

# Cannabis industry matures

## The field continues to grow, but its expansion is slowing

By KARINNE WIEBOLD

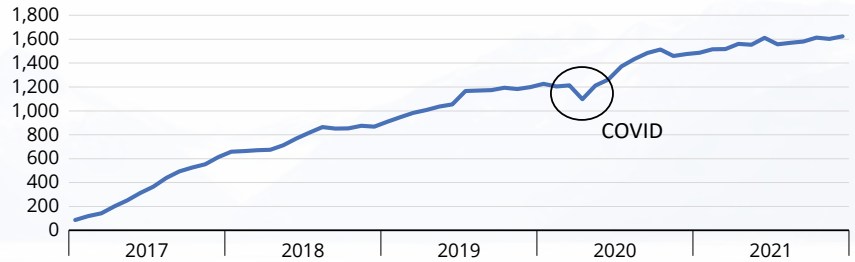
Alaska's cannabis industry was in its infancy when we first profiled it in 2018, and those first few years had a bit of a gold rush feel. After Alaskans voted in 2014 to legalize marijuana for recreational use, prospective business operators lined up, ready to move as soon as the state issued the first licenses in 2016. In exchange, those early businesses incurred extra risk. Initial uncertainties included application approval, building requirements, public opposition, and accounting — but entrepreneurs eagerly took that leap to get into the market first, and the industry ballooned.

Just a few years later, the industry employs more than 1,500 people and pays millions in state and local taxes. Growth has been slowing, however, suggesting the industry is maturing.

### The boom and then the settling

We estimated 10 cannabis-related businesses were

### Steady marijuana job growth, 2017-2021



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

operating in 2016. The industry lacked body until 2017, the first full year licenses were available.

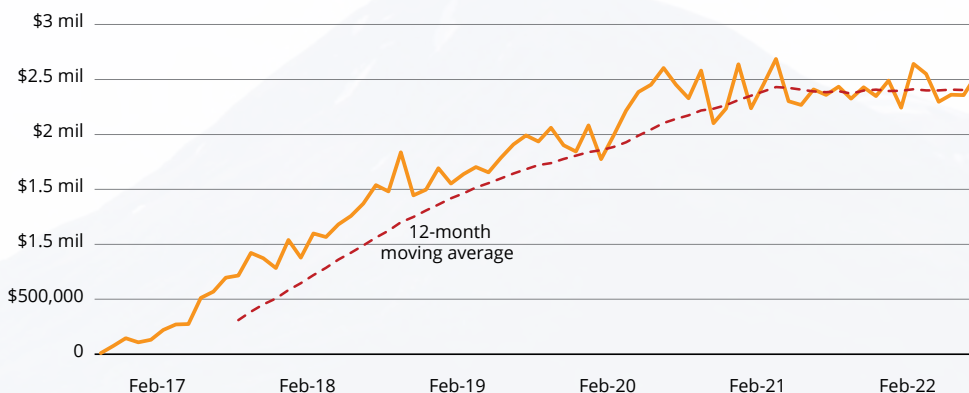
Employment more than doubled from 2017 to 2018, from 342 to 773. (See the sidebar on page 8 for how we estimate the number of marijuana-related jobs.) At the same time, total wages rose from \$9.8 million to \$22 million. The boom looked similar for state taxation, with Alaska collecting \$6.1 million in 2017 and \$15.7 million just a year later.

The industry has settled in since that first snapshot. Jobs, wages, and taxes have continued to grow, but at a slower pace each year. While all three followed that pattern, tax revenue growth slowed the most.



The late Congressman Don Young tours the Raspberry Roots grow room in Anchorage in October 2019 during his visit to several marijuana businesses. Photo used under Creative Commons license courtesy of Paxson Woelber, [The Alaska Landmine](#).

