

Multiple Agency Fiscal Note Summary

Bill Number: 1975 HB	Title: Sugar beverages tax
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Estimated Cash Receipts

Agency Name	2017-19		2019-21		2021-23	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(5,206,000)	85,478,000	(7,208,000)	120,722,000	(7,053,000)	120,797,000
Total \$	(5,206,000)	85,478,000	(7,208,000)	120,722,000	(7,053,000)	120,797,000

Estimated Expenditures

Agency Name	2017-19			2019-21			2021-23		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Joint Legislative Audit and Review Committee	.7	166,000	166,000	.0	0	0	.0	0	0
Department of Revenue	.4	72,400	72,400	.2	33,800	33,800	.2	33,800	33,800
Total	1.1	\$238,400	\$238,400	0.2	\$33,800	\$33,800	0.2	\$33,800	\$33,800

Estimated Capital Budget Impact

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

<http://www.ofm.wa.gov/tax/default.asp>

Prepared by: Kathy Cody, OFM	Phone: (360) 902-9822	Date Published: Final 2/ 9/2017
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 47078

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 1975 HB	Title: Sugar beverages tax	Agency: 014-Joint Legislative Audit and Review Committee
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Part I: Estimates

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No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	1.2	0.1	0.7	0.0	0.0
Account					
General Fund-State 001-1	154,100	11,900	166,000	0	0
Total \$	154,100	11,900	166,000	0	0

Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

<http://www.ofm.wa.gov/tax/default.asp>

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

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If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

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If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐

Capital budget impact, complete Part IV.

☐

Requires new rule making, complete Part V.

Legislative Contact: Tracey OBrien	Phone: 360-786-7152	Date: 02/03/2017
Agency Preparation: Valerie Whitener	Phone: 360 786-5191	Date: 02/08/2017
Agency Approval: John Woolley	Phone: 360 786-5184	Date: 02/08/2017
OFM Review: Derek Rutter	Phone: (360) 902-0409	Date: 02/08/2017

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The bill states the purpose of the act is to add a tax on sugar-sweetened and diet beverages, depositing the funds collected 50% to the public health supplemental account, and 50% to the education legacy trust fund. Sec. 9 of the bill directs a JLARC performance audit.

JLARC is to evaluate the impact of the sugar-sweetened and diet beverage tax on the consumption of such beverages by Washington residents. The audit must include reviews of:

- Consumption by residents before and after the tax.
- Any relevant health data.
- The amount of revenue collected.
- How the funds were spent.

The audit is due to the legislature by December 31, 2022, with updates to the report due to the legislature every biennium thereafter.

SUMMARY OF BILL:

Sec. 1: Legislative intent finding that both children and adults in the U.S. are eating and drinking added sugar in excess of the daily-recommended amount, and that almost half are consumed from sugary drinks.

Sec. 2: Defines beverages, including beverages for medical use, diet and sugar-sweetened beverages, sweeteners and powders.

Sec. 3: Tax on sugar-sweetened beverages made by a distributor in the state, 2 cents per fluid ounce.

Sec. 4: Tax on diet beverages made by distributor in this state, 2 cents per fluid ounce.

Sec. 5: Exemptions of beverages including those made with milk, for medical use, and infant formulas.

Sec. 6: Distribution of funds: 50% to public health supplemental account; and 50% in education legacy trust.

Sec. 7: Repeal of existing syrup tax and tax preference credit against the tax.

Sec. 8: Directs the Department of Revenue to administer the act.

Sec. 9: Directs the JLARC analysis, and ongoing reporting.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

On passage of the bill, JLARC staff will coordinate with the departments of Health and Revenue, conduct a literature review, and work with expert consultants to:

- Identify methodologies to conduct the analysis.
- Determine what data is needed to conduct the analysis.
- Determine what data is available to conduct this review.

At a minimum, data needs will likely include:

- Baseline health and consumption data for the cohorts identified in the legislative intent statement.

- Relevant health impact analyses prepared by DOH.
- Revenue data for sugary and diet soda beverages.

JLARC will issue an interim report in 2018 on a potential study approach and data requirements. The potential study approach will include a cost estimate for the 2022 analysis and the reports due every two years after the 2022 report.

This fiscal note reflects staff costs associated with developing the study approach and issuing the interim report. It does not include costs to conduct the audit in 2022 or ongoing reports every two years.

