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STATE OF HAWAII
DEPARTMENT OF TAXATION
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INTERIM DIRECTOR OF TAXATION

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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 444 RELATING TO TAXATION

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)
COMMITTEE: EEP
DATE: FEBRUARY 1, 2011
TIME: 8AM
POSITION: SUPPORT INTENT; CONCERNED WITH COST

This measure proposes to exempt rentals of electric vehicles from the rental motor vehicle surcharge tax.

The Department of Taxation (Department) supports the intent of this policy; however has concerns regarding the revenue loss.

SUPPORT FOR ALTERNATIVE ENERGY TRANSPORTATION—The Department recognizes the importance of this legislation because this bill provides an attractive incentive that serves as another step in the right direction for minimizing Hawaii's dependence on fossil fuels. The Department recognizes the importance of Hawaii's energy independence and strongly supports to that effect.

AMEND THE DEFINITION OF ELECTRIC VEHICLE—The Department points out a technical issue with this measure. The bill exempts "electric vehicle[s];" however provides a definition of "electric motor vehicle[s]." The term needs to be the same.

Also, the Department would prefer a more precise definition. This definition uses the phrase "to a significant extent," which is subject to vast interpretation. The Department suggests using the definition of "qualified

electric vehicle" as defined by Section 30 of the Internal Revenue Code. This will allow for a conforming definition and the development of that definition pursuant to federal regulations and case law.

NOT FACTORED INTO BUDGET—The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

REVENUE IMPACT—This measure will result in a revenue loss of approximately \$300,000 to the Highway Fund per year starting in FY 2012.



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
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IN REPLY REFER TO:

February 1, 2011

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

HOUSE BILL NO. 444

COMMITTEE ON TRANSPORTATION

Although the Department of Transportation supports energy conservation efforts, it opposes this bill to exempt lessors from the rental motor vehicle surcharge tax when renting an electric vehicle.

The rental motor vehicle surcharge tax is a major source of revenue for the State Highway Fund, providing \$40.4 million or 21.9 % of the total revenues for FY 2010.

The exemption from the rental motor vehicle surcharge tax when renting an electric vehicle would be detrimental to the DOT at a time when the Highways Division is looking for additional revenues for the State Highway Fund to operate, maintain and construct the State Highway System. The DOT is unable to support this measure.

GOODSILL ANDERSON QUINN & STIFEL

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MEMORANDUM

TO: Representative Hermina M. Morita
Chair, Committee on Energy & Environmental Protection
Hawaii State Capitol, Room 317
Via Facsimile: 586-9608

FROM: Christina Zahara Noh

DATE: January 31, 2011

RE: **H.B. 444 – Relating to Taxation**
Hearing: Tuesday, February 1, 2011 at 8:00 a.m., Room 325

Dear Chair Morita and Members of the Committee on Energy & Environmental Protection:

I am Christina Zahara Noh, testifying on behalf of EAN Holdings, LLC, operating Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental in Hawaii (collectively referred to as "Enterprise").

Enterprise **supports** H.B. 444, which exempts lessors from the rental motor vehicle surcharge tax when renting an electric vehicle.

Enterprise is committed to supporting cutting-edge automotive fuel and engine technology. To that end, Enterprise currently has over 200 hybrid vehicles in Hawai'i and plans to add 10 electric vehicles to its Hawai'i fleet in 2011.

An exemption from the rental motor vehicle surcharge tax for electric vehicle rentals offers an important consumer incentive. Hawai'i is an environment uniquely well-suited for electric vehicles, and the first exposure to this new technology and driving experience for many local residents, business people, and tourists will be as a rental. Incentives such as this proposed exemption are critical in promoting electric vehicles and proving their market viability.

Thank you for the opportunity to testify on this matter.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
February 1, 2011
8:00 AM
State Capitol, Conference Room 325

In consideration of
HB 444 RELATING TO TAXATION.

Chair Morita, Vice Chair Coffman, and Members of the House Committee on Energy & Environmental Protection.

The High Technology Development Corporation (HTDC) supports HB 444 which exempts lessors from the rental motor vehicle surcharge tax when renting an electric vehicle.

Thank you for the opportunity to submit testimony on this bill.



Sierra Club Hawai'i Chapter

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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 1, 2011, 8:00 A.M.
(*Testimony is 1 page long*)

TESTIMONY IN SUPPORT OF HB 444

Aloha Chair Morita and Members of the Committee:

The Sierra Club of Hawai'i supports House Bill 444, which waives the rental motor vehicle surcharge for electric vehicles.

Hawai'i has a tremendous opportunity to reduce both its oil importation and greenhouse gas emissions by fostering a transition to clean transportation (including the use of electric vehicles). A majority of our oil is used in transportation, and we will simply be unable to meaningfully reduce our oil dependence unless we transition our automobile fleet away from the burning of fossil fuels.

This measure, albeit small, has the potential of shifting our tourist industry towards electric vehicles. This has the benefit of converting some of Hawai'i's biggest polluters -- tourists -- to a green solution and potentially encourages folks to purchase an electrical vehicle when they return home.

Please give HB444 the green light.

Mahalo for the opportunity to testify.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE, Exempt electric vehicle

BILL NUMBER: SB 720; HB 444 (Similar)

INTRODUCED BY: SB by Gabbard and 5 Democrats; HB by B. Oshiro

BRIEF SUMMARY: Amends HRS section 251-2 to provide that the rental motor vehicle and tour vehicle surcharge tax of \$3 per day shall not be imposed if the lessor is renting an electric vehicle that is propelled by an electric motor that: (1) has a capacity of at least 4 kilowatt hours; and (2) is capable of being recharged from an external source of electricity.

