



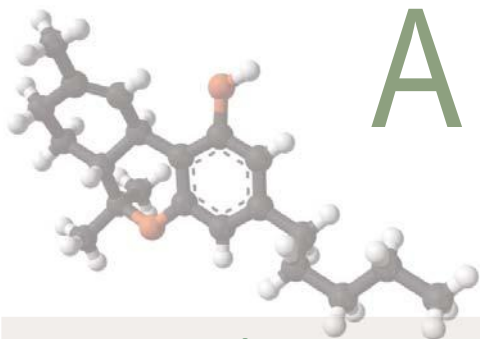
ALASKA ECONOMIC **TRENDS**

MAY 2018

MARIJUANA: A new industry

ALSO INSIDE

More workers are 55 and over
Income up slightly in 2017



MARIJUANA:

A new industry

Jobs, wages, and tax revenue are on a steady rise

By **KARINNE WIEBOLD**

Alaska's marijuana industry is still in its infancy. Voters legalized recreational use in 2014, but marijuana wasn't available commercially until 2016. Most licenses are less than a year old, and many licensed marijuana businesses don't yet show up in wage and salary records because they don't have employees. However, initial data show a steady increase in tax revenue, wages and employment (see Exhibit 1), and the number of licenses in Alaska.

New regulations took time

In late 2014, Alaskans voted to "tax and regulate the production, sale, and use of marijuana in Alaska." The law went into effect Feb. 25, 2015, allowing people over 21 to carry up to an ounce of marijuana and have up to six plants at home. While personal stashes were clearly no longer contraband, there was not yet a legal mechanism for buying and selling.

Before marijuana could become available for pur-

An ambiguous legal history

Alaska has a complicated history with the legality of marijuana use, a battle that continued for nearly 40 years until 2014, when a ballot initiative legalized and began the process of regulating and taxing recreational marijuana.

Eight other states and the District of Columbia have legalized recreational marijuana possession so far, but Alaska is the only state where courts have decided it's constitutionally protected. In 1975, the Alaska Supreme Court held in *Ravin v. State* that the Alaska Constitution's right to privacy protected an adult's right to possess and use a small amount of marijuana.

Legislators decriminalized marijuana shortly thereafter but subjected those found possessing it to a civil fine of up to \$100. The civil fine conflicted with the *Ravin* decision, and five years later, the Legislature resolved the conflict by eliminating any civil or criminal penalty for an adult possessing

less than four ounces of marijuana for personal use.

Then in 1990, voters passed a ballot initiative that recriminalized all marijuana possession, reintroducing confusion and apparent constitutional conflict. Another ballot initiative successfully decriminalized marijuana for medical use in 1998, and established rules for obtaining a doctor's certification and registering with the state to obtain an identification card, which allowed limited possession of marijuana and marijuana plants.

The Alaska Supreme Court weighed in again in 2003 when it declined to hear the state's appeal of a lower court's decision, in *Noy v. State*, that the state could not enforce statutes that restricted Alaska residents' right to possess less than four ounces of marijuana.

The Legislature criminalized marijuana use again in 2006, although legislators acknowledged at the time that another court challenge would likely follow. It did — and the debate continued until legalization in 2014.

chase, the law required establishment of a Marijuana Control Board to create industry regulations and oversee licensing and enforcement, much like the Alcohol Control Board does for liquor sales. The board, established by House Bill 123 in May 2015 and housed in the Department of Commerce, Community, and Economic Development, adopted regulations that became effective Feb. 21, 2016.

