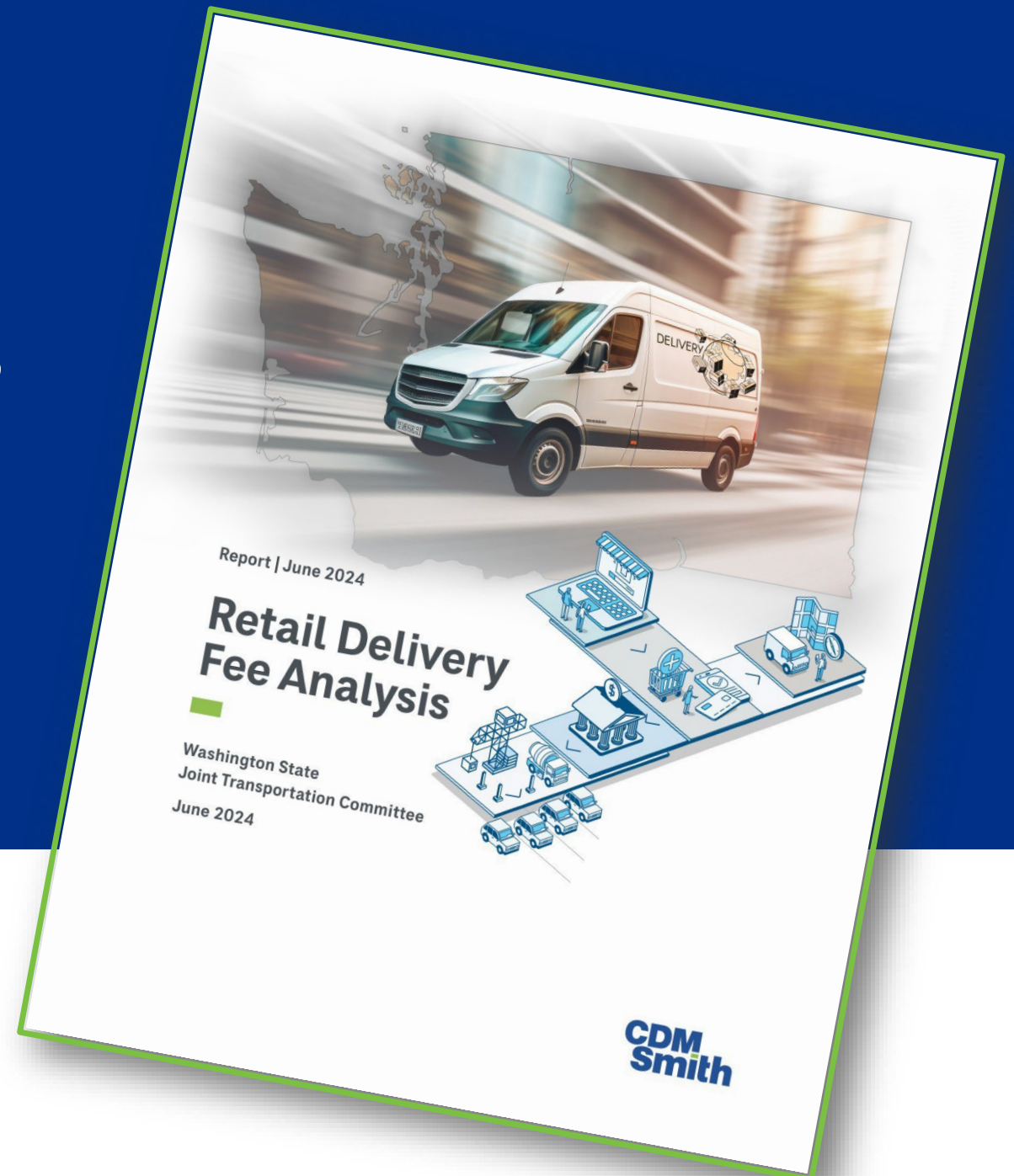


# Joint Transportation Committee: Retail Delivery Fee Analysis



Association of Washington Cities  
December 10, 2024  
Andrew McLean, CDM Smith



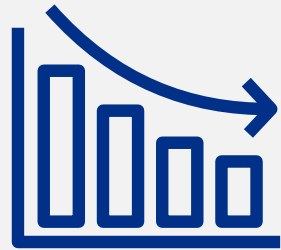
# Funding conundrum: more driving but less gas tax



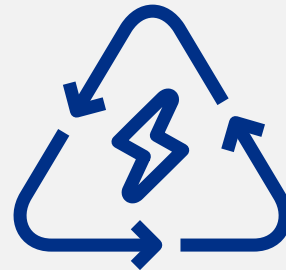
The gas tax is no longer a sustainable transportation revenue source. As vehicles become more fuel efficient and electric vehicles more prevalent, drivers are purchasing less fuel – or none at all.



