



Overview of Local Government Tracking Model for Incremental Costs Associated with Cannabis Legalization



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1. INTRODUCTION

The Union of British Columbia Municipalities (UBCM) has been engaged with the Province of British Columbia over the past two years in the lead up and adoption of legislation legalizing non-medical cannabis in Canada. A UBCM proposal for excise tax revenue sharing between the Province and local governments has been discussed with MLAs and Ministry of Finance officials but no excise tax revenue has been committed to address local costs.

Among the many issues arising from legislative changes, the tracking of incremental costs has been of interest in several provinces, particularly in terms of supporting revenue sharing, including both compensatory payments and the potential for 'community good' consideration should there be excise tax revenue available to a province that exceeds all costs.

The Province is looking to UBCM to provide evidence from its members that supports the assertion that local governments will incur tangible one-time and ongoing costs that result from cannabis legalization in Canada.

2. BACKGROUND

The federal government, in legalizing non-medical cannabis, determined that there would be a 10% excise tax added to the retail price of cannabis (minimum \$1 on product less than \$10).¹ Initially, 50% of this tax revenue was to be passed on to provincial governments and 50% retained to cover federal costs. The provinces' share was subsequently raised to 75% recognizing that local governments in each province would be incurring substantial costs, although revenue sharing decisions are entirely at the discretion of each province.

To date, revenue sharing commitments across Canada have been mixed. For example, the Province of Manitoba has determined that local governments will not receive a share of provincial excise tax revenue. The Province of Ontario made an agreement with its local governments early in the process to allocate \$40 million of excise tax revenue over the first 2 years based on initial projections. While there was no requirement originally for sharing to be contingent on costs, the Province has now stated that local governments will only receive revenue allocations up to the total of 'permitted' costs. Permitted costs are only those costs directly associated with cannabis legislation and incremental to any pre-legislation expenditures. Ontario has determined there will be an initial

¹ The proposed excise tax for cannabis edibles, extracts and topicals will be calculated based on THC content.

allocation of \$15 million distributed among all local governments, followed subsequently by a second \$15 million allocation available only to those jurisdictions agreeing to host retail stores. A total of \$10 million will be held in a contingency fund for unforeseen circumstances with no current timeline commitment.

UBCM's proposal for excise tax revenue sharing adopted the agreement framework utilized in Ontario, with a request for 40% of the estimated \$125 million Provincial portion of projected revenue over the first two years.²

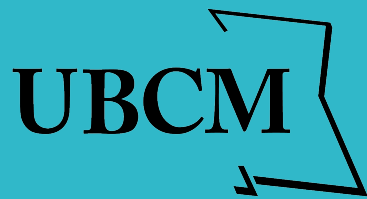
3. MODELLING EXERCISE OVERVIEW

The Province has put forward the idea that local governments quantify incremental expenditures associated with cannabis legalization. To best accomplish this goal, it is important to develop a model that will provide consistency with regard to types of costs and facilitate analysis of information based on various criteria (e.g. size of local government, expenditure type, etc.).


The model will report on expenditures for the 3-year period, 2018-2020. Reporting for 2018 is to be based on actual expenditures; 2019-2020 reporting is to reflect budgeted expenditures. To ensure consistency, reporting will be based on current dollars and will not project inflation. Ongoing expenditures are to be recorded in each year.

The 3-year period was selected recognizing that, as of February 2019, there were over 400 paid applications for private retail cannabis storefronts and close to 300 have been forwarded to local governments for approval. While only a portion will be approved, there are incremental costs associated with review, licensing, bylaw development, etc. that may not be incurred until at least 2020.

² The provincial government, in February 2018, initially projected that it would receive \$125 million in excise tax revenue over the first two years of legalization (\$50 million in 2018/19 and \$75 million in 2019/20). The most recent 2019 provincial forecast projects \$10 million in 2018/19, \$38 million in 2019/20, and \$68 million in 2020/21.



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