

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

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CHAIRMAN'S OFFICE

MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: DEC -2 2005

SUBJECT: Fiscal Impact Statement: "Second Smoke-Free Restaurant, Tavern, and Nightclub Incentive Amendment Act of 2005"

REFERENCE: Bill Number 16-453 as Introduced

Conclusion

Funds are not sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. The net fiscal impact of the proposed bill is estimated to be approximately \$920,000 for FY 2006 and \$3.39 million for the period of FY 2006 through FY 2009.

Background

Bill 16-453 would permit restaurants, taverns and nightclubs (including those located in hotels) to register with the District as "nonsmoking establishments" or as "smoking establishments." A nonsmoking establishment would be required to prohibit smoking throughout the establishment, including outdoor portions of the establishment. Smoking establishments could permit smoking in certain designated smoking sections as defined by the legislation.

Smoking and nonsmoking establishments must meet various requirements concerning the entire facility in the case of nonsmoking establishments, or the nonsmoking section or floor in the case of smoking establishments. These requirements include: posting of non-smoking signs, advising smoking persons to desist from smoking, denying service to individuals who continue to smoke, and, in the case of smoking establishments, installation and operation of high-performance air ventilation and filtering systems.

The bill provides several incentives for facilities to become nonsmoking establishments: D.C. business license fees for smoking establishments would be multiplied by four or by two, depending on the degree of isolation of the smoking section or room; special rules concerning employee rights would be applied to smoking establishments; two-year 25-percent credits or deductions for sales taxes collected by establishments would be available to establishments that become nonsmoking after Oct. 10, 2005; promotion by the District of nonsmoking establishments in internet listings, brochures displayed in hotels and other public places, window decals, and certificates of commendation. The bill also provides a one-year 25-percent tax credit or deduction based on sales tax collections for smoking establishments that restrict smoking to completely separate rooms or floors.

The bill provides fines for individuals who violate any of the rules of the act and for establishments that violate those rules. The bill also provides for suspension or revocation of business licenses of establishments that violate the bill's rules. The proceeds from the additional fines and fees collected would be placed in a new fund within the general fund; the amounts in that fund would be used first to reimburse the general fund for the losses from the sales tax credits and deductions and then to defray the costs of various non-smoking programs, including promotion of non-smoking establishments.

The bill provides that the District will conduct periodic inspections of facilities subject to the bill's rules, to verify compliance with those rules. For smoking establishments, the inspectors must be qualified to inspect ventilation systems. It requires the Mayor and the Chief Financial Officer to submit annual reports to the Council on the effects and economic impact of the bill.

Financial Plan Impact

Funds are not sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. The fines provided in the bill are high enough to assure high compliance with the ban and would, therefore, generate minimal revenue. The preponderant result in published econometric studies of the effects of smoking bans on overall sales tax revenue is that such effects are not significant.

The multiplication of license fees would generate revenue of about \$.33 million annually; the 25-percent tax credits or deductions would generate revenue losses of \$4.54 million over the first three fiscal years after enactment. The inspection requirement would increase District expenditures by less than \$100,000 per year and is not shown in the table below. For the four-year period, the bill would have a net negative impact on the financial plan of \$3.39 million.

The Honorable Linda W. Cropp

FIS: Bill Number 16-453, "Second Smoke-Free Restaurant, Tavern, and Nightclub Incentive Amendment Act of 2005"

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Impact to the Financial Plan					
(S in millions)					
	FY 2006	FY 2007	FY 2008	FY 2009	4 - Year Total
Revenue: Additional Fees	.16	.33	.33	.33	1.15
Revenue: Income Tax Deductions	(1.08)	(2.27)	(1.19)	0	(4.54)
Net Impact	(.92)	(1.94)	(.86)	.33	(3.39)