

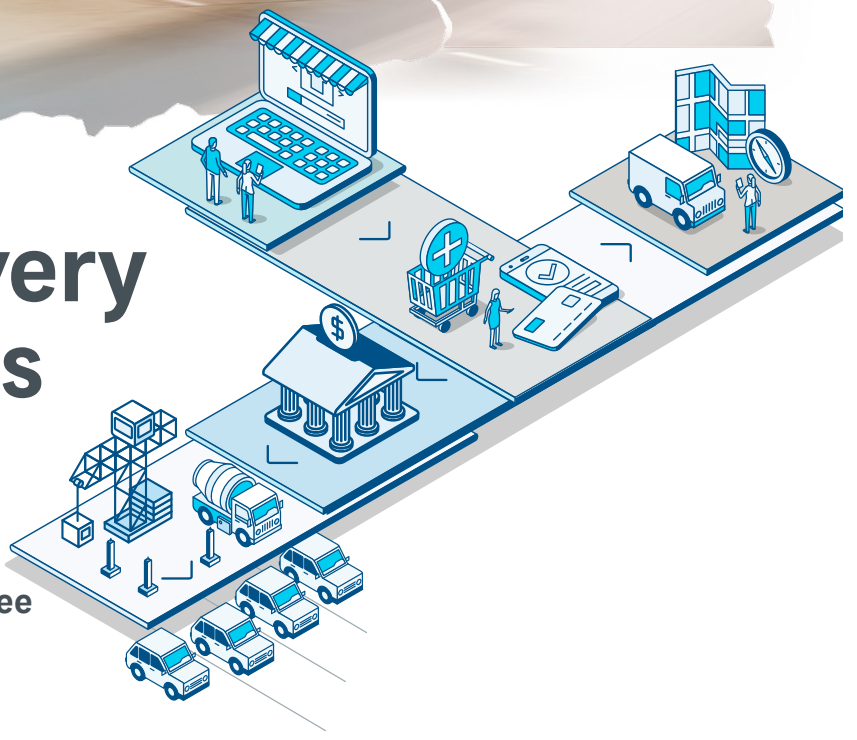


Report | June 2024

Retail Delivery Fee Analysis



Washington State
Joint Transportation Committee





Contents

Executive summary	ES-1
SECTION 1	
Introduction	2
SECTION 2	
Retail delivery fees in the United States	6
SECTION 3	
Historical retail sales in Washington and the U.S.	15
SECTION 4	
Revenue forecasting approach and parameters	21
Forecasting approach	21
Retail taxable sales forecast	22
Retail e-commerce growth	23
Retailer exemption	25
Exemptions based on order value	26
SECTION 5	
Implementation and administrative costs	28
SECTION 6	
Revenue distribution options	31
SECTION 7	
Revenue scenario planning tool	34
SECTION 8	
Revenue generation potential	39
SECTION 9	
Impacts to consumers and businesses	45
Consumers	46
Businesses	55
SECTION 10	
Conclusion	57

Figures



Figure ES-1. U.S. Retail E-Commerce	ES-2
Figure ES-2. Online Retail Spending by WA Residents	ES-2
Figure 1. Retail Trade Sales in Washington, 2013 to 2022	16
Figure 2. Share of Online Retail Spending in Washington, as a Percentage of Total Retail Sales.....	17
Figure 3. U.S. Retail E-Commerce Sales.....	18
Figure 4. E-Commerce Share of Total Retail Trade Sales	18
Figure 5. Average E-Commerce Spending per Capita.....	19
Figure 6. Forecasting Framework	21
Figure 7. Forecast of Taxable Sales for the Retail Trade Sector	22
Figure 8. Washington E-Commerce Forecast as a Percentage of Retail Sales.....	23
Figure 9. Average Number of Annual Online Orders per Person	24
Figure 10. Average Number of Monthly Online Orders per Person per Year.....	25
Figure 11. Revenue Scenario Planning Tool – Scenario Combinations.....	34
Figure 12. Revenue Scenario Planning Tool User Control Panel	35
Figure 13. Sample Output of Annual Revenue Potential	36
Figure 14. Sample Output of Administration and Implementation Costs.....	37
Figure 15. Components of Four Revenue Scenarios	40
Figure 16. Scenario No. 1 – Retail Delivery Fee Revenue Potential	40
Figure 17. Scenario No. 2 – Retail Delivery Fee Revenue Potential	41
Figure 18. Scenario No. 3 – Retail Delivery Fee Revenue Potential	42
Figure 19. Scenario No. 4 – Retail Delivery Fee Revenue Potential	43
Figure 20. Annual Online Spending by Median Household Income	49
Figure 21. Annual Online Spending by Urban/Rural Classification	49
Figure 22. Annual Online Spending Per Person by Median Household Income.....	50
Figure 23. Annual Online Spending Per Person by Urban/Rural Classification	50
Figure 24. Percent of Population and Online Spending by Equity Cohort Population Groups.....	51
Figure 25. Online Spending Per Person by Median Household Income and Urban/Rural Classification	51
Figure 26. Percent of Population and Online Retail Spending by Equity Cohort Population Groups	52
Figure 27. Highest Online Spending Per Person by Income, Urban/Rural, Zero Car HHs, and Disability	53
Figure 28. Lowest Online Spending Per Person by Income, Urban/Rural, Zero Car HHs, and Disability	53

Tables



Table ES-1. Revenue Potential..... ES-4

Table 1. Colorado Delivery Fees and Rates (July 2023 to June 2024) 6

Table 2. Apportionment and Use of Minnesota Delivery Fee.....10

Table 3. Retail Trade Sector NAICS Codes.....15

Table 4. 2022 Revenue and Taxpayer counts, Retail Trade Sector (NAICS 44-45).....16

Table 5. Calendar Year 2022 Business & Occupation Tax Data for the Retail Trade Sector..... 26

Table 6. Expenditures by Expense Category 29

Table 7. Sample Table of Revenue Potential for Three Time Periods 35

Table 8. Sample Table of Revenue Potential Estimates by Year 36

Appendix



2021 Colorado Retail Delivery Fee Legislative Fiscal NoteA-1

2021 Colorado Retail Delivery Fee Legislative Demographic Note A-23

2023 Colorado Retail Delivery Fee Legislative Fiscal Note.....A-36

2023 Minnesota Retail Delivery Fee Legislative Fiscal Note A-42

Interviews and Meetings Document.....A-45

Association of Washington Business LetterA-47



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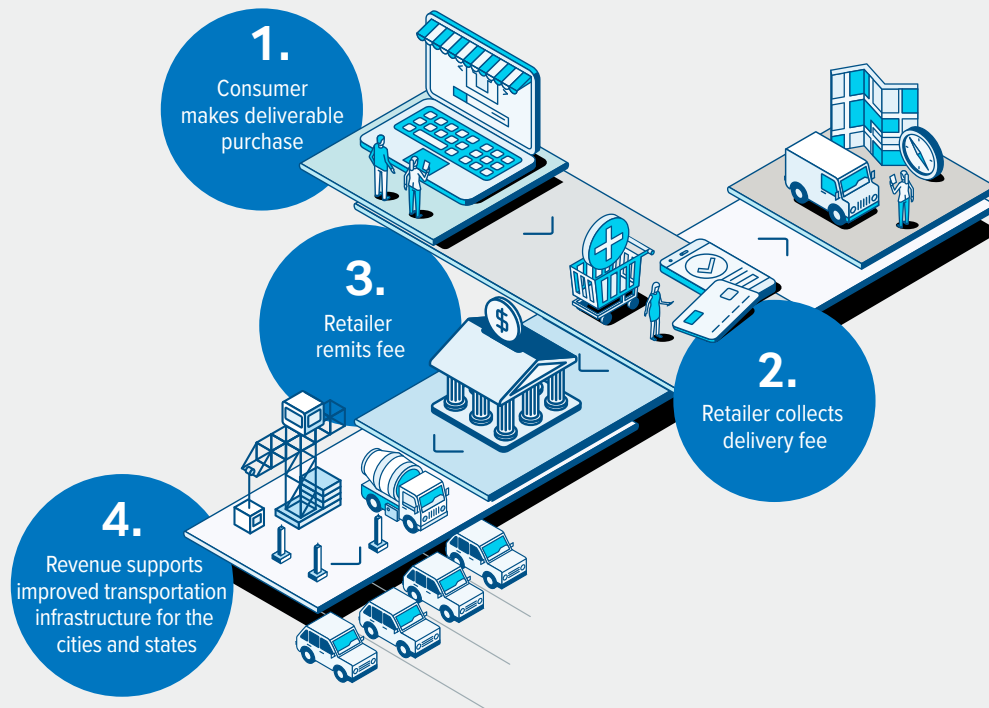
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Executive summary



Retail Delivery Fee Roadmap. Anatomy of how a retail delivery fee could be assessed

Across the country, states are grappling with increasing construction costs and growing demands for transportation infrastructure. With the primary funding mechanism for transportation nationwide—fuel taxes—in decline, policymakers are challenged to identify sustainable sources of revenue to keep up with road and bridge maintenance needs.

The shortfall in transportation funding is not just a state challenge—it extends to local governments, too. Washington has nearly [57,000 centerline miles](#) of city and county streets, accounting for roughly 71 percent of the total centerline miles in the state, according to the Washington State Department of Transportation.ⁱ Cities primarily fund their transportation systems on their own with nearly [69 percent of transportation expenditures](#) coming from local sources, which face pressure due to competing local demands and structural budget deficits.ⁱⁱ Meanwhile, the state's share, which comes largely from [state fuel tax receipts](#), is in decline.ⁱⁱⁱ As a result, local governments are searching for new transportation revenue sources.

One alternative funding mechanism recently implemented in other states is a retail delivery fee. As of July 2024, Colorado and Minnesota assess fees on taxable retail items delivered to an address in their respective states. The retailer or marketplace facilitator already responsible for collecting the state sales tax on tangible personal property sold and delivered must also collect and remit the retail delivery fee.

ⁱ <https://wsdot.wa.gov/about/transportation-data/travel-data/annual-mileage-and-travel-information>

ⁱⁱ <https://wacities.org/data-resources/articles/2023/11/16/the-state-of-transportation-in-cities>

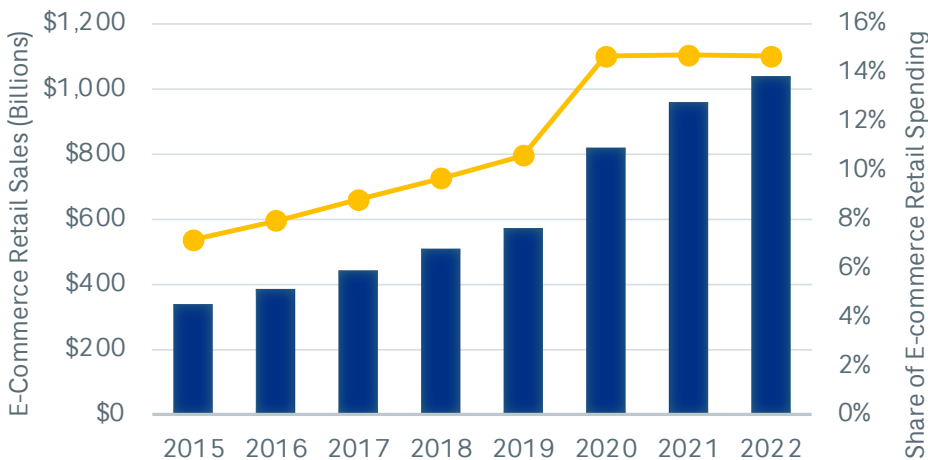
ⁱⁱⁱ https://www.waroadusagecharge.org/media/WSTC-Final-Report-Vol-1-WEB-2020_01.pdf

The number of deliveries of retail items to homes and businesses has been increasing for several years. During the COVID-19 pandemic, deliveries sharply increased and this growth is expected to continue. As a result, policymakers in Colorado and Minnesota view a retail delivery fee as a way to account for the use of the transportation system associated with retail deliveries.

The research and analysis from this study found that a fee in Washington of 30 cents per order could generate between \$45 and \$112 million in revenue in 2026, growing to between \$59 and \$160 million by 2030. The highest revenue estimate assumes no exemptions, while the lowest revenue estimate assumes an exemption for orders under \$75 and retailers who have less than \$1 million in annual revenues. These estimates are in line with the experiences of Colorado, which collected \$75.9 million in the first year based on a fee of 27 cents per order. The cost to implement is estimated between \$200,000 and \$540,000 per year over the first several years, at or below one percent of revenue collected.

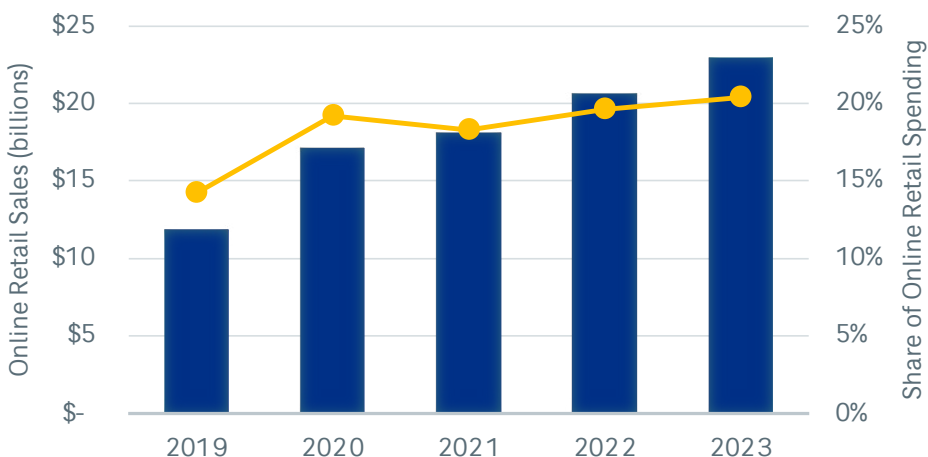
The research and analysis also looked into potential impacts to consumers of a retail delivery fee. Analysis of online retail orders showed that Census tracts with above-average incomes placed more orders than those with below-average incomes. This suggests that higher-income households, on average, would pay more in retail delivery fees than lower-income households.

Figure ES-1. U.S. Retail E-Commerce



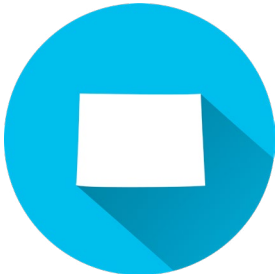
Sources: U.S. Census, Retail E-Commerce Sales. CDM Smith analysis

Figure ES-2. Online Retail Spending by WA Residents



Note: CDM Smith analysis of weekly online retail spending by WA residents. Data available from Replica (<https://www.replicahq.com/>)

Retail delivery fee experience in Colorado and Minnesota



Colorado

On July 1, 2022, Colorado became the first state to impose a retail delivery fee as one component of a 10-year, \$5.4 billion transportation funding package. With the retail delivery fee expected to bring in \$78 million a year, the fee represented approximately 15 percent of new revenues in the package. All businesses were initially required to collect and remit a 27-cent fee on each retail delivery order by motor vehicle placed to a location in Colorado (fee increased to 28 cents on July 1, 2023). After feedback from businesses in Colorado, the Colorado General Assembly amended the law in two ways:

1. **Small business exemption.** The collection and remittance of the delivery fee was an added administrative cost and burden on small businesses' operations. Colorado amended the law to exempt businesses with \$500,000 or less in annual sales from having to collect the fee.
2. **Retailer choice on fee collection.** Retailers were initially required to itemize the retail delivery fee on consumer receipts. Colorado now provides businesses the option of itemizing the fee or not.

Each sale is taxed only once, regardless of the number of deliveries made to fill a single order. The fee is indexed to inflation and was increased by one penny to 28 cents in 2023. From July 1, 2022, to June 30, 2023, the fee generated \$75.9 million, within 3 percent of the original fiscal estimate.



Minnesota

Enacted in 2023, Minnesota's Road Improvement and Delivery Fee was included in a larger transportation funding bill and incorporated many of the lessons learned from Colorado's retail delivery fee implementation. Minnesota's fee establishes a 50-cent fee on purchases over \$100 made for delivery within the state. The fee exempts businesses with annual retail sales of less than \$1,000,000 from collecting the fee and provides businesses with a choice of how to collect and remit the fee. The fee is estimated to generate \$59 million in its first fiscal year (FY), starting July 1, 2024.

Table ES-1. Revenue Potential

	Scenario 1 (Baseline)	Scenario 2	Scenario 3	Scenario 4
Delivery Fee Amount (per order)	\$0.30	\$0.30	\$0.30	\$0.30
E-commerce Adoption Rate Assumption	Steady	Steady	Steady	Steady
Exemptions for Retailers	None	None	Businesses with gross revenues of \$1 million and less	Businesses with gross revenues of \$1 million and less
Exemption for deliveries of orders under \$75	No	Yes	No	Yes
Projected Annual Revenue (2026)	\$103M–\$112M	\$49M–\$54M	\$93M–\$102M	\$45M–\$49M
Projected Annual Revenue (2027)	\$110M–\$123M	\$53M–\$59M	\$101M–\$112M	\$48M–\$54M
Projected Annual Revenue (2028)	\$118M–\$135M	\$57M–\$65M	\$108M–\$123M	\$52M–\$59M
Projected Annual Revenue (2029)	\$126M–\$147M	\$61M–\$70M	\$115M–\$134M	\$55M–\$64M
Projected Annual Revenue (2030)	\$135M–\$160M	\$65M–\$77M	\$122M–\$145M	\$59M–\$70M

Assumptions: The fee was not adjusted for inflation over the forecasting period, and revenue growth is expected as e-commerce continues to gain traction.

Revenue generation potential

Revenue projections are reliant on several variables including the fee rate, the growth of retail sales, the adoption of e-commerce, and exemptions. A revenue scenario planning tool was developed to estimate the revenue potential under various economic and policy scenarios. Four illustrative scenarios summarized in **Table ES-1** offer a range of expected results for a range of assumptions.

Implementation costs

To estimate implementation costs for this study, the Department of Revenue (DOR) and the research team from CDM Smith developed implementation cost assumptions as follows. The fee would apply to taxable retail sales of tangible personal property effective January 1, 2026. Each transaction for delivery would be considered a single retail delivery, regardless of the number of shipments made. Exemptions include sales tax-exempt items such as prescription drugs and groceries. The seller is responsible for collecting and remitting the fee, regardless of delivery method.

The anticipated near-term expenses for implementing and administering the fee would include salaries, benefits, supplies, travel, and office equipment. Key roles needed are tax specialists, revenue auditors, forms and records analysts, and IT personnel. Total projected costs start at \$204,900 in FY 2025, increasing to \$540,000 in FY 2026, then stabilizing at \$159,400 annually after FY 2028, with a 1.5 percent annual cost escalation assumed starting in 2029. The full-time equivalent (FTE) staff count required ranges from 1.5 to 3.8 over this period. This serves as a preliminary estimate and is not an official estimate from DOR.

Revenue distribution

A key policy question for the Legislature to decide is how to allocate the revenues generated by a retail delivery fee. This report assumes distribution to local governments based on combinations of factors including population, roadway miles, vehicle miles traveled (VMT), and e-commerce sales. The forecasting tool allows adjustment of these to model various revenue distribution scenarios and explore the impact of policy choices on outcomes.

Impacts to consumers and businesses

Businesses

Depending on how a retail delivery fee is implemented, it will either become a new cost of doing business or will require retailers to administer the collection of the fee directly from consumers (in both Colorado and Minnesota, retailers have a choice). Colorado's DOR went through a rule-making process that elicited specific concerns from the business community, resulting in some changes to the law.

Some of the concerns encountered in Colorado were echoed by the Association of Washington Business in a briefing and discussion of the retail delivery fee concept. Concerns included consumer behavior changes in response to the fee (including the possibility of a reduction in online purchases) and operational challenges in collecting the fee.

Mitigation for some of these concerns, as shown in Colorado and Minnesota's programs, could include exemptions based on business revenue thresholds and minimizing the administrative burden of collecting the fee. While exemptions may reduce the impact of a retail delivery fee on small businesses, this factor must be balanced against the objective of revenue generation and fairness across the retail sector.

Consumers

A complex set of factors influence online spending habits, including socioeconomic factors, geographic settings, mobility, and accessibility. This study found that in 2023, Census tracts with median household incomes equal to or exceeding the Washington state median household income level allocated 25 percent of their total retail spending to online purchases. Conversely, areas with median household incomes below the statewide median devoted approximately 18 percent of their retail spending to online platforms. Census tracts with higher than statewide median household income consistently spend over \$500 more per person on online retail compared with Census tracts with lower than statewide median household incomes. These results suggest that, on average, households from the Census tracts with the highest incomes will pay more in retail delivery fees than those in lower income Census tracts.

Analysis of Washington-specific data suggests that the number of online retail orders in 2026 for delivery could range between 42 and 46 per person per year. Absent any exemptions, and assuming a fee rate of 30 cents per order, the average customer would pay between \$13 and \$14 in retail delivery fees per year, or just over \$1 per month.





Purpose of Study

As states grapple with the need to keep up with basic road maintenance due to declining fuel tax revenue, increasing construction costs, and growing demand, policymakers are faced with the task of finding new sources of revenue to ensure streets and bridges are adequately maintained. Washington is no exception.

While statewide funding needs are often emphasized, the transportation funding shortfall extends to local governments too. Local governments—including cities, towns, and counties—rely on a combination of sources to fund local street and bridge construction; however, most of the funding comes from those local governments' general funds. As costs rise and demands for other priorities increase, local governments face budget deficits that are impacting their ability to fund critical transportation needs.

Recognizing this growing need, the Washington State Legislature included a proviso in its 2023–2025 transportation budget (ESHB 1125) to study a statewide retail delivery fee on orders of taxable retail items delivered by motor vehicles within the state. This study was borne from a desire by the cities to identify potential new sources of transportation revenue. The study itself was designed to provide background information, data, and analysis to inform legislators, local elected officials, and others as they potentially consider a statewide retail delivery fee.

Specifically, the study required the following elements:

1. An overview of the retail delivery fee concept and a summary of the fee as it has been implemented in other states.
2. Development of a revenue generation tool that will aid policymakers in determining the annual revenue generation potential of a range of fee amounts;
3. Examination of options for revenue distributions to state and local governments based upon total deliveries, lane miles, or other factors;
4. Estimation of total implementation costs, including start-up and ongoing administrative costs;
5. Analysis of the potential impacts to consumers, including consideration of low-income households and vulnerable populations and potential impacts to businesses;
6. A final report to the Joint Transportation Committee submitted to the transportation committees of the legislature by June 30, 2024.



As a part of the study, a Staff Technical Team (STT) was established to solicit input, present draft materials, and review findings, recommendations, and draft reports throughout the study. The STT comprised staff from the Joint Transportation Committee, House and Senate Transportation Committees, the Association of Washington Cities, and two representatives from cities in Washington (Seattle and Walla Walla). The STT held a series of four meetings throughout the study period to provide feedback on the ongoing analysis and direct areas to explore further.

This report includes the research, analysis, and outreach that was conducted to inform policymakers about how a retail delivery fee could be implemented in Washington.

Overview of the retail delivery fee

A retail delivery fee is a fee imposed on the purchase of taxable retail items delivered by motor vehicles in the state. Generally, the retailer or marketplace facilitator that collects the sales tax on the tangible personal property sold is liable to collect and remit the delivery fee.

Two states have enacted retail delivery fees: Colorado and Minnesota. Colorado's retail delivery fee went into effect July 1, 2022, while Minnesota's will take effect July 1, 2024. While the fees in Minnesota and Colorado are designed to assess a fee on retail deliveries, they differ in several respects, including the tangible items that are subject to the fee, the retailers that are subject to the fee, the rate, and revenue distribution.

Several other states, including Nevada and Ohio, have studied delivery fees as a funding mechanism; however, no legislation has been proposed that includes a retail delivery fee. In 2023, legislators in New York proposed a statewide 25 cents per transaction delivery fee as a part of the state budget but it was not enacted as a part of the final budget.

Increase in retail commerce

Over the last 20 years, retail spending has shifted from in-store purchases to an increasing share of online purchases. Nationally, e-commerce retail sales as a percentage of total sales had been steadily increasing since the turn of the century before peaking during the COVID-19 pandemic in 2020. After dipping slightly as COVID restrictions were lifted, the percentage of online retail sales has continued to increase. As of the second quarter of 2023, e-commerce retail sales represent 15.4 percent of total sales. In Washington,

online retail sales accounted for approximately 14 percent of total retail sales in 2019, and this figure rose to 20 percent in 2023. Online retail spending indicates that Washington surpasses the national average in terms of online adoption. More information is provided in a later section. In addition to the increased volume of sales for large e-commerce retailers, in the mid 2010's, other product categories like groceries, third-party restaurant delivery, and pet supplies, to name a few, emerged as goods that can be ordered online and delivered.

While standard one- to three-day delivery times remain the largest segment, faster shipping times are becoming the expectation for online shoppers. Instant (<1 hour) or same-day deliveries are the fastest-growing fulfillment methods in the United States, with 17 percent and 36 percent annual growth, respectively.¹ As a result, individual items that, in the past, may have been bought at a store during a larger shopping trip or bundled with other goods into one shipment are instead fulfilled separately to minimize the time between order and delivery.

Vehicle trips, and the motor fuel tax they incur, previously made to pick up physical goods are increasingly replaced with home deliveries made by online retailers or via shipping companies on behalf of online retailers. Although most deliveries are still made by gas or diesel vans subject to the motor fuel tax, delivery and logistics companies are increasingly investing in electric delivery vans, which do pay registration fees (and those under 10,000 pounds pay an additional annual EV fee of \$225), but not motor vehicle fuel taxes.

¹ [World Economic Forum \(2020\). The Future of Last-Mile Ecosystem.](https://www3.weforum.org/docs/WEF_Future_of_the_last_mile_ecosystem.pdf)
https://www3.weforum.org/docs/WEF_Future_of_the_last_mile_ecosystem.pdf

Declining transportation revenue and competing demands

A retail delivery fee could be a new revenue stream to address transportation funding needs, particularly at the state and local levels. The two states that have enacted a retail delivery fee have done so to generate revenue essential for the maintenance, repair, and improvement of streets, bridges, and other transportation infrastructure. By attributing a portion of the costs associated with transportation system usage to each delivery, these fees aim to ensure fair and equitable distribution of the financial burden among retailers, consumers, and delivery services.

Cities in Washington rely heavily on their own resources to fund transportation systems, with approximately [69 percent of transportation expenditures](#) being sourced from cities' general funds.² Rising costs and competing demands for funding pose significant challenges, leading to structural budget deficits that hinder cities' ability to adequately address transportation needs.

For decades, the state motor vehicle fuel tax was a sustainable revenue mechanism for state and local governments to fund roadways and transportation infrastructure in Washington. However, the growing market share of electric vehicles (EVs), the increasing fuel economy of traditional internal combustion engine (ICE) vehicles, and increasing maintenance costs have had consequences for state fuel taxes as a sustainable revenue source for transportation infrastructure.

Now, as Washington considers how to solve the transportation funding gap at the state and local level, it is the first state to conduct a formal analysis of a retail delivery fee to provide policymakers with information and data that can inform potential consideration of such a fee.

In the headlines

As reported in the news, rising costs and competing demands for funding pose significant challenges, leading to structural budget deficits that hinder cities' ability to adequately address transportation needs.

The Seattle Times

Prices skyrocket on WA transportation projects, and fewer contractors want the jobs

by David Kroman | Sep 21, 2023 6:00 am



Photo: Kevin Clark, The Seattle Times

The Seattle Times

Huge spike in costs to help salmon could derail WA transportation budget

by David Kroman and Mike Reicher | Nov 19, 2023 6:00 am



Photo: Kevin Clark, The Seattle Times

The Seattle Times

520 bridge contract delayed in hopes Legislature can cover cost hike

by David Kroman | Nov 16, 2023 6:00 am



Photo: Kevin Clark, The Seattle Times

² <https://wacities.org/data-resources/articles/2023/11/16/the-state-of-transportation-in-cities>



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Welcome

Retail delivery fees in the United States

Colorado and Minnesota have enacted retail delivery fees in the United States as of June 2024. Both states are similar in that they assess fees on orders of taxable items purchased for delivery, but they differ on rate, revenue distribution, and fee exemptions. In addition to analyzing the details of the fees in each state, the study team also conducted interviews with key officials to better understand the decisions and processes that led to enactment.



Colorado

On July 1, 2022, Colorado enacted Senate Bill 21-260, which included the country's first retail delivery fee (see C.R.S. §43-4-218). The fee was enacted as part of a comprehensive transportation funding package that included several other fee increases, including the fuel tax. The retail delivery fee legislation required businesses to collect a 27-cent fee on all retail purchases made with intent to deliver by motor vehicle to locations within Colorado, provided the order contained at least one item subject to the state's sales and use tax. Colorado's retail delivery fee rate is subject to annual adjustments, indexed to inflation.

Fee rates and revenue distribution

When the fee was enacted in 2022, the initial total fee was 27 cents. Each subsequent fiscal year has resulted in an adjustment due to inflation—one cent per year, so far. In Fiscal Year 2024, the fee will be raised to 29 cents per delivery. The retail delivery fee contains six sub-categories. These fees include the Community Access Retail Delivery Fee, Clean Fleet Retail Delivery Fee, Clean Transit Retail Delivery Fee, General Retail Delivery Fee, Bridge and Tunnel Retail Delivery Fee, and Air Pollution Mitigation Retail Delivery Fee.

Table 1. Colorado Delivery Fees and Rates (July 2023 to June 2024)

Fee	Rate (July 2023 to June 2024)
General Fund (HUTF + Multimodal Options Fund)*	\$0.0870
Community Access Enterprise	\$0.0716
Clean Fleet Enterprise	\$0.0550
Clean Transit Enterprise	\$0.0311
Bridge and Tunnel Enterprise	\$0.0273
Nonattainment Area Air Pollution Mitigation Enterprise	\$0.0073
Total	\$0.28

*The portion of the delivery fee that goes into the general state fund is distributed to the Highway Users Tax Fund (71%) and the Multimodal Options Fund (29%).

The use of each individual fee are as follows:

- **General Fund.** The 8.7-cent retail delivery that goes to the general state fund is split on a 71-percent/29-percent basis between the Highway Users Tax Fund (HUTF), the primary source of state highway funding in Colorado, the Multimodal Options Fund (MMOF), which makes grants available for multimodal transportation projects that enhance mobility, accessibility, and reduce greenhouse gas emissions. Funds within the MMOF are split, with 15 percent programmed to Colorado Department of Transportation (CDOT) for statewide and regional multimodal investments, and 85 percent dedicated to local entities for local multimodal investments.
- **Bridge and Tunnel Enterprise Fund.** This operates as a state government-owned business within CDOT that finances, repairs, reconstructs, and replaces designated bridges, and maintains tunnels.
- **Clean Transit Enterprise Fund.** This is a state government-owned business within CDOT to support public transit electrification planning efforts, facility upgrades, fleet vehicle replacement, as well as the construction and development of EV charging infrastructure.
- **Community Access Enterprise Fund.** This enterprise is a state government-owned business within the Colorado Energy Office (CEO) that supports the widespread adoption of electric vehicles and electric alternatives to motor vehicles (e.g., e-bikes), by aiding the development of EV charging infrastructure and distributing financial incentives for the purchase of an EV or electric alternatives to a motor vehicle.
- **Clean Fleet Enterprise Fund.** This is created within Colorado Department of Public Health and Environment (CDPHE) to provide financial incentives for the acquisition of EVs and fuel cell vehicles, as well as the conversion of gasoline or diesel vehicles to battery electric vehicles (BEV) and scrapping of qualified internal combustion vehicles in private and government vehicle fleets.
- **Air Pollution Mitigation Enterprise Fund.** This is a state-government owned business created within

CDOT to mitigate transportation-related emissions in ozone nonattainment areas by funding projects that reduce traffic or directly reduce air pollution through the congestion mitigation and air quality improvement program.

Revenue generation

Prior to the implementation of SB21-260, Colorado Legislative Council Staff projected that the 27-cent delivery fee would generate \$75.9 million dollars on 281 million deliveries in FY 2022–23, with an estimated \$16.8 million and \$18.8 million to the Highway User Tax Fund in fiscal years 2022–23 and 2023–24, respectively. Following implementation, the initial projections aligned closely with the actual revenue generation. From July 1, 2022, to June 30, 2023, the fee yielded approximately \$75.9 million. Subsequently, from July 1, 2023, through the end of March 2024, the retail delivery fee generated \$69.7 million.

Impacts on consumers and businesses

Over the last decade, the number of retail deliveries has increased, especially following the COVID-19 pandemic. While consumers rely on these home deliveries to receive needed items, businesses, too, rely on home deliveries as a significant part of their business. Given the importance of deliveries to consumers and businesses, questions arose related to the impact a fee would have on delivered items.

