GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill #	SB0189		**Title:**	Establish a carbon tax and distribute revenue
Primary Sponsor:	Barrett, Dick		**Status:**	As Introduced

☒Significant Local Gov Impact ☒Needs to be included in HB 2 ☒Technical Concerns

☐Included in the Executive Budget ☒Significant Long-Term Impacts ☒Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2020 Difference	FY 2021 Difference	FY 2022 Difference	FY 2023 Difference
Expenditures:				
General Fund	$304,448	$351,947	$271,797	$275,874
State Special Revenue	$0	$0	$47,941	$48,542
Revenue:				
General Fund	($44,389,700)	$22,858,000	$19,556,600	($20,702,200)
State Special Revenue	$46,300	$47,100	$97,941	$99,342
Net Impact-General Fund Balance:	($44,694,148)	$22,506,053	$19,284,803	($20,978,074)

Description of fiscal impact: SB 189 creates a $10 tax per ton of carbon dioxide equivalent emissions beginning January 1, 2020. The money raised by this tax is deposited into the general fund and is intended to pay for the property tax and rent-equivalent property tax circuit breaker program. Carbon tax revenues are expected to decline after FY 2022, while expenditures for the property tax circuit breaker program would increase each year.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

1. SB 189 establishes a carbon tax on certain large emitters and replaces current property tax assistance programs with a property tax based income tax credit (commonly referred to as a "circuit breaker").

Carbon Tax

2. Facilities currently report emission levels of carbon dioxide equivalents (CO_2e) to the Environmental Protection Agency (EPA). Average emissions from Montana electrical generating units for CY 2016 and CY 2017 provide the basis for estimating future emissions. Average emissions for electrical generating units in Montana in CY 2016 and CY 2017 were 16,299,778 tons of CO_2e.
3. The change in emissions estimated for this bill is based on an analysis of a similar tax in Australia. There the tax was $20 per ton of CO_2e emitted. An annual reduction in CO_2e emissions of 8.2% was achieved by the

Australian tax (O'Gorman and Jotzo, 2014). A proportional impact of a tax of $10 per ton of CO_2e is assumed to will reduce emissions by 4.1% annually.

4. Colstrip Units 1 and 2 are scheduled to shut down no later than July 1, 2022, and these two units are assumed to operate at full capacity until then. Revised estimates of CO_2e emissions show that emissions will fall by approximately 30% when the Colstrip Units 1 and 2 shut down on the assumed date of July 1,2022. Carbon offsets will not be utilized during the time period in question.
5. Montana CO_2e emissions are projected at 15.631 million metric tons in calendar year (CY) 2020, 15.631 million tons in CY 2021, 13.594 million tones in CY 2022, and 11.557 million tons in CY 2023. Emissions are assumed to be constant throughout the year.
6. The tax would be collected quarterly beginning after January 1, 2020. Fiscal year emissions are those emitted in the first half of the calendar year in question and the second half of the preceding calendar year. However, FY 2021 and FY 2022 have the same level of emissions because of the timing of the shutdown of Colstrip units 1 and 2.
7. Taxable CO_2e emissions are estimated to be 7.816 million metric tons in FY 2020, 15.631 million tons in FY 2021, 15.631 million tons in FY 2022, and 11.557 million tons in FY 2023.
8. It is assumed that all taxpayers will take full advantage of the credits contained in Sections 13 and 14, reducing their tax liability by 10% each year.
9. These tax collections would be deposited in the general fund. Tax collections are estimated at $70.342 million in FY 2020, $140.683 million in FY 2021, $140.683 million in FY 2022, and $104.011 million in FY 2023

Income Tax Credits based on a Property tax "circuit breaker"

10. TY 2017 income tax information is used for estimating the property tax and rent-equivalent property tax circuit breaker credit.
11. Individual income tax returns with an itemized property tax deduction (166,743) were matched to properties out of 197,910 unique addresses in the income tax data, an 84.25% match rate.
12. It is assumed that the 15.75% of unmatched tax returns do not vary substantially from those matched, and credits will not be skewed by scaling the credit estimate by this number.
13. Income tax records (regardless of itemization) were then matched to 211,958 class 4 residential properties. Of these 211,958 properties, 96,619 would qualify for the property tax relief credit under SB 189.
14. The total value of credits would be $81,852,993 for the directly matched properties – an average credit of $847.17 per recipient.
15. Because 15.75% of property taxpayers were not matched in the income tax file, it is necessary to divide the credit size and number of recipients by 84.25% to scale up the credit for all eligible property to estimates total credits of $97,154,888 and 114,681 recipients.
16. To estimate the renter equivalent property tax credit, an extract of the elderly home owner and renter credit filings from TY 2017 were used. There are 5,780 of filers who claimed the elderly renter credit in TY 2017 who would qualify for a credit under SB 189. Thus, the value of these credits would be $3,848,091, or an average of $665.75 per recipient.
17. The United States Census publishes estimates on the number of total renters in Montana, and the number of renters that are over the age of 65. There were an estimated 130,506 renters in CY 2017, of which 22,762 were over age 65. The elderly rent-equivalent property tax credit is available on attainment of age 62. It is assumed that 10% of users in this program are between the ages of 62-64, and the proportion of elderly renters receiving the credit would be the same as non-elderly renters and the average credit claimed would be the same. This results in rent equivalent property tax credits of $19,856,738.
18. The total of the credits is $117,011,626, with approximately 144,000 applicants.
19. The total credit is expected to grow at the same rate as the "All other credits" category of income tax in HJ 2.
20. The current elderly homeowner/renter income tax credit is eliminated. The income tax effects from the elimination of the elderly homeowner and renter credit are sourced directly from HJ 2.
21. The net income tax credit effects are summarized in the following table.

