NEIL ABERCROMBIE
GOVERNOR

GLENN M. OKIMOTO
INTERIM DIRECTOR

Deputy Directors
FORD N. FUCHIGAMI
JAN S. GOUVEIA
RANDY GRUNE
JADINE URASAKI

IN REPLY REFER TO:

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

March 21, 2011

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

SENATE BILL NO. 1329, SD1

COMMITTEE ON TRANSPORTATION

The Department of Transportation supports Senate No. 1329, SD1. Senate Bill No. 1329, SD1 will amend Section 249-33, Hawaii Revised Statutes subsection (a) to increase the annual state vehicle weight tax.

The original bill proposes to increases to the annual vehicle weight tax rates from .75 cents to 1.75 cents per pound for each vehicle up to and including four thousand pounds net weight; from 1.00 cent to 2.00 cents per pound for vehicles over four thousand pounds up to and including seven thousand pounds; from 1.25 cents to 2.25 cents a pound for vehicles over seven thousand pounds and under ten thousand pounds; and the flat rate for vehicles over ten thousand pounds from $15 to $300. The bill also appropriates monies out of the State Highway Fund for fiscal years 2011 - 2012 and fiscal year 2012 -2013 for the operations and maintenance of the state highways program.

The increase in the state vehicle weight tax is estimated to provide an additional $32.9 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. Without the additional funding, the Highways Division will not be able 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:

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.

The reduction of revenues will have a negative effect on the CIP program the following ways:

1. Reductions in revenues may negatively affect the current bond rating. In 2008, the uninsured ratings for the $60,000,000 bond offering by S&P, Moody's, and Fitch were AA+, AA3, and AA- respectively, 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 fiscal year 2009-2010, approximately $38,600,000 was paid for revenue bond debt service and approximately $8,000,000 for Reimbursable General Obligation (G.O.R.) Bond debt service. A higher cost of borrowing may restrict the ability for the Highways Division to maintain the current annual $40,000,000 revenue bond program and may force the Highways Division to reduce future bond offerings from the $40,000,000 annual levels.
3. The Highways Division will be forced 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. As demonstrated in the past, the Highways Division was able to cope with emergency projects such as:

    - Kalanianaole Highway, Emergency Landslide Repairs at Castle Junction;
    - Kailua Road Rockfall Mitigation, Permanent Repairs for Kailua Road;
    - Kauai Emergency Flood Repairs at Various Locations;
    - Emergency Culvert Repair on H-1 at Olopana Street, and
    - Kalanianaole Highway Drainage Improvements, Vicinity of Keolu Hills (Emergency Repairs).

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
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

HOUSE COMMITTEE ON TRANSPORTATION

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 1329, SD 1 RELATING TO MOTOR VEHICLE WEIGHT TAX

TESTIFIER:	**FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE:	**TRN**
DATE:	**MARCH 23, 2011**
TIME:	**11:30AM**
POSITION:	**SUPPORT**

This measure increases the Motor Vehicle Weight Tax by approximately 1 cent per pound; with the flat tax on large vehicles increased from $150 to $300.

The Department of Taxation (Department) **supports** this measure.

The Department supports this tax increase as a means of ensuring consistent and reliable funding for Hawaii's transportation projects. This measure provides much needed revenues for the State Highway Fund.

This measure will result in a revenue gain of approximately $34.5 million per year, which will benefit the State Highway Fund.

DEPARTMENT OF CUSTOMER SERVICES
CITY & COUNTY OF HONOLULU
DIVISION OF MOTOR VEHICLE, LICENSING AND PERMITS
ADMINISTRATION
P.O. BOX 30300
HONOLULU, HAWAII 96820-0300

PETER B. CARLISLE
MAYOR

GAIL Y. HARAGUCHI
DIRECTOR

DENNIS A KAMIMURA
LICENSING ADMINISTRATOR

March 18, 2011

The Honorable Joseph M. Souki, Chair
and Committee Members
Committee on Transportation
House of Representatives
State of Hawaii
State Capitol, Room 426
Honolulu, Hawaii 96813

Dear Chair Souki and Committee Members:

Subject: S.B. No. 1329 S.D.1, Relating to Motor Vehicle Weight Tax

In order to develop and test the appropriate computer programming that is necessary to implement this bill, the City and County of Honolulu recommends that the effective date of the bill be amended to no earlier than December 1, 2011.

