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FROM	NAME & TITLE	Robert Cenname, Budget Director	CITY of BALTIMORE <b>MEMO</b>	
	AGENCY NAME & ADDRESS	Department of Finance Room 454, Citv Hall (410) 396-4940		
	SUBJECT	City Council Bill #19-0401: Comprehensive Bag Reduction		

TO

DATE:

The Honorable President and  
Members of the City Council  
Room 400, City Hall

August 2, 2019

Council Bill 19-0401 proposes to repeal and replace the Plastic Bag Reduction Program. Most notably, this legislation would prohibit certain dealers from supplying customers with plastic bags for use as checkout bags, allow for certain exemptions, impose civil and criminal penalties for violating the proposed program, and impose a 5-cent surcharge on checkout bags supplied by dealers.

### **History**

There have been numerous proposals over the years to reduce the usage of disposable bags in Baltimore. Most recently, the City Council proposed legislation on two separate occasions for a bag reduction program that featured a surcharge.

In Fiscal 2013 City Council introduced CCB 13-0241: Plastic and Paper Bag Surcharge, which proposed placing a surcharge on various distributions of paper and plastic bags, at the rate of 25-cents per bag. Finance estimated that the tax would generate \$6.5 to \$6.9 million annually and cost the City \$450,000 to implement in year one. This legislation ultimately was not approved by City Council.

In Fiscal 2014 City Council introduced CCB 14-0372: Plastic Bag Surcharge, which proposed placing a surcharge on various distributions of plastic bags, at a lower rate of 5-cents per bag. Finance estimated that the tax would generate \$1.5 million annually and cost the City \$450,000 to implement in the first year. City Council passed this bill, but it was vetoed by the Mayor.

### **Fiscal Analysis**

Council Bill 19-0401, as proposed, prohibits retailers from supplying non-compostable plastic bags to customers at the point of sale, and levies a 5-cent surcharge on permissible checkout bags that are issued. Retailers would be required to collect the surcharge and remit the proceeds to the Director of Finance. Businesses would be allowed to retain 1-cent per bag for administrative costs.

In order to determine the potential impact on both City revenues and citizens, we looked at the experience of cities and municipalities that have implemented similar bag bans or surcharges. We also looked at studies that examine consumer behavior where plastic bag bans have been put into place.

### ***Other Government's Experience***

Several regional governments, such as those of Montgomery County, Prince George's County, and Washington, D.C. have implemented plastic bag taxes. Dozens of cities, such as Seattle, WA and Boston, MA, have prohibited plastic bag use altogether. In 2016 the State of California implemented a statewide ban on single-use plastic bags.

Regionally, Washington, D.C. implemented a 5-cent disposable bag tax in Fiscal 2010, generating \$1.5 million over the first nine months of implementation. In Fiscal 2011, the first full year of revenue from the tax, D.C. generated \$1.8 million and the following year generated \$1.6 million. In February 2018, local

news sources reported that 76 percent of qualifying businesses comply with the law and qualifying bag usage has declined by 50 to 70 percent since the tax went into effect. Montgomery County (MD) also implemented a disposable bag tax at a rate of 5-cents per bag. In July 2016, the Washington Post reported that inventory from bag traps declined by nine percent from 2011 to 2015, suggesting that the tax has positively influenced consumer behavior.

Nationally, a 2015 study by UC Berkeley comparing stores in several California cities concluded that 46.5% of consumers at national chain stores and 40% at discount stores use reusable bags under either a plastic bag ban or a tax. Where point-of-sale reusable bag alternatives are offered, reusable bag utilization increases even further. The study goes on to suggest that reusable plastic bags – in this case, 15-cent thick-plastic bags – are desirable alternatives to thin plastic bags, especially where policymakers are concerned that bag bans lead to increased paper bag consumption.

**Key Assumptions**

For financial modeling, we started with a global per capita bag usage estimate. National Geographic estimates that in the United States, the average citizen uses approximately one disposable plastic bag per day, or approximately 365 per year.

For bag reduction and business compliance, we looked at the experience of many cities, but focused on Washington, D.C., which shares many demographic and regional characteristics with Baltimore.

We also made an adjustment for exempt consumers. Consumers are exempt who use a voucher or electronic benefits transfer card issued under the Food Supplement Program (FSP), Women, Infants and Children Program (WIC), or the Supplemental Nutrition Assistance Program (SNAP).