## Monthly marijuana excise taxes level off in 2021



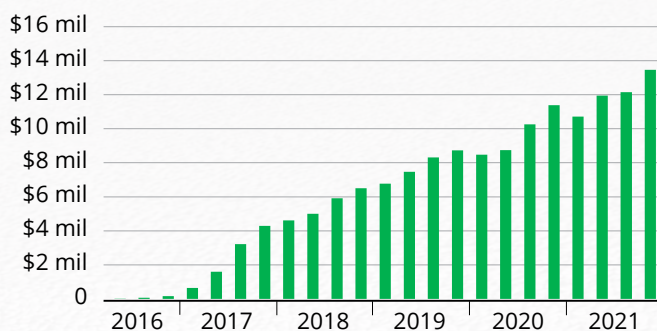
Source: Alaska Department of Revenue

While growth in 2021 was the slowest to date, that's relative. Employment still grew 18 percent over the year, wages rose 24 percent, and state taxes increased 6 percent. This expansion would be impressive in any long-established industry, but it's a slowdown for the emerging marijuana field.

In 2021, the industry averaged 1,566 direct jobs and paid \$48.3 million in wages. The state collected \$28.9 million in marijuana excise taxes. Active licenses numbered 459 as of December 2022.

The number of people involved in the industry likely eclipses 1,566, however. The state has just under 7,000 active marijuana handler permits, which is a rough proxy for the number of people who have participated in the industry in some way within the last three years. (Marijuana handler permits are good for three years.) Any involvement with marijuana commerce requires a handler permit, even if it's ancillary or a one-off.

## Total wages paid by the Alaska marijuana industry continue to rise



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

The Alaska Department of Commerce, Community, and Economic Development has issued about 12,200 marijuana handling permits since the industry began. (Detailed discussion of permits and licenses begins on page 6.)

## The pandemic muddied saturation

The industry probably still has room to grow but will probably hit its ceiling in the next couple of years. As the market reaches saturation, we will see fewer new businesses applying for licenses and, perhaps, some allowing their licenses to expire. Licenses are expensive and require annual renewal, so businesses have to decide every year if that's viable.

It remains to be seen how much marijuana Alaska consumers and visitors want, how many cultivators it takes to produce it, and how many stores (and in what locations) can be profitable. The pandemic complicated these basic questions, because while growth moderating over the last couple of years could be the industry settling, it's also possible that COVID-19 tempered expansion. Demand could pick up as the pandemic winds down. Few out-of-state seasonal workers showed up in 2020, and product demand was likely reduced as few visitors came that year and a fraction of the typical number returned in 2021.

Overall, the outlook remains uncertain. Small regulatory changes could alter the landscape for marijuana businesses in either direction; examples include the possibility of license limits, changing local requirements, or federal legalization. In the meantime, the legal and administrative landscape remains complex and the costs of doing business are high.



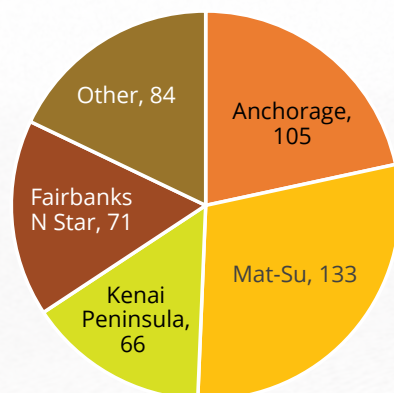
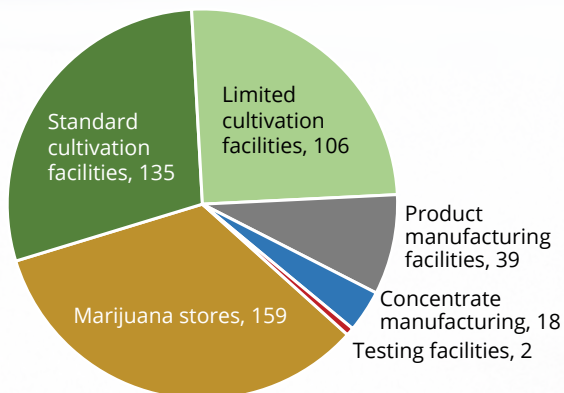
## Types of marijuana licenses or permits in Alaska and their costs

