

HB 1019

HD1, SD1

NEIL ABERCROMBIE
Governor



RUSSELL S. KOKUBUN
Chairperson, Board of Agriculture

JAMES J. NAKATANI
Deputy to the Chairperson

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

TESTIMONY OF RUSSELL S. KOKUBUN
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS

WEDNESDAY, MARCH 31, 2011
9:30 A.M.
CONFERENCE ROOM 211

HOUSE BILL NO. 1019, HOUSE DRAFT 1, SENATE DRAFT 1
RELATING TO SUSTAINABILITY

Chair Ige and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 1019, House Draft 1, Senate Draft 1 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 of 59.5 cents of the sixty cents currently deposited into the General Fund to the Department of Business, Economic Development and Tourism's Energy Security Special Fund, the Department of Agriculture's Agricultural Development and Food Security Special Fund. One-half cent is to be deposited to the Office of Planning's Climate Change Task Force special account. This measure also extends the distribution of the taxes to the two special funds beyond the repeal date in 2015.

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 59.5 cents of the undistributed sixty cents between the Agriculture and Energy special funds is in consonance with 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 |
| | Funding of PQ and commodities inspector positions | 1,018,456 | 1,018,456 | 1,018,456 | 1,018,456 | 4,073,824 |
| | Additional HDOA positions requested by industry | TBD | | | | TBD |
| | Continue Invicta database development | 200,000 | 200,000 | | | 400,000 |
| | 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. | | | | | | |
| | Funding of Entomologist positions | 255,995 | 255,995 | 255,995 | 255,995 | 1,023,980 |
| | Energy & Food Security Planners ** | 214,286 | 214,286 | 214,286 | 214,286 | 857,144 |
| | 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 |
| | Total Expenditures | 12,574,557 | 11,912,757 | 9,770,506 | 9,558,410 | 43,816,230 |



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Written Comments Submitted to the
Senate Committee on Ways and Means
March 30, 2011 at 9:30am

By

Sylvia Yuen

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

HB 1019 HD1 SD1 – RELATING TO SUSTAINABILITY

Chair Ige and Vice Chair Kidani and members of the Committee on Ways and Means, thank you for the opportunity to provide written comments on HB 1019 HD1 SD1, 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 HD1 SD1 proposes to increase the allocated amount from \$0.15 to \$44.75 to 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 HD1 SD1 will make it possible to provide sustained investments and support for retaining and maintaining agriculture infrastructures, such as research and education that undergird food security and sustainability; 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 agriculture resources and infrastructure, the consistency and increased level of funding will enable considerable advancements to be made.

HB 1019 HD1 SD1 is critically important to the success of agriculture and moving Hawai'i toward greater food and energy self-sufficiency, and we support its adoption.



Hawaii Farm Bureau

F E D E R A T I O N

2343 Rose Street, Honolulu, HI 96819
PH: (808)848-2074; Fax: (808) 848-1921

March 29, 2011

TESTIMONY

Re: HB1019SD1 RELATING TO SUSTAINABILITY

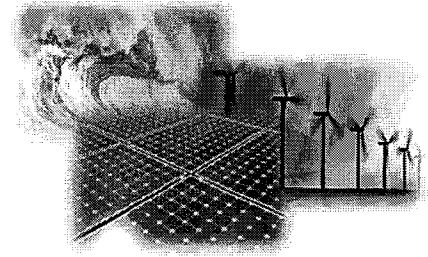
Chair Ige and Members of the Committee:

Hawaii Farm Bureau Federation on behalf of our commercial farm and ranch families and organizations across the State **supports the reallocation of funds proposed in HB1019HD1.**

There are many capital improvement projects urgently needed across the state for agriculture. The reason why agriculture supported this measure in 2010 was to secure a more stable source of funding than the general fund for agricultural infrastructure and development. The types of uses identified in law describe it well. This measure will allow us to return to the intent of the law which is also in the interest of the State to increase agricultural viability and Hawaii's self sufficiency for food and energy.

The Governor's budget largely allocates current funds for inspectors. This leaves nothing for agricultural development needs for which the fund was created. We respectfully request your **strong support in reallocating the funds to address critical needs of agriculture.**

Thank you for this opportunity to provide our opinion on this important matter. If there are questions, please contact Warren Watanabe at 2819718.



SENATE COMMITTEE ON WAYS AND MEANS

March 30, 2011, 9:30 A.M.

