



State of Hawaii
DEPARTMENT OF AGRICULTURE
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**TESTIMONY OF RUSSELL KOKUBUN
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE HOUSE COMMITTEES ON ENERGY AND ENVIRONMENTAL
PROTECTION AND AGRICULTURE**

February 12, 2013

ROOM

8:30 A.M.

**HOUSE BILL NO. 1409
RELATING TO BIOFUELS**

Chairpersons Lee and Wooley and Members of the Committees:

Thank you for the opportunity to testify on House Bill No. 1409. This measure reallocates monies from the Energy Security Special Fund and the Agricultural Development and Food Security Special Fund to the Agribusiness Development Corporation for zero waste biofuel production. The Department supports the intent of this measure but has concerns.

Currently, the 15 cents that are allocated to the Agricultural Development and Food Security Special Fund are already being used for staffing and programmatic initiatives. To reallocate 1.5 cents to the Agribusiness Development Corporation would come at the cost of a reduction in both the staffing and programs that are currently being funded by the special fund. The Department would instead request that the legislature pass HB857 that would increase the revenues coming to the Agricultural Development and Food Security Special Fund. Budgeted within that increase is a biodigester program initiative to be carried out by the Agribusiness Development Corporation that would seem to directly address the project outlined in this bill. For



details on that particular project the Department would defer to the Agribusiness Development Corporation.

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

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SUBJECT: FUEL, Agribusiness development corporation

BILL NUMBER: SB 985; HB 1409 (Identical)

INTRODUCED BY: SB by Kouchi by request; HB by Lee and Mizuno

BRIEF SUMMARY: Amends HRS section 243-3.5 to provide that 1.5 cents shall be allocated to the agribusiness development corporation as investment capital for research and development partnerships with entities and enterprises for zero waste biofuel production from the following dispositions of the environmental response tax: (1) of the 15 cents distributed to the energy security special fund; and (2) of the 15 cents distributed to the agricultural development and food security special fund.

This act shall be repealed on June 30, 2015 provided that HRS section 243-3.5 shall be reenacted in the form in which it read on June 30, 2010, pursuant to Act 73, SLH 2010.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The legislature by Act 300, SLH 1993, enacted an environmental response tax of 5 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.

The legislature by Act 73, SLH 2010, increased the amount of the tax to \$1.05 per barrel and provided that 5 cents of the tax shall be deposited into the environmental response revolving fund; 15 cents to be deposited into the energy security special fund, 10 cents to be deposited into the energy systems development special fund; 15 cents to be deposited into the agricultural development and food security special fund; and the residual of 60 cents to be deposited into the general fund between 7/1/10 and 6/30/15. This measure proposes to tap a portion of the barrel tax which is to be deposited into the energy security special fund and the agricultural development and food security special fund to be allocated to the agribusiness development corporation as investment capital. This proposal is just another symptom of the feeding frenzy the barrel tax has spawned. Lawmakers see this as "free" money that they can spend as no one is watching because the tax is hidden from public view. This is unfortunate because the tax is an implicit part of the high cost of living and doing business in Hawaii. This is a cruel hoax foisted on the taxpayers of Hawaii.

Not only would this proposal expand the use of the environmental response tax, but it also creates another program that will be funded automatically by this earmark. It should be noted that since this earmarking of revenue is automatic and will not be subject to legislative scrutiny, it is questionable whether the amount of funds deposited into the agribusiness development corporation will be sufficient for the stated purposes. If there is insufficient revenue from the proposed earmark, there is no doubt that the amount earmarked will be increased to generate additional monies. If the legislature deems this particular program to be a priority, then a direct appropriation of general funds would be preferable to the earmarking proposed in this measure.

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 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.

It should be noted that the enactment of the barrel tax for the environmental response revolving fund is the classic effort of getting one's foot in the door as it was initially enacted with a palatable and acceptable tax rate of 5 cents and subsequently increasing the tax rate once it was enacted which is what it has morphed into as evidenced by the \$1.05 tax rate. Because the tax is imposed at the front end of the product chain, the final consumer does not know that the higher cost of the product is due to the tax. Thus, there is little, if any, accountability between the lawmakers who enacted the tax and the vast majority of the public that ends up paying the tax albeit indirectly. Proponents ought to be ashamed that they are promoting a less than transparent tax increase in the burden on families all in the name of environmental protection and food security.

