

Chair Nathanson and members of the House Committee on Revenue, my name is Meghan Walstatter. My husband and I hold a tier one production license in Clackamas County. I am a founding member of the Oregon Cannabis Association. Currently, I am also a board member and chair of the legislative/policy committee.

I urge you to oppose HB 2015. As I will explain below, this bill will significantly reduce sales in Oregon's regulated cannabis market, harming all participants and leading to a reduction, not an increase, in state tax revenue.

The cannabis industry operates with lower margins than any other business due to section 280E of the Internal Revenue Code. We aren't able to deduct traditional business costs such as payroll, rent, supplies, etc. Any increase in tax could devastate the tiny gains made by this fragile industry. This would heavily and disproportionately impact the mom and pop businesses. Oregon's cannabis products are affordable right now. If we increase the tax, stores will be forced to raise prices or cut their narrow margins. This will result in a crash of the market and closures of retail outlets owned by Oregonians.

In addition to our tier one production license, my husband and I used to own Pure Green, a retail store in Portland. Due to section 280E of the Internal Revenue Code, we had huge tax bills that led to a federal tax payment plan that lasted several years. The Oregon Department of Revenue audited all of our 2015 tax returns. This also resulted in a large state tax bill that required a payment plan.

After the audit, we could no longer afford to run the store. We sold Pure Green to a Canadian company that closed the store when the pandemic first hit. Pure Green remains closed. We would have been forced to sell our store sooner or close it ourselves if there was a higher sales tax that reduced our profit margins.

Over the last year, cannabis businesses were excluded from federal pandemic and wildfire relief money, compounding the complexities and increased business costs arising from the impact of 280-E. Cannabis businesses have limited access to outside financial support. An increase in a sales tax would shake the already struggling industry and force closures of all license holders. Stores would close first, then producers, processors and wholesalers. This means that the tax increase will likely result in less, not more, tax revenue.

Cannabis consumers are very frugal and hyper-focused on prices, due to the highly competitive nature of both the regulated and unregulated markets. When we owned Pure Green, our best-selling product was a particular strain grown by a particular farm.

When another store started carrying this product at a lower price, our customers flocked to the other store until we lowered our price to match them. The management staff at Pure Green were constantly researching prices to remain competitive. This intense price-sensitivity makes our industry especially vulnerable to any tax increase, which will need to be passed on to consumers since retail margins are so slim.

In Oregon, only the cannabis industry has a sales tax. Increasing this sales tax cannot (and should not) be the only way to raise revenue. In such a price-sensitive industry, an increase in sales tax will drive people from the legal market back to the illicit market where the product is untested, dealers don't check ID's and the sales don't generate tax dollars for the State of Oregon.

An increase in taxes will also drive customers to across the river to Vancouver. After the sales tax hit Oregon's cannabis market in 2017, Oregonians flocked to Vancouver stores. Vancouver stores had the highest retail sales in the state of Washington due to the influx of Oregonians. Over the years our prices have stabilized, and fewer Oregonians are crossing the river for cannabis purchases. An increase to the sales tax will push people back across the river and Oregon will lose those tax dollars.

A confluence of industry-specific and time-sensitive factors make a tax increase a potentially existential threat to Oregon's cannabis industry. Due to 280E and our industry-exclusive sales tax, we are taxed more than any other Oregon industry. We also face intense competition from the unregulated market, as well as our neighbors in Washington, California and Nevada. And our industry operates in an environment of low margins and high consumer price-sensitivity. A tax increase would dramatically reduce sales, leading to less, not more tax revenue for the state.

For all of these reasons, I ask the committee to please oppose HB2015.