

**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: MAY 14 2009

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

REFERENCE: Bill Number 18-150, As Introduced

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 on all Retail Food Establishment license holders (including grocery stores, drug stores, and convenience stores) and Class A & B liquor stores.¹ Disposable paper bags used by restaurants for carryout food, however, would be exempt from the five-cent fee under the proposed legislation.² If enacted, the fee would be implemented 6 months from the effective date of the legislation.

¹ “Retail establishment” is defined in the legislation as any licensee under the Department of Consumer and Regulatory Affairs 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 B. According to the DCRA database, there are approximately 4,000 retail food establishment licensees.

² The introduced version of B18-150 does not exempt restaurants that use paper bags for carryout; however, the Council Committee has confirmed that this change has been made in the proposed legislation.

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 sold. 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 to the fund would be administered by the District Department of the Environment and used only for the purposes of cleaning and protecting the Anacostia River. The proposed legislation outlines several projects the funds may be used for, including paying for the administration of the program.

Finally, under the proposed legislation, at least 90 days prior to the effective date of the fee, DDOE would be required 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.

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 \$9.5 million over the FY 2010 through FY 2013 budget and financial plan.

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 US³ and other countries, allowing us to make a judgment about customers' reactions to such fees in the initial year, but they reveal little out-year behavior since virtually all programs have been just recently implemented. Therefore more uncertainty surrounds revenue estimates

³ IKEA, for example, implemented a five-cent fee on plastic bags in 2007, resulting in a 90 percent reduction in consumer bag consumption.

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.

Whatever these revenues might be, appropriation authority will be required and the funding allocated to the enumerated programs that would be supported by the Anacostia River Clean Up and Protection Fund cannot exceed the revenues collected through the proposed fee program.

The costs of the outreach campaigns required by the proposed legislation can be absorbed by the Department of Environment.

Table 1 below presents the detail calculation of the fiscal impact of B18-150.

| Table 1 -Estimated Fiscal Impact of B18-150 "Anacostia River Clean Up and Protection Act of 2009" FY 2010-FY 2013 | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|---------------------|
| | FY2010 | FY2011 | FY2012 | FY2013 | 4 Year Total |
| Number of bags used in District of Columbia per year (all retail) ^a | 360,000,000 | 360,000,000 | 360,000,000 | 360,000,000 | 1,440,000,000 |
| Share of bags used in grocery, drug, convenience, and liquor stores ^b | 75% | 75% | 75% | 75% | |
| Number of disposable bags used in grocery, drug, convenience, and liquor stores | 270,000,000 | 270,000,000 | 270,000,000 | 270,000,000 | 1,080,000,000 |
| Disposable bag reduction based on consumer behavior ^{cd} | 50% | 60% | 70% | 80% | |
| Number of disposable bags sold in grocery, drug, convenience, and liquor stores | 135,000,000 | 81,000,000 | 27,000,000 | 27,000,000 | 270,000,000 |
| Total bag fees generated @ \$.05 per bag ^e | \$5,062,500 | \$4,050,000 | \$2,700,000 | \$1,350,000 | \$13,162,500 |
| Retailer Revenue ^f | \$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 |
| Percent lost to slow start-up, evasion, other administrative hurdles | 5% | 0% | 0% | 0% | |
| Revenue loss as a result of slow start-up, evasion, other administrative hurdles | \$192,375 | \$0 | \$0 | \$0 | \$192,375 |
| Total District Revenue | \$3,655,125 | \$3,078,000 | \$2,052,000 | \$1,026,000 | \$9,811,125 |
| Compensation for one compliance officer ^{e,g} | \$50,450 | \$69,285 | \$71,364 | \$73,505 | \$264,604 |
| Non personnel costs ^h | \$5,000 | \$5,150 | \$5,305 | \$5,464 | \$20,918 |
| One-time administrative costs ⁱ | \$50,000 | \$0 | \$0 | \$0 | \$50,000 |
| Total Expenditures | \$105,450 | \$74,435 | \$76,668 | \$78,968 | \$335,522 |
| Positive Net Fiscal Impact | \$3,549,675 | \$3,003,565 | \$1,975,332 | \$947,032 | \$9,475,603 |

Table Notes

^a The number of disposable bags (paper and plastic) used in the District annually is based on an estimate for the number of bags consumed in city of Seattle in 2008. 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/)

^b It is estimated that grocery, convenience and drug stores are responsible for 73 percent of disposable bags in Seattle. The same is assumed for the District, plus an additional 2 percent to account for the liquor stores, which are included in the proposed legislation. The proposed legislation exempts disposable paper bags used by restaurants for carryout food; this analysis excluded restaurants because based on the initial response to the proposed bill from various restaurants in the city, it is assumed restaurants that do use plastic will switch to paper to avoid the fee.

^c 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 34¢ 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.

^d 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.

^e It is assumed that the program is implemented three months into the start of the Fiscal Year in 2010, thus revenues and costs are prorated for this year.

^f 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.

^g 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.

^h It is assumed that there is a 3 percent cost-of-living-adjustment in FY2011 - FY2013; however, the proposed FY2010 budget freezes employee pay raises for District employees, with some exceptions. If the salary freeze is enacted as part of the FY2010-FY2013 budget and financial plan, the 3% increase would not be needed.

ⁱ 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.