# BALLOT PROPOSITION 205

## FISCAL ANALYSIS

**Estimated Impact**

A.R.S. § 19-123D requires the JLBC Staff to prepare a summary of 300 words or less on the fiscal impact of voter-initiated ballot measures. Proposition 205 would legalize the sale of marijuana in Arizona to individuals age 21 and over beginning March 1, 2018. Retail sales would be subject to a 15% tax, and marijuana-related businesses would pay licensing fees. The taxes and licensing fees are projected to generate $53.4 million in FY 2019 and $82.0 million in FY 2020. These monies would be distributed as follows:

- $8.6 million in both FY 2019 and FY 2020 to the Department of Marijuana Licenses and Control and the Department of Revenue for marijuana regulation and tax administration.
- $6.8 million in FY 2019 and $3.8 million in FY 2020 to local governments with marijuana-related businesses within their jurisdiction.
- $15.2 million in FY 2019 and $27.8 million in FY 2020 to K-12 schools for operating costs, including teacher compensation, construction, and maintenance.
- $15.2 million in FY 2019 and $27.8 million in FY 2020 to K-12 schools for full-day kindergarten.
- $7.6 million in FY 2019 and $13.9 million in FY 2020 to the Arizona Poison Control System for public education campaigns about marijuana, alcohol, and other substances.

**Table 1**

**Projected Marijuana Fund Revenues and Distributions**

| *Marijuana Fund Revenues* | **FY 2019** | **FY 2020** |
|---|---|---|
| 15% Tax | $39,849,700 | $74,369,600 |
| Licensing Fees | 13,567,500 | 7,628,100 |
| | **$53,417,200** | **$81,997,700** |
| *Marijuana Fund Distributions* | | |
| Administration [1/] | $8,590,100 | $8,590,100 |
| Localities | 6,783,800 | 3,814,100 |
| *Subtotal* | *$15,373,900* | *$12,404,200* |
| | | |
| Schools: Operating Costs | $15,217,300 | $27,837,400 |
| Schools: Full-Day Kindergarten | 15,217,300 | 27,837,400 |
| DHS Public Health | 7,608,700 | 13,918,700 |
| *Subtotal* | *$38,043,300* | *$69,593,500* |
| **Total** | **$53,417,200** | **$81,997,700** |

1/ Administration includes monies expended by the Department of Marijuana Licenses and Control (DMLC) for marijuana regulation and the Department of Revenue (DOR) for marijuana tax collections.

Marijuana sales would be subject to regular state and local sales taxes, generating projected state and local government revenues of $22.4 million in FY 2019 and $41.8 million in FY 2020. These monies would be available for general use.

There could be fiscal costs from increased substance abuse treatment, emergency room visits, and adjudication of individuals charged with driving under the influence of marijuana, as well as savings from reduced arrests, prosecutions, and punishment of marijuana offenses. The magnitude of such costs or savings would depend on subsequent funding decisions made by the Arizona Legislature or the voters.

*Table 1* shows projected Marijuana Fund revenues and distributions, excluding revenues from existing state and local taxes.

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**Background**

Proposition 205 would legalize the sale of marijuana and marijuana products in Arizona beginning March 1, 2018. Marijuana sales would be regulated by a new department established by the initiative and called the Department of Marijuana Licenses and Control (DMLC). DMLC would adopt and enforce rules to regulate marijuana products and license marijuana-related businesses.

DMLC's budget would be funded by a newly-created Marijuana Fund. The Marijuana Fund would receive revenue from a 15% tax on retail marijuana sales, marijuana licensing fees, and fines and civil penalties related to regulation of marijuana usage and marijuana businesses.

Of the licensing fees, 50% would be disbursed to counties, cities, or towns with marijuana business establishments. Besides funding the costs of DMLC's operations, Marijuana Fund revenues would fund the Arizona Department of Revenue's (DOR) costs of administering and collecting the 15% tax.

After the required distributions are made to DMLC, DOR, and localities, any remaining Marijuana Fund revenues in the fund would be disbursed to 3 sources on a quarterly basis:

- 40% would go to school districts and charter schools for education-related expenses, including teacher compensation, construction, and maintenance.
- 40% would go school districts and charter schools for full-day kindergarten.
- 20% would go to the Department of Health Services (DHS) for distribution to the Arizona Poison Control System to provide public education campaigns about the harms of marijuana, alcohol, and other substances.