License type	Description	License/yearly renewal fees
Retail marijuana store	Sell marijuana to consumers	\$5,000 initial, \$7,000 renewal
Limited marijuana cultivation facility (<500 ft of cultivation)	Plant, propagate, cultivate, harvest, trim, dry, cure, package, and label marijuana for sale to retail stores or manufacturing facilities	\$1,000 initial, \$1,400 renewal
Standard marijuana cultivation facility	Plant, propagate, cultivate, harvest, trim, dry, cure, package, and label marijuana for sale to retail stores or manufacturing facilities	\$5,000 initial, \$7,000 renewal
Marijuana concentrate manufacturing facility	Purchase marijuana from a licensed cultivator or other manufacturer and extract marijuana concentrate	\$1,000 initial, \$2,000 renewal
Marijuana product manufacturing facility	Buy marijuana from a licensed cultivator/manufacturer and extract concentrate or manufacture, refine, process, and cook products with specific approvals	\$5,000 initial, \$7,000 renewal
Marijuana testing facility	Test, analyze, and certify potency, moisture content, pesticide or solvent residue, mold, mildew, bacteria, or other contaminants in marijuana or product	\$1,000 initial, \$5,000 renewal
Marijuana handler permit	Required for each licensee, employee, or agent of a marijuana establishment who sells, cultivates, manufactures, tests, or transports marijuana	\$50, good for three years

**Note:** All licenses (except handler permits) also require an initial application fee of \$1,000 and \$600 each year when submitting renewal applications. Regular state business licenses are separate.

**Sources:** Alaska Department of Commerce, Community, and Economic Development, Marijuana Control Board; and 3 AAC 306, Regulations for the Marijuana Control Board

## Locations and types of Alaska marijuana licenses in late 2022



**Source:** Alaska Department of Commerce, Community, and Economic Development, Marijuana Control Board

## How licensing works and where the various fee revenues go

The marijuana industry requires a license at every stage, from cultivation to retail. Working in a store, greenhouse, or bakery requires a handler permit for each worker, issued for \$50 after a completed educational course.

Licenses for cannabis-related businesses range from \$1,000 to \$5,000 initially and up to \$7,000 annually to renew, plus an application fee of \$1,000 the first time and \$600 for each renewal. (A regular state business license is also required.)

The state doesn't currently restrict the number of marijuana licenses. As mentioned before, annual renewal requires businesses to regularly reassess profitability, and thin profit margins (or worse, operating in the red) can't be sustained for long when yearly operating costs — including license renewal — are so high. (See the table above for descriptions and amounts.)

According to a 2021 Politico study, Alaska has more stores per capita than other legal western states. Given our vast geography and unlimited license availability, that isn't a surprise. Although there's no limit on the number of licenses within the state, the annual license cost probably restricts the number being held.

