

NEIL ABERCROMBIE
GOVERNOR

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HOUSE COMMITTEE ON FINANCE

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1102, HD 1 RELATING TO MOTOR VEHICLE WEIGHT TAX

TESTIFIER: FREDERICK D. PABLO, DIRECTOR OF TAXATION
(OR DESIGNEE)
COMMITTEE: FIN
DATE: FEBRUARY 25, 2011
TIME: 3PM
POSITION: SUPPORT

This measure increases the Motor Vehicle Weight Tax by approximately 1 cent per pound; with the flat tax on large vehicles increased from \$150 to \$300.

The Department of Taxation (Department) **supports** this measure.

SUPPORT FOR FUNDING TRANSPORTATION—The Department supports this tax increase as a means of ensuring consistent and reliable funding for Hawaii's transportation projects. This measure provides much needed revenues for the State Highway Fund.

REVENUE IMPACT—This measure will result in a revenue gain of approximately \$34.5 million per year, which will benefit the State Highway Fund.

DEPARTMENT OF CUSTOMER SERVICES
CITY & COUNTY OF HONOLULU
DIVISION OF MOTOR VEHICLE, LICENSING AND PERMITS
ADMINISTRATION
P.O. BOX 30300
HONOLULU, HAWAII 96820-0300

PETER B. CARLISLE
MAYOR



GAIL Y. HARAGUCHI
DIRECTOR

DENNIS A KAMIMURA
LICENSING ADMINISTRATOR

February 23, 2011

The Honorable Marcus Oshiro, Chair
and Committee Members
Committee on Finance
House of Representatives
State of Hawaii
State Capitol, Room 306
Honolulu, Hawaii 96813

Dear Chair Oshiro and Committee Members:

Subject: H.B. No. 1102 H.D.1, Relating to Motor Vehicle Weight Tax

The City and County of Honolulu has no objections to H.B. No. 1102 H.D.1 which will increase the state motor vehicle weight tax by one cent per pound and the flat rate for vehicles over ten thousand pounds from \$150 to \$300 to be effective with the motor vehicle registration period beginning December 1, 2011.

Sincerely,


Gail Y. Haraguchi
Director

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MOTOR VEHICLE, Increase state motor vehicle weight tax

BILL NUMBER: HB 1102, HD-1

INTRODUCED BY: House Committee on Transportation

BRIEF SUMMARY: Amends HRS section 249-33 to increase the state motor vehicle weight tax from .75 cents a pound to 1.75 cents a pound for motor vehicles weighing up to and including 4,000 pounds; from 1.00 cent a pound to 2.00 cents a pound for motor vehicles weighing over 4,000 pounds and up to 7,000 pounds; from 1.25 cents a pound to 2.25 cents a pound for vehicles weighing over 7,000 pounds and up to 10,000 pounds; from \$150 to \$300 for motor vehicles weighing over 10,000 pounds.

Appropriates an unspecified amount out of the state highway fund for fiscal year 2012 and the same sum for fiscal 2013 for the operations and maintenance of the state highway fund.

EFFECTIVE DATE: December 1, 2011

STAFF COMMENTS: This was an administration measure submitted by the department of transportation TRN-15(11). This measure proposes increases to the state motor vehicle weight tax to provide additional funds for the ailing state highway fund.

These rates represent a substantial increase in the vehicle weight tax, an increase that was predicted largely because the last administration and last session of the legislature refused to address what was a growing problem over the past seven years, that the highway fund was rapidly being depleted because fuel and weight tax rates had not been increased since 1991 when lawmakers terminated the transfer of the general excise taxes collected on the sale of fuel as the state entered another period of contraction in general fund resources.

While the general fund picture is currently in a dire strait, the legislature should revisit the transferring of the general excise taxes realized from the sale of liquid fuel used in motor vehicles to the highway fund. General excise tax revenues derived from the sale of gasoline are normally receipts of the state general fund. The legislature by Act 159, SLH 1981, realized the need to increase the revenue base of the state highway fund and provided that general excise tax revenues derived from the sale of gasoline were to be deposited into the highway fund until June 30, 1984. This transfer of the general excise tax revenues was further extended through 1987 by Act 163, SLH 1984. The legislature by Act 239, SLH 1985, extended the transfer to June 30, 1991. Rather than extending the transfer of general excise tax revenues to the highway fund, the 1991 legislature established a rental motor vehicle and tour vehicle surcharge as well as adding increases in the state fuel tax, motor vehicle registration fees and the weight tax.

While the adoption of this measure acknowledges that something has to be done about our ailing highway infrastructure, action needs to be taken now. It should be remembered that prior actions by the legislature to address the highway fund shortfall were lackluster or nil. While Act 258, SLH 2007,

mandated that a special joint senate and house task force conduct a review of the financial requirements of the state highway fund, in its final report it acknowledged that the future projections of highway fund revenues are insufficient. The task force report deferred to the department of transportation and the administration to formulate a plan to raise revenue for the highway fund. It is incredible that a task force convened to find a resolution to the ailing highway fund would abdicate any sort of responsibility for bringing forth a resolution to the problems facing the state highway fund. Similarly, a task force convened by the administration likewise walked away without a recommendation on how to solve the financing problems of the state highway fund.

Serious consideration should be given to depositing the receipts of the general excise tax collected on the sale of fuels into the highway fund which would give the highway fund some elasticity such that its resources grow along with the inflation affected costs for maintaining the state highway system.

