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	SUBJECT	City Council CCB 14-0372 – Plastic Bag Surcharge

CITY of
BALTIMORE
MEMO



DATE: May 12, 2014

TO Honorable President and
Members of the City Council
C/O Karen Randle
Room 409, City Hall

City Council Bill 14-0372 – Plastic Bag Surcharge places a surcharge on various distributions of plastic bags at the rate of \$0.05 per bag.

Analysis

This tax will reduce the use of petroleum in the production of the bags; reduce landfill usage and eliminate litter on both land and in the bay. The US utilizes 100 billion plastic bags a year or 324 bags per person (Wall Street Journal 6/12//09). Several local governments such as Montgomery County, Md., Washington, D.C., and Toronto have implemented grocery bag taxes, while San Francisco and San Jose have prohibited the use of plastic bags altogether.

Experience in Ireland, which implemented a \$0.15 cents per bag levy, was on the extreme side, with an initial reduction of 93.6% in grocery bag usage when their bag surcharge was enacted. This initial reduction from an estimated 328 bags per capita down to 21 bags per capita lasted for several years, but eventually began to creep back up. In July of 2007 Ireland increased the levy to \$0.22 cents per bag when the per capita usage had crept back up to 31. The aim of the increase was to return the per capita usage to 21 or lower.0

Similarly, Washington, D.C. implemented a \$0.05 cents per bag tax in Fiscal 2010, bringing in \$1.5M (9 Months) in revenue. In the following two full years the city raised \$1.8M in revenue for Fiscal 2011 and \$1.6M in revenue for Fiscal 2012. A study of Washington, DC's bag tax by the Beacon Hill Institute found that with 80% compliance, bag usage was reduced between 61-67%. Currently, Washington is experiencing the "Rebound Effect" where bag usage begins to increase as residents become accustomed to the rate. Sensitivity/elasticity analysis indicates Washington D.C. will need to raise the rate to \$0.08 cents in the next year to retain existing levels of bag usage reductions.

This tax is an avoidable tax designed to change citizen behavior. As noted above, studies have shown that plastic bag usage is reduced by 60-75% when a fee is imposed on the bag. Secondary advantages accrue from this tax in that it corrects a negative externality created when plastic bags are improperly discarded and find their way into streets, storm sewers, rivers, landfills, and harbors. The social cost of the negative externality, cleaning up the bag refuse, is offset by the tax resulting in a better approximation of the full cost of using plastic bags.

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The tax is horizontally equitable but when behavior is not modified the tax tends to be regressive, placing a heavier burden on lower income citizens than higher income citizens. This bill, unlike previous versions which substantially negated the regressive nature of the tax by exempting WIC recipients and other participants in low income programs, does nothing to address the inherently regressive nature of the tax.

The tax also places an additional burden on retailers who are required to collect the tax. In the District of Columbia, retailers are given \$0.01 of the \$0.05 tax to cover administration costs. The current proposed legislation would provide \$0.015 cents of each \$0.05 cents collected to the retailer.

Finally, the Beacon Hill Institute reported minor negative economic impacts related to the Washington, DC bag tax. Estimates for the citizens of Baltimore suggest that at current consumption rates of 324 bags per year, the average citizen would be charged \$16.20 annually. This translates to approximately \$40.50 per year for the average household, and these estimates are before any behavior changes are included.

Fiscal Impact

The Department of Finance estimates that passage of the Plastic and Paper Bag Surcharge at \$0.05 cents per bag will generate approximately \$1.5 million in general fund revenue in the first year. However, the Department also anticipates spending \$450,000 to administer the new tax, including personnel and information technology costs. Accordingly, the net revenue to the City of Baltimore in the first year would be approximately \$1.05 million.

This amount is expected to remain fairly constant over the first several years of the tax, as decreases in administrative costs in those years beyond year one will be offset by decreases in compliance.

Recommendation

The department does not oppose an initial tax rate of \$0.05 cents per bag, in line with the initial rates in Montgomery County and Washington, DC. At this rate, the tax would generate a significant reduction in bag usage and predictable revenues, and could be adjusted in the future to offset any rebound effect. It would also minimize any potential negative economic impacts.

The Department of Finance request that the effective date of the bill be amended to six months from the time of passage to allow for the development of a collection system. This is likely to impact several thousand merchants, requiring the City to design and implement a new collection system.

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