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**Testimony of Alaina Turnquist, Lead Budget and Policy Analyst
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**To the New York City Council Committees on Finance and Oversight and Investigation
On IBO's Research and Fiscal Projections for NYC Legal Cannabis Market
Tuesday, September 17, 2024**

Good morning, Chair Brannan, Chair Brewer, and members of the Finance Committee and Oversight and Investigation Committee. I am Alaina Turnquist, Economic Development Budget and Policy Analyst for the New York City Independent Budget Office (IBO). I am joined here today by my colleague Brian Cain, Assistant Director of Housing, Environment, and Infrastructure.

In August 2023, IBO published [a report](#) estimating the potential size of a mature legal cannabis market in New York City. In May 2024, IBO updated its estimations using more recent data. IBO also recently published a [report](#) discussing important changes from the last session of the State Legislature, including cannabis policy changes relevant to the City. My testimony today will highlight key takeaways from IBO's cannabis-focused research.

IBO has been estimating the potential size and fiscal impact of New York City's legal cannabis market for over a year. The most recent update in May 2024 estimated that New York City's legal cannabis market could, at maturity, yield between \$33 million and \$200 million in annual tax revenues for the City. Notably a variety of factors impact this large range, including the pace of opening of licensed cannabis dispensaries, consumer preferences for switching to the legal market, enforcement of unlicensed dispensaries, and consumer preferences for different types of cannabis products (edibles for example are a higher priced product than typical flower, yielding greater tax revenue).

IBO recognizes this is a wide-ranging estimate and it relies on data from other states, looking at both the average per capita sales and the price per ounce of cannabis sold. The low end of the estimate (\$33 million) assumes a low amount of cannabis sold per capita at a low price. The high end of the estimate (\$200 million) assumes a high amount of cannabis sold per capita at a high price. IBO's estimates are based on consumption and price patterns seen in other states with at least five years of legal adult-use cannabis sales. When the rollout of the legal market is completed, IBO would expect to see cannabis sales in the middle of this range.

It is difficult to pinpoint a future market size for several reasons. New York State's unique requirements for retail licenses have resulted in a slower rollout of the legal market than in most other states. The presence of unlicensed cannabis dispensaries has also slowed the growth of cannabis tax revenue, because any sales made at these unlicensed stores are untaxed. Even if the City is successful in closing all unlicensed cannabis retail operations, consumers may choose to

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continue patronizing unlicensed sellers—for example, legacy dealers—rather than purchase cannabis from licensed dispensaries.

IBO expects that as more licensed dispensaries open across the City and more unlicensed stores close, which is discussed in more detail below, the pace of cannabis tax revenue collection will increase. Importantly, the amount of potential cannabis tax revenue that the City could eventually see from the mature legal market is small in comparison to other sources of City tax revenue. IBO projects approximately \$85 billion in total City tax revenues in 2028. Even with the highest cannabis projection of \$200 million, this would amount to about 0.24% of the total. Thus, fluctuations in Cannabis revenue are not a make-it-or-break-it factor in creating or closing budget gaps. Although the fiscal impact of unlicensed smoke shops and cannabis revenue is relatively small, unlicensed smoke shops likely affect the ability of licensed dispensaries to compete and succeed. The sale of unlicensed cannabis and tobacco products creates concerns from a consumer protection and public health vantage point.

Cannabis tax revenue collections to date have fallen short of IBO's estimates, but IBO expects collections to increase in the years ahead. As of the 2025 Executive Budget, New York City collected \$2.4 million in cannabis tax in fiscal year 2024. IBO's most recent cannabis tax forecast predicts collections of \$37 million by fiscal year 2028, higher than OMB's forecast of \$30 million in the same year. The legal market has grown dramatically so far in the current calendar year, from 12 licensed dispensaries opening in all of 2023 to over 50 opening so far in 2024. Currently, there are over 70 licensed cannabis dispensaries operating in New York City.

Beyond tax revenue from cannabis sales, the City may also see additional revenue in [Community Reinvestment Grants](#) which will be awarded to communities disproportionately impacted by cannabis prohibition. These grants will be funded out of a portion of the State's cannabis tax revenue. The Cannabis Advisory Board announced that it will begin awarding these grants in 2024, although none have yet been granted. However, the potential amount of grant revenue which could be received is uncertain and would be devoted to the grant-specific project or program, rather than general cannabis revenue which goes to the general fund and can be used for any purpose. The Office of Cannabis Management annually publishes a report with details on fund availability and potential distribution.

Albany Updates

The 2025 New York State Enacted Budget contained some items relevant to cannabis taxation and enforcement in New York City.

First, the Enacted Budget expanded and clarified the powers of local law enforcement to respond to the unlicensed sales of cannabis products. Local law enforcement authorities can now immediately shutter a business for up to a year if they find that the business is both selling cannabis without a license and deemed as posing an imminent threat to public health and safety. As mentioned earlier, IBO expects that as unlicensed cannabis dispensaries continue to be padlocked or to close voluntarily, cannabis tax revenue received by the City will increase.

The Enacted Budget also repealed the cannabis potency tax, which was based on the THC content of cannabis products sold by processors to retail dispensaries. In place of the potency tax, the

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State introduced a flat 9% tax on wholesale cannabis sales from processors to distributors. This tax change will not directly affect City cannabis tax collections, which equal 4% of taxable retail sales of cannabis that take place within New York City.

IBO will continue to monitor legal cannabis market growth and cannabis tax revenue collections. Thank you for your time and we welcome any questions.