In 2010, voters approved an initiative measure to permit certain qualifying patients to use medical marijuana to treat debilitating medical conditions. Proposition 205 would transfer responsibility for the regulation of medical marijuana from DHS to DMLC on September 1, 2017. Proposition 205 does not amend existing statutory and regulatory requirements for nonprofit medical marijuana dispensaries and medical marijuana patients. As a result, Medical Marijuana Fund revenues would not be included in the distribution formula for marijuana revenues.

Proposition 205, however, requires DHS to make a one-time transfer of monies from the Medical Marijuana Fund to DMLC within 60 days of the effective date of the initiative before any marijuana revenues are available to fund DMLC operations. Any Medical Marijuana Fund monies used by DMLC would have to be subsequently repaid to the Medical Marijuana Fund. DHS estimates that the Medical Marijuana Fund will have a balance of $15.4 million by the end of FY 2017.

Although some Marijuana Fund revenues would be collected in FY 2018, this analysis assumes that Marijuana Fund distributions in FY 2018 would be minimal compared to distributions in FY 2019 and FY 2020.

<u>Legalized Marijuana in Other States</u>
There are currently 2 states that have permitted the retail sale and taxation of marijuana for at least 1 year: Colorado and Washington. Retail marijuana sales began in Colorado in January 2014, and in Washington in July 2014. Oregon and Alaska have also legalized marijuana, but sales in Oregon only began in October 2015, and retail sales in Alaska are not expected until later in 2016. Washington D.C. has authorized the possession of marijuana, but currently does not allow retail sales.

Both Colorado and Washington have higher tax rates than the 15% tax on marijuana sales proposed in Proposition 205. Colorado effectively applies a 25% tax, consisting of a 10% tax on retail marijuana sales and a 15% tax on wholesale marijuana transactions. In Washington, the state applied a 25% tax on wholesale marijuana sales, a 25% tax on marijuana processors, and a 25% retail sales tax in the first year of legalization. Washington's

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tax has now been consolidated into a single 37% tax on retail marijuana sales. Both states also levy other applicable taxes on marijuana as well, including retail sales tax, business and occupation taxes, and local taxes.

**Analysis**

Marijuana Fund: 15% Tax

Based on data from Washington's Department of Revenue and the Washington Liquor and Cannabis Control Board, Washington had $177.6 million in marijuana sales in FY 2015 and $459.5 million through mid-June of FY 2016. Based on tax revenue data from the Colorado Department of Revenue, marijuana legalization resulted in an estimated $303.6 million in retail marijuana sales in calendar year 2014 and an estimated $575.8 million in calendar year 2015. Sales data from Colorado were used to produce estimates for Arizona because Colorado's tax rates are closer to the 15% tax on retail marijuana sales included in Proposition 205.

In addition to a 10% special retail marijuana sales tax, Colorado also applies a 15% wholesale tax on sales or transfers from retail marijuana cultivation facilities to marijuana retailers or processors. This wholesale tax is incorporated into the pre-tax retail sales price paid by Colorado consumers. Proposition 205 does not include a similar tax on wholesale sales or transfers. As a result, Arizona's retail price markup above wholesale prices could be lower than the price markup in Colorado.

Colorado reports wholesale marijuana tax collections of $13.3 million in calendar year 2014 and $35.1 million in calendar year 2015. The JLBC Staff assumes that wholesale taxes paid are fully passed through to Colorado's consumers through corresponding increases in the pre-tax retail sales price in each year. To account for the lack of a wholesale tax in Arizona, the JLBC Staff subtracts wholesale tax collections from Colorado's pre-tax retail sales, resulting in $290.3 million in retail sales not associated with the wholesale tax in calendar year 2014 and $540.8 million in calendar year 2015.

Even prior to legalization of marijuana in Colorado, Colorado had consistently significantly higher rates of marijuana use than Arizona. As a result, Arizona's overall sales would likely be lower than Colorado's because of Arizona's lower total number of users. Based on data from the National Survey of Drug Use and Health, the JLBC Staff estimates Arizona had 587,100 users age 21 and over in 2013 and Colorado had 705,900, or about 20.2% fewer users.

