

# PROPOSAL TO CREATE ALBANY CLIMATE ACTION FUND

## Summary

Albany City Council requested that the Albany Sustainability Committee provide an overview of possible funding mechanisms for implementing the measures identified in the Climate Action Plan (CAP). The Albany Sustainability Committee proposes to place a Utility Users Tax (UUT) increase of 2.0% on the next feasible electoral ballot (likely November 2012). The purpose of this tax increase is to provide funding specifically to implement the Albany Climate Action Plan (CAP), as adopted.

Based on recent data provided by PG & E, this UUT increase would average \$1.77 per household per month, and \$18.75 per commercial customer per month. PG&E can administer the tax collection at no additional cost to the City. A 2% UUT increase from 7% to 9.0% would generate approximately \$205,000 per year, and would likely decline gradually over time as CAP measures create more energy efficiency. The Sustainability recommends Council consider whether or not to exempt low income households within the PG&E CARE program from the UUT tax. CARE customers are not exempt from the current UUT, and PG&E has indicated that exempting CARE would require additional administrative work subject to a fee. The estimated revenue would also decrease to approximately \$193,000 if CARE customers are exempt.

Our preference is that this tax be based on energy-related carbon emissions from electricity and gas consumption rather than on energy cost, as this is specifically in response to the Climate Action Plan and therefore the primary goal is to reduce emissions. We want to encourage greenhouse gas emission reductions by financially rewarding residents for reducing their emissions while creating a disincentive on behavior that increases emissions. According to Max Wei of Lawrence Berkeley National Laboratory, currently the use of electricity from PG&E creates less greenhouse gas emissions per unit of energy than using natural gas. This is because PG&E gets almost half of its electricity through large hydroelectric power, nuclear, and renewable energy which do not produce greenhouse gas emissions. To balance the scales and create a carbon-based tax would require different tax rates for gas and electricity. Unfortunately, at the current time PG&E cannot tax electric and gas use at different tax rates. In recognition of this fact our proposal is for a UUT based on overall energy usage rates. However, we want to make it clear that should PG&E change its billing capabilities prior to this proposed tax being finalized, we will submit a modification to reflect an emissions-based tax that will generate similar annual revenues.

## **Background**

### ***The Albany Climate Action Plan***

Albany has set a goal of reducing total greenhouse gas emissions in 2004 by 25 percent by 2020. To achieve this goal, City Council adopted the Climate Action Plan (CAP) in April, 2010. As the CAP asserts, reaching the goal will require a combination of behavioral, technological, transportation, agricultural and “building environment” change. Realistically, to reach the goal, Albany residents must begin to adopt practices embedded in the CAP and start to change many of our present behaviors.

The Climate Action Plan and its Implementation Plan contain a wide range of programs and initiatives which will require substantial public capital investment and/or operating costs (e.g., personnel and materials) to implement. These include, for example, creating a continuous community outreach and education program, establishing a set of energy-efficiency standards applied to residential units upon resale, improvement of major streets as pedestrian-friendly “complete streets,” and low-cost audits of residential and commercial buildings’ energy use and retrofit measures.

Several CAP measures and policies are in place, but many other CAP measures require sufficient funding to implement.

### ***Need for a Reliable Funding Source***

Although the City has successfully obtained several grants and in-kind contributions to commence implementation of the CAP, achieving its measures and effecting emissions reductions will require a continuous, reliable source of funding for personnel, vendors, equipment, and capital improvements.

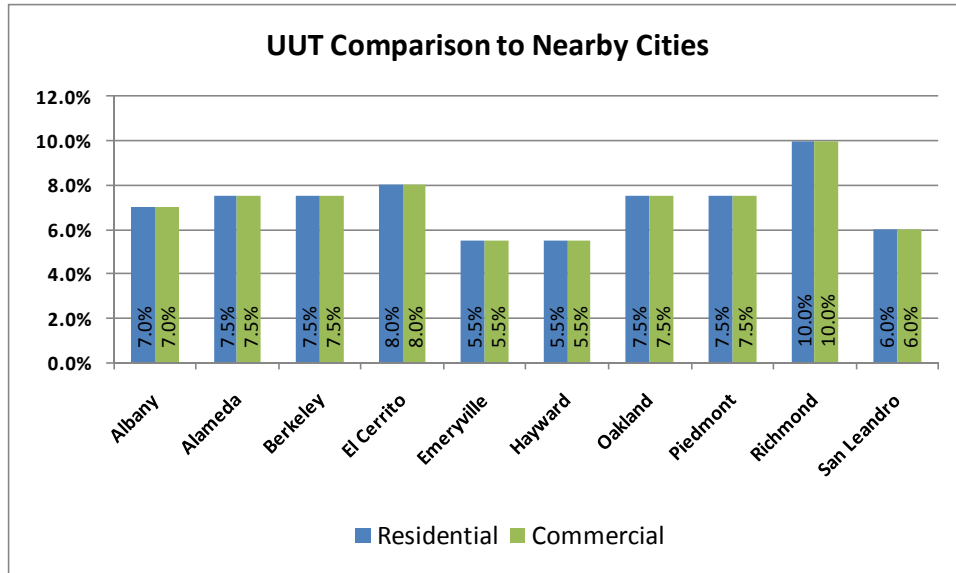
The Albany Sustainability Committee, the City’s advisory body to help implement the CAP, has explored two options for this funding source: an increase in the Utility Users’ Tax (UUT), and a new Parcel Tax.

