

## MAYOR NEWSOM'S CARBON TAX PROPOSAL

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Mayor Newsom is interested in placing a local carbon tax on the November 2008 ballot. This revenue-neutral tax would represent the first local tax in the US that shifts from taxing jobs to taxing pollution.

### **Concept of a Carbon Tax**

A carbon tax reduces carbon emissions by raising their cost, using market forces to prompt changes in behavior. It incentivizes people and businesses to find ways to reduce their own 'carbon footprint' without requiring specific behaviors that can hurt the economy or quality of life.

A carbon tax, coupled with a corresponding tax rebate to achieve revenue-neutrality, could achieve significant reductions in carbon emissions with minimal harm to the economy.

### **A Carbon Tax in San Francisco**

There are three main sources of carbon emissions in San Francisco: buildings, landfills, and transportation. The first phase of a carbon tax should apply to buildings and be revenue neutral. The City would reduce carbon emissions from local buildings by increasing its utility user's tax (UUT) on businesses, as a 'carbon surcharge', while rebating an equivalent amount of payroll taxes.

This revenue-neutral tax would create incentives for businesses to invest in energy-efficient green buildings, conservation measures, and renewable power and/or carbon offsets. All funds raised through the carbon surcharge return to businesses in the form of a payroll tax refund. For example, if the carbon surcharge raised the utility user tax revenue 20 percent during a year, every business could receive a 20 percent payroll tax rebate.

This approach removes fiscal risk to the City, since the payroll tax rebates would occur at the end of a fiscal year. It would also shift the business tax burden away from a "good" that should be encouraged—jobs—and towards a "bad" that should be discouraged—greenhouse gas pollution.

### **Questions and Answers to this Proposal:**

#### ***Would this carbon tax require approval of the voters?***

Yes, under State Proposition 218, approval by local voters is required. This approval must come on a ballot in which the local legislative branch is up for election. Since the carbon surcharge on the Utility User's Tax would replace the General Fund portion of the Payroll Tax that we rebate, it would likely only require majority voter approval.

Mayor Newsom has tasked key policy and legal experts in City government to draft this ballot measure in 60 days, well before the deadline for introduction of initiative ordinances to local voters for the November 2008 election.

***Does this tax hurt local businesses? How will those impacted by this change have a say in this proposal?***

This carbon tax is not a tax increase, but rather a gradual replacement away from taxing what we want to encourage—jobs—to taxing something we want to discourage—greenhouse gas pollution. Mayor Newsom's Office will engage in aggressive outreach to the local business community and other interested groups and residents to get their ideas on how this tax should be structured. We are committed to ensuring that local economic and business interests are not harmed by this proposal.

***What would be the dollar amount of a carbon surcharge?***

The carbon surcharge should initially be set to a relatively low level while we measure its effects. If it produces emissions reductions without harming the economy, as we expect, it could be expanded to become the primary means for achieving the city's targeted reductions in the buildings sector.

***How can a carbon tax complement other potential changes to the City's business taxes?***

If the City decides to change to a different business tax structure, it shouldn't change the basic idea of a carbon surcharge and proportional rebate of whatever the business tax is.

***What about the other major sources of carbon emissions—transportation and waste?***

To decrease transportation-related emissions, Mayor Newsom has asked those drafting this ballot measure to explore inclusion of a revenue-neutral incentive to increase the proportion of local workers that commute to work by public transportation, walking and biking. If there is an effective, revenue-neutral way to incentivize non auto-commuting, it will be included in the proposal.

To decrease waste-related emissions, the Mayor has asked the Department of Environment to advance a carbon surcharge on the tipping fees for dumping waste in landfills. This fee would discourage disposal of carbon-intensive waste. This carbon surcharge would be included in fees established in the City's renegotiated landfill contract that takes effect in 2011.

***How does this carbon tax fit in with State and Federal efforts to decrease carbon emissions?***

Action at all levels of government is necessary to adequately address the massive climate protection challenge before us. The Mayor is supportive of State efforts to implement AB 32 to fight climate change, and is advocating in Washington DC for meaningful climate protection legislation. We will make sure that our local movement toward taxing carbon complements these efforts and the cap-and-trade systems they will implement.