

### Fiscal Estimate - 2015 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>15-0188/2</b>	<b>Introduction Number</b> <b>AB-0224</b>	
<b>Description</b> Marijuana possession, regulation of marijuana distribution and cultivation, medical marijuana, operating a motor vehicle while under the influence of marijuana, making appropriations, requiring the exercise of rule-making authority, and providing criminal penalties		
<b>Fiscal Effect</b>  <b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input checked="" type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input checked="" type="checkbox"/> Increase Costs                          3. <input checked="" type="checkbox"/> Increase Revenue <input checked="" type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs                          4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 5. Types of Local Government Units Affected <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>Stadium districts</u> <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</b> <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS		
<b>Agency/Prepared By</b> DOR/ Jacek Cianciara (608) 266-8133	<b>Authorized Signature</b> Robert Schmidt (608) 266-5773	<b>Date</b> 6/11/2015

## Fiscal Estimate Narratives

DOR 6/11/2015

LRB Number	<b>15-0188/2</b>	Introduction Number	<b>AB-0224</b>	Estimate Type	<b>Original</b>
<b>Description</b> Marijuana possession, regulation of marijuana distribution and cultivation, medical marijuana, operating a motor vehicle while under the influence of marijuana, making appropriations, requiring the exercise of rule-making authority, and providing criminal 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 and permits use of recreational and medical marijuana, subject to certain conditions. This fiscal estimate is limited to the excise tax provisions within the bill related to the recreational sale of marijuana. The bill does not provide a sales tax exemption for either recreational or medical marijuana.

The bill creates a marijuana trust fund consisting of all revenue from fees, taxes, interest, and penalties derived from the administration and regulation of the marijuana tax. The bill creates a new segregated appropriation in DOR's tax collection appropriation for purposes of administration and enforcement of the marijuana tax and regulations. The bill provides expenditure authority of \$1,100,800 for this purpose, but does not provide new positions.

#### RECREATIONAL MARIJUANA

This bill creates a process by which a person may obtain a permit to sell marijuana for recreational use; however, it prohibits the sale of marijuana via mail, telephone, or Internet. The bill also prohibits a permittee from selling, distributing, or transferring marijuana to a minor and from permitting a minor to be on premises for which a permit to sell marijuana is issued.

The bill defines marijuana producers, processors, and retailers. The bill imposes an excise tax at the rate of 25 percent of:

- the sales price on each wholesale sale of marijuana by a producer to a processor or to another producer;
- the sales price on each wholesale sale of useable marijuana or marijuana-infused product to a retailer; and
- the sales price on each retail sale of useable marijuana to a consumer.

In addition, the bill establishes a permit requirement for marijuana producers, processors and retailers, subject to certain conditions, and imposes an application fee of \$250 and an annual fee of \$1,000. The bill also requires accurate and complete records of the production and sales of marijuana.

#### MEDICAL MARIJUANA

The bill changes state law to permit the medical use of marijuana by a person who has registered with the Department of Health Services (DHS) and obtained medical marijuana identification card.

In addition, the bill defines compassion centers as nonprofit corporations that possess, manufacture, distribute, or deliver marijuana or drug paraphernalia to facilitate the medical use of marijuana. The bill requires DHS to license and regulate compassion centers and register entities that test marijuana for contaminants. The bill establishes criteria for the location of compassion centers and charges DHS to develop certain guidelines for compassion center operations. An applicant for a compassion center license must pay an initial application fee of \$250 and an annual fee of \$5,000.

#### FISCAL EFFECT

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. According to the Colorado Marijuana Enforcement Division 2014 Annual Report, the state issued 322 retail store licenses and 98 manufacturer permits in 2014. The report also shows that by the end of FY14, sales of medical marijuana sales amounted to 109,578 lbs. and retail sales to 38,660 lbs.

### Recreational Marijuana Fiscal Effect

The department assumes that marijuana consumption patterns in Wisconsin will parallel those of Colorado and that the bill would be in effect January 1, 2016. Using Colorado marijuana consumption numbers and marijuana prevalence rates based on the National Survey on Drug Use and Health, per capita consumption of 15.2 oz./year for a medical consumer and 0.8 oz. /year for retail consumer were estimated. Adjusted for smoking prevalence rates between Colorado and Wisconsin, the department estimates that consumption of marijuana (recreational and medical) will amount to 164,548 oz. in the second half of FY16 (January 1, 2016 to June 30, 2016) and to 546,955 oz. in FY17.

