

UJAE Summary

The Fiscal Impact of the Kyoto Protocol on Local Governments in the United States Study published in June 2000

The Kyoto Protocol (UN climate treaty), if ratified by the US Senate, would commit the United States to reducing emissions of carbon dioxide and other greenhouse gases to a level seven percent below the levels that existed in 1990 within the 2008-2012 period. The Energy Information Administration has shown that the negative economic and fiscal impacts would be substantial (See the UJAE summary of the EIA study).

Steven S. Fuller, Professor of Public Policy at the Center for Regional analysis at George Mason University has done case studies on the effect of the Kyoto Protocol on government finances in four US communities -- Indianapolis, Indiana; Fairfax County, Virginia; Sherman, Texas; and Marion County, South Carolina. These communities were selected for study because they reflect a wide range of public program service levels and fiscal conditions.

Fuller finds that the Kyoto Protocol represents a major threat to the budgets of local governments which would raise costs and require higher taxes, reduced levels of services, disinvestments in maintenance and other cut backs in program support, and possibly the shifting of payroll funds into non-payroll accounts.

Implementing the Kyoto Protocol would create substantially higher energy prices, which would create a much greater fiscal challenge to local governments.

While all government departments and agencies would experience budgetary impacts from Kyoto-related price increases, services that use major amounts of energy would experience the greatest impacts. These energy-sensitive services include: public safety, sanitation and solid waste, public buildings, and public schools.

Fuller finds that:

- In Marion County, South Carolina, energy and energy price-sensitive expenditures accounted for 19.2 percent of the County's non-payroll expenditures in 1998; these expenditures would increase 26.2 percent following the implementation of the Kyoto Protocol and their share of non-payroll expenditures would increase to 24.3 percent;
- In Fairfax County, Virginia, County and Public Schools energy and energy-price sensitive expenditures totaled \$116.8 million in 1999; these expenditures would increase to \$148.2 million (26.9 percent) with the implementation of the Kyoto Protocol;
- The City of Sherman, Texas expended \$4.2 million on energy and energy-price sensitive purchases of 22.2 percent of its 1999 budget; these outlays would increase 4.6 percent to \$6.1 million with the implementation of the Kyoto Protocol raising their share of the total budget to 32.6 percent;

- The City of Indianapolis, Indiana budgeted \$17.0 million for energy and energy-price sensitive purchases in 1998, accounting for 7.7 percent of its non-payroll expenses; with the implementation of the Kyoto Protocol, these outlays would increase 30.4 percent to \$22.1 million and account for 10.0 percent of its non-payroll expenditures;
- With the implementation of the Kyoto Protocol, energy cost increases would range up from 54.0 to 69.3 percent among the case study jurisdictions depending on their mix of energy consumption, while energy-price sensitive expenditures would increase above baseline costs by an average of 13.4 percent.
- While all public services will experience cost increases averaging 11.5 percent above baseline levels, energy-dependent public services may experience cost increases four to five times greater than this average; energy costs associated with public safety could increase more than 50 percent as could the operating costs of public buildings; the City of Sherman's water and sewer authority illustrates the vulnerability of critical services to Kyoto-related energy price increases with its energy costs projected to increase by 70.6 percent.
- Public schools are particularly vulnerable to higher energy costs due to the heating and cooling demands of their buildings and the transportation requirements of their students, and public schools have large outlays for food, medical services and health insurance that are subject to energy price increases; with the implementation of the Kyoto Protocol, direct energy costs for the Fairfax County Public Schools would increase 53.9 percent while its energy-price sensitive costs would increase 13.1 percent
- In order to pay for these increased energy prices while maintaining current levels of service, local governments will have to raise their tax rates on real and personal property; in Indianapolis, this tax rate would have to increase 2.8 percent, while in Fairfax County it would have to increase 3.4 percent; in Marion County, a rate increase of 4.1 percent would be required while the city of Sherman would have to increase its general tax rate 11.7 percent to cover the projected increase in energy and energy-price sensitive costs due to implementing the Kyoto Protocol.