

# POLICY BRIEF

## **Citizens' Guide to Initiative 1631** *to impose a state carbon tax on energy use in Washington state*

Todd Myers, Director, Center for the Environment

September 2018

### **Key Findings**

1. Initiative 1631 would impose a carbon tax of \$15 per metric ton of CO<sub>2</sub> emitted in Washington state, increasing by \$2 per year plus inflation, to over \$40 per metric ton in about ten years.
2. Taxpayers would see the cost of the initiative primarily at the gas pump, in home heating costs, and on their electricity bills.
3. This translates to between \$234 and \$305 for the average household in the first year, increasing to \$672 and \$877 per year after ten years.
4. The largest portion of the cost would come from a 14-cent-per-gallon gas tax that would increase by about two cents per gallon each year.
5. The initiative calls the tax a "pollution fee," but it would use existing laws on gas taxes and other energy taxes for enforcement, so the effect on taxpayers would be a tax.
6. Spending of the more than \$600 million generated annually by the carbon tax would be dictated by a 15-member board, all but one of whom would be unelected and would have few restrictions on how to spend the money.
7. The initiative would limit the impact on manufacturing jobs by exempting "energy-intensive, trade-exposed" industries, as well as agricultural, aircraft, and maritime fuels.
8. Claims that the initiative would create jobs make several errors, including the claim that buying less fuel would keep money in Washington state, even as supporters argue we should buy more foreign-built wind turbines and electric vehicles.
9. Although the initiative sets CO<sub>2</sub> reduction targets, there is no accountability for board members or the state if targets are not met.
10. Ironically, if the board failed to meet CO<sub>2</sub> reduction targets, taxes would be increased, and board members would be given control over more money, providing an incentive to miss the targets.
11. The initiative would limit and then prohibit third-party CO<sub>2</sub> reduction projects, which are often the most effective and efficient.
12. Among the suggestions for expenditure is that funding be used to increase tolling on state roads, called in the initiative, "traffic demand management."



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# Citizens' Guide to Initiative 1631

## *to impose a state carbon tax on energy use in Washington state*

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### Introduction

Two years after Initiative 732 put a revenue-neutral carbon tax before the voters, the environmental community is back with a carbon tax initiative that would increase state taxes by \$610 million in its first full year of implementation.<sup>1</sup>

Although Initiative 732 was rejected by voters 59% to 41%, environmental activists hope their support of proposed Initiative 1631 will push this new effort past the 50 percent mark and be enacted.<sup>2</sup> Initiative 1631 was proposed for the 2018 general election ballot soon after Governor Inslee's proposed carbon tax bill was declared dead in the 2018 legislature by its own sponsors.

One key change from the previous initiative and the governor's proposal is that Initiative 1631 refers to its proposed tax as a "pollution fee," not a carbon tax. Proponents argue that, since all the new revenue would be spent to address the impact of CO2 emissions, this fits the legal definition of a "fee," rather than a tax. For taxpayers, however, this is a distinction without a difference – people would pay the same amount to the state no matter what wording is used to describe it.

### The difference between a tax and a fee

Proponents of Initiative 1631, like CarbonWA, admit the language is political. In a tweet, since deleted, they note that calling it a "pollution fee" creates the political benefit of avoiding the 't' word," i.e. taxes.<sup>3</sup>

Additionally, the way the taxes would be collected under Initiative 1631 would be identical to the way existing gas taxes are collected. The initiative specifically references RCW 82.38.030(9), which is the section of Washington law that describes

- 1 Washington State Office of Financial Management, "I-1631 Reducing Pollution," August 24, 2018, at <https://www.ofm.wa.gov/budget/fiscal-impact-ballot-measures-and-proposed-legislation/2018-general-election-ballot-fiscal-information>.
- 2 Washington Secretary of State, "Initiative Measure No. 732 concerns taxes," November 30, 2016, at <http://results.vote.wa.gov/results/20161108/State-Measures-Initiative-Measure-No-732-concerns-taxes.html>.
- 3 Carbon Washington (@CarbonWA), "pollution fee' creates the 'political benefit of avoiding the 't' word,' and limits revenue use to carbon and pollution issues rather than broader issues like rural economic development which was included in the legislature's #carbontax bill.' #waleg", tweet posted April 10, 2018.

the existing gas tax collection process.<sup>4</sup> According to state law, the difference between a “fee” and a “tax” is not how much citizens pay, but how the money is used.

