Colorado’s Cannabis Experience

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Marijuana in the US

- 62% of Americans say the use of marijuana should be legal. That is double what it was in 2000. 89% support medical marijuana use.

- Medical cannabis is legal in 32 states; cannabis for recreational purposes is legal in 10 states, plus the District of Columbia; 13 states have decriminalized it (but not legalized it).

- These could be the next states to legalize marijuana: Illinois, New Jersey, New York, Minnesota, and Wisconsin.

- Since 2015, cannabis has become the fastest growing industry in the U.S. If cannabis becomes legal in all 50 states, the industry will become larger than the organic food market.
Marijuana Impact Nationally

- There are now over 10,000 licensed cannabis businesses in the United States; 121,000 people employed in the industry; and over 2 million medical marijuana patients served by the industry.

- In 2016 it is estimated that there were $5.8 billion in sales of legal cannabis across the United States. As legalization expands in the United States and abroad, these rising trends will continue.

- Analysis shows that if marijuana were fully legal in all 50 states, it would create at least a combined $131.8 billion in federal tax revenue between 2017 and 2025.

- The study also calculates that there would be 782,000 additional jobs nationwide if cannabis were legalized today, a number that would increase to 1.1 million by 2025. That includes workers at all ends of the marijuana supply chain, from farmers to transporters to sellers.
Cannabis and the Law

• The federal government still strictly prohibits marijuana.
• Under the scheduling system, the federal government classifies cannabis as a schedule 1 drug (no medical value and a high potential for abuse).
• This summer, Senators Gardner and Elizabeth Warren released a bipartisan bill – “Strengthening the Tenth Amendment Through Entrusting States Act” (“STATES Act”). Even if it passes, cannabis will remain Schedule I, but it would allow each state to address commercial cannabis. State-approved commercial cannabis activity would cease to be considered drug trafficking and assets used in legal cannabis operations would not be subject to forfeiture.
• Currently, pot’s federal criminal classification has serious ramifications for cannabis businesses.
  o For example, many state-legal marijuana businesses function as cash-only enterprises since many banks are nervous about dealing with businesses that are essentially breaking federal law.
  o Businesses also can’t file for several deductions and, as a result, their effective income tax rates are extremely high.
Colorado’s Cannabis Timeline

2000 – Voters Pass Amendment 20

2001–08 – Personal cultivation

2008-09 – Commercialization

2010 – Colorado Legislature Regulates Medical MJ
Colorado’s Cannabis Timeline

2012 – Voters Pass A. 64
2013 – A. 64 Task Force
2014 – Commercial sales begin
An October 2016 report from the Marijuana Policy Group found that legal cannabis activities in Colorado generate $2.39 billion in annual state output.

Legal cannabis activities also created more than 18,000 new full-time equivalent positions.
Statewide Coordination Efforts

• In Colorado, 12 agencies are engaged in the execution of the state’s adult-use and medical marijuana programs.
• Within the Governor’s Office, one individual oversees all marijuana policy issues and coordinates interagency efforts.
Department of Revenue

- Licensing
- Maintaining closed-loop system
  - Seed-to-sale tracking
  - Production management
  - Security Requirements
- Compliance and enforcement
Department of Public Safety

• Data collection and analysis
• Extra-regulatory enforcement
• Impaired driving enforcement
Department of Transportation

- Impaired driving law enforcement training
- Impaired driving public education campaigns
Department of Public Health and Environment

- Medical marijuana patient registry
- Public education campaigns
  - Youth use prevention
  - Safe, responsible and legal use
Department of Agriculture

- Regulation of hemp production
- Pesticide testing and enforcement
Role of Local Governments

- Opt in/Opt out
- Licensing and regulation
- Zoning
- Compliance and enforcement
Colorado’s Cannabis Industry
State Licenses

<table>
<thead>
<tr>
<th>Type</th>
<th>Medical</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Outlets</td>
<td>500</td>
<td>529</td>
</tr>
<tr>
<td>Cultivations</td>
<td>739</td>
<td>735</td>
</tr>
<tr>
<td>Product Manufacturers</td>
<td>255</td>
<td>284</td>
</tr>
<tr>
<td>Testing Facilities</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Operators</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Transporters</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>1,519</td>
<td>1,577</td>
</tr>
</tbody>
</table>
Colorado’s Cannabis Industry
Licensed Sales

