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MEASURE O

SAN BERNARDINO REGULATE MARIJUANA ACT OF 2016

Revenue Forecast

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Measure O – San Bernardino Regulate Marijuana Act of 2016

SUMMARY

Measure O would establish a cannabis business section within the City of San Bernardino, offering a strong case for economic development. It provides a new source of badly needed revenues to address budget deficits and create jobs. If adopted, Measure O can generate between \$14.4M and \$18.0M in revenue for the City of San Bernardino through the proposed fee of \$5.00 per square foot on cannabis businesses. In addition, the City will see an additional \$5.1M - \$6.8M from the existing 7.75% electricity tax. In total, Measure O represents a total of between \$19.5M and \$24.8M in additional revenues to the City and its residents, easing the budget crisis impact on taxpayers.

BACKGROUND

California is the largest cannabis market in the United States, with an estimated market size between \$5.5B and \$7.5B per year. San Bernardino is already considered a central location in southern California for this growing market. The National Orange Show (NOS) Event Center has held a series of cannabis-related events in 2016. The juncture of major interstate highways, easy access to air freight at local airports and San Bernardino's success as a logistics and warehousing industry center make it a highly desirable location. Other communities have adopted policies to permit and regulate legal cannabis operations, however the tax and fee structures combined with suboptimal geographic and climate issues have made those ventures less viable for the long term.

CONSERVATIVE ESTIMATES

Measure O's proposed \$5 per square foot fee on cannabis businesses, once they are established and operational, will generate between \$14.5M and \$18.0M. This is a conservative estimate, as there is approximately 9.1M square feet of land, 60% of which is undeveloped 'greenfield' area (5.5M ft²). If only 45% of this available land is developed over three years, these revenues will be achieved. These fees are not overly burdensome and, if examined in the context of a percentage of revenue, they are significantly lower than tax proposals in other municipalities, counties and states.

COMPARISON TO OTHER MEASURES

Other proposals put forth by comparison, either have limited amounts of revenue generation or provide protectionist policies and carve outs for special groups. Measure P offers limited revenue potential, including only fees to recover the cost of enforcement and contributing nothing to the City's general fund. Measure N proposes a tax, but exempts cooperatives and non-profits. The existing and illegal dispensaries are organized as cooperatives and non-profits. Further, Measure N creates protectionist obstacles that give an advantage to existing dispensaries.

In contrast, Measure O creates a level playing field, thereby reducing any costs associated with any legal challenges to the ordinance. For businesses who wish to enter this market, Measure O generates reasonable fees that do not create an unreasonable barrier to entry. And Measure O creates living wage jobs in multiple sections of the economy in addition to those in the cannabis space. By factoring in the multiplier effect that these jobs, construction and other auxiliary

businesses have, the economic benefit to the City of San Bernardino is substantially higher than simply the revenue generated by these fees.

THE DETAILS

By allocating over 9.1 million square feet for development, San Bernardino is poised to take advantage of its geographic strength. Denver, Colorado, offers a helpful comparison. Although the Inland Empire and LA Basin are comparable in geographic size to the greater Denver area, the market size by population is approximately 350% larger.

In terms of business opportunity, San Bernardino can support a mix of businesses including producers (growers), processors and laboratory testers. Measure O limits the number of retail dispensaries for medical marijuana, as well as any recreational marijuana if California voters legalize this at the ballot in 2016.

The City of San Bernardino has a labor force of 85,000 with an unemployment rate of 18.9%. By promoting policies that bring business and jobs to the community, the active use of currently vacant parcels makes strong economic sense. With an estimated utilization of 75% of the greenfield area available, and conservatively estimating an average foot print of 10,000ft², this represents approximately 275 - 325 individual business opportunities. (Note: a typical grow operation in Colorado represents 100,000 ft², however processing, testing and retail businesses are smaller in foot print). Assuming each business employs 10 people on the average, this will reduce unemployment in the area between 3.5% - 3.9% associated with cannabis alone. This translates into approximately \$85.8M in wages [2,750 jobs x \$15/hr x 2080 hours per year]. There will also be an additional labor benefit associated with the auxiliary businesses (construction, security, laboratory testing, HR, accounting, etc.) that will support the industry.

Energy consumption associated with these businesses will also benefit the City of San Bernardino in terms of energy taxes. Depending upon the mix of heavy consumers of energy, particularly producers and processors versus wholesalers and retailers, the estimated consumption of energy associated with these businesses is between 657,000,000 and 876,000,000 kWh. This would result in tax revenue to the City between \$5.1M and \$6.8M.

By combining the \$5 per square foot fee and the tax revenue associated with energy consumption, the City of San Bernardino can generate between \$19.5M and \$24.8M in revenue to fund licensing, regulation, enforcement and all manner of city services.

In addition to the economic benefits associated with this proposal, there are many social benefits. By allowing cannabis businesses to operate within a legal, regulated environment, studies/surveys have shown that illicit activities decrease significantly. By creating an environment that allows for legal, regulated business, Measure O creates opportunities for minority and women-owned businesses. Law enforcement officials are freed to focus on serious criminal activity. It also reduces the exposure to the city and state of federal interventions when the principles of the Cole Memorandum are met. Although these benefits are difficult to specifically quantify, the benefits are present nonetheless.

LOOKING FORWARD

By adopting this measure now, the City of San Bernardino will position itself as a significant actor in the cannabis industry prior to the near-inevitable State-wide legalization of recreational cannabis use. Current polling suggests more than 60% of California's likely voters support the legalization of recreational marijuana and the state will likely follow the example set by Colorado, Oregon, Washington, Alaska and Washington DC. The City of San Bernardino is uniquely positioned to service 48% of the entire population of the state by adopting business friendly policies in advance of any additional legalization of the Californian cannabis market.

CONCLUSION

In sum, Measure O's proposed \$5/ft² fee structure draws a balance between generating revenue for the City of San Bernardino and creating an environment that enables economic development. Measure O avoids the establishment of significant barriers to entry that put the entire concept at risk. It will increase revenues to the City and create living wage jobs in multiple sectors, diversifying the revenue base. Measure O will reduce the significant unemployment rate and establish and regulate businesses that would normally support the illicit market. Measure O makes good economic sense for the cannabis business community and makes good sense for the citizens of San Bernardino.

ABOUT THE AUTHOR

- Beau R. Whitney is an economist, a university professor and the VP of Regulatory and Governmental Affairs at Golden Leaf Holdings.
- Beau has a B.A. in Mathematics and Asian Philosophies from Macalester College and an MBA from Thunderbird School of Global Management.
- Prior to working at Golden Leaf Holdings, Beau spent 15 years in the high tech industry in business operations roles, most notably at Intel and TriQuint Semiconductor.
- Beau is a member of the American Economic Association (AEA) and is the Portland, Oregon chapter president of the National Association for Business Economics (NABE)
- Beau has published a series of white papers on the cannabis market in the USA and is considered an authority in cannabis economics
- Beau recently presented a paper at the 91st annual Western Economics Association International conference on Economics role in shaping public policy and was recognized by his peers as being a pioneer in this field of study.