In this Citizens’ Guide, we examine the costs of Initiative 1631 and how the money would be spent. We analyze whether the initiative is likely to meet its promised environmental and social goals and examine some of the details of the initiative that are likely to be overlooked in the public debate.

Initiative 1631 is a significant break from the revenue-neutral approach to reducing carbon emissions. The initiative two years ago proposed a price incentive to encourage people and businesses to become more energy efficient and to reduce CO2 emissions.

When voters cast their ballot this November, they will be judging an initiative that takes a different approach. Initiative 1631 would rely almost entirely on expanded government programs, run by unelected boards, to give money to programs they favor. Whether voters support it or not will depend on their assessment of the cost and whether they trust politicians and unelected board members to effectively choose projects that will reduce CO2 emissions.

## The costs of Initiative 1631

The tax proposed in Initiative 1631 would be levied on fuels that emit CO2 at combustion. Initiative 1631 would begin to take effect in 2020, starting with a tax of \$15 per metric ton of CO2 emitted. The tax would increase each year by two dollars per metric ton plus inflation, reaching about \$43 per metric ton by 2030, assuming three percent annual inflation.

In its analysis of the initiative, the state Office of Financial Management indicates Initiative 1631 would raise more than \$610 million in new taxes in 2021, the first full year of implementation, increasing to nearly \$761 million a year just two years later in 2023.<sup>5</sup>

The text of the initiative notes that the cost of the tax would stop increasing, except for inflation adjustments, once “the state’s 2035 greenhouse gas reduction goal is met and the state’s emissions are on a trajectory that indicates compliance with the state’s 2050 goal is likely...as determined by the board.”<sup>6</sup>

Rather than use an objective metric, the initiative would allow the board to make the subjective determination about whether emissions trends are “likely” to meet the goal, thus capping the tax increase. As we discuss below, the initiative would provide funding for a significant number of special interest groups. These groups will not want to prematurely stop the yearly tax increase and may, instead, push the board continually to increase the tax rate.

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4 Washington Secretary of State, “Initiative Measure No. 1631,” accessed August 2018, at [https://sos.wa.gov/assets/elections/initiatives/finaltext\\_1482.pdf](https://sos.wa.gov/assets/elections/initiatives/finaltext_1482.pdf).

5 Washington State Office of Financial Management, page 3.

6 Text of Initiative 1631, page 21.

Taxpayers would feel the tax primarily in three ways. First, the largest impact would be at the gas pump. Second, a smaller portion, on average, would be associated with the cost of natural gas for home heating. Finally, since Washington's electricity is mostly carbon-free, there would be a smaller impact felt in most utility bills.

For the average household, Initiative 1631 would amount to a tax increase of between \$234 and \$305 in the first full year of implementation, 2021. That amount would increase to between \$672 and \$877 a year in 2030.

First, a tax of fifteen dollars per metric ton would add about fourteen cents to the price of a gallon of gas. For the average home with two drivers, this would add \$167 in cost in the first year, increasing to \$480 a year in 2030.

Second, for the average Seattle home using 650 therms of natural gas, the cost would be \$51.68 per year, increasing to \$148.43 a year. In Spokane, where the average use is about 792 therms annually, the average home cost would be \$62.96, increasing to \$180.86 a year.

Finally, electricity is the smallest portion of a household's carbon tax bill. Statewide, the average household would pay about \$15.36 annually in the first year, increasing to \$44.13 a year in 2030.<sup>7</sup> The cost to local utility customers, however, would vary depending on the carbon content of the energy portfolio of their utility.

