Multiple Agency Fiscal Note Summary

Bill Number: 1555 HB	**Title:** Carbon pollution tax

Estimated Cash Receipts

Agency Name	2017-19		2019-21		2021-23	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(90,800,000)	1,812,900,000	(150,000,000)	3,915,200,000	(156,200,000)	4,339,700,000
Total $	**(90,800,000)**	**1,812,900,000**	**(150,000,000)**	**3,915,200,000**	**(156,200,000)**	**4,339,700,000**

Estimated Expenditures

Agency Name	2017-19			2019-21			2021-23		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of State Treasurer	Fiscal note not available								
Department of Commerce	Fiscal note not available								
Department of Revenue	7.1	199,500	1,558,100	5.4	20,900	1,059,800	4.7	6,900	906,500
University of Washington	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Washington State University	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Department of Ecology	.8	0	162,053	.4	0	84,026	.4	0	84,026
Department of Fish and Wildlife	.0	0	0	.0	0	0	.0	0	0
Department of Natural Resources	Fiscal note not available								
Total	**7.9**	**$199,500**	**$1,720,153**	**5.8**	**$20,900**	**$1,143,826**	**5.1**	**$6,900**	**$990,526**

Estimated Capital Budget Impact

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

http://www.ofm.wa.gov/tax/default.asp

Prepared by: Kathy Cody, OFM	**Phone:** (360) 902-9822	**Date Published:** Preliminary 2/ 7/2017

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 46929

Department of Revenue Fiscal Note

Bill Number: 1555 HB	Title: Carbon pollution tax	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2018	FY 2019	2017-19	2019-21	2021-23
GF-STATE-State 01 - Taxes 06 - Tax Credits - B & O	(22,100,000)	(68,700,000)	(90,800,000)	(150,000,000)	(156,200,000)
NEW-State 00 - 00 -	28,100,000	1,875,600,000	1,903,700,000	4,065,200,000	4,495,900,000
Total $	6,000,000	1,806,900,000	1,812,900,000	3,915,200,000	4,339,700,000

Estimated Expenditures from:

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	7.3	7.0	7.1	5.4	4.7
Account					
GF-STATE-State 001-1	185,500	14,000	199,500	20,900	6,900
NEW-State NEW-1	669,700	688,900	1,358,600	1,038,900	899,600
Total $	855,200	702,900	1,558,100	1,059,800	906,500

Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

http://www.ofm.wa.gov/tax/default.asp

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/23/2017
Agency Preparation:	Rachel Knutson	Phone: 360-534-1532	Date: 01/23/2017
Agency Approval:	Kim Davis	Phone: 360-534-1508	Date: 01/23/2017
OFM Review:	Kathy Cody	Phone: (360) 902-9822	Date: 01/24/2017

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Note: This fiscal note reflects language in HB 1555, 2017 Legislative Session.

This fiscal note only addresses those sections of the bill that impact the Department of Revenue.

PART I - CARBON POLLUTION TAX
A carbon pollution tax is imposed on the sale or use of all fossil fuels within the state and the sale or consumption within the state of all electricity generated through the combustion of fossil fuels. The measure of the carbon pollution tax is carbon dioxide (CO2) emissions resulting from the combustion or oxidation of fossil fuels in the state or generated by the production of electricity. The tax rate starts at $25 per metric ton of carbon dioxide as of May 1, 2018. Beginning January 1, 2019 and for each subsequent year, the tax rate increases by 3.5 percent plus inflation as measured using the consumer price index.

The carbon pollution tax is imposed only once with respect to the same fossil fuel or electricity, at the time and place of the first taxable event within this state, and upon the first taxable person within this state. When the source of fossil fuels used to generate electricity is unknown or unspecified, the CO2 inherent in that electricity is one metric ton of CO2 equivalent per megawatt-hour. The Department must develop and make available worksheets, tax tables, and guidance documents necessary to calculate the CO2 emissions of fossil fuels and CO2 emissions inherent in electricity.