A 2015 survey of marijuana prices found that an average price of medium quality marijuana in Wisconsin amounted to \$272/oz. Assuming the \$272/oz. retail price, excise tax of 25%, and a 10% profit margin, the department estimated the following prices for marijuana and excise tax revenues:

Producer: \$144/oz. yields \$4.52 million in FY16 and \$14.09 million in FY17

Processors: \$198/oz. yields \$6.21 million in FY16 and \$19.37 million in FY17

Retail: \$272/oz. yields \$8.54 million in FY16 and \$26.63 million in FY17

The bill would result in a total excise tax increase of \$19.28 million in FY16 and \$60.09 million in FY17

In addition to excise tax, retailers collect and remit the 5.0% state sales tax on marijuana sales transactions (5% x retail ounces x retail price). State sales tax collections on the sale of recreational marijuana are expected to increase by \$1.71 million in FY16, increasing to \$5.33 million in FY17.

Under the bill, producers, processors, and retailers need to obtain a license to engage in their business activities. An application for a license commands an application fee of \$250 and an annual fee of \$1,000. It is assumed that the number and growth in the number of producers, processors, and retailers of marijuana in Wisconsin will parallel the experience of Colorado. Based on these assumptions, the estimated amount of fee revenues is \$761,000 in FY16 and \$970,000 in FY17.

The department estimates total state tax and fees revenue from consumption of recreational marijuana to reach \$21.75 million in FY16 and \$66.39 million in FY17. In addition, local sales tax on recreational marijuana sales is estimated to reach \$140,000 in FY16 and \$440,000 in FY17.

### Medical Marijuana Fiscal Effect:

Based on Colorado medical consumption patterns it is estimated that the medical use of marijuana in Wisconsin will amount to 38,818 oz. in FY16 and to 155,271 oz. in FY17. Assuming that the price of medical marijuana excludes excise tax and that only sales tax is imposed, it is estimated that in FY16 the amount of \$22,200 and in FY17 the amount of \$88,700 in local sales tax on medical marijuana will be collected. This calculation is based on the assumption that local sales tax collection is 8.2% of state sales tax collections, the percentage calculated for FY14. In addition, it is estimated that state sales tax collection on the sale of medical marijuana would amount to \$270,000 in FY16 and \$1.08 million in FY17

### TOTAL REVENUE IMPACT

Under the bill, sales of marijuana, excluding excise taxes on production, processing and retail sales of marijuana for medical use, would increase state excise and sales tax and fee revenues by \$22.02 million in FY16 and \$67.47 million in FY17.

Local sales tax revenues are expected to increase by \$162,000 in FY16 and by \$525,000 in FY17.

The total revenue increase would be offset by some unknown but potentially large amount of home-grown, trafficking, and black market production and sales. As more and more suppliers enter the market increasing production, the price of marijuana will inevitably decline and, as a result, the estimations based on pre-legalization marijuana prices may over-estimate marijuana retail sales and tax collections.

### ADMINISTRATIVE COSTS

New staff resources will be necessary to issue and review marijuana permits, perform account maintenance, and provide customer service. The department has identified the need for one additional tax representative position that would assist with registration, administration, and customer service; and a field auditor position who would conduct field audits of marijuana processors, producers and retailers to enhance tax compliance and improve collections. The department estimates that these new positions will require an annual expense of \$144,500.

Creating a new tax type would require making adjustments to current software and developing new software to capture marijuana based activities such as registration and tax accounting of producers, processors and retailers; and other various financial and tax reporting reports. These development costs can be absorbed within the current budget.

Administration of the new law would also require additional enforcement staff in the department. The department estimates the need for four additional alcohol and tobacco agents and one criminal investigator, at an estimated annual cost of \$1,013,500.

The department estimates total administrative costs of \$1.16 million on an annual basis.

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

## Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

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<b>Description</b> Marijuana possession, regulation of marijuana distribution and cultivation, medical marijuana, operating a motor vehicle while under the influence of marijuana, making appropriations, requiring the exercise of rule-making authority, and providing criminal penalties		
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>  One time costs of creating a new tax type would require developing new software to capture marijuana based activities such as registration and tax accounting. These costs can be absorbed within the current budget.		
<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	\$1,160,000	\$
(FTE Position Changes)	(7.0 FTE)	
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$1,160,000</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR		
FED		
PRO/PRS		
SEG/SEG-S (SEG-A)	1,160,000	
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$6,410,000	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S (SEG-A)	61,060,000	
<b>TOTAL State Revenues</b>	<b>\$67,470,000</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	State	Local
NET CHANGE IN COSTS	\$1,160,000	\$
NET CHANGE IN REVENUE	\$67,470,000	\$525,000
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
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