


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



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Vincent C. Gray  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer 

**DATE:** June 2, 2009

**SUBJECT:** Revised Fiscal Impact Statement – “Anacostia River Clean Up and Protection Act of 2009”

**REFERENCE:** Bill Number 18-150, Committee Print (Revised)

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**Conclusion**

Funds are sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The proposed legislation would result in an estimated positive fiscal impact of approximately \$3.6 million in FY 2010 and \$9.5 million over the FY 2010 through FY2013 budget and financial plan.

**Background**

The proposed legislation would ban the use of disposable non-recyclable plastic carryout bags, and require consumers to pay a five-cent fee for all other disposable recyclable plastic and paper carryout bags from all Retail Food Establishment license holders (including grocery stores, drug stores, and convenience stores) and Class A and Class B liquor stores.<sup>1</sup> Disposable paper bags used by restaurants for carryout food, however, would be exempt from the five-cent fee under the proposed legislation.<sup>2</sup> If enacted, the fee would be implemented 6 months from the effective date of the legislation.

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<sup>1</sup> “Retail establishment” is defined in the legislation as any licensee under the Department of Consumer and Regulatory Affairs (DCRA) Basic Business License category of Public Health: Food Establishment Retail licenses (D.C. Official Code Sec. § 47-2851.03(10)(j) or under an Alcoholic Beverage Regulation Administration off-premises retailer’s license, Class A or Class B. According to the DCRA database, there are approximately 4,000 Retail Food Establishment Licensees.

<sup>2</sup> The five-cent would not apply to disposable bags used by consumers to package bulk items; contain or wrap frozen foods, meat or fish; contain or wrap flowers or potted plants, or other items where dampness may be a problem; bags

Under the proposed legislation, retailers would retain one cent and the remaining four cents would be transmitted to the District, unless the retailer chooses to offer a carryout bag credit program to its customers. A carryout bag credit program would require retailers to credit consumers a minimum of five cents for each carryout bag provided by the consumer for packaging their purchase, regardless of whether the bag is paper or plastic. Retailers that offer such a program would be allowed to retain an additional cent, for total of two cents per bag. Retailers that fail to comply with the requirements of the proposed bill would be subject to a fine of \$100 for the first offense, and up to \$500 for the third and subsequent offenses in a calendar year. Revenue from the fines would be credited to the General Fund and used only for enforcement purposes.

All revenue generated from the fees would be deposited in the Anacostia River Clean Up and Protection Fund ("Fund"), a non-lapsing recurring fund, established by the proposed legislation. All revenue deposited in the Fund would be administered by the District Department of the Environment (DDOE) and used only for the purposes of cleaning and protecting the Anacostia River. The proposed legislation outlines several projects the Fund may be used for, including paying for the administration of the program.

At least 90 days prior to the effective date of the fee, the proposed legislation would require DDOE to:

- Conduct an "intensive public outreach campaign" to educate the public on the negative impact of disposable bags on water quality and the District's overall environmental health; and
- Conduct an outreach campaign that includes developing public-private partnership to provide reusable carryout bags to DC residents, and working with low-income service providers to distribute information and reusable bags to low-income households.

Finally, starting in tax year 2009, the proposed legislation would establish a voluntary tax check-off program for the Fund by providing tax filers with the option of making a voluntary donation of \$1 or more on the District's individual income tax return form against their income tax refunds.

### **Financial Plan Impact**

Funds are sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The proposed legislation would result in an estimated positive fiscal impact of approximately \$3.6 million in FY 2010 and \$9.6 million over the FY 2010 through FY 2013 budget and financial plan period.

It is estimated that the proposed five-cent fee would generate approximately \$3.6 million in revenue in FY2010 and \$9.6 million in additional revenue over the FY 2010 through FY 2013

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provided by pharmacists to contain prescription drugs; newspaper bags, door-hanger bags, laundry-dry cleaning bags, or bags sold in packages containing multiple bags intended for use as garbage, pet waster, or yard waster bags.

budget and financial plan.<sup>3</sup> It is important to note that the annual revenue estimates presented here are heavily driven by assumptions about consumer and firm behavior in response to the proposed fee. While many jurisdictions in the U.S. are considering similar legislation, no other jurisdiction has yet implemented a fee on disposable bags. Similar programs have been implemented by retailers in the U.S.<sup>4</sup> and other countries, allowing us to make a judgment about consumers' reactions to such fees in the initial year, but they reveal little out-year behavior since virtually all programs established in the U.S. have been just recently implemented. Therefore more uncertainty surrounds the revenue estimates presented for FY 2011, FY 2012 and FY 2013. It is reasonable to expect that as consumers and firms adjust to the new fee, out-year revenues would fall significantly, settling somewhere below the \$1 million mark.

