

NEIL ABERCROMBIE  
Governor



State of Hawaii  
DEPARTMENT OF AGRICULTURE  
1428 South King Street  
Honolulu, Hawaii 96814-2512

RUSSELL S. KOKUBUN  
Chairperson, Board of Agriculture

JAMES J. NAKATANI  
Deputy to the Chairperson

TESTIMONY OF RUSSELL S. KOKUBUN  
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON FINANCE

MONDAY, FEBRUARY 28, 2011  
10:30 A.M.  
CONFERENCE ROOM 308

HOUSE BILL NO. 1019  
RELATING TO SUSTAINABILITY

LATE

Chair Oshiro and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 1019 which is an Administration measure. The purpose of this bill is to amend Section 243-3.5, the Environmental Response, Energy, and Food Security Tax by allocating an equal share the sixty cents currently deposited into the General Fund to the Department of Business, Economic Development and Tourism's Energy Security Special Fund and the Department of Agriculture's Agricultural Development and Food Security Special Fund.

The Department of Agriculture strongly supports this measure. The Department of Agriculture is prepared to utilize the revenues for the projects and programs as described in the attachment to our testimony.

The equal distribution of the undistributed sixty cents between the Agriculture and Energy special funds is one of the recommendations made by the Hawaii Economic Development Task Force (HEDTF, created by Act 73, 2010 SLH) as seen in its Interim Report to the 2011 Legislature. The Report did not recommend an increase in the barrel tax itself. Act 73 also requires the Department of Agriculture to develop a spending plan and listing of all expenditures for existing and new programs and activities for the Agriculture special fund to FY 2015; identification of who is being



served using the expenditures; and the objectives and expected outcomes of the expenditures. To meet these reporting requirements, the Department planned and carried out a two-phase process. Phase One was to create awareness of Act 73 and to solicit ideas for programs and concept from agricultural stakeholders which included county agricultural specialists, Hawaii Farm Bureau Federation, Hawaii Cattlemen's Council, Hawaii Coffee Growers Association, Hawaii Florist and Shippers Association, College of Tropical Agriculture and Human Resources, the Hawaii Agriculture Research Center, and Department staff. Phase II was to develop the ideas generated by Phase I into program and activity proposals. A total of three meetings were held with the stakeholders in late 2010 to meet the reporting requirements of Act 73. The stakeholders agreed that equally allocating the undistributed sixty cents to the Energy and Agriculture special funds was desirable. The stakeholders also agreed that the funds from the Agriculture special fund should be used to supplement existing funds for agriculture appropriated by the Legislature and should not supplant current funding. The stakeholders also provided a number of suggested projects by allowable uses for Fiscal Years 2012 to 2015 which we have attached to our testimony in their entirety. Regarding the matrix of projects, we caution that the projects and programs listed are subject to reprioritization and/or expansion as necessary.

Thank you, again, for the opportunity to testify on this measure.

Attachment

**Estimated Cost Per Fiscal Year for All Agricultural Development & Food Security Special Fund Projects Organized by Allowable Uses (HRS Ch. 141)**

Note: Priorities for HDOA operations are shown in bold.

Note: \*\* denotes funding from both the Agricultural Development & Food Security and Energy Security special funds.

Note: Appendix B contains any proposals that were submitted. The numbers in parenthesis in the table below indicate the proposal # in Appendix B.

|   |   | FY 12       | FY 13     | FY 14     | FY 15     | Total      |
|---|---|-------------|-----------|-----------|-----------|------------|
| A. The awarding of grants to farmers for agricultural production or processing activity   |   |             |           |           |           |            |
|   | Livestock Feed Reimbursement program (2 yrs)                      | 2,000,000   | 2,000,000 |           |           | 4,000,000  |
|   | Grants to farmers to address pest issues, alternative energy      | TBD         |           |           |           | TBD        |
|   | Irrigated pasture   | \$370,000   | 110,000   | 110,000   | 110,000   | 700,000    |
| B. The acquisition of real property for agricultural production or processing activity  |   |             |           |           |           |            |
|   | Acquire private agriculture lands or ag. easements                | 1,000,000   | 1,000,000 | 1,000,000 | 1,000,000 | 4,000,000  |
| C. The improvement of real property, irrigation systems and transportation networks necessary to promote agricultural production or processing activity |   |             |           |           |           |            |
|   | County IAL mapping  | 200,000     | 200,000   | 200,000   | 200,000   | 800,000    |
|   | Private irrigation systems serving IAL -matching funds for CIP ** | \$4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 16,000,000 |
|   | Pipe Schofield R-1 wastewater for agriculture use in Kunia        | TBD         |           |           |           | TBD        |
|   | Well infrastructure renovation in Ka'u                            | TBD         |           |           |           | TBD        |
|   | Water tunnel renovations and distribution pipelines on Kauai      | TBD         |           |           |           | TBD        |
|   | Assist with costs for dam safety certification                    | TBD         |           |           |           | TBD        |
|   | Fund additional irrigation workers for state irrigation systems   | TBD         |           |           |           | TBD        |
|   | Value added facilities, certified kitchens                        | TBD         |           |           |           | TBD        |
|   | Consolidation and marshalling facilities at the ports             | TBD         |           |           |           | TBD        |
|   | Improvements to Kula Vacuum Cooling Plant                         | TBD         |           |           |           | TBD        |
|   | Subsidize transportation costs                                    | TBD         |           |           |           | TBD        |

