

VILLAGE OF LOMBARD  
REQUEST FOR BOARD OF TRUSTEES ACTION  
For Inclusion on Board Agenda

  X   Resolution or Ordinance (Blue)        *Waiver of First Requested*  
       Recommendations of Boards, Commissions & Committees (Green)  
       Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: Scott Niehaus, Village Manager

DATE: September 11, 2019 (COW)(B of T) September 19, 2019

TITLE: An Ordinance Amending Title IX., Chapter 98 Of The Lombard Village Code In Regard To The Imposition Of A Municipal Cannabis Retailers' Occupation Tax

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

Attached is an ordinance imposing the Municipal Retailers' Occupation Tax, as prepared by Village Counsel. At the cannabis workshop on July 31, 2019, the Village Board directed staff to prepare the necessary documents to apply this tax as soon as possible. In addition, attached is the report prepared for the cannabis workshop related to the potential revenue from a recreational cannabis dispensary. Under current state statute, this tax will not go into effect until September 1, 2020. However, there is discussion that the Illinois Legislature may pass legislation as part of the veto session later this year to move up the date for the municipal cannabis tax. Either way, the attached ordinance will make sure that the tax is in effect as soon as allowed by state statute.

Per Village Counsel, the attached ordinance should only be approved after the zoning allowing the retail sale of cannabis is adopted.

Review (as necessary):

Village Attorney X \_\_\_\_\_ Date \_\_\_\_\_  
Finance Director X \_\_\_\_\_ Date \_\_\_\_\_  
Village Manager X \_\_\_\_\_ Date \_\_\_\_\_

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.

ORDINANCE NO. \_\_\_\_\_

**AN ORDINANCE AMENDING TITLE IX., CHAPTER 98 OF  
THE LOMBARD VILLAGE CODE IN REGARD TO THE IMPOSITION  
OF A MUNICIPAL CANNABIS RETAILERS' OCCUPATION TAX**

**WHEREAS**, Section 8-11-22 of the Illinois Municipal Code, 65 ILCS 5/8-11-22, authorizes the Village of Lombard (the "Village") to impose a municipal cannabis retailers' occupation tax at a rate not to exceed three percent (3%) of the gross receipts of cannabis sold in the Village, starting January 1, 2020, so long as the Village permits the retail sale of cannabis in the Village, except for retail sales made under the Illinois Compassionate Use of Medical Cannabis Pilot Program Act, 410 ILCS 130/1, *et seq.*; and

**WHEREAS**, the President and Board of Trustees of the Village (the "Corporate Authorities") have determined that the retail sale of cannabis within the Village will be allowed, but only within certain zoning districts, in some cases as a permitted use and in some cases as a conditional use; and

**WHEREAS**, the Corporate Authorities of the Village find that levying a tax on cannabis sales pursuant to Section 8-11-22 of the Illinois Municipal Code, 65 ILCS 5/8-11-22, at a rate of three percent (3%) of the gross receipts of cannabis sold in the Village, beginning January 1, 2020, best serves the public's health, safety and welfare; and

**WHEREAS**, in order to best serve the public's health, safety and welfare, the Corporate Authorities of the Village desire to make certain amendments to the Lombard Village Code, relative to levying the municipal cannabis retailers' occupation tax as provided for by 65 ILCS 5/8-11-22;

**NOW, THEREFORE, BE IT ORDAINED** by the President and Board of Trustees of the Village of Lombard, DuPage County, Illinois, as follows:

**SECTION 1:** Incorporation. That the recitals set forth above shall be and are hereby incorporated in this Section 1 as if restated herein.

**SECTION 2:** That Title IX., Chapter 98 of the Lombard Village Code is amended by adding a new Section 98.117 thereto, which shall read in its entirety as follows:

**"§ 98.117 Municipal cannabis retailers' occupation tax.**

- A. Beginning January 1, 2020, a tax is hereby imposed upon all persons engaged in the business of selling cannabis, other than cannabis purchased under the Illinois Compassionate Use of Medical Cannabis Pilot Program Act, 410 ILCS 130/1, *et seq.*, at retail in the Village at the rate of three percent (3%) of the gross receipts from these sales made in the course of that business.

- B. The imposition of this tax is in accordance with the provisions of Section 8-11-22 of the Illinois Municipal Code, 65 ILCS 5/8-11-22, and is in addition to any and all other taxes and charges.
- C. Retailers may reimburse themselves for their tax liability hereunder by separately stating the tax as an additional charge, which charge may be stated in combination, in a single amount, with any State tax that retailers are required to collect.
- D. The tax hereby imposed, and all civil penalties that may be assessed as an incident thereto, shall be remitted to, collected by and enforced by the Illinois Department of Revenue in accordance with the provisions of Section 8-11-22 of the Illinois Municipal Code, 65 ILCS 5/8-11-22, as amended. The Illinois Department of Revenue shall have full power to administer and enforce the provisions of this Section.
- E. The failure to timely collect or remit all taxes due hereunder is a violation of the Lombard Village Code, and may cause any such violator to be subject to the penalties hereunder."

**SECTION 3:** That if any section, paragraph or provision of this Ordinance shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any of the remaining provisions of this Ordinance.

**SECTION 4:** That the Village's Finance Director, or his designee, is hereby authorized and directed to file a certified copy of this Ordinance with the Illinois Department of Revenue, on or before November 1, 2019.

**SECTION 5:** That this Ordinance shall be in full force and effect from and after its passage, approval and publication in pamphlet form, as provided by law.

Passed on first reading this \_\_\_\_ day of \_\_\_\_\_, 2019.

First reading waived by action of the Board of Trustees this \_\_\_\_ day of \_\_\_\_\_, 2019.

Passed on second reading this \_\_\_\_ day of \_\_\_\_\_, 2019, pursuant to a roll call vote as follows:

AYES: \_\_\_\_\_

NAYS: \_\_\_\_\_

ABSENT: \_\_\_\_\_

**APPROVED** by me this \_\_\_\_ day of \_\_\_\_\_, 2019.

\_\_\_\_\_  
Keith Giagnorio, Village President

**ATTEST:**

\_\_\_\_\_  
Sharon Kuderna, Village Clerk

Published by me in pamphlet form this \_\_\_\_ day of \_\_\_\_\_, 2019.

