The drive to legalize sale and use of recreational cannabis is gaining momentum in New Mexico. The state's Medical Cannabis Program (MCP) grew 47 percent between November 2017 and November 2018. Four-out-of-five New Mexicans support the MCP and two-thirds support legal, regulated, and taxed sales of recreational cannabis for use by adults.[1] Although the majority of state residents believe that legalization would benefit New Mexico, unanswered questions remain about the legal market's size, structure, and possible governance. This memo addresses five questions fundamental to the creation of a rational, well-regulated, and competitive market for adult-use cannabis in New Mexico.

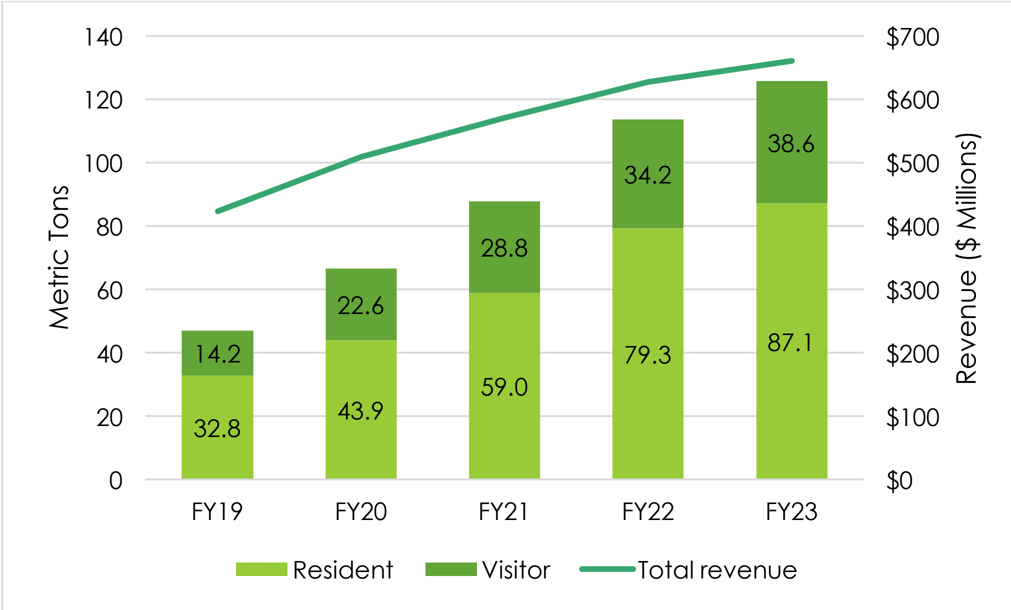
1. What is the demand for regulated adult use cannabis in New Mexico?
2. What are the state and local fiscal impacts of taxing adult use cannabis under the New Mexico Gross Receipts Tax and a newly created Cannabis Gross Receipts Surtax while exempting medical cannabis from gross receipts taxes?
3. How many new jobs would be created by a robust, regulated market for adult use cannabis in New Mexico?
4. How much would comprehensive, centralized state regulation of medical and adult use cannabis cost?
5. What system of licensure fees would fully fund comprehensive, effective state cannabis regulation without impeding market competition?

I. What is the demand for regulated adult use cannabis in New Mexico?

If regulated sale of adult use cannabis were permitted effective July1, 2019, adult-use sales would total $423 million (47 metric tons (t)) after the first full year of implementation and $660 million (125.7 t) in year five.

The estimates presented here are based on the methodology used in the 2016 demand study Legalization of Cannabis for Social Use: A New Mexico Market Analysis.[2] The 2016 model has been updated with new data on cannabis consumption by New Mexicans from the National Survey of Drug Use and Health (NSDUH), new estimates of visitor demand, as well as data and insights from four years of legalized sales in Colorado.

Figure 1: Annual Regulated Adult-Use Cannabis Demand by State Residents and Visitors 2019-2023



Cannabis consumption by adults has steadily increased over the past several years both in New Mexico and throughout the country. The 2016 New Mexico demand estimate, like most state-level estimates of cannabis demand, was based on data from the NSDUH. Between the 2013-14 NSDUH and the recently released 2016-17 survey, the percentage of New Mexico adults who reported using cannabis in the past month increased by 20 percent.[3]

The updated demand forecast predicts a larger volume of cannabis sales but lower total revenue, due to faster-than-expected declines in market price. In Colorado, where adult-use sales have been legal since 2014, the price of cannabis fell 62 percent in three years, from an average of $14.04 per gram of flower in 2014 to $5.34 per gram in 2017.[4] Perhaps not surprisingly, Colorado's rapidly declining price has been accompanied by accelerated demand.

Verified sales data from Colorado's marijuana inventory tracking system shows that Colorado's recreational cannabis market is considerably larger than was originally anticipated.[5] The new data from Colorado prompted several refinements to the New Mexico demand model. Cannabis demand is made up of purchases by state residents and out-of-state visitors. Price is a major driver of resident demand because it impacts the rate at which cannabis consumers shift from the illicit market to the regulated market. In Colorado, despite a more than 60 percent decline in price, total revenue from regulated marijuana sales continues to increase, as do tax revenues, indicating that demand for adult use marijuana is more price elastic than originally assumed.

The term "conversion rate" refers to the pace at which the illicit marijuana market is subsumed by the regulated market after legalization. Three years into legalization, Colorado's adult use program appears to have significantly curbed illicit sales. The program has been so effective that a recent study commissioned by the by the state's Department of Revenue claimed that Colorado's illicit market had been entirely absorbed into its regulated market.[6] The 2016 New Mexico model, which assumed a 25 percent first-year conversion rate, was revised to assume a 45 percent first-year conversion rate and more elastic demand.

