



LANE COUNTY

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W.9.a.

Memorandum Date: 10/11/06

Order Date: 10/25/06

PRESENTED TO: Board of County Commissioners

DEPARTMENT: Management Services – Animal Regulation Authority

PRESENTED BY: David Suchart, Management Services Director

AGENDA TITLE: WORK SESSION ON ANIMAL CONTROL CODE ISSUES

AGENDA ITEM SUMMARY

The purpose of this work session is to elicit a topical discussion of recommendations made by the Animal Regulation Advisory Task Force regarding a large number of changes to the current animal control codes. Some of these matters are long overdue, while some require extensive staff resources to analyze and develop. Before proceeding we are asking for Board of County Commissioners input and direction. These issues include:

1. Pet Food Tax
2. Cat Protection Ordinance
3. Regulate and License Other Animals
4. Minimum Requirements for Pet Shops, Breeders, Welfare Organizations, Based on Housing Standards
5. Unsafe Transportation Regulations

There are additional topics that will require more administrative and legal research before presenting them to the BCC. These issues include:

1. State Law vs. Lane County Code
2. Level of Penalty
3. Justice of the Peace authority to require psychological evaluations
4. Officer Safety/Authority

1. ISSUE: PET FOOD TAX.

Establish a sales tax on wholesale or retail pet food sales, applied to all cat food and dog food sold in Lane County. The proceeds of the tax would be used to enhance funding to LCARA.

Analysis

1. Revenue generated from the tax would, after a period of time, benefit growing animal welfare expenditures, allowing further development of a progressive animal welfare program. Close relationship between tax and services.
2. The administrative time to implement and maintain the collection of the pet food tax would be a drain on already limited staff resources.
3. There is strong opposition to the pet food tax from manufactures and retailers. A study by ECONorthwest states that, "...several other states and counties have proposed a pet food surcharge or tax, but we believe no pet food taxes are currently levied." (Study attached)

Alternatives/Options

1. Prepare a Pet Food Tax to present to the Board. The Board could then choose whether to refer it to the voters.
2. Reject the request

Recommendation

It is recommended that the Pet Food Tax not be prepared at this time. With the Public Safety Income Tax Charter Amendment going to the voters and the strong opposition to similar taxes, the expectation is that this tax would not be a popular issue with voters.

2. ISSUE: CAT PROTECTION.

There are several topics involving the protection of cats that have different implications. They are: a) licensing/rabies vaccination; b) regulation of domestic cats; and, c) regulation of feral cats.

Analysis

The growing cat population and associated costs are clearly a substantial drain on those who comply with dog licensing requirements, and a drain on taxpayers dollars overall.

Sub-issue A - Licensing/Rabies Vaccination

Analysis

Revenue generated from a cat licensing program would help in the housing, placement and medical needs of found cats. The proposal is that current rabies shots would be required to obtain a license.

1. A cat license program would help support cat related services. The license could be in the form of a license tag or a microchip. Licensing cats will result in more cats being returned to their owners.
2. Cats are at a much higher risk than dogs to contract rabies, and to contract other animal-to-animal and animal-to-human diseases. Requiring cats to be vaccinated would reduce the number of diseased animals. Rabies vaccinations are not required by State law for cats.

Sub-issue B - Regulation of Domestic Cats

Analysis

This proposal would require that any cat allowed to run at large would be required to be sexually unproductive, in addition to being licensed.

1. A cat owner could be deemed negligent per se for the actions of a cat at large when the cat causes injury to or trespasses on the rights of another person or their property.
2. Impounding regulations would be the same as for dogs, with the exception that non-domesticated, feral (non-micro chipped) cat(s) could be euthanized immediately upon approval of the Animal Regulation Program Manager or his/her designee.
3. The owner(s) of the cat would be notified of the cat's impound, wherever possible. The owner would be responsible for paying the appropriate fine and other associated costs. After the expiration of 72 hours, or three business days, the animal may be placed for adoption or euthanized at the discretion of the Animal Regulation Agency.

Sub-issue C - Regulation of Feral Cats

Analysis

Should people who provide care, custody or control of feral cats be deemed the owner?

1. The "owner" would be responsible for the same level of duties as the owner of a domestic cat, including being subject to citations for such things as animal abuse or neglect.
2. Depending on the Board's decision on the issues above, it could also mean licensing, rabies vaccinations and altering responsibilities for the "deemed" owner.

Alternatives/Options

1. Prepare an ordinance for each sub-issue, or any one of them.
2. Reject the request.

Recommendation

Sub-issue A - Licensing/Rabies Vaccination. It is recommended that an ordinance be developed requiring cats to be licensed and have current rabies vaccinations. A licensing program would generate revenue for cat related services and aid with the regulation of cats.

