

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING HB 3196 HD 1 SD 1 RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 18, 2008

TIME: 1:15PM

ROOM: 224

As amended by the Committee on Commerce, Consumer Protection & Affordable Housing, this legislation amends the rental motor vehicle surcharge tax to an unspecified amount.

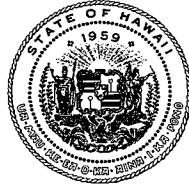
The Department of Taxation (Department) **supports the intent** of this measure.

Currently, there is a rental motor vehicle surcharge of \$3 per day, which will drop to \$2 per day after August 31, 2008. Potentially increasing the surcharge indefinitely will be extremely useful in building reserves in the State Highway Fund. Maintaining a consistently sufficient revenue stream for the state highways is critical to maintaining Hawaii's infrastructure.

This legislation will result in no revenue impact to the general fund. The State Highway Fund will receive an indeterminate revenue impact because the amount of tax is unspecified. However, assuming the \$3 per day surcharge is extended, the State Highway Fund will increase by \$13.3 million in FY 2009 (10 months), and \$16.0 million in FY 2010 and thereafter. The \$3 a day rental vehicle surcharge tax now yields about \$48 million annually. This total includes the taxes on other tour vehicles (vans and buses), but the taxes on these other vehicles account for less than 1% of the total. Hence, an increase of \$1 a day (from \$2 after the reversion to \$3) would yield \$16 million annually.

As a result of the foregoing, the Department supports this legislation.

LINDA LINGLE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

BRENNON T. MORIOKA
DIRECTOR

Deputy Directors
MICHAEL D. FORMBY
FRANCIS PAUL KEENO
BRIAN H. SEKIGUCHI

IN REPLY REFER TO:

March 18, 2008

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

HOUSE BILL NO. 3196, HD1, SD1

COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION

We support this bill. Currently, Section 251-2(a), HRS, provides for a rental motor vehicle surcharge of \$3.00 per day from September 1, 1999 to August 31, 2008. The Department of Transportation (DOT) supports the repealing of the sunset date and maintaining the \$3 per day surcharge on a permanent basis. This dedicated revenue will help support the Highways Division's expenditures for the operation, maintenance and construction of state highways.

Each dollar collected through the rental vehicle surcharge provides approximately \$14 million in annual revenues for the State Highway Fund. If the \$3 per day surcharge is not extended, the Highways Division will need to cut its maintenance program by almost 10%.

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Honorable Carol Fukunaga, Chair
Committee on Economic Development
and Taxation
Hawaii State Senate
State of Hawaii
Room 224

Hearing: March 18, 2008, 1:15 pm., Conf.

Re: HB 3196, SD1 --- Relating To The Rental Motor Vehicle Surcharge Tax

Honorable Chair Fukunaga and Honorable Committee Members:

My name is Martin Mylott and I am the Hawaii Regional Manager with Avis Rent A Car & Budget Rent A Car.

Our company opposes this bill in its present form and supports the amendments to the bill recommended by Catrala Hawaii.

This bill amended by the prior Committee is problematic in several aspects:

- a) It does not require the DOT to follow the request of your Joint Senate and House

Task Force which asked the DOT to study the Highway Fund and report back to the Legislature in 2009.

- b) By leaving the amount blank, this bill suggests a TAX INCREASE when the DOT in its

testimony is only seeking to maintain the amount of \$3 daily which is the present daily amount. If the DOT is only seeking \$3 why is the dollar figure blank?

- c) This bill unfairly singles out the u-drive industry for a PERMANENT TAX INCREASE

since the present daily surcharge tax should be \$2 and not the present temporary \$3 which some seek to make permanent. About 8 years ago the u-drive industry was singled out for a "temporary" tax increase from \$2 to \$3 daily to help with the needs of the General Fund. The surcharge tax was scheduled to sunset back from \$3 daily to \$2 in 2007 but was temporarily extended while studies were conducted. The industry should not be singled out again for an increase.

com

A study by the DOT needs to be done as to how to "fairly raise revenues" from all who benefit from the use of the highways and not just u-drive vehicles. Isn't this fair?

