



# JTC Retail Delivery Fee Analysis

Project Overview and Update for the Joint Transportation Committee

January 4, 2024



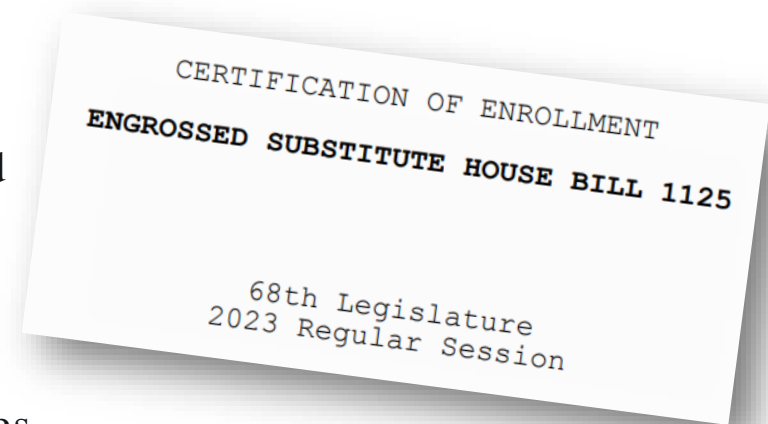
# Overview

- 5 min** **Overview of the Retail Delivery Fee Staff Work Group and Study Proviso**
- 10 min** **Retail Delivery Fee in Colorado and Minnesota**  
Andrew McLean, CDM Smith
- 5 min** **Items to be addressed in study**  
Andrew McLean, CDM Smith
- 10 min** **Q&A**

# Legislative proviso

In 2023, the Washington State Legislature enacted [HB 1125](#), which included a budget proviso for a study on how a retail delivery fee could be implemented in Washington.

- (1)(a) \$300,000 of the motor vehicle account—state appropriation is for the joint transportation committee, from amounts set aside out of statewide fuel taxes distributed to cities according to RCW 46.68.110(2), to convene a study of a statewide retail delivery fee on orders of taxable retail items delivered by motor vehicles within the state.
- The study must:
  - (i) Determine the annual revenue generation potential of a range of fee amounts;
  - (ii) Examine options for revenue distributions to state and local governments based upon total deliveries, lane miles, or other factors;
  - (iii) Estimate total implementation costs, including start-up and ongoing administrative costs; and
  - (iv) Evaluate the potential impacts to consumers, including consideration of low-income households and vulnerable populations and potential impacts to businesses.
- (1)(b) The study should document and evaluate similar programs adopted in other states. The joint transportation committee must submit a report on the study to the transportation committees of the legislature by June 30, 2024.



# Staff Work Group Participants

## — Work Group Members

- **Dave Catterson**, JTC, Coordinator
- **Paul Neal**, JTC, Senior Council
- **David Munnecke**, House Transportation Committee, Counsel
- **Bryon Moore**, Senate Transportation Committee, Senior Fiscal Analyst
- **Brandy DeLange**, Government Relations Advocate, Association of Washington Cities
- **Brianna Morin**, Legislative Policy Analyst, Association of Washington Cities
- **TBD**, representatives from individual Washington cities

## — Work Group Optional Attendees

- **Loren Othon**, House Democratic Caucus, Senior Policy Analyst
- **Dana Quam**, House Republican Caucus, Policy Counsel
- **Hannah McCarty**, Senate Democratic Caucus, Policy Counsel
- **Martin Presley**, Senate Republican Caucus, Staff Counsel

## — Consultant Project Team (CDM Smith)

- **Andrew McLean**, Policy Development Lead
- **Roberto Alvarado -Vazquez**, Revenue Forecasting Lead
- **Ara Swanson**, Staff Work Group Facilitator

# Each Work Group meeting has an overall objective, with specific agenda items in support

## MEETING 1

December 12, 2023

### Orientation to the Study

- Review SWG meeting schedule, norms & communication.
- Present draft study work plan and schedule.
- Present summary and background on retail delivery fee.
- Gather SWG input on policy, administration, collection and equity aspects.
- Preview January 4 JTC Meeting.

