

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

April 23, 2003

8:38 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Jim Whitaker, Co-Chair
Representative Vic Kohring
Representative Norman Rokeberg
Representative Bruce Weyhrauch
Representative Peggy Wilson
Representative Carl Moses

MEMBERS ABSENT

Representative Cheryll Heinze
Representative Max Gruenberg

COMMITTEE CALENDAR

HOUSE BILL NO. 271

"An Act levying and providing for the collection and administration of an excise tax on passenger vehicle rentals; and providing for an effective date."

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 271

SHORT TITLE: PASSENGER VEHICLE RENTAL TAX

SPONSOR(S): REPRESENTATIVE(S) KOTT

Jrn-Date	Jrn-Page		Action
04/15/03	0986	(H)	READ THE FIRST TIME - REFERRALS
04/15/03	0986	(H)	W&M, FIN
04/15/03	0986	(H)	REFERRED TO WAYS & MEANS
04/22/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/22/03		(H)	Heard & Held MINUTE(W&M)
04/23/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519

WITNESS REGISTER

DAN COFFEE, Part-Owner
Dollar Rent A Car - Anchorage
Anchorage, Alaska
POSITION STATEMENT: Expressed concerns with HB 271.

ANDREW HALCRO, President/CEO
Avis Rent-A-Car - Alaska
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 271.

ACTION NARRATIVE

TAPE 03-12, SIDE A
Number 0001

CO-CHAIR HAWKER called the House Special Committee on Ways and Means meeting to order at 8:38 a.m. Representatives Hawker, Whitaker, Kohring, Rokeberg, Weyhrauch, Wilson, and Moses were present at the call to order.

HB 271-PASSENGER VEHICLE RENTAL TAX

CO-CHAIR HAWKER announced that the only order of business would be HOUSE BILL NO. 271, "An Act levying and providing for the collection and administration of an excise tax on passenger vehicle rentals; and providing for an effective date."

Number 0058

DAN COFFEE, Part Owner, Dollar Rent A Car - Anchorage, said that as a small business in Anchorage he is and will always continue to be willing to do its share to solve the fiscal problem. Mr. Coffee turned to what one would consider [the car rental industry's] fair share. In Anchorage, there is a 10 percent airport fee, a sales tax of 8 percent for a total of 18 percent. Therefore, an additional 15 percent tax will effectively be a tax rate of 33 percent, which doesn't take into account the proposed increase in license fees for vehicles nor does it take into consideration the proposed tax increases on gasoline. Mr. Coffee informed the committee that the car rental industry in Anchorage pays a little over \$8 million into the state and local coffers. Therefore, the [Anchorage rental car] industry already makes a substantial contribution.

MR. COFFEE said he hoped that the committee would understand the consequences of this legislation to the industry. He turned to the fiscal note and related his belief that the costs are understated and the revenue is overstated. Furthermore, there is no analysis with regard to what this legislation would do to business. While there is a certain elasticity, at some time [these taxes] create marginal effects on business such that there is a decrease in the total volume of business if the price continues to increase. There are other alternatives, he suggested. He commented that he doesn't believe the consequences of HB 271 are fully appreciated. However, if the legislature is going to move forward with this proposal, he expressed the need to not exclude any particular segment of the industry. He noted that he didn't understand why recreational vehicles (RVs) had been excluded from this legislation. He highlighted that the cruise ship industry almost faced a similar tax, however it was ultimately deemed inappropriate. Therefore, he surmised that [the car rental industry] is the only industry left in the barrel. Mr. Coffee said that [the rental car industry] would like to participate in a way that addresses these concerns and how a tax would impact the car rental industry. He mentioned that he didn't understand why this legislation is on a fast track. He pointed out that HB 271 was introduced Tuesday and this is its second hearing, and then it's scheduled in the House Finance Committee on Friday. Mr. Coffee expressed the desire [for the car rental industry] to have a better opportunity to present its side of the matter.

