

EXECUTIVE CHAMBERS

Testimony in **support** of HB857 HD1 Relating to Sustainability

Committee on Finance Representative Sylvia Luke, Chair Representative Scott Y. Nishimoto, Vice Chair Representative Aaron Ling Johanson, Vice Chair

> February 25, 2013 11:00 a.m. Room 308

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and members of the committees:

The Office of the Governor **supports** House Bill 857, H.D. 1, Relating to Sustainability. This measure will redistribute Hawaii's Environmental Response, Energy, and Food Security Tax, otherwise known as the Barrel Tax, to go to the initially intended purposes of energy diversification and food safety and security, rather than the general fund. This measure would also make this law permanent. The redistribution of Barrel Tax funds as proposed in this measure has been accounted for in the Administration's financial plan, and will help us move forward toward Hawaii's sustainability goals and build self-sufficiency.

The redistribution of these funds is estimated to add over \$7 million each to the Agricultural Development and Food Security Special Fund and Energy Security Special Fund, and \$1.4 million to the Environmental Response Revolving Fund. These funds would support clean energy, local agricultural production, and environmental response.

The departments of Agriculture, Health, and Business, Economic Development and Tourism, have additional information on the specific programs that will be supported by the Barrel Tax.

Thank you for the opportunity to testify.

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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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

Statement of RICHARD C. LIM

Director Department of Business, Economic Development, and Tourism before the HOUSE COMMITTEE ON FINANCE

> Monday, February 25, 2013 11:00 a.m. State Capitol, Conference Room 308

in consideration of HB 857, HD1 RELATING TO SUSTAINABILITY.

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

The Department of Business, Economic Development & Tourism (DBEDT) **strongly supports HB 857, HD1,** a priority of the Administration to reallocate funding from the Environmental Response, Energy, and Food Security Tax ("barrel tax") to its original intended purposes to build self-sufficiency in energy, food, and environmental response and to establish it as an ongoing source of funding for these areas.

The public strongly supports this agenda. A survey just released by OmniTrack (copy attached) shows that 78% of Hawaii residents agreed that the barrel tax funds should be restored for the intended purposes of improving energy and food self-sufficiency.

The reallocated clean energy funds will fully support the State Energy Office programs and staff positions to deploy clean energy and execute effective policies. These dedicated funds for clean energy are the primary source of funding for the Hawaii Clean Energy Initiative, the internationally regarded 70% clean energy goal in 2030 and DBEDT's State Energy Office has been the driving force in engaging Hawaii communities and other stakeholders to implement the Initiative. Clear evidence of the Initiative's contribution to economic growth is that in 2012,

NEIL ABERCROMBIE GOVERNOR

> RICHARD C. LIM DIRECTOR

MARY ALICE EVANS DEPUTY DIRECTOR

Telephone: (808) 586-2355 Fax: (808) 586-2377 26% of Hawaii's construction-related expenditures were related to solar. In a time of declining construction spending, solar construction has brought welcomed relief to the industry.

With Hawaii's over-dependence on imported energy and food, the 2010 Hawaii State Legislature had the foresight to enact Act 73 to target funds and strategies to make Hawaii more self-sufficient and less vulnerable to outside economic forces and environmental disturbances. However, since its passage in 2010, only 45 cents, or 43%, of the prescribed \$1.05 per barrel tax has been allocated to the intended purposes of improving energy and food self-sufficiency and environmental response, with 60 cents going to the general fund. HB 857, HD1 redirects the 60 cents to the original legislative intent by reallocating 27.5 cents to support clean energy, 27.5 cents to support local agriculture and 5 cents to support environmental response. We emphasize that in making this correction, there is no proposed change to the amount of the barrel tax.

This funding will make a significant difference because it is dedicated to proven programs featuring high impact solutions that will move the needle on Renewable Portfolio Standard and Energy Efficiency Portfolio requirements, transportation goals, and business development opportunities to stimulate clean energy entrepreneurship and test bed investments. Examples of programs and strategies to be funded include, but are not limited to, the following:

- Permitting assistance, such as upgrades to the Permitting Wizard, additional e-Permitting state and county projects, investigation to clarify rules regarding the issuance of special use permits for A-C agricultural land classifications that can save clean energy developers up to 30% of permit processing time and lower overall project development time and costs.
- Procuring subject matter experts for renewable energy development and transmission projects with the potential for greater than 800 GWh annually, alternative transition fuel sources, and to further build the State's capacity to respond to energy emergencies.
- Procuring financial, legal and technical advisors to develop clean energy innovation sector and position Hawaii as a global test bed to attract and create new businesses, jobs and investment into the sector and to develop new solutions to address Hawaii's energy challenges.

