3500 Deer Creek Road, Palo Alto CA 94304

February 2, 2023

TO: Chair Chris Todd
Members of the House Committee on Transportation

FR: Noelani Derrickson
Public Policy & Business Development

RE: **HB1110 Relating to the Road Usage Charge Program. - Comments**

Thank you for the opportunity to provide testimony regarding HB1110, which would replace the current annual $50 registration surcharge for electric vehicles with an annual per-mile road usage charge.

By design, the structure of the gas tax has been a powerful public policy tool to encourage Hawaii drivers to shift to more fuel-efficient vehicles. This shift results in reduced gas imports, ground-level pollution, and carbon emissions. As such, it is important that a proposed per-mile road usage charge for electric vehicles does not shift the incentive for Hawaii drivers to stay in or return to less fuel-efficient, combustion engine vehicles.

A preferred per-mile road usage charge program should apply to all vehicle types, not exclusively to electric vehicles. We recommend that the state move up the proposed timeline for developing a long-term mileage-based implementation plan for all passenger vehicles to 2027 instead of 2033, providing the Department of Transportation with two years to develop a plan for all vehicle types. As part of the plan for all vehicle types, the Department should consider a “carbon emissions fee” applied to the road usage charge based on a vehicle’s fuel efficiency. This would act to maintain the public policy incentives from the gas tax to encourage the shift to more fuel-efficient vehicles and reduce ground-level pollution in Hawaii.

Additionally, we appreciate that HB1110 would provide electric vehicle owners with the choice between the road usage charge and the annual registration surcharge. However, we are concerned that the bill proposes to increase the current annual $50 registration surcharge to $70, without demonstration of how this additional fee was calculated or deemed appropriate. Notably, the bill does not propose a similar increase to the $50 registration surcharge for alternative fuel vehicles, such as those powered by hydrogen fuel. We encourage the bill to maintain the current annual $50 registration surcharge amount for electric vehicles.

SUBJECT: FUEL, MISCELLANEOUS, MOTOR VEHICLE, New Road Usage Charge for Electric Vehicles

BILL NUMBER: HB 1110, SB 1408 [TRN-11]

INTRODUCED BY: HB by SAIKI, SB by KOUCHI (Governor's Package)

EXECUTIVE SUMMARY: Creates a mileage-based road usage charge to replace state motor fuel taxes beginning on July 1, 2025, for electric vehicles. Eliminates $50 annual state vehicle registration surcharge for electric vehicles. Allows electric vehicles a choice of paying a registration surcharge or a per-mile road usage charge until 2033. Requires motor vehicle registration application to specify whether the type of fuel for which the vehicle is adapted is electricity. Requires certificates of inspection to state the odometer reading of vehicles. Requires the Department of Transportation to plan for the deployment of a state mileage based road user charge program by 2033 and submit a report to the Legislature no later than twenty days prior to the convening of the Regular Session of 2026. Defines electric vehicle. Defines alternative fuel vehicle. Makes an appropriation.

SYNOPSIS: Adds a new section to chapter 249, HRS, to impose a road usage charge (RUC) in the amount of 0.8 cents per mile traveled less the estimated amount of paid state motor fuel taxes. Applies to electric vehicles, defined as a vehicle, with four or more wheels, a gross vehicle weight rating less than or equal to ten thousand pounds, and the capability to operate legally at a speed of more than thirty-five miles per hour, that draws propulsion energy exclusively from a battery that can be recharged from an external source of electricity. The number of miles traveled will be determined by comparing the odometer readings in the vehicle's two most recent annual vehicle inspection (safety check) reports.

RUC realizations are deposited into the state highway fund.

Provides that vehicle owners may elect to pay a $70 registration surcharge in lieu of the RUC until June 30, 2028.

Amends section 249-31, HRS, to delete the annual registration surcharge of $50 that now applies to electric vehicles. The surcharge, after amendment, will apply only to alternative fuel vehicles.

EFFECTIVE DATE: Upon Approval.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Transportation and designated TRN-11 (23). It authorizes a program called HiRUC that has been in the works for a few years now.

We observe that the State's policy toward electric and other zero-emission vehicles has not been consistent. In the early 2010's, State policy was to incentivize such vehicles for being environmentally friendlier. Several benefits came with the special plate that accompanied an electric vehicle, including the ability to park at government parking lots (including at the airport!) and street spaces for free, and the ability to jump into carpool lanes even though there is just one person in the car. Sadly, good things don't last forever. The free parking benefit and the carpool lane benefit expired on June 30, 2020, according to the terms of the 2012 law that spawned them (Act 168, SLH 2012).

