

Honolulu, Hawaii

JAN 07 2008

RE: S.B. No. 1133
S.D. 3
H.D. 1
C.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
State of Hawaii

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fourth State Legislature
State of Hawaii

President Hanabusa and Speaker Say:

Your Special Joint Senate and House of Representatives Task Force to Conduct a Review of the Financial Requirements of the State Highway Fund", to which was referred S.B. No. 1133, S.D. 3, H.D. 1, C.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

beg leave to report as follows:

Legislative Mandate

Act 258, Session Laws of Hawaii 2007 (Act 258), enacting Senate Bill No. 1133, S.D. 3, H.D. 1, C.D. 1, created a Joint Senate and House of Representatives Task Force to Conduct a Review of the Financial Requirements of the State Highway Fund (Task Force) "with an emphasis on the adequacy and equity of revenues generated by one or more revenues sources pursuant to section 251-2, Hawaii Revised Statutes (HRS), relating to the rental motor vehicle and tour vehicle surcharge tax, compared with other revenue sources contributing to or that could be contributing to the state highway fund."

Act 258 further specified the review may include:



- (1) Past, present, and projected revenues of the state highway fund;
- (2) The ability of the Department of Transportation (DOT) to plan, implement, and expend funds on a timely basis;
- (3) An analysis of the actual revenue needs of the DOT;
- (4) Other revenue sources of the state highway fund and their nexus to the fund; and
- (5) Other governmental matching funds.

Members of the Task Force are Senator J. Kalani English (Co-Chair); Representative Joseph M. Souki (Co-Chair); Senator Rosalyn H. Baker; Senator Carol Fukunaga; Senator Will Espero; Senator Gary L. Hooser; Senator Mike Gabbard; Representative Marcus R. Oshiro; Representative Angus L.K. McKelvey; Representative Scott Y. Nishimoto; Representative James Kunane Tokioka; and Representative Gene Ward.

Legislative Briefing

The Task Force held an informational briefing on November 20, 2007. The DOT and interested stakeholders from the private sector were in attendance.

Context of Situation

The Legislature is concerned that the future projections of the available moneys in the state highway fund, established under section 248-9(b), HRS, are insufficient. The state highway fund is the sole source of state revenue for expenditure on the state highway system and highway projects. Under estimates provided by the DOT on September 21, 2007, the revenues, expenditures, and balance in the state highway fund for fiscal years (FY) 2006 to 2013 are as follows:

<u>Revenues</u>	<u>Expenditures (less fed \$)</u>	<u>Balance*</u>
\$204,287,000 FY 2006	\$258,589,000	\$149,694,000 (audited)
210,989,000 FY 2007	270,634,000	90,319,000 (unaudited)
215,135,000 FY 2008	210,579,000	94,876,000 (estimated)
206,875,000 FY 2009	210,579,000	95,343,000 (estimated)
207,062,000 FY 2010	228,983,000	73,423,000 (estimated)



209,816,000 FY 2011	234,467,000	48,771,000 (estimated)
212,610,000 FY 2012	236,173,000	25,208,000 (estimated)
215,135,000 FY 2013	235,673,000	4,670,000 (estimated)

* Includes carryover fund balances, adjustments, and fund transfers from prior years.

The steep decline of the balance from \$149,964,000 in FY 2006 to \$4,670,000 FY 2013 (projected) is of concern. The Task Force finds that the projected balance in the state highway fund on FY 2013 may jeopardize the State's ability to build and maintain highways and roads. The Task Force notes that if the moneys in the state highway fund are insufficient to support highway projects, including new highways, maintenance and repairs of existing roads, and beautification, appropriations from the State's general fund would have to be made.

