

JTC Retail Delivery Fee Analysis

Update for the Joint Transportation Committee

June 18, 2024

Andrew McLean, CDM Smith

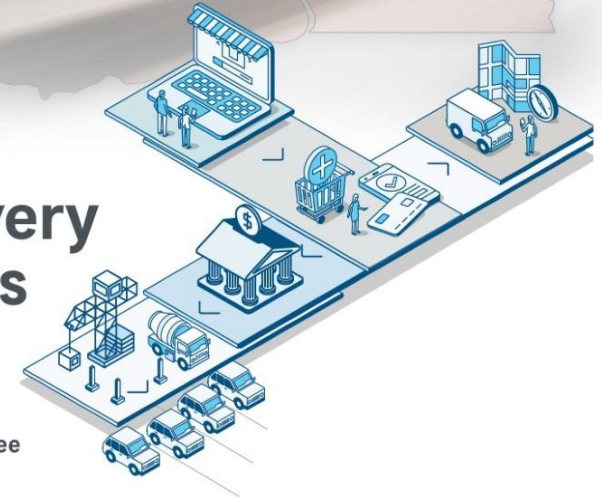


Report | June 2024

Retail Delivery Fee Analysis

Washington State
Joint Transportation Committee

June 2024





Overview

10min **Recap of Retail Delivery Fee Study Purpose & Overview of Fee**

15 min **Overview of Analysis:**

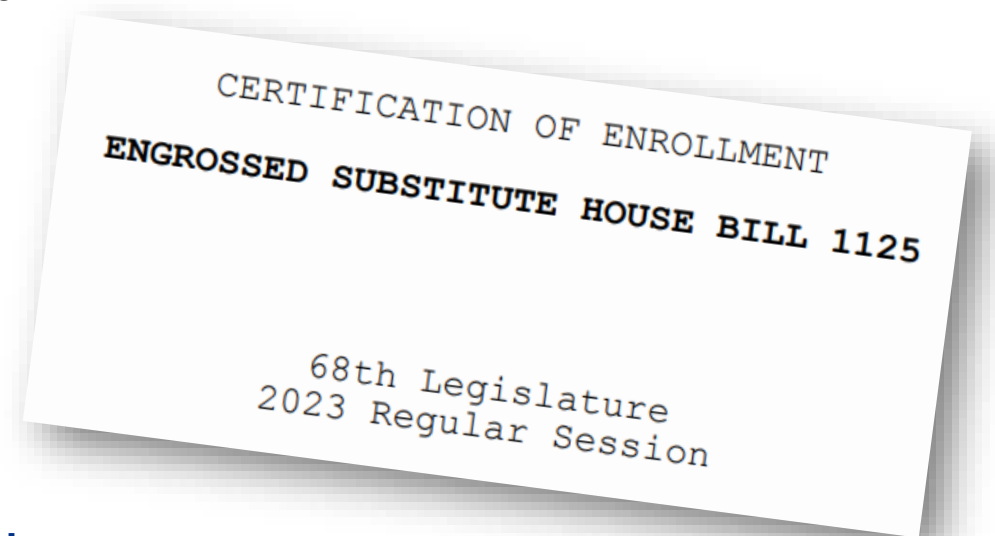
- Revenue Generation
- Revenue Distribution
- Implementation Costs
- Business and Consumer Impacts

15 min **Discussion**

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.

- 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**.
- 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**.



