

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title:

AN ORDINANCE relating to the business license tax, amending the definitions of “agricultural product” and “farmer,” and amending Section 5.30.020 of the Seattle Municipal Code relating in connection therewith.

Summary of the Legislation:

The ordinance amends a business license tax exemption that currently applies to farmers who sell agricultural products that they have grown or produced. The amendment would make marijuana growers ineligible for the exemption and therefore subject to the business license tax.

Background:

The City's business license tax applies to all persons engaged in business in the City. SMC 5.45.050. The tax applies to manufacturers, retailers, and wholesalers. There is an exemption in SMC 5.45.090.O for farmers who sell agricultural products that they have grown or produced. This exemption could apply to some marijuana sellers. The City enacted the farmers exemption long before marijuana was legalized. The exemption typically applies to farmers selling traditional agricultural products such as fruits, vegetables, or meat and was never intended to apply to marijuana. The proposed bill will permit the City to impose its business license tax on persons who sell marijuana that they have grown.

The proposed bill amends SMC 5.30.020.B.1 so that the definition of “agricultural product” does not include marijuana. The proposed bill also amends SMC 5.30.020.B.2 so that the definition of “farmer” does not include persons engaged in the business of growing or producing marijuana. The result is that farmers who sell their own agricultural products in Seattle will still be exempt from the tax. But under the amended definitions, marijuana is not an agricultural product and persons who grow and sell marijuana are not farmers and must pay the business license tax.

This legislation does not have any financial implications.

This legislation has financial implications.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2013 Appropriation	2014 Anticipated Appropriation
TOTAL				

Appropriations Notes: There are no budget appropriations or budget decreases associated with this ordinance.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2013 Revenue	2014 Revenue
TOTAL		Bus. Lic. Tax	Unknown	Unknown

Revenue/Reimbursement Notes:

This proposed bill will increase the City’s tax revenue because it will enable the City to impose its business license tax on persons who grow marijuana and sell that marijuana in the City. Without the amendment, the “farmers exemption” that is found in SMC 5.45.090.O may apply to persons who sell marijuana in the City that they have grown themselves. These sales would typically be wholesale sales by producer/processors to retailers located in Seattle.

There is too much uncertainty about the volume and price of marijuana that will be sold in Seattle to be able to estimate the increased tax revenue from the proposed ordinance. In August 2012, the Washington Office of Financial Management attempted to develop an estimate of state and local revenue from I-502, but acknowledged that “the inherent unreliability of existing data makes analysis extremely difficult. Similarly, BOTEK, the consultant hired by the state, said in its June 2013 report that “with the information currently in hand, it is not possible to set specific bounds on the possible range of tax revenues.” In its September 2013 report, the Washington Economic and Revenue Forecast Council declined to produce a forecast of I-502 revenue due to “continued uncertainty over the rules and structure of the market.”

But the proposed amendment will result in the City receiving some tax revenues that it would not receive if the farmers exemption remained in place. The business license tax rate on wholesale and retail sales made in the City is .215 percent. So, for example, a business that sells \$1 million of marijuana at wholesale to Seattle retail stores would pay a business license tax of \$2150. A business selling \$10 million of marijuana would pay a business license tax of \$21,500. And if the total wholesale sales of marijuana producers to Seattle retailers were \$100 million, the tax revenue from those sales would be \$215,000. These numbers are for illustrative purposes only and are not forecasts or predictions.

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

Position Title and Department	Position # for Existing Positions	Fund Name & #	PT/FT	2013 Positions	2013 FTE	2014 Positions*	2014 FTE*
TOTAL							

Position Notes: None.

Do positions sunset in the future? Not applicable
 (If yes, identify sunset date)

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2013 Expenditures	2014 Anticipated Expenditures
TOTAL				

Spending/Cash Flow Notes: None.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
 No.

- b) **What is the financial cost of not implementing the legislation?**

The cost of not implementing the legislation is the loss of business license tax revenue from persons who are eligible for the farmers exemption and who sell marijuana that they have grown. Due to the uncertainties of the market described above, we cannot accurately estimate the cost at this time.

c) Does this legislation affect any departments besides the originating department?

This legislation affects departments that receive funding from the general fund, which is where business tax revenues are deposited.

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives? None.

e) Is a public hearing required for this legislation? No.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation? No.

g) Does this legislation affect a piece of property? No.

h) Other Issues: None.

List attachments to the fiscal note below: None.