



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

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| Date Amended: | 02/24/00 | Bill No: | SB 876 |
| Tax: | Tire Recycling Fee | Author: | Escutia |
| Board Position: | Neutral | Related Bills: | |

BILL SUMMARY:

Among its provisions, this bill would increase the current tire recycling fee from \$0.25 per tire to \$2.00 per tire, decrease a retail seller's reimbursement for any costs associated with the collection of the fee from 10 percent to 2.5 percent, and delete the January 1, 2001 sunset date.

ANALYSIS:

Current Law:

Under existing law, Section 42885 of the Public Resources Code imposes a fee of \$0.25 on the purchase of each tire from a retail seller of new tires. After deducting 10% of the total fees as reimbursement for costs associated with the collection of the fee, a retailer must remit the fees to the Board of Equalization (BOE) each quarter for deposit in the California Tire Recycling Management Fund.

The fee is scheduled to sunset on January 1, 2001.

Proposed Law:

Among other things, this bill would amend Section 42885 to require every person who purchases a new tire from a retail seller of new tires to pay a fee of \$2 per tire to the retail seller. The retail seller would be required to collect the fee at the time of sale and remit the fee, less 2.5% retained as reimbursement of collection costs, to the state on a quarterly schedule for deposit in the California Tire Recycling Management Fund.

This bill would also delete the January 1, 2001 sunset date to impose the fee indefinitely.

In General:

The California Integrated Waste Management Board (CIWMB) is charged with overseeing recycling and disposal issues for numerous programs, including the statewide tire recycling program. Since the first imposition of the tire recycling fee in 1991, CIWMB has used the tire recycling fee funds to finance permitting, enforcement, and clean up activities, as well as market development programs and administrative costs. Though current law provides the CIWMB with the authority to contract with any state agency to collect the fee, the BOE has collected the fee under a contract with them since the inception of the program.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Background:

Assembly Bill 117 (Escutia, Ch. 1020, Stats. 1998) extended the tire recycling fee sunset date from June 30, 1999 to January 1, 2001. In addition, this bill required the CIWMB to submit a status report to the Governor and the Legislature with respect to waste tires generated in California and the reduction of existing waste tire stockpiles. The CIWMB convened a working group of affected parties in the development of their report and recommended proposed legislation. Among the issues outlined in the CIWMB California Waste Tire Program Evaluation and Recommendations report, as adopted in their June 22, 1999 board meeting, was that California generates more waste tires than other states, yet its program ranks at the bottom in funding. One impact of the minimal funding has been the relatively slow pace in cleaning up illegal tire piles, resulting in greater public exposure to the dangers associated with large tire fires.

In 1996, Assembly Bill 2108 (Mazzoni, Ch. 304) amended Section 42885 to impose the \$0.25 per tire recycling fee on each purchase of a new tire. Prior to January 1, 1997, the operative date of AB 2108, the fee was imposed on each tire left for disposal with a tire seller. Assembly Member Mazzoni sponsored AB 2108 in order to improve the efficiency of the collection of the fee. The previous method of imposing the fee on the disposal of tires was viewed by the author as a disincentive for consumers to leave tires with a tire retailer for purposes of disposal. The Board supported AB 2108.

COMMENTS:

1. Sponsor and purpose. This bill is sponsored by Senator Escutia with the intent to implement changes to address the issues outlined in the CIWMB's California Waste Tire Program Evaluation and Recommendations report, as adopted at their June 22, 1999 board hearing. The additional funds generated by increasing the fee would be used to eliminate major tire stockpiles, set up a local enforcement element, and provide a viable market development/business retention program for reclaiming or recycling scrap tires.
2. Amendments contained in this version of the bill. The previous version of this bill shifted the imposition of the tire recycling fee from the retail to the wholesale level and increased the current tire recycling fee from \$0.25 per tire to \$2.00 per tire. This amendment moves the imposition of the fee back to the retail level, which is consistent with current law. The increase in the current tire recycling fee from \$0.25 per tire to \$2.00 per tire remains in this version of the bill.
3. Suggested technical amendments to accomplish intent. The language in this bill is intended to impose, under Section 42885, a civil penalty for any person or business who intentionally or negligently violates Section 42885, or makes any false

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statement or representation in any receipt, advertisement, or other document to comply with Section 42885. In addition to the civil penalty, an administrative penalty may be imposed by the IWMB on any person who intentionally or negligently violates any permit, rule, regulation, standard, or requirement issued or adopted pursuant to Chapter 17 of the Public Resources Code.