| D. The purchase of equipment necessary for agricultural production or processing activity |   |           |           |           |           |           |
|---|---|-----------|-----------|-----------|-----------|-----------|
|   |   | FY 12     | FY 13     | FY 14     | FY 15     | Total     |
|   | Establish Mobile slaughterhouse and processing unit                                     | 400,000   |           |           |           | 400,000   |
|   | Fund Kamuela Vacuum Cooling Plant repairs   | TBD       |           |           |           | TBD       |
|   | Funding to renovate aging processing facilities   | TBD       |           |           |           | TBD       |
|   | Fumigation chamber for export crops   | TBD       |           |           |           | TBD       |
| E. The conduct of research on and testing of agricultural products and markets            |   |           |           |           |           |           |
|   | New Varieties of Coffee (Appendix B #1)   | 45,000    | 45,000    | 45,000    | 45,000    | 180,000   |
|   | Selection of vegetable varieties (App.B #2)   | 63,000    | 53,000    | 49,000    | 49,000    | 214,000   |
|   | Coffee flower synchronization (App B #3)  | 45,000    | 45,000    | 45,000    | 45,000    | 180,000   |
|   | PBARC Coffee research (Appendix B #4)   | 105,000   | 105,000   | 105,000   | 105,000   | 420,000   |
|   | Rust-resistant coffee cultivars (App B #5)  | 80,000    | 80,000    | 80,000    | 80,000    | 320,000   |
|   | Coffee processing improvements (App B #6)   | 30,000    | 30,000    | 30,000    | 30,000    | 120,000   |
|   | Annual research funding for ag and aquaculture  | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 4,000,000 |
|   | Improvement of food security and reduction of food safety problems (Appendix B #7)      | 50,000    | 100,000   | 100,000   | 200,000   | 450,000   |
|   | Farm level water and produce testing (Appendix B #8)                                    | 35,000    | 65,000    | 120,000   | 220,000   | 440,000   |
|   | Controlling Seasonal Production and Fruit Quality Problems in Pineapple (Appendix B #9) | 90,105    | 89,105    | 89,105    | 0         | 268,315   |
|   | Sustainable Tropical Vegetable Production Systems (Appendix B #10)                      | 106,500   | 106,500   | 106,500   | 0         | 319,500   |
|   | Taro Acridity (App B #11)   | 93,100    | 82,100    | 82,100    | 0         | 257,300   |
|   | Microbial And Pesticide Concerns With Leafy Vegetables (App B #12)                      | 144,500   | 132,500   | 132,500   | 0         | 409,500   |

| F. The funding of agricultural inspector positions within the department of agriculture. (Statutory language should be expanded to include all biosecurity-related positions and activities in HDOA.) |  |                  |                  |                  |                  |                  |
|---|--|------------------|------------------|------------------|------------------|------------------|
|   |  | FY 12            | FY 13            | FY 14            | FY 15            | Total            |
|   | <b>Funding of PQ and commodities inspector positions</b>       | <b>1,018,456</b> | <b>1,018,456</b> | <b>1,018,456</b> | <b>1,018,456</b> | <b>4,073,824</b> |
|   | Additional HDOA positions requested by industry                | TBD              |                  |                  |                  | TBD              |
|   | <b>Continue Invicta database development</b>                   | <b>200,000</b>   | <b>200,000</b>   |                  |                  | <b>400,000</b>   |
|   | Maui Biosecurity harbor infrastructure improvements            | TBD              |                  |                  |                  | TBD              |
| G. The promotion and marketing of agricultural products grown or raised in the state  |  |                  |                  |                  |                  |                  |
|   | Developing a Hawaii Grown Tea Industry (Appendix B #13)        | 114,504          | 117,654          | 122,332          | 128,350          | 482,840          |
|   | Hawaii Coffee Growers Association Trade Shows (Appendix B #14) | 40,000           | 40,000           | 40,000           | 40,000           | 160,000          |
|   | Hawaii House in Shanghai                                       | 50,000           | 50,000           | 50,000           | 50,000           | 200,000          |
|   | Public education, marketing and promotion                      | TBD              |                  |                  |                  | TBD              |
|   | Agricultural Education in schools                              | TBD              |                  |                  |                  | TBD              |
|   | Permanent locations to showcase agriculture                    | TBD              |                  |                  |                  | TBD              |
| H. Any other activity intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state.                                |  |                  |                  |                  |                  |                  |
|   | <b>Funding of Entomologist positions</b>                       | <b>255,995</b>   | <b>255,995</b>   | <b>255,995</b>   | <b>255,995</b>   | <b>1,023,980</b> |
|   | <b>Energy &amp; Food Security Planners **</b>                  | <b>214,286</b>   | <b>214,286</b>   | <b>214,286</b>   | <b>214,286</b>   | <b>857,144</b>   |
|   | New Plant Distribution Center (Appendix B #15)                 | 198,675          | 200,675          | 200,675          | 190,675          | 790,700          |
|   | Coffee berry borer fumigation station                          | 50,000           | 0                | 0                | 0                | 50,000           |
|   | Sanitation measures to reduce coffee berry borer (App B #16)   | 127,000          | 127,000          | 127,000          | 127,000          | 508,000          |