For example, Puget Sound Energy's current mix would mean an additional cost of \$86.48 per household for its customers in the first year of implementation, increasing to \$248.41.<sup>8</sup> In Spokane, Avista's energy mix would mean an increase of \$44.35 per year for customers, increasing to \$127.39 a year.<sup>9</sup> Utilities with high amounts of hydro power, on the other hand, would see lower-than-average increases in electricity costs.

## Who would pay for tax increases

The initiative text says the cost would be borne by "large emitters of pollution," and supporters argue the costs would be paid by "the oil industry and utilities that haven't switched over to clean energy."<sup>10</sup> The companies who pay the tax, however, would pass the tax on to consumers. In an editorial board meeting with *The Seattle Times*, Mo McBroom of The Nature Conservancy said much of the tax would be paid by the companies, claiming, "There is an analysis that shows when there is a charge that is levied upstream on fuels, about half of that gets passed through." McBroom did not identify the study she cited.

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7 Energy Information Administration, "Washington Electricity Profile 2016," January 25, 2018, at <https://www.eia.gov/electricity/state/washington/>.

8 Puget Sound Energy, "Electricity Supply," October 2017, at <https://www.pse.com/aboutpse/EnergySupply/Pages/Electric-Supply.aspx>.

9 Avista, "About our energy mix," December 2016, at <https://www.myavista.com/about-us/our-company/about-our-energy-mix>.

10 Yes on 1631 campaign, "FAQS," at <https://yeson1631.org/learn/faqs/>.

One study was offered by a supporter of the initiative, noting that “a 15 cents-per-gallon gas tax increase at the federal level would likely result in a 5.9 cents-per-gallon increase in the pump price the week of enactment plus an additional 2.4 cents-per-gallon within four weeks of enactment.”<sup>11</sup> Additionally, the study says that tax increases would be “lost” in the fluctuations of oil prices. This study, however, is not in the peer-reviewed literature.

By way of contrast, a published study by researchers at Washington State University and the University of California at Berkeley, found that, “a 1¢ increase in the state specific tax causes a 1.01¢ increase in the retail price.”<sup>12</sup> In other words, the consumers actually pay slightly *more* than the tax in the form of higher prices.

There is some variability, and this is an average, but consumers should assume they would bear the burden of the entire tax increase. The study notes there is a difference in how a state and national gas tax is treated, with state gas tax increases being passed on entirely to consumers. The cost of national gas taxes, however, are split between consumers and producers.

This conclusion is supported by a more recent study published by the National Bureau of Economic Research, which notes that “state gasoline and diesel fuel taxes are on average fully and immediately passed on to consumers.”<sup>13</sup>

Further, the claim that gas tax increases are “lost” in price fluctuations does not mean they do not have an economic impact, it simply means consumers have a difficult time discerning the impact. Ironically, the policy goal of a carbon tax is to get consumers to feel the increased cost so they will use less gasoline and become more energy efficient. Initiative 1631 supporters are simultaneously arguing that consumers would not feel the cost and that the increased costs will cause consumers to change behavior. Both statements cannot be true.

### ***Businesses that would be exempt from a carbon tax***

Although households would see their energy costs go up, many businesses would be exempted from paying the direct costs from the tax. The initiative exempts several “trade-exposed, energy-independent” industries, recognizing that an increase in costs could drive those industries out of the state. The initiative exempts a range of industries, including, “Dried and dehydrated food manufacturing,” “cement manufacturing,” “newsprint mills,” primary aluminum production,” “aircraft manufacturing,” and “semiconductor and related device manufacturing.”

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11 Black, Alison Premo, “How a Gas Tax Increase Affects the Retail Pump Price,” June 2015, at <https://www.artba.org/wp-content/uploads/2015/06/How-a-Gas-Tax-Increase-Affects-the-Retail-Pump-Price-June-2015-ARTBA-Study-FINAL-2.pdf>.

12 Chouinard, Hayley and Perloff, Jeffrey, “Incidence of Federal and State Gasoline Taxes,” *Economics Letters* 83(1):55-60, February 2004, at <https://are.berkeley.edu/~jperloff/PDF/gastax.pdf>.

