

### Fiscal Estimate - 2019 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>19-5095/1</b>	<b>Introduction Number</b> <b>AB-0750</b>
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**Description**  
 medical marijuana, granting rule-making authority, and providing a penalty

**Fiscal Effect**

**State:**

<input type="checkbox"/> No State Fiscal Effect	<input type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<input type="checkbox"/> Indeterminate	<input type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Decrease Existing Appropriations		
<input checked="" type="checkbox"/> Create New Appropriations		

**Local:**

<input type="checkbox"/> No Local Government Costs		
<input type="checkbox"/> Indeterminate		
1. <input type="checkbox"/> Increase Costs	3. <input checked="" type="checkbox"/> Increase Revenue	<b>5. Types of Local Government Units Affected</b> <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input checked="" type="checkbox"/> Permissive <input 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	

<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	20.566(9)(q) -- Marijuana Fund

<b>Agency/Prepared By</b> DOR/ Momodou Bah (608) 266-8133	<b>Authorized Signature</b> Jamie Adams (608) 266-6785	<b>Date</b> 2/6/2020
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## Fiscal Estimate Narratives

DOR 2/6/2020

LRB Number	19-5095/1	Introduction Number	AB-0750	Estimate Type	Original
<b>Description</b> medical marijuana, granting rule-making authority, and providing a penalty					

### Assumptions Used in Arriving at Fiscal Estimate

This bill creates a program that allows for the possession and use of medical marijuana by registered patients and that licenses medical marijuana producers, processors, dispensaries, transporters, and laboratories to operate in this state.

The bill imposes an excise tax on a licensed processor at the rate of 10 percent of the sales price on each wholesale sale in this state of marijuana to a licensed dispensary. All proceeds from the tax, and all fees and penalties collected by the commission, are deposited into a segregated fund, identified in the bill as the medical marijuana fund.

Wisconsin does not have any state specific data to construct an accurate estimate for medical marijuana given that the use and possession of cannabis is illegal under state law. 33 states have legal medical marijuana, 11 of which also allow recreational use. However, there is significant variation in medical marijuana laws from state to state, including how it is produced and distributed, how it can be consumed, and qualifying medical conditions it can be used for. Trends in all states indicate that the population of registered patients continues to increase over time.

Using the most recent data from states that legalized medical marijuana may overstate our estimates. Considering Minnesota's geographical proximity and population similarities to WI, it is assumed that Wisconsin will closely mirror the trends observed in MN. The Minnesota medical marijuana program was started in 2015 and is still evolving. MN currently has 3 qualifying medical conditions (Tourette Syndrome, Intractable Pain & Terminal Illness) that are not covered by the WI bill, but all other qualifying medical conditions are the same. The proposed Wisconsin bill is very similar to the MN medical marijuana program when MN law was enacted, both for delivery methods and qualifying medical conditions. MN has since added more qualifying conditions and proposed additional delivery methods.

In the WI proposal, medical marijuana must be in the form of a liquid, oil, pill, or tincture or in a form that is applied topically. In MN the delivery methods allowed are liquids, pills, or vaporize whole plant extracts (also in oil form), but not the actual leaves of a marijuana plant. Both MN and WI do not allow smoking medical marijuana or allow patients to grow their own plants.

For the sake of consistency, DOR used population estimates from the US Census Bureau. The number of patients enrolled in the Minnesota program in 2019 is derived from the MN Department of Health and closely matches the number of patients reported by Statista. Both data sets yield the same percentage of the population who were medical marijuana patients by the end of June 2019. Using the data from Statista for US medical marijuana retail sales and the percentage of US population who were medical marijuana patients in 2019, the department allocated sales revenue to each state.

#### Method 1: Using US Retail Sale Data

The retail sales figures for medical marijuana in the US from Statista shows retail sales of \$4.2 and \$5.2 billion in 2019. The data also shows the percentage of the population in the U.S. who were medical marijuana patients as of July 2019, by state. Using this information and the population estimates for each of the states from the US Census Bureau, the department determined that the total populations of these states to be 205,685,466 and that the medical marijuana patients totaled 3,134,098 in 2019.

Assuming WI has the same share of the patient-population share as MN (0.31%), the department estimates that WI will have 18,050 (5,822,434 x 0.31%) registered patients. Using the same formula, the department can project

that WI patients will generate sales revenues of between \$24 million (18,050/3,134,098 x \$4.2 million) and \$30 million (18,050/3,134,098 x \$5.2 million). Data from Yukon Liquor Corporation Cannabis Markup Structure for 2019 shows a wholesale markup (wholesale price that will be charged to private cannabis retail licensees) of 22%. Using this as the markup suggests wholesale revenues between \$18 million and \$22 million. An excise tax imposed on medical marijuana wholesale transactions at the rate of 10% would result in an excise tax revenue of between \$1.80 million and \$2.34 million by the end of the first year (an average of \$2 million). Given the restrictiveness of the MN program (a maximum of 2 producers/processor and 8 dispensaries), the patient registration in WI could be at a much more robust and faster than was observed in MN.

#### Method 2: THC Infused Medical Marijuana

Using various data sources, the department can estimate that there were about 366,909 patients in WI in 2019 with the qualifying medical conditions in the bill. The estimated breakdown is as follows: - 400 cases of Amyotrophic lateral sclerosis (ALS), 34,220 cases of Cancer, 14,164 cases of Crohn's disease, 35,805 cases of Glaucoma, 7,202 cases of HIV/AIDS, 11,095 cases of Multiple sclerosis (MS), 203,785 cases of Post-traumatic stress disorder (PTSD), and 60,234 cases of Seizure disorders (Epilepsy). Assuming 5% of the total patients will register in the first year (5% of cancer patients are registered in MN), the number of patients on the registry will be 18,345 (366,909 x 5%).

