

September 5, 2019

MEMORANDUM

To: Sustainability and Transportation Committee
From: Yolanda Ho, Analyst
Subject: Heating Oil Tax (CB 119607)

On September 10, 2019, the Sustainability and Transportation Committee (Committee) will discuss and may vote on [Council Bill \(CB\) 119607](#) that would impose a tax on heating oil. This memorandum: (1) provides background on the proposed heating oil tax; (2) describes CB 119607 and expected impacts; and (3) presents potential amendments for the Committee's consideration.

Background

Seattle has approximately 15,000 to 18,000 homes heated by oil. The majority of these heating systems, which involve underground steel oil tanks, were installed between the 1920s and 1950s. Over time, the tanks have deteriorated, resulting in oil leaks that damage soil, property, and potentially contaminate groundwater and surface water. The longer the tanks stay in the ground, the more likely a leak will occur as the steel continues to degrade. Cleaning up oil tank leaks is costly; in Seattle, over 4,100 claims have been made to Washington state's insurance program since 1996, totaling more than \$42 million.

In addition to contributing to soil and water pollution, residential oil heating systems produce greenhouse gas (GHG) emissions. The City's Climate Action Plan, adopted by [Resolution 31447](#) in 2012, has a target to reduce GHG emissions from residential buildings by 32 percent by 2030. Phasing out oil heat by 2030 is estimated to reduce residential building GHG emissions by 16 to 18 percent, which equals a reduction of eight to nine percent of total building GHG emissions. The Mayor also released a [Climate Action Strategy](#) in 2018, which identified conversion from oil heating to electric heat pumps as a priority near-term action.

In 2012, through a grant from the U.S. Department of Energy, the Office of Sustainability and Environment (OSE) began offering rebates to encourage the conversion from oil heat to higher efficiency systems as part of the City's Community Power Works program. The Council added \$200,000 of General Fund in the adopted 2014 budget ([Green Sheet 25-1-A-1](#)) to provide ongoing support for the program, which continues to the present day. This amount funds 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. Currently, about 1,300 homes are converting from oil heat to more efficient systems every year.

CB 119607

Beginning on July 1, 2020, this legislation would impose a \$0.236 per gallon tax on each gallon of heating oil sold by heating oil service providers in Seattle. Revenues from the tax will be deposited in a Heating Oil Tax Fund and are anticipated to total approximately \$8.4 million from 2020 to 2029, with revenues diminishing over time as demand for heating oil decreases once households convert to more efficient systems. Assuming the tax will be passed directly on to customers, households who use oil heat are anticipated to pay an additional \$120 per year, on average. Service providers will be required to include the tax as a separate line item on invoices if they choose to pass the cost on to their customers.

Of the estimated number of households using oil heat, OSE has determined that about 1,100 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. Recognizing that this new tax will disproportionately burden low-income households, most of the tax proceeds (about \$6.9 million) will be used for the following:

- Fully covering the costs for low-income households of converting from an oil heating system to an electric heat pump (about 1,000 low-income households); and
- Reimbursing 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 1,700 homes to electric heat pumps;
- Provide education and outreach regarding the new tax;
- Support program administration, including 1.0 FTE (reduced to 0.5 FTE beginning in 2026, sunseting in 2028) in OSE; 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.

The intent of this legislation is to accelerate the rate of conversion from oil heat to electric heat pump systems, with the ultimate goal of having all existing steel tanks 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. OSE will collaborate with the Seattle Fire Department, Seattle Department of Construction and Inspections, and other relevant departments to develop an implementation plan by July 1, 2020, for enforcing this mandate prior to the effective date.