Perhaps the most striking revelation from Colorado is that demand (as evidenced by regulated sales) is 45 percent greater than estimated resident and non-resident consumption combined. Data showing that

Colorado's sales have greatly exceeded estimated consumption suggest that New Mexico's 2016 consumption-based demand estimate may have been too low.

Part of the discrepancy between estimated consumption and actual sales is likely due to higher-than-expected purchases by visitors from out-of-state. Tourists whose primary purpose is the purchase of cannabis are likely under-represented in the tourism industry surveys used to measure visitor volume. Furthermore, sole-purpose visitors probably purchase considerably larger volumes of cannabis than traditional tourists.[i]

Although the updated New Mexico estimate utilizes official tourism statistics, we attempt to better capture sole-purpose visitors by adjusting the demand model to increase the prevalence of cannabis consumption by out-of-state visitors and the average quantities consumed as the market matures. As noted in the previous report, New Mexico's shared border with Texas greatly increases the size of its potential adult use cannabis market. There are almost as many regular cannabis users living in Texas within 200 miles of the New Mexico border as there are regular cannabis users in the entire state of New Mexico.[7]

Based on numbers reported by the New Mexico Department of Tourism, we estimate that approximately 22.6 million adults from other states and countries will visit New Mexico in 2019.[8] [ii] The updated New Mexico demand model assumes that in year one of legal sales, 14 percent of adult tourists will visit a dispensary, increasing to 20 percent in year five. Similarly, the year one estimate assumes that visitors who purchase adult use cannabis will purchase the equivalent of 1.5 grams of flower per day in year one, gradually increasing to 2.3 grams in year five. (Table 1)

Table 1. Visitor Cannabis Demand Estimate FY 2019-2023

	2019	2020	2021	2022	2023
Out-of-State Visitors (millions)	22.61	23.28	23.98	24.70	25.44
Visitor Days (millions)	67.82	69.85	71.95	74.10	76.33
Use days (millions)	9.49	12.57	14.39	15.56	16.79
Metric tons	14.24	22.63	28.78	34.24	38.62

Finally, it is worth noting that three of the five Colorado counties with the highest per-capita sales of cannabis are situated along Colorado's border with New Mexico.[9]

2. What are the fiscal impacts of taxing adult use cannabis

Taxation of adult-use cannabis under both the New Mexico gross receipts tax (GRT) and a newly created Cannabis Gross Receipts Surtax (CGRS) would generate $48 million for state government and $22 million for local governments in year one, growing to $85 million and $38 million for state and local governments respectively in year five. Exempting medical cannabis from the New Mexico GRT would reduce state revenue by about $3.2 million and local revenue by about $2.2 million in year one (Figure 2 and Table 2). The fiscal impact of the medical exemption would decline over time due to reductions in price. The year one net fiscal impact would be $45.2 million and $19.5 million in new revenue for state and local

[i] The Colorado authors posit a number of additional potential reasons for the discrepancy, including:
at-home consumer inventory; demand from the under-21 population; waste by visitors; and the inclusion of edible and concentrate products that were not fully considered in federal surveys.
[ii] Assumes 3% annual tourism growth since 2016, the most recent year of published data, and that 77 percent of out-of-state visitors are over 21.

governments respectively. By year five, gains to state government would total $82.9 million and local government cannabis revenue would total $36.7 million (Table 2).

