Policy Brief ● April 2017

A Sour Bill for Taxpayers

The Case Against Santa Fe's Sugar-Sweetened Beverage Tax Ordinance

Key Points

● Sweetened-beverage taxes are regressive, disproportionately impacting lower-income households.

● The Sugar-Sweetened Beverage Tax Ordinance would damage Santa Fe's economy, and consumer-avoidance strategies may add to disappointing revenue yields.

● While too many Santa Feans, like too many Americans, are overweight, sweetened beverages are merely one contributor to the obesity crisis.

● Funding for preschool in Santa Fe has risen substantially in recent years, and it is not clear that additional revenue is needed.

Introduction

Voters will soon decide the fate of the Sugar-Sweetened Beverage Tax Ordinance (SSBTO), which imposes "an excise tax of two cents ($0.02) per fluid ounce of sugar-sweetened beverage products that are distributed in the city."[1] The ordinance was overwhelmingly approved by councilors in March, and Santa Feans will have their say on May 2.

If enacted, the tax will apply to "all drinks and beverages commonly referred to as soda, pop, cola, soft drinks, sports drinks, energy drinks, sugar-sweetened ice teas, and other products with added caloric sweeteners including but not limited to juice with added caloric sweetener, flavored water, and non-alcoholic mix beverages that may or may not be mixed with alcohol or any other common names that are derivations thereof." Exceptions include medical beverages, infant/baby formula, alcoholic drinks, and fruit/vegetable juices without added sugar.[2]

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[1] City of Santa Fe, New Mexico Ordinance 20017-4, passed, approved, and adopted March 8, 2017.

[2] Ibid.

Revenue generated by the levy, after deducting administrative costs, will be used "to support an early childhood education program providing pre-kindergarten services for three (3) and four (4) year olds who reside in the Santa Fe Public Schools district, with priority given to Santa Fe residents based upon the availability of funds."[3]

SSBTO supporters claim that sugar poses "a serious health hazard"[4] and that "reducing the intake of sugary drinks benefits the broader health of the community."[5] They further assert that the resources devoted to boosting access to preschool have "been denied far too long."[6]

But there are many reasons to doubt the grandiose claims of the sweetened-beverage tax's supporters, as well as the "need" for the funding it is designed to raise. As the Tax Foundation's John Buhl has observed, measures like the SSBTO are "a misguided attempt at solving a multifaceted health problem and will introduce many unintended fiscal consequences."[7]

Targeting the Poor

A 2015 analysis by the Tax Policy Center explained the impact the SSBTO will have on Santa Fe's low income households:

Proposals to tax unhealthy foods and drinks raise important distributional considerations. Most prominent is how the new tax burden would be shared across society. Families with lower incomes typically spend a larger fraction of their household budgets on groceries than do higher income ones. Moreover, households with lower incomes and less education may be systematically large consumers of products like sugar-sweetened drinks … Targeted taxes will thus be regressive, imposing a larger burden, relative to income, on lower-income households than higher-income ones.[8]

A 2013 survey by Gallup found that 45 percent of respondents with annual incomes below $30,000 drank regular soda, while only 20 percent of those earning more than $75,000 did the same.[9] In January, *The New York Times* reported that U.S. Department of Agriculture research discovered that "the No. 1 purchases by [food-stamp] households are soft drinks, which accounted for 5 percent of the dollars they spent on food."[10] Homes that access the means-tested welfare program spend 35.7 percent more of their expenditures on soft drinks than

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[3] Ibid.
[4] Bob Dowling, "Sugar: A bitter aftertaste," *Santa Fe New Mexican*, February 19, 2017.
[5] Melanie Dubin, "Smoke and mirrors: Soda industry propaganda," *Santa Fe New Mexican*, March 26, 2017.
[6] Javier Gonzales, "Support for pre-K shows Santa Fe's values," *Santa Fe New Mexican*, March 5, 2017.
[7] John Buhl, "The Case Against Soda Taxes," Tax Foundation blog, March 15, 2017.
[8] Donald Marron, Maeve Gearing, and John Iselin, "Should We Tax Unhealthy Foods and Drinks?" Tax Policy Center, Urban Institute & Brookings Institution, December 2015.
[9] Elizabeth Mendes, "Regular Soda Popular With Young, Nonwhite, Low-Income," Gallup, August 15, 2013.
[10] Anahad O'Connor, "In the Shopping Cart of a Food Stamp Household: Lots of Soda," *The New York Times*, January 13, 2017.