The initial version of Colorado's retail delivery fee did not include any provisions to mitigate the real or perceived impact of a retail delivery fee on consumers or businesses. However, after one year, feedback from businesses led the Colorado General Assembly to make two major changes to the retail delivery fee to make the collection and remittance of the fee easier for businesses.

First, small businesses shared that due to the smaller number of deliveries they have, the collection and remittance of the delivery fee was a burden on the operation of the business and added substantial



Small Business Exemption

For smaller businesses, collection and remittance of the fee was a significant administrative burden, and generated relatively little revenue for the state compared to medium or large size businesses.



Collection of Fee

Retailers were initially required to itemize fees, forcing the business to identify the retail delivery fee on receipts and thus collect and remit the fee to the state.

Change to Law	Change to Law
<p>Colorado now exempts from the fee businesses that have \$500,000 or less in annual sales.</p>	<p>Colorado now provides a choice to businesses: retailers may itemize the fee (shows on receipt) and collect it from the customer OR the business may incorporate the fee into the price of the product and pay the fee directly to the state (does not show on receipt).</p>

administrative cost. As a result of this feedback, the Colorado General Assembly amended the retail delivery fee law to exempt businesses that have \$500,000 or less in total annual sales from having to collect the fee.

The second change related to how retailers collected the fee. Initially, retailers were required to itemize fees, forcing the business to identify the retail delivery fee on receipts and then collect and remit the fee to the state. Based on feedback from businesses, Colorado now provides a choice to businesses. Retailers may either itemize the fee, showing the delivery fee on the receipt, or they may incorporate the fee into the price of the product, eliminating the need for the delivery fee to appear on a receipt.

When Colorado’s delivery fee was first implemented, all retailers making deliveries in the state were required to collect the fee from customers on each transaction and list the fee as a separate line item on the receipt before remitting the funds to the Colorado Department of Revenue (DOR) as part of their sales tax filings.

In 2023, the legislation was amended by SB 23-143 in response to retailers’ concerns over the administrative challenge and cost of updating their invoicing software to collect and list the fees. Among other changes, the legislation exempted businesses with less than \$500,000 in annual retail sales from paying the retail delivery fee and allows all businesses the option to aggregate the total number of deliveries and remit the amount owed to the state without collecting the fee from individual customers.

Implementation costs for state agency

While Colorado does not have the cost of ongoing administration readily available, prior to enacting SB 21-260, the Colorado Legislative Council Staff estimated the initial costs for the Colorado DOR to implement the new fees to be \$1.4 million in FY 2021–22, and about \$250,000 annually in FY 2022–23 and beyond to enact and administer the new fees. This estimate includes all of the new fees and existing fee changes included in SB 21-260, not just the delivery fee.



Minnesota

On May 24, 2023, Minnesota enacted comprehensive transportation budget bill HF 2887, which among other transportation policy changes, established a 50-cent fee on retail orders over \$100 with a delivery to any person in Minnesota (see Minnesota Statutes 2023, section 168E³). The 50-cent fee goes into effect on July 1, 2024, and applies to each transaction, regardless of the number of deliveries required to fulfill the order.

Unlike the Colorado delivery fee, the fee in Minnesota does not specify that the delivery must be made via motor vehicle to be applied. As a result, deliveries of “tangible personal property” made using other means, including electronically and by bicycle, may be deemed taxable, though it is not clear that this was the intent of the legislation. The delivery fee is non-refundable in the event an item is returned or if the retailer provides a refund or credit; however, the fee must be refunded if the order is canceled.

Fee rates and revenue distribution

While there are many similarities between the fee in Colorado and Minnesota, there are several key distinctions. In Minnesota, the retail delivery fee is 50 cents on all orders subject to the fee, and only orders above \$100 are subject to it.

After withholding funds for the cost of collection, administration, and enforcement, revenue generated from Minnesota’s delivery fee is deposited into the Transportation Advancement Account created by HF 2887, which apportions 36 percent to designated metropolitan counties, 27 percent to small cities, 15 percent to large cities, 11 percent to town roads, 10 percent to the county state-aid highway fund, and one (1) percent to fund grants for food assistance programs (e.g., Meals on Wheels). Funds are then allocated to individual entities that fall into each category (small city, large city, metropolitan county, etc.) according to a formula codified in HF 2887, and, in some cases, prescribed certain allowable uses of the funds (**Table 2**).

³ Minnesota also established a website that explains the [retail delivery fee in Minnesota](https://www.revenue.state.mn.us/retail-delivery-fee). That website can be accessed here: <https://www.revenue.state.mn.us/retail-delivery-fee>

Table 2. Apportionment and Use of Minnesota Delivery Fee

Category	Delivery Fee Apportionment	Allocation Within Category	Use of Funds
Metropolitan Counties	36%	50% population and 50% funding needs (relative to eligible metropolitan counties)	<ul style="list-style-type: none"> ▪ 41.5% active transportation and corridor safety studies ▪ 41.5% repair, preservation, rehabilitation of transportation systems and roadways (may not add roadway capacity) ▪ 17% transit (capital, operations, or maintenance) or complete streets projects. ▪ Funds must supplement, not supplant existing revenue sources
Small Cities	27%	<ul style="list-style-type: none"> ▪ 5% equally among all eligible cities ▪ 35% share of city and town street lane miles ▪ 35% population ▪ 25% state-aid adjustment factor ▪ (Relative to eligible small cities) 	Use not specified (assumed to mean general transportation needs)
Large Cities	15%	50% population and 50% funding needs (relative to eligible large cities)	Use not specified (assumed to mean general transportation needs)
Town Roads*	11%	100%	Use not specified (assumed to mean road maintenance)
County State-Aid Highway Fund	10%	100%	Use not specified (assumed to mean road maintenance)
Food Assistance Program Grants	1%	100%	Grants to nonprofits that provide transportation of home-delivered meals, groceries, or purchased food to Minnesotans experiencing food insecurity due to limited mobility, disability, age, or resources.

**Any road or cartway which has been established, constructed, or improved under the authority of the town board, or a road established, constructed, or improved by the county which was subsequently maintained by a town for a period of at least one year prior to July 1, 1957.*

Under this law, Minnesota exempts businesses with less than \$1 million in sales during the previous calendar year and [marketplace providers](#) that facilitated less than \$100,000 in the previous calendar year from collecting and paying the retail delivery fee.⁴ Retailers that are subject to the delivery fee are allowed, but not required, to collect the fee from each customer. If the retailer chooses to collect the fee from individual purchasers, the fee must be charged in addition to any other delivery fees, and the retailer must identify the “Road Improvement and Delivery Fee” as a separate line item on each transaction receipt or invoice before remitting the funds to the Minnesota DOR.

Revenue generation potential

The delivery fee does not go into effect until July 2024, so actual collection revenue data is not yet available; however, the Minnesota DOR projects that the retail delivery fee will generate \$59 million in FY 2025, \$64.8 million in FY 2026, and \$65.3 million in FY 2027.

⁴ Information about what constitutes a marketplace provider in Minnesota can be found here: <https://www.revenue.state.mn.us/sales-tax-marketplace-providers>

The Minnesota DOR estimated that the average person would receive 48 deliveries annually and the state will have an annual population growth rate of 0.7 percent. The revenue estimate was reduced to account for exempt goods (e.g., food, medication, etc.), exempt businesses (those with under \$1 million in sales), and orders under the \$100 minimum threshold.

Disparate impacts on consumers and businesses

While no study was conducted in Minnesota to understand the impacts to consumers or businesses, the state did learn lessons from Colorado. As a result, policymakers incorporated into the Minnesota legislation many of the changes made to Colorado’s fee. Specifically, the Minnesota legislation allows retailers to either itemize the fee, showing the delivery fee on the receipt, or the business may incorporate the fee into the price of the product, eliminating the need for the delivery fee to appear on a receipt.⁵

Minnesota also created a threshold that exempts small businesses from having to collect the retail delivery fee. Under the law, businesses that have \$1 million in annual sales or less are exempt from having to collect and remit the fee. This exemption, which is twice as high as






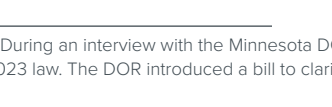
Colorado’s, was put in place to relieve the burden small businesses face in administering the fee.

In Minnesota, there was also concern about the impact on consumers. As a result, the legislation exempts orders of \$100 or less from the fee. This provision does not preclude someone from making multiple orders that total less than \$100 to avoid the fee. The Minnesota DOR does not anticipate significant loss of revenue due to this potential fee evasion tactic by consumers.

While the retail delivery fee law exempts non-taxable items from being subject to the fee, one non-taxable item, clothing, was specifically included as an item that is subject to the fee. The inclusion of clothing was a part of the legislative negotiation process.

Implementation costs for state agencies

Minnesota DOR did not provide an estimate for cost of implementation; however, the agency expects that start-up and ongoing administrative costs will be comparable to those of Colorado. The [Minnesota DOR recently issued guidance](#), and it is available on the DOR’s website: <https://www.revenue.state.mn.us/retail-delivery-fee>.

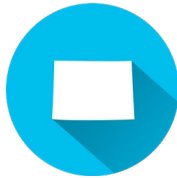
Policy Factors	Minnesota	Colorado
	Rate \$0.50 per delivery.	\$0.28 per delivery.
	Delivery Exceptions Applies to deliveries over \$100.	Applies to all deliveries regardless of price.
	Revenue Generation Estimated to generate \$59 million in the first fiscal year.	In FY 2023, the fee generated \$75.9 million.
	Collection Provides businesses a choice whether to itemize the fee.	Provides businesses a choice whether to itemize the fee.
	Exemptions Exempts businesses that have \$1 million or less in annual sales.	Exempts businesses that have \$500,000 or less in annual sales.
	Revenue Distribution Revenue distributed mostly to cities and towns.	Revenue distributed to clean transportation priorities, state, and local funding.

⁵ During an interview with the Minnesota DOR, Minnesota DOR Legislative Director Joanna Bayers identified several definitions that were unclear in the 2023 law. The DOR introduced a bill to clarify these definitions in the 2024 Legislature; however, that bill did not pass this year.

Stakeholder engagement and interviews

Colorado and Minnesota

During the month of January, several interviews were conducted with key staff and policymakers from Colorado and Minnesota. The purpose of the interviews was to go beyond the details of each retail delivery fee to better understand the motivations behind the specific policy decisions, the intended outcomes of those decisions, and identify key next steps the state agencies were taking to implement and/or refine the laws. Those interviewed included the following people:



Senator Faith Winter, Colorado Senate, Sponsor of Retail Delivery Fee legislation
Josh Pens, Director of Tax Policy, Colorado Department of Revenue



Erik Rudeen, Government Relations Director, Minnesota Department of Transportation
Joanne Bayers, Legislative Director, Minnesota Department of Revenue
Representative Erin Koegel, Minnesota House of Representatives, Lead negotiator of transportation bill

Like Washington, Colorado and Minnesota are also facing declining transportation revenue. To generate needed transportation revenue, both states enacted a retail delivery fee. During the policy development process, both policymakers and agency staff prioritized revenue potential as an objective, and concerns for consumers and businesses as a consideration or constraint. And in both states, policymakers and agency staff regularly review the progress of implementation, identifying changes the laws may require. Other key themes that emerged from the interviews include the following:

1. **Engaging relevant stakeholders is key.** The involvement of retail businesses, delivery companies, marginalized communities, and local governments throughout the policy development and legislative and implementation stages is key to shaping the best policy and ensuring the broadest support.
2. **Businesses prefer a choice.** For the ease and flexibility of implementation, businesses want options of how to collect the fee.
3. **Establishing an overall revenue generation target is important to setting a delivery fee rate.**
4. **The distribution of revenue depended on policymaker priorities.**
5. **Internal negotiations were the basis of many exemptions but identifying rationales behind exemptions prior to legislation can be helpful.**
6. **Both states recommend a small business exemption.** This eases the burden on businesses.
7. **Establishing good definitions in statute or through rule-making is key to effective implementation.**

Other states

While neither Nevada nor Ohio has moved forward with a delivery fee, both states assessed the mechanism's viability as a revenue mechanism including its revenue stability, efficiency, ease of administration, social equity, user equity, and transparency.

A 2022 sustainable transportation funding study in Nevada considered a retail delivery fee among several other alternative revenue mechanisms. Though the delivery fee did not move forward following the study, the preliminary analysis estimated that a delivery fee of 75 cents would generate \$100 million in 2021 (the baseline year used to compare revenue mechanisms).

In Ohio, a 2023 analysis of alternative revenue mechanisms for state transportation funding used the number of estimated deliveries in Colorado and scaled the data to the Ohio population. Assuming five percent annual growth in the number of deliveries, a rate in line with recent trends, Ohio projected that the delivery fee would generate \$306 million in 2025 and \$512 million in 2040 at a 50 cents per-delivery rate. During both studies, both states assessed a delivery fee similarly, giving the mechanism a highly favorable score in revenue stability and moderately favorable score in all others.

In 2023, both the New York Senate and Assembly considered legislation that would have imposed a 25-cent fee on retail deliveries in New York State. The Senate bill would apply to only deliveries of online orders to addresses in New York City, while the Assembly bill proposed a statewide fee on all deliveries regardless of the transaction method (e.g., online orders, phone orders, in-person orders delivered by the retailer).

The Senate's proposal for a delivery fee in New York City was more explicit about the purpose of the delivery fee and use of the revenue. The fee would have funded a new special New York City infrastructure capital fund that could be bonded against to invest in alternatives to roadway freight, with a portion of the funds earmarked to rehabilitate the Brooklyn Queens Expressway, which is fatigued, in part, by overweight trucks in route to distribution centers.



Ohio

Ohio assessed the mechanism in terms of revenue stability, efficiency, ease of administration, social equity, user equity, and transparency during recent studies on alternative transportation funding mechanisms in 2023. While Ohio gave the delivery fee a highly favorable score in revenue stability and moderately favorable score in all others, the state already imposes a sales tax on the cost of shipping and handling which tax administrators view as an equivalent mechanism.

Further reading: [Ohio Road Funding Alternatives Study](#)



Nevada

Nevada assessed the mechanism based on similar guiding policy principles of revenue stability, efficiency, ease of administration, social equity, user equity, and transparency during its 2022 study on alternative transportation funding mechanisms. The working group did not recommend a retail delivery fee at the state level due, in part, to regional governments' interest in utilizing it as a revenue source at the local level.

Further reading: [Nevada Sustainable Transportation Funding Study and Advisory Working Group](#)



New York

In 2023, as a part of its budget bill, the New York Assembly proposed a retail delivery fee of \$0.25 on each "delivery transaction" made within New York. Under the bill, a delivery transaction was defined as a transaction that results in the delivery of personal tangible property from a retail sale. The bill required that the fee be passed along to the purchaser and separately stated on any receipt that is provided to such purchaser. Ultimately, this proposal did not make it into the final version of the budget bill.

Link to bill: [See A03009, Part JJ \(2023\)](#)

PUBLIC MARKET CENTER



FARMERS



SECTION 3

Historical retail sales in Washington and the U.S.

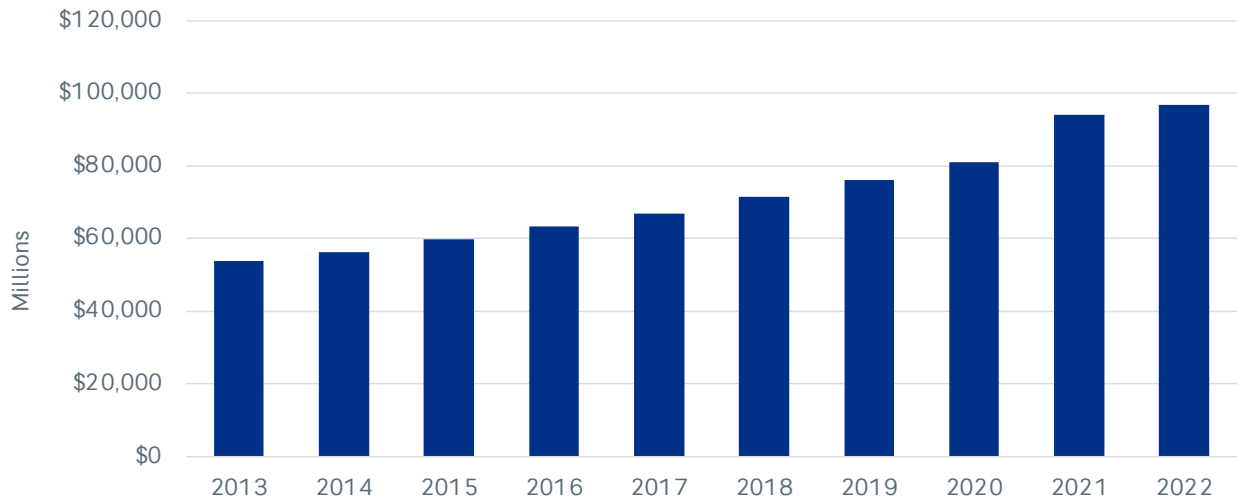
Historical retail taxable sales in Washington were gathered from the DOR. The DOR utilizes the North American Industrial Classification System (NAICS) code 44-45 to categorize businesses within the Retail Trade sector. The gathered dataset, which spans the years 2013 through 2022, offers information about consumer trends and was essential to forecast future retail sales. With an average annual growth rate of 6.8 percent, taxable retail sales climbed from \$53.6 billion in calendar year (CY) 2013 to \$96.8 billion in CY 2022 (see **Figure 1** on next page).

The retail trade sector consists of the subsectors listed in **Table 3**. Presumably, every business category below could sell products online, except gas stations. Non-store retailers do not encompass all retail e-commerce sales in Washington, as the following section explains.

Table 3. Retail Trade Sector NAICS Codes

Retail Trade Sector	NAICS Code
■ Motor Vehicle and Parts Dealers	441
■ Furniture and Home Furnishings Stores	442
■ Electronics and Appliance Stores	443
■ Building Material and Garden Equipment and Supplies Dealers	444
■ Food and Beverage Stores	445
■ Health and Personal Care Stores	446
■ Gasoline Stations	447
■ Clothing and Clothing Accessories Stores	448
■ Sporting Goods, Hobby, Book, and Music Stores	451
■ General Merchandise Stores	452
■ Miscellaneous Store Retailers	453
■ Non-store Retailers	454

Figure 1. Retail Trade Sales in Washington, 2013 to 2022



Source: Washington Department of Revenue, NAICS 44-45

The research team consulted DOR to better understand the makeup of retail businesses registered in Washington. The DOR shared publicly available data for CY 2022 that divides the number of businesses in the retail trade category into four categories based on annual revenue:

- \$0–\$250,000
- \$250,000–\$1,000,000
- \$1,000,000–\$25,000,000
- Over \$25,000,000

For privacy reasons, more detailed information at the business unit level is not publicly available. **Table 4** displays the number of taxpayers for each revenue tier, along with the gross and taxable revenues. Gross revenues are defined as the gross proceeds from sales or gross income of the company. After deducting or crediting amounts authorized by the State of Washington for a particular purpose, the taxable amount is determined.

Table 4. 2022 Revenue and Taxpayer counts, Retail Trade Sector (NAICS 44-45)

Taxable Revenue Group	Taxpayer Count	Gross Revenue	Taxable Revenue
\$0–250,000	44,349	\$12,679,946,000	\$1,752,769,000
\$250,001–1,000,000	9,436	\$6,632,723,000	\$4,976,589,000
\$1,000,001–25,000,000	9,702	\$51,896,353,000	\$41,269,860,000
\$25,000,001+	865	\$147,299,508,000	\$128,669,981,000
Totals	64,352	\$218,508,530,000	\$176,669,199,000

Source: Department of Revenue, Research & Fiscal Analysis, Combined Excise Tax Return Data, Calendar Year 2022

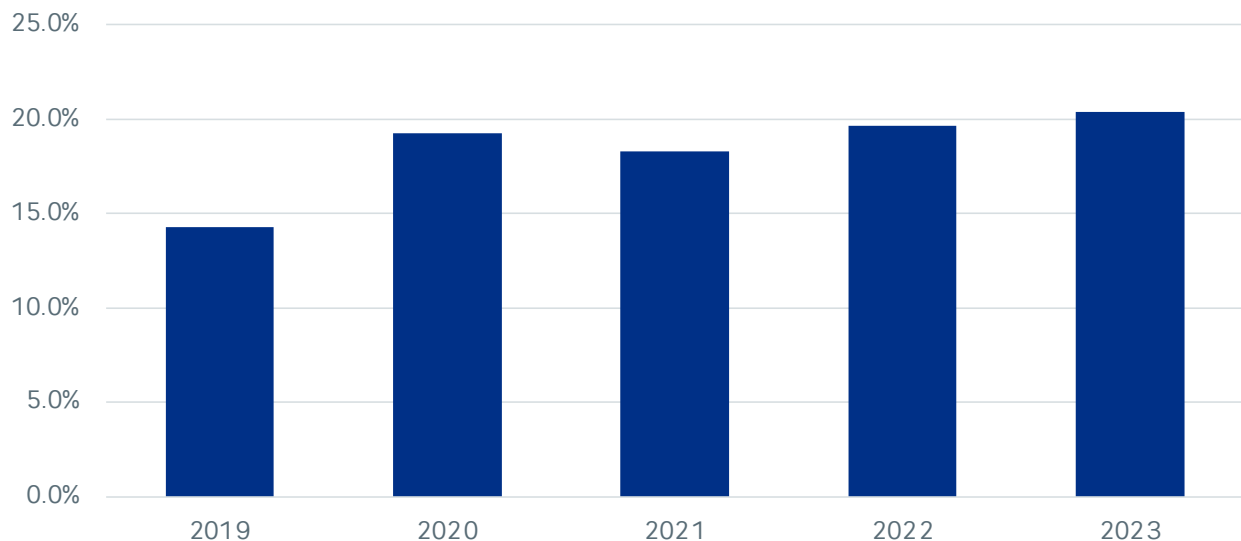
Retail e-commerce sales in Washington

Based on discussions with the Research and Fiscal Analysis Division, DOR does not monitor sales channels (e.g., in-store versus online) by registered businesses in Washington. Retail sales that companies report to DOR are classified by the NAICS code they provided when they first registered as a business. While sales channels have evolved for many traditional brick-and-mortar stores, sales are classified as the primary activity or product being sold. Therefore, NAICS 4541, Electronic Shopping and Mail Orders, does not encompass all retail e-commerce sales in Washington.

Washington-specific information related to [online retail sales](#) was collected from Replica⁶, an analytical platform that estimates in-person versus online retail spending among many other transportation-related statistics.

Based on weekly online retail spending by Washington state residents, online retail sales accounted for approximately 14 percent of total retail sales in 2019, and this figure rose to 20 percent in 2023 (**Figure 2**). The dataset shows that online retail spending in Washington grew at an average annual rate of nearly 17 percent from 2019 to 2023. According to this data, Washington's e-commerce retail sales are higher than those of the United States, which today averages around 15 percent. This information was used to help inform the assumptions built into the forecasting model.

Figure 2. Share of Online Retail Spending in Washington, as a Percentage of Total Retail Sales



Source: CDM Smith analysis of weekly online retail spending by Washington State residents from 2019 to 2023, available from Replica.

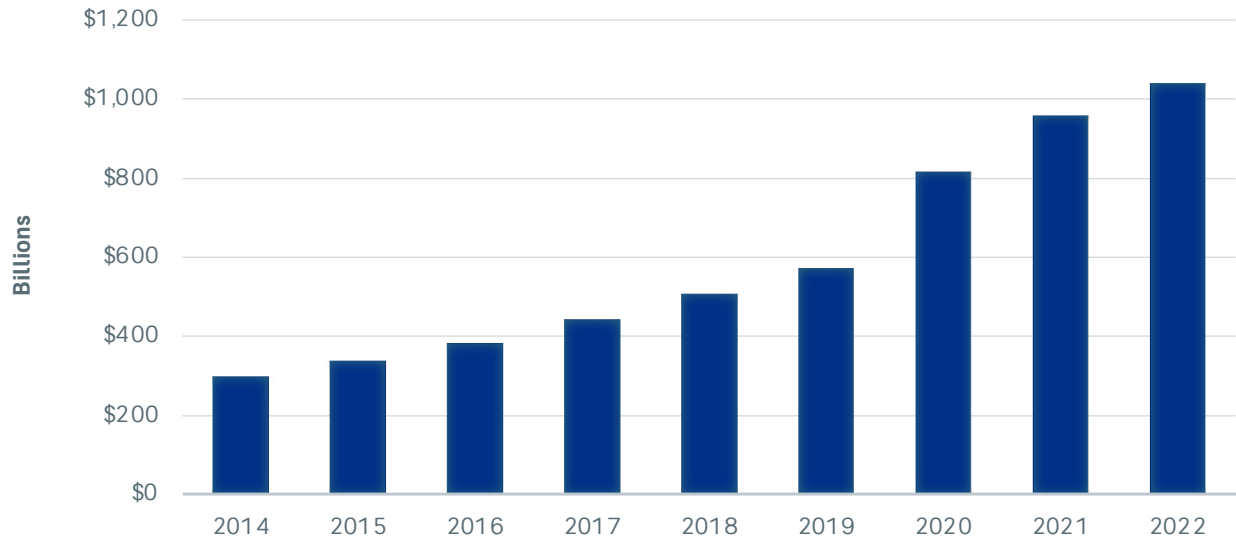
Retail e-commerce sales in the United States

National level data from the U.S. Census was collected to further enhance the understanding of the retail e-commerce landscape, and how it has evolved to help inform the forecasting methodology and assumptions. Over the last decade, e-commerce sales at the national level have exhibited a consistent and gradual upward trajectory, growing from \$297 billion in 2014 to \$1,040 billion in 2022, an average annual growth rate of 16.9 percent (**Figure 3**). For context, U.S. retail trade sales grew by an average of 5.5 percent annually between 2014 and 2022.

⁶ <https://www.replicahq.com/solutions>

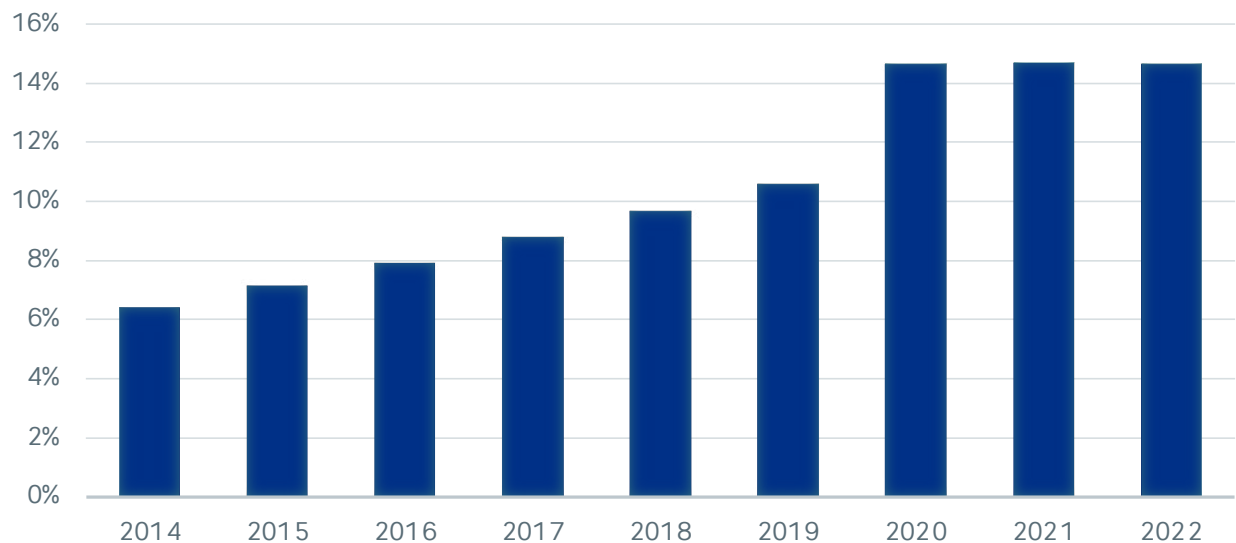
The contribution of e-commerce to total retail sales in the U.S. has increased from 6 percent in 2014 to 15 percent in 2022 (**Figure 4**). **Figure 5** shows how consumer behavior and preferences influence e-commerce sales instead of population growth acting as a determining factor. Although the U.S. population grew at an average annual rate of 0.6 percent from 2014 to 2022, average e-commerce spending per capita increased from \$936 to more than \$3,000 over the same period, an average annual increase of 16 percent.

Figure 3. U.S. Retail E-Commerce Sales



Source: CDM Smith analysis using [Census data](https://www.census.gov/data/tables/2021/econ/arts/annual-report.html), <https://www.census.gov/data/tables/2021/econ/arts/annual-report.html>
Note: 2022 totals come from [quarterly retail-e commerce sales](https://www.census.gov/retail/ecommerce.html), <https://www.census.gov/retail/ecommerce.html>

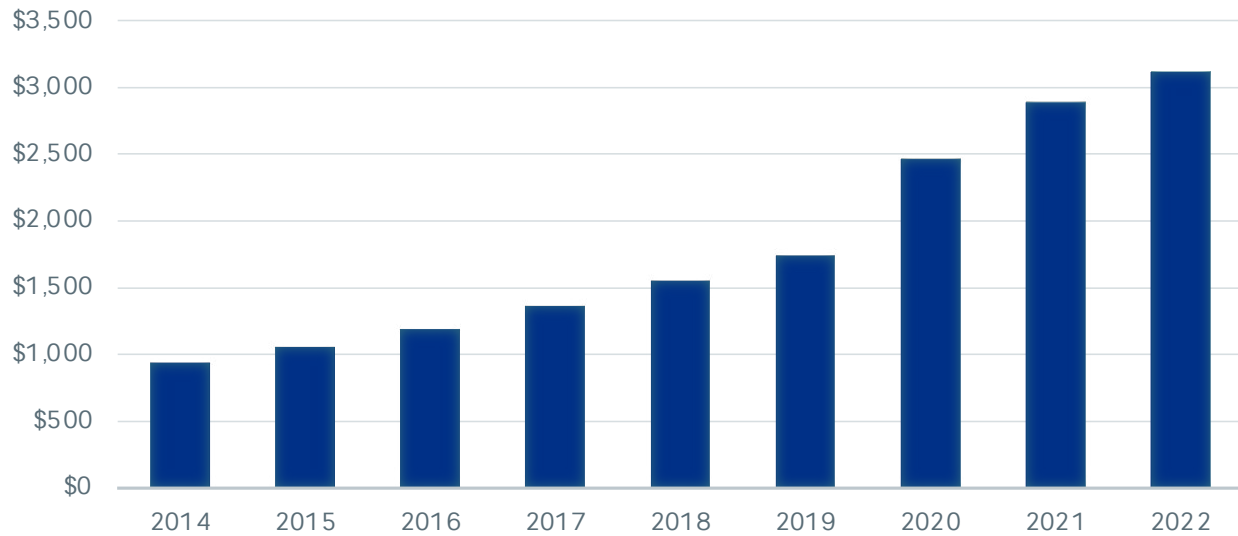
Figure 4. E-Commerce Share of Total Retail Trade Sales



Source: CDM Smith analysis using [Census data](https://www.census.gov/data/tables/2021/econ/arts/annual-report.html), <https://www.census.gov/data/tables/2021/econ/arts/annual-report.html>
Note: 2022 totals come from [quarterly retail-e commerce sales](https://www.census.gov/retail/ecommerce.html), <https://www.census.gov/retail/ecommerce.html>

The Census Bureau of the Department of Commerce also publishes estimates of U.S. retail e-commerce sales across the different retail trade subsectors. To estimate the national distribution of e-commerce sales across the various NAICS codes, the research team examined estimates from the Annual Retail Trade Surveys from 2013 to 2021 and the supplemental estimates from the Electronic Shopping and Mail-Order Houses (i.e., NAICS 4541) for the same period. The distribution of the Washington e-commerce sales forecast across various subsectors was done using this national breakdown of e-commerce activities.

