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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/18
 SPONSOR Soules LAST UPDATED 2/08/18 HB _____
 SHORT TITLE Study of Carbon Fee and Dividend Legislation SM 23/aSCONC
 ANALYST Graeser

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications	See Fiscal Implications			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

None

SUMMARY

Synopsis of SCONC Amendment

The Senate Conservation Committee amendment expands the scope of the requested study. The specific restriction to study a per capita dividend provision has been removed as has the requirement that the study only look at state revenue-neutral carbon fees and dividends.

Synopsis of Original Memorial

Senate Memorial 23 requests a study of the carbon fee and dividend method of minimizing carbon dioxide buildup in the atmosphere. The memorial asks the legislative council to assign the study to the “appropriate interim legislative committee.”

The memorial does not contain an effective date and is not clear when the study should be conducted and reported to the legislature.

FISCAL IMPLICATIONS

The memorial has no direct and immediate fiscal implications, either to the general fund or the staff resources of the Legislative Finance Committee.

The SCONC amendment broadens the scope of the study. It could now include a carbon cap and trade system as the means of achieving reduction in greenhouse gas emissions.

A carbon fee and dividend system is intended to impose the fee largely on regulated electric utilities. The carbon fee is then distributed to each citizen per capita, usually as a fixed amount per person as an income tax offset.

In 2014, New Mexico produced 50 million metric tons of CO₂ from all sources. Approximately 76 percent of this total represents easily collected revenues from the big Power companies. In addition, the fee could be added to the regular gasoline and special fuels taxes as a calculated surcharge, noting that burning one liter of gasoline produces approximately 2.3 kg of CO₂. Some sources have calculated that an effective and accurate cost per ton is \$37 per ton. This puts the fee and dividend cost in the range of \$1.8 billion or around \$900 per capita per year for New Mexico. For gasoline or diesel, the carbon tax would add about \$.35 per gallon.

https://en.wikipedia.org/wiki/List_of_U.S._states_by_carbon_dioxide_emissions

Rank	Jurisdiction	Annual CO ₂ emissions (in millions of metric tons) ^[2]	CO ₂ emissions per capita (in metric tons)
37	New Mexico	50	24.07
-	States Total	5,434	17.04

- [Climate change](#)
- [Comparisons of life-cycle greenhouse gas emissions](#)
- [Global warming](#)
- [List of countries by carbon dioxide emissions](#)
- [List of countries by greenhouse gas emissions](#)
- [List of countries by carbon dioxide emissions per capita](#)
- [List of countries by greenhouse gas emissions per capita](#)
- [List of countries by ratio of GDP to carbon dioxide emissions](#)

Notes

- The 'States Total' value represents the sum of [CO₂](#) emissions from the 50 U.S. states plus the District of Columbia. This value differs from total U.S. CO₂ emissions from fossil fuel combustion reported in the [Inventory of U.S. Greenhouse Gas Emissions and Sinks](#). The U.S. inventory value is larger because it includes emissions from U.S. territories and protectorates; it also uses a different approach for estimating emissions from non-energy uses of fossil fuels (which are not included in the combustion-related values shown in this table).
- Nationally, CO₂ emissions from fossil fuel combustion represented the largest source (76%) of total [GWP](#)-weighted emissions from all emission sources in 2014.^[1] Similarly, CO₂ emissions from fossil fuel combustion are the largest source of greenhouse gas emissions within a state.^[1]

SIGNIFICANT ISSUES

A useful source to start the study is the following:

<https://www.yaleclimateconnections.org/2016/07/pros-and-cons-of-a-carbon-tax-key-issues/>

This and other sources discuss costs and benefits, pros and cons of this and other schemes to address climate change at the state and local level. There may be problems with a carbon fee and dividend system at the state level. Most sources discuss this method of moderating the increase in carbon emissions as being a national strategy. Clearly, \$1.8 billion annually is a lot of revenue. This level of taxation could easily create some tax planning opportunities and could lead to unanticipated tax losses.

The alternative scheme that could be adopted at the state or local level is the cap and trade scheme. A useful source that discusses this alternative is the following:

<https://davidsuzuki.org/what-you-can-do/carbon-tax-cap-trade/>

“Both cap-and-trade programs and carbon taxes can work well as long as they are designed to provide a strong economic signal to switch to cleaner energy. However, some differences exist.

Cap-and-trade has one key environmental advantage over a carbon tax: It provides more certainty about the amount of emissions reductions that will result and little certainty about the price of emissions (which is set by the emissions trading market). A carbon tax provides certainty about the price but little certainty about the amount of emissions reductions.”

“A carbon tax also has one key advantage: It is easier and quicker for governments to implement. A carbon tax can be very simple. It can rely on existing administrative structures for taxing fuels and can therefore be implemented in just a few months. In theory, the same applies to cap-and-trade systems, but in practice they tend to be much more complex. More time is required to develop the necessary regulations, and they are more susceptible to lobbying and loopholes. Cap-and-trade also requires the establishment of an emissions trading market.”

LFC staff could study both carbon fee and dividend and cap and trade and determine which scheme or a mix of schemes would be best for New Mexico.

ADMINISTRATIVE IMPLICATIONS

LFC staff, with the assistance of executive staff of EMNRD and, perhaps, PRC, could easily conduct and present a study of this nature to the legislature and governor.

LG/sb/al