DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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To: The Honorable Sylvia Luke, Chair;
The Honorable Kyle T. Yamashita, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: Friday, February 25, 2022
Time: 1:30 P.M.
Place: Via Video Conference, State Capitol

Re: H.B. 2278, H.D. 1, Relating to Energy

The Department of Taxation (Department) offers the following comments on H.B. 2278, H.D. 1, for the committee's consideration.

H.B. 2278, H.D. 1, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a new refundable tax credit to mitigate the effect of a carbon emissions tax. The amounts of the credit are as follows:

Tax Year(s)	Single or Married filing Separately	Head of Household filers	Joint return or surviving spouse filers
2023	$65	$130	$30
2024	$210	$420	$100
2025	$360	$720	$180
2026	$380	$760	$190
2027	$420	$850	$201
2028-2031	$440	$880	$220
2032	$450	$900	$220
2033	$460	$920	$230
2034	$470	$940	$230
2035 and on	$480	$960	$240

A tax credit of an unspecified amount is also available per "qualifying child," defined as a minor who resides with the qualified taxpayer and is claimed by the qualified taxpayer as a dependent.

The measure also amends the environmental response, energy, and food security tax in section 243-3.5, HRS, expanding it into a broader tax on carbon emissions. The measure would raise the tax from a flat rate of $1.05 on each barrel or fractional part of a barrel of petroleum product (except for aviation fuel) and create a tax matrix with different rates on nine categories of petroleum products, including two categories of aviation fuel ("aviation gas" and "jet fuel") and a catch-all for "other" types of fuel. The new rates would take effect on January 1, 2023, and increase annually until 2035. The measure would also raise the tax on each one million British thermal units (BTUs) of fossil fuel sold by a distributor from 19 cents to higher distinct rates for coal and natural gas, also starting on January 1, 2023, and increasing annually until 2035.

H.B. 2278, H.D. 1, would also change revenue allocation from a percentage of the tax on each barrel or million BTUs to a set specific dollar amount, deposited into the environmental response revolving fund, the energy security special fund, the energy systems development special fund, and the electric vehicle charging station subaccount, with the remaining revenues deposited into the general fund. However, all taxes on aviation fuel and all taxes on fuel used in or for small boats would be deposited into the airport revenue fund and boating special fund, respectively. The tax on BTUs would not apply to coal used to fulfill power purchase agreements (PPAs) that were in effect as of June 2015, but this exemption would not apply to the extension of any existing or subsequent PPAs.

The measure has a defective effective date of July 1, 2100, with the new tax credit in Section 2 applying to taxable years beginning after December 31, 2022

The Department appreciates the Committee on Energy & Environmental Protection's inclusion of its suggested amendment to the definition of "qualified child" and the removal of the state residency requirement in the definition of "qualified taxpayer." This will help ensure appropriate eligibility for the credit and minimize the risk that this credit will be found unconstitutional.

The Department notes that the proposed tax credit in Section 2 is refundable. As a general matter, the Department prefers nonrefundable credits because refundable credits create a higher potential for improper claims and abuse. The Department therefore recommends that this credit be made non-refundable.

Finally, the Department notes that it is able to administer the new tax credit for taxable years beginning after December 31, 2022, as currently written. However, if a functional effective date is to be inserted, the Department requests that the new carbon emissions tax and changes to the environmental response, energy, and food security tax in Section 5 be made effective on January 1, 2023. This will provide time for the Department to make the necessary administrative and computer changes. This measure will also require taxpayer education as it represents a significant change to this tax

Thank you for the opportunity to provide testimony on this measure.

DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAI'I
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAI'I 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2278, H.D. 1

February 25, 2022
1:30 p.m.
Room 308 and Videoconference

RELATING TO ENERGY

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 2278, H.D. 1, establishes a carbon cashback program by: amending Section 243-3.5, HRS, to increase the taxes imposed on petroleum and fossil fuels and change existing allocations to various special and revolving funds from set proportional amounts to flat annual amounts; adding a new section to Chapter 235, HRS, that establishes a refundable tax credit for all qualified taxpayers in the State; and making conforming amendments to Sections 128D-2 and 201-12.8, HRS.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawaiʻi complies with this ARP restriction.

Thank you for your consideration of our comments.

HAWAII STATE ENERGY OFFICE
STATE OF HAWAII

DAVID Y. IGE
GOVERNOR

SCOTT J. GLENN
CHIEF ENERGY OFFICER

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Testimony of
SCOTT J. GLENN, Chief Energy Officer

before the
HOUSE COMMITTEE ON FINANCE

Friday, February 25, 2022
1:30 PM
State Capitol, Conference Room 308

COMMENTS
HB 2278 HD1
RELATING TO ENERGY.

Chair Luke, Vice Chair Yamashita, and Members of the Committee, the Hawaiʻi State Energy Office (HSEO) provides comments on HB 2278, HD1, which establishes a refundable income tax credit to mitigate the effect of a carbon emissions tax on taxpayers and amends the environmental response, energy, and food security tax to address carbon emissions.

HSEO's testimony is guided by its mission to promote energy efficiency, renewable energy, and clean transportation to help achieve a resilient, clean energy, decarbonized economy, and by the Chief Energy Officers' mandate in HRS196-72(d)(1) to "Formulate, analyze, recommend, and implement specific policies, strategies, and plans, in coordination with public and private sector stakeholders, to cost-effectively and equitably achieve the State's energy goals."

HSEO supports the intent of the bill to establish a fee that is based on carbon emissions, and notes that, in addition to the numerous citations provided in the preamble of the bill, it has also been the position of the Hawaii Climate Change Mitigation and Adaption Commission that putting a price on carbon is the most effective single action that will achieve Hawaii's ambitious and necessary carbon emission reduction goals.

For Hawaii to meet its target to sequester more greenhouse gases than the state emits as soon as practicable but no later than 2045, it is imperative that measures such as a carbon tax, with mechanisms to balance and support the variety of economic, social, and environmental challenges faced by our state, be considered.

Pursuant to Act 122 (2019), HSEO initiated a carbon pricing study, the results of which indicated a carbon cashback program, such as the refundable tax credit proposed by HB 2278, HD1, would support environmental, economic, and social justice objectives. HSEO notes the study concludes the carbon tax would substantially reduce the consumption of fossil fuels and that distributing most of the tax revenues to Hawaii’s households in the low tax scenario would create a net financial benefit to most of Hawaii’s households, with the largest net financial benefit to low-income households.

HSEO appreciates the benefits of the recommended refundable tax credit as an effective means of mitigating the impact of potential increased energy costs, especially for low to moderate income households.

HSEO looks forward to working with the Legislature, agencies, and stakeholders to support the State’s decarbonization goals, and defers to the appropriate agencies for comment on tax administration.

Thank you for the opportunity to testify.

HB-2278-HD-1
Submitted on: 2/23/2022 3:25:56 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Ron Reilly	Citizens' Climate Lobby - Hawaii Island Chapter	Support	No

Comments:

Dear Chair Luke, Vice Chair Yamashita, and Members of the Committee on Finance,

Thank you for hold a hearing on this important bill; HB 2278.

Citizens' Climate Lobby – Hawaii Island Chapter, with over 300 members, supports HB 2278 which puts a price on Hawaii imports of fossil fuel and returns the revenue to Hawaii households.

HB2278 will reduce Hawaii's green house gas emissions, and reduce our dependence on the burning of fossil fuels, while protecting the most vulnerable and lower income households. This is the noble intent and goal of HB2278.

It is heartening to note the many individuals, organizations, and state agencies that have testified in earlier committee hearings to support, or support the intent, of HB 2278, including many who offered constructive comments and suggestions.

While HB2278 will likely raise the cost of living in the short term, this is exactly why this policy calls for all revenues to be returned to households so that they can afford these price increases. **Most importantly, the bill raises the price of fossil fuel so that households and businesses will be incentivized to consume less fossil fuel either through conservation, energy efficiency, or changing to non-fossil fuel technologies.**

Further, HB2278 does not grow government as collected revenues are returned to Hawaii's people.

Hawaii can again be a US leader, by passing HB2278 to correct the well documented market failure, by starting to price fossil fuels, with annual predictable increases, at their the true social cost and have these costs include the environmental damages resulting from the use of these products. Our atmosphere can no longer be an open sewer in which to dump our effluent. The Mauna Loa Atmospheric Observatory recently measured (January 2022) CO_2 concentrations at over 420 ppm the highest since MLO measurements began in 1957-58 when the readings for CO_2 were at around 315 ppm.

Per the IPCC, we have only this decade to take major corrective actions through carbon pricing, and other supportive measures, and the longer we wait the more difficult and dangerous our transition to a clean energy future will be.

Please pass HB2278 forward to the next legislative body.

Thank you for your consideration.

Respectfully submitted,

Ron Reilly
Co-Lead, Citizens' Climate Lobby – Hawaii Island Chapter

References:

Hawaii Tax Review Commission https://tax.hawaii.gov/stats/tax-review-commission/
Hawaii State Energy Office https://energy.hawaii.gov/carbon-pricing-study
Scripps Institution of Oceanography at UC San Diego https://keelingcurve.ucsd.edu/

Email: communications@ulupono.com

HOUSE COMMITTEE ON FINANCE
Friday, February 25, 2022 — 1:30 p.m.

Ulupono Initiative supports HB 2278 HD 1, Relating to Energy.

Dear Chair Luke and Members of the Committee:

My name is Micah Munekata, and I am the Director of Government Affairs at Ulupono Initiative. We are a Hawaiʻi-focused impact investment firm that strives to improve the quality of life throughout the islands by helping our communities become more resilient and self-sufficient through locally produced food; renewable energy and clean transportation; and better management of freshwater and waste.

Ulupono supports HB 2278 HD 1, which establishes a refundable income tax credit to mitigate the effects of a carbon emissions tax on taxpayers and amends the Environmental Response, Energy, and Food Security Tax to address carbon emissions.

To avoid the worst impacts of climate change, significant reductions in greenhouse gas emissions are necessary. A recent report from the Intergovernmental Panel on Climate Change (IPCC) finds that carbon dioxide (CO_2) emissions would need to fall by about 45 percent from 2010 levels by 2030 to limit warming to 1.5 degrees Celsius.[1] A carbon cashback program can be an effective tool to reduce greenhouse gas emissions while not financially burdening most households.

Research conducted by the Institute for Sustainability and Resilience, and the University of Hawaiʻi Economic Research Organization (UHERO), further supports the viability of this concept as an emissions reduction measure, estimating a 13 percent reduction in statewide emissions with the lower-priced pathway. They also noted that, unlike most taxes, it was possible to implement this program in a way that all households in Hawaiʻi, on average, would benefit economically. This is made possible by our visitors paying into the program, but only our residents can receive the cashback. Additionally, in December 2021, the Tax Review Commission, in its 2020-2022 report to the Legislature, also recommended Hawaiʻi employ a carbon cashback program to encourage clean energy development and improve most households' economic welfare in the process. With lower-income households expected to experience net economic benefits greater than those of higher-income

[1] Summary for Policymakers of IPCC Special Report on Global Warming of 1.5 degrees Celsius approved by governments, October 8, 2018.

999 Bishop Street, Suite 1202 | Honolulu, Hawaiʻi 96813 ☎ 808.544.8960 808.432.9695 | www.ulupono.com

households, this is a progressive measure that will disincentive the use of fossil fuels while simultaneously helping the households that need it the most.

While the research offers many insights and a better understanding of the potential impacts of such a program, unfortunately, to our knowledge, the data is unavailable to really understand the likely negative impacts to local industries (particularly non-service industries that compete against imports that are produced or manufactured without a carbon tax). Furthermore, assessing any proportional impact to neighbor island communities is also challenging. Though an improved understanding of these issues would be ideal, we still believe that the estimated benefits outweigh all likely negative impacts. Quite frankly, time is short and action across the globe is needed. If passed in this form, Ulupono believes this measure will provide many transformative environmental, economic and equity benefits.

However, Ulupono recommends the Legislature look to the recommendations proposed by the Tax Review Commission, specifically:

(1) Maintaining an 80/20 percent split between the tax revenues for households and the general fund. The committee should also adopt the recommendation to earmark the 20 percent for helping specific stakeholders address specific challenges of implementing this program. These funds could be used to mitigate the impacts to local industries, such as local farmers and other smaller businesses.
(2) Setting the price of the carbon tax equal to the current social cost of carbon, \$56/MT CO_2, with a gradual increase to \$79/MT CO_2.
(3) Include aviation fuel in this program, but create a sub-account in the airport revenue fund to invest in clean energy and transportation-related solutions.

Thank you for this opportunity to testify.

Respectfully,

Micah Munekata
Director of Government Affairs

HB-2278-HD-1

Submitted on: 2/23/2022 9:21:43 PM

Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Jaymen Laupola	Citizens' Climate Lobby Honolulu Chapter	Support	No

Comments:

Hawai'i has proven itself a leader in the efforts against climate change, having been the first in the nation to declare a climate emergency and the first to set a net zero carbon emissions goal by 2045. But in order to achieve these goals, a reduction of emissions across all sectors is necessary. A fee on carbon, levied on fossil fuel distributors, is a proven and powerful method in reducing emissions. The fee will have its costs passed through the economy and create motivation in the market and in consumers to use newly cheaper, clean-energy produced products and services. To assist households with this economic transition, the carbon cashback element of HB2278 is essential. Low and middle income households come out ahead and receive more than their costs increase when 80 to 100% of revenue is returned. UHERO released a study on a carbon fee in Hawai'i that supports this and HB2278 models the fee successful in their study. The fee acts also as a green fee of sorts – visitors to the state would pay the tax similar to the TAT. The policy strengthens other environmental policies aimed at reducing emissions and does not conflict with them, and also leaves money for its administration, costing the government nothing. Lastly, the Hawaii Tax Review Commission Study placed a carbon fee and dividend model first on their list of recommendations, noting that majority of the revenues be rebated as a cashback to residents.

For these reasons we strongly support HB2278. Thank you for your consideration.

HB 2278, HD 1, RELATING TO ENERGY

FEBRUARY 25, 2021 · HOUSE FINANCE COMMITTEE · CHAIR REP. SYLVIA LUKE

POSITION: Strong support with amendments.

RATIONALE: Imua Alliance **strongly supports and offers amendments** for HB 2278, HD 1, relating to energy, which establishes a refundable income tax credit to mitigate the effect of a carbon emissions tax on taxpayers and amends the environmental response, energy, and food security tax to address carbon emissions.

According to a report produced by the Hawai'i Climate Change Mitigation and Adaptation Commission, global sea levels could rise more than three feet by 2100, with more recent projections showing this occurring as early as 2060. In turn, over the next 30 to 70 years, approximately 6,500 structures and 19,800 people statewide will be exposed to chronic flooding. Additionally, an estimated $19 billion in economic loss would result from chronic flooding of land and structures located in exposure areas. Finally, approximately 38 miles of coastal roads and 550 cultural sites would be chronically flooded, on top of the 13 miles of beaches that have already been lost on Kaua'i, O'ahu, and Maui to erosion fronting shoreline armoring, like seawalls.

Furthermore, according to research conducted by Michael B. Gerrard from Colombia Law School, modern-day slavery tends to increase after natural disasters or conflicts where large numbers of people are displaced from their homes. In the decades to come, says Gerrard, **climate change will very likely lead to a significant increase in the number of people who are displaced and, thus vulnerable, to human trafficking.** While the Paris Climate Agreement of 2015

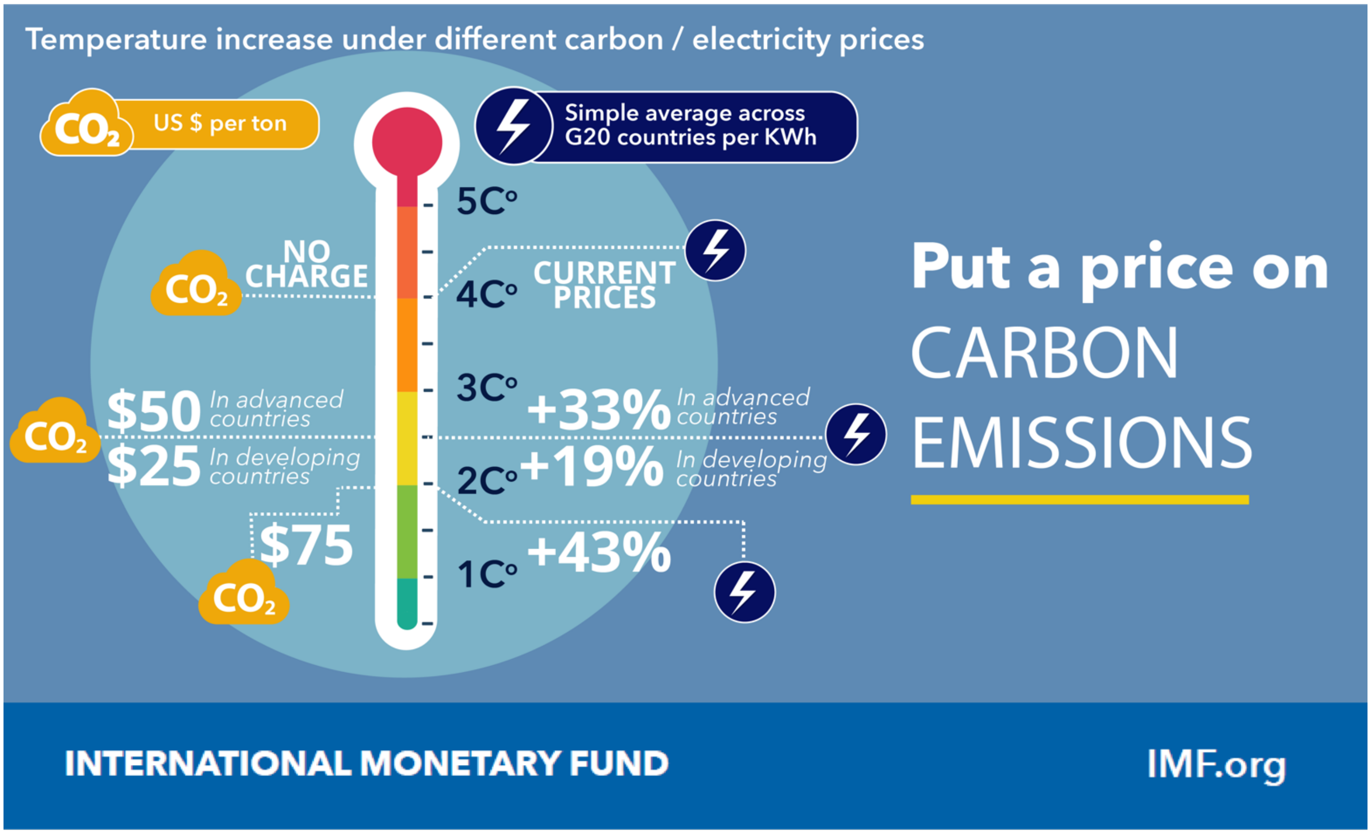
Kris Coffield, Executive Director · (808) 679-7454 · kris@imuaalliance.org

established objectives to limit global temperature increases and several international agreements are aimed at combating modern-day slavery, it is highly uncertain whether they will be adequate to cope with the scale of the problem that is likely to occur as a result of climate change.