Marijuana Sales

Millions


- Medical Marijuana Sales
- Retail Marijuana Sales
- Total Marijuana Sales
# Colorado’s Cannabis Industry
## Licensed Sales

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Total Cannabis Sales</th>
<th>Total to Date</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$683,523,739</td>
<td>$683,523,739</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$995,591,255</td>
<td>$1,679,114,994</td>
<td>45 percent</td>
</tr>
<tr>
<td>2016</td>
<td>$1,307,203,473</td>
<td>$2,986,318,467</td>
<td>31 percent</td>
</tr>
<tr>
<td>2017</td>
<td>$1,507,702,219</td>
<td>$4,494,020,686</td>
<td>15 percent</td>
</tr>
</tbody>
</table>
Current Adult Marijuana Use
(used in the past 30 days)

13.6% (2014)
13.4% (2015)
13.6% (2016)

†Data Source: Colorado Behavioral Risk Factor Surveillance System 2017.
Average Market Rate 1 lb Wholesale Flower

$2,007
$1,868
$1,948
$1,816
$1,471
$1,298
$1,305
$1,265
$1,012

Colorado – Flower Pricing vs. Sales Volume

- Avg Rate/lb Flower
- Adult-Use Sales

January 2015: $37.2m
February 2015: $46.4m
March 2015: $1,868
April 2015: $1,948
May 2015: $1,816
June 2015: $81.5m
July 2015: $55.9m
August 2015: $1,471
September 2015: $76.4m
October 2015: $92.8m
November 2015: $93.6m
December 2015: $88.7m
January 2016: $85.8m
February 2016: $81.5m
March 2016: $76.4m
April 2016: $92.8m
May 2016: $93.6m
June 2016: $88.7m
July 2016: $85.8m
August 2016: $81.5m
September 2016: $76.4m
October 2016: $92.8m
November 2016: $93.6m
December 2016: $88.7m
January 2017: $85.8m
February 2017: $81.5m
March 2017: $76.4m
April 2017: $92.8m
May 2017: $93.6m
June 2017: $88.7m
July 2017: $85.8m
August 2017: $81.5m
September 2017: $76.4m
October 2017: $92.8m
November 2017: $93.6m
December 2017: $88.7m
January 2018: $85.8m
February 2018: $81.5m
March 2018: $76.4m
April 2018: $92.8m
May 2018: $93.6m
June 2018: $88.7m
July 2018: $85.8m
August 2018: $81.5m
September 2018: $76.4m
October 2018: $92.8m
November 2018: $93.6m
December 2018: $88.7m

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Colorado’s Cannabis Tax Structure

- **Adult-Use Cultivation**: 15% excise tax
- **Medical Cultivation**:
- **Retail Cannabis Store**: 15% sales tax
- **Medical Dispensary**: 2.9% sales tax
- **Adult-Use Consumer**:
  - **Medical Consumer**

* Cities and counties may also impose local sales and excise taxes
# Marijuana Tax Revenue by Fiscal Year

(Dollar Amounts in Millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical 2.9% Sales Tax</td>
<td>$10.4</td>
<td>$12.2</td>
<td>$12.4</td>
<td>$10.6</td>
<td>$9.1</td>
<td>$8.2</td>
</tr>
<tr>
<td>Retail 15% Excise Tax</td>
<td>$24.0</td>
<td>$42.6</td>
<td>$71.4</td>
<td>$68.0</td>
<td>$57.8</td>
<td>$56.6</td>
</tr>
<tr>
<td>Retail 2.9% State Sales Tax*</td>
<td>$11.8</td>
<td>$19.4</td>
<td>$28.1</td>
<td>$5.2</td>
<td>$0.7</td>
<td>$0.7</td>
</tr>
<tr>
<td>Retail 10% / 15% Special Sales Tax*</td>
<td>$41.9</td>
<td>$67.1</td>
<td>$98.4</td>
<td>$167.2</td>
<td>$182.2</td>
<td>$187.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$88.1</td>
<td>$141.3</td>
<td>$210.4</td>
<td>$251.0</td>
<td>$249.8</td>
<td>$253.3</td>
</tr>
<tr>
<td>Portion of Total to Marijuana Tax Cash Fund</td>
<td>$57.8</td>
<td>$88.6</td>
<td>$124.2</td>
<td>$123.9</td>
<td>$127.6</td>
<td>$130.3</td>
</tr>
</tbody>
</table>

