

LINDA LINGLE
GOVERNOR OF HAWAII



CHIYOME LEINAALA FUKINO, M.D.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P.O. Box 3378
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In reply, please refer to:
File:

COMMITTEE ON FINANCE

H.B. 3444, HD1, RELATING TO ENERGY

Testimony of Chiyome Leinaala Fukino, M.D.
Director of Health

February 25, 2008
4:00 P.M.

1 **Department's Position:** The Department of Health understands the intent of this bill but must
2 respectfully oppose it.

3 **Fiscal Implications:** Amending HRS Section 243-3.5 to raise the per barrel petroleum product tax from
4 the present 5-cents to 20-cents to the Environmental Response and Energy Security Tax Fund will result
5 in a funding level increase with the following distribution: 5-cents per barrel to the Environmental
6 Response Revolving Fund; 12.5-cents per barrel to the energy security special fund, and 2.5-cents to the
7 energy systems development special fund.

8 **Purpose and Justification:** The bill is designed to combine the Environmental Response Revolving
9 Fund (ERRF) and the energy security special fund in order to collect monies for alternative energy,
10 energy conservation, global warming initiatives, and other efforts.

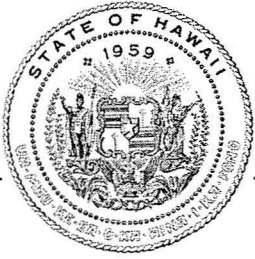
11 In general, the Department strongly supports the development of clean energy, independent from
12 fossil fuels, and the reduction of greenhouse gas emissions. We support adequate funding to advance
13 those goals, consistent with administration budget priorities. However, we do not support a fee increase.

14 Additionally, the Department is concerned that a substantial increase and co-mingling of funds
15 from oil tax revenues may lead to even greater expenditures for energy-related purposes, which would

1 strain our ability to carry out our statutorily mandated functions to be ready to respond to oil spills and
2 hazardous substance releases. Currently, the ERRF supports 38 positions.

3 We ask that any tax increase avoid an adverse impact on the priorities in the Executive
4 Supplemental Budget and that the ERRF remains a separate fund.

5 Thank you for the opportunity to testify on this important measure.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

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Statement of
THEODORE E. LIU
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON FINANCE

Monday, February 25, 2008

4:00 p.m.

State Capitol, Conference Room 308

in consideration of

HB3444 HD1
RELATING TO ENERGY.

Chair Oshiro, Vice Chair Lee, and Members of the Committee.

HB3444 HD1, Relating to Energy, seeks to provide additional funding for state energy initiatives to carry out Hawaii's long-term energy strategy through the environmental response and energy security tax and energy security special fund to secure a sustainable energy future for Hawaii.

There have been many good ideas introduced this legislative session that support the State's energy and economic development goals. We defer, however, to the Department of Tax and the Department of Budget and Finance on the fiscal impact of this legislation.

Over the last five years, the annual budgeted General Fund appropriation to the State's energy program has averaged about \$1.2 million. I would, however, say this amount of funding is disproportionate compared to the broad role and responsibilities of the energy program. As you know, over the past several years, legislative measures have increased the scope and breadth

of activity in Hawaii's energy sector. Federal funding has supported the state's energy program at a level twice of the annual state general fund funding, via the federal State Energy Program and competitive grant funding. As the result, two-thirds of the state energy program's staff is federally funded. Federal funding sources are diminishing, and are expected to be practically exhausted within the next 3 to 4 years.

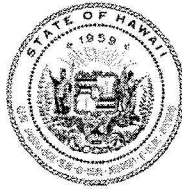
The newly created federal partnership with the State of Hawaii, the Clean Energy Initiative, will bring new sources of funding to energy initiatives in Hawaii, but these will be program-focused, and not designed to replace the federal State Energy Program (SEP) funding that is expiring. Moreover, the partnership will require state matching funds to conduct important work in support of the state's goals for energy security. These opportunities will require staff support and may increase the pressure on limited existing resources.

While the structure of the State's energy program is fairly stable and resilient, the resources that the program has existed on to date are coming to an end, and new sources of funding need to be identified. We defer to the Department of Budget and Finance regarding new special funds or a tax increase.