As we work to reduce carbon emissions and stave off the worst consequences of climate change, we must begin preparing for the adverse impact of sea level rise on our shores. We are now quantifying the speed at which we must act. We cannot continue to develop the 25,800-acre statewide sea level rise exposure area–one-third of which is designated for urban use–without risking massive structural damage and, potentially, great loss of life.

Therefore, our state should take steps to protect Hawai'i's coastal areas, including by exploring carbon pricing options. A carbon tax is a fee imposed on the burning of carbon-based fuels (coal, oil, gas). More to the point, a carbon tax is the core policy for reducing and eventually eliminating the use of fossil fuels whose combustion is destabilizing and destroying our climate, forcing users of carbon fuels pay for the climate damage caused by releasing carbon dioxide into the atmosphere. If set high enough, a carbon tax can be a powerful monetary disincentive that motivates switches to clean energy across the economy by making it more economically rewarding to employ non-carbon fuels and energy efficiency.

Utilizing existing tax collection mechanisms, a carbon tax is paid "upstream," i.e., at the point where fuels are extracted and inserted into the stream of commerce or imported into the U.S. Fuel suppliers and processors are free to pass along the cost of the tax to the extent that market conditions allow, with market forces simultaneously creating a monetary incentive to reduce carbon dioxide emissions and help our planet curb the climate crisis's global warming effect. Carbon that is chemically bound into manufactured products–such as plastics–are not be taxed under a carbon tax scheme. Similarly, any CO2 from energy production that is permanently sequestered rather than released into the atmosphere wouldn't and shouldn't be taxed (or should receive an offsetting tax credit). Finally, **<u>we urge you to replace this bill's refundable tax credit with a dividend scheme, as found on page 7, lines 11 to 15 of HB 460, through which at least 25 percent of the revenue gained is directly returned to people earning 80 percent AMI or less to offset the regressivity of the tax on economically vulnerable residents.</u>**



Notably, a Brookings Institute report found that using 2013 emissions figures, a carbon tax of only $20/ton would generate an estimated $365 million for Hawai'i.

Table 31: Estimated Impact of Carbon Tax, State of Hawaii

Per capita energy related CO2 emissions in 2013	2013 Electronic Power Fossil Combustion CO2	2013 Industrial Fossil Fuel Combustion	Total including transport	Total potential revenue, assuming 2013 emissions and tax rate of $20/ton CO2	Total carbon tax potential revenue as a share of state GDP in 2013
metric tons CO2/person	MMTCO2	MMTCO2	MMTCO2	$ millions	%
12.9	6.8	1.5	18.3	**$365**	0.49%

Source: Brookings Institution State-Level Carbon Taxes, 2016

As we accelerate our transition to a clean energy economy and continue our fight against climate change, we cannot afford to forego this sustainability-minded method of revenue generation.

HB-2278-HD-1
Submitted on: 2/23/2022 11:36:19 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Ted Bohlen	Climate Protectors Hawai‘i	Support	No

Comments:

The Honorable Sylvia Luke, Chair and Members of the House Committee on Finance

From: Climate Protectors Hawai‘i (by Ted Bohlen)

Re: Hearing **HB2278 HD1 RELATING TO ENERGY.**

Hearing: Friday, February 25, 2022, 1:30 p.m., CR 308 and by videoconference

Aloha Chair Luke and Members of the House Committee on Finance:

The Climate Protectors Hawai‘i is a group focused on reversing the climate crisis and encouraging Hawai‘i to lead the world towards a safe and sustainable climate and future.

Position: **Climate Protectors Hawai‘i STRONGLY SUPPORTS HB2278 HD1**

Carbon cashback is the program where polluters pay and people prosper.

Essentially, the companies that import fossil fuels into Hawai‘i would pay an increased fee for importing these polluting fuels, while a tax credit given back in equal amounts to resident tax filers, would more than offset any increased costs that these companies pass on to consumers.

The resident tax credit is wholly paid for by the fossil fuel fee, including administration of the program.

Programs very similar to carbon cashback (aka: "carbon fee and dividend") have been studied both here in Hawai‘i and nationwide showing that when a program like this is implemented, **carbon emissions are reduced while the majority of families financially are better off, especially low income families.**

Please pass this important bill as a step toward mitigating the climate emergency and making most people better off!

Mahalo!

Climate Protectors Hawaiʻi (by Ted Bohlen)

Our kuleana is to protect Hawai'i's natural resources, mitigating and adapting to climate change and ensuring justice for ka pae 'āina Hawai'i. Kuleana has many meanings including responsible or to be responsible for. Ka pae 'āina Hawai'i as it is directly translated refers to the Hawaiian archipelago. In a deeper sense it refers to the Hawaiian Islands as a collective people who also have a responsibility to each other and to the 'āina of Hawai'i and all of its natural resources.

Finance Committee
February 25th, 2022, 1:30 pm Videoconference
HB 2278 HD1- RELATING TO ENERGY
Environmental Justice Task Force, Faith Action for Community Equity

POSITION: Support

Aloha Chair Luke, Vice Chair Yamashita and members of the Finance Committee,
The state of Hawaii has declared a Climate Emergency. To ensure that this declaration does not simply become window dressing, we need to pass pragmatic bills that will enable us to decrease our greenhouse gas emissions.

There is no one silver bullet to mitigate climate change, so it is important to enact measures such as HB 2278 that can work in concert with other climate change processes to decrease our carbon emissions. HB 2278 is easily implemented, as it uses the existing barrel tax as its platform for collecting the tax and the Hawaii Department of Taxation system for the refundable tax credits.

One common element *critics of* HB 2278 have in common is they all *overlook the fact* that this tax will be returned to the tax filers of Hawaii in the form of a tax credit. In 2012 when the price of gasoline in Hawaii was well over $4/gallon, consumers shifted their behavior and bus ridership increased, according to data from Dept. of Business, Economic Development & Tourism. The difference is that then, fossil fuel companies got to pocket all of that increase in gasoline prices, and now, with HB 2278, any increase will go back to the residents of Hawaii. Those who carpool share a company van, or take public transportation will be able to keep more of their tax credit, as behaviors shift so that money spent on gasoline decreases.

The recent UHERO study concluded that a carbon tax, which is then returned to Hawaii tax filers, would, for low and middle income households, be beneficial, as they would receive more back in a refundable tax credit than increased costs to their households. *This is key to our support of HB 2278, since our organization promotes measures that protect and enhance social and economic equity.*

Testimony for HB2278

I am Helen Cox and am writing on behalf of the Kauai Climate Action Coalition (KCAC), a group of over ninety residents from various occupations and income levels committed to addressing the climate crisis. Please support HB2278. Hawaii has declared a climate emergency and set a goal to be carbon neutral by 2045. This bill is necessary to reach the emission reductions that are consistent with Hawaii's goals. The policy will not conflict with other policies aimed at reducing carbon emissions but instead strengthen them. Most importantly, this bill is progressive. A UHERO Student commissioned by the legislature found that on average low- and middle-income households will benefit from the bill. In fact, all households on average do better if 80 to 100% of the revenues are returned to people. The bill follows the recommendations in the Tax Review Commission Report; it is the commission's top recommendation. Finally, the bill will be easy to implement as it simply means increasing the barrel tax. For our `aina and our `ohana please support this bill. Mahalo for all you do and for your support.

Par Hawaii

February 25, 2022

TESTIMONY PROVIDING COMMENTS ON HOUSE BILL 2278, HD 1,

RELATING TO ENERGY

House Committee on Finance
The Honorable Sylvia Luke, Chair
The Honorable Kyle T. Yamashita, Vice Chair

Friday, February 25, 2022 at 1:30 p.m.
VIA VIDEOCONFERENCE
Conference Room 308
State Capitol
415 South Beretania Street

Chair Luke, Vice Chair Yamashita and members of the Committee,

Thank you for this opportunity to submit written testimony offering comments and concerns on House Bill 2278, HD 1, Relating to Energy. My name is Eric Wright, President at Par Hawaii. Par Hawaii is the state's only producer of petroleum products, including transportation fuels.

HB 2278, HD 1 would effectively establish a carbon tax on fuel by increasing the Environmental Response, Energy and Food Security tax that is currently imposed on fuel. The bill would also establish a refundable income tax credit intended to mitigate the effect of the carbon emissions tax.

We recognize the importance of charting a clean energy future for Hawaii. As the local producer of fuels for Hawaii's consumers, we want to be a part of this future by producing clean fuel for Hawaii. This legislation would increase the cost of fossil fuels, but would not provide enough of an incentive for the local production of renewable fuels. For example, in California, renewable diesel is eligible for a low carbon credit that has ranged between $1.00-1.50 per gallon. We need incentives that will allow local producers to compete in the national and global market for renewables.

Over the past two years, several refineries in the US have announced plans to partially or fully convert to renewable fuels production, primarily renewable diesel. While the feedstocks vary, soybean and other vegetable oils will serve as the raw material for most of these renewable fuels. In Hawaii, we have very limited local sources of these oils. We are beginning the process of reaching out to large landowners in Hawaii to discuss ways we can work together to grow crops that will contribute to Hawaii’s clean energy future.

We are also concerned about the bill's near-term impact on consumers. Energy prices have risen significantly over the past 12 months. The price of crude oil – the raw input for making fuels – has risen by 48% since last February. The carbon tax would add to energy costs paid by consumers. The new tax would start at approximately 10 cents per gallon for gasoline in 2023, but would rise quickly to 52 cents per gallon in 2025.

While the measure proposes a carbon emission dividend to create some equity, the bill will fall particularly hard on Hawai‘i residents who live in suburban or rural areas and must endure long commutes to and from work every day, or drive long distances for family activities like sports events. In essence, this dividend would be primarily subsidized by these heavy users of fossil fuels.

In summary, any carbon tax policy should also adopt a more comprehensive program that includes incentives for locally produced biofuels. This more well-rounded approach to shifting Hawaii’s energy mix to more renewable fuels need to also recognize the global nature of the fuel market. Incentives should also be designed to ensure locally produced biofuels are competitive with other markets such as California. We believe this all-encompassing approach requires more thoughtful discussion and Par Hawaii would welcome the opportunity to participate in this important effort.

Thank you for allowing Par Hawaii the opportunity to present these comments for the Committee's consideration.

GRASSROOT
INSTITUTE OF HAWAII

February 15, 2022
1:30 p.m.
Conference Room 308 and Videoconference

To: House Committee on Finance
Rep. Sylvia Luke, Chair
Rep. Kyle T. Yamashita, Vice Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: HB2278 HD1 — RELATING TO ENERGY

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on HB2278, HD1, which would create a refundable income tax credit in the attempt to offset a massive increase in the tax on petroleum products and fossil fuels.

If enacted, this bill also would create an income tax credit that would be stepped up from $65 for single taxpayers and $30 for those filing jointly in 2023 to $480 plus an additional child credit of $240 for joint taxpayers in 2035 and beyond.

This tax credit is meant to offset a barrel tax that will go from $1.05 currently to between $3.78 and $6.46, depending on the type of fuel by 2023. Gasoline will be taxed at $5.27.

By 2035, that tax will range from $21.84 to $42.24, depending on fuel type. The gasoline tax in 2035 will be $33.16 a barrel.

Energy taxes will also increase from the current 19 cents per 1 million BTUs to $1.29 for coal and 80 cents for natural gas in 2023. By 2035, that tax will be $8.54 for coal and $4.80 for natural gas.

The proposal outlined in this bill appears to be based on the faulty idea that it is possible to reimburse Hawaii residents for the economic impact of a massive tax hike — as though taxes were simply a question of money-in, money-out, with the state government operating as a type of bank.

However, such an approach deeply underestimates the impact of tax hikes, most especially increases in energy taxes, on the economy as a whole.

Despite the tax refund included in the proposal, this bill would raise the cost of living in Hawaii. This bill is, in fact, a continuation of the policy of social-planning-via-taxation that has helped make Hawaii one of the most expensive states in the nation.

It should be noted that local businesses will have an especially difficult time dealing with the soaring energy costs that will come from this bill. Hawaii businesses are still struggling to recover from the effects of the coronavirus lockdowns. Many have closed their doors forever; others are barely hanging on. Raising fuel taxes will make it more difficult to survive and discourage new business and investment.

It is obvious that the real intent of this tax hike is to punish and change behavior rather than to increase revenues. However, the experience of the past year demonstrates that there are far better ways to generate more tax revenues than by levying higher taxes on Hawaii's struggling residents and businesses.

In our rebounding economy, even small economic gains have big effects. Thus, policymakers should focus on growing the economy, which would bring in more state revenues than a tax hike — and without any negative effects on business.

We are gravely concerned about the impact of the tax hikes proposed in this bill. Hawaii residents are already among the most taxed in the country; the state has the second-highest overall tax burden in the U.S. That high tax burden contributes to Hawaii's cost of living and is one of the reasons why so many Hawaii residents have been leaving in search of greater opportunities elsewhere.

Given the state's already-high tax burden, there is never a good time to raise taxes. But this proposal appears to ignore challenges that our businesses and residents have had to face over the past two years. Hawaii's economy will take years to recover from the pandemic and lockdowns. The last thing Hawaii residents and businesses need at this point is a tax hike.

There are myriad reasons we should be wary of implementing tax hikes. Here are just a few:

>> Hawaii cannot sustain a hike in taxes since its already-damaged economy was hit harder by the lockdowns than any other state in the nation.[1]

[1] Dave Segal, "Hawaii's unemployment rate hit nation-high 15% in September," Honolulu Star-Advertiser, Oct. 20, 2020.

>> State lawmakers increased taxes and fees substantially following the Great Recession of 2007-2008. despite a windfall in revenues from an economic boom over the past decade.[2] Taxes and fees ballooned on motor vehicles, transient accommodations, estates, fuel, food, wealthy incomes, property, parking and businesses.

>> Hawaii's population reduction of 32,237 people since fiscal 2016[3] has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii already has a regressive general excise tax that disproportionately hits the poor.[4]

>> Hawaii has a progressive income tax that taxes high-income earners at 11%, second only to California at 13.3%.[5] Hawaii's top 1% already pays 23% of all income taxes in the state.[6]

It cannot be understated how much of an impact this bill, if enacted, will have on Hawaii's cost of living — a difference that cannot be captured in a simple tax refund.

Every business, from doctor offices to grocery stores, will have to account for the higher energy costs and fuel costs, translating into higher transportation and delivery costs, that will result from this tax. Those costs will become part of their overhead and force them to raise prices accordingly.

Even if Hawaii residents could trust that the refund would not disappear and the tax not go even higher, the refund in this bill cannot come close to undoing the economic damage that this tax hike will do to the state.

In this session, we have heard a lot about helping lower income families, but this bill seems designed to make Hawaii even more unaffordable. If enacted, this bill will cause more businesses to close and more locals to leave Hawaii.

If policymakers are serious about helping working families, they should abandon the high-tax approach that has already established Hawaii as the state with the highest cost of living.

