WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 3444, H.D. 2, S.D. 1

March 28, 2008

RELATING TO ENERGY

House Bill No. 3444, H.D. 2, S.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. 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, a portion of the revenues from the environmental response tax that is imposed on each barrel of petroleum product sold by a distributor, 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.

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.

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the

SENATE COMMITTEE ON WAYS AND MEANS
Friday, March 28, 2008
9:30 a.m.
State Capitol, Conference Room 211

in consideration of

HB3444, HD2, SD1
RELATING TO ENERGY.

Chair Baker, Vice Chair Tsutsui, and Members of the Committee.

DBEDT supports the intent of HB3444, HD2, SD1 Relating to Energy, which seeks to provide additional funding for the State Energy Program 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.

We defer to the Department of Tax and the Department of Budget and Finance on the fiscal impact of this legislation. There have been many good ideas introduced this legislative session that support the State's energy and economic development goals. DBEDT is, however, concerned that a tax increase, as proposed by this measure, could have a negative impact on consumers. We suggest that one way to mitigate any negative impacts of this measure would be to pass the Administration's "Ohana Tax Credit" (HB3189/SB3111).

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.

Thank you for the opportunity to testify.

LINDA LINGLE
GOVERNOR OF HAWAII

CHIYOME LEINAALA FUKINO, M.D.
DIRECTOR OF HEALTH

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In reply, please refer to:
File:

SENATE COMMITTEE ON

WAYS AND MEANS

H.B. 3444, HD2, SD1, RELATING TO ENERGY

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

March 28, 2008
9:30 A.M.

Department's Position: The Department of Health supports the intent of this bill to provide sustained financial support for the State's energy programs. However, the Department has serious reservations about increasing taxes and asks for the Committee's consideration of an additional measure to address the rising cost of living in the State.

Fiscal Implications: The bill proposes 15-cent tax increase per barrel of petroleum, compared to the current 5-cent tax per barrel. We defer to the Departments of Budget and Finance and Taxation as to the fiscal impact of this legislation. Last fiscal year, the 5 cent tax per barrel generated about $1.6 M for the Environmental Response Revolving Fund (ERRF).

Purpose and Justification: The bill intends to provide monies for alternative energy, energy conservation, global warming initiatives, and other efforts. The bill amends HRS Section 243-3.5 to rename the tax the "Environmental Response and Energy Security Tax" and alters the per barrel petroleum product tax from the present 5-cents to an undetermined amount that will be distributed among the three funds: 5 cents per barrel to the ERRF, as now occurs; 12.5 cents per barrel to a new energy security special fund; and 2.5 cents per barrel to the energy systems development special fund.

In general, the Department strongly supports the development of clean energy, produced in Hawaii, independent from fossil fuels, and the reduction of greenhouse gas emissions. We support adequate, sustained funding to advance those goals, consistent with the Administration's budget priorities.

Given the high cost of living in Hawaii, we are very concerned that any additional fee or tax increase will have a negative impact on our citizens. The Department notes that the Administration includes a proposal in the Executive Supplemental Budget that funds some energy operations from the ERRF and avoids increased taxes.

Should the Legislature choose to pass HB 3444, we suggest that the Legislature also adopt the Administration's "Ohana Tax Credit," HB3189 and SB3111, as a way to mitigate the impact of the proposed oil tax increase. We defer to the Department of Taxation to explain the specifics of that proposal.

Finally, the Department notes that any legislation should maintain the current 5-cents per barrel tax for deposit into the ERRF to fund our statutorily mandated functions, which include the responsibility for responding to oil spills and hazardous substance releases, and continuing to support our 38 departmental positions.

We ask that any legislation avoid an adverse impact on the priorities in the Executive Supplemental Budget.

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

UNIVERSITY OF HAWAIʻI SYSTEM
Legislative Testimony

Written Testimony Submitted to the
Senate Committee on Ways and Means
March 28, 2008 at 9:30 a.m.
Conference Room 211

by
Dr. Richard Rocheleau
Director of the Hawaiʻi Natural Energy Institute
University of Hawaiʻi at Mānoa

HB 3444, HD2, SD1 – RELATING TO ENERGY

Chair Baker, Vice Chair Tsutsui, and Members of the Committee:

Thank you for the opportunity to submit testimony on HB 3444, HD2, SD1. The University can only support the intent of the bill at this time because of our pressing priorities, such as our tremendous need for repairs and maintenance and health and safety issues, which are critical to our ability to perform our core mission for the State of Hawaiʻi. We are grateful for the Legislature's attention to these needs.

