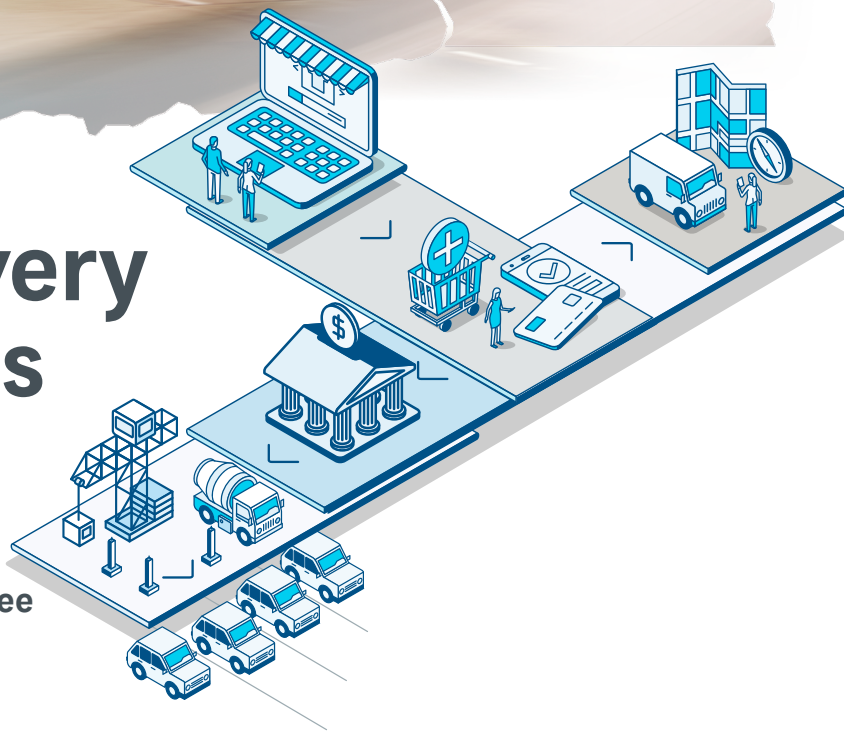
Report | June 2024

Retail Delivery Fee Analysis



Washington State
Joint Transportation Committee

June 2024

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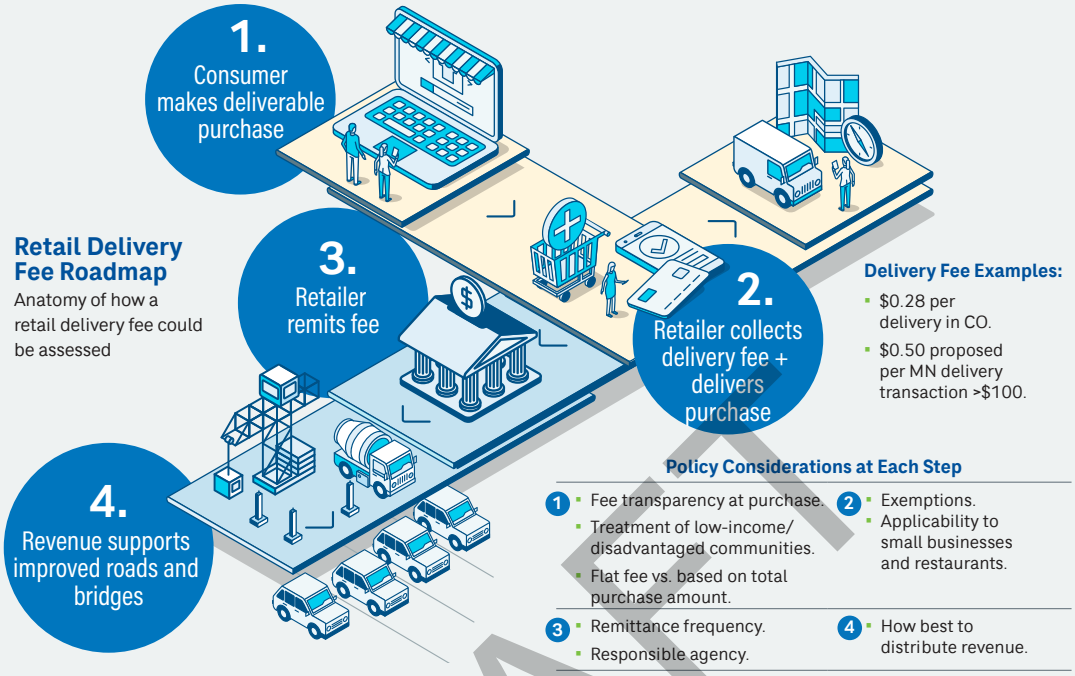


Retail Delivery Fee Roadmap. Anatomy of how a retail delivery fee could be assessed

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.[1] 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.[2] Meanwhile, the state's share, which comes largely from state fuel tax receipts, is in decline. 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.

[1]https://wsdot.wa.gov/about/transportation-data/travel-data/annual-mileage-and-travel-information
[2]https://wacities.org/data-resources/articles/2023/11/16/the-state-of-transportation-in-cities

While deliveries of retail items to homes and businesses have been increasing for many years, they increased sharply during the COVID-19 pandemic, and growth is expected to continue. As a result, some policymakers view a retail delivery fee as a way to account for the use of the transportation system associated with retail deliveries.

Analysis reveals that a fee in Washington of 30 cents per order could generate between $45 and $112 million in revenues 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 do less than $1 million in annual revenues. 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. These estimates are in line with the experiences of Colorado, whose first-year revenues precisely matched forecasts at $78 million based on a fee of 27 cents per order.

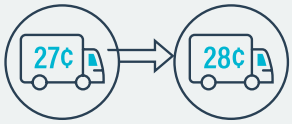
Detailed census tract-level data reveal a pattern of census tracts with above-average incomes placing more online retail orders than tracts with below-average incomes. This suggests that higher-income households, on average, will pay more in retail delivery fees than lower income households; however, individual experiences will vary.

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 (later increased to 28 cents). After feedback from businesses in Colorado, the Colorado General Assembly amended the law in two significant ways:

Original Legislation (SB21-260)



Businesses must collect a $0.27 fee on all retail deliveries made via motor vehicle to a location in Colorado that contain at least one item of tangible personal property subject to state sales or use tax. **The fee, indexed to inflation, increased to $0.28 on July 1, 2023.**

The delivery fee applied to all businesses in Colorado—large and small—and **required the business to collect and remit the fee to the Colorado Department of Revenue.**

The Department of Revenue has **authority to promulgate rules to implement and administer** the retail delivery fee effectively.

$75.9M **$29.9M**

From **July 1, 2022 to June 30, 2023,** the fee generated **$75.9 million**, matching the projections in the original fiscal note. **July 1, 2023 through the end of October 2023** netted **$29.9 million.**

1. **Small business exemption.** Due to their smaller number of deliveries, 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.

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.

Changes/Revisions	
Colorado now exempts from the fee businesses that have $500,000 or less in annual sales.	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).

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.

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 the table below offer a range of expected results for a range of assumptions.

Implementation costs

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 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.

	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.

Some of the concerns encountered in Colorado were echoed by the Association of Washington Businesses 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.

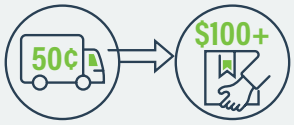
Consumers

A complex set of factors relates to online spending habits, including socioeconomic factors, geographic settings, mobility, and accessibility. Census tracts contributing to greater than average online spending tend to have household incomes exceeding the statewide average, are primarily urban. In contrast, census tracts exhibiting lower online spending typically have household incomes below the statewide median, are predominantly in rural locations.

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. 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, or just over $1 per month.

Whether retail delivery fees would dissuade consumers from making online purchases was not examined in detail as part of this study. However, the analysis showed that census tracts with an average income surpassing the statewide median of $90,325 are responsible for most online purchases. Also, residents of urban census tracts exhibit higher online retail expenditures than their rural counterparts on average. 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.

Original Legislation (HF 2887)



On May 24, 2023, Minnesota enacted HF 2887, a transportation funding bill, which among other transportation policy changes, **established a $0.50 fee on retail deliveries over $100 made to any person located in the state.** The law goes into effect July 1, 2024.

Fee applies to **tangible personal property that is subject to taxation,** including clothing except for cloth and disposable child and adult diapers.

Unlike the Colorado delivery fee, the fee in Minnesota does **not specify that the delivery must be made via motor vehicle** to apply.

$59M

Retail delivery fee is estimated to generate **$59 million in its first fiscal year.**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SECTION 1

Introduction

1.1 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.

1.2 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 on July 1, 2022, while Minnesota's takes effect on 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 did not get enacted as a part of the final budget.

1.2.1 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 percent 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 Section 3.1. In addition to the increased volume of sales for large e-commerce retailers like Amazon, in the mid 2010's, other product categories like groceries (e.g., Instacart, Amazon Fresh), third-party restaurant delivery (e.g. Uber Eats, Postmates, DoorDash), and pet supplies (e.g., Chewy), 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. 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 (e.g., UPS, FedEx, USPS) 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 fuel taxes.

1.2.2 Declining transportation revenue and competing demands

A retail delivery fee aims to be a new revenue mechanism to address the transportation funding gap at the local and state level. 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 rely heavily on their own resources to fund transportation systems, with approximately 69 percent of transportation expenditures being sourced from cities' general funds. 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.***

In an attempt to align future transportation revenue mechanisms with evolving technology and consumer demands, state and local governments are looking at how the increase in retail deliveries is impacting the transportation system. This interest in the impact of retail deliveries led two states, Colorado and Minnesota, to enact a fee on retail deliveries. 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


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SECTION 2

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 the details of the fees in each state, the study team also conducted interviews with key officials to better understand the processes that led to enactment.