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[2] "Tax Acts (by Year)," Tax Foundation of Hawaii, accessed Feb. 8, 2021.
[3] "Annual Estimates of the Resident Population for the United States, Regions, States, the District of Columbia and Puerto Rico: April 1, 2010 to July 1, 2020 (NST-EST2020)" U.S. Census Bureau, Population Division, December 2020 and "U.S. Census data," "Annual Estimates of the Resident Population for the United States, Regions, States, the District of Columbia and Puerto Rico: April 1, 2020 to July 1, 2021," U.S. Census Bureau, Population Division, accessed Jan. 3, 2022.
[4] "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index: "Sales Tax Burden," American Legislative Exchange Council, 2021. Note that Hawaii does not have a sales tax, but a state general excise tax that is levied on almost all goods and services, and imposed multiple times throughout the production chain.
[5] Katherine Loughead, "State Individual Income Tax Rates and Brackets for 2020," Tax Foundation, Feb. 4, 2020.
[6] "Hawaii Individual Income Tax Statistics," Hawaii Department of Taxation, December 2020, Table 13A.

Instead, they should focus on lowering those costs by reducing income taxes, creating an exemption to the general excise tax for groceries and medical services, lowering fees and reducing regulations that limit opportunities and stifle economic growth.

Thank you for the opportunity to submit our comments.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

Citizens' Climate Lobby Hawaii
cclhawaii.org
hi.ccl.lobby@gmail.com

February 24, 2022

Dear Chair Luke, Vice-Chair Yamashita, and Finance Committee members,

I am a state coordinator for Citizens' Climate Lobby (CCL) Hawaii, and I'm testifying in STRONG SUPPORT of HB2278 HD1 with recommended amendments.

HB2278 HD1 meets the requirements for effective climate action: it addresses a key cause of global warming (emissions from burning fossil fuels) by triggering a broad change in consumption (encouraging a shift to less carbon-intensive products and services) while ensuring a just transition for our vulnerable people.

Carbon pricing is well-recognized as an essential strategy in our climate change mitigation efforts. It is endorsed by thousands of economists[1], religious leaders, business groups, and government leaders. Studies at the national[2] and local levels[3] have illustrated the efficacy of carbon pricing in reducing emissions. Globally, major governments have already introduced carbon pricing.

Putting a price on carbon pollution allows us to include the true costs of carbon into fossil fuels; encourages consumers and producers to favor efficiency and clean and renewable solutions; and, ultimately, help us achieve our emission reduction goals and accelerate our transition to a clean energy future.

Carbon pricing coupled with a dividend or rebate – tax revenue returned to households – is progressive. This combination ensures that the impact on low-middle-income families is positive. HB2278 HD1 provides this benefit.

The time for aggressive climate action is now. We owe our future generations a planet they can enjoy and thrive in. Putting a price on carbon is one important way to achieve this goal.

Please pass HR2278 HD1 out of your committee. Please make corrections to the payment tables listed in Section 2. I've included these suggestions below.

- First Table (Section 2-235 (1)) - the title should include qualifying widow, head of household in addition to single and married filing separately.
- Second Table (Section 2-235 (2)) should be for married filing jointly. *(The amounts are twice as much as the amounts in table 1.)*

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[1] Climate Leadership Council statement. https://clcouncil.org/economists-statement/

[2] CCL Carbon Pricing studies. https://citizensclimatelobby.org/carbon-pricing-studies/

[3] The UHERO Carbon Pricing Assessment report in April 2021 confirmed the effectiveness of a carbon fee and dividend strategy. https://energy.hawaii.gov/carbon-pricing-study. A carbon pricing policy was a top recommendation by the Hawaii Tax Review Commission in its 2020-2022 report.
https://files.hawaii.gov/tax/stats/trc/docs2022/TRC_Report_2022.pdf

- Third Table (Section 2-235 (3)) is for minors whether they are declared as dependents or file their own tax returns. *They are to receive a half share (i.e., half as much as an adult), which is why the amounts are half as much as those in table 1.*

The corrected tables are as follows:

(1) For taxpayers filing as single, married filing separately, qualifying widow, or head of household:

(A) (i) $65 for the taxable year beginning on January 1, 2023;

(ii) $210 for the taxable year beginning on January 1, 2024;

(iii) $360 for the taxable year beginning on January 1, 2025;

(iv) $380 for the taxable year beginning on January 1, 2026;

(v) $420 for the taxable year beginning on January 1, 2027;

(vi) $440 for the taxable year beginning on January 1, 2028, and for every taxable year thereafter through December 31, 2031;

(vii) $450 for the taxable year beginning on January 1, 2032;

(viii) $460 for the taxable year beginning on January 1, 2033;

(ix) $470 for the taxable year beginning on January 1, 2034; and

(x) $480 for the taxable year beginning on January 1, 2035, and for every taxable year thereafter; and

~~(B) $ per qualifying child;~~

(2) For taxpayers ~~filing~~ as married filing jointly ~~as a head of household~~:

(A) (i) $130 for the taxable year beginning on January 1, 2023;

(ii) $420 for the taxable year beginning on January 1, 2024;

(iii) $720 for the taxable year beginning on January 1, 2025;

(iv) $760 for the taxable year beginning on January 1, 2026;

(v) $850 for the taxable year beginning on January 1, 2027;

(vi) $880 for the taxable year beginning on January 1, 2028, and for every taxable year thereafter through December 31, 2031;

(vii) $900 for the taxable year beginning on January 1, 2032;

(viii) $920 for the taxable year beginning on January 1, 2033;

(ix) $940 for the taxable year beginning on January 1, 2034; and

(x) $960 for the taxable year beginning on January 1, 2035, and for every taxable year thereafter; and

~~(B) $ per qualifying child; and~~

(3) For qualifying child or minor ~~taxpayers filing a joint return or as a surviving spouse~~:

(A) (i) $30 for the taxable year beginning on January 1, 2023;

(ii) $100 for the taxable year beginning on January 1, 2024;

(iii) $180 for the taxable year beginning on January 1, 2025;

(iv) $190 for the taxable year beginning on January 1, 2026;

(v) $201 for the taxable year beginning on January 1, 2027;

(vi) $220 for the taxable year beginning on January 1, 2028, and for every taxable year thereafter through December 31, 2032;

(vii) $230 for the taxable year beginning on January 1, 2033;

(viii) $230 for the taxable year beginning on January 1, 2034; and

(ix) $240 for the taxable year beginning on January 1, 2035, and for every taxable year thereafter; and

~~(B) $ per qualifying child.~~

Respectfully,

Noel Morin
CCL Hawaii State Co-Coordinator

Citizens' Climate Lobby *is a nonprofit, nonpartisan, grassroots advocacy organization focused on national policies to address climate change solutions. CCL Hawaii's 900+ members are part of a 200,000+ global organization. For more information, visit citizensclimatelobby.org.*

HB-2278-HD-1
Submitted on: 2/24/2022 11:41:34 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Jowell Rivera	Hawaii logistic Service	Oppose	No

Comments:

Aloha Chair Luke and Committee Members. I am very apposed to this Bill. As Presdent of a some what large transportation and fueling company that employs nearly 80 hard working Hawaii Citizens (your constituents) as well as being a board member with the Hawaii Transportation Assoc., I understand the impact this would have business, its employees and at the end user for all products and services.

If one looks at the current cost of fuel with the geo-political dynamics, it is not a good time to do anything of the sort. Current barrel of oil is now at $105 + pbl. and will likely be incresing throught the rest of the year.

This Bill will only add to the cost to everyone in Hawaii and extend beyond that with shipping, airlines and all commericial businesses. The impact to the Hawaii market will be devistating.

Since the pamdemic and the measuers taken by Gov. Ige and all Mayors, Hawaii business and its people have suffered long enough. This Bill (possibly good intended) will not have the effect desired by the legislature or any other entity. All fuel and green energy related items should be market driven and not mandated once again by government. The unintneded consequences will not be a desireable one.

With all respect and humility, I ask each and everyone of you to stop this Bill and do not proceed any further as my employees as well as your constituents will pay a higher cost.

Thank you for your time.

Hawaii Transportation Association
Driving Hawaii's Economy

February 25, 2022

TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE
ON HB 2278 HD1 RELATING TO ENERGY

Aloha Chair Luke, and committee members. I am Gareth Sakakida Managing Director of the Hawaii Transportation Association (HTA) with over 350 members involved with the commercial ground transportation industry.

HTA opposes the increase of fossil fuel related taxes for commercial motor vehicles. These vehicles ensure our high standard of living delivering everything we need to live: food and beverage; medicine; household appliances; furniture; building materials, etc.

In short we transport everything our residents and visitors consume. Increasing our fuel costs only means increasing the cost of everything. This easily wipes out any well intended tax credits for residents.

Inflation is already doing a good job of increasing all of our costs. Congress is very concerned about inflation and recognizes the importance of transportation in this equation prompting them to propose a fuel tax holiday in hopes of combating the impact of high taxes on top of inflation.

Carbon pricing will do very little to accelerate conversion of commercial fleets to zero emission vehicles. The cost of these vehicles remain at 4-5 times the cost of fossil fueled vehicles making it extremely difficult for local companies to fund a fleet turnover. Yet, this is not the worst issue.

Installing a source of fueling is the worst. The vast majority of commercial fleets do not own the land they operate on so find it impossible to justify funding a fueling infrastructure when their long term continuation on that piece of land is uncertain as every lease period expires.

Aggressive carbon pricing only serves to push abilities to fund conversions further down the road when funds are continually siphoned off for higher fuel taxes.

Mahalo.

The Nature Conservancy - Hawaiʻi and Palmyra
923 Nuʻuanu Avenue
Honolulu, HI 96817

Tel (808) 537-4508
Fax (808) 545-2019
nature.org/hawaii

Testimony of The Nature Conservancy
Supporting HB 2278 HD1, RELATING TO ENERGY.

Committee on Finance
February 25, 2022, 1:30 pm
Conference Room 308 via Videoconference

Aloha Chair Luke, Vice Chair Yamashita, and Members of the Committee:

The Nature Conservancy (TNC) supports HB 2278 HD1, Relating to Energy, which would establish a refundable income tax credit to mitigate the effect of a carbon emissions tax on taxpayers. The bill would also amend the environmental response, energy, and food security tax to address carbon emissions.

TNC supports putting a price on carbon pollution to make a significant contribution to addressing the challenge of climate change. Economists overwhelmingly agree that the market-based approach embodied in the legislation will achieve emissions reductions in the most efficient and lowest cost way possible. The economic impacts on families and individuals of the carbon price would be mitigated by the refundable income tax credit.

TNC works to protect and manage the natural systems that sequester carbon, provide our fresh water, and protect our coastlines; all of which reduce the impacts of climate change. However, to fully address the growing impacts of our changing climate, we need bold action. Nature can play a huge role in pulling carbon out of the atmosphere, but it needs policies like a carbon price to also ensure that emissions are reduced.

Mahalo for the opportunity to provide testimony on HB 2278 HD1.

The Nature Conservancy of Hawaiʻi and Palmyra is a non-profit 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 Hawaiʻi and Palmyra Atoll. We manage 40,000 acres in 13 nature preserves and work in over 50 coastal communities to help protect and restore the nearshore reefs and fisheries of the main Hawaiian Islands. We forge partnerships with government, private parties, and communities to protect forests and coral reefs for their ecological values and for the many benefits they provide to people.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII
126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, FUEL, Adoption of Carbon Tax, Income Tax Credit for Low Income Ratepayers

BILL NUMBER: HB 2278 HD 1

INTRODUCED BY: House Committee on Consumer Protection & Commerce

EXECUTIVE SUMMARY: Establishes a refundable income tax credit to mitigate the effect of a carbon emissions tax on taxpayers. Amends the environmental response, energy, and food security tax to address carbon emissions.

SYNOPSIS: Adds a new section to chapter 235, HRS, granting a refundable tax credit to mitigate the effect of a carbon emissions tax on taxpayers.

For single taxpayers or married filing separately:	
Calendar Year	Credit Amount
2023	$ 65
2024	210
2025	360
2026	380
2027	420
2028-2031	440
2032	450
2033	460
2034	470
2035 and thereafter	480
Plus, per qualifying child	___
For head of household:	
Calendar Year	Credit Amount
2023	$ 130
2024	420
2025	720
2026	760
2027	850
2028-2031	880
2032	900
2033	920
2034	940
2035 and thereafter	960
Plus, per qualifying child	___

For married filing jointly or surviving spouse:	
Calendar Year	Credit Amount
2023	$ 30
2024	100
2025	180
2026	190
2027	201
2028-2032	220
2033	230
2034	230
2035 and thereafter	240
Plus, per qualifying child	___

Defines a qualified taxpayer eligible for the credit as a resident taxpayer who files an individual income tax return, whether as a single taxpayer, a head of household, a married individual filing a separate return, a married couple filing a joint return, or a surviving spouse.

Defines a qualifying child as a minor who resides with the taxpayer and is claimed as a dependent by the qualified taxpayer.

Amends section 243-3.5, HRS, to rename the barrel tax the "environmental response, energy, carbon emissions, and food security tax." Raises the tax from $1.05 on each barrel or fractional part of a barrel of petroleum product to the following:

Product	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035+**
Butane	$4.26	$10.86	$17.73	$18.40	$19.09	$19.81	$20.55	$21.30	$22.08	$22.89	$23.72	$24.57	$25.44
Propane	$3.80	$9.46	$15.35	$15.93	$16.52	$17.14	$17.77	$18.42	$19.09	$19.78	$20.49	$21.22	$21.97
Gasoline	$5.27	$13.96	$23.00	$23.89	$24.80	$25.74	$26.71	$27.71	$28.74	$29.80	$30.88	$32.01	$33.16
Diesel	$5.95	$16.06	$26.57	$27.60	$28.66	$29.75	$30.88	$32.04	$33.23	$34.46	$35.73	$37.03	$38.37
Kero–sene	$5.93	$15.97	$26.42	$27.44	$28.50	$29.58	$30.70	$31.86	$33.04	$34.27	$35.53	$36.82	$38.15
Aviation gas	$3.99	$12.22	$20.77	$21.61	$22.48	$23.37	$24.28	$25.23	$26.20	$27.20	$28.23	$29.29	$30.39
Jet fuel	$4.68	$14.33	$24.37	$25.35	$26.37	$27.41	$28.49	$29.60	$30.74	$31.91	$33.12	$34.37	$35.65
No. 6 fuel oil	$6.46	$17.62	$29.22	$30.35	$31.53	$32.73	$33.98	$35.26	$36.57	$37.93	$39.33	$40.77	$42.25
LP Gas	$3.78	$9.41	$15.26	$15.83	$16.42	$17.03	$17.66	$18.31	$18.97	$19.66	$20.36	$21.09	$21.84
Other	$5.99	$16.18	$26.76	$27.80	$28.87	$29.98	$31.11	$32.28	$33.48	$34.72	$36.00	$37.31	$38.66

For non-petroleum fossil fuels, the tax per one million BTU is increased from 19 cents to:

Fuel	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
Coal (all forms)	$1.29	$3.55	$5.90	$6.13	$6.37	$6.61	$6.87	$7.13	$7.39	$7.67	$7.95	$8.24	$8.54
Natural gas (includ-ing LNG)	$0.80	$2.04	$3.34	$3.47	$3.60	$3.73	$3.87	$4.02	$4.16	$4.31	$4.47	$4.63	$4.80

Replaces the existing earmarks of taxes with the following (per fiscal year):

(1) $49,000 to the environmental response revolving fund;

(2) $147,000 to the energy security special fund; and

(3) $98,000 to the energy systems development special fund.

Provides that all taxes paid on gasoline or other aviation fuel sold for use in or used for airplanes shall be deposited in the airport revenue fund (HRS section 248-8).

Provides that all taxes paid on gasoline, diesel, or other fuel sold for use in or used for small boats shall be deposited in the boating special fund (HRS section 248-8).

The tax is grandfathered as to coal used to fulfill an existing power purchase agreement in effect as of June 30, 2015, but grandfathering protection will not apply to a different PPA or an extension of the existing one.

Deletes the current exemption for aviation fuel.

Makes technical and conforming amendments.

EFFECTIVE DATE: July 1, 2100.

STAFF COMMENTS:

Carbon Tax Generally: An economist from UHERO, the University of Hawaii Economic Research Organization, 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 CO_2 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]little 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 does not repeal the state fuel tax and does not affect the counties' power to impose fuel tax. Rather, the carbon tax is to replace the barrel tax which is now imposed at $1.05 per barrel of imported petroleum product and on other fossil fuels based on BTU equivalent.

The potential big losers will be the electric companies, because electric generation accounted for 6.8 million metric tons of CO2 that Hawaii produced 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.

Maybe 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.

Applicability of Tax to Aviation Fuel: There is an issue as to whether this tax would be preempted by federal law. The federal Anti-Head Tax Act, 49 U.S.C. § 40116, prohibits any tax, fee, or charge first taking effect after 1994 exclusively upon a business located at an airport unless the tax, fee, or charge is wholly utilized for airport or aeronautical purposes. 49 U.S.C. § 40116(d)(2)(A)(iv). Although the bill states that tax collected on aviation fuel is paid to the airport fund, there is an issue as to whether the "tax credit to mitigate the effect of a carbon emissions tax on taxpayers," as the bill titles it, would be considered a use of the tax that is unrelated to airport purposes. This would be a question of federal, not state, law so this problem cannot be solved by adding language to the bill.

