

## POLICY NOTE

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

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### 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.

### Introduction

Two years after Initiative 732 put a revenue-neutral carbon tax before the voters, in 2016, 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> In 2016, Initiative 732 was rejected by voters 59% to 41%. This time environmental activists hope their support of proposed Initiative 1631 will be enacted.<sup>2</sup> This Policy Note presents a summary of the findings of our full study of Initiative 1631.

Initiative 1631 is a significant break from the revenue-neutral approach to reducing carbon emissions. 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 CO<sub>2</sub> emissions.

### Proposed carbon tax

The tax proposed in Initiative 1631 would be levied on fuels that emit CO<sub>2</sub> at combustion. Initiative 1631 would begin to take effect in 2020, starting with a tax of \$15 per metric ton of CO<sub>2</sub> 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.

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>3</sup>

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 Washington State Office of Financial Management, page 3

## Cost of average household

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.

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>4</sup> A study by researchers at Washington State University and the University of California at Berkeley, however, found that costs would be passed on and consumers would bear the burden of the entire tax increase.

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, pro-1631 activist Mo McBroom told the board members, “it [the carbon 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.

## Unelected board would spend funds

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.”

Although it gives wide latitude to the board, the initiative lists suggestions on how to spend the money. For example, it 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.

## No metrics for achieving policy goals

The initiative sets targets for CO<sub>2</sub> emissions reductions, requiring the board to “efficiently and effectively reduce the state’s carbon emissions from 2018 levels by a

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4 Yes on 1631 campaign, “FAQS,” at <https://yeson1631.org/learn/faqs/>



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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.

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.

### **Board members could give public money to themselves**

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.

Finally, it would send money to a number of left-wing priorities, though the Environmental and Economic Justice Panel. Interestingly, it specifically says that members of the panel may receive grants, allowing them to, essentially, grant money to themselves.

### **Conclusion**

Ultimately, Initiative 1631 is an amalgam of left-leaning priorities: higher taxes, more government, and funding for government social programs. Ironically, the area the initiative is most likely to fail is the very justification: reducing CO2 emissions.