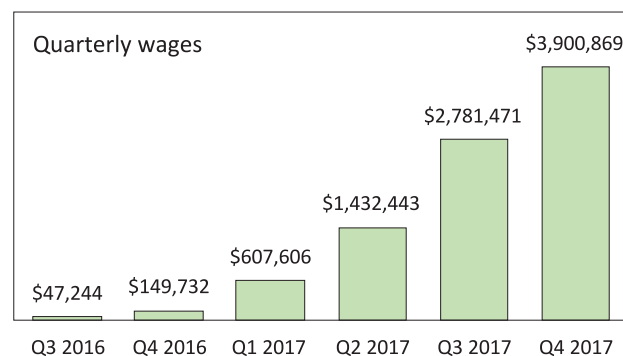
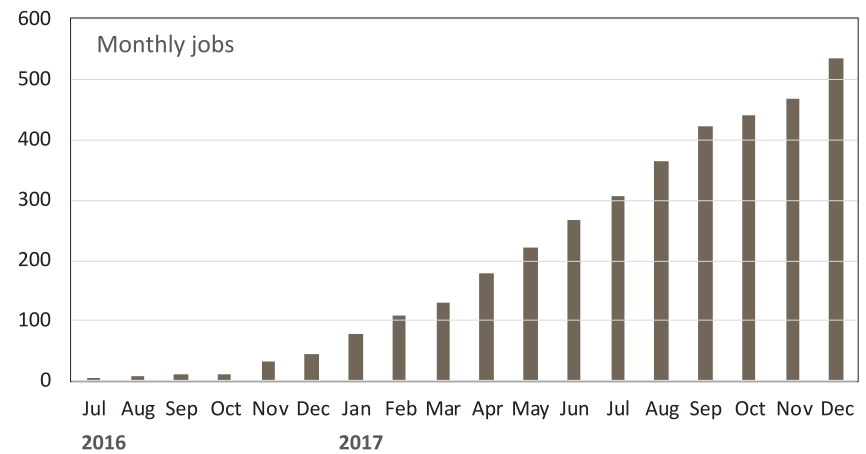
Each stage requires a separate license

The department's Alcohol and Marijuana Control Office grants licenses for each distinct part of the marijuana industry: cultivation, product manufacturing (such as concentrates or edibles), laboratory testing, and retail. Each license must be renewed annually and updated for ownership, business practices, production techniques, and products sold. (See Exhibit 2.)