Figure 5. Average E-Commerce Spending per Capita



Source: CDM Smith analysis using [Census data](https://www.census.gov/data/tables/2021/econ/arts/annual-report.html), <https://www.census.gov/data/tables/2021/econ/arts/annual-report.html>
Note: 2022 totals come from [quarterly retail-e-commerce sales](https://www.census.gov/retail/ecommerce.html), <https://www.census.gov/retail/ecommerce.html>



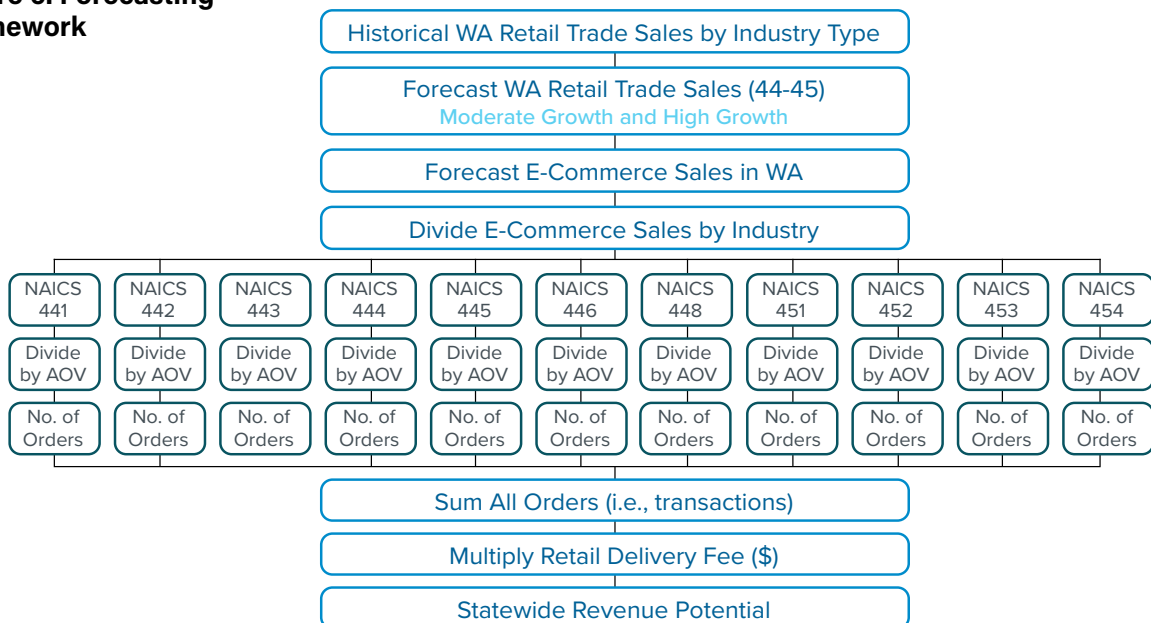
Revenue forecasting approach and parameters

Forecasting approach

The forecasting framework used to calculate the potential revenues from a retail delivery fee in Washington is shown in **Figure 6**. The methodology began with historical Washington taxable retail sales as its foundation. Taxable retail sales in Washington are forecasted as described in this section of the report. The research team applied a series of assumptions regarding e-commerce growth to extrapolate and estimate the corresponding e-commerce sales figures through 2040. Once e-commerce retail sales were projected, the research team used a systematic approach, oriented by national industry splits, to allocate e-commerce sales among different industry categories. This segmentation enabled a more detailed examination of online retail activity within each sector.

The average order value (AOV) of retail sales was a key subject of investigation by the research team. Average order value is one of the core metrics used by e-commerce businesses to measure the average dollar amount spent per transaction/order. The research team reviewed publicly available data from market research firms to establish category-specific AOV benchmarks. This approach was important to estimate the volume of orders across categories more accurately, as a single average is not representative of the true spending in each category. The rest of this section explains the assumptions and rationale built into the forecasting tool.

Figure 6. Forecasting Framework

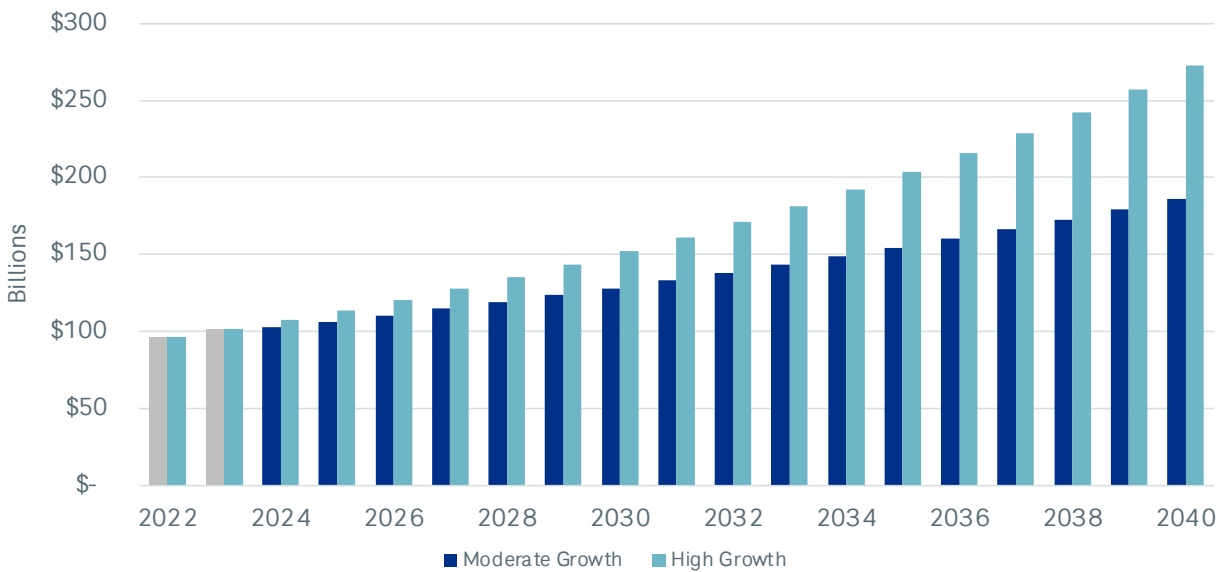


Retail taxable sales forecast

Taxable sales forecasts for the retail trade sector were developed using the short-term forecast of taxable retail sales prepared by the Washington Economic and Revenue Forecast Council as a reference point. Seen in **Figure 7**, the forecast was combined with the historical trend of taxable sales from the retail trade category (i.e., NAICS 44-45) collected from the DOR. Two revenue forecasting scenarios were assembled to project future taxable sales from the retail trade sector, both using FY 2023 as the baseline year.

- Moderate Growth.** This scenario leverages the short-term annual growth rate forecast of taxable retail sales developed by the Washington State Economic and Revenue Forecast Council, spanning FY 2024 to FY 2029. For FY 2024, taxable retail sales are projected to increase by 1.3 percent compared to FY 2023. From FY 2025 through FY 2029, taxable retail sales are projected to grow at an average annual rate of 3.8 percent. This scenario assumes that taxable sales from the retail trade sector will continue to grow at a constant rate of 3.8 percent per year through FY 2040.
- High Growth.** According to DOR data, taxable sales from the retail trade sector increased from \$53.6 billion in FY 2013 to \$96.8 billion in FY 2022, an average annual increase of 6.8 percent. The High Growth scenario assumes a constant average annual growth rate of 6 percent. The 6 percent rate remains below the 10-year average growth rate, but it stands as a more optimistic projection compared to the Moderate Growth scenario.

Figure 7. Forecast of Taxable Sales for the Retail Trade Sector



Note: Taxable retail sales forecast by businesses classified as Retailer (NAICS 44-45) developed by CDM Smith. All figures in nominal dollars.

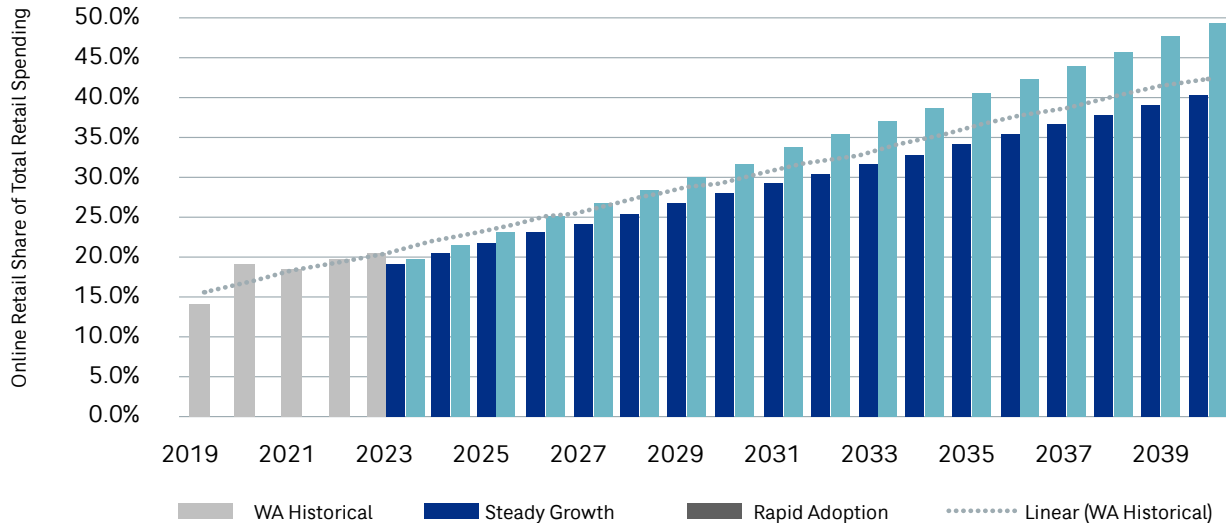
Retail e-commerce growth

Data published by the Census Bureau shows that retail e-commerce sales have been steadily increasing over the past 10 years in the United States. In 2022, retail e-commerce sales constituted approximately 15 percent of the total retail sales landscape, and since 2014, the dollar value of retail e-commerce sales increased at an average annual rate of 17 percent through 2022.

National-level data trends were contrasted with online retail trends specific to Washington State. Washington-specific information was collected from [Replica](#).⁷ According to Replica data, online retail spending accounted for approximately 14 percent in 2019, and this figure rose to close to 20 percent by 2022. These findings indicate that Washington surpasses the national average in terms of online spending and adoption. Informed by these historical patterns, two online retail sales adoption forecasts were developed, both using FY 2022 as the baseline year, with an estimated e-commerce growth of 18 percent (see **Figure 8**).

- **Steady Adoption.** The Steady Adoption scenario assumes that e-commerce sales activity will increase at a fixed annual rate of 1.25 percent. This means that year after year, the growth will be steady, without significant fluctuations. At this rate, e-commerce is expected to account for about 28 percent of retail sales by 2030. At this rate, taxable online retail sales are projected to grow at an average annual rate of 10.5 percent from 2023 through 2040.
- **Rapid Adoption.** The Rapid Adoption scenario assumes that e-commerce sales activity will experience a rapid annual rate increase of 1.75 percent. At this rate, e-commerce is expected to account for about 32 percent of retail sales by 2030. Taxable online retail sales are projected to grow at an average annual rate of 12 percent from 2023 through 2040. For comparison, a [Bloomberg Intelligence report](#) released in September 2023 projects that e-commerce will account for 33 percent of U.S. Retail Sales by 2027.⁸

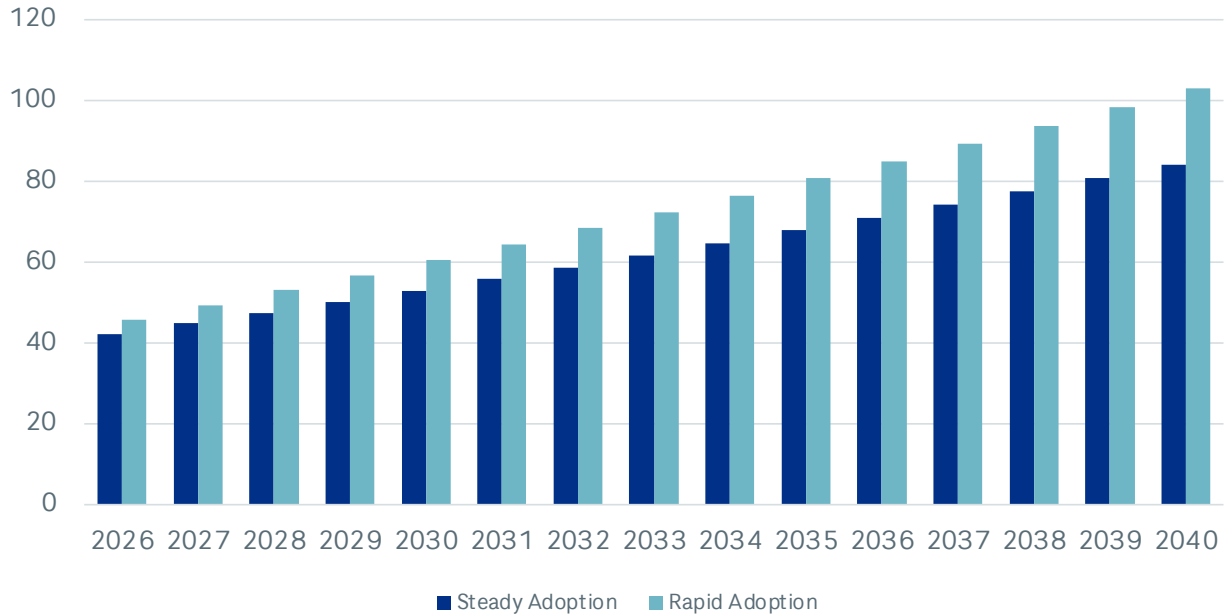
Figure 8. Washington E-Commerce Forecast as a Percentage of Retail Sales



Source: Developed by CDM Smith.

⁷ <https://www.replicahq.com/solutions>
⁸ <https://www.bloomberg.com/company/press/e-commerce-to-account-for-33-of-us-retail-sales-by-2027-finds-bloomberg-intelligence/>

Figure 9. Average Number of Annual Online Orders per Person
Retail Taxable Sales Forecast – Moderate Growth

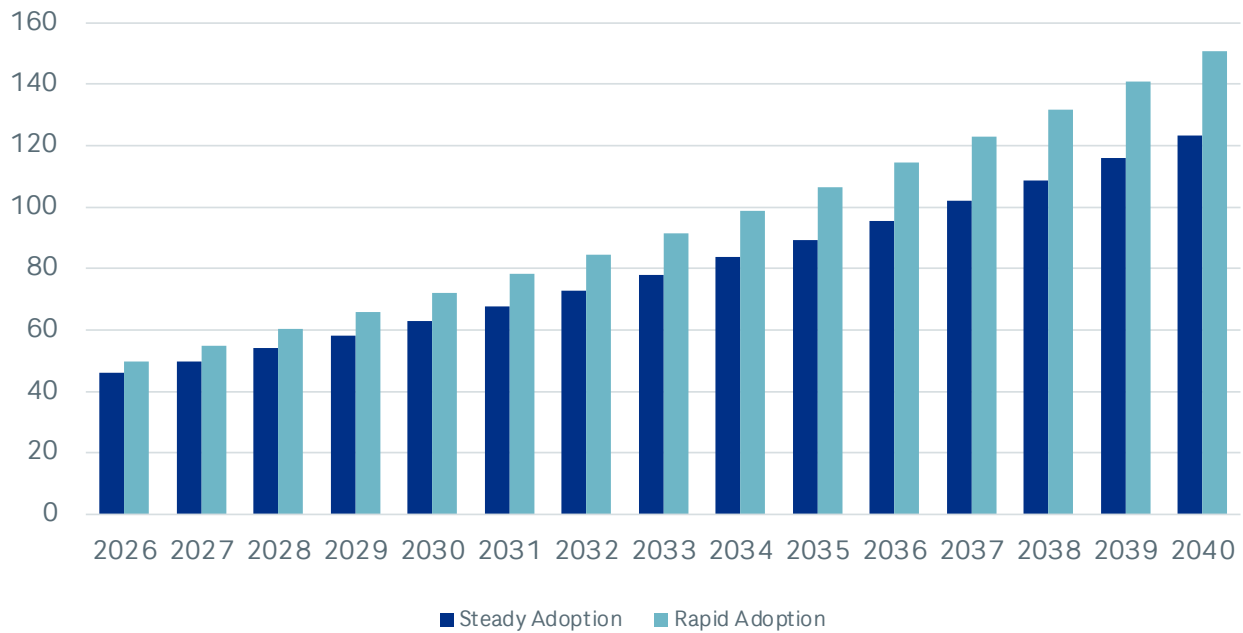


Source: Analysis conducted by CDM Smith. Estimates based on the Moderate Growth forecast for retail taxable sales and no retailer or order value exemptions.

Figure 9 shows the average number of annual orders per person subject to the retail delivery fee over the forecasting period assuming the Moderate Growth forecast for retail taxable sales. Population estimates were adopted from November 2023 estimates developed by the Washington State Office of Financial Management, Forecasting and Research Division. The analysis suggests that in 2026, the number of online retail orders for delivery could range between 42 and 46 packages per person. If no retail delivery fee exemptions are provided, the average customer could pay between \$13 and \$14 in retail delivery fees in 2026, which translates to \$1.05 and \$1.15 per month in retail delivery fees. As retail e-commerce continues to grow, the average number of online retail orders is projected to increase.

Figure 10 shows the average number of annual orders per person subject to the retail delivery fee over the forecasting period assuming the High Growth forecast for retail taxable sales. The analysis suggests that in 2026 the average number of online retail orders for delivery could range between 46 and 50 orders per person under more favorable economic conditions. If no retail delivery fee exemptions are provided, the average customer could pay between \$14 and \$15 in retail delivery fees in 2026, which translates to \$1.15 and \$1.25 per month in retail delivery fees. The average number of online retail orders will rise due to continued growth of retail e-commerce.

Figure 10. Average Number of Monthly Online Orders per Person per Year
Retail Taxable Sales Forecast – High Growth



Source: Analysis conducted by CDM Smith. Estimates are based on the High Growth forecast for retail taxable sales and no retailer or order value exemptions.

Retailer exemption

Retailer exemptions from the retail delivery fee are offered by Colorado and Minnesota to eligible businesses. A retailer in Colorado is considered a “qualified business” if its retail sales of tangible personal property, goods, or services in Colorado during the preceding calendar year were \$500,000 or less. Retailers in Minnesota are exempt if their sales for the prior calendar year were less than \$1,000,000. Furthermore, an online marketplace provider that helps a retailer who made less than \$100,000 in retail sales in Minnesota through the marketplace the year prior is also exempt. Both taxable and nontaxable retail sales are included in the revenue threshold.

A table with Business and Occupation (B&O) Tax data for CY 2022 was provided by DOR’s Research and Fiscal Analysis division. For the retail trade sector, **Table 5** presents gross revenue and taxpayer counts categorized into four taxable revenue groups. Gross revenue sales from companies with annual revenues under \$250,000 make up approximately 6 percent

of the state’s gross retail sales before credits and deductions. Similarly, approximately three percent of all gross retail sales in the state come from businesses with gross revenue sales over \$250,000 but under \$1,000,000. The scenario planning tool offers two retailer exemption options for planning purposes:

- **Revenues below \$250,000.** This scenario assumes that six percent of taxable online retail sales in Washington will be generated from retailers with gross revenue sales below \$250,000. It is assumed that during the forecasting period, this percentage will not change.
- **Revenues below \$1 million.** This scenario assumes that nine percent of taxable online sales in Washington will be generated from retailers with gross revenue sales below \$1 million. It is assumed that during the forecasting period, this percentage will not change.

Table 5. Calendar Year 2022 Business & Occupation Tax Data for the Retail Trade Sector

Taxable Revenue Group	Taxpayer Count	Gross Revenue	Taxable Revenue	Share of Gross Revenue	Cumulative Share of Gross Revenue
\$0–250,000	44,349	\$12,679,946,000	\$1,752,769,000	6%	6%
\$250,001–1,000,000	9,436	\$6,632,723,000	\$4,976,589,000	3%	9%
\$1,000,001–25,000,000	9,702	\$51,896,353,000	\$41,269,860,000	24%	33%
\$25,000,001+	865	\$147,299,508,000	\$128,669,981,000	67%	100%
Totals	64,352	\$218,508,530,000	\$176,669,199,000	100%	

Note: The portion of the delivery fee that goes into the general state fund is distributed to the Highway Users Tax Fund (71%) and the Multimodal Options Fund (29%).

Exemptions based on order value

Colorado imposes a retail delivery fee on orders delivered by motor vehicles to a location in Colorado with at least one item of tangible personal property subject to state sales or use tax. No exemptions are provided based on the value of the transaction. In Minnesota, the retail delivery fee applies to sales containing at least one item of tangible personal property subject to sales tax, or clothing, for a delivery transaction that equals or exceeds \$100. Only nonexempt items count toward the \$100 threshold amount.

For online transactions, precise data on distributions remains a challenge. The research team leveraged AOV data for various retail categories, as published by independent market research firms, to estimate the average volume of online taxable retail sales and, consequently, the total number of orders placed with retailers. However, despite its usefulness, the AOV data lacks the granularity required for more precise estimates given that it does not capture the full distribution of transactions.

To address the challenge of estimating potential unrealized revenues due to exemptions based on a certain amount, the research team turned to weekly retail spending per transaction data available from Replica. While data is not exclusively focused on online

retail sales, it does offer insights into the average retail spending per transaction. Since this material is so comprehensive, the research team downloaded 2022 data for four Washington counties to serve as proxies for the broader state context: King County, Yakima County, Spokane County, and Okanogan County. The general assumption is that spending trends across these four counties are representative of the average retail spending per transaction at the state level for planning purposes. The 2022 data was analyzed using Microsoft Excel to estimate cumulative probabilities using the normal distribution function (i.e., NORM.DIST function). It is estimated that approximately 40 percent of retail sales are \$50 or below, 52 percent of retail sales are \$75 or below, and roughly 64 percent of retail sales are \$100 or below.

Retail Delivery Fee

A drop-down menu allows users to explore the revenue potential associated with various retail delivery fee options. The range spans from 25 cents to 75 cents per online order. By selecting different fee values, users can assess the revenue impact and make informed decisions regarding delivery charges. Additionally, the tool offers the flexibility to annually adjust the retail delivery fee. The annual adjustment ranges from zero percent to five percent.



Implementation and administrative costs

A retail sales tax is already collected in Washington at the point of sale for tangible personal property. In general, companies making retail sales in Washington, whether they are in-state or out-of-state, are required to collect sales tax based on where the customers receive the goods (i.e., the destination of the sale), and they are also accountable for filing the sales tax return with the DOR.

The research team collaborated with DOR, which provided an order of magnitude estimate of the potential costs that might arise if a retail delivery fee was to be enacted in the state of Washington. DOR emphasized that the review and cost estimates offered do not constitute an official policy stance. Rather, they serve as inputs to aid in exploring retail delivery fee concept options. The analysis used the following research assumptions to project the potential costs that DOR would have in relation to the retail delivery fee concept. The research did not include any potential costs considerations that businesses might incur to comply with a retail delivery fee. The assumptions are as follows:

- January 1, 2026, effective date for costing purposes.
- Retail delivery fee would apply to taxable retail sales of “tangible personal property.”
- Each sale, order, and/or transaction for delivery is assumed to be a single “retail delivery” regardless of how many shipments are needed to deliver the items purchased.
- Items currently exempted from a sales tax are assumed to not be subject to a retail delivery fee (e.g., prescription drugs (RCW 82.08.0281) and groceries (RCW 82.08.0293)).
- The retail delivery fee is assumed to apply to any item of tangible personal property delivered to a customer in Washington. Exemptions to the retail delivery fee based on the size of the order (i.e., transaction) are excluded from the cost estimate. Order value exemptions may add administrative expenses to process requests and verify eligibility.
- New businesses or small businesses with gross revenues below \$1,000,000 in the previous calendar year are exempt for estimating purposes.
- The retail delivery fee is assumed to be owed by the seller regardless of whether the seller delivers the goods themselves or hires a third party to deliver.

Table 6 summarizes the expenses by category anticipated to be incurred in the short term to implement and administer a retail delivery fee in Washington. After 2029, a cost escalation factor of 1.5 percent per year has been assumed. The following staff roles are anticipated:

- **Tax specialists** to ensure compliance, addressing taxpayer inquiries, and providing accurate advice.
- **Revenue auditors** responsible for assessing tax returns, conducting audits, and identifying potential discrepancies.
- **Forms and records analysts** for efficient management of tax forms, records, and documentation.
- **IT personnel** for developing and maintaining tax systems, databases, and online platforms. Their role includes system upgrades, security enhancements, and user support.

Table 6. Expenditures by Expense Category

Expense Objects	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Salaries and Wages	\$128,800	\$295,000	\$122,000	\$101,600	\$101,600
Benefits	\$42,600	\$97,300	\$40,300	\$33,500	\$33,500
Personal Service Contracts	\$0	\$72,300	\$0	\$0	\$0
Supplies & Material	\$23,000	\$54,700	\$25,300	\$16,600	\$16,600
Travel	\$0	\$0	\$2,800	\$2,800	\$2,800
Office Equipment	\$10,500	\$20,700	\$10,500	\$4,900	\$4,900
Fiscal Year Total	\$204,900	\$540,000	\$200,900	\$159,400	\$159,400
FTE Count	1.5	3.81	2	1.6	1.6





Revenue distribution options

As required in the budget proviso, the research team incorporated functionalities into the revenue forecasting tool that will allow for a dynamic evaluation of various revenue distribution scenarios. The research team collaborated with the staff technical team to identify potential components for a distribution formula.

For planning purposes, the revenue scenario planning tool assumes that a retail delivery fee implemented in Washington would see total revenue divided among three groups of recipients: the state, counties, and cities and towns. For the portion of delivery fees directed to counties, a series of criteria were selected to determine their distribution. These are based on a combination of factors used for existing revenue streams, such as motor vehicle fuel tax collections, as well as new factors that would be specific to a retail delivery fee. County-level allocations can be calculated in the forecasting tool using five different factors:

- Population
- Roadway miles
- Vehicle miles traveled
- Equal share
- Proportion of e-commerce sales

Allocations to cities and towns are calculated based on two factors: population and roadway lane-miles. While cities and towns do receive state motor vehicle fuel tax distributions that are allocated on a per capita basis, lane-miles do not currently factor into those calculations. The total revenue for each jurisdiction in the forecasting tool is the sum of these two components, and the percentage of local distributions allocated by each of the two factors can be adjusted by the user.

For the five factors used in allocating revenue to Washington's 39 counties, each factor is used to determine the distribution of a certain percentage of the total county revenue. For instance, 10 percent may be allocated by population, 30 percent by roadway or lane-miles, 40 percent by vehicle miles traveled, 10 percent by equal share, and 10 percent by e-commerce share. As with the initial distribution criteria, these are all adjustable in the forecasting tool, depending on the desired scenario.

Population at the county level (as well as for cities and towns) is sourced from U.S. Census data. The share of each county's population relative to the statewide total is assumed to remain constant over the forecasting period. This is done for the following two reasons:

1. While county-level population forecasts are available from the Washington State Office of Financial Management (OFM), similar data for local jurisdictions is not, and this assumption provides methodological consistency.
2. The OFM projections indicate that each county's share of population will be relatively stable through 2040.

For the percentage of delivery fee revenue allocated according to population, this figure is multiplied by a county's respective proportion. For example, Pierce County with a population of 918,933 (12 percent of the state's total), would receive 12 percent of the delivery fee revenue share that is to be allocated using this factor.

Lane-miles of county roads are used in a similar fashion to determine revenue distribution. Using GIS data from the Washington State Department of Transportation Geospatial Open Data Portal, the total

length of roadway owned and maintained by each county was calculated. The same source was also used to determine the total length of roadway for each of Washington's 281 cities and towns. The revenue to be distributed according to lane-miles is done in proportion to the jurisdiction's share of the total (all county roads statewide or city and town roads, depending on the recipient).

Likewise, VMT are used to determine the share of total travel in each county. The revenue allocated by this criterion is split proportionally. Due to the boundaries of cities and towns being comparatively smaller and potential difficulties in measuring city- or town-level VMT, this factor was not selected for revenue distribution to cities and towns. Additionally, for counties only, each would receive the same amount of revenue from the portion designated as equal share. The final factor used in county distribution is the proportion of e-commerce sales relative to the statewide total. These amounts are estimated using data from the Washington State DOR. Proportions are calculated by dividing a county's respective volume of taxable sales in e-commerce (NAICS 4541, E-Commerce and Mail Order from Retail Trade) by the state total.

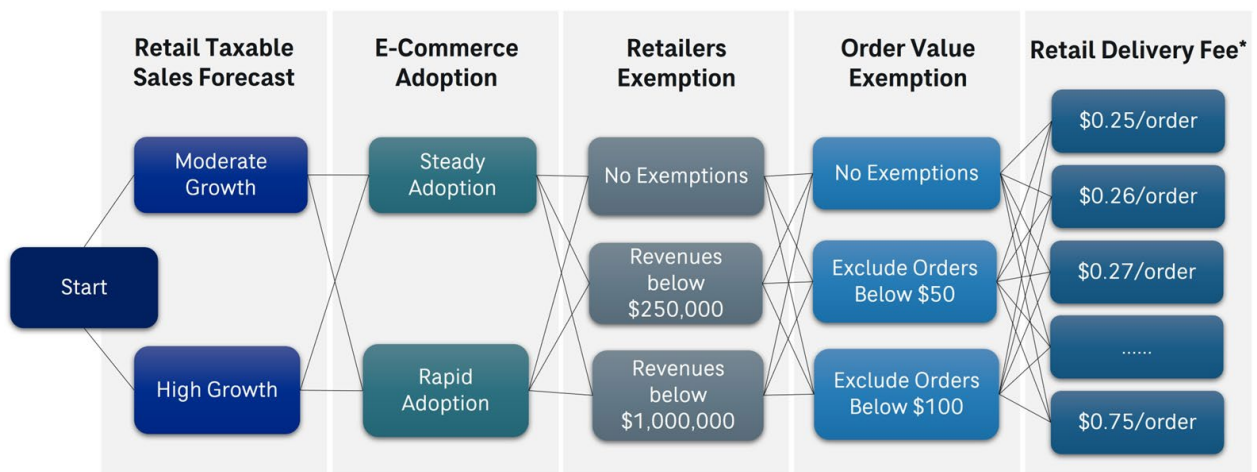




Revenue scenario planning tool

The revenue scenario planning tool is an Excel-based tool to estimate the revenue generation potential of a retail delivery fee in Washington. The tool was specifically designed for the Joint Transportation Committee to help stakeholders and policymakers assess the impacts of various retail delivery fee rates and exemptions based on dynamic simulations and simple data visualizations. **Figure 11** shows the various revenue modeling paths available.

Figure 11. Revenue Scenario Planning Tool - Scenario Combinations



*Option available to adjust the fee to an inflation rate

Figure 12 provides a visual representation of the user control panel, offering a complete interface where users can test with various combinations of forecasting assumptions. The values depicted are purely illustrative and do not represent any specific policy considerations. In general, this section provides a glimpse into the various visualization tables and figures available in the revenue scenario planning tool. All revenue estimates are presented in nominal dollars, representing the estimated actual dollar value in the future year.

Table 7 provides a concise overview of the revenue potential across three distinct time periods: 2030, 2040, and the cumulative projection. **Table 8** summarizes the revenue potential by year over the forecasting period. The summary of key components are as follows:

- **Gross Revenue Potential.** This line item shows the projected revenue without considering any exemptions and prior to accounting for the cost of collection. It reflects the full revenue potential based on user-selected options.
- **Unrealized Revenues.** When users select specific exemptions (such as retailer or order value exemptions), these line items summarize the potential revenue loss. These unrealized revenues highlight the impact of exemptions on overall revenue outcomes.
- **Cost of Collection.** This line item subtracts the cost of collection from the gross revenue potential. This adjustment accounts for the expenses associated with tax administration and enforcement.
- **Net Revenue Potential.** This line item summarizes the net revenue potential, after accounting for exemptions and cost of collection.

Figure 12. Revenue Scenario Planning Tool User Control Panel

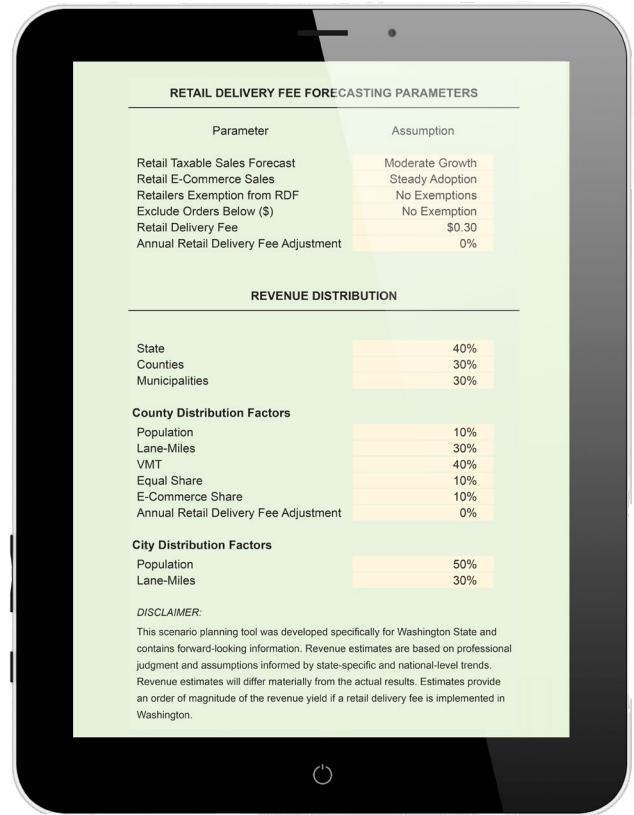


Table 7. Sample Table of Revenue Potential for Three Time Periods

Revenue Potential Estimates (nominal dollars)			
Revenue Potential	2030	2040	Cumulative, 2024–2040
Gross Revenue Potential	\$145,090,000	\$281,200,000	\$2,960,330,000
■ Unrealized Revenues: Retailers Exemption	\$5,800,000	\$11,250,000	\$118,430,000
■ Unrealized Revenues: Order Value Exemption	\$41,790,000	\$80,980,000	\$852,570,000
■ Cost of Collection	\$54,514	\$53,811	\$933,111
Net Revenue Potential	\$97,445,486	\$188,916,189	\$1,988,396,889

Note: The data presented in this figure serves as illustrative examples to demonstrate the various components. These values are not based on actual scenarios.