The pendulum started swinging the other way this decade. From January 1, 2020, thanks to Act 280, SLH 2019, electric vehicle owners were slapped with a $50 surcharge on their annual vehicle registration fees.

The reason for the reversal appears to be economic: the Department of Transportation needs money to repair and construct roads, bridges, highways, and byways. Its primary source of money to do that has been the State Highway Fund, which is fed primarily by the fuel tax. As electric vehicles and other alternative fuel vehicles gain acceptance, however, fewer people buy fuel, and the fuel tax has been slowly drying up.

As the Department of Transportation stated in its justification sheet accompanying this bill:

> The Department of Transportation recently completed the Hawaii Road Usage Charge Demonstration Project. One recommendation from the Final Report is to adopt a per-mile road usage charge system to provide a fair and sustainable funding mechanism for the State's road infrastructure. With the increasing fuel efficiency of vehicles and the increasing popularity of alternative fuel vehicles, there is a need to establish a means to pay for road maintenance and improvement that would be fair to all users, is sustainable, and supports the State of Hawaii's energy independence goals.

Are electric vehicles and alternative fuel vehicles to be incentivized for their environmental benefits or surcharged because they aren't generating enough fuel tax revenue to pay for their fair share of transportation maintenance? The State and the public could benefit by having leadership and consistent policy relating to electric vehicles and other zero emission vehicles.

Digested: 1/31/2023

HAWAII STATE ENERGY OFFICE
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Testimony of
MARK B. GLICK, Chief Energy Officer

before the
HOUSE COMMITTEE ON TRANSPORTATION

Thursday, February 2, 2023
10:00 AM
State Capitol, Conference Room 312 and Videoconference

Providing COMMENTS on
HB 1110

RELATING TO THE ROAD USAGE CHARGE PROGRAM.

Chair Todd, Vice Chair Kila and Members of the Committee, the Hawaii State Energy Office (HSEO) offers comments on HB 1110, which establishes a mileage-based road user fee with a cap for electric vehicles, requires motor vehicle registration application to specify whether the type of fuel for which the vehicle is adapted is electricity, requires certificates of inspection to state the odometer reading of electric vehicles, and defines alternative fuel vehicle.

HSEO's comments are guided by its mission to promote energy efficiency, renewable energy, and clean transportation to help achieve a resilient, clean energy, decarbonized economy. Sustainable funding for Hawaii's roadway maintenance costs needs to be addressed to ensure a smooth transition as Hawaii decarbonizes ground transportation. HSEO is currently engaging with State agencies and stakeholders to discuss the issues raised from this measure. HSEO stands ready to collaborate with the Department of Transportation to achieve the State's decarbonization policy objectives and transition to a sustainable funding framework for an evolving transportation system.

Thank you for the opportunity to testify.

Email: communications@ulupono.com

HOUSE COMMITTEE ON TRANSPORTATION
Thursday, February 2, 2023 — 10:00 a.m.

Ulupono Initiative supports HB 1110, Relating to Road Usage Charge Program.

Dear Chair Todd and Members of the Committee:

My name is Micah Munekata, and I am the Director of Government Affairs at Ulupono Initiative. We are a Hawaiʻi-focused impact investment firm that strives to improve the quality of life throughout the islands by helping our communities become more resilient and self-sufficient through locally produced food, renewable energy and clean transportation choices, and better management of freshwater resources.

Ulupono supports HB 1110 and offers comments. This bill creates a mileage-based road usage charge to replace state motor fuel taxes beginning on July 1, 2025, for electric vehicles; eliminates the $50 annual state vehicle registration surcharge for electric vehicles; allows electric vehicles a choice of paying a registration surcharge or a per-mile road usage charge until 2033; requires motor vehicle registration application to specify whether the type of fuel for which the vehicle is adapted is electricity; requires certificates of inspection to state the odometer reading of vehicles; and requires the Department of Transportation to plan for the deployment of a state mileage-based road user charge program by 2033 and submit a report to the Legislature no later than twenty days prior to the convening of the Regular Session of 2026.