Sincerely,

Dean Adams

for Gail Y. Haraguchi
Director

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: MOTOR VEHICLE, Increase state motor vehicle weight tax

BILL NUMBER: SB 13429, SD-1

INTRODUCED BY: Senate Committee on Ways & Means

BRIEF SUMMARY: Amends HRS section 249-33 to increase the state motor vehicle weight tax from .75 cents a pound to 1.75 cents a pound for motor vehicles weighing up to and including 4,000 pounds; from 1.00 cent a pound to 2.00 cents a pound for motor vehicles weighing over 4,000 pounds and up to 7,000 pounds; from 1.25 cents a pound to 2.25 cents a pound for vehicles weighing over 7,000 pounds and up to 10,000 pounds; from $150 to $300 for motor vehicles weighing over 10,000 pounds.

Appropriates an unspecified amount out of the state highway fund for fiscal year 2012 and the same sum for fiscal 2013 for the operations and maintenance of the state highway fund.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: This was an administration measure submitted by the department of transportation TRN-15(11). This measure proposes increases to the state motor vehicle weight tax to provide additional funds for the ailing state highway fund.

These rates represent a substantial increase in the vehicle weight tax, an increase that was predicted largely because 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 for 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.

Digested 3/17/11

Hawaii Transportation Association

Driving Hawaii's Economy

March 21, 2011

TESTIMONY BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION ON SB 1329 SD1 RELATING TO MOTOR VEHICLE WEIGHT TAX

Thank you Chair Ige 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 has concerns about the amount of the increase of the motor vehicle weight tax, especially in light of legislation to propose increases in the vehicle registration fee and liquid fuel tax.

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 the City and County of Honolulu City Council's proposal to ultimately add six cents per gallon to their fuel tax, costing the public $2.6 million per penny.

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.

We understand the highway fund needs shoring up, but the amount of the increase at this time is of great concern.

Thank you.

P.O. Box 30166 • Honolulu, HI 96820 • Ph. (808) 833-6628 • Fax (808) 833-8486 • E-Mail: info@htahawaii.org

"The Tour and Trolley People"

March 21, 2011

House Committee on Transportation
Chair Rep. Joseph Souki, Vice Chair Rep Linda Ichiyama, and Committee Members
Public Hearing, March 21, 2011; 9:00 a.m., Conference Room 309

TESTIMONY OF KATSUMI TANAKA, CEO
E NOA CORPORATION
IN OPPOSITION TO SB1329 SD1

My name is Katsumi Tanaka, I am the Chief Executive Officer of E Noa Corporation, a locally owned transportation company which has for over 30 years provided quality service to our island visitors and residents. Until such time as the economic conditions begin to stabilize, we oppose further increases to conduct business in the State of Hawai`i, this is particularly apparent in the aftermath of the tragic earthquake and tsunami in Japan which is resulting in substantial cancelations of our Japanese visitors.

We fully appreciate and understand the intent of this proposed measure, however the impact of further increases in the motor vehicle weight taxes, especially in light of legislation to propose increases in the vehicle registration fee and liquid fuel tax are but another burden on the ground transportation industry which is struggling to remain financially solvent.

It is suggested that any increase be deferred during these economic times, and any future consideration be reviewed after the economy has had an opportunity to stabilize, this is particular critical for segments of the industry and the State's economy which rely heavily on tourism.

We would be willing and able to meet with all interested and effected parties in an effort to constructively find an amicably resolution to the State's budgetary shortfalls, however it should not be at the expense of the multi-island's critical transportation services.

