Carbon pricing and highway funding in Washington State

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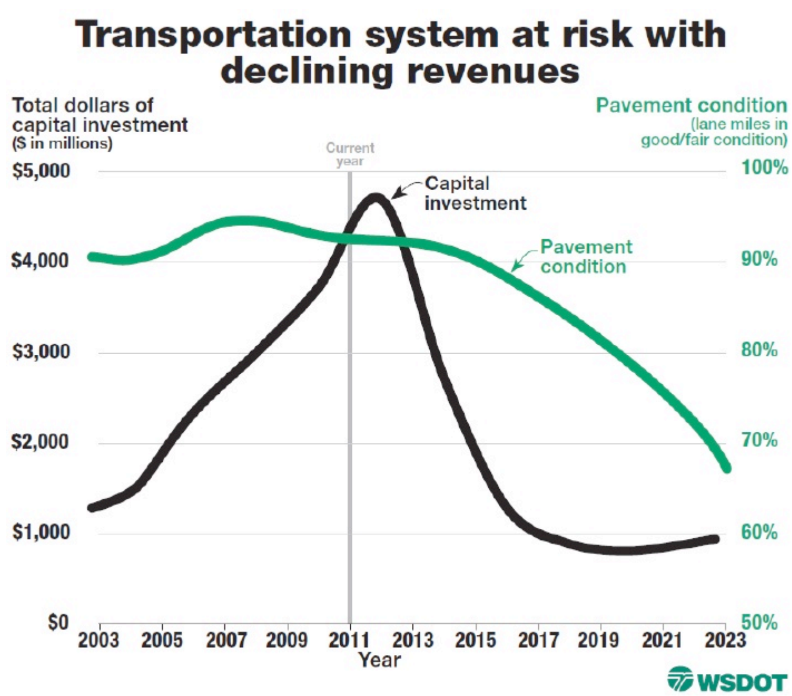
The push to put a price on carbon in Washington State—preferably in the form of a revenue-neutral carbon tax modeled after the successful carbon tax in BC—faces a challenge from the 18th Amendment to the state constitution, which may require carbon tax revenues from motor fuels to go into the highway fund. This document looks at whether this challenge can be turned to our advantage by building a coalition of business, labor, and other groups to support a carbon tax that will provide transportation funding and offset impacts on low-income households while still maintaining a connection to the idea of revenue neutrality.

The legal angle: A case currently before the State Supreme Court—AUTO v. State of Washington, about the constitutionality of the MTCA tax—will provide some clarity about the 18th Amendment (Article II, Section 40), which says that "…all excise taxes collected by the State of Washington on the sale, distribution or use of motor vehicle fuel [shall be] placed in a special fund to be used exclusively for highway purposes… *Provided,* That this section shall not be construed to include revenue from general or special taxes or excises not levied primarily for highway purposes."

Transportation funding: The governor's Connecting Washington Task Force released a report in January 2012 calling for "an investment of $21 billion in state funding during the next ten years", with almost $8 billion just for maintenance and operations of existing infrastructure. A related revenue document contained the graph below.



Policy outline

Carbon tax rate: A tax of $30 per metric ton of CO2 on all fossil fuels purchased for combustion in the state and (if feasible) the carbon content of imported electricity. This tax would amount to about $0.30/gallon of gasoline or diesel; about $0.03/kWh of electricity from coal; and about $0.015/kWh of electricity from natural gas.

Climate benefit: Fossil fuel combustion accounts for about 85% of the 100 million metric tons of annual greenhouse gas emissions in Washington.

Revenue generation: Assuming a 10% reduction in emissions, a tax of $30/ton CO2 would initially generate as much as $4.6 billion per biennium in Washington.

Revenue allocation (transportation): The highway fund would receive approximately 28-38% of carbon tax revenue, or $1.2-$1.6 billion per biennium, with the low numbers coming just from motor gasoline and the high numbers from motor gasoline plus on-road diesel. (It is unclear how the 18th Amendment—or our proposal—treats diesel fuel; and of course there are uncertainties about emissions baselines and reductions.)

Revenue allocation (low-income and environment): Economic analyses suggest that 10-15% of carbon tax revenue ($460-$690 per biennium) is sufficient to offset impacts on low-income households, e.g., through the Working Families Rebate. This revenue could also fund energy efficiency programs and clean energy R&D at state universities.

Revenue allocation (tax reductions): About 50% of carbon tax revenue ($2.3 billion per biennium) could be used to rebate part of the state portion of the property tax, which currently brings in about $3.8 billion per biennium. This would provide direct benefits to homeowners and business (the Gates Tax Structure Study Commission estimates that 42% of the incidence of property taxes falls on business) and indirect benefits to renters. Alternatively or additionally, a small portion of carbon tax revenue ($72-$130 million per biennium) could be used to double or triple the small business B&O tax credit.