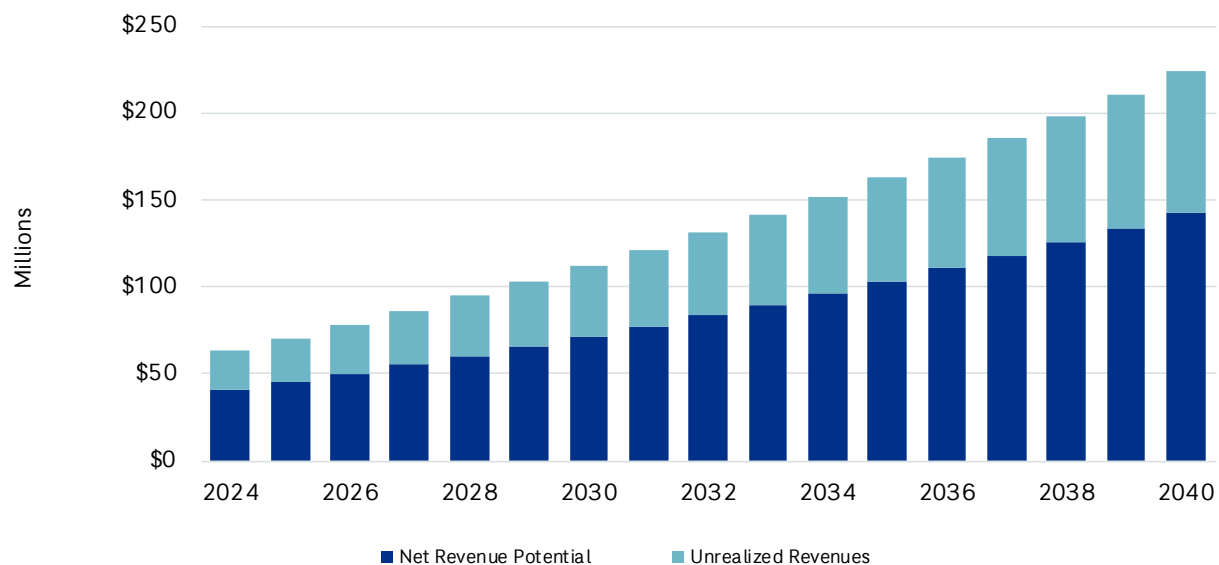
Table 8. Sample Table of Revenue Potential Estimates by Year

Revenue Potential Estimates (nominal dollars)					
Year	Gross Revenue Potential	Unrealized Revenues: Retailers Exemption	Unrealized Revenues: Order Value Exemption	Cost of Collection	Net Revenue Potential
2024	\$87,820,000	\$3,510,000	\$25,290,000	\$54,386	\$58,965,614
2025	\$95,820,000	\$3,830,000	\$27,600,000	\$53,010	\$64,336,990
2026	\$104,640,000	\$4,180,000	\$30,140,000	\$57,577	\$70,262,423
2027	\$113,900,000	\$4,560,000	\$32,800,000	\$55,112	\$76,484,888
2028	\$123,870,000	\$4,960,000	\$35,670,000	\$53,340	\$83,186,660
2029	\$134,260,000	\$5,370,000	\$38,670,000	\$55,582	\$90,164,418
2030	\$145,090,000	\$5,800,000	\$41,790,000	\$54,514	\$97,445,486
2031	\$156,380,000	\$6,260,000	\$45,040,000	\$55,108	\$105,024,892
2032	\$168,140,000	\$6,730,000	\$48,420,000	\$55,286	\$112,934,714
2033	\$180,380,000	\$7,220,000	\$51,950,000	\$55,624	\$121,154,376
2034	\$193,130,000	\$7,730,000	\$55,620,000	\$55,700	\$129,724,300
2035	\$206,390,000	\$8,250,000	\$59,440,000	\$55,086	\$138,644,914
2036	\$220,200,000	\$8,810,000	\$63,420,000	\$53,457	\$147,916,543
2037	\$234,560,000	\$9,380,000	\$67,550,000	\$54,647	\$157,575,353
2038	\$249,510,000	\$9,990,000	\$71,860,000	\$53,797	\$167,606,203
2039	\$265,040,000	\$10,600,000	\$76,330,000	\$57,074	\$178,052,926
2040	\$281,200,000	\$11,250,000	\$80,980,000	\$53,811	\$188,916,189
Total	\$2,960,330,000	\$118,430,000	\$852,570,000	\$933,111	\$1,988,396,889

Note: The data presented in this figure serves as illustrative examples to demonstrate the various components. These values are not based on actual scenarios.

Figure 13 illustrates the net revenue potential and unrealized revenues in bar chart form, assuming exemptions are provided.

Figure 13. Sample Output of Annual Revenue Potential

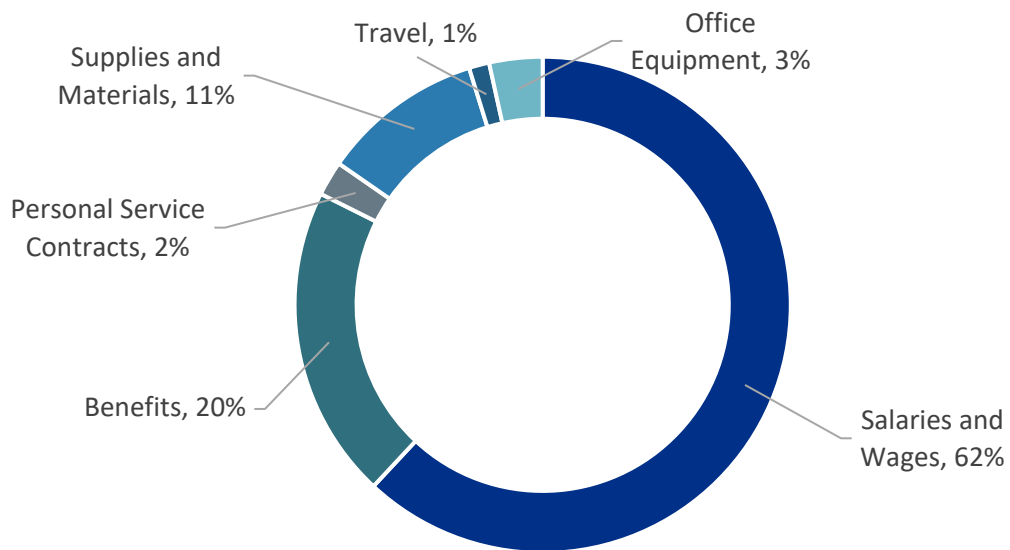


Note: The data presented in this figure serves as illustrative examples to demonstrate the various components. These values are not based on actual scenarios.

The tool also provides insights into the cost aspects of administering and implementing a retail delivery fee in Washington. One key visualization is a donut chart (Figure 14), which briefly summarizes costs across six categories:

- **Salaries and Wages.** This category encompasses compensation for employees involved in administrative tasks, project management, and implementation.
- **Benefits.** Beyond salaries, other employee perks contribute significantly to overall costs.
- **Contractor Services.** Cost for external contractors for specialized services.
- **Supplies and Materials.** From office supplies to project-specific materials.
- **Travel.** Costs related to travel for training, meetings, or site visits.
- **Office Equipment.** Costs associated with technology and for acquiring, maintaining, and upgrading office equipment.

Figure 14. Sample Output of Administration and Implementation Costs



ONLINE SHOP

HOME MOBILE ELECTRONICS FURNITURE HOUSEHOLD CLOTHING SHOES & STYLE HOMEWARE FOOD

Search



Mobile Devices
Mobile Phone ~~\$849~~ \$699

+ MORE INFO



Home Electronics
Laptop Computer ~~\$1299~~ \$999

+ MORE INFO



Technology
Virtual Reality Goggles ~~\$299~~ \$199

+ MORE INFO



Household
Electric Scooter ~~\$675~~ \$499

+ MORE INFO



Clothing
Summer Dress ~~\$99~~ \$59

+ MORE INFO



Shoes & Beauty
Classic Red Heels ~~\$199~~ \$119

+ MORE INFO



Homeware
Green Pot \$19 \$9

+ MORE INFO



Food & Cooking
Eco Bag ~~\$9.99~~ \$4.99

+ MORE INFO

Revenue generation potential

This section presents revenue projections for four different scenarios, showcasing the functionalities of the revenue scenario planning tool and the revenue potential of the retail delivery fee concept in Washington. It is important to note that these scenarios and the forecasting parameters are for illustrative purposes only. They were selected only to give an approximation of the revenue magnitude and the revenue impacts if exemptions are considered; however, the parameters do not represent policy recommendations.

In Washington, food and prescription drugs are exempt from the retail sales tax; however, prepared food is still subject to the tax.⁹

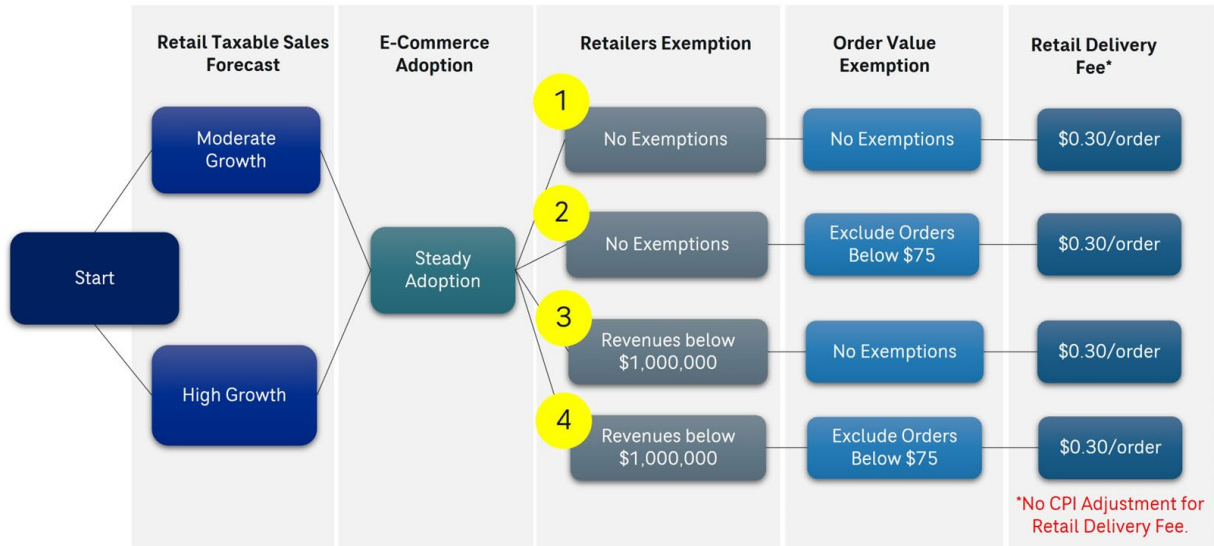
The retail delivery fee of 30 cents per order was arbitrarily chosen because it falls between the 28-cent and 50-cent fees set in Colorado and Minnesota, respectively. The e-commerce adoption assumption is the same in all scenarios. These scenarios also assume that the retail delivery fee would apply to all goods subject to Washington's retail sales tax, which generally includes tangible personal property.

On the next page, **Figure 15** provides a concise depiction of the four scenarios evaluated on this section. Each scenario delineates a spectrum, demonstrating the revenue potential under two taxable retail sales forecasts.

- **Scenario No. 1** – Stands as the baseline. Assumes no exemptions to retailers and no exemptions based on order value.
- **Scenario No. 2** – This scenario introduces exemptions based on order value. Orders below \$75 are exempt from a retail delivery fee.
- **Scenario No. 3** – This scenario assumes that exemptions are provided to retailers with gross revenues below \$1 million.
- **Scenario No. 4** – This scenario assumes that exemptions are provided to retailers with gross revenues below \$1 million and to orders below \$75.

⁹ A more [complete description of the retail sales tax](https://dor.wa.gov/taxes-rates/retail-sales-tax), including exemptions, is located on the Washington Department of Revenue's website: <https://dor.wa.gov/taxes-rates/retail-sales-tax>

Figure 15. Components of Four Revenue Scenarios

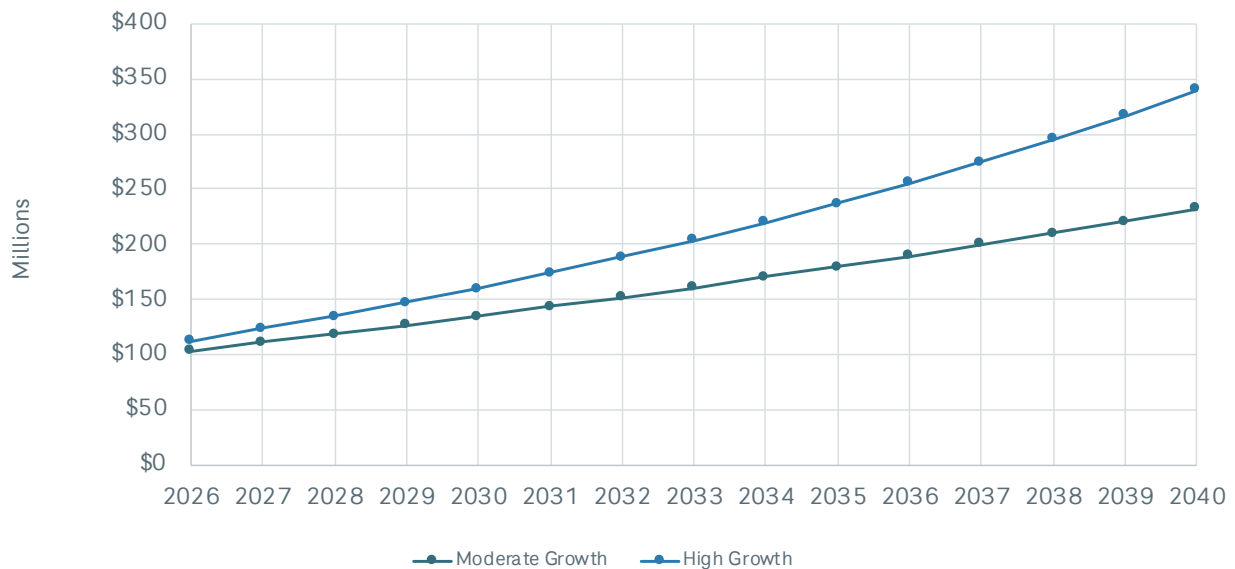


Scenario No. 1

Scenario No. 1 stands as the baseline and assumes no exemptions to retailers and no exemptions based on order value. The scenario assumes the steady adoption of e-commerce sales growth, a retail delivery fee of 30 cents per order, and no inflation adjustment to the retail delivery fee over the forecasting period. **Figure 16** illustrates the potential revenue range projected under two different economic forecasts for taxable retail sales (i.e., moderate growth and high growth). According to projections, if the retail delivery fee is implemented in January 2026, revenues for CY 2026 may fall between \$103 million and \$112 million. Retail delivery fee revenues are expected to continue growing as e-commerce gains traction, reflecting changing consumer behavior.

Figure 16. Scenario No.1 – Retail Delivery Fee Revenue Potential

Baseline scenario, no exemptions to the retail delivery fee



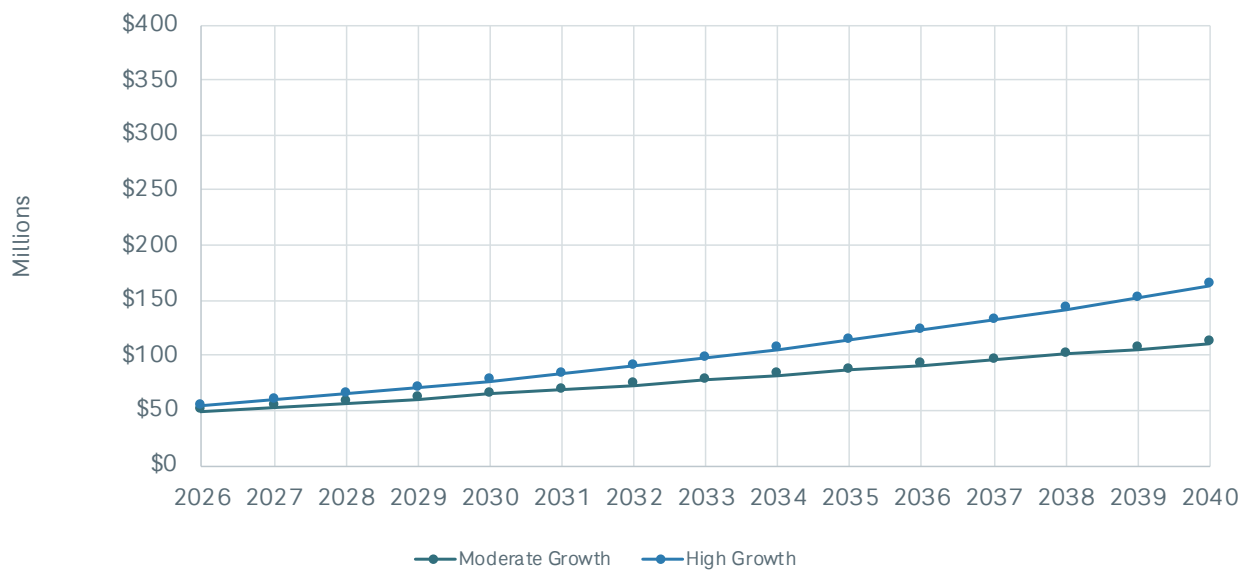
Note: Nominal dollars.

Scenario No. 2

Scenario No. 2 incorporates a retail delivery fee exemption for orders valued at \$75 or under. The scenario assumes the steady adoption of e-commerce sales growth, a retail delivery fee of 30 cents per order, and no inflation adjustment to the retail delivery fee over the forecasting period. **Figure 17** illustrates the potential revenue range projected under two different economic forecasts for taxable retail sales (i.e., moderate growth and high growth). According to projections, if the retail delivery fee is implemented in January 2026, revenues for CY 2026 may fall between \$49 million and \$54 million. Retail delivery fee revenues are expected to continue growing as e-commerce gains traction, reflecting changing consumer behavior.

Figure 17. Scenario No. 2 - Retail Delivery Fee Revenue Potential

Retail delivery fee exemption for order values at \$75 or under



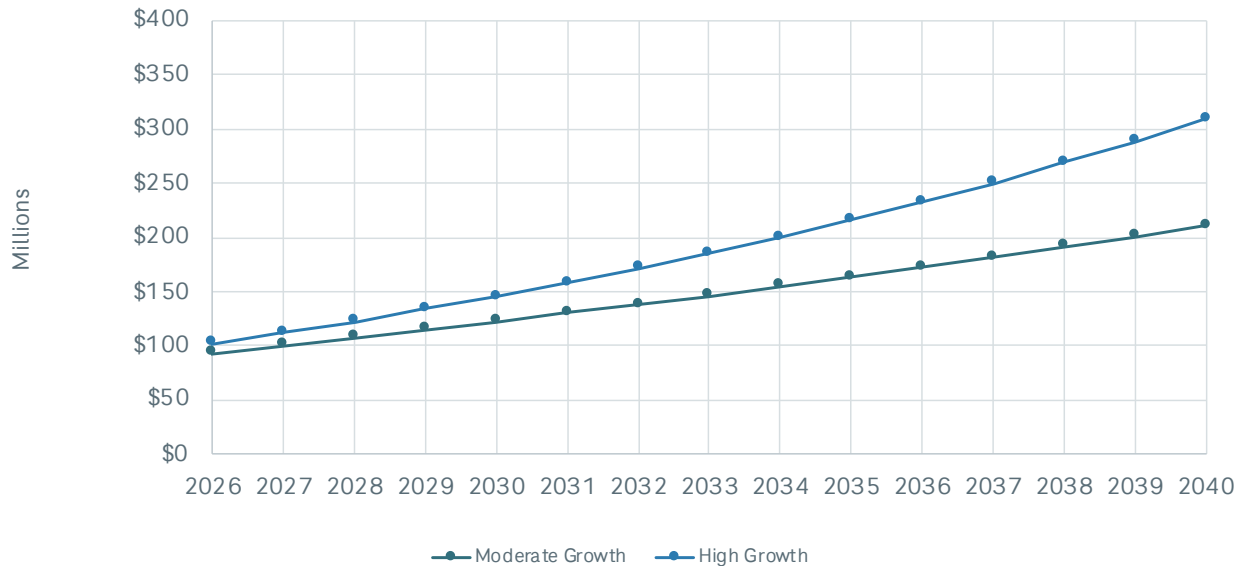
Note: Nominal dollars.



Scenario No. 3

Scenario No. 3 assumes that qualified businesses with gross revenues of \$1 million or less of retail sales in the prior year will be exempt from the retail delivery fee. This scenario also assumes the steady adoption of e-commerce sales growth, a retail delivery fee of 30 cents per order, and no inflation adjustment to the retail delivery fee over the forecasting period. **Figure 18** illustrates the potential revenue range projected under two different economic forecasts for taxable retail sales (i.e., moderate growth and high growth). According to projections, if the retail delivery fee is implemented in January 2026, revenues for CY 2026 may fall between \$93 million and \$102 million. It is projected that excluding companies with gross sales of \$1 million or less will reduce potential revenue by an average of 9 percent, meaning that companies with gross sales of \$1 million or more will account for approximately 91 percent of the revenue.

Figure 18. Scenario No. 3 - Retail Delivery Fee Revenue Potential
Retail delivery fee exemption for businesses with gross revenues of \$1 million or less of retail sales



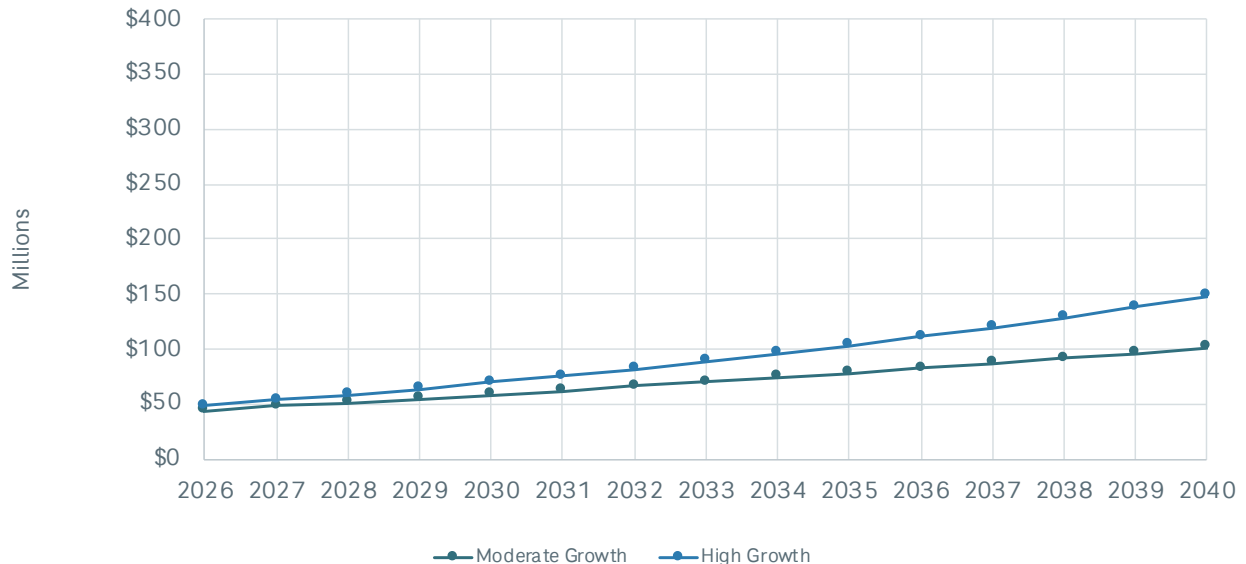
Note: Nominal dollars.

Scenario No. 4

Scenario No. 4 assumes that qualified businesses with gross revenues of \$1 million or less of retail sales in the prior year and retail orders valued at \$75 or under will be exempted from the retail delivery fee. This scenario also assumes the e-commerce sales growth, a retail delivery fee of 30 cents per order, and no inflation adjustment to the retail delivery fee over the forecasting period. **Figure 19** illustrates the potential revenue range projected under two different economic forecasts for taxable retail sales (i.e., moderate growth and high growth). According to projections, if the retail delivery fee is implemented in January 2026, revenues for CY 2026 may fall between \$45 million and \$49 million.

Figure 19. Scenario No. 4 - Retail Delivery Fee Revenue Potential

Retail delivery fee exemption for businesses with gross revenues of \$1 million or less of retail sales and retail delivery fee exemption for order values at \$75 or under



Note: Nominal dollars.

Revenue model limitations

The revenue scenario planning tool was developed specifically for Washington state and contains forward-looking information. Revenue estimates are based on professional judgment and assumptions informed by state-specific and national-level trends. Revenue estimates will differ materially from the actual results. Estimates provide an order of magnitude of the revenue yield if a retail delivery fee is implemented in Washington.



Impacts to consumers and businesses



This section explores online retail spending trends in Washington State and examines the disparities that may arise between burdened communities due to the imposition of such a fee.

The first portion of this section explores an online retail delivery fee from the consumer perspective, considering how delivery fees may impact certain demographics such as individuals with low-incomes or those geographically isolated.

The second portion of this section looks at an online retail delivery fee from the viewpoint of businesses, who need to balance revenue generation with competitive business prices. These subsections will highlight the equity impacts stemming from retail delivery fees, helping to inform strategies and policies that foster a more inclusive and equitable landscape for all residents of Washington.

Key takeaways

- 85 percent of online retail spending is in urban areas and 15 percent in rural areas.
- Higher online spending areas are typically urban areas with higher income, higher disability rate, and low car ownership rate.
- High income areas in urban or rural counties have similar online retail spending trends.
- Businesses raised questions about the implications of any new fee on existing local regulations.
- Businesses are concerned about the potential for a retail delivery fee to change consumer behavior and reduce consumer demand.

Consumers

From a consumer standpoint, delivery fees impact the cost-effectiveness and convenience of online shopping. Elevated delivery charges can unfairly burden low-income consumers, individuals in geographically isolated areas, or those without access to cars, in addition to those with mobility limitations. Analyzing the impact of delivery fees on different consumer demographics allows for a more equitable assessment of the potential financial implications and accessibility barriers.

Methodology

To comprehensively assess the equity impacts of retail delivery fees in Washington, a methodology encompassing several steps was employed:

- First, relevant variables and data were identified, comprising demographic information, income levels, geographic location, car ownership rates, disability status, and online retail spending habits;
- Second, equity cohort populations were defined to include those most likely to be affected by such fees;
- Third, analysis of the collected data was conducted, utilizing numerical analysis to discern patterns, trends, and disparities across the defined equity cohort populations.

This analysis involved descriptive statistics to identify correlations and associations between variables. Through this methodological framework, a comprehensive understanding of the equity impacts of retail delivery fees in Washington was cultivated.

Data

Data were obtained from the U.S. Census Bureau, the U.S. Department of Transportation (USDOT) Equitable Transportation Community (ETC) Explorer, and Replica.

USDOT ETC data

Developed as a web application, the USDOT ETC Explorer serves as a tool to understand the multifaceted burdens that communities face in relation to transportation insecurity, climate and disaster risk, environmental challenges, health vulnerabilities, and social vulnerabilities. At its core, the ETC Explorer explores equity-related variables, measured at the Census tract level. By providing granular insights into these key metrics, the USDOT ETC Explorer empowers stakeholders to identify, analyze, and address disparities.

Replica data

Replica, a big data platform, serves as a repository offering insights into mobility and economic data at regional levels. Replica's economic data segment detailed information on consumer spending patterns at the Census tract level across various categories.

These categories encompass retail, grocery stores, gas stations, parking, taxis, and tolls, restaurants and bars, airline, hospitality, and car rental services, as well as entertainment and recreation expenditures. Notably, Replica's economic data distinguishes itself by providing a breakdown of spending, with certain categories like retail offering insights into both online and in-person transactions.

Data limitations

Several data limitations may impact the findings. First, the use of Census tracts rather than individual households as the unit of analysis stems from constraints in data availability. While Census tracts offer valuable insights into broader geographic areas, they inherently mask heterogeneity within a tract. Moreover, the reliance on Replica data generated from a model rather than observed data introduces uncertainties, as the model may not fully capture the intricacies of real-world dynamics. Additionally, the transformation of Replica data from 2010 Census tracts to approximate 2020 Census tracts introduce additional assumptions.

Preliminary analysis findings

A preliminary analysis was conducted to identify potential demographic variables worthy of further exploration. These variables included median household income, age distribution, disability status, urban versus rural classification, percentage of the population below the poverty line, degree of transportation cost burden, internet access, and proximity to points of interest.

Replica data were used to provide online retail spending per Census tract from 2019 to 2023. Using Census population data, the research team could then calculate the average spending per person by Census tract. Census tracts were then divided into five quintiles. This categorization allowed for a comparison between different geographical segments in Washington and their spending behaviors. By comparing spending quintiles against the demographic variables, it was possible to identify correlations between demographic attributes and online retail spending.

This initial analysis was coupled with knowledge and research regarding online spending to select the four demographic variables that were most significant when studying online retail spending. The four variables selected were median household income, urban/rural classification of a Census tract, percentage of zero-car households in a Census tract, and percent of disabled individuals in a Census tract. Populations within these demographics are identified as equity cohorts.

Median household income

In the initial analysis, online spending was found to increase with median household income by Census tract. Income may serve as a proxy for purchasing power, with higher income households potentially having greater disposable income to be spent on discretionary items. Median household income may also reflect the economic well-being of the Census tract, providing insights into each geographic region.

Urban/rural classification

Census tracts classified as urban showed noticeably greater online spending compared to rural Census tracts in the initial analysis. Urban areas typically have higher population densities compared to rural areas, and online retailers may serve customers in urban and rural localities differently. Urban and rural online retail shopping behavior may also be different based on physical access to stores, discrepancies in shipping costs, and lifestyle differences. Internet infrastructure and connectivity may also limit rural Census tracts from having the same access to online shopping that urban Census tracts have. Rural households without easily accessible transportation options may be dependent on online shopping for access to daily needs. Finally, there may be disparities in economic development when comparing urban and rural areas. Urban/rural classification was therefore included to capture these potentially significant differences in online spending behavior.

Urban/rural classification comes from the USDOT ETC. [USDOT defines urban areas](https://www.transportation.gov/priorities/equity/justice40/etc) as a territory with a population of at least 50,000 (USDOT, 2023).¹⁰



¹⁰ <https://www.transportation.gov/priorities/equity/justice40/etc>

Percent of zero-car households

The initial analysis found that a greater percentage of zero-car households in a Census tract resulted in a greater amount of online retail spending. This is aligned with the understanding that those who lack transportation to get to stores may replace a portion of in-person shopping with online shopping. Accessibility is a consideration when implementing a retail delivery fee, as there is a concern that adding such a fee will unfairly burden those who already face in-person accessibility challenges. Therefore, the percentage of zero-car households in a Census tract was selected as a variable for further examination to account for challenges related to transportation access.

The percentage of zero-car households is another characteristic that is measured by the U.S. Census Bureau. According to the U.S. Census Bureau's data, an average of 8.3 percent of households in the U.S. have zero vehicles. This average is used as a threshold cut off in the comprehensive analysis.

Percentage of individuals with a disability

Lastly, the preliminary analysis found that Census tracts with higher percentages of individuals with a disability tended to exhibit lower levels of online spending. This finding challenges the assumption that individuals facing mobility challenges or other disabilities would rely more heavily on online shopping as an alternative to in-person retail experiences. While accessibility is undoubtedly a crucial consideration in understanding online shopping engagement, this finding underscores the complexity of accessibility. By incorporating multiple variables related to accessibility (urban/rural classification, zero-car households, and disability), the analysis accounts for how accessibility challenges can both increase and decrease online shopping.