Sub-issue B - Regulation of Domestic Cats. It is recommended that an ordinance be developed requiring cats which run at large be made sexually unproductive and provide that owners whose cats become a nuisance to neighbors be subject to citation. This would help reduce the number of unwanted cats and require owners to be responsible for the actions of their cats.

Sub-issue C - Regulation of Feral Cats. It is recommended that a person who provides care, custody or control to feral cats be deemed owner.

3. ISSUE: REGULATE AND/OR LICENSE OTHER ANIMALS.

In addition to a license, when required, every owned domestic animal within unincorporated Lane County shall have visible identification (e.g., collar with tag), including a home telephone number or address of residence, or a microchip containing said information. In addition, all (or most) regulations presently applied to dogs would be broadened to include all domestic animals.

Analysis

1. The limited revenue generated from sales of these licenses wouldn't cover the costs to administer the program.
2. This would be an enforcement nightmare.
3. There is no evidence of a specific problem; existing regulations and resources presently manage the problems adequately.

Alternatives/Options

1. Prepare an ordinance.
2. Reject the request.

Recommendation

It is recommended that the request to pass an ordinance requiring all domestic animals be licensed be rejected with one exception: A recommendation that LCARA be authorized to cite owners of livestock at large. Presently it is a misdemeanor, which is not being enforced by the Sheriff or prosecuted by the District Attorney due to a lack of resources.

4. ISSUE: MINIMUM REQUIREMENTS FOR PET SHOPS, BREEDERS, WELFARE ORGANIZATIONS, BASED ON HOUSING STANDARDS.

Establish minimum requirements for animal caregivers regarding the housing conditions for domestic animals. Any person, entity, operator, owner, caretaker, employee, breeder, or other person who provides or has a duty or responsibility of caring for, housing, rescuing, maintaining, breeding, selling, or in any other way providing for the care, health, safety, and well-being of any domestic animal(s) to provide minimum standards in housing and care for animal(s) in their care or control. The minimum standards would address issues of construction of the structure, bedding, sanitation, food and water, indoor facility temperature, ventilation, lighting, and enclosures.

Analysis

1. Minimal care standards are currently set by the State and are mirrored in Lane Code. The recommended provisions in the Task Force's proposed ordinance exceed those standards and would require regulation of housing standards that are not under the jurisdiction of LCARA.
2. Enforcement and resource issues are the responsibility of Land Management Division.

Alternatives/Options

1. Pass the ordinance.
2. Reject the request.

Recommendation

It is recommended that the request to pass an ordinance requiring minimum standards for shelter of animal(s) be rejected. Housing standards fall under the jurisdiction of Land Management.

5. ISSUE: UNSAFE TRANSPORTATION REGULATIONS.

Establish an offense of unsafe transportation of a domestic animal if the person operates a motor vehicle in which a domestic animal is transported in an open cargo space and not in a secure animal carrier so that the animal is prevented from falling out, jumping out, or being thrown out of the vehicle.

Analysis

While this ordinance would increase the safety of domestic animals, it would be unenforceable by LCARA because this falls into the area of traffic enforcement.

Alternatives/Options

1. Direct the preparation of an ordinance.
2. Reject the request.

Recommendation

It is recommended that the request to pass an ordinance for Unsafe Transportation of Domestic Animals be rejected.

ADDITIONAL TOPICS THAT REQUIRE MORE ADMINISTRATIVE AND LEGAL RESEARCH.

1. **State Law vs. Lane County Code** – Should Lane County adopt ORS animal regulation codes?
2. **Level of Penalty** – Maximize penalties set forth under ORS that would be allowable under a County violation. Example: ORS 167.347 allows for an animal shelter to petition the court requesting an order forfeiting the animal to the county prior to final disposition and requiring the defendant to pay a security deposit or bond in an amount determined by the court to be sufficient to repay all reasonable costs incurred.
3. **Justice of the Peace Authority** – To require psychological evaluations.
4. **Officer Safety/Authority** – Currently there is nothing in the Code with regards to assault to an animal welfare officer. LCARA lacks the authority to automatically seize animals and must use the resources of the Sheriff's office, District Attorney and Courts prior to removing any animal from its owner when LCARA has reasonable cause to believe the health and welfare of the animal is in jeopardy.
5. **Private Right of Action** – The Board discussed this issue on September 20, 2006; further Board direction on this issue is required.

ATTACHMENTS

ECONorthwest Survey

ECONORTHWEST

ECONorthwest prepared this report for Lane County and the Lane County Animal Regulation Task Force. ECONorthwest remains solely responsible for the report's contents. We prepared this report based on information derived from government agencies, trade and professional literature, and personal communications. Any statements nonfactual in nature constitute our current opinions, which may change as more information becomes available. As time passes, the results of this report should not be used without accounting for more recent data and relevant assumptions.

