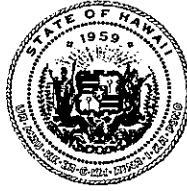


LINDA LINGLE  
GOVERNOR



**STATE OF HAWAII**  
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INTERIM DIRECTOR

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MICHAEL D. FORMBY  
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BRIAN H. SEKIGUCHI

IN REPLY REFER TO:

February 22, 2008

**TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION**

**SENATE BILL NO. 2501, SD2**

**COMMITTEE ON WAYS AND MEANS**

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%.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
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## SENATE COMMITTEE ON WAYS & MEANS

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

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

**DATE: FEBRUARY 22, 2008**

**TIME: 11:00AM**

**ROOM: 211**

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As amended by the Committee on Economic Development & Taxation, 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.

## **II. AN ADVISORY POSITION IS MORE APPROPRIATE.**

The Department of Taxation's obligations are not the drafting of proposals for tax incentives for those that hire individuals formerly incarcerated. This obligation is more appropriately left to the Department of Public Safety—the policy maker regarding the subject matter of this legislation. However, the Department is more than willing to accommodate the policy makers with technical assistance in an advisory capacity, as the Department has provided recently to the Department of Agriculture with Important Agricultural Land incentives.

The Department respectfully requests that this bill be amended to allow for the Department to serve in an advisory role only.

Honorable Rosalyn Baker, Chair  
Committee on Ways and Means  
Senate  
State of Hawaii

Hearing: February 22, 2008, at 11 am, Rm 211

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

Honorable Chair Baker 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 consistent with the findings and recommendations of the Joint Senate and House Task Force which recently studied the State Highway Fund and its future needs for revenues including but not limited to the daily surcharge tax. As stated by the Task Force:

*"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 the recommendation of this Task Force and as proposed in our amendments to prior Senate Committees the temporary \$3 daily surcharge tax should be extended for one more year while a study is conducted by the DOT with a report and recommendations submitted to the 2009 Legislature.

Further, Catrala has confirmed with the Department of Transportation that its cursory finding that the national average for surcharge taxes is \$6 a day cannot be substantiated. Thus, one of the Senate's prior committees mistakenly relied on such a study when it made a prior amendment to the bill.

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 suggested. 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 as it was in the past.

Thank you for allowing us to testify.

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## 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-2

**INTRODUCED BY:** Senate Committee on Economic Development and Taxation

**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, 2025

**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

## SB 2501, SD-2 - Continued

\$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 2/21/08

**Dollar Thrifty  
Automotive Group, Inc.**



Honorable Rosalyn Baker, Chair  
Committee on Ways and Means  
Senate  
State of Hawaii  
Rm 211

Hearing: February 22, 2008, at 11 am,

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

Honorable Chair Baker and Honorable Committee Members:

My name is Garrick Higuchi and I am the Area Manager for Dollar Rent A Car and Thrifty Car Rental in Hawaii.

We support Catrala Hawaii's position on this bill and recommended amendment which is consist with the findings and recommendations of the Joint Senate and House Task Force which recently studied the State Highway Fund and its future needs and concluded:

*"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 the recommendation of this Task Force and as proposed in our amendments to prior Senate Committees the temporary \$3 daily surcharge tax should be extended for one more year while a study is conducted by the DOT with a report and recommendations submitted to the 2009 Legislature.

Further, the Department of Transportation has admitted to Catrala that it cannot substantiate that the national average for surcharge taxes is \$6 a day per its cursory survey. Catrala pointed out errors to the DOT as to its data. One of your Senate Committee's mistakenly relied on the cursory DOT survey.

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.

We respectfully urge you to pass this bill with amendment as suggested by Catrala. 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 as they were in the past. On a per capita/per mile basis it is our understanding that u-drives in Hawaii contribute the most toward maintenance and improvements of highways than any other State in the U.S.

Thank you for allowing us to testify.

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