Potential Amendments

There are two amendments for the Committee's consideration:

1. Amendment 1 (Attachment A), sponsored by Councilmember O'Brien, would correct typographical errors in CB 119607.
2. Amendment 2 (Attachment B), sponsored by Councilmember O'Brien, would request that OSE submit to the City Clerk and Council the implementation plan for the mandate that all heating oil storage tanks be decommissioned or replaced with a modern tank by December 31, 2028. OSE is also requested to provide a status update on outreach efforts related to the new heating oil tax to date, including a description of any challenges encountered during the outreach, and proposed strategies for overcoming challenges, if applicable.

Attachments:

- A. Amendment 1 – Technical amendments
- B. Amendment 2 – Outreach status update

cc: Kirstan Arestad, Exec Director
Aly Pennucci, Supervising Analyst

Attachment A. Amendment 1 – Technical amendments

Amendment 1 – Technical amendments

Sponsor: Councilmember O’Brien

Background:

This amendment would make technical amendments to CB 119607, correcting typographical errors.

Notes:

Double underlines indicate new language to be added.

~~Double strikethroughs~~ indicate language proposed to be removed.

Amendments

1. Amend Section 1 of Council Bill 119607, as follows:

Section 1. A new Chapter 5.47 is added to the Seattle Municipal Code as follows:

CHAPTER 5.47 HEATING OIL TAX

5.47.010 Administrative provisions

All of the provisions contained in Chapter 5.55 shall have full force and application with respect to taxes imposed under this Chapter 5.~~50~~ 47 except as may be expressly stated to the contrary herein.

5.47.040 Heating oil tax – When due

The heating oil tax imposed by this Chapter 5.47 shall be due and payable in accordance with Section 5.55.040. The heating oil tax shall be due and payable in quarterly installments. The Director may use discretion to assign businesses to a monthly or annual reporting period. Forms for such filings shall be prescribed by the Director. Persons discontinuing their business activities in Seattle shall report and pay the ~~firearms and ammunition~~ heating oil tax at the same time as they file their final business license tax return.

Attachment A. Amendment 2 – Outreach status update

Amendment 2 – Outreach status update

Sponsor: Councilmember O’Brien

Background:

This amendment would amend CB 119607 to request that the Office of Sustainability and Environment (OSE) submit to the City Clerk and Council the implementation plan for the mandate that all heating oil storage tanks be decommissioned or replaced with a modern tank by December 31, 2028. OSE is also requested to provide a status update on outreach efforts related to the new heating oil tax to date, including a description of any challenges encountered during the outreach and proposed strategies for overcoming challenges, if applicable.

Notes:

Double underlines indicate new language to be added.

~~Double strikethroughs~~ indicate language proposed to be removed.

Amendments

1. Amend Section 14 of Council Bill 119607 as follows:

Section 14. By July 1, 2020, the Office of Sustainability and Environment, the Seattle Fire Department, the Seattle Department of Construction and Inspections, and other relevant departments shall complete an implementation plan to address the prevention of future environmental hazards from leaking heating oil tanks with the intent that all heating oil storage tanks in Seattle are either decommissioned or replaced with a modern tank no later than December 31, 2028. The plan shall include but not be limited to residential and stakeholder outreach, necessary code updates or code authority, tank replacement, and decommissioning requirements and specifications. A copy of the implementation plan should be submitted to the City Clerk and the Chair of the Sustainability and Transportation Committee, or successor committee.

Attachment A. Amendment 2 – Outreach status update

2. Add a new Section 15 to Council Bill 119607 and correct numbering of subsequent sections, as follows:

Section 15. The Council requests that the Office of Sustainability and Environment provide a status update on outreach efforts to date regarding the new heating oil tax by July 1, 2020. The update should include the number of households contacted; any changes in the number of low-income households with oil heat enrolled in the City’s Utility Discount Program following outreach efforts; a summary of feedback received during outreach efforts, including a description of challenges encountered during the outreach process; and proposed strategies for overcoming these challenges, if applicable.

Section ~~15~~ 16. Sections 1 through 13 of this ordinance shall take effect on July 1, 2020.

Section ~~16~~ 17. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.