



STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Karl Rhoads, Chair
and Members of the Senate Committee on Judiciary

The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, February 26, 2019
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 1463, S.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 1463, S.D. 1, and offers the following comments for the Committee's consideration.

S.B. 1463, S.D. 1, replaces the environmental response, energy, and food security tax with a carbon emissions tax and repeals state fuel taxes under the fuel tax law. A summary of key provisions are as follows:

- Amends section 243-3.5, Hawaii Revised Statutes (HRS), to replace the environmental response, energy, and food security tax with a carbon emissions tax on all fossil fuels sold by a distributor to any retail dealer or end user of the fuel, other than a refiner;
- Sets the applicable rate(s) of tax at:
 - (1) Propane: \$0.0360 per gallon;
 - (2) Butane: \$0.0420 per gallon;
 - (3) Butane/propane mix: \$0.0388 per gallon;
 - (4) Home heating and diesel fuel (distillate): \$0.0635 per gallon;
 - (5) Kerosene: \$0.0610 per gallon;
 - (6) Coal (all types): \$13.1301 per short ton;
 - (7) Natural gas: \$0.3320 per thousand cubic feet;
 - (8) Gasoline: \$0.0556 per gallon;
 - (9) Residual heating fuel (businesses only): \$0.0737 per gallon;
 - (10) Jet fuel: \$0.0598 per gallon;
 - (11) Aviation gas: \$0.0522 per gallon;
 - (12) Flared natural gas: \$0.3422 per thousand cubic feet;
 - (13) Petroleum coke: \$0.0919 per gallon;

- (14) Other petroleum and miscellaneous fuels: \$0.0626 per gallon;
 - (15) Asphalt and road oil: \$0.0747 per gallon;
 - (16) Lubricants: \$0.0670 per gallon;
 - (17) Petrochemical feedstocks: \$0.0701 per gallon;
 - (18) Special naphthas (solvents): \$0.0569 per gallon;
 - (19) Waxes: \$0.0598 per gallon;
 - (20) Anthracite: \$16.1167 per short ton;
 - (21) Bituminous: \$13.9800 per short ton;
 - (22) Subbituminous: \$10.5344 per short ton;
 - (23) Lignite: \$7.9141 per short ton;
 - (24) Coke: \$17.6892 per short ton;
 - (25) Municipal solid waste: \$16.3605 per short ton;
 - (26) Tire-derived fuel: \$17.4633 per short ton;
 - (27) Waste oil: \$2.6195 per barrel; and
 - (28) All other fuels: \$6.25 per ton of carbon dioxide equivalent emissions;
- Directs the Department of Business, Economic Development, and Tourism (DBEDT) to recommend updates to the tax per fuel annually, based on the United States Energy Information Administration (USEIA)'s determination of carbon dioxide emissions per energy source, and submit to the Legislature proposed updates to the tax rates no later than twenty days prior to the convening of each regular session of the Legislature;
 - Changes the allocation mechanism from a specific number of cents of the tax on each barrel to a set dollar amount deposited into four different funds:
 - \$1,290,000 into the environmental response revolving fund established under section 128D-2, HRS;
 - \$3,872,000 deposited into the energy security special fund established under section 201-12.8, HRS;
 - \$2,582,000 deposited into the energy systems development special fund established under section 304A-2169.1, HRS; and
 - \$3,872,000 deposited into the agricultural development and food security special fund established under section 141-10, HRS.
 - Exempts coal from the new tax that is used to fulfill a signed power purchase agreement between an independent power producer and an electric utility, provided the agreement is in effect between June 30, 2015 and September 1, 2022;
 - Until September 1, 2022, permits an independent power producer to pass the tax on to an electric utility, in which case the electric utility may recover the cost of the tax through an appropriate surcharge to the end user that is approved by the Public Utilities Commission;
 - Requires each distributor subject to the tax to file with the Director, on or before the last day of each calendar month, a return statement of the tax for which the distributor is liable for the preceding month;
 - In addition to the above allocation mechanism changes, requires the tax collected to be paid over to the Director of Finance for deposit as provided in section 248-8, HRS;
 - Prohibits the collection of tax on any liquid fuel sold for use in and actually delivered to, or sold in, the County of Kalawao;
 - Defines "unit" as the unit of measurement customarily used for the specific fossil fuel;
 - Amends section 243-4, HRS, to repeal the state license tax and leave the county fuel tax as a standalone tax in the respective counties;

- Repeals the 16 cents per gallon state tax on liquid fuel sold or used in the City and County of Honolulu, the County of Hawaii, the County of Maui, and the County of Kauai;
 - States that for purposes of the county fuel tax, "liquid fuel" does not include diesel oil, gasoline, aviation fuel, or naphtha sold for use in a power-generating facility;
 - Similarly repeals the additional 15 cents per gallon state tax on diesel fuel sold or used in the four counties; and
 - Prohibits collecting tax on any benzol, benzene, toluol, xylool, or alternative fuel sold for use other than for operating internal combustion engines.
- Amends section 243-5, HRS, by amending its title to read "County fuel tax; amount."
 - Amends section 261-5, HRS, by directing all taxes "or gasoline or other aviation fuel sold for use in or used for airplanes" paid pursuant to section 243-3.5(a), HRS, to be paid into the airport revenue fund created by section 248-8, HRS.
 - Amends sections 128D-2, 141-10, 201-12.8, and 304A-2169.1, HRS, by substituting the term "carbon emissions tax" wherever the word "environmental response, energy, and food security tax" appears, as context requires;
 - Amends sections 243-8, 243-12, 243-14, and 243-14, HRS, by substituting the words "county fuel tax" wherever the word "license tax" appears, as context requires;
 - Repeals section 235-110.6, HRS; and
 - Effective January 1, 2021, with Section 10 (repealing section 235-110.6, HRS, the fuel tax credit for commercial fishers) applying to taxable years beginning after December 31, 2019.

The Joint Senate Committees on Agriculture and Environment and on Energy, Economic Development, and Tourism amended the previous version of this measure by directing DBEDT, instead of the Department, to annually submit proposed legislation amending and updating carbon emissions tax rates based on federal criteria. The Committees also amended the previous version of this measure by delaying the effective date until January 1, 2021, with the repeal of the fuel tax credit for commercial fishers in Section 10 applying to taxable years beginning after December 31, 2019.