Number 0525

CO-CHAIR HAWKER requested that Mr. Coffee explain the airport surcharge and who benefits from it.

MR. COFFEE explained that the airport surcharge is a 10 percent surcharge on time and mileage. This surcharge is in addition to rent and is basically used for various airport facilities. Every concessionaire, whether a car rental company or gift shop, signs an agreement with the airport, the airport goes out for a request for proposals (RFP), and solicits car rental companies. The solicitation specifies that the company would have to pay 10 percent of its gross revenue to the airport in order to do business there. Mr. Coffee noted, for reasons unknown to him, that the off-airport operators also pay 10 percent. In further response to Co-Chair Hawker, Mr. Coffee said that anyone who comes through the airport pays the 10 percent tax. He explained that the reporting responsibility lies with the car rental company. Those companies with shuttle buses to take individuals

to an off-airport location are required to report that portion of income that is generated from those individuals who come into the Ted Stevens Anchorage International Airport (TSAIA) and rent a car at an off-airport location.

CO-CHAIR HAWKER related his understanding that if he arrives at TSAIA and takes a shuttle to an off-airport facility, the airport would assess a 10 percent tax. He questioned what would happen if he took a taxi and didn't specify that he had come in from the airport.

MR. COFFEE responded that Co-Chair Hawker wouldn't pay the 10 percent tax in that situation. In further response to Co-Chair Hawker, Mr. Coffee clarified that the shuttle buses are from companies that aren't concessionaires. Generally, on-airport operators don't shuttle customers.

CO-CHAIR HAWKER asked if such an airport surcharge exists elsewhere in the nation.

MR. COFFEE specified that the rates vary, but the fact of charging a percentage of time and mileage is a universal practice in all the areas with which he is familiar.

CO-CHAIR HAWKER asked if the off-airport rental charge is typical.

MR. COFFEE answered that it wasn't [charged] in Alaska seven years ago. When it was reviewed at that time, the off-airport rental charge was [sporadic]. Typically, other locations charge a per passenger or per trip shuttle bus fee and that usually isn't charged as a percentage of time and mileage for off-airport operators.

CO-CHAIR HAWKER related that his research indicates that at least 16 airports in the U.S. now charge the off-airport rental fees at rates varying from 4-10 percent.

MR. COFFEE agreed that it isn't uncommon.

Number 1044

REPRESENTATIVE KOHRING expressed concern about this tax for the same reasons Mr. Coffee has mentioned. Furthermore, he wasn't sure why this tax is being promoted because there doesn't seem to be a compelling reason for the tax other than the need for

revenue. He expressed concern that this tax could create a disincentive for tourists.

MR. COFFEE specified that his concern is in regard to the independent traveler, who is his customer. The cruise ship travelers aren't really customers [of the car rental industry]. He informed the committee that the growth of the independent traveler has been either flat or negative. For example, [Ted Stevens Anchorage International Airport's] revenue from car rentals in the first three months of this year is down almost \$600,000, although that decline can be attributed to various things. Imposing this type of tax would mean those in Anchorage would pay 33 percent in taxes and fees. He noted that if the airport fee was taken out, the fee in Anchorage would be 23 percent, which is the same as what is paid in Massachusetts, the fourth highest in the country. Therefore, Alaska would be the highest or fourth highest depending upon how the taxes are defined. Therefore, Mr. Coffee was worried about the consequences for the business because, as mentioned earlier, the [rental car industry] has suffered a substantial reduction in the type of travelers who rent cars. Therefore, he was fearful this tax will result in a marginal decline and ultimately have a very negative impact at some point. Furthermore, Mr. Coffee was concerned that this will burden Alaska business travelers substantially, which will have a negative impact on business travel. Mr. Coffee opined that no one has a handle on the potential impact of this tax, and therefore he expressed the need to have a handle on it before implementing the tax.

