

Cannabis Excise Sales Tax In British Columbia

**A Proposal for Provincial - Local Government
Revenue Sharing**

**Union of BC Municipalities
July 2018**

The Union of British Columbia Municipalities (UBCM) appreciates the collaborative efforts made through the Joint Provincial-Local Government Committee on Cannabis Regulation (JCCR) in developing the regulatory framework in advance of the October 17, 2018 effective date of Bills C-45 and C-46. UBCM recognizes the significant start-up and ongoing costs for both the Province and local governments in achieving the Government of Canada's policy objectives.

Upon entering JCCR discussions, UBCM established 4 guiding principles:

1. Cannabis legalization should not result in additional local government funding by property taxpayers;
2. Local governments should be reimbursed for costs associated with the implementation of legalized cannabis;
3. Local governments should be reimbursed for any additional policing costs resulting from cannabis legislation;
4. Remaining excise tax revenue (after taking out expenses incurred as part of principles 1-3, and the federal share) should be shared between the Province of British Columbia and local governments in the province.

In considering these guiding principles, UBCM has researched the recent experience of legalized cannabis legislation in several United States of America states, as well as developing agreements in Canadian provinces. We reviewed FCM cost estimates for local governments and used the low-end projections in determining a fair and supportable excise tax revenue sharing proposal.

- FCM 'low' cost projections for local governments under administration and policing are \$6 million per one million people. Extrapolating, BC's local governments can anticipate minimum costs of \$58 million over the first 2 years.
- The Province of BC has estimated its portion of cannabis excise tax revenue over the first 2 years to be \$125 million.
- Local government projected costs therefore, represent 46.4% of the provincial cannabis excise tax revenue estimate.
- The Government of Canada reduced its share of excise tax revenue from 50% to 25% recognizing that provinces need a greater revenue commitment in order to address costs for both the provinces and their local governments as they define required services and roles and responsibilities.
- Agreements have been reached between the provincial governments and their local government representative associations in both Ontario and Quebec.
- The Ontario agreement is a reasonable framework for development of a two-year agreement between the Province of BC and UBCM.

UBCM proposes the following for the initial 24-month period:

- The Province commits 40% of its projected cannabis excise tax revenue to local governments. As in Ontario, the parties may wish to translate the percentage into the fixed dollar amount of \$50 million.
- 50% of the cannabis excise tax amount agreed on will be provided to local governments upon formalization of an agreement with the second 50% provided one year later.

- Any revenue in excess of the projected \$125 million provincial portion is to be shared 50-50 between the Province and local governments.
- Although there is an expectation for some cost tracking over the 2 years, there will be no 'clawback.'
- Revenue will be distributed to local governments on a per capita basis (more commonly used in BC than 'per household' used in Ontario).
- Municipalities and regional districts will receive a minimum of \$10,000 regardless of population.
- A process will be developed, with oversight by the JCCR, for tracking of costs on an ongoing basis.

UBCM proposes the following beyond year 2:

- UBCM and the Province to work cooperatively to develop a cannabis excise tax revenue sharing agreement that will explore the following options:
 - a. Continue with the framework used for the first 2 years, particularly if projected costs and revenues are within a reasonable variance from the original projection, OR
 - b. Determine the potential to increase the provincial sales tax on cannabis from 7% to not more than 10% with a commitment of this portion to local governments in place of cannabis excise sales tax revenue sharing. The resulting revenue should be consistent with the 40% of the Province's share of cannabis excise tax revenue over time. Market sensitivity to retail price point will be of primary importance under this option.
- Consideration be given to development of a reporting template for cannabis related incremental costs as part of the Local Government Division's annual financial reporting process.
- The final cannabis revenue sharing agreement to provide ongoing certainty for local governments and therefore, not be deemed a provincial grant, whether conditional or unconditional.
- Revenues received by local governments in excess of reported incremental costs be approved for projects/expenditures that are dedicated to improving community health, which may include programs as well as infrastructure (potential for further definition to be enshrined in an agreement, the objective being to provide tangible benefit for the community as a positive outcome of legalized cannabis).

UBCM recognizes that there are many variables that will impact cannabis related revenues and expenditures over the first 2 years following October 17, 2018 and we are committed to working with the Province of British Columbia in determining a fair and equitable method of revenue sharing to ensure the long-term health and safety of our citizens.