



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

SB0532 - Revise regulation and taxation of large emission sources (Dunwell, Mary Ann )

**Status:** As Introduced

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$1,143,725	\$687,632	\$551,534	\$557,173
State Special Revenue	\$0	\$0	\$72,984	\$73,609
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$82,828,000	\$171,039,000	\$174,648,000	\$178,150,000
<b>Net Impact-General Fund Balance:</b>	<u>(\$1,143,725)</u>	<u>(\$687,632)</u>	<u>(\$551,534)</u>	<u>(\$557,173)</u>

**Description of fiscal impact:** SB 532 establishes the Montana Climate Action Act. The bill establishes carbon emission reduction targets and enacts a tax on carbon emissions from large sources, excluding publicly owned municipal landfills. The tax begins January 1, 2024, at \$10 per metric ton of carbon content and increases by \$1 per year plus the rate of inflation, unless the state is on track to meet the carbon emission reduction targets. All collections are distributed to a new state special revenue fund called the ratepayer impact account to be distributed equally to Montana citizens.

### FISCAL ANALYSIS

**Assumptions:****Department of Revenue**

- Facilities currently report emission levels of carbon dioxide equivalent (CO<sub>2</sub>e) to the Environmental Protection Agency.
- CO<sub>2</sub>e levels of CY 2021 serve as the estimation for all years. The Department of Environmental Quality (DEQ), who regulates these facilities, does not expect these emissions to vary in the short term, so it is assumed the 2021 emission levels will be constant through FY 2027.

3. After removing exempt and since-closed facilities, CO<sub>2e</sub> emissions in CY 2021 were 16,565,516 metric tons.
4. The carbon tax starts at \$10 per metric ton in CY 2024 and increases each year by \$1 plus the rate of inflation. However, if DEQ ascertains that Montana is on track to meet the emission targets set by the bill, the increase is limited to the rate of inflation only. The carbon emission targets set by the bill are 25% below 2005 levels by 2035 and 50% below 2005 levels by 2050.
5. Due to recent closures and pollution mitigation efforts, CO<sub>2e</sub> emissions in 2021 are already below the level required by 2035, so the tax will only increase by the rate of inflation until then, assuming no unexpected, significant increases in emissions. (See long-term impacts for expectations after 2035).
6. Inflation rates from HJ 2 are 4.3% in CY 2024, 2.2% in CY 2025, 2.02% in CY 2026, and 1.99% in CY 2027. The weighted fiscal year inflation rates are 3.25% in FY 2025, 2.11% in FY 2026, 2.01% in FY 2027. The corresponding tax rates per metric ton of CO<sub>2e</sub> for each year are \$10.00 in FY 2024, \$10.33 in FY 2025, \$10.54 in FY 2026, and \$10.75 in FY 2027.
7. The following table illustrates the carbon tax collections for the next two bienniums. Because the tax begins on January 1, 2024, only half of FY 2024 emissions will be taxed.

FY	Taxable emissions (metric tons)	Tax rate per metric ton	Revenue
2024	8,282,758	\$10.00	\$82,827,580
2025	16,565,516	\$10.33	\$171,038,953
2026	16,565,516	\$10.54	\$174,647,875
2027	16,565,516	\$10.75	\$178,149,564

8. All revenue is allocated to a new state special revenue account called the ratepayer impact account to be distributed equally to Montana citizens.

*DOR Administrative Costs*

9. The Department estimates a one-time cost of \$450,000 in contracted services in FY 2024 to develop the tax within the integrated tax system.
10. The DOR will require an additional 2.00 FTE to administer the new tax type and ratepayer impact payments.
11. To estimate the cost of administering the ratepayer impact payment, a “citizen” is defined as an individual who filed a tax return (see technical note #1). For TY 2021, 699,995 citizens filed an income tax return. It is assumed the number of individuals filing tax returns will increase at the same rate as projected Montana population growth. Additionally, it is assumed that half of the ratepayer impact payments will be made through electronic fund transfers at a cost of about \$0.14 per payment, and the other half will be made by paper check at a cost of about \$0.83 per payment. Based on these assumptions, the expected cost of distributing the ratepayer impact payments will be approximately \$350,000 in FY 2024, \$352,000 in FY 2025, \$355,000 in FY 2026, and \$358,000 in 2027.

