

SB 698



March 3, 2009

**TESTIMONY BEFORE THE SENATE COMMITTEE ON WAYS & MEANS  
ON SB 698 SD1 RELATING TO THE RENTAL MOTOR VEHICLE AND  
TOUR VEHICLE SURCHARGE TAX**

Thank you Chair Mercado Kim, 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.



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Honorable Donna Mercado Kim, Chair  
Committee on Ways and Means  
Hawaii State Senate

Hearing: March 3, 2009

Re: SB 698,SD1 RELATING TO HIGHWAYS

Chair Kim and Honorable Committee Members:

My name is Paul Kopel and I am the V.P./General Manager with Enterprise Rent A Car.

We join Catrala-Hawaii in opposing S.B. 698, SD1, and in expressing our concerns about this bill.

S.B. 698, SD1 increases the rental motor vehicle and tour vehicle surcharge tax to an unspecified amount. Enterprise opposes this proposed increase. U-drives in the recent past (at the temporary \$3 rate) have been contributing about \$40 million dollars a year. We believe that this is enough, given the usage by such vehicles and the fact that u-drive owners already pay taxes and fees on u-drive vehicles like other owners.

Also, of the total fees collected from surcharge taxes, it is our understanding that about 99% of the total surcharge taxes collected are from u-drive companies. We do not believe it is fair that we are bearing such a disproportionate amount of the surcharge taxes.

The need for increased funding appears in part to be due to the Administration's modernization program. This modernization program is the subject of S.B. 1611, SD1, which is also scheduled for decision making on Tuesday, March 3, 2009. We are submitting separate comments on S.B. 1611, SD1, expressing our concerns about the modernization program, and we respectfully request that you consider those concerns in light of our objections to the increase in the rental motor vehicle surcharge tax in S.B. 698, SD 1.

In view of the foregoing, we support Catrala's opposition to this bill. We believe u-drive vehicles are presently contributing more than their fair share to the State, and raising fees and taxes will only adversely affect the industry and Hawaii's tourism. Thank you for allowing us to submit our comments on this measure.

A handwritten signature in black ink, appearing to read "Paul H. Kopel".

Paul Kopel  
V.P./General Manager



3103 N. Nimitz Highway, Ste A

Honolulu, HI 96819

Honorable Donna Mercado Kim, Chair  
Committee on Ways and Means  
Hawaii State Senate

Hearing: March 3, 2009

Re: SB 698,SD1 RELATING TO HIGHWAYS

Chair Kim and Honorable Committee Members:

My name is Chris Sbarbaro and I am the V.P. of Rental with National Car Rental.

We join Catrala-Hawaii in opposing S.B. 698, SD1, and in expressing our concerns about this bill.

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A handwritten signature in black ink, appearing to read "CS", written over a horizontal line.

Chris Sbarbaro  
V.P. of Rental



3103 North Nimitz Highway  
Honolulu, HI 96819

Honorable Donna Mercado Kim, Chair  
Committee on Ways and Means  
Hawaii State Senate

Hearing: March 3, 2009

Re: SB 698, SD1 RELATING TO HIGHWAYS

Chair Kim and Honorable Committee Members:

My name is Dave Wilson and I am the Regional Fleet Manager with Alamo Rent A Car.

We join Catrala-Hawaii in opposing S.B. 698, SD1, and in expressing our concerns about this bill.

S.B. 698, SD1 increases the rental motor vehicle and tour vehicle surcharge tax to an unspecified amount. Enterprise opposes this proposed increase. U-drives in the recent past (at the temporary \$3 rate) have been contributing about \$40 million dollars a year. We believe that this is enough, given the usage by such vehicles and the fact that u-drive owners already pay taxes and fees on u-drive vehicles like other owners.

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A handwritten signature in black ink, appearing to read "D. Wilson", is written over a horizontal line.

Dave Wilson  
Regional Fleet Manager

Honorable Donna Mercado Kim  
Committee on Ways and Means  
Hawaii State Senate

Hearing: March 3, 2009

Re: SB 698, SD1 RELATING TO HIGHWAYS

Chair Kim 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 the industry.

Catrala is opposed to this bill which in part seeks to apparently increase the daily u-drive surcharge tax from the temporary amount of \$3 daily to something higher to raise additional funds from the highway fund or DOT's proposed modernization project. As you know, Catrala Hawaii has repeatedly asked for a fair and comprehensive study to see how needed funds for the highway fund should be raised from all users of the roadways and not targeting u-drive vehicles. To date such a comprehensive study involving all stakeholders has not been done.

