

SB 698

LINDA LINGLE
GOVERNOR



BRENNON T. MORIOKA
DIRECTOR

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

IN REPLY REFER TO:

February 11, 2009

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

SENATE BILL NO. 698

COMMITTEE ON TRANSPORTATION, INTERNATIONAL AND
INTERGOVERNMENTAL AFFAIRS

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Senate bill 698 proposes to increase the rental motor vehicle and tour vehicle surcharge tax. The legislation also proposes that the surcharge amount of \$3 a day be deposited into the state highway fund and any amount collected in excess be deposited into the general fund.

The Department supports the intent of this bill, but recommends amendments. We respectfully request that the rental vehicle and tour vehicle surcharge tax collected in excess of \$3 a day be deposited into the State Highway Fund in correspondence with the proposed Highways Modernization Plan. The rental vehicle and tour vehicle surcharge tax currently makes up 23 per cent of the total State Highway Fund revenues. At a time when the Highways Division is looking for new ways to generate revenues, any additional revenues will support the health of the State Highway Fund and will help ensure success of our plans to modernize our highway program.

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

**SENATE COMMITTEES ON TRANSPORTATION, INTERNATIONAL & MILITARY
AFFAIRS AND COMMERCE & CONSUMER PROTECTION
TESTIMONY REGARDING SB 698
RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 11, 2009
TIME: 1:15PM
ROOM: 224

This measure proposes to increase the rental motor vehicle surcharge tax to an unspecified amount per day for passenger vehicles and tour vehicles. This measure also directs the increase in tax to the general fund.

The Department of Taxation (Department) supports the intent of this measure; however prefers the transportation modernization priorities set forth in the Administration measure, SB 985.

Currently, there is a rental motor vehicle surcharge of \$3 per day, which will drop to \$2 per day after August 31, 2011. Increasing this tax, as provided in SB 985, will assist greatly with providing a consistent revenue stream for the State Highway Fund.

This measure; however, provides for an unspecified increase with the difference between the current tax rate and the increase being deposited to the general fund. Though the Department supports the intent of the modifications to this measure to assist with increasing revenues to the general fund, the Department prefers the increase in rental motor vehicle surcharge tax to \$5 contained in SB 985, which will result in all such revenues being deposited into the State Highway Fund in order to capitalize on federal matching dollars for the benefit of the State's transportation improvements. The Department prefers financing the State's infrastructure modernization through the rental motor vehicle surcharge tax because there is a logical nexus between the tax and the expenditures being made, namely that rental cars benefit from the transportation improvements.

The Department also prefers SB 985 because its effective date is triggered upon a predetermined amount of growth in the State's economy.

This legislation will result in an indeterminate revenue impact because the tax amounts are blank.



PHT, Inc. dba

Polynesian Hospitality

TESTIMONY IN OPPOSITION TO SB ~~698~~ 698

PHT, Inc. is opposed to any increase in the tour vehicle surcharge rate.

PHT, Inc. is a tour bus company that has been servicing the Japanese and Mainland inbound tourist market since 1972. The tourist industry is the driving economic engine for the State of Hawaii and is also the highest taxed. The tourist industry is not immune to the bad global economy and we have been suffering since 2001 with annual losses because of the declining Japanese market who are the principal motor coach users.

The future looks bleak with the mounting taxes and fees that burden the industry and the prospects of more to come with SB 1611 yet to be decided. The C&C raised the vehicle weight tax for commercial vehicles by 100% the other year which increased our cost by \$24,000 annually. If provision of SB 1611 is passed, the cost to our organization will be approximately \$16,000 annually. Last year we lost more than \$100,000 and this year will probably be worst; so the impact of the proposed fee increases is substantial. We had to increase our prices to our customers by 10% effective April 1 just to cover the anticipated decline in business from last year. Fortunately, fuel prices have decline but are inching upwards. At the height of the oil price speculation, our diesel cost went to approximately \$5 a gallon, wholesale, double the previous average cost for the year before. However, other expenses soared because of the high fuel cost and most of those expenses have not declined as fuel prices declined.

It's difficult to attract tourist to Hawaii with cost increasing 10% per year (as have been the case since 2001). The roads are deteriorated and competition from the city buses has increased substantially because of the federal subsidies and city taxes. Now we are being taxed to support the rail system that will take more business away from us and the private transportation industry. When does this all end?