JLARC estimates its costs to be divided between a) JLARC staff costs, and b) the costs associated with engaging external experts to assist JLARC staff in completing its assignment.

a) JLARC estimates its costs based on audit months (approximately \$16,000 per audit month). JLARC estimates it will take 10 audit months to complete the assignment required by this bill.

b) Consultant Costs: JLARC anticipates engaging consultant(s) to assist in developing study methodologies. We estimate consultant costs of \$10,000.

JLARC assumes comparable consultant efforts and costs made available for previous studies, and estimated costs reflect JLARC's recent experience in contracting with external entities for similar work.

JLARC ASSUMES THAT THE ASSIGNMENT IN THIS PROPOSED BILL MAY REQUIRE ADDITIONAL RESOURCES. JLARC WILL ASSESS ALL OF THE ASSIGNMENTS MANDATED IN THE 2017 LEGISLATIVE SESSION. BASED ON ALL LEGISLATION THAT IS PASSED, JLARC MAY SUBSEQUENTLY DETERMINE THAT IT CAN ABSORB THE COSTS FOR THIS PROPOSED BILL IN ITS BASE BUDGET, IF THE WORKLOAD OF OTHER ENACTED LEGISLATION DOES NOT EXCEED CURRENT STAFFING LEVELS.

HOWEVER, ADDITIONAL RESOURCES TO COVER CONSULTANT COSTS OF \$10,000 WOULD NEED TO BE PROVIDED.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2017-19 costs are calculated at approximately \$16,000 per audit month.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	1.2	0.1	0.7		
A-Salaries and Wages	95,900	8,000	103,900		
B-Employee Benefits	30,400	2,500	32,900		
C-Professional Service Contracts	10,000		10,000		
E-Goods and Other Services	16,100	1,300	17,400		
G-Travel	1,700	100	1,800		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	\$154,100	\$11,900	\$166,000	\$0	\$0

III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2018	FY 2019	2017-19	2019-21	2021-23
Research Analyst	95,283	0.8	0.1	0.5		
Support staff	65,053	0.4		0.2		
Total FTE's	160,336	1.2	0.1	0.7		0.0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 1975 HB	Title: Sugar beverages tax	Agency: 140-Department of Revenue
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Part I: Estimates



No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2018	FY 2019	2017-19	2019-21	2021-23
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	1,845,000	4,380,000	6,225,000	8,617,000	8,429,000
GF-STATE-State 01 - Taxes 37 - Syrup (Soda) Tax	(3,388,000)	(8,043,000)	(11,431,000)	(15,825,000)	(15,482,000)
Education Legacy Trust Account-State 00 - 00 -	13,340,000	32,002,000	45,342,000	63,965,000	63,925,000
Public Health Supplemental Account-State 00 - 00 -	13,340,000	32,002,000	45,342,000	63,965,000	63,925,000
Total \$	25,137,000	60,341,000	85,478,000	120,722,000	120,797,000

Estimated Expenditures from:

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	0.5	0.2	0.4	0.2	0.2
Account					
GF-STATE-State 001-1	54,700	17,700	72,400	33,800	33,800
Total \$	54,700	17,700	72,400	33,800	33,800

Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

<http://www.ofm.wa.gov/tax/default.asp>

Request # 1975-1-1

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Tracey OBrien	Phone: 360-786-7152	Date: 02/03/2017
Agency Preparation:	Beth Leech	Phone: 360-534-1513	Date: 02/08/2017
Agency Approval:	Don Gutmann	Phone: 360-534-1510	Date: 02/08/2017
OFM Review:	Kathy Cody	Phone: (360) 902-9822	Date: 02/08/2017

Request # 1975-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill taxes the first sale of prepackaged sugar sweetened and diet beverages made by a distributor in this state at the rate of 2 cents per fluid ounce. If there is a comparable tax imposed by a local jurisdiction in the state, there must be a credit against the amount due under this bill equal to the local tax paid by the distributor. A refund is allowed only if the local rate is less than the rate imposed by this bill.

The following items are exempt from this new tax:

- Beverages with milk as the principal ingredient
- Beverages for medical use
- Liquids sold for use as meal replacements
- Infant formulas
- Sweetened medications
- One hundred percent natural vegetable and fruit juices
- Alcoholic beverages
- Syrups and diet syrups intended for home use

Fifty percent of the funds collected must be deposited into the public health supplemental account and fifty percent deposited into the education legacy trust fund.