## Utility Users Tax (UUT) – Recommended Method

The City of Albany, similar to many cities in California, charges its residential and commercial utility customers a Utility Users Tax (UUT), which is collected by PG&E in customers' monthly utility bills, and forwarded to the City. At present, the Albany UUT is 7.0 percent of gas and electricity charges.

### Comparison to Nearby Cities

Many cities in the East Bay charge similar or higher UUT's for municipal programs, as shown in the graph below.



Source: PG & E communication to City of Albany, 2011. Hayward and Piedmont from internet research.

### Total Revenues from UUT Increase to 9.0%

A UUT increase to finance the CAP's implementation measures would raise approximately \$205,000 per year. The table below summarizes the estimates.

#### New Revenue From UUT Increase to 9.0%

Pct	UUT Rate x G&E Rev	Est Exempt from UUT (existing exemptions)	Est UUT Rev for City	Est UUT Rev for City if CARE exempt
7%	\$905,443	\$189,152	\$716,291 *	\$676,557
9%	\$1,164,141	\$243,196	\$920,945	\$869,858
Diff	\$258,698	\$54,044	\$204,654	\$193,301
* Estimated UUT revenue for city at current 7% rate (2010 data)				
2% CARE discount - difference in UUT Rev for City =				\$193,301
100% CARE exempt - difference in UUT Rev for City =				\$153,567

Source: PG&E

### **Impact on Households and Businesses**

The table below shows the average monthly and annual increase in current UUT per household and per business establishment. As shown, an increase from the existing UUT of 7.0% to the proposed 9.0% would raise the average residential utility bill by \$1.77 per month, or \$21.27 per year. The cost to business (commercial) is higher than residential, due to higher underlying average utility bills in Albany.

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### **Summary: Estimated Average Utility Bill with Proposed UUT (9.0%)**

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Source: PG&E data per average bills (see Appendix A)

<b>Total (Electric + Gas)</b>	<b>No UUT</b>	<b>7.0% UUT</b>	<b>7.5% UUT</b>	<b>8.0% UUT</b>	<b>8.5% UUT</b>	<b>9.0% UUT</b>
<i>Avg. Residential Bill</i>	\$88.64					
<i>Amount of UUT</i>		\$6.20	\$6.65	\$7.09	\$7.53	\$7.98
<i>Bill with UUT</i>		\$94.84	\$95.29	\$95.73	\$96.17	\$96.62
<i>Monthly Increase</i>			\$0.44	\$0.89	\$1.33	\$1.77
<i>Annual Increase</i>			\$5.32	\$10.64	\$15.95	\$21.27
<i>Avg. Commercial Bill</i>	\$937.63					
<i>Amount of UUT</i>		\$65.63	\$70.32	\$75.01	\$79.70	\$84.39
<i>Bill with UUT</i>		\$1,003.27	\$1,007.95	\$1,012.64	\$1,017.33	\$1,022.02
<i>Monthly Increase</i>			\$4.69	\$9.38	\$14.06	\$18.75
<i>Annual Increase</i>			\$56.26	\$112.52	\$168.77	\$225.03

### **Benefits of UUT Increase**

The benefits of using this mechanism to finance CAP implementation include:

- **Financing Tied Directly to Climate Action Goal (Reduced Energy Consumption).** This has the benefit of discouraging energy consumption while raising revenues to further reinforce consumption reductions. In a related benefit, this directly relationship to consumption also enables the consumer to somewhat manage the expenditure, including the UUT. If the CAP implementation is successful, however, that means that this funding stream will decline over future years.
- **No Cost Collection and Administration.** PG&E has already said they could collect the UUT increase, which would be part of their current UUT collection on utility bills.
- **Small Cost per Household.** As shown, the UUT increase would add an average of \$21.27 per year to the typical residential customer.
- **Moderate Cost per Business.** As shown above, due to higher average energy consumption by business compared to households in Albany, businesses would incur an average increase from the proposed UUT increase of \$225.03 per year.