While as study is being done, the u-drive industry is agreeable to extending the temporary daily tax of \$3 daily for another year so the DOT does not suffer any loss of revenues while the study is being done. This is a fair solution to addressing a serious problem. A study needs to be done.

Please do not unfairly burden or tax our industry. Thank you for allowing us to testify.



The Hertz Corporation
Hawai'i Area
677 Ala Moana Blvd., Suite 916, Honolulu, HI 96813
Phone: (808)529-6850 Fax: (808)529-6866

Honorable Carol Fukunaga, Chair
Committee on Economic Development
and Taxation
Hawaii State Senate
State of Hawaii
224

Hearing: March 18, 2008, 1:15 pm., Conf. Room

Re: HB 3196, SD1 — Relating To The Rental Motor Vehicle Surcharge Tax

Honorable Chair Fukunaga and Honorable Committee Members:

My name is Aaron Medina and I am the General Manager, Hawaii, for The Hertz Corporation.

Our company opposes this bill in its present form and supports the amendments to the bill recommended by Catrala Hawaii.

This bill amended by the prior Committee is problematic in several aspects:

- a) It does not require the DOT to follow the request of your Joint Senate and House Task Force which asked the DOT to study the Highway Fund and report back to the Legislature in 2009.
- b) By leaving the amount blank, this bill suggests a TAX INCREASE when the DOT in its testimony is only seeking to maintain the amount of \$3 daily which is the present daily amount. If the DOT is only seeking \$3, why is the dollar figure blank?
- c) This bill unfairly singles out the u-drive industry for a PERMANENT TAX INCREASE. Since the present daily surcharge tax should be \$2 and not the present temporary \$3, which some seek to make permanent. About 8 years ago the u-drive industry was singled out for a "temporary" tax increase from \$2 to \$3 daily to help with the needs of the General Fund. The surcharge tax was scheduled to sunset back from \$3 daily to \$2 in 2007 but was temporarily extended while studies were conducted. The industry should not be singled out again for an increase.

A study by the DOT needs to be done as to how to "fairly raise revenues" from all who benefit from the use of the highways and not just u-drive vehicles.

While a study is being done, the u-drive industry is agreeable to extending the temporary daily tax of \$3 daily for another year so the DOT does not suffer any loss of revenues while the study is being done. We feel this is a fair solution to addressing a serious problem. A study needs to be done.

Please do not unfairly burden or tax our industry. Thank you for allowing us to testify.



544 Ohohia Street
Honolulu, HI 96819
808-836-0130
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Honorable Carol Fukunaga, Chair
Committee on Economic Development
and Taxation
Hawaii State Senate
State of Hawaii

Hearing: March 18, 2008, 1:15 pm., Conf. Room 224

Re: HB 3196, SD1 --- Relating To The Rental Motor Vehicle Surcharge Tax

Honorable Chair Fukunaga and Honorable Committee Members:

My name is Wayne Tanaka and I am the V.P. / General Manager with Enterprise Rent-A-Car Company of Hawaii.

Our company opposes this bill in its present form and supports the amendments to the bill recommended by Catrala Hawaii.

This bill amended by the prior Committee is problematic in several aspects:

a) It does not require the DOT to follow the request of your Joint Senate and House Task Force which asked the DOT to study the Highway Fund and report back to the Legislature in 2009.

b) By leaving the amount blank, this bill suggests a TAX INCREASE when the DOT in its testimony is only seeking to maintain the amount of \$3 daily which is the present daily amount. If the DOT is only seeking \$3 why is the dollar figure blank?

c) This bill unfairly singles out the u-drive industry for a PERMANENT TAX INCREASE since the present daily surcharge tax should be \$2 and not the present temporary \$3 which some seek to make permanent. About 8 years ago the u-drive industry was singled out for a "temporary" tax increase from \$2 to \$3 daily to help with the needs of the General Fund. The surcharge tax was scheduled to sunset back from \$3 daily to \$2 in 2007 but was temporarily extended while studies were conducted. The industry should not be singled out again for an increase.

