

Summary

Tax owners of large buildings for the emissions their buildings generate as a way to incentivize electrification and to invest in climate programs. We anticipate raising at least \$4 million/year, and potentially up to \$17 million/year.

Revenue

Building Owners Emissions Tax

The Berkeley Energy Saving Ordinance (BESO) is a buildings performance ordinance with audit requirements for buildings over 25,000 square feet. In other words, Berkeley has an existing ordinance on the books that requires owners of large buildings to submit data to the City about energy usage on a regular basis. Starting this year, this will extend to buildings over 15,000 square feet. We propose taxing the owners of such “medium” and “large” (as defined by the BESO) commercial and industrial buildings for the greenhouse gas emissions (GHG) that their buildings generate at a price of at least \$300/ton, indexed to CPI and increasing by 6% per year. Total GHGs would be based on actual utility meter data and would incorporate any emissions resulting from science-based upstream methane leakage rates. The \$300/ton rate is consistent across a range of social cost of carbon studies, but is not meant to reflect a specific cost as the field is constantly evolving and such estimates can be subjective.

Including residential buildings that fall under the BESO audit requirements would add about 40% to the expected revenues. Measure U1, which increased the business license tax on rental companies, explicitly prohibited pass-throughs. Assuming we can prohibit pass-throughs like Measure U1, including for rent-controlled units, then we should include residential buildings in the tax, which would bring estimated revenues to \$4-17 million. We could also exempt residential buildings with $\geq 50\%$ affordable units and residential buildings owned by non-profits.

We propose taxing owners for two reasons. First, because they are the ones in control of equipment and infrastructure decisions in the buildings, and second, because these are larger buildings, they are more likely to have a robust financial and capital planning process that would incorporate electrification organically, preserving precious subsidies for smaller residential units, small, locally owned commercial buildings, and single-family homes.

This mechanism is also currently under consideration for the ballot in San Francisco since it is a progressive tax, leverages existing city policy, and has a strong nexus with the proposed expenditures.

Revenue Table

Although the ranges are wide, we expect that revenues will likely come in towards the lower end of the range, given similar analysis in San Francisco:

Building Type	# of bldgs	Square Footage	Lower Bound Emissions (tons)	Lower Bound \$	Upper Bound Emissions (tons)	Upper Bound \$
Commercial + Industrial, >25k sqft	152	9,095,291	6,079	\$1,823,700	35,775	\$10,732,500
Residential + Mixed Use, >25k sqft	149	7,723,423	4,335	\$1,300,500	11,566	\$3,469,800
All Uses, 15k-25k sqft	296	5,741,145	3,012	\$903,600	11,577	\$3,473,100
Total	597	22,559,859		\$4,027,800		\$17,675,400

Statistics and Comparisons

1. Berkeley has 35,000 buildings. This would tax 597, which is just 1.7%.
2. At the low end, with a \$300/ton tax, the additional cost averages out to ~18 cents/square foot on average, which is in line with existing property tax rates (e.g. recent tax measures such as Measure FF), and small when compared to rents. For example, it is well below 1% on the commercial side for all classes of office real estate. On the residential side, and only if the increase can be passed through to tenants (which we intend to prohibit), this would be less than a 1% rent increase as long as rents were above \$1.5/square foot/month. Put another way, a 1200 square foot apartment would see a less than 1% cost increase as long as its rent was above \$1800/month.
3. Most of the largest residential buildings meeting this requirement are newer construction. 15,000 square foot buildings would typically contain at least 15 units. Moreover, it's a narrower reaching tax increase (both in \$\$ and reach) than Measure U1, which was previously supported by Berkeley Tenants Union, the Sierra Club, and more. U1 assessed a tax that amounts to 1.5-2x higher than this one, applying to landlords with 5 or more rental units. The means that U1 applies to more and smaller buildings, as well as some single family homes, duplexes, etc. The proposed building emissions tax hits none (or very few) of these buildings.

Expenditures

We propose allocating the revenues to the Fossil Fuel Free Berkeley Fund, to be created by this measure. The fund can be used as follows, after subtracting out up to 5% of the revenues to

pay for the administration of the tax. Each category should receive a percentage of the revenues as defined in this section.

The City Council would have the ultimate authority in allocating revenues, with advice provided from the:

- Facilities, Infrastructure, Transportation, Environment, & Sustainability Policy Committee
- Climate and Environment Commission
- Transportation Commission
- Public Works Commission

Transportation and Green Streets

Allocation: 30%

Funding to implement strategies for decarbonizing transportation and greening our streets, focusing on micro mobility, expanding pedestrian and bike infrastructure, and street tree planting. Secondly, this money can be used for EV and public transit related projects that are not substantially capital intensive, or pilots of such projects.

Building Decarbonization and Just Transition

Allocation: 30%

Projects and programs that decarbonize existing buildings and improve indoor/outdoor health and comfort, with an emphasis on programs that enforce labor standards, e.g. via prequalified contractors, and with a focus on environmental justice and low income communities who will be hit hardest by existing and projected natural gas prices.

Public Sector Climate Staffing

Allocation: 20%

Expanded staffing within OESD and across city departments to support the implementation of the Climate Action Plan, including technical assistance, and related roadmaps (e.g. Existing Buildings Electrification Strategy, Electric Mobility Roadmap, etc).

Climate Equity Action Fund

Allocation: 20%

This would provide an ongoing city funding source for the Climate Equity Action Fund, created as a pilot in 2021 to help implement programs related to climate equity in households at or below 50% AMI.