Digested: 2/23/2022

Sustainable Energy Hawaiʻi
1143 Kukuau St., Hilo, HI 96720
sustainableenergyhawaii.org

February 24, 2022

Dear Chair Luke, Vice-Chair Yamashita, and Finance Committee members,

I am Richard Ha, Chair of Sustainable Energy Hawaiʻi, a coalition of concerned citizens dedicated to improving the quality of life of Hawaii residents through affordable renewable energy.

Sustainable Energy Hawaii **SUPPORTS** HB2278 SD1 as it will create the environment needed to accelerate our transition away from fossil fuel while protecting our low-moderate income people.

This transition is urgently needed to allow Hawaii to address two existential threats – energy depletion and climate change. By shifting away from our dependence on fossil fuels, Hawaii will be able to focus on truly sustainable and renewable energy sources and pave the way for energy security and a clean energy future.

Aloha, and thank you for this opportunity to testify.

Richard Ha
Chair
Sustainable Energy Hawaiʻi
www.sustainableenergyhawaii.org

Sustainable Energy Hawaii is an all-volunteer, 501(c)3 dedicated to furthering energy self-sufficiency for Hawaii Island. For more information, visit sustainableenergyhawaii.org.

Citizens' Climate Lobby Hawaii
cclhawaii.org
hi.ccl.lobby@gmail.com

February 24, 2022

Dear Chair Luke, Vice-Chair Yamashita, and members of the Finance committee,

On behalf of the Citizens' Climate Lobby (CCL) Hawaii, I'm testifying in STRONG SUPPORT of HB2278 HD1.

We can't afford to wait for federal legislation to act on the climate crisis. Hawaii has declared a climate emergency and set a goal to be carbon neutral by 2045, therefore, we need a policy that will reduce emissions state- wide, while setting a successful example for the rest of the nation and other countries.

With this legislation, emissions are reduced significantly with incentives to residents to reduce their own emissions and visitors pay a "green fee" or tax similar to the TAT, and the money flows back to HI residents.

Carbon Cashback (HB2278) is a progressive policy, in that low and middle income households come out ahead, according to the UHERO study. In fact, all households on average do better if 80 to 100% of the revenues are returned to people.

I strongly encourage passage of this bill for the people of Hawaii and the planet.

Sincerely,
Molly Whiteley
CCL Hawaii State Co-Coordinator

Citizens' Climate Lobby is a nonprofit, nonpartisan, grassroots advocacy organization focused on national policies to address climate change solutions. CCL Hawaii's 900+ members are part of a 200,000+ global organization. For more information, visit citizensclimatelobby.org.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-2278-HD-1
Submitted on: 2/24/2022 2:39:21 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Clint Churchill	Practical Policy Institute of Hawaii	Oppose	Yes

Comments:

Testimony of

PRACTICAL POLICY INSTITUTE OF HAWAII

Friday, February 25, 2022

TIME 1:30 PM State Capitol, Conference Room 308 and via Zoom

Comments in opposition to HB 2278 HD1 relating to a carbon tax

Chair Luke, Vice Chair Yamachita, and Members of the Finance Committee, my name is Clint Churchill, president of the Practical Policy Institute of Hawaii. Climate change is real, as should be obvious to all of us. But we cannot tax our way out of it, and this bill will do nothing but raise the cost of living for Hawaii's residents. Before heading high speed down the road to approve every conceivable response to climate change, we should consider the implications and consequences of passing a bill of this magnitude. Our federal government has considered, but not passed, a carbon tax. No other state in the country has implemented a carbon tax. The time has come to pause on enacting taxes and other measures that will impact our residents, yet have a tiny, perhaps unmeasurable, impact on world climate change.

We all know that family members and friends have been leaving Hawaii for many years because of the rising cost of living. Last year marked the fifth year in a row that the state has shown a population out-migration, with the main reason cited being Hawaii's high cost of living. For Hawaii, this is a real problem, not some arbitrary goal of trying to keep the increase in world temperature to not more than two degrees some 80 years from now. By one estimate, even if we eliminated all CO_2 emissions in the U.S., the impact would be less than 2/10 of one degree.

Mother Nature will do what she does, which will likely be a continuation an eight-hundred-year cycle of gradual temperature increase. Humans will adapt, as we always have.

The other backdrop regarding this bill is that the majority of Hawaii's residents struggle to make ends meet, living paycheck to paycheck. AUW's findings in their "ALICE" report need not be repeated here, but since those findings were released, things have only gotten worse due to inflation. Gas prices alone have increased by at least $1.00 per gallon this last year; it's hard to imagine a worse time to enact a tax that will increase the price per gallon. And we already pay perhaps the highest cost per kilowatt hour in the country for electricity; why would we want to make things worse?

1. can be no doubt that the proposed tax will increase the cost of living in Hawaii, whether at the gas pump, in our electricity bills, or buried in the price of various other goods and services that incur the extra cost of this tax, should it be implemented. Regarding transportation, this tax confronts the consumer with a "Hobson's choice:" incur higher cost at the gas pump or buy an electric vehicle, which is currently estimated to cost about $12,000 more on average. Just what the consumer needs: one or two hundred more at the gas pump each month or one or two hundred more in loan or lease payments. And regarding the consumer's electricity bill, will it increase the pace at which HECo converts to renewable sources? Not likely at all and completely out of the consumer's control. Ratepayers will be paying the surcharge for decades as the hoped-for conversion evolves.

Why would this be a good idea for our residents? Experience elsewhere is instructive. In 2012, Australia implemented such a tax but repealed it just two years after it produced the highest quarterly increase in household electricity prices in the country's history. British Columbia implemented such a tax in 2007 that was supposed to reduce emissions by 33% by now. The result? Emissions today are 4% higher but carbon taxes are costing taxpayers billions. Taxing to change behavior is a harsh way to treat our people, but especially if it has no productive effect.

The inescapable conclusion is that this tax will add to the cost of living for well over one-half of Hawaii's residents, while doing nothing to help residents overcome the effects of climate change in Hawaii. The legislature should be address real problems, not add to the challenges we already face.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

Airlines for America®
We Connect the World

February 24, 2022

Representative Sylvia Luke
Chair
Committee on Finance
Hawai'i State Capitol
415 South Beretania Street
Honolulu, HI 96813

Representative Kyle T. Yamashita
Vice Chair
Committee on Finance
Hawai'i State Capitol
415 South Beretania Street
Honolulu, HI 96813

Re: Federal preemption issues in HB 2278

Dear Chair Luke and Vice Chair Yamashita and Members of the Committee on Finance:

Airlines for America (A4A) is the trade association for the leading U.S. passenger and cargo airlines.[1] As your Committee continues the important task of considering legislative responses to the challenges posed by climate change, we want to take this opportunity to highlight the U.S. airlines' strong record in this regard. While states are precluded from imposing carbon taxes, emissions trading systems and other emissions measures on aircraft fuel and aircraft, we also note that additional carbon regulation of the airlines and their fuel is unnecessary given our industry's commitments to climate action and federal law and international agreements already addressing aircraft greenhouse gas (GHG) emissions.[2]

As the record of the A4A carriers demonstrates, we take our role in GHG emissions very seriously. Indeed, prior to the COVID-19 pandemic, U.S. airlines boasted a tremendous fuel and GHG emissions record, accounting for only 2 percent of the nation's GHG emissions inventory while transporting a record 2.5 million passengers and 58,000 tons of cargo each day. During this time, U.S. airlines were also driving 5 percent of GDP, over 10 million U.S. jobs and $1.5 trillion in economic activity. In fact, U.S. airlines improved their fuel efficiency over 135 percent between 1978 and 2019, saving over 5 billion metric tons of carbon dioxide (CO_2) – equivalent to taking more than 27 million cars off the road on average in *each* of those years. Taking a more recent pre-pandemic snapshot, data from the Bureau of Transportation Statistics confirm that the U.S. airlines improved their fuel- and CO_2-emissions efficiency by 40 percent between 2000 and 2019.

These numbers are not happenstance. As an industry, we have achieved this strong environmental record by driving and deploying technology, operations, infrastructure and sustainable aviation fuel (SAF) advances to provide safe and vital air transport as efficiently as possible within the constraints of the air traffic management system. For the past several decades, airlines have dramatically improved their fuel efficiency and reduced their CO_2 emissions by investing billions in fuel-saving aircraft and engines, innovative technologies like winglets (which improve aerodynamics) and cutting-edge route-optimization software. But, despite our strong record, A4A and our member airlines are not stopping there.

[1] A4A's members are Alaska Airlines, Inc.; American Airlines Group, Inc.; Atlas Air, Inc.; Delta Air Lines, Inc.; Federal Express Corporation; Hawai'ian Airlines, Inc.; JetBlue Airways Corp.; Southwest Airlines Co.; United Airlines Holdings, Inc.; and United Parcel Service Co. Air Canada, Inc. is an associate member.

[2] We expressed these same views last year on House Bill 1319, which was carried over to the current legislative session. *See* pages 52-54 of https://www.capitol.Hawaii.gov/Session2021/Testimony/HB1319_HD1_TESTIMONY_CPC_02-16-21_.PDF.

Since 2009, A4A and our members have been active participants in a global aviation coalition that committed to 1.5 percent annual average fuel efficiency improvements through 2020, with goals to achieve carbon-neutral growth beginning in 2020 and a 50 percent net reduction in CO_2 emissions in 2050, relative to 2005 levels.[3] On March 30, 2021, A4A announced a significant strengthening of these climate commitments.[4] Together with our member carriers, we pledged to work across the aviation industry and with government leaders in a positive partnership to achieve net-zero carbon emissions by 2050.[5] With consistent analyses showing that tremendous quantities of SAF must be deployed for the industry to meet its climate goals, A4A carriers also pledged to work with the government and other stakeholders toward a rapid expansion of the production and deployment of commercially viable SAF to make 2 billion gallons available to U.S. aircraft operators in 2030. On September 9, 2021, as a complement to the federal government's announcement of a SAF "Grand Challenge," A4A and its members increased the A4A SAF "challenge goal" by an additional 50 percent, calling for 3 billion gallons of cost-competitive SAF to be available to U.S. aircraft operators in 2030.[6]

The efforts our airlines are undertaking to further reduce GHG emissions are designed to limit their fuel consumption, GHG contribution and potential climate change impacts responsibly and effectively, while allowing commercial aviation to continue serving as a key contributor to the U.S., global, Hawai'ian, and local economies as our nation and the world continue to recover from the devastating COVID-19 crisis.

A4A members are keenly focused on technology, operations, infrastructure and SAF advances to achieve additional emissions reductions. For example, the U.S. airlines are partnering to modernize the air traffic management system and reinvigorate research and development in aviation environmental technology. In addition, we are dedicated to deploying commercially viable SAF, which could further reduce aviation's GHG emissions while enhancing U.S. energy independence and security. In fact, A4A is a founding member of the Commercial Aviation Alternative Fuels Initiative® (CAAFI), a public-private partnership with the Federal Aviation Administration (FAA) and other stakeholders that is working to ensure the development and deployment of SAF.[7] Having helped lay the necessary technical groundwork, A4A members have been using SAF regularly on commercial flights since 2016. Last year, of course, we strongly supported the Legislature's passage of House Bill 683, which established the Sustainable Aviation Fuel Program within the Hawai'i Technology Development Corporation.[8]

Further, our global aviation coalition supported an agreement reached in 2016 at the International Civil Aviation Organization (ICAO), the standard-setting body for international aviation, for the development of an international carbon offsetting system (known as the Carbon Offsetting and Reduction Scheme for International Aviation or "CORSIA") to "fill the gap" should concerted industry and government investments in technology, operations and infrastructure measures

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[3] *See* A4A, "A4A's Climate Change Commitment," available at https://www.airlines.org/a4as-climate-change-commitment/; *see also* Air Transport Action Group, "Climate Change," available at https://www.atag.org/our-activities/climate-change.html.

[4] *See* https://www.airlines.org/news/major-u-s-airlines-commit-to-net-zero-carbon-emissions-by-2050/.

[5] On October 4, 2021, the International Air Transport Association and its member airlines followed suit by also committing to achieve net-zero carbon emissions by 2050. *See* https://www.iata.org/en/pressroom/2021-releases/2021-10-04-03/.

[6] *See* https://www.airlines.org/news/u-s-airlines-announce-3-billion-gallon-sustainable-aviation-fuel-production-goal/. On the federal government's SAF Grand Challenge, see https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/09/fact-sheet-biden-administration-advances-the-future-of-sustainable-fuels-in-american-aviation/ and https://www.energy.gov/eere/bioenergy/sustainable-aviation-fuel-grand-challenge.

[7] For more on CAAFI, see http://caafi.org/.

[8] *See* https://www.capitol.Hawai'i.gov/slh/Years/SLH2021/SLH2021_Act180.pdf and pp. 9-12 of https://www.capitol.Hawai'i.gov/Session2021/Testimony/HB683_HD1_TESTIMONY_CPC_02-16-21_.PDF.

otherwise not allow us to achieve our goal of carbon-neutral growth starting in 2020. Importantly, the U.S. is implementing the CORSIA agreement, which commenced with emissions monitoring, reporting and verification requirements in 2019 to support the emissions offsetting obligation that went into effect last year (i.e., on January 1, 2021).

Our industry also supported the agreement reached at ICAO in 2016 for a CO_2 certification standard for future aircraft, as it will further support our global aviation coalition's emissions goals, along with other technology, operations, infrastructure and SAF initiatives. The U.S. Environmental Protection Agency (EPA) and FAA, which participate directly in the ICAO emissions standard-setting process and led much of the work as the CO_2 certification standard was developed, adopted the standard into U.S. law with the internationally agreed dates of 2020 for new-type design aircraft, 2023 for newly manufactured in-production aircraft types, and 2028 as an absolute production cutoff for unique and exceptional types.[9]

Commercial aircraft cross state (and national) borders and cannot be subject to overlapping or conflicting state and local requirements. Therefore, federal law preempts state and local government regulation of aircraft emissions and the content of and emissions related to commercial jet fuel.[10] Notwithstanding the provision in section 5 directing that all revenue stemming from the carbon emissions tax on aviation fuel be deposited in the airport revenue fund, the State of Hawai'i is precluded from adopting legislation of this nature. As your Committee and other Committees consider the legislation in the coming days, we urge you to take into account the federal provisions addressing aviation GHG emissions, our industry's continual drive for greater fuel efficiency and our commitments for further GHG emissions reductions.

We encourage the Legislature and other interested parties to work together with the airline industry on measures to increase in-state production and deployment of SAF instead of attempting to pass an unnecessary and federally preempted carbon emissions tax on aviation fuel. We would be pleased to partner with you in that endeavor.

Thank you for your consideration.

Sincerely,

Sean Williams
VP, State and Local Government Affairs
swilliams@airlines.org

[9] *See* 86 Fed. Reg. 2136 (Jan. 11, 2021).

[10] Federal preemption is established both under the federal Clean Air Act (CAA) and federal aviation law. For example, section 233 of the CAA explicitly preempts states and their political subdivisions from "adopt[ing] or attempt[ing] to enforce any standard respecting emissions of any air pollution from any aircraft or engine thereof unless such standard is identical to a standard" established by EPA, 42 U.S.C. § 7573, while section 44714 of title 49 of the U.S. Code stipulates that the FAA has exclusive jurisdiction over jet fuel. Further, courts have long held that the Federal Aviation Act of 1958 creates a "uniform and exclusive system of federal regulation" of aircraft that preempts state and local regulation. *Burbank v. Lockheed Air Terminal, Inc.*, 411 U.S. 624, 639 (1973); see also *American Airlines v. Department of Transp*., 202 F.3d 788, 801 (5th Cir. 2000) (aviation regulation is an area where "[f]ederal control is intensive and exclusive") (quoting *Northwest Airlines, Inc. v. Minnesota*, 322 U.S. 292, 303 (1944)). This pervasive federal regulatory scheme extends not only to aircraft in flight, but also to aircraft-related operations on the ground. In addition, the Airline Deregulation Act precludes states from "enact[ing] or enforc[ing] a law, regulation, or other provision having the force and effect of law related to a price, route or service." 49 U.S.C. § 41713(b)(1).

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

KauaiEV
Kauai Electric Vehicle Association
302 Makani Rd, Kapaa, HI 96746
808-652-0591

2022/02/24

Dear Chair Luke, Vice Chair Yamashita and Committee on Finance members,

KauaiEV is in Support of HB2278 HD1

I am writing on behalf of KauaiEV, a grassroots organization with over 100 members on Kauai. Our members are electric vehicle drivers and we believe that EVs are the personal transportation of the future. We are in **strong support of HB2278 HD1** which establishes a refundable income tax credit to mitigate the effect of a carbon emissions tax on taxpayers.

KauaiEV members support the carbon tax, as well as the income tax credit. We believe it will incentivize people to switch their mode of transportation to more sustainable means, like electric vehicles. Fortunately, more and more affordable used electric vehicles are becoming available and new EVs are coming down in price, which will further help this transition.

Another benefit is that utilities will have incentives to produce cleaner electricity to fuel our EVs.