### **Additional Items for Consideration**

During the course of discussing this method, the Sustainability Commission also discussed the following related ideas:

- The UUT for Climate Action could be structured with a sunset, perhaps coinciding with the adopted 2020 reduction time frame
- For those residents and businesses who have gone “off the grid” through renewable energy, and thus not subject to the UUT, and/or those who want to provide additional funding, the City could also set up a companion voluntary fund which could be a checkbox on the utility bill and payments to pass along to the City

### **Parcel Assessment Method**

This method of financing the CAP would assess each property owner on a per-parcel basis, similar to several other existing assessments already paid by Albany’s property owners. The table below indicates the amount of per-parcel estimated assessment that could be applied to equal a similar annual revenue stream as the UUT method. Detailed calculations based on an inventory of parcels are shown in Appendix B.

It should be noted that this estimate is based on a flat dollar assessment per parcel. Some parcel tax assessments, in practice, vary the charge per use, or per parcel size, or per benefit received. These factors would need to be further analyzed to determine how to specifically create a legal, fair, and practical parcel assessment program.

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#### **Summary: Estimated Revenue from Simple Parcel Assessment**

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(based on parcel list, see Appendix B)

	<b>Number of Parcels</b>	<b>Annual Assessment \$</b>
		<b>45.00</b>
<b>Exempt Parcels</b>	184	\$ -
<b>Residential Parcels</b>	5,253	\$ 236,385
<b>Commercial Parcels</b>	301	\$ 13,545
<b>Total Revenue Per Year</b>		<b>\$ 249,930</b>

#### **Benefits of Parcel Assessment Method**

- **Steady Revenue Stream.** This method provides a steadier revenue stream than the UUT, since it is not tied to consumption of energy, and the number of parcels in Albany is relatively unchanged over time. Inflation factors can also be incorporated easily.
- **Cost to Collect.** Could likely be easily incorporated by Alameda County Assessor into property tax bills, as currently done with many other assessments.
- **Exemptions for Low Income.** This method can follow similar other assessment methods to exempt seniors or low income property owners
- **Less Impact on Small and Medium-Sized Businesses.** This method, depending on how it is structured, may be more favorable to small business than the UUT, since it spreads the total among more payees, and equalizes the payment by each tax payer.

## Uses of Climate Action Fund

The Sustainability Committee evaluated various ways in which new revenues could be used to implement the Climate Action Plan. The proposed uses of the new dollars are important to consider because it is not expected that any proposed tax increase would be large enough to generate sufficient funds to implement the entire CAP, and therefore the City will have to make strategic decisions to implement certain measures while continuing to seek additional grants and other funding sources. Additionally, the Committee expects that identifying revenue uses will be an essential component of appealing to voters in favor of enacting a UUT increase.

The Committee examined three options for the use of increased revenue and recommends Option 3 as follows:

- **Option 1: Specific Allocations of Fund.** This option would identify specific, discrete measures that would be funded with UUT revenue, and ensure that the revenue is earmarked for these purposes. This would give clear direction to City staff, and may have the benefit of providing voters with concrete reasons to vote in favor of a tax increase. However, this option would limit flexibility over time, including limiting the City's ability to respond opportunistically to outside funding sources and low-cost implementation options. In the attached table, the Committee identified specific CAP measures that could be implemented with dedicated funding and that would allow the City to achieve a significant portion of its goals under the CAP.
- **Option 2: Unrestricted Fund Allocation.** This option would place no restrictions on the use of revenue, except CAP implementation. This approach would provide the City with maximum flexibility to efficiently implement CAP measures. At the same time, it may be difficult to communicate to voters how their taxes would be spent, which could be a barrier to generating voter support. In order to help explain the proposed tax increase to voters, the City could provide illustrative examples of how revenues would be spent to implement the CAP, without committing itself to funding specific CAP measures. The measures identified in the attached table could also be used for this purpose.
- **Recommended Option 3: Allocate Fund By Benefiting Category.** This option would dedicate a specific percentage of revenue to each of several defined sectors (i.e. residential, commercial, municipal, and possibly non-profit). This approach would likely provide sufficient information to voters, while also offering flexibility over time to the City. In addition, funds allocated to non-profit organizations could be distributed back to community organizations via "mini-grants," using a process similar to the Albany Education Foundation. This would encourage community groups to undertake community projects which in turn, could engage larger segments of Albany, enhancing outreach and participation.