The percentage of individuals with disabilities is defined as, "individuals with serious difficulty in four

basic areas of function: hearing, vision, cognition, and ambulation" ([U.S. Census Bureau](#)¹¹). The Centers for Disease Control and Prevention reports that, as of 2021, 25 percent of adults in Washington have a disability ([Centers for Disease Control \(CDC\), 2021](#)¹²).

Analysis findings

The analysis began with an examination of statewide online retail spending trends. Next, data were broken down by Census tract and analyzed against the equity cohort populations identified in the preliminary analysis. The first exploration analyzed Census tract spending against two equity cohort population variables: median household income and urban/rural classification. The second exploration analyzed Census tract spending against four equity cohort population variables: median household income, urban/rural classification, percent of zero-car households, and percent of individuals with a disability.

Statewide online retail spending trends

Online retail trends were analyzed at a statewide level for both median household income and urban/rural classification. **Figure 20** and **Figure 21** show annual statewide online spending broken down by median household income and urban/rural classification. Figure 20 illustrates how Census tracts with median household incomes greater than the statewide median income of \$90,325 spend less online annually than households with median incomes less than the statewide median. This is likely a result of there being fewer Census tracts with median household incomes greater than the statewide median, and more Census tracts with median incomes less than the statewide median. Figure 21 illustrates how urban Census tracts spend more than \$10 billion more on online retail annually compared with rural Census tracts. While there are more rural than urban Census tracts, urban Census tracts hold a greater percentage of the population resulting in greater total spending.

¹¹ <https://www.census.gov/quickfacts/fact/note/US/DIS010222#:~:text=Definition,vision%2C%20cognition%2C%20and%20ambulation.>

¹² <https://www.cdc.gov/ncbddd/disabilityandhealth/impacts/washington.html>

Figure 20. Annual Online Spending by Median Household Income

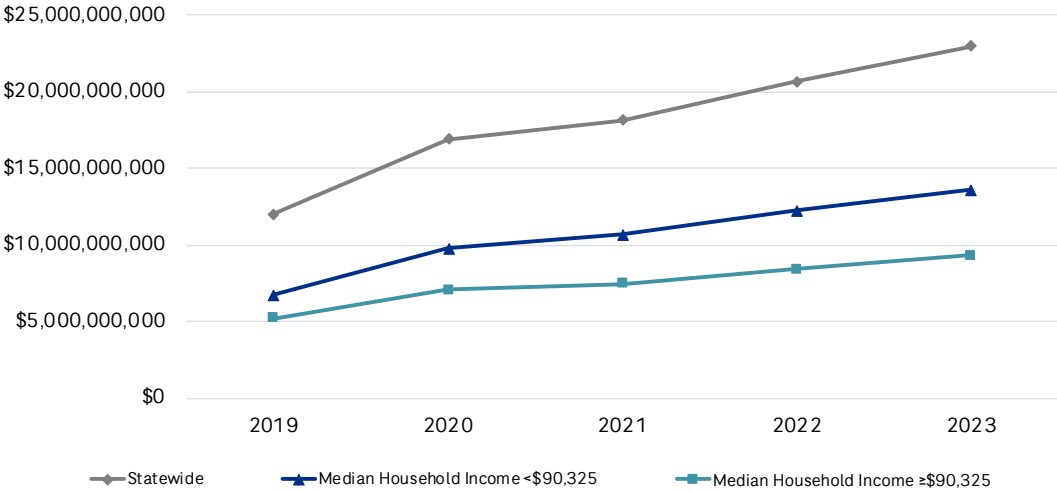
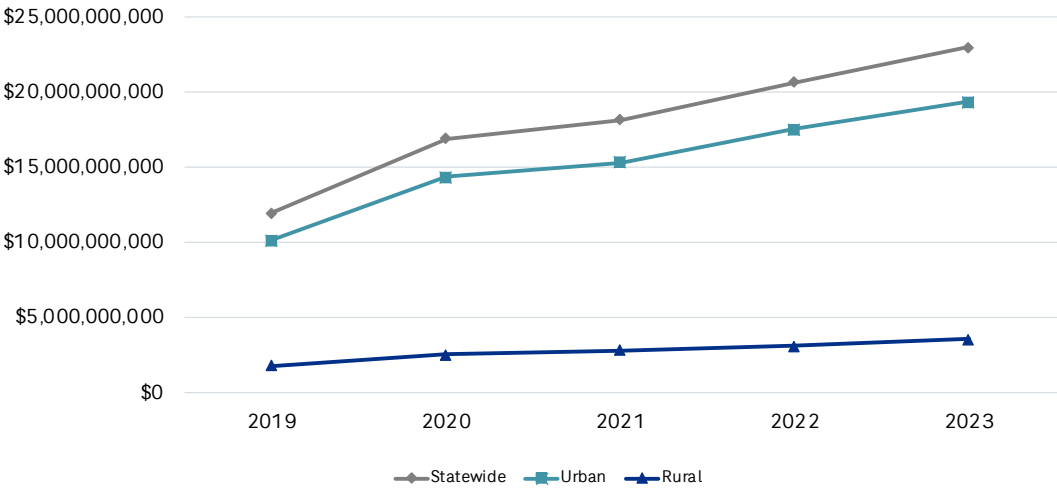


Figure 21. Annual Online Spending by Urban/Rural Classification



Total online retail spending findings are difficult to interpret because the population is not evenly split along the threshold lines for either income or urban/rural classification. To normalize these results to a person level, spending was divided by the population in each Census tract. The results of this can be found in **Figure 22** and **Figure 23** on following the page. Figure 22 shows online retail spending per person by median household income. Census tracts with higher than statewide median household income consistently spend over \$500 more per person on online retail compared with Census tracts with lower than statewide median household incomes. It should be noted that similar trends of online spending per person were observed when this analysis was conducted using \$66,555 as the threshold for median household income. The \$66,555 represents the state median income excluding King, Pierce, and Snohomish Counties. Figure 23 shows per person online retail spending by urban/rural classification. Urban spending was \$365 greater per person in 2019, and this gap in spending increased to \$586 in 2023.

Figure 22. Annual Online Spending Per Person by Median Household Income

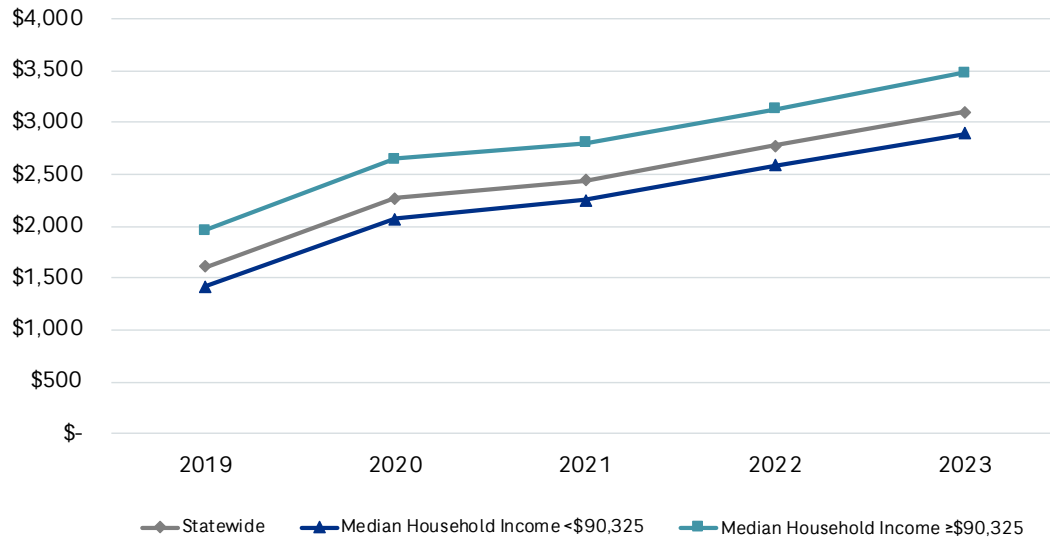
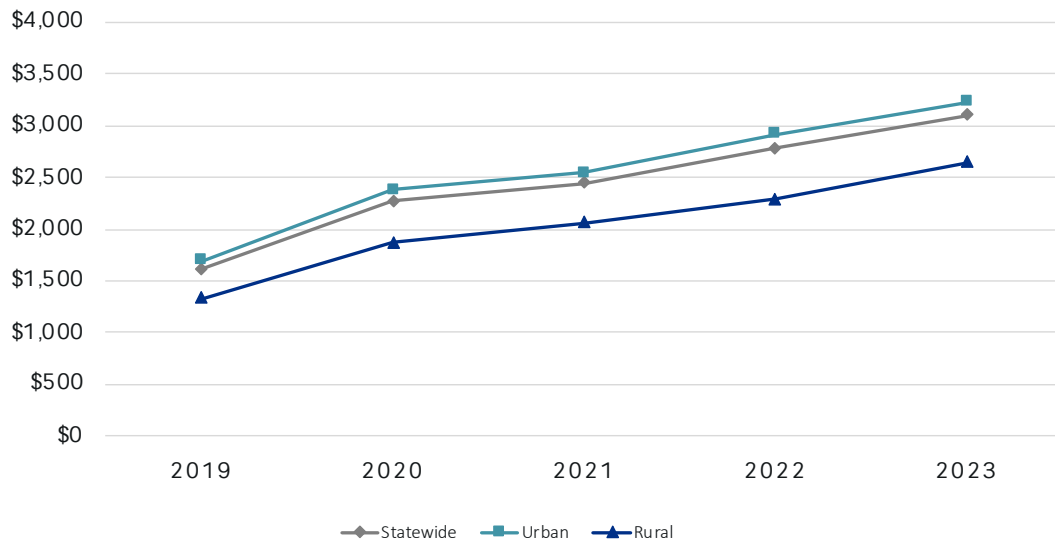


Figure 23. Annual Online Spending Per Person by Urban/Rural Classification



Lastly, the preliminary analysis delved into the breakdown of online retail spending based on income and urban/rural categorization. In 2023, Census tracts with median household incomes equal to or exceeding \$90,325 allocated 25 percent of their total retail spending to online purchases. Conversely, areas with median household incomes below the statewide median devoted approximately 18 percent of their retail spending to online platforms. Urban Census tracts exhibited a higher propensity for online shopping, with 21.8 percent of their total retail expenditure occurring online in 2023. In contrast, rural Census tracts demonstrated a lower inclination towards online spending, constituting around 15 percent of their total retail spending.

Retail spending trends by income and urban/rural classification

Two equity cohort population variables were compared with online retail spending. The two variables analyzed are median household income and urban/rural Census tract classification. **Figure 24** illustrates the percentage of the Washington population in each of these equity cohort population groups as well as the percentage of online spending for which that the group accounts. For instance, urban Census tracts with median household incomes greater than \$90,325 make up about 34 percent of the population. However, they account for 38 percent of online retail spending.

Figure 25 presents the results of this analysis, which reveal that Census tracts with median household incomes surpassing the statewide median of \$90,325 exhibit notably higher per-person expenditures on online retail. Among the two equity cohort population groups with incomes exceeding the statewide median, urban per-person online spending in 2023 exceeds rural spending by approximately \$200, representing a 6.1 percent disparity. However, for the two equity cohort population groups with incomes below the statewide median, the urban-rural spending gap is much wider, exceeding \$500 per person or 22.6 percent in 2023. The contrast in urban and rural spending is far more pronounced in Census tracts with lower household incomes compared to those with higher household incomes.

Figure 24. Percent of Population and Online Spending by Equity Cohort Population Groups (2 Variables)

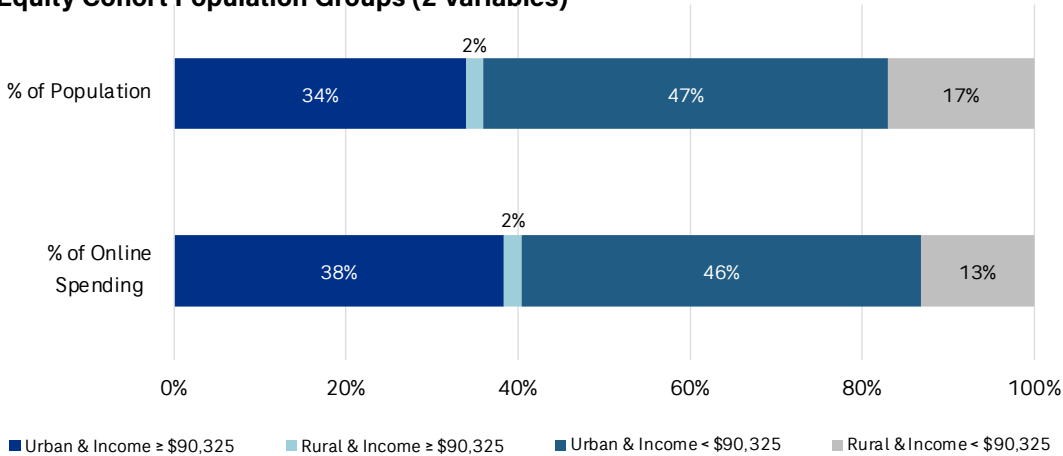
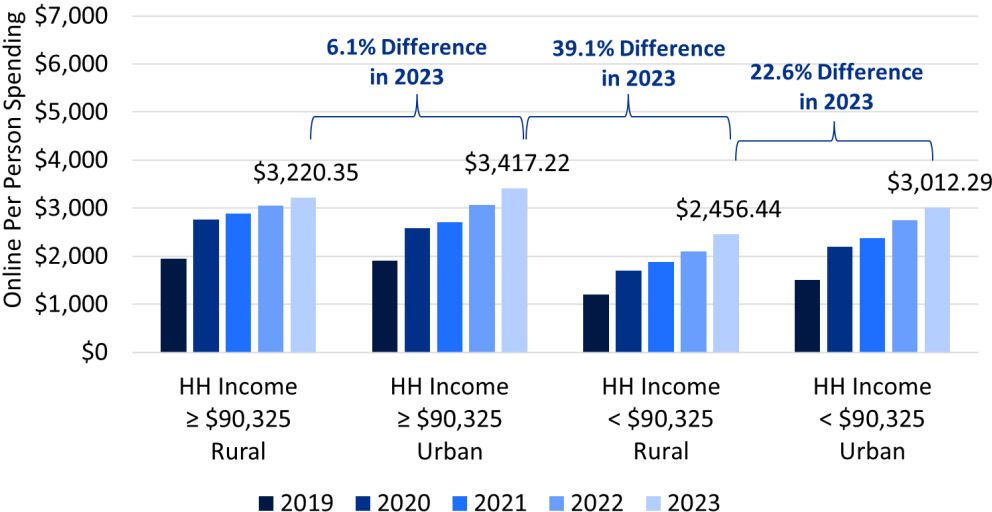


Figure 25. Online Spending Per Person by Median Household Income and Urban/Rural Classification

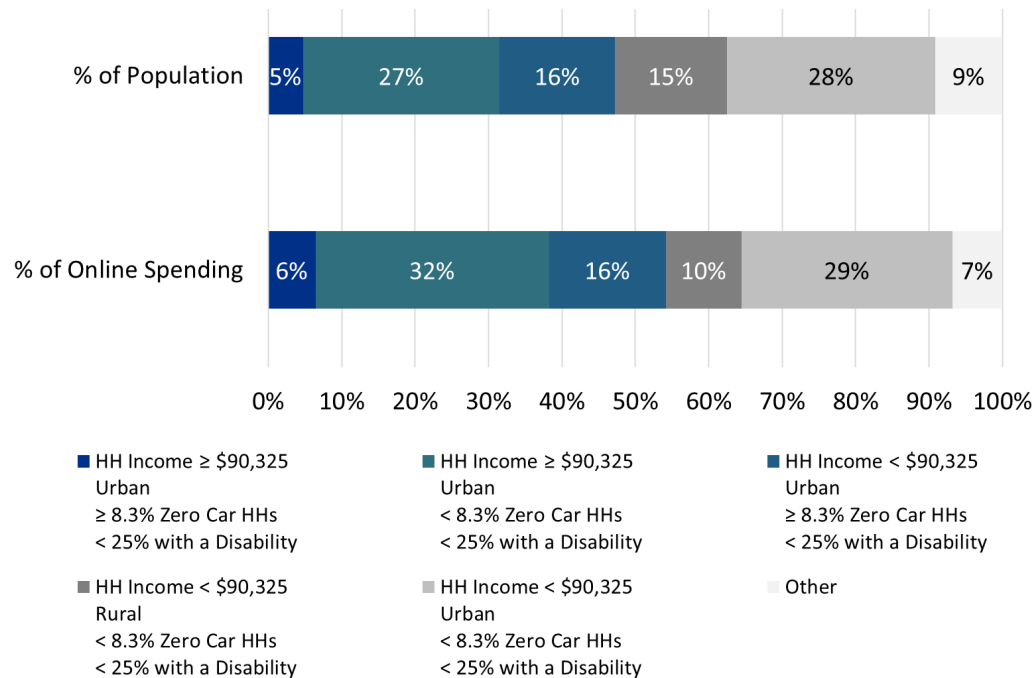


Equity cohort population retail spending trends

The subsequent analysis integrates two more access-related variables, bringing the total to four variables. This results in 16 equity cohort population groups into which a Census tract can be sorted. **Figure 26** depicts the percentage of population and percentage of total state online retail spending for which each equity cohort population group accounts. All 16 equity cohort population groups were calculated; however, Figure 26 presents only the five largest equity cohort population groups for simplicity. The remaining equity cohort population groups are summed in the “other” category.

Of interest were equity cohort population groups accounting for a significantly higher or lower percentage of online retail spending compared with the percentage of the population for which they account. For example, the equity cohort population groups exhibiting the following characteristics comprise 27 percent of Washington’s population: household income exceeding the statewide median, urban residency, less than 8.3 percent zero-car households, and under 25 percent disability representation. However, the equity cohort group accounts for 32 percent of online retail spending, meaning this population is overrepresented in online retail spending versus the rest of the State. Conversely, the population segment with income below the statewide median, residing in rural areas, having less than 8.3 percent zero-car households, and less than 25 percent disability, constitutes 15 percent of the population but only contributes to 10 percent of online retail spending. On average, these individuals are spending less on online retail than is typical in the state of Washington.

Figure 26. Percent of Population and Online Retail Spending by Equity Cohort Population Groups (4 Variables)



All 16 equity cohort population groups were analyzed for online retail spending, and the lowest and highest spending groups were singled out for additional analysis. The analysis results depicted in **Figure 27** show the three population groups of the 16 total exhibiting the highest per-person spending on online retail. These groups share similar characteristics. Each of the top spending groups has average household incomes surpassing the statewide median, all in urban areas. Furthermore, two out of the three highest-spending groups have a greater than average prevalence of zero-car households and disability rates greater than the state average.

Figure 27. Highest Online Spending Per Person by Income, Urban/Rural, Zero Car HHs, and Disability

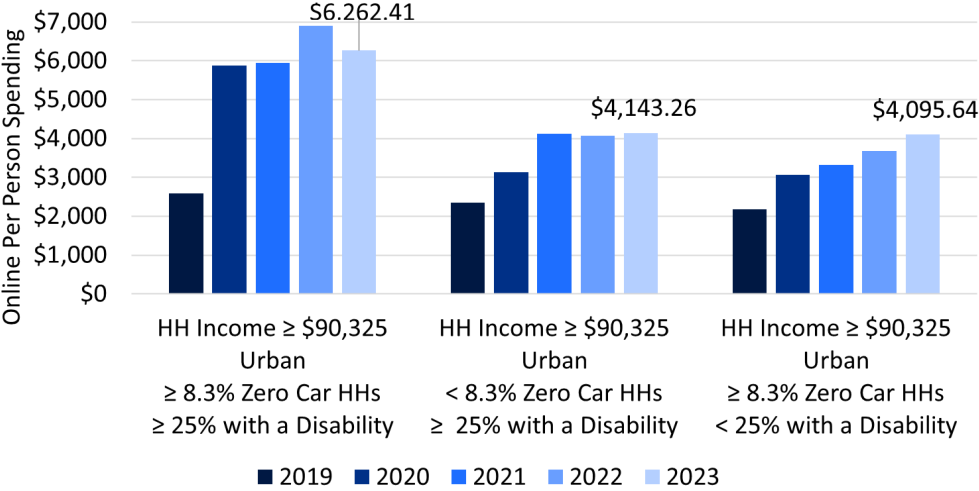
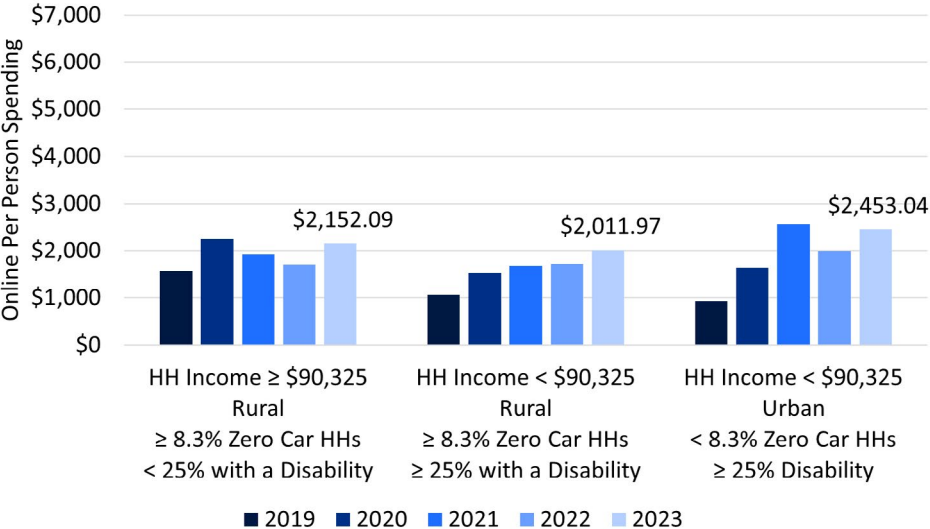


Figure 28 illustrates the three equity cohort population groups with the lowest expenditures on online retail, pulled from the total 16 equity cohort population groups analyzed. Among these groups, two-thirds have average household incomes below the statewide median, and two-thirds reside in rural areas. Moreover, two-thirds of these groups exhibit a higher prevalence of zero-car households and disability rates compared to the state average.

Figure 28. Lowest Online Spending Per Person by Income, Urban/Rural, Zero Car HHs, and Disability



Demographic groups with the highest and lowest spending tendencies exhibit some overlapping attributes. Both groups, representing the extremes in spending equity cohorts, show a higher prevalence of households without cars and a higher incidence of disability compared to the average. Due to the multivariate nature of the analysis, all variables must be considered concurrently when examining any equity cohort.

Considering this, characteristics such as lack of car ownership or disability may be indicative of other factors such as income level and urban/rural status. For instance, an individual with a high household income and ample discretionary funds who does not own a car might opt for online shopping to streamline their lifestyle and broaden their access to necessary items. Conversely, someone with a lower household income and consequently limited discretionary funds may not have the same capacity for online spending, even if they lack a car for in-person access to goods. This explains why we may see similar characteristics for opposite online spending decisions.



Businesses

An online retail delivery fee has the potential to impact businesses of all types. Businesses have indicated that increased administrative costs of doing business may impact their ability to remain competitive. To discuss these concerns and better understand the impacts on businesses, the staff technical team held a meeting with representatives from the Association of Washington Business (AWB). The meeting underscored the need for nuanced policy approaches to address the concerns raised.

Attendance at Association of Washington Business

Meeting included:

- DoorDash
- Uber
- Amazon
- Instacart
- Washington Retail Association
- Washington Hospitality Association
- Northwest Grocery Retail Association
- Association of Washington Business
- Washington Chamber of Commerce

Those in attendance expressed varying levels of opposition to the retail delivery fee. They also shared general questions and concerns on a range of topics related to the implementation, administration, and impact of a delivery fee, including:

- The burden of addressing transportation funding challenges should not fall solely upon the business community, which opposes generating revenue in this manner.
- Given the reliance of many on prepared foods and the inability of certain demographics to invest time or expertise in cooking, any fee should not increase this burden.
- The changes in consumer behavior prompted by a delivery fee, such as changes in travel frequency to avoid the fee, could have negative environmental impacts.
- Operational impact on businesses, particularly regarding tax collection.
- The burden placed on businesses to enforce compliance with a delivery fee, particularly given the challenges many businesses have faced in enforcing a bag ban.
- Implications of any new fee on existing local regulations such as Seattle's PayUp Program, where delivery companies are obligated to compensate independent contractors at least the city's minimum wage, potentially leading to higher delivery expenses.

Following the meeting, AWB drafted a letter summarizing their concerns about a retail delivery fee. That letter is in the Appendix.

The meeting with AWB, as well as the interviews conducted with Colorado and Minnesota, revealed that small businesses often operate with narrower profit margins compared to larger corporations, making them sensitive to changes in customer behavior that may accompany the additional costs associated with a delivery fee. Ultimately, the question of whether to permit any exemptions requires evaluation, weighing the potential benefits of supporting small and local businesses against the broader objectives of revenue generation and fairness. Further examination of these options, alongside stakeholder input and careful analysis of potential impacts, will be essential in crafting effective and equitable policies that serve the interests of all parties.



Conclusion



As states begin exploring alternative sources of revenue to keep up with basic transportation maintenance, policymakers are seeking solutions that link modern consumer needs with the impacts on the transportation system associated with those new demands.

Since 2022, two states, Colorado and Minnesota, have enacted a fee on the delivery of certain retail goods. Now, as Washington contemplates how to generate needed revenue to maintain its state and local transportation infrastructure, policymakers are studying if and how a retail delivery fee could work in Washington.

This study evaluated several important aspects of a potential retail delivery fee in Washington: revenue generation potential, startup and ongoing administrative costs, revenue distribution, and impacts to consumers and businesses. This study also provides policymakers with an important new revenue generation forecasting tool that allows policymakers to identify revenue generation and distribution outputs in real time based on specific inputs. Specific policy preferences will ultimately determine revenue potential, distribution, and impacts to consumers and businesses; however, from the experience in other states as well as the data generated from this study, a modest fee on the delivery of retail goods in Washington has the potential to generate significant revenue for state and local jurisdictions.

As Washington continues to identify new sources of transportation revenue, this report, along with the revenue generation forecasting tool, will provide information, data, and analysis to policymakers as they consider the potential development of a retail delivery fee in Washington.



Appendix



***2021 Colorado Retail Delivery
Fee Legislative Fiscal Note***



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number: LLS 21-0263 Date: September 9, 2021
Prime Sponsors: Sen. Fenberg; Winter Bill Status: Signed into Law
Rep. Garnett; Gray Fiscal Analysts: Will Clark | 303-866-4720
Greg Sobetski | 303-866-4105

Bill Topic: SUSTAINABILITY OF THE TRANSPORTATION SYSTEM

- Summary of Fiscal Impact:
[X] State Revenue [X] TABOR Refund
[X] State Expenditure [X] Local Government
[X] State Transfer [] Statutory Public Entity

This bill creates new sources of dedicated funding for the state's transportation system, creates four new state enterprises, modifies an existing state enterprise, and expands authority for transportation planning organizations. The bill increases state and local government revenue and expenditures on an ongoing basis, and raises the state's revenue limit under TABOR.

Appropriation Summary: For FY 2021-22, the bill requires and includes appropriations totaling \$164.0 million to multiple state agencies. The State Highway Fund and Energy Fund are continuously appropriated.

Fiscal Note Status: This final fiscal note reflects the enacted bill.

Table 1
State Fiscal Impacts Under SB 21-260

Table with 6 columns: Category, Sub-category, Current Year FY 2020-21, Budget Year FY 2021-22, Out Year FY 2022-23, Out Year FY 2023-24. Rows include Revenue (Cash Funds, Total Revenue), Expenditures (General Fund, Cash Funds, Centrally Appropriated, Total Expenditures, Total FTE), Transfers (General Fund, Federal ARPA Funds, Other Cash Funds, Net Transfer), and TABOR Refund.

1 Expenditure amounts do not include transportation and enterprise project costs. This funding, which is shown in Tables 9 and 10, will be expended at the discretion of the Transportation Commission and enterprise boards.

Summary of Legislation

This bill increases spending for the state's transportation system through General Fund transfers and new fees; creates and modifies state enterprises; and expands authority for transportation planning organizations. Provisions of the bill are described in more detail below.

Transfers. The bill makes one-time transfers to fund transportation projects. In the current FY 2020-21, the bill makes one-time transfers totaling \$380 million from federal American Rescue Plan Act funds to the State Highway Fund, the Highway Users Tax Fund (HUTF), and the Multimodal Transportation and Mitigation Options Fund (Multimodal Options Fund). The bill then makes an additional transfer of \$170.0 million from the General Fund to the State Highway Fund in FY 2021-22.

The bill also makes annual General Fund transfers to provide additional funding to the State Highway Fund, makes a one-time transfer from the Multimodal Options Fund to the Southwest Chief Rail Line Economic Development, Rural Tourism, and Infrastructure Repair and Maintenance Fund (Southwest Chief Fund), and repeals annual General Fund transfers to the State Highway Fund that are related to the TRANs ballot measure. Transfers are described in more detail in the State Transfers section on page 10.

Creation of and adjustments to state fees and funds. The bill creates new fees for electric motor vehicle registrations, purchases of gasoline and diesel fuel, retail deliveries, passenger ride services, and short-term vehicle rentals. It also indexes new and existing fees either to inflation or to the national highway construction costs index (NHCCI), requires an executive agency review of fees in 2026, and temporarily reduces road safety surcharges on vehicle registrations from 2022 to 2024. These fee and fund activities are discussed in more detail below.

Fees on gasoline and diesel fuel. The bill imposes a per gallon fee on gasoline and diesel fuel to pay for road usage, and on diesel fuel only for vehicles' impacts on bridges and tunnels. The fees are phased in from FY 2022-23 through FY 2031-32 and then indexed to the NHCCI. Future NHCCI adjustments for the road usage fees on gasoline and diesel fuel are based on the combined taxes and fees on these fuels, such that the fees will incorporate an annual adjustment for both the tax and fee amounts. All fees will be remitted to the Department of Revenue (DOR) at the same time when excise taxes are remitted by fuel distributors. Road usage fees will be paid into the HUTF, and bridge and tunnel impact fees will be paid into the Statewide Bridge and Tunnel Enterprise Fund.

Retail delivery fees. Starting in FY 2022-23, the bill imposes fees on retail deliveries by motor vehicles that transport tangible personal property subject to the state sales tax. The fees must be collected from the purchaser by the retailer, and will be adjusted for inflation in future years. Retail delivery fees are assessed by the state, the Statewide Bridge and Tunnel Enterprise, and four new enterprises created in the bill. Fees are collected by the DOR and distributed to the HUTF, the Multimodal Options Fund, and cash funds for each enterprise. The DOR will retain a portion of the fees to pay for the costs of collecting, administering and enforcing these fees.

Passenger ride fees. The bill imposes per-ride fees on passenger rides provided by transportation network companies (TNCs) that use a digital network to connect riders and drivers for the purpose of transportation. Starting in FY 2022-23, the DOR will collect fees from TNCs for the enterprises, and distribute fee revenue to the enterprises. In future years, these fees will be adjusted for inflation.

Electric motor vehicle registration fees. Starting in FY 2022-23, the bill requires the existing registration fee of \$50 that is charged per electric vehicle to be annually adjusted for inflation. It also imposes additional road usage equalization registration fees on regular and commercial electric vehicles. These fees are phased in through FY 2031-32, and then adjusted annually using the NHCCI. New fees on electric vehicles will be paid into the HUTF only; current fees are split between the HUTF and the Electric Vehicle Grant Fund.

Short-term vehicle rental fee. The bill indexes the existing short-term vehicle daily rental fee of \$2 to inflation on or after July 1, 2022, and requires car sharing programs to collect the daily rental fee for any short-term vehicle rental of 24 hours or longer.

Fee adjustment. The bill requires certain executive branch agencies to jointly review fees in 2026 and make recommendations to the General Assembly about the appropriateness of current fees, and whether they should be adjusted to ensure equalization of fee collection from owners of electric motor vehicles and vehicles powered exclusively by combustion engines.

Road safety surcharge reduction. The bill reduces the amount of each road safety surcharge imposed on motor vehicle registrations by \$11.10 for registrations during 2022 and by \$5.55 for registrations during 2023. Surcharges for 2024 and later years are unaffected.

Multimodal Options Fund. The bill changes the name of the fund, and makes greenhouse gas mitigation projects eligible for grants from the fund.

