



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

July 16, 2009

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fifth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

Re: House Bill No. 371 HD2 SD2 CD1

On July 15, 2009, House Bill No. 371, entitled "A Bill for an Act Relating to Taxation" became law without my signature, pursuant to Section 16 of Article III of the State Constitution.

The purpose of this bill is to extend the exemption of naphtha fuel used in electrical generation from the transportation fuel tax. This measure retains the exemption until December 31, 2012. I support this exemption but believe the sunset date should have been removed in its entirety.

Naphtha, a bi-product of the manufacture of gasoline, is recognized as a low-carbon emission fuel, preferable to other fossil fuel sources. This legislation recognizes the importance of naphtha as a fuel source used in the State today.

However, this legislation also doubles the tax imposed on naphtha fuel used to generate electricity on Kauai and along the Hamakua coast. This increase, which totals an estimated \$440,000 per year for both facilities, will be passed along to rate payers in each jurisdiction.

The increase from 1 cent to 2 cents per gallon, even though some will consider it small, is a 100% increase or a doubling of the tax on this fuel. What is particularly troubling is the increase comes at a time when our families and residents are most vulnerable to additional costs, even small costs, as they struggle with lay-offs, business closures, downsizing, and increasing State and county taxes.

The amount of additional tax is not enough to significantly assist the highway program and does not contribute to closing the State general fund budget gap. Thus, it has no measurable fiscal benefit to the State, while adversely impacting those communities that receive electricity

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from naphtha-burning power plants. However, if this law did not go into effect, then the much larger highway fuel tax would apply to naphtha starting January 1, 2010.

For the foregoing reasons, I allowed House Bill No. 371 to become law as Act 198, effective July 15, 2009, without my signature.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Lingle", with a large, stylized loop at the end.

LINDA LINGLE