\_\_\_\_\_  
Sharon Kuderna, Village Clerk



## MEMORANDUM

To: Scott Niehaus, Village Manager

From: Timothy Sexton, Director of Finance

Date: July 5, 2019

Subject: Potential Revenue from Recreational Cannabis Dispensary

This report will discuss the potential revenue to the Village of Lombard if a recreational cannabis dispensary were to locate within the Village. As this is new to the state of Illinois, and information regarding the existing medical cannabis dispensaries is not publicly available, it is very difficult to determine a precise revenue estimate. However, this report will discuss information that is available and some likely scenarios.

Attached is a report prepared by the Illinois Economic Policy Institute (IEPI) in November 2018 that discusses potential financial impacts of legalizing recreational cannabis. This is a nonprofit organization that is generally aligned with labor organizations and was favorable towards legalizing recreational cannabis. The information in the report should be viewed with that knowledge.

Colorado publishes information on taxes collected on the sale of recreational cannabis, which became legal in 2014. This information can be helpful in analyzing the potential sales in the state of Illinois, and the potential tax revenue it may generate. This information is also referenced in the IEPI report as well.

### Potential Revenue

In looking to analyze the potential revenue that could be generated by a dispensary in the Village, it made sense to look at other states that have legal recreational cannabis. Colorado publishes all of their tax data on recreational cannabis, so their information has been used to come up with an estimate.

As calculated in **Attachment A**, total Marijuana Sales Tax in Colorado, at a rate of 15%, was \$168 million in 2018. If you convert this based on the ratio of Illinois to Colorado population, and then divide by the current number of authorized dispensaries in Illinois of 185, this gives you an estimate per dispensary, based on Colorado's 15% tax. If this 15% tax is converted to the 3% cannabis tax that municipalities are authorized to levy, this amounts to \$401,000 per dispensary. In addition, as part of the regular sales tax, the Village receives 1% regular sales tax and 1% non-home rule sales tax. Each would generate an additional \$134,000. In total,

under this method of estimating the revenue, it is estimated that there would be \$669,000 total revenue generated for the Village.

Separately, the IEPI report contains information that can be used to also calculate an estimate of the potential revenue, which is included in **Attachment B**. This report estimates statewide sales of \$1.62 billion. Using this as a base, and dividing by the potential total of 185 dispensaries, you can calculate an estimate of \$262,000 for the 3% cannabis tax, and \$87,000 for the 1% regular sales tax and 1% non-home rule sales tax, for a total of \$436,000.

This estimate would probably be the low-end, conservative estimate of the minimum amount of revenue that a dispensary would generate. As there potentially can be up to 185 dispensaries located throughout the state, it is very likely that dispensaries in the more densely populated areas in Chicago and the suburbs will see much higher sales than the dispensaries located in lower population areas elsewhere in the state. However, it is very difficult to determine an estimate of this, although it is very possible that the actual revenue that will be generated could be two to three times higher than these estimates. Given this, the potential high revenue estimate could be over \$1.5 million.

### **Summary**

Overall, it is likely that a recreational cannabis dispensary would generate at least \$400,000 revenue annually for Lombard if a dispensary were to locate here. On the upside, it is very possible that it could generate upwards of \$1.5 million annually. This is a broad range of possible revenue, but it is impossible to know for certain until we have experience with this type of business.

**Colorado Recreational Cannabis**

15% Marijuana Sales Tax Total for 2018	\$168,037,275.00
Ratio of IL Population to CO Population (per below)	<u>2.21</u>
Potential Equivalent 15% Sales Tax in IL	\$371,362,377.75
# of Potential Dispensaries in IL	<u>185</u>
15% Sales Tax Per Dispensary	<u>\$2,007,364.20</u>

**Potential Revenue from Individual Dispensary**

3% Equivalent Sales Tax Per Dispensary	<u>\$401,472.84</u>
1% Regular Sales Tax Per Dispensary	<u>\$133,824.28</u>
1% Non-Home Rule Sales Tax Per Dispensary	<u>\$133,824.28</u>
<b>TOTAL POTENTIAL REVENUE</b>	<u><b>\$669,121.40</b></u>

Colorado Population (2019 Estimate)	5,761,252
Illinois Population (2019 Estimate)	12,734,617
Ratio of Illinois Population to Colorado Population	2.21

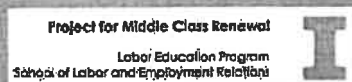
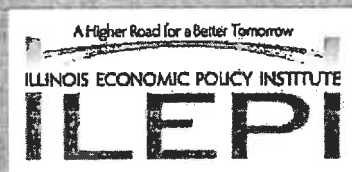
**IEPI Report Revenue Estimate**

Total Estimated Sales	\$1,616,200,000
# of Potential Dispensaries in IL	185
Sales Per Dispensary	<u>\$8,736,216</u>
3% Cannabis Sales Tax Per Dispensary	<u>\$262,086</u>
1% Regular Sales Tax Per Dispensary	<u>\$87,362</u>
1% Non-Home Rule Sales Tax Per Dispensary	<u>\$87,362</u>
<b>TOTAL POTENTIAL REVENUE</b>	<u><u>\$436,811</u></u>