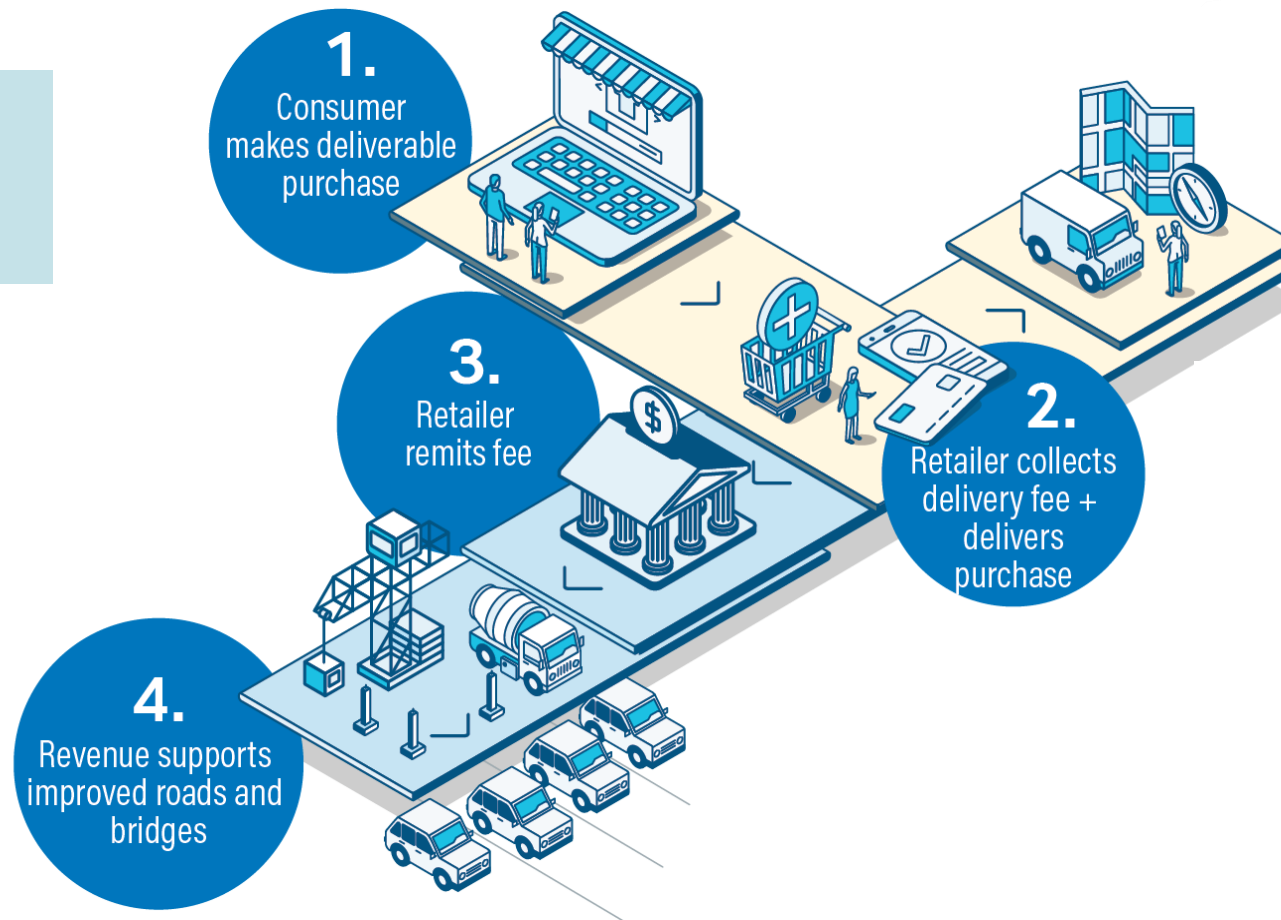
Study Context and Overview

- The purpose of this study was to **develop background information, data and analysis** to inform state and local policymakers and others to **facilitate the potential consideration** of a statewide retail delivery fee for Washington state.
- Funding for this study comes from gas tax revenues that would **otherwise be distributed to cities** in Washington state. This is due to the cities' desire to identify potential new sources of transportation revenues.
- Study was guided by a Technical Working Group made up of JTC staff, House and Senate Transportation Committee staff, and representatives from Washington cities.
- The study included **policy tools to inform potential consideration of an RDF** guided by the legislative proviso. This includes a revenue generation tool that can provide revenue estimates of different fee scenarios for Washington state.
- **This study is not a policy proposal and only intended to inform potential consideration of an RDF.**

What is a Retail Delivery Fee?

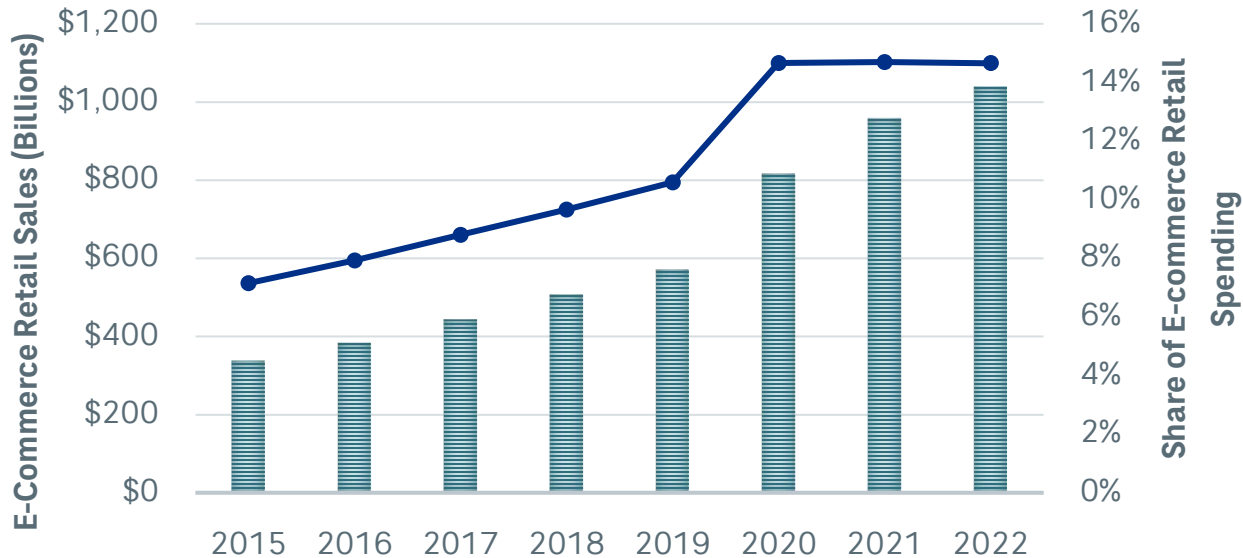
Generally, an RDF is a fee imposed on the delivery of retail items delivered by motor vehicles in the state.