**Department of Environmental Quality (DEQ)**

12. SB 532 requires the Department of Environmental Quality (DEQ) to develop a carbon content reduction plan, develop and adopt rules, which includes reporting requirements and a fee structure to fund plan implementation, and then report annually to the Environmental Quality Council (EQC).
13. DEQ will need to develop the carbon content reduction plan by September 1, 2024. The plan would identify how to monitor, report, and track the required emission reductions and potential impacts of a carbon tax through administrative rule.
14. DEQ, not the BER (see technical note below), will initiate rulemaking during FY 2024. DEQ will adopt reduction plan rules, which would also include the reporting requirements and fee schedule for large emission sources, before January 1, 2024.
15. DEQ will engage stakeholders to develop program details, including the fee schedule.
16. Fees will not be available until FY 2026; general fund resources will be necessary to fund related activities in FY 2024 and FY 2025. Beginning in FY 2026, DEQ will collect enough revenue from the large emission source reduction and reporting account to cover the costs of implementing the program.

17. The bill directs DEQ to report to the EQC Interim Committee by September 1 of each year preceding a legislative session.
18. DEQ will use the funds in the newly created large emission source rehabilitation and reporting account for operations in accordance with section 6 of the bill.

*DEQ Administrative Costs*

19. Because of the complex nature of greenhouse gas regulations, implementation of SB 532 would require an additional 0.50 FTE (Environmental Scientist 2, E24012) and 0.50 FTE (Lawyer 2, G11012) to help develop the carbon content reduction plan, the associated rules, and the fee structure in FY 2024 and FY2025.
20. Once the rules are adopted, on-going implementation of the program will require 0.50 FTE (Environmental Scientist 2) for FY 2026 and FY 2027.
21. Personal services compensation rates for FY 2024 and FY 2025 are based on 83% of midpoint on 2022 Market Analysis and assume 1.5% personal services increase in FY 2026 and FY 2027.
22. Personal services indirect costs will remain at 24%.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>
	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
FTE (DOR)	2.00	2.00	2.00	2.00
FTE (DEQ)	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services DOR	\$173,739	\$176,545	\$178,814	\$181,117
Personal Services DEQ	\$113,928	\$114,269	\$58,858	\$59,362
Operating Expenses DOR	\$823,116	\$369,394	\$372,720	\$376,056
Operating Expenses DEQ	\$32,942	\$27,424	\$14,126	\$14,247
<b>TOTAL Expenditures</b>	<b><u>\$1,143,725</u></b>	<b><u>\$687,632</u></b>	<b><u>\$624,518</u></b>	<b><u>\$630,782</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$1,143,725	\$687,632	\$551,534	\$557,173
State Special Revenue (02)	\$0	\$0	\$72,984	\$73,609
<b>TOTAL Funding of Exp.</b>	<b><u>\$1,143,725</u></b>	<b><u>\$687,632</u></b>	<b><u>\$624,518</u></b>	<b><u>\$630,782</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$82,828,000	\$171,039,000	\$174,648,000	\$178,150,000
<b>TOTAL Revenues</b>	<b><u>\$82,828,000</u></b>	<b><u>\$171,039,000</u></b>	<b><u>\$174,648,000</u></b>	<b><u>\$178,150,000</u></b>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$1,143,725)	(\$687,632)	(\$551,534)	(\$557,173)
State Special Revenue (02)	\$82,828,000	\$171,039,000	\$174,575,016	\$178,076,391

**Long-Term Impacts:**

1. The estimated CO<sub>2</sub>e emissions in 2021 were already 25% below 2005 levels, so the carbon emissions tax would only increase by the rate of inflation until 2035. However, DEQ does not expect significant reductions in emissions over the next decade, so by 2035 the 2050 goal of 50% of 2005 emissions would not be on track.

From 2035, the tax would increase at \$1 plus the rate of inflation until emissions were being reduced at a sufficient rate.

**Technical Notes:**

1. SB 532 directs the DOR to distribute revenue collected by the carbon emissions tax equally to Montana citizens. Clarification of the eligibility of a “citizen” would assist in administration and rule-setting.
2. The bill does not specify that the ratepayer impact payments are statutorily appropriated.
3. Section 5 (new section) and Section 18 (amending 75-2-111, MCA, list of BER duties) of the bill should be amended to instruct the DEQ to adopt the rules instead of the BER. The current text is inconsistent with 75-2-112, MCA, which provides that DEQ has rulemaking authority to implement Title 75, Chapter 2.

  
Sponsor's Initials

3-28-23  
Date

  
Budget Director's Initials

3-28-23  
Date