## MEETING 2

January 19, 2024

### Revenue Generation

- Recap January 4 JTC Meeting, comments and feedback, including final workplan.
- Present key findings from CO, MN and agency interviews.
- Present analytical framework of revenue scenario planning tool, including inputs and outputs.
- Present options and gather input on revenue distribution factors.
- Present and confirm plan to conduct and complete analysis.

## MEETING 3

March 2024

### Revenue Generation & Distribution

- Present draft version of revenue scenario planning tool.
- Conduct consensus-based exercise to solidify the recommended distribution factors.
- Present draft estimates of implementation costs.
- Present draft findings on impacts to residents and businesses.
- Review detailed final report outline.

## MEETING 4

May 2024

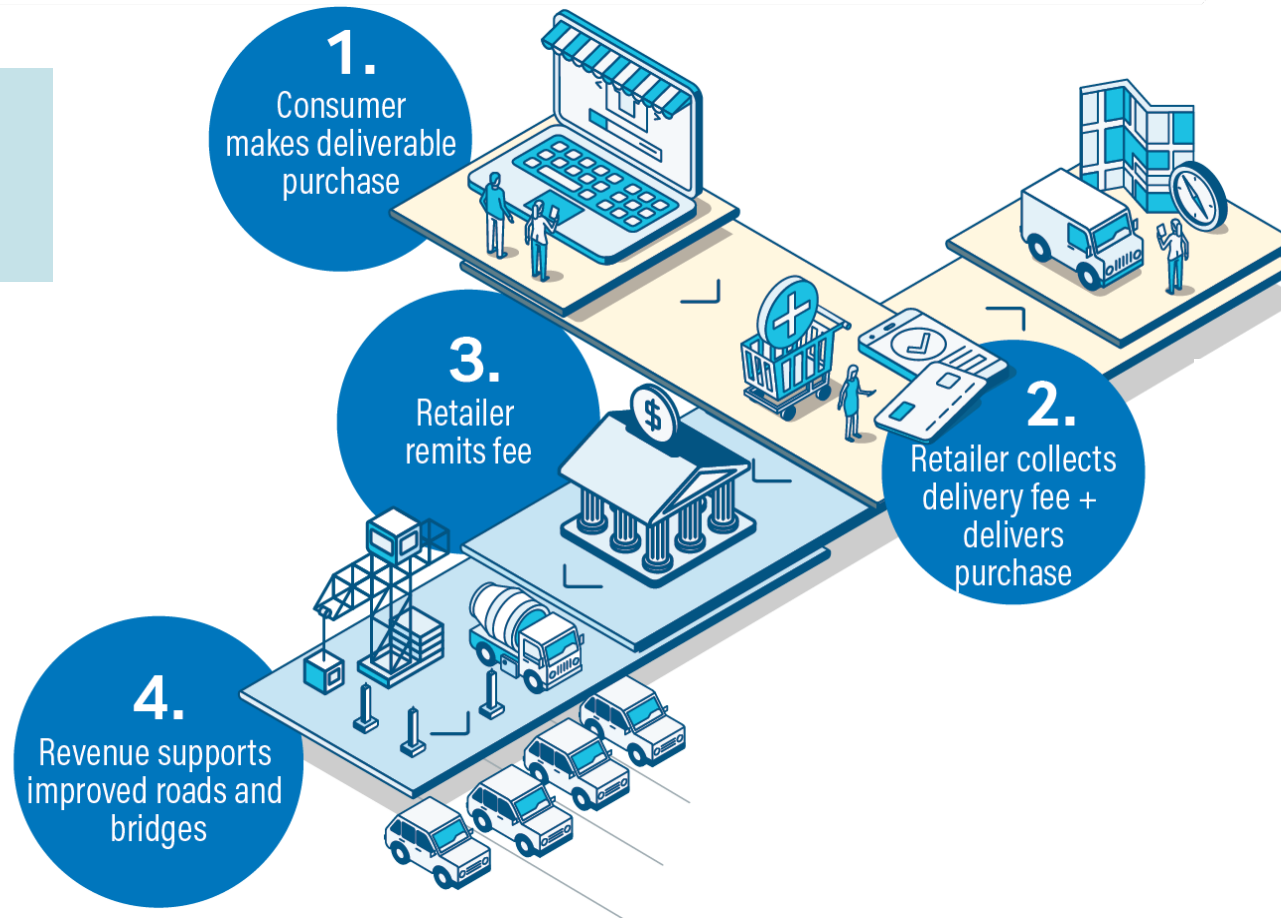
### Final Report

- Present final research and analysis.
- Review draft final report.
- Coordinate and prepare for June JTC meeting.

