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A customer buying medical marijuana in Oakland, Calif. The city collected \$1.4 million in taxes from dispensaries last year.

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OAKLAND, Calif. — As the stubborn economic downturn has forced this city to take painful steps to balance its budget in recent years, it has increasingly turned to one of its newer industries to raise much-needed revenues: medical [marijuana](#) dispensaries.

The city has raised taxes on marijuana dispensaries several times in the past few years, and last year it collected \$1.4 million in taxes from them — nearly 3 percent of all the business taxes it collected. Now Oakland plans to double the number of dispensaries it licenses, to eight from the current four, in the hopes that it can collect even more revenue.

“This is general fund revenue — it all goes into the melting pot,” said David McPherson, the city’s tax and revenue administrator. “When you’re making decisions about what to continue keeping or not, it goes into that decision process. If you don’t have that money, then you’re making other decisions about ‘Are we going to close the libraries on Monday?’ ‘Are you going to end up cutting a cop?’ ‘Are you not giving funds to our arts and things that help our kids?’ ”

Sometimes lost in the discussion of medical marijuana is the extent to which it has become a small but growing source of new tax collections for cities and states that have been struggling to balance their budgets for more than four years now.

Colorado Springs collected more than \$700,000 in taxes from the medical marijuana industry [in 2011](#). It is not a lot of money for a big city. But given the harsh steps the city has taken in recent years — in 2010 it shut off a third of its [streetlights](#) to save \$1.2 million — every bit helps.

Denver collected more than \$3.4 million last year from sales tax and application and license fees, according to preliminary figures. The State of Colorado collected \$5 million in sales tax from medical marijuana businesses last year, more than twice what it collected the year before.

Taxing marijuana is a relatively new field, and cities and states are taking different approaches to raising revenues.

Maine decided that medical marijuana should be subjected to the state's 5 percent sales tax — unless the marijuana is baked into brownies. In that case, it is taxed at a higher 7 percent rate that the state levies on prepared foods.

Oregon closed a budget gap last year in part by raising the annual fees it charges people with doctors' notes to join the state's medical marijuana program. In October, the state [doubled the fee](#) to \$200 a year — with reduced fees available to people on food stamps — to raise an estimated \$6.7 million a year to pay for other health programs.

Of course, some of the money raised must be used to administer the medical marijuana programs and, in some cases, to increase regulation of the industry.

Budget planners always deal in uncertainties like whether tax revenues will rebound or how much it will really cost to provide services. But projecting medical marijuana revenues adds other layers of complications, including whether the federal government will shut down the dispensaries that state and local governments have decided to allow.

After signaling in 2009 that it would not normally pursue groups providing marijuana to sick patients, the Justice Department has cracked down on dispensaries in a number of states in recent months. The Internal Revenue Service has targeted a number of dispensaries that pay federal taxes as well, arguing that they are not entitled to the regular

business deductions they have claimed because they should be considered drug trafficking organizations.

It has made life complicated for cities.

“What we do know is the federal government has made it complicated and the state government has made it complicated and it all flows downhill to us,” said Mayor Chuck Reed of San Jose, Calif., which collects about \$2.5 million in taxes from the 100 marijuana dispensaries that have opened in the city.

Here in Oakland, medical marijuana is booming. Just a few blocks from City Hall is [Oaksterdam University](#), which offers training for people in the industry with classes in state and federal law, civics, legal business structures and various “methods of ingestion.”

The biggest dispensary in the city by far, [Harborside Health Center](#), has 104,000 customers and employs 120 people, 90 percent of whom are from Oakland, in well-paying jobs with good benefits.

Its executive director, Stephen DeAngelo, helped lead the movement several years ago to have the city tax the marijuana industry. “At that time, the city was talking about closing down some really beloved institutions,” he said, adding that Oakland’s fiscal plight led the center to think about ways of helping the city. “What better way of doing that than with a tax?”

But when the city tripled the tax rate to 5 percent in 2010, he worried. “I thought 5 percent was a bit excessive,” Mr. DeAngelo said, but he added that the center was able to absorb the costs. Now, he said, the center is among the biggest taxpayers in Oakland.

Oakland will probably not be able to double its tax collections by doubling the number of dispensaries. Mr. McPherson, the city tax administrator, said that in many cases the same pool of medical marijuana users would simply be choosing from more places. But opening a dispensary near the Berkeley border, he said, might capture some of the Oakland residents who currently go to a dispensary in Berkeley.

Mr. McPherson said the city stood to reap more of what he called the “secondary benefits.”

“You’ve got accountants that are working for them, you’ve got all the security companies that are working for them, you have labs that are working for them, you have bakeries that are baking all the edibles, you have union employees that are getting great benefits, you

have delivery services, hydroponic stores, doctors get some benefit,” he said. “It’s the secondary market that gains from this, and all of those pay business taxes to us.”