Other sources of revenue for the state highway fund are the vehicle weight tax under section 249-2, HRS; fuel taxes under section chapter 243, HRS; and motor vehicle registration fees under section 249-31, HRS. Based on revenue figures of the DOT, the respective percentage of revenue sources since FY 2001 and projected into FY 2013 in the state highway fund are as follows:

FY 2001

Total Revenues	\$202,142,959
Federal grants-in-aid	14.3%
Fuel taxes	35.6
Vehicle weight taxes	12.1
Vehicle registration fees	8.7
Interest income	7.4
Other revenues	21.9
(presumably includes rental/tour vehicle surcharge tax which is not listed separately)	

FY 2002

Total Revenues	\$216,344,434
Federal grants-in-aid	12.5%
Fuel taxes	33.8
Vehicle weight taxes	11.3
Vehicle registration fees	8.1
Interest income	5.3
Other revenues	29.0
(presumably includes rental/tour vehicle surcharge tax which is not listed separately)	



FY 2003

Total Revenues	\$201,806,726
Federal grants-in-aid	12.3%
Fuel taxes	37.4
Vehicle weight taxes	13.6
Vehicle registration fees	9.4
Interest income	5.9
Other revenues	21.4
(presumably includes rental/tour vehicle surcharge tax which is not listed separately)	

FY 2004

Total Revenues	\$204,817,227
Federal grants-in-aid	10.8%
Fuel taxes	38.9
Vehicle weight taxes	13.4
Vehicle registration fees	9.4
Interest income	4.2
Other revenues	23.3
(presumably includes rental/tour vehicle surcharge tax which is not listed separately)	

FY 2005

Total Revenues	\$231,518,146
Federal grants-in-aid	15.2%
Fuel taxes	35.0
Vehicle weight taxes	13.3
Vehicle registration fees	8.7
Rental car/tour vehicle surcharge	19.0
Interest income	3.8
Other revenues	5.0

FY 2006

Total Revenues	\$204,287,000
Fuel taxes	40.5%
Vehicle weight taxes	15.6
Vehicle registration fees	10.2
Temporary certificates of deposit	6.9
Rental car/tour vehicle surcharge	24.8
Miscellaneous revenues	2.0



FY 2007

Total Revenues	\$210,989,000
Fuel taxes	40.6%
Vehicle weight taxes	15.8
Vehicle registration fees	9.8
Temporary certificates of deposit	7.8
Rental car/tour vehicle surcharge	22.2
Miscellaneous revenues	3.8

FY 2008

Total Revenues	\$215,135,000
Fuel taxes	43.5%
Vehicle weight taxes	15.7
Vehicle registration fees	9.8
Temporary certificates of deposit	4.6
Rental car/tour vehicle surcharge	24.5
Miscellaneous revenues	1.9

FY 2009

Total Revenues	\$206,875,000
Fuel taxes	45.9%
Vehicle weight taxes	16.5
Vehicle registration fees	10.3
Temporary certificates of deposit	4.8
Rental car/tour vehicle surcharge	20.5
Miscellaneous revenues	2.0

FY 2010

Total Revenues	\$207,062,000
Fuel taxes	46.4%
Vehicle weight taxes	16.7
Vehicle registration fees	10.4
Temporary certificates of deposit	4.8
Rental car/tour vehicle surcharge	19.7
Miscellaneous revenues	2.0

FY 2011

Total Revenues	\$209,816,000
Fuel taxes	46.3%
Vehicle weight taxes	16.7
Vehicle registration fees	10.4
Temporary certificates of deposit	4.8
Rental car/tour vehicle surcharge	19.8
Miscellaneous revenues	2.0



FY 2012

Total Revenues	\$212,610,000
Fuel taxes	46.3%
Vehicle weight taxes	16.7
Vehicle registration fees	10.4
Temporary certificates of deposit	4.7
Rental car/tour vehicle surcharge	19.9
Miscellaneous revenues	2.0

FY 2013

Total Revenues	\$215,135,000
Fuel taxes	46.3%
Vehicle weight taxes	16.7
Vehicle registration fees	10.4
Temporary certificates of deposit	4.6
Rental car/tour vehicle surcharge	20.0
Miscellaneous revenues	2.0

Beginning with FY 2006, the DOT accounted for federal grants-in-aid as a reduction of expenditures rather than as revenue.

