

Average Market Rate

Legislative Authority

- C.R.S. 39-28.8-101(1) Defines the Average Market Rate as the average price, as determined by the department on a biannual basis in six-month intervals, of all unprocessed retail marijuana that is sold or transferred from retail marijuana cultivation facilities in the state to retail marijuana product manufacturing facilities, retail marijuana stores, or other retail marijuana cultivation facilities.
- C.R.S. 39-28.8-302 places an excise tax upon the first sale or transfer of unprocessed retail marijuana by a retail marijuana cultivation facility in the state to retail marijuana product manufacturing facilities, retail marijuana stores, or other retail marijuana cultivation facilities at a rate of 15%

Available Methods for Determining the Average Market Price for Marijuana per Marijuana Policy Group (MPG) Report

- Arms-Length Transaction Wholesale Pricing
 - Relies on arms-length transaction data which is not currently available
 - Would not currently include all transactions
- Market Rate Survey
 - Utilized Medical Marijuana as a Proxy
 - Relies on completion of a survey and comparability between medical and retail market
 - Respondents over time could report lower prices
- Production Cost Method
 - Straightforward and Easy to Understand
 - Price is determined “at the margin” rather than on average of all sales
 - Collection of information to determine is time consuming and costly
- Retail Mark-up
 - Can use sales data in MED Marijuana Inventory Tracking System
 - Can calculate a mark- up percentage
 - Have best information for this method

Recommendation from MPG for 7/1/14 – 12/31/14 for Flower

- Utilize Retail Mark-Up Method
 - According to the last 5 months of inventory data the average retail price for marijuana flower sold by Retail Marijuana Stores is \$6,046 (R=\$6,046)
 - The MPG is recommending a markup rate equal to 111% (M=111%)

- W= the Average Market Rate, R= the retail price of retail marijuana, and M=the markup rate
- Calculation is $W=R/(1+M)$ or $\$6,046/2.11= \$2,865$

Recommendation from MPG for 7/1/14 – 12/31/14 for Trim and Immature Plants

- Because actual data is limited on Trim and Immature Plants the recommendation is to not adjust the price until more information is available

Comparison Excise Tax based on MPG Recommendation

- Flower
 - January –June 2014: \$281.40/ lb.
 - Proposed July – December 2014: \$429.75/ lb.
 - Difference: + \$148.35/ lb.
- Trim
 - January –June 2014: \$44.40/ lb.
 - Proposed July – December 2014: \$44.40/ lb.
 - Difference: No change
- Immature Plants
 - January –June 2014: \$1.35/ plant
 - July – December 2014: \$1.35/ plant
 - Difference: No change

DOR Decision

- Preferred methodology for Flower, Trim, and Immature would be arms-length transaction information
- Not readily available at this time
- New non-medical businesses will be entering market on 10/1/14 which are not required to be vertically aligned
- More data should be available in the future from the Inventory Tracking System which continues to mature.
- DOR will not be adjusting the average market rate at this time
 - Will remain: \$1,876 for Flower, \$296 for Trim, and \$9 for Plants