Please do not increase the vehicle surcharge fee rates.

Sincerely,
Lawson S. Teshima
Secretary-Treasurer



Wednesday, February 04, 2009

Testimony in OPPOSITION of SB 698
Room 224
2/11/2009 1:15PM

Aloha Chairperson & members of the committee:

My name is Marc Rubenstein. I am the Vice President and General Manager of Royal Star Hawaii, a tour bus company operating approximately 40 vehicles on the island of Oahu.

I'm testifying in OPPOSITION to of this bill.

The trend in overall visitor industry arrivals is in DECLINE. We are trying to cover higher and higher operating costs (wages, benefits, & insurance for example), with decreasing revenues.

Raising taxes in a recession is completely ludicrous. The Legislature should not be increasing taxes now, it should be looking for ways to give us tax RELIEF, so we may grow our business & the economy.

Sincerely,



"Oahu's Deluxe Motorcoach Charter Service"
5 Sand Island Road #121 • Honolulu, Hawaii 96819
PH: (808) 841-STAR (7827) • FAX: (808) 832-5574 • PUC 1505-C • www.royalstarhawaii.com



avis budget group

Honorable J. Kalani English, Chair
Committee on Transportation, International
and Government Affairs
Hawaii State Senate

Hearing: February 11, 2009

Re: SB 698 RELATING TO THE RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE TAX

Chair English and Honorable Committee Members:

My name is Martin Mylott and I am the Hawaii Regional Manager with Avis & Budget Rent A Car Hawaii.

We support Catrala-Hawaii's opposition and position on this bill.

This is not a time to raise any taxes especially those relating to our u-drive industry and tourist related activities. Our industry is already suffering and we've had to lay off workers and cut back on expense like many tourist-related businesses. As you know a major u-drive company recently filed for bankruptcy. Raising taxes, fees and surcharges for rental vehicles only discourages travel to Hawaii and makes it more difficult for tourists to enjoy the wonders of Hawaii through use of their rental vehicles.

Further, the current temporary surcharge tax at \$3 daily is already higher than similar competing tourist destinations such as Florida which has a \$2 daily surcharge tax. It is critical that Hawaii not be publicized as a tourist destination that targets tourists with high fees and taxes.

Still further, as a public policy we do not believe it is fair or prudent to tax u-drive or tour vehicles for monies to be placed into the general fund.

Finally, the car rental industry alone was singled out when the tax was temporarily raised to \$3 and the Hawaii Department of Transportation has yet failed to complete a study as to how to fairly generate necessary revenues for the highway fund. Per SB 2365 passed last session, the DOT was supposed to complete such a study and submit it to this Legislature prior to the start of 2009 Legislative session. This study to our knowledge has not been completed.

Please do not raise taxes as proposed by this bill. Thank you for allowing us to testify.

Avis Budget Group
Hawaii Regional Office
3375 Koapaka Street, Suite B203
Tel: 808/840-2847 • Fax: 808/836-7803

AVIS.

Budget



544 Ohohla Street
Honolulu, HI 96819
808-936-0130
www.enterprise.com

Honorable J. Kalani English, Chair
Committee on Transportation, International and Government Affairs
Hawaii State Senate

Hearing: February 11, 2009

Re: SB 698 RELATING TO THE RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE TAX

Chair English and Honorable Committee Members:

My name is Paul Kopel and I am the Vice President and General Manager of Alamo Rent A Car, Enterprise Rent-A-Car and National Car Rental in Hawaii. In total, we employ more than 806 employees in 34 branch offices throughout Hawaii. On an average year, we purchase close to 3000 vehicles from Hawaii dealerships each year.

We support Catrala-Hawaii's opposition and position on this bill. We are very much a local business. We employ local residents...generate and pay millions in taxes...and support many fair-minded efforts to drive prosperity for our great state. We do this because this is our state...our community...it is where we live and work.

As the rental car industry and the broader automobile industry react to unprecedented challenges in our economy, it bothers me deeply that the legislature would play a part in picking winners and losers by targeting customers of one industry to close gaps in the budget. The rental car industry is already suffering: we have laid off employees and reduced our fleets. One of the major companies has already filed for bankruptcy.

