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HOUSE COMMITTEE ON TRANSPORTATION

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1531 RELATING TO HIGHWAYS

WRITTEN TESTIMONY

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)
COMMITTEE: TRN
DATE: FEBRUARY 7, 2011
TIME: 9AM

POSITION: COMMENTS

Among other things, this measure:

- 1) Increases the fuel tax by 10 cents on fuel other than diesel;
- 2) Increases the state vehicle weight tax by 2 cents; and
- 3) Makes the \$3 per day rental motor vehicle surcharge tax permanent.

The Department of Taxation (Department) offers comments.

NEED TO INVEST IN HIGHWAY INFRASTRUCTURE—The Department acknowledges the need for long term investment in the States highway infrastructure. Hawaii motor vehicle taxes are based upon a taxpayer's use of these highways by assessing taxes and fees for the gallons of fuel, weight of a vehicle, or use of a rental vehicle, all of which contribute to the Highway fund. This measure will assist with providing much needed revenue to the Highway Fund in order to assist the Department of Transportation with its infrastructure projects.

DEFER TO DOT—Though the Department supports adequate funding for highway projects, the Department defers to DOT on the merits of this bill.

OPPOSED TO CURRENT STRUCTURE OF THE FUEL TAX INCREASE—The Department opposes the current version of this measure, which increases the fuel tax ONLY on gasoline and other fuels other than diesel. Diesel fuel is not increased under this measure, which will result in an economic distortion of fuel use. If diesel fuel is disproportionately taxed more favorably than ordinary gasoline, taxpayer use of gasoline vehicles will likely drop, thus impacting the efficiency of the fuel tax.

The fuel tax is a very efficient tax because it taxes use. As such, the efficiency should be maintained by increasing the tax equally for all fuel types.

SUPPORT FOR INCREASING WEIGHT TAX—The Department generally supports the concept of increasing the vehicle weight tax, which the Administration supports in HB 1102.

SUPPORT FOR MAKING THE \$3/DAY RENTAL MOTOR VEHICLE SURCHARGE TAX PERMANENT—The Department generally supports the concept of maintaining the \$3 per day rental motor vehicle surcharge tax, which is set to revert to \$2 per day in August. This is in accord with the Administration measure HB 1097.

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SUBJECT: FUEL, MOTOR VEHICLE, RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE, Increase tax

BILL NUMBER: HB 1531

INTRODUCED BY: Souki, Awana, Ichiyama, M. Lee, McKelvey, Yamashita and 3 Democrats

BRIEF SUMMARY: Amends HRS section 243-4(a) to increase the state fuel tax on gasoline by 10 cents, except on any island with a total resident population of less than 20,000 persons.

Amends HRS section 249-31 to increase the state motor vehicle registration fee from \$25 to \$45, except on any island with a total resident population of less than 20,000 persons.

Amends HRS section 249-33 to increase the state motor vehicle weight tax from .75 cents a pound to 2.75 cents a pound for motor vehicles weighing up to and including 4,000 pounds; from 1.00 cent a pound to 3.00 cents a pound for motor vehicles weighing over 4,000 pounds and up to 7,000 pounds; from 1.25 cents a pound to 3.25 cents a pound for vehicles weighing over 7,000 pounds and up to 10,000 pounds; from \$150 to \$450 for motor vehicles weighing over 10,000 pounds; provided that these increases in motor vehicle weight taxes shall not be applicable to motor vehicles on any island with a total resident population of less than 20,000 persons.

Amends HRS section 251-2 to provide that the rental motor vehicle surcharge tax of \$3 shall be made permanent.

Directs the department of transportation to develop one or more pilot programs to test alternatives to the current state and county system of motor vehicle fuel taxes. The pilot programs may include but are not limited to programs to test the reliability, ease of use, cost, and public acceptance of technology and methods for: (1) identifying vehicles; (2) collecting and reporting the number of miles traveled by particular vehicles; and (3) collecting payments from or making payments to participants in pilot programs.

The department of taxation may refund motor vehicle fuel taxes paid by participants or compensate participants in the pilot programs under this act. Any compensation to participants in pilot programs under this act may be administered uniformly or may be administered as a sweepstakes. The department of taxation may terminate a pilot program at any time and may terminate participation by any person at any time. Termination from a pilot program under this act shall not entitle any person to additional compensation.

Requires the department of transportation to submit an interim progress report on the status of the land transportation modernization program to the 2012 legislature with annual progress reports to the legislature prior to the convening of each regular session and a final report to the 2018 legislature. The department of transportation shall submit a final report on the vehicle miles traveled pilot program to the

2018 legislature with findings and recommendations from the proposed pilot program.

Authorizes the department of transportation to expend funds for the programs listed in the measure.

Appropriates \$ _____ of highway revenue bonds, and \$ ____ of federal funds, \$ _____ of additional highway revenue bonds, and the sum of \$ ____ of federal funds for the vehicle miles tax pilot program to carry out the purposes of this act, including expenditures for expenses, staff, or consultants. The sums appropriated shall be expended by the department of transportation.

If additional federal funds become available for land transportation infrastructure improvements under the economic stimulus plan or any similar program, the department of transportation is hereby authorized to pursue, apply, and expend federal funds on any of the programs or projects.

The amendments made to HRS section 243-4(a) of this act shall not be repealed when this section is repealed and reenacted on December 31, 2012 by Act 103, SLH 2007, as amended by Section 3 of Act 198, SLH 2009.

EFFECTIVE DATE: October 1, 2011

STAFF COMMENTS: This measure proposes increases to the state fuel tax, the motor vehicle registration fee and the vehicle weight tax to generate additional funds for the ailing state highway fund.

This measure proposes a substantial increase to the state fuel tax, motor vehicle weight registration fee and motor vehicle weight tax, largely due to the fact that 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 of 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.

While the per day rental car surcharge and the tour vehicle surcharge may still be needed to balance the fund, it by no means should be the only source to be tapped as it merely postpones the day of reckoning. It should be remembered that unlike the other resources of the state highway fund, the fortunes of the motor vehicle surcharge are highly dependent on the utilization of rental cars and tour vehicles which, in turn, are dependent on the fortunes of the visitor industry. Thus, the motor vehicle rental surcharge and the tour vehicle surcharge are the least reliable of the revenue resources available to the state highway fund.

While motorists may not like the large tax rate increases proposed in this bill, they can chalk this bad news up to the fact that both lawmakers and administration officials refused to deal with the ailing highway fund when the issue was brought to their attention nearly ten years ago. Had the problem been dealt with at that time, lawmakers could have enacted more moderate rate increases that over the long term would have allowed them to avoid such a dramatic increase in highway user fees.