**Inflation**  
of Construction Costs



**Flat/Declining**  
Revenue



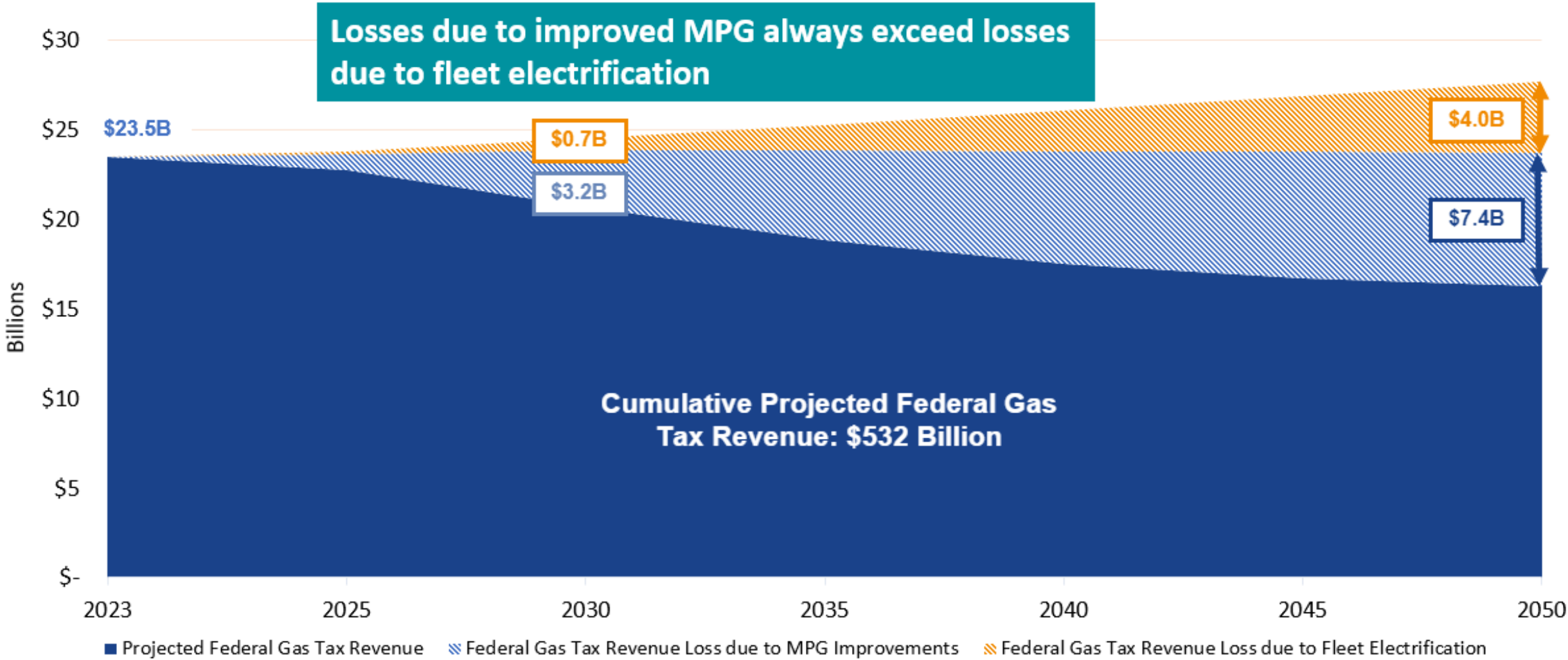
**Greater**  
Fuel-Efficient Vehicles



**More**  
Electric Vehicles

# Federal Gas Tax Revenue Stream

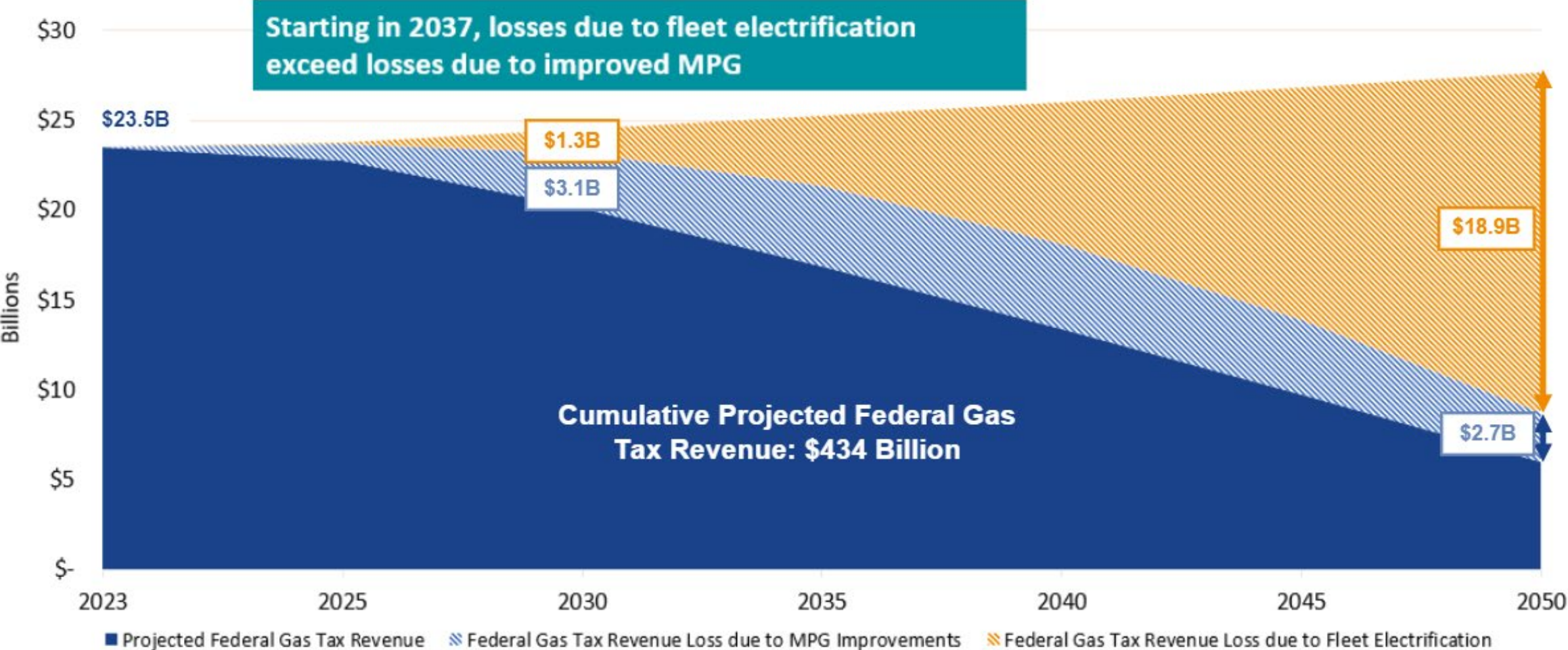
Slow EV Adoption (EIA)



Note: Nominal dollars.