First, the Department notes that the definition of "unit" in Section 4 of the measure is still rather vague. The Department suggests defining the term more specifically, with examples of which units of measurement are customarily used for the fossil fuels listed in the measure. This will improve tax administration and avoid taxpayer confusion. If the units of measurement described in the new tax rates in Section 4 are examples of the "unit of measurement customarily used for the specific fossil fuel," then the Department recommends amending the definition of "unit" to read as follows:

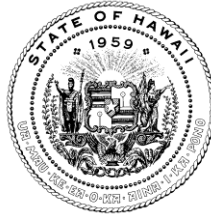
`"'Unit' means the unit of measurement customarily used for the specific fossil fuel, as listed in section 243-3.5."`

Second, the Department appreciates the date changes in this measure and is able to administer the bill with current effective date of January 1, 2021, and the repeal of the fuel tax credit for commercial fishers applying to taxable years beginning after December 31, 2019. This will allow sufficient time for the Department to update its forms and instructions and to properly

provide notice to the public about the new carbon emissions tax and the repealed state fuel tax.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR OF
HAWAII



SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA
FIRST DEPUTY

M. KALEO MANUEL
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

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

Testimony of
SUZANNE D. CASE
Chairperson

Before the Senate Committees on
WAYS AND MEANS
and
JUDICIARY

Tuesday, February 26, 2019
10:00AM
State Capitol, Conference Room 211

In consideration of
SENATE BILL 1463, SENATE DRAFT 1
RELATING TO TAXATION

Senate Bill 1463 Senate Draft 1 proposes to: (1) Replace the environmental response, energy, and food security tax with a carbon emission tax on the sale of all fuels with carbon content; and (2) Repeal the state fuel tax. **The Department of Land and Natural Resources (Department) appreciates the intent of this measure and offers comments.**

The Hawaii's Climate Change Mitigation and Adaptation Commission (Climate Commission), co-chaired by the Department, issued support for a carbon fee on November 27, 2018, but did not define the exact mechanism for such a fee. The Climate Commission emphasized that any mechanism should consider equity and be appropriate for the people of Hawaii, must demonstrate how this is a critical policy tool to protect the future of Hawaii's keiki and 'āina, and must be adequate to change behavior. The full statement is [attached](#).

The measure's impacts may decrease highway revenues from the gas tax and increase airport revenue from aviation fuels. Given that adaptation to sea level rise is a high priority for Hawaii, any such increase in revenues for airports should either be reallocated to highways or go directly to adaptation needed for critical infrastructure in airports. Alternatively, we respectfully suggest an amendment that would instate a carbon emissions tax but keep the "barrel tax" intact.

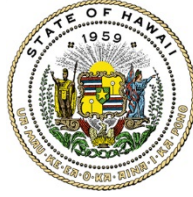
Additionally, to affect behavior, the measure should increase the fee on carbon each year. Such increases should be coupled with supporting policies to provide equitable access to schools, work, and healthy lifestyle components of recreation facilities, healthcare and food, especially

for low income families and households. As rates increase, to offset the potential for any regressive effects, the Department, which co-chairs the Climate Commission, encourages consideration of equity mechanisms such as the earned income tax credit, providing transit subsidies, developing carshare programs, and providing other such supporting infrastructure for low income households.

Lastly, coal should be included in this measure, since it is a fossil fuel. Since phasing out of coal power generation in Hawaii is not a certainty, including a fee on coal would help towards ending its use in Hawaii.

While such a measure will need to be further vetted, the Department believes it is an essential first step to begin to implement a response to the threat of growing greenhouse gas emissions.

Thank you for the opportunity to comment on this measure.



DEPARTMENT OF LAND AND NATURAL RESOURCES

DAVID Y. IGE
GOVERNOR

SUZANNE D. CASE
CHAIRPERSON

NEWS RELEASE

FOR IMMEDIATE RELEASE

Nov. 28, 2018

STATE CLIMATE COMMISSION ENCOURAGES URGENT ACTIONS TO COMBAT EMISSIONS

Supports Legislation to Establish A Carbon Fee Program

(Honolulu) - Hawaii's Climate Change Mitigation and Adaptation Commission, meeting yesterday in Honolulu recognized that ground transportation contributes significantly to Hawaii's share of greenhouse gas emissions. The Commission supports mechanisms to reduce overall vehicle miles traveled as well as converting all remaining vehicle-based ground transportation to renewable, zero-emission fuels and technologies

The Commission believes that putting a price on carbon is the most effective single action that will achieve Hawaii's ambitious and necessary emissions reduction goals. This view is also supported by expert global and local institutions:

- The Intergovernmental Panel on Climate Change reports that a price on carbon is central to prompt mitigation, and global emissions of CO₂ need to fall by 45% by 2030 and to zero by 2050.
- The International Monetary Fund finds that "carbon pricing is crucial in reducing emissions, and carbon taxes are more effective than other mitigation instruments."
- State of Hawaii's *Report of the 2015-2017 Tax Review Commission* recommends consideration of a carbon fee in its review of the state tax structure.
- State of Hawaii's *Transportation Energy Analysis, August 2015*, supports an increase in the barrel tax "to fund government actions to support clean energy, specifically in regards to the bunker taxes in the marine sector and the inclusion of aviation fuel in the barrel tax.

- The Rhodium Group’s report *Transcending Oil Hawai‘i’s Path to a Clean Energy Economy*, April 2018, recommends a carbon tax to achieve clean transportation goals in Hawai‘i.

While the specific mechanisms behind a carbon fee program are not yet outlined, the Commission emphasized the urgent need for such a program, and supports legislation that endeavors to establish one, but also recognizes that any carbon pricing mechanism:

- Must be equitable, and appropriate for the people of Hawaii.
- Must demonstrate how this is a critical policy tool to protect the future—of Hawaii’s keiki and ‘āina.
- Must be adequate to change behavior.

The Commission recommends carbon pricing mechanisms that minimize regressivity, which can be pursued through structures such as equity-based tax credits or carbon fee and dividend.

In order to facilitate a carbon pricing program to address carbon pollution, the Commission urges the State to adequately resource the following actions through legislation or executive action:

- Partner with counties and local organizations to develop and undertake a multi-year educational/public service announcement (PSA) campaign to address the link between the need for a price on carbon and highlighting the importance of clean transportation in Hawaii—which will increase quality of life, and address climate change impacts by decreasing congestion, commute time and costs, and emissions.
- Explore and develop statewide policies and partner with counties to modernize parking policies and parking management, which will reduce overall emissions, congestion and vehicle miles travelled (VMT) from driving, and increase biking, walking, and transit use, to achieve State goals.
- Transform State and county fleets to address VMT reduction, congestion, and emissions—especially through electrification, renewable fuels, carshare, and supporting infrastructure development and deployment.
- Amend laws, such as the state procurement laws, to better align them with clean transportation priorities.

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Media Contact:

Dan Dennison
Senior Communications Manager
(808) 587-0396
Dan.w.dennison@hawaii.gov



DAVID Y. IGE
GOVERNOR

MIKE MCCARTNEY
DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
MIKE MCCARTNEY
Director

Department of Business, Economic Development, and Tourism
before the

**SENATE COMMITTEE ON WAYS AND MEANS
AND**

SENATE COMMITTEE ON JUDICIARY

Tuesday, February 26, 2019
10:00 AM

State Capitol, Conference Room #211

In consideration of

**SB 1463, SD1
RELATING TO TAXATION.**

Chairs Dela Cruz and Rhoads, Vice Chairs Keith-Agaran and Wakai, and members of the Committees. The Department of Business, Economic Development, and Tourism (DBEDT) **supports the intent** of SB 1463, SD 1, which replaces the environmental response, energy, and food security tax with a carbon emissions tax and repeals the state fuel taxes under the fuel tax law. It also requires DBEDT to submit an annual report to the Legislature recommending updates to the carbon emissions tax per fuel.