Exemptions and Credits
An exemption from the carbon tax is provided for:
- Fossil fuels brought into the state in the primary fuel supply tank of a motor vehicle, vessel, locomotive, or aircraft that are actively supplying fuel for combustion and any electricity generated by such fossil fuels.
- Fossil fuels or electricity that the state or federal constitution prohibits the state from taxing.
- Fossil fuels or electricity exported from the state.
- Fossil fuels or electricity sold to or used by a light and power business for coal transition power.
- Diesel fuel, biodiesel fuel, or aircraft fuel when used solely for agricultural purposes.

Additionally, several credits and exemptions are provided for fossil fuels or electricity on which carbon pollution taxes have previously been paid or allowances have been purchased from state-administered greenhouse gas emissions trading programs.

Rule-Making and Other Administrative Authority
The provisions of 82.32 RCW apply to administration of the carbon pollution tax, and the Department may adopt rules as necessary to administer the carbon pollution tax.

Taxpayer Reports
Taxpayers who owe carbon pollution tax on electricity must file a carbon content report with the Department. Taxpayers who owe carbon pollution tax on fossil fuels must file a report with the Department that contains information on fossil fuels used in the refining process and the various fuel types and quantities produced for sale.

Report by Department
By October 31st of each year from 2019 to 2029, and biennially thereafter, the Department must submit a report based on the annual or biennial reporting period ending the previous December 31st that contains:
- The total carbon pollution tax collected
- The estimated costs incurred by the Department, Departments of Commerce and Ecology, and the Washington State University extension energy program directly associated with administering the carbon pollution tax shown in dollars and

as a percentage of tax revenue collected.
- The estimated overall net revenue change calculated by comparing total collections with total administrative costs in dollars and as a percentage of carbon pollution tax revenue.
- Additional summary information pertaining to the carbon reduction investment fund provided to the Department by the Department of Commerce.

Carbon Pollution Reduction Account
The carbon pollution reduction account is created and all receipts from the carbon pollution tax must be deposited into this account. Beginning in FY 2019, money in this account may only be used for the following:
- 15 percent or $250 million, whichever is greater, for water infrastructure and forest health projects.
- 15 percent or $250 million, whichever is greater, for clean energy and clean transportation investments, including funding for the carbon reduction investment fund created in Part III.
- 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.
- The Department's and other agencies' costs to support and administer the carbon pollution tax and program administration for investments made through this act.
- The remainder of the money is to be transferred to the education legacy trust account.

For FY 2018, the legislature may direct the transfer of money from the carbon pollution reduction account to the state general fund for costs associated with the small business tax relief described in Part II of this act prior to July 1, 2018.

PART II - SMALL BUSINESS TAX RELIEF
Beginning July 1, 2017, for businesses with at least 50 percent of their taxable activity coming from certain service activities, this act raises the business and occupation (B&O) tax return filing threshold from $46,667 to $100,000 per year and increases the maximum small business credit (SBC) from $70 per month to $125 per month.

Beginning July 1, 2018, for all other businesses, this act raises the B&O tax return filing threshold from $28,000 to $100,000 per year and increases the maximum SBC from $35 per month to $125 per month.

PART III - CARBON REDUCTION INVESTMENT FUND
The carbon reduction investment fund is created and a portion of receipts from the carbon pollution tax are to be deposited into this account. The Department of Commerce must administer and manage this fund, which must be used to fund projects that reduce greenhouse gas emissions, improve energy efficiency, and support jobs in Washington.

PART IV - MISCELLANEOUS
Part II of the act (Small Business Tax Relief) is effective July 1, 2017. The remainder of the act is effective 90 days after the close of the session in which it is passed.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

PART 1 - CARBON POLLUTION TAX

ASSUMPTIONS
- The carbon tax rate is equal to $25 per metric ton of carbon dioxide as of May 1, 2018.
- The carbon tax increases by 3.5 percent plus the inflation rate each year thereafter.
- The inflation rate is equal to the consumer price index for all urban areas (CPI-U), as reflected in the November 2016 Global Insight forecast.
- No credits are granted for payment of a similar carbon tax in another state or the purchase of allowances in a state-administered greenhouse gas emissions trading program.

- Revenues for Part I as estimated assume passage of the proposal by May 1, 2017, allowing a full 12 months to implement.
- A limited number of taxpayers will pay carbon tax in Fiscal Year 2018 through manual processing by the Department.

