

COUNCIL OF THE COUNTY OF MAUI
BUDGET AND FINANCE COMMITTEE

December 17, 2001

Committee
Report No.

01-246

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Budget and Finance Committee, having met on December 4, 2001, makes reference to County Communication No. 01-296, from Councilmembers Alan M. Arakawa and Charmaine Tavares, transmitting the following:

1. A draft bill entitled "A BILL FOR AN ORDINANCE AMENDING SECTION 3.20.010, MAUI COUNTY CODE, RELATING TO THE FUEL TAX RATE".

The purpose of the draft bill is to remove the fuel tax rate from the Maui County Code (Code) since the fuel tax rate is already established in the annual budget. This bill will allow the rate to be amended during the annual budget adoption process without the need to amend the Code simultaneously.

2. A draft bill entitled "A BILL FOR AN ORDINANCE AMENDING APPENDIX B, REVENUE - RATES, FEES AND ASSESSMENTS OF THE FISCAL YEAR 2002 BUDGET FOR THE COUNTY OF MAUI AS IT PERTAINS TO THE FUEL TAX RATES".

The purpose of the draft bill is to amend the fuel tax rates for biodiesel and other alternative fuels.

3. A draft resolution entitled "ADOPTING THE FUEL TAX RATES FOR THE COUNTY OF MAUI EFFECTIVE JANUARY 1, 2002".

The purpose of the draft resolution is to revise the fuel tax rates in accordance with Section 243-5 of the Hawaii Revised Statutes (HRS), and Section 3.20.010 of the Maui County Code.

At its meeting, your Committee met with the Director of Finance, the County Energy Specialist, and a Deputy Corporation Counsel.

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Your Committee notes that Act 143 (2001) was signed by the Governor on May 24, 2001, which enacted House Bill 1345, HD 1. This Act encourages the use of alternative fuels by adjusting the fuel tax to reflect the energy content of alternative fuels as compared to diesel, and authorizes the County fuel tax to be proportional to the energy contents of the fuel.

Your Committee received the following documents:

1. A chart entitled "Comparison of Diesel and Biodiesel Fuel Rates as of December 3, 2001";
2. A copy of Act 143 (2001), relating to Energy Content of Fuels; and
3. A copy of staff research dated August 13, 2001, regarding County of Maui Fuel Tax on Biodiesel.

Your Committee received oral testimony from Mr. Robert King, President of Pacific Biodiesel, who provided background information on Act 143. He informed your Committee that the Legislature found that vehicles that operate on fuels containing less energy per gallon require more gallons of fuel to travel the same distance. Therefore, several of the alternative fuels (with the exception of biodiesel) are put at a disadvantage on a cost-per-mile basis, since motor fuels are currently taxed at the same per-gallon rate. In order to reduce this disproportionate share of the highway tax burden, the Legislature adjusted transportation fuel tax rates to reflect energy content of alternative fuels, and thus provide an incentive for the use of alternative fuels. In addition, the biodiesel fuel tax rate was reduced by 50 percent to help offset some of the incentives that are provided to the petroleum industry.

Mr. King informed your Committee that Pacific Biodiesel produces biodiesel and vegetable-based boiler fuels made from 100 percent recycled cooking oil and grease trap waste (which is diverted from the local landfill). He further stated that only 1/5 of its production (24,000 gallons a year) is sold for road use. The impact of eliminating the fuel tax on biodiesel fuel would be minimal to the County at \$260 per month or \$3,120 per year. Therefore, he requested support for a reduction in the fuel tax rate, stating that the reduction or elimination of fuel tax may be an incentive for increased usage of biodiesel fuel.

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In addition, Mr. King stated that most countries, such as Japan, China, and most of Europe do not tax alternatives to fossil fuel. Only the United States taxes biodiesel fuel and other alternatives, which makes it more difficult for alternative energy producers to succeed.

The Director of Finance agreed that the fuel tax rates for alternative fuels as proposed, or if eliminated, would have a minimal impact on the County budget.

The County Energy Specialist stated that he supported the measure to reduce the fuel tax rates for alternative fuels. He also noted that the County receives benefits from the biodiesel industry as follows: (1) waste cooking oil is kept out of the landfill; (2) County vehicles and emergency generators receive increased lubricity from biodiesel, which will increase the life expectancy of equipment; and (3) the industry provides jobs in the County.