How does an RDF work?

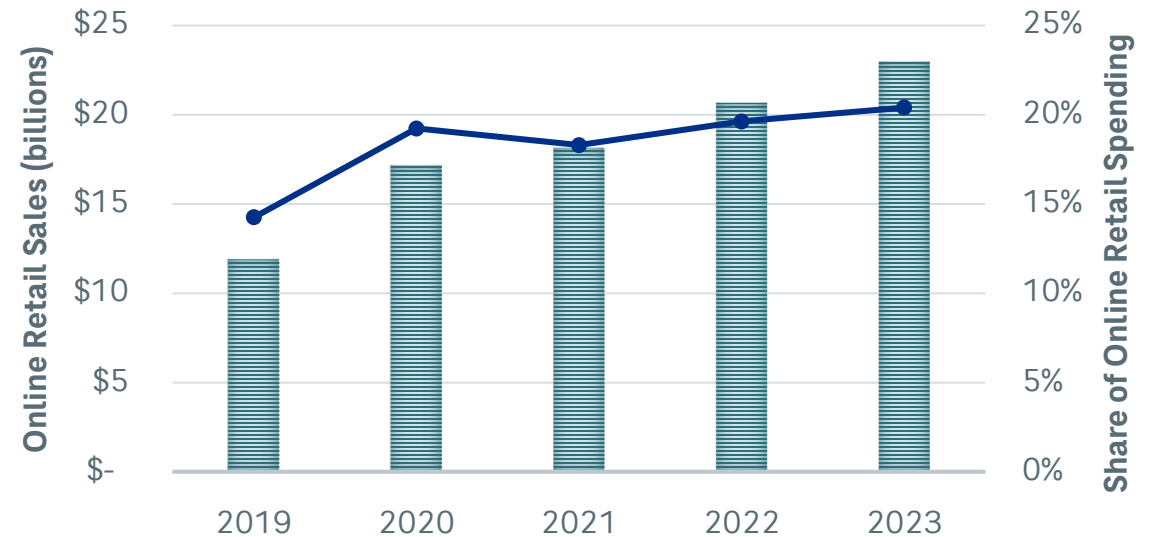


Why Study A Retail Delivery Fee (RDF)?

U.S. RETAIL E-COMMERCE



ONLINE RETAIL SPENDING BY WA RESIDENTS



Sources:

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

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

- Average Annual Growth Rate of Retail Sales: ~ 6%
- Average Annual Growth Rate of E-Commerce Sales: ~17%

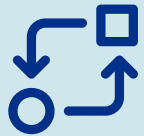
- Average Annual Growth Rate of Retail Sales: ~7.5%
- Average Annual Growth Rate of E-Commerce Sales: ~17.5%

Colorado and Minnesota's Retail Delivery Fee

Policy Factors	Minnesota	Colorado
Rate	\$0.50 per delivery	\$0.28 per delivery (indexed to inflation)
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 \$1,000,000 or less in annual sales.	Exempts businesses that have \$500,000 or less in annual sales.
Revenue distribution	Revenue distributed mostly to cities and towns.	Revenue distributed to clean transportation priorities, state and local funding.

After a Year of Implementation, Colorado Amended the Retail Deliver Fee Based on Feedback from Businesses.

Minnesota modeled their RDF after Colorado's, taking into account these important changes



Small business exemption

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).

A Dynamic Revenue Scenario Planning Tool Designed to Empower Decision-Making



User-Friendly Interface

Intuitive design for easy navigation



Dropdown List Menu

Streamlined selection through dropdown interfaces



Multi-variable Analysis

Facilitates exploration of diverse factors, including retail sales, e-commerce penetration, seller exemption, and order value exemptions



Scenario Parameters

Combines diverse modeling factors to simulate plausible future scenarios



Error Messages

Prompt notification for effective error identification and resolution



Customizable Revenue Distribution

Customizable allocation of revenues tailored to specific geographical assets and demand

Revenue Generation Tool

The tool provides the Legislature with revenue generation estimates, and corresponding revenue distribution, under different scenarios.

