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Fiscal Impact of the Kyoto Protocol on Local Governments in the United States - June 2000 [report]

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The Fiscal Impact of the Kyoto Protocol on Local Governments in the United States

Case Studies and Electronic Workbook Developed
in Cooperation with:

The City of Indianapolis, Indiana
Fairfax County, Virginia
The City of Sherman, Texas
Marion County, South Carolina
The Center for Energy and Economic Development

Analysis Conducted by

Stephen S. Fuller, Ph.D.
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June 2000

Providing a Useful Tool for Local Government Managers

Until now, local government managers have not had the tools necessary to assess the impact of implementing the Kyoto Protocol on their operating budgets. While national economic studies have been done, very little research has been conducted to look specifically at how America's city and county governments will be affected.

Under the requirements of the Kyoto Protocol, the U.S. and a handful of other industrialized nations will be forced to reduce greenhouse gas emissions to below 1990 levels between the years 2008 and 2012. A 30 percent reduction in American energy consumption will be necessary to meet the requirements of the treaty, according to the federal government's independent energy forecasting agency, the Energy Information Administration (EIA).

The federal government has said it plans to achieve this reduction by charging a permit fee to drive up energy costs. This permit fee would be a tax on energy usage that local governments, along with all other consumers of energy, will be forced to pay.

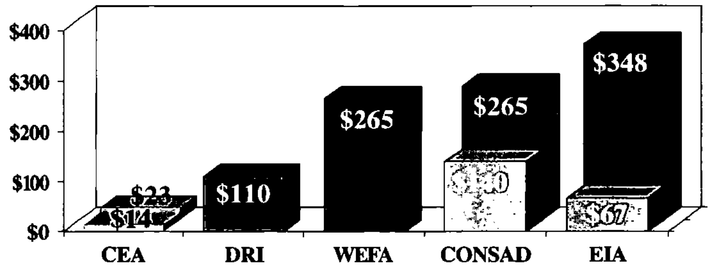
Both the federal government and independent economic forecasting firms have conducted studies to determine the effect that the Kyoto Protocol's higher energy prices will have on the nation's economy.

Through a program developed by the George Mason University School of Public Policy, your department can now assess its vulnerability to the higher energy and consumer prices likely to result from the Kyoto Protocol. This user-friendly program allows you to see specifically how implementation of the Kyoto Protocol will affect the ability to deliver services in your community.

The Kyoto Protocol: Higher Energy Costs for Everyone

Several of the nation's leading independent economic forecasting firms and the U.S.EIA agree that implementation of the Kyoto Protocol will translate into higher energy and consumer costs, and a significant loss of U.S. jobs.

Projected Emissions Permit Fee for Kyoto Protocol (in $)



Data gathered from studies conducted by the CONSAD Corporation, the U.S. Energy Information Administration (EIA), WEFA, Inc., Data Resources International (DRI), and the Council of Economic Advisors (CEA).

Gasoline prices could escalate by as much as 65 cents per gallon, and electricity prices in most regions of the country could nearly double. The cost to the domestic economy is extremely high, with EIA projecting that **implementation of the Kyoto Protocol could cost the U.S. economy as much as $348 billion in the year 2012 alone.**

Between one million and three million American jobs would be lost as U.S. manufacturers relocate to China, India, Mexico, Brazil, and other countries that also exempted themselves from the binding emissions reduction targets established by the Kyoto Protocol. American jobs will go overseas because the cost of energy in the U.S. would make operations here much less competitive in world markets.

The Kyoto Protocol An Unfunded Mandate for Local Governments

Local governments would see an average energy cost increase of about 11.5 percent because of the Kyoto Protocol. Energy-dependent public services including police, emergency response, and public schools may experience cost increases 46 to 57.5 percent higher than other public services. Some energy-dependent services like public safety and sanitation are essential, and therefore other services would need to be cut back or eliminated to pay for cost increases in other government sectors. Public schools are particularly vulnerable because of their heavy reliance on energy to heat and cool buildings, and to transport children. One study examined the case of Fairfax County (Virginia), and found that their public schools' direct energy costs could increase by more than half (up 53.9 percent).

Because city and county budgets are less flexible, the Kyoto Protocol's higher costs will leave local elected officials with few choices. Government agencies that provide the most essential and basic services to American taxpayers will be forced to either cut services or increase taxes.

While implementing the Kyoto Protocol would likely send the economy into a slump, increased taxes to maintain local services would make matters worse. Many working families will lose the fight to live the American Dream, and many seniors and others living on low or fixed-incomes will be pushed into poverty.

You are encouraged to calculate your department's potential financial loss using this new online program (see back of brochure for website addresses), and to share the results with elected officials and your colleagues. Vital local government services in the U.S. should not suffer because of a treaty that exempts other nations that may eventually become the world's largest emitters of greenhouse gases.

Local Governments - Bringing Value to America's Communities

Look around you. The most basic and necessary services provided to America's taxpayers are the responsibility of local government entities.

Municipal and county governments, local school districts, and a host of community-based service organizations provide public safety for our citizens, quality education for our children, maintenance of transportation infrastructures, public sanitation services, and other programs that improve the quality of life in America.

But the delivery of these key services, so essential to the health and welfare of the American taxpayer, requires energy.

Whether it's gasoline for fire trucks and sanitation trucks, or electricity for schools and community centers, energy costs already account for a significant portion of local government budgets. Recent price hikes in heating oil and gasoline are reminders that higher energy costs can put a financial squeeze on both taxpayers and local governments.

Elected Leaders Speak Out

"If implemented, the Kyoto Protocol represents the ultimate in unfunded mandates. The federal government would force local governments to pay higher energy costs, while economic disruptions would reduce tax revenues."

Beulah Coughenour,
Council Member, Indianapolis/Marion County, and Chair of the National Association of Counties' (NACo) Air Quality Subcommittee

"A Fiscal Impact Computer Program has been developed that will measure the vulnerability of counties and cities to price changes in their energy-sensitive services. This program will enable local governments to determine the budgetary ramifications from higher energy costs associated with implementation of the Kyoto Protocol."

Dr. C. Vernon Gray,
President of NACo, and
Member of the Howard County, MD Council

How Does the Kyoto Protocol Affect Your Bottom Line?

To calculate your department's vulnerability to the higher energy and consumer prices resulting from the Kyoto Protocol, visit one of the websites below :

http://policy2.gmu.edu
http://www.naco.org/leg/advocacy/kyoto.cfm

This study was funded by the Center for Energy and Economic Development (CEED).
www.ceednet.org

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