Many years ago this section of the law came out of conference committee deliberations with no public testimony we are aware of. Somehow the current fees were decided. As a result, u-drives not only pay fees and taxes on their vehicles like other owners but also pay a "daily surcharge tax". By recent reports the current tax (already temporarily increased by 50% from \$2 daily to present \$3 daily) reportedly generates \$40 million dollars a year for the highway fund. Isn't this enough from u-drives? Why not? Shouldn't a fair study be done to see if this is enough?

Further, in this category of surcharge taxes the amounts were apparently arbitrarily determined so u-drives pay about 99% of all the surcharge taxes collected in this category of taxes. Is this fair? How was this determined?

A fair and comprehensive study needs to be done to decide how all users of our roadways should fairly contribute. Targeting tourists is bad for Hawaii's economy and tourism especially during these dire economic times. Florida as a major competing tourist destination (which does not require minimum travel of 2,500 miles) has a daily surcharge tax of \$2 daily. Hawaii is already 50% higher at the temporary rate of \$3 daily.

Unfair Tax Increase Targeting U-Drive Industry. As stated, this is obviously an unfair tax increase that is targeting our industry and will have a serious negative impact on our businesses. What other tourist-related industry's taxes are being raised by 50% or more as apparently intended by this bill? What other taxes are being raised by 50% or more?

Negative Impact On Tourism, Economy and Satisfactory Hawaii Vacation. Further such a tax increase will have a negative impact on tourists that typically visit Hawaii for an average 10 days or longer and use their vehicles to enjoy the advertised splendors of Hawaii while they also shop and eat at

many local restaurants and shops. Such local businesses will suffer. Further, U-drive vehicles give our visitors the freedom to explore and enjoy Hawaii according to their individual schedules and as many times as they want.

Millions Promoting Tourism But Raising Taxes Targeting Tourists. While Hawaii is spending extra millions of dollars trying to promote tourism. It should not be significantly raising taxes targeting tourists especially during these dire economic times.

Hawaii's U-drive Industry Is Struggling With Bankruptcy, Layoffs and Cutbacks. One major u-drive company in Hawaii recently closed and filed for bankruptcy. Stock trading values for many u-drive companies are at all time lows. Other companies have had to cut-back on staff, inventory of vehicles and other expenses to weather the same economic crises that is being faced by hotels and other sectors of our tourist industry. This is not a time to be raising taxes affecting the u-drive industry.

Surcharge Taxes Higher Than Competing Tourist Destinations. Florida is one of Hawaii's major competing tourist destinations and the surcharge tax in Florida is \$2 daily (Hawaii is temporarily higher at \$3 daily). For a fair comparison of such taxes, one needs to use "competing family leisure destinations with no gambling" such as Florida and not other destinations that have such attractions or are hub cities with many business travelers (typically 1 – 2 day rentals) where expenses are paid for by businesses and taken as a tax deduction. It's important you not compare apples with oranges. Certainly you would not compare Hawaii's sales tax with the sales taxes of other cities which are much higher. Please let's compare apples with apples and not apples with oranges. The daily surcharge tax for competing tourist destinations is not \$7 to \$12 daily as some are reporting to you. There is no credible study that supports this. This is a very dangerous statement for people to make given the significant role u- drives play in the tourist industry. Further, visitors need to travel a minimum of 2,500 miles to visit Hawaii unlike competing destinations. Even further as reported in the news, many tourists given these recessionary times are opting to take vacations closer to home because of expenses and budget constraints. So why are we targeting tourists with higher taxes?

U-drives Already Significant Contributors to Highway Fund. As stated, at the temporary \$3 daily amount, u-drives have been contributing about \$40 million a year into the highway fund. This is in addition to the taxes and fees also being paid on u-drive vehicles like other owners of vehicles. An extra \$40 million each year is certainly significant. Where is the justification that tourists should be paying more to use our roadways and highways each year? Isn't an extra \$40 million a year adequate? Why not?