Historical Taxable Retail Sales

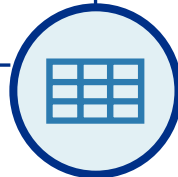
- Statewide level
- County/City level
- E-commerce sales from the retail industry
- Average online order values

Forecasting Parameters

- Retail taxable sales
- Retail e-commerce sales
- Retailers' exemption
- Exemption based on order value
- Retail delivery fee
- Fee adjustment

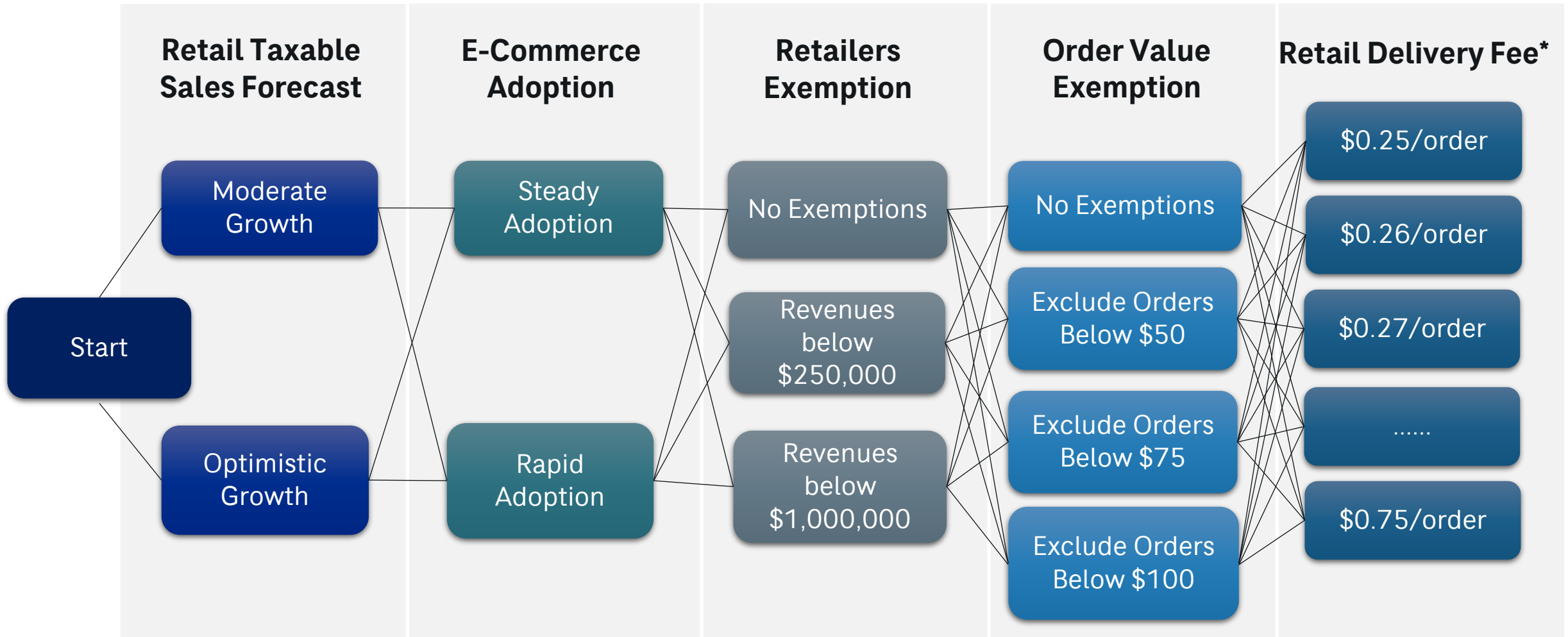
Distribution Factors

- Population
- Lane-miles
- Vehicle miles traveled
- E-commerce share
- Equal share



- ✓ Inform the design of policies to promote fairness and mitigate unintended negative consequences.
- ✓ Illuminate policy options around rate-setting.
- ✓ Estimate the revenue generation potential due to various policy considerations
- ✓ Conduct “what-if” scenarios to inform decision-making.

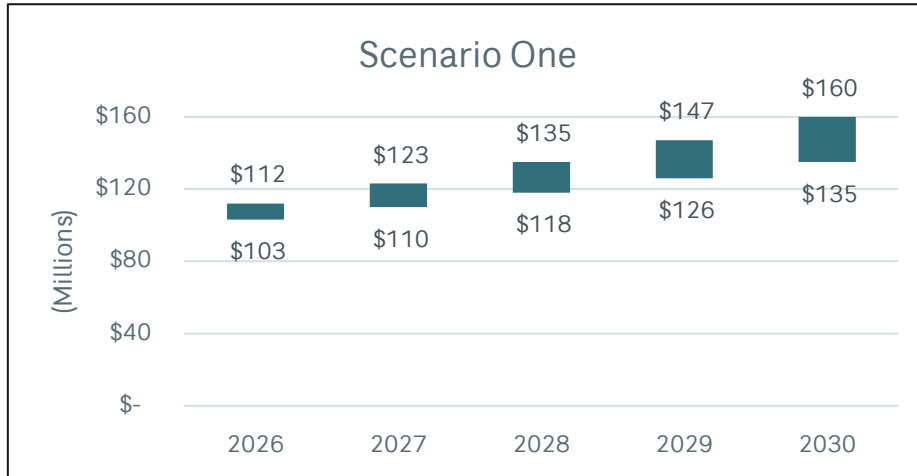
Ability to Explore Potential Revenue Outcomes Based on User-Inputs