| H. Any other activity intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state. |   |                   |                   |                  |                  |                   |
|--|---|-------------------|-------------------|------------------|------------------|-------------------|
|  |   | FY 12             | FY 13             | FY 14            | FY 15            | Total             |
|  | Hawaii Master Beef Producers (Appendix B #17) | 198,868           | 198,868           | 198,868          | 198,868          | 795,472           |
|  | Farm Food Safety Coaching(Appendix B #18)     | 237,568           | 234,618           | 236,689          | 238,780          | 947,655           |
|  | Workforce Expansion                           | 12,000            | 12,000            | 12,000           | 12,000           | 48,000            |
|  | State-Level Food Ombudsman                    | TBD               | TBD               | TBD              | TBD              | TBD               |
|  | <b>Total Expenditures</b>                     | <b>12,574,557</b> | <b>11,912,757</b> | <b>9,770,506</b> | <b>9,558,410</b> | <b>43,816,230</b> |

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: FUEL, Environmental response, energy and food security tax

BILL NUMBER: SB 1246; HB 1019 (Identical)

INTRODUCED BY: SB by Tsutsui by request; HB by Say by request

**LATE TESTIMONY**

BRIEF SUMMARY: Amends HRS section 243-3.5 to increase the amount deposited into the energy security special fund from 15 cents to 45 cents. Also increases the amount deposited into the agricultural development and food security special fund from 15 cents to 45 cents.

EFFECTIVE DATE: July 1, 2011

STAFF COMMENTS: This is an administration measure submitted by the department of business, economic development and tourism BED-12(11). The legislature by Act 300, SLH 1993, enacted an environmental response tax of 5 cents per barrel on petroleum products sold by a distributor to any retail dealer or end user. Last year, the legislature by Act 73, SLH 2010, increased the amount of the tax to \$1.05 per barrel and provided that 5 cents of the tax shall be deposited into the environmental response revolving fund; 15 cents shall be deposited into the energy security special fund, 10 cents shall be deposited into the energy systems development special fund; 15 cents shall be deposited into the agricultural development and food security special fund; and the residual of 60 cents shall be deposited into the general fund between 7/1/10 and 6/30/15.

This measure proposes to increase the amount deposited into the energy security special fund from 15 cents to 45 cents and the agricultural development and food security special fund from 15 to 45 cents. This will result in no residual funds deposited into the general fund.

It should be remembered that the environmental response tax was initially adopted for the purpose of setting up a reserve should an oil spill occur on the ocean waters that would affect Hawaii's shoreline. The nexus was between the oil importers and the possibility that a spill might occur as the oil product was being imported into the state. Now that the fund has become a cash cow, lawmakers have placed other responsibilities on the fund, including environmental protection and natural resource protection programs, such as energy conservation and alternative energy development, to address concerns related to air quality, global warming, clean water, polluted runoff, solid and hazardous waste, drinking water, and underground storage tanks, including support for the underground storage tank program of the department of health.

It should be noted that the enactment of the barrel tax for the environmental response revolving fund is the classic effort of getting one's foot in the door as it was initially enacted with a palatable and acceptable tax rate of 5 cents and subsequently increasing the tax rate once it was enacted which is what it has morphed into as evidenced by the \$1.05 tax rate. Because the tax is imposed at the front end of the product chain, the final consumer does not know that the higher cost of the product is due to the tax. Thus, there is little, if any, accountability between the lawmakers who enacted the tax and the vast majority of the public that ends up paying the tax albeit indirectly. Proponents ought to be ashamed that

they are promoting a less than transparent tax increase in the burden on families all in the name of environmental protection and food security.

It should be remembered that the State Auditor has singled out the environmental response revolving fund as not meeting the criteria established and 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. More importantly, it should be recognized that it is not only the users of petroleum products who benefit from a cleaner environment, but it is the public who benefits. If this point can be accepted, then the public, as a whole, should be asked to pay for the clean up and preservation of the environment.

Funds deposited into a revolving 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 programs should not compete for general funds like all other programs that benefit the community as a whole.

This measure was approved last year on the basis that it would insure energy self-sufficiency and food security, but instead of devoting the proceeds from the entire dollar increase to these purposes the legislature instead used 60 cents of every dollar to shore up the state general fund. This measure now proposes to restore that amount to the various programs it was supposed to have funded. If nothing else, this is a demonstration of expediency, if not a disingenuous act on the part of lawmakers. Taxpayers should demand on-going accountability of how this money will be used and whether or not the expenditure of these funds undergoes the same close scrutiny of other taxpayer dollars.

