust status of Hawaiian Home Lands is a major barrier in efforts to direct capital to Native Hawaiian consumers and business owners. Because trust lands cannot be sold or encumbered by a mortgage, and because many banks are unfamiliar with government credit enhancers and other financial products designed for lending on trust lands, banks often avoid lending to Hawaiian homesteaders entirely. Not only has this resulted in fewer home mortgages on Home Lands, it also makes it virtually impossible for homeowners on Home Lands to borrow against their accumulated home equity. For many Native Hawaiians, then, the primary asset they have invested in is virtually worthless for purposes of leveraging additional investment. The Council for Native Hawaiian Advancement estimates \$500 million of equity is "trapped" due to these policies.<sup>69</sup> Two steps could be taken to free up this trapped equity: 1) the state could offer and publicize a loan guarantee to lenders who make home equity loans to homesteaders, and 2) the viability of serving this market could be tested by an alternative lender specializing in these loans.

### **3.5 Ensure health coverage for all**

Lack of access to health care create some of the most significant and formidable challenges to building assets. Unexpected medical problems and their costs are a leading cause of personal bankruptcy. Medical bills can quickly erode savings, particularly for someone who is just starting to build assets. Since 2000, The Hawai'i Uninsured Project has kept a diverse group of stakeholders focused on the many different aspects of health coverage issues in Hawai'i including enrollment of all people eligible for government-sponsored insurance, and getting health insurance to the self-employed and others not covered by Hawai'i's Prepaid Health Care Act. New policies based on this research and dialogue could give Hawai'i's families peace of mind that their hard-earned assets will be better protected against misfortune.

#### 4. HELP PEOPLE SAVE

Government incentives and subsidies to save and invest disproportionately benefit those with higher incomes and greater wealth. If low-income working families have access to similar opportunities, they too will be able to participate, as consumers and investors, in their communities. More options must be created for low- and moderate-income people to save and invest while receiving similarly scaled incentives and benefits.

#### then

During the wartime, there was money galore, but where were you going to spend it? Was rationing. I mean, you couldn't buy anything else, so what do you do, you put 'em into bonds. So when I quit Ford Island before the war ended, I lived on my bonds money.<sup>70</sup>

#### Policy Components:

##### 4.1 Improve and greatly expand Hawai'i's IDA programs

Individual Development Accounts (IDAs) are matched savings accounts for low-income families. They can be powerful vehicles for building financial wealth in pursuit of specific goals—usually buying a first home, paying for college, or starting a business. Government and/or private funding (often from charities or financial institutions) provide a match for IDA contributions much like an employer matches a contribution to a 401(k) retirement plan.

Currently, Hawai'i's IDA programs are relatively small, privately funded efforts of nonprofit organizations. A common challenge for IDA providers is a lack of adequate organizational capacity and administrative funding.

In 1999, the state created a tax credit for donors who match IDA contributions. The credit was intended to help organizations build IDA programs, but the credit never got off the ground and has since expired. Hawai'i has not yet discovered the full potential of IDAs. Adjustments to permitted savings objectives, eligibility criteria, time frames, and other policies could fine-tune IDAs for Hawai'i's unique environment. The first obstacle, however, is ensuring IDA programs have adequate resources.

Hawai'i could follow the lead of states that provide direct funding for 1) the matching portions of IDAs, 2) technical assistance provision, and 3) administration of IDA programs. Some of these states use Community Development Block Grant (CDBG) funds, TANF funds, and/or general funds as funding sources.<sup>71</sup> Reauthorizing the tax credit to donors and allowing for administrative expenses could also help Hawai'i's programs reach a sufficient scale.