13 Marion, Justin and Muehlegger, Erich, “Fuel Tax Incidence and Supply Conditions,” National Bureau of Economic Research, Working Paper 16863, March 2011, at <http://www.nber.org/papers/w16863.pdf>.

The Department of Commerce could also add industries to the list if the higher cost to these industries meets certain criteria. Agricultural, aircraft and maritime fuels would also be exempted.

Washington has already witnessed the fragility of energy-intensive industries, with two aluminum plants idled in recent years due to international competition, and the partial closure of a paper mill in Camas, at the cost of hundreds of well-paid, blue-collar jobs.<sup>14</sup>

These industries, and small businesses that are not exempt, would feel the impact of the carbon tax increase. The cost of electricity, transportation, and other goods would increase as a result of the tax. These exemptions are one reason some industry groups who opposed the revenue-neutral carbon tax initiative two years ago have decided not to oppose Initiative 1631.

Opponents of Initiative 1631 argue these exemptions are unfair and put the burden of the tax on families and those who could not afford to hire lobbyists to negotiate exemptions. Removing the exemptions, however, would increase the economic impact of the carbon tax, reflecting what has occurred in other states.

For example, in the Northeast where the Regional Greenhouse Gas Initiative imposes a tax on carbon emissions, the region saw a 3.8 percent decline in manufacturing jobs, even as the rest of the country saw an increase of 5.4 percent in those jobs. The exemptions written into Initiative 1631 are an effort to reduce the negative impacts the carbon tax increase would have on Washington's economy and jobs.

### *Lost jobs expected*

Other aspects of the initiative, however, would end up reducing employment. The language of Initiative 1631 assumes this, promising "a minimum balance of 50 million dollars of the clean air and clean energy account must be set aside," to provide assistance for "workers who are affected by the transition away from fossil fuels to a clean energy economy." Job losses would not be a side effect; they are a part of the plan being proposed by initiative supporters.

Initiative supporters argue that so-called green collar jobs would replace the lost jobs. They note that jobs in the solar industry are growing more rapidly than in other industries. Last year, when advocating for a carbon tax, Governor Inslee told the *Auburn Reporter*, "Jobs in the solar industry are growing 17 times faster than any other sector in the American economy."<sup>15</sup> There are a couple problems with this claim, however.

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14 Brynelson, Troy, "Parts of Camas paper mill to shut down; at least 280 jobs lost," *Vancouver Columbian*, November 15, 2017, at [https://tdn.com/news/state-and-regional/parts-of-camas-paper-mill-to-shut-down-at-least/article\\_a631093e-42f3-5c09-947e-db49f0903f02.html](https://tdn.com/news/state-and-regional/parts-of-camas-paper-mill-to-shut-down-at-least/article_a631093e-42f3-5c09-947e-db49f0903f02.html).

15 Whale, Robert, "Inslee talks clean-energy economy, climate," *Auburn Reporter*, December 13, 2017, at <https://www.auburn-reporter.com/news/inslee-talks-clean-energy-economy-climate/>.

First, the data on solar jobs are nationwide, not for Washington state. Washington state is a very poor source of solar energy, and most of those jobs are being created in the southwestern United States. I asked the governor's staff if they had data for solar jobs in Washington state, and they responded, "not that I am aware of."

Second, advocates of solar energy note that it requires more workers to produce the same amount of energy per unit as produced by natural gas or other energy sources. Having three people do the work of one person, however, would result either in lower-wage jobs, or higher-cost energy, or both.

Workers are paid commensurate to their productivity, and if each solar worker produces less energy than his counterpart in other industries, the solar job will pay less. Using the same flawed thinking, we could increase the total number of farm jobs by banning tractors. More farm workers would be hired certainly, but the negative impacts on wages and food prices would be obvious.

### *Proponents say out of state spending is bad, unless it is good*

Supporters of Initiative 1631 also argue that money spent on gasoline "goes to out-of-state oil companies instead of staying in Washington to help create local jobs or improve quality of life."<sup>16</sup> They claim Initiative 1631, "could change that by shifting the transportation sector away from fossil fuels and toward walking, biking, transit, cleaner fuels, and electric vehicles." This is seriously flawed logic.

