H.B. NO. 1420

A BILL FOR AN ACT

RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The purpose of this Act is to maintain a rental motor vehicle surcharge tax of $3 a day.

SECTION 2. Section 251-2, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) There is levied and shall be assessed and collected each month a rental motor vehicle surcharge tax of [~~$2 a day, except that for the period of September 1, 1999, to August 31, 2007, the tax shall be~~] $3 a day, or any portion of a day that a rental motor vehicle is rented or leased. The rental motor vehicle surcharge tax shall be levied upon the lessor; provided that the tax shall not be levied on the lessor if:

(1) The lessor is renting the vehicle to replace a vehicle of the lessee that is being repaired; and

(2) A record of the repair order for the vehicle is retained either by the lessor for two years for verification purposes or by a motor vehicle repair dealer for two years as provided in section 437B-16."

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SECTION 3. There is appropriated out of the state highway fund the sum of $14,000,000, or so much thereof as may be necessary, for fiscal year 2007-2008 and the sum of $14,000,000, or so much thereof as may be necessary, fiscal year 2008-2009 for the purposes of the state highway fund.

The sums appropriated by this Act shall be expended by the department of transportation.

SECTION 4. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 5. This Act shall take effect upon its approval.

INTRODUCED BY: Calvin K.Y. Say
BY REQUEST

JAN 22 2007

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JUSTIFICATION SHEET

DEPARTMENT:	Transportation
TITLE:	A BILL FOR AN ACT RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX.
PURPOSE:	To amend the rental vehicle surcharge tax effective date beyond September 1, 2007.
MEANS:	Amend section 251-2(a), Hawaii Revised Statutes.
JUSTIFICATION:	Amendment is needed to change the rental Vehicle surcharge tax effective date beyond September 1, 2007.

Impact on the public: Renters of motor Vehicles will continue to pay a rental vehicle surcharge tax of $3 a day after August 31, 2007.

Impact on the department and other agencies: The extension of the $3 rental vehicle surcharge tax is required to provide the funding necessary for the Department of Transportation to build, operate, and maintain the State Highway System.

The $3 per day rental vehicle surcharge tax is a major revenue source contributing approximately 25 percent of the revenues deposited into the State Highway Fund. On September 1, 2007 the $3 per day rental vehicle surcharge tax will revert back to $2 per day. This will reduce the revenues into the State Highway Fund by an estimated $14 million in each year, approximately 8 percent to 10 percent of the revenues collected.

The reduction of approximately 8 percent to 10 percent of our revenues will have a direct affect to the State Highway Fund balance and will impact operations, special maintenance

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and capital improvement programs of the State Highway System.

OPERATIONS AND ROUTINE MAINTENANCE

The current needs for the routine operation and maintenance of the State Highway System is above the $61+ million requested in fiscal years 2007-2008 and 2008-2009. Without revenue from the surcharge tax extension, the Highways Division will be able to only provide bare minimum operational and maintenance activities to maintain the quality of roadways at current levels.

The State Highway System is essential to the health, welfare and safety of our motoring public. The State Highway System includes 2,423 miles of lane miles. In the past, although we have 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. Furthermore, environmental protection agency related requirements have increased operational costs.

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 restores 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)

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- Municipal Separate Storm Sewer System (MS4) Program.

SPECIAL MAINTENANCE

In prior years, when the Highways Division has had its budget cut, the Special Maintenance Projects (SMP) was reduced to keep the State Highways Fund in the black. In fiscal year 1996-1997, the SMP was \$45,864,033. From fiscal year 1997-1998 to fiscal year 2000-2001, the SMP was reduced as follows:

Fiscal Year 1997-1998 - \$35,000,000
Fiscal Year 1998-1999 - \$32,395,323
Fiscal Year 1999-2000 - \$40,000,000
Fiscal Year 2000-2001 - \$40,000,000

During this period the Highways Division changed its resurfacing cycle for its 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 we have not caught up with our resurfacing program. As the highway pavement deteriorates the cost increases significantly. The average cost of preventive maintenance is approximately \$250,000 to \$300,000 per lane mile, while the cost for rehabilitation and/or reconstructing the pavement is over \$1 million per lane mile.

Maintaining the rental motor vehicle surcharge will help keep the State Highway Fund balances in the black and provide the opportunity to have a ready source of matching funds if the State Highways Division elects to federalize some SMP projects. The normal federal share for interstate system projects is 90 percent and for other eligible

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roadways is 80 percent. It would not be prudent to risk the possible loss of these funds because the state lacks the 10 percent or 20 percent matching share.

CAPITAL IMPROVEMENT PROGRAM (CIP)

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

1. 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.
2. In addition to revenue bonds, the State Highway Fund also pays for the debt service of Reimbursable General Obligation (G.O.) bonds. Although Reimbursable G.O. bonds have not been used by the Highways Division to finance new projects since 1991. However, debt service for Reimbursable G.O. bonds previously issued will continue until 2017.
3. 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.

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

1. Reductions in revenues may negatively affect the current bond rating. In 2005, the uninsured ratings for the $60 million bond offering by S&P, Moodys, and Fitch were AA3, AA, and AA- respectively,

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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 FY 2005-2006, approximately $28.4 million was paid for revenue bond debt service and approximately $17.0 million for Reimbursable G.O. Bond debt service. A higher cost of borrowing may restrict the ability for the Highways Division to maintain the current annual $40 million revenue bond program and may force the Highways Division to reduce future bond offerings.
3. The Highways Division would need 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.

GENERAL FUND: None.

OTHER FUNDS: $14,000,000 for fiscal year 2007-2008 and $14,000,000 for fiscal year 2008-2009 out of the State Highway Fund.

PBS PROGRAM DESIGNATION: TRN 595.

OTHER AFFECTED AGENCIES: None.

EFFECTIVE DATE: Upon approval.