This projection has a high degree of uncertainty, given the complicated interaction of consumer behavior, economic considerations, and business compliance. But, as a reasonable estimate, assuming a significant reduction in bag usage and slowly growing business compliance, we expect the City’s net revenues to peak at \$1.2 million in Year One and decline thereafter:

<b>Comprehensive Bag Reduction - Revenue Impact</b>					
<b>Paper Bags</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<i>Bags per Capita</i>	365	365	365	365	365
<i>Baltimore Population</i>	602,495	602,495	602,495	602,495	602,495
<i>Bags Used</i>	219,910,675	219,910,675	219,910,675	219,910,675	219,910,675
<i>Bag Reduction</i>	50%	60%	70%	75%	75%
<i>Exempt Adjustment</i>	44%	44%	44%	44%	44%
<i>Taxable Bags</i>	61,574,989	49,259,991	36,944,993	30,787,495	30,787,495
<b>Revenue @ 5 cents</b>					
<i>Business Compliance</i>	60%	64%	68%	72%	75%
<i>Gross Revenue</i>	\$ 1,847,250	\$ 1,576,320	\$ 1,256,130	\$ 1,108,350	\$ 1,154,531
<i>Less: \$0.01</i>	\$ (369,450)	\$ (315,264)	\$ (251,226)	\$ (221,670)	\$ (230,906)
<i>Less: City Costs</i>	\$ (282,000)	\$ (75,000)	\$ (75,000)	\$ (75,000)	\$ (75,000)
<i>Net Revenue</i>	\$ 1,195,800	\$ 1,186,056	\$ 929,904	\$ 811,680	\$ 848,625

Looked at from the citizen’s perspective, and assuming no behavior change, the average household (at 2.5 persons) would pay an additional \$45.63 per year. Of course, this is an avoidable tax, so costs to citizens would decline with further compliance:

<b>Comprehensive Bag Reduction - Citizen Impact</b>						
<b># of Bags</b>	<b>Average Usage</b>	<b>Tax Rate per Bg</b>				
<b>Per Person</b>		<b>\$0.01</b>	<b>*\$0.05</b>	<b>\$0.10</b>	<b>\$0.15</b>	<b>\$0.25</b>
<i>Weekly</i>	7	\$0.07	\$0.35	\$0.70	\$1.05	\$1.75
<i>Monthly</i>	30	\$0.30	\$1.50	\$3.00	\$4.50	\$7.50
<i>Yearly</i>	365	\$3.65	\$18.25	\$36.50	\$54.75	\$91.25
<b>Per HH</b>						
<i>Weekly</i>	18	\$0.18	\$0.88	\$1.75	\$2.63	\$4.38
<i>Monthly</i>	75	\$0.75	\$3.75	\$7.50	\$11.25	\$18.75
<i>Yearly</i>	913	\$9.13	\$45.63	\$91.25	\$136.88	\$228.13

*\*Rate proposed by CCB 19-0401*

### **Implementation Considerations**

Based on Finance’s research, as well as experience adding similar taxes in the past, we expect a first-year implementation cost of \$282,000. This includes one-time changes to tax payment software, an online payments interface, and dedicated resources from Baltimore City Information Technology (BCIT) management services and the Bureau of Revenue Collections. \$75,000 of the cost is expected to be recurring.

Additionally, the Department of Planning’s Office of Sustainability expects to spend a nominal amount on printing costs and materials. Section 4 of this Bill stipulates that the Office of Sustainability, in partnership with other City agencies, must conduct outreach and education for the benefit of the general public and affected businesses. This campaign includes providing signs at points of sale and storefronts, media buys and placements, and public service announcements.

### **Position**

With an outright ban on plastic bags and a proposed surcharge of 5-cents per bag on other bags, this bill should be expected to trigger a significant reduction in bag utilization. Finance projects first-year revenue of \$1.2 million, and a decline in revenues thereafter as consumer behavior changes.

This is an avoidable surcharge, with a high degree of uncertainty, so we cannot count on this revenue stream until we learn how Baltimore citizens and businesses react to the program. Future rate adjustments could easily be made to respond to any undesirable environmental outcomes, matters of equity, and/or changes in consumer behavior.

Based on these findings, the Department of Finance supports the passage of CCB 19-0401.

cc: Henry Raymond  
Jeffrey Amoros