Mahalo for the opportunity to comment on SB1329 SB1 in opposition to the measure

Respectfully,

Katsumi Tanaka
CEO

E Noa Corporation are members of the following organizations:

Regarding SB 1329 SD1
In room 309 at 0900 on Monday, 21 March 2011
House Committee on Transportation

Chair Souki and Respected Members of the Committee;

My name is Reg White. I am a vice president of Royal Star Hawaii Transit, a division of Star of Honolulu Cruises and Events. Royal Star presently operates a fleet of 36 buses, 4 mini buses,15 vans and 4 limousines here on Oahu. This is the second time in recent history that the fees to operate a bus on Oahu have doubled. We are now paying about $1,800.00 per year per bus in license and permit fees to operate a bus on the road. This means, if you look at our retained gross income per passenger, that each year, each bus must carry the first 2000 to 2100 passengers for nothing! I realize that this money goes into the highway fund and that we need and use the highways. What sticks in my craw is the simple fact that the reason the highway fund needs this fee increase is because the government raids the highway fund to pay for non highway expenses. These are expenses that are to benefit others, who should be paying their own fees and taxes to support their projects, not passing the load to funds collected for other purposes. This can only be fixed by the legislature making and passing a bill that does not allow the transfer of funds from any special fund unless the goal of that fund has been met and the fund is ready for retirement. This bill should also make it mandatory and automatic that when a fund has served it's goal, it must be retired and the remaining funds transferred to the general fund.

Respectfully,

Reg White
1540 S. King St.
Honolulu, HI 96826-1919
808-222-9794
RawcoHI@cs.com

Douglas Meller
2749 Rooke Avenue
Honolulu, HI 96817

HOUSE COMMITTEE ON TRANSPORTATION
HEARING SCHEDULED 11:30 AM ON WEDNESDAY, MARCH 23, 2011

TESTIMONY REQUESTING AMENDMENT OF SB 1329, SD 1

I request three amendments of SB 1329, SD 1:

1. Amend Section 4 of SB 1329, SD 1 to set a 2-year time limit (i.e. add a "sunset" date for automatic repeal) for proposed tax increases.
2. Add a new Section to SB 1329, SD 1 to read as follows: "Before December 20, 2011, the department of transportation (DOT) shall provide the legislature with a draft bill to authorize the DOT to administratively assess highway user fees, on some equitable combination of vehicle weight, fuel consumption, and miles traveled, which may be collected in the manner of existing taxes deposited to the state highway fund, with all highway user fee revenues earmarked to pay for maintenance, operation, and management of highways under the DOT's jurisdiction."
3. Add a new Section to SB 1329, SD 1 to read as follows: "The state department of transportation (DOT) shall take appropriate actions, including amendment of the statewide transportation improvement program, to ensure that unobligated and de-obligated federal highway funds which can be used for maintenance and operation of DOT highways are not used by county or federal agencies for other purposes."

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, adequate, and equitable funding of State highway maintenance, the Legislature needs to authorize the State DOT to administratively assess highway user fees with 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 agency assessed 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. Since DOT assessed highway user fees could not be spent for purposes other than DOT highway maintenance and operation, there would not be inappropriate fiscal incentives to defer highway maintenance.

SB 1329, SD 1 is not an equitable way to fund highway maintenance because proposed tax increases do not reflect how far vehicles get driven or heavy vehicles' disproportionate contribution to the costs of highway maintenance. Highway engineers have documented that the relationship between vehicle axle weight and inflicted pavement damage is not linear but exponential to the fourth power. For example, an 18,000 lb. single axle (from a partly loaded tractor semi-trailer) does over 3,000 times more damage to highway pavement than a 2,000 lb. single axle (from a large fully loaded passenger van).

Another unacceptable drawback of SB 1329, SD 1 is that this bill does not and can not ensure that proposed permanent tax increases will be used for State highway maintenance. Under Hawaii's existing Constitution, the current Legislature can not restrict future Legislatures from spending highway tax revenues for purposes unrelated to State highways or guarantee that tax revenues will be used for 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 can 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. (In simple terms, DOT has already allowed and is proposing to allow county agencies to use substantial amounts of FHWA funds - - even though DOT could use most of these funds for maintenance of State highways. Before ever increasing State taxes to pay for highway maintenance, the Legislature should prohibit DOT from giving away federal funds which could be used for highway maintenance.)