Change in Income Tax Due to SB 189	FY 2020	FY 2021	FY 2022	FY 2023
SB 189 Income Tax "Circuit Breaker"	($125,825,000)	($128,668,000)	($131,875,000)	($135,216,000)
Elimination of HomeOwner/ Renter Credit	$7,676,000	$7,368,000	$7,059,000	$6,751,000
Net Change to Income Tax	($118,149,000)	($121,300,000)	($124,816,000)	($128,465,000)

Elimination of Current Property Tax Assistance Programs

22. SB 189 eliminates property tax assistant program (PTAP), the property tax assistance program for disabled American Veterans (DAV), as well as the intangible land value property exemption (ILVPE).
23. The property tax revenue effect of the elimination of PTAP, DAV, and (ILVPE) is expected to grow at the same rate as class 4 property value in HJ 2. The following table lists the expenditures:

By Fund Change in State Property Tax Due to SB 189				
General Fund (95 mill)	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Property Tax Assistance Program	$2,684,000	$2,729,300	$2,897,900	$2,946,700
Disabled American Veterans Program	$671,200	$682,500	$724,600	$736,900
Intangible Land Value Exemption	$62,100	$63,200	$67,100	$68,200
Total General Fund	**$3,417,300**	**$3,475,000**	**$3,689,600**	**$3,751,800**
State Special Revenue (6 mill)	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Property Tax Assistance Program	$169,500	$172,400	$183,000	$186,100
Disabled American Veterans Program	$42,400	$43,100	$45,800	$46,500
Intangible Land Value Exemption	$3,900	$4,000	$4,200	$4,300
Total State Special Revenue	**$46,300**	**$47,100**	**$50,000**	**$50,800**

DOR Administrative Costs

24. The department will require $35,500 to develop new forms and changes to the integrated tax system.
25. For the property tax relief credit, an additional 4.00 FTE will be required for administering the program.

Department of Environmental Quality

26. SB 189 applies to major stationary sources that generate electricity using fossil fuels and are subject to regulation by DEQ under the Air Quality Act.
27. The bill requires the Board of Environmental Review (BER) to adopt rules implementing the Montana Climate Action Act by January 1, 2020 (FY 2020). In part, the rules would require reporting of carbon dioxide equivalent information to DEQ and to establish a fee schedule to cover the costs of administering the rules.
28. DEQ would assist the BER in adopting the rules. To meet the January 1, 2020 adoption requirement, rulemaking would have to be initiated at the August 9, 2019 BER meeting. DEQ would incur $750 in charges for publication of rulemaking notices in FY 2019. These FY 2019 costs would be absorbed by the department.
29. DEQ would engage stakeholders to develop program details, including the fee schedule, prior to seeking initiation of rulemaking by the BER.
30. Additionally, DEQ would need to verify carbon dioxide equivalent reports and make determinations regarding carbon dioxide equivalent offsets.
31. Because the new state special revenue fees outlined in new section 4 would not generate revenue until FY 2022, a general fund appropriation would be necessary to fund operations in FY 2020 and FY 2021. Beginning in FY 2022, the DEQ would collect revenue from the large emission source reduction and reporting account to cover the costs of implementing the program.
32. Because of the complexity of developing greenhouse gas regulations, the DEQ will need a 0.50 FTE (Environmental Science Specialist, band 7) and a 0.25 FTE (Lawyer, band 7) to implement the Act including developing rules and a supporting fee structure for BER adoption.

33. Once rules are adopted, on-going implementation of the program by DEQ would require 0.50 FTE (Environmental Science Specialist, band 7). Existing FTE would be re-assigned and funded from the collected fees during FY 2022 and FY 2023.