Thank you for the opportunity to testify.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

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HOUSE COMMITTEE ON FINANCE

TESTIMONY REGARDING HB 3444 HD 1 RELATING TO ENERGY

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 25, 2008

TIME: 4:00PM

ROOM: 308

As amended, this bill amends the environmental response tax to include an energy security tax component. This legislation also increases the environmental response tax from \$0.05 per gallon to \$0.20 per gallon.

The Department of Taxation has **strong concerns** with this legislation.

First, this legislation represents a tax increase that will eventually impact the gasoline prices all Hawaii drivers pay. Last legislative session, tempering high gasoline prices was a top priority that led to passage of an alcohol fuel general excise tax exemption. This legislation runs counter to accomplishments in reducing Hawaii's gas prices. In order to effectively minimize the high price of gasoline at the pump, such efforts must be done in ways other than tax increases such as this legislation.

Second, this bill creates an unnecessary special fund. The Department opposes the creation of a special fund that does not meet the mandatory requirements by law.

This legislation will result in no loss to the general fund. However, the tax is expected to generate approximately \$5.2 million annually, with \$4.4 million deposited into the energy security special fund and \$0.9 million deposited into the energy systems development special fund

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 3444, H.D. 1

February 25, 2008

RELATING TO ENERGY

House Bill No. 3444, H.D. 1, would provide additional financing for the energy program of the Department of Business, Economic Development and Tourism by establishing the Energy Security Special Fund and a new energy security tax. The Energy Security Special Fund would be used to promote energy self-sufficiency and energy security for the State. The special fund would be funded through legislative appropriations, interest earnings, moneys generated by the energy security tax, and other moneys made available from other sources. The bill appropriates an unspecified amount in general funds in FY 09 to be deposited into the special fund. The energy security tax would impose a tax of fifteen cents on each barrel of petroleum product sold by a distributor. The tax imposed shall be paid by the distributor of the petroleum product.

This department does not support the imposition of a new tax. Additionally, as a matter of general policy, this department does not support the creation of any special or revolving fund which does not meet the requirements of Sections 37-52.3 or 37-52.4 of the Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. It is difficult to determine whether the fund will be self-sustaining.

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: FUEL, Environmental response and energy security tax

BILL NUMBER: HB 3444, HD-1

INTRODUCED BY: House Committee on Energy and Environmental Protection

BRIEF SUMMARY: Amends HRS section 243-3.5 to rename the environmental response tax to the environmental response and energy security tax. Increases the tax from 5 cents to 20 cents with: (1) 5 cents collected on each barrel to be deposited into the environmental response revolving fund; provided that _____ cents of the tax on each barrel shall be used to address concerns related to drinking water; (2) 12.5 cents shall be deposited into the proposed energy security special fund; and 2.5 cents be deposited into the energy systems development special fund.

Amends HRS section 128D-2 to repeal the provision discontinuing the imposition of the environmental response tax when the balance in the fund exceeds \$20 million with a provision that provides that any amount that causes the balance in the fund to exceed \$20 million shall be deposited into the general fund. No deposits shall be made to the fund until the balance drops below \$3 million.

Adds a new section to the HRS to create an energy security special fund. When moneys in the fund exceed \$10 million from all sources delineated, the energy security tax shall cease to be imposed until the balance in the fund declines to less than \$5 million, at which time the tax will be reinstated. The fund shall be used by the department of business, economic development and tourism for its energy programs as enumerated.

Appropriates an unspecified amount of general funds for fiscal 2009 for deposit into the energy security special fund.

Appropriates an unspecified amount out of the energy security special fund for fiscal 2009 for the purposes of this act.

EFFECTIVE DATE: July 1, 2008

STAFF COMMENTS: This measure proposes to increase the environment response tax from 5 cents to 20 cents and provide that 12.5 cents shall be deposited into the energy security special fund; and 2.5 cents be deposited into the energy systems development special fund.