Figure 2: State and Local Cannabis Tax Fiscal Impacts FY 2019-2023

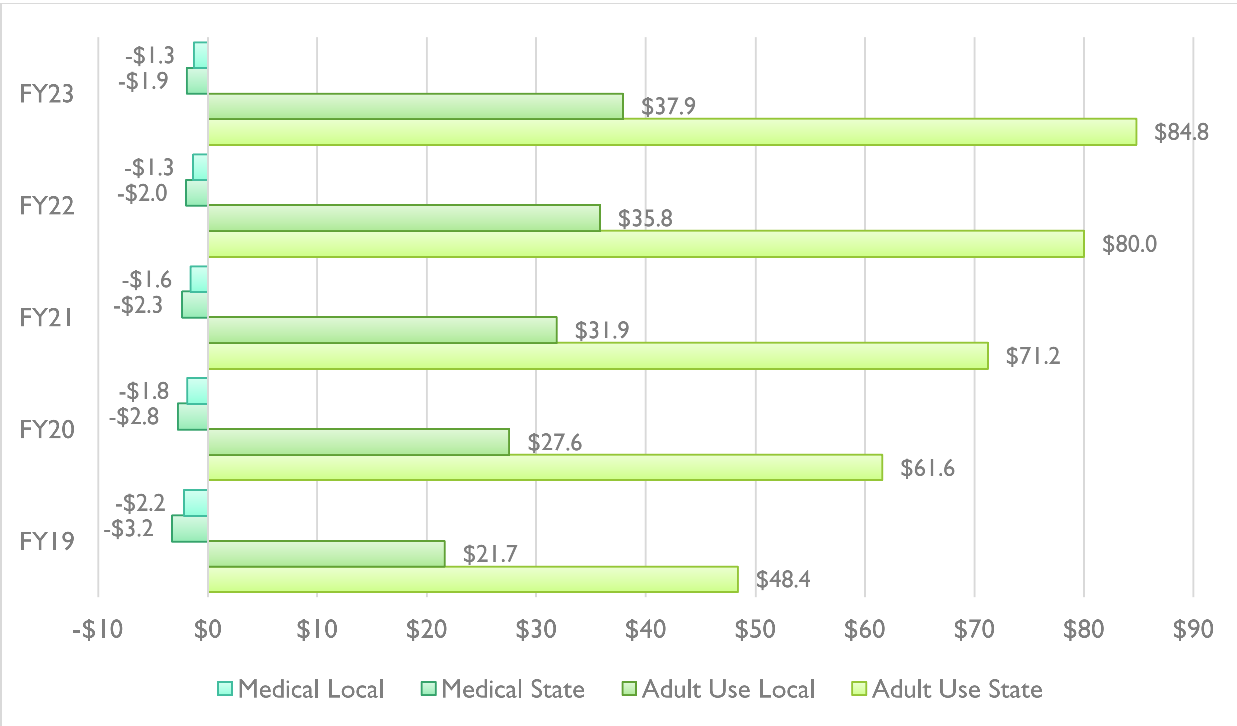


Table 2. State and Local Net Fiscal Impact of Adult Use Cannabis Taxation & Medical Cannabis Exemption					
	FY19	FY20	FY21	FY22	FY23
Adult Use State	$48.4	$61.6	$71.2	$80.0	$84.8
- Medical State	-$3.2	-$2.8	-$2.3	-$2.0	-$1.9
Net State Fiscal Impact	**$45.2**	**$58.8**	**$68.9**	**$78.0**	**$82.9**
Adult Use Local	$21.7	$27.6	$31.9	$35.8	$37.9
- Medical Local	-$2.2	-$1.8	-$1.6	-$1.3	-$1.3
Net Local Fiscal Impact	**$19.5**	**$25.7**	**$30.3**	**$34.5**	**$36.6**

Regulated sale of adult-use cannabis has the potential to generate significant state and local tax revenue. However, to fully realize this potential regulated cannabis prices must be competitive with prices in the illicit market. In addition to inflating prices, taxes can impede the cannabis market by creating barriers to entry, increasing market concentration, and imposing high compliance costs. Adherence to five principles will help ensure that New Mexico's cannabis tax structure fosters healthy markets and achieves public policy goals.

(1) Generate adequate revenue for both state and local governments;
(2) Be as simple as possible, both to administer and to comply with;
(3) Maximize conversion of the illicit market;
(4) Preserve access for medical patients; and
(5) Foster a competitive market.

In this section we model one structure that meets all five criteria: for adult use products a state and local cannabis gross receipts surtax levied with the New Mexico gross receipts tax at the final point of sale at a combined rate not to exceed 20 percent; and for medical cannabis an exemption from all gross receipts taxes. Adult use cannabis would be subject to the New Mexico gross receipts tax (which has both state and local components), a state cannabis surtax, and a local cannabis surtax. The fiscal impact estimate assumes a 7.8 percent gross receipts tax, split roughly 60:40 between state and local government, a 9 percent state cannabis gross receipts surtax, and a 3 percent local cannabis surtax. This combination of taxes, with a total rate of 19.8 percent would be levied on all retail sales of adult-use cannabis products.

Table 3 shows the forecasted net revenue from the proposed tax structure. In the first full fiscal year of adult use sales, tax revenue from cannabis would total $70 million. The New Mexico gross receipts tax would generate roughly $27.6 million and the CGRS would generate $42.5 million. By FY 2023, despite substantially lower market prices, GRT and CGRS revenue would total $48.3 million and $74.4 million respectively. Unlike the numbers in Table 2, the figures in Table 3 do not include the cost of exempting medical cannabis from the GRT.

Table 3. State and Local Fiscal Impact of Adult Use Cannabis Taxation by Type of Tax and Year

Tax	Rate	Revenue ($ Millions)				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Gross Receipts Tax	**7.8%**	**$27.6**	**$35.1**	**$40.6**	**$45.6**	**$48.3**
State share	4.7%	$16.6	$21.1	$24.4	$27.4	$29.0
Local share	3.1%	$11.0	$14.0	$16.2	$18.2	$19.3
Cannabis Gross Receipts Surtax	**12.0%**	**$42.5**	**$54.0**	**$62.5**	**$70.2**	**$74.4**
State	9.0%	$31.8	$40.5	$46.8	$52.6	$55.8
Local	3.0%	$10.6	$13.5	$15.6	$17.5	$18.6
Total	**19.8%**	**$70.0**	**$89.1**	**$103.1**	**$115.8**	**$122.7**

