

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website ([www.nmlegis.gov](http://www.nmlegis.gov)).

## FISCAL IMPACT REPORT

Martinez/Romero A/  
 Armstrong, **ORIGINAL DATE** 03/30/21 2/aHTRC/aHJC/aHFI#  
**SPONSOR** D/Duhigg/Lopez **LAST UPDATED** 03/31/21 **HB** 1/aHFI#2

**SHORT TITLE** Cannabis Regulation Act **SB**

**ANALYST** Glenn/Torres

### REVENUE (dollars in thousands)

Estimated Revenue				Recurring or Nonrecurring	Fund Affected
FY21	FY22*	FY23	FY24		
	\$6,513.7	\$20,018.1	\$28,636.4	Recurring	Cannabis Excise –State GF
	\$3,256.8	\$10,009.0	\$14,318.2	Recurring	Cannabis Excise –Local
	\$3,501.1	\$10,759.7	\$15,392.0	Recurring	GRT – State GF
	\$2,190.2	\$6,731.1	\$9,629.0	Recurring	GRT – Local
Minimal, likely less than (\$100.0)	(\$9,675.0)	(\$11,600.0)	(\$13,900.0)	Recurring	Medical Cannabis Deduction – State GF
Minimal, likely less than (\$100.0)	(\$6,052.5)	(\$7,300.0)	(\$8,800.0)	Recurring	Medical Cannabis Deduction – Local
	Positive, possibly \$5,000.0	Positive, possibly \$5,000.0	Positive, possibly \$5,000.0	Recurring	License fees- Cannabis Regulation Fund
<b>Minimal, likely less than (\$100.0)</b>	<b>\$339.8</b>	<b>\$19,177.8</b>	<b>\$30,128.4</b>	<b>Recurring</b>	<b>TOTAL GENERAL FUND</b>
<b>Minimal, likely less than (\$100.0)</b>	<b>(\$605.4)</b>	<b>\$9,440.1</b>	<b>\$15,147.2</b>	<b>Recurring</b>	<b>TOTAL LOCAL</b>

\*Reflects assumptions for when retail sales begin, see fiscal implications for discussion.  
 (Parenthesis ( ) Indicate Revenue Decreases)

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	\$0	\$7,630.0	\$7,630.0	\$15,260.0	Recurring	Cannabis Regulation Fund/General Fund (RLD)
	\$4,002.0	\$772.9	\$950.6	\$5,725.5	Nonrecurring	Cannabis Regulation

						Fund/General Fund (TRD)
	\$0	\$4,450.0	\$5,325.0	\$9,775.0	Recurring	Cannabis Regulation Fund/General Fund (DOH)
	\$0	\$1,347.0	\$1,347.0	\$2,694.0	Recurring	Cannabis Regulation Fund/General Fund (NMED)
	\$0	\$350.0	\$0	\$350.0	Nonrecurring	Cannabis Regulation Fund/General Fund (NMED)
	\$0	\$262.0	\$262.0	\$524.0	Recurring	Cannabis Regulation Fund/General Fund (NMDA)
	\$0	\$150.0	\$0	\$150.0	Nonrecurring	Cannabis Regulation Fund/General Fund (NMDA)
	\$0	\$1,257.9	\$1,257.9	\$2,515.8	Recurring	Cannabis Regulation Fund/General Fund (DPS)
	\$0	\$250.0	\$250.0	\$500.0	Recurring	General Fund (AOC)

(Parenthesis ( ) Indicate Expenditure Decreases)

**SOURCES OF INFORMATION**

LFC Files

Responses Received From\*

- Regulation and Licensing Department (RLD)
- Taxation and Revenue Department (TRD)
- Department of Finance and Administration (DFA)
- Department of Agriculture (NMDA)
- Environment Department (NMED)
- Department of Health (DOH)
- Department of Public Safety (DPS)
- Public Education Department (PED)
- Economic Development Department (EDD)
- Law Offices of the Public Defender (LOPD)
- Administrative Office of the District Attorneys (AODA)
- Administrative Hearings Office (AHO)
- Administrative Office of the Courts (AOC)
- New Mexico Attorney General (NMAG)
- Human Services Department (HSD)

\* Unless otherwise noted, agency responses are to House Bill 12, introduced in the 2021 regular Legislative session.

