

# The Real Cost of the Rail GET Increase

By Wendy Fujimoto, Director of Operations

In April 2005 when state lawmakers debated giving the City and County of Honolulu the option to add a 0.5% surcharge to the state's four percent general excise tax (GET) for 15 years in order to pay for its transit project, Hawaii was a much different place. The 0.5% surcharge, a 12.5% increase to the GET rate, was approved without any tax relief to lower income residents and without an actual price tag for the transit project. At the time, Hawaii was a state where:

- Real personal income had risen annually from \$34 billion in 1996 to over \$40 billion in 2004;
- Inflation was under 3% in Hawaii and nationally;
- Unemployment was under 4% in Hawaii and had been since 2003;
- Visitor arrivals exceeded 600,000 per month, the highest rate in the last 10 years; and
- Oahu existing home and condominium sales were at the highest levels since 1989.<sup>1</sup>

In 2005, cost, route, and other details of the plan were not yet available. Since then, the city has forecast \$3.7 billion for the cost of construction and has claimed that it could create 11,000 jobs during the eight-year construction phase, starting in 2009.<sup>2</sup>

Now in 2008, less than a year before the city would like to break ground on the rail project, Hawaii's economic outlook is not so promising:

- In August 2008, unemployment in Hawaii rose to 4.2%, its highest point since 2002<sup>3</sup>;
- Hawaii hotel occupancy is down to 74%, the lowest August occupancy since 1998<sup>4</sup>; and
- Enrollment in Hawaii's free health coverage is up 9.1% in the two months ending September 30, 2008.<sup>5</sup>

In light of the recent state and national economic downturn, financial market instability and stock market uncertainty, the economic impact of the 0.5%

GET surcharge looms large for Hawaii's residents.

In 2005, the Grassroot Institute of Hawaii contracted with the Beacon Hill Institute to prepare a model to forecast economic effects associated with changes to various tax rates. Recently Beacon Hill modified the model to show the results of the 0.5% surcharge, which are summarized in the table on the next page.

The Beacon Hill model forecasts annual reductions in private sector jobs, business investment and personal and disposable income. These reductions would continue at least through the 14-year duration of the GET surcharge which ends in 2021.

Specifically, the model forecasts an annual reduction in private employment starting with -2,588 jobs in FY2007 and increasing steadily through FY 2010 when it reaches -6,508 jobs. The reduction continues to increase through 2021 because of the compounding nature of economic dampening. Likewise private investment decreases during the same period, starting at -\$54 million in FY2007 and reaching -\$159 million by FY2010 (and continuing through FY 2021). Personal income and disposable income show similar decreases beginning with -\$135 million (state personal income) and -\$288 million (disposable income) in FY 2007 decreasing every year and reaching -\$360 million (SPI) and -\$765 million (DI) in FY2010 (and continuing through FY2021).

## Quick Facts

*By 2010, the 0.5% GET increase used to fund rail will result in:*

- 6,508 fewer private sector jobs
- \$159 million decrease in private investment
- \$360 million decrease in state personal income
- \$765 million decrease in disposable income

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Results of the simulation	FY 2007		FY 2008		FY 2009		FY 2010	
	Estimated	Forecast	Estimated	Forecast	Estimated	Forecast	Estimated	Forecast
<b>Private Employment</b>	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs
Number of private jobs	505,325	502,737	513,667	507,975	522,008	515,954	530,347	523,840
<b>Change in private employment</b>	-	<b>-2,588</b>	-	<b>-5,692</b>	-	<b>-6,054</b>	-	<b>-6,508</b>
% change in employment relative to baseline	-	-0.51%	-	-1.11%	-	-1.16%	-	-1.23%
<b>Investment</b>	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill
Baseline investment, \$m, nominal \$	13,860.6	13,806.6	14,896.7	14,771.3	16,010.4	15,870.0	17,207.8	17,048.8
<b>Change in nominal investment (\$m)</b>	-	<b>(54.1)</b>	-	<b>(125.4)</b>	-	<b>(140.5)</b>	-	<b>(159.0)</b>
% change in investment relative to baseline	-	-0.39%	-	-0.84%	-	-0.88%	-	-0.92%
<b>State Personal Income, nominal</b>	\$bill	\$bill	\$bill	\$bill	\$bill	\$bill	\$bill	\$bill
CityPI (\$bn)	48.717	48.582	50.933	50.630	53.252	52.924	55.681	55.321
<b>Change in nominal CityPI (\$bn)</b>	-	<b>(0.135)</b>	-	<b>(0.303)</b>	-	<b>(0.329)</b>	-	<b>(0.360)</b>
% change in nominal CityPI	-	-0.28%	-	-0.59%	-	-0.62%	-	-0.65%
<b>Disposable Income, real</b>	\$bill	\$bill	\$bill	\$bill	\$bill	\$bill	\$bill	\$bill
DI (\$bn)	40.444	40.156	41.907	41.261	43.423	42.724	44.994	44.228
<b>Change in real DI (\$bn)</b>	-	<b>(0.288)</b>	-	<b>(0.646)</b>	-	<b>(0.699)</b>	-	<b>(0.765)</b>
% change in real DI	-	-0.71%	-	-1.54%	-	-1.61%	-	-1.70%

The effects of adding the 0.5% GET surcharge in January 2007 seemed minimal in 2005. Given the state and national economic downturn and instability of the financial markets it has become a choice lawmakers with 20/20 hindsight might not have made today.

State agencies are being asked to create scenarios for cutting their budgets by 10, 15 and 20 percent because of lower revenue projections. Private employers are laying off workers at alarming rates. The model shows that those cuts and layoffs would not have to be as great had it not been for the GET surcharge.

It is wonderful that the rail project is estimated to create 11,000 new jobs over the eight year construction because 5,692 will be lost by the end of the FY 2008 increasing to 6,508 jobs lost through the end of FY 2010 because of the GET surcharge. The lost job figure will continue to increase as long as the surcharge is in effect—through 2021.

The only bright side to the situation is lawmakers refused to approve the city's original request – a 1% surcharge for 20 years. Just think where we could have been.

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<sup>1</sup> "Five themes and the forecast" prepared by Paul H. Brewbaker, PhD, Chief Economist, Bank of Hawaii for the Hawaii Economic Association Annual Conference on April 22, 2006, <https://www.boh.com/econ/reports/themes0504.pdf>.

<sup>2</sup> Homepage of Honolulu on the Move, operated by the City & County of Honolulu, <http://honolulutransit.org/>

<sup>3</sup> "Hawaii's Seasonally Adjusted Unemployment Rate 4.2 Percent in August", Hawaii Department of Labor and Industrial Relations News Release, 9/19/08, <http://hawaii.gov/labor/news/2008/august/MR2008-27-Aug-UI.pdf>

<sup>4</sup> "Hawaii hotel occupancy slumps again in August, down to 74.4%", by Robbie Dingeman, *Honolulu Advertiser*, 10/11/08, <http://www.honoluluadvertiser.com/article/20081011/NEWS01/810110378/1001>.

<sup>5</sup> "Hawaii's free health coverage for poor sees 9.1% enrollment surge", by Dave Dondoneau, *Honolulu Advertiser*, 10/11/08, <http://www.honoluluadvertiser.com/article/20081011/NEWS01/810110376-1/RSS02>