A study by the DOT needs to be done as to how to "fairly raise revenues" from all who benefit from the use of the highways and not just u-drive vehicles. Isn't this fair?

While as study is being done, the u-drive industry is agreeable to extending the temporarily daily tax of \$3 daily for another year so the DOT does not suffer any loss of revenues while the study is being done. This is fair solution to a serious problem. A study needs to be done.

Please do not unfairly burden the industry. Thank you for allowing us to testify.



Fueled By Passion

Wayne Tanaka

Honorable Carol Fukunaga, Chair
Committee on Economic Development
and Taxation
Hawaii State Senate
State of Hawaii

Hearing: March 18, 2008, 1:15 pm., Conf. Room 224

Re: HB 3196, SD1 --- Relating To The Rental Motor Vehicle Surcharge Tax

Honorable Chair Fukunaga and Honorable Committee Members:

My name is Wayne Tanaka and I am the chair of the Legislative Committee for Catrala-Hawaii. Catrala's membership consists of the major u-drive (car and truck rental leasing) companies in Hawaii and the many businesses which support our industry.

Catrala supports this bill with amendment attached hereto as Exhibit A. Exhibit A is a copy of HB 3196, HD1 passed from the House to the Senate. We believe Exhibit A is a much better bill. This bill in its present form as amended by the prior Senate Committee is unfair and has problems in several respects:

a) It does not require the DOT to follow the request of your Joint Senate and House Task Force which asked the DOT to study the Highway Fund and report back to the Legislature in 2009. The present form of this bill eliminates the requirement that the DOT to do such a study as requested by the Joint Senate and House Task Force. Why is this when everyone knows the Highway Fund is in need of revenues for various reasons including federal cutbacks starting as of 2009? The recommendation of the Joint Senate and House Task Force was:

"The Task Force defers to the Forum and the DOT for now and requests that the DOT report to the Legislature when the Forum finalizes its recommendations, with the expectation that the matter will result in proposed legislation for consideration for the 2009 Regular Session".

b) By leaving the amount blank, this bill suggests a TAX INCREASE when the DOT in its testimony is only seeking to maintain the amount of \$3 daily which is the present daily amount. If the DOT is only seeking \$3 why is the dollar figure blank?

c) This bill unfairly singles out the u-drive industry for a PERMANENT TAX INCREASE since the present daily surcharge tax should be \$2 and not the present \$3 which many seek to make permanent. About 8 years ago the u-drive industry was singled out for a "temporary" tax increase from \$2 to \$3 daily to help with the needs of the General Fund. Some monies going into the Highway Fund were transferred to the General Fund. The surcharge tax was scheduled to sunset back from \$3 daily to \$2 in 2007 when State revenues were hopefully better. This should have occurred due to the reported "surplus revenues" in 2007. Due to growing surplus in revenues the Governor prior to 2007 stopped the transfer of revenues from the Highway Fund to the General Fund. In fact due to reported transfer of \$150,000,000 or more out of the Highway Fund, the Governor in 2007 recommended using some of

surplus revenues to repay the Highway Fund given its anticipated future needs and federal cut backs. Such repayment was not authorized.

As one can see from the foregoing, the Highway Fund is apparently in desperate need of revenues. However, the u-drive industry should not be singled out for "permanent tax increase" when after 8 years the surcharge tax was suppose to sunset back from \$3 to \$2 daily in 2007 which was a year of surplus revenues.

A study by the DOT needs to be done as to how to "fairly raise revenues" from all who benefit from the use of the highways. Isn't this fair? To unfairly single out the u-drive industry is not fair. If the study finds that the u-drive industry should contribute additional funds like others then the starting base for such increase payments by the u-drive industry should start at \$2 daily and not \$3 daily which was suppose to sunset back to \$2 daily in 2007. While as study is being done, the u-drive industry is agreeable to extending the temporarily daily tax of \$3 daily for another year so the DOT does not suffer any loss of revenues while the study is being done. This is fair solution to addressing a serious problem. A study needs to be done.