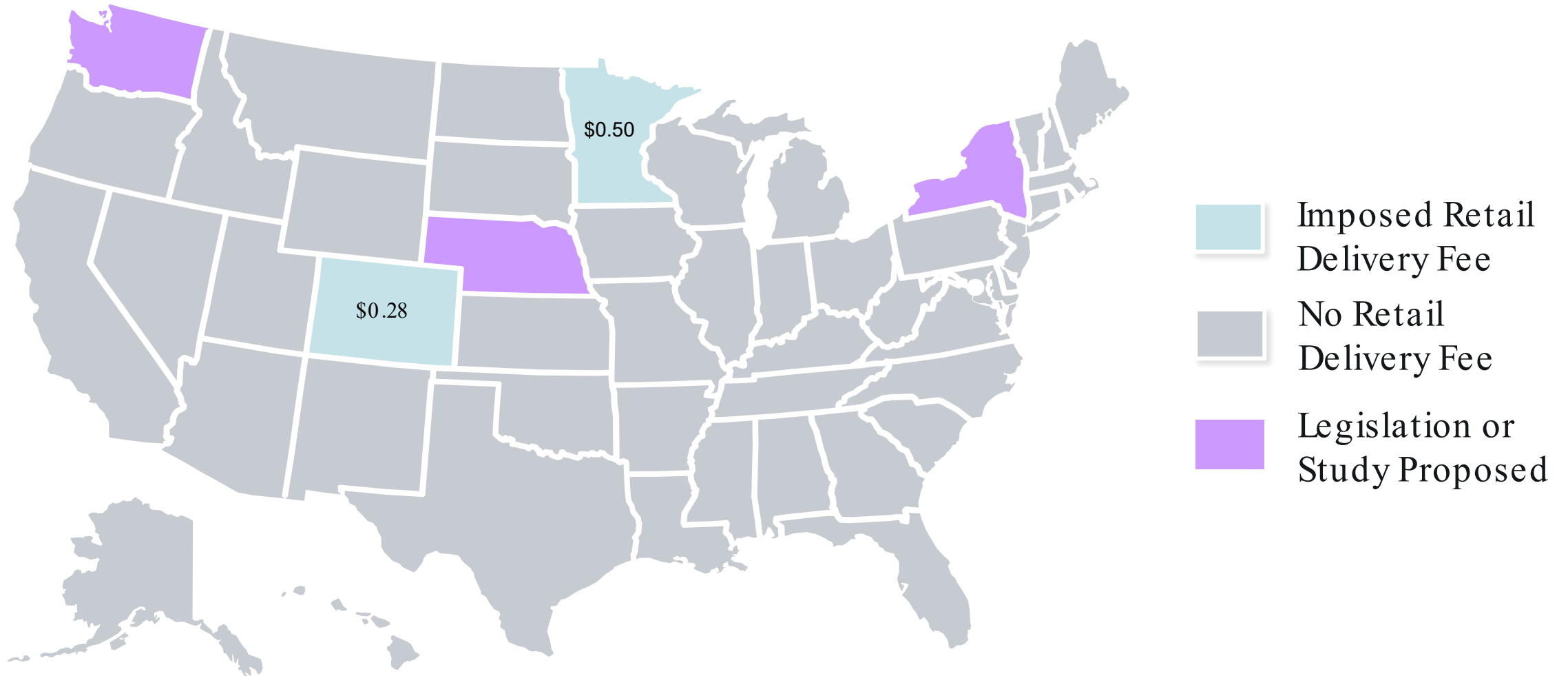
# Federal Gas Tax Revenue Stream

*Faster EV Adoption Scenario*



Note: Nominal dollars.

# 2024 Retail Delivery Fees by State



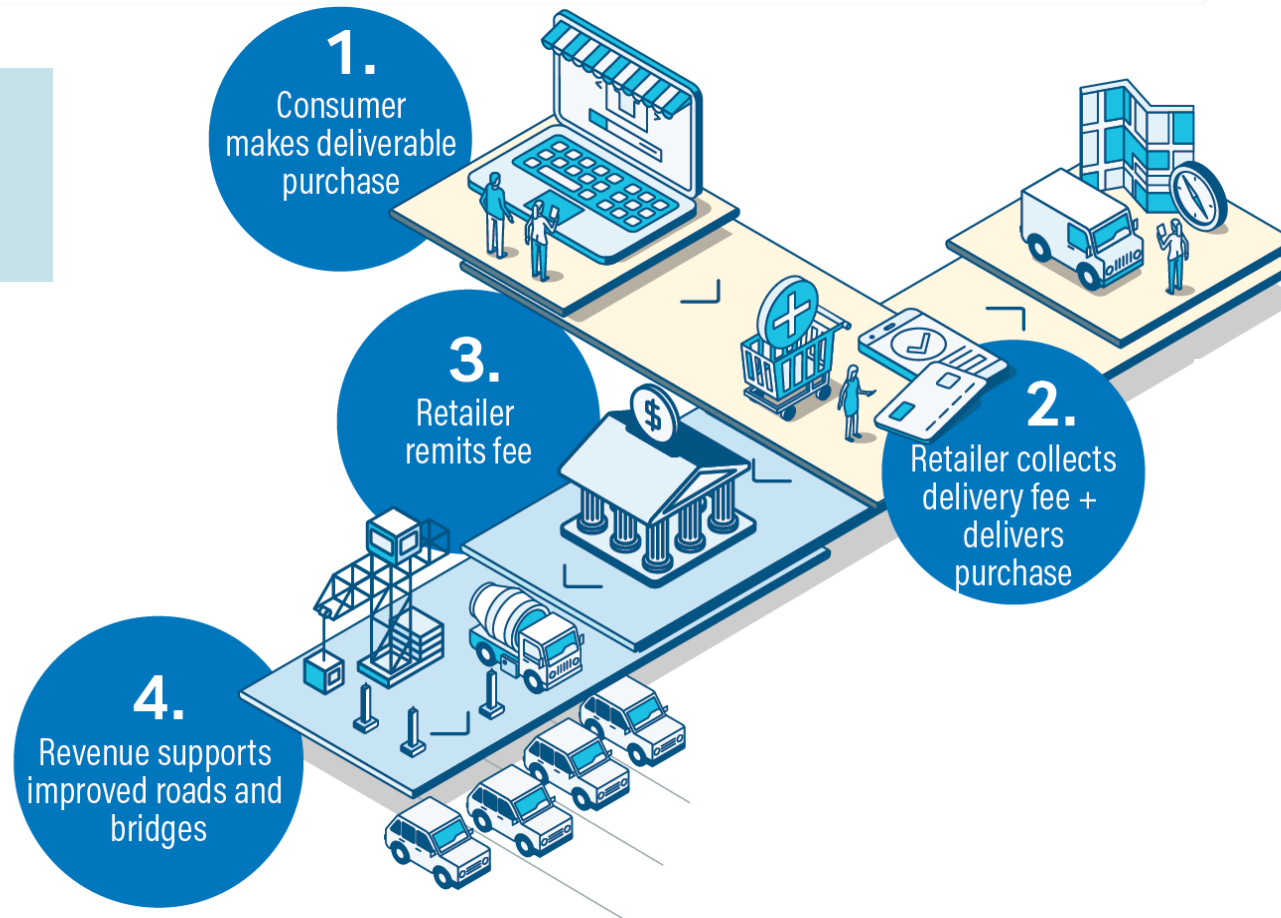
Sources: [2023-sut-legislative-bulletin.pdf \(state.mn.us\)](#), [2023-sut-legislative-bulletin.pdf \(state.mn.us\)](#), & [Retail Delivery Fee | Department of Revenue - Taxation \(colorado.gov\)](#)

Note: Rates as of April 2024

# What is a Retail Delivery Fee?

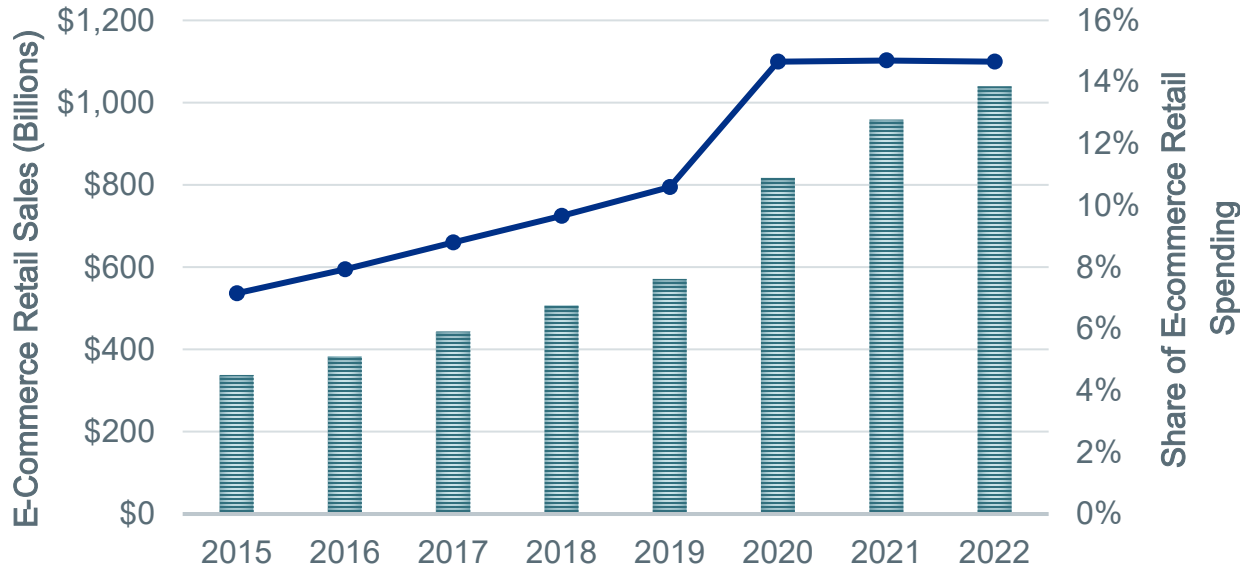
Generally, an RDF is a fee imposed on the delivery of retail items delivered by motor vehicles in the state.

