



Illinois Cannabis Patients Association

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\$6.08 MILLION ESTIMATED ANNUAL REVENUE FROM MEDICAL CANNABIS IN ILLINOIS

Passage of medical cannabis legislation will generate millions of dollars in revenue for the state of Illinois. Based on the calculations contained in this memorandum, Illinois can expect to collect approximately **\$6.08 million** in annual revenues from the medical cannabis program established under S.B. 1381.

Revenue can be generated in three ways:

1. **Some form of excise tax on medical cannabis organizations.** This tax would be based on aggregate sales, and could be assigned to the general revenue account. Illinois's state sales tax is 6.25% on non-pharmaceutical sales.
2. **From patient registration and renewal fees.** Per the bill, these fees would be established by the Department of Public Health (the Department), and are designed to cover the cost of administering the program. Under the bill, the Department also sets fees for registration of primary caregivers, as well as principal officers, board members, agents and employees of medical cannabis organizations.
3. **Medical Cannabis Organization registration fees.** Per the bill, these fees are set at \$5,000.

I. Estimated Tax Revenue Collected by Medical Cannabis Organization Sales

Before you can estimate revenue, you need to calculate several key numbers, including:

- **The number of potential patients in Illinois:** New Mexico provides a good model because the eligibility standards in its law are similar to those in the Illinois bill, and New Mexico has a state-regulated dispensary system similar to the one established under S.B. 1381. As of January 21, New Mexico has 1,745 registered medical cannabis patients, or 0.088% of its population. Applied to Illinois's census-bureau estimated 2009 population (12.9 million), this yields a **potential 11,352 medical cannabis patients in Illinois.**
- **The cost of cannabis.** As a conservative estimate, assume the retail price in California in 2006, which was approximately \$45 per one-eighth of an ounce, or \$5,760 per pound.
- **The annual usage of cannabis per patient.** The National Organization for the Reform of Marijuana Laws (NORML) interviewed medical cannabis dispensaries, patients, and doctors in California to gauge patient use. They concluded that mean per-patient medical cannabis consumption is approximately **one pound per patient per year**, or one gram or one or two cannabis cigarettes per day.
- **The tax rate to be applied.** Illinois state sales tax of 6.25% could be applied as a base to total sales revenue. For example, Colorado recently determined that its general sales tax applied to medical cannabis sales (which do not qualify as pharmaceuticals). Illinois similarly could tax medical cannabis sales as general goods, because no specific exception is written into S.B. 1381 designating medical cannabis as a pharmaceutical qualifying for the lower sales tax rate applied to such goods. Local taxes vary, but would generate proportionate revenues for localities with licensed medical cannabis organizations.

Estimating the number of patients is important to determining potential state revenue. In this regard, applying New Mexico's number of patients as a percentage of population (0.088%) to Illinois's population yields approximately 11,352 patients in Illinois. Applying NORML's annual usage and cost estimates (one pound/patient/year at \$5,760 per pound), those patients would spend an estimated \$65,387,520 each year. If Illinois applied its states sales tax at a rate of 6.25%, **estimated sales tax revenues would total \$4.08 million per year.** Localities that add a sales tax would realize a proportional benefit.

II. Estimated Patient Registration Fees

The experiences of other states' medical cannabis programs shows that a significant amount of revenue can be generated from patient registration fees. Because New Mexico is the only state with state-regulated dispensaries up and running, and because it has a narrower scope for when cannabis can be recommended than some other states (like S.B. 1381's requirements), it is an appropriate analog to estimating patient registration rates in Illinois. New Mexico now has 1,745 registered medical cannabis patients, or 0.088% of its population. Applied to Illinois's population (12.9 million), this yields a potential 11,352 medical cannabis patients in Illinois. Because New Mexico is the only state with state-regulated dispensaries up and running, and because it has a narrower scope for when cannabis can be recommended than some other states, it may also be an appropriate analog. If the rate of participation in Illinois were similar to in New Mexico, Illinois's program could be expected to have roughly 8,000-10,000 patients enrolled after a couple of years. (To give some context: 5% of Americans report using a prescription narcotic in the past month, which would be more than 645,000 Illinoisans. There are about 61,000 new cases of invasive cancer in Illinois each year.)

Applying this estimate, **if Illinois charged an average fee of \$100 per application¹, that would provide \$1 million in annual revenue.**

These fees would be used to cover the costs of administering the patient registration system. However, the experience of other states suggests that these fees will exceed the costs of administration, yielding surpluses. For example, Oregon's medical cannabis program in 2005 (when it had about 10,400 registered patients) had produced a surplus of \$1.1 million. This money could be used to cover other state expenses by being transferred to the state's general fund, as the Colorado legislature has done with its medical cannabis program surplus.

III. Estimated Medical Cannabis Organization Licensure Fees

If the Department were to license 20 MCOs in the first year, at a fee of \$5,000, the revenue would be \$100,000. In a state of 12.9 million people, it is reasonable to expect that a mature system might total 100 organizations (about 100 patients per site). This would yield **\$1 million** of revenue to the state.

¹ Many states charge a lower fee for patients who receive Supplemental Security Income or Medicaid. In Michigan, 40% of applicants qualify for the reduced fee. If a similar proportion received a discount in Illinois, the state could charge an average fee of \$100 if the base fee were \$125 and the reduced fee were \$30. Alternately, Illinois could follow the model of Colorado and Nevada and charge a flat fee for all patients.