

The Economic Impact of Allowing Retail Marijuana Establishments in Colorado Springs

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Abstract:

This economic impact and statistical analysis demonstrates that Colorado Springs would have generated more than \$18.1 million in additional tax revenue in 2017 if retail marijuana establishments had been allowed. Estimates for 2018 indicate that permitting retail marijuana establishments in Colorado Springs will generate tax revenue and permit fees of \$25.4 million. The retail market will further generate an additional 1,320 – 1,762 jobs for the region. Thus, the current marijuana restrictions imply the city's current budgetary difficulties will be resolved by permitting retail marijuana establishments.

Introduction

This economic study focuses on the impact of allowing retail marijuana establishments in the city of Colorado Springs. Using data from similar municipalities in Colorado and adjusting for population of these cities, Colorado Springs could have collected approximately \$18.1 million in revenue in 2017. Then using conservative estimates of retail sales growth, this study determines that Colorado Springs could generate \$25.4 million in tax revenue if retail marijuana establishments are permitted. Furthermore, the expansion of the retail marijuana market further would generate 1,320 to 1,762 jobs. The overall result of allowing retail marijuana establishments in Colorado Springs will be a significant economic boost to the city.ⁱ

First, this study highlights the amount of tax revenue that would have been obtained in 2017 and the amount of tax revenue that would be generated in 2018 if retail marijuana establishments are allowed in Colorado Springs under current tax laws. Second, this study explores how additional revenue could be obtained through an additional sales tax (which is assumed in the revenue estimates above). Third, this study determines estimates on potential revenue from licensing fees. Lastly, this study estimates the amount of jobs that could be created by allowing retail marijuana establishments.

Revenue into the City

Tax Revenue Under Existing Laws

This section of the report illustrates the amount of tax revenue that will be obtained by allowing retail marijuana establishments in the city of Colorado Springs as well as the revenue gained by passing a supplementary local marijuana sales tax of 3.5%. The revenue comes from three places. First, it comes from the local sales tax of 3.12%. Second, it comes from the 15% share-back of the state special state sales tax.ⁱⁱ Third, tax revenue will be generated by additional economic activity spurred by allowing retail marijuana establishments in the city of Colorado Springs.ⁱⁱⁱ Passing a supplementary local marijuana sales tax of 3.5% would also add millions in tax revenue. Below, I have included tables that show the tax revenue that would result in 2017 and 2018 from allowing retail marijuana establishments within the Colorado Springs.

2017 Tax Revenue from Retail Marijuana Establishments

15% Share-back from the State of Colorado	\$3.3 Million ^{iv}
Colorado Springs Local Sales Tax of 3.12%	\$4.6 Million ^v
Additional Economic Activity	\$5.1 Million ^{vi}
Total	\$13 Million

2018 Tax Revenue from Retail Marijuana Establishments^{vii}

15% Share-back from the State of Colorado	\$5.4 Million
Colorado Springs Local Sales Tax of 3.12%	\$5.5 Million
Additional Economic Activity	\$6.1 Million
Total	\$17 Million

Additional Revenue from Potential 3.5% Local Marijuana Sales Tax

In addition to the tax revenue that could be generated under current laws, the city of Colorado Springs could pass an additional local marijuana sales tax. For instance, Denver passed a local marijuana sales tax of 3.5%. If Colorado Springs passed a 3.5% special sales tax, it would have generated an additional \$5.1 million of tax revenue in 2017. and would generate an additional \$6.1 million of tax revenue in 2018.

Licensing Fees

There are 356 licensed medical marijuana establishments in Colorado Springs including medical centers, manufacturing facilities, and cultivation facilities. Assuming all the licensed medical marijuana establishments obtain a retail marijuana establishment license, and the city of Colorado Springs charges \$7,500 per license, Colorado Springs can collect \$2.3 million, implying the total potential revenue for Colorado Springs in 2018 exceeds \$25.4 million.

Total Potential Revenue for 2017 and 2018

Retail marijuana establishments could have brought in \$18.1 million in tax revenue in 2017 and will likely bring in \$25.4 million in new tax revenue in 2018. Using a more conservative estimate of growth for 2018 of only 10% demonstrates that Colorado Springs can still generate revenue from retail marijuana establishments of \$23.5 million.