We recognize that you have many priorities and issues to weigh for the state, so the following substantive information on this program is provided to assist you in your decision-making process.

In 2007, this legislature passed ACT 253 (HB 1003) which established HNEI in statute and directed HNEI to work in coordination with state and federal agencies and private entities to undertake a number of activities including:

- Develop renewable sources of energy for power generation;
- Conduct research and development of renewable sources of energy;
- Demonstrate and deploy efficient energy end-use technologies including those that address peak electric demand issues;
- Aggressively seek matching funding from federal agencies and private entities for research and development and demonstration issues; and,
- Report annually to the legislature.

Act 253 also 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 ensure that technologies selected for funding were those most likely to reduce Hawaiʻi 's dependence on fossil fuels and move Hawaiʻi quickly toward energy self-sufficiency.

HB 3444, HD2, SD1 includes the assignment of a portion of the Energy Security Special Fund to be used to fund the energy systems development special fund managed by the Hawaii Natural Energy Institute. As demonstrated in similar programs in other states, the Energy Systems Special Fund can be expected to leverage federal and private investments to accelerate acceptance and deployment of critically needed emerging technologies in both renewable energy generation and energy efficiency benefiting all stakeholders, including activities planned under the Hawaii Clean Energy Initiative, a partnership between the state of Hawai'i and the US Department of Energy.

Thank you for the opportunity to submit testimony in support of the intent of HB 3444, HD2, SD1. We appreciate all interest in the University, and want to emphasize that we will be able to perform better in all arenas and best serve the state with support of the current campus priorities approved by the Board of Regents.

COLLEGE OF SOCIAL SCIENCES

HAWAII ENERGY POLICY FORUM

UNIVERSITY OF HAWAI'I AT MĀNOA

Testimony of
Warren Bollmeier
Co-Chair – Renewable Energy Working Group
Hawai'i Energy Policy Forum

Senate Committee on Ways and Means
Friday, March 28, 2008
9:30 am
Conference Room 211

IN GENERAL SUPPORT OF HB 3444, SD 1 – Relating to Energy

I am Warren Bollmeier, Co-Chair of the Renewable Energy Working Group of the Hawaii Energy Policy Forum ("Forum"). The Forum is comprised of 46 representatives from the electric utilities, oil and natural gas suppliers, environmental and community groups, renewable energy industry, and federal, state and local government, including representatives from the neighbor islands. We have been meeting since 2002 and have adopted a common vision and mission, and a comprehensive "10 Point Action Plan," which serves as a framework and guide for meeting our preferred energy vision and goals. The Forum generally supports the passage of HB 3444, SD 1 as it helps achieve many goals of the Forum.

HB 3444, SD 1 establishes the Energy Security Special Fund into which the renamed Environmental Response and Energy Security tax will be deposited. This bill would provide a dedicated source of funding for DBEDT's energy program.

The number of energy related programs under DBEDT's purview has dramatically increased in recent years due to the Legislature's passage of numerous measures that will enable Hawaii to have a secure energy future. Currently, two-thirds of DBEDT's energy staff is funded by federal funding, which, at the current rate of expenditure will disappear in approximately 3-4 years. The Forum strongly supports funding for DBEDT's energy staff and while the Forum is reluctant to support an increase in taxes, we believe that if state general funds or federal funds are not available, then an increase in the environmental response tax is needed to ensure continuity of the state's energy programs. The proposed tax increase will have enormous benefits that will save money in the long run and ensure that Hawaii's future remains energy secure.

While the Forum supports this increase to provide a dedicated source of funding for DBEDT's energy programs, we strongly urge that no funds be diverted or diminished from the current allocation of the environmental response tax towards oil spill planning, prevention, preparedness, education, research, training, removal, and remediation, and to support environmental protection and natural resource protection programs.

Thank you for this opportunity to testify.