2.1 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 or use tax. Colorado 's retail delivery fee rate is subject to annual adjustments, indexed to inflation.

2.1.1 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—1 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
Bridge and Tunnel Enterprise	$0.0273
Clean Transit Enterprise	$0.0311
Community Access Enterprise	$0.0716
Clean Fleet Enterprise	$0.0550
Nonattainment Area Air Pollution Mitigation Enterprise	$0.0073
Total	**$0.28**

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%).

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 (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 programed 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 scrappage 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.

2.1.2 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 203–24, 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.

2.1.3 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	**Collection of Fee**
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.	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.
Changes/Revisions	
Colorado now exempts from the fee businesses that have $500,000 or less in annual sales.	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).

administrative cost. As a result of this feedback, the Colorado Legislature 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.

On May 4, 2023, the legislation was amended by SB 23-143 in response to retailer's 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.

2.1.4 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 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.[1]

[1] During an interview with the Minnesota Department of Revenue (DOR), Minnesota DOR Legislative Director Joanna Bayers identified several definitions that were unclear in the 2023 law. The Department introduced a bill clarify these definitions in the 2024 Legislature; however, that bill did pass this year.

2.2 Minnesota

On May 24, 2023, Minnesota enacted HF 2887, a comprehensive transportation budget bill, 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 168E[2]). 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.

2.2.1. Fee rates and revenue distribution

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

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).

[2] Minnesota also established a website that explains the retail delivery fee in Minnesota. 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)	▪ -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%	▪ 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 the new 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 paying the retail delivery from the outset. Retailers that are required to pay 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 Department of Revenue (DOR).

2.2.2. 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 Department of Revenue (DOR) projects that the retail delivery fee will generate $59 million in FY25, $64.8 million in FY26, and $65.3 million in FY27.

The Minnesota DOR estimated that the average person would receive 48 deliveries annually and have an annual population growth of 0.7 percent. The revenue estimate was reduced to account for exempt goods (e.g., food, medication, etc.), exempt businesses (those with under $1,000,000 in sales), and orders under the $100 minimum threshold.

2.2.3. 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.

Minnesota also created a threshold that exempts small businesses from having to collect the retail delivery fee. Under the law, businesses that have $1,000,000 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.

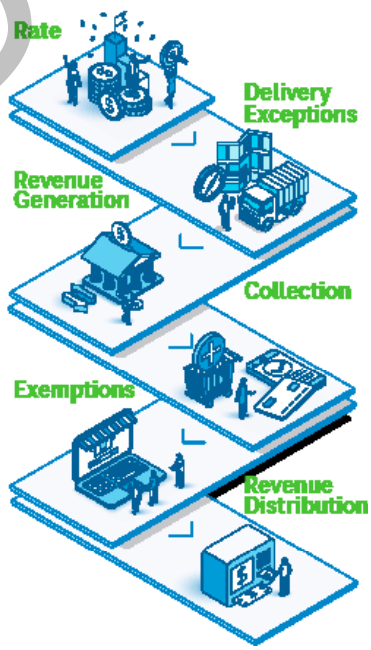
In Minnesota, there was also concern about the impact on consumers. As a result, the legislation exempts orders of $100 or less from the fee. This provision does not preclude someone from making multiple orders that total less than $100 to avoid the fee. The Minnesota DOR does not anticipate significant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

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.

2.2.4. 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.

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



2.3 Stakeholder engagement & interviews

2.3.1 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 equity concerns (both 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 of how to collect the fee** for the ease and flexibility of implementation.
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 rulemaking is key** to effective implementation.

2.4 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 was "not recommended for further analysis at this time," 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 5 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 broadly the same, giving the mechanism a “high” score in revenue stability, and “medium” 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 “high” score in revenue stability, and “medium” 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)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Del Monte
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SECTION 3

Historical retail sales in Washington

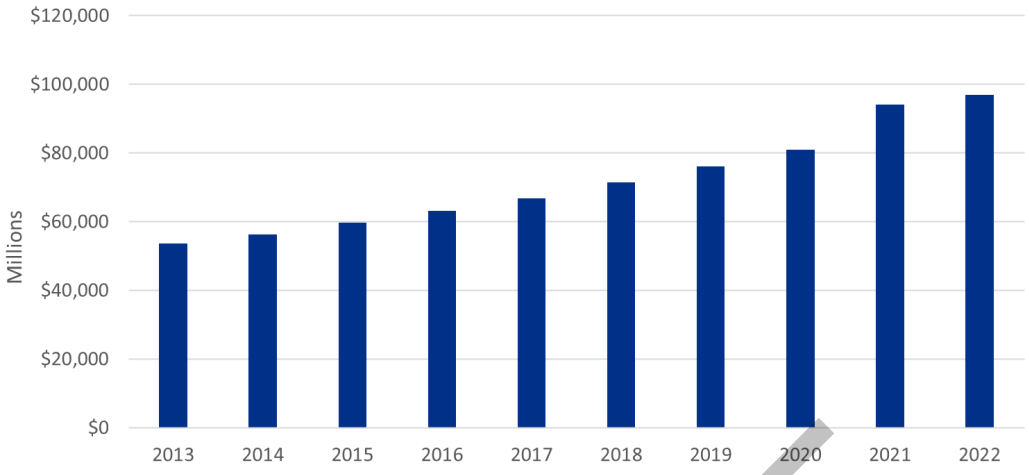
Historical retail taxable sales in Washington were gathered from the Department of Revenue (DOR). The DOR utilizes the North American Industrial Classification System (NAICS) code 44-45 to categorize businesses within the Retail Trade sector. The gathered dataset, which spans the years 2013 through 2022, 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.

The retail trade sector consists of the subsectors listed in **Table 2**. 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 2: 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 revenue categories:

- $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 3** 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 3. 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**

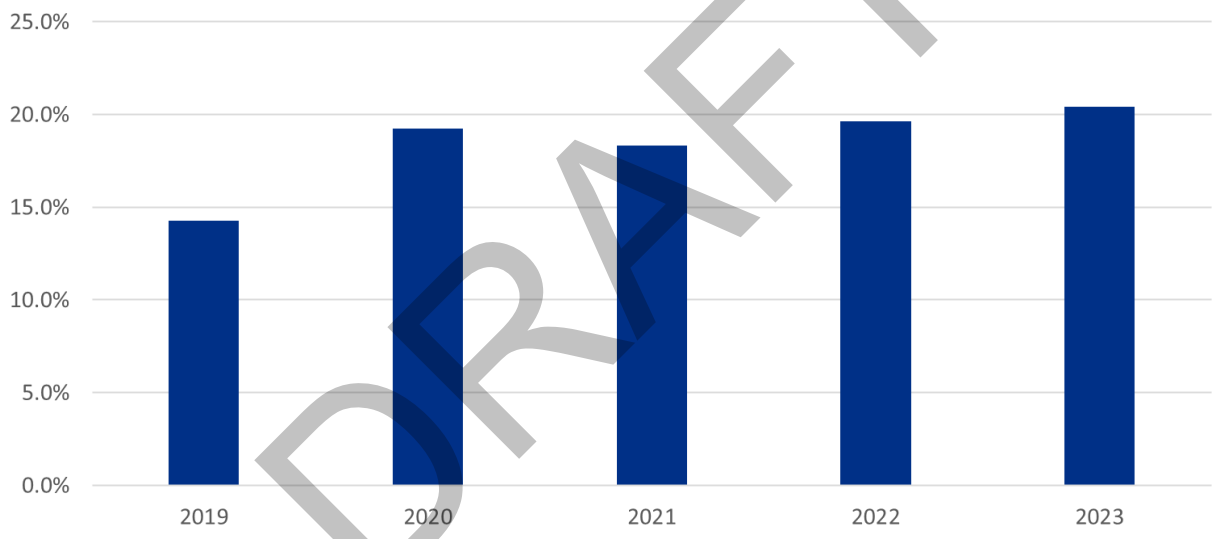
Source: Department of Revenue, Research & Fiscal Analysis, Combined Excise Tax Return Data, Calendar Year 2022

3.1 Retail e-commerce sales in Washington

Per 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 Replica[3], 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



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

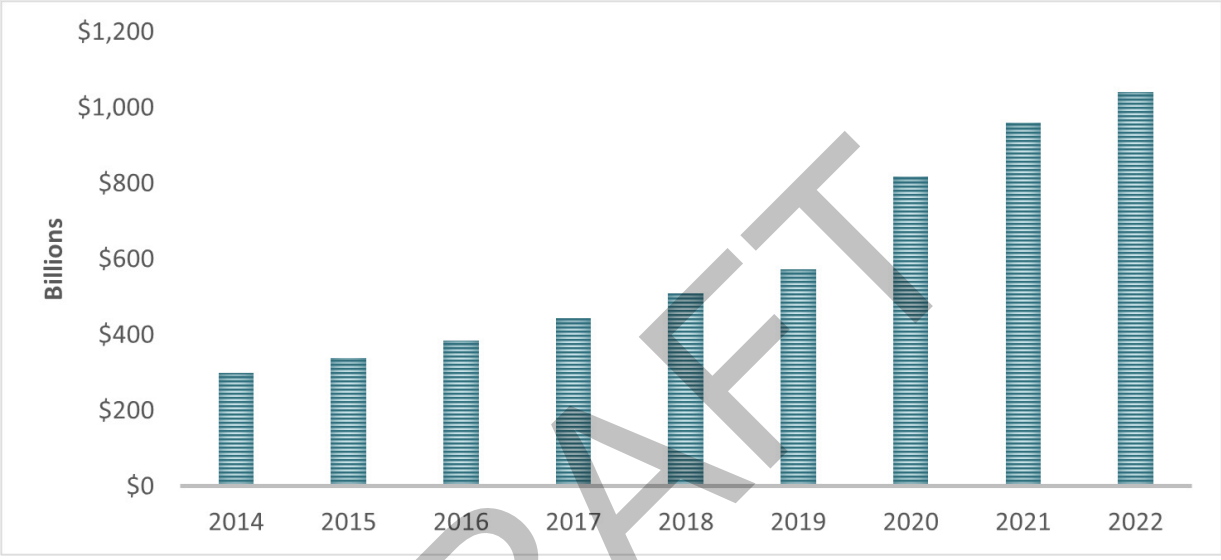
3.2 Retail e-commerce sales in the United States

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.