- The following assumptions are made within the Carbon Tax Analysis Model (CTAM) for modeling purposes:
    - Year one is set to Calendar Year 2018 to most closely correspond to the May 1, 2018, effective date of the proposed carbon tax.
    - The baseline reference energy forecast (option A) is specified, which corresponds to the EIA Annual Energy Outlook 2016 reference case.
    - Jet fuels are not exempted.
    - Marine fuels are not exempted.
    - "Transition coal" is exempted.
    - No supplemental fuel taxes have been modeled.
    - It is assumed that PSE coal strip units 1&2 will be shut down by January 2023, and 100 percent will be replaced by natural gas combined cycle combustion turbines (CCCT's).
    - No additional adjustments have been made to account for Department of Ecology's new clean air rule that is effective October 17, 2016.
    - No additional adjustments have been made to exempt agricultural fuel use, as the impact of burning this type of fuel is considered to be minimal.

DATA SOURCES
- Washington State Department of Commerce, State Energy Office, Carbon Tax Assessment Model (CTAM) - version 3.2c
- Global Insight forecast for the CPI-U, November 2016
- Department of Revenue tax return data
- Washington State Department of Ecology, Air Quality Program, Green House Gas Reporting Program, 2014

REVENUE ESTIMATES
PART I increases state revenues by an estimated $28.1 million in the 1 month of impacted collections in Fiscal Year 2018, and by $1.9 billion in Fiscal Year 2019, the first full year of impacted collections.

TOTAL REVENUE IMPACT, PART I:

State Government (cash basis, $000):

FY 2018 -	$ 28,100
FY 2019 -	$ 1,875,600
FY 2020 -	$ 1,976,900
FY 2021 -	$ 2,088,300
FY 2022 -	$ 2,201,500
FY 2023 -	$ 2,294,400

Local Government, if applicable (cash basis, $000): None

PART II - SMALL BUSINESS TAX RELIEF

ASSUMPTIONS
- The level of income and types of activities of these businesses will be reasonably similar to recent past.

- There are 11 months of cash collections for Fiscal Year 2018 due to the July 1, 2017, effective date.
- Revenues for Part II as estimated assume passage of the proposal by June 1, 2017, allowing a full 30 days to implement.

DATA SOURCES
- Department of Revenue excise tax returns
- Federal/state information on small/new businesses

REVENUE ESTIMATES
PART II decreases state revenues by an estimated $22.1 million in the 11 months of impacted collections in Fiscal Year 2018, and by $68.7 million in Fiscal Year 2019, the first full year of impacted collections.

TOTAL REVENUE IMPACT, PART II:

State Government (cash basis, $000):

FY 2018 -	($ 22,100)
FY 2019 -	($ 68,700)
FY 2020 -	($ 74,200)
FY 2021 -	($ 75,800)
FY 2022 -	($ 77,300)
FY 2023 -	($ 78,900)

Local Government, if applicable (cash basis, $000): None

OVERALL TAX IMPACTS

TOTAL REVENUE ESTIMATES
This bill increases state revenues by an estimated $6 million in Fiscal Year 2018, and by $1.8 billion in Fiscal Year 2019, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2018 -	$ 6,000
FY 2019 -	$ 1,806,900
FY 2020 -	$ 1,902,700
FY 2021 -	$ 2,012,500
FY 2022 -	$ 2,124,200
FY 2023 -	$ 2,215,500

Local Government, if applicable (cash basis, $000): None

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

Part I - Carbon Tax:
- 1,500 taxpayers will be affected by Part I of this legislation (Carbon Tax).
- Expenditure estimates do not reflect the cost for the Department to obtain the scientific expertise to accomplish the duties of the responsible agency for the carbon pollution tax
- Department administrative expenditures will be paid from the Carbon Reduction Pollution Account.

Part II - Small Business Tax Relief:
- This estimate affects up to 38,000 taxpayers that will no longer be required to file tax returns with the Department or will have no B&O tax liability.
- The Department will not close active taxpayer accounts below the new filing thresholds. These accounts will be placed on active non-reporter status.

FIRST YEAR COSTS:
The Department will incur total costs of $855,200 in Fiscal Year 2018. These costs include:

Labor Costs - Time and effort equates to 7.3 FTEs.