U-drives Also Significantly Contributing To Our Economy. The u-drive industry pays concession fees in excess of \$30 million a year to Hawaii's public airports but get little or nothing in return. These fees of \$30 million a year have typically gone to pay for airport projects and to keep landing fees low which benefit the airlines and Hawaii's economy by lower airline tickets. Isn't \$30 million a year significant contribution by the u-drive industry? For your information, u-drives and other airport concession over the years have paid more than 50% of the airports operating revenues and have generated hundreds of millions in surplus funds that have been spent and benefited the airlines and other users of the airports. Do other users of our public roadways contribute \$30 million dollars to our public airports for which they get little or no benefit?

U-drives Have To Pay For Own Airport Improvements. In spite of contributing over \$30 million a year to airport revenues the u-drives requests for airport improvements have not been accommodated.



As a result and so Hawaii can service its visitors like many other airports, the u-drive industry had no choice but to ask the legislature last session to pass a CFC measure. The present \$1 daily CFC fee added to airport rentals is expected to rise to \$4 daily or more to pay for airport improvements at our public airports to be constructed in the next few years. Planning and design is already taking place per legislative pass funding. These projects in addition to enhancing Hawaii's image as a major tourist destination with comparable u-drive services, will also serve to stimulate our economy with needed jobs for our construction industry and many related businesses.

Hawaii A Tax Hell For Tourists. With a daily surcharge of \$5 daily as proposed in this bill and with CFC fees of over \$4 daily to pay for airport improvements, the cost to rent a u-drive vehicle at our public airports and payment of other fees will be in excess of \$10 daily. This is obviously too much and will give the various promoters of competing tourist destinations to inform travelers that Hawaii is a tax hell that targets tourists. Is this the reputation that Hawaii wants?

Industry Targeted With No Basis. As mentioned, when the surcharge tax was imposed many years ago, it was a tax that apparently come out of conference committee with no basis or study to support such taxes. It was simply imposed on u-drives and tour vans and buses with no justification or explanation. Of the total surcharge dollars collected u-drives contribute an estimated 98% plus of all monies.

Summary. In view of the foregoing we are opposed to increasing the u-drive surcharge taxes.

Honorable Donna Mercado Kim, Chair  
Committee on Ways and Means  
Hawaii State Senate

Hearing: March 3, 2009

**Re: SB 698, SD1 RELATING TO HIGHWAYS**

Chair Kim and Honorable Committee Members:

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

We support CATRALA-Hawaii's opposition and concerns about this bill.

Repeatedly the car rental industry has asked for a fair and a comprehensive study to fairly raise taxes and fees from users of our highways and roadways. In spite of repeated requests such a credible study has not been done to date. Why not? Further, surcharges are suppose to go into the highway fund and that has not always been the case. Should monies removed (by some estimates \$150 million) be returned before taxes and fees are raised?

As you know, there is no credible basis for the current surcharge tax which suddenly emerged from conference committee many years ago without public discussions from what we are told. How was the surcharge amount for tour vans and vehicles determined? Are the amounts fair? Car rental companies in the recent past (at the temporary \$3 rate) have been contributing about \$40 million dollars a year. Isn't this enough given the usage by such vehicles and the fact that car rental owners pay taxes and fees on car rental vehicles like other owners? Why isn't \$40 million a year adequate?

Also, of the total fees collected from surcharge taxes why is about 99% of the total surcharge taxes collected from car rental companies? How was this determined? Is this fair?

The need for increased funding appears in part to be due to the Administration's modernization program. Please consider our concerns about the program as expressed in our testimony below regarding SB 1611, SD1.

"Our concerns are as follows: 1) this is a very expensive project with questionable future funding. Will the next Administration and Legislature be saddled with it? Can

we afford this? What are we getting ourselves into? 2) this appears to create a new program separate and apart from the existing highway program, why are we doing so? There are sufficient projects in the current highway program with priorities that can simply be expedited (shovel ready per President Obama) with more funding depending on what is affordable now and in the future. Who knows what is truly affordable years from now; 3) this bill sets forth priorities which could likely change over time and perhaps conflict with priorities in future highway programs. Why are creating such potential conflicts; 4) Why are creating confusion in having the general public understand the clear priorities of the State Highway program which over time may conflict with the priorities of the proposed modernization program which different segments of our community may disagree with now and in the future; 5) the Department to date has not conducted a fair and reasonable study involving all stockholders being asked to fund this program although the legislature as asked them to conduct such a study. Where is the credible study that fairly shares the burden among all highway users? Further, the proposed funding targets the car rental industry and tourism which is our major economic engine. The repercussions of such targeting will be left to the future Administration and Legislature. Is this prudent? Why not pay as we go and what we truly need and can afford with possible federal assistance now and in the future? Do we know what the federal support will be in the future along with federal requirements; 5) If the daily surcharge tax of \$5 daily (estimate additional revenues of \$32 million annually) is truly being deleted from this bill and support of the programs in this bill then what projects proposed in this bill are being deleted?

