# SB 1329

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IN REPLY REFER TO:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

January 31 2011

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

SENATE BILL NO. 1329

COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS

The Department of Transportation strongly supports Senate Bill No. 1329. Senate Bill No. 1329 will amend Section 249-33, Hawaii Revised Statutes subsection (a) to increase the annual state vehicle weight tax.

The bill proposes to increases to the annual vehicle weight tax rates from .75 cents to 1.75 cents per pound for each vehicle up to and including four thousand pounds net weight; from 1.00 cent to 2.00 cents per pound for vehicles over four thousand pounds up to and including seven thousand pounds; from 1.25 cents to 2.25 cents a pound for vehicles over seven thousand pounds and under ten thousand pounds; and the flat rate for vehicles over ten thousand pounds from $15 to $300. The bill also appropriates monies out of the State Highway Fund for fiscal years 2011 - 2012 and fiscal year 2012 -2013 for the operations and maintenance of the state highways program.

The increase in the state vehicle weight tax is estimated to provide an additional $32.9 million annually for the State Highway Fund. The increase in revenues for the State Highway Fund will improve the Department of Transportation's ability to construct, operate and maintain the State Highway System.

## OPERATIONS AND ROUTINE MAINTENANCE

The current needs for the routine operation and maintenance of the State Highway System is over $115,000,000 per year. Without the additional funding, the Highways Division will not be able to properly maintain the State Highway System that is essential to the health, welfare, and safety of our motoring public. The State Highway System includes 2,479.36 miles of lane miles. Although the State has increased the lane miles of the State Highway System, the routine operation and maintenance budget was not increased to properly maintain the additional lane miles.

The funding for the routine operation and maintenance is used for maintaining and repairing the pavement and shoulders; bridges and other structures; fencing and walls; drainage systems; traffic signs; guardrails; highway pavement markings; highway lighting system; sidewalks and wheelchair ramps; landscaping and irrigation systems; cleaning the streets; and restoring State

Highways after slides, storm damages, accidents, and other catastrophic events. Additionally, operations and maintenance activities on Oahu includes a 24-hour, 7-days-a-week schedule, a traffic management center, all mechanical, electrical, electronic, plumbing and drainage, ventilation, traffic monitoring and control, fire control systems in our major tunnels; and managing and monitoring the National Pollutant Elimination System (NPDES) – Municipal Separate Storm Sewer System (MS4) Program.

Also, Federal laws require that the State maintain all State Highways that were constructed with the use of Federal funds. Not properly maintaining our highways may jeopardize our ability to obtain Federal funds.

## SPECIAL MAINTENANCE PROGRAM (SMP)

In prior years, when the Highways Division has had its budget cut, the Special Maintenance Program (SMP) was reduced to keep the State Highways Fund in the black.

The Highways Division changed its resurfacing cycle for State Highways from an average of once every 10 years to once every 14 years. Studies have shown that after 10 years the pavement condition deteriorates at an accelerated rate. The overall condition of the State Highway System has deteriorated because of the reduced SMP funding and to date the department has not caught up with its resurfacing program. As the highway pavement deteriorates, the cost increases exponentially. The average cost of preventive maintenance is approximately $98,000 to $289,000 per lane mile ($183,000 average), while the cost for rehabilitation and/or reconstructing the pavement ranges from $321,000 to $2,200,000 ($555,000 average) per lane miles.

In the fiscal year 2005-2006, the SMP state funded budget was $72,810,487. Due to fiscal constraints, the SMP program has been reduced as follows:

| | |
|---|---|
| FY 2006-2007 | $67,200,407 |
| FY 2007-2008 | $49,906,862 |
| FY 2008-2009 | $57,577,883 |
| FY 2009-2010 | $57,842,859 |
| FY 2010-2011 | $55,914,860 |
| FY 2011-2012 | $27,000,000* |
| FY 2012-2013 | $27,000,000* |

*proposed FB 11-13 budget request.

