



## Retail Marijuana Revenue Discussion

### Background

In November 2016, state voters approved the legalization of recreational marijuana in Massachusetts. The Regulation and Taxation of Marijuana Act of 2016 requires any seller of recreational marijuana to be a licensed retailer. The state legislature subsequently voted to delay licensing for cannabis shops until July 1, 2018. At the May 2017 Mansfield Town Meeting, residents voted to approve a moratorium on commercial sales of recreational marijuana in town until November 2018.

State law allows municipalities to establish a host agreement with commercial marijuana vendors (recreational, medical or cultivation) to pay the municipality up to 3% of gross sales to offset reasonable costs imposed on the municipality. In addition, a sales tax of 3% may be levied by the town on recreational marijuana sales. As with any other business, the town can also collect property and personal property tax from marijuana businesses, both retail and commercial.

### Revenue assumptions for retail sales of recreational marijuana in Mansfield

- **Potential Revenue:** 3% sales tax, up to 3% Host fee (for this analysis we've calculated revenue on the full 3%), personal property tax only if not incorporated (tax would go to state) and property tax of retail store
- **Potential Risks to Revenue Estimates:** Heavy taxation (23% total) may keep sales underground, oversupply/flood of recreational shops that increases competition, under-reporting of recreational sales
- **Potential Costs to Mansfield:** 1 Police Officer, ~\$300,000 for 3, 8hr shifts. Unknown Fire/Medical adds. No data available on civil and criminal costs resulting from legalization (accidents, damage, etc.)

### Three independent methods to estimate revenue potential from retail sales

- **High Estimate (\$3.1million Gross, or \$2.8 million net of expenses):** MA Sales have been estimated to reach \$1.2B by 2021. If only the 23 existing medical facilities would sell recreational, that would result in those facilities earning ~\$3,130,000/year,  $(\$1,200,000,000 * (0.03 + 0.03)) / 23 = \$3,130,043$  per medical facility. This would likely be followed by several new entrants, bringing revenues per facility down.
- **Medium Estimate (\$412,000 Gross, \$112,000 net of expenses):** Brockton earned \$172,000 in 2016 from a 2.5% host community agreement on medical sales (\$6.88 million in sales). This could mean \$412,000 in revenue if recreational sales match Brockton's medical sales and the full 3% host fee is charged along with 3% sales tax. Note recreational sales may not mimic medical, especially with 23% total tax (state, local, & host).
- **Low Estimate (\$54,000 Gross, -\$246,000 net of expenses):** Discussions with Investors has disclosed an average 1400sf retail dispensary in CA sells recreational of \$60,000-\$75,000/month. This sales level would result in up to \$54,000 in revenue  $((75,000 * 12) * (0.03 + 0.03)) = \$54,000$ . There are reports of facilities in Canada and Colorado closing due to weak sales; investors report heavy taxes, keep sales underground.

### Additional revenue considerations assumptions

- Retail stores are likely to move into existing locations so will not significantly increase property tax revenue. Retail stores also will likely have minimal taxable personal property. Revenue from those streams is unlikely to be significant so has been excluded from the calculations below.
- Although not addressed here, personal property and property tax from cultivation (grow) facilities is too speculative at this point and has not been calculated, though is likely to be revenue positive for the town.
- There is likely to be a first mover revenue advantage for municipalities opening recreational establishments. This is expected to dilute over time as additional facilities open.