

DEPARTMENT OF TRANSPORTATION'S

REPORT TO LEGISLATURE

OF

THE STATE OF HAWAII

ON

ACT 226

(SENATE BILL NO. 2365, H.D. 1, S.D. 1, C.D. 1)

SESSION LAWS OF HAWAII 2008

**Recommendations from the Department of Transportation
for additional revenue-generating initiatives to replenish the
State Highway Fund, under Section 248-8, Hawaii Revised
Statutes.**

**PREPARED BY:
STATE DEPARTMENT OF TRANSPORTATION
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**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
RECOMMENDATIONS TO THE LEGISLATURE FOR ADDITIONAL REVENUE-
GENERATING INITIATIVES**

BACKGROUND

The State of Hawaii, Department of Transportation (DOT) has been raising the issue of the health and viability of the State Highway Fund for the past several years in looking into the future, both long-term and near-term.

The State Highway Fund provides the funding to carry out the operations, maintenance, and capital improvement programs of the Department of Transportation's highway function. Revenues for the fund are generated through motor fuel taxes, rental and tour vehicle surcharge tax, motor vehicle registration fees, vehicle weight taxes, and other miscellaneous fees.

While expenditures have continued to increase, revenue growth has not been able to keep pace with the needs. The federally mandated fuel conservation requirements have led to lighter more fuel efficient cars. This as well as the high cost of fuel has decreased the growth in fuel consumption, thereby reducing the growth in revenues generated by the fuel tax and vehicle weight tax. At the same time, the rising oil prices have increased the cost of operating, maintaining and constructing the State's highways.

The total revenues for the State Highway Fund for fiscal year 2009 are estimated to be \$212.7 million while the planned expenditures for the same period total \$243 million. The expenditures are expected to exceed revenues by more than \$30 million. For fiscal year 2008, the expenditures and revenues were \$233 million and \$213 million respectively, a shortfall of over \$20 million.

Act 226, SLH 2008 extended until August 31, 2011, the \$3 a day rate of the rental motor vehicle surcharge tax and required the Department of Transportation to provide recommendations to the Legislature for additional revenue-generating initiatives that will replenish the State Highway Fund, created by Section 248-8, Hawaii Revised Statutes, no later than twenty days prior to the convening of the regular session of 2009.

REVENUE SOURCES

State Highway Fund

The State imposes taxes, fees and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the State Highway Fund established under Section 248-8, HRS. Moneys deposited in the State Highway Fund are used for acquisition, planning, design, construction, operation, repair and maintenance of the State Highway System.

The current taxes, fees and charges deposited to the State Highway Fund consist of: (1) the highway fuel license taxes; (2) vehicle registration fees; (3) the vehicle weight tax; and (4) the rental motor vehicle and tour vehicle surcharge taxes. Together, these taxes, fees and charges accounted for most of the receipts of the State Highway Fund. Other sources of Revenues include interest earnings on moneys previously credited to the State Highway Fund, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees and other miscellaneous revenues. There are no toll roads or bridges in the State. The primary sources of Revenues are further described below.

Sources of Revenues and User Taxes

The following is a summary of the sources of revenues that are deposited to the State Highway Fund. (The impact of the major user taxes and fees are shown on Attachment A.)

Highway Fuel License Taxes. Highway fuel license taxes consist of license taxes on fuel sold to motor vehicle operators pursuant to Chapter 243, HRS. The distributor of motor vehicle fuel pays the fuel license tax for liquid fuel produced or imported by the distributor to be sold or used by the distributor. Highway fuel license taxes are currently assessed at a rate of \$0.17 per gallon of gasoline and diesel oil (highway use) and \$0.02 per gallon of gasoline, diesel oil and liquid petroleum gas (non highway use). The highway fuel license taxes are collected by the Department of Taxation, which then transfers the receipts to the State Highway Fund.