Jobs

To calculate the number of jobs, this study uses the estimate from the Marijuana Policy group that in 2015 there were 18,000 jobs statewide in the licensed marijuana industry (MPG, 2016). The market expanded 35% in 2016 and is on track to expand at least 25% - 30% in 2017. This implies that there will be over 30,000 jobs by the end of 2017 in the marijuana industry. This

suggests that there will be at least 32,000 jobs in the industry in 2018. Assuming a conservative 25,000 jobs in the industry and adjusting for the population of Colorado Springs implies that there are 3,525 jobs in the marijuana industry in Colorado Springs. Then using the same rate of retail expansion as above implies a job creation of 1,762 jobs. Using a smaller and more conservative multiplier than the Marijuana Policy group of 1.8 shows that retail marijuana establishments would generate 1,320 jobs in 2018 if Colorado Springs allowed retail marijuana establishments. This multiplier does not fully incorporate the possible or probable increase in tourism; hence, the increase in jobs range between 1,320 - 1,762 jobs.

Conclusion

Allowing retail marijuana establishments into the city of Colorado Springs would be a great boost to the city's economy. Doing so would likely result in the creation of 1,320 – 1,762 jobs, and it could bring in \$25.4 million in new revenue to the city of Colorado Springs.

ⁱ The critical assumptions in this document are based on Colorado Spring's population and their demand for retail marijuana, and assumes most of the medical marijuana facilities can buy retail marijuana licenses. If, however only a fraction of the medical facilities are allowed to become retail marijuana establishments, then it would be unlikely that Colorado Springs would achieve the full revenue estimates detailed here.

ⁱⁱ The share-back program requires the Colorado Department of Revenue to return to the local jurisdiction 15% of the state special retail marijuana sales taxes collected.

ⁱⁱⁱ The additional economic activity is accounted for using an economic multiplier. An economic multiplier is a tool used by economists to account for the growth of an industry. With an increased growth rate comes increased employment. Which in turn leads to more spending by citizens and increasing tax revenue.

^{iv} To estimate the amount of sales tax Colorado Springs would collect from the 15% state share-back, this study sums up the distributed tax revenue of the five largest jurisdictions as these regions comprised the bulk of the marijuana sales (this also excludes ski regions which, due to high rates of tourism, are not representative of Colorado Springs). This study finds that Aurora, Boulder, Denver, Fort Collins, and Pueblo collected a monthly average of \$624,000 in revenue from the 15% share-back. Then, I adjust for population (dividing the population of these five areas and multiplying by the population of Colorado Springs) and assume a 3.2% growth per month over the remainder of the year, which is a conservative figure as sales tend to grow rapidly during the summer; e.g., in 2016, the three summer months were 28.5% higher than the first four months of the year. Sales in the fall then stabilized, and were still more than 25% higher than the first four months, and indicate that 3.2% is a reasonable figure. Additionally, the share back from the state marijuana sales tax is expected to climb by 50% due to a recent hike in the state marijuana sales tax from 10% to 15% for the last six months of the year. In a bid to raise more money for roads, schools, and hospitals, Governor Hickenlooper signed a bill (SB17 267, Sections 29 – 30) that hikes the retail marijuana sales tax from 10% to 15% but the bill did not affect the share-back program. Overall, then, the total revenue Colorado Springs could have collected in 2017 from the local sales would have been \$3.27 million or an average of \$272 thousand monthly.

^v Using the same methodology as above, we estimate the average recreational sales for Colorado Spring for 2017 by examining the largest five recreational marijuana markets in Colorado and apply a conservative growth rate of sales for the remainder of year. We then apply Colorado Spring's 3.12% tax rate and estimate revenue collection of \$4.6 million for 2017 from their local sales tax.

^{vi} Colorado Springs medical marijuana sales make up a total of 7% of the total marijuana market in Colorado based on the first four months of 2017 (this is consistent with estimates using the entire year of 2016). However, if Colorado Springs allowed retail marijuana establishments, the city's market share based on their Metropolitan Statistical Area (MSA) population should increase to 14% of the state marijuana market, doubling the city's share of the market. This

implies jobs for retailers, accountants, security, growers, construction, HVAC specialists, back office staff including data entry, legal and advisory services, and more. These individuals then spend on the local economy and generate further tax revenue. This study estimates a multiplier of 1.8, and sales to grow by 3.2% over the remainder of the year, leading to the conclusion that the city can collect from their 3.12% sales tax \$5.1 million over the course of the year.

^{vii} The same methods are used to obtain the numbers for 2018 as was used to obtain the numbers for 2017. However, this study assumes a growth rate of 20%.