Raising taxes and fees for rental cars will only discourage travel to Hawaii and make it more difficult for visitors and local residents to get around on our islands. Further, the current temporary surcharge tax at \$3 daily is already higher than similar competing tourist destinations such as Florida which has a \$2 daily surcharge tax. It is critical that Hawaii not be publicized as a tourist destination that targets tourists with high fees and taxes.

As a public policy, we do not believe it is fair or prudent to tax u-drive or tour vehicles for monies to be placed into the general fund. If policy makers decide public funds are required to pay for something that will provide a greater good to the community; good tax policy should spread the burden of that cost to everyone in the community. This proposed tax plan places too heavy a burden on a limited number of people, many of them being local residents.

Finally, the u-drive industry alone was singled out when the tax was temporarily raised to \$3 and the Hawaii Department of Transportation has yet to complete a study as to how to fairly generate necessary revenues for the highway fund. Per SB 2365 passed last session, the DOT was supposed to conduct such a study and submit it to this Legislature prior to the start of 2009 Legislative session. This study to our knowledge has not been completed.

Please do not raise taxes as proposed by this bill. Thank you for allowing us to testify.


Paul Kopel



Fueled By Passion

Honorable J. Kalani English, Chair
Committee on Transportation, International
and Government Affairs
Hawaii State Senate

Honorable Rosalyn Baker, Chair
Committee on Commerce and Consumer Protection
Hawaii State Senate

Hearing: February 11, 2009

Re: SB 698 RELATING TO THE RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE TAX

Chairs English and Baker and Honorable Committee Members:

My name is Michael Oh and I am the Chair of the legislative committee for Catrala-Hawaii. Catrala's membership consists of the major u-drive companies in Hawaii and the many businesses which support our industry.

Catrala is opposed to this bill.

This is not a time to raise any taxes especially those relating to our u-drive industry and tourist related activities. Our industry is already suffering and we've had to lay off workers and cut back on expense like many tourist-related businesses. As you know a major u-drive company recently filed for bankruptcy. Raising taxes and fees and surcharges for rental vehicles only discourages travel to Hawaii and makes it more difficult for tourists to enjoy the wonders of Hawaii through use of their u-drive vehicles.

Further, the current temporary surcharge tax at \$3 daily is already higher than similar competing tourist destinations such as Florida which has a \$2 daily surcharge tax. It is critical that Hawaii not be publicized as a tourist destination that targets tourists with high fees and taxes.

Still further, as a public policy we do not believe it is fair or prudent to tax u-drive or tour vehicles for monies to be placed into the general fund.

Finally, the u-drive industry alone was singled out when the tax was temporarily raised to \$3 and the Hawaii Department of Transportation has yet failed to complete a study as to how to fairly generate necessary revenues for the highway fund. Per SB 2365 passed last session, the DOT was supposed to complete such a study and submit it to this Legislature prior to the start of 2009 Legislative session. This study to our knowledge has not been completed.

Please do not raise taxes as proposed by this bill. Thank you for allowing us to testify.



JACK'S TOURS

737 Kanoelehua Avenue, Hilo, Hawaii 96721
Phone: (808) 961-6666

SB 698

**RELATING TO THE RENTAL MOTOR VEHICLE
AND TOUR VEHICLE SURCHARGE TAX**

Senate Committee on Transportation, International and Government Affairs
Senate Committee on Commerce and Consumer Protection
Joint Public Hearing - February 11, 2009
1:15 p.m., State Capitol, Conference Room 224

Submitted by
Jeff Miyashiro, President, Jack's Tours., Inc.

On behalf of Jack's Tours, Inc, this written testimony is being submitted in opposition to SB 698.

Jack's Tours, Inc. is a motor carrier operating on the Big Island of Hawaii. We currently operate forty two (42) vehicles including motor coaches, minibuses, vans and limousines that are subject to the tour vehicle surcharge.

We oppose SB 698 as any increase in the tour vehicle surcharge at this time would create an undue financial hardship on motor carriers already suffering from the significant downturn in our visitor industry. The current economic downturn is one of the worst, if not the worse, our visitor industry has experienced to date. As a result of the decrease in visitor arrivals to Hawaii, our revenue levels have declined significantly by an average of nearly twenty five percent (25%) per month since June of last year. In addition, the Department of Business, Economic Development and Tourism (DBEDT) is projecting an even further decline in overall arrivals for 2009.