[3] https://www.replicahq.com/solutions

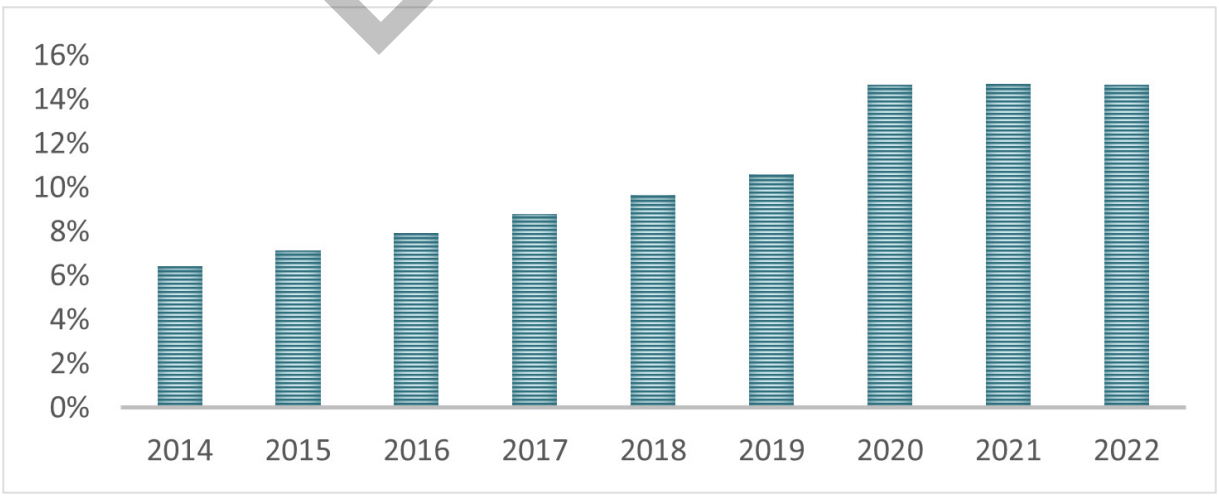
The contribution of e-commerce to total retail sales in the U.S. has increased from 6 percent in 2014 to 15 percent in 2022 **(Figure 4)**. **Figure 5** shows how consumer behavior and preferences influence e-commerce sales instead of population growth acting as a determining factor. Although the U.S. 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 nearly $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
Note: 2022 come from quarterly retail-e commerce sales, https://www.census.gov/retail/ecommerce.html

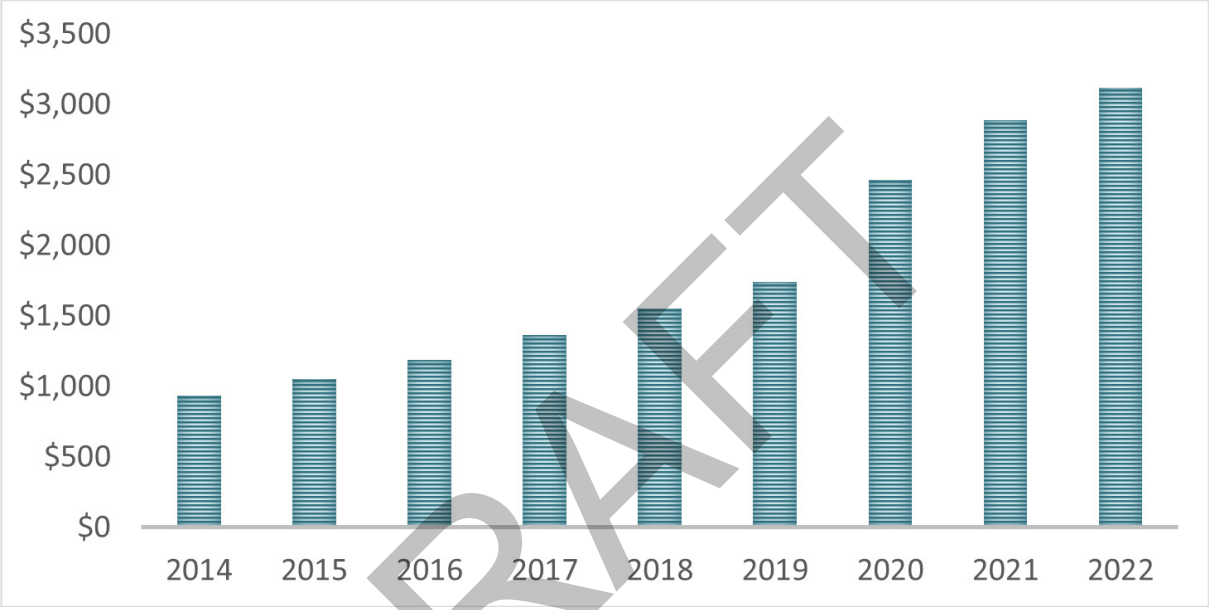
Figure 4. E-Commerce Share of Total Retail Trade Sales



Source: CDM Smith analysis using Census data, https://www.census.gov/data/tables/2021/econ/arts/annual-report.html
Note: 2022 come from quarterly retail-e commerce sales, 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
Note: 2022 come from quarterly retail-e commerce sales, https://www.census.gov/retail/ecommerce.html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SECTION 4

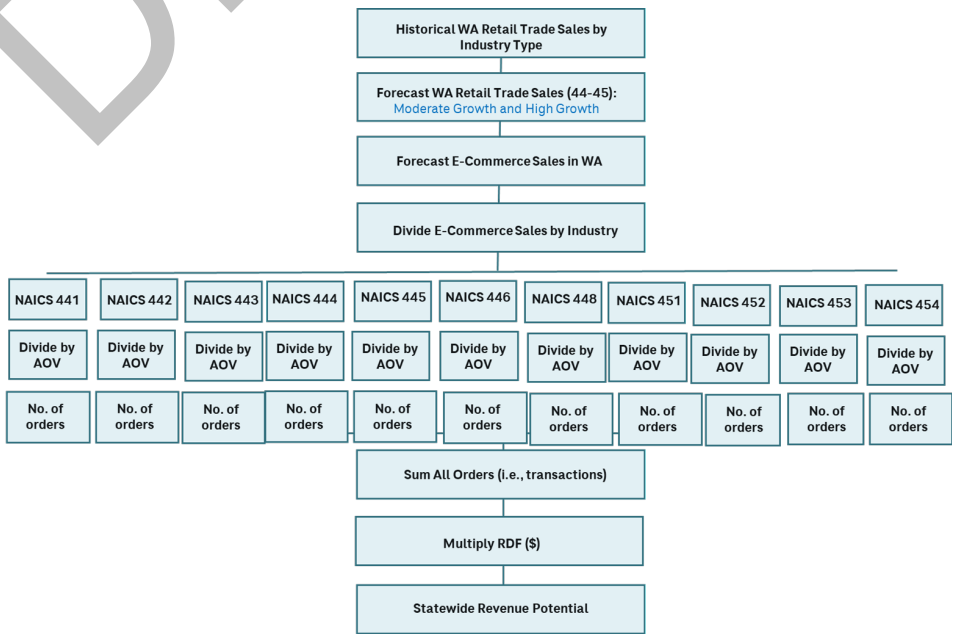
Revenue forecasting approach and parameters

4.1 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 section 4.2 of this 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 industry specific AOV benchmarks. This approach was important to estimate the volume of orders more precisely (i.e., transactions). The rest of this section explains the assumptions and rationale built into the forecasting tool.