Sales revenue in Arizona could be lowered further relative to Colorado as a result of the cap on retail marijuana licenses. Proposition 205 caps the number of marijuana retail licenses in Arizona until September 2021 at 10% of the number of liquor store licenses. Beginning September 1, 2021, DMLC is permitted to issue additional licenses beyond the statutory cap. According to the Arizona Department of Liquor Licenses and Control, there are currently 1,473 active liquor store licenses, implying that the statutory cap on retail marijuana licenses would be 147. According to Legislative Council, Proposition 205 does not clarify whether only active licensees would be counted. As a result, the actual cap could be higher. Colorado does not maintain a cap on the number of licensed retailers.

In the first year of legalization, the Colorado Marijuana Enforcement Division reports issuing a total of 322 retail marijuana licenses, or about 1 retail marijuana business for every 2,192 users. Assuming that Arizona had a cap of 147 licensed retail stores, Arizona would have 1 retail marijuana business for every 3,993 users, or approximately 82% more users per store. The lower number of marijuana retailers in Arizona could reduce the volume of legal marijuana sales, either by increasing legal marijuana prices from limiting market entry or by increasing travel distance to purchase marijuana. The net impact of the cap would depend on the sensitivity of marijuana consumers to price changes, as well as the willingness of consumers to travel to purchase marijuana.

Since the marijuana sales tax would be levied as a percentage of the retail price, any revenue impact resulting from a reduction in sales volume relative to Colorado could be offset by higher unit prices. In addition, since Arizona's population is heavily concentrated in Maricopa County and Pima County, a smaller number of stores per capita

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could have relatively modest effects on travel distances to obtain marijuana. As a result, the JLBC Staff assumes that the statutory cap would only reduce legal marijuana sales by 5% relative to what sales would be in the absence of the cap.

Arizona may also have lower sales to tourists compared to Colorado. The Marijuana Policy Group estimated that between 2%-4% of marijuana sales revenue in Colorado are to out-of-state tourists. Arizona would likely have lower sales to out-of-state tourists, as Arizona would compete for out-of-state tourist sales with Colorado and other states with legal marijuana. As a result, the JLBC Staff assumes only 1% of marijuana sales would be to tourists in Arizona.

After accounting for Arizona's lack of a wholesale marijuana tax, its lower number of users, the statutory retail license cap, lower tourist sales, and adjustments for population growth and inflation, the JLBC Staff estimates that Arizona would have $265.7 million in marijuana sales in FY 2019.

The JLBC Staff assumes that, as in Colorado, Arizona's marijuana industry would experience a significant increase in sales between year 1 and year 2 of legalization. Assuming that Arizona would have the same 86.6% year-over-year growth in sales revenues that occurred in Colorado, Arizona's retail sales would increase to an estimated $495.8 million in FY 2020.

These sales figures would result in $39.8 million in revenue from the 15% marijuana tax in FY 2019 and $74.4 million in FY 2020.

Marijuana Fund: Licensing Fees

Proposition 205 establishes maximum licensing fees for marijuana retailers, product manufacturers, cultivators, and testing facilities. In addition to a $5,000 one-time application fee, marijuana businesses would pay a fee for initial issuance of a license, and a renewal license in each subsequent year. The maximum fee schedule for licenses is shown in *Table 2* below.

**Table 2**

**Marijuana Licensees**

| | FY 2019 Projected Licensees | FY 2020 Projected Licensees | Application Fee | Initial Licensure | Licensure Renewal |
|---|---|---|---|---|---|
| Marijuana Retailer | 147 | 147 | $5,000 | $20,000 | $6,600 |
| Marijuana Product Manufacturer | 82 | 136 | $5,000 | $15,000 | $5,000 |
| Marijuana Distributor 1/ | 11 | 11 | $5,000 | $15,000 | $5,000 |
| Marijuana Testing Facility | 13 | 14 | $5,000 | $10,000 | $3,300 |
| Marijuana Cultivator 2/ | 330 | 457 | $5,000 | $30,000 | $10,000 |
| **Total** | **583** | **765** | | | |

1/ No comparable category in Colorado. Projected number based on ratio of liquor distributors to liquor stores in Arizona.

