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Youngkin wrongly claims ‘every single state’ has earned disappointing cannabis revenue

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“Do not count on the revenue from legalized marijuana to amount to anything. It hasn’t worked in Colorado, it hasn’t worked in California, it hasn’t worked in Oregon. This has been a false advertisement.”

— **Glenn Youngkin, Virginia’s Republican gubernatorial candidate, in remarks at the Fredericksburg Virginia Patriots’ Governor’s Candidate Forum, Feb. 28**

“The economic package that has been sold will wildly disappoint. Every single state that has adopted legalizing marijuana has been disappointed by the economic model.”

— **Youngkin, remarks at a meet-and-greet event in Virginia Beach, March 15**

“It just has fundamentally underperformed in every state where they have used this misguided justification for pressing forward with marijuana.”

— **Youngkin, interview on WLNI’s “The Morningline,” May 14**

On July 1, marijuana possession in small amounts became legal in Virginia, with government-regulated commercial sales of cannabis due to begin exactly three years later. It’s fair to say that Youngkin, the Republican nominee for governor, is not a fan of marijuana — he says he’s never known a habitual user to succeed in life — but his campaign recently denied a claim by Democratic rival Terry McAuliffe that he would seek to repeal legalization if he was elected governor. His campaign said that the former equity investor’s beef is that tax revenue projections “are way overstated, as they have shown to be in other states.”

Is that really the case? Youngkin’s quotes on the matter are from earlier this year, but they are still relevant in light of the recent dispute between the campaigns.

The Facts

In one set of remarks, Youngkin specifically mentioned three states — California, Oregon and Colorado — and in the other remarks Youngkin declared that “every single state” has fallen short on revenue projections. That’s a line that was echoed by his campaign.

Part of the problem with sweeping statements like this is that legalized marijuana has slowly gathered steam across the country. The first states that imposed taxes had less experience than the states that followed, which could apply the lessons learned. There is a fine balance between raising taxes high enough to generate substantial revenue but low enough so the already thriving illegal market is basically put out of business by the state competition.

California, which began legal sales in 2018, is one state that has had trouble getting the balance right. Its cannabis tax system is rather complicated, with a retail value tax levied at the wholesale level, and additional taxes added by localities. All told, the taxes were above 40 percent of the retail selling price, according to a 2020 Tax Foundation report.

The result is that California had legal sales of \$3.1 billion in 2019 — but the illicit market sales still made up about \$8.7 billion, or almost three-quarters, of the market. In fact, California was forced to reduce its revenue estimates in 2018 and 2019. But since that slow start, legal sales have increased. In a May budget statement, Gov. Gavin Newsom (D) said the cannabis excise taxes had generated \$491 million in 2019-2020, above earlier estimates. Revenue is now projected to reach \$730 million in 2020-21 and \$748 million in 2021-22.

Two other states mentioned by Youngkin — Oregon and Colorado — did much better. Oregon, which began sales in 2015, exceeded its initial projections, according to the Tax Foundation, collecting \$21 million in fiscal year 2016, \$70 million in 2017, \$82 million in 2018, \$102 million in 2019 and \$133 million in 2020.

Colorado, which created the first legal marijuana market in 2014, had a slow start but eventually outpaced the projections made by state forecasters. The state collected nearly \$68 million in 2014 — and \$387 million in 2020.

“These [Colorado] figures exceed some pre-legalization forecasts, although revenue growth was sluggish during the first few months of sales,” said a 2021 Cato Institute report on state marijuana legalization. The same report noted that Oregon is raking in more than \$10 million a month — “far above the initial estimate of \$2 million to \$3 million for the entire calendar year.”

Other states that have met or exceeded revenue projections include Illinois, Nevada and Washington. In Washington, for instance, “recreational marijuana generated approximately \$70 million in tax revenue in the first year of sales — double the original revenue forecast,” Cato said. Alaska, the only state with a specific marijuana tax structure, initially did not meet revenue estimates when sales began in 2016, but in fiscal year 2019 it met its original projections as tax collections increased 10 times from fiscal year 2017 to fiscal year 2019.

“It is very difficult to forecast tax revenue from an industry that hasn’t existed before. There are simply too many data points that we don’t have,” said Ulrik Boesen, senior policy analyst for excise taxes at the Tax Foundation and author of the 2020 report. “That being said, you’re right that most states have met expectations over time.”

Youngkin’s comments “are certainly an overstatement. States have recovered non-trivial tax revenue,” said Jeffrey Miron, director of economic studies at the Cato Institute and a co-author of the institute’s report.

Both analysts noted that the amount of revenue is still relatively small, with even Colorado earning only about 1 percent of its revenue from cannabis sales.

But, Miron said, “revenue from legalization should never have been the main argument for legalization. Yes, transferring that revenue (essentially, from underground suppliers to the general taxpayer) is a plus. But the main reasons for legalization are reducing crime from the black market and freeing people to use marijuana without any penalty from the government.”

In a 2019 policy brief, the Pew Charitable Trust noted how difficult it is for states to estimate revenue from a previously illicit market, especially when there is not much of a track record for the recreational marijuana market in contrast to other “sin tax” revenue sources such as alcohol and tobacco. While excise revenue boomed in Colorado, Washington, Oregon, Alaska and Nevada, the market has matured and growth has begun to slow. Oregon reduced its revenue estimate this year for the first time since 2017.

Under legislation signed this year by Virginia Gov. Ralph Northam (D), retail cannabis sales will be taxed at 21 percent statewide, and localities will be able to impose an additional sales tax of up to 3 percent on top of existing sales tax rates. These rates were on the high end of a range of options examined by a team of Northam’s cabinet secretaries.

The Joint Legislative Audit and Review Commission (JLARC) of Virginia estimated this tax structure could generate cannabis tax revenue ranging between \$13.8 million and \$23 million in FY 2024; \$67.4 million and \$112.6 million in FY 2025; \$103.8 million and \$173 million in FY 2026; and \$135.6 million and \$225.9 million in FY 2027.

Boesen said the lower range of those estimates are in line with his own projections.

“State tax burdens should be levied carefully, as cannabis businesses already face a lot of challenges” because the product is still illegal at the federal level, he said, including “limited access to capital, high federal income taxes, and a ban on interstate commerce.”

Matt Wolking, a Youngkin campaign spokesman, issued this statement in response to our findings: “As a successful businessman who loves to dive into research and data, Youngkin is aware of the budgetary challenges that other states have experienced with the reliability and volatility of this tax revenue source. The studies and news reporting over the years support his larger point that tax revenue has been overestimated on many occasions. As a problem-solver relentlessly focused on solutions, Youngkin wants to ensure Virginia avoids those issues as much as possible.”

The Pinocchio Test

Youngkin is pretty far off the mark here. He said marijuana sales have not worked in specific states such as Colorado, Oregon and California — and he wrongly claimed “every single state” had been disappointed in the economics of legal marijuana.

In reality, many states have exceeded their revenue projections for legal marijuana sales, even ones that face initial disappointment such as California. The money raised is not trivial, though adding to state coffers is not the prime motivator of legalization advocates in any case.

In other words, there have been occasional hiccups, but overall this is a success story for states that have embraced legalization. Youngkin earns Three Pinocchios.