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ECONOMIC DEVELOPMENT & TOURISM**

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Statement of  
**RICHARD C. LIM**  
**Director**  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON FINANCE**

Monday, February 25, 2013  
1:30 p.m.  
State Capitol, Conference Room 308

in consideration of  
**HB 1409, HD1**  
**RELATING TO BIOFUELS.**

Chair Luke, Vice Chairs Nishimoto and Johanson; and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments to HB 1409, HD1, that allocates unspecified amounts from every 15 cents of Environmental Response, Energy, and Food Security Tax deposited into the Energy Security Special Fund and the Agricultural Development and Food Security Special Fund, respectively, to the Agribusiness Development Corporation as investment capital for research and development partnerships with entities and enterprises for zero waste biofuel production.

DBEDT believes that the purpose of HB1409, HD1 is better served through passage of HB 857, HD1 because the reallocated funding to the Energy Security Special Fund and the Agricultural Development and Food Security Special Fund under HB 857, HD1 provides a greater source of funding and programmatic structure to achieve enterprise development for zero waste biofuel production than under HB 1409, HD1.

Thank you for the opportunity to offer these comments regarding HB 1409, HD1.

# TAXBILLSERVICE

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Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** FUEL, Agribusiness development corporation

**BILL NUMBER:** HB 1409, HD-1

**INTRODUCED BY:** House Committees on Energy & Environmental Protection & Agriculture

**BRIEF SUMMARY:** Amends HRS section 243-3.5 to provide that \_\_\_ cents shall be allocated to the agribusiness development corporation as investment capital for research and development partnerships with entities and enterprises for zero waste biofuel production from the following dispositions of the environmental response tax: (1) of the 15 cents distributed to the energy security special fund; and (2) of the 15 cents distributed to the agricultural development and food security special fund.

This act shall be repealed on June 30, 2015 provided that HRS section 243-3.5 shall be reenacted in the form in which it read on June 30, 2010, pursuant to Act 73, SLH 2010.

**EFFECTIVE DATE:** Upon approval

**STAFF COMMENTS:** 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. The intent of the original nickel per barrel was to build up an emergency fund so that the state would have the financial resources to address an oil spill that threatened to damage the Islands' shorelines. Over the years, the activities for which the funds could be used expanded such that the fund was prevented from ever reaching the \$7 million cap that had been imposed by the original legislation.

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 to be deposited into the energy security special fund, 10 cents to be deposited into the energy systems development special fund; 15 cents to be deposited into the agricultural development and food security special fund; and the residual of 60 cents to be deposited into the general fund between 7/1/10 and 6/30/15. This measure proposes to tap a portion of the barrel tax which is to be deposited into the energy security special fund and the agricultural development and food security special fund to be allocated to the agribusiness development corporation as investment capital. This proposal is just another symptom of the feeding frenzy the barrel tax has spawned. Lawmakers see this as "free" money that they can spend as no one is watching because the tax is hidden from public view. This is unfortunate because the tax is an implicit part of the high cost of living and doing business in Hawaii. This is a cruel hoax foisted on the taxpayers of Hawaii.

Not only would this proposal expand the use of the environmental response tax, but it also creates another program that will be funded automatically by this earmark. It should be noted that since this earmarking of revenue is automatic and will not be subject to legislative scrutiny, it is questionable whether the amount of funds deposited into the agribusiness development corporation will be sufficient for the stated purposes. If there is insufficient revenue from the proposed earmark, there is no doubt that the amount earmarked will be increased to generate additional monies. If the legislature deems this

particular program to be a priority, then a direct appropriation of general funds would be preferable to the earmarking proposed in this measure.

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 special fund are not subject to close scrutiny as an assumption is made that such funds are self-sustaining. It should be remembered that earmarking of funds for a specific program represents poor public finance policy as it is difficult to determine the adequacy of the revenue source for the purposes of the program. To the extent that earmarking carves out revenues before policymakers can evaluate the appropriateness of the amount earmarked and spent, it removes the accountability for those funds. There is no reason why such programs should not compete for general funds like all other programs which benefit the community as a whole.

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.

It is interesting to note that the very people who support this measure also advocate for the fee on single use bags because the fee is imposed at the point of purchase and that "consumers have a choice" to pay the fee or not. That statement is hypocritical when it comes to the barrel tax which is hidden from

consumers and imposed, like it or not, and consumers do not have a choice. Consumers don't know that every time they fill up at the gas station or when they flip the switch to turn on the lights that they are paying this tax. This is less than honest and, therefore, the barrel tax lacks transparency and accountability. And after three years of the barrel tax being imposed - granted only 40% of the tax went into the "sustainability programs," do lawmakers know how much and on what these funds have been spent? The reality is that neither the public nor lawmakers have a clue of how this money has been spent. Then again, for lawmakers, that should come as no surprise.