Catrala firmly believes the daily surcharge tax is already high and must be kept as low as possible. Hawaii is primarily a family oriented tourist destination which competes with places such as Florida. Florida's surcharge tax is \$2 daily and we believe Hawaii should be the same if not lower.

The 2004 study by the DOT which the prior Committee referred to is a flawed study that does not substantiate any national average. Regardless, you don't compare cities/States who are not dependent on tourism like Hawaii and use the figures from such cities/States. It's like comparing apples with oranges. The 2004 study is a misleading and poor study. For example, the sales tax in Cleveland is 7.5%. Does that mean that Hawaii's GET tax should be raised to 5% or 6%? Obviously not. The circumstances in Cleveland are not the same as Hawaii. The same should apply when tries to compare or use surcharge taxes from other cities/States.

Further, u-drive vehicles provide the tourists the freedom to explore on their own schedule and repeatedly, if they so desire, the many wonders throughout Hawaii which are heavily advertised and promoted. High daily taxes will discourage the rental of vehicles. This in turn will reduce overall tourist satisfaction.

In addition, the reduction in daily rental of vehicles will also result in economic hardship to the many local restaurants and shops which benefit from tourists who stop, eat and shop as they explore along the way the beauties and enjoy the many activities Hawaii has to offer.

We respectfully urge you to pass this bill as Exhibit A. Thank you for allowing us to testify.

EXHIBIT A BELOW

Report Title:

Rental motor vehicle; surcharge; surcharge tax; State Highway Fund

Description:

Extends the \$1 per day surcharge on rental motor vehicles beyond September 1, 2008 and deposits the money into the State Highway Fund. (HB3196 HD1)

HOUSE OF REPRESENTATIVES
TWENTY-FOURTH LEGISLATURE, 2008
STATE OF HAWAII

H.B. NO. 3196
H.D. 1
S.D. 2

A BILL FOR AN ACT

RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. Section 251-2, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) There is levied and shall be assessed and collected each month a rental motor vehicle surcharge tax of \$2 a day, except that for the period of September 1, 1999, to August 31, [~~2008,~~] 2009, the tax shall be \$3 a day, or any portion of a day that a rental motor vehicle is rented or leased. The rental motor vehicle surcharge tax shall be levied upon the lessor; provided that the tax shall not be levied on the lessor if:

- (1) The lessor is renting the vehicle to replace a vehicle of the lessee that is being repaired; and
- (2) A record of the repair order for the vehicle is retained either by the lessor for two years for

verification purposes or by a motor vehicle repair dealer for two years as provided in section 437B-16."

SECTION 2. (a) The department of transportation shall study the financial requirements of the state highway fund, with an emphasis of the adequacy and equity of revenues generated by one or more revenues sources pursuant to section 251-2, Hawaii Revised Statutes, compared with other revenue sources contributing to or that could be contributing to the highway fund.

(b) The study may include discussions and meetings with representatives of different interest groups and present contributors of revenues to the highway fund.

(c) The study may include a review of:

- (1) Past, present, and projected revenues of the state highway fund;
- (2) The ability of the department of transportation to plan, implement, and expend funds on a timely basis;
- (3) An analysis of the actual revenue needs of the department of transportation;
- (4) Other revenue sources of the state highway fund and their nexus to the fund; and
- (5) Other governmental matching funds.

(d) The study shall include data from the 2000-2001 fiscal year to the present fiscal year and may include any data,

information, or conclusions by task forces or groups that have discussed or met in the past to evaluate at least in part the fiscal needs, revenue sources, or viability of the state highway fund.

(e) The department of transportation shall submit a final report, including proposed legislation for increasing revenue sources for the state highway fund to meet its ongoing and future needs, to the legislature no later than twenty days prior to the convening of the regular session of 2009.

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act shall take effect upon its approval.