# What is a retail delivery fee?

Generally, a RDF is a fee imposed on the delivery of retail items delivered by motor vehicles in the state.

## How does an RDF work?



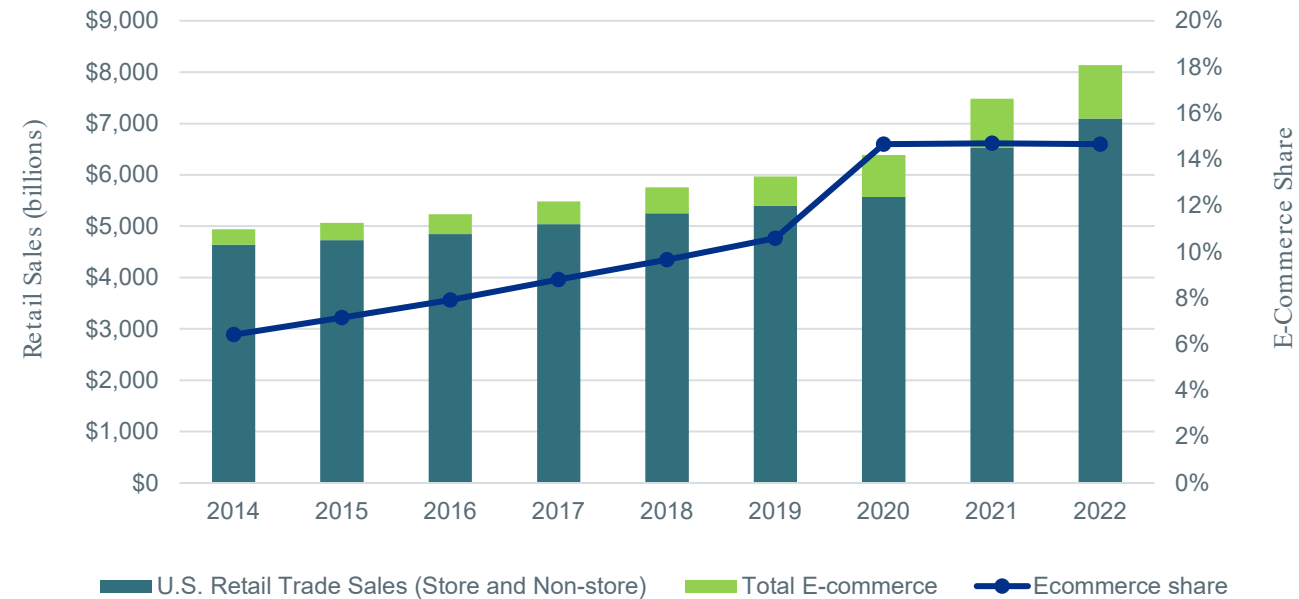
# Why explore a retail delivery fee (RDF)?

- **Retail delivery fees as a potential solution.** A retail delivery fee on each delivery made to a consumer can:
  - help state and local governments account for the use of the transportation system associated with that delivery,
  - generate revenue needed to mitigate the impact of retail deliveries on transportation system infrastructure, and
  - can mitigate retail-delivery-related environmental and health impacts.

#### Sources:

- [World Economic Forum, The Future of the Last-Mile Ecosystem, Jan. 2020](#)
- [Car and Driver, Rivian Will Now Sell You Its Electric Cargo Van, Nov. 9, 2023](#)
- [Colorado SB 21-260, 2021](#)
- U.S. Census, Retail E-Commerce Sales. CDM Smith analysis

U.S. Retail Trade Sales



Nationally, e-commerce retail sales are increasing, from 10% in 2018 to 15% in 2022. Since the mid-2010s, other household products like grocery delivery, third-party restaurant delivery, and pet supplies have emerged as goods that can be ordered online and delivered to consumers' doors.