The state Marijuana Control Board uses 50 percent

## How much local governments have received in shared fees\* since FY 2017

Alaska area	Received in FY 2017	Received in FY 2018	Received in FY 2019	Received in FY 2020	Received in FY 2021	Received in FY 2022	Total for area
Anchorage, Municipality	\$37,000	\$22,300	\$35,800	\$31,400	\$25,900	\$34,300	\$186,700
Bethel (city)	-	-	-	\$1,000	\$600	\$600	\$2,200
Craig	-	-	\$500	\$500	\$300	\$300	\$1,600
Denali Borough	\$500	\$300	\$800	\$600	\$1,100	\$600	\$3,900
Dillingham (city)	-	-	\$1,300	\$300	\$1,100	\$300	\$3,000
Fairbanks (city)	\$6,000	\$7,200	\$3,900	\$9,800	\$8,300	\$8,000	\$43,200
Fairbanks N Star Borough	\$16,500	\$16,100	\$20,100	\$13,100	\$14,700	\$15,300	\$95,800
Haines Borough	-	\$1,000	-	\$1,100	\$900	\$1,100	\$4,100
Homer	-	\$1,300	\$2,000	\$1,100	\$1,100	\$1,200	\$6,700
Houston	\$3,000	\$3,000	\$3,400	\$5,400	\$3,100	\$4,900	\$22,800
Juneau, City and Borough	\$5,000	\$5,900	\$8,000	\$5,500	\$8,600	\$4,200	\$37,200
Kachemak	-	\$500	-	-	\$300	\$300	\$1,100
Kenai (city)	\$1,500	\$1,900	\$2,400	\$2,900	\$2,400	\$2,000	\$13,100
Kenai Peninsula Borough	\$16,500	\$17,900	\$16,600	\$15,100	\$17,400	\$16,900	\$100,400
Ketchikan (city)	\$1,500	\$3,000	\$300	\$1,700	\$2,000	\$1,200	\$9,700
Ketchikan Gateway Borough	\$2,000	\$2,500	\$2,400	\$2,800	\$3,200	\$3,700	\$16,600
Kodiak (city)	\$500	-	-	-	\$1,100	\$300	\$1,900
Kodiak Island Borough	-	\$500	\$1,000	\$300	\$300	\$600	\$2,700
Kotzebue	-	-	\$1,000	\$800	-	\$600	\$2,400
Matanuska-Susitna Borough	\$15,000	\$24,200	\$30,500	\$35,300	\$35,800	\$35,600	\$176,400
Nome (city)	\$500	\$1,600	\$2,600	\$1,100	\$300	\$1,200	\$7,300
Palmer	-	-	-	-	\$500	-	\$500
Petersburg Borough	\$1,000	\$300	\$300	\$600	\$600	\$600	\$3,400
Port Alexander	-	-	-	\$500	\$300	-	\$800
Seward	-	-	\$500	\$300	-	\$300	\$1,100
Sitka, City and Borough	\$3,000	\$3,600	\$3,100	\$1,800	\$3,100	\$2,700	\$17,300
Skagway	\$1,000	\$1,600	-	\$600	-	\$600	\$3,800
Soldotna	-	-	\$500	\$800	\$300	\$600	\$2,200
Utqiagvik	-	-	-	\$500	-	\$300	\$800
Valdez	\$1,500	\$900	\$1,400	\$1,000	\$1,400	\$900	\$7,100
Wrangell, City and Borough	\$1,000	-	\$600	\$600	\$600	-	\$2,800
<b>Total by state fiscal year</b>	<b>\$113,000</b>	<b>\$115,600</b>	<b>\$139,000</b>	<b>\$136,500</b>	<b>\$135,300</b>	<b>\$139,200</b>	<b>\$778,600</b>

\*The state collects an application fee when businesses apply for marijuana licenses or renewals, and shares 50 percent of those revenues with localities. The initial application fee is \$1,000 and renewal is \$600 per year. This does not include fees the state collects for marijuana licenses or regular business licenses.

Source: Alaska Department of Commerce, Community, and Economic Development, Marijuana Control Board

of the application fees plus all of the license fees to cover the administrative costs of regulating the industry. The board shares the other half of the application fee revenue with local governments to offset their review process costs.

Local governments can restrict or prohibit commercial marijuana through ordinance or a vote and weigh in on applications based on their own restrictions and requirements. So far in state fiscal year 2022, Alaska has redistributed \$139,200 in application fee revenue to local governments. The shared amount has remained consistent over the last four years, meaning the number of annual applications and renewals has also held fairly steady.

## Alaska has 459 active licenses, with the bulk in Southcentral

Alaska had 459 active licenses when this article was published. Combining the Kenai Peninsula and Matanuska-Susitna boroughs with Anchorage showed the Southcentral Region held two-thirds of licenses, with Mat-Su in the lead. While licenses are concentrated in Southcentral — the state's population center — marijuana businesses are licensed from Utqiagvik down to Ketchikan.

Fifty-three percent of licenses are for cultivation, and retail comes in second. The state has just two



testing facilities — in Anchorage and Mat-Su — posing a challenge for remote growers who have to travel to put their products through the required tests. Because marijuana remains illegal federally, it can't be shipped.

## The conflicts with federal law complicate doing business

Cannabis remains illegal at the federal level, which presents the industry with numerous obstacles. Marijuana is classified as a Schedule 1 controlled substance, the most restrictive category, for drugs with “no currently accepted medical use and a high potential for abuse.” (Other Schedule 1 substances include heroin, LSD, ecstasy, methaqualone, and peyote.

For the last decade, the federal government has primarily allowed states to handle marijuana law enforcement, but federal laws restricting Schedule 1 drugs still apply. This means that with few exceptions, cannabis in any form can't be transported by air or sea. It is also illegal to use the banking system when dealing with marijuana money, so the industry is essentially cash-based at every level: selling the product, paying employees, paying rent, and paying taxes. Credit cards also can't be used.