A reduction in the Special Maintenance Program will result in a poorer overall condition of the State Highway System and the deferred maintenance significantly increases the future costs to rehabilitate and/or reconstruct our highways.

## CAPITAL IMPROVEMENT PROGRAM (CIP)

The State Highway Fund supports the CIP program in the following ways:

1. Direct salary, fringe benefits, and administrative costs for 366 Highways Division project-funded positions are paid from the State Highway Fund. Since fiscal year 2005-2006, the Highways Division budgets $12,500,000 in state funds for this purpose.

2. The State Highway Fund pays for debt service of Highway Revenue Bonds, the primary state funding source for the CIP program. Debt service includes interest and principal payments for the revenue bonds. Every two years, the Division sells approximately $80,000,000 in revenue bonds.
3. In addition to the revenue bonds, the State Highway Fund also pays for the debt service of Reimbursable General Obligation (G.O.) bonds. Although Reimbursable G.O. bonds are no longer used by the Highways Division to finance new projects, debt service for Reimbursable G.O. bonds previously issued will continue until 2017.
4. Finally, in the event of emergencies or other unforeseen circumstances, CIP projects may be funded from the State Highway Special Fund. An example of this would be when the heavy rainfall in the months of March and April of 2006 created severe damage to highways on the islands of Kauai and Oahu. Act 118, Session Laws of Hawaii, 2006, appropriated CIP funds to pay for emergency projects. It is estimated that about $8,171,763 in expenditures as of November of 2009 has been spent for emergency CIP projects for Oahu, and another $4,213,963 in expenditures as of June of 2010 has been spent for Kauai emergency related CIP projects.

The reduction of the rental vehicle surcharge tax will have a negative effect on the CIP program the following ways:

1. Reductions in revenues may negatively affect the current bond rating. In 2008, the uninsured ratings for the $60,000,000 bond offering by S&P, Moody's, and Fitch were AA+, AA3, and AA- respectively, the second and third best bond ratings possible. The strong ratings were directly attributed to the fact that revenues were in excess of 4 times the amount needed for bond debt service.
2. Any downgrade in bond ratings caused by revenue reduction will increase the cost of borrowing for the Highways Division. In fiscal year 2009-2010, approximately $38,600,000 was paid for revenue bond debt service and approximately $8,000,000 for Reimbursable General Obligation (G.O.R.) Bond debt service. A higher cost of borrowing may restrict the ability for the Highways Division to maintain the current annual $40,000,000 revenue bond program and may force the Highways Division to reduce future bond offerings from the $40,000,000 annual levels.
3. The Highways Division will be forced to defer future CIP projects if the revenue bond program is reduced. Current CIP needs outweigh revenue sources.
4. Finally, the projected depletion of the State Highway Fund caused by the revenue reduction will take away the ability for the Highways Division to fund emergency projects or other unforeseen needs with cash. As demonstrated in the past, the Highways Division was able to cope with emergency projects such as:

    - Kalanianaole Highway, Emergency Landslide Repairs at Castle Junction;
    - K ailua Road Rockfall Mitigation, Permanent Repairs for Kailua Road;
    - Kauai Emergency Flood Repairs at Various Locations;
    - Emergency Culvert Repair on H-1 at Olopana Street, and
    - Kalanianaole Highway Drainage Improvements, Vicinity of Keolu Hills (Emergency Repairs).

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

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## SENATE COMMITTEE ON TRANSPORTATION & INTERNATIONAL AFFAIRS

## TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 1329 RELATING TO MOTOR VEHICLE WEIGHT TAX

***WRITTEN TESTIMONY ONLY***

| | |
|---|---|
| **TESTIFIER:** | **FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)** |
| **COMMITTEE:** | **TIA** |
| **DATE:** | **JANUARY 31, 2011** |
| **TIME:** | **1:15PM** |
| **POSITION:** | **SUPPORT** |

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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

January 27, 2011

The Honorable J. Kalani English, Chair
and Committee Members
Committee on Transportation and
International Affairs
The Senate
State of Hawaii
State Capitol, Room 205
Honolulu, Hawaii 96813

Dear Chair English and Committee Members:

Subject: S.B. No. 1329, Relating to Motor Vehicle Weight Tax

The City and County of Honolulu has no objections to S.B. No. 1329 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.