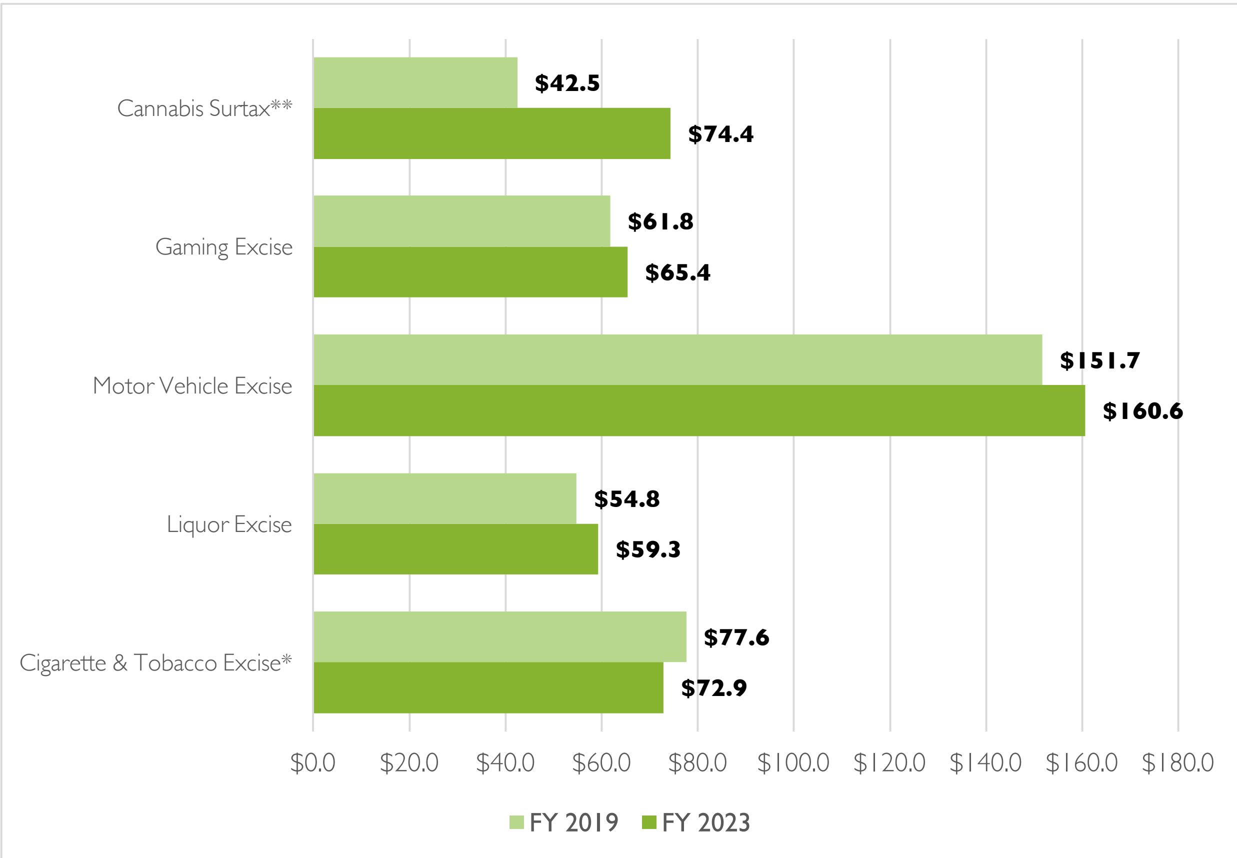
Taxing cannabis presents unique policy and administrative challenges. The market is new and rapidly evolving and the product itself takes a wide variety of forms and potencies. In addition, the two primary objectives of most state legalization efforts –generating tax revenue and harnessing market forces to eliminate the illicit marijuana market– are at direct odds with each other.

As noted earlier, price is a primary driver of conversions from the illicit market to the regulated market. High taxes on regulated cannabis can inflate its cost to the point where it is not price competitive with illicit products. New Mexico's proposed 20 percent rate would be low relative to that of other states with legal adult use markets. However, a number of states have taken steps to reduce their cannabis taxes after concluding that they were too high to eliminate the illicit market.[10]

States traditionally tax goods such as cigarettes, alcohol, and gasoline, by the unit. Under unit-based excise taxes, revenue stays the same regardless of price. A traditional excise tax on cannabis would be extremely difficult to administer because cannabis can be purchased in such a wide variety of forms and because a "unit" of cannabis is not yet well-defined. In addition, a unit tax could be excessively burdensome in an environment of rapidly declining price and diminishing margins.

The CGRS would generate considerably more revenue than the New Mexico Liquor Excise Tax. Unlike both liquor and tobacco taxes, revenue from the CGRS is expected to increase between 2019 and 2023 (Figure 3).

Figure 3: New Mexico Selective Excise Taxes and Proposed Cannabis Surtax, FY 2019-23



* State general fund share
**State and local share
Source: Consensus Revenue Estimating Group. General fund consensus revenue estimate, August 22, 2018 and author estimates

Due to market complexities and price volatility, retail sales taxes are currently the most efficient mechanism for taxing cannabis.[iii] [11] The majority of states with recreational cannabis markets levy at least part of their cannabis taxes on the final (retail) sale. Nevada and Colorado[12] also tax the sale of cannabis by cultivators to retailers and/or distributors. Wholesale taxes such as these can favor vertical integration, creating barriers to entry for smaller businesses. In addition, taxing cultivator sales increases administrative burden by requiring that state revenue departments establish and update "fair market prices" upon which to base calculations of taxable value. Finally, when combined with retail taxes, taxes imposed further up the supply chain create pyramiding (e.g. the imposition of a tax on a tax that is already embedded in price).

In Colorado, recreational cannabis is subject to 5 different taxes with a combined rate of roughly 34 percent. Colorado levies a 15 percent state tax on wholesale transactions and an additional 8 percent state tax on retail cannabis sales. Recreational cannabis is also subject to Colorado's 2.9 percent state sales tax, local sales taxes that average 4.6 percent, and local cannabis excise taxes on marijuana.

Washington state imposes a 37 percent retail cannabis excise tax in addition to the 8 percent state sales tax.

Oregon levies a 17 percent state cannabis sales tax to which municipalities may add up to 3 percent in local option taxes.

The proposed Cannabis Gross Receipts Surtax (CGRS) would be imposed with the New Mexico gross receipts tax (GRT) and mirror the GRT in most respects. Like the GRT, the CGRS would be levied on the seller at the point of final sale. The GRT is composed of a 5.125 percent state base to which local governments may add their own local option gross receipts (LOGRT) tax increments.[iv] One hundred percent of the revenue from local option gross receipts taxes (less than a 3% state administrative fee) is distributed back to the local jurisdictions in which the taxable event occurred.[v] The CGRS would have a state base rate of 9 percent. Local governments that did allow adult-use cannabis sales would be authorized to impose a local option CGRS of up to 3 percent on adult-use sales within their jurisdictions, for a combined maximum rate of 12 percent. Total GRT rates vary considerably across local jurisdictions; but on net, about 60 percent of gross receipts tax revenue accrues to the state general fund and 40 percent accrues to local governments. The CGRS would be divided at a ratio of roughly 3:1 between the state and local governments.

Most states with medical cannabis programs exempt medical cannabis from state cannabis taxes and some states exempt it from tax altogether. Colorado exempts medical cannabis from cannabis-specific taxes, but does subject medical sales to the 2.9 percent state sales tax plus any local sales tax increments.