Mahalo, for your consideration,

Sonja Kass

Sonja Kass, President KauaiEV

HB-2278-HD-1
Submitted on: 2/23/2022 11:20:26 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Nancy S. Young	First Unitarian Church	Support	No

Comments:

Please vote for the Carbon Cashback Bill HB2278. One of Hawaii's goals is to reduce carbon emissions as soon as possible. This bill would enable the state to do that and yet allow people to not lose money. Thank you.

HB-2278-HD-1
Submitted on: 2/23/2022 12:38:26 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Roberta Baker	Individual	Support	No

Comments:

HB2278 will make it more important to become **energy efficient**- on an individual level as well as business. Businesses that can be more efficient thus charge LESS than their competitors WIN.

Those of us who reduce consumption of energy inefficient goods and services will save. As well as everyone gets a tax credit. Double WIN!

HB-2278-HD-1
Submitted on: 2/23/2022 12:47:07 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Keith Neal	Individual	Support	No

Comments:

Testimony in support of HB2278:

The urgency to shift our energy consumption to clean renewable energy sources is real. The current, and continued pollution of ocean, fresh water, land, and air by fossil fuel use must be recognized. Hawaii's current sources of foreign imported petroleum come from states such as Russia and Libya (1), not especially great allies of the USA. The World Bank has determined fossil fuel production is subsidized globally by $5.2B annually (2)!

The age of combustion is over, to continue, we do so at our collective peril.

I support HB2278 as it would put a fee on carbon imports and return a dividend to Hawaii residents. A carbon fee and rebate mechanism would drive energy innovation and mitigate economic impact to Hawaiian families.

Respectfully submitted,

Keith Neal

Member; Hawaii Island, Citizen Climate Lobby

References:

1) https://www.eia.gov/state/analysis.php?sid=HI

*U.S. EIA, Refinery Capacity Report (June 22, 2020), Table 3, Capacity of Operable Petroleum Refineries by State as of January 1, 2020.
*U.S. EIA, Refinery Capacity Report (June 21, 2019), Table 12, Refinery Sales During 2018.

2) https://www.weforum.org/agenda/2020/06/end-fossil-fuel-subsidies-economy-imf-georgieva-great-reset-climate/

HB-2278-HD-1
Submitted on: 2/23/2022 1:12:32 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Thomas Graham	Individual	Support	No

Comments:

Dear Chair Luke, Vice Chair Yamashita, and Committee Members,

HB 2278 HD1 is a critically important bill and I urge you to support it.

The bill would implement a key recommendation of Hawaii's 2020-2022 Tax Review Commission: Enact a carbon tax that reflects the social cost of carbon, and return most of the proceeds to households.

The carbon tax and credit would substantially reduce Hawaii's use of fossil fuels and go a long way toward meeting Hawaii's goal of becoming carbon neutral by 2045. Importantly, it also would set an important precedent for other states and the nation to follow.

Most of the tax under HB 2278 would be credited back to taxpayers, offsetting any effect the tax would have on prices to consumers. Also, since the credits would be in equal shares, the tax would be a progressive one. The University of Hawaii Economic Research Organization has found that lower and middle income households would actually come out ahead. In short, the bill offers a cost-effective and fair way to dramatically curb the use of fossil fuels.

Finally, please note that this carbon tax and credit would not conflict with or complicate other actions Hawaii can and should take to achieve its energy goals.

Thank you,

Thomas Graham

HB-2278-HD-1
Submitted on: 2/23/2022 2:40:33 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Douglas Perrine	Individual	Support	No

Comments:

If we had established a carbon tax 20 years ago, we could have helped to save human lives, coral reefs, forests, and other parts of this planet that we love. We are now paying the price with raging wildlfires, hurricanes, sea level rise, coral bleaching, etc. But it is not too late to make a difference. Please pass HB2278 will all due haste!

HB 2278 HD 1 TESTIMONY

To: House Committee on Finance
Hearing on Feb. 25, 2022 at 1:30 p.m.

From: John Kawamoto

Position: Support

Economists have called climate change the greatest market failure in history because the fossil fuel industry does not pay for all of the costs of fossil fuels. The burning of fossil fuels emits greenhouse gases, which are largely responsible for climate change, and society as a whole pays for the harmful impacts of climate change. The profits of the fossil fuel industry are elevated because it does not pay for these social costs.

The major greenhouse gas is carbon dioxide. When carbon dioxide is emitted into the atmosphere, it stays there for 300 to 1,000 years, according to the National Aeronautics and Space Administration (NASA). Carbon dioxide that is emitted into the atmosphere will have harmful climate impacts for many generations to come. Conversely, the carbon dioxide that we intentionally avoid emitting into the atmosphere will benefit many generations.

As a society, we are seeking to eliminate the burning of fossil fuels. The Legislature has passed a 100% renewable energy goal and a zero net emissions goal. But achieving those goals will not be easy because fossil fuels are baked into our way of life. We must be willing to make sacrifices to eliminate fossil fuels. If we don't act soon enough, climate change will cause a global catastrophe that will end civilization as we know it.

This bill proposes an economic approach to reducing fossil fuel emissions. It incorporates a model that has been endorsed by thousands of economists, including 28 Nobel Laureate economists, four former Chairs of the Federal Reserve, and 15 former Chairs of the Council of Economic Advisors.

The model assesses a tax on fossil fuels and distributes the tax revenue to people in equal shares. Those who consume low quantities of fossil fuel will experience a net financial gain. Conversely, those who consume very high quantifies of fossil fuel will experience a net financial loss. This model incentivizes people to reduce their consumption of fossil fuels.

Last year, a hearing was held on HB 1319, a bill that taxes fossil fuels and distributes benefits to people. The testimony was overwhelmingly in support of it. Testifiers cited mitigation of climate change and net financial benefits to people.

Of those who opposed the bill, most said they did so because they were uncertain of the outcomes. Since then, a study by the University of Hawaii Economic Research Organization (UHERO) entitled, "Carbon Pricing Assessment - Economic and Greenhouse Gas Effects," has been released. The Legislature funded the study with an appropriation of $150,000. The study is an in-depth evaluation of a fossil fuel tax, and it answers many of the questions that people had about it last year.

In evaluating the tax, the UHERO study examines a low tax scenario and a high tax scenario. In both scenarios, the tax rates would increase in stages over time, and in both scenarios the tax would substantially reduce greenhouse gas emissions.

The study also describes the results of distributing all of the tax revenue to households in equal shares. The study finds that the two tax scenarios would have opposite effects on household welfare. Under the high tax scenario, household welfare would diminish among households of all income quintiles, with the greatest loss experienced by households in the lowest income quintile. Under the low tax scenario, household welfare would increase among households of all income quintiles, with the greatest gain experienced by households in the lowest income quintile.

Under the UHERO low tax scenario, the average household in the lowest income quintile would experience a net benefit of $900 in the first year of the program. That net benefit would decline to $700 in the last year due to declining tax revenue. The declining tax revenue is consistent with declining fossil fuel consumption and declining greenhouse gas emissions, which is the purpose of the tax.

This bill adopts the low tax scenario of the UHERO study, with adjustments that ramp up the tax in stages. The bill also accelerates the time frame for the increases in the tax rates. That acceleration has been incorporated because, according to most climate scientists, new data show that we have less time than we previously thought to make the drastic changes needed to avoid a global climate disaster.

This bill assesses the tax using the existing Environmental Response, Energy, and Food Security Tax, also known as the barrel tax. It should be noted that the unit of measure used by the UHERO study ("MT CO2 Eq.") is different from the units of measure used by the barrel tax ("barrels" for petroleum and "millions of British thermal units" for other fossil fuels). HB 2278 makes the necessary conversions.

The UHERO study concludes that the low tax scenario would reduce greenhouse gas emissions 40% below 2019 levels. If revenues are distributed to households in equal shares, the tax would be progressive. This bill incorporates both of these ideas.

It should be noted that the amounts for the refundable tax credits should be revised. This bill is based on a draft that was provided to the introducer. When this bill was put into the Legislature's bill format, the figures for the refundable tax credits were not transferred correctly from the draft. Paul Bernstein is submitting testimony with the correct figures, and this bill should be amended to incorporate those figures.

Also, the economic model that this bill incorporates is also being considered at the federal level. Hawaii can demonstrate national leadership on climate change by passing this bill to pave the way for national legislation. As U.S. Supreme Court Justice Louis Brandeis once said, the states are the laboratories for democracy. To avoid potential duplication, this bill should be amended to be repealed in the year that any federal legislation that adopts the same model becomes operational.

With those amendments, I support the bill.

HB-2278-HD-1
Submitted on: 2/23/2022 4:29:50 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Thomas Brandt	Individual	Support	No

Comments:

Support.

HB-2278-HD-1
Submitted on: 2/23/2022 6:27:36 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Douglas Hagan	Individual	Support	Yes

Comments:

My name is Doug Hagan. I am a resident of Paia, Hawaii and a climate advocate volunteer with the Citizens Climate Lobby chapter here in Maui. These are solely my individual requests and opinions.

I am in support of a resolution to support HB 2278

- **Please enact a carbon tax this year and do not defer this important legislation to a later date.**
- **In December 2019 the Maui County Council unainmously passed Resolution #20-023 in support of national carbon pricing. ttps://www.mauicounty.gov/DocumentCenter/View/121433/Reso-20-023**
- **The Maui County Council passed Resolution #20-024 in full support of Hawaii state legislation supporting carbon pricing. https://www.mauicounty.gov/DocumentCenter/View/121434/Reso-20-024**
- **Please consider the voluminous research which has been done on carbon dividend as an effective solution for combating climate change - including a study published Columbia University and some of the benefits of a carbon dividend approach found here.**
- **Please consider the further studies of the Regional Economic Models, Inc. (REMI) found here.**
- **The Hawaii specific study shows that lower income population segments can benefit, rather than negatively impact the more vulnerable segments of our island population. Please consider returning more of the carbon tax – as is done by the carbon dividend approach.**
- **from Hawaii Tax Review Commission Study - The Hawaii Tax Review Commission, composed of citizens selected by Governor Ige recently recommended a carbon fee and dividend model. It is first on their list of recommendations. With fossil fuels priced to include their planetary impact, a fee incentivizes using alternatives to fossil fuel for energy production, gas-powered appliances and vehicles, which would in turn reduce the devastating effects of climate change. The dividend more than covers the increased cost for those who use less or no fossil fuels.**

- **The UHERO study answers many of the questions about a tax on fossil fuels. However, the study was issued after the only bill taxing fossil fuels that received a hearing in 2021 had died (HB 1319).**
- **In evaluating the tax, the UHERO study examines a low tax scenario and a high tax scenario. In both scenarios, the tax rates would increase in stages over time, and in both scenarios the tax would substantially reduce greenhouse gas emissions. The study also describes the results of distributing all of the tax revenue to households in equal shares. The study finds that the two tax scenarios would have opposite effects on household welfare. Under the high tax scenario, household welfare would diminish among households of all income quintiles, with the greatest loss experienced by households in the lowest income quintile. Under the low tax scenario, household welfare would increase among households of all income quintiles, with the greatest gain experienced by households in the lowest income quintile. Under the low tax scenario, the average household in the lowest income quintile would experience a net benefit of $900 in the first year of the program. That net benefit would decline to $700 in the last year due to declining tax revenue. That decline is consistent with declining greenhouse gas emissions, the purpose of the tax.**

Thank you

--Doug

Citizens'

Financial Impact on Households of Carbon Fee and Dividend

Local Impacts in Hawaii

Introduction

This study on the impact to households of Carbon Fee and Dividend was funded to respond to concerns expressed by members of Congress that constituents in their state would not benefit under our proposal. Key to the concerns expressed was not only understanding how the average constituent did, but how different groups of constituents fared. Concern for low-income constituents, for instance, is common for members of both parties.

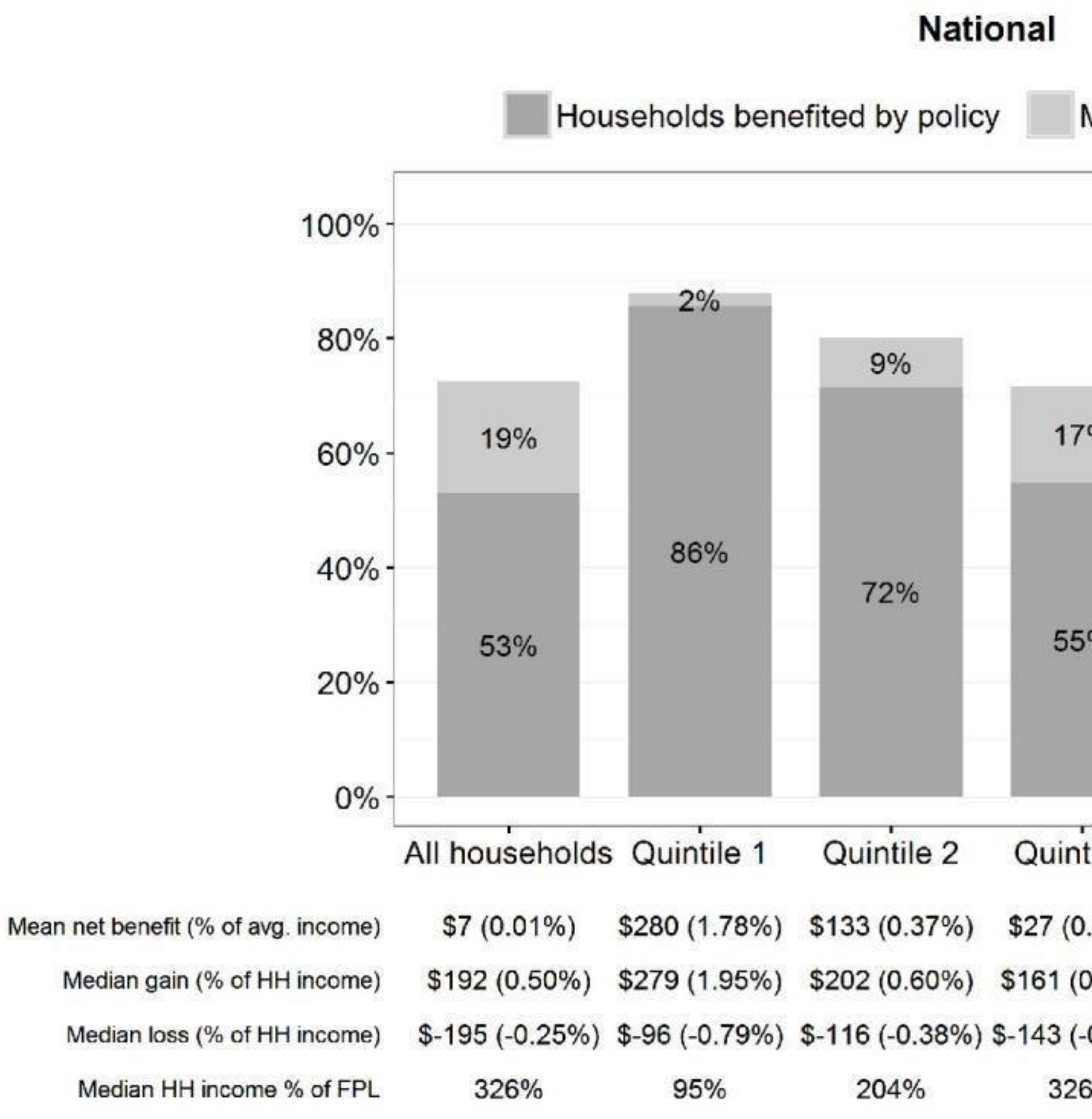


Figure 1: National Averages by Economic Quintile. Note that the three lowest-income quintiles show a benefit for the mean (average) household. The average net benefit for the lowest-income quintile is 1.78% of income, whereas households in the top quintile

experience, on average, net losses that are a much smaller percentage of their total income, at just 0.18%.

All data is from the 2016 working paper, "Impact of CCL's proposed carbon fee and dividend policy: A highresolution analysis of the financial effect on U.S. households" by Kevin Ummel, Research Scholar, Energy Program, International Institute for Applied Systems Analysis (IIASA).