For those lawmakers who promoted the dollar increase for energy self-sufficiency and food security, taxpayers should recognize that they deliberately misled the public and should be held accountable for their lack of integrity as the dollar increase went largely for shoring up the state general fund.

Digested 2/23/13



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Subject: Testimony to support HB 1409

Date: February 24, 2013

To: House Finance Committee  
Chairman Sylvia Luke and Vice Chair Scott Nishimoto and Members

I strongly support HB 1409 to support zero waste biofuel research and development.

I retired at the end of 2012 from the Agriculture Research Service/USDA where I had directed the USDA Pacific Basin Agricultural Research Center located in Hilo since 2002. During my tenure at USDA, I was instrumental in starting the 'zero waste' biofuel/high protein feed program, which utilizes agricultural and other waste stream to produce biofuel and high protein feed. We started research on this approach because we wanted to produce biofuel and high protein feed from feedstock that are of minimal costs, such as agricultural wastes. Hence the term 'zero waste'. This approach was taken because in nearly all cases the feedstock is the most costly element in the production of biofuels.

Very briefly, in the zero waste approach oil and high protein meal are produced by heterotrophic algae or fungi, which are adapted to use agriculture waste or other waste stream as a carbon source. Oil and high protein meal are extracted from the harvested algae or fungi; the oil can be converted to various forms of biofuels as biodiesel or jet fuel, whereas as the high protein meal serves as a component for animal feed. The beauty of this approach is that high value products are produced from agriculture wastes, and thus the high cost of producing feedstock is negated. Furthermore, it is environmentally friendly because the process is done in closed containers.

The zero waste approach was first tested with papaya because the crop is widely grown in Hawaii, and about 35% of the harvested fruit that is brought to packinghouses are discarded as culls. In 2010 Hawaii marketed about 30 million pounds of fresh fruit and thus about 15 million pounds fruit were rejected as culls. The research in collaboration with a company that specializes in adapting algae and fungi has progressed very well and results suggest that the economic production of oil and high protein feed from papaya has been reached. The next step is to proceed to pilot scale evaluation and pre-commercialization.

The sustainability of this approach is very apparent. For example, the culled fruit become of value to the papaya farmer and thus increases his farming profitability;

two of Hawaii's critical needs, biofuel and high protein meal for feed, is addressed; and the zero waste process is simple and can be adapted to other agricultural wastes such as sweet potato culls, other culled fruits, woody plants and glycerol wastes generated from production of biodiesel. Adapted fungi that can use sugarcane bagasse and albizia wood as carbon sources are being tested as well as algae that use waste glycerol as a carbon source. The same facilities would be used for these different feedstocks.

The use of funds from the barrel tax to support entities and enterprises for zero waste biofuel production is a wise use of the tax because it addresses critical economic constraints of Hawaii- the high cost of biofuel and animal feed. Furthermore, this approach is adaptable to a wide array of agricultural wastes and other waste streams, and there is clear evidence already that biofuel and high protein meal can be produced from papaya wastes.

Hawaii needs a success story on biofuels. The zero waste approach could be that success story and movement for the state to support entities and enterprises to the commercial stage is applauded. Again, I fully support HB 1409.

Aloha,

Dennis Gonsalves

From: Carol Gonsalves <carolvgonsalves@gmail.com>  
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Tel: 808-981-2863

Subject: Testimony in support of HB 1409

Date: 22 February 2013

To: Chairman and Members of the House Committee on Finance

I am very happy that this bill will be heard in your committee. I urge you to support HB 1409 for the reasons listed below. This bill providing investment capital for zero waste biofuel production enables a more abundant life for all of us in the state of Hawaii.

The high cost of fuel drains dollars from our economy and limits our independence. We in the state of Hawaii will definitely benefit from biofuel production right here on our own turf, using agricultural products that normally go to waste.

The unique concept of ZERO WASTE - producing fuel from agricultural waste is a winner:

First, because agricultural waste such as unsaleable papaya fruit and invasive species of trees such as the albezia are plentiful. In the case of papaya for example, I have visited packing houses where unsaleable rejects were heaped high in bins. This is a common occurrence. I do not have figures on the number of pounds of papaya are wasted each year, but I have heard that it is very high.

Second, this process does not require the expenditure of time and money to grow a crop, such as corn, specifically for biofuel production.

And third, papaya farmers can earn money from their fruit which do not meet quality standards at the packing house. Within the last few days I have met papaya farmers who have learned about HB 1409 and have expressed joy over the possibility of selling their cull fruit. One farmer, whom I met at McDonalds said that of 1000 pounds of fruit he sold recently, 200 pounds of it was rejected as culls.

Please consider my request to support HB 1409.

Yours truly,  
Carol Gonsalves