The rate of taxation on fuel increased significantly between 1975 and 1991. Highway fuel license taxes increased from \$0.085 per gallon of gasoline and diesel oil and \$0.060 per gallon of liquid petroleum gas in 1975, to \$0.110 per gallon of gasoline and diesel oil and \$0.080 per gallon of liquid petroleum gas in 1985, and to \$0.160 per gallon of gasoline and diesel oil and \$0.110 per gallon of liquid petroleum gas effective July 1, 1991. The State fuel tax was increased to \$0.17 per gallon for gasoline and diesel oil (highway use) and \$0.02 per gallon for gasoline, diesel oil and liquid petroleum gas (non highway use) effective July 1, 2007 by Act 209 SLH 2007.

Vehicle Registration Fees. All vehicles, including motor vehicles, must be registered annually with one of the four counties of the State. The vehicle owner must pay a State registration fee of \$25 for each vehicle, pursuant to Section 249-31, HRS. The State vehicle registration fee has been increased from \$1.00 per vehicle in 1979 to \$10.00 per vehicle in 1985 to \$20.00 per

vehicle in 1991 and to \$25 per vehicle in 2004. From each annual motor vehicle registration fee, \$20 is deposited into the State Highway Fund and \$5 into the emergency medical services special fund. The four counties each collect the vehicle registration fee along with their respective county registration fees and transfer the State's vehicle registration fee to the State Highway Fund.

Vehicle Weight Taxes. All vehicles, including motor vehicles, are assessed an annual State vehicle weight tax pursuant to Section 249-33, HRS. The tax rate is \$0.0075 per pound for vehicles less than 4,000 pounds; \$0.01 per pound for vehicles between 4,001 and 7,000 pounds, \$0.0125 per pound for vehicles between 7,001 and 10,000 pounds, and \$150.00 per vehicle for vehicles over 10,000 pounds. Vehicle weight taxes increased from a minimum rate of \$0.0045 per pound to \$0.0050 per pound to \$0.0075 per pound and a maximum charge of \$36.00 per vehicle to \$65.00 per vehicle to \$150.00 per vehicle over the period from 1991 to 2002. The four counties each collect the vehicle weight tax along with their respective county vehicle taxes and transfer the State's vehicle weight tax to the State Highway Fund.

Rental Motor Vehicle and Tour Vehicle Surcharge Taxes. Chapter 251, HRS, imposes a surcharge tax on all rental motor vehicles and tour vehicles. The rental motor vehicle surcharge tax is imposed on the owner of the rental company when a rental motor vehicle is rented or leased. Through Act 223, SLH 1999, the surcharge tax was increased from \$2.00 per day to \$3.00 per day or any portion of the day effective from September 1, 1999 through August 31, 2007 and was further extended by Act 258, SLH 2007 from September 1, 2007 through August 31, 2008, and Act 226, SLH 2008 from September 1, 2008 through August 31, 2011.

The tour vehicle surcharge tax is imposed on the tour vehicle operator. The surcharge tax is \$65.00 per month for each tour vehicle more than 25 passengers and \$25 per month for tour vehicles more that 15 up to 25 passengers used or partially used during the month.

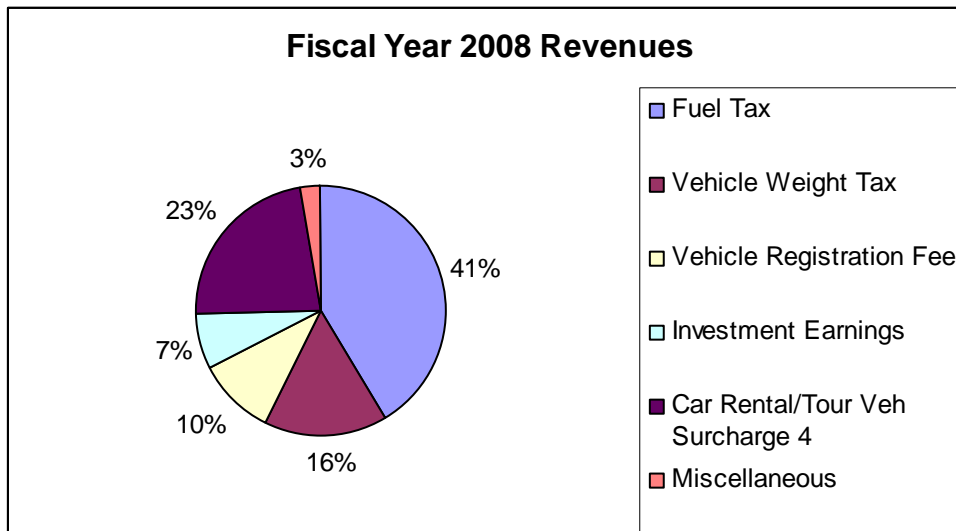
All rental and tour companies must register with the State. The registration fee is a one-time \$20.00 fee.