*The new special sales tax rate (from 10% to 15%) became effective July 1, 2017. Retail marijuana is now exempt from the 2.9% sales tax; however, the taxes on goods that do not contain marijuana but are sold in marijuana businesses is still tracked and remitted and deposited into the Marijuana Tax Cash Fund.*
Colorado’s State Fiscal Year Budget

$210.8 million (0.78%)

$27.1 billion (all fund sources)

- Total State Budget
- Cannabis Tax Revenue
Marijuana Tax Revenue Distributions

15% Excise Tax on Retail Marijuana
- first $40 million in FY 2017-18; first $40 million or 90%, whichever is greater, in FY 2018-19

10% Local Share

15% Special Sales Tax on Retail Marijuana
- 90% State Share

2.9% Sales Tax on Medical Marijuana
- 2.9% Sales Tax...
  - ...on non-marijuana products sold in marijuana stores

General Fund
- Of the 90% State share, 28.13% minus $30 million is retained in the General Fund in FY 2017-18; 15.56% is retained in FY 2018-19 and thereafter
- $30 million in FY 2017-18
  - 12.59% of the 90% State Share in FY 2018-19 and thereafter
  - 71.85% of the 90% State Share

Public School Permanent Fund
- Starting in FY 2018-19, amount remaining after the greater of $40 million or 90%
- Interest earnings from the Public School Permanent Fund are deposited into the Public School Fund.

Public School Fund (K-12 Education)

Marijuana Tax Cash Fund (MTCF)
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Agriculture</td>
<td>3,114,098</td>
<td>2,266,446</td>
<td>2,209,783</td>
<td>1,400,212</td>
<td>1,827,477</td>
<td>1,837,500</td>
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<tr>
<td>Education</td>
<td>8,478,160</td>
<td>8,423,844</td>
<td>20,419,330</td>
<td>20,308,352</td>
<td>21,398,827</td>
<td>21,402,319</td>
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<tr>
<td>Governor</td>
<td>216,944</td>
<td>216,944</td>
<td>1,726,824</td>
<td>1,019,670</td>
<td>1,205,479</td>
<td>1,253,640</td>
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<tr>
<td>Health Care Policy and Financing</td>
<td>750,000</td>
<td>721,699</td>
<td>750,000</td>
<td>1,675,000</td>
<td>1,500,000</td>
<td></td>
</tr>
<tr>
<td>Higher Ed</td>
<td>900,000</td>
<td>899,256</td>
<td>3,300,000</td>
<td>3,010,732</td>
<td>3,050,000</td>
<td>1,800,000</td>
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<tr>
<td>Human Services</td>
<td>16,634,353</td>
<td>15,788,457</td>
<td>37,556,743</td>
<td>27,515,810</td>
<td>43,030,700</td>
<td>43,784,908</td>
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<tr>
<td>Judicial</td>
<td>1,550,000</td>
<td>1,550,000</td>
<td>1,571,728</td>
<td>1,571,728</td>
<td>1,587,445</td>
<td>1,587,445</td>
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<tr>
<td>Labor</td>
<td>500,000</td>
<td>279,733</td>
<td>165,296</td>
<td>384,752</td>
<td>1,000,000</td>
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<tr>
<td>Law</td>
<td>1,036,766</td>
<td>696,304</td>
<td>1,036,766</td>
<td>531,714</td>
<td>1,201,686</td>
<td>1,202,263</td>
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<td>Local Affairs</td>
<td>1,180,695</td>
<td>1,263,480</td>
<td>22,477,965</td>
<td>17,207,132</td>
<td>21,635,398</td>
<td>21,664,856</td>
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<tr>
<td>Public Health</td>
<td>18,098,462</td>
<td>17,066,152</td>
<td>20,730,746</td>
<td>20,375,765</td>
<td>27,597,600</td>
<td>23,656,928</td>
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<tr>
<td>Public Safety</td>
<td>722,809</td>
<td>726,488</td>
<td>1,550,794</td>
<td>1,463,659</td>
<td>3,386,839</td>
<td>3,349,160</td>
</tr>
<tr>
<td>Regulatory Agencies</td>
<td>-</td>
<td>-</td>
<td>304,225</td>
<td>31,040</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>7,707,249</td>
<td>6,282,703</td>
<td>1,591,805</td>
<td>948,863</td>
<td>1,245,366</td>
<td>1,299,083</td>
</tr>
<tr>
<td>Transportation</td>
<td>950,000</td>
<td>937,706</td>
<td>950,000</td>
<td>947,505</td>
<td>950,000</td>
<td>1,450,000</td>
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<tr>
<td>Transfers Out</td>
<td>26,277,661</td>
<td>26,277,661</td>
<td>37,500</td>
<td>37,500</td>
<td>989,470</td>
<td>1,717,764</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>88,117,197</strong></td>
<td><strong>83,396,874</strong></td>
<td><strong>116,379,505</strong></td>
<td><strong>97,504,433</strong></td>
<td><strong>131,781,287</strong></td>
<td><strong>130,505,866</strong></td>
</tr>
</tbody>
</table>
Marijuana Arrests