Section 1 of this measure states that the energy program within the strategic industries division of the department of business, economic development and tourism (DBEDT) requires additional funding due to its expansion and declining federal funding, and declining oil overcharge fund sources which has resulted in diminished program budgets and reduced staff positions. The measure further states that increased state funding is necessary to support core energy program funding.

HB 3444, HD-1 - Continued

It should be noted that the establishment of the funding mechanisms proposed in this measure to provide additional revenue to allow the energy program of the strategic industries division of DBEDT to operate, sets this program area apart from other state agencies or programs which are funded through the budget and appropriation process. By establishing a specific tax to fund this program area allows this program to bypass the normal budgetary process. If such a program is deemed a priority, then a direct appropriation for this program of work should be directly funded rather than through the back door method as proposed by this measure.

While proponents of the measure may argue that the proposed energy security tax parallels the environmental response tax which also taps each barrel of petroleum product sold, it should be noted that the State Auditor has singled out the environmental response fund as not meeting the criteria established and the Auditor recommended that it be repealed. The Auditor criticized the use of such funds as they hide various sums of money from policymakers as they are not available for any other use and tend to be tacitly acknowledged in the budget process.

It should also be noted that funds deposited into a special fund are not subject to close scrutiny as an assumption is made that such funds are self-sustaining. It should be remembered that earmarking of funds for a specific program represents poor public finance policy as it is difficult to determine the adequacy of the revenue source for the purposes of the program. To the extent that earmarking carves out revenues before policymakers can evaluate the appropriateness of the amount earmarked and spent, it removes the accountability for those funds. There is no reason why such a program should not compete for general funds like all other programs which benefit the community as a whole.

To a large extent this proposal represents the arrogance of lawmakers to merely pass on tax increases to their constituents without the courage to be held accountable for the tax increase by hiding it deep within the product chain so that it is not apparent to the ultimate consumer. Instead the "blame" for the price increase is aimed at the business selling to the final consumer. The hypocrisy of lawmakers decrying the "highest gasoline prices in the nation" while proposing a tax increase on the front end of what eventually will be sold at the gas pump is pitiful.

Rather than perpetuating the problems of the barrel tax, the existing environmental response tax should be repealed and all programs that are funded out of the environmental response fund should be funded through the general fund. At least program managers would then have to justify their need for these funds. By continuing to special fund these programs, it makes a statement that such environmental programs are not a high priority for state government. This sort of proliferation of public programs needs to be checked as it appears to be growing out of hand and at the expense of the taxpayer.

While lawmakers may be concerned about clean water or energy security, what this proposal does say is that they do not care about their taxpaying constituents, for this measure amounts to nothing more than lawmakers saying "let them eat cake!"

Digested 2/22/08



Sierra Club Hawai'i Chapter

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808.537.9019 hawaii.chapter@sierraclub.org

HOUSE COMMITTEE ON FINANCE

February 25th, 2008, 4:00 P.M.

(Testimony is 2 pages long)

TESTIMONY IN STRONG SUPPORT OF HB 3444 HD1

Chair Oshiro and members of the Committee:

The Sierra Club, Hawai'i Chapter, with 5500 dues paying members statewide, strongly supports HB 3444 HD1, providing needed funding for clean energy and global warming initiatives through an increase in the oil barrel surcharge. The bill is smart tax-shifting policy to foster greater energy independence by tapping into the source of our problem to fund our preferred future.

The concept behind HB 3444 HD1 is to help "internalize" the external costs of certain activities; in this case, charge a fee for products that are damaging to the environment and use that money to help mitigate the damage. The link is quite clear between the use of petroleum products and corresponding impacts on our fragile island environments—not only in oil spills, which was the original impetus for the environmental response tax, but also in runoff from the roads our cars drive on, in degraded air quality, and in greenhouse gas emissions and climate change. Currently, the Department of Health is desperately under-funded and lacks the resources to adequately deal with these environmental impacts. Most critically, the newly established Greenhouse Gas Emissions Reduction Task Force—the group charged with developing the roadmap to achieve dramatic reductions in statewide greenhouse gas emissions—needs resources and staffing to complete their work. This measure would provide additional funds for their efforts.

