

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

March 29, 2011

1:44 p.m.

MEMBERS PRESENT

Representative Peggy Wilson, Chair
Representative Lance Pruitt, Vice Chair
Representative Eric Feige
Representative Craig Johnson
Representative Max Gruenberg
Representative Pete Petersen

MEMBERS ABSENT

Representative Cathy Engstrom Munoz

COMMITTEE CALENDAR

HOUSE BILL NO. 57

"An Act authorizing municipalities and nonprofit organizations to sponsor a program to encourage the safe use of bicycles as a mode of transportation, and amending the duties of the Department of Transportation and Public Facilities to include administration of state funds appropriated for that purpose."

- MOVED CSHB 57(TRA) OUT OF COMMITTEE

HOUSE BILL NO. 62

"An Act relating to excluding motorcycles and motor-driven cycles from the passenger vehicle rental tax."

- MOVED CSHB 62(TRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 57

SHORT TITLE: BICYCLE PROGRAM

SPONSOR(s): REPRESENTATIVE(s) SEATON

| | | |
|----------|-----|---------------------------------|
| 01/18/11 | (H) | PREFILE RELEASED 1/7/11 |
| 01/18/11 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/18/11 | (H) | TRA, FIN |
| 02/10/11 | (H) | TRA AT 1:00 PM CAPITOL 17 |
| 02/10/11 | (H) | Heard & Held |
| 02/10/11 | (H) | MINUTE(TRA) |

03/10/11 (H) TRA AT 1:00 PM CAPITOL 17
03/10/11 (H) Heard & Held
03/10/11 (H) MINUTE(TRA)
03/29/11 (H) TRA AT 1:00 PM CAPITOL 17

BILL: HB 62

SHORT TITLE: PASSENGER VEHICLE RENTAL TAX
SPONSOR(S): REPRESENTATIVE(S) HOLMES, HERRON

01/18/11 (H) PREFILE RELEASED 1/7/11
01/18/11 (H) READ THE FIRST TIME - REFERRALS
01/18/11 (H) TRA, FIN
03/17/11 (H) TRA AT 1:00 PM CAPITOL 17
03/17/11 (H) Heard & Held
03/17/11 (H) MINUTE(TRA)
03/29/11 (H) TRA AT 1:00 PM CAPITOL 17

WITNESS REGISTER

REPRESENTATIVE PAUL SEATON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented the changes in the proposed committee substitute for HB 57.

BOB LAURIE, Transportation Planner
Division of Program Development
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 57.

REPRESENTATIVE LINDSEY HOLMES
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 62.

MIKE COUMBE, Staff
Representative Lindsey Holmes
Juneau, Alaska

POSITION STATEMENT: Presented HB 62, on behalf of one of the joint prime sponsors of the bill.

NANCY HULL, Owner
Alaska Motorcycle Adventures
Palmer, Alaska

POSITION STATEMENT: Testified during the discussion of HB 62.

PHILLIP FREEMAN
Alaska Rider Tours
Girdwood, Alaska

POSITION STATEMENT: Testified during the discussion of HB 62.

BARRY MATTESON, Owner
House of Harley
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 62.

ACTION NARRATIVE

[1:44:11 PM](#)

CHAIR PEGGY WILSON called the House Transportation Standing Committee meeting to order at 1:44 p.m. Representatives Wilson, Johnson, Petersen and Gruenberg were present at the call to order. Representatives Feige and Pruitt arrived as the meeting was in progress.

HB 57-BICYCLE PROGRAM

[1:44:37 PM](#)

CHAIR P. WILSON announced that the first order of business would be HOUSE BILL NO. 57, "An Act authorizing municipalities and nonprofit organizations to sponsor a program to encourage the safe use of bicycles as a mode of transportation, and amending the duties of the Department of Transportation and Public Facilities to include administration of state funds appropriated for that purpose."

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REPRESENTATIVE PAUL SEATON, Alaska State Legislature, explained the committee substitute (CS) for HB 57 would address safety programs. It would make it clear that grants could be used for safety programs for motorists and bicyclists. The bill would create a grant program administered by the Department of Transportation & Public Facilities (DOT&PF) so local nonprofits or municipal government could make applications for grants. The purpose of the grants would be to encourage the safe use of bicycles and bicycling as a mode of transportation. The program would allow communities to install bike racks or bike garages, if needed, or the grant could be used to purchase bike trailers so people could use bicycles as a mode of transportation to use

for trips to the store. The bicycle would be used as an alternative to vehicle use, he said.

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BOB LAURIE, Transportation Planner, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), introduced himself.

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REPRESENTATIVE GRUENBERG asked whether he recalled the substance of an amendment to a prior version of this bill last legislature. He asked whether the amendment would address the issue.

MR. LAURIE answered that HB 57 is clear and straightforward.

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CHAIR P. WILSON, after first determining no one else wished to testify, closed public testimony on HB 57. She pointed out the fiscal note is a zero fiscal note.

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REPRESENTATIVE PRUITT moved to report the proposed committee substitute (CS) for HB 57, labeled 27-LS0315\B, Kane, 2/18/11, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, the CSHB 57(TRA) was reported from the House Transportation Standing Committee.

