

# THE WASHINGTON STRONG ACT

In the wake of the COVID-19 pandemic, we need swift action to get Washingtonians back to work, stimulate local economies, and protect those hardest hit. The Washington STRONG Act, developed by Rep. Debra Lekanoff, D-Bow, Rep. Sharon Shewmake, D-Bellingham, and Sen. Liz Lovelett, D-Anacortes, enables new financing tools to invest in high-value infrastructure projects that create jobs, transition us to a clean energy economy, and deliver benefits to families, businesses, and communities across Washington.

Washington STRONG authorizes a 10-year series of “green” bonds, which could unlock more than \$16 billion for direct investment and has the potential to create upwards of 150,000 jobs by providing much-needed local stimulus with a focus on rural economic development and frontline communities. These recovery bonds will be financed by a per-ton price on carbon pollution, imposed once at the time and place of the first sale or use. The proposal has been carefully constructed to prioritize environmental justice and minimize impacts to agriculture, moderate and low-income households, and energy intensive and trade exposed businesses. Washington STRONG will generate a sustainable funding stream needed to finance a resilient recovery and an equitable transition to a clean economy.

**STRONG communities. STRONG economy.**

# THE INVESTMENTS

- Though no more than about 30% of the revenue can be bonded, 100% of the carbon tax receipts are bound by statute to follow science-based spending criteria that serve the bill's stated objectives of reducing greenhouse gas (GHG) emissions and increasing climate resilience. This is a contractually and legally protected revenue stream that is not considered "general state revenue" and can't be appropriated to the general fund.
- The spending criteria are being developed by the WA State Academy of Sciences and reviewed by Bond Counsel and stakeholders to ensure they (1) support a timely and just transition to the clean economy and (2) protect the bond program.
- **For every \$1 million invested in low-carbon and climate-resilient infrastructure, we generate nearly \$2 million in additional local spending, create 10 family-wage jobs, and save an average of \$6 million in avoidable future costs. This is an 8:1 benefit-cost ratio without including all of the additional benefits of carbon reduction. These are smart investments that we can't afford to wait on.**

Some examples of qualifying investment types include:

- Energy efficiency and HVAC upgrades to public schools, hospitals, and government buildings
- Forest health projects that reduce the risk and intensity of carbon-releasing forest fires
- Clean transportation projects like fleet electrification, transit expansion, rail expansion, and local commuter paths and trails that reduce the need to drive
- Broadband access that enables communities to remotely access education, employment, and services and reduces the need to drive
- Local climate mitigation and adaptation projects as part of GMA planning and facilities upgrades, like a wastewater treatment plant that increases a community's service delivery capacity while generating clean energy from waste and reducing emissions

Washington issued a series of [green bonds in 2016](#), and some example investments are below.

## Ferry County



Memorial Hospital energy efficiency improvements and upgrades to HVAC, lighting, and water systems to save more than \$100,000/year in energy costs.

## Kitsap County



Forest and Bay Project to protect local shores and forests for habitat, sequestration, recreation, and cultural heritage.

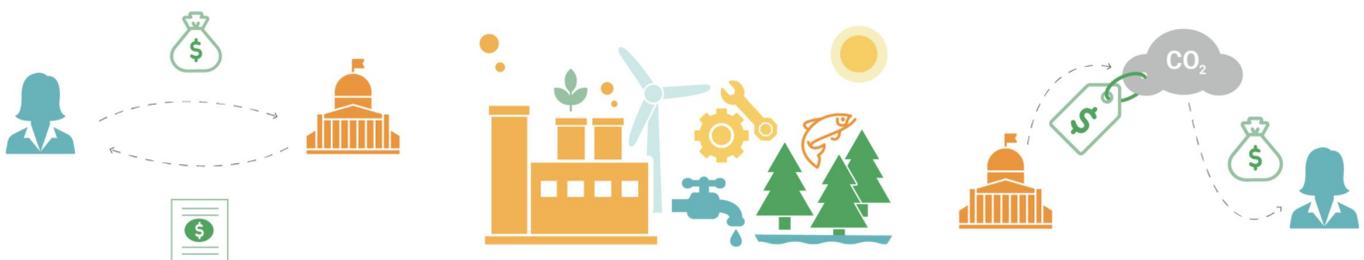
## City of Longview



Public building energy efficiency improvements and upgrades to HVAC, lighting, and water systems to save more than \$220,000/year in energy costs.