The environmental response, energy, and food security tax through the energy security special fund has been an important source of funding for DBEDT's energy operations. It is imperative that current funding levels be at least maintained for DBEDT to continue its operations in support of Hawaii's clean energy initiatives.

We believe it may be premature to implement a carbon emissions tax policy without the benefit of a robust study (like that required to be done by University of Hawaii under HB1584, HD 2) informing policymakers and other stakeholders on the opportunities and impacts of such a policy.

Regarding DBEDT's annual report requirement under this measure (page 7, lines 14-21), we recommend that adjustments be determined without legislative action such that updates shall be automatically applied for taxes to rise and fall based on the United States Energy Information Administration's determination of carbon dioxide emissions per energy source. We note that DBEDT's annual report requirement under this measure is not included in our current budget. We respectfully ask that the Legislature please minimize any negative impacts to the Governor's budget priorities.

We defer to the Department of Taxation on the feasibility of the proposed tax. Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: FUEL, Carbon Emissions Tax; License Tax

BILL NUMBER: SB 1463, SD-1

INTRODUCED BY: Senate Committees on Agriculture and Environment and Energy, Economic Development, and Tourism

EXECUTIVE SUMMARY: The bill intends to replace the current barrel tax and fuel tax with a revenue neutral carbon emission tax on the sale of all fuels with carbon content. This bill forces us to rethink how we now tax fossil fuel. The current patchwork of different state and local taxes all applying at once leads to unclear and inconsistent messages sent to the taxpaying public, which is not good for implementing social policy regardless of what the policy is.

SYNOPSIS: Renames chapter 243, HRS, as the Carbon Emissions and Fuel Tax Law.

Amends section 243-3.5, HRS, which now imposes the barrel tax, to a carbon emissions tax calibrated to \$6.25 per ton of CO₂. The tax is imposed on a distributor of the fuel. Imposes tax at the following rates:

- (1) Propane: \$0.0360 per gallon;
- (2) Butane: \$0.0420 per gallon;
- (3) Butane/propane mix: \$0.0388 per gallon;
- (4) Home heating and diesel fuel (distillate): \$0.0635 per gallon;
- (5) Kerosene: \$0.0610 per gallon;
- (6) Coal (all types): \$13.1301 per short ton;
- (7) Natural gas: \$0.3320 per thousand cubic feet;
- (8) Gasoline: \$0.0556 per gallon;
- (9) Residual heating fuel (businesses only): \$0.0737 per gallon;
- (10) Jet fuel: \$0.0598 per gallon;
- (11) Aviation gas: \$0.0522 per gallon;
- (12) Flared natural gas: \$0.3422 per thousand cubic feet;
- (13) Petroleum coke: \$0.0919 per gallon;
- (14) Other petroleum and miscellaneous fuels: \$0.0626 per gallon;
- (15) Asphalt and road oil: \$0.0747 per gallon;

- (16) Lubricants: \$0.0670 per gallon;
- (17) Petrochemical feedstocks: \$0.0701 per gallon;
- (18) Special naphthas (solvents): \$0.0569 per gallon;
- (19) Waxes: \$0.0598 per gallon;
- (20) Anthracite: \$16.1167 per short ton;
- (21) Bituminous: \$13.9800 per short ton;
- (22) Subbituminous: \$10.5344 per short ton;
- (23) Lignite: \$7.9141 per short ton;
- (24) Coke: \$17.6892 per short ton;
- (25) Municipal solid waste: \$16.3605 per short ton;
- (26) Tire-derived fuel: \$17.4633 per short ton;
- (27) Waste oil: \$2.6195 per barrel; and
- (28) All other fuels: \$6.25 per ton of carbon dioxide equivalent emissions.

DBEDT is to recommend updates to the tax per fuel annually, based on the United States Energy Information Administration's determination of carbon dioxide emissions per energy source.

Provides that the tax is distributed as follows:

- \$1,290,000 to the environmental response revolving fund (HRS section 128D-2);
- \$3,872,000 to the energy security special fund (HRS section 201-12.8);
- \$2,582,000 to the energy systems development special fund (HRS section 304A-2169.1);
- \$3,872,000 to the agricultural development and food security special fund (HRS section 141-10).

Provides grandfather protection to coal used to fulfill a signed power purchase agreement between an independent power producer and an electric utility that is in effect between June 30, 2015, and September 1, 2022.

Exempts fuel sold for use in and actually delivered to, or sold in, the county of Kalawao.

Amends HRS section 243-4 to delete the state fuel tax and to exempt from county fuel tax gasoline or other aviation fuel sold for use in or used for airplanes, or naphtha sold for use in a power-generating facility.

Makes technical and conforming changes.

Repeals HRS section 235-110.6 (which now provides for a fuel tax credit for commercial fishers).

EFFECTIVE DATE: January 1, 2021, but repeal of the fuel tax credit for commercial fishers applies to taxable years beginning after December 31, 2019.

STAFF COMMENTS: An economist from UHERO, the University of Hawaii Economic Research Organization, recently posted [an analysis](#) arguing that strong, decisive action such as a carbon tax is going to be needed if we are going to achieve the greenhouse gas goals. “But without any specifics as to how we are to achieve [greenhouse gas] reductions – through a carbon tax or otherwise – it is largely symbolic,” she argues.

So what is a carbon tax? It is a tax imposed on the carbon content of different fuels. Typically, it is due and payable when the fuel is either extracted and placed into commerce, or when it is imported. At present, neither the U.S. federal government nor any U.S. state has enacted a carbon tax. The city of Boulder, Colorado, enacted one by referendum in 2006; it applies at the rate of \$7 per metric ton of CO₂ and is imposed on electricity generation only. Several European Union countries, Japan, and South Africa [have carbon taxes](#).

Presently, we have a liquid fuel tax (chapter 243, HRS). Like a carbon tax, the fuel tax is imposed upon import and entry into commerce. So, PFM Group, the consultant employed by the Hawaii Tax Review Commission, in its [final report](#) thought that the systems and processes we now have in place to collect fuel tax in Hawaii can be adapted to a carbon tax, and for that reason concluded that a carbon tax would entail “[l]ittle administrative burden.” There are, however, several important differences between the two:

Both the county and state governments are given the power to impose fuel tax. This bill repeals the state fuel tax but does not affect the counties’ power to impose fuel tax.

The fuel tax is now earmarked for Highway Fund use, and the money in that fund is spent by the Department of Transportation. As a result, vehicles that don’t use the highways, such as tractors and other farm machinery, are exempt from fuel tax. A carbon tax applies to both on-road and off-road use of fuel, as long as the CO₂ generated from burning it gets into the atmosphere.

The potential big losers will be the electric companies, because electric generation accounted for 6.8 million metric tons of CO₂ in 2013 out of a total 18.3 million metric tons. However, the electric companies won’t simply absorb the tax, but can be expected to pass on the enhanced costs to anyone who gets an electric bill.

Another potential big loser will be the Department of Transportation, because section 243-3.5(b) as currently drafted does not appear to give any money to either the General Fund or the Highway Fund. There probably should be a residuary disposition clause in that subsection.