A business that is "vertically inte-

1 Marijuana Workers and Wages

ALASKA, 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

2 Types of Recreational Marijuana Licenses and Their Costs

ALASKA, APRIL 2018

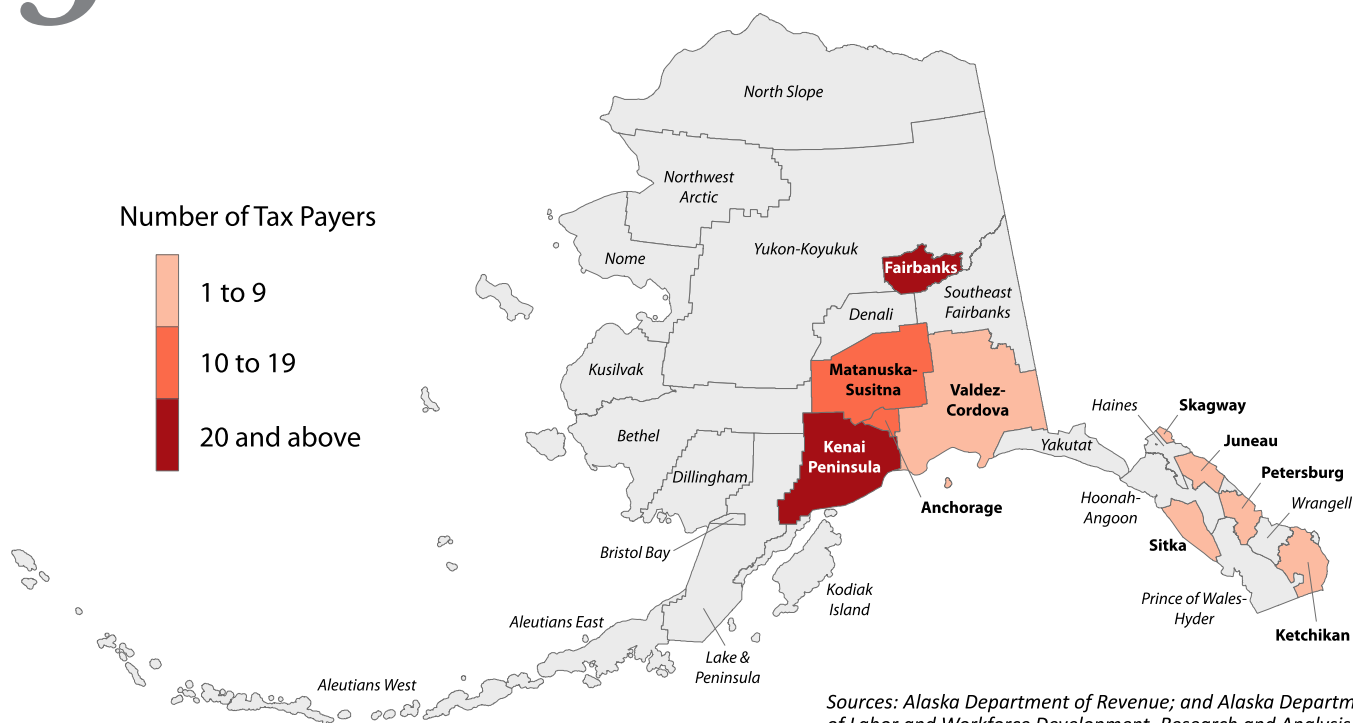
License or permit type	Description	Application fee*	Annual fee
Retail marijuana store	Sell marijuana to consumers	\$1,000 initial, \$600 renewal	\$5,000
Limited marijuana cultivation facility (under 500 ft of cultivation)	Plant, propagate, cultivate, harvest, trim, dry, cure, package, and label marijuana for sale to stores or manufacturing facilities	\$1,000 initial, \$600 renewal	\$1,000
Marijuana cultivation facility	Plant, propagate, cultivate, harvest, trim, dry, cure, package, and label marijuana for sale to stores or manufacturing facilities	\$1,000 initial, \$600 renewal	\$5,000
Marijuana concentrate manufacturing facility	Purchase marijuana from a licensed cultivator or other manufacturer and extract marijuana concentrate	\$1,000 initial, \$600 renewal	\$1,000
Marijuana product manufacturing facility	Purchase marijuana from a licensed cultivator or other manufacturer and extract marijuana concentrate or manufacture, refine, process, and cook marijuana products with specific product approval	\$1,000 initial, \$600 renewal	\$5,000
Marijuana testing facility	Test, analyze, and certify for potency, moisture content, pesticide/solvent residue, mold, mildew, bacteria, or other contaminants in marijuana or marijuana product	\$1,000 initial, \$600 renewal	\$1,000
Marijuana handler permit	Required for each licensee, employee, or agent of a marijuana establishment who sells, cultivates, manufactures, tests, or transports marijuana	—	\$50 every 3 years

*Licenses must be renewed annually.

Source: 3 AAC 306 Regulations for the Marijuana Control Board

3 Marijuana Cultivators Concentrated in Southcentral

BY NUMBER OF LICENSEES WHO PAID EXCISE TAX IN 2017



Sources: Alaska Department of Revenue; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

grated,” meaning it both grows and sells marijuana or even manufactures edible products, must have a separate license for each business component. There are no restrictions on vertical integration with the exception of testing facilities, which must remain autonomous. A testing business may not hold any other marijuana industry license, and neither the license holders nor any of their employees or agents may own or have a direct or indirect financial interest in another marijuana-licensed business.

The Marijuana Control Board uses 50 percent of application fee revenue plus all of the license fees (which range from \$1,000 to \$5,000) to cover the administrative costs of regulating the industry. The board shares the other half of what it collects in application fees with local governments to offset the costs of their review process. Local governments can restrict or prohibit commercial marijuana through ordinance or a vote and can weigh in on applications based on their own restrictions and requirements.

The board granted the first license in July of 2016 to a marijuana cultivation facility in Fairbanks and approved four more licenses later that year, although

About the data

This article's data, which come from employers who pay in to the unemployment insurance system, are limited to businesses that hold a license for commercial recreational marijuana. The data can't capture all licensed marijuana-related employment and wages, however, as many licensees have no employees and some, such as owner-operators, aren't covered by unemployment insurance.