##### 4.2 Promote and facilitate the use of EITC refunds for savings

The EITC refund presents a great opportunity for low-income earners to fund an IDA, retirement plan, or other savings account. States can make this easier by encouraging people to directly deposit refunds, and allowing “refund splitting”—allowing the taxpayer to deposit at least a portion of their refund directly into a savings vehicle. This simple accommodation can spark savings. In 2007, the federal government will allow federal tax refunds to be split among up to three accounts and states are looking to do the same.<sup>72</sup>

##### 4.3 Encourage “opt out” rather than “opt in” retirement accounts

Research shows that employees—particularly those with lower incomes—are much more likely to participate in employer-based retirement savings programs when they are automatically enrolled upon employment; i.e. when the employee's choice is whether or not to opt *out* of the program.<sup>73</sup> Given the uncertainty of Social Security benefits and the erosion of traditional

pensions, it is in everyone's interest that people have sufficient savings for retirement. Companies that adopt this practice, perhaps with encouragement from the government, will be making an important contribution to Hawai'i's future.

#### **4.4 State matches for college savings plans for low- and moderate-income families**

Since qualified withdrawals from state college savings plans (529 plans) have become tax-exempt, many middle- and higher-income families have shown greater interest in them.<sup>74</sup> Like other asset policies that seek to encourage taxpayer behavior through the tax code, low- and moderate-income families—with limited tax liability and/or disposable income—have less incentive to participate. The result is that the benefits are concentrated among higher-income households. Six states have offered to match the 529 investments of lower-income families to encourage more equitable participation in this important program.<sup>75</sup> Maine goes one step further by providing an initial \$50 per child to start a 529 plan, helping low-income families meet minimum deposit requirements.

#### **4.5 Create a Universal Children's Savings Account**

There are approximately 18,000 resident births in Hawai'i per year.<sup>77</sup> The state could open an account and provide a starter deposit (which could be larger for low-income families) for every child born in Hawai'i. The account can grow tax-free and be used for college, a home,

retirement, or other stated purposes. Congress is considering a national version of the universal children's account, and Kentucky has set up a commission to develop a state version.<sup>78</sup> The initial deposit, with compounding interest and additional deposits, such as from Earned Income Tax Credit refunds, Child Tax Credits and other sources, would provide a significant foundation for every child in Hawai'i, particularly those with no other assets. It would provide a vehicle for savings and a tool for children and parents to learn the value of saving and investment.

#### **now**

Every payday I would take turns buying one kid a \$25 bond... So, when I can afford to... I invest in my kids now, for something in the future. I set stipulations up: "You like your stock and bonds, in 30 years, I can see you using it toward investing in your family by purchasing a house, by purchasing a car, or if you want to continue college." So my investment now is something I'm not going to see yet, but I know by me accumulating that now and just working on it when I can, I have something for them later on.<sup>76</sup>

## 5. HELP PEOPLE START BUSINESSES

Developing Hawai'i's entrepreneurial environment is essential to improving Hawai'i's overall economy. Despite a good supply of willing entrepreneurs, Hawai'i has struggled to support them with the technical assistance, regulatory climate, and financing necessary to thrive.

Business ownership can also be an effective path out of poverty. Indeed, it has often moved families squarely into the middle class. Microenterprise—businesses with five or fewer employees that can benefit from a start up or capitalization loan of \$35,000 or less—can provide income to supplement low wage jobs, and potential for full time self-employment.<sup>80</sup> Hawai'i has the 13<sup>th</sup> highest ratio of microenterprises per 100 workers<sup>81</sup>—an astonishing fact to those who think of Hawai'i as a poor place for business. Hawai'i can take a number of steps to unlock this potential.

### then

They get tanomoshi (Japanese practice of pooling money) to help these guys out... Even myself, my parents used to—everytime, when they buy the boat (for their fishing business), they need money, so cannot borrow money from the bank, so got to make tanomoshi to borrow from all the friends.<sup>79</sup>

### Policy Components:

#### 5.1 Effectively utilize federal funding streams to support microenterprise

Eight states use Workforce Investment Act and TANF funds for microenterprise training, and fourteen states support microenterprise with Community Development Block Grant (CDBG) funds.<sup>82</sup> In Hawai'i, CDBG funds have been used for microenterprise training with varying degrees of success. A more coordinated, more comprehensive, and better resourced approach could greatly improve results.