In New Mexico, the revenue from the GRT and CGRS on adult-use cannabis would more than offset the cost of exempting medical cannabis. The tax reduction would make cannabis more affordable for medical patients and the 20 percent tax differential would also help prevent the medical market from being subsumed by the adult-use market.

3. How many new jobs would be created by adult use cannabis market?

Within five years of a legalization, a robust, regulated market for adult use cannabis would support 11,838 new jobs and $541 million in additional income for New Mexicans.

[iii] Nevada and Colorado both levy a 15 percent excise tax at the wholesale level in addition to a retail sales tax.

[iv] Cities and counties are both authorized to levy a number of different local option gross receipts taxes. The specific combination of taxes and rates varies considerably across local jurisdictions, resulting in gross receipts tax rates that currently range from 5.5% in the unincorporated areas of Lea County to 9.25% in Taos Ski Valley

[v] In addition, one quarter of the state base (1.225%) is returned to the municipality in which a taxable transaction occurs.

Legal cannabis attracts out-of-state visitors whose spending produces a net increase in statewide economic activity. Regulated cannabis can be a particularly powerful economic driver for states because federal law and state regulations prevent the industry from operating across state lines. Unlike many other industries that may purchase inputs from a national or even international network of suppliers and return profits to out-of-state investors, cannabis product manufacturers and retailers must obtain their cannabis and cannabis products from in-state suppliers and cannabis businesses must be owned by state residents. These geographic restrictions make the industry easier for state regulators to police by concentrating most of the economic activity within state boundaries.

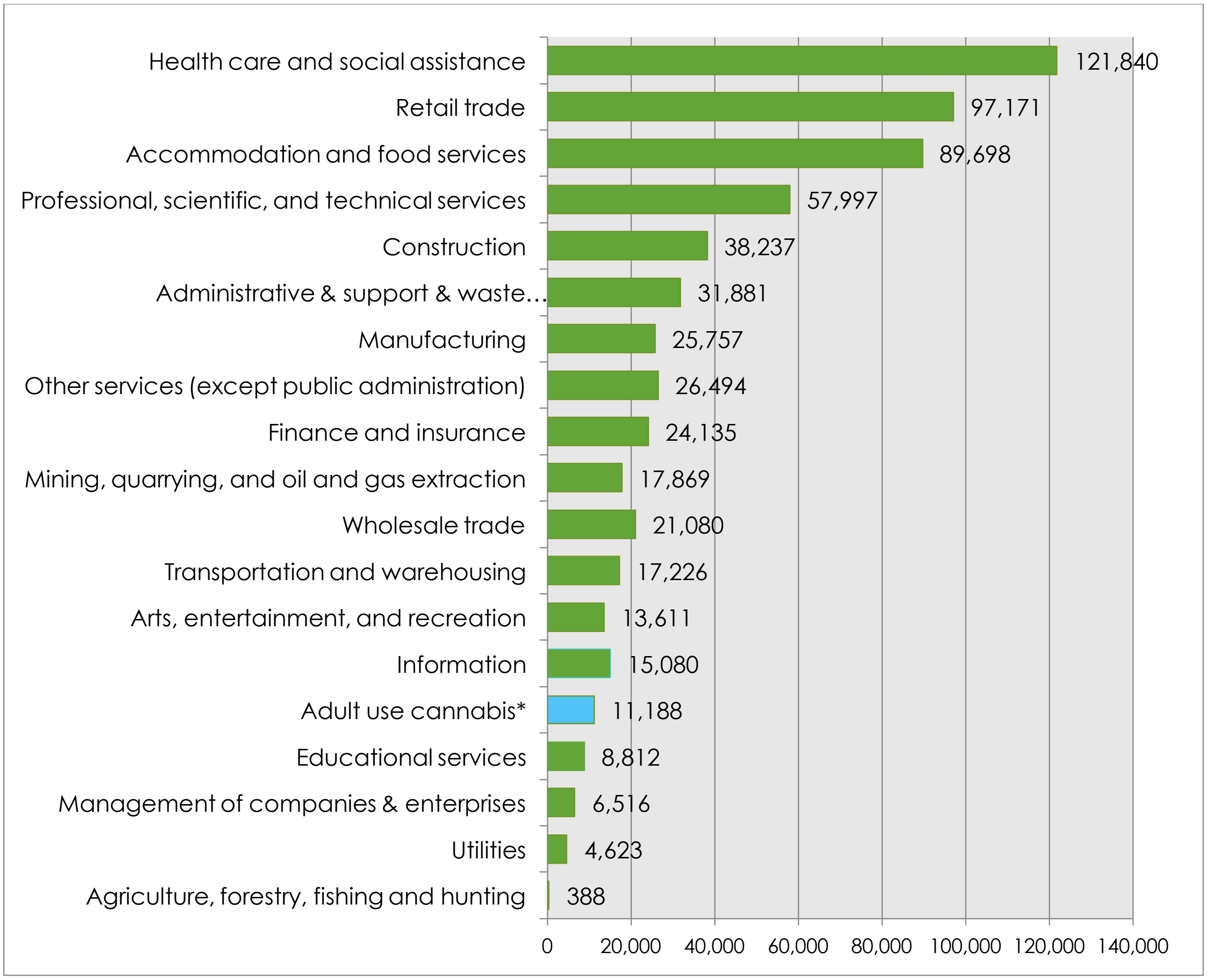
In year one of legalization, New Mexico's social use cannabis industry would create over 4,742 new jobs – 2,789 jobs in cannabis production, manufacturing and retailing, 1,395 jobs in ancillary businesses including professional services, construction, cultivation supplies, warehousing, cash-management, and security and 558 throughout the broader New Mexico economy (Table 4).

