

Subject: DES- Residential Utility Tax Increase and Spending Recommendation

**FY 2018 Proposed Budget
Budget Work Session Follow-up**

4/10/2017

The following information is provided in response to a request made by Mr. Jay Fisette at the work session on 3/28/2017, requesting information on the Residential Utility Tax and how much funding would be generated by increasing the RUT and recommendations on how the County should spend the additional revenue generated.

The summary below outlines the Residential Utility Tax for electricity and natural gas and how Arlington’s tax rate structure compares to neighboring jurisdictions (table 1). Table 2 describes the additional revenue which would be generated at several levels above the current tax rate. The County Manager is not recommending an increase to this tax source at this time based on the proposed increase to the real estate tax rate of up to \$.02/\$100.

Table 1 below compares Arlington’s current residential utility tax rates and minimums to nearby jurisdictions in Northern Virginia. Arlington currently has the lowest electric utility rate per kilowatt hour and the second lowest rate per therm for natural gas. Arlington has structured its tax rate to incentivize utility savings by only applying the tax when usage exceeds a certain threshold. This structure also reduces the regressivity of the tax. Arlington is also the only jurisdiction to exclude a minimum monthly amount on utility consumers.

Table 1. Residential Utility Tax Rates and Monthly Minimums in Northern Virginia, FY 2017

Jurisdiction	Electricity				Natural Gas			
	Rate/kWh	Monthly Minimum	Monthly Max. (*)	kWh @max	Rate/therm	Monthly Minimum	Monthly Max. (*)	therms @ max
ARLINGTON	\$ 0.003410	\$ 0	\$ 3.00	1,280	\$ 0.030000	\$ 0	\$ 3.00	120
Alexandria	\$ 0.012075	\$ 1.12	\$ 3.00	156	\$ 0.124444	\$ 1.28	\$ 3.00	14
Fairfax County	\$ 0.006050	\$ 0.56	\$ 4.00	569	\$ 0.052590	\$ 0.56	\$ 4.00	65
Fairfax City	\$ 0.011360	\$ 1.05	\$ 2.25	106	\$ 0.057090	\$ 1.05	\$ 2.25	21
Loudoun County	\$ 0.006804	\$ 0.63	\$ 2.70	304	\$ 0.064850	\$ 0.63	\$ 2.70	32
Falls Church	\$ 0.007575	\$ 0.70	\$ 5.00	568	\$ 0.003900	\$ 0.70	\$ 5.00	1,103

(*) Fairfax County and the City of Falls Church have higher monthly maximum caps because their taxes were established prior to General Assembly legislation on the topic; their caps were grandfathered.

Subject: DES – Residential Utility Tax Increase and Spending Recommendation

Table 2 outlines estimated revenue from incremental increases up to the rates charged by Fairfax County. Fairfax has the second lowest electricity tax rate after Arlington, and the third lowest natural gas tax rate after the City of Falls Church and Arlington. Increasing Arlington’s tax rate to the level imposed by Fairfax County would generate an estimated \$935,000 more per year assuming Arlington maintains the policy of having no minimum monthly tax, exempting the first 400 kWh/month of electricity and 20 therms/month of natural gas usage. State code caps Arlington’s tax amount and most other jurisdictions at \$3/month per utility.

Assuming the Principles of Revenue Sharing remain in place for any change to this tax sources, the Schools would receive 46.6% of any additional revenue generated with a change in the tax revenue receipts. For example, increasing Arlington’s tax rate to the Fairfax County level would generate an additional \$435,710 for APS of the approximately \$935,000 generated.

Table 2. Estimated Revenue from Increased Residential Utility Tax Rates

Rates	Electricity tax rate (\$ per kWh)	Natural gas tax rate (\$ per therm)	Estimated Total revenue	Estimated Increased revenue	Percent increase in revenue (*)
Current rates	\$0.003410	\$0.030	\$1,750,000	--	--
20% increase	\$0.004092	\$0.036	\$2,030,000	\$280,000	16%
40% increase	\$0.004774	\$0.042	\$2,285,000	\$535,000	31%
60% increase	\$0.005456	\$0.048	\$2,500,000	\$750,000	43%
Fairfax County rates	\$0.006050	\$0.05259	\$2,685,000	\$935,000	53%

(*) Note: The percentage increase in revenue does not match the percentage increase in tax rate, due to the exemption for the initial 400 kWh/month of electricity and 20 therms of gas/month in Arlington, plus the cap of \$3/month per account per state law.