Perhaps it’s good for lawmakers to worry about the end of the world as we know it, which perhaps will be staved off by the social change the tax encourages. But their constituents are worried not about the end of the world, but the end of next week. Will their paychecks be enough to pay the rent, keep the lights on, or feed the family? If the cost of simply driving to work from the suburbs is horrible now, just wait until the tax kicks in.

And if you think the hammer of a carbon tax will fall most heavily on huge, faceless corporations like the electric company, the airlines, or the shippers, think again. Businesses can and will pass on any enhanced costs to their consumers if they hope to continue providing their products or services. That means our already astronomical cost of living could head further up into the stratosphere. In theory, that would not happen under this bill, which is intended to be revenue neutral; but tax rates can be and are adjusted over time.

Digested 2/21/2019

Testimony of The Nature Conservancy of Hawai'i
Supporting the Intent of SB 1463 SD1 Relating to Taxation
Senate Committee on Ways and Means
Senate Committee on Judiciary
Tuesday, February 26, 2019, 10:00AM, Room 211

The Nature Conservancy of Hawai'i is a non-profit conservation organization dedicated to the preservation of the lands and waters upon which all life depends. The Conservancy has helped protect more than 200,000 acres of natural lands in Hawai'i and Palmyra Atoll. We manage 40,000 acres in 13 preserves and work in over 30 coastal communities to help protect the near-shore reefs, waters and fisheries of the main Hawaiian Islands. We forge partnership with government, private parties and communities to protect forests and coral reefs for their ecological values and the many benefits they provide to people.

The Nature Conservancy supports the intent of SB 1463 SD1 to replace the current barrel tax with a carbon emissions tax. However, given the complexity of getting a carbon tax right, we prefer a comprehensive study of the type proposed in HB 1584.

Climate change caused by burning fossil fuels is an unprecedented threat to every person in Hawai'i. It is our responsibility to do what we can and what is necessary reduce our own carbon emissions, however small on a global scale, to contribute to the worldwide effort needed to mitigate the growing effects of climate change. Many prominent economists agree that a carbon fee, increasing steadily over time, is an efficient and effective way to reduce carbon emissions. It sends a powerful signal and incentive to businesses and consumers to reduce emissions. Such a fee must also be carefully crafted to be fair as well as offset regressive effects on those with lower incomes.

Even if we drastically reduce CO₂ emissions now, however, we will still feel the effects of climate change. In Hawai'i, science—and now direct experience—indicates that this will include:

- More frequent and more severe storms that can increase runoff and siltation;
- Overall, less rainfall and therefore less fresh water;
- Higher temperatures that affect watershed and agricultural health, while being beneficial to invasive species;
- Sea level rise and high waves that will harm coastal areas and groundwater systems;
- Ocean acidification and warming that will inhibit the growth of protective coral reefs.

We must implement mitigative and adaptive measures to ensure the resilience of our natural and human systems.

Investing in nature and natural infrastructure is proving to be an effective response to climate change. For example, two recent studies by The Nature Conservancy and partners found that **natural climate solutions (i.e., conservation, restoration, and improved land management on natural and agricultural lands) can provide carbon storage and avoid greenhouse gas emissions equivalent to 21% of current U.S. annual emissions and 37% of cost-effective mitigation needed through 2030 toward holding global warming below 2°C.**^{1, 2} And, a team from The Nature Conservancy, University of California at Santa Cruz, Stanford University, and the US Geological Survey has developed biophysical models showing that **healthy coral reefs can absorb up to 97% of wave energy**, protecting coastal properties from the power of the sea. Conversely, the loss of just one meter of reef could result in a doubling of the cost of damage.³

Thank you for the opportunity to testify in support of this measure.

¹ Fargione, Joseph E., Steven Basset, et al. "Natural Climate Solutions for the United States.", *Science Advances* 2018, **4**: eaat1869, November 14, 2018. <http://advances.sciencemag.org/content/4/11/eaat1869>

² Griscom, Bronson W., Justin Adams, et al. "Natural Climate Solutions." *Proceedings of the National Academy of Sciences*. October 31, 2017 114 (44) 11645-11650. www.pnas.org/content/114/44/11645

³ Ferrario, Filippo, Michael W. Beck, et al. "The effectiveness of coral reefs for coastal hazard risk reduction and adaptation." *Nature Communications* volume5, Article number: 3794 (2014). www.nature.com/articles/ncomms4794



Environmental Caucus

The Democratic Party of Hawai'i

SENATE COMMITTEES ON WAYS & MEANS AND JUDICIARY

February 26, 2019 10:00 a.m. Room 211

SUPPORT THE INTENT of SB1463 SD1: Relating to Taxation

Aloha Chairs Dela Cruz and Rhoads, Vice Chairs Keith-Agaran and Wakai, and Committee Members,

On behalf of the Environmental Caucus of the Democratic Party of Hawai'i (ECDPH), we **support the intent of SB1463 SD1**, relating to taxation, and offer amendments.

Climate change and efforts to mitigate its effects is the single most pressing issue of our time. The ECDPH has listed a carbon "tax", in the form of a carbon fee and dividend, as one of our top legislative priorities this session. SB1463 SD1 amends section 243-3.5, HRS--which now imposes the barrel tax--to a carbon emissions tax calibrated to \$6.25/ton of CO₂. While we appreciate the intent of this bill and the Legislature's commitment to implementing a carbon pricing system in Hawai'i, **we suggest three critical amendments:**

- 1) Drastically increase the price per ton of CO₂ levy it for all fossil fuels uniformly as a CO₂ equivalent, we suggest no less than \$25/ton CO₂ equivalent
- 2) Continue to increase the price per CO₂ equivalent annually to meet our State's net zero emission goals by 2045
- 3) Provide a dividend to consumers on a per capita basis such that low to moderate income residents are not disproportionately impacted when costs are passed on to the consumer

There is no question that we must address climate change posthaste. With the recent Intergovernmental Panel on Climate Change (IPCC) special report (2018) there is clear consensus among scientists globally that we must limit global warming to 1.5 degrees Celsius to avoid catastrophic and irreversible effects that would impact all of humankind.



Environmental Caucus

The Democratic Party of Hawai'i

To reach this goal, we must cut global anthropogenic carbon emissions in half by 2030 and reach net zero emissions by mid-century. It is evident that “rapid and far-reaching transitions in energy, land, urban and infrastructure, and industrial systems (IPCC SR 2018)” are necessary. **Both the IPCC and the Hawai'i Climate Change Commission support carbon pricing as the most effective action to reduce emissions.**

Considering that carbon pricing is one of the most studied carbon mitigation policies, there is ample data to support implementing a carbon tax/fee and dividend this year.

Mahalo for the opportunity to testify **supporting the intent of SB1463 SD1** and your attention to our suggested amendments.

