

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE, New Surcharge for Road Improvements

BILL NUMBER: SB 2301

INTRODUCED BY: BAKER, S. CHANG, ENGLISH, KIETH-AGARAN, NISHIHARA, Gabbard, Galuteria, Ihara, Kim, Shimabukuro

EXECUTIVE SUMMARY: Establishes a new rental motor vehicle surcharge of \$4.50 per day, to be deposited into the state highway fund but which are to be used in the county in which the moneys are generated.

SYNOPSIS: Adds a new section to chapter 251, HRS, levying a rental motor vehicle road improvement surcharge of \$4.50 per day to be deposited into the state highway fund. The surcharge is levied on the lessor. The surcharge moneys are to be used for road improvements, maintenance, and repair in the county in which the moneys are generated, and shall not be expended to plan, design, improve, enhance, acquire, or construct rental motor vehicle customer facilities, equipment, or services shared or to be shared by rental motor vehicle concessions at a state airport.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: The legislature by Act 226, SLH 2010 increased the rental motor vehicle customer facility charge from \$1 to \$4.50 per day on September 1, 2010 to provide consolidated car rental facilities for the car rental agencies and other related improvements for the department of transportation's airport modernization program. This fee, codified in section 261-7, HRS, is earmarked to finance the construction of coordinated rental vehicle facilities at all the state's airports, and is in addition to the rental motor vehicle and tour vehicle surcharge which was adopted nearly 20 years ago to supplement the state highway fund.

This measure does not suspend the imposition of the \$4.50 passenger facility charge under HRS section 261-7 and increases the rental motor vehicle surcharge by \$4.50 under HRS section 251-2. As proposed by this measure, the customer will now see a charge of \$7.50 for a rental motor vehicle surcharge and a rental motor vehicle facility charge of \$4.50 instead of a rental motor vehicle surcharge of \$3 and a rental motor vehicle facility charge of \$4.50 under the current law.

The proposed measure would add another tax increase and would perpetuate the earmarking of rental motor vehicle and tour vehicle surcharge tax revenues. Yes, our highways and bridges need work, and the fuel tax that now feeds the highway fund has proven to be less stable as more and more consumers start using alternative fuel vehicles, electric vehicles, and hybrids. But does that justify burdening the visitor industry with yet another tax and without going through the

normal appropriation and budgeting process that also considers sweltering primary schools, underfunded state pensions, or the unique costs of intercollegiate athletics?

Rather than the continual earmarking of revenues, a direct appropriation of general funds would be preferable. Earmarking revenues from any tax type for a particular purpose decreases transparency and accountability.

Next, it should be remembered that revenues diverted for a special purpose, in this case to fund highways and bridges, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.

Finally, as a technical matter the bill as proposed imposes a new tax entirely separate from the existing tax imposed by section 251-2, HRS. It is not clear whether the new tax is supposed to be imposed on rental motor vehicles, tour vehicles, or some combination of the two. It also is not clear if any exemptions apply to the tax, such as the existing exemption for rental vehicles people use when the vehicle they usually drive is being repaired. To clarify the scope of the tax, it may be preferable to amend section 251-2(a), HRS, rather than adding a new tax imposition section.

Digested 2/12/2018

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To: The Honorable Lorraine R. Inouye, Chair
and Members of the Senate Committee on Transportation and Energy

Date: Wednesday, February 14, 2018
Time: 1:25 P.M.
Place: Conference Room 225, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 2301, Relating to Transportation

The Department of Taxation (Department) offers the following comments for the Committee's consideration.

S.B. 2301 establishes a rental motor vehicle road improvement surcharge (surcharge). The surcharge is \$4.50 per day and is to be deposited into the State Highway Fund. All revenue from the surcharge is to be used in the county in which it was generated for road improvements, maintenance, and repair. S.B. 2301 is effective upon approval.

First, the Department notes that as drafted the proposed surcharge will apply to all tour vehicles and to all rentals, including car-sharing rentals and to the rentals exempted by Hawaii Revised Statutes section 251-2(a)(1) and (2). Application of the surcharge to tour vehicles, exempted rentals, and to car-sharing may not further the intent of the bill as expressed in the preamble. In the case of car-sharing, the application of the surcharge will reverse the intended benefit of adopting the special car-sharing rate.