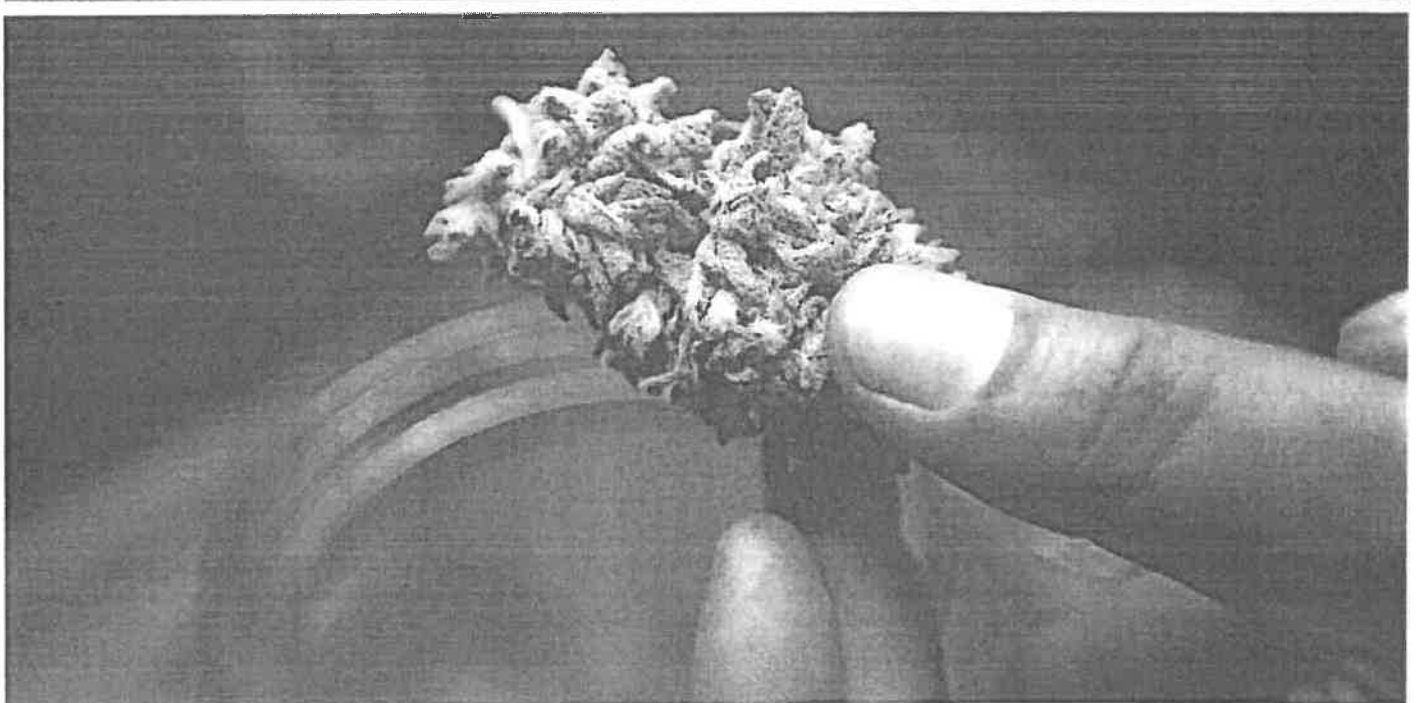


November 9, 2018

# The Financial Impact of Legalizing Marijuana in Illinois



Frank Manzo IV, MPP  
Jill Manzo  
Robert Bruno, PhD



## **Executive Summary**

There is significant public support for legalizing, regulating, and taxing recreational marijuana in Illinois. Fully 66 percent of registered voters in Illinois support legalizing marijuana, including a bipartisan majority of Democrats and Republicans. Furthermore, 10 states and the District of Columbia have already legalized recreational marijuana.

This report by the Illinois Economic Policy Institute (ILEPI) and the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign finds that high taxpayer costs for law enforcement and cannabis-related incarceration would be reduced by legalizing recreational marijuana. In total, Illinois taxpayers would save \$18.4 million annually in reduced incarceration costs, law enforcement spending, and legal fees from marijuana legalization. This revenue could be redirected to solve other crimes—such as homicides, robberies, and assaults.

The economy would also grow if Illinois were to legalize recreational marijuana. If marijuana were legalized, regulated, and taxed in Illinois, an estimated \$1.6 billion would be sold in the state, in part due to regional tourism. At a 26.25 percent state excise tax on retail marijuana in addition to the 6.25 percent general sales tax, Illinois would:

- generate \$525 million in new tax revenues, including \$505 million for the state and \$20 million for local governments— a move that credit rating agencies have called “credit positive;”
- create over 23,600 new jobs at more than 2,600 businesses in Illinois;
- boost the Illinois economy by \$1 billion annually; and
- allow the state to make additional pension payments and vital public investments in infrastructure, K-12 public schools, college tuition assistance programs, and drug treatment and prevention programs.

The benefits of legalization outweigh the social costs. While some legislators and constituents are concerned that legalizing recreational marijuana would increase consumption of other illicit drugs, increase motor vehicle crashes, and reduce workplace productivity, there is no evidence to support these claims. In fact, legalized cannabis has been found to reduce opioid use by as much as 33 percent, reduce traffic fatalities by as much as 11 percent, and have no effect on occupational accidents or rates of employee absenteeism. This is because marijuana consumption has not been found to increase after legalization.

Legalizing, regulating, and taxing recreational marijuana would reduce costs to taxpayers, spur economic activity, create jobs, and shrink the black market. While new tax revenues would be modest and would not solve Illinois’ fiscal issues, they would improve the state’s budget situation and credit rating outlook, fund investments in critical infrastructure and public education, and reduce criminal justice costs. Illinois *should* legalize, regulate, and tax recreational marijuana.

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## About the Authors

**Frank Manzo IV, M.P.P.** is the Policy Director of the Illinois Economic Policy Institute (ILEPI). His research focuses on labor market analysis, prevailing wage laws, economic development, infrastructure investment, and public finance. He earned his Master of Public Policy from the University of Chicago Harris School of Public Policy and his Bachelor of Arts in Economics and Political Science from the University of Illinois at Urbana-Champaign. He can be contacted at [fmanzo@illinoisepi.org](mailto:fmanzo@illinoisepi.org).

**Jill Manzo** is a Midwest Researcher at the Illinois Economic Policy Institute (ILEPI). Her research focuses on income inequality, education policy, social justice, economic development, and infrastructure investment. She earned a Bachelor of Arts in Political Science and International Studies from Iowa State University. She can be contacted at [jmanzo@illinoisepi.org](mailto:jmanzo@illinoisepi.org).

