

Honolulu, Hawaii

RE: H.B. No. 1986
H.D. 2
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Twenty-Ninth State Legislature
Regular Session of 2018
State of Hawaii

Sir:

Your Committees on Economic Development, Tourism, and Technology, Water and Land, and Agriculture and Environment, to which was referred H.B. No. 1986, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO THE ENVIRONMENT,"

beg leave to report as follows:

The purpose and intent of this measure is to establish a carbon credit revenue program to administer revenue realized from the sale of carbon credits and invest the proceeds from carbon credits in projects to improve the State's water infrastructure to mitigate threats to water sustainability due to climate change, which is consistent with the Hawaii 2050 sustainability plan.

Your Committees received testimony in support of this measure from the Ulupono Initiative, O'ahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i, and three individuals. Your Committees received testimony in opposition to this measure from the Department of Business, Economic Development, and Tourism; Department of Land and Natural Resources; and one individual. Your Committees received comments on this measure from the Office of Planning, The Nature Conservancy, and Hawai'i Farm Bureau.

Your Committees find that carbon emissions can have a serious effect on climate change, especially given its geographic location and economic dependence on natural beauty. Your Committees further find that a carbon credit revenue program has the potential to bring revenue into the State through the sale of carbon credits to carbon emitters. In testimony to your Committees, the Department of Land and Natural Resources estimated that the revenues generated by the sale of carbon offset credits would potentially cover fifteen percent of reforestation costs, supplying the State with more trees and offsetting carbon emissions.

Your Committees note that in its current form, this measure allows the Department of Business, Economic Development, and Tourism to administer "all and any revenues realized from the sale of any carbon credits or offsets", which fails to create any incentive to potential public and private partners of the Department to develop carbon sequestration projects in Hawaii. Your Committees believe that if the revenues from carbon credit sales are not allowed to be applied to the

projects that generated the credit, project proponents will not engage in the costly and time intensive process of a carbon offset program.

Accordingly, your Committees have amended this measure, as suggested by the Department of Land and Natural Resources, by:

- (1) Changing the title of the program from "carbon credit revenue program" to "carbon offset program";
- (2) Requiring the Department of Business, Economic Development, and Tourism to work in collaboration with the Department of Land and Natural Resources in establishing the carbon offset program;
- (3) Deleting language that authorized the Department of Business, Economic Development, and Tourism to administer any and all revenues realized from the sale of any carbon credits or offsets in any established international or national carbon registries through project developers or by state agencies;
- (4) Making various amendments to the carbon offset program, including:
 - (A) Adding, as a function of the program, providing expertise in carbon offsetting to public agencies and private entities and assisting in coordinating carbon offset projects of public agencies;
 - (B) Allowing proceeds and revenues generated by sales of forest carbon offset credits to be used for forest stewardship; and
 - (C) Authorizing proceeds and revenues generated by sales of carbon credits other than forest carbon offset credits to be invested in projects enhancing the State's efforts to mitigate climate change and for watershed restoration or protection;
- (5) Amending the definition of "carbon credit" to mean a tradeable certificate or permit issued by a carbon registry;
- (6) Deleting the definition of "carbon credit revenue";
- (7) Amending the definition of "carbon offset" compensatory measures made by businesses and compensatory measures that increase carbon dioxide sequestration;
- (8) Amending the definition of "carbon registry" to include regional carbon registry programs;
- (9) Inserting a definition for "forest carbon offset" to mean a compensatory measure made by eligible entities that increase carbon dioxide sequestration;

(10) Inserting a definition for "public agency" to mean a unit of state, city, or county government;

(11) Inserting an appropriation of an unspecified amount to implement the program; and

(12) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the records of votes of the members of your Committees on Economic Development, Tourism, and Technology, Water and Land, and Agriculture and Environment that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 1986, H.D. 2, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 1986, H.D. 2, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on behalf of the members of the Committees on Economic Development, Tourism, and Technology, Water and Land, and Agriculture and Environment,

KARL RHOADS, Chair

GLENN WAKAI, Chair

MIKE GABBARD, Chair