Current working paper and summary available at
http://citizensclimatelobby.org/household-impact/

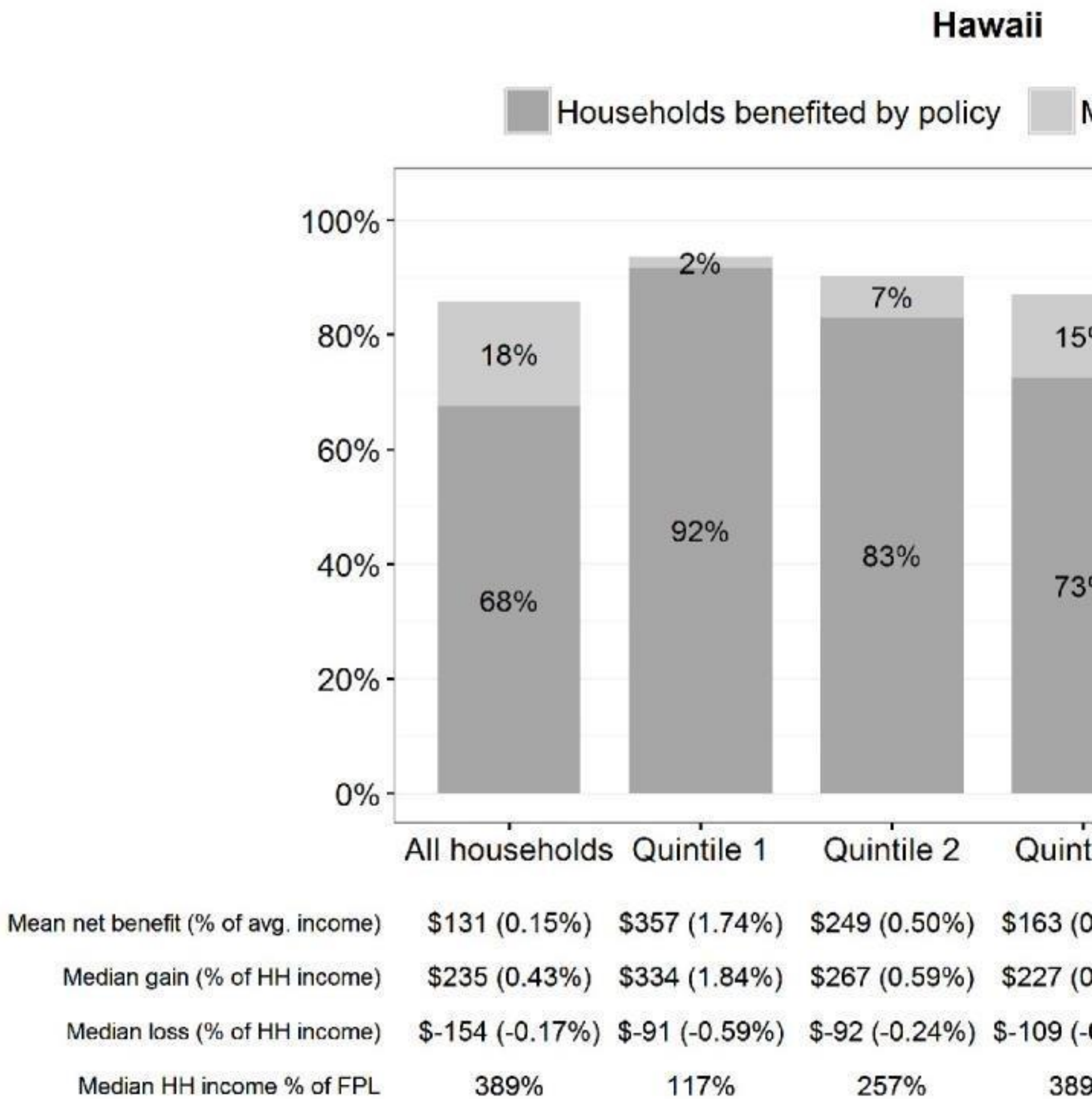
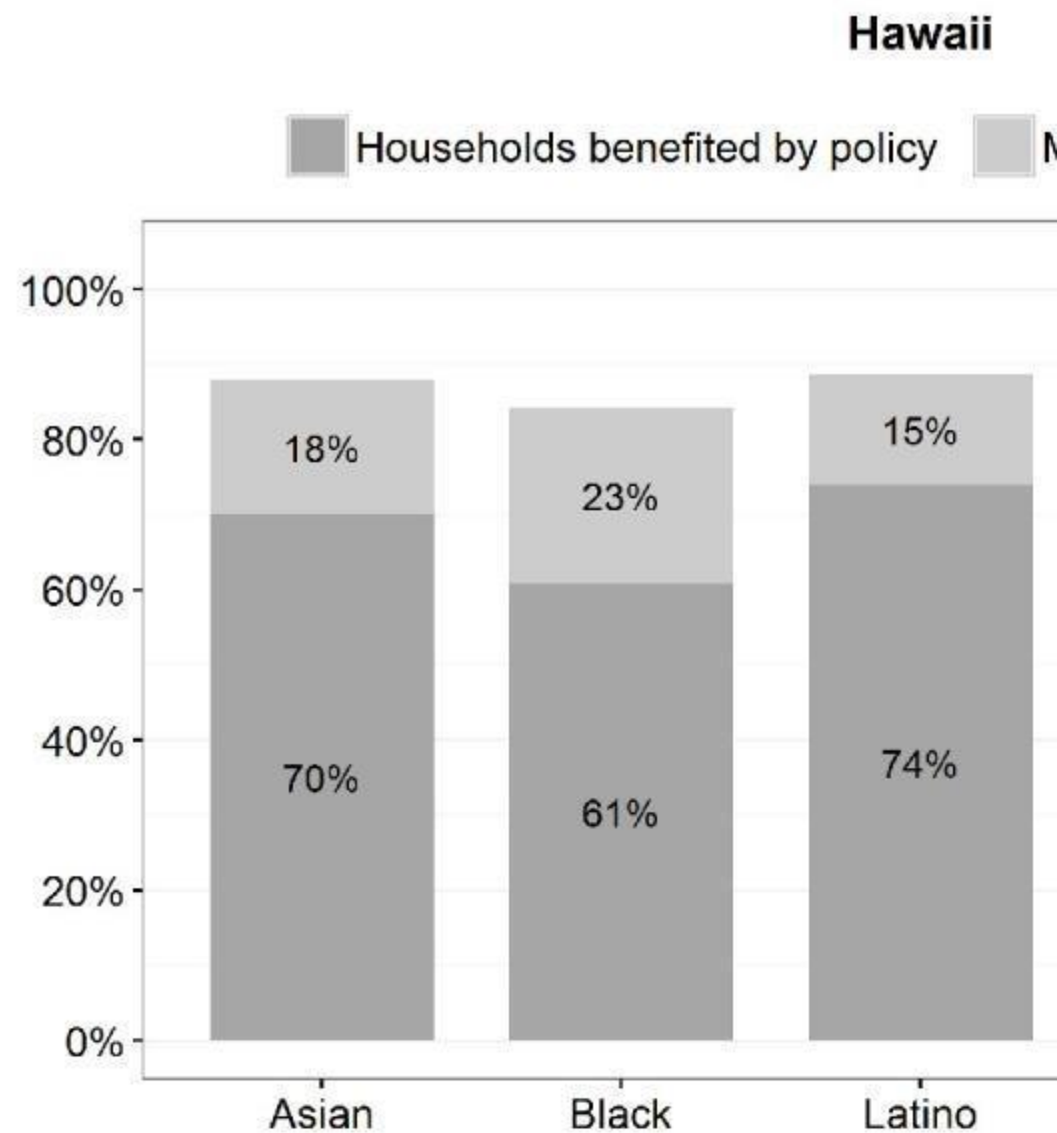


Figure 2: Impact by Quintile for Hawaii. Looking at the categories on the bottom of this graph, only the numbers for "Mean Net Benefit" and "Median HH income % of FPL" include all households in a given quintile (FPL = Federal Poverty Line). Only those households who receive a financial gain are included in calculating the "Median Gain"

figures, and likewise, only those households which experience a loss are included in calculating the "Median Loss" figures.



	Asian	Black	Latino
Mean net benefit (% of avg. income)	$157 (0.18%)	$77 (0.11%)	$192 (0.27%)
Median gain (% of HH income)	$246 (0.42%)	$203 (0.31%)	$262 (0.54%)
Median loss (% of HH income)	$-145 (-0.15%)	$-106 (-0.18%)	$-127 (-0.18%)
Median HH income % of FPL	404%	391%	312%

Figure 3: Impact by Race for Hawaii. Minority households tend to do better than white households as a result of lower average incomes (associated with lower carbon footprint) and/or more people per household (larger pre-tax dividend).

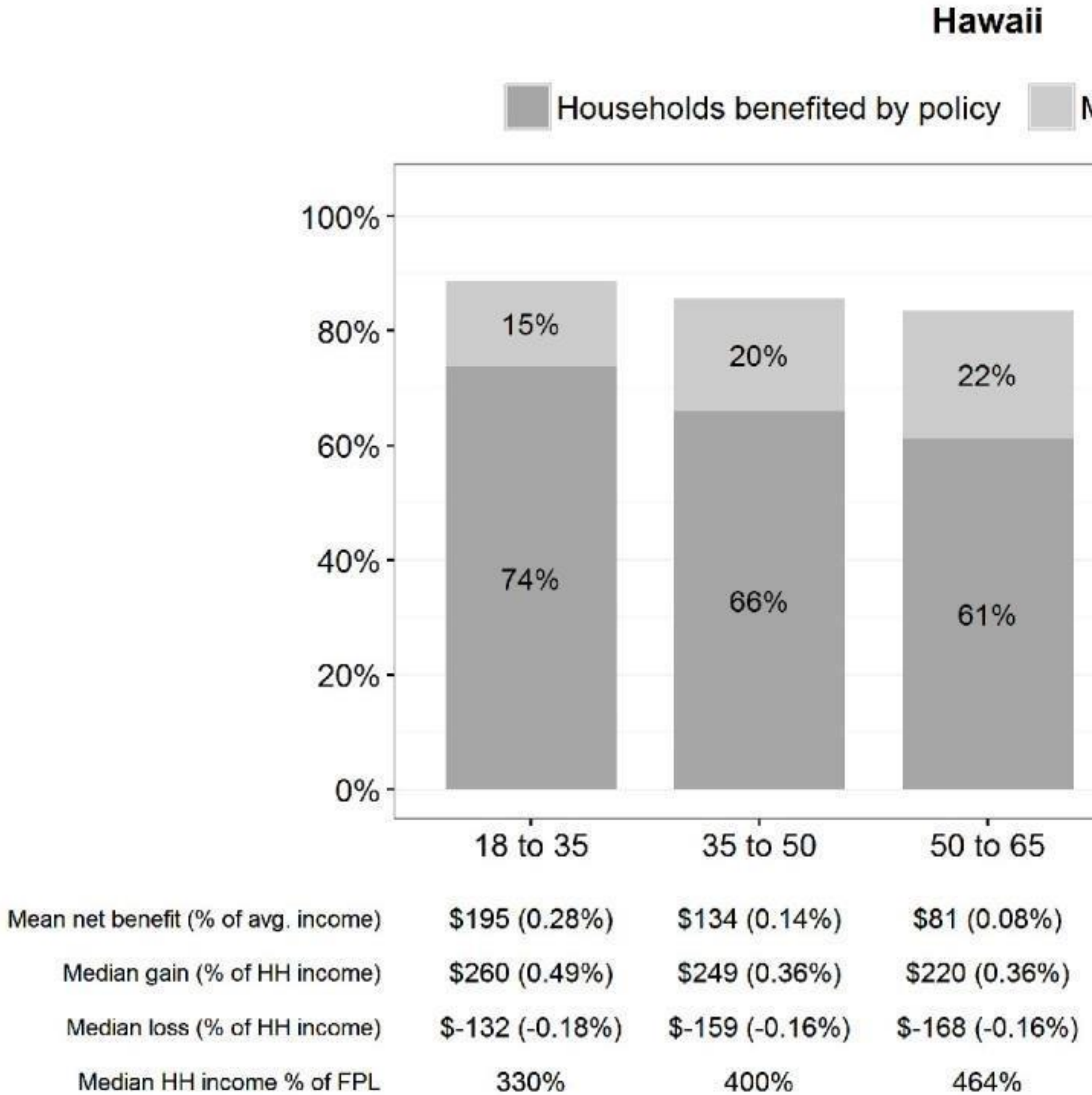
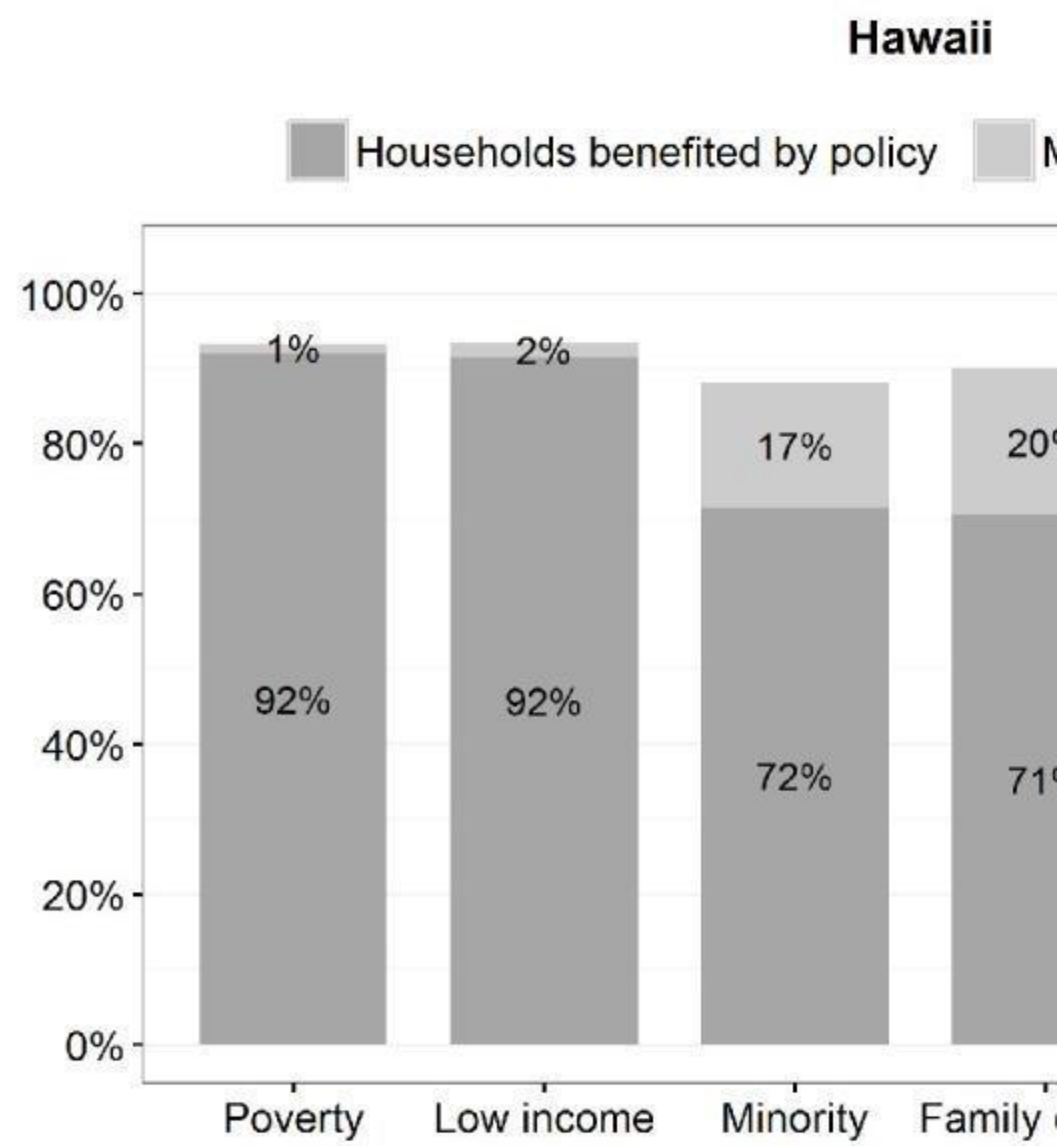


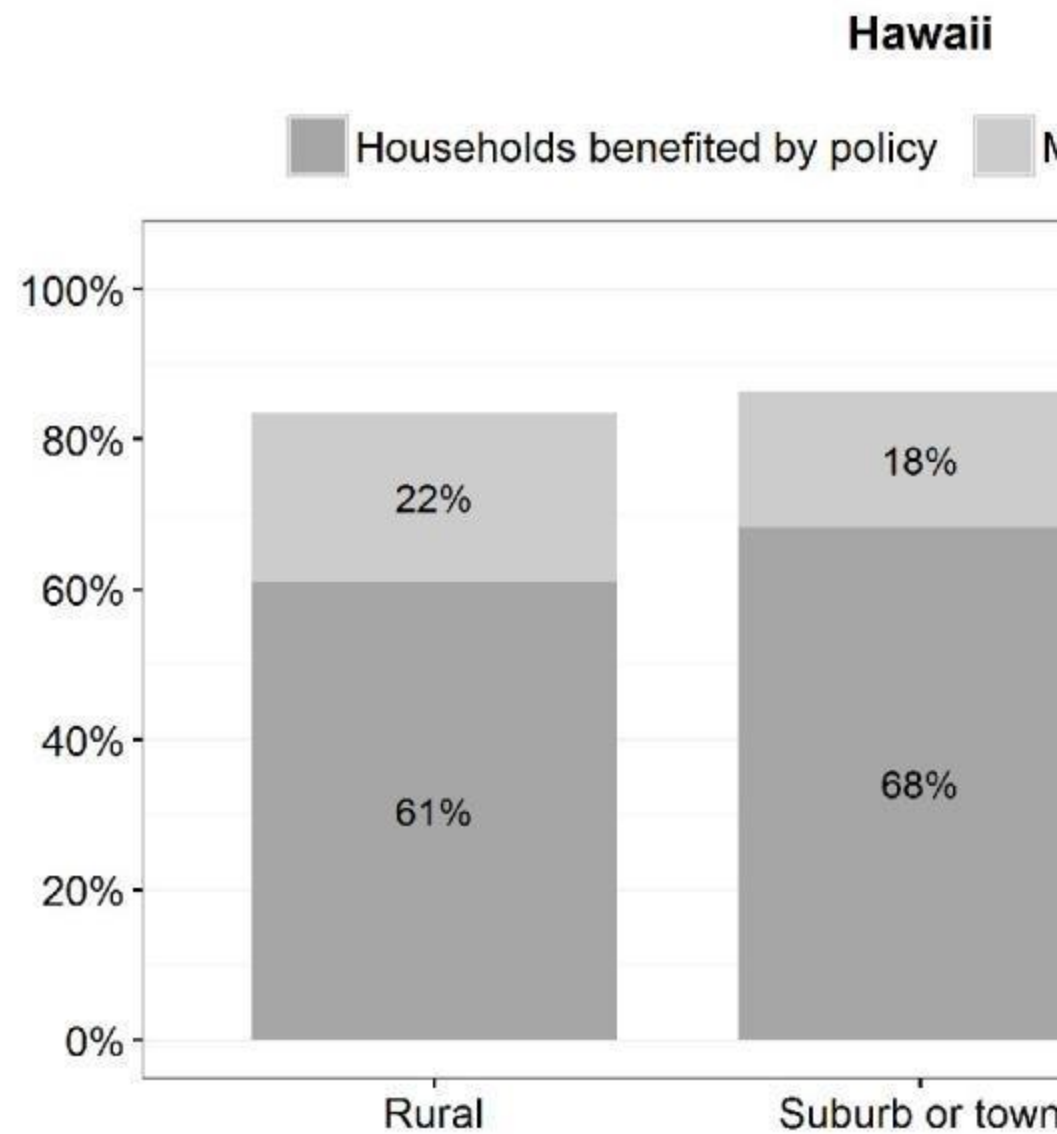
Figure 4: Impact by Age Group for Hawaii. The pattern of benefits across age groups makes sense given the impact of age on both carbon footprints and dividend received. Older households tend to have smaller footprints, reflecting reduced mobility and less consumption as a result of low fixed incomes. Younger households tend to be larger – and therefore benefited by the dividend formula – in addition to less income/consumption in early career.



	Poverty	Low income	Minority	Family
Mean net benefit (% of avg. income)	$383 (3.52%)	$351 (1.64%)	$176 (0.21%)	$145 (0
Median gain (% of HH income)	$348 (3.38%)	$328 (1.73%)	$259 (0.46%)	$290 (0
Median loss (% of HH income)	$-90 (-0.97%)	$-92 (-0.58%)	$-144 (-0.16%)	$-177 (-
Median HH income % of FPL	70%	122%	372%	367

Figure 5: Impact by Household Type for Hawaii. This graph reports data for demographic groups of particular interest to many legislators. “Elderly” households are defined as having a household head age 65 or older, no more than two adults, and no children present.

"Poverty" and "Low income" refer to households with income below 100% and 200% of FPL, respectively.



	Rural	Suburb or town
Mean net benefit (% of avg. income)	$69 (0.08%)	$146 (0.17%)
Median gain (% of HH income)	$217 (0.37%)	$246 (0.43%)
Median loss (% of HH income)	$-160 (-0.17%)	$-159 (-0.16%)
Median HH income % of FPL	418%	389%

Figure 6: Impact by Community for Hawaii. This graph breaks down data by "community type" – Rural, Suburb or Town, vs Urban.

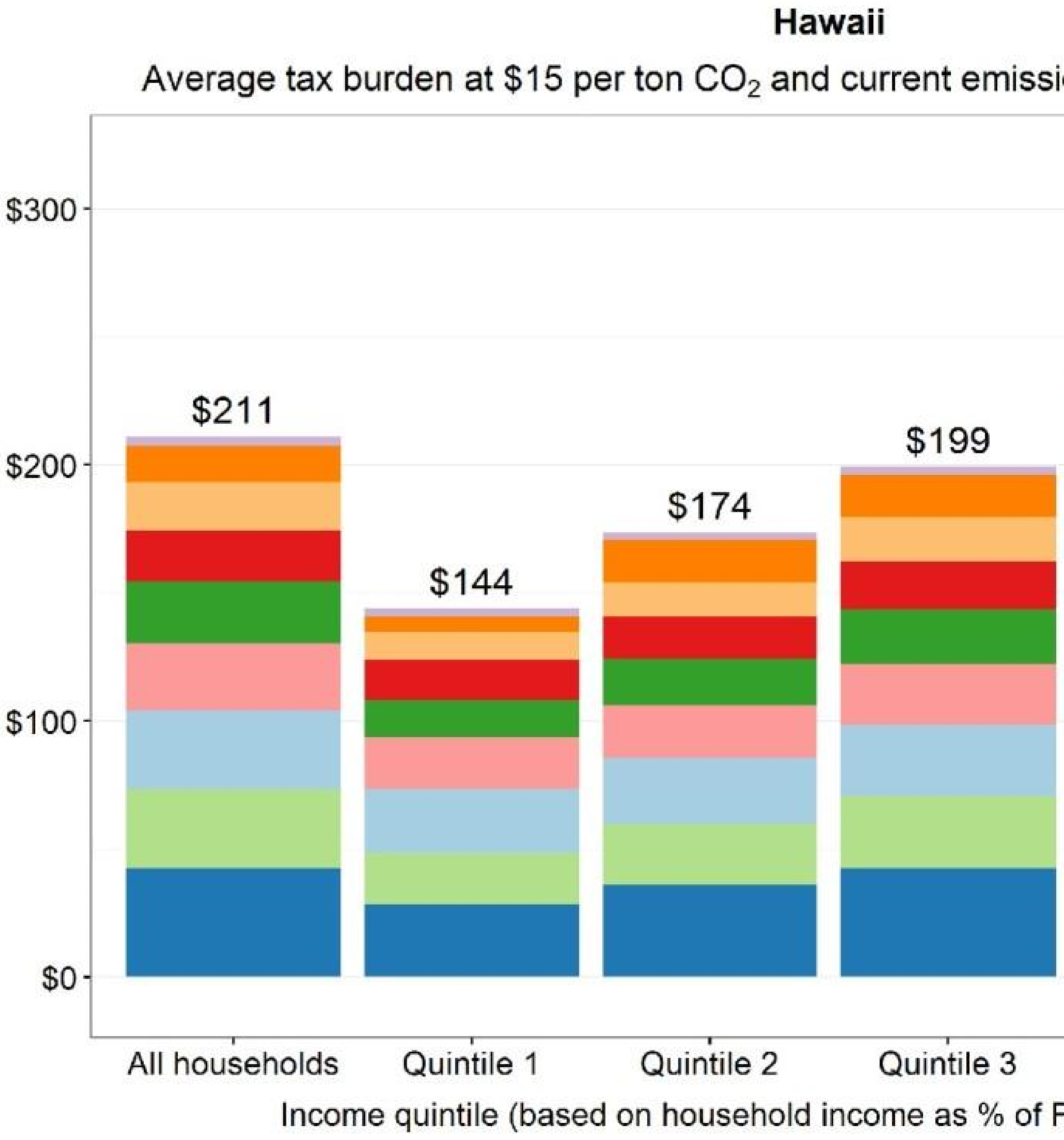


Figure 7: Expenditures by Category for Hawaii. Here we show a breakdown of where the carbon fee increases expenses (i.e. before the dividend) for each quintile. Note that direct energy expenditures (gasoline and utilities) represent less than half of the expense for most quintiles with other products and services making up the rest. Quintile 1 shows low expenditure for private health care since most health care for households in this quintile is covered by government programs. Allocated Private Fixed Income (PFI) measures economy-wide spending on fixed assets (e.g. structures, equipment, software, etc.) that are used in the production of goods and services.

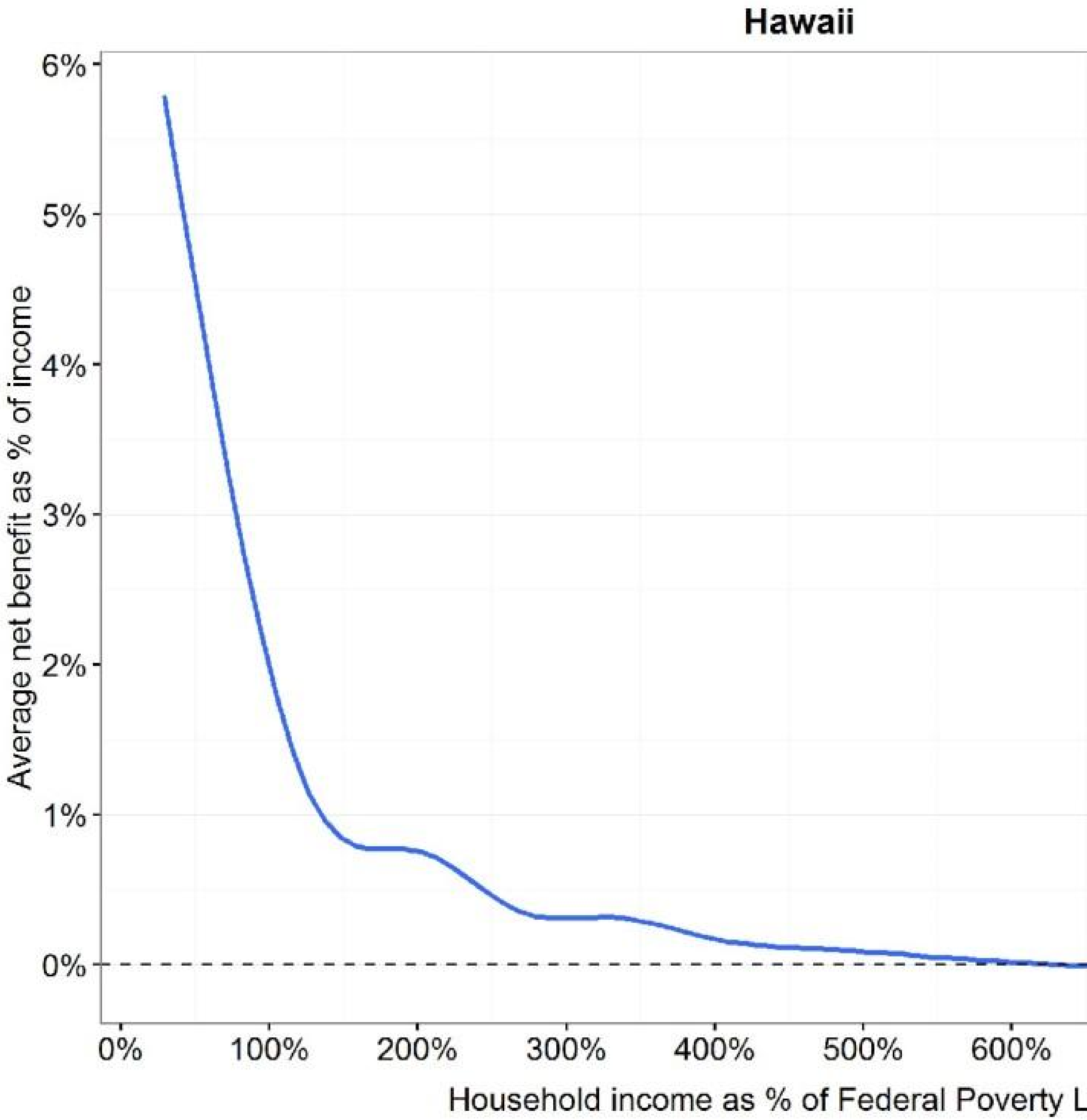


Figure 8: Relationship between benefit and income for Hawaii. This line graph shows the relationship between income expressed as a percentage of the Federal Poverty Level (FPL) vs. the average (mean) benefit as a percentage of income for households. Benefits are highest for those at the lowest income levels and generally positive through 200-300% of

the FPL. Average loss for those with higher incomes is relatively small as a percentage of annual income. To avoid anomalies from small sample size at the margins, this graph does not include results for households in the bottom 1% of income, nor those above the 90th percentile of income in Hawaii. This graph also does not convey information about how much of the population in Hawaii is at any given point along the line.

HB-2278-HD-1
Submitted on: 2/23/2022 9:01:47 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Preslee Alonso	Citizens Climate Lobby	Support	No

Comments:

Dear Chair Luke, Vice Chair Yamashita, and Members of the Committee on Finance,

My name is Preslee Alonso and I live in Hilo, Hawaii. I am writing to inform you that I strongly support HB2278 because I believe that the Carbon Fee and Dividend system is the most logical and efficient way to a) participate in climate change mitigating procedures-considering the peak interest of the general public regarding their safety and well-being in regards to shifting environmental paradigms-and b) hold all major contributors accountable for their own actions and [hopefully] future reinvention. I respectfully urge your support for HB2278, and I sincerely appreciate your time.

Mahalo Nui Loa for everything you do for this great state,

Preslee Alonso

HB-2278-HD-1
Submitted on: 2/24/2022 4:47:31 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Virginia Tincher	Individual	Support	No

Comments:

Aloha Chair Luke, Vice Chair Yamashita and members of the House Finance Committee:

Strong support for HB 2278 HD1

- HB 2278 strengthens other environmental policies aimed at reducing emissions and incentivizing clean energy and energy efficiency. It's an AND policy.
- It is the number 1 recommendation of the Hawaii State Tax Review Commission - "Impose a carbon tax to incentivize moving away from carbon-based fuels and adopting clean energy. We recommend that the majority of the proceeds be rebated as a cashback to the residents of Hawaiʻi, with a disproportionate distribution to low-income households"
- Most Hawaii residents will enjoy net benefits from the cashback refund, over and above the additional costs they may pay to carbon-polluting businesses. The more they shift to cleaner energy and goods, the more money they will save—and the more they will contribute to Hawaii's climate goals.
- The UHERO study concludes that the low tax scenario would reduce greenhouse gas emissions 40% below 2019 levels.
- According to most climate scientists, new data show that we have less time than we previously thought to make the drastic changes needed to avoid a global climate disaster. HB 2278 answers that concern with adjustments that ramp up the tax in stages. The bill also accelerates the time frame for the increases in the tax rates with a bigger benefit back to residents to accelerate their transition to low emission products and lifestyle like energy efficiency, electric products and electric vehicles.
- A 2021 study of carbon taxes in Canada and Europe found "carbon taxes do not have to be inflationary and may even have deflationary effects. In particular, our evidence suggests that the increase in energy prices was more than offset by a fall in the prices of services and other non-tradables."

HB-2278-HD-1
Submitted on: 2/24/2022 6:46:35 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Barbara Best	Individual	Support	No

Comments:

This is essential to lower carbon emissions and ameliorate higher prices so that taxpayers don't suffer financial consequences of cleaner air.

HB-2278-HD-1
Submitted on: 2/24/2022 7:06:22 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Carol Lafond	Individual	Support	No

Comments:

I strongly support HB2278 because it helps to attack the climate change problem and returns money to those most affected as the additional cost of carbon fuel increases.

HB-2278-HD-1
Submitted on: 2/24/2022 7:44:43 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Tawn Keeney	Individual	Oppose	No

Comments:

Members of the House Committee on Finance,

It would be widely agreed that HB2278 HD1 is one of the two or three most important Bills of this session. Pricing Carbon is of profound importance to society. However, please consider the following comments:

From the preamble to the bill HB2278: “The World Bank asserts that "carbon pricing is the most effective way to reduce emissions, and all jurisdictions must go further and faster in using carbon pricing policies as part of their climate policy packages.”

The preamble continues: "Over three thousand five hundred economists, twenty-eight Nobel Laureate economists, four former chairs of the Federal Reserve, and fifteen former chairs of the Council of Economic Advisors have signed a statement endorsing carbon pricing. The statement reads, in part, "[a] carbon tax offers the most cost-effective lever to reduce carbon emissions at the scale and speed that is necessary." The statement goes on to say that the carbon tax should be increased until emission reduction goals are met.”

My Testimony will examine HB2278 in the context of 1) the Bill's frequently referenced UHERO (University of Hawaii Economic Research Organization) Carbon Pricing Study; 2) the above referenced quotations in the preamble; 3) the international embrace of carbon pricing, as the United States has lagged far behind the world's standard bearers in this regard.

The price on carbon proposed in HB2278 and scaled over the next 20 years is insufficient to have significant effect toward Hawaii GHG mitigation efforts. The effect will be to retard meaningful progress by diverting meaningful solutions. This legislature must adopt a more aggressive price on carbon which will be effective toward Hawaii’s Climate Goals. We were the first state to set a Carbon Neutrality goal by 2045 and the first state to declare a climate emergency. We must lead aggressively again.

HB2278, in its preamble, states: “The UHERO study examines two levels of carbon taxes – a low tax scenario and a high tax scenario.” “This Act incorporates many of the elements of the ‘low tax scenario’ of the UHERO study.” UHERO’s 'low tax scenario' begins with a carbon price of $50/ton of emitted CO2(e) and reaches $70/ton by 2045. The 'high tax scenario begins at $250/ton of emissions and hits $1000/ton by 2045. HB2278's Carbon price in 2024 averages about $15/barrel of oil. This is the equivalent of approximately $40/ton of emitted

CO2(e). This rises to about $80/ton CO2(e) in 2035 and remains at that level. HB2278's schedule is therefore slightly more aggressive than UHERO's 'low tax scenario'.