It should be noted that the measure to increase the environmental response, energy, and food security tax was vetoed by the governor and subsequently overridden by the legislature. The governor's message stated that the measure was vetoed "because it raises taxes on Hawaii residents and businesses by an estimated \$22 million per year at a time when the community cannot afford these taxes, and deceptively implies these funds will be used to address the state's dependence on imported fuel and food. This tax will impact virtually everything we do or use in Hawaii including electricity, gasoline, trucking, shipping, retail goods, food, and even the propane for our backyard barbeques. The impacts will ripple through our entire economic system. I am particularly concerned that the tax increase occurs at a precarious moment when the State economy is beginning to stabilize and progress out of the slump created by the global recession."

Rather than perpetuating the problems of the barrel tax, it 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 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. Unfortunately, it will be the poor who bear the brunt of this additional tax burden as nearly all of their income will be spent on goods and services that will be affected by the barrel tax. So much for caring for the poor in our community.



## FINTestimony

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**From:** Windward Ahupua`a Alliance [info@waa-hawaii.org]  
**Sent:** Monday, February 28, 2011 7:55 AM  
**To:** FINTestimony  
**Subject:** \*\*\*\*\*SPAM\*\*\*\*\* HB 1019 - RELATING TO SUSTAINABILITY

Submitted by:  
Shannon Wood, *President & Co-Founder*  
*Windward Ahupua`a Alliance*  
**PLANT A NATIVE TREE CAMPAIGN**  
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LATE

**COMMITTEE ON FINANCE**  
*Representative Marcus Oshiro, Chair*  
*Representative Marilyn Lee, Vice Chair*

9 am  
Monday, February 7, 2011  
Conference Room 325

### **HB 1019 - RELATING TO SUSTAINABILITY**

Authorizes the revision of allocation from the Environmental Response, Energy, and Food Security Tax.  
Effective 07/01/11

### **STRONGLY SUPPORT WITH AMENDMENT**

On behalf of the *Windward Ahupua`a Alliance*, a **501c3** organization which was one of the sponsors of the original "Barrel Tax" bill back in 2009, I support this year's bill with a key amendment.

The purpose of **HB 1019** is to restore the amount of money taken away during the final hours last *Session* from the "Barrel Tax" bill - **HB 2421** - to put into the **General Fund** to help reduce the deficit.

Funding for all of the programs - food & fuel security, renewable energy, and environmental response programs - would be restored. No funds would go into the **General Fund**.

However, I propose that **HB 1019** be amended to reduce each of the 45-cent allocations by one cent - or two cents per barrel - to underwrite the work of the **Climate Change Task Force - ACT 20 - SPECIAL SESSION 2009** - which was never funded after former *Governor Linda Lingle's* veto was overridden in July, 2009. Legislation to re-establish the **Climate Change Task Force** is now working its way through the *Senate*.

Funding the new **Task Force** from the sales of fossil fuels makes more sense than doing so from the **General Fund**.

Mahalo for the opportunity to testify on **HB 1019**.

# LATE TESTIMONY



The Nature Conservancy of Hawai'i  
923 Nu'uuanu Avenue  
Honolulu, Hawai'i 96817

Tel (808) 537-4508  
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nature.org/hawaii

Testimony of The Nature Conservancy of Hawai'i  
Supporting with Amendments H.B. 1019 Relating to Sustainability  
House Committee on Finance  
Monday, February 28, 2011, 10:30AM, Rm. 308

The Nature Conservancy **supports with the attached amendments** H.B. 1019. In addition to addressing Hawaii's energy and food security goals, we think the barrel tax revenue should help address the direct affects of climate change caused by burning fossil fuels.

Act 73 (2010) establishing the barrel tax and the subsequent report of the Economic Development Task Force both acknowledge that consumption of fossil fuels contributes to climate change and the deterioration of Hawaii's environment. Both state their purpose to "[h]elp Hawaii's natural resources and population adapt and be resilient to the inevitable challenges brought on by climate change caused by...burning fossil fuels." Act 73 further acknowledges that our lives and the economy are intertwined with the health and function of the natural world around us. Yet, surprisingly, neither Act 73 nor the Task Force report take any specific action or make any recommendation to address the direct effects of climate change.

**We recommend this bill be amended (see attached) to require a small portion (5-10%) of the barrel fee be used to actually help communities and our natural resources cope with the inevitable challenges of climate change caused by emissions from burning fossil fuels. A good start would be to fund and implement the Climate Change Task Force (Act 20; 2009) created by the Legislature.**

Climate change is an imminent and unprecedented threat to both natural systems (e.g., forests, coastlines, coral reefs, wetlands) and to every person in Hawai'i that—whether they know it or not—depends on services from the natural environment for their livelihoods, health and welfare. Scientists have examined the evidence and rapid climate change is real; it is clearly caused by human activity; it is already a problem for habitat for plants and animals; and, if sources of CO<sub>2</sub> are not dramatically reduced, climate change could well have catastrophic results for people and their relationship with the natural environment.

