

Chair Barnhart and Members of the House Committee on Revenue,

My name is Casey Houlihan and I am the Executive Director of the Oregon Retailers of Cannabis Association. We are a statewide trade association of over 100 businesses in the cannabis industry - predominantly retailers - who are entirely reliant upon the success of Oregon's legal retail marketplace in order for their businesses to succeed.

I am attaching my testimony for HB 2204 for your consideration, along with my comments here. I plan to speak briefly at today's hearing as well where can answer any specific questions you may have about this. I am also attaching an economic analysis from Whitney Economics - a third party economist and one of the more accurate sources of industry-related market data - which shows that a tax increase at this stage could very well lead to a decrease in legal market participation.

Every day, I hear from our retail members about how the additional regulatory hurdles, cost burdens, and overhead required to participate in the legal system and how it is driving down the number of customers they see in a day. Many of the same products available in our stores are available from illicit market dealers at far cheaper prices, and many are following the market economics behind it. Many cannabis consumers have purchased products from the grey market for years and are often not as concerned about some of the benefits that come with tested, regulated product and would instead prefer to choose the less costly option. The legal market is losing out to the illegal market, and a modest increase could tilt things even further in their favor.

Contrary to Sen. Ferrioli's comments during the hearing yesterday, I am confident in saying that MANY consumers are keenly aware of the taxes that they pay for pot - perhaps not at specific rates and what the breakdown is, but certainly in terms of what they pay at the register and how much they get for it. If the alternative market can beat the price they pay by half while getting them twice as much cannabis products, then this becomes a no-brainer for cost-savvy consumers.

I would be happy to invite any of you to speak with some of the members of my business that own retail businesses and have been on the front lines of this fight interacting with customers. They can tell you how the average customer purchase declined when the sales tax was implemented, and we can show you the data from Q4 of 2016 where additional costs related to new and expanded testing requirements led to a precipitous decline in gross retail sales and, in turn, state revenues.

The legal cannabis industry is still very fragile in it's nascency, and according to some estimates the illegal marketplace in Oregon is still accounting for up to 40% of the total in-state market, or approximately \$300m per year. If our aim is to extinguish the in-state illicit market and maximize state revenues to the fullest extent possible, we can only do so by maintaining a competitive legal marketplace. **We strongly urge that you give this issue more time before altering the current tax rates, to allow the legal marketplace to gain it's footing at this critical juncture.**

Please do not hesitate to reach out to me if you have any questions.

Respectfully,

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