



## Fiscal Estimate Narratives

DOR 4/8/2014

|   |           |                     |         |               |          |
|---|-----------|---------------------|---------|---------------|----------|
| LRB Number  | 13-3671/1 | Introduction Number | AB-0810 | Estimate Type | Original |
| <b>Description</b><br>Marijuana possession, regulation of marijuana distribution, operating a motor vehicle while under the influence of marijuana, making an appropriation, requiring the exercise of rule-making authority, and providing penalties |           |                     |         |               |          |

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, the manufacture, delivery, and possession of marijuana are illegal in Wisconsin. The bill legalizes these activities, subject to certain conditions.

Under the bill, an excise tax is imposed at the rate of 25 percent of: the sales price on each wholesale sale of marijuana by a marijuana producer to a marijuana processor or to another marijuana producer; the sales price on each wholesale sale of useable marijuana or marijuana-infused products to a marijuana retailer; and the sales price on each retail sale of useable marijuana or marijuana-infused products.

In addition, the bill establishes a permit requirement for marijuana producers, processors and retailers and imposes both an application fee of \$250 and an annual license fee of \$1,000. The bill also requires accurate and complete records of the production and sales of marijuana, useable marijuana, and marijuana-infused products.

The bill creates a nonlapsible marijuana trust fund where all revenues from fees, taxes, interest, and penalties will be deposited.

### FISCAL EFFECT

This fiscal estimate is based, in part, on the only available marijuana consumption data and projections which were developed by the Colorado Office of State Planning and Budgeting (OSPB) and revised in February 2014.

In 2000, Colorado voters approved amendments to the state's constitution to recognize the medical use of marijuana, effective June 1, 2001. In 2012, voters in Colorado legalized the personal consumption, taxation, and the state and local regulation of marijuana (including licensing of marijuana production and retail facilities) effective January 1, 2014. In 2013 Colorado had more than 500 medical marijuana dispensaries and only 160 of those stores applied to sell recreational marijuana after January 1, 2014. In 2013, the Colorado State Marijuana Enforcement Division, issued licenses to 136 marijuana stores. State officials also issued licenses for 31 producers of marijuana-infused products and 178 marijuana cultivation facilities.

In developing this fiscal estimate, it is assumed that marijuana consumption patterns in Wisconsin will parallel those in Colorado, with an effective date of January 1, 2015. Given the fact that Colorado's network of marijuana production, distribution and retail sale facilities was established more than 10 years ago, it is assumed that consumption in Wisconsin will be 30% and 60% of the estimated Colorado consumption in FY15 and FY16, respectively.

Using Colorado's marijuana consumption figures for FY14 and FY15, adjusted for the difference in population between Wisconsin and Colorado, it is estimated that 0.31 million ounces of marijuana will be consumed in Wisconsin in the second half of FY15 and this number would increase to 1.98 million ounces in FY 16.

The Colorado research suggests a producer price of \$40.00 per ounce, wholesale price of \$93.75 per ounce, and a retail price of \$183.50 per ounce.

Under the bill, a 25% excise tax would be imposed on producers, processors, and retailers of marijuana. Based on the assumptions above and assuming Colorado prices apply to Wisconsin, marijuana excise tax collections would reach \$24.9 million in FY15 (prorated) and \$157.2 million in FY16. Below is a further breakdown of potential excise tax collections (assuming a January 1, 2015 effective date):

Producer sales: \$3.1 million in FY15, \$19.8 million in FY16  
Processor sales: \$7.4 million FY15, \$46.5 million in FY16  
Retailer sales: \$14.4 million in FY15, \$90.9 in FY16

Retailers of marijuana would be required to collect and remit sales tax on the sale of taxable tangible personal property, including marijuana. State sales tax collections would increase by \$2.88 million in FY15 and \$18.19 million in FY16 (5% x 1.98 million ounces x \$183.50/ounce). In FY13, local sales tax collections were 8.2% of state sales tax collections. Assuming this ratio does not change, local sales tax collections are expected to increase by \$0.24 million in FY15, increasing to \$1.49 million in FY16.

