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TO: Financial Estimate Committee
FROM: Chris Allanach
DATE: July 20, 2020
SUBJECT: Review of Ballot Measures for Potential Indirect Effects

ORS 250.125 directs the Financial Estimate Committee to consult with the Legislative Revenue Office regarding the potential indirect economic and fiscal effects associated with ballot measures. It is up to the committee to determine if the potential indirect effects are significant and can be feasibly estimated.

LRO has reviewed the following potential ballot measures: Referrals 401 and 402, IP 34, IP 44, and IP 57. We conclude that Referral 401 does not have significant indirect economic or fiscal impacts. IP 57 has no significant indirect economic effects but could have indirect fiscal effects as the measure redirects general tax revenue to fund the commission. However, these impacts depend on future legislative policy and spending decisions that cannot be reasonably estimated at this point. Additional detail is provided below for the three measures that are related to the revenue system.

Referral 402 increases the tax on cigarettes and cigars while also establishing a tax on e-cigarettes and vaping devices. The current estimates are based on those initially produced by the Legislative Revenue Office for HB 2270 during the 2019 legislative session. As such, they include the indirect effects from reduced consumption due to the price increase and a change in cross-border sales. These estimates have been adjusted according to the Office of Economic Analysis' June 2020 Economic and Revenue Forecast. They have also been adjusted for changes in the vaping market that have occurred since the 2019 legislative session.

The indirect economic effects could include a negative employment effect from the reduced sales. At the same time there could be a positive employment impact assuming the increased revenue is returned to the Oregon economy through spending in the health care sector. Our models indicate that the net indirect impacts - on metrics such as employment - are minimal, generally at levels that are less than one-quarter of one percent from the respective baselines. The indirect fiscal effects could be significant due to federal matching revenue. Depending on how the new revenue is spent, federal matching dollars could be two to three times the amount of additional tax revenue. A key feature of state health care funding in Oregon is the potential for federal matching dollars, which receives notable consideration during the policy making process. As such, the ultimate indirect effects depend on legislative decisions that would be made during the 2021 session. Consequently, these indirect effects cannot be quantified in a meaningful way without making detailed assumptions regarding future policy decisions. For local governments that are projected to receive less revenue due to reduced cigarette sales, the indirect fiscal effects similarly depend on future governmental responses.

IP 34 effectively creates a new, regulated market for psilocybin-based products within a clinical environment. While there is some use of these types of products in limited parts of the U.S. and Europe, the intended market here appears to be unique. There are inherent challenges in estimating the size of a new market when an analogous market appears to not exist elsewhere. Key entities created by the measure are manufacturers, service centers, and laboratories. The expected new market would consist of a closed-loop system among these three types of entities. The measure creates a program that includes designated fees and a 15 percent sales tax. Revenues are continuously appropriated for administration and enforcement of the program. Depending on initial assumptions made, revenue estimates vary significantly. Consequently, it is not feasible at this time to produce a reliable estimate of the potential revenue raised from this measure.

Any indirect economic or fiscal effects would be driven by the initial market size. There could be positive impacts on business creation, employment, and personal income resulting from economic activity in Oregon that would otherwise not exist but for the measure. To the extent new economic activity occurs, existing tax structures may be affected by market participants. Depending on how the administrative costs compare to revenue raised, the Legislature may choose to make policy modifications. A potential hurdle within that process is the asymmetric requirements of changing tax law. Given the current uncertainty of an initial financial impact and the ensuing assumption requirements, it is not feasible at this time to make a reliable estimate of the potential indirect economic and fiscal impacts.

IP 44 redirects some marijuana tax collections and reduces penalties related to certain drugs. Tax collections above \$11.25 million per quarter are reallocated from their current uses to those defined in the measure (e.g. to Addiction Recovery Centers). Because there is no change to overall tax collections, no indirect economic effects are expected. Indirect fiscal effects would be determined by administrative and legislative policy responses to the reallocation of

funds. The measure does not identify a revenue source to replace the reallocated dollars. From the state perspective, the Legislature may choose to not replace this funding, or it may choose to redirect funds from other programs to hold the affected programs harmless. Other options include those that land somewhere between these two extremes. For example, the tax collections that would have gone to the State School Fund may or may not be partially or fully replenished pending future legislative action. The nature of any indirect fiscal effects cannot be reasonably estimated at this point because they depend on detailed assumptions for policy decisions yet to be made by the Legislature. Cities and counties face a similar situation where the indirect effects would depend on their responses to the loss of revenue. Also, the dedication of program savings within the corrections system could lead to indirect fiscal effects depending on specific budgetary responses.