Figure 6. Forecasting Framework

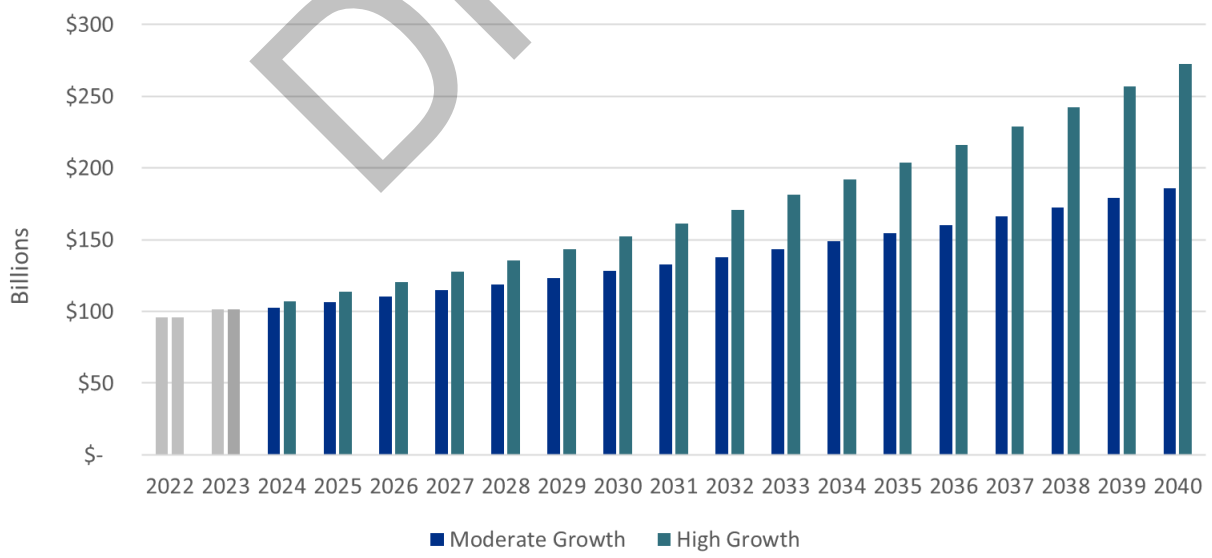


4.2 Retail taxable sales forecast

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 from 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.

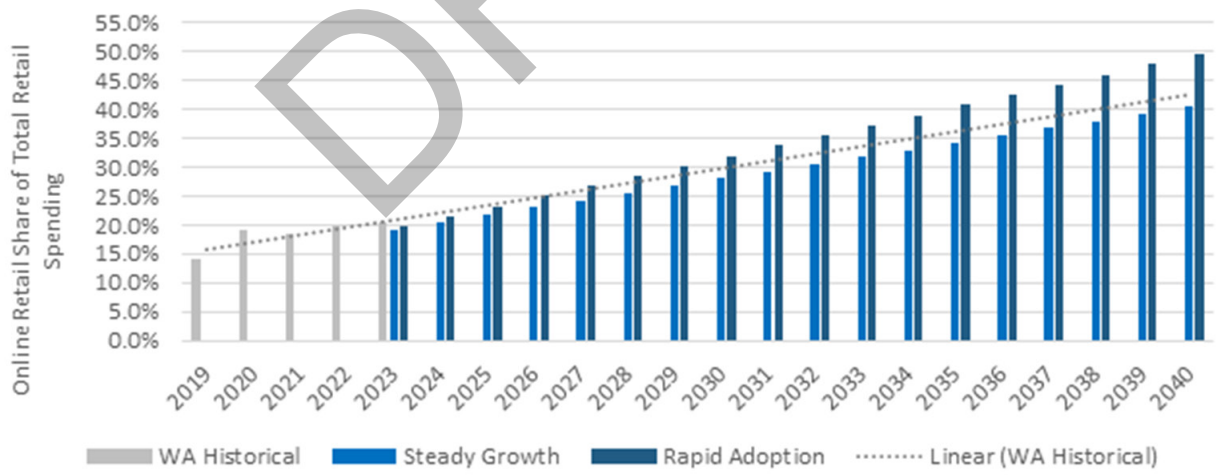
4.3 Retail e-commerce growth

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.[4] 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.

- **Steady Adoption.** The Steady Adoption scenario assumes that e-commerce sales activity will increase at a fixed annual rate of 1.25 percentage points. 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 percentage points. 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.[5]

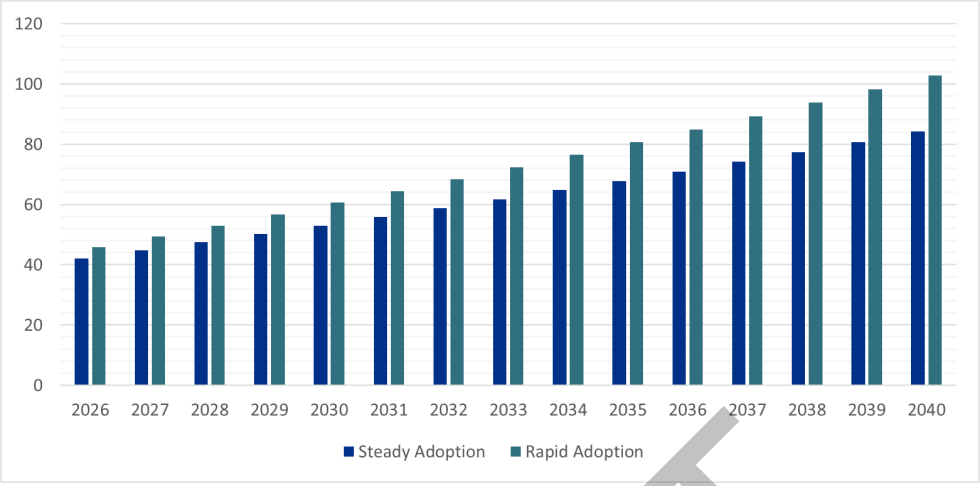
Figure 8. Washington E-Commerce Forecast as a Percentage of Retail Sales



Source: Developed by CDM Smith.

[4] - https://www.replicahq.com/solutions
[5] - 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

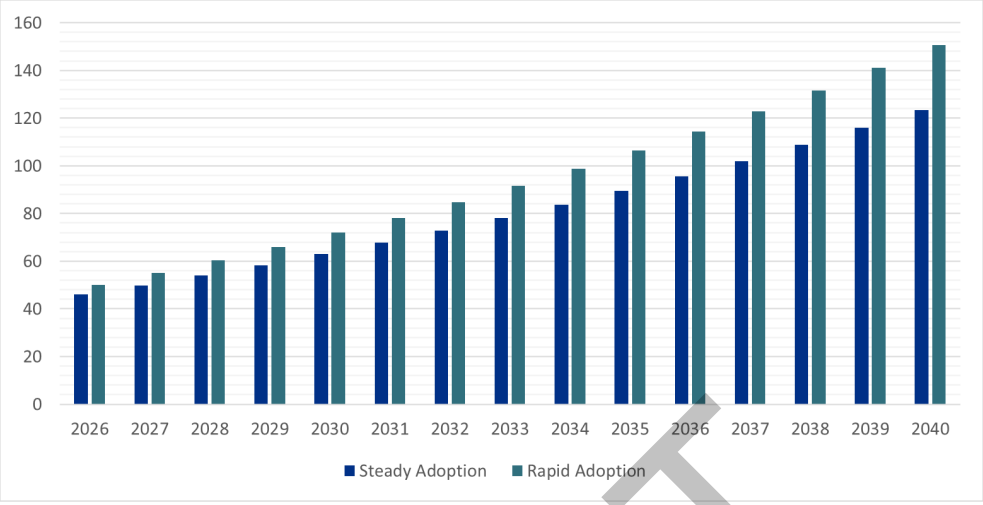


Source: Analysis conducted by CDM Smith. Estimates based on the Moderate Growth forecast for retail taxable sales and no retailer or order value exemptions.

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.

4.4 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, Figure 6 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 3 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 6 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 $1,000,000.** This scenario assumes that 9 percent of taxable online sales in Washington will be generated from retailers with gross revenue sales below $1,000,000. It is assumed that during the forecasting period, this percentage will not change.

Figure 11. 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%).

4.5 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 dropdown 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 0 percent to 5 percent.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SECTION 5

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.

- 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 a single "retail delivery" regardless of how many shipments are needed to deliver the items purchased.
- Items currently exempted from a sales tax will 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 applies 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 will be exempt.
- The retail delivery fee is owed by the seller regardless of whether the seller delivers the goods themselves or hires a third party to deliver.

Table 4 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 4. 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**

[3] During an interview with the Minnesota Department of Revenue (DOR), Minnesota DOR Legislative Director Joanna Bayers identified several definitions that were unclear in the 2023 law. The Department introduced a bill clarify these definitions in the 2024 Legislature; however, that bill did pass this year.

SECTION 6

Revenue distribution options

As required in the 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 STT 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, and
- 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 two reasons. First, 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. Second, 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).

Vehicle miles traveled (VMT) are likewise 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.

SECTION 7

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 12** shows the various revenue modeling paths available.