homes that do not.[11] Economists have found that "poor people don't just spend more on [a soda] tax as a percentage of their income, they actually pay more in real dollars as well."[12]

It is also important to place the SSBTO within a larger context. The ordinance would add to poor Santa Feans' already-rising tax burden. Since 2000, the rate of the city's gross receipts tax has increased by 29.1 percent.[13] But the GRT's increasing bite is just one element of a municipal government that is constantly demanding more revenue from its citizens. As resident John E. Hayes noted, the city's recent fiscal crisis has raised "downtown parking fees to an absurd level," imposed "sharply [higher] fees at city recreation centers" and "a permanent franchise fee" for water infrastructure.[14]

Collateral Economic and Fiscal Damage

Just before the adoption of Philadelphia's tax on sugar-sweetened beverages, Teamsters Local 830, joined by "a broad coalition, including the beverage industry, small business owners, consumers, consumer advocates, the faith-based community and elected officials alike" warned that the impending levy "will result in the swift departures of the Pepsi and Coca-Cola operations in the city, the loss of many family-sustaining jobs, and a consumer revolt."[15]

The union's concerns were justified. The tax went into effect on January 1, 2017, and evidence of its economic impact is mounting. According to *The Philadelphia Inquirer*:

Two months into the city's sweetened-beverage tax, supermarkets and distributors are reporting a 30 percent to 50 percent drop in beverage sales and are planning for layoffs. One of the city's largest distributors says it will cut 20 percent of its workforce in March, and an owner of six ShopRite stores in Philadelphia says he expects to shed 300 workers this spring.[16]

In addition to layoffs' negative impact on sales- and income-tax revenue there is another reason to expect disappointing yields from the SSBTO. Mobile consumers of sugar-sweetened beverages are able to go elsewhere. As the Tax Foundation's Jared Walczak noted:

One reason for Philadelphia's crisis is the ease of cross-border shopping. While not every consumer will be price-sensitive enough to purchase soda outside the city, and convenience does count for something (witness the fact that 20-ounce bottles often cost more than their 2-liter counterparts, and that bottled soda sells at higher prices in convenience stores than in larger

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[11] "Foods Typically Purchased by Supplemental Nutrition Assistance Program (SNAP) Households," Nutrition Assistance Program Report, Food and Nutrition Service, Office of Policy Support, U.S. Department of Agriculture, November 2016.

[12] Scott Drenkard and Morgan Scarboro, "Soda Taxes Have No Pop," *U.S. News & World Report*, October 18, 2016.

[13] GRT rate schedules, New Mexico Taxation and Revenue Department.

[14] John E. Haynes, "Troubling truths surround sugary-drinks tax," *Santa Fe New Mexican*, March 19, 2017.

[15] "Teamsters Fight Back Against Philadelphia's Proposed Soda Tax," Teamsters Local 830, February 29, 2016.

[16] Julia Terruso, "Soda companies, supermarkets report 30-50 pct. sales drop from soda tax," *The Philadelphia Inquirer*, February 21, 2017.

grocery stores), it's relatively easy for motivated purchasers to stock up on cases of soda elsewhere. That's certainly the case when a tax is only imposed in one city.[17]

Santa Fe shoppers accustomed to buying "Coca-Cola on sale at four 12-packs for $12," would face a new, SSBTO-induced bill of $23.50.[18] There is no question that a considerable number will shift to buying untaxed drinks at retailers outside city limits.

Even the consultant commissioned by the City of Santa Fe to analyze the SSBTO admits that revenue from the tax is likely to be stagnant. It noted that costs for the preschool program the levy is designed to fund "are likely to increase while revenue remains fixed."[19]

Soda to Blame?

If SSBTO supporters believe the tax will significantly improve Santa Feans' health, they should prepare to be disappointed. As the American Council on Science and Health's Dr. Elizabeth M. Whelan explained: "Sugar-sweetened sodas don't make you fatter than eating too much meat, bread, potatoes, or anything else. The old adage 'for every complex problem there is a simple solution -- and it never works' comes to mind here. It is always easier to zero in on one alleged villain and assume the problem is solved."[20]

A 2016 paper by the Competitive Enterprise Institute noted that "researchers estimate that calories from sugary drinks comprise just 7 percent of total calorie intake" in the U.S.[21] Agricultural economist Jayson Lusk highlighted the illogic of targeting sugar alone:

Total caloric intake from sugar consumption peaked at 423 kcal/person/day in 1999 and is now 15 percent lower at 358 kcal/person/day. Moreover, whereas high fructose corn syrup contributed about 42 percent of caloric intake from sugar in 1999, today the figure is only about 33 percent. In short, Americans today are consuming less sugar in total and less as a percentage from high fructose corn syrup (the primary beverage sweetener) than they did 20 years ago.[22]

In 2015, one of the authors of a Cornell-University of Iowa study concluded that a "sugar-sweetened beverage tax is a very narrow approach to internalizing the external costs of obesity, because there are many other food and drink items that are also energy dense and lack nutritional value."[23] Yet Santa Fe is not planning to tax alcoholic beverages, salad dressing,

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[17] Jared Walczak , "Evaluating Soda Tax Proposals in West Virginia," Tax Foundation blog, March 25, 2017.
[18] Kathy Hart. "Soda tax -- consumers will pay," *Santa Fe New Mexican*, February 26, 2017.
[19] "Taxation of Sweetened Beverages in Santa Fe," O'Donnell Economics & Strategy, undated.
[20] Elizabeth M. Whelan, "NY Soda Tax: All Politics, No Science," American Council on Science and Health, January 29, 2009.
[21] Michelle Minton, "Soda Taxes: a Failed Experiment that Needs to End," Competitive Enterprise Institute, June 14, 2016.
[22] Jayson Lusk, "Should the Government Tax Soda?" Oklahoma Council of Public Affairs, March 1, 2017.
[23] Ted Boscia, "Study: Berkeley soda tax falls flat," *Cornell Chronicle*, August 17, 2015.

candy bars, potato chips, pizza, popsicles, and Chinese takeout. (A 12-ounce bottle of Budweiser, for example, has 145 calories -- five more than a 12-ounce can of Coca-Cola.)

Neither is the city proposing any tools to monitor, or enforce, citizens' exercise habits (thankfully). Yet an active lifestyle is a major contributor to health. In 1999, researchers Steven Blair and Suzanne Brodney concluded that "active obese individuals actually have lower morbidity and mortality than normal weight individuals who are sedentary."[24] In 2015, a European study concluded that "a sedentary lifestyle may actually confer *twice* the risk of death as being obese."[25]

'Underfunding' Preschool?

Even assuming that the SSBTO will be revenue-positive -- an assumption, as noted above, that is in serious doubt -- it is not clear that the additional funding is needed. Contrary to the claims of Santa Fe's preschool advocates, early childhood education is not being shortchanged in the city.

	2014	2017	Difference	% Difference
United Way SFC				
Enrollment	96	68	-28	-29.2%
Available State Funds	$287,208	$461,445	$174,237	60.7%
Santa Fe CC				
Enrollment	20	52	32	160.0%
Available State Funds	$60,000	$207,124	$147,124	245.2%
SF Public Schools				
Enrollment	162	151	-11	-6.8%
Available State Funds	$544,227	$1,821,134	$1,276,907	234.6%
TOTAL				
Enrollment	278	271	-7	-2.5%
Available State Funds	$891,435	$2,489,703	$1,598,268	179.3%

Source: No Way Santa Fe analysis of budget and enrollment data from Santa Fe preschool entities

Between 2014 and 2017, annual state funding made available to three of the city's preschool entities -- United Way of Santa Fe County's program at Aspen Community Magnet School, Kids Campus at Santa Fe Community College, and Santa Fe Public Schools Free Pre-K -- has increased by 179 percent. These three programs have been awarded more than $7.5 million in state funds since 2014, yet enrollment has actually *declined*.

Experts remain divided over the value of preschool.[26] But whatever the costs and benefits of early childhood education, Santa Feans should ask why their city is attempting to adopt a tax to generate funding that appears to be superfluous. Is the SSBTO designed to help children by

[24] Blair, S.N. and Brodney, S., "Effects of physical inactivity and obesity on morbidity and mortality: current evidence and research issues," *Medicine and Science in Sports and Exercise*, November 1999.
[25] Alice G. Walton, "Inactivity Linked To More Deaths Than Obesity," *Forbes*, January 15, 2015.
[26] See Katharine B. Stevens and Elizabeth English, "Does Pre-K Work? The Research on Ten Early Childhood Programs -- And What It Tells Us," American Enterprise Institute for Public Policy Research, April 2016.

taxing unhealthful products, or build a bureaucracy that will primarily benefit teachers and administrators?

Conclusion

The Sugar-Sweetened Beverage Tax Ordinance is unwise and unwarranted. It promises outcomes it cannot deliver and revenue that is not needed. The tax is sure to have both unintended consequences and a disappointing return on public investment.