SEATTLE CITY COUNCIL
CENTRAL STAFF

July 12, 2021

**MEMORANDUM**

**To:** City Council
**From:** Yolanda Ho, Analyst
**Subject:** Heating Oil Tax Delay – Council Bill 120123

On July 19, 2021, the City Council (Council) will consider and may vote on Council Bill (CB) 120123 that would delay the effective date of the Heating Oil Tax from September 1, 2021, to April 1, 2022.

This memorandum describes: (1) the background of the Heating Oil Tax; (2) CB 120123; (3) impacts of CB 120123; (4) related policy considerations; and (5) next steps.

## Background

In September 2019, the Council passed Ordinance (ORD) 125934, establishing a new tax on heating oil beginning on September 1, 2020. The tax rate is $0.236 per gallon of heating oil sold by heating oil service providers in Seattle (excluding biodiesels).

The tax and associated programs are intended to accelerate the rate of conversion from oil heat to electric heat pump systems, with the ultimate goal of requiring that all existing steel tanks be either decommissioned (i.e., removed or filled with some material to prevent collapse) or replaced by a modern non-corroding tank by December 31, 2028. This will help to eliminate ground contamination caused by deteriorating underground steel oil tanks associated with oil heating systems, most of which were installed between the 1920s and 1950s, and reduce greenhouse gas (GHG) emissions. Phasing out oil heat by 2030 is estimated to decrease residential building GHG emissions by 16 to 18 percent, which equals a reduction of about eight percent of Seattle's total building GHG emissions.

Of the roughly 16,000 households that use oil heat, the Office of Sustainability and Environment (OSE) estimates that around 925 of these households are enrolled in the City's Utility Discount Program (UDP) for income-qualified customers. The typical household pays about $1,700 per year for heating oil, with no discounts available for low-income households. Assuming the tax will be passed directly on to customers, households who use oil heat will pay an average additional cost of $120 per year.

Recognizing that this tax will disproportionately burden low-income households, most of the tax proceeds will be used to:

- Fully cover the costs for low-income households of converting from an oil heating system to an electric heat pump; and
- Reimburse low-income households up to $120 annually to offset the added cost of the tax, either as a credit on their City Light account or as a check.

Converting low-income households with oil heat to electric heat pumps will provide them greater benefit from the UDP, and is expected to reduce their overall utility costs.

Tax revenues will also be used to:

- Expand the existing rebate program available to all households, supporting the conversion of about 1,200 homes to electric heat pumps;
- Provide education and outreach regarding the tax;
- Support overall program administration in OSE and the Office of Housing, which administers the heating system conversions; and
- Provide workforce development for four to five oil service providers and their employees with the goal of transitioning them to clean heating sales and installation.

On June 30, 2020, OSE, the Seattle Fire Department, and the Seattle Department of Construction and Inspections submitted a report to the Council evaluating the possibility of requiring that property owners replace or remove steel heating oil tanks. The report noted that the Seattle Fire Code would need to be amended to provide the City with the authority to enforce this mandate and recommended that instead of a requirement, the next Fire Code update should include an informational note as a preview for the potential requirement. This was addressed through the recent update to the Seattle Fire Code.[1] The City will continue to monitor progress to determine if a mandate is needed in the future.

Primarily in response to community concerns about the impacts of the Heating Oil Tax on low- and middle-income households during the COVID-19 crisis, the Council passed ORD 126144 in August 2020 that delayed the effective date of the tax from September 1, 2020, to September 1, 2021. An additional rationale for the delay was related to the Washington's Pollution Liability Insurance Agency's (PLIA) new Heating Oil Loan and Grant Program[2] that could result in creating substantial financial liability for homeowners with oil heating systems who were not

[1] On February 16, 2021, the Council passed Ordinance 126283 that adopted the 2018 Fire Code update, which included this note added to Section 603.3, "Due to the high prevalence of leaking oil storage tanks in Seattle and that because many may be beyond their useful life, posing a hazard to people, property, and the environment, Seattle Fire may propose a retroactive code change applying storage tank design standards to storage tanks that are of a specific vintage (e.g. 20 years of age or older)."