Even if we drastically reduce CO<sub>2</sub> emissions now, we will still feel the effects of climate change. In Hawai'i, science indicates that this may include:

- More frequent and more severe storms;
- Overall, less rainfall and therefore less fresh water;
- Higher temperatures that may affect the health of forested watersheds;
- Climatic conditions even more conducive to invasive plants, insects and diseases;
- Sea level rise and high wave events that will harm coastal areas and cause seawater infiltration into groundwater systems; and
- Ocean acidification that will inhibit the growth of coral reefs.

In addition, to achieving energy security through vastly greater energy efficiency, technology and renewable energy development, we must plan and implement mitigative and adaptive measures to ensure the resilience of our natural and human systems.

## Proposed amendments attached.

### BOARD OF TRUSTEES

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## A BILL FOR AN ACT

RELATING TO SUSTAINABILITY.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

SECTION 1. The Legislature finds that the State needs to direct new revenues towards new priorities and move immediately to drive the clean energy and food sustainability agenda in Hawaii, as well as address the effects of climate change caused by burning fossil fuels. Through Act 73, Session Laws of Hawaii 2010, the legislature recognized that it is in the best interest of Hawaii's people to build the capacity needed to become self-sufficient in our energy and food needs as stated in the "Hawaii 2050 Sustainability Plan" and the "Hawaii Clean Energy Initiative".

The State of Hawaii relies on imports for approximately ninety per cent of our energy and food needs. This dependency is economically and environmentally unsustainable, and undertaking the important task of energy and food security requires a long-term commitment and investment of substantial financial resources. Act 73 was therefore enacted to increase the per-barrel tax on petroleum products under the environmental response, energy, and food security tax, formerly known as the environmental response tax.

In addition, one of five goals of the Hawaii 2050 Sustainability Plan is that our natural resources are responsibly and respectfully used, replenished and preserved for future generations. Act 73 states that the mass consumption of fossil fuels, driven by our dependence on food and energy imports, contributes to climate change and the deterioration of the environment, including severe storm events, less rainfall, warmer temperatures that favor invasive species, a rise in sea levels, and ocean acidification that hampers coral growth. These climate changes will likely impose major, but not fully understood, costs and other impacts on Hawaii's people and the natural capital we depend upon to support our lives in the

middle of the Pacific Ocean. Nowhere is it more obvious than in remote islands like Hawaii that our lives and economy are intertwined with the health and function of the natural world around us. For these reasons, Act 73 specifically includes in its purposes to help Hawaii's natural resources and population adapt and be resilient to the inevitable challenges brought on by climate change caused by burning fossil fuels.

SECTION 2. The legislature further finds and declares that the environmental response, energy, and food security tax was intended to support critical investments in clean energy and local agricultural production in order to reduce the State's dependence on imported fossil fuels and food products, as well as to help Hawaii address the likely effects of climate change caused by burning fossil fuels. As currently apportioned, only a combined \$0.30 of the \$1.05 per-barrel tax is being allocated to the energy security fund and the agricultural development and food security special fund, with just \$0.15 ~~is~~ going to each fund. Nothing is being allocated to address the effects of climate change on communities and Hawaii's environment.; ~~while t~~ The majority of the funds, \$0.60 per barrel, is going directly to the General Fund. This was clearly not the intent of the aforementioned Act. Increasing the allocated amount from \$0.15 to \$0.405 to the energy security fund and the agricultural development and food security special fund, respectively, as well as allocating \$0.10 to a climate change resilience and adaptation special fund, will support the intended purposes of Act 73 of 2010 and is a clear public benefit.

SECTION 3. Section 243-3.5, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) In addition to any other taxes provided by law, subject to the exemptions set forth in section 243-7, there is hereby imposed a state environmental response, energy, and food security 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. The tax shall be \$1.05 on each barrel or fractional part of a barrel of petroleum product that is not aviation fuel; provided that of the tax collected pursuant to this subsection:

- (1) 5 cents of the tax on each barrel shall be deposited into the environmental response revolving fund established under section 128D-2;
- (2) ~~[15]~~ 40 cents of the tax on each barrel shall be deposited into the energy security special fund established under section 201-12.8;

- (3) 10 cents of the tax on each barrel shall be deposited into the energy systems development special fund established under section 304A-2169; and
- (4) [15] 40 cents of the tax on each barrel shall be deposited into the agricultural development and food security special fund established under section 141-10.
- (5) 10 cents of the tax on each barrel shall be deposited into the climate change resilience and adaptation special fund established under section 195D- ."

