STAND. COM. REP. NO. 2362

Honolulu, Hawaii

FOB 17

, 2006

RE:

S.B. No. 2768

S.D. 2

Honorable Robert Bunda President of the Senate Twenty-Third State Legislature Regular Session of 2006 State of Hawaii

Sir:

Your Committee on Transportation and Government Operations, to which was referred S.B. No. 2768, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO AVIATION FUEL TAX,"

begs leave to report as follows:

The purpose of this measure is to exempt, from the general excise tax, use tax, and fuel taxes, the aviation fuel used in intrastate air transportation and transportation between the State and the mainland.

Your Committee received testimony in support of this measure from Hawaiian Airlines and Aloha Airlines. Testimony in opposition was received from the Department of Transportation. Comments were received from the Department of Taxation.

Your Committee finds that as an island state, air transportation is vital to the lives of Hawaii's resident population and the economic well-being of the State. Over the past few years, the passenger air carriers serving Hawaii have been impacted financially by the dramatic increases in jet fuel. This has caused bankruptcy and reorganization of inter-island carriers.

The single largest cost to the airlines is fuel, over which the airlines have no control, and there are no alternatives to jet fuel. According to testimony, every penny change in the price of fuel affects inter-island airlines by approximately \$1,000,000.

Your Committee was advised in testimony that the foreign trade zone tax exemption pursuant to section 212-8, Hawaii Revised Statutes, applies to interstate and foreign commerce and not to inter-island flights.

Your Committee believes the inter-island carriers need and deserve a reprieve from state taxes on fuel. However, your Committee is concerned that the tax savings will not necessarily be realized by residents in lower fares. Therefore, your Committee urges the airlines to accommodate residents by lowering air fares, which would also stimulate travel.

Your Committee has amended this measure upon the recommendation of Aloha and Hawaiian Airlines to clarify the exemption language and to delete the fuel tax exemption and references to travel between Hawaii and the U.S. mainland.

As affirmed by the record of votes of the members of your Committee on Transportation and Government Operations that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2768, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as S.B. No. 2768, S.D. 2.

Respectfully submitted on behalf of the members of the Committee on Transportation and Government Operations,

LORRAINE R. INDUYE, Chair

## The Senate Twenty-Third Legislature State of Hawaii

## Record of Votes of the Committee on Transportation and Government Operations (Bills and Resolutions)

Measure:* Committee Re	Referral: Date: 2/16/06			
The committee is reconsidering its previous decision on this measure.				
If so, then the previous decision was to:				
The Recommendation is to:				
Pass, unamended Pass, with amendments Hold Recommit (2312) (2311) (2310) (2313)				
Members	Ayes	Ayes(WR)	Nays	Excused
INOUYE, Lorraine R. (C)	<b>1</b>			
ESPERO, Will (VC)		. 1/		*
BAKER, Rosalyn H.				
HEE, Clayton	Phys. 3		18 A. J.	
KANNO, Brian				
MENOR, Ron	V			
WHALEN, Paul				~
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TOTAL	3	1		3
Recommendation:  Adopted  Not Adopted				
Chair's or Designee's Signature:				
Distribution:         Original         Yellow         Pink         Goldenrod           File with Committee Report         Clerk's Office         Drafting Agency         Committee File Copy				

<sup>\*</sup>Do <u>not</u> list more than one measure per Record of Votes.