OFFICE OF THE
CHIEF FINANCIAL OFFICER
OFFICE OF BUDGET

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To: Honorable Coleman A. Young II, Council Member
From: Steven Watson, Deputy CFO/Budget Director
Date: March 22, 2022
Re: **Response to Marijuana Revenue Research Questions**

On March 1, 2022, you sent a memo with questions related to marijuana revenues to the Legislative Policy Division, which was subsequently referred to the OCFO – Office of Budget for additional follow-up. Please see our responses below. If you have additional questions, please do not hesitate to reach out.

1. How much revenue is currently being generated by marijuana sales in the City of Detroit

   Response: Currently, only medical marijuana sales are permitted in the City of Detroit. Aside from annual licensing fees, the City receives no direct revenue from sales. Previously, there was a 3% State excise tax on medical marijuana provisioning centers' gross retail receipts, a portion of which was shared with host municipalities. However, the Michigan Medical Marihuana Facilities Licensing Act (MMFLA) includes a provision (MCL 333.27601) that eliminated that excise tax after non-medical marijuana use was legalized in Michigan. Note, however, the State separately imposes a 10% excise tax on adult-use marijuana sales, which is shared with host municipalities under the Michigan Regulation and Taxation of Marihuana Act (MRTMA).

2. What would be the anticipated revenue if the City of Detroit adopted adult-use marijuana?

   Response: By authorizing adult-use marijuana in Detroit, the amended ordinance would unlock a new revenue stream for the City from the State-shared 10% excise tax on adult-use marijuana sales. State law allocates 15% of the excise tax revenue to municipalities in proportion to their number of adult-use marijuana retail stores and microbusinesses relative to the statewide total as of September 30 each year. Thus, our revenue potential is based on our proportion of statewide licenses, not necessarily how much sales are generated in Detroit.

   Our current estimate of this potential revenue stream is **$3 million to $4 million annually** once all 106 limited licenses for adult-use marijuana retail and microbusinesses permitted under the ordinance are active (76 retailer, 30 microbusiness). The first year of implementation may be lower if all licenses are not active by September 30. Our estimate is based on the State's current revenue estimates for the excise tax and the current number of out-state active licenses for retailers and microbusinesses (468 as of February 2022).[1] However, the potential revenue will be impacted by a number of factors, including: (1) future changes in out-state licensing, (2) future changes in demand for adult-use marijuana, and (3) whether or not all 106 Detroit licenses are active as of September 30. Note that only 8 microbusinesses are actively licensed statewide, suggesting such licensing in Detroit may not grow to its full potential quickly.

In November 2020, we issued a Fiscal Impact Statement on the previously enacted adult-use marijuana ordinance (attached for your reference). It estimated Detroit's potential share of revenue from the State-shared excise tax at $7 million to $8 million. It also included new expenses for social equity programs, substance use prevention, and administration under the ordinance. Our revenue estimate is lower today because out-state licensing has grown substantially more since 2020, thus illustrating the downside risk on the estimates of this potential revenue.

3. How much revenue would be generated if we were to have 225 provisional or virtual marijuana online stores?

   Response: Only licensed adult-use marijuana retail stores or microbusinesses located in Detroit will impact the revenue potential. If the cap on adult-use marijuana retail and microbusiness establishments were increased, it would increase Detroit's potential revenue from the State-shared excise tax. While higher caps on retail and microbusinesses would increase our potential proportional share, it may not necessarily produce more statewide excise tax because there is a natural limit on aggregate demand for adult-use marijuana. Many consumers today may already be meeting their demand from retailers in other communities, and that may simply shift to Detroit. That said, if the adult-use marijuana retail and microbusiness license cap in the ordinance were increased to 225, then the potential annual revenue could grow to $6 million to $7 million, all else equal. While these revenue estimates remain speculative, given all the other variables at play, they should illustrate the general magnitude to expect.

Att: Fiscal Impact of Proposed Detroit Medical Marijuana Facilities and Adult-Use Marijuana Establishments Ordinance, November 17, 2020

Cc: Honorable Detroit City Council
Jay B. Rising, Chief Financial Officer
Tanya Stoudemire, Chief Deputy CFO/Policy and Administration Director
John Naglick, Chief Deputy CFO/Finance Director
Kimberly Rustem, Director, CRIO
Gail Fulton, City Council Liaison
David Whitaker, Director, Legislative Policy Division

[1] State of Michigan, Marijuana Regulatory Agency, Statistical Reports (https://www.michigan.gov/mra/reports/marijuana-regulatory-agency-statistical-report).