Interest Earnings. Interest income is derived from the investment of Highway Special Fund moneys held in the State Treasury.

Miscellaneous. Miscellaneous revenues include permit fees for overweight vehicles, commercial drivers' license licensing fees, periodic motor vehicle inspection fees, rental and sale of property, refund and reimbursement of prior period expenditures, and other miscellaneous revenues.

HISTORICAL REVENUES (000's)

FISCAL YEAR	FUEL TAX	VEHICLE WEIGHT TAX	VEHICLE REGISTRATION FEES	INVESTMENT EARNINGS	RENTAL/TOUR VEHICLE SURCHARGE TAX	MISC.	TOTAL
1995	67,702	19,186	19,179	9,924	21,465	3,559	141,015
1996	69,010	20,992	16,076	11,054	21,941	3,804	142,877
1997	69,881	21,305	16,210	10,961	22,600	3,558	144,515
1998	68,580	21,753	16,418	8,076	22,838	4,120	141,785
1999	67,209	22,434	16,749	10,535	23,591	3,885	144,403
2000	68,088	23,479	17,216	10,956	34,587	4,320	158,646
2001	71,931	24,388	17,609	14,961	38,633	5,647	173,169
2002	73,046	24,508	17,461	11,453	36,054	26,716	189,238
2003	75,506	27,222	19,037	11,952	39,472	11,783	184,972
2004	79,607	27,393	19,174	8,569	41,414	9,685	185,842
2005	80,913	28,847	19,462	8,781	43,950	2,879	184,832
2006	82,853	31,845	20,766	14,166	50,582	4,075	204,287
2007	85,618	33,309	20,765	16,204	46,989	5,591	208,476
2008	87,885	33,549	21,033	14,316	49,196	5,876	211,855



The current revenues deposited into the State Highway Fund are inelastic and have not kept up with inflation and the highway needs. Converting the State Highway Fund revenues into more elastic forms would provide the DOT with an enhanced ability to address the needs as the economy and inflationary environment changes. The change from charging a flat rate tax would enable fees to keep pace with economic fluctuation.

The implementation of a system of charges based on vehicle miles traveled is considered a more direct means of charging highway user fees. Charging a specific rate per mile can be set to meet

a certain revenue target level. However, there are implementation issues with this revenue alternative including technology required to collect fees, enforcement and public acceptance.

There is a need to re-evaluate all highway users and identify current categories that utilize our roadway infrastructure. There is also a strong need to evaluate the assessment of highway user fees to each category. Under current assessments, vehicle registration (cars and trucks) and drivers are the only categories that pay user fees via vehicle registration (commercial and passenger) and licensing fees. Since the development of this out-dated assessment methodology, many new interest groups that utilize our roadways have emerged, including pedestrians, bicycles, mopeds and other new forms of transportation.

Revenue Generation Alternatives

In order to sustain the operating and capital improvement fiscal requirements of the Department of Transportation's Highway Program during the next six-year planning period, additional revenues will be required. In order to achieve the ideal funding level of \$86 million to be spent annually on special maintenance, the Department would need more than \$40 million in new revenues each year. There is a need to increase revenues and find additional innovative revenue sources for deposit into the State Highway Fund.

Vehicle Miles Traveled (VMT)

A VMT fee may have medium to long-term potential as a revenue source for transportation financing, though it may be an inadequate alternative to generate additional revenues because of the significant administrative burdens it may impose.