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An Initial Study of the Design and Feasibility of a Surcharge on Pet Food

Lane County hired ECONorthwest to conduct an initial study of the design and feasibility of a potential county-wide surcharge on the prices of cat and dog food sold at either the wholesale or retail level. This report is intended to be an introductory *overview* of the economic issues related to the potential surcharge rather than a thorough analysis of the important issues involved in designing and implementing such a surcharge.

We understand that a surcharge on pet food was suggested by members of the Lane County Animal Regulation Task Force as a potential funding source for a “euthanasia-reduction” program. In this report we present the results of our research to assist county staff, the task force, the Board of Commissioners, and citizens of Lane County in evaluating this potential source of funding and possibly conducting additional study.

We reviewed trade literature, studies, news articles, and legislation. We spoke with individuals in the local and statewide, retail and wholesale grocery, pet-food, and pet-supply industry. We also spoke with staff in Lane County, Multnomah County, the City of Eugene, the City of Ashland, and with members of the task force. This report describes the findings of this research.

This report is divided into the following sections:

- An Overview of Relevant Data on Pets, Pet Food, and the Pet Food Industry
- Possible Structure of a Surcharge on Pet Food Purchases in Lane County
- Estimates of the Gross Revenues of a Pet Food Surcharge
- Background Information and Sources of Information

SECTION 1. AN OVERVIEW OF RELEVANT DATA ON PETS, PET FOOD, AND THE PET FOOD INDUSTRY

In this section we present data on pet ownership, pet food sales, and the pet food industry in the United States. To our knowledge, similar data at the county level do not exist. Nonetheless, the national data are useful (1) as general background information for policy decisions and (2) as a basis for understanding this report’s assumptions about

Lane County pet populations, pet food sales, and potential revenues from a surcharge on sales of cat food and dog food.

According to one study, Americans owned 58 million dogs and 72 million cats in 2000. Table 1 presents estimates of the number of pets in the United States and the percentage of U.S. households that own pets. Other than freshwater fish, dogs and cats were by far the most popular pets. Table 1 also indicates that roughly 38 percent of U.S. households owned at least one dog, and 34 percent owned at least one cat in 2000. Nearly 60 percent of all households owned a pet of any kind. These data are generally corroborated by the results of other studies.¹

Table 1. U.S. Pet Populations and Pet Ownership Rates, 2000

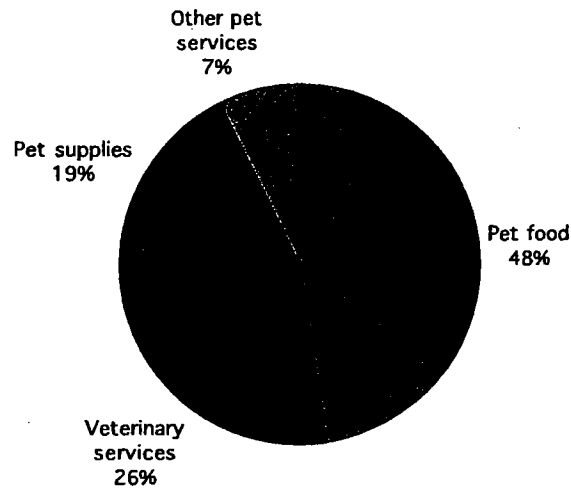
	U.S. Pet Population (Millions)	U.S. Households Owning Pets (%)
Dogs	58.4	38.4%
Cats	72.0	34.8%
Freshwater fish	90.5	11.5%
Birds	16.0	6.0%
Small mammals	13.0	5.1%
Reptiles and amphibians	7.6	3.3%
Marine fish	6.1	1.3%
Total	263.6	59.9%

Source: Dvoko, J. 2001. *The Pet Industry: Food, Accessories, Health Products and Services*. Business Communications Co., Inc.

An understanding of trends in the pet industry is useful for evaluating how a surcharge on sales of pet food might be structured. The pie chart in Figure 1 presents data on total sales of pet-related goods and services in 2000. Total U.S. sales in these categories amounted to over \$27 billion. At roughly \$12 billion, pet food accounted for the largest share of pet-related spending. The trade literature explains that the pet supply sector (pet beds, collars, leashes, food bowls, cat litter, toys, animal carriers, etc.) is the fastest growing sector of the pet industry. Sales of pet supplies, however, are likely more sensitive to swings in the economy than are sales of pet food, for example.

¹ The American Veterinary Medical Association also produces independent estimates of pet populations in the United States.

Figure 1. Spending on Pet-Related Goods and Services (2000)



Source: Dvoko, J. 2001. *The Pet Industry: Food, Accessories, Health Products and Services*. Business Communications Co., Inc.

Pet food and pet supplies are sold in a variety of retail outlets including grocery stores, pet stores, feed stores, discount stores, mass merchandisers, club stores, and veterinary clinics. Pet superstores, such as PetsMart and Petco, represent a relatively new and growing retail outlet for pet food and supplies.

