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.**

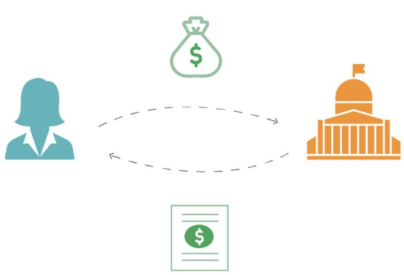
• **With green bonds, part of the reason investors accept lower yields is because they view the climate benefits of the investments as part of the return.** This saves money for the state of Washington and is known as a "greenium." Green bonds also attract new investors who might not be interested in a general obligation bond, but are eager to add green investments to their portfolios.

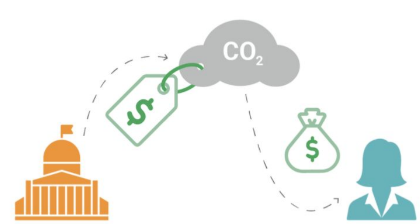
• The bonds authorized by Washington STRONG are not general obligation bonds -- they are a type of revenue bond called "special tax obligation bonds" that are backed solely by the carbon tax revenues, not the full faith and credit of the state. Because the entire revenue stream has been protected for 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.

• The price starts at $25 per ton and increases annually by 5 percent plus inflation. It covers emissions from transportation and buildings, accounting for between 60 and 70 percent of statewide emissions.

• The electricity sector is exempt due to its obligations under the 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.

• Energy Intensive and Trade Exposed businesses (EITEs) are directed to work with the Department of Ecology and community stakeholders to develop a feasible, fair, and effective compliance pathway within five years.

• Total tax receipts are estimated at more than $1 billion per year for the first ten years, and then they steadily decline until we reach net-zero emissions in 2050.