Kimiko LaHaela Walter

Interim Chair, Energy and Climate Change Subject Committee, Environmental Caucus of the Democratic Party of Hawai'i

State Central Committee Representative, Environmental Caucus of the Democratic Party of Hawai'i



SIERRA CLUB OF HAWAI'I

MĀLAMA I KA HONUA. *Cherish the Earth.*

SENATE COMMITTEE ON WAYS AND MEANS

SENATE COMMITTEE ON JUDICIARY

February 26, 2019 10:00 AM Room 211

COMMENTS ON SB 1463 SD 1: Relating to Taxation

Aloha Chair Dela Cruz, Chair Rhoads, and members of the committees,

On behalf of our 20,000 members and supporters, the Sierra Club of Hawai'i **provides comments on SB 1463 SD 1**. This bill replaces the environmental response, energy, and food security tax with a carbon emissions tax and repeals state fuel taxes under the fuel tax law.

In their most recent report, the Intergovernmental Panel on Climate Change outlines the catastrophic effects climate change will have on our planet if we do not quickly ramp-down greenhouse gas emissions 45% by 2030 and zero by 2050. The Panel reported that carbon pricing mechanisms are critical to reach these goals, but did not specify a one-size-fits-all policy and instead outlined a range of prices that could be implemented.¹

The World Bank and International Monetary Fund has also urged countries to impose a price on carbon emissions, stating that there is an “obvious consensus that putting a price on carbon pollution is by far the most powerful and efficient way to reduce emissions.”² Likewise, our state’s Climate Change Mitigation and Adaptation Commission (The Commission) stated that putting a price on carbon is the most effective single action that will achieve Hawai'i’s ambitions and necessary reduction goals, but noted that a carbon pricing mechanism must be equitable and appropriate for Hawai'i, must demonstrate how this is a critical policy tool to protect our future, and must be adequate to change behavior.³

The Sierra Club's view on carbon pricing is that effectiveness and equity are essential, design and implementation details matter a lot, and there are many different carbon pricing policy options that can potentially work. We feel the urgency of climate change, but must ensure that whatever carbon tax is implemented it will be the right fit for Hawai'i. Any proposal must

¹ <https://www.bloomberg.com/news/articles/2018-10-10/how-much-does-carbon-need-to-cost-somewhere-from-20-to-27-000>

² <https://www.nytimes.com/2016/04/24/us/politics/carbon-pricing-becomes-a-cause-for-the-world-bank-and-imf.html>

³

<http://governor.hawaii.gov/newsroom/latest-news/dlnr-news-release-state-climate-commission-encourage-s-urgent-actions-to-combat-emissions/>

integrate environmental and economic justice principles while achieving measurable carbon emissions reductions.

Ideally, revenues obtained from carbon pricing programs should be used to: (1) expand clean energy and energy efficiency to further reduce carbon emissions, and to invest in climate adaptation; (2) finance targeted investments in frontline communities affected by conventional air pollution from polluting sources; (3) provide financial assistance to workers affected by the transition away from fossil fuels, and for new economy job training and clean energy investments in frontline communities; and (4) offset the regressive effects of increased taxes in low-income households.⁴

While we appreciate the introduction of SB 1463 to advance the conversation around carbon pricing, we would prefer the legislature first analyze the feasibility and impacts of implementing a carbon tax. We are therefore supporting HB 1584, a bill to fund a carbon-tax study by the University of Hawai'i. The study will be completed by October 31, 2020 and will provide strong policy guidance for which type of carbon pricing mechanism Hawai'i should pursue.

Thank you very much for this opportunity to provide testimony.

Mahalo,

A handwritten signature in cursive script that reads "Jodi Malinoski".

Jodi Malinoski, Policy Advocate

⁴ <https://www.sierraclub.org/sites/www.sierraclub.org/files/CarbonPricingGuidance.pdf>



Honolulu County Republican Party

725 Kapiolani Blvd. Ste C105

Honolulu, HI 96813

To: **COMMITTEE ON JUDICIARY**
Senator Karl Rhoads, Chair
Senator Glenn Wakai, Vice Chair

COMMITTEE ON WAYS AND MEANS
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

Date: Tuesday, February 26, 2019

Time: 10:00am

Place: Conference Room 211
State Capitol, 415 South Beretania Street

Re: **S.B. 1463 SD1 RELATING TO TAXATION**

The Honolulu County Republican Party **OPPOSES** any form of a carbon tax.

A carbon tax may be crafted to be government revenue neutral, but it will not be crafted to be household revenue neutral. The intent and impact of a carbon tax is to raise the price of coal, natural gas, and gasoline to the point that they are more expensive than high-priced wind power, solar power, and electric vehicles powered by wind and solar.

When this happens, Hawaii taxpayers will be purchasing wind and solar power that is much more expensive than what they presently pay for coal, natural gas, and gasoline. Hawaii taxpayers will therefore be forced to spend substantially more money on energy and energy-related bills.

Yet the wind and solar industries will pay no carbon taxes, meaning a 'successful' carbon tax that dramatically reduces carbon emissions will collect little tax revenue and thereafter return little money to the people. This would be 'revenue neutral' for government, but households will see dramatic declines in discretionary income as a result of their uncompensated higher energy bills.

While we support the elimination of taxes on energy (i.e. gasoline) and food. Substituting one tax for another is deceitful. This is nothing more than a bait and switch.

Respectfully,

Brett Kulbis
Chairman
Honolulu County Republican Party

SENATE COMMITTEES ON WAYS & MEANS AND JUDICIARY

February 26, 2019, 10:00 a.m., Room 211

STRONGLY SUPPORT WITH COMMENTS THE INTENT OF SB1463 SD1: Relating to Taxation

Aloha Chairs Dela Cruz and Rhoads, Vice Chairs Keith-Agaran and Wakai, and Committee Members:

THE HAWAII REEF AND OCEAN COALITION –HIROC– was formed in 2017 by coral reef scientists, educators, local Hawai'i environmental organizations, elected officials, and others to address a crisis facing Hawai'i's coral reefs and ocean, including those related to global warming.

SB1463 SD1 amends section 243-3.5, HRS--which now imposes the barrel tax--to a carbon emissions tax calibrated to \$6.25/ton of CO₂. **While we appreciate the intent of this bill and the Legislature's commitment to implementing a carbon pricing system in Hawai'i, we suggest three critical amendments:**

- 1) Drastically increase the price per ton of CO₂ levy it for all fossil fuels uniformly as a CO₂ equivalent, we suggest no less than \$25/ton CO₂ equivalent
- 2) Continue to increase the price per CO₂ equivalent annually to meet our State's net zero emission goals by 2045
- 3) Provide a dividend to consumers on a per capita basis such that low to moderate income residents are not disproportionately impacted when costs are passed on to the consumer

The carbon price should be adjusted based on new information moving forward. Starting now will benefit by beginning the process of reducing carbon pollution more effectively in Hawaii.

Mahalo for the opportunity to testify **supporting the intent of SB1463 SD1 and your attention to our suggested amendments.**

Lisa Bishop on behalf of the Hawaii Reef and Ocean Coalition

**TESTIMONY BEFORE THE JOINT SENATE COMMITTEES ON
WAYS AND MEANS
&
JUDICIARY**

**S.B. 1463, SD1
Relating to Taxation**

Tuesday, February 26, 2019
10:00 AM., Agenda Item #1
Conference Room 211

By Scott Seu
Senior Vice President, Public Affairs
Hawaiian Electric Company, Inc.