SB 720 further qualifies that the vehicle shall be a new qualified plug-in electric drive motor vehicle that is: (1) originally used by the taxpayer for purposes of transporting persons or property; (2) acquired for use or lease by the taxpayer and not for resale; (3) made by a manufacturer; (4) treated as a motor vehicle; and (5) less than a gross vehicle weight rating of 14,000 pounds. Further defines "capacity," "manufacturer" and "motor vehicle" for purposes of the measure.

EFFECTIVE DATE: July 1, 2011

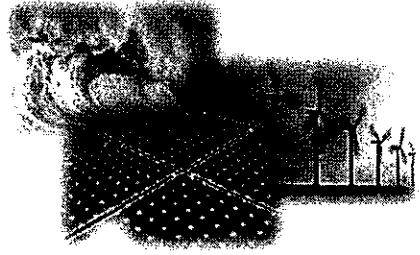
STAFF COMMENTS: The legislature by Act 263, SLH 1991, adopted a \$2 per day tax on rental motor vehicles as part of the state administration's plan to bail out the state's ailing highway fund. Subsequently, the legislature by Act 223, SLH 1999, increased the amount of the surcharge to \$3 between 11/1/99 to 8/31/07. While the legislature by Act 258, SLH 2007, extended the surcharge to 8/31/08, it was extended until August 31, 2011 by the 2008 legislature by Act 226, SLH 2008.

It should be remembered that when the rental motor vehicle tax was enacted it was aimed primarily at visitors, in an attempt to make that 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. While this measure would exempt certain electric vehicles from the imposition of the \$3 per day rental motor vehicle surcharge tax, this would result in "free ride" for these electric vehicles as they would not be paying their fair share even though they are driven on the same roads as all other motor vehicles.

Given that such cars do not contribute to the repair and maintenance of state's highways through the traditional resources such as the fuel tax, the rental vehicle surcharge seems an appropriate in-lieu contribution. While lawmakers may be enthusiastic in their support for the use of alternate energy and sustainability, they must remember that the appropriate financing of public services must remain their focus. Understanding the relationship between the program or service being provided and the means of paying for that service or program insures the accountability for the funds being expended.

Common sense dictates the basic question here is what does the exemption accomplish? If lawmakers believe that the exemption will encourage the use of electric rental cars, then they are missing the point of the rental vehicle surcharge, that is, to fund the maintenance of the highway infrastructure. As noted above, the rental vehicle surcharge was adopted to insure visitors who rent vehicles while visiting the state pay their fair share of road maintenance. If the intent is to encourage the use of electrical vehicles as a way to reduce dependence on fossil fuels, then that subsidy should be paid out of the general funds of the state as that is a benefit that accrues to all taxpayers. As such, if this measure is adopted, then an amount equal to lost revenues to the highway fund should be transferred from the state general fund.

Digested 1/31/11



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 1, 2011, 8:00 A.M.

Room 325

(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF HB 444, SUGGESTED AMENDMENT

Chair Morita and members of the Committee:

The Blue Planet Foundation supports HB 444, a measure that exempts rental electric vehicles (EVs) from the rental motor vehicle surcharge tax. Such a policy would make EVs a more attractive option for visitors or others renting vehicles in Hawai'i. We have a suggested amendment regarding the definition of EV at the end of this testimony.

Increasing the number of rental EVs in Hawai'i has numerous benefits:

1. Rental EVs telegraph the message to visitors that Hawai'i is a leader in going green—the technology is still in the nascent stages of commercialization and Hawai'i is already deploying them.
2. Through increased fuel efficiency relative to internal combustion automobiles, rental EVs reduce the environmental burden of tourists in Hawai'i. This benefit only increases as more of Hawaii's electricity is generated by clean energy sources.
3. Because they are relatively new, rental EVs make for a memorable experience for visitors—it's likely that visitors will return home with stories to tell about the unique EV experience.

Proper incentives and requirements for electric vehicle infrastructure will foster rapid development of Hawaii's transportation future. Electric vehicles will play an integral role in Hawaii's clean energy future. By using stored electrical energy, EVs can take advantage of intermittent solar, wind, and other clean energy resources. Most vehicles sit idle over 22 hours of the day, so they can become *de facto* energy storage devices if their batteries are plugged into the grid when they are not in use. With smart grid infrastructure in place, EVs become an essential component to electricity load and clean energy resource balancing—in addition to providing clean mobility solutions for Hawai'i residents.

Jeff Mikulina, executive director • jeff@blueplanetfoundation.org

55 Merchant Street 17th Floor • Honolulu, Hawai'i 96813 • 808-954-6142 • blueplanetfoundation.org

Electric vehicles today have evolved from their "golf cart" roots. In fact, one new production model, the Tesla Roadster, is a high-end sports car that can accelerate from zero to 60 miles per hour in under four seconds—beating almost all regular internal combustion engines on the road today. The drawback, however, is its price. As with most full performance EVs, the battery technology currently adds considerable expense to the cost of the EV. But this technology is evolving quickly, and new production EVs (such as the Nissan Leaf) are available at a more modest price. Many more mainstream EVs will be coming to market in Hawai'i within the next 3 to 5 years.

This measure will make rental EVs a more attractive option for visitors and residents renting cars, exposing more people to this clean mobility solution.

Mahalo for the opportunity to testify.

SUGGESTED AMENDMENT

Page 2, lines 1 through 8:

For the purpose of this subsection, the term "electric motor vehicle" means a motor vehicle that is propelled [~~to a significant extent~~] by an electric motor that draws electricity from a battery that:

- (1) Has a capacity of not less than [~~four~~] five kilowatt hours; and
- (2) Is capable of being recharged from an external source of electricity."