

Cannabis Taxes and Fees: Estimates and Considerations

Senate Finance Committee

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Updates to Estimates

- Since the passage of S.54, JFO has worked with Legislative and Administration economists to generate consensus revenue forecast for cannabis revenues.
- Major updates:
 - Downgrades to consumption estimates
 - Black market assumptions revised downward, as consumption data from other states reflected legal market consumption.
 - Population data updated to latest available forecasts, mostly revised upward.
 - Updated price information



Updated Consensus JFO Estimates

Vermont Cannabis Market, Taxable Sales by Year				
In Millions				
	FY22	FY23	FY24	FY25
Low	\$0.00	\$23.3	\$48.8	\$64.0
Mid	\$0.0	\$40.2	\$86.4	\$113.2
High	\$0.0	\$64.9	\$141.3	\$185.1

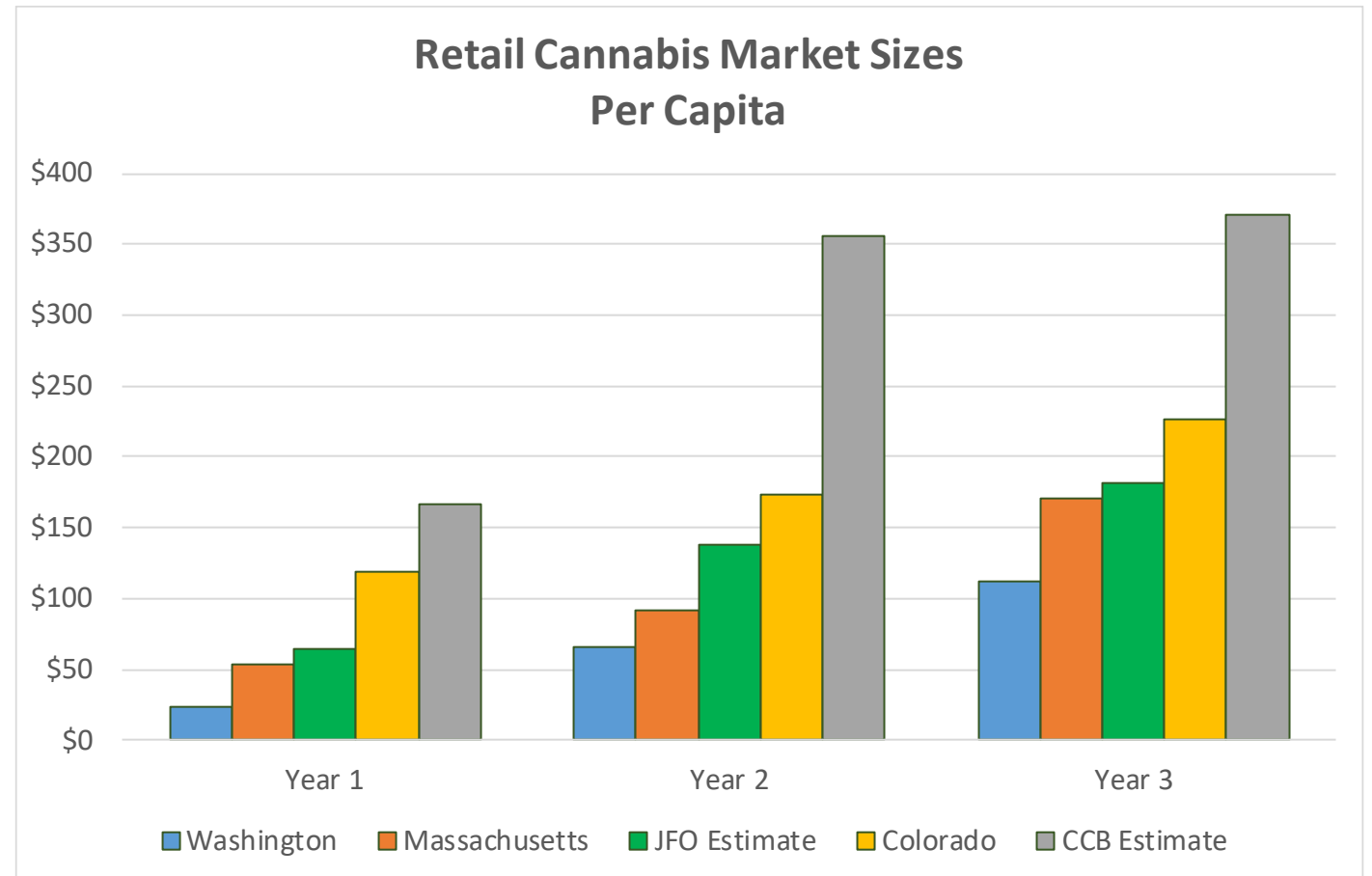
JFO Estimates: Total Excise Revenues (in millions)				
State 14% Excise Tax				
	FY22	FY23	FY24	FY25
Low	\$0.0	\$3.3	\$6.8	\$9.0
Mid	\$0.0	\$5.6	\$12.1	\$15.8
High	\$0.0	\$9.1	\$19.8	\$25.9