# On July 1, 2022, Colorado became the first state to impose an RDF as part of a larger transportation funding package.

## — Original Legislation (SB21-260):



Businesses must collect a \$0.27 fee on all retail deliveries made via motor vehicle to a location in CO that contain at least one item of tangible personal property subject to CO's 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 CO Department of Revenue.



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



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.

## — Breaking the fee down as of 2023:

- Composed of six separate fees, totaling \$0.28 per transaction of the sale of at least one item of tangible personal property.
- Sale by a retailer:
  - For delivery
  - Delivery to a purchaser in Colorado
  - Each sale is a single retail delivery regardless of the number of shipments (i.e., one transaction is one retail delivery)

— Fee is indexed to inflation.







— Exempts businesses with retail sales of less than \$500,000 annually.

— Provides businesses with a choice of how to collect and remit the fee.



# Colorado's retail delivery fee is composed of six different fees.

There are five "enterprise retail delivery fees" and one "general retail delivery fee" that provide funding for various transportation-related purposes.

Fee Type	Rate July 2022 through June 2023	Rate July 2023 through June 2024
 Community Access Retail Delivery Fee	6.9 cents	7.1 cents
 Clean Fleet Retail Delivery Fee	5.3 cents	5.5 cents
 Clean Transit Retail Delivery Fee	3.0 cents	3.1 cents
 General Retail Delivery Fee	8.4 cents	8.7 cents
 Bridge and Tunnel Retail Delivery Fee	2.7 cents	0.73 cents
 Air Pollution Mitigation Retail Delivery Fee	0.7 cents	0.73 cents
<b>Total Retail Delivery Fee</b>	<b>27 cents</b>	<b>28 cents</b>

# The six fees flow to different funds for specific transportation -related purposes.



## Community Access Fund

Support the adoption of electric vehicles and increasing EV charging infrastructure (25.6% of RDF).



## Clean Fleet Fund

Incentivize and support the use of electric motor vehicles by businesses and governmental entities that own or operate fleets of motor vehicles (19.6% of RDF).



## Clean Transit Fund

Reduce and mitigate the adverse environmental and health impacts of air pollution and greenhouse gas emissions produced by motor vehicles used to make retail deliveries by supporting the replacement of existing gasoline and diesel transit vehicles with electric motor vehicles (11.1% of RDF).



## Bridge and Tunnel Fund

To finance, repair, reconstruct, and replace any designated bridge in the state, complete preventative maintenance bridge projects, and complete tunnel projects (10% of RDF).



## General Retail Delivery Fee

This fee flows to two different accounts, representing 31.1% of RDF.

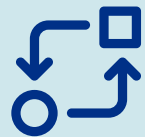
- The *Highway Users Tax Fund* receives 71.1% of this individual fee and supports state, county, and municipal transportation projects.
- The *Multimodal Transportation and Mitigation Options Fund* receives 28.9% of this fee and supports multimodal transportation projects.



## Air Pollution Mitigation Fund

Mitigate the environmental and health impacts of increased air pollution from motor vehicle emissions in nonattainment areas that results from the rapid and continuing growth in retail deliveries made by motor vehicles and in prearranged rides provided by transportation network companies by providing funding for eligible projects that reduce traffic (2.6% of RDF).

# After one year, and considerable feedback from businesses, changes were made to the administration of the retail delivery fee.



## Smaller-seller threshold

Small businesses shared that due to the smaller number of deliveries they have, the collection and remittance of the delivery fee was an added administrative cost and burden on the operation of the business.



**Change made:** Colorado now exempts from the fee businesses that have \$500,000 or less in annual sales.



## Collection of fee

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



**Change made:** 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).

# In May 2023, Minnesota became the second state to enact a delivery fee.

## — Legislation (HF 2887)



On May 24, 2023, MN 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 MN. 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.