Daily Dose for THC from 2 different Florida Dispensaries, Trulieve and Surterra are 5mg two times a day (for a total of 10mg per day) and up to 20mg per day respectively. The department assume an average dosage of 15mg/day. The WI bill allows patients to purchase 30 days' worth of dosage.

Retail prices for THC infused products vary considerably between states; however, the department will take the average prices for beverages, edibles, tinctures, capsules and topicals which are \$0.26/mg, \$0.20/mg, \$0.32/mg, \$0.20/mg and \$0.32/mg respectively. The average price for these THC infused products is therefore \$0.26/mg. Assuming a 22% markup on wholesale, the wholesale price is \$0.20/mg.

Using the above values for WI, the wholesale revenue for THC infused medical marijuana in the state is estimated to be about \$20 million (18,345 registered patients x 15mg/day x 365 days x \$0.20/mg). An excise tax imposed on medical marijuana wholesale transactions at the rate of 10% would result in an excise tax revenue of \$2 million.

#### Licensing

In addition to the excise tax revenue, additional revenue will be realized from license applications, registrations, and renewal fees for producers, processors, and dispensaries. The bill proposed the issuance of the following license to producers:

##### Producer Licenses

Assuming only one Class A, one Class B and one Class C licenses are issued at the minimum fees allowed under the bill, revenues from the application and registration fees will be \$31,000 and \$300,000 respectively. On the other hand, should the maximum number of licenses allowed under the bill be issued and charged the maximum fees allowed, revenues from the application and registration fees will be \$675,000 and \$9,000,000 respectively.

##### Processor License

There are no limits set for the number of processor licenses to be issued. For simplicity, if only one processor license is issued and charged the minimum fees, the revenues realized from the application and registration fees is \$1,000 and \$50,000 respectively. However, should the fees be set at the maximum allowed, the revenues from the application and registration fees will be \$25,000 and \$200,000 respectively.

##### Dispensary Licenses

The number of dispensaries allowed are dependent on the population of the county. Only 2 counties (Dane & Milwaukee) meet the criteria of a population of 500,000 or more. Should each county issue one license each at the minimum fee, the revenue from the application and registration fees will be \$5,000 and \$12,000 respectively.

On the other hand, should each of these 2 counties issue the maximum number of dispensary license allowed (10 each) and are charged the maximum fees, revenues from the application and registration fees will be \$150,000 and \$180,000 respectively.

There are 14 counties that meet the population criteria between 100,000 and 500,000. Should each county issue one license at the minimum fees, revenue from application and registration fees will be \$35,000 and \$84,000 respectively. Should each county issue the maximum number of dispensary licenses allowed (5 each) and are charged the maximum fees, the revenue from application and registration fees will be \$525,000 and \$630,000.

Finally, there are 56 counties that have populations of less than 100,000. Assuming each county issued one dispensary license at the minimum fees, the revenue from the application and registration fees will be \$140,000 and \$336,000 respectively. However, should each county issue the maximum number of dispensary license allowed (3 each) and are charge the maximum fee allowed, the revenue from the application and registration fees will be \$1,260,000 and \$1,512,000 respectively.

There are no renewal fees in the first year. Total revenues from licenses application fees ranges from a minimum of \$212,000 to a maximum of \$2,635,000 whereas revenues from registration fees ranges from a minimum of \$994,000 to a maximum of \$14,157,000.

## SUMMARY

The department is estimating that total revenues from this bill will range from a low of \$3.0 million to a high of \$19.0 million depending on the number of licenses issued, the application and registration fees charged for each license.

The excise tax itself is expected to generate roughly \$2.0 million per year.

The bill results in no additional sales tax revenue as the sale of medical marijuana would be exempt from sales tax. Since these products are not currently sold or taxable, there is not revenue loss for the state as a result of the exemption.

## ADMINISTRATIVE COST

The bill would require significant changes to the department's tax processing system, creation of a new tax type, and a new registration type. DOR would need to create an application, tax return, audit and processing letters, and published guidance. Additional programming and staffing are needed to implement the tax, as well as ongoing costs to enforce the tax.

The department estimates a onetime administrative cost of \$306,000 for updating the state's tax processing system to accommodate the new tax. The department also estimate onetime costs of \$97,000, \$143,000 and \$392,000 for staffing and equipment in the revenue accounting, compliance and customer service bureaus respectively as well as \$181,000 for revenue agents and auditors, and \$1,116,000 for enforcement. The total onetime cost of implementation of the new tax are expected to be \$2.24 million.

Ongoing administrative expenses for revenue agents (2 FTE) and auditors (1 FTE) are estimated to cost \$270,310. Ongoing expenses for one accountant (1 FTE) is estimated at \$92,500. Ongoing expenses for compliance field agents (2 FTE) and customer service revenue agents (2 FTE) and related supplies are estimated to cost \$179,740 and \$138,580 respectively.

Administration of the new law will 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 cost of \$1,460,930.

The total ongoing cost related to administration, enforcement and compliance are estimated at \$2.14 million.

## Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 19-5095/1		<b>Introduction Number</b> AB-0750	
<b>Description</b> medical marijuana, granting rule-making authority, and providing a penalty			
<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 a onetime total administrative cost of \$2.24 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	\$2,142,000	\$
	(FTE Position Changes)	(19.0 FTE)	
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$2,142,000</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S	2,142,000	
<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	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		<u>State</u>	<u>Local</u>
	NET CHANGE IN COSTS	\$2,142,000	\$
	NET CHANGE IN REVENUE	\$see text	\$see text
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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