

By putting a price on carbon pollution, Washington will encourage the development of clean energy while generating revenue to be invested in education and other state priorities.

LEADING THE FIGHT AGAINST CARBON POLLUTION

One of Gov. Inslee's top priorities is protecting Washington's environment. Besides offering unparalleled recreation opportunities, a healthy environment holds irreplaceable cultural significance and is vital to agriculture and the economy. Today, carbon pollution threatens not just the outdoors, but the health of our citizens and our economy. Taking measures to halt the spread of carbon pollution will serve us today and for generations to come.

The governor proposes placing a tax on carbon pollution associated with the production and consumption of fossil fuels in Washington state. Emissions generated by transportation fuels and electrical generating units and through natural gas consumption would be taxed beginning at \$25 a ton as of May 1, 2018. The rate of taxation increases annually by 3.5 percent, plus inflation. The tax is estimated to generate \$1.9 billion in its first year and \$2.0 billion in its second year.



BACKGROUND

Climate change caused by carbon pollution poses a profound and growing risk to our state's economy and quality of life. Acidifying oceans, higher forest fire risk and lower snowpack that means less water for Washington's crops and its iconic salmon runs are just some of the repercussions the state has begun to experience. Doing our part to reduce carbon pollution is key to shrinking these and other threats posed by climate change.

By promoting policies that encourage clean energy, Washington can continue its leadership by creating jobs and generating growth among the many business sectors that will transform and strengthen our economy.

In 2008, the state Legislature adopted targets requiring the state to limit greenhouse gas emissions to 1990 levels by 2020, to 25 percent below 1990 levels by 2035 and to 50 percent below 1990 levels by 2050. While Washington has cut emissions by expanding renewable energy and investing in energy efficiency measures,

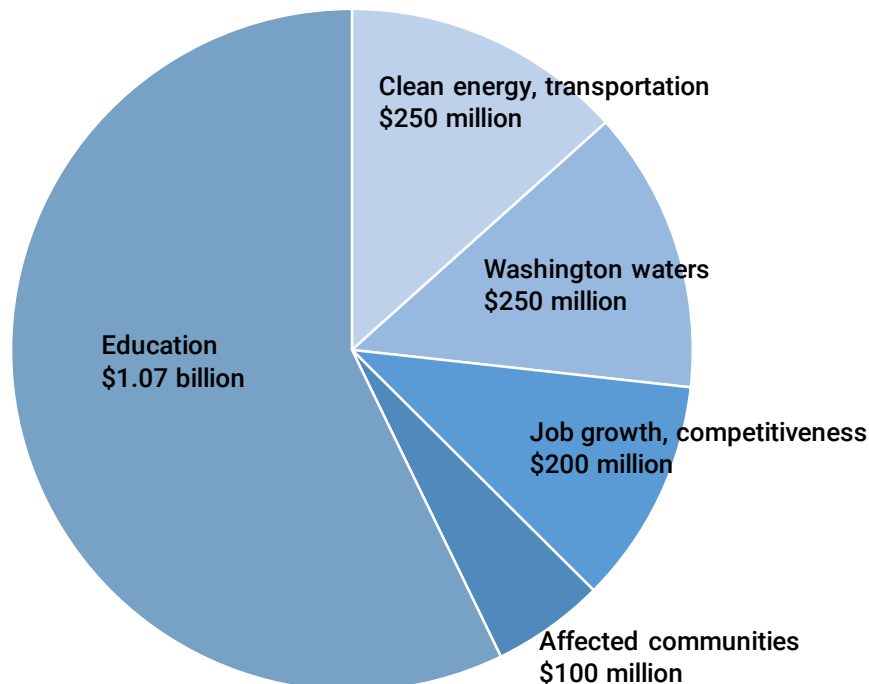
the state is not on track to meet these statutory targets. Indeed, Washington's Department of Ecology has recommended the state's targets be updated to reflect the need for further reductions.

There is growing scientific consensus that more ambitious targets are necessary to meet international goals for limiting global temperature as well. Around the world, jurisdictions with similar challenges are setting a price on carbon to discourage pollution and incentivize investment in clean energy. In fact, carbon pricing is the single most effective of the many tools available to policymakers confronting climate change.

GOV. INSLEE PROPOSES CARBON PRICING PLAN FOR WASHINGTON

By setting a price to discourage carbon pollution and incentivize clean alternatives, a tax will work in combination with other state policies, such as our renewable energy standard, to significantly reduce emissions to meet state limits.

2017–19 Carbon Revenue Investments



Carbon Pollution Tax Revenue

\$ in thousands

Fund – Source	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Fund-State NEW	\$28,100	\$1,875,600	\$1,976,900	\$2,088,300	\$2,201,500	\$2,294,000
Biennial Total	\$1,903,700		\$4,065,200		\$4,495,900	

The tax on fossil fuels applies to sellers and users. It is levied on the first possession, meaning that it would be imposed on any company that generates or imports electricity, natural gas or petroleum. Electricity generated by TransAlta’s facility in Chehalis is exempt per statute and the agreement that ensures the plant’s impending shutdown.

The carbon tax will encourage development of clean energy while also generating revenue to be invested in state priorities. About half these revenues will be invested in education, where we must resolve pressing needs related to meeting the state’s constitutional obligation to fully funding basic education during the 2017 legislative session. A steady revenue stream will fund these costs and other programs that will prepare our students for career or college after graduation and support educators in the classroom and the front office.

Of the remaining portion, about half the revenues will go to energy efficiency, electrification of transportation and other activities that will further cut greenhouse gas emissions in the state.

Carbon revenues will be distributed as follows on an annual basis after funds for education are set aside:

- » \$250 million to fund emissions reduction through clean energy and transportation programs that expand opportunities for residential and utility scale renewable energy; incentivize clean/electric vehicles; and invest in research, technology and commercialization or otherwise cost-effectively cut greenhouse gas emissions.

This could include, for example, grants for purchasing electric buses and charging infrastructure, or investments that expand the production of renewable transportation fuels.

- » \$250 million for Washington waters and forests. These investments will improve the resiliency of Washington’s flood management and stormwater infrastructure, commercial agricultural/irrigation systems and culvert replacement projects. Funds will also be used to improve forest health practices to reduce the risk of catastrophic fires.
- » \$200 million to accelerate job growth and more competitiveness for manufacturers that participate in the state’s greenhouse gas reporting program and invest in industrial energy efficiency, electrification, co-generation, waste-to-energy or alternative fuel fleets and other projects that reduce emissions while lowering entities’ carbon tax burden. Funds will also increase the threshold for business and occupation tax liability from \$24,000 to \$100,000 and increase the small business tax credit to \$125 per month for all taxpayers. This credit will reduce or eliminate any potential impacts of higher energy costs on small businesses due to the new tax.
- » \$100 million to support affected communities via programs that increase residential energy efficiency, improve indoor air quality and shrink energy costs for sensitive populations.