



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

February 8, 2012

**SB 2346**  
**RELATING TO TAXATION**

**SENATE COMMITTEE ON WAYS AND MEANS**

The Department of Transportation opposes this bill.

The bill proposes to repeal the state portion of the fuel tax and increases the vehicle weight tax by amending Section 243-4 to eliminate the 17 cent state tax on fuel and Section 249-33 to increase the annual state vehicle weight tax to an unspecified amount.

- This bill will eliminate the state fuel tax which is the major revenue source for the State Highway Fund, accounting for 45.4% and over \$89 million of the total revenues of \$196.778 million for fiscal year 2011. The elimination of this primary source of revenues for the State Highway Fund will have an extremely detrimental impact on the Department's ability to construct, operate and maintain the State Highway System.
- The state fuel tax is the major source of pledged revenues for the Highway Revenue Bonds. The strong current strong bond ratings are based on the high debt service coverage provided by the diversified source of the pledged revenues. The elimination of the fuel tax will erode the diversification of the Highways Special Fund pledged revenues and tax base. The elimination of this revenue source and increase in the state vehicle weight tax will require disclosure and may impact the Highways Revenue Bond ratings.
- The state vehicle weight tax must be raised by 3 cents per pound to make up for the loss of approximately \$90 million in annual fuel tax revenues. To increase the weight tax to hedge any losses is a viable means to supplement the

Highways Special Fund; however there is an increase in risk of eliminating a tax source. The elimination of the fuel tax will erode the diversification of the Highways Special Fund tax base.

- The highways financial plan relies on the state fuel tax revenues to support the continued operations and maintenance of the State Highway System and any decrease in revenues will have an adverse impact on the ability of the Highways Division to continue operate and maintain, and construct our highways. The failure of the State to properly maintain the State Highway System may result in sanctions by the FHWA including the loss of federal funds.
- Any decrease in revenues for the State Highway Fund would necessitate a reduction in the highways CIP and special maintenance programs. It will also impact the Department of Transportation's ability provide state matching funds for the highways federal-aid program. The lack of adequate state matching funds could result in a loss of federal funds. The normal federal share for projects on the interstate system is 90 % and for other eligible roadways it is 80%. It would not be in the best interest of the public to risk losing these funds because the state lacks it's 10% or 20% matching share.