The economic downturn has necessitated that we institute drastic measures to cut our expenses including instituting employee layoffs, reducing employee benefits, and implementing comprehensive cost reduction measures. Increasing the tour vehicle surcharge at this time would only worsen the financial hardship faced by motor carriers in our position.

The current application of the tour vehicle surcharge also imposes a heavy and undue financial burden on motor carriers during periods of economic downturn because the flat fee charged per vehicle does not bear a

Jack's Tours, Inc. Testimony
February 11, 2009
Page 2

direct correlation to the actual frequency of vehicle usage. During slow periods, our vehicle utilization rates decline significantly. For example, in previous months, there were several vehicles in our fleet that were utilized on only one or two days for the entire month, but yet we were required to pay the full surcharge amount irrespective of actual vehicle usage. To avoid using these vehicles, we would have had to have turned away business which is not an option during slow periods and in light of our relationship with our long term customers.

There are also situations in which a vehicle may be out of service for repairs for most of the month but yet the current law requires the payment of the entire amount of the surcharge. For example, if one of our vehicles were to break down while on tour on March 1st and remain out of service for repairs for the remaining thirty days of the month, the current law requires us to pay the full surcharge amount regardless of the fact that the vehicle was unavailable and not used for the remainder of the month.

Assessing the full surcharge amount under these circumstances imposes a significant financial burden on motor carriers especially during periods of economic downturn. From a policy standpoint, changing the application of the surcharge to correlate with the actual frequency with which the vehicle was used on State highways and a motor carrier's business levels represents a more equitable approach.

Based on the above, we oppose any increase to the tour vehicle surcharge. In the event an increase is imposed, we would respectfully request that the serious economic hardship to motor carriers be considered and that the surcharge be assessed based on the actual frequency of vehicle usage.

Thank you for the opportunity to present this written testimony.

Respectfully submitted,

Jeff Miyashiro
President
Jack's Tours, Inc.
737 Kanoelehua Avenue
Hilo, Hawaii 96720



**ROBERTS
HAWAII**

February 10, 2009

ROBERT'S HAWAII

680 IWILEI ROAD, SUITE 700

HONOLULU, HI 96817

TESTIMONY IN OPPOSITION TO SB 698

SENATE COMMITTEE ON TRANSPORTATION, INTERNATIONAL & INTERGOVERNMENTAL
AFFAIRS and the SENATE COMMITTEE ON COMMERCE & CONSUMER PROTECTION

February 11, 2008, 1:15 p.m.

Hawaii State Capitol, Room 224

RE: SB 698 Relating to the RENTAL MOTOR VEHICLE AND TOUR VEHICLE
SURCHARGE TAX

Chairs English and Baker, Committee Members:

My name is George Kahanu, Jr. I am project manager of Robert's
Hawaii. On behalf of one of the organization's subsidiaries -
Robert's Tours and Transportation, Inc. ("Company") - I am submitting
testimony in opposition to SB 698 which amends Section 251-2,
subsection (b), Hawaii Revised Statutes by eliminating the present
tour vehicle surcharge taxes of \$65 for each tour vehicle in the over
twenty-five passenger seat category and \$15 for each tour vehicle in
the eight to twenty-five passenger seat category. We presume that

this amendment opens the door to future increases in both categories.

The years 2007 and 2008 were particularly difficult times for the Company due to declines in revenues caused by the reduction in the numbers of both Eastbound and Westbound visitors. And from all current indications, 2009 will top 2008 in the reduction in the number of visitors to Hawaii.

Therefore this is not the time for a tax increase - although, from the Company's stand point, no time is the right time for tax increases - now is definitely not the time. The tour vehicle surcharge tax is a tax that cannot be passed on, and therefore must be borne by the Company¹. Any tax increase added to the \$11,000 to \$13,000 per month² that the Company already pays, coupled with the reduction in revenue described above will place a tremendous financial strain on the Company and its 1400 employees and their families as it moves forward in 2009.

If the intent of the amendment to Section 251-2, subsection (b), Hawaii Revised Statutes is to allow for future increases in the tour

¹ The U-Drive companies are able to pass on their share of the Rental Motor Vehicle Surcharge Tax to its customers. Under the present structure - a monthly charge per vehicle - the tour transportation companies are not in a position to pass on the Tour Vehicle Surcharge Tax.