Part I - Carbon Tax:
- Increased interpretation and analysis of new laws.
- Answer phone calls and counter inquiries on tax questions and tax return preparation from businesses, individuals, and accountants.
- Create a special notice for affected taxpayers and update web pages and publications.
- Create new tax reporting addendum.
- Resolve additional error and out of balance and amended returns, conduct account examinations, respond to secure messages and correspondence, answer telephone questions, monitor reports, and assist taxpayers with reporting.
- Make direct contact with taxpayers and issue assessments.
- Adopt two new administrative rules.
- Work with external stakeholders to develop methodology for annual reporting.

Part II - Small Business Tax Relief:
- Programming to setup, test, and verify the computer systems for a change in the service B&O tax rate and the SBC. This includes modifications to efile and excise tax reporting, providing for split rate reporting, transfers to the education legacy trust account, updates to the annual reconciliation of apportionable income, creation of a new credit line code and the expiration of two credit line codes.
- Answer phone calls and counter inquiries on tax questions and tax return preparation from businesses, individuals, and accountants.
- Resolve additional error and out of balance and amended returns, conduct account examinations, respond to secure messages and correspondence, answer telephone questions, monitor reports, and assist taxpayers with reporting.
- Amend two administrative rules.

Object Costs - $147,200.

Part I - Carbon Tax:
- Print and mail a special notice to affected taxpayers.
- Contract programmers to create a carbon tax reporting system.
- Prepare annual report.

Part II - Small Business Tax Relief:
- Print and mail special notices to taxpayers who do not file returns electronically.

SECOND YEAR COSTS:
The Department will incur total costs of $702,900 in Fiscal Year 2019. These costs include:

Labor Costs - Time and effort equates to 7.3 FTEs.

Part I - Carbon Tax:
- Increased interpretation and analysis of new laws.
- Answer phone calls and counter inquiries on tax questions and tax return preparation from businesses, individuals, and accountants.
- Resolve additional error and out of balance and amended returns, conduct account examinations, respond to secure messages and correspondence, answer telephone questions, monitor reports, and assist taxpayers with reporting.
- Additional time required for field audits of taxpayers subject to the carbon tax.
- Conduct additional administrative reviews of contested assessments and other disputed Department actions.

Part II - Small Business Tax Relief:
- Resolve additional error and out of balance and amended returns, conduct account examinations, respond to secure messages and correspondence, answer telephone questions, monitor reports, and assist taxpayers with reporting.

ONGOING COSTS:
Ongoing costs for the 2019-2021 Biennium equal $1,059,800 and include similar activities described in the second year costs. Time and effort equates to 5.5 FTEs in Fiscal Year 2020 and 5.3 FTEs in Fiscal Year 2021.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	7.3	7.0	7.1	5.4	4.7
A-Salaries and Wages	443,300	447,400	890,700	696,700	593,100
B-Employee Benefits	133,100	134,300	267,400	209,100	178,100
C-Professional Service Contracts	100,000		100,000		
E-Goods and Other Services	131,300	77,800	209,100	110,400	94,700
G-Travel		10,500	10,500	21,000	21,000
J-Capital Outlays	47,500	32,900	80,400	22,600	19,600
Total $	$855,200	$702,900	$1,558,100	$1,059,800	$906,500

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2018	FY 2019	2017-19	2019-21	2021-23
ADM ASST 5	49,308	0.0		0.0		
COMMUNICATIONS CNSLT 4	57,144	0.2		0.1		
EMS BAND 4	108,926	0.0		0.0		
EMS BAND 5	127,250	0.0		0.0		
EXCISE TAX EX 2	44,652	0.8	0.8	0.8	0.5	0.4
EXCISE TAX EX 3	53,016	1.0	0.4	0.7	0.2	0.2
EXCISE TAX EX 4	58,548	0.5	0.1	0.3	0.1	0.1
FINANCIAL EX 3	73,140		1.0	0.5	1.0	1.0
HEARINGS SCHEDULER	34,284	0.0		0.0		
IT SPEC 4	66,264	0.1		0.1		
IT SPEC 5	73,140	0.3		0.2		
REVENUE AUDITOR 3	58,548		2.0	1.0	2.0	2.0
TAX INFO SPEC 1	38,544	0.8		0.4		
TAX INFO SPEC 4	57,144	0.5	0.3	0.4	0.1	
TAX POLICY SP 2	64,620	0.0		0.0		
TAX POLICY SP 3	73,140	2.7	2.1	2.4	1.3	0.8
TAX POLICY SP 4	78,732	0.3	0.3	0.3	0.3	0.2
Total FTE's	1,116,400	7.3	7.0	7.2	5.4	4.7