## SUMMARY

### Synopsis of HFI#2 Amendment

The House Floor #2 amendment to House Bill 2 requires the Legislative Finance Committee to study the fiscal and economic impacts of the Cannabis Regulation Act from 2023 to 2027 and to report findings by December 1, 2027.

### Synopsis of HFI#1 Amendment

The House Floor #1 amendment to House Bill 2 adds a municipal police chief appointed by the New Mexico Association of Chiefs of Police to the Cannabis Regulatory Advisory Committee.

### Synopsis of HJC Amendment

The House Judiciary Committee amendment to House Bill 2 makes grammatical and clarifying changes, and:

- Clarifies the CRA’s definition of “cannabis extract”.
- Adds language to Section 6(I) that imposes limitations on and requirements for permissible smoking in cannabis consumption areas.
- Amends Section 24(C) to provide that the prohibition against denying parental rights or custody of or visitation of a minor child based on lawful conduct under the CRA does not prevent law enforcement, CYFD, or the courts from acting in the best interests of the minor child.
- Amends Section 31 to specify that the use of solvents or processes other than those listed for manufacturing cannabis extract from homegrown cannabis is prohibited unless approved by CCD.
- Reinstates “drug paraphernalia” as property subject to forfeiture under the Controlled Substances Act (Section 30-31-34(G)). This addresses an issue raised by AODA. (See discussion under “Significant Issues, Enforcement.”)

### Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to House Bill 2 creates an escalating cannabis excise tax rate which grows from 12 percent in FY22-FY25, to 13 percent in FY26, 14 percent in FY27, 15 percent in FY28, 16 percent in FY29, 17 percent in FY30, and 18 percent in FY31 and subsequent years. Since the amendment increases the tax rate beginning in FY26, the fiscal impact table reflected above is not affected by this amendment.

### Synopsis of Original Bill

House Bill 2 decriminalizes the possession, use, production, transportation, and sale of commercial cannabis for nonmedical adult use and creates a regulatory and taxation structure.

The bill enacts the Cannabis Regulation Act (CRA), a comprehensive plan for regulation and licensing of commercial cannabis production and distribution and sale and consumption of cannabis by people age 21 or older. A new Cannabis Control Division (CCD) created in RLD is charged with regulating, administering, and collecting fees in connection with commercial cannabis activity and licensing, the medical cannabis program, and cannabis education and

training programs. DOH's authority under existing law related to commercial cannabis activity and the medical cannabis program is transferred to CCD, except for administration of the medical cannabis registry under the Lynn and Erin Compassionate Use Act.

By September 1, 2021, CCD must create the Cannabis Regulatory Advisory Committee (CRAC) to advise it on rules and best practices, including practices that promote diversity in licensing and employment and protect public safety. CCD is required to develop rules in consultation with NMED, the State Engineer's Office, NMDA, and the State Fire Marshal's Office. CCD, in consultation with NMED, must annually identify a set of updated certified reference materials for cannabis testing laboratories and, in consultation with the Economic Development Department, develop a technical resource guide for rural New Mexico residents seeking to establish certain cannabis establishments and microbusinesses.

CCD must promulgate rules for licensing and regulating commercial cannabis activities no later than January 1, 2022. CCD must accept and begin processing license applications for cannabis producers, cannabis producer microbusinesses and licensed cannabis producers under the LECU Act no later than September 1, 2021; accept and begin processing license applications for all license types no later than January 1, 2022. CCD must allow commercial cannabis retail sales no later than April 1, 2022 and must otherwise allow activities authorized by the CRA or the medical cannabis program as of the time of licensure, provided that at least 25 percent of monthly cannabis sales be to qualified patients, caregivers, and reciprocal participants until December 31, 2022.

DOH is required to appoint a Public Health Safety Advisory Committee (PHSAC) composed of up to 15 professionals with expertise related to cannabis products. PHSAC is required to publish an annual report on the health effects of legalizing cannabis products for adult use.

CCD's licensing program encompasses a variety of commercial and medical cannabis activities, including licenses for cannabis consumption areas, testing and research laboratories, couriers, producers, manufacturers, microbusinesses, training programs, and retailers. CCD also is responsible for issuing cannabis server permits. Retail applicants who agree to accept cannabis products on consignment from a cannabis microbusiness may be issued a license at a discount. In addition to the base annual and renewal fees collected by CCD, the bill authorizes an annual per plant fee of up to \$50 and allows a licensee to increase the number of licensed plants twice a year in increments of 500 plants.