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The committee took an at-ease from 1:49 to 1:51 p.m.

HB 62-PASSENGER VEHICLE RENTAL TAX

[1:51:42 PM](#)

CHAIR P. WILSON announced that the final order of business would be HOUSE BILL NO. 62, "An Act relating to excluding motorcycles and motor-driven cycles from the passenger vehicle rental tax."

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REPRESENTATIVE LINDSEY HOLMES, thanked members and asked her staff, Mike Coumbe, to walk members through the bill.

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MIKE COUMBE, Staff, Representative Lindsey Holmes, on behalf of one of the joint prime sponsors of the bill, explained that HB 62 would exempt motorcycles from the passenger vehicle rental tax. He clarified that this bill only refers to motorcycle rental taxes and not to sales, import registration or anything else. This bill would help support long-range economic benefits of small businesses catering to independent travelers. The people who rent motorcycles tend to visit remote areas of Alaska. They stay at smaller hotels and eat at local restaurants, which is good for Alaska's economy. Making an exception for seasonal rental businesses is not new, he said. When the original law was passed, motor home or recreational vehicle rentals were given the lower rate of three percent vehicle rental tax due to the seasonal nature of the rentals. With a short rental season, businesses offering motorcycle rentals face similar challenges. The businesses must pay to keep their motorcycle fleet in storage during the long winter months. These costs are passed on to tourists and others who rent motorcycles. Adding a 10 percent passenger vehicle rental tax to the total rental makes the motorcycle rental rate very high compared to other states. In 2003, when the passenger vehicle rental tax was under discussion, motorcycle rentals were not even considered. Four years later the Department of Revenue (DOR) noticed motorcycle rental businesses were active and notified the handful of businesses that they must also collect the passenger vehicle rental tax. Since the motor vehicle rental tax was enacted, the legislature has exempted other vehicle rentals that inadvertently fell under the definition of passenger vehicles, including taxicabs, rental trucks, and warranty work performed by auto dealers. The seasonal nature of the motorcycle rental business, along with the high cost associated with these businesses, and the low number of businesses are reasons to exempt motorcycle rentals from this tax.

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REPRESENTATIVE GRUENBERG commented that the sponsor statement reads, "It is difficult to cook a meal in ones motorcycle." He found this amusing but informative.

REPRESENTATIVE HOLMES commented on the sense of humor.

CHAIR P. WILSON referred to the fiscal note and pointed out the total tax collected is \$12,000 for motorcycle rentals.

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REPRESENTATIVE PRUITT expressed surprise that recreational vehicle rental tax rate is set at three percent for recreational vehicles (RVs). He asked for the vehicle rental tax rate for motor vehicles.

MR. COUMBE answered that motor vehicles are taxed 10 percent.

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NANCY HULL, Owner, Alaska Motorcycle Adventures, stated that this is her 18th summer renting motorcycles to tourists. She explained that her customers typically have a big "bucket list" of places in the world they want to ride their motorcycles. In 2003, when House Bill 271 was passed relating to vehicle rental taxes, the legislature did not hold any discussion on motorcycle rental businesses and tourism in Alaska. Her business was not aware of the vehicle rental tax so she did not collect initially it. In 2008, a DOR employee contacted her business to advise her that she was required to collect the 10 percent vehicle rental tax. She explained motorcycle rental rates, which are \$125 to \$240 per day. Thus, the tax on a motorcycle with the rate of \$200 per day would be \$20 per day or \$140 for a one week rental. However, the tax for an RV rental of \$200 per day would only be \$34.50 per week.

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MS. HULL pointed out that cruise ship passengers only pay about \$34.50 in taxes for seven days. The taxes on motorcycle rentals have been significantly higher. She recalled one customer rented two motorcycles and paid \$386 in vehicle rental tax. She highlighted that many motorcycle customers travel to remote areas on the road system, such as Paxson. Communities that rarely have seen RV tourists receive tourist business from motorcycle travelers. She asked members to consider eliminating the tax so potential customers could afford to come to Alaska. In response to Chair P. Wilson, she restated that the average motorcycle rental fee is \$180 to \$200 per day.

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REPRESENTATIVE PETERSEN asked whether the \$200 also would include insurance costs.

MS. HULL stated the rental fee includes insurance. She explained that exemptions from the tax are not specified in the law so insurance is also taxed. She related that RVs have exemptions on a wide range of item, but exemptions for motorcycles are not currently allowed. In response to Chair P. Wilson, she stated that most of her customers bring their own helmets.

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PHILLIP FREEMAN, Alaska Rider Tours, stated that his company provides motorcycle rentals in Spenard. He related that he had been asked to repay back taxes. He has been in business for 12 years, has ten employees, and a fleet of 40 motorcycles. He pointed out that he competes with motorcycle rentals in the Lower 48. He said if owners had been notified of the tax, they could have collectively asked the legislature to consider an exemption. His customers want to travel to Manley Hot Springs, Central, and Prudhoe Bay, he said. The ten percent tax has been tough on his business due to the short rental season, which is about 12 weeks long. In response to Chair P. Wilson, he advised that the average motorcycle rental fees per day range from \$150 to \$200.