Figure 12. Revenue Scenario Planning Tool – Scenario Combinations

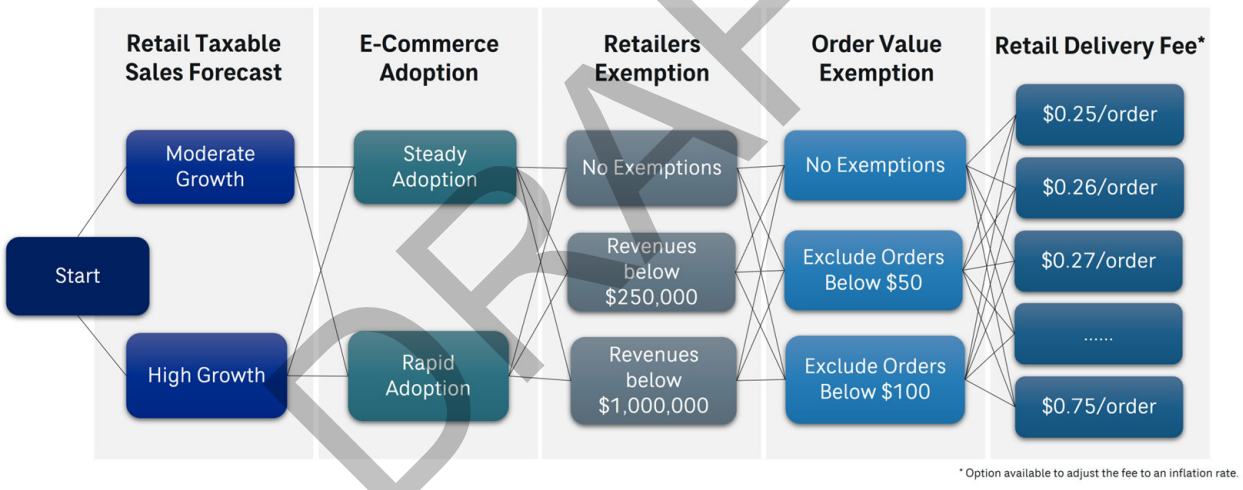
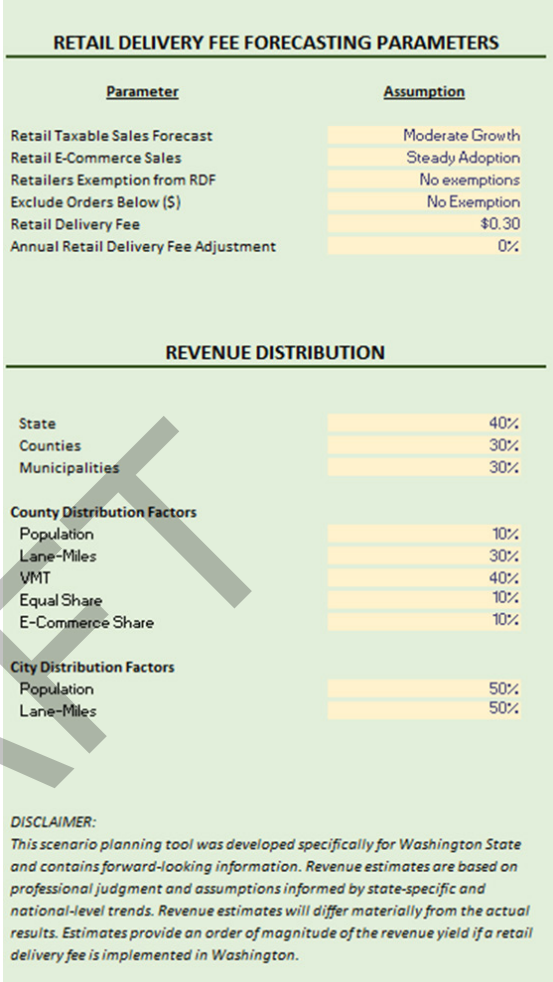


Figure 13 provides a visual representation of the user control panel, offering a complete interface where users can test with various combinations of forecasting assumptions. The values depicted are purely illustrative and do not represent any specific policy considerations. Figures 12 through 15 provide 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.

Figure 13. Revenue Scenario Planning Tool User Control Panel



RETAIL DELIVERY FEE FORECASTING PARAMETERS

Parameter	Assumption
Retail Taxable Sales Forecast	Moderate Growth
Retail E-Commerce Sales	Steady Adoption
Retailers Exemption from RDF	No exemptions
Exclude Orders Below ($)	No Exemption
Retail Delivery Fee	$0.30
Annual Retail Delivery Fee Adjustment	0%

REVENUE DISTRIBUTION

State	40%
Counties	30%
Municipalities	30%
County Distribution Factors	
Population	10%
Lane-Miles	30%
VMT	40%
Equal Share	10%
E-Commerce Share	10%
City Distribution Factors	
Population	50%
Lane-Miles	50%

DISCLAIMER:
This 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.

Figure 14 provides a concise overview of the revenue potential across three distinct time periods: 2030, 2040, and the cumulative projection. **Figure 15** 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 14. 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.

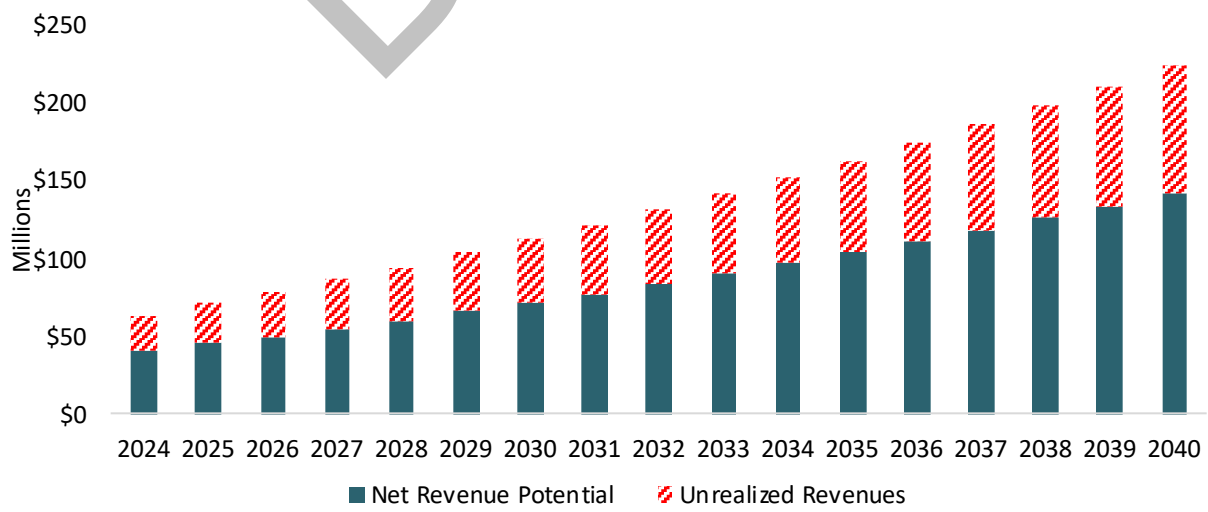
Figure 15. Sample Table of Revenue Potential Estimates by Year (to be reformatted)

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	$118,490,000	$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 16 illustrates the net revenue potential and unrealized revenues in bar chart form, assuming exemptions are provided.

Figure 16. Sample Output of Annual Revenue Potential

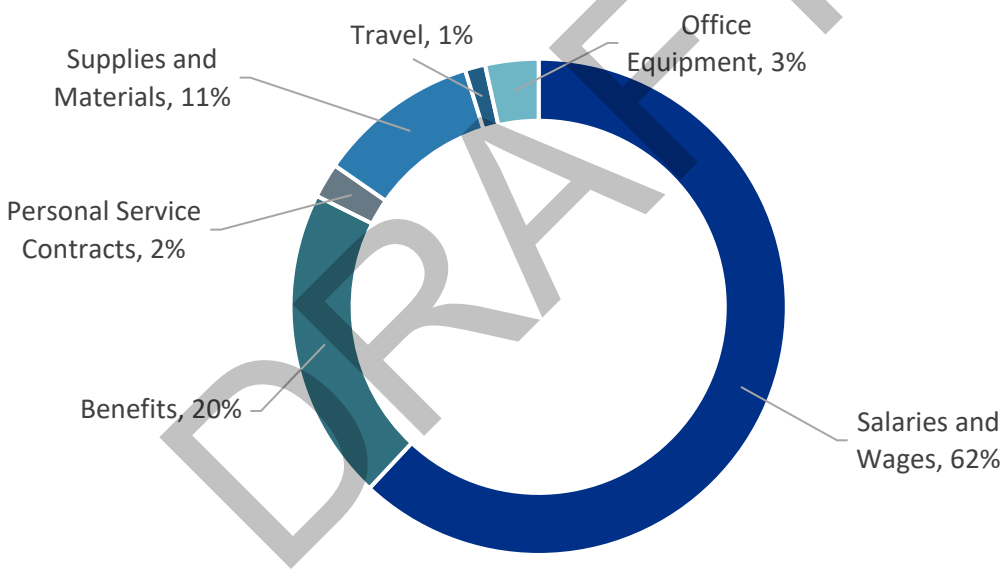


Note: The data presented in this figure serves as illustrative examples to demonstrate the various components. These values are not based on actual scenarios.

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 15), 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 17. Sample Output of Administration and Implementation Costs

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Atlantic Salmon Filet $14.99 $9.99
+ BROWSE
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Pasture-Raised Eggs $9.99 $7.99
+ BROWSE
Pasta. Rice & Grains
Whole Grain Pasta $2.99 $2.49
+ BROWSE
Fresh Bread & Bakery
Fresh Cheese Baguette $1.75 $1.37
+ BROWSE
Water, Juices & Drinks
Natural Orange Juice $1.99 $1.75
+ BROWSE
Chocolate & Sweets
Dark Chocolate $2.89 $2.55
+ BROWSE
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SECTION 8

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.