First, the notion that buying locally is better for the economy is obviously false. Washington is good at making airplanes, designing software, and growing apples. We should keep doing those things well. The logic of the Sightline Institute, which produced the report, is that we should produce fewer of those things and instead produce cars, make computers, and grow coffee, since we consume those things. This is clearly wrong. It is better for us to specialize and trade for products that others produce efficiently.

Second, it is an extremely strange argument to say we should not send money out of state to buy gasoline, and then claim we can use that money to buy electric cars from, say, Nissan, built outside of Washington state. The same is true for solar panels (many of which are built in China) or wind turbines (many are built in Denmark).

If keeping money in state makes us prosperous, instead of trading, why would we purchase cars, solar panels, or wind turbines from other countries? Obviously, we shouldn't, and it demonstrates how false some of the justifications are for supporting Initiative 1631.

Although they play down harmful economic impacts, supporters of Initiative 1631 admit the higher costs would be paid by families and businesses. In the *Seattle Times* editorial board interview, McBroom told the board members, "it [the carbon

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16 Eberhard, Kristin, and Van't Hof, David, "Washington voters could make history in 2018 – and keep billions in revenue in-state," September 6, 2018, Sightline Institute, at <https://www.sightline.org/2018/09/05/carbon-fee-1631-washington-historical-fight-big-oil-revenue/>.



tax] is a reasonable amount we should all be willing to contribute.” Put simply, Initiative 1631 supporters believe the risk to jobs and the economy is worth taking to achieve other political goals.

## How carbon tax money would be spent

Unlike the revenue-neutral carbon tax proposed two years ago, Initiative 1631 would use the hundreds of millions of dollars it would generate to fund a range of projects and programs.

The funding decisions would be made by a fifteen-member board. Only one voting member of the board, the Commissioner of Public Lands, would be elected by the public. All the other members, including agency heads, members of the environmental community, a representative of a “vulnerable population,” and others to be appointed by the governor would be unelected.

The board would make all decisions on how carbon-tax money would be spent, including how much it would take for “reasonable administrative costs.” Although the initiative suggests the types of projects that may be funded, the board would be given wide latitude to spend money on anything it deems necessary.

The initiative says the board may deviate from the initiative’s guidelines, “if the board otherwise determines that variance from the prescribed allocation is critically important to achieve the purposes of this chapter.”

In addition to the main board, the initiative would create three smaller panels to provide recommendations on expenditures.

The Clean Air and Clean Energy Panel would be made up of no more than nine members, led by a member of the labor community and a green business. Although the initiative designates someone from a “business interest” to be a member, it would require that this member have “expertise in carbon reduction programs, activities, and technologies.” This requirement virtually ensures the business representative would be from a company that would benefit from the spending generated by the tax increase.

The panel would be responsible for providing recommendations on how to spend the Clean Air and Clean Energy account, which would account for about 70 percent of the total expenditures provided under the initiative.

The Clean Water and Healthy Forests panel would be co-chaired by a member of the tribal community and a “stakeholder that represents statewide environmental interests.” The panel of no more than nine people would make recommendations on how to make land and water more adaptive to climate change.

For example, supporters of Initiative 1631 say funding could be used to, “Build an FSC Certified Lumber Mill in Rural Eastern Washington.”<sup>17</sup> They also say funding may be considered for “supporting cross laminated timber and other mass timber technologies” in support of forest health efforts.

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17 Yes on 1631 campaign, “Solutions Map,” at <https://yeson1631.org/map/>.

Whether these expenditures would be effective is unclear.

### *Potential environmental benefits*

There are some projects that would positively improve the health of our forests. For example, supporters of Initiative 1631 cite the Department of Natural Resources commendable “20-year forest health strategic plan” as a guide to potential projects.<sup>18</sup> Additionally, cross laminated timber offers the promise of using lower-quality timber, the kind which is often found in unhealthy forests, for high-value uses. Finally, tribes, like the Yakama, have been good stewards of their tribal forests, creating revenue while promoting good stewardship of healthy forests.