Office of the Chief Financial Officer
CITY OF DETROIT

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CFO MEMORANDUM
NO. 2020-101-021

TO: Michael E. Duggan, Mayor; Honorable Detroit City Council
FROM: David P. Massaron, Chief Financial Officer
SUBJECT: Fiscal Impact of Proposed Detroit Medical Marihuana Facilities and Adult-Use Marihuana Establishments Ordinance
DATE: November 17, 2020

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1. AUTHORITY

   1.1. State of Michigan Public Act 279 of 1909, Section 4s(2)(d), as amended by Public Act 182 of 2014, states the chief financial officer shall submit in writing to the mayor and the governing body of the City his or her opinion on the effect that policy or budgetary decisions made by the mayor or the governing body of the City will have on the City's annual budget and its four-year financial plan.

   1.2. CFO Directive No. 2018-101-029 Fiscal Impact Statements states that the CFO shall issue Fiscal Impact Statements for all items requiring fiscal impact statements, as defined in that Directive, to provide financial information to the Mayor and the City Council as they consider action on proposed local policy or budgetary decision items.

2. PURPOSE

   2.1. To provide financial information to the Mayor and the Detroit City Council as they consider action on the proposed Detroit Medical Marihuana Facilities and Adult-Use Marihuana Establishments Ordinance (the "Ordinance").

3. OBJECTIVE

   3.1. This Memorandum serves as the report on the fiscal impact of the Ordinance in relation to the City's annual budget for FY 2021 and four-year financial plan for FY 2022 – FY 2024 (the "City budget").

4. SCOPE

   4.1. This Memorandum is not intended to convey any statements nor opinions on the advisability of the Ordinance, except for those components of the Ordinance that have or may have a fiscal impact on the City budget.

   4.2. This fiscal impact analysis is based on the Ordinance as described below in Section 5 of this Memorandum. Should the proposal change prior to final approval, an updated CFO Memorandum on its fiscal impact would need to be issued.

5. STATEMENT

   5.1. Conclusion: The Ordinance would have a **positive fiscal impact** on the City budget, primarily due to the new State-shared excise tax revenue the City would unlock by authorizing adult-use marijuana establishments.

5.2. Background: The proposed ordinance would establish standards and procedures for the issuance, renewal, suspension, and revocation of business licenses for medical marihuana facilities and adult-use marihuana establishments consistent with the Michigan Medical Marihuana Facilities Licensing Act (MMFLA) and the Michigan Regulation and Taxation of Marihuana Act (MRTMA). The Ordinance would also provide for the following:

- Application and licensing fees to defray the City's administrative costs
- Penalties for violations of the Ordinance
- "Detroit legacy" certification that provides certain benefits and preferences for eligible individuals and entities involved with adult-use marihuana establishment under certain conditions
- A one-time appropriation of $2 million and expected annual appropriations of $1 million for social equity initiatives in accordance with the legislative purposes of the Ordinance, including, but not limited to, business assistance to Detroit legacy marihuana establishment applicants and licensees
    - The annual $1 million would be supported by $500,000 from BSEED marihuana licensing fees and $500,000 of the State-shared excise tax revenue
- Expected annual appropriations for substance use prevention programming for youth equal to 2% of the State-shared excise tax revenue received in the previous fiscal year

Detroiters Legacy applicants and licensees are individuals, or entities that are at least 51% owned and controlled by such individuals, who have been a Detroit resident at the time of application for at least one year, and additionally has been:

1. Detroit resident for 15 of the past 30 years and continues to reside here throughout the period of licensure; or
2. Detroit resident for 13 of the past 30 years and continues to reside here throughout the period of licensure, and is a low-income applicant; or
3. Detroit resident for 10 of the past 30 years and continues to reside here throughout the period of licensure, and has a prior controlled substance criminal record or a parent with one under certain conditions.

The Ordinance would impose various new social equity requirements on all marihuana establishments and the following limitations on licenses:

- Medical Marihuana Provisioning Centers capped at 75
- Adult-Use Retailer Establishments caped at 75
- Designated Consumption Lounges capped at 35
- Microbusinesses capped at 35
- Other licensing categories would not be capped
- No less than 50% of licenses for certain adult-use categories shall be held by Detroit legacy licensees

It provides the following additional benefits and preferences for Detroit legacy applicants and licensees:

- 99% reduction in application and first-year licensing fees and 75% reduction in second-year licensing fees
- 75% discount off the fair market value of City-owned land transferred to them for the purpose of operating adult-use marihuana establishments
- Six-week exclusive early licensing period for adult-use marihuana establishments

By authorizing adult-use marihuana in Detroit, the Ordinance would also unlock a new revenue stream for the City from the State-shared excise tax on adult-use marihuana. The MRTMA imposes a State excise tax on each adult-use marihuana retailer and on each adult-use marihuana microbusiness at the rate of 10% of the sales price for marihuana sold or otherwise transferred to anyone other than a marihuana establishment. MRTMA allocates 15% of that revenue to municipalities in which a marihuana retail store or a marihuana microbusiness is located, allocated in proportion to the number of marihuana retail stores and marihuana microbusinesses within the municipality.