Number 1349

ANDREW HALCRO, President/CEO, Avis Rent-A-Car - Alaska, informed the committee that Avis rents cars in nine communities in Alaska. He announced that he opposes HB 271. As a former legislator, Mr. Halcro expressed great concern with regard to the handling of this legislation. Mr. Halcro explained that every rental car company in Alaska, with the exception of Hertz, is a small locally owned operation.

MR. HALCRO turned to what rental customers pay the State of Alaska. As Mr. Coffee mentioned, those renting cars at TSAIA pay a 10 percent airport concession fee, which is based on the amount of business the company does and that fee is passed on to customers. Three years ago the citizens of Anchorage voted to implement an additional 8 percent car rental tax. Therefore, Anchorage is the only city in the U.S. with a car rental tax and no retail sales tax. Mr. Halcro said, "Meaning that it's the

only city to single-handedly single out an industry for taxation when the rest of the citizens are not paying anything." Currently, rental car customers in Anchorage are paying 18 percent. Additionally, the car rental industry paid over \$200,000 last year in parking spaces alone at TSAIA. The total car rental industry contribution to the Department of Transportation & Public Facilities amounted to \$3.7 million. He reviewed the total fees in various cities throughout Alaska and those fees ranged from 9.5 percent to 15 percent. Therefore, with the proposal in HB 271 customers in the following communities will pay the following fees: Anchorage - 33 percent; Fairbanks - 24 percent; Kenai - 30 percent; Juneau - 30 percent; Sitka - 24 percent; Skagway - 19 percent; Petersburg - 21 percent.

MR. HALCRO turned to a document in the committee packet entitled, "Rental Car Tax, State-by-State Comparison." If Alaska passed a 15 percent car rental tax, Alaska would be highest in the nation. Currently, the highest rental car tax is 11.5 percent in Maryland. Mr. Halcro interpreted the sponsor of HB 271 as proposing that Alaska's rental car tax go from 0 to 15 percent. Additionally, Mr. Halcro said that the information provided isn't correct because the local sales tax column only goes up to 6 percent; customers in Anchorage are paying 8 percent. Mr. Halcro returned to what the rental car industry contributes to Alaska and informed the committee that last year Avis Rent-A-Car - Alaska spent \$140,000 registering vehicles. In Anchorage alone, Avis Rent-A-Car purchased 125,000 gallons of gas, which doesn't include gas that customers purchased at stations throughout the state.

MR. HALCRO said that he would now address the industry outlook. As Mr. Coffee mentioned, the rental car industry is going through some difficult times. For instance, there was a slow down after [the terrorist attacks of September 11, 2001], although he characterized it as okay. However, this summer [the down turn] is about the economy and the fact that people aren't traveling because they are worried about the economy. He informed the committee that business was down 11 percent in February at TSAIA. Furthermore, Mr. Halcro related that fewer people are getting off airplanes and renting cars. The aforementioned seems to be supported by the information included in the committee packet. The committee packet includes a summary report of the 2002 travel industry season from the Alaska Travel Industry Association. Page 10 of the report shows the progression of passenger travel and the trend over the past 10 years. From that, one can see that by the end of 2002, more

cruise ship passengers were projected than those getting off domestic air flights. People who depart from cruise ships don't rent cars. However, those that rent cars also stay at bed and breakfasts, visit gift shops, and spend money. Over the last 10 years the lack of the state's inability to make a strong commitment to marketing tourism, independent travelers are being replaced by cruise ship passengers.

Number 2155

MR. HALCRO noted that he has been traveling to his shops throughout the state and the outlook in each community is not good for the summer tourism season. For instance, in Petersburg the tourism industry is under much stress. At one of most critical times in the tourism industry, this legislation proposes implementing a tax on the industry; a tax that would make Alaska the highest taxed [rental car industry] in the country. Mr. Halcro expressed frustration because taking 15 percent out of the car rental industry hurts the industry while nothing is being done to stimulate business or get more customers in the airports and off planes. Therefore, \$7.5 million is being taken out of an industry and it still doesn't solve the fiscal gap. Mr. Halcro said he assumes that this exercise is to generate revenue to fill the fiscal gap. He recalled that the discussion regarding not "nickeling and diming" individual Alaskan industries was had a year ago. Now, HB 271 was introduced last week and no one in the industry was contacted or counseled. In response to Co-Chair Hawker's directive to speak only to the merits of the legislation, Mr. Halcro emphasized that the merits of the legislation go hand-in-hand with the process. This legislation wasn't given adequate committee referrals, he said.

