

# CITY OF YAKIMA

## LEGAL

## DEPARTMENT

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### MEMORANDUM

January 10, 2014

TO: City of Yakima Planning Commission  
Steve Osguthorpe, AICP, Director, Community Development Department

FROM: Mark Kunkler, Senior Assistant City Attorney

SUBJECT: Initiative 502 – Revenues

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At the public hearing on January 8, 2014, several comments were received to the effect that the City of Yakima would be losing revenues if the ban on marijuana production, processing and retailing is adopted. Documents in the record provide answers to these comments.

Sections 26 – 30 of Initiative 502 explain the taxing and revenue provisions (pages 39-44 of Initiative 502 as set forth in the record documents).

**Section 26** establishes a “Dedicated Marijuana Fund” in the custody of the state treasurer. This Fund will receive all marijuana excise tax revenues, license fees, penalties, forfeitures and “all other moneys, income or revenue received by the state liquor control board from marijuana-related activities.”

**Section 27** imposes a 25% excise tax on the wholesale sale of marijuana by marijuana producers, a 25% excise tax on the wholesale price of marijuana sold by processors to marijuana retailers, and a 25% excise tax on the retail sale of marijuana to consumers. All of these excise tax revenues are to be deposited in the Dedicated Marijuana Fund.

The only “local tax” revenue opportunity would be the normal retail sales tax imposed on retail sale of marijuana to consumers. None of the excise tax revenues are paid to the cities and counties.

**Section 28** details the disbursement of the revenues from the Dedicated Marijuana Fund. Every three months, the funds are disbursed by the state liquor control board as follows:

(1) \$125,000 to DSHS to implement and conduct a “Washington state healthy use survey” to analyze and report on “academic achievement, age at time of substance abuse initiation, antisocial behavior of friends, attitudes toward antisocial behavior, attitudes toward substance abuse,” and other areas.

(2) \$50,000 to DSHS to conduct a cost-benefit analysis.

(3) \$5,000 to the University of Washington to develop and maintain an web site concerning the “health and safety risks posed by marijuana.”

(4) An amount not exceeding \$1.25 million to the Liquor Control Board to administer the marijuana licensing program.

Funds remaining after disbursal of the above will then be distributed to various programs administered by DSHS, the Department of Health, University of Washington and Superintendent of Public Instruction.

No provision is made for distribution of any amount to cities or counties.

**Section 29** directs DSHS and the department of Health to develop rules to carry out the purposes of Initiative 502.

**Section 30** requires the Washington State Institute for Public Policy to conduct a cost-benefit analysis of the implementation of Initiative 502, including health risks and costs, effect on public safety and the criminal justice system.

On December 17, 2013, Governor Inslee gave an interview to the Tri-City Herald, which included the Governor’s comments regarding projected revenues from Initiative 502. A copy of the article is attached.

### TRI-CITY HERALD

**Local News: “Inslee Says Cities Shouldn't Count on Pot Revenue”** By Geoff Folsom, Tri-City Herald December 17, 2013

2013-12-18T14:48:08Z Tri-City Herald

Cities should not expect to see much tax revenue from recreational marijuana sales, which begin next year in Washington, Gov. Jay Inslee said Tuesday. He isn't even sure if they will make a difference for the state government. "I think we should be very cautious about booking or assuming marijuana revenues," Inslee told the Herald's editorial board in a conference call. "As long as people have access to streams of marijuana that are not within the legal system or they are using medical marijuana for purposes that are not really medical, I just cannot give you a high level of confidence that we are going to generate any particular number of revenues from marijuana," he said. The state plans to levy up to 75 percent in excise taxes on marijuana sales and doesn't intend to share it with local governments. Several cities, including Pasco, want some of that money. But Inslee thinks the revenue stream won't be enough to make a difference in dealing with the state's budget shortfalls. "I do not think people should look at it as a panacea at all," said Inslee, a Democrat who is wrapping up his first year in office. "The fact of the matter is there are a lot of purveyors of marijuana today that for years have been outside the stream of legal commerce, and we probably cannot assume they are all going to take part in this tax voluntarily. That's a reality we've got to recognize." Inslee rolled out a supplemental budget for 2014 on Tuesday. He couldn't find anything in it that should keep the Legislature from finishing its work in the allotted 60 days, he said. But Sen. Sharon Brown, R-Kennewick, said Inslee has proposed \$262 million in new spending, much of it taken from reserve funds. The Legislature worked hard earlier this year to erase a \$2 billion shortfall and create a balanced budget, Brown said. "I don't think it's necessary to open it up again," she said. "This was a collaborative, bipartisan effort. This is not the time to go there. "One program that isn't addressed in the supplemental budget, but that the governor still wants to deal with soon, is a transportation revenue bill. He hopes to get it approved by early next year and it cannot wait until 2015, he said. Brown and other Republicans have called for reforms to the state Department of Transportation before a gas tax increase is considered. If it waits too long, the state runs the risk of local governments in the Seattle area putting their own transportation package together, which could cut the rest of the state out. "Rural areas, I think Eastern Washington areas, I think should have a real interest in not allowing the Balkanization of our transportation system, because the cash-generating engine of King County is no longer going to be available to provide transportation in more rural areas," Inslee said. "Everybody's got an interest; I've been working with both sides to come to the middle on it. "Seventy-one bridges will become structurally obsolete in the state and up to one in five ferry sailings could be eliminated if a transportation package doesn't pass, Inslee said. Possible new projects, such as a Red Mountain interchange off Interstate 82 and completion of the widening of Highway 12 between Pasco and Walla Walla, also would be put off. "All across the state of Washington, including in the Tri-Cities area, we're going to have declining maintenance of our roads and bridges, and that's just unacceptable," he said. "We've got great economic development and agriculture in Southeastern Washington, we've

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got a huge burgeoning wine industry. We've got tremendous opportunity to sell more wine in China and the rest of the world, but if we can't get it to our ports, you've got a problem. "Inslee also expects to have to find other sources of revenue for education, because steady economic growth is not keeping pace with increasing costs, he said. The state added \$1 billion to the budget this year as a result of the McCleary decision, in which the state Supreme Court ruled that the state is not fulfilling its constitutional duty to pay for education and is relying too much on local school district levies. Once progress is made on the McCleary funding, Inslee expects the state to be able to assist districts in dealing with a mandate to decrease class sizes, he said. Local districts have expressed concern about not having enough classrooms or teachers to deal with the mandate. "That's something that can only happen if we have people of good faith who will make the hard choices to actually finance that," he said. "We cannot and we will not finance that by creating more homeless, hungry, sick children by diminishing help for the homeless, diminishing nutritional programs or diminishing help for mental health or reducing our protection for our senior citizens. Those are not solutions to our educational challenges, and that's a line in the sand that we simply have to draw."The state will not be able to employ one-time fixes for the operating budget in 2015, such as using capital money, as it did in resolving the budget, Inslee said. He proposes changing an exemption for forest products that has been abused by the oil and gas industry, he said. That could create \$60 million in revenue. The state also will have to find a way to compensate for lost revenue because of a shift to a service and Internet-based economy, though it likely will take Congressional action to allow the state to get tax money from interstate Internet sales, he said. "We do not tax services, we tax the part of our economy that is disappearing, which is goods," he said. The 2014 supplemental budget has \$7 million to deal with a prison capacity problem, most of which will go toward building a medium security facility at the Washington State Penitentiary in Walla Walla. Inslee said he didn't know how many construction jobs would be created by the project. "Our penitentiaries are just chock full, and there's really no other option," he said. When asked about leadership, Inslee had a holiday message. "One of the secrets to that leadership is to make sure all of our children believe in Santa Claus, and all adults understand that he doesn't work in Olympia and there is no Santa Claus," he said, before rethinking his remark. "At least in state government -- he works in other realms."

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Read more here: <http://www.tri-cityherald.com/2013/12/17/2736335/inslee-says-cities-shouldnt-count.html#storylink=cpy>