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REPRESENTATIVE FEIGE related he has a specific number of days rental in the twelve week season. He asked whether this bill would increase his motorcycle rentals.

MR. FREEMAN responded while he did not believe that the length of the rental period would increase due to the constraints due to weather, the price point would make him more competitive. He agreed that many people have a bucket list of places to go. If his prices are higher than competitors in other places, it stands to reason that his business will have fewer customers. In further response to Representative Feige, he agreed HB 62 would make motorcycle rentals more appealing.

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CHAIR P. WILSON asked whether he was required to repay back taxes for motorcycle vehicle rentals.

MR. FREEMAN answered he visited the tax office and was granted the option to collect the vehicle rental tax from that point forward. The DOR explained that the lawyers never considered motorcycles when the initial bill passed the legislature.

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REPRESENTATIVE JOHNSON asked whether people boycott travel to Alaska since the motorcycle rental rates are higher.

MR. FREEMAN responded absolutely. He related a common question people ask him is why they should pay twice as much to come to Alaska. Additionally, he related that more people are comparing prices due to the downturn in the economy. Customers may decide go to New Zealand instead, he said.

REPRESENTATIVE JOHNSON asked whether this tax break would cause more people to come to Alaska and if he has any commitment from people.

MR. FREEMAN offered his belief that more people would travel to Alaska. He offered to track this with his customers. In further response to Representative Johnson he said he has specifically been turned down due to the tax rate.

REPRESENTATIVE JOHNSON offered his belief that cutting taxes would increase motorcycle rental businesses. He said that if HB 62 is good for motorcycle rentals it is also good for business in Alaska.

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REPRESENTATIVE PETERSEN recalled during the Dalton Highway trip the committee took last summer that they encountered several groups of motorcycle riders on the Dalton Highway. He offered his belief chances are good that some motorcycle travelers had rented motorcycles. He suggested advertising could be attractive and might include traveling to "the end of the road," which would be the Arctic Ocean. He thought HB 62 may encourage more people to come to Alaska.

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BARRY MATTESON, Owner, House of Harley, stated that his company just started in the motorcycle renting business. He stated that the base rate \$250 a day. He offered that the Lower 48 rate ranges from \$95 to \$125 per day. He offered his belief

that he loses potential rental business due to the prices. He related that the passenger rental tax just makes it more expensive for his customers. In 2010 the House of Harley rented motorcycles to approximately 200 rental customers, largely traveling from the Lower 48. As previous testimony indicated, these travelers are more likely to eat in restaurants and stay in hotels. His business employs an additional two seasonal employees, incurs training, plus his core employees work an additional 10 to 20 hours to maintain the fleet during the offseason. He characterized his effort as labor intensive to maintain 15 motorcycles. The average cost of a Harley-Davidson motorcycle ranges from \$17,000 to \$20,000. The motorcycles are turned around at 18,000 miles, he added. The motorcycle rental business has been an expensive endeavor and the additional 10 percent tax creates a burden such that rentals may not continue to work for the House of Harley. In response to Chair P. Wilson, he indicated his rental fleet size ranges from 12 to 15 motorcycles.

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REPRESENTATIVE JOHNSON observed this seems to be a capital intensive business with a short time period to recover the business investment.

MR. MATTESON answered yes. He responded that the House of Harley does 90 percent of its rental business in three months.

REPRESENTATIVE JOHNSON asked whether Mr. Matteson was convinced this bill would increase his business.

MR. MATTESON responded he was unsure whether it would increase his business but without HB 62 that he may not have his motorcycle rental business.

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REPRESENTATIVE GRUENBERG asked whether vehicles such as snow machines are rented in the winter encounter the same issues.

MR. MATTESON answered that the House of Harley does not rent snow machines.

MS. HULL answered that Alaska Motorcycle Adventures does not rent snow machines but only rents motorcycles.

MR. FREEMAN responded that Alaska Rider Tours only rents motorcycles.

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CHAIR P. WILSON, after first determining no one else wished to testify, closed public testimony on HB 62.

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REPRESENTATIVE PRUITT made a motion to adopt Amendment 1, A.1, labeled 27-LS0323\A.1, Luckhaupt, 3/17/11, which read, as follows:

Page 1, line 2, following "tax":
Insert "; and providing for an effective date"

Page 2, following line 12:
Insert a new bill section to read:
"* **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c)."

There being no objection, Amendment 1 was adopted.

REPRESENTATIVE JOHNSON asked whether HB 62 could be retroactive.

REPRESENTATIVE FEIGE asked whether the effective date could be dated January 1, 2010.

CHAIR P. WILSON did not think it would make much difference.

REPRESENTATIVE JOHNSON stated that if retroactivity would help provide relief he would support it to help small businesses.

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REPRESENTATIVE GRUENBERG moved to report the HB 62, as amended, from the committee with individual recommendations and the accompanying fiscal note. There being no objection, CSHB 62(TRA) was reported from the House Transportation Standing Committee.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 2:20 p.m.