2/ The licensure fees for cultivators will vary depending on the amount of land cultivated, with a maximum licensing fee of $30,000. The fee for the lowest-tier producers shall be no more than one quarter of the maximum fee for the highest-tier producers, or $7,500.

For marijuana cultivators, Proposition 205 also requires DMLC to establish a tiered fee schedule that establishes fees in proportion to the size of the cultivated area. The maximum licensing fee for marijuana cultivators is set at

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$30,000, and the maximum fee for cultivators with the least land area can be no more than a quarter of the fee for the highest-tier cultivators, or $7,500. The JLBC Staff assumes that the average fee paid by cultivators would be the average of the highest fee and lowest fee, or $18,750 for initial licensure and $6,250 for licensure renewal. For all other licensing categories, the JLBC Staff assumes that DMLC would charge the maximum fee.

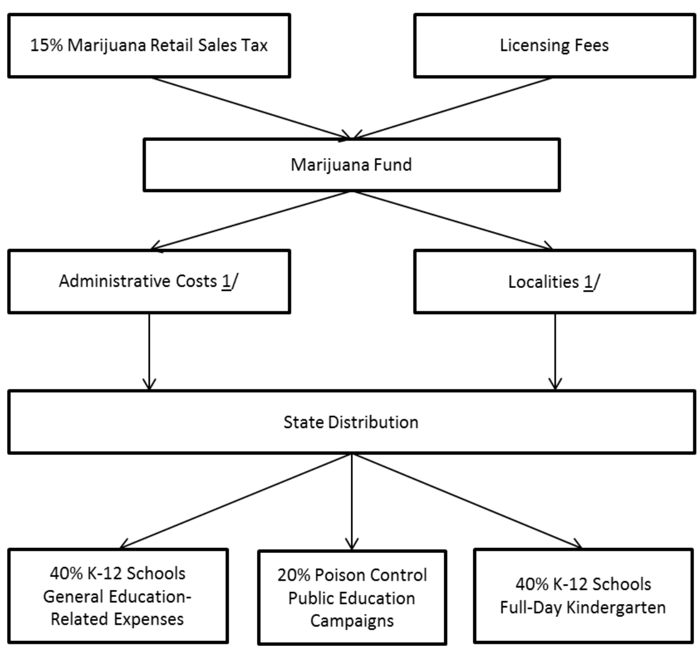
In the first year of legalization, Colorado licensed 322 marijuana retail stores, 397 cultivators, 98 product manufacturers, and 16 testing facilities, for a total of 833 retail marijuana industry licensees. By September 2015, the total number of retail marijuana licensees in Colorado had grown to 1,069. The JLBC Staff assumes that Arizona would have fewer marijuana industry licensees based on Colorado's higher number of users.

In total, Arizona is projected to have 583 marijuana-related businesses in FY 2019 and 765 such businesses in FY 2020. Based on these projections, Arizona would generate $13.6 million in licensing revenue in FY 2019 and $7.6 million in FY 2020. The revenues are lower in FY 2020 because all businesses licensed in FY 2019 are assumed in FY 2020 to pay the renewal fees, which are lower than the one-time application and initial licensure fees.

<u>Distributions</u>
*Chart 1* below shows the distributions from the Marijuana Fund required by Proposition 205. Before any distributions are made, Marijuana Fund revenues must be used to cover the costs of DMLC's operations. DMLC must also transfer monies to DOR for the reasonable administration and enforcement costs of marijuana taxes.

**Chart 1**

**Marijuana Fund Distributions**




1/ Proposition 205 requires that Marijuana Fund revenues first be used to pay for the operating expenses of the Department of Marijuana Licenses and Control (DMLC). In addition, Proposition 205 requires DMLC to 1) transfer revenues to the Department of Revenue (DOR) for the reasonable administration and enforcement costs associated with the 15% marijuana retail sales tax and 2) distribute 50% of licensing fees each quarter to localities with marijuana establishments.

The JLBC Staff assumes that Arizona's DMLC and DOR would expend approximately $8.6 million annually on administrative activities related to regulation and taxation of marijuana. This estimate is based on spending by

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Colorado's Marijuana Enforcement Division, which reports that it expended approximately $8.6 million in FY 2015 on licensing, regulation, and tax administration related to marijuana sales. DHS has also expended similar amounts on administration of Arizona's Medical Marijuana Program. DHS reports expending $7.4 million in FY 2014 and $9.7 million in FY 2015 from the Medical Marijuana Fund, or an average of $8.6 million over 2 years. DMLC would continue to spend another $8.6 million annually on medical marijuana regulation.