Table 4. Employment Impacts of Regulated Adult Use Cannabis Sales

Year	Employment				Employee Compensation (All sectors)
	Plant touching	Ancillary	Induced	Total Employment (FTE)	
2019	2,789	1,395	558	4,742	$200 MM
2020	3,949	1,974	790	6,713	$289 MM
2021	5,207	2,603	1,041	8,851	$389 MM
2022	6,736	3,368	1,347	11,452	$513 MM
2023	7,459	3,729	1,492	12,680	$580 MM

Note: Jobs are expressed as full time equivalents so as to be consistent with other industry publications and to facilitate comparisons to employment in other industries. This is a change from the 2016 demand analysis, which also estimated the absolute number of jobs that would be created by adult-use businesses. Because plant touching occupations are often part-time (retail) and seasonal (cultivation). The number of full time equivalent jobs is significantly lower than actual cannabis industry employment.

Figure 4: New Mexico Employment by Sector and Potential 2023 Cannabis Employment



*Plant touching and ancillary employment from Table 4
Source: U.S. Census Bureau, 2016 County Business Patterns

Data from Colorado once again provides valuable insight with which to augment New Mexico estimates. Colorado requires that all cannabis workers, managers and owners hold state occupational licenses that must be renewed bi-annually. At the end of 2017, Colorado had about 38,000 active individual licenses. A recent comparison of active occupational licenses to industry employment concluded that there were .47 full time equivalent positions in Colorado's cannabis industry for each active occupational license.[13]

Colorado retailers sold 301 metric tons of cannabis in 2017. Thus, for each metric ton of cannabis sold, about 63 full-time equivalent jobs were created in the state's cannabis industry (see note in Table 3 above).

In addition to direct "plant touching" jobs reflected in licensure statistics, the cannabis sector creates jobs in a spectrum of ancillary businesses including security services, construction, HVAC, general agricultural products, consulting, legal services, and marketing. The 2018 Marijuana Factbook[14] estimates that one-in-three cannabis businesses are actually plant-touching and that ancillary services, products and technology companies create just under one additional job for every two direct cannabis industry jobs. Jobs are also created when employees of cannabis and ancillary businesses spend their income in the local economy. These "induced" impacts are estimated to be 20 percent of direct industry employment. Thus, for every direct cannabis industry job, .6 jobs are created in other sectors of the economy.

Although cannabis industry jobs remain a relatively small fraction of Colorado's total employment, the industry's rapid expansion since 2014 has been a major driver of job growth. The number of occupational licenses increased almost eight-fold between January 2014 and January 2018.[15]

4. How much would comprehensive, centralized state regulation of medical and adult use cannabis cost?

Restructuring and expanding New Mexico's cannabis regulatory system to include adult use products would cost the state an additional $3 million, bringing the total cost of cannabis regulation to about $5.5 million annually. This section estimates the cost of regulating retail cannabis and proposes a regulatory fee structure that would fully cover that cost.

The cost estimate assumes that regulation of New Mexico's cannabis industry is centralized at a division within the New Mexico Regulation and Licensing Department (RLD), with limited functions specific to the Medical Cannabis Program (MCP) retained at Department of Health (DOH). The Taxation and Revenue Department (TRD) would administer the new cannabis surtax.

RLD's Cannabis Division would be responsible for all licensing functions, including establishment, administration, and enforcement of licenses for the cultivation, manufacture, distribution, sale, and testing of medical and adult use retail marijuana and retail marijuana products.[vi] Establishing a new division within RLD capable of regulating the rapidly growing and evolving industry would require an estimated 35 to 40 full time employees and cost in the neighborhood of $4 million annually.[vii]

Although RLD would be the cannabis industry's primary regulator, DOH would maintain the medical cannabis registry, establish standards for licensing cannabis testing laboratories, and administer a medical cannabis board to determine qualifying conditions.[viii] Currently, DOH administers the MCP in accordance with the Lynn and Erin Compassionate Use Act, (NMSA 26-2B-1 through 7). This statute, enacted in 2007, required DOH to:

1. Establish a system for applications for registry identification cards for patients and primary caregivers;
2. Set criteria for the addition of qualifying medical conditions;
3. Identify requirements for the licensure of medical cannabis producers;
4. Develop a distribution system for medical cannabis; and
5. Convene the Medical Cannabis Advisory Board.

Under the proposed centralized regulatory structure, requirements (3) and (4) would be shifted from DOH to RLD. DOH's medical cannabis program currently has 28 positions and a FY 2019 budget of over $3 million.[16] Shifting a substantial portion of the regulatory burden to RLD is expected to reduce DOH's costs by over half.

[vi] Examples of the authority vested the Cannabis Division could include the authority to: promulgate rules, grant or refuse state licenses, suspend, fine, restrict, or revoke licenses, impose penalties, conduct licensing, disciplinary, and rule-making hearings, conduct audits and investigations, Issue subpoenas, and establish: penalty and fee amounts, production limits, qualifications and requirements for licensure, procedures for the issuance, renewal, suspension, and revocation of licenses, application, licensing, and renewal fees, requirements and protocols for independent testing and certification of cannabis and cannabis products, requirements to prevent the sale or diversion of retail cannabis to persons under 21, packaging and labeling guidelines, and health and safety regulations and standards for the cultivation, manufacture, storage, and transportation of retail cannabis

[vii] The Colorado Marijuana Enforcement Division (MED) is housed within the State Licensing Authority of the Colorado Department of Revenue. The duties of the MED are similar to those envisioned for the RLD Cannabis Division. Colorado's population is two and a half times larger than New Mexico's. MED's annual budget is about $10 million.

[viii] Unlike the current Medical Cannabis Advisory board, the reconstituted board would have rulemaking authority. The Secretary of the Department of Health would have a seat on the board and thus a voice in decision-making, but would not have unilateral authority to adopt or reject advisory board recommendations.