## How does an RDF work?

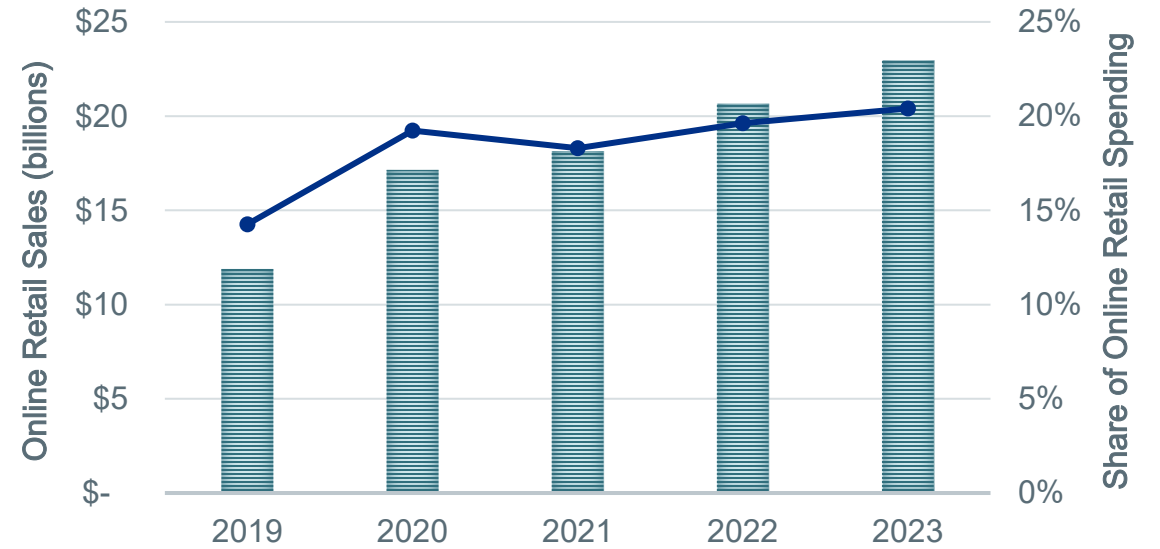


# Why Study A Retail Delivery Fee (RDF)?

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/](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%

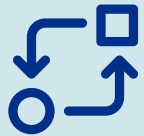
# Colorado and Minnesota's Retail Delivery Fee

| Policy Factors              | Minnesota   | Colorado   |
|-----------------------------|---|--|
| <b>Rate</b>                 | \$0.50 per delivery   | \$0.28 per delivery (indexed to inflation)   |
| <b>Delivery eligibility</b> | Applies to deliveries over \$100.                                 | Applies to all deliveries regardless of price.   |
| <b>Revenue generation</b>   | 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. |
| <b>Collection</b>           | Provides businesses a choice of how to collect fee.               | Provides businesses a choice of how to collect fee.  |
| <b>Exemptions</b>           | Exempts businesses that have \$1,000,000 or less in annual sales. | Exempts businesses that have \$500,000 or less in annual sales.  |
| <b>Revenue distribution</b> | 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).

# Revenue Generation Tool

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

## Historical Taxable Retail Sales

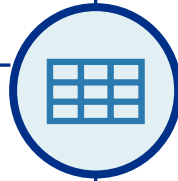
- Statewide level
- County/City level
- E-commerce sales from the retail industry
- Average online order values