Ulupono Initiative recognizes the impact of more fuel-efficient vehicles on future fuel tax revenues and the need to maintain funding for road maintenance and improvements. As the Hawaiʻi Department of Transportation (HDOT) notes in its road user charge (HiRUC) final report, the average light-duty vehicle in the state currently achieves roughly 22 miles per gallon (MPG). As vehicles increasingly become more efficient, drivers will by default consume less gasoline and hence pay less gas tax. In addition, the State does continue to have a significant backlog of deferred maintenance—more than $560 million/year.[1] Together, these issues certainly suggest that we must explore new funding mechanisms, and a usage charge seems appropriate.

[1] https://ulupono.com/media/ingpfb23/final-report-costs-of-vehicle-economy-in-hawaii-03-9-21.pdf

Therefore, Ulupono Initiative is very supportive of a road user charge (RUC) approach, and supports that further planning is needed for a full implementation across all vehicles.

However, we offer the following comments for consideration:

1) We strongly recommend adding in language such that any broad implementation plan continues to account for and incentivize fuel efficient vehicles.

   Simply put, a flat RUC does not account for the energy and climate benefits associated with more efficient vehicles. We remain very concerned about the disincentives built into a flat RUC. While this is revenue neutral for the State (which is very important), the structure provides no incentive to drive more fuel-efficient vehicles (including EVs) and reduce our greenhouse gas emissions, like the current incentive that is inherently embedded with the gas tax.

   Counter to the spirit of Hawaiʻi's climate goals, this structure will increase the cost to drive for those who currently have more efficient fuel vehicles. Assuming the proposed annual road user charge of $70 and the vehicle owner drives approximately 9,000 miles per year[2], vehicles with a fuel economy of 21 MPG will pay an equivalent $70 in fuel taxes per year. As a result, an owner of a Toyota 4Runner with a fuel economy of 19 MPG will pay 8% less, whereas an owner of a Toyota Corolla with a fuel economy of 38 MPG will pay 84% more. Although both vehicles have the same road usage, there is a disproportionate financial impact on drivers of more fuel-efficient, lower-emission vehicles. As seen in the appendices of the HiRUC final report, these increased costs will impact all demographics, including rural drivers and low-income drivers who currently have more fuel-efficient vehicles.

2) Adjust the surcharge and associated per-mile charge for EVs from $70 to $50 and 0.8 cents to 0.6 cents per mile, respectively.

   EV owners are currently paying their fair share with the existing annual $50 registration surcharge. We see no reason to increase these fees at this time.

   The $50 surcharge, or 0.6 cents per mile, equates to the same annual fuel tax paid by a vehicle with a fuel economy of roughly 29 MPG, such as a Nissan Altima or Subaru Outback.[3] In other words, any vehicle with fuel efficiency greater than 29 MPG (such as a Toyota RAV4 with 35 MPG) is currently, on average, contributing less gas tax to support the system than an EV contributes.

[2] Represents the 2021 state average annual vehicle miles traveled per the Department of Business, Economic Development and Tourism (https://files.hawaii.gov/dbedt/economic/databook/2021-individual/18/181921.pdf)
[3] Assuming the vehicle owner drives approximately 9,000 miles per year

We do not support increasing these fees further such that, beginning in 2025 any vehicle with greater efficiency than 22 MPG is contributing less to the system than an EV.

Overall, we fully recognize the potential funding issues that HDOT may be facing in the next decade and are very support of transitioning to a RUC, if appropriately structured. We believe that any transition should continue to promote more fuel-efficient vehicles, so that we can accelerate the reduction of our GHG emissions while we progress to a carbon-neutral state.

Thank you for the opportunity to testify.

Respectfully,

Micah Munekata
Director of Government Affairs

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February 2, 2023
10:00 AM
State Capitol, Room 312, Videoconference

H.B. 1110
RELATING TO ROAD USAGE CHARGE PROGRAM

House Committee on Transportation

The Department of Transportation (DOT) **supports** this bill that eliminates the current $50 annual state vehicle registration surcharge on Electric Vehicles (EVs) and in its place, EV owners can be in a state mileage-based Road Usage Charge (RUC), or to choose pay an annual flat fee.

DOT is funded from user fees like the gas tax that pay for maintenance and improvements to roadways and that serve as a state match for federal funding. However, because of increasing vehicle fuel efficiency and the increasing adoption of electric vehicles in Hawaii, gas tax revenue has trended downward and is expected to continue to do so in the coming years. In order to maintain funding for our roads and bridges, HDOT embarked on a multi-year research and public outreach project, the Hawaii Road Usage Charge Demonstration Project (HiRUC), to identify how to implement a mileage-based Road Usage Charge in Hawaii. Based on the research and outreach, HDOT recommends beginning this transition with a minimally disruptive program allowing EV owners to choose between paying by the mile or paying a flat fee.