Chair Dela Cruz and Chair Rhoads, Vice Chair Agaran and Vice Chair Wakai, and
Members of the Committees,

My name is Scott Seu and I am testifying on behalf of Hawaiian Electric
Company and its subsidiaries, Hawaii Electric Light Company and Maui Electric
Company (collectively, the “Hawaiian Electric Companies”) with comments regarding
SB 1463, SD1, Relating to Taxation.

SB 1463, SD1 proposes to replace the environmental response, energy, and
food security tax with a carbon emissions tax and repeal state fuel taxes under the fuel
tax law. This bill is intended to be revenue neutral with the existing fuel taxes; however,
our high-level estimate is that it would add over \$19 million in costs each year to our
customers across the islands. We are sensitive to any increased costs for our
customers and the impact it may have on the community and businesses. Any tax
should be backed by sound policy, consider social equity, and not unfairly burden our
customers or create an uneven playing field for the company, especially as we are

already firmly committed to transitioning our piece of the State's energy system off of fossil fuels.

Any consideration of a carbon tax needs to be done thoughtfully and with full view into how such a tax would achieve desired results without unintended negative consequences, especially with respect to low to moderate income customers. These are the people who are least likely to have solar systems on their roofs or electric vehicles in their garages, meaning they would be hit the hardest with a carbon tax. Conversely, those customers who can afford these alternative energy options would likely pay the least amount of carbon tax.

As an alternative to this measure, the Committees may want to consider the recommendation in the February 8, 2018 published Report of the 2015-2017 Tax Review Commission which said, “[t]he Legislature should commission an in-depth study on instituting a carbon tax for the State of Hawaii . . . with an organization that is experienced in the areas of energy and the environment, or with such an organization that can *independently*” conduct the study. See Report of the 2015-2017 Tax Review Commission, Published February 8, 2018. *Emphasis added.*

Thank you for the opportunity to testify on S.B. 1463, SD1.

SB-1463-SD-1

Submitted on: 2/24/2019 6:45:21 PM

Testimony for WAM on 2/26/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
SUSAN P HUGHES	Individual	Oppose	No

Comments:

SB-1463-SD-1

Submitted on: 2/25/2019 7:26:51 AM

Testimony for WAM on 2/26/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Kai Lorinc	Individual	Oppose	No

Comments:

SB-1463-SD-1

Submitted on: 2/25/2019 7:27:22 AM

Testimony for WAM on 2/26/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Tracey Clay-Whitehurst	Individual	Oppose	No

Comments:

SB-1463-SD-1

Submitted on: 2/25/2019 7:37:07 AM

Testimony for WAM on 2/26/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Quentin Whitehurst	Individual	Oppose	No

Comments:

SB-1463-SD-1

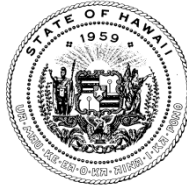
Submitted on: 2/25/2019 9:07:39 AM

Testimony for WAM on 2/26/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Dr Marion Ceruti	Individual	Oppose	No

Comments:

Humans do not cause climate change and there is NO scientific proof. Ice-age cycles determine climate changes. Increased CO2 is caused by warmer oceans, not vice versa. Forget about taxing everything in sight. Many people are leaving Hawai'i because of the cost of living, increased taxes and regulations. Vote NO on SB 1463.



TESTIMONY BY:

JADE T. BUTAY
DIRECTOR

Deputy Directors
LYNN A.S. ARAKI-REGAN
DEREK J. CHOW
ROSS M. HIGASHI
EDWIN H. SNIFFEN

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

Wednesday, February 26, 2019
10:00 A.M.
State Capitol, Room 211

**S.B. 1463, S.D. 1
RELATING TO TAXATION.**

Senate Committee(s) of Agriculture and Environment,
& Energy, Economic Development and Tourism

The Department of Transportation (DOT) offers **concerns** with this bill.

This bill proposes a carbon emissions tax of \$6.25 per ton of carbon dioxide equivalent emissions on all fossil fuels sold by a distributor to any retailer. SECTION 1 suggests in moving to this alternative method, when considering all forms of fossil fuels, this equates to a 5.56 cents per gallon tax for gasoline as compared to the current 16-cents per gallon State fuel tax. County fuel taxes will remain unaffected.

While we understand that the intent of this bill supports the State's clean energy policy and goals, it is unclear to DOT how much revenue will be generated from each of the various liquid and other fossil fuel sources listed under §243-3.5; how this will be distributed; and it is unclear that the overall amount deposited into the State Highways Special fund will remain revenue neutral from the current 16-cents per gallon amount. The 16-cents per gallon State fuel tax is our largest revenue component, and in State fiscal year 2018, this generated over \$83.2 million in highway revenues.

We are also concerned that this proposed tax method introduces new uncertainties and risks to revenue projection. The majority of risk factors related to existing Highway revenues are tied to land transportation factors (vehicle fuel efficiency, weight and registration), and a portion associated to tourism (rental vehicle surcharge). The expanded fossil fuel sources in this bill appear to increase uncertainties and risks related to tourism and other sectors.

Additionally, the current State fuel tax is identified as a pledged revenue source for Highways Revenue Bond debt service. This proposed tax change appears to dilute the pledged revenues to Highways and reduce the pledged state fuel tax from 16 cents down to 5.56 cents per gallon. This bill is unclear on what portion of revenues from other fossil fuel sources will be pledged to Highways. If only the 5.56 cents per gallon

fuel tax is received by Highways, this will result in an approximate revenue loss of \$54 million.

This will have negative implications to pledged revenues and affects our past disclosures in our Official Statements for our past Highway Revenue Bond sales. Highways has a current balance of nearly \$379.5 million outstanding revenue bonds that would be affected. This will have to be disclosed to bondholders and may negatively affect our bond rating. Other agencies and organizations utilizing revenue bonds may similarly be affected.

The HDOT is legally obligated to pay for Revenue Bond debt service first, remaining funds would then be used for pay for costs to operate and maintain the highway system. A \$54 million revenue reduction will have a serious negative impact to Highways and hamper our ability to provide a safe, maintained, efficient and accessible roadway system to the people of Hawaii.

If the proposed carbon tax is implemented utilizing all fossil fuel sources listed in §243-3.5, then HRS §248-8 need to be revised to clarify how such revenues will be distributed between the state highway fund, airport revenue fund and the boating special fund.

We highly recommend that the following items be considered:

- Clarify how revenues from the 28 various fossil fuel types will be distributed among the affected State agencies,
- Determine how HRS §248-8 would be revised to more clearly reflect the above revenue distribution, and
- Supporting calculations be provided to aid affected agencies in understanding the anticipated revenue generation and collections from the various sources.

We respectfully request that if this form of tax is established, that the Highway's share of revenues from this bill remain equivalent to what is currently collected with the 16-cent per gallon state fuel tax and that this bill does not adversely impact the State Highway Special Fund.

Thank you for the opportunity to provide testimony.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

LATE

Written Testimony Presented Before the
Senate Committees on Ways and Means and Judiciary
Tuesday, February 26, 2019 at 10:00 a.m.

