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States' Ratings Won't Get High Off Pot

By Hillary Flynn
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Marijuana legalization has failed to live up to the hype in terms of its impact on state economies, according to the three major rating agencies.

"We do not anticipate an impact [from revenues from taxes on legalized marijuana] on the states' rating," Andrea Unsworth, an analyst at Moody's Investors Service who has written about marijuana legalization's impact on Colorado and Washington's state economies, wrote in an email to The Bond Buyer.

The rating agencies have all said the impact of projected marijuana revenues on Colorado and Washington, the two states that legalized marijuana this year, will be minimal. Laura Porter, the lead analyst on Washington at Fitch Ratings doesn't even consider the tax revenues in Colorado because they are "not material enough for the state to be a rating factor," a Fitch spokeswoman wrote in an email. Standard & Poor's said the revenues aren't mentioned in its reports, a spokesman at S&P wrote in an email.

The revenue impact to date contrasts a 2012 report by Washington's Office of Financial Management that estimated revenues from taxes on legalized marijuana could reach up to \$1.9 billion over five years, averaging nearly \$400 million annually -- almost eight times the current projections for the first two years of legalization in that state.

The Cato Institute estimated in a September 2010 report that if the federal government legalized marijuana it would save roughly \$8.7 billion per year from government expenditures on enforcement of prohibition. Thomas Doe, the founder and CEO of Municipal Market Advisors, told Fortune in January that legalization would be a "real positive for states that are struggling right now", and said it would create "significant" revenue to help fund infrastructure gaps and pension obligations.

"[Standard & Poor's] factors in gains from marijuana sales in looking at revenue, but does not specifically break it out at this time," the spokesman wrote.

This is because the revenues from taxes on legalized marijuana do not contribute that much to the state's general fund. Unsworth wrote in an April report on legalized marijuana in Colorado that "Projected tax revenues would constitute a small percentage (1.4%) of the state's available general fund dollars".

This is even after the governor of Colorado's office increased its projected revenue estimates in February, revising its projection for first-year marijuana sales and excise tax revenues up by 40% to \$98 million from \$70 million, according to an April report by Unsworth.

Revenue estimates for fiscal 2015 total \$134 million.

Marijuana legalization's fiscal impact on Washington is even more inconsequential. In June the state estimated that from 2015 to 2017 total revenues from fees and taxes would total \$51.2 million, and \$138.5 million from 2017 to 2019, according to a July report by Unsworth. This is less than 3% of the state's total budgeted revenues.

"The marijuana excise and sales tax revenues were not factored into the budgets for either of the states, and are not included in the state budgets until 2015," Unsworth wrote in the email. "These revenues will likely remain a small fraction of overall state and local funds, even if revenues increase beyond the initial estimates."

Washington's taxes have less of an impact on the state's economy than Colorado's do, because Washington taxes more heavily, which may deter smokers from buying. Washington has a three-tiered 25% excise tax in addition to the 9.6% state and local sales taxes, Unsworth wrote in her July report.

"By comparison, Colorado, the other state with legal recreational marijuana imposes a 15% excise tax alongside a 12.9% combined sales tax for consumers," Unsworth wrote.

The largest chunk of revenues from Colorado's taxes on marijuana will go to school districts, which will receive \$40 million or 29.9% of the projected \$134 million in total marijuana tax revenues. Moody's does not believe this amount will have a notable impact on school district finances.

"The \$40 million in revenue will go to the BEST (Building Excellent Schools Today) Program, which is a competitive grant program available to all Colorado public school districts," Unsworth wrote in the email. "Marijuana revenues that go to the BEST Program may have a marginal impact on school district ratings by decreasing the size of debt issuances for districts that receive BEST grants. We are not aware of the individual school district break-down. Either way, the any impact would likely be minimal on the overall credit quality of a school district."

Unsworth also questions the idea that marijuana legalization reduces policing costs for the states in her April report. The Denver-based advocacy group the Colorado Center on Law & Policy estimated the decriminalization of marijuana would reduce government costs from \$12 million, when adjusted for fixed costs, to \$40 million annually when using the static average cost model -- "just a small fraction of the state's annual \$1 billion law enforcement spending," Unsworth wrote.

The Colorado Association of Chief of Police said in March that marijuana related enforcement costs still exist, because officers still have to oversee unlicensed or illegal sales, diversion to other states and drivers under the influence of marijuana.

The New York Times in its "High Time: An Editorial Series on Marijuana Legalization" series published in July and August cited costs related to the federal government's decision not to legalize marijuana including high incarceration rates and long prison sentences of people arrested for growing, selling, or using illegal marijuana.

The Times cited FBI figures showing there were 658,000 arrests for marijuana possession in 2012, compared to 256,000 for cocaine, heroin and their derivatives. The Times editorial board also said the result of the arrests were "racist" with young black men arrested disproportionately.

"To date, we do not have any conclusive data regarding the fiscal impact of decriminalization for either state as it is too soon for detailed expenditure information," Unsworth wrote in the email.

MMA didn't respond to calls for comment by press time.