Federal transport restrictions are especially difficult to navigate for rural or off-the-road-system

### Estimating cannabis-linked jobs

Job numbers and wages for those involved with commercial cannabis aren't easy to tease out, as national industry classification has no specific marijuana-related category. Instead, the jobs are sprinkled throughout retail, manufacturing, agriculture/greenhouse crops, and several other industries.

Identifying marijuana businesses in Alaska wage records requires cross-referencing the state's marijuana license list and researching the businesses operating in specific industries. Our estimates represent the best attempt possible right now, but they may exclude businesses run by owner-operators, businesses without employees covered by unemployment insurance, miscategorized businesses, and merchants operating under names that differ from what is on the license.

## Local marijuana taxes in 2021

Alaska area	Tax rate*	Total collected
Anchorage	5%	\$5,269,900
Bethel	15%	\$803,522
Denali Borough	5%	\$55,795
Fairbanks	5%	\$1,440,964
Fairbanks N Star Borough	5%	\$412,058
Haines Borough	2%	\$17,169
Houston	\$10/oz flower	\$234,397
Juneau	3%	\$404,024
Ketchikan	5%	\$260,043
Kodiak Island Borough	**	\$351,071
Mat-Su Borough	5%	\$1,081,333
Northwest Arctic Borough	\$25/oz flower	\$63,766
Petersburg Borough	\$25/oz	\$40,715
Port Alexander	**	\$637
Utqiagvik	8%	\$59,531
Wrangell	\$10/oz	\$4,528

\*Marijuana taxes collected from consumers. Does not include local sales tax, where applicable, or the excise tax the state collects from cultivators.

\*\*Tax rate not identified

Source: Alaska Department of Commerce, Community, and Economic Development, Alaska Taxable 2021

businesses. Samples must be tested before sale, and Alaska's two testing facilities are on the road system, so cannabis tends to be grown on the road system as well. Remote operators must grow their own and arrange for testing or take frequent trips to the grow facilities to pick up and transport the product in person.

The state allows cannabis products on intrastate commercial flights as long as they stay with the traveler (so, carry-on only). This is a legal gray zone, and the federal government has instructed the Transportation Security Administration to contact local law enforcement when they encounter marijuana to ensure it follows state law.

Because of the banking restriction, cultivators must pay their excise taxes in cash and in person at a single drop box in a downtown Anchorage parking garage. (For more on how taxation works in Alaska, see the next section.) Taxes are due every month, and paying them requires regular handling of large amounts of cash — a security risk for all involved. For some, it also requires a long journey ranging from a six-hour drive from Fairbanks to a multi-leg flight for the most remote areas.

Federal legalization would allow businesses to transport the product and use the banking system, but it would come with its own potential downsides. Alaska's nascent industry would no longer be

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# Marijuana laws around the United States and internationally

Colorado and Washington voters legalized recreational marijuana use in 2012, and Alaska, Oregon, and Washington, D.C. followed two years later. While Alaska wasn't the first to legalize recreational marijuana sales, marijuana use had already been quasi-legal for decades. (See the last section in this article for more on Alaska's legal history.)

By late 2022, 21 states, D.C., and two territories (Guam and the Northern Mariana Islands) had legalized recreational use and 18 more make medical allowances. As of December, only 13 states fully prohibit its use and sale. (This includes Iowa, which has one medical exception category but it's so small and restrictive that in almost all cases,