Room 211

(Testimony is 5 pages long)

TESTIMONY IN STRONG SUPPORT OF HB 1019 HD1 SD1, SUGGESTED AMENDMENT

Chair Ige and members of the Committee:

The Blue Planet Foundation strongly supports HB 1019 HD1 SD1, 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 provides for dedicated investment in clean energy, funding the critical planning, development, and implementation of clean energy programs that will foster energy security for Hawaii.

Blue Planet believes the best way to provide investment funds is by tapping the source of our problem—imported fossil fuel. We have also found, through three separate surveys commissioned by Blue Planet, that Hawaii residents strongly support this taxing policy. To truly accelerate Hawaii's transition to energy independence, Blue Planet asks that these Committees amend HB 1019 HD1 SD1 in two ways:

1. Include a tax on coal imports to ensure a consistent policy regarding fossil fuel; and
2. Expand the barrel tax to \$5, the level of tax that is broadly supported by residents.

The fossil fuel tax should include coal imports

Blue Planet strongly supports expanding the barrel tax to include other carbon fuel imports such as coal. The purpose of such an expansion is to ensure consistent taxing policy across Hawaii's fossil fuel imports (not perversely incentivizing one over the other) and to increase revenue for clean energy and food security programs. Hawaii imports approximately 1.6 billion pounds of coal annually for electricity production. Most of this coal is imported from Indonesia.

Jeff Mikulina, executive director • jeff@blueplanetfoundation.org

55 Merchant Street 17th Floor • Honolulu, Hawai'i 96813 • 808-954-6142 • blueplanetfoundation.org

Coal is among the dirtiest of fossil fuels, with the highest carbon intensity. Mining, shipping, toxic emission, and climate change impacts increase the actual price of coal well beyond its “market price”—a recent Harvard Medical School study¹ estimates that those additional costs exceed the real cost by three- or four-fold (added cost of up to \$0.27 per kilowatt-hour produced). Just last year a bulk carrier hauling coal grounded itself on the reef entering Barbers Point Harbor². Coal has significant environmental impacts.

One short ton of coal has approximately five times the energy and carbon density as one barrel of oil³. Blue Planet therefore believes that a carbon tax of \$5 per ton of coal imported to Hawaii is equivalent to the \$1.05 currently assessed to each barrel of oil. At current Hawaii coal importation rates (approximately 820,000 short tons annually), simply expanding the barrel tax to coal would yield \$4.1 million annually for clean energy and food security programs. A *proposed amendment to achieve this is at the end of this testimony.*

Rationale for expanding the Barrel Tax Policy in 2011

If we truly want to rapidly transition Hawaii to a clean, sustainable energy future, we have to be prepared to invest in that preferred future today. The price of oil has already exceeded \$100 per barrel in 2011, and recent unrest in the Middle East and unease toward nuclear energy after the Japan crisis will likely force oil prices higher. We must act aggressively now.

According to three separate surveys commissioned by Blue Planet, over two-thirds of Hawaii 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. We also strongly support expanding this measure to include a tax on coal imports into Hawaii.

Blue Planet Foundation proposes that HB 1019 HD1 SD1 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.

Hawaii 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 sources⁴. In addition, **more than 820,000 tons of coal** are imported into our state⁵. These sources supply power for over 95% of Hawaii’s overall energy needs. The combustion of these resources also contributes more than

¹ chge.med.harvard.edu/programs/ccf/documents/MiningCoalMountingCosts.pdf

² <http://www.hawaiinewsnow.com/global/story.asp?s=11941472>

³ www.epa.gov/greenpower/pubs/calcmeth.htm

⁴ The State of Hawaii Data Book, 2007

⁵ *Ibid.*

23 million tons of climate changing greenhouse gas into our atmosphere annually⁶. Hawaii's economic, environmental, and energy security demand that we reduce the amount of imported fossil fuel that the state consumers. 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 Hawaii, the real economic benefits of this carbon surcharge will far outweigh the additional burden it may present.

Carbon 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 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.

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 (CO₂)⁷. 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 dollars⁸.

⁶ ICF International. Inventory of Greenhouse Gas Emissions and Sinks in Hawaii: 1990 and 2007. December 2008.

⁷ At 23 lbs CO₂ produced per gallon oil and 42 gallons per barrel.

