

# Rethinking pot — one year later

## Medical marijuana a challenge for legal pot states

SEATTLE (AP) — A year into the nation's experiment with legal, taxed marijuana sales, Washington and Colorado find themselves wrestling not with the federal interference many feared, but with competition from medical marijuana or even outright black market sales.

In Washington, the black market has exploded since voters legalized marijuana in 2012, with scores of legally dubious medical dispensaries opening and some pot delivery services brazenly advertising that they sell outside the legal system.

Licensed shops say taxes are so onerous that they can't compete.

Colorado, which launched legal pot sales last New Year's Day, is facing a lawsuit from Nebraska and Oklahoma alleging that they're being overrun with pot from the state.

And the number of patients on Colorado's medical marijuana registry went up, not down, since 2012, meaning more marijuana users there can avoid paying the higher taxes that recreational pot carries.

Officials in both states say they must do more to drive customers into the recreational stores. They're looking at reining in their medical systems and fixing the big tax differential between medical and recreational weed without harming patients.

And in some cases, they are considering cracking down on the proliferating black market.

"How can you have two parallel systems, one that's regulated, paying taxes, playing by the rules, and the other that's not doing any of those things?" said Rick Garza of the Washington Liquor Control Board, which oversees recreational pot.

### A cautionary tale

The difficulty of reconciling medical marijuana with taxed recreational pot offers a cautionary tale for states that might join Washington and Colorado in regulating the adult use of the drug.

While legalization campaigns have focused on the myriad ills of prohibition, including racial discrepancies in who gets busted for weed, the promise of additional tax revenues in tight budget times was in no small part of the appeal.

Weed sales have so far brought in some revenue, though less than officials might have hoped.

Colorado brought in more than \$60 million in taxes, licenses and fees for recreational and medical marijuana combined through October of this year, and more than half of pot sold was of the lesser-taxed medical variety.

In Washington, where supply problems and slow licensing hampered the industry after sales began in July, the state collected about \$15 million in taxes this year.

The latest states to legalize marijuana — Oregon and Alaska — have different concerns, but officials there are nevertheless paying attention to Colorado and Washington as they work on rules for their own industry.

Alaska doesn't have commercial medical dispensaries, so licensed stores there won't face direct competition. And in Oregon, taxes on recreational pot are set at just \$35 an ounce, which officials hope will minimize competition from the medical side.

### Seattle's lessons

In Seattle, however, six licensed recreational stores face competition from medical pot shops that are believed to number in the hundreds.

"Am I afraid about medical marijuana dispensaries taking my business? They have all the business. They are the industry," said James Lathrop, the owner of Seattle's first licensed pot shop, Cannabis City.

He said the dominance of medical marijuana and the black market is obvious in his clientele: It's mostly tourists and professionals who use pot occasionally and don't mind spending a little extra at a legal store.

Regular pot users have stuck with their old dealers or continue masquerading as patients, he said.

### Getting control

Reining in medical marijuana will be a top priority when



Packaged marijuana is displayed for sale at retail shop Cannabis City in Seattle.

AP Photo/Elaine Thompson

## Legal weed brings tax boost, but it's modest

DENVER (AP) — To see the tax implications of legalizing marijuana in Colorado, there's no better place to start than an empty plot of land on a busy thoroughfare near downtown Denver.

It is the future home of a 60,000-square-foot public recreational center that's been in the works for years.

Construction costs started going up, leaving city officials wondering whether they'd have to scale back the project. Instead, they hit on a solution — tap \$3.2 million from pot taxes to keep the pool at 10 lanes, big enough to host swim meets.

The Denver rec center underscores how marijuana taxation has played throughout Colorado and Washington. The drug is bringing in tax money, but in the mix of multibillion budgets, the drug is a small boost, not a tsunami of cash.

Much of the drug's tax production has been used to pay for all the new regulation the drug requires — from a new state agency in Colorado to oversee the industry, to additional fire and building inspectors for local governments to make sure the new pot-growing facilities don't pose a safety risk.

And estimates for pot's tax potential varied widely.

Some government economists predicted a huge boost to public coffers. Others predicted a volatile revenue stream that could spike wildly based on how consumers and the black market would respond.

Some even guessed that legal weed would cost more than it produced in taxes, through higher public safety costs and possible expensive lawsuits because the drug remains illegal under federal law.

In Colorado, where retail recreational sales began Jan. 1, 2014, the drug has a total effective tax



AP Photo/Elaine Thompson

Cannabis City clerk Jessica Mann scans a customer's ID as she rings up a purchase of marijuana at the shop in Seattle.

rate of about 30 percent, depending on local add-on taxes.

Through October, the most recent figures available, Colorado collected about \$45.4 million from sales and excise taxes on recreational pot sales.

That puts the state on pace to bring in less than the \$70 million a year Colorado voters approved when the agreed to a statewide 10 percent sales tax and 15 percent excise tax on recreational pot.

Voters set aside the first \$40 million in excise taxes for school construction; so far that fund has produced about \$10 million.

But adding fees and licenses and the taxes from medical marijuana sales, Colorado had collected more than \$60 million through October. Local governments can add additional taxes, too.

That's what led to additional revenue streams like Denver's \$3.2 million for a bigger pool at its rec center.

In Washington, where recreational pot sales began in July, recreational weed is taxed on a three-tier system as the plant moves from growers to processors to retailers. The total effective tax rate is about 44 percent.

State tax officials are just getting a look at the first few months of pot taxes, and the money is coming in slowly because

there aren't many stores there yet. State economists have predicted pot sales will bring in \$25 million by next July.