Number 2451

MR. HALCRO turned to the intent of HB 271. If the intent of HB 271 is to obtain a contribution from those who use state service, why was the recreational vehicle exempted yesterday. This is a matter of fairness. Mr. Halcro pointed out that this hearing was scheduled at 7:00 a.m. and the legislation is already scheduled in the House Finance Committee on Friday. He expressed the hope that he would be given the ability to raise questions during the public process, although he also mentioned that this bill is on the fast track. In closing, Mr. Halcro suggested that HB 271 be placed in a subcommittee and the car rental industry allowed to participate. He opined that HB 271, poorly thought out legislation, is being rushed. This

legislation has the possibility to hurt an industry that's struggling. He concluded by noting that he heard Representative Heinze explain that the cruise ship head tax was killed because of her concerns regarding the impacts to the cruise ship industry.

Number 2736

CO-CHAIR HAWKER announced that legislation in other committees will not be discussed in this committee when HB 271 is before this committee. Co-Chair Hawker related his understanding that part of the intent of HB 271 is to use money to stimulate tourism through marketing. As mentioned earlier, one of the largest problems of the car rental industry is the potential decline in tourism traffic this summer. He asked, "Is there a reasonable connection ... between looking at those that would benefit from additional tourism in some way contributing to the cost of the state soliciting those tourists."

MR. HALCRO replied, "You're absolutely correct." The problem with the tourism industry in Alaska is that it has no way to pay for itself. Other states have a state sales tax and those proceeds return to the state to generate revenue to market the state, which is what Alaska should be doing. The aforementioned isn't accomplished by choosing one industry and burdening it with a 15 percent tax. This legislation should be amended to be a 2-3 percent statewide sales tax so that everyone contributes and there would be revenue to advertise and market Alaska. One can clearly see the trend that more people are coming to Alaska on cruise ships rather than planes. Such a trend does nothing for the car rental industry or a whole host of other industries in the state. Mr. Halcro said, "If you're looking to solve the problem, if you're truly looking to generate revenue to pay for the necessary investment in tourism marketing, then I would suggest to you that taking 15 percent out of one industry is not the appropriate way to do it. Rather, spread the burden around everybody that benefits."

Number 2930

REPRESENTATIVE ROKEBERG asked if Mr. Halcro has had the opportunity to review the number of bills relating to revenue enhancement that will impact the car rental industry. Specifically, he asked if Mr. Halcro has analyzed the potential sales tax cost in combination with the motor fuel tax increases and vehicle registration fee increases in order to determine the

bottom line impact as well as the industry's contribution to the state coffers.

MR. HALCRO replied, yes. He said that part of his frustration is that the car rental industry is under siege. For instance, yesterday the House Finance Committee passed legislation that increased the Division of Motor Vehicle (DMV) fees. Mr. Halcro said that Governor Murkowski is his governor and what does he have to show for it: a proposed increase in DMV fees; a propose increase in the gas tax; a proposed fee increase on tires; and now a proposed 15 percent rental car tax. In further response to Representative Rokeberg, Mr. Halcro related that the impact on his company from the fees alone amounts to an increased cost of doing business of about \$65,000-70,000. However, that doesn't include any negative impacts related to a 15 percent car rental tax and the decrease in business he believes would ensue. Therefore, he said he believes HB 271 needs some work and there needs to be a mechanism for the industry to meet with legislators so that the industry can show how much pressure it is under.