The trade literature describes dramatic changes in the pet food industry over the last several decades involving an increase in the types of food and supplies available for pets. As the pet food industry has grown, consolidation has become a dominant force at the manufacturing, distributing, and retail levels. At the retail level, national chains dominate the supermarket and pet superstore categories.

The market for pet food can be divided by animal type, and then divided even further into these categories: dry food, canned food, moist or semi-moist food, and treats. Total U.S. retail sales of pet food, by animal type, are presented in Table 2. Dog and cat food comprise the largest segments of the pet food market.

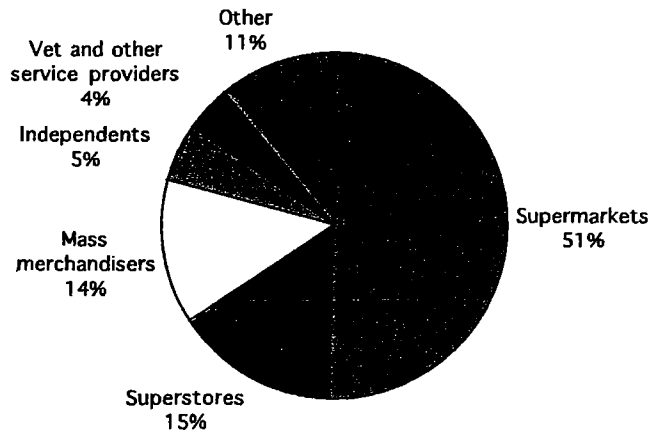
Table 2. Retail Sales of Pet Food (2000)

Type of Pet Food	Sales (rounded)
Dog food	\$6.384 billion
Cat food	\$5.15 billion
Bird food	\$675 million
Fish food	\$398 million
Small mammal food	\$135 million
Reptile food	\$93 million
Total	\$12.83 billion

Source: Dvoko, J. 2001. *The Pet Industry: Food, Accessories, Health Products and Services*. Business Communications Co., Inc.

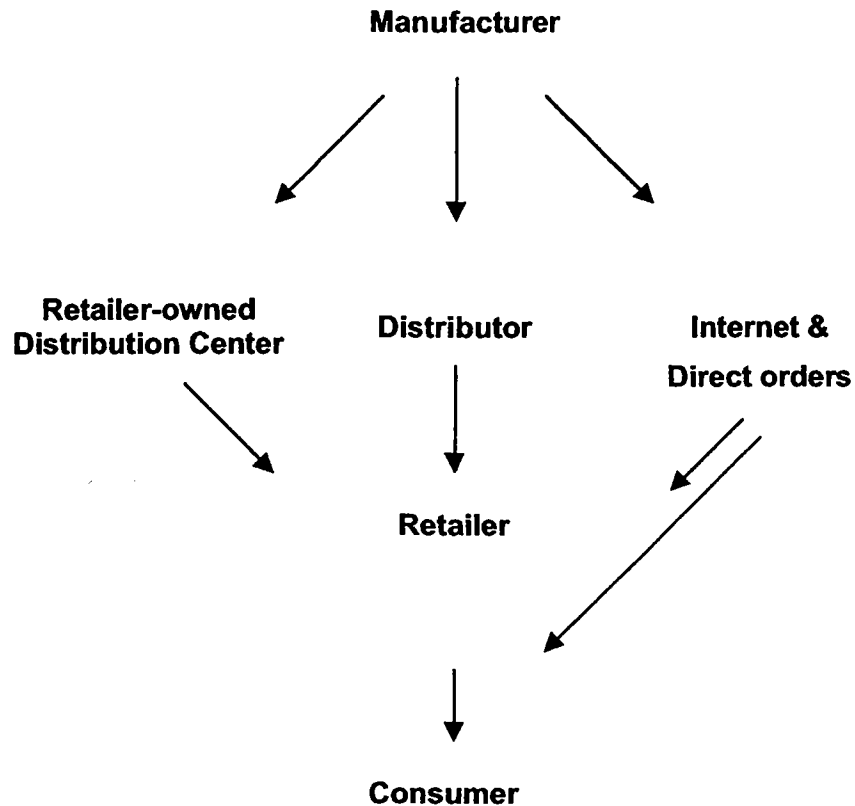
The pie chart in Figure 2 shows that supermarkets were the dominant retailers of pet food in 1999. The trade literature explains that, historically, supermarkets have been the major retailers of pet food but that superstores and mass merchandisers—Walmart, Target, etc.—are strong competition for the supermarkets. Independent stores and veterinary clinics maintain much smaller shares of the national pet food market.

Figure 2. Retail Sales of Dog and Cat Food by Retail Outlet (1999)



Source: Dvoko, J. 2001. *The Pet Industry: Food, Accessories, Health Products and Services*. Business Communications Co., Inc.