The state anticipates a \$200 million increase by mid-2017, and about \$636 million to state coffers through the middle of 2019.

There remain more questions than answers about pot's tax potential.

A new president in 2017 could sue legal weed states to shut down sales completely.

And no one knows how the opening of new recreational markets will drain sales from Colorado and Washington. Oregon voters have approved retail pot sales beginning in 2016; Alaska has approved sales but it's not clear when they'll begin.

And the biggest market in the West — California — is expected to consider recreational pot legalization in 2016.

In other words, budgeters curious about marijuana's tax potential will have to wait.

"If they're looking at pot as something that might swoop in and save them, they need to keep looking," said Joseph Henchman, an analyst who has studied marijuana tax collections for the Tax Foundation, a nonpartisan tax think tank.

## Legal weed states have lessons to share

DENVER (AP) — Don't worry about a federal lawsuit. But do worry about tax rates. Those are among the many lessons Colorado and Washington have to share from the front lines of America's marijuana experiment.

### LESSON ONE: DON'T BE TIMID

Public officials in the pioneering marijuana states were flat-footed when voters made pot legal.

At first waiting for a possible federal lawsuit, then trying to figure out how to monitor and tax a product that had never been fully regulated anywhere in the world, the states spent many months coming up with rules for how the drug should be grown, sold and consumed.

The delays were understandable. But they led to one of the biggest disappointments of the marijuana markets — lower-than-hoped tax collections.

### LESSON TWO:

#### DON'T GET TOO EXCITED, EITHER

Both Colorado and Washington have seen tax collections fall below some rosy projections. The effective tax rates are about 44 percent in Washington and 29 percent in Colorado, with plenty of asterisks and local variances.

The states assumed that pot users would pay a steep premium to stop using drug dealers and have clean, safe stores in which to buy their weed. But the tax rates have led to a continuing black market, undercutting the top argument for legalizing in the first place.

Months of delays for permitting and licensing meant that potential pot taxes went uncollected. And limited marijuana supply in both states has further driven up the price of legal weed.

### LESSON THREE: THINK OUTSIDE THE BONG

Pot users these days aren't using the drug the same way hippies in the 1960s did. But Colorado and Washington weren't entirely prepared to deal with popular new forms of edible and concentrated weed.

It took more than 18 months for Washington to begin sales of edible pot.

Colorado had regulations for edible pot already in place from the medical market — but it stumbled, too, when the edibles proved a lot more popular than officials expected and many first-timers weren't sure how much to eat.

Colorado has had to go back after the fact to tighten rules on edible pot packaging and dosing.

### LESSON FOUR: THINK ABOUT THE KIDS

It's an obvious consequence of legalization — wider availability for adults means easier access for kids.

School districts in both Colorado and Washington have reported more kids showing up at school with weed. There have been more kids treated at emergency room for marijuana ingestions, too.

Marijuana exposure isn't fatal, but the experience so far in both states underscores the need for states to have plans for talking with minors about pot.

### LESSON FIVE: THE THIN GREEN LINE

Law enforcement has a big role in reducing potential public safety effects of legalization.

States that legalize pot need a plan in place for how officers determine whether drivers are impaired by marijuana. After legalization, simply sniffing pot in a car or seeing a joint on the seat isn't enough to haul someone to jail.

Officers also need new guidance on handling marijuana evidence, telling legal growing operations from illegal ones, and protecting new businesses may be targets for robbery because they operate with large amounts of cash (because banks are leery of assisting businesses that sell a drug that is illegal under federal law).

the legislative session begins in Olympia next month.

The question, lawmakers say, is how to direct people into the regulated system — maximizing state revenues — without hurting legitimately sick people who use marijuana.

Ideas under discussion include reducing pot taxes to make recreational stores more competitive and eliminating medical dispensaries, which have been largely evaded by law enforcement even though they aren't allowed under state law.

The state could lift its cap on the number of recreational stores and license dispensaries to sell pot for any purpose.

Seattle officials have signaled that they intend to start busting delivery services that flout the law and recently sent letters to 330 marijuana businesses warning them that they'll eventually

need to obtain state licenses or be shut down.

Tacoma has also announced plans to close dozens of unregulated pot shops.

Officials have less leeway to alter the medical marijuana system in Colorado, where it was enshrined in the state constitution in 2000. But lawmakers are nevertheless set to review how it is regulated next year because the state's 2010 scheme is expiring.

Taxes will be a large part of the discussion. Medical pot is now subject only to the statewide 2.9 percent sales tax, one-tenth of the taxes levied on recreational pot.

Colorado's medical marijuana registry has grown from 107,000 people in late 2012 to about 116,000 this year, though marijuana patient advocates dispute that the growth is tax-driven.



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Astoria Mayor Arline LaMear will soon be making appointments to the City's various Boards and Commissions in 2015. The application form may be accessed by visiting the City of Astoria's web page at [www.astoria.or.us](http://www.astoria.or.us) and clicking on the "Forms and Permits" link under "INFORMATION LINKS". The application form is also available in the Mayor's Office on the third floor of City Hall. To apply for current vacancies, submit an application form to the Mayor's Office by 5:00 p.m. January 15, 2015.

Presently there are vacancies on the:

- Budget Committee
- Design Review Committee (vacant positions are for "Design Professional" and "Builder")
- Historic Landmarks Commission
- Hospital Authority
- Library Board
- Parks & Recreation Board
- Planning Commission
- 3R Committee

Contact the Mayor's Office at (503) 325-5824 or via email at [jvuill@astoria.or.us](mailto:jvuill@astoria.or.us) for additional information.