The total number of marijuana arrests decreased by 52% between 2012 and 2017, from 12,709 to 6,153.

Marijuana possession arrests, which make up the majority of all marijuana arrests, were cut in half (-54%). Marijuana sales arrests decreased by 17%. Arrests for marijuana production increased appreciably (+51%).

The number of marijuana arrests decreased by 56% for Whites, 39% for Hispanics, and 51% for Blacks. The marijuana arrest rate for Blacks (233 per 100,000) was nearly double that of Whites (118 per 100,000) in 2017.

Separate data provided by the Denver Police Department’s Data Analysis Unit indicates an 81% decrease in total marijuana arrests, from 1,605 in 2012 to 302 in 2017.

The most common marijuana industry-related crime in Denver was burglary, accounting for 59% of marijuana crime related to the industry in 2017.
Violent Crime in Colorado

U.S. and Colorado Crime Rates per 100,000

Violent Crime Rates in the U.S. and Colorado

Notes: As of 2013, the conversion of rape data included two (2) additional offenses. The increase in the number of rapes does not represent a crime trend increase; it is merely an extension of rape data collection.
Illegal cultivation on public land

The number of plants seized on public lands increased.

There were 80,926 plants seized in 2017, up 73% from 46,662 in 2012.
Diversion to other states

The Colorado Information Analysis Center (CIAC), located in the Department of Public Safety, compiled data from the El Paso Intelligence Center (EPIC), manages a database in which law enforcement agencies can voluntarily report drug seizures. The number of seizures for Colorado-sourced marijuana reported to EPIC increased from 286 in 2012 to 608 in 2017.

The types of marijuana products seized has changed over time, with marijuana concentrates accounting for 26% of seizures and edibles accounting for another 16% in 2017. In 2012, both of those categories combined accounted for 10% of marijuana seizures reported to EPIC.
Traffic Safety

The total number of DUI citations issued by the Colorado State Patrol (CSP) decreased from 5,705 in 2014 to 4,849 in 2017. The prevalence of marijuana or marijuana-in-combination identified by Patrol officers as the impairing substance increased from 12% of all DUIs in 2014 to 15% in 2017.

According to CDOT, the number of fatalities in which a driver tested positive for Delta-9 THC at or above the 5.0 ng/mL level declined from 52 (13% of all fatalities) in 2016 to 35 in 2017 (8% of all fatalities).

The number of fatalities with cannabinoid-only or cannabinoid-in-combination positive drivers increased 153%, from 55 in 2013 to 139 in 2017. However, note that the detection of any cannabinoid in blood is not an indicator of impairment but only indicates presence in the system. Detection of Delta-9 THC, one of the primary psychoactive metabolites of marijuana, may be an indicator of impairment.

A 2017 survey conducted by the Colorado Department of Public Health and Environment found that 3.0% of adults reported driving within two-to-three hours of using marijuana in the past-30 days, while 19.7% of recent marijuana users reported this behavior.
### Driving under the influence citations issued by Colorado State Patrol, by perceived impairing substance, 2014–2017