#### 5.2 Support for Community Development Financial Institutions (CDFIs)

CDFIs provide financial services to underserved populations and markets. These organizations are often the only source of financing for entrepreneurs in low-income and rural communities. They rely on funding from the federal government, commercial financial institutions, and foundations to build and sustain their operations. The state can improve the health of Hawai'i's few CDFIs with tax credits to stimulate private funding or direct funding. Twelve states currently provide similar support.<sup>83</sup>

#### 5.3 Leverage opportunities to support new Native Hawaiian businesses

Native Hawaiians constitute roughly 20% of the state's population.<sup>84</sup> A 2006 study by the U.S. Census found 7,580 Native Hawaiian-owned firms in Hawai'i—7.6% of all firms in Hawai'i accounting for over a billion dollars in revenues.<sup>85</sup> Significantly, the number of Native Hawaiian-owned businesses has been growing at a faster pace than businesses as a whole, creating new opportunities for many Hawai'i residents. The Native Hawaiian Loan Fund of the Office of Hawaiian Affairs is being revamped to better assist Native Hawaiian entrepreneurs.<sup>86</sup> Programs such as this one, utilize federal and other funds to help build wealth and opportunity in Hawai'i. The state government and others should continue to look for ways to leverage these unique funding opportunities and support existing efforts to spur continued creation and growth of Native Hawaiian-owned businesses.

#### 5.4 Allow unemployment benefits for time-specific self-employment allowances

Eight states have programs to help unemployed persons start their own businesses with the help of unemployment benefits.<sup>87</sup> Participants in these Self-Employment Assistance (SEA) programs

must be eligible for unemployment insurance; permanently laid off from their previous jobs; identified as likely to exhaust their benefits; and participating in activities such as entrepreneurial training, business counseling and technical assistance. Participants in SEA programs receive weekly payments while they work full-time on starting their businesses.<sup>88</sup>

### **5.5 Create and support an employee ownership center**

Hawai'i could follow the lead of several states that support employee ownership centers, which offer education, technical assistance and other resources to cooperatively owned businesses. The Ohio Employee Ownership Center is a state-supported university-based center that assists employees, unions and business owners interested in exploring employee ownership. Such a

center could help Hawai'i companies develop Employee Stock Ownership Plans (ESOPs)—an employee benefit plan that provides tax benefits to business owners and a stake in the company to employees.<sup>90</sup>

#### **now**

I don't see it (the money)... I told (my wife) just put it away. The IDA is there for a reason.

My wife has been doing the research for her washerette business... Our mother and father are getting older, Del Monte is closing down. My dad is 80-something years old and he's been at Del Monte all his life. We were thinking maybe if we can open this business, they can work comfortably helping us. The IDA can give us the possibility to open up this business.<sup>89</sup>

## 6. HELP PEOPLE BUY HOMES

A home is the ultimate asset for a family in Hawai'i and the largest component of household net worth for most Americans. But that which makes housing so valuable and costly in Hawai'i—limited land and a fragile environment, along with an insatiable offshore demand—also make for extreme housing challenges. These challenges mean that a housing policy that is merely *as good, as innovative, and as proactive* as typical U.S. states' is simply not good enough for Hawai'i. Hawai'i's approach to helping its people become homeowners must be aggressive, comprehensive, coordinated, and efficient. Since we have the greatest challenges, we must mount the greatest effort.

Almost all of Hawai'i's focus has been on the supply of “affordable” housing for rent and purchase, but this is only a partial solution. Construction of affordable housing in such a hot market means significant private and public subsidies. Developers often couple affordable projects with high-end luxury housing to make up the difference in lost profits. The consequences of these projects have inflamed a separate debate about the prudence and sustainability of additional development in Hawai'i.