Other businesses and workers have some connection to the marijuana industry but their jobs and wages aren't included here if they aren't required to hold licenses. Examples are state marijuana regulators and enforcement workers and those who provide the mandated educational course for people seeking a handler permit.

half were not effective until 2017. The big jump came in 2017 with approval of 168 licenses. Nine licenses were granted in the first two months of 2018, with 445 more in process. That doesn't necessarily mean that many new businesses are on the horizon, though, because a single enterprise can hold mul-

tiple licenses and other applications might not be approved.

In total, Alaska has 182 active licenses, 160 of which were effective in 2017 or before.

All associated must have permit

Everyone working in the industry is required to obtain a \$50, three-year marijuana handler permit, even those who check the identification of people coming in the door. Getting a permit requires taking an educational course and exam on statutes, the effects of consumption, how to identify impaired users, how to screen identification, how to prevent unlawful use, and the possible penalties for violations. Seven small companies

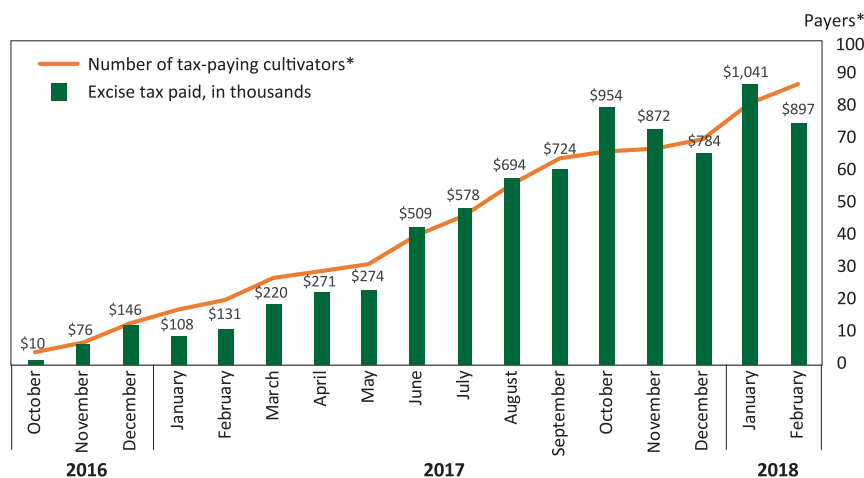
emerged to provide the mandatory course, with fees ranging from \$45 to \$75.

Alaska has 3,872 active permits. That means just shy

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Marijuana Tax Revenues, Payers On The Rise

ALASKA, EXCISE TAXES COLLECTED, OCT 2016 TO FEB 2018



*Reflects the number of cultivators that paid excise tax, which is collected at the time of manufacture

Source: Alaska Department of Revenue

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How States Tax Recreational Marijuana and Limit Possession

AMOUNTS ALLOWED AND TAXATION, APRIL 2018

State	Legalized	Plants	Max quantity	State excise tax	State sales tax	Other taxes
Alaska	2014	6 plants	1 oz	Excise wholesale, bud/flower \$50/oz, rest of plant \$15/oz	No state sales tax	Local sales and excise taxes where applicable
California	2016	6 plants	1 oz	15% excise retail	7.25%	Cultivation taxes: fresh plant \$1.29/oz, flower \$9.25/dry weight oz, leaves \$2.75/dry weight oz, local sales taxes as applicable
Colorado	2012	6 plants	1 oz	15% excise wholesale, 15% excise retail	Exempt from 2.9% state sales tax	Local sales tax as applicable
Maine*	2016	6 plants	2.5 oz	—	—	—
Massachusetts	2016	6 plants	carry 1 oz/10 oz at home	10.75% excise retail	6.25%	Local sales tax up to 3%
Nevada	2016	6 plants	1 oz	15% excise wholesale, 10% excise retail	6.85%	Local sales tax as applicable
Oregon	2014	4 plants	1 oz	17% excise retail	No state sales tax	Local retail excise tax up to 3% (when voter approved)
Vermont*	2018	6 plants	1 oz	—	—	—
Washington	2012	0 plants	1 oz	37% excise retail	6.5%	Local sales tax as applicable
District of Columbia	2014	6 plants	2 oz	No retail sales allowed	—	—

*Regulations, including taxation, are in process.