Raising the "daily" surcharge tax to \$5 daily as proposed as a funding source for this program (whether originally in this bill or now separately in SB 698) will result in Hawaii being the highest such tax in the United States for similar competing tourist destinations. Is this what we want? Why are we doing this especially during these times? There are no credible studies that say this is not so even based on our review of DOT's information which is misleading and not credible as well as any other information provided to us to date. If you have such information please provide it to CATRALA. This makes no sense. You would not raise Hawaii's TAT tax to the highest in the United States so why for car rental vehicles? Florida's daily surcharge tax for car rentals is \$2 daily. Will competitors point to the daily surcharge tax and identify Hawaii as a tax and fee hell for tourists? Is this what we want? Don't you expect our competitors to say that? Hawaii should be at the same \$2 rate as Florida (most travelers don't need to travel a minimum 2,500 miles to get to Florida like Hawaii) but Hawaii is temporarily already 50% higher at the temporary rate of \$3 daily. This is a 50% tax increase that the Legislature imposed in the past (and which temporarily continues) without raising other surcharge taxes or other fees and taxes.

At the temporary \$3 daily tax the car rental industry has been contributing \$40 million dollars a year into the highway fund over and above other fees and taxes being paid on car rental vehicles like all other owners of vehicles. Isn't this enough? Why isn't an extra \$40 million a year from tourists (and local residents using car rental vehicles) enough? Where is the study that says it is not enough?

In addition, the car rental industry in the past has been paying in excess of \$30 million dollars a year to the airport special fund and monies have been used to help keep landing fees low and provide various airport improvements but not major improvements for car rental operators. Thus the CFC bill was passed by the legislature last year at the request of the industry since that was the only way to get necessary airport improvements like other competing destinations. While the CFC fee is at \$1 daily, this fee is likely to rise to \$4 or more "daily" to pay for car rental projects at our public airports. Such projects now in the works will seek to stimulate our economy and provide jobs while providing long overdue improvements requested by the car rental industry so Hawaii has facilities similar to other airports.

As you can see with the proposed \$5 increase in surcharge tax and future CFC increase to fund government projects of \$4 daily and existing fee and charges, CATRALA estimates that about one-third of the average daily cost of rental a vehicle will go to such fees and charges. With the reported average stay of 10 days for tourists this will be a significant increase in their costs of their visit to Hawaii. So why come to Hawaii if it so expensive to rent a vehicle and visit all of the wonderful advertised sites at your leisure and own schedule. Why advertise such sites if it is too costly to see them?

Recent studies show that Hawaii's tourist satisfaction has been dwindling in recent years. These increased costs and charges for car rental vehicles will obviously not help matters.

Finally, the estimated costs for Hawaii's driver is estimated at only \$170 a year since politically the Administration is targeting car rental vehicles as a major source of funds. In addition such costs are likely to increase in future years. Such added costs will be affect car rental companies and this will obviously increase the cost of doing business and likely result in increased rental fees and charges. In Hawaii it is estimated by CATRALA that there are 40,000 to 70,000 car rental vehicles service the needs of Hawaii's visitors and residents. At a minimum of \$170 per vehicle plus suggested \$5 daily surcharge tax plus future CFC fee of \$4 daily in the near future the burdens being place on our industry are staggering especially during these dire economic times.

As reported and should be understood by all, our industry is struggling. Our business levels are down similar to the hotels and companies have reported lay off of workers and cut backs on expenses and inventory.

Given the foregoing and while the bill's programs are admirable, we do have concerns about its approach, present form and proposed funding which burdens the future legislature and administration and unfairly targets the car rental industry and tourism. Thank you for considering our testimony. "

In view of the foregoing, we support CATRALA's opposition to this bill since to date and in spite of repeated requests there has yet to be a fair and comprehensive study as to how to raise monies from users of our roadways and highways. We believe car rental vehicles are presently contributing more than their fair share and raising fees and taxes will adversely affect the industry and Hawaii's tourism. Thank you for allowing us to testify.