



City of Boulder Finance

To: Marijuana Advisory Panel members

From: Pat Brown, Revenue and Licensing Officer
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Date: July 6, 2016

Re: Response to Marijuana Advisory Panel regarding Tax Policy

The Marijuana Advisory Panel has asked for an analysis of what the City of Boulder does with the excise and sales taxes it receives from medical and recreational marijuana. There is a mistaken impression that taxes are assessed to “go back to the industry” either as offsets to fees or for additional support from the city.

In general, municipal government services in Colorado rely on sales taxes more than any other level of government. The amount of revenue that municipal governments received is relatively small, and that revenue is used primarily to support school district and county governments. Colorado income taxes go to fund state government services. Tax revenues and fee revenues to governments are very different. Fees are required by law to be set to cover the direct cost of service for the entity receiving the government service so that those direct costs are not subsidized by the general government revenues. **Fees** can be less than the actual costs and the balance subsidized from other revenues. However, fees cannot be set higher than the actual cost so fees cannot be used to subsidize other programs. **Taxes** are set to cover the government services expected by the community, including police, fire, administration (management, human resources, legal, finance, elections, city council, boards and commissions, risk management), parks, planning, libraries capital improvements, debt service, etc. For some of those services, citizens have voted to tax themselves an additional amount for extra funding in certain areas. Boulder voters have approved dedicated taxes for open space, parks, education, and transportation.

Boulder has adopted several strategies and priorities related to budgeting which can be found in the first several sections of the city’s 2016 budget. These require that the spending of revenues received by the city are passed through several filters for the benefit of the community as a whole rather than dedicating certain revenue to a specific government service. The city also made a policy decision that the costs to the city for marijuana business licensing should be fully

reimbursed by the fees set on the licensees and not subsidized from other city revenues. To meet all of the applicable directions of council and adopted strategies and policies, the following decisions have been made regarding tax revenues received from marijuana businesses:

- Revenues from marijuana taxes are considered “one-time” revenues so that the operation of normal government services do not rely on those revenues from year to year. This determination was made because of the volatile nature of the continuation of marijuana in the city.
- As one-time revenues, the money derived from marijuana taxes is split into various funds. The following is the breakdown of the City’s Sales Tax rate of 3.86%.

	Rate	Start Date	Expiration Date
Transportation Fund	0.15%	January 1, 2014 (1)	December 31, 2019
General Fund	0.30%	January 1, 2015 (2)	December 31, 2017
General Fund	0.15%	January 1, 2005	December 31, 2024
.25 Cent Sales Tax Fund (Parks & Recreation)	0.25%	January 1, 1996	December 31, 2035
Open Space Fund	0.15%	January 1, 2004 (3)	December 31, 2039
Open Space Fund	0.33%	January 1, 1990 (4)	N/A
General Fund	1.00%	January 1, 1964	N/A
General Fund	0.38%	January 1, 2009 (5)	N/A
General Fund	0.15%	January 1, 2010 (6)	N/A
Open Space Fund	0.40%	January 1, 1967	N/A
Transportation Fund	0.60%	January 1, 1967	N/A
	3.86%		

- (1) A temporary Sales and Use Tax for Transportation was approved by voters in 2013.
- (2) A temporary Sales and Use Tax dedicated for Community, Culture, and Safety (CCS) projects was approved by voters in 2014.
- (3) In 2013, voters approved the extension of this 0.15% Sales and Use Tax to be used for Transportation from 2020 through 2029, and to be used for general fund purposes from 2030 to 2039.
- (4) In 2013, voters approved the extension of this 0.33% Sales and Use Tax as follows: 0.22% for Open Space and 0.11% for general fund purposes from 2019 through 2014; 0.10% for Open Space and 0.23% for general fund purposes starting in 2035.
- (5) The 0.38% Sales and Use Tax component was extended indefinitely and debruced by voters in 2008.
- (6) The 0.15% Sales and Use Tax component was extended indefinitely and debruced by voters in 2009.

For 2015, revenues from marijuana sales were put into the following funds:

	General Fund (1.68%)	General Fund – CCS (0.30%)	Open Space Fund (0.88%)	Transportation Fund (0.75%)	Parks & Rec Fund (0.25%)	Total
Medical Marijuana Revenues	\$432,950	\$77,313	\$226,784	\$193,281	\$64,427	\$994,755
Rec. Marijuana Revenues (RMJ)	\$554,086	\$98,944	\$290,236	\$247,360	\$82,453	\$1,273,079
RMJ – Additional 3.5% (1)	\$1,154,145					\$1,154,145
Excise Tax (5.0%) (1)	\$968,730					\$968,730
State Share Back	\$448,313					\$448,313
Totals	\$3,558,224	\$176,257	\$517,020	\$440,641	\$146,880	\$4,839,022

(1) The city council intends that an additional excise tax be imposed on the first sale or transfer of recreational marijuana by a retail cultivation facility within the city and an additional sales tax imposed on every retail sale of recreational marijuana or recreational marijuana-infused product. The purpose of this tax is to increase the revenue base for the city to provide municipal improvements and services related to the introduction of a new marijuana industry to the city. Revenues from the tax shall be deposited in the general fund and shall be available to pay for the general expenses of government. However, although the city council recognizes that it cannot bind future city councils, it nonetheless declares its intention that sufficient revenues generated by this tax be appropriated by future city councils for public safety, enforcement and administrative purposes and for comprehensive substance abuse programs including, without limitation, prevention, treatment, education, responsible use, intervention, and monitoring, with an emphasis on youth with the remainder used to fund other governmental expenses including police, fire, libraries, transportation, and general government. Each council shall decide what constitutes sufficient funds. As used here, sufficient shall mean an amount determined by council to balance the revenue received with the established need in the community for programs to address the subjects identified above.