TRD would administer the cannabis surtax and distribute local option tax revenue back to the jurisdictions in which the taxable transactions occurred. Implementation of a new tax program at TRD would entail rulemaking, development of forms, instructions and informational materials, and IT systems changes. Administration of the new tax would require additional revenue processing, compliance, and legal resources. The cost estimate assumes that three additional FTE would be needed to implement and administer the cannabis surtax program at TRD.

A breakdown of estimated costs and FTE by department is provided in Table 4.

Table 4. Cannabis Regulatory and Tax Administration Costs by Agency		
	FTE	**Approximate Budget**
RLD	37	$4.1 m
DOH	18	$1.3 m
TRD	3	$200,000
Total Cost	58	$5.5 m
Net New Spending	48	$4.0 m

The fact that cannabis sales remain illegal under federal law is one of many reasons for close regulatory oversight of New Mexico's cannabis industry. However, close oversight can be accomplished with fewer administrative restrictions than have been imposed by DOH in its regulation of the medical market.

For purposes of this analysis, we assume a regulatory system with different and distinct licenses for medical cannabis retail stores, adult-use cannabis retail stores, cannabis product manufacturers, cannabis cultivation facilities, cannabis couriers, and cannabis testing facilities.

Cultivation licenses would be a function of plant count, but there would be no explicit limits, at the license, corporate, or market levels, on plant count, canopy size, or production volume. Retail, manufacturing, and testing licenses would be site-specific, meaning that a business with four sites would have four licenses and pay four separate license fees. Individual businesses would be permitted to hold more than one type of license, provided that they met all qualifications for each license type.

To preserve the medical program, which has the potential to be subsumed by the recreational market, a medical retailer license would be perquisite to an adult-use retail license. All retail sites would be required to sell medical cannabis and all licensees would be required to operate at least one dispensary. A cannabis retailer could therefore be licensed to sell medical alone or medical and adult use cannabis, but not adult use alone.

The distribution of license types depicted in Table 5 is based on Colorado licensure data[17] and the projected size of New Mexico's market from the first section of this memo.

Staggered Implementation of Adult Use Sales

The estimates provided in this memo assume that adult sales are legalized effective July 1, 2019. Given the potential size and complexity of the adult use market, a one year phase-in period during which only dispensaries already licensed by the Department of Health are permitted to make recreational sales may be advisable. Staggering implementation in this manner could help ensure a smooth and orderly transition to the new regulatory structure and provide time for proper vetting of all new licensees.

Table 5. Estimated Number of Licenses by Type and Year 2019-2023					
	2019	2020	2021	2022	2023
Laboratories	4	8	9	10	11
Medical Retailers	160	192	219	245	265
Adult-use Retailers	128	154	175	196	212
Manufacturers	36	55	78	108	110
Cultivators	40	77	88	98	106
Couriers	40	48	55	61	66

The proposed licensure structure would protect the medical cannabis program, lower barriers to entry (particularly at the dispensary level) and provide broader access. The fee structure is more flexible and thus more affordable for smaller producers than the current system.

Preserving the Medical Market

The proposed regulatory structure will greatly improve access to medical cannabis by seamlessly integrating the medical and adult use markets. All dispensaries will be required to sell cannabis products to MCP patients free of tax. Medical and adult use customers will purchase the same products in the same amounts for the same prices at the same dispensaries. The only difference between medical and adult use transactions will be that adult use transactions are subject to general and cannabis-specific gross receipts taxes while medical sales are entirely exempt. A medical cannabis card will entitle its holder to an exemption from the taxes levied at the final point of sale, much like presentation of a Non-Taxable Transaction Certificate (NTTC) currently entitles certain entities to purchase goods and services at retail without paying GRT.

6. **What system of licensure fees would fully fund comprehensive, effective state cannabis regulation without impeding market competition?**

The system of licensure fees proposed in Table 6 would generate sufficient revenue to fully fund the cannabis regulatory system described earlier (Table 7).

Table 6: Annual Licensure Fees*	
License Type	Amount
Laboratories	$10,000
Medical Retailers	$750
Adult-use Retailers	$1,000
Manufacturers	$12,500
Couriers	$250
Cultivators**	$50/plant
*Assumed for purposes of analysis ** Capped at $300,000 annually	

Table 7: Cannabis Licensure Fee Revenue 2019-2023					
	2019	2020	2021	2022	2023
Laboratories	$40,000	$76,800	$87,520	$98,022	$105,864
Medical Retailers	$120,000	$144,000	$164,100	$183,792	$198,495
Adult-use Retailers	$128,000	$153,600	$175,040	$196,045	$211,728
Manufacturers	$452,683	$681,290	$970,768	$1.3 MM	$1.4 MM
Cultivators	$5.7 MM	$8.1MM	$10.6 MM	$13.8 MM	$15.2 MM
Couriers	$10,000	$12,000	$13,675	$15,316	$16,541
Total	$6.45 MM	$9.14 MM	$12.05 MM	$15.61 MM	$17.15 MM

States that have legalized the sale of adult use cannabis take a wide variety of approaches to regulation. State licensure fees reflect the diversity of regulatory structures (Table 8). The differences across state systems make an apples-to-apples comparison of fees impossible. However, with the exception of cultivation, the fee structure in Table 6 is generally consistent with fees in other states (Table 8). New Mexico's plant-based cultivation licenses could cost large growers as much as $300,000. This amount, although large, would actually constitute a substantial *reduction* in cost per plant over the fees currently charged by DOH.