This testimony reflects the position of the Forum as a whole and not necessarily of the individual Forum members or their companies or organization

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Sierra Club
Hawai'i Chapter
PO Box 2577, Honolulu, HI 96803
808.537.9019 hawaii.chapter@sierraclub.org

SENATE COMMITTEE ON WAYS AND MEANS
March 28th, 2008, 9:30 A.M.

(Testimony is 3 pages long)

TESTIMONY IN STRONG SUPPORT OF HB 3444 HD2 SD1

Chair Baker and members of the Committee:

The Sierra Club, Hawai`i Chapter, with 5500 dues paying members statewide, strongly supports HB 3444 HD2 SD1, 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. We appreciate the amendments that the previous committee made to this measure which allocate the carbon fund to various critical clean energy development and environmental programs. **We ask that the measure be further amended to contain a fee of $0.20 per barrel (assumed with the allocation specified in the SD1) and an appropriate start date.**

The concept behind HB 3444 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 Senate 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%).

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 HD2 SD1 wisely taps the source of our problem—imported oil—to fund clean energy programs.

We greatly appreciate concerns raised by the previous committee regarding the regressive nature of a fee on a widely used commodity such as petroleum. An ideal policy would provide a direct rebate or investment back to low income residents in some way to make the new fee less regressive. We do believe, however, that this measure will indirectly provide benefits in excess of the small $0.15 fee increase through facilitating the transition away from expensive fossil fuels. That should remain be our primary focus if the concern is economics.

Consider, a $0.15 per barrel oil fee increase, according to estimates by the Department of Business, Economic Development and Tourism, is an additional annual cost to each Hawai'i resident of about $3.85 (less than a Big Mac). Even in an extreme case, the cost impact is fairly nominal. A worker driving 70 miles every day of the year (25,500 miles annually) in a truck that gets 20 miles to the gallon would pay an additional $4.50 under this policy for fuel. For comparison, if that same person swapped out just two 75-watt incandescent lights at home for compact fluorescents they would save almost $40 per year (average usage)--even after they paid for the bulbs.

To put the larger issue of oil cost in perspective, consider the fact that oil increased at least $50 over the past year (~$56 in March 2007 to $100+ today). If a $0.15 barrel fee increase is a $3.85 annual impact, a $50 barrel cost increase represents a <u>$1283 annual impact.</u> That is a massively regressive cost of living increase. If cost of living and cost to economy are primary concerns (not to mention climate change), providing funding to accelerate clean energy adoption should be a priority—even if it is a nominal $3.85 annual cost to residents. Of course, we are very open to finding ways to mitigate the regressive nature of any carbon fee.

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 CO_2 (23 lbs CO_2 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. ***Last month, 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 CO_2 emissions alone from one barrel oil is much greater than the proposed fee increase. 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 CO_2, the mid-range was $27/ton CO_2, and the high was $77/ton CO_2 (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.

Finally, we note that this measure has received support from the Department of Business, Economic Development and Tourism, the Energy Policy Forum, renewable energy organizations, and environmental organizations. In addition, the *Honolulu Advertiser* editorial board supports the measure, writing in their Sunday, March 16 edition:

Raising a tax is never a popular move, but the proposal to do so for the creation of a (sic) Energy Security Special Fund is warranted. HB 3444 would raise the Environmental Response and Energy Security Tax from 5 cents per barrel of petroleum to 20 cents, with about 15 cents going into the energy fund. It's sure to be passed on to consumers at the pump, but analysts argue that the per-person cost would amount to $3.85 per year.

That's a worthwhile investment if the result is a fund for research and development of multiple modes of renewable energy for Hawai'i. Now the state needs to see that the money is used wisely to tap the Islands' reservoir of power — from the wind, waves, geothermal and, of course, the sun.

House Bill 3444 HD2 SD1 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.

Please amend this measure to contain a $0.20 (or greater) fee per barrel and a proper start date.

Thank you for the opportunity to testify.

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, SD-1

INTRODUCED BY: Senate Committee on Energy and Environment

BRIEF SUMMARY: Amends HRS section 243-3.5 to rename the environmental response tax the environmental response and energy security tax. Increases the tax from 5 cents to ___ 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, 2050

STAFF COMMENTS: This measure proposes to increase the environment response tax from 5 cents to ___ 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.