The House Draft 1 of this measure creatively allocates the funds to various needs:

1. The original intent of the Environmental Response Fund, such as environmental programs and responding to emergency oil spills (25%);
2. Energy security projects and development to increase Hawaii's energy self-sufficiency (62.5%); and
3. Energy systems development for renewable energy and energy efficiency technology projects that will reduce Hawaii's dependence on fossil fuel, managed by the Hawai'i natural energy institute (12.5%).

Such a "clean energy" surcharge on a barrel of oil of \$0.20 is approximately the same as a carbon tax of \$0.41 per ton of CO₂ (23 lbs CO₂ produced per gallon oil, 42 gallons per barrel). It would have a marginal impact on petroleum users, yet significantly increase the Department's ability to protect Hawaii's environment that is adversely impacted by petroleum use. A \$0.41 "carbon fee" is nominal. Many European countries have carbon taxes that

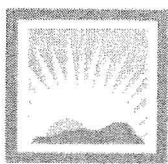
exceed \$10.00 per ton. ***Two weeks ago, the Canadian province of British Columbia enacted a carbon fee that starts at approximately \$8.00 per ton (English) in July, 2008, and increases to \$24 per ton by 2012.***

The impact of CO₂ emissions alone from one barrel oil is much greater than the proposed tax. The Gas Company, in their Integrated Resource Plan, attempted to quantify the externalities (impacts not reflected in the market costs of an activity) per ton of pollutant. They examined environmental, energy security, macroeconomic and employment, and social and cultural externalities. Their results are shocking: the low estimate was \$10/ton CO₂, the mid-range was \$27/ton CO₂, and the high was \$77/ton CO₂ (The Gas Company, 1999. *The Gas Company Integrated Resource Plan Report*, Jan 28, 1999 Draft, Honolulu.). Again, the approximate carbon tax equivalent of this measure is \$0.41.

While we all likely agree that we need to aggressively increase our clean energy use in Hawai'i and decrease our reliance on imported crude, we cannot do it with funding for research, development, and policy implementation. House Bill 3444 HD1 wisely taps the source of our problem—imported oil—to fund clean energy programs.

House Bill 3444 HD1 is smart tax-shifting policy that encourages resource conservation and increases our ability to protect Hawaii's environment by making the "polluter pay." As we dramatically expand our clean energy capacity in Hawai'i, the real economic benefits of this carbon surcharge will far outweigh the additional burden it may present. This common sense policy will foster greater energy independence by tapping into the source of our problem to fund our preferred future.

Thank you for the opportunity to testify.



Hawaii Solar Energy Association
Serving Hawaii Since 1977

TESTIMONY OF THE HAWAII SOLAR ENERGY ASSOCIATION
IN REGARD TO H.B. 3444, H.D. 1
RELATING TO ENERGY
BEFORE THE
HOUSE COMMITTEE ON FINANCE
ON
MONDAY, FEBRUARY 25, 2008

Chair Oshiro, Vice-Chair Lee and members of the committee, my name is Richard Reed and I represent the Hawaii Solar Energy Assn (HSEA). The HSEA is a professional trade association established in 1977, and affiliated with the Solar Energy Industries Association (SEIA) in Washington, D.C. HSEA represents manufacturers, distributors, contractors, financiers, and utility companies active in the solar energy industry in Hawaii. We support the passage of H.B. 3444, H.D. 1.

Leading U.S. economists, including Greg Mankiw former Bush Administration Chairman of the Council of Economic Advisors and Nobel laureate Gary S. Becker, believe that a tax levied to correct the negative externalities of a market activity, in this case the profligate purchase and combustion of oil, is warranted. Both, in fact, would argue that a .50 cent - \$1 per gallon tax is long overdue on the federal level and that we are missing a golden opportunity to protect the environment, reduce road congestion, produce a lasting reduction in miles driven, help balance the budget, ultimately make the federal tax code more favorable to growth, and enhance our national security.

H.B. 3444, H.D. 1 proposes a modest 15 cent increase in taxes now levied on a barrel of oil in Hawaii. Among other things, this tax increase will provide much needed funding to staff DBEDT's Energy Division. Most of Debt's staff are now on federal funds that will be depleted over the next four years. Much more will be expected of the Energy Division going forward and adequate staffing is the prerequisite to enhanced capability and performance.

