

The Economic Benefits of Regulating and Taxing Cannabis in Texas

An analysis of potential new revenue, job growth, and savings

Key Findings

- There are more than 1.5 million adults 21 and older in Texas who consume cannabis on a monthly basis. If the state regulated cannabis for adult use, it would see an estimated \$2.7 billion per year in cannabis sales.
 - If Texas taxed adult cannabis sales at the same rate as Colorado, it would generate more than \$1.1 billion dollars per biennium in new state revenue. It could also raise an additional \$10 million per year through a modest business license fee, which would help offset the costs of administering the regulatory program.
 - A regulated adult-use cannabis market in Texas would result in hundreds of new businesses, creating an estimated 20,000-40,000 direct jobs in the cannabis industry, as well as tens of thousands of indirect and induced jobs.
 - Ending misdemeanor arrests and prosecutions for low-level cannabis possession offenses in Texas would save the state an estimated \$311 million per year.
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Market Size

Approximately 1,557,629 adults 21 and older in Texas consume cannabis on a monthly basis. To produce this estimate, we reviewed U.S. Census data, which shows Texas has approximately 20,054,832 residents ages 21 and older.¹ Next, we analyzed the 2017-2018 National Survey on Drug Use and Health (NSDUH) published by the U.S. Substance Abuse and Mental Health Services Administration, which found 6.21% of Texas adults reported using cannabis in the past month.² Past research conducted by the RAND Corporation found many adults are leery of reporting cannabis use to federal government surveyors. By leveraging their analysis, which estimates underreporting to be 25%, we arrived at our adjusted estimate that 7.77% of Texas adults are past-month cannabis consumers.³

Sales

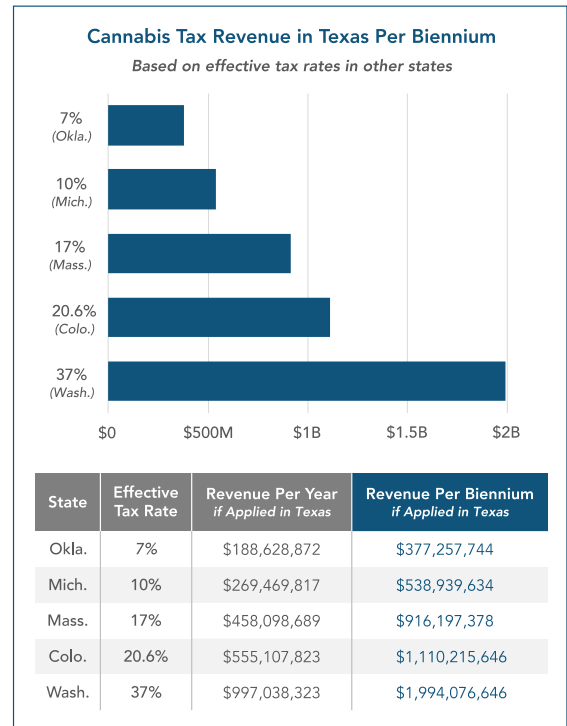
Texas would see approximately \$2,694,698,170 in legal cannabis product sales if the state established a regulated market for adults 21 and older. To produce this projection, we estimated annual cannabis product sales per adult consumer using the NSDUH data and actual 2019 cannabis sales figures from Colorado and Washington, which include adult residents and tourists. Colorado and Washington sales data were used because the two states have the longest running regulated adult-use cannabis markets and datasets. Both states legalized cannabis for adult use in late 2012 and launched regulated adult-use cannabis markets in 2014. In Colorado, adult consumers spent an

average of \$2,295 on regulated cannabis products in 2019.⁴ In Washington, adult consumers spent an average of \$1,165 on regulated cannabis products in 2019.⁵ These two figures were averaged to arrive at an estimate of \$1,730 in annual cannabis product sales per consumer in Texas.

Tax Revenue

When establishing a regulated adult-use cannabis market, lawmakers must determine an appropriate tax structure that balances the need for revenue with market forces. Most importantly, it must ensure the effective tax rate on regulated cannabis is not so high that it becomes too expensive and drives consumers back to the illegal market.

States that have established regulated markets for adult-use and/or medical cannabis have enacted a wide range of tax rates. The chart to the right shows the effective tax rates in a sample of five markets from across the U.S., along with the amount of tax revenue that would be raised in Texas if it applied those rates. Based on our estimate of \$2.7 billion in annual sales, Texas would generate approximately \$555 million per year in new tax revenue, or \$1.1 billion per biennium, if it adopted the same effective tax rate as Colorado (20.6%).