SECTION 4. Section 128D-2, Hawaii Revised Statutes, is amended by amending subsection (b) to read as follows:

"(b) Moneys from the fund shall be expended by the department for response actions and preparedness, including removal and remedial actions, consistent with this chapter; provided that the revenues generated by the environmental response, energy, and food security tax deposited into the environmental response revolving fund:

- (1) Shall be used:
  - (A) For oil spill planning, prevention, preparedness, education, research, training, removal, and remediation; and
  - (B) For direct support for county used oil recycling programs; and
- (2) May also be used to support environmental protection and natural resource protection programs, including energy conservation and alternative energy development, and to address concerns related to air quality, ~~global warming~~ climate change, clean water, polluted runoff, solid and hazardous waste, drinking water, and underground storage tanks, including support for the underground storage tank program of the department and funding for the acquisition by the State of a soil remediation site and facility.

SECTION 5. Chapter 195D, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§195D- Climate change resilience and adaptation special fund; establishment. (a) There is established within the state treasury the climate change resilience and adaptation special fund.

(b) The following shall be deposited into the special fund:

- (1) The portion of the environmental response, energy and food security tax specified under section 243-3.5;
- (2) Any appropriation by the legislature into the special fund;
- (3) Any grant or donation made to the special fund; and
- (4) Any interest earned on the balance of the special fund.

(c) Subject to legislative appropriation, moneys in the special fund may be expended to promote the resilience and adaptation of indigenous plants, animals, aquatic life, and their associated ecosystems to ensure their ongoing health, function and ability to deliver public services such as fresh water, sediment control, shoreline protection, and food in the face of the effects of global climate change, including but not limited to the following:

- (1) The awarding of grants to governmental and non-governmental entities and individuals;
- (2) The acquisition of real property;
- (3) The protection, management and restoration of forests, watersheds, coastal resources, and fresh water and marine ecosystems;
- (4) Addressing threats posed by invasive species;
- (5) The restoration of forests for the purposes of carbon sequestration and other ecosystem services;
- (6) The purchase of necessary equipment;
- (7) The conduct of necessary research and planning;
- (8) To fund, to the extent possible, the climate change task force; and

Any other activity intended to preserve the function and health of natural systems to adapt and be resilient to the effects of climate change.

(d) The department shall manage the special fund, including any expenditures from the fund, in consultation with the division of forestry and wildlife, the division of aquatic resources, the natural area reserve system commission, the forest stewardship commission, and the University of Hawaii Center for Island Climate Adaptation and Policy."

(e) The department shall submit a report to the legislature no later than twenty days prior to the convening of each regular session on the status and progress of existing programs and activities, and the status of new programs and activities funded under the climate change resilience and adaptation special fund. The report shall also include the spending plan of the climate change resilience and adaptation special fund, all expenditures of climate change resilience and adaptation special fund moneys, the specific objectives of the expenditures, and measurable outcomes."

SECTION 6. There is appropriated out of the climate change resilience and adaptation special fund, the sum of \$ or so much thereof as may be necessary for each of fiscal years 2011-2012 and 2012-2013 for the climate change task force established pursuant to Act 20, Session Laws of Hawaii 2009.

The sum appropriated shall be expended by the office of planning within the department of business, economic development, and tourism for the purposes of this part.

SECTION 7. This Act does not affect the rights and duties that matured, penalties that were incurred, and proceedings that were begun, before its effective date.

SECTION 8. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 9. This Act shall take effect on July 1, 2011.





HOUSE COMMITTEE ON FINANCE  
February 28, 2011, 10:30 A.M.  
Room 308  
(Testimony is 4 pages long)

**LATE TESTIMONY**

**TESTIMONY IN STRONG SUPPORT OF HB 1019, SUGGESTED AMENDMENTS**

Chair Oshiro and members of the Committee:

The Blue Planet Foundation strongly supports HB 1019, a measure to increase the percentages of the tax collected on petroleum imports directed to food and energy security programs and planning. We believe this amendment will help this policy achieve its original intent by directing all of the funds to clean energy and agriculture. Hawaii's barrel tax law is keystone clean energy policy that will foster Hawaii's clean energy transition as the critical planning, development, and implementation of clean energy require dedicated investment.

Blue Planet believes the best way to provide investment funds is by tapping the source of our problem—imported oil—to fund clean energy programs. According to three separate surveys commissioned by Blue Planet, over two-thirds of Hawai'i residents support paying an additional amount on their energy bills (with the mean equivalent to a \$5 per barrel tax) if the revenue was dedicated to Hawaii's clean energy future.

To truly accelerate Hawaii's transition to energy independence, **Blue Planet Foundation proposes that HB 1019 be amended by increasing the oil tax to \$5 per barrel** (yielding approximately \$120 million annually). The majority of these revenues should be directed to clean energy planning, development, integration, incentives, and other activities facilitating Hawaii's energy transformation.