To address these concerns, the Department recommends that subsection (a) of the proposed surcharge be amended to read as follows:

(a) There is levied and shall be assessed and collected each month a rental motor vehicle road improvement surcharge of \$4.50 per day, or portion of a day, on any rental for which a surcharge is levied under section 251-2(a), to be deposited into the state highway fund. The rental motor vehicle road improvement surcharge shall be levied on the lessor.

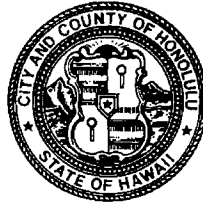
Finally, the Department requests that the effective date of this surcharge be changed to January 1, 2019 to allow the Department to make the necessary changes to its forms, instructions, and computer system.

Thank you for the opportunity to provide comments.

DEPARTMENT OF FACILITY MAINTENANCE
CITY AND COUNTY OF HONOLULU

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IN REPLY REFER TO:
18-038

February 14, 2018

The Honorable Lorraine R. Inouye, Chair
The Honorable Will Espero, Vice-Chair
and Members of the Committee on Transportation and Energy
415 South Beretania Street, Room 225
Honolulu, Hawaii 96813

Dear Chair Inouye, Vice Chair Espero, and Members of the Committee:

Subject: Support of SB 2301

The City and County of Honolulu (City) supports SB 2301, which establishes a rental motor vehicle surcharge dedicated to road improvements in the county in which the funds are generated.

The City strongly agrees that the many rental cars on our roadways affect the condition of our roads, contribute to traffic congestion, and impact the availability of on-street parking. Establishing a rental motor vehicle surcharge dedicated to fund road improvements in the county in which the funds are generated will help ensure that some of the costs to repair, maintain, and improve City roads are borne by visitors and others operating rental cars.

Thank you for your consideration of this testimony in support.

Sincerely,

A handwritten signature in black ink, appearing to read "Ross S. Sasamura".

Ross S. Sasamura, P.E.
Director and Chief Engineer



HAWAI'I LODGING & TOURISM
ASSOCIATION

Testimony of

Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

before the
Committee on Transportation and Energy
February 14, 2018

Senate Bill 2301: Relating to Transportation



Chair Inouye and members of the Committee on Transportation and Energy:

Thank you for the opportunity to **offer comments** on Senate Bill 2301, which calls for the imposition of a daily \$4.50 road improvement surcharge on motor vehicle rentals to be deposited into the state highway fund.

The Hawai'i Lodging & Tourism Association, the state's largest private sector visitor industry organization, supports the maintenance and improvement of our transportation infrastructure, particularly our roads and freeways, as essential to the appeal of the islands as an international visitor destination, as necessary to the livelihoods of our tens of thousands of employees, and as a cornerstone of our quality of life.

However, we have concerns with this measure and would caution against the addition of a separate fee, above the existing rental tax of \$3.00 per day for the highway fund. When compounded with general excise taxes, motor vehicle registration fees, gasoline costs, airport concession fees, and the ever-increasing operating costs facing any business, adding yet another monetary burden may affect our industry's overall competitiveness. Surely there must be broader-based means of generating the revenue necessary to improve our infrastructure, and we believe those should be explored first before creating a special tax for this purpose.

Mahalo for the opportunity to offer these comments.



SanHi

GOVERNMENT STRATEGIES
A LIMITED LIABILITY LAW PARTNERSHIP

DATE: February 13, 2018

TO: Senator Lorraine R. Inouye
Chair, Committee on Transportation & Energy
Submitted Via Capitol Website

RE: **S.B. 2301 Relating to Transportation**
Hearing Date: Wednesday, February 14, 2018 at 1:25pm
Conference Room: 225

Dear Chair Inouye and Members of the Committee on Transportation & Energy:

We submit this testimony on behalf of Enterprise Holdings, which includes Enterprise Rent-A-Car, Alamo Rent-A-Car, National Car Rental, Enterprise CarShare and Enterprise RideShare (Van Pool).

Enterprise submits comments regarding S.B. 2301, which establishes a rental motor vehicle road improvement surcharge of \$4.50 per day to collect revenue for road improvements, maintenance, and repair in the county in which the funds are generated.

While Enterprise appreciates the need for additional funding for road projects, we are concerned that doubling this category of fees and taxes represents a significant increase in the total taxes and fees when compared to the cost of an average rental. S.B. 2301 proposes to impose a new rental motor vehicle road improvement surcharge of \$4.50 statewide, which more than doubles the existing motor vehicle surcharge tax of \$3.00 per day. The existing \$3.00 surcharge tax already goes into the highway fund for the purpose of highway projects.

