TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL NOTE

HB 289 - SB 337

March 15, 2011

SUMMARY OF BILL: Creates a deposit system to encourage recycling of certain beverage containers. Requires the creation of the Deposit Beverage Container Fund for which all deposits, fees, fines, and penalties are deposited. Requires all deposit beverage distributors to register with the Department of Revenue by September 1, 2011. Requires distributors to begin paying fees on each beverage container on October 1, 2011. Requires distributors to pay a deposit of five cents on each container beginning March 1, 2013. Requires the Department of Environment and Conservation (TDEC), with assistance from the Department of Revenue (DOR), to administer the program. Requires the Comptroller to conduct periodic audits of the program. Full implementation of the program begins April 1, 2013 when consumers will be charged a five-cent deposit on certain beverage containers. Beverage containers will be redeemable for five cents each.

ESTIMATED FISCAL IMPACT:

On March 11, 2011 we issued a fiscal note indicating:

Increase State Revenue –
$8,400,000/FY11-12/Deposit Beverage Container Fund
$76,068,000/FY12-13/Deposit Beverage Container Fund
$225,568,000/FY13-14/Deposit Beverage Container Fund
$225,568,000/FY14-15/Deposit Beverage Container Fund
$229,600,000/FY15-16 and Subsequent Years/
Deposit Beverage Container Fund

Increase State Expenditures –
$8,158,100/FY11-12/Deposit Beverage Container Fund
$54,640,000/FY12-13/Deposit Beverage Container Fund
$199,550,400/FY13-14/Deposit Beverage Container Fund
$204,951,000/FY14-15/Deposit Beverage Container Fund
$204,983,500/FY15-16 and Subsequent Years/
Deposit Beverage Container Fund

Increase Local Revenue – Net Impact – Not Significant
Increase Local Expenditures – Net Impact – Not Significant

On March 15, 2011 additional information was received from the Department of Revenue. Based on this information, the fiscal impact is as follows:

(CORRECTED)
Increase State Revenue –
$8,400,000/FY11-12/Deposit Beverage Container Fund
$76,068,000/FY12-13/Deposit Beverage Container Fund
$225,568,000/FY13-14/Deposit Beverage Container Fund
$225,568,000/FY14-15/Deposit Beverage Container Fund
$229,600,000/FY15-16 and Subsequent Years/
Deposit Beverage Container Fund

Increase State Expenditures –
$8,346,500/FY11-12/Deposit Beverage Container Fund
$63,790,000/FY12-13/Deposit Beverage Container Fund
$258,952,900/FY13-14/Deposit Beverage Container Fund
$273,235,100/FY14-15/Deposit Beverage Container Fund
$273,267,600/FY15-16 and Subsequent Years/
Deposit Beverage Container Fund

Decrease Local Revenue – Net Impact – Not Significant
Increase Local Expenditures – Net Impact – Not Significant

Assumptions:

- Based on information from the Container Recycling Institute data, the total number of deposit beverage containers consumed in Tennessee is estimated to be approximately 4.48 billion per year.
- Deposit collections of $0.05 per container will begin on March 1, 2013. Collections will occur for approximately 1.49 billion containers in FY12-13.
- Total deposit collections in FY12-13 will be $74,500,000 (1,490,000,000 x $0.05).
- Total deposit collections will be $224,000,000 (4,480,000,000 x $0.05) in FY13-14 and subsequent years.
- A recovery fee of $0.0025 will be charged to every deposit beverage distributor for every container from October 1, 2011 through June 30, 2012; beginning July 1, 2012, the fee will decrease to $0.00035 per deposit beverage container; and on July 1, 2015, the fee will increase to $0.00125 per deposit beverage container and remain at that level until changed by the General Assembly.
- Total recovery fee collections in FY11-12 (October through June) from 3.36 billion containers will be approximately $8,400,000 ($0.0025 x 3,360,000,000).
- Total recovery fee collections will be approximately $1,568,000 in each FY12-13, FY13-14, and FY14-15 ($0.00035 x 4,480,000,000).
- Recovery fees will increase to $0.00125 per container beginning July 1, 2015. Total recovery fee collections in FY15-16 and subsequent years will be $5,600,000 (4,480,000,000 x $0.00125).