# THE BONDS

- Bonding allows the state to bring future revenues forward and frontload benefits. This enables the state to invest in economic recovery before it's too late and to make the upfront investments required for a swift and just transition to a clean economy. **The economic returns and avoided costs of these investments are multiple orders of magnitude greater than the low cost of servicing this debt. If the state does not act quickly with smart investments at scale, the long-term costs of inaction will cost us much more, and it will hurt WA communities for generations to come.**
- Washington STRONG authorizes the state to sell bonds to investors and repay them at a low interest rate or “yield.” This allows the state to get the money it needs quickly for large-scale investments that create economic opportunity and have high benefit-to-cost ratios. The state then repays the bond holders over time in a cost-effective way, and investors accept this low return (the yield) in exchange for a very secure investment. Pairing green bonds with carbon taxes has been recommended by economists and financial institutions around the globe as an effective solution to economic recovery that ushers in a just transition with projects that deliver enormous economic returns. **Experts agree, the transition to a clean economy must be financed. Addressing the climate crisis requires investing at scale, before it's too late.**
- **With green bonds, part of the reason investors accept lower yields is because they view the climate benefits of the investments as part of the return.** This saves money for the state of Washington and is known as a “greenium.” Green bonds also attract new investors who might not be interested in a general obligation bond, but are eager to add green investments to their portfolios.
- The bonds authorized by Washington STRONG are not general obligation bonds -- they are a type of revenue bond called “special tax obligation bonds” that are backed solely by the carbon tax revenues, not the full faith and credit of the state. Because the entire revenue stream has been protected for a specific purpose, **this is additional financing capacity**, not subject to the state's debt spending limit.
- While general obligation (GO) bonds typically cost less than revenue bonds, the Treasurer's Office and a leading, global investment bank have both determined that these bonds would likely receive a high credit rating (AA), because this revenue stream is significant in scale, these bonds are mechanically similar to gas tax bonds, and **the bond capacity is based on a conservative forecast that assumes we aggressively reduce our GHG emissions and achieve net-zero by 2050.** The difference in cost between these bonds and GO bonds would be small, and it would decrease over time as the program establishes a track record of success. This minor cost difference could be offset by the aforementioned “greenium.”
- Carbon tax revenues decline as we transition to a clean economy, because there is less pollution to tax. We have accounted for this steadily declining revenue stream using the ambitious carbon emissions limits set forth by RCW 70A.45.020. Bonds can only be issued for ten years and must be fully repaid by 2050, when the state has achieved net-zero emissions. **This is a temporary, closed-loop system that offers the financing required to achieve our climate goals. It does not establish carbon revenues as a long-term funding mechanism, nor does it incentivize carbon pollution as a revenue generator.**
- **Conservative estimates show this program unlocks about \$5 billion dollars of bond capacity, plus about \$11 billion in additional tax receipts over ten years.** This is money that is available AFTER servicing estimated debt costs of 3.5 percent.