## Forecasting Parameters

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

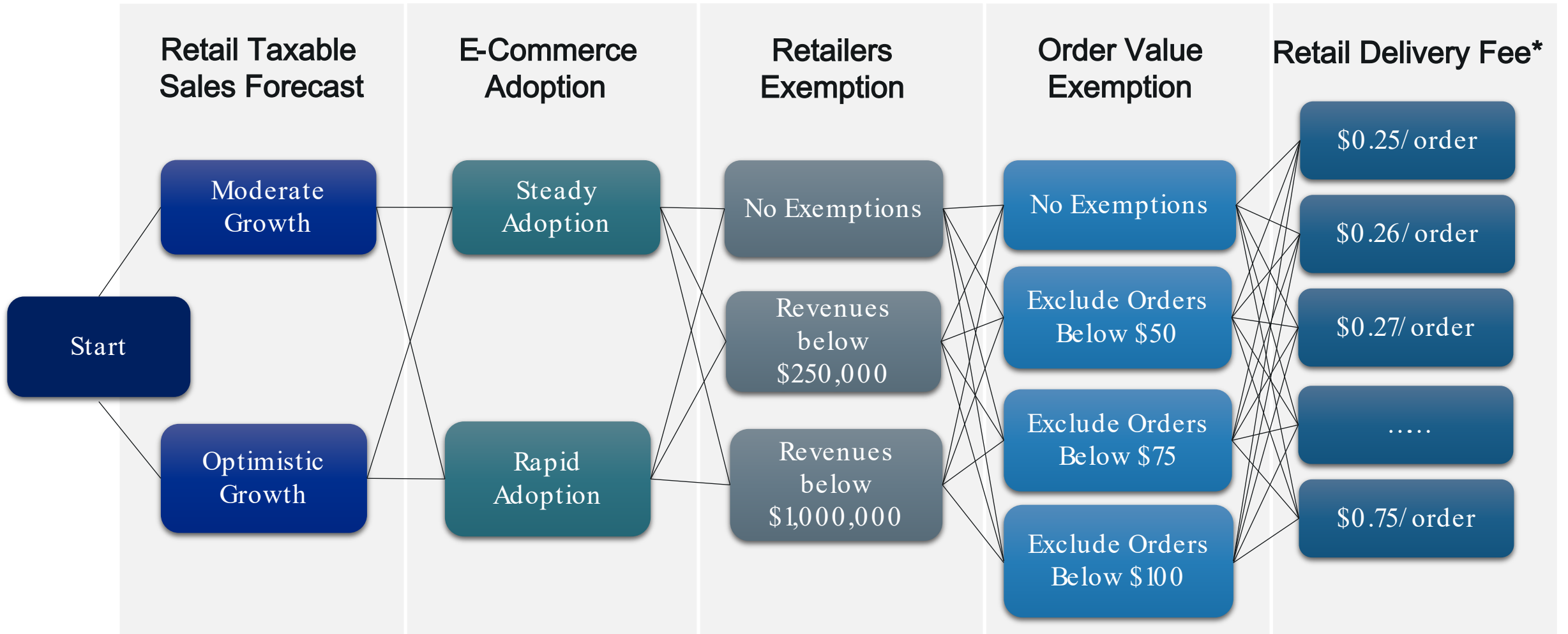
## Distribution Factors

- 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

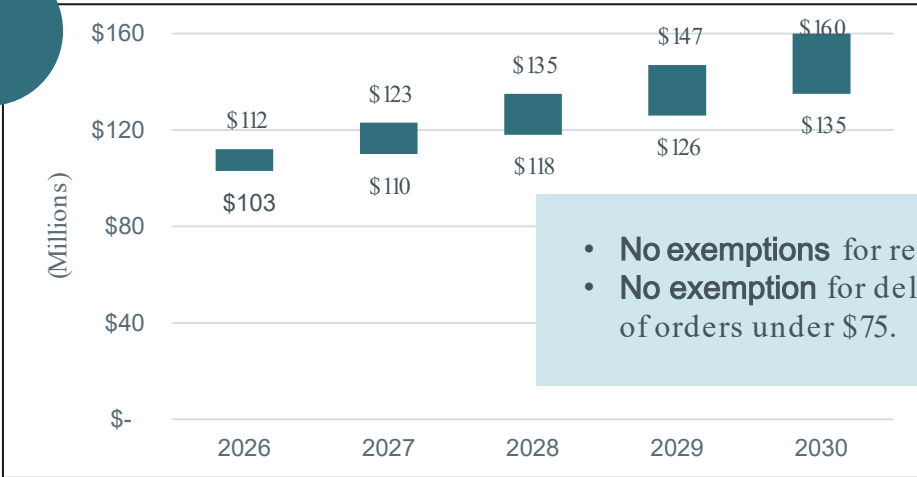


\*Option available to adjust the fee to an inflation rate.

# Revenue Generation Potential

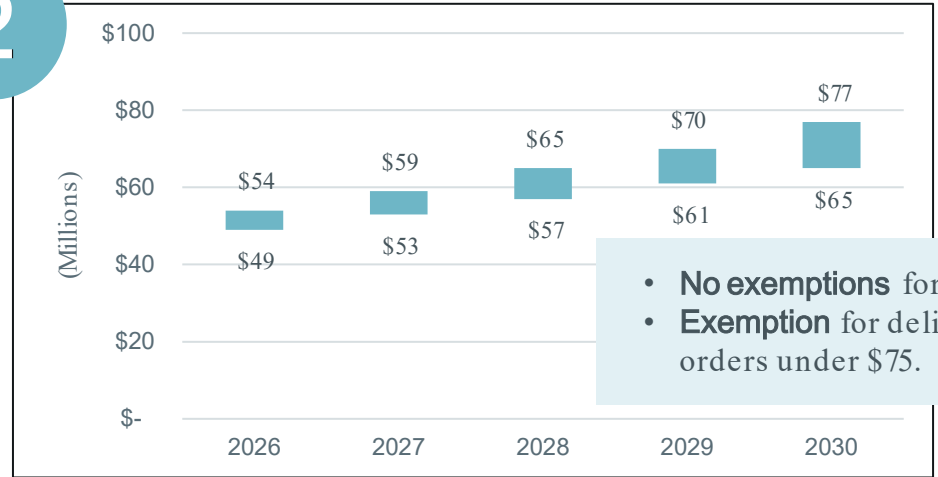
All scenarios assume a **\$0.30 delivery fee** and a **steady e-commerce adoption rate**.

1



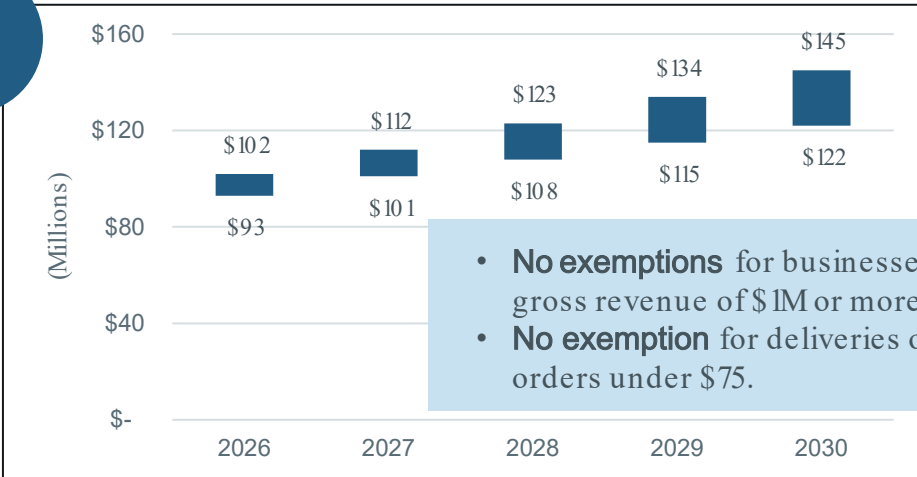
- **No exemptions** for retailers
- **No exemption** for deliveries of orders under \$75.

2



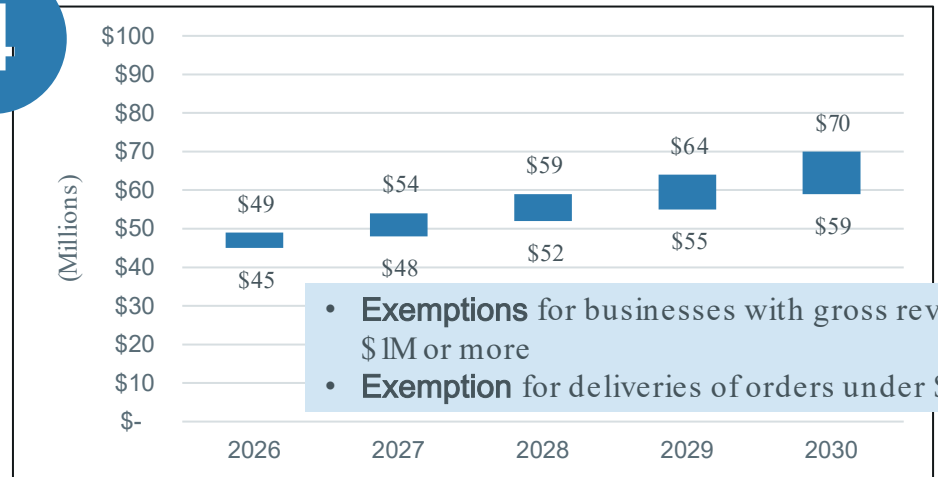
- **No exemptions** for retailers
- **Exemption** for deliveries of orders under \$75.