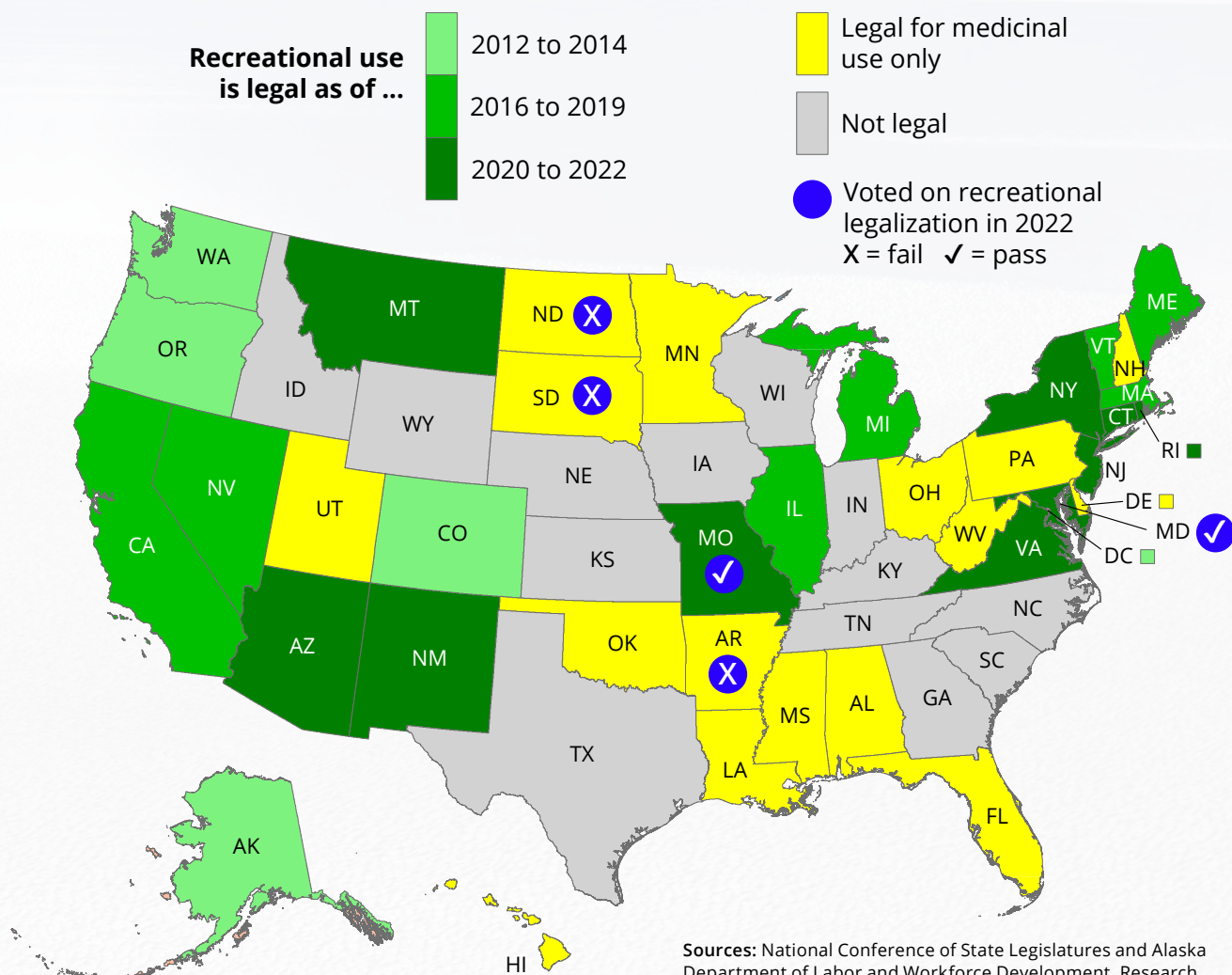
medical use remains illegal.)

In 2022, Arkansas, Maryland, Missouri, North Dakota, and South Dakota put recreational legalization on the ballot. The measures passed in Missouri and Maryland but failed in the others, including South Dakota where the measure passed in 2020 but was struck down by the South Dakota Supreme Court. Oklahoma missed the deadline to include the initiative on the 2022 ballot but will vote on it during a March 2023 special election.

## Feds leave some enforcement to states

Marijuana remains an illegal Schedule 1 drug

## The marijuana legalization picture nationwide as of December 2022





federally. Federal legalization has been debated in recent years as more and more states vote to regulate and tax the product, removing it from the black market into a regulatory environment. In the meantime, federal enforcement has been limited for personal use in small amounts.

The U.S. Department of Justice issued what is referred to as the Cole Memorandum in 2013, directing federal law enforcement to defer to state and local law enforcement when dealing with marijuana. The Trump administration rescinded the memo, but the Biden administration has maintained a hands-off approach to federal marijuana law enforcement. (For more on how Alaska businesses have to navigate the conflicts between federal and state laws, see the subsection on page 7.)

