ATTACHMENT 3.A.

Resolution by the Citizens' Climate Lobby in Support of a National Carbon Fee and Dividend Program

Staff Response as of June 2019

The Resolution of the Citizens' Climate Lobby (CCL) in Support of a National Carbon Fee and Dividend Program calls for the endorsement of House Resolution 763 (H.R. 763), otherwise known as the ''Energy Innovation and Carbon Dividend Act of 2019." H.R. 763 was introduced in the U.S. House of Representatives on January 24, 2019. During testimony at the annual public hearing of the Environmental Quality Advisory Council, the Fairfax County chapter of CCL asked that Fairfax County endorse H.R. 763.

This response, prepared by staff of the Office of Environmental and Energy Coordination (OEEC), provides background and an initial assessment of H.R. 763. However, staff recognizes that the bill raises complex and interrelated economic and social issues that have not been fully identified and analyzed. Staff therefore recommends continued monitoring and further analysis by appropriate county staff, regional associations, and others.

Background

Purposes of Carbon Fee: H.R. 763 seeks primarily to use a carbon fee or tax as a tool to discourage the use of fossil fuels, encourage the adoption of clean energy technologies and reduce greenhouse gas (GHG) emissions. The carbon fee or tax would be levied by producers or importers on the use, sale or transfer of "covered" fuels – crude oil, coal and natural gas – at the source, as well as on all major derivatives (e.g., petroleum) or products (e.g., cement, steel and glass). H.R. 763 also would establish a fee structure for fluorinated GHGs typically associated with refrigerants or propellants, although this fee structure would differ from that imposed on covered fuels, major derivatives and products.

Setting the Fee: The carbon fee for covered fuels, major derivatives and products would be equal to the greenhouse gas content of the covered fuel, multiplied by the carbon fee rate. The carbon fee rate would be $15 in calendar year 2019, with a $10 rate increase each calendar year thereafter. Exceptions to this rate increase model would apply (1) when annual emission targets are missed (in which case, rates would increase for the calendar year immediately following the missed target year); (2) when emission targets are met (in which case, if GHG emissions from covered fuels is not more than 10% of 2016 emissions, the rate increase would be $0), and (3) in cases of inflation. In addition, exemptions and refunds would be made available to the agricultural sector and the Armed Forces.

Imports: In addition to the carbon fees implemented within the U.S., H.R. 763 would institute a carbon border fee adjustment to capture fossil fuel intensive products entering the U.S. Imports to U.S. Territories would not be subject to border fees. Shipments from the U.S. to the Territories subject to carbon border fees would be eligible for refunds.

Vehicle Fuels: Special provisions apply to vehicle fuels. Vehicle fuels that are taxed under H.R. 763 would no longer be subject to Clean Air Act restrictions. In other words, a fossil fuel that would be taxed under H.R. 763 need not be reformulated to make it burn cleaner. However, under H.R. 763, new corporate average fuel economy (CAFE) standards may be promulgated to help drive engine efficiency. State regulations would not be preempted or superseded by H.R. 763.

Carbon Dividend Trust Fund: The monies collected from producers and importers under H.R. 763 would be placed into a Carbon Dividend Trust Fund. In addition to paying for administrative costs of the

program, the monies in the Trust Fund would be distributed to citizens and lawful residents of the U.S. through monthly carbon dividend payments ("pro-rata shares"). Citizens residing outside of the U.S. would be ineligible for shares. Eligible adults would be entitled to one pro-rata share per month, while eligible children (individuals under 19 years old) would be entitled to one-half share. [1] The dividend would be counted as taxable income and reported to the IRS.

Phased Approach: H.R. 763 would establish emission reduction targets in two phases: a 5% reduction from 2016 emission levels per year in the first phase (2025-2034) and a 2.5% reduction from 2016 emission levels per year in the second phase (2035-2050). No later than 10 years following implementation of H.R. 763, a study would be commissioned to determine if H.R. 763 is meeting these emission reduction targets.

Considerations and Recommendations

H.R. 763 proposes a market solution to reducing GHG emissions by increasing the cost to use fossil fuels. If adopted, H.R. 763 can be expected to trigger a number of complex economic and social impacts at the national, local and household levels, with the extent of these impacts largely unknown. Further, H.R. 763 should be considered a permanent change because the carbon-fee approach to achieving emissions reductions will not be evaluated for 10 years. Staff recommends that a thorough review and evaluation of H.R. 763 be undertaken before Fairfax County considers supporting or endorsing the bill.

The impact of H.R. 763 on vulnerable populations is perhaps one of the biggest unknowns. H.R. 763 proposes steadily-increasing costs as the mechanism to drive markets away from fossil fuels. Though the carbon fees are imposed on producers and importers, these entities can be expected to pass the costs through to the ultimate consumer. Low-income and other vulnerable populations that have only limited ability to modify their behavior or shift their consumption choices will bear the brunt of the higher costs. While H.R. 763 provides for an equal "pro rata" monthly carbon dividend for all residents, the extent to which the expected annual dividend will offset the impact of carbon fees is unknown at this time, in part because the magnitude and scope of the economic and social impact to these populations is unknown. Further analysis will help determine if and how low-income and other vulnerable populations may be shielded from higher consumer costs during the transitional period required for market transformation to take root.

The impact to local governments is similarly unclear. For example, essential services that Fairfax County provides to residents (e.g. the Connector Bus) could be significantly impacted due to the implementation of a carbon fee.

Given the substantial and wide-ranging possible impacts associated with H.R. 763, OEEC staff suggests that the Department of Management and Budget, the Department of Economic Initiatives, the Office of Legislative Affairs, and the consulting agencies used by these departments (CPM and Alcalde and Fay) analyze the various impacts H.R. 763 can be expected to have on local governments and county residents and provide their own input and considerations.

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[1] Based on 2016 U.S. census information, OEEC staff estimates that individual eligible adults could receive an annual dividend of between $300 and $500, with eligible children receiving a dividend equal to half that amount. Assuming this dividend range, a family of four (two adults and two children) could receive a gross annual dividend of between $900 and $1,500. This estimate is based on the assumption that 10% of the carbon tax will be used for administrative costs. Exclusions were not included for agriculture and the military. As a result, staff's preliminary estimates may be higher than the expected dividend.

In addition, because the County does not regularly review federal bills, staff suggests using resources and expertise that exist on the regional level to analyze H.R. 763. Fairfax County may want to request that the Metropolitan Washington Council of Governments (COG) review and assess H.R. 763. Fairfax County could then work with COG to develop a regional stance on this bill.

Finally, OEEC staff recommends that the county continue to monitor H.R. 763 and proactively identify issues and develop questions that the Board can raise and review with its General Assembly and Congressional delegations.