## Appendix A: UUT Detail

Average UUT Increase Per Customer Per Month				
	Existing UUT	Proposed UUT	Change	Change
	7.0%	9.0%	Per Month	Per Year
<b>Electric</b>				
<b>Residential Per Month</b>				
Avg. Bill without UUT	\$49.57	\$49.57	\$0.00	
Amount of UUT	\$3.47	\$4.46	\$0.99	
Avg. Total Bill	\$53.04	\$54.03	\$0.99	\$ 11.90
<b>Commercial Per Month</b>				
Avg. Bill without UUT	\$687.79	\$687.79	\$0.00	
Amount of UUT	\$48.15	\$61.90	\$13.76	
Avg. Total Bill	\$735.93	\$749.69	\$13.76	\$ 165.07
<b>Gas</b>				
<b>Residential Per Month</b>				
Avg. Bill without UUT	\$39.07	\$39.07	\$0.00	
Amount of UUT	\$2.74	\$3.52	\$0.78	
Avg. Total Bill	\$41.81	\$42.59	\$0.78	\$ 9.38
<b>Commercial Per Month</b>				
Avg. Bill without UUT	\$249.84	\$249.84	\$0.00	
Amount of UUT	\$17.49	\$22.49	\$5.00	
Avg. Total Bill	\$267.33	\$272.33	\$5.00	\$ 59.96
<b>Total (Electric + Gas)</b>				
<b>Residential Per Month</b>				
Avg. Bill without UUT	\$88.64	\$88.64	\$0.00	
Amount of UUT	\$6.20	\$7.98	\$1.77	
Avg. Total Bill	\$94.84	\$96.62	\$1.77	\$ 21.27
<b>Commercial Per Month</b>				
Avg. Bill without UUT	\$937.63	\$937.63	\$0.00	
Amount of UUT	\$65.63	\$84.39	\$18.75	
Avg. Total Bill	\$1,003.27	\$1,022.02	\$18.75	\$ 225.03
Source: PG & E data provided to City of Albany				

## Appendix B: Detailed Parcel List

Estimate of Parcel Assessment Per Year		
	Number of	Annual Assessment
<b>Exempt Properties (Estimate)</b>	<b>Parcels</b>	<b>\$ 45.00</b>
Exempt public agencies	166	
Restricted income properties	1	
Property owned by a public utility	17	
<b>Subtotal Exempt</b>	<b>184</b>	<b>\$ -</b>
<b>Residential Parcels</b>		
Vacant residential land zoned for < four units	24	
Single family residential home used as such	3,663	
Single family residential home w/ 2nd living unit	28	
Single family residential home w/slight common use	1	
Planned development (townhouse type)	7	
Planned development common area (townhouse type)	1	
Planned development (tract type) with common area	10	
Planned development common area (tract type)	6	
Two, three or four single family homes	55	
Double or duplex	129	
Triplex; double or duplex w/ Single Fam Res home	39	
Four living units, e.g. fourplex, triplex w/S F Res	61	
Residential property of 2 living units val<code 22	23	
Residential property of 3 living units val<code 23	6	
Residential property converted to 5 or more units	4	
Condominiums	1,077	
Common area of condominium or planned development	31	
Multiple residential properties > 5 units	88	
<b>Subtotal Residential</b>	<b>5,253</b>	<b>\$ 236,385</b>
<b>Commercial Parcels</b>		
Vacant commercial land (may include misc. imps)	10	
One-story store	78	
Store on 1st fl w/office or apts on 2nd or 3rd fls	34	
Miscellaneous commercial (improved)	15	
Discount House	8	
Restaurant	15	
Supermarket	1	
Commercial or industrial condominium to sale of 1 unit	6	
Vacant industrial land (may include misc imps)	2	
Warehouse	1	
light Industrial	5	
Heavy industrial(factories batching plants etc)	3	
Nurseries	1	
Schools	3	
Churches	6	
Lodgehalls and clubhouses	2	
Car washes	1	
Commercial garages (repair)	19	
Automobile dealerships	2	
Parking Lots	16	
Service stations	5	
Nursing or boarding homes	1	
Banks	5	
Medical-Dental	29	
1 to 5 story offices	25	
Bowling alleys	1	
Theaters (walk-in)	3	
Other recreational: rinks, stadiums, race tracks	4	
<b>Subtotal Commercial</b>	<b>301</b>	<b>\$ 13,545</b>
<b>Total Revenue Per Year</b>		<b>\$ 249,930</b>