Licenses are valid for one year – subject to renewal – but may be denied, suspended, or revoked for cause. Medical cannabis licensees shall be issued commercial cannabis licenses to allow them to conduct both medical cannabis and commercial cannabis activities. Violations of the CRA may result in license suspension or revocation, sanctions, correction plans, or penalties.

Each year, from January 1, 2022, through December 31, 2025, CCD is required to limit the number of cannabis plants that licensees, except cannabis microbusinesses, may produce. The CRA also includes provisions for limiting some licensed production activities to address shortages of cannabis supply in the medical cannabis program.

The CRA allows adults age 21 and older to purchase at least 2 ounces of cannabis flowers, 16 grams of extract, and eight hundred milligrams of edible cannabis at one time. Consumers may possess greater amounts of cannabis flowers, extract and edible cannabis if the excess is stored in

their private residences. Consumers are allowed to possess not more than six mature cannabis plants and six immature cannabis plants per person, with a household limit of twelve mature cannabis plants.

The bill creates the cannabis regulation fund. The fund consists of appropriations, grants, gifts, donations, and fees collected by CCD under the CRA and the medical cannabis program. Money in the fund is subject to appropriation to fund CCD, DOH, NMED, NMDA, TRD, and DPS for the purposes of carrying out the CRA and the Lynn and Erin Compassionate Use Act (LECU Act).

The CRA provides municipalities and counties with some authority to regulate activities governed by the CRA, including reasonable time, place, and manner rules, such as rules that limit the density of licensed establishments and operating times. Local rules may not completely prohibit the operation of a licensee. RLD is authorized to enter into intergovernmental agreements with tribal governments to coordinate the cross-jurisdictional laws of the state and tribal governments related to the use of cannabis products.

HB2 makes amendments to the LECU Act to make it consistent with the CRA and similarly amends the Controlled Substances Act, including amending or repealing criminal laws governing cannabis offenses. The bill adds new civil and criminal penalties related to regulated cannabis activities, including trafficking to underage persons, employing underage persons in commercial cannabis activities, and possessing or distributing a cannabis product at a school or daycare center. DPS is required to compile an annual report on the total number of arrests, citations, and penalty assessments for cannabis-related violations.

HB2 also enacts the Cannabis Tax Act (CTA), which imposes a cannabis excise tax of 12 percent on cannabis retailers and is applied to the price paid for a cannabis product. The tax does not apply to retail sales of medical cannabis sold to qualified patients or caregivers pursuant to the LECU Act. A new section is added to Tax Administration Act that provides for distributions to each municipality or county in an amount equal to 33.33 percent of net receipts attributable to the cannabis excise tax from cannabis retailers within the municipality or the county area of the county. HB2 includes a deduction to the Gross Receipts and Compensating Tax Act from the sale of medical cannabis products

HB2 includes a delayed repeal date of December 31, 2025, for Section 40, which allows CCD to promulgate rules that limit the number of cannabis plants that a licensee may produce

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

## **FISCAL IMPLICATIONS**

### **Continuing Appropriations**

Section 43 provides for the cannabis regulation fund. Money in the fund is subject to appropriation by the Legislature to fund the activities of CCD and other specified agencies required by the CRA. Balances in the fund remaining at the end of a fiscal year revert to the general fund. Furthermore, HB2 includes authority for RLD to use the entirety of the fund to implement HB2 in FY21 and FY22.

## **Revenues**

The fiscal impact estimate uses confidential, proprietary industry data to determine the fiscal impact of this bill. LFC staff made independent adjustments to various assumptions to produce the estimate in this report. Assumptions affecting the revenue model include expected cross-border sales, tourism consumption, survey response underreporting, and industry growth. Different assumptions in these areas result in cannabis excise revenue estimates that are higher or lower than what is provided in this impact table. The model considers estimated consumer usage by using survey data on usage frequency and takes into account survey bias in self-reporting and underreporting.

