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Written statement of
MARSHA WIENERT
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Department of Business, Economic Development & Tourism
before the

SENATE COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS

Wednesday, January 30, 2008

2:45 p.m.

State Capitol, Conference Room 224

in consideration of
SB 3194
RELATING TO TAXATION.

Chair English and Members of the Senate Committee on Transportation and International Affairs.

The Department of Business, Economic Development and Tourism supports the intent of SB 3194, which exempts from general excise and use taxes the fuel sold for intrastate air transportation by common carriers.

In as much as we support the intent of SB 3194 and believe that the intrastate carriers should have the same exemptions in general excise and use taxes as airlines traveling out-of-state, we are concerned about the cost implications generated by this proposal.

Thank you for the opportunity to comment on SB 3194.



January 30, 2008

**TESTIMONY BEFORE THE SENATE COMMITTEE ON
TRANSPORTATION & INTERNATIONAL AFFAIRS
ON SB 3149 RELATING TO HIGHWAYS**

Thank you Chair English and committee members. I am Gareth Sakakida, Managing Director of the Hawaii Transportation Association (HTA) which has 360 transportation related members throughout the state of Hawaii.

Hawaii Transportation Association strongly supports this bill.

Our transportation infrastructure is key to our standard of living in Hawaii and key to the commercial transportation industry's ability to maintain that standard of living. Our timely deliveries provide Hawaii's citizens with everything they consume, and the only way we can accomplish that is to have a safe and well maintained infrastructure.

That infrastructure also needs vast improvements if we are to keep up our service levels into the future. The State Department of Transportation's highway revenue fund is in dire need of enhancement partly because of the transfer of monies from that fund over the years.

We have anguished over the transfer of funds from the highway fund to the general fund during the past decade of some \$155 million. While the fund is in dire straits, we do not like to pay more taxes and fees when they are NOT used for its intended purpose.

Various taxes and fees were imposed on a very specific portion of the state's population, drivers and the commercial transportation industry, with the promise that it would fund the construction and maintenance of transportation facilities. It was a promise to benefit those who paid in.

Furthermore, the general excise tax on sales of liquid fuels was a critical source of revenue for the highway fund until 1991 - or thereabouts. That loss has greatly contributed to our nearing deficit position in the fund. That fund needs this sort of infusion now.

Thank you.

L E G I S L A T I V E

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SUBJECT: GENERAL EXCISE, USE, Exempt aviation fuel

BILL NUMBER: SB 3194; HB 3255 (Identical)

INTRODUCED BY: SB by Hanabusa by request; HB by Yamane and 2 Democrats

BRIEF SUMMARY: Amends HRS section 237-24.75 and HRS section 238-3 to provide that purchases of up to \$95 million annually received from the sale of aviation fuel categorized as privileged foreign merchandise, non-privileged foreign merchandise, domestic merchandise, or zone-restricted merchandise that is admitted into a foreign trade zone under HRS chapter 212 and is made directly to or used by a common carrier for consumption or use in air transportation between the islands of the state shall be exempt from the state's general excise and use tax laws, respectively.

Further establishes a joint legislative study group to review and track the effects of this act on the local airline industry, including the profitability and sustainability of the airlines and the cost of travel and shipping to residents.

This act shall be repealed on December 31, 2010 and HRS sections 237-24.75 and 238-3 shall be reenacted in the form in which they read before the effective date of this act.

EFFECTIVE DATE: July 1, 2008

STAFF COMMENTS: Currently aviation fuel is imported and stored in Hawaii Fueling Facilities Corporation (HFFC) storage tanks. HFFC was established in 1969 to provide fuel storage and distribution to its member airlines. On September 1, 1997, the HFFC began operating under the foreign trade zone (FTZ) at the Honolulu International Airport. Fuel purchased from HFFC for use in aircraft of HFFC members is exempt from the imposition of the general excise, use, and fuel taxes since they are operating in the FTZ. When the fuel is then pumped through the HFFC's bonded fuel lines and provided to the aircraft, the fuel remains in interstate commerce and technically is outside the jurisdiction of the state and the imposition of state taxes. The current exemption from taxes for product within the FTZ but sold for consumption outside the state applies only when the consumption of such product occurs out of state when sales are made to any common carrier in interstate or foreign commerce. This proposal would extend the exemption from general excise and use taxes to fuel purchased through the FTZ which is consumed in intrastate commerce.

The purpose clause notes that the rising cost of fuel has added to the challenges of the local airlines and that the cost of the general excise and use tax exacerbate these challenges. Exempting the fuel used for intrastate air transportation would help level the playing field and create a fairer market for all airlines.

Inasmuch as the proposal calls for a sunset and a joint legislative study group to monitor the effects of the exemption, there will be the necessary oversight to insure that the savings provided by the exemption contribute to the continued viability of the interisland airline industry.

Digested 1/29/08