



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

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Statement of  
**LUIS P. SALAVERIA**  
Director  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION**

Thursday, February 12, 2015  
8:30 a.m.  
State Capitol, Conference Room 325

in consideration of  
**HB 1470**

**RELATING TO DISPOSITION OF TAX REVENUES.**

Chair Lee, Vice Chair Lowen, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) opposes HB1470, which limits the distribution from the Environmental Response, Energy, and Food Security Tax (“Barrel Tax”) to the Energy Security Special Fund (ESSF) at \$3,800,000 annually.

DBEDT relies on the ESSF as the State’s only financial support to coordinate the Hawaii Clean Energy Initiative through its Hawaii State Energy Office (HSEO). This initiative, now in its seventh year, is comprised of two parts: a framework of policies, regulations, and strategies to meet clean energy goals; and the coalition of energy stakeholders committed to meeting and exceeding those goals. The key metrics of the initiative are progressing towards the statutory renewable and energy efficiency standards (for which interim goals have been exceeded), as well as transportation, and construction expenditures, and RD&D investment goals.

The appropriation of Barrel Tax funds to HSEO, along with federal funds, supports all of HSEO operations, including personnel costs, program support, and reports and assessments. In the past four fiscal years, HSEO has received more than the proposed maximum amount in two of the years. The amount of tax received fluctuates depending on various factors outside of

DBEDT's control. DBEDT uses years with larger collections to offset lower collections in other years, which allows for steady staffing and support levels for programs.

In addition to supporting the advancement of an innovative, balanced, and sustainable energy industry in Hawaii, the work of HSEO saves the State millions of dollars through energy savings. Through the years, HSEO has provided technical assistance to State and County agencies to help reduce their energy use. Through our technical assistance for performance contracting, these agencies initiated projects that will, over the life of the contracts, save over \$768M. DBEDT's Research and Analysis Division estimates that for each million dollars of savings from consuming less electricity, assuming the savings will be spent on other government programs, the economy will benefit by \$560,000 net increase in household income, \$21,000 in state tax revenues, and 10.5 more jobs<sup>1</sup> in the State.

Hawaii is currently faced with high energy costs and an uncertain energy future, and this uncertainty affects the entire economy. DBEDT has a proven track record of effectiveness in getting a positive return on investment for its management of the Hawaii Clean Energy Initiative and leadership in clean energy planning, policy and programs. It is critical that DBEDT continue to have the financial and personnel support to lead the State's clean energy development and innovation that helps grow Hawaii's economy and allow consumers to control electricity costs and make wise decisions about energy. It would be moving Hawaii in the wrong direction to limit or otherwise restrict this vital funding to Hawaii's clean energy future.

Thank you for the opportunity to offer testimony in opposition to HB 1470.

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<sup>1</sup> The 10.5 jobs are for savings in 2015; other impacts remain the same regardless of year.



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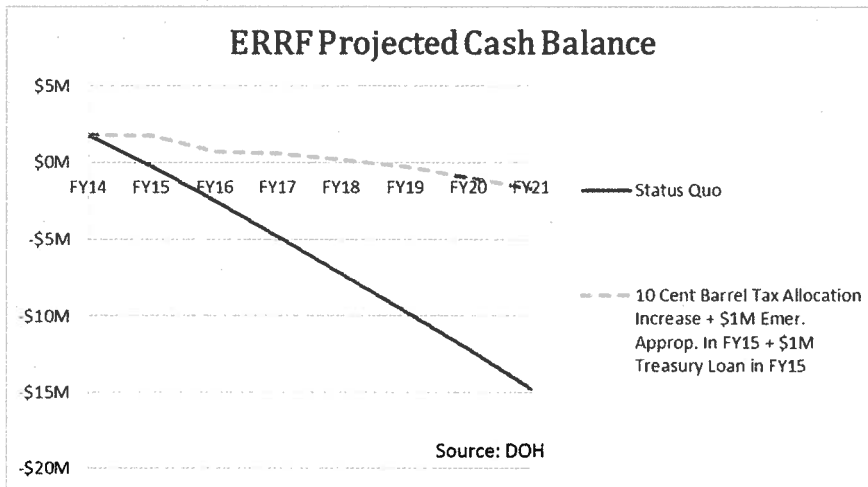
**Testimony COMMENTING on H.B. 1470**  
**Relating to the Disposition of Tax Revenues**

REPRESENTATIVE CHRIS LEE, CHAIR  
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Hearing Date: **February 12, 2015**  
**8:30 a.m.**

Room Number: 325

- 1 **Fiscal Implications:** Sets the maximum amount of the Barrel Tax that can be diverted to special
- 2 funds at near-current levels.
  