Supply-side strategies are indeed necessary, but the acute needs and vexing issues surrounding these approaches often blind us to the fact that supply is only half the problem. As they tackle supply issues, Hawai'i's policymakers must simultaneously invest heavily in *demand-side* approaches that increase the ability of residents to buy homes.

### Policy Components:

#### 6.1 Support homeownership education and counseling

Counseling is very important to help first-time homebuyers successfully resolve credit issues, sort through lending and down payment products and opportunities, and defend against predatory practices.<sup>92</sup> Hawai'i has a number of organizations helping people move toward homeownership. These include the Hawai'i HomeOwnership Center, Hawaiian Community Assets, The Department Of Hawaiian Home Lands' Home Ownership Assistance Program, and others. Support for these efforts could be multiplied many times over to help them meet the high demand for services and help Hawai'i collectively learn about what types of services work for different people. Government can increase funding for these services, provide gap services of its own, and promote homeownership education to the general public.

#### 6.2 Increase government funded first-time homebuyer assistance

For many low- and moderate-income earners in Hawai'i, the prospect of saving enough for the down payment and closing costs needed to buy a home is formidable. Even higher-income families often must seek help from relatives to overcome this obstacle. Following the lead of other states, Hawai'i could provide grants for down payment assistance (like 24 other states), and/or expand current mortgage assistance programs.<sup>93</sup> Many states outdo Hawai'i's efforts to support first-time homebuyers despite the fact that the homeownership challenge in Hawai'i has no equal.

### then

I used to come up (to Waialua) practically every weekend to go fishing and all that. So, I thought, why not live up here? I saw this place in the paper. For sale. So we came up and I took one look at the place, and say, “Oh, oh! This is it? I'm ready to go back to town.”

My wife says, “No, our money is running low. We need a place. Let's buy it now.”

I say, “Well I know, but look at the work!” ...You couldn't walk at night through this yard without broking your shins or legs or even your skull. Anyway, she wanted the place, so we bought it. Then we start working on it. While living in town, we'd come up every weekend and haul coral until we were blue in the face...

But it's really worth it. I'm glad we done it at that time...<sup>91</sup>

### **6.3 Provide extra support for IDAs intended for homeownership**

Given Hawai'i's housing challenge, it may be desirable for government, banks and philanthropic organizations to increase the match when an IDA is set up for homeownership. A three-to-one match (\$3 matched for every \$1 saved) or more may be necessary to help people build up a realistic amount of funds.

### **6.4 Develop and encourage employer-assisted housing programs**

Employers can play an important role in helping their employees become homeowners through forgivable, deferred, or repayable second loans, grants, matched savings plans, or homebuyer education programs.<sup>94</sup> Hawai'i could follow other states that encourage employer-assisted housing (EAH) programs. Such public-private partnerships could be broadly developed or targeted at certain industries and workforce segments.

### **6.5 Promote federal programs that support homeownership opportunities**

Hawai'i's state housing policy has been understandably preoccupied with homelessness and the severe shortage of affordable rentals. Earlier in 2006, a Joint Legislative Housing and Homeless Task Force reported that Hawai'i would need an astounding 44,190 new housing units during the period from 2005 to 2009.<sup>95</sup> But while that situation is being addressed, Hawai'i could more actively pursue and promote opportunities for low-income households to access federal resources to save for homeownership. For example, the Section 8 Homeownership Program allows Section 8 (the federal program of low-income housing assistance) participants to use their rental vouchers to cover mortgage rather than rental payments. Some state and local governments are working with public housing agencies to maximize Section 8 voucher holder participation in the program. In addition, the federal Family Self-Sufficiency (FSS) program, also administered through public housing agencies, allows Section 8 voucher holders and public housing residents to build savings in an escrow account, which can later be used for a down payment or other uses. A 2004 study of the FSS program found that the median escrow account disbursement for program graduates nationwide was \$3,351 and that a common use of the funds was for a down payment on a home.<sup>96</sup> The state of Hawai'i could play a role in encouraging greater participation in this program.

