

Marijuana

Every so often DataTrek puts together an excellent update on the rapidly expanding marijuana industry. DataTrek's cofounders, Jessica Rabe and Nick Colas, have access to a wealth of information, and they offer it as part of their service.



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The Marijuana Industry,
Municipal Bonds, &
"How Does Legalizing
Marijuana Disrupt Society?"

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I'm a regular reader of DataTrek and welcome its arrival each evening at 9 PM, Sunday through Thursday. DataTrek takes me on a deep dive into the following day's potential market movements. Many thanks to Jessica and Nick for permission to share their findings. You can learn more about DataTrek's Morning Briefing here: datatrekresearch.com

Readers may want to note that there is now a marijuana industry ETF. The symbol is MJ. This new ETF tracks an index of stocks that are "likely to benefit from increasing global acceptance of various uses of the cannabis plant" (Bloomberg). The ETF market cap at yearend was about \$600 million. This is a volatile security that fluctuated in price between the low \$20s and the low \$40s last year. The largest weight in the 40 or so securities is Cronos at about 14%. Most (not all) of the companies are Canadian or American.

Also note that federal law in the US still has an impact on

the financing structure of the American cannabis business. Banks and financial services companies are loath to undertake financings without the federal government action required to protect them from federal prosecution. That would require Congress to act and the president to sign such legislation. For that reason, jurisdictions issuing bonds have not been able to pledge revenue from taxes on the sale of marijuana to secure the bonds. However, marijuana tax revenue has been directed to capital needs. In August 2018, the City of Denver approved a sales tax on marijuana to help fund rental housing through the use of Denver Housing Authority bonds. (See: <https://www.denverpost.com/2018/08/27/denver-council-expands-affordable-housing-fund/>.) Also, in 2013, Colorado's Proposition AA directed excise taxes on marijuana for the partial funding of school construction. (Hat tip, Roy Eappen, Municipal Securities Research, Wells Fargo Securities and Cumberland's Patricia Healy.)

At Cumberland, we expect to see municipal bonds secured by marijuana sales tax revenue in the future, after the federal laws are modernized. Right now, Cumberland is watching. We do not hold the ETF in our managed accounts at this time. Of course, that investment decision could change without notice.

Datatrek introduced the discussion of marijuana-related bonds by asking and answering this question:

"How does legalizing marijuana disrupt society? This is an important question at the moment across a wide variety of US states as they debate how/when to make pot legal. The best case study is Colorado, with 5 years of real world experience on the matter. The Colorado Division of Criminal Justice released a comprehensive study on the matter in Q4 2018, and we give the results below on everything from youth and adult usage rates to arrests and marijuana-related DUIs."

Here is the full Datatrek report, which we are reproducing with permission. Again, let me thank Jessica and Nick for

sharing this with our readers.

DAILY DISRUPTION FEATURE

By Jessica Rabe

It's been five years since Colorado dispensaries were first allowed to sell recreational marijuana. Since it was also the first state to do so, Colorado is not only a trailblazer but an important case study as other states follow. While much of the legalization debate seems to focus on tax revenue, in our travels we hear a lot of concern about the social aspects of legalization.

Colorado, as first-mover, knew these social concerns were important when they started down the path to legalization. The state even has a bill that mandates the Division of Criminal Justice in the Department of Public Safety to study the impacts of legalization. Here's a breakdown of their findings (released in Q4 2018) with a link to the full study at the end:

#1 – Arrests: Overall marijuana arrests dropped by half from 12,709 in 2012 (when legislation passed) to 6,153 in 2017. Marijuana possessions – the most common reason for all marijuana arrests – also declined by half (down 54%) during that time period. There are still ways to get arrested for marijuana possession even though it is legal, such as “possession with intent to distribute, possession-consumption in vehicle, and possession under age of 21”. Moreover, adults can only possess one ounce of marijuana or less.

This is important because Democratic governors who want to legalize retail marijuana this year – including New York, New Jersey and Illinois – see it as a social justice issue as African Americans are disproportionately hurt by current laws. Even though the number of arrests fell by over half for both

Whites (down 56%) and African Americans (down 51%) in Colorado, the marijuana arrest rate for the latter (233 per 100,000) was almost double the former (118 per 100,000) in 2017.

