

Honolulu, Hawaii

FEB 28 2020

RE: S.B. No. 3150
S.D. 2

Honorable Ronald D. Kouchi
President of the Senate
Thirtieth State Legislature
Regular Session of 2020
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 3150, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to reduce carbon emissions in the State.

More specifically, this measure:

- (1) Amends the environmental response, energy, and food security tax to address carbon emissions;
- (2) Increases the tax rate to effectively set a price of \$40 per metric ton of carbon dioxide emissions in 2021;
- (3) Incrementally increases the tax rate over time so that, in 2030, the tax rate shall be equivalent to a carbon price of \$80 per metric ton of carbon emissions; and
- (4) Establishes a refundable income tax credit for lower-income individuals to mitigate the effect of the tax on carbon emissions.

Your Committee received written comments in support of this measure from the Department of Land and Natural Resources, Hawaii



State Energy Office, Hawaii Natural Energy Institute, Hawaii Climate Change Mitigation and Adaptation Commission, 350Hawaii.org, Citizens' Climate Lobby, Climate Protectors Coalition, Climate XChange, Healthy Climate Communities, Volcano Action Network, Young Progressives Demanding Action, and numerous individuals.

Your Committee received written comments in opposition to this measure from Chamber of Commerce Hawaii, Hawaii Food Industry Association, Hawaii Restaurant Association, Hawaii Transportation Association, Kauai Chamber of Commerce, Kauai Island Utility Cooperative, Maui Chamber of Commerce, and five individuals.

Your Committee received comments on this measure from the Department of Agriculture, Department of the Attorney General, Department of Health, Department of Taxation, Department of Transportation, Office of Planning, Hawaii Petroleum Marketers Association, Matson, Tax Foundation of Hawaii, and Ulupono Initiative.

Your Committee finds that climate change is the most critical issue confronting the State. The overwhelming consensus of climate scientists who have studied the issue is that climate change is occurring primarily as a result of the combustion of fossil fuels. The Hawaii Climate Change Mitigation and Adaptation Commission has stated that the most effective single means of reducing greenhouse gas emissions is to "put a price on carbon". Your Committee further finds that the best means of carbon pricing for the State is a use-based tax on all carbon dioxide-emitting fuels, such as oil, gas, and coal.

Your Committee has amended this measure by:

- (1) Changing all income brackets, tax credit amounts, tax rates, and tax revenue allocations to unspecified amounts;
- (2) Clarifying the income tax credit's treatment of taxpayers, based on filing status;
- (3) Changing the effective date to July 1, 2050, to facilitate further discussion on the measure; and



- (4) Making technical nonsubstantive amendments for purposes of clarity, consistency, and style.

Your Committee notes the following comments submitted by Senator Lorraine R. Inouye:

The State of Hawaii Office of Planning's *Feasibility and Implications of Establishing a Carbon Offset Program for the State of Hawai'i*, released in December 2019, calls for the state to conduct a study on carbon pricing before the legislature considers a carbon pricing model for Hawaii. In Accordance with Act 122, Session Laws of Hawaii 2019, the Hawaii State Energy Office will conduct a study on carbon pricing, including whether and how a carbon pricing policy shall be implemented in Hawaii.

Any potential carbon pricing mechanism should align with the current goals of the State of Hawaii. The state is currently on track to meet its 2020 greenhouse gas emissions reduction target and has a more ambitious Zero Emissions Clean Economy target for 2045.

The proposed carbon tax will impact Hawaii businesses and consumers. For example...[:]

- o Singapore jet fuel, which Hawaii petroleum marketers use as a benchmark for pricing, is currently trading at around \$65 / bbl. A tax of \$16.07 would be assessed in just the first year of the proposed legislation. That is a twenty-five percent increase in the cost of jet fuel. That cost is absorbed by air travelers and would price out entire segments of our largest industry, raising ticket prices and visitor expenses.
- o The cost of fuel oil for HECO and other power plants would rise thirty-one percent in the first year. Hawaii is already struggling with some of the highest kilowatt per hour prices in the world. Raising the price of electricity would further increase the cost of living for Hawaii's working families.
- o There are federal carbon tax proposals that are likely to be considered by Congress after the November election. A federal carbon pricing standard would ensure a level playing field for the industry and is likely to include border adjustments to deal



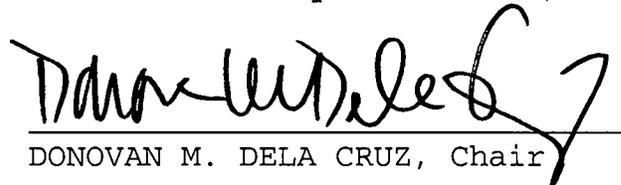
with large pollution emitters such as China and India. Climate change is a global problem and addressing it with state specific measures does little to fuel the coordination between nations that we need.

Your Committee also notes the following comments submitted by Senator Sharon Y. Moriwaki:

While I agree that we must reduce our greenhouse gas emissions and one option is to assess a carbon emissions tax, I think it is premature to establish such a tax and increase the tax rates while we are still awaiting a carbon pricing study by the State Energy Office. That study is scheduled to be reported to the Legislature at the next session. With the proposed amendments, I will vote with reservations.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 3150, S.D. 1, as amended herein, and recommends that it pass Third Reading in the form attached hereto as S.B. No. 3150, S.D. 2.

Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,

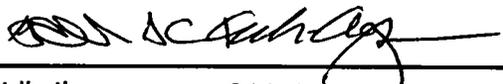


DONOVAN M. DELA CRUZ, Chair



The Senate
Thirtieth Legislature
State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:* SB 3150, SD1	Committee Referral: AEN/EET, WAM	Date: 2/27/20		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
DELA CRUZ, Donovan M. (C)	X			
KEITH-AGARAN, Gilbert S.C. (VC)	X			
ENGLISH, J. Kalani	X			
HARIMOTO, Breene		X		
INOUYE, Lorraine R.		X		
KAHELE, Kaiali'i	X			X
KANUHA, Dru Mamo	X			
KIDANI, Michelle N.	X			
MORIWAKI, Sharon Y.		X		
RIVIERE, Gil		X		
SHIMABUKURO, Maile S.L.	X			
TANIGUCHI, Brian T.				X
FEVELLA, Kurt		X		
TOTAL	6	5		2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes