

**Revenue & Taxes from Oakland's Cannabis Economy**  
**Report to Measure Z Oversight Committee**  
 By Dale Gieringer & Richard Lee - Nov. 6<sup>th</sup>, 2006

**Revenues from Medical Cannabis Dispensaries (MCDs).** Table 1 shows the gross revenues reported by Oakland's medical cannabis dispensaries to the city's business tax office for the past three fiscal years.

**Table 1 – Gross revenues reported by Oakland MCDs**

Fiscal Year	Revenues	Business Tax (0.12%)	Est. Sales Tax @ 8.75%
2004	\$26,161,538.78	\$31,393	\$2,289,134
2005	\$16,422,722.05	19,707	1,436,938
2006	\$ 5,461,824.14	6,533	477,910

The city has experienced a dramatic dropoff in revenues and taxes from MCDs since FY 2004. This can be attributed to the closure of most of the MCDs under the city's dispensary regulation ordinance, which reduced their number from seven to four in the summer of 2004 (i.e., at the beginning of FY 2005). A more dramatic dropoff occurred in FY 2006, when licensing problems forced the closure of two more MCDs, including the largest one, Compassionate Caregivers. Since the end of FY 2006, the city has licensed another two, bringing the total back to four.

The city has been collecting business tax from MCDs at the rate of 1.2 mils on gross revenues. Most, but not all, MCDs are currently paying sales tax, as the taxability of medical marijuana is still in dispute before the Board of Equalization. The amount of sales tax from cannabis business is estimated in Table 1 by assuming that revenues are equal to sales and applying the 8.75% sales tax rate. Although actual tax returns from Oakland's MCD's are not available, more detailed figures have been released concerning an MCD in Modesto that was recently raided by the DEA, California Healthcare Collective, Inc. At the time of the raid, CHC was paying \$93,000 per quarter in federal IRS taxes, \$25,000 per quarter in state payroll taxes, and \$50-60,000 per month in sales taxes. This amounts to annual sales tax payments of over \$600,000 per year, more than that collected in FY 2006 from Oakland MCDs, even though Oakland is twice as populous.

While the revenues in Table 1 are indicative of the general scale of medical cannabis business in Oakland, they should not be interpreted too literally. First, a substantial portion of revenues were not reported due to accounting difficulties posed by the continuing illegality of marijuana commerce under federal law. In particular, cultivation remains in the underground cash economy. Growers rarely have business licenses or file taxes on their full income, and they aren't issued IRS 1099 forms reporting their sales. Hence wholesale cannabis commerce is by and large not accurately accounted for. While accounting standards have been improving since passage of the MCD ordinance, they are still far from satisfactory.

Secondly, the reported revenues reflect a substantial amount of out-of-Oakland business due to the fact that Compassionate Caregivers, while headquartered in Oakland,

operated six outlets elsewhere in the state during FY 2004; five of these were closed in May- June, 2005, but a San Francisco outlet continued to operate even after CC's Oakland facility was closed in Sept. 2005. Thus revenues reported by CC reflect a sizable amount of out-of-Oakland sales.

### **Potential Size of Oakland's Medical Cannabis Market**

While the accuracy of the revenue figures in Table 1 is difficult to gauge, it's useful to compare them to the estimated size of the medical cannabis market in Oakland. This can be deduced by estimating (1) the number of MCD customers in Oakland and (2) the average marijuana consumption per customer.

**(1) Oakland customer base:** Current estimates of the number of medical cannabis patients in California range from 150,000 to 350,000, based on data from patient registries and doctors specializing in cannabis medicine [1]. This corresponds to 1,750 – 4,100 patients scaled to Oakland's population. This is consistent with figures from the Oakland Cannabis Buyers' Cooperative ID card program, which reports about 3,400 total Oakland registrants, of whom about 1,700 are currently active. Their count is incomplete because not all Oakland patients have OCBC cards.

The actual customer base for Oakland's MCDs extends beyond the city limits. Oakland is a center for patients from Alameda and Contra Costa counties, which have a combined population of over two million. MCDs report that at least 75% of their customers come from outside Oakland proper. A rough estimate of the effective customer base from greater Oakland might therefore be four times that from the city proper, i.e. around 7,000 – 16,000 patients.

**(2) Average medical cannabis consumption and expenditures.** Based on interviews with MCDs, patients and doctors, mean cannabis consumption ranges around one pound per patient per year, corresponding to one gram or one or two cigarettes per day. Typical retail prices are about \$45 per one-eighth ounce = \$12.50/gram = \$5,800/pound.