⁸ <http://www.fin.gov.bc.ca/tbs/tp/climate/A6.htm>

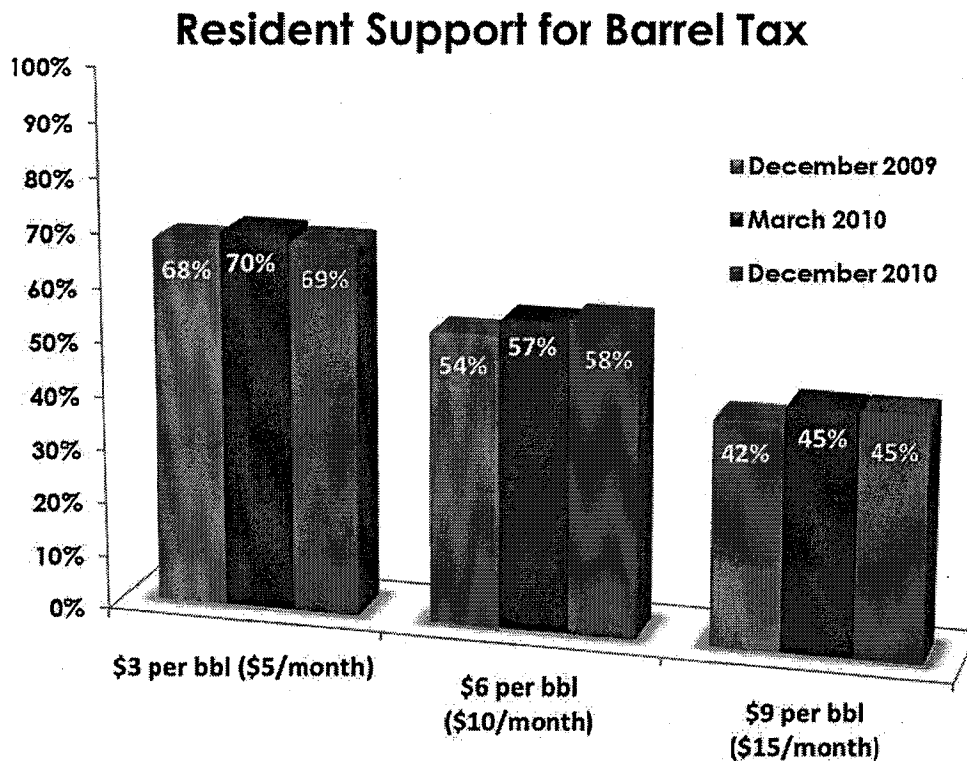
Public Support

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 Hawaii from its oil dependence. *Please see chart below.*

While it's clear that we need to aggressively increase our energy efficiency and clean energy use in Hawaii to decrease our reliance on imported crude, we cannot do it without adequate funding for development and implementation. House Bill HB 1019 wisely taps the source of our problem—imported oil—to fund clean energy programs.

Thank you for the opportunity to testify.



SUGGESTED AMENDMENT: Coal tax addition

§243-____ Environmental response, energy, and food security tax; uses. (a) In addition to any other taxes provided by law, there is hereby imposed a state environmental response, energy, and food security tax on each ton or fractional part of a ton of coal product sold by a distributor to any end user of coal product. The tax shall be \$4.66 on each ton or fractional part of a ton of coal product, provided that of the tax collected pursuant to this subsection:

- (1) 25 cents of the tax on each ton shall be deposited into the environmental response revolving fund established under section 128D-2;
- (2) 210 cents of the tax on each ton shall be deposited into the energy security special fund established under section 201-12.8;
- (3) 45 cents of the tax on each ton shall be deposited into the energy systems development special fund established under section 304A-2169; and
- (4) 210 cents of the tax on each ton 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 ton shall be deposited into a special account of the general fund to be expended by the office of planning for the operations of the climate change task force established by Act 20, Special Session Laws of Hawaii 2009.

The tax imposed by this subsection shall be paid by the distributor of the coal product.

(b) Each distributor subject to the tax imposed by subsection (a), on or before the last day of each calendar month, shall file with the director, on forms prescribed, prepared, and furnished by the director, a return statement of the tax under this section for which the distributor is liable for the preceding month. The form and payment of the tax shall be transmitted to the department of taxation in the appropriate district.

(c) Every distributor shall keep in the State and preserve for five years a record in such form as the department of taxation shall prescribe showing the total number of tons and the fractional part of tons of coal product sold by the distributor during any calendar month. The record shall show such other data and figures relevant to the enforcement and administration of this chapter as the department may require.