By

Charles (Chip) Fletcher

Professor and Associate Dean

Vice-Chair, Honolulu Climate Change Commission

Richard Rocheleau

Director, Hawai'i Natural Energy Institute

School of Ocean and Earth Science and Technology

Makena Coffman

Director, Institute for Sustainability and Resilience

Chair, Honolulu Climate Change Commission

And

Michael Bruno, PhD

Vice Chancellor for Research

University of Hawai'i at Mānoa Name, VP/Chancellor

University of Hawai'i System/Campus

SB 1463 SD1 – RELATING TO TAXATION

Chairs Dela Cruz and Rhoads, Vice Chairs Keith-Agaran and Wakai, and members of the committees:

The University of Hawai'i offers the following comments with amendments on SB 1463 SD1.

Economists around the world have definitively established that applying a carbon price - the amount that must be paid for the right to emit one ton of CO₂ (equivalent) into the atmosphere - is the most effective way to reduce greenhouse gas pollution and a critical component to any suite of climate change mitigation policies.

We have known since the 19th Century that burning fossil fuels increases the amount of heat-trapping carbon dioxide and other greenhouse gases. In the 1940's and 50's, the work of Guy Stewart Callendar revealed that indeed the atmosphere was getting warmer. Now we have accumulated so much scientific evidence of the damaging effects of these emissions that much of humanity is mobilizing to take meaningful action. Hawai'i has become a leader in this movement and we must maintain our leadership to help ourselves.

However, despite this growing awareness, the world remains on an emissions pathway leading to 1.5C warming by 2030, and 2C by 2045. Over the next 2 decades, global growth in the demand for new energy is likely to be met by a combination of renewable energy and fossil fuels. Although renewable energy is being deployed at an explosive pace, it currently constitutes only 4% of the global energy mix. Under the U.S. Energy Information Administration base-line scenario, it does not rise to more than 25% by 2040. In this scenario, energy-related fossil fuel emissions rise 16% by 2040. This continued rise in greenhouse gas emissions puts us on a pathway to 3-4C warming by the end of the century. This is a devastating prospect.

Heat stress, severe impacts to the natural world, a broken ocean, failure of food systems, drought, water scarcity, out-of-control sea level rise, and large populations of migrant humans all become prevalent characteristics of life on Earth.

The recent IPCC Special Report “Global Warming of 1.5°C” states that, “Explicit carbon prices remain a necessary condition of ambitious climate policies” (Chapter 4). The State of Hawai‘i Legislature last year passed a law aiming to achieve carbon neutrality by 2045. Putting a price on carbon is essential to achieving this goal.

The important key feature of Senate Bill 1463 is the establishment of an economy-wide tax on carbon. While we appreciate the notion of it being “revenue neutral,” our suggestion is that this should not be implemented via a reduction in fuel taxes. The proposed carbon tax is not sufficiently high to merit substitution with other fossil fuel taxes, as it would serve to actually lower motor fuel prices. This would be counter to the goal of reducing fossil fuel usage.

We urge the committee to revise the bill. We suggest:

- 1) Keeping the element that replaces the Environmental Response, Energy and Food Security Tax with a Carbon Emissions Tax levied on all fossil fuels.
- 2) Adding a mechanism to increase the level of the tax on an annual or bi-annual basis (by approximately \$10/MTCO₂eq), continuing until carbon emissions reduction goals are achieved. This should incorporate an adequate assessment mechanism; for example, an evaluation completed after two years of implementation that also assesses future rates.
- 3) Omitting the substitution with other fuel taxes.
- 4) Achieve revenue neutrality (adjusting for current uses of the Environmental Response, Energy and Food Security Tax that provide critical expertise on technology deployment) through a dividend mechanism to Hawaii's households or through lowering the income tax burden to low-income households.

Thank you for the opportunity to testify.

LATE



ELEMENTAL
EXCELERATOR

**Written Statement of Elemental Excelerator
before the Senate Committees on Ways and Means and Judiciary
Tuesday, February 26, 2019**

**In consideration of SB 1463 SD 1
RELATING TO TAXATION**

Aloha Chair Dela Cruz, Chair Rhoads, and Members of the Senate Committees on Ways and Means and Judiciary:

Elemental Excelerator respectfully **submits comments in support of the intent of SB 1463 SD 1**, which:

1. Replaces the environmental response, energy, and food security tax with a carbon emissions tax.
2. Repeals state fuel taxes under the fuel tax law.

Elemental Excelerator is a Honolulu-based growth accelerator program founded and operating in Hawai'i. We have awarded over \$30 million to 82 companies resulting in 56 demonstration projects in Hawai'i & Asia Pacific. Each year, we evaluate over 500 companies and look for innovative entrepreneurs from around the world to come to Hawai'i and find transformative solutions to help us achieve our 100% clean energy goals and solve our most pressing environmental problems. We select 15-20 companies annually that best fit our mission and fund each company up to \$1 million.

In April 2018, Elemental Excelerator commissioned a study entitled *Transcending Oil: Hawai'i's Path to a Clean Energy Economy*. The study found that in Hawai'i, transitioning to renewable energy is cheaper than sticking with oil. The faster we go, the cheaper it will be. As a policy recommendation, the study identified pricing carbon to realign incentives to reach Hawai'i's clean energy goals.

The *Report of the 2015 – 2017 Tax Review Commission* section 5.3.1 also discussed a carbon tax and directed the Legislature to commission an in-depth study on instituting a carbon tax for the State of Hawai'i.¹

We support the intent of SB 1463 because a carbon tax could generate revenue that stays in our state. That funding stream can serve a variety of purposes such as dividend payments to local residents, clean energy development, and other projects that combat the harmful impacts of climate change. It could also be revenue neutral and replace an existing tax.

Transcending Oil states that, "a reasonably high carbon price functions similarly to high oil prices and would encourage faster renewable energy deployment in the electric power sector. An appropriate tax rate could also reduce VMT [vehicle miles traveled] -and speed up sales of

¹ State of Hawai'i Report of the 2015-2017 Tax Review Commission

*EVs [electric vehicles] if coupled with other land use and transportation policies. Unlike renewable deployment growth driven by oil prices, which transfers money from Hawai'i ratepayers to non-Hawaii oil producers, a carbon tax generates revenue that stays in Hawai'i. These funds can be used to further accelerate clean energy deployment through biofuel development, EV incentives, and other activities to help meet Hawaii's Paris commitments. They can also be returned directly to the people of Hawaii to help offset the state's high living costs or to fund education and transition assistance for displaced workers."*²

We respectfully submit the following comments for SB 1463 SD 1:

1. A carbon tax should support and not adversely impact low-to-moderate income communities. According to a Congressional Budget Office Report, *"A policy that set a price of \$28 per metric ton on CO2 [carbon dioxide] emissions would increase costs for households by amounts that would equal about 2.5 percent of after-tax income for the average household in the lowest one-fifth (quintile) of the income distribution but less than 1 percent of after-tax income for the average household in the highest quintile."*³
2. With 48% of households in Hawai'i considered "Asset Limited, Income Constrained, and Employed,"⁴ a carbon tax that benefits low-to-moderate income communities can both support our 2045 clean energy goals and address our State's high cost of living.

Mahalo for the opportunity to testify on this legislation.