Mr. King stated that the benefits of biodiesel over diesel fuel are: (1) it is nontoxic, biodegradable, and nonflammable; (2) its emissions are much less than petroleum diesel (95 percent reduction in carcinogens); and (3) it is a greenhouse neutral fuel. In other words, plants use all of the carbon dioxide that is released by biodiesel.

Mr. King informed your Committee that costs to produce biodiesel fuels are high because it is still a small, startup industry, the infrastructure is not in place, and the number of customers who use biodiesel fuels is much less than the petroleum industry. However, Mr. King informed your Committee that Hawaii provides an ideal environment to grow an oil crop (e.g., canola, soybeans) that can be used to produce biodiesel fuel. He stated that a significant investment would be required to identify the oil crop that would provide the best economic answer. Your Committee expressed interest in the future potential for biodiesel fuel and the ability to become less fossil fuel dependent.

Your Committee was informed that the County has contracted with Maui EKO Systems Inc. to recycle used cooking oil and grease trap waste, thereby diverting these products from the local landfill. Since Maui EKO Systems Inc. subcontracts these services to Pacific Biodiesel, your Committee requested that the Administration consider contracting directly with Pacific Biodiesel.

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In addition, your Committee requested that the County Energy Specialist provide additional information regarding the actual and potential use of ethanol or methanol in Maui County.

Your Committee notes that the current price for biodiesel is \$2.50 per gallon versus \$2.37 per gallon for diesel. In addition, your Committee observed that the difference of \$.13 is the same amount as the County's current fuel tax rate for gasoline and diesel oil.

Your Committee recommended that the fuel tax rate for biodiesel be reduced from \$0.13 to \$0.0, that the fuel tax rates for the other alternative fuels reflect the formula established in Act 143, as stated in the draft resolution, and that the effective date of the fuel tax rates be in accordance with Section 243-5, HRS. Your Committee requested that the Department of the Corporation Counsel revise the draft resolution and bills in accordance with your Committee's recommendations.

Your Committee reviewed the option of delaying the reduction in fuel tax rates until the review of the Fiscal Year 2003 Budget. However, your Committee recognized that it is important to take this positive step and demonstrate support for these alternative energy products, and not delay making the revisions to the fuel tax rates. Your Committee requested that an annual report be submitted for review during the annual budget session to keep the Council abreast of any changes in the production and usage of biodiesel.

Your Committee voted to recommend that, in accordance with Section 243-5, HRS, a public hearing be held on the proposed resolution approving the fuel tax rates as revised by your Committee.

Your Committee further voted to recommend that the proposed resolution be scheduled for adoption following the public hearing.

Your Committee further voted to recommend that the proposed bills incorporating the revisions recommended by your Committee be scheduled for passage on first reading following the public hearing.

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Your Committee is in receipt of (1) a revised proposed resolution entitled "ADOPTING FUEL TAX RATES FOR THE COUNTY OF MAUI"; (2) a revised proposed bill entitled "A BILL FOR AN ORDINANCE AMENDING SECTION 3.20.010, MAUI COUNTY CODE, RELATING TO FUEL TAX RATES"; and (3) a revised proposed bill entitled "A BILL FOR AN ORDINANCE AMENDING THE FISCAL YEAR 2002 BUDGET FOR THE COUNTY OF MAUI AS IT PERTAINS TO FUEL TAX RATES", incorporating your Committee's suggested revisions and approved as to form and legality by the Department of the Corporation Counsel.

Your Budget and Finance Committee RECOMMENDS the following:

1. That a PUBLIC HEARING be HELD on the proposed resolution, as revised herein and attached hereto, entitled "ADOPTING FUEL TAX RATES FOR THE COUNTY OF MAUI";
2. That the proposed resolution be SCHEDULED for adoption following the public hearing;
3. That the proposed bill, as revised herein and attached hereto, entitled "A BILL FOR AN ORDINANCE AMENDING SECTION 3.20.010, MAUI COUNTY CODE, RELATING TO FUEL TAX RATES" be SCHEDULED for passage on first reading and be ordered to print following the public hearing;
4. That the proposed bill, as revised herein and attached hereto, entitled "A BILL FOR AN ORDINANCE AMENDING THE FISCAL YEAR 2002 BUDGET FOR THE COUNTY OF MAUI AS IT PERTAINS TO FUEL TAX RATES" be SCHEDULED for passage on first reading and be ordered to print following the public hearing; and
5. That County Communication No. 01-296 be FILED.

Adoption of this report is respectfully requested.

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