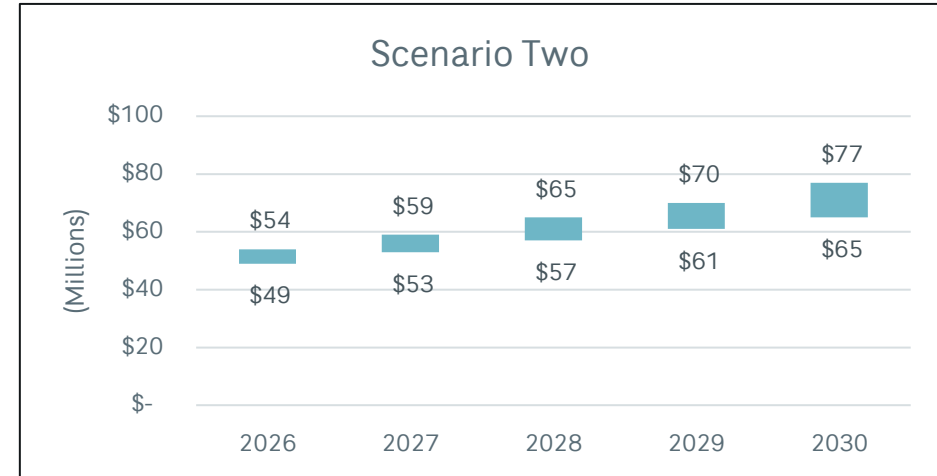
* Option available to adjust the fee to an inflation rate.

Revenue Generation Potential

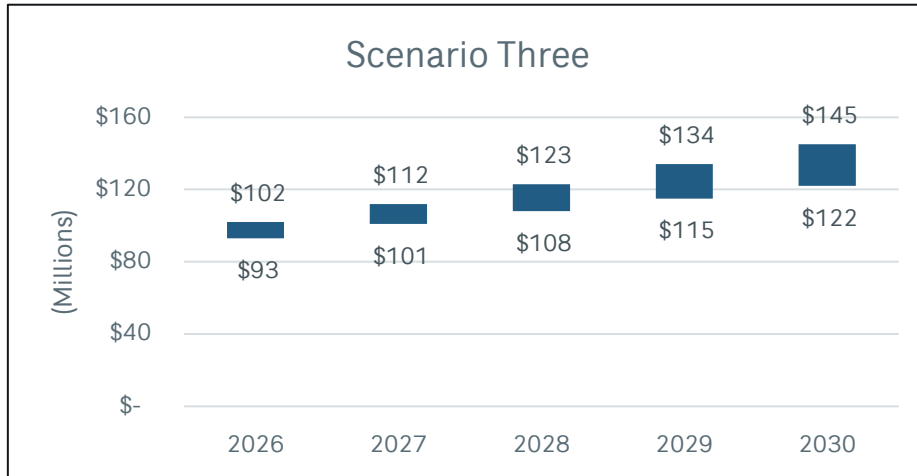
All scenarios assume a **\$0.30 delivery fee** and a **steady e-commerce adoption rate**.



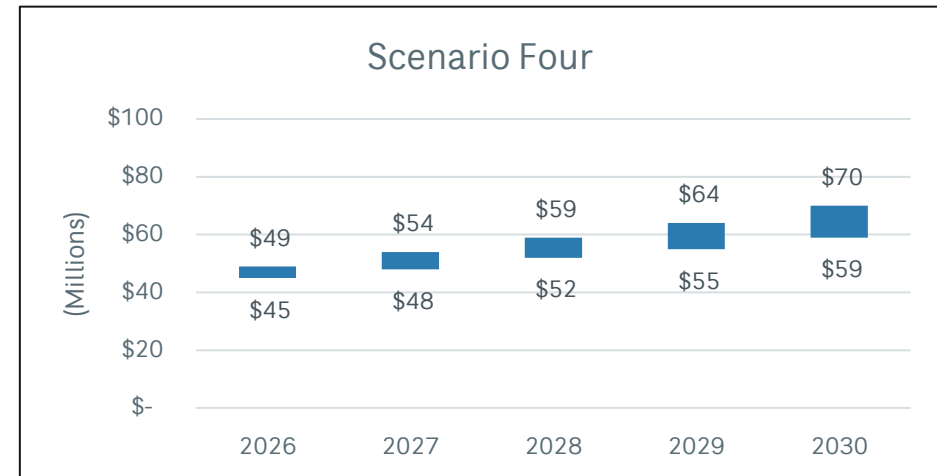
No exemptions for retailers and **no exemption** for deliveries of orders under \$75.



