

Honolulu, Hawaii

FEB 17

, 2006

RE: S.B. No. 2768
S.D. 2

Honorable Robert Bunda
President of the Senate
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Transportation and Government Operations,
to which was referred S.B. No. 2768, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO AVIATION FUEL TAX,"

begs leave to report as follows:

The purpose of this measure is to exempt, from the general excise tax, use tax, and fuel taxes, the aviation fuel used in intrastate air transportation and transportation between the State and the mainland.

Your Committee received testimony in support of this measure from Hawaiian Airlines and Aloha Airlines. Testimony in opposition was received from the Department of Transportation. Comments were received from the Department of Taxation.

Your Committee finds that as an island state, air transportation is vital to the lives of Hawaii's resident population and the economic well-being of the State. Over the past few years, the passenger air carriers serving Hawaii have been impacted financially by the dramatic increases in jet fuel. This has caused bankruptcy and reorganization of inter-island carriers.

The single largest cost to the airlines is fuel, over which the airlines have no control, and there are no alternatives to jet fuel. According to testimony, every penny change in the price of fuel affects inter-island airlines by approximately \$1,000,000.




Your Committee was advised in testimony that the foreign trade zone tax exemption pursuant to section 212-8, Hawaii Revised Statutes, applies to interstate and foreign commerce and not to inter-island flights.

Your Committee believes the inter-island carriers need and deserve a reprieve from state taxes on fuel. However, your Committee is concerned that the tax savings will not necessarily be realized by residents in lower fares. Therefore, your Committee urges the airlines to accommodate residents by lowering air fares, which would also stimulate travel.

Your Committee has amended this measure upon the recommendation of Aloha and Hawaiian Airlines to clarify the exemption language and to delete the fuel tax exemption and references to travel between Hawaii and the U.S. mainland.

As affirmed by the record of votes of the members of your Committee on Transportation and Government Operations that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2768, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as S.B. No. 2768, S.D. 2.

Respectfully submitted on
behalf of the members of the
Committee on Transportation and
Government Operations,


LORRAINE R. INOUE, Chair