3



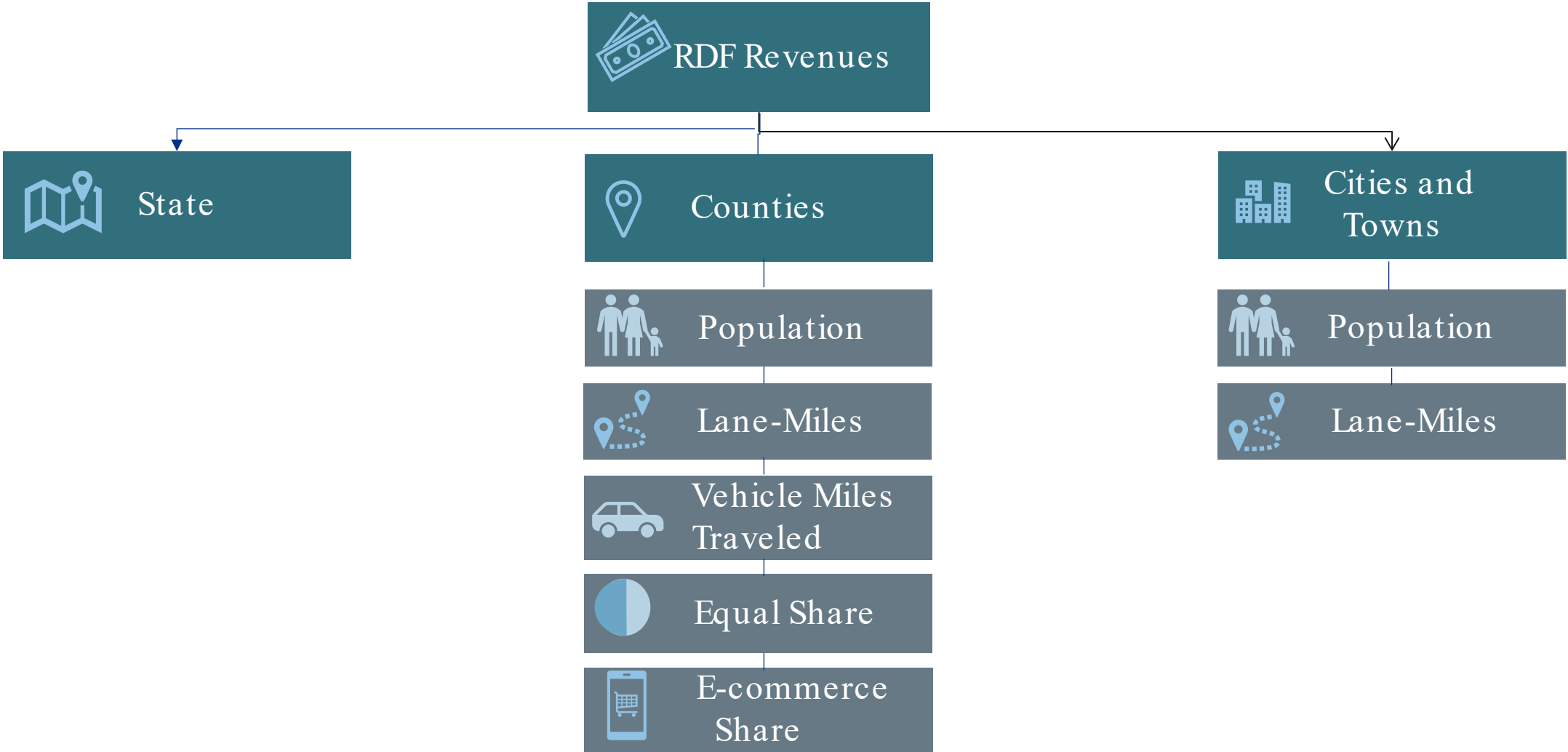
- **No exemptions** for businesses with gross revenue of \$1M or more
- **No exemption** for deliveries of orders under \$75.

4



- **Exemptions** for businesses with gross revenue of \$1M or more
- **Exemption** for deliveries of orders under \$75.

