SB 1506 A STAFF MEASURE SUMMARY

Carrier: Sen. Findley

Senate Committee On Finance and Revenue

Action Date:	02/21/22
Action:	Do pass with amendments. (Printed A-Eng.)
Vote:	3-2-0-0
Yeas:	3 - Beyer, Boquist, Findley
Nays:	2 - Armitage, Sollman
Fiscal:	Has minimal fiscal impact
Revenue:	Has minimal revenue impact
Prepared By:	Mazen Malik, Senior Economist
Meeting Dates:	2/7, 2/21

WHAT THE MEASURE DOES:

Allows a city tax to be increased to ten percent only in the case of city in a county with less than 30,000 people which borders a state that prohibits the sale of marijuana. Applies to marijuana items sold on or after January 1, 2023. Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Impacts of M-110 on cities and local governments.
- Incentives to join the marijuana economy are being reduced.
- Impacts of M-110 on Counties and law enforcement agencies.
- Price increases and effects.
- Services for border cites and traffic impacts from neighboring states.
- Marijuana tourism outstrip city public services.
- Enabling legislation for cities with specific conditions.

EFFECT OF AMENDMENT:

Allows a city tax to be increased to 10% only in the case of city in a border county with 30,000 people which neighbors a state that prohibits the sale of marijuana. Still requires the adoption of an ordinance by the city governing body and vote of the city electors.

BACKGROUND:

Marijuana revenue (prior to Measure 110 of the 2020 general election) was fully distributed according to the following permanent formula established by Measure 91 (2014):

- 40% to the State School Fund.
- 15% to state police.
- 20 % to mental health treatment or for alcohol and drug abuse prevention, early intervention, and treatment.
- 5% to the health authority for purposes related to alcohol and drug abuse prevention, early intervention, and treatment services.
- 10 % to Counties and
- 10% to Cities.

Measure 110 established the Drug Treatment and Recovery Services Fund (DTRSF) as a new additional use for marijuana revenues. However, in another section of the measure, the amount specified to be distributed using the permanent formula was limited to $45 million per fiscal year, and the remainder of the marijuana revenue is sent to the DTRSF. That Cap on the formula distribution was not allowed any future increases or inflation adjustment. The reduction in revenue transfers to the cities and counties shares come to about $25 million each in the 2021-23 biennium. That $50 million reduction in revenue transfers to local governments will continue to grow in the ensuing biennia as the forecast for marijuana taxes is expected to keep increasing,

Through the work of the 2015 legislative session, HB 2041 changed the method of taxation from a $35 per ounce (Production/Severance tax) collected by the OLCC to a 17% Point of Sale Tax (POST) collected by DOR. The bill also allowed 3% optional tax for local governments that allowed recitational marijuana sales to commence in 2017. The 3% local taxes in the jurisdictions that impose it brings about $28.5 million a year in total.

This measure introduces an increase of the allowance of local government to tax local sales to the tune of 10% rather than the current maximum of 3%. Local governments have to act positively to impose the tax in their jurisdictions. Going to 10% will likely increase tax returns to each local govt, but reduce yield per each 1%, if not, then total collections can go up to about $60 million. This increase however, is not likely to substantially impact overall state demand, since consumers are able to changes the purchase location to elsewhere in the state.

The amended measure applies to very specific cities that exist in counties which border neighboring states with prohibition on marijuana sales.