In addition to the Marijuana Fund revenues retained by DMLC and DOR, Proposition 205 also requires 50% of licensing fees to be distributed to localities with marijuana-related businesses. Based on the JLBC Staff's projection of licensing fees, localities would receive an estimated $6.8 million in FY 2019 and $3.8 million in FY 2020.

After distributing $8.6 million to DMLC and DOR and $6.8 million to localities of the $53.4 million in total Marijuana Fund revenues, an estimated $38.0 million in FY 2019 would be available for distribution to schools and DHS. In FY 2020, total Marijuana Fund revenues would increase to $82.0 million, of which $69.6 million would be available for distribution to schools and DHS. The distributions would include:

- 40% would go to school districts and charter schools for education-related expenses, including teacher compensation, construction, and maintenance, resulting in projected distributions of $15.2 million in FY 2019 and $27.8 million in FY 2020.
- 40% would go school districts and charter schools for full-day kindergarten, resulting in projected distributions of $15.2 million in FY 2019 and $27.8 million in FY 2020.
- 20% to DHS for distribution to the Arizona Poison Control System for public education campaigns about the harms of marijuana, alcohol, and other substances, resulting in projected distributions of $7.6 million in FY 2019 and $13.9 million in FY 2020.

<u>Other Tax Revenues</u>

Marijuana sales would also be subject to the state's regular and local option Transaction Privilege Tax (TPT). Based on the total sales estimates of the JLBC Staff, marijuana sales are estimated to generate $22.4 million in TPT revenues in FY 2019 and $41.8 million in FY 2020 for the state and local governments. *(Please see Table 3.)*

These estimates do not include additional individual income or corporate income tax revenues that could be generated from new businesses created in the newly-legalized marijuana industry.

**Table 3**

**Marijuana Transaction Privilege Tax (TPT) Revenues**

| | **FY 2019** | **FY 2020** |
|---|---|---|
| 5% State TPT | $13,283,200 | $24,789,900 |
| *State* | *9,798,900* | *18,287,300* |
| *Localities* | *3,484,300* | *6,502,600* |
| Proposition 301 (0.6%) | 1,594,000 | 2,974,800 |
| Municipal TPT (2.15% average) | 5,711,800 | 10,659,600 |
| County Excise Tax (0.69% average) | 1,833,100 | 3,421,000 |
| **Total** | **$22,422,100** | **$41,845,300** |

<u>Health-Related Costs</u>

If Proposition 205 changes marijuana usage rates in Arizona, the costs of providing publicly-funded substance abuse services could also change. According to DHS, in FY 2015 approximately 22.7% of all substance abuse clients served by a Regional Behavioral Health Authority (RBHA) report that marijuana is their primary substance for which they are receiving services, which amounts to approximately 12,000 enrollees of the 52,800 enrollees for whom the RBHAs provided substance abuse services in FY 2015. DHS does not report average cost per enrollee for treatment of marijuana dependence.

The magnitude of the change in substance abuse treatment costs would depend on the extent to which Proposition 205 changes the prevalence of marijuana use in Arizona. Marijuana use could increase if legalization results in a decrease in the price of marijuana. Increases in use could be partially offset if the new public education campaigns funded through the Arizona Poison Control System serve to discourage marijuana use.

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Proposition 205 could also result in increased emergency room visits related to marijuana use. The Colorado Department of Public Health and Environment reports that in 2010-2013, Colorado had an annual average of 376 emergency department visits per 100,000 visits in which marijuana could have contributed to the primary diagnosis. In 2014-2015, this average increased to 530 such admissions per 100,000 emergency room visits. These figures cannot be extrapolated to project costs for Arizona, since the increase in marijuana emergency room visits that is solely attributable to legalization of marijuana is unknown. For example, the Colorado Department of Public Health and Environment cautions that part of the increase could be explained by several factors, including "an overall increased awareness regarding marijuana, changes in physician care or reporting related to marijuana," as well as "an increased honesty in patients reporting marijuana use to health care providers."

