



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

Date Amended	04/02/02	Bill No:	SB 1696
Tax:	Environmental Fee	Author:	Knight
Board Position:		Related Bills:	

BILL SUMMARY

This bill would increase, from 500 to 1,000, the number of hours a person must be employed in this state to be considered an "employee employed by a corporation" for purposes of computing the environmental fee.

ANALYSIS

Current Law

Under existing law, Section 25205.6 of the Health and Safety Code provides that corporations in industry groups that use, generate, store, or conduct activities in this state related to hazardous materials pay an annual fee to the Board of Equalization (Board). This environmental fee is based on the number of employees employed by a corporation in the state during the previous calendar year. The number of employees employed by a corporation is the number of persons employed in this state for more than 500 hours during the calendar year preceding the calendar year in which the fee is due.

The environmental fee is adjusted annually to reflect increases or decreases in the cost of living during the prior fiscal year, as measured by the California Consumer Price Index (CCPI). The fee rates for the 2002 calendar year are as follows:

Number of Employees	Annual Fee Rate
1 – 49	\$0
50 – 74	\$228
75 – 99	\$401
100 – 249	\$801
250 – 499	\$1,717
500 – 999	\$3,205
1,000 or more	\$10,877

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The annual fee is paid to the Board and deposited into the state's Toxic Substances Control Account.

Proposed Law

This bill would amend Section 25205.6 to provide that the number of employees employed by a corporation is the number of persons employed in this state for more than 1,000 hours during the calendar year preceding the calendar year in which the fee is due.

Background

In 1989, Senate Bill 475 (Ch. 269, Stats. 1989) added and Assembly Bill 41 (Ch. 1032, Stats. 1989) amended Section 25205.6 of the Health and Safety Code to require certain corporations involved in activities related to hazardous materials to pay an annual fee based on the number of employees employed in this state.

Senate Bill 1469 (Ch. 852, Stats. 1992) amended 25205.6 to revise the categories for reporting the number of employees within corporations which use, generate, store, or conduct activities in this state related to hazardous materials for computing the environmental fee.

Senate Bill 660 (Ch. 870, Stats. 1997), the Environmental Cleanup and Reform Act of 1997, implemented legislative findings and declarations concerning the state's hazardous waste management program and existing fee and funding mechanisms. That bill amended Section 20205.6 to flatten the environmental fee rate structure to make the fee more equitable by equalizing the average rate per employee paid by corporations in each range. Additionally, that bill established a new rate category for corporations with 1,000 or more employees, decreased the Generator Fee, repealed the Generator Surcharge and various hazardous waste fees and changed several fees-for-services. For the most part, the revenue losses from the repealed fees, the changed fees-for-services and the decreased Generator Fee were estimated to offset the resulting increase in the Environmental Fee.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by Senator Knight and is intended to create a more logical threshold by which full time employees are defined.
2. **The beginning reporting period that the proposed change of hours would be used to compute the environmental fee should be clarified.** Under existing law, the determination of whether a person is an employee is based on the number of hours worked during the calendar year preceding the calendar year in which the fee is due. For example, the fee due for calendar year 2002, which is due and payable to the Board by February 28, 2003, is based on the number of employees employed by the corporation during calendar year 2002.

Since this bill would become effective on January 1, 2003, any fee due and payable after that date, which would include the 2002 reporting period due and payable in

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February 2003, would be based on the 1,000 hours employed. However, this could be confusing because the bill would become effective on January 1, 2003, but its provisions would be used to compute the fee for the 2002 reporting period. It is therefore recommended that the bill be amended to clearly identify the beginning reporting period that the proposed change of hours would be used to compute the environmental fee. Board staff is willing to work with the author's office in drafting appropriate amendments.

3. **Provisions would not be problematic to administer.** Enactment of this measure would not materially affect the Board's administration of the Hazardous Substances Tax Law.

COST ESTIMATE

The administrative costs associated with this bill would include advising and answering inquiries from feepayers, training Board staff, and revising returns and publications. A cost estimate is pending.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

The Board's Environmental Fees Division pursued an analysis in relation to the proposed revised definition of "the number of employees employed by a corporation". The analysis was based on two sets of 1998 data on the wages of employees associated with corporations (employees who worked in two quarters & earned in excess of \$5000, employees who worked in 3 quarters & earned \$10,000). In using this data for revenue projection, staff made an assumption that on average, someone that works in at least two quarters and earns greater than \$5000 works greater than 500 hours. Similarly, someone who works in at least 3 quarters and earns over \$10,000 would work in excess of 1,000 hours.

Using a comparison between the two sets of data, staff first calculated the drop in the number of corporations in each fee category and then applied that to fee rates for relative revenue projections. Revenue based on '5000 list' was estimated to be \$34.6 million and the '\$10,000 list' generated an estimated revenue of \$24.4 million. Using the revenue difference of \$10.2 million ($\$34.6 - \$24.4 = \10.2), a percentage of .295 was produced ($\$10.2 \text{ million} / \$34.6 \text{ million} = 0.295$) that was applied to determine a revenue impact for coming fiscal years.

Based on the current revenue projection of \$33.3 million for fiscal year 2002/2003, staff estimated a revenue loss of \$9.8 million for 2002/2003 ($\$33.3 * .295 = \9.8 million). For 2003/2004, revenue loss estimated was \$10.1 million ($\$34.3 \text{ million (revenue projected)} * .295 = \10.1 million).

Revenue Summary

Projected revenue loss for fiscal year 2002/2003 is \$9.8 million.

Projected revenue loss for fiscal year 2003/2004 is \$10.1 million

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Qualifying Remarks

As stated earlier in the analysis, staff had made an assumption relating the average time worked by an individual and the income earned (<\$5,000, <\$10,000) to the respective hours worked in a year (<500 hours, <1000 hours). Staffs comment that although these presumptions have not been tested, this is the only information currently available and a doubling of income would seem to reasonably represent the doubling of hours as proposed in the bill.

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