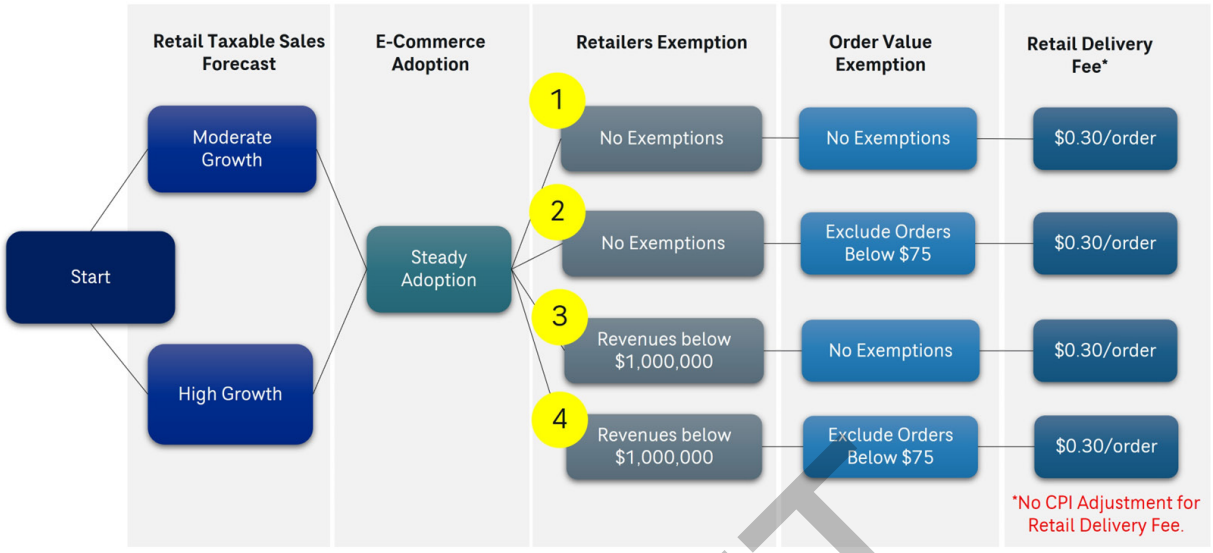
The retail delivery fee of 30 cents per order was arbitrarily chosen because it falls between the 28-cent and 50-cent fees set in Colorado and Minnesota, respectively. The e-commerce adoption assumption is the same in all scenarios. These scenarios also assume that the retail delivery fee would apply to all goods subject to Washington's retail sales tax, which generally includes tangible personal property. In Washington, food and prescription drugs are exempt from the retail sales tax; however, prepared food is still subject to the tax.[8]

On the next page, **Figure 17** 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 $1,000,000.

[8] A more complete description of the 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 17. Components of Four Revenue Scenarios

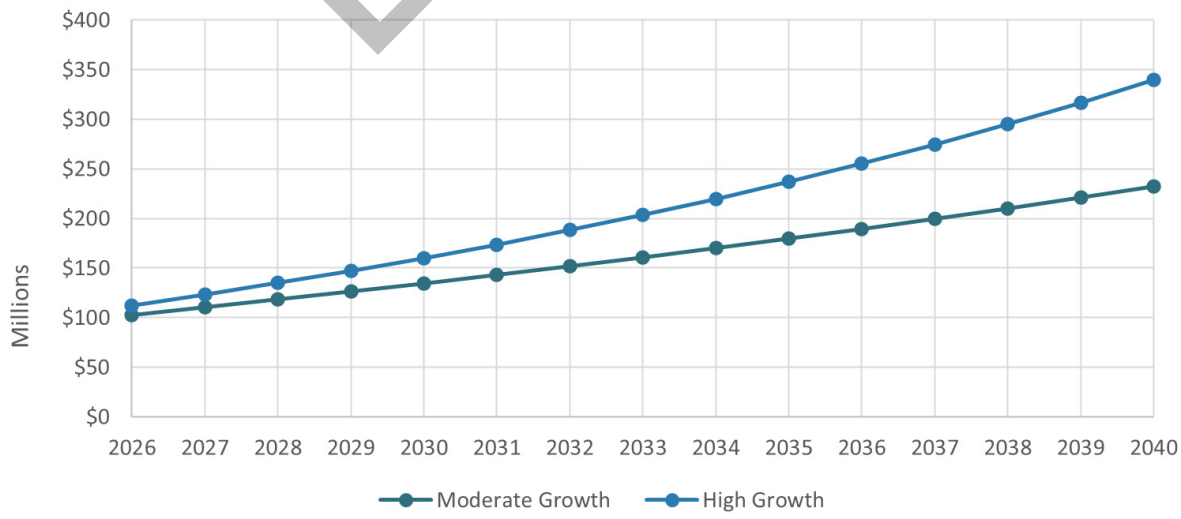


Scenario No.1

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 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 1 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 18. Scenario No.1 – Retail Delivery Fee Revenue Potential

Baseline Scenario, No Exemptions to the Retail Delivery Fee



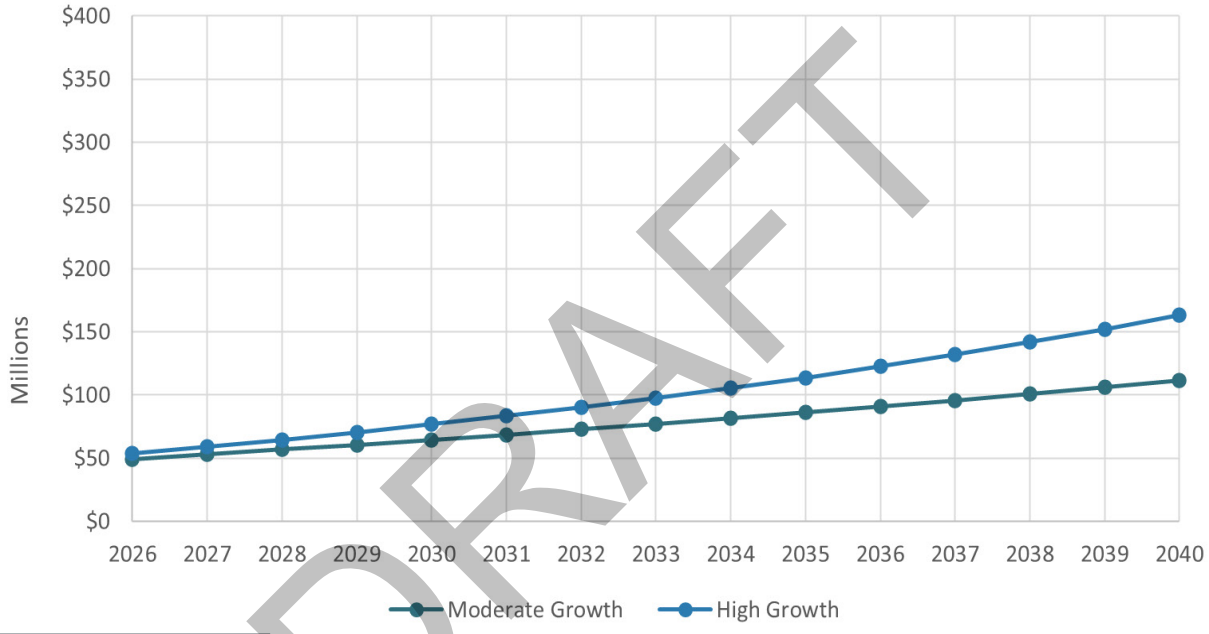
Note: Nominal dollars.

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 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 $49 million and $54 million. Retail delivery fee revenues are expected to continue growing as e-commerce gains traction, reflecting changing consumer behavior.

Figure 19. Scenario No.2 – Retail Delivery Fee Revenue Potential

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



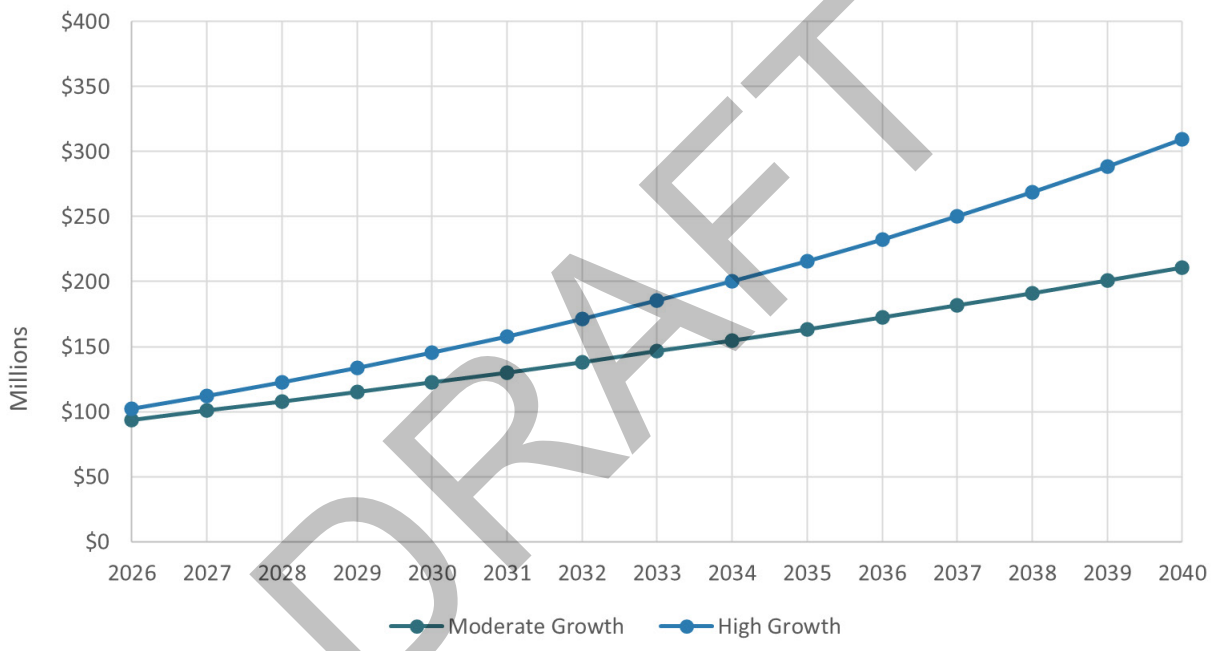
Note: Nominal dollars.