- 3 **Department Testimony:** The Department provides the following comments because it has
- 4 concerns about the continued existence of its Environmental Response Revolving Fund (ERRF)
- 5 under the concepts proposed in this measure, which seeks to establish maximum amounts for
- 6 distribution among the non-general funds that receive allocations from the Environmental
- 7 Response, Energy, and Food Security Tax ("Barrel Tax"). The maximum distribution for the
- 8 ERRF proposed in this bill is \$1.3 million. Right now, the ERRF receives about \$1.2 million
- 9 annually from the Barrel Tax (5 cents for every barrel of oil imported into the State). However,
- 10 because of the State's decreasing consumption of oil, ERRF revenues have steadily declined by
- 11 ~5% per year and will likely continue to do so into the future. The \$1.2 million the Department
- 12 currently receives from the Barrel Tax is insufficient to sustain the 41 positions (31 filled
- 13 positions) that depend on the ERRF for funding (see graph below).



- 1
- 2 Setting a maximum Barrel Tax distribution at \$1.3 million for the ERRF without moving ERRF-
- 3 funded positions onto general funds or establishing another funding mechanism for the
- 4 Department will ensure the “status quo” scenario depicted in the graph above.
- 5 In order to remedy the current ERRF financial situation, the Department has separately requested
- 6 a 15 cent allocation for the ERRF (H.B. 941/S.B. 1110), and a one-time Emergency
- 7 Appropriation of \$1,050,000 in the Governor’s Package (H.B. 949/S.B. 1118), which would help
- 8 it to meet its financial obligations and cover payroll through the end of FY 2015. The
- 9 Department has also requested a \$1 million loan from the State Treasury, which the Department
- 10 of Budget and Finance and the Governor’s Office are currently considering.
- 11 The Department of Health defers to the Department of Agriculture and the Department of
- 12 Business, Economic Development, and Tourism regarding the maximum distribution amounts
- 13 for their respective special funds.
- 14 Thank you for the opportunity to provide comments on this important measure.



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Testimony of The Nature Conservancy of Hawai'i  
Opposing H.B. 1470 Relating to Disposition of Tax Revenues  
House Committee on Energy and Environmental Protection  
Thursday, February 12, 2015, 8:30AM, Room 325

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*The Nature Conservancy of Hawai'i is a private non-profit conservation organization dedicated to the preservation of the lands and waters upon which life in these islands depends. The Conservancy has helped to protect nearly 200,000 acres of natural lands in Hawai'i. Today, we actively manage more than 35,000 acres in 11 nature preserves on Maui, Hawai'i, Moloka'i, Lāna'i, and Kaua'i. We also work closely with government agencies, private parties and communities on cooperative land and marine management projects.*

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The Nature Conservancy opposes H.B. 1470. We think this bill is unnecessary because the Legislature has just as much oversight and control over non-general fund appropriations as it does with general fund appropriations, if it chooses to exercise that authority.

The Legislature has the capability to ensure that the barrel tax revenue allocated to State agencies is closely monitored, spent on priorities identified by the Legislature and not "automatically" available distribution. Each and every year, the Legislature requires the agencies to provide detailed annual reports and justifications on non-general fund expenditures and the programs they support. With that information, the Legislature sets a spending ceiling for the following year in the budget. The Legislature often gives directive in the budget to the departments on how it expects non-general funds within that ceiling to be spent, and even provides specific directives for expenditures of revenues above the spending ceiling to address additional priorities of its choosing. This process seems like it would allow the Legislature to exercise more regular oversight and direction over agencies' use of non-general funds than setting a fixed dollar allocation in permanent statute.

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# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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**SUBJECT:** FUEL, Limit on distributions of environmental response, energy, and food security tax

**BILL NUMBER:** SB 1296; HB 1470 (Identical)

**INTRODUCED BY:** SB by Tokuda; HB by Luke

**EXECUTIVE SUMMARY:** This bill would establish maximum dollar amounts of environmental response, energy, and food security tax revenues to be deposited into each of the designated funds. If the legislature deems these program areas a priority, then a direct appropriation for these programs would increase transparency and accountability. In the meantime, however, the bill's approach is a step in the right direction to assure that the programs now fed by these special funds do not unduly proliferate.

The tax has taken on a life of its own and lacks transparency, and the special funds it feeds do not come under close scrutiny by either lawmakers or the public. The barrel tax should be repealed and all programs funded out of the environmental response tax should be funded through the general fund.