EXHIBIT A ABOVE



Honorable Carol Fukunaga, Chair
Committee on Economic Development
and Taxation
Hawaii State Senate
State of Hawaii

Hearing: March 18, 2008, 1:15 pm., Conf. Room 224

Re: HB 3196, SD1 --- Relating To The Rental Motor Vehicle Surcharge Tax

Honorable Chair Fukunaga and Honorable Committee Members:

My name is Randy Monturi and I am the Regional Vice President with Alamo Rent A Car Company of Hawaii.

Our company supports this bill with amendment attached hereto as Exhibit A. Exhibit A is a copy of HB 3196, HD1 passed from the House to the Senate. We believe Exhibit A is a much better bill. This bill in its present form as amended by the prior Senate Committee is unfair and has problems in several respects:

a) It does not require the DOT to follow the request of your Joint Senate and House Task Force which asked the DOT to study the Highway Fund and report back to the Legislature in 2009. The present form of this bill eliminates the requirement that the DOT to do such a study as requested by the Joint Senate and House Task Force. Why is this when everyone knows the Highway Fund is in need of revenues for various reasons including federal cutbacks starting as of 2009? The recommendation of the Joint Senate and House Task Force was:

"The Task Force defers to the Forum and the DOT for now and requests that the DOT report to the Legislature when the Forum finalizes its recommendations, with the expectation that the matter will result in proposed legislation for consideration for the 2009 Regular Session".

b) By leaving the amount blank, this bill suggests a TAX INCREASE when the DOT in its testimony is only seeking to maintain the amount of \$3 daily which is the present daily amount. If the DOT is only seeking \$3 why is the dollar figure blank?

c) This bill unfairly singles out the u-drive industry for a PERMANENT TAX INCREASE since the present daily surcharge tax should be \$2 and not the present \$3 which many seek to make permanent. About 8 years ago the u-drive industry was singled out for a "temporary" tax increase from \$2 to \$3 daily to help with the needs of the General Fund. Some monies going into the Highway Fund were transferred to the General Fund. The surcharge tax was scheduled to sunset back from \$3 daily to \$2 in 2007 when State revenues were hopefully better. This should have occurred due to the reported "surplus revenues" in 2007. Due to growing surplus in revenues the Governor prior to 2007 stopped the transfer of revenues from the Highway Fund to the General Fund. In fact due to reported transfer of \$150,000,000 or more out of the Highway Fund, the Governor in 2007 recommended using some of surplus revenues to repay the Highway Fund given its anticipated future needs and federal cut backs. Such repayment was not authorized.

As one can see from the foregoing, the Highway Fund is apparently in desperate need of



revenues. However, the u-drive industry should not be singled out for "permanent tax increase" when after 8 years the surcharge tax was suppose to sunset back from \$3 to \$2 daily in 2007 which was a year of surplus revenues.

A study by the DOT needs to be done as to how to "fairly raise revenues" from all who benefit from the use of the highways. Isn't this fair? To unfairly single out the u-drive industry is not fair. If the study finds that the u-drive industry should contribute additional funds like others then the starting base for such increase payments by the u-drive industry should start at \$2 daily and not \$3 daily which was suppose to sunset back to \$2 daily in 2007. While as study is being done, the u-drive industry is agreeable to extending the temporarily daily tax of \$3 daily for another year so the DOT does not suffer any loss of revenues while the study is being done. This is fair solution to addressing a serious problem. A study needs to be done.

Our company firmly believes the daily surcharge tax is already high and must be kept as low as possible. Hawaii is primarily a family oriented tourist destination which competes with places such as Florida. Florida's surcharge tax is \$2 daily and we believe Hawaii should be the same if not lower.

The 2004 study by the DOT which the prior Committee referred to is a flawed study that does not substantiate any national average. Regardless, you don't compare cities/States who are not dependent on tourism like Hawaii and use the figures from such cities/States. It's like comparing apples with oranges. The 2004 study is a misleading and poor study. For example, the sales tax in Cleveland is 7.5%. Does that mean that Hawaii's GET tax should be raised to 5% or 6%? Obviously not. The circumstances in Cleveland are not the same as Hawaii. The same should apply when tries to compare or use surcharge taxes from other cities/States.