Revenue Transfers

Moneys were appropriated out of the state highway fund and into the general fund most recently by Act 52, Session Laws of Hawaii 2004, section 17, in the amount of \$11,000,000, which was line item vetoed and overridden by the Legislature. The appropriation was based upon a determination by the legislature that there existed at least \$11,000,000 in excess of the requirements of the fund. According to the DOT, state highway fund revenue transfers to the general fund totaled \$143,000,000 from 1996 to 2003, which when added to the \$11,000,000 in 2004 comes to \$154,000,000.



Categorical Project Expenditures

According to the DOT, the project type breakdown from FY 2000 to FY 2006 is as follows:

<u>Project Type</u>	<u>Total Cost</u>	<u># of Projects</u>	<u>Cost %</u>
System Preservation	\$562,200,000	192	49%
Safety	80,100,000	57	7
Congestion Mitigation	27,700,000	27	3
Modernization	365,400,000	38	34
Enhancement	65,100,000	35	6
Others	16,100,000	23	1
Total	1,116,600,000	372	

Federal Moneys

According to the DOT, state highway fund moneys comprise thirty-six per cent and federal funds comprise sixty-four per cent of expenditures. However, the Congressional Budget Office projects the Federal Highway Trust Fund balance to plummet in 2010.

The Federal Highway Trust Fund is set to experience an estimated shortfall of \$4 billion in 2009. The projected shortfall is expected to increase to \$16 billion by 2010. The Federal Highway Trust Fund's projected shortfalls would make it extremely difficult for the State to effectively address traffic congestion, maintenance, and safety issues that result from an inadequate highway infrastructure system.

The federal highway aid program to the states is projected to be cut drastically from a projected \$43.4 billion in 2009 to \$25.2 billion in 2010, a reduction of forty-three per cent which places an even greater burden on the state highway fund.

Consequences of Not Investing

According to the DOT, the consequences of not investing in highways and roads are reduced level of service; deteriorating infrastructure; reduced road space; increased user costs; increased accidents and third party claims; limitations on



accessibility and integration; poverty and social exclusion; and hindrance to policy objectives.

Maintenance Program Goals

According to the DOT, maintenance projects have the goals of rehabilitation of highway infrastructure; consistent bridge maintenance, rehabilitation, replacement, and retrofit; routine and cyclic highway maintenance; maintenance of coastal protection; landscape management; and environmental programs.

One of the DOT's major concerns is the dramatic drawdown of the state highway fund balance. The main reason for this is that the DOT is spending more than it is generating in revenue due to the amount of accumulated backlog of deferred maintenance. According to the DOT's six year financial plan, the DOT will spend on average \$20,000,000 more per year than what is taken in by revenue. The DOT projects that by 2013, the state highway fund balance will be down to about \$4 to \$5 million compared to the \$95,000,000 current balance.

To put maintenance spending levels in perspective, the DOT believes that, ideally, \$86,000,000 should be spent annually on special maintenance projects. In order to achieve the ideal level of funding, the DOT would need to receive an additional \$46,000,000 in revenues annually. According to the DOT, the cost of construction and maintenance has increased threefold from ten years ago and twofold from five years ago.

2030 Highway Needs Outlook

According to the DOT, in 2030, the capital improvement project (CIP) funding statewide total is projected to be \$15,940,000 and the operation and maintenance funding cost is projected to be \$3,010,000, totaling \$18,950,000. Total revenues, including federal highway funds, state funds, and county funds, are projected to be \$6,240,000.

Cost of Current Projects

According to the DOT, there are \$450,000,000 in CIP and maintenance projects currently in progress, the highest levels



ever. Of that sum, those projects "on the shelf" or awaiting commencement of construction when federal moneys are received total \$95,000,000 to \$100,000,000.

