

FISCAL IMPACT FOR INITIATIVE 1107

Over five fiscal years, the initiative reduces State General Fund revenues by an estimated \$352 million and state performance audit revenue by an estimated \$359,000. Revenue for local jurisdictions authorized to impose a sales tax is reduced by \$83 million over five fiscal years. Taxpayer noncompliance and confusion could result in additional state and local government revenue decreases up to \$8.7 million and \$1.8 million, respectively, in fiscal year 2011. Net state costs to administer the tax revisions are \$98,200 over five fiscal years.

GENERAL ASSUMPTIONS

- Estimates are based on information provided by state agencies during the 2010 legislative session for Second Engrossed Substitute Senate Bill 6143 (2ESSB 6143) and updated to the June 2010 Washington State Economic and Revenue Forecast.
- Estimates are described using the state's fiscal year (FY) 2012 (July 1, 2011, through June 30, 2012).
- Estimates exclude approximately \$273,000 in costs already incurred to implement 2ESSB 6143.

STATE AND LOCAL REVENUES – ASSUMPTIONS

State revenues are estimated to decrease by \$352 million over five fiscal years as described below. State revenues deposited in the State General Fund may be used for any government purpose such as education services; social, health and environmental services; and other general government activities. State revenues deposited in the State Performance Audit Account are used by the Washington State Auditor to conduct comprehensive performance audits required under RCW 43.09.470.

Local revenue is estimated to decrease by \$83 million over five fiscal years for local jurisdictions that are authorized to impose a sales tax. An estimated 373 local jurisdictions, such as counties, cities and transit districts, are authorized to impose a sales tax. Local sales tax revenue must be spent as allowed by state law.

State and local revenue estimates are based on the following data sources and assumptions:

- The initiative is effective December 2, 2010.
- Price elasticity is 0.9 for candy, gum, bottled water and carbonated beverages.
- Sales tax on candy – State consumption and sales data of candy and gum are from the National Confectioners Association and the U.S. Department of Commerce.
- Sales tax on bottled water – State consumption and sales data are from the 2008 Beverage Digest Fact Book. Fiscal impact ends on June 30, 2013, when the tax is scheduled to expire.
- Excise tax on carbonated beverages – State consumption and sales data are from the 2008 Beverage Digest Fact Book and additional information is from industry resources. Fiscal impact ends on June 30, 2013, when the tax is scheduled to expire.
- Food processors business and occupation (B&O) tax – Washington State Department of Revenue excise tax return data.
- Local revenues are a statewide estimate based on the assumption of a statewide average local tax rate of 2.392 percent.

Total State and Local Revenues

Fiscal Year	2011	2012	2013	2014	2015
Total State General Fund	(\$54,779,000)	(\$107,825,000)	(\$109,743,000)	(\$42,676,000)	(\$36,943,000)

Total State Performance Audit Account	(\$47,000)	(\$100,000)	(\$104,000)	(\$56,000)	(\$52,000)
Total Local Revenue	(\$10,662,000)	(\$23,369,000)	(\$24,136,000)	(\$12,887,000)	(\$11,946,000)

Below are total State General Fund and local government revenue impacts by tax type. Revenues are adjusted to reflect the effect of price elasticity on carbonated beverages if the excise tax is eliminated. Carbonated beverage consumption is assumed to increase, resulting in increased estimated state and local government retail sales tax, and state B&O tax collections.

General Fund Revenue by Tax Type – STATE

Fiscal Year	2011	2012	2013	2014	2015
Sales Tax on Candy	(\$15,191,000)	(\$31,250,000)	(\$31,686,000)	(\$32,114,000)	(\$32,530,000)
Sales Tax on Bottled Water	(\$16,083,000)	(\$33,768,000)	(\$35,355,000)	(\$3,086,000)	\$0
Excise Tax on Carbonated Beverages	(\$23,064,000)	(\$41,449,000)	(\$41,200,000)	(\$3,413,000)	\$0
Food Processors B&O Tax	(\$1,932,000)	(\$4,028,000)	(\$4,165,000)	(\$4,284,000)	(\$4,413,000)
Revenue Adjustment - Carbonated Beverage Price Elasticity	\$1,491,000	\$2,670,000	\$2,663,000	\$221,000	\$0
Total State General Fund Revenue Impact	(\$54,779,000)	(\$107,825,000)	(\$109,743,000)	(\$42,676,000)	(\$36,943,000)

Revenue by Tax Type – LOCAL

Fiscal Year	2011	2012	2013	2014	2015
Sales Tax on Candy	(\$5,579,000)	(\$11,476,000)	(\$11,636,000)	(\$11,793,000)	(\$11,946,000)
Sales Tax on Bottled Water	(\$5,593,000)	(\$12,810,000)	(\$13,412,000)	(\$1,170,000)	\$0
Revenue Adjustment - Carbonated Beverage Price Elasticity	\$510,000	\$917,000	\$912,000	\$76,000	\$0
Total Local Revenue Impact	(\$10,662,000)	(\$23,369,000)	(\$24,136,000)	(\$12,887,000)	(\$11,946,000)

Initiatives take effect 30 days after the General Election, which is December 2, 2010. Based on the state's experience with the repeal of the Motor Vehicle Excise Tax, it is noted that many taxpayers assume taxes are repealed when election results are announced. Therefore, approval of the initiative could increase non-compliance with payment of tax, which would result in further decreased revenue to the state and to local governments. One month of state and local government tax receipts, representing taxable activity from November 2, 2010, to December 2, 2010, is estimated to be \$8.7 million and \$1.8 million, respectively, assuming a 100 percent non-compliance rate.

STATE AND LOCAL COST ESTIMATE – ASSUMPTIONS

An estimated 207,700 businesses are affected by the tax revisions. The Washington State Department of Revenue will incur one-time costs during FY 2011 in the amount of \$204,600 to notify businesses of the repealed taxes. Thereafter, costs to implement the taxes are netted against costs avoided from repealing the taxes. This results in net savings during FYs 2013–2015, as shown below in parentheses.

Fiscal Year	2011	2012	2013	2014	2015
Department of Revenue	\$204,600	\$10,300	(\$71,900)	(\$22,100)	(\$22,100)

Because the Washington State Department of Revenue administers and collects local sales tax, no costs or cost savings are assumed for local governments.