If the committee is inclined to pass this bill, Enterprise would propose an amendment to make sure that the motor vehicle rental industry is allowed to pass the fee on to its customers, as is the current practice with other taxes and fees. Currently, a number of fees may already be passed on to the consumer under Hawaii Revised Statutes 437D-8.4. As this adds another class of similar fees, Enterprise asks that the committee include language to amend HRS 437D-8.4 that allows rental car companies to pass on this new supplemental rental motor vehicle user fee. We are happy to provide this language for the committee to consider.

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



Maui Hotel & Lodging

ASSOCIATION

Testimony of

Lisa H. Paulson

Executive Director

Maui Hotel & Lodging Association

on

SB 2301

Relating To Transportation



COMMITTEE ON TRANSPORTATION AND ENERGY

Wednesday, February 14, 2018, 1:25 pm

Conference Room 225

Dear Chair Inouye, Vice Chair Espero, and Members of the Committee,

The Maui Hotel & Lodging Association (MHLA) is the legislative arm of the visitor industry. Our membership includes 185 property and allied business members in Maui County – all of whom have an interest in the visitor industry. Collectively, MHLA's membership employs over 25,000 residents and represents over 19,000 rooms. The visitor industry is the economic driver for Maui County. We are the largest employer of residents on the Island - directly employing approximately 40% of all residents (indirectly, the percentage increases to 75%).

MHLA is **opposed** to SB 2301, which establishes a rental motor vehicle surcharge dedicated to road improvements in the county in which the funds are generated.

MHLA believes in supporting the maintenance and improvement of our transportation infrastructure, particularly our roads and freeways, as essential to the appeal of the islands as an international visitor destination, and as necessary to the livelihoods of our tens of thousands of employees. However, we would caution that this measure would harm car rental business within Maui County. The taxes assessed on a rental car are already at an incredible rate: For example, a \$50/day car rental from Kahului Airport on Maui will have 32% in taxes* adding an additional \$4.50/day will have the tax rate go up to 41% in taxes per day.

Keeping our costs level is critical to our ability to compete against other sun destinations, especially now when we are seeing an increased amount of competition with new resort locations and other destinations' deeply discounted air/hotel/car packages. Hawai'i has reached the point where high business costs and tax rates make it increasingly difficult for business to be profitable and competitive, in both the domestic and international markets.

Maui Hotel & Lodging Association is opposed to raising taxes and leveraging extra fees on the visitor industry.

Thank you for the opportunity to testify.

***CURRENT CAR RENTAL TAX ASSESSMENTS FOR MAUI COUNTY:**

Hawaii Motor Vehicle Surcharge Tax=\$3.00/day

Hawaii Rental Vehicle Customer Facility = \$4.50/day

Airport Concessionaire/Permittee Fee = 11.11%/day

Vehicle License Fee (Registration Fee/Weight Tax) = \$.35 to \$1.45/day

GET - Hawaii State General Excise Tax = 4.166%/day



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Senator Lorraine Inouye, Chair
Senator Will Espero, Vice Chair
Senate Committee on Transportation and Energy

Wednesday, February 14, 2018; 1:25 PM
Hawaii State Capitol; Conference Room 225



RE: SB 2301 – Relating to Transportation – IN OPPOSITION

Chair Inouye, Vice Chair Espero and Members of the Committee:

My name is Robert Muhs, Vice President Government Affairs, Corporate Compliance and Business Ethics for Avis Budget Group. Thank you for giving us this opportunity to offer testimony in opposition of SB 2301, which establishes a rental motor vehicle surcharge dedicated to road improvements in the county in which the funds are generated.

Hawaii rental car customers currently pay the following charges - a rental motor vehicle customer facility charge of \$4.50 per day and a rental motor vehicle surcharge tax of \$3.00 per day which is applied to the state highway fund.

This bill adds another surcharge of \$4.50 per day. We question whether an economic elasticity study has been done, as we believe this supplemental surcharge could lead to an overall decline of transaction days, thereby generating less overall revenue. A decline in transaction days could also directly impact the bond obligation for the consolidated rental car facility projects being built at the Daniel K. Inouye Honolulu International and Kahului airports.

If this bill were to pass, the total surcharge amount before GET would be among the highest in the country.

We respectfully request the Committee to hold this measure.