Creation and modification of state enterprises. The bill creates four new state enterprises and modifies an existing enterprise. It authorizes these enterprises to impose fees on retail deliveries, passenger ride services from TNCs, or both, as discussed in the prior section, and to issue revenue bonds. The enterprises are discussed in more detail below:

Community Access Enterprise. This enterprise is created within the Colorado Energy Office (CEO) to support widespread adoption of electric vehicles and electric alternatives to motor vehicles, including development of vehicle charging infrastructure, as well as financial incentives for electric vehicle purchases, electric alternatives to motor vehicles, and use of public transit. The bill allows the enterprise to impose a community access retail delivery fee to fund its operations. It also allows the enterprise to invest in transportation infrastructure programs.

Clean Fleet Enterprise. This enterprise is created within Colorado Department of Public Health and Environment (CDPHE) to incentivize and support the use of electric motor vehicles and other technologies in private and government vehicle fleets by providing financial assistance for electric motor vehicles to fleet operators, and by providing or supporting related services. The bill allows the enterprise to impose a clean fleet fee on retail deliveries and rides provided by TNCs to fund its operations. It may also issue grants, loans and rebates to incentivize and support the adoption of electric motor vehicles in motor vehicle fleets.

Clean Transit Enterprise. This enterprise is created within the Colorado Department of Transportation (CDOT) to support public transit electrification planning efforts, facility upgrades, fleet motor vehicle replacement, as well as construction and development of electric motor vehicle charging and fueling infrastructure. The bill allows the enterprise to impose a clean transit retail delivery fee to fund its operations, and to issue grants, loans or rebates to support electrification of public transit.

Nonattainment Area Air Pollution Mitigation Enterprise. This enterprise is created within CDOT to mitigate transportation-related emissions in ozone nonattainment areas by funding projects that reduce traffic or directly reduce air pollution through the congestion mitigation and air quality improvement program. The bill allows the enterprise to impose an air pollution mitigation fee on retail deliveries and rides provided by TNCs to fund its operations.

Statewide Bridge Enterprise. The bill changes the name of this enterprise to the Statewide Bridge and Tunnel Enterprise, and authorizes it to complete surface transportation projects for tunnels. The enterprise may also impose a bridge and tunnel impact fee on diesel fuel, as well as a bridge and tunnel retail delivery fee, to fund its operations.

Annual reporting to the General Assembly. The bill requires the CEO and CDPHE to consult with CDOT and jointly prepare an annual report for the General Assembly about progress being made toward the electric motor vehicle adoption goals set forth in the Colorado Electric Vehicle Plan 2020, and the transportation sector greenhouse gas pollution reduction goals set forth in the Colorado Greenhouse Gas Pollution Reduction Roadmap. These agencies must also use a specified methodology to estimate the social costs of greenhouse gas pollution.

New guidelines for regionally significant projects. The bill requires CDOT and the Transportation Commission to implement new procedures and guidelines for regionally significant transportation capacity projects that account for the impacts these projects will have on statewide greenhouse gas emissions and vehicle miles traveled. The new procedures and guidelines must evaluate the environmental and health impacts of significant projects on disproportionately impacted communities, and be incorporated into future ten-year plans. Starting in FY 2022-23, if new procedures and guidelines have not been adopted and incorporated into the current ten-year plan, CDOT is not allowed to make expenditures from the multimodal transportation and mitigation options fund, unless it will help bring CDOT into compliance with these requirements.

Creation of the Environmental Justice and Equity Branch. The bill creates a new branch in the CDOT Engineering, Design, and Construction Division to work directly with disproportionately impacted communities and other CDOT programs on the planning, study, and delivery of transportation capacity projects. The new branch will also identify barriers that may prevent these communities from participating in transportation decisions that affect their health, quality of life, and access for disadvantaged and minority businesses in project delivery.

Additional CDOT duties and requirements. The bill creates additional requirements for CDOT, which require the department to:

- comply with specific transparency and contractor short-listing requirements when using the integrated project delivery method of contract procurement for a public project involving infrastructure that is part of the state highway system;
- create the Freight Mobility and Safety Branch to implement projects and programs that enhance freight mobility and safety within the state;
- engage in comprehensive planning, modeling, analysis, community engagement and monitoring for transportation projects with metropolitan planning organizations; and,
- conduct a road usage vehicle mileage tracking study and an autonomous motor vehicles study, and present results of these studies to the General Assembly.

Taxi parity report. The bill requires the Public Utilities Commission (PUC) to report on whether there is parity between authorized taxi carriers and TNCs and their contributions to funding the transportation system, taking into account their respective business models, regulatory burdens, and impacts on the sustainability of the transportation system. The PUC must report to the Transportation Legislative Review Committee during the 2023 legislative interim.

Transportation planning organizations. The bill authorizes transportation planning organizations to exercise the powers of a regional transportation authority (RTA). The Transportation Commission and CDOT are prohibited from taking any revenue generated by a planning organization exercising the power of an RTA into account when determining the amount of state and federal funding to be allocated within its boundaries, and CDOT must provide evidence that it is abiding by this requirement when submitting its annual proposed budget allocation plan.

Vehicle emissions testing exemptions. The bill requires CDPHE to seek approval from the Environmental Protection Agency (EPA) and adopt rules to expand the current emissions testing exemption to 10 model years for new vehicles, and to 12 model years for plug-in hybrid electric motor vehicles.

TABOR limit. For the current FY 2020-21, the bill increases the state TABOR limit by \$224,957,602, reverting the reduction made by the General Assembly in Senate Bill 17-267. For FY 2021-22 and later years, the limit is adjusted from this higher level for inflation and population growth.

TRANS ballot measure. The bill cancels the referral of a 2021 ballot measure to allow the issuance of transportation revenue anticipation notes (TRANS), and repeals state law that would make related fiscal policy changes if the referred measure were approved.

Background

Highway Users Tax Fund. The Highway Users Tax Fund (HUTF) is the primary source of state highway system funding in Colorado. Revenue credited to the HUTF primarily comes from motor fuel taxes and vehicle registration fees. After off-the-top disbursements to the Department of Revenue and the Department of Public Safety, HUTF revenue is distributed to the State Highway Fund, counties, and municipalities for transportation purposes.

Funding for CDOT. The department is primarily funded from the State Highway Fund, which is comprised of federal funds, the state's share of revenue collected in the Highway Users Tax Fund, and other various sources of revenue. The decision-making authority for the majority of state transportation revenue rests with the Transportation Commission.

State enterprises. The state constitution defines an enterprise as a government-owned business that has authority to issue revenue bonds and receives less than 10 percent of its revenue from state and local government sources combined. Revenue paid to enterprises is not state revenue for the purpose of the state's constitutional spending limit (TABOR). CDOT currently oversees two enterprises, the Statewide Bridge Enterprise and the High-Performance Transportation Enterprise.

Regional Transportation Authorities. With voter approval, municipalities and counties may join together to create RTAs to finance, construct, operate, or maintain regional transportation systems. State law authorizes RTAs to establish, collect, and increase or decrease tolls, rates, and charges to finance a transportation system. With voter approval, they may also levy sales taxes, impose an annual motor vehicle registration fee, levy a visitor benefit tax, impose a property tax, establish regional transportation activity enterprises, and issue bonds. The board of an RTA may enter into intergovernmental agreements with CDOT and bordering entities, as well as create local improvement districts within their boundaries to facilitate transportation system improvements.

TABOR limit. TABOR limits state government revenue from most sources to an amount adjusted annually for inflation and population growth. Revenue collected under the limit may be spent or saved, and revenue collected in excess of the limit must be refunded to taxpayers. Senate Bill 17-267 reduced the state TABOR limit (Referendum C cap) by \$200.0 million in FY 2017-18. Because the TABOR limit is adjusted annually for inflation and population growth, the effect of this reduction is to reduce the state TABOR limit by \$224,957,602 in the current FY 2020-21.

TRANS ballot measure. A ballot measure to authorize the state to issue Transportation Revenue Anticipation Notes (TRANS) was first referred to voters under Senate Bill 18-001 and is scheduled to appear at the November 2021 statewide election. If approved, the measure would allow the state to sell TRANS in an amount of \$1.337 billion, with a maximum repayment cost of \$1.865 billion. Approval of the ballot measure would cancel the final \$500 million tranche of lease-purchase agreements scheduled to be executed in FY 2021-22 under current law enacted in SB 17-267.

Assumptions

Voter approval of new state enterprises. Proposition 117 requires voter approval for a state enterprise with projected or actual revenue from fees and surcharges over \$100 million in its first five fiscal years. The four new enterprises in this bill will each begin operating in FY 2021-22. Through FY 2025-26, none of the four enterprises is projected to collect \$100 million or more in fees or surcharges. While the bill specifies maximum amounts for each fee, actual fee amounts will be set by the enterprise boards. Should fee revenue to any new enterprise approach \$100 million, it is assumed that the enterprise board will set fees so as not to exceed this amount.

State Revenue

The bill decreases state revenue by \$33.3 million in FY 2021-22 and increases state revenue by \$112.9 million in FY 2022-23, \$200.4 million in FY 2023-24, and larger amounts in later years. Revenue impacts occur in various state cash funds, including five state enterprises. Table 2 presents revenue estimates through FY 2023-24 and shows which revenue is expected to be subject to, and exempt from, the state TABOR limit.

**Table 2
Revenue Under SB 21-260**

	FY 2021-22	FY 2022-23	FY 2023-24
Highway Users Tax Fund*	(\$33.3 million)	\$28.3 million	\$97.3 million
Multimodal Options Fund*	-	\$6.8 million	\$7.6 million
Electric Vehicle Grant Fund*	-	\$0.1 million	\$0.2 million
Bridge and Tunnel Enterprise	-	\$23.3 million	\$33.4 million
Community Access Enterprise	-	\$19.4 million	\$21.7 million
Clean Fleet Enterprise	-	\$17.3 million	\$19.6 million
Clean Transit Enterprise	-	\$8.4 million	\$9.4 million
Air Pollution Enterprise	-	\$9.2 million	\$11.1 million
Total	(\$33.3 million)	\$112.9 million	\$200.4 million
Total Subject to TABOR	(\$33.3 million)	\$35.2 million	\$105.2 million
Total Exempt from TABOR	-	\$77.7 million	\$95.2 million

* This revenue is subject to the TABOR limit.

Assumptions. Revenue estimates for fees assessed on fuel, vehicle registrations, and vehicle rentals assume the June 2021 Legislative Council Staff forecast. Revenue estimates for fees assessed on retail delivery orders and TNC rides are based on the study completed pursuant to Senate Bill 19-239 and on a the technical update to the study dated January 2021.

The fee amounts identified in this fiscal note are the maximum fees allowed by the bill. Boards that impose the fees are empowered to select lower fee amounts at their discretion, but not higher amounts.

Highway Users Tax Fund. Most of the bill’s revenue impacts occur in the HUTF. These include the following:

- A decrease in the **road safety surcharge**, a registration fee applied to all vehicles. The bill decreases the road safety surcharge for all vehicles by \$11.10 in 2022 and \$5.55 in 2023 only. The estimates in Table 2 include a half-year impact of this effect in FY 2021-22 and FY 2023-24, and a full-year impact in FY 2022-23.
- Revenue from new **road usage fees** assessed on gasoline and diesel fuel purchases. These fees begin at \$0.02 per gallon and are increased incrementally to reach \$0.08 per gallon in FY 2028-29. Based on the estimated price elasticity of demand, the increased price is expected to modestly decrease gasoline and diesel fuel consumption, resulting in an annual decrease of \$0.1 million in revenue from the fuel taxes assessed under current law.
- An increase in **electric vehicle registration fees**. These include inflation adjustments for the \$50 electric vehicle registration fee assessed in current law, 60 percent of which is credited to the HUTF, and new electric vehicle road usage equalization fees assessed on electric vehicle registrations. The latter fees are increased incrementally through FY 2031-32. The remaining 40 percent of increased current law fees is credited to the **Electric Vehicle Grant Fund**.
- Changes to the current law **daily rental fee**. The fee is indexed for inflation, and broadened to apply for full-day use of car share services.
- The assessment of a **retail delivery fee**.

All HUTF revenue is subject to the state TABOR limit. Table 3 presents the bill’s impacts on HUTF revenue through FY 2023-24; revenue increases will grow larger in later years.

Table 3
Highway Users Tax Fund Revenue Under SB 21-260

Fee Type	FY 2021-22	FY 2022-23	FY 2023-24
Road Safety Surcharge	(\$33.3 million)	(\$49.5 million)	(\$16.8 million)
Road Usage Fees	-	\$59.7 million	\$91.6 million
Fuel Taxes	-	(\$0.1 million)	(\$0.1 million)
Electric Vehicle Registration Fees	-	\$0.4 million	\$1.0 million
Daily Rental Fee	-	\$0.9 million	\$2.8 million
Retail Delivery Fee	-	\$16.8 million	\$18.8 million
Total HUTF Revenue	(\$33.3 million)	\$28.3 million	\$97.3 million

Multimodal Options Fund. Revenue to the Multimodal Options Fund is attributable to a retail delivery fee. Multimodal Options Fund revenue is subject to TABOR.

Bridge and Tunnel Enterprise. New revenue to this existing enterprise is attributable to a retail delivery fee and to a bridge and tunnel impact fee applied to diesel fuel sales. The bridge and tunnel impact fee begins at \$0.02 per gallon and is increased incrementally to reach \$0.08 per gallon in FY 2028-29.

New enterprises. Revenue credited to the four new enterprises created in the bill is attributable to new retail delivery fees and TNC ride fees imposed by the enterprises. Table 4 shows the amounts of retail delivery fees and TNC ride fees expected to be imposed by the state and by enterprises in FY 2022-23. Ride fees are assessed at discounted rates for pooled rides and for rides in zero-emission vehicles. All revenue collected by enterprises is exempt from the state TABOR limit.

Table 4
Maximum Retail Delivery Fees and TNC Ride Fees Under SB 21-260
FY 2022-23

Retail Delivery Fees	
State (Highway Users Tax Fund)	5.97¢ / delivery
State (Multimodal Options Fund)	2.43¢ / delivery
Bridge and Tunnel Enterprise	2.70¢ / delivery
Community Access Enterprise	6.90¢ / delivery
Clean Fleet Enterprise	5.30¢ / delivery
Clean Transit Enterprise	3.00¢ / delivery
Air Pollution Mitigation Enterprise	0.70¢ / delivery
Total of Retail Delivery Fees	27.00¢ / delivery
Ride Fees (Full Price)	
Clean Fleet Enterprise	7.50¢ / ride
Air Pollution Mitigation Enterprise	22.50¢ / ride
Total of Ride Fees (Full Price)	30.00¢ / ride
Ride Fees (Discounted)	
Clean Fleet Enterprise	3.75¢ / ride
Air Pollution Mitigation Enterprise	11.50¢ / ride
Total of Ride Fees (Discounted)	15.00¢ / ride

Vehicle emissions testing exemptions. The bill requires CDPHE to seek approval from the EPA to extend vehicle emissions testing exemptions for new and plug-in hybrid electric vehicles. If CDPHE attains this waiver, state revenue will be reduced to the extent that residents and businesses avoid related fees for vehicle emissions testing. This fiscal note does not estimate the potential revenue reduction from this requirement.

Fee impact on individuals and businesses. Colorado law requires legislative service agency review of measures that create or increase any fee collected by a state agency. These fee amounts are estimates only, actual fees will be set administratively by agencies and enterprises based on available cash fund balances, estimated program costs, and the number of transactions subject to the fee. Table 5 below identifies the fee impact of this bill in FY 2022-23.

**Table 5
FY 2022-23 Fee Impacts of SB 21-260**

Type of Fee	Proposed Fee	Number Affected	Total Fee Impact
Road Usage Fee	\$0.02/gallon	2.99 billion gallons	\$59.7 million
Bridge and Tunnel Impact Fee	\$0.02/gallon	0.79 billion gallons	\$15.7 million
Road Safety Surcharge ¹	(\$8.33)/vehicle	5.9 million vehicles	(\$49.5 million)
Battery Electric Vehicle Fee	\$4.00/vehicle	60,000 vehicles	\$0.2 million
Plug-in Hybrid Vehicle Fee	\$3.00/vehicle	21,000 vehicles	\$0.1 million
Retail Delivery Fee	\$0.27/delivery	281 million deliveries	\$75.9 million
TNC Ride Fee (not discounted)	\$0.30/ride	29.6 million rides	\$8.9 million
TNC Ride Fee (discounted)	\$0.15/ride	5.2 million rides	\$0.8 million
Other Fees ²	-	-	\$1.1 million
Total Fees³			\$113.0 million

¹ The road safety surcharge is reduced by \$11.10 for calendar year 2022 and by \$5.55 for calendar year 2023.

² Other fees includes inflation adjustments for various existing fees. It also includes the new fee on car share vehicle rentals for which data is limited and a complete estimate cannot be made at this time.

³ Estimated fee revenue slightly exceeds the bill's estimated revenue impact shown in Table 1 and Table 2, as it omits an estimated \$0.1 million decrease in current law fuel tax revenue.

State Transfers

Transfers in the bill begin in the current FY 2020-21 and are first made from federal funds allocated to Colorado under the American Rescue Plan Act, and then from the General Fund. The bill also repeals an annual transfer from the General Fund to the State Highway Fund that is scheduled to occur under current law. Transfers are shown in Table 6 and discussed below.

**Table 6
Transfers Under SB 21-260**

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
General Fund	-	(\$170.0 million)	(\$65.0 million)	\$50.0 million	(\$67.5 million)
Federal ARPA Funds	(\$380.0 million)	-	-	-	-
State Highway Fund	\$182.2 million	\$170.0 million	(\$43.1 million)	(\$50.0 million)	\$57.0 million
Highway Users Tax Fund	\$36.5 million	-	-	-	-
Multimodal Options Fund	\$161.3 million	(\$14.5 million)	\$108.1 million	-	\$10.5 million
Southwest Chief Fund	-	\$14.5 million	-	-	-
Net Transfers	\$0	\$0	\$0	\$0	\$0

One-time transfers. The bill creates the following one-time transfers for the current FY 2020-21 only. Transfers are made from federal American Rescue Plan Act funds that are available to be spent to offset revenue losses during and following the COVID-19 pandemic:

- \$182.2 million from federal funds to the State Highway Fund; of this amount, \$22.2 million is required to be used for CDOT's Revitalizing Main Streets program, and \$0.5 million is required to be used in conjunction with the development of the Burnham Yard rail property in Denver;
- \$36.5 million from federal funds to the HUTF; this amount is allocated entirely to local governments; and
- \$161.3 million from federal funds to the Multimodal Options Fund.

Transfers occur on June 30, 2021. It is assumed that expenditures of the transferred funds will occur no earlier than FY 2021-22.

The bill creates the following one-time transfers for FY 2021-22 only:

- \$170.0 million from the General Fund to the State Highway Fund; and
- \$14.5 million from the Multimodal Options Fund to the Southwest Chief Fund.

Annual transfers. For FY 2024-25 through FY 2031-32, the bill creates annual transfers as follows:

- \$10.5 million from the General Fund to the Multimodal Options Fund; and
- \$7.0 million from the General Fund to the State Highway Fund, which is required to be used for the Revitalizing Main Streets program.

For FY 2024-25 through FY 2028-29, the bill transfers \$100.0 million annually from the General Fund to the State Highway Fund. Of this amount, \$10.0 million annually must be used to fund projects that reduce vehicle miles traveled or directly reduce air pollution in nonattainment areas. For FY 2029-30 through FY 2031-32, the transfer amount is reduced to \$82.5 million and the requirement that a portion of the transfer be spent for air pollution-related purposes no longer applies.

Repealed transfers. The bill repeals a \$50.0 million annual transfer from the General Fund to the State Highway Fund that is scheduled to occur beginning FY 2022-23 through FY 2039-40 under current law.

Conditional transfer of revenue above current TABOR limit. Beginning in FY 2022-23, the bill creates a conditional transfer from the General Fund to the Multimodal Options Fund (94 percent of the transfer amount) and the State Highway Fund (6 percent). The transfer amount is 50 percent of the amount of state revenue retained as a result of the increase in the TABOR limit (Referendum C cap). The transfer is made annually through FY 2025-26 and limited to \$115 million over the four-year period. Based on the June 2021 LCS forecast, the full \$115.0 million transfer is expected to occur in FY 2022-23, including \$108.1 million to the Multimodal Options Fund and \$6.9 million to the State Highway Fund for the Revitalizing Main Streets program. If the transfer amount is less than \$115.0 million in FY 2022-23 based on TABOR conditions, then this transfer could extend into FY 2023-24, FY 2024-25, and/or FY 2025-26.

State Expenditures

The bill increases state expenditures by \$5.1 million and 21.7 FTE in FY 2021-22, by \$5.7 million and 32.8 FTE in FY 2022-23, and by \$5.5 million and 32.5 FTE in FY 2023-24. Expenditures are summarized in Table 7 and detailed below. Detailed expenditures tables for each department are included in the appendix. Expenditures in this fiscal note are initial estimates of administration costs for affected departments. Actual enterprise costs will be determined by the enterprise boards.

**Table 7
Administrative Expenditures Under SB 21-260¹**

	FY 2021-22	FY 2022-23	FY 2023-24
Department of Transportation (CF)	\$1,413,630	\$1,558,544	\$1,544,966
Department of Revenue (GF)	\$1,182,338	\$253,497	\$233,284
Colorado Energy Office (GF/CF)	\$416,365	\$892,400	\$887,600
Dept. of Public Health and Environment (GF/CF)	\$2,084,619	\$2,909,416	\$2,801,451
Public Utilities Commission (GF)	-	\$75,000	-
Total Cost	\$5,096,951	\$5,688,856	\$5,467,301
Total FTE	21.7 FTE	32.8 FTE	32.5 FTE

¹ Expenditure amounts do not include transportation and enterprise project costs. This funding, which is shown in Table 9, will be expended at the discretion of the Transportation Commission and enterprise boards.

Department of Transportation

Cash fund expenditures will increase in CDOT by \$1.4 million and 10.0 FTE in FY 2021-22, by \$1.6 million and 12.0 FTE in FY 2022-23, and by \$1.5 million and 12.0 FTE in FY 2023-24 to establish two new enterprises, manage new fees, and conduct various projects and studies as required by the bill. All costs in FY 2021-22 will be paid from the State Highway Fund. Beginning in FY 2022-23, costs for enterprise administration will be paid by the enterprises.

Staff and consulting costs. The bill will increase CDOT administrative expenditures by 10.0 FTE in FY 2021-22, and by 12.0 FTE in future years. These staff positions will provide support to the department's revenue forecasting team and the budget management and operations team; provide administrative support to the Clean Transit Enterprise and the Nonattainment Enterprise; serve as staff members for the associated boards; support the expanded Statewide Bridge and Tunnel Enterprise; address pollution and air quality requirements for transportation capacity projects; and to support the newly created Environmental Justice and Equity Branch. CDOT will also require consulting services to incorporate the new fees created by this bill into the department's annual revenue and cash models in FY 2021-22 at a cost of \$50,000. Appropriations from the State Highway Fund are required for expenditures in the Division of Accounting and Finance, including 3.0 FTE in FY 2021-22, while expenditures for programmatic functions can be paid from the State Highway Fund using continuous appropriations.

Capacity project requirements. The bill requires CDOT and metropolitan planning organizations to engage in enhanced planning, modeling, analysis, community engagement and monitoring when selecting and funding transportation capacity projects. These requirements also apply to adoption of the next ten-year plan and subsequent planning cycles, and must fully evaluate environmental and health impacts on disproportionately impacted communities. For regionally significant projects, the bill also requires the Transportation Commission to adopt procedures and guidelines related to pollution and air quality as of July 1, 2022, and to provide opportunities for public involvement. The amount of work needed to meet these requirements will vary depending on the procedures and guidelines set by the Transportation Commission. For this fiscal note it is assumed CDOT will require 3.0 FTE starting in FY 2022-23 and future years for environmental specialists to conduct modeling and

develop plans, as well as a marketing specialist to conduct outreach. It is expected that additional resources may be required and will be addressed by the Transportation Commission as needed.

Environmental Justice and Equity Branch. The bill requires CDOT to create a new branch in the Engineering, Design, and Construction Division. The branch will work directly with disproportionately impacted communities to provide additional access to transportation capacity projects, and reduce technological, language and information barriers that may prevent these communities from participating fully in transportation capacity projects. Starting in FY 2021-22, the new branch will require 1.0 FTE for a branch manager and 1.0 FTE for a program manager to provide general support and conduct outreach functions of the new branch.

Freight Mobility and Safety Branch. The bill requires CDOT to create the Freight Mobility and Safety Branch to implement projects and programs that enhance freight mobility and safety within the state. CDOT currently operates a freight office that performs similar functions to the new branch created by the bill. This fiscal note assumes that employees will be transferred to the new branch, and that this transfer will not increase CDOT personal service expenditures. The new branch is required to submit a long-term strategic plan to the Transportation Commission by January 1, 2022. Any additional resources required to develop the new strategic plan will be addressed by the Transportation Commission as needed.

Integrated project delivery. The bill requires CDOT to comply with certain requirements when using the integrated project delivery method of contract procurement for public projects. This fiscal note assumes that this workload can be accomplished within existing appropriations.

Studies and reports. Under the bill, CDOT must conduct a road usage charge feasibility study and an autonomous motor vehicles study. The bill also requires CDOT to work with the CEO and the CDPHE on an annual report detailing the progress made toward electric motor vehicle adoption goals and transportation sector greenhouse gas pollution reduction goals. This fiscal note assumes that this workload can be accomplished within existing appropriations and additional resources will be addressed by the Transportation Commission, if needed.

Fee adjustment review. CDOT is required to work with the CEO and the CDPHE, in consultation with enterprises created by this bill, to jointly review fees created by the bill and make recommendations to the General Assembly during the 2026 legislative interim about the appropriateness of current fees, and whether they should be adjusted. Resources to conduct this work will be requested in FY 2026-27, if needed.

Legal services. CDOT requires an estimated 1,800 hours of legal services per year at a cost of \$191,412. The Department of Law will require 1.0 FTE for this work, paid for with reappropriated funds from CDOT.

Department of Revenue

General Fund expenditures will increase in DOR by \$1.2 million and 5.3 FTE in FY 2021-22, by \$253,497 and 3.4 FTE in FY 2022-23, and by \$233,284 and 3.4 FTE in FY 2023-24 to implement and administer the new fees created in the bill.

Staff and consulting costs. DOR requires 3.5 FTE in FY 2021-22 and 3.4 FTE in future years for tax examiners and administrative support, as well as 2.0 FTE in FY 2021-22 to assist with project management and DRIVES development. DOR will also require a statistical analyst to conduct reporting in the Office of Research and Analysis, at a cost of \$3,200 in FY 2021-22 and \$19,968 in FY 2022-23.

Programming costs. DOR will have costs of \$776,350 for computer programming in FY 2021-22 and \$24,000 in ongoing costs for maintenance. These costs include contract programming for the department's DRIVES, GenTax, and Sales and Use Tax systems, as well as auditing and user acceptance testing by department staff.

Updates and training. DOR will need to update rules, forms, manuals and websites, and provide updated training for authorized agents, vehicle services section staff, law enforcement and other entities affected by the bill. It will also require additional fee and accounting programming for CORE. This work can be accomplished within existing appropriations.

Colorado Energy Office

Expenditures will increase in the CEO by \$416,365 and 2.1 FTE in FY 2021-22, by \$892,400 and 5.8 FTE in FY 2022-23, and by \$887,600 and 5.8 FTE in FY 2023-24 to establish the Community Access Enterprise. Of initial expenditures, \$100,491 will be paid from the General Fund to be paid back from enterprise funds and \$277,894 will be paid from the Energy Fund, which is continuously appropriated to the CEO. Ongoing expenditures will be paid by the enterprise.

Staffing and contracting costs. The board of the new Community Access enterprise is required to develop a 10-year business plan, create and maintain a public accountability dashboard and website, as well as to engage in public outreach. To support these activities, CEO requires 2.1 FTE in FY 2021-22 and 4.8 FTE in FY 2022-23 and future years for program management and administrative staff, including board support, stakeholder engagement, program development, as well as budget and accounting. Starting in FY 2022-23, the department will also require 1.0 FTE for procurement and contracts administration.

Administration and development costs. In FY 2021-22 CEO will require \$50,000 to develop a ten-year plan for the enterprise, \$30,000 to create their public accountability dashboard and website, and \$5,000 for board travel expenses. In FY 2022-23 and future years, CEO will require \$10,000 for board travel expenses and \$5,000 for ongoing website maintenance costs.

Legal services. The CEO requires an estimated 945 hours of legal services in FY 2021-22 at a cost of \$100,491 and 2,100 hours in FY 2022-23 and ongoing at a cost of \$223,314. The Department of Law will require 0.5 FTE and 1.2 FTE in the respective years for this work, paid for with reappropriated funds from the CEO.

Department of Public Health and Environment

Expenditures will increase in the CDPHE by \$2.1 million and 1.7 FTE in FY 2021-22, by \$2.9 million and 8.3 FTE in FY 2022-23, and by \$2.8 million and 8.0 FTE in FY 2023-24 to establish the Clean Fleet Enterprise. Initial expenditures will be paid from the General Fund to be paid back from enterprise funds. Ongoing expenditures will be paid by the enterprise.

Staffing and contracting costs. The board of the new Clean Fleet enterprise is required to develop a 10-year business plan, create and maintain a public accountability dashboard and website, engage in public outreach and prepare an annual report to the Transportation Commission. The CDPHE requires 1.5 FTE in FY 2021-22 and 2.0 FTE in future years for administrative staff to support the new enterprise board and to manage grantmaking activities. The Air Pollution Control Division will require 6.0 FTE to assist with regulatory activities and functions and to develop a 10-year business plan, with costs for these staff paid by the enterprise. This staff will include 3.0 FTE for rulemaking and to coordinate with CEO and CDOT to enhance adoption of renewable and clean vehicle technologies. The Air Pollution Control Division will also provide 1.0 FTE to evaluate and develop next generation diesel inspection and maintenance improvements and standards, 1.0 FTE to supervise the new section and an additional 1.0 FTE to support enterprise grantmaking, contracting and other administrative duties. The bill also requires the CDPHE to seek EPA approval to extend vehicle testing exemptions for new and plug-in hybrid electric vehicles. The CDPHE will require 0.3 FTE in FY 2021-22 to seek approval for the exemptions, and 0.3 FTE in FY 2022-23 if it attains approval for rulemaking, updating remote sensing software systems and coordination with DMV offices to implement the changes. The CDPHE may require additional appropriations in future years to complete program implementation, which will be requested through the annual budget process.

Technology costs. The Air Pollution Control Division will have costs of \$1.3 million for technology development and services provided to, and paid for by, the Clean Fleet Enterprise.

Legal services. The CDPHE requires an estimated 2,000 hours of legal services in FY 2021-22 and ongoing at a cost of \$212,680. The Department of Law requires 1.1 FTE for this work.

Public Utilities Commission

Taxi Parity Study. The PUC will have \$75,000 in additional costs in FY 2022-23, paid from the General Fund, for a contractor to conduct a taxi parity study and report results to the General Assembly.

Other Agency Impacts

State agency fuel costs. Starting in FY 2022-23, fuel costs for state agencies will increase from the road usage and bridge and tunnel fees created by the bill. Costs will vary depending on state agencies' vehicle usage. For example, the Department of Corrections is estimated to have costs of \$15,000 in FY 2022-23, \$23,000 in FY 2023-24, and larger amounts in later years. Other impacted agencies with significant vehicle usage include the Department of Public Safety and State Patrol, Department of Natural Resources, and CDOT, among others. It is assumed that these costs will be addressed through the annual budget process.

Governor's office. One-time costs will be required in the Governor's office to appoint members to four new enterprise boards. This work is estimated to require 150 hours of state time, which can be accomplished within existing appropriations.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$0.7 million in FY 2021-22, \$1.0 million in FY 2022-23 and \$1.0 million in FY 2023-24.

HUTF distributions

Revenue deposited or transferred to the HUTF is allocated to the State Highway Fund for expenditure at the discretion of the Transportation Commission, and to local governments. Revenue collected in the HUTF under the bill is allocated in shares of 60 percent for the State Highway Fund, 22 percent for counties, and 18 percent for municipalities. Revenue transferred to the HUTF under the bill is allocated in shares of 55 percent for counties and 45 percent for municipalities.

Transportation and Enterprise Projects

Beginning in FY 2021-22, revenue credited or transferred to the State Highway Fund and the Multimodal Options Fund will be available for expenditure for transportation projects and multimodal project grants. Actual expenditures will be made at the discretion of the Transportation Commission and are not subject to appropriation by the General Assembly. For this reason, the timing and amounts of expenditures are unknown, and they are not shown in this fiscal note. Revenue credited to enterprises will similarly be expended at the discretion of each enterprise board for each enterprise's business purpose. Funding from new revenue and transfers for transportation and enterprise projects is shown in Table 8. In addition to project costs, enterprise administration costs, which have not been estimated, will be paid using this funding. Funding in future years will increase further as various fees phase in.