SENATE COMMITTEE WAYS AND MEANS

Testimony in of
CHRISTOPHER ELDRIDGE
Partner, Aina Koa Pono, LLC

March 30, 2011, at 9:30 a.m.
Conference Room 211

TESTIMONY IN SUPPORT OF HB 1019, HD 1, SD 1

Chair Ige and Members of the Committee:

Aina Koa Pono ("AKP") supports HB 1019, HD 1, SD 1 Relating to Sustainability. AKP is a locally-owned biofuel company which is building a biofuel plant in Ka'u, Hawaii. We recently entered into a power purchase agreement with HECO to produce biodiesel from locally grown feedstock. But there are still many hurdles for us to cross related to permitting and the development of the project. We appreciate the assistance that has been provided to us and other similar companies by the Hawai'i State Energy Office. We understand that the Hawai'i State Energy Office may no longer be funded after July 1 of this year, but that HB 1019, HD 1, SD 1 will provide the necessary funding for the Hawai'i State Energy Office to continue its important operations.

If the State of Hawai'i is serious about achieving its renewable energy goals, it must provide businesses with the support of departments such as the Hawai'i State Energy Office. We hope that you will support HB 1019, HD 1, SD 1 to allow the Hawai'i State Energy Office to continue its operations, and that the bill will be made effective this year, and not in 2030 as currently drafted.

We urge your support of HB1019. Thank you for the opportunity to testify on this matter.



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: HB 1019, SD-1

INTRODUCED BY: Senate Committees on Energy and Environment and Agriculture

BRIEF SUMMARY: Amends HRS section 243-3.5 to: (1) increase the amount deposited into the energy security special fund from 15 cents to 44.75 cents; (2) increase the amount deposited into the agricultural development and food security special fund from 15 cents to 44.75 cents; and (3) provide that 0.5 cents shall be deposited into a special account of the general fund to be expended by the office of planning for the operations of the climate change task force established by Act 20, SSLH 2009.

Amends Act 20, SSLH 2009, to provide that the preliminary report of the climate change task force shall be submitted to the 2012 legislature instead of the 2010 legislature and also provides that the final report shall be submitted to the 2013 legislature instead of the 2011 legislature. Extends the sunset date of the task force from June 30, 2011 to June 30, 2013.

Appropriates out any portion of the environmental response, energy, and food security tax collected and allocated to the climate change task force, 100% of that portion for fiscal 2012 and fiscal 2013 for the purposes of this act.

Any amendments made to HRS section 243-3.5(a) by this act shall not be repealed when this section is reenacted in June 30, 2015 pursuant to Act 73, SLH 2010.

EFFECTIVE DATE: June 29, 2011

STAFF COMMENTS: This was 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 44.75 cents and the agricultural development and food security special fund from 15 to 44.75 cents and provides that 0.5 cents shall be deposited into a special account of the general fund to be expended by the office of planning for the operations of the climate change task force. 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. While this measure proposes to provide funding for the climate change task force at a rate of 0.5 cents, there is no doubt that if this amount is not sufficient to fund the costs of this task force, and this nominal amount will be subsequently increased to generate additional revenues which will further increase the costs that will be passed on to taxpayers.

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.

Digested 3/29/11

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 28, 2011 9:59 PM
To: WAM Testimony
Cc: maguinger@hawaii.rr.com
Subject: Testimony for HB1019 on 3/30/2011 9:30:00 AM

Testimony for WAM 3/30/2011 9:30:00 AM HB1019

Conference room: 211
Testifier position: support
Testifier will be present: No
Submitted by: Mary A. Guinger
Organization: Individual
Address:
Phone:
E-mail: maguinger@hawaii.rr.com
Submitted on: 3/28/2011

Comments:

The barrel tax will help Hawaii be secure.
As long as we depend on oil for our survival, Hawaii is on a brink of disaster.
Hawaii needs to be self-sufficient now.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 28, 2011 2:27 PM
To: WAM Testimony
Cc: anthony@veteranswaybicycles.com
Subject: Testimony for HB1019 on 3/30/2011 9:30:00 AM

Testimony for WAM 3/30/2011 9:30:00 AM HB1019

Conference room: 211
Testifier position: support
Testifier will be present: No
Submitted by: Anthony Tony Austin
Organization:
Address:
Phone:
E-mail: anthony@veteranswaybicycles.com
Submitted on: 3/28/2011

Comments:

As a environmentally conscious bicycle business owner, our company Veterans Way Bicycles, LLC supports HB1019.