



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

IN REPLY REFER TO:

February 25, 2011

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

HOUSE BILL NO. 1101, H.D. 1

COMMITTEE ON FINANCE

**The Department of Transportation supports House Bill No. 1101, H.D. 1.** House Bill No. 1101, H.D. 1 will amend Section 249-31, Hawaii Revised Statutes to increase the annual vehicle registration fee.

The bill proposes to increase the annual vehicle registration fee rate from \$25 to \$45 and the amount to be deposited into the State Highway fund from each annual vehicle registration fee from \$20 to \$40. 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 vehicle registration fee is estimated to provide an additional \$22.9 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 revenues 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:
  - Kalaniana'ole Highway, Emergency Landslide Repairs at Castle Junction;
  - Kailua 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
  - Kalaniana'ole Highway Drainage Improvements, Vicinity of Keolu Hills (Emergency Repairs).

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. 1101 H.D.1, Relating to Motor Vehicle Registration

The City and County of Honolulu has no objections to H.B. No. 1101 H.D.1 which will increase the state motor vehicle registration fee from \$25 to \$45 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 registration fee

**BILL NUMBER:** HB 1101, HD-1

**INTRODUCED BY:** House Committee on Transportation

**BRIEF SUMMARY:** Amends HRS section 249-31 to increase the state motor vehicle registration fee from \$25 to \$45.

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-14(11). This measure proposes to increase to the state motor vehicle registration fee to provide additional funds for the ailing state highway fund.

Of the three major sources of funding for the state highway fund, the vehicle registration fee can be viewed as an admission charge for the privilege of being able to "enter" the state highway system. While a modest increase may be in order, since the fee has not been raised since 2004 and then not for highway maintenance but for emergency medical services, lawmakers need to look at all vehicles which use the state highway system. These include exemptions which have been adopted in recent years and those vehicles that enter state highways but pay no vehicle registration fees such as bicycles and electric vehicles. More recently lawmakers have exempted vehicles of certain armed services personnel based more on emotions than good sound financial policy.

As a result, these exemptions erode the base for this fee and pass the cost on to those who cannot qualify for the exemption. This is patently unfair since the fees and taxes paid into the highway fund provide the same basic services to all drivers regardless of whether they are veterans or the disabled.

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.

Digested 2/23/11



February 25, 2011

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE  
ON HB 1101 HD1 RELATING TO MOTOR VEHICLE REGISTRATION**

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 motor vehicle registration fees, especially in light of legislation to propose increases in the state vehicle weight fee and liquid fuel tax, and the impending increases in the fuel tax 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.)