It should be remembered that the State Auditor has singled out the environmental response revolving fund as not meeting the criteria established and recommended that it be repealed. The Auditor criticized the use of such funds as they hide various sums of money from policymakers as they are not available for any other use and tend to be tacitly acknowledged in the budget process. More importantly, it should be recognized that it is not only the users of petroleum products who benefit from a cleaner environment, but it is the public who benefits. If this point can be accepted, then the public, as a whole, should be asked to pay for the clean up and preservation of the environment.

Funds deposited into a special fund are not subject to close scrutiny as an assumption is made that such funds are self-sustaining. It should be remembered that earmarking of funds for a specific program represents poor public finance policy as it is difficult to determine the adequacy of the revenue source for the purposes of the program. To the extent that earmarking carves out revenues before policymakers can evaluate the appropriateness of the amount earmarked and spent, it removes the accountability for those funds. There is no reason why such programs should not compete for general funds like all other programs which benefit the community as a whole.

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. 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.

thielen3 - Charles

From: ENETestimony
Sent: Monday, February 11, 2013 5:43 PM
To: EEPtestimony
Subject: FW: HB 1409

From: Richard Ha [mailto:richard@hamakuasprings.com]
Sent: Monday, February 11, 2013 5:40 PM
To: ENETestimony
Subject: HB 1409

BILL: HB 1409

DATE: Tuesday, February 12, 2013
TIME: 8:30AM
PLACE: Conference Room 325
State Capitol
415 South Beretania Street

COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Rep. Chris Lee, Chair
Rep. Cynthia Thielen, Vice Chair

COMMITTEE ON AGRICULTURE

Rep. Jessica Wooley, Chair
Rep. Richard H, K, Onishi, Vice Chair

Aloha Chair Lee and Vice-chair Thielen. And, Chair Wooley and Vice Chair Onishi.

I am very strongly in favor of HB1409

My name is Richard Ha. Our family farm-- 600 fee simple acres of diversified crops on the Big Island.

I have been to five Association for the Study of Peak Oil conferences to learn about oil to help to position our farm for the future. I am a member of the Hawaii Clean Energy Initiative (HCEI) steering committee. I was co-chair of the geothermal working group authorized by SCR 99 of the legislature. I am a steering committee member of the Big Island Community Coalition—whose mission is to lower the cost of electricity on the Big Island.

<http://www.bigislandcommunitycoalition.com/>.

Feedstock cost is frequently the undoing of biofuel projects. The reason Pacific Biodiesel is a viable business is because they collect used cooking oil. They do not have to grow the stuff to make the oil. Similarly, the zero waste program contemplates using the waste product from agricultural production to make the biofuel.

I have been a supporter of the USDA zero waste program from the start. I was there when the first test tube of special purpose algae that fed on papaya was received. Since then several more generations have been developed.

<http://hahaha.hamakuasprings.com/2011/07/scientists-with-heart-common-sense.html>.

Beside making biofuel, the success of zero waste biofuels helps with food security. Food security has to do with farmers farming. If farmers make money, the farmers will farm. The zero waste program contemplates taking the farmers waste stream and making it into an income stream, while converting it to biofuel.

Aloha

Richard Ha

From: Carol Gonsalves <carolvgonsalves@gmail.com>
789 Hoolaulea St.
Hilo, HI 96720
Tel: 808-981-2863

Subject: Testimony in support of HB 1409

Date: 9 February 2013

To: House Committee on Energy & Environmental Protection
Chairman Chris Lee, Vice Chair Cynthia Thielen, and Members:

House Committee on Agriculture
Chairman Jessica Wooley, Vice Chair Richard Onishi, and Members:

I urge you to consider my request to support HB 1409 which would provide investment capital for zero waste biofuel production.