 Procuring professional technical assistance for benchmarking and certification for Energy Star buildings and developing contract models to extend Hawaii's national leadership in energy savings performance contracting.

The proposed barrel tax funds will replace federal Recovery Act funds that previously served as the primary funding source for DBEDT's clean energy positions and programs. Because of previous funding for these programs, Hawaii is on track to meet its 2015 clean energy goals and the requested funds will ensure that Hawaii is best capable of transforming its energy and economic future to achieve Hawaii's aggressive 70% clean energy goal in 2030.

DBEDT is also supportive of the need for and use of funds to support food safety and security and environmental response and defers to the Department of Agriculture and Department of Health on specific programs to be supported through this measure.

Thank you for the opportunity to offer these comments in support of HB 857, HD1.

Strong Support for Dedicated Funding of Energy and Food Sustainability Initiatives



Q: As you may know, in 2010 the legislature passed a \$1.05 tax on each barrel of oil imported into Hawaii, the purpose being three fold: first, to promote energy independence and clean energy alternatives, secondly, to promote locally-grown food and, third, to address environmental impacts like oil spills. However, most of the oil tax revenue was diverted to fund other state programs; and now some people want the monies from now on to be used for its original purpose. Using a 10-point scale where 10 means Completely Agree and 1 means Do Not Agree At All, how much do you agree or disagree that...?

1) Having clean energy sources and reducing reliance on imported food and energy are important and the oil tax revenue should go to fund these goals as intended

2) Most of the oil tax revenues should continue to fund the shortfall in the general state budget to pay for other governmental programs

OmníTrak Group Inc.

Source: The People's Pulse (Winter '13)

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OFFICE OF PLANNING STATE OF HAWAII

NEIL ABERCROMBIE GOVERNOR

> JESSE K. SOUKI DIRECTOR OFFICE OF PLANNING

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Statement of JESSE K. SOUKI Director, Office of Planning Department of Business, Economic Development, and Tourism before the

HOUSE COMMITTEE ON FINANCE

Monday, February 25, 2013 11:00 AM State Capitol, Conference Room 308 in consideration of HB 857 HD1 RELATING TO SUSTAINABILITY.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the House Committee on Finance.

The Office of Planning supports Administration bills HB 857 HD1, which among other things repeals the sunset date in Act 73, Session Laws of Hawaii 2010, and provides appropriations of the anticipated additional revenues.

In Act 73, this legislature stated that "[n]ow is the time for bold action to squarely address Hawaii's energy and food requirements and plan for and address the inevitable effects of climate change." The purpose of Act 73, among other things, was to "[h]elp Hawaii's natural resources and population adapt and be resilient to the inevitable challenges brought on by climate change caused by carbon dioxide and other greenhouse gas emissions from burning fossil fuels."

In 2011, the Office of Planning convened a broad group of stakeholders to develop a statewide climate change adaptation policy. *See Final Report Relating to Global Warming*, Dec. 2011, *available at* http://hawaii.gov/dbedt/main/about/annual/2011-reports/2011-global-warming.pdf. The language developed by this group was the basis for the State of Hawaii's first

climate change adaptation policy, Act 286 (2012), codified as Hawaii Revised Statutes § 226-109. As a result, climate adaptation is now integrated into the statewide planning and land use framework.

The Office of Planning, state and county agencies, and their partners are working on integrating Act 286 into current policy and planning processes. Additional funding support for these efforts will help protect the health and safety of future generations and avoid the cost (life and treasure) of responding to the effects of climate change, such as drought, sea-level rise, and amplified storm events.

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

TESTIMONY OF RUSSELL KOKUBUN CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEES ON AGRICULTURE AND ENERGY AND ENVIRONMENTAL PROTECTION February 25, 2013 ROOM 308 11:00 A.M.

HOUSE BILL NO. 857 HD1 RELATING TO SUSTAINABILITY

Chairperson Luke and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 857 HD1. This measure reallocates the Environmental Response, Energy, and Food Security Tax to carry out the intended sustainability purposes of section 128D-2, Hawaii Revised Statutes, and Act 73, Session Laws of Hawaii 2010. The bill also repeals the sunset date in Act 73, and provides appropriations of the anticipated additional revenues. The Department of Agriculture strongly supports this measure.