This bill also repeals the syrup tax statutes of RCW 82.64. Under current law syrup used in making carbonated beverages is taxed at the first sale in the state, which is to either the wholesaler or retailer, at the rate of \$1 per gallon.

The Joint Legislative Audit and Review Committee (JLARC) must evaluate the impact of this new tax on consumption of affected beverages in the state, providing a report to the Legislature by December 31, 2022 and ever biennium thereafter.

This bill takes effect on January 1, 2018.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS

- Washington consumers of sugary and diet beverages typify U.S. consumers of sugary and diet beverages.
- The price elasticity of demand for sugary and diet beverages is equal to the average of the elasticities found in all studies as of the making of this estimate: 0.945
- Washington sugary and diet beverage consumption is 1.9 percent of that of the U.S.
- Fiscal year data is similar to Calendar year data.
- Dairy based beverages are not included in this estimate.
- 30 percent of juice drinks are considered to be 100 percent natural.

DATA SOURCES

- Beverage Digest Fact Book 2016
- Various economic studies regarding price elasticity of demand for carbonated beverages
- Department of Revenue syrup tax data

REVENUE ESTIMATES

This bill increases state revenues by an estimated \$25.1 million in the 5 months of impacted collections in Fiscal Year

2018, and by \$60.3 million in Fiscal Year 2019, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2018 -	\$ 25,137
FY 2019 -	\$ 60,341
FY 2020 -	\$ 60,354
FY 2021 -	\$ 60,368
FY 2022 -	\$ 60,387
FY 2023 -	\$ 60,410

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

5,800 taxpayers will be affected by this legislation.

FIRST YEAR COSTS:

The Department of Revenue (Department) will incur total costs of \$54,700 in Fiscal Year 2018. These costs include:

Labor Costs - Time and effort equates to 0.5 FTE.

- Set up, program and test computer systems for a new quantity reporting line, a new credit for similar tax paid to local jurisdictions and associated return processing and system indicator codes.
- Resolve additional error and out of balance and amended returns, conduct account examinations, respond to secure messages and correspondence, answer telephone questions, monitor reports and assist taxpayers with reporting.
- Additional time required for routine field audits of taxpayers reporting the new tax and credit.
- Adopt one new administrative rule.

Object Costs - \$3,700.

- Print and mail a special notice to affected taxpayers.

SECOND YEAR COSTS:

The Department will incur total costs of \$17,700 in Fiscal Year 2019. These costs include:

Labor Costs - Time and effort equates to 0.2 FTE.

- Additional time required for routine field audits of taxpayers reporting the new tax and credit.

ONGOING COSTS:

Ongoing costs for the 2019-2021 Biennium equal \$33,800 and include similar activities described in the second year costs.

Time and effort equates to 0.2 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	0.5	0.2	0.4	0.2	0.2
A-Salaries and Wages	31,800	10,600	42,400	21,200	21,200
B-Employee Benefits	9,500	3,200	12,700	6,400	6,400
E-Goods and Other Services	9,500	2,200	11,700	4,000	4,000
G-Travel	400	700	1,100	1,400	1,400
J-Capital Outlays	3,500	1,000	4,500	800	800
Total \$	\$54,700	\$17,700	\$72,400	\$33,800	\$33,800

III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2018	FY 2019	2017-19	2019-21	2021-23
ADM ASST 5	49,308	0.0		0.0		
EMS BAND 4	108,926	0.0		0.0		
EMS BAND 5	127,250	0.0		0.0		
EXCISE TAX EX 4	58,548	0.2		0.1		
HEARINGS SCHEDULER	34,284	0.0		0.0		
IT SPEC 5	73,140	0.1		0.1		
REVENUE AUDITOR 2	53,016	0.1	0.2	0.2	0.2	0.2
TAX POLICY SP 2	64,620	0.0		0.0		
TAX POLICY SP 3	73,140	0.1		0.0		
TAX POLICY SP 4	78,732	0.0		0.0		
Total FTE's	720,964	0.5	0.2	0.4	0.2	0.2

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the standard rule-making process to adopt one new rule under chapter 458-20 WAC. Persons affected by this rule-making would include distributors of prepackaged sugar sweetened and diet beverages.