Figure 3. Major Distribution Pathways in the Pet Food Industry



Source: ECONorthwest

Figure 3 is a rough illustration of the major pathways that pet food travels from manufacturer to consumer. Some distribution occurs along a traditional pathway from manufacturer to independent distributor to retailer. Independent grocery and pet-supply stores frequently utilize such a distribution system. An individual store might be serviced by more than one distributor, but it might also make purchases directly from manufacturers.

The large, national, retail chains typically operate somewhat differently. Rather than utilize independent distributors, the major retailers often operate their own regional distribution centers that facilitate the distribution of pet food and other products among multiple retail outlets throughout a region. Management of the supply

of goods is frequently orchestrated at a regional or national level by a central purchasing department. In addition to purchasing through local retail establishments, consumers may also make purchases through catalogues and over the internet. Our conversations with representatives of several local retail establishments confirm that the distribution of pet food in Lane County occurs along these multiple pathways.

SECTION 2. DESIGN OF A FUNDING MECHANISM

Our research indicates that several other states and counties have proposed a pet food surcharge or tax, but we believe no pet food taxes are currently levied. Nevertheless, the various proposals might be useful in identifying difficulties and/or innovative ideas that might help shape a policy in Lane County. We have identified pet food surcharge proposals in at least these three locations: Multnomah County (proposed in 1999), the State of Maine (proposed in 2003), and the State of Kentucky (proposed in 2001).

Based on our understanding of the pet food industry and of local taxation systems, we outline and summarize many of the important components of a county surcharge on pet food in this section. Because

the proposed surcharge could be implemented in any number of ways, we provide brief descriptions of various options, along with advantages and disadvantages of those options. This discussion is summarized in Table 3.

Possible Components of a Pet Food Surcharge

Product Definition: Cat food and dog food, including or excluding treats

Collection: Wholesale or retail; possible handling fee

Rate: 1-5% wholesale or retail

Incidence: All purchasers of cat and dog food in the County

Possible Exemptions: Rebates, exemptions, or discounts for low-income residents, animal shelters, volunteers raising guide dogs, prescription-only food

Product Definition. Of primary importance is defining exactly *what is to be* subject to the surcharge. A clear definition will ease implementation, but an overly detailed definition might not keep up with changes in products. *Pet food* is a broad term. It seems useful to limit the surcharge to cat food and dog food for two reasons. First, cats and dogs are the most common pets, and they are owned by the most households. Excluding the smaller categories of pet food (bird food, fish food, etc.) may simplify the administration of the surcharge.² Second, Lane County's animal problems are dominated by cats and dogs, so there would be some connection between the surcharge and the programs funded by the surcharge.

² Definitions of "cat food" and "dog food" could be adopted using industry guidelines.

Collection. An important consideration in determining the proper collection mechanism is the relative ease or difficulty of collecting the surcharge. A surcharge at the *distributor/wholesale* level is attractive because there would be fewer firms for the County to monitor than at the retail level. Difficulty arises, however, because of the various distribution pathways and because most distributors are not based in Lane County. Nevertheless, other wholesale taxes have established provisions to cope with similar difficulties.

Like most states, Oregon levies wholesale taxes on cigarettes and beer, and these taxes have mechanisms for dealing with the complexities in wholesale distribution pathways. As we understand it, the state assesses a \$1.28 tax per pack of cigarettes sold in Oregon. All packs of cigarettes sold must have an Oregon tax stamp, which are purchased by distributors directly from the state. If retailers purchase unstamped cigarettes to resell, they must file reports and submit the appropriate taxes to the state. The tax is technically a tax on consumers that is “pre-paid” by distributors for convenience.

A pet food surcharge might be structured similarly. Lane County retailers could be required to sell only pet food for which a surcharge has been collected. The surcharge might be collected by distributors that register with the county and do regular business in the county. Retailers would be responsible for collecting the surcharge on any other pet food they purchase for resell from distributors that do not collect the surcharge.

Lane County retailers utilize a variety of distributors.

Large retailers such as Safeway and Albertson’s operate their own distribution centers that order directly from manufacturers.

Some retailers purchase certain pet foods directly from the manufacturer.

A number of other distributors supply stores in Lane County. These distributors include Unified Grocers, Associated Grocers, and a number of smaller, specialty distributors.

Alternatively, at the *retail* level a surcharge could be levied directly on consumer sales of cat and dog food. Because the number of individual retailers in the county exceeds the number of distributors, the difficulty of a retail surcharge would lie in monitoring and enforcing the surcharge across so many establishments. The advantage at the retail level is that it might be easier to identify all of the establishments where pet food is sold in the county.

The county currently assesses two retail taxes: a car-rental tax and a transient room tax, which are taxes commonly assessed across the country

at the local level. The car-rental tax is collected by approximately 10 establishments in the county. According to county staff, this tax is fairly easy to administer and requires little staff time.³ The transient

³ We understand that there are primarily two people involved in administering this tax for the county. One person is minimally involved in processing the receivables. The other person spends approximately 16 hours a year monitoring, reporting, and managing the program.

room tax is collected by over 200 establishments in the summer and by roughly 150 establishments in the off-season. Some cities assess a higher “room tax” than others. The City of Eugene administers this tax for the county, and the city is currently paid an administrative fee of \$16,500 a year. The establishments collecting this tax keep a handling fee of 5 percent of the revenues they collect.