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

## — Breaking the fee down:

- \$0.50 fee imposed on each transaction that exceeds \$100.
  - For delivery of tangible personal property or clothing
  - To a purchaser in Minnesota
  - Each sale is a single retail delivery, regardless of number of shipments

— Exempts businesses with retail sales of less than \$1,000,000 annually

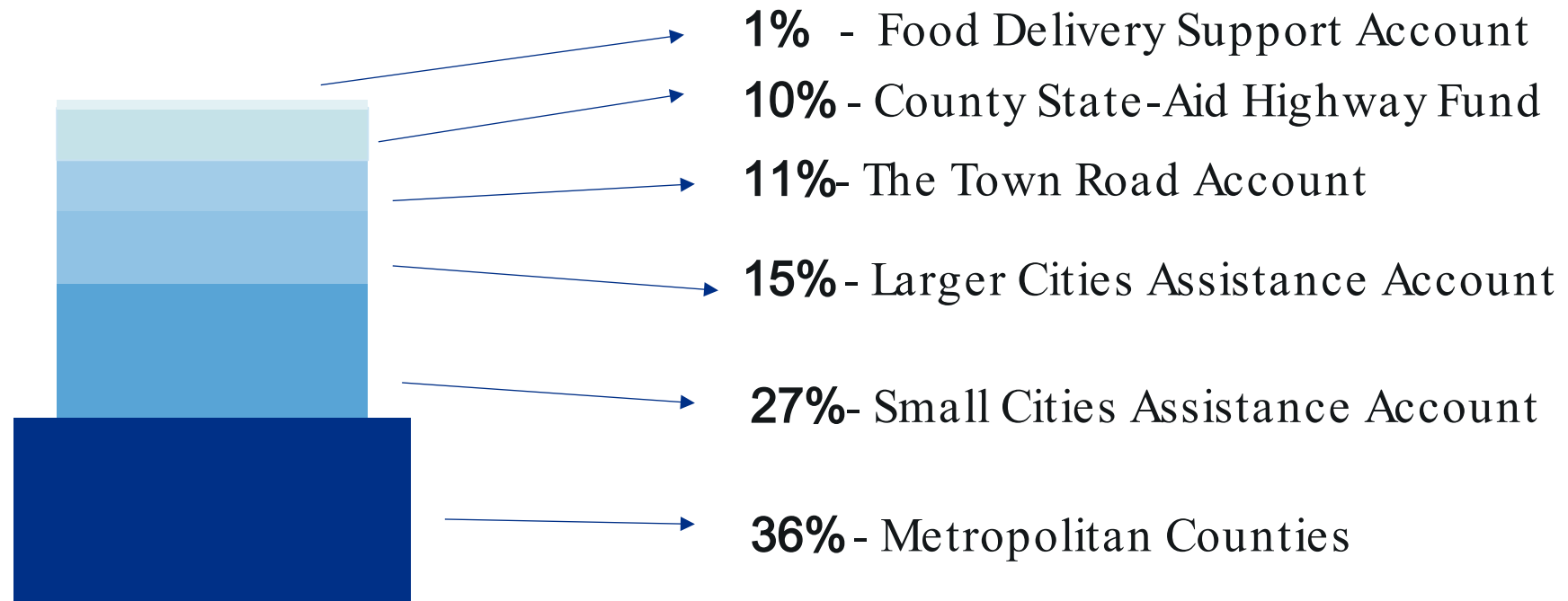
— Provides businesses with a choice of how to collect and remit the fee.

— The fee is nonrefundable if returned. However, if the order is canceled, the fee is refundable.

# A source of funding for local governments

Minnesota's retail delivery fee is composed of one single fee that is deposited into the Transportation Advancement Account and distributed to local governments.

- The Transportation Advancement Account includes revenue from multiple sources and is distributed as follows:



Source: See generally [MN Ch. 174.49](#)

Note: *This entire chapter of law, including these accounts, were created in the 2023 transportation bill and set forth the manner in which the funds are distributed.*

# Key policy distinctions

The fee in Minnesota was modeled after Colorado's, taking into account Colorado's lessons learned.

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

# Other state action

Several other states have considered RDF legislation or considered it as a part of their study of alternative transportation revenue options.