The Conclusion of the UHERO study says the following about the effects of this 'low tax scenario'. "... reduces Hawai‘i's cumulative GHG emissions between 2025 and 2045 by 25 MMT (million metric tonnes) CO2(equivalents). In the year 2045, GHG emissions are 13% below 2045 baseline levels and 40% below 2019 levels." UHERO is here recognizing that within the current regulatory framework, Hawaii will see a reduction in GHG emissions. Adding the 'low tax scenario' will decrease the emission levels in 2045 another 13%. With the current regulatory framework and the 13% reduction by this tax, by 2045 yearly emissions will reach a 40% reduction below 2019 levels. With this tax, total accumulated CO2 will decrease by 25 million tons by 2045. Again, HB2278 will be slightly more aggressive than this 'low tax scenario'. UHERO posits a 'high tax scenario' also. It starts at $240/ton CO2(e) emissions and reaches $1000/ton by 2045. In this scenario the cumulative GHG CO2(e) emissions are reduced by 150 million tons, not the 25 million tons achieved by 'low tax'. In the year 2045 emissions are 70% below 2045 baseline (not the 13% in the low tax scenario) levels, and 80% (not the 40% achieved in the 'low tax scenario') below 2019 levels. This is much closer to Hawaii's goal of 100% carbon neutrality by 2045.

The UHERO study posits that by 2045 under the low tax scenario vehicle miles travelled by Electric Vehicles increases by 8%, and 52% under the 'high tax scenario'.

The high tax scenario achieves the goals of the World Bank, the economists & the Nobel laureates, but at what cost to the economy? The UHERO study has the answer: "The higher carbon tax scenario, $1000/ton CO2(e) leads to a much bigger drop in total output than the lower tax scenario. By 2045 there is a -4.7% difference in total output from the baseline...." "Note that these declines are relative to a baseline of growing GSP (Gross State Product). Thus it is not adecline from the 2019 economy, but rather represents a slower growth pathway." The conclusion is that the economy will grow 'somewhat' more slowly in the 'high tax scenario'. However, rather than the carbon emissions declining by 25 million tons, they will diminish by 150 million tons. Rather than a 13% drop in greenhouse gas emissions, a 70% drop will be achieved.

DBEDT in 2018 projected the Hawaii economy in 2020 would reach 86 billion in GSP (gross state product) and by 2045 will have reached $131 billion (in 2012 dollars). A 4.7% drop in total output will place the economy instead at $125 billion. The authors of HB2278 endorse a cost/benefit analysis which some (particularly the children) might find quite questionable, a 5% drop in the economic output discourages the 125 million tons saved in GHG emission. Consider the world stage. Canada has committed that it's current carbon price of $40CAN/ton will reach $170CAN/ton ($130US/ton) by 2030. The current price of carbon emissions in the EU European Trading System is $94US/ton CO2(e) emissions, and analysts expect a rise to $105 by 2024. Sweden's Carbon tax currently is $127US/ton.

There is a third alternative between the 'low tax' and 'high tax scenarios. The UHERO study states "There are decreasing gains in GHG abatement around $300-400/ton CO2(e) as the marginal cost of abatement increases rapidly at these carbon prices."

This ‘middle ground’ might start at the $40/ton level but increase much more rapidly, as encouraged by this Bill’s World Bank reference, the three thousand economists and twenty eight Nobel laureates. One year ago this legislature resolved that there exists a Climate Emergency. Enacting a Carbon Tax in the ‘Low Tax Scenario’ would effectively deny that the Climate Emergency is real. Consideration should be given to reaching at least the price on Carbon achieved in Canada and Europe by 2030, presumably at least $130/ton, and then $200/ton by 2035, and then $300 to $400/ton by 2045.

Please amend this bill in such a way as to reflect that the Climate Emergency is real, and we are committed to a response that reflects the gravity of the existential threat.

Mahalo for your consideration

Tawn Keeney MD

HB-2278-HD-1
Submitted on: 2/24/2022 8:30:17 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Elena Arinaga	Individual	Support	No

Comments:

I support this very important bill.

HB-2278-HD-1
Submitted on: 2/24/2022 10:19:04 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Paul Bernstein	Individual	Support	Yes

Comments:

Aloha Chair Luke, Vice Chair Yamashita, and members of the Finance Committee:

Mahalo for hearing HB 2278. I'm writing in **strong support** with amendments. As a co-author of the carbon pricing studies submitted to the Hawaii State Energy Office (2021 - https://energy.hawaii.gov/carbon-pricing-study) and the Tax Review Commission (2022 - https://tax.hawaii.gov/stats/tax-review-commission), I support the bill for the following reasons:

1. It is the **most cost-effective and efficient policy** to reduce carbon emissions as it directly addresses these emissions by internalizing the social cost of burning fossil fuels and thereby correcting an existing market failure. For more on why carbon pricing is more efficient and effective than mandates, please see: https://carbontaxnetwork.org/tag/gilbert-metcalf/
2. It is an "AND" policy when it comes to reducing emissions as it **strengthens other environmental policies** aimed at reducing carbon emissions, e.g., HB1800, HB1801, and HB1809, because it makes using fossil fuels more expensive. The latter two are being heard by this committee.
3. It is **progressive**. On average, it financially benefits low and middle income households. Benefiting the lowest income individuals the most because on average they spend the least and receive the same dividend as everyone else.
4. It **addresses the environmental impacts of visitors** and compensates residents. Visitors will pay the carbon tax just like the transient authority tax (TAT), and as a bonus, the carbon tax revenues will go only to Hawaii residents.
5. Tying everything together. Because this policy is transparent, it **provides households and businesses with the clearest signal to reduce emissions**. Because the policy, unlike mandates, returns money to people thus financially helping them transition to a low carbon economy.

As a parent, I would like to leave for my children a better, more livable planet. I see carbon pricing with the returning of revenues to residents as one of the best hopes to do so. Though other policies are also needed to address climate change, from the analysis in which I've participated, I believe this policy is the most efficient, effective, and equitable path forward for a cleaner Hawaii and planet and therefore a necessary policy.

Please pass HB2278 out of your committee. As a postscript, I've included amendments to correct errors in the payment (cashback) tables.

Respectfully,

Paul Bernstein

Amendments
HB 2278 was based on a draft of a bill. However, somewhere between the bill draft and HB 2278, a couple of errors cropped up into the payment tables in Section 2. In the first table, Section 2-235 (1), the title should include qualifying widow, head of household in addition to single and married filing separately. The second table, Section 2-235 (2), should be for married filing jointly, which is why the amounts are twice as much as the amounts in table 1. The third table, Section 2-235 (3), is for minors whether they are declared as dependents or file their own tax returns. They are to receive a half share (i.e., half as much as an adult), which is why the amounts are half as much as those in table 1.

The corrected tables are as follows:

(1) For taxpayers filing as single, married filing separately, qualifying widow, or head of household:

(A) (i) $65 for the taxable year beginning on January 1, 2023;

(ii) $210 for the taxable year beginning on January 1, 2024;

(iii) $360 for the taxable year beginning on January 1, 2025;

(iv) $380 for the taxable year beginning on January 1, 2026;

(v) $420 for the taxable year beginning on January 1, 2027;

(vi) $440 for the taxable year beginning on January 1, 2028, and for every taxable year thereafter through December 31, 2031;

(vii) $450 for the taxable year beginning on January 1, 2032;

(viii) $460 for the taxable year beginning on January 1, 2033;

(ix) $470 for the taxable year beginning on January 1, 2034; and

(x) $480 for the taxable year beginning on January 1, 2035, and for every taxable year thereafter; and

~~(B) $ per qualifying child;~~

(2) For taxpayers ~~filing~~ as married filing jointly ~~as a head of household~~:

(A) (i) $130 for the taxable year beginning on January 1, 2023;

(ii) $420 for the taxable year beginning on January 1, 2024;

(iii) $720 for the taxable year beginning on January 1, 2025;

(iv) $760 for the taxable year beginning on January 1, 2026;

(v) $850 for the taxable year beginning on January 1, 2027;

(vi) $880 for the taxable year beginning on January 1, 2028, and for every taxable year thereafter through December 31, 2031;

(vii) $900 for the taxable year beginning on January 1, 2032;

(viii) $920 for the taxable year beginning on January 1, 2033;

(ix) $940 for the taxable year beginning on January 1, 2034; and

(x) $960 for the taxable year beginning on January 1, 2035, and for every taxable year thereafter; and

~~(B) $ per qualifying child; and~~

(3) For qualifying child or minor ~~taxpayers filing a joint return or as a surviving spouse~~:

(A) (i) $30 for the taxable year beginning on January 1, 2023;

(ii) $100 for the taxable year beginning on January 1, 2024;

(iii) $180 for the taxable year beginning on January 1, 2025;

(iv) $190 for the taxable year beginning on January 1, 2026;

(v) $201 for the taxable year beginning on January 1, 2027;

(vi) $220 for the taxable year beginning on January 1, 2028, and for every taxable year thereafter through December 31, 2032;

(vii) $230 for the taxable year beginning on January 1, 2033;

(viii) $230 for the taxable year beginning on January 1, 2034; and

(ix) $240 for the taxable year beginning on January 1, 2035, and for every taxable year thereafter; and

~~(B) $ per qualifying child.~~

HB-2278-HD-1
Submitted on: 2/24/2022 10:23:51 AM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Jim Nicolow	Individual	Support	No

Comments:

I am writing to encourage support of a refundable income tax credit to mitigate the effect of a carbon emisssions tax on taxpayers, specifically helping to address the potentially disproportionate impact of a tax on low-income families

HB-2278-HD-1

Submitted on: 2/24/2022 11:16:39 AM

Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Matthew Geyer	Individual	Support	Yes

Comments:

I am testifying in STRONG SUPPORT of HB2278 HD1.

Programs very similar to HB2278 have been studied both here in Hawaii and nationwide showing that when a program like this is implemented, carbon emissions are reduced while the majority of families financially are better off, especially low income families.

Companies who import fossil fuels into Hawaii will pay into this program, and the people of Hawai'i will reap the benefits, both financially from the tax credit, as well as from a signficant reduction in air pollution from burning fossil fuels here in Hawai'i.

Essentially, the companies that import fossil fuels into Hawaii would pay an increased fee for importing these polluting fuels, while a tax credit given back to resident taxpayers, would more than offset any increased costs that these companies pass on to consumers.

The resident tax credit is wholly paid for by the fossil fuel fee, including administration of the program.

HB2278 HD1 is a big win for our environment and for the vast majority of the residents of Hawaii, especially low income residents.

Thank you for hearing and supporting this urgently needed measure.

I would also suggest looking at the tax credit distribution tables to see if it should be amended to distribute the taxes more fairly amongst varying tax filing groups.

Matthew Geyer

HB-2278-HD-1
Submitted on: 2/24/2022 12:20:09 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Logan Lee	Citizens' Climate Lobby	Support	No

Comments:

Aloha Chair Luke, Vice Chair Yamashita, and members of the Finance Committee:

Thank you for taking the time to consider this bill today. My name is Logan and I am a high schooler from the island of Oahu. Bills regarding all types of climate change have always caught my attention; however, this bill is especially important to me because of its goal: reducing greenhouse gas emissions. Carbon emissions are the root of the problems affecting everyone on the globe today. Living in Hawaii, effects are especially present— in our weather, in our oceans, all throughout our daily lives. Though I have only lived here for the 15 years of my life so far, some of which I cannot even remember, I can notice the changes around our island. My life and culture are tied to this state and especially the uniqueness of our islands.

Unlike some places on the mainland, our islands are not yet spoiled with pollution and effects of human choices. Many of our beaches, mountains, and nature still stand pristine and preserved. Not only does our state depend on these places for our economy, but they are a large part of our identities as Hawaiian citizens. We stand proudly beside our land and say, "This is our āina and we have taken care of it." However, our use of fossil fuels has directly contradicted this effort. Every day longer we wait to implement legislature to prevent more greenhouse gases joining our atmosphere is another push we will need to make in the future and another puff of carbon emissions we cannot take back. Cutting the problem at the bud right now can help mitigate the effects in the future. Perhaps our future is already bleak, but passing this bill will brighten it. Please be the sun in the clouds that the citizens of Hawaii and the world need you to be.

HB-2278-HD-1
Submitted on: 2/24/2022 12:57:09 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Carol Cam	Individual	Support	Yes

Comments:

Good afternoon, Chair, Vice Chair, & members of the Finance Committee.

Mahalo for hearing this testimony.

Climate Change has affected me in several ways: Elders suffer severe dehydration; students suffer oppressive heat; drought and wildfires occur more often; nearby coral reefs die; storms damage electricity and communication; storm debris and coastal erosion block highways; and goods and services are interrupted.

The reasons for my position on HB2278 HD1 are:
Hawaii needs cost-effective climate action immediately, such as a progressive economic policy, that protects low- and middle-income households. Hawaii needs to quickly transition to cleaner energy AND transportation. Hawaii CAN do that with a gradually rising tax on fossil fuels entering our economy and by passing along revenues to residents. Price increases would be offset if the money is returned to all residents as dividends.

A carbon fee is the least intrusive, smallest government solution to the problem. It requires much less government than regulations or government spending. Not addressing climate change is likely to grow the government as more money is spent on disaster relief, crop insurance, flood prevention, etc. Carbon fee-and-dividend policy is the most cost-effective way to reduce carbon emissions at the scale and speed that is necessary, and taxing pollution is perfectly consistent with free-market principles.

There is broad agreement among economists that carbon pricing reduces emissions. Real world examples back it up. Details matter -- what is covered, what the price is and how quickly it rises, and are there loopholes such as offsets. Experts agree that carbon pricing is an essential component of any comprehensive climate solution. While it is not the entire solution, pricing carbon can quickly and effectively reduce emissions across the entire economy.

Solving climate change will require a big investment in new emissions reduction infrastructure and technology: wind turbines, solar panels, electric vehicles, building retrofits, etc. Most of this investment will come from the private sector (corporations, small businesses, households, etc.), and some will be funded by public investments at the local, state and national level.

Though innovation proposals may be beneficial, they are only a partial solution if they don't reduce emissions quickly. A legitimate question is then how to encourage innovation across all possible solutions. Government tax incentives and spending focus unevenly on a limited set of solutions and do not provide a long-term market for the innovation. A price on carbon emissions creates an even price signal, encouraging all innovations to reduce emissions.

Hawaii has the nation's highest electricity and natural gas rates, so Hawaii will continue to suffer from high energy prices, if it depends on imported fossil fuels. All of us need to quit using fossil fuels quickly. I believe carbon pricing can be very effective AND fair in helping to do that. I urge you to pass HB2278 HD1. Mahalo.

HB-2278-HD-1
Submitted on: 2/24/2022 1:21:41 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Ruth Robison	Individual	Support	No

Comments:

The concept of this bill was the top recommendation of the Tax Review Commission. They recommend a carbon tax and giving most of the funds back to Hawaii residents. The first UHERO study that was commissioned by the legislature answered the legislature's concern about the cost of the policy to residents. The study found that on average low and middle income households benefit.

This bill is consistent with Hawai`i’s leadership in renewable energy. It is an effective strategy for cutting back on one of the main causes of climate change. I strongly believe that the climate crisis is the most important issue of our time. We see its destructive effects all around us and this is only the beginning. Models of the effects of the warming of the earth show that eventually the tradewinds will stop blowing across Hawai`i. We must act now to prevent such dire consequences. Thank you.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-2278-HD-1
Submitted on: 2/24/2022 2:05:41 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Cynthia Conrad	Individual	Support	No

Comments:

Climate change is our most pressing matter. It affects our economy, our health, and our future. Please establish a refundable income tax credit to mitigate the effect of a carbon emissions tax on taxpayers.

HB-2278-HD-1
Submitted on: 2/24/2022 3:10:36 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Zoe Whitney	Individual	Support	No

Comments:

I support HB2278 because this progressive carbon cashback policy corrects a huge market failure: that the cost of destruction to our home by carbon emissions is not reflected in the price of fossil fuels. Because the majority of revenue goes to citizens, a carbon cashback policy would benefit middle- and lower-income households and protect local businesses from significant revenue losses. A carbon cashback bill is an indispensable tool in getting Hawai'i to its carbon neutral by 2045 goal.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-2278-HD-1
Submitted on: 2/24/2022 8:20:56 PM
Testimony for FIN on 2/25/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Andrew Richard Kass	Individual	Support	No

Comments:

Aloha Legislators,

I urge you to SUPPORT HB2278 to create a progressive carbon tax in Hawaii. Carbon emissions continue to rise around the world, and we must do our part to reduce them. Even though the price of fossil fuels will increase with this bill, the tax credit makes sure that regular users are minimally impacted. For those who consume excessively, they will be incentivized to lower their use and switch to renewable energy. The technologies to do this already exist: solar hot water, solar power, electric vehicles, utility grade solar, pumped hydro, and more to come. This bill will make them mainstream and reduce our carbon footprint.

Mahalo,

Andrew Kass