The bill exempts medical sales of cannabis from gross receipt taxes upon enactment of HB2 which is assumed to be 90 days following adjournment. Exempting medical cannabis sales from GRT revenue has a negative impact of \$9.7 million to the general fund and a negative local GRT impact of \$6 million in the first year. Estimates include the latest data on medical sales in New Mexico and modest growth rates; however, the cost of this exemption could increase significantly if sales grow more quickly than assumed.

The revenue tables reflect expected distributions to each benefitting fund based on LFC modeling. This estimate applies both GRT and excise tax rates to the assumed retail sales base; however, it is unclear if GRT would apply to the total of the retail sale plus the excise tax.

LFC estimates assume widespread retail sales of recreational cannabis begin in April 2022. If commercial sales begin prior to April 1 and if recreational cannabis sales grow faster or slower than modeled, revenue estimates could be significantly impacted in FY22 and FY23.

## **Operating Budget Impact**

RLD estimates setting up CCD will require at least \$7.63 million in recurring revenue for licensing, rulemaking, administrative support for CRAC, disciplinary actions, and program approval. Initial start-up costs will include essential staff, office space, workspace equipment (telephones, copiers, office furniture, etc.), information technology equipment and tools (computers, servers, software and licenses, etc.), and related infrastructure. A total of 51 new FTE will be necessary to fully implement and comply with the requirements of HB2. RLD must also have funding in FY22 to acquire sufficient technical and scientific human resources to implement the administrative rulemaking necessary to regulate laboratories, advertising, and marketing aspects connected to the legal sale and possession of cannabis. Attachment 2 to this FIR is an organizational chart prepared by RLD showing the contemplated organizational structure of CCD.

TRD states the estimated personnel time to implement the new tax program in TRD's Administrative Services Division is 560 hours, at a cost of \$23.6 thousand. The impact on TRD's Information Technology Division is approximately 10-12 months and estimated to be \$4,312,430 (\$3,990,196 contractual resources including gross receipts and \$322,234 staff workload costs). The target implementation date is May 2022 for the April 2022 filing period. Due to the nature and complexity of the effort required to implement the proposed changes, a contract with the GenTax vendor, FAST Enterprises, LLC is required. The estimate for FAST to implement the changes in this estimate is \$3,198,906 including gross receipts and approximately 10-12 months plus one month of production support. Additionally, TRD will require three FTE's for the

duration of the project at an estimated \$322,234 of staff workload costs. These would be two developers and one business analyst. After implementation is completed, one application developer, one business analyst and one database/system administrator FTE will be necessary for ongoing operations and support. The Revenue Processing Division (RPD) will incur costs related to payment processing, equipment and postage totaling \$11,000. Business resources will be required to make changes to forms, promulgate rules at a cost of approximately 1,040 hours at \$169,000. Two FTE are required to conduct these revenue processing functions. One tax examiner, collector and revenue agent advanced will be at pay band 60, and one financial specialist at pay band 50 will be needed.

DOH states 20 medical cannabis program FTE currently administer medical cannabis patient services. The budget for those positions is approximately \$1.86 million currently. Contract services, facilities, supplies, vehicles, and other costs associated with the administration of the medical patient registry currently total approximately \$2 million. DOH projects administering the patient services section of the medical cannabis program with the current projected continued growth will require an additional 11 staff members to be added to the program staff in FY22 for a total of 31 staff and 10 additional staff, for a total of 41 staff in FY23 with a total salary and benefit cost of \$2.05 and \$2.725 million, respectively. DOH also projects it will require an additional \$2.4 million in FY22 and \$2.6 million in FY23 to cover costs of supplies, contracts, facilities, vehicles, the registry database, and to conduct and produce the annual assessment report on the affordability and accessibility of medical cannabis required in the LECU Act. DOH also notes if, as a result of the bill's enactment, the 8 FTE currently in the licensing and compliance section of DOH's medical cannabis program are transferred to CCD, it would represent a reduction in costs for DOH of \$540 thousand for FTE and \$900 thousand for operations.

NMED believes HB2 would necessitate 5 additional FTE to staff its cannabis program, 6 additional dedicated technical FTE to develop, train, and implement occupational health and safety rules specific to the cannabis industry, 1 additional Administrative Services Division FTE to support the requested 11 FTE technical and program needs, and contract funding (for technical experts and attorneys) in FY22 to aid in rule development prior to the effective date of the bill. These additional costs are reflected in the budget impact table.