Fee Revenue

Texas would also have the opportunity to generate state revenue through license and application fees. For example, Colorado has raised, on average, \$12.9 million per year in cannabis-related fees since its adult-use market launched in 2014.⁶ Oklahoma has raised more than \$26 million by licensing 10,428 cannabis businesses — more per capita than any other state — and charging a fee of \$2,500 per license.⁷

We estimate Texas would have approximately 1,000 licensed stores and 1,000 licensed cultivators. This projection is based on the number of licensed stores and cultivators in Colorado (587 and 582, respectively) divided by its approximate number of adult consumers (761,617).⁸ If the Legislature establishes a modest license fee of \$5,000, the state has an opportunity to raise \$10 million per year in new revenue. Critical to this analysis is the assumption that Texas embraces free market values, implements pro-business licensing regulations, and does not arbitrarily limit licenses at the state level.

Job Creation

Based on Texas' size and population, the number of licensed businesses in the state would likely resemble the three states with the highest numbers of cannabis jobs: California (39,804), Colorado (34,705), and Washington (23,756).⁹ Therefore, we estimate a regulated adult-use cannabis market in Texas would create 20,000-40,000 direct jobs in the cannabis industry.

This new industry will also require a wide variety of products and services, creating substantial new business for other industries, including contractors and construction firms, electrical and water service providers, HVAC manufacturers and installers, processing equipment producers and retailers, and other professionals (accountants,

attorneys, consultants, etc.). We estimate it will lend to the creation of tens of thousands of additional induced and indirect jobs. We also expect it would bolster the hospitality industry, which would benefit communities that rely on tourism; especially those that have recently been severely impacted by the novel coronavirus, such as San Antonio, Houston, and Corpus Christi.

Criminal Justice Savings

In addition to generating revenue and creating jobs, regulating cannabis for adult use would also realize significant criminal justice savings. In 2017, the Harris County District Attorney's Office issued a memo outlining the costs incurred from misdemeanor cannabis cases. It noted that, anecdotally, law enforcement officers report spending an average of four hours per cannabis arrest.¹⁰ According to the Texas Office of Court Administration, Texas prosecutors had 109,487 active misdemeanor cannabis possession cases on their dockets in 2019.¹¹ Based on these figures, we estimate the state's 80,159 licensed peace officers spent approximately 437,948 hours arresting and transporting those misdemeanor cannabis offenders.¹²

This time spent on low-level cannabis offenders has cost Texas taxpayers approximately:^{13, 14}

- \$14,233,310 in peace officer labor hours;
- \$19,598,173 on crime lab testing;
- \$144,380,507 on jailing;
- \$52,334,786 on district attorney office expenses related to misdemeanor cannabis cases;
- \$48,174,280 in court-appointed defense counsel for indigent defendants; and
- \$32,517,639 in court costs.

If Texas stopped arresting and prosecuting individuals for misdemeanor cannabis offenses, it would save an estimated \$311 million per year in criminal justice costs and allow law enforcement officials to spend significantly more time addressing other priorities.

¹ U.S. Census Bureau, "American Community Survey," 2019

² Substance Abuse and Mental Health Services Administration, "2017-2018 National Survey On Drug Use And Health"

³ RAND Corporation, "What America's Users Spend on Illegal Drugs, 2006–2016"

⁴ 2019 cannabis sales (Colorado Department of Revenue) divided by adult consumers (NSDUH, see footnote 2)

⁵ 2019 cannabis sales (Washington State Liquor and Cannabis Board) divided by adult consumers (NSDUH, see footnote 2)

⁶ Colorado Department of Revenue, "Marijuana Tax Data"

⁷ Oklahoma Medical Marijuana Authority, Application and Licensing Report, May 1, 2020

⁸ Colorado Department of Revenue, MED Licensee Information, totals as of June 1, 2020

⁹ Leafly, "Leafly Jobs Report 2020"

¹⁰ Harris County District Attorney's Office, "The Economics of Misdemeanor Marijuana Prosecution," 2017

¹¹ State Of Texas Judicial Branch, "Annual Statistical Report for the Texas Judiciary Fiscal Year 2019"

¹² Texas Commission on Law Enforcement, "Current Statistics"

¹³ U.S. Bureau of Labor Statistics, "Occupational Employment and Wages, May 2019"

¹⁴ Harris County District Attorney's Office, "The Economics of Misdemeanor Marijuana Prosecution," 2017

About Vicente Sederberg LLP

Vicente Sederberg LLP is a top-ranked national cannabis law and policy firm with offices in Austin, Boston, Denver, Jacksonville, Los Angeles, and New York. It has been at the leading edge of cannabis policy since its founding in 2010, helping public and private sector clients evaluate, shape, implement, and navigate cannabis laws and regulations across the U.S. and around the world.

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