#2 – Traffic safety: Citations for marijuana impairment by the Colorado State Patrol remained roughly the same as a percentage of all DUI arrests at between 6% and 8% from 2014 to 2017. Total marijuana citations (such as marijuana and alcohol or marijuana and other drugs) rose slightly from 12% in 2014 to 15% in 2017. To put this in context, there were 719 total marijuana citations out of 4,849 in 2017.

Interestingly, total DUI citations dropped to 4,849 in 2017 from 5,705 in 2014, while alcohol only citations also fell from 84% of all DUIs in 2014 to 80% in 2017. While marijuana-only citations remained relatively steady, alcohol-only citations retreated.

Lastly, the latest data on the number of drivers in fatal crashes who tested above the legal limit of marijuana's active ingredient THC shows that it fell to 35 (8% of all fatalities) in 2017 from 52 (13% of all fatalities) in 2016.

#3 – Adult usage rates: More adults are using marijuana since stores started selling it recreationally in 2014. The numbers: 15.5% of adults reported using marijuana in the past 30 days in 2017 compared to 13.6% in 2014, while 7.6% reported daily or near daily use versus 6.0% in 2014.

Men have a much higher past 30-day usage rate (19.8%) than women (11.2%). Those aged 18 to 25 have the highest past 30-day usage rate (29.2%) versus other generations, including 26-34 year olds (26.4%), 35-64 year olds (12.5%), and those 65 years and older (5.6%).

#4 – Youth impacts: According to their surveys of middle and high schoolers, there was no significant change in past 30-day use of the drug from 2013 (19.7%) to 2017 (19.4%).

Additionally, the rate of past 30-day use among Colorado high school students (19.4%) was similar to the national average for high school students (19.8%). As for education rates, graduation rates have actually risen and dropout rates have fallen since recreational marijuana legalization was passed in 2012 and first sold in stores in 2014.

#5 – Hospitalizations and emergency room visits: Both increased in the two years after stores started selling recreational cannabis (2014-2015). Bear in mind, the report notes that “those reporting to poison control, emergency departments, or hospitals may feel more comfortable discussing their recent use or abuse of marijuana for purposes of treatment” due to the “decreased stigma and legal consequences”. The same goes for the reported increase in use of the drug by adults as well.

Bottom line: as we continue to highlight, a quarter of Americans already live in a state where adult-use of marijuana is legal. As mentioned, the governors of populous states, such as New Jersey, New York and Illinois want to pass retail sale/legal use of the drug through their state legislatures as soon as this year. It is only a matter of time before marijuana is legal nationally, so understanding its impact on society is important. Certain concerns, like increased usage rates among teens did not occur in a state where it has been legal and for sale the longest. While total marijuana related DUI citations increased, alcohol and total DUI citations fell. Of course, all this data will need further monitoring in Colorado and other states where marijuana is fully legal, but it at least helps keep the conversation about this disruptive trend constructive.

Source:

http://cdpsdocs.state.co.us/ors/docs/reports/2018-SB-13-283_report.pdf

There was a follow up report by Datatrek in a subsequent edition. We have reproduced it below.

Over the past five years Colorado's legal marijuana dispensaries have sold \$5.78 billion in medical/recreational pot, with annual sales still growing at a steady clip. As a result, total state revenue from taxes, licenses and fees have risen from \$67.6 million in 2014 to \$247.4 million in 2017, up 266%. The upshot: this is why so many Democratic gubernatorial candidates put legalizing recreational marijuana on their platforms during the midterms and why they are trying to pass it through their state legislatures this year. All the details below.

By Jessica Rabe

If you were a governor with an outsized state budget deficit, how would you help narrow that gap? A popular solution for many states: legalize recreational marijuana. That's why an increasing number of Democratic gubernatorial candidates everywhere from New Jersey, New York and Florida to Illinois, Minnesota and Connecticut included such a proposal on their campaign platforms during their last US elections.

Can retail marijuana taxes really make a dent? The short answer is yes, and Colorado is the best case study given that the state has the longest legalization (and therefore taxation) track record.

Here's a breakdown of marijuana sales and tax revenue in Colorado over the past five years:

- **Retail Marijuana Sales:** Annual marijuana retail sales increased from +\$303.2 million in 2014 to +\$1.09 billion in 2017, up 260%. The latest data for this year shows retail sales of \$1.01 billion through October 2018. Even if sales just match the average of the prior year's November and December sales figure of \$92 million, 2018 could total \$1.19 billion in just recreational cannabis sales alone.