The City of Ashland has a 5 percent food-and-beverage tax. City staff gave us a rough estimate that administration costs are roughly \$50,000 a year, and the revenues are \$800,000 to \$ 1,000,000 a year. More than 100 establishments in Ashland collect the tax, and staff routinely spend additional effort gaining compliance from several establishments. Retailers keep 5 percent of their collected revenues as a handling fee.

A surcharge at either the retail or wholesale level would require creating a new collection mechanism, as none currently exists. We have not estimated the collection costs that would be borne by the distributors or retailers, but it’s likely that useful data do exist on the costs of collecting general sales taxes in other states. The County might consider including a handling fee to cover the distributor/retailer costs of collecting and reporting. Incidentally, neither option described above would capture the unknown number of mail-order or internet sales.

Rate: Establishing the amount, or rate, of the surcharge would involve comparing the revenues and the costs with any potential negative effects or unintended consequences.

At which tax rate will policy goals be met efficiently and equitably? The ideal rate will depend upon a combination of these factors: the expected revenues, the collection and enforcement costs, the net revenues, the net revenues desired, the possible incentives to avoid the tax, and any handling fees.

Avoidance: What is the likelihood that individuals would shift their purchases to retailers outside of the county to avoid the tax? To the extent that occurred, the expected revenues would be lower. It seems unlikely that such a shift would occur for small purchases due to the additional travel costs and time, which would potentially outweigh any savings.

Incidence: The surcharge would be paid by those making purchases of dog food and cat food in Lane County. Which consumers would bear the highest burden? As with general sales taxes, lower-income individuals with pets would possibly pay a higher percentage of their income on the surcharge than individuals with higher incomes. Also, individuals with more cats and dogs would likely spend more on the surcharge than individuals with fewer cats and dogs. We present the

average surcharge per pet in Section 3. If there are social concerns about the distribution of the surcharge, these might be handled by exemptions for certain individuals, organizations, or products as described below.

Exemptions: Would exemptions for particular consumers or for particular products reduce any actual or perceived inequities in the tax without significantly reducing revenues or increasing the cost of administering the surcharge?

Exemptions based on social concerns could be made for certain consumers, such as low-income residents, animal shelters, nonprofit agencies, volunteers raising guide dogs, etc. In addition, exemptions could be made for prescription food sold for medical reasons and sold only by a veterinarian. The criteria for these exemptions would need to be explicit. Eligibility criteria for low-income exemptions could be based on existing programs. Hillsborough County, Florida has a “sterilization rebate” program that issues vouchers for low-income and indigent residents. The eligibility criteria include enrollment in one of any of a number of local or federal programs such as Medicaid, Food Stamps, WIC, and Section 8 housing, or income below an established percentage of the federal poverty line. These criteria are fairly broad because the sole intent of the program is to provide vouchers to low-income residents to encourage spaying and neutering of pets.⁴

In Lane County, a surcharge exemption could be made at the point of purchase or through a refund program administered by the county. We have not estimated the costs of operating such a program or the extent that such a program would reduce the gross revenues of the surcharge. Many cities and counties operate spay and neuter rebate programs and analyzing these programs would provide some insight into the costs of administering a rebate program in Lane County.

We summarize our analysis of the major elements of a pet food surcharge in Table 3. The first column, *surcharge design*, lists an important issue to consider in designing the surcharge. The second column identifies *potential difficulties* arising from this particular proposal. The third column specifies *options for addressing difficulties* identified in the second column.

⁴ [Http://www.hillsboroughcounty.org/animsvcs/rebate.html](http://www.hillsboroughcounty.org/animsvcs/rebate.html) accessed July 11, 2003.