# PRICING POLLUTION

- This is an economy-wide price on carbon pollution, issued as a per-ton price that escalates over time. The tax is applied to “rack” prices, meaning at the point of entry from fuel distributors into the broader state economy. In other words, this is a price on pollution, imposed on polluters.
- We know that polluters will pass on some of the costs of this tax to consumers in the form of increased fuel prices. The legislation remedies this increase in two ways. First, it directs billions of dollars to investments that build the clean economy here in Washington and provides low-cost alternatives to fossil fuel use. Second, it directs funds to the Working Families Tax Rebate in the form of a clean energy transition credit.
- The price starts at \$25 per ton and increases annually by 5 percent plus inflation. In 2030, after nearly a decade of additional policy work and large-scale investments in decarbonization, if the state is still not on track to meet its greenhouse gas reduction goals, the price jumps by \$10 and continues to increase at a faster rate until the state is in compliance with RCW 70A.45.020. This creates an automatic “emissions assurance mechanism” that emulates what the “cap” from cap and trade is meant to accomplish by decreasing allowances and forcing a price increase.
- Energy Intensive and Trade Exposed businesses (EITEs) are allotted a credit for 90 percent of the cost of the tax, based on past emissions. Beginning in 2023, their allotment is calculated based on labor metrics and “best in class” metrics for low-carbon operations, rather than on past emissions levels. This ensures that, in exchange for the credit, EITEs will maintain jobs in Washington State as well as actively pursue cost-effective, onsite emissions reductions.
- The electricity sector is allotted a credit for 100% of the cost of the tax, as long as 100% of that money is being directed toward investments that bring the sector into compliance with WA’s Clean Energy Transformation Act.
- Agricultural and timber fuels are exempt, and the legislation offers new incentives and pathways for agricultural and timber producers to reduce GHG emissions, increase sequestration levels, and engage in carbon markets.
- Aviation fuel is exempt, due to legal concerns. This legislation is an optimal partner policy for a clean fuel standard, which could encourage aviation to identify and adopt renewable fuels for air travel.
- Total tax receipts are estimated at a little over \$1 billion per year for the first ten years, and then they steadily decline until we reach net-zero emissions in 2050.

## SIDE-BY-SIDE COMPARISON

**There is no single policy or mechanism that will ensure we meet our emissions reduction goals.** It will require a suite of policies, financing at scale for a broad portfolio of investments, ongoing evaluation and monitoring, and increasingly rigorous, legally enforceable constraints on pollution. The following table compares some of the key distinctions between Washington STRONG and cap and trade as potential parts of this complex equation.

Washington STRONG	Cap and Trade
<p>Conservative revenue estimates predict more than \$16 billion available over the first ten years. About \$5 billion of that is bond capacity that enables us to bring future revenues forward and use this to stimulate our economy and quickly put people back to work.</p>	<p>While it is difficult to forecast cap and trade revenues, proponents estimate annual revenues of about \$800 million in the near term. This revenue cannot be bonded and will take some years to collect while the state invests in the administrative capacity to regulate this new market and conduct the auctions.</p>
<p>100% of the revenue from the system is invested in WA programs, projects, and developments that decarbonize our economy across every sector and increase WA communities' climate resilience.</p>	<p>Some of the investments and carbon benefits are directed to other states in the form of "carbon offsets" that can be purchased by polluters in lieu of actual emissions reductions. If the system is linked to CA's, and allowances are traded across state lines, this becomes even more complex.</p>
<p>Includes an Emissions Assurance Mechanism that would start in 2030. The EAM efficiently delivers the intended price effects of a cap and has been designed in alignment with the emissions reductions targets of RCW 70A.45.020.</p>	<p>Uses a complex system of pollution allowances that are issued and managed by the state to "cap" the level of emissions. These allowances are auctioned off and tradeable among polluters.</p>
<p>This is a dedicated, legally protected revenue stream, and future legislatures are contractually bound by the bond program to continue investing at scale in decarbonization.</p>	<p>Future legislatures can direct the revenue to any purpose they choose, including the general fund, leaving insufficient revenue to effectively invest in decarbonization and climate resilience, as has happened with CA's cap and trade revenues.</p>
<p>Future legislatures are bound by the bond program to keep the tax in place at an increasing rate and to adjust it further upwards as needed to increasingly constrain pollution and support our GHG reduction targets.</p>	<p>The price is set by the market rather than the legislature. A complex program like cap and trade is more vulnerable to ongoing lobbying and political changes, which is why cap and trade prices are often artificially low, like in CA.</p>
<p>This proposal has been actively shaped by the environmental justice community, and they are advocating for its adoption.</p>	<p>This proposal is opposed by the environmental justice community, and there will be a public campaign against it.</p>
<p>This proposal leverages existing administrative infrastructure to deliver popular, much-needed investments to communities by 2022, without creating new, large, bureaucratic processes and programs.</p>	<p>It is unlikely that the state will have hired the staff and set up the administration required to manage this new and complex system, complete an auction, and make actual investments by 2022.</p>