In order to develop and test the appropriate computer programming that is necessary to implement this bill, we recommend that the effective date of the bill be amended to December 1, 2011.

The City and County of Honolulu recommends your favorable action on S.B. No. 1329, as amended.

Sincerely,

for Gail Y. Haraguchi
Director


**Hawaii Transportation Association**

*Driving Hawaii's Economy*

January 31, 2011

**TESTIMONY BEFORE THE SENATE COMMITTEE ON TRANSPORTATION & INTERNATIONAL AFFAIRS ON SB 1329 RELATING TO MOTOR VEHICLE WEIGHT TAX**

Thank you Chair English 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 vehicle registration fee and liquid fuel tax.

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.

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L E G I S L A T I V E

# 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: SB 1329; HB 1102 (Identical)

INTRODUCED BY: SB by Tsutsui by request; Say by request

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 2102 and the same sum for fiscal 2013 for the operations and maintenance of the state highway fund.

EFFECTIVE DATE: Upon approval

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 1/28/11

GOODSILL ANDERSON QUINN & STIFEL
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# MEMORANDUM

**TO:** Senator J. Kalani English
Chair, Committee on Transportation and International Affairs
Hawaii State Capitol, Room 205
Via Email: TIATestimony@Capitol.hawaii.gov

**FROM:** Christine Ogawa Karamatsu

**DATE:** January 30, 2011

**RE:** **S.B. 1329 – Relating to Motor Vehicle Weight Tax**
**Hearing: Monday, January 31, 2011 at 1:15 p.m., Room 205**

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Dear Chair English and Members of the Committee on Transportation and International Affairs:

I am Christine Ogawa Karamatsu, testifying on behalf of EAN Holdings, LLC, operating Enterprise Rent-A-Car, Alamo Rent A Car and National Car Rental in Hawaii (collectively referred to as "Enterprise").

Enterprise **opposes** S.B. 1329, which allows for an increase in the State motor vehicle weight tax and deposits the money into the State Highway Fund.

This bill proposes the following increases:

| ***Vehicle Weight*** | ***Current Rate*** | ***Proposed Rate*** | ***Percent Increase*** |
|---|---|---|---|
| Vehicles up to 4,000 lbs. | $0.75/lb. | $1.75/lb. | **133%** |
| Vehicles 4,000-7,000 lbs. | $1.00/lb. | $2.00/lb. | **100%** |
| Vehicles 7,000-10,000 lbs. | $1.25/lb. | $2.25/lb. | **80%** |
| Vehicles over 10,000 lbs. | $150 | $300 | **100%** |

With the large fleet of Enterprise cars based here in Hawaii, the proposed rate increases will have an impact of almost $800,000 on our Hawaii operations.

While Enterprise understands the needs of the State to generate revenue to operate and maintain the State Highway System and balance the budget, we respectfully ask that the Legislature consider the implications of the fee increases proposed when the average percentage increase overall is 100%.

By necessity, much of this increase will be passed onto Enterprise's customers, in the form of higher rental fees. This will not only increase the cost of doing business for those traveling between the islands and renting cars for work, but also impacts visitors, who have already seen recent increases in fees such as the Transient Accommodations Tax. Ultimately, this will make the cost of a Hawaii vacation less attractive than other comparable visitor destination areas.

In these economic times, where both businesses and consumers are just beginning to get back on their feet, we respectfully ask the Committee to consider the detrimental impact fee increases of this size will have.

Thank you for the opportunity to testify on this matter.