² For 2008 the Company paid \$136,995 in tour vehicle surcharge taxes. For 2007 the Company paid \$136,885.

vehicle surcharge tax, we ask that SB 698 be killed.

Thank you,

ROBERT'S HAWAII



George Kahanu, Jr.

Project Manager

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE, Increase tax; disposition for general fund

BILL NUMBER: SB 698

INTRODUCED BY: Tsutsui and 6 Democrats

BRIEF SUMMARY: Amends HRS section 251-2 to increase the rental motor vehicle surcharge from \$3 to \$____; provided that any amount collected in excess of \$3 shall be deposited into the general fund. The rental motor vehicle surcharge tax imposed on tour vehicles with over 25 passengers shall be increased from \$65 to \$____, with any amount collected in excess of \$65 deposited into the state general fund. The rental motor vehicle surcharge tax imposed on tour vehicles with eight to 25 passenger seats shall be increased from \$15 to \$____, and any amount collected in excess of \$15 shall be deposited into the general fund.

EFFECTIVE DATE: July 1, 2009

STAFF COMMENTS: It appears that this measure is proposed to generate additional revenue for the state's general fund since any increased revenues, as a result of the increase in the rental motor vehicle and tour vehicle surcharge taxes, will be deposited into the state's general fund. While the adoption of this measure would bolster the state's general fund, it should be remembered that the state highway fund will be insolvent unless additional funds are found.

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 problem 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? Since this resource is highly dependent on the use of rental vehicles, its fortunes will rise and fall with the visitor industry - which at the moment is forecasted to remain the dumps until at least 2010.

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?

Since 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 and 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.

Digested 2/10/09



LATE

February 11, 2009

**TESTIMONY BEFORE THE SENATE COMMITTEES ON
TRANSPORTATION, INTERNATIONAL AND INTERGOVERNMENTAL AFFAIRS
AND COMMERCE AND CONSUMER PROTECTION
ON SB 698 RELATING TO THE RENTAL MOTOR VEHICLE AND
TOUR VEHICLE SURCHARGE TAX**

Thank you Chair Enlish, Chair Baker, and committee members. I am Gareth Sakakida, Managing Director of the Hawaii Transportation Association (HTA) which has 380 transportation related members throughout the state of Hawaii.

HTA opposes this bill.

Unlike the rental motor vehicle surcharge tax which is based on productivity, the tour vehicle surcharge tax is based on the existence of a vehicle rather than its' productive use.

In recent years the tour vehicle segment of the industry has suffered greatest in Hawaii transportation. The two largest markets for tour vehicles, especially the tour buses, are the Japanese and the cruise markets. The Japanese market has been on a general descent for some time now and the cruise market has skidded badly in 2008 with the departures of the Pride of Hawaii and Pride of Aloha.

Summary of visitor statistics

(NOTE: 2006 was a record breaking year for the visitor industry overall) :

<u>Year</u>	<u>Total visitor days vs. the previous year</u>	<u>Japanese Market</u>	<u>Total visitor spending vs. the previous year</u>	<u>Japanese Market</u>
2003	+3.0%	-11.1%	+4.7%	-10.4%
2004	+6.8%	+8%	+5.0%	-3.0%
2005	+6.9%	+1.1%	+8.4%	- 0.0%
2006	- 0.3%	-10.7%	+2.9%	- 6.5%
2007	-1.6%	-2.2%	+0.9%	- 1.2%
2008	-9.1%	- 9.7%	- 9.9%	- 3.1%

For 2009, visitor arrivals and visitor days are projected to decline 1.9% and 1.7%, respectively, while visitor expenditures are forecast to increase 0.7% from 2008. Our members have experienced reductions ranging between 9% and 25% in 2009 so far.

The Japanese market will have a difficult time rebounding as Japan Airlines is raising the airfare again on or about April 1 and/or further reducing capacity. Furthermore, Japan's economy is being hit to the extent that Toyota completely closed down in Japan to match production and inventory.

This illustrates how badly business for the tour vehicle segment has been, and is expected to be, impacted.

As already mentioned, the tour vehicle surcharge is based on the existence of a vehicle rather than its' productive use. Basing the surcharge on the number of days a vehicle is used would make it more productivity based, and make it easier to determine tariff adjustments.

Thank you.