No exemptions for retailers and **an exemption for deliveries of orders under \$75**.



Exemptions for businesses with gross revenues of \$1 million and **no exemption** for deliveries of orders under \$75.



Exemptions for businesses with gross revenues of \$1 million and **less** and **an exemption for deliveries of orders under \$75**.

Revenue Distribution Framework: Exploring Allocation Of Potential Revenue



Implementation and Recurring Costs

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

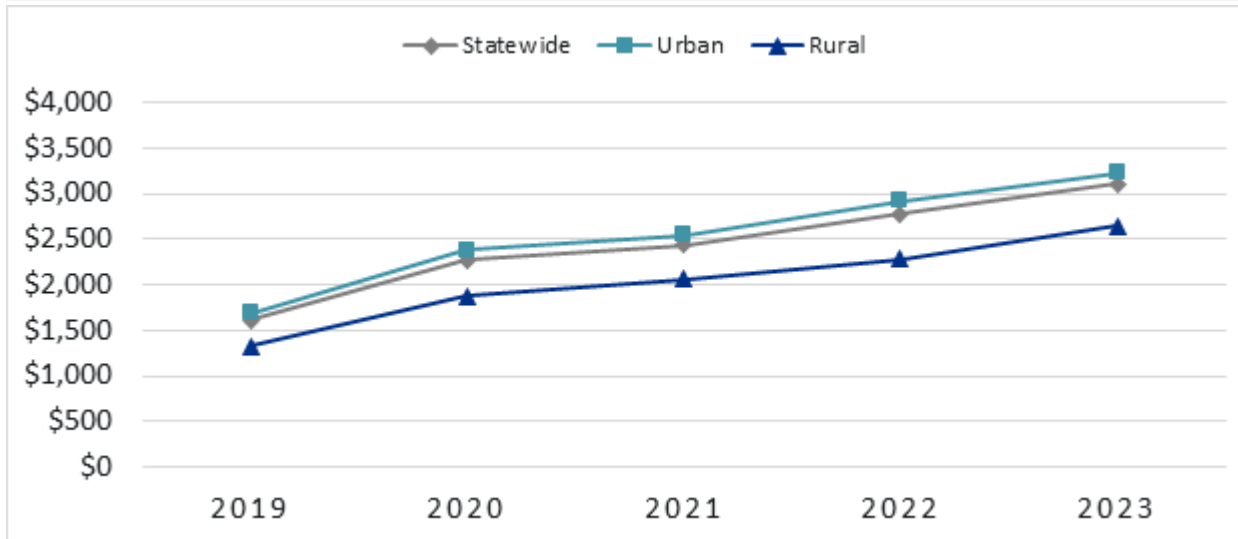
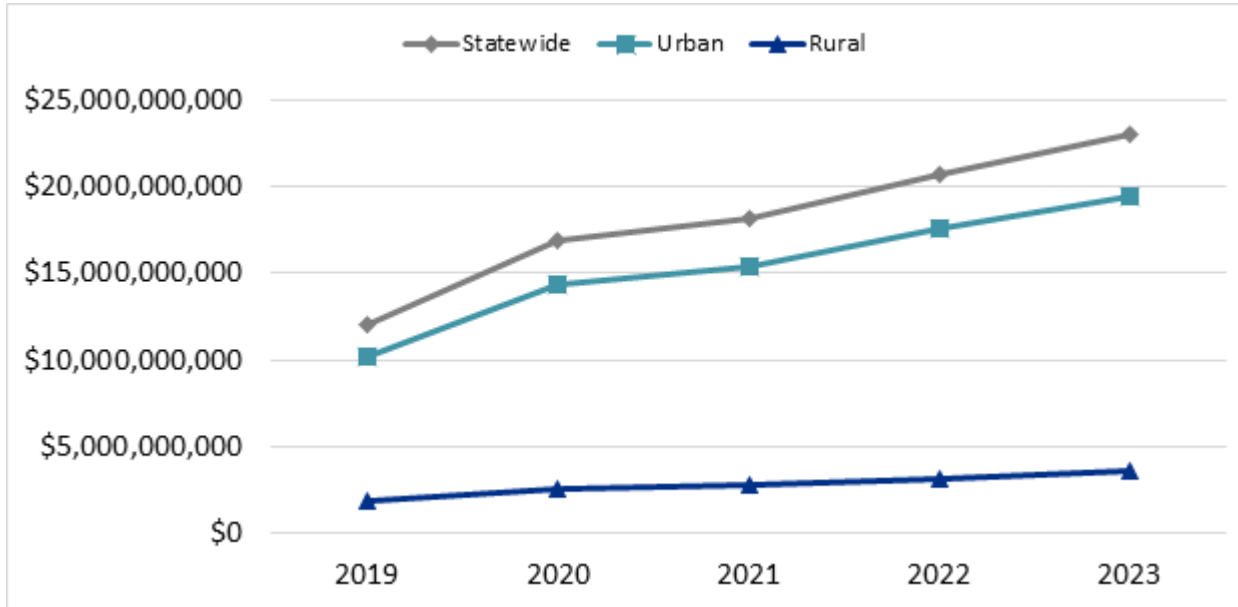
Source: Department of Revenue

