SENATE BILL REPORT
SB 5127

As of February 24, 2017

Title: An act relating to establishing a carbon pollution tax and investment program to reduce greenhouse gas emissions, facilitate the transition to a clean energy economy, and invest in K-12 education and other vital public services.

Brief Description: Establishing a carbon pollution tax and investment program to reduce greenhouse gas emissions, facilitate the transition to a clean energy economy, and invest in K-12 education and other vital public services.

Sponsors: Senators Braun, Ranker and Hunt; by request of Office of Financial Management.

Brief History:
Committee Activity: Ways & Means:

Brief Summary of Bill

- Creates a carbon tax imposed on first sale and use of fossil fuels and on electricity generated by fossil fuels.
- Imposes tax of $25 per metric ton of carbon dioxide as of May 1, 2018, increasing each January 1st thereafter by 3.5 percent plus inflation.
- Spends roughly 50 percent of revenue on K-12 education; and the remainder on clean energy investments, water infrastructure and forest health, jobs and competitiveness programs, and programs to relieve the tax impact on certain vulnerable individuals.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Carrie Graf (786-7708)

Background: Current Federal and Washington Regulation of Greenhouse Gasses. The United States Environmental Protection Agency (EPA) and state Department of Ecology (ECY) identify carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride as greenhouse gases (GHGs) as a result of their capacity to trap heat in the Earth's atmosphere.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Under the federal Clean Air Act, carbon dioxide and other GHGs are regulated as an air pollutant and are subject to several air regulations administered by the EPA. These federal Clean Air Act regulations include a requirement that facilities and fuel suppliers whose associated annual emissions exceed 25,000 metric tons of carbon dioxide equivalent report their emissions to the EPA.

At the state level, carbon dioxide and other GHGs are regulated by the ECY under the state Clean Air Act. This state law requires facilities and other sources whose emissions exceed 10,000 metric tons of carbon dioxide equivalent each year to report their annual emissions to the ECY, or to local air authorities that implement the state Clean Air Act. Liquid motor vehicle and aircraft fuel suppliers that supply fuel whose combustion would exceed that same 10,000-ton volumetric threshold must also report their annual emissions. In addition, in January of 2016, the ECY issued a draft rule under the authority of the state Clean Air Act to limit GHGs from certain stationary sources and fuel sources.

Apart from reporting and other regulations under the state and federal Clean Air Acts, several other state laws and programs explicitly address GHG emissions. State law prohibits Washington utilities from investing in or making a long-term financial commitment to sources of electricity whose generation exceeds a GHG emission performance standard of 1100 pounds of GHGs per megawatt-hour, or a separate standard for natural gas generation as determined by the Department of Commerce. State law also establishes limits for statewide GHG emission levels for 2020, 2035, and 2050; although, it is not specified how the state must achieve those limits, nor does the law require emission reductions to be achieved by particular entities or types of entities.

Summary of Bill: Carbon Tax. A carbon tax is imposed on the sale or use within Washington of all fossil fuels, including fossil fuels used to generate electricity. It is also imposed on the sale or consumption within Washington of electricity generated through the combustion of fossil fuels.

The rate of the tax as of July 1, 2018, is $25 per metric ton of carbon dioxide emitted from the complete combustion or oxidation of fossil fuels. ECY, in consultation with the Department of Commerce, will calculate how many tons of carbon dioxide are emitted by the combustion or oxidation of various fuels for the purposes of determining the tax rate of these fuels. For electricity whose source is not known, the presumed carbon dioxide inherent in that electricity is one metric ton of carbon dioxide equivalent per megawatt-hour.

The tax rate increases by 3.5 percent plus inflation, Consumer Price Index, every year starting January 1, 2019.

Fossil fuel is defined as petroleum products, motor vehicle fuel, aircraft fuel, natural gas, petroleum, coal, or any form of solid, liquid, or gaseous fuel derived from these products. Petroleum products means plant condensate, lubricating oil, gasoline, aviation fuel, kerosene, diesel motor fuel, benzol, fuel oil, residual oil, and every other product derived from the refining of crude oil, but the term does not include crude oil or liquefiable gases.

The tax is imposed only once, at the time and place of the first taxable event within the state. For fossil fuels, first taxable event refers to the first seller or user in the state. For electricity, first taxable event refers to the first seller—if liable for business and occupation (B&O) taxes or public utility taxes—or a direct service industrial customer—an industrial customer that contracts for the purchase of power from the Bonneville Power Administration for direct consumption.

The tax only applies to the following: persons required to be registered with the Department of Revenue; the state—its political subdivision sand municipal corporations; and persons who maintain a place of business in this state but who are not required to be registered with the Department of Revenue.

Exemptions. The following are exempt from the carbon tax:
- diesel and biodiesel fuel, or aircraft fuel used solely for agricultural purposes;
- fossil fuels or electricity sold to or used by a light and power business for coal transition power;
- electricity for which a carbon tax was already paid or allowances in an emissions trading program were purchased for, fossil fuels used to generate electricity;
- fossil fuels brought into Washington via a fuel supply tank;
- fossil fuels the state is constitutionally prohibited from taxing; and
- fossil fuels or electricity exported from the state—export to Indian country located in Washington is not considered export outside the state.

Spent Revenue. All the receipts are to be deposited in the Carbon Pollution Reduction account, which is to be used as follows:
- roughly 50 percent of the revenue generated from the tax is to be transferred to the Education Legacy Trust account;
- 15 percent or $250 million, whichever is more, for water infrastructure and forest health;
- 15 percent or $250 million, whichever is more, for clean energy and clean transportation investments, including funding the carbon reduction investment fund created by the bill;
- 6 percent or $100 million, whichever is greater, to relieve the price impact of the carbon pollution tax for certain vulnerable individuals;
- 12 percent or $200 million, whichever is greater, for jobs and competitiveness programs; and
- administrative costs.

Small Business B&O Tax Credit. A small business tax credit is created, which beginning July 1, 2017, increases the B&O filing threshold from $46,667 to $100,000 for service businesses and the small business tax credit to $125 per month. On July 1, 2019, the B&O threshold for all other businesses is increased from $28,000 to $100,000 and the small business tax credit to $125 per month.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on May 1, 2018.