Under the bill, marijuana producers, processors, and retailers must obtain a license to engage in their business activities. A marijuana license requires an application fee of \$250 and an annual fee of \$1,000. Information on the number of producers, processors, and retailers of marijuana that may apply for licenses in Wisconsin is not available. For the purpose of illustrating the size of potential fee revenues, it is assumed that initially in FY15 there will be 5 producers, 10 processors, and 20 retailers and that these numbers will double in FY16. Based on these assumptions, the estimated amount of fee revenues is \$43,700 in FY15 and \$78,700 in FY16.

#### **ADMINISTRATIVE COSTS**

New staff resources are necessary to review marijuana permits, perform account maintenance, manage security bonds, engage in field audits, and provide customer service. The department estimates that this activity will require one additional staff position to perform the administrative functions. The department would also incur expenses related to hiring and training six enforcement employees. Personnel costs related to the bill would total \$711,000 on an annual basis.

One-time costs related to developing and testing forms, training, equipment, and internal programming changes are expected to be approximately \$240,000.

In addition, the bill would require changes to GenTax, the department's integrated tax processing system, to accommodate a new tax type. These changes would necessitate an amendment to the state's contract with FAST, the vendor that provides GenTax. The department estimates that the expense of amending the contract would be roughly \$2.0 million.

#### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

|  |                      |  |                 |
|--|----------------------|--|-----------------|
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| <b>Description</b><br>Marijuana possession, regulation of marijuana distribution, operating a motor vehicle while under the influence of marijuana, making an appropriation, requiring the exercise of rule-making authority, and providing penalties  |                      |  |                 |
| <b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b><br><br>One-time costs related to developing and testing forms, training, equipment, and internal programming changes are expected to be approximately \$240,000. In addition, the bill would require an amendment to the state's contract with the vendor that provides the department's tax processing system at the estimated cost of roughly \$2.0 million. |                      |  |                 |
| <b>II. Annualized Costs:</b>   |                      | <b>Annualized Fiscal Impact on funds from:</b> |                 |
|  |                      | Increased Costs                                | Decreased Costs |
| <b>A. State Costs by Category</b>  |                      |  |                 |
| State Operations - Salaries and Fringes  | \$711,000            |  | \$              |
| (FTE Position Changes)   |                      |  |                 |
| State Operations - Other Costs   |                      |  |                 |
| Local Assistance   |                      |  |                 |
| Aids to Individuals or Organizations   |                      |  |                 |
| <b>TOTAL State Costs by Category</b>   | <b>\$711,000</b>     |  | <b>\$</b>       |
| <b>B. State Costs by Source of Funds</b>   |                      |  |                 |
| GPR  | 711,000              |  |                 |
| FED  |                      |  |                 |
| PRO/PRS  |                      |  |                 |
| SEG/SEG-S  |                      |  |                 |
| <b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b>   |                      |  |                 |
|  | Increased Rev        | Decreased Rev                                  |                 |
| GPR Taxes  | \$19,700,000         |  | \$              |
| GPR Earned   |                      |  |                 |
| FED  |                      |  |                 |
| PRO/PRS (25.56)  | 157,200,000          |  |                 |
| SEG/SEG-S  |                      |  |                 |
| <b>TOTAL State Revenues</b>  | <b>\$176,900,000</b> |  | <b>\$</b>       |
| <b>NET ANNUALIZED FISCAL IMPACT</b>  |                      |  |                 |
|  | <u>State</u>         | <u>Local</u>                                   |                 |
| NET CHANGE IN COSTS  | \$711,000            |  | \$              |
| NET CHANGE IN REVENUE  | \$176,900,000        |  | \$1,500,000     |
| <b>Agency/Prepared By</b>  |                      | <b>Authorized Signature</b>                    | <b>Date</b>     |
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