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In addition, the reduction in daily rental of vehicles will also result in economic hardship to the many local restaurants and shops which benefit from tourists who stop, eat and shop as they explore along the way the beauties and enjoy the many activities Hawaii has to offer.

We respectfully urge you to pass this bill as Exhibit A. Thank you for allowing us to testify.

EXHIBIT A BELOW

Report Title:

Rental motor vehicle; surcharge; surcharge tax; State Highway Fund

Description:

Extends the \$1 per day surcharge on rental motor vehicles beyond September 1, 2008 and deposits the money into the State Highway Fund. (HB3196 HD1)

HOUSE OF REPRESENTATIVES
TWENTY-FOURTH LEGISLATURE, 2008
STATE OF HAWAII

H.B. NO. 3196
H.D. 1
S.D. 2

Alamo

A BILL FOR AN ACT

RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX.

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Alamo

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Honorable Carol Fukunaga, Chair
Committee on Economic Development
and Taxation
Hawaii State Senate
State of Hawaii

Hearing: March 18, 2008, 1:15 pm., Conf. Room 224

Re: HB 3196, SD1 --- Relating To The Rental Motor Vehicle Surcharge Tax

Honorable Chair Fukunaga and Honorable Committee Members:

My name is Randy Monturi and I am the Regional Vice President with National Car Rental Company of Hawaii.

Our company supports this bill with amendment attached hereto as Exhibit A. Exhibit A is a copy of HB 3196, HD1 passed from the House to the Senate. We believe Exhibit A is a much better bill. This bill in its present form as amended by the prior Senate Committee is unfair and has problems in several respects:

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- (1) The lessor is renting the vehicle to replace a vehicle of the lessee that is being repaired; and
- (2) A record of the repair order for the vehicle is retained either by the lessor for two years for verification purposes or by a motor vehicle repair dealer for two years as provided in section 437B-16."

SECTION 2. (a) The department of transportation shall study the financial requirements of the state highway fund, with



an emphasis of the adequacy and equity of revenues generated by one or more revenues sources pursuant to section 251-2, Hawaii Revised Statutes, compared with other revenue sources contributing to or that could be contributing to the highway fund.

(b) The study may include discussions and meetings with representatives of different interest groups and present contributors of revenues to the highway fund.

(c) The study may include a review of:

- (1) Past, present, and projected revenues of the state highway fund;
- (2) The ability of the department of transportation to plan, implement, and expend funds on a timely basis;
- (3) An analysis of the actual revenue needs of the department of transportation;
- (4) Other revenue sources of the state highway fund and their nexus to the fund; and
- (5) Other governmental matching funds.

(d) The study shall include data from the 2000-2001 fiscal year to the present fiscal year and may include any data, information, or conclusions by task forces or groups that have discussed or met in the past to evaluate at least in part the



fiscal needs, revenue sources, or viability of the state highway fund.

(e) The department of transportation shall submit a final report, including proposed legislation for increasing revenue sources for the state highway fund to meet its ongoing and future needs, to the legislature no later than twenty days prior to the convening of the regular session of 2009.

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act shall take effect upon its approval.

EXHIBIT A ABOVE

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE, Make increase permanent

BILL NUMBER: HB 3196, SD-1

INTRODUCED BY: Senate Committee on Commerce, Consumer Protection and Affordable Housing

BRIEF SUMMARY: Amends HRS section 251-2 to repeal the provision reducing the \$3 rental motor vehicle surcharge tax to \$2 on September 1, 2008 and provides that the \$3 per day surcharge shall be \$_____.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: The legislature by Act 263, SLH 1991, adopted a \$2 per day tax on rental motor vehicles as part of the state administration's plan to bail out the state's ailing highway fund. This action was in contrast to a citizen's task force that had been convened in 1988 to address the looming shortfall in the state highway fund that the fuel and weight tax rates be increased as well as continuing to transfer the collections of the general excise tax imposed on the sale of fuel for highway use from the general fund to the state highway fund. This latter source of revenue provided a relatively accurate gauge of highway use given the ease of administration and compliance and represented a user-based activity charge. However, by the time the issue of sustaining the highway fund garnered the attention of the legislature in 1990, there was evidence that the state general fund finances were also in trouble following the burst of the Japanese "bubble."

