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Areawide Marijuana Sales Tax Rate Decrease Proposal, Ordinance 26-082

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Ordinance 26-082 proposes to decrease the current 5% Marijuana Sales Tax rate to a 3% rate. The fiscal year 2027 budget included marijuana sales tax revenue in the amount of \$1,750,000. This proposal would decrease the expected revenues to \$1,048,863.

Based on FY2025 reported sales and tax collections, reducing the Houston (3%) and Palmer (2%) sales tax rates to 0% and 1% respectively, and reducing the outside city limit rate from 5% to 3%, would result in an estimated annual revenue loss of approximately **\$774,417**. The largest impact would come from the outside area reduction, which accounts for about **\$682,796** of the total estimated loss.

FY2025 Actual Revenue and Proposed Revenue Loss

Area	FY2025 Sales Tax Paid / Revenue	Current Rate	Reported Sales	Proposed Rate	Proposed Revenue	Estimated Revenue Loss
Houston	\$74,006	3%	\$2,466,875	1%	\$24,669	(\$49,337)
Palmer	\$42,284	2%	\$2,114,199	0%	\$0	(\$42,284)
Outside	\$1,706,990	5%	\$34,139,795	3%	\$1,024,194	(\$682,796)
Total	\$1,823,280		\$38,720,870		\$1,048,863	(\$774,417)

*City of Houston collects a 2% tax. City of Palmer collects a 3% tax.

The average sales tax collected for marijuana from 2022-2025 is \$1,806,325 with reported sales being an average of \$39,656,657.

No additional staff is needed to administer this tax change.

Staff does recommend that the change be implemented on July 1, 2027, to allow the change to be included in the fiscal 2028 budget and prevent a potential deficit in unassigned fund balance. The fiscal year 2027 unassigned fund balance is projected to be \$8,352 at June 30, 2026, with the marijuana sales of \$1,750,000.