Table 3. Structure and Important Considerations of a Pet Food Surcharge

Surcharge Design	Potential Difficulties and Issues to Address	Options for Addressing Difficulties
<u>Define the Product:</u> Which pet foods would be subject to the surcharge?	Limiting the proposal to only cat and dog food may ease the administration of the surcharge. "Treats" are sometimes included in the definitions of food.	Make explicit that foods <i>marketed</i> for cats and dogs (as opposed to, say, canned tuna) are included. Make explicit the inclusion or exclusion of "treats." Consider exemptions for foods available by prescription only.
<u>Design the Collection Mechanism:</u> Would the surcharge be applied at the retail or wholesale level? How often would funds be remitted to the county? What kind of oversight or enforcement would the county exercise?	Wholesale: Fewer establishments but usually located outside of the County. Retail: More establishments but easier to locate. Either: The county has no existing relationship with these firms and no existing structure for collecting the surcharge.	Require registration of distributors and retailers within the county. Quarterly remission of revenues is customary for other taxes. Consider including a handling fee for the distributor/retailer collecting the funds.
<u>Determine the Rate:</u> Would the surcharge be levied as a percentage of the price or as a rate per pound? At which rate would policy goals be met efficiently and equitably?	Pet food is typically pre-packaged in various sizes.	A flat percentage rate is likely easier to implement than a rate per pound.
<u>Minimize Avoidance:</u> What opportunities exist for individuals to avoid the surcharge by changing the nature or location of their purchases?	Because neighboring counties have not implemented a surcharge, county citizens could avoid paying the surcharge by making their purchases outside of the county.	If the rate is low enough, it is less likely that residents will travel outside the county, incurring additional costs, to purchase pet food. Require that residents remit fees on out-of-county purchases.
<u>Consider the Incidence of the Surcharge:</u> Who pays? Is the surcharge fair? How might any perceived inequities be addressed?	The surcharge would be paid by individuals making purchases of dog food and cat food in Lane County. As with sales taxes, this surcharge might be more difficult for lower-income residents.	To address issues of social equity, the county could consider exemptions for low-income individuals, non-profit agencies, animal shelters, etc.
<u>Consider Exemptions:</u> Would exemptions on particular products or for particular individuals reduce any potential or perceived inequities?	Any rebates or exemptions would require additional costs to administer.	An exemption could be handled as a limited rebate or discount.
<u>Examine Potential Unintended Consequences:</u> Would a surcharge on pet food purchases have any negative impacts?	Possibilities include decreased spending on pet food or other items, mostly by low-income residents.	Negative impacts would likely be limited to the lowest income levels. These problems could be addressed through exemptions.

Source: ECONorthwest

SECTION 3. ESTIMATED REVENUES OF A SURCHARGE ON DOG FOOD AND CAT FOOD IN LANE COUNTY

In this section, we briefly outline our approach for estimating the potential revenues from a surcharge on sales of cat food and dog food in Lane County, and we present our estimates. We emphasize that, because there are no readily available and comprehensive data on pet food sales in Lane County, these are estimates based largely on national data. We outline the methods and data sources below.

One of the difficult aspects of analyzing the feasibility of the surcharge is making estimates of how pet food sales would respond to the changes in prices. We have found no studies of the sensitivity of pet food purchases to price. Pet food is subject to general sales taxes in many other states, but we know of no studies comparing pet food purchases *with* versus *without* general sales taxes. We do not know if slightly higher pet food costs will cause consumers to purchase less pet food, spend less on other purchases to make up for the increased cost of pet food, or shift their purchases to retailers outside of the county. We do not have enough information to quantify and predict how people will, on average, make those tradeoffs.

Lacking data on actual pet food sales in Lane County, we use an indirect method to calculate the potential revenues from a surcharge on pet food at either the retail or wholesale level. First, we estimate the number of cats and dogs in Lane County based on national surveys and Census data for Lane County, which is the method suggested by the American Veterinary Medical Association for estimating pet populations. Second, we calculate the average annual expenditures on food for Lane County cats and dogs, based on other studies. Finally, we assume these expenditures occur in Lane County and that the surcharge will not affect these expenditures. To be clear, these estimates are rough. We describe the data sources and method in more detail in the Appendix.

Table 4 shows the assumptions we use to get a rough estimate of the possible revenues of a surcharge on dog and cat food in Lane County. These assumptions are based on national studies, Census data, and data reported in trade literature.

Table 4. Assumptions

Number of Dogs in Lane County	76,559
Number of Cats in Lane County	102,988
Annual Food Expenditure per Dog	\$99.50
Annual Food Expenditure per Cat	\$61
Average Retail Mark-up of Pet Food	25%

Source: ECONorthwest

Using these assumptions, we calculate the potential gross revenues of 1 percent, 3 percent, and 5 percent surcharges at the retail and at the wholesale level. These results are presented in Table 5.

Table 5. Potential Gross Revenues of a Wholesale or Retail Surcharge on Cat Food and Dog Food in Lane County

	1% Surcharge		3% Surcharge		5% Surcharge	
	Wholesale	Retail	Wholesale	Retail	Wholesale	Retail
Cat Food	\$50,258	\$62,822	\$150,774	\$188,468	\$251,290	\$314,113
Dog Food	\$60,940	\$76,176	\$182,822	\$228,528	\$304,704	\$380,881
Total	\$111,199	\$138,998	\$333,597	\$416,996	\$555,995	\$694,994

Source: ECONorthwest

Note: Columns may not sum due to rounding.