Fiscal Impact:	**FY 2020 Difference**	**FY 2021 Difference**	**FY 2022 Difference**	**FY 2023 Difference**
Department of Revenue (DOR) and Department of Environmental Quality (DEQ)				
FTE (DEQ)	0.75	0.75	0.50	0.50
FTE (DOR)	2.00	4.00	4.00	4.00
Total FTE	**2.75**	**4.75**	**4.50**	**4.50**
Expenditures:				
Personal Services (DEQ)	$67,470	$67,249	$38,662	$39,147
Operating Expenses (DEQ)	$16,193	$16,920	$9,279	$9,395
Personal Services (DOR)	$179,465	$237,338	$240,901	$244,514
Operating Expenses (DOR)	$41,320	$30,440	$30,896	$31,360
TOTAL Expenditures	$304,448	$351,947	$319,738	$324,416
Funding of Expenditures:				
General Fund (01)	$304,448	$351,947	$271,797	$275,874
State Special Revenue (02) (DEQ)	$0	$0	$47,941	$48,542
TOTAL Funding of Exp.	$304,448	$351,947	$319,738	$324,416
Revenues:				
General Fund - Carbon Tax	$70,342,000	$140,683,000	$140,683,000	$104,011,000
General Fund - Net Income Tax	($118,149,000)	($121,300,000)	($124,816,000)	($128,465,000)
General Fund - Net Property Tax	$3,417,300	$3,475,000	$3,689,600	$3,751,800
Total General Fund	**($44,389,700)**	**$22,858,000**	**$19,556,600**	**($20,702,200)**
State Special Revenue - DEQ fees	$0	$0	$47,941	$48,542
State Special Revenue - 6 mill Propert	$46,300	$47,100	$50,000	$50,800
Total State Special Revenue	**$46,300**	**$47,100**	**$97,941**	**$99,342**
TOTAL Revenues	($44,343,400)	$22,905,100	$19,654,541	($20,602,858)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($44,694,148)	$22,506,053	$19,284,803	($20,978,074)
State Special Revenue (02)	$46,300	$47,100	$50,000	$50,800

Effect on County or Other Local Revenues or Expenditures:

1. The elimination of PTAP, DAV, and the intangible land value property exemption has associated tax burden shifts according to the following schedule. This burden is shifted back onto the taxpayers previously exempted. Individual property taxpayers may or may not be beneficiaries of the new circuit breaker, which would offset their loss of the benefits of present law property tax assistance.

Local Property Tax Shifted Back to Previous Beneficiaries (Before Circuit Breaker Effects)				
Property Assistance Program	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Property Tax Assistance Program	$16,092,000	$16,363,000	$17,374,000	$17,667,000
Disabled American Veterans Program	$3,889,000	$3,954,600	$4,198,900	$4,269,600
Intangible Land Value Exemption	$300,700	$305,800	$324,700	$330,200
Total	**$20,281,700**	**$20,623,400**	**$21,897,600**	**$22,266,800**

Long-Term Impacts:

1. Carbon tax revenues are expected to decline after FY 2022, while expenditures for the property tax circuit breaker program would likely increase each year.

Technical Notes:

1. The definition in Section 3(3) is overly broad and sweeps in government entities. SB 189 imposes a tax on the federal government, which is likely unconstitutional (see McCulloch v Maryland, 17 U.S. 316 (1819)).

DB 2/5/2019 TL 2/5/19

Sponsor's Initials *Date* *Budget Director's Initials* *Date*

SB0189.01.docx
2/5/2019

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Dedication of Revenue 2021 Biennium

17-1-507, MCA.

a) **Are there persons or entities that benefit from this dedicated revenue that do not pay?**
The citizens of Montana will benefit by reduced emissions of carbon dioxide

b) **What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**
Using an established state special revenue account in fiscal years 2022 and 2023 supports the needs of the program and targets the primary contributor of the costs for this activity.

c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**
No, initially it is anticipated that the general fund revenue will be needed to cover fiscal years 2020 and 2021, before the state special revenue fee is collected. During these first two fiscal years, state special revenue does not exist for costs of development and implementation of the requirements contained in SB 189.

d) **Does the need for this state special revenue provision still exist? __X_ Yes ___No**
SB 189 establishes a new fee program for the department of environmental quality (DEQ) to perform the bill's direction.

e) **Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**
Yes, SB 189 statutorily requires the creation and use of this revenue to implement the requirements of the bill.

f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need?**
Yes. This revenue would be used to make the program effective and timely in meeting its new SB 189 statutory responsibilities.

g) **How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**
DEQ currently collects other state special revenue for several programs. If the program/activity were paid out of the general fund, as is necessary, and then starting in FY 2022 and beyond out of state special revenue, the department could adequately account for the activity.