### **6.6 Alternative approaches to increasing the supply of housing**

The free market in Hawai'i will not produce enough affordable housing for residents. There are too many more profitable uses of land in Hawai'i. The unavailability of land, a lack of infrastructure, and permitting processes further hinder timely solutions. Developer requirements and incentives alone may not provide a satisfactory solution. The Department of Hawaiian

Home Lands is helping the overall situation by accelerating the construction of homes for qualifying Native Hawaiians on Hawaiian homestead lands. Other approaches that could be supported are: 1) community land trusts for housing where a nonprofit landowner creates a situation where families need only come up with the price of the house; 2) housing cooperatives where resident-members purchase a share in a corporation that owns the building where they live; and 3) self-help housing where a low-income family can invest with "sweat equity".<sup>98</sup>

#### **now**

Owning a house, I thought wasn't attainable. But not anymore. Trying to save the money at first, starting with zero, was tough, but I needed to start somewhere. I was surprised how much I saved last year. I decided to do automatic deductions (into my IDA) to make sure I did it and now I am motivated to save.<sup>97</sup>

## CONCLUSION: DEVELOPING AN ASSET-BUILDING MOVEMENT

Major milestones in Hawai'i's economic history include: the rise and fall of plantations, dismantling discriminatory labor practices, building a strong safety net for the poor, establishing substantial worker benefits, and developing a tourist industry. A successful asset-building movement in Hawai'i would be no less significant for the people of Hawai'i. As such, it will require the same kind of substantial, broad, and sustained support that moved those previous efforts. Toward this end, there are roles for foundations, nonprofits, businesses, government agencies, lawmakers, and others. These roles include:

- 1) Researching, drafting, and **passing state and county legislation** that support asset-building.
- 2) **Advocating** for change in public policy and business practices to recognize the importance of asset-building.
- 3) **Conducting research, discovering best practices** in other jurisdictions, and tapping into national resources on asset-building.
- 4) Implementing asset-building **pilot programs and activities**, measuring effectiveness, and discovering ways to bring them to scale.
- 5) Maintaining data and **tracking important indicators** that reveal progress and challenges.
- 6) Building a **coordinated system of expertise** where high quality programs for financial education, entrepreneur training, homeownership counseling, and other areas are identified, adequately resourced, and promoted.
- 7) **Raise public awareness** of the importance of assets—develop broad educational activities that promote savings, asset protection, and investment.
- 8) Clarify and, where possible, quantify how asset-building can **benefit the overall state economy**.

### now

People are assets... extended families are assets, friends are assets, a community that gets involved is an asset.

My two kids catch ride to school with their aunty, which helps me because I don't have to pay for a car. Grandma picks them up.

It's everybody investing in each other in different ways. Everybody who contributes to my kids' life... little do they know they are building these kids.

...It's hard, but I do what I gotta do to make sure my kids have what they need, and that they will learn how to be self-sufficient.<sup>99</sup>

Awareness in communities and within individual families is already growing. Several local and national foundations and local businesses are beginning to support innovative programs in Hawai'i. Over the next few years, Hawai'i can take major steps on the path from isolated ideas, to a coordinated movement. Together, we can substantially address the debts we owe to past generations and the investments we must make in future generations.