While it is generally recognized that the current resources of the highway fund will not keep up with the rising costs of highway construction and maintenance, lawmakers should not blithely accept the cost of the highway program without closely scrutinizing the cost of running the state highway program. Just because the resources are earmarked solely for the highway program, it should not go without close examination such as the spending of general funds is subjected to in the appropriation process. Highway administrators need to be held accountable for their methods and practices in administering the program to insure that the highway users' tax dollars are spent wisely and efficiently.

As a reasonable alternative, lawmakers may want to consider adopting a moderate increase in all three resources of the highway fund for a temporary period while an independent panel is convened to study which of the current resources would best reflect use of the state highways and explore other potential resources for the state highway fund. While this is something that should have been done years ago, it is better to make an informed decision that all stakeholders can buy into rather than adopting measures which may in the long run not prove to be the best alternative to restoring stability to the highway special fund.

Digested 2/23/11



February 25, 2011

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE
ON HB 1102 HD1 RELATING TO MOTOR VEHICLE WEIGHT TAX**

Thank you Chair Oshiro and committee members. I am Gareth Sakakida, Managing Director of the Hawaii Transportation Association (HTA) with over 400 transportation related members throughout the state of Hawaii.

Hawaii Transportation Association opposes the amount of the increase of the motor vehicle weight tax, especially in light of legislation to propose increases in the state vehicle registration fee and liquid fuel tax, and the impending fuel tax increase by the City & County of Honolulu.

In spite of economic forecasts showing some improvement for Hawaii in the coming years, those times are not yet here and the transportation industry still suffers from losing as much as half its activity over the past three years.

Then Oahu carriers were hit by the City & County of Honolulu's increase of the vehicle weight tax in 2010 and this year, boosting our per vehicle cost an average of \$400 in 2010 and another \$400 this year. Last year the Legislature increased the barrel tax which added about \$200 per vehicle per year.

Add those hits to this year's proposals to increase the per vehicle cost by \$170 (registration and weight proposals), and each penny of fuel tax increase means an average of \$55 in additional cost.

Unlike governments, we do not have the power to mandate price increases so we have been cutting budgets and making do with less. The industry just cannot afford the kind of money you are seeking for the highway fund - if it even remains there.

Thank you.

Douglas Meller
2749 Rooke Avenue
Honolulu, HI 96817

HAWAII HOUSE COMMITTEE ON FINANCE
3 PM FEBRUARY 25, 2011, HEARING

COMMENTS ON HB 1101 HD 1, HB 1102 HD 1, AND HB 1531, HD1

Before I retired, I used to work for the State DOT. Practically every year before I retired, I heard complaints that the Legislature, the Governor, the Department of Budget and Finance, and/or the DOT Director were inappropriately restricting both expenditures for State highway maintenance and the number (and filling) of positions required for State highway maintenance. Although responsibility is shared by many parties, I believe that State highway maintenance has been underfunded and understaffed because elected officials and political appointees have other priorities for use of highway funds and do not understand the consequences of their actions.

Regardless of State priorities, deferral of timely public expenditures for State highway maintenance will substantially increase the cumulative long-term public expenditures which will inevitably be required for highway maintenance. (For example, because State highway maintenance has been underfunded, the DOT might need to spend as much as \$1 billion to fix or replace existing deficient and dilapidated State highway bridges.) It also is relevant that the short-term public costs to fund routine highway maintenance will normally be less than the additional short-term private costs (for vehicle maintenance and fuel) which would be incurred without routine public expenditures to keep highways smooth.

To ensure timely and adequate funding of State highway maintenance, instead of enacting permanent highway tax increases, I recommend that the Legislature authorize the State DOT to administratively assess highway user fees (on some equitable combination of vehicle weight, fuel consumption, miles traveled), to be collected in the manner of taxes currently deposited to the State highway fund, with all highway user fee revenues earmarked to pay for maintenance, operation, and management of highways under DOT's jurisdiction. In Hawaii Insurance Council v. Lingle, the State Supreme Court ruled that transfer of user fees to the general fund would unconstitutionally blur the distinction between the executive power to assess user fees and the legislative power to tax for general purposes. If DOT assessed user fees could not be spent for purposes other than highway maintenance and operation, there obviously would be less incentive for elected officials and appointees to inappropriately defer State highway maintenance.

Unfortunately, there is no way the current Legislature can limit the future expenditure of highway tax revenues for purposes unrelated to State highways or guarantee that future highway tax revenues will be used for timely highway maintenance rather than capital improvements to increase highway capacity. There obviously are political pressures to defer highway maintenance so that State highway tax revenues and DOT's apportionment of FHWA revenues could be used for other purposes. Between 1996 and 2003, about \$144 million was transferred from the State highway fund to the State general fund. Act 178, Session Laws of Hawaii 2005, appropriated \$10 million from the State highway fund for use by the counties. Act 125, Session Laws of Hawaii 2006, amended Section 248-9(a)(4), Hawaii Revised Statutes, to allow unlimited future use of State highway tax revenues for county road work. For federal FY 2002 through federal FY 2010, about \$190 million of DOT's share of FHWA funds was contractually "obligated" to reimburse county expenditures for county projects. DOT's most recently adopted Statewide Transportation Improvement Program for federal FY 2011 through federal FY 2016 programs about \$346 million of FHWA funds for proposed county projects. (The Legislature has not set policy concerning programming of FHWA funds for county expenditures. However, it should be noted that much of the FHWA funds obligated or programmed for county projects could instead be used to reimburse eligible DOT expenditures for maintenance of State highways.)