Cannabis Based Municipal Bonds (CMBs) could offer governments and financial institutions a viable and creative way to aid in the recovery of lost revenues due to the COVID-19 pandemic, says a newly released report from cannabis and hemp advisory firm MPG Consulting.

As the cannabis industry continues to grow at a rapid pace and regulations mature,
it is time for state and local governments, as well as traditional financial institutions, to start taking a serious look at the validity of CMBs as a source of financing for local initiatives and infrastructure, MPG analysts argue. In fact, they point to similar initiatives in place in the form of special tax bonds, typically backed by taxes, on certain activities or assets classes like tobacco, alcohol and gaming — the so called “sin taxes.”

**How This Could Work**

To demonstrate how this could work, MPG conducted a theoretical analysis, using Denver as an example.

![Figure 3: 2018 Denver Marijuana Revenue Sources – Total $46.8M](image)

Above, a breakdown of Denver’s cannabis revenue sources by type for 2018. Below, how tax revenue and allocation has evolved over time.
In its study, the firm showed how Colorado could translate its cannabis revenue into a short-term bond capacity of $166 million, and long-term bond capacity of $591 million, with $123 million and $438 million available to use for educational initiatives and infrastructure.

**Denver CMB Analysis**

**3 Year Bond**  
$166M Issue Price  
$123M for Education In First Year

Assumptions and Key Data:  
- 1.55% Interest Rate  
- 30% Reserve Fund - $36.9M  
- 5% Underwriter Fee - $6.1M  
- Semiannual Coupon  
- Average Annual Payment - $56.7M  
- Average Annual Revenue - $58.3M  
- Total Interest Paid - $4.53M

Calculated using a level payment and a 3-year amortization term based on current Colorado Municipal bond rates.

**10 Year Bond**  
$591M Issue Price  
$438M for Education In First Year

Assumptions and Key Data:  
- 1.30% Interest Rate  
- 30% Reserve Fund - $131.4M  
- 5% Underwriter Fee - $21.9M  
- Semiannual Coupon  
- Average Annual Payment - $63.2M  
- Average Annual Revenue - $64.4M  
- Total Interest Paid - $41.2M

Calculated using a level payment and a 10-year amortization term based on current Colorado Municipal bond rates.

Source: MPG Analysis
Calculations for Minneapolis show that a three-year bond would allow $385 million, or a ten-year bond would allow $2.05 billion to accelerate affordable housing access for Minnesotans.

**See Also:** *He Co-Founded A Company That Sold To Salesforce For $745 Million, Now He's Getting Into The Cannabis Industry*

“Given the extreme financial pressure put on states and municipalities due to the COVID-19 crisis, government leaders should consider looking at every available option to finance critical initiatives and infrastructure projects,” commented Steve Katkov, partner at the cannabis industry group at Cozen O’Connor, when presented with the data. “In markets with sufficient demand, Cannabis Based Municipal Bonds could present valid options.”

**A Regulatory Issue**

MPG’s report also addresses the most important question relating to viability: will current banking regulations prevent state and municipalities from considering CMBs?

According to Sal Barnes, Managing Director of MPG, none of the current banking regulations should prevent a state or municipality from considering CMBs.

“When state and local governments collect cannabis tax revenue, the funds are co-mingled in the general fund with revenue from other sources and enter the Federal Reserve System. Capital raised from CMBs would be no different than any other tax revenue and therefore, would not require any sort of special regulation,” he explained.
However, Adam Orens, founder of MPG added that, convincing banks and underwriters to offer CMBs to the market “could be a separate challenge, given the difficult posture financial institutions have taken towards the industry.”

But, he added, CMBs present a “real opportunity to make up for lost tax revenue and continue to fund key initiatives that may otherwise be in danger of losing their financing due to current market conditions.”

*See Also*: *Pelorus Equity Gets Into Cannabis REIT Business As Big Players Jump Into The Space*

Hershel Gerson, CEO and Managing Director at ELLO Capital seems to agree. Cannabis Municipal Bonds could generate much-needed revenue for adult-use states, especially in the current recessionary environment, he voiced.
“As we look at the next six-12 months, state and local government bodies will see their revenues decline due to shuttered businesses and will have to find new avenues to make up for the lost reserves...The Covid-19 health crisis and the economic fallout should lead to positive cannabis legislation and the opening up of new markets and opportunities for the industry, similar to how regional gaming industry experienced new opportunities after the 2008 recession. One such catalyst to legislation and creating these new opportunities would be establishment of Cannabis Municipal Bonds.”

You can request a copy of the study [here](#).

And learn about cannabis finance in Spanish on [El Planteo](#).
Follow me on Twitter or LinkedIn. Check out my website or some of my other work here.

Javier Hasse

I’m a cannabis, hemp, CBD and psychedelics-focused reporter, currently serving as Managing Director. My book, “Start Your Own Cannabis Business,”... Read More
### RELATED TOPICS

<table>
<thead>
<tr>
<th>01.</th>
<th>STOCKS TO INVEST IN 2020</th>
<th>06.</th>
<th>BEST MOISTURIZERS FOR AGING SKIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>02.</td>
<td>SAMSUNG FOLDING PHONE REVIEW</td>
<td>07.</td>
<td>TOP 10 BEST ANDROID PHONES</td>
</tr>
<tr>
<td>03.</td>
<td>WORK FROM HOME JOBS 2020</td>
<td>08.</td>
<td>BEST SAMSUNG GALAXY PHONES</td>
</tr>
<tr>
<td>04.</td>
<td>10 BEST COMPANIES TO INVEST IN</td>
<td>09.</td>
<td>SAMSUNG GALAXY FOLD ON SALE</td>
</tr>
<tr>
<td>05.</td>
<td>REVERSE MORTGAGE CALCULATOR</td>
<td>10.</td>
<td>HIGHEST PAYING DIVIDEND STOCKS</td>
</tr>
</tbody>
</table>

**SEE ALSO**

- BEST SAMSUNG G8X CASES
- HIGHEST PAYING DIVIDEND STOCKS