A mileage-based user fee improves equity among motorists by ensuring everyone contributes based on how much they use our roads and bridges, whereas gas taxes increase the cost of transportation for those who can least afford it – those who drive older, less fuel-efficient cars and are already paying the most in fuel costs. Mileage-based fees ensure everyone pays the same per mile driven.

The DOT recognizes the importance of reducing and eventually eliminating fossil fuel consumption. In 2016, Hawaii became the first state to set a target year of 2045 for achieving 100% renewable energy. The DOT has been a leading partner in this effort, developing departmental initiatives to help the state reach this goal. Some examples include:

- Installation of high-efficiency lighting on our facilities and highways;
- Installation of photovoltaic panels at our base yards and district offices; and
- Phased conversions of our light duty vehicles with EVs.

Making certain that highway funding policy keeps up with changing technologies such as adoption of more fuel efficient and alternative fueled vehicles is one of the goals of the Hawaii Road Usage Charge Demonstration project (HiRUC). The DOT recently completed the first phase of HiRUC, a 3-1/2 year research, public outreach and demonstration effort to examine a per-mile RUC as a future replacement of the gas tax.

A RUC is a policy whereby all vehicles contribute to the cost of roadway maintenance and improvements based on how much they drive. RUC preserves the user equity that the gas tax intended: drivers who benefit from the usage of the road system pay for it, regardless of engine or fuel type. It enhances social equity because you pay based on what you use rather than time spent burning gas in traffic.

As the largest RUC demonstration conducted in the United States, HiRUC reached hundreds of thousands of Hawaii residents. By leveraging DOT's existing vehicle inspection (safety check) process for the collection of odometer mileage from vehicle owners. Nearly 360,000 customized Driving Reports were direct mailed to vehicle owners showing them the total miles they drove between their two most recent safety checks. Mailers included an estimate of gas taxes they paid and an indication of what they would owe under a RUC of 0.8 cents per mile. Over 40,000 residents completed surveys, and they expressed high levels of understanding and support for a RUC. Support increased further when told the funds would be dedicated to repair and upkeep roads and bridges and replace the state gas tax. Large majorities of drivers preferred to report miles at the annual safety check as they do today.

This demonstration, along with dozens of community and stakeholder meetings across the state, allowed for widespread outreach to a large percentage of the approximate 465,000 households in Hawaii. Through this outreach efforts, along with another hands-on demonstration with over 2,000 participants statewide that offered other automated mileage reporting options, support grew as did the level of comfort Hawaii residents had with a potential RUC. With RUC offering a viable path forward towards the goals of both eliminating fossil fuel emissions and providing a fair and sustainable funding for Hawaii's roadways, the DOT developed a series of recommendations in the Final Report that was published in August 2022.

H.B. 1110 begins a gradual transition to a mileage-based user fee allowing time for the development and refinement of systems. The bill eliminates the existing $50 annual state vehicle registration surcharge on EVs. In its place, this bill provides a choice for EV owners to either be in the RUC program where they pay a fee based on the number of miles driven, or to opt out of the RUC program and pay an annual flat fee. The DOT recommends a per-mile rate of what the average gas vehicle pays, about 0.8 cents per mile, capped at the flat fee amount. The DOT recommends a flat fee amount equal what the average gas vehicle pays per year, about $70. The bill makes clear that should a RUC extend in the future to cover gasoline-powered vehicles, the RUC is also to act as a replacement for the gas tax, not in addition to it. The bill leverages the existing annual safety check process for mileage data collection, continuing a familiar experience for vehicle owners and minimizing costs.

In addition, the bill requires DOT to develop and submit to the legislature a long-term implementation plan to eliminate the gas tax and replace it with a RUC program that encompasses all passenger vehicles and light duty trucks by December 31, 2033.

There are different options for funding critical infrastructure like our state's roads and bridges. Historically, Hawaii has relied on user-based fees, with fuel taxation as one of the largest and most important revenue sources. With fuel taxes declining, H.B. 1110 offers a way to preserve the user-pay approach in a fair and equitable manner. The DOT is committed to our mission of providing safe, efficient, and accessible transportation system for the residents of Hawaii while also helping the state achieve its clean energy objectives. H.B. 1110 offers a path forward for achieving both.

Thank you for the opportunity to provide testimony.