Number 3259

REPRESENTATIVE ROKEBERG suggested that it would be helpful if Mr. Halcro could provide some numbers regarding the impact of each bill on the car rental industry and equate that to a percentage. He noted his concern that if HB 271 is passed along with the other industry-related legislation, there could possibly be increases of 25 percent on a gross basis. He related his opinion that "this" is somewhat hostile when viewed in concert with the other legislation that would impact the car rental industry.

MR. HALCRO said he would be happy to provide those numbers, but pointed out that the industry is trying to slow the legislation long enough to "get a word in." The sponsor of this legislation is proposing a change in public policy, yet the industry is being required to do the homework to show the legislators that this isn't necessary. However, it should be the other way around in that the committee should be reviewing full and fair information.

Number 3529

REPRESENTATIVE ROKEBERG turned to the issue of economic substitution and inquired as to what the economic substitution

alternatives are and the impact those would have [on the car rental industry].

MR. HALCRO agreed that raising the cost of goods sometimes makes the consumer look elsewhere, such as shuttle buses and taxis. He said that it's probably a \$15 cab ride to downtown Anchorage. However, he suggested that the impact of taxes on the industry is more important to review. If an industry is growing, it is far easier to absorb an increase in taxation. However, when the industry is in decline, it is much harder to absorb a 15 percent increase. Mr. Halcro noted that Avis operates in some marginal communities. He informed the committee that over the past five years, the company hasn't grown and there are no growth opportunities. He related communities in which he has closed. Mr. Halcro said that every day he is faced with the challenge to keep doors open in some of the smaller communities. Now, the aforementioned challenge is in addition to this proposed 15 percent increase.

Number 3757

REPRESENTATIVE ROKEBERG pointed out that when Alaskans are polled regarding revenue enhancement, one suggestion is to get the visiting public to pay. Therefore, this legislation appears to be a vehicle that allows for that. He asked if Mr. Halcro believes there is some equity in applying a tax that modestly impacts the car rental industry, such as that proposed in HB 271.

MR. HALCRO commented that moderation in eye of beholder. He said he didn't consider a 15 percent tax moderate. He agreed that Alaskans have the right to feel that tourists need to contribute more, but the car rental industry already pays [its share]. He reiterated that Anchorage is the only U.S. city with a car rental tax but no retail sales tax. This proposal doesn't solve anything, he said. Mr. Halcro said he wanted all visitors to Alaska to pay. He suggested amending this legislation to make it a 2-3 percent statewide sales tax and a cruise ship head tax, and therefore the problem has been solved while giving industries the ability to grow and prosper.

Number 4011

CO-CHAIR HAWKER asked if Mr. Halcro is saying that the car rental industry in Alaska should be excluded from contributing to the cost of the state's development of its tourism industry.

MR. HALCRO clarified that the car rental industry is already paying and contributing, last year \$3.7 million. If the desire is to have the car rental industry contribute more, then have others contribute as well. "Stop singling out the car rental industry," he said. He agreed that there is a huge fiscal gap, but the problem isn't being solved. He explained that as an employer he wants to grow his business, he wants his employees to make more and he wants to make more. However, that can't be achieved when government singles out the car rental industry. In 1990, the average cost of a car for [Avis] was approximately \$9,500. This year, the average cost of a car in the [Avis] fleet is approximately \$19,000; however, rates have not doubled. Yet, every year communities and now the legislature have singled out the car rental industry to pay an unfair burden. He reiterated the need to review the other industries. He informed the committee that the growth in the tourism industry has been isolated to the cruise ship companies because at the same time the state has decreased its commitment to tourism marketing, the cruise ships have gotten larger and the industry has spent more on marketing. The problems created by the aforementioned are realized by the car rental industry as well as bed and breakfasts and hotels. Mr. Halcro concluded by saying, "This is just one more in a number of questionable ideas."

Number 4407

CO-CHAIR HAWKER announced that some amendments have been proposed and there are more potential amendments. Therefore, HB 271 will be held over.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means was adjourned at 9:23 a.m.