Table 8
Estimated Funding Available for Transportation and Enterprise Projects Under SB 21-260

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
State Highway Fund	\$182.2 million	\$150.0 million	(\$29.5 million)	\$4.6 million
Multimodal Options Fund	\$161.3 million	(\$14.5 million)	\$114.9 million	\$7.6 million
Electric Vehicle Grant Fund	-	-	\$0.1 million	\$0.2 million
Bridge and Tunnel Enterprise	-	-	\$23.3 million	\$33.4 million
Community Access Enterprise	-	-	\$19.4 million	\$21.7 million
Clean Fleet Enterprise	-	-	\$17.3 million	\$19.6 million
Clean Transit Enterprise	-	-	\$8.4 million	\$9.4 million
Air Pollution Enterprise	-	-	\$9.2 million	\$11.1 million
Southwest Chief Fund	-	\$14.5 million	-	-
Counties	\$20.1 million	(\$7.3 million)	\$8.1 million	\$23.4 million
Municipalities	\$16.4 million	(\$6.0 million)	\$6.7 million	\$19.2 million
Total	\$380.0 million	\$136.7 million	\$177.9 million	\$150.4 million

TABOR Refunds

The bill decreases fee revenue subject to TABOR in FY 2021-22, and then increases fee revenue subject to TABOR beginning in FY 2022-23. The bill also reverses a downward adjustment made to the TABOR limit in FY 2017-18, effectively increasing the state TABOR limit for FY 2020-21 and future years. The net effect of these changes is to reduce the amount of TABOR surpluses expected for FY 2020-21, FY 2021-22, and FY 2022-23, reducing the state obligation for refunds to taxpayers for these years. Refunds are paid from the General Fund in the fiscal year following the year when a surplus is collected. Table 9 shows the bill’s impact on the state TABOR outlook during the current forecast period. A forecast of state revenue subject to TABOR is not available beyond FY 2022-23.

Table 9
State TABOR Outlook Under SB 21-260

	Current Year FY 2020-21	Budget Year FY 2021-22	Out Year FY 2022-23
Current Law TABOR Surplus or (Deficit)	\$776.3 million	\$921.3 million	\$1,113.8 million
Plus: Change in TABOR Revenue	\$0	(\$33.3 million)	\$35.2 million
Less: Change in TABOR Limit	(\$225.0 million)	(\$229.9 million)	(\$240.5 million)
TABOR Surplus or (Deficit) under SB 21-260	\$551.4 million	\$658.2 million	\$908.5 million
TABOR Refund Impact of SB 21-260	(\$225.0 million)	(\$263.2 million)	(\$205.3 million)

Source: June 2021 Legislative Council Staff forecast, adjusted to exclude the impacts of SB 21-260. A forecast of state revenue subject to TABOR is not available beyond FY 2022-23.

Federal ARPA Funds

This bill increases state revenue, which may impact the state's flexibility in spending federal American Rescue Plan Act (ARPA) funds. For more information, see the LCS memo, titled “Legislative Changes and Flexibility in Use of American Rescue Plan Funds”: <https://leg.colorado.gov/node/2211881>

Local Government

The bill increases direct distributions of HUTF revenue to counties and municipalities as shown in Table 8. Counties and municipalities may also receive grants from the Multimodal Options Fund or through CDOT’s Revitalizing Main Streets program; both programs receive allocations of revenue generated through the bill.

Some transportation planning organizations may pass resolutions empowering them to exercise the powers of a regional transportation authority. For these organizations, revenue may increase in future years if voters approve new or increased taxes or multi-year debt questions.

Effective Date

The bill was signed into law by the Governor and took effect on June 17, 2021. Because Senate Bill 21-238 became law, the provision requiring a \$2.5 million transfer to the Southwest Chief Fund also took effect.

State Appropriations

For FY 2021-22, the bill requires and includes the following appropriations:

- \$146,840,000 from the Multimodal Transportation and Mitigation Options Fund to CDOT;
- \$14,500,000 from the Southwest Chief Fund to CDOT;
- \$259,957 from the State Highway Fund to CDOT, and 3.0 FTE;
- a reappropriation of \$191,412 from the State Highway Fund in CDOT to the Department of Law, and 1.0 FTE;
- \$1,082,480 from the General Fund and \$22,181 from the License Plate Cash Fund to the Department of Revenue, and 5.3 FTE;
- \$100,491 from the General Fund via the Community Access Enterprise Initial Expenses Fund to the Colorado Energy Office; of this amount, \$100,491 is reappropriated to the Department of Law with an additional 0.5 FTE; and
- \$1,702,187 to the Department of Public Health and Environment and 1.7 FTE. Of this amount, \$32,854 and 0.3 FTE is from the General Fund and \$1,669,333 and 1.4 FTE is from the General Fund via the Clean Fleet Enterprise Initial Expenses Fund; of the amount that is appropriated via the Clean Fleet Enterprise Initial Expenses Fund, \$212,680 is reappropriated to the Department of Law with an additional 1.1 FTE.

No appropriation is required from the Energy Fund, and no appropriation is required for State Highway Fund expenditures to CDOT beyond those identified above, because these funds are continuously appropriated to the CEO and to CDOT, respectively. Appropriations for the Clean Transit Enterprise, Air Pollution Enterprise, and Community Access Enterprise will be made via the initial expenses fund for each enterprise using these continuously appropriated cash funds.

State and Local Government Contacts

Colorado Energy Office
Counties
Information Technology
Legislative Council Staff Economists
Municipalities
Personnel
Public Safety
Revenue

Corrections
Governor
Law
Local Affairs
Office of State Planning and Budgeting
Public Health and Environment
Regulatory Agencies
Transportation

Appendix A

This appendix provides additional detail on agency expenditures in CDOT, DOR, CEO, CDPHE, and PUC, as shown in Tables A1 through A5 below.

**Table A1
CDOT Expenditures Under SB 21-260**

Department of Transportation	FY 2021-22	FY 2022-23	FY 2023-24
Personal Services	\$815,375	\$1,010,249	\$1,010,249
Operating Expenses	\$13,500	\$16,200	\$16,200
Capital Outlay Costs	\$62,000	\$12,400	-
Consulting Costs	\$50,000	-	-
Legal Services	\$191,412	\$191,412	\$191,412
Centrally Appropriated Costs ¹	\$281,343	\$328,283	\$327,105
FTE – Personal Services	10 FTE	12 FTE	12 FTE
FTE – Legal Services	1.0 FTE	1.0 FTE	1.0 FTE
Total Cost	\$1,413,630	\$1,558,544	\$1,544,966
Total FTE	11.0 FTE	13.0 FTE	13.0 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

**Table A2
DOR Expenditures Under SB 21-260**

Department of Revenue	FY 2021-22	FY 2022-23	FY 2023-24
Personal Services	\$272,730	\$156,531	\$156,531
Operating Expenses	\$5,400	\$4,590	\$4,590
Capital Outlay Costs	\$24,800	-	-
SSO Testing and Implementation	\$64,225	-	-
SUTS Programming and Maintenance	\$40,050	\$24,000	\$24,000
ORA Reporting	\$3,200	\$19,968	-
GenTax Programming	\$259,875	-	-
License Plate Materials	\$22,181	\$244	-
DRIVES Programming	\$412,200	-	-
Centrally Appropriated Costs ¹	\$77,676	\$48,163	\$48,163
Total Cost	\$1,182,338	\$253,497	\$233,284
Total FTE	5.3 FTE	3.4 FTE	3.4 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

**Table A3
CEO Expenditures Under SB 21-260**

Colorado Energy Office	FY 2021-22	FY 2022-23	FY 2023-24
Personal Services	\$187,659	\$499,941	\$499,941
Operating Expenses	\$2,835	\$7,830	\$7,830
Capital Outlay Costs	\$2,400	\$4,800	-
Legal Services	\$100,491	\$223,314	\$223,314
Program Administration	\$50,000	-	-
Travel Expenses	\$5,000	\$10,000	\$10,000
Computer Programming and Maintenance	\$30,000	\$5,000	\$5,000
Centrally Appropriated Costs ¹	\$37,979	\$141,515	\$141,515
FTE – Personal Services	2.1 FTE	5.8 FTE	5.8 FTE
FTE – Legal Services	0.5 FTE	1.2 FTE	1.2 FTE
Total Cost	\$416,365	\$892,400	\$887,600
Total FTE	2.6 FTE	7.0 FTE	7.0 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

**Table A4
CDPHE Expenditures Under SB 21-260**

Public Health and Environment	FY 2021-22	FY 2022-23	FY 2023-24
Personal Services	\$139,677	\$683,404	\$657,823
Operating Expenses	\$2,430	\$11,205	\$10,800
Capital Outlay Costs	\$12,400	\$37,200	-
Legal Services	\$212,680	\$212,680	\$212,680
APCD Contract	\$1,290,000	\$1,290,000	\$1,290,000
Technology Costs	\$15,000	\$17,000	\$4,000
Translation/Interpretation Costs	\$21,000	\$21,000	\$12,000
Enterprise Board Materials	\$9,000	\$9,000	\$9,000
Centrally Appropriated Costs ¹	\$382,432	\$627,926	\$605,148
FTE – Personal Services	1.7 FTE	8.3 FTE	8.0 FTE
FTE – Legal Services	1.1 FTE	1.1 FTE	1.1 FTE
Total Cost	\$2,084,619	\$2,909,416	\$2,801,451
Total FTE	2.8 FTE	9.4 FTE	9.1 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

**Table A5
PUC Expenditures Under SB 21-260**

Public Utilities Commission	FY 2021-22	FY 2022-23	FY 2023-24
Contractor Costs	-	\$75,000	-
Total Cost	-	\$75,000	-

***2021 Colorado Retail Delivery Fee
Legislative Demographic Note***



July 28, 2021



SB 21-260

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Final Demographic Note

Drafting Number:	LLS 21-0263	Date:	July 28, 2021
Prime Sponsors:	Sen. Fenberg; Winter Rep. Garnett; Gray	Analyst:	Elizabeth Ramey 303-866-3522 Elizabeth.ramey@state.co.us

BILL TOPIC: SUSTAINABILITY OF THE TRANSPORTATION SYSTEM

Demographics Analyzed:	<ul style="list-style-type: none">• Socioeconomic Status• Race/Ethnicity• Sex	<ul style="list-style-type: none">• Age• Geography
-------------------------------	---------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------

Direct Impact(s):	<input checked="" type="checkbox"/> Economic	<input type="checkbox"/> Health	<input type="checkbox"/> Public Safety
	<input type="checkbox"/> Employment	<input type="checkbox"/> Education	

Bill Impact: The bill is expected to have economic impacts by increasing user fees, and may have other economic, employment, and health impacts depending on how increased fee revenue is spent. Due to data limitations, the overall impact of the bill on existing disparities across demographic groups is indeterminate.

Report Status: This demographic note reflects the enacted bill.

Demographic Impact Summary

This demographic note¹ analyzes potential impacts of SB 21-260 on disparities in economic outcomes based on available data, including by sex, geography, socioeconomic status as measured by income, race/ethnicity, and age.² The overall impacts of SB 21-260 on existing disparities across demographic groups is indeterminate. The overall impacts will depend on the impacts of user fees, which are expected to reduce available income for spending or saving by affected users. The demographics of the populations impacted by many of the provisions of the bill could not be identified based on current data limitations. The overall impacts of SB 21-260 will also depend on outcomes resulting from increased transportation revenue, expenditures from which will be based on future policy decisions that are unknown at this time.

¹Pursuant to Section 2-2-322.5, C.R.S., this demographic note uses available data to outline the potential impacts of proposed legislation on disparities within the state. Disparities are defined by statute as the difference in economic, employment, health, education, or public safety outcomes between the state population as a whole and subgroups of the population, as defined by socioeconomic status, race, ethnicity, sex, gender identity, sexual orientation, disability, geography, or any other relevant characteristic for which data are available. It is beyond the scope of this analysis to examine each of the varied causes contributing to a given disparity. For further information on the contents of demographic notes, see "Demographic Notes Overview" Memorandum available at https://leg.colorado.gov/sites/default/files/images/lcs/demographic_notes_overview.pdf.

²Terminology used to distinguish demographic groups (e.g., black/African American, Hispanic or Latina/Latino) is based on the terminology used in the data sources referenced. These terms may differ from the self-identification of these populations.

Key Provisions Impacting Demographic Disparities

The bill creates new sources of dedicated funding for the state's transportation system and creates new enterprises to support the development of that system. New sources of funding come from new fees for users of transportation infrastructure. This includes new fees for purchases of gasoline and diesel fuel, retail deliveries, passenger ride services, electric motor vehicle registrations, and short-term vehicle rentals. The bill indexes new and existing fees either to inflation or to the national highway construction costs index (NHCCI), requires an executive agency review of fees in 2026, and temporarily reduces road safety surcharges on vehicle registrations in 2022 and 2023. The bill modifies an existing enterprise and creates new state enterprises to expand existing transportation infrastructure, develop infrastructure to support the widespread adoption of electric motor vehicles and expanded public transport, and mitigate environmental impacts of transportation system use. The bill requires that environmental justice and equity considerations be incorporated into transportation planning and projects and creates a new Environmental Justice and Equity Branch in the Colorado Department of Transportation (CDOT). Further details can be found in the fiscal note for SB 21-260.

Demographic Considerations

The following analysis presents the demographic considerations raised by the bill and, where data are available, compares the populations affected by the bill to the statewide population across different demographic groups. Pursuant to statute and based on available data on demographic differences between affected and statewide comparison populations, this analysis identifies potential effects of the bill on existing disparities. For each of the major provisions of the bill, the following sections summarize information and data identified by staff in the preparation of this analysis.

Demographic Considerations of New Fees

Gasoline user fees. Overall, some demographics are expected to be impacted more than others by the gasoline user fees based on vehicle miles traveled and vehicle fuel efficiencies. Additionally, for drivers traveling comparable amounts, lower income populations will spend a disproportionate share of their income on these fees relative to higher income populations. The bill imposes a per gallon fee on gasoline to pay for road usage. The fee is phased in from \$0.02 in FY 2022-23 to \$0.08 in FY 2028-29, and indexed to the NHCCI after FY 2031-32. CDOT estimates that the average amount of road user fees paid annually will range between \$5.17 in 2022 and \$21.37 in 2030, per user.

The economic impact of per gallon gasoline fees depends on both a driver's behavior (vehicle miles travelled (VMT)) and a driver's vehicle fuel efficiency. Research on the impact of gas taxes and fees in the U.S. suggests that VMT varies by demographic characteristic, particularly age, geography, sex, and income. Working-age people, males, rural residents, households with children, and higher income groups tend to drive more.³ Within the working age population, younger drivers tend to drive less and are less likely to own a vehicle.

³Bento, A., L. Goulder, M. Jacobsen, and R. von Haefen. 2009. "Distributional and Efficiency Impacts of Increased US Gasoline Taxes." *American Economic Review*. 99 (3): 667-699.

Available data about Colorado drivers suggests a pattern of driving behavior that is broadly consistent with these findings, as shown in Table 1. Annual VMT per driver in Colorado varies significantly by sex and geography, with rural, suburban, and male drivers driving more than the statewide average. Those in younger and senior age groups tend to drive less, as do those in lower income groups, although small sample sizes within groups will lead to larger errors in these estimates.

Table 1
Annual Vehicle Miles Travelled per Driver in Colorado, 2017
Miles Traveled by Selected Demographic Characteristics

All Drivers	10,798		
Drivers by Location		Drivers by Income	
Rural	13,817	Less than \$10,000	2,048
Urban	10,019	\$10,000 to \$14,999	6,544
Small Town	9,975	\$15,000 to \$24,999	10,113
Suburban	13,041	\$25,000 to \$34,999	8,407
Drivers by Select Age Groups		\$35,000 to \$49,999	11,089
16 to 20	2,927	\$50,000 to \$74,999	12,061
26 to 29	10,564	\$75,000 to \$99,999	11,465
35 to 39	10,273	\$100,000 to \$124,999	12,463
45 to 49	14,242	\$125,000 to \$149,999	15,348
55 to 59	11,783	\$150,000 to \$199,999	9,087
65 to 69	9,054	\$200,000 or more	10,320
75 to 79	6,842		
Drivers by Race and Ethnicity		Drivers by Sex	
Hispanic or Latino	9,406	Female	9,228
White Alone	11,213	Male	12,356
Black or African American Alone	12,056		
Asian Alone	8,126		

Source: U.S. Department of Transportation, 2017 National Household Travel Survey.

Consumers of gasoline in Colorado currently pay a state tax of \$0.22 per gallon and a federal tax of \$0.18 per gallon. Data from the Colorado Department of Revenue on gasoline tax incidence by income group suggests that while those in lower income groups pay a smaller dollar amount in taxes, the gasoline tax is regressive. That is, those in lower income groups pay a larger share of their income in taxes, as shown in Table 2. The share of income paid in taxes is known as the effective tax rate.

Table 2
Average Gasoline Taxes Paid and
Effective Tax Rate by Income Group, 2017

Income	Average State Tax Paid	Effective Tax Rate
\$0 to \$14,999	\$92	1.00%
\$15,000 to \$29,999	\$112	0.50%
\$30,000 to \$39,999	\$150	0.43%
\$40,000 to \$49,999	\$165	0.37%
\$50,000 to \$69,999	\$185	0.31%
\$70,000 to \$99,999	\$225	0.27%
\$100,000 to \$149,999	\$259	0.21%
\$150,000 to \$199,999	\$271	0.16%
\$200,000 and Over	\$503	0.09%
Average	\$196	0.21%

Source: Colorado Department of Revenue (DOR), 2020 Tax Profile & Expenditure Report.

Diesel fuel user fees. The demographics of those impacted by diesel fuel user fees could not be determined. The bill imposes a per gallon road usage fee as well as a bridge and tunnel impact fee on diesel fuel. Both fees are phased in from \$0.02 in FY 2022-23 to \$0.08 in FY 2028-29, and indexed to the NHCCI after FY 2031-32. The state and federal government currently assess a special fuels tax on diesel at a rate of \$0.205 per gallon and \$0.24 per gallon, respectively. Red dyed diesel, used for purposes other than roadway transportation, is exempted from state and federal diesel fuel taxes as well as the user fees under the bill.

Much of the impact of the new diesel fuel fee will be borne by the industries that rely on diesel, which primarily include local and long-distance trucking. The population affected by this provision of the bill cannot be determined, as impacts are dependent on business decisions that are unknown. For example, trucking businesses may pass the higher costs of diesel fuel onto their customers, incur reduced profits, or pursue other modes of transportation under the bill.

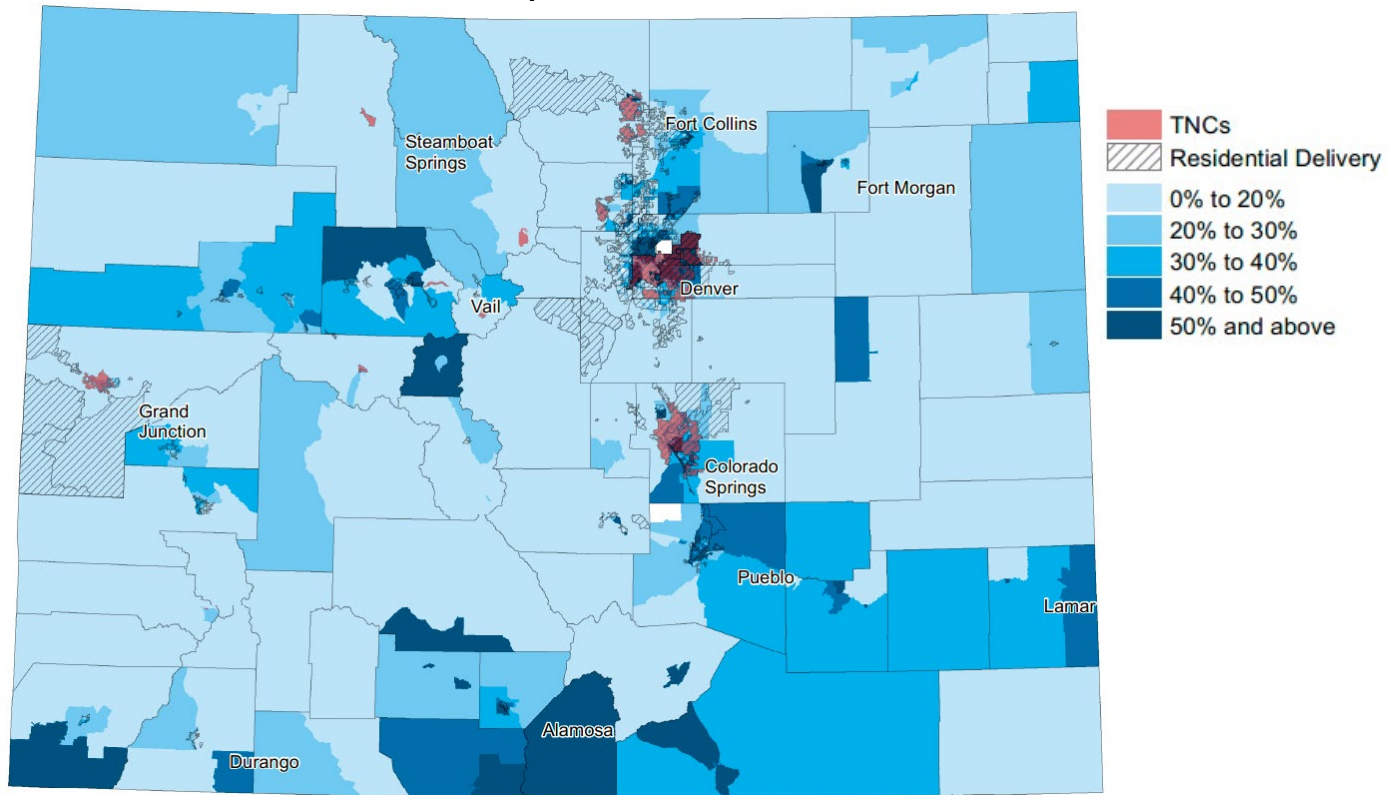
Residential delivery and transportation network company (TNC) fees. Demographic data and other information are limited for populations impacted by residential delivery and TNC fees. Starting in FY 2022-23, the bill imposes fees totaling \$0.27 on retail deliveries by motor vehicles that transport tangible personal property subject to the state sales tax. This includes deliveries from companies such as FedEx, Amazon, GrubHub, and Instacart, although many grocery items are excluded from the state sales tax. Based on a 2019 CDOT and CEO study required by SB 19-239, it is assumed that the average customer would pay an additional \$8.10 in delivery fees for 30 orders per year.⁴

The bill imposes per-ride fees on passenger rides provided by transportation network companies (TNCs) such as Uber or Lyft that use a digital network to connect riders and drivers for the purpose of transportation. The full fee is \$0.30 per ride, although if the ride is shared or taken in an electric vehicle, the fee is discounted to \$0.15. It is unknown how this fee will impact TNCs, their drivers, customers, or vehicles as this depends on the future decisions made by these groups. If TNCs pass fee costs onto consumers and driver tips are held constant, using the assumptions in the 2019 emerging mobility study, the average rider would pay an additional \$0.63 to \$1.26 for 4.2 trips per year.

Figures 1 and 2 show information about the areas served by on-demand residential delivery (beyond traditional delivery companies such as USPS, FedEx, and UPS) and TNCs, overlaid with demographic information by census tract, including the percent of the population that is nonwhite and percent of the population below the poverty level. As shown, these services are primarily located in the metropolitan and mountain resort areas of the state.

⁴Colorado Department of Transportation and Colorado Energy Office. *2019 Emerging Mobility Impact Study*. Available at: <https://www.codot.gov/library/studies/emerging-mobility-impact-study>.

Figure 1
TNC and Residential Deliveries Service Areas and
Percent of the Population that is Nonwhite, 2017



Source: LCS adaptation from Colorado Department of Transportation and Colorado Energy Office, 2019 Emerging Mobility Impact Study.

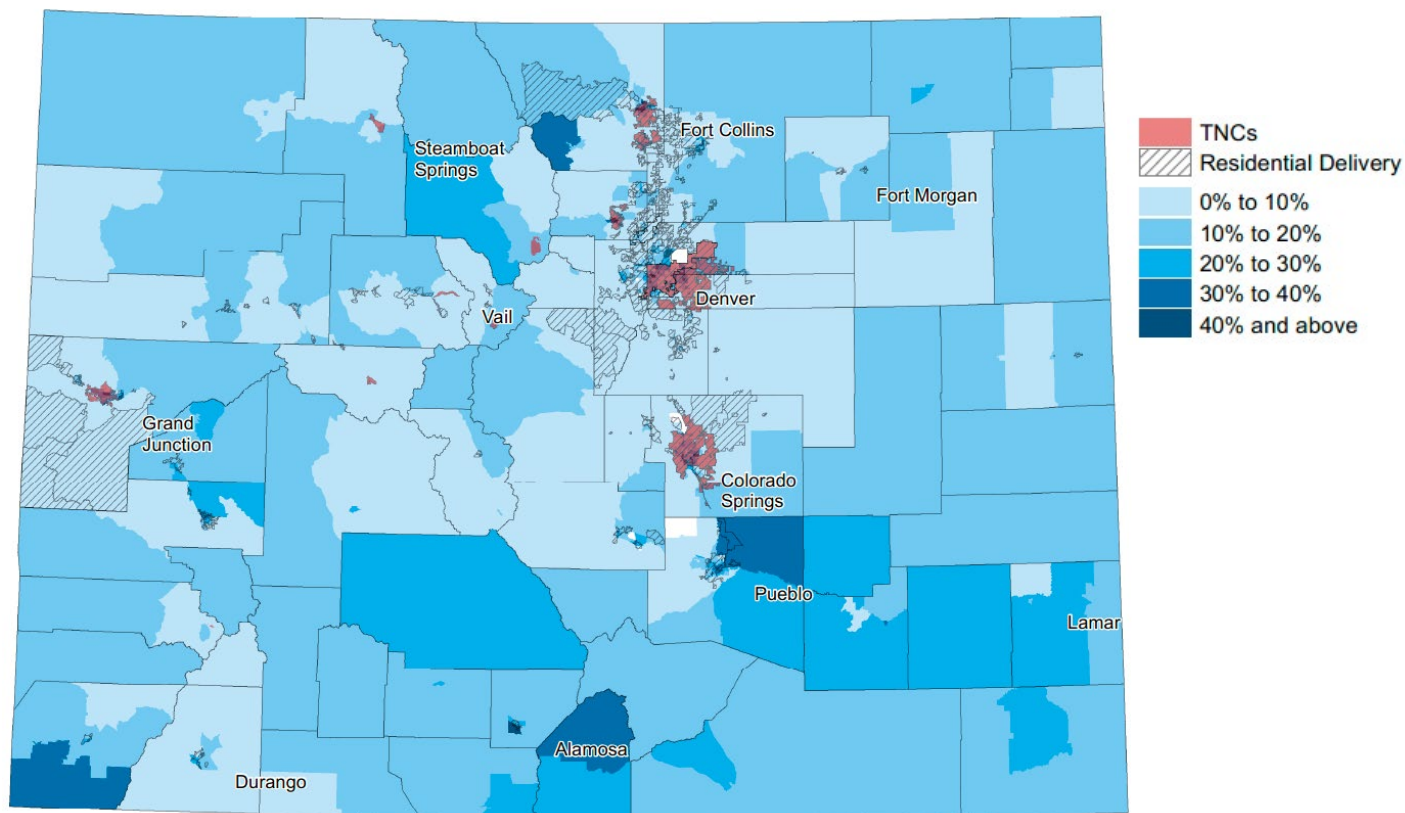
Additional demographic information about online retail consumers could not be identified, although there is some evidence to suggest that on-demand retail shoppers have higher incomes than shoppers in general.⁵ Similarly, additional demographic information about Colorado TNC consumers could not be identified, but recent nationwide studies offer demographic comparisons that may reflect similar characteristics. For example, a 2019 study of the socioeconomic characteristics of TNC riders found that they tend to be younger, higher income, with higher levels of education, and are more likely to reside in urban areas than the population as a whole.⁶ Similar limitations apply to data on Colorado TNC drivers. A 2020 study of TNC drivers in King County (Seattle), Washington found that these drivers are more likely to be male, black, foreign born, with lower levels of education, and lower income than the county population as a whole.⁷

⁵For example, see: Hanbury, M. 2020. "The Average Amazon Shopper Still Earns More Than Wal-Mart's." *Business Insider*. January 25. Available at: <https://www.businessinsider.com/amazon-shoppers-richer-than-walmart-2020-1>

⁶Grahn, R., et al. 2019. "Socioeconomic and Usage Characteristics of Transportation Network Company (TNC) Riders." *Transportation*. April: 1-21.

⁷Parrott, J Report for the City of Seattle. Available at: [Parrott-Reich-Seattle-Report July-2020\(0\).pdf](#)

Figure 2
TNC and Residential Deliveries Service Areas and
Percent of the Population Living Below the Poverty Level, 2017



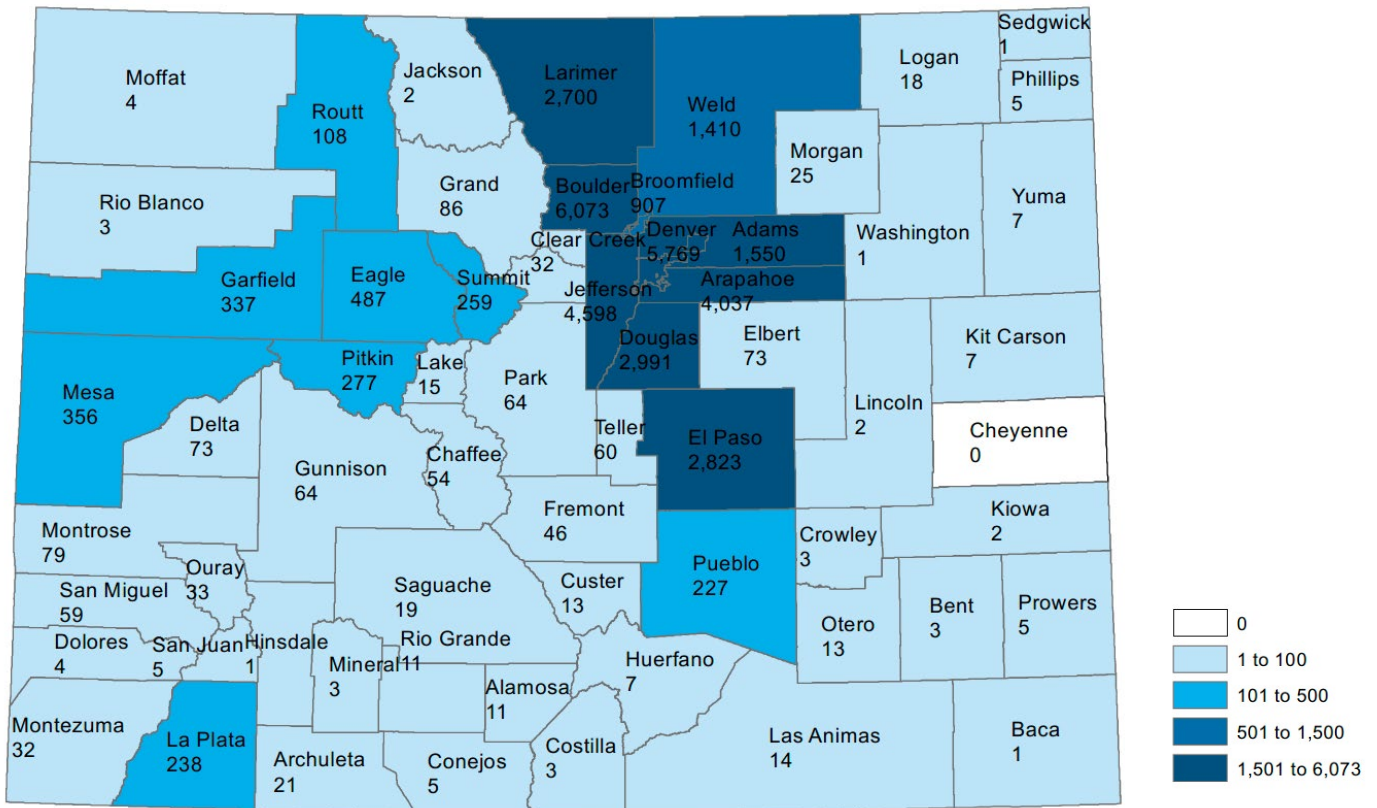
Source: LCS adaptation from Colorado Department of Transportation and Colorado Energy Office, 2019 Emerging Mobility Impact Study.

