February 23, 2022

MEMORANDUM

To: City Council
From: Yolanda Ho, Analyst
Subject: Heating Oil Tax Delay – Council Bill 120270

On March 1, 2022, the City Council (Council) will consider and may vote on Council Bill (CB) 120270 that would delay the effective date of the heating oil tax from April 1, 2022, to January 1, 2023.

This memorandum describes: (1) the background of the heating oil tax; (2) CB 120270; (3) impacts of CB 120270; (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 supported by the tax revenues 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 a material to prevent collapse) or replaced by a modern non-corroding tank by December 31, 2028.[1] This will help to: (1) 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 (2) 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 approximately 15,500 households that use oil heat, the Office of Sustainability and Environment (OSE) estimates that around 900 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.

[1] The Seattle Fire Department, the Seattle Department of Construction and Inspections, and OSE considered whether a mandate would be needed to achieve this goal (see report submitted to Council in June 2020). Instead of amending the Seattle Fire Code to include a requirement, they opted to add an informational note to the 2018 Seattle Fire Code update (Ordinance 126283, passed in February 2021) as a preview for a potential requirement. The City will continue to monitor progress to determine if a mandate is needed in the future.

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

- Fully cover the costs of converting from oil heat to an electric heat pump system for low-income households; 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 with oil heat, supporting the conversion of about 1,600 homes to electric heat pumps;
- Provide education and outreach regarding the tax and associated programs;
- Provide workforce development for four to five oil service providers and their employees to support a transition to clean heating sales and installation; and
- Support tax administration in the Department of Finance and Administrative Services and program administration in OSE and the Office of Housing (OH), which manages the heating system conversions.

Primarily in response to community concerns about the impacts of the tax on low- and middle-income households during the COVID-19 crisis, the Council passed ORD 126144 in August 2020 to delay 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 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 of up to $70,000, a $5,000 grant to cover site assessment costs, and a $1,000 grant for technical assistance (if needed) 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 administering the program as a pilot and collecting data about low-income households to help inform their rulemaking this year.

In a report to the Council dated June 1, 2021, OSE provided: an update on the Heating Oil Loan and Grant Program; summarized community feedback on whether the effective date of the tax

[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.

should be further delayed; and analyzed various delay scenarios. OSE proposed that the effective date of the heating oil tax be further delayed by six months based on the feedback received and because PLIA had not yet adopted a final rule for the Heating Oil Loan and Grant Program. The Council passed ORD 126391 in July 2021 to delay the effective date of the tax from September 1, 2021, to April 1, 2022.

These delays caused projected total heating oil tax revenues to decrease by about $1.4 million, from $7.88 million to $6.5 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.

The 2022 Adopted Budget allocates $1.7 million of one-time JumpStart Payroll Expense Tax Funds (JumpStart Funds), supported by payroll expense tax revenues, to fund conversions for low-income households, electric heat pump system rebates for all households seeking to convert from oil heat, outreach efforts, and program administration that were to be supported by the heating oil tax. This amount serves as a replacement for the forgone tax revenue from September 1, 2020, to April 1, 2022, and is intended to support implementation of these key programs without further delay.

CB 120270

CB 120270 would delay the effective date of the tax from April 1, 2022, to January 1, 2023. An associated reporting request on the impacts of the tax and program activities would also be delayed from April 1, 2023, to January 1, 2024.

Impacts of CB 120270

Delaying the effective date of the heating oil tax by another nine months will avoid imposing an additional financial burden on households with oil heat as residents are in various stages of recovery from the economic crisis caused by the COVID-19 pandemic and are also coping with increasingly high inflation rates. The delay would 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.

CB 120270 would result in forgoing anticipated tax revenues of about $871,000 in 2022. The 2022 Adopted Budget assumes that this revenue would fund conversions from oil heating systems to more efficient electric heat pump systems for 55 low-income households and expand the City's existing electric heat pump rebate program[3] to about 200 additional households. These projected revenues were also assumed to be available to launch the other program activities described previously.

[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 $15,000 to $17,000.

This proposed delay would fully pause some of these activities, such as tax administration and workforce development for oil service providers, but with the $1.7 million in one-time JumpStart Funds, OSE and OH would still be able to support 70 conversions for low-income households and 300 heat pump rebates for all households. The reduced funding for low-income conversions and heat pump rebates could cause the City to fall short of its near-term goals to reduce GHG emissions. Additionally, OSE and OH would need to adjust their plans for staffing and program implementation given the one-time nature of the JumpStart Funds in the 2022 Adopted Budget.

All told, delaying the effective date of the tax from September 1, 2020, to January 1, 2023, would result in the City forgoing a total of nearly $2.3 million in projected revenues in 2021 and 2022. Assuming the tax goes into effect on January 1, 2023, as proposed, the City would have a dedicated source of ongoing funds for 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

In July 2020, the Council passed ORD 126108, establishing a payroll expense tax, and adopted a spending plan (Resolution (RES) 31957) specifying Council's intent for use of the revenues. This was followed by passage of ORD 126393 in 2021 that created the JumpStart Fund in the City's treasury. The JumpStart Fund policies, consistent with RES 31957, allocates nine percent[4] of the tax proceeds for investments to advance the Green New Deal for Seattle (RES 31895). 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.

The 2022 Adopted Budget allocates $6.5 million in one-time JumpStart Funds that are being held in Finance General for Green New Deal priorities, pending recommendations from the Green New Deal Oversight Board (Board). The Board could recommend using some portion of this amount to fund additional conversions from oil heat to electric heat pumps for low-income households, more electric heat pump rebates for all households, and/or other programs that were intended to be funded by heating oil tax revenues.

The Board could also consider whether to recommend using ongoing JumpStart Funds in lieu of heating oil tax revenues to fund these programs beginning in 2023. OSE anticipates that the Board will provide budget recommendations to the Mayor and Council by early summer. Depending on the recommendations of the Board, the Council may want to consider whether the tax should be allowed to go into effect in 2023.

[4] Initial assumptions are that this would be about $20 million, though the amount may be lower in 2023 if JumpStart Funds are needed to support base City services as they were in the 2022 Adopted Budget.

Next Steps

The City Council is scheduled to consider and possibly vote on CB 120270 at its meeting on March 1, 2022. Council action on the legislation is needed no later than March 29 to delay the effective date of the heating oil tax, which will otherwise go into effect on April 1.

cc: Aly Pennucci, Deputy Director