Pursuant to Act 253, Session Laws of Hawaii 2007, this measure also will fund the Hawaii Natural Energy Institute's task of developing an integrated approach to managing renewable energy and energy efficiency projects in Hawaii. This is also necessary and important work that deserves to be funded.

Thank you for the opportunity to testify.

HAWAII RENEWABLE ENERGY ALLIANCE

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**TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII
RENEWABLE ENERGY ALLIANCE BEFORE THE HOUSE COMMITTEE ON
ENERGY AND ENVIRONMENTAL PROTECTION**

HB 3444, RELATING TO ENERGY

February 7, 2008

Chair Morita, Vice-Chair Carroll and members of the Committee I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is a nonprofit corporation in Hawaii, established in 1995 by a group of individuals and organizations concerned about the energy future of Hawaii. HREA's mission is to support, through education and advocacy, the use of renewables for a sustainable, energy-efficient, environmentally-friendly, economically-sound future for Hawaii. One of HREA's goals is to support appropriate policy changes in state and local government, the Public Utilities Commission and the electric utilities to encourage increased use of renewables in Hawaii.

The purpose of HB 3444 is to establish the energy security special fund and the energy security tax and appropriates moneys. HREA strongly supports this bill with the following comments:

1. Support of DBEDT-Energy Office. A long-term source of funding for DBEDT's Energy Office is needed. The proposed energy security special fund could provide certainty for funding of the Energy Office, assuming that the fund matched or exceeded the requirements of the Energy Office;
2. Source of Funding. HREA believes it is appropriate to place a tax on imported fossil energy to fund the proposed energy security special fund. We recommend that the tax be placed now only on importation of crude oil, but also refined petroleum products and coal: and
3. Energy Security Special Fund Security. HREA highly recommends that language be added to the bill to ensure that the energy security special fund can only be used for the stated purposes, i.e., it cannot be raided for other purposes.

Thank you for this opportunity to testify.

TESTIMONY PRESENTED BEFORE THE
COMMITTEE ON FINANCE

BY

RICHARD ROCHELEAU

Monday, 4:00 p.m.

Conference Room 308

State Capitol

415 South Beretania Street

HB 3444, HD1 Relating to Energy

Chair Oshiro, Vice Chair Lee, and Members of the Committee: Thank you for the opportunity to testify today **in support** of HB 3444, HD1. I am Dr. Richard Rocheleau, Director of the Hawai'i Natural Energy Institute (HNEI) of the University of Hawai'i at Mānoa, but am testifying today as an individual.

As we are all aware, Hawai'i is unique among the states in its dependence on oil for power generation and as a result remains highly vulnerable to price changes and potential supply disruptions. While I support the intent of all of the aspects of HB 3444, my comments below are specific to the portion of the fund intended for the Energy Systems Development Special Fund.

In 2007, this legislature passed ACT 253 (HB 1003) which established HNEI in statute and directed HNEI to undertake a number of activities including working in coordination with state and federal agencies and private entities to develop renewable sources of energy for power generation and transportation fuels, and to demonstrate and deploy efficient energy end-use technologies including those that address peak electric demand issues.

Act 253 established the Energy Systems Special Fund to be administered by HNEI for the purpose of developing an integrated approach and portfolio management of renewable energy and energy efficiency technologies. The portfolio approach and oversight provided for in Act 253 was designed to insure that technologies selected for funding were those most likely to reduce Hawai'i's dependence on fossil fuels and move Hawai'i rapidly toward energy self-sufficiency.

HB 3444, HD1 includes the assignment of 2.5 cents to the energy systems development special fund for the Hawai'i Natural Energy Institute. As has been demonstrated in similar programs in other states, funding of the Energy Systems Special Fund can be expected to leverage federal and private investment to accelerate acceptance and deployment of critically needed emerging technologies in both renewable energy generation and energy efficiency benefiting all stakeholders. Similar results should be expected for Hawai'i.

Thank you for the opportunity to testify in support of HB 3444, HD1.