FISCAL IMPACT OF PROPOSED LEGISLATION **Measure: HB 2041 - 2**

Seventy-Eighth Oregon Legislative Assembly – 2015 Regular Session
Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

Prepared by:	Theresa McHugh
Reviewed by:	Linda Ames, Michelle Deister, Steve Bender, John Borden
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Measure Description:
Establishes a tax on the retail sale of marijuana items.

Government Unit(s) Affected:
Oregon Liquor Control Commission (OLCC), Oregon Health Authority (OHA), Department of Revenue (DOR), Judicial Department

Summary of Expenditure Impact:
See Analysis below

Local Government Mandate:
This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

Analysis:
The bill establishes a tax, at the rate of 17 percent, on the retail sale of marijuana items beginning January 1, 2016. The tax is to be collected by marijuana retailers at the point of sale and allows for retailers to retain two percent of the taxes to cover their costs of collection. Retailers would be required to submit quarterly returns and tax payments to the Department of Revenue (DOR). The measure requires the Oregon Liquor Control Commission (OLCC) and DOR to enter into an agreement for administering and enforcing the provisions of the measure, and further outlines the requirements and processes associated with the new tax. Revenue collected will first be used to pay administrative and enforcement expenses associated with the marijuana tax collection program and the implementation of Ballot Measure 91, with the remainder being deposited into the Oregon Marijuana Account. Funds in the Oregon Marijuana Account will be distributed, according to the distribution formula, to the Common School Fund, the Mental Health Alcoholism and Drug Services Account, the State Police Account, and to cities to assist local law enforcement in performing its duties to enforce the provisions of the bill. It is unknown how much will be available for distribution and expenditure in 2015-17; however, expenditure limitation and position authority would likely be needed for affected state agencies to expend the funds in the accounts.

OLCC anticipated costs of $10.5 million in 2015-17 to implement Ballot Measure 91. That estimate would be reduced to $9.7 million if this bill becomes law. Specifically, the movement of the tax payments from OLCC to DOR negates the need for OLCC to remodel their facilities to improve the security which the agency believed would be necessary to enable the safe processing of cash payments. In addition, the agency believes they would need one less accountant position than had been anticipated. OLCC does note that the change in the tax return and payment schedule from monthly to quarterly will reduce, perhaps by up to 50 percent, the anticipated revenue to be collected in 2015-17. That reduction could mean that 2015-17 revenue will be insufficient to cover costs for the same time period.

DOR estimates costs of slightly over $1.7 million Other Funds in 2015-17 and just over $1 million in 2017-19 to implement the requirements of the measure. Of the 2015-17 total estimated cost, $1 million is one-time funds to add the necessary functionality to the core system replacement project that is underway. The remaining $700,000 would be used to pay for additional staff resources (5 positions, 2.96 FTE in 2015-17, 4 positions, 3.50 FTE in 2017-19) and services and supplies costs to implement and administer the program. These assumptions are based on a projected implementation date of January 2017. Even though the bill specifies that the tax is effective January 2016, it is assumed that retail sales will not begin until the fourth quarter of 2016, as that is anticipated to be when legal marijuana would likely first be available for sale. In addition, DOR believes that they would be unable to have the necessary system functionality available prior to that time. Because DOR anticipates a high compliance rate by marijuana retailers due to licensure requirements and other regulatory authorities of OLCC, the agency does not anticipate a need to increase enforcement resources.

DOR notes that due to the limited ability of marijuana businesses to obtain bank accounts due to federal banking requirements, a significant amount of tax payments under the measure will likely be in the form of cash which will necessitate changes to their cash handling procedures to ensure adequate security. Costs related to these changes are unknown at this time.