There is a growing public sentiment that realizes, as an island state, Hawaii is precariously dependent on imported food and energy. The legislature responded to this movement by passing Act 73, Session Laws of Hawaii 2010. The Department would like to fulfill the intent of that Act by restoring revenues to the Agricultural Development and Food Security special fund and move forward with hiring vital staff and starting key programmatic initiatives to move the state towards greater food self-reliance. Increased revenues provided through the barrel tax will fund positions and programs to preserve agricultural lands, repair irrigation systems, lower the costs of farming, and raise both the supply and demand of local food. Staffing is needed to make the successful apiary program permanent within the Department as well as restore the Marketing Analysis and News Branch to be able to collate the necessary data to identify our food self-reliance goals. Outreach for food safety protocols and procedures and programs to support our local protein producers are also essential in reaching our goal of an agriculture renaissance in Hawaii.

The Department is also very supportive of the reallocation of funds to the Department of Business, Economic Development, and Tourism and the Department of Health for the intended purposes of the Energy Security Special Fund and the Environmental Response Revolving Fund.

Thank you, again, for this opportunity to present our testimony

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: FUEL, Reallocate environmental response, energy, and food security tax

BILL NUMBER: HB 857, HD-1

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

BRIEF SUMMARY: Amends HRS section 243-3.5 to increase the amount deposited into the environmental response revolving fund from 5 cents to 10 cents, increase the amount deposited into the energy security special fund from 15 cents to 42.5 cents, and increase the amount deposited into the agricultural development and food security fund from 15 cents to 42.5 cents.

Amends Act 253, SLH 2007, as amended by Act 151, SLH 2012, to extend the repeal date of the energy systems development special fund and the periodic evaluation and plan of action requirements of the energy systems development special fund from 6/30/13 to 6/30/18. This provision shall take effect on June 29, 2013.

Amends Act 73, SLH, 2010, to: (1) delete the 6/30/15 repeal date relating to revenues of the departments of agriculture and business, economic development, and tourism; and (2) delete the provision lapsing any unexpended moneys in the agricultural development and food security special fund moneys to the general fund.

Appropriates \$7,150,000 out of the energy security special fund for FY 2014 and FY 2015 to carry out the purposes of this act. The sums appropriated shall be expended by the department of business, economic development, and tourism.

Appropriates \$7,150,000 out of the agricultural development and food security special fund for FY 2014 and FY 2015 to carry out the purposes of this act. The sums appropriated shall be expended by the department of business, economic development, and tourism.

Appropriates \$1,400,000 out of the environmental response revolving fund for FY 2014 and FY 2015 to carry out the purposes of this act. The sums appropriated shall be expended by the department of health.

EFFECTIVE DATE: July 1, 2013

STAFF COMMENTS: This is an administration measure submitted by the governor's office GOV-06(13). The legislature by Act 300, SLH 1993, enacted an environmental response tax of five cents per barrel on petroleum products sold by a distributor to any retail dealer or end user. The intent of the original nickel per barrel was to build up an emergency fund so that the state would have the financial resources to address an oil spill that threatened to damage the Islands' shorelines. Over the years, the activities for which the funds could be used expanded such that the fund was prevented from ever reaching the \$7 million cap that had been imposed by the original legislation.

HB 857, HD-1 - Continued

The legislature by Act 73, SLH 2010, increased the amount of the tax to \$1.05 per barrel and provided that five cents of the tax shall be deposited into the environmental response revolving fund; 15 cents shall be deposited into the energy security special fund, 10 cents shall be deposited into the energy systems development special fund; 15 cents shall be deposited into the agricultural development and food security special fund; and the residual of 60 cents shall be deposited into the general fund between 7/1/10 and 6/30/15.

Under the current distribution of the \$1.05, a residual of 60 cents per barrel is deposited into the general fund. This measure proposes to redistribute the \$1.05 to increases the amount deposited into the: (1) environmental response revolving fund; (2) energy security special fund; and (3) agricultural development and food security fund which results in nothing left to be deposited into the general fund.

It should be remembered that the environmental response tax was initially adopted for the purpose of setting up a reserve should an oil spill occur on the ocean waters that would affect Hawaii's shoreline. The nexus was between the oil importers and the possibility that a spill might occur as the oil product was being imported into the state. Now that the fund has become a cash cow, lawmakers have placed other responsibilities on the fund, including environmental protection, food security, and natural resource protection programs, such as energy conservation and alternative energy development, to address concerns related to air quality, global warming, clean water, polluted runoff, solid and hazardous waste, drinking water, and underground storage tanks, including support for the underground storage tank program of the department of health.

