

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6794**

**BILL NUMBER:** HB 1170

**NOTE PREPARED:** Dec 30, 2005

**BILL AMENDED:**

**SUBJECT:** Minimally Nutritious Food and Beverage Tax.

**FIRST AUTHOR:** Rep. Brown C

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** *Food and Beverage Tax:* The bill imposes an 11.5% tax, in addition to other applicable taxes, on the retail sale of minimally nutritious foods or beverages.

*Physical Fitness Grant Program:* The bill establishes the Physical Fitness Grant Program and the Physical Fitness Grant Account, and deposits revenues from the tax in the account. The bill provides that the Department of Education shall award grants to public high schools, including charter high schools, for salaries and other costs related to physical activity and fitness education from money appropriated from the account. The bill provides that the surplus of the account reverts to the state General Fund to be used for Medicaid expenditures.

**Effective Date:** January 1, 2007.

**Explanation of State Expenditures:** *Food and Beverage Tax:* Current cost for the Department of State Revenue to administrate, audit, and collect local taxes is approximately \$0.51 per \$100 of revenue. The Department would be able to process the proposed food and beverage tax within the existing level of resources available to the Department.

*Physical Fitness Grant Program:* The Physical Fitness Grant Account would be set up within the state General Fund and administered by the Department of Education. The Department would distribute revenue within the account to public high schools for physical activity and fitness education of students. The Department should be able to fulfill the responsibilities assigned under the bill regarding the account within the existing level of

resources. The bill specifies that the expense of administering the account would be paid out of funds in the account.

**Explanation of State Revenues:** *Food and Beverage Tax:* It is estimated that an 11.5% tax rate on minimally nutritious foods could generate between \$177.2 M and \$203.1 M per year statewide. This revenue would be deposited in Physical Fitness Grant Account.

*Background Information:* The revenue ranges provided above were based on data provided from candy and soft drink manufacture industry sources and the United States Census Bureau.

This estimate assumes that Indiana has candy sales between \$379 M and \$447 M and soft drink sales ranging from \$1.16 B and \$1.32 B per year. Together, both candy and soft drinks are assumed to generate annual sales of \$1.54 B to \$1.77 B in Indiana. Applying the tax rate to the combined candy/soft drink sales range, it is estimated that annual revenue from the tax could be between \$177.2 M and \$203.1 M.

Candy sales estimates were based on the U.S. Census Bureau MA311 Current Industrial Report on total shipment values. The 2002 Economic Census for Confectionary Manufacturing was used to determine Indiana's share of confectionary shipment value (about \$379 M). The National Confectioners Association estimated candy sales at \$447 M (Indiana's share at 2%). Both sources were used to generate a range of candy sales.

With regard to soft drinks, the 2002 Economic Census Retail Trade Report had sales of soft drinks in retail food and beverage stores, such as groceries. However, that data series does not capture the sales of soft drinks in restaurants, bars, and limited service eating places.

Along with candy, the Economic Census manufacturing report provided data on Indiana's total value of soft drink shipments, which was \$1.16 B in 2002. When compared to an industry-provided number on soft drink sales of \$1.3 B (Indiana estimated at 2% of U.S. total), the Census Bureau data appears to be a close proxy on sales. Both numbers were used to generate an estimated range on soft drink sales.

*Physical Fitness Grant Program:* Money in the Physical Fitness Grant Account at the end of a state fiscal year would revert back to the state General Fund to pay for Medicaid expenses.

**Explanation of Local Expenditures:** *Physical Fitness Grant Program:* Public high schools would distribute revenue received from the Department for physical education teacher salaries and benefits, classes and activities on physical education that do not include interscholastic athletics, or miscellaneous expenses related to physical fitness. There are approximately 400 public high schools in Indiana. Based on the above estimates, the average high school grant could be between \$443,000 and \$507,000.

**Explanation of Local Revenues:** *Physical Fitness Grant Program:* Public high schools would be awarded grants from the Department of Education out of the Physical Fitness Grant Account. *See Explanation of Local Expenditures.*

**State Agencies Affected:** Department of State Revenue, Department of Education.

**Local Agencies Affected:** Public high schools.

**Information Sources:** Bob Walls, Department of State Revenue; DOE SAS databases; U.S. Census Bureau;

U.S. Bureau of Economic Analysis; National Confectioner's Association; American Beverage Association.

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