Blue Planet would also **strongly support expanding the barrel tax to include other carbon fuel imports such as coal**. There is approximately 4.442 times as much carbon in a short ton

of coal<sup>1</sup> as there is in a barrel of oil, so the per-ton tax on coal imports should be 4.442 times the barrel tax (e.g. \$22.21 per ton of coal imported if the barrel tax is \$5 per barrel). At the current barrel tax rate of \$1.05, a congruent coal tax would be roughly \$4.66 per short ton. At current Hawai'i coal importation rates (approximately 820,000 short tons annually), simply expanding the barrel tax to coal would yield \$3.82 million annually.

### *Rationale for expanding the Barrel Tax Policy in 2011*

If we truly want to rapidly transition Hawai'i to energy independence, we have to be prepared to invest in that preferred future today. We cannot afford to wait until the economy recovers and the price of oil returns to triple-digits as it did in 2008.

Hawai'i is the most dependent state in the nation on imported oil. Some 50 million barrels are imported annually, nearly 80% of which originate from foreign sources<sup>2</sup>. In addition, over 805,000 tons of coal are imported into our state<sup>3</sup>. These sources provide power for over 92% of Hawaii's electricity generation. The combustion of these resources also contributes over 23 million tons of climate changing greenhouse gas into our atmosphere annually<sup>4</sup>. Hawaii's economic, environmental, and energy security demand that we reduce the amount of fossil fuel imported and consumed in Hawai'i. To that end, new policies and sources of funding are critically needed that will dramatically increase energy efficiency, build our smart energy infrastructure with storage, and develop clean, renewable, and indigenous energy sources.

A \$5 per barrel tax on oil would provide the needed funding for clean energy and efficiency research, planning, implementation to transition to our preferred clean energy future. 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.

### *Barrel Tax is Smart Tax Policy*

A barrel fee (or "carbon tax") is smart tax-shifting policy that discourages fossil fuel use while providing a source of revenue for clean energy planning and implementation. The concept behind the measure 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

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<sup>1</sup> <http://www.epa.gov/greenpower/pubs/calcmeth.htm>

<sup>2</sup> The State of Hawaii Data Book, 2007

<sup>3</sup> *Ibid.*

<sup>4</sup> ICF International. Inventory of Greenhouse Gas Emissions and Sinks in Hawaii: 1990 and 2007. December 2008.

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.

Unlike many other taxes, the barrel tax is largely avoidable by most residents. Energy efficiency, conservation, and switching to clean sources of power all reduce the burden of the tax. In fact, most residents could reduce the amount of barrel tax they pay by installing some compact fluorescent light bulbs at home and ensuring that car tires are properly inflated. Ensuring that a good portion of the oil tax revenues are spent on energy efficiency measures will help reduce the potential regressive nature of the policy.

A “clean energy” surcharge on a barrel of oil of \$5 is approximately the same as a carbon tax of \$10.45 per ton of carbon dioxide (CO<sub>2</sub>)<sup>5</sup>. It would have a marginal impact on petroleum users, yet significantly increase the state’s ability to deliver energy efficiency investments and clean energy project funding. A \$10.45 “carbon fee” is average. Many European countries have carbon taxes that exceed \$10.00 per ton. In 2008, the Canadian province of British Columbia enacted a carbon fee that started at approximately \$8.00 per ton (English) in July, 2008, and increases to \$24 per ton by 2012. That tax has raised nearly \$1 billion dollars<sup>6</sup>.

### *Public Support*

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Blue Planet Foundation conducted market research in December 2009, March 2010, and December 2010 to discern the level of public support for a barrel tax for clean energy investment. The statewide survey of residents found broad support for a barrel tax with roughly 70% supporting a tax of some amount. Each survey had a random sample of 500 residents statewide, providing a margin of error of 4.4% at a 95% confidence level.

The average level of support was equivalent to a \$5 per barrel tax. Forty-five percent of residents supported paying an additional \$15 on their monthly energy bills, equivalent to a \$9 per barrel tax. These findings should provide comfort to decision makers wrestling with how to develop funding for Hawaii’s clean energy future—Hawaii’s residents are willing to pay to wean Hawai’i from its oil dependence. *Please see chart on the following page.*

