

STAND. COM. REP. NO.

931

Honolulu, Hawaii

Month 6, 2009

RE: H.B. No. 1271

H.D. 3

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 1271, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO GOVERNMENT,"

begs leave to report as follows:

The purpose of this bill is to encourage and support Hawaii's energy and food security initiatives. Its major provisions include:

- (1) Establishing a task force to review and investigate a broad range of energy and food security issues and develop an integrated energy and food policy; and
- (2) Increasing the environmental response tax from five cents to \$1 per barrel or fractional part of a barrel of petroleum product.

The Conservation Council for Hawaii, Sierra Club-Hawaii Chapter, The Nature Conservancy, Social Sciences Public Policy Center-University of Hawaii at Manoa, Aurora Research, LLC, Life of the Land, Blue Planet Foundation, Inter-Island Solar Supply, Malama Kaua'i, Maui Tomorrow, and numerous concerned individuals supported this bill. The Department of Taxation opposed this measure. Enterprise Honolulu, Tax Foundation of Hawaii, Hawaii Farm Bureau Federation, Maui County Farm Bureau, Maui Economic Development Board, Inc., and Windward Ahupua'a Alliance provided comments.

HB1271 HD3 HSCR FIN HMS 2009-2835



Hawaii's unique global position in the middle of the Pacific Ocean is the basis for the State's intense dependence on the importation of both fossil fuel, for our energy needs, and food. Yet, this same geographic distinction also offers Hawaii the unique opportunity to use its abundant natural resources to produce both renewable energy and food crops. In these times of economic crisis, this should be viewed as presenting an opportunity to become innovative and bold.

Reducing Hawaii's dependence on imported fossil fuel and food should be a priority and this bill establishes a strong policy direction toward achieving energy and food security. Of greatest significance, this bill makes available resources, not merely words, to achieve this policy.

Your Committee realizes that increasing the "barrel tax" has both benefits and detriments. On one hand, the additional tax revenues will enable the State to invest in renewable energy technologies and increased food production. Not only will this lead to a reduction of revenue used to purchase imported fossil fuel and food, resulting in more revenue being spent locally, but more importantly, the investment may lead to the development of new industries and businesses that may have the potential to serve a world-wide market from a base in Hawaii. For this reason, your Committee believes that the benefits outweigh the detriments of this additional tax.

However, this additional tax will also create near-term impacts that will adversely affect the businesses and people of the State. Understandably, the increased tax will lead to a "pass-on" effect, with the price of gasoline expected to rise. The increased fuel costs will ultimately increase the costs of doing business and eventually the costs for goods and services used by Hawaii's residents. Thus, your Committee has chosen to implement a measure that is intended to reduce the price of gasoline at the pump by a non-conventional method.

To accomplish this, your Committee has amended this bill by inserting a new part IV that suspends for 36 months, the requirement that gasoline sold in the state for use in motor vehicles contains ten per cent ethanol by volume. At present, the cost of a barrel of oil is much less than the cost of a barrel of ethanol. Thus, the repeal of the ethanol content requirement is intended to result in the replacement of more expensive ethanol



with less expensive oil in the refining process that produces a gallon of gasoline.

While deliberations were made on whether to include a requirement in this legislation for a roll-back of the price of gasoline to reflect the ethanol content suspension, such a provision was not included in this bill. Your Committee is confident that market forces and competition will suffice to lower the price of gasoline.

As a complementary provision, your Committee has added a section requiring the Governor to submit a petition to the federal Environmental Protection Agency seeking a waiver from the ethanol blending obligations of the United States Energy Security Act for the period of the suspension. If the waiver is not granted, the ethanol content suspension of this bill shall nevertheless apply.

Your Committee has further amended this bill by:

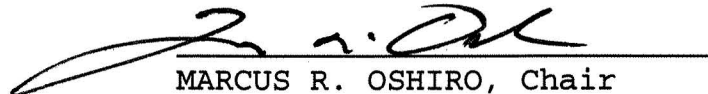
- (1) Renaming the tax as the "Environmental Response, Energy, and Food Security Tax" (Tax);
- (2) Substituting a blank amount for \$1 as the amount of the Tax on each barrel or fractional part of a barrel of petroleum product sold by a distributor to any retail dealer or end user of petroleum product, other than a refiner;
- (3) Establishing a new Food Security Special Fund (Special Fund) under the Department of Agriculture to serve as a depository of a portion of the Tax;
- (4) Clarifying and consolidating under section 243-3.5(a), Hawaii Revised Statutes, the other funds into which portions of the Tax are to be deposited;
- (5) Specifying that a portion of the Tax is to be deposited into the general fund;
- (6) Stipulating what the moneys contained in the Special Fund may be used for;
- (7) Deleting the provision in section 128D-2(a), Hawaii Revised Statutes, that triggers a suspension and reinstatement of the Tax;



- (8) Renaming the task force created under this Act as the "Hawaii Economic Development Task Force";
- (9) Altering the membership, revising the duties, and changing the expiration date of the Hawaii Economic Development Task Force;
- (10) Appropriating an unspecified amount of general funds for the operation of the task force;
- (11) Changing its effective date to July 1, 2020, to encourage further discussion; and
- (12) Making technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1271, H.D. 2, as amended herein, and recommends that it pass Third Reading in the form attached hereto as H.B. No. 1271, H.D. 3.

Respectfully submitted on
behalf of the members of the
Committee on Finance,


MARCUS R. OSHIRO, Chair