The data in Table 5 are initial estimates. The actual revenues might be lower or higher. In addition, the estimates do not take into account the following items: a possible reduction in revenues from shifts in consumer spending in response to the surcharge; a reduction in revenues for the exemptions and/or handling fees discussed in Section 2; the possibility that some county residents purchase pet food outside the county, over the internet, etc.; and a possible increase in revenue from sales of pet food to shoppers and travelers from outside of the county. Additional research could reduce some of these uncertainties.

Assuming the entire surcharge is passed on to the consumer, the data in Table 6 reflect the average annual cost of the surcharge per pet. These are averages. Households with more than one animal or households that spend more than the average amount on pet food would pay a higher annual surcharge. Households that do not own pets would pay nothing.

Table 6. Average Annual Surcharge Per Pet (in 2002 dollars)

	1% Surcharge		3% Surcharge		5% Surcharge	
	Wholesale	Retail	Wholesale	Retail	Wholesale	Retail
\$/cat/year	\$0.49	\$0.61	\$1.46	\$1.83	\$2.44	\$3.05
\$/dog/year	\$0.80	\$1.00	\$2.39	\$2.99	\$3.98	\$4.98

Source: ECONorthwest

Estimating Costs

The estimates presented in Table 5 are *gross revenues* not *net revenues*. The distinction is important. The costs of implementing and managing the surcharge are essential to consider in evaluating its feasibility. We do not provide an estimate of the costs or the net revenues in this report. Instead, in this section we outline the types of costs that are likely to be incurred by a surcharge on dog food and cat food, and we highlight information gleaned from our limited research into the costs associated with other taxes. We recommend the county undertake additional research on the costs of this proposal.

The types of costs associated with a pet food surcharge:

- **Implementation Costs.** These costs include the initial costs of communicating the requirements of the program to the public and to the firms involved in collecting the surcharge. Implementation would also involve costs associated with establishing the necessary procedures for collection, monitoring, enforcement, and reporting.
- **Ongoing administrative costs.** Administration of the surcharge would involve processing payments from firms, reporting, monitoring, and enforcing the requirements of the program.
- **Collection costs borne by distributors or retailers.** These include bookkeeping and reporting costs. Although these costs are not directly borne by the County, they are part of the full costs of the program.
- **Costs associated with administering a rebate program.** If the surcharge includes exemptions, then there would be costs associated with communicating the exemption criteria and possibly administering a rebate or discount program.

NEXT STEPS

The county asked that this report provide guidance for decisionmaking and for possible future work on the proposal. If it chooses to pursue the proposed surcharge, we recommend the county consider the following steps:

1. Investigate programs that could serve as a model for the proposed surcharge. As mentioned previously, several other jurisdictions have proposed a surcharge on pet food purchases. Though none have been enacted, analyzing these proposals might help the county evaluate the various options. In addition, more extensive investigation of other wholesale and retail taxes would be useful in anticipating and managing potential difficulties. Personal interviews would be quite valuable.

2. Estimate the costs of administering the surcharge. As described above, a more detailed study of the costs of administering other taxes and/or rebate programs in other areas would provide insight into the potential costs of this program.

3. Refine revenue projections. A more extensive review of the professional and trade literature would help reduce the uncertainty associated with the revenue projections.

Appendix. Additional Information

In this Appendix we provide more information about the assumptions we describe in the report and we provide a list of sources of additional information.

Table 7 shows the data used to estimate the number of cats and dogs in Lane County. As described in the report, this is an *indirect* method for estimating pet food sales in Lane County. The American Veterinary Medical Association provides estimates of pet populations for Oregon and the Pacific Northwest, and the AVMA surveys indicate that Oregon and the Pacific Northwest have higher rates of cat ownership than the U.S. as a whole and approximately the same rate of dog ownership as the U.S. We took this information into account in estimating the pet population in Lane County.

Table 7. Lane County Pet Population Estimates

Variable	Estimate	Data Source
Lane County Households	132,546	Estimate based on 2002 Census estimates
Dogs		
% Households with dogs	36.1%	Estimate based on various studies [range: 36.1-39%]
Avg # dogs in dog-owning households	1.6	AVMA [Range: 1.5-1.6]
Dogs in Lane County	76,559	ECONorthwest calculation
Cats		
% Households with cats	37%	Estimate based on various studies [Range: 31.6-45%]
Avg # cats in cat-owning households	2.1	Estimate based on various studies [Range: 2.1-2.2]
Cats in Lane County	102,988	ECONorthwest calculation

Source: ECONorthwest

Table 8 summarizes the range of estimates of pet food sales per pet derived from different studies. We used an average of the various estimates.

Table 8. Annual Expenditures for Pet Food per Pet

	Range of Reported Annual Expenditures	ECONorthwest Estimate
Cat Food (including treats)	\$53-\$74	—
Cat Food only	\$50-\$72	\$61
Dog Food (including treats)	\$113-\$133	—
Dog Food only	\$90-\$109	\$99.50

Source: ECONorthwest

ADDITIONAL SOURCES OF INFORMATION

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