



RURAL COUNTY REPRESENTATIVES
OF CALIFORNIA

March 17, 2015

The Honorable Mike Gipson
Member, California State Assembly
State Capitol, Room 4164
Sacramento, CA 95814

RE: Assembly Bill 821 – OPPOSE

Dear Assembly Member Gipson:

On behalf of the Rural County Representatives of California (RCRC), I regret to inform you of our opposition to your Assembly Bill 821, which exempts medical marijuana purchased by a terminally ill patient from sales and use tax application.

RCRC is an association of thirty-four rural California counties and the RCRC Board of Directors is comprised of elected supervisors from those member counties. The issue of medical marijuana and particularly those surrounding cultivation are of importance to RCRC's member counties. Over the past several years, there has been a dramatic proliferation of marijuana cultivation and the scale and volume of individual grow sites has enlarged. In response, the RCRC Board of Directors adopted Policy Principles regarding marijuana cultivation, including principles that rural counties need under any statewide regulatory scheme. One of the centerpieces of RCRC's Policy Principles is that each marijuana regulatory framework contain explicit authority for counties to levy a local tax on marijuana. Our primary focus is the ability to levy local taxes on cultivation; however, a sales tax will also be an option for counties.

As you know, the Legislature is, once again, considering a variety of measures to provide a state regulatory framework for medical marijuana. We believe the enactment of a framework should be a priority this year. RCRC has offered amendments to various authors of medical marijuana regulatory framework measures to address our key priorities - including explicit county taxing authority of marijuana.

Unfortunately, RCRC must oppose AB 821 for two reasons: 1) we believe there should be a state regulatory framework for medical marijuana in place before crafting tax exemptions; and, 2) assuming the enactment of a recreational-use scheme via the initiative process in the coming years, we are very concerned about price differentials

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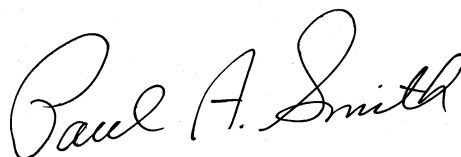
between medical-use marijuana and recreational-use marijuana. We recognize that AB 821 is narrowly crafted to only provide a sales tax exemption to those who are terminally ill. Despite those narrow provisions, we believe this exemption could influence market behavior and lead to the erosion of tax collections associated with the product. Further, we believe there would be great pressure to provide the same exemptions for those who face other painful and difficult health circumstances. And, it should be noted that marijuana is still not recognized as a prescription item and non-prescription items remain subject to sales tax.

To highlight our second concern, there has been an interesting dynamic in the sale of marijuana products associated with the tax structure for the State of Colorado. Simply put, there has been a surge in the amount of “medical” marijuana vis-a-vis recreational use and most observers clearly tie this to the lower price of medical marijuana in retail outlets. In Colorado, medical marijuana is only subject to a 2.7% state sales tax. However, recreational-use products are subject to a 15% state excise tax collected at cultivation, then a 10% state sales tax specifically tied to marijuana sales (with 2.5% of the 10% going back to locals that issue the license), and the 2.7% general state sales tax.

One can see there is in excess of a 25% price differential between medical and recreational marijuana products in Colorado, which we believe is the primary reason for the dramatic amounts of medical marijuana sales. It should be noted that this market behavior deprives Colorado’s governmental entities of the taxes derived from recreational marijuana. Therefore, we believe that a comprehensive regulatory framework (which should address the tax structure) must be put in place this year – and that should occur before we commence tax exemptions.

If you should have any questions or concerns regarding RCRC’s opposition of AB 821, please do not hesitate to contact me at (916) 447-4806.

Sincerely,

A handwritten signature in black ink that reads "Paul A. Smith". The signature is written in a cursive, flowing style.

PAUL A. SMITH
Senior Legislative Advocate

cc: Members of the Assembly Revenue & Taxation Committee
Members of the Board of Equalization