NEIL ABERCROMBIE
GOVERNOR

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RANDY GRUNE
JADINE URASAKI

IN REPLY REFER TO:

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

February 25, 2011

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

HOUSE BILL NO. 1531, H.D. 1

COMMITTEE ON FINANCE

**The Department of Transportation supports House Bill No. 1531, H.D. 1.** House Bill No. 1531 will amend Section 243-4, Hawaii Revised Statutes subsection (a) to increase the state liquid fuel tax for a period of six years.

The bill proposes to increase the state liquid fuel tax from 17 cents to an unspecified amount to generate additional revenues for the State Highway Fund. Each one cent increase in the liquid fuel tax will generate approximately $5 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. The additional funding will enable the Highways Division 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:

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|---|---|
| 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.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

STATE OF HAWAII
**DEPARTMENT OF TAXATION**
P.O. BOX 259
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## HOUSE COMMITTEE ON FINANCE

## TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1531, HD 1 RELATING TO HIGHWAYS

| | |
|---|---|
| **TESTIFIER:** | **FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR DESIGNEE)** |
| **COMMITTEE:** | **FIN** |
| **DATE:** | **FEBRUARY 25, 2011** |
| **TIME:** | **3PM** |
| **POSITION:** | **COMMENTS; DEFER TO DOT** |

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This measure increases the fuel tax.

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 (DOT) with its infrastructure projects. Though the Department supports adequate funding for highway projects, the Department defers to DOT on the merits of this bill.

The Department suggests it may be more fair to increase the rate for all types of fuel and not just for gasoline, but again, defers to the DOT.

Regarding the revenue impact, the State fuel tax of 17 cents per gallon of gasoline used on the highways raised $69.9 million in FY2010 and $74.1 million in FY2009. Based on the average of these figures, the increase in this tax would provide about $42.4 million annually for the State Highway Fund.

L E G I S L A T I V E

# TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: FUEL, Increase tax

BILL NUMBER: HB 1531, HD-1

INTRODUCED BY: House Committee on Transportation

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

Repeals this act on June 30, 2017 and HRS section 243-4(a) shall be reenacted in the form in which it read on the day prior to the enactment of this act.

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: July 1, 2011

STAFF COMMENTS: It appears that this measure proposes to change the fuel taxes imposed on gasoline and diesel oil used in motor vehicles. While no rates are specified, it should be remembered that since revenues generated by the fuel tax are used for the construction and maintenance of highways, caution should be exercised in setting a rate to insure adequate funds for the highway fund.

It should be remembered that the last administration and last session of the legislature refused to address what was a growing problem over the past seven years. The problem was 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.

As another alternative, 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 were 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.

Although the general fund is currently in a crisis situation, serious consideration should be given that sometime in the future the receipts of the general excise taxes collected on the sale of fuels be deposited 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.

Another alternative lawmakers may want to consider is adopting a moderate increase in the fuel, motor vehicle weight and registration fee 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 motorists may not like the large tax rate increases, 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.

Digested 2/24/11

Hawaii Transportation Association

*Driving Hawaii's Economy*

February 25, 2011

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION ON HB 1531 HD1 RELATING TO HIGHWAYS**

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 fuel tax increase that had been contemplated last year (10 cents a gallon) in light of proposed increases in the state motor vehicle registration fees, and vehicle weight tax all at once, and the impending fuel tax increase 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.

*1065 Ahua Street*
*Honolulu, HI 96819*
*Phone: 808-833-1681 FAX: 839-4167*
*Email: info@gcahawaii.org*
*Website: www.gcahawaii.org*

GCA of Hawaii
GENERAL CONTRACTORS ASSOCIATION OF HAWAII
**Quality People. Quality Projects.**

February 24, 2011

TO: THE HONORABLE REPRESENTATIVE MARCUS R. OSHIRO, CHAIR AND MEMBERS OF THE COMMITTEE ON FINANCE

SUBJECT: H.B. 1531, HD1 RELATING TO HIGHWAYS.

NOTICE OF HEARING

DATE: Friday, February 25, 2011
TIME: 3:00 P.M.
PLACE: Conference Room 308

Dear Chair Oshiro and Members of the Committee:

The General Contractors Association (GCA), an organization comprised of over five hundred and eighty (580) general contractors, subcontractors, and construction related firms, **supports** passage of H.B. 1531, HD1.

H.B. 1531, HD1 proposes to increase various taxes related to the use of motor vehicles.

The bill also authorizes the issuance of highway revenue bonds and authorizes the expenditure of the revenue for highway program and road improvement specified in the bill. The bill provides the funding of much needed comprehensive highway modernization of our state highways.

Traffic, congestion and travel times have become increasingly worse over time throughout the state resulting in increased cost and delays for commuters. In many communities, traffic is at the top of problems or issues that communities deal with on a daily basis. The bill provides the funding sources necessary to address the problems and deficiencies in the state highways.

We recommend that H.B. 1531, HD1 be passed.

Thank you for the opportunity to provide comments.

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.)