## 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.

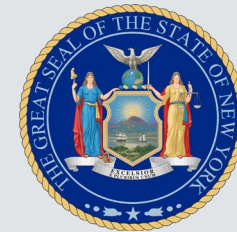
Further reading: [Ohio Road Funding Alternatives Study](#)



## Nevada

Nevada assessed the mechanism in 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 an RDF 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 \(2023\)](#)

A blurred photograph of a multi-lane highway at night, with light trails from cars and streetlights. The image is overlaid with a dark blue gradient.

 What's next in this study?



# Policy tools to inform potential consideration of an RDF

- Develop background information, data and analysis to inform state and local policymakers to facilitate consideration of statewide retail delivery fee;
- Provide an overview of the Retail Delivery Fee (RDF) and a summary of the fee as it has been implemented in other states;
- Creation of revenue generation tool that can provide revenue estimates of different fee scenarios for Washington state;
- Development of revenue distribution options between the state and local governments based upon factors such as total lane miles, total deliveries, or other factors;
- Estimation of the costs of implementation of an RDF for Washington state including start-up and on-going administration costs;
- Evaluation of the potential impacts of an RDF to consumers and businesses.

# Key policy topics and questions



## Policy Framework

- What policy challenge(s) are we attempting to resolve?



## Definitions

- What products are subject to the fee?
- How is a "delivery" defined and where does it occur?
  - Does it apply only to in-state deliveries?
  - Does the fee apply to home deliveries or to businesses, too?
  - What happens to an order with multiple shipments?



## Possible Exemptions

- Are there businesses or people that should be exempt from assessing the fee?



## Revenue Potential

- How much revenue is needed?
- And how much revenue can this fee generate?
- Is the implementation cost worth the revenue generated?
- How should the rate be established?
- How should revenue be distributed?



## Implementation and Operations

- How should businesses collect the fee?
- How should the state work with businesses to implement the fee?
- What happens in the event of a returned purchase?

# Revenue Generation Tool

A tool will be assembled to furnish decision-makers with ample analysis and information to facilitate the potential consideration of a retail delivery fee.

## Historical Taxable Retail Sales

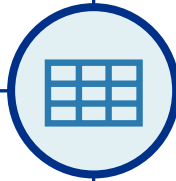
- Statewide level
- County/City level
- E-commerce sales from the retail industry

## Independent Variables/Forecasts

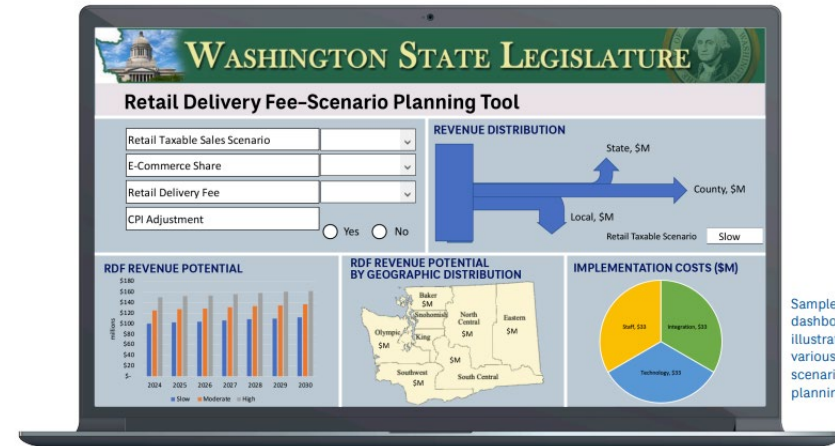
- Consumer price index
- Average online order value
- Woods & Poole Economics retail sales forecast

## Evaluation of Distribution Factors

- Share of population
- Total deliveries/orders
- Vehicle miles traveled
- Roadway ownership/condition



## MODEL OUTPUTS AND CAPABILITIES



Sample dashboard illustrating various scenarios of the planning tool.

- Inform the design of policies to promote fairness and mitigate unintended negative consequences.
- Illuminate policy options around rate -setting.
- Quantify order of magnitude estimates of the revenue generation potential due to various aspects, such as the elastic nature of retail sales, costs of collections, exemptions to specific retailers, and distribution of revenues across different government levels.
- Conduct “what-if” scenarios to inform decision-making.



Questions?