The tax check-off program established by the proposed legislation would also have a positive impact on the budget and financial plan. It is difficult to estimate with certainty the revenue that would be generated as a result of the program; however the impact is likely to be modest.<sup>5</sup> It is possible that the proposed check-off program could generate an additional \$16,000 to \$32,000 annually; however, given the current economic environment, the amount could be even lower, as tax filers have less disposable income.<sup>6</sup> Because the proposed legislation specifies that the donations can only be made against refunds, they would not reduce the income tax collections.

Whatever the total revenues generated from the proposed legislation, appropriation authority will be required, and the funding allocated to the enumerated programs that would be supported by the Fund cannot exceed the revenues collected through the proposed fee program.

Finally, the costs of the outreach campaigns required by the proposed legislation can be absorbed by the DDOE.

The table below presents the estimated fiscal impact of B18-150.

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<sup>3</sup> It is assumed that the number of bags used in the District each year from grocery, drug, convenience, and liquor stores is approximately 270 million, and that the number of bags consumed by District residents would decline by 50 percent in the first year the fee is implemented.

<sup>4</sup> IKEA, for example, implemented a five-cent fee on plastic bags in 2007, resulting in a 90 percent reduction in consumer bag consumption.

<sup>5</sup> The District currently has two voluntary check-off programs, both of which generate modest amounts of revenue. The two check-off programs are the DC Statehood Delegation Fund and the Public Fund for Drug Prevention and Children at Risk.

<sup>6</sup> Many states offer voluntary tax check-off program for various causes, most commonly for political contributions, wildlife programs, and child abuse prevention. The average contribution level for wildlife programs and child abuse prevention programs, in 2002, was about \$10 and the average participation level was .09 percent. Therefore the potential additional revenue that could be generated as a result for the program assumes participation levels ranging from 1 percent to .5 percent, and an average contribution level of \$10. State tax check-off programs for political contributions are administered differently than other program and are slightly different in nature, and therefore don't offer as good a comparison. See Federation of Tax Administrators report titled "Check-off Programs See Strong Growth" available at <http://www.taxadmin.org/fta/rate/checkoff.html>.

<b>Estimated Fiscal Impact of B18-150 "Anacostia River Clean Up and Protection Act of 2009"</b>					
<b>FY 2010 through FY 2013</b>					
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>4 Year Total</b>
Total fees generated at 5¢ per bag	\$5,062,500	\$4,050,000	\$2,700,000	\$1,350,000	\$13,162,500
Retailer Revenue	\$1,215,000	\$972,000	\$648,000	\$324,000	\$3,159,000
District Revenue	\$3,847,500	\$3,078,000	\$2,052,000	\$1,026,000	\$10,003,500
Revenue loss as a result of slow start-up, evasion, other administrative hurdles	-\$192,375	\$0	\$0	\$0	-\$192,375
Revenue from Tax Check-Off	\$24,000	\$24,000	\$24,000	\$24,000	\$96,000
<b>Total District Revenue</b>	<b>\$3,679,125</b>	<b>\$3,102,000</b>	<b>\$2,076,000</b>	<b>\$1,050,000</b>	<b>\$9,907,125</b>
Compensation for one Compliance Officer	\$50,450	\$69,285	\$71,364	\$73,505	\$264,604
Non Personnel Costs	\$5,000	\$5,150	\$5,305	\$5,464	\$20,918
One-time Administrative Costs	\$50,000	\$0	\$0	\$0	\$50,000
<b>Total Expenditures</b>	<b>\$105,450</b>	<b>\$74,435</b>	<b>\$76,668</b>	<b>\$78,968</b>	<b>\$335,521</b>
<b>Positive Net Fiscal Impact</b>	<b>\$3,573,675</b>	<b>\$3,027,565</b>	<b>\$1,999,332</b>	<b>\$971,032</b>	<b>\$9,571,604</b>