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will take the following rule actions:

Part I - Carbon Tax
The Department will use the complex process to adopt two new rules. Persons affected by this rule making would include sellers or users of fossil fuels within this state, including fossil fuels used for aviation and marine purposes; sellers of electricity in this state, where the electricity is generated through the combustion of fossil fuels; and consumers of such electricity purchased from a person who is not required to be registered with the Department for purposes of reporting the carbon pollution tax.

Part II - Small Business Tax Relief
The Department will use the expedited process to amend WAC 458-20-101, titled: "Tax registration and tax reporting" and WAC 458-20-104, titled: "Small business tax relief based on income of business." Persons affected by this rule making would include small businesses in every industry.

Individual State Agency Fiscal Note

Bill Number: 1555 HB	Title: Carbon pollution tax	Agency: 360-University of Washington

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

http://www.ofm.wa.gov/tax/default.asp

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/23/2017
Agency Preparation:	Becka Johnson Poppe	Phone: 206-616-7203	Date: 01/23/2017
Agency Approval:	Becka Johnson Poppe	Phone: 206-616-7203	Date: 01/23/2017
OFM Review:	Breann Boggs	Phone: (360) 902-0563	Date: 01/26/2017

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The following sections would (or could) have a fiscal impact on the UW:

Section 102(1):
a) imposes a carbon pollution tax on the sale or use of all fossil fuels (including fossil fuels used in generating electricity), or the sale or consumption of electricity generated through the combustion of fossil fuels.
b) states that the measure of the carbon pollution tax is the carbon dioxide emissions from the complete combustion or oxidation of fossil fuels sold or used by the taxpayer within this state, or inherent in electricity consumed within this state by the taxpayer.
c) states that the tax rate is equal to $25 per metric ton of carbon dioxide as of May 1, 2018. For subsequent years, beginning Jan 1, 2019, the department must adjust the previous year's tax rate by the rate of inflation, as measured using the consumer price index (for the most recent year for which data is available) plus 3.5%.
Section 102(2)(b)(ii) notes that the tax applies to the state, its political subdivisions, and municipal corporations. Since the UW produces carbon dioxide emissions through the use of fossil fuels and purchases some electricity that likely has inherent carbon dioxide emissions (and since the UW is a state agency), we assume Section 102 would require the UW to pay the $25 per metric ton tax.

Section 103 describes exemptions and credits. We do not believe the UW would qualify for any exemptions, but it is possible that the UW could utilize the credits at some point in the future. For the purposes of this fiscal note, we do not assume any fiscal impact from this section.

Section 104 states that certain state departments may adopt rules necessary to administer this chapter. Depending on what rules are adopted, this could have an impact on the UW.

Section 105 requires certain reporting to accompany the payment of the tax. This reporting would likely have some impact the UW.

Section 108 establishes the Carbon Pollution Reduction Account. Beginning in FY19, moneys in the account may be used for a variety of purposes including for research, development, demonstration and pilot development of clean energy technology. It is possible that some of the funds from the Account could be directed to a UW entity like the Clean Energy Institute, which performs these types of activities. It is also possible that the UW would be eligible for a funding award described under Section 301. However, as it is unknown how the funds would be used and whether any would be awarded to the UW, our fiscal note does not assume any additional cash receipts.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

As mentioned in the Summary, it is possible that some of the funds from the Carbon Pollution Reduction Account (established in Section 108) could be directed toward UW entities like the Clean Energy Institute, or that a UW entity would be eligible for a funding award under Section 301. However, as it is unknown how the funds would be used and whether any would be awarded to the UW, our fiscal note does not assume any additional cash receipts.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Since the UW produces carbon dioxide emissions through the use of fossil fuels and purchases some electricity that likely has inherent carbon dioxide emissions (and since the UW is a state agency), we assume Section 102 would require the UW to pay the $25 per metric ton tax.