NMDA expects a 20 percent increase in services required by the cannabis industry for compliance-based scale inspections and certifications. This would result in a need for 2 additional FTE to monitor scale compliance with state law, 1 FTE for the state metrology lab to address anticipated increased demand for metrology laboratory services, and a one-time cost for the purchase of additional equipment related to specialized weight kit calibrations. NMDA also anticipates the need for 1 additional FTE due to additional inspection time to address potential mixing of hemp and cannabis in existing hemp-licensed greenhouses. These additional costs are reflected in the budget impact table.

DPS states that the bill has the following anticipated fiscal impacts:

- The bill would require replacement of all of DPS' drug sniffing dogs. According to DPS, it currently has nine narcotics detection canines that have been trained to detect the odors of several controlled substances, including cannabis. If marijuana is legalized and the odor of marijuana can no longer be used for probable cause, the dogs will have to be replaced because they cannot be retrained to not alert for the odor of marijuana. DPS estimates the

price of nine new dogs to be \$162 thousand and the cost for training the new dogs, including instruction and per diem for those attending the trainings, to be \$30.6 thousand for FY22 into FY23.

- Based on the experience of other states, DPS anticipates arrests related to black market marijuana sales and production will increase in New Mexico, including illegal THC extraction labs and growing operations. This will require additional, as yet undetermined, resources for training, and additional investigators to handle an increase in illegal THC extraction and growing operations. DPS estimates it would require \$915.3 thousand for 10 agents throughout the state to investigate those illegal operations.

DPS estimates it will require \$150 thousand for enforcement of the bill's prohibitions against underage access to marijuana, which would be similar to DPS's current compliance operations for underage access to tobacco and alcohol.

- DPS expects it will incur additional, undetermined costs for training related to anticipated increases in marijuana-related DWIs, including certification of drug recognition experts.

AHO states the tax program added by HB2 may increase tax protest hearings. Although the significance of the increase is difficult to predict, AHO's prior experience demonstrates that new tax programs generally result in an initial increase in protests. Nevertheless, because the volume of tax protests over the last few years has stabilized, AHO is optimistic increase in tax protest volume can be absorbed by its current resources.

AHO also notes that Implied Consent Act hearings may increase if DWI arrests go up once cannabis possession and use is decriminalized. If hearings increase, AHO may need funding for additional hearing officers, office space, and travel expenses. Based on the experience of other states, AHO anticipates requests for Implied Consent Act hearings will increase and estimates a range of 250-500 additional hearings. Based on the current historic lows in the number of implied consent hearings, AHO is cautiously optimistic any increase in case volume can be absorbed by its current resources, unless the increase in hearings reaches the high end of its projected range.

AOC estimates identifying and reviewing legacy cannabis records, and sorting through case records to expunge the appropriate documents, will take a significant amount of time and require additional staff and contractors. AOC also projects needing funding to train judges and court staff on applying the law and addressing both pending cannabis cases and formally expunging documents. AOC estimates the cost to train judges, provide additional administrative staff, and to hire additional IT staff to update the court records database and fully and accurately perform the statutorily required expungements to cost \$500 thousand over two fiscal years. AOC also identified requirements in HB2 for courts to dismiss cases identified for recall, dismissal, and expungement that are not challenged by prosecutors, yet there is not requirement in the bill to provide the compiled eligible list to the courts. AOC recommends amending Section 5(D) to include the Administrative Office of the Courts in the list of DPS notified agencies.

## **SIGNIFICANT ISSUES**

### **New Job Creation**

EDD estimates that an additional 1,593 jobs could be created through additional employment in

dispensaries to meet the new demand for commercial cannabis products. The dispensary jobs estimate was determined by taking the adult population (21+) for each county and multiplying the number by 25 percent (estimate of adults who would participate) and then subtracting the medical users from that total to arrive at an estimated number of new consumers. That number was then used to estimate the number of new dispensaries and number of full-time employees needed to run the dispensaries. EDD's analysis of HB2 contains a detailed account of the methodology EDD used to calculate its estimates and a breakdown of estimated job creation by county.

Previous studies by private economists on the industry have estimated recreational legalization could create over 11,400 new jobs - 6,600 jobs in cannabis production and cannabis product manufacturing and 4,780 jobs in ancillary businesses including professional services, construction, cultivation supplies, and equipment for the production and consumption of cannabis.

