House District One · Hāmākua · Hilo

Volume 9, Issue 3

Mark M. Nakashima

Chair
Economic Development and Business

Member

Committee on Labor and Public Employment
Committee on Judiciary

Contact Information:

Hawaiʻi State Capitol, Room 404
415 South Beretania Street
Honolulu, Hawaii 96813

Telephone:

(808) 586-6680

Neighbor Island Access dial 974-4000 then extension 6-6680 followed by the pound (#) key after the recording.

E-mail Address:

repnakashima@capitol.hawaii.gov

Visit Mark's capitol website for updates on bills and other legislative activities.

http://www.capitol.hawaii.gov/memberpage.aspx?member=nakashima

Aloha Friends,

I have heard concerns regarding the "Rail Bill" that was recently enacted into law during the Legislature's special session this summer. The deliberations were vigorous and at times unfortunately contentious. Here is what the law includes:

- Increases the hotel room tax (Transient Accommodations Tax -TAT) by 1% for 13 years.
- Increases the county's share of the TAT from $93 million to $103 million.
- Extends the General Excise Tax (GET) surcharge on Oahu an additional three years to 2030.
- Allows the counties to institute a surcharge to keep for their county.
- Requires the State Auditor to do a comprehensive audit and annual financial reviews of the rail project.
- Requires the Honolulu Authority for Rapid Transit (HART) to provide detailed financial and accounting information prior to releasing state funds for the project.
- Prohibits the use of the GET and TAT funds on operations or maintenance costs.
- Reduces the State's administrative fee of the GET tax from 10% to 1%.

It is important to remember that we are all part of one State. One State separated by water but not by need. Each island has critical work and projects that require funding. We support each other as those needs arise and a half-built rail project helps no one.

As noted in the ILWU's testimony on the bill, the rail project is the single largest capital improvement project in the State's history. Given the financial resources, the time that has been invested, and the fact that a substantial part of the project is already completed, the Legislature had to find a solution considering all the different perspectives.

Had we not passed the bill, we would have missed the federal deadline. Senator Brian Schatz and Congresswoman Colleen Hanabusa stepped in in with support because this would have jeopardized federal grant money we request for other projects. We need federal money to help build our highways, like the Daniel K. Inouye Saddle Road, and replace aging bridges, like at Umauma. Had the rail funding collapsed, they would have difficulty getting future federal funding for all of us.

I believe this solution was the best one available to the Legislature to ensure the rail is built in the proper manner for several reasons. A long-term extension of the GET surcharge would have the largest impact on our most vulnerable populations - the elderly and others on fixed incomes, low-income residents, and working families.

Rather than "continue to keep taxing our people instead of looking for other alternatives," I believe this was a better solution.

(Continued on page 2)

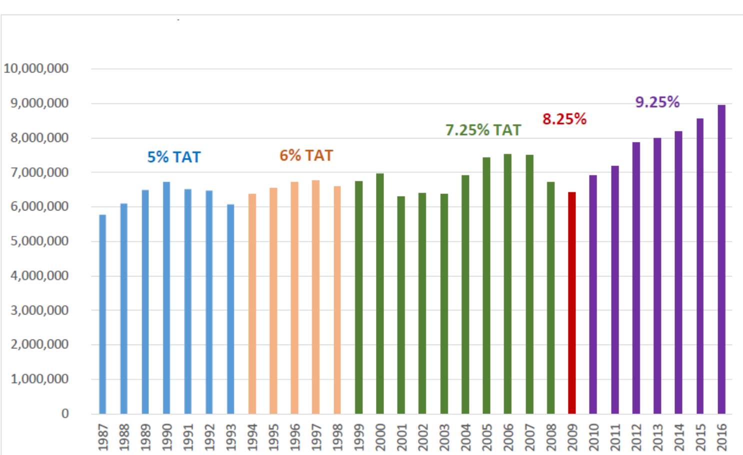
A one percent increase in the TAT and limitation of the GET tax extension minimizes the financing costs and tax burden. The infusion of capital during the project's high cost years (2018-22) offsets the need for long-term financing costs associated with the proposed extension of the GET tax. The TAT on short-term rentals will save hundreds of millions of dollars in financing charges. Saving tax dollars and having visitors help pay for much needed infrastructure seems prudent to me.

Some have asserted that this is a "Neighbor Island" tax. Only residents who stay in a hotel or time share will be charged the temporary 1% increase in the TAT.

However, the vast majority of the TAT revenue does not come from our residents, but rather from our visitors. The Hawaii Lodging & Tourism Association testified that tourists fill 90-99 percent of our hotel rooms so visitors will pay the vast majority of this tax revenue. Previous increases in the TAT have not stopped tourists from visiting Hawaii. I doubt the $3 additional tax on a $300 hotel room rate would be a deterrent when guests are paying add on fees like $16 plus on parking or $25 plus for resort fees.

I believe everyone can agree that the rail project requires additional scrutiny and oversight to ensure that the project is completed in a transparent and fiscally responsible manner.

Figure 1. Visitor arrivals and TAT rate



Source: DBEDT and HTA

"Rail Tax"Bill is not a neighbor island bill.

- Increases the TAT by 1%. You only pay this tax if you stay in a hotel room.
- 80% of the population lives on Oahu and helps to fund many projects on other islands
- Currently, you only pay the 1/2% GET surcharge if you purchase things or do business on Oahu. Other counties will have the option to collect a surcharge to use for their county transportation expenses
- Increases county allocation of the TAT by $10 million for a total of $103 million

I would like to thank all of you who weighed in, both in support and opposition to the bill. I hope the additional information will help answer some concerns.

Hawaii Island's economy as well as the neighbor islands could not finance major capital improvement projects without help from residents and businesses on Oahu.

The State's biggest sources of tax revenue are the GET, the individual income tax and the TAT. Most of the hotels, businesses as well as tax payers are located on Oahu so they contribute the largest portion into the State's General Fund. This fund is used to pay most of the State's operating expenses such as state hospitals and public schools as well as Capital Improvement Projects (CIPs) and Grants in Aids (GIAs).

Kealakehe High School (1997), Keaau High School (1999), UH Hilo buildings - Hawaiian Language, Science, Student Services, Dormitory, Pharmacy as well as the Palamanui campus and the North Hawaii Education and Research Center (NHERC)- were all made possible by state funding from the GET and TAT revenue deposited into the state's general fund.

Currently, 61% of General Excise Tax (GET) collections is collected on Oahu, while 13% is collected on Hawaii Island. We receive far more revenue from the state than we generate in taxes. Hilo airport alone loses $7.3 million per year, but the state subsidizes the loss.

Japan Airlines resumed daily non-stop flights from Japan to Ellison Onizuka Kona International. In 2010, this flight brought over 70,000 visitors. In December, Hawaiian Airlines will potentially bring in more than 700 additional visitors per week when they start three direct flights from Japan to Kona. The state will invest $50 million to accommodate this increase and to support Hawaii Island tourism by building a new customs and immigration facility in Kona.

Some think the state is shortchanging the county of money, which they believe had been the purpose for creating the TAT. In actuality, when the legislature created the TAT, in 1986, all revenues went into the state general fund. It was not until 1991 that the state provided an allocation of the TAT to the counties.

It would have been easy for me to have voted "no," as some had requested and even demanded, but as your elected state representative, it is important for me to carefully consider all sides of the issues and make hard decisions that lead to the best outcome for our district, island and state.

Aloha,

Mark Nakashima