Pursuant to Section 42882, the IWMB has contacted with the BOE to collect the fee imposed in Section 42885. Since the civil and administrative penalties are also contained within Section 42885, the language in its current form may be confusing as to what state agency (the IWMB or the BOE) would *impose* the civil penalty and what state agency would *collect* the civil and administrative penalties.

Board staff contacted both the author's office and the IWMB (who provided the current bill language) to verify the intent of what state agency would administer the penalties. Based on Board staff's discussion with IWMB staff, the civil and administrative penalties are to be imposed and collected by the IWMB. Accordingly, in order to avoid confusion, the IWMB should be identified as the administering agency.

4. This measure does not require fleet vehicle operators purchasing tires at the wholesale level to report their purchases to the Board. Under current law, the tire recycling fee is imposed at the retail level. Accordingly, fleet vehicle operators, who purchase their tires at the wholesale level in bulk for their fleet, are not required to report their purchases to the Board. The previous version of this bill would have included those fleet purchasers in the definition of "tire wholesaler" and would have required them to report and pay the fee on each tire used in the state.

COST ESTIMATE:

The administrative costs associated with this bill would be absorbable. These costs would include informing, advising, and answering inquires from the public, and training Board staff.

REVENUE ESTIMATE:

Background, Methodology, and Assumptions

Under current law, purchasers of new tires from retail sellers are required to pay a tire recycling fee of \$0.25 per tire, effective until January 1, 2001. Retailers are allowed to retain 10 percent of the fees they collect to cover costs for collecting the fee.

This bill is a non-urgency statute that would become effective on January 1, 2001. This estimate assumes retailers will remit half of a full-year estimated increase during fiscal year 2000-01.

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(1.) Tire Recycling Fee Impacts

According to the Board of Equalization 1997-98 *Annual Report*, we collected \$4.85 million on an estimated 21.6 million tires from the tire recycling fees in fiscal year 1997-98. The net fee comes to \$0.225 per tire (\$0.25 minus 10% retailers may retain, or $0.25 - 0.025 = 0.225$). Based on this net fee per tire, fees were collected on sales of approximately 21.6 million tires ($4.85 / 0.225 = 21.56$).¹

More recent data indicates a slight drop in new tire sales reported in fiscal year 1998-99 compared to the previous year's estimated sales. New tire dealers reported sales of 20.5 million tires. Until this year, tire revenues (and therefore tires reported) had increased an average of about 8 percent per year over five years. Sales through December 1999 indicate little change from fiscal year 1998-99 sales.

At first glance, the recent drop in tire sales from previously brisk growth rates seems at odds with an expanding economy and car-driving population. Sales of most goods tend to increase with gains in income and population. However, tires may be an exception to this general rule. It is likely that in extraordinarily good economic conditions, such as we have been experiencing, more people trade in their old cars at dealerships before their tires need to be replaced. The 2000-01 Governor's Budget (Figure Rev-17) shows new vehicle registrations in 1998-99 increased more than 10 percent over the previous year. The budget projects an additional 5 percent gain in fiscal year 2000-01.

Based on recent tire sales and projected new vehicle registrations, we assume that new tire sales have peaked. The number of tires sold each year will be about the same as fiscal year 1998-99 sales as long as economic conditions remain favorable.

The proposed gross fee increase comes to a net fee of \$1.95 per tire after subtracting 2.5 percent retailers are allowed to retain ($2.00 - 0.05 = 1.95$). This figure applied to sales of 20.5 million tires results in tire recycling fees of about \$39.98 million ($1.95 \times 20.5 = 39.98$). The net fee under current law yields \$4.61 million on 20.5 million tires. The difference in revenues from current law is an increase of about \$35.37 million ($39.98 - 4.61 = 35.37$) annually. Revenues are expected to increase \$17.69 million, half the annual increase, in fiscal year 2000-01.

(2.) Sales Tax Impacts

Previous versions of this bill changed the imposition of the fee from the retailer to the wholesaler level. This amendment continues to make retailers responsible for collecting the fee imposed on purchasers of new tires. Had the fee been imposed on wholesalers, and assuming that wholesalers included the net fee in their selling prices, sales tax reimbursement would have increased. Under the current version of the bill, sales tax revenues will be unaffected.

¹ The \$4.85 million collected includes audit assessments, penalty, and interest collected.

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Revenue Summary

This proposal will increase tire recycling fee revenues by \$17.7 million in 2000-01 and \$35.4 million annually beginning in fiscal year 2001-02.

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