## Appendix C: Illustrative Example of Fund Allocation to Specific CAP Measures for Discussion Purposes

### Potential CAP Measures to be Funded with Utility User's Tax Revenue DRAFT Based on Preliminary Data

New UUT Rate	Estimated New Revenue	Potential CAP Measure	Estimated Annual Cost	GHG Reduction Potential (MT CO2E)	% of Total GHG Reductions Achieved
7.5%	\$61,800	BE 2.1 – Develop comprehensive outreach programs to encourage energy efficiency and renewable energy investments in community	\$13,400	2,935	18.7%
		BE 2.2 – Identify and develop low-cost financing products and programs to encourage investment in energy efficiency and renewable energy within existing residential units and commercial buildings <ul style="list-style-type: none"> <li>• On-bill financing</li> <li>• Energy efficiency mortgages</li> <li>• Revolving loan from bond sale</li> </ul>	\$34,400	[Not separately quantified; supports measures BE 2.1 and BE 2.3]	--
		TL 3.2 – Update planning documents to promote high-quality, mixed-use, pedestrian and transit-oriented development in San Pablo/Solano Commercial districts	\$3,800	790	5.0%
		TL 4.3 – Incentivize electric and plug-in hybrid vehicles through development of automobile charging infrastructure and preferential street parking spaces	\$1,300	[Not quantified]	--
		TL 4.4 – Create and implement voluntary transportation demand management (TDM)	\$10,000	1,140	7.3%

New UUT Rate	Estimated New Revenue	Potential CAP Measure	Estimated Annual Cost	GHG Reduction Potential (MT CO2E)	% of Total GHG Reductions Achieved
		program to reduce weekday peak period single occupancy commute and school trips			
<b>Total at 7.5% UUT</b>			<b>\$62,900</b>	<b>4,865 +</b>	<b>31.0% +</b>
8.0%	\$123,700	[All measures listed above]	\$62,900	4,865	31.0%
		BE 2.3 – Develop and implement point-of-sale residential and commercial energy efficiency upgrade requirements	\$2,600	1,310	8.4%
		BE 2.4 – Identify and facilitate solar energy EmPowerment districts in commercial, industrial and mixed-use portions of the city	\$1,300	2,195	14.0%
		TL 1.2 – Install bike racks in commercial and civic areas of the City where racks do not currently exist	\$2,000	230	1.5%
		TL 1.5 – Encourage additional neighborhood-serving commercial uses and mixed-use development within city’s existing commercial districts; strive to provide access to daily goods and services within 1/4-mile of residences	\$33,000	1,150	7.3%
		TL 2.2 – Work with AC Transit to provide bus stops with safe and convenient bicycle and pedestrian access and essential improvements such as shelters, route information, benches, and lighting	\$20,000	115	0.7%
		FA 3.1 – Establish a local community garden program to increase local food security and provide local recreation	\$1,400	[Not quantified]	--

New UUT Rate	Estimated New Revenue	Potential CAP Measure	Estimated Annual Cost	GHG Reduction Potential (MT CO2E)	% of Total GHG Reductions Achieved
		amenities			
<b>Total at 8.0% UUT</b>			<b>\$123,200</b>	<b>9,865 +</b>	<b>62.9% +</b>
9.0%	\$205,000	<i>[All measures listed above]</i>	\$123,200	9,865	62.9%
		BE 2.2 – Identify and develop low-cost financing products and programs to encourage investment in energy efficiency and renewable energy within existing residential units and commercial buildings <ul style="list-style-type: none"> <li>• Low interest loans</li> <li>• Energy efficient local improvement district</li> </ul>	\$121,000	[Not separately quantified; supports measures BE 2.1 and BE 2.3]	--
		BE 2.5 – Join Bay Area efforts to ensure green public transit energy sourcing	\$1,300	[Not quantified]	--
		BE 3.1 – Require new construction to comply with Tier 2 energy efficiency standards contained in Section 503.1.2 of California Green Building Code	\$1,300	1,550	9.9%
		BE 4.1 – Partner with other neighboring cities and PG&E to fast-track smart grid technology in Albany	\$1,300	160	1.0%
<b>Total at 9.0% UUT</b>			<b>\$248,100</b>	<b>11,575 +</b>	<b>73.8% +</b>