Criminal Justice

Proposition 205 could change state and local criminal justice expenses related to arrest, adjudication, incarceration, probation, and parole for marijuana-related offenses:

- According to the Arizona Department of Public Safety (DPS), there were 14,714 arrests of adults for marijuana possession or trafficking in FY 2014, accounting for about 6.2% of all adult arrests. DPS explains these arrest totals "do not indicate the number of charges placed against an offender at the time of the arrest," so the number of arrests where the sole charge is marijuana possession or trafficking would be lower.
- According to the Arizona Prosecuting Attorneys' Advisory Council, in FY 2014 there were 1,824 inmates in Arizona State Correctional Facilities, or about 4.5% of the state prison population, for whom marijuana trafficking or possession was the "most serious current offense."

Proposition 205 would reduce marijuana-related arrests. Prior to marijuana legalization in Colorado, the Colorado Legislative Council Staff also identified savings from "fewer drug offenses being charged and prosecuted," but did not develop specific estimates. It is difficult to know the magnitude of such savings because of the lack of data on how many individuals in Arizona or elsewhere are arrested, incarcerated, or supervised solely on the basis of a marijuana-related offense.

Proposition 205 could also change criminal justice expenditures related to incidents of driving under the influence of marijuana. Prior to legalization, the Washington Office of Financial Management estimated $2.75 million in additional state and local law enforcement expenditures associated with marijuana legalization, including additional training for the Washington State Patrol on marijuana impairment, blood testing in marijuana DUI cases at the Washington State Patrol Toxicology Lab, and administrative and legal costs associated with suspending or revoking driver's licenses for individuals convicted of driving under the influence of marijuana. This estimate has not been updated after marijuana legalization.

Proposition 205 could reduce civil asset forfeiture collections and other fines and fees related to marijuana charges. The Arizona Criminal Justice Commission (ACJC) reports $20.9 million in asset forfeitures from drug cases in FY 2015, but does not report the amount solely attributable to marijuana cases. After paying any financial claims against the property of a convicted drug offender, civil asset forfeiture revenues are distributed to state and county anti-racketeering revolving funds for distribution to the law enforcement agencies that originally seized the assets.

In addition, some state agencies that currently receive fines and fees related to marijuana charges, such as ACJC, would likely experience revenue losses due to fewer marijuana charges being filed.

Marijuana-Related Expenditures in Colorado and Washington

Both Colorado and Washington have chosen to dedicate some marijuana revenues to programs that could address costs of legalized marijuana, including substance abuse services, behavioral health services, youth programs, and

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research.  Because Proposition 205 would not provide funding for such services, any costs for these services in Arizona would have to be paid out of non-marijuana funding sources.

Like Colorado and Washington, Arizona would have regulatory costs that would be incurred by Arizona's Department of Marijuana Licenses and Control.  Proposition 205 would provide funding for these regulatory costs, along with funding for public education campaigns about the harms of marijuana, with marijuana taxes and fees.

In Colorado, most marijuana revenues are subject to annual appropriation by the Colorado General Assembly. According to the Colorado Joint Budget Committee, in FY 2016 the General Assembly appropriated $31.7 million from marijuana tax revenues, and $74.2 million in FY 2017.  Excluding regulatory costs and funding for public education campaigns, In FY 2017 the Colorado General Assembly appropriated $39.9 million for new programs that could potentially address some costs related to marijuana legalization, including:

- $19.8 million for programs providing substance abuse prevention and treatment and behavioral health services.  These expenditures are not restricted to marijuana-related treatment and prevention.
- $10.2 million for youth programs.  This includes $373,000 for youth marijuana use prevention, but also includes school bullying prevention, programs for youth in the corrections system, mentoring programs, and additional behavioral health services in schools.
- $3.0 million for research related to legal marijuana.
- $800,000 for public safety, which primarily includes additional training for officers related to DUIs.
- $6.1 million for other expenditures.  This includes $1.2 million for grants to local governments that prohibit marijuana sales, as well as $1.6 million at the Colorado Department of Agriculture for programs pertaining to marijuana cultivators.

Colorado also appropriated $26.3 million of marijuana taxes to its General Fund in FY 2017.  This allocation would not directly address the costs of marijuana legalization.

