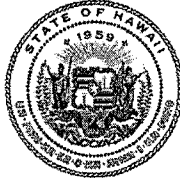


LINDA LINGLE
GOVERNOR

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
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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING SB 2501 RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX

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

DATE: FEBRUARY 12, 2008

TIME: 1:15PM

ROOM: 224

This bill extends beyond August 31, 2007 the rental motor vehicle surcharge tax of \$3 per day. This bill takes effect upon approval.

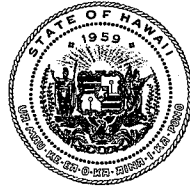
The Department of Taxation (Department) supports this measure.

Currently, there is a rental motor vehicle surcharge of \$3 per day, which will drop to \$2 per day after August 31, 2008. Extending the increase for an additional year 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. However, 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
INTERIM DIRECTOR

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

IN REPLY REFER TO:

February 12, 2008

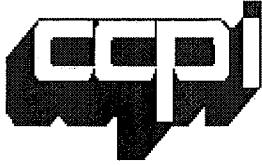
TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

SENATE BILL NO. 2501 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%.



Cement and Concrete Products Industry of Hawaii

2153 N. King St. # 327 Honolulu, HI 96819 Telephone (808) 848-7100 Fax (808) 848-2626

February 8, 2008

To: Senator Carol Fukunaga, Chair EDT Committee Members

From: Wayne Kawano, President CCPI

Subject: Written Testimony in Support of SB 2501, Relating to the Rental Motor Vehicle Surcharge Tax

In behalf of the Cement and Concrete Products Industry of Hawaii (CCPI), we are submitting this written testimony in support of SB 2501, relating to the rental motor vehicle surcharge tax.

CCPI is a non-profit trade organization, representing over 30 companies statewide. For over 43 years, CCPI has represented the local suppliers of cement, concrete, and masonry products. Our purpose is not only to promote but to also protect and advance the welfare and interests of the concrete construction industry.

Through the years, we have supported the Department of Transportation's effort to build and maintain our highway infrastructures. It is vitally important now that our aging infrastructures are properly maintained and rehabilitated on a continual basis...avoiding major and more costly repairs from neglect or 'band-aid' fixes. SB 2501 will provide dedicated revenues to help support the Highway Division's expenditures for the proper operation, maintenance and construction of our state highways. The net result will mean more effective and efficient spending of our highway funds.

Thank you for your consideration of our written testimony in support of SB 2501.

Sincerely,

Wayne Kawano, CCPI

Member Firms: Ameron International / Ameron Hawaii -Maui / BOMAT, Ltd / Con-Agg of Hawaii / GPRM Prestress, LLC / Jas. W. Glover, Ltd / Glover Honsador Kauai / Hawaii Precast Inc. / Hawaiian Cement / Hawaiian Cement Halawa / Hawaiian Cement Maui / Island Ready Mix Concrete, Ltd / O. Thronas, Inc. Ready Mix Concrete / TileCo. Inc. / Walker Industries, Ltd / West Hawaii Concrete

Associate/Affiliate Members: BASF Admixtures / Concrete Coring Company of Hawaii / Grace Pacific Corp. / Haggith's Structural Scan & Inspection / Hawaiian Dredging Construction Co. / Jensen Precast / Kincaid & Associates - Euclid Chemicals / Miyake Concrete Accessories Inc. / OK Hardware & Construction Supply / Puna Rock Co. / Simpson Strong Tie Co. / White Caps Hawaii / Wiss, Janney, Elstner & Associates Inc.



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

Senate
State of Hawaii

Hearing: February 12, 2008, 1:15 p.m., Conf. Room 224

Re: SB 2501, 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 supports this bill with the amendment proposed by Catrala Hawaii.

We urge you to follow the recommendation of your Joint Senate and House Task Force which concluded in its report to the 2008 legislature:

"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".

In keeping with this Joint Task Force Report, we urge you to temporarily extend the \$3 daily surcharge for another year and require the DOT to conduct a study and report back to the 2009 Legislature with its findings and recommendations.

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 other such destinations for a finite market of leisure travelers.

We respectfully urge you to pass this bill with amendment as recommended by Catrala Hawaii. If monies are needed for the State Highway Fund they should be raised from various sources of revenues and u-drive vehicles should not be singled out.

Thank you for allowing us to testify.

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

Hearing: February 12, 2008, 1:15 p.m., Conf. Room 224

Re: SB 2501, 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 in the form attached hereto as SD2.

Chair Fukunaga, you were a member of the Joint Senate and House Task Force which recently studied the State Highway Fund and its possible sources of revenues including the daily surcharge tax. The Joint Senate and House Task Force concluded in its report to the 2008 legislature:

"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".

Given this recent report, we are very surprised by the action taken by the Senate's CPH Committee which chose to ignore the recommendation of the Joint Senate and House Task Force. Further, the CPH Committee in taking action was relying on testimony by the DOT and a 2004 study relating to surcharges which we believe is very misleading and faulty. We are attempting to get a copy of that study.

We urge this Committee to follow the recommendations of the Joint Senate and House Task Force. In keeping therewith, the \$3 daily surcharge tax should be temporarily extended for one more year while a study is conducted by the DOT with a report and recommendations submitted to the 2009 Legislature.

In keeping with these Joint Senate and House Task Force recommendation we propose that the bill be amended as set forth in attached SD2.

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. 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 in our opinion will discourage the rental of vehicles. This in turn will reduce

overall tourist satisfaction since they will rent their vehicles for shorter periods of time, not rent the vehicles at all, or decide not to visit Hawaii.

In addition, it is our opinion that 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 travel along and explore the beauties and enjoy the many activities Hawaii has to offer.

We respectfully urge you to pass this bill with amendment as noted below. If monies are needed for the State Highway Fund they should be raised from various sources of revenues and u-drive vehicles should not be singled out.

Thank you for allowing us to testify.

A BILL FOR AN ACT

CATRALA PROPOSED SD2 TO SB 2501,SD1.

RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX.

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

SECTION 1. The purpose of this Act is to extend the rental motor vehicle surcharge tax at the rate of \$3 a day for one (1) one more year while the department of transportation conducts a study and reports back to the legislature.

SECTION 2. 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 4. (a) The department of transportation shall conduct a review and study of 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 review may include but shall not be limited to discussions and meetings with representatives of different interest groups and present contributors of revenues to the highway fund and may also include:

(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.

(c) The review shall include but not be limited to data from the 2000-2001 fiscal year to present 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.

(d) The department of transportation shall submit a final report to the legislature no later than twenty days prior to the convening of the 2009 regular session which shall include but not be limited to accomplishments, findings and proposed legislation for increasing revenue sources for the state highway fund to meet its ongoing and future needs.

SECTION 5. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION . This Act shall take effect upon its approval.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

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

BILL NUMBER: SB 2501, 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.

EFFECTIVE DATE: Upon approval

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 periodically have to be 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

SB 2501, SD-1 - Continued

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 \$3 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 2/11/08