**Robert Bruno, Ph.D.** is a Professor at the University of Illinois at Urbana-Champaign School of Labor and Employment Relations and the Director of the School's Labor Education Program. He also directs the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign. His research focuses broadly on working-class and union studies issues. He earned his Doctor of Philosophy in Political Theory from New York University and his Master of Arts in Political Science from Bowling Green State University. He can be contacted at [bbruno@illinois.edu](mailto:bbruno@illinois.edu).

## Introduction

In 2012, Colorado and Washington became the first states to legalize marijuana for recreational purposes. The passage of Colorado Amendment 64 led to the state becoming the first to tax and legalize recreational marijuana, with commercial sales beginning in January 2014. Since marijuana is a relatively safe drug with no documented deaths from a marijuana overdose, support for legalization, regulation, and taxation of marijuana has only grown over time. Support for legalizing marijuana among American adults was just 12 percent in 1969, 48 percent by 2012, and 64 percent by 2017 (McCarthy, 2017).

Although marijuana remains illegal under federal law, 10 states and the District of Columbia have legalized recreational marijuana: Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada, North Dakota, Oregon, Vermont, and Washington. Each state has their own guidelines, with different rates of taxation, age restrictions, packaging regulations, and possession limits. Additionally, 13 states have decriminalized the drug and 33 states— including Illinois— have legalized medical marijuana (Chappell, 2018). Of the states which have legalized recreational use, all except Vermont allow commercial sales by private for-profit businesses (Lopez, 2017a).

The legalization, regulation, and taxation of recreational marijuana has already generated hundreds of millions of dollars in tax revenues for state and local governments. During the campaign to legalize marijuana in Colorado, proponents claimed that marijuana taxes would increase state revenues by \$70 million per year. Today, tax revenues have exceeded these projections. In 2017, marijuana taxes, licenses, and fees collected in Colorado totaled \$247 million, with \$40 million of these revenues deposited into the Building Excellent Schools Today (BEST) program— which funds public school capital construction projects— every year. The additional \$207 million is allocated to the Marijuana Tax Cash Fund, which is largely used for health care, education, drug treatment, drug prevention, and law enforcement programs (Lopez, 2017b). Colorado has generated more than half a billion dollars in revenues since it legalized recreational marijuana (Pedersen, 2018).

In addition to generating tax revenues that fund public services and programs for social good, marijuana has been a job creator across the United States. In fact, the cannabis industry already employs 165,000 to 230,000 workers across the United States at retailers, wholesalers, testing labs, and related companies (McVey, 2017). In June 2018, Colorado officials approved \$447 million for 35 school construction projects using money that is partially funded by legal marijuana sales, creating thousands of blue-collar construction jobs (Whaley, 2018).<sup>1</sup>

This Illinois Economic Policy Institute (ILEPI) and Project for Middle Class Renewal report does not discuss the moral implications of legalizing marijuana, but does present the effect on criminal justice and incarceration costs. The tax revenue and economic impacts of legalizing, regulating, and taxing recreational marijuana in Illinois are also evaluated. Evidence on the social costs of legalizing marijuana are considered. This report differs from previous studies assessing the impact of legalizing recreational

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<sup>1</sup> In Illinois, every \$500 million in public construction project funding creates about 5,200 total jobs, including 3,000 direct construction jobs (e.g., see Craighead & Manzo, 2017).

### *The Financial Impact of Legalizing Marijuana in Illinois*

marijuana in Illinois because it evaluates the market for legal recreational marijuana in Illinois using actual economic data and evidence from Colorado's experience, updates taxpayer savings estimates from reduced incarceration costs, illustrates potential public investments that could occur using new tax revenues, and forecasts impacts on private sector sales, business openings, and job creation.

## **Consumption of Marijuana and Support for Legalization in Illinois**

Millions of dollars are already spent illegally in Illinois on the purchase of cannabis on the unregulated black market. According to the Marijuana Policy Project, a pro-legalization advocacy organization, an estimated 750,000 adults in Illinois reported consuming marijuana in the past month— representing nearly 6 percent of the total population in the state. Accordingly, proponents contend that the legalization of recreational marijuana would allow the State of Illinois to safely regulate the activity while collecting new tax revenues (MPP, 2017).

Marijuana is currently decriminalized for recreational use and legally permitted for medical use in Illinois. In 2016, legislators in Illinois decriminalized the possession of up to 10 grams of marijuana for individuals 21 years old or older (Pedersen, 2018). Illinois' Medical Cannabis Pilot Program, which began accepting applications in September 2014, now has more than 46,000 qualifying patients and 55 licensed medical cannabis dispensaries— about 837 patients per dispensary (State of Illinois, 2018). On March 22, 2017, state lawmakers proposed bills to legalize marijuana in Illinois (McCoppin, 2017).

The Illinois General Assembly did not pass legislation to legalize, regulate, and tax recreational marijuana during the 2017-2018 legislative session, despite a clear majority of Illinois voters supporting full legalization. A 2017 survey of 1,000 registered voters conducted by the Paul Simon Public Policy Institute at Southern Illinois University Carbondale found that two-thirds (66 percent) support legalizing, taxing, and regulating marijuana like alcohol in Illinois, including 76 percent of Democrats and 52 percent of Republicans (Paul Simon Public Policy Institute, 2017). In addition, in March 2018, Cook County residents were asked their opinion on legalizing the cultivation, manufacture, distribution, testing, and sale of recreational marijuana by adults 21 years old or older at the state-level. Fully 68 percent voted "Yes" in support of legalization (Pedersen, 2018; Ballotpedia, 2018).

## **Savings for Taxpayers: Reduced Law Enforcement and Incarceration Costs**

Historically, the costs of police, law enforcement, and corrections associated with marijuana possession have been very high in Illinois. A 2013 report by the American Civil Liberties Union found 12,406 marijuana possession arrests were made in the state in 2010, with African Americans 7.6 times more likely to be arrested than white residents. As a result, Illinois taxpayers spent \$127 million to police marijuana consumption, \$72 million in judicial and legal fees, and \$20 million to house individuals in local jails and county correctional facilities for possession of marijuana in 2010 (ACLU, 2013).