On the other hand, systems like FSC – the Forest Stewardship Council – are designed to limit timber harvests, adding restrictions that make it very difficult to create a thriving timber community and maintain sustainable jobs.

An additional concern is that the environmental community, which is designated to co-chair the panel, has consistently opposed thinning forests and supported a forest fire policy known as “let it burn.” The initiative requires that, “Investments from this account must result in long-term environmental benefit,” which is the type of vague language that has been used to block effective forest management in the past.

### *Panel members can direct money to themselves*

Finally, the Environmental and Economic Justice Panel would be co-chaired by a tribal member and a “representative of the interests of vulnerable populations in pollution and health action areas outside of tribal lands.” The remainder of the panel would be comprised of union labor, tribal leaders, and representatives of “vulnerable populations.”

It would be responsible for spending the final five percent of funding in the Healthy Communities fund, which funds a range of programs intended to reduce the impact of climate change on tribes and vulnerable populations.

Worth noting is that the initiative specifically provides that members of the panel may grant public money to themselves. The initiative says, “Members of the environmental and economic justice panel may receive financial support from organizations and the governments of Indian tribes through approved community capacity grants awarded under section 6(5) of this act.” Given the choice between recommending a project that helps an unrelated group and one that benefits a member of the panel, it is reasonable to wonder if the panel would prioritize effectiveness over their own profit.

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<sup>18</sup> Department of Natural Resources, “20-Year Forest Health Strategic Plan: Eastern Washington,” at <https://www.dnr.wa.gov/ForestHealthPlan>.

## Initiative 1631 might not reduce CO2 emission

The initiative sets targets for CO2 emissions reductions, requiring the board to “efficiently and effectively reduce the state’s carbon emissions from 2018 levels by a minimum of twenty million metric tons by 2035 and a minimum of fifty million metric tons by 2050 while creating economic, environmental, and health benefits.” There are no metrics, however, for defining what is “efficient” or “effective.” That determination would be left to the discretion of the appointed board.

The initiative would require that an “Effectiveness Report” be produced every four years. In addition to describing “progress made in achieving the carbon reduction goals” in the initiative, the report also “must recommend improvements to the implementation of this chapter.”

The report, however, would not require any changes, nor would it trigger accountability for missing the targets. Board members whose decisions cause the state to miss the CO2-reudction goals would not be required to step down, to make up the shortfall, or in any other way be accountable for failure.

### *Failure would be rewarded*

Ironically, if the targets are missed, the board would actually be provided with more public money to use as they wish. The initiative says the annual increases in the carbon tax would stop, only when, “the state’s 2035 greenhouse gas reduction goal is met and the state’s emissions are on a trajectory that indicates that compliance with the state’s 2050 goal is likely...” Again, the definition of “likely” would be determined by the board.

The result of this formulation is that if the targets are met, the amount of public revenue available for the board’s use would be limited or capped.

While Initiative 1631 provides no accountability for failure, it would reduce the resources available to board members, creating a disincentive for effectively achieving the targets. This disincentive to succeed is bolstered by a number of other clauses in the initiative that make its policy success unlikely.

Without accountability, the environmental results would likely be as poor as in Washington state and other local jurisdictions that have set similar goals. Washington state officials, for example, set targets to reduce CO2 emissions from transportation, energy, and buildings.<sup>19</sup> As we noted earlier this year, Governor Inslee’s administration is missing virtually all of those

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19 Results, Washington, “Goal 3: Sustainable energy and a clean environment,” at <http://results.wa.gov/goals-progress/goals/sustainable-energy-clean-environment/goal-map>.

self-imposed targets, and, “Not only is his administration failing to meet the targets, key metrics are simply ignored.”<sup>20</sup>

Similarly, the officials in City of Seattle have consistently failed to meet their self-imposed CO2 reduction targets.<sup>21</sup> Without accountability and enforceable metrics, politicians have chosen climate policy that favors short-term symbolism over long-term effectiveness.

