

SB 1212

RELATING TO THE STATE FUEL TAX.

Assesses the State Fuel Tax based on a percentage of the weighted wholesale price per gallon of gasoline and average wholesale price per gallon of diesel.



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

February 6, 2013
1:16 P.M.
State Capitol, Conference Room 224

SB 1212
RELATING TO THE STATE FUEL TAX

Senate Committee(s) on Transportation & International Affairs and
Commerce & Consumer Protection

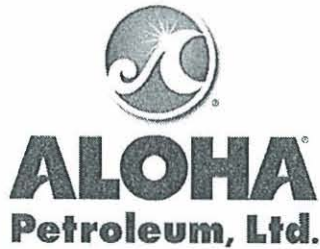
Senate Bill 1212 Assesses the state fuel tax based on a percentage of the weighted wholesale price per gallon of gasoline and average wholesale price per gallon of diesel to provide revenues for the State Highway Fund. The bill will change the methodology of assessing the state fuel tax based on a percentage of the weighted wholesale price per gallon of gasoline and average wholesale price per gallon of diesel in the state fuel tax per gallon of diesel oil, gasoline and other liquid fuel in each county to the state highway fund instead of the current cents-per-gallon fuel tax.

The Department of Transportation (DOT) **supports an alternative means to collect the state fuel tax** based on a percentage of the weighted wholesale price per gallon of gasoline and average wholesale price per gallon of diesel to provide revenues for the state highway fund.

The state fuel tax revenues for fiscal year were \$86.3 million and 37.1 percent of the total state highway fund revenue. It is currently the most efficient means of raising revenues to support the operation, maintenance and construction of the state highway system. However, it has become a less reliable source of revenue for the state highway fund and cannot be expected to continue to be a viable source of revenue over the long term. Motor fuels are taxed at cents-per-gallon rates that do not adjust with inflation or price. Converting the cents-per-gallon of state fuel tax to a percent of sales price will allow revenues to rise and fall with changing fuel prices.

Thank you for the opportunity to provide testimony.





**TESTIMONY TO THE
SENATE COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS
AND SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
ON
SB 1212 RELATING TO THE STATE FUEL TAX
By
Richard Parry
President and Chief Executive Officer
Aloha Petroleum, Ltd.**

Committee on Transportation and International Affairs

Chair: Senator J. Kalani English
Vice Chair: Senator Donovan M. Dela Cruz

Committee on Commerce and Consumer Protection

Chair: Senator Rosalyn H. Baker
Vice Chair: Senator Brickwood Galuteria

SB 1212 Relating to the State Fuel Tax

Hearing Date: Wednesday, February 6, 2013
Time: 1:16 p.m.
Place: Conference Room 224
State Capitol, 415 South Beretania Street

Chair English and Members of the Senate Committee on Transportation and International Affairs and Chair Baker and Members of the Senate Committee on Commerce and Consumer Protection, I am **Richard Parry**, President and Chief Executive Officer of **Aloha Petroleum, Ltd.**

The intent of SB 1212 is to change the methodology of assessing the state fuel tax from a cents-per-gallon to a percentage-of-price based approach. While the exact percentage is yet undetermined in this bill, we believe that moving from a cents-per-gallon to a percentage tax approach would likely result in higher taxes, as the direct cost to consumers would be less transparent. Accordingly, this bill is anti-consumer because it will lead to higher gas prices for consumers. And because of the structure of the proposed tax, the effect on gas prices would be particularly noticeable during



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Testimony from Aloha Petroleum, Ltd.

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periods of rising costs. It would also be regressive as it would disproportionately influence lower income taxpayers who tend to drive older, less fuel efficient vehicles, and have longer commutes to work, school, etc.

This bill also increases the level of complexity for administering and collecting this fuel tax. SB 1212 requires the PUC to calculate the "weighted wholesale price per gallon" for gasoline and diesel on a monthly basis, but there is no detail or guidance on implementation. Wholesalers, who are required to collect this fuel tax for the state, would bear the administrative burden and risk of non-compliance because the "weighted wholesale price per gallon" for gasoline and diesel would very likely change on a daily, weekly and monthly basis. This system of variable tax assessment and collection could be chaotic and disruptive.

Finally, under this system, because of fuel price volatility, state government would have an even more difficult time forecasting revenues, preparing the state budget, recommending appropriations, and controlling expenditures.