Rather than beginning the process to adjust the growth of state government to available revenues, lawmakers and the administration felt it expedient to "take back" the general excise tax collected on the sale of gasoline by allowing the transfer enacted by Act 239, SLH 1985, to lapse. Given the deleterious impact the lapsing of this transfer of general excise tax revenues may have had on the highway fund and the politically difficult challenge of raising the fuel tax on gasoline, lawmakers devised the rental motor vehicle/tour vehicle surcharge tax which was enacted with Act 263, SLH 1991. Aimed primarily at visitors, the attempt was intended to make this segment of the de facto population pay a larger share of the cost of maintaining the highways. It also allowed lawmakers to avoid raising the tax on gasoline even higher than the additional five cents they adopted with the 1991 legislation.

Since the early 1980's a number of citizens' task forces have been convened to evaluate the fiscal viability of the state highway fund. In all cases, these task forces came to the conclusion that the state motor vehicle tax, fuel and weight taxes would have to be periodically increased because the per unit taxes used to fund the state highway program were based on consumption and are not inflation sensitive like the costs of repairing and maintaining the highway system.

The failing fiscal health of the state highway fund became very apparent by 1999 after the legislature began raiding the fund to pay for general fund programs. Over the years since this began, more than

\$155 million was taken from the highway fund to keep general fund programs running. The then administration revealed the projected failure of the state highway fund when it submitted its budget in 1999 which forecast that the state highway fund would be in the red to the tune of more than \$70 million by the end of fiscal year 2003. But opportunity also struck that session when the rental car industry sought approval to show out the multitude of fees and user charges imposed by the state on the industry and for concessions at the airports. In return, the industry agreed to a temporary seven-year increase in the per day rental car fee going from \$2 per day to \$3 per day. This deal is embodied in Act 223, SLH 1999, which increased the amount of the surcharge to \$3 between 11/1/99 to 8/31/07. Act 258, SLH 2007, extended the 8/31/07 sunset date to 8/31/08. This measure proposes that the rental motor vehicle and tour vehicle surcharge shall be permanently set at \$ _____ per day.

Obviously keeping the burden on non-voting visitors is politically driven especially in the wake of public complaints about the high cost of motor fuel in Hawaii. But is it necessarily the most accountable approach or for that matter transparent? Is this bill doing nothing more than hiding, if not forestalling, the problems facing the state highway fund? Does it perpetuate the inefficiencies that are inherent in a program that is entirely special-fund financed where the majority of the beneficiaries are not being asked to shoulder their fair share of the cost of operating this program?

What would highway users say if, indeed, the fuel tax rates were increased to cover the forecasted shortfalls? Would they demand more accountability from highway officials for the repair and maintenance of the state roads? Would they ask more often why highway users are being asked to pay for so much when so little seems to be done to keep the roadways in good repair? Administration officials and lawmakers may think that visitors will not notice because it is a continuance of the rate that was adopted in 1999, but what will happen when the surcharge doesn't keep up with costs and a substantial hike will be needed in the fuel tax rate regardless of these strategies?

If, indeed, the highway fund is in dire straits, then the money that was taken to supplement the general fund in the 1990's should be returned. Further, small incremental increases in the fuel tax should be undertaken to ease the burden of taxes that will be needed over time to keep the fund solvent. Consideration might be given to reestablishing the transfer of general excise taxes collected on the sale of fuel for highway use to the highway fund as those taxes are paid by highway users. While the \$3 per day rental surcharge may still be needed to balance the fund, it by no means should be the only source to be tapped as it merely postpones the day of reckoning. It should be remembered that unlike the other resources of the state highway fund, the fortunes of the motor vehicle surcharge are highly dependent on the utilization of rental cars which in turn is dependent on the fortunes of the visitor industry and the number of those visitors electing to rent those vehicles. Thus, the motor vehicle rental surcharge is the least reliable of those revenue resources available to the state highway fund.

Digested 3/17/08