Honorable Ryan Yamane, Chair
Committee on Tourism and Culture
House of Representatives, Hawaii

Late Testimony

Honorable Kyle Yamashita, Chair
Committee on Economic Development
And Business Concerns
House of Representatives, Hawaii

Hearing: March 17, 2008, 9:30 a.m., Conf. Room 325

Re: SB 2501, H.D. 1 --- Relating To Rental Motor Vehicle Surcharge Tax

Honorable Chair Yamane, Chair Yamashita and Honorable Joint 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 in its present H.D. 1 form.

This past summer the Department of Transportation (DOT) convened a work study forum which in part studied the financial needs of the highway fund and the future need for additional revenues. While Catrala-Hawaii participated in that study group, the work of the group is still ongoing and was not completed.

As a result when the Joint Senate and House Task Force met to study the needs of the highway fund, the DOT study group was not able to make any recommendations. The Joint Senate and House Task Force thus concluded in its report to the 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 position of the Legislative Task Force, this bill seeks to extend the $1 increase in the daily surcharge tax (keep it temporarily at $3) up until September 1, 2009 to allow the DOT Forum to complete its work and to report back to the legislature by the 2009 Regular Session.

As you know, the u-drive industry about 8 years ago was "singled out" for a "temporary" increase in the surcharge tax from $2 to $3 which was suppose to sunset back to $2 in 2008. No other vehicles subject to the surcharge taxes were increased.

In all fairness if more monies are needed for the highway fund then all sources of revenues and contributions from all vehicles who benefit from the repairs and improvements to highways need to be considered. It is not fair to "single out" just u-drive vehicles. If contributions from u-drive vehicles are to increased then it should start from the base of $2 a day and not $3 which was suppose to be temporary.

Some have reported a DOT's analysis stating the national average for surcharge taxes is $6 a day. The analysis is flawed and Catrala has pointed out errors in the analysis to the DOT. DOT has admitted the $6 figure is not substantiated. Regardless, we believe it is short sighted to use figures from other cities or States and then say Hawaii should use the same figures. Each State's and cities' circumstances are different. For example, the sales tax in Cleveland is 7.5%. Does that mean Hawaii's GET tax is low and can or should now be raised to 6% or 7%? This is what the DOT is trying to do with its short sighted analysis in our opinion. It is comparing apples and oranges. U-drive daily surcharge taxes need to be compared with cities/States who like Hawaii are dependant on tourism as its major economic industry. Further, Hawaii's tourism is direct toward families and not business travelers or gamblers like other cities.

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 since a roundtrip to Hawaii, unlike Florida, is a minimum 5,000 miles.

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 surcharge 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.

However, if further revenues are needed for the highway fund then Catrala believe such revenues should be fairly raised from all motorists who use the highways. It is our understanding that on a per capita/per mile basis u-drives in Hawaii contribute the most toward the maintenance and improvements of roadways than other States.

We respectfully urge you to pass this bill. This is a fair bill and a fair approach to trying to address the issues and problems. The original form of this bill received by the House in our opinion was unjust and flawed in several respects: 1) it did not call for a study as recommended by the Joint Senate and House Task Force; 2) it suggested a tax increase since it left the amounts blank and did not ask to maintain the status quo of $3 daily as requested by the DOT; and 3) it unfairly singles out just the u-drive industry and no other vehicles in the surcharge category or other possible contributors.

This bill in its present form is a "fair bill" that maintains the status quo as requested by the DOT but requires the DOT to recommend to the Legislature how to generate revenues from a variety of sources. Thank you for allowing us to testify.

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IN REPLY REFER TO:

LATE TESTIMONY

March 17, 2008

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

SENATE BILL No. 2501, SD2, HD1

COMMITTEE ON TOURISM & CULTURE
COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS

We support this bill with concerns.

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 bill proposes to extend the sunset date for an additional year. However, the Department of Transportation (DOT) would like to eliminate the sunset date and maintain the $3 per day surcharge on a permanent basis. This dedicated revenue would support the Highways Division's expenditures for the operation, maintenance, and construction of state highways and ensure the health of the State Highway Fund.

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 on a permanent basis, the Highways Division will need to cut its maintenance program by almost 10% in future years.

L E G I S L A T I V E

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LATE TESTIMONY

SUBJECT: RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE, Extend sunset date

BILL NUMBER: SB 2501, HD-1

INTRODUCED BY: House Committee on Transportation

BRIEF SUMMARY: Amends HRS section 251-2 to extend the sunset date of the provision repealing the $3 rental motor vehicle surcharge tax from August 31, 2008 to August 31, 2009.

Requires the department of transportation to study the financial requirements of the state highway fund, with an emphasis on the adequacy and equity of revenues generated by revenue sources pursuant to HRS section 251-2 compared with other revenue sources that could be contributing to the highway fund.

A final report, including proposed legislation for increasing revenue sources for the state highway fund to meet its needs, is to be submitted to the 2009 legislature.

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 suggested 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 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 $3 per day rental motor vehicle and tour vehicle surcharge shall be extended for another year to 2009 to allow the department of transportation to study the financial requirements of the highway fund.

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.

What this proposal represents is an avoidance on the part of both the legislature and the administration to address the issue of the fiscal crisis in the state highway fund. Both think they can get away by deferring it to another administration or perhaps another legislature. The problem with that is that when and if the problem is addressed in the future, the amount that will be needed in the way of a fuel tax rate increase, motor vehicle weight tax increase, or even the rental motor vehicle fee will be so substantial that it will be political suicidal to adopt those measures. And if the problem is not solved, Hawaii will lose multiple opportunities to secure federal matching grants to repair and maintain the state highway system.

Digested 3/17/08