This bill now proposes restoring the funding of the various programs for which the dollar increase was intended as the administration has set its sights on other sources of revenue to fund what should be general fund financed programs. The barrel tax, along with those other proposals, earmarks various specific revenue sources and justifies the imposition of the new fees or taxes on the basis that the fee or tax is being collected to provide a critical program service, a program that should be funded out of general funds if indeed it is of a high priority for the community at large. But many of these programs have small but vocal minorities which if they had to compete for general funds would pale by comparison to much broader concerns such as education, public safety or social services. Thus, the advocates for these specific services seek out hidden taxes and fees and then demand that they be earmarked so that they become the exclusive beneficiaries of these funds and once earmarked no longer have to justify the impost or the use of those funds.

That is the problem with the barrel tax. It lacks transparency, and because the funds are earmarked, do not come under close scrutiny by either lawmakers or the public. Rather than perpetuating the problems of the barrel tax, it should be repealed and all programs that are funded out of the environmental response fund should be funded through the general fund. At least program managers would then have to justify their need for these funds. If general funds are insufficient to underwrite all the essential programs and the programs such as those funded through the barrel tax, then lawmakers need to justify any increase in taxes which underwrite the general fund or lawmakers will be forced to set priorities for those precious general funds. Currently, lawmakers are able to side step that difficult task by creating these hidden taxes and earmarked funds like the barrel tax. By continuing to special fund these programs, it makes a statement that such programs are not a high priority for state government. This sort of proliferation of public programs needs to be checked as it appears to be growing out of hand and at the expense of the taxpayer.

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

Digested 2/24/13



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February 25, 2013

HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE

TESTIMONY ON HB 857, HD1 RELATING TO SUSTAINABILITY

Room 308 11:00 AM

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

I am Dean Okimoto, President of the Hawaii Farm Bureau Federation (HFBF). Organized since 1948, the HFBF is comprised of 1,950 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interest of our diverse agricultural community.

HFBF is in strong support of HB 857, HD1, reallocating the proceeds from the barrel tax to its originally intended use.

The Barrel Tax was originally intended to increase local capacity to grow and produce import replacement products that would reduce the need for ocean transportation that current result in risk of oil spills and other environmental hazards. During the economic downturn, proceeds from this fund were reallocated to balance the budget. We understand that some of the proceeds continued to benefit agriculture.

Today, as the economy rebounds, it is timely to restore the original intent of the measure to focus to import replacements. This is consistent with the Governor's New Day initiative as well as statements made during the opening days of the legislature.

HFBF respectfully requests your strong support of this measure to implement the measures needed to fulfill the State's vision for increased self sufficiency and sustainability. Thank you for this opportunity to provide our opinion on this important matter.



UNIVERSITY OF HAWAI'I SYSTEM

Legislative Testimony

Testimony Presented Before the House Committee on Finance Monday, February 25, 2013 by Richard Rocheleau, Director Hawai'i Natural Energy Institute School of Ocean and Earth Science and Technology University of Hawai'i at Mānoa

HB 857 HD1 - RELATING TO SUSTAINABILITY

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

My name is Richard Rocheleau, Director of the Hawai'i Natural Energy Institute at the University of Hawai'i at Mānoa. HNEI supports HB 857 HD1, which reallocates the portion of the Environmental Response, Energy, and Food Security Tax (Barrel Tax) that currently goes into the general fund to the environmental response revolving fund (Dept. of Health), the energy security special fund (DBEDT), and the agricultural development and food security special fund (Dept. of Ag) as intended in the original legislation.

The Barrel Tax was intended to support critical investments in clean energy, local agricultural production, and environmental response to reduce the State's dependence on imported fossil fuels and food products. In enacting the barrel tax legislation, the legislature found that: "undertaking the important task of energy and food security requires a long-term commitment and the investment of substantial financial resources." The efforts needed to reduce our dependence on fossil fuels are complex. Capital investments today will dictate the shape of our energy system for decades to come. This reallocation back to the original intent of the Barrel Tax will help ensure that the best possible path forward is identified, and help ensure the long term commitment necessary to help Hawaii attain food and energy security and sustainability.

Section 3 of the bill would extend the sunset date on the energy systems development special fund (ESDSF), which is administered by HNEI, until June 30, 2018. HNEI supports this extension. The ESDSF was established in 2007 by Act 253, three years before the current Barrel Tax was established by Act 73. Both Act 253 and Act 73 were enacted with provisions to sunset portions of them in five years. Last year the Legislature extended the sunset on the ESDSF for one year, until June 30, 3013 (Act 151). Thus, if no change is made, the ESDSF will sunset in less than five months.

While the ESDSF is not the largest source of funding for HNEI activities, it plays a crucial role in leveraging federal investment, removing roadblocks in programs critical for the success of HCEI, and contributing to programs likely to spur economic development.