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th></th>
<th>2015</th>
<th></th>
<th>2016</th>
<th></th>
<th>2017</th>
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<tbody>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>Total DUI citations</td>
<td>5,705</td>
<td>100%</td>
<td>4,898</td>
<td>100%</td>
<td>4,605</td>
<td>100%</td>
<td>4,849</td>
<td>100%</td>
</tr>
<tr>
<td>Alcohol only</td>
<td>4,820</td>
<td>84%</td>
<td>4,042</td>
<td>83%</td>
<td>3,610</td>
<td>78%</td>
<td>3,871</td>
<td>80%</td>
</tr>
<tr>
<td>Marijuana only</td>
<td>359</td>
<td>6%</td>
<td>335</td>
<td>7%</td>
<td>388</td>
<td>8%</td>
<td>335</td>
<td>7%</td>
</tr>
<tr>
<td>Marijuana &amp; alcohol</td>
<td>213</td>
<td>4%</td>
<td>210</td>
<td>4%</td>
<td>239</td>
<td>5%</td>
<td>216</td>
<td>4%</td>
</tr>
<tr>
<td>Marijuana &amp; other drugs</td>
<td>112</td>
<td>2%</td>
<td>107</td>
<td>2%</td>
<td>153</td>
<td>3%</td>
<td>168</td>
<td>3%</td>
</tr>
<tr>
<td>Other drugs</td>
<td>201</td>
<td>4%</td>
<td>204</td>
<td>4%</td>
<td>245</td>
<td>5%</td>
<td>259</td>
<td>5%</td>
</tr>
<tr>
<td>Total marijuana citations</td>
<td>684</td>
<td>12%</td>
<td>652</td>
<td>13%</td>
<td>780</td>
<td>17%</td>
<td>719</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Data provided by the Colorado State Patrol.

Note: Substance is based on trained trooper perception and may not reflect results from toxicology tests.
Adults reporting driving within 2-3 hours of using marijuana, 2014–2017

Past 30-day adult marijuana use, 2014–2017: BRFSS

Source: Marijuana Health Monitoring and Research Program, Colorado Department of Public Health and Environment.
Past 30-day adult marijuana use, by age group, 2014–2017: BRFSS

Source: Marijuana Health Monitoring and Research Program, Colorado Department of Public Health and Environment.
High school students’ past 30-days marijuana use, Colorado and Nation, 2005–2017: HKCS

<table>
<thead>
<tr>
<th>Year</th>
<th>Colorado</th>
<th>Nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>22.7</td>
<td>20.2</td>
</tr>
<tr>
<td>2009</td>
<td>24.8</td>
<td>20.8</td>
</tr>
<tr>
<td>2011</td>
<td>22.0</td>
<td>23.1</td>
</tr>
<tr>
<td>2013</td>
<td>19.7</td>
<td>23.4</td>
</tr>
<tr>
<td>2015</td>
<td>21.2</td>
<td>21.7</td>
</tr>
<tr>
<td>2017</td>
<td>19.4</td>
<td>19.8</td>
</tr>
</tbody>
</table>

High school students’ marijuana use before 13 years old, Colorado and Nation, 2005–2017:

<table>
<thead>
<tr>
<th>Year</th>
<th>Colorado</th>
<th>Nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>9.9</td>
<td>8.7</td>
</tr>
<tr>
<td>2009</td>
<td>8.3</td>
<td>7.5</td>
</tr>
<tr>
<td>2011</td>
<td>9.0</td>
<td>8.1</td>
</tr>
<tr>
<td>2013</td>
<td>8.1</td>
<td>8.6</td>
</tr>
<tr>
<td>2015</td>
<td>9.2</td>
<td>7.5</td>
</tr>
<tr>
<td>2017</td>
<td>6.5</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Past 30-day marijuana use, 12- to 17-year-olds, by state, 2015/2016

Rates of hospitalizations with possible marijuana exposures, diagnoses, or billing codes per 100,000 hospitalizations, by legalization eras in Colorado

ICD-9-CM Coding

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate per 100,000 events</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>575</td>
</tr>
<tr>
<td>2001-2009</td>
<td>803</td>
</tr>
<tr>
<td>2010-2013</td>
<td>1,440</td>
</tr>
<tr>
<td>2014-Sept</td>
<td>2,696</td>
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</table>

ICD-10-CM Coding

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate per 100,000 events</th>
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<tbody>
<tr>
<td>Oct-Dec 2015</td>
<td>3,339</td>
</tr>
<tr>
<td>2016</td>
<td>3,517</td>
</tr>
</tbody>
</table>
Doug Friednash
dfriednash@bhfs.com
303-223-1221