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 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 $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 20. 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



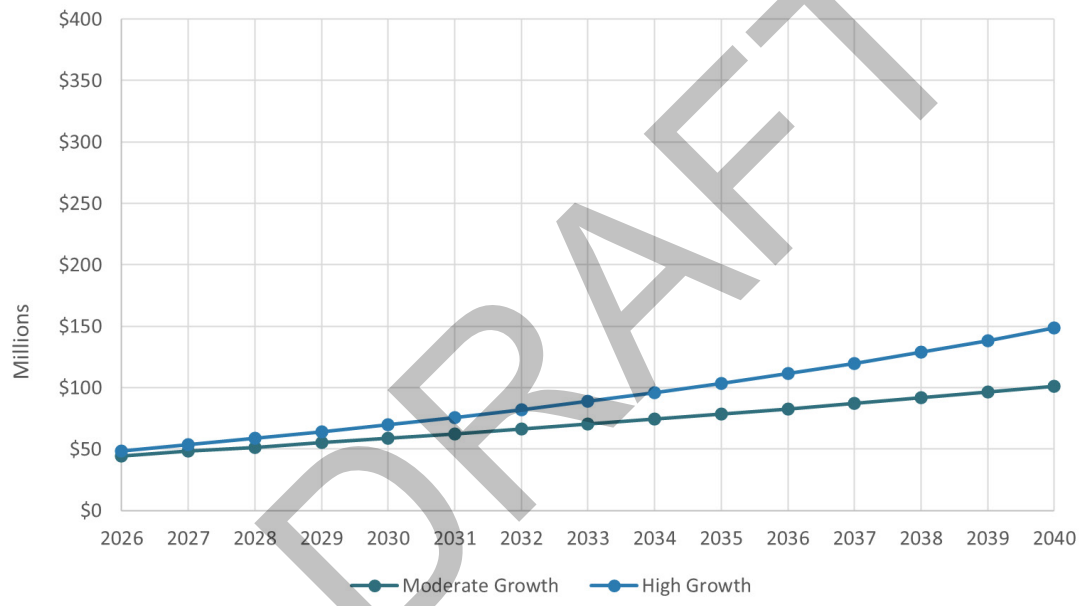
Note: Nominal dollars.

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 Steady Adoption 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 20 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 21. 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.

SECTION 9

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.

Section 9.1 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. Section 9.2 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.

Attendance at Association of Washington Businesses Meeting included:

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

Key Takeaways

- 85% of online retail spending is in urban areas and 15% 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 have concerns about the burden that could face to enforce compliance with a delivery fee

9.1 Consumers

From the consumer's 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.

9.1.1.1 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.

9.1.1.2 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 as a territory with a population of at least 50,000 (USDOT, 2023).[9]

[9] Z

9.1.1.3 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.

9.1.1.4 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[10]). 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).[11]

[10] https://www.census.gov/quickfacts/fact/note/US/DIS010222#:~:text=Definition,vision%2C%20cognition%2C%20and%20ambulation.
[11] https://www.cdc.gov/ncbddd/disabilityandhealth/impacts/washington.html

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.

9.1.1.5 Statewide online retail spending trends

Online retail trends were analyzed at a statewide level for both median household income and urban/rural classification. **Figure 22** and **Figure 23** show annual statewide online spending broken down by median household income and urban/rural classification. Figure 22 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 23 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.

Figure 22. Annual Online Spending by Median Household Income

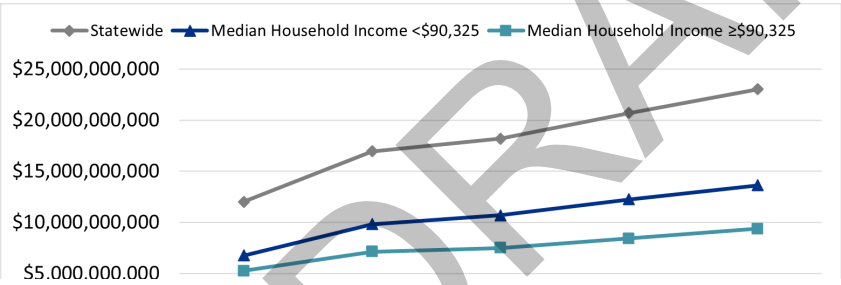
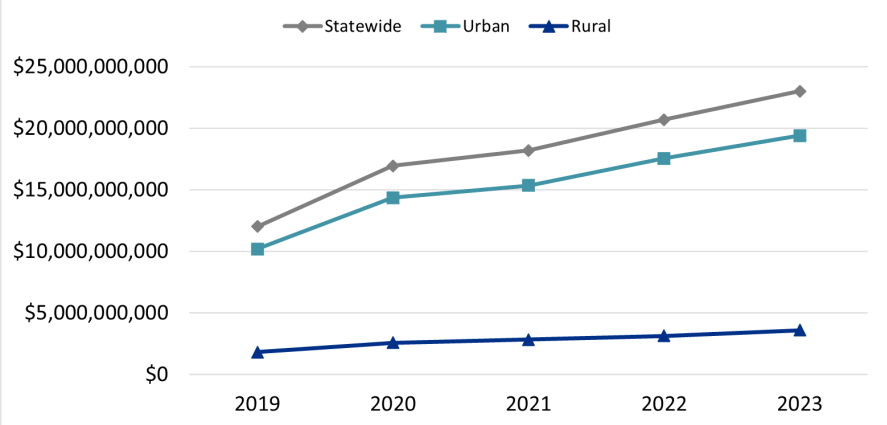


Figure 23. Annual Online Spending by Urban/Rural Classification



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 24** and **Figure 25 below**. Figure 24 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 25 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 24. Annual Online Spending Per Person by Median Household Income

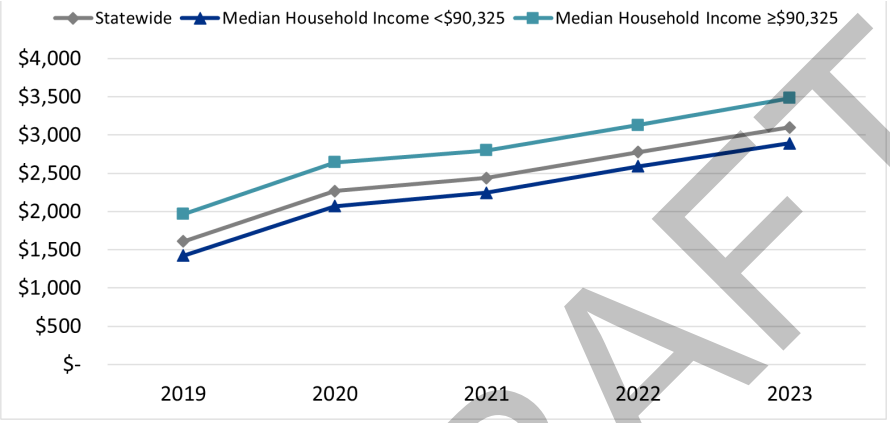
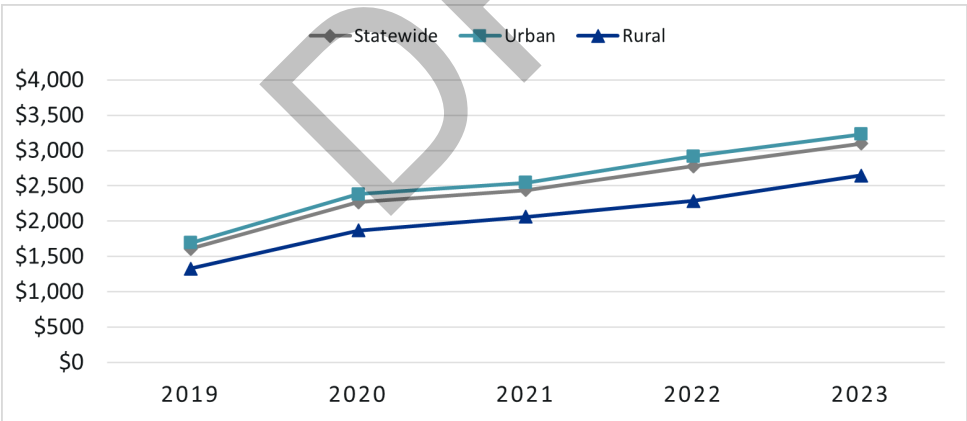


Figure 25. Annual Online Spending Per Person by Urban/Rural Classification



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.