As the stated in previous testimonies, despite being established in 2007, the ESDSF remained unfunded until 2010, when Act 73 directed 10 cents of the tax on each barrel of imported petroleum product go into the fund. Access to the funds was delayed an additional 12 months due to administrative errors.

Since receiving access to the funds in June 2011, HNEI has worked in close collaboration with DBEDT and other stakeholders to identify and initiate projects with significant near term potential to reduce the use of fossil fuels in Hawaii. A description of our current spend plan has been provided in our most recent Annual Report to the Legislature (November 2012). In addition to funding important projects that will help reduce our fossil fuel dependence, these projects have leveraged over \$12 million in federal funding which otherwise would not have been available, with a significant fraction of those federal dollars spent in Hawaii.

Energy projects of sufficient scope to impact fossil fuel use require time for planning, formation of partnerships, and implementation. HNEI has made significant strides with the initial portfolio of activities including projects in the areas of renewable technologies, grid integration, smart grid, energy efficiency and support for geothermal development and biofuels; each selected to help move Hawaii toward a more secure and sustainable future.

Extension of the sunset until June 2018 will allow time for these efforts already underway or in the planning phase to be completed in the most cost effective manner and for critical new projects to be implemented and completed. A thorough evaluation of the progress and need for continuation of the ESDSF as part of Hawaii's energy transition is appropriate.

HNEI supports extension of the sunset of the ESDSF until June 2018 and looks forward to working with the legislature to help transition Hawaii to a more economic and secure energy future.

Thank you.



Sierra Club Hawai'i Chapter PO Box 2577, Honolulu, HI 96803 808.538.6616 hawaii.chapter@sierraclub.org

HOUSE COMMITTEE ON FINANCE

February 25, 2013, 11:00 A.M. (Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 857 HD1

Chair Luke and members of the Committee:

The Sierra Club, Hawaii Chapter, with over 10,000 dues paying members and supporters statewide, *strongly supports* HB 857 HD1. The bill is a smart tax-shifting policy designed to foster greater energy and food independence by tapping into the source of our problem so as to fund our preferred future.

The concept behind this measure is to help "internalize" the external costs of certain activities; in this case, charge a fee for products that are damaging to the environment and use that money to help mitigate the damage. This measure would provide additional funds to programs to offset the environmental impacts of oil, provide funding for energy efficiency projects and development of renewable energy, as well as spark greater amounts of local food development critical for Hawai`i's long-term future.

While we all likely agree we need to aggressively increase our clean energy use in Hawai'i and decrease our reliance on imported crude, we cannot do it with funding for research, development, and policy implementation. The Clean Energy office has provided a well-though plan on how to implement Hawaii's aggressive renewable energy and energy efficiency portfolio standards.

While the Club fully supports efforts to increase Hawaii's food self-sufficiency efforts, the Department of Agriculture's spending proposals do not demonstrate the same rigorous detail provided by the Clean Energy office. *We encourage this Committee to engage in a dialogue with DOA to ensure funding is spent on pragmatic efforts with a long-range plan for success.* Funding the status quo is *not* enough; we need to be aggressively clever in our efforts to develop true food self-sufficiency.

Mahalo for the opportunity to testify.





Email: communications@uluponoinitiative.com

HOUSE COMMITTEE ON FINANCE Monday, February 25, 2013 — 11 a.m. — Room 308

Ulupono Initiative Strongly Supports HB 857 HD1, Relating to Sustainability

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

My name is Murray Clay, Managing Partner of the Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally grown food, increase renewable energy, and reduce/recycle waste.

Ulupono strongly supports HB 857 HD1, which will redistribute the Environmental Response, Energy and Food Security Tax on barrels of petroleum products to restore the original intent of lawmakers in funding vital sustainability measures to help make our community more self-sufficient.

This tax was designed to support critical investments in clean energy, local agricultural production, and environmental response, reduce the State's dependence on imported fossil fuels and food products, and support environmental activities and programs. During difficult economic times, the fund was diverted temporarily. This measure also removes the scheduled repeal date of the tax to reflect a continuing commitment to this important policy.

Ulupono has joined with a diverse group of organizations who have come together for the first time as the Local Food Coalition to support proposals designed to help grow more local food. The coalition brings together farmers, ranchers, livestock producers, investors and other organizations. The idea is that putting more local food on local plates can best be accomplished by bringing people and organizations together who can work on the entire food value chain in a systematic way.

We believe that by working together, we can help produce more local food, and support an economically strong homegrown agriculture industry that strengthens our community with fresh, healthy food. Thank you for the opportunity to testify.

Sincerely,

Murray Clay Managing Partner

Pacific Guardian Center, Mauka Tower 737 Bishop Street, Suite 2350, Honolulu, HI 96813

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