### *The Financial Impact of Legalizing Marijuana in Illinois*

After decriminalization, police made fewer arrests and wrote fewer tickets. In 2012, the City of Chicago decriminalized the possession of 15 grams or less of marijuana for anyone 21 years old or older. In the year prior to decriminalization, Chicago police officers made 21,000 arrests. By 2016, there were just 129 arrests and the Chicago Police Department issued fewer than 300 tickets for possession of small amounts of cannabis. In 2016, the State of Illinois decriminalized possession of 10 grams or less of marijuana for anyone 21 years old or older— making possession of small amounts of weed a civil offense rather than a crime, with fines as the penalty instead of jail time (Main, 2018).

Full legalization and taxation of recreational marijuana will further reduce taxpayer costs. In June 2016, Illinois still had 445 people incarcerated in prison due to a cannabis-related possession, manufacturing, or trafficking offense (IDOC, 2016). According to the Illinois State Commission on Criminal Justice and Sentencing Reform in a January 2017 report, it costs Illinois more than \$22,000 per year to incarcerate a prisoner (ICJIA, 2017). Using this cost estimate and adjusting it for inflation to constant 2018 dollars, Illinois could conservatively save \$10.2 million annually in reduced incarceration costs alone due to the legalization of recreational marijuana (Figure 1).

**Figure 1: Estimated Taxpayer Savings from Legalizing Recreational Marijuana in Illinois**

<b>Taxpayer Savings from Recreational Marijuana Legalization</b>	<b>Annual Estimate</b>
Reduced Incarceration Costs	\$10.24 million
Reduced Judicial and Legal Fees*	\$2.95 million
Reduced Policing Costs*	\$5.21 million
<b>Total Savings</b>	<b>\$18.40 million</b>

\* Estimates have been adjusted for inflation using the Consumer Price Index (CPI, 2018).

Source(s): 2013 American Civil Liberties Union (ACLU, 2013); Illinois State Commission on Criminal Justice and Sentencing Reform (ICJIA, 2017).

Figure 1 presents annual taxpayer savings from full legalization of recreational marijuana in Illinois. Estimates are based on findings from the American Civil Liberties Union and the Illinois State Commission on Criminal Justice and Sentencing Reform adjusted for 2017 data on cannabis-related incarceration in Illinois. The estimates are also adjusted for inflation to today's dollars. The analysis reveals that legalizing, taxing, and regulating recreational marijuana would reduce incarceration costs by \$10.2 million per year, decrease judicial and legal fees by about \$3.0 million per year, and lower policing costs by about \$5.2 million per year. In total, legalizing recreational marijuana would save Illinois taxpayers \$18.4 million annually (Figure 1). This is in addition to the hundreds of millions of dollars that were saved from marijuana decriminalization in 2016.

### **Tax Revenue Impacts of Illinois Legalizing Recreational Marijuana**

Illinois is about twice as large as Colorado (Figure 2). There are 4.8 million households in Illinois compared to 2.1 million households in Colorado. Additionally, according to data from the Bureau of Economic Analysis at the U.S. Chamber of Commerce, the Illinois economy produced 2.4 times as much output as Colorado (BEA, 2016). However, Illinois collects more in state and local taxes than Colorado.

*The Financial Impact of Legalizing Marijuana in Illinois*

Figure 2 multiplies the total number of households by their average household income in both Colorado and Illinois and then adjusts total income for purchasing power after all state, federal, and local taxes. The result is that Illinois has 2.1 times as much purchasing power as Colorado. This means that recreational marijuana sales in Illinois could feasibly be about 2.1 times as much as in Colorado.

**Figure 2: Purchasing Power of Resident Households, Colorado vs. Illinois, 2016 Data**

2016 Economic Data	Colorado	Illinois
Total Households (2016)	2,108,992	4,822,046
Average Household Income (2016)	\$88,246	\$84,561
Total Household Income After All Taxes*	\$129.89 billion	\$275.20 billion
Illinois Purchasing Power as a Multiple of Colorado		2.12 x

\*Based on data from 2015 *State and Local Government Finances* by the U.S. Census Bureau and average federal income tax rates (Census, 2015). Note that this estimate is not the same as total labor income, which would include benefits, and not the same as gross state product (GSP).

*Source(s): 2016 American Community Survey by the U.S. Census Bureau (Census, 2016); 2015 State and Local Government Finances by the U.S. Census Bureau (Census, 2015).*

The Colorado Department of Revenue is required by law to report marijuana tax data to the public (Colorado Department of Revenue, 2018a). Colorado currently taxes recreational marijuana at a 32.9 percent effective tax rate. This includes a 2.9 percent state sales tax on both medical and retail marijuana, a 15 percent state retail marijuana excise tax, and a 15 percent state retail marijuana sales tax that was increased from 10 percent on July 1, 2017. Over the fiscal year from July 2017 through June 2018, the state collected \$251.0 million in total marijuana taxes— not including license and application fees paid by retailers and individuals to sell recreational marijuana. Based on the effective tax rate, this means that Colorado residents and visitors spent \$762.8 million legally on recreational marijuana in Colorado over 12 months (Figure 3).

**Figure 3: Estimating the Market for Legalized Recreational Marijuana in Illinois, By 2020**

The Markets for Recreational Marijuana in Colorado and Illinois	Data or Estimate
Total Marijuana Sales in Colorado Annually	\$762.81 million
Total Marijuana Tax Rate in Colorado*	32.9%
Total Marijuana Taxes Collected in Colorado Annually	\$250.97 million
Illinois Purchasing Power as a Multiple of Colorado	2.12 x
Total Estimated Annual Sales in Illinois (After Legalization)	\$1,616.20 million

\*Total marijuana revenue in Colorado includes a 2.9 percent state sales tax on medical and retail marijuana, a 15 percent state retail marijuana sales tax, and a 15 percent state retail marijuana excise tax.