- Beginning March 1, 2013, each distributor will pay a deposit of $0.05 per container. Total collections from deposits will be $74,500,000 (1,490,000,000 x $0.05) in FY12-13 and $224,000,000 ($0.05 x 4,480,000,000) in FY13-14 and subsequent years.
- States with similar container redemption programs have experienced 85 to 97 percent redemption rates. Redemption rates will increase as more people become aware of the program.
- Bottles will be redeemed for five-cents at a rate of 75 percent in FY12-13; 85 percent in FY13-14; 90 percent in FY14-15 and in each subsequent fiscal year.
- Deposit payments will begin on April 1, 2013. Approximately 1.12 billion containers will be consumed from April through June 2013.
- Additional refundable deposits will be paid for containers from other states with comparable deposit legislation. According to the Department of Revenue (DOR), an amount of containers will be deposited fraudulently every year. The number of containers from other states and fraudulent containers will equal five percent of the containers from Tennessee.
- Refundable deposits paid in FY12-13 will be approximately $44,100,000 [($0.05 x 1,120,000,000 containers x 75% redemption) x 105%].
- Refundable deposits paid in FY13-14 will be approximately $199,920,000 [($0.05 x 4,480,000,000 containers x 85% redemption) x 105%].
- Refundable deposits paid in FY14-15 and subsequent years will be approximately $211,680,000 [($0.05 x 4,480,000,000 containers x 90% redemption) x 105%].
- An overhead allowance of 20 percent of total refunds paid will be paid to redemption center processors.
- Overhead allowances paid in FY12-13 will be approximately $8,820,000 ($44,100,000 x 20%).
- Overhead allowances paid in FY13-14 will be approximately $39,984,000 ($199,920,000 x 20%).
- Overhead allowances paid in FY14-15 and subsequent years will be approximately $42,336,000 ($211,680,000 x 20%).
- An administrative fee will be paid to processors equal to two percent of the total refund value of containers processed.
- Administrative payments in FY12-13 will be approximately $882,000 ($44,100,000 x 2%).
- Administrative payments in FY13-14 will be approximately $3,998,400 ($199,920,000 x 2%).
- Administrative payments in FY14-15 and subsequent years will be approximately $4,233,600 ($211,680,000 x 2%).
- According to the Department of Revenue, an additional $6,750,000 increase in recurring state expenditures to establish redemption centers, defray additional costs, and reimburse disposal costs as required by the bill. This amount will be $1,687,500 in FY12-13.
- County litter grants are funded from portions of the beer barrelage tax and the bottler's gross receipts tax.
- Based on information provided by DOR and Transportation (TDOT), funding for county litter grant programs is estimated to be $5,500,000 in FY10-11. Such amount is assumed to remain constant in subsequent fiscal years under current law.

- Taxes which currently fund county litter grants will no longer be authorized for collection if this bill passes. As a result, funding for county litter programs will be paid from gross revenue generated from this act each year resulting in an increase in recurring state expenditures of $5,500,000.
- Given that state and local option sales tax is computed on beer barrelage tax and bottler's gross receipts tax, state and local sales tax revenue is expected to decrease when the portions of such taxes are no longer authorized for collection. The increase in state expenditures for reimbursement of lost revenue will be $385,000 per year ($5,500,000 x 7.0% state rate). Assuming an average local option sales tax rate of 2.5 percent, the increase in state expenditures for reimbursement to local governments for lost revenue will be $137,500 per year ($5,500,000 x 2.5%).
- According to the Department of Treasury, any cost to administer the account created by this bill can be accommodated within existing resources without an increased appropriation or reduced reversion.
- Based on information provided by the Office of the Comptroller, the increase to state expenditures resulting from required audit responsibilities will be $65,000 each year the Comptroller is required to perform an audit.
- The bill requires the Comptroller to perform audits for FY12-13 and FY13-14, and for each fiscal year thereafter ending in even-numbered years. Costs related to the audits are assumed to be incurred in the subsequent fiscal year. Therefore, the increase in state expenditures of $65,000 is projected for FY12-13, FY13-14, and for fiscal years ending in even numbers thereafter. In FY15-16 and subsequent years, the average cost per year is $32,500.
- According to TDEC, 19 additional positions will be required to implement the provisions of this bill. The associated increase to recurring state expenditures is estimated to be $1,690,600 per year ($912,400 salaries, $256,200 benefits, $522,000 operational expenditures). One-time state expenditures related to these positions is estimated to be $68,400 (computers, software, communications, etc.).
- According to DOR, the Department will require four Taxpayer Services Representative 2 positions to implement certain provisions of this bill. The associated increase to recurring state expenditures is estimated to be $183,275 per year ($105,504 salaries, $46,171 benefits, $31,600 operational). One-time state expenditures related to these additional positions is estimated to be $19,200 (computers, software, communications, etc.).
- DOR will require three additional field audit positions and two revenue technicians to handle refunds and provide needed support for field staff. Recurring costs are estimated to be $339,100 ($202,400 salary, $73,300 benefits, and $63,400 operational expenditures). One-time costs associated with these positions are $23,400 (computers, software, communications, etc.).
- Total FY11-12 expenditures: $8,346,475 ($1,690,600 + $68,400 + $183,275 + $19,200 + $385,000 + $137,500 + $5,500,000 + $339,100 + $23,400)
- Total FY12-13 expenditures: $63,789,975 ($1,690,600 + $183,275 + $339,100 + $65,000 + $137,500 + $385,000 + $1,687,500 + $5,500,000 + $8,820,000 + $882,000 + $44,100,000).

- Total FY13-14 expenditures: $258,952,875 ($1,690,600 + $183,275 + $339,100 + $65,000 + $137,500 + $385,000 + $5,500,000 + $6,750,000 + $39,984,000 + $3,998,400 + $199,920,000).
- Total FY14-15 expenditures: $273,235,075 ($1,690,600 + $183,275 + $339,100 + $137,500 + $385,000 + $5,500,000 + $6,750,000 + $42,336,000 + $4,233,600 + $211,680,000).
- Total FY15-16 and subsequent year expenditures: $273,267,575 ($1,690,600 + $183,275 + $339,100 + $32,500 + $137,500 + $385,000 + $5,500,000 + $6,750,000 + $42,336,000 + $4,233,600 + $211,680,000).
- All state expenditures and all reductions to state or local government revenue incurred as a result of this bill shall be reimbursed to appropriate authorities from the gross revenue generated from this act.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

James W. White

James W. White, Executive Director

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