Table 8: State Adult Use Licensure Fees, 2018					
	License Fees				
State	**Initial Application**	**Retail**	**Cultivation**	**Manufacturing**	**Testing**
Alaska	$1,000 new, $600 renewal	$5,000	$1,000 (limited cultivation facility); $5,000 (cultivation facility)	$1,000 (extract only); $5,000 product manufacturing	$1,000
California	$1,000 (all license types)	Scale based on maximum dollar value of the licensee's operation			
Colorado	N/A	$4,500 (new); $250 (conversion from med to rec); $2,250 (med adding rec); $1,800 (renewal)	$4,000 (new); $1,800-$7,100 depending on plant count (renewal)	$4,000 (new); $1,800 (renewal)	$2000 (new); $1,800 (renewal)
Massachusetts	Retail: $300; Cultivation: $100 to $600 depending on size; Manufacturing or testing lab: $5,000	$5,000 (brick and mortar); $2,500 (delivery)	$1,000-$5,000 depending on size of grow	$5,000	$5,000
Nevada	$5,000 (all)	$20,000 (new); $6,600 (renewal)	$30,000 (new); $10,000 (renewal)	$10,000 (new); $3,300 (renewal)	$15,000 (new); $5,000 (renewal)
Oregon	$250 (all)	$4750 processor, wholesale & retail	$4,750	$3750 (tier I); $,5750 (tier II);$1,000 (microtier I) $2,000 (mictrotier II)	$4,750
Washington	$266 producer, processor & retailer	$1480 (new and renewal)	$1480 (new and renewal)	$1,480 (new and renewal)	N/A

A Note on Occupational Licensure

New Mexico does not currently issue occupational licenses for cannabis employees, managers, owners, or contractors nor does the present analysis anticipate creation of such a system. It is worth noting, however, that Colorado's Marijuana Enforcement Program requires that all owners and staff employed by, working in, or having access to restricted areas of MEP-licensed premises hold appropriate occupational licenses.[18] *Colorado's marijuana-related occupational licenses generate over $3 million in annual revenue. As of June 30, 2018, Colorado had 38,868 active marijuana occupational licenses Precedent for such a system already exists in New Mexico liquor law. Anyone who sells or serves alcohol in New Mexico, including all bartenders, waiters, managers, liquor license owners, and convenience or grocery store clerks, is required to obtain a Server Permit by taking a state-approved Alcohol Server*

Education class. Over-service and alcohol sales to minors can result in administrative penalties, including permanent revocation of the server permit as well as civil and sometimes even criminal sanctions.

---

[1] Research and Polling Inc. (2018, May). Cannabis Policy Survey.
[2] O'Donnell, K. (2016) Legalization of Cannabis for Social Use: A New Mexico Market Analysis.
[3] United States Department of Health and Human Services. Substance Abuse and Mental Health Services Administration. Center for Behavioral Health Statistics and Quality. National Survey on Drug Use and Health, 2016 and 2017. Research Triangle Park, NC: RTI International. Retrieved from: https://www.samhsa.gov/data/report/2016-2017-nsduh-state-prevalence-estimates
[4] Light, Orens, Rowberry and Salaga. (2016). "The Economic Impacts of Marijuana Legalization in Colorado". The Marijuana Policy Group. Retrieved from: http://www.mjpolicygroup.com/pubs/MPG%20Impact%20of%20Marijuana%20on%20Colorado- Final.pdf
[5] Orens, A. (2018). Market Size And Demand For Marijuana In Colorado 2017 Market Update. Marijuana Policy Group LLC
[6] Orens, A. (2018). Market Size And Demand For Marijuana In Colorado 2017 Market Update. P.4 Marijuana Policy Group LLC
[7] O'Donnell, K. (2016) Legalization of Cannabis for Social Use: A New Mexico Market Analysis.
[8] New Mexico Tourism Department. New Mexico Visitor Profile (2015-2016). Retrieved from: https://assets.simpleviewcms.com/simpleview/image/upload/v1/clients/newmexico/NMTD_Visitor_Profile_2017_526bbfa0-67db-41c2-b8f9-aeb411dddb43.pdf
[9] Wallace, A.(2018) Colorado pot sales hit a record $1.5 billion in 2017, and border towns saw a green rush from neighbors. Denver Post. Retrieved from: https://www.denverpost.com/2018/02/10/colorado-pot-sales-2017-border-towns/
[10] Bishop-Henchman, J. and Scarboro, M.. (2016, May 12) Marijuana Legalization and Taxes: Lessons for Other States from Colorado and Washington. Tax Foundation. Retrieved from: https://taxfoundation.org/marijuana-taxes-lessons-colorado-washington/
[11] Scarboro, M.. (2017, June 7). How High are Marijuana Taxes in Your State? Tax Foundation.
Retrieved from: https://taxfoundation.org/marijuana-taxes-state/
[12] Colorado Revised Statutes Title 39 Taxation § 39-288-302 Retail marijuana--excise tax levied at first transfer from retail marijuana cultivation facility--tax rate
[13] Light, Orens, Rowberry and Salaga. (2016). "The Economic Impacts of Marijuana Legalization in Colorado". The Marijuana Policy Group. Retrieved from: http://www.mjpolicygroup.com/pubs/MPG%20Impact%20of%20Marijuana%20on%20Colorado- Final.pdf
[14] Marijuana Business Daily. (2018) Estimated Full Time Employment in the Cannabis Industry. Annual Marijuana Business Factbook 2018 Retrieved from: https://mjbizdaily.com/factbook-2018-access/
[15] https://www.kansascityfed.org/publications/research/rme/articles/2018/rme-1q-2018
[16] New Mexico State Government Sunshine Portal. Retrieved from: http://www.sunshineportalnm.com
[17] Colorado Department of Revenue Enforcement Division. MED Resources and Statistics.
https://www.colorado.gov/pacific/enforcement/med-resources-and-statistics
[18] Colorado Department of Revenue Enforcement Division. MED Occupational Licensing
https://www.colorado.gov/pacific/enforcement/med-occupational-licensing