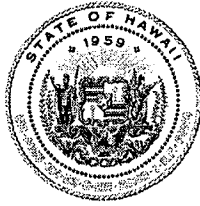
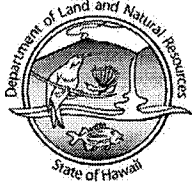


NEIL ABERCROMBIE  
GOVERNOR OF HAWAII



**LATE**

**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

**Testimony of  
WILLIAM J. AILA, JR.  
Chairperson**

**Before the Senate Committee on  
WAYS AND MEANS**

**Friday, February 25, 2011  
9:00 AM  
State Capitol, Conference Room 211**

**In consideration of  
SENATE BILL 722, SENATE DRAFT 1  
RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD  
SECURITY TAX**

Senate Bill 722, Senate Draft 1, would amend the Environmental Response, Energy, and Food Security Tax to allocate the sixty cents now going to the General Fund to the Dept. of Business, Economic Development and Tourism's Energy Security Special Fund (increased from 15 to 44 cents) to the Dept. of Agriculture's (DOA) Agricultural Development and Food Security Special Fund (increased from 15 to 44 cents), and for the operations of the Climate Change Task Force (2 cents) under the Office of Planning, established by Act 20 in 2009.

The Department of Land and Natural Resources (Department) supports the intent of this bill, recognizing that this request must be balanced with other priorities. The Department especially supports any assistance that can be provided in funding for agricultural inspectors and concurs with DOA's request that statutory language be expanded to include all biosecurity-related positions and activities. In the past, the Department's Natural Area Reserve Special Fund has been diverted to cover shortfalls in funding for agricultural inspectors and to fund the Hawaii Invasive Species Council (HISC). Funding from the Natural Area Reserves Fund to the HISC and conservation programs mandated by statute has been reduced by the economic downturn and by legislative action resulting in a 50% decrease to those programs over the past two fiscal years.

WILLIAM J. AILA, JR.  
INTERIM CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

GUY H. KAULUKUKUI  
FIRST DEPUTY

WILLIAM M. TAM  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

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

**LATE**

TESTIMONY OF RUSSELL S. KOKUBUN  
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS  
FRIDAY, FEBRUARY 25, 2011  
9:00 A.M.  
Conference Room 211

SENATE BILL NO. 722, SENATE DRAFT 1  
RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD  
SECURITY TAX

Chair Ige and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill No. 722, Senate Draft 1. 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 fifty-eight of the sixty cents presently going to 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 bill also provides for the deposit of the remaining two cents to a special account to be expended by the Office of Planning for the operations of the Climate Change Task Force established by Act 20, SLH 2009.

The Department of Agriculture strongly supports this measure.

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
<b>A. The awarding of grants to farmers for agricultural production or processing activity</b>						
	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>B. The acquisition of real property for agricultural production or processing activity</b>						
	Acquire private agriculture lands or ag. easements	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
<b>C. The improvement of real property, irrigation systems and transportation networks necessary to promote agricultural production or processing activity</b>						
	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>

**LATE**

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
SENATE BILL NO. 722, S.D.1

February 25, 2011

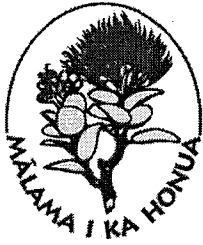
RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD  
SECURITY TAX

Senate Bill No. 722, S.D.1, amends the State Environmental Response, Energy, and Food Security Tax, by changing the amounts collected 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 as follows:

5 cents of the tax on each barrel shall be deposited into the Environmental Response Revolving Fund; 44 cents of the tax on each barrel shall be deposited into the Energy Security Special Fund established; 10 cents of the tax on each barrel shall be deposited into the Energy Systems Development Special Fund; 44 cents of the tax on each barrel shall be deposited into the Agricultural Development and Food Security Special Fund. In addition, Senate Bill No. 722, S.D. 1, stipulates that 2 cents of the tax on each barrel shall be deposited into a special account of the general fund to be expended by the Office of Planning in the Department of Business, Economic Development and Tourism, for the operations of the climate change task force.



As a matter of general policy, the Department of Budget and Finance opposes earmarking of general fund revenues for specific purposes. The earmarking of general funds is at odds with the State's Executive Budget process during which various programs are recommended for funding based on merit and the availability of resources. This earmark of two cents of the barrel tax for the Office of Planning would add additional general funds to Department of Business, Economic Development and Tourism's budget regardless of the State's other funding requirements and priorities.



# Sierra Club Hawai'i Chapter

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**LATE**

## SENATE COMMITTEE ON WAYS AND MEANS

February 25, 2011, 9:00 A.M.  
(Testimony is 1 page long)

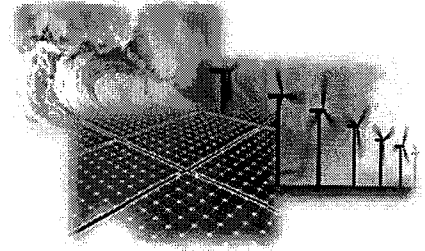
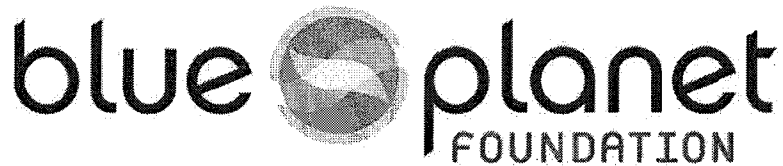
### TESTIMONY IN STRONG SUPPORT OF SB 722 SD1

Aloha Chair Ige and Members of the Committee:

The Hawai'i Chapter of the Sierra Club *strongly supports* SB 722, which re-establishes financing to ensure Hawai'i's energy and food security security. The bill is a smart and need improvement to last year's historic policy. While we all likely agree we need to aggressively increase our self-sufficiency and decrease our reliance on imported food and energy, we cannot do it with funding for research, development, and policy implementation.

We also support the amendment made to fund the Climate Change Task Force. Hawai'i will be impacted by climate change more then any other state; we must start the planning process for resilient communities and habitats.

Mahalo for the opportunity to testify.



**LATE**

**SENATE COMMITTEE ON WAYS AND MEANS**

February 25, 2011, 9:00 A.M.

Room 211

**(Testimony is 4 pages long)**

**TESTIMONY IN STRONG SUPPORT OF SB 722 SD1, SUGGESTED AMENDMENT**

Chair Ige and members of the Committees:

The Blue Planet Foundation strongly supports SB 722 SD1, a measure to increase the percentages of the tax collected on petroleum imports for 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 SB 722 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

**Jeff Mikulina, executive director • [jeff@blueplanetfoundation.org](mailto:jeff@blueplanetfoundation.org)**

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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 Hawai'i'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>. Hawai'i'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. Senate Bill 722 wisely taps the source of our problem—imported oil—to fund clean energy programs.

Thank you for the opportunity to testify.

### Resident Support for Barrel Tax