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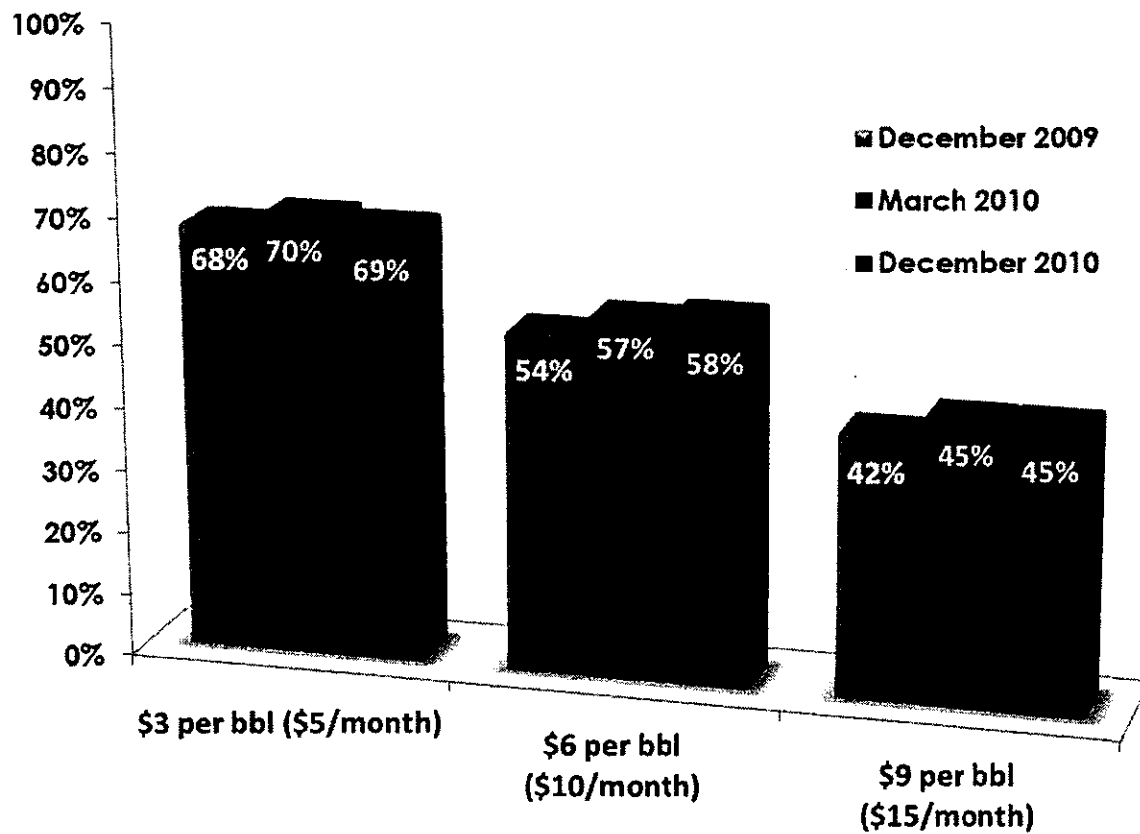
<sup>5</sup> At 23 lbs CO<sub>2</sub> produced per gallon oil and 42 gallons per barrel.

<sup>6</sup> <http://www.fin.gov.bc.ca/tbs/tp/climate/A6.htm>

While we all likely agree that we need to aggressively increase our energy efficiency and clean energy use in Hawai'i and decrease our reliance on imported crude, we cannot do it with funding for planning, implementation, development, and funding. House Bill HB 1019 wisely tap the source of our problem—imported oil—to fund clean energy programs.

Thank you for the opportunity to testify.

## Resident Support for Barrel Tax





# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on Finance  
February 28, 2011 at 10:30am

By

Virginia S. Hinshaw, Chancellor  
and

Sylvia Yuen

Interim Dean and Director of the College of Tropical Agriculture and Human Resources  
University of Hawai'i at Mānoa

### HB 1019 RELATING TO SUSTAINABILITY

Chair Oshiro, Vice Chair Lee and members of the committee, thank you for the opportunity to testify in support of HB 1019, Relating to Sustainability, I am Sylvia Yuen, Interim Dean and Director of the College of Tropical Agriculture and Human Resources (CTAHR).

Agriculture is an important contributor to Hawai'i's economy, but it also preserves green spaces and offers a connection to the culture, history, and lifestyle of our Island communities. There is a symbiotic relationship between agriculture and energy—agricultural products can be a source of energy, as in biofuels, and energy efficiencies in growing and processing food can enable agriculturists to reduce costs and become or remain economically viable. As the Food and Energy Security Act 73 (10) recognized, it is in the best interests of Hawai'i's people to build the state's capacity for self-sufficiency in its energy and food needs, as stated in the *Hawaii 2050 Sustainability Plan* and the *Hawaii Clean Energy Initiative*. There are, however, several longstanding issues that impede progress toward self-sufficiency in agriculture, including land, water, workforce development, public awareness and support, marketing and competitiveness, research and development, transportation and energy, food safety, bio-security, environmental concerns, and financing. All of the aforementioned require a long-term strategy, focused attention and action, consistent resources, and coordination among stakeholders. Unfortunately, progress in many of these areas has been slow or erratic because consistent and sufficient resources have not been available.

HB 1019 proposes to increase the allocated amount from \$0.15 to \$0.45 to both the energy security fund and the agricultural development and food security special fund. This will address the problem of inconsistent and/or lacking resources which has stunted the growth of agriculture in the state. For example, adoption of HB 1019 will make it possible to provide sustained investments and support for retaining and maintaining agriculture infrastructures, such as water storage capacity, conservation, and irrigation systems, as well as for capital improvement of dams and reservoirs. Although the proposed agricultural development and food security special fund will not be sufficient to build and maintain all of the state's water resources and infrastructure, the consistency and increased level of funding will enable considerable advancements to be made.

HB 1019 is critically important to the success of agriculture and moving Hawai'i toward greater food and energy self-sufficiency, and I support its adoption.