Subject: Commercial and Residential Electricity/Natural Gas Utility Tax
Related Department: DMF

FY 2026 Proposed Budget
Budget Work Session Follow-up

3/27/2025

The following information is provided in response to a request made by Mr. de Ferranti at the work session on March 13, 2025, regarding the following question:

Would it be possible to increase the commercial or residential electricity or natural gas utility taxes? Initial thoughts are on slight increases to the monthly residential maximum or increased commercial base rate. What kind of impact could this have, how much revenue would these changes generate, and do you have any thoughts? (VA Code 58.1-3814; County Code 63, et seq)

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Residential and commercial consumers of electricity and natural gas pay a utility tax to Arlington County. While the utility tax rate is set by Arlington County, the tax is collected by Washington Gas and Dominion as a line item on their utility bills to residents and businesses and then transmitted to the County. These taxes are consumption-based; any evaluation of rate structure changes requires significant data from Washington Gas and Dominion. This is different than the water-sewer utility rate where the County reads meters and retains all consumption data.

Residential Utility Tax:
Arlington County implemented a residential utility tax which was imposed on consumers of electricity and natural gas beginning in FY 2008; the rate was last updated in FY 2019. This tax is based on kilowatt hours (kWh) for electricity and hundred cubic feet (CCF) for natural gas delivered monthly to residential consumers. The first 400 kWh of electricity and the first 20 CCF of natural gas are excluded from taxation.

The current tax rate for residential consumers for electricity is $0.0111 /kWh for electricity and $1.0380 /CCF for natural gas. State code caps the tax on residential consumers at $3.00 per month for each utility. Based on typical usage by residential properties for electricity and natural gas, the adopted tax rates of $0.0111 /kWh for electricity and $1.0380 /CCF for natural gas effectively charge all consumers the maximum $3 per month per utility. At these rates, the total revenue projected from the residential utility tax in FY 2026 is $6.2 million.

State code § 58.1-3814 states "*The maximum amount of tax imposed on residential consumers as a result of the conversion shall be limited to $3 per month, except any locality that imposed a higher maximum tax on July 1, 1972, may continue to impose* *such higher maximum tax on residential consumers at an amount no higher than the maximum tax in effect prior to January 1, 2001, as converted to kilowatt hours."*

Commercial Utility Tax:
Arlington charges a utility tax on commercial users of electricity and natural gas. This tax has a monthly base fee of $1.15 plus $0.00681 /kWh for electricity and a base fee of $0.845 plus $0.06848 /CCF for natural gas. Rates were last increased in FY 2019. At these rates, the commercial utility tax is projected to generate $11.0 million in FY 2026.

Like residential customers, the state caps the amount of tax that a jurisdiction may impose. This cap is equal to 20 percent of the monthly amount charged. The County would need to work with Dominion Energy and Washington Gas to determine the level of taxation currently in place for customers to project the potential revenue increase available under the cap set by the state. Note that any change to the rates would require advertising prior to adoption.

State code § 58.1-3814 states "*Any county, city or town may impose a tax on the consumers of the utility service or services provided by any water or heat, light and power company or other corporations coming within the provisions of Chapter 26 (§ 58.1-2600 et seq.), which tax shall not be imposed at a rate in excess of 20 percent of the monthly amount charged to consumers of the utility service and shall not be applicable to any amount so charged in excess of $15 per month for residential customers."*

Areas to Consider:
In previous years, when the County increased residential and commercial utility tax rates, an effort was made, with help from Dominion and Washington Gas, to understand the impact on customers. For the commercial utility tax, the County worked with them to understand the largest users and the potential impact to the taxpayers. A list of the top 25 consumers in prior years included mostly office buildings but also several hotels, malls, and apartment buildings.

The research and analysis were completed over several months by gathering information from the Utilities, calculating and communicating impacts on users to senior leadership, and implementing the ordinance change through the budget process. Once the rate change was adopted, several months were required to inform the Utilities and have them update their billing system to properly apply the new rates to customer billing. If the rate structure impacted some, but not all, customers due to the state-imposed tax ceiling, the implementation of the billing change could take longer for the Utilities.