# Revenue Distribution Framework: Exploring Allocation Of Potential Revenue



# Implementation and Recurring Costs

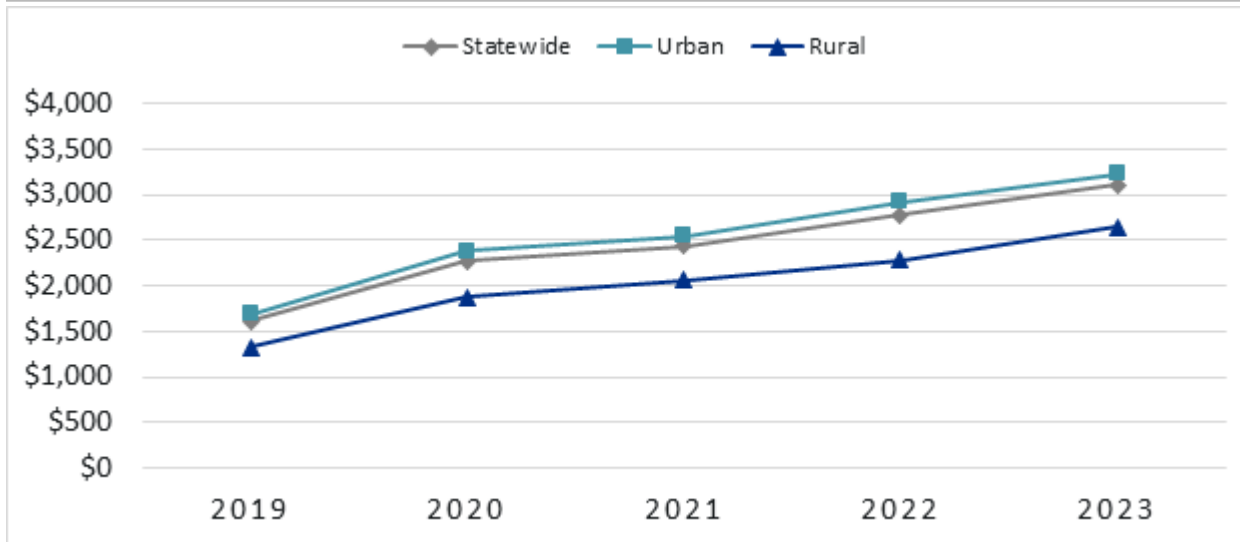
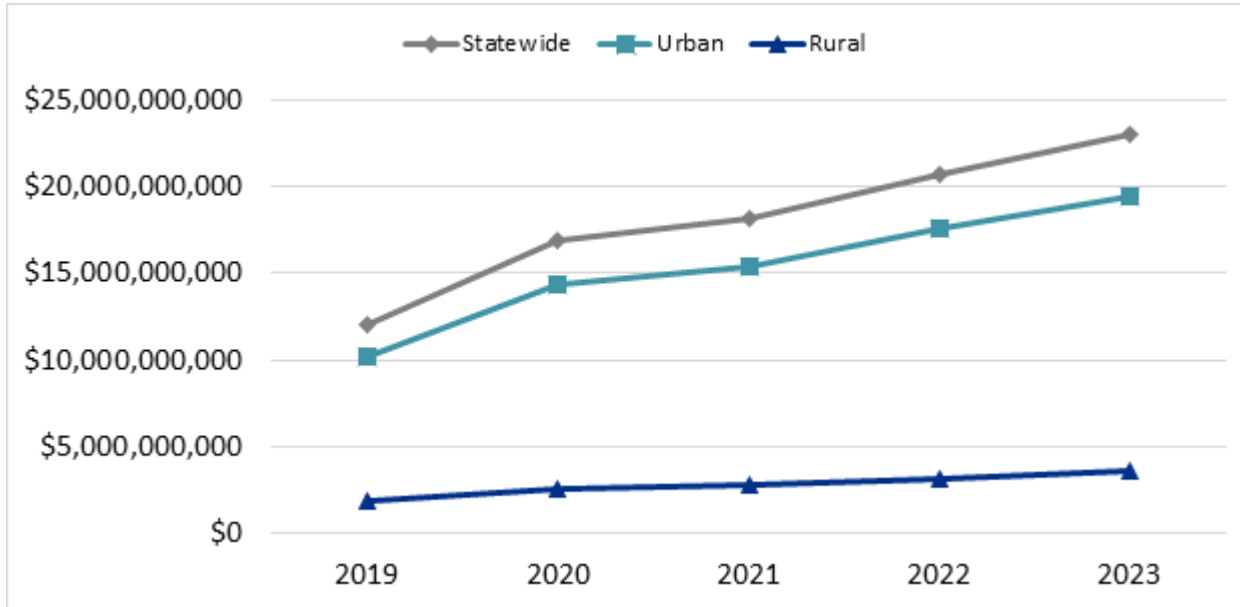
| Expense Objects            | FY 2025          | FY 2026          | FY 2027          | FY 2028          | FY 2029          |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Salaries and Wages         | \$128,800        | \$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          |
| <b>Fiscal Year Total</b>   | <b>\$204,900</b> | <b>\$540,000</b> | <b>\$200,900</b> | <b>\$159,400</b> | <b>\$159,400</b> |
| 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.

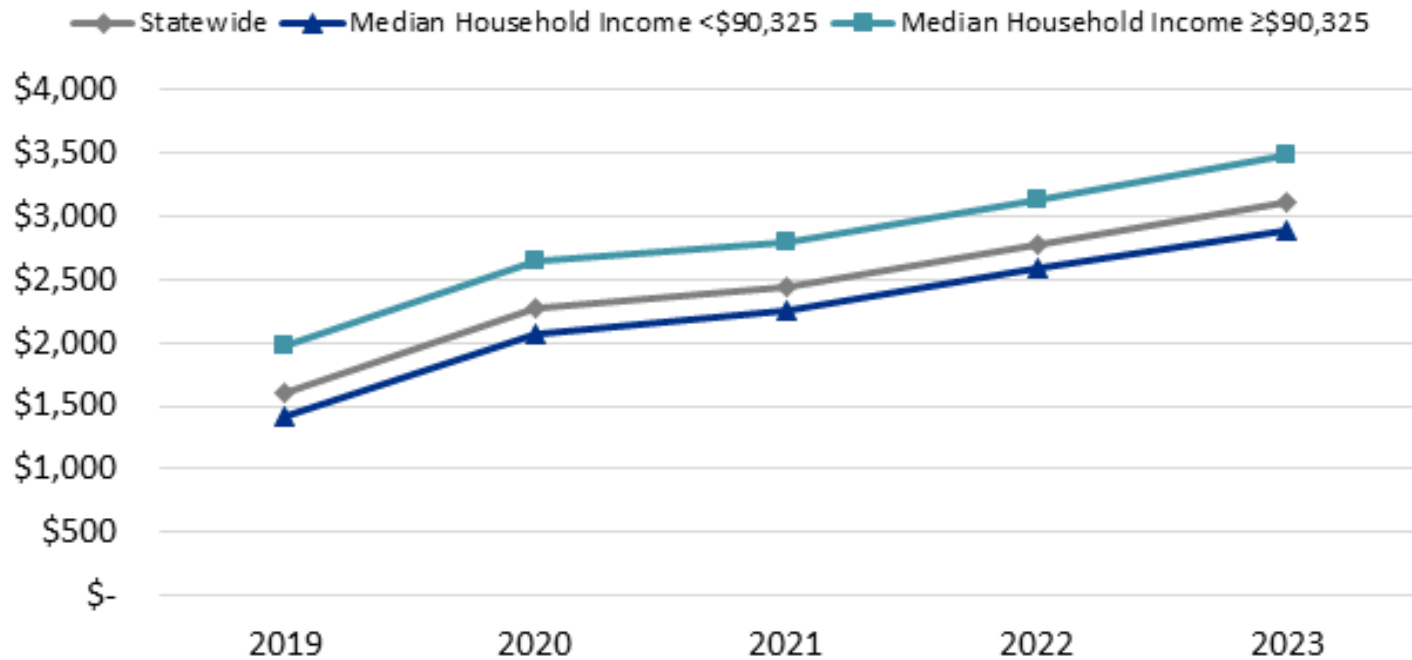
# Consumer Impacts



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.

