

Carbon Tax (Utility Users Tax)

Definition and Examples

This proposal would be implemented as a utility users tax (UUT) on residential and commercial electricity and natural gas, with some exemptions.

In 2016, a carbon tax was proposed in the form of a 2.5% utility users tax. Estimates for the Transportation Task Force are modeled after the same proposal. Currently, the City imposes a 7.5% UUT on commercial properties for telephone services, cellular telephone services, electricity, natural gas, steam, and water. This proposal would extend the electricity and natural gas components of the UUT to residential users. In addition, the proposal exempts green energy use, which includes payers participating in CleanPowerSF and PG&E Green Energy.

Establishment and Administration

This tax can be proposed as either a general tax or a dedicated tax. Upon majority approval by the Board of Supervisors, a general tax version of this proposal would require a 50% majority of San Francisco voters, while a dedicated version of this proposal would require a 2/3rds majority of San Francisco voters.

The City currently collects UUT from nonresidential users. Expanding the tax to residential users would require increasing collections and auditing operations for the Treasurer Tax Collector.

Expenditures

Revenue generated by a general carbon tax could be used for any City purposes. The tax could also be dedicated for specific City transportation purposes.

Revenues

This estimate is based on current gas and electric consumption by both residential and commercial users, with assumption on renewable energy program participation. A 1 - 3.5% carbon tax would generate approximately:

- First year (2018/19): \$2.5 - \$8 million
- 25-year total (in \$2017): \$62.5 - \$200 million

UUT revenue is dependent on utility use and prices. The extension of the tax to residential users adds some uncertainty to our projections. There is a risk of erosion in the tax base if participation in renewable energy programs grows, given the state's goals of increasing the renewable energy programs.

Policy and Equity Considerations

San Francisco currently imposes a 7.5% tax on commercial utility users. Los Angeles currently has the highest rate in CA at 11%.

User fees are typically considered regressive because they take a larger percentage of income from low income groups than high income groups. The Controller's Office estimates that, with the green energy exemption, 66% of the new tax would be paid by commercial users and 34% would be paid by residential users.

UTTs do not influence transportation behavior in the way other revenue mechanisms such as direct parking or fuel charges can.