### *Ineffective spending*

The initiative may encourage funding projects that are speculative or symbolic. The text notes that public funding, “may be invested in pilot tests and other market and technology development projects that are designed to test the effectiveness of the proposed project, program, or technology.” This would encourage the board to spend money on risky projects, rather than funding efforts likely to help reduce CO2 emissions and hit the targets.

Washington state has been through this cycle of failure before. The state’s “Energy Freedom Loan” program was designed to fund exactly these types of pilot projects.

The results were abysmal. As we noted in 2013, of the three projects that had been publicly funded by the program, “all three are struggling or failed...”<sup>22</sup> Encouraging risk-taking by unelected board members who do not pay the cost of failure encourages recklessness. This is one reason government projects designed to reduce CO2 emissions so frequently fail, sometimes spectacularly, as in the case of Solyndra or the failure of the Snohomish County biofuel plant.<sup>23</sup>

Although Initiative 1631 would give leeway to fund projects that are unlikely to reduce CO2 emissions, it would actually restrict the most effective CO2-reduction projects.

The board would be directed to spend on projects and efforts that reduce CO2 emissions, but third-party efforts would be strictly limited. The initiative limits funding existing projects and those outside Washington, even if

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20 Myers, Todd, “Inslee had a goal to cut carbon emissions. Where are the results?” *Crosscut*, January 15, 2018, at <https://crosscut.com/2018/01/carbon-emissions-inslee-talks-the-talk-but-does-he-walk-it>.

21 Myers, Todd, “Climate Plans Haven’t Paid Off. So Why Are Greens Claiming ‘Success?’”, *SeattleMet*, March 27, 2012, at <https://www.seattlemet.com/articles/2012/3/27/climate-plans-havent-paid-off-so-why-are-greens-claiming-success>.

22 Myers, Todd, “Washington State’s Failed ‘Energy Freedom’ Loans Are 0-for-3, Risking \$4.4 Million in Taxpayer Funds,” blogpost, Washington Policy Center, August 26, 2013, at <https://www.washingtonpolicy.org/publications/detail/washington-states-failed-energy-freedom-loans-are-0-for-3-risking-44-million-in-taxpayer-funds>.

23 Haglund, Noah, “Snohomish County’s venture into biofuels is a bust, for now,” *The Everett Herald*, November 6, 2016, at <https://www.heraldnet.com/news/snohomish-countys-venture-into-biofuels-is-a-bust-for-now/>.

those efforts provide CO2 reductions that are “real, permanent, enforceable, verifiable, and additional.”

There is simply no logic for excluding or limiting funding for existing and effective projects. Despite that, the initiative would allow only 10 percent of carbon reductions to be achieved this way and all such opportunities would be blocked after ten years.

Existing projects, provided by organizations like the Bonneville Environmental Fund, and certified as effective by organizations like Green-e, often yield the greatest CO2 reduction per dollar spent. If Initiative 1631 supporters were truly concerned about reducing CO2 emissions, they would put these types of projects at the top of the list for public spending, rather than restricting and then banning them. This is even more inexplicable since the initiative actually encourages the board to invest in projects they know will be costly and ineffective.

The difficulty of meeting the targets is compounded by the requirement that projects must give preference to ones that have a number of costly requirements, including “prevailing wage rates determined by local collective bargaining, apprenticeship and pre-apprenticeship utilization and preferred entry standards,” among other restrictions. Some on the left argue the added expense is necessary to appease special interests that they support. Such special-interest expenditures, however, increase the cost of CO2 reduction, harm the public interest, and reduce the effectiveness of the initiative.

An additional irony is that, although the expenditures made by the board are not subjected to any objective metric, electric utilities that are required to meet CO2 reduction targets are specifically penalized if they fail. The initiative notes that if either the Utilities and Transportation Commission or the Department of Commerce, “determines that a plan did not meet a performance metric,” the utility must pay a penalty and may restrict the utility’s compliance options in the future. The cost of the penalty would likely be passed on to the utility’s customers.