**BRIEF SUMMARY:** Amends HRS section 243-3.5(a) to establish maximum dollar limits of the environmental response, energy, and food security tax that shall be distributed in each fiscal year to each of the funds. Provides that not more than: (1) \$1.3 million shall be deposited into the environmental response revolving fund; (2) \$3.8 million into the energy security special fund; (3) \$2.6 million into the energy systems development special fund and (4) \$3.8 million into the agricultural development and food security special fund.

**EFFECTIVE DATE:** July 1, 2015

**STAFF COMMENTS:** This measure would establish maximum dollar amounts of the environmental response, energy, and food security tax revenues to be distributed to the various special funds now being fed. It would, however, perpetuate the earmarking methodology. As with any earmarking of revenues, the legislature will be giving their stamp of approval for the "automatic funding" mechanism for each of the programs into which the revenues are funneled. Through this system, monies are diverted into these funds without any legislative intervention, expenses from the funds largely avoid legislative scrutiny, and it will be difficult to ascertain the effectiveness of the programs funded. It would also be difficult to ascertain whether or not the fund has too little or too much revenue.

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, food security, and natural resource protection programs, energy conservation and alternative energy development, 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.

The basic problem with the barrel tax is that it lacks transparency, and because the funds are earmarked they do not come under close scrutiny by either lawmakers or the public. 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. If general funds are insufficient to underwrite all the essential programs and programs such as those funded through the barrel tax, then lawmakers need to justify any increase in taxes which underwrite the general fund or lawmakers will be forced to set priorities for those precious general funds. Currently, lawmakers are able to side step that difficult task by creating these hidden taxes and earmarked funds like the barrel tax. 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.

Digested 2/10/15

DAVID Y. IGE  
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SHAN S. TSUTSUI  
Lt. Governor



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SCOTT E. ENRIGHT  
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER  
Deputy to the Chairperson

**LATE**

TESTIMONY OF SCOTT E. ENRIGHT  
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEES ON AGRICULTURE AND ECONOMIC  
DEVELOPMENT AND BUSINESS

February 12, 2015  
8:30 A.M.  
CONFERENCE ROOM 325

HOUSE BILL NO. 1470  
RELATING TO DISPOSITION OF TAX REVENUES

Chairperson Lee and Members of the Committee:

Thank you for the opportunity to present testimony on House Bill 1470. This measure limits the distribution from the Environmental Response, Energy, and Food Security Tax (“barrel tax”) to the Environmental Response Revolving Fund, the Energy Security Special Fund, the Energy Systems Development Special Fund, and the Agricultural Development and Food Security Special Fund. The Department has strong reservations about this measure.

When House Bill 2421, the piece of legislation that ultimately created the Energy Security Special Fund, the Energy Systems Development Special Fund and the Agricultural Development and Food Security Special Fund, was first introduced during the 2010 Legislative Session, the intent of the increase in the barrel tax was to make Hawaii energy and food self-sufficient, consistent with plans such as the Hawaii 2050 Sustainability Plan. Additionally, the legislation created the Hawaii Economic Development Task Force mandated to facilitate the accelerated adoption and completion of renewable-energy projects, energy-efficiency programs, agricultural infrastructure and development and support public and private efforts to make Hawaii energy and food self-sufficient. In its report to the 2011 Legislature, the task force recommended allocating the \$0.60 not allocated by Act 73 (SLH 2010) fifty percent to the Energy Security Special Fund and fifty percent to the Agricultural Development and Food Security Special Fund.

The Department knows that the funding currently allocated to the Agricultural Development and Food Security Special Fund has been critical in moving the State





towards greater food self-sufficiency and increased agricultural development. The fund has enabled the Department to support initiatives for research in to alternatives to imported feed to help revitalize our livestock industry in Hawaii. Increased marketing and outreach efforts to build up local demand for local agricultural commodities and also build up export markets to insure our local farmers are successful have also been made possible by funding through the barrel tax. Positions for irrigation maintenance workers have been funded by the barrel tax, and these maintenance workers are vital in helping to keep up our irrigation systems to insure water is readily and regularly available to our farmers and ranchers.

Looking forward, the Department knows that regulations stemming from the Food Safety Modernization Act will be increasing the regulatory burden on our farmers and ranchers. As a result, the Department will look to the barrel tax as a means to fund initiatives to help educate our farmers about these new regulations as well as provide the resources necessary to insure agriculture in Hawaii remains vibrant in the face of these new rules.

We believe the legislature was visionary in passing Act 73, SLH 2010, with its goals of greater energy and food self-sufficiency and it is our hope that there is continued support of these goals by increasing the funding provided by the barrel tax to these special funds.

Thank you for the opportunity to present testimony.