In Washington, marijuana revenues are distributed according to a percentage-based formula, but are still subject to appropriation by the Washington State Legislature.  In FY 2017, the Washington State Legislature appropriated $258.9 million of marijuana taxes and fees.  Of this amount, $29.4 million represents new funding for programs that could potentially address costs related to marijuana legalization, excluding regulatory enforcement and public education campaigns.  This amount consists of:

- $27.8 million for substance abuse disorder services and behavioral health services.  These monies are not restricted to marijuana-related prevention and treatment.  A significant portion of these funds are dedicated towards programs for youth, including youth residential treatment services, substance abuse treatment for juvenile offenders, and youth prevention programs.
- $1.1 million for additional marijuana-related research.
- $511,000 to the Superintendent of Public Instruction for dropout prevention programs.

Washington also appropriated $76.5 million in marijuana taxes to its General Fund in FY 2017.  In addition, Washington uses $137.7 million in marijuana taxes to replace existing General Fund spending, primarily for its Medicaid program.  As in Colorado, these allocations would not directly address the costs of marijuana legalization.

*Extrapolating Colorado and Washington Expenditures to Arizona*

The expenditures of marijuana taxes in Colorado and Washington cannot be readily extrapolated to Arizona.  After excluding regulatory costs and public education campaign expenditures, most of the marijuana-related taxes in Colorado and Washington are appropriated for substance abuse services, behavioral health services, and youth programs.  Arizona could require additional expenditures for such services.  Proposition 205 does not

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provide funding for substance abuse, behavioral health, or youth programs, so any increase in costs for these services resulting from the initiative would have to be paid out of non-marijuana revenues.

However, since the appropriations for substance abuse, behavioral health, and youth programs in Colorado and Washington were determined before the actual costs of marijuana legalization were known, the actual costs could differ from the appropriated funding. There is a consensus among marijuana policy experts that it will take several years before there is sufficient data available to quantify societal costs and savings associated with marijuana legalization.

It is also difficult to know whether Colorado and Washington would have had similar expenditures for substance abuse, behavioral health, and youth programs in the absence of marijuana revenues as a dedicated funding source. If Colorado and Washington had instead been required to use General Fund expenditures for such programs, they may have decided to expend a different amount.

In addition, most of the marijuana monies designated by Colorado and Washington for substance abuse, behavioral health services, and youth programs are designed to achieve broad social benefits rather than solely addressing the costs associated with marijuana legalization. As a result, Arizona may or may not choose to incur similar costs for such programs. For example, Colorado's expenditures include $4.4 million for early literacy programs in public schools, $2.3 million for additional behavioral health professionals in schools, and $900,000 for school bullying prevention. Similarly, Washington provides $2.4 million for home visiting services, and $250,000 for youth life skills training.

Both Colorado and Washington also used marijuana revenues to finance research on the effects of marijuana legalization. Colorado used $3 million in marijuana revenues for research expenditures in FY 2017, compared to approximately $1.1 million in Washington. Proposition 205 does not provide funding for such expenditures. As a result, if the Arizona Legislature decided to fund research on the effects of legalization, it would have to rely on non-marijuana revenues.

Comparisons to Other Analyses

The Grand Canyon Institute (GCI) published an estimate that projected that Arizona's 15% tax would generate $72.3 million in calendar year 2019, with $57.8 million going to schools. GCI's estimate is based on Colorado's revenues from the second year of legalization. When using Colorado's second year sales data to project Arizona's FY 2020 revenues, the JLBC Staff estimates that revenues from the 15% tax will increase to $74.4 million in FY 2020, with $55.7 million going to schools.

The Tax Foundation estimated that Arizona could generate $113 million annually from the 15% excise tax. This estimate assumes that Arizona would have similar levels of sales per capita as Colorado and Washington. The JLBC Staff expects that Arizona would have lower sales per capita because reported marijuana usage rates as estimated by the Substance Abuse and Mental Health Services Administration (SAMHSA) were consistently lower in Arizona than in Colorado or Washington in the years before both states legalized marijuana.

The Campaign to Regulate Marijuana like Alcohol, which has sponsored Proposition 205, has estimated that the initiative would generate $40 million for schools annually.

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| *Prepared by Patrick Moran, Fiscal Analyst* | *7/21/2016* |