*Source(s): Authors' estimates based on Marijuana Tax Data from the Colorado Department of Revenue (Colorado Department of Revenue, 2018), using purchasing power estimates from Figure 2.*

It is estimated that about \$1.62 billion of recreational marijuana would be sold in Illinois if the state were to legalize, regulate, and tax the substance at similar levels as Colorado (Figure 3).<sup>2</sup> This is based

<sup>2</sup> The \$1.62 billion recreational marijuana market may be a *conservative* estimate. For example, there were 46,018 qualifying patients in Illinois' Medical Cannabis Pilot Program who spent \$10.8 million per month at licensed medical cannabis dispensaries from January 2018 through September 2018— or \$235.40 per patient per month (State of Illinois,

*The Financial Impact of Legalizing Marijuana in Illinois*

on the total sales in Colorado adjusted for the purchasing power of Illinois households. Additionally, Illinois would benefit from being one of the only states in the region to legalize recreational marijuana. Like Colorado, tourism would be expected to increase modestly as consumers from neighboring states travel to Illinois for legalized cannabis, boosting business sales in Illinois.

Illinois taxes tobacco and alcohol at higher rates than clothes, food, and services. In addition to the 6.25 percent general sales tax, Illinois levies excise taxes of \$0.23 per gallon for beer, \$1.39 per gallon for wine, \$8.55 per gallon for liquor, and \$1.98 per pack of 20 cigarettes (SalesTaxHandbook, 2018). The legalization, regulation, and taxation of marijuana would be no different.

Figure 4 presents estimated tax revenues from the State of Illinois levying a proposed 26.25 percent state excise tax on retail marijuana. Combined with the 6.25 percent general sales tax, this would make the total effective tax rate on recreational marijuana 32.5 percent in Illinois— slightly lower than in Colorado (32.9 percent). In general, consumers tend to buy more of a product if it is taxed at a lower rate, but Figure 4 conservatively uses the total marijuana sales estimate of \$1.62 billion for Illinois, based on Colorado's total effective tax rate.

If the state were to impose a 26.25 percent excise tax on recreational marijuana in addition to the 6.25 percent general sales tax, Illinois would generate an estimated \$525.3 million in new tax revenues (Figure 4). Fully \$505.1 million would go to the state government while local governments would receive \$20.2 million.<sup>3</sup> This revenue estimate falls in the middle of the \$350 million to \$700 million range projected by some proponents of legalizing recreational marijuana in Illinois (Driscoll, 2018). It also exceeds the \$354 million in revenue projected by researchers at the conservative-learning Tax Foundation (Bishop-Henchman & Scarboro, 2016). Note, however, that the revenue estimate from Figure 4 does not include tax revenue from licenses and application fees paid by retailers and individuals to sell recreational marijuana.

**Figure 4: Estimated Tax Revenues from Legalizing Recreational Marijuana in Illinois, By 2020**

Estimated Sales, Proposed Tax Rate, and Expected Tax Revenues	Annual Estimate
Total Estimated Marijuana Sales in Illinois	\$1,616.20 million
Illinois State Marijuana Excise Tax (Proposed)	26.25%
Illinois Sales Tax: State Share	5.00%
Illinois Sales Tax: Local Share	1.25%
Total State Taxes Collected	\$505.06 million
Total Local Taxes Collected	\$20.20 million

*Source(s): Authors' estimates based on Marijuana Tax Data from the Colorado Department of Revenue (Colorado Department of Revenue, 2018), using purchasing power estimates from Figure 2.*

2018). If 750,000 adults in Illinois consume marijuana at the same monthly quantities as qualified patients (MPP, 2017), estimated sales would be \$176.5 million per month, or a market size of \$2.12 billion.

<sup>3</sup> In Illinois, the general sales tax is 6.25 percent. The state keeps 80 percent of the revenue from the sales tax (or 5 percentage points of the tax) in the General Fund and transfers 20 percent (or 1.25 percentage points of the tax) to local governments.



*The Financial Impact of Legalizing Marijuana in Illinois*

State lawmakers could stipulate how new tax revenues collected from legalized marijuana are spent. Figure 5 outlines potential public investments that could occur using the new tax revenue, assuming that half of the revenue is used to reduce pension debts by about \$250 million per year.

The remaining revenue could be distributed evenly at 10 percent to fund five government functions annually at about \$50 million each.

- Lawmakers could follow Colorado's lead and deposit 10 percent of recreational marijuana tax revenues in the **School Infrastructure Fund**. The additional state funding could potentially be used by local school districts to slightly reduce property tax burdens. Compared to actual revenue of \$72.1 million in fiscal year 2017, \$50 million would represent a *70 percent* increase in school construction funding provided by the state (Illinois Comptroller, 2017).
- Lawmakers could allocate 10 percent of recreational marijuana tax revenues to the **State Construction Account**. This money is used to fund road, bridge, transportation, and similar infrastructure projects. Compared to actual revenue of \$506.6 million in fiscal year 2017, \$50 million would represent a *10 percent* increase in funding (Illinois Comptroller, 2017).
- 10 percent of recreational marijuana tax revenues could be appropriated to the **Illinois State Board of Education** to support elementary education at Illinois' public schools. The additional state funding could also be used by local school districts to slightly reduce property tax burdens. Compared to an enacted budget of \$6.8 billion for evidence-based funding of schools, \$50 million would represent about a *1 percent* increase in total funding (ISBE, 2018).
- 10 percent of recreational marijuana tax revenues could be dedicated to the **Illinois Student Assistance Commission** to help students pay for college education through the Monetary Award Program (MAP) grants. In the 2019 fiscal year, MAP grant funding was \$401.3 million (ISAC, 2018). \$50 million in new revenue would represent a *12 percent* increase in higher education tuition assistance for students to attend Illinois' public universities and community colleges.
- 10 percent could be appropriated to the **Department of Human Services** to fund drug treatment and drug prevention programs, including to help combat the current opioid crisis. These programs were among the hardest hit by the 736-day budget impasse in Illinois. Compared to the \$230.7 million enacted for the Division of Addiction Treatment, \$50 million in new revenue would represent a *22 percent* increase in funding for substance abuse treatment and prevention programs (Illinois OMB, 2018).