JFO Estimates: Total Sales Tax Revenues (in millions)				
6% Sales and Use Tax				
	FY22	FY23	FY24	FY25
Low	\$0.0	\$1.4	\$2.9	\$3.8
Mid	\$0.0	\$2.4	\$5.2	\$6.8
High	\$0.0	\$3.9	\$8.5	\$11.1



How do these estimates compare?

- JFO is expecting the market to be bigger than Washington and Massachusetts, but smaller than Colorado



Where does the money go?

- Of the 14% Excise Tax:
 - 70% to General Fund
 - 30% to Substance Misuse and Prevention Fund
 - First use of Excise Tax is to backfill deficit in the Cannabis Control Fund.
- 6% sales tax is dedicated for after school and summer learning programs

General Fund Revenue (in millions)				
70% of Excise Tax Revenue				
	FY22	FY23	FY24	FY25
Low	\$0.0	\$2.3	\$4.8	\$6.3
Mid	\$0.0	\$3.9	\$8.5	\$11.1
High	\$0.0	\$6.4	\$13.8	\$18.1

Substance Abuse and Prevention Fund Revenue (in millions)				
30% of Excise Tax Revenue				
	FY22	FY23	FY24	FY25
Low	\$0.0	\$1.0	\$2.1	\$2.7
Mid	\$0.0	\$1.7	\$3.6	\$4.8
High	\$0.0	\$2.7	\$5.9	\$7.8



Fee revenues

- Will depend upon what is set by the Legislature:
 - Higher fees do not necessarily lead to higher fee revenue.
 - In other states, fees and regulations have been more of a market deterrent than the tax rate.
- Cannabis Control Board report makes two proposals in Oct report

Type	Proposal A	Proposal B
Dynamic 1	\$6,502,207	\$2,874,082
Dynamic 2*	\$2,858,007	\$1,273,507
Dynamic 3	\$1,417,664	\$625,289

* In our estimation, this is the most likely Dynamic, although if the high fees of Proposal A are adopted the estimated license totals may move towards Dynamic 3



Fee revenues

- Proposal A's goal is to cover the CCB's costs but comparatively high fees:
 - \$2.8 million in revenue, but probably closer to \$1.4 million
- Proposal B has low fees but generates a more thriving market:
 - \$1.273 million

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Fee revenues

- CCB projected FY23 budget is going to be close \$3 million FY2023
- Based upon the CCB analysis, Proposal A has the most potential to cover CCB costs, but there is the risk of stifling the market, and only raising \$1.4 million.
- JFO's estimate of cannabis market size is markedly smaller than CCB's estimate
- If Legislature uses either Proposal A or B, JFO's estimate is likely to be lower CCB's
- **Preliminary overview of CCB analysis, and JFO's market size, lead to the conclusion that it may be difficult to cover CCB costs with fees alone, at least in the early stages of the market.**



Legislative Considerations

- Legislature should aim for goals and priorities instead of exact numbers:
 - Does the Legislature want to fully fund the CCB with fees?
 - Does the Legislature prioritize a thriving cannabis market with low barriers and costs to entry?
 - Is it a combination of the two goals?
 - Low fees at start up, raise them later?
 - Lower initial vs renewal fees?
- Limited money. Many demands.
 - JFO expects cannabis to raise revenues for the State, but do not expect cannabis to solve major budget issues or fund new programs.
 - If the excise tax is being used to partially fund the CCB, consider which fund “loses.”
 - Will it come off the top pre-fund diversion?
 - Will the General Fund’s share of the excise tax be used or the Substance Misuse and Prevention Fund?
- Fees can be changed and revisited.



Legislative Considerations

- Local fees and costs
 - Towns with local option sales tax will receive that revenue
 - CCB Proposals A and B had a \$100 fee.
 - What type of costs do municipalities have?
 - CCB October report did not identify specific costs beyond normal staffing processing of forms.
 - Do certain licenses necessitate higher fees because of higher costs?
 - Which licenses require town involvement?
 - For example, for an integrated license holder, how much involvement does town have in business set up?
 - Policy considerations
 - Does cannabis generate higher municipal costs than other sin tax?
 - Cannabis markets and potential costs to towns are not confined by geographic boundaries
 - An integrated cannabis license holder, with a retailer outlet in Montpelier who have customers from Calais.