At one pound per patient, it follows that Oakland patients consume about \$10 - \$23 million of cannabis per year. Consumption by the greater Oakland customer base would be four times higher, around \$40 – \$92 million. Of course, these customers do not necessarily buy all or even most of their medicine from Oakland facilities. Still, these figures provide a rough gauge of the potential of Oakland's medical cannabis market. The total California medical cannabis market can be estimated at \$870 million - \$2 billion. If sold in the retail market, sales tax revenues would come to \$3.5 - \$8 million in greater Oakland, and \$70 - \$160 million in the entire state,

**(3) Non-medical cannabis.** The medical market is only a fraction of the total cannabis market. Some 1.6 million Californians have smoked marijuana within the past 30 days, according to the most recent survey from the National Household Drug Abuse. On average, their consumption is less than for the medical population, many being only occasional users. Adjusting for this fact, total consumption of marijuana in California can be reasonably estimated at around 1 million pounds per year, or \$5.8 billion (see

appendix). Scaled to Oakland's population, this is \$68 million; including the wider customer base from outside the city, the total is \$272 million. Corresponding sales tax revenues would be \$6 - \$24 million for Oakland, or \$460 million for the whole state.

**Employment:** MCDs in Oakland typically employ around 15 to 20 persons. Before being closed, Compassionate Caregivers reported some 100 employees on its payroll.

Oakland also hosts a number of spin-off industries catering to the cannabis market: edible manufacturers (bakers and candymakers); grow stores; vaporizers and other paraphernalia; medical cannabis clinics; ID card validation (OCBC), and a gift shop and newspaper. Employment in these businesses probably amounts to several score jobs.

This does not count employment in cultivation. We estimate that it requires about 20 persons to grow 100 pounds/month, enough to supply 1,200 patients. It follows that 120 - 260 persons are currently engaged in supplying the greater Oakland patient base. Of course, not all of these jobs are local, much of Oakland's supply being imported from elsewhere in the state.

### **Conclusions:**

- (1) The medical cannabis business has the potential to contribute tens of millions of dollars per year to the Oakland economy. Reported revenues from MCDs have been as high as \$26 million and could potentially range as high as \$62 million.
- (2) Revenues reported by Oakland's MCDs declined 80% to \$5 million in the wake of enactment of the ordinance limiting their operations.
- (3) Sales tax payments by Oakland MCD's could potentially range as high as \$5 million, but were less than \$500,000 in FY 2006.
- (4) The non-medical "adult use" market could yield three to six times as much, ranging up to \$272 million in revenues and \$24 million in sales taxes for Oakland.
- (5) A substantial portion of the cannabis economy remains off the books. This is especially true of the cultivation industry, which is virtually entirely underground in the cash economy.
- (6) Oakland's MCD's currently provide jobs for nearly 100 workers, half as many as before the MCD ordinance. Hundreds more are engaged in off-the-books underground cultivation operations to supply the MCDs.

### **SOURCES**

[1] Estimate of 150,000 by Dale Gieringer, based on extrapolation from Oregon's patient registry (2005) <http://canorml.org/prop/cbcsurvey2.html>. Estimate of 350,000 by Fred Gardner extrapolated from survey of California cannabis specialists with 146,000 patients. "Medical Marijuana in California, 1996-2006," by Dr. Tod Mikuriya, Jeffrey Hergenrather, Philip A. Denney, Frank H. Lucido, Marian Fry, David Bearman, Tom O'Connell, Robert Sullivan, William Eidelman, Helen Nunberg, and William Courtney: in *O'Shaughnessy's*, Autumn 2006 (forthcoming). See "10 Years of Legalized Medical Pot in California: Dr. Mikuriya's Observations," *Counterpunch*, Nov. 4<sup>th</sup> 2006, <http://counterpunch.org/gardner11042006.html>.

## Appendix: Marijuana Consumption in California

Over 1.6 million Californians have smoked marijuana within the past 30 days, according to the most recent National Household Survey on Drug Abuse [1], which found 5.6% of all Americans over age 12 are current marijuana users. Insofar as these figures are based on self-reporting of illicit activity, they are undoubtedly on the low side.

According to the survey, one-third of this population, or 530,000 Californians, are daily users.

The bulk of consumption is accounted for by "regular" users, who consume marijuana at least several times per week. Included is a small minority of very heavy smokers (10 or more joints per day), who push the average consumption figures upwards. According to a British survey by the Independent Drug Monitoring Unit [2], "regular" users average 2 oz of cannabis per month or about 2 grams per day (a gram yields one or two joints). The population of regular users is somewhat larger than that of daily users. Assuming 600,000 - 700,000 "regular users" in California averaging 2 grams per day, consumption by this group accounts for 1.2 to 1.4 million grams per day. Assuming the remaining 1 million monthly users average one joint every 10 days, this adds another 100,000 grams per day. Total marijuana consumption by Californians may therefore be reasonably estimated at 1.3 to 1.5 million grams per day, or about 1 to 1.2 million pounds per year.

### Sources:

[1] Office of Applied Statistics, SAMHSA (DHHS): National Household Survey on Drug Abuse: <http://www.oas.samhsa.gov/nhsda.htm>

[2] M. Atha and S. Blanchard, "Self-reported drug consumption patterns and attitudes towards drugs among 1333 regular cannabis users," Published by the Independent Drug Monitoring Unit 1997. Cited in Leslie Iversen, *The Science of Marijuana*, Oxford Press. 2000, pp. 217-9.