Though not shown in Figure 5, the approximately \$20 million in recreational marijuana tax revenues that are transferred to local governments could be used either to fund law enforcement and hire additional officers or to pay down local police and fire pension debt obligations. The administration and regulation of legal marijuana could be funded entirely by license fees and application fees paid by retailers and individuals to sell recreational marijuana. These fees generated \$8.8 million for the State of Colorado from July 2017 through June 2018 (Colorado Department of Revenue, 2018b). Elected

officials and voters in Illinois could expect to double that revenue to pay for administering and regulating the legalized marijuana law.

**Figure 5: Potential Public Investments Using New Tax Revenues from Legalized Marijuana**

Potential Public Investments Based on New Tax Revenues	Annual Estimate
Total State Marijuana Taxes Collected	\$505.06 million
<u>Potential Public Investments for the Public Good</u>	
50 Percent to Pension Payments	\$252.53 million
10 Percent to School Infrastructure Fund	\$50.51 million
10 Percent to State Construction Account	\$50.51 million
10 Percent to K-12 Public Schools	\$50.51 million
10 Percent to Monetary Award Program (MAP)	\$50.51 million
10 Percent to Drug Treatment and Prevention Programs	\$50.51 million

## Economic Effects of Illinois Legalizing Recreational Marijuana

Convenient access to dispensaries, consumption lounges, and licensed marijuana businesses is essential to a successful and safe market for legal marijuana. If consumers cannot easily purchase cannabis from the regulated legal market because local governments prevent dispensaries or retail stores from selling the substance, they will again turn to the unregulated black market. For example, Denver allows one cannabis retail establishment per 3,091 residents, which has caused the illegal market share to fall to 30 percent. Seattle, on the other hand, limited retail licenses to 21 firms, or one dispensary per 30,373 residents. Illegal activity was still estimated at 70 percent of the total cannabis market in Seattle due to the lack of access to the regulated market. Research finds that states need at least one legal cannabis retail storefront per 7,500 residents to limit the illicit black market (Beals, 2018).

This section uses IMPLAN to assess the economic effects of legalizing recreational marijuana in Illinois. IMPLAN is an input-output software that is considered the “gold standard” in economic impact analyses (Vowels, 2012). IMPLAN uses U.S. Census Bureau data to account for the interrelationship between businesses and households in a regional market, following a dollar as it cycles through the economy. The software uses multipliers to estimate how much a policy change— such as legalizing recreational marijuana— would affect the economy.

The results reveal that legalizing marijuana would boost the Illinois economy (Figure 6). If Illinois were to legalize cannabis at an effective tax rate of 32.5 percent, total recreational marijuana sales would be expected to be \$1.62 billion at over 2,600 businesses— approximately one cannabis dispensary, retailer, or manufacturer for every 4,900 residents in the state. This would be a higher density of points of sale per person than Seattle but a lower density than Denver (Beals, 2018).

Legalization would directly create nearly 19,500 jobs at marijuana dispensaries, retailers, and manufacturers. Additionally, the Illinois workers who are newly employed at marijuana-related businesses would earn incomes that they spend back in the economy. This additional consumer

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demand would save or create another 4,100 jobs at restaurants, stores, and other local businesses. Overall, the Illinois economy would grow by an estimated \$1 billion annually due to the consumption of recreational marijuana by both residents and tourists (Figure 6).<sup>4</sup>

**Figure 6: Estimated Annual Economic Impacts of Legalizing Marijuana in Illinois, By 2020**

Impact on Sales, Businesses, Employment, and Gross State Product	Annual Estimate
Total Estimated Marijuana Sales in Illinois	\$1,616.20 million
Number of Establishments (Firms Created)	2,633 businesses
Total Employment (Jobs Created)	23,618 jobs
<ul style="list-style-type: none"> <li>• Direct Jobs at Marijuana Dispensaries and Manufacturers</li> <li>• Induced Jobs from Higher Consumer Demand</li> </ul>	<ul style="list-style-type: none"> <li>▪ 19,486 jobs</li> <li>▪ 4,132 jobs</li> </ul>
Net Economic Impact (Annual Gross State Product)	\$1,000.17 million

*Source(s): Authors' estimates from an economic simulation using IMPLAN (IMPLAN, 2018) based on legal recreational marijuana market estimates from Figure 4.*

Finally, information from the 2016 *County Business Patterns* dataset by the U.S. Census Bureau is used to compare the estimated number of marijuana dispensaries and related establishments to the current number of smoke shops and alcoholic drinking places in Illinois (Figure 7). As of 2016, the state had nearly 500 tobacco stores primarily engaged in selling cigarettes, cigars, pipes, and other smokers' supplies that employed nearly 1,300 workers. Similarly, the state had nearly 2,700 drinking places serving alcoholic beverages— such as bars, distilleries, and wineries— where over 21,600 bartenders, cooks, servers, barbacks, and other individuals worked. Note that this does not include restaurants which primarily sell food but may also offer alcoholic beverages. The legalization, regulation, and taxation of recreational marijuana would create about the same number of jobs— at a similar rate of pay (about \$19,600 annually for mostly part-time workers)— in Illinois as there are at bars and other alcoholic drinking places.

**Figure 7: Estimated Marijuana Stores Compared to Similar Establishments in Illinois, 2016 Data**

Sector of the Economy (NAICS code)	Number of Establishments	Paid Employees	Annual Payroll	Payroll Per Employee
Estimated: Marijuana Dispensaries	2,633	19,486	\$383.57 million	\$19,588
NAICS 453991: Tobacco Stores	479	1,265	\$24.63 million	\$19,470
NAICS 7224: Alcoholic Drinking Places	2,668	21,623	\$365.97 million	\$16,925

*Source(s): Authors' estimates from Figure 6; 2016 County Business Patterns from the U.S. Census Bureau (Census, 2016).*

<sup>4</sup> The net effect on the overall economy (\$1.00 billion) is less than total sales (\$1.62 billion) because annual gross state product is the difference between all sales and the production cost of all products. As an example, consider a toy bought by an Illinois consumer at a local store for \$10. Suppose that the toy was manufactured in New Mexico for \$4. The difference between the sales price (\$10) and the cost that the local store paid for the toy (\$4) is \$6. In this case, total sales are \$10 in Illinois, but the Illinois economy only grows by \$6 due to the local business activity. The New Mexico economy grows by the remaining \$4 from manufacturing the product. The same logic applies for recreational marijuana.

