

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

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CHAIRMAN CROPP

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

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

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: DEC -6 2005

SUBJECT: Fiscal Impact Statement: "District of Columbia Smoking Restriction Amendment Act of 2005"

REFERENCE: Bill Number 16-293 – Amendment in the Nature of a Substitute

Conclusion

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation.

Background

The Amendment in the Nature of a Substitute prohibits smoking at an indoor restaurant dining table. It requires restaurants, taverns and nightclubs (including those located in hotels) that allow smoking on their premises to have, and to maintain in working order, high performance ventilation and air filtration systems, and to pay four times the otherwise applicable basic business license fee.

The amendment permits restaurants, taverns and nightclubs to allow smoking in designated portions of contiguous discrete outdoor areas of the establishments. Such designated outdoor smoking areas may contain no more than 75 percent of the total outdoor area of the establishment, and the smoking portion of the outdoor area must be separated from the nonsmoking portion by a distance of at least three feet. Taverns and nightclubs that permit smoking must designate at least 50 percent of the indoor area as nonsmoking.

The amendment provides fines for individuals who violate any of the rules of the act and for establishments that violate those rules. The amendment also provides for suspension or revocation of business licenses of establishments that violate the bill's rules, and for protection of rights of employees who work in establishments that permit smoking. The proceeds from the additional fines and fees collected would be placed in a new fund within the general fund. The

amounts in the new fund would be used first for administrative costs not to exceed 10 percent, for promotion of nonsmoking establishments, for the District's Tobacco Control Program, or for other smoking cessation programs.

The amendment provides that the Department of Health may conduct periodic inspections of facilities subject to the bill's rules, to verify compliance with those rules.

Financial Plan Impact

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. The fines provided in the amendment are expected to assure high compliance with the ban and would, therefore, generate little revenue. The preponderant result in published econometric studies of the effects of smoking restrictions on sales tax revenue is that such effects are insignificant.

The inspections permitted by the amendment can be conducted with currently available funds. The quadrupling of license fees would generate revenue of about \$2.42 million over the four-year period. The business expense deduction of the additional license fees and costs of the ventilation-filtration systems would reduce income tax revenue by about \$.59 million over the period. The net effect of the amendment would be a net increase of revenue about \$1.83 million.

Impact to the Financial Plan					
(\$ in millions)					
	FY 2006	FY 2007	FY 2008	FY 2009	4 - Year Total
Revenue: Additional Fees	0.35	0.69	.069	.069	2.42
Revenue: Income Tax Deductions	(0.08)	(0.17)	(0.17)	(0.17)	(0.59)
Net Impact	0.26	0.52	0.52	0.52	1.83