Note: These are preliminary cost estimates. Actual direct and indirect costs will vary based on the scale and complexity of the implementation, as well as specific state requirements. Review and order of magnitude estimates do not constitute an official policy stance by the Department.

General Assumptions

- Assuming a January 1, 2026, effective date for costing purposes.
- Applicable to taxable retail sales of “tangible personal property.”
- No order value exemption.
- New businesses or small businesses with gross revenues/sales less than \$1 million in the previous calendar year will be exempt.
- The RDF is owed by the seller regardless of whether the seller delivers the goods themselves or hires a third party to deliver.

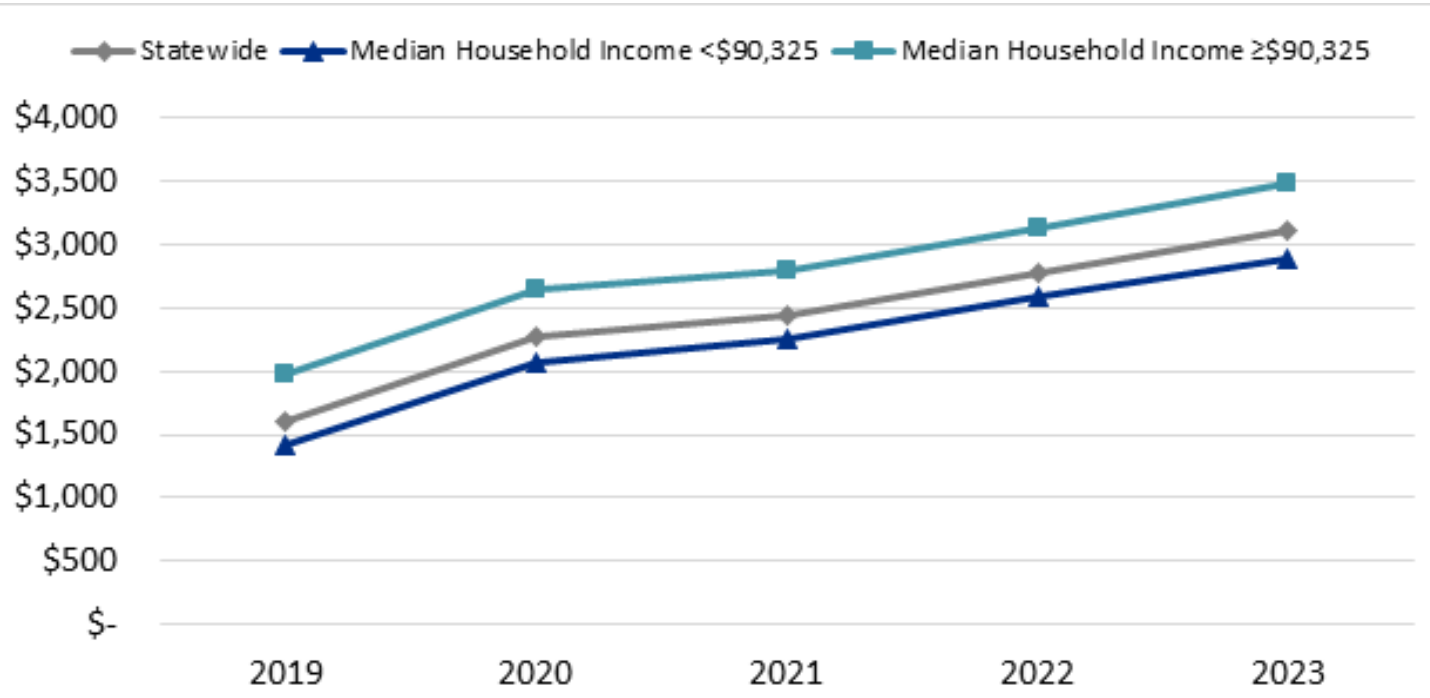
Consumer Impacts



- Generally, individuals from urban areas spend significantly more in the aggregate on e-retail purchases.