Sincerely,

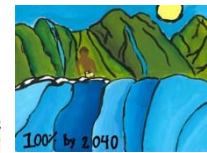


Aki Marceau
Managing Director, Policy & Community-Hawai'i

² Larsen, J., Mohan, S., Herndon, W., Marsters, P., & Pitt, H. (2018, May 01). Transcending Oil: Hawaii's Path to a Clean Energy Economy, p.38, Retrieved from <https://rhq.com/research/transcending-oil-hawaii-path-to-a-clean-energy-economy/>

³ Congressional Budget Office, Effects of a Carbon Tax on the Economy and the Environment, p.12., Retrieved from www.cbo.gov/publication/41194.

⁴ ALICE: A Study of Financial Hardship in Hawai'i. (2017). Retrieved from <https://www.auw.org/alice>



LATE

**SENATE COMMITTEE ON WAYS AND MEANS
SENATE COMMITTEE ON JUDICIARY**

February 26, 2019, 10:00 A.M.

Room 211

(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF SB 1463 SD1

Aloha Chair Dela Cruz, Chair Rhoads, and members of the Committees:

Blue Planet Foundation **supports** SB 1463 SD1, a measure that replaces the environmental response, energy, and food security tax with a carbon emission tax.

Climate change will have devastating, long-term consequences on Hawaii's environment, economy, and quality of life. For these reasons and others, the State of Hawaii has committed to a decisive and irreversible transition away from fossil fuels, and a swift transition to a clean energy economy powered by 100% renewable energy. The legislature has passed aggressive carbon reduction goals, including the goal to be net carbon neutral by 2045 (Act 15 of 2018) and

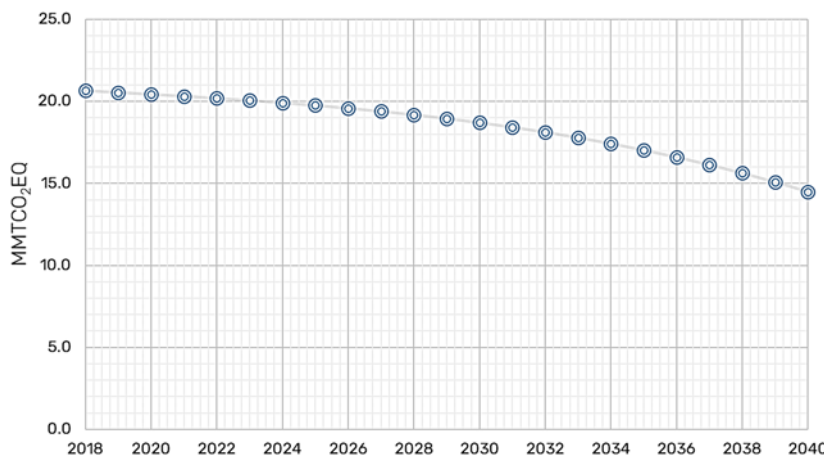


Figure 1. Best-case Hawaii greenhouse gas emissions trend with current state policies

strive to achieve the objectives of the Paris Climate Agreement (Act 32 of 2017). Setting these bold targets is important, but alone it is insufficient. Despite a growing portfolio of standards, incentives, and targets, Hawaii's current policies will not succeed in significantly reducing Hawaii's current overall carbon emissions over the next few decades.

Pricing carbon emissions via a tax on fossil fuels has emerged as a broadly supported, economically efficient, and effective policy tool to reduce climate-changing carbon emissions. Economists and leaders from across the political spectrum—including Nobel-prize winning economists, four former chairs of the U.S. Federal Reserve, and 15 former chairs of the U.S. Council of Economic Advisers—have endorsed a carbon tax as a necessary market-based solution to our climate challenge.

Currently, the prices of electricity, gasoline, and other fuels reflect little or none of the long-term costs from climate change or even the near-term health costs of burning fossil fuels. This immense “market failure” suppresses incentives to develop and deploy carbon-reducing measures such as energy efficiency, renewable energy, low-carbon fuels, and conservation-based behavior such as bicycling, recycling, and overall mindfulness toward energy consumption. Taxing fuels according to their carbon content will infuse these incentives at every link in the chain of decision and action—from individuals’ choices and uses of vehicles, appliances, and housing, to businesses’ choices of product design, capital investment, and facilities.

A carbon tax—if not designed correctly—could disproportionately impact low- to moderate-income residents. Most low- to moderate-income households spend a larger percentage of their income on gasoline, other fuels, and electricity than do higher-income households. For example, in 2014, the wealthiest 20% of U.S. households spent just 2.7% of their after-tax income on gasoline; the percentage for the lowest quintile, 10.8%, was four times as high. When viewed in absolute dollar terms, however, the bulk of carbon taxes will be paid, directly or indirectly, by households and visitors of above-average means. Researchers at the University of Hawaii at Manoa have found that the carbon intensity of visitor activities is much higher than those of residents. Regardless, a variety of mechanisms exist to reduce the regressive nature of a carbon tax, including increasing the state-level match of the Earned Income Tax Credit and making the match refundable, reducing existing taxes—particularly those that are disproportionately paid by lower income residents (such as the General Excise Tax on food and medicine), or providing a direct dividend to residents. These are critical issues that warrant thorough examination.

Blue Planet Foundation supports SB 1463 SD1 to replace the environmental response, energy, and food security tax with a carbon emission tax. To better understand if and how pricing carbon can accelerate Hawaii's cost-effective transformation to a 100% clean energy future, **Blue Planet Foundation is supportive of a study—similar to that proposed in HB 1584—to help policymakers further examine the opportunities, impacts, and options that such a policy could offer, while ensuring that the transition is fair, equitable, and beneficial for all.**

Thank you for the opportunity to testify.



**Testimony to the Senate Committees on Judiciary and Ways and Means
Tuesday, February 26, 2019 at 10:00 A.M.
Conference Room 211, State Capitol**

RE: SB 1463 SD1, Relating to Taxation

Chairs Rhoads and Dela Cruz, Vice Chairs Wakai and Keith-Agaran and Members of the Committees:

The Chamber of Commerce Hawaii ("The Chamber") **has concerns with the intent of SB 1463 SD1**, which would replace the environmental response, energy, and food security tax with a carbon emissions tax on the sale of all fuels with carbon content.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

We support the benefits of clean energy and having a sustainable future; however, we see potential unintended consequences that could occur if such a carbon tax was not fairly distributed to address the largest to smallest greenhouse gas contributors. Additionally, we must be careful that any changes to how we tax such organizations does not negatively affect consumers or our small businesses. Our small businesses already must deal with many challenges related to the cost of doing business in Hawaii, and we need to ensure we are doing all we can to help them, rather than harm them with increased expenses. The Chamber believes that we should study the impact that such a change to the carbon tax could have before implementation.

Thank you for the opportunity to testify.

SB-1463-SD-1

Submitted on: 2/25/2019 1:53:04 PM

Testimony for WAM on 2/26/2019 10:00:00 AM



Submitted By	Organization	Testifier Position	Present at Hearing
Stefani jeremiah	Individual	Oppose	No

Comments: