

## **SR1 Cannabis Excise Tax Revenue Sharing with Local Governments**

Whereas the Government of Canada intends to legalize non-medical cannabis on October 17, 2018; and has taken the following actions regarding cannabis excise tax revenue sharing:

- agreed to the Federal-Provincial-Territorial Agreement on Cannabis Taxation, which provides for the federal transfer of cannabis excise tax revenue to provinces and territories; and,
- increased the percentage of cannabis taxation revenue to be transferred to provinces and territories in order to help local governments manage impacts associated with the legalization of non-medical cannabis.

And whereas in the absence of fulsome data the Union of BC Municipalities (UBCM) Executive has endorsed:

- a principled approach to guide the negotiation of a cannabis excise tax revenue sharing agreement with the Government of British Columbia:
  - 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 legalization.
  - 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 BC and local governments.
- a short- and long-term cannabis excise tax revenue sharing strategy, which among other things seeks to adopt the Ontario cannabis excise tax sharing model as the framework for determining an agreement in British Columbia.

Therefore be it resolved that UBCM advance its short- and long-term strategy for cannabis excise tax revenue sharing to the Province of British Columbia for the purpose of negotiating a provincial-local government revenue sharing agreement.

### **Resolutions Committee Comments:**

The Resolutions Committee advises that the UBCM membership has not previously endorsed a resolution requesting that provincial and local governments negotiate a cannabis excise tax distribution framework.

However, the UBCM membership has endorsed several resolutions related to the equitable distribution of cannabis taxation revenue, including resolutions 2017-LR1 and 2016-A3.

In response to resolution 2017-SR1, the Province cited the current work of the Joint Provincial-Local Government Committee on Cannabis Regulation (JCCR), and committed to working with

local governments to address issues such as revenue sharing, and costs experienced by local governments as a result of cannabis legalization.

In response to resolution 2016-A3, the Provincial Government noted that the issue of cannabis taxation would be addressed after the regulatory framework was completed; and that any transfer of taxation revenue to local governments must first consider the Province's need to fund the regulatory framework and essential services impacted by cannabis.

### **UBCM STRATEGY PART 1: Short-Term Recommendations**

- That UBCM adopt the Ontario model as the framework for determining a revenue sharing agreement with the BC Ministry of Finance.
- And that UBCM adopt the following negotiating position that parallels the Ontario agreement:
  - 2-year agreement;
  - 40% (\$50 million) of the projected provincial excise tax revenue is provided to BC local governments;
  - 50% of the local share (\$25 million) is provided up-front upon formalization of the agreement, with the other 50% provided one year later;
  - Any revenue in excess of the projected \$125 million provincial projection is to be shared 50-50 between the Province and BC local governments.
  - This revenue shall not be reduced (i.e. clawed back) for any reason.
  - Excise tax revenue will be distributed to BC local governments on a per capita basis.
  - 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 STRATEGY PART 2: Long-Term Recommendations**

- That UBCM and the Province work cooperatively to develop an agreement (beyond year two of legalization) 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 excise sales tax revenue sharing.
- And that 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.
- And that the final cannabis excise tax revenue sharing agreement provide certainty for BC local governments, and therefore, not be deemed a provincial grant, whether conditional or unconditional.
- And that 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 (the objective being to provide tangible benefit for the community as a positive outcome of legalized non-medical cannabis).

The Province of Ontario has agreed in principle to provide its local governments with \$40 million in cannabis excise tax revenue over 2 years, representing 40% of the projected provincial cannabis excise tax revenue (\$100 million over 2 years).

The JCCR provides a forum for local governments to share their experiences and knowledge, and discuss issues of interest or concern with the Cannabis Legalization and Regulation Secretariat. Since October 2017, local governments and the Province have worked collaboratively to develop a BC framework for non-medical cannabis legalization.

See also resolutions 5.07, 6.03, 6.05, 6.13