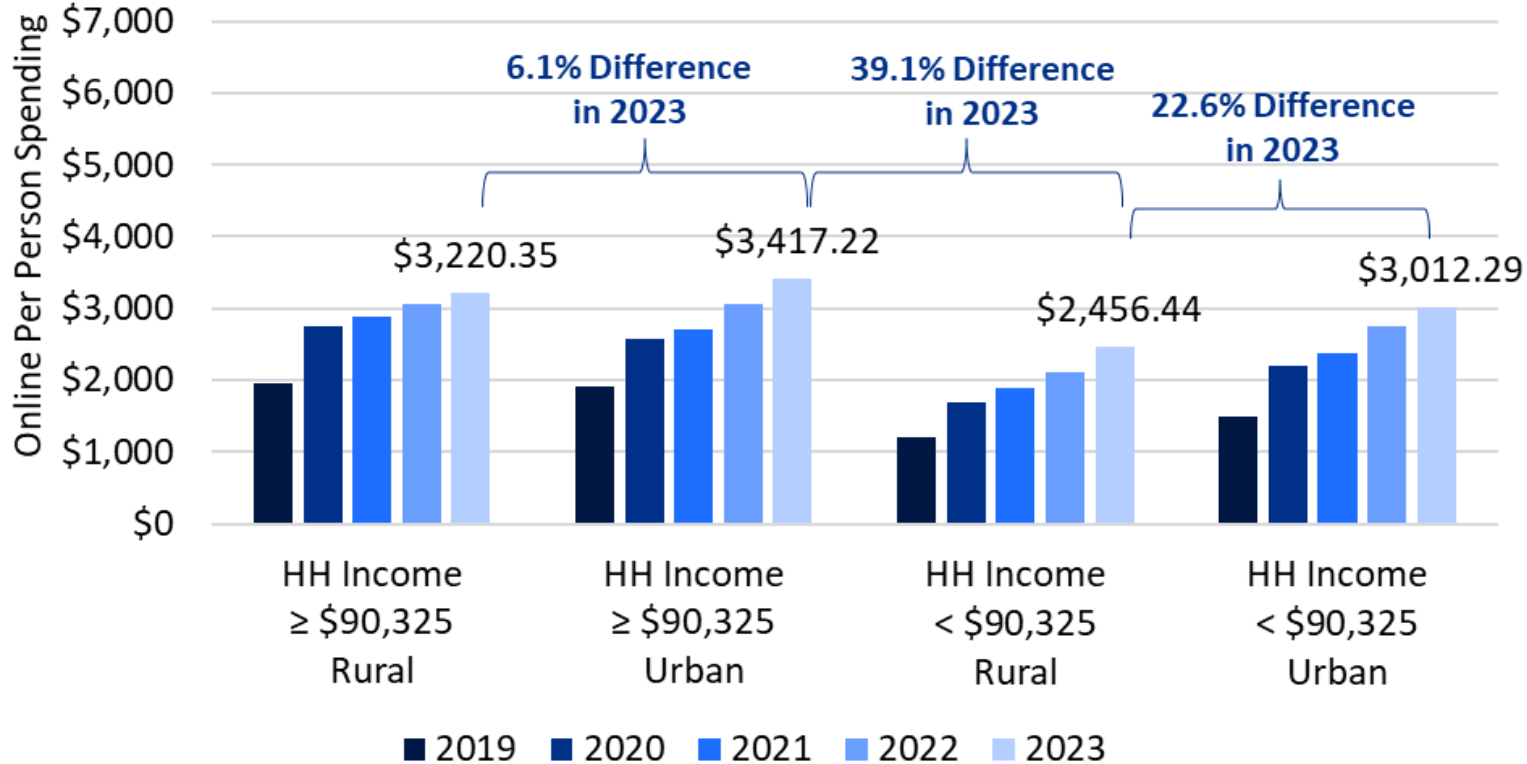
- E-commerce spending by individuals in urban areas was \$365 greater per person in 2019, and this gap in spending increased to \$586 in 2023.

Consumer Impacts



- Generally, households with an average income above the statewide median of \$90,325 tend to spend about \$500 more on online retail purchases than those from lower-income tracts

Consumer Impacts



- Generally, households with an income above the statewide median tend to spend more on e-commerce than those below the statewide median, regardless of location.
- Those who live in urban areas tend to spend more on online retail purchases than those from rural areas

Business Impacts

Small, medium and large-sized businesses shared the potential impacts of a retail delivery fee

- Addressing this issue of transportation funding should not fall solely upon the business community.
- Administrative and operational impact on businesses, particularly regarding tax collection.
- The burden placed on businesses to enforce compliance with a delivery fee.
- Implications of any new fee on existing local regulations.

Potential solutions to address these concerns include:

- ✓ **Implementing exemptions based on revenue thresholds** and
- ✓ **Minimizing the administrative burden of collecting the fee.**



Questions & Discussion