The expenditure impact of this bill is ultimately indeterminate because:

- It is unknown what the UW's carbon emissions will be in future years.
- It is unknown what additional reporting might ultimately be required of the UW under Section 105 and the rule making allowed by Section 104.
- It is unknown how much carbon dioxide emissions are inherent in the electricity purchased by the UW, and
- It is unknown whether utility providers or utility consumers (e.g. the UW) would be directly responsible for paying the tax.

REPORTING REQUIREMENTS: Section 105(1), Section 105(3) and Section 104 describes some additional reporting requirements and allow the department to require other information, as needed to comply with the bill. It is likely that the UW would be responsible for some additional reporting as a result of this bill, but the magnitude depends on what rules are established by the department, and whether utility providers or consumers are considered the "tax payers." If utility providers (e.g. PSE) are considered the "tax payers," they would be responsible for most or all of the reporting. However, if utility consumers are considered the "tax payers," the UW would be responsible for most or all of the reporting. These sections could necessitate additional staff time to run a compliance program (potentially 1-2 FTE environmental engineers, with full-time salary and benefits of approximately $100,000 each per year) and potentially an additional $100,000 per year for third-party verification.

TAX PAYMENTS: The UW assumes the Department of Ecology would adopt rules requiring the UW to pay taxes to cover the same natural gas combustion emissions that we currently report to the EPA (data available on this website). For the purposes of this fiscal note, we assume the UW's 2015 emission level of 82,430 metric tons would continue into future years (2015 is the most recent data available on the EPA website). Further, we assume the most recent annual average Consumer Price Index of 2.2% would be added to 3.5% to determine the tax rate for subsequent years, per Section 102(1)(c)(ii). This would mean a total annual increase of 5.7%.

Since the bill states that "the tax rate is equal to $25 per metric ton of carbon dioxide as of May 1, 2018," we assume that any new reporting requirements and payments associated with this tax would begin in FY18.

Based on these assumptions, the UW would be responsible for paying the following tax amounts to account for natural gas combustion emissions:

Year	Cost/ton	2015 emissions	Approx cost to the UW
FY18	$25.00	82,430	$2,061,000
FY19	$26.43	82,430	$2,178,000
FY20	$27.93	82,430	$2,302,000
FY21	$29.52	82,430	$2,434,000
FY22	$31.21	82,430	$2,572,000
FY23	$32.98	82,430	$2,719,000

In addition, there would be some cost (either direct or indirect) to the UW associated with the electricity we purchase; however, it is unknown how much carbon dioxide emissions are ‘inherent’ in that purchased electricity. For Seattle, we assume zero emissions for the electricity purchased through Seattle City Light. If DOE has a different interpretation, it could result in $2 million or more in new expenditures. At Bothell and Tacoma, there is likely some carbon component for purchased electricity, but the level is unknown.

It is also unknown/unclear whether utility providers (e.g. PSE) or utility consumers (e.g. the UW) would be directly responsible for paying these taxes. The fiscal impact is probably very similar regardless. If utility providers are responsible, they would pass the tax on to us in the form of higher rates. If the UW is responsible, we would then pay the tax directly to the state base on what we bought. Pass-through costs could vary slightly from direct costs to the state, but would likely be pretty similar.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 1555 HB	Title: Carbon pollution tax	Agency: 365-Washington State University

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

http://www.ofm.wa.gov/tax/default.asp

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[X] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/23/2017
Agency Preparation:	Chris Jones	Phone: 509-335-9682	Date: 01/26/2017
Agency Approval:	Kelley Westhoff	Phone: 5093350907	Date: 01/26/2017
OFM Review:	Breann Boggs	Phone: (360) 902-0563	Date: 01/27/2017

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 102 (1) (a) of HB 1555 establishes the carbon pollution tax on (i) the sale or use of all fossil fuels within the state of Washington and (ii) the sale or consumption within the state of Washington of electricity generated through the combustion of fossil fuels. Section 102 (1) (c) (i) sets the initial tax rate, as of May 1, 2018, to $25 per metric ton of carbon dioxide. Section 102 (1) (c) (ii) states that tax rates in subsequent years, beginning January 1, 2019, must be adjusted by the rate of inflation, if inflation is above 0%, plus 3.5%.

