

August 13, 2020

## MEMORANDUM

**To:** City Council  
**From:** Yolanda Ho, Analyst  
**Subject:** Heating Oil Tax Delay (Council Bill 119859)

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On August 17, 2020, the City Council (Council) will consider and may vote on [Council Bill \(CB\) 119859](#) that would delay the effective date of the [Heating Oil Tax](#) from September 1, 2020, to September 1, 2021.

This memorandum describes (1) the background of the Heating Oil Tax; (2) CB 119859; (3) impacts of CB 119859; (4) related policy considerations; and (5) next steps.

### Background

In September 2019, the Council adopted [Ordinance 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). Revenues from the tax are anticipated to total approximately \$7.9 million from 2020 to 2029, with revenues diminishing over time as demand for heating oil decreases once households convert to more efficient systems.

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 eight to nine percent of Seattle's total building GHG emissions.

Of the 16,000 to 18,000 households that use oil heat, the Office of Sustainability and Environment (OSE) estimates 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. 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 (\$5.8 million) are to 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 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 (SFD), and the Seattle Department of Construction and Inspections submitted a [report](#) to the Council evaluating the possibility of enforcing the tank mandate. The report notes that the [Seattle Fire Code](#) would need to be amended to provide the City with the authority to enforce this mandate. However, it does not recommend moving forward with this amendment and proposes using an education and outreach strategy to encourage residents with oil heat to either replace or decommission their steel tanks. The 2018 Fire Code will include an informational note<sup>1</sup> as a preview for the potential requirement and SFD's [Client Assistance Memo](#) will be updated as well. The City will monitor progress towards the 2028 goal to determine if enforcement is needed.

### **CB 119859**

In response to community feedback about the impacts of the Heating Oil Tax on low- and middle-income households during the COVID-19 crisis, OSE is proposing to delay implementation of the tax and related program activities. Additionally, OSE reports that Washington's Pollution Liability Insurance Agency (PLIA) has developed interim rules for their new [Heating Oil Loan and Grant Program](#)<sup>2</sup> that could result in creating substantial financial

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<sup>1</sup> This note will be added to Seattle Fire Code 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)".

<sup>2</sup> 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.

liability for homeowners with oil heating systems. Rather than continuing their grant program that helps cover up to \$60,000 of the costs of cleaning up oil tank leaks, PLIA is proposing to change this to a loan program for new registrants (with a small grant component to provide technical assistance and develop clean-up plans), which would disproportionately burden low- and middle-income households.

CB 119859 would delay the effective date of the tax from September 1, 2020, to September 1, 2021. An associated reporting request on the impacts of the tax and program activities would also be delayed from July 1, 2021, to July 1, 2022.

### **Impacts of CB 119859**

Delaying the effective date of the Heating Oil Tax by a year will avoid imposing an additional financial burden on households with oil heating systems during the current 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 2020 Adopted Budget anticipated tax revenues of \$592,950. This revenue would fund conversions from oil heating systems to more efficient electric heat pump systems for 25 low-income households, and expand the City's existing electric heat pump rebate program<sup>3</sup> to 100 additional households. Revenues would also be used to launch workforce development programs for oil service providers, education and outreach efforts, and other program activities described previously.

CB 119859 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 September 1, 2021, 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 recent adoption of [CB 119810](#), establishing a payroll expense tax, and [Resolution \(RES\) 31957](#), identifying spending priorities for payroll expense tax revenues. RES 31957 allocates nine percent (estimated to be about \$20 million) 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.

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<sup>3</sup> 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.

The Council may want to consider whether to implement the tax next year, given that the new payroll expense tax revenues can fund the Heating Oil Tax program activities starting in 2022.

**Next Steps**

The Council is scheduled to consider this legislation and act on August 17, 2020. If the Council does not adopt CB 119859 on that day, the Heating Oil Tax will go into effect on September 1.

cc: Kirstan Arestad, Executive Director  
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