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!" by not only raising taxes, in this case a fee, but because it is on the "front" end of all goods and services consumed being that everything relies on energy, it also increases the cost of living and doing business in Hawaii. Lawmakers better consider the economic impact this will have especially in view of the slowing economy that is forecast for the next few years. Lawmakers will find themselves in the same pickle that they did in 1998, trying to jumpstart the economy with no resources to do so.

Digested 3/17/08

Hawaii Solar Energy Association

Serving Hawaii Since 1977

TESTIMONY OF THE HAWAII SOLAR ENERGY ASSOCIATON
IN REGARD TO H.B. 3444, H.D. 2, S.D. 1
RELATING TO ENERGY
BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS
ON
FRIDAY, MARCH 28, 2008

Chair Baker, Vice-Chair Tsutsui and members of the committee, my name is Rick 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 strongly support the passage of H.B. 3444, H.D. 2, S.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. 2, S.D. 1 proposes a modest 15 cent increase to the taxes now levied on a barrel of oil in Hawaii. Among other things, this tax increase could 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.

Two other quick points. HSEA also believes that a similar levy on imported and highly polluting coal is also appropriate. Language that requires that the monies in this fund be used exclusively for the stated purposes would be welcome.

Thank you for the opportunity to testify.

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SENATE COMMITTEE ON WAYS & MEANS

TESTIMONY REGARDING HB 3444 HD 2 SD 1
RELATING TO ENERGY

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: MARCH 28, 2008
TIME: 9:30AM
ROOM: 211

As amended, this bill amends the environmental response tax to include an energy security tax component. This legislation also increases the environmental response and security tax to an unspecified amount. The legislation provides allocation of revenues to various sources.

The Department of Taxation **opposes the tax increase contained in this legislation**.

I. A REGRESSIVE TAX INCREASE ON THE PURCHASE OF FUEL IS UNACCEPTABLE.

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 the tax increase contained in 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.

II. IF THE LEGISLATURE IS INCLINED TO PASS A TAX INCREASE, OFFSETTING TAX CUTS ARE NECESSARY.

Assuming the Legislature is inclined to pass a tax increase that is assessed on each barrel of oil in Hawaii, the Department strongly urges the Legislature to pass commensurate tax relief for the struggling taxpayers. The Department suggests that the Legislature pass HB 3189/SB 3111, which is the "Ohana Tax Reduction Act."

The Ohana Tax Reduction Act seeks to provide an additional personal exemption of up to $1,000 for taxpayers with dependents aged 18 and under, to be known as the "Ohana Exemption." This bill also increases the dependent care employment-related expense credit expenditure ceiling to $5,000 per dependent. Finally, this bill makes several conforming amendments to § 235-55.6 to conform to the Internal Revenue Code. This bill takes effect upon approval, provided that the "Ohana Exemption" applies to taxable years beginning after December 31, 2008 and the increased dependent care credit applies to taxable years beginning after December 31, 2007.

The purpose of Ohana Tax Reduction Act is to provide meaningful tax relief to the families of Hawaii that struggle with the day-to-day financial burdens of providing the daily necessities of life of their children and dependents, including adult-aged dependents. The Department strongly supports providing targeted financial relief to the ohana of Hawaii. This legislation is a novel and unique approach to providing simple and meaningful relief to these families.

The effect of the Ohana Tax Reduction Act is a tax cut of approximately $9,000,000 for FY 2009 and an even greater tax cut of $25,900,000 for FY 2010 and thereafter.

III. REVENUE ESTIMATE OF THE TAX INCREASE.

This legislation will result in no loss to the general fund. However, the tax is expected to generate an unspecified amount of revenue for the various special funds. This amount is indeterminate because of the unspecified tax rate.

The current environmental response 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 (due to rounding, the appropriations do not add up to $5.2 million). Note: $1.7 million or approximately 5 cents per barrel is already being deposited into the environmental response revolving fund.

General Fund expenditures will increase by an amount yet to be specified.

Based on the Liquid Fuel Tax Base and Collections Report for FY2007, $1.7 million was collected in the environmental response tax, which is a 5-cent per barrel tax on petroleum products sold by a distributor to any retail dealer or end user other than a refiner. To approximate the number of barrels sold, divide the total collections by $0.05 (34.8 million barrels).