Section 102 (2) (b) (ii) states that the state of Washington and its political subdivisions are among those entities for whom the tax applies.

Section 106 (2) requires the Washington State University extension energy program to report its estimated administrative costs directly associated with the carbon pollution tax to the Department of Commerce each year at least two weeks before the deadline of the report required under Section 106.

Section 107 requires that the Washington State University extension energy program provide technical assistance, if requested, to the Department of Revenue as may be necessary for the department to effectively administer the carbon tax program.

Section 301 (2) requires the Washington State University extension energy program to consult with the Department of Commerce in the design of four program areas for investments and the review of proposals with regards to using funds deposited in the Carbon Reduction Investment Fund.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

There are no anticipated cash receipts from HB 1555.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

For purposes of the fiscal note, Washington State University used its most recently CO2 reporting data from 2015 to estimate the annual cost of the carbon tax created in Section 102 (1) (a). Based on 73,000 metric tons of CO2 produced from the use of fossil fuels in 2015, WSU estimates the tax cost of fossil fuel use on its campuses to be to $1.8M annually. This estimate does not include the costs passed to WSU from its utility providers as a result of the tax, which is more difficult to estimate, but could be up to $2M based on the over 85,000 metric tons of CO2 produced by electricity that is provided to WSU.

Section 106 (2) requires the Washington State University extension energy program to report its estimated administrative costs directly associated with the carbon pollution tax to the Department of Commerce each year at least two weeks before the deadline of the report required under Section 106. WSU anticipates minimal, if any, expenditures as a result of this requirement.

Section 107 requires that the Washington State University extension energy program provide technical assistance, if requested, to the Department of Revenue as may be necessary for the department to effectively administer the carbon tax program. For purposes of the fiscal note, WSU is estimating that it will cost up to $12,500 annually (staff salaries and benefits) to provide this assistance, with the expectation that this amount could vary by year based on the level of technical assistance needed.

Section 301 (2) requires the Washington State University extension energy program to consult with the Department of Commerce in the design of four program areas for investments and the review of proposals with regards to using funds deposited in the Carbon Reduction Investment Fund. For purposes of the fiscal note, WSU is estimating that it will cost up to $75,000 in staff salaries/benefits annually to provide this assistance. Total cost will be determined by the amount of time required to design the program areas and the volume of proposals submitted.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 1555 HB	Title: Carbon pollution tax	Agency: 461-Department of Ecology

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	1.2	0.4	0.8	0.4	0.4
Account					
Carbon Pollution Reduction Account-State NEW-1	120,040	42,013	162,053	84,026	84,026
Total $	120,040	42,013	162,053	84,026	84,026

Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

http://www.ofm.wa.gov/tax/default.asp

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

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☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/23/2017
Agency Preparation:	Matthew Vandrush-Borgacz	Phone: 360-407-6646	Date: 01/23/2017
Agency Approval:	Erik Fairchild	Phone: 360-407-7005	Date: 01/23/2017
OFM Review:	Linda Steinmann	Phone: 360-902-0573	Date: 01/23/2017

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill would create two new accounts, create a new carbon pollution tax and provide for its administration, stipulate how funds collected under this new tax could be spent, and provide for small business tax relief.

Ecology would be required to provide:
- Under section 101(2) a carbon calculation to the Department of Revenue for use in determining the carbon dioxide emissions from the use of fossil fuels and electricity derived from fossil fuels.
- Under section 106(2) an estimate to the Department of Revenue of the annual costs to Ecology to administer the tax.
- Under section 107 technical assistance to the Department of Revenue as needed to administer the tax.
- Under section 301(2) consultation to the Department of Commerce on the design of investment programs and review of proposals submitted.