9.1.1.6 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 26** 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 26. Percent of Population and Online Spending by Equity Cohort Population Groups (2 Variables)

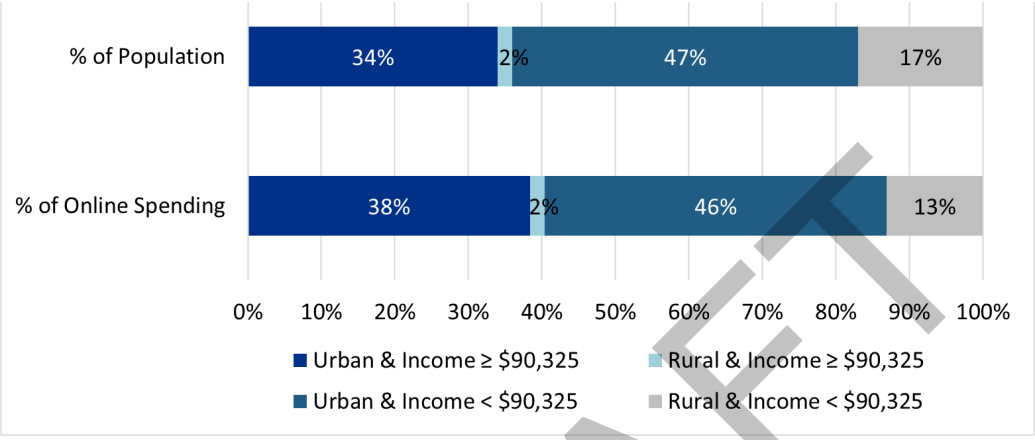
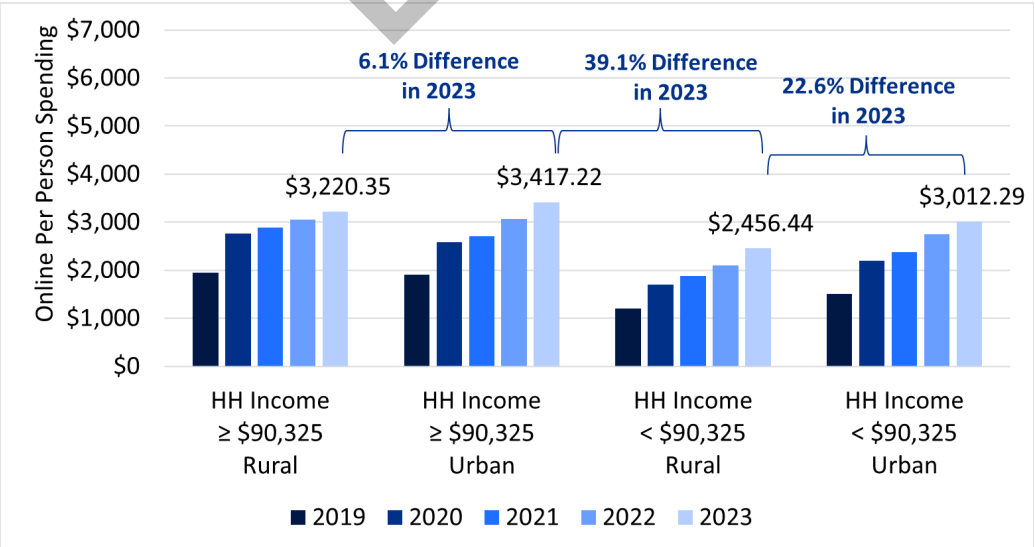


Figure 27 presents the results of this analysis, which reveal that Census tracts with median household incomes surpassing the statewide median of $90,325 exhibit notably higher per-person expenditures on online retail. Among the two equity cohort population groups with incomes exceeding the statewide 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 27. Online Spending Per Person by Median Household Income and Urban/Rural Classification

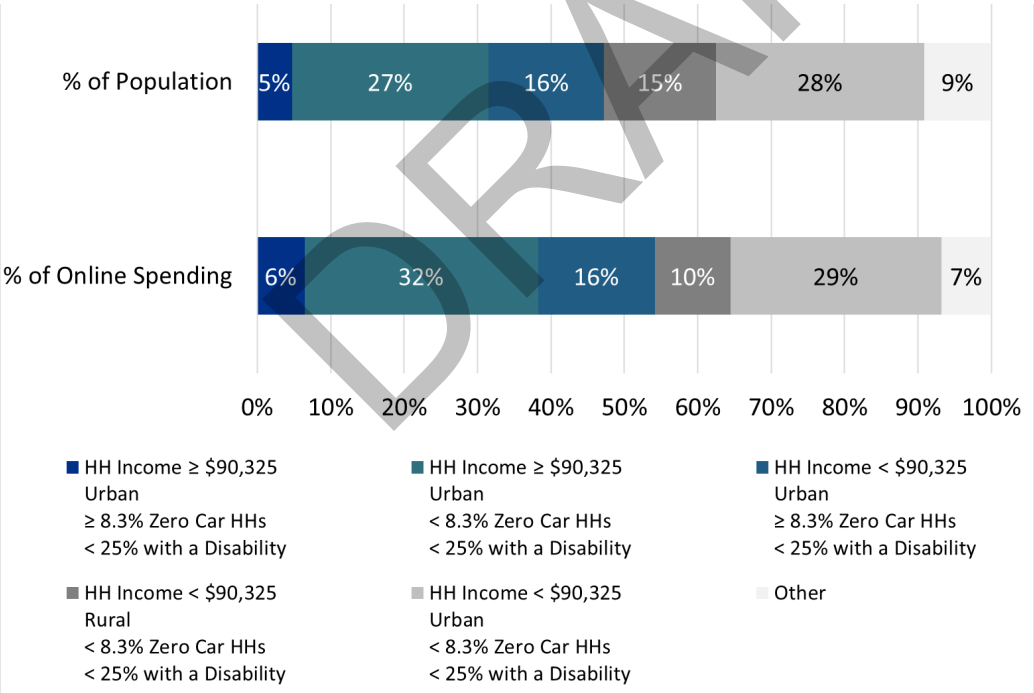


9.1.1.7 Equity cohort population retail spending trends

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 28 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 28** 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 was 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 28. 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 29** 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 29. Highest Online Spending Per Person by Income, Urban/Rural, Zero Car HHs, and Disability

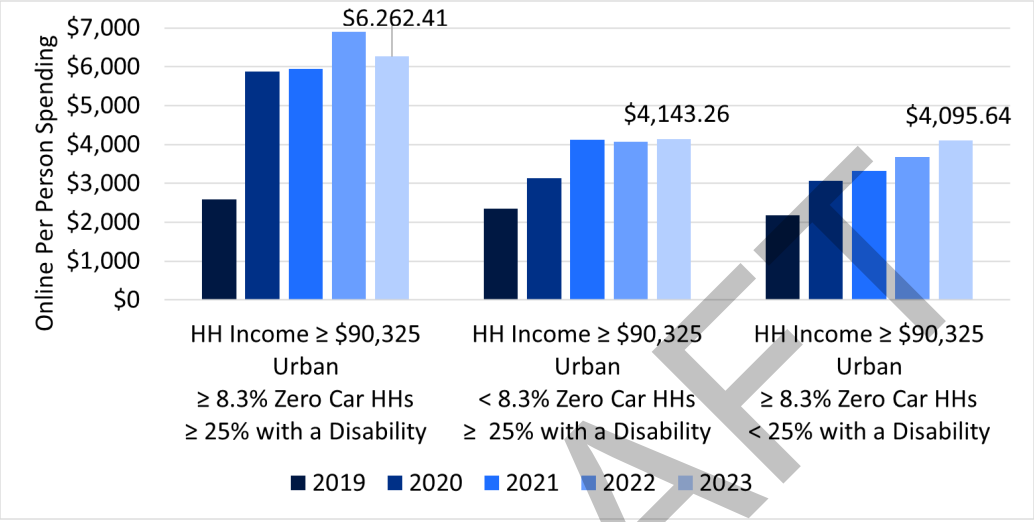
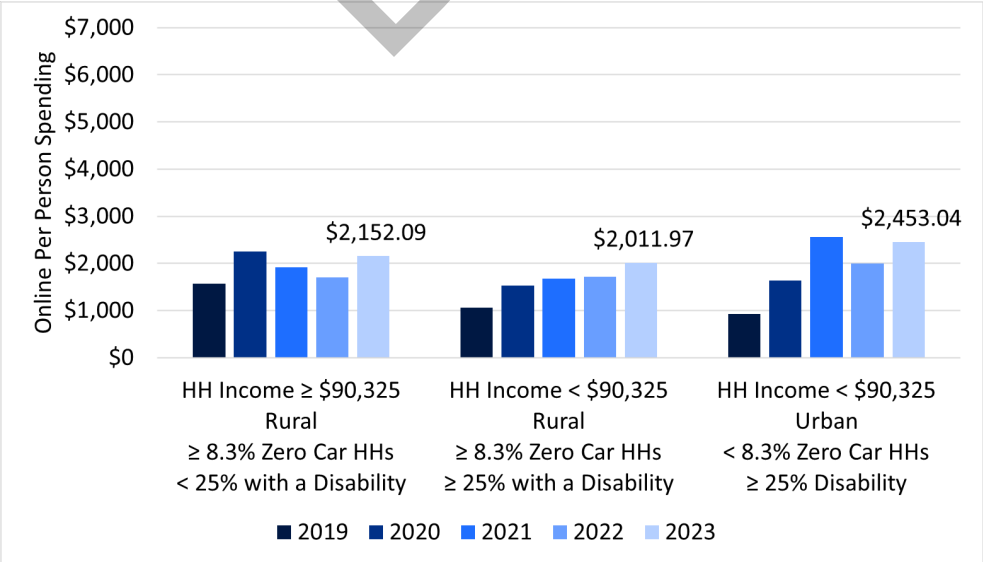


Figure 30 illustrates the three equity cohort population groups with the lowest expenditures on online retail, pulled from the total 16 equity cohort population groups analyzed. Among these groups, two-thirds have average household incomes below the statewide median, and two-thirds reside in rural areas. Moreover, two-thirds of these groups exhibit a higher prevalence of zero-car households and disability rates compared to the state average.

Figure 30. 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.

9.2 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, a meeting with representatives from the Association of Washington Businesses (AWB). The meeting underscored the need for nuanced policy approaches to address the concerns raised.

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 this issue 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 environmental implications of changed consumer behavior prompted by the fee, such as changes in travel frequency to evade it.
- 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 Appendix XX.

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.


DRAFT

SECTION 10

Conclusion

As states begin exploring alternative sources of revenue to keep up with basic transportation maintenance, policymakers are seeking policy 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

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?