If the true objective of this bill is to increase state tax revenue from motor fuel sales, then an increased cents-per-gallon tax would be more transparent and easier to administer for all involved rather than a percentage tax of a constantly changing number.

For the above reasons, Aloha Petroleum opposes changing the state fuel tax system from a fixed rate to a percentage of "weighted wholesale price per gallon" as calculated monthly by the PUC.

Thank you for the opportunity to testify in opposition to Senate Bill 1212.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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SUBJECT: FUEL, Percentage of weighted wholesale price per gallon

BILL NUMBER: SB 1212; HB 981 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Souki by request

BRIEF SUMMARY: Amends HRS section 243-4 to provide that the state tax on gasoline and diesel oil, other than that gasoline used in airplanes and naphtha used in a power generating facility, shall be based on a ____% of the weighted wholesale price per gallon of gasoline or diesel oil.

The weighted wholesale price per gallon of gasoline or diesel oil shall be calculated by the public utilities commission on a monthly basis and shall be equal to the sum of the amounts derived in the following paragraphs (1), (2), and (3) divided by the total number of gallons of all three grades of gasoline sold: (1) the average wholesale price per gallon of regular unleaded gasoline sold statewide during the month multiplied by the number of gallons of regular unleaded gasoline sold; (2) the average wholesale price per gallon of mid-grade gasoline sold statewide during the month multiplied by the number of gallons of mid-grade gasoline sold; and (3) the average wholesale price per gallon of premium gasoline sold statewide during the month multiplied by the number of gallons of premium gasoline sold.

The amendments made by this act to HRS section 243-4 shall not be repealed when that section is repealed and reenacted on December 31, 2015 by Act 103, SLH 2007, as amended by Act 198, SLH 2009, and by Act 188, SLH 2012.

EFFECTIVE DATE: July 1, 2013

STAFF COMMENTS: This is an administration measure submitted by the department of transportation TRN-07 (13). This measure proposes to change the methodology of assessing the state fuel tax on gasoline and diesel oil, except gasoline used in airplanes and naphtha used in a power generating facility, from 17 cents per gallon to an unspecified percentage of the weighted wholesale price per gallon of gasoline or diesel oil.

Should the tax be based on a percentage of the wholesale price, as the wholesale price of gasoline or diesel oil rises and falls, so will the amount of the tax. Since the determination of the tax on gasoline and diesel oil would be done monthly, as proposed in this measure, it will necessitate a monthly change of the amount posted on the gas pump as the state fuel tax amount would not be static if this measure is adopted. Further, should lawmakers deem this methodology appropriate then the law should provide that dealers or retailers post the wholesale price so consumers know on what base the tax was computed. As it currently stands, no consumer probably knows what the wholesale price is. Should this requirement be adopted, it would make consumers more aware of the charges imposed that make up the difference between the wholesale price of fuel and the retail price per gallon charged to the consumer.

It is interesting to note that the amount of tax would be a percentage of the “weighted” wholesale price per gallon. One has to ask why the “weighted” price when it would be simpler to impose the tax on the wholesale price at whatever that may be the day the fuel is sold from the wholesaler to the retail dealer. If the intent is to notify the highway user of how much in state fuel taxes is being paid that day, the retailer would merely post the wholesale price for that day’s sale and the highway user can then figure out what “X” percent translates in cents per gallon.

The idea of imposing an ad valorem fuel tax is not new, the idea was floated by the state department of transportation and the then senate transportation committee chair in the 1981 legislative session. Although a half dozen states at the time had adopted a variable or ad valorem fuel tax, many had encountered administrative problems in not only collecting the tax but also for retailers in complying with the law. Some states converted the variable rate back into a cents per gallon rate or provided retailers and wholesalers with voluminous tables to assist in compliance with the tax. One state allowed the conversion of the percentage tax back to a cents per gallon and allowed the rate to be rounded to the nearest half cent. Another calculated and converted the rate and then set it for six-month periods of imposition. Thus, while an ad valorem fuel tax may be an appropriate response to the fiscal crisis faced by the state highway fund, all of the ramifications of imposing such a tax should be carefully evaluated before adopting such a tax.

It should also be noted that while the task of calculating the weighted wholesale price per gallon is to be determined by the public utilities commission, it will create additional duties for the commission as the change in the fuel tax is required to be computed on a monthly basis.

Digested 2/4/13