## NOTES

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- <sup>1</sup> Michi Kodama-Nishimoto, Warren S. Nishimoto, and Cynthia A. Oshiro (1984), *Hanabana: An Oral History Anthology of Hawai'i's Working People*, Ethnic Studies Oral History Project, University of Hawai'i at Mānoa, interview with Emigdio Cabico, p. 123 & 131.
- <sup>2</sup> CFED (2005), *Assets and Opportunity Scorecard*. See [www.cfed.org/go/scorecard](http://www.cfed.org/go/scorecard).
- <sup>3</sup> Leslie Parrish, Heather McCulloch, Karen Edwards and Gena Gunn, (June 2006), *State Policy Options for Building Assets*, New America Foundation and the Center for Social Development. See [www.newamerica.net/files/Doc\\_File\\_3134\\_1.pdf](http://www.newamerica.net/files/Doc_File_3134_1.pdf).
- <sup>4</sup> Heather McCulloch (2005), *Promoting Economic Security for Working Families: State Asset-Building Initiatives*, Fannie Mae Foundation.
- <sup>5</sup> Lillian Woo and David Buchholz (2006). *Subsidies for Assets: A New Look at the Federal Budget*. (Washington, DC: CFED). The full report is available at [www.frbsf.org/community/research/assets/SubsidiesforAssets.pdf](http://www.frbsf.org/community/research/assets/SubsidiesforAssets.pdf).
- <sup>6</sup> The Annie E. Casey Foundation (2006), *An Overview of Rural Family Economic Success: Earn It, Keep It, Grow It*. See [www.aecf.org/publications/data/final\\_overview\\_5\\_22.pdf](http://www.aecf.org/publications/data/final_overview_5_22.pdf).
- <sup>7</sup> The Annie E. Casey Foundation (2006).
- <sup>8</sup> The \$362 billion includes both tax expenditures and direct spending—the effects are the same. Tax expenditures are preferences in the tax code that reward taxpayers who engage in specific types of behavior such as saving and investing.
- <sup>9</sup> Woo, et al. (2004).
- <sup>10</sup> Edward Wolff (2001), “Recent Trends in Wealth Ownership, from 1983 to 1998,” in *Assets for the Poor: The Benefits of Spreading Asset Ownership*, Russell Sage Foundation.
- <sup>11</sup> CFED(2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=505](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=505).
- <sup>12</sup> See [www.gibill.va.gov/GI\\_Bill\\_Info/history.htm](http://www.gibill.va.gov/GI_Bill_Info/history.htm).
- <sup>13</sup> The Family Independence Initiative and 3Point Consulting (2006), *One Step Forward, Two Steps Back*. Analysis based upon eligibility standards and other rules in effect in 2005.
- <sup>14</sup> The Family Independence Initiative and 3Point Consulting (2006).
- <sup>15</sup> “Census Says Fewer Poor In State,” *Honolulu Advertiser*, August 30, 2006. See <http://the.honoluluadvertiser.com/article/2006/Aug/30/ln/FP608300339.html>.
- <sup>16</sup> Diana Pearce (2003), *The Self-Sufficiency Standard for Hawai'i*, Hawai'i State Commission on the Status of Women. In 2003, food for a family of four in Honolulu required a minimum of \$9,552 and rent required \$14,148—for a total that exceeds the Federal Poverty Level.
- <sup>17</sup> *Honolulu Advertiser*, August 30, 2006. Self-sufficiency estimate provided by the University of Hawai'i Center on the Family.
- <sup>18</sup> U.S. Department of Labor, Bureau of Labor Statistics (2006). See [www.bls.gov/opub/ted/2006/feb/wk4/art04.htm](http://www.bls.gov/opub/ted/2006/feb/wk4/art04.htm).
- <sup>19</sup> Analysis of data from the U.S. Bureau of Labor Statistics, Occupational Employment Statistics, 1999-2004 and Wider Opportunities for Women, Setting the Standard for American Working Families, 2003. In 2002 the living wage in Hawai'i for one parent with one child was approximately \$34,600.
- <sup>20</sup> U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Office (2004).
- <sup>21</sup> Pearce (2003).
- <sup>22</sup> See note 19.
- <sup>23</sup> Jason A. Levitis and Nicholas Johnson (May 4, 2006), “The Impact of Hawai'i's Income Tax on Low-Income Families: An Update,” Center on Budget and Policy Priorities. See [www.cbpp.org/5-4-06sfp2.htm](http://www.cbpp.org/5-4-06sfp2.htm).
- <sup>24</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2841](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2841).
- <sup>25</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2846](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2846).
- <sup>26</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2867](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2867).
- <sup>27</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2868](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2868).
- <sup>28</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2876](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2876).
- <sup>29</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2878](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2878).
- <sup>30</sup> Corporation for Economic Development (2002), *State Asset Development Report Card*. See [www.cfed.org/sadrc/measures/meannetworth.php](http://www.cfed.org/sadrc/measures/meannetworth.php).
- <sup>31</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2840](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2840).
- <sup>32</sup> See note 25.
- <sup>33</sup> See note 24.
- <sup>34</sup> Levitis and Johnson (May 4, 2006).
- <sup>35</sup> Institute on Taxation and Economic Policy (2003), *Hawai'i Taxes Hit Poor & Middle Class Far Harder than the Wealthy*.