## Few countries have legalized it so far

Canada legalized recreational marijuana use in 2018. As a result, the industry can use debit and credit cards, open bank accounts, and send cannabis products through the mail. Although cannabis is legal federally, provinces still have the authority to determine the legal age, the methods of sale and distribution, and other details.

The federal government in Canada also participates in the cannabis industry, operating some retail stores alongside private business owners and acting as wholesalers in some provinces, often in tandem with province-owned alcohol distribution networks.

Globally, only a handful of countries have legalized recreational marijuana, but the list is growing. Recreational use is legal in Uruguay, Canada, Georgia, South Africa, Mexico, Malta, and Thailand. Many others have decriminalized it or stopped enforcing prohibition.

## Alaska's ambiguous legal history

Alaska has a complicated history with marijuana, a battle that continued for nearly 40 years until 2014, when a ballot initiative legalized recreational marijuana and the state set up the process for regulating and taxing it. For most of the four decades before that, it was quasi-legal.

In 1975, the Alaska Supreme Court held in *Ravin v. State* that the Alaska Constitution's right to privacy protected an adult's right to possess and use a small amount of marijuana.

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

In 1990, voters passed a ballot initiative that recriminalized all marijuana possession, reintroducing confusion and apparent constitutional conflict. Another ballot initiative successfully decriminalized marijuana for medical use in 1998 and established rules for obtaining a doctor's certification and registering with the state to get an identification card. The card allowed limited possession of marijuana and marijuana plants, although Alaska never had any medical marijuana facilities.

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

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

**Cannabis:** The plant, *cannabis sativa* or *cannabis indica*

**Marijuana:** A North American synonym that also refers specifically to the dried flower

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# ALASKA MARIJUANA

Continued from page 8

isolated and protected from outside players, meaning out-of-state products could be sold in Alaska and Alaskans could presumably purchase marijuana from other states and receive it in the mail. Opening Alaska's market could cut profits for in-state businesses, which would have to compete in the national market with larger producers.

While federal legalization has been debated with increasing frequency as more states legalize recreational marijuana use, there is clear direction at the national level. (For more on marijuana laws around the United States and in other countries, see the next page.)

## How cannabis products are taxed

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Alaska's marijuana taxation is complex. The State of Alaska taxes cannabis after cultivation, and localities can also tax growers and consumers. (See the taxation table on page 8.)

The state collects excise tax from growers when they transfer or sell cannabis to manufacturing facilities or stores. Initially, the state taxed flower, the highest-value part of the plant, at \$50 per ounce, and leaves and trim (used to manufacture food and concentrates) at \$15 per ounce.

Alaska revised the tax structure in 2019 to \$50 per ounce for mature buds or flowers, \$25 per ounce for immature or abnormal buds, \$15 per ounce for trim, and a flat \$1 each for clones. A clone is a plant clipping used to grow a new plant.

Alaska has collected more than \$119 million in cannabis excise tax since the industry's inception, which all goes into the state's general fund. Half is earmarked for the Recidivism Reduction Fund, authorized in 2016 by Senate Bill 91 as part of a criminal reform package. The other half is available for unrestricted general fund use.

From its inception in 2016 through 2021, the Recidivism Reduction Fund, which is not specifically marijuana-focused, has collected more than \$42 million. The Department of Public Safety, the Department of Corrections, and the Department of Health and Social Services all receive some of the funds, which are used for programs intended to reduce the number of Alaskans who reoffend through a variety of supports and interventions.

In 2018, the Alaska Legislature passed Senate Bill 104, which required that 25 percent of the state's marijuana taxes go into the Marijuana Education and Treatment Fund. Over the first three years, the fund collected \$17.5 million. The money goes to an array of programs — not all directly marijuana-related — including mental health care, addiction treatment, detoxification, after-school programs, and youth services.

Local governments can also levy taxes, and 16 areas did so in 2021, collecting a combined \$10.5 million. Local governments can choose to levy their own excise tax, charge consumers a marijuana tax, and assess a local sales tax if there is one. Juneau, for example, has a 5 percent sales tax and a 3 percent marijuana tax. Fairbanks and Anchorage collect 5 percent in marijuana tax, but neither has a local sales tax. Houston charges no marijuana tax or sales tax on consumers, but does charge an excise tax.

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