



## Fiscal Estimate Narratives

DOR 9/11/2017

LRB Number	<b>17-2457/1</b>	Introduction Number	<b>AB-0482</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 sale of marijuana. The bill does not provide a sales tax exemption for either recreational or medical marijuana.

The bill creates a new annual 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 position authority.

#### 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 person under the legal age (21) and from permitting a person under 21 to be on premises for which a permit to sell marijuana is issued.

The bill defines marijuana producers, processors, distributors, and retailers. Retailers may only purchase usable marijuana from a distributor. The bill imposes an excise tax at the rate of 15 percent of the sales price on each wholesale sale of marijuana by a producer to a processor.

The bill imposes an excise tax at the rate of 10 percent of 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, distributors, and retailers, subject to certain conditions, and imposes an application fee of \$250 and an annual fee of \$2,000.

#### 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 a medical marijuana identification card.

In addition, the bill defines compassion centers as organizations that grow, sell, distribute, or deliver marijuana or drug paraphernalia to facilitate the medical use of tetrahydrocannabinols. 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 in addition to the \$250 application fee and \$2,000 annual fee to operate as a marijuana retailer.

#### FISCAL EFFECT

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's annual reports, the state collected the following amount of excise tax revenues from 2014-2016 with a tax structure similar to the taxes proposed in the bill:

- In 2014, Colorado's excise tax collections on marijuana totaled \$41.7 million
- In 2015, Colorado's excise tax collections on marijuana totaled \$89.0 million
- In 2016, Colorado's excise tax collections on marijuana totaled \$143.2 million

The department assumes that marijuana consumption patterns in Wisconsin will parallel those of Colorado and that the bill would be effective July 1, 2018. Based on information from the US Substance Abuse and Mental Health Services Administration and the US Census Bureau regarding marijuana usage rates and population differences, the department estimates that WI consumers will purchase 55.36% of the volume of marijuana purchased in Colorado.

Under the bill, an excise tax is imposed on marijuana producers at the rate of 15%. This would result in an excise tax revenue increase of \$6.9 million in FY19, \$18.5 million in FY20, and \$32.9 million in FY21.

The bill also imposes a 10% excise tax on marijuana retailers, which includes compassion centers. This would result in an additional excise tax revenue increase of \$35.4 million in FY19, \$60.4 million in FY20, and \$69.9 million in FY21.

In addition to the excise tax, retailers would collect and remit the 5.0% state general sales tax on marijuana sales. State sales tax collections on the sale of recreational and medical marijuana are expected to increase by \$17.7 million in FY19, \$30.2 in FY20, and \$34.9 in FY21. Local sales taxes made up 7.7% of the state sales tax in FY17, assuming this ratio does not change, local sales tax revenues are expected to increase \$1.4 million FY19, \$2.3 million in FY20 and \$2.7 million in FY21.

Under the bill, each producer, processor, distributor, and retailer needs to obtain separate licenses to engage in their marijuana-related business activities. An application for a license is \$250 and an annual fee of \$2,000 is required. It is assumed that the number and growth in the number of producers, processors, distributors, and retailers of marijuana will parallel the experience of Colorado at an assumed rate of 55% of the number of establishments. Based on these assumptions, the estimated amount of fee revenues is \$622,000 for FY19, \$387,000 for FY20, and \$340,000 for FY21.

#### TOTAL REVENUE IMPACT

Under the bill, sales of marijuana would increase state excise and sales tax and fee revenues by \$60.5 million in FY19, \$109.5 million in FY20, and \$138 million in FY21.

Local sales tax revenues are expected to increase by \$1.4 million in FY19, \$2.3 million in FY20, and \$2.7 million in FY21.

#### ADMINISTRATIVE COSTS

The department estimates one-time administrative costs of \$345,980 for setting up processes and systems to accommodate the new tax. Ongoing administrative expenses for two additional staff, compliance, and services are estimated to cost \$156,360.

Administration of the new law would also require additional enforcement staff in the department. The department estimates the need for 10 new excise tax agents, one agent supervisor, and one criminal investigator, at an estimated annual cost of \$1,214,030.

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

## Fiscal Estimate Worksheet - 2017 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

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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>  The department estimates one-time administrative costs of \$345,980 for setting up processes and systems to accommodate the new tax.		
<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	\$1,370,390	\$
(FTE Position Changes)	(14.0 FTE)	
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$1,370,390</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR	1,370,390	
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, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$138,000,000	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$138,000,000</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$1,370,390	\$
NET CHANGE IN REVENUE	\$138,000,000	\$2,700,000
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
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