Transportation Investment Forum

The DOT held a "Transportation Investment Forum" (Forum) in August 2007, to brainstorm with interested parties the various alternatives to generate increased revenue for the state highway fund. It appears that the DOT took the initiative ahead of the Task Force to ferret out and winnow salient proposals. The Forum included the same stakeholders that would qualify under Act 258 as "different interest groups and present contributors of revenues to the highway fund." The Task Force has received and reviewed the documents and proceeding summaries as provided by the DOT to the Senate Committee on Ways and Means.

In its general summary of the Forum proceedings, the DOT stated in pertinent part, "The intent of the Forum was to bring together various stakeholders in the community, including highway users, the business sector, consultants and contractors, economists and investment strategists, the trucking and automobile industries, and the various county agencies involved with transportation infrastructure ... Two options are available to the DOT and to every resident in the State of Hawaii in terms of our highway infrastructure and how we provide for it. We can do nothing and accept the financial realities as they are and watch our roadways deteriorate; or figure out new strategies for delivering services to the public in the form of consistent and reliable maintenance strategies and by providing increased capacity in the highway network. The DOT believes the choice must be the latter and that is we need to do something." (Emphasis omitted.)

Participants at the Forum discussed prioritization between modernization (new construction) and system preservation. Many attendees believed more focus should be placed on system preservation and maintenance of existing facilities and less emphasis on a modernization program. The objective of system preservation would primarily be to ensure a clean and safe transportation network.



Findings of Alternative Solutions

The Task Force finds that alternative solutions, excluding new taxes or raising taxes, to ensure the sufficiency of revenues in the state highway fund are necessary as follows:

- (1) To more accurately forecast revenues and to take a conservative approach to expected income;
- (2) To control or reduce expenditures by improved prioritization of projects in terms of giving preference to maintenance over new construction;
- (3) To better control the costs of construction to the extent possible, given the rising costs of oil and other inflationary factors; and
- (4) To plan for unexpected contingencies for highway repair and maintenance projects that may arise due to natural disasters or other unforeseen circumstances.

Better planning for expenditures would certainly result in reduced expenditures. However, planning is entirely the responsibility of the DOT. The Legislature relies upon the annual or biannual representations of the DOT to approve of its budget in the general and supplemental appropriations acts. It is incumbent upon the DOT to ensure that the state highway fund is adequately funded from year to year, based upon its planned expenditures balanced with projected revenues.

Affording expenditures on unexpected contingencies necessitates that the DOT make a conservative budget forecast of revenues. If the balance in the state highway fund is insufficient to cover unexpected contingencies, then expenditures must be made from the state general fund, which would compromise the State's ability to fund other state programs such as health and human services.

Good planning translates into sound policy decisions. Is it better to make new highways to expand the reach of the population in a limited land mass, or is it preferable to maintain existing roads, streets, and highways to ensure that reasonable traffic loads can be sustained over the long run? More highways and roads may not be fiscally justifiable. In contrast, maintaining existing highways and roads may be preferable in view of projected



budgetary confines. In this regard, the DOT should provide the Legislature with transportation, infrastructure proposals that are based on good planning so that the Legislature may then make sound policy decisions on how best to utilize state highway fund moneys.

With regard to ensuring revenue increases in the state highway fund, the Task Force believes it is incumbent upon the DOT and the Administration to formulate a financial plan to raise revenue for the state highway fund. In this regard, the Task Force exercises legislative restraint by deferring to the administration. The DOT stated in testimony that the Forum will continue to meet with interested parties to ultimately recommend alternatives to generating increased revenues for the state highway fund.

The Task Force defers to the Forum and the DOT for now and requests that the DOT report to the Legislature when the Forum finalizes its recommendations, with the expectation that the matter will result in proposed legislation for consideration for the 2009 Regular Session.

Respectfully submitted on
behalf of the members of the
Special Joint Senate and House
of Representatives Task Force
to Conduct a Review of the
Financial Requirements of the
State Highway Fund,



SENATOR J. KALANI ENGLISH,
Co-chair



REPRESENTATIVE JOSEPH M. SOUKI,
Co-chair