#### *Initiative 1631 is exempted from performance measures*

There is a provision in state law, passed with broad bipartisan support, that requires that public expenditures be independently evaluated for effectiveness. Initiative 1631, however, specifically exempts the spending from a “performance statement,” which would examine how effective the board’s spending is at reducing CO2 emissions and meeting the other goals of the initiative. Although the initiative claims it is not a tax, it notes that “if a court of final jurisdiction determines that the pollution fee imposed in this chapter is a tax,” the tax is exempt from the performance statement required by state law.

### *Initiative 1631 and climate change*

For many voters, the key decision about Initiative 1631 will rest on the apparent tradeoff between higher energy costs for families and the concern about global climate change. The approach of Initiative 1631, however, makes it less likely the measure would effectively reduce CO2 emissions and address the impacts of climate change. Those most concerned about the potential impact of climate change should be the most concerned about the ineffective approach chosen by the initiative authors.

### **Overlooked provisions**

In addition to the basic costs and expenditures of Initiative 1631, it also includes some language that is unlikely to be highlighted by either side in the public debate. Such provisions tend to be overlooked, but they are worth noting.

#### *Tolling*

The initiative encourages using money for public transit, and “transportation demand management,” an insider phrase which means road tolling. Funds from Initiative 1631 could be used to set up tolling on state highways, with the goal of increasing the cost to drivers and reducing the number of cars on the road.

#### *Ideology requirements*

The initiative provides funding for the Superintendent of Public Instruction to “expand awareness of and increase preparedness for the environmental, social, and economic impacts of climate change and strategies to reduce pollution.” The clear implication of the language is to inculcate school children in a particular political approach to public policy.

The initiative authors will claim this is simply intended to provide information about climate science. Some of those same advocates claim climate change is an “existential crisis,” which means they believe it will end all human existence.

There are other explicit ideological restrictions. The director overseeing the board’s work must show a, “demonstrated commitment to transitioning to a clean energy economy.” How a court would enforce this provision is questionable, but the authors took no chances that someone who disagrees with them politically might end up staffing the effort.

#### *The hidden provision to impose a cap-and-trade system*

On the final page of the initiative, the text notes that if the initiative is ruled invalid by a judge, it would be replaced by the cap-and-trade system previously offered by the Governor. “If this chapter is invalidated,” says the intuitive, “the department of ecology is directed to enforce chapter 173-442 WAC and associated amendments to chapter 173-441 WAC.”

Those sections of the Washington Administrative Code contain the Governor's cap-and-trade plan, which was previously ruled illegal by a judge. So, if the initiative is invalidated by a judge, the initiative would require the Governor's illegal cap-and-trade system to be implemented.

The writers of Initiative 1631 are trying to override a court decision by sneaking it into Initiative 1631. Rather than take the Governor's cap-and-trade rule directly to the voters or the legislature, as the judge said was required, they simply throw it in at the end of Initiative 1631.

## **Conclusion**

Initiative 1631 is the latest iteration of a series of failed attempts to implement a carbon-reduction climate policy in Washington state. When the Legislature was considering the governor's carbon tax proposal earlier this year, some of the lobbyists from the environmental community warned that if the bill did not pass, they would come back with a ballot initiative that was, as they put it, "much worse." The day after the Democratic-majority legislature killed the governor's plan, the environmental community submitted Initiative 1631 for the November 2018 ballot.

The initiative is based entirely on the belief that an unelected board can effectively use billions of taxpayer dollars to choose projects that reduce CO2 emissions. The initiative itself, however, puts restrictions on the expenditures and eliminates accountability, making success less likely, even giving the board control over more public funds if they miss the CO2 reduction targets.

Whether Initiative 1631 is successful or not as policy, Washington residents would still see their taxes go up for gas, home heating, and electricity, with the tax rate imposed on energy use more than doubling during the first ten years.

Ultimately, Initiative 1631 represents a costly and dramatic experiment in the government-heavy approach to reducing carbon emissions. Experience shows it is an approach that has failed to produce CO2 reductions thus far in Washington state. Initiative 1631 represents one more, even more dramatic attempt to make that top-down approach work.

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