[2] The 2020 Washington State Legislature passed and the Governor signed Substitute Senate Bill 6256 that transitions PLIA's Heating Oil Insurance Program to a Loan and Grant Program.

registered with PLIA prior to July 1, 2020. Rather than continuing their grant program that helped to cover up to $60,000 of the costs of cleaning up residential oil tank leaks, PLIA is instead offering low-interest loans or grants up to $75,000 (including a grant of up to $5,000 to cover site assessment costs and $1,000 for technical assistance) for those who register with the program after July 1, 2020. Depending on PLIA's final rule, this new program could disproportionately burden low- and middle-income households. PLIA is currently developing the program as a pilot for a year and will begin rulemaking in 2022.

This one-year effective date delay has caused projected total Heating Oil Tax revenues to decrease by about $890,000, from $7.88 million to $6.99 million from 2021 to 2029. Revenues are expected to diminish over time as demand for heating oil decreases once houses convert to more efficient systems.

**CB 120123**

In a report to the Council dated June 1, 2021, OSE provided an update on PLIA's Heating Oil Loan and Grant Program (described above); summarized community feedback on whether the effective date of the tax should be further delayed; and offered analysis of various delay scenarios. Based on the feedback received and because PLIA has not yet adopted a final rule for the Heating Oil Loan and Grant Program, OSE proposed that the effective date of the Heating Oil Tax be further delayed by six months.

CB 120123 would delay the effective date of the tax from September 1, 2021, to April 1, 2022. An associated reporting request on the impacts of the tax and program activities would also be delayed from July 1, 2022, to April 1, 2023.

**Impacts of CB 120123**

Delaying the effective date of the Heating Oil Tax by another six months will avoid imposing an additional financial burden on households with oil heating systems during the ongoing economic crisis caused by the COVID-19 pandemic. The delay will also allow the City to continue working with PLIA on rulemaking for its Heating Oil Loan and Grant Program to avoid adverse impacts on low- and middle-income households.

The 2021 Adopted Budget anticipated tax revenues of $788,175. This proposed six-month delay would result in the City forgoing a total of $1.3 million in projected revenues in 2021 and 2022. This revenue would fund conversions from oil heating systems to more efficient electric heat pump systems for 50 low-income households and expand the City's existing electric heat pump rebate program[3] to 100 additional households. Revenues would also be used to launch

[3] Since 2014, the City has allocated $200,000 General Fund to fund conversions of about 200 homes per year, providing up to $1,500 to any household choosing to convert from oil heat to a high-efficiency electric heat pump system. Converting to an electric heat pump system typically costs between $10,000 to $15,000.

workforce development programs for oil service providers, education and outreach efforts, and other program activities described previously.

CB 120123 would delay these activities and may prevent the City from achieving its near-term goals to reduce GHG emissions. Assuming the tax goes into effect on April 1, 2022, as proposed, the City would fund these programs and activities next year, which will advance Seattle's climate goals and ensure a just transition for people whose jobs rely on fossil fuels.

**Related Policy Considerations**

Beginning in 2022, there will be an additional source of funding for these program activities as a result of the Council's adoption of CB 119810, establishing a payroll expense tax, and Resolution (RES) 31957, identifying spending priorities for payroll expense tax revenues, in July 2020. RES 31957 allocates nine percent[4] of the tax proceeds for investments to advance the Green New Deal for Seattle. Strategies include transitioning housing from fossil fuel heating systems to electric systems and providing job training programs to workers who would be adversely impacted as Seattle shifts away from an economy reliant on fossil fuels.

Depending on the anticipated revenues and recommendations of the Green New Deal Oversight Board, the Council may want to consider whether the tax should be allowed to go into effect next year, given that a portion of the new payroll expense tax revenues may be used to fund Heating Oil Tax program activities starting in 2022.

**Next Steps**

The City Council is scheduled to consider and possibly vote on CB 120123 at its meeting on July 19, 2021. Council action on CB 120123 is needed no later than August 16 to delay the effective date of the Heating Oil Tax, which will otherwise go into effect on September 1.

cc: Dan Eder, Interim Director
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[4] Initial assumptions were that this would be about $20 million, though this amount will likely be lower in 2022 if payroll tax revenues are needed to support base City services as anticipated. Based on the April 2021 revenue forecast presented by the City Budget Office, about half of the 2022 payroll tax revenues will be needed to support base services in the 2022 Budget.