### **Conflict with Federal Law**

NMAG and AODA advise that cannabis is still a federally controlled substance. The federal government regulates marijuana through the Controlled Substances Act, 21 U.S.C. § 811 *et seq.* Under current federal law, marijuana is treated like every other controlled substance, such as cocaine and heroin. The federal government places every controlled substance in a schedule, in principle according to the relative potential for abuse and medicinal value of that controlled substance. Under the federal Controlled Substances Act, marijuana is classified as a schedule I drug, which means the federal government views marijuana as highly addictive and having no medical value.

In addition, NMAG advises that federal law criminalizes a number of activities that would be permitted under New Mexico law. For example, it prohibits the distribution, possession with intent to distribute, and manufacture of marijuana or its derivatives (21 U.S.C. §§ 841, 960, 962); simple possession of marijuana (21 U.S.C. § 844); and establishing manufacturing operations, i.e., opening, maintaining, financing, or making available a place for unlawful manufacture, distribution or use of controlled substances (21 U.S.C. § 856). In New Mexico, a person may cross many different jurisdictions when traveling throughout the state, including federal lands. While the possession of cannabis under state law may be lawful within the state, the possession of the same cannabis would be unlawful on federal property, creating a patchwork of regulation (state and federal) with consequences that vary significantly.

### **Enforcement**

AODA notes that Section 78 deletes “drug paraphernalia” from property subject to forfeiture under the Act (Section 30-31-34(G)). This is problematic because the provisions apply to drug paraphernalia used for all controlled substances, not just marijuana. If HB2 were enacted, all drug paraphernalia used in connection with controlled substances would be exempt from forfeiture.

### **Imposition of Taxes and Related Issues**

There are three main ways state and local governments tax marijuana. First is by a **percentage-of-price**. This is the tax set in this bill and are similar to a general sales tax in that the consumer

pays a tax on the purchase price and the retailer remits it to the state. However, like other excise taxes, the tax rate is typically higher than the state's general sales tax rate. A few states (including Colorado) levy their percentage of price tax on the wholesale transaction, not the retail transaction, but it is assumed this cost is then passed on to the consumer in the final purchase price.

Second, a **weight-based** tax could be imposed. These taxes are similar to cigarette taxes, except instead of taxing per pack of cigarettes the tax is based on the weight of the marijuana product. This tax is levied on the wholesale transaction. States with this type of tax also typically set different rates for different marijuana products. For example, California levies a \$9.65 per ounce tax on marijuana flowers, a \$2.87 per ounce tax on marijuana leaves, and a \$1.35 per ounce tax on fresh plant material. As with other wholesale taxes, it is assumed most of this cost is passed on to the consumer in the final purchase price.

Finally, a **potency-based** tax could be imposed. These taxes are similar to alcohol taxes, except instead of taxing drinks with a higher percentage of alcohol at higher rates (i.e., liquor is taxed at a higher rate than beer), the tax is based on the THC level of the marijuana product. Illinois is currently the only state with a THC-based tax. It taxes products with a THC content of 35 percent or less at 10 percent of retail price and those with more than 35 percent at 25 percent of retail price. All marijuana-infused products (e.g., edibles) are taxed at 20 percent of retail price.

Some states use more than one of these taxes. Additionally, some states and localities levy their general sales tax on the purchase of marijuana in addition to their excise taxes. HB2 would include gross receipts taxes.

HB2 would impose an excise tax of 12 percent in addition to GRT. Both Colorado and Arizona impose an excise tax of 15 percent and 16 percent, respectively, in addition to sales taxes. In Arizona, the combined rate is 21.6 percent while the combined Colorado rate could be as high as 26.2 percent. New Mexico's combined maximum rate under HB2 would be 21.437 percent.

While the combined maximum tax rate under this bill would be less than surrounding states, tax rates could significantly impact the ability to convert illicit market activities to the regulated market. The ability to entice illicit activity into the regulated market depends on the relative prices of the state's recreational cannabis, including the tax rate. However, with industry maturation and efficiency, significant declines in prices could eventually crowd out illicit activity even with higher tax rates.

