



# Will Nevada's New Recreational Marijuana Industry Become a Disruptive Threat to the State's Casino Industry?

*Could Nevada's Recreational Marijuana Industry Kill the State's "Golden Goose" and Its Reliance on Taxes from Casinos and Hotels?*

DENVER, CO, USA, July 3, 2017 /EINPresswire.com/ -- Author: Jeffrey Friedland

Recreational marijuana, or what is increasingly referred to as "adult-use" marijuana officially became available on Saturday, July 1, 2017, at medical marijuana dispensaries in Nevada.

My prediction is that Nevada's state marijuana market will become America's largest purchaser of the plant until California's recreational industry opens for business in January of 2018. Nevada's recreational market will be fueled mainly by tourism. Nevada hosts more than 45 million tourist visits a year. The state's marijuana regulators are forecasting that approximately 63 percent of sales will be to visitors from out of state.

Edibles, rather than joints, dabs or vape pens will probably be the hottest item. This is because marijuana is prohibited in most public places, including but not limited to hotels, casinos, concerts, and festivals. Edibles also will be illegal to consume in public places, but likely their "form factor" as gummies, chocolates, or candies will enable them to become the choice form of marijuana for most tourists.

The state of Nevada allowed medical marijuana dispensaries to sell their existing medical marijuana inventory as "recreational marijuana" on a one-time only basis. This objective was to provide the state with an initial marijuana supply for recreational use. The main complication in having an adequate supply of marijuana for sale is the result of an interesting court order. The courts denied marijuana distribution licenses to anyone other than those already holding existing liquor distribution licenses. When the initial supply runs out, which could occur in a few weeks, it is probable that there will be a significant disruption to the legal supply of marijuana in Nevada.

I've been following the research being done by Vivien Azer and her research team at the New York-based investment banking firm Cowen and Company. Azer's team specializes in covering the beverages, tobacco and cannabis industries. Recent research provided by Cowen leads me to believe that Nevada's new industry could be very disruptive not only to the state's alcohol industry but to the casino and hotel business as well.

In an April 20th report, Cowen indicated, "We believe alcohol could be under pressure for the next decade, based on our data analysis covering 80 years of alcohol and 35 years of cannabis incidence in the U.S." In addition to this April report, Azer and her colleagues stated in May, "Over the next 14 months we expect to see four more states transition to legal cannabis, accounting for 14.5 percent of overall beer volumes (and 16.2 percent of total alcohol volumes.) Recent survey data confirms that a majority of consumers reduce their alcohol consumption with cannabis, while younger adult consumers are most likely to avoid dual-us altogether."

A Cowen consumer survey in the United States and Canada concluded that over 60 percent of those individuals using marijuana reported a reduction in alcohol consumption when both were consumed together. The report concluded by stating “ The consistent trend of consumers either moderating their alcohol consumption or avoiding dual-use altogether is clearly problematic.”

The impact of the recreational marijuana industry could pose a devastating blow to Nevada’s cash-cow, its casino and hotel industry.

Tourism is the driver of the state’s economy, employing more Nevadans than any other industry. Tourism-related businesses and tourists are the single largest contributor to state and local tax revenues in the state. Statewide, the tourism industry accounted for more than 460,000 jobs in 2016, or 36 percent of Nevada’s employment base. According to the Nevada Resort Association, the Silver State’s tourism sector was responsible for \$13 billion in wage and salary payments in 2016, which when coupled with secondary impacts, totaled more than \$19 billion.

In 2016, visitors to the state spent over \$40 billion for activities ranging from gambling to hotels to sightseeing. When combined with indirect spending on vendor purchases and employee spending, the total soared to \$69 billion.

In addition to regular taxes and fees that all Nevada businesses incur, the Nevada Resort Association has indicated that the tourism and gaming industry also contributed approximately \$1.6 billion in industry-specific taxes and fees. These include gaming-related contributions, hotel lodging taxes, and live entertainment taxes. The industry’s contributions to public revenues impact both the state as well as local jurisdictions. Nevada’s tourism industry accounts for roughly \$1.4 billion, or 42 percent, of the state’s overall tax revenues of \$3.4 billion.

Last year was a great year for Nevada’s casino industry. Revenues increased to over \$25.2 billion, up from \$24.6 billion in 2015. The industry generated an income of an impressive \$979 million, a tremendous turn-around from losses of \$661 million in 2015. 2016 was the first year of profitability for the state’s casino industry since 2008. During the 2015 fiscal year, over 273 casinos in the Nevada grossed over \$1 million in gaming revenue.

There is little doubt that the use of alcohol fuels gambling. Many casinos provide free drinks to encourage hitting the slots and tables. The 64 thousand dollar question is, will consumers high on marijuana spend more time at gaming tables and slots, or will marijuana consumption decrease their gambling?

This implication of the legalization of recreational marijuana in Nevada could well kill the state’s “golden goose.” On the other hand, perhaps those individuals who are well lubricated and relaxed by the use of this newly state-legal substance will open their wallets wider, further bolster the overall economy, increase state employment numbers and up Nevada’s tax revenues.

It is anyone’s guess and time will tell. Bets anyone???

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About the Author

Jeffrey Friedland is an emerging market pioneer -- his firm, Friedland Capital, was one of the first American investment banks to establish a presence in China -- and he is now on the front lines of the global cannabis industry.

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