Electric motor vehicle registration fees. Based on available data, Colorado electric vehicle owners tend to live along the 1-25 corridor, and relative to the population as a whole, data for other states suggest that they tend to be male, white, and have higher incomes. Under current law, owners of battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs) pay a \$50 annual registration fee. Starting in FY 2022-23, the bill will adjust the fee annually for inflation. It also imposes additional road usage equalization registration fees on commercial electric vehicles as well as BEVs and PHEVs, with owners of PHEVs paying a lower fee due to their consumption of liquid fuels for which they pay an additional usage fee under the bill. These fees are phased in through FY 2031-32, and then adjusted annually using the NHCCI. It is estimated that the fee increase in FY 2022-23 will be \$5.35 for BEVs and \$4.35 for PHEVs.

According to the Colorado Energy Office's Electric Vehicle Dashboard, there are currently 36,171 electric vehicles (EVs) in Colorado.⁸ Of these vehicles, 25,372 are BEVs and 10,799 are PHEVs. As shown in Figure 3, EV owners are more likely to be located in the state's metropolitan and mountain resort areas, particularly along the Front Range, with Boulder County having the highest number of electric vehicles at 6,073.

⁸ Colorado Energy Office and Atlas Public Policy, "EVs in Colorado Dashboard." Available at: <https://energyoffice.colorado.gov/zero-emission-vehicles/evs-in-colorado-dashboard#:~:text=The%20dashboard%20allows%20people%20to,on%20vehicle%20electrification%20in%20Colorado.>

Figure 3
Electric Vehicles in Colorado by County, 2021



Source: Colorado Energy Office and Atlas Public Policy, "EVs in Colorado Dashboard."

While additional demographic information on Colorado EV drivers could not be identified, recent studies in other states offer demographic comparisons that may reflect similar characteristics. For example, a 2018 study of the socioeconomic characteristics of EV drivers in Maryland found that relative to owners of vehicles with combustion engines, EV owners are more likely to be male, white, older (a majority are between 40 and 69 years old), have a bachelor's degree or higher, and have higher incomes (about 81 percent of EV owners earned over \$100,000, compared to only about 28 percent of combustion engine owners).⁹ As EV prices decline toward those of combustion engine cars, ownership is expected to widen beyond early adopters with demographics shifting accordingly.

Short term vehicle rental fees. The demographic impacts of vehicle rental fees cannot be determined at this time due to data limitations and as the affected population will depend on unknown decisions made by vehicle rental businesses. Beginning in FY 2022-23, the bill indexes the existing short-term vehicle daily rental fee of \$2 to inflation and requires car sharing programs to collect the daily rental fee for any short-term vehicle rental of 24 hours or longer. The populations incurring fees include companies offering car rental and ride sharing services as well as business and leisure travelers, many

⁹Farkas, Z. Andrew et al. 2018. "Environmental Attributes of Electric Vehicle Ownership and Commuting Behavior in Maryland: Public Policy and Equity Considerations." Report for the Mid-Atlantic Transportation Sustainability University Transportation Center. Available at: <https://www.morgan.edu/Documents/ACADEMICS/CENTERS/NTC/Environmental%20Attributes%20of%20Electric%20Vehicle%20Ownership%20and%20Commuting%20Behavior%20in%20Maryland%20-%20Public%20Policy%20and%20Equity%20Considerations.pdf>

of whom are traveling from outside of the Colorado. Depending on decisions made by vehicle rental providers, fees may reduce business incomes, be passed on to consumers, or result in other business decisions. Based on these considerations and data limitations, the demographic impact of this provision cannot be determined at this time.

Road safety surcharge. According to tax profile data from the Colorado Department of Revenue (DOR), vehicle registration fees operate in a regressive manner similar to gasoline taxes. These temporary reductions will therefore likely operate to offset the regressive impacts of other fees imposed in the bill. The bill reduces the amount of each road safety surcharge imposed on motor vehicle registrations by \$11.10 for registrations during 2022 and by \$5.55 for registrations during 2023. Surcharges for 2024 and later years are unaffected.

Demographic Considerations of Increased Transportation Funding

Enterprises to support transportation electrification and other infrastructure. The populations impacted by the funding to the new and modified state enterprises under the bill are unknown at this time. The funding may affect a portion of or all current and future users of the state's transportation system. The demographic impacts of this funding will depend on future policy decisions and therefore cannot be determined at this time.

Pollution non-attainment areas. The bill creates a new enterprise to mitigate transportation-related emissions in ozone nonattainment areas by funding projects that reduce traffic or directly reduce air pollution through the congestion mitigation and air quality improvement program. To the extent that the enterprise improves air quality more than would otherwise be the case, populations living in areas where air quality is improved will be impacted.

According to the Environmental Protection Agency, nonattainment areas in calendar year 2021 include Adams, Arapahoe, Broomfield, Boulder, Denver, Douglas, Jefferson, Larimer, and Weld counties. The population in these areas represents 68.0 percent of the statewide population and the demographic composition of these areas is very similar to that of the state as a whole. Based on data for 2019, the racial, ethnic, and age composition of nonattainment areas were within the margin of error for the statewide population estimates. The population in nonattainment areas had slightly higher educational attainment and incomes, and were slightly more likely to be employed. Table 3 provides a summary of the demographic composition of counties in nonattainment areas and the statewide population.

**Table 3
Demographics of Nonattainment Areas, 2019**

	Nonattainment Areas*		Colorado	
	Population	Share	Population	Share
Total Population	3,913,309	100.0%	5,758,736	100.0%
Age				
Under 10 years	454,669	11.6%	671,504	11.7%
10 to 19 years	503,945	12.9%	731,951	12.7%
20 to 29 years	585,994	15.0%	839,960	14.6%
30 to 39 years	621,831	15.9%	880,103	15.3%
40 to 49 years	521,113	13.3%	738,549	12.8%
50 to 59 years	468,854	12.0%	697,406	12.1%
60 to 69 years	411,736	10.5%	648,341	11.3%
70 to 79 years	231,545	5.9%	373,640	6.5%
80 years and over	113,622	2.9%	177,282	3.1%
Race				
White alone	3,236,618	82.7%	4,822,379	83.7%
Black or African American alone	180,231	4.6%	240,538	4.2%
American Indian and Alaska Native alone	29,500	0.8%	57,578	1.0%
Asian alone	155,973	4.0%	188,461	3.3%
Native Hawaiian and Other Pacific Islander alone	4,143	0.1%	7,756	0.1%
Some other race alone	150,558	3.8%	209,081	3.6%
Two or more races:	156,286	4.0%	232,943	4.0%
Two races including Some other race	22,130	0.6%	34,753	0.6%
Two races excluding Some other race, and three or more races	134,156	3.4%	198,190	3.4%
Ethnicity				
Not Hispanic or Latino	3,042,161	77.7%	4,501,833	78.2%
Hispanic or Latino	871,148	22.3%	1,256,903	21.8%
Educational Attainment				
Total Population	2,696,348	100.0%	3,974,943	100.0%
Less than high school graduate	207,875	7.7%	302,220	7.6%
High school graduate (includes equivalency)	518,850	19.2%	836,590	21.0%
Some college or associate's degree	716,055	26.6%	1,140,531	28.7%
Bachelor's degree	772,707	28.7%	1,057,825	26.6%
Graduate or professional degree	480,861	17.8%	637,777	16.0%
Employment Status				
Total Population, 16+	3,152,876	100.0%	4,645,780	100.0%
Employed	2,152,002	68.3%	3,033,694	65.3%
Household Income				
Total Households	1,518,082	100.0%	2,235,103	100.0%
Less than \$10,000	62,653	4.1%	102,815	4.6%
\$10,000 to \$14,999	37,220	2.5%	64,818	2.9%
\$15,000 to \$24,999	83,469	5.5%	138,576	6.2%
\$25,000 to \$34,999	89,666	5.9%	149,752	6.7%
\$35,000 to \$49,999	147,145	9.7%	234,686	10.5%
\$50,000 to \$74,999	256,595	16.9%	391,143	17.5%
\$75,000 to \$99,999	206,671	13.6%	308,444	13.8%
\$100,000 to \$149,999	294,724	19.4%	411,259	18.4%
\$150,000 to \$199,999	157,153	10.4%	203,394	9.1%
\$200,000 or more	182,786	12.0%	230,216	10.3%

Source: U.S. Census Bureau, American Community Survey, 1-year estimates.

*Nonattainment areas for 2021 include: Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, Jefferson, Larimer, and Weld counties.

Analysis and Findings

The overall impact of SB 21-260 on existing demographic disparities is indeterminate. The overall impact will depend on the impacts of user fees, which are expected to reduce available income for spending or saving by affected users. The demographics of the populations impacted by many of the provisions of the bill could not be identified based on data limitations. The overall impacts of SB 21-260 also depend on outcomes resulting from increased transportation revenue, expenditures from which will be based on future policy decisions that are unknown at this time.

User fee impacts. SB 21-260 is expected to have multiple and sometimes offsetting impacts on economic outcomes through higher fees for users of Colorado's transportation systems that may impact existing demographic disparities across income groups. Higher fees on gasoline are expected to have a larger impact on populations living in rural areas, men, people with children, drivers of working age, and those with lower incomes. These impacts may be partially offset by the other user fees under the bill, which are expected to increase costs for populations living in urban areas and belonging to higher income groups. Due to data limitations, the overall impact of user fees on economic disparities is indeterminate.

Enterprise impacts. Impacts on affected populations depend on the demographics of those paying user fees as well as on the outcomes resulting from the expenditure of fee revenue. To the extent that increased transportation revenue under the bill expands existing transportation infrastructure, develops new infrastructure to support the adoption of electric motor vehicles and expanded public transport, and mitigates adverse environmental impacts of transportation system use, these outcomes may improve economic and health outcomes for affected populations. Additional transportation funding may increase employment opportunities in some industries, and may offset impacts in other industries resulting from increased fees. Reduced transportation costs from increased travel times due to congestion or vehicle wear and tear due to road hazards may offset the costs of increased fees for some affected populations.

Other impacts. The bill requires that environmental justice and equity considerations be incorporated into transportation planning and projects. It requires CDOT and the Transportation Commission to establish new procedures and guidelines, to be incorporated into future ten-year plans and to evaluate the environmental and health impacts of significant projects on disproportionately impacted communities. The bill creates a new Environmental Justice and Equity branch in CDOT to work directly with disproportionately impacted communities on transportation planning and to identify barriers preventing these communities from participating in transportation decisions that affect their health, quality of life, and access for disadvantaged and minority-owned businesses in project delivery. The demographic impacts of these provisions will depend on their impact on future policy decisions and therefore cannot be determined at this time. To the extent that these provisions improve health and economic outcomes for communities disproportionately impacted by transportation decisions more than would otherwise have occurred, economic and health disparities may decrease.

Demographics Not Analyzed

Some demographic groups have not been included in the analysis due to data limitations. Data on the relevant populations delineated by gender identity, sexual orientation, and disability were not available at the time of the analysis. Should data become available, this analysis may be updated.

Other data limitations. The COVID-19 pandemic has resulted in dramatic shifts in the usage of transportation systems. Many of these shifts exacerbated economic inequality across income and other demographic groups. For example, Household Pulse data from the U.S. Census Bureau suggest that Coloradans in higher income groups are more likely to have been able to shift to remote work during the pandemic, while those in lower income groups were more likely to suffer job and income loss.¹⁰ Pandemic-related shifts in consumption patterns have resulted in the dramatic expansion of ecommerce and therefore retail deliveries, while curtailing TNC activity by an estimated 40 percent annually. Ecommerce activity increased rapidly after the onset of the pandemic, jumping from 11.8 percent of retail trade in the first quarter of 2020 to 16.1 percent in the second quarter. It is currently unknown to what extent these shifts will persist once the pandemic has subsided. Therefore, these shifts may limit the applicability of available demographic data included in this analysis.

Data Sources and Agencies Contacted

Transportation
Revenue

Energy Office
Public Health and Environment

¹⁰See LCS Memo, February 2021, "Income Inequality in Colorado and COVID-19 Impacts" available at: <https://leg.colorado.gov/publications/income-inequality-colorado-and-covid-19-impacts>

***2023 Colorado Retail Delivery Fee
Legislative Fiscal Note***





Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number:	LLS 23-0306	Date:	July 18, 2023
Prime Sponsors:	Sen. Fenberg; Van Winkle Rep. Kipp; Soper	Bill Status:	Signed into Law
		Fiscal Analyst:	Emily Dohrman 303-866-3687 emily.dohrman@coleg.gov

Bill Topic: **RETAIL DELIVERY FEES**

Summary of Fiscal Impact:	<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
	<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
	<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

The bill modifies the administration of retail delivery fees and creates an exemption from the fees for small and new businesses. The bill decreases revenue beginning in FY 2022-23 and increases expenditures in FY 2023-24 only.

Appropriation Summary: The bill requires a decrease in appropriations to the Department of Transportation by \$41,668 in the current FY 2022-23 and \$276,355 in FY 2023-24. For FY 2022-23, the bill includes a decrease of \$20,834 instead. The bill also requires and includes a \$17,086 appropriation to the Department of Revenue in FY 2023-24 only. See the State Appropriations section.

Fiscal Note Status: The fiscal note reflects the enacted bill.

Table 1
State Fiscal Impacts Under SB 23-143

		Current Year FY 2022-23	Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	Cash Funds	(\$204,755)	(\$1,358,012)	(\$1,472,838)
	Total Revenue	(\$204,755)	(\$1,358,012)	(\$1,472,838)
Expenditures	General Fund	-	\$17,086	-
	Cash Funds	up to (\$204,755)	up to (\$1,358,012)	up to (\$1,472,838)
	Total Expenditures	up to (\$204,755)	up to (\$1,340,926)	up to (\$1,472,838)
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	(\$64,139)	(\$425,394)	(\$461,363)

Summary of Legislation

The bill modifies the administration of the retail delivery fees enacted in Senate Bill 21-260. It creates an exemption from the fees for businesses with retail sales less than or equal to \$500,000 in the prior year. It also allows sellers to pay the fee on the purchaser's behalf, such that the fee does not need to be separately itemized for each delivery, and requires the Department of Revenue (DOR) to waive processing costs if the processing costs would exceed the amount of retail delivery fees the retailer is remitting and the payment is remitted by automated clearing house debit.

Background

Senate Bill 21-260 created retail delivery fees imposed on retail deliveries by motor vehicles that transport tangible personal property subject to the state sales tax. The retail delivery fees went into effect on July 1, 2022. There are six retail delivery fees that are administered by the DOR, and then distributed to the Highway Users Tax Fund (HUTF), the Multimodal Transportation and Mitigation Options Fund (MMOF), and five enterprises. The DOR is permitted to retain a portion of the revenue to pay for the costs of collecting, administering and enforcing the fees. The fees total 27 cents per delivery in FY 2022-23 and may be adjusted for inflation in future years.

Data and Assumptions

Of the 161.2 million deliveries for which retail delivery fees were paid between July 2022 and December 2022, 2.5 million were remitted by retailers with sales of less than or equal to \$500,000. This fiscal note assumes that the percentage of retail deliveries that are attributable to retailers with revenue below the \$500,000 threshold will stay constant at 1.5 percent throughout the forecast period. The fiscal note also assumes that the retail delivery fees will be adjusted for inflation, as required under current law, consistent with March 2023 LCS forecast inflation expectations.

The bill specifies that the small retailer exemption takes effect upon the bill's passage. The bill was signed on May 4, 2023, such that the exemption applies for two months of the current FY 2022-23.

State Revenue

The bill decreases state revenue by \$204,755 in the current FY 2022-23, \$1.4 million in FY 2023-24, and increasing amounts in later years. Revenue impacts occur in various state cash funds, including five state enterprises. Table 2 presents revenue estimates through FY 2024-25 and shows which revenue is expected to be subject to, and exempt from, the state TABOR limit.

**Table 2
Revenue Under SB 23-143**

Fund	FY 2022-23	FY 2023-24	FY 2024-25
Highway Users Tax Fund*	(\$45,151)	(\$299,461)	(\$324,781)
Multimodal Transportation and Mitigation Options Fund*	(\$18,988)	(\$125,933)	(\$136,582)
Bridge and Tunnel Enterprise	(\$20,412)	(\$135,380)	(\$146,827)
Community Access Enterprise	(\$52,164)	(\$345,971)	(\$375,225)
Clean Fleet Enterprise	(\$40,068)	(\$265,746)	(\$288,216)
Clean Transit Enterprise	(\$22,680)	(\$150,422)	(\$163,141)
Nonattainment Area Air Pollution Mitigation Enterprise	(\$5,292)	(\$35,099)	(\$38,066)
Total	(\$204,755)	(\$1,358,012)	(\$1,472,838)
Total Subject to TABOR	(\$64,139)	(\$425,394)	(\$461,363)
Total Exempt from TABOR	(\$140,616)	(\$932,618)	(\$1,011,475)

* This revenue is subject to the TABOR limit

Highway Users Tax Fund. Of the revenue from retail delivery fees that is distributed to the HUTF, 40 percent is allocated to the State Highway Fund within CDOT, 33 percent is allocated to counties, and 27 percent is allocated to municipalities. The State Highway Fund portion of revenue loss is estimated to be \$119,784 in FY 2023-24. The revenue is spent at the discretion of the Transportation Commission for highway improvements, transit-related projects, and other transportation projects.

Multimodal Transportation and Mitigation Options Fund. Revenue to the MMOF is used for multimodal transportation projects and greenhouse gas mitigation projects. Of these funds, 85 percent are used to support local projects and 15 percent are retained by CDOT for statewide projects. The portion of the lost revenue attributable to state projects is estimated to be \$18,890 million in FY 2023-24.

Enterprises. Each of the five enterprises listed above impose their own retail delivery fees to be used to be allocated at the discretion of each enterprise's governing board. All revenue collected by enterprises is exempt from the state TABOR limit.

State Expenditures

Department of Revenue. This bill requires expenditures of \$17,046 to program, test, and update the DOR's GenTax software system. Programming costs are estimated at \$6,750, representing 30 hours of contract programming at a rate of \$225 per hour. Costs for testing at the department are estimated at \$10,336, representing 323 hours of user acceptance testing at a rate of \$32 per hour. Although the bill goes into effect in FY 2022-23, the DOR does not need to make the GenTax updates prior to implementation in order to be compliant. Therefore, the expenditure is expected in FY 2023-24.

Department of Transportation. The decrease in revenue to the State Highway Fund, MMOF, Bridge and Tunnel Enterprise, Clean Transit Enterprise, and Nonattainment Area Air Pollution Mitigation Enterprise will result in a reduction of expenditures in the Department of Transportation by the amounts specified in the revenue section. Funds in the State Highway Fund, Bridge and Tunnel Enterprise, and Nonattainment Area Air Pollution Mitigation Enterprise are continuously appropriated while funds in the MMOF are annually appropriated with three years of roll-forward authority. Because of the nature of the appropriations, the decrease in expenditures for each fiscal year is not known.

Funds for the Clean Transit Enterprise are annually appropriated. Expenditures in the Clean Transit Enterprise are expected to decrease by \$22,680 in the current FY 2022-23, \$150,422 in FY 2023-24, and \$163,141 in FY 2024-25.

Department of Public Health and Environment. The decrease in revenue to the Clean Fleet Enterprise outlined in the revenue section will result in a decrease in expenditures in the Department of Public Health and Environment. The funds otherwise would be dedicated toward supporting electric vehicles and other clean fleet technology in government and private fleets. Because the funds are continuously appropriated, the decrease in expenditures for each fiscal year is not known.

Colorado Energy Office. The decrease in revenue to the Community Access Enterprise outlined in the revenue section will result in a decrease in expenditures in the Colorado Energy Office. The funds otherwise would be used to support and incentivize adoption of electric vehicles and electric alternatives to motor vehicles, including development of vehicle charging infrastructure. Because the funds are continuously appropriated, the decrease in expenditures for each fiscal year is not known.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. Because TABOR refunds are paid from the General Fund, decreased cash fund revenue that is subject to TABOR will increase the amount of General Fund available to spend or save. Decreased revenue to enterprises will have no impact on TABOR refunds.

Local Government

The bill will decrease revenue to local governments from the HUTF and the MMOF on an ongoing basis beginning in FY 2022-23. The impact is summarized in Table 3.

**Table 3
Local Revenue Under SB 23-143**

Fund	FY 2022-23	FY 2023-24	FY 2024-25
Highway Users Tax Fund	(\$27,091)	(\$179,676)	(\$194,869)
<i>Counties</i>	(\$14,900)	(\$98,822)	(\$107,178)
<i>Municipalities</i>	(\$12,191)	(\$80,854)	(\$87,691)
Multimodal Transportation & Mitigation Options Fund	(\$16,140)	(\$107,043)	(\$116,094)
Total Local Government Revenue Impact	(\$43,230)	(\$286,720)	(\$310,963)

Funds for local projects from the MMOF may be used to expand local transit or other multimodal projects. Local HUTF revenue may be used for a variety of transportation-related projects.

Effective Date

The bill was signed into law by the Governor and took effect on May 4, 2023.

State Appropriations

For FY 2022-23, this bill requires reductions in appropriations from the Multimodal Transportation and Mitigation Options Fund and the Clean Transit Enterprise Fund to the Department of Transportation in the amounts of \$18,988 and \$22,680, respectively. The bill includes reductions in appropriations from the Multimodal Transportation and Mitigation Options Fund and the Clean Transit Enterprise Fund to the Department of Transportation in the amounts of \$9,494 and \$11,340, based on the bill's assumed effective date when the appropriations clause was written (June 1, 2023).

For FY 2023-24, the bill requires and includes the following changes in appropriations:

- \$17,086 from the General Fund to the Department of Revenue;
- (\$125,933) from the Multimodal Transportation and Options Fund to the Department of Transportation; and
- (\$150,422) from the Clean Transit Enterprise Fund to the Department of Transportation.

No change in appropriations is required or included for the State Highway Fund, Statewide Bridge Enterprise Special Revenue Fund, Nonattainment Area Air Pollution Mitigation Enterprise Fund, Clean Fleet Enterprise Fund, or the Community Access Enterprise Fund because these funds are continuously appropriated to their respective departments.

State and Local Government Contacts

Colorado Energy Office	Information Technology	Public Health and Environment
Revenue	Transportation	

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit: leg.colorado.gov/fiscalnotes.

***2023 Minnesota Retail Delivery
Fee Legislative Fiscal Note***



October 26, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Revised Description

Department of Revenue
Analysis of Chapter 68 (H.F. 2887) Article 3, Sections 8-12

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
	(000's)			
Transportation Advancement Account	\$0	\$59,000	\$64,800	\$65,300
Special Revenue Fund	*	*	*	*
Total – All Funds	\$0	\$59,000	\$64,800	\$65,300

*An unknown amount will be deposited in the Revenue Department Service and Recovery Special Revenue Fund

Effective July 1, 2024.

EXPLANATION OF THE BILL

The bill establishes a retail delivery fee imposed on retail deliveries in Minnesota. A retail delivery is defined as a delivery to a person located in Minnesota. The sale must contain at least one item of tangible personal property subject to sales tax, or clothing, for the fee to apply. The fee is \$0.50 per retail delivery transaction that equals or exceeds a threshold amount of \$100. Only nonexempt items count toward the \$100 threshold amount. The bill provides an exemption from the fee for retailers that made \$1 million in retail sales or less in the previous calendar year. A marketplace provider would also be exempt from the fee when facilitating the sale of a retailer that made \$100,000 of sales or fewer through the marketplace provider in the previous calendar year. The bill also provides exemptions for certain transactions containing the retail sale of prepared food, baby products, diapers, and sales by food and beverage service establishments. Retailers and marketplace providers would have up to 60 days to begin collecting the fee once it is determined they have met their respective thresholds.

An amount necessary to collect, administer, and enforce the retail delivery fee would be deposited in the Revenue Department Service and Recovery Special Revenue Fund. The remaining revenues would be deposited in the Transportation Advancement Account.

REVENUE ANALYSIS DETAIL

- Data from the retail delivery fee in Colorado was used to inform the estimates.
- It is estimated that there will be 48 deliveries per person annually subject to the delivery fee.
- Minnesota’s population in 2021 was an estimated 5,711,471 according to the U.S. Census Bureau.
- Minnesota’s population is assumed to grow at a rate of 0.7% annually based on projections from the Minnesota state demographer.
- The estimates are reduced to account for retailers and transactions that would be exempt from the fee.

- The estimates are further reduced to account for transactions of nonexempt items under \$100.
- Publicly available industry market research was used to estimate the impact of exempt items.
- The fiscal year 2025 estimate is adjusted for eleven months of collections.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

Interviews and Meetings Document



Interviews and Stakeholder Meetings

Throughout the study, the research team conducted interviews with those involved with the development and enactment of retail delivery fee legislation in Colorado and Minnesota. The following list includes those interviewed as a part of this study.

1. Mark Ferrandino, Executive Director, Colorado Department of Revenue
2. Senator Faith Winter, Colorado Senate, Sponsor of Retail Delivery Fee legislation
3. Josh Pens, Director of Tax Policy, Colorado Department of Revenue
4. Erik Rudeen, Government Relations Director, Minnesota Department of Transportation
5. Joanne Bayers, Legislative Director, Minnesota Department of Revenue
6. Representative Erin Koegel, Minnesota House of Representatives, lead negotiator of transportation bill
7. Kathy Oline, Assistant Director, Research and Fiscal Analysis Division, Washington Department of Revenue

In April, the Joint Transportation Committee and members of the research team met with the Association of Washington Business and other members of the business community to discuss the potential impacts to businesses of a retail delivery fee in Washington state. The following includes a list of attendees:

1. Alex Logemann, DoorDash
2. Brad Boswell, Uber
3. Caron Cargill, DoorDash, Amazon
4. Christine Brewer, Instacart
5. Crystal Leatherman, Washington Retail Association
6. Evan Oneto, FedEx
7. Intisar Benge, Uber
8. Julia Gorton, Washington Hospitality Association
9. Kim Clauson, Washington Hospitality Association, Amazon
10. Kris Tefft, Instacart
11. Marian Dacca, Northwest Grocery Retail Association, DoorDash
12. Samantha Louderback, Washington Hospitality Association
13. Morgan Irwin, Association of Washington Business, State Chamber of Commerce
14. Montana Miranda, Washington Hospitality Association
15. Diana Carlen, FedEx, Total Wine & More

***Association of Washington Business
Letter***



To the Joint Transportation Committee and Staff

Subject: Opposition to the Implementation of a Doorstep Tax

On behalf of:

Association of Washington Business

Washington Hospitality Association

Washington Food Industry Association

Washington Trucking Association

Washington Retail Association

TechNet

Chamber of Progress

As a business community and community groups in Washington State we not only represent the prosperity of the State's economy but the prosperity of its population. The people who choose to call Washington home are not only our customers but they are our business owners, employees, friends and family members. Keeping Washington thriving and vibrant means promoting a healthy economy and a healthy environment for all.

In particular, Washington businesses have been global leaders in putting the environment first and building a business model around it. To that end a tremendous amount of time, money and energy have been invested into unique distribution models that minimize vehicle miles driven, the number of vehicles on the roads and the carbon emissions produced by those vehicles. Further Washington Businesses and community groups have been allies to the State Transportation budget and have long advocated for dedicated funding to build and maintain critical infrastructure.

We are writing this letter without being provided an opportunity to review the draft report which may shed light on some of the concerns listed below. We want to express deep concerns regarding any proposal for a tax on deliveries or "Doorstep Tax" and its potential negative economic impacts. Such a tax would have far-reaching consequences that outweigh any potential benefits.

The three areas that are of greatest concern are:

- The framework in which this study has been crafted.
- The direct and indirect negative impacts to business models in the state of Washington.
- The direct and indirect negative impact to consumers in the state of Washington.

Framework:

The framework for this study, as proposed by the legislature, did not include the requirement to interview or reach out to specific stakeholders who may be impacted. This oversight and lack of requirement has resulted in a failure to fully study the true impacts of imposing such a tax and the potential challenges and burdens associated with collecting and remitting funds.

The state budget proviso mandates evaluating business impacts, but given the direction from the legislature included in the budget proviso for the study, little effort has been made to gather input or data from affected businesses. Businesses were only engaged through a single stakeholder Zoom call and the inclusion of this letter in the report. Despite a robust months long study, businesses have only been involved as peripheral stakeholders and were brought in at the end to provide feedback.

The budget proviso for this study requires an evaluation of a similar doorstep tax in the two states that have adopted it: Minnesota and Colorado. An honest assessment of those programs shows that they underestimated the impacts and intense public backlash, such that those states are already considering major fixes or repeal as exemplified by Minnesota SF 4772 and HF 4504 both of which would repeal the Doorstep Tax.

Business Impacts:

Imposing a tax on deliveries would lead to an increase in the cost of goods and services for consumers. Delivery companies would likely pass on the additional costs to their customers, resulting in higher prices for products ordered online. This, in turn, will reduce consumer spending power, dampen demand, and have a ripple effect across the economy, particularly in sectors reliant on e-commerce.

Small businesses, which increasingly rely on online platforms and delivery services to reach customers, would not only be disproportionately affected by a tax on deliveries, but could also be put in a position that compliance is not feasible or overly onerous depending on where and how the tax is charged. Many small businesses operate on thin profit margins and cannot absorb additional expenses, including compliance and accounting costs, without passing them on to consumers or cutting costs elsewhere, pushing the cost of goods higher for the residents of Washington. A proposal like this will hinder the growth and competitiveness of small businesses,

stifle entrepreneurship and innovation, and continue to drive up the cost of living in the process for those who rely on essential services such as delivery.

A doorstep tax could have broader implications for employment and job creation. The e-commerce sector has been a significant source of job growth in recent years, creating opportunities in logistics, transportation, warehousing, and related industries. By increasing the cost of doing business in this sector, a doorstep tax could discourage investment and expansion, potentially leading to job losses and stalling economic recovery efforts in our post-pandemic economy.

A doorstep tax also increases traffic and greenhouse gas emissions. Fewer deliveries (many of which are now in electric vans that use optimized route finding), means more discretionary trips in gas-powered single occupant vehicles using less efficient routes during peak drive times. This would add even more cars to our congested roads and move the state backwards on achieving its aggressive climate goals. The Chamber of Progress is currently completing an environmental impact study of this type of policy and it will be available by mid-July of 2024 at which time a copy will be forwarded to the JTC members and staff.

Finally, and as it was attempted in Minnesota, the proposed doorstep tax could exempt the United States Postal Service (USPS) from taxation. This would provide a government entity that already has many structural advantages over local companies a massive cost advantage on every delivery they make. USPS is already at or beyond their capacity to deliver goods in a timely manner and they have a much slower approach to addressing impacts to the environment. This tax would push companies and consumers away from internal innovation into greener technologies and towards a deliverer who is out of capacity and out of date.

Consumer impacts:

It is essential to recognize that deliveries are often a necessity rather than a luxury for individuals and families. Elderly, disabled individuals, those without access to reliable transportation, rural residents and busy working families rely heavily on delivery services for essential goods. Imposing a regressive tax on these deliveries would increase the cost of living for these vulnerable groups, placing an additional financial burden on those who can least afford it. Many of these senior citizen consumers are already struggling to independently age in place on fixed incomes and have no room left in their budgets.

The regressive nature of such a tax is evident when considering its impact on low-income communities. Studies have consistently shown that lower-income households spend a higher proportion of their income on goods and services, including those delivered to their homes. The regressive nature of such a tax is evident when considering its impact on low-income communities. Studies have consistently shown that lower-income households spend a higher proportion of their income on goods and services, including those delivered to their homes.

Therefore, any tax on deliveries would disproportionately affect these communities, widening the economic divide and exacerbating existing inequalities. Proponents will try to argue it's less regressive because affluent urban residents also spend online, but that's meaningless to the question of who a doorstep tax would hurt the most. The fact is, it's very regressive because it's a fixed tax that low-income communities have less ability to absorb.

The doorstep tax is a double tax on top of one of the most regressive and highest sales taxes in the country. Polling shows that inflation is one of the biggest concerns in Washington, and consumers already feel stretched. They can't afford a double tax as well.

In conclusion, while we acknowledge the need for innovative solutions to address environmental and budget challenges, taxing deliveries is not the answer. Such a tax would unfairly burden those who can least afford it, exacerbate existing inequalities, increase traffic, and move the state backwards on climate. We urge policymakers to consider more equitable and effective alternatives that promote sustainability without disproportionately impacting vulnerable communities and business sectors.

Unanswered Questions for Consideration (these have been offered without an advanced review of the final report)

- Local Government Policies: Would impacts be compounded if local governments have similar policies in place?
- What does this look like in the states that have implemented a statewide delivery fee? Were limitations imposed?
- What happens to locals if there is a state preemption and what happens to total revenue if there is not a state preemption?
- What does public polling look like in states that have implemented a Doorstep Tax?
- Environmental Impacts: What would the emission impact be? Increase in trips?
- How much money will this raise on a state-wide basis and who would collect the tax?
- What would be the cost of implementation and what would be the on-going operating cost of collections?



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