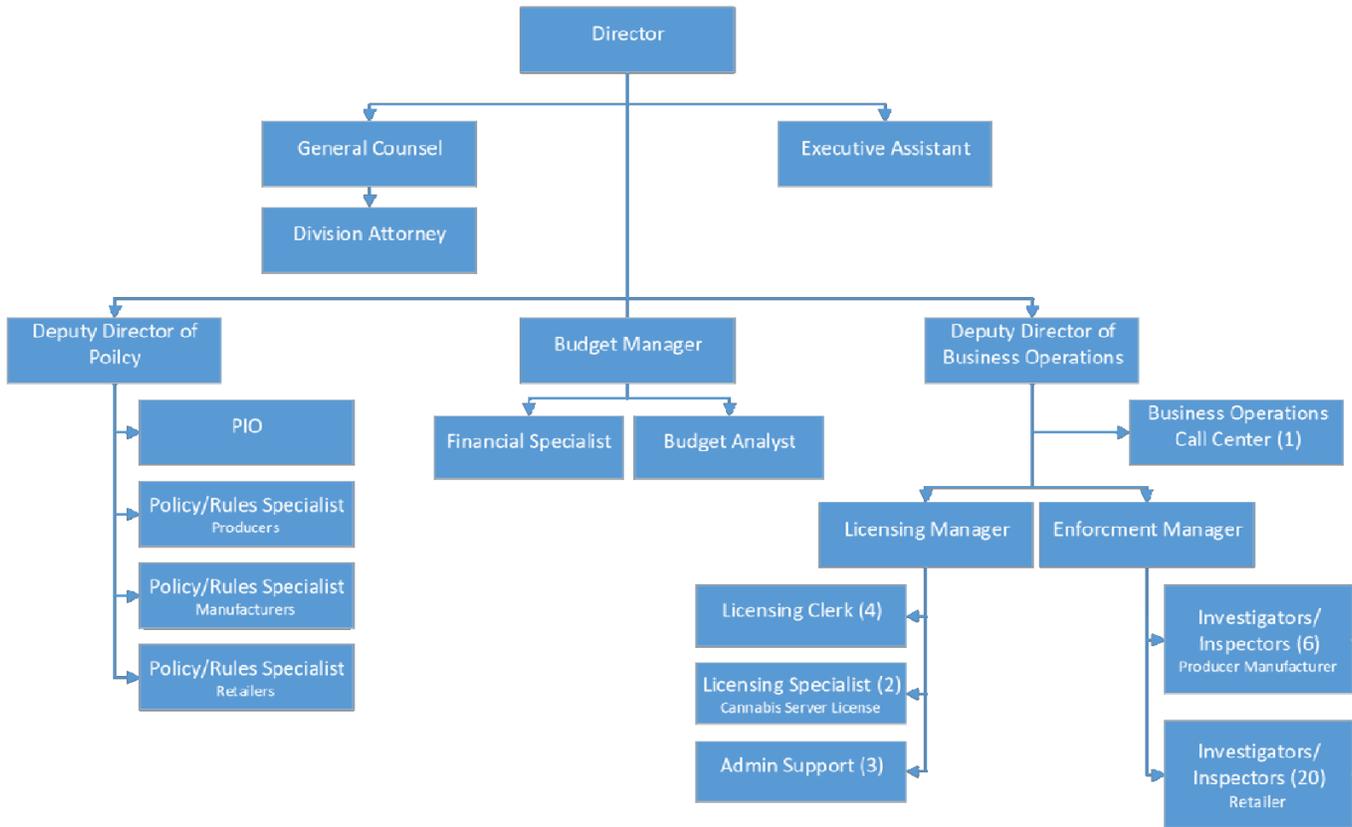
HB2, as amended, adds a deduction from gross receipts tax for receipts from the sale of medical cannabis products to the existing deduction in Section 7-9-73.2 of the Gross Receipts and Compensating Tax Act for receipts from the sale of prescription drugs. In 2020, the N.M. Court of Appeals held that the deduction for prescription drug sales applied to sales of medical cannabis as well. See *Sacred Garden v. N.M. Taxation & Revenue Department*, No. A-1-CA-37142 (slip. op. Jan. 28, 2020), petition for writ of certiorari filed March 9, 2020.

#### Attachments

1. Proposed CCD Organization Chart

Attachment 1:

# NEW MEXICO REGULATION AND LICENSING DEPARTMENT CANNABIS CONTROL DIVISION PROPOSED ORG CHART



BG/IT/a/rf