The high cost of fuel drains dollars from our economy and limits our independence. We in the state of Hawaii will definitely benefit from biofuel production right here on our own turf, using agricultural products that normally go to waste.

The unique concept of ZERO WASTE - producing fuel from agricultural waste is a winner:

First, because agricultural waste such as unsaleable papaya fruit and invasive species of trees such as the albezia are plentiful. In the case of papaya for example, I have visited packing houses where unsaleable rejects were heaped high in bins. This is a common occurrence. I do not have figures on the number of pounds of papaya are wasted each year, but I have heard that it is very high.

Second, this process does not require the expenditure of time and money to grow a crop, such as corn, specifically for biofuel production.

And third, papaya farmers can earn money from their fruit which do not meet quality standards at the packing house.

Please consider my request to support HB 1409.

Yours truly,
Carol Gonsalves

From: Dennis Gonsalves dennisgonsal@gmail.com
789 Hoolaulea Street
Hilo, Hawaii 96720
Phone: 808-981-2863

Subject: Testimony to support HB 1409

Date: February 10, 2013

To: House Committee on Energy & Environmental Protection
Chairman Chris Lee, Vice Chair Thielen and Members

House Committee on Agriculture
Chairman Jessica Wooley, Vice Chair Richard Onishi and Members

I strongly support HB 1409 to support zero waste biofuel research and development.

I retired at the end of 2012 from the Agriculture Research Service/USDA where I had directed the USDA Pacific Basin Agricultural Research Center located in Hilo since 2002. During my tenure at USDA, I was instrumental in starting the 'zero waste' biofuel/high protein feed program, which utilizes agricultural and other waste stream to produce biofuel and high protein feed. We started research on this approach because we wanted to produce biofuel and high protein feed from feedstock that are of minimal costs, such as agricultural wastes. Hence the term 'zero waste'. This approach was taken because in nearly all cases the feedstock is the most costly element in the production of biofuels.

Very briefly, in the zero waste approach oil and high protein meal are produced by heterotrophic algae or fungi, which are adapted to use agriculture waste or other waste stream as a carbon source. Oil and high protein meal are extracted from the harvested algae or fungi; the oil can be converted to various forms of biofuels as biodiesel or jet fuel, whereas as the high protein meal serves as a component for animal feed. The beauty of this approach is that high value products are produced from agriculture wastes, and thus the high cost of producing feedstock is negated. Furthermore, it is environmentally friendly because the process is done in closed containers.

The zero waste approach was first tested with papaya because the crop is widely grown in Hawaii, and about 35% of the harvested fruit that is brought to packinghouses are discarded as culls. In 2010 Hawaii marketed about 30 million pounds of fresh fruit and thus about 15 million pounds fruit were rejected as culls. The research in collaboration with a company that specializes in adapting algae and fungi has progressed very well and results suggest that the economic production of oil and high protein feed from papaya has been reached. The next step is to proceed to pilot scale evaluation and pre-commercialization.

The sustainability of this approach is very apparent. For example, the culled fruit become of value to the papaya farmer and thus increases his farming profitability; two of Hawaii's critical needs, biofuel and high protein meal for feed, is addressed; and the zero waste process is simple and can be adapted to other agricultural wastes such as sweet potato culls, other culled fruits, woody plants and glycerol wastes generated from production of biodiesel. Adapted fungi that can use sugarcane bagasse and albizia wood as carbon sources are being tested as well as algae that use waste glycerol as a carbon source. The same facilities would be used for these different feedstocks.

The use of funds from the barrel tax to support entities and enterprises for zero waste biofuel production is a wise use of the tax because it addresses critical economic constraints of Hawaii- the high cost of biofuel and animal feed. Furthermore, this approach is adaptable to a wide array of agricultural wastes and other waste streams, and there is clear evidence already that biofuel and high protein meal can be produced from papaya wastes.

Hawaii needs a success story on biofuels. The zero waste approach could be that success story and movement for the state to support entities and enterprises to the commercial stage is applauded. Again, I fully support HB 1409.

Aloha,

Dennis Gonsalves