- <sup>36</sup> Levitis and Johnson (May 4, 2006).
- <sup>37</sup> Cognetics (2002), *Entrepreneurial Hot Spots Report*.
- <sup>38</sup> “Small loans” are defined as those under \$1 million.
- <sup>39</sup> Hawai'i Small Business Administration analysis of FDIC data on insured financial institutions.
- <sup>40</sup> See note 28.
- <sup>41</sup> See note 29.
- <sup>42</sup> “Hawai'i Households Pay Highest Rents in U.S.,” *Honolulu Advertiser*, October 3, 2006. See <http://the.honoluluadvertiser.com/article/2006/Oct/03/bz/FP610040340.html>.
- <sup>43</sup> National Low income Housing Coalition (2005), *Out of Reach 2005*. See [www.nlihc.org/oor2005](http://www.nlihc.org/oor2005).
- <sup>44</sup> College of Social Sciences Center for Oral History (December 2003), *Pioneer Mill Company: A Maui Sugar Plantation Legacy*, accessed at <http://www.oralhistory.hawaii.edu/pages/community/pioneer.html>.
- <sup>45</sup> Pearce (2003).
- <sup>46</sup> In 2004, Senate Concurrent Resolution 81, which would have encouraged maintaining and using the Self-Sufficiency Standard, failed to pass.
- <sup>47</sup> Estimates by Aloha United Way using data from the Internal Revenue Service.
- <sup>48</sup> Sarah Torian (March 2006), *State and Local Support for Earned Income Tax Credit (EITC) Campaigns*, Annie E. Casey Foundation.
- <sup>49</sup> See [www.stateeitc.org](http://www.stateeitc.org).
- <sup>50</sup> Hawai'i Alliance for Community Based Economic Development, statement of focus group participant in Papakolea, April 2006.
- <sup>51</sup> Levitis and Johnson (May 4, 2006).
- <sup>52</sup> Kodama-Nishimoto (1984), interview with Emigdio Cabico.
- <sup>53</sup> 2006 Session of the Hawai'i State Legislature, Act 47.
- <sup>54</sup> Senator Akaka has long advocated for financial literacy programs including authoring the Excellence in Economic Education Act.
- <sup>55</sup> Parrish et al. (June 2006).
- <sup>56</sup> Steve Anderson, Jeff Scott, and Min Zhan (2004), *Financial Links for Low-Income People (FLLIP): Final Evaluation Report*, Sargent Shriver National Center on Poverty Law.
- <sup>57</sup> Hawai'i Alliance for Community Based Economic Development, statement of focus group participant in Kahalu'u, May 2006.
- <sup>58</sup> Parrish et al. (June 2006).
- <sup>59</sup> Kodama-Nishimoto (1984), interview with Adam Holmberg.
- <sup>60</sup> Hawai'i Alliance for Community Based Economic Development, statement of focus group participant in Papakolea, April 2006.
- <sup>61</sup> Parrish et al. (June 2006).
- <sup>62</sup> Parrish et al. (June 2006).
- <sup>63</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2858](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2858).
- <sup>64</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2858](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2858).
- <sup>65</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2880](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2880).
- <sup>66</sup> Hawai'i State Auditor (2005), *Sunrise Analysis: Check Cashing and Deferred Deposit Arrangements (Payday Loans)*. See [www.hawaii.gov/auditor/Reports/2005/05-11.pdf](http://www.hawaii.gov/auditor/Reports/2005/05-11.pdf).
- <sup>67</sup> HB2768 and SB2908 both failed in the 2006 Session of the Hawai'i State Legislature.
- <sup>68</sup> “U.S. Military Doing Battle With Payday Lenders,” *Honolulu Advertiser*, September 1, 2006. See <http://the.honoluluadvertiser.com/article/2006/Sep/01/bz/FP609120324.html>.
- <sup>69</sup> Interview with Robin Danner, President and CEO of the Council for Native Hawaiian Advancement.
- <sup>70</sup> Kodama-Nishimoto (1984), interview with Eleanor Heavey.
- <sup>71</sup> Parrish et al. (June 2006).
- <sup>72</sup> Parrish et al. (June 2006).
- <sup>73</sup> Parrish et al. (June 2006).
- <sup>74</sup> Margaret Clancy. (August 2006). Personal communication
- <sup>75</sup> Parrish et al. (June 2006).
- <sup>76</sup> Hawai'i Alliance for Community Based Economic Development, statement of focus group participant in Papakolea, April 2006.
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- <sup>79</sup> Ethnic Studies Program (1978), *Remembering Kakaako, 1910-1950*, Ethnic Studies Oral History Project, University of Hawai'i at Mānoa, interview with Keisuke Masuda.
- <sup>80</sup> Parrish et al. (June 2006).
- <sup>81</sup> See note 27.
- <sup>82</sup> Parrish et al. (June 2006).
- <sup>83</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2872](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2872).
- <sup>84</sup> Kamehameha Schools (2005), *Ka Huaka'i*. See <http://ulukau.org/elib/cgi-bin/library?c=d-0nhea-000Sec--11en-50-20-frameset-book--1-010escapewin&a=p&p=frameset&d=D0.9&toc=0>
- <sup>85</sup> US Census (2006), *Native Hawaiian- and Other Pacific Islander-Owned Firms, 2002*. See [www.census.gov/prod/ec02/sb0200csnhpi.pdf](http://www.census.gov/prod/ec02/sb0200csnhpi.pdf).
- <sup>86</sup> "OHA Revamps Loan Program," *Honolulu Advertiser*, September 18, 2006. See <http://the.honoluluadvertiser.com/article/2006/Sep/18/ln/FP609180345.html>
- <sup>87</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2874](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2874).
- <sup>88</sup> See <http://workforcesecurity.doleta.gov/unemploy/uilawcompar/2004/extensions.pdf>.
- <sup>89</sup> Hawai'i Alliance for Community Based Economic Development, statement of focus group participant in Waipahu, May 2006.
- <sup>90</sup> Parrish et al. (June 2006).
- <sup>91</sup> Kodama-Nishimoto (1984), interview with Adam Holmberg.
- <sup>92</sup> Parrish et al. (June 2006).
- <sup>93</sup> CFED (2005). See [www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2884](http://www.cfed.org/focus.m?parentid=31&siteid=504&id=509&measureid=2884).
- <sup>94</sup> Parrish et al. (June 2006).
- <sup>95</sup> See [www.capitol.hawaii.gov/site1/studies/Joint\\_Homeless\\_Task\\_Force.pdf](http://www.capitol.hawaii.gov/site1/studies/Joint_Homeless_Task_Force.pdf).
- <sup>96</sup> Parrish et al. (June 2006).
- <sup>97</sup> Hawai'i Alliance for Community Based Economic Development, statement of focus group participant in Kahalu'u, May 2006.
- <sup>98</sup> Parrish et al. (June 2006).
- <sup>99</sup> Hawai'i Alliance for Community Based Economic Development, statement of focus group participant in Papakolea, April 2006.