Section 108(1)(e) allows work to support and administer the tax and investments made by this bill to be funded with the newly created Carbon Pollution Reduction Account.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

The carbon pollution tax established by section 102 of this bill would be collected by the Department of Revenue. There would be no new cash receipts to Ecology.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part I:
Section 101(2) of this bill would require Ecology to provide the Department of Revenue a carbon calculation showing the carbon dioxide emissions from the use of various fossil fuels and electricity produced from the combustion of fossil fuels. Section 107 would require Ecology to provide on-going technical assistance. Section 106(2) would require Ecology to provide an annual estimate of Ecology's costs to support the administration of the tax. This work is estimated to require 0.50 FTE of an Environmental Specialist 5 during fiscal year 2018 to develop carbon calculation methodologies, consult with the Department of Commerce and Department of Revenue, and provide technical assistance during rule writing and tax table development. Beyond 2018 this work is estimated to require an on-going 0.25 FTE of an Environmental Specialist 5 to update the carbon calculation for the latest science, methodologies, and estimates.

Part II of this bill provides for small business tax relief and does not create new work for Ecology.

Part III:
Section 301(2) of this bill would require Ecology to provide the Department of Commerce consultation during the design of investment program areas and rulemaking, consultation during the solicitation of proposals that use new and emerging technologies to reduce carbon intensity, and the review of proposals submitted for funding. This work is estimated to require 0.50 FTE of an Environmental Specialist 5 during fiscal year 2018 and an

on-going 0.1 FTE of an Environmental Specialist 5 thereafter.

Expenditures are assumed to be from the new Carbon Pollution Reduction Account as created in Section 108.

Notes on costs by object:

Salary estimates are current actual rates at step I, the agency average for new hires.
Benefits are the agency average of 36% of salaries.
Goods and Services are the agency average of $3,784 per direct program FTE.
Travel is the agency average of $2,368 per direct program FTE.
Equipment is the agency average of $868 per direct program FTE.
Agency Administrative Overhead is calculated at the federally approved agency indirect rate of 28.6% of direct program salaries and benefits, and is shown as object 9. Agency Administrative Overhead FTEs are included at 0.15 FTE per direct program FTE, and are identified as Fiscal Analyst 2 and IT Specialist 2.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	1.2	0.4	0.8	0.4	0.4
A-Salaries and Wages	64,620	22,617	87,237	45,234	45,234
B-Employee Benefits	23,264	8,142	31,406	16,284	16,284
E-Goods and Other Services	3,784	1,324	5,108	2,648	2,648
G-Travel	2,368	829	3,197	1,658	1,658
J-Capital Outlays	868	304	1,172	608	608
9-Agency Administrative Overhead	25,136	8,797	33,933	17,594	17,594
Total:	$120,040	$42,013	$162,053	$84,026	$84,026

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2018	FY 2019	2017-19	2019-21	2021-23
ENVIRONMENTAL SPECIALIST 5	64,620	1.0	0.4	0.7	0.4	0.4
FISCAL ANALYST 2		0.1	0.0	0.1	0.0	0.0
IT SPECIALIST 2		0.1	0.0	0.0	0.0	0.0
Total FTE's	64,620	1.2	0.4	0.8	0.4	0.4

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

This bill would not require new rulemaking by Ecology.

Individual State Agency Fiscal Note

Bill Number: 1555 HB	Title: Carbon pollution tax	Agency: 477-Department of Fish and Wildlife

Part I: Estimates

☒ **No Fiscal Impact**

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

http://www.ofm.wa.gov/tax/default.asp

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

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☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/23/2017
Agency Preparation:	Brandon Bean	Phone: 3609028307	Date: 02/03/2017
Agency Approval:	Catherine Suter	Phone: 360-902-2196	Date: 02/03/2017
OFM Review:	Heather Matthews	Phone: (360) 902-0543	Date: 02/06/2017

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 108(1) creates a Carbon Pollution Reduction Account and directs all carbon tax receipts to this account. Section 108(1)(a) directs 15% or $250 million per fiscal year for water infrastructure and forest health projects. This section does not establish criteria or direct this funding to any specific programs for water infrastructure or forest health under which WDFW would incur revenue or increased expenditures (such as the Office of Columbia River or Office of Chehalis Basin with Department of Ecology). Therefore this section does not have an expected fiscal impact on WDFW.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.