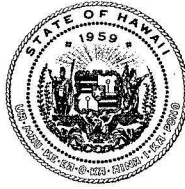


LINDA LINGLE
GOVERNOR



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:

March 10, 2008

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

SENATE BILL NO. 2501, SD2

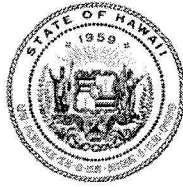
COMMITTEE ON TRANSPORTATION

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. 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%.

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
FAX NO: (808) 587-1560

HOUSE COMMITTEE ON TRANSPORTATION

TESTIMONY REGARDING SB 2501 SD 2 RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX

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

DATE: MARCH 10, 2008

TIME: 10:00AM

ROOM: 309

This legislation amends the rental motor vehicle surcharge tax to an unspecified amount.

The Senate passed this measure on third reading.

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.

Honorable Joseph Souki, Chair
Committee on Transportation
House of Representatives
State of Hawaii

Hearing: March 10, 2008, 10:00 a.m., Conf. Room 309

Re: SB 2501, SD2 --- Relating To The Rental Motor Vehicle Surcharge Tax

Honorable Chair Souki 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 and incorporated herein by reference. Exhibit A is a copy of HB 3196, HD1 on the same subject that was passed from the House to the Senate. We respectfully ask that this Committee be consistent with its past position on this bill and amend the bill so it is in the form of HB 3196, HD1 (Exhibit A attached).

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, Catrala reluctantly agrees 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.

Catrala believes the study is important since if more revenues are needed for the highway fund, all users of the roadway should be evaluated and considered as contributors for raising necessary revenues. U-drives alone should not be singled out as the only contributors. Further u-drive contributions alone will not meet the future needs of the highway funds. Thus, all possible sources of revenues should be evaluated.

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 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 with amendment. 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

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