

**Testimony Submitted to the
Joint Legislative Budget Hearing**

**Taxes Hearing
February 23, 2021**

The Economic and Revenue Impact of Marijuana Legalization in New York State

**James A. Parrott, PhD
Director of Economic and Fiscal Policies
Center for New York City Affairs at The New School**

Thank you for the opportunity to submit written testimony for the joint legislative Taxes hearing. This testimony is based on an extensive analysis of the economic and revenue impact of legalization of marijuana in New York.¹ I co-authored the report with fellow economist Michele Mattingly.

Legal cannabis sales for both medical and recreational use in the U. S. were estimated to be worth between \$16 and \$19 billion in 2020, with recreational marijuana's share roughly 60 percent and rising. While marijuana is still considered a Schedule 1 controlled substance under federal law, 31 states including New York have decriminalized possession of small amounts of marijuana, and 36 states including New York have legalized marijuana sale and use for medical purposes. All fifty states allow some use of cannabidiol (CBD), a non-psychoactive naturally-occurring chemical found in cannabis plants.

In 2021, New York is likely to join the ranks of 15 states that have legalized recreational marijuana for adult-use. In 2020, four states, including New Jersey, acted to legalize adult-use marijuana, and elected officials in other states are moving in that direction. Legalization first occurred in Colorado, Washington, and other Western states, but in recent years Northeastern and Midwestern states have also approved legal adult-use sale.

Legalization, far from being a resolution of how to address cannabis use, entails a range of policy choices. In making these choices, policy makers are faced with concerns ranging from public health and social equity to economic and employment opportunities, to tax revenue generation.

Legalization has the potential to strengthen local economies and redress existing inequities in both urban and rural New York. The proposals advanced by the Governor and the legislature both aim to provide economic opportunities to communities that have been disproportionately affected by the war on drugs.

Legalization will open up small retail opportunities in urban neighborhoods throughout the state that have experienced widespread pandemic-related restaurant and other small business closures. State policy

¹ James A. Parrott and Michele Mattingly, Economic and Revenue Impact of Marijuana Legalization in New York State—A Fresh Look, January 2021, prepared for New Yorkers for New Revenue & Jobs. Available at <https://www.jamesparrott.net/>. Please direct any questions on this report or testimony to jamesparrott@newschool.edu.

makers can wield considerable influence in shaping the industry's market structure and economic opportunities in a manner that benefits communities that have disproportionately borne the adverse consequences of marijuana criminalization. In designing its licensing system and facilitating access to capital, the state can ensure that low-income Black and brown communities benefit from the newly-legal adult-use economy. Likewise, state policy makers can boost local economies in New York's rural areas by ensuring that small-scale cultivators are able to thrive in the legal market. The success of small-scale farmers will keep cannabis dollars re-circulating through rural New York communities.

Estimating the potential tax revenue and economic impact of legalizing adult-use marijuana over the next several years involves several assumptions about usage, prices, and the rise in legal market share relative to total legal and illicit sales. We estimated total usage based on the latest National Survey of Drug Use and Health and factored in assumptions about the daily usage of frequent users who account for the bulk of total market demand, assuming that there would be a slight increase in per capita usage as the legal market expands. Thus, we estimate that the physical units of marijuana demand as expressed in ounces would rise an average of 2.6 percent annually from 2020 to 2027. Since legalization is now accelerating throughout the Northeast and legal cultivation is rapidly expanding, we assumed a market price at the low end of recent estimates, with prices declining by two percent annually.

We estimate total market demand at about \$3.7 billion in the current fiscal year (2021), with demand in nominal dollars rising to \$3.9 billion by FY 2027. However, because legal sales would grow over time and gain market share at the expense of illicit sales, sales in the legal market would rise from \$566 million in the first full fiscal year of implementation (FY 2023) to \$2.6 billion four years later (FY 2027). We modeled the rise in New York's legal market share based on the experience in Oregon and Washington, two of the first states to legalize adult-use. We assume the legal market's share reaches 14 percent in FY 2023 and rises to 62 percent four years later (FY 2027.) The legal market would continue rising beyond the first five years and could reach \$3.8 billion in FY 2032. On a per-user basis, our New York estimates for first-year legal sales are lower than for Illinois and Michigan during those states' first year of legal sales. New York's actual legal market growth depends on many factors, including the regulatory structure and framework for licensing market participants that the State puts in place.

Using our estimates for legal market demand and the Governor's proposed tax structure, we estimate that recreational marijuana State tax revenue would be \$159 million in FY 2023, rising to \$765 million in FY 2027. We also estimate the State tax yield from the legislature's proposal: \$102 million in FY 2023 and \$469 million in FY 2027. The Governor's proposal to apply the sales tax to adult-use cannabis sales will generate an estimated \$25 million in local sales taxes in FY 2023, rising to \$114 million in FY 2027, and the legislature's excise tax flowing to local governments would provide an estimated \$23 million in FY 2023 and \$104 million in FY 2027. (The chart below summarizes our tax revenue projections.)

Particularly given the Covid-19-damaged economy and the pronounced adverse impact sustained in urban communities of color and among Black-owned businesses, the economic and employment impacts of legalizing recreational-use marijuana are significant. Modifying a widely-used regional input-output model (IMPLAN) to reflect 100 percent in-state cultivation and processing of all marijuana flower, and marijuana-infused edibles and oils, we estimate that \$2.6 billion in retail sales will generate 50,806 jobs, \$2.2 billion in employee compensation, \$4.7 billion in value added, and \$6.1 billion in total economic output. The value added that is generated translates into income streams including wages and benefits, business income to small business owners and corporations, and taxes to the federal, state, and local governments associated with the marijuana supply chain (separate from the excise taxes on retail sales).

Estimated first-year recreational-use sales of \$566 million would generate an estimated \$40 million in state taxes above and beyond the taxes on marijuana sales, and about \$31 million for local governments in the form of sales, property and income taxes. By the fifth year, cannabis economic activity would generate \$155 million in additional state revenue and \$121 million in local taxes. For each \$100 million in excise and sales taxes on marijuana sales, an additional \$30 million in state and local income, property, and sales taxes are created. Payroll taxes supporting New York’s unemployment insurance and workers’ comp funds would also be generated.

Another way to look at the tax implications is that for every \$100 million generated in FY 2023 in adult-use cannabis sales related taxes under the Governor’s proposal tax structure, an additional \$25 million in other state taxes are generated and local governments receive \$35 million in revenue.

**New York tax revenues from adult-use marijuana sales and economic activity
(\$millions)**

State revenues from sales	2023	2027
Governor's tax rates	\$159	\$765
Legislature's tax rates	\$102	\$469
Local revenues from sales		
Governor's tax rates	\$25	\$114
Legislature's tax rates	\$23	\$104
Revenues from supply chain economic activity		
State tax revenue	\$40	\$155
Local tax revenue	\$31	\$121

The employment, income, and state and local tax impact of legalizing adult-use cannabis will be greater to the extent that New York’s leaders make policy choices that encourage locally-owned cannabis cultivators, processors, distributors, and dispensaries, and, as with medical marijuana, opt for a labor peace provision that makes it more likely that workers throughout the cannabis supply chain will enjoy fair pay, benefits, and labor protections.

Thank you for considering this testimony.

#