Previously, there was also a 3% excise tax on medical marihuana provisioning centers' gross retail receipts, which was similarly shared with municipalities. However, the MMFLA includes a provision that eliminated that excise tax once nonmedical marihuana was legalized (MCL 333.27601).

5.3. Fiscal Impact: The Ordinance would have a **positive fiscal impact** on the City budget, as shown in the table below, primarily due to the new State-shared excise tax revenue the City would unlock by authorizing adult-use marijuana establishments. This new revenue stream is estimated at $7 million to $8 million per year and growing as the industry matures. This estimate is based on the State's projections for the excise taxes collected statewide and an estimate of the City's share of adult-use retail and microbusiness establishments added to the current statewide totals. This potential revenue amount assumes the City issues all of its licenses during FY 2022, up to the caps and with the required Detroit legacy share as specified in the Ordinance. It is possible the ramp up in licensing and revenue could occur slower and over multiple years as local businesses develop and the market matures. The timing of the estimated State-shared tax distributions may be delayed later than when the licenses are issued, and they are subject to State appropriation.

The Ordinance would expand existing licensing and inspection responsibilities for BSEED, Police, Fire, Health, and OCFO. It would impose new administrative responsibilities for CRIO, specifically for the Detroit legacy certifications, Marihuana License Review Committee, and the new social equity initiatives. The fiscal impact assumes CRIO needing two additional positions to cover Detroit legacy certifications and coordinating social equity initiatives and licensing. It assumes BSEED needing three additional positions to cover site plan review and licensing. The other departments have more limited responsibilities and may be able to redirect current staff time to these activities.

The Ordinance authorizes new fees to help defray the cost. BSEED and CRIO anticipate charging the following fees:

- BSEED one-time application fee: $1,000 ($10 for Detroit legacy)

- BSEED annual license fee: $5,000 ($50 for first-year Detroit legacy, $1,250 for second-year Detroit legacy)
- CRIO Detroit legacy annual certification fee: $100

City of Detroit
Detroit Medical Marihuana Facilities and Adult-Use Marihuana Establishments Ordinance

	Fiscal Year			
$ in thousands	**2021**	**2022**	**2023**	**2024**
Incremental costs				
Social equity initiatives[1]	$ (2,000)	$ (1,000)	$ (1,000)	$ (1,000)
Substance use prevention for youth[2]	-	-	(148)	(168)
Discounted land sales[3]	-	(600)	-	-
BSEED administration[4]	(80)	(160)	(163)	(166)
CRIO administration[4]	(70)	(140)	(143)	(146)
Total incremental costs	**$ (2,150)**	**$ (1,900)**	**$ (1,454)**	**$ (1,480)**
Incremental revenues				
State-shared excise tax[5]	$ -	$ 7,400	$ 8,400	$ 8,600
CRIO fees (Detroit legacy)[6]	20	20	20	20
BSEED fees (Detroit legacy)[6]	1	5	125	500
BSEED fees (all other)[6]	129	500	500	500
Total incremental revenues	**$ 150**	**$ 7,925**	**$ 9,045**	**$ 9,620**
Prior Year Fund Balance appropriation	**$ 2,000**	**$ -**	**$ -**	**$ -**
Net impact on Four-Year Financial Plan	**$ -**	**$ 6,025**	**$ 7,591**	**$ 8,140**

Notes:

1. Assumes $2 million in one-time seed funding, then annual appropriations equal to $500,000 from State-shared excise tax and $500,000 from BSEED fees.

2. Assumes annual appropriations equal to 2% of prior-year State-shared excise tax revenue.

3. Assumes one-time land sales to 80 Detroit legacy licensees at 25% of $10,000 average. Could be higher and spread over multiple years.

4. Assumes 3 BSEED positions and 2 CRIO positions beginning January 2021.

5. Based on State's statewide revenue projections and Detroit's potential share of adult-use businesses. Assumes the City issues all licenses up to the caps during FY22 with the required 50/50 split for Detroit legacy. Could be a slower ramp up for licensing and State-shared tax distributions. State-shared tax is subject to State appropriation.

6. Assumes the City issues all licenses up to the caps during FY22 with the required 50/50 split for Detroit legacy. Could be a slower ramp up. BSEED fees assume application fees only in FY21 and annual licensing beginning FY22.