**Table Notes:**

<sup>a</sup> It is estimated that approximately 270 million disposable bags (paper and plastic) from grocery, convenience, drug stores and liquor stores are consumed in the District annually. This estimate is based on an estimate of the number of bags consumed in city of Seattle in 2008. In 2008, it is estimated that Seattle consumers used 360 million disposable bags, and that 73 percent of disposable bags were consumed in grocery, convenience, and drug stores. The same is assumed for the District, plus an additional 2 percent to account for bags at liquor stores, which are included in the proposed legislation. There are no reliable data on the number of disposable bags used in the District annually. Given the city of Seattle and the District of Columbia are similar sized cities, it is reasonable to use this estimate as a proxy for the District. Available at

[http://www.seattle.gov/util/Services/Recycling/Reduce, Reuse & Exchange/ProposedGreenFee/](http://www.seattle.gov/util/Services/Recycling/Reduce,_Reuse_&_Exchange/ProposedGreenFee/)

<sup>b</sup> There is a lot of uncertainty as to how the five-cent fee will impact consumer behavior. This fiscal impact analysis assumes a 50 percent reduction in plastic bag use in the first year. This assumption is based on experience from other places that have implemented similar fees. Ireland implemented a 24¢ fee and experienced a 90 percent reduction in plastic bag usage within a year. It is unlikely, however, that the District would see a 90 percent reduction in the first year, given that the proposed five-cent fee is notably lower. The Seattle study prepared by Herrera Environmental Consultants estimated that if the city of Seattle imposed a 10¢ fee on disposable bags, they could expect to see 60 percent reduction in disposable bag consumption. Similarly, Denmark's indirect tax of 12¢ on paper bags and 3¢ on plastic bags resulted in a 66 percent reduction in usage. Given that the District's fee is lower than all but one of the aforementioned cases, the assumption of a 50 percent reduction in plastic bag usage in the first year is reasonably conservative. The implication of this assumption is that households would reduce their weekly plastic bag consumption from 20 to 10.

<sup>c</sup> It is assumed that total consumption of plastic bags would continue to decline through the financial plan period, partly reflecting the possibility that over time some companies might choose to altogether stop offering plastic bags. IKEA, a specialty furniture store, for example, experienced a 92 percent reduction in plastic bag usage in the first year of the implementation of bag-for-a-fee policy and at the end of the year ceased offering plastic bags altogether. It is assumed that disposable bag consumption would continue to decline by 70 percent in FY 2011, 80 percent in FY 2012, and 90 percent by FY 2013.

<sup>d</sup> It is assumed that the program is implemented three months into the start of the FY 2010, thus revenues and costs are prorated.

<sup>f</sup> It is assumed that 20 percent of all disposable bags are distributed by retailers that offer a customer credit program, as outlined in the proposed bill.

<sup>g</sup> The U.S. average contribution level for wildlife programs and child abuse prevention programs, in 2002, was about \$10 and the average participation level was .09 percent. Therefore the potential additional revenue that could be generated as a result of the program assumes participation levels ranging from 1 percent to .5 percent, and an average contribution level of \$10.

<sup>h</sup> It is estimated the District would need at least one inspector to verify retailer compliance. This is based on expected staff needs for Seattle and Maryland to implement similar legislation. Seattle estimated needing one inspection officer for compliance and Maryland estimated needing two field auditors. Given the District is similar in size to Seattle; it is also assumed one inspector would be needed for compliance enforcement. The cost of the additional employee is based on the average compensation (salary and fringe benefits) of an inspector (Grade 11, step 5) within the Department of Consumer and Regulatory Affairs.

<sup>i</sup> It is assumed that there is a 3 percent cost-of-living-adjustment in FY 2011 through FY 2013; however, the proposed FY 2010 budget freezes employee pay raises for District employees, with some exceptions. If the salary freeze is enacted as part of the FY 2010 through FY 2013 budget and financial plan, the 3 percent increase would not be needed.

<sup>j</sup> The Office of Tax and Revenue would expect one-time start-up costs associated with implementing the proposed legislation. If implemented on January 1, 2010, administrative costs are expected to be \$50,000 for all the programming and forms changes because the changes can be done concurrently with other similar changes. However, if the bill becomes operative at some other time, programming/testing costs are estimated at \$125,000, plus an addition \$10,000 for supplemental forms and mailings.