## **Addressing Concerns on Alcohol Consumption, Health, and Safety**

Marijuana consumption rates do not rise following legalization. In Colorado, for example, “marijuana use [among Colorado residents] has not changed since legalization either in terms of the number of people using or the frequency of use among users” and marijuana consumption has remained lower than daily alcohol or tobacco use (Colorado Department of Public Health & Environment, 2016). While more research is needed, the evidence suggests that cannabis consumption does not change due to legalization.

Nevertheless, some legislators and constituents in Illinois are concerned about the unintended consequences of legalizing and taxing recreational marijuana. One concern is the relationship between marijuana use and the consumption of other drugs, including alcohol. Studies consistently show that marijuana is less addictive and less risky than alcohol. Alcohol is the leading risk factor for death among people aged 15-49 and is linked with violent behavior. Conversely, there have been no documented deaths from cannabis use and there is some evidence that marijuana users may actually be less likely to commit violence against a partner (Brodwin, 2018). The research is mixed as to whether legalizing recreational marijuana would increase or reduce alcohol consumption (Kilmer & Smart, 2018). Of 39 academic studies reviewed on the topic, 16 supported the idea that alcohol consumption would decrease (41 percent), 10 supported the claim that alcohol consumption would rise (26 percent), and 13 found no effect (33 percent) (Subbaraman, 2016).

Studies have found that legalized cannabis mitigates opioid use and abuse. Over the past two decades, an increasing number of fatal drug overdoses have been related to prescription opioid medications. In 2014, 40 percent of all opioid overdose deaths involved a prescription opioid, with 46 people dying every day from an opioid overdose (CDC, 2018). A recent study published by researchers at the University of Kentucky and Emory University found that opiate-related deaths decreased by about 33 percent in 13 states in the six years after medical marijuana was legalized (Wen & Hockenberry, 2018). Additionally, a report conducted by the Minnesota Department of Health found that 63 percent of patients taking opioid medication for pain reduced or eliminated their opioid use once treated with medical cannabis (Singer, 2018).

Would legalizing recreational marijuana increase the number of car accidents due to motorists driving under the influence of cannabis? Studies have failed to find a correlation between car accidents and marijuana usage in Colorado since legalization (Ingraham, 2017). In fact, traffic fatalities have been found to drop by between 8 percent and 11 percent on average in states that legalized medical marijuana, although the reason for this finding is unknown (Cohen, 2016). One explanation may be that marijuana consumption rates do not statistically increase following legalization.

Lastly, some groups say that that marijuana legalization would have negative economic impacts from higher workplace injury rates, increased absenteeism, and additional homelessness— costing the state hundreds of millions of dollars per year (SAM, 2018). However, the National Academies of Sciences, Engineering, and Medicine has concluded that there is no evidence to support the claim that cannabis use increases occupational accidents or injuries and academic studies do not corroborate the claim that employee absenteeism would worsen (Miller, 2018). Meanwhile, there is no evidence that legal

cannabis contributes to an increase in homelessness (Zhang, 2018). Because marijuana consumption does not rise following legalization, each of these social costs is not expected to be any higher than current levels in Illinois.

## Conclusion

There is significant public support for legalizing, regulating, and taxing recreational marijuana in Illinois—where lawmakers have decriminalized possession of up to 10 grams of cannabis for individuals 21 years old and older. Fully 66 percent of registered voters in Illinois support legalizing marijuana. This includes 76 percent of Democrats and 52 percent of Republicans.

Historically, the costs of police, law enforcement, and corrections associated with marijuana possession have been very high in Illinois. After decriminalization, police made fewer arrests and wrote fewer tickets. However, Illinois still has people incarcerated in prison due to a cannabis-related possession, manufacturing, or trafficking offense. By fully legalizing recreational marijuana, Illinois taxpayers would save \$18.4 million annually in reduced incarceration costs, law enforcement spending, and legal fees.

The State of Illinois is also in dire need of revenue enhancements. Following a 736-day budget impasse from the summer of 2015 to the summer of 2017, Illinois still has a \$8.1 billion backlog of unpaid bills and \$130 billion in unfunded pension liabilities (Illinois Comptroller, 2018; CTBA, 2017). One policy change that has been proposed to raise state tax revenues is to legalize and tax recreational marijuana. Moody's Investors Service, a credit rating agency, calls legalizing recreational marijuana a "credit positive" potential change in tax policy (Moody's, 2018). As of November 2018, eleven states and the District of Columbia have legalized recreational marijuana.

If Illinois were to legalize marijuana, an estimated \$1.6 billion of recreational marijuana would be sold in the state, in part due to regional tourism. At a 26.25 percent state excise tax on retail marijuana in addition to the 6.25 percent general sales tax, Illinois would generate \$525 million in new tax revenues, create over 23,600 new jobs at more than 2,600 businesses, boost the Illinois economy by \$1 billion annually, and reduce law enforcement and incarceration costs. With new tax revenues, Illinois could fund additional pension payments while making vital public investments in new school construction projects, road and transportation construction projects, K-12 public school education, the Monetary Award Program (MAP) grants for tuition assistance for college students, and drug treatment and prevention programs.

Legalizing, regulating, and taxing recreational marijuana would reduce costs to taxpayers, spur economic activity, create jobs, and shrink the black market. While new tax revenues would be modest and would not solve Illinois' fiscal issues, they would improve the state's budget situation and credit rating outlook. Illinois should legalize, regulate, and tax recreational marijuana.

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