H.B. NO. 3196

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, 2008, 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."

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 Statutory material to be repealed is bracketed and stricken.

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

INTRODUCED BY: Calvin K.Y. Say

BY REQUEST

JAN 22 2008

H.B. NO. 3196

Report Title:
Rental motor vehicle; surcharge; surcharge tax; State Highway Fund

Description:
Extends the $1 per day surcharge on rental motor vehicles beyond September 1, 2008 and deposits the money into the State Highway Fund.

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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, 2008.

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, 2008.

Impact to the public: Renters of motor vehicles will continue to pay a rental vehicle surcharge tax of $3 a day after August 31, 2008.

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 22 percent of the revenues deposited into the State Highway Fund. On September 1, 2008, 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 $14,000,000 in each year, approximately 7 percent of the revenues collected.

The reduction of approximately 7 percent of our revenues will have a major impact on the operations, special maintenance, and capital improvement programs of the State Highway System.

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OPERATIONS AND ROUTINE MAINTENANCE

The current needs for the routine operation and maintenance of the State Highway System is over $90,000,000 per year, more than $30,000,000 per year than was budgeted in the last biennium. 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 2,423 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 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) - Municipal Separate Storm Sewer System (MS4) Program. The Highways Division was recently cited and fined by the Federal Environmental Protection Agency for not monitoring the NPDES MS4 Program.

Also, Federal laws require that the State maintain all state highways that were constructed with the use of Federal funds.

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Not properly maintaining our highways may jeopardize our ability to obtain Federal funds.

SPECIAL MAINTENANCE

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. In the fiscal year 1996-1997, the SMP was $45,864,033. From fiscal year 1997-1998 to the fiscal year 2000-2001, the SMP was reduced as follows:

FY 1997-1998 - $35,000,000
FY 1998-1999 - $32,395,323
FY 1999-2000 - $40,000,000
FY 2000-2001 - $40,000,000

During this period 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 $250,000 to $300,000 per lane mile, while the cost for rehabilitation and/or reconstructing the pavement is over $1,000,000 per lane mile.

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.

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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 the Highways Division's 366 project funded positions are paid from the State Highway Fund. Since fiscal year 2005-2006, the Highways Division budgets $18,000,000 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 $9,000,000 will be spent for emergency CIP projects for Oahu, and another $2,000,000 will be spent for Kauai emergency related CIP projects.

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The reduction of the rental vehicle surcharge tax will have a negative effect on 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 $60,000,000 bond offering by S&P, Moody's, and Fitch were AA3, AA, 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 2004-2005, approximately $23,700,000 was paid for revenue bond debt service and approximately $10,700,000 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 outweighs 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

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past, the Highways Division was able to cope with emergency projects such as:

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

GENERAL FUND: None.

OTHER FUNDS: The Rental Vehicle Surcharge tax is deposited in the State Highway Fund.

PBS PROGRAM DESIGNATION: TRN 595.

OTHER AFFECTED AGENCIES: None.

EFFECTIVE DATE: Upon approval.