Source: Alaska Department of Labor, Research and Analysis Section; and each state's revenue department

of 4,000 people in Alaska have or have had some association with the marijuana industry.

Growth in jobs and wages

This new industry creates a small number of direct jobs, including nursery workers, laboratory testers, and retail sales workers. By extension it creates or supports jobs in other industries as well, such as accountants and state regulators, although those are outside the scope of this article. See the sidebar on page 6.)

Just nine marijuana businesses were open in the second half of 2016, some of which hadn't yet received licenses to sell marijuana but were generating jobs and paying wages in the interim. The industry grew rapidly once it had its regulatory footing, to 73 businesses in 2017 with 62 of those reporting jobs and wages.

In terms of paid employees, the industry averaged just 19 per month in the second half of 2016. By January 2017, 79 people worked for a licensed marijuana business, excluding owner-operators. That more than doubled by April, to 180, and doubled again by August, to 365. Employment continued to grow each subsequent month, reaching 536 in December. (See Exhibit 1 on page 5.)

The industry paid just \$197,000 in total wages in 2016, and wages also rose dramatically in 2017. In the fourth quarter, the industry paid nearly \$4 million in wages and the total was about \$8.5 million for all of 2017. The lion's share of wages were paid in Anchorage, at \$3.8 million, followed by Fairbanks at \$2.1 million.

How Alaska taxes marijuana

Due to conflict between state and federal marijuana laws (marijuana is still illegal under federal law), the marijuana industry is primarily cash-based, including tax payments. The Alaska Department of Revenue reports that 74 percent of taxes have been paid in cash, with the remainder paid by cashier's check, money order, bank check, or wire transfer.

Marijuana is subject to an excise tax, which has two common definitions, both of which apply in Alaska's

case. An excise tax is a tax on a particular good or service, such as gasoline, rather than a broadly applied tax like a general sales tax. It can also be imposed during manufacture rather than when it's sold.

Alaska collects tax when marijuana is transferred or sold to retail or manufacturing facilities. Flower, the highest value part of the plant, is taxed at \$50 per ounce while leaves and trim (used for manufacturing food and concentrates) is taxed at \$15 per ounce.

Four businesses paid the industry's first taxes in October 2016, contributing \$10,406 combined. Tax revenue has increased nearly every month since, topping \$1 million in January 2018. (See Exhibit 4 on page 7.) In all, the marijuana industry generated \$8.3 million in taxes in its first 17 months, not including any local sales taxes. Juneau, for example, has a 5 percent sales tax. Fairbanks does not collect sales tax, and while Anchorage doesn't either, it imposes an additional 5 percent excise tax on marijuana sales.

All marijuana tax the state collects goes into its general fund, but half is earmarked for the Recidivism Reduction Fund, authorized in 2016 by Senate Bill 91 as part of a criminal reform package. The other half is available for unrestricted general fund use.

Taxation varies by state

As states consider marijuana tax policy, they balance the cost of regulating the industry and revenue generation with the awareness that over-taxation may drive demand back to the black market.

The resulting tax mechanisms vary among states. For example, Alaska has a fairly simple tax structure with flat excise tax rates. So does Oregon, which has a 17 percent excise tax, no sales tax, and the local option to impose up to an additional 3 percent.

California's tax structure is more complicated, with an excise tax, a cultivation tax that varies by the type of plant material, and a regular state sales tax. (See Exhibit 5 on page 7.) Colorado imposes a 15 percent excise tax on wholesale marijuana and an additional 15 percent on retail sales while exempting it from regular sales tax.

Continued on page 12

The marijuana industry paid \$8.5 million in wages in 2017.