

Andrew Klein

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	AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Department of Finance
	SUBJECT	City Council Bill No.10-0470 Energy Tax

CITY of
BALTIMORE
MEMO



TO

DATE: April 19, 2010

Honorable President and
Members of the City Council
C/O Karen Randle
Room 409, City Hall

This bill proposes that nonprofit organizations be charged the commercial energy tax rate and that rates for all energy users be increased by 15 percent.

Analysis

Energy taxes are charged on a per unit basis and not on sales price. Energy taxes are levied on three categories in the City: residential, non-profit and commercial. In 2005, the per-unit rates for residential taxes were levied at 2% of the bill, non-profit organizations at 6%, and commercial enterprises at 8%. Since 2005, the per-unit rates have been incremented annually by the consumer price index. The City currently taxes four types of energy:

- a. *Gas*- The City imposes an excise tax on artificial or natural gas delivered in Baltimore City through pipes, wires, or conduits.
- b. *Electricity* - The City imposes an excise on electricity delivered in Baltimore City.
- c. *Fuel Oil* - The City imposes an excise tax on fuel oil sold, used, or consumed within the corporate limits of Baltimore City.
- d. *Steam* - The City imposes an excise tax on steam delivered in Baltimore City through pipes, wires or conduits.

The energy tax is broad based, generating significant revenue with a low rate. Furthermore, because the tax is based on energy usage, not on energy charges, tax bills do not fluctuate with energy prices. This results in a very stable revenue for the City. Finally, the tax promotes energy conservation. For residents, turning the thermostat down by one degree will more than offset the proposed rate increase.

The proposed rates would increase each of the user categories as follows:

- 2% for residential would become 2.3%
- 6% for non-profit organizations would become 9.2%
- 8% for commercial enterprises would become 9.2%

The City has estimated that the impact of the tax increase on a monthly residential bill of \$239 would be about \$0.60. Other scenarios of the tax impact are presented in the table below.



Citizen Impact of Increased Energy Tax			
	Residential	Nonprofit	Commercial
Current Rate	2%	6%	8%
Monthly Energy Bill	\$239	\$539	\$1,039
Distribution Fee	\$39	\$39	\$39
Monthly Bill*	\$200	\$500	\$1,000
Current Tax	\$4.00	\$30.00	\$80.00
Increase to Commercial Rate		\$10.00	
15% Increase	\$0.60	\$6.00	\$12.00
Total Increase/month	\$0.60	\$16.00	\$12.00
* This is based on energy usage only. Service and distribution charges are not taxed.			

Fiscal Impact

The Fiscal 2010 budget for the energy tax is \$9.9 million for gas, \$20.4 million for electric, \$0.6 million for fuel oil and \$0.9 million for steam. By increasing the rate by 15% for all users and taxing nonprofits at the commercial tax rate, the City projects \$8.16 million in additional revenues.

Energy Taxes Revenue Increase		
Rate	Nonprofit=COM	15% Increase
Electric	\$2,771,746	\$3,032,185
Gas	\$1,098,319	\$1,471,936
LPG	\$0	\$11,108
Fuel Oil	\$20,420	\$92,352
Steam	\$251,812	\$146,792
Total	\$4,142,297	\$4,754,372
Total (11 Months)	\$3,797,106	\$4,358,174

Recommendation

The Finance Department urges the passage of this rate increase as the additional revenue is needed to fill critical budget gaps for Fiscal 2011. This proposal is part of a \$50 million revenue package that shares the burden of new taxes and fees among residents, non-residents, businesses and nonprofit organizations. The new revenue will contribute to a comprehensive plan for closing the City's \$121 million budget gap. The plan closes 60% of the gap with spending reductions and 40% with revenue enhancements.

CC: Edward J. Gallagher
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