



CITY AND BOROUGH OF SITKA

A COAST GUARD CITY

MEMORANDUM

To: Mayor Eisenbeisz and Assembly Members
From: Assembly Members Knox, Mosher, and Himschoot
Date: May 4, 2022
Subject: Approve Ordinance 2022-12 Marijuana point of sale tax

Background

Most larger Alaska cities with marijuana growers and retail establishments are collecting targeted taxes on marijuana cultivation and sales, along with any standard city sales tax. Anchorage, Juneau, Fairbanks, North Pole and Ketchikan are just a few that leverage sales or excise taxes.

In 2021 the Assembly considered a point of sale tax on marijuana and marijuana products that failed to pass the assembly and get placed on the ballot. This new version takes into account concerns that were raised by businesses, the public and Assembly members. Key differences include:

- Elimination of standard CBS Sales tax and providing a dedicated single Marijuana and Marijuana products point of sale consumer tax.
- Graduated rate structure over a three year period – 6%, 8%, 10%
- Addition of language clarifying that the CBS Senior Sales Tax exemption does not apply.
- Further clarification of dedication of revenue to the SSD Student Activities Fund

Analysis

Revenue generation is a large driver for any tax. Special taxation on products like marijuana, alcohol and cigarettes is often very well supported by voters and communities looking to distribute taxation away from necessary and critical needs and services to place a greater burden on “luxury” items.

Like alcohol and tobacco, the price of marijuana has been found to have the greatest deterrent impact on youth rates of use. Youth are the most price sensitive demographic in the purchasing spectrum when it comes to products like this. The US Surgeon General and the Centers for Disease Control have countless quantitative surveys that outline best practices for alcohol, sugar sweetened beverages and tobacco pricing; though at this time there isn't hard data on marijuana, there is speculative certainty from many of the same researchers that marijuana will be similar. This body of research points to higher prices as a barrier to youth use.

Fiscal Note:

Based on recent retail sales tax data from Sitka's marijuana industry it is estimated that the 6%, 8%, 10% point of sale tax revenue would be approximately \$210,000, \$280,000, and \$350,000 annually. All sales conducted within the CBS will be subject to the tax unless specifically exempted as a wholesale transfer or sale, or other allowed exempt sale. Any tax holidays and the senior sales tax exemption will not apply to this tax. Currently marijuana is exempt under the senior sales tax exemption with an approximate \$6,500 reduction in sales tax revenue from applied exemptions. The current total reduction in sales tax revenue due to the proposed exemption of marijuana sales would be approximately \$195,000.

The Sitka School District currently budgets \$268,476 to student activities which covers everything from the Athletic and Activities Director, coaching staff, officials and referees, activities travel and other supplies and expenses.

Dedicating Revenue:

The ordinance contains a provision to dedicate revenue to the Sitka School District's Student Activity Fund. The Sitka Health Summit Coalition, Sitka School District, Sitka Tribe of Alaska and the Children's Health Fund Action Group originally collaborated to develop the Fund, which now holds and distributes proceeds of marijuana licensing fees.

Sitka has some significant inequities, with great disparity evident in income, opportunity and health outcomes along class and racial lines. Overall, more than 10% of Sitka's children live in poverty and 36% qualify for free or reduced lunch programs, with that number rising to over 45% in 2020.

The cost of extracurricular and after school activities is increasingly high and growing with the inflation of travel costs, and equipment and supply needs. For a single child to participate in one season of a typical club, sport or other organized healthy activity in Sitka, a family must be able to pay up to several hundred if not thousands of dollars in registration, uniform, travel costs, and other fees.

Some activities have tried to shift this burden on families by engaging in fundraising campaigns, with some Sitka School District seasonal sports and activities needing to raise

tens of thousands of dollars for each activity. Fundraising activities carry their own stress of time commitment, and in reality financial contribution by families, students and organizers. The same workload and the does not in fact remove This financial burden is in addition to the challenge of providing youth with the necessary gear, snacks and transportation needed for full participation in activities. For families with limited resources, these barriers are often insurmountable and kids – often those with the greatest need for healthy, safe activities - are missing out on opportunities to exercise, play, build new skills, and gain exposure to positive peer and adult mentors.

The SSD Student Activity Fund was designed to help close this opportunity gap by funding student participation in activities that improve health and wellbeing. Expanding that mission to provide a stable revenue mechanism to provide activities funding for all Sitka School District youth with affordable and accessible activities benefits the community as a whole.

The Sitka School District's Activities Director manages the program and Sitka School District distributes the funds. The Sitka School District is an ideal partner since they can use the application process that students use to be eligible for free and reduced school lunches to determine eligibility for assistance from the Activities Fund. Funds within the Student Activity Fund would then also be equitably distributed to ensure the greatest success to student extracurricular programs throughout the Sitka School District.