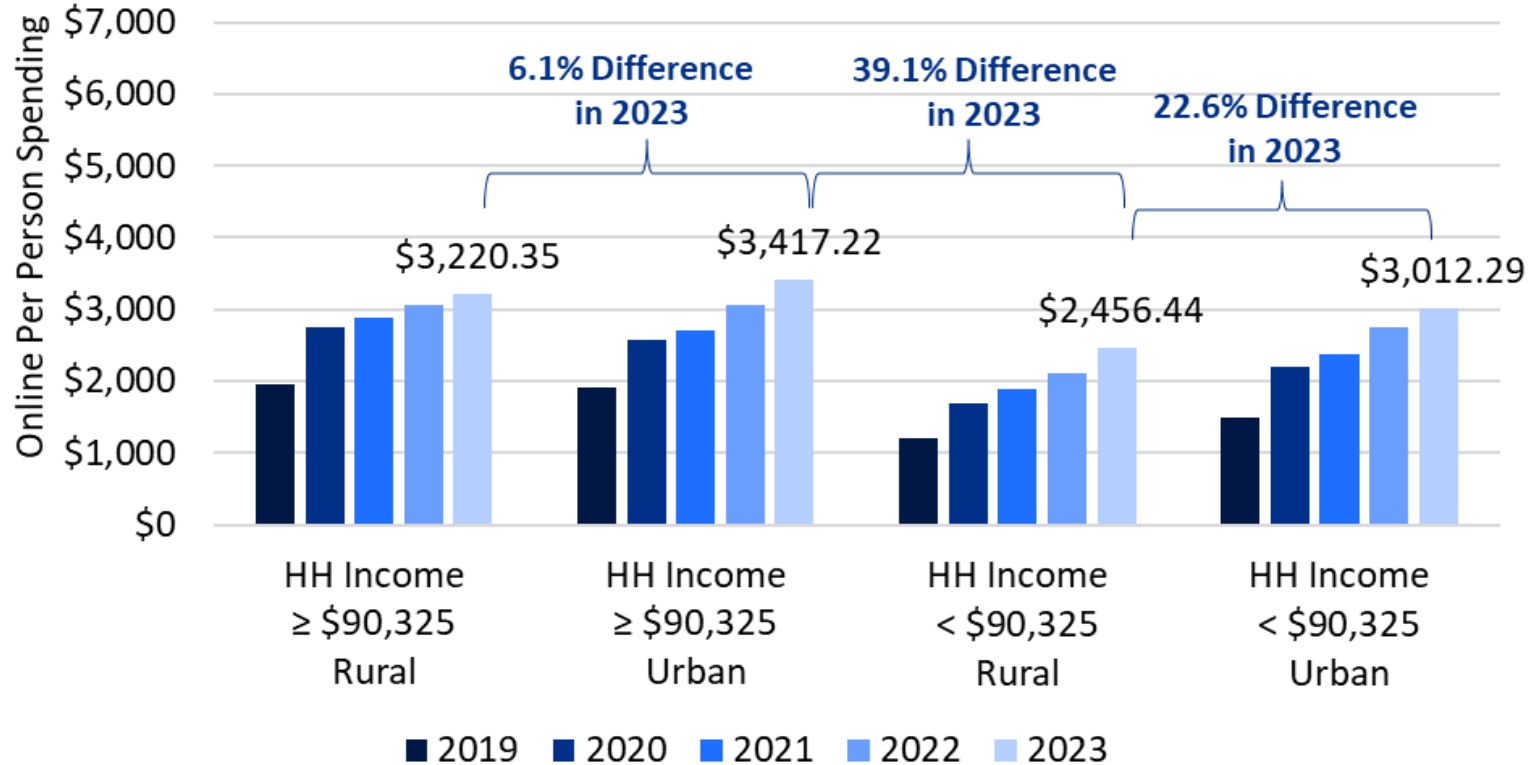
# Consumer Impacts



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.

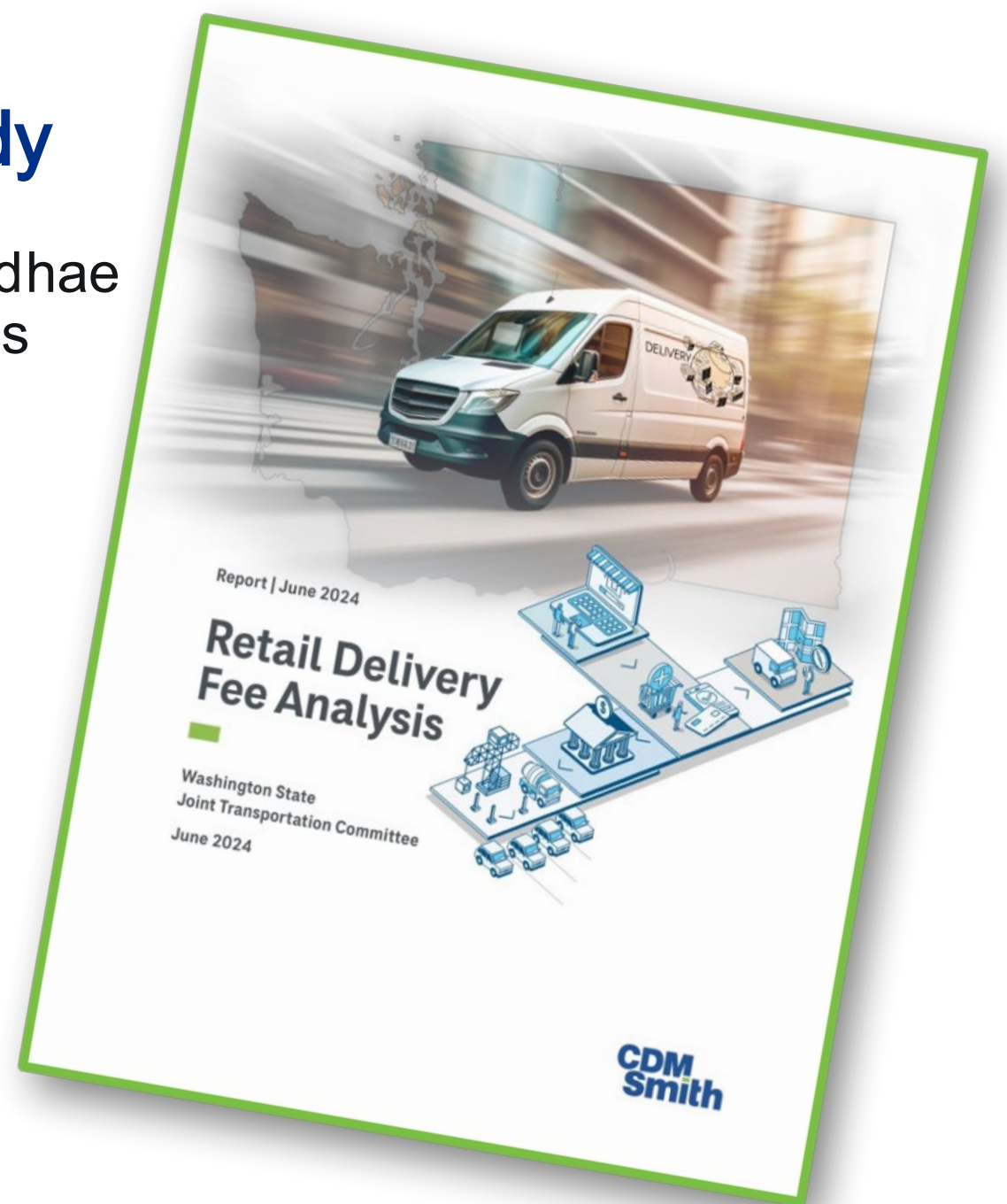
Potential solutions to address these concerns include:

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

# Summary: Washington RDF Study

A retail delivery would generate moderate revenue, require low administrative costs and have a slightly greater impact on urban households

- A 30-cent rate would generate **\$122 and \$145 million** by 2030
- Individuals in **urban areas** and those **with higher incomes** would **bear more of the burden** of a fee
- **\$250,000** startup and **\$125,000** ongoing **administrative costs**
- Impacts to businesses can be **mitigated** by creating a **small business threshold exemption**





# Questions & Discussion