We also want to note that retail sales topped \$100 million/month from June 2018 – October 2018 (latest available

data). This shows that sales are not as seasonal as one might think given Colorado's large wintertime tourist industry.

Overall, from the first recreational sales in January 2014 through October 2018, retail sales totaled \$3.84 billion.

- **Total Marijuana Sales (Retail and Medical):** Total marijuana sales rose from +\$683.5 million to \$1.508 billion in 2017, up 121%. Total sales were \$1.287 billion in 2018 through October with still two months left of data to add. Overall, medical and retail marijuana sales crossed the \$5 billion mark in May 2018 since stores first started selling recreational cannabis. That figure is now up to \$5.78 billion as of October 2018.

Total marijuana sales have surpassed \$100 million every month for the past +2.5 years, but retail marijuana makes up most of the total sales. In October 2018, for example, retail sales made up 78% of the total sales print of \$129.2 million.

- **Tax Revenue:** Total revenue from taxes, licenses and fees rose from \$67.6 million in 2014 to \$247.4 million in 2017, up 266%. It totaled \$244.9 million for last year through November (latest available data). Overall, total revenue from taxes, licenses and fees reached \$883.9 million from January 2014 through November 2018.

The 15% excise tax and 15% sales tax on retail marijuana bring in the most revenue, of course. In November 2018, for example, the retail marijuana sales tax made up 70% of total taxes and fees of \$21.6 million for the month, while the retail marijuana excise tax accounted for 21% of the total. The state sales tax of 2.9% and license and fees made up the balance (the state sales tax just applies to medical marijuana and medical marijuana products as of July 2017).

You can see a full breakdown of marijuana taxes in Colorado on the government's site [here](#).

- **Where the money goes:** 90% of the excise tax revenue or

the first \$40 million, whichever is greater, goes to the Capital Construction Assistance fund for schools. Ten percent of the state's 15% tax on retail marijuana is distributed to local governments, while the remaining 90% is allocated to the General Fund (15.6%), Marijuana Tax Cash Fund (72%) and the Public School Fund (12.6%).

For example, \$40 million from marijuana excise tax revenue was given to school capital construction assistance in 2017, while another \$27.8 million was distributed to the public school fund. You can see all the details [here](#).

Lastly, given that almost 40% of the licenses for marijuana businesses in Colorado are concentrated in Denver as of May 2018, we want to highlight a few quick 5-year stats from the city:

- Recreational marijuana sales in Denver totaled \$1.04 billion between 2014 and 2017. It was \$327 million from January to October 2018 (latest available data).
- Total recreational and medical cannabis sales were \$2.28 billion from 2014 through October 2018.
- Total revenue from taxes, licenses and fees were \$173.1 million from 2014 through October 2018. Some examples of where this money went over those years include: \$12.8 million towards education, \$4 million to fix aging parks and recreation centers across the city, and \$8 million per year to help double Denver's Affordable Housing Fund.

You can read more details [here](#) on The Denver Channel.

Bottom line, Colorado is a successful example of a state finding a new lucrative source of revenue by legalizing recreational marijuana. Bear in mind that Colorado only has a population of 5.7 million, ranking it middle of the road compared to other US states. Can you imagine what a boon it would be for the most populous states with even more concentrated cities such as New York? No wonder New York Governor Andrew Cuomo flipped in support of the issue last

year and is making it a priority for 2019. That and marijuana legalization has majority support from Americans.

Taxes from marijuana sales may not close all budget gaps, but states can take all they can get. We would not be surprised for the next Democratic presidential candidate to include national legalization on his or her platform for 2020.

Sources:

<https://www.colorado.gov/pacific/revenue/colorado-marijuana-tax-data>

<https://www.colorado.gov/pacific/revenue/colorado-marijuana-sales-reports>

http://cdpsdocs.state.co.us/ors/docs/reports/2018-SB-13-283_